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Main reports

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The Ramallah Office of UNESCO launched on 13 February the results of the Skills Forecasting Model in Palestine

Prime Minister Dr Mohammad Shtayyeh met forty leading Palestinian startups on 25 February to discuss the growing startup ecosystem and the role of entrepreneurship in tackling youth unemployment

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Economic Dimensions of the US Peace Plan

On 26 February, the Palestine Economic Policy Research Institute (MAS) held a roundtable session on the potential economic consequences of implementing US President Donald Trump's Middle East peace plan. The plan, entitled "Peace to Prosperity: A Vision to Improve the Lives of the Palestinian and Israeli People" (PtP), was announced in two parts.[1] The political component was released on 28 January, seven months after the publication of the economic component in June 2019.[2] Palestinian political, business and civil society leadership immediately rejected the plan on the grounds that it disregards Palestinian rights to a viable, independent and sovereign state.

The session was attended by leading figures from both the public and private sectors. MAS presented its position paper on the potential implications of the deal, followed by a panel discussion. The economic component of the plan promised $50 billion in new investments over 10 years in Palestine ($28bn), Jordan ($7.5bn), Egypt ($9bn) and Lebanon ($6bn).[3] According to the US Administration, successful implementation of the proposed investment plan under PtP would double Palestinian GDP, reduce the unemployment rate to single digits and bring down poverty by half.[4]

MAS concluded that despite the large sums of promised investment, the Vision poses an existential threat to the viability of the Palestinian economy and constrains the space available for economic activity and investment. Participants highlighted concerns that under the plan Israel will also continue to control all Palestinian water resources (the Dead Sea, Jordan River and groundwater), airspace, cyberspace and trade.

Loss of Territory and Resources

The plan entails significant territorial losses in the West Bank, as it proposes the annexation to Israel of the entirety of the Jordan Valley, which is the most fertile area in the West Bank and constitutes around 30% of the territory.[5] It also does not allow for a Palestinian capital in East Jerusalem.

The concept maps included in the plan suggest that two Palestinian zones would be established in Israeli territory in the Negev desert near the Gaza Strip; a high-tech manufacturing industrial zone and a residential agricultural zone. These areas would be separated from the Egyptian border by a narrow area controlled by Israel.[6]

Panelists viewed these aspects as a tightening and institutionalising of the restrictions that are currently imposed on the Palestinian economy. Mr Osama Amer, Secretary of the Private Sector Coordinating Council and a speaker on the panel, reiterated "the private sector's complete and definitive rejection of the deal, which bears no feasible political or economic prospects for Palestinians." He explained that the Palestinian economy's potential gains from the proposed plan ($28bn over 10 years) are negligible when compared to economic gains from ending existing restrictions on the Palestinian economy. The World Bank has estimated that preventing Palestinian access to 'Area C' cost the economy around $3.4bn annually, while recent UNCTAD estimates put PNA fiscal leakage and other losses owing to occupation at above $1 bn annually.[7]

1 www.mas.ps/files/server/20200203154439-1.pdf
2 www.whitehouse.gov/peacetoprosperity/
3 https://bit.ly/2JKMXPJ ; https://www.nytimes.com/2020/01/28/world/middleeast/peace-plan.html
4 www.whitehouse.gov/wp-content/uploads/2019/06/MEP_programsandprojects.pdf
5 www.whitehouse.gov/wp-content/uploads/2020/01/Peace-to-Prosperity-0120.pdf
6 https://bit.ly/3d8mB8s; https://politi.co/33mZoe1
7 https://bit.ly/2vsMpLk; https://bit.ly/3dnvPxL

Constrained Movement and Access

According to its economic component, the plan aims to increase the value of Palestinian exports from 17% to 40% of GDP. To achieve this goal, the plan suggests "opening up" the West Bank and Gaza to regional and international markets by reducing trade barriers and investing in roads connecting the Palestinian localities. However, with continued Israeli control over all border crossings as well as roads within Palestinian territory as defined by the political component, it is not clear how such goals would be achieved.[8]

By fragmenting Palestinian geography and limiting the space for urban and agricultural expansion, the panelists argued that the implementation of the plan would effectively systematise Israeli control over the movement of people, capital and goods in the West Bank and Gaza Strip, leading to isolated Palestinian enclaves within an Israeli-dominated landscape.[9]

Increased dependency on Israel

The panelists stressed that the Vision would deepen Palestinian economic dependency on Israel, both administratively and financially. In the plan, Palestinian statehood and independence is contingent on meeting Israel's security and political criteria, without specifying the terms of reference for ensuring accountable implementation. Such a formula would leave the Palestinian economy even more reliant and contingent on Israeli political and security considerations.[10] Furthermore, the economic component is largely to be funded by concessional loans, which could increase reliance on Israeli capital and suppliers, further eroding the autonomy of Palestinian economic growth.[11]

World Bank and Partners Invest in Water Infrastructure in Gaza

On 10 February, the World Bank announced a $15m grant towards the first phase of the Gaza Central Desalination Program (GCDP) and Associated Works Project.[12] The GCDP is the largest infrastructure project in the Gaza Strip, aiming to address the water crisis by generating up to 55MCM/y of desalinated water by 2023 and up to 110MCM/y during the second phase of the project.[13] GCDP was launched in March 2018 through a coordinated international effort and partnership with the Palestinian Water Authority (PWA).[14] By April 2019, GCDP received total pledges of €456m from donors out of a total estimated cost of €562.3m.[15]

The GCDP covers two components: the construction of a desalination plant on 73 dunum south of Deir AlBalah with an initial capacity to produce 55 MCM a year of desalinated water; and the construction of a north-south water carrier that runs 160 kilometers, including storage reservoirs to convey and properly blend the desalinated water with groundwater sources (including water purchased from the Israeli national water company "Mekorot").[16] The World Bank funding is dedicated for the water carrier and storage component.

The project funded by the World Bank and partners aims to improve the quality and quantity of bulk water supplied to Gaza and will benefit from coordinated aid of $42m from donors (administered by the Bank),[17] and $60m million in parallel financing from the Kuwait Fund for Arab Economic Development. The project comprises three components:

1. **Build infrastructure for improved bulk water supply:** This will supply bulk water to 16 municipalities in central and southern Gaza with at least 90 liters of water per capita per day.[18] This will benefit an estimated 870,000 people. (Estimated Cost $91.0m)
2. **Build capacity of selected institutions:** Creating adequate capacity to ensure operations and maintenance of the Short-Term Low Volume desalination plants during project implementation and subsequently during the observations and measurement of the integrated bulk water supply system. This component will also support the design of a National Service Provider Improvement Program to enhance service delivery in the West Bank and Gaza, and reduce the need for sector subsidies, and to prepare priority bulk water investments in the West Bank. (Estimated Cost $9.5m)
3. **Project management and implementation support:** Designed to support effective implementation of the project and finance the continued operations of vital water and wastewater assets in Gaza. (Estimated cost $16.5m)

Gaza faces a looming drinking water crisis, as 97% of coastal aquifer water is unfit for human consumption or agricultural use. Unsustainable levels of abstraction, have resulted in the infiltration of seawater and sewage pollution, a cause of serious health risk to approximately two million Palestinians living in the Strip.[19] Furthermore, the total capacity of the aquifer does not exceed 55 MCM per year, or 30.5% of total water demand in Gaza (180 MCM).[20] In 2018, 78.8 MCM was being abstracted from non-portable groundwater (coastal aquifer), 10 MCM per year were purchased from Israel (Mekorot) and the remaining demand was met through existing short-term low-volume desalination plants and high-cost, unregulated, private reverse osmosis units run by small-scale providers. These vendors are selling water at often seven times the cost of public water supply and two-thirds of which is already contaminated upon delivery.[21] With the growing population and limited electricity power to supply the available desalination and sewage treatment plants, Gaza's water and sanitation crisis is escalating dangerously, with clean water increasingly scarce and almost a third of households not connected to a sanitation system.[22]

8 https://bit.ly/3aicFYf
9 www.mas.ps/files/server/20200203154439-1.pdf
10 www.whitehouse.gov/peacetoprosperity/
11 https://bit.ly/3aicFYf
12 https://bit.ly/3aF2nkv
13 www.eib.org/attachments/country/bringing_water_to_gaza_en.pdf
14 https://bit.ly/2Iyaof3
15 https://bit.ly/38A7gKq
16 https://bit.ly/38A7gKq
17 Denmark, Netherlands, Norway, France, Finland, Sweden, Croatia, Portugal, United Kingdom and Australia
18 https://bit.ly/38A7gKq
19 https://bit.ly/39jWmbM
20 https://bit.ly/33p7PFD; https://bit.ly/3d0AHZj; https://bit.ly/33sO7sL
21 https://bit.ly/3cK8zcU
22 https://bit.ly/3akf0lf

Skills Forecasting in Palestine

On 13 February, the Ramallah Office of the United Nations Educational, Scientific and Cultural Organization (UNESCO), launched the results of the Skills Forecasting Model in Palestine.[23] This initiative, which was developed in partnership with MAS, is part of UNESCO's 3-year Youth Employment in the Mediterranean (YEM) project, funded by the European Union. The project aims to improve skills anticipation systems and promote technical and vocational education and training (TVET).[24]

Under different assumptions and scenarios, the Model anticipates occupations needed in the Palestinian labour market until 2022. The exercise follows a classical model that matches demand for occupational talent by employers and supply of occupational skills by job seekers to investigate whether the education system is providing the skills demanded by the market.

Under baseline scenario assumptions, the Palestinian economy is expected to generate 200,717 jobs (120,318 in the West Bank and 80,399 in the Gaza Strip) over the period 2019-2022. These job openings are not suffecient to absorb the influx of graduates and existing unemployment pool. This is expected to result in a deficit of 512,712 jobs offered by the market; 198,326 in the West Bank and 313,846 in Gaza. The West Bank unemployment rate is expected to reach 20.6% by 2020, while in Gaza it is estimated at 50.8%.

At the occupation level, sales work was shown as the occupation with the most job openings between 2019 and 2022, followed by teaching professionals and labourers in construction, mining, manufacturing and transport. All 46 2-digit[25] sub-major group International Standard Classification of Occupations (ISCO) occupations analysed in the model showed excess supply over the period 2019 to 2022 to varying degrees. The largest occupational mismatches are among labourers in mining, construction, manufacturing and transport, building and related trade workers, and teaching professionals. The supply in these occupations is much larger than the demand.

Habib Hinn and Ali Jabareen, the MAS researchers who developed the model, explained that the model would provide much more specific information if PCBS had the resources to collect occupational information in the labour force survey at the 4-digit ISCO, rather than the currently available 2-digit ISCO. The latter is a more aggregated dataset, whereas the 4-digit ISCO allows for significant additional insights. PCBS is also required to collect information about the respondents' educational background and specialisation in order more accurately to inspect skills mismatches. The Ministry of Labour is required to provide better classifications for TVET programmes and implement graduate tracking surveys. Palestinian universities and training centers are also required to implement graduate tracking surveys in order to measure the outcomes of their educational programmes and provide the tools necessary to construct robust educational planning.

23 https://bit.ly/2xqeSSA
24 https://bit.ly/3dpEZKd
25 2-digit codes indicate sub-major groups and 4-digit codes indicate unit groups

Prime Minister Meets Startups

On 25 February, Prime Minister Dr Mohammad Shtayyeh met forty leading Palestinian startups to discuss the country's growing startup ecosystem and the role of entrepreneurship in tackling youth unemployment.[26] The event was organised by MENACatalyst, a non-profit that supports Palestinian startups.[27]

Attending startups were among the country's most successful, employing 400 individuals and generating annual profits estimated at a total of $8.5m. Participants discussed how marketplace barriers and limited access to resources and investment opportunities have come to define Palestine's entrepreneurial landscape, forcing many startups to look towards regional and international opportunities. Scalability and limited investments were among the top challenges facing the startups. Other issues included restrictions on the use of electronic payment systems, the lack of local talent and policies related to conducting business in Palestine.[28]

The World Bank's Doing Business 2020 report ranks Palestine at 117 globally, with an overall score of 60.[29] Under the category 'Starting a Business', Palestine ranked 173 with a score of 70.2.[30] Palestine also ranked 112 in paying taxes and 168 in resolving insolvency, but as high as 25 in the ease of obtaining credit.[31]

In his remarks, Shtayyeh elaborated that the government has announced 2020 as the year for youth in Palestine; allocating $100m to support youth projects in all fields.[32] He added that the government is working on formulating the educational system and linking it to the labor market, in addition to establishing a public college for vocational and technical training, and starting a public training programme on computer programming with the aim of reorienting unemployed university graduates. Work is also underway for a new, contemporary companies' law that meets the requirements for an advanced business environment, stimulates investment, and encourages young people to set up their companies without obstacles.

February Trading

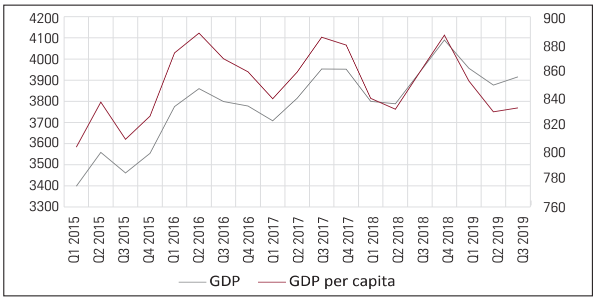
In February 2020, Al-Quds index reached 534.3 points on the last day of trading, an increase of 2.3% from the previous month.[33] During the month, a total of 5.3m shares with a total value of $11.6m were traded, marking a 15.12% decrease in the number and 4.7% in the value of traded shares compared to the previous month.

26 https://www.menacatalyst.ps/main-events/5042.html
27 https://www.menacatalyst.ps/about
28 https://bit.ly/2WIHhOE
29 The ease of doing business score assesses the level of regulatory performance over time. An economy's s score is reflected on a scale from 0 to 100, where 0 represents the lowest and 100 represents the best performance.
30https://bit.ly/3ak3fvh
31 Disparities between the West Bank and Gaza are not accounted for
32 www.aliqtisadi.ps/article/73810/
33 https://bit.ly/2xJ1g57

Palestine Economic Dashboard

Growth

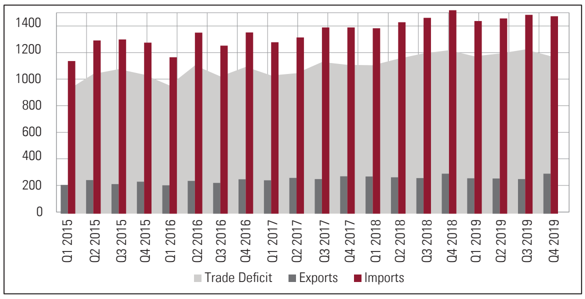
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q3 2019



GDP (Q3 2019): $3,915.3m GDP per capita (Q3 2019): $832.9
Source: PCBS

Trade

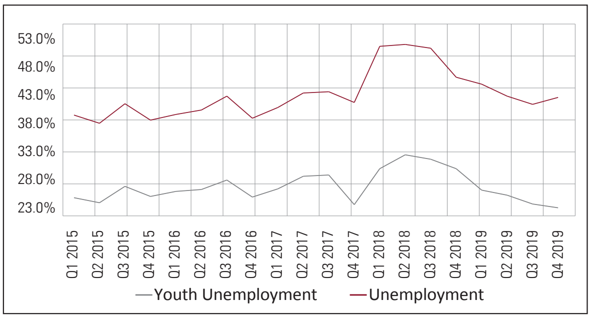
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q4 2019



Imports (Q4 2019): $1,454.1m Exports (Q4 2019): $294.2m
Trade deficit (Q4 2019): $1,159.9m Source: PCBS

Unemployment

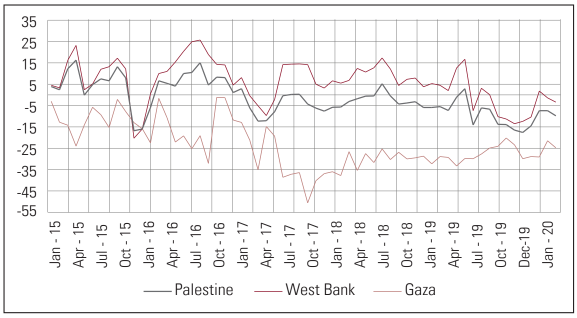
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q4 2019



Unemployment rate(Q4 2019): 24% Youth Unemployment rate (Q4 2019): 41.5%
Source: PCBS

Business Cycle Index

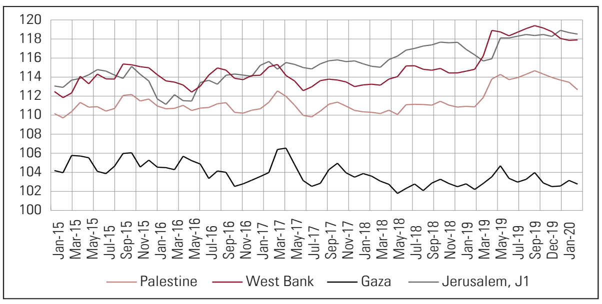
Palestine Monetary Authority Business Cycle Index, January 2015 –February 2020



Palestine (February 2020): -9.8 West Bank (February 2020): -3.4
Gaza (February 2020): -24.8 Source: PMA

Inflation

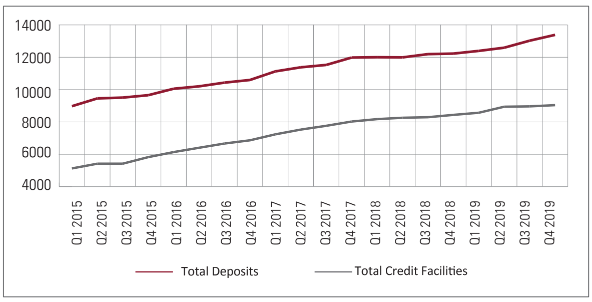
Consumer Price Index (Base year = 2010), January 2015 – February 2020



Palestine (February 2020): 112.7 West Bank (February 2020): 117.9
Gaza (February 2020): 102.8 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q4 2019



Total Credit Facilities (Q4 2019): $9,039.1m Total Deposits (Q4 2019): $13,384.7m
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