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Back to Business in Gaza

The Palestinian Market Development Programme (PMDP) has recently announced a series of adjustments to its grants scheme in the Gaza Strip. The programme, funded by the UK Department for International Development and the European Union, aims to improve the competitiveness of the Palestinian private sector through technical assistance and matching grants. In response to the urgent needs of factories and other businesses that were affected during the latest war in Gaza, the PMDP has introduced "Gaza Back to Business" (GBB).¹ Unlike traditional compensation schemes, GBB is specifically aimed at assisting companies that have suffered physical damage and are facing challenges to resume their business operations.

Helping the private sector in Gaza to recover after severe interruption of economic activity during the war is an absolute priority. More than 420 industrial enterprises were destroyed, 36,000 dunams of agricultural land were damaged and 13,000 greenhouses were partially or totally demolished. In the aftermath of the operation it was reported that up to 30,000 workers employed in affected establishments were unable to work.

Through GBB more than 50 companies are expected to receive support in the next 6-9 months to finance maintenance services, conduct assessment studies, acquire inputs, buy and install machinery, repair and reconstruct facilities, rent space for temporary relocation (for a period of up to 6 months) and cover labour and transport costs. The programme's new window offers a fixed grant of 75% of total funding needs (with the rest being covered by the beneficiaries), in comparison to the original range of 25-75%. Grant ceilings per company will remain unchanged at £50,000. Priority will be given to businesses able to create significant impact in the short term while also delivering sustainable success beyond the period of assistance. Other criteria for eligibility focus on ease of implementation, including the availability of production inputs.

In related news, after visiting Gaza on 11 December, the UN Special Coordinator for the Middle East Peace Process, Mr Robert Serry, announced that pursuant to the trilateral agreement reached between the Palestinian Government, the Government of Israel and the UN earlier in September 2014, some 20,000 home owners in Gaza would have access to much needed building materials for the repair of their damaged homes by the end of the month.² The UN-brokered mechanism aims to ensure that construction materials entering Gaza are exclusively used for their intended purpose, for which the UN has agreed to undertake checks to monitor compliance. The donor-funded mechanism has been subject to criticism by Palestinian businesses and individuals following delays in its effective implementation, with local sources reporting that the flow of materials into Gaza has not improved consistently. While security concerns regarding the use of materials need to be addressed, some regard the different

¹ www.pmdp.ps/page.php?id=984fy38991Y984f

² www.bit.ly/1vIMe0J

instances of control as excessive, costly and ineffective. In this respect Mr Serry said that *“unfortunately the operating environment continues to face many challenges, including a fragile and informal ceasefire which has not yet solidified, and a lack of empowerment of the Government of National Consensus in Gaza with no control over the crossings. These difficult issues, coupled with insufficient financial assistance from donors, have only worsened the atmosphere in an already devastated Gaza.”*

Business Cooperation with Turkey

Palestinian Deputy Prime Minister and National Economy Minister Dr Mohammad Mustafa and Turkey's Minister of Science, Industry and Technology Fikri Isik signed a Memorandum of Understanding (MoU) on 24 November for the establishment of an organised tax-free industrial zone in Jenin.³ The Turkish initiative will be constructed by TOBB-BIS Inc., an affiliate of the Union of Chambers of Commodity Exchange in Turkey, and is expected to be completed in 2015. The Jenin industrial zone, also supported by the German government, will be built on an area of 920,000 m² and is expected to provide employment for 6,000 workers. The goods produced in the park will be exported to global markets including Germany, France, Saudi Arabia and the US without duties or quotas, while the businesses investing in the industrial zone will be insured by the World Bank. According to Mr Isik, the project (which also aims to bring Palestine's legal framework and corporate capacity to international standards) is the first stage in wider Turkish cooperation for the construction of industrial zones in Palestine.

In related news, the first Palestine Trade and Business EXPO was held in Istanbul between 25-28 November as part of the 30th Ministerial meeting of the Standing Committee for Economic and Commercial Cooperation of the Organization of the Islamic Cooperation (COMCEC).⁴ The event aimed to strengthen the business and commercial ties between Palestine and the Organization of the Islamic Cooperation countries by attracting investment and trade to Palestine. EXPO 2014 comprised an exhibition for around 25 Palestinian business owners and traders, as well as areas designated for business-to-business meetings between Palestinian participants and prospective partners. It also featured a special session in which the Palestine Investment Promotion Agency presented available business and trade opportunities.

Global Entrepreneurship Week

On 17-23 November Global Entrepreneurship Week (GEW) was celebrated for a second consecutive year in Palestine.⁵ GEW is the world's largest celebration of

innovators and job creators who launch start-ups to bring ideas to life, drive economic growth and expand human welfare. Launched in 2008, it currently includes over 24,000 partner organisations from 125 countries. GEW in Palestine was hosted jointly by the Palestinian National Authority (PNA) Ministry of Labour and Palestine for a New Beginning (PNB), culminating in the fourth annual Celebration of Innovation (COI) event.⁶ COI showcased ten Palestinian start-ups, which pitched to about 300 local business leaders, investors and diplomatic representatives in addition to 30 investors, mentors and experts who connected from around the world as the event was broadcast live online.

