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The Contribution of Tourism to Israeli and Palestinian Economic Development

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The Portland Trust

The Portland Trust

Background:

- Founded in 2003 as a not-for-profit British foundation and 'action tank'.

Mission:

- Promote peace and stability between Israelis and Palestinians through economic development.

Long term vision:

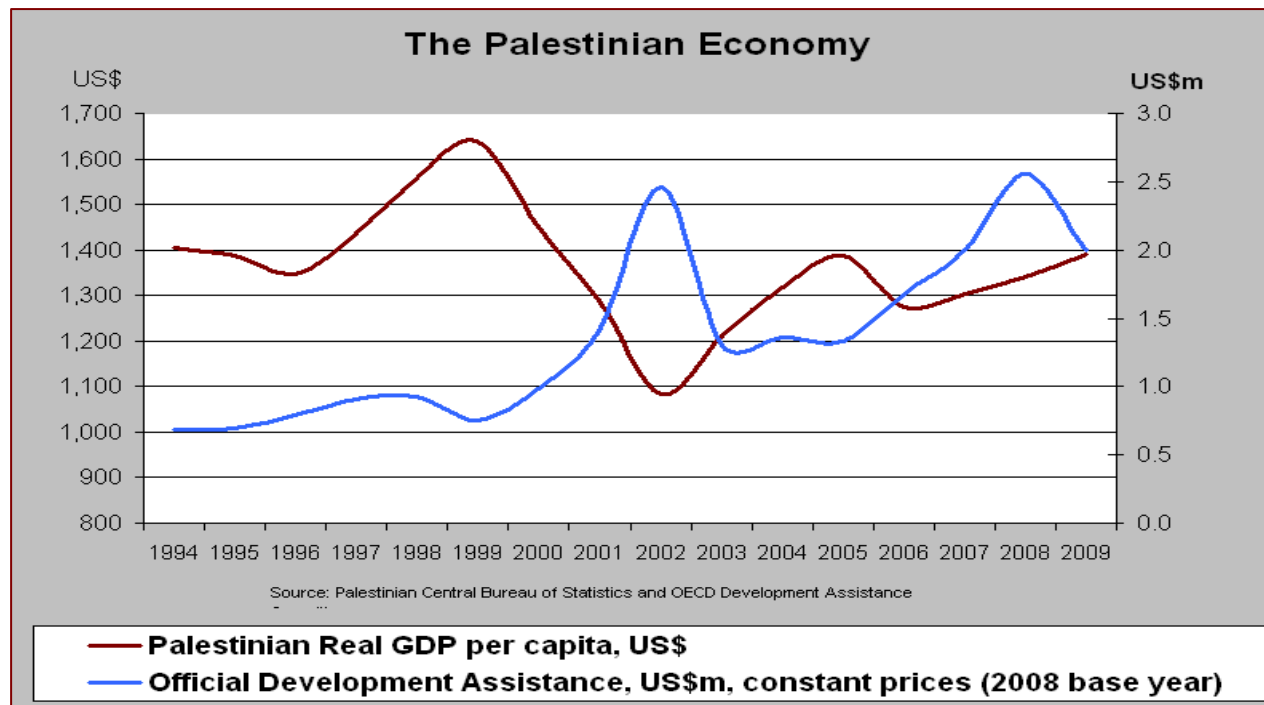
- Help develop the Palestinian private sector to create a thriving and sustainable economy and to boost economic development in the poorer areas of Israel.

Programme:

- Raise awareness of the importance of economics as a tool in peacemaking, and its shortcomings as a weapon.
- Focus on private sector development and job creation: financial infrastructure; physical infrastructure/housing; trade facilitation/entrepreneurship.

