

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

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*Palestinian president Mahmoud Abbas signed an amended version of the Palestinian Social Security Act on 29 September*

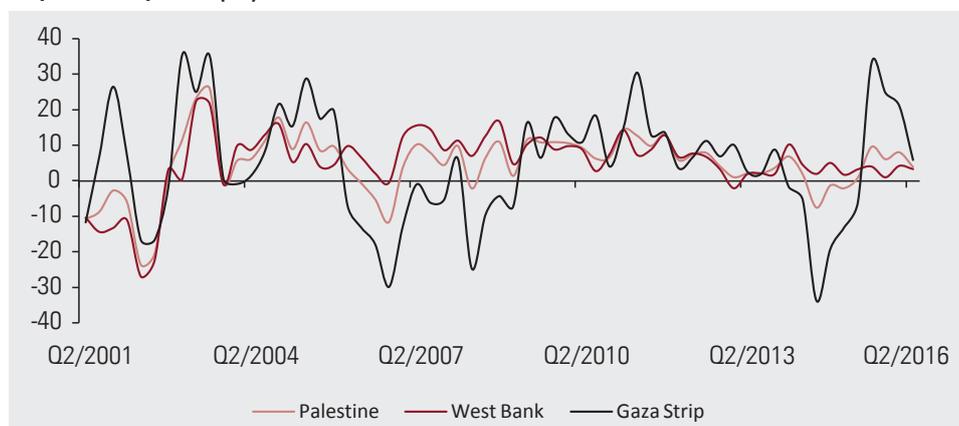
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### National Accounts

The Palestinian economy has continued to expand from 2014, although the pace of growth has slowed. After the recession following the 2014 Gaza war, the economy expanded, with real national-level GDP growth reaching 3.5% in 2015. Growth continued to increase year-on-year in the second quarter of 2016, to reach 3.9% (latest available data), driven by consumption and services.<sup>1</sup>

**Figure 1: Real Quarterly GDP Year-on-Year Growth Rates by Region, Q1/2001-Q2/2016 (%)**



Source: PCBS

However, the nature and composition of Palestinian economic growth signals weakness. In the West Bank, real GDP growth actually declined in 2015, reaching only 2.5%, down from 5.3% in 2014. According to the IMF, the slowdown was due to declining donor support and fiscal retrenchment.<sup>2</sup> In Q2 2016 there was some recovery, with year-on-year quarterly growth reaching 3.3%, driven by an increase in household consumption and expansion in the mining, manufacturing, electricity and water sectors. In Gaza, whilst growth rebounded following the 2014 war to 6.8% in 2015 and accelerated to 21% in Q1 2016, mainly due to donor funded reconstruction, it declined again in the following quarter to 5.8%, as construction activities slowed.

The current pace of economic growth will not significantly improve living standards in the West Bank or Gaza. The IMF projects medium term growth rates of 3.5%, which implies stagnation in real per capita income and an increase in unemployment.<sup>3</sup> Real GDP per capita, a proxy of living standards, only increased by 0.9% in Palestine between Q2 2015 and Q2 2016.

In terms of GDP composition, shares in traditionally productive sectors including agriculture and industry have declined since the early 1990s. Agriculture contributed 11.7% of GDP in 1994 compared to 3.3% of GDP in 2015 (2.9% in Q2 2016). A similar trend is seen in manufacturing, which fell from 22.9% of GDP in

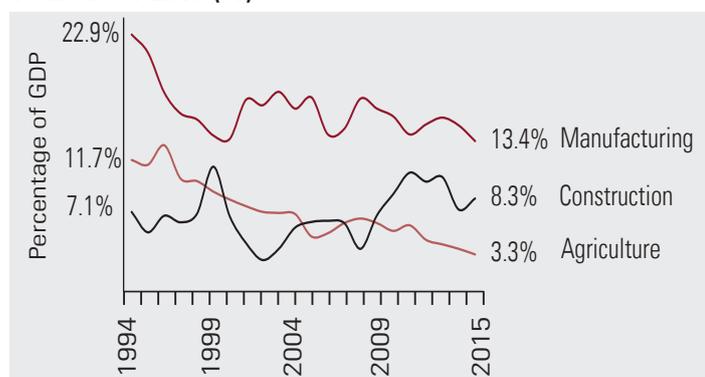
1 <http://bit.ly/2eLwuLF>

2 [www.lacs.ps/documentsShow.aspx?ATT\\_ID=29832](http://www.lacs.ps/documentsShow.aspx?ATT_ID=29832)

3 [www.lacs.ps/documentsShow.aspx?ATT\\_ID=29832](http://www.lacs.ps/documentsShow.aspx?ATT_ID=29832)

