

WORLD FOOD PROGRAMME
MARKET ASSESSMENT
OCCUPIED PALESTINIAN TERRITORY



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Market Assessment of the occupied Palestinian territory

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Executive Summary

The January 2006 victory of Hamas in the Palestinian Legislative Council elections resulted in the loss of transfer payments and external financial support to the Palestinian Authority (PA). The lost income, and subsequent loss of funds to pay PA employees, has precipitated a serious intensification of the humanitarian crisis in the occupied Palestinian territory (oPt) resulting in further economic fragmentation and significant declines in household purchasing power throughout Gaza Strip (GS) and the West Bank (WB).¹ A steady deterioration in living standards throughout oPt has been evident, however, for most of the six years prior to recent political events, largely due to the second intifada (2000), and subsequent movement restrictions, checkpoints, and closure policies by the Government of Israel (GoI). Construction of the separation barrier around the West Bank, accelerated over the past year, has continued to truncate economic development and create increasingly isolated 'small islands' of economic activity.

According to the World Bank, incomes in oPt remain considerably lower than pre-intifada levels, with 44 percent of all Palestinians and nearly 70 percent in Gaza living below the official poverty line of USD 2.30 per person per day. Extreme poverty, defined as unable to afford basic subsistence, affected about 15 percent of the population – estimated prior to the cut-off of PA salaries in early 2006.² According to UN estimates (April 2006), without Palestinian Authority (PA) salaries, poverty rates are predicted to increase to 74 percent, and the 5 percent positive growth in Gross Domestic Product (GDP) is expected to decline to negative 25 percent by the end of 2006.

The current fiscal crisis in the oPt has coincided with restrictive closure policies that have had an adverse impact on household purchasing power, and in turn, local markets, as well as creating shortages of basic staple foods, particularly in Gaza. The nutritional status of the Palestinians remained mostly stable throughout 2004 and 2005, with chronic malnutrition measured in 9.4 percent of the population. Iron, Vitamin-A and iodine deficiency continue to be common nutritional problems, and given the high population growth rate, these deficiencies may be particularly detrimental to expectant and nursing mothers and children under two years of age. Further deterioration in household purchasing power, living standards, nutritional status of vulnerable groups and food security is likely.

An increasing number of Palestinians have become food insecure or have exhausted coping strategies, as access to food – the economic capacity of households to purchase adequate food supplies from local markets – continues to deteriorate. This deterioration has accelerated for three primary reasons: (i) less household purchasing power due to loss of income, mostly PA employees over the past six months – workers who support approximately one in four of the Palestinian population; (ii) exhausted coping strategies, as households have sold remaining assets, the PA is unable to care for social hardship cases and social networks are increasingly unable to support those in need; and (iii) more restricted

¹ According to the World Bank, continued withholding of clearance revenue by the Government of Israel (GOI) would immediately cause a revenue shortfall of up to two-thirds (as agreed under the Paris Protocol of 1994, and consistent with the operation of the quasi-customs Union between Israel and the PA, the GOI remits to the PA through a regular 'clearance' mechanism taxes and VAT levied in Israel on merchandise destined for Gaza and the West Bank). Following the Palestinian elections in January 2006, the GOI announced it would suspend these transfers and deposit the proceeds due to the PA in an escrow account, World Bank Country Brief, May 2006.

² World Bank Country Brief, May 2006.

movements and increasingly rigid closure policies further isolating people and trade from previous sources of livelihoods and trade revenue.

There are continued indications that the humanitarian situation in oPt may continue to deteriorate, as donors have been hesitant to take action to either fund recovery projects or disburse partial funds until the political situation is clarified. From a food security perspective, recent political events may signal the distinct possibility of profound structural shifts in food markets and the ability to access food, significant changes in the coping strategies of households over the near to medium term, and increased vulnerability to food insecurity, and more pronounced dependence on food imports through or from Israel. UNWRA and the Ministry of Social Affairs have indicated increased pressure for relief assistance, including food, particularly in Gaza, with other field reports (UNRWA) indicating an increasing number of people applying for social services.³

A WFP Rapid Market Assessment (RMA) was conducted in May 2006 to help anticipate the possible effects of recent developments on local food markets, and presents a broad overview of market information related to food security, as well as recommendations for market-related indicators for a food security monitoring system. The three primary objectives of the assessment were to (i) highlight recent changes in food markets, to the extent possible given the current economic and political situation, as related to food security; (ii) review linkages between price movements and structural factors; and (iii) advise on key market-related indicators for joint WFP-FAO food security monitoring. The depth and scope of this RMA was constrained by the security situation during the mission (May 2006) as no field visits were possible to observe local market conditions, key informant interviews with traders, and no food price time series data was available to the mission, other than that recently collected and compiled by WFP since September 2005.⁴

A significant portion of WFP food assistance provided in the West Bank is procured locally, and this has tended to support capacity utilization rates of the major wheat flour mill (Golden Mill in Ramallah), as well as vegetable oil processors. A number of key traders, aware of the WFP local procurement and/or involved in 'imports' or food purchases from Israeli suppliers and/or direct international purchases, commented that WFP local procurement had helped in at least one instance in the maintenance and/or increase of respective market share, supported capacity utilization rates, and had not generally had a significant influence on local market prices in the West Bank. This warrants further study, and also in the case of local markets in Gaza.⁵

Several assumptions related to food security provide the foundation to the recommendations of this assessment: closure policies will continue to become more restrictive, creating *'closure-*

³ WFP reports UNRWA noted a 500 percent increase in applicants in Gaza for the emergency assistance programme, MSA reported to have 250 percent more applicants on the waiting list for the social hardship case (SHC) programme, and WFP field staff have reported a dramatic increase in pressure at food distribution sites from people requesting food.

⁴ The Palestinian Central Bureau of Statistics (PCBS) does track food prices through the Consumer Price Index (CPI), as such, weekly food prices in local markets in time series is available for purchase through the PCBS.

⁵ Please see Annex 1, Terms of Reference, Price Analysis and Trader Survey for oPt: Support to CFSVA Baseline (August/September 2006). A recent report indicated that distributions of 2-3 months ration by UNWRA and WFP over the past few weeks in Gaza generated significant 'spot' market activity with beneficiaries selling food rations for non-food items, and that this may have an effect on local shopkeepers. While this warrants further monitoring, some downward price pressure on local market prices in an escalating humanitarian crisis characterized by security-induced food shortages, may actually help mitigate problems of declining household purchasing power for vulnerable households in which food access is the predominant concern related to food security.

induced food availability problems - even if household purchasing power is sufficient to ensure economic access to food from local markets; current *'islands'* of economic activity in Gaza and West Bank will become increasingly isolated and less sustainable economically; economic disengagement has accelerated given current construction of the WB separation barrier; further *'demonetization'* of the Israeli shekel (NIS) from the Gaza and West Bank economies; continued and increasing dependence on imports of basic food staples (and most goods), therefore worsening terms of trade for most oPt traders and agricultural producers involved in food production, marketing or trade. There are several parallels between the economic characteristics of *'small island developing states'* and the economic situation in Gaza and increasingly the West Bank: narrow resource bases, continued depletion of water supply and natural resource degradation; pronounced reliance on imported basic foods vis-à-vis few suppliers at costly freight rates; isolation from trading partners/opportunities and very high levels of unemployment.⁶

Poverty is deepening and economic contraction due to the recent crisis may precipitate recession and more profound structural change in food markets, and in turn, food security – this has been particularly evident in Gaza over the past few months and may be a precursor to what is happening to markets in the West Bank. Traders, due to liquidity constraints and the loss of Israeli partners or indeed local partners, may not be able to stock as much supply to mitigate against closures in future – this may lead to shortages in staple foods. Further understanding of whether the ability to economically access will continue to deteriorate is extremely important, as well as a more in-depth understanding of the interface between Israeli and oPt food markets, *'vulnerable'* food traders and food insecure households.

Summary of Key Recommendations

Recommendations for Joint WFP/FAO Food Security Monitoring resulting from this market assessment are detailed in Section 3.2, Summary Recommendations: integrate market analysis into WFP/FAO food security monitoring systems. The key recommendations include:

- Conduct an in-depth analysis of the correlation between food prices in local markets, closure days and/or employment related data (number of establishments, construction or other forms of work or labour permits), based on the PCBS time series data available for selected food items;
- Implement a system to ensure analytical support from FAO in the ongoing analysis of food price information, based upon the current system developed by WFP oPt Country Office, with additional economic and/or econometric support from PA Ministry of Finance economists, WFP ODC or PCBS;
- Develop and add market related questions (quantitative and qualitative) to the household food security (HHFS) questionnaire (such as purchases on credit, links to quality of food purchased, costs and frequency of transportation to and from market(s), name and

⁶ Please refer to the UN High Commission for Small Island Developing States (SIDS) for further information, there may be some important points from key SIDS initiatives designed to provide economic support and natural resource management relevant to oPt.

location of market(s) most frequented, recommend approach and questions developed for Yemen CFSNA (June 2006);

- Effectively link the HHFS responses to local markets with a trader survey in GS and WB, similar to the approach and format utilized for the WFP Pakistan Market Assessment (Nov 2005), using pre-2000, end 2006 and mid-2006 as *'market shock'* timelines;
- Utilize PCBS and Ministry of Planning staff as enumerators and team leads in the proposed HHFS baseline exercise as an initial step to establishing a food security monitoring system within the PA, recommend approach and system established by WFP Iraq Country Office (based on remote guidance from WFP Amman to WFP national staff in Iraq and Ministry of Planning (Central Statistical Office));
- Develop a joint WFP/FAO Food Security Update report, that includes some elements of market and price monitoring, but also captures major food security issues by the lead UN agencies for this thematic area.

1. Situation Analysis

1.1 Overview: Economic Situation and Food Security

Generally, there has been a notable deterioration in the living standards and overall economic viability in the oPt since the second intifada began in 2000. The occupied territory is considered part of the group of lower middle income countries, according to World Bank data, with a very high annual trade deficit, very significant dependence upon external aid and a very high ratio of remittance income to gross national income (GNI) – all of which demonstrate the vulnerability of the Palestinian economy to external shocks and dependence upon the Israeli economy.

The *'labour-exporting'* nature of the Palestinian economy, reliance on worker remittances and serious dependence upon the Israeli economy, has made the oPt economy extremely vulnerable to the Israeli business cycle, as well as fluctuations in Israeli agricultural productivity. Productive capacity in the oPt has been largely directed toward low value-added products for Israeli consumption or re-export through Israel, and based on low-productivity sectors (agriculture and/or construction). Essentially, since occupation in 1967, the Palestinian economy has been sustained by total factor payments from abroad, rather than increased levels of national output – an *'income economy'* rather than a *'production economy'* – making the oPt extremely vulnerable to external shocks.⁷

WFP has been monitoring significant changes in the overall food security situation since January 2006, when the victory of Hamas in the Palestinian Legislative Council elections precipitated the current financial crisis.⁸ Reports indicate that the incidence of poverty is increasing and that the humanitarian crisis has steadily deteriorated over the past six months, and given recent World Bank reports in regard to the overall macroeconomic outlook, little improvement in the overall financial conditions necessary to ensure economic access to food may be expected. Although real Gross Domestic Product (GDP) increased by an estimated 6.3 percent in 2005, recovering from very low growth rates in 2001 and 2002, the outlook for the remainder of 2006, as recently noted by the World Bank, is *'extremely worrisome'*. The current fiscal crisis highlights the extreme dependence of the Palestinian economy on externally driven shocks, Israeli business cycles and political events - and that these shocks have a direct effect on household food security.⁹

Largely driven by the loss of salaries and income due to the cut-off of payments to the Palestinian Authority (PA), declines in household purchasing power have been exacerbated by the increased number of closure days in Gaza and the West Bank, essentially truncating the flow of exports and imports between oPt and Israel. Local market prices in oPt for most basic staples have increased, vulnerable groups have exhausted coping strategies, and avian influenza has not only decimated poultry farmers and processors (particularly in Gaza), but also reduced the availability of affordable animal proteins in daily dietary intake.