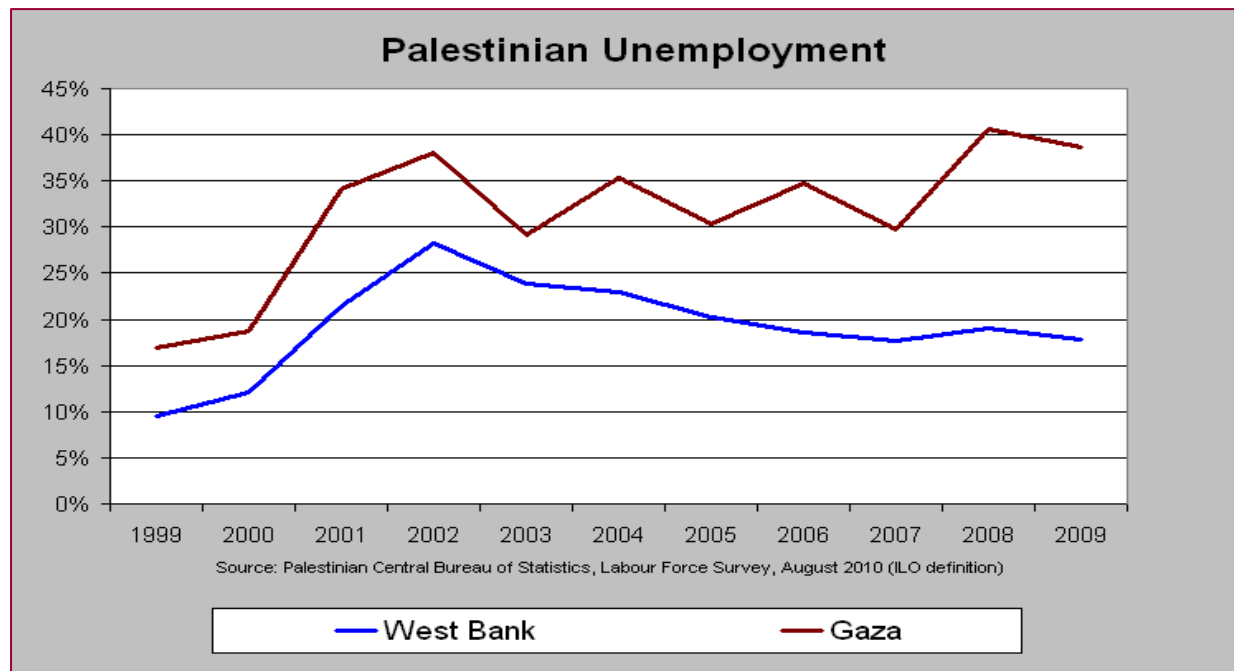
Palestinian Economy

- Official figures show economic growth at 8% this year, unofficial estimates put it nearer 11%. However real Palestinian GDP per capita is still significantly lower than a decade ago.
- Aid dependency is reducing but is still a challenge.
- GDP was \$6bn in 2009 after around \$2bn of international aid received.



Palestinian Unemployment

- Palestinian unemployment is high, approx. 23% in Q2 2010.
- In the West Bank approximately 70% are employed by the private sector, 15% by the public sector and 15% are unemployed.
- In Gaza, it is estimated that around 10% are employed by the private sector, 50% by the public sector and 40% are unemployed.



Access to Finance

Since 2003 The Portland Trust has been actively supporting Palestinian efforts to increase access to finance:

- **Loan Guarantee Funds:** Initiated concept to encourage banks to extend credit. From mid-2007 to mid-2009, \$65m loan guarantees approved for SME sector out of approx. \$300million total provided by OPIC/PIF and EIB/KfW.
- **Private Sector Pensions:** Draft legislation to lay foundations for a modern private sector pension scheme is currently awaiting approval from Palestinian Cabinet. New regulations drafted to accompany legislation. Potential to generate \$5bn in pensions' assets.
- **Grant Leveraging Facility:** New proposal to boost the private sector's ability to attract investment for large economic infrastructure projects with significant development benefits. A grant of 15% is made available at the outset through innovative risk sharing revolving mechanisms.
- **Palestinian Securities Exchange:** London Roadshow in March 2010. Delegation of 32 business and finance professionals from Palestinian bluechip companies held over 30 B2B meetings with some of the largest international investment funds in emerging markets and the Middle East.

Job Creation, Trade and Know-how

Additional efforts have focused on:

High job creation:

- **Affordable Housing:** Designed \$1bn private sector programme to build 15,000 homes in new communities across the West Bank; creating thousands of jobs and increasing GDP by 1.5% p.a over five years. First new Palestinian town, Rawabi broke ground in January.

