The Portland Trust

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Main reports

On 18 November, Palestine concluded its participation in the Global Entrepreneurship Week for the 6th year running

The Palestine Economic Policy Research Institute (MAS) convened a roundtable to discuss the issue of smuggling and import tax evasion in Palestine

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) Commissioner-General, Pierre Krähenbühl, announced that UNRWA's budget shortfall has been reduced to $21m from the initial $466m reported earlier in the year

This Bulletin issue presents an interview with Dr Mohammad Mustafa, Chairman of the Palestine Investment Fund

Launching the National Strategy for Financial Inclusion in Palestine

On 2 December, the Palestine Monetary Authority (PMA) and the Palestine Capital Market Authority (PCMA) launched the National Strategy for Financial Inclusion (NSFI) in Palestine.[1] Dr Mohammad Mustafa, the Economic Advisor to the President and Chairman of the Palestine Investment Fund (PIF), Dr Nabeel Kassis, Chairman of the Board of Directors of PCMA, and Mr Azzam Shawwa, Governor of PMA, participated in the NSFI launch ceremony, along with Ms Hanna Ilge, representative of the German Government, and Dr Alfred Hanning, representative of the Alliance for Financial Inclusion (AFI).

NSFI aims to create a developed financial sector that is able to improve the living conditions and social welfare of individuals in Palestine. NSFI plans to realise this through promoting access and use of official financial services, fulfilling society's need for financial services and products at a reasonable cost and time, and enhancing the financial knowledge of individuals. The stated overall goal of the NSFI is to increase financial inclusion from the current level of 36.4% of adults to at least 50% of adults by the end of 2025. To achieve this goal, the NSFI has set up four main objectives, namely:

1. Increase the level of financial capability of students, youth, women, unemployed people and Micro, Small and Medium Enterprises (MSME)
2. Improve access to and usage of formal financial products and services
3. Support and protect the right of consumers of financial products and services
4. Strengthen the role of information and communication technology to expand access to and usage of formal financial services

NSFI was developed following survey-based research jointly conducted by the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Economic Policy Research Institute (MAS) in 2016.[2] According to that research, Palestine suffers from a low financial inclusion rate with only 36.4% of the adult population in Palestine in 2015 using at least one main financial service. The research also demonstrates that the financial inclusion rate is particularly low among women (only 15.4% of adult women financially included compared to 42.1% of adult men), youth (12.9% of those aged 18-24 years old) and low-income households (12% among those earning less than NIS 2000 a month).

Global Entrepreneurship Week

On 18 November, Palestine concluded its participation in the Global Entrepreneurship Week (GEW). This was the 6th year Palestine participated in the international initiative that introduces entrepreneurship to young people, bringing together entrepreneurs, investors, policymakers, researchers, educators, support organisations and interested individuals. The programme took place November 12-18 under the theme "Ecosystem Connect", fostering community knowledge, networks and markets while enabling collaboration between startup ecosystems in promising mid-tier cities.

1 www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=2336&language=en-US
2 www.mas.ps/files/server/20171510103304-1.pdf

During the week, several workshops and events were organised across Palestine, including bootcamps for graduates in Gaza on entrepreneurship and self-employment and a Startup Weekend in Hebron that brought together entrepreneurs, local mentors, investors and sponsors. Most of the GEW programme took place in Ramallah with events such as the Seedstars World competition, at which a pre-selected group of seven Palestinian seed-stage startups competed in front of an investment panel. The competition was won by Inggez, a sports application that helps people find workout locations.[3]

Smuggling and Import Tax Evasion in Palestine

On November 14, the Palestine Economic Policy Research Institute (MAS) convened a roundtable to discuss the issue of smuggling and import tax evasion in Palestine.[4] With participation from public and private sector experts, the roundtable addressed methods of reducing the adverse effects of smuggling and tax evasion on the Palestinian economy and its curtailment as a means of cutting the Treasury's deficit.[5]

According to the background paper prepared for the roundtable by MAS Researcher, Mr Misyef Jamil, more than 6,300 smuggling and tax evasion cases were reported by the Customs Authority during the first ten months of 2018[6], an increase from 5,672 reported cases in 2017.[7] In 2017, smuggling constituted some 30-35% of the value of imports from Israel to Palestine (over $1bn a year).