Further complicating the deterioration in overall food security in both the GS and WB are the very significant increases in international commodity prices for basic staple foods, such

⁷ Vaggi and Baroud, *Asymmetries and Economic Interaction between Israel and Palestine*, University of Pavia and European School of Advanced Studies in Cooperation and Development, February 2005.

⁸ *Changes in the Food Security Sector since January 2006: Situation and Needs*, FAO/WFP Report, May 2006 (unpublished).

⁹ Recent reports indicate that selected PA employees will receive USD 300 in back salary payments starting mid-June 2006.

as sugar or cereals, and fuel costs, which have in resulted in upward price pressure on imported foods globally – and in turn, local market prices – particularly for Israel and oPt, with heavy import dependence for basic staple foods. Global prices for basic foods have increased significantly in recent months, and in the case of sugar, prices reached 25-year highs by late 2005 due to increased demand for ethanol production, primarily in Brazil, the most important global exporter of sugar.

Effects of Revenue Shortfalls, World Bank Country Report, May 2006

The World Bank reports that growth in 2005 was driven by expansionary (but unsustainable) fiscal policy by the PA, increased banking credit to the private sector, a relaxation of closures (permitting a higher number of Palestinian workers to find jobs in Israel), and increased Israeli demand for Palestinian exports. As noted, however, Palestinian incomes remain considerably lower than their pre-intifada levels, and the recent pace of economic growth is not sufficient to restore pre-intifada per capita income levels before 2010. This inability of the Palestinian economy to fully use its productive potential is first and foremost the result of restrictions on the movement of people and goods. This is illustrated by the continued high level of unemployment, at 23.4 percent of the active population. The fiscal outlook for 2006 is extremely worrisome. A continued withholding of clearance revenue by the GOI would immediately cause a revenue shortfall of up to two-thirds, and the PA deficit would dramatically increase to reach approximately 80 percent – US\$1.7 billion a year or 42 percent of the GDP of 2005. In the event, the PA would face great difficulties to find alternative sources of financing: further donor assistance is uncertain and domestic sources have become increasingly unreliable.

Global grain stocks have also reached 30-year low levels, particularly in the case of wheat, further pressuring international commodity prices. Thus, price increases in local oPt markets may in part be driven by more restrictive closure policies, but given that the majority of basic foods are imported from international markets and transshipped or resold into oPt, price increases based on international commodity markets may have also been transmitted directly to Israeli and Palestinian importers and food manufacturers, and in turn, passed along to consumers, further eroding the purchasing power of already vulnerable households.

OCHA, other UN agencies and the World Bank have noted that the negative effects of the current financial crisis on the overall economy of the oPt are evident: (i) delayed payments to an estimated 165,000 PA employees, lower income employees with no savings are the most affected; (ii) cash assistance payments from the Ministry of Social Affairs to vulnerable people considered Social Hardship Cases have been cut since February 2006, which has increased the reliance on the timely delivery of food rations; (iii) an estimated 1,000,000 people, dependent upon the financial support of family members employed by the PNA, are now forced to review basic consumption patterns and reallocate household expenditures. WFP/FAO projections from May 2006 found that slightly more than 50 percent of the people in oPt should now be considered as food insecure, a 14 percent increase over 2004/2005 estimates. Food insecurity throughout oPt has steadily increased since the second intifada started in 2000. The WFP/FAO food security assessment of June 2004

estimated that 37 percent of the population (1.3 million people) was food insecure and a further 27 percent (975,864 people) as vulnerable to food insecurity.¹⁰

Repeated and extended closures since January 2006 have prevented increasing numbers of employees from having timely access to places of work and farmers to land, negatively affecting expected income and livelihoods. Closures and trade restrictions, particularly in Gaza, have resulted in disrupted local markets and food trade, further fragmentation of marketing channels, shortages in basic food commodities, and exacerbated the effect of the current liquidity crisis on purchasing power – for traders and consumers. Continued land expropriation and destruction of livelihood assets to construct the West Bank Separation Barrier and settlement infrastructure continues negatively affect households, particularly the poorest. Poor families who used to be able to cope in times of hardship are now facing increasing difficulties to cover basic food needs.¹¹

1.3 Markets and Food Availability

Food availability, based on national staple food production, although less significant from a food security perspective than food access for the occupied territory, continues to play an important supportive role that proportion of the Palestinian population that remains reliant on small-scale farming activities to help ensure food security.

After the outbreak of the second intifada in 2000, and reduced access to labour markets in Israel, agriculture also became an increasingly important source of employment opportunities within Palestine. Agriculture employed 16 percent of economically active Palestinians in 2005, compared to roughly 13 percent in 1999, and contributed nearly 12.5 percent to GDP, up from 11 percent.¹² The sector has also provided work for nearly 40 percent of Palestinians employed in the informal sector, as well as contributed to those farmers who cultivate for subsistence farming.¹³

Traditional crops include olives, citrus, grapes, bananas, figs, plums, melons, almonds, tomato, onion, cucumber, strawberry and other field crops, particularly recent increases in planted area to cereals. Area dedicated to wheat production has increased as one way to cope with the movement restrictions and closure policies is to plant crops that need less tending and hence, less frequent physical access, than *'greenhouse'* crops. There are five agro-ecological zones in oPt, defined by the PA Ministry of Agriculture: (i) coastal plain (Gaza Strip), the 'fish basket' of the occupied territory; (ii) the northwestern part of the West Bank, semi-coastal areas (including Jenin, Tulkarm and Qalquilya) that receive the highest levels of annual precipitation, and are considered the most productive agriculture lands in the territory; (iii) middle elevation zone that extends from north of Jenin to south Hebron; (iv) steppe zone that extends from east of Jenin to the Dead Sea in the south (includes mostly rangeland); and (v) the Ghor, or western Jordan Valley. Agricultural production traditionally

¹⁰WFP is currently assisting 441,000 food insecure non-refugees in the oPt: 38 percent social hardship cases, 59 percent are new poor and three percent are special vulnerable groups reliant on social institutions, WFP is also responding to the outbreak of avian influenza by the distribution of supplementary animal protein in the Gaza Strip.

¹¹ WFP notes that one widespread coping strategy in oPt is use of social capital (borrowing between families and communities vis-à-vis informal credit/loans); however this has become progressively exhausted through the current crisis as the majority of people are suffering from the reduction in income.

¹² According to PCBS data, services absorbed nearly 35 percent of the labour force in 2004, compared to 28 percent in 1999, contributing 42.2 percent to GDP, up from 41.6 percent. The Palestinian war-torn economy: aid, development and state formation, UNCTAD, New York/Geneva, April 2006.

¹³ Nitham Ataya, Agriculture is a Key Pillar in the Palestinian Economy, Palestinian Agricultural Relief Committee, 2005

consisted of roughly 35 percent vegetable crops, 25 percent citrus, 25 percent non-citrus fruit trees, and 15 percent field (cereals) and forage crops (for animal feed).¹⁴ The agricultural sector generates approximately 25 percent of Palestinian export trade, with fruit (cultivated on 72 percent of oPt agricultural land), olives and olive oil, strawberries, vegetables and cut flowers the primary export products.

Recent events, particularly the construction of the WB separation barrier, have essentially truncated further development of the agricultural sector as farmers are increasingly denied physical access to formerly productive lands in seam zones (between the green line and separation wall), cannot afford farm inputs and have lost market outlets. Many basic agricultural inputs, such as seeds, nursery seedlings and/or fertilizers were almost exclusively imported from Israel, and in many cases are no longer available in markets throughout the West Bank and the Gaza Strip due to extended closures and restricted movements. There are other constraints to further development of the agricultural sector, however, such as the inefficient use, and over-exploitation, of water resources – particularly as the sector consumes 70 percent of water used in the occupied territory. Soil degradation, declining ground water quality and alarming rate of water resource depletion are major constraints to agricultural production, and adverse effects of lack of adequate water on the socio-economic situation for the regional agricultural economy are expected in the near future.¹⁵

However, loss of access to markets, movement restrictions and closure policies, the leveling of agricultural areas and isolation of land and wells behind the separation barrier have most likely had the most recent and profoundly negative effect on agricultural productive capacity and incomes. For example, immediately prior to the outbreak of the second intifada, agricultural revenues were valued at USD 840 million; after 2000, loss to the sector sustained due to security concerns and closures totaled USD 903 million (October 2000 to March 2003). Similar losses have continued since early 2006, with the number of closure days totaling 59 between January and end of June. The Palestinian Trade Centre (PalTrade) has estimated loss of export revenues to be about USD 600,000 per day – for a cumulative total of more than USD 35.4 million.¹⁶

For most of the past three decades, economic and political issues have largely reshaped agricultural systems in Gaza and the West Bank, and the shift in farming systems, combined with rapid population growth, has had a detrimental effect on the degree of food self-sufficiency in the occupied territory. A significant shift from irrigated systems dedicated to fruit trees to higher value cash crops, such as vegetables and flowers, and rain-fed systems dedicated to field crops (basic staple cereals) to olives – productive capacity redirected

¹⁴ The fishing industry was an important part of the Gaza economy prior to 1979, although restrictions on the depth of fishing grounds from coastline (territorial waters were established at 20 nautical miles in Oslo 1992 Agreement) from which Palestinians were allowed to fish resulted in reduced output. Following Palestinian self-rule, access to the sea was regained, but the fishing industry needs significant upgrades to further develop, such as boat building, fish handling and processing.

¹⁵ The problem is particularly severe in the Gaza Strip, where seawater intrusion has been causing irreversible salination to water supplies due to the overconsumption of groundwater. Infiltration of sewage water, leakage of water treatment plants, pesticides and fertilisers from agricultural practices in turn bring about contamination of the aquifer's water source. Contamination and salination is reflected in the high average concentrations of mineral substances in the groundwater that already exceed the standards set by the World Health Organisation. Urban agriculture in the Gaza Strip, Palestine, Luc Laeremans (Free University of Brussels, Belgium) and Ahmed Sourani (Palestinian Agricultural Relief Committees, Gaza, Palestine), Canada City Farmer, 20 February 2006.