According to PNB Chairman, Zahi Khouri, *“COI is trying to unleash the creativity in Palestine, especially among young people, and to give them a chance to translate this creativity into a successful business model via financing through equity and mentorship by the private sector leaders.”* Participant Mahmood Jrere, of socially driven online music store Indiepush, praised the event for helping *“to expand our network and getting important feedback from the crowd as well as having investors showing interest.”* Hussein Nasser-Eddin, of the online platform for MENA-related security intelligence RedCrow, was thankful for the exposure the event provided, explaining how *“traffic to our website rose considerably”* and *“a number of key leaders in their fields contacted us to express their interest”*. Other participants were Fabraca (3D printing), Daleeli (socially-generated sightseeing content), Fadfid (online psychotherapy), BareedEE (courier logistics), SeenLab (online tutoring), Mashvisor (online real estate platform), Myndlift (drug-free concentration solutions) and Irish Solutions (interactive technology tools). All hope to follow a similar path to past participants, such as SocialDice, who received an angel investment from Mr Khouri following COI 2013.

Innovation Fund Launched

During COI, Mr Khouri announced the launch of the Innovation Fund, an initiative led by local and diaspora Palestinian private sector. The fund will work in partnership with existing incubators and accelerators in order to fill the funding gap start-ups face when they finish an acceleration programme. The Innovation Fund has already raised \$5m from Palestinian businesses and individuals (including Bank of Palestine, Paltel Group, Wataniya Mobile, the National Beverage Company, Consolidated Contractors Company and others) out of a \$10m target, including a \$1m contribution from Farouk Shami (founder and Chairman of Farouk Systems, Inc., a multinational corporation manufacturing hair care products). The rest of the funds are expected to be raised by January 2015, at which point investments will begin.

3 www.bit.ly//1uSScvs

4 www.sesrtic.org/event-detail.php?id=961

5 www.ps.gew.co/about

6 www.pnbpalestine.org/#!coi2014/cq80

The fund is expected to create 450 professional jobs over the next four years as the first post-accelerator investor in Palestine.

Hotel Activities

In Q3 2014, 99,811 guests spent a total of 272,567 guest nights in 109 hotels in the West Bank (87) and East Jerusalem (22).⁷ Most hotel guests came from EU countries (28%) and the US and Canada (13%), while 11% were Palestinians. Hotels employed 2,927 workers during the same period, 23% of whom were females (Table 1).

Earlier in September the Bulletin reported on the remarkable performance by Palestinian hotels in Q2 2014, which hosted 35% more guests than in Q2 2013, with guest nights increasing by 31% and room occupancy rising by 4.4 percentage points over the period. However, following the military operation in Gaza, Q3 2014 saw significant decreases from the previous quarter (52% in the number of guests and 45% in the number of guest nights) and from the corresponding quarter of 2013 (27% in the number of guests and 15% in the number of guest nights).

Table 1: Hotel Activities Main Indicators, West Bank and East Jerusalem

Indicator	Q3 2013	Q2 2014	Q3 2014	% Change (Q2-Q3 2014)	% Change (Q3 2013-Q3 2014)
Number of hotels	111	113	109	-3.5%	-1.8%
Number of rooms	6,035	6,621	6,577	-0.7%	9.0%
Number of beds	13,785	14,675	14,576	-0.7%	5.7%
Number of hotel workers	2,794	3,010	2,927	-2.8%	4.8%
Number of guests	135,808	207,083	99,811	-51.8%	-26.5%
Number of guests nights	321,264	493,104	272,567	-44.7%	-15.2%
Room occupancy (%)	22.9	30.6	22.7	-25.8%	-0.9%

Source: PCBS

Historically, international visitors have cancelled travel plans following unrest in the region, which has a severe impact on hotel activities, the tourism sector and the economy as a whole. Hotel activities in Israel and Palestine follow a similar path (Figure 1). After the 2008/2009 Israeli military operation in Gaza, the number of hotel guests in Palestinian hotels in Q1 2009 declined by more than 40% compared with the previous quarter and by 20% compared with the same quarter in 2008.⁸ In Israel the number of hotel guests dropped by 15% and 23%, respectively.

In the aftermath of the latest war the drop has been even more significant in Palestine than in Israel, with quarterly hotel guests down by 9.6% from Q2 2014 and 6.1% from Q3 2013 in Israel. In 2009 the number of hotel guests largely returned to the pre-war level by the following quarter in

both Palestine and Israel. However, given recent tensions it is unclear whether such a swift rebound will occur on this occasion.

