

PALESTINIAN ECONOMIC BULLETIN

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Main reports

A number of key events focusing on technology, innovation and entrepreneurship were held across Palestine in November and December

The biannual meeting of the Ad Hoc Liaison Committee convened on 17 November

The international ministerial conference on the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) was convened in Brussels on 16 November 2021

AI-Quds index increased by 2.9% in November from the previous month, reaching 600 points on the last day of trading

Christmas in Bethlehem: Pandemic Aborts Tourism Recovery

As Palestinians lit the Christmas tree outside Bethlehem's Church of the Nativity on 4 December in preparation for the holiday season, the struggling tourism businesses in the West Bank were preparing themselves for yet another downturn, following the announcement of a new coronavirus outbreak earlier that week.¹ On 6 December, Israel closed its (and Palestine's) borders to non-citizens for 14-days as a prevention measure against the Omicron variant, dashing all hopes of much-needed income from tourists and pilgrims during this Christmas season.²

Around 80% of Bethlehem residents depend on tourism.³ The city has been struggling since the start of the coronavirus pandemic two years ago, and many businesses have been forced to close and let go of their staff.⁴

External and internal challenges

Even before the outbreak of the pandemic, the tourism sector was weak and unable to reach its full potential. Israel's control of borders and restrictions on movement and access remain the main obstacles to the sector's growth. The entry and exit of tourists into and out of the West Bank is still perceived as risky and is complicated by restrictions on visitors hoping to stay overnight in the West Bank. In addition, many tourist sites and attractions are in Area C and areas under the control of Israeli settlements, and so the Palestinian National Authority (PNA) cannot manage or does not even have access to their development.

Tourism is additionally constrained by internal gaps such as underdevelopment of key sites and ancillary activities, a lack of diversified high-quality products (accommodation and dining), weak branding, underdeveloped promotion and sales channels, no air connectivity and poor service quality.⁵

Need for a diversified tourism offering

The Palestinian tourism offerings emphasize religious tourism attractions, which are the main target of tour groups mostly operated by Israeli tour agencies. Limited attention is dedicated to the rich Palestinian cultural and natural heritage, which has the potential to attract more diverse tourists. As a result, only around 15% of inbound tourism is in the form of free independent travelers (FIT), with the vast majority in the form of packaged tour groups. Even though the unique Palestinian context is especially suitable for developing this market, FIT offerings are lacking, and tourists have limited interaction opportunities with the host communities.⁶

The PNA has limited capacity to exercise the planning function necessary to transition the sector towards a more diversified and sustainable offering. For example, existing public tourism statistics are inaccurate and outdated, posing implications for proper planning.⁷

In addition to the usual internal and external constraints, the global crisis in the industry is likely to still impede the tourism sector's development in 2022. However, it will remain a strategic target in the near term for investment, employment generation and cultural/creative industries.

Developments in the Tech Entrepreneurship Ecosystem

In November and December, a number of key events focusing on technology, innovation and entrepreneurship were held across Palestine. Below is a brief overview of some of these events.

1 <https://reut.rs/3yhIQnc>

2 <https://bit.ly/33Hu51Z>

3 <https://bit.ly/31xi0h>

4 <https://abcn.ws/3GFonfk>

5 https://portlandtrust.org/sites/default/files/pubs/beyond_aid.pdf

6 Ibid

7 <https://thisweekinpalestine.com/flip-284-december-2021/>

Expotech 2021: The Proliferation of ICT - All Digital

Palestine's 17th "Expotech Technology Week" took place simultaneously in Ramallah and Gaza between 15 and 16 December.⁸ This year's event, which was organised by the Palestinian Information Technology Association (PITA) in partnership with the PALTEL Group, was titled "The Proliferation of ICT: All Digital" and included a gala dinner and an ICT conference.

The opening event entailed networking opportunities and discussions on policies and benefits of integrating technology in various economic sectors to develop the ICT sector, improve its growth and attract more investment. The conference included four main sessions: the impact of digital transformation on the private and public sectors, the digitisation of the Palestinian telecoms sector, the future of fintech in Palestine and private sector inspirational models towards digital transformation.

