

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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Palestinian Prime Minister Dr Mohammed Shtayyeh inaugurated Palestine's first agricultural cluster in Qalqilya

Al-Quds index reached 517.7 points on the last day of trading in September, a decrease of 1.1% from the previous month

In this issue of the bulletin, we interview Dr. Ismail Daiq, a leading entrepreneur in the date palm cultivation industry and former Palestinian Minister of Agriculture

Bi-annual Meeting of the Ad Hoc Liaison Committee

On 26 September, the Ad Hoc Liaison Committee (AHLC) convened in New York to address the Palestinian fiscal crisis and humanitarian situation. The AHLC is a 15-member committee serving as the principal policy-level coordination mechanism for development assistance to the Palestinian people.¹ The Chairman's Statement issued following the meeting called for the resumption of the transfer of clearance revenues, increased donor funding especially to Gaza, and expressed support for judicial, social, and economic reform efforts of the Palestinian National Authority (PNA).²

Addressing the AHLC, Palestinian Prime Minister Dr Mohammad Shtayyeh urged the international community to stand with the Palestinian people, reaffirming the Palestinian Government's commitment to the two-state solution.³ Shtayyeh called for an independent audit of the clearance revenue transfer mechanism to avoid delays and inflated administrative fees. He announced that the government is working on its strategy for economic disengagement from Israel by strengthening local production and rebuilding trade relations with Arab countries. Shtayyeh added that the government is undertaking reforms in the education and health sectors, and gradually implementing the cluster development model.⁴

Ahead of the meeting, the World Bank Group (WBG), the Office of the UN Special Coordinator for the Middle East Peace Process (UNSCO), and the Office of the Quartet (OQ) submitted periodic reports on the status of the Palestinian economy and humanitarian developments.

The UNSCO report, which provides an assessment of the efforts of the Palestinian Government toward state-building, warned of the financial, security, and political challenges currently faced by the Government, highlighting the impact of the financial crisis caused by the clearance revenue stand-off.⁵ Additionally, the report discusses the deteriorating situation in Gaza, in which the economy contracted by 7% in 2018 and unemployment reached 46.5% by early 2019. Recommendations to halt further deterioration include intra-Palestinian reconciliation, intensification in humanitarian aid and development assistance, and a significant reduction of Israeli restrictions on movement and access.

Similar concerns were echoed in the WBG report, which serves to update the AHLC on recent economic developments in the real,⁶ fiscal, and banking sectors.⁷ According to the report, the PNA managed to curtail what it termed a "liquidity crisis" through the adoption of an emergency austerity budget, increased bank borrowing, and foreign support. However, this has heightened domestic banks' exposure to the crisis, and led to a build-up in arrears for the PNA. According to the WBG, the economy is expected to fall into recession in 2020-2021 despite the one-off transfer of clearance revenues.

1 <https://bit.ly/30VDsE9>

2 <https://bit.ly/20BnYCu>

3 <http://www.palestinecabinet.gov.ps/website/AR/ViewDetails?ID=43918>

4 Economic clusters are further detailed in this Bulletin

5 https://unsco.unmissions.org/sites/default/files/unsco_ahlc_report_september_2019.pdf

6 The real economy refers to all real or non-financial elements of an economy.

7 <https://bit.ly/35d5ePH>

The OQ report, focusing on energy, water, telecommunications, movement, trade, and the rule of law, outlined progress in major projects currently underway in the West Bank and the Gaza Strip.⁸

- **Energy sector:** In Gaza, demand has reached in excess of 500 MW while supply has not exceeded 200 MW, resulting in only 5-15 hours of electricity available per day. The OQ and the PNA have completed a pre-feasibility study of five potential solar energy sites in 3 Gaza locations, which could add 17 MW of local renewable generation to Gaza's power supply. In the West Bank, the Palestinian Energy and Natural Resources Authority (PENRA) and Jordan's Ministry of Energy and Mineral Resources announced that electricity supply from Jordan to the West Bank will be increased from 25 MW to 160 MW (two feeders of 80 MW each). In addition, the first of three large West Bank solar energy developments – a 7.5 MW plant near Jericho – was inaugurated by a subsidiary of the Palestinian Investment Fund in June 2019.
- **Water Sector:** Access to water in the West Bank and Gaza remains below World Health Organization Standards (100 litres/capita/day - l/c/d hereafter). The average in Gaza totals 21.4 l/c/d of safe drinking water, and 89 l/c/d in the West Bank. Construction of the associated works of the Gaza Central Desalination Program (GCDP) has commenced in the south of Gaza, which will enable the immediate supply of an additional 10 million cubic meters (MCM) of water from Israel once construction is complete in August 2020, and 55 MCM by the end of 2023, more than doubling the water supply to Gaza.⁹

