International Labour Organization

▶ ILO brief

▶ Policy Brief

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Income dynamics and their implications for social protection in the Occupied Palestinian Territory[1]

Key points

- **Income poverty is not a static concept. There are no fixed categories of 'poor' and 'non-poor',** but instead a constant movement of households into and out of poverty. Within the space of 5 years (2013-18) nearly half of the original 'poor' were no longer poor. 40% of the 'poor' in the OPT are transient, moving up and down income classes over time. In the West Bank, only 16% of 2013 poor households remained poor in 2018.
- **Assessing both upward and downward income mobility helps develop a deeper understanding of poverty dynamics.** Whilst part of the policy solution to poverty reduction is to support those who are currently 'poor' (in a static measurement today), another critical element is to protect the vulnerable and middle classes from falling into poverty in the future. The results show that 52% of those households that rose out of poverty in 2014 fell back into poverty again by 2018.
- **Downward mobility is caused by three main factors:** demographic changes, labour market fluctuations, and shocks. It only increases with new shocks. Social insurance and social allowances (i.e. lifecycle benefits), as well as shock-responsive social protection measures, can help protect against structural vulnerabilities (to prevent downward mobility), whilst also supporting the upward mobility of poor households.
- **It is more cost-efficient to protect households from falling into income poverty**, than to pull them out of income poverty. On average vulnerable households falling into poverty experience a 42% fall in income, whilst poor households rising to the vulnerable class experience a 101% rise in income.
- **Extending social protection coverage is necessary in both the West Bank and the Gaza Strip.** There are stark differences between the West Bank, where groups experienced significant upward mobility and social protection is necessary to protect the positive gains of the middle classes; and the Gaza Strip, where poverty increased significantly with a disappearing middle class, with social protection being necessary to halt the rapid dwindling of the middle class.
- **Social protection mechanisms that focus only on chronic income poverty miss the target by design.** Only 15% of the population surveyed were relatively income poor in both 2013 and 2014, but 35% experienced poverty for at least one year. Social protection systems and programmes need to respond in real time to the dynamic nature of poverty. This implies the need for a strong data infrastructure and administrative capacity to quickly adapt to changing circumstances, but also programme design that extends support beyond the extreme poor and prevents households from falling into poverty.

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Introduction

The Strategic Goals of the Ministry of Social Development (MoSD) in the Occupied Palestinian Territory (OPT) include to prevent multidimensional poverty and to protect poor and vulnerable groups[2]. To achieve this, MoSD manages the national cash transfer programme (CTP) – a poverty-targeted programme designed to deliver cash quarterly to 'deep poor' households – and is considering the introduction of social allowances for other vulnerable categories. Efforts to extend social insurance schemes to private sector workers in the OPT are also underway.

In order to deliver on its poverty reduction objective, it is essential for stakeholders in the OPT to understand the dynamics of poverty (or 'income classes') over time, as well as the proportion of households that are chronically poor, to design social protection programmes appropriately.

Poverty can be chronic or transient in nature. Transient poverty is dynamic and constantly changing over time. Individual and household incomes are highly dynamic: consider any individual and how their income could fluctuate month-to-month based on changing personal circumstances, like loss/gain of employment, changes in household size and number of dependants, or external shocks. Social protection systems are facing constant changes in needs, contexts or shocks, with continuous movements across the 'new poor' and 'chronically poor'. In this context, targeting the poor can become extremely challenging.

This policy brief presents findings on income class dynamics over time (assessing socio-economic strata, class composition, class mobility and intertemporal poverty) and translates these into recommendations for the social protection sector in the OPT.

Methodology

The panel component of the SEFSEC survey series was used to define the class composition of Palestinian society and observe movement between classes over time. The same households were surveyed in 2013, 2014 and 2018[3]. Box 1 shows the steps taken to set up the analysis.

