

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The PA Ministry of Planning and Administrative Development unveiled the PA's National Development Plan for 2014-2016

During Q1 2014, inflation measured by the consumer price index increased by 2.2% with respect to Q1 2013

In 2013 the number of guests and guest nights in Palestinian hotels increased by 4% and 10% from the previous year, respectively

In Q1 2014 34 out of the 49 listed Palestinian companies achieved joint net profits worth \$92.5m, up by 10.6% from Q1 2013

This month the Bulletin interviews Sami Abu Dayyeh, CEO of Net Tours Co, one of the largest tour operators in the Middle East

Labour Market

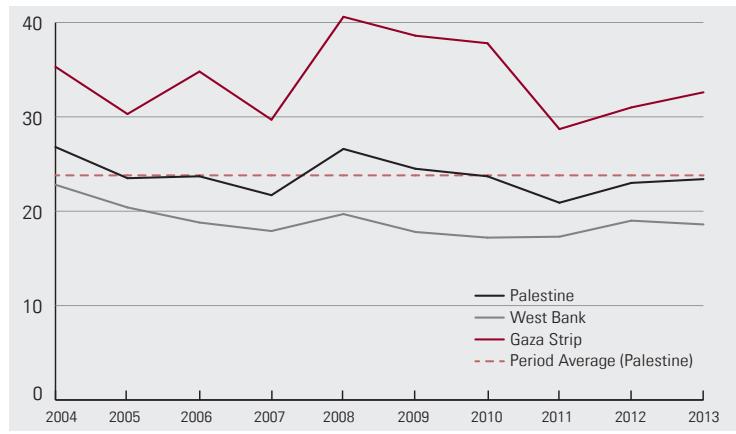
In Q1 2014 total unemployment in Palestine reached 26.2%, up from 25.2% in the previous quarter and 2.3 percentage points higher than in Q1 2013.¹ The year-on-year change was fully explained by a sharp rise in the unemployment rate in Gaza, which reached almost 41% in Q1 2014 (its highest level since 2008), up from 31% in Q1 2013.

The rise in unemployment in Gaza was mostly driven by an absolute loss of around 12,500 jobs in the construction sector, greatly affected by the destruction of trading tunnels with Egypt and the long-standing restrictions on imports of construction materials from Israel. As a result, construction's share of total employment in Gaza decreased from 6.9% in Q1 2013 to 2.2% in Q1 2014. At the same time, in the West Bank more than 29,000 jobs were added in commerce, hotels and restaurants, and around 20,000 new positions were created in construction activities between Q1 2013 and Q1 2014.

Total unemployment in Q1 2014 was higher among women (36.5%) than among male workers (23.3%). The increase in total unemployment was partly explained by a rise in total labour force participation (LFP). As more workers entered the labour market, LFP reached 46.3% in Q1 2014, up from 43.4% in Q1 2013. LFP increased the most among Gazan women on a year-to-year basis (+5.1 percentage points), making female LFP in Gaza (20.5%) higher than in the West Bank (19.8%). However, female LFP continues to be low at an aggregate level, reaching 17.3% (against 69.3% among men). This is a common feature of several countries in the region, as LFP rates among Syrian, Egyptian, Jordanian and Lebanese women are equally low (ranging between 13-24%). Cultural reasons seem to be the main underlying factor keeping women out of the labour market, as almost 70% of Palestinian women who were not looking for a job in 2013 carried out housework.

Annual data for 2013 shows that total unemployment, at 23.4%, reached its highest level since 2010. Following a long-term trend, the total unemployment rate was much higher in Gaza (32.6%) than in the West Bank (18.6%).

