

PALESTINIAN ECONOMIC BULLETIN

Issue 89

February 2014

Main reports

An International Monetary Fund team recently visited East Jerusalem and Ramallah to assess recent developments in the Palestinian economy and evaluate the financial situation of the Palestinian Authority.

In Q4 2013 unemployment continued its upward trend and reached 25.2% across Palestine.

The Sharek Youth Forum launched a campaign to raise community awareness about the adoption of the resolution on the minimum wage.

The growing community of Palestinian entrepreneurs hosted a number of events at the beginning of 2014.

The Bulletin interviews Hashim Shawa, Chairman and General Manager of Bank of Palestine.

Palestinian Authority Budget for 2014

In February the Palestinian Council of Ministers and President Mahmoud Abbas approved the Palestinian Authority (PA) budget for 2014.¹ The total budget reached \$4.2bn, up by 9% from the level registered in 2013. The projected expenditure on public employees' wages and salaries is around 5% higher than the amount spent in 2013, and represents slightly more than half of total expenditures. With assumed zero net hiring, the expected wage bill increase is explained by recent pay rise agreements between the government and labour unions. The budget for development expenditure, at \$350m, remains the same as projected in last year's budget, although it is 87% higher than the amount effectively disbursed in 2013.

The Government expects to secure around \$2.7bn in total revenue: \$924m from domestic sources (up by 8% from the amount collected in 2013) and \$1.82bn from clearance revenues (up by 7% from 2013). While the Ministry of Finance aims to decrease tax rates over 2014-2016, the expected rise in domestic revenues is based on plans to expand the tax base and improve tax collection and administration.

The budgeted levels of revenues and expenditure leave a total deficit of \$1.63bn (including the \$350m development expenses). The financial gap (up by 4% from the gap observed by the end of 2013) is expected to be fully covered by international assistance: \$1.33bn of budgetary support and \$300m of development aid.

The International Monetary Fund (IMF) assessed a draft version of the budget and considered that although it "*envisages modest further progress in fiscal consolidation [it] still leaves a sizable financing gap*".² The Fund recommended that "*given the projected financing gap and substantial fiscal risks, including with regard to the wage bill, it is imperative to contain the 2014 budget deficit beyond the level envisaged in the budget. If not, accumulation of arrears will continue, thereby hurting the private sector and undermining the credibility of the PA*". In particular the IMF recommended controlling the level of expenditure by "*containing the overall increase in the wage bill to 2%, accelerating the reduction of poorly targeted fuel subsidies, and means testing and rationalisation of transfers for recipients outside the cash transfer programme*".

IMF Mission

An IMF team recently visited East Jerusalem and Ramallah to assess recent developments in the Palestinian economy and evaluate the financial situation of the PA.³ Following meetings with Prime Minister Rami Hamdallah and other PA senior officials the mission concluded that the economic outlook for 2014 greatly depends on the outcome of the ongoing peace talks between the Palestinian and Israeli governments. Under the assumption of status quo the IMF forecasts an annual growth rate of merely 2.5% for 2014, which would be sustained over the medium term, together with rising unemployment. However, Mission Chief

¹ www.palestinecabinet.gov.ps/

² www.imf.org/external/np/sec/pr/2014/pr1444.htm

³ www.imf.org/external/np/sec/pr/2014/pr1444.htm

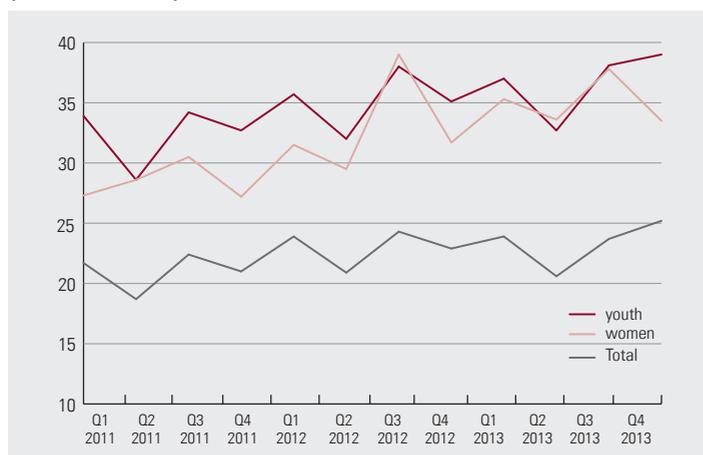
Christoph Duenwald indicated that “a breakthrough in the peace talks could launch major donor initiatives, such as the Economic Initiative for Palestine, which could boost average annual real GDP growth to about 6.5% in 2014-19”. On the other hand, the IMF estimates that “failure of the peace negotiations could trigger a political and security crisis” that would lead to further economic contraction, especially if donors scale back their support.

Labour Market at the End of 2013

In Q4 2013 unemployment continued its upward trend and reached 25.2% across Palestine. This is the highest quarterly unemployment rate in the last three years, marking an increase from both the previous quarter (23.7%) and from Q4 2012 (22.9%).⁴ The annual rise in total unemployment was highest in Gaza, where the proportion of jobless people grew by more than 5 percentage points to reach a high 38.5%.

Female and youth unemployment, at 33.5% and 39% respectively, also increased from both Q4 2012 (31.7%; 35.1%) and Q4 2011 (27.2%; 32.7%). The very high unemployment levels registered across all regions and segments indicate the urgent need to promote sustainable, job creating growth during 2014 and the coming years. The risks of further economic slowdown and rise in unemployment would be particularly worrisome in Gaza, where currently more than 1 in 2 youth aged 15-29 and almost 3 in 5 women do not have a job.

Figure 1: Quarterly total, youth, and female unemployment (% , Palestine) 2011-2013



Source: PCBS

Minimum Wage

The Sharek Youth Forum, an independent Palestinian organisation contributing to the development of youth, recently launched ‘Your Right to Know’, a campaign prepared in conjunction with the PA Ministry of Labour to raise community awareness about the adoption of the PA Cabinet’s resolution on the minimum wage.⁵

4 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42013E.pdf

5 www.sharek.ps/en/?page_id=1352

Following recommendations made by the National Wage Committee (formed of five PA Ministries and several trade unions), the PA Council of Ministers issued the Palestinian Minimum Wage Law in October 2012. The resolution, setting a minimum monthly wage of 1,450 NIS for all Palestinian workers, became effective on 1 January 2013.⁶ The Labour Force Survey results for Q4 2013 show that there are 106,500 private sector workers in Palestine (36.2% of the total) whose remuneration is currently below the minimum wage threshold.⁷

Commenting on the launch of the campaign PA Minister of Labour Ahmad Majdalani also pointed out that in 2014 “the pay between men and women in the State of Palestine will be equal, both in the public and private sectors.”⁸ In 2012 Palestinian women with a high school degree (or less) received a salary 27.5% lower than that of men with an equivalent educational level. The gender pay gap was 14% among workers with a diploma or bachelor degree and 24% for workers holding a masters or higher. The overall average gender pay gap for the OECD and MENA countries was 14% and 51% in 2010, respectively.⁹

Entrepreneurship Initiatives

After an exciting 2013 the growing community of Palestinian entrepreneurs hosted a number of events at the beginning of 2014.

On 20 January, Fast Forward announced the names of the four start-ups that will participate in its second training class.¹⁰ The companies, offering tech-based solutions, will benefit from Fast Forward’s resources, including seed funding, a co-working space, an international network of mentors, a one-month hosting at a regional accelerator, one-on-one sessions with experts and access to an educational library. The companies participating in the new round of the programme include an online platform to help Palestinian indie musicians distribute their music internationally by leveraging social media; a mobile and online based social network for sharing cooking recipes; an online interface to connect tutors in music and computer programming with pupils through interactive online sessions; and a network of merchants who will serve as payment points for online purchases and reservation-making in Palestine and, at a later stage, the MENA region (where 80% of people are not fully integrated to the banking system).

Later on 27 January Arabreneur, an acceleration programme recently launched by USAID’s Compete

6 www.palestinecabinet.gov.ps/Upload/Decrees/files//Pages%20from%20SCAN3389_000.pdf

7 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ42013E.pdf

8 www.wafa.ps/Arabic/index.php?action=detail&id=167221

9 www.cesifo-group.de/DocDL/dicereport113-db3.pdf

10 www.wamda.com/2014/01/palestine-only-startup-accelerator-fast-forward-announces-second-class

Project, announced its first round of investment of \$440,000 in four innovative Palestinian start-ups.¹¹ These are 'AidBits' (an online data management platform for non-profit organisations)¹², 'Fariqak' (an online fantasy game based on the English, German and Spanish football leagues that can be played in English, Arabic or Turkish – the first of its kind in the MENA region)¹³, 'LiveTop' (an educational platform with over 50,000 paid subscribers in over 20 languages)¹⁴ and 'Karaz' (an online platform offering products for married couples).¹⁵ The investment will help the companies penetrate new local, regional and international markets by improving their products and strategies and enhancing their team's skills. Arabreneur's commitment is to invest in 10-12 companies per year, creating 50-100 new jobs annually. The accelerator also offers technical assistance, logistics and marketing support, networking opportunities and exposure to potential partners and clients. Arabreneur's second investment round is scheduled for late February 2014.

Finally, the first *Garage48 Ramallah* start-up bootcamp, co-organised between the Estonian Startup Leaders Club and the Ramallah based NGO Leaders Organization with support from Mercy Corps, took place on 30 January.¹⁶ During the 48 hour long event participants worked in teams and received assistance to turn their entrepreneurial ideas into working web and mobile prototypes. A total of 20 ideas got pitched and the best eight were selected to be further developed during the event. These were presented to a panel of international and local mentors, business leaders, academicians and entrepreneurs on the last day of the workshop. TenderFQ, a platform for tenders requesters and suppliers, was awarded the first prize of 1,200 NIS.¹⁷ Runner-ups were CoopDelivery (a local business receiving packages on behalf of recipients when they are not available) and Handi (a location-based application which guides users to nearby vendors and service providers ranked by distance). The companies will have access to Leaders Organization's resources to continue developing their projects and will receive coaching from Fast Forward.

Interview with Bank of Palestine

This month The Bulletin interviews Hashim Shawa, Chairman and General Manager of Bank of Palestine (BOP). With the most widespread branch network in Palestine, a paid up capital of \$150m, assets of over \$2.35bn, more than 1,200 employees and around 600,000

11 www.arabreneur.com/four-high-growth-palestinian-companies-receive-around-half-a-million-american-dollars-investment-and-acceleration-through-arabreneur/

12 www.aidbits.com/Default.aspx and www.aidbits.com/features.aspx

13 www.fariqak.com/pages/index/en.index.ui.php

14 www.livetop.net/

15 www.karaz.me/

16 www.garage48.org/ramallah and garage48.org/blogger/garage48-in-ramallah-palestine-2014

17 www.tenderfq.com/

customers, BOP is the largest Palestinian bank. The bank's stock has been listed on the Palestine Exchange (PEX) since 2005, and currently represents more than 15% of total PEX market capitalisation. Over the past few years BOP received several awards and was recognised by regional and international institutions as the "Best Bank in Palestine".

What can you tell us about BOP's preliminary results for 2013?

I am pleased to report that BOP delivered a strong financial performance during 2013, continuing its upward sustainable and profitable growth trend. The year 2013 was not an easy year on many fronts in Palestine. However, we were able to improve our main KPIs, including a 6% year-on-year increase in profits before tax, net profit of \$40.4m, a 17% asset base growth and double digit growth in loans and customer deposits. I attribute these positive results to the resilience of the bank and that of its clients, in addition to the bank's sound strategies, strong brand, solid risk management and control functions.

Unlike other banks we are going beyond mere lending to the retail segment and the government. During 2013 we continued to pay special attention to the development of the business sector, especially the MSME segment.

How do you specifically target the MSME segment?

It is a matter of taking a grassroots approach, tailoring products and services to meet MSMEs' needs. Having a broad local presence is crucial to develop an intimate knowledge of local customers, businesses and people. We now have 50 branches across the country in both cities and rural areas, double what we had 6 years ago, and expect to have 100 branches by the end of 2020. In each of our branches we have a dedicated space for small businesses, with staff specifically trained to serve them. In addition to supporting MSMEs with necessary financial services, we also offer non-financial advisory services to help them further develop their businesses.

