



MODES OF ENTREPRENEURSHIP OF THE PALESTINIAN REFUGEES IN THE PALESTINIAN TERRITORY: CAMPS VERSUS CITIES OF THE WEST BANK

Sari Hanafi

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Sari Hanafi
Associate Professor, American University of Beirut

Modes of Entrepreneurship of the Palestinian Refugees in the Palestinian Territory. Camps versus Cities of the West Bank

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European University Institute
Badia Fiesolana
I – 50014 San Domenico di Fiesole (FI)
Italy

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For more information:

Euro-Mediterranean Consortium for Applied Research on International Migration
Robert Schuman Centre for Advanced Studies (EUI)
Villa Malafrasca
Via Boccaccio, 151
50133 Firenze (FI)
Italy
Tel: +39 055 46 85 878
Fax: + 39 055 46 85 755
Email: carim@eui.eu

Robert Schuman Centre for Advanced Studies

<http://www.eui.eu/RSCAS/>

Abstract

After introducing the general characteristics of the Palestinian economy, the paper sheds light on different modes of entrepreneurship of the Palestinian refugees in the Palestinian Territory. The author highlights, also through empirical research, how different variables, such as the banking system, the impact of the Wall and hostile economic modes in the shadow of the Oslo Process in addition to various volatile political conditions, tremendously impact these modes of entrepreneurship.

Résumé

Après avoir exposé les caractéristiques générales de l'économie palestinienne, le papier analyse les différents modes et comportements entrepreneuriaux des réfugiés palestiniens dans le territoire palestinien. L'auteur démontre, aussi à travers des enquêtes réalisées, comment plusieurs variables dont le système bancaire, l'impact du mur de séparation, l'économie hostile dans le contexte du processus d'Oslo ainsi que les conditions politiques volatiles en Palestine impactent profondément les mentalités et les modes entrepreneuriaux.

I. Introduction

This study aims at studying the modes of entrepreneurship among the Palestinian camp population in the West Bank. The mode of entrepreneurship is a concept that allows us to understand the manner in which capital is acquired and the know-how necessary for the launching, development and sustaining of any business. Thus entrepreneurship does not mean fixed behavior or any kind of economic mentality. It is rather a dynamic concept.¹

The role of social capital stemming from different cycles of kinship ties will be studied in contrast to the role of banks or micro-credit programs provided by the UNRWA or other organizations. External factors arising from the Israeli occupation and its effect on the regulation of the PNA will be also examined.

As one can see, today, the Oslo process was a failure, yet this must not allow us to forget that it permitted the establishment of a Palestinian entity for the first time since the Israeli occupation, and thus allowed a partial "emancipation" of the Palestinian economy. The economic system of the Oslo accords resulted in the transfer of expertise as well as budgetary transfers from Israel to the Palestinians. It also brought out the exclusive domination of the private sector and the weight of the associative sector in the services.

The private sector is the main vehicle for growth and development in the Palestinian territory, more so in view of the poor quality of natural resources in the area. In the long run, it is private-sector initiatives that will be able to help absorb the high annual influx of job seekers on to the market and provide a reasonable living standard for Palestinians in this territory. However, it is clear that the private sector in Palestine has been subject to profound exogenous transformations over several decades.

While this is probably a feature of most countries in the region, the intensity and volatility of such transformations are far more pronounced here. Monitoring and evaluating these transformations from the point of view of entrepreneurship is therefore an important task.

In a departure from neo-classic economics, one that gives more space to the role of non-economic factors in economic transactions, the assumption underpinning this study of the entrepreneurship modes in the refugee camp, as compared to the rest of the Palestinian territory, is that economic action is embedded in the social structure. For this reason, it is important to study the different social networks that entrepreneurs have: local and transnational. What is this embeddedness and how do we understand the economic behavior of Palestinian returnees and local entrepreneurs?

Several previous studies identified two different types of Palestinian entrepreneurship: individualist and communitarian, both of which operate on a transnational level (Hanafi, 1997; 2001; 1998a; 1998b). Business people diversify their businesses in different fields and across geographical areas, using capital transfers more than physical relocation.

This research also permitted us to see how the economic actors are not only local, but also include transmigrants and returnees. The economic activities in the Palestinian territory come from an entrepreneurial class that is characterized historically by strong familial roots, but that has been affected by the 1948 exodus and by other cases of forced and voluntary migration. This study will also evaluate many points including the impact of the Intifada on business firms (e.g. volume of sales, profits, workforce and cost structure).²

¹ We can define entrepreneurship more precisely as "an attempt at a new business or new venture creation, such as self-employment, a new business organization, or the expansion of an existing business, by an individual, a team of individuals, or an established business" (Reynolds, Hay and Camp, 1999).

² I would like to thank Yousef Laham, Abdel Karim Shaloudi, the two fieldworkers for this research. I am grateful also to the respondents to our interviews from Palestinian entrepreneurs.

Methodology

Beyond exploring the existing data, this study explores fieldwork undertaken both by myself and my research teams over the last ten years (with two surveys: one at CEDEJ3 and the other at Shaml). During 2005-6, I also carried out a survey for a research project on the modes of entrepreneurship in the West Bank: interviewing 260 entrepreneurs. These entrepreneurs were distributed across five cities (Jerusalem, Hebron, Bethlehem, Ramallah, and Nablus) and one refugee camp (the Shufat camp).⁴

Our survey concerned selected entrepreneurs that represent all types of legal propriety in the private sector. As might be expected, the ‘sample’ was dominated by “individual ownership”, followed by “private share-holding companies” and “public share-holding companies”. Respondents consisted for the most part of senior people in firms (e.g. owners or their deputies). Almost all Palestinian businesses are owned by private nationals, but this does not necessarily mean that there is no foreign investment. Foreign investment, however, is limited to the investment of the Palestinian Diaspora through holding companies or familial ones.

The results of this survey were solicited through a questionnaire that incorporated all major, relevant criteria. The main body of the questionnaire was constructed so that it might apply to all types of businesses, with a few sector-specific questions added on. Some open questions were necessary in order to thoroughly understand the origins of the development of the different kinds of entrepreneurship in the Palestinian Territory.

While writing the questionnaire, we received useful feedback from many scholars and senior officials in public and private sector institutions. The number of “valid” questionnaires used in the survey as well as the geographic and sectoral distribution of the sample are all depicted in the following table.

Table 1: Distribution of the “sample” by Governorate and Sector

Sector		Governorate of residence						Total
		Jerusalem	Ramallah	Nablus	Hebron	Bethlehem	Shufat	
Industry	Count	1	17	16	21	14	5	74
	%	3.8%	37.8%	35.6%	42.0%	41.2%	23.8%	33.5%
Trade	Count	16	16	21	23	9	9	94
	%	61.5%	35.6%	46.7%	46.0%	26.5%	42.9%	42.5%
Service	Count	7	5	2	2	6	7	29
	%	26.9%	11.1%	4.4%	4.0%	17.6%	33.3%	13.1%
Tourism	Count	1	0	1	1	2	0	5
	%	3.8%	.0%	2.2%	2.0%	5.9%	.0%	2.3%

³ The CEDEJ is Centre d'études et de documentation économique, juridique et sociale, a French center based in Cairo.

⁴ Shufat camp is located on the northern outskirts of East Jerusalem, and inhabited by 18,000 inhabitants from which 10,290 are refugees. Out of these, 915 receive emergency assistance from UNRWA. Population density is high, as the cost of living in the camp is lower than in other East Jerusalem neighbourhoods. At the same time, so far Shufat residents have been entitled to hold Jerusalem IDs.

