

PALESTINIAN ECONOMIC BULLETIN

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Main reports

International donors met on 8 June in Oslo to discuss financial aid to the Palestinians. An estimated \$1.4bn is needed from donors for budget support in 2009. Aid is running at less than 55% of the amount needed, with the PA having received only \$328m so far this year. A further \$250m to \$300m is expected to be provided by donors by July 2009. The monthly Palestinian deficit is between \$35m and \$40m, mainly due to a decrease in Arab donor funding to the PA.

Carana Corporation has launched a five-year \$20m development programme, funded by USAID, aimed at modernising and bringing Palestinian competitive products into new markets.

The Municipal Development and Lending Fund (MDLF) disbursed approximately \$20m to Local Government Units (LGUs) in 2008. MDLF plans to distribute around \$40m for 2009. The funds were provided by the international donor community.

The total value of Palestinian exports with a certificate of origin increased from approximately \$40m in 2007 to \$51.4m in 2008, according to the Palestinian Chambers of Commerce, Industry and Agriculture.

Liquidity in Gaza

The liquidity crisis in Gaza is ongoing, with severe consequences for commercial trading. Amr Hamd, Gaza General Manager of the Palestinian Federation of Industries, explained that the lack of liquidity in the banks in Gaza is prohibiting companies from meeting commercial agreements. Cash is not available in the banks and the vast majority of businessmen cannot leave Gaza or transfer money to or from Israel or the West Bank. Money transfers from banks in Gaza to Israel require special permission which is almost impossible to attain.

Hamd said that around NIS 50m passes into the Gaza Strip every month or so. The Bank of Palestine told the Bulletin that an individual can bring up to \$10,000 cash into Gaza. However, since only a handful of businessmen are able to travel in and out of Gaza, this does not amount to much. According to the Bank of Palestine and Arab Bank, there are no pre-set daily limits for withdrawals.

Private and public sector salaries in Gaza are paid in Israeli shekels (NIS), (about two thirds of the total employed in Gaza), while UNRWA and foreign institutions pay salaries in US\$. Jordanian Dinars (JD) are also used but to a lesser extent. However this month US\$ and JD are in greater demand than NIS. Hamd suggested this may be largely related to UNRWA, which brings in and distributes most of the US\$ in Gaza, through employee salaries, cash assistance for its job creation programme and the remaining damage costs for refugees affected by the recent hostilities. This month UNRWA has not brought as many dollars into Gaza as it has done in the past.

Shokri Karaz, Branch Manager of Arab Bank in Gaza, told the Bulletin that the lack of dollars and JD in Gaza's banks is greatly impacting spending patterns, affecting building projects and wedding plans alike. Karaz explained that when cash is available, customers tend to take out as much as possible and keep it at home. There is little consumer confidence in the future of the banks.

The almost total closure of Gaza's borders and the liquidity crisis are affecting exchange rates. Traders are increasingly using currency exchange for profits. Hamd explained that traders, as well as some others with capital, are depositing Israeli shekels into dollar bank accounts to get a better exchange rate for the shekel. This is further increasing the demand for US\$ in Gaza. Tunnel operators have recently begun to pay traffickers

in shekels. The shekels are later exchanged locally for dollars. It has been suggested that Hamas, who are linked to a large number of the exchange bureaux, make significant profits from the exchange businesses.

The Association of Banks in Palestine told the Bulletin that the proportion of deposits in the Gaza Strip is 15% of total deposits in the Palestinian Territory.

Thousands of Gazans have recently lost considerable amounts of money (up to 50,000JD in a few cases) through their investments in tunnel schemes. When profits from smuggling became insufficient to repay investors, money from new investors was used to pay off others. After hundreds of the tunnels were destroyed during the military operation in December, the problem escalated. Fewer investors could be repaid and a number of organisers tried to escape with the profits. The Hamas government, who gave the tunnels their approval, recently offered to compensate the investors.¹

MOF

More details are emerging about the restructuring of the Ministry of Finance (MOF).² Yousef Al Zamr, the MOF's Chief Accountant, told the Bulletin that the changes are part of a comprehensive reform strategy for 2008 – 2010 to enhance the Palestinian Authority's (PA) financial management. The strategy will focus on organisational structures and capacity building, including the restructuring of financial departments, increasing the responsibilities of the chief accountant and enhancing the institutional and human capacity of the MOF; amending the financial laws and regulations; and implementing a unified government accounting system (GFMIS).

Work has already begun on the reform programme. Monthly forecasts of treasury cash inflows and outflows, as well as the revenues and expenses deficit, have been improved. A review is being carried out of all civil and security government accounts. The MOF will move forward on integrating civil and security accounts into a single account and providing financial supervision training to improve budget planning.

Clarification: The Palestine Investment Fund holds 6% of the Palestinian Electrical Company (see May 2009 Bulletin).

1 See: <http://www.maannnews.net/en/index.php?opr=ShowDetails&ID=37798>
2 See May 2009 Bulletin

PA Budget Crisis

International donors met on 8 June in Oslo at an Ad Hoc Liaison Committee session, chaired by Norway. According to the Norwegian Representative in Jerusalem, Tor Wennesland, the meeting discussed the Palestinian financial situation and ways to strengthen the Palestinian economy. Wennesland said an estimated \$1.4bn is needed from donors for budget support in 2009. Aid is running at less than 55% of the amount required, with the PA having received only \$328m so far this year.³ A further \$250m to \$300m is expected to be provided by donors by July 2009. Wennesland indicated that the monthly Palestinian deficit is between \$35m and \$40m, mainly due to a decrease in Arab donor funding to the PA. According to the Ad Hoc Liaison Committee, Saudi Arabia, UAE, Oman and Algeria provided a total of \$76.8m in Q1 2009. In Q1 2008, they gave a total of \$153m.

According to the IMF, the PA has offset the shortfall by borrowing from local banks to finance its deficit. Borrowing has already reached \$500m. Budgetary requirements are estimated at \$120m per month for 2009 but only \$66m has been available monthly in 2009. In March, donor assistance surged to \$178.7m, but fell to \$25.7m in May, according to the International Monetary Fund. A liquidity crisis is imminent unless donors significantly increase budgetary support.

CARANA and USAID

Carana Corporation has launched a five-year \$20m development programme, funded by USAID, aimed at modernising and bringing Palestinian competitive products into new markets.⁴ The programme will target the industrial, construction, metals, shoes and leather manufacturing, IT and communications, engineering, tourism, agriculture and stone and marble sectors. Carana will provide \$12m of technical assistance and \$8m will be given as grants directly to the private sector. Said Sabri, Deputy Director, hopes that 50-60,000 job opportunities will be created.

In the first year of USAID's five year \$300m infrastructure needs programme, \$80m will be spent on 17 projects.⁵ Last month, USAID provided \$1m to rehabilitate 1.3km of road and sidewalks in Badhan (Northern West Bank) which is a popular tourist site for Palestinians.

3 See: http://www.reuters.com/article/homepageCrisis/idUSL1254301._CH_.2400

4 See: http://www.carana.com/index.php?option=com_content&view=article&id=99&Itemid=61

5 See: http://www.usaid.gov/wbg/pr_05_05_2009.html

Unemployment Falls

The Palestinian Central Bureau of Statistics Labour Force Survey for Q1 2009 showed that unemployment, according to the ILO definition which excludes discouraged workers, decreased from 27.9% in Q4 2008 to 25.4%.⁶ Unemployment fell in Gaza from 44.8% in Q4 2008 to 37% in Q1 2009. The West Bank saw a smaller decrease - 19.8% in Q4 2008 to 19.5% in Q1 2009.

MDLF

The Municipal Development and Lending Fund (MDLF)⁷ disbursed approximately \$20m to Local Government Units (LGUs) in 2008. MDLF plans to distribute around \$40m for 2009. The funds were provided by the international donor community. To date, the MDLF has administered projects with a total value of around \$138m.

Dr. Iyad Rammal, Director General of Operations at the MDLF, explained to the Bulletin that MDLF recent activities form part of the \$130m Municipal Development Programme of the Palestinian Reform and Development Plan. The three-year programme is designed to support 132 municipalities. The MDLF also carried out a number of projects in the Gaza Strip in 2008. Of the \$130m, approximately \$60m has been secured so far.

The MDLF implements the programme using a performance-based transfer mechanism to allocate funds to the municipalities. It also follows a needs based approach carrying out emergency schemes to help sustain essential municipal services and generate temporary employment. Development programmes include investments into municipal infrastructure and services, as well as technical assistance to local authorities. The MDLF runs 'Innovative Window Scheme' projects to foster Local Government-NGO collaboration and private-public partnerships.

The MDLF was established in 2005 as an independent entity to support local government, increase municipal transparency and improve coordination of development funding.

Palestinian Customs

'State building requires a solid revenue foundation' said Kunio Mikuriya, Secretary General of the World Customs Organisation (WCO) at a conference in Ramallah on 24 May to discuss the Palestine Customs and Revenue Authority.⁸

The conference discussed the implementation of the Al-Siyadeh (sovereignty) plan. Al-Siyadeh was set up to improve the Customs Authority's standards and in time, bring it into the WCO organisation. The initiative aims to strengthen and enhance the performance and capacity of Palestinian customs, while boosting economic and commercial agreements already signed between the PA and other countries.

Mikuriya called upon the international community, businesses and other stakeholders to assist in the capacity building of Palestine Customs. Palestinian customs officers are on the whole absent from borders with Israel, where all consignments entering the Palestinian Territory are subject to lengthy security inspections and Israeli Customs.

Exports 2008

The total value of Palestinian exports with a certificate of origin increased from around \$40m in 2007 to \$51.4m in 2008, according to the Palestinian Chambers of Commerce, Industry and Agriculture.⁹ Certified exports to Arab countries increased by \$11.2m to \$43.7m in 2008, (almost 85% of total Palestinian certified exports), of which \$32m was to Jordan alone. At the end of 2008, 2,500 products from 282 exporting companies were certified. There were noticeable increases in the export levels of agricultural, food, metal and plastics products.

Data for 2008 shows that stone and marble accounted for 30% of total certified exports, agriculture for 19% and food products for 6%. 24% of total exports came from the Hebron Governorate, with a value of \$11.8m. The Bethlehem Governorate accounted for 18% of total exports, worth \$9.3m. 15% of exports originated in the Ramallah governorate, with a value of \$7.7m.¹⁰

Paltel and Zain

Paltel and the Zain Group signed a commercial deal on 18 May 2009 in Amman to merge Zain Jordan with the Palestinian Paltel.¹¹ A new business group, Zain-Palestine will be established. The share-for-share exchange will see Zain take a majority interest in Paltel with an equity shareholding of 56.53% in exchange for Paltel owning 100% of Zain Jordan. It is expected that the combined revenues of this new business group will be more than \$1bn in 2009. Jawwal Mobile Operator will be incorporated into Zain-Palestine by the end of 2009.

6 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/lbor-force-E.pdf

7 See <http://www.mdif.org.ps/>

8 See: <http://www.wcoomd.org/speeches/default.aspx?lid=1&id=144>

9 See: <http://www.alquds.com/node/161346>

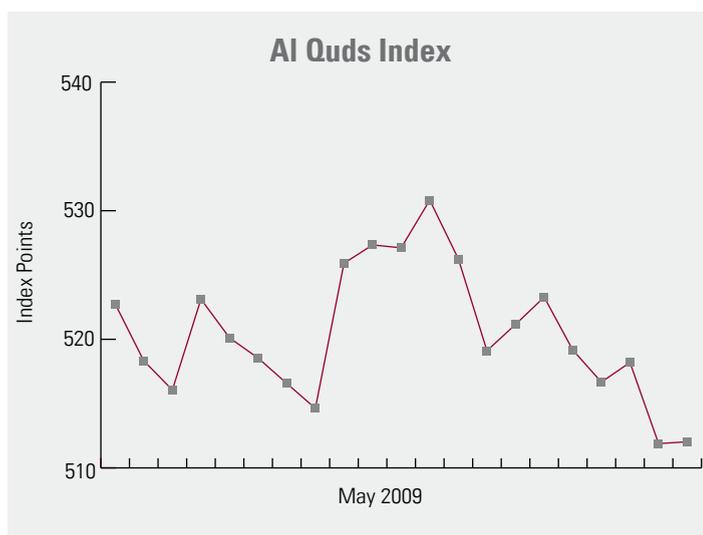
10 See: <http://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3565&lang=en>

11 See: <http://www.zain.com/muse/obj/lang.default/portal.view/content/Investor%20relations/Press%20releases/PaltelDeal>

Market News

The AI Quds index peaked at 530.82 points mid month but fell to 512.03 points by 31 May, a decrease of -1.1% or 5.67 points from April 2009. In 21 trading sessions, 11.2 million shares changed hands, a decrease of -33.5% compared to April 2009 (16.8 million shares). The value of traded shares in May fell by -38% from last month to \$22.8m. The total market capitalisation in May shrunk by -1.3% to \$2.4bn.

Ahmed Aweidah the Chief Executive of the Palestine Securities Exchange announced the establishment of a \$5m fund which will invest in the Exchange. Local brokerage firms, Sahem, Lotus and Al Wasata, alongside a Chilean company, will run the fund.¹²



¹² See: <http://www.sahem-inv.com/news.php?id=643&month=1>

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