

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestinian Prime Minister, Dr. Rami Al-Hamdallah, announced the establishment of the Social Security Institution on 4 June 2018

The Palestinian Ministry of Agriculture signed several cooperation agreements on the periphery of the FAO Conference on the Near East and North Africa, which took place between 7-11 May

The Palestine Economic Policy Research Institute held a roundtable discussion on the competitiveness of telecom services in Palestine on 9 May

The Palestine Standards Institution signed a cooperation agreement with the Institute for Community Partnership (ICP) on 8 May to develop a Palestinian system for good agricultural practices (PALGAP)

World Bank supports the Palestinian Digital Economy

On 1 June, the World Bank Group (WBG) announced the launch of two new projects to support the Palestinian private sector and create opportunities in the digital economy.¹ Marina Wes, WBG Country Director for West Bank and Gaza, stated: "Developing the digital business culture will allow Palestinians to overcome persistent challenges such as restrictions on movement, and alleviate the high unemployment rate. Also, encouraging the private sector to participate in the supply of public goods and services will allow crowding in private solutions for development and optimise the use of scarce public resources."²

A \$13m grant will fund the Innovative Private Sector Development Project (IPSDP) to promote the digital economy and support start-ups with access to training and credit. The IPSDP will support improvements to the regulatory environment, including platform technologies that allow for the automation of business registration. The IPSDP will also provide technical assistance for 'Angel Investors', high net-worth individuals who provide capital in return for equity to business start-ups, to help bridge the equity finance gap for Palestinian start-ups and early-stage enterprises. In Gaza, the project will develop a model for an IT outsourcing hub through GGateway, an existing nonprofit that will train students and software engineers, and provide them with up to two years of professional experience through its outsourcing and consultancy platforms.³

Another \$3m grant will fund the Public Financial Management Improvement Project (PFMIP) to encourage private sector participation in the delivery of public services. The PFMIP, co-financed by the European Union (EU) and the Kingdom of Denmark (KoD), will support better services and more opportunities for the private sector through improved financial management and accountability of the Palestinian National Authority (PNA). Improved procurement policies will give new and smaller firms the chance to bid for government business, while better financial management will mean more timely payments that are critical for the private sector.

Establishment of the Social Security Institution

On 4 June 2018, the Palestinian Prime Minister, Dr. Rami Al-Hamdallah, announced the establishment of the Social Security Institution (SSI). Based on the Social Security Law No. 19 of 2016, which is an amendment of Social Security Law No. 6 approved earlier in 2016, the SSI has the legal mandate to administer the first comprehensive social security system in Palestine, covering all private sector workers and their family members.⁴ Prior to the establishment of the SSI, only public-sector workers benefited from social protection benefits for retirement, disability, death, employment injury and maternity. Private sector and civil society sector workers constitute 65.6% of the Palestinian labour force, compared to 21.4% in the public sector, and 13% working in Israel and its settlements.⁵

¹ <https://bit.ly/2kYPFoQ>

² <https://bit.ly/2kYPFoQ>

³ <http://ggateway.tech/>

⁴ www.ilo.org/beirut/media-centre/news/WCMS_561898/lang--en/index.htm

⁵ <http://pcbs.gov.ps/Downloads/book2367.pdf>

Following the launch, the SSI is now commencing a trial registration of establishments and workers in preparation for the official and obligatory registration of all establishments and workers, which will take effect on 20 November 2018.

The establishment of the SSI is expected to boost compliance with the Minimum Wage Law No. 11 of 2012, which has seen limited compliance and application since it was passed. Since registration with SSI will be mandatory, and institutions cannot register workers below the minimum wage, SSI will provide a monitoring mechanism for the implementation of the Minimum Wage Law. According to the Palestinian Central Bureau of Statistics (PCBS), the private sector employed 126,200 wage workers receiving less than minimum wage in 2017 (74% in Gaza and 16.2% in the West Bank).⁶

Furthermore, with the Paris Protocol signed in 1994 between the PNA and the Government of Israel (Gol) provided for the pension contributions of Palestinian workers in Israel and Israeli settlements to be transferred by the Gol to a Palestinian institution equivalent to the Israeli National Insurance Institute. However, since such an institution was not in existence, the amounts deducted from workers have been withheld by the Gol for more than two decades. With the establishment of the SSI, it is anticipated that the funds accumulated by the Gol will be transferred to it.⁷

The Social Security Law No. 6 was first approved in February 2016, but faced opposition from many private sector and civil society employees who were concerned that the law failed to provide adequate protection for workers.⁸ Following the concerns, the Palestinian cabinet withdrew the law for revision in open consultation with various groups and organisations from the civic and private sectors. In September 2016, Palestinian President Mahmoud Abbas signed the revised version of the law.