The research team was comprised of Yousef Laham, Abdel Karim Shaloudi and myself. We conducted the fieldwork and the in-depth interviews. I further reviewed all questionnaires after they were received. Then the data coming from the questionnaires was entered and processed on a computer using the SPSS program.

Industry and Trade	Count	1	7	4	3	2	0	17
	%	3.8%	15.6%	8.9%	6.0%	5.9%	.0%	7.7%
Agriculture	Count	0	0	1	0	1	0	2
	%	.0%	.0%	2.2%	.0%	2.9%	.0%	.9%
Total	Count	26	45	45	50	34	21	221
	%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

II. General Characteristics of the Palestinian Economy

According to the World Bank (2006), economic growth over the last fifteen years has been dismal, with population growth outstripping GDP growth through most of this period. Looking forward, economic prospects remain grim and dependent on political outcomes. There are signs of the reversal of economic gains won in the second half of the 1990s, eroding the WBG's capacity to generate economic growth even if the Israeli closure regime were to be loosened.

The Palestinian economy is unusual in that political economy issues play a much more critical role in gauging economic performance than is the case in most other countries.⁵ Since the start of the second *Intifada* in September 2000, the Palestinian economy has experienced severe structural shocks and readjustments. Unemployment currently stands at 40% of the labor force, almost one half of the population lives below the poverty line of \$2 a day, and investment is virtually non-existent. There are at least four reasons for this poor economic performance: closures, withholding of tax revenues, labor-flow reductions to Israel, and dependency.

The most detrimental effect of closures, within both the Palestinian territory and the rest of the world, is that it increases the cost of doing business. A basic requirement in a market type economy is capital and labor mobility within a country and with other markets in the rest of the world. It has been estimated that transaction costs in the Palestinian economy are about 30% higher than elsewhere. This has made Palestinian businesses less competitive.

A second explanation is that under the Revenue Clearance System put in place under the Oslo agreement between the Palestinian National Authority (PNA) and the government of Israel, the latter is required to transfer to the PNA all import duties on products destined for Palestinian territory. This much needed source of income has been repeatedly withheld by Israel and has caused severe budget deficits since almost half of the PNA's revenue is derived from here. To a large extent, this widening budget deficit has been repeatedly made up by donor countries.

The third explanation is the reduction in the Palestinian labor flow to Israel. Prior to September 2000, almost 150,000 Palestinian workers commuted daily to their jobs in Israel generating an annual wage income of about \$800 million. Today, only about 15,000 workers are allowed to cross into Israel under strict security checks and procedures, further discouraging workers. This dramatic shortfall in wage income has been partially supplemented by foreign aid.

Finally, the traditional dependency of Palestinian trade on the Israeli economy has distorted prices and reduced competitiveness. Almost 90% of Palestinian exports are destined to Israel, and 70% of imports are from Israel. This generated annual export revenues of about \$600 million prior to September 2000. Today, this figure has been drastically reduced and Palestinians are very often forced

⁵ This paragraph is adopted from the Palestinian portal, with some modifications: <http://www.met.gov.ps/DesktopDefault.aspx?tabindex=2&tabid=3&lng=1>

to import from Israel, through intermediaries, at highly uncompetitive prices. Before dealing with the issue of entrepreneurship, one should also know that there is more focus on formal economy than informal. However, the fact that the tax system does not function properly in the Palestinian territory and that the new Palestinian labor law is not yet in practice makes informal/formal classification difficult (Shabaneh, 2005: 5).

III. Characteristics of Entrepreneurship in Camps compared to Urban Localities in the West Bank

Entrepreneurship does not imply fixed behavior or a specific kind of economic mentality: it is a dynamic concept. It involves capital, know-how and sustainability. Entrepreneurship concerns not only business people, but also entrepreneurs in general, including the self-employed and the employer (ILO, 1998). According to this definition, the Palestinian diaspora (whether refugees or not) is quite entrepreneurial, 20% of the labor force being either self-employed or an employer (Khawaja and Tiltne, 2002: 99).⁶ This percentage is even higher in Palestinian territory at 33% (4.63% and 28.65% for employer and self-employed respectively) and it is higher for non-refugees 26% (3.54% and 23.11% for employer and self-employed respectively). (UNRWA, 2006: 32) (See table below).

Table 2: Social Composition of Employed Refugees and Non-Refugees in the Palestinian Territory, Semi-Annual 2005-2006

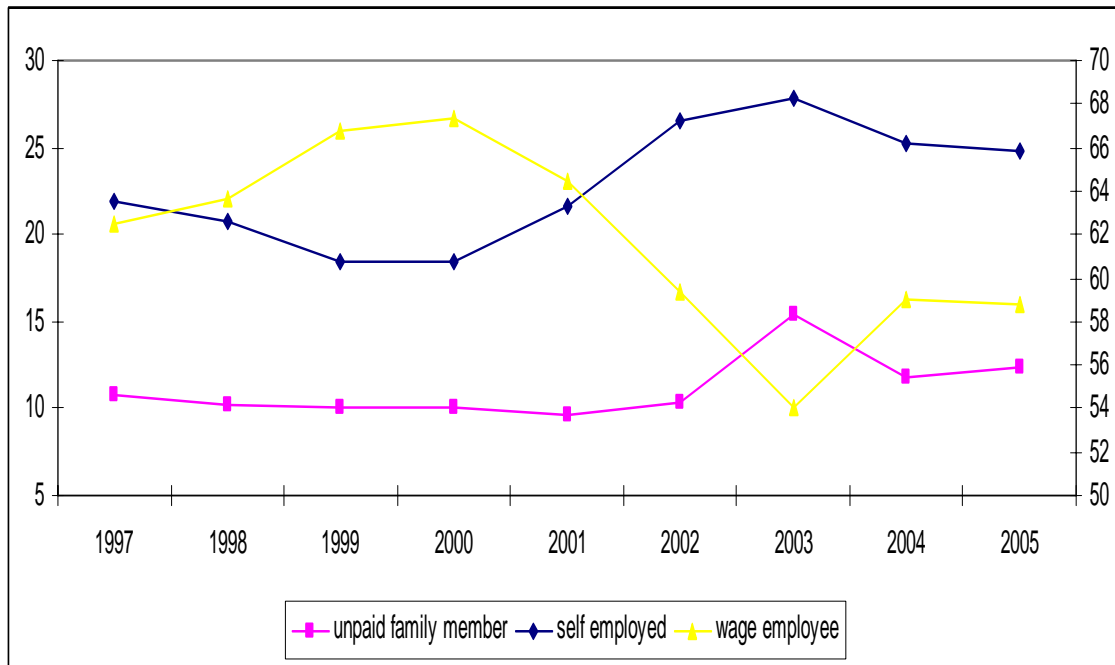
	Employment	Employment	Composition	Composition	Relative
Status (Refugees)	QI/QII 2005	QI/QII 2006	QI/QII 2005	QI/QII 2006	Change
Employer	7,569	8,498	3.31%	3.54%	6.87%
Self-Employed	50,952	55,508	22.29%	23.11%	3.70%
Wage Employee	153,155	161,342	66.99%	67.18%	0.28%
Unpaid Family Member	16,939	14,822	7.41%	6.17%	-16.71%
Total Employment	228,615	240,170	100%	100%	
Status (Refugees)					
Employer	19,015	18,579	4.85%	4.63%	-4.49%
Self-Employed	113,877	114,955	29.03%	28.65%	-1.32%
Wage Employee	215,988	225,530	55.07%	56.21%	2.07%
Unpaid Family Member	43,333	42,169	11.05%	10.51%	-4.87%
Total Employment	392,213	401,232	100%	100%	

Source: (UNRWA, 2006: 32)

⁶ Here we use the ILO classification and definition of the entrepreneur (ILO, 1998)

Over time, one can see the increase in self employment compared to other types of employment. This increase in self employment goes along with an increase in the number of unpaid family members. This demonstrates the familial nature of the businesses generated by this form of self employment (Botmeh, 2007).

