

PALESTINIAN ECONOMIC BULLETIN

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Main reports

UNRWA announced its need to raise \$70 million by the end of the month in order to pay full salaries to its 28,000 employees for the months of November and December

MAS held a Policy Roundtable on the importance of developing the Palestinian social protection system given the impact of COVID-19 pandemic

The past months have seen multiple developments in the renewable energy sector in Palestine

In October, Al-Quds index reached 435 points on the last day of trading, a decrease of 0.71% from the previous month

Bezeq license entrenches Israel's presence in West Bank

On 18 October, Israeli Communications Minister, Yoaz Hendel, granted the Israeli telecommunications company, Bezeq, a license to operate in Area C of the West Bank.¹ The license was issued to enable the provision of uniform high-speed internet and services to Israeli settlements in the West Bank.

Bezeq has been operating in the West Bank for the past 35 years. However, the new license allows the company to install a wider network infrastructure that extends coverage and services throughout the entire area (up to 60% of the territory of the West Bank).² The installation of such infrastructure will result in significant losses for the Palestinian telecommunications sector, by allowing Israeli providers to offer Palestinian residents in the West Bank more advanced Israeli cellular services for cheaper prices than available through Palestinian networks, creating a "digital gap" and unfair competition between the Palestinian and Israeli telecommunications sectors.

The Government of Israel (GoI) currently limits Palestinian access to the electromagnetic sphere, and controls imports of ICT equipment.³ Granting Bezeq the license to operate fully and legally on Palestinian land, while denying Palestinian telecommunication companies from expanding their networks in Area C, leaves Palestinian residents with no alternatives to Israeli service providers.⁴ This includes up to 300,000 Palestinians living in those areas, and hundreds of thousands of Palestinians who commute through Area C on a daily basis.⁵ Palestinian telecom companies are prohibited from building switches⁶ in Area A, which is supposed to be under sole PA control under the Oslo accords.⁷

The Palestinian Ministry of Telecommunications and Information Technology (MTIT) condemned the GoI's decision, describing it as a "continuation of the occupation of the Palestinian economy". MTIT added that Israeli operators held 16% of the West Bank market share in 2019, with the number of Palestinian subscribers reaching one million this year.⁸ MTIT further clarified that the Palestinian telecom companies incurred a consequent revenue loss of around \$63m in 2019. Furthermore, Israeli telecommunication companies operate with impunity whilst ignoring the basic mandatory operational legalities such as obtaining licenses and paying fees and taxes to the Palestinian Government. The World Bank estimated that Palestinian telecom companies incurred total revenue losses between \$436m and \$1.1bn in the period 2013-2015 alone, with the direct impact of the occupation equivalent to 3% of the GDP at the time.⁹ The value added tax fiscal loss for the Palestinian Authority was estimated at between \$70m and \$184m in the period 2013-2015.

Despite such limitations, the Information and Communication Technology (ICT) sector is among the fastest growing sectors in Palestine. In the last two decades, the ICT sector grew by over 250%, hiring approximately 6,760 workers in 2018. In 2019, it was estimated that the sector contributed \$530m to the Palestinian market (3.1% of GDP).¹⁰

1 <https://bit.ly/36STcMY>

2 www.jpost.com/israel-news/bezeq-operating-license-for-area-c-formalized-after-36-years-646149

3 <https://al-shabaka.org/briefs/ict-the-shackled-engine-of-palestines-development/>

4 <https://openknowledge.worldbank.org/bitstream/handle/10986/24019/104263.pdf?sequence=5&isAllowed=y>

5 <https://bit.ly/2V4X4oZ> <https://bit.ly/35UKCOu>

6 Devices for making and breaking connection in an electric circuit; it is the heart of any telecommunications network, directing traffic from one user to another

7 <https://al-shabaka.org/briefs/ict-the-shackled-engine-of-palestines-development/>

8 www.maannews.net/news/2021865.html

9 <https://openknowledge.worldbank.org/bitstream/handle/10986/24019/104263.pdf?sequence=5&isAllowed=y>