Opportunities for trade:

- **Israeli-Palestinian Chamber of Commerce:** Launched in May 2009 to promote business opportunities, trade and cooperation between Israelis and Palestinians. 340 Israeli and Palestinian business leaders, public figures and Ambassadors attended the second annual dinner in June 2010.

Knowledge sharing:

- **Corporate Leadership Programme:** International business leaders and corporate experts brought to Jericho and Ramallah to coach senior executives in topics like mergers and acquisitions, private equity and corporate governance.

Sectoral Focus

- Now taking a more sectoral focus to ensure sustainable private sector growth occurs.
- Prime Minister Fayyad launched plan in August 2009 to build the institutions of a Palestinian state and prosperous private sector within two years.
- After construction and housing, analysis has shown that agriculture and tourism are sectors with high potential for growth.
- Findings are reflected in Fayyad's state-building plan.
- Significant progress has been made, and was reflected in a recent World Bank report that said the PA is well-positioned for the establishment of a state.

Tourism Sector...

➤ Palestinian Tourism:

- Total output of \$0.6bn, contributing 12% to GDP and employing 12,000 people (2007 figures, estimated by Monitor Group using PCBS data)
- Some growth in visitors following decline from 2000 – 2004. Around 1 million a year in total. Hotel guests up 42% in Q2 2010 compared to same period last year.
- However, growth in tourism is low (~2% over period 2000 - 2008) and the sector's contribution to overall Palestinian employment is low (~2%).

➤ Israeli Tourism:

- Total output of \$10bn in 2008, contributing 5% to GDP and employing 200,000 people.
- Little growth in tourist numbers over the past decade.
- International visitors to Israel total around 3 million, which is low in comparison to worldwide attractions (London Eye, 4 million; British Museum, 6 million; Louvre, 6 million; Valley of the Kings, 6 million; Magic Kingdom Florida, 17 million)

...Middle East Region Outperforming

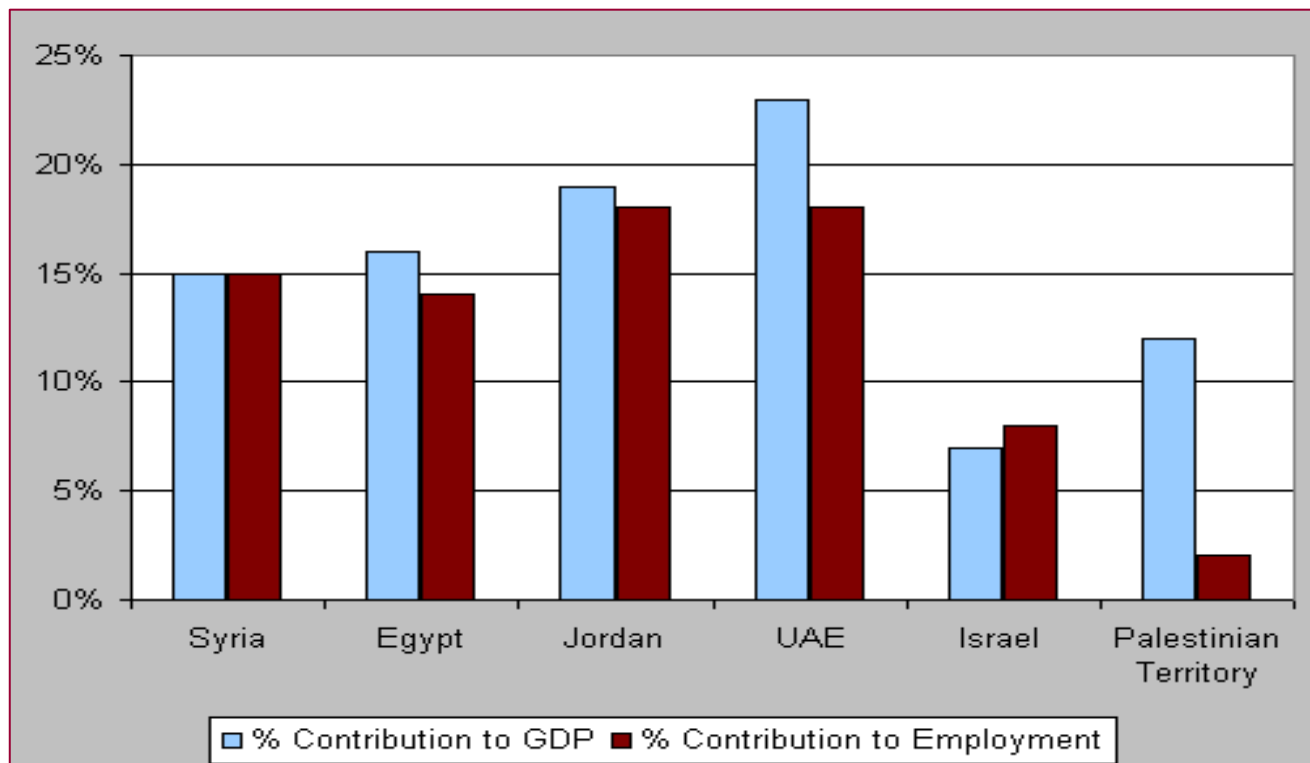
- \$900bn global industry, with 3.3% annual average growth in tourism arrivals (many new tourists coming from emerging market economies).
- Middle East region has a booming tourism market – 9% annual average growth in tourism arrivals and even higher in some countries.

	Tourism Growth ¹
Saudi Arabia (excluding the Hajj and Umra)	13%
Egypt	12%
Syria	9%
Jordan	6%
<i>Palestinian Territory</i>	2%
<i>Israel</i>	1%

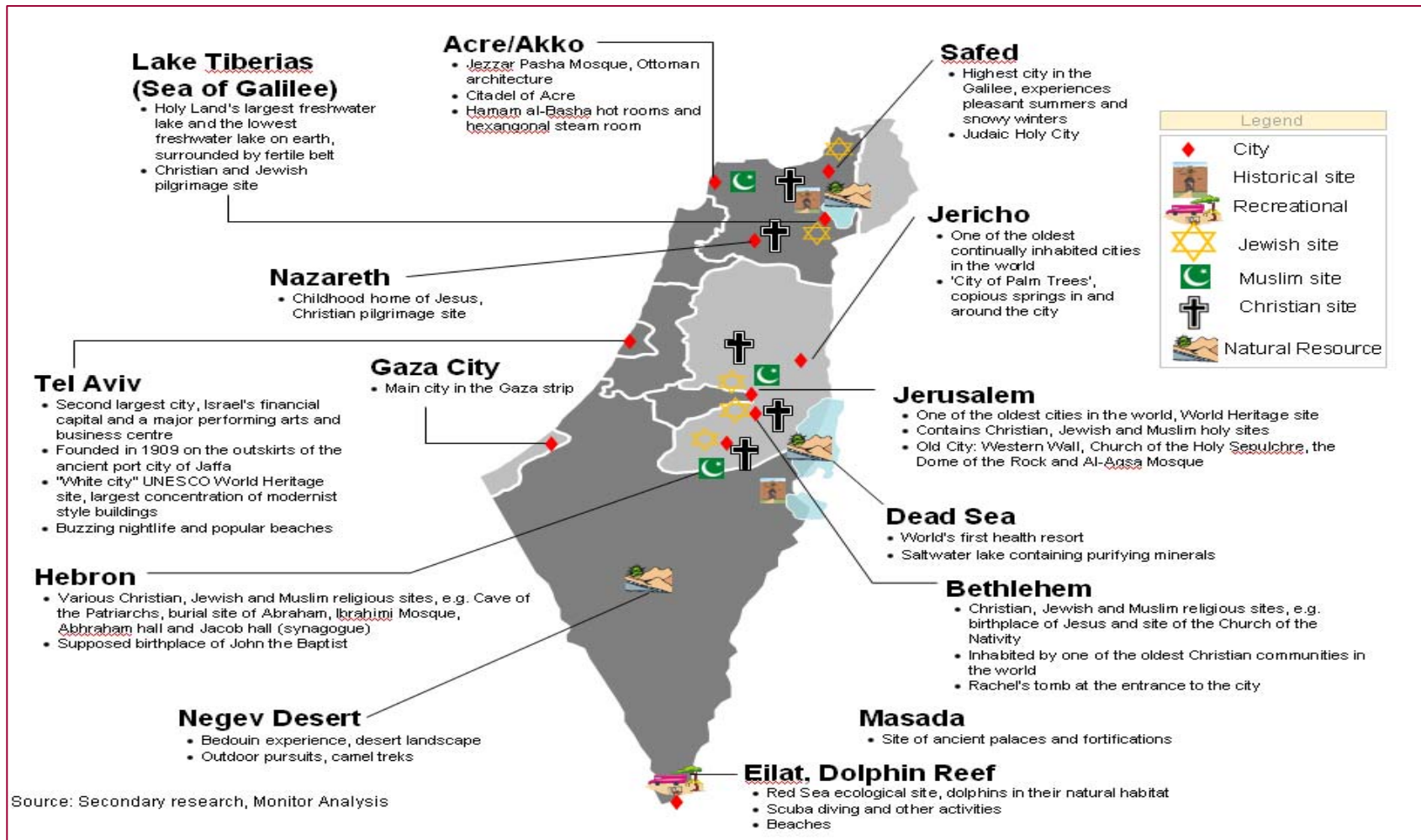
¹ Source: Monitor Group - data refers to annual growth in tourism arrivals over the period 1995 - 2008

Significant Economic Contribution

Throughout the region tourism makes a significant contribution to the economy and employment.



Israeli and Palestinian Tourism Potential



Potential for Growth - Monitor Analysis

➤ Israel

- On the current growth trajectory Israeli tourism revenue would grow from \$10bn in 2008 to \$13bn in 2021 and employment would remain at similar level.
- Yet if growth followed the regional pattern (6% growth in revenue and 5% growth in employment), Israel could double tourism revenue (from \$10bn to \$23bn) and employment from 200,000 to 400,000 over the next decade.

➤ Palestinian Territory

- On current trajectory Palestinian tourism revenue would grow from \$0.6bn in 2007 to \$0.9bn in 2021. Yet if growth followed the regional pattern (6% growth in revenue and 5% growth in employment), this would increase dramatically to \$1.5bn.
 - Similarly employment could increase from 12,000 to 26,000 – thus creating over 14,000 jobs.
- Increasing tourist levels on either side will benefit the other. Over half of tourists who visit Israel visit the West Bank and the majority of tourists who enter the West Bank do so through Israel.

Challenges to Tourism Development

- Perception of conflict.
- Restrictions on movement and access.
- Coordination between public and private sectors, internally and cross-border.
- Tourists that enter West Bank do not stay. Estimated that 92-94 cents of every tourist dollar flows to Israel.
- Palestinian infrastructure underdeveloped and in need of substantial investment.
- Range of product and service in Israel could be improved (e.g. boutique hotels, B&Bs, adventure tours, ecotourism etc.)

Palestinian Tourism Board...

- To support tourism development, The Portland Trust represented the Palestinian private sector in setting up a public-private partnership with the Palestinian Ministry of Tourism.
- Technical and financial assistance was provided to help create the Palestinian Tourism Board.
- A draft operational plan, first year budget and bylaws for the Board have been prepared.
- In the meantime work has already begun on the ground. The Portland Trust are investigating what can be done to develop local Palestinian tourism through the private sector.

... Developing Local Palestinian Tourism

- Potential exists given increased visitors from the Galilee into the Northern West Bank and growing disposable income in the West Bank.
- Over the next four months consultation will take place with the Palestinian private sector to determine future demand from local tourism and specific actions to be taken by the private sector to develop the local market in the West Bank and Gaza.
- Development around certain clusters – historical sites, festivals, leisure facilities – will be considered.
- Findings from the research will help determine a Domestic Tourism Strategy for the Palestinian Tourism Board to follow.

A Joint Tourism Strategy

- The Portland Trust is now working with the Quartet and Monitor Group on a Joint Tourism Programme for the Holy Land.
- Quartet has made some progress on removing movement and access restrictions for tourists. A joint private sector working group has been established and a visit of international tour operators took place.
- Full economic potential requires work on a long term strategy.
- £200,000 is required to fund the initial phase of strategy development by Monitor Group, who have extensive experience and have led successful projects in Morocco and South Africa.
- £2 million is needed for Monitor to develop the full strategy.

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