

PALESTINIAN ECONOMIC BULLETIN

Issue 25

October 2008

Main reports

A follow up to the Bethlehem Palestine Investment Conference will take place in Nablus on 21-23 November. 100 international investors are expected to participate, as well as local businesses, academia and government officials.

Megapharm announced that they face closure as the imports of raw materials, sourced internationally and locally, are restricted into the Gaza Strip. Megapharm is the last pharmaceutical outfit operational in Gaza; The Al Aqsa Fund approved \$15m this month for projects and relief assistance in Gaza.

Palestinian economic performance rose by 0.7% in Q2 2008 from Q1 2008 and fell by 3.2% from Q2 2007. Gross Domestic Product (GDP) per capita in the Palestinian Territory was static compared with Q1 2008 at \$285.5 per quarter. This is 5.2% lower than Q2 2007 figures.

The PCBS Labour Force Survey for Q2 2008 showed that unemployment, according to the ILO definition, increased from 22.6% to 25.8% from the previous quarter. The survey highlighted the increasing disparity between the West Bank and the Gaza Strip. Unemployment fell in the West Bank from 19.0% to 16.3% but rose in the Gaza Strip from 29.8% to 45.5%.

MIGA Goes Local

After almost a decade of standstill, The West Bank and Gaza Investment Guarantee Trust Fund (WBG-TF), administered by the World Bank's Multilateral Investment Guarantee Agency (MIGA), is extending the fund to facilitate new investment from local investors into the Palestinian Territory. The fund currently insures international investors against the possibility of major political risks and is sponsored by the Palestinian Authority (PA), Japan and the European Investment Bank. It has been operational since its founding in 1998 but it has only made one guarantee (a tourist project to rehabilitate the Solomon Pools in Bethlehem), which was cancelled by the investor after 12 months.

In an effort to attract foreign direct investment (FDI) into Palestine, the fund imposed several operation restraints which inhibited local private investment. In the absence of substantial FDI since the outbreak of the second intifada in 2000, the local private sector investor community has become the main investor in the Palestinian Territory.

Nabil Fawaz, MIGA's Global Head of Agribusiness, Manufacturing and Services, told the Bulletin that in light of this, MIGA and the sponsors are changing the operational rules of fund which will come into effect in November 2008. The fund will provide insurance cover to local investors, allow for shorter tenors, cover non shareholder loans and (partially) cover existing investments when accompanied by new investments into the project. The underwriting capacity will be increased from \$20m to \$30m.

Mr Fawaz explained that whilst the target market for the fund is small and medium enterprises (SMEs), particularly those with a projected increase in employment capacity, the WBG-TF will also cater to large projects - up to \$5m coverage capacity per project. For larger projects, MIGA will try to arrange additional capacity under a syndication scheme from the private insurance market and/or other export credit agencies. While the WBG-TF will not buy reinsurance, it can itself reinsure other providers, if required. MIGA offers maximum coverage of fifteen years for up to 90% of most equity and technical assistance investments.

Mr Fawaz reported that the manufacturing, agro-processing and services sectors are expected to be most interested in the fund. Pricing will vary between 1%-4%, depending on covered risks and whether insurance is taken alone or in combination. The premiums on the insured amounts will be due annually. New investments are also eligible for insurance, if they originate from MIGA member countries or nationals and aim to modernise or expand current projects, or are involved in privatising state enterprises.

PA Support For Private Sector

Prime Minister Salam Fayyad opened the Third Economic National Dialogue in Jericho and affirmed his government's support for the private sector.¹ Recently, the Government established a permanent ministerial commission headed by the Prime Minister, to facilitate negotiations with the private sector and review relevant issues. The Government has handed over hundreds of small and medium sized projects in areas of the West Bank most affected by Israeli settlements or the separation barrier to the private sector. Other government projects that will be executed through the private sector on a for-profit, competitive basis are underway or in the pipeline. These include building four industrial estates in Jenin, Tarqoumia, Jericho and Bethlehem.

