

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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The impact of the pandemic and the lockdown were recently covered in a comprehensive study by the Palestine Economic Policy Research Institute on the socio-economic impacts of the pandemic and urgent responses

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Developing the Palestinian Digital Economy

Over the past two decades, the Palestinian Information and Communication Technology (ICT) sector has grown significantly and gained attention both locally and internationally. Currently, there are over three hundred IT companies operating in Palestine, most of which are small and medium sized enterprises, working in software development and IT outsourcing for local and multinational corporations (MNCs).¹

IT Outsourcing

Given the continued restrictions imposed by the Government of Israel (GoI) on the movement of Palestinian people and goods, exporting ICT services can significantly contribute to the growth of the Palestinian economy.² This is mainly due to the reduced transaction costs for exporting ICT services compared to other industries producing tangible goods.³

Over the past two decades, the sector has slowly positioned itself to become an outsourcing destination.⁴ Palestinian IT outsourcing companies have gained significant experience and a reputation for reliability and quality through providing their services to clients such as Siemens, HP, Intel, Cisco, and Alcatel-Lucent.⁵ Today, many of the IT outsourcing companies have direct relations with clients outside Palestine, but still rely heavily on contracts secured through Israeli firms or international companies operating in the Israeli market.⁶

Structural Challenges

Driven by an agenda to boost employment, the Palestinian National Authority (PNA) and international donors have been increasingly focusing on the development of the digital economy due to its potential to bypass Israeli restrictions on movement and access of goods and people.

Although the value added from the ICT sector has tripled between the years 1999 and 2019, it still generates a modest contribution to the national economy of around 2.4%.⁷ According to the World Bank, Israeli constraints on the development of digital infrastructure are a key challenge to a vibrant and dynamic digital economy in Palestine.⁸ The Government of Israel (GoI) has imposed restrictions on building digital infrastructure, spectrum allocation of 3G/4G and 5G mobile broadband, ICT equipment imports and deployment, and the right to provide telecommunications services in Area C. It was not until January of 2018 that mobile broadband (3G) services were deployed in Palestine, contributing to one of the lowest mobile broadband penetration rates in the MENA region of only 5.39% at the end of 2018.⁹ While the PNA has the right to independently build and operate its own telecommunication infrastructure, Israel continues to limit the frequency spectrum, construction, and imports, and owns an estimated 20% mobile broadband market share in the West Bank.¹⁰

Palestine ranks 123rd in the ICT Development Index and 136th in ICT service affordability, well below the average for other Arab states and developing countries.¹¹ The cost of mobile and internet subscriptions represents around 9.5% of annual gross national product (GNP) per capita.¹² While levels of internet penetration are high, standing at 70.6%

1 www.gpic.nl/Outsourcing-Palestine-UO.pdf

2 www.gpic.nl/Outsourcing-Palestine-UO.pdf

3 www.gpic.nl/Outsourcing-Palestine-UO.pdf

4 <https://bit.ly/2Q0QLDr>

5 www.gpic.nl/Outsourcing-Palestine-UO.pdf

6 <https://bit.ly/32LmThx>

7 www.pcbs.gov.ps/statisticsIndicatorsTables.aspx?lang=en&table_id=77

8 <https://bit.ly/3t4eqRV>

9 <https://bit.ly/31XcQW8>

10 <https://bit.ly/3t1GBBc>

11 <https://bit.ly/3t2ryXM> and <https://bit.ly/3fSzyXC>

12 <https://bit.ly/2QTUzF> / GNP is the total value of all final goods and services produced by a country's citizens in a given financial year, including income from foreign investments and those working abroad irrespective of their location.

in 2019 compared to a global average of 53.6%,¹³ the majority of subscribers resort to the lowest broadband speeds due to high prices; approximately 41% subscribe to the 8 Mbps package. As of 2019, there were 4.2m cellular mobile subscriptions with a penetration rate of 85% compared to a global average of 108%. As of April 2021, the Ministry of Telecommunications and Information Technology will be decreasing the prices of internet access lines, aiming to increase access.¹⁴

Human Capital

Alongside digital infrastructure, human capital is the most important prerequisite for the development of the digital economy. All fourteen universities in the West Bank and Gaza have IT departments, with over 1,500 students graduating annually (of whom 48.6% were female in the academic year 2018/2019).¹⁵ According to the Ministry of Higher Education, around 6.4% (13,941) of enrolled students majored in ICT related fields during the academic year 2018/2019.¹⁶

However, despite increasing numbers of graduates in ICT related fields, employment opportunities for IT graduates, specifically female graduates, are limited.¹⁷ In 2018, around 8,815 Palestinians were employed in ICT, 4,805 (54.5%) of whom work in telecommunications, and 1,677 (19%) in computer programming.¹⁸ In 2019, 30.4% of IT graduates were unemployed. Organisations working in the field, startups and IT outsourcing companies all report facing challenges to expand IT work due to the lack of suitably skilled talent, and the high costs of training.¹⁹

To address the skills gap, there has been an intensification of efforts aimed at enhancing and growing the relevant talent pool in recent years. In a recent related development, the PNA replaced 120 'outdated' university specialisations with 60 technology-related supplementary programmes to enhance the digitisation of the economy through equipping Palestinian graduates with the innovative tools.²⁰ Various international Non-Governmental Organisations (NGOs) are now also allocating funding towards strengthening local talent for the benefit of the Palestinian ICT outsourcing sector. Several programmes aimed at developing human capital in the ICT sector currently exist, including:

- **TechStart:** Launched in 2020, this \$13m programme aims to enable the local IT ecosystem to improve its business capacity and catalyse employment growth. The five-year programme focuses on capacity building for Palestinian firms, improving international demand from investors and buyers, and assimilating hi-tech knowledge within the Palestinian ecosystem. The project is also working on addressing the Coronavirus pandemic by ensuring the IT sector can aid in Palestine's economic recovery, through mechanisms such as wage support for firms carrying out virtual training or system upgrades, advisory and market linkage services, and grants and advisory services to new firms with good potential.²¹
- **AXSOS Academy – Youth Coding Program:** A sixteen-week intensive training programme that aims to graduate 6,000 skilled software engineers over the next three years. The programme has been supported financially by the Ministry of Entrepreneurship and developed by German-Palestinian IT company, AXSOS,

and is open to professionals and graduates from varied fields and of all ages. The programme also aims to place its graduates in IT market jobs, both locally and internationally, via the AXSOS network.²² Starting with a pilot of 60, it aims to scale to over 1000 within the first two years. So far, only half of the participants have previously studied information technology, with the rest coming from other disciplines.²³

- **Gaza Sky Geeks (GSG):** Originally founded in 2011, GSG is a startup accelerator and tech hub set up by Mercy Corps in Gaza with cooperation and funding from Google. In 2014, GSG became part of the Google for Startups network, and now supports those working in the gig economy, startups, and aspiring software developers, as well as providing co-working services in Gaza and the West Bank.²⁴ The accelerator runs a number of programmes, including the Skylancer Academy, which mentors and trains skilled individuals in a number of fields in order to make them successful and profitable online freelancers.²⁵
- **Talent Acceleration Programme (TAP):** Palestinian-Dutch IT company, Kiitos, and Palestinian IT outsourcing firm, Radix, recently launched a specialised training programme targeting computer engineering, computer science, or electrical engineering graduates, who want to work as web developers.²⁶ Starting with a small pilot, the programme aims to graduate thousands of ready-to-hire software developers in the coming years. The programme was initiated and developed by The Portland Trust (TPT), subsequently joined by Palestinian partners. In early 2020, TPT identified an opportunity to accelerate employment in IT outsourcing in the cities of Nablus and Hebron. Universities in these two cities graduate most of the tech talent in Palestine but there is little scope for employment in these locations as the bulk of top job opportunities are concentrated in Ramallah. TPT designed the programme to include both training and job placement. Furthermore, unlike previous programmes which rely on donor grants, TAP finances the training through an investment mechanism that enables students and IT outsourcing companies to provide a small return to "impact investors" through an income-sharing agreement (ISA) whereby students repay part of the cost of their training once they have secured a job. The three-month programme provides participants with a curriculum focusing on experiential learning through live client projects, in which trainees put into practice advanced technical skills, product management skills, and soft skills. Trainees also have access to one-on-one career coaching and professional English language training. Participants are expected to leave the programme as professional front-end or back-end developers available to be hired at Palestinian IT outsourcing firms, including Kiitos and Radix.²⁷

New and Renewed Financial Support to the PNA

On 25 March, the United States (US) representative to the UN, Linda Thomas-Greenfield, announced that the US will resume funding assistance programmes for Palestinians, beginning with a \$13M grant for the most marginalised and

13 www.itu.int/en/ITU-D/Statistics/Documents/facts/FactsFigures2019.pdf

14 www.wattan.net/ar/video/336220.html

15 <https://bit.ly/2R9sWK8>

16 www.mohe.pna.ps/services/statistics

17 www.pcbs.gov.ps/Downloads/book2425.pdf

18 www.pcbs.gov.ps/Portals/_Rainbow/Documents/comm_annual1_2018e.html

19 <https://bit.ly/320Vs6x>

20 <https://samanews.ps/ar/post/461867/>

21 <https://bit.ly/3gz9CAM>

22 <https://academy.axsos.ps/>

23 <https://bit.ly/3tP9aCk>

24 <https://gazaskygeeks.com/about/>

25 <https://gazaskygeeks.com/freelance/>

26 <https://bit.ly/2RRuzwn>

27 <https://smartindex.ps/job/s/50345>

vulnerable communities in the West Bank and Gaza. She stated that with the newest funding, USAID will support the COVID-19 response of Catholic Relief Services, which aids health care facilities as well as vulnerable families in Palestine. The funding will also provide emergency food assistance programming for communities with high food insecurity.²⁸ It was subsequently announced that the Biden administration will propose to Congress to resume several of its previous aid programmes to Palestine. This includes \$75 million for economic and development assistance, \$10 million for peace-building programmes carried out via USAID, and \$150 million in aid for UNRWA. The US will also continue security assistance programmes for the PNA. For the first time, the traditional US funding streams (multilateral and bilateral) have been supplemented by the Middle East Partnership for Peace Fund. This will provide funding of up to \$50m annually for five years benefitting Palestinian-Israeli peace building projects (including for Palestinian Arab citizens of Israel) and Palestinian private economy development finance, to be administered largely through the US Development Finance Corporation (DFC).

On 10 March, the Consul General of Italy in Jerusalem, Giuseppe Fedele, announced that Italy will contribute EUR 8m to the Palestinian Partnership for Infrastructure Development Multi-Donor Trust Fund (PID Fund), which is administered by the World Bank. The Fund was established in 2012 with the goal of improving Palestinian infrastructure via technical and financial support. Italy's contribution will support PNA activities within the water sector, specifically those aimed at improving safe water access in Gaza through the Associated Works Project, part of the Water Security Development programme, which focuses on the Gaza Desalination Plant.²⁹ According to the PCBS and the Palestinian Water Authority, only 4% of people in the Gaza Strip have access to clean water.

On 5 March, the World Bank approved a \$15m grant aimed at aiding Palestinian municipalities in continuing to provide essential services, and to create jobs for households whose income was impacted by the pandemic. The grant is for the Third Municipal Development Project (MDPIII), which will also be complemented by \$10m in donor funding from the Partnership for Infrastructure Development Trust Fund, also administered by the World Bank. Municipal revenues have drastically decreased as a result of the pandemic, despite municipalities being at the forefront of combating COVID-19. The grant will support the provision of emergency public goods, and finance recurrent municipality costs. It will also go towards labour-intensive public works which will provide employment and ensure resumption of services. There will also be technical assistance to municipalities to further prepare them to respond to shocks and disasters and build resilience.³⁰

The World Bank also approved another grant of \$10m to support job creation. The Finance for Jobs II Second Additional Financing (F4J II) aims to mobilise private investment in sectors with high potential for employment creation. It also aims to scale up the Investment Co-Financing Facility, a risk-sharing facility that offers co-financing to viable private sector investments that are high-risk and within a fragile sector. By funding ten to fifteen investments in medium-sized businesses, the World Bank aims to create 1,500 jobs, and catalyse \$18m in private investment.³¹

COVID-19 Response: Impact and Recommendations

Palestine saw renewed lockdown measures between 27 February and 18 March, including the closure of universities, commerce, movement between governorates, and a ban on weddings, parties, and funerals.³² The measures followed a rise in cases, reaching 25,029 active cases on 1 April.³³

The impact of the pandemic and the lockdown were recently covered in a comprehensive study by the Palestine Economic Policy Research Institute (MAS) on the socio-economic impacts of the pandemic and urgent responses, funded by the United Nations Development Programme (UNDP).³⁴ The study assesses in six volumes the socio-economic impact of the pandemic, and provides interventions that improve household welfare, aid the worst affected sectors, and improve community resilience.

In line with previous assessments, the study shows that small producers, day labourers, employed and self-employed mothers, young graduates, and poor families were most affected by the pandemic. Some of the sectors hardest hit were hotels, restaurants, wholesale and retail trade, agriculture, industry and mining. Micro, small and medium enterprises struggled due to the lack of access to production inputs, and disruptions to logistic chains. The study concludes by presenting a series of recommendations such as:

- **Financial sector:** Creating fair mechanisms to handle returned cheques while ensuring banking sector stability.
- **Employment:** Providing temporary employment for those who have lost their income since the start of pandemic and improving access for women and youth to the labour market
- **Social protection:** Supporting families facing food insecurity through cash assistance, adopting policies against gender-based violence, increasing social protection for those with disabilities, and designing an emergency national plan to improve the resilience of residents of the Jordan Valley
- **Support for local industries:** Assisting MSMEs in the storage of raw material and maintenance of equipment under extended lockdown, providing financial assistance to small-scale farmers and livestock breeders, and support for women-led agricultural businesses
- **Inclusive governance:** The study suggests clarifying instructions for emergency committees, reinforcing financial resources of local authorities for crisis management, ensuring equal material distribution for governorates, improving transparency for aid delivery, and activating electronic government platforms
- **Address the impact of the pandemic in the Gaza Strip:** Providing financial support for MSMEs through credit and banking facilities, enhancing social protection and psychological care, promoting sustainability of the health sector, and increasing funding to education, food security, and the agricultural sector

March Trading

Al-Quds index reached 466.2 points on the last day of trading in March, a decrease of 3.8% from the previous month.³⁵ A total of 5.2m shares, with a value of \$14.1m, were traded, marking a 54.2% increase in the number and a 56.9% increase in the value of traded shares compared to February 2021.

28 <https://english.wafa.ps/Pages/Details/123829>

29 <https://bit.ly/2PJmLMB>

30 <https://bit.ly/3t11sK>

31 <https://bit.ly/2P034TI>

32 <https://nyti.ms/3ux1EvF>

33 <https://corona.ps/>

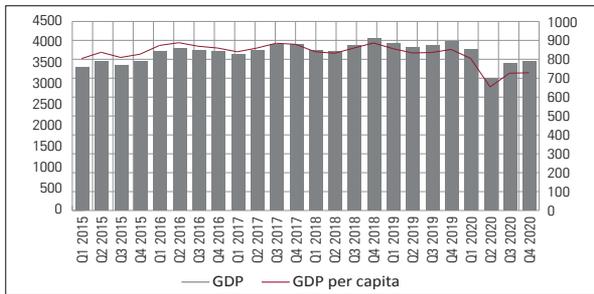
34 www.mas.ps/files/server/20212702132039-1.pdf

35 <https://bit.ly/3gyZ0qx>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q4 2020

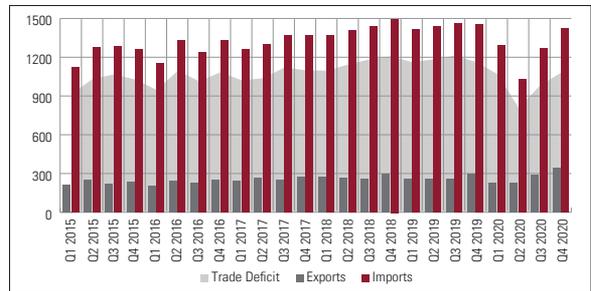


GDP (Q4 2020): \$3,540.6m
Source: PCBS

GDP per capita (Q4 2020): \$728.8

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q4 2020



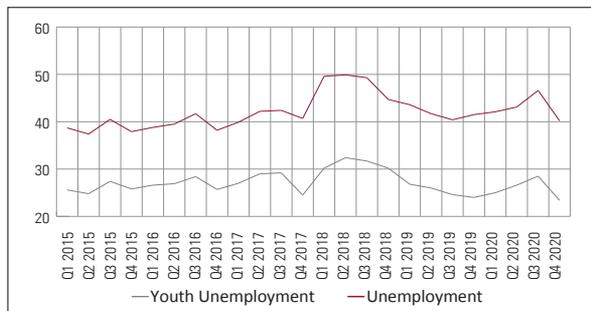
Imports (Q4 2020): \$1,423.6m

Exports (Q4 2020): \$344.5m

Trade deficit (Q4 2020): \$1,079.1m Source: PCBS

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2015 – Q4 2020

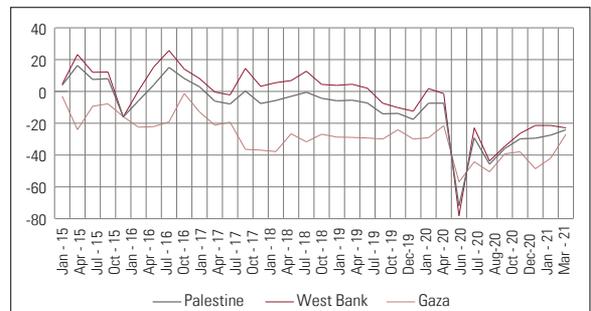


Unemployment rate (Q4 2020): 23.4%
Source: PCBS

Youth Unemployment rate (Q4 2020): 40.2%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2015 – March 2021

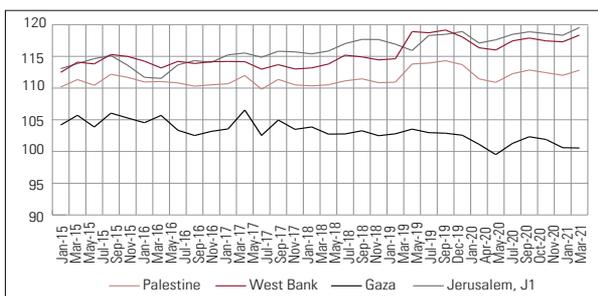


Palestine (March 2021): -24.1
Gaza (March 2021): -27 Source: PMA

West Bank (March 2021): -22.9

Inflation

Consumer Price Index (Base year = 2010), January 2015 – March 2021

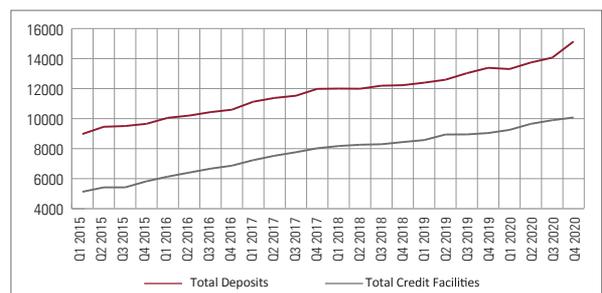


Palestine (March 2021): 112.8
Gaza (March 2021): 100.5 Source: PCBS

West Bank (March 2021): 118.3

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2020



Total Credit (Q4 2020): \$10,075.1m
Source: PMA

Total Deposits (Q4 2020): \$15,137.4m

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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