

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The Palestinian Authority and Government of Israel have agreed on new arrangements regarding the transfer of goods between Israel and the Palestinian Territory and related tax procedures.*

*A new Palestinian TV channel has been launched called Al-Falastiniya, it is the first private sector funded TV channel in the Palestinian Territory.*

*The Israeli Cabinet has increased the number of permits granted to Palestinian construction workers by 5,000.*

*22.4% of West Bank enterprises reported an improvement in their overall performance between Q1 and Q2 2012.*

*The Bulletin interviews Said Abuhijleh, CEO of Wassel Group, a publically traded Palestinian holding company with 6 subsidiaries specialising in distribution and logistics, security, leasing, cleaning, technology and event management.*

### Growing the Private Sector

On 19 July the World Bank launched a new report titled 'Towards Economic Sustainability of a Future Palestinian State: Promoting Private Sector-Led Growth' at the Palestine Economic Policy Research Institute (MAS). The report presents a comprehensive review of the evolution of the Palestinian economy and identifies concrete steps which can be taken now to help support private sector led growth.<sup>1</sup>

The report notes that the main constraints to private sector development are the restrictions imposed by the Government of Israel (GoI), but argues that it is very important for the Palestinian Authority (PA) to take steps to improve the business environment, both to help prepare the ground for a future possible state and to encourage increased investment now.

The World Bank suggests several priorities to help improve the business environment: accelerating the process of land registration; continuing to develop water and power infrastructure; continuing to develop the financial sector beyond the banking sector; establishing an independent telecommunications regulator and making more progress in the legal environment, including passing the competition law.

A substantial section of the report is devoted to steps that can be taken to improve the education system: acknowledging that insufficient demand for workers is a problem, the World Bank points out that high unemployment rates can also be caused by skill mismatches where workers are not equipped for the demands of employers. It says that 'recent focus groups... clearly identified the lack of relevant skills as well as the low level of competencies and experience of graduates to be among the most important constraints to employment of youth in the West Bank and Gaza.' The World Bank suggests that although the PA has ensured high levels of school attendance and literacy, it needs to do more to support innovative programmes with an emphasis on critical thinking, problem-solving and hands-on learning experiences. In line with this, the World Bank recommends strengthening ties between the technical and vocational education and training institutions and the private sector. In addition, the PA needs to facilitate the transition from education to work by providing graduates with job matching services.

Regarding early childhood development, the Bank highlights some of the PA's successes: for instance the West Bank and Gaza is an outstanding performer in terms of indicators for early childhood nutrition. Equally, school enrollment has always been high, and access to primary education is near universal. However despite this, the quality of education and basic learning outcomes need to be improved.

In terms of foreign trade, the World Bank underlines that the Palestinian economy needs to focus on trade in intermediate goods and on exports of high value products. Increasing trade however requires a stable macroeconomic and fiscal environment, a better business environment (to attract investment), improved trade facilitation (to reduce costs) and a highly skilled labour force with high levels of productivity.

<sup>1</sup> [siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf](http://siteresources.worldbank.org/INTWESTBANKGAZA/Resources/GrowthStudyEng.pdf)

## Transfer of Goods from Israel

On 31 July the PA and the Gol agreed on new arrangements which will commence in January next year regarding the transfer of goods between Israel and the Palestinian Territory and related tax procedures.<sup>2</sup> It will mean that the tax clearance mechanism regarding VAT, purchase taxes and import taxes will be based on the actual and accurate transfer of goods between Israel and the PA, replacing the current practice of calculating such taxes on the reported transfer of goods. The new arrangements are expected to facilitate the movement of goods and reduce illegal trade and tax evasion. In its March report on the Palestinian economy, the IMF noted that clearance revenue collected by the Gol on behalf of the PA represents about 70% of total budgetary revenue. Only a 5% increase in clearance revenue could raise \$75m, but in contrast it would take a 50% increase in domestic income tax revenue to yield the same result.<sup>3</sup>

The agreement also includes provisions for the establishment of Palestinian storage facilities for imported goods and the construction of pipelines for the safe transfer of petroleum products from Israel to the Palestinian Territory.

Separately, the Gol advanced the transfer of NIS 180m of the monthly tax revenues to the PA.<sup>4</sup> The money was transferred before Ramadan to help the PA pay the salaries of public sector employees amidst the ongoing financial crisis. Israel collects an average of \$140m in customs and VAT revenues on behalf of the PA per month, according to MAS.