Competitiveness of the Telecom Sector in Palestine

On 9 May, the Palestine Economic Policy Research Institute (MAS) held a roundtable discussion on the competitiveness of telecommunication services in Palestine. Building on the momentum of the recent launch of 3G services in Palestine, the discussion aimed to evaluate the performance of the Palestinian telecommunications sector and its various services and products, address the main impediments hindering its growth, and explore policy recommendations that aim to improve the sector's investment environment.⁹

Speakers included Dr. Mashhour Abudaka, former Minister of Telecommunications and Information Technology, Mr. Ammar Aker, CEO of the Palestinian Telecommunications

Group (Paltel), Ms. Maysa Al Nair, acting Deputy Director General of Telecommunications Department at MTIT, and Mr. Omar Al Sahili, the General Manager of Business Alliance for Services and Investment.

Dr. Abudaka, opened the discussion by providing a summary of a paper he had prepared on the subject, focusing on the following issues:

- **Internal obstacles hindering the development of the sector:** the paper compares Palestinian telecommunication services to those in neighboring countries, based on a study conducted by the Bahrain Telecommunications Regulatory Authority (TRA) and on a comparison, made by the author, between Israeli and Palestinian telecommunication services in relation to a number of criteria such as the quality and prices of services offered. Dr. Abudaka maintains that the cost of internet home services is burdening consumers, especially the cost of fixed subscription fees. The paper also covers other internal impediments, such as the outdated legal environment, and the role of the sector regulator, the Ministry of Telecommunication and Information Technology (MTIT), in the pricing of the licensees' access to the telecommunication networks, and connecting the service to end-users.
- **Structural and external constraints:** the paper analyses the negative impact of the interim agreement signed between the Palestinian and Israeli Governments in 1995 to regulate the Palestinian telecommunication and postal sectors. The paper also addresses blockages such as the restrictions on importing telecom equipment, restrictions of movement inhibiting infrastructure maintenance, and the Gol requirement that Palestinian operators go through an Israeli-registered company to access international links.¹⁰
- **Competition from Israeli operators:** despite finally being allowed to launch 3G services in January 2018, Palestinian operators still suffer from competitive disadvantage vis-à-vis their Israeli counterparts. The Israeli operators have access to both 3G and 4G capabilities and accordingly they are able to attract higher value customers. In addition, as a result of restrictions imposed by the Gol, Wataniya Mobile, one of the two Palestinian operators, has been unable to launch 3G services in Gaza and thereby provide competition.

Concluding the discussion, the participants agreed that many of the sector's growth impediments are structural and external. This accords with the conclusions of a 2016 World Bank report estimating the total revenue loss for Palestinian mobile operators during 2013-2015 between \$436-1,150m, with the loss directly related to the delaying of 3G estimated between \$339-742m.¹¹ During the same period, the sector's revenue loss resulted in a fiscal loss

6 <http://pcbs.gov.ps/Downloads/book2367.pdf>

7 www.middleeasteye.net/columns/how-palestinians-pushed-social-security-and-won-19250591

8 <https://bit.ly/2HCisZc>

9 www.mas.ps/files/server/20181705110139-1.pdf

10 www.mas.ps/files/server/20181705110139-1.pdf

11 <https://bit.ly/2MbMOp0>

for the PNA, estimated between \$70-184m, due to the reduction in Value-Added Tax (VAT) revenues.

Participants also stressed the importance of addressing internal impediments. Commenting on the paper, Mr. Ammar Al Aker, stressed the need to ensure fair competition between service providers and to establish an independent regulatory body that undertakes the functions of supervising and monitoring the sector.

