

PALESTINIAN ECONOMIC BULLETIN

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Global Entrepreneurship Week (GEW) – Palestine took place between 14 and 20 November

EXPOTECH Palestine Technology Week 2016 took place between 27 November and 1 December under the title “Mobility & Smart Services”

In November, the Al-Quds index increased by 0.73% to reach 522.7 points on the last day of trading

Jenin Power Plant

The Palestine Power Generation Company Plc (PPGC) recently announced the launch of the Jenin Electric Power Generation Station. The station is expected to provide the Palestinian market with 450 MW at full capacity, which will meet about 40% of market demand for electricity, reducing electricity imports substantially from the current level of 90% of the total consumption. The project is also expected to provide more than a thousand jobs for Palestinian workers, both in the construction phase and after it commences operation.¹ Additionally, it will help transfer knowledge and expertise to engineering and construction companies.

The Company is preparing to issue a tender to be distributed among six of the top international companies specialized in the installation and operation of power plants. These companies were selected from a group of 29 companies that expressed interest in the project. It is expected that the project will require a total investment of \$600m, which will be provided through the Company's shareholders, investors and international development institutions. The Palestine Investment Fund (PIF) has committed to contribute 39.6% of the total investment, followed by the Palestine Development and Investment Company (PADICO) (20%), the Arab Bank Group (10%), Palestine Telecommunications (PALTEL) (10%), the Palestinian Electricity Company (5%) and others.

According to Dr. Mohammad Mustafa, Chairman of PIF, the station is the first and largest project to generate electricity from natural gas in Palestine. It will contribute to the exploitation and development of Palestine's natural resources and will help to reduce the trade deficit by about \$350m annually. Dr. Mustafa also expressed his aspiration to use this model to develop a large package of PIF projects in the infrastructure and energy sectors, particularly related to oil and gas. Such projects typically require investments in excess of \$2bn.²

The tender and project implementation will require about three and a half years to complete. The Jenin Electric Power Generation Station is expected to start operating in 2020. The electricity produced by the station will be sold to the Palestinian Electricity Transmission Company Ltd (PETL).

Coca Cola in Gaza

The National Beverage Company Coca Cola/Cappy (NBC) recently announced the opening of its first factory in Gaza, in the Al Mintar Industrial Area.³ Although the bottling facility had been partially open for several months, it began full operations on 30 November 2016. Given the limited supply of clean water in Gaza, the new plant required its own water treatment facility.

Mr. Zahi Khouri, Chairman of NBC, said: “The opening of our first Gaza plant is an important milestone.” He added, “With around two million people in Gaza, this

1 www.ynetnews.com/articles/0,7340,L-4790597,00.html

2 www.pif.ps/ar_page.php?id=12579y75129Y12579

3 www.wsj.com/articles/coca-cola-opens-gaza-strip-bottling-factory-1480525547

is justifiable investment considering the logistics costs.” Mr. Khouri also stated, “In a move to reduce the price to customers, NBC had opted to produce the Coca-Cola bottles in Gaza in returnable bottles, although it will continue to market non-returnable drinks shipped in from its West Bank factories.” Previously, NBC imported drinks to Gaza from its plants in the West Bank.

A total capital of \$20m was invested in the plant, which is expected to create 120 new jobs with possible expansion to 270 jobs. The plant is also expected to create 10 times the number of jobs indirectly through local supply chains, distributors and retailers.

In related news, the Coca-Cola Foundation, NBC and Mercy Corps, a humanitarian aid agency, announced a \$1.3m charitable initiative that includes plans to build a desalination plant near the Al-Maghazi refugee camp in central Gaza, where more than 24,000 people live.⁴

Palestine International Banking Conference 2016

On 22 November, the Palestine Monetary Authority (PMA) in partnership with the Palestinian Energy and Natural Resources Authority (PENRA) convened the annual Palestine International Banking Conference 2016 in Jericho, under the title “Renewable Energy and Finance Opportunities”.⁵ The aim of the Conference was to provide a set of recommendations for the development of the institutional, legislative and technological foundations that would enable the emerging renewable energy sector to serve the economy’s needs while meeting international standards. The Conference was supported by the Prime Minister, Dr. Rami Hamdallah, and it featured the PMA Governor, Mr. Azzam Shawwa, the Minister of Energy, Dr. Omar Kittaneh and the Governor of Jericho, Mr. Majed Al-Fitiani.

