

PALESTINIAN ECONOMIC BULLETIN

Bulletin 122
November 2016

Main reports

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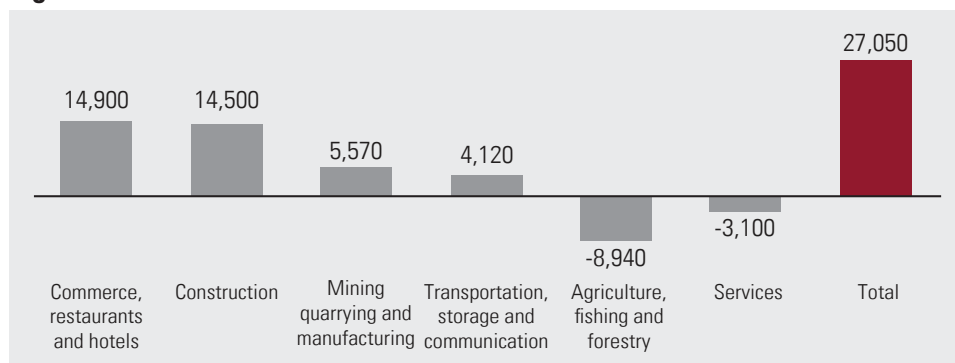
Labour Market Q3 2016

The unemployment rate in Palestine reached 28.4% in Q3 2016, a 1.5% increase from Q2 2016, according to the latest labor force data released by the Palestinian Central Bureau of Statistics (PCBS).¹ Unemployment remained significantly higher in Gaza, where the unemployment rate reached 43.2% in Q3 2016, compared to 19.6% in the West Bank.

Youth unemployment continues to be a major concern in Palestine, with 45.6% of those aged 20-24 years unemployed in Q3 2016. Palestinian women continued to face a considerably higher unemployment rate (47.3%) when compared to men (23.5%).

The total number of employed individuals increased by 27,000 between Q3 2015 and Q3 2016. The new jobs were mainly attributable to the commerce, restaurants and hotels sector and the construction sector which together created around 29,400 jobs. Job losses were mainly attributable to the agriculture, fishing and forestry sector, which lost around 8,940 jobs.

Figure 1: New Jobs Created between Q3 2015 and Q3 2016



Source: PCBS

The average daily wage in Palestine was 108 NIS in Q3 2016, a 1.9% decrease from Q2 2016, but a 2.9% increase from Q3 2015. There were large differences in the average wage levels across sectors and locations, with wages ranging from 22 NIS per day in the agriculture, fishing and forestry sector in Gaza to 251 NIS in the construction sector in Israel and Israeli settlements.

Table 1: Average Daily Wages by Location and Sector, Q3 2016 (NIS)

Sector	West Bank	Gaza Strip	Israel/Settlements
Agriculture, Fishing & Forestry	61.5	22	146.3
Mining, Quarrying & manufacturing	80.2	35.5	176.7
Construction	99.9	49.3	250.8
Commerce, Restaurants & Hotels	73.9	30.1	177.1
Transportation, Storage & Communication	119.1	38.1	-
Services	112.6	83.3	-

Source: PCBS

¹ <http://bit.ly/2fqLQa1>

High-Value Crops in the Jordan Valley

The village of Jiftlik in the northern Jordan Valley celebrated the launch of Agripal Farm for Fresh Herbs on 30 October. The farm is a joint venture between the Sharakat Fund, the Micro, Small and Medium Enterprise (MSME) investment arm of the Palestine Investment Fund (PIF), and Palestine Khaizaran Company, an enterprise specializing in the production and marketing of herbs and other crops.² The launch ceremony was attended by the Palestinian Prime Minister, Dr. Rami Hamdallah and took place only a few weeks after the signing of an investment agreement between Sharakat and Palestine Khaizaran Company. According to the agreement, Sharakat's investment will be used to upgrade 350 dunums of greenhouses, which will enable Palestine Khaizaran Company to produce new varieties of fresh herbs to be exported to Arab and international markets.

Palestine Khaizaran Company has a track record in the production and marketing of herbs and other high-value crops. According to its founder, Mr. Tariq Abu Khaizaran, the company is currently producing 500 tonnes of crops per year, with a total value of \$4m and entering new markets in the US (80% of exports) and Dubai (20%).

