

PALESTINIAN ECONOMIC BULLETIN

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Main reports

As part of a series on Palestine's industrial parks and special economic zones, this issue presents an interview with Mr. Nasr Atyani, General Manager of Jericho Agro-Industrial Park.

The World Bank Group publish a report on the Tech startup ecosystem in Palestine.

The Palestine Monetary Authority introduce new measures to deal with rejected cheques.

On the last day of trading in July 2018, the Al-Quds index reached 537 points, dropping by 0.7% from last month.

Donors Respond to the Shorfall of Aid to Palestine

On 31 July, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) announced the discontinuation of its cash-for-work activities which provided short-term job opportunities with on-the-job training for the most vulnerable Palestinian refugee communities. UNRWA has also had to reduce its emergency programmes which cover areas such as food and cash assistance, community mental health, education, shelter, water and sanitation.

The decision of the United States Government to cut \$300m in funding to UNRWA this year has been the largest funding crisis UNRWA has faced since its establishment in 1949.¹ In response, UNRWA and its partners have raised \$238m in new funding from European and Arab donors, reducing its budget deficit from \$446m to \$217m.

On 30 July, the Canadian and UK Governments announced support for economic activity and job creation in the West Bank and Gaza. The UK Government announced that it will provide up to £38m (\$48.52m) over the next five years (2018-2023) through its new aid programme in the West Bank and Gaza, more than double its previous contribution.² The new programme aims to create hundreds of jobs, install vital water and electricity infrastructure, increase Palestinian exports, and fund experts to help the Palestinian National Authority (PNA) enhance tax and customs revenues collection due to the PNA, estimated at some \$280.3m per year.

The Canadian Government announced that it will provide CA\$37.7m (\$28.9m), to increase economic opportunities for Palestinians, particularly women and youth, by supporting their economic empowerment, entrepreneurship and employment.^{3, 4} Canada will also provide CA\$12.65m (\$9.7m) to respond to food security, health, protection, and economic needs, as well as to support survivors of gender-based violence.

On 24 July, the Board of the World Bank Group (WBG) recommended the allocation of \$90m to accelerate much-needed economic welfare for the Palestinian people, an increase from its yearly disbursement of \$55m.⁵ In its current portfolio within Palestine, 40% of World Bank grants support private sector development. However, the rate is expected to increase to 90%, as the additional funds will be allocated towards new projects in energy, water, social and municipal development, in addition to an emergency cash-for-work programme.

Jericho Agro-Industrial Park: Interview with General Manager, Nasr Atyani

As part of a series to highlight the work of Palestine's industrial parks and special economic zones, this issue of the Bulletin presents an interview with Mr. Nasr Atyani, the General Manager of Jericho Agro-Industrial Park (JAIP). Mr. Atyani also served

1 www.reuters.com/article/us-usa-palestinians-aid/palestinian-u-n-aid-still-200-million-short-after-trump-cuts-idUSKBN1HV1S3?il=0

2 www.gov.uk/government/news/uk-to-double-support-for-palestinian-economy-to-advance-peace-with-israel

3 www.theglobeandmail.com/politics/article-canada-pledges-50-million-for-vulnerable-palestinians/

4 www.worldbulletin.net/palestine/204510/canada-to-provide-can50m-for-palestinians

5 www.worldbank.org/en/news/press-release/2018/07/25/us-90-million-to-boost-palestinian-economic-opportunities-and-livelihoods and <https://www.youtube.com/watch?v=nCFyFaerKaw&feature=youtu.be>

as Director General of the Palestinian Food Industries Union and as General Director of Jenin Chamber of Commerce, Industry and Agriculture. Mr. Atyani is currently a member of the Palestine Small and Medium Enterprises Enhancement Institute (PAL SME), SAWA Institution for Social Development, Palestinian Society for Consumer Protection, Palestinian Economists Association, and the Palestinian Consultative Staff for Developing NGOs (PCS).

What is Jericho Agro-industrial Park?

JAIP is an industrial city located in the Jordan Valley, east of the city of Jericho and seven kilometers from the Allenby (King Hussein) border crossing between the West Bank and Jordan. Supported by the Japanese International Cooperation Agency (JICA), JAIP was established in 2012 to serve as a model for sustainable economic development and job creation in Palestine, incorporating the latest technological trends in the fields of environmental protection, energy conservation, solar power generation, cold chain systems and wastewater treatment. The strategic location of JAIP and its state-of-the-art infrastructure are intended to make the industrial city a gateway for exporting Palestinian products to the outside world.

JAIP is built on a total area of 615,000m², and is divided into two phases. The first phase was completed on 140,000m² and has an occupancy rate of around 95% (36 factories). Out of the 36 factories that are currently residing in JAIP, 12 have already commenced production and created around 400 direct jobs. By the end of 2018, it is expected that the number of factories operating in JAIP will reach 20. The second phase, which is planned to be built on 475,000m², will include heavy industries. The master plan for the second phase has been finalised and infrastructure installations are expected to begin soon.

What are the main challenges that face JAIP?

Israeli-imposed restriction on movement and access of people and goods is a major challenge facing JAIP. These restrictions hinder competitiveness and economic development as they entail huge transportation delays and higher transaction costs. These restrictions also affect the quality of agricultural products that are delayed at checkpoints. In addition to restrictions on movement and access, trade restrictions on certain products used in agro-industrial production, such as those under the "Dual Use List", create a major challenge for factories requiring certain types of raw material. Such restrictions are particularly harmful given JAIP's dependency on access to foreign markets to benefit from economies of scale, due to the relatively small size of the Palestinian market.

Water scarcity is another main challenge, particularly since many establishments in JAIP, such as beverage and paper factories, require large amounts of water. Once all the factories in the first phase are operational, they are expected to require around 1,000m³ of water per day (current consumption is around 400m³), and with the

completion of the second phase, this figure is expected to rise to about 4,000-4,500m³ per day. This adds up to around 1,200,000m³ per year, or 29.3% of the total amount of water consumed by the Jericho and the Jordan Valley Governorate (4,100,000m³).⁶

What are the latest developments in JAIP?

JAIP recently received an approval from the Government of Israel (Gol) to dig a deep water well that can hold up to 4,000m³ of water. This is an important achievement given the difficulty in obtaining these approvals. Operating water wells in the West Bank requires special permits from the Israeli Civil Administration. Between 2010 and 2016, the PNA received approvals for only two new water wells, while the Israeli Civil Administration carried out enforcement measurements against 28 Palestinian wells, 11 of which were demolished.⁷

JAIP has also received a tentative verbal approval from the Gol to construct an exclusive road parallel to Highway 90 that would connect JAIP directly to the Allenby (King Hussein) Bridge. If completed, this road will be the first and only direct trade route between Palestine and Jordan that is not completely controlled by the Gol. The road is currently in the design phase, to be completed within 2 years if negotiations are successful and all the required official approvals are obtained. The building of the road will save transportation time, lower trade costs, facilitate trade and increase the competitiveness of Palestinian products in the global market.

Currently, JAIP is negotiating with Turkish, Jordanian, Moroccan and Palestinian investors to invest in the second phase of the project through establishing subsidiaries for their companies at JAIP. If successfully concluded, these investments are expected to cover most of the area included in the second phase.

How does this initiative relate to economic development in Palestine?

Upon completion, JAIP is expected to create around 4,000-4,500 direct jobs and thousands of indirect jobs. JAIP is also expected to have a significant positive impact on the Palestinian trade deficit as most of the products are designed for export.

Tech Startup Ecosystem in Palestine

On 11 July, the WBG published a report entitled "Tech startup ecosystem in West Bank and Gaza".⁸ The report is based on a survey covering over 400 entrepreneurs in the West Bank and Gaza. While the dataset is not exhaustive and does not include startups that were no longer in business during the collection process, it provides unique insights into the maturity and sustainability of the ecosystem.

⁶ www.pcbs.gov.ps/Portals/_Rainbow/Documents/water-E7-2016.html

⁷ <https://bit.ly/2PgdsRe>

⁸ <https://bit.ly/2Pir63sdf>

The report found that the number of startups created has increased at an average compound growth rate of 34% per year since 2009. In comparison with Lebanon and Dar es Salaam (Tanzania), two relatively similar ecosystems, Palestinian startups are significantly quicker in terms of obtaining credit, hiring employees, and renting an office.

The report also found that while the Palestinian startup ecosystem is at an early-stage, it has highly educated founders (85% with a university degree and 27% with graduate degrees), and one of the highest rates of female entrepreneurs across analysed ecosystems. However, the founders tend to be young with little managerial experience and exposure.⁹

The report highlights that startup financing is widely available in Palestine for the scale of the ecosystem, with a large pool of angel investors and substantial amounts of grant financing. However, despite the availability of funds, the ecosystem support infrastructure (e.g. accelerators, incubators and mentorship programmes) is yet to establish an effective channel through which startups can absorb funding and deliver actual results. Venture capital funds operating in Palestine report being unable to meet their investment targets because of limitations on the size and quality of the startup pipeline. Currently, accelerator programmes are not generating a sufficient number of scalable startups, suggesting a need to improve the quality of these programmes. A key to improving the ecosystem is for support organisations to focus on the quality of the managerial support provided and the attraction of mentors with more practical entrepreneurship and business experience.

The report warns that the significant presence of donor and publicly financed initiatives may have led to a supply-driven rather than market-driven approach to entrepreneurship development. By interfering in the selection of the ecosystem's outcomes, donors risk disrupting the market forces that would organically ensure its long-term sustainability.

PMA Introduces New Measures to Deal with Rejected Cheques

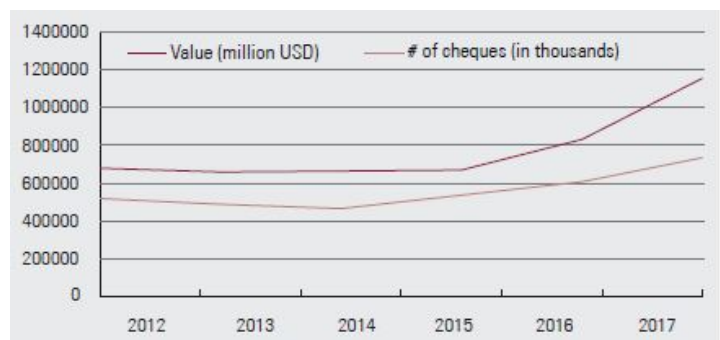
On 30 July, the Palestine Monetary Authority (PMA) hosted a workshop on the issue of cheques rejected due to insufficient funds of account holders (bounced cheques).¹⁰ In 2017, the total volume of bounced cheques reached 750,000 with a total value of \$1,154m; 7.7% of all cheques issued in Palestine. This number is significantly higher compared to neighbouring countries such as Jordan (3.5% of all cheques bounced) and the United Arab Emirates (less than 1%).¹¹

The bounced cheques phenomenon is most prevalent among small businesses and employees struggling to pay their dues. About 47% of the bounced cheques were issued by small enterprises. 27% were post-dated cheques issued by employees to purchase a car or an apartment. A major contributing cause

is the lack of adequate deterrence due to the weak application of the relevant laws in courts.¹²

To address the issue and maintain financial stability, the PMA announced that it will be taking precautionary steps to place tighter controls on "consensual reconciliation", a settlement procedure granted for individuals and companies that have been downgraded by the Bounced Cheque System due to causes deemed out of their control, allowing them to settle directly with their bank branch and resume obtaining and using cheques. The PMA will also enforce their legal registration requirements for consensual reconciliation.¹³

Figure 1. The Total Number of Bounced Cheques, 2012-2017.¹⁴



Source: PMA

Bounced cheques have been a persistent problem that the PMA has tried to address for some years. In 2010, the PMA launched the Bounced Cheques System (NISHAM) which provides banks and private sector institutions with data on individuals and corporations that do not respect their cheque obligations.¹⁵ The system provides information such as the names of bank customers with bounced cheques, the dates and reasons that the cheques bounced, cheque values and the customer ratings.^{16,17} NISHAM was developed to limit the bounced cheques phenomenon and its economic and social impact, provide greater transparency in the current system and stimulate velocity of money which will boost investments.¹⁸

July Trading

On the last day of trading in July 2018, the Al-Quds index reached 537 points, dropping by 0.7% from last month.¹⁹ A total of 12.8m shares, worth \$23.7m were traded throughout the month, marking a 26.7% increase in the number and a 10.9% increase in the value of traded shares. The insurance sector witnessed the steepest decrease (2.1%), whilst the banking and financial services sector was the only economic sector to increase (0.2%).

¹² <http://www.mas.ps/files/server/20182604153943-1.pdf>

¹³ <https://ramallah.news/post/995259/>

¹⁴ <https://bit.ly/2GoyIMW>

¹⁵ <https://bit.ly/2L7Jafw>

¹⁶ NISHAM has a special rating procedure for those with bounced cheques

¹⁷ <https://bit.ly/2POWkAr>

¹⁸ <https://bit.ly/2L7Jafw>

¹⁹ www.pex.ps/PSEWebSite/publications/PEXinvestorNewsletterJul2018.pdf

⁹ <https://bit.ly/2METy2z>

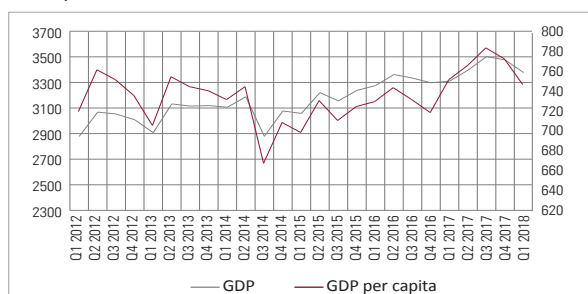
¹⁰ www.maannnews.net/Content.aspx?id=956778

