

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The closure of Gaza to virtually all commercial traffic brought much of its industry to a halt. UNRWA ceased construction on all of its Gaza building projects for lack of cement. Farmers were approaching the planting season without seeds.*

*The UK began to help the PA pay off its debt to the private sector, contributing £3m to this end. European countries, meanwhile, contributed an additional €21m toward civil servant salaries and pensions.*

*The PA announced a "Quick Recovery Programme" aimed at reviving the Palestinian economy. The IMF, meanwhile, reported that the PA had gone a long way toward restoring the financial controls that existed before Hamas' election.*

*A new study concluded that there were 190,000 potential microfinance customers in the Palestinian Territories, but that only 10% were being served.*

*Hebron-area businessmen warned against the economically harmful effects of a new crossing about to be built in the southern West Bank.*

*The Israeli Ministry of Infrastructure approved construction of an additional generator to serve northern Gaza, which has been suffering blackouts due to high demand and a shortage of spare parts for existing generators.*

### PIF signs loan guarantee programme with OPIC and the Aspen Institute

The Palestinian Investment Fund (PIF) signed an agreement with the American Overseas Private Investment Corporation (OPIC) and the Washington-based Aspen Institute inaugurating a loan guarantee scheme in the Palestinian Territories. The scheme aims to help small- or medium-sized enterprises (SMEs) by guaranteeing up to 70% of a given loan from a private bank to a Palestinian SME. With funding of \$160m – \$50m from the PIF, \$110m from OPIC – the scheme will be able to cover almost \$230m worth of loans. CHF International, an NGO, will administer the programme. The Portland Trust was closely involved in the development of the scheme.

Historically, Palestinian SMEs have had difficulty securing loans without pledging excessive collateral, depressing investment. SMEs constitute 90% of all registered businesses in the Palestinian Territories and account for about half of all jobs. The loan guarantee scheme aims to ease borrowing terms for these SMEs while at the same time lowering banks' reluctance to lend to them. For instance, a loan's utilisation fee – the fee banks charge at the moment funds are actually drawn – must be less than 1.5% of the amount drawn in order to qualify for the programme.

In an interview with the Bulletin, William Phelps, managing director of the programme at CHF, emphasised that the loan guarantee scheme is a Palestinian-driven initiative, praising in particular the PIF's work in setting it up. All 22 banks operating in the West Bank and Gaza Strip will be eligible for the programme. Several were expected to begin participating in the coming weeks, although Phelps declined to name them. (Signalling to potential borrowers which loans banks might have weaker incentives to collect would create a moral hazard.) Phelps stressed that the scheme's clients "are the banks, not the borrowers."

The scheme will run for ten years and cover loans in the range of \$10,000 to \$500,000. Phelps anticipated that the first borrowers will be undercapitalised businesses already on the banks' books. Most early loans will probably be between \$50,000 and \$80,000, but Phelps foresaw opportunities to lend larger amounts. The programme's intent is not only to foster more lending, but to make lending more intelligent by improving the ability of banks to extend credit based not simply on the amount of collateral being put up but on a more refined assessment of the borrower.

### Trade through Karni ceases, Gaza's economy on verge of collapse

Seeking to isolate Hamas and bolster the government of Salam Fayyad, Israel has kept Karni, the main crossing into and out of Gaza for commercial traffic, virtually sealed since 12 June, with only very limited quantities of grain and animal feed allowed

through on conveyor belts since that date. Container traffic at Karni has ceased.<sup>1</sup> The Israeli customs authority “put a hold” on the customs codes for non-humanitarian goods, so that goods in these categories received at Israeli ports from abroad and destined for Gaza were effectively impounded on the docks, incurring fines and storage costs.

According to the Palestinian Private Sector Coordinating Council (PSCC), 95% of all manufacturing establishments in Gaza depend on imported raw materials. The Gaza Industrial Association reported that the closure resulted in 80% of Gaza’s factories shutting down and 66,000 workers being laid off. The garment and textiles sector, which exports 90% of its output, mostly to Israel, had lost \$10m in sales by mid-July, while the furniture sector, which exports 76% of its output, lost \$3.6m.<sup>2</sup>

The United Nations Relief and Works Agency (UNRWA) suspended all construction projects in Gaza, worth \$93 million, for lack of cement.<sup>3</sup> The UN’s Office for the Coordination of Humanitarian Affairs (OCHA) put the combined value of all construction projects halted by lack of raw materials at \$370m.<sup>4</sup> OCHA warned that if industry in Gaza remained cut off from supplies, unemployment in the Strip would reach 44% by 2008.

The closure also harmed the agricultural sector, which employs 40,000 Gazans. With the planting season looming, farmers could not obtain seedlings, pesticides, or fertiliser, all of which must be imported from Israel. Losses to the sector were estimated at over \$4.5m by late July.<sup>5</sup> A joint Israeli-Palestinian venture to export 140,000 tons of produce to Israel, due to begin in July, appeared to be in danger of collapsing.<sup>6</sup>

## UK launches private sector plan

The British government contributed £3m (\$6m) to the Palestinian Authority (PA) earmarked to pay off debts it owes the private sector, estimated at nearly £225m.<sup>7</sup> Companies that had been banking on the PA paying them have had to reduce operations and investment and even to shut down.

According to the UK Secretary of State for International

Development, Douglas Alexander, the British contribution will allow Palestinian companies “to continue trading, and so to invest and employ more people. This will boost the economy, and demonstrates our clear support for the new Government.”<sup>8</sup> The money will be channelled through the Ministry of Finance, which will then repay the private sector. An international accounting firm will monitor disbursements. A British official told the Bulletin that over the next few months the UK government, together with the European Commission and the Ministry of Finance, would elaborate the criteria according to which arrears are selected to be paid back. Priority will be given to debts whose repayment will do the most good for the Palestinian economy.

Added to its contributions of £3m to the Temporary International Mechanism in May, £1m to the International Committee of the Red Cross, and £15.6m to UNRWA in April, the UK’s latest contribution to the PA brings total bilateral assistance this financial year to £22.6m (\$45m).<sup>9</sup>

## Quick Recovery Programme unveiled

On 24 July the Palestinian Authority (PA) unveiled a new six-month “Quick Recovery Programme” at a meeting in Ramallah of donor countries and organisations. The meeting, which was chaired by Norway and opened by Prime Minister Salam Fayyad, aimed at coordinating donor and PA efforts in a variety of areas. Minister of Planning Dr. Samir Abdullah called for four strategy groups – Economic, Social Development, Governance, and Infrastructure – to meet in August to set priorities and funding levels. In addition to \$1.3bn of budget support, he urged \$74.5m be allocated to support the private sector and \$117m to pressing infrastructure needs.

## Microfinance market study: 190,000 potential clients

There are 190,000 potential microfinance borrowers in the West Bank and Gaza Strip, according to a study released on 26 July by the International Finance Corporation (IFC) and the Palestinian Network for Small and Microfinance (PNFSM).<sup>10</sup> The study, which was conducted by PlaNet Finance, put the size of the microfinance market at \$157m, but microfinance institutions currently serve only 10% of

<sup>1</sup> See [http://www.ochaopt.org/documents/AMA\\_44.pdf](http://www.ochaopt.org/documents/AMA_44.pdf)

<sup>2</sup> See [http://www.ochaopt.org/documents/GazaSitRep\\_14to23July2007.pdf](http://www.ochaopt.org/documents/GazaSitRep_14to23July2007.pdf)

<sup>3</sup> See [http://www.un.org/unrwa/news/releases/pr-2007/jer\\_9Jul07.pdf](http://www.un.org/unrwa/news/releases/pr-2007/jer_9Jul07.pdf)

<sup>4</sup> See <http://domino.un.org/UNISPAL.NSF/c25aba03f1e079db85256cf40073bfe6/a02c2a583aeb2b938525731700694d94!OpenDocument>

<sup>5</sup> Figure provided by the Palestinian Ministry of Agriculture

<sup>6</sup> See [http://www.ochaopt.org/documents/GazaSitRep\\_14to23July2007.pdf](http://www.ochaopt.org/documents/GazaSitRep_14to23July2007.pdf)

<sup>7</sup> See *Al-Ayyam*, 19 July

<sup>8</sup> See <http://www.dfid.gov.uk/news/files/pressreleases/palestinian-aid-resumption.asp>

<sup>9</sup> See <http://www.theyworkforyou.com/wms/?id=2007-07-17a.15WS.3>

<sup>10</sup> See <http://www.ifc.org/ifcext/pressroom/ifcpressroom.nsf/PressRelease?openform&FEFB1DD22181CA46852573230069FDDF>

this market due to the high risk of default. PlaNet Finance and The Portland Trust, together with the EU, launched a three-year, \$1.7m project aimed at removing obstacles to the expansion of this sector.

## **PA financial controls restored**

Financial controls to ensure the proper use of donor money by the PA were on their way to being restored, the IMF reported.<sup>11</sup> After Hamas' election in January 2006, the controls, which had been built up over several prior years, were weakened or abandoned. The Single Treasury Account (STA), through which most PA revenues, including donor funds, flowed, was frozen, and a series of "ad hoc" accounts were opened to route donor money around the Hamas government. In July, the PA began consolidating the ad hoc accounts into the restored STA.

The emergency government of Mahmoud Abbas also moved to centralise control of PA accounts. It first froze all PA accounts, then reopened them with reissued signatories. One result was that payments which previously would have been made from banks in Gaza will now only be made from institutions in the West Bank.

The IMF recommended that the Temporary International Mechanism (TIM), which has been used by international donors, be phased out in favour of block transfers to the STA. Among its other recommendations were the reintroduction of a formal budget support mechanism, a unified financial reporting framework, and a computerised accounting system located in the West Bank, ready to take over from the PA's current accounting system, located in Gaza, should it become unavailable.

## **Private sector warns over new West Bank crossing**

A new crossing being built 15km west of the southern West Bank city of Hebron threatens to become "Karni 2," warned local businessmen. The Tarqumiya crossing, begun in February 2006 and expected to become operational in September, will control the movement of goods and people between the southern West Bank, Israel, and Gaza. The director of the Hebron Chamber of Commerce, Maher Haymouni, anticipated the new crossing regime would raise the cost of business, with harmful economic effects that could ripple across the West Bank. The measures Mr. Haymouni expected would

constitute this regime include time-consuming security checks, specifications for shipment sizes, a requirement to transfer all goods on wooden pallets, and limited opening hours.

## **EU gives €21m to civil servants, pensioners**

Through the Temporary International Mechanism (TIM), the EU and, separately, Germany gave €21m (\$29m) in financial support to Palestinian civil servants and pensioners in the first week of July. Coordinating with the Palestinian Ministry of Finance, the TIM paid NIS 1,500 (\$350) directly into the bank accounts of over 77,000 beneficiaries. The TIM is scheduled to be phased out in September, when donor funds will resume being channeled through the Ministry of Finance (see above).

## **Israeli Ministry of Infrastructure approves new generators**

The Israeli Ministry of Infrastructure, meeting with the Palestinian Energy Authority, approved a request to build new electricity generators at the Gaza-Israel border to serve the north of the Strip.<sup>12</sup> Work on one new 161 kV generator was scheduled to begin in November. The two agencies pledged to keep the supply of energy from being held hostage to political developments, and they agreed to form a joint technical committee to discuss further cooperation on, for instance, new power distribution stations in the West Bank. A new transformer destined for Gaza's sole power plant has, however, been held up in Egypt since July owing to Israeli security concerns. Power cuts became more frequent in Gaza in July as the temperature rose and the closure made spare parts harder to come by.

## **Palestinian securities market launches SMS service**

The Palestine Securities Exchange (PSE) signed agreements with various telecommunication companies and media institutions to provide investors daily updates on market and company information via short message service (SMS).<sup>13</sup> The updates will cover daily circulation figures, sell and buy offers, company news, currency prices, and the like. Subscribers will be able to personalise the service, electing to receive the information of greatest interest to them. The SMS service is one of a series of

<sup>11</sup> See [http://www.lfd.ps/file/download/donors\\_and\\_agencies/imf/3351785%20-%20Dept%20TA%20Report%20for%20WEST%20BANK%20AND%20GAZA%20-%2020-%20DMSDR1S.pdf?version\\_id=83038](http://www.lfd.ps/file/download/donors_and_agencies/imf/3351785%20-%20Dept%20TA%20Report%20for%20WEST%20BANK%20AND%20GAZA%20-%2020-%20DMSDR1S.pdf?version_id=83038)

<sup>12</sup> See *Al-Ayyam*, 10 July

<sup>13</sup> See *Al-Ayyam*, 10 July

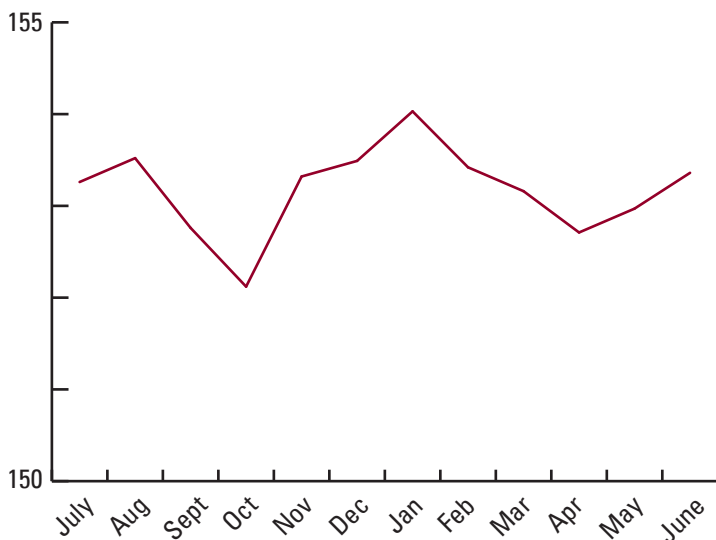
modernisations undertaken by the PSE and follows its announcement in April that it would be posting real-time market information online.<sup>14</sup>

## Prices continue to rise

The Consumer Price Index (CPI) rose in June by a modest 0.25%, surprising observers who had expected the closing of Gaza to commercial traffic to raise prices more sharply.<sup>15</sup> Prices on certain items in Gaza – mainly imports – did shoot up in July (animal feed prices rose 51% in the month after closure), while prices on other items – those that would ordinarily have been exported – fell with offsetting steepness, leaving the aggregated CPI little changed.<sup>16</sup> Inflation in Gaza (0.84%) was still considerably higher than in the West Bank (0.49%).

Taking the West Bank, Gaza, and East Jerusalem together, the 0.25% price rise stems from increases in the costs of housing (1.42%), medical care (0.70%), and transport and communication (0.41%). No category of goods or services registered a significant price decline.

### Consumer Price Index (Base Year 1996 = 100)



Tracing price changes back through the supply chain, the wholesale price index, which measures changes in the price of commodities before retail mark-ups and taxes, rose by 0.23% in the second quarter of 2007, while the producer price index, which measures the price received by producers for commodities, rose by 0.10%. In the same three-month period, the CPI rose by 0.36%. Over the course of the last year, the PCBS reported an overall 1.83% increase for wholesale commodities and an overall 1.38% increase in prices received by producers.<sup>17</sup>

<sup>14</sup> See *Palestinian Economic Bulletin* No. 8, May 2007

<sup>15</sup> See [http://pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Press\\_E\\_07.6.pdf](http://pcbs.gov.ps/Portals/_pcbs/PressRelease/Press_E_07.6.pdf)

<sup>16</sup> See <http://domino.un.org/UNISPAL.NSF/c25aba03f1e079db85256cf40073bfe6/a02c2a583aeb2b938525731700694d94!OpenDocument>

<sup>17</sup> See [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Presscpie\\_%2007.q2.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Presscpie_%2007.q2.pdf)

<sup>18</sup> See <http://www.haaretz.com/hasen/spages/877759.html>

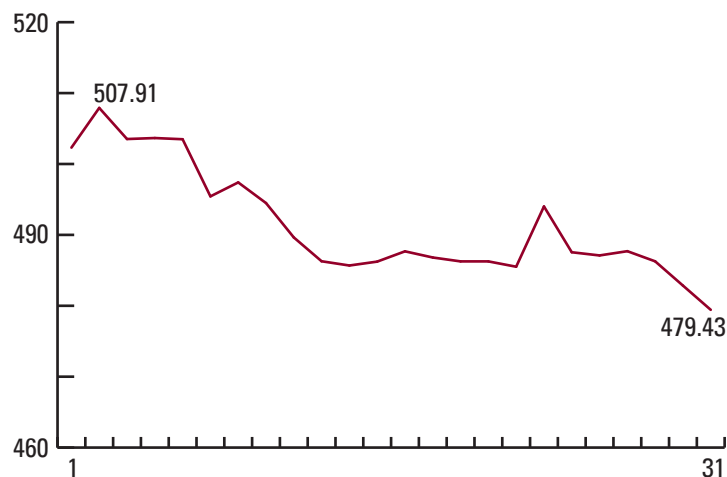
## West Bank labourers earn half the minimum wage

The 18,000 West Bank Palestinians working legally in Israel and the settlements earned less than half the minimum wage stipulated by Israeli law, according to a Knesset study prepared by workers' rights groups and the Israeli Ministry of Industry, Trade and Labour.<sup>18</sup> The report noted that by and large, Palestinian employees, the majority of whom work in construction and agriculture, also receive no health benefits or accident insurance.

## Stock market

The Al-Quds Index fell 5% during July in a steady decline that reflected investors' nervousness over the uncertain political situation and the imminent release of first-half corporate reports, according to Thameen Khayed of the Palestine Securities Exchange (PSE). In 23 trading sessions 15.1 million shares changed hands, a decrease of 60% compared to June's frenzied trading.

### July Al-Quds stock market index



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