The commercial cultivation of fresh herbs in Palestine started in 2007. Currently there are around 1,000 dunums cultivated with fresh herbs, with a production capacity of 2,500 tonnes per year and total value of \$20m.³ The Palestinian agriculture sector has the potential to more than double its contribution to GDP and to employ an additional 36,000 people by 2030. This could be achieved by increasing the proportion of land dedicated to high-value fruit, vegetables and herbs.⁴

Renewable Energy

The Palestinian National Beverage Company (NBC) Coca-Cola/Cappy has constructed a solar (photovoltaic) power station to generate electricity at its headquarters and warehouse in the Beitunia industrial zone.⁵ The station started operating in mid-October and will go through a six-month pilot phase, after which NBC aims to replicate the project in all its factories and warehouses in the West Bank and Gaza.

Mr. Zahi Khoury, Chairman of NBC, stated that "The plant is part of our commitment to protect the environment and adopt clean sources of electricity. This work builds on the environmental projects that NBC has implemented since its establishment in 1998."⁶ Mr. Imad Hindi, General Director of NBC, explained that the recently constructed

station is capable of producing 320 kW of electricity, sufficient to cover 90% of the Beitunia plant's power consumption.

The use of renewable energy has significant potential to support Palestine's transition to cleaner and more sustainable forms of energy generation and reduce reliance on electricity imports from Israel.⁷ Currently, the use of renewable energy in Palestine is conducted on a small scale and is mostly limited to solar power (primarily solar water heaters and some solar PV installations).

Solar power is particularly attractive due to its scalability, relative affordability and the variety of potential applications. Solar irradiation is high in Palestine, with approximately 3,000 sunshine hours per year and average annual global horizontal irradiation (GHI) values of 1,900 kWh/m². This level is more than twice as high as that in Germany, a country with one of the world's largest solar PV capacities. This clearly demonstrates that solar technologies are well suited to this region.

Establishing a Technology Hub

On 31 October 2016, the Governments of India and Palestine signed a Memorandum of Understanding (MoU) for the establishment of the Palestine-India Techno Park at Birzeit University near Ramallah. The initiative was first announced during the visit of the Indian President Mr. Pranab Mukherjee to Palestine in October 2015.⁸ The Government of India has agreed to contribute a grant of \$12m for the establishment of the Techno Park, to be disbursed in four payments of \$3m each over the course of the next two years.⁹ The park is intended to serve as an IT cluster that hosts local and international IT companies, in addition to providing state-of-the-art IT services.

Clustering (whereby businesses in the same industry gather together in close proximity) is a relatively new concept in Palestine.¹⁰ The Ministry of National Economy, in partnership with the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA) and the French Development Agency (AFD), is currently supporting a number of non-IT related clusters across the West Bank and Gaza, through the Private Sector Development Cluster Project (PSDCP).¹¹ These include the date and palm cluster in Gaza, furniture in Salfit, leather and shoes in Hebron, stone and marble in North Hebron and tourism and creative arts in Jerusalem.

Clustering in the IT sector is particularly important in Palestine. The sector is dominated by Small and Medium

2 maannews.net/Content.aspx?id=873762

3 maannews.net/Content.aspx?id=873762

4 <http://bit.ly/2gAOKuF>

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6 <http://bit.ly/2gjUF4X>

7 <http://bit.ly/2gANvM9>

8 <http://bit.ly/2gjY6Zk>

9 <http://bit.ly/2gjY6Zk>

10 www.economist.com/node/14292202

11 pal-cluster.ps

Enterprises (SMEs) and clustering will enable such companies to enjoy some of the economies of scale usually reserved for the larger ones. The establishment of the Palestine-India Techno Park could play an important role in the development of the Palestinian IT sector. Another IT cluster is currently in development in the City of Rawabi, under the umbrella of the Rawabi ICT Hub.¹²

Foreign Investment

According to recently released data from the PCBS and the Palestine Monetary Authority (PMA), the total stock of foreign investments by Palestinian resident enterprises (external assets) amounted to \$5.92bn in 2015, a 0.64% decrease from 2014.¹³ The majority of external assets (79.8%) consisted of debt securities, currency and deposits. Meanwhile, total investments in Palestine by non-residents (foreign liabilities) was \$2.99bn, an 8.8% increase from the previous year. Consequently, external assets exceeded foreign liabilities by \$2.93bn.

