

PALESTINIAN ECONOMIC BULLETIN

Issue 78

March 2013

Main reports

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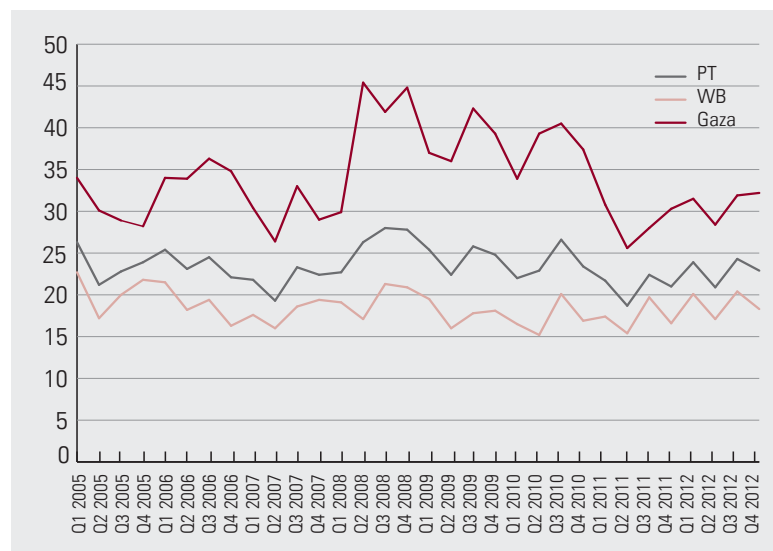
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Palestinian Labour Market

The results of the Palestinian Central Bureau of Statistics (PCBS) labour force survey for Q4 2012 show persistent high unemployment and low labour force participation rate in the Palestinian Territory.¹ Total unemployment reached 22.9%, down from 24.3% in Q3 2012, but higher than the 21% rate registered in Q4 2011. In Q4 2012, unemployment in Gaza (32.2%) remained significantly higher than in the West Bank (18.3%). The increase in year to year unemployment took place despite a fall in labour force participation, which reached a low 44% in Q4 2012.

Figure 1: Unemployment in the Palestinian Territory, 2005-2012 (%)



Source: PCBS

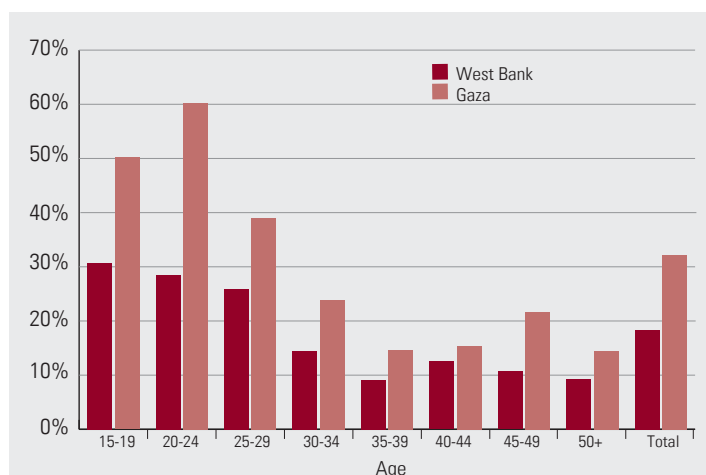
Among Palestinian women unemployment was 31.7%, an increase of 3.3 percentage points from Q4 2011. In Gaza, 48.3% of women seeking a job could not find one, an increase of over 4 percentage points from the previous year. Particularly concerning is the 44.6% unemployment rate among women with 13 or more years of schooling. At the same time female labour force participation remained remarkably low at 18% compared with 69% for males. In Gaza almost 85% of women were outside the labour force in Q4 2012.

Among Palestinians aged 15-29 average unemployment was around 35% while labour force participation also remained low at around 40%. A recent report by the World Bank interprets this as an indicator of how highly discouraged the youth are from joining the labour force due to the lack of opportunities.²

¹ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42012E.pdf

² www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCMarchfinal.pdf

Figure 2: Unemployment rate by region and age group - Q4 2012



Source: PCBS

The number of those employed in the local market (persons working in the West Bank or the Gaza Strip rather than in Israel, the settlements or abroad) rose from 756,000 in Q3 to 789,000. The services sector remained the most important employer, hiring 29% of all employed in the West Bank and 54.3% in Gaza.

Closing Down of Gaza Tunnels

Since 3 February Egyptian authorities have been flooding a large number of the trade tunnels connecting Egypt and the Gaza Strip. Security reasons were cited as the measure's motivation.³ Of the more than 200 tunnels⁴, it is believed that in the future only 50 will be left to operate under the supervision of the Gazan government for the passage of foodstuff and construction supplies.⁵

The impact of this measure on the Gazan economy is likely to be sizeable considering the importance of the tunnels for trade and local businesses. In 2012 tunnel activity accounted for 80-90% of Gaza's trade⁶ and about a third of imports into Gaza.⁷ Local growth during the first three quarters of 2012 was mainly explained by a 39% expansion of construction activity, partially fueled by the increase in purchases of raw building materials from Egypt through the tunnels.⁸ Following the closures, the supply of gravel has declined from 180 to 100-120 tonnes per week⁹ and prices of this and other materials such as cement and steel have increased by up to 25%.¹⁰

3 www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20130226154634

4 www.nytimes.com/2013/02/21/world/middleeast/egypts-floods-smuggling-tunnels-to-gaza-with-sewage.html?_r=0

5 www.english.al-akhbar.com/node/15065

6 www.thejerusalemfund.org/ht/display/ContentDetails/i/36415/pid/897

7 www.reuters.com/article/2013/02/18/us-palestinians-tunnels-egypt-idUSBRE91H0JA20130218

8 www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCMarchfinal.pdf

9 www.al-monitor.com/pulse/originals/2013/02/egypt-floods-gaza-tunnels.html

10 www.gazagateway.org/2013/02/top-security-officials-admit-israel%e2%80%99s-policy-prevents-economic-growth-in-gaza/

Tunnels are also an important source of revenue for the local government. According to the Gazan economist Omar Shaban, in 2011 the local government collected more than half of its \$750m budget by taxing the goods crossing through the tunnels.¹¹ Annual taxes on the import of gas, cigarettes, construction steel and cement alone amounted to \$188m.¹²

International Banking Conference 2013

In partnership with the International Finance Corporation (IFC) and the Association of Banks in Palestine (ABP), the Palestine Monetary Authority (PMA) hosted the 2013 Palestine International Banking Conference on 4 February. The conference focused on the challenges in accessing credit faced by the Palestinian Micro, Small and Medium Enterprises (MSMEs). In the Palestinian economy MSMEs constitute the vast majority of Palestinian private sector enterprises, accounting for more than 55% of GDP and creating around 85% of private sector employment. Inaugurated by Prime Minister Dr Salam Fayyad, the event was also attended by local officials, representatives of Palestinian businesses, local banks, investors and international organisations.

The PMA Governor, Dr Jihad Al-Wazir, highlighted recent developments in the banking sector, such as 89% growth in the value of credit facilities granted between 2010 and 2012. Representatives of the European Palestinian Credit Guarantee Fund (EPCGF) and the Loan Guarantee Facility (LFG) also claimed that the introduction of loan guarantee facilities in the last few years has encouraged MSMEs lending and significantly improved enterprises' borrowing capacity and local banks' interest in the business sector. They pointed out that more than 3,100 MSME loans totalling \$171m were guaranteed and professional training in MSME lending was given to more than 250 bank staff members over the last few years.¹³

A recent World Bank report recognised that the banking sector had continued to be well regulated by the PMA during 2012 and highlighted the strength of the sector's performance in the last year.¹⁴ However, Roberto Rocha, the World Bank representative attending the Conference, pointed out that despite their heavy economic presence, Palestinian MSMEs are still under-banked, maintaining a modest 6% share of total outstanding loans (less than 2% of GDP).¹⁵ He also argued that some of the main obstacles faced by Palestinian businesses willing to access the credit market include: limited collateral and third party guarantees; weak creditor protection within the regulatory

11 www.saudigazette.com.sa/index.cfm?method=home.regcon&contentid=20130226154634

12 www.thejerusalemfund.org/ht/display/ContentDetails/i/36415/pid/897

13 www.pma.ps/images/stories/PIBC_PPP/SME_Conference_Presentation_Hanna_Sahhar-EPCGF_Rami_Khoury-MEII.pdf

14 www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCMarchfinal.pdf

15 www.pma.ps/images/stories/PIBC_PPP/SME_Finance_Conference_Roberto_Rocha.pdf

framework; underdeveloped business credit scoring techniques; and the lack of mature development of critical financial instruments such as leasing and insurance.

The final recommendations of the conference included the need to strengthen the financial infrastructure, to improve the regulatory environment, to further develop key financial products (including leasing and insurance) and enhance the existing MSMEs credit guarantee facilities. The PMA will establish a technical committee to follow up on these recommendations and explore the possibility of their implementation in the near future.

Palestinian Businesses Approach European Markets

In March several Palestinian IT companies participated in major sectoral events in Germany and the Netherlands including CeBIT, the world's largest trade fair showcasing digital IT and telecommunications solutions. Held in Hanover, the event attracted over 300,000 visitors. In the Netherlands, Palestinian businesses participated in the Dutch Product Software Congress, which brought together numerous software development companies, the Dutch ICT Association, technical universities and ICT magazines. Palestinian companies also participated in a seminar on ICT opportunities in the Middle East and the Gulf region which took place in the Netherlands. Options for outsourcing services to the Palestinian Territory were discussed.¹⁶

The Palestinian delegation was headed by the Palestinian Information Technology Association of Companies (PITA) and was comprised of ten IT companies from the West Bank and Gaza: Unit One, Spark, Israa, Al-Tarik, Jaffal, Jaffa.net, Techno Pal, Orange, Good Shepard, and Vision Plus. Palestinian participation was sponsored by the German Academy for International Cooperation (GIZ).¹⁷

In separate news, the Minister of National Economy, Dr Jawad Naji, headed the first Palestinian economic delegation to Serbia.¹⁸ During the visit, working groups negotiated bilateral agreements on economic cooperation and mutual protection of investments, which aim to complement the existing agreement on avoidance of double taxation of bilateral trade between Serbia and the Palestinian Territory. Once agreed these developments will result in the formation of a mixed intergovernmental committee to promote closer cooperation in the areas of agriculture, food processing, ICT and furniture.

British Trade Officials Visit the West Bank

The UK Minister of State for Trade & Investment, Lord Stephen Green, visited Ramallah on 13 March.¹⁹ He met with Prime Minister Dr. Salam Fayyad to learn more about areas of development for the Palestinian economy. He

also met with prominent local business figures to explore the potential contribution of British businesses to ongoing Palestinian private sector development projects. During these meetings, the importance of developing business-to-business contacts between British and Palestinian firms was identified as a top priority to enable local SMEs to grow and create jobs.

Building on the negotiations initiated by the British Trade Envoy to Jordan, Kuwait and the Palestinian Territory, Baroness Morris of Bolton, during her visit earlier in February,²⁰ Lord Green welcomed the re-launch of the Palestine Britain Business Council. The Minister stated that he was '...confident that the skills and commitment of leading Palestinian and British business people will generate much-needed opportunities and jobs both here and in Britain, in key sectors such as ICT, Tourism, Food & Agriculture and Financial Services.' In particular, opportunities to bring UK brands and franchises to Palestinian new commercial and residential projects will be explored.

West Bank Hotel Activities

In Q4 2012 there were 98 hotels operating in the West Bank (68) and East Jerusalem (30), which employed 1,870 men and 606 women (a total equivalent to approximately 4% of West Bank workers).^{21/22} More than 152,000 visitors stayed for around 362,000 guest nights, up by 11.4% (visitors) and 1.2% (guest nights) from Q4 2011. Following previous trends most guests came from EU countries (40%), followed by Palestinians (11%) and US and Canadian citizens (9%).

February PEX Trading

In February the Al-Quds index declined by 0.14% and closed down at 471.52 points on the last day of trading. The index reached its highest (476.07) and lowest (468.01) levels on 14 and 26 February respectively.

A total of 10.3m shares worth \$15.2m were traded in 20 sessions. Market capitalisation was \$2.8bn.