▶ Box 1: Defining income classes

- **Step 1: "Poor":** Define 'relative income poverty'[4] as those with per capita income less than 60% of the median.
- **Step 2: "Lower middle class":** Determine the probability of 2013 non-poor households to fall into 'relative poverty' in 2014. For those with 10% probability of falling into relative poverty in the following year, estimate the mean per capita income[5]. This is the lower boundary for the middle class.
- **Step 3: "Vulnerable class":** Define as those with per capita income lower than the middle class boundary (Step 2) but higher than relative poverty line (Step 1).
- **Step 4: "Upper middle class":** Define lower boundary for upper middle class as mean per capita income for households with less than 2% probably of falling into relative poverty the following year.
- **Step 5: "Wealthy":** Define as per capita income at least twice value of lower boundary for upper middle class.

These categories were used to determine the degree of "class mobility" over time and to assess intertemporal poverty. The specificity of the dates should be noted, with escalations in Gaza during this time. However, each year the OPT witnesses unique circumstances and shocks. The findings from this analysis are in line with international research[6] and reflect the underlying dynamics within Palestinian society. Recent escalation due to conflict (e.g. May 2021) and other shocks (e.g. Covid-19, Ukraine crisis) will only exacerbate the findings.

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[2] MoSD, Updated Social Development Sector Strategy, 2021-23.

[3] Due to data availability, 2013, 2014 and 2018 comprised the most recent data set available. The analysis is based on income data. Preliminary findings suggest consumption data would produce the same results.

[4] The analysis utilizes relative income poverty rather than consumption poverty to highlight the immediate effects of an income shock. Whilst beneficiaries of the CTP are targeted based upon consumption poverty criteria, the results presented remain highly significant for this population. The robustness of the results are confirmed by performing the same analysis with a relative consumption poverty concept.

[5] Applying the "Vulnerability Approach" to define "Middle Class" as those with less than a 10% probability of falling into poverty in the next period as outlined in: López-Calva, L.F. and E. Ortiz-Juarez. 2014. A vulnerability approach to the definition of the middle class. J Econ Inequal 12, 23–47.

[6] See for example, World bank. 2014. Jordan Economic Monitor: Resilience and Turmoil. Spring 2014. World Bank.

Analysis

Socio-economic strata

This section presents the proportion of the population in different socio-economic strata in 2013, 2014 and 2018.

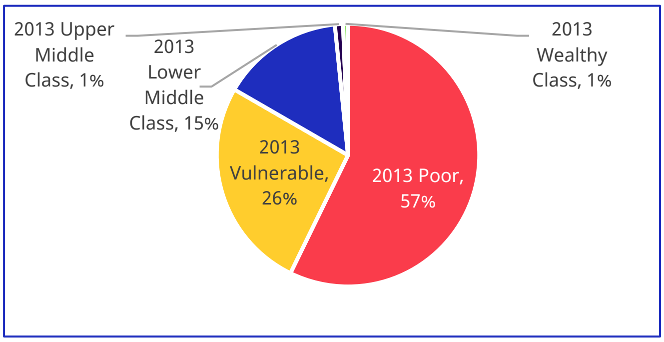
Within the space of 5 years there have been significant fluctuations nationally between the lowest three strata (poor, vulnerable and LMIC classes), accompanied by consistent growth in the upper middle income class (UMIC) and wealthy strata (Figure 1a). The shrinking of the middle class and growth in the extremes ('poor' & 'wealthy') points to growing national income inequality overall.

Findings at the national level mask significant differences between the West Bank and the Gaza Strip. In the West Bank, a reduction over time among the poor and vulnerable classes was accompanied by consistent growth in the middle class and wealthy strata (Figure 1b). This suggests a positive trend of shared prosperity and opportunities for upward mobility across the income spectrum between 2013 and 2018.

In comparison, a marked increase in relative income poverty took place over time in the Gaza Strip (Figure 1c), and was accompanied with a consistent shrinking of the vulnerable and middle classes. A persistent wealthy class remains in Gaza, among limited opportunities for upward mobility and an abundance of downward mobility for the rest of the population. In 2018, 79% of the population of Gaza were income poor or vulnerable.