Most foreign direct investments (FDI) in Palestinian enterprises came from Jordan (78.9%), followed by Qatar (8.2%), Egypt (3.2%) and the US (2.5%). With regard to economic activity distribution, financial intermediation attracted 59.0% of FDI, the industry and construction sectors each attracted 2.9%, and services, transport, storage, communications and internal trade attracted 35.2% of FDI.

The Jenin Free Industrial Zone

A Turkish delegation, headed by the Deputy Minister of Science, Industry and Technology Mr. Ramazan Yildirim, recently visited the Palestinian Ministry of National Economy (MoNE) to discuss the development of the Jenin Free Industrial Zone, a joint Turkish-Palestinian project.¹⁴ The delegation presented an incentive package to be implemented in the zone, which is intended to target hi-tech agro-food companies and light industries and is expected to provide employment for 6,000 people.¹⁵ The Turkish delegation also expressed an interest in constructing a Technical and Vocational Education and Training (TVET) centre to serve the industrial zone and contribute to the development of the Palestinian industrial sector through providing technical training.

This visit is a further step towards completion of the industrial zone, which began in 2011, when the Turkish Government agreed to provide \$10m to purchase the land for the zone. Whilst progress has been slow, the construction of infrastructure for the zone is scheduled to commence in 2017. When completed, the industrial zone

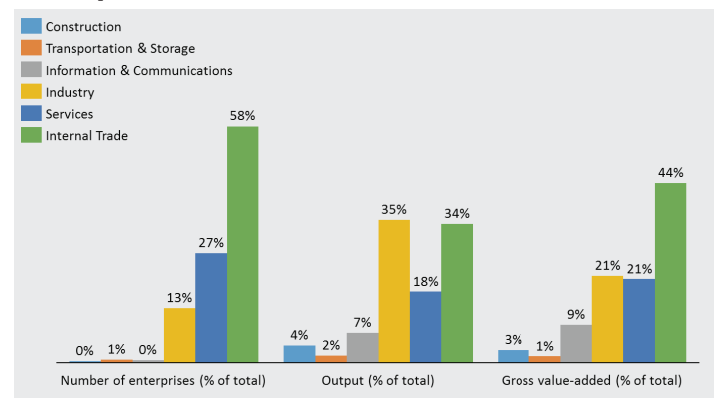
will be constructed on 877 dunums of land, making it the largest one in Palestine.¹⁶

Economic Survey 2015

According to the 2015 Economic Survey recently released by the PCBS, the number of active private sector and non-profit (non-agricultural) enterprises in Palestine reached 136,000 in 2015, which marks an increase of 3.9% from 2014.¹⁷ Of these enterprises, 69.3% were active in the West Bank and only 30.7% in Gaza. The total output of these enterprises amounted to \$10.9bn, a 0.7% drop from the previous year, and the total value added amounted to \$6.85bn, an increase of 3.4% from 2014.

The internal trade (the exchange of domestic goods within Palestine) and services sectors accounted for 85.2% of the total number of enterprises and employed 71.1% of employees, but contributed only 51.7% of total output and 64.8% of value added. The construction and the information and communications sectors accounted for only 0.9% of the total number of enterprises, but contributed 11.5% of total output and 12.5% of total value added.

Figure 2: Selected Indicators for Enterprises by Economic Activity, 2015



Source: PCBS

In 2015, active enterprises employed a total of 416,000 employees, a 0.6% rise from 2014, 60.4% of whom were wage employees, while the remaining 39.6% were unpaid family members. Total wage compensation of employees amounted to \$1.66bn, a major drop of 17.5% from the previous year. As a result, the average compensation per wage employee declined by 14.2% to \$6,600.

The information and communications sector offered the highest compensation of \$28,700 per wage employee. The sector also provided the highest output per employed person of \$121,854, compared to an average of \$26,123, as well as the highest value added of \$97,878, compared to an average of \$16,464.