Palestine International Conference for Entrepreneurship (ICEP)

On 14 December, the third annual Palestine International Conference for Entrepreneurship (ICEP), was held virtually under the theme "Paving the Silicon Road to MENA Region".⁹ The event aimed to showcase Palestine's entrepreneurs, start-ups and ecosystem organizations, in order to position Palestine as a tech hub for the MENA region servicing international outsourcing companies looking for young talented Arabic content and resilience in innovation.¹⁰

The event commenced with keynote speeches by Palestinian Prime Minister, Dr. Mohammad Shtayyeh, and Professor Klaus Schwab, Founder and Executive Chairman at World Economic Forum.¹¹ It also hosted a range of renowned speakers and experts in the field of technology and entrepreneurship.¹² The sessions covered a number of topics, such as regional perspectives on mobilising investments, enabling the innovation ecosystem in Palestine, testimonials from international companies, the future of MENA start-ups, and others.¹³

Global Entrepreneurship Week – Palestine

Palestine celebrated Global Entrepreneurship Week (GEW) between 7-14 November, which was organized by Growth Palestine¹⁴ in cooperation and coordination with 129 partners.¹⁵ GEW is an international initiative introducing entrepreneurship to young people, bringing together entrepreneurs, investors, policymakers, researchers, educators, support organisations and interested individuals.¹⁶

This year's programme focused on education and training, the sharing economy and diversity in the workplace.¹⁷ During the week, more than 85 activities, including bootcamps, workshops, training, hackathons, competitions and other events, were organised across Palestine.¹⁸ One highlight was a three-day hackathon organized by Intersect Innovation Hub,¹⁹ for entrepreneurial ideas in financial technology, at which 120 pre-selected Palestinian entrepreneurs competed in front of a specialized selection committee.²⁰

8 <https://expotech.ps/>

9 <https://icep.ps/>

10 <https://icep.ps/speakers/>

11 <https://bit.ly/3shZG4p>

12 <https://www.aliqtisadi.ps/article/84774/>

13 <https://icep.ps/agenda/>

14 <http://growth-dev.com/about/>

15 <https://www.maannnews.net/news/2053429.html>

16 <https://www.genglobal.org/about-gen>

17 <https://www.wafa.ps/Pages/Details/35753>

18 <http://www.psgew.co/>

19 https://intersecthub.org/about_us/

20 <https://www.maannnews.net/news/2054147.html>

Long road to scalability

The Palestinian start-up scene has the potential to develop into a substantial tech ecosystem owing to a proven track record for outsourcing from multinationals, a highly educated bilingual young population, as well as market readiness to practice new technology solutions. However, the ecosystem is currently in the early-activation phase, with fewer than 300 tech start-ups, low early-stage funding, low sales to foreign markets and no high-value scale-ups or exits.²¹ As such, Palestinian start-ups participating in acceleration programs and mentorship relationships are yet to introduce a visible, long-term impact on growth and job creation.²²

AHLC Meeting

On 17 November, the biannual meeting of the Ad Hoc Liaison Committee (AHLC) convened to promote dialogue between donor countries, the PNA and the Government of Israel (GoI) in order to coordinate the delivery of international aid and donor support to the Palestinians and the Palestinian Authority.²³ The AHLC was established in November 1993 and normally meets twice a year, usually in New York or Brussels.

Assessment of the current economic situation

The World Bank Economic Monitoring report to the AHLC stressed that the decline in foreign aid to Palestine in recent years has contributed significantly to the PNA's current budget deficit, which it estimated would reach \$1.36 billion in 2021.²⁴ Due to these huge financial strains, on 7 December, the PNA announced that it would only pay 75% of salaries of public servants for the month of November.²⁵

The World Bank report also indicated that while Gaza's economy remained almost stagnant in the first half of 2021, year-on-year, real GDP growth in the West Bank reached 6.5%. Overall, the Palestinian economy grew by 5.4% in the first half of 2021, year-on-year, and is expected to reach 6% by year-end, reflecting the low base from the previous year. Real GDP growth in Palestine is expected to slow down in 2022, as sources of growth remain limited given the ongoing restrictions on movement, access and trade.

