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Main reports

The PNA Ministry of Agriculture presented its National Sector Strategy for 2014-2016, aimed at increasing competitiveness in the sector. It is anticipated that the private sector will have a key role in driving the programme forward

In 2013 investments in Palestine by non-residents amounted to $2.9bn, almost 12% more than in the previous year. FDI in Palestinian companies accounted for more than half of total investment

The PMA Business Cycle Indicator, a monthly index reflecting the current state and the evolution of the Palestinian business environment, severely deteriorated throughout Q3 2014

Total output per employee in Palestinian enterprises rose by 3.3% in 2013, although the value added per worker declined by 2% from 2012

Companies listed on the Palestine Exchange jointly achieved total net profits after tax of $177m in Q3 2014, a 6.4% drop from 2013

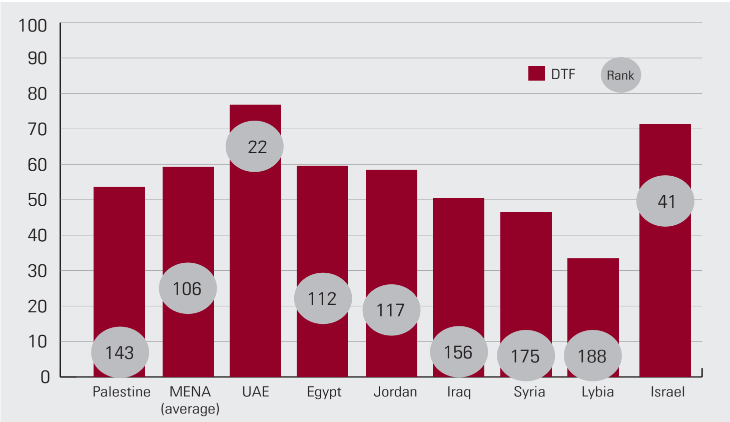
Doing Business Ranking 2015

The World Bank's annual Doing Business Report (DBR) measures and tracks changes in regulations affecting eleven areas in the lifecycle of a business to quantify the ease or difficulty for entrepreneurs to start and run small to medium-sized businesses in a particular economy.[1] DBR 2015 ranks countries based on a distance to frontier (DTF) score measuring performance with respect to global regulatory best practice, marking a departure from previous editions which used pure ordinal rankings for each indicator.

DBR 2015 ranks Palestine 143 out of 189 economies globally, a decline of four positions from 2014.[2] Palestine's absolute performance improved slightly in comparison to the frontier, as the DTF score rose from 53 in 2014 to 53.6 in 2015 (measured on a scale from 0 to 100, where 100 represents the frontier). However, such marginal progress is not enough to keep the Palestinian economy competitive in an increasingly global economy, with other countries improving at a faster pace.

Palestinian companies face larger difficulties than their counterparts in most neighbouring countries and other comparative economies. Palestine's overall DBR ranking is below the MENA regional average of 106 (corresponding to a DFT score of 59.23).[3] The UAE, the best performing MENA economy, ranks 22, with a DTF score of 76.81. Whilst Egypt and Jordan also outperform Palestine, other countries recently affected by conflict (Iraq, Syria and Libya), perform relatively worse, both in terms of ranking and DTF scores (Figure 1). Israel ranks 40, with a DTF score of 71.25.

Figure 1: DBR Rankings and DTF Scores (selected countries)



Source: DBR 2015

Palestine's overall DBR ranking and DTF scores remained largely stable from 2014 across most indicators (Table 1). In 2015, performance measured by DTF remained unchanged from the previous year in terms of *registering property*, *getting credit*, *enforcing contracts* and *protecting minority investors*. However, the investor protection category observed a ranking drop of 11 positions, given absolute DTF improvements in other economies.

1 www.bit.ly/1sCMUTM
2 www.bit.ly/1u5FSLs
3 DBR includes 20 economies in the MENA region: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malta, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Syria, Tunisia, the UAE and Yemen.