Figure 1: Trends in Self Employment Compared to Other Types of Employment



Source: PCBS cited by Botmeh (2007)

The economic activities of the refugee camp dwellers often consist in small scale businesses: carpentry workshops, mini markets vegetable stores, electrician workshops, shops for construction material, construction yards, clothes shop.... As far as vegetable stores are concerned, because of the cheap price of fruit and vegetable in the camps, these stores have clients from outside the camps. Indeed, this is often the area of commerce which integrates the camp into city life. And, this is true not only of fruit and vegetables but also of many other products. The Shufat camp has two specific features: first, it is located in Jerusalem; second it is peopled with refugees and non-refugees. Indeed, Palestinians have left their dwellings in the satellite neighborhoods (mainly located in the West Bank) looking for cheap housing in the Shufat camp. The lack of zoning and urban planning in this camp has caused a housing crisis that forces people to live in dangerous and difficult conditions.

The absence of large-scale businesses is not the result of a lack of resources at the individual or familial level. Rather it is because entrepreneurs leave the refugee camp as soon as their financial situation allows them to. So industrialist Muhamed al-Omari, owner of the Al-Omari for Aluminum, used to live in the Qadora camp but he moved in 1995 to al-Tira, an upper class area near Ramallah.

III-1. Economy in the Shadow of the Oslo Process

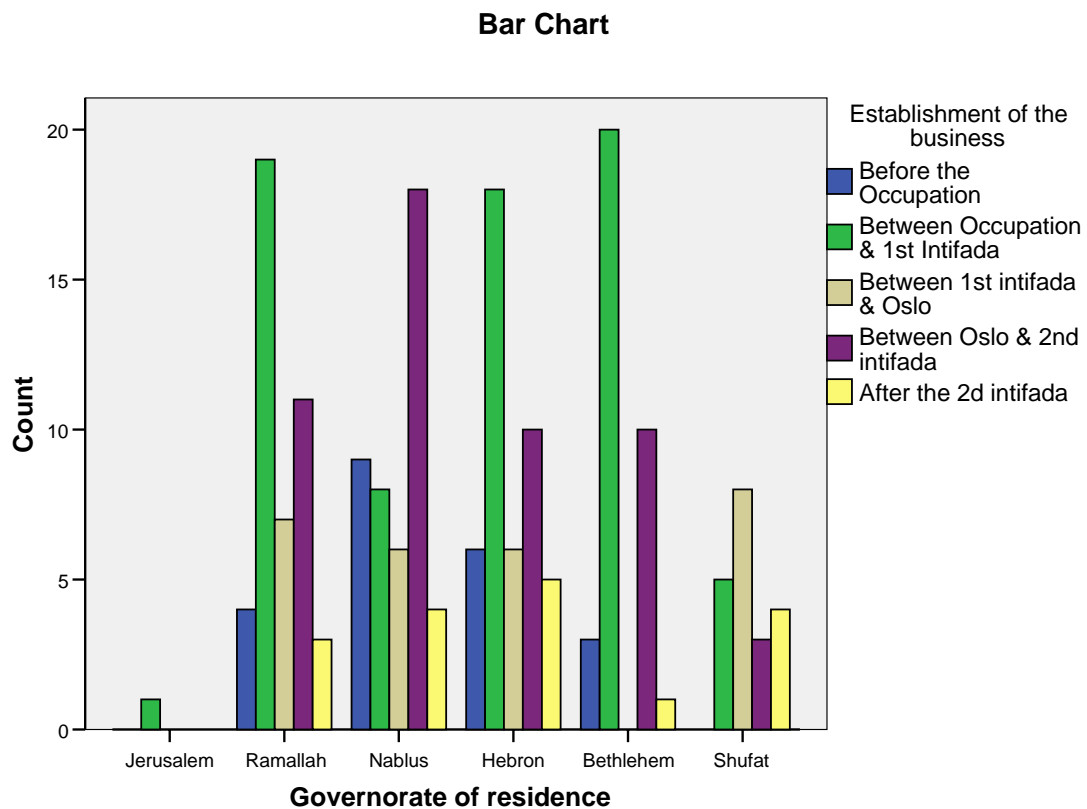
The period of the Oslo process seems to have generated around 37% of all entrepreneurial activities: while 9% of these were established after the launch of the second Intifada. However, businesses that were established in the few years following the signing of the Oslo accords were set up in the shadow of peace and not necessarily as a result of peace.

Concerning the Shufat camp, the major part was established between the first Intifada and the Oslo process (40%), while a third came after the Oslo process. Many of those who lost their job in the

Israeli market decided to open a small business. Two of the entrepreneurs are former UNRWA employees who opened shops in the camps on their retirement.

Table 3: Distribution of the “Sample” by Date of Establishment and Governorate

			Establishment of the business					Total
			Before the Occupation	Between Occupation & 1st Intifada	Between 1st Intifada & Oslo	Between Oslo & 2nd intifada	After the 2nd intifada	
Governorate of residence	Jerusalem	Count	0	1	0	0	0	1
		% within Governorate of residence	.0%	100.0%	.0%	.0%	.0%	100.0%
Ramallah		Count	4	19	7	11	3	44
		% within Governorate of residence	9.1%	43.2%	15.9%	25.0%	6.8%	100.0%
Nablus		Count	9	8	6	18	4	45
		% within Governorate of residence	20.0%	17.8%	13.3%	40.0%	8.9%	100.0%
Hebron		Count	6	18	6	10	5	45
		% within Governorate of residence	13.3%	40.0%	13.3%	22.2%	11.1%	100.0%
Bethlehem		Count	3	20	0	10	1	34
		% within Governorate of residence	8.8%	58.8%	.0%	29.4%	2.9%	100.0%
Shufat		Count	0	5	8	3	4	20
		% within Governorate of residence	.0%	25.0%	40.0%	15.0%	20.0%	100.0%
Total		Count	22	71	27	52	17	189
		% within Governorate of residence	11.6%	37.6%	14.3%	27.5%	9.0%	100.0%



III-2. Impact of the Wall

Introducing a wall into the urban-suburban-rural stew has had complex effects. (Brooks, 2005: 47). The check point at the entrance of the Shufat camp has tremendously impeded the shopping of the outsiders.⁷ The situation has also worsened since the establishment of the wall that has as objectives the cantoning of the Palestinian space and its separation from the Israeli space. Looking for instance at the Jerusalem Governorate areas, the IPCC survey of 2005 in the Old City and the thirty-nine governorate communities and the neighborhoods in Jerusalem and outlying areas, there are various insights into the impact of the wall.⁸

The wall certainly affects daily Palestinian life. When this question was asked generically, over two-third of the respondents thought that the wall affected them directly. And when we ask for more details, the following specific items emerge: 34.5% remarked on negative economic effects; 13.5% were concerned about the loss of personal or community land; 5.7% felt that population density was getting higher and general living conditions were deteriorating; 88% experienced or expected

⁷ After the signing of the Oslo Accords in 1993, and subsequent related agreements, the West Bank refugee camps gradually came under different zones: Shufat camp, which is situated within the municipal boundaries of Jerusalem, remained under Israeli control. Kalandia camp fell under "zone C" and remained under full Israeli control; six camps: Deir Ammar, Jalazone, Fawwar, Arroub, Far'a and Nur Shams, fell under joint Palestinian/Israeli control (zone B); and the remaining eleven camps fell under exclusive Palestinian Authority control (zone A). Following the implementation of the first phase of the 1998 Wye River Memorandum, Far'a and Nur Shams came under "zone A" raising the total number of camps under full Palestinian Authority control to thirteen. (<http://www.un.org/unrwa/refugees/westbank.html>)