¹⁶ PalTrade Centre estimate of losses attributed to closures between 1 July and 30 June 2006.

toward export markets, mostly Israel – and similar to the shift many developing countries have also made in past decades.¹⁷

CLOSURES AND FOOD AVAILABILITY - JAYOUS
United Nations Relief and Works Agency for Palestine Refugees in the Near East
UNRWA West Bank Barrier Update - February 2006

The Qalqilya governorate, considered as having some of the most productive agricultural land of the West Bank, has been negatively affected by movement restrictions and the construction of the Separation Barrier. The IDF confiscated around 9 dunum of land on the *West Bank*' side of the Barrier in May 2005 for the construction of an access road from Jayyous to the south gate of Falamyeh. Jayyous and neighbouring Falamyeh, located in Qalqilya, were particularly known for intensive irrigation of vegetable and citrus fruit production, as well as fig, apricot, loquat, mango, almond, and thousands of olive trees. Although Jayyous lies on the *West Bank*' side of the Barrier, which stretches six kilometers into the West Bank, four thousand olive trees were uprooted for the Barrier and 125 acres of land leveled. The Barrier isolated some 9,000 dunums, representing 75 to 90 percent of the fertile area around Jayyous, as well as 120 greenhouses and six wells.

Some 120 greenhouses belonging to Jayyous and the neighbouring village of Falamyeh are now isolated behind the Barrier, and the crops (tomato, cucumber, beans and peppers) require constant cultivation and tending to avoid disease and loss. Frequent closures jeopardize the uninterrupted cultivation normally required. Restricted entry at the gates also constrain output through restricting access to cultivation and export channels, as well as preventing the import of farm inputs, such as fertilizer, pesticides, diesel for generators and pumps, fodder for grazing animals and seedlings for the winter crop. As many as 12,000 thousand olive trees are also isolated behind the Barrier, and land owners have to arrange with permit holders to harvest on their behalf – in turn receiving only slightly more than 33 percent of output, with the rest as payment to the collectors. Furthermore, Jayyous must now share water from a well with another village (Azzun) that covers less than 50 percent of former water needs, with water rationed to two hours per day in summer.

The farmland behind the Barrier in Jayyous produced roughly 9,000 tons of fruit and 7,000 tons of vegetables per year, equivalent to 65,000 workdays. The principal markets for the produce were Nablus, Tulkarm and Qalqilya, with the bulk of sales in Nablus. Vendors would come directly to Jayyous to collect from farmers and Israeli wholesalers traveled to Jayyous daily to buy produce. Now, direct access to Nablus, Tulkarm and Qalqilya is impossible and the major wholesale market for the Jayyous produce has become Beita, near Nablus. Farmgate prices have plummeted, although there shortages of food available in the other local markets were evident and retails prices have increased. Generally, expectations are that both gates in Jayyous will be permanently closed and all permit holders will be expected to use the southern Falamyeh gate in future. Three hundred families were dependent on income from farming, with many more supplementing incomes from the land. Since the construction of the Barrier, 130 families have lost now lost their source of livelihood and income, and are now *'new recipients'* of humanitarian support, joining many other unemployed, mainly former workers in Israel, who are now reliant on humanitarian assistance, mainly from WFP and UNRWA.

The structural shift in farming systems throughout the oPt, while generating export earnings from trade in vegetables, olives and citrus, essentially heightened the dependency on imports of basic staple foods, as well as increased reliance on imported fertilizers and pesticides used for intensive farming of higher value cash crops for export. The shift toward export-oriented markets also heightened dependency upon marketing channels for export to and through Israel – and fostered greater asymmetry in the trade relationship between oPt and Israel. Generally, oPt populations became progressively more vulnerable in line with

¹⁷ A 2004 PARC survey found this shift even more pronounced over the past 15 years, with 3,940 dunum dedicated toward greenhouse production in 1991 to 14,000 dunum by 2004.

increased reliance on imports of basic staples, particularly since the outbreak of the second intifada.

Recent economic crises, more restrictive closure policies, as well as economic dependence upon Israel and external sources of assistance, have resulted in an increasing number of food insecure, with an estimated 51 percent of the total oPt population considered food insecure in 2006. Increased vulnerability to shocks, combined with dependence on the Israeli food supply pipeline and weakening livelihood security is particularly concerning, and in the case of a worsening security situation, more restrictive controls over the movement of goods and people is likely.

Farmers in Gaza in recent months have been the most severely affected due to prolonged closure(s) of the Karni terminal, and many have missed the 'planting window' for the season. Given that many small farmers lack adequate capital to 'survive' the loss of revenues for an entire agricultural season, some may be forced to exit the sector. The cumulative effect of the current financial crisis, severe closure policies and lack of access (to land or inputs) is concerning from the food security perspective, particularly as 2003 FAO/WFP Food Security Assessment noted that domestic agricultural output was a large source, in value and weight terms, of food consumed by Palestinians.¹⁸

Overall, food availability – or physical access to food supplies – has been adversely impacted by long-term structural shifts in agricultural production, and in turn, markets. Nearly seven percent of the total area of the West Bank will be or already has been, affected by the Separation Barrier – often in areas where the most fertile lands and underground water supplies are located, and in some areas farmers have been warned not to cultivate crops in the area.¹⁹ Farm families in the areas around the WB Separation Barrier 'zones' who traditionally may have needed assistance for harvest have found that extended family members are no longer given entry permits, and farmers with no formal 'title' to land and are unable to prove ownership of traditionally cultivated dunum have been denied access to former cultivated areas.

The shortage of cash in local economies has already disrupted agricultural production cycles and may force some producers, particularly horticultural, out of the sector. The shortage has had a demonstrable effect on local markets, and monitoring the situation of smaller, more vulnerable traders and the self-employed will be increasingly important. The negative effects on local markets, and more importantly, local traders, may have already precipitated a severe economic recession that could further disrupt agricultural production cycles, and force more small producers, shopkeepers and other 'economically' vulnerable to exit sectors that have previously provided some sources of livelihoods and employment inside the oPt. Critically low levels of cash in the local economy and increasing signs of a severe economic recession affecting markets and agricultural production cycles may result in further deterioration in the overall food security situation.

1.4 Markets and Food Access

Food access is of primary concern to analysis of the current food security situation, and an understanding of the interface between markets, traders (particularly 'vulnerable' traders such

¹⁸ Executive Report of the Food Security Assessment West Bank and Gaza Strip, 2003 FAO/WFP, Rome, Executive Summary.

¹⁹OCHA and UNRWA 2005.

as local shopkeepers and small wholesalers) and vulnerable households in the most food insecure Governorates is necessary. The assessment of the food and nutrition situation study in the West Bank and the Gaza Strip conducted in 2003 by FAO, WFP and UNRWA revealed that food is available but access is limited due to physical reasons (curfews, closures) and economic reasons (high unemployment, depletion of resources, exhaustion of coping strategies and strained social support networks). The overall food security situation has considerably deteriorated over the past three years, despite positive annual growth in GDP, with four out of ten Palestinians considered food insecure before the most recent fiscal crisis in 2006.

Rising levels of food insecurity in oPt are in part driven by reduced economic access to food purchased on local markets, resulting from many factors, such as the severe lack of employment and livelihood opportunities and heavy dependence for food imports from Israel, with a cost structure that reflects increased transaction costs and reduced competitiveness within local markets for local produce. Rapid population growth rates, at more than 3.5 percent annually, continue to outstrip growth rates in local food production, and have contributed to increased import dependence, and in turn, vulnerability to problems with food access related to basic staple foods.

Slightly more than 50 percent of the population is poor and household purchasing power has continued to decline in recent years. Overall poverty rates for the oPt as measured by monthly household consumption patterns, increased significantly between 1998 and 2005, from 20.3 to 29.5 percent, with the prevalence of extreme (or deep) poverty up from 12.5 to 18.1 percent over the same period. Disaggregating the poverty data shows that the prevalence of poverty in Gaza is almost double that of the West Bank, with recent deep poverty increasing from 11.6 percent to 13.1 percent between 2004 and 2005 in the West Bank, and 26 to 27.9 percent in the Gaza Strip.²⁰

Overall unemployment rates continue within the range of 30 to 35 percent, higher in Gaza, due to more severe movement restrictions, loss of export income and employment opportunities in Israel.²¹ For populations reliant on agricultural incomes to access food, the continued loss of access to markets, agricultural lands (due to the Separation Barrier and closure policies) and inability to access farm inputs, have also depressed incomes.

Living standards have continued to decrease as real wages continue to decline and the overall dependency ratio – the total oPt population divided by number of employed persons – has steadily increased from 4.3 in 2000 to 5.6 in 2005. The increase is due in large part to the much higher ratio for Gaza at 8.2, signifying that every employed person in Gaza on average supports eight other people.²² The PCBS consumer price index by major expenditure group found that average annual consumer prices for food increased by nearly four percent between 2004 and 2005 throughout the oPt, led by nearly seven percent increase noted for Jerusalem, nearly three percent for the remaining West Bank (excluding Jerusalem), and less than one percent for the Gaza Strip, after a substantial increase between 2003 and 2004.

²⁰ Source: PCBS data for poverty rates by month household consumption patterns (1998-2005)

²¹ See WFP NAF Report, September 2005 and PCBS Labour Force Surveys. On average less than 57,567 Palestinians entered Israel daily in 2004, the majority (56,580) from the West Bank, compared to 116,085 from West Bank and 29,965 from Gaza in 2000.

²² World Bank Group 2005: West Bank and Gaza Update.

In terms of annual changes in consumer prices, food prices (as measured by the CPI) have increased on nearly 2.1 percent per year in Gaza since 1998-1999 and 2.5 percent for West Bank (non-Jerusalem markets). Overall price increases for oPt (including Jerusalem markets) have averaged 2.7 percent per year over the same period, vis-à-vis a significant decline in consumer purchasing power. Monitoring consumer prices, through nominal price collection (such as the current WFP system) and analysis of longer term trends through price indices, is an important part of analyzing food access for vulnerable households, particularly when compared to household budget survey data.

| Table 1 - Change in Average Annual Consumer Prices for oPt (%) | | |
|---|------------------|------------------|
| <i>Major Expenditure Group</i> | 2003-2004 | 2004-2005 |
| Food oPt | 2.15% | 3.77% |
| Beverages and tobacco | 1.34% | 5.60% |
| Textiles, clothing and footwear | -0.92% | 1.62% |
| Housing | 3.20% | 4.23% |
| Furniture, household goods & services | 2.38% | 2.85% |
| Transport and communications | 6.51% | 3.15% |
| Education | 3.55% | 1.07% |
| Medical care | 4.55% | 2.60% |
| Recreational, cultural goods & services | -0.39% | -1.40% |
| Miscellaneous goods and services | 5.73% | 5.30% |
| All items (CPI) oPt | 3.00% | 3.47% |
| Food Jerusalem | 4.32% | 6.80% |
| All items (CPI) Jerusalem | 4.41% | 5.35% |
| Food Remaining West Bank (non-Jerusalem) | 1.53% | 2.73% |
| All items (CPI) Remaining West Bank | 2.90% | 2.89% |
| Food Gaza | 4.76% | 0.48% |
| All items (CPI) Gaza | 3.17% | 1.18% |

Source: Calculated from PCBS data

A Palestinian Central Bureau of Statistics (PCBS) study about the effects of Israeli policies on the economic conditions of Palestinian families found that 86 percent of surveyed households had decreased expenditures for food, more than 66 percent had decreased expenditures for health care, and that declines in both the quantity and quality of food were cited by 73 percent of surveyed households.²³ A recent example of how Israeli closure policies adversely affect food supplies, and in turn, markets and daily dietary intake based on economic access to food, is the extended closure of the Karni Crossing in Gaza for most of the first half of 2006, which resulted in food shortages of basic staples, including wheat flour and rice during March. Furthermore, the closures also blocked exports of horticultural products, such as peppers, tomato, strawberry and flowers. The PCBS noted that 83 percent

²³ PCBS, Impact of the Expansion and Annexation Wall on the Socioeconomic Conditions of Palestinian Households in the Localities where Wall Passes Through West Bank (2005) and Population Survey Results (2005). There are some additional demographic features of oPt that should be considered, such as 46 percent of Palestinian families have children aged 14 years or younger and 18 percent of these families also have children under four years old.

of surveyed households in the West Bank also cited difficulty in accessing local food and commodity markets, primarily due to the Separation Barrier.