Class composition and mobility

Figure 2: 2018 Poor class composition

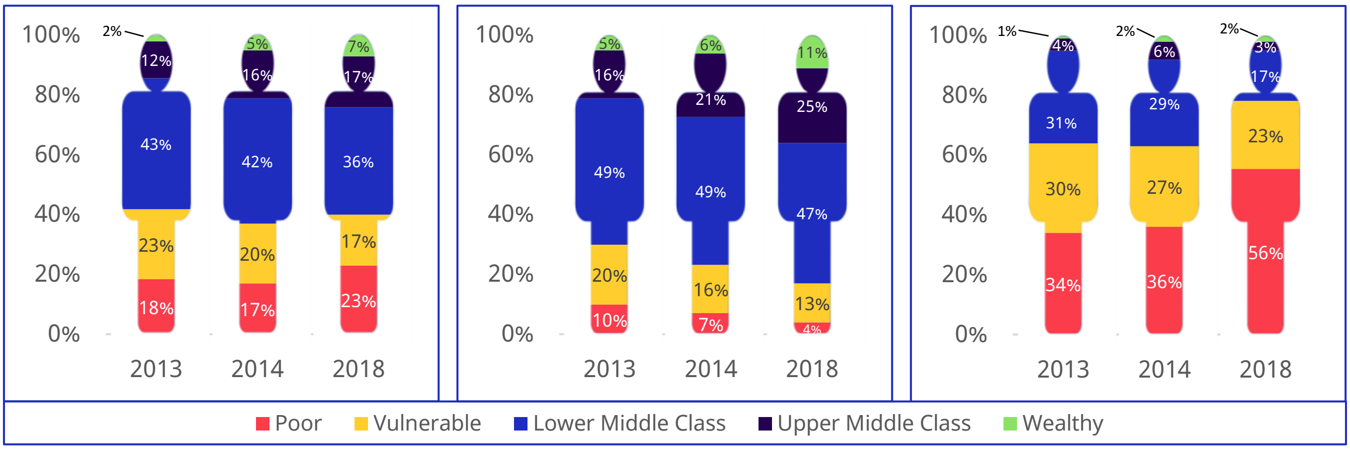


The composition and mobility of classes between two points in time, as illustrated in this section, can offer lessons for social protection programme design and targeting.

Figure 2 shows the composition of the 'poor' in 2018, at the national level, divided by the socio-economic status of those same households in 2013[7].

Only 57% of the households nationally who were 'poor' in 2018, were already poor in 2013. The remaining 43% fell into poverty from other income classes: 26% were vulnerable in 2013; 15% were LMIC in 2013; and 1% were UMIC or wealthy in 2013.

Figure 1: Socio-economic strata in: the OPT (left), the West Bank (centre), and the Gaza Strip (right)



[7] The full class composition of national and regional income classes in 2018 is available upon request.

The mobility across income is an important dimension of targeting effectiveness and should inform programme design. If 'poor' households were selected for a poverty-targeted programme in 2013, and there had been no recertification since, then by 2018 57% of the eligible beneficiaries would still be enrolled and eligible (i.e. those who were 'poor' in 2013), but 43% of eligible 'new poor' households would be excluded.

Figures 3a, 3b and 3c show the flow of households from each socio-economic strata between 2013 and 2018, nationally and regionally. In Figure 3a, these dynamics can be understood at the national level as:

- **"Poor" in 2013 (red lines):** 60% of households who were poor in 2013 remained poor in 2018, whilst 40% were not poor, mainly rising into vulnerable and LMIC.
- **"Vulnerable" in 2013 (orange lines):** 31% of the 2013 vulnerable households fell into poverty by 2018 and 25% remained vulnerable, the rest were upwardly mobile, mainly into the middle class.
- **"Lower middle class" in 2013 (purple lines):** 52% of the LMIC households maintained their socioeconomic status and 18% were upwardly mobile. However, 30% dipped into lower classes.
- **"Upper middle class" in 2013 (blue lines):** 57% of the 2013 UMIC households fell into lower classes; over a third remained and 8% rose into the wealthiest class.
- **"Wealthy" in 2013 (green lines):** Less than a third of the wealthy maintained their socioeconomic status in this period with 37% and 26% falling into the UMIC and LMIC respectively.

