

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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The recent export of medical herbs by the Sinokrot Global Group (SGG) is the first Palestinian fresh agricultural product to enter the American market since 1967.

The PA announced the launch of a \$30m Islamic microfinance component of the "Deprived Families Economic Empowerment Programme" (DEEP). It will be financed by the Islamic Development Bank and administered by the UNDP with the cooperation of the PA.

Business confidence has remained steady over the summer months. The regular PCBS survey of industrial establishments found that the percentage of Palestinian businesses expecting production to rise over the medium term (six months) was 8.8% higher than those expecting a decline.

Crisis Averted

The immediate budget crisis has been averted for the time being. The World Bank transferred \$120.7m to the Palestinian Authority (PA) for education, health and other vital social services. This tranche of funds consisted of grants from Canada, Kuwait and the UK. \$269m has been provided so far for budget support by the World Bank through its Trust Fund. In response to a recent appeal from President Abbas, Saudi Arabia delivered \$100m of money pledged in Paris, supplementing smaller monthly payments.

Riad Al-Maliki, the Information Minister, said that 'all' government employees would be paid 'without conditions'. Public sector salaries for the month of August will be paid with no more than a week's delay and by the end of September PA employees will receive a long-awaited 1,500 NIS of back payments for missed salaries. The Palestinian Cabinet confirmed that 58% of the PA's budget (NIS 402m per month) is spent each month on services in Gaza. Additionally, discussions are underway between the Ministry of Finance and the unions to adjust salaries to compensate for inflation and to raise the salaries for university educated employees.

The EC signed a financing agreement of €37m for an EU public infrastructure investment programme. Channelled through the EU financing mechanism PEGASE, the funds will be invested in improving security, the rule of law and delivery of other public services. Some of the fund will be spent in building new security forces headquarters in Nablus. The EU also provided €40m in budgetary support this month, through PEGASE, to help pay recurrent expenditures and fuel costs for electricity to Gaza. These funds are in addition to the EC Paris pledge.

Some of the un-earmarked pledges are being directed to development projects again rather than solely covering recurrent expenses and arrears payments. But projects under the Palestinian Reform and Development Plan (PRDP) will swiftly dwindle without continued international support. The Minister of Planning, Dr Samir Abdullah, in a meeting with Tony Blair, the Quartet Representative, urged the Quartet to expedite Paris pledges.¹

¹ See: <http://www.mop.gov.ps/en/publishing/detail.asp?recordID=169>

Aid Effectiveness

On 4 September, Dr Samir Abdullah, Minister of Planning, addressed the third High-Level Forum on Aid Effectiveness in Accra, Ghana. The conference, organised by the OECD, the World Bank and the African Development Bank, aimed to review the progress made by donors and recipient countries since their adoption in March 2005 of the Paris Declaration on Aid Effectiveness - an ambitious set of reforms for the delivery of Official Development Assistance (ODA).

The Palestinian Territory is one of the highest per-capita recipients of ODA in the world. Yet until recently, there was a notable lack of coordination between the PA and the numerous multilateral agencies, donor countries, and international NGOs. Competition among public and NGO-sector bodies for projects – and competition between donors to fund them – led to a great deal of waste and inefficiency. Furthermore, there was a recurring tension between using PA institutions and bypassing them, which made coordinated and effective central planning virtually impossible.

Progress in consolidating the funding and planning through the creation of a Single Treasury Account in 2005 and a revised aid coordination structure was stalled following the election of Hamas in 2006 and the subsequent international boycott of the PA. Since the installation of Dr Salaam Fayyad's government in June 2007, aid has begun again. The Strategy and Sectoral Working Groups were reactivated, and the Palestinian Reform and Development Plan (PRDP), with its Medium-Term Expenditure Framework was launched in December 2007.

Dr Abdullah told the Accra Forum that rather than the previous shopping-list approach, PA institutions are working to produce results-based sector strategies with costed sector priorities. 2010 is set as the goal to institute transparent and monitorable assessment frameworks based on manageable targets and indicators. Donors are responding by increasingly untying their assistance, making longer-term and more predictable commitments, and reducing the number of parallel implementation structures.

The Ministry of Planning, in consultation with other PA bodies and the Sector Working Groups, has now produced an Aid Effectiveness Action Plan for 2008 - 2010, which (subject to Cabinet approval) is likely to be presented at the Ad Hoc Liaison Committee of international donors meeting in New York on 22 September. The Plan, together with a set of aid partnership principles, sets out a detailed matrix of actions and indicators linked

both to the PRDP and the Paris Declaration. Indication of progress will be given in the World Bank's follow-up aid effectiveness study, scheduled for 2009.

Doing Business

The Palestinian Business Environment is on a par with countries such as India and Indonesia, according to the World Bank's recently published Doing Business report 2008.² The PA's *Business Tax Regime* and its *Legal Framework* for protecting investors were ranked, in world terms, 22nd and 33rd respectively. But the Palestinian Territory was ranked last out of 178 economies for *Closing a Business* and 117th for *Ease of Doing Business*. It takes on average 72 days to register property data, which is half the number of days that it takes in Israel and over double the number it takes in Syria. *Starting a Business* in the Palestinian Territory has, in global terms, got easier and cheaper since last year. It rose to 68th place from 2007's 80th place in *Getting Credit*.

Sinokrot Exports to US

The recent export of medical herbs by the Sinokrot Global Group (SGG) is the first Palestinian fresh agricultural product to enter the American market since 1967. The Group, which employs 420 Palestinians, exported over 150 tons of ten varieties of medical herbs through Jordan to the USA and through Israeli companies to other countries in the European Union and Russia. This project is funded by USAID and SGG and assisted by the PA. The herbs are cultivated on a special 65 dunum plot in the city of Tubas and irrigated by a computer controlled system.

Tareq Abu Khayzran from SGG told the Bulletin that it took several years of negotiations with the American authorities to agree to import Palestinian agricultural products due to the strict American regulations and standards. In a local press conference, Mazen Sinokrot (head of the group) confirmed that this project was the first of SGG's exports to the global markets. Abu Khayzran said that tomatoes and sweet peppers will be exported next.

Most of SGG's products will be packaged and labelled in a new packaging centre, north of Jericho, which is due to open in November 2008. The centre will ensure that agricultural products comply with international standards and already houses the high-tech machinery required by the British Retail Consortium (BRC), EurepGAP and GlobalGAP (Global Agricultural Practice standards).

² See:
www.doingbusiness.org/ExploreEconomies/?economyid=204,
www.doingbusiness.org/Documents/CountryProfiles/WBG.pdf

New Loan Facility

A new loan facility for undergraduate students was approved this month by the PA, following the launch of the International Finance Corporation (IFC) private sector loans programme (see July's Bulletin). The Ministry of Education and Higher Education, will administer the loans. Aysar Eraq, from the Ministry of Higher Education told the Bulletin that the programme hopes to provide 40,000 students with up to 300JD per semester, roughly two thirds of the fees. After a grace period, the loans will be repaid in full at no interest and with no administrative fees. With funding almost secured, the facility hopes to be operating by next semester.

Islamic Microfinance

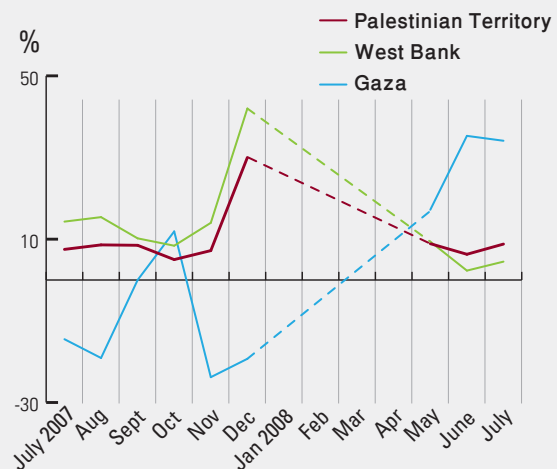
The Planning and Social Affairs Ministries announced the launch of the Islamic microfinance component of the "Deprived Families Economic Empowerment Programme" (DEEP). The \$30m programme will be financed by the Islamic Development Bank and administered by the UNDP with the cooperation of the PA.

DEEP will offer microfinance loans to approximately 12,000 families by the end of 2010 (4000 by the end of 2008). The assistance will include diverse financial products meeting the demands of poor Palestinian families and future entrepreneurs. It hopes, in the long term, to replace relief programmes and help economically dependent families and individuals to become independent providers of income.

Business Confidence Steady

Business confidence has remained steady over the summer months. The regular PCBS survey of industrial establishments found that the percentage of Palestinian businesses expecting production to rise over the medium term (six months) was 8.8% higher than those expecting a decline. The percentage of Gazan businessmen foreseeing an improvement in the coming six months rose from 17.2% in May to 35.3% in June, falling slightly in July to 34.1%. The change can most likely be attributed to the ceasefire agreement between Israel and Hamas in June 2008. The West Bank business community was less optimistic. Only 4.5% more believed that there would be an improvement in the coming six months than those who anticipated a fall.³

Medium-term business optimism*



* Optimism is defined as the percentage of businesses expecting production to be somewhat or much better minus the percentage expecting it to be somewhat or much worse.

PCBS did not release surveys for January, March and April 2008 business confidence.

Hotel Recovery

The recovery of the tourism sector is continuing⁴, according to the latest PCBS hotel survey.⁵ The number of guests during the second quarter reached 126,633 – an increase of 46% from Q1 2008 and 68.3% compared to Q2 2007. 41.8% of the guests were from the EU while only 12.9% were Palestinians. 52.5% of the guests stayed in Jerusalem hotels.

The total number of guest nights spent in Palestinian hotels reached 328,892 in Q2 2008, compared with 207,800 and 199,100 in Q1 2008 and Q4 2007 respectively. 55.7% of the nights were spent in Jerusalem, 43.9% in the West Bank and only 0.4% (1315 nights in three months) in the Gaza Strip.

The survey showed that there were 82 hotels operating at the end of the second quarter, with 3,957 rooms with 8,704 beds. 1,240 people were employed in Palestinian hotels (only 147 were female).

Rising Prices

The Construction Cost Index (CCI) is rising in the West Bank.⁶ The CCI reached 118.3 in July, an increase of 0.6% from June 2008 and 8.2% compared with March of the same year. The largest increases were in equipment hiring (3.5%) and cement (2.7%), while declines were registered for steel, wood products and electrical

⁴ March 2008 and June 2008 Bulletins

⁵ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/hotels_q108e.pdf

⁶ See: <http://www.pcbs.gov.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=679&mID=11170>

³ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/July_Eng2008.pdf

installation. The decreases in steel and metal products come after sharp increases in the last three months - steel prices increased by 11.2% in April 2008, 9.2% in May and 8.0% in June.

In the Gaza Strip, the Palestinian Center for Human Rights (PCHR) reported that the number of companies working in construction and building plummeted from 120 to only 5 companies in less than a year. 42,000 construction workers lost their jobs and more than \$298m was lost as projects stalled and building material imports were banned.⁷

The PCBS released Q2 statistics for the Palestinian Wholesale Price Index (WHI), the Producer Price Index (PPI) and the Industrial Production Index (IPI).⁸ All the indices showed increases in the Palestinian Territory. The WHI increased by 5.1% from Q1 2008 and by 13.8% compared to the same quarter of 2007. The PPI increased by 4.1% and 9.9% for the same periods. The IPI increased by 0.8% overall, despite sharp increases in the "publishing, printing and reproduction" group (28.1%) and significant declines in the "textile manufacturing" group (-9.6%).

The Consumer Price Index rose in July to 122.1 - an increase of 0.7% from June, and 12.4% compared to July 2007. Fruit prices were the most badly affected and rose 7% over the month. The constant increase in prices as well as rising unemployment rates in the Palestinian economy is leading to a state of "stagflation" (inflation accompanied with economic stagnation).

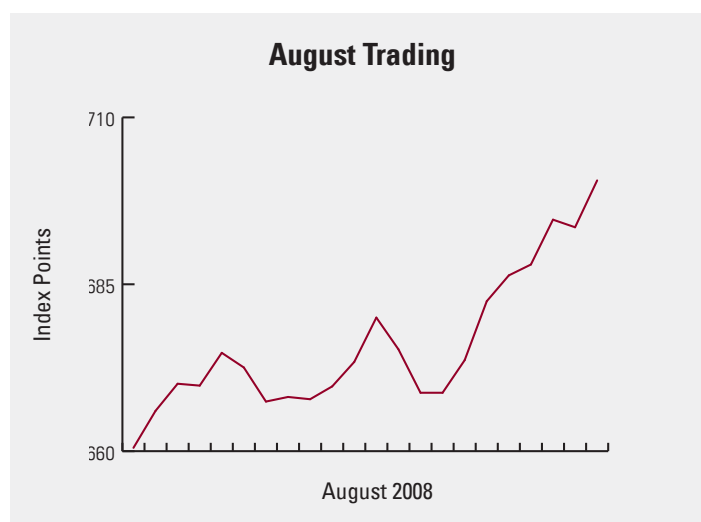
⁷ A report from WAFA (Palestinian news agency)
<http://arabic.wafa.ps/arabic/942951017357.html>

⁸ See:
http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/builcost_08e.pdf
http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Press%20e%2008.q2.pdf
http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/indus_e.pdf

Stock Market Falls

The Al Quds index peaked at 700.56 points on 3 August but fell by 40.06 points, to reach 660.5 points by its last day of trading on 31 August. In 21 trading sessions, 15.7 million shares changed hands, representing an increase of 15% in share trading compared to July 2008 (13.7 million shares). The value of traded shares in August 2008 decreased by 7% to \$44m. The accumulative market capitalization decreased by 9% to reach \$2.9bn in August (it reached \$3.2bn in July).

The Al Wasata brokerage firm has opened a new branch in Ramallah. Al Wasata was established at the beginning of 2007 and has a branch in Gaza. It is owned solely by the Bank of Palestine. The company has over 6000 registered investors and turned over almost \$200m of stocks during the first half of 2008.



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