Meeting recommendations and responses

Several recommendations addressing the needs of the Palestinian economy and the fiscal position of the PNA were highlighted at the meeting, most of which are longstanding demands by the PNA and the donor community.²⁶ These include:

- Resolve fiscal leakage issues: all of these are long-term repeatedly highlighted issues, which if resolved would provide much-needed liquidity to the Palestinian economy.²⁷

Intervention	Impact PNA fiscal position annually
Israel waiving/reducing the 3% handling fee on clearance revenues	ILS 220m (~\$70m)
Israel transferring PNA share of the Allenby crossing fees	\$40m (~ILS 125m)
Israel exempting Palestinian fuel purchases from excise and VAT	ILS 100m (~\$32m)
Resolve clearance revenue deductions	ILS 100m (~\$32m) ²⁸
The establishment of an e-VAT system	\$100m (~ILS 312.6m)
Transfer of customs authority to the PNA (Some steps were taken, including upgrading the PNA's automated customs management software and drafting a new customs law).	\$53m (~ILS 165.7m)

21 <https://bit.ly/32dbbPU>

22 <https://bit.ly/3Fmfctj>

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

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

25 http://arabic.news.cn/2021-12/07/c_1310355464.htm

26 <https://bit.ly/3GHUWA4>

27 <https://bit.ly/3GFhWIW>

28 <https://bit.ly/3m6nJ2C>

- Public finance reforms: recommendations included reforms to the PNA wage bill, limiting net lending, and strengthening cost recovery for health services.
- Facilitate movement and trade: the meeting called for expanding trade between Jordan and Palestine, and between Gaza and the West Bank, Israel and other countries, and to expand the door-to-door facility.²⁹ It also called on the GoI to expand access for Palestinian workers in Israel and supply lines of medical goods, relevant equipment, materials, humanitarian workers especially to the Gaza Strip.
- Telecoms: the Committee called on the GoI to allocate the needed spectrum for 4G deployment to ensure that Palestinian demand for mobile broadband is met in a viable manner.³⁰
- Donor support: the Committee recommended increasing funding to the PNA, UNRWA and other UN interventions in Gaza, as well as through interventions like cash for work programs. It also called for increased donor financing through the Gaza Reconstruction Mechanism for entry of critical materials for projects and private sector development and to continue strengthening the Palestinian public health system and provision of adequate medical supplies and medicines. Donors were also encouraged to cover outstanding funding gaps for ongoing, critical infrastructure projects, including within the energy, water and wastewater sectors. Both Palestinian and Israeli representatives emphasised that financial aid needs to be increased, calling for aid to be restored to at least \$1 billion annually.³¹

In his speech, the Palestinian Prime Minister argued that the PNA's current financial crisis is not simply the result of a transient shock but is instead a structural crisis due to the occupation.³² As such, he was skeptical of economic efforts that were not accompanied by policies facilitating the end of Israel's occupation. He emphasized the situation in Gaza, where rebuilding without political progress has led to further destruction.

UNRWA Funding

On 16 November 2021, the international ministerial conference on the United Nations Relief and Works Agency for Palestine Refugees (UNRWA) was convened in Brussels, under the auspices of Jordan and Sweden.³³ The main objectives of the conference were to engage international donors and key stakeholders with UNRWA's commitment to Palestinian refugees, articulate the future plans of the Agency, and address its critical financial situation.

The Budget for 2021

UNRWA's annual budget amounts to about \$800 million, and covers the provision of healthcare, education, social protection, and other critical services to Palestinian refugees in the West Bank, Gaza, Syria, Jordan and Lebanon.³⁴

In recent months, several pledges have contributed towards this total, including Kuwait (\$21.5m), Qatar (\$18m), Germany, Sweden (\$5.7m) and the EU (\$92m).³⁵ These contributions follow the resumption of funding

in April from the United States Government, which announced \$235 million to aid Palestinian refugees, with \$150 million of this sum intended for UNRWA.³⁶ In total, new or renewed multi-year agreements by UN Member States announced at the conference amounted to more than \$614 million and additional end-of-year contributions amount to \$38 million.³⁷

Even with the strong show of support at the conference, UNRWA is still \$60 million short of its annual budget for 2021. As a result, UNRWA was unable to pay the salaries of 28,000 personnel on time in November.³⁸

Financial challenges

UNRWA has a consistent budgetary shortfall due to the growing demand for its services, which outpaces available funding. This underfunding has led to a deterioration in its services and infrastructure.³⁹ UNRWA has been forced to constantly cut costs since 2015 and, as argued by the UNRWA Employees Union in the West Bank, management of financial deficits tends to come at the expense of the Agency's employees.⁴⁰ UNRWA is also forced to carry large liabilities from one year to the next. For example, in 2020 UNRWA carried over \$75 million in liabilities to 2021.