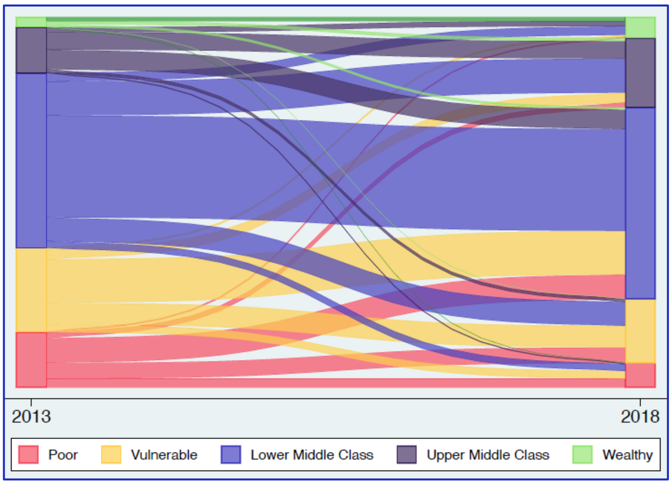
National results mask stark regional differences. In the West Bank (Figure 3b), only 16% of 2013 poor households remained poor in 2018; these households constitute the 'chronic poor'. 9% and 4% of the vulnerable and LMIC fell into poverty. Meanwhile, 2/3 of vulnerable households rose to higher classes; and 81% of LMIC households maintained their status or were upwardly mobile. However, 52% and 67% of UMIC and wealthy fell into lower classes. Despite dynamics across all classes, the period from 2013 to 2018 was relatively positive for the West Bank residents with significant upward mobility across the income class spectrum.

In the Gaza Strip (Figure 3c), the picture is more bleak. 83% of 2013 poor households remained poor in 2018 (shown by the thick red block at the bottom of the diagram), joined by 2/3 of 2013 vulnerable households which fell into poverty. 2/3 of the 2013 LMIC fell into lower income classes, including 37% falling into poverty.

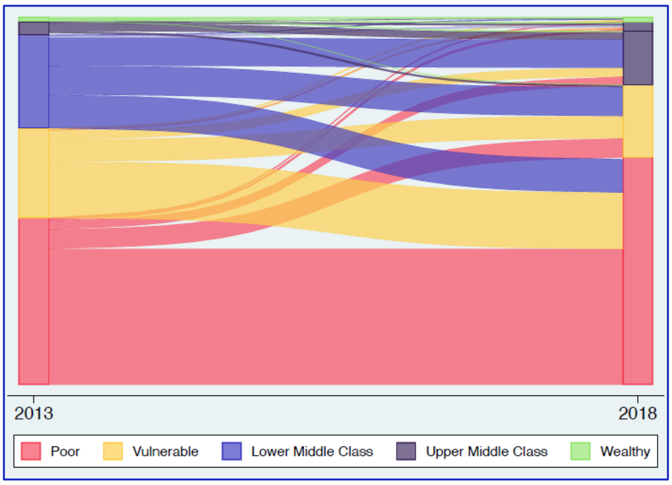
Similarly, more than 80% of 2013 UMIC and wealthy households fell into lower classes by 2018.

