Palestinian micro, small, and medium-sized enterprises (MSMEs) and women entrepreneurs by providing $15 million in financing to the Bank of Palestine (BOP), the largest bank in Palestine, in an effort to strengthen financial resilience during the COVID-19 pandemic.10

The EBRD financial package includes a $13 million credit line to provide critical liquidity to small businesses, enabling BOP to extend short-term loans to MSMEs facing liquidity strains due to the pandemic. MSMEs are the backbone of the Palestinian economy, contributing 98 percent of all businesses.11 This is in line with the rest of the MENA region in which MSMEs account for 80-90 percent of businesses, significantly contributing to job creation and national GDP.12 Additionally, the package includes a loan of $2 million targeted towards helping women-led businesses access necessary funds and create more job opportunities.13 The loan will be accompanied by a first-loss risk cover mechanism, enabling the bank to test new products, offer more favorable lending conditions, and improve women’s access to finance. The EBRD package will also include an assistance programme, funded by the Netherlands through the EBRD Multi-Donor Trust Fund for the West Bank and Gaza.14 The programme aims to assist the BOP to strengthen its capacity in lending to women-led businesses, including support in product development, risk management, and marketing. Palestinian women in business have less diverse networks and do not enjoy equal access to capital, markets, business development programmes.15

Response to the COVID-19 Pandemic

The EBRD boost programme comes at a critical time for businesses, especially those led by women, as they continue to suffer from the repercussions of closures enforced due to the outbreak of COVID-19.16 17 71% of MSMEs (92% in the West Bank and 27% in Gaza) were forced to lay off employees, with more 14% had to let go of their employees.18 Compared to pre-COVID levels, productivity and sales were cut by 50% on average, with a 93% decrease in the first three months of the lockdown. The establishments also expected a 47% drop in sales over the three months following the first lockdown and a 24% drop in employment. Approximately 95% of women-led businesses reported being negatively impacted by the pandemic, 27% had to shut down their projects as of July 2020, according to a recent UN Women survey on the impact of COVID-19 on women-led MSMEs in Palestine.19 A gender assessment study conducted by CARE Palestine in April 2020 found that women are three times more likely than men to report not being able to work at all due to COVID-19.20 About 90% of women are unable to access financial services compared to 73% of men.

December Trading

Al-Quds index grew by 1.83% in December, reaching 471.26 points on the last day of trading of 2020.21 A total of 11 million shares were traded with a value of $27.6 million, marking an increase of 23.4% in the volume and 31.1% in the value of traded shares. On an annual basis, the Al-Quds index decreased by 10.6% compared to the last day of trading in 2019. In 2020, a total of 86.5 million shares were traded on the Palestine Exchange (PEX) with an overall value of $190.1 million. This marks a significant decrease in the volume (-39.5%) and value (-38.8%) of traded shares compared to 2019, driven by the impact of COVID-19 on business activity and the deterioration in the political environment.

Economic Outcomes in 2020 and Forecasts for 2021

According to provisional estimates by the Palestinian Central Bureau of Statistics (PCBS) and the Palestinian Monetary Authority (PMA), real GDP decreased by 11.8% during 2020, with gross consumption falling by 6% and gross investment facing a staggering 36% drop.22 Real GDP per capita decreased by a sharp 13.7%, pushing more households into poverty. The World Bank estimates that the poverty rate increased from 24% in 2018 to 27.5% in 2020, with approximately 1.4 million people living in poverty, representing some 120,000 newly poor.23 The contraction was driven by a 20% drop in GDP in Q2 2020, which followed a 4% reduction in the previous quarter. The economic downturn affected all economic activities, with value-added construction activity falling by 36% over the year, industry by 12%, agriculture by 11% and services by 10%. As a result, PCBS estimates that 14% of Palestinian businesses had to lay-off employees, with more 66,000 jobs lost in 2020. The slowdown of economic activity and consequent disruption in incomes and consumption created deflation of 1% and a 24% increase in public debt to $3.3bn in 2020.

Although the COVID-19 pandemic had a significant impact on employment, the unemployment rate increased only slightly, from 26.3% in 2019 to 27.8% in 2020. The modest increase in unemployment is explained by a sharp reduction in the labour force participation rate, which fell to just 35.4% in Q2 2020 compared to 41.2% in Q3 2019. Quarterly statistics show that 78,000 jobs were lost in Q2 2020 and in Q3 2020 only 12,000 of these jobs were recovered.24 The number of Palestinian workers in Israel and Israeli settlements in the West Bank dropped by 34,000 between Q1 and Q2 2020, but increased by 33,000 in Q3, with a net loss of around one thousand additional jobs.

The economy witnessed a partial recovery in the second half of 2020: a 10.8% rise in GDP in Q3 2020 from Q2, following the lifting of COVID-19 preventive measures. The rebound was also driven by a 58.5% increase in the compensation of Palestinian workers in Israel and a 22.8% increase in current transfers to non-governmental sectors. These developments allowed an 8.2% quarter-on-quarter growth in household consumption and 18.5% in investment, partially offsetting the negative trend in the first half of the year.

Economic performance in 2020 demonstrated in the provisional quarterly data (still to be revised and published as final annual data) was better than had been forecast by both the PCBS and MAS at the beginning of the pandemic, but it is worse than the PMA and World Bank forecasts (see Table 1). Differences in the underlying assumptions at the time account for the variation in forecasts among these institutions. PCBS quarterly data indicate that the economy had contracted by 11.6% in 2020 compared to the 13.5% previously projected.25 MAS had forecast a 20% decline in GDP while the World Bank and PMA had forecasted a 7.9% and 5.2% contraction, respectively.
The Pessimistic Scenario, however, assumes a worsening situation with increased movement and trade restrictions with Israel under growing friction in the pandemic, which could see a combination of political and economic impacts introduced by the pandemic complicate the measurement and estimation process further, especially as it is still unclear what course the pandemic will take in 2021. The year has already begun with a range of restrictions on movement and gathering, but with most economic sectors able to operate. It is not yet clear whether the country will undergo another full lockdown in the first half of the year, especially as Israel entered a third major lockdown in January. Furthermore, the prospects for an early or comprehensive vaccination program in the coming months remain unclear.

Amidst the uncertainty, PCBS forecasts published in December 2020 confirm that prospects for growth in 2021 could be on the upturn, with political developments so far this year indicating that the assumptions of the more optimistic scenario might well prevail. The annual projection exercise considered different scenarios, as outlined below:

The Baseline Scenario assumes a continued spread of COVID-19 countered with partial to full lockdowns over limited periods and that vaccination will start in Q1 2021. This scenario assumes that the internal political situation and external diplomatic relations will return to their pre-2020 status.

The Optimistic Scenario assumes an improved political and economic situation following progress in Palestinian political reconciliation, and the preparations for the legislative and presidential elections in Palestine. The scenario assumes the return of normal diplomatic relationships with the USA, increased donor support and public revenues, and the continuation of partial and full lockdowns due to COVID-19 outbreaks.

The Pessimistic Scenario, however, assumes a worsened situation with increased movement and trade restrictions with Israel under growing friction in the pandemic, compounded by the economic impacts introduced by the pandemic complicate the measurement and estimation process further, especially as it is still unclear what course the pandemic will take in 2021. The year has already begun with a range of restrictions on movement and gathering, but with most economic sectors able to operate. It is not yet clear whether the country will undergo another full lockdown in the first half of the year, especially as Israel entered a third major lockdown in January. Furthermore, the prospects for an early or comprehensive vaccination program in the coming months remain unclear.

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The Pessimistic Scenario, however, assumes a worsened situation with increased movement and trade restrictions with Israel under growing friction in the pandemic, compounded by the economic impacts introduced by the pandemic complicate the measurement and estimation process further, especially as it is still unclear what course the pandemic will take in 2021. The year has already begun with a range of restrictions on movement and gathering, but with most economic sectors able to operate. It is not yet clear whether the country will undergo another full lockdown in the first half of the year, especially as Israel entered a third major lockdown in January. Furthermore, the prospects for an early or comprehensive vaccination program in the coming months remain unclear.
The volatility of Palestinian economic activity and structural vulnerability to external shocks makes forecasting a particularly challenging task in the Palestinian context. One of the uncertainties is the socio-economic impacts introduced by the pandemic: the compounding of the measurement and estimation process further, especially as it is still unclear what course the pandemic will take in 2021. The year has already begun with a range of restrictions on movement and gathering, but with most economic sectors able to operate. It is not yet clear whether the country will undergo another full lockdown in the first half of the year, especially as Israel entered a third major lockdown in January. Furthermore, the prospects for an early or comprehensive vaccination remain uncertain.

Amidst the uncertainty, PCBS forecasts published in December confirm that prospects for growth in 2021 could be on the upswing, with political developments so far this year indicating that the assumptions of the more optimistic scenario might well prevail. The annual production exercise considered different scenarios, as outlined below:

### The Baseline Scenario
assumes a continued spread of COVID-19 countered with partial to full lockdowns over limited periods and that vaccination will start in Q1 2021. This scenario assumes that the internal political situation and external diplomatic relations will return to their pre-2020 status.

### The Optimistic Scenario
assumes an improved political and economic situation following progress in Palestinian political reconciliation, and the preparations for the legislative and presidential elections in Palestine. The scenario further assumes the return of normal diplomatic relationships with the USA, increased donor support and public revenues, and the continuation of partial and full lockdowns due to COVID-19 outbreaks.

### The Pessimistic Scenario
however, assumes a worsening situation with increased movement and trade restrictions with Israel under ongoing full lockdown, the continued spread of the virus. The scenario also assumes an accelerated spread of COVID-19 along with delays in obtaining the vaccine, a persistent decline of donor support and increased tax evasion.

#### Developments in Tech Entrepreneurship

The Palestinian technology startup ecosystem is young, but growing quickly and thriving, with the number of startups increasing by 34% between 2009-2015. There are more lucrative capital-fueled international investments in startups, but with the pandemic lockdowns, the tech sector in Palestine has lost over $150 million invested in startups, and thousands of jobs created, 12% of which are in the ICT sector.

In light of the COVID-19 pandemic, the tech entrepreneurship sector gained renewed attention as demand for digital solutions coincided with mounting restrictions on movements and lockdowns. Palestine's tech sector has been perceived by many to have great growth potential, owing to a proven track record for outsourcing from multinationals, a highly educated young population, low cost of talent, as well as market readiness to practice new solutions.

However, market constraints remain; the ecosystem as a whole suffers from a lack of funding and specialized quality assurance, in addition to numerous bureaucratic hurdles.

### International Conference for Entrepreneurship - Palestine

On 14 December, the Global Shapers Hubs (a World Economic Forum community), in cooperation with the Ministry of Entrepreneurship and Employment and the Garber Daniel Buda Media company launched the second annual International Conference for Entrepreneurship - Palestine (ICEP) with the theme "Empowering the Digital Generation".

The event, which was held virtually, included sessions on a range of topics such as the start-up ecosystem in Palestine, Palestine as an outsourcing hub, and start-up success in a post-COVID digital landscape. A variety of international speakers including innovation experts, business people, investors and senior figures from development agencies and multinational tech companies participated from Japan, the MENA region, the UK, Germany, France, Norway and the USA.