1994 to 13.4% in 2015 (13.6% in Q2 2016). The decline in these and other critical sectors for sustainable growth is due to a range of factors, including the shortage of registered land for development, scarcity of water and other natural resources, and unreliable electricity supply. Construction has remained stable as a proportion of the economy, accounting for 7.1% of GDP in 1994 and 8.3% in 2015 (7.6% in Q2 2016).<sup>4</sup>

**Figure 2: Share of GDP by Economic Sector, Selected Years 1994-2015 (%)**



Source: PCBS

## First Palestinian Cement Factory

The Palestine Investment Fund (PIF), the Palestinian National Authority's (PNA) sovereign wealth fund, launched the development of Palestine's first cement factory, on 1 October.<sup>5</sup> The project is to be managed by Sanad Construction Resources Company, PIF's construction subsidiary. The first phase of the project is expected to take 18 months, and will require a total investment of \$310m. Developments over this phase will include the building of a cement mill (to be constructed over 3,300 dunums south-east of Bethlehem on land purchased from the PNA by the PIF), with a total capacity of 1.3m tons of cement per year. In later stages, the project will include a packing house in Jericho and the development of the entire logistic transportation chain. The construction and operation of the factory is expected to create 1,500 direct and indirect jobs.

Currently the Palestinian market requires 3m tons of cement per year, most of which is imported from or through Israel (mostly from Israel's Neshar Company, with smaller amounts coming from Jordan and Egypt). Dependency on Israeli suppliers, coupled with Israeli restrictions, has caused delays and uncertainty to construction activities. For example, at the beginning of 2013 cement imports were severely limited due to supply shortages in Israel, which brought construction in the West Bank to a halt for a short period.<sup>6</sup> More recently, in April and May of this year, Gaza experienced a 45-day suspension of the import of cement from Israel (the only channel for importing cement into

Gaza under the Gaza Reconstruction Mechanism – GRM) to the private sector, causing a disruption in housing repair and reconstruction.<sup>7</sup>

## Social Security Law

Palestinian president Mahmoud Abbas signed an amended version of the Palestinian Social Security Act on 29 September.<sup>8</sup> The Act covers issues relating to retirement and unemployment benefits, maternity and sickness leave, health insurance and on the job injury insurance. The Act anticipates the creation of a National Social Security Fund to operate as an autonomous state institution and draw on contributions from both workers and employers.

The President had signed a previous draft of the law on 2 March 2016. Due to widespread concerns over the implications of the Act, the Palestinian Cabinet approved the formation of a ministerial committee, headed by the Minister of Labour Mr. Mamoun Abu Shahla, to develop an amended version that would be satisfactory to all relevant parties. The revised Act, concluded after intensive consultations with civil society and private sector stakeholders, includes several amendments to the previous version. It is proposed that employees now contribute 7% of their monthly salary to the Fund, compared to 7.5% in the previous draft, while the contribution by employers increased from 8.5% to 9%.<sup>9</sup> The minimum pension entitlement increased from 50% to 75% of the minimum wage, which is currently set at 1,450 NIS per month. Finally, the Act now stipulates that the PNA will be the guarantor of the Social Security Fund's money, meaning it is obliged to cover the fiscal deficit in the Fund should it occur.

The renegotiated Act will be published in the official gazette at a later date. Next steps will include the formation of a board of directors for the Social Security Authority, headed by Mr. Abu Shahla. The board will include five representatives of the government, five workers and trade union representatives, five employer representatives and two experts in financial and administrative affairs. The Social Security Authority is expected to be operational in six months. According to Mr. Abu Shahla, one of the areas of focus for the Social Security Authority would be the rights of Palestinian workers who have worked in Israel.<sup>10</sup>

## Innovation in Palestine 2016

Ms. Abeer Odeh, Minister of National Economy, announced that in 2017 the Ministry will launch four Technology and Innovation Support Centers in cooperation with the World Intellectual Property Organization (WIPO).<sup>11</sup> According to WIPO, the Support Centers will help innovation

4 [www.mas.ps/files/server/20160409133619-1.pdf](http://www.mas.ps/files/server/20160409133619-1.pdf)

5 [www.pif.ps/page.php?id=9c06y39942Y9c06](http://www.pif.ps/page.php?id=9c06y39942Y9c06)

6 [www.portlandtrust.org/sites/default/files/pubs/beyond\\_aid.pdf](http://www.portlandtrust.org/sites/default/files/pubs/beyond_aid.pdf)

7 [www.ochaopt.org/content/cement-imports-resume-private-sector-gaza](http://www.ochaopt.org/content/cement-imports-resume-private-sector-gaza)

8 [www.alhaya.ps/pdf/2016/9/30/page1.pdf](http://www.alhaya.ps/pdf/2016/9/30/page1.pdf)

9 <http://bit.ly/2eR1Cbkl>

10 <http://bit.ly/2eR1Cbkl>

11 [maannews.net/Content.aspx?id=868380](http://maannews.net/Content.aspx?id=868380)

by providing innovators in Palestine with access to locally based, high quality technology information and related services.<sup>12</sup> According to Ms. Odeh the Centres will encourage the use of intellectual property within Palestinian society and will provide support in adopting, marketing, and protecting innovative projects.