Palestinian IT

The Palestinian IT Association (PITA) met with US government officials this month to discuss the launch of Palestinian software in the US. Ihab El Jabari, Executive Director of PITA, told the Bulletin that the project is based on an integrated strategy for Palestinian products and services to penetrate the US market. Several local companies are working to develop special software for US companies and promoted their products at a recent technology investment conference in Washington on 14 October.

According to a PITA report², the business process outsourcing services, if properly developed, could generate employment for hundreds of people living in the Palestinian Territory.

Murad Tahboub, from Asal Technologies in Ramallah, told the Bulletin that they are developing the services of software development and staff augmentation for companies in need of qualified and cost effective resources with reliable delivery times. He said that Palestine is not often on the global radar for software service providers, but that there is a talented pool of resources with interest in accessing the international market.

The Bulletin also spoke to Yasser Elshantaf in the Gaza branch of the German-Palestinian IT software outsourcing company, PhoenixBird, that specialises in voice over IT and networking. Due to the ongoing difficulties facing Gazan companies, the revenues of the local IT industry have declined. PhoenixBird promoted their new financial management system at the Washington conference.

Tareq Maaya from Exalt Technologies Limited, another company based in Ramallah, told the Bulletin that they currently outsource services to three American

companies. Services include providing software framework development, software service applications and applications for call centre solutions.

Nablus Conference

A follow up to the Bethlehem Palestine Investment Conference will take place in Nablus on 21-23 November. The Nablus conference will focus on increasing the economic prospects of the northern West Bank regions and integrating economic and investment solutions across all sectors. 100 international investors are expected to participate, as well as local businesses, academics and government officials.

Gazan Megapharm Faces Closure

Dr. Marwan El Astal, Chairman of the Board of the Middle East Pharmaceutical and Cosmetics Laboratories Company (Megapharm), announced that his firm faces closure as the imports of raw materials, sourced internationally and locally, are restricted into the Gaza Strip.³ Megapharm is the last pharmaceutical outfit operational in Gaza.

The factory is barely functioning, with production at less than 2% of its capacity for more than 18 months. Only five to seven of the original 45 items are being produced. At full capacity production, the factory supplies 20% of the needs of the Gaza Strip. Iyad Al-Khudary, General Manager, told the Bulletin that an estimated \$1.5m has been lost. The factory has also lost its Good Manufacturing Practice Certificate (GMP).

Al Aqsa Fund

The Al Aqsa Fund approved \$15m this month for projects and relief assistance in Gaza. Cairo Arafat, Director General of Aid Management and Coordination in the Ministry of Planning, expects there to be few problems with the transfer of funds since the money bypasses official government channels and items for emergency assistance can be imported into Gaza with relative ease.

The \$15m will be divided between job creation, maintaining fishing equipment and support for the agricultural sector - particularly in land reclamation and assistance to farmers. The fund is supported by the Arabic Funds, the Al Aqsa Fund-Islamic Bank for Development, the United Arab Emirates and UNDP. It was established after the outbreak of the second intifada and until two years ago focused on budgetary and relief support. It has donated \$740m to date. The Al Aqsa Fund hopes to move its support from emergency relief to development in the future.

¹ See: <http://www.alquds.com/node/107257>

² See: <http://www.pita.ps/newweb/pdfs/Palestinian%20IT%20Outsourcing%20Capabilities%202008%20-%20PITA.pdf>

³ See: www.alquds.com

AHLC Meeting

Prime Minister Salaam Fayyad and his delegation discussed Palestinian economic and political progress with donors and stakeholder institutions at the Ad Hoc Liaison Committee (AHLC) in New York on 22 September. The participants praised the PA reform plans and their achievements in the areas of security, institution building, planning and budgeting.

The IMF reported that the fiscal deficit is projected to decline from 28% of GDP in 2007 to 23% in 2008 and to 17% in 2009. However, unemployment, poverty and inflation remain very high, GDP growth is essentially flat, and exports, credit to the private sector, wages and budgetary revenues fell in the first part of 2008. The World Bank highlighted three key consequences of the movement and access restrictions: reduced access to economies of scale; reduced access to natural resources; and reduced access to an investment horizon.