Update on Clearance Revenue Stand-off

On 4 October, the PNA announced that it had reached an agreement with the Government of Israel (Gol) on the transfer of NIS 1.8bn in accumulated clearance revenues due to the PNA, out of NIS 3.8bn total collected by the Gol, but not accepted by the PNA since March 2019.¹⁰ Last month, the PNA had received NIS 2bn of withheld clearance revenues after agreeing with the Gol to collect fuel tax directly from consumers,¹¹ applied retroactively since March.¹²

The dispute at the root of the recent suspension of clearance revenue transfers has yet to be resolved,¹³ as the Gol will continue to deduct a sum from the clearance revenue entitlements equivalent to the PNA's payments to prisoners and their families.¹⁴ The PNA and Gol agreed to convene bilateral technical committees that will examine pending fiscal disputes, including deductions made by Israel in the past two decades over electricity, water, and medical transfers bills

8 <https://bit.ly/31noE10>

9 <https://reliefweb.int/report/occupied-palestinian-territory/gaza-water-status-report-2017-june-2018>

10 <https://reut.rs/2ATwuot>

11 Excise tax Israel charges for fuel that Palestinians acquire. Under the Paris Protocol, Israel collects these taxes from the PNA and then it transfers them back to the PNA along with other clearance revenues that Israel collects on behalf of the PNA.

12 See B155 for further details, <https://bit.ly/33TPXTn>

13 41.5m deducted monthly from the clearance revenues

14 Discussed in previous issues of the bulletin, particularly B150 and B153

that Israel charges the PNA.¹⁵ Such committees, as well as the Joint Economic Committee, established under the Paris Economic Protocol¹⁶, have been inactive since the early 2000s. Palestinian officials have described this development as an opportunity to demand changes to the Protocol, such as renegotiating import lists and quotas, and acquiring approval for infrastructure construction and projects that pass through Area C in the West Bank.¹⁷

Economic Clusters

On 3 September 2019, Palestinian Prime Minister Dr Mohammed Shtayyeh inaugurated Palestine's first agricultural cluster in Qalqilya. Additional agricultural clusters are planned for Tubas, Jenin, Tulkarem, Jericho, and the Jordan Valley. The Qalqilya cluster is expected to see a total investment of USD 23m over three years.¹⁸

Commenting on the event, the Palestinian Minister of Agriculture, Riyad Al-Atari, said the cluster aims to develop the use of land and water resources and strengthen Qalqilya's competitive advantage. Development will include reclaiming and rehabilitating 8,850 new dunums of land, creating new agricultural roads, providing infrastructure for agricultural laboratories and research centres, and establishing water tanks and freezing facilities.¹⁹ The Qalqilya cluster is expected to see 180,000 fruit saplings planted, increasing Palestine's agricultural production by 7% and creating over 3,200 permanent jobs.²⁰

Seeking to respond to adverse economic conditions in Palestine, the Government has identified cluster-based economic development as a means to boost national production and income. Economic clusters concentrate companies within the same industry in the same location, allowing firms to benefit from co-location and economies of scale. This includes sharing resources (including suppliers of machinery or infrastructure) and collaborating on training and research.²¹ Clustering is a major pillar of the PNA's 100-day plan announced in May 2019, which aims to foster development to strengthen local production and gradually disengage from Israel.²²

Beyond the agricultural sector, the benefits of additional clusters are being explored. Prime Minister Shtayyeh recently discussed the possibility of building an industrial zone in Nablus, with support from the Russian government.²³ Discussion is also underway to create an industrial cluster in Hebron through consolidating existing industrial development initiatives.²⁴ A tourism cluster has been proposed for the Bethlehem and Jerusalem areas, along with a services cluster centred in Ramallah. Clusters

15 www.al-ayyam.ps/ar_page.php?id=1377070ey326567694Y1377070e, www.nablustv.net/internal.asp?page=details&newsID=373512&cat=72

16 An interim agreement signed between Israel and the Palestinian Liberation Organization (PLO) in September 1995 that sets the procedures and regulations governing economic relations between Palestine and Israel.

17 <http://english.wafa.ps/page.aspx?id=0MLjLCa113674523061a0MLjLC>

18 www.aliqtisadi.ps/article/70454/

19 www.alquds.com/articles/1567401305811314800/

20 www.aliqtisadi.ps/article/70484/

21 www.fao.org/3/i1560e/i1560e.pdf

22 <http://palestinecabinet.gov.ps/Website/AR/ViewDetails?ID=43725>

23 www.alquds.com/articles/1565261482904819900/

24 <https://bit.ly/2nwbAUK>

are intended to assist Governorates and local economies to exploit competitive advantages.²⁵

Date Farming in Palestine – Interview with Dr Ismail Daiq

Dr Ismail Daiq is the head of the Palestinian Palm Research Center, an investor in the date palm sector in Palestine and Morocco, and a technical advisor to a number of date cultivation projects in Palestine, Jordan, Egypt, Sudan and Morocco. Between 2009 and 2011, Dr Daiq served as the Palestinian Minister of Agriculture. Prior to that, he served at the Palestinian Agricultural Relief Committees for 22 years, as Chairman of the Board between 2007-2009, and General Director between 1987-2006.

Palestinian Economic Bulletin (PEB): What is the current status of date palm cultivation in Palestine?

Dr Ismail Daiq (ID): The number of date palm seedlings planted in Jericho and the Jordan Valley reached 500,000 trees (150,000 in Jericho and 35,000 in the rest of the Jordan Valley),²⁶ spread over 33 thousand dunums of agricultural land.

Within the next five years, the number of seedlings is expected to increase by 350,000 and the area planted with palm trees is expected to constitute 30% of the agricultural area cultivated in the Jordan Valley by Palestinian farmers. By 2025, production is expected to reach about 20,000 tonnes of the finest dates, Medjool, where there is less global competition due to limited climatic zones suitable for cultivation.

Net sales of dates are expected to reach NIS 360m (\$100m) annually by 2025, double the annual net sales generated by one million dunums planted with olive trees. As 60-80% of date production will be exported, this could increase agricultural exports by 200%. Date palm exports would surpass olive oil exports to become the leading Palestinian agricultural export.

PEB: What is the impact of investment in date palm production on the national economy?

ID: Each palm tree that is more than 10 years old produces an average of 80 kilograms of dates. The profit margin in the palm farm ranges from 15-30%. This is the best financial yield in agriculture amongst crops in Palestine.

Most land currently planted with palm trees has not been previously cultivated. Saltwater and valley water are also used for irrigation of palms, so water is exploited before flowing into the Jordan River and the Dead Sea without affecting the scarce level of drinking water.

There is also an additional expected profit from sorting and packaging dates and providing necessary logistics. At the current level of production, the need is for approximately 15 packaging factories. There are also palm-based industries that can be established, such as compost plants (two factories have been established so far), silage plants for animal feed, cardboard, and paper factories. This is in addition to making date paste and sweets. Date

cultivation will increase the number of breeding animals and is expected to double the number of sheep in the Jordan Valley if a silage industry is established and if farmers plant clover and forage plants under palm trees.

PEB: What are the main obstacles facing the development of the date palm sector?

There are several challenges, but the most prominent are those created by the occupation. Israel prevents digging artesian wells, which limits farmers' access to water. The area of land available for cultivation is limited as the majority of land is classified as Area C where Israeli military zones have been established and farmers' access to the surrounding area is prohibited. Farmers also face difficulties in obtaining some fertilisers and pesticides to treat diseases and pests which pass through Israeli ports and require approval. Additional problems include high production costs (especially wages), high transportation and shipping costs (due to Israeli restrictions), and unfair competition with Israeli dates in the local market.

The sector also suffers from poor marketing services and the lack of knowledge in international market requirements and consumer preferences. This is in addition to the weak expertise of available agricultural engineers and workers, especially the applied aspects, as most of the farmers and investors lack the necessary experience in palm cultivation. There is also no unified training program that provides the best practice for palm planting.

There is also a lack of official support and adoption, including the lack of research and experiments by the Ministry of Agriculture, research centres and universities to get rid of the problems and diseases that affect the date palm tree. This is reflected in high production costs and the limited ability to enter foreign markets.

PEB: What are the required steps to develop this sector?

Investment projects in the date palm sector should be supported and protected by the PNA to open the way for private investment. This includes activating the Agricultural Insurance Fund and protecting the sector from arbitrary Israeli measures. In addition, financial institutions and banks should provide credit facilities and loans dedicated to the development of the sector. NGOs are required to establish research and training centres for workers. There is also a need to establish complementary projects such as compost industry, fish farming, planting forage plants and trees under palm trees and any other ideas that increase the economic benefit of date palm cultivation.

September Trading

In September 2019, Al-Quds index reached 517.7 points on the last day of trading, a decrease of 1.1% from the previous month.²⁷ During the month, a total of 11.4m shares with a total value of USD 20.1m were traded, marking a 165.7% increase in the number and 164.3% rise in the value of traded shares compared to the previous month. The Investment sector witnessed the worst performance, with a 3.6% decrease to 27.9 points during September.