▶ **Figure 3a: Class mobility in the OPT (2013-2018)**

▶ **Figure 3b: Class mobility in the West Bank**



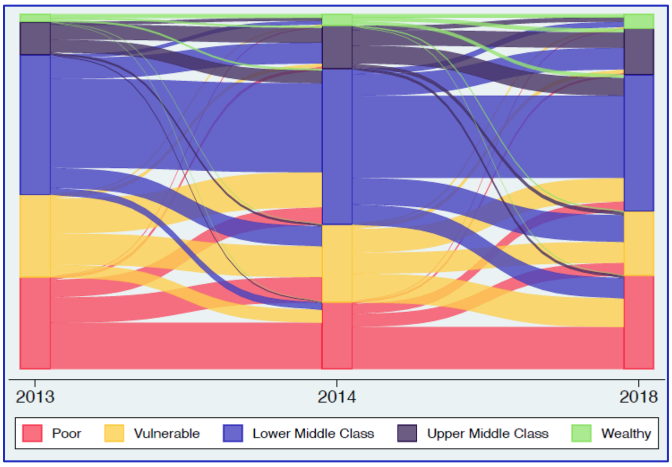
▶ **Figure 3c: Class mobility in the Gaza Strip**



Pathways to poverty reduction

Poverty is more persistent than wealth. Many households that climb out of income poverty remain vulnerable and many fall back into poverty again in subsequent periods (Figure 4). The results show that 58% of the 2013 poor households that rose out of poverty in 2014 remained vulnerable, and 52% of those households fell back into poverty again by 2018. Comparatively, 20% of the 2013 LMIC fell into poverty/vulnerability in 2014 and 53% of them remained poor/vulnerable by 2018. Although 15% of the 2013 LMIC rose to UMIC/Wealthy in 2014, only 36% of them remained in UMIC/Wealthy classes by 2018.

▶ **Figure 4: Class mobility in the OPT (2013–2014–2018)**



Equally, a smaller income shock can push a household into a lower income category than that necessary for upward mobility. Table 1 shows that vulnerable households which fell into poverty between 2013 and 2014 experienced a 42% drop in per capita income (median)[8]; with other classes experiencing similar drops.

In contrast, upwardly mobile households achieve a greater increase in income. 2013 poor households rising out of poverty in 2014 achieved a 101% increase in per capita income (median).

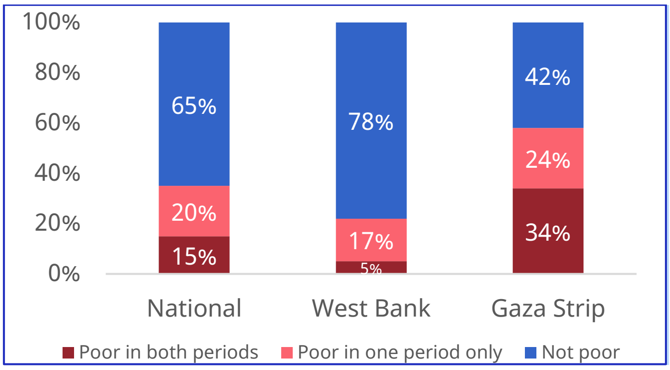
▶ **Table 1 Median income change by mobility direction**

	Falling in 2014	Rising in 2014
2013 Poor		+ 101%
2013 Vulnerable	- 42%	+ 70%
2013 LMIC	- 40%	+ 80%
2013 UMIC	- 40%	+ 88%
2013 Wealthy	- 32%	

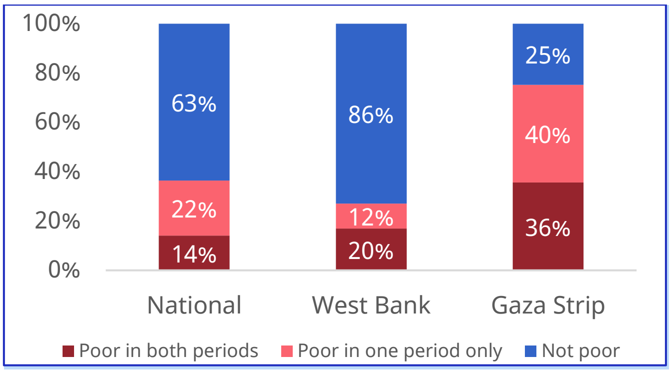
Thus, it is substantially cheaper to prevent a household from falling into poverty, than to pull it back out of poverty afterwards. Programmes that target only the chronically poor miss a critical opportunity for cost-efficiency through preventative measures a-priori.

