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## The Invisible Sector

The first ever Tel Aviv Stock Exchange market opening ceremony to be held in Nazareth was one of the highlights of The Arab Business Conference 2012 which took place in May. It presented an exciting opportunity to shed light on a usually overlooked sector of the Israeli economy - the business agenda of the Arab minority. The non-Jewish citizens of Israel, who make up about 20% of the population, get limited international exposure, especially when compared with the Palestinians who live in the occupied territories. This has motivated several Jewish organizations to create special task forces to address issues relating to them, both in North America (<http://www.iataskforce.org>) and the UK (<http://www.uktaskforce.org>).

The conference was organized by Malakom (economy in Arabic), Israel's first ever business magazine in Arabic, initiated by the entrepreneur Basel Gahttas. Israel's Arab minority will also for the first time, soon have its very own Arabic language TV station, Hala TV, chaired by veteran marketing communication executive Mussa Hassadia. Israel's state TV broadcasts several hours a day in Arabic, and Arabic satellite channels are widely available. Jafar Farah of the Arab advocacy NGO Mossawa recognised the Ministry of Communication's decision as an important step forward in increasing the visibility of the Arab citizens of Israel.

An increasingly important player in the business agenda of the Arab minority is the NGO Tsofen, established in 2008 with the goal to integrate the Arab community, in particular university graduates, into Israel's successful high-tech industry. It guides and assists different authorities operating within the Arab community in leveraging regional development towards advanced technology industries. Tsofen's model aims to establish high-tech centres in Arab communities and encourages high-tech companies to move their operations closer to the Galilee and Nazareth.

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## One Year Later

Our devoted readers may recall our item about the inability of foreign lawyers to practice in Israel (BTR, April 2011), and about the long delays in implementing the legislation of September 2009, aimed at changing the situation. Finally, some good news: on May 21st the Minister of Finance, Yuval Steinitz, signed an order that permits collaboration between local and foreign law firms. The order will enter into effect 30 days after its publication in the Official Gazette. The implementation of the order will increase the Israeli economy's exposure to international law firms and their business customers, and will provide Israeli clients of foreign lawyers with a safety net. A foreign lawyer will be bound by ethical obligations, with entry conditions for foreign firms including insurance mechanisms to the sum of NIS 2 million. This step propels the world of Israeli law to the forefront of international activity, which the accounting (see next item), advertising, public relations and strategic consulting sectors are already benefiting from.

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## An Accountancy Superpower

A recent survey conducted by ourselves for the Global City Administration of Tel-Aviv, has demonstrated the strong positioning of the city in the world of accounting. Based on Accountancy Age's ranking of networks, all the 17 international largest firms by fee income have offices in greater Tel Aviv. This fully corresponds with last year's observation by Dr. Oliver Mould of the University of Salford, who found that out of all business sectors Tel Aviv has the highest "international connection" score in accountancy, where it is ranked 1st in the Middle East and North African (MENA) region.

The Israeli internal ranking by D&B, based on the numbers of accountants in each firm, shows some notable differences in the leaders of the group compared with the global ranking. While internationally the big 5 are Deloitte, PWC, E&Y, KPMG and BDO, their order by size in Israel is: E&Y, KPMG, PWC, BDO and Deloitte. The differences can be largely explained by E&Y's strong market share in Israel's burgeoning high tech sector, and KPMG's leading position in the local banking industry.

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### **Palestinians: Keeping Pace**

90.6% of Palestinians aged 18 years and older already own cell-phones; 22% of them own various brands of smart-phones, according to a recent survey by the Palestinian Centre for Public Opinion (PCPO). Dr. Nabil Kukali, founder and president of PCPO, said that the results undoubtedly show that the Palestinians are keeping pace with the modern technology of telecommunications and social media devices and adapt these to their benefit. This is shown, for example, by the relatively long time Palestinians spend on average on the Internet in educating themselves and promoting their vocational abilities, as well as interacting and communicating with others outside the Palestinian Territories.

The telecom sector in the Palestinian Territories was fully privatized in 1997 with the establishment of Paltel - Palestine Telecommunications Company, as the fixed line operator. In 1998, Jawwal - Palestine Cellular Communication Company was established as the first Palestinian cellular company. In 2009, Wataniya Mobile launched its commercial operations to introduce competition and become the second cellular operator.

Responding to the question "How often do you personally have access to the Internet" 40.7% answered "daily", 29.4% "a few times per week", and 20.0% "I have no access to the Internet at all". Asked "Do you have an ordinary telephone line at home installed for you by a telecom company?" 75.2% of the respondents replied "Yes, I have", 24.8% said "No, I haven't".

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### **More Private Equity**

The Blackstone Group will reportedly invest hundreds of millions of dollars in Israel, through a joint venture that it will set up with Markstone Capital Partners Group LLC. Markstone will apparently become Blackstone's exclusive representative in Israel, leading the search for Israeli companies in which the two private equity funds will invest. New York-based Blackstone, with \$166.2 billion in assets under management, is the world's largest private equity fund. It was founded by CEO Stephen Schwarzman in 1985. Blackstone will join two major international private equity groups who have already done substantial businesses in Israel: Apex Partners, who bought and then sold Bezeq, and still owns major stakes in both Tnuva and Psagot Investment House; and Permira, who last year bought a 61% stake in the world's largest smart irrigation company, Israel's Netafim.

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### **Market Watch: Social Investments**

The discussions on creating a social investment market in Israel are gaining momentum. Following the publication of a comprehensive report by a dedicated working group (see link at the end of this item), the Social Investment Forum met several times in Tel Aviv, hosted by Sir Ronald Cohen of the Portland Trust, a pioneer of the social investment market in the UK. A Financial Innovations Lab by the Milken Institute took place in early May in LA. The National Economic Council, the Yad Hanadiv Foundation and Israel Venture Network are among the other active promoters of the concept in Israel. On top of regulatory and legal challenges, the emergence of such a market in Israel requires NGO's to reshape their revenue generation model, banks to reduce their demand for personal guarantees on loans to NGOs and to more readily provide credit to social enterprises with proven successful models.

There is a demand for social venture funds in Israel which will focus on investing in companies located in underprivileged communities, along the lines of successful models such as Bridges Social Entrepreneurs Fund in the UK and other countries. A relevant topic of discussion is the use of unclaimed assets from dormant bank accounts for social investments. In Israel, no work has as yet been done to estimate the scale of dormant accounts. Pension funds and insurance companies could serve as more conventional sources. The next proposed step is to create an organizational and legal structure, "Social Finance Israel", as well as develop models for initial social investment vehicles that meet the special needs of Israeli society.

To download the full working group report go to:

<http://www.yadhanadiv.org.il/sites/default/files/downloads/resources/Social%20Capital%20Market%20-%202nd%20edition.pdf>.

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## Upcoming Events

**Facing Tomorrow 2012** - the forth Israeli Presidential Conference . Jerusalem, June 19 - 21, 2012.

**Innovate Israel 2012.** Connecting innovative Israeli web, mobile and digital entrepreneurs and businesses with their UK counterparts. London, 26 June.

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