

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The Palestine Investment Fund signed a memorandum of cooperation with the Egyptian Natural Gas Holding Company on 21 February to develop the Gaza Marine gas field*

*Palestinian President, Mahmoud Abbas, issued a decree on 11 February, to establish "Al-Estiqlal Bank for Development and Investment"*

*Al-Quds index reached 484.7 points on the last day of trading in February 2021, a decrease of 1.5% from the previous month*

*For this issue, we interviewed Elias Al Arja, Head of the Palestine Hotel Association*

### Meeting of the Ad Hoc Liaison Committee

On 23 February, the Ad Hoc Liaison Committee (AHLC) convened via video conference to discuss the economic and humanitarian situation in Palestine. The AHLC is a 15-member group of donor and international organisations representatives, acting as a primary policy-coordination mechanism for the delivery of international aid to Palestine for the past 25 years. The meeting came as a major wave of the COVID-19 pandemic surged in the West Bank, bringing daily case levels well above the peaks of the past year, affecting communities throughout the territory and a wide range of age groups.

Ahead of the meeting, the World Bank Group (WBG), the Office of the UN Special Coordinator for the Middle East Peace Process (UNSCO), and the Office of the Quartet (OQ) submitted reports on the current status of the Palestinian economy and other humanitarian developments. During the meeting, AHLC members noted the negative impact of the COVID-19 pandemic and called on donors to alleviate the burden on the population, strengthen the public health system, and stimulate economic recovery.<sup>1</sup> They also called for the resolution of fiscal disputes between the Palestinian and Israeli governments, including conducting 'much-needed revisions to the Paris Protocol.' Addressing the AHLC, Palestinian Prime Minister, Mohammad Shtayyeh, appealed to the donor community for \$50m to cover election costs and \$30m for COVID-10 vaccines.

### Socio-economic conditions

According to the WBG, Palestine saw one of the sharpest economic contractions on record during 2020, due to the combined effect of the pandemic and the subsequent economic slowdown, a 20% decrease in donor aid and the clearance revenue crisis. These factors resulted in a 11.5% drop in GDP, as estimated by the Bank. The WBG predicts a modest recovery in 2021, with an expected growth of around 3.5%.<sup>2</sup>

AHLC members referred to a projected \$1.2bn budget deficit in 2020 that is expected to expand in 2021 due to the Palestinian National Authority (PNA) vaccination programme, general elections and restored payments of salaries to public sector staff in the Gaza Strip. Donor support to the PNA budget is projected at \$300m, down from an average of \$610m over the past five years and even higher levels previously.<sup>3</sup> To address the mounting pressure on the public budget, the various members of the international community called on the Government of Israel (GoI) to transfer customs authority functions to the PNA, ensuring monthly revenue transfers to the PNA do not fall below NIS 500m during the pandemic emergency.

According to the UNSCO report, nearly half of all Palestinians now require additional humanitarian aid with the poverty rate reaching 28.9%, a 7% increase over the past 4 years. This represents approximately 1.4 million people living in poverty in 2020. To improve the effectiveness and efficiency of the social protection system, the report suggests that the PNA incorporate social protection payments into a universal basic income programme.<sup>4</sup>

### The healthcare system

The pandemic revealed weaknesses in the Palestinian health system, such as limited budgets, fragmented governance, and challenges in service delivery. Financing for

1 <https://bit.ly/2P567WR>

2 <https://bit.ly/3l70d1D>

3 <https://bit.ly/3bXiu01>

4 <https://bit.ly/38QiixY>

basic health services such as maternal and child health has been severely disrupted. Delivery of essential health inputs into the Gaza Strip has also been delayed considerably and there are still shortages of Personal Protective Equipment (PPE), testing laboratories and critical medical equipment.<sup>5</sup> The saturation of PNA health facilities coping with serious cases had by March strained capacities to their limits, forcing a new, strict lockdown in most of the West Bank.<sup>6</sup>

The WBG report recommends increased coordination between the PNA and the GoI for financing, buying, and distributing the vaccine. According to the WBG, the GoI should facilitate the procurement and movement of health commodities through its ports, and a Public Health Emergency Operations Center (PHEOC) should be established to coordinate and centralise health data.<sup>7</sup> The report called on the international community to increase their investment in Palestine's health system, noting approximately \$55m would be required to vaccinate 60% of the population, almost double the amount currently requested by the PNA. In the second half of March, the first substantial shipments of 62,000 vaccines, procured through the COVAX global facility arrived in the territory and the PNA was able to begin its vaccination campaign.<sup>8</sup>

### Trade and access

To improve mobility and boost trade, AHLC members recommend the easing of restrictions by the GoI and the resumption of pre-pandemic efforts to advance the transfer of relevant trade functions to the PNA. These include Israeli transfer of custom authorities to the PNA, the establishment of an electronic system for the clearance of VAT, Israeli exemptions on duties on fuel from Israel to the PNA, and the facilitation of trade through King Hussein Bridge. In addition, the UNSCO report recommends that the GoI eliminate the practice of brokerage between Palestinian workers and their Israeli employers, remove "dual-use" restrictions and adopt a more flexible policy regarding building rights in Area C.

Internally, the Palestinian government is encouraged to increase trade between Gaza and the West Bank and support initiatives linking local production with the global marketplace.

### Water sector developments

The OQ report recommends that the GoI provide pending approvals to enable operation of the Gaza Central Desalination Plant and Associated Works (GCDP & AW). Donors are also encouraged to continue funding the tendering and construction of the project. The report also recommends that the GoI allow the entry of pipes for water, sanitation and hygiene infrastructure, and donors are encouraged to fill the \$1m funding gap for the operation of a 'short-term low-volume' desalination plant for 6 months, and the \$0.65m funding gap for the Khan Younis wastewater treatment plant for 2021-2022. The Palestinian Water Authority is encouraged to enact the reform plan

and decisions made in December 2020 to improve the governance and commercial viability of the water sector.

### Energy sector developments

The OQ report calls on all parties to agree on the commercial structure of the Gas for Gaza project (G4G), which aims to connect Gaza to natural gas by 2023. All parties should also work to resume the supply of electricity from Egypt to Gaza, and increase it, as well as support solar photovoltaic projects throughout Palestine, and ensure the Gaza Marine field moves into development.<sup>9</sup>

On 21 February, the Palestine Investment Fund (PIF) and the Egyptian Natural Gas Holding Company (EGAS) signed a memorandum of cooperation to develop the Gaza Marine gas field and necessary infrastructure, and explored the possibility of exporting gas to Egypt.<sup>10</sup> The PIF and the Consolidated Contractors Company (CCC) own 55% of the concession to develop the field, while the remainder is reserved for a potential international partner following the withdrawal of Shell from the project.<sup>11</sup> Natural gas reserves off the Gaza coast are estimated at 1.4 trillion cubic feet, which the PNA has been unable to exploit due to Israeli restrictions. These reserves could provide a total net revenue estimated by UNCTAD at \$4.59bn.<sup>12</sup>

On 24 February, Qatar and the EU pledged \$60m and \$24m respectively to construct a gas pipeline from Israel to a power plant in Gaza.<sup>13</sup> Natural gas that currently flows through a pipeline in Israel will be transported to Gaza via a new pipeline extension, the completion of which is not yet specified, although the entire project has 2023 as a target date for completion. The EU will fund the Gaza portion of the pipeline, while Qatar will fund the extension of the Israeli pipelines.<sup>14</sup> This project is a significant step towards solving Gaza's gas and electricity supply shortages, whereby Gaza requires approximately 500 megawatts to provide 24-hour electricity. Less than half this amount is available, with 120 megawatts imported from Israel, and its local diesel-powered plant capable of providing only 60 megawatts.<sup>15</sup>