Table 1: Palestine's DBR ranks and DTF scores by indicator

Indicator	Ranking			DTF Score		
	2015	2014	Δ 2014-15	2015	2014	Δ 2014-15
Ease of Doing Business	143	139	-4	53,62	53	0,62
Starting a Business	162	155	-7	66,53	66,37	0,16
Dealing with Construction Permits	173	169	-4	48,62	48,89	-0,27
Getting Electricity	83	74	-9	76,26	76,31	-0,05
Registering Property	99	98	-1	65,08	65,08	0
Getting Credit	116	111	-5	35	35	0
Protecting Minority Investors	141	130	-11	43,33	43,33	0
Paying Taxes	51	79	28	80,29	73,77	6,52
Trading across Borders	130	123	-7	64,43	64,59	-0,16
Enforcing Contracts	105	104	-1	56,65	56,65	0
Resolving Insolvency*	189	189	0	0	0	0

Source: DBR 2015

** The zero DTF score indicates "no practice", meaning that in each of the previous five years there were no cases involving judicial reorganisation, judicial liquidation or debt enforcement procedures (foreclosure).*

The most significant improvement with respect to 2014 took place in the *paying taxes* category, which measures the administrative burden associated with preparing, filling and paying three of the major tax chapters (profit, consumption and labour taxes). The introduction of policy changes to ease tax payment procedures for companies included the option to make either one or four advance payments of corporate tax income. As a result, between 2014 and 2015 the number of payments per year decreased from 39 to 28 and the time involved in the operations dropped from 170 to 162 hours per year. Palestine now ranks 51 in the specific category, a major improvement from 2014 both in terms of ranking (+28) and DTF score (+6.52). Being its single best performance indicator, Palestine now outperforms high performance MENA economies such as Turkey (56) and is above the MENA average (66). Improvements in domestic tax collection are deemed critical, as the Palestinian domestic tax base remains relatively low and around two thirds of total government revenues are derived from clearance revenues collected by Israel on behalf of the Palestinian National Authority (PNA).

Despite its almost total dependence on energy imports, Palestine ranks 88 globally in terms of *getting electricity*. Among Palestine's suppliers of electricity, only Jordan ranks higher (44), while Egypt and Israel rank significantly lower (106 and 109, respectively). However, Palestine's rank fell by 9 positions from 2014 while the specific DTF score dropped slightly (although, at 76.26 it remains above the MENA average of 76.03). According to the DBR, it requires 5 procedures and 63 days for a Palestinian entrepreneur to connect a warehouse to the local electricity distribution utility, outperforming Egypt (7 procedures and 54 days) and Israel (6 procedures and 102 days). However, Palestinian businesses face extraordinarily high connection costs, equivalent to almost 1,500% of income per capita, compared to 305% in Egypt and less than 12% in Israel.

Finally, Palestine's structurally poor performance in terms of *trading across borders* further deteriorated since 2014. In 2015, a slight drop in the DTF score resulted in a loss of 7 positions in the DBR ranking (130). Movement and access through the crossings in and out of the West Bank and Gaza are heavily affected by restrictive Israeli policies. According to the DBR, it takes 6 documents to export or import a standard shipment of goods by sea, in addition to up to 38 days to secure the required documentation. Additionally, it costs $1,750 per container to export and $1,425 per container to import from Palestine, much higher sums than in neighbouring Jordan ($825 / $1235) and Egypt ($625 / $790). Israel, for its part, performs exceptionally well in terms of trading across borders, ranking 12 globally with a DTF score of 83.39. It takes only 4 documents, 10 days and $620 to export and 4 documents, 10 days and $565 to import a standard container into Israel.

Agriculture Strategy

On 5 November, the PNA Ministry of Agriculture (MoA) presented its National Sector Strategy for 2014-2016. The plan, prepared with technical support from the UN Food and Agriculture Organization (FAO), is aimed at empowering the sector to compete domestically and externally, enhancing food security and supporting state-building efforts through resource sovereignty.

A historic contributor to employment, economic growth and exports, the Palestinian agriculture sector experienced steady decline over the last decade. Sector-based analysis conducted by FAO and the MoA identified the lack of sufficient water resources for irrigation (deemed a direct consequence of Israeli policies) as one of the main factors constraining the development of agriculture in Palestine.

Four strategic objectives are set in the three-year strategy: i) ensuring farmers' resilience and attachment to their lands; ii) improving efficiency and sustainability in the management of natural resources; iii) enhancing the sector's production, productivity and competitiveness and iv) developing capabilities, institutions and infrastructure. Measures to achieve the strategic goals include policies to promote the rehabilitation of agriculture activities in "Area C"; the protection of vulnerable and marginalised groups (including small farmers, women and Bedouins); the reinforcement of agricultural controls at borders; an increase in cooperation with regional and international organisations; an improvement in water supply and management; the expansion of total cultivated area; stimulation of sector-wide shift towards intensive and semi-intensive production systems; the adoption of modern agricultural practices; development of adequate legal frameworks to enhance sector coordination; promotion of training and skills development; improvement of the provision of extension and other technical services to local farmers; incentivising private investment (including through PPPs) and enhancing agriculture credit and insurance.

