

PALESTINIAN ECONOMIC BULLETIN

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Palestine International Banking Conference 2019

On 27 November, the Palestine Monetary Authority (PMA) held its 2019 Palestine International Banking Conference, in cooperation with the Association of Banks in Palestine (ABP), the International Finance Corporation (IFC), and the European Palestinian Credit Guarantee Foundation.¹ The conference, under the theme 'Bank Financing and Economic Development Prospects', focused on the role of lending institutions in supporting and financing targeted productive sectors, such as technology and tourism, in line with the Government's economic development plan² It also covered the impact of PMA credit policies on various economic sectors, challenges to the financial sector and the potential for new policies and interventions to encourage a more favourable investment environment.

The Palestinian banking system has grown significantly during the past decade. In 2018, total assets increased to USD 16bn from USD 7.6bn in 2008. Over the same period, the total credit portfolio grew from USD 1.8bn to USD 8.5bn. In 2018, total credit facilities represented approximately half the Palestinian GDP, of which 84% were granted to the private sector and 16% to the public sector. Of credit to the private sector, 45% is in the form of consumer loans held by individuals. The remaining 55% comprises credit facilities to businesses, mostly concentrated among large companies in the services and trade sectors, with limited credit to productive sectors such as agriculture, manufacturing and Information technology. Around 89% of total credit facilities were provided to institutions in the West Bank, while the allocation to Gaza stood at a mere 11%.

During the event, Azzam Shawwa, Governor of the PMA, commented that the PMA recently issued new instructions in order to promote credit to productive sectors that generate jobs and encourage innovation and entrepreneurship.³ These instructions allow banks to invest in emerging Palestinian companies that engage in agriculture, alternative energy, or information technology, support creativity and innovation, and are active in environmental conservation. Banks can jointly establish such companies, provided that their maximum share does not exceed 80% of the company's capital. Shawwa added that the PMA will evaluate and revise its past credit policies to contribute more effectively to sustainable economic development in Palestine.

The conference proposed several interventions and recommendations aimed at boosting Palestinian economic development.⁴ These include:

- Formulating credit policies to support investing in productive sectors that are capable of creating new job opportunities
- The PMA specifying shares or percentages of total credit facilities that must be invested in the targeted strategic economic sectors according to the Government's development plan
- The PMA setting incentives for banks and lending institutions to provide more credit for some of the targeted strategic economic sectors

1 <https://www.maannnews.net/Content.aspx?id=1001505>

2 <http://www.aliqtisadi.ps/article/72162/>

3 <https://www.maannnews.net/Content.aspx?id=1001521>

4 <https://www.maannnews.net/Content.aspx?id=1001597>

- Providing support for tourism investments in Jerusalem
- Developing agricultural infrastructure and motivating lending institutions to create special financial products aimed at the sector
- Favouring investments in information technology, and creating opportunities to maximise the benefits of modern financial technologies
- Establishing special credit policies for strategic sectors and groups targeted by the Government's development plan, especially information technology, women, agriculture, energy, and handicrafts
- Developing and strengthening the legal environment governing the financing of strategic economic sectors
- Providing the necessary technical support for banks in order to finance SME projects, including the simplification of official company registration procedures

Palestinian Employment Development Impact Bond

On 5 November, the World Bank's Finance for Jobs (F4J) project officially launched the first employment-focused Development Impact Bond (DIB)⁵ in Palestine, addressing youth unemployment and the gender employment gap⁶. The programme aims to bridge the gap between available skills and those required in the Palestinian labour market by raising private capital to finance the provision of training to graduates and job seekers and then matching them with suitable employment opportunities. The DIB will target a cohort of 1,500 Palestinian job seekers aged 18–29 years (of whom at least 30% will be women). If young Palestinians complete their training and secure employment through the DIB, the private investors will be repaid by the World Bank through the Palestinian Ministry of Finance (MoF).⁷

Kanthan Shankar, the World Bank Country Director, said, "the mechanism promotes collaboration between the government and the investors on a shared development goal to support youth in their transition to employment. It is a mindset shift where the investors provide upfront funding for training and job placement programs and get repaid only upon achieved outcomes. The World Bank financial support to this public-private partnership is driven by the commitment for success, and investment in social good to address the jobs challenge for many Palestinian graduates."⁸

An initial investment commitment of \$1.8m was secured from the DIB's four investors: the European Bank for Reconstruction and Development (EBRD), the Dutch Entrepreneurial

Development Bank (FMO), Invest Palestine, and the Palestine Investment Fund. The DIB outcomes funding comes from \$5m allocated by the World Bank for outcomes payments through the MoF. The World Bank's Trust Fund for Gaza and the West Bank, and from the State and Peacebuilding Fund.

UNRWA Update

On 13 December, the United Nations General Assembly sent a strong message of support to the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA), by extending its mandate of providing essential services to Palestinian refugees until 2023.⁹ The overwhelming vote in favour of the extension comes nearly a month after a similar vote took place in the Special Political and Decolonization Committee (Fourth Committee) of the United Nations General Assembly. UNRWA serves over 5.5m Palestinian refugees in Palestine, Jordan, Lebanon, and Syria, but has been significantly impacted by the United States' decision to halt \$360m in annual support in August 2018.¹⁰

On 11 November 2019, UNRWA Acting Commissioner-General, Christian Saunders, announced that UNRWA is experiencing its worst financial crisis since its inception. He explained that the agency is facing "the possibility of reducing and indeed stopping the provision of services in the coming weeks."¹¹ UNRWA is currently carrying a 2019 budget shortfall of \$332m, \$167m of which is urgently needed to provide basic services.¹² Saunders disclosed that salaries were paid in November through a \$30m short-term loan from the UN which must be repaid by the end of the year. He added that \$40m is needed in December to provide food and medicine.

UNRWA's finances were also hit in the wake of an investigation by the UN Office of Internal Oversight Services (OIOS) into the Agency's management and transparency. Following the investigation, some member states, including Belgium, Switzerland, and the Netherlands froze their contributions to UNRWA, causing the agency to adopt internal reforms such as the implementation of a management plan to address oversights in accountability and leadership changes.¹³ Although the OIOS investigation has thus far found no fraud, corruption or misuse of funds,¹⁴ the episode has fueled critics of UNRWA threatening to undermine its overall mandate.¹⁵

On 9 December, the Netherlands resumed funding to UNRWA, after having temporarily suspended on 31 July a planned contribution of EUR 13m, as a result of the OIOS investigation.¹⁶ In a further gesture of support to the Agency, the Netherlands also added EUR 6m in support for 2019, bringing the total amount of Dutch funding to UNRWA's core budget in 2019 to EUR 19m.

In related news, the United Arab Emirates disbursed its \$12.5m contribution to UNRWA on 21 November, which will

5 DIBs are performance-based investment instruments intended to finance development programs with money from private investors who earn a return if the program is successful, paid by a third-party donor. The outcomes to be measured are agreed upon at the outset and independently verified.

6 <https://www.worldbank.org/en/news/feature/2019/11/11/rethinking-job-creation-for-palestinian-youth>

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

8 <http://english.wafa.ps/page.aspx?id=rsk4xoa113987649798arsk4xo>

9 <https://bit.ly/36GNsnY>

10 <https://reut.rs/35uU34T>

11 <https://bit.ly/2PflLlj>

12 <https://bit.ly/2LMtoZh>

13 <https://bit.ly/35uubG9>

14 <https://bit.ly/2PS2Lna>

15 <https://www.timesofisrael.com/white-house-demands-info-on-any-misuse-of-american-funds-by-unrwa/>

16 <https://www.unrwa.org/newsroom/press-releases/netherlands-resumes-funding-unrwa>

aid the Agency in continuing to provide services in primary healthcare, education, and social services.¹⁷

Global Entrepreneurship Week in Palestine

For the 7th consecutive year, Palestine celebrated the Global Entrepreneurship Week (GEW), held between 18-24 November. This year's programme focused on education and the role of skills development in supporting startup growth.¹⁸ GEW is an international initiative introducing entrepreneurship to young people, bringing together entrepreneurs, investors, policymakers, researchers, educators, support organisations and interested individuals.¹⁹

During the week, bootcamps, workshops, trainings, hackathons, competitions and other events were organised across Palestine.²⁰ One of the highlights of the week was the Seedstars competition, at which a pre-selected group of ten Palestinian seed-stage startups competed in front of an investment panel.²¹ The winner of the competition was the lingerie e-commerce shop, Kenz, which will be participating at the Seedstars Regional MENA Summit and Seedstars Global Summit in Switzerland in April 2020. In second place came WeDeliver, the first crowdsourced "on-the-way" technology-driven delivery service for businesses in Emerging Markets. In third place was TollabCo, a web/app platform connecting university students with job opportunities.

In related news, on 25 November, Ibtikar Fund announced its investment in Inggez, a mobile app offering on-demand access to gyms and fitness studios. The app provides users with access to a number of different fitness facilities without having to commit to a gym membership with a single gym.²² Ibtikar Fund is a \$10 million fund that invests in innovative early-stage Palestinian startups.

Recent developments in donor funding

According to a 2018 United Nations Conference on Trade and Development (UNCTAD) report, total international support has decreased by two thirds in the past decade, from \$2bn in 2008 to \$720m in 2017. Over the same period, direct budget support dropped by 70%, from \$1.8bn to \$544m.²³ By the end of 2018, arrears owed to private sector suppliers accumulated by the Palestinian National Authority (PNA) reached \$3.4bn, or 23.3% of GDP, while total debt to local banks reached \$450m.²⁴ The termination of American aid in 2018, along with the 2019 clearance revenue crisis, exacerbated the situation and severely affected the PNA budget.²⁵

The PNA relies heavily upon foreign funding as a source of finance for its budget. According to data issued by the Palestinian MoF on 27 November, external financial support

to the PNA budget amounted to \$385.1m at the end of October. For a second year running, Saudi Arabia topped the list of donor countries to the PNA budget, contributing 34.8% of total external support. Saudi Arabia also contributed an additional \$10m to the UNDP, making the total Saudi contribution to the UNDP's home reconstruction and rehabilitation efforts in Gaza \$71.5m. The programme aims to repair and reconstruct almost 275 homes damaged in Gaza after the 2014 conflict, benefiting over 13,000 families, repairing 11,913 partially-, 444 severely-, and 563 totally-destroyed homes, as well as rehabilitating one cultural centre, three non-governmental schools, and five children's playgrounds.²⁶ In October, Saudi Arabia agreed to establish a joint economic committee with Palestine, as well as a Saudi-Palestinian business council.²⁷ Earlier in 2019, Saudi Arabia also donated \$50m to UNRWA.²⁸

On 7 November, Germany pledged EUR 56.2m to the PNA for the implementation of new development projects in Gaza, the West Bank, and East Jerusalem, with a focus on improving the supply of drinking water to Palestinians.²⁹ Of the total amount, EUR 18m will be allocated towards the building of a distribution network for a new desalination plant in Gaza. This will result in the provision of safe drinking water for over one million residents in Gaza.³⁰

Notwithstanding its resumption of funding to UNRWA (see above), the Government of the Netherlands announced on 21 November that it would cease its direct financial assistance to the PNA, citing payments the latter makes to families of Palestinians killed or imprisoned by Israel. The financial support amounts to \$1.5m and had been allocated to salaries of employees of the Palestinian Ministry of Justice.³¹

November Trading

In November, the Al-Quds index decreased by 1.1% from the previous month, reaching 517.7 points on the last day of trading.³² A total of 11.4m shares worth \$20.1m were traded during the month, marking a 166% increase in the number of traded shares and a 164% increase in the trading value compared to October 2019. The industrial sector experienced the highest increase (3.2%), while the investment sector showed the highest decrease (-3.6%).

On 11 November, the Palestine Exchange (PEX) published the results for its Q3 2019 disclosure period, with 38 out of the 45 disclosed companies reporting profits.³³ Collective net profit after tax for all the disclosed companies reached \$231.6m in the first nine months of 2019, a decrease of 2.9% compared to the same period in 2018. Total reported profits reached USD 235.6m in the first three quarters of 2019, a 3.6% decrease compared to the same period in 2018. Three companies failed to disclose within the permitted period.

17 <https://www.unrwa.org/newsroom/press-releases/unrwa-receives-new-funding-united-arab-emirates>

18 <http://maannews.net/Content.aspx?id=1001866>

19 <http://www.aliqtisadi.ps/article/71927/>

20 <http://www.psgew.co/events/2019-11/>

21 <http://www.aliqtisadi.ps/article/72050/>

22 <https://bit.ly/2PflEfx>

23 https://unctad.org/meetings/en/SessionalDocuments/tdb65_2_d3_en.pdf

24 <https://bit.ly/34uVajA> and <https://ramallah.news/post/134880/>

25 <https://www.alwatanvoice.com/arabic/news/2019/06/23/1253404.html#ixzz67gx09P2G>

26 <https://bit.ly/2LMHyJX>

27 <http://english.wafa.ps/page.aspx?id=5tPfnFa113795395692a5tPfnF>

28 <https://apnews.com/3301011ceede4ab88b24a3a7832ccca4>

29 <http://www.aliqtisadi.ps/article/71816/>

30 <https://ramallah.diplo.de/ps-de/aktuelles/-/2264428>

31 <https://bit.ly/2RJESR4>

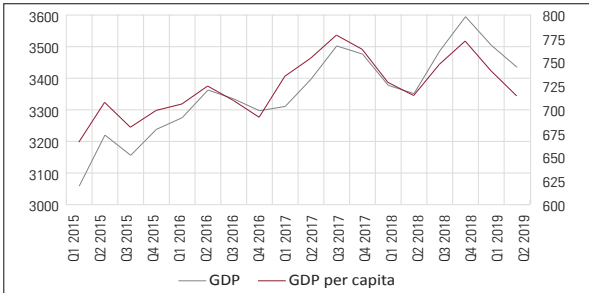
32 <https://bit.ly/2smTcUT>

33 <https://bit.ly/2sfdqQy>

Palestine Economic Dashboard

Growth

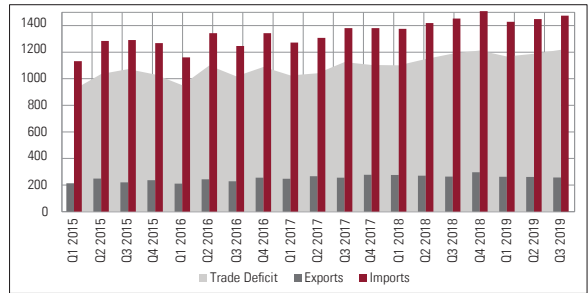
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2015 – Q2 2019



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

Trade

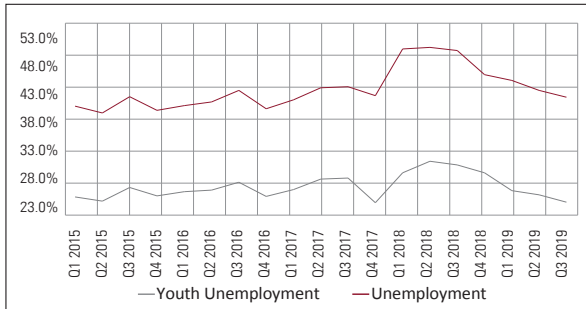
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2015 – Q3 2019



Imports (Q3 2019): \$1,464.4m Exports (Q3 2019): \$255.1m
Trade deficit (Q3 2019): \$1,209.3m Source: PCBS

Unemployment

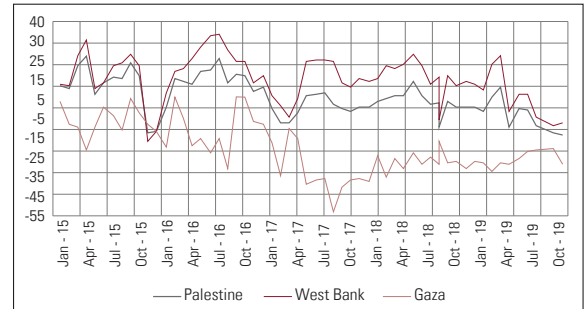
Unemployment & Youth Unemployment in Palestine, Q1 2015 – Q3 2019



Unemployment rate (Q3 2019): 24.6% Youth Unemployment rate (Q3 2019): 40.4%
Source: PCBS

Business Cycle Index

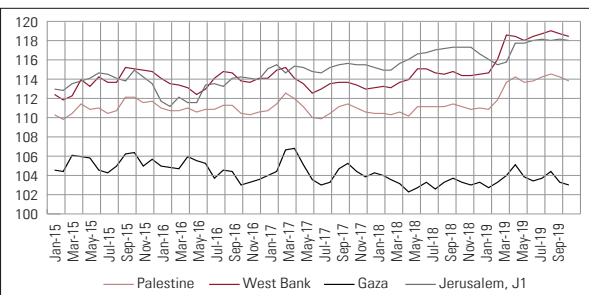
Palestine Monetary Authority Business Cycle Index, January 2015 – October 2019



Palestine (October 2019): -17.6 West Bank (October 2019): -12.4
Gaza (October 2019): -29.9 Source: PMA

Inflation

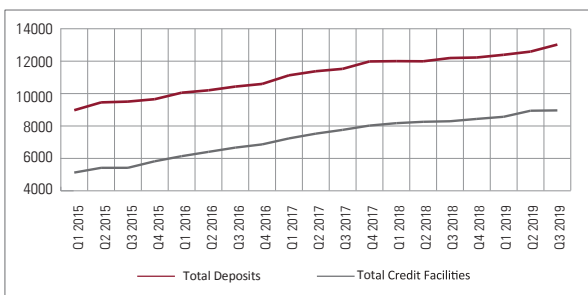
Consumer Price Index (Base year = 2010), January 2015 – November 2019



Palestine (November 2019): 113.1 West Bank (November 2019): 118.7
Gaza (November 2019): 102.5 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

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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