The Portland Trust

PALESTINIAN ECONOMIC BULLETIN

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Main reports

A draft of the new Company Law, which aims to provide a unified framework for Palestinian firms in the West Bank and Gaza, has been presented at a Ramallah workshop on 2 February. The draft is expected to be finalised before the Bethlehem Investment and Development Conference in May.

The Portland Trust, together with the private sector and the PA, has developed a $1bn affordable housing programme. The programme aims to build 15,000 housing units in six new communities in the West Bank. International donor support of $150m is now needed for infrastructure and public services.

Gazans spent an estimated $130m in Egypt following the border breach on 23 January.

Public sector strikes have broken out to protest the new measures by the PA designed to reduce the debt resulting from the poor collection of electricity bills. The Jerusalem District Electricity Company is owed approximately $90m.

The Consumer Price Index rose by nearly 1% in December.

World Bank Trust Fund will support PRDP Implementation

The World Bank announced the creation of a new multi-donor trust fund (TF) for donors to channel international direct budgetary support for the implementation of the Palestinian Reform and Development Plan (PRDP) without paying directly into the Single Treasury Account (STA). The Bank administered fund will provide two to four regular tranches of untied, un-earmarked donor funds to the STA every year until the end of 2010, based on the PA's progress in implementing the PRDP. It will work alongside other donor mechanisms such as PEGASE.

Although there are no benchmarks for the transfer of funds, the PA will prepare a Letter of Development Policy (LDP) which will outline its key commitments. These will include policies set out in the PRDP such as expenditure containment (particularly public-sector salaries, net lending and social transfers) and the progressive strengthening of public finance management systems. To assist with the latter, the PA has invited the IMF to send a technical assistance mission in mid-February, whose recommendations are likely to be annexed to the LDP. Disbursement decisions will be made following quarterly reviews of these commitments.

The precise disbursement criteria are being finalised in consultation with the PA, but donors are being asked to sign Administration Agreements and submit binding transfer schedules by the first week of March. Funds are expected to start flowing shortly thereafter.

Donor Pledges

Pledges by donors for the PRDP have apparently reached $7.7bn, $300m more than the figure announced in December and $2.1bn more than requested in the plan. A final official list of donors and pledges has not been released. But it is estimated that almost 90% of the money is coming from the following 15 sources.

European Commission	$1,915m	Kuwait	$300m
Saudi Arabia	$776m	UAE	$300m
USA	$555m	Canada	$294m
UK	$500m	Germany	$288m
Norway	$420m	Italy	$248m
Spain	$346m	Japan	$150m
Sweden	$312m	Belgium	$97m
France	$300m	**Total**	**$6,801m**

The Ministry of Planning is working to finalise an implementation plan and to elaborate on the details of the 29 projects in the public investment programme set out in the PRDP.

New Economic Legislation

The long-awaited draft of the new Company Law was presented on 2 February, and is expected to be finalised before the Bethlehem Investment and Development Conference in May.[1] The new legislation aims to provide a modern and unified framework for companies across the Palestinian Territory. Currently, Gazan firms operate under Egyptian law whereas West Bank businesses follow Jordanian law. The new draft closely follows the Jordanian model, incorporating revisions made in Jordan in 1997 and 2003. This means that Gazan companies will face significant changes. But given the volatile political situation, it is unclear how or when the changes will be enforced in Gaza. Dr. Hasan Abu-Libdeh, CEO of the Palestinian Stock Exchange, along with key private sector figures, welcomed the draft, describing it as a 'revolution', and hoped that it would be quickly implemented.

After approval by the Cabinet, the law will join six other laws awaiting President Abu Mazen's signature, including the income tax law revealed in the January Bulletin. Since the formation of the Emergency Government in June 2007, ten laws and amendments have been made by Presidential Decree, including legislation on Money Laundering, Insurance, Retirement, Financial and Administrative Supervision, and the 2007 Budget.