The 2014-2016 plan identified almost 40 projects specifically aimed at achieving its strategic milestones. 23 of these projects are part of a "development programme", including reclamation and rehabilitation of land, construction of roads, water management and irrigation. A second programme, comprised of 14 projects, is aimed at improving agricultural services and includes the development of extension and infrastructure (laboratories, gene banks, seed multiplication centres and plant protection utilities). The third and final programme includes two projects to develop the MoA's administrative, financial and legal capacity and to issue the law of the General Union of Agricultural Councils. Total implementation costs of the projects envisaged for each of the programmes are estimated at $542.6m, almost $180m of which is needed in 2014. Whilst some of the funding is expected to come from the PNA's development budget, it is anticipated that the private sector will have a key role in driving the programme forward.

Foreign Investment Survey 2013

In 2013 the total stock of investments by Palestinian resident enterprises outside Palestine (external assets) equalled $5.8bn, a 12% increase from 2012.[4] At the same time, total investments in Palestine by non-residents (foreign liabilities) amounted to $2.9bn, almost 12% more than in the previous year.

The majority of external assets consisted of loans, currency, deposits and trade credits abroad (65%). Portfolio investments and reserve assets of the Palestine Monetary Authority (PMA) accounted for 17% and 12% of total external assets, respectively. As in previous years, the stock of foreign direct investment (FDI) by Palestinian residents was a mere 2.5% of total external assets.

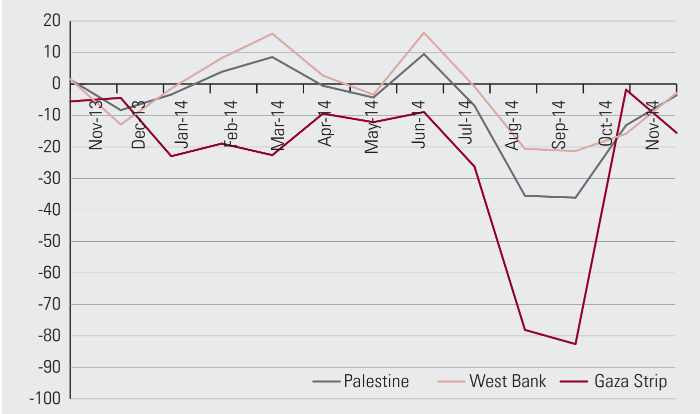
FDI in Palestinian companies accounted for more than half of total foreign liabilities, followed by portfolio investments (26%). The vast majority of FDI and foreign portfolio investments (combined) was in financial intermediation ($1.2bn or 50% of the total) and services, transport, storage and internal trade ($1bn or 44%).

Most of FDI in Palestinian enterprises came from Jordan ($1.2bn, almost 80% of the total), followed by Qatar ($134m, 9%) and Egypt ($55m, 3.5%). FDI from non-Arab countries was relatively low, with a mere $42m from the US (2.7% of the total), $17m from the UK (1.1%) and $13m from Cyprus (0.8%). At the same time, Jordan, Qatar, the UAE, Saudi Arabia and Kuwait jointly accounted for more than 80% of total foreign portfolio investments in Palestine.

Business Environment

The PMA Business Cycle Indicator (PMABCI), a monthly index reflecting the current state and the evolution of the Palestinian business environment, severely deteriorated throughout Q3 2014.[5] The overall index fell from -6.9 in July to -36.1 in September, marking an all-time low. In October, the overall index partially rebounded to -13.1, and increased further to reach -3.66 in November. In the West Bank, the index fell from -0.82 in July to -21.3 in September and partially recovered to -15.8 in October. In November it reached -2.8, following an improvement in the textile and food subsectors. The index for the Gaza Strip, which reached -1.8 in October after suffering profound decline between July (-26.2) and September (-82.6), dropped again in November (-15.5), as a result of declining demand.

Figure 2: PMABCI by Region, November 2013-November 2014



Source: PMA

The deterioration of the Gaza PMABCI during Q3 is a direct consequence of very limited economic activity and extensive damage to infrastructure, factories and other productive assets during the latest Israeli military operation in Gaza. According to the PMA, the improvement observed in October likely reflected an increase in the demand for commodities following the ceasefire, in addition to anticipation of international support for reconstruction efforts and the potential opening of the Rafah crossing.[6] However, delays in the implementation of such measures are believed to have resulted in increased pessimism in November.[7]

Economic Survey 2013

According to latest PCBS Economic Surveys Series, in 2013 there were 122,057 private and non-governmental enterprises (excluding agriculture) operating in the West Bank (68% of the total) and Gaza (32%).[8] These enterprises jointly employed a total of 386,794 workers (a 1.9% increase from 2012): 260,904 in the West Bank and 125,890 in Gaza.