Figure 1: Total Annual Unemployment Rate (%); (2004-2013)



Source: PCBS

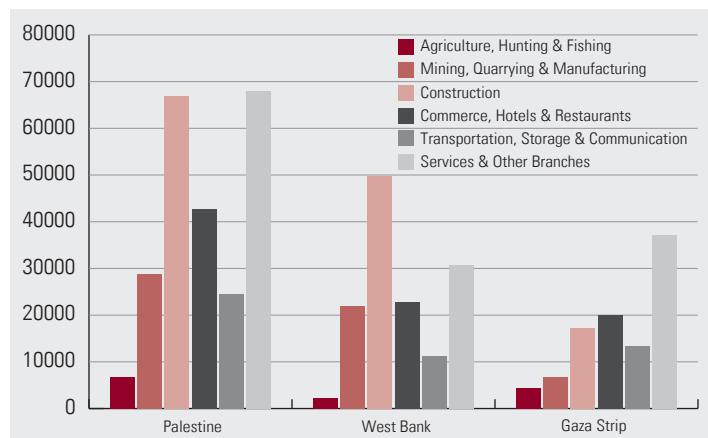
¹ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ12014E.pdf

In 2013 37.7% of all unemployed in Palestine had never worked: 27.1% of unemployed men and 63.4% of unemployed females. Not only this constitutes a current problem but also it is likely to have a long-term impact on the Palestinian labour market. Persistent unemployment depreciates human and social capital for the jobless, as they usually end up looking for employment opportunities in fields unrelated to their expertise and background. These individuals are also likely to earn less once they find a job, because of deteriorated skills and/or their willingness to accept lower remunerations. Long term unemployment also usually discourages job seekers, who may decide to give up on their search and simply leave the labour force.²

Prolonged unemployment, coupled with high youth unemployment (43% among those aged 15-24), marks an urgent need to support fresh high-school and university graduates as they seek for their first job through vocational training and hands-on experience programmes. In 2013 almost 37% of Palestinian males aged 15-24 were unemployed, the highest rate in the region. In the same period female youth unemployment reached a high 64.7%, a rate close to that registered in Egypt, but much higher than in Israel (13%), Lebanon (22%), Syria (41%) and Jordan (51%).³

Unemployment figures with respect to educational attainment levels indicate a lack of opportunities for high-skilled, educated workers. In 2013 unemployment was highest among individuals with 13 or more years of schooling and lowest among uneducated workers. In Gaza, more than 60% of the most educated women were unemployed. Between 2008 and 2013 the majority of jobs were created in the construction and low-end services sector (which were also the largest relative employers over the same period), which typically employ unskilled workers: only 6.6% of all construction workers in 2013 had 13+ years of schooling in 2013. This is signalling that, despite national development goals on the modernisation of the economy and efforts by the private sector and the donor community, the Palestinian economy is failing to shift towards a knowledge-based economy.

Figure 2: Thousands of Jobs Created by Economic Activity, 2008-2013



Source: MAS calculation using PCBS data

Efforts need to be oriented towards the creation of more sustainable job opportunities in higher-skill and higher-impact industries, leveraging the available pool of local talent. As the largest employer in the economy (63.2% of all employed in 2013), the private sector should lead the job creation process. Speaking at a roundtable discussion recently organised by The Palestine Economic Policy Research Institute (MAS), Dr Mohammad Mustafa, Deputy Prime Minister for Economic Affairs, estimated that in the next ten years the government will create only 20,000-30,000 new jobs. This figure, in line with measures adopted by the Palestinian Authority (PA) to freeze net hiring of public sector employees, is much lower than the nearly 82,000 jobs created by the government over the past decade.

PA National Development Plan 2014-2016

The PA Ministry of Planning and Administrative Development (MOPAD) unveiled the PA's National Development Plan (NDP) for 2014-2016. The plan, agreed upon by a wide range of stakeholders including government, the private sector and the civil society, provides a strategic policy framework, setting national priorities for the coming years, and providing guidelines for governmental management and development interventions. The NDP was designed on the basis of integrated planning and budgeting to ensure a coherent, participatory, results-based approach to policy development and implementation. It is structured around four main areas, each with specific budgets: Economic Development and Employment (\$287m), Good Governance and Institution Building (\$392m), Social Protection (\$410m), and Infrastructure (\$418m).