⁸ IPCC undertook over 1200 interviews by questionnaire to adult Palestinians in Jerusalem Governorate areas. The purposes of the survey were to document the effect of the wall on life in the governorate and to assess the perceptions of the wall's effect among Jerusalemites.

difficulty (some, medium, or high) in receiving such basic services as health and education; 85% had experienced or expected to experience difficulties in reaching their place of work; 92.4% had experienced or expected to experience difficulties in general transportation and increases in the time required for travel; 137 of the survey subjects (11.2%) have had to contend with a change in their place of work; and 3.9% of families surveyed have changed their children's schools. In short, daily life in the governorate is undergoing significant and disturbing changes. (IPCC, 2007)

Let us take a more specific example, a small business which has suffered from the building of the wall. An entrepreneur from Shufat owns a construction material shop in Ar-Ram (a J2 center on the outskirts of the city, already walled-off from J1⁹) since 1975. At the beginning of the Intifada one employee was a Palestinian without Jerusalem ID living in Beir Nabala (J2 area): this employee cannot continue working as he cannot go to Jerusalem. His other three employees commute from Azariyya (a J2 town which was walled-off on three sides). Before the wall was built these employees took 40 to 50 minutes to come: now their journey takes 120 minutes. His clients from Beir Hanina Area (J1) cannot come any more because of the check point there. His old suppliers were from Ramallah and, partially, from Israel. Now it is very expensive to get products from Ramallah while transportation costs for Israeli products doubled. His dependant daughter works in Beir Zeit university and cannot live with him any longer and so has gotten a dormitory in Beir Zeit.

III-3. Banking System: Prevailing Mistrust

Credit made available to businesses facilitates investment. Credit has thus contributed to economic growth and, to some extent, softened the impact of socio-economic crises generated by the Intifada. The emergence of a banking system after 1994 served as the catalyst for the rapid *intermediation* in the Palestinian territory, i.e. the increasing use of formal channels for saving and borrowing. Even the socio-economic crisis since 2000 has not diminished this trend (UNRWA, 2006).

The survey shows little use of banking credit (less than 20%) for the establishment and development of Palestinian firms. Still, its use is more important in Bethlehem, and to a lesser degree in Hebron and Ramallah (respectively 8.2% and 15.4%). For the Shufat refugee camp, none of the interviewees claimed to use a bank. Of course, we can clearly see that the percentage of users is lower in many places like Hebron, for it is socially difficult that someone receives a loan from the bank as the banking system in the Palestinian territory is non-Islamic. (See table and bar chart below).

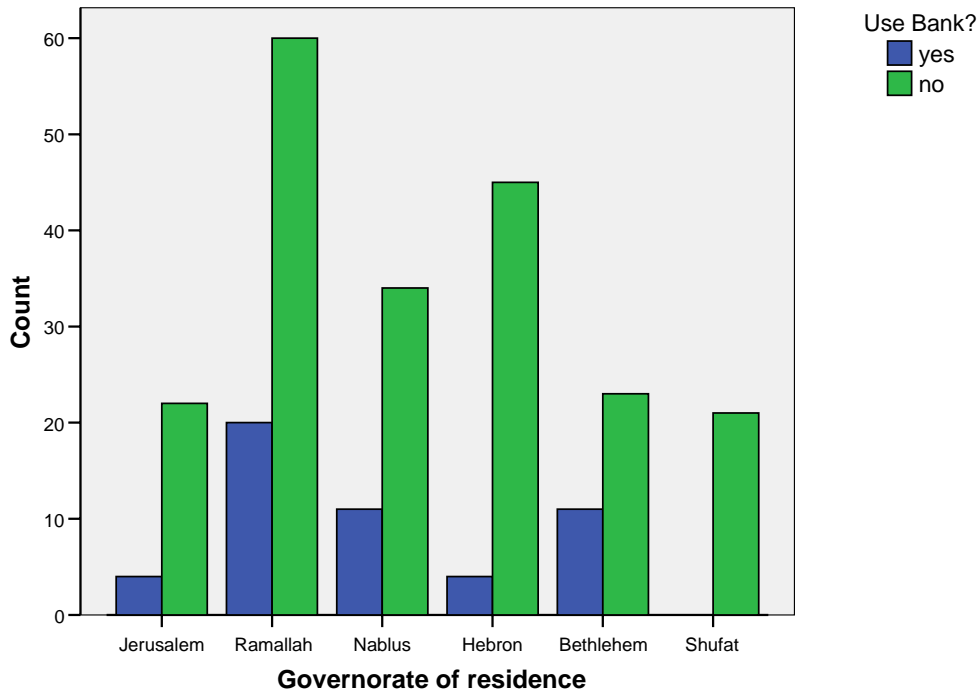
Table 4: Using bank by Governorate of Residence

			Use Bank?		Total
			Yes	No	
Governorate of residence	Jerusalem	Count	4	22	26
		%	15.4%	84.6%	100.0%
	Ramallah	Count	20	60	80
		%	25.0%	75.0%	100.0%
	Nablus	Count	11	34	45
		%	24.4%	75.6%	100.0%

⁹ Jerusalem Governorate is divided to two areas J1 and J2. J1 is an area a sprawling megalopolis composed of Palestinian East Jerusalem and its immediate neighborhoods and the J2 area us a scattered belt of outlying suburban and hinterland centers, towns and villages.

Hebron	Count	4	45	49
	%	8.2%	91.8%	100.0%
Bethlehem	Count	11	23	34
	%	32.4%	67.6%	100.0%
Shufat	Count	0	21	21
	%	.0%	100.0%	100.0%
Total	Count	50	205	255
	%	19.6%	80.4%	100.0%

Bar Chart



Only around 20% of the entrepreneurs declared themselves satisfied with the banking system, and this dissatisfaction doubles in Ramallah. Small business entrepreneurs are those who more often express mistrust than medium- and big-sized business entrepreneurs (approximately 90%, 83% and 64% respectively). (See table and bar chart below).

This result matches the data provided by the Palestinian Monetary Authority which shows only the outstanding bank credit to businesses, which constitutes 53% of the total bank credit. The rest is for the PNA, consumers, and other banks. (UNRWA, 2006). Outstanding credit means that this does not concern small entrepreneurs. Most probably the relevant USD 916.22 million are only given as loans to big businesses which are secure. The nominal USD value of bank deposits by domestic private and public entities in the Palestinian territory grew from about USD 2.830 million at the end of 1999 to USD 4.105 million by the end end of 2005. It is also important to note that total bank credit almost doubled but was proportionally less if taken as a percentage of the deposit (from 23% in 1999 to 22% in 2005).

Table 5: Value of Outstanding Bank Credit to Businesses in the Palestinian Territory, Annual 1999-2005¹⁰ (nominal USD millions)

Entity	1999	2000	2001	2002	2003	2004	2005
Businesses	645.91	813.20	748.37	686.54	676.52	779.66	916.22
Total Bank Credit	991.90	1,328.00	1,197.89	936.76	1,041.18	1,383.80	1,726.60
bank deposits	2,830						4,105
Rate of Credit to the businesses	23%						22%

Source: UNRWA, 2006

Table 6: Are the Banks Cooperative? Response by Governorate

			Are the Banks Cooperative?			Total
			yes	no	illicit	
Governorate of residence	Jerusalem	Count	5	11	9	25
		% within Governorate of residence	20.0%	44.0%	36.0%	100.0%
	Ramallah	Count	18	21	6	45
		% within Governorate of residence	40.0%	46.7%	13.3%	100.0%
	Nablus	Count	9	16	14	39
		% within Governorate of residence	23.1%	41.0%	35.9%	100.0%
	Hebron	Count	1	26	20	47
		% within Governorate of residence	2.1%	55.3%	42.6%	100.0%
	Bethlehem	Count	6	22	3	31
		% within Governorate of residence	19.4%	71.0%	9.7%	100.0%
	Shufat	Count	0	12	0	12
		% within Governorate of residence	.0%	100.0%	.0%	100.0%
Total		Count	39	108	52	199
		% within Governorate of residence	19.6%	54.3%	26.1%	100.0%

¹⁰ All figures in this table are year-end values as provided by the Palestinian Monetary Authority, July 2006.