Palestinian Business and Regulatory Standards

On 8 May, the Palestine Standards Institution (PSI) signed a cooperation agreement with the Institute for Community Partnership (ICP) at Bethlehem University to develop a Palestinian system for good agricultural practices (PALGAP).¹² PSI is the national standards body in Palestine chaired by the Minister of National Economy and authorised to develop Palestinian business and regulatory standards. The PALGAP system aims to develop the Palestinian agricultural sector and support farmers in marketing their products by standardising health and safety regulations in line with international norms. The agreement is part of the Australia Middle East NGO Cooperation Agreement Phase 3 (AMENCA3) project funded by the Australian Government and implemented through Australian People for Health, Education and Development Abroad (APHEDA) Australia in partnership with ICP, MA'AN Development Centre and the Palestinian Businesswomen's Association (Asala). AMENCA aims to promote sustainable economic development and poverty reduction in Palestine.¹³

Mr. Haidar Hajjah, General Manager of PSI, said: "This agreement aims to help farmers to produce vegetables and fruits within special safety procedures and to meet the requirements of the Palestinian standards and specifications, which will contribute to enhancing the competitiveness of farmers and help them market their products locally and abroad." Mr. Hajjah added that a National Committee has been formed to provide the necessary scientific and technical resources and support.

In related news, on 25 May, the Board of Directors of the PSI approved the introduction of a range of Palestinian economic and regulatory standards.¹⁴ Two new standards were adopted for cosmetics products extracted from Dead Sea minerals and eight specifications were modified for food products, agricultural crops and roads. According to Mr. Hajjah, the introduction of international standards is a key requirement for an increase in Palestinian trade and exports. The newly introduced standards will comply with international specifications such as those provided by the International Organization for Standardization (ISO), the International Electrotechnical Commission (IEC) and

The Codex Alimentarius, a collection of internationally recognised standards, codes of practice, guidelines, and other recommendations relating to foods, food production, and food safety under the authority of the Food and Agriculture Organization of the United Nations (FAO) and the World Health Organization (WHO).

Palestine signs Agricultural Development Cooperation Agreements

The Palestinian Ministry of Agriculture (MoA) signed several cooperation agreements concerning agricultural development on the periphery of the FAO Conference on the Near East and North Africa, which took place between 7-11 May.¹⁵

On 10 May, Dr. Sufian Sultan, the Palestinian Minister of Agriculture, and Ms. Cornelia Richter, the Vice-President of the International Fund for Agricultural Development (IFAD), signed an agreement aiming to improve productivity and profitability of agriculture in the West Bank.¹⁶ IFAD, a specialised UN agency that invests in rural development, agreed to contribute \$41.4m to a 6-year project, to support small agricultural projects and develop agricultural infrastructure, including the rehabilitation of water resources and land development. The project also aims to increase farmers' adaptation to climate change, increase their productivity and income, and provide them with better marketing abilities and opportunities.

On 8 May, Dr. Sultan and the Director of Mediterranean Agronomic Institute of Bari, Dr. Maurizio Raeli, signed a memorandum of understanding aimed at upgrading collaboration between the two organisations in order to identify joint research and international cooperation projects and share knowledge and innovation in priority areas.¹⁷

May Trading

The Al-Quds index increased by 0.8% during May, reaching 542.2 points on the last day of trading.¹⁸ A total of 10.6m shares worth \$20.6m were traded, marking a 26.7% decrease in the number and a 33.2% decrease in the value of traded shares. The insurance sector witnessed the highest increase (9.6%). This came after Palestine Insurance Company (PICO) and Global United Insurance Company (GUI) announced stock dividends of 20%. The banking and financial services sector was the only one to suffer a decrease (0.7%).

12 <https://bit.ly/2MbM0p0>

13 <https://bit.ly/2sVS9b8>

14 <https://bit.ly/2sSeGFX>

15 <https://bit.ly/2sSkz60>

16 www.ifad.org/en/web/latest/news-detail/asset/40293454

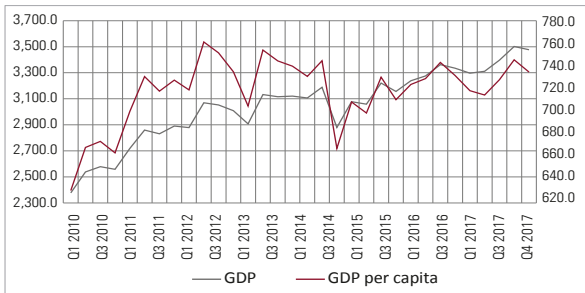
17 www.iamb.it/uploads/attachments/473/ENG-C_S_ministro_palestina.pdf