In his speech, Mr. Azzam Shawwa stressed that the robustness of the Palestinian banking system and financial infrastructure has led to the development of an investment environment that enables the use of credit to launch quality development projects. According to the PMA’s Financial Stability Report 2015, the year 2015 witnessed tangible developments across all areas and domains of the Palestinian financial and banking system.⁶

There is increasing interest from public and private local bodies as well as international donors to support renewable energy initiatives. For example, the PIF has established a Solar Energy Fund, which is expected to produce up to 35 MW with an investment of \$50m through small producers (households, businesses and SMEs, and the public sector). In addition, the PIF’s Solar Energy Fields Project will generate 70 MW with an investment of \$100m,

building a number of medium to large size solar energy farms, each producing on average 10 MW.⁷

The Conference concluded with a set of specific recommendations such as launching an awareness campaign on renewable energy, creating appropriate incentives for financing renewable energy projects and providing technical support to financial intermediaries to build their capacity to manage renewable energy finance projects.

Interview with Mr. Hashim Shawa

This month the Bulletin interviews Mr. Hashim Shawa, Chairman and General Manager of Bank of Palestine (BOP). Prior to joining BOP in 2007, Mr. Shawa served as Director of HSBC’s Middle East and North Africa business. His role was to develop the Company’s private banking business in the Gulf and establish HSBC’s onshore presence in Kuwait.

Mr. Shawa is the Chairman of the Board of Directors of Al-Wasata Securities Company and PalPay E-Payment Solutions Company. He is a member of the Board of Directors of the Palestine Institute for Financial and Banking Studies, the Association of Banks in Palestine and Pharmicare PLC. Mr. Shawa is a member of the Board of Trustees of Bethlehem University and the Institute for Palestine Studies. He is also a member of the Emerging Markets Advisory Council at the International Institute of Finance in Washington DC.

How is the Bank supporting sectors where the availability of credit is constrained?

The Bank of Palestine was established in 1960 in Gaza, as an agricultural bank. The Bank’s founders focused on offering credit to citrus farmers to fund their tractors, irrigation systems and other equipment. Since its inception, the Bank has worked on programs that extend credit to sectors that are cyclical, risky and require longer payback periods.

I’m proud to say that, more than half a century later, BOP continues to work with local businesses. We are extending credit to agriculture projects and taking the risk with the farmers. We also have a Green Energy Loan program that extends loans at 5-7 year durations and at favourable declining rates. Given our understanding of local constraints, we focus on cash flow management, as opposed to imposing excessive guarantees and collateral requirements, as this might sometimes hinder the ability of SMEs to access credit.

In 2015, BOP launched a campaign through which it dedicated \$200m to finance SMEs. In Q3 2016, our diversified loan portfolio reached a total of \$2.14bn, of which 19% is dedicated to SMEs, 39% to retail banking, 17% to government and 25% to corporate banking. The SME segment proved to be prudent, disciplined and attentive to credit history. This resulted in high repayment

4 www.ft.com/content/f1fb9180-b715-11e6-ba85-95d1533d9a62

5 <http://bit.ly/2hU8euL>

6 <http://bit.ly/2hGQ5Qif>

7 www.pif.ps/page.php?id=3402y13314Y3402

ratios, giving the Bank a satisfactory nonperforming loans ratio of 2%.

Given our loan to deposit ratio is at 60%, I believe we have room for further credit facilitation. In 2017, we plan to increase the number of different products and programs offered by the lending department.

On what social issues and society segment does BOP focus through its Corporate Social Responsibility (CSR) spending?

I firmly believe that our CSR budget is an important way to give back to the community. Although we address a wide range of issues, we focus on education, health awareness, technology, culture, sports and youth. We dedicate 6% of our gross income to CSR and community development activities. But BOP is not limiting its social responsibility to its CSR budget. We made the strategic decision to introduce inclusiveness and sustainability in every aspect of our operation.

To address the imbalances affecting women and other segments in the Palestinian society, we try to reflect our ethos through our hiring practices. For example, we increased the percentage of female employees from 16% in 2007 to 32% in 2016, with a goal of reaching an even split in 2020. BOP is committed to equal pay at recruitment level and introduced child allowances and family healthcare benefits that were previously only extended to male employees. In addition to our focus on women, we also try to address imbalances affecting other segments. For example, 6% of our current staff are people living with disability.

Furthermore, our model for community development is one based on establishing strong partnerships with local, diaspora and international parties. One example is our work on breast cancer awareness. For over five years, during the Global Breast Cancer Awareness month of October, Bank of Palestine has been a national champion in raising awareness for breast cancer in Palestine. This year we wanted to draw wider attention to the cause and reach out to more target audiences. BOP, in collaboration with Le Trio Joubran, organized the first of its kind Music Marathon Concert. The concert that took place on 26 October in Ramallah lasted for twelve hours of nonstop performance. The concert raised \$1m and these funds will be used for the purchase of a mobile clinic which will provide early breast cancer detection services to all communities in the West Bank, especially the underserved marginalized areas. The funds will also cover the cost of tests and procedures for advanced breast cancer cases in the Gaza Strip, in partnership with the Red Crescent Society.

In addition to ongoing CSR and community outreach activities, we are currently considering Social Impact Investment, and are studying some concrete proposals for implementing key initiatives addressing social causes that are in line with our community vision, mainly in health and education.

In December 2016, BOP was awarded the 'Bank of the Year in Financial Inclusion' award by The Banker Magazine, which is owned by the Financial Times Ltd. Why is financial inclusion important for a small market like Palestine?

I am very proud that BOP is the first bank in the Middle East to receive this prestigious global award. The recognition was based on our extensive work focusing on the inclusion of women. Palestine has a low participation of women in the workforce, only 17% of the total, which corresponds to a 40% female unemployment rate. This, of course, results in poor financial inclusion for women. In order to address this issue, BOP was the first Palestinian bank to allow women to open savings accounts for their children without needing the permission of the father. Furthermore, through a variety of programs, BOP offers banking products and services that are customized to the needs of its female clients. These products and services include collateral-free loans for businesswomen and a loan guaranteed by gold.

BOP recognizes that technology is another important tool for financial inclusion. In 2011, the Bank established its subsidiary, PalPay® (Palestine Payments), which is a payment platform created to make use of BOP's Point-of-Sales (POS) network to enable any person to pay his/her different types of bills (using cash or card). In addition to facilitating utility bill payments, users can pay loan installments or university and school tuition. This is particularly important for people in remote villages who either cannot reach their branch or are unbanked given the accessibility challenges Palestine faces in terms of ease of movement.

Financial inclusion is not just a slogan. I believe it is an important lever for the economy, as it brings individuals and businesses from the informal to the formal sector, which benefits the economy at large. BOP introduced a stringent policy of financial inclusion which includes geography, gender, age groups and sector diversification.

Recently, BOP conducted a merger of Palestine Commercial Bank and consolidation of the Arab Islamic Bank. What motivated those strategic decisions?

In 2016, BOP made two major strategic deals. The first was a merger deal whereby the Palestine Commercial Bank (PCB), a local commercial bank, was successfully merged with the Bank of Palestine in a share swap of 3:1 in favour of the BOP share. This merger increased the paid up capital of BOP by \$10m and will allow its market share to become dominant across all operational indicators. The second deal was the acquisition of an additional 31% stake in the Arab Islamic Bank (AIB). This share acquisition allows Bank of Palestine to become a majority shareholder in an Islamic banking operation in Palestine, holding 51.98% of AIB shares. Although AIB will remain an independent subsidiary, this determining block will allow BOP to provide Islamic banking solutions

to a growing segment of the population that require such services. I believe that Islamic banking has significant potential for growth in Palestine. The current market coverage of Islamic banking in Palestine is only at 10%, while the potential is at 25%.

Bank of Palestine has recently established representative offices internationally. What is the strategic rationale behind this international expansion?

Bank of Palestine is acutely aware of its duty to serve the more than 7.6m Palestinians living in the diaspora. In addition, BOP will be serving investors who are keen to do business with Palestine through offices abroad. The Bank opened its representative office in Dubai, the UAE at the Dubai International Financial Centre (DIFC) in 2015. A second representative office in Santiago, Chile is expected to open its doors during 2017 to serve more than 500,000 Chileans of Palestinian origin with evolving connections with their original home, Palestine.

Global Entrepreneurship Week Palestine 2016

Global Entrepreneurship Week (GEW) – Palestine took place between 14 and 20 November. The week included several entrepreneurship initiatives and focused on young entrepreneurs. The week opened with the Startup Weekend event organized by Leaders Organization. The event, which lasted for over 54 hours, was attended by 110 young Palestinians from a range of backgrounds including programming, graphic design, business, marketing and finance. The participants formed teams, developed ideas for a startup, worked on them intensively, and pitched them to the judges. The first-place winner was Emotioni, a mobile app that enables users to share their feelings with each other. Another event was a three-day 'Lady Problems Hackathon', organized by the Bethlehem Business Incubator (BBI), in cooperation with Angelhack – San Francisco. With assistance from BBI mentors, the 75 participants, 80% of whom were women, discussed the most crucial obstacles preventing Palestinian women from becoming entrepreneurs. Divided into seven teams, the participants developed ideas to address these challenges and presented them to a judging panel.

Winning ideas included Pal Food which provides tourists with the opportunity to prepare a traditional Palestinian meal with a local family in order to learn how to cook Palestinian food. Finally, GEW culminated in the launching of the InnoPreneurs Council, which will allow innovators and entrepreneurs to participate in decision-making related to the entrepreneurial ecosystem.

EXPOTECH 2016

EXPOTECH Palestine Technology Week 2016 took place between 27 November and 1 December under the title "Mobility & Smart Services".⁸ Organized by the Palestinian Information Technology Association of Companies (PITA) and supported by President Mahmoud Abbas, EXPOTECH is a week-long event, aiming to showcase Palestinian ICT businesses and entrepreneurs and provide a platform for discussion of local and international trends in the sector.

EXPOTECH featured an international IT conference with a wide range of guest speakers including PNA Ministers, entrepreneurs, investment funds, academics and representatives of local, regional and international IT and telecommunications businesses.⁹ EXPOTECH also held an IT Exhibition, which hosted over 40 Palestinian technology businesses including both small start-ups and large, well-established companies in the West Bank and Gaza.

PEX Trading

In November, the Al-Quds index increased by 0.73% to reach 522.7 points on the last day of trading.¹⁰ All sectors except services (-1.5%) appreciated during the month, with insurance companies performing particularly well (+4.0%). A total of 8.8m shares worth \$23m were traded during November. This marks a decrease of 66.5% in the number of traded shares and 66.2% in the value of traded shares from the very high levels recorded in October 2016. Market capitalisation was \$3.3bn in November.

In related news, PEX was elected a member of the Executive Board of the Federation of Euro-Asian Stock Exchanges during the annual meeting and general assembly, which was held in Sharm El Sheikh, Egypt in November 2016.

⁸ expotech.ps/

⁹ expotech.ps/speakers

¹⁰ www.pex.ps/PSEWebSite/publications/PEXIssue80_November2016.pdf

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