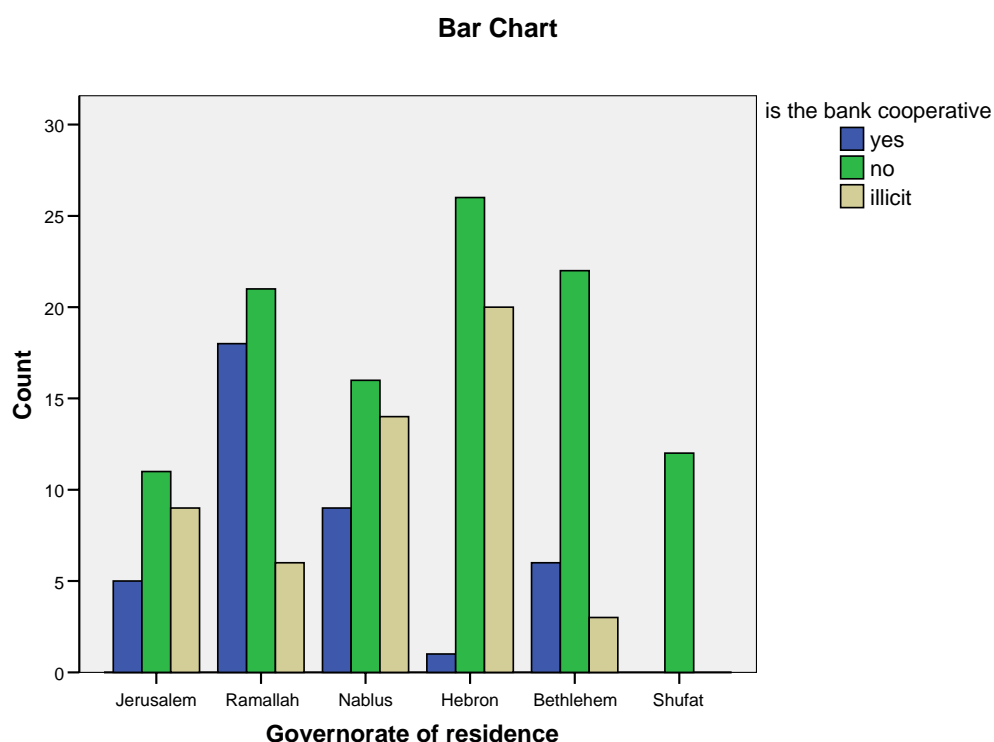


Table 7: Are the Banks Cooperative? Response by Size of the Business

			Is the bank cooperative?			Total
			yes	No	illicit	
Busin ess Size	Big	Count	20	22	10	52
		% within Size	38.5%	42.3%	19.2%	100.0%
	Medium	Count	14	50	19	83
		% within Size	16.9%	60.2%	22.9%	100.0%
	Small	Count	5	28	18	51
		% within Size	9.8%	54.9%	35.3%	100.0%
Total		Count	39	100	47	186
		% within Size	21.0%	53.8%	25.3%	100.0%

The majority of the entrepreneurs interviewed have serious concerns about the Palestinian banking system. They complain that most banks adopt overly conservative policies in their credit services, especially in regard to the size of loans granted or the mortgage and collateral requirements demanded. Most banks have tightened their policies even further during the Intifada, a tightening that is perceived by many entrepreneurs as “letting them down” in difficult times. Bank officials, according to CPSD and our survey, on the other hand, complain bitterly at the sharp rise in bouncing checks.

Bank lending is constrained by collateral requirements that rely excessively on land deeds; scarce commodities in the Palestinian Territory. According to the World Bank (2004:87), less than half the land in the Gaza Strip and about 30% of the land in the West Bank are registered. Meantime, banks do not accept property in camps as a guarantee. It is interesting to note that this is not the case when it

comes to Syrian refugee camps where banks accept camp property deeds. Banks are not particularly imaginative in their methods for assessing credit risk by looking at a wider range of assets.

They also complain that while the interest rates paid on deposits are low, the interest rates on credit facilities are high. This gap is particularly wide in the case of transactions in Israeli Shekels and Jordanian Dinars. Some also note that the cost of banking services is high and loan applications are processed slowly when compared to other places. Some of them also compare Palestinian banks unfavorably with Israeli ones, noting that the latter are easier to deal with if you succeed in being taken on as a client.

According to the Center for Private Sector Development (CPSD) study, the interest rates in local banks are about the same as those in Jordan and Israel. But regardless of how they compare with other countries, interest rates on credit facilities are considered by the majority of local firms as far higher than is justified by the current rates of return on investments in nearly all business sectors.

According to the survey, entrepreneurs consider that the banks motives are entirely capitalistic. In a more stable political environment, the banks channeled a large proportion of their funds to external destinations rather than directing it towards local investments. Even after repeated recommendations from the Palestinian Monetary Authority, and despite severe criticism from private and public sector institutions and economic research centers (like MAS), the ratio of loans and credit facilities to deposits is still in the range of 35-40%, which is around half the corresponding ratios in Israel and Jordan. (CPSD, 2005)

III-4. Embeddedness in Family Structure

While our studies of the Palestinian diaspora show most entrepreneurship as being individualist since there is new know-how coming from higher education in the host countries, in the Palestinian Territory our survey illustrates the contrary - a kind of a communitarian entrepreneurship based on familial support. Around 72% of interviewed entrepreneurs started their business using familial capital as a primary source or have a relative as a partner. The role of relatives consists sometimes in giving loans or gifts of money.

This mode of entrepreneurship is more important in Jerusalem, Hebron, Nablus and Bethlehem, and to a lesser extent in Ramallah. Many studies demonstrate the importance of the nuclear and sometimes even the extended family network as a safety net for entrepreneurs, especially in the conflict area where state authority has completely collapsed.

However, many myths circulate about social capital. As Malki et al. demonstrate, this capital has one condition - that there is no high poverty rate across families, as, for example, was the case during the Intifada (2002). One must consider bonding as a form of social capital that ties together family members who are similar in terms of their demographic characteristics. This was the case of the entrepreneurs in Shufat where familial help only took place in a third of cases: the rest would use their own income or rely on the help of friends. This can be explained by general poverty among the Shufat population. The entrepreneurs from Shufat, in fact, have the characteristics of self-made men. Typically, some had started as an employee in one of the service shops (say a dry cleaners) before they had opened the same service themselves 10 to 15 years later, after accumulating the necessary capital. When help is needed, it mainly comes from the brothers and to a lesser extent from parents, children and spouse. Sometimes help comes from several family members.

Education is one of the resources of social capital and our survey demonstrates that the more entrepreneurs are educated, the less they need familial help: those who hold Master degrees resort more rarely to familial help than those with lesser degrees (56% against 70% for those holding a BA degree or 80% for those who have completed secondary school).

