

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Government of Israel announced on 28 July that 16,000 additional labour permits will be issued to Palestinian workers in the Israeli construction and hotel sectors

The Palestinian tech-driven crowdsourced delivery startup, WeDeliver, announced on 28 July that it has raised \$2.4 million in a pre-seed round as it aims to expand regionally in the upcoming months

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Public Finances in the First Half of 2021

The recovery of the economy in 2021, especially since Q2, has stimulated labour supply, daily economic activities, trade, and domestic output. This resulted in a 29.4% increase in net public revenues in the first half of 2021 compared to the corresponding period in 2020. However, given the lingering socio-economic consequences of the pandemic, public spending increased at a slower rate (17.2%). Total budget deficit (before aid and grants) dropped by 19.4% to ILS 1,547m. Palestinian Finance Minister, Shukri Bishara, warned of a bleak future as Israel continues to deduct tax revenues from the Palestinian National Authority (PNA). At the same time, donor payments severely declined by 87.7%, further increasing public debt and financial difficulties.¹ This might explain the government's reluctance to increase spending at the same rate as revenues, even when there is an immense need to ease the socio-economic effects of the pandemic, amidst a steady build-up of arrears to private sector suppliers and civil servants and with public borrowing from the banking sector having reached its limits.

Bishara added that under the prevailing economic conditions and the PNA's degree of sovereignty and control, the government would not be able to generate more revenues. He called on the international community to assist the PNA in settling long-standing financial leakage issues with Israel, as they would generate approximately \$500 million in additional annual revenues.² These include commission fees for collecting Palestinian clearance funds³, withheld clearance revenue, fees for departing travellers, taxes and fees on fuel purchases, fees deducted for water, electricity, and health services, and other deductions.⁴ Such revenues would be sufficient to reduce both the budget deficit and the need for international aid to finance current expenditures. Indeed, a UN study has estimated the total leakage at over \$1 billion annually.⁵ Bishara also called for changing the paper-based clearing mechanism for the value-added tax with Israel, which he considered "ineffective and entails a high risk of fraud" that leads to significant losses for the PNA estimated at \$120 million annually.

Table 1: Palestinian Public Budget, H1 of 2020 and 2021

Item	H1 2020 (\$m)	H1 2021 (\$m)	% Change
1. Net public revenues	5,246.6	6,789.0	29.4%
A. Domestic revenues	1,974.9	2,396.6	21.4%
B. Clearance revenues	3,472.5	4,709.9	35.6%
C. Tax refunds (-)	200.7	317.5	58.2%
2. Public expenditure and net lending	6,840.9	8,019.8	17.2%
A. Salaries and wages	3,316.8	3,815.8	15.0%
B. Social transfers	330.6	364.6	10.3%
C. Other current expenditures	2,691.7	3,213.8	19.4%
D. Net lending	501.8	625.6	24.7%
3. Current account deficit before financing	1,594.2	1,230.8	-22.8%
A. Development expenditure	324.8	316.2	-2.7%
4. Total deficit before aid and grants	1,919	1,547.0	-19.4%
A. Budget support	790.8	97.6	-87.7%

Source: Palestine Ministry of Finance⁶

1 www.palestineconomy.ps/ar/Article/18303

2 *ibid*

3 The clearance revenues are a key source of public finance, as they comprise about two thirds of the PNA's total revenues and cover 50% of public spending.

4 <http://english.wafa.ps/Pages/Details/125326>

5 https://unctad.org/system/files/official-document/gdsapp2013d1_en.pdf

6 <http://www.pmf.ps/pmfof/documents/accounts/monthly/2021/June.2021.En.pdf>

Public Debt

Total public debt incurred by the PNA hit an unprecedented high in the first half of 2021, reaching \$3.74 billion, of which \$2.41 billion is domestic (mostly from local banks) and \$1.33 billion is external.⁷ This figure excludes accumulated government arrears. Together, government arrears and public debt amount to \$8.6 billion, more than 61% of the GDP value in 2020.⁸ PNA debt and consumer loans by PNA employees are increasingly exposing local banks to significant risks that threaten to undermine the stability of the financial sector.