In addition, a far larger proportion of the population experience income poverty for at least one period compared to the proportion of chronically poor. Overall, only 15% of the population surveyed were relatively income poor in both 2013 and 2014, but 35% experienced poverty for at least one year. Similar results were found for the 2014 and 2018 datasets (14% were poor in both periods, 36% poor in at least one period). This is likened to the difference between a photo (i.e. a static snapshot of income classes at one point in time) and a video (showing the continuous fluctuations and movements in income or consumption over time). There are again significant differences between the West Bank and the Gaza Strip. These findings are comparable globally: in Jordan in 2013, the poverty rate was 14%, but at least 33% of households experienced poverty for at least one quarter in the year[9].

▶ **Figure 5a: Intertemporal poverty 2013 – 2014**



▶ **Figure 5b: Intertemporal poverty 2014 – 2018**



[8] Typically, a 30% loss in income would be defined as a "catastrophic loss".

[9] World bank. 2014. Jordan Economic Monitor: Resilience and Turmoil. Spring 2014. World Bank.

Conclusions

The analysis shows a shrinking of the middle class in the OPT and a trend of growth in the extremes: poor & wealthy socioeconomic strata. This points towards growing income inequality overall. However, there are important regional disparities, with the West Bank and the Gaza Strip experiencing completely opposite trends between 2013 and 2018. The West Bank experienced significant upward mobility paired with a consistent reduction in relative poverty and vulnerability, a widening of the middle class and growth in the wealthy class. The Gaza Strip experienced a significant increase in poverty over the same time, with limited upward mobility and a disappearing middle class.

A far larger proportion of the population experience income poverty for at least some time than is suggested by cross sectional surveys. Further, a smaller income shock (around 40%) can push a household into a lower income category, compared to that necessary for upward mobility (where the average poor household rising into the vulnerable class experienced a 101% rise in income).

Downward mobility is largely attributed to three factors:

- **Demographic changes** (e.g. increase in the number of dependents in the household, due to retirement or higher numbers of children)
- **Labour market fluctuations** (e.g. unemployment, loss of livelihood)
- **Shocks** (e.g. escalations, Covid-19, or the Ukraine crisis – but also, the sudden withdrawal of cash support without alternative measures in place)

To prevent downward mobility, comprehensive social protection systems are required to protect against lifecycle contingencies (through contributions-based social insurance and tax-financed lifecycle social benefits) as well as to respond to shocks (through shock-responsive social protection measures). This aligns to the approaches laid out in international labour standards, including R202 - Social Protection Floors Recommendation, 2012 (No. 202), and C102 - Social Security (Minimum Standards) Convention, 1952 (No. 102).

Implications for social protection policy

Social protection systems and programmes need to respond in real time to the dynamic nature of poverty, including protecting against demographic, labour market or other shocks. This implies the need for a strong data infrastructure and administrative capacity to quickly adapt to changing circumstances, but also a programme design that extends support beyond the extreme poor and prevents households from falling into poverty.

