

PALESTINIAN ECONOMIC BULLETIN

Issue 107

August 2015

Main reports

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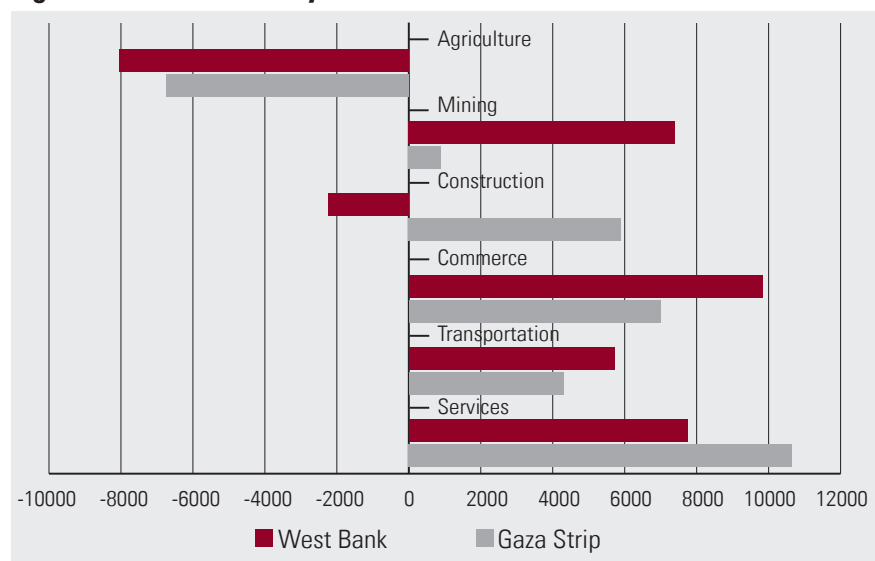
Labour Market

Total unemployment in Palestine reached 24.8% in the second quarter of 2015, down from 26.2% in Q2 2014 and 25.6% in Q1 2015. The year-on-year change is mostly explained by a drop of three percentage points in Gaza's unemployment rate (from 45.1% in Q2 2014), which continues to be extremely high.

The number of employed in Gaza grew by 22,000 from Q2 2014. This explained the slight improvement in Gaza's employment, as the number of labour force participants rose by just 14,200. The services sector absorbed almost 50% (10,650 persons) of the new jobs, followed by commerce, restaurants and hotels (32%) and construction (27%). At the same time, around 6,700 jobs were lost in agriculture and fishing. As a result, agriculture's share of total employment in Gaza decreased from 10.0% in Q2 2014 to 6.7% in Q2 2015. The modification in the sectorial composition of total employment could be indicative of a transition away from subsistence agriculture, as opportunities in other sectors showed a slight recovery from the previous year.

In the West Bank, the unemployment rate decreased from 16% in Q2 2014 and 16.3% in Q1 2015 to 15.4% in Q2 2015. The year-on-year drop was a result of a net increase of 20,400 jobs. While around 10,300 jobs were lost in agriculture and construction, more than 30,000 jobs were added in commerce, restaurants and hotels; services; mining and transportation (Figure 1).

Figure 1: Jobs created by economic sector, Q2 2015-Q2 2014, thousands



Source: PCBS

Unemployment among youth also saw a slight decrease from Q2 2014, although it continues to be very high (Table 1). Unemployment among Palestinian recent graduates decreased from 34.6% in Q2 2014 to 31.4% in Q2 2015 (to reach 22.5% in the West Bank and 42.2% in Gaza).

Table (1): Youth unemployment rate by age group and region, Q2 2014 and Q2 2015 (%)

Age Group	15-19		20-24	
	Q2 2014	Q2 2015	Q2 2014	Q2 2015
Palestine	37.5	31.6	42.8	41.7
West Bank	26.4	19.7	27.5	28.6
Gaza Strip	62.1	58.3	68.6	63.1

The number of West Bank workers in Israel and Israeli settlements increased from 109,400 in Q2 2014 and 110,300 in Q1 2015 to 112,200 in Q2 2015. Of this total, 65% are employed in construction activities.