## Launch of a New TV Channel

A new Palestinian TV channel, Al-Falastiniya, has been launched by former Palestine TV journalist Maher Shalabi with backing from the Massar International investment fund.<sup>5</sup> This is the first private sector funded TV channel in the Palestinian Territory and will rely mostly on Palestinian produced content for its programming. Bashar Al-Masri, Chairman of Massar, explained that although he does not expect significant returns on the investment, he does expect considerable returns in terms of creative output and positive impact on the Palestinian community.

## Permits to Work in Israel

The Israeli cabinet has decided to increase the number of permits granted to Palestinian construction workers by 5,000.<sup>6</sup> The quota will be subtracted from the number of foreign workers allowed into Israel and will not affect Israeli workers.

## Business Perceptions Q2 2012

22.4% of West Bank enterprises reported an improvement in their overall performance between Q1 and Q2 2012, compared with only 7.5% in Gaza.<sup>7</sup> 67.9% of all Palestinian enterprises reported that their situation stayed the same, while 11.2% said that it had deteriorated.

Only 32.8% of owners and managers expect improved general performance in the next quarter. 56.2% expect the performance of their enterprise to remain unchanged and 9.9% expect it to worsen.

## Transport and Communication Statistics

New PCBS figures show that the number of licensed vehicles in the West Bank increased from 121,565 in 2010 to 138,644 in 2011.<sup>8</sup> The number of cellular phone subscribers grew by 11% from 2010 to 2011, reaching 2.9m. The number of main telephone lines increased by 6.2% to 382,700.

## Increase in VAT

The PA has announced that its VAT rate will increase by one percentage point to 15.5% from September, which is estimated to bring in an extra \$20-30m of tax revenue annually.<sup>9</sup> The PA is required by the Paris Protocol to maintain a VAT rate that is not lower than two percentage points below the Israeli VAT rate.<sup>10</sup> The Israeli Ministry of Finance will raise its VAT rate to 17% from September.<sup>11</sup> The PA has also raised taxes on alcohol products, cigarettes and tobacco, once again following a similar decision by Israel.<sup>12</sup>

## Banking News

Last month Dr Jihad Al-Wazir, Governor of the Palestine Monetary Authority (PMA), and Abd Allatif Aljawahiri, Governor of the Bank of Morocco, signed an agreement to share knowledge and exchange experiences to help develop their respective banking and financial sectors.<sup>13</sup> The PMA has similar agreements with the central banks of Jordan and Egypt.

## IT Initiatives

The Mowgli Foundation, a UK mentoring organisation, and the Palestine Information and Communications Technology Incubator (PCTI), have launched a partnership to mentor entrepreneurs in the Palestinian Territory.<sup>14</sup> The initiative will recruit and train mentors, partner them with entrepreneurs and lead future year-long mentoring programmes.

2 [www.financisrael.mof.gov.il/Financisrael/Docs/En/pressReleases/20120801.doc](http://www.financisrael.mof.gov.il/Financisrael/Docs/En/pressReleases/20120801.doc)

3 [www.imf.org/external/country/WBG/RR/2012/032112.pdf](http://www.imf.org/external/country/WBG/RR/2012/032112.pdf)

4 [www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=278536](http://www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=278536)

5 [arabic.pnn.ps](http://arabic.pnn.ps) <http://bit.ly/MT5kSK>

6 [www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=278536](http://www.jpost.com/DiplomacyAndPolitics/Article.aspx?id=278536)

7 [www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/english.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/english.pdf)

8 [www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/trans\\_comm2011e.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/trans_comm2011e.pdf)

9 [www.maannews.net/eng/ViewDetails.aspx?ID=510104](http://www.maannews.net/eng/ViewDetails.aspx?ID=510104)

10 [www.nad-plo.org/userfiles/file/Document/ParisPro.pdf](http://www.nad-plo.org/userfiles/file/Document/ParisPro.pdf)

11 [www.financisrael.mof.gov.il/Financisrael/Docs/En/pressReleases/20120801\\_2.doc](http://www.financisrael.mof.gov.il/Financisrael/Docs/En/pressReleases/20120801_2.doc)

12 [www.maannews.net/eng/ViewDetails.aspx?ID=508336](http://www.maannews.net/eng/ViewDetails.aspx?ID=508336)

13 [www.pma.ps](http://www.pma.ps)

14 [www.wamda.com/2012/07/mowgli-welcomes-new-ceo-signs-agreement-with-picti-in-palestine](http://www.wamda.com/2012/07/mowgli-welcomes-new-ceo-signs-agreement-with-picti-in-palestine)

Meanwhile, ALWANE Palestine and PICTI have launched the 'Stay Online - 5aleek Online' initiative, which aims to explore the potential of 'teleworking', or working online, in the Palestinian Territory. Teleworking is seen as a solution to the growing problem of unemployment amongst Palestinian graduates and women.<sup>15</sup>

## Date Production in Jericho

Jericho has tripled its production of dates since 2010, reaching around 2,360 tonnes in 2012 according to official estimates from the Ministry of Agriculture.<sup>16</sup> Local demand is estimated to be 8,000 tonnes annually, with the shortfall being supplied by Israeli date producers.<sup>17</sup>

The rise in Palestinian date production has been helped by private sector investment. The Nakheel Palestine project, launched by PADICO in 2010, is set up over a total land area of 2,500 dunums. 7,500 palms have already been planted on 600 dunums and it is expected that the rest of the area will be planted by 2013.<sup>18</sup>

## Foreign Aid

Japan has announced that it will provide \$10.3m in direct budgetary support to the PA.<sup>19</sup> Since 2007 Japan has extended \$95m non-project grants to the PA. In addition, Germany donated €2m to UNRWA's 2012 Emergency Appeal to help feed 667,500 food insecure and vulnerable refugees in Gaza.<sup>20</sup>

## Study on King Hussein Bridge

The Palestinian Shippers' Council (PSC) has released a substantial report about the King Hussein Bridge, the West Bank's only direct gateway to regional and international markets.<sup>21</sup> The Gol has sole control of security and operations at and around the terminal. The study, based on a business survey, finds that despite the good location of the Bridge most Palestinian shippers prefer to use the Israeli ports of Haifa and Ashdod because of the procedures at the Bridge which impede the flow of trade. For example, goods must be packed in pallets rather than in containers and only one type of product can be packed in each pallet. The unloading and reloading process which is required for the goods to be inspected can take several hours, creating delays, risking damage to the cargo and exposing agricultural goods to outdoor conditions. It also increases costs: for example, according to the report, a private Israeli company responsible for the unloading/reloading process charges Palestinian shippers for handling the pallets (\$6 for exports and \$8 for imports).

Earlier this year, the Dutch government agreed to purchase a new scanner for the crossing which should

allow containerised trade.<sup>22</sup> According to the PSC, use of containers could save about 50% of the costs of importing and exporting. However the report says that a new scanner is insufficient, and recommends that the back-to-back system for the movement of goods is eliminated, and that an effective PA presence is re-established at the crossing to defend the interests of the Palestinian shippers.

## May Foreign Trade

Figure 1: Trade in Goods for May 2012<sup>23</sup>

	Exports	Imports
Level	\$64.3m	\$385.8m
Change from 04/2012	+6.0%	+5.0%
Change from 05/2011	-4.9%	-2.7%
To/from Israel (% of total)	87.9%	65.0%
<b>Trade deficit</b>		\$321.5m
Change from 04/2012		+4.8%

Source: PCBS

## Interview with Wassel Group

This month the Bulletin interviews Said Abuhijleh, CEO of Wassel Group, a publically traded Palestinian holding company with 6 subsidiaries specialising in distribution and logistics, security, leasing, cleaning, technology and event management. Wassel has a market capitalisation of JD 6.5m, employs more than 1,000 Palestinians and has roughly 15,500 shareholders.

### You've had good results in Q1 2012 compared with the previous quarter, is this part of a trend?

Our excellent first quarter financials are a direct result of the company's new strategic commitment to improvement in every aspect of our operations – all products, all services, all markets. And we're focused on recruiting high quality mid- and senior-level management to drive this plan through.

### Do you have any leading examples of this?

Well, it's a very exciting time for our leasing business, PalLease. PalLease has just seen a dramatic increase in its paid-up capital concurrent with its planned IPO and listing on the PEX, the Palestinian stock exchange. It has expanded its product line as well to include not only leased cars but also high volume printers and copiers, hi-tech and specialised office machines and heavy-duty construction vehicles and equipment. We find that there is more and more interest from the private sector in increasing capacity by upgrading equipment, and leasing can help them to accomplish that in a cost effective way.

The Palestinian Authority doesn't yet have an asset registry in place, but I know it's a work in progress. Once it becomes available, the registry will make a dramatic

15 [www.ameinfo.com/alwane-picti-launch-initiative--307491](http://www.ameinfo.com/alwane-picti-launch-initiative--307491)

16 [www.maannews.net/eng/ViewDetails.aspx?ID=507280](http://www.maannews.net/eng/ViewDetails.aspx?ID=507280)

17 Ministry of Agriculture figures

18 [www.padico.com/Public/English.aspx?Site\\_ID=1&Page\\_ID=635&PPID=1302](http://www.padico.com/Public/English.aspx?Site_ID=1&Page_ID=635&PPID=1302)

19 [www.ps.emb-japan.go.jp/PressRelease/PressRelease2012/n29Jul2012.pdf](http://www.ps.emb-japan.go.jp/PressRelease/PressRelease2012/n29Jul2012.pdf)

20 [www.unrwa.org/etemplate.php?id=1411](http://www.unrwa.org/etemplate.php?id=1411)

21 [www.ldf.ps/documentsShow.aspx?ATT\\_ID=5905](http://www.ldf.ps/documentsShow.aspx?ATT_ID=5905)

22 Bulletin 66, March 2012.

23 [www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/extTrd052012E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/extTrd052012E.pdf)

difference to the market. PalLease is preparing for this event as well the IPO. The IPO will bring in even more capital and will also contribute to the atmosphere of transparency and good corporate governance that is a prerequisite for both domestic and foreign investors.

### **What about the other parts of the Wassel family?**

We're also expanding our logistics and distribution subsidiary. Wassel Logistics is an established provider of courier services and we've been fine-tuning and expanding our cargo and freight-forwarding expertise for some time now – we have very important partnerships with the global giants UPS and TNT and have fully functioning offices in both Jerusalem and Jordan. Wassel Logistics is also moving towards the provision of more complex services such as supply chain and warehouse management.

Our reproduction equipment company, PalTech, has invested heavily in its relationship with Xerox. We now have the right to sell and lease machines directly to clients as well as to provide maintenance services. We've trained many new field engineers to service these complex pieces of equipment.

We've also just forged a very important franchise agreement between PalClean and one of the best cleaning companies in the world, BG from Iceland, which will allow PalClean to offer residential, commercial and industrial cleaning services in this market.

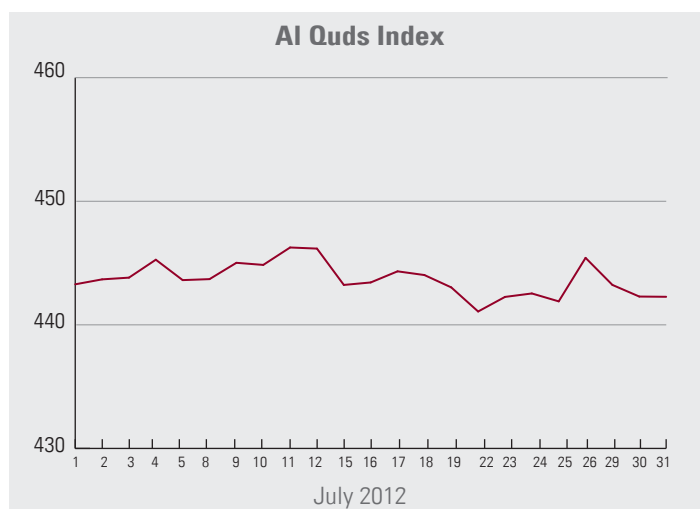
### **It's often said that there is a disconnect between the skills of Palestinian graduates and the needs of the private sector. Is that your experience?**

No, that statement does not reflect our experience at all. The private sector can't expect tailor-made staff straight out of university – this doesn't happen in any market, including the US and Europe. Companies everywhere need to invest in training their staff and to concentrate on providing employees with the skills they need to do their jobs properly. For instance, I've just sent two of my PalClean staff to Iceland for three weeks for training in BG's headquarters. My philosophy at Wassel is to recruit people with the right mindset, and the right background – and then provide first-class on-the-job training. It's a formula you'll find in all successful companies.

### **How do you see the prospects for the Palestinian economy?**

I believe that the largest untapped market opportunity in Palestine lies in the services industry. We haven't come close to meeting the pent-up demand for services of all kinds. We're educating clients about the benefits of leasing, the benefits of cleaning hotels to a high standard, for instance, and that investment in client education in turn drives increased demand. There's much more to be done in this sphere.

It's clear that we're at a difficult juncture, with fiscal concerns preoccupying the Palestinian Authority and an overall need for more foreign direct investment. In the private sector however, it's our responsibility to focus on what we do and to do it to the best of our ability. In this way we support each other and we support our government – we must continue not only to hope, but to work hard for a better future.



### **July Trading News**

In July the AI-Quds index declined for the fourth consecutive month closing 0.39% down at 442.3 points on the last day of trading. The index reached its highest (446.3) and lowest (441.1) values on 11 and 22 July respectively. A total of 5.4m shares worth \$7.8m were traded in 23 sessions. Market capitalisation was \$2.6bn.

## 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](mailto:feedback@portlandtrust.org)

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