Lack of sufficient income to purchase food has forced families to increase reliance on credit, unpaid agricultural labour, and/or reduce the quality and quantity of daily food consumption. WFP oPt notes that since the beginning of the second intifada in 2000, the amount of daily food consumption has decreased by as much as 25 percent amongst vulnerable groups, and that stunting levels in children under five (a measure of chronic malnutrition) are increasing, particularly in rural and refugee households.. Overall, a 2004 WFP vulnerability analysis noted that the proportion of surveyed households indicating food as a priority increased from 16 to 30 percent between February and November 2004.²⁴ WFP and FAO identified five additional groups of vulnerable people who may be at increased risk due to the current escalation of the humanitarian crisis: populations with heightened nutritional needs and poor incomes, such as households with many children, poorly educated people, lactating and pregnant women, and the elderly.²⁵

Vulnerable groups typically resort to reducing the quantity and quality of daily meals – which not only reduces daily caloric intake but also the overall nutritional value (quality) of food consumed – as a coping mechanism when economic access to food is curtailed. A WFP survey (2005) noted that the number of people who reduced food intake was greater in the Gaza Strip, representing 54 percent overall (although higher in the non-refugee camp areas), while in the West Bank around 38 percent reduced daily caloric intake (49 percent in non-refugee camp areas compared to 27 percent in camps). The Palestinian Public Perception Survey, as well as other surveys, consistently point to the higher level of assistance among refugees, compared to non-refugees.

Generally, however, food consumption patterns of basic staples in oPt (in terms of daily dietary energy consumed) showed very minor changes in the proportion of caloric intake attributable to basic staples between 1995-1997 and 2001-2003: wheat and flour accounted for 38 percent of the daily diet by the latter period (up from 36 percent); all other basic foods remained the same, with sugar and products 12 percent, olive and other oils (total) 11 percent, rice (milled equivalent) 7 percent, poultry and eggs 5 percent, fruits and vegetables 5 percent.²⁶ These consumption patterns, supplemented by the WFP dietary diversity study to provide more information relating household food consumption to income levels, and play an important role in *'weighting'* the household food basket to determine how price fluctuations of specific basic foods affect food security over time.

The sharp decline in recent months in economic access to food, or the lack of sufficient income to purchase food from local markets, is having an adverse impact on local markets. A trader survey throughout the oPt to determine *'trader vulnerability'* would help identify key market-related indicators to monitor in the event of further escalation of the current food security crisis, help incorporate price and market monitoring into WFP/FAO food security updates, and support the ongoing analysis and need for market-related information that should be part of a systematic Food Security Monitoring System (FSMS).

²⁴ Palestinian Public Perceptions, report VIII, June 2005

²⁵ The emerging food insecure are those groups most affected by the current crisis: (i) social hardship cases; (ii) low income PNA employees who provide public services (e.g. municipal cleaners, guards, security personnel); (iii) small shop owners and employees; (iv) small farmers and agricultural laborers.

²⁶ FAOSTAT Food Security Statistics for occupied Palestinian territory, 2006, that could be supplemented by the WFP dietary diversity pilot study used as a proxy for household income.

Economic access to food continues to be the most significant food security concern in the oPt, as such, food price increases in the absence of increased incomes or improved livelihoods should be considered as form of *'market-induced shock'* to vulnerable households. Furthermore, shocks such as drought, disease and economic fragmentation also threaten household food security. Generally, acute food crises have not materialized in oPt, as traditionally strong social ties tend to preclude the possibility of acute household hunger – however, food security in all areas of oPt has declined since the 2000 intifada, and most recently, due to the loss of PNA income. Significant per capita aid, including food aid, is also assumed as having 'cushioned' or precluded further deterioration in the humanitarian situation. As recent experiences in Gaza and the West Bank demonstrate, social capital and safety nets to help avoid hunger have been significantly eroded.

Palestinians may continue to face further deterioration in household food security due to restrictions on movement, closure policies, reduced employment and loss of access to markets in Israel, as well as destruction of productive assets and homes, particularly in agricultural areas adjacent to the Separation Barrier. Poverty levels have tripled since 2000, commercial agriculture is increasingly constrained and/or blocked as a source of income, either through export channels or local market outlets, and most indicators point to further constraints in the ability of vulnerable people in Gaza and the West Bank to economically access food.

2.0 Trade, Markets and Transport

2.1 Market Characteristics: economic enclaves or *'small islands'*

Markets are increasingly confined to smaller *'economic space'* throughout the oPt as continued restrictions in access to internal and external markets are fundamentally changing the structure of marketing and distribution channels. Current closure policies and severe mobility restrictions have been incrementally tightened since the start of the second intifada in September 2000, and the West Bank, particularly, has been progressively transformed into a series of *'isolated economic islands.'* According to UNCTAD, up to 600 physical barriers in the form of permanent checkpoints, gates, earth mounds and walls, roadblocks and trenches were constructed to restrict movement after 2000, and nearly half of these remained in place by end 2005, with the separation barrier creating new physical and economic constraints.²⁷

Along the same timeline, loss of access to employment in Israel, as well as declines in manufacturing and construction sectors, reduced available work opportunities and resulted in a shift from an industrializing base to low-productivity, low-salary activities in agriculture and services in the oPt. Significant contraction in the average size of enterprises was the result in recent years, with an increasing number of very small establishments (micro-enterprises with fewer than five workers). Small to medium size (employing five to 50 people) establishments in food and beverage manufacturing, mining/quarrying and furniture sectors also absorbed many workers formally employed in Israel. Table 2 illustrates the increased absolute number of establishments, which does not necessarily correlate to increased productivity.

²⁷ The Palestinian war-torn economy: aid, development and state formation, UNCTAD, New York and Geneva, 2006.

This fragmentation of economic space is having a profound impact on rural communities and markets in the West Bank. A 2005 UNSCO study noted that new shops and services have opened in rural and smaller communities due to problems accessing urban market hubs – further fragmenting economic space, distribution channels and market outlets for local food producers, as well as importers.²⁸ Several of the key findings of the UNSCO study related to how markets are contracting in the West Bank mirror structural changes that have already occurred, although on a smaller scale, in Gaza. Rural producers and traders have had to mitigate risk by decreasing purchases outside of local markets, sub-contract with Israeli traders or increasingly rely on forward and backward credit linkages to finance production or trade in local markets. Essentially, this ‘*scale down*’ has increased transaction costs, the loss of market outlets and weakened the negotiating leverage of farmers and small shopkeepers to determine prices, and in turn, reduced farm gate incomes.

| Table 2 - Number of Establishments Operating in Private Sector (includes NGOs and IGOs) | | | | |
|--|---------------------|--------------|-------------------|--------------|
| | Total Number | | % of Total | |
| | 1997 | 2004 | 1997 | 2004 |
| Agriculture, farming and livestock | 6075 | 5881 | 7.9% | 6.0% |
| Mining and quarries | 362 | 211 | 0.5% | 0.2% |
| Manufacturing | 14813 | 13177 | 19.2% | 13.5% |
| Electricity and water supplies | 886 | 510 | 1.2% | 0.5% |
| Construction | 526 | 704 | 0.7% | 0.7% |
| Wholesale, retail and repair trades | 39600 | 55048 | 51.5% | 56.6% |
| Hotels and restaurants | 2612 | 4192 | 3.4% | 4.3% |
| Transport, storage and communications | 689 | 873 | 0.9% | 0.9% |
| Financial Intermediation | 619 | 725 | 0.8% | 0.7% |
| Real estate, rental properties and business services | 2736 | 3902 | 3.6% | 4.0% |
| Education | 1487 | 1960 | 1.9% | 2.0% |
| Health and social work | 2996 | 3682 | 3.9% | 3.8% |
| Other community, social and personal services | 3561 | 6414 | 4.6% | 6.6% |
| Total | 76962 | 97279 | % 97-04 | 20.9% |

Source: PCBS data

The shift to ‘*smaller economic space*’ may result in a greater number of rural and urban market ‘*islands*’, that may be less productive and efficient, yet creating more scaled-down and highly localized market outlets. The result of this has largely been increased ‘*trader vulnerability*’ from a marketing perspective, as value and supply chain relationships within oPt are reassessed given the current financial crisis. Many markets have closed or have relocated, increasing transaction costs, disintegrating traditional business networks and restricting the access of some population groups to buy or sell products. Larger Palestinian traders, those with enough capital to directly finance imports and operations through Israel to supermarkets or directly supply raw materials to food and beverage processing facilities in Gaza or the West Bank, are gaining market share as smaller traders are exiting given the recent financial crisis.²⁹

²⁸ For further details, see Economic Fragmentation and Adaptation in the Rural West Bank, 2005, UNSCO, Jerusalem.

²⁹ Key informant interviews with 36 key informants in oPt, of which 19 were traders and importers, May 2006.

Reports also indicate that forward and backward credit linkages for many small shopkeepers and traders have eroded due to the recent financial crisis, as many businesses are unable to absorb the shock of significantly increased demand for credit and lack of liquidity (decreased purchasing power). Some traders also reported cancellation of staple food commodities orders placed overseas, due to cash shortages, particularly those facing supplier requests for 100 percent pre-financing of the trade, due to high risk and uncertainty – thus ‘shrinking’ or curtailing business transactions should be considered a ‘coping mechanism’ in times of crisis. Many traders stopped offering credit to PA employees, linked in some cases to cut offs of credit from respective wholesalers and suppliers (*backward credit linkage*). Purchasing food from local markets on credit was an important coping strategy for many vulnerable people, and in the absence of this credit, accessing food has become much more difficult.³⁰

Palestinian traders and small shopkeepers are severely affected by closure policies, particularly those in the Gaza Strip. The lack of movement has severely curtailed trade flows, reduced income streams and significantly increased transaction costs. Many factories and shops had already decreased the number of workers to reduce operational costs, and there are indications that many small enterprises may be forced to exit respective sectors if the current financial crisis continues. The Al Montar (Karni) Crossing, the economic lifeline of the Gaza Strip, remains essentially ‘closed’ to the flow of Palestinian exports, and its primary function in recent months has been as a *‘unilateral’* distribution point for Israeli-supplied goods and external aid for humanitarian purposes.³¹

The November 2005 Agreement on Movement and Access (AMA) stipulated that 150 trucks could cross daily from the Gaza Strip to Israel by the end of 2005, and that 400 Palestinian trucks would be allowed passage per day by the end of 2006. According to a recent IMG report, only 43 trucks per day, on average, had been allowed to cross as of mid-May 2006. Total closure days of Karni by mid-May 2006 were 59 days, compared to 41 days for all of 2005. Most factory and processing activities in Gaza, as well as agricultural operations, such as tending greenhouses or irrigating fields which were transitioned to Palestinians after disengagement, stopped in early May due to the lack of raw materials, risk of closures and overall uncertainty. The loss of export trade for Gaza due to the closure days has resulted in the loss of more USD 30 million during the first four months of 2006 alone.³²

Current market structures have not been determined by natural trade flows, which is the case with freely flowing trade in goods and services. The beginning of the occupation in 1967 established the initial market borders, and the severe restrictions on movement and closures imposed at the beginning of the second intifada have largely determined current market catchment areas. The West Bank and Gaza Strip are now essentially divided into

³⁰ A recent WFP food security update noted that many shops are now refusing to offer credit to PA employees, and additional coping strategies, such as attempts to sell productive assets, household assets and private assets, such as animals, land, cars or jewelry, have also been curtailed by the oPt liquidity crisis. There are few remaining options for vulnerable households to survive the current situation, other than incurring debt, withdrawing children from school, reducing expenses for health care and/or reducing the number and quality of meals.