Interview with Nakheel Palestine

This month the Bulletin interviews Zuhair Manasrah, General Manager of Nakheel Palestine, a Jericho-based firm which specializes in the cultivation, packaging and export of fine quality Medjoul and Barhi dates. Founded in 2010 with a start-up capital of \$11m, the company employs around 100 permanent staff, a number which typically doubles during the harvest and processing season.

Nakheel Palestine has grown since 2010 on the basis of a very ambitious investment plan. What can you tell us about this?

We have cultivated and planted 21,000 trees of Medjoul date palms and secured the necessary water for their

16 www.gpic.nl/Palestine-in-EU.pdf

17 www.maannnews.net/arb/ViewDetails.aspx?ID=572672

18 www.bit.ly/Y5mLJB and www.maannnews.net/arb/ViewDetails.aspx?ID=573326

19 www.ukinjerusalem.fco.gov.uk/en/news/?view=PressR&id=862799982

20 www.ukinjerusalem.fco.gov.uk/en/news/?view=PressR&id=855359182

21 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42012E.pdf

22 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_HotelActivQ42012E.pdf

irrigation through the development of wells, irrigation networks, a collection pool and the implementation of computerised irrigation systems. We have also installed and started operating a modern cool-storage house and a technologically advanced processing, grading and packaging factory. At the human resources level, we have managed to build efficient agricultural, production, financial, marketing and sales and management teams. Nakheel Palestine has also obtained several international quality certificates (Global Gap, BRC and ISO 22,000) in addition to the Palestinian certificate of excellence.

What are your prospects for 2013-2015?

We aim to complete the planting of 19,000 additional date palm trees in our farms to reach a total of 40,000 by the end of the period. We also plan to further invest in water management and will more than double our storage and production capacity by adding a new processing line. Total investment cost is estimated at \$4.5m.

At the same time we are implementing our strategy to increase the company's presence in international markets. In the last few years our Jericho Dates and Moon City products have been exported to the European, Asian, US, South African and Arab markets with great success and we are aiming to increase our exports to these and other destinations. During February and March 2013 we participated in a number of international exhibitions including Fruit Logistica in Berlin, Gulfood 2013 in Dubai and Foodex in Tokyo, Japan.

Finally, we are also studying the possibility of adding new production lines for date paste and syrup and other related products.

What are the prospects for the agribusiness sector?

The agribusiness' sector is a very important component of all facets of Palestinian life: economic, social and in terms of food security and political stability. Its importance is particularly because of its ability to create a large number of jobs for qualified and nonqualified workers and especially for women in rural areas. The sector also helps to protect the land, locally produce food, increase exports that provide much needed foreign exchange to the

Palestinian economy, substitute imports and ultimately enrich the national income.

However, the sector's potential is heavily exposed to the occupation conditions (restricted access to water and other natural resources, constraints in movement of goods and poor access to inputs) and other problems such as the lack of access to credit. This, together with governmental policy that is not aligned with the needs of the sector, makes my prospects not entirely positive.

What should the government be doing?

Firstly the importance of this sector is not reflected in the Palestinian Authority's budget. Last year agriculture's share of the budget was around 3% when the sector contributes 12% of national income. This gap needs to be bridged. Secondly the sector needs increased support in terms of taxation and trade agreements. We should celebrate preferential trade agreements with key international partners, in the same way as Israel has successfully done in past years. Finally, infrastructure and the provision of basic public services need to be dramatically improved as a necessary step towards the creation of a suitable business environment.

Do you think that private agricultural firms in the West Bank can do more in terms of sectorial cooperation?

Since 2010 Nakheel Palestine has established good and fruitful relationships with many date palm farmers in the West Bank with the intention of reaching the highest quality level for Palestinian dates. Nevertheless increased cooperation is needed between firms working in agribusiness, especially in the field of logistics, services, and export promoting institutions.

How do you see the prospects for the Palestinian economy?

If the political situation continues in the same course, the Palestinian economy will suffer greatly. There could be stagnation, which would drive down investors' incentives to support local businesses. Also the economic and production capacities built in the last 10 years may face serious risk of deterioration. Under this challenging environment I am very proud of the progress that Nakheel Palestine has managed to achieve during the last years.

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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