This analysis aims to understand how the social protection system in the OPT can become more responsive to the dynamic nature of poverty. The findings have several implications for social protection policy:

1. **Assessing both upward and downward income mobility helps develop a deeper understanding of poverty dynamics. The constant movement of households into and out of poverty highlights the importance of inclusive social protection.** Sustainable poverty reduction over time is a product of preventing downward mobility of the middle classes and vulnerable households; supporting the upward mobility of poor households; and halting the intergenerational transmission of poverty. Whilst part of the policy solution to poverty reduction is to support those who are currently 'poor' (in a static measurement today), another critical element is to protect the vulnerable and middle classes from falling into poverty in the future. Universal social protection programmes that cover lifecycle contingencies, like old age, disability or having a child, can be better effective at preventing downward mobility due to demographic changes. Social insurance programmes that additionally cover unemployment, maternity or work injury, including for the informal sector, can well-cover labour market risks.
2. **A smaller investment is required to prevent a household from falling into poverty than to pull one out of poverty.** On average, vulnerable households falling into poverty experience a 42% fall in income while poor households rising into the vulnerable class experience a 101% rise in income. This means that in the medium-term it is more cost effective for the MoSD to proactively prevent households from falling into poverty, through inclusive social protection programmes, than to 'lift' households out of poverty after they have become 'poor'. Poverty-targeted programmes only address the issue after the fact, rather than targeting the root cause and preventing downward mobility.
3. **Poverty is more persistent than wealth.** In terms of class mobility between the three periods, 58% of those households that rose out of poverty between 2013-14 remained vulnerable, and half of them subsequently fell back into poverty by 2018. Meanwhile only 15% of

LMIC households rose to higher wealth classes, and even then 64% of them subsequently fell back into lower wealth classes. Economic empowerment alone is not a strong enough mechanism to guarantee a sustained positive trajectory, with households struggling to maintain their wealth class over time. Protecting lifecycle vulnerabilities to prevent households falling into poverty would ensure the longevity of economic empowerment initiatives, whilst simultaneously offering longer-term benefits to the state through sustaining the tax-paying, growth-generating middle classes over time. The MoSD should be working towards this long-term vision, through the introduction of both social allowances (i.e. tax-financed lifecycle benefits) and social insurance to protect against lifecycle contingencies.

4. **Social protection mechanisms that target on the criteria of chronic poverty address only a fraction of the problem. 40% of the poor nationally are transient poor and do not necessarily share the characteristics of the chronically poor.** This proportion increases when the overall poverty rate rises, rendering chronic poverty targeting less effective when the poverty headcount rises following shocks. Given constant movement between classes, the criteria used to identify poor households becomes less effective over time. With limited financial resources available to the sector, it is important that social protection programmes are as effective and efficient as possible. Even after one year, the effectiveness of only targeting the 'deep poor' can be questioned, with around half the caseload changing income class within that time.
5. **For poverty targeted assistance mechanisms (e.g. based on the proxy-means test (PMT)), achieving a very high frequency in beneficiary selection and recertification that matches the pace of change in the composition of the poor is necessary, though likely to be extremely difficult and costly.** Within the space of 5 years (2013-18) nearly half of the original 'poor' were no longer poor. More than half of the poor in 2018 were instead "new poor". Stark changes in the composition of the 'poor' can be seen even within one year; only 43% of the poor households between 2013 and 2014 were poor in both years. This proportion is even lower in the West Bank (23%). This highlights the limitations of relying solely on poverty targeted social assistance mechanisms and the importance of extending coverage in a manner that prevents households that experience lifecycle risks from falling into poverty.
6. **Despite the stark differences between the realities of the West Bank and Gaza Strip, it is evident that Inclusive Social Protection and extending coverage beyond extreme poverty – such as through lifecycle social grants and a social protection floor – is a necessity for sustainable poverty reduction in the Palestinian Territory.** For the West Bank, extending Social Protection coverage, through the introduction of social insurance and lifecycle allowances, is necessary to protect the positive gains of the middle classes. For the Gaza Strip, extending Social Protection coverage is necessary to halt the rapid dwindling of the middle class. In both regions downward mobility can be prevented by protecting against vulnerabilities caused by 1) demographic changes (e.g. by introducing social allowances to cover lifecycle vulnerabilities), 2) labour market shocks (e.g. through extending social security to the private and informal sectors) and 3) external shocks (e.g. through shock-responsive social protection and coordination with actors across the humanitarian-development-peace nexus).

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