³¹ The Peres Center for Peace circulated a report to relevant GOI ministers in early May 2006 stating that *‘the closure of the Karni crossing point is leading to economic and humanitarian collapse in the Gaza Strip, as well as financial ruin to Israeli firms involved with suppliers from the Strip, and to the collapse of economic relations between the two sides.’* It has led Israel to *‘sacrifice the Palestinian commercial sector, which traditionally held moderate views, and thus to lose its influence over the Palestinian public,’* the report said, recommending that the government reconsider its position.

³² IMG Report, EU, May 2006.

increasingly separate ‘economic islands,’ essentially separated into larger geographic areas defined by the degree of autonomous Palestinian civil and military control (Areas A, B and C). Area C is comprised of more than half of all the land in the West Bank under full Israeli civil and military control, with Area A under full Palestinian civil and military controls.³³

The economic isolation has created very isolated communities, particularly in southern Gaza and more rural and remote areas of the West Bank. The Israeli Defense Force (IDF) controls all movement of people and goods within the occupied Palestinian territory, between Gaza and West Bank, East Jerusalem and Israel through dense networks of military checkpoints, physical barriers and roadblocks that essentially truncate any ‘natural’ trade flow of goods, people and transport linkages. Nonetheless, unregistered trade throughout West Bank is consistently reported by traders, particularly import of second choice, cheaper Israeli products.

Artificial geographic barriers are creating ‘economic islands’ with very narrow resource bases, limited water resources and increasingly high transaction costs. Pre and post intifada comparisons are revealing in that input purchases and market outlets are becoming increasingly localized. For example, pre-intifada, nearly 50 percent of agricultural inputs were purchased from Israeli or other external suppliers, by 2004, this proportion had dropped to less than nine percent, with slight increases in local purchases post-intifada for livestock. Purchases of industrial inputs, which are higher economic value-added, from Israeli or external suppliers declined by less than one percent. Any economic benefit from increased ‘import substitution’ – purchasing agricultural inputs from local suppliers – may be short lived given the inability to generate export income due to closures, restricted movements and the longer term impact of loss of external markets.

There are increasingly distinct, and increasingly isolated, ‘economic islands’ that are the basis for determination of market catchment areas, that would be useful to monitor over time given the serious structural shifts occurring in oPt due to the current financial and political crisis. There are increasingly distinct market catchment areas that warrant continued price and market monitoring in oPt rural, urban and assembly markets: three in Gaza; thirteen in the West Bank. A more thorough understanding of Israeli markets, agricultural and business cycles would support market monitoring and analysis of the oPt. Table 3 lists which market catchment areas overlap with the most food insecure areas (*please refer to part III of this report for detailed recommendations related to market catchment areas and Annex II, map of market catchment areas vis-à-vis current WFP market survey locations*).

PCBS data indicate that the average household expenditure for food is 42 to 54 percent of total monthly income, fairly high, but not as substantial in terms of food expenditures as other lower middle-income countries. Given rapid population growth, as well as 1998 legislation that encouraged investment in the food processing sector, local market shares for traders have reportedly increased. Some of this increase is due to supplier concentration – the larger suppliers have tended to gain the market share of smaller traders in difficult periods given a more profound ability to bear higher costs for a longer period of time. Recent reports in the West Bank and Gaza certainly highlight that the largest traders and

³³ The World Bank Group 2005.

supermarket chain owners may benefit from the exit of smaller, more vulnerable shopkeepers due to the financial crisis.

| Table 3 - Market Catchment Areas: Urban, Rural and Assembly Market Monitoring | | | |
|--|------------------------------------|--|---------------------------------|
| | Name | Description (and primary agricultural output) | Most Food Insecure Areas |
| 1 | North Gaza | Gaza City and surrounding communities, primary export channels for cash crops (vegetables and flowers) | Gaza and Beit-Hanoun |
| 2 | Mid-Gaza | Dier El-Balah, Nuseirat and Bureij: primary agricultural areas for export and local consumption | Deir el-Balah |
| 3 | South Gaza | Rafah and Khan Younis, primary market outlets in southern Gaza Strip | Rafah |
| 4 | Northern West Bank | Nablus, Jenin, Qalqilya, Tulkarm, Beita: zone covers more than 50 percent of main markets for olive oil, citrus and fruits and vegetables. | Jenin, Nablus, Qalqilya |
| 5 | Salfit | Salfit: primary area for olives and olive oil output | Salfit |
| 6 | Ramallah | Ramallah Urban Centre: primary market outlet for all WB output and imported product | Ramallah |
| 7 | Jordan Valley | Tubas: primary area for irrigated (90 percent) agricultural output, including banana, citrus and vegetables, with exports to Israel and Jordan) | Tubas, Nablus |
| 8 | East Jerusalem | East Jerusalem Urban Centre: Primary market outlet for highest income strata | <i>Not applicable</i> |
| 9 | Dura | Middle and southern part of West Bank produce market (vegetables) | <i>Not applicable</i> |
| 10 | East Bethlehem | Primary livestock assembly market for Bedouins | East Bethelam |
| 11 | North Hebron | Primary market for grape production | Hebron Halhul |
| 12 | South Hebron | Primary livestock assembly market | South Hebron |
| 13 | Seam Zones | Markets inside the green armistice line and Separation Barrier | Qalquilya and Tulkarem |
| 14 | Israel, plus Area C markets | Although integration between oPt and Israeli markets is declining, monitoring Israeli agriculture, trade and business cycles is an important feature of oPt market monitoring. Understanding the price levels settlers in Area C pay for food and non-food items, plus transaction costs, may provide important comparisons. | <i>Not applicable</i> |

Generally, each main urban market (local shop or chain supermarket) has an established but limited number of large wholesale suppliers, who tend to own trucks with both Israeli and Palestinian plates, facilitating access to markets on both sides of the 'border.' Credit relationships were much stronger prior to the second intifada, and were recently under review in the West Bank due to the financial crisis. In smaller, rural and urban areas, traders often purchase supplies from the larger wholesalers rather than import directly from Israel. Marketing and distribution systems have incurred higher costs due to the security and closure considerations, but have tended to adapt to the situation by purchasing larger quantities when possible, holding higher stock levels (more than one month demand pull, similarly, food manufacturers tend to purchase greater quantities of raw materials to ensure that plants do not close down due to lack of supply) and seeking new ways to finance import and export trade. The overriding constraint cited by traders in an ICRC 2002 study of

markets in the West Bank (and this is most likely holds for Gaza) was a lack of purchasing power.³⁴

Relatively high growth in the food processing sector has been eroded by the sharp decline in household purchasing power throughout oPt and the inability to transport food and non-food items locally in the West Bank or into Israel. PCBS data cite an increase in local market share from 25 to 30 percent for Palestinian food traders between 1996 and 1997, after the establishment of the PA and ongoing discussions about the peace process were underway. Growth and investment in the sector has not been sustained at levels high enough since the second intifada began to even capture population growth and currently, the food processing industry is operating at a reported 60 percent of total capacity, while light manufacturers are operating at less than half of plant capacity. Sustaining the costs of low capacity utilization rates is unlikely for many processors or small manufacturers, and unless distribution channels to market outlets locally or externally are reopened, either through restored consumer purchasing power in local markets or access to external markets, dependence upon imports of basic foods will increase, as well as the need for external assistance.³⁵

2.1 Trade Situation and Outlook: Israel, Egypt and Jordan

The World Bank has been closely engaged in discussions with the PA and Government of Israel (GOI) on disengagement related issues, including trade facilitation, borders and passages. Guiding principles of these discussions were to balance legitimate security concerns of the GOI with the future viability of Palestinian trade in goods and services. These discussions culminated in the Agreement on Movement and Access (AMA) in November 2005, representing a commitment to Palestinian economic growth in regard to the movement of people and goods across borders. Neither the GOI nor the PA have fulfilled respective obligations under the AMA and trade originating from Palestine remains severely restricted.³⁶

The risks inherent to importing goods into oPt directly are enormous given the uncertainty of closure policies, primarily linked to security concerns. IMG reported in mid-May that the value of goods imported by Palestinian traders being held at Ashdod Port ranged from UDS 600 - 700 million, with importers forced to pay significant demurrage fees for goods not released due to the closed Karni Crossing. The delays for most of 2006 have incurred enormous costs to importers, and transaction costs to accommodate increased risk in shipping and documentation have increased from NIS 2,000 per container prior to the severe closures of 2006 to NIS 10,000 per container.³⁷

The current crisis is having a significantly negative effect on the overall investment climate in the oPt, with PalTrade reports indicating that nine clothing and three furniture manufacturers have relocated to the duty-free trade zone or Qualifying Industrial Zones (QIZ) in Egypt in order to continue export trade flow to markets in Israel. These exports

³⁴ *Urban Food Economy and Market Study in the West Bank*, Alexandra King, The Food Economy Group, for ICRC and British Red Cross, June 2002.

³⁵ Other industries that provide sources of employment and income in oPt include garments and textiles, stone and marble sector, pharmaceutical, information technology and tourism.

³⁶ WFP used the Rafah crossing to originate wheat flour from Egypt to Gaza, and found this an acceptable solution to closures at Karni in order to address humanitarian needs.

³⁷ See WFP Logistics Assessment Mission, Rafah and Kerem Shalom, March 2006.

are traded through the Nitsana Crossing to Israel with no reported closures or border trade restrictions. The QIZ were introduced by US Presidential Proclamation in November 1996, related to the Paris Protocol, and extended duty free status to products originating in Israel (under the US-Israel Free Trade Agreement), and for products originating in the West Bank and Gaza Strip.³⁸ The purpose of the Proclamation and development of the duty-free zones was to increase economic cooperation between Israeli, Palestinian, Jordanian and Egyptian businesses and create new investment incentives. More than 50 new enterprises have been established in 10 QIZ in Jordan, creating 45,000 jobs to date and expanding duty-free exports to US markets.³⁹

Palestine was granted observer status at the WTO Hong Kong Ministerial meeting in December 2005, an initial step in accession to the WTO and an important element in future trade negotiations with Israel, Egypt, Jordan and other current Economic Association agreements, for example, with the European Union. The Palestinian Authority had also taken concrete steps toward the privatization of key sectors, such as cement production, petroleum and ports, in addition to other public sector projects, designed to attract more private sector investment.⁴⁰ However, private investors have been less willing to invest in oPt, particularly since 2000, and have foregone investment opportunities estimated at USD 3.2 billion. PalTrade notes that the situation is particularly acute for firms in vulnerable sectors such as tourism and traditional industries—food processing, textiles and garment manufacturing, furniture—while pharmaceuticals, information technology and marble/stone industries appear to be surviving the current crisis more readily.