¹¹ www.mas.ps/files/server/20182604153943-1.pdf

Palestine Economic Dashboard

Growth

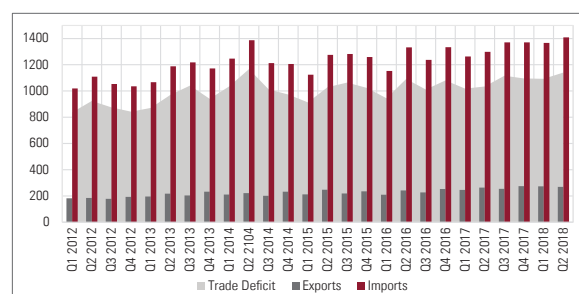
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2012–Q1 2018



GDP (Q1 2018): \$3,377.6m GDP per capita (Q1 2018): \$746.2
Source: PCBS

Trade

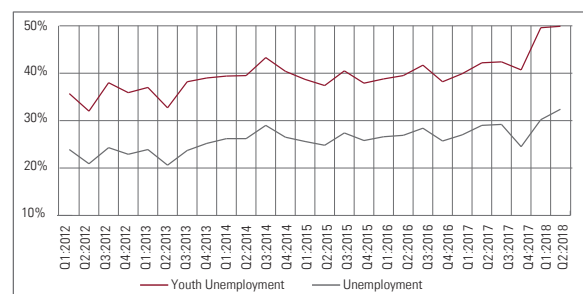
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012–Q2 2018



Imports (Q2 2018): \$1,409.2m Exports (Q2 2018): \$268.4m
Trade deficit (Q2 2018): \$1,140.8m Source: PCBS

Unemployment

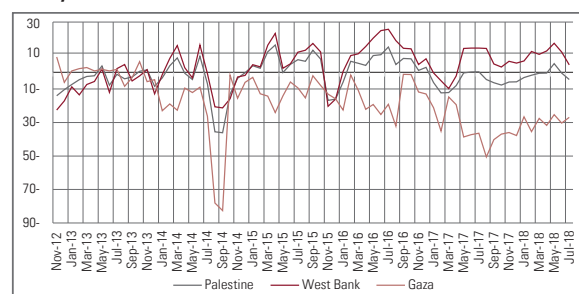
Unemployment and Youth Unemployment in Palestine (%), Q1 2012–Q2 2018



Unemployment rate (Q2 2018): 32.4% Youth Unemployment rate (Q2 2018): 49.9%
Source: PCBS

Business Cycle Index

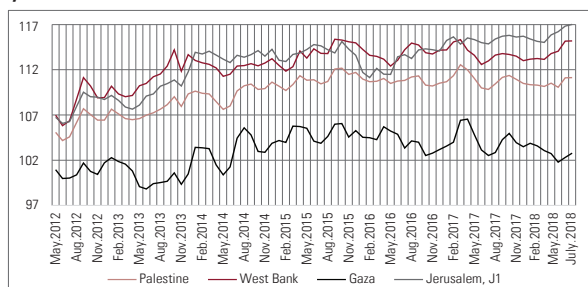
Palestine Monetary Authority Business Cycle Index, Nov 2012–July 2018



Palestine (July 2018): -4.3 West Bank (July 2018): 4.4
Gaza (July 2018): -26.9 Source: PMA

Inflation

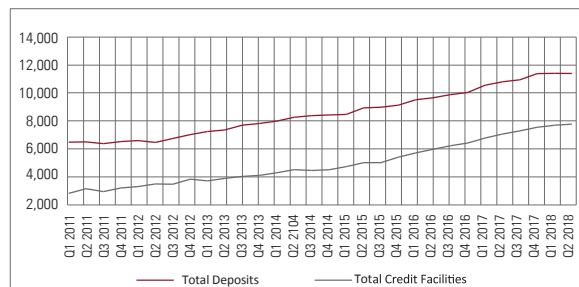
Consumer Price Index (Base year = 2010), January 2012 – July 2018



Palestine (July 2018): 111.14 West Bank (July 2018): 115.19
Gaza (July 2018): 102.77 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2011–Q2 2018



Total Credit Facilities (Q2 2018): \$8,259.96m Total Deposits (Q2 2018): \$11,993.06m
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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