

## PALESTINIAN ECONOMIC BULLETIN

Issue 39

December 2009

### Main reports

*A new Code of Corporate Governance has been launched by the Palestinian Capital Markets Authority (PCMA) and the National Committee for Corporate Governance. All companies are expected to follow the code. The PCMA will provide expertise and advice about the code.*

*The export of flowers from the Gaza Strip to the Netherlands resumed on 10 December 2009. 37 million flowers are expected to be exported over the next six months, raising revenue of approximately \$8m.*

*Unemployment in the Palestinian Territory rose from 22.2% in Q2 2009 to 25.8% in Q3 2009 (according to the ILO definition) but fell from 27.5% in the same period last year (Q3 2008). Unemployment in Q3 2009 in the West Bank was 17.8%; in Gaza it was 42.3%.*

*Following \$300m of losses in the last two years, the Palestinian Monetary Authority (PMA) has made foreign currency exchange brokers illegal in the West Bank. Banks can still carry out foreign exchange transactions for their customers and their own portfolios. It remains legal for individuals to trade foreign currency through the internet or foreign brokerage firms.*

### A Green Future?

As world leaders meet in Copenhagen to agree a new global deal on climate change there is growing awareness of the potential from 'green' initiatives in the Palestinian Territory. On 19 November, over 200 people attended the 'Towards a Green Future' conference which was sponsored by the Italian Government, the PA and UN agencies. Attendees acknowledged green energy and the environment as critical factors for Palestinian economic growth and development. A 'Joint Declaration' between Italy and the PA was formalised at the conference and a 'Technical Steering Committee' was established to enhance cooperation and development of eco-sustainable activities and projects.<sup>1</sup>

While this is a relatively new area of focus for the Palestinian economy there are a few green projects already underway. In Hebron, a wind turbine will supply 700kw of energy to the Al-Ahli Hospital, covering approximately 40% of its total requirements. Energy costs of the hospital, which is the largest in the West Bank, will be reduced by 30-40% as a result. The EU has contributed €1.3m towards the three-year project, which was launched at the end of September 2009.<sup>2</sup>

Rawabi, the planned new city outside Ramallah, has been designed to be the first Palestinian green city. Its masterplan incorporates public parks and green spaces throughout the commercial and residential areas and special attention has been given to the transport system to reduce the use of cars. Water re-use, waste water treatment, energy preservation techniques, rain harvesting and recycling strategies have all been taken into consideration during the design phase. A tree-planting initiative, "GROW for a Greener Palestine", has commenced on the site. 25,000 new trees will be planted and a further 5,000 relocated during construction. Individuals are able to purchase trees through the Rawabi website.<sup>3</sup>

It is expected that there will be an increase in the number of green initiatives in the Palestinian Territory next year. With 3,000 sunshine hours per year there is high potential from solar power. Many Palestinians already take a sustainable approach to energy – 68% of households use solar water heating systems.<sup>4</sup> Abdullah Shra'rawi, Business Development Manager at PADICO, stressed the economic viability of green energy, stating that PADICO considers investment in this sector as 'low risk with long term capital growth' and plans to expand its investment into the green energy sector in the next 3 years. Ilaria Debonis, from the Consulate General of Italy, told the Bulletin that the Italian government are currently considering a new project related to 'green schools' with the assistance of Italian architects.

1 See: [http://www.agriregionieuropa.univpm.it/materiale/2009/Final\\_Agenda.pdf](http://www.agriregionieuropa.univpm.it/materiale/2009/Final_Agenda.pdf)

2 See: <http://www.awep.ps/>

3 See: <http://www.rawabi.ps/plant.php>

4 See: [http://www.agriregionieuropa.univpm.it/materiale/2009/Final\\_Concept\\_paper.pdf](http://www.agriregionieuropa.univpm.it/materiale/2009/Final_Concept_paper.pdf)

## Corporate Governance

On 18 November, the National Committee for Corporate Governance, the Palestinian Capital Market Authority (PCMA) and Prime Minister Dr. Salam Fayyad, announced a new 'Code of Corporate Governance' for the Palestinian Territory.