Trade Agreements with Egypt and Israel have not provided a substantial foundation of support for expanded growth in regional trade. An Arab Summit decision in 2000 granted duty and quota free access to Palestinian exports, although this increased market access remains underutilized. There are also no restrictions on Palestinians who are able to bear the full financing costs of importing directly from international markets, however, the primary constraint to increased trade is the need for primary transit through Israeli port facilities. UNCTAD estimates the costs to Palestinian exporters are at least 30 percent higher than the costs incurred by Israeli counterparts, and that generally, products originating in Gaza for export to Jordan face prohibitively high costs.

2.3 Market Prices: Gaza and West Bank Market Monitoring (WFP/FAO)

Currently, WFP collects retail price information in 23 shops in rural markets, 12 shops in urban markets and six assembly markets for agricultural crops, and began collecting price information in November 2005. The changes in prices between November 2005 and March 2006 are noticeable, in part driven by international price shifts and closure. For example, sugar prices, according to WFP price monitoring, have increased 42 percent between November and March throughout the occupied territory. Some of this price increase could be attributable to closure days, but much of this would most likely be attributable to 25-year

³⁸ There have been several negative reports in regard to employment practices in relation to garment manufacturers in duty-free zones in Jordan, please see 'Foreign Clothing Workers in Jordan complain of abuses', Steven Greenhouse and Michael Barbaro, International Herald Tribune, 4 May 2006.

³⁹ Enhancing the Peace Process in the Middle East through Regional Cooperation for Economic Development, Yehuda Raveh and Company, Law Offices, reports accessed May 2006.

⁴⁰ Mazen Sinokrot, former Minister of National Economy, This Week in Palestine, Issue No. 96, April 2006

high prices in international markets that have transmitted to local markets in Palestine due to imports.

Significant price increases for basic staples were noted for Gaza, less in the West Bank over the same period, with a very notable difference in prices increases in wheat flour. Flour prices increased by nearly 32 percent in Gaza, compared to 7 percent in the West Bank, which could be partially attributable to closure days, as well as local supply of flour at mills. Furthermore, price increases occurred before a more serious escalation in the financial crisis and subsequent decline in purchasing power was as evident, thus, the full effect of the cut-off of PA salaries had probably not transmitted fully into local market prices as of March.

Nearly half of WFP food aid distributed in the West Bank and Gaza Strip (vegetable oil, wheat flour and iodized salt) is purchased from local Palestinian suppliers, as a form of support to the local economy. The economic value added of local procurement accrues to larger industrial manufacturing concerns and typically, Israeli commodity brokers, who are the primary suppliers of raw materials for food processing facilities. For those Palestinian traders with the financial capacity to import directly, given transaction costs and closure risks, in some cases the local procurement has altered commercial market share and resulted in decisions to increase processing capacity to 'recapture' or increase market share.

| <i>shekels/ unit</i> | Nov-05 | Mar-06 | Nov-05 | Mar-06 | Nov-05 | Mar-06 | Nov-05 | Mar-06 | Nov-05 | Mar-06 | Nov-05 | Mar-06 | Nov-05 | Mar-06 |
|----------------------|--------------------|--------------|------------------|--------------|-------------|-------------|----------------------|-------------|------------------|-------------|--------------|-------------|--------------------|--------------|
| Governorate | Wheat Flour | | Olive Oil | | Rice | | Vegetable Oil | | Chickpeas | | Sugar | | Milk Powder | |
| Bethlehem | 86.45 | 106.00 | 20.20 | 18.00 | 3.30 | 3.75 | 4.85 | 6.00 | 5.00 | 5.67 | 2.58 | 3.88 | 25.50 | 24.75 |
| Hebron | 86.88 | 87.92 | 20.00 | 18.25 | 3.35 | 4.00 | 5.35 | 5.67 | 5.00 | 5.00 | 2.33 | 3.88 | 23.67 | 25.00 |
| Jenin | 79.00 | 83.63 | 18.25 | 18.00 | 3.88 | 3.38 | 5.55 | 5.58 | 4.68 | 5.88 | 2.63 | 3.45 | 22.75 | 22.75 |
| Jericho | 94.30 | 105.00 | 16.23 | 23.00 | 2.93 | 5.10 | 5.87 | 6.13 | 5.00 | 6.00 | 1.80 | 4.23 | 20.77 | 24.25 |
| Jerusalem | 89.20 | 105.00 | 22.00 | 23.00 | 3.38 | 5.10 | 5.40 | 6.13 | 5.25 | 6.00 | 2.45 | 4.23 | 24.00 | 24.25 |
| Nablus | 71.85 | 87.33 | 19.50 | 20.00 | 4.25 | 4.75 | 5.80 | 5.66 | 5.13 | 5.63 | 2.88 | 4.00 | 23.50 | 24.00 |
| Qalqiliya | 90.75 | 81.25 | 20.00 | 20.60 | 4.33 | 4.13 | 5.83 | 5.90 | 4.75 | 5.50 | 2.75 | 3.63 | 24.50 | 24.00 |
| Ramallah | 93.75 | 99.25 | 24.50 | 24.33 | 3.23 | 4.28 | 5.70 | 6.50 | 5.00 | 5.75 | 2.50 | 4.63 | 26.75 | 25.00 |
| Salfit | 88.25 | 90.00 | 23.00 | 19.00 | 4.38 | 3.83 | 5.50 | 5.37 | 4.38 | 5.75 | 2.84 | 3.58 | 22.75 | 22.75 |
| Tulkarm | 89.78 | 85.63 | 20.00 | 19.33 | 3.30 | 3.95 | 5.00 | 5.22 | 4.73 | 5.25 | 2.75 | 3.50 | 23.00 | 23.50 |
| Tubas | 85.75 | 91.75 | 18.67 | 19.33 | 4.05 | 4.13 | 5.73 | 5.88 | 4.50 | 5.00 | 2.88 | 3.50 | 21.50 | 23.00 |
| West Bank | 86.90 | 92.98 | 20.21 | 20.26 | 3.67 | 4.22 | 5.51 | 5.82 | 4.85 | 5.58 | 2.58 | 3.86 | 23.52 | 23.93 |
| <i>% change</i> | 7.0% | | 0.2% | | 14.9% | | 5.7% | | 15.0% | | 49.8% | | 1.8% | |
| North | 72.50 | 88.25 | 23.00 | 22.75 | 3.63 | 3.75 | 5.88 | 5.50 | 5.25 | 5.88 | 3.00 | 3.63 | 32.75 | 27.00 |
| Gaza | 70.50 | 85.00 | 20.75 | 22.50 | 3.38 | 3.93 | 5.75 | 5.75 | 4.63 | 5.88 | 3.00 | 3.75 | 32.75 | 27.00 |
| Middle | 64.25 | 90.25 | 22.50 | 22.25 | 3.00 | 3.00 | 4.63 | 5.88 | 4.25 | 6.00 | 3.00 | 4.00 | 33.25 | 27.00 |
| Khan Younis | 65.50 | 90.00 | 21.25 | 22.50 | 3.00 | 4.00 | 4.88 | 5.63 | 4.38 | 6.00 | 3.00 | 3.88 | 35.00 | 27.00 |
| Rafah | 65.50 | 92.25 | 21.00 | 23.25 | 2.88 | 3.25 | 5.75 | 5.88 | 4.50 | 6.25 | 3.00 | 4.00 | 33.00 | 27.00 |
| Gaza Strip | 67.65 | 89.15 | 21.70 | 22.65 | 3.18 | 3.59 | 5.38 | 5.73 | 4.60 | 6.00 | 3.00 | 3.85 | 33.35 | 27.00 |
| <i>% change</i> | 31.8% | | 4.4% | | 12.9% | | 6.5% | | 30.4% | | 28.3% | | -19.0% | |
| oPt | 80.89 | 91.78 | 20.68 | 21.01 | 3.52 | 4.02 | 5.47 | 5.79 | 4.78 | 5.71 | 2.71 | 3.86 | 26.59 | 24.89 |
| <i>% change</i> | 13.5% | | 1.6% | | 14.3% | | 5.9% | | 19.7% | | 42.3% | | -6.4% | |

The WFP price monitoring is important from nominal perspective and to help identify trends in prices. However, a more thorough analysis over time is vitally important in determining how households respond to changes in price, and the determination of how vulnerable households will shift food consumption patterns relative to income and nominal prices is crucial to determining those actions that may help restore 'normal' demand and/or reestablish demand post-shock, such as the recent financial crisis in oPt.

Changes in food demanded by vulnerable households due to changes in price are determined by *income elasticities of demand*, as well as *cross-price elasticities* to determine the degree of food product substitution. Thus, in order to determine how much vulnerable households reduce both the quantity of food consumed and quality of diets over time due to changes in household income or nominal prices in local markets would need an in-depth analysis of prices (based on time series data) and updated elasticities (see Annex I for draft Terms of Reference).

Currently, the PCBS Price and Standards Statistics Unit collects food price data as one of the major expenditure items for the Consumer Price Index. Retail price information for 18 foods, accounting for some 90 percent of the food portion of the CPI, is collected weekly in retail shops and at wholesalers and suppliers in the main urban centres of each Governorate. Food, as a major expenditure group, comprises 40 percent of the composite CPI. This data is not disaggregated and published, although given the high degree of import dependence, relative lack of formalized business/trader structures (for example, sales contracts) and overall reliance on spot traders (cash-based), publication of the weekly price data would help disseminate price information throughout oPt that could be very useful for the smaller, most vulnerable traders with relatively few sources of *'official'* price information.

3.0 Recommendations for joint WFP-FAO Food Security Monitoring

3.1 Current sources of market information

There are significant sources of secondary data related to the macro-economic, security, closure and restricted movements, as well as trade agreements, movement and access. However, there are relatively few studies that link markets to food security concerns to date, and even fewer that attempt to establish the economic value-added of the integrated nature of Israeli and Palestinian markets, how Palestinian access to Israeli markets and external export markets may or may not be linked to Israeli crop and business cycles supported by empirical evidence gathered both in Israel and the oPt.

While primary socio-economic data are systematically generated by PCBS, secondary data on food availability and food access are generally available through WFP and FAO, as well as other UN partners, particularly UNRWA, ICRC and OXFAM. No systematic food security monitoring systems, however, are in place within the Palestinian Authority although a National Food Security Strategy was under development prior to the most recent political and financial crisis. The FIVIMS Phase 2 project, funded by the EC and implemented by FAO, began in January 2006 and is supposed to assist the PA in developing a food security monitoring system. The FIVIMS project, during the inception phase, found that the primary *'capacity gap'* is in the area of economic, socio-economic and market analyses relating to food security – with the PCBS a reliable source of quality data. The most recent draft of the National Food Security Strategy, in addition to FIVIMS, has emphasized the need for a multi-sectoral approach that would link humanitarian and development initiatives, including, *inter alia*, industrial and agricultural employment, agricultural profitability, food aid, the creation of a strategic grain reserve and natural resource management.⁴¹

⁴¹ Draft Palestine: National Food Security Strategy 2005.

Systematic review of trends in data related to food access, such as relating consumption trends to prices vis-à-vis household income and budget surveys, plus population census data are necessary. As most census and household budget surveys occur in three to five year cycles, data analyzed may not capture recent changes in consumption and food patterns, but would provide an important baseline for comparison in a complex situation over time. As a routine, PCBS implements a number of household surveys, gathering socio-economic data.