In related news, the Hebron Chamber of Commerce and Industry has launched an initiative to create a Federation of Palestinian business incubators.<sup>13</sup> The Federation will help business incubators attract funds and connect them with pilot projects. The business incubators are designed to attract entrepreneurial students with business ideas, and enable them to convert those ideas into viable businesses.<sup>14</sup>

## Labour Market Transition

On 24 September, PALTEL Group and Al-Quds University signed a partnership agreement for training university students within PALTEL's information technology and electrical engineering departments.<sup>15</sup> The programme, aimed at equipping students with the skills needed in the labour market, combines theoretical education with practical workplace experience. Mr. Ammar Aker, CEO of PALTEL Group, highlighted the company's interest in supporting Jerusalem and its institutions through a variety of projects and initiatives.

This partnership agreement is part of the dual studies programme at Al-Quds University, based on the German dual education system, and is being implemented in cooperation with several German institutions including the Federal Ministry for Economic Cooperation and Development (BMZ), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), KfW Development Bank, GFA Consulting Group, Baden-Württemberg Cooperative State University (DHBW) and the Steinbeis Foundation.

Developing youth employment policies and programmes could significantly improve the likelihood of a successful transition from education to work, according to a recent report by the ILO.<sup>16</sup> Priority areas include developing and expanding technical vocational education and training and improving cooperation and linkages between the education system and employers.

## Domestic Tobacco Cultivation

Recent research by the Palestine Economic Policy Research Institute (MAS) highlights the significant growth in tobacco cultivation.<sup>17</sup> Total acreage planted with tobacco has increased from 960 dunums in 1994 to 20,000 dunums in 2016.<sup>18</sup>

12 [maannews.net/Content.aspx?id=868380](http://maannews.net/Content.aspx?id=868380)

13 [maannews.net/Content.aspx?id=867025](http://maannews.net/Content.aspx?id=867025)

14 <http://bit.ly/2eFq9ng>

15 [www.alquds.edu/ar/staff-news-ar/141253](http://www.alquds.edu/ar/staff-news-ar/141253)

16 <http://bit.ly/2f7gQ0p>

17 [www.mas.ps/files/server/20160510092303-1.pdf](http://www.mas.ps/files/server/20160510092303-1.pdf)

18 [www.mas.ps/files/server/20160910145340-1.pdf](http://www.mas.ps/files/server/20160910145340-1.pdf)

Tobacco is a highly profitable crop and has created jobs and generated income for some of the most vulnerable groups in Palestine. Moreover, the growth in tobacco cultivation has allowed farmers to modernize their practices, leading some small local industries to develop new machines that plant, harvest and plough the land. However, the negative consequences have also been significant. Tobacco acreage has expanded at the expense of food crops, partly due to its profitability. The increased demand for land for tobacco cultivation has caused the price for renting one dunum of irrigated land to double in recent years. Tobacco is also more detrimental to the soil than other crops especially in terms of depleting it of phosphorous, potassium and nitrogen.

Annual customs and excise revenues from cigarettes and tobacco reach about NIS 1,500 million, of which NIS 250 million comes from local companies, while the rest is from imports. The Customs Department estimates the loss for the Treasury from smuggling is around NIS 400 million a year, of which NIS 200 million results from the smuggling of local production (while the rest is attributed to smuggling foreign cigarettes by travellers across the Al-Karameh Crossing). Internal smuggling arises from price differences between formal products (imported or locally produced) and informally produced local tobacco, whether loose or rolled, with the price difference reaching NIS 13-16 per 20-cigarette pack. Loose tobacco or ready-rolled cigarettes are smuggled from the northern productive regions of the West Bank throughout the rest of the Territory.

Finally, lower prices are likely to encourage smokers to increase consumption. This poses obvious public health risks given that more than one fifth of individuals age 18 years and over in Palestine are already smokers.<sup>19</sup>

According to MAS, a strategic national plan, initiated by the Government in partnership with all relevant stakeholders, is needed to restrain the cultivation of tobacco.<sup>20</sup> The plan would aim to create a formal, regulated, and controlled tobacco farming sector.

## Foreign Trade

The Palestine Trade Center (PalTrade) announced on 5 September the opening of registration for the second annual Palestine Exporter Award 2016.<sup>21</sup> The award aims to showcase Palestinian economic capabilities, encourage competition in the production and services sectors and promote exports by supporting access to new markets. The award is part of the National Export Strategy, developed by PalTrade and the Ministry of National Economy, which aims to increase exports by 67% over the next five years.