¹² rawabi.ps/economic.php?page=work

¹³ www.pcbs.gov.ps/Downloads/book2231.pdf

¹⁴ www.maannews.net/Content.aspx?id=871667

¹⁵ <http://bit.ly/2fETBqR>

¹⁶ <http://bit.ly/2gKuPKO>

¹⁷ www.pcbs.gov.ps/Downloads/book2225.pdf

Table 2: Selected Indicators for Enterprises by Economic Activity, 2015

Economic activity	Compensation per wage employee (\$)	Output per employee (\$)	Value-added per employee (\$)
Industry	6,586.5	42,190.4	16,120.7
Construction	7,507.4	57,038.3	27,084.5
Internal Trade	5,656.8	21,084.9	17,161.9
Transportation & Storage	5,651.1	24,797.0	14,352.6
Information & Communications	28,710.1	121,854.1	97,879.6
Services	5,986.2	14,942.4	11,048.7
Total	6,597.5	26,122.5	16,464.0

Source: PCBS

Doing Business Ranking 2017

The World Bank Group recently published its annual Doing Business Report which measures the regulations that have an impact on business activity.¹⁸ Countries are ranked on their distance to frontier (DTF) score which measures performance against regulatory best practice. The 2017 report ranks 190 economies based on their performance in ten areas of business regulation. The DTF score is measured on a scale from 0 (worst practice) to 100 (best practice).

The 2017 report ranked Palestine 140 out of the 190 economies included, which represents a decline from 138 in 2016.¹⁹ In absolute terms, however, Palestine performed better than in the 2016 ranking, as its DTF score increased from 51.8 in 2016 to 53.2 in 2017.

Table 3: Palestine's Doing Business Rankings and DTF Scores by Indicator, 2016 and 2017

Indicator	Ranking			DTF Score		
	2016	2017	Change	2016	2017	Change
Starting a Business	173	169	+4	64.79	69.36	+4.57
Dealing with Construction Permits	174	157	+17	49.09	55.98	+6.89
Getting Electricity	72	70	+2	72.78	75.25	+2.47
Registering Property	93	93	0	62.66	62.71	+0.05
Getting Credit	109	118	-9	40.00	40.00	0
Protecting Minority Investors	157	158	-1	38.33	38.33	0
Paying Taxes	100	101	-1	69.71	69.71	0
Trading across Borders	97	99	-2	68.21	68.21	0
Enforcing Contracts	122	122	0	52.51	52.51	0
Resolving Insolvency	169	169	0	0.00	0.00	0
Overall Doing Business	138	140	-2	51.81	53.21	+1.40

Source: DB 2017

18 <http://bit.ly/2eCMkup>

19 <http://bit.ly/2fEQxdZ>

According to the report, Palestinian companies face greater difficulties than their counterparts in neighboring countries, ranking 140 compared to 116 for the MENA region as a whole.²⁰ The best performing MENA economy was the UAE, which ranked 26. Countries recently affected by conflict performed poorly, with Syria ranked at 173 and Yemen at 179. Israel, which is not considered a MENA country according to the Doing Business Report, ranked 52.²¹

Although Palestine's ranking dropped in five areas between 2016 and 2017, there was no absolute decline in any category as measured by the DTF score. The most significant improvements in Palestine's DTF scores since 2016 took place in the Starting a Business, Dealing with Construction Permits and Getting Electricity categories.

October Trading

The Al-Quds Index remained largely unchanged between September and October, reaching 518.9 points on the last day of trading.²² A total of 26.2m shares worth \$67.9m were traded during the month. This marked an increase of 128% in the volume and 235% in the value of traded shares from September 2016. This significant acceleration in trading activities was mainly the result of the low levels in September, when PEX was closed for a week during the Eid Al-Adha holiday. Market capitalization increased over the month by 0.22%, reaching \$3.32bn.

In related news, PEX was successfully accepted as the 65th full member of the World Federation of Exchanges (WFE). On the occasion, Mr. Ahmad Aweida, CEO of PEX, said, "This is a new milestone for PEX and a step towards positioning Palestine on the global investment map. The membership within the WFE is an important indicator for many institutional investors and investment funds, reflecting compliance with international standards".

Meanwhile, 44 out of the 48 companies listed on PEX disclosed their Q3 2016 profits, with 39 companies achieving positive after tax profits.²³ Total after tax profits amounted to \$246m, while losses totaled \$3.86m. Net profits after tax reached \$242m, an increase of 15% compared to the corresponding period of 2015.

20 <http://bit.ly/2gjWBdM>

21 www.doingbusiness.org/data/exploreeconomies/israel/

22 www.pex.ps/PSEWebSite/publications/PEXIssue79_October2016.pdf

23 www.pex.ps/PSEWebSite/NEWS/0711201602.docx

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