18 <https://bit.ly/2kYQpuj>

Palestine Economic Dashboard

Growth

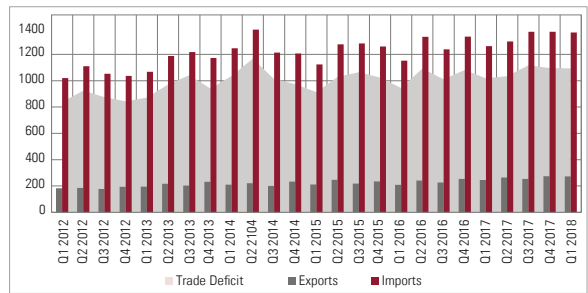
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q4 2017



GDP (Q4 2017): \$3,476.5m GDP per capita (Q4 2017): \$734.9
Source: PCBS

Trade

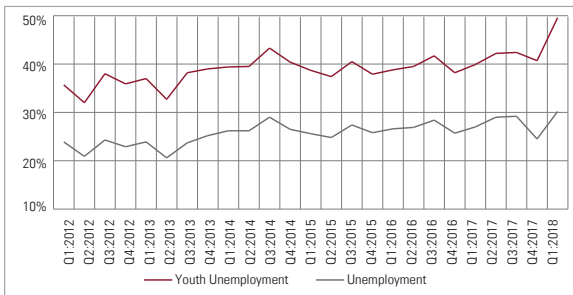
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012–Q1 2018



Imports (Q1 2018): \$1,366.4m Exports (Q1 2018): \$273.1m
Trade deficit (Q1 2018): \$1,093.3m Source: PCBS

Unemployment

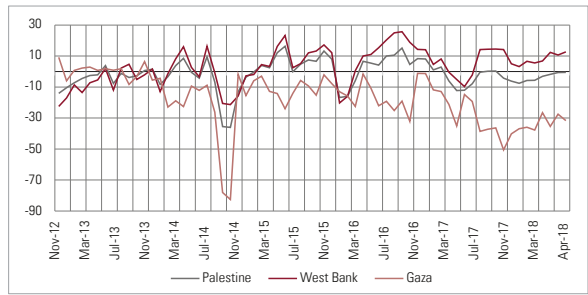
Unemployment and Youth Unemployment in Palestine (%), Q1 2012–Q1 2018



Unemployment rate (Q1 2018): 30.2% Youth Unemployment rate (Q1 2018): 49.6%
Source: PCBS

Business Cycle Index

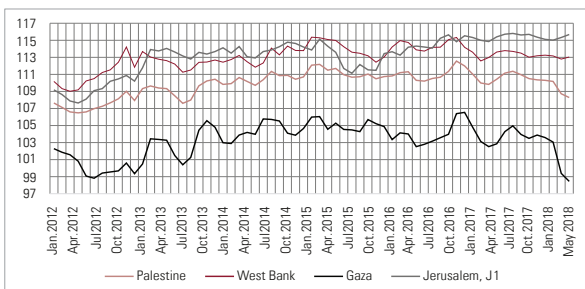
Palestine Monetary Authority Business Cycle Index, Nov 2012–April 2018



Palestine (March 2018): -0.5 West Bank (April 2018): 12.7
Gaza (March 2018): -31.7 Source: PMA

Inflation

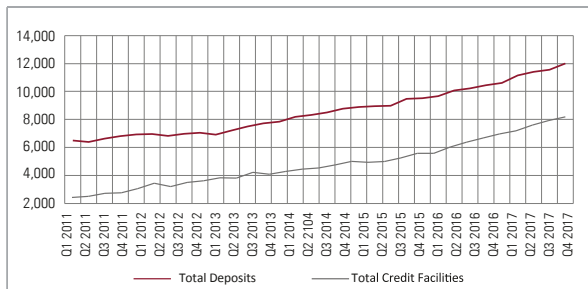
Consumer Price Index (Base year = 2010), January 2012 – May 2018



Palestine (April 2018): 108.72 West Bank (May 2018): 113.04
Gaza (April 2018): 99.38 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2011–Q4 2017



Total Credit Facilities (Q4 2017): \$ 8,027.5m Total Deposits (Q4 2017): \$ 11,973.4m
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