

## PALESTINIAN ECONOMIC BULLETIN

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*The first Palestinian Water Forum discussed the challenges facing the water sector, focusing on the water and energy nexus and the role of the private sector*

### New Palestinian Government

On 2 June President of the Palestinian National Authority (PNA) Mahmoud Abbas swore in a new Palestinian government. Formed of independent technocrats, the new government is tasked with the mission of preparing for national elections (intended to be held within the next six months) and integrating West Bank and Gaza institutions, following seven years of internal political division. Four of the newly appointed government ministers are residents from Gaza.

Dr Rami Hamdallah, an academic and university president, was re-appointed as Prime Minister of the new technocratic government, after having served as the Prime Minister of the PNA since June 2013. Of the 16 ministers under him about half were members of the previous PNA government, including Deputy Prime Minister for Economic Affairs, Dr Mohammad Mustafa, who has also been appointed as the new government's Minister of National Economy. Dr Mustafa is also currently the Chairman of the Palestine Investment Fund (PIF), which he joined as CEO in 2005.

Shukri Bishara, who has served as the PNA Minister of Finance since mid-2013, will be responsible for both the Ministry of Finance and the Ministry of Planning under the new government. With extensive private sector experience, Mr Bishara served as CEO of the Housing Bank for Trade & Finance, and held several positions at the Arab Bank between 1979 and 2006, when he was appointed Chairman of the Board of Directors of the PIF.

### School to Work Transition

The Palestinian Central Bureau of Statistics announced the main results of the Youth Transition from School to Work Survey 2013, conducted in partnership with the International Labour Organization (ILO). The survey, part of ILO's Work4Youth Project, was carried out in 28 countries around the world.

Findings indicate that the majority of Palestinian youth struggle to successfully move from education to employment. The survey identified the existence of a mismatch between academic qualifications and skills required by employers, which the ILO argues is one of the main causes of long-term unemployment.<sup>1</sup>

Survey results show that in 2013 only 23% of young Palestinians completed their transition from education to stable or satisfactory employment. At the same time, nearly half of young graduates had not started their transition, and around 32% remained "in transition". The education-to-employment transitional period was found to be long, as it takes on average 2.5 years for a young graduate to find a stable job after the completion of studies.

The survey also suggests that the opportunities available in the Palestinian labour market require relatively low skill levels. Consequently, better educated youth struggle more to find jobs that suit their education and capabilities. Survey data shows that the highest youth unemployment rates were registered among new graduates who hold associate diploma certificates or higher qualifications (75.4% in total – 67.1% among males and 83.5% among females).

<sup>1</sup> [www.bit.ly/UTCff5](http://www.bit.ly/UTCff5)

Despite the major challenges for educated young people to find quality employment opportunities, the ILO highlights that evidence still verifies the advantages of higher education in terms of access to higher wages and better quality employment.

There is therefore a priority need to create sustainable jobs and, in particular, to promote opportunities for higher skilled workers through targeted investment. The existing gap between academic qualifications and labour market requirements could be bridged through vocational training and other education-to-employment programmes.

## Israeli Ban on Palestinian Banks

In mid-May the Bank of Israel (BoI) took the unprecedented decision of completely banning Palestinian commercial banks from making deposits of shekels in Israeli banks.<sup>2</sup>

Based on agreements between the PNA and Israel, the Israeli shekel serves as a circulating currency in Palestine, along with the Jordanian dinar and the US dollar. Hundreds of millions of shekels, in the form of taxes paid by Palestinian merchants and collected by the Israeli Ministry of Finance are transferred monthly to the PNA Treasury. Together with shekel payments received by Palestinians as wages or in return for services rendered to Israel, these sums are deposited in banks operating in Palestine. Palestinian banks then make regular transfers of excess shekels to Israeli banks under the auspices of the BoI in order to conduct other financial transactions in Israel and abroad. The Paris Protocol, regulating all economic matters between Palestine and Israel, gives the Palestine Monetary Authority (PMA) the right to convert excess shekels received from banks operating in the West Bank and the Gaza Strip into foreign currency (and the reverse), an operation in which the BoI trades in the domestic inter-bank market.<sup>3</sup>

The recent ban, which exacerbated a long-standing problem of an excess of shekel holdings in Palestinian banks, resulted in many banks having to refuse to accept new deposits in shekels from their customers. Among other important implications, such a ban could seriously undermine the stability of the payments chain in the Palestinian economy, of which Israel is the major trading partner. Businesses conducting transactions with companies in Israel had to make payments in cash, physically transporting the money notes. This not only poses security risks but also paves the way to an increase of unregistered or subterranean economic transactions.

As the Bulletin went to print, a number of sources reported that the restriction had been lifted.