The Agency's annual funding model is increasingly incompatible with its multi-year planning needs.⁴¹ The model currently relies on voluntary contributions by donor countries to fund the Agency's annual estimates for program expenditures. This necessitates short-term, expensive programming. In addition, part of the growing need stems from the size of the refugee population. The population of eligible registered refugees is on track to reach over 8.5 million eligible refugees by 2030—a figure almost double that of 2014.⁴² At the same time, the profile of the refugee population is changing such that a greater number of middle-aged refugees require healthcare for non-communicable diseases such as diabetes, obesity, and mental illness.⁴³

The path forward

Thus far, UNRWA has approached the divergence between the expanding demand for quality services and the shrinking resource base with a few different strategies, one of which being the use of austerity measures. Other strategies include attempts to increase funding by highlighting the deficits and their calamitous consequences through international campaigns,⁴⁴ and diversifying its donor base, especially amongst Arab states.

These strategies are not sustainable and UNRWA will have to develop a new long-term model to meet the demands of the growing refugee population. Currently, UNRWA is developing a model of multi-year agreements, in which member states can make a longer-term commitment to fund the Agency's programs. A recent Panel of Experts convened by the Palestine Economic Policy Research Institute (MAS) and Heinrich Boll Stiftung (HBS) examined several options for UNRWA financing, such as increased funding from the private sector, increasing the income from UN central funds and fundraising through Islamic philanthropy. They also discussed the feasibility of establishing a link between confiscated Palestinian refugee property and the funding of UNRWA activities

²⁹ Door-to-door refers to the movement of a cargo, intact and in a single vehicle, from the cargo's point of origin to its destination.

³⁰ <https://bit.ly/3pi3ukt>

³¹ <https://bit.ly/3mhlmsC>

³² <https://bit.ly/3dQ5VUx>

³³ https://www.unrwa.org/int_conf2021

³⁴ <https://bit.ly/31P2gnK>

³⁵ <https://www.unrwa.org/newsroom/press-releases> and <https://bit.ly/3s9c6LY>

³⁶ <https://bit.ly/3GYxyY2>

³⁷ <https://bit.ly/3yhlVau>

³⁸ <https://bit.ly/3ZHbhf>

³⁹ Ibid.

⁴⁰ <https://bit.ly/3EVCT24>

⁴¹ Ibid.

⁴² <https://www.unrwa.org/what-we-do>

⁴³ <https://www.mas.ps/files/server/20202709152200-1.pdf>

⁴⁴ Ibid.

directly benefitting refugees, and the potential of the green economy to support refugee communities. The Panel concluded that maintaining the strong engagement of UN Member States is critical in arriving at an agreed solution, and new non-state funding directed to UNRWA should be considered as being additional to the official state funding of UNRWA existing core services.⁴⁵

November Trading

In November, the Al-Quds index increased by 2.9% from the previous month, reaching 600 points on the last day of trading.⁴⁶ A total of 29.1m shares worth \$75.8m were traded during the month, marking a 200% increase in the number of traded shares and a 229% increase in the trading value compared to October 2021.

On 2 December, the Palestine Exchange (PEX) published the results for its Q3 2021 disclosure period, with 40 out of the 47 companies reporting profits. Total reported profits reached \$291.7m in the first three quarters of 2021, an 82% increase compared to the same period in 2020. Two companies failed to disclose within the permitted period.

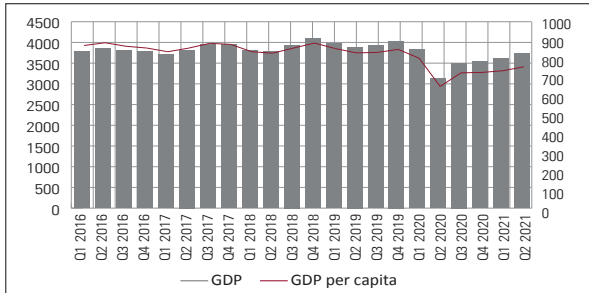
⁴⁵ [https://www.mas.ps/files/ReFinancingUNRWA_StatementFINAL\(1\).pdf](https://www.mas.ps/files/ReFinancingUNRWA_StatementFINAL(1).pdf)

⁴⁶ web.pex.ps

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q2 2021

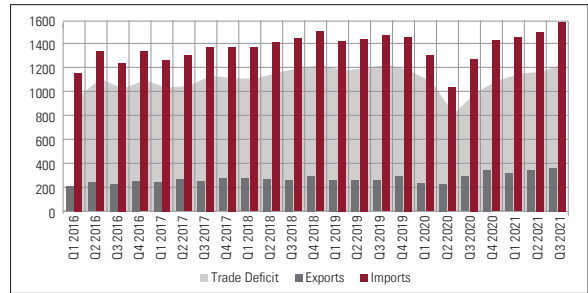


GDP (Q2 2021): \$3,734.7m
Source: PCBS

GDP per capita (Q2 2021): \$758.9

Trade

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



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

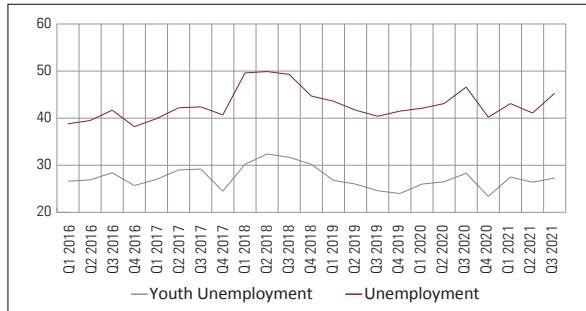
Trade deficit (Q2 2021): \$1,151.3m

Exports (Q2 2021): \$342.7m

Source: PCBS

Unemployment

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

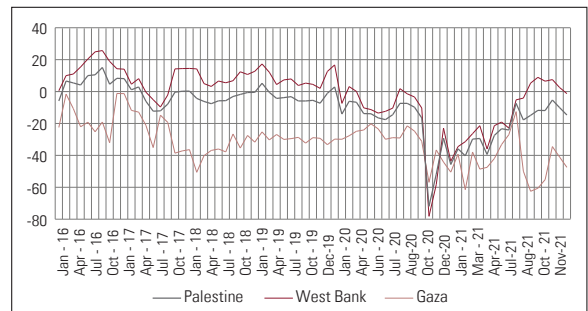


Unemployment rate (Q2 2021): 26.4%
Source: PCBS

Youth Unemployment rate (Q2 2021): 41.1%

Business Cycle Index

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



Palestine (October 2021): -10.1

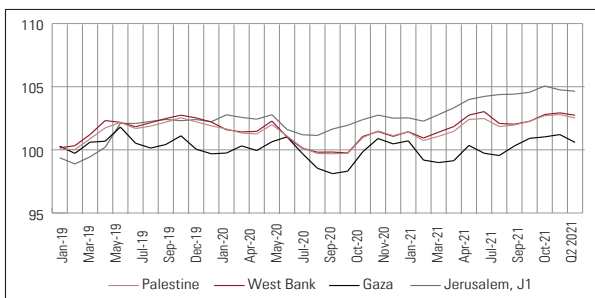
Gaza (October 2021): -41.1

Source: PMA

West Bank (October 2021): 2.5

Inflation

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

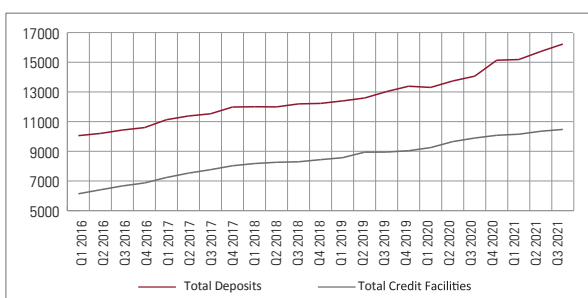


Palestine (October 2021): 102.79
Gaza (October 2021): 101.21

West Bank (October 2021): 102.93
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q3 2021



Total Credit (Q3 2021): \$10,473.70m
Source: PMA

Total Deposits (Q3 2021): \$16,224.57m

The Portland Trust



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