

Bulletin 185
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Main reports

January saw the signing of a number of promising agreements for infrastructure development in Palestine

The Palestine Investment Fund announced on 18 January the results of its employment-focused Development Impact Bond

The past month witnessed a number of developments in the Palestinian tech start-up financing scene

In January, Al-Quds index reached 613 points on the last day of trading, an increase of 0.75% from the previous month

The Establishment of a Net Lending Unit

On 17 January 2022, the Palestinian Council of Ministers decided to establish a special unit to manage the complex issues related to net lending.¹ This refers to the sums deducted by the Government of Israel (GoI) from the clearance revenues it collects on Palestinian imports, against debts due to Israeli companies for electricity, water, and wastewater services provided to Palestinian municipalities and distribution companies. Palestinian local authorities and distribution companies sell electricity and other services, which are supplied by Israeli companies, to the Palestinian public. However, these Palestinian water and electricity distribution companies and municipalities are not able to collect the full amount due for these services due to high default rates by customers, weak monitoring and payment collection capacity, and theft. By default, the full payment due for these services, in addition to fees and interest charged by the Israeli companies, are unilaterally deducted by Israel from funds due to the Palestinian National Authority (PNA).

This issue has been evident since at least 2016, when a World Bank report, which reviewed PNA expenditure, concluded that net lending was becoming one of the PNA's most pressing financial problems.² In 2021, net lending reached ILS 1.2 billion,³ 6.7% of the PNA annual budget,⁴ averaging ILS 940m between 2002 and 2014, with 66.5% of that sum attributable to debts in the electricity sector.⁵ While payment collection increased to 85% in the West Bank and 30% in the Gaza Strip following PNA regulatory measures implemented during 2009-2011, net lending has risen again in recent years.⁶ In large part, these increases are driven by unresolved issues in the electricity service provision system. The ongoing Jerusalem District Electricity Company (JDECO) crisis has resulted in significant debts for the PNA, including a \$127m (ILS 404.2m) debt to the Israel Electric Corporation that were due this November.⁷

According to the Palestinian Economic Policy Research Institute (MAS) a number of approaches can be utilised to address the net lending problem, including improving the legal/regulatory framework, especially regarding payment enforcement, expanding the installation of prepaid electricity meters, and reducing both technical and commercial inefficiencies in electricity distribution companies.⁸

This January, a session was held amongst electricity sector stakeholders with the goal of amending and unifying connection fees for electricity subscribers.⁹ Such interventions to improve the accuracy of billing are an important step to reducing the commercial losses of the Palestinian electricity distribution companies. However, apart from efforts by Palestinian service providers to reduce the net lending burden, the absence of any agreed mechanism for Israel's handling of delayed payments also perpetuates net lending. Examples of unilateral actions taken by Israel include deducting payment before the due date for bills, preventing oversight or auditing by Palestinian companies to ensure accurate billing, and adding additional fees and fines.¹⁰

1 <https://bnews.ps/ar/node/18092>

2 <https://bit.ly/3uFpWqB>

3 <https://bnews.ps/ar/node/18109>

4 <https://bit.ly/36cd06d>

5 <https://bit.ly/3p95QSh>

6 <https://bit.ly/34p3N5q>

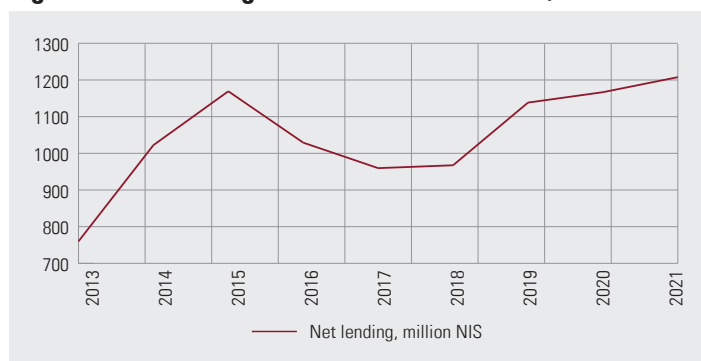
7 <https://bit.ly/3sLxy8l>

8 www.mas.ps/files/server/20191012104921-1.pdf, <https://bit.ly/3gzTS3Z>

9 <https://bnews.ps/ar/node/18056>

10 <https://bit.ly/3stLmUY>

Figure 1: Net lending in million Israeli Shekel, 2013-2021



Source: Ministry of Finance Monthly Report on Expenditure of Public Budget, December (2013-2021)

Infrastructure Development

January saw the signing of a number of promising agreements for infrastructure development in Palestine.

Industrial Zones

On 6 January, Prime Minister Muhammed Shtayyeh and a representative of the European Union (EU) signed a €9m agreement to support the Industrial Cities Programme¹¹ through incentives to investors and companies located in industrial cities or intending to move there.¹² Of the total amount, most (€7m) is dedicated to the Gaza Industrial Estate, which employed over 700 workers in 2017 and had received about \$168m in investments.¹³ However, during the Israeli air strikes on Gaza in May 2021, nine factories and companies in the industrial zone were damaged.¹⁴ The remaining €2m will be allocated to the Bethlehem Industrial Zone and Jericho Agro-Industrial Park.

Energy infrastructure

On 26 January 2022, during the meeting of the EU-Palestine Investment Platform, six agreements were signed between the EU, the French Development Agency (AFD), the German Development Bank (KfW) and Palestinian banks, for a total value of €200m.¹⁵ This included funding the second phase of the SUNREF Palestine programme, a joint programme that the AFD and EU first launched in 2018. SUNREF promotes the transition to renewable energy and energy efficiency by increasing the lending capacity of local banks for private sector green energy projects. In its first phase it supported 215 investments,¹⁶ which included the installation of eight photovoltaic systems, the financing of 57 electric vehicles and nine charging stations with Ritz Leasing, as well as funding energy efficiency upgrades for Paltel's data centre, now one of the most efficient data centres in the region.¹⁷

SUNREF II will put greater emphasis on funding for energy efficiency projects, especially in risky and innovative energy efficiency investments that may not receive funding from traditional sources. Energy saving investments are particularly important in Palestine due to the limited domestic energy supply¹⁸ and the high cost of energy, which accounts for about 8.5% of household spending, the highest share in the MENA region.

Palestinian Impact Bonds

On 18 January, the Palestine Investment Fund (PIF) announced positive results for the employment-focused Development Impact Bond (DIB).¹⁹ The implementation of the DIB started in Palestine in early 2020, to help tackle youth and women unemployment, as part of the World Bank-funded Finance for Jobs II project, which aims to pilot innovative approaches to creating jobs and catalysing investment. The DIB was designed to help bridge the gap between available skills and those required in the Palestinian labour market by financing the provision of training to graduates and job seekers and then matching them with suitable employment opportunities.²⁰ This financing came from four private impact investors (FMO Dutch Development Bank, the European Bank for Reconstruction and Development, the PIF and Invest Palestine). If young Palestinians completed their training and secured employment, then private investors would be repaid by the World Bank through the Palestinian Ministry of Finance (MoF).²¹ This created an incentive structure to ensure the investments were results focused.

The DIB targeted an estimated cohort of 1,500 Palestinian job seekers aged 18–29 years (with at least 30% women). So far, more than 655 young people, about half of whom are women, have been accepted into training programmes. 550 young people have completed the training, and 240 have secured jobs.²² Based on the results achieved to date, over \$2m in outcome payments have been repaid to investors out of the \$5.75m that may be ultimately generated from the DIB for its duration through to October 2023.²³

Palestine's first DIB is coming to a close in 2022. Juzoor for Health and Social Development, a Palestinian organisation that promotes public health among Palestinians, started a pre-diabetes prevention programme in April 2019, in cooperation with The Portland Trust, Bank of Palestine (BoP), Paltel Group Foundation and United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).²⁴ The programme, seeks to reduce the risk of Type 2 diabetes among 150 pre-diabetic refugee women through lifestyle adjustments, focusing on nutrition and physical exercise. More specifically, it aims to help participants lose 5-7% of their total body weight. The BoP financed the \$150k DIB programme and the Palestine Telecommunications Company (Paltel) will repay the sum if 25% of the participants achieve the 5-7% loss. Despite the great challenges created by the COVID-19 pandemic, 21 participants have achieved the predetermined goal thus far.

Financing Tech Start-ups

The past month witnessed developments in the Palestinian tech start-up financing scene, contributing to an ecosystem that is in dire need of new emerging funds and angel investment networks with greater focus on the pre-seed and seed stages.

Ibtikar's Second Fund

On 24 January, the International Finance Corporation (IFC) announced a \$2.5m equity investment in Ibtikar's second venture capital fund.²⁵ Ibtikar is the only active institutional venture capital fund in Palestine.²⁶ The investment aims to support early-stage entrepreneurs, spur innovation, and drive economic growth.

11 Comprises five industrial estates and free zones (IEFZs): Gaza Industrial Estate, Jenin Industrial Free Zone, Jericho Agro-Industrial Park, Bethlehem Industrial Estate and Tarqumiya Industrial Zone.

12 <https://bnews.ps/ar/node/18032>

13 <https://www.mas.ps/files/server/20182211130730-1.pdf>

14 <https://bit.ly/3HG5Wbh>

15 <https://bnews.ps/ar/node/18162>

16 <https://bit.ly/3B8JDIJ>

17 www.cab.ps/sites/default/files/Palestine_Success_stories.pdf

18 <https://bit.ly/3pbo70B>

19 DIBs are performance-based investment instruments intended to finance development programmes with money from private investors who earn a return if the programme is successful, paid by a third-party donor. The outcomes to be measured are agreed upon at the outset and independently verified - <https://bit.ly/3GTY6JX>

20 <https://bit.ly/3JhURxh>

21 <https://bit.ly/2EaCeMq>

22 www.dai.com/our-work/projects/palestine-finance-for-jobs-f4j

23 <https://bit.ly/3rDXl3c>

24 <https://bit.ly/3gTVnpj>

25 <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=26791>

26 www.ibtikarfund.com

The Women Entrepreneurs Finance Initiative (We-Fi), a financial intermediary fund hosted by the World Bank, is investing an additional \$500,000 to help Ibtikar better reach and support more women entrepreneurs. The funding from We-Fi will help Ibtikar implement a gender action plan, including targets to ensure continued support to women-led start-ups. These efforts are expected to create a more inclusive venture capital ecosystem.

Ibtikar Fund II has a target size of \$30m, of which \$15m has been secured.²⁷ The fund will focus on investing in pre-seed and seed-stage Palestinian technology start-ups building scalable businesses targeting global or MENA markets. The initial closing witnessed contributions from institutional investors, including the Dutch Good Growth Fund, managed by Triple Jump BV and PwC, the IFC and numerous private and corporate investors from Palestine and the diaspora, as well as key regional and global leaders from the tech and venture capital scenes.

This marks the second time IFC has invested in an Ibtikar fund.²⁸ IFC previously invested \$1m in Ibtikar's first fund, which was launched in 2016 to develop, support, and grow the entrepreneurial ecosystem in Palestine. The first \$10.4m fund invested in 26 companies, including Mashvisor, Gamiphy, Kenz, LogesTechs, 360Moms, and Tawazon, and indirectly supported the creation of over 250 jobs.

Paltel Seed Funding

On 12 January, Paltel, through "Fikra" its innovation hub, signed an investment agreement with six Palestinian start-ups.²⁹ Fikra received 51 applications for the funding opportunity, thirteen of whom made it to the pitching stage. The start-ups presented their ideas to a specialised committee and six were selected for investment; namely:

- Shabakni, an online on-demand home services platform that connects households and businesses with pre-examined professional service providers;³⁰
- Deelzat, a socially integrated e-commerce mobile app specifically geared towards Middle Eastern markets;³¹
- JARU, an app booking platform that connects a community of pet service providers and pet owners to encourage animal adoption, creates employment opportunities and provides exposure to pet service providers;³²
- Agritech, based in Gaza, a platform that utilises Internet of Things (IoT) sensors to provide greenhouse farmers with a centralised monitoring system to increase their production and reduce production costs;
- JeelCode, an educational academy that provides courses specialised in programming and future technology for children;³³ and
- Crowd Poll, an online polling platform that helps executives make better judgment by collecting market data in a fast and cost-effective way to reach many respondents.³⁴

During the event, Laith Kassis, Fikra's Director, noted that the seed-funding programme aims to invest in early-stage start-ups to help them improve their business model, develop an initial product and/or access an initial market. Kassis said that Fikra, as a corporate entrepreneurship support programme, provides a co-working space with access to high-speed internet, access to mentoring from Fikra and Paltel Group staff, services from Paltel Group companies such as call centre support, SMS, 3G, Mobile SIM Cards, web hosting, access to the Paltel Group user base and market channels, access to Jawwal's 3+ million subscribers

through Jawwal e-Store, and enables start-ups to post on Jawwal Social Media and run advertisements on Hadara IP TV. A Paltel Group company may also be a buyer of the start-up innovation product/service) if there is an alignment of interest.

Fikra offers two investment tracks. The first is a \$200k investment in start-ups that have a full-time team, a working product and have already developed considerable sales traction. The second is the Fikra Seed Fund programme, launched in 2021 with a financing size of \$20K for each start-up, including a \$5K voucher to purchase services from the Paltel Group. The investment is open for ideas and early-stage start-ups and can function as pre-seed.

Fikra previously invested in WeDeliver (a crowdsourced delivery platform),³⁵ Receet (a mobile app that creates digital receipts and generates financial reports)³⁶ and Kitab Sawti (UAE-based Arabic audiobook platform).³⁷ In 2020, the global company "Storytel" acquired Kitab Sawti and Paltel was able to exit from its investment.³⁸ In 2021, Storytel's MENA regional brand, Storytel Arabia, and Kitab Sawti officially entered into a merger in a bid to create the world's largest Arabic audiobook library- a catalog that boasts over 5,000 audiobooks.³⁹

Nascent Digital Economy

A recent World Bank report noted that the Palestinian digital economy is still in the nascent stage and its potential not fully realised.⁴⁰ This is reflected in the significant handicap of being limited to 3G internet (and 2G in Gaza), low availability of government services online, weak use of digital payments, and mismatches between the skills of Palestinian IT graduates and those required by the growing IT industry. It also ranks below the average of other Arab countries in the World Bank's MENA Tech Digital Economy Assessment. Only about a third of formal firms in Palestine have their own website, compared to the MENA average of half (2019).

The Palestinian start-up ecosystem is underfunded and fragmented with limited connections to regional and international markets. Lack of financing and mentorship are among the main obstacles for start-ups that seek to grow and expand their offerings. About 90% of microentrepreneurs, who are mostly active in trade and services, lack access to financial services.⁴¹ In the first half of 2021, out of the 249 MENA start-ups that raised investment, only one of them was Palestinian.⁴² This was Kenz, a lingerie and intimate wear e-commerce start-up, and in March 2021, it closed a six-figure pre-Series A round to extend its operations and grow its brand in the Kingdom of Saudi Arabia.⁴³

The digital transformation of the economy requires a sustainable political resolution with the Government of Israel (GoI) to remove current restrictions on ICT equipment imports, dealing with the spectrum allocation (i.e., the enforced limitation to 2G in Gaza and 3G in the West Bank), and rights of way in Area C. There is also the need to upgrade the skills of Palestinians, introduce programmes to increase international market reach, enhance the capacity of support organisations (such as incubators and venture capital funds) and strengthen access to finance.

January Trading

In January 2022, Al-Quds index reached 613 points on the last day of trading, an increase of 0.75% from the previous month. During the month, a total of 10.2m shares with a total value of \$22.9m were traded, marking a 33.5% decrease in the number and 21.8% in the value of traded shares compared to the previous month.

27 <https://ibtikarfund.com/?p=1>

28 <https://pressroom.ifc.org/all/pages/PressDetail.aspx?ID=17460>

29 <https://bit.ly/3tv0ALv>

30 <https://shabbikni.com/%d9%85%d9%86-%d9%86%d8%ad%d9%86/>

31 www.menacatalyst.ps/startups/5349.html

32 <https://palvision.ps/projects/create-hope-in-jerusalem/jaru/>

33 <https://jeelcode.com/en/who-are-we/>

34 <https://bit.ly/3tv0ALv>

35 <https://bit.ly/3rTqp6Y>

36 www.crunchbase.com/organization/receet

37 <https://bit.ly/3srYbfz>

38 www.menabytes.com/kitab-sawti-storytel/

39 www.entrepreneur.com/article/369944

40 <https://bit.ly/3oR7KXh>

41 <https://bit.ly/3GEPczN>

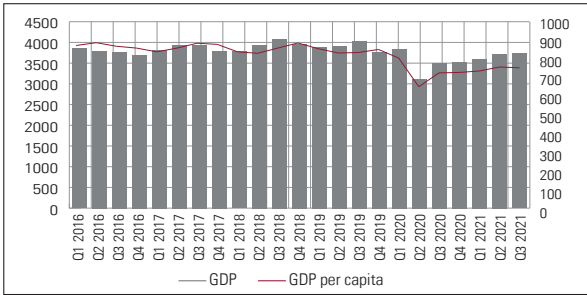
42 www.wamda.com/2021/07/does-palestine-investment-ready-startups