The Portland Trust has been working closely with the private sector on a draft Pensions law which allows for the establishment of a private sector pension scheme. The draft has been presented to Prime Minister Fayyad and is awaiting final amendments following back-to-back meetings with the banking and insurance sectors, as well as the universities' unions, over the level of contributions and the obligations of employees and employers.

While many have welcomed these reforms, the manner of their introduction gives others cause for concern. The main concern is the uncertainty of laws passed during the Emergency Government. Once 'gazetted', Presidential Decrees become enforceable laws. But under the Basic Law they must be ratified at the first possible meeting of the Palestinian Legislative Council (PLC). The PLC retains the right to throw out or amend any legislation passed under Presidential Decree, and has done so in the past, most notably when Hamas assumed control of the body in 2006. Indeed, the new Company Law contains provisions (such as those on Treasury Stocks) which were previously rejected as laws by the Hamas-controlled PLC. It is impossible to know when the PLC will next meet or its composition when it does so. The potential to benefit from an improved investment climate may not be fully realised until the legislative impasse is resolved.

International Support for the Affordable Housing Programme

The Portland Trust, working closely with the Palestinian private sector and the PA, has developed an initiative to build 15,000 housing units in 6 new communities by 2013 for a total cost of $1bn. The units will have a selling price of $38,000 - $70,000 and will be affordable to Palestinians on a monthly household income of $800 - $1,700 (approximately a third of all Palestinians).

Affordable Housing was presented as a key priority in the Palestinian Reform and Development Plan at the Paris Donor conference. The project needs international support to fund the internal and external infrastructure and public facilities. These costs are estimated at approximately 15% of the total. Grant funding is essential to reduce the financial risk to the banks involved and to keep the housing units affordable. $90 million was requested in Paris for the infrastructure element of the plan. An additional $60 million is needed from donors for public services.

The local private sector is now actively trying to turn this into a reality and kick-start the economy through a housing boom. A number of Palestinian developers have been identified with land suitable for development.

Progress on two sites – one outside Nablus for 1000 homes and another outside Ramallah for 5000 homes – make construction in 2008 a very real possibility. The developers are working with the Palestinian authorities to secure approvals for planning, construction and the provision of essential services to the sites. They are also negotiating directly with the local banking sector to agree the terms of affordable mortgage finance.

International consultants have produced a generic design concept that includes infrastructure, public facilities, green areas, retail and commercial services and light industrial zones. The design also addresses some of the difficulties arising from the steep topography in the West Bank.

Prime Minister Fayyad has established a ministerial committee to follow up this initiative and provide all the support needed from the government.

[1] See: Al Quds newspaper 3 February 2008

Gazan spend

Following the breach of the Egyptian/Gazan border on 23 January, Gazans spent an estimated $130m in Egypt in the first two days buying basic necessities, consumer goods, fuel, cement and spare auto and machine parts. They withdrew available savings and borrowed from each other.[2] Anecdotal evidence suggested that some prices dropped sharply in the Gaza Strip following the opening of the border: prices of cigarettes fell by 70% in a matter of hours.[3]

Hamas called for the border to remain open and for Egypt to supply basic items including food, fuel, construction materials and a much-increased supply of electricity, all of which is estimated to be worth $30 million a month to Egypt.[4] A Hamas representative reported that in the future Gaza would try to separate itself from the Shekel, perhaps instead using the Egyptian Pound.[5]

More Strikes over Utility Bills

Palestinian households who failed to pay their electricity and water bills by 25 January are being penalised. They are unable to receive their driving licenses, birth certificates or any other government documents. Payment for government contracts and 25% of public sector salaries are being withheld until certificates are produced confirming that debts have been repaid or rescheduled. Driving instructors, civil servants and teachers have gone on strike. Union leaders are mulling the possibility of a general strike if the new measures are not watered down.[6] The PA is showing no signs of doing so, insisting that "the culture of non-payment" has to end.[7]

This unpopular move is an attempt by the PA to reduce its net lending (as proposed in the PRDP) which is high because of its commitment to cover the shortfall in utility payments from Palestinian municipalities to Israel. The deficit stems from both the municipalities' and local utility companies' inability to collect in full from their customers, and also the fairly widespread practice of municipalities keeping some of what they do collect for other uses. The PA covers these shortfalls from clearance revenues owed to it by Israel, in order to keep electricity flowing in the midst of the economic turmoil resulting from the Intifada. But the cost of this subsidy rose to an estimated $512m in 2007, making it the PA's second largest expenditure after the wage bill. It constitutes 10.6% of Palestinian GDP.

The General Manager of the Palestinian Electricity Authority, Zafer Milhem, told the Bulletin that more than 90% of the population in the Gaza Strip does not pay for electricity. Payment is better in the West Bank, where bills are settled by around 85% of the population in municipalities from the central region. However, in other municipalities, particularly ones with high refugee populations like Nablus, Tulkarem and Jenin, payment rates can be as low as 55%.

Hani Ghosheh, the Head of International Public Relations at the Jerusalem District Electricity Company (JDECO), told the Bulletin that non-payment of bills is a major problem for his publicly-traded company. JDECO services an estimated 1 million Palestinians in the Bethlehem, Jericho, Jerusalem, and Ramallah districts. Despite these areas having a relatively good payment record compared to other governorates, client arrears total approximately $90m. Ghosheh told the Bulletin that JDECO had tried various ways to motivate its clients to pay, such as offering discounts to those that pay on time or waiving interest charges to clients who agree to pay off their debt. They have had little success.

The Government is now taking a hard line. But the Deputy Chairman of the General Union for Public Sector Workers, Laila Shaar, told the Bulletin that the government's measures were too harsh. She pointed out that many government employees were not paid in full for over a year following the recent political turmoil. This led to many accumulating large debts. Recent increases in the cost of living have made matters worse. Shaar also claimed that the 25% reduction in salaries violates the 2002 Labour Law.

Zafer Milhem says that the PA has been urging municipalities and utility companies to be flexible and allow clients to reschedule their debts over a one-year period. Efforts are being made to exclude very low-income households that cannot pay. The Finance Ministry is working with the Ministry of Social Affairs to define the exclusion criteria. Mazen Jadallah, the Director General of International Relations and Projects at the Finance Ministry, told the Bulletin that around 20% of the current net lending expenditure will be set aside

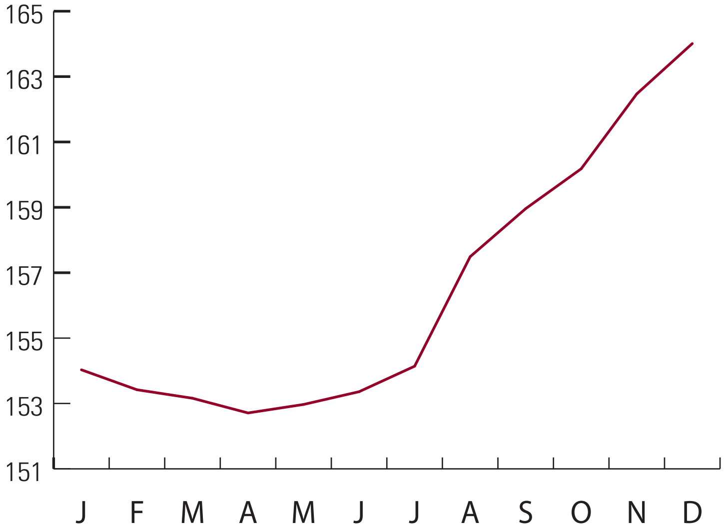
[2] See: http://ap.google.com/article/ALeqM5hqoubqRMH_wjv_FdBMRuvU9mrg-QD8UCP2C00
[3] See: http://www.timesonline.co.uk/tol/news/world/middle_east/article3238615.ece
[4] See: http://www.haaretz.com/hasen/spages/950571.html
[5] See: Al Quds Newspaper 3 Feburary 2008
[6] See: http:// www.maannews.net/en/index.php?opr=ShowDetails&ID=27409
[7] Foreign Minister Riyad al-Malki, Ma'an News 3 February 2008 - http// www.maannews.net/en/index.php?opr=ShowDetails&ID=27557

as a utilities' subsidy for low-income families as a form of social protection. This alone is unlikely to avert further strike action.

