

PALESTINIAN ECONOMIC BULLETIN

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Main reports

In October, the Palestinian Authority initiated a free trade agreement with Mercosur, with a final signing due in December. In other trade news, exports in August increased by 17.7% compared with July, and imports were down by 0.1%.

The World Bank ranks the West Bank and Gaza 131 out of 183 economies in terms of regulations that affect domestic firms.

Mercy Corps, Google.org and the Source of Hope Foundation launch the Arab Developer Network Initiative (ADNI) in the West Bank and Gaza, aimed at driving innovation in the Palestinian ICT sector.

In October the Al-Quds Index decreased by 1.33%, reaching its lowest level of 474.7 points on the last day of trading (31 October). This is the lowest value the index has had since 15 January 2009.

Poverty in the West Bank and Gaza¹

A new World Bank report on poverty in the West Bank and Gaza highlights the need to 'intensify efforts to improve the Palestinian ability to create jobs,' said Prime Minister Dr Salam Fayyad at a discussion on the findings of the study. The report is the first since 2001 to examine the dynamics of poverty in the West Bank and Gaza where donor aid is driving a reduction in poverty, but unemployment remains high.

In 2009 just over a fifth of the Palestinian population lived in poverty, a 4% reduction from five years earlier, although there is a difference between West Bank and Gaza. Between 2004 and 2009, poverty in the West Bank fell from 23% to 16%, while Gaza saw an increase in poverty from 30% to 33.7%. The Palestinian Central Bureau of Statistics (PCBS) found that for 2010, more than a quarter of the Palestinian population lived in poverty (18.3% in the West Bank and 38.0% in Gaza), and 14.1% in deep poverty (8.8% in the West Bank and 23.0% in Gaza).²

According to the World Bank report, easing the movement and access restrictions in the West Bank and lifting the closure regime over Gaza are the most important steps required to address poverty issues in the Palestinian Territory.

The report notes that in the ten years to 2009, there was a decline in private sector growth and marked de-industrialisation in manufacturing and agriculture. There is also strong evidence of a fall in labour earnings: the mean wage for those with a secondary school education fell by 25% between 1999 and 2009, and by as much as 45% for illiterate workers. The report says that this overall decline in earnings is largely due to the loss of jobs in Israel and the settlements after the Second Intifada. The combination of these trends has translated into large increases in poverty rates.

The research shows that geographical areas characterised by high rates of poverty tend to face severe mobility restrictions, poor access to markets, high rates of unemployment, a dominance of low-wage sectors, and a reliance on increasingly scarce employment opportunities in Israel.

The report did find that human development outcomes in the Palestinian Territory are some of the best in the world, with childhood nutrition indicators on a par with the United States, near universal prenatal care, high vaccination rates, and over 90% enrolment in schools.

¹ See: <http://go.worldbank.org/D8XTVIGCY0>

² The PCBS poverty lines are based on a budget for expenditure on basic needs. 'Deep poverty' reflects a budget for food, clothing and housing. 'Poverty' adds in other necessities including health care, education, transportation, personal care and housekeeping supplies. For more details see: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/poor_E2010.pdf

Trade

On 17 October, the Palestinian Authority (PA) initiated a free-trade agreement with Mercosur, the economic and political union of Argentina, Brazil, Paraguay and Uruguay, and the world's fourth largest trading bloc.³ The agreement will strengthen bilateral economic and commercial relations by removing taxes on products traded between the two. The final agreement will be officially signed by the Mercosur member states in December in the presence of President Abbas.

Separately, in a recent report UNCTAD suggests that official data might significantly overstate the Palestinian trade deficit with Israel, meaning that the PA is losing out on a significant amount of tax revenue.⁴ In 2010, trade with/through Israel added up to 74% of total Palestinian trade; the \$2.8bn trade deficit with/through Israel accounted for 70% of its total trade deficit and exceeded the \$2.7bn of net current transfers to the PA. However, the UNCTAD report suggest that only 42% of Palestinian imports from Israel are goods produced in Israel, while the remaining 58% are 'indirect imports,' or goods produced in a third country and transited to the Palestinian Territory via Israel. UNCTAD estimates that the costs to the PA of not receiving the tax revenue on these indirect imports may be about \$480m a year, about 25% of public revenue.