Clearance Revenues

On 11 July, the Israeli security cabinet voted to withhold nearly ILS 600 million from the PNA to offset the stipend the PNA paid last year for the families of martyrs, political prisoners, and the wounded.⁹ This is despite the PNA's decision to restore ties with Government of Israel (GoI) and accept clearance revenue transfers (as opposed to the clearance revenue standoff in the first half of 2020). The GoI has withheld an accumulated amount of ILS 851 million from the PNA's clearance revenues since 2019 for such stipends and starting in August 2021 it will withhold an additional ILS 51 million per month.¹⁰ Furthermore, the GoI also deducted an average of ILS 106 million a month to settle the PNA's outstanding debts to Israeli electricity, water, and health service companies.¹¹ Given past positions on the matter, it is likely that this will remain a thorny point of contention between the two sides even amidst a less polarised political climate.

Foreign Aid

It was only in June that the PNA general budget received its first donor support this year, \$30 million from the World Bank Group, intended for supporting reforms in governance, social sectors and the digital economy.¹² With regard to the development budget, the PNA received approximately \$76 million in donor support in the first half of 2021 for a number of projects. Combined, the PNA has only received about 7% of the expected amount of donor budget support, which was projected in the 2021 Budget to reach \$446 million.¹³

Although US President Joe Biden's administration announced in April that it will be providing \$235 million in aid to Palestine, directly contrasting ex-President Donald Trump's position on the matter, it is not expected that this might entail budget support from the United States, which is prohibited under tightened Congressional oversight of such aid.¹⁴ The Minister of Finance warned that the remarkable decline in donor aid so far is adding to the financial difficulties the government is facing.¹⁵

Palestinian Workers in Israel

On 28 July, the GoI announced that 16,000 additional labour permits will be issued to Palestinian workers in the

Israeli construction and hotel sectors.¹⁶ This measure is expected to expand the Palestinian labour force working with permits in Israel to 120,700, including those working in Israeli settlements in the West Bank.¹⁷ The new Israeli Regional Cooperation Minister called the measure the first of a set of economic initiatives to "shore up the economic fortitude of the Palestinian Authority" and encourage civilian cooperation between Israel and Palestine.¹⁸

The increase in work permits coincides with a willingness by the PNA to improve bilateral economic cooperation with Israel, as well as trilateral cooperation between both sides and the United States.¹⁹ Some of the "confidence building measures" to improve cooperation reportedly include the re-opening of closed East Jerusalem institutions, building permits for construction in areas requiring Israel's approval, as well as expanded employment opportunities for Palestinians in Israel.²⁰

The Impact of the Covid-19 Pandemic

Due to the Covid-19 pandemic, Palestinian employment in Israel declined by 6.2% in 2020,²¹ and total worker compensation decreased by 17.4% (\$512.9m) from \$2.95bn to \$2.43bn.²² These interruptions in employment opportunities created major losses for the Palestinian economy; the decline in the compensation of workers in Israel and the settlements between 2019 and 2020 was estimated at 20.5% of the total losses to the economy in 2020.²³

The Covid-19 pandemic highlighted the limitation of workers' rights as new labour policies were implemented to limit the spread of the virus. It was reported that workers who stayed in Israel to continue working during the Covid-19 lockdowns slept in unhygienic accommodation such as greenhouses or on factory floors, sometimes without access to sanitation facilities or food and drink.²⁴ There were also incidents of workers suspected of having Covid-19 being left at checkpoints without receiving medical care.²⁵

Compromised labour rights

Palestinian workers' rights in Israel's labour market are often threatened by movement restrictions, a lack of formal employment contracts, and low general awareness of labour laws.²⁶ Workers who do not meet the criteria for permits can only work for Israeli employers 'illegally'. These workers are not protected by any legal framework and are thus extremely vulnerable to wide ranging exploitation and abuse, with no access to social benefits or fair legal process.²⁷ According to the Palestinian Central Bureau of Statistics (PCBS) estimates, 41,500 Palestinians worked in Israel and its illegal settlements in the West Bank without a permit, amounting to 28.4% of