Prime Minister Mohammad Shtayyeh opened the conference by announcing that the Government will soon issue reforms to company laws that will facilitate the work of startups. He also announced the planned opening of a vocational and technical training university, and that the sector had already been approved in some institutions in the West Bank and Gaza. He stressed the uniqueness and importance of Palestine’s human resources and quality of education.

### Palestine-India Techno Park

On 8 December, India donated $3 million to complete the construction of the Palestine-India Techno Park, a launch pad and nurturing environment for Palestinian technology, education and entrepreneurship, connecting them to national, regional, and international markets. The Park will aid innovation and research and development initiatives, as well as helping to create an infrastructure supporting young tech companies, ultimately to create jobs and generate business for young Palestinian entrepreneurs. India has contributed a total of $12 million to the project, established in 2016 and constructed near Birzeit University. The Park is planned to be inaugurated in early 2021. India is also aiding Palestinian professionals by providing full scholarships to Pakistani student engineers to study in India. The Indian Technical and Economic Cooperation (ITEC) programme for Palestinian professionals and experts. The ITEC is an Indian bilateral assistance programme, for Indian professionals to share their developmental and technical expertise and skills with universities, schools, etc. The programme will run by women’s cooperatives, and stimulating investments in the agri-food value chain, particularly businesses heavily impacted by the pandemic. Other interventions include improving market access for Palestinian products by importing a range of food and non-food items, improving linkages between West Bank and Gaza Markets.

Regional market linkages are now especially important, due to coronavirus lockdown restrictions hindering the export of important crops from Gaza to the West Bank. Additionally as part of the international response to the pandemic-induced socio-economic crisis, FAO will work on providing training and support to the Ministry of Agriculture and Ministry of Health’s food contamination surveillance, as well as designing a campaign to raise awareness among farmers and those in the agri-food value chain on how to deal with pandemic-related issues.

### Food Security

The COVID-19 pandemic continues to have a significant impact on Palestinian food security, as Palestinian households’ overall monthly spending on food decreased by 41%. As previously reported, during the lockdown period 61% of Palestinian households worried about not having enough food, 57% had a less diverse diet, and 47% could not maintain a healthy and nutritious diet. Prior to the pandemic, 58% of households borrowed money or bought on credit to afford food items. Since the pandemic, this has increased to 63%, with the highest at 76% in the Gaza Strip.

Gaza has been especially harshly affected by the pandemic, due to the pre-existing high rates of poverty, unemployment, insufficient public health services and severely deteriorated public utility infrastructure due to over a decade of blockade, and consecutive wars and minimal public investment and donor aid. A family in Gaza living below the poverty line spends half of its monthly income on food, spending the remainder on other necessities such as housing, health services, etc, leading to coping strategies such as borrowing. Experts in Gaza have noted that existing food insecurity and malnutrition prior to the pandemic could play a role in decreased overall immunity to the disease spread of the virus, witnessed by a recent surge of cases in Gaza.

### Support

Several countries have contributed to the World Food Programme (WFP) to counter food insecurity amongst Palestinians. Switzerland donated approximately $5m, to provide cash assistance to 1,150 families living in the Gaza Strip. Each family receives a card with monthly credit that allows them to purchase basic food supplies at local markets. Spain also contributed approximately $490,000 to the WFP for over 34,000 vulnerable Palestinians (mainly women and children) in the Gaza Strip. The donation will be used to provide electronic food vouchers that can be used at over 200 shops across the Gaza Strip. The vouchers are found to be effective due to their providing families with freedom of choice, thereby dignity and flexibility, as well as positively benefiting the local economy. Germany also donated approximately $10.5 million to the WFP.

In light of the increased food insecurity under the pandemic, the Global Market Linkages Report covering the period of May-December 2020, in which they outlined their main interventions. FAO will focus on providing inputs to small-scale farmers and herders whose supply chains was disrupted due to coronavirus restrictions and lockdowns, providing technical support to food processors, and Ministry of Health’s food contamination surveillance, as well as designing a campaign to raise awareness among farmers and those in the agri-food value chain on how to deal with pandemic-related issues.

