

BEYOND THE CRISIS

HOW TO PREVENT COVID-19 FROM BECOMING AN ECONOMIC PANDEMIC

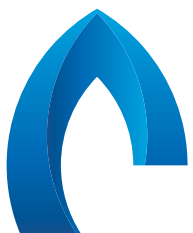


By
Mohammad
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An assessment of the unfolding of events shows that the speedy implementation of a state of emergency and closure of all nonessential businesses has contributed significantly to the relative containment of the COVID-19 outbreak in Palestine. It is important to commend the efforts of the Palestinian leadership, the government, the security agencies, the Monetary Authority, the private sector, and civil society organizations in preventing and mitigating the effects of this pandemic on our people. The proactive, brave, and wise decisions of President Abbas are to be commended, particularly in light of the limited resources and complex circumstances under which we live as a result of the occupation. These decisions provide the basis also for the ongoing efforts to contain this pandemic. Citizens' health and lives remain, undoubtedly, the absolute top priority for all of us.

The health crisis generated by the novel coronavirus is unprecedented, and managing it in the most effective and timely manner possible is crucial. Simultaneously, it is critical that we protect the economy with its institutions and workers, especially because the repercussions of this pandemic will become more and more difficult to manage the longer the emergency situation lasts.

While the health and lives of our citizens remain the highest priority, it is concerning that the national economy might be among the main victims of this pandemic, particularly affecting small and medium enterprises and their



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workers, public sector employees, workers returning from Israel, and our financial institutions (particularly microfinance institutions).

This is why we must show the necessary wisdom, leadership, and professionalism in managing the crisis.

Immediately and in the short term, the primary goal must focus on retaining workers and employees by making sure that the state remains capable of fulfilling its obligations towards public-sector employees and that private companies are

As sources are very limited today, it will remain a major economic challenge to continuously secure the liquidity of the government and of private companies, enabling them to continue paying employees and workers also in the weeks and months ahead. Here, in addition to the resources of the domestic revenues, three other main potential sources of liquidity can be identified. First, the tax revenues that have been withheld by Israel and that amount to more than US\$ 400 million should be paid to the Palestinian people and



able to pay their workers' salaries throughout the crisis. Therefore, at this stage, the priority is to secure the necessary liquidity in a manner that preserves financial stability and economic growth. The Palestinian Monetary Authority has taken a first step by delaying the payments that are due to banks, even though this measure burdens the banks. It has been crucial that the government and the majority of companies have continued to pay the salaries of their workers up to this date.

government. Second, emergency aid from donors should be generated, whether this consists of previously pledged funds that can be transferred via fast tracks or comes in the form of additional amounts granted to help cope with the emergency situation. Third, liquidity can be maintained by borrowing from local banks – but care must be taken not to overburden them, thus maintaining a stable and solid banking system.

These sources only provide limited funds, however, and due to these limitations, it is important that the Monetary Authority, the government, the Palestinian Investment Fund (PIF), and international financial institutions work together with the banks to maximize the amount of cash they can reasonably provide. In this regard, PIF has already transferred an advance to the treasury that constitutes an important part of PIF's 2019 dividends.

But PIF has not only made a cash contribution through the distribution of dividends to the Palestinian state as a shareholder, it has also designated several hotels in Ramallah, Jerusalem, Bethlehem, and Gaza to serve the healthcare system. The PIF is currently preparing also for the launch of a series of initiatives to maintain the small- and medium-business sectors, aiming to allow them to pick up their activities rapidly and effectively after the crisis. These initiatives will be announced soon.

PIF focuses on supporting the ongoing operation of small and medium enterprises because they constitute the largest share of our national economy, on the one hand, and because there are serious concerns regarding the capacity of many of these companies to maintain their operations and retain their workers, on the other. These businesses face major risks,

making them more susceptible to being among the sectors hit the hardest by the pandemic. In this regard, PIF management is currently consulting with a number of experts from local and international financial institutions to explore the most appropriate response to the challenges of the current phase and take the necessary actions towards supporting these businesses.

The ongoing efforts build on PIF's rich and long experience in this regard. Over the past several years, PIF has led an array of initiatives in collaboration with a group of international institutions and eight local banks, including a loan guarantee program that provided US\$ 200 million in credit facilities for small and start-up businesses. Other initiatives have included several programs dedicated to empowering small and medium enterprises as well as microfinance institutions in Palestine (including in Jerusalem) and refugee camps in Lebanon. These diverse programs provided support to more than 4,440 small and medium businesses, creating and maintaining tens of thousands of jobs.

Almost all predictions indicate that the repercussions of the COVID-19 pandemic will be long term and will require medium- to long-term strategies to cope with and address these repercussions. In Palestine, the pandemic has also revealed serious vulnerability in several strategic

areas that influence our national economy, and so the need to address these problem areas is more urgent than ever. These plans should be guided by a national vision, premised on self-reliance, with the participation of all stakeholders. This is particularly important now for two reasons. First, many of our significant country partners are shifting their attention towards their own priorities, and second, we now know that reliance on foreign support constitutes a major shortcoming in our national strategy.

Following are some of the most prominent areas of vulnerability within our national economy that this vision needs to address.

Regarding Palestine's financial and economic relations with Israel, the latter's continued control over a large portion of our public funds, deducting and allocating amounts as Israel deems appropriate based largely on political considerations, constitutes a major and frequently unpredictable drawback. In this context, the large number of Palestinian workers in the Israeli labor market is concerning because it not only reflects a major aspect of our dependency on Israel, as shown during this crisis, but also deprives our economy of this strategic workforce – while there is the need to produce locally the jobs that can leverage their contribution to our economy. Palestine's dependency on Israel is problematic in general and extends to many essential goods and products.

In another example of this dependency, Palestine lacks the means to generate its own energy and relies on Israel for energy transmission and generation. Thus, there is an urgent need to construct a high-voltage power-transmission

A vision for the Palestinian national economy that aims for self-reliance, while ensuring the participation of all stakeholders, must address the main areas of vulnerability, namely, the financial and economic relations with Israel, the capacity of our healthcare system, our digital infrastructure, and the logistics system.

grid, establish a system of incentives for solar-power generation, and resolve the issue of deductions from Palestinian tax funds for the benefit of the Israeli electricity company (the so-called "net lending") that costs

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the treasury hundreds of millions of dollars annually.

The novel coronavirus pandemic has revealed that our healthcare system is still modest and inefficient despite its outstanding performance during this crisis. There is a need for a quality shift within this system that is based on a comprehensive strategy built around the complementarity between the Ministry of Health and qualified service providers, working under clear contracts that are developed and monitored by highly skilled expert parties. In the same vein, it is important to encourage initiatives for pharmaceutical and medical equipment industries.

The inadequacy of our digital infrastructure has become obvious during this crisis as well, a feature that is critical for our future. Similar in importance to the highway and telephone networks of the past, this infrastructure is the network needed to support e-commerce services and distance-learning and advance health services, e-financial transactions, work-from-home requirements, and virtual meetings. In addition,

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we must support R&D centres, innovators, entrepreneurs, and technology companies, as we see an opportunity for a new economy to emerge post-crisis.

Furthermore, a logistics system is urgently needed in order to support the realization of “economic security” (insofar as this is possible under occupation). Palestine must develop an efficient system to facilitate trade and secure a reasonable amount of strategic reserves of wheat, flour, animal fodder, sugar, and fuel.

PIF has accomplished much over the past decade and continues to play a leading role in building a self-reliant national economy. Together with a group of partners, the PIF is currently undertaking a major investment program of more than US\$ 500 million in strategic projects in the health, energy, food-industries, agriculture, tourism, and digital infrastructure sectors.

The success of such a program requires more than just the availability of financial resources – it requires concerted efforts and actions towards removing both Israeli-imposed and self-inflicted obstacles in order to enable and accelerate these national endeavors. It also requires highly qualified and specialized technical, financial, investment, and legal human resources. PIF will always exert all possible efforts, regardless of the circumstances and challenges, in order to fulfil its national mandate and responsibility, as it has done since its establishment.

Dr. Mohammad Mustafa is chairman of the PIF board of directors, a former deputy prime minister, and a former World Bank official.

TESTIMONIES



As one of the leading engineering offices in Jerusalem, our business relies partially on engagement in efforts to upgrade building rights through city hall, the body that issues building permits, and the ministry of interior, the body that approves rezoning plans. COVID-19 immediately affected public offices, leaving our applications on the shelves and queries unanswered. Within two weeks, this department and its several architects were out of work. We suffered another

severe setback in construction, where we manage and supervise building sites, especially in the Old City. Rather than working on twelve sites, we now work on only one. Preparation for future works has been put on hold: three contracts ready for signature have been postponed, five bids remain in sealed envelopes. As a Jerusalem-based firm (that pays heavy taxes), we have been able to benefit from our right to compensation, however, which alleviates some of the repercussions. We hope that once we get back to business, we can quickly recover and get back on track.

Architect Simon Kouba, CEO Simon Kouba Consultants Ltd.



Zajel Advertising was established in 1996, and specializes in custom signs, large-scale printing, and various advertising materials. As an advertising pioneer in Ramallah, we continuously had to adapt to Palestine's fluctuating economy and accept security and market risks. Although the latter half of 2019 was difficult economically, dispersing company reserves, we moved to expand in early 2020. Zajel purchased several new machines, two of which had been delivered

when COVID-19 began to headline world news and a third was pending delivery. Production at Zajel has been halted entirely since March 22. All work orders are on pause. Our production facility is inaccessible and new machinery idle. We mustered resources to cover company commitments for a reasonable amount of time. Government intervention, however, is vital to ensure market recovery (e.g., coerce banks to facilitate loans and drop interest rates during and – for some time – after this emergency, taking responsibility for private-sector wages and pumping money into the economy as soon as the market reopens).

Imad Abu Tair, engineer and production manager, April 20, 2020