The strategic objectives on the Economic Development and Employment front include the need to increase investment, promote job creation, improve the enabling environment for business, boost the national production capacity and competitiveness, and develop entrepreneurial and innovative initiatives among women and youth. The NDP allocates \$287m (19% of total development expenditure

² www.urban.org/uploadedpdf/412887-consequences-of-long-term-unemployment.pdf

³ Data for Egypt, Israel, Lebanon, Syria and Jordan corresponds to 2012. Source: World Bank

for 2014-2016) to economic development, an increase of 3% from the previous three-year NDP. Of that total, 37% will be devoted to national economic development initiatives, including the improvement of the business climate, private sector support measures and the development of an enabling legislative framework. While 6% of the budget is assigned to labour force development policy (creation of decent employment opportunities and skills development), 4% will go to fostering tourism (renovation and rehabilitation of key touristic sites) and 10% to information technology and post services (development of the government's IT network and adoption of e-government programmes). Importantly, 43% of total development expenditure (\$123m) will be devoted to the development of the agriculture sector, an ambitious public resource allocation aiming to improve agricultural services and increase the sector's contribution to GDP.

The PA's efforts in infrastructure over 2014-2016 will be aimed at providing adequate support to economic development, focusing on improving connectivity between Palestine and the outside world. The main objectives in the area include a general upgrade of the transport system, the achievement of a safe and efficient energy supply, the improvement of water and wastewater management capabilities and the development of the housing sector. 28% of the NDP's infrastructure development budget is allocated to energy, 27% to water, 26% to transportation, 11% to housing and 8% to environmental protection.

Q1 2014 Inflation

During Q1 2014 inflation measured by the consumer price index (CPI) increased by 2.2% with respect to Q1 2013. Country-level inflation was below the average increase in nominal wages. However, workers in Gaza suffered a net purchasing power loss, as their average income dropped (-5.2%) while year-on-year quarterly inflation reached 1.4%.

Table 1

	Q1 2013	Q1 2014	% Change
Nominal Average daily wage (current NIS)			
Palestine	95.7	99.3	3.8%
West Bank	106.8	112.6	5.4%
Gaza	65.2	61.8	-5.2%
CPI			
Palestine	107.11	109.45	2.2%
West Bank	109.51	112.8	3.0%
Gaza	101.9	103.36	1.4%

Hotel Activities

In 2013 a total of 600,362 guests stayed in hotels in the West Bank.⁴ Compared to 2012, the number of guests and guest nights increased by 4% and 10% respectively. Out of the 600,362 guests, 38% were from European Union

countries, 9% were Palestinian and 9% from the United States and Canada. While the average length of stay reached 2.4 nights in 2013 (a slight increase from 2012), average room occupancy dropped from the previous year, as hotel infrastructure grew at a higher rate than total guests and total guest nights.

Table 2: Hotel activities main indicators

	2012	2013	(%) change
Number of hotels	98	113	15.3%
Number of rooms	5,203	5,890	13.2%
Number of beds	11,883	13,458	13.3%
Room occupancy (%)	29.1	24.8	-14.8%
Number of hotel workers	2,449	2,797	14.2%
Number of guests	575,495	600,362	4.3%
Number of guest nights	1,336,860	1,467,709	9.8%

April PEX Trading News

In April the Al-Quds index continued its downward trend declining by 9.4%, and reached 518.82 points on the last day of trading. A total of 9.4m shares worth \$17.3m were traded in 22 sessions. These figures mark a decrease of 49% in the number and 69% in the value of traded shares compared with April 2013. Market capitalisation was \$3.2bn.

On 11 May PEX announced that in Q1 2014 34 out of the 49 listed companies achieved joint net profits worth \$92.5m, up by 10.6% from Q1 2013.⁵ Another 12 companies lost a total of \$7.6m, 20% less than the losses suffered in the first quarter of 2013. As a result, aggregated quarterly net profits (the difference between net profit and losses) equalled \$84.9m, up by 9% from Q1 2013.

Interview with Sami Abu Dayyeh

This month the Bulletin interviews Sami Abu Dayyeh, CEO of Net Tours Co, one of the largest tour operators in the Middle East. Owner of hotels in East Jerusalem and Bethlehem and one of the leading figures in the Palestinian tourism sector, Mr Abu Dayyeh shares his views on the current status of tourism in Palestine and its prospects for development.