While total output per employee in 2013 rose by 3.3% from the previous year (to reach $27,372), the value added per worker declined by 2% from 2012 and stood at $16,685. The West Bank value added per employed person ($20,188) more than doubled that of Gaza ($9,424).

Information and communication technology (ICT) activities registered the highest value added per employed person in 2013, at $89,009. Despite this value being lower than in the three previous years (it was around 35% higher in 2010), it still was almost nine times the value added in services (the sector

4 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book2080.pdf
5 www.bit.ly/1zp2Grk
6 www.bit.ly/1xXaTCa
7 www.bit.ly/14FEZkN
8 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book2077.pdf

with the lowest value added per employed person, at $10,843). The potential of the ICT sector is also evidenced by the fact that, despite accounting for merely 2% of private employment and less than 0.5% of total enterprises, it was responsible for more than 11% of total gross value added (Table 2).

Table 2: Selected Indicators by Economic Activity (Palestine, 2013)

Economic Activity	Employed Persons (% of total)	Gross Value Added (% of total)	Number of Enterprises (% of total)	Value Added Per Employed Person (USD)
Industry	20.60%	25.20%	13.06%	20,445.8
ICT	2.10%	11.40%	0.48%	89,009.4
Internal Trade	39.50%	35.80%	56.47%	15,105.5
Construction	2.60%	4.30%	0.42%	27,416.9
Services	33.50%	21.80%	27.24%	10,842.8
Transportation and Storage	1.70%	1.50%	0.71%	14,972.5

Source: PCBS

Automated Clearing System

The PMA has recently launched *Clear*, Palestine's first automated clearing system.[4] Clear is part of the Automated Transfer System (ATS), via which retail and wholesale payments are processed within a single, unified platform. The implementation of the ATS is part of the PMA's broader Payment System Reform strategy, aimed at developing a modern inter-bank financial market for the Palestinian banking industry.

From the point of receipt, Clear processes credit transfers and cheque payments, from clearing and settlement to the final transmission to the beneficiary banks. The PMA, acting as the Clear provider, has the ability to define and add as many clearing streams as needed.

The new system utilises secure infrastructure and allows for real-time monitoring of operations – including the exchange of relevant information and funds between financial institutions. Clear complies with international best practice for retail payment systems, including standards set by the European Payments Council and the Committee for Payment and Settlement Systems of the Bank for International Settlements.

Technology and Entrepreneurship

Between 9 and 12 November the 11th Expotech Technology Week took place in Ramallah and Gaza City, under the auspices of the Palestinian Information Technology Association of Companies. Expotech included a series of conferences and IT exhibitions attended by dozens of local, regional and international experts.[9] Activities during the technology week focused on "Intelligent Palestinian Cities", raising awareness of the role of technology to improve lives. Discussions and presentations were around topics such as smart planning and management, smart infrastructure, smart human services, smart industry and businesses, public safety, energy and water, social programmes, intelligent buildings, urban planning and healthcare.

In related news, from 17 November a number of entrepreneurship and technology events are taking place in Palestine in the context of the second Global Entrepreneurship Week (GEW) Palestine.[10] Activities will include Startup Grind Palestine[11] (a networking and mentoring event powered by Google for Entrepreneurs) on 18 November, a new edition of Startup Weekend Ramallah[12] on 20-22 November and the fourth annual Celebration of Innovation (COI) event on 23 November.[13] COI 2014 will feature Palestine's First National Demo Day, a nation-wide entrepreneurial competition organised by Palestine for a New Beginning, giving top young Palestinian entrepreneurs the opportunity to pitch their businesses to local and international experts and investors.

October Trading

In October the Al-Quds index decreased by 2.1% from the previous month, reaching 500.59 points on the last day of trading. A total of 13m shares worth $26.2m were traded in 18 sessions. This marked a decrease of 39.5% in the number of traded shares and 17.8% in the value of traded shares from September 2014. Market capitalisation decreased over the month by 1.1%, reaching $3.14bn.

In related news, during Q3 2013 companies listed on the Palestine Exchange (PEX) jointly achieved total net profits after tax of $177m, a 6.4% drop from the corresponding quarter of 2013. 70% of all listed companies were profitable in Q3 2014, down from 77% in Q3 2013.[14]

9 www.expotech.ps/2014/about/what-is-expotech/
10 www.bit.ly/1sKAEBh
11 www.startupgrind.com/palestine/ and http://on.fb.me/1qWSf9r
12 www.ramallah.startupweekend.org/
13 www.pnbpalestine.org/#!coi2014/cq80
14 www.pex.ps/PSEWebSite/NEWS/06112014.docx

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