Unabated Rise in CPI

December's increase of nearly 1% means the consumer price index (CPI) in the West Bank and Gaza has now risen, uninterrupted, since April 2007.[8] With the exception of November, when inflationary pressure was mainly driven by an increase of prices in East Jerusalem, the main pressure on December prices originated in Gaza, where prices rose by 1.8%. In contrast, prices increased by 0.8% in the West Bank and by 0.7% in East Jerusalem.

Consumer Price Index 2007

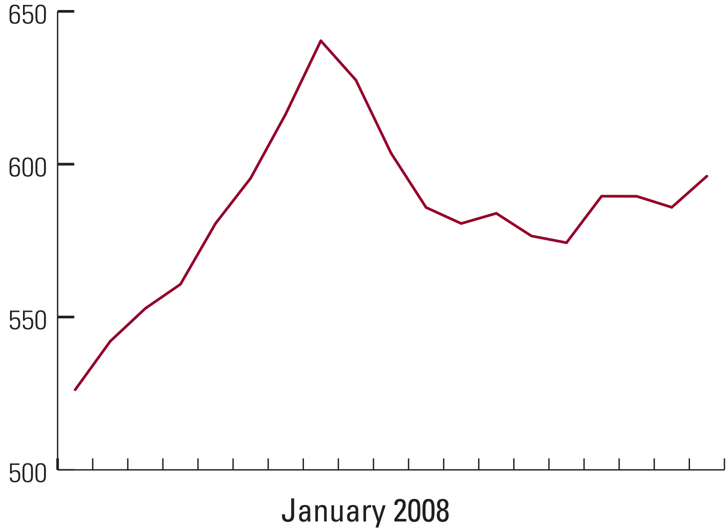


Among the expenditure categories that registered the largest increase in prices were miscellaneous goods and services (1.6%), food (1.3%) and housing (1.3%). The increase in Gaza for the first two categories was significantly higher than for either the West Bank or East Jerusalem. For housing however, pressure on prices originated from East Jerusalem with costs rising by 1.7%. Corresponding to the rise in the CPI in the past months, the Wholesale Price Index (WPI) and the Producer Price Index rose by 2.2% and 1.7% respectively, in the last quarter of 2007.

Comparison between the CPI at the end of December 2007 and the same time in 2006 reveals that prices rose by 6.9% over the course of the 12 months, including a 10% increase in the cost of food and a 9% increase in the cost of housing. The Gaza Strip saw the heaviest increase (10% - since July 2007) followed by the West Bank (5.7%) and East Jerusalem (5%).[10]

Stock Market Bucks Global Trend

The Al-Quds index finished the month at 596.4 points, up by 13.3% since the beginning of January. A buoyant market was unfazed by sharp declines on global bourses and at one stage reached its highest level since last April. PADICO and PalTel accounted for over 80% of the trading volume in the first half of the month, which was followed by three days of profit-taking.



In 19 trading sessions, 37.4 million shares changed hands, an increase of 130% compared to December. The value of traded shares increased by 161% to reach $140m, while the accumulative market capitalisation was $2.7bn, up 8%.

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[8] See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/cpi_dec2007e.pdf
[9] See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Press_e_07_q4.pdf
[10] See: http://www.pcbs.gov.ps/Portals/_pcbs/cpi/e_dec%2006_07.htm

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