Figure 1: Total Number of (Domestic and Foreign) Hotel Guests (thousands), Palestine and Israel, 2007-2014



Source: PCBS and CBS (Israel)

Financial Inclusion

The Palestine Monetary Authority (PMA), in collaboration with the International Finance Corporation and the Association of Banks in Palestine (ABP), hosted the Palestine International Banking Conference 2014 on 26 November.⁹ Convened by the Prime Minister Dr Rami Hamdallah under the theme “Financial Inclusion: A Path for Growth”, the conference was attended by representatives of the banking system, microfinance institutions, chambers of commerce, economic experts, academics from Palestinian universities, representatives of international financial institutions and civil society organisations.

The Prime Minister emphasised that financial inclusion contributes to economic and social development and is a key driver of economic growth and the fight against poverty and unemployment. PMA Governor Dr Jihad Al-Wazir supported this position, explaining that Palestine has played a pioneering role in the global Alliance for Financial Inclusion. At the national level, a steering committee has been created in order to establish the National Strategy on Financial Inclusion. Jamal Hurani, Vice Chairman of ABP, made a commitment that all banks operating in Palestine will work to bring about financial inclusion, which necessitates developing an array of affordable banking services for the various social strata.

Another important development is the recently signed MoU between the PMA and the Consulate General of Italy to support the development of cooperative banking in Palestine.¹⁰ The Consul General of Italy said the support would help “the PMA in introducing innovative banking models, such as credit and saving cooperatives, within

⁹ www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=621&language=en-US

¹⁰ www.pma.ps/Default.aspx?tabid=205&ArtMID=793&ArticleID=604&language=en-US

⁷ www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_HActSQ32014E.pdf
⁸ PCBS. The Hotel Activities in the West Bank, quarterly data 2007-2013.

the legal framework of specialized banks". The MoU was signed within the framework of StartUp Palestine, an innovative three-year programme to support micro and small entrepreneurship initiatives originating from marginalised sectors of Palestinian society. Financial services will be provided in the form of soft loans (€20m) and grants (€1.8m). The programme will work with the Union of Cooperative Associations for Saving and Credit, a representative body for saving and credit cooperatives in Palestine, to provide its members with structured financial products and advisory services. It will also improve the capacity of the Palestinian Fund for Employment and Social Protection to provide financial instruments and technical assistance (advisory and coaching services) to marginalised groups.

Foreign Trade

In September, total exports of goods from Palestine amounted to \$75.7m, while imports reached \$423.1m.¹¹ The trade deficit, at \$347.4m, increased from the previous month (3.2%), as exports decreased by \$5.1m (7.2%) and imports increased by \$15.9m (3.9%). From September 2013, exports have declined by 6.3% year on year as imports have increased by 7%, leading to a 10.4% widening in the trade deficit. Trade performance for Q3 2014, benchmarked against Q3 2013, shows exports and imports declining year on year, and a reduction in the trade deficit (Table 2). Israel accounted for 89.6% of Palestinian exports and 66.5% of imports in September 2014, following a long-standing dependency situation.

Table 2: Trade Balance in Goods, Palestine, Q3 2013 and Q3 2014 (millions \$)

		Q3			Total
		July	August	September	
2014	Exports	75.7	54.0	70.6	200.3
	Imports	423.1	383.0	407.2	1213.3
Net Trade Balance		-347.4	-329.0	-336.6	-1013
2013	Exports	80.8	70.3	63.4	214.5
	Imports	395.6	515.1	427.4	1338.1
Net Trade Balance		-314.8	-444.8	-364.0	-1123.6

Source: PCBS

November Trading

In November the Al-Quds index decreased by 3.6%. Peaking at 503.01 points on 3 November, the index saw a pattern of steady decline and reached its lowest level at 482.45 points on the last day of trading.¹² All sectors fell during the month, with investment companies performing particularly poorly (-9.5%). Arab Real Estate enjoyed the best performance, with its share price gaining 16.7%, while Global Telecommunications saw its price drop by 40%. A total of 13.7m shares worth \$26.97m were traded in 21 PEX sessions during November. This marks an increase of 5.2% in the number of traded shares and of 3.1% in the value of traded shares from October 2014. Market capitalisation was \$3.05bn in November, down by 2.9% from \$3.14bn the month before. Bank of Palestine enjoyed significantly more liquidity than other listed companies, providing 34.4% of the volume and 48.6% of the value of shares traded.

Comparison with the other 16 Arab markets shows that Palestine performed averagely in November. Out of a total of 17 Arab markets (including Palestine), 10 experienced a decline (Saudi Arabia, Kuwait, Muscat, Dubai, Qatar, Abu Dhabi, Casablanca, Palestine, Damascus and Bahrain), one remained unchanged (Libya) and only seven showed an increase (Sudan, Beirut, Amman, Egypt, Tunis and Iraq). The best performing Arab market was Iraq (+8.0%), while Saudi Arabia saw the heaviest decline (-14.1%).

¹¹ www.bit.ly/1v10hln

¹² [www.pex.ps/PSEWebSite/publications/PEXIssue\\$56_November_2014.pdf](http://www.pex.ps/PSEWebSite/publications/PEXIssue$56_November_2014.pdf)

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