10 www.pCBS.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=163

UNRWA Emergency Appeal

On 9 November, Philippe Lazzarini, Commissioner-General for the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), announced that the Agency needs to raise \$70 million by the end of the month in order to pay full salaries to its 28,000 employees for the months of November and December.¹¹ If its efforts are unsuccessful, the Agency will be forced to pay partial salaries starting November to avoid suspension of essential services and retain jobs.¹²

The financing shortages have reached their peak at a particularly difficult time for UNRWA as it tries to cope with the impact of the COVID-19 pandemic. The number of coronavirus cases among Palestinian refugees surged from less than 200 in July to over 10,000 in October.¹³ Beyond the health crisis, COVID-19 is also worsening already deep levels of poverty.¹⁴ UNRWA launched two COVID-19 flash appeals covering the period March to December 2020, seeking \$188m in total to respond to COVID-19 in the areas of health care, sanitation and hygiene, and education.¹⁵ By 31 October, the programme was only 45% funded with a \$80.3m shortfall.¹⁶

Unsustainable financing

On 23 September, the Palestine Economic Policy Research Institute (MAS) held a roundtable to address UNRWA's future in the face of financial challenges and political pressure.¹⁷ Professor Michael Dumper, Professor of Political Studies at the University of Exeter, prepared the background paper for the event and provided recommendations.¹⁸

Dumper explained that UNRWA's current annual funding model is unsustainable and it does not match multi-year planning needs related to education, healthcare, and infrastructure. Over the past five years, UNRWA cut \$500m out of its budget by enacting efficiency and cost-reduction measures. Consistent underfunding has led to the erosion of infrastructure and the quality of services provided.¹⁹ Cuts have included staff reduction, halting essential repairs and investments in infrastructure, increasing classroom size to 50 students,²⁰ and reducing life-saving humanitarian assistance.²¹

Dumper reviewed solutions to the deficit, including diversifying the Agency's donor base. The decision of the US Government, previously the Agency's largest donor, to cut the last \$300m of its annual contribution in 2018 further exposed the vulnerability of UNRWA's funding model to sudden reductions by major contributors. Dumper also proposed the possibility of taking private sector loans, transferring UNRWA responsibilities to host countries, and creating multi-year financial agreements.

11 <https://bit.ly/36N4KSd>

12 <https://bit.ly/3kHtUX4>

13 <https://bit.ly/3fy8FGb>

14 <https://bit.ly/3pVOya1>

15 www.unrwa.org/covid-19-update

16 <https://bit.ly/363VVEg>

17 www.mas.ps/files/server/20202809132019-1.pdf

18 www.mas.ps/files/server/20202709152200-1.pdf

19 Donors make contributions annually based on projected costs

20 Studies show that large classroom sizes significantly decrease knowledge retention for students

21 <https://bit.ly/2lHzple>

Uncertain future

Over 5.6 million Palestinian refugees are registered with UNRWA and eligible to access its services, with 3.5 million receiving primary healthcare services and 533,000 children in UNRWA schools.²² The Agency has been suffering from a lingering funding gap since the United States terminated its assistance to the Palestinian people, including its usual annual contribution to UNRWA, calling for the Agency to be disbanded, claiming it had "run its course".²³ Recent media reports suggest that US funding to UNRWA might resume under a future Biden Administration.²⁴

COVID-19 and Social Security

On 14 October, MAS held a Policy Roundtable on the importance of developing the Palestinian social protection system given the impact of COVID-19 pandemic.²⁵ Dr. Bader Al-Araj, Professor of Sociology at Birzeit University, presented the background paper that he had prepared for MAS. The event was also attended by different representatives and experts from the private and public sector, along with academics and policy makers.

Al-Araj emphasised that COVID-19 exposed the deficiencies of the heavily fragmented social protection system in Palestine, which lacks up-to-date legislation and faces a shortage in human capital. It is also donor dependent with limited financial resources and characterized by inadequate infrastructure and weak coordination among stakeholders.

Shortage of financial resources

Mr. Dawood Al Deek, Undersecretary of the Ministry of Social Development (MoSD), acknowledged the many obstacles facing the MoSD, including limited financial resources. The MoSD budget is less than 5% of the public budget (approximately NIS 820m), most of which is allocated to the cash transfer programme. For the second year running, the Ministry is struggling to pay cash transfers to vulnerable families due to funding shortages.²⁶

Al Deek emphasised the importance of poor and marginalised people accessing equal opportunities for social protection and called for the reform of public social protection programmes. He pointed to the need to update the social register to build a database that documents the living conditions of all the poor.

The Impact of COVID-19

The need for social security and protection has become increasingly apparent due to the pandemic, highlighting the need for the integration and funding of the MoSD and social services. The unemployment rate reached 27% in Q2 2020, with a staggering 49% in the Gaza Strip. During the lockdown period, 17% of breadwinners stopped working, and 42% of Palestinian families had their income reduced by half or more during the pandemic, with 41% reducing monthly

22 www.unrwa.org/who-we-are/frequently-asked-questions

23 <https://bit.ly/3kMeulE>

24 <https://bit.ly/3f9y7l6> / <https://bit.ly/3fq7V60>

25 www.mas.ps/files/server/20202010094306-1.pdf

26 www.mas.ps/files/server/20202010094306-1.pdf

spending on food.²⁷ According to Al-Deek, the poverty rate is expected to increase to 40% of Palestinian households from the pre-pandemic level of 29%, resulting in approximately 140,000 families' incomes falling below the poverty line.²⁸ In the West Bank, poverty rates are expected to rise from 14% to 30% and in the Gaza Strip from 53% to 64%.

Deeper crisis in the Gaza Strip

The Gaza Strip has been especially affected during the COVID-19 pandemic and financial crisis. As of 13 November, the Strip saw its highest daily record of 300 new cases, and a total of 9,542 infected since March.²⁹ A recent study has shown that the monthly income of Gazan workers has decreased by almost 90% since the beginning of the pandemic and tens of thousands have lost their jobs.³⁰ The study included a sample of 2,013 workers from the Gaza Strip and focused on seven professions which were badly affected by lockdown measures: agricultural farmers and labourers; industrial workers; kindergarten teachers; fishermen; hairdressers; restaurants and stall owners and workers; and school bus drivers.

According to the study, basic food and medicine is now unaffordable to 60% of Gazan residents, 82% are facing mental health issues such as anxiety and stress, 80% of small-scale agricultural workers have lost their jobs, and only 26% of residents surveyed have consistent access to places selling fruit and vegetables. More significantly, 92% of people surveyed stated they had not received any governmental or non-governmental cash assistance since the beginning of the pandemic, and only 42% can access or afford protective material such as facemasks. In addition to reduced government expenditure on the Gaza Strip, international aid to the region has been severely cut in recent years.

Aborted reform efforts

In 2016, the Social Security Law was first introduced by Palestinian President Mahmoud Abbas through a presidential decree, following a long period of national dialogue between the Palestinian National Authority (PNA), the private sector and civil society.³¹ However, the implementation of law faced widespread objection and months of protests and public demands for suspension. The main issues of concern were the rates of salary and employer deductions, implications for business formalisation and labour law compliance, confidence regarding management of public funds, and the additional financial burden on struggling small businesses and lower-income households. Answering to these demands, President Abbas ordered a freeze on the implementation of the law, such that it did not take effect as planned in January 2019.³²

Renewable Energy Developments

The past months have seen multiple developments in the renewable energy sector in Palestine. The

Palestinian government and private sector, supported by international donors, have been focusing on this sector in recent years, as part of a transition towards increased energy independence. In 2018, Palestine imported 94% of its electricity consumption from Israel, 2% from Jordan and Egypt, and the rest was locally produced.³³ The 2019 Jerusalem District Electricity Company (JDECO) financial crisis, in which the Israeli Electricity Company cut power supplied to JDECO due to unpaid debt, exposed the risk of over-reliance on Israel for energy sources.³⁴

Noor Jenin

On 26 October, the Palestinian Investment Fund (PIF) and the North Electricity Distribution Company inaugurated the "Noor Jenin" solar energy station.³⁵ The station is located in the village of Kafr Dan in Jenin over an area of approximately 60 dunums and consists of 13,500 solar panels with a production capacity of 5 Megawatts (MW). The PIF signed an agreement to sell the station to the North Electricity Distribution Company, which will distribute all revenues from the station to the municipalities within the company's concession area. Noor Jenin comes as a part of the 'Noor Palestine' solar power programme, which aims to generate 200 MW of electricity from solar energy annually.³⁶ The project includes a solar energy station in Jericho, which has a production capacity of 7.5 MW, and the installation of solar energy panels on 500 public school rooftops, of which 32 have had the systems installed and 120 are in progress.³⁷

Bank of Palestine and NAPCO

On 19 October, the Bank of Palestine and the National Aluminum and Profile Company (NAPCO) launched Qudra, a company specialised in developing renewable energy solutions.³⁸ The initiative aims to provide renewable energy solutions to the Palestinian market with the goal of aiding Palestinian economic prosperity through diversifying local energy sources and decreasing energy imports. NAPCO is one of the leading Palestinian metal industries and Qudra will partner with companies in the energy sector to establish solar energy power plants with a 100 MW capacity. The company signed an agreement with JDECO to jointly establish a solar energy power plant with a capacity of 5 MW, in the village of Deir Abu Mash'al, which will supply JDECO's network of villages northwest of Ramallah.

October Trading

In October, Al-Quds index reached 435 points on the last day of trading, a decrease of 0.71% from the previous month and 17.3% from the corresponding month in 2019.³⁹ During the month, a total of 4.6m shares with a total value of \$6.9m were traded, marking a decrease of 82% in the number and 88.4% in the value of traded shares compared to the previous month.

27 www.alhadath.ps/article/130584/

28 www.alhayat-j.com/ar_page.php?id=59f48c7y94324935Y59f48c7

29 www.alwatanvoice.com/arabic/news/2020/11/11/1381015.html

30 <https://bit.ly/2Hcrpys>

31 www.ilo.org/beirut/media-centre/news/WCMS_561898/lang--en/index.htm

32 www.aliqtisadi.ps/article/66050/

33 <https://bit.ly/3nQRyT1> / <https://bit.ly/33dq2Hx>

34 <https://bit.ly/33hdhvt>

35 www.pif.ps/2020/10/27/7087/

36 www.massader.ps/en/projects/noor-palestine-program

37 <https://bit.ly/3nORAL8>

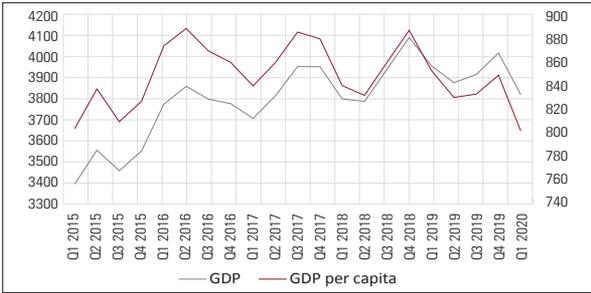
38 <https://bop.ps/en/media-center/newsroom/details/745>

39 <https://bit.ly/3m1hVFo>

Palestine Economic Dashboard

Growth

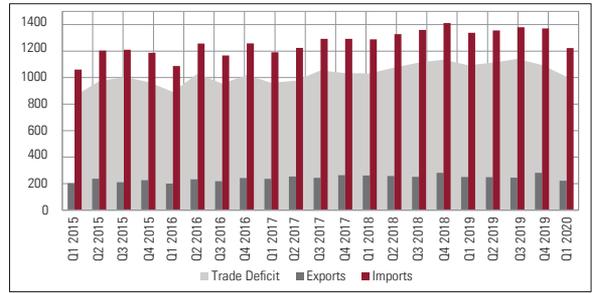
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q1 2020



GDP (Q1 2020): \$3,820.4m GDP per capita (Q1 2020): \$802
Source: PCBS

Trade

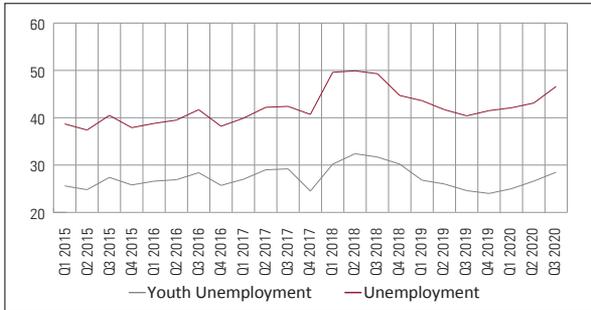
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q1 2020



Imports (Q1 2020): \$1,296.7m Exports (Q1 2020): \$230.6m
Trade deficit (Q1 2020): \$1,066.1m Source: PCBS

Unemployment

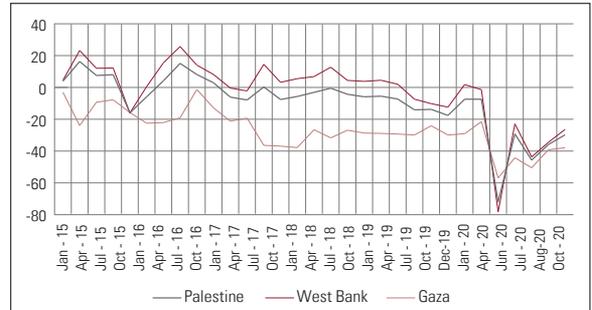
Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q3 2020



Unemployment rate (Q3 2020): 28.5% Youth Unemployment rate (Q3 2020): 46.6%
Source: PCBS

Business Cycle Index

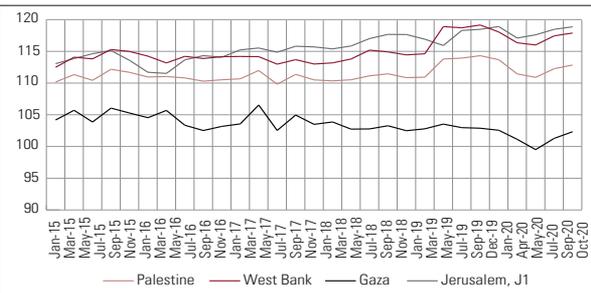
Palestine Monetary Authority Business Cycle Index, January 2015 – October 2020



Palestine (October 2020): -29.8 West Bank (October 2020): -26.4
Gaza (October 2020): -37.9 Source: PMA

Inflation

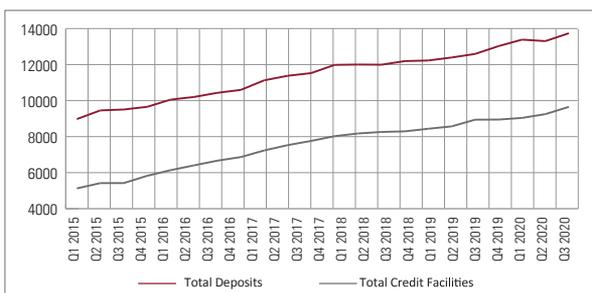
Consumer Price Index (Base year = 2010), January 2015 – October 2020



Palestine (October 2020): 112.8 West Bank (October 2020): 117.9
Gaza (October 2020): 102.3 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q3 2020



Total Credit (Q3 2020): \$9,894m Total Deposits (Q3 2020): \$14,061.9m
Source: PMA

The Portland Trust



The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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