The AHLC members agreed to strengthen cooperation between the Palestinian Authority, Israel and international donors by reviving the Joint Liaison Committee. Calls were made for a substantial relaxation of movement and access restrictions, an increase in the predictability of aid, a translation of pledges of assistance into disbursements and a reallocation of unutilised development funding to cover the shortfall in recurrent expenditure (currently estimated at \$320m for 2008).

Aid

In response to severe budget shortfalls, due in part to increasing global food and fuel prices, the US transferred \$8.86m to UNWRA (the UN Refugee Works Agency) bringing the total US contribution to UNRWA to \$157m this year.⁴

To coincide with the end of Ramadan, the PA and the EU, through PEGASE, provided 46,000 Palestinian families facing hardship with roughly \$200 (NIS 1000) per household.⁵ The recipients, more than half of which are in the Gaza Strip, can collect the allowance from local bank branches by the end of October.⁶ In another goodwill gesture, \$70,000 worth of food and Ramadan meals, provided by UNDP, were distributed among poor families in the town of Tubas.⁷

A new project, administered by American Near East Refugee Aid (ANERA) and funded by a \$50m grant from USAID, will rehabilitate and expand water and sanitation infrastructure in the Palestinian Territory over five years. The programme, due to start in October, will begin by installing new pipes and repairing water and sewage lines

and small pumping systems, prioritising emergency relief for Palestinians suffering from water shortages.⁸

The EU gave the PA €4.7m, through PEGASE, for private sector arrears payments in September. So far this year, PEGASE has supported almost 650 small and medium sized businesses providing services to the PA.⁹ September's salaries and pensions were covered by the EU with €20m channelled through PEGASE and by Sweden with a €5m contribution. The remainder was covered by part of the €400m pledged by the EC for 2008. €200m has been spent so far by PEGASE in 2008 on salaries and allowances.¹⁰ Bassam Zakarnah, the head of the civil servants union, confirmed that the PA paid an additional NIS 100m, half of the remaining arrears payments, with September salaries. The PA has promised to pay the final NIS 100m of arrears (out of a total NIS 2.4bn) by the end of October.

GDP Static

Preliminary figures from the Palestinian Central Bureau of Statistics (PCBS) indicate modest improvements in the Palestinian economy. Economic performance rose by 0.7% in Q2 2008 from Q1 2008 and fell by 3.2% from Q2 2007.¹¹ Gross Domestic Product (GDP) per capita in the West Bank and Gaza Strip was static compared with Q1 2008 at \$285.5 per quarter. This is 5.2% lower than Q2 2007 figures.

Gross Value Added

Activity	Change Quarterly (Q2 2008 to Q1 2008)	Change Annually (Q2 2008 to Q2 2007)
Agriculture and fishing	+5.3%	-26.0%
Hotels and Restaurants	+26.0%	+97.5%
Mining, Manufacturing, Water and Electricity	+1.0%	-0.4%
Construction	+2.4%	-44.7%
Wholesale and Retail Trading	-7.3%	+0.8%
Public Administration and Defence	-4.7%	-10.5%
Transport	-11.7%	-27.3%

CPI and CCI

The Consumer Price Index (CPI) rose by 0.4% in August, with increases in Jerusalem (0.7%) and Gaza (0.5%) offsetting a decline in the West Bank (-0.3%). The textile, clothing and footwear group increased the most (1.3%). Minor declines were recorded in the transportation, housing and medical care groups, (-0.2%, -0.2% and -0.2% respectively).¹²

4 See: <http://www.maannews.net/en/index.php?opr=ShowDetails&ID=31684>

5 See: <http://www.delwbg.ec.europa.eu/en/whatsnew/56.htm>

6 See: <http://www.maannews.net/en/index.php?opr=ShowDetails&ID=32075>

7 See: <http://www.maannews.net/en/index.php?opr=ShowDetails&ID=31862>

8 See: <http://www.maannews.net/en/index.php?opr=ShowDetails&ID=32295>

9 See: <http://www.delwbg.ec.europa.eu/en/whatsnew/58.htm>

10 See: <http://www.delwbg.ec.europa.eu/en/whatsnew/59.htm>

11 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/PressQ2_08%20_E.pdf

12 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/cpi_aug08e.pdf

The Construction Cost Index (CCI) declined by 1.5% in August. A large decrease was seen in iron (-8.5%) and a smaller decrease in wood (-1.0%). Increases included hiring of equipment (2.2%) and quarrying of stone and sand (0.9%). Wages and labour also rose slightly by 1.3%.¹³