The code, which took two years to prepare, is based on international best practice. The private sector, academics and relevant organisations were consulted in 2008 through workshops in Nablus, Jenin, Hebron and Ramallah. Specialised international agencies, including the OECD and IFC, also provided feedback.<sup>5</sup>

The code sets out the procedures that a Palestinian company should follow to achieve good corporate governance and transparency. It outlines a set of compulsory and optional procedures for managing and controlling activities, dealing with internal and external relations and achieving financial and legal accountability. The role and duties of the Board of Directors, executive managers, shareholders and other stakeholders are all clarified.

Private sector companies are expected to follow the code. In 2010, the PCMA plans to send experts to visit each company and advise them on the benefits of applying the code. Although the code has not been adopted as government legislation, it is based on the laws and regulations applicable in the Palestinian Territory and is therefore considered legally binding.

The PCMA hopes the code will improve general corporate performance, increase competitiveness, generate greater productivity and profit and enhance the confidence of company stakeholders and potential investors. The adoption of the code is expected to improve the investment climate and effective functioning of the financial markets.

## Gaza Imports and Exports

Paltrade's Crossings Monitoring Report for October 2009 will show that the number of trucks entering the Gaza Strip increased 12% from 2,046 in September to 2,291 in October.<sup>6</sup> 597 trucks, carrying wheat and animal feed, entered through Karni, compared to 616 the previous month. 1,694 trucks, carrying mostly food, entered through Kerem Shalom, compared to 1,430 in September.

The Shojaeya 'Nahal Oz' crossing, dedicated to oil and gas, was open for six days in October. 1,527 tons of gas entered the Gaza Strip, compared with 2,554

tons in September. 5.6 million litres of industrial diesel gas passed through, compared to 11.6 million litres in September.<sup>7</sup>

According to Paltrade no export activity was recorded in the period May – October 2009. 684,000 carnations were exported during February – April 2009.<sup>8</sup>

The export of flowers from Gaza to the Netherlands resumed on 10 December. The Manager of Agricultural Crops for the Agricultural Development Association (PARC) in Gaza, Yousef Shaath, told the Bulletin that two trucks will leave the Gaza Strip five days a week until the end of May 2010. The flowers have been cultivated by 45 farmers on 300 dunums of land in the Rafah area as part of a project funded by the Dutch government and implemented by PARC.

Shaath estimates that around 37 million flowers in 45 varieties will be exported in total, raising around \$8m in revenue. An Israeli company, 'Agrexco', will be responsible for all the logistics of transferring the flowers from Gaza to the Netherlands via Ben Gurion airport in Tel Aviv.<sup>9</sup> PARC has provided all the raw materials and technical services for the farmers.

## Unemployment

The Palestinian Central Bureau of Statistics Labour Force Survey for Q3 2009 showed that unemployment, according to the ILO definition which excludes discouraged workers, increased from 22.2% in Q2 2009 to 25.8%.<sup>10</sup> Unemployment rose in Gaza from 36% in Q2 2009 to 42.3% in Q3 2009. The West Bank saw a 12% increase in unemployment from 15.9% in Q2 2009 to 17.8% in Q3 2009. The public sector accounted for 16.3% of total employment in the West Bank and 48.4% in the Gaza Strip.

In comparison to the same period last year (Q3 2008) Palestinian unemployment has fallen overall (from 27.5%), and in the West Bank (from 20.7%). Unemployment in Q3 2008 in Gaza was 41.9%, marginally lower than the same period this year. The area with the lowest level of unemployment is Nablus (10.9%), and the highest is Khan Younis in the Gaza Strip (55.6%). Unemployment in Ramallah is 17.7% and in Gaza City it is 38%. Within the West Bank, Hebron has the highest unemployment rate (23.1%).

5 See: <http://www.pcma.ps/new/Pages.aspx?page=450>

6 See: <http://www.paltrade.org/en/Publications.php>

7 See: <http://www.paltrade.org/cms/images/enpublications/Gaza%20September%20Monthly%20Report.pdf>

8 See: <http://www.paltrade.org> – Monthly Crossings Monitoring Report May 2009 – September 2009

9 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=241078>

10 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/LFS0309E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LFS0309E.pdf)

## Foreign Currency Exchange

Foreign currency exchange (FOREX) brokers have been made illegal in the West Bank. The legislation, which came into effect on 6 October, is in response to \$300m losses made by Palestinian FOREX investors over the last two years.<sup>11</sup> Such losses raised concerns over the level of professionalism and transparency in the industry.

Following an inspection of ten brokers' offices, representatives of the Palestinian Monetary Authority (PMA) concluded that they were failing to meet best practice in accounting standards and lacked the necessary expertise and understanding to offer a legitimate financial service. It will remain legal for individuals to trade FOREX via the internet or through foreign brokerage firms. Banks will also still be able to carry out foreign currency transactions, to convert currencies for their customers and to trade on the currency markets for their own portfolios.

Director of the PMA's Banking Supervision Department, Riyad Abu Shehadeh, told the Bulletin that whilst there was no evidence of fraud or serious malpractice, the Palestinian economy was not able to bear the level of losses being experienced. The PMA has made this change to protect individual investors and the wider economy, he added. It is not clear what this means for the future of the FOREX industry in the Palestinian Territory. Shehadeh said that there are currently no plans to develop a more stringent regulatory framework or to re-legalize FOREX brokers in the immediate future.

## Budget Support from Spain and Sweden

On 24 November, Spain and Sweden transferred almost €15m to help pay the November salaries and pensions of approximately 80,000 civil servants and pensioners. This payment completes Spain and Sweden's overall commitment of €30m in budget support this year (€25m from Spain, €5m from Sweden). The first transfer of €15m contributed to October's salaries and pensions.

Both payments were channelled to the PA through the European funding mechanism PEGASE, which was launched in February 2008. In 2009, more than €315m has been provided to the PA through PEGASE from the European Commission and member states.<sup>12</sup>

## 2008 Foreign Trade Figures

Palestinian Central Bureau of Statistics preliminary results for foreign trade in 2008 showed that the trade deficit had increased to \$3.2bn in 2008, up 27% from

2007. Total imports were \$3.8bn (up 20% since 2007) and total exports were \$0.5bn (up 3% since 2007). Increased imports were recorded in petroleum products and electricity (9%), chemical products and pharmaceuticals (11%) and machinery and transport equipment (12%). Figures showed that imports from Arab countries had increased by 22%, from the Americas by 15%, from the EU by 10% and from Asia by 6%. 72% of imports came from Israel, an increase of 20% since 2007.

Exports to the Arab countries, US and EU increased by 38%, 35% and 25% respectively. Exports of stone increased by 8% while export of food and live animals decreased by 2% compared to 2007. More detailed data on the commodities traded is still being analysed. PCBS expect to publish the full results by the end of 2009.

## Tourism

In Q3 2009 there were 310,643 nights spent at hotels in the Palestinian Territory (including East Jerusalem), which is a 30% increase from the same period last year (238,437) and a 29% increase from the previous quarter (240,846). The total number of hotel guests during Q3 2009 was 135,939. 50% of guests stayed in Jerusalem hotels, 49% in the West Bank and 1% in Gaza Strip hotels. On average guests spend between 2-3 nights per stay. At the end of Q3 2009 there were 89 hotels operating in the Palestinian Territory offering 4,666 rooms with 10,238 total available beds.<sup>13</sup>

## Infrastructure

In the Hebron Governorate, 30km of new roads, three schools and a water management system have recently been built as part of the USAID Infrastructure Needs Programme. In total 2,280 students will benefit from the new schools and the roads will facilitate increased movement of goods and people. Three reservoirs were rehabilitated and new piping and access roads were constructed as part of the water management system upgrade.

Director General of Planning and Development for the Hebron Governorate, Marwan Sultan, told the Bulletin that the recent investment in infrastructure had produced tangible benefits for the local economy, especially in terms of job creation. The projects cost approximately \$32m and took just under a year to complete. USAID estimate that 68,567 Palestinian work days were generated over the year.

11 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=241625>

12 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=2198](http://www.lfd.ps/documentsShow.aspx?ATT_ID=2198)

13 See: <http://www.pcbs.gov.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=1053&mID=11170> and [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/hotel0209E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/hotel0209E.pdf)

The completion of the work was celebrated with a ceremony in Tarqumia on 18 November with representatives from USAID and the Palestinian Authority present. USAID plans to invest a further \$153m into infrastructure in the West Bank during 2010. New projects in the Hebron Governorate include the rehabilitation of wells, the installation of reservoirs, additional water distribution systems and more new roads.<sup>14</sup>

## Access to Jenin

On 10 November a ceremony was held to mark the opening of the Jalame crossing point, near Jenin, for Arab-Israelis to pass through in their cars. The crossing point, which actually opened to cars on 13 October, had previously only been accessible on foot or by large goods vehicles. It is expected that hundreds of cars will use the crossing point each day, mostly to go shopping in the town of Jenin, creating a boost to the local economy. The ceremony was attended by Quartet Representative Tony Blair, Jenin Governor Qadoura Moussa and Israeli Minister for Regional Development Silvan Shalom.<sup>15</sup>

## Paltel-Zain Merger Collapse<sup>16</sup>

The merger between the Palestine Telecommunications Group (Paltel) and Kuwait's Zain Group has been cancelled. The details of the collapse are unclear but according to the Chairman of Paltel, Sabih Masri, 'the time period allocated has passed without fulfilling all the necessary requirements.' Zain have said they 'did not receive the required government approvals that were condition precedent to concluding the deal.'<sup>17</sup>

14 See: [http://www.lfd.ps/documentsShow.aspx?ATT\\_ID=2183](http://www.lfd.ps/documentsShow.aspx?ATT_ID=2183)

15 See: <http://www.reuters.com/article/idUSLA240537>

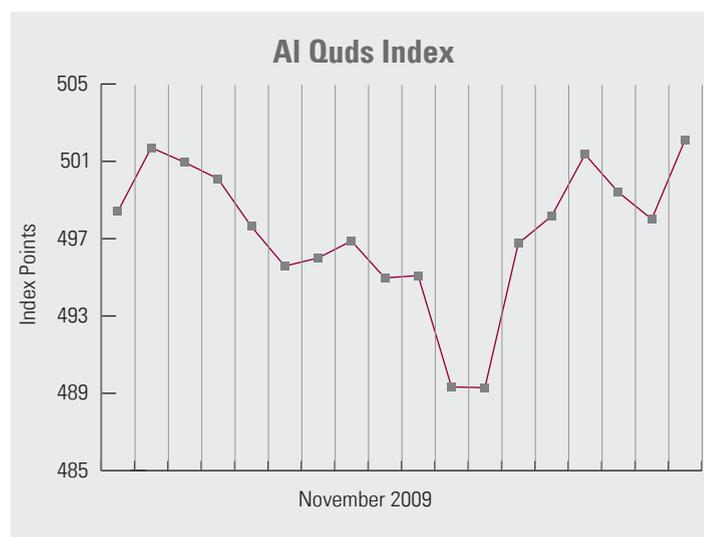
16 See Bulletin June 2009 for background about the deal.

17 See: [http://www.cellular-news.com/story/40759.php?source=rss&utm\\_source=feedburner&utm\\_medium=feed&utm\\_campaign=Feed:%20cellular-news/LmiX%20\(cellular-news\)](http://www.cellular-news.com/story/40759.php?source=rss&utm_source=feedburner&utm_medium=feed&utm_campaign=Feed:%20cellular-news/LmiX%20(cellular-news))

The Bulletin asked Dr. Hasan Abu-Libdeh, the Palestinian Minister of National Economy, about the deal. 'It has completely collapsed,' he said, 'the PA was ready to sign the deal but the two companies were not ready to reach an agreement within the deadline that was set for them.' According to Masri, Paltel continues to explore avenues of cooperation with Zain. The termination of the deal will not affect the services of the Paltel Group and its operations in the Palestinian Territory.<sup>18</sup>

## November Trading

The Al-Quds Index remained steady throughout November, increasing by just 0.74% to reach 502.12 points on the last day of trading. Due to the Eid holidays, there were just 18 trading sessions, in which 8.7 million shares changed hands with a value of \$21.1 million. Total market capitalisation rose by 0.2% to \$2.4bn.



18 See: [http://www.paltel.ps/site\\_popup.php?lang=en&popup\\_page=inner.items&page=data.news&option=li1258980352](http://www.paltel.ps/site_popup.php?lang=en&popup_page=inner.items&page=data.news&option=li1258980352)

## The Portland Trust

42 Portland Place  
London W1B 1NB

P.O. Box Al Bireh 4102  
Ramallah Al Masyoun

Azrieli 3  
132 Menachem Begin Road, Tel Aviv 67023

Email: [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)  
Website: [www.portlandtrust.org](http://www.portlandtrust.org)

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)

© 2009 The Portland Trust

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR