

PALESTINIAN ECONOMIC BULLETIN

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Main reports

Palestinian cellular providers launched high-speed data services in the West Bank on 24 January 2018, after the Government of Israel lifted its long-lasting restrictions on the operation of local third-generation (3G) networks.

The Palestine Investment Fund and the Ministry of Education and Higher Education signed an agreement on 16 January 2018 to install solar power systems on the rooftops of 500 public schools in the West Bank.

The UNICEF Innovation Fund announced on 8 December 2017 an investment in RedCrow Intelligence, a Ramallah-based start-up specialising in data security and personal safety applications for individuals working in unstable areas.

Careem Inc., a Dubai-based ride-hailing company, is expanding its services to the Palestinian cities of Nablus and Gaza.

Extraordinary Meeting of the AHLC

On 31 January 2018, the European Union (EU) High Representative, Ms. Federica Mogherini, together with Norway's Foreign Minister, Ms. Ine Eriksen Sørdeide, convened the first ever extraordinary session of the Ad-Hoc Liaison Committee (AHLC) to discuss measures to facilitate a negotiated two-state solution and to address the situation in Gaza.^{1 2} The ministerial level meeting, attended by the Palestinian Prime Minister Dr. Rami Hamdallah, Israeli and Palestinian representatives in addition to EU and international partners in the region, was held following the recent announcements by the United States (US) Government about the status of Jerusalem and US funding to the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA).³

During the session, Ms. Sørdeide stressed that work is under way to put measures in place to lead to growth in the Palestinian economy including cooperation on infrastructure projects in the water and energy sectors.⁴ In addition, Ms. Mogherini announced a new assistance package of €42.5m to the Palestinian National Authority (PNA) provided by the EU.⁵ The package includes funding for development in East Jerusalem (€14.9m) and the continuation of Palestinian state-building through targeted policy reforms, fiscal consolidation, reinforcing businesses and SMEs, strengthening civil society, and providing access to water and energy (€27.6m). This new package comes on top of €158.1m in direct financial assistance to support the PNA in meeting its recurrent expenditure and delivery of public services, €107m provided to UNRWA and €18m provided for supporting productive investments in the West Bank and Gaza.

In addition, Major General Yoav Mordechai, Head of the Coordination of Government Activities in the Territories (COGAT),⁶ presented a list of initiatives which the Government of Israel (GoI) is promoting in response to an urgent humanitarian crisis in Gaza.⁷ The list, which requires an investment of around \$1bn, includes a desalination plant, a connection to the Israeli electric grid and natural gas sources, in addition to various solar energy projects.⁸

In his statement to the AHLC, Dr. Hamdallah said: "The Palestinian Government announced the National Policy Agenda for the period 2017-2022 with the aim to improve the quality of life for our people by providing quality services and protecting vulnerable and marginalised groups... In this context, I urge the international community to support us in achieving these goals."⁹

1 The AHLC is a 15-member international donor group which serves as the principal policy level coordination mechanism for development assistance to the Palestinian people.

2 <http://bit.ly/2EZ3Nud>

3 <http://bit.ly/2EJatx5>

4 www.regjeringen.no/en/aktuelt/extraordinary_ahlc/id2588253/

5 www.europa.eu/rapid/press-release_IP-18-368_en.htm

6 Also known as the Israeli Civil Administration (ICA)

7 www.unitedwithisrael.org/idf-unveils-new-initiatives-to-benefit-palestinians/

8 <http://bit.ly/2ofR3Wf>

9 www.maannews.net/Content.aspx?id=937966

Tax Exemption for SMTS Companies

On 1 February 2018, the Palestinian Cabinet renewed a decree first introduced in 2010 exempting Small and Medium-sized Telecommunication Services (SMTS) companies from paying 7% income tax on profits up to \$1m.¹⁰ The decision includes SMTS companies that provide broadband access services and operate Voice over Internet Protocol (VoIP) services licensed by the Ministry of Telecommunications and Information Technology.

Dr. Allam Mousa, the Minister of Communications and Information Technology, stated that the aim of this decision is to support Small and Medium Enterprises (SMEs) in the IT sector and to motivate entrepreneurs with innovative ideas to start their own enterprises.

To receive the exemption, SMTS companies must comply with all the terms and conditions of their operating licenses. This includes paying the relevant fees, submitting required reports and documentation and investing sums equivalent to the value of the exemption to attract new expertise and develop the communication networks and equipment for the provision of the service.

3G Mobile Services in the West Bank

On 24 January 2018, Palestinian cellular providers launched high-speed data services in the West Bank after long-lasting restrictions by the GOI on the operation of local third-generation (3G) networks were lifted.¹¹ The move comes thirteen years after 3G networks went into service in Israel and after Palestinian operators first sought Israeli permits. In November 2015, Israel agreed to allow 3G in the West Bank but not in Gaza. Israeli telecommunication companies were awarded 4G mobile broadband radio frequencies in 2015¹² and are expected to deploy 5G in 2019.¹³

The expansion of broadband penetration is expected to have a positive impact on businesses through improved services, more efficient business operations, more jobs and new and innovative services. A report by the International Telecommunication Union (ITU) highlights the positive impact of broadband on GDP growth and job creation for both developed and developing countries.¹⁴ The report highlights how four years of broadband penetration in Jordan resulted in a total positive impact on GDP per capita of 3.69%. Another report by Deloitte shows that a 10% substitution from 2G to 3G penetration increases GDP per capita growth by 0.15%.¹⁵

Despite the developments, Palestinian mobile operators face competition from Israeli companies that offer 3G and 4G coverage to Palestinian customers in the West Bank

through towers installed in Israeli settlements.¹⁶ According to a World Bank report published in 2016, Israeli operators capture up to 30% of the West Bank market by number of subscribers and an even higher share in value as measured by total sales –since Israeli operators capture higher value-added Palestinian customers by providing 4G services.¹⁷ The 2016 report estimated the total revenue loss for Palestinian mobile operators at between \$436m-\$1,150m during the period of 2013-2015. The revenue loss directly attributed to the absence of 3G was estimated at between \$339m-\$742m and the total Value Added Tax (VAT) fiscal loss by the PNA at between \$70m-\$184m.¹⁸

Solar Power Systems on Public Schools' Rooftops

On 16 January 2018, Palestine's national sovereign fund, Palestine Investment Fund (PIF), and the Ministry of Education and Higher Education (MoEHE) signed an agreement to install solar power systems on the rooftops of 500 public schools in the West Bank.¹⁹ The \$35m investment, to be disbursed over four years, is expected to yield a generation capacity of 35 MW. The agreement is part of PIF's Noor Palestine programme, which aims to introduce renewable energy in critical sectors in Palestine.²⁰ Led by Massader, PIF's investment arm for energy and infrastructure, Noor Palestine aims to reduce dependence on energy imports and strengthen energy security.

The agreement is aligned with the PNA's strategy to develop alternative energy sources. Currently, a number of solar parks are under development across the West Bank and Gaza, with a total generation capacity of 25 MW. With the public-school rooftop programme, the generation capacity is expected to reach 60 MW, or about 7% of the needs of the West Bank.²¹

Palestine currently receives over 86% of its electricity from Israel through the Israel Electric Corporation (IEC).²² A lack of diversity of energy sources and an over-reliance on IEC exposes Palestinians to inflated energy costs, heightening the need for solar and renewable energy investments.

Jordanian-Palestinian Agricultural Cooperation

On 28 January 2018, Mr.Khalid Al-Hanifat and Mr.Sufian Sultan, the Jordanian and Palestinian Ministers of Agriculture, announced a joint Jordanian-Palestinian company to market agricultural products between Jordan and Palestine to launch in April 2018.²³

10 www.maannews.net/Content.aspx?id=938006

11 <http://reut.rs/2omGpww>

12 <http://bit.ly/2s1lo3p>

13 <http://bit.ly/2fWtZ9o>

14 <http://bit.ly/1dQdKX8>

15 <http://bit.ly/1tg3JW6>

16 www.voanews.com/a/palestinians-to-get-3g-in-west-bank/4208257.html

17 <http://bit.ly/2C9YvLI>

18 <http://bit.ly/2C9YvLI>

19 www.pif.ps/page.php?id=b250y45648Yb250

20 <http://bit.ly/2CBEDfz>

21 <http://bit.ly/2HBNlhW>

22 www.mas.ps/files/server/20152909151817-1.pdf

23 www.palestineconomy.ps/article/11423/

The announcement was made at a ceremony in Amman during which Mr. Al-Hanifat further added that the Government of Jordan is considering the establishment of a new airport in Jordan which would focus on the transport of agricultural products. Such a development would allow Jordan, and potentially Palestine as its agricultural trade partner, to export a variety of crops that require timely transportation to end-user consumers. Mr. Sultan added that a meeting will soon be held in Amman under the sponsorship of the Jordanian Ministry of Agriculture between Palestinian and Jordanian businesses and private sector representatives.

In related news, on 30 January 2018, Ms. Abeer Odeh, the Palestinian Minister of National Economy, announced the introduction of laser scanners on both sides of the Al-Karama (Allenby) crossing between Jordan and the West Bank which will be used to inspect containers loaded with goods for exports and imports.²⁴ This new development will allow for up to 20 trucks with a maximum weight of 40 tons to enter the West Bank per day, compared to the current procedure involving manual inspection that only allows for the entry of a maximum of seven trucks per day.

The Minister added that this is a crucial step to facilitate Palestinian trade with Jordan and the rest of the world and will also help to alleviate the economic dependence on Israel. She further noted that the new mechanism will save Palestinian exporters and importers significant effort and cost, facilitate the movement of trade, and contribute to the development of various economic sectors in Palestine.²⁵

UNICEF Invests in Palestinian Hi-tech

On 8 December 2017, the United Nations International Children's Emergency Fund (UNICEF) Innovation Fund announced an investment in RedCrow Intelligence, a Ramallah-based start-up which specialises in data security and personal safety applications for individuals working in unstable areas.²⁶ RedCrow has developed a security intelligence system that gives users real-time information about potential threats around them.²⁷ The automated system constantly collects information from online and social media sources such as Facebook and Twitter and uses Machine Learning algorithms to analyse and rate the data in order to alert its users. RedCrow is planning to use the \$90,000 grant from UNICEF to develop and integrate natural language processing for additional Arabic dialects into the platform. This will help the company to penetrate new markets beyond Palestine.

UNICEF's \$14.4m Innovation Fund invests in technology start-ups from developing markets that could positively impact the lives of the most vulnerable children. To date,

24 www.palestineconomy.ps/article/11439/

25 www.palestineconomy.ps/article/11439/

26 www.unicefstories.org/2017/12/07/redcrow/

27 www.al-fanarmedia.org/2018/01/start-ups-trying-improve-lives-get-boost-u-n/

it has invested \$3.9m of its total funds of \$14.4m into 51 projects in 28 countries.²⁸

Ride-Hailing Service Careem Re-launches in Palestine

Careem Inc., a Dubai-based ride-hailing company, is expanding its services to the Palestinian cities of Nablus and Gaza.²⁹ Careem initially began operations in Ramallah in June 2017 but suspended operations in October of the same year after complaints to the Ministry of Transport that it was operating without the required public transportation license to carry passengers for a fee.³⁰ The company has been in discussions with the Ministry to overcome these issues in an effort to create new job opportunities for youth and to encourage other regional businesses to invest in Palestine. Various factors are at play, including the pricing system for metered cabs, legal and passenger insurance aspects, the specificities of regional transportation markets, customer service and reliability. Careem has now received permission to operate with licensed and registered taxi drivers in Palestine.

While the international ride-hailing apps Uber and Gett operate in Israel, they currently do not work in Palestinian territory. Careem, launched in 2012, is the biggest ride-hailing company in the Middle East, operating in 12 countries and 80 cities, and is the region's only tech-company with a valuation of over \$1bn.³¹ Through a mobile application, people can summon a car and a driver, usually at cheaper rates than offered by regular taxis.

January Trade

In January 2018, the Al-Quds index increased by 0.06%, reaching 574.9 points on the last day of trading.³² Peaking at 582.9 points in the second week of trading, the index saw a steady decrease throughout the rest of the month. The industry sector index witnessed the highest increase (2.7%) followed by services (2.6%). Meanwhile, the investment sector index saw the largest drop (2.0%). A total of 21.1m shares worth \$36.8m were traded during January. This marks a decrease of 55.7% in the number and 54.0% in the value of traded shares from December 2017.

In related news, on 5 February 2018, Nasdaq Inc. (Nasdaq), a New York-based Stock Exchange, and Palestine Exchange (PEX) signed an agreement for Nasdaq to deliver new matching engine technology via the Nasdaq Financial Framework³³ to PEX.³⁴ PEX, which will also continue to use Nasdaq's SMARTS surveillance technology for monitoring its market, will leverage the modular functionality of the Nasdaq Financial Framework to offer additional services to its members and clients.

28 www.unicefinnovationfund.org/

29 <https://bloom.bg/2Cc1dQw>

30 <http://bit.ly/2slwvKC>

31 www.forbes.com/sites/parmyolson/2017/06/15/dial-a-caravan/#744c704f2828

32 www.pex.ps/psewebsite/publications/PEXinvestorNewsletter012018.pdf

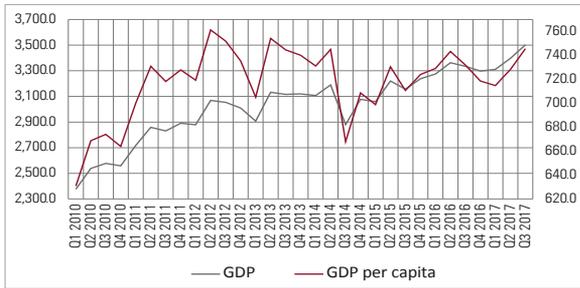
33 www.business.nasdaq.com/financial-framework/index.html

34 www.pex.ps/PSEWebSite/NEWS/05022018-2.docx

Palestine Economic Dashboard

Growth

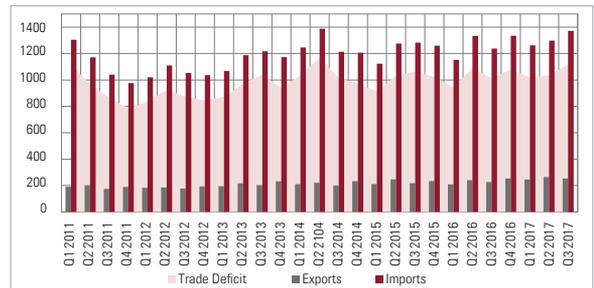
GDP (in million USD) and GDP Per Capita (in USD) in Palestine, Q1 2010–Q3 2017



GDP (Q3 2017): \$3,502.3m GDP per capita (Q3 2017): \$745.6
Source: PCBS

Trade

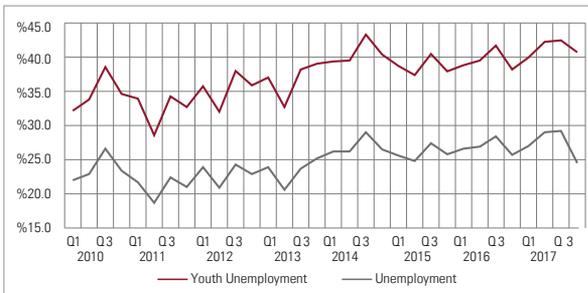
Exports, Imports and Trade Deficit in Palestine ('000 USD), Q1 2011–Q3 2017



Imports (Q3 2017): \$1,370.9m Exports (Q3 2017): \$254,000
Trade deficit (Q3 2017): \$1,116.9m Source: PCBS

Unemployment

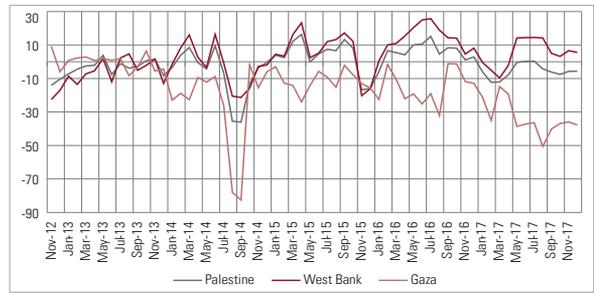
Unemployment and Youth Unemployment in Palestine (%), Q1 2010–Q4 2017



Unemployment rate (Q4 2017): 24.5% Youth Unemployment rate (Q4 2017): 40.7%
Source: PCBS

Business Cycle Index

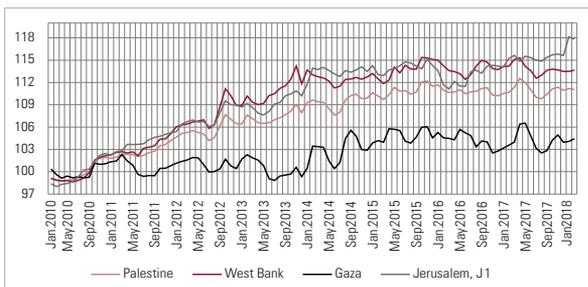
Palestine Monetary Authority Business Cycle Index, Nov 2012–Dec 2017



Palestine (December 2017): -5.7 West Bank (December 2017): 5.5
Gaza (December 2017): -37.8 Source: PMA

Inflation

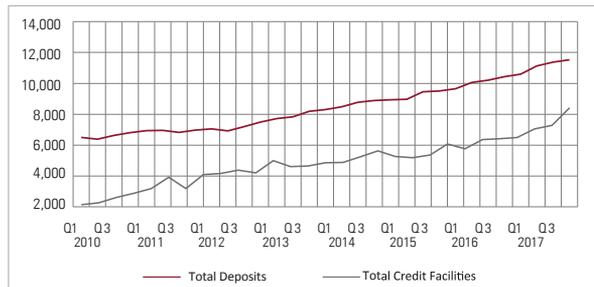
Consumer Price Index (Base year = 2010), January 2010 – January 2018



Palestine (January 2018): 111.04 West Bank (January 2018): 113.66
Gaza (January 2018): 104.45 Source: PCBS

Banking Sector

Total Credit Facilities and Total Deposits in Palestine ('000 USD), Q1 2010–Q3 2017



Total Credit Facilities (Q3 2017): \$7,761.9m Total Deposits (Q3 2017): \$11,526.9m
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