25 <http://palestinecabinet.gov.ps/Website/AR/ViewDetails?ID=43725>

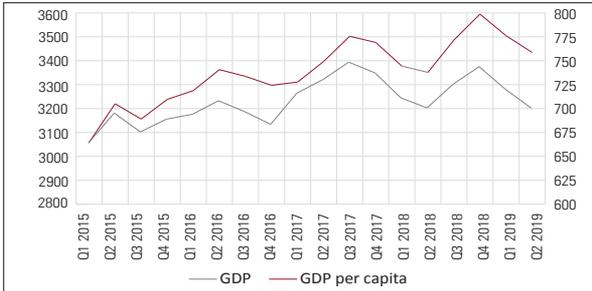
26 In 2017, date production was estimated at around 17,000 tonnes, worth approximately USD 28m. <https://bit.ly/2N2dytt>

27 <https://bit.ly/2lR3ERr>

Palestine Economic Dashboard

Growth

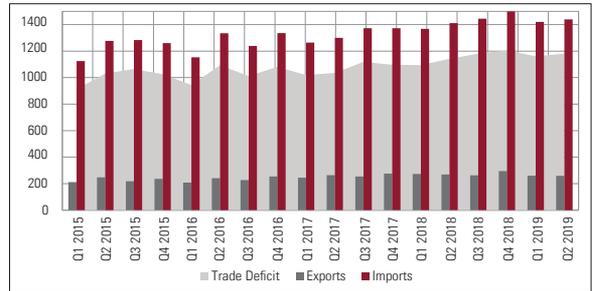
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q2 2019



GDP (Q2 2019): \$3,434.7m GDP per capita (Q2 2019): \$735.5
Source: PCBS

Trade

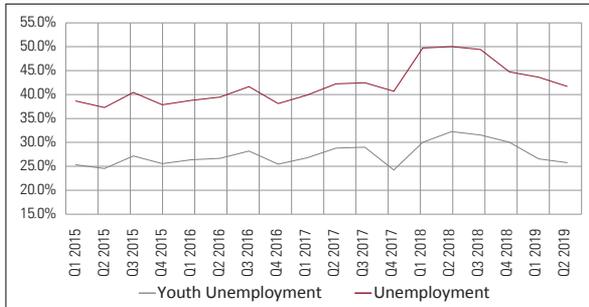
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q2 2019



Imports (Q2 2019): \$1,438.4m Exports (Q2 2019): \$258.7m
Trade deficit (Q2 2019): \$1,179.7m Source: PCBS

Unemployment

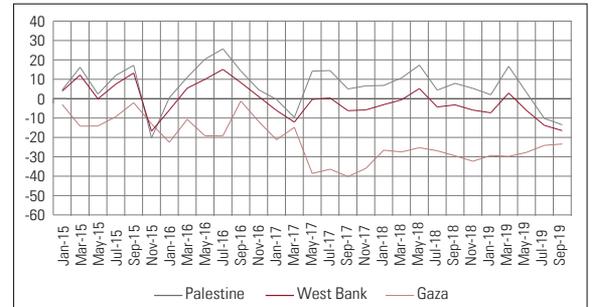
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q2 2019



Unemployment rate (Q2 2019): 26% Youth Unemployment rate (Q2 2019): 41.7%
Source: PCBS

Business Cycle Index

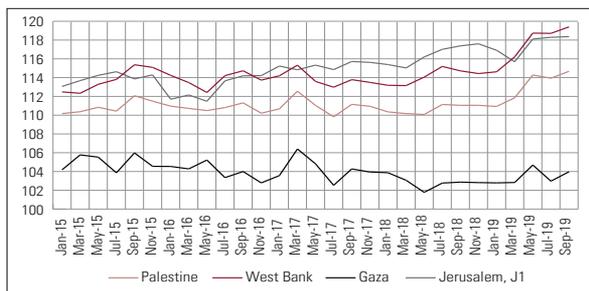
Palestine Monetary Authority Business Cycle Index, January 2015 – September 2019



Palestine (September 2019): -16.9 West Bank (September 2019): -13.5
Gaza (September 2019): -23.4 Source: PMA

Inflation

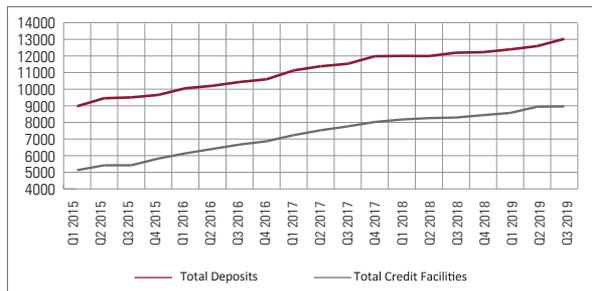
Consumer Price Index (Base year = 2010), January 2015 – September 2019



Palestine (September 2019): 114.6 West Bank (September 2019): 119.4
Gaza (September 2019): 104.0 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2015 – Q3 2019



Total Credit Facilities (Q3 2019): \$8,963.9m Total Deposits (Q3 2019): \$13,025.5m
Source: PMA

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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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