Table 8: Distribution of those having Familial Partner by Level of Education

			Did you receive aid from your family or did you have a family partner?		Total
			Yes	no	
Highest level of education completed	Less than secondary	Count	23	12	35
		%	65.7%	34.3%	100.0%
	Baccalaureate	Count	70	15	85
		%	82.4%	17.6%	100.0%
	University	Count	72	32	104
		%	69.2%	30.8%	100.0%
	Master Degree	Count	9	7	16
		%	56.3%	43.8%	100.0%
	Ph.D.	Count	0	2	2
		%	.0%	100.0%	100.0%
Total		Count	174	68	242
		%	71.9%	28.1%	100.0%

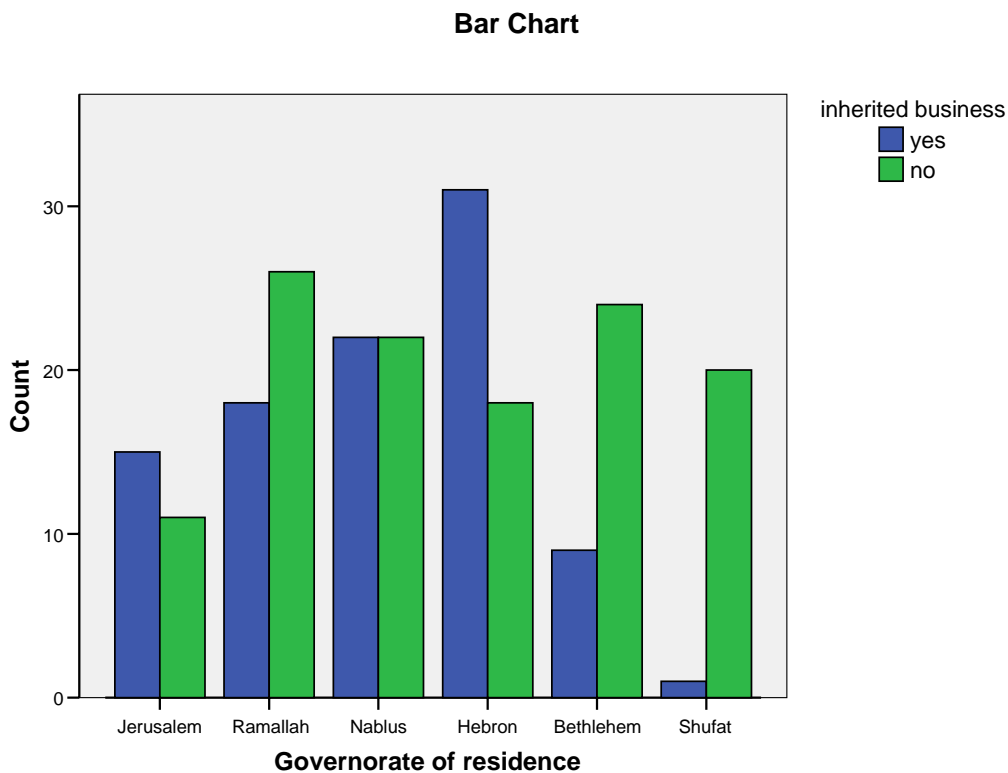
The survey's results illustrate the economic importance of Palestinian refugees: half of the entrepreneurs are refugees, though few live in camps.

Palestinian entrepreneurial activities are still largely familial and inherited in places like Hebron (63%) or Jerusalem (58%), while family is not so important in Ramallah (41%) and Bethlehem (27%) and not at all in the Shufat refugee camp. However in other refugee camps, we find some inherited businesses especially those related to commercial activities.

In Ramallah, we found many new types of businesses being set up by entrepreneurs with higher education (MA or Ph. D.) and especially with degrees in engineering. (See table and chart below)

Table 9: Distribution of those having inherited Business by Governorate of Residence

			inherited business		Total
			Yes	No	
Governorate of residence	Jerusalem	Count	15	11	26
		% within Governorate of residence	57.7%	42.3%	100.0%
	Ramallah	Count	18	26	44
		% within Governorate of residence	40.9%	59.1%	100.0%
	Nablus	Count	22	22	44
		% within Governorate of residence	50.0%	50.0%	100.0%
	Hebron	Count	31	18	49
		% within Governorate of residence	63.3%	36.7%	100.0%
	Bethlehem	Count	9	24	33
		% within Governorate of residence	27.3%	72.7%	100.0%
	Shufat	Count	1	20	21
		% within Governorate of residence	4.8%	95.2%	100.0%
Total		Count	96	121	217
		% within Governorate of residence	44.2%	55.8%	100.0%



As we have seen, very few cases benefited from bank credit, owing mainly to the conservative lending policies of banks in the territories; but also because using familial partnerships privileges a mode of trust that reduces the cost of economic transactions. Familial partnerships before Oslo tended to involve families living in the territories rather than diaspora families (the transnational family). The peace process created connections between the West Bank and Gaza and encouraged many partnerships, and these partnerships went beyond the Palestinian Territories: a quarter of the entrepreneurs interviewed had investments abroad. The survey also shows that the social-familial ties entrepreneurs maintain are more important than other socio-economic stratagems. Telephone and travel encourage such connections. However, ties with distant relatives (aunts, uncles, and their offspring) are weak. Some entrepreneurs use their relatives abroad to facilitate export and import, especially if those relatives live in Jordan. This is important, as the major constraint to developing businesses in the Palestinian territory is the Israeli occupation, travel restrictions, and travel route closures.

It is very striking that the majority of management in a given firm whether inherited or not comes from the family. However we observe less involvement of the family in the operational aspects of the firms. This can be explained by the use of modern technology which needs specialists.

Finally one should remember that some forms of social capital can be used to hinder rather than help entrepreneurs, e.g. when group membership norms confer obligations rather than encourage the accumulation of wealth or when they deny members access to services (Portes, 1998). The mobilization of the family to support a business does not mean that this fits a model of “ethnic” business that some tend to describe in a euphoric manner. Many entrepreneurs are reluctant to employ people from their village of origin. They are afraid that their enterprise will become a welfare project, with relatives expecting handouts without having to work (Geertz, 1993). The situation in the Palestinian Territory could be even more complex than that of Indonesia (where Geertz conducted his study); since despite it likely being bad business to employ relatives, the pressure among Palestinians to do what is socially appropriate is arguably greater. Many entrepreneurs indicate difficulties in

dealing with employees and complain about the absence of a work ethic. This can be explained by the weak institutionalization of work regulations as well as weaknesses in the workers' unions and the fragmentation of syndicates of liberal professions like the Syndicate of the Palestinian Engineers, where each branch functions as an independent entity.

Table 10: Distribution of those having Familial Partners by Governorate of Residence

			Did you receive aid from your family or do you have a partner from your family?		Total
			Yes	no	
Governorate of residence	Jerusalem	Count	22	3	25
		% within Governorate of residence	88.0%	12.0%	100.0%
	Ramallah	Count	47	24	71
		% within Governorate of residence	66.2%	33.8%	100.0%
	Nablus	Count	30	12	42
		% within Governorate of residence	71.4%	28.6%	100.0%
	Hebron	Count	43	7	50
		% within Governorate of residence	86.0%	14.0%	100.0%
	Bethlehem	Count	26	8	34
		% within Governorate of residence	76.5%	23.5%	100.0%
	Shufat	Count	7	14	21
		% within Governorate of residence	33.3%	66.7%	100.0%
Total		Count	175	68	243
		% within Governorate of residence	72.0%	28.0%	100.0%

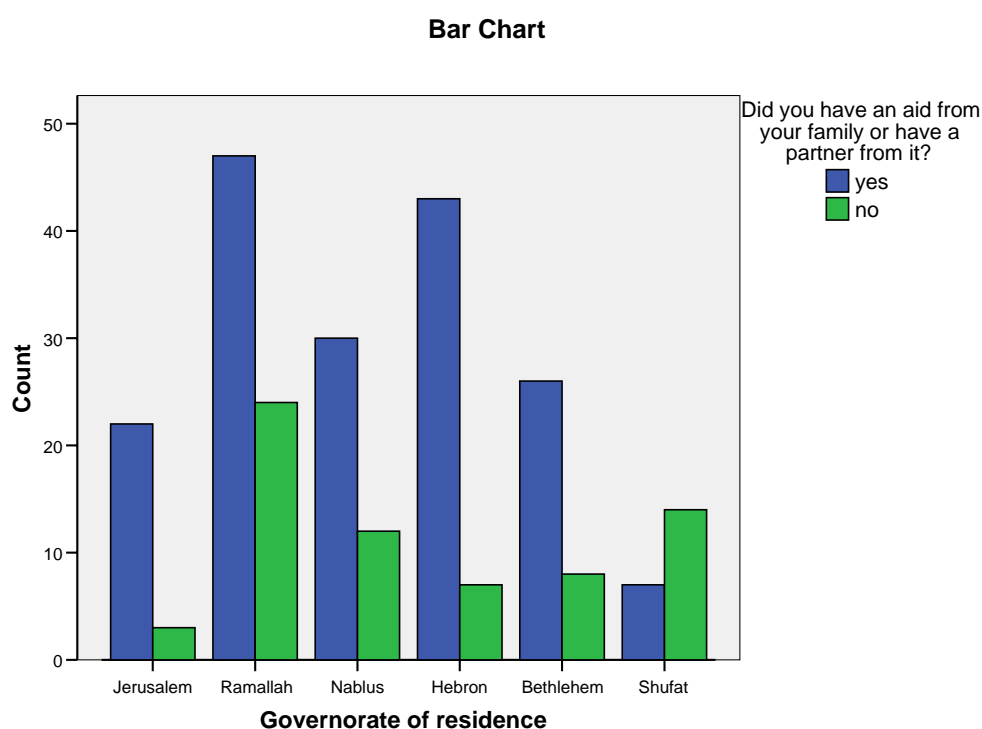


Table 11: “Who is the Partner?” Distribution by Governorate

Governorate of residence		“Who is the partner?”						Total
		Brother	Parent	Child	Wife	Mix	Friends	
Jerusalem	Count	13	4	3	0	1	1	22
	%	59.1%	18.2%	13.6%	.0%	4.5%	4.5%	100.0%
Ramallah	Count	18	3	2	1	6	0	30
	%	60.0%	10.0%	6.7%	3.3%	20.0%	.0%	100.0%
Nablus	Count	20	3	4	1	2	0	30
	%	66.7%	10.0%	13.3%	3.3%	6.7%	.0%	100.0%
Hebron	Count	29	2	2	1	9	1	44
	%	65.9%	4.5%	4.5%	2.3%	20.5%	2.3%	100.0%
Bethlehem	Count	10	1	3	7	6	0	27
	%	37.0%	3.7%	11.1%	25.9%	22.2%	.0%	100.0%
Shufat	Count	2	4	0	0	1	0	7
	%	28.6%	57.1%	.0%	.0%	14.3%	.0%	100.0%
Total	Count	92	17	14	10	25	2	160
	%	57.5%	10.6%	8.8%	6.3%	15.6%	1.3%	100.0%

The Family as a Substitute for the Legal System

While legal, judicial and regulatory systems for the establishment and development of businesses are crucial, their weakness in the Palestinian territory raises a major concern. This survey shows a quasi-mistrust of this system (77% of the total interviewees). Only in Nablus do half of interviewees refer to the law as a resolver of problems: the numbers are, respectively, a mere 36%, 21% and 14% for Jerusalem, Ramallah and Hebron. The majority thus relies on family to resolve any business dispute. One of the problems that is most acute in the Palestinian Territory is the issue of bounced checks. Entrepreneurs think that the tribe (*hamoula*) is still an important structure capable of resolving almost any problem. In Jerusalem and Shufat entrepreneurs face a major dilemma: while entrepreneurs in Shufat do not like to report a dispute to a colonial authority, a third of them accept this solution in Jerusalem. Investigation in other refugee camps in the West Bank allows us to generalize our survey in Shufat to other places.

At the same time, most entrepreneurs are not satisfied that the tribal system is employed for resolving business problems and they would prefer the legal system of the PNA to be more efficient - but they know in advance that the trial could last several years. Some of them highlight the problem of corruption within the legal system and the way that people can influence judges in their decisions.

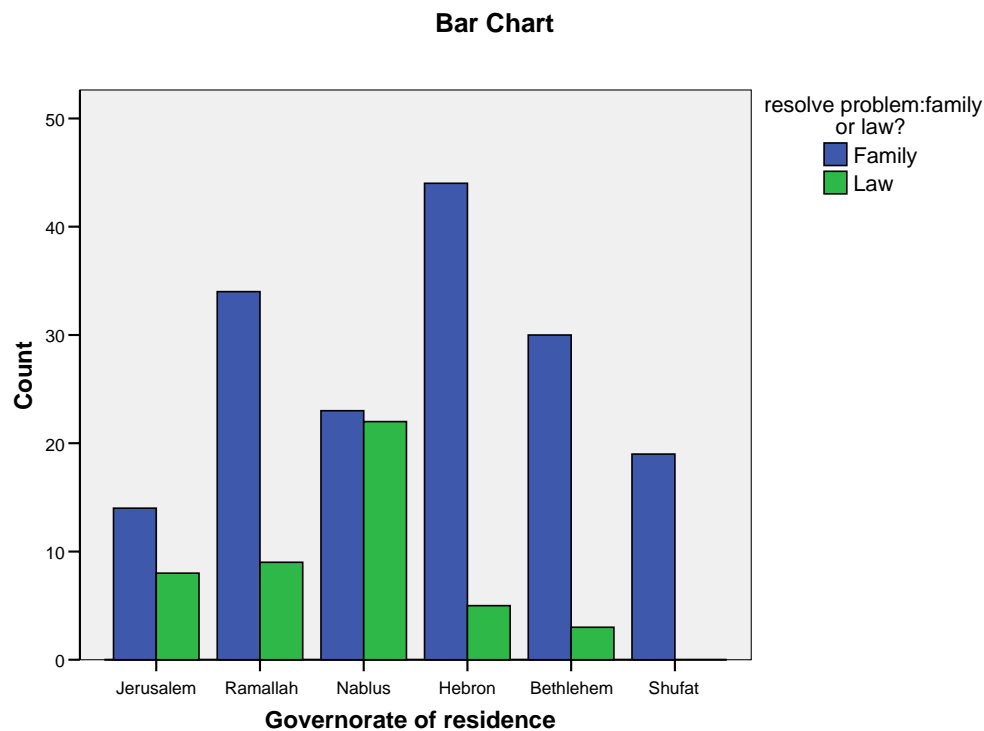
Many laws important for the orderly conduct of commercial activity have been pending for a considerable time; they need revisions or need to be properly enacted into law.¹¹ The shortcomings of the Palestinian court system are widely acknowledged and there is an urgent need to improve the infrastructure of the court system and to train judges and lawyers. The lack of progress in this vital sector may be attributed to unresolved competition between the Supreme Judicial Council and the Ministry of Justice concerning court administration and judicial training¹² (World Bank, 2004:87).