### Public Banking Initiatives

On 11 February, Palestinian President, Mahmoud Abbas, issued a decree to establish "*Al-Estiqlal* (Independence) Bank for Development and Investment", a public bank with legal, financial, and administrative capacity under the supervision of the Palestine Monetary Authority (PMA).<sup>16</sup> The initiative aims to expand the productive base and growth of the national economy through accelerating loan disbursement and stimulating investments in SMEs, allocating funds to expand and enhance human capital, and developing effective mechanisms to manage public finances and contribute towards a shift to a digital economy.<sup>17</sup> The proposed Bank is designed to merge within one umbrella PNA organisation, comprising agricultural

<sup>9</sup> <http://quartetoffice.org/files/OQ%20Asks%20Feb%202021.pdf>

<sup>10</sup> [www.al-ayyam.ps/ar\\_page.php?id=14722824y343025700Y14722824](http://www.al-ayyam.ps/ar_page.php?id=14722824y343025700Y14722824)

<sup>11</sup> [www.reuters.com/article/us-shell-gaza-gas-idUSKBN1F01Q1](http://www.reuters.com/article/us-shell-gaza-gas-idUSKBN1F01Q1)

<sup>12</sup> <https://bit.ly/2NMbwSv>

<sup>13</sup> <https://bit.ly/31fTbS>

<sup>14</sup> <https://theArabweekly.com/qatar-pledges-co-fund-gas-pipeline-israel-gaza-eu>

<sup>15</sup> <https://bit.ly/30BqGg5>

<sup>16</sup> [www.alhadath.ps/article/136524/](http://www.alhadath.ps/article/136524/)

<sup>17</sup> [www.alhadath.ps/article/136524/](http://www.alhadath.ps/article/136524/)

<sup>5</sup> <https://bit.ly/3ck3c4F>

<sup>6</sup> <http://pnn.ps/news/575632>

<sup>7</sup> <https://bit.ly/3l3lKJj>

<sup>8</sup> <https://bit.ly/3c418is>

credit institutions and other development finance mechanisms, as well as the cash-transfer programmes managed by the Ministry of Social Development.

When the idea of the Bank was initially floated in July 2020, *Al Estiqlal* Bank was also perceived to serve as a mechanism to process all social transfers, including the social welfare payments made to Palestinian political prisoners and families of Palestinians killed by Israeli forces.<sup>18</sup> The initiative, however faced Israeli threats to impose penalties on any Palestinian bank that would deal with *Al-Estiqlal* Bank in any capacity.<sup>19</sup> The most recent Presidential decree regarding the establishment of *Al-Estiqlal* does not address the long-standing issue of financing salaries for the families of martyrs and political prisoners, instead focusing on the public banking initiative as a mechanism to stimulate investment and development and manage the government funds.<sup>20</sup>

## Interview with Elias Al-Arja, Head of the Palestine Hotel Association

Worldwide, the tourism sector has been hit hard by the COVID-19 pandemic outbreak, and Palestine is no exception, with Bethlehem and Jerusalem being the most affected.<sup>21</sup> The sector's standstill is expected to persist throughout 2021, due to a surge in infections following the identification of new variants of the virus that appear to spread faster. Hospitals are unable to absorb the hike in the number of cases with a 115% occupancy rate and the PNA, once again, has reverted to tightened preventive measures and closures.<sup>22</sup>

According to the Palestinian Central Bureau of Statistics (PCBS), losses in revenue incurred by the tourism sector exceeded \$1.1 billion as of October 2020.<sup>23</sup> In the second quarter of 2020, the number of workers in activities related to tourism decreased by 23% compared to the same period in the previous year as many enterprises confronted the effects of pandemic by laying off workers or cutting their work hours. In Bethlehem, one of the main tourist destinations in Palestine and a city that highly depends on tourism along the value chain, unemployment has reached more than 50%. With the persistent lockdowns and rising cases of COVID-19, it is expected that enterprises operating in this sector, mainly hotels and MSMEs, will continue to incur high losses on a monthly basis, pushing many to bankruptcy or permanent shutdown.<sup>24</sup>

For this issue of the Bulletin, we interviewed Elias Al Arja, Head of the Palestine Hotel Association. Al Arja is a hotel owner with over 27 years of experience in the sector. The Palestine Hotel Association is a non-profit organisation with 220 members established in 1964 in Jerusalem with the objective of organising and supporting the hotel sector as well as promoting tourism in Palestine.

## Palestine Economic Bulletin (PEB): What has been the impact of the COVID-19 pandemic on the Palestinian tourism sector?

Elias Al Arja (EAA): The tourism sector historically faced risks related to political instability due to the Israeli occupation, but no one anticipated a health crisis that would bring the entire sector to complete shutdown, driving revenues to zero. The tourism sector was the first to shut down, and it will be the last to recover. Almost a year later, there are no mitigating measures, and as an association, there is nothing we can do to attract tourists as it remains unsafe to open facilities and hotels without vaccinations.

Before the outbreak of the pandemic, the sector witnessed a significant growth following relative political stability, competitive price offerings and a drop in the cost of air transportation. In 2019, approximately 3.5 million tourists visited Palestine and generated around \$1bn in revenues. The success of the sector (with a room occupancy rate above 80%) along with continuous encouragement from the Palestinian government induced significant investments in tourism infrastructure. However, the unexpected and sharp decline in tourism due to the pandemic resulted in huge losses and debts accumulation. Today, investors in the tourism sector are unable to pay back their loans and/or incurring interest.

Aside from accumulating debt, hotels are struggling to pay fixed costs such as maintenance, utilities and licensing fees. Hotel owners and enterprises along the value chain are using up their savings and even borrowing to pay for fixed costs. In order to relaunch operations in the future, hotel owners need to continue to spend on preventative maintenance to ensure adequate room conservation as well as functioning facilities and equipment.

Despite this, given the specificity of the hotel businesses in the West Bank, with most hotels and businesses being entirely family owned, bankruptcy is unlikely. Instead, most hotels will either permanently shut down or temporarily shut down until they are able to open again in the future.

## PEB: What are the strategies adopted by hotels to cope with the pandemic?

EAA: To cope with the closures and losses, and cover fixed costs and debt payments, hotel and enterprise owners are increasingly seeking to sell private properties. Those who wish to exit the market are unable to liquidate their hotel facilities, as there is no interest in the market given the high risk associated with the pandemic.

In accordance with PNA guidelines, hotels have shut down their businesses and paid wages for two months in advance at the beginning of the pandemic during the first lockdown in March. By doing so, most enterprises ended up using most of their cash savings. Nonetheless, as the closure persisted, hotels were forced to lay off most of their staff, causing further financial depletion, as employers had to pay termination and end-of-service fees. Only 10% of workers remained in their jobs with no pay to retain their jobs once the market re-opens and to maximise their end-of-service benefits later on. The majority of workers have sought out work opportunities in Israel instead.

18 [www.wattan.net/ar/video/329731.html](http://www.wattan.net/ar/video/329731.html), also refer to B167

19 <https://hadfnews.ps/post/77269/>

20 [www.alhadath.ps/article/136524/](http://www.alhadath.ps/article/136524/)

21 [www.mas.ps/files/server/20212702132039-1.pdf](http://www.mas.ps/files/server/20212702132039-1.pdf)

22 [www.maannews.net/news/2033688.html](http://www.maannews.net/news/2033688.html)

23 [www.pcbs.gov.ps/post](http://www.pcbs.gov.ps/post)

24 [www.mas.ps/files/server/20212702132039-1.pdf](http://www.mas.ps/files/server/20212702132039-1.pdf)



Besides paying workers, hotels were not able to do much in response to the pandemic. Hotels only profit when room occupancy rates are 40% or above. Therefore, opening cafes, pools, bars, and other facilities does not actually generate profit and are not enough to operate hotel businesses. It is important, then, to attract tourists that are able to spend nights in hotels. However, this has proven to be very challenging with no inbound tourism and a lack of local tourism culture in Palestine.

Our main competitors, Israeli hotels, are now able to gradually and safely open their hotel rooms, facilities, bars and restaurants and attract tourists from neighboring countries. This is because the Israeli government has been able to secure vaccines and quickly vaccinate a huge proportion of their population. Moreover, the Israeli tourism sector has adopted a “green passport” strategy that allows them to attract tourists who have been also vaccinated, promoting ‘safe’ tourism. Tourists from neighboring countries are now choosing to spend their vacations in Israeli hotels over Palestinian’s hotels. Even more damaging, Palestinians living in Israel (~2 million), who are usually prone to spending their vacations in the West Bank, are now seeking to travel to other countries who have collaborated with Israel’s “green passport” strategy for safety reasons. This creates an even greater challenge for the Palestinian tourism sector, hindering its ability to attract local tourists and emphasising the need for vaccinations.

**PEB: How has the Palestinian government helped the tourism sector so far? What do you think the PNA should do looking forward?**

EAA: There have been several initiatives from the PNA and the international community to enable the tourism sector to recover, including the Palestine Tourism Recovery Taskforce (PTRT)<sup>25</sup>, the COVID-19 Tourism Operation Manual for Palestine<sup>26</sup>, and Jahzeen.ps. While such initiatives offer an effective manual for hotels and businesses to safely plan reopening, and are somewhat helpful in encouraging local tourism, they are only useful if, and when, we are able to vaccinate the majority of the population. We cannot, as a sector, reopen and promote tourism with the rise of the COVID-19 cases across the West Bank and without vaccines. The taskforce and operation manuals are only effective in the case we are allowed to re-launch and operate.

25 [www.travelpalestine.ps/en/article/310/Palestine-Tourism-Recovery-Taskforce](http://www.travelpalestine.ps/en/article/310/Palestine-Tourism-Recovery-Taskforce)  
26 <https://bit.ly/3lQcidN>

While the government did call on banks to facilitate loans for businesses, most hotels were not able to borrow as they are unable to secure any ‘proof of income’ given the halt in operations.

To avoid the complete and long-term destruction of the sector, it is critical for the PNA primarily to secure vaccines for Palestinians across the West Bank. This will enable us, as a private sector along with the PTRT, to start implementing different strategies to promote and encourage tourism, especially towards the end of the year in time for the religious holidays.

The government should also create a sustainable fund, specifically geared towards aiding hotels and other enterprises along the tourism value chain, enabling enterprise owners to relaunch their operations. This is critical given that most enterprises have depleted their working capital and used most of their retained earnings to cover fixed costs and salaries.

Lastly, it is necessary for the PNA to invest in developing new training and apprenticeship programmes that will enable us to train and equip workers with necessary skills to participate in the hospitality and tourism sector. Many of the workers laid-off due to COVID-19 have now shifted towards the Israeli labour market. This is likely to result in a skills shortage in the Palestinian labour market as the hotels and tourism sector starts to recover.

## February Trading

In February 2021, Al-Quds index reached 484.7 points on the last day of trading, a decrease of 1.5% from the previous month.<sup>27</sup> During the month, a total of 3.3m shares with a total value of \$7.9m were traded, marking a 76.7% decrease in the number and 72.4% drop in the value of traded shares compared to the previous month.

During 2020, the net annual profits of PEX listed companies reached \$219.6, a 24.2% decline from 2019.<sup>28</sup> Preliminary results for 2020 show that 37 of the 48 listed companies reported profits with a total reported net profit of \$230.1, a 23.7% decrease from 2019. Total losses among the six lowest performing companies reached \$10.5m compared to \$12.1m in 2019. The three remaining companies failed to disclose their results within the legal period. The services sector was the most profitable (\$75m) followed by banking and financial services (\$57m), and investment (\$34m).

27 <https://bit.ly/3qXchWi>  
28 <https://bit.ly/38Py0JO>

## 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](mailto:feedback@portlandtrust.org)

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