19 <http://bit.ly/2dK8Htm>

20 [www.mas.ps/files/server/20160910145340-1.pdf](http://www.mas.ps/files/server/20160910145340-1.pdf)

21 <http://bit.ly/2eLy5Bu>

The need to enhance exports is widely recognized. According to PalTrade, the main current challenges to exporting include customs constraints, foreign market policies, products' inability to meet global technical standards and Israeli restrictions on border crossings. Growth in exports would help reduce Palestine's persistent trade deficit. In 2015, the trade deficit in goods remained high but declined by 10.1% from 2014 due to a decrease in imports (\$5,230m; -8.1%) and an increase in exports (\$958m; +1.5%).<sup>22</sup> Israel remained the main trade partner for Palestine with 62.2% of all transactions (both exports and imports), down from 71.1% in 2014.

## Tourism

The Bethlehem Business Incubator (BBI) organized the first Bethlehem Tourism Hackathon between 23 and 25 September to promote innovation in the sector.<sup>23</sup> The event gathered 100 students from Bethlehem University and Palestine Ahliya University College (PAUC) with backgrounds in hotel management, business and IT. During the event, 12 teams proposed interventions to address the problems facing the Palestinian tourism sector which were considered by a panel of judges. The team which created the concept of Events Share, to connect tourists with tourism agencies in Palestine via an automated process connected with Facebook, was placed first. Second place was awarded to Internal Tourism, which seeks to connect locals with tourism activities. Pal-Food, a service allowing tourists to cook with local families instead of going to restaurants, took third place. BBI will continue to work closely with the teams and provide participants with training, workshops and mentoring.

Despite the number of historical and ecological sites in Palestine, much of the sector's potential is undermined by a number of constraints including current restrictions on access and movement in addition to limited control over several key sites. Moreover, a number of internal challenges also hinder the sector's performance, including weak tourism offerings (products and infrastructure), weak

branding and marketing (perceptions on safety, sites), lack of direct sales channels (dependence on Israeli tour operators) and lack of coordination among stakeholders (highlighting the need for the creation of a tourism board).

More than 2m visits to tourist and leisure sites were made in the first half of 2016 (1.12m by domestic visitors and 952,000 by inbound visitors), according to recently released data from the PCBS and the Ministry of Tourism and Antiquities (MOTA).<sup>24</sup> Most inbound visitors (54%) were Palestinians residing in Israel, followed by visitors from the US (7%) and Russia (6%).

The tourism sector has the potential to triple its contribution to GDP by 2030, from \$250m in 2012 to around \$750m.<sup>25</sup> It has been estimated that the number of workers in the sector could grow from 17,000 to 38,000, with the number of tourists growing to 5.5m. Fulfilling this potential will require extensive investment to improve offerings, attract a larger number of visitors, increase the average length of stay and boost visitors' per capita spending.

## September Trading

In September the Al-Quds index increased by 2.1% from the previous month, reaching 518.6 points on the last day of trading.<sup>26</sup> A total of 11.5m shares worth \$20.3m were traded, marking a 61.4% and 58.9% decrease in the number and value of traded shares, respectively. Market capitalization reached \$3.3bn.

On 29 September, Palestine Commercial Bank (PCB) was delisted from PEX after merging with Bank of Palestine (BOP). Three shares of PCB were traded for one share of BOP, adding more than 10m shares to BOP's total outstanding shares.<sup>27</sup> Finally, Al Safa Bank, a new Islamic bank, commenced operation in Palestine on 22 September. Al Safa Bank raised a total capital of \$75m through an initial public offering in the first half of this year. The Bank aims to meet the growing demand for Islamic banking services in Palestine, which currently accounts for 11% of the total banking sector.<sup>28</sup>

22 [www.pcbs.gov.ps/Downloads/book2216.pdf](http://www.pcbs.gov.ps/Downloads/book2216.pdf)

23 [www.wamda.com/2016/09/hackathon-seeks-boost-tourism-jesus-birthplace](http://www.wamda.com/2016/09/hackathon-seeks-boost-tourism-jesus-birthplace)

24 <http://bit.ly/2eLzTdJf>

25 [www.portlandtrust.org/sites/default/files/pubs/beyond\\_aid.pdf](http://www.portlandtrust.org/sites/default/files/pubs/beyond_aid.pdf)

26 [www.pex.ps/PSEWebSite/publications/PEXIssue78\\_September2016.pdf](http://www.pex.ps/PSEWebSite/publications/PEXIssue78_September2016.pdf)

27 [www.pex.ps/PSEWebSite/NEWS/041020161.pdf](http://www.pex.ps/PSEWebSite/NEWS/041020161.pdf)

28 <http://bit.ly/2dWuVM3>

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