### EBRD Supports Women-led MSMEs

On 21 December, the European Bank for Reconstruction and Development (EBRD) announced that it is supporting...
March-May 2020. MSMEs (92% in the West Bank and 27% in Gaza) were forced to shut down during the first lockdown period (March-May 2020). MSMEs are categorized as comprising micro, small, and medium-sized enterprises (MSMEs) and represent 98 percent of all businesses. This is in line with the rest of the MENA region in which MSMEs account for 80-90 percent of businesses, significantly contributing to job creation and national GDP. Additionally, the package includes a loan of $2 million targeted towards helping women-led businesses access necessary funds and create more job opportunities. The loan will be accompanied by a first-loss risk cover cover to offset losses, enabling BOP to extend short-term loans to MSMEs (women-led businesses) and women entrepreneurs by providing $15 million in financing to the Bank of Palestine (BOP). The loan will be accompanied by a first-loss risk cover to offset losses, enabling BOP to extend short-term loans to MSMEs (women-led businesses) and women entrepreneurs by providing $15 million in financing to the Bank of Palestine (BOP), 40% of which is dedicated to women-led businesses. Approximately 95% of women-led businesses reported being negatively impacted by the pandemic, 27% had to shut down their projects as of July 2020, according to a recent UN Women survey on the impact of COVID-19 on women-led MSMEs in Palestine. A gender assessment study conducted by CARE Palestine in April 2020 found that women are three times more likely than men to report not being able to work at all due to COVID-19. About 90% of women are unable to access financial services compared to 73% of men.

**December Trading**

Al-Quds index grew by 1.83% in December, reaching 471.26 points on the last day of trading of 2020. A total of 11 million shares were traded with a value of $27.6 million, marking an increase of 23.4% in the volume and 31.1% in the value of traded shares. On an annual basis, the Al-Quds index decreased by 10.6% compared to the last day of trading in 2019. In 2020, a total of 86.5 million shares were traded on the Palestine Exchange (PEX) with an overall value of $190.1 million. This marks a significant decrease in the volume (-39.5%) and value (-39.8%) of traded shares compared to 2019, driven by the impact of COVID-19 on business activity and the deterioration in the political environment.

**Response to the COVID-19 Pandemic**

The EBRD boost programme comes at a critical time for small businesses, especially those led by women, as they continue to suffer from the repercussions of closures enforced due to the outbreak of COVID-19. 71% of MSMEs (92% in the West Bank and 27% in Gaza) were shut down during the first lockdown period (March-May 2020). In a recent survey conducted by the Ministry of National Economy (MNE) and Palestinian Central Bureau of Statistics (PCBS) on a sample of 2,600 establishments, 63% of businesses reported disruptions in supplies, 89% faced a decline in cash flow evidenced by an increase in returned cheques, and 14% had to let go of their employees. Compared to pre-COVID levels, productivity and sales were cut by 50% on average, with a 93% decrease in the first three months of the lockdown. The establishments also expected a 47% drop in sales over the three months following the first lockdown and a 24% drop in employment. The EBRD package will also include more favorable lending conditions, and improve women's access to finance. The EBRD package will also include more favorable lending conditions, and improve women's access to finance.

**Economic Performance in 2020 and Forecasts for 2021**

Economic performance in 2020 demonstrated in the provisional quarterly data (still to be revised and published as final annual data) was better than had been forecast by both the PCBS and MAS at the beginning of the pandemic, but it is worse than the PMA and World Bank forecasts (see Table 1). Differences in the underlying assumptions at the time account for the variation in forecasts among these institutions. PCBS quarterly data indicate that the economy had contracted by 11.6% in 2020 compared to the 13.5% previously projected. 1 It had forecast a 20% decline in GDP while the World Bank and PMA had forecast a 7.9% and 5.2% contraction, respectively.