7 www.aliqtisadi.ps/article/82499/

8 www.aliqtisadi.ps/article/82436/

9 <https://bit.ly/3snIGbb>

10 <http://english.wafa.ps/Pages/Details/125326>

11 www.aliqtisadi.ps/article/82321/

12 www.aliqtisadi.ps/article/82476/; <https://bit.ly/3zdY00X>

13 *Ibid*

14 www.borgenmagazine.com/u-s-aid-to-palestine/

15 <http://english.wafa.ps/Pages/Details/125326>

16 www.aliqtisadi.ps/article/82503/

17 <https://bit.ly/3iwTsZ8>; there were 104,700 Palestinian labourers working with permits in Israel based on Q2 2021 labour force survey, in addition to 41,500 laborers with no work permit

18 <https://bit.ly/3IQIIMD>

19 <https://bit.ly/3izCv0f>

20 <https://bit.ly/3IPf0SX>

21 www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3924

22 <https://bit.ly/2Wp0Ux6>

23 <https://bit.ly/2Wp0Ux6>; <https://wafa.ps/Pages/Details/11172>

24 <https://bit.ly/3CAnTiD>

25 <https://bit.ly/3jleEuM>

26 <https://bit.ly/2U4ZjeS>

27 www.ituc-csi.org/workers-rights-in-crisis-palestine

those employed in the Israeli job market.²⁸ These workers cannot cross through the checkpoints and have to take clandestine and dangerous routes to access work. They also receive lower wages. Gross daily wages for permit holders are on average \$81.40 to \$94.72 and for non-permit holders \$44.40 to \$59.20.²⁹

Furthermore, employment permit brokering, the process by which Palestinian workers obtain work permits from brokers in Israel for a fee, plagues the employment process and weakens the negotiation power of workers.³⁰ A 2019 study conducted by the PCBS and the International Labour Organisation (ILO) found that 45% of Palestinians employed in Israel and the settlements had to pay a broker for a permit.³¹ The average fee for work permits obtained through a broker is 2,370 NIS per month, yielding an estimated 427 million NIS (\$119 million) in broker profits in 2019.³² In addition to incurring these fees, such workers on average receive lower social protection coverage, including paid annual leave and paid sick leave, than workers who receive permits directly from their employer. Even though some steps have been taken in 2019 and 2020 to reduce the trade in permits, it is not clear that they will be adequate to break the exploitative permit brokerage system.³³

Dependency on the Israeli labour market

Palestinian labour flows to Israel and the remittances from these workers play a significant role in the Palestinian economy and Israeli-Palestinian relations. By 2020, Israel and the settlements employed 17.1% of the West Bank's labour force (around 125,000 workers) and almost no workers from the Gaza Strip, as they have not been allowed to participate in the Israeli labour market since 2006.³⁴ The total annual compensation of Palestinian workers in Israel reached \$2.95 billion in 2019, which is equivalent to 17.2% of GDP in the same year.³⁵

The continued flow of Palestinian workers to Israel reflects the lack of jobs and low pay in Palestine, with persistently high unemployment and weak economic activity a continued outcome of Israel's prolonged military occupation and economic policies. The average daily wage in Israel and the settlements (257 NIS) is more than double that in the West Bank (121 NIS).³⁶ In 2020, total unemployment reached 26% in Palestine; 46.6% in Gaza and 15.7% in the West Bank.³⁷ Lower unemployment rates in the West Bank rarely reflect a healthier labour market, but rather the ebb and flow of absorption of Palestinian labour in the Israeli job market, which makes them and the Palestinian economy as a whole vulnerable to Israeli decrees and policies. Any decision by Israel to halt employment of Palestinians could see tens of thousands of workers arbitrarily losing their main source of income and the ability to feed their families. While such closures or the degree of border surveillance are usually justified

by Israel on grounds of security, the Covid-19 pandemic led to an almost total stop for the bulk of this vital lifeline for thousands of the poorest and most marginalised Palestinian households.

WeDeliver Regional Expansion

On 28 July, the Palestinian tech-driven crowdsourced delivery startup WeDeliver, announced that it has raised \$2.4 million in a pre-seed round as it aims to expand regionally in the upcoming months.³⁸ This was the third-largest pre-seed round for a start-up in the Middle East and North Africa (MENA) region and the largest ever for a Saudi-based start-up.

Founded in 2019, WeDeliver is a tech-driven crowdsourced delivery service for businesses. The company was first established in Palestine where it served over 270 businesses and then launched operations in Saudi Arabia in 2020.³⁹ WeDeliver became one of the fastest growing startups in the country, achieving double-digit growth rates every month since its establishment and securing a multi-million-dollar valuation. The success of WeDeliver offers a successful example for young Palestinian entrepreneurs seeking to establish their own tech startups.

WeDeliver utilises artificial intelligence, machine learning, and a mobile app to connect businesses seeking to deliver parcels with crowdsourced freelance drivers that have extra space and are heading in the targeted direction.⁴⁰ It provides a faster, more cost-efficient solution for businesses in need of reliable and efficient delivery solutions, especially start-ups.⁴¹

In the context of the pandemic-induced delivery boom, the start-up was oversubscribed for its pre-seed round and is aiming to partner with strategic investors who can add value beyond capital and support with expansion plans.⁴² Ahmad Ramahi, Palestinian computer engineer and Co-founder and CEO of WeDeliver, attributed the company's success to its ability to "meet the region's need for quick deliveries which surged during the pandemic".⁴³

July Trading

In July 2021, Al-Quds index reached 539.9 points on the last day of trading, an increase of 1.3% from the previous month and a 14.6% increase compared to the corresponding month in 2020.⁴⁴ During July, investors traded a total of 28.5m shares with a total value of \$54.6m, marking a 114.1% and a 195.3% increase in the volume and value of traded shares compared to the previous month. The industrial sector witnessed the highest increase (6.9% to 102.3 points), followed by the insurance sector (4.7% to 105.1 points).

28 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_8-8-2021-LFS-en.pdf

29 www.ituc-csi.org/workers-rights-in-crisis-palestine

30 http://www.mas.ps/files/server/2020/RoundTable9Arabic_WH.pdf

31 <https://bit.ly/3yAvrPN>

32 Ibid

33 <https://bit.ly/2VJvr8t>

34 www.pcbs.gov.ps/Downloads/book2562.pdf - a few hundred workers from Gaza were granted permits in 2019. Links: <https://bit.ly/3k6fLER> and <https://bit.ly/3ASmQ2e>

35 <https://bit.ly/3zfKMMT>; <https://bit.ly/3gv4FrL>

36 www.pcbs.gov.ps/Downloads/book2562.pdf

37 www.pcbs.gov.ps/post.aspx?lang=en&ItemID=3924

38 www.wamda.com/ar/2021/07/weddeliver-raises-2-4-million-pre-seed-round-arabic

39 https://portlandtrust.org/sites/default/files/peb/bulletin_158_november_a4_1.pdf

40 www.khaleejtimes.com/technology/saudi-startup-weddeliver-raises-dh88m-for-regional-expansion

41 Refer to B158 for further details: <https://bit.ly/2VvmN6N>

42 www.khaleejtimes.com/technology/saudi-startup-weddeliver-raises-dh88m-for-regional-expansion

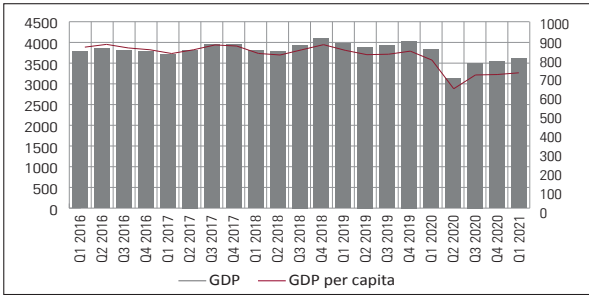
43 Ibid

44 web.pex.ps

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q1 2021

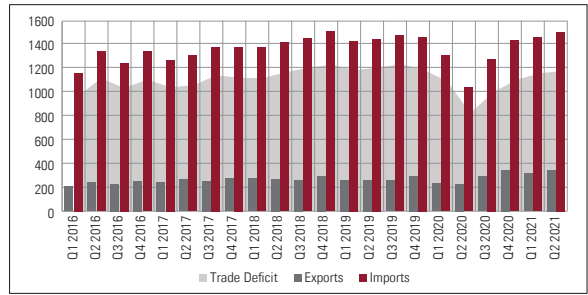


GDP (Q1 2021): \$3,607.5m
Source: PCBS

GDP per capita (Q1 2021): \$737.9

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q2 2021



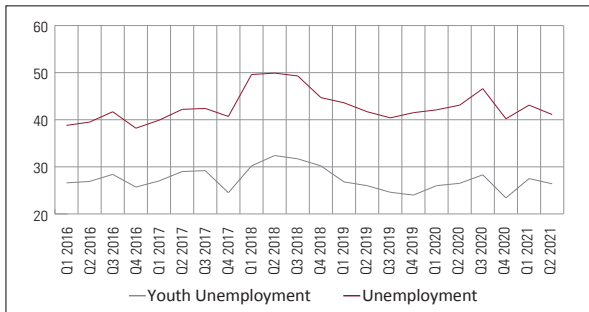
Imports (Q2 2021): \$1,494m

Exports (Q2 2021): \$342.7m

Trade deficit (Q2 2021): \$1,151.3m
Source: PCBS

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q2 2021

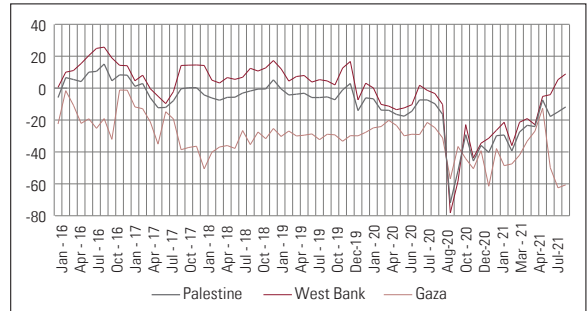


Unemployment rate (Q2 2021): 26.4%
Source: PCBS

Youth Unemployment rate (Q2 2021): 41.1%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2016 – July 2021



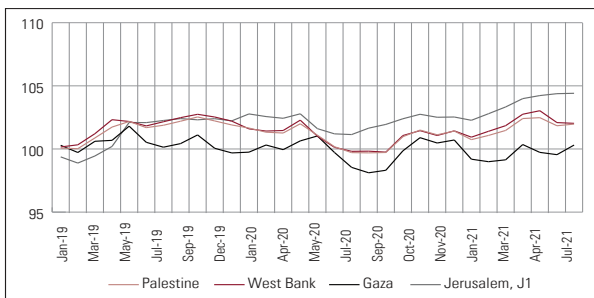
Palestine (July 2021): -11.8

West Bank (July 2021): 8.9

Gaza (July 2021): -60.6
Source: PMA

Inflation

Consumer Price Index (Base year = 2018), January 2019 – July 2021



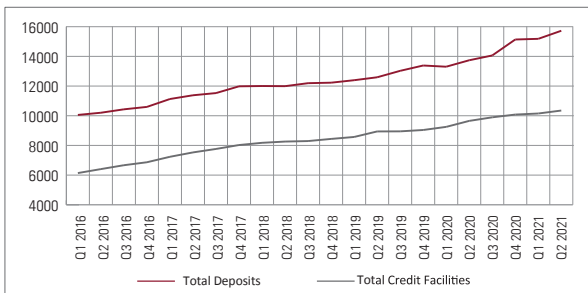
Palestine (July 2021): 101.97

West Bank (July 2021): 102.03

Gaza (July 2021): 100.31
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q2 2021



Total Credit (Q2 2021): \$10,350.7m

Total Deposits (Q2 2021): \$15,726.5m

Source: PMA

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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