At the same time, we have spent a lot of time and effort preparing to serve the segment. Our strategy is based on continuing to form strong relationships with our clients to help us understand their businesses, building a strong capital base for the bank, strengthening governance, and developing professional risk management committees.

The bank seems to have a strong focus on local development activities...

Indeed, we define ourselves as a community-driven bank. We are a mirror of what happens in the community; we do well if our customers do well. Our people and businesses have proved to be resilient under the status quo, resisting the conditions and restrictions imposed by the Israeli occupation. As an example, we observe a non-performing

loan ratio in Palestine of less than 3%, the lowest in the region. Any economist would be surprised at this, but we are not because we are close to the people and know what they can deliver. Our mandate is simply to be there for them.

What other market segments will you focus on during 2014?

There is great potential to keep growing by offering solutions to those segments that are currently not covered by traditional banking products. In particular we are working with women and have also heavily invested in microfinance, developing an independent business unit within the bank.

We are also working with *Palestine for a New Beginning* to help raise the first of its kind Innovation Fund in the country, which will help establish and invest in innovative start-up companies across a wide range of both ICT and non-ICT sectors. We aim to raise \$20m by mid-2014, of which we have so far secured nearly half (including a \$2m commitment by BOP). Once fully capitalised, the Innovation Fund will fill an important gap in the Palestinian funding continuum by providing entrepreneurs with greater funding than, for example, microfinance, family or friends. It will represent a solution tailored to early stage entrepreneurs, who are typically considered too small or too risky by traditional venture capital funds and banks.

What can you say about BOP's leading role in building relationships with the Palestinian diaspora worldwide?

We have been active in diaspora activities for 7 years now, reaching out to Palestinian families and entrepreneurs who have done exceptionally well in Jordan, the Gulf countries, Europe, the US and Latin America. Our diaspora programme aims to build long lasting relationships and friendships which can have sustainable impact in important sectors like tourism and youth entrepreneurship. We still have a lot to work to do to know them better and attract the new diaspora generations. In the long-term our major aspiration is to see greater connection within the different Palestinian diaspora groups all around the world. There are opportunities in fostering broader cooperation and we aspire to be this global network's connecting point.

How important are the results of the ongoing peace negotiations for the future of the economy?

The bottom line is that the peace process is extremely important, period. The upside of a just peace can only be good for both sides in terms of sustainability, stability and employment. The opportunity is simply too big and too positive to be ignored. Efforts by President Obama and U.S. Secretary of State John Kerry are by far the largest, most ambitious, concrete and focused attempt to find a solution I have ever seen. Our hope is that the solution will be fair and balanced and uphold all the principles and values of freedom, equality and human rights. I also believe the opportunities exceed Palestine and Israel: by implementing the Arab Peace Initiative the potential is huge for all of the countries involved. One thing is certain however, we (BOP) will continue to operate in Palestine and be resilient. We have no exit strategy; we are committed to investing and expanding in Palestine. We, like our customers, have done this for over fifty years and will continue to do so.

January Trading News

During January the Al-Quds index continued to perform strongly and increased by 10.6%, closing at 589.60 points on the last day of trading. The index reached its lowest (543.41) and highest (599.41) levels on 2 and 28 January, respectively. January 2014 was also the first month since October 2008 in which the index exceeded the 599 points threshold. A total of 29.8m shares worth \$60.8m were traded in 19 sessions. Market capitalisation was \$3.5bn.

In related news, on 20 February PEX announced that 36 of the 48 listed companies achieved profits in 2013. Net joint profits after tax equalled \$236m, up by 23.8% from 2012. The three companies which attained the highest profit levels were PALTEL group (\$91.8m; +12% from 2012), Bank of Palestine (\$40.4m; +5.5%) and PADICO Holding (\$26.1m; +43%), which profits jointly accounted for nearly 70% of the total.¹⁸

¹⁸ www.pex.ps

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

© 2014 The Portland Trust

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