There is a relative lack of official information relating market structure to food security, although the PA has drafted a national food security policy. The food security planning capacity of the PA could be strengthened significantly by more profound knowledge of the food market value and supply chain, clearly establishing the economic linkages with Israel and 'value-added' of the oPt market to the Israeli economy.

There are a number of market-related studies currently underway (May/June 2006) that may provide further market information useful to food security monitoring. A partial list of the studies discussed, but not yet published, during this market assessment include:

- ACH-ARIJ: Israel Market Survey to identify possible niche markets for oPt agricultural producers, suppliers and possibly food product manufacturers
- World Bank: Investment Climate Survey of 400 oPt firms to identify possible foreign direct investment (FDI) opportunities in a number of strategic sectors, also focusing on non-Israeli export market possibilities
- Paltrade: Study to determine the value of trade between oPt and Israel (including value of goods and services that accrue to Israel as a result of oPt market outlets)
- Peres Center: Study to determine the value of trade between oPt and Israel (described similarly to the study currently under development by Paltrade)

Several other studies reviewed for this assessment provided useful macro-economic information related to economic structures, employment, agriculture and markets:

- *Asymmetries and Economic Interaction between Israel and Palestine*, Gianni Vaggi and Sara Baroud, University of Pavia and European School for Advanced Studies in Cooperation and Development, February 2005
- *The Palestinian war-torn economy: aid, development and state formation*, UNCTAD New York and Geneva, 2006.

The most important sources of market information, however, are traders. The ICRC and the British Red Cross conducted an *Urban Food Economy and Market Study in the West Bank* in June 2002, related to the urban voucher programme initiated by ICRC, and this study is one of the few that establishes definitive linkages between markets, market monitoring and food security for vulnerable households.⁴² Although the voucher programme eventually proved problematic from an operational perspective and was halted, the study provided some key insights from traders useful to market monitoring.

⁴² *Urban Food Economy and Market Study in the West Bank*, Alexandra King, The Food Economy Group, for ICRC and British Red Cross, June 2002.

3.2 Summary recommendations: integrate market analysis into WFP/FAO food security monitoring systems

Generally, food aid in the occupied Palestine territory would seem to have ‘subsidized’ closure policies by compromising local food production with imported food and non-food items. Some studies (Missalgia and De Boer 2004) and (Vaggi and Baroud 2006) note that food aid could be a hindrance to the recovery of local productive capacity, and that cash for work programmes should be considered for employment generating schemes. However, cash interventions may provoke price increases in markets that are not able to respond quickly by supplying more of the food product in demand – which is the case for the occupied Palestinian territory. The capacity of local markets to increase supply to meet increased *demand pull* depends upon market integration, competitiveness and expenditure patterns for basic staple foods.

Analyzing the current market scenarios resulting from the most recent ‘shock’ in Gaza and the West Bank, shows that market prices tend to be high and markets tend to function poorly, evidenced by the absence of or a limited number of traders for key basic foods, diminished purchasing power of households and vulnerable groups (collapsed demand pull), increased prices and limited movements of food both in and out of oPt. Appropriate near term response options, given this market scenario and information available at this time, would generally call for food transfers (imports) and market support to vulnerable traders and/or shopkeepers to preclude exit from the sector. All of the above warrants further study in the case of Palestine.

Additional summary recommendations include

- Conduct an in-depth analysis of the correlation between food prices in local markets, closure days and/or other economic and structural data related to markets, based on the PCBS time series data available for selected food item, as well as supply response. For WFP purposes, the recommendation is to purchase a 15-year time series of food price information from the PCBS Price and Standards Statistics Unit, with as much periodicity as possible, for example, weekly prices for each year for all food items available in every location possible.

This time series should include all the top 18 foods, plus the other foods, such as wheat flour and pulses (lentils), that are typically consumed by poorer households in both urban and rural areas. The transport costs for rural traders and/or rural consumers who travel to urban centres to purchase food should be calculated to establish proxy ‘delivered’ rural price. This price data (over time, by location, weekly, by food product) would be analyzed relative to own-price and cross-price elasticities of demand to determine how households respond to changes in food prices, a particularly important analysis given the primary food security concern of economic access to food across the different ‘islands’ of the occupied territory.⁴³

⁴³ Please see draft ToR in Annex I and note that the initial quote from PCBS related to the cost of collating and subscribing to this data would be USD 700 (May 2006).

The price time series data could also be correlated against number of closure days (weekly or monthly) to see how closely related changes in nominal prices are to movement restrictions, as well as other potentially useful predictive variables, such as exchange rates, GDP per capita, remittance income (GNI), dependency ratios, employment data or number of establishments (a possible proxy for employment).

- Implement a system to ensure analytical support from FAO in the ongoing analysis of food price information, based upon the current system developed by WFP oPt Country Office, with additional economic and/or econometric support from PA Ministry of Finance economists, WFP ODC or PCBS.
- Add market related questions (quantitative and qualitative) to the household food security (HHFS) questionnaire (such as purchases on credit, links to quality of food purchased, costs and frequency of transportation to and from market(s), name and location of market(s) most frequented, recommend approach and questions developed for Yemen CFSNA (June 2006).
- Link the HHFS responses to local markets with a trader survey in GS and WB, similar to the approach and format utilized for the WFP Pakistan Market Assessment (Nov 2005), using pre-2000, end 2006 and mid-2006 as *'market shock'* timelines.
- Utilize PCBS and Ministry of Social Affairs staff as enumerators and team leads in the proposed HHFS baseline exercise as an initial step to establishing a food security monitoring system within the PA, recommend approach and system established by WFP Iraq Country Office (based on remote guidance from WFP Amman to WFP national staff in Iraq and Ministry of Planning (Central Statistical Office)
- Initiate a market model with the objective of determining local market and consumer response to changes in prices, building upon vulnerable group food needs, private sector responsiveness to demand and sensitivity of household demand to *'price shocks'*. Support to this would be provided by WFP and FAO, in collaboration with the SENAC Advisory Group Representative from the World Bank.
- Develop a joint WFP/FAO Food Security Update report, that includes some elements of market and price monitoring, that would replace the current WFP market monitoring report. This update would capture major food security issues, of which markets related to food access is one component, and be a pre-cursor (output-driven partnership and institutional capacity building) for greater PA involvement in food security monitoring vis-à-vis PCBS, Ministry of Planning, Ministry of Agriculture and Ministry of Social Affairs.

3.3 Proposed next steps: Market-related food security indicators for joint WFP/FAO monitoring

Most current food security indicators point to a continued lack of physical and economic access to enough sufficient and nutritious food by vulnerable households to prevent further erosion in poor households asset base, as well as nutritional status. WFP notes that this is linked to insufficient efforts within the broader food security context to adequately support

increasingly marginalized livelihoods due to lack of employment, restricted access to agricultural land and inputs, and a lack of market integration and supports that would help increase revenues. The areas that appear at greatest risk over the longer term include: areas such as East Jerusalem and Salfit, formerly considered food secure, but potentially facing increased threats of food insecurity due to economic collapse and closure constraints; households in Area C of the West Bank, including agricultural and grazing lands, military reserves and nature reserves, where Palestinians often face severe constraints to livelihoods; the Jordan Valley area (Jericho and Tubas), major agricultural areas in the West Bank and that may become more food insecure if closures and movement restrictions to essentially 'separate' the West Bank from Jordan are implemented.

WFP/FAO will be conducting a Comprehensive Joint Food Security Assessment in August 2006. A more in-depth trader survey, conducted concurrently with the joint assessment would link households with the actual markets where foods are purchased, and provide 'field' information to complement further price analysis. The results of these activities would help pilot and confirm preliminary recommendations for market-related food security indicators for joint WFP/FAO monitoring, as well as provide a solid foundation for initial joint development of a food security monitoring system (FSMS) for eventual implementation by the PA (PCBS, Ministry of Planning, Ministry of Agriculture) and WFP/FAO.

A range of market-related indicators to monitor that would support food security monitoring in oPt: food price inflation (CPI), international prices for basic staple foods, transactions costs and local market prices, household coping strategies related to food access. Particularly, the trader survey and in-depth price analysis would be developed to support the objectives of the joint food security assessment and address the following:

- Have prices in local markets increased more given the recent political and economic shocks (post-2005) compared to pre-intifada (pre-2000) or from 2001 to 2004? e implications of recent food price inflation?
- How have recent price increases affected household access to food?
- What are the primary sources of food price shocks?
- Has access to food in rural areas been further constrained by food and transport cost increases? Are traders exiting the sector in greater numbers now than before?
- Are there fewer suppliers and are these becoming increasingly concentrated?
- How does closure and geographic location affect access to markets and in turn access to food (market catchment areas)?
- How have households coped with increasingly constrained food access, in terms of commodity substitution or reduced numbers of meals?
- Has the value of the income transfer from food aid increased vis-à-vis local market prices?
- Who can travel to the market place, who controls the money in the household for food purchases, particularly, related to intra-household issues: who eats first and last, who eats what (gender considerations)?
- What is the role of forward and backward credit linkages that affect household food access and traders in local markets?

The markets related questions would be closely linked to the food security assessment questions and sampling framework, as well as designed to support the overall objective of linking markets to food security assessments and monitoring. The market survey would attempt to summarize the perceptions of vulnerable households in regard to coping strategies during market-induced shocks.

The trader survey would establish, to the extent possible, in-depth information on domestic supply and value chains (horizontal and vertical), levels of competition, transport and transaction costs, and the relationships between international and domestic prices, international and domestic suppliers, as well as establish how domestic climate shocks and natural disasters (drought), plus acute water shortages, may affect future market-related food security concerns.

A preliminary checklist of market-related food security indicators, depending upon cost effectiveness of collection and analysis, key market indicators would include

- Consumer Price Index (CPI) and disaggregated price data for basic staple foods and income goods from source to destination markets (*retail and wholesale market prices*)
- International prices of basic foods, particularly wheat, wheat flour, rice, sugar, vegetable oils and pulses
- Number of closure days (linked to supply chain and prices)
- Number of establishments (link to employment, livelihoods and income)
- Exchange rates (NIS, Egyptian pounds and Jordanian dinars)
- Local food production
- Number and type of traders, with focus on smaller traders vulnerable to exiting sector
- Number and type of food products available in rural markets
- Forward and backward credit availability for households and traders
- Asset depletion or loss of livelihoods
- Ratio of worker remittance income to GNI vis-à-vis Israeli business cycles
- Terms of trade for oPt agricultural producers, particularly related to Israeli crop cycles
- Household expenditures to food (own and cross-price elasticities), plus degree of dependency on market purchases versus own production of food
- Daily wage rates for unskilled labour
- Household saving capacities

This preliminary markets-based checklist could be utilized in conjunction with other food security monitoring tools, such as the integrated food security and humanitarian phase classification (FSAU IPC), noting that that some market catchment areas may be characterized quite differently than others from a humanitarian/food access perspective (for example, Rafah may have a very different situation and phase classification than Ramallah, and require different programming response).⁴⁴

⁴⁴ Please refer to the reference characteristics and strategic response framework of the integrated food security and humanitarian phase classification (FSAU/FAO 2005), and the six defined phases: (i) generally food secure, (ii) chronic food insecurity, (iii) alert, (iv) food and livelihood crisis, (v) humanitarian emergency and (vi) famine.

Table 5 summarizes the market-related recommendations and proposed activities to establish a Food Security Monitoring System, supported by WFP/FAO, based on a timeline from July to December 2006.

| Table 5 - Establish FSMS in PCBS supported by FAO/WFP VAM | Jul | Aug | Sep | Oct | Nov | Dec |
|--|-----|--------|-------------|-------------|--------|-----|
| Develop FSMS: Initial Steps <ul style="list-style-type: none"> ❖ <i>Start consultations with key partners (use WFP Iraq CO ToR, approach to remote monitoring and M&E reporting as example)</i> ❖ <i>Establish list of indicators and plan collection and analytical feasibility</i> ❖ <i>Discuss Possible structure of FSMS and present as a topic in the proposed WFP/FAO FS Update</i> ❖ <i>Input the FSMS with available data</i> ❖ <i>Conduct baseline trader or market survey</i> ❖ <i>Draft first FSMS Update (PCBS)</i> | X | X X | X X | X X X | X | X |
| Conduct price analysis and trader survey with oPt CFSVA <ul style="list-style-type: none"> ❖ <i>Prepare TOR with focus on price analysis and integration of market information with household food security baseline (Yemen)</i> ❖ <i>Identify consultant(s)</i> ❖ <i>Conduct survey</i> ❖ <i>Data entry and analysis</i> ❖ <i>Report writing</i> ❖ <i>Training events for WFP VAM and PCBS</i> | X | X X | X X | X X | X X | X |
| Initiate a market model for oPt to focus on local markets effects of food and non-food assistance <ul style="list-style-type: none"> ❖ <i>Agree on model type (SENAC discussions) with ODAN/WB</i> ❖ <i>Update the chosen model</i> ❖ <i>Consultations on initial results</i> ❖ <i>Technical meeting(s) for finalization</i> ❖ <i>Training events, if necessary</i> | X | X X | X X X | X | X | X |

Given the current escalation in the humanitarian crisis in the oPt, further steps to support the establishment of a FSMS located in the PA, jointly supported on an initial basis by FAO and WFP, should be taken in consultation with key stakeholders. The upcoming joint food security assessment would constitute the ideal time and venue to provide training and/or an opportunity to build consensus around common monitoring of food security (PA and relevant Ministries, donors, private trade associations, WFP, FAO, other UN). In this respect, the FIVIMS Phase 2 project may offer the appropriate platform to promote such consultations.

Conclusion

The cumulative impact of the many complex factors that affect food security in the occupied territory resulted in an estimated 25 percent per capita decline in food consumption in 2005 compared to pre-intifada levels – and this has most likely further decreased given the

escalating crisis in recent months.⁴⁵ At the community and household level, the current humanitarian situation is characterized by severe coping strategies, and at the local market level, by further economic fragmentation, adaptation and the emergence of ever smaller and more isolated economic islands. These islands have been forced to increase local purchases for agricultural inputs and rely on unpaid (extended family) labour – economic cohesion is weakening and communities are becoming increasingly isolated – all of which also point to increased '*trader vulnerability*' given dramatic declines in purchasing power and lack of forward and backward credit.

Continued economic disengagement, reduced access to work opportunities and dim prospects for additional foreign direct investment in the oPt in the near future, point to increasingly restrictive and unsustainable economic conditions over the near, medium and longer term, particularly given rapid population growth and the need to generate new employment opportunities. The World Bank recently noted that as a result of the current crisis, the economy of the West Bank and Gaza is clearly shifting: closures have worsened the asymmetry of the Palestinian economy with the Israeli economy, further weakening the capacity to foster more sustainable growth in the occupied territory.

Poverty is deepening and economic contraction due to the recent crisis may precipitate, not only recession, but also profound structural changes in markets, and in turn, food security – this has been particularly evident in Gaza over the past few months and may be a precursor to what is happening to markets in the West Bank. Traders, due to liquidity constraints and the loss of Israeli partners or indeed local partners, may not be able to stock as much supply to mitigate against closures in future – this may lead to shortages in staple foods, when combined with record lows in global grain stocks, as well as record high prices for some basic foods, such as sugar – may result in food shortages.

Following the legislative elections in January 2006, the outlook for the Palestinian economy is considerably worse than in 2005. Most discussion related to economics (and markets) in recent years focused on Palestinian reforms, reduced closures, trade facilitation, export potential and foreign assistance to support longer term economic growth. Currently, simply preventing the onset of a deep economic recession and supporting the ability of the PA to remain operationally sound is of primary concern. Recent World Bank estimates note that the current situation may lead to a decline in real GDP per capita by 27 percent in 2006, 30 percent in personal incomes, while at the same time, unemployment would reach 40 percent and poverty 67 percent by the end of 2006.⁴⁶

The worsening economic and security environments will continue to exacerbate current challenges in regard to food security. Food access is of primary importance, as most staple foods are imported, and largely determined by household purchasing power. Structural shifts in the agricultural sector have resulted in far less food availability, in terms of total oPt output, as well as the ongoing and increasingly restrictive closure policies in the West Bank and Gaza that create food shortages. Food availability may increasingly be determined by GOI closure and movement restrictions.

⁴⁵ The World Bank Group 2004.

⁴⁶ World Bank Country Brief, May 2006

Prior to 2000, agricultural areas were largely dedicated to higher value cash crop production, However, the closure policy and separation wall have essentially restricted further growth in these sectors, and farmers that are still able to access their land have increasingly turned to wheat production – mostly as this does not have to be tended on a daily basis and may conserve water usage. Currently, a fairly significant proportion of rural households either produce food for own household consumption or depend upon sales of own agricultural output as a source of income to buy food.⁴⁷

Fluctuations in international prices of basic commodities, as well as increased fuel and freight costs, are transmitted to urban areas vis-à-vis Israeli suppliers, and in turn to local markets, further eroding purchasing power of vulnerable households. Average annual food price inflation increased 6.9 percent between May 2005 and May 2006 percent, compared to the average annual increase in 2005 of 3.7 percent.⁴⁸ Given the current political and economic situation, understanding whether the ability to access food has further deteriorated is extremely important. A more in-depth understanding of food markets, the Israeli market perspective and economic situation, free trade agreements and associations, household purchasing power and the *'market effect'* of closure is necessary to fully understand and analyze food security in the occupied Palestinian territory.

⁴⁷ Please refer to WFP oPt VAM unit and FAO FIVIMS for further details in regard to urban/rural households, subsistence agricultural production and sales of agricultural output as a source of household income.

⁴⁸ PCBS Consumer Price Inflation data

Annex I – Draft Terms of Reference

Occupied Palestinian territory (oPt): Price Analysis and Trader Survey

Support to the CFSVA Baseline, August/September 2005

Rationale

Generally, there are indications that the overall food insecurity situation in oPt may continue to worsen, particularly for the most vulnerable populations in urban and rural areas. The current situation in terms of local markets, household response to price changes (own and cross price elasticities), as well as the relationships between changes in food prices, closure days, and related market variables, needs to be thoroughly reviewed. An in-depth price analysis and trader survey would support the upcoming joint WFP/FAO food security assessment, as well as clearly establish market-related food security indicators for monitoring purposes. Given the current escalation in the humanitarian crisis in the oPt, understanding whether the ability to access food has further deteriorated through empirical data is very important, and provide an enhanced understanding of the role of food aid in local markets and market monitoring.

Objectives

The findings from the market and trader survey would support the food security assessment, and identify key market-related indicators to monitor as part of joint WFP/FAO food security monitoring, as well as support the development of a Food Security Monitoring System (FSMS) in the PA (PCBS, Ministries of Planning, Social Affairs and Agriculture). The trader survey would establish, to the extent possible, in-depth information on supply and value chains (horizontal and vertical), levels of competition, transport and transaction costs, and the relationships between international (Israeli and external) and domestic prices, international and domestic suppliers, as well as establish the correlation between prices and closure days, and the potential effect on household food security.

Specifically, the objectives of the consultant would be to lead a market survey team to

- Conduct a market and trader survey to better understand local market structure, place rural/urban markets and prices within the context of Israeli and international markets, and describe key items to monitor in the event of further escalation in the current food crisis
- Complete market/trader surveys in the most food insecure governorates and markets to determine price changes and other relevant market information related to food security monitoring (credit availability, transaction costs, trade) pre-intifada, at the end of 2005 and mid-2006
- Analyze the economic linkages, value and supply chains between the ‘economic islands’ in Gaza and West Bank and Israel, including an understanding of the linkages due to Israeli business/economic cycle, agricultural seasonality and trade
- Support the development of increased market price monitoring for basic staples and identify the most appropriate locations, staff and activities to support food security monitoring, to be jointly supervised initially by WFP/FAO oPt CO, in consultation with key partners (*such as PCBS, UNRWA, ICRC, OXFAM, UNDP, MoP, MoA*)

Consultant would also

- Complete an in-depth price analysis to discern the degree of correlation between food prices in local markets, closure days and/or other economic and structural data related to markets, based on the PCBS time series data available for selected food item, as well as supply response (*For WFP purposes, the recommendation is to purchase a 15-year time series of food price information from the PCBS Price and Standards Statistics Unit, with as much periodicity as possible, for example, weekly prices for each year*)

for all of food items available in every location possible, prior to undertaking this study). This price data (over time, by location, weekly, by food product) would be analyzed relative to own-price and cross-price elasticities of demand to determine how households respond to changes in food prices, a particularly important analysis given the primary food security concern of economic access to food in the occupied territory, as well as correlated against number of closure days (weekly or monthly) to see how closely related changes in nominal prices are to movement restrictions, as well as other potentially useful predictive variables, such as exchange rates, GDP per capita, remittance income (GNI), dependency ratios, employment data or number of establishments (a possible proxy for employment).

Expected outputs

- Final market report and price analysis that would function as a ‘markets baseline’, thoroughly describing how markets and price movements are related to food security in oPt, provides a final list of key market-related indicators for food security monitoring
- Description of the likely evolution of the market situation over the near to medium term, with particular attention to how international, urban and rural market linkages may relate to household food security for the most vulnerable groups
- Determine the immediate and near term reliability of local market channels in the event of further escalation of the current food crisis, and identify the possible role of markets in ongoing recovery activities (*such as possible role of non-food responses*)

Tasks/Activities

- Lead market survey team in targeted areas, supported by interviews with traders and secondary market research in larger urban markets, as part of the joint WFP/FAO food security assessment
- Research food consumption patterns, marketing channels (value and supply chains), market locations/types (primary, secondary or tertiary) and trade flows from major assembly (primary) markets to wholesale and primary markets (secondary/tertiary)
- Review secondary data and identify market information gaps on issues related markets, food security and price data
- Design market profile/trader survey and plans, including logistical arrangements, plus train interviewers, enumerators and/or supervisors and other staff involved in the survey
- Coordinate data collection and supervision in the field
- Supervise the data entry to ensure the completion of all tasks
- Conduct qualitative and quantitative analysis of data and draft report writing
- Present and discuss results and recommendations with WFP Country Office and key stakeholders (Government authorities, UN agencies, NGOs, donors)

Proposed Timeline

Feasibility and timeline of proposed analysis and trader survey to be determined with WFP/FAO oPt CO, and ideally to coincide with the proposed Food Security Assessment.

Annex II – Map of Market Catchment Areas and Oslo Agreement Areas A,B,C (West Bank and Gaza Strip)