## International Aid

On 19 June the US Senate Committee on Appropriations approved a \$48.3bn State and Foreign Operations bill that included cuts in total US aid funding to Palestine. Preliminary

reports indicate that the restriction could cut the annual \$400m in US aid to the Palestinians by about \$70m.<sup>4</sup> The decision by the panel allegedly followed concerns over the potential use of aid funds to support acts of terrorism.

The cut in US aid could result in increased fiscal pressure on the Palestinian government, which relies heavily on foreign aid to cover its recurrent expenditure. In 2013 foreign grants and donations constituted almost 37% of the PNA's total revenues.<sup>5</sup> It is estimated that since the establishment of the PNA the US government has committed over \$4bn in bilateral assistance to the Palestinians.<sup>6</sup> It has been reported that from 2008 the annual US bilateral assistance has averaged over \$600m, including annual averages of over \$200m in direct budgetary support and over \$100m in security assistance to the PNA. At the same time, the US is the largest single-state donor to the UN Relief and Works Agency for Palestine Refugees in the Near East (UNRWA), which plays a crucial role in the provision of basic services to Palestinian refugees, especially in Gaza.

## Water Forum

The first Palestinian Water Forum took place on 28 May at Birzeit University. The event was hosted by the Institute of Environmental and Water Studies with support from various Palestinian official bodies and international organisations.<sup>7</sup> The forum discussed the needs of the Palestinian water sector around three main areas: the water and energy nexus (focusing on the Gaza water and energy crisis), private sector participation in water projects (roles and responsibilities, risk mitigation and the development of private public partnerships – PPPs) and the setting of a national research agenda in water related topics.

Discussions on the water-energy link were focused on Gaza, where the UN described the situation in relation to water and sanitation as "critical".<sup>8</sup> It is estimated that 90% of water coming from the Gaza aquifer is not safe for drinking without treatment. With limited access to clean water, the average water consumption in Gaza, at 70-90 litres per person per day is below the global World Health Organization recommended standard of 100 litres per person per day. It is estimated that the entire aquifer could become unusable as early as 2016, with the damage irreversible by 2020. In this context the forum urged stakeholders to concentrate their efforts on improving water and energy security and infrastructure in Gaza. In particular, there were calls for investing more in desalination plants and promoting wastewater treatment and reuse. The forum also stressed the need to build additional infrastructure to increase the import of electricity from Israel and Egypt, and to upgrade the Gaza Power Plant by switching from its current diesel-fuelled technology to natural gas. The forum encouraged the

2 [www.haaretz.com/business/.premium-1.591019](http://www.haaretz.com/business/.premium-1.591019)

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

4 [www.bit.ly/TbrbIK](http://www.bit.ly/TbrbIK)

5 [www.bit.ly/1iqF7dx](http://www.bit.ly/1iqF7dx)

6 [www.jewishvirtuallibrary.org/jsource/US-Israel/paaid12.html](http://www.jewishvirtuallibrary.org/jsource/US-Israel/paaid12.html)

7 [www.iewws.birzeit.edu/pwff/](http://www.iewws.birzeit.edu/pwff/)

8 [www.unrwa.org/userfiles/2013070364659.pdf](http://www.unrwa.org/userfiles/2013070364659.pdf)

donor community to engage in a long-term strategy for the development of Gaza and, in particular, to help increase Palestinian control over water and energy resources by lobbying Israel and advocating for the free movement of materials and persons in and out of the Gaza Strip.

The forum also urged the Palestinian Water Authority to develop a vision and a strategy to promote private sector participation through PPPs as a way of attracting investment into the water sector. The establishment of a clear legal framework to regulate PPPs in the water sector was deemed as a critical enabler for investment and development. The donor community was called to assist both the public and private sector in capacity building around PPP development.

Finally, the forum recommended that Palestinian universities and research institutes focus on conducting research tailored to serve the local water needs through innovation, joint ventures with the private sector and applied science.

## IFC Support for SMEs

The International Finance Corporation (IFC) announced an investment of up to \$3m in the Palestine Growth Capital Fund, a private equity fund managed by Abraaj Capital.<sup>9</sup> The investment is aimed at providing long-term financing to SMEs from both the West Bank and Gaza in order to help them expand their businesses and create more employment opportunities. The IFC will also provide the fund with specialised advice on best practices to improve the sustainability of its investments, expected to cover a wide range of economic sectors, from health care to retail. The \$3m investment is part of IFC's wider capacity building efforts to empower Palestinian companies through advisory services and targeted investments.

## Entrepreneurship

In early June the start-up accelerator Arabreneur announced its second round of investment of \$300,000 in three high-growth, high-tech Palestinian companies.<sup>10</sup> The injection of funds is aimed at helping the innovative start-ups penetrate new local, regional and international markets by further developing their skills, strategies and products. The supported companies include "Soosher" (an online platform for cooking recipes), "Jobreneur" (a cloud-based platform for connecting freelancers from the MENA region with consultancy assignments in international markets) and "Imagry" (a mobile image recognition platform).

In related news, 7 Palestinian start-ups supported by Arabreneur's and MENA Apps's acceleration programmes participated in the ArabNet Digital Summit 2014, which took place on 3-5 June in Dubai. Founded in 2010, ArabNet is a hub for Arab digital professionals and entrepreneurs. The summit gathered hundreds of digital professionals and entrepreneurs and featured a conference, a techfair and a digital showcase event.<sup>11</sup> As part of the latter, 34 companies

from Egypt, Lebanon, Saudi Arabia, the UAE, Palestine and Morocco pitched their ideas to industry leaders. This gave young companies a platform to gain exposure to clients and strategic partners in Dubai, the region's most important digital market. Over 100 one-on-one meetings between entrepreneurs and business leaders were organised during the summit. The influential Executive magazine selected the Palestinian company AidBits as one of the four best start-ups participating in the summit.<sup>12</sup> Launched in 2013, AidBits is a cloud platform that enables NGOs to manage large quantities of data in an easy, efficient and effective manner. The company already has two paying customers: the Palestinian branches of Première Urgence and Care International. AidBits co-founder Feras Nasr told the Bulletin that participating in the summit was "a great opportunity to spread the story of AidBits, as well as to showcase what Palestinian start-ups are capable of."

Earlier on 25 May, ConnectME celebrated the accomplishments of their Palestine StartUp Cup Business Model Competition's finalists. Three companies were selected as winners among seven finalists: Al Tadweer Company for Plastic Industries (an environmentally conscious start-up manufacturing raw plastic by recycling plastic waste), Palovina (a female-owned business producing organic olive oil soaps and other skincare products) and Jusoor Engineering (a mechanical and electronic design company specialising in underground waste containers to prevent health and environmental hazards).

Finally, the fourth Startup Weekend Gaza took place during 19-21 June. The event was the largest to date with 150 Gazan entrepreneurs (selected from around 600 applicants) and 11 mentors and investors from overseas participating. Live coverage of news and developments during the event could be followed on Twitter under the hashtag #SWGaza4.

## International Investment Position

In Q1 2014 the stock of investments of Palestinian residents outside Palestine (external assets) exceeded investments in Palestine by non-residents (foreign liabilities) by \$1.3bn.<sup>13</sup> Overall, Palestine's International Investment Position (IIP – defined as external assets minus foreign liabilities) increased by more than 15% in the first quarter of 2014 with respect to Q4 2013.<sup>14</sup> The change is largely explained by a \$195m increase in Palestinian portfolio investments abroad, which together with a milder rise in Palestinian deposits in banks abroad boosted total external assets (stocks of residents in Palestine including individual, institutional and government investments abroad) by 3.5%. Total foreign liabilities remained largely stable, with foreign direct investment (FDI) in Palestine increasing by around \$50m (+2%). FDI is generally preferred over foreign portfolio investments (FPI), which can be withdrawn more quickly and easily. FDI inflows not only bring capital into the economy but also typically imply know-how and skills transfers.

9 [www.bit.ly/1IEkz1R](http://www.bit.ly/1IEkz1R)

10 [www.bit.ly/1rxdlqu](http://www.bit.ly/1rxdlqu)

11 [www.arabnet.me/conference/summit/](http://www.arabnet.me/conference/summit/)

12 [www.executive-magazine.com/buzz/coolest-startups-arabnet-dubai](http://www.executive-magazine.com/buzz/coolest-startups-arabnet-dubai)

13 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_IIPExDSQ12014E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IIPExDSQ12014E.pdf)

14 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_IIPExDSQ42013E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IIPExDSQ42013E.pdf)

**Table 1: IIP Q4 2013 / Q1 2014***(In millions of USD)*

	Q4 2013	Q1 2014	% Change
<b>IIP</b>	<b>\$1,161</b>	<b>\$1,341</b>	<b>15.50%</b>
<b>Total External Assets</b>	<b>\$6,101</b>	<b>\$6,318</b>	<b>3.56%</b>
FDI Abroad	\$315	\$346	9.84%
Portfolio Investments Abroad	\$1,145	\$1,340	17.03%
Other Investments Abroad	\$3,956	\$4,043	2.20%
<i>Of which Currency and Deposits</i>	<i>\$3,862</i>	<i>\$3,951</i>	<i>2.30%</i>
Reserve Assets	\$685	\$589	-14.01%
<b>Total Foreign Liabilities</b>	<b>\$4,940</b>	<b>\$4,977</b>	<b>0.75%</b>
FDI in Palestine	\$2,450	\$2,501	2.08%
Foreign Portfolio Investments in Palestine	\$791	\$776	-1.90%
Other Foreign Investments in Palestine	\$1,699	\$1,700	0.06%
<i>Of which Loans from Abroad</i>	<i>\$1,152</i>	<i>\$1,148</i>	<i>-0.35%</i>
<i>Of which Currency and Deposits</i>	<i>\$547</i>	<i>\$552</i>	<i>0.91%</i>

Source: PMA and PCBS

## Construction

2,455 building licenses were issued in Palestine in Q1 2014, an increase of 7.2% and 14.4% from Q1 2013 and from Q4 2013, respectively.<sup>15</sup> The vast majority of licenses were issued for residential buildings (91.6%). Of the total, only 42 licenses (0.02%) were issued for construction in Gaza.

Construction activities in Gaza remain severely affected by the long-standing restrictions on the entrance of construction materials from Israel and Egypt. The closure of most trade tunnels between Gaza and Egypt between 2012 and 2013 left the Karm Abu Salem (Kerem Shalom) crossing, connecting Gaza to Israel, as the main passage for the transfer of goods into and out of the Strip. Since the last quarter of 2013 restrictions on the entrance of construction materials into Gaza were intensified and several construction projects have been frozen as a result of the shortage. There are currently only 81 active projects in Gaza, all of them funded either by Qatar or international organisations (in addition to 27 UNRWA projects).<sup>16</sup> As reported by Gisha, during the first weeks of June 2014 Israel permitted the entrance of construction materials for a number of projects implemented by the UN, after having banned the passage of all construction materials, whether for international organisations or the private sector, from October 2013.<sup>17</sup> As of 16 June other construction materials were reported to be entering in

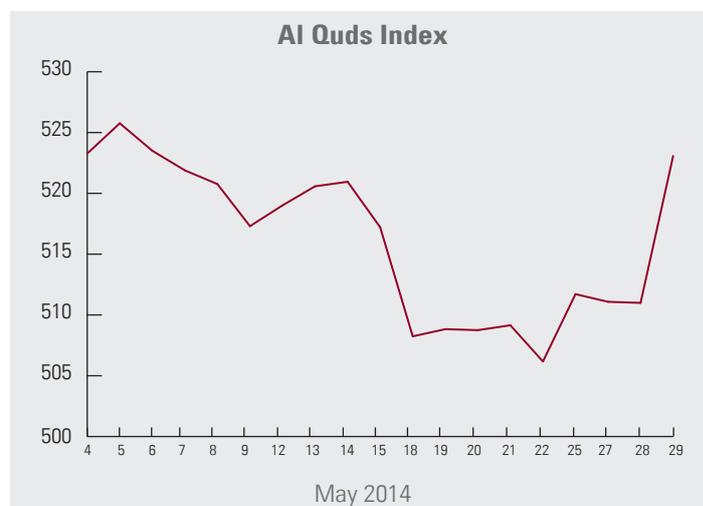
15 [www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book2054.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book2054.pdf)16 [www.gisha.org/en-blog/2014/06/12/building-in-ruins/](http://www.gisha.org/en-blog/2014/06/12/building-in-ruins/)17 [www.gisha.org/UserFiles/File/publications/Info\\_Gaza\\_Eng.pdf](http://www.gisha.org/UserFiles/File/publications/Info_Gaza_Eng.pdf)

small quantities via the Rafah Crossing for reconstruction projects funded by the Qatari government. As the Bulletin went to print, Gisha reported that Israel had ordered further restrictions on movement at Gaza's crossings.<sup>18</sup>

There is an urgent need to enable major construction projects in Gaza, as the sector contributes roughly a quarter of Gaza's GDP and remains an important source of employment for Gazan workers. The recent sharp rise in total unemployment in Gaza (which reached 41% in Q1 2014, up from 31% in Q1 2013) was largely driven by a loss of around 12,500 jobs in the construction sector. As a result, construction's share of total employment in Gaza decreased from 6.9% in Q1 2013 to 2.2% in Q1 2014.<sup>19</sup>

## May PEX Trading

During most of May the Al-Quds index continued its downward trend, although it partially recovered towards the end of the month. Overall, the index increased by 0.8% compared to the end of April and reached 533.07 points on the last day of trading. The highest (525.76) and lowest (506.17) levels were observed on 5 and 22 May, respectively. A total of 7.5m shares worth \$14.4m were traded in 19 sessions. This marks a sharp decline of almost 60% in the number of traded shares, and a drop of more than 30% in their value from May 2013. Market capitalisation in May 2014 was \$3.2bn.



Source: PEX

18 [www.gisha.org/updates/2992](http://www.gisha.org/updates/2992)19 [www.pcbs.gov.ps/portals/\\_pcbs/PressRelease/Press\\_En\\_LFSQ12014E.pdf](http://www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_LFSQ12014E.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](mailto:feedback@portlandtrust.org)

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