Finally PCBS trade statistics for August show that exports grew by 17.7%⁵ but still remained under the June (\$72.9m) and May (\$67.7m) levels.

Figure 1: August Trade Statistics

	Exports	Imports
Level	\$63.4m	\$344.3m
Change from 07/2011	+17.7%	-0.1%
To/from Israel (% of total)	89.4%	63.7%
Trade deficit		\$280.9m
Change from 07/2011		-3.4%

Source: PCBS

2012 Business Environment

The World Bank's *Doing Business* report assesses regulations affecting domestic firms in 183 economies, and ranks those economies against each other. The 2012 report ranks the West Bank and Gaza 131 out of 183, a drop of three places compared with last year.⁶ It did outperform other countries in the region: Djibouti (170th), Iraq (164th), Algeria (148th), Iran (144th), and Syria (134th).⁷ Overall, the report found that the MENA region is characterised

by weak legal institutions but simple and inexpensive regulatory processes.

Doing Business measures and tracks changes in 10 basic areas of regulations: starting a business; getting construction permits, electricity, and credit; registering property; protecting investors; paying taxes; trading across borders; enforcing contracts; and resolving insolvency.

The West Bank and Gaza performed well in terms of paying taxes (39th globally and 8th regionally) and protecting investors (46th globally and 3rd regionally). It ranked 85th for 'getting electricity', a new measure introduced this year. However, it scored poorly on other measures ranking 183rd in terms of resolving insolvency, 177th for starting a business and 166th for access to credit. One of the criticisms in the report was that the PA has not implemented any reforms of weak bankruptcy laws for four years.

ICT Sector

In October Mercy Corps, Google.org and the Source of Hope Foundation launched the Arab Developer Network Initiative (ADNI) in the West Bank and Gaza.⁸ Through technical and business training, peer-to-peer learning, mentorship, and a fund for high potential startups, ADNI is intended to spark innovation in the Palestinian ICT sector, generate income opportunities for youth, and engage 1,000 entrepreneurs in the first year. For the first two years of this initiative, Google.org and the Source of Hope Foundation have provided \$0.9m and \$1m of funding respectively.

Also in October, the Holy Land Christian Ecumenical Foundation held an IT Sector Forum in Washington, D.C. which aimed to support the Palestinian ICT sector by increasing foreign direct investment, creating technology job opportunities, generating social networks, and fostering advocacy initiatives, particularly between Palestinians at home and in the diaspora.⁹ The conference was organised in cooperation with the Palestinian IT Association (PITA), Palestine Telecommunications Group (Paltel Group) and the Bank of Palestine.

One of the participants was Reach, a subsidiary of Paltel Group and the first Palestinian specialised contact centre. Despite being only three years old, it won the Gold Medal for Best Outsourcing Partnership in Europe, Middle East, and Africa at this year's Contact Center World awards.¹⁰ Reach's agents, fluent in English, Arabic and Hebrew, answer more than 70,000 calls per day from around the world.¹¹

3 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=430156> and <http://english.wafa.ps/index.php?action=detail&id=17784>

4 See: http://www.unctad.org/en/docs/tdb58d4_en.pdf

5 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/RegExtTrd082011_E.pdf

6 See: <http://www.doingbusiness.org/~media/fpdkm/doing%20business/documents/profiles/country/WBG.pdf>

7 See: <http://www.doingbusiness.org/~media/fpdkm/Doing%20Business/Documents/Annual-Reports/English/DB12-FullReport.pdf>

8 See: <http://www.marketwatch.com/story/mercy-corps-googleorg-and-the-source-of-hope-foundation-to-boost-employment-in-palestinian-tech-sector-2011-10-10>

9 See: <http://www.hcef.org/images/stories/itsectorconcept.pdf>

10 See: <http://contactcenterworld.com/worldawards/regional-winners.aspx?id=54E3A14F-F584-4709-87F7-5BAB5DD781FB>

11 See: <http://www.reach.ps>

In other ICT news the German company AXSOS, which specialises in IT-security, IT-infrastructure, and custom software development, opened its first branch in the Middle East in Ramallah in October, investing over €100,000.¹² It will provide 50-100 new jobs for ICT graduates and specialists serving local and German clients. Frank Müller, AXSOS CEO, explained that the company chose the Palestinian Territory due to its 'high education rate, wide international exposure, [and] a large number of IT graduates.'