Table 12: “Who resolves problem: your family or the law?” by Governorate

Governorate of residence		Who resolves problem?		Total
		Family	Law	
Jerusalem	Count	14	8	22
	% within Governorate of residence	63.6%	36.4%	100.0%
Ramallah	Count	34	9	43
	% within Governorate of residence	79.1%	20.9%	100.0%
Nablus	Count	23	22	45
	% within Governorate of residence	51.1%	48.9%	100.0%
Hebron	Count	44	5	49
	% within Governorate of residence	89.8%	10.2%	100.0%
Bethlehem	Count	30	3	33
	% within Governorate of residence	90.9%	9.1%	100.0%
Shufat	Count	19	0	19
	% within Governorate of residence	100.0%	.0%	100.0%
Total	Count	164	47	211
	% within Governorate of residence	77.7%	22.3%	100.0%

¹¹ Including the Capital Markets Law, the Securities Law, the Companies Law, the Industry Law, the Law of Leases, the Competition Law and the recently adopted Social Security Law.

¹² The Office of the President has recently established an ad hoc committee to clarify roles, but no progress has occurred to date.



III-5. Hostile Political Economy

A majority of those entrepreneurs interviewed believe that the Palestinian economic system is essentially neo-liberal with an opening of borders for imports. Of course, there are some taxes imposed on products, but the problem of the absence of control allows many products to arrive in Palestinian territory untaxed. At the same time, many entrepreneurs complain that the trade agreement with Israel (i.e. the Paris protocol and subsequent amendments) has had damaging consequences on the Palestinian economy. The exact position will depend, above all, on which economic sector the entrepreneurs belong to and what his or her economic interests are. Local industrialists complain a lot while general traders benefit from this neo-liberal system.

Lack of knowledge on the part of the Palestinian negotiators concerning the type and the nature of local Palestinian products makes the trade agreements with Jordan and Egypt somewhat harmful to certain sectors in the Palestinian economy.

It is well known that local firms have numerous grievances about how trade relations with Israel are conducted. Yet despite all problems and obstacles, the Israeli market remained - until a year ago - the dominant outlet for well over 90% of Palestinian manufactured and agricultural goods. It is, therefore, likely that the assessment of trade agreements with Israel was heavily influenced by the high emotions that accompanied the confrontations of the past year.

The trading sector has a specific problem. According to the World Bank (2004: 85) more than 90% of Palestinian exports go to Israel, with significant re-exporting of goods from there. For this reason closures and checkpoints are harmful to the private sector. Independent, international gateways would allow Gaza and the West Bank to have unimpeded access to third-country markets. The export routes running through Israel have been unreliable and costly, principally because of unpredictable security procedures and the need to use Israeli middlemen and forwarders. If a satisfactory security protocol were established, a seaport in Gaza – initially roll-on, roll-off – is likely to be competitive, particularly if West Bank enterprises have access and if it is efficiently run by a private operator.

IV. Conclusion: Entrepreneurship between a highly Politicized Economy and the Subjectivity of Entrepreneurs

The Palestinian economy in the Palestinian territory and the participation of the diaspora in this economy are utterly dependent on political developments and on progress being made in the peace process. Political stability is one of the factors that determines whether a given project is economically reasonable or not, of course. However, is it only this factor to which Palestinian entrepreneurs are subject? Or are there other factors that must be taken into account, such as the cost of labor, access to markets for produced goods, infrastructure, and perhaps other things as well? Could it be that the personality of entrepreneurs has a role to play as well?

In his research on the entrepreneur Joseph Schumpeter concentrated on how the entrepreneur typically seeks to modernize and innovate. This innovation destabilizes—and even throws into turmoil—the economic *status quo*. The motivation for such innovation, however, is not profit or material gain. Schumpeter believed that the entrepreneur took a calculated risk and did not unnecessarily expose himself to risk; Schumpeter's entrepreneur was neither a conjecturer nor a speculator (Schumpeter, 411). The economist Israel Kirzner, in his theory of human action, considered risk to be one of the factors on which trade and industry were based, in a world full of upheavals, where the economic climate was characterized by change. In his theory, the entrepreneur tries to investigate the future rather than submit to present realities (Kirzner, 1987, cited by Cassarino, 1997)

This theoretical framework can be employed in thinking about the entrepreneur in the Palestinian territories, whose behavior is subject to a set of considerations that are far too complex to be captured by simplistic calculations that purport to predict rational economic behavior. As we find in the refugee camps there is an entrepreneurship which is based on survival, but entrepreneurial activities are helped by the family inside and outside the Palestinian territory, reminding us of the role of the entrepreneur's personality and his ties to a world of complex social relationships, as well as his view of his role in society. Entrepreneurs here are not only business owners but can provide help for the start-up and the development of businesses. However, the survival economy seems to be risk-averse and operate according to a logic of short-term profit. Here is the major peculiarity of the refugee camp economy as compared to the city economy.

Studying entrepreneurship in the refugee camps is not an easy task because the geographic mobility of entrepreneurs and the urge to leave the camps are strong and often coincide with socio-economic mobility. As previously explained, the economic activities of the refugee camp dwellers often consist in the possession of a small scale business. The absence of large-sized business is not due to the lack of resources at the individual or familial level, but rather to the reluctance of successful entrepreneurs to stay in the camp once their financial situation permits them to leave..

Entrepreneurship in the refugee camps, as well as in the West Bank in general, depends on many factors. Some of them related to Palestinian society and some external or of a political nature.

For the internal factor, the dominant mode of entrepreneurship is the familial one, and this is apparently the major reason why the private sector has been capable of surviving the harsh conditions of the occupation and the Intifada. While this fact is positive, the Palestinian bank system seems to constrain rather than encourage development. More liberal access to credit will be needed to fuel any recovery. World Bank recommendation (2004:87) states that the Palestinian Monetary Authority (PMA) should avoid trying to increase commercial bank lending by fiat. Instead, the authority should allow banks greater freedom in offering new services. Banks are called upon to display greater sensitivity to the private sector's circumstances and the Palestinian economy. As part of the business community, banks are expected to undertake a greater level of risk in their policies with other business firms. Banks should attempt to establish smoother and more transparent relations with their clients, especially by taking the time to discuss matters with them and help them better assess their financial situation and credit needs.

Given the extraordinary pressures and difficulties faced by local businesses, it is deemed vital that a new loan fund be established which would extend credit facilities to eligible firms on concessionary terms. Much could be learnt from the experience of neighboring countries, such as Israel and Jordan in this respect. Resources for this fund might be solicited from all those countries and institutions that have interest in assisting the Palestinian private sector survive the devastating pressures it has had to cope with during many years of political and economic struggle.

For the political economy, this is a major problem. To restore Palestinian economic vitality, Israel should remove internal barriers and restore the normal flow of goods across borders. In the past six years, the excessive cost of doing business in the Palestinian territory and the unpredictability of the closure system have plunged the Palestinian economy into recession. People increasingly rely on low-wage, low-productivity, petty commerce to make a living. According to the World Bank (2004: 92), traders are losing touch with markets -particularly export markets -and private investors stay away. In the short run, a significant easing of internal closures would give a measurable boost to the Palestinian economy. However, longer-term growth prospects are intrinsically linked to improved access to export markets.

The survey illustrated the impact of the Intifada on firms (e.g. volume of sales, profits, workforce, cost structure). This study has confirmed the devastating impact of disruptions in the transport system on firms in all branches of the economy. The damage is caused by sharply-rising delivery costs, which weighs heavily on the competitive capacity of all firms. This is exemplified by the 50% drop in the number of firms which continue to engage in external trade, as compared with the pre-*Intifada* level (MNE, 2007). All firms have also been hit hard as a consequence of the sharp drop in the purchasing power of ordinary residents, in addition to a total cessation of the inflow of Palestinian shoppers from Israel.

However the vulnerability of the refugee camps during this Intifada is especially salient. I noticed that in the Aroub camp women are producing t-shirts to be exported to the USA. Entrepreneurs have exploited them taking advantage of the fact that these women cannot leave their region.

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