Smuggled goods include fuel, tobacco, poultry, dates, agricultural goods and building materials. Fuel smuggling, which is specific to Area C[8], constitutes a significant part of smuggling activity. It represented 17-25% of total fuel consumption in 2017, causing losses to the Palestinian Treasury of around $120m.

According to the paper, the conditions imposed by the Paris Economic Protocol on Palestinian-Israeli trade relations have produced weak Palestinian oversight mechanisms on the ground and difficulty in recording trade flows, rendering autonomous Palestinian trade-policy ineffective. The paper suggests that the high volume of imports coupled with the lack of Palestinian control on movement between the Israeli-controlled Area C and the rest of the occupied Palestinian territory creates an environment that is conducive to smuggling and evasion. Other contributing factors identified in the background paper include the high tax burden, high customs duties on some goods and weak enforcement of the rule of law.

3 http://www.inggez.com/
4 Smuggling (i.e. evasion of customs duties) is the illegal transportation of goods that are not routed through official customs ports and hence have no official papers, while in the case of tax evasion, goods have fake tax invoices or falsely declared value.
5 www.mas.ps/files/server/20182211150209-1.pdf
6 www.alhaya.ps/arch_page.php?nid=328473
7 www.mas.ps/files/server/20180711090244-2.pdf
8 Area C is an administrative division of the West Bank, set out in the Oslo II Accord. Area C constitutes about 63% of the total area of the West Bank, and is under full Israeli civil administrative and military control. However, the Palestinian Authority is responsible for medical and educational services to Palestinians in Area C.

Shortfall in UNRWA budget reduced to $21m

On 19 November, the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) Commissioner-General, Pierre Krähenbühl, announced that UNRWA's budget shortfall has been reduced to $21m from the initial $466m reported earlier in the year.[9] At the beginning of 2018, UNRWA's overall budget deficit amounted to $146m, which later grew to $466m following the withdrawal of $300m in funding previously provided by the United States Government.[10] In response to the shortfall, throughout the year, donors contributed or pledged an additional $425m in funding to UNRWA, including $42.1m received from the Government of Kuwait on 14 November 2018[11] and a $50m pledge confirmed by the Government of Saudi Arabia on 28 November 2018.[12]

In related news, the Government of Japan provided $4.4m in renewable energy support to UNRWA health centres in Gaza,[13] while the Government of the United Kingdom announced the launch of a multi-year agreement to support UNRWA's operations with a total of $6.4m.[14] Not all financial pledges have so far been disbursed, and despite the reduced projected budget deficit for 2018, UNRWA's service provision remains vulnerable to future budget challenges.

Economic Disengagement from Israel and National Development in Palestine: Interview with Dr Mohammad Mustafa, Chairman of the Palestine Investment Fund

Dr Mustafa is Chairman of the Palestine Investment Fund (PIF), which he joined as CEO in 2005. Dr Mustafa has also served as Minister of National Economy, and as Deputy Prime Minister for Economic Affairs in 2013 and 2014. He spent 15 years (1991-2005) working for the World Bank Group (WBG) in Washington, DC and as its representative in Palestine, specialising in economic development, economic reform, project finance and infrastructure development.

You first advocated economic disengagement from Israel in 2011. Why do you think this goal needs to be pursued now?

Since 2011, the political and economic contexts have grown progressively worse; political deadlock, loss of the US mediation role, dwindling donor funds and a regional upheaval that has shifted focus from the Palestinian cause, all of which leave Palestinians in a precarious position. These challenges intensify the need to improve Palestinian economic resilience. Economic disengagement from Israel, and building local capacity are the backbone of resilience, and a means to establish our independence from Israel and donors.

9 https://bit.ly/2ECh1Nt
10 www.unrwa.org/our-partners
11 https://bit.ly/2Gw4Kfv
12 https://bit.ly/2RdlxrT
13 https://bit.ly/2UX70zd
14 https://bit.ly/2SfBOtD

What are the implications of prolonged economic dependence on Israel on one hand and donor aid on the other?

If we take a step back and look at the results of nearly three decades of economic dependence on Israel and aid, we can see quite clearly a downward spiral that is bound to continue, unless we are able to break it. Agriculture and industry suffer while high-potential sectors show weak growth. To exemplify, Palestine is an import economy with imports representing three times the value of exports, coupled with a forced-marriage in trade to Israel with 85% of Palestinian exports going to Israel, and two thirds of Palestinian imports coming from Israel. There are also unprecedented levels of unemployment which have soared to nearly 27%, with youth unemployment (20-24) at over 44%. This is despite the fact that 130,000 workers are employed in Israel. Lastly, due to donor aid cuts, the current government budget allocates minimal resources toward public investment in critical infrastructure, which is hurting the economy and will have implications well into the future.

What should be the route to economic disengagement? What comes first and what follows: trade policy and routes, infrastructure, labour, monetary policy? What is feasible in the short versus long term?

I view economic disengagement as a holistic endeavour that requires changes across the board to the trade regime, infrastructure investment policies, and prioritisation of investment in Palestine's social infrastructure. A feasible first step would be committing to invest in several critical sectors to reduce dependence on Israel (energy infrastructure, agriculture, health services) which together represent $2.5 Bn (50%) of our import bill from Israel.

In parallel, we need to reassess the trade regime with Israel both in terms of governing framework but also in terms of investments that can improve the situation. We need to think about investing in industrial areas along with bonded zones that can increase our control on our imports and exports, reduce tax evasion and smuggling, catalyse Palestinian industry and improve revenue collection through improved terms. We must also re-prioritise investment in Palestinian schools, universities and the supporting ecosystem for startups and technology to stimulate innovation and a transition towards a knowledge-driven economy. All this needs to happen with a particular focus on marginalised areas such as Area C, the Jordan Valley, Jerusalem, and Gaza.

What is your vision for the role of public investment, including PIF as the sovereign wealth fund, in productive sectors of the economy? How can that role both be limited to free market principles while attracting "crowding-in" private investment to play a leading role?

As an impact investor, we need a double bottom line of financial returns to ensure our sustainability, and clear measurable impact in high priority areas like job creation, GDP growth, trade deficit reduction with Israel, and supporting Palestinian startups and SMEs. We leverage our limited resources through our partnerships, "crowding-in" $3 of partner capital for every $1 we invest. For this, PIF has adopted a de-risking approach where PIF leads project origination and related bureaucracy, inviting investors to take part only at a point when investment risks have been reduced. Joining of public and private funds could be replicated by the Palestinian Government and donors to bridge the public investment gap, employing similar de-risking and guarantee schemes. Models where risk is shared between the government and the investors can really be a game changer for Palestine.

How critical a requirement for Palestinian development and stability is fiscal consolidation and how can that be further pursued while advocating for more public spending on development and critical social services?

The current budget allocation, which primarily goes to current expenditures sets us on a path to further erosion of critical infrastructure which in turn will lead to slower growth and thus diminishing public revenues, essentially a downward spiral. While the budget may not allow for pure public investment that covers the investment gap, there are structures to leverage more private capital for public good through Public-Private-Partnership (PPP) models and incentives which can alleviate the mounting fiscal pressure and revitalise investment in Palestine's critical sectors. The key however is identifying our national priorities and applying successful models that take into account available opportunities and challenges.

November Trading and Corporate News

In November, the Al-Quds index increased by 0.8% from the previous month, reaching 527.1 points on the last day of trading.[15] A total of 8.5m shares worth $10m were traded during the month, marking a 2.5% increase in the number of traded shares and a 23.2% decrease in the trading value compared to October 2018. The insurance services sector experienced the highest increase (3.2%), while the industrial sector was the only sector to decrease (-1.7%).

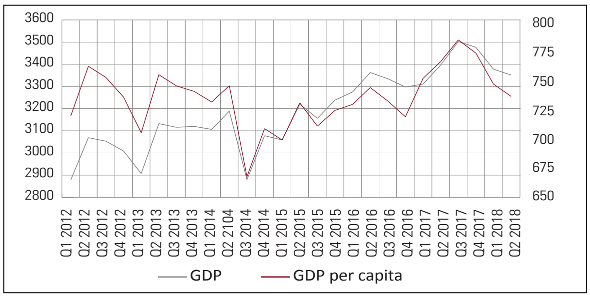
On 11 November, the Palestine Exchange (PEX) published the results for its Q3 2018 disclosure period, with 39 out of the 45 disclosed companies reporting profits.[16] Collective net profit after tax for all the disclosed companies reached $241.4m in the first nine months of 2018, an increase of 2.7% compared to the same period in 2017. This increase was largely triggered by a 71.4% drop in the total reported losses from $9.2m to $2.6m during the same period. Total reported profits reached $244.2m in the first three quarters of 2018, a 0.08% increase compared to the same period in 2017. Three companies failed to disclose within the permitted period.

15 https://bit.ly/2Sa6wUS
16 https://bit.ly/2S9s7wH

Palestine Economic Dashboard

Growth

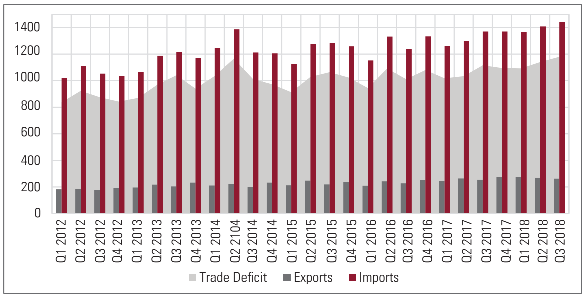
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2012–Q2 2018



GDP (Q2 2018): $3,351.3m   GDP per capita (Q2 2018): $735.8
Source: PCBS

Trade

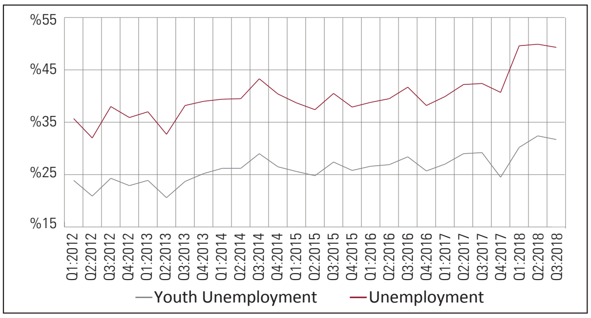
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2012–Q3 2018



Imports (Q3 2018): $1,442.6m   Exports (Q3 2018): $262.0m
Trade deficit (Q3 2018): $1,180.6m   Source: PCBS

Unemployment

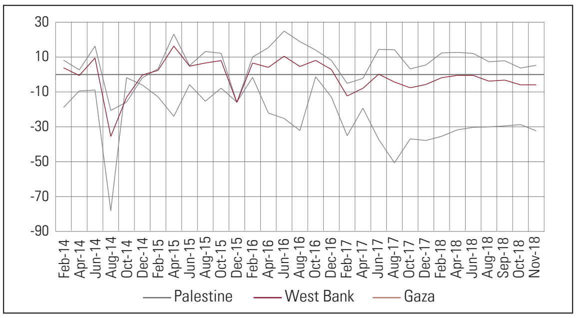
Unemployment & Youth Unemployment in Palestine, Q1 2012–Q3 2018



Unemployment rate (Q3 2018): 31.7%   Youth Unemployment rate (Q3 2018): 49.3%
Source: PCBS

Business Cycle Index

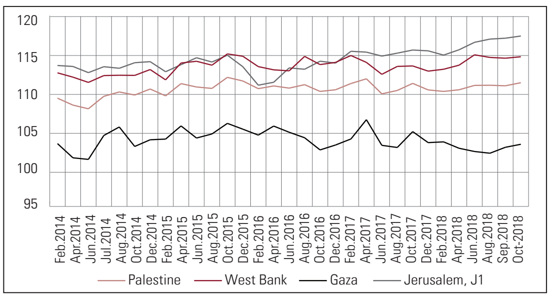
Palestine Monetary Authority Business Cycle Index, February 2014–November 2018



Palestine (October 2018): -5.9   West Bank (October 2018): 3.7
Gaza (October 2018): -28.7   Source: PMA

Inflation

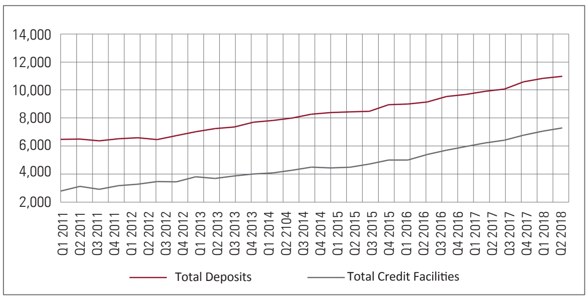
Consumer Price Index (Base year = 2010), February 2014 – October 2018



Palestine (October 2018): 111.46   West Bank (October 2018): 114.91
Gaza (October 2018): 103.27   Source: PCBS

Banking Sector

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



Total Credit Facilities (Q2 2018): $ 8,260m   Total Deposits (Q2 2018): $11,933.1m
Source: PMA

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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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