Economic Participation of Gazan Women

In October UN Women launched a report on the coping strategies which Gazan women have employed to manage households' lost incomes.¹³ The study focuses on the public sector, agriculture, and the informal sector.

The report found that women are increasingly entering the labour market to secure their households' survival as men have lost their jobs. In doing this, women are working within the constraints of community norms and often with a low skills and capital base. Even educated women can find it hard to find a job that is acceptable to their family. The report found that women often rely on self-employment, developing projects in line with the domestic skills they have, for example food production.

The report found this increase in women's labour market participation has not always translated into women's economic empowerment, which would include for instance control over assets that could be invested in micro-businesses. Lack of employment opportunities continues to be a problem for Gazan women as job creation programs target unemployed men.

Gazan women are one of the Palestinian social groups suffering from the highest unemployment rate: 43.6% in Q2 2011, compared to an overall rate of 18.7% for the Palestinian Territory and 25.6% for Gaza.¹⁴ Only 11.6% of females in Gaza participate in the labour force, using the International Labour Organisation measure.

Olive Sector

On the occasion of the start of the olive harvest season, OCHA reported that around 45% of Palestinian agricultural land is planted with 12m olive trees, most of which are in the West Bank. The olive oil industry provides a quarter of gross agricultural income supporting the livelihoods of about 100,000 families.¹⁵ Olive production is cyclical, with a bad year following a good one. It is expected that the 2011 harvest will add up to only about half of the 2010 harvest.¹⁶

OCHA documented that in January-September 2011 more than 7,500 Palestinian olive trees were uprooted, set on fire, or otherwise vandalized by Israeli settlers. Oxfam estimates the total cost of these actions to be about \$0.5m this year.

PA Fiscal Update

US Congress has recently lifted its hold on about \$150m of funds for the Palestinian Authority to spend on policing.¹⁷

At the time of going to press, the Government of Israel was still withholding \$100m in tax revenues that it had collected on behalf of the PA in October, UNESCO admitted Palestine as a member state of the organisation.¹⁸

2010 International Investment Position

In October PCBS and the Palestine Monetary Authority (PMA) published for the first time the International Investment Position (IIP) of the Palestinian Territory.¹⁹ IIP measures the difference between external assets (\$5,424m) and foreign liabilities (\$3,340m), for 2010.

The primary results show that in 2010 the amount which the Palestinian economy invested outside the Palestinian Territory exceeded foreign investment into the PA by \$2,084m. 58% of the total value of external assets came from cash deposits of local banks in foreign banks and cash exchange in the Palestinian economy. FDI in the Palestinian economy in 2010 equalled \$1,379m, or 41% of total foreign liabilities, while portfolio investments reached \$661m (18%). Loans from abroad (\$1,119m) contributed 36% of foreign liabilities.

2011 Palestinian Industrial Fair

From 29 October to 1 November the Federation of Palestinian Chambers of Commerce, Industry and Agriculture held the 2011 Palestinian Industrial Fair in Ramallah.²⁰ More than 100 Palestinian companies participated from a wide variety of industries. The fair was attended by representatives of the Palestinian public and private sectors, trade unions, NGOs, foreign diplomatic missions, international organisations, and local and Arab businesses.

Buildex Palestine 2011

On 18-20 October nearly 40 Palestinian companies participated in the 5th Buildex Palestine, a construction industry exhibition.²¹ Organized by PalTrade, the exhibition was sponsored by the Islamic Development Bank, NAPCO, Al-Mashriq Real Estate Company, and PIEDCO

12 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=434100>

13 See: <http://www.unwomen.org/publications/who-answers-to-gazan-women/>

14 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/LabourForce_q2e.pdf

15 See: http://www.ochaopt.org/documents/ocha_opt_oliveharvest_FactSheet_October_2011_english.pdf

16 See: <http://www.maannews.net/eng/ViewDetails.aspx?ID=430878>

17 See: <http://www.alarabiya.net/articles/2011/11/07/175952.html>, Bulletin 61 for background and <http://www.google.com/hostednews/ap/article/ALegM5hK9lde1vxO3zVjeSDmS3ujVTPQ>

18 See: <http://www.haaretz.com/print-edition/news/barak-overruled-as-pm-does-u-turn-israel-won-t-free-up-frozen-pa-revenues-1.395599>

19 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Pres-IIP-2011Eng-edited.pdf

20 See: <http://www.pal-fair.ps>

21 See: <http://www.buildexpalestine.ps/>

Holding. The participating companies came from a wide range of industries, including stone and marble, metal, plastics, insulation materials, chemicals, paints, concrete, elevators, and services. According to Dr Hasan Abu Libdeh, Minister of National Economy, the importance of Buildex is that it allows local businesses to promote their goods and services in order to increase their share in the local market, in addition to introducing the diversity and high quality of Palestinian products to consumers.²²

Jenin Industrial Estate

On 22 October Turkey agreed to donate \$10m to the PA for land acquisition to build the industrial zone in the city of Jenin.²³ Construction is expected to start in December.

Conference on Development and Reconstruction

The Development and Reconstruction of Palestine Conference was held in Amman on October 24 under the auspices of President Abbas and King Abdullah of Jordan with the objective to generate reconstruction and development in the Palestinian Territory and especially in Gaza.²⁴ Organised by the Palestinian Contractors Union, the conference was attended by high level delegations from the PA and the Palestinian private sector, in addition to representatives of the Quartet, the EU, the World Bank, the Islamic Development Bank, and prominent investors from Arab countries.

2011 Environmental Economic Survey

The average monthly water consumption of businesses in the Palestinian Territory in 2011 increased by 48.4% since 2009 to 4.3m m³ (3.2m m³ in the West Bank and 1.1m m³ in Gaza).²⁵ Water consumption in the West Bank almost doubled over the last two years from 1.7m m³ in 2009, while it decreased in Gaza from 1.4m m³.

22 See: <http://www.maannews.net/arb/ViewDetails.aspx?ID=430464>

23 See: <http://english.wafa.ps/index.php?action=detail&id=17832>

24 See: <http://www.alquds.com/news/article/view/id/305389>

25 See: http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1791.pdf and http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1597.pdf

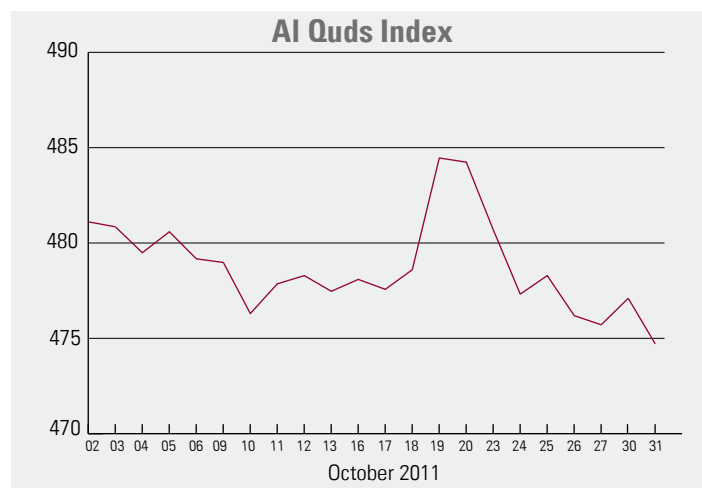
86.1% of businesses use the public water network for water supply, a decrease from 2009 (92.0%). 62.2% dispose wastewater in the wastewater network, an increase from 2009 (59.9%), and only 15.5% use porous cesspits.

On 18 October, the Consul General of France in Jerusalem delivered the results of a feasibility study on the establishment of a Palestinian training centre for professionals working in the water and sanitation sector.²⁶ This sector is a top priority in the Palestinian Territory for the French government, which has funded water projects worth €100m since 1998.

October Trading

In October the AI-Quds Index decreased by 1.33%, reaching its lowest level of 474.7 points on the last day of trading (31 October). This is the lowest value the index has had since 15 January 2009. The index peaked for the month on 19 October at 484.5.

A total of 16.7m shares worth \$34.6m were traded in 22 sessions during October. Market capitalisation was \$2.7bn. The top gainer was GLOBALCOM Telecommunications (GCOM) (up 43.90%), while the biggest decliner was the National Carton Industry (NCI) (down 11.69%).



Source: PEX

26 See: <http://www.consulfrance-jerusalem.org/spip.php?article3009>

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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