The average daily net wage for Palestinians employed in Israel and Israeli settlements remains significantly higher (196.4 NIS) than in both the West Bank (94.2 NIS) and Gaza (61.3 NIS). Whilst wages in Israel and Israeli settlements and the West Bank increased by 7% and 4%, respectively, average daily wages in Gaza remained unchanged.

West Bank Business Delegation Visits Gaza

A delegation of over 100 businesspersons from the West Bank, including representatives of private sector institutions such as PalTrade, the Palestinian Federation of Industries and several chambers of commerce, visited Gaza during the last week of July.¹ The visit marked an initial step towards reestablishing business links, following years of complete separation between Gaza and the West Bank, due to the Israeli blockade on Gaza and political division between the Palestinian factions.

The two-day visit included a plenary meeting at Gaza City's Chamber of Commerce and Industry, which was attended by many of Gaza's private sector leaders. Walid Al-Hussari, Chairman of the Gaza Chamber of Commerce and Industry and Deputy Head of the Palestinian Federation of Chambers of Commerce, Industry and Agriculture, briefed participants about the severe economic conditions facing Gaza and called for cooperation with the West Bank as a means of helping the reconstruction process through increased investment.

The West Bank delegation visited several factories that were destroyed during the 2014 war, including the Beit Hanoun industrial area. Representatives of a wide range of economic sectors discussed key challenges and explored avenues for cooperation in food processing, metallurgical activities, construction and other industries.

The mission was led by Mr Khalil Rizeq, President of the Federation of Commerce, Industry and Agriculture and Head of the Coordinating Council of Private Sector Institutions in the West Bank. According to Mr Rizeq, the private sector has a key role to play in achieving political

and economic stability in Gaza. Furthermore, Mr Rizeq emphasised that President Mahmoud Abbas encouraged participants to exert all necessary efforts to strengthen economic relations as a necessary condition for boosting the national economy.

Mr Rizeq told the Bulletin: "I will be back in Gaza in September, together with the Chairman of the Union of Chambers and Commodity Exchanges of Turkey, Mr Mustafa Rifat Hisarcıkloğlu. We will visit businesses to explore opportunities in Gaza, especially in tourism and industrial activities. We see great potential to develop the domestic tourism segment. The recently inaugurated Blue Beach Resort is a great example of the entrepreneurial and investment spirit of the people of Gaza."²

Coding Summer Camp

On 1 August, Palestinian mobile communications company Jawwal launched "Learn How to Code", a summer camp aimed at training young students in the field of IT, focusing on the development of coding, business and leadership skills.³ The camp is part of "We Code", a broader programme to strengthen coding capabilities in Palestine, implemented by Jawwal in partnership with the Paltel Group Foundation. The coding summer camp seeks to improve the quantity and quality of ICT graduates by focusing on the foundations of the ecosystem, encouraging critical thinking and innovation among young students interested in technology.

"We Code" will run through to 2017, training 25 students per year. The 2015 camp hosted 15 students from the West Bank and 10 students from Gaza, who will be starting 9th grade (14-15 years of age) in the 2015-2016 schooling year. Students were selected through an application process, which included IQ and English language tests. Following the two-week summer camp at the Paltel Group Training Academy in Jericho, students will remain engaged in a three-year programme. During the first year students will learn the fundamentals of object-based programming; develop problem solving, teamwork and entrepreneurial skills; and complete small-scale programming projects. Year two will cover advanced technologies and train students in presentation and management skills. During the final year students will be expected to complete a graduation project, consisting of a modern, full-scale computer system. The programme is supported by students and graduates from Stanford University, who acted as instructors during the summer camp and will remain engaged over the coming years.

ICT is regarded as a high potential sector for growth and quality job creation in the Palestinian economy. The

2 www.clients.sadaf.ps/Blue/en/about

3 www.paltelgroup.ps/?TemplateId=2&PageId=0&ParentId=3&MenuId=41&Lang=ar#698

1 www.maannnews.com/Content.aspx?id=766678

early development of coding and other technology skills is crucial to set solid foundations for a vibrant high-tech ecosystem in Palestine. The sector has grown through software development outsourcing over the past few years, building on its relatively strong talent base. However, further expansion and the development of higher value services will require a larger pool of skilled software developers and programmers, something that both outsourcing companies and venture capital investors note is missing. Among the main constraining factors is the fact that the Palestinian educational system offers students very limited interaction with technology and does not foster critical and innovative thinking. While a structural reform is pending, private sector-led initiatives like “We Code” can help bridge the skills gap and set the foundations for the long-term development of the sector.