43 <https://english.wafa.ps/Pages/Details/123896>

Palestine Economic Dashboard

Growth

GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2016 – Q3 2021

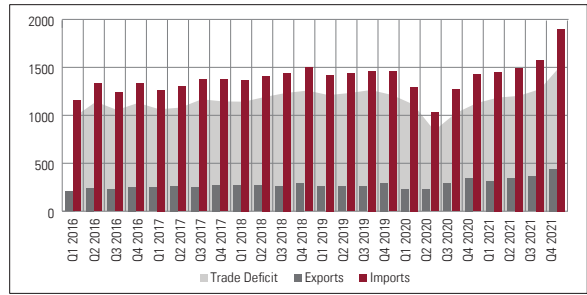


GDP (Q3 2021): \$3,738.8m
Source: PCBS

GDP per capita (Q3 2021): \$755.5

Trade

Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2016 – Q4 2021

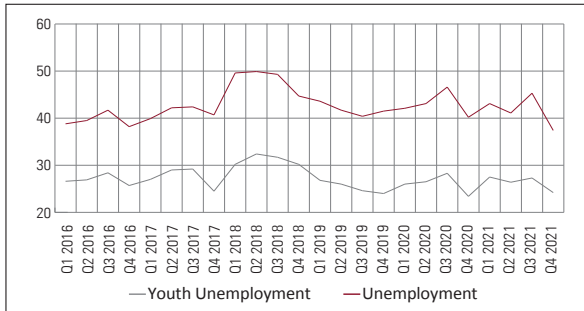


Imports (Q4 2021): \$1,898.2m
Trade deficit (Q4 2021): \$1,458.5m

Exports (Q4 2021): \$439.7m
Source: PCBS

Unemployment

Unemployment and Youth Unemployment in Palestine, Q1 2016 – Q4 2021

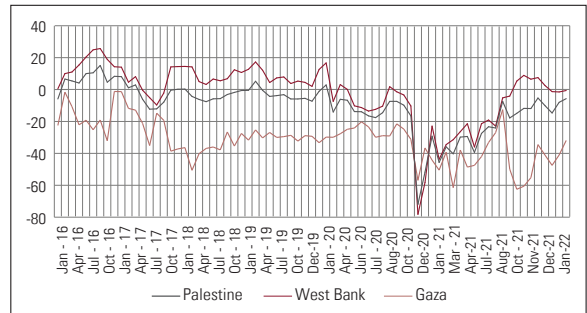


Unemployment rate (Q4 2021): 24.2%
Source: PCBS

Youth Unemployment rate (Q4 2021): 37.4%

Business Cycle Index

Palestine Monetary Authority Business Cycle Index, January 2016 – January 2022

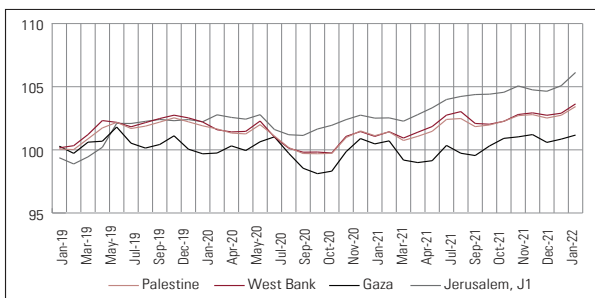


Palestine (January 2022): -5.7
Gaza (January 2022): -31.9

West Bank (January 2022): -0.6
Source: PMA

Inflation

Consumer Price Index (Base year = 2018), January 2019 – January 2022

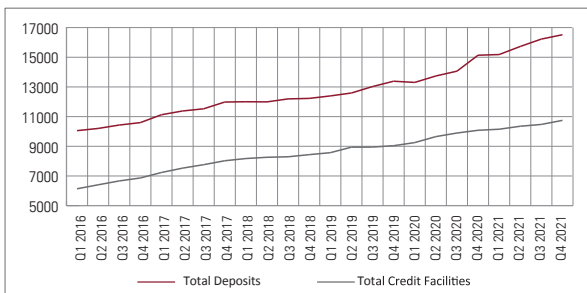


Palestine (January 2022): 103.43
Gaza (January 2022): 100.85

West Bank (January 2022): 103.64
Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2016 – Q4 2021



Total Credit (Q4 2021): \$10,747.17m
Source: PMA

Total Deposits (Q4 2021): \$16,518.13m

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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