Recent PCBS data shows that the average occupancy rate in Palestinian hotels dropped in 2013 (see Hotel Activities story). How do you evaluate this?

I am really surprised by these numbers. Tourism is increasing, so I do not really understand where it is that hotels are having lower occupancy. This year the sector is feeling an increase both in Jerusalem and Bethlehem. In my own hotel in East Jerusalem we are achieving over 70% occupancy. In my opinion the official statistics are not accurate, unfortunately. I am actually currently building a new 114-room hotel in Bethlehem. According to the PCBS numbers I should not be investing a single penny...but I know what I am doing! Where hotels are

⁴ [www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=en&ItemID=1091&mid=3172&vversion=Staging](http://www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=en&ItemID=1091&mi d=3172&vversion=Staging)

⁵ www.pex.ps/PSEWebSite/NEWS/211052014.docx

making a mistake is that they are competing with each other rather than working to improve income per hotel.

What is the way forward for improving income?

Whenever tourists are visiting the Holy Land, Israel and Palestine, we need to make programmes in which they stay overnight in Jericho, Bethlehem and East Jerusalem. But it is not the quantity that we are after at the end of the day, but the quality. We are limited in the numbers of visitors we can absorb: how many people can visit the Church of the Nativity? How many people can walk in the Old City of Jerusalem? We have to be careful. It is not a mass production industry. The focus should be on providing a better service and getting a higher income for that. We need to develop 'boutique' or 'niche' tourism for the time being.

What particular tourist segments are you thinking about for the development of niche tourism?

Now our business is basically depending on religious tourists. This has been good, and we should protect it. However, to increase our numbers dramatically, we should go into cultural trips and approach large companies in markets with high potential.

Another sector that could be important for us is the Diaspora. And to attract them we have to create events. We are happy to see that the Ramallah Club from North America will be having their annual meeting in Ramallah this summer. Another particularly promising market for Diaspora tourists is in South America, where there are many Palestinians from Bethlehem, Beit Sahour and Beit Jala.

Is religious tourism low in comparison to other major pilgrimage destinations, such as Lourdes in France or Fatima in Portugal?

It is! And that is really a shame! I think that the detrimental part is related to the political issue. And we are talking about just one segment here, the Christians, but how about the Muslims coming to Palestine? If tourists from the Arab world were allowed to come into Israel they would swamp the place. It is the third holiest site for Islam. Muslim pilgrimage is not complete without coming to Jerusalem. Of course for political reasons Israel is not opening the door for this market. However, there are

countries that are increasingly sending their pilgrims here, for example Turkey, Indonesia and Malaysia. This is a market we should encourage, since they are mainly coming to our side.

What about the quality of tourism services? Do you see a skills deficit among Palestinian tourism workers?

Most hotels have historically been training their own employees. They bring workers from anywhere and simply get them to work. That is already done, but we should not continue on that basis. This is why our current project to create a hospitality school in Jericho is so important, as it will allow us to improve the quality of the offerings and professionalise services. We see that people are willing to stay in Palestine, but they obviously expect a professional service.

Can you tell us more about the school project?

It is a joint venture between the hotel association and the tour operator association, which I preside. It is purely private, although it will be run as a not for profit. The board will include the PA Ministry of Education and Ministry of Tourism. They will provide official endorsement of the curricula, for graduates to be acknowledged and have priority when looking for a job. Seed money for the investment came from American donors and we are now hoping that the Japanese will engage as well. Although we expect to raise around 60% of total investment from donor funding, the school will operate as a hotel too, since we need to ensure the commercial sustainability of the project. We should not depend on donations for the rest of our lives, but survive and stand on our own.

Looking ahead, what is the potential for the sector?

I am very optimistic about the future of tourism in Palestine, even without peace. Of course that if we had peace it would be the best thing that ever happened to us. But even under the conditions in which we are living now we see a modest (although continuous) increase in the level of activity. Tourism is the only industry that is really viable as far as I am concerned; it is our petroleum, and something we have to protect. I believe that in the mid to long term it could constitute up to 30% of GDP.

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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