Know Thy Heritage

In early August, the Holy Land Christian Ecumenical Foundation (HCEF) hosted the fourth international conference for the Palestinian youth in the Diaspora, as part of the 2015 Know Thy Heritage (KTH) Leadership Programme.⁴ The conference, held in Bethlehem, was attended by political figures, Muslim and Christian religious representatives and representatives of supporting organisations. The annual KTH Leadership Programme seeks to empower Palestinian youth in the Diaspora by strengthening their knowledge of the Palestinian identity, culture, history and traditions. Participants partook in activities aimed at enhancing their understanding of Palestine’s economic and socio-political landscape.⁵ The delegation, comprised of 40 Palestinian youth from the US, Chile, Honduras, El Salvador, Nicaragua, Colombia, Italy, Australia, Qatar and Jordan visited the country from 22 July to 5 August.

Diaspora engagement initiatives such as KTH could have a catalytic role in connecting young global talent and wealth creators with the Palestinian economy. HCEF Regional Director, Anthony Habbash, emphasised the economic agenda of the conference, saying that “through a new initiative for world business leaders (we) let the delegates explore the Palestinian market and promote it for investment and development (abroad).”

Interview with Abeer Odeh

This month the Bulletin interviews HE Abeer Odeh, who was sworn in as Minister of National Economy in early August. Prior to becoming a Cabinet Minister, Mrs. Odeh worked with several international organisations in Palestine and served as the CEO of the Palestine Capital Market Authority (PCMA) from 2009.

Why do you think investment has declined steadily over the past few years?

In Palestine we have a sieged economy. We live with restrictions, for example, border crossings, restrictions, Area C of the West Bank. There are, unfortunately, many investment plans frozen due to the policies of the occupation. For example, telecommunications companies have not been granted permission to operate normally or to access 3G frequencies, which have prevented investments of hundreds of millions of dollars.

Although political risk drives away investors, there are good examples of resilient companies and those who invest are making profits. Around three quarters of the companies listed on the Palestine Exchange achieve positive results. However, an improved political environment would have a very positive impact on the market. Whilst negotiations with Israel were underway at the beginning of 2014, the exchange was performing exceptionally well, but the collapse of the peace process dramatically reduced trade.

What can be done to improve the business climate?

The business climate can be improved by attracting new investments through improving border crossings and reducing restrictions, which will help new businesses in Palestine to create jobs and improve GDP.

However we are continuing to support investors. During my time as CEO of the PCMA we were very successful at creating a strong legislative and regulatory framework for listed companies and, as a result, Palestine was admitted as a member of the International Organization of Securities Commissions in 2014. This was not a gift, but an important achievement after four years of thorough evaluations and a review of our laws and regulations. I am convinced that this kind of achievement will help us overcome our challenges and give foreign investors the confidence to invest in the Palestinian economy.

Much of your past work focused on SMEs, what role should they have in the economy?

Over 90% of all enterprises in Palestine are family-owned SMEs, so naturally we should be supporting them. The success of small businesses will positively affect the entire economy. However, the harsh reality is that most family-run businesses in Palestine close down after the second generation, partly due to insufficient support from both investors and institutions. A viable legal framework can make a difference. For example, most SMEs cannot afford purchasing critical equipment to grow. Thanks to the 2014 leasing law companies have the right framework to work closely with SMEs and lease equipment to them. Prior to the law the majority of leasing companies focused on vehicles, as they can serve as collateral, whilst machinery and equipment were harder to be resold in case of default. This is why we are currently working on

⁴ www.english.pnn.ps/2015/08/02/know-thy-heritage-2015-launches-fourth-international-conference/

⁵ www.kthps.org/our-mission/

the launch of an assets registry, which by making asset ownership clearer, facilitates the leasing of equipment to SMEs and increases their access to bank credit.

Beyond the challenges, what are the main strengths of the Palestinian economy?

Palestine has a very open economy, unlike many countries in the region. We welcome and protect foreign investors. I am very proud of this openness. Despite the challenges, we need to use each and every opportunity to market Palestinian products abroad, to reach new international markets and to give export oriented companies the opportunity to grow. For example, this year is the first time that Palestine will participate in the global EXPO, taking place in Milan.

What sector offers the greatest opportunities moving forward?

One sector that I believe is particularly important for the Palestinian economy is industry, unfortunately, trade has become dependent on the Israeli market, 97% of imports and 89% of exports are made to/from or through Israel. Tourism is also important for the Palestinian economy. Unfortunately, it is the first to be affected by any political conflict and the last to recover. But it is a critical sector with great potential, especially if the political situation is stable.

The labour market continues to be characterised by very high unemployment. What should the priorities be for job creation?

In order to create employment, sustainable projects are needed. The Palestinian economy is heavily dependent on donors, which come with limited-time projects. Such projects, especially in infrastructure, offer direct, immediate jobs but are not sustainable. Moving forward, additional job creation will need to come from the private sector.

How do you see the role of the private sector and what can the government do to support businesses' efforts?

The Ministry will work closely with the private sector. In my first two weeks as a Minister, I have held several meetings with representatives of the private sector. I will remain very open and continue to promote dialogue.

In terms of policy, we will focus on creating an adequate enabling environment for expanding businesses. During my time at the PCMA, I noticed that although listed

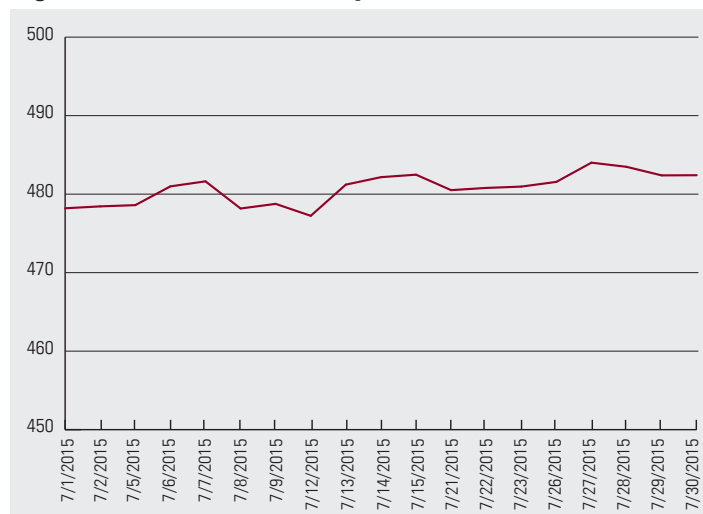
companies were generally profitable, they struggled to grow. These are public companies, which means that they are looking for investors, but they cannot rely on Palestinian money alone. Thus, foreign investments are of crucial importance. To boost foreign investment we need to work on key economic laws. My short-term priority will be promoting a new Companies' Law. It is not possible that in 2015 companies in the West Bank operate under Jordanian law from 1964, while business in Gaza work under Egyptian law, dated back to 1929. These laws need to be brought up to date and united to govern companies within the Palestinian State.

July Trading

In July the Al-Quds index increased by 0.8% from June, reaching 482.4 points on the last day of trading.⁶ A total of 8.5m shares worth \$26.8m were traded during the month. This marked an increase of 8.5% in the volume and of 110.7% in the value of traded shares from June 2015. Market capitalisation increased over the month by 0.9%, reaching \$3bn.

The three largest companies listed on PEX disclosed their financial statements for the first half of 2015. Both Bank of Palestine and PADICO announced a 1.2% increase in net profit from H1 2014, reaching \$22.8m and \$15.2m, respectively. Palestine Telecommunication (Paltel) achieved net profits of JOD 42.7m (\$60m), a drop of 11% from H1 2014.

Figure 2: Al-Quds Index, July 2015



⁶ www.pex.ps/PSEWebSite/NASHRA/20150630.pdf

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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