Unemployment Rises

The PCBS Labour Force Survey for the second quarter of 2008¹⁴ showed that unemployment, according to the ILO definition, increased from 22.6% to 25.8% from the previous quarter. The survey highlighted the increasing disparity between the West Bank and the Gaza Strip. Unemployment fell in the West Bank from 19.0% to 16.3% but rose in the Gaza Strip from 29.8% to 45.5%. The governorate of Deir Albalah in the Gaza Strip recorded the highest unemployment rate of 64.3%, whilst the Qalqilia governorate registered the highest rate in the West Bank with 23.2%.

The highest number of people registered for employment was in the 20-24 year old age group (27.9% in the West Bank and 62.1% in the Gaza Strip). Unemployment was concentrated amongst those aged 15-29. The public sector accounted for 14.9% of total employment in the West Bank and 47.5% in the Gaza Strip. In Gaza, wage employment sharply rose from 58.5% to 71.3% and self employment decreased from 27.3% to 16.9%.

West Bank daily net wage rose from 84.8 NIS to 86.9 NIS, ten shekels more than Q2 2007 rates. Gaza pay fell from 63.6 NIS to 61.5 NIS, down on the same quarter last year. The daily wage for those working in Israel and Israeli settlements increased from 139.9 NIS to 143.3 NIS.

Unemployment Fund

Plans to establish an Unemployment Insurance Fund have been resurrected. There is hardly any social protection for workers in the private sector in the Palestinian Territory. The Bulletin interviewed the Coordinator of the National Coalition against Poverty, Hamdi Al-Khawaja,

¹³ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Construction_e.pdf

¹⁴ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/labour_q2e.pdf

who has been working alongside the Ministry of Labour to prepare the first, 'mobilising and awareness' phase for implementing the fund. The Ministry of Planning approved the plan in the context of the Short and Medium Term Fiscal Framework. It is currently awaiting further signatures.

According to Al-Khawaja, the first phase of the plan for 2008-2009 will cost around \$2m and will focus on the establishment of an unemployment fund and accompanying legislation. Due to the current budget deficit and low salaries, the fund will initially require international support, which the PA will need to find. In time, however, it is intended that the fund will be financed by 2.5% of every employee's salary and a 5% employers' contribution. If there is no improvement in the Palestinian Territory, a deficit in the fund will be covered with a subsidy from the PA budget. Unemployment benefits will be administered by an independent organisation and will pay roughly 900NIS each month for six months of the year to those registered as unemployed.

AI Quds Index

The AI Quds index decreased by 2%, or 15.66 points, to reach 644.84 points on the last day of trading in September. In 21 trading sessions, 14.9 million shares changed hands, a decrease of 5% compared to August 2008 although the stock market tends to be largely inactive during the month of Ramadan. An exception to this was the trade in PALTEL, which accounted for 31% of all the shares traded. The value of traded shares in September 2008 increased 60% from August 2008 to reach \$70.6m. Market capitalisation was \$2.9bn - 2.34% less than in August 2008.

Sufyan Barghouti, from the Palestine Securities Exchange (PSE), told the Bulletin that since there are no major foreign investors or investments at the Securities Exchange, the only impact of the global financial crisis on the PSE, until now, has been psychological. The effect of the credit crisis may become more noticeable at the two international investment conferences scheduled for November and December in Nablus and London respectively.

The Portland Trust

42 Portland Place
London W1B 1NB

P.O. Box Al Bireh 4102
Ramallah Al Masyoun

Azrieli 3
132 Menachem Begin Road, Tel Aviv 67023

Email: feedback@portlandtrust.org
Website: www.portlandtrust.org

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

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR