

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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PADICO, the largest holding company in the Palestinian Territory, is reviewing restructuring options to better integrate its companies. Paltel, a subsidiary of PADICO, is close to finalising the partnership deal with Zain Communications.

MENA Geothermal has been awarded a 2009 Energy Globe Award for its application of geothermal heating and cooling technology at the Union Construction and Investment Corporation (UCI) headquarters in Ramallah.

The Israeli-Palestinian Chamber of Commerce held its first B2B meeting in February 2009. The Chamber started work in early 2009 and recently appointed Ofir Gendelman as its Chief Executive Officer. It is hoped that the Palestinian-Israeli Chamber of Commerce will be established in due course.

Banking News

The Palestinian Monetary Authority (PMA) has cancelled the requirements for banks to have a minimum loan to deposit ratio of 40%. Instead, banks are required to reduce the ratio of foreign investments to total deposits from 65% to 55% by September 2009.¹ The new regulations are intended to expand the size of local investments without imposing minimum lending requirements. It is hoped that it will increase credit facilities provided by local banks to the private sector. In Q3 2008, there was \$6.3bn in total deposits but only \$1.8bn in total loans (a 28% loan to deposit ratio).

Mohammed Manasrah, from the Companies Monitoring Department at the PMA, told the Bulletin that effects of the new regulations had already been felt. Foreign deposits decreased by more than \$200m in the first two months of 2009 while credit facilities increased by \$44m during the same period. Osama Kasbari from the loan-guarantee fund department at CHF explained to the Bulletin that the banks should benefit from this move to increase the value of their local loans. He also expects a rise in the use of the CHF administered Loan Guarantee Facility (LGF).

The Loan Guarantee Facility has approved 72 loans since it was set up, totalling \$27.5m. Nine loans were approved in February 2009. An additional 34 loans totalling \$13.8m are in various stages of processing. The LGF portfolio (net of cancellations) consisted of 62 loans totalling \$25.7m. It is estimated that the loans will generate approximately 2,690 new jobs.

Small businesses have been the primary beneficiaries of the LGF guarantees. 77% of LGF approved loans are between \$10,000 and \$200,000. But there is a growing demand for much larger transactions and there are 3 requests for \$1m and above in the pipeline. The LGF portfolio is becoming more evenly distributed throughout the West Bank, although Nablus and the other northern governorates still constitute more than 50% of the portfolio. 13% of the portfolio is now in the Ramallah vicinity. Nearly 70% of the loans are distributed to businesses in urban areas.

The Bank of Palestine announced a net profit of \$23.6m in 2008. Hashim Shawa, General Manager and the Board of Directors will recommend to the bank's general assembly on 24 April that it distributes stock dividends to its shareholders.²

¹ See: <http://www.al-ayyam.ps/znews/site/template/article.aspx?did=106706&date=3/11/2009> (Arabic)

² See: <http://www.sahem-inv.com/news.php?id=614&month=1>

Improved Access

Israeli Arabs will be able to access Nablus, Tulkarm and Jenin by car on Saturdays by the end of April. But only private cars will be allowed in and not traders with vans and trucks. The respective governorates are expanding parking spaces in anticipation of an increased number of visitors for low-cost shopping. Before the outbreak of the second intifada, it was common for Israeli Arabs to visit on Saturdays and Sundays to shop and eat out. Their spending was essential for the region's economy.³

Nasr Atyani, General Director of the Jenin Chambers of Commerce, told the Bulletin that he believes that access between Jenin and Nablus might soon improve. Even with limited goods permitted through the checkpoints, he thought any increased movement will improve the transportation of goods and services between the cities considerably. Jenin and its surrounding villages is an agricultural governorate whereas Nablus, 25 minutes away by vehicle, is an industrial centre. Aytani hopes that this may be the first of many improvements to movement and access within the West Bank. He mentioned current pressure from within Israel and the international community to open Al Jalameh checkpoint to passengers with cars. Al Jalameh is north of Jenin and the main terminal between Israel and the northern West Bank.

Nablus Crafts Complex

The Palestine Investment Fund (PIF) and the Nablus Municipality signed an MOU to build a crafts and light industries complex in Nablus by 2010. The project will house crafts and light industries from the area in a state-of-the-art rental complex. Built initially on 120,000m², the complex will be expanded to 350,000m². The complex will cost JD 25m. The project should create 5,000 job opportunities.⁴

Gaza

There has been slow progress towards Gaza's reconstruction and recovery. Talks to establish a National Unity Government have not yet produced any results and the next round of discussions is scheduled for 23 April. Meanwhile, humanitarian aid and food products are being delivered through the crossings. Israel announced that maintenance equipment for the Gaza power station would be allowed into the Gaza Strip on 6 April, following concerns that the station was near collapse.⁵ Israel also reversed a year long ban on the entry of soap and detergent products into

Gaza. Delivery of these products began on 7 April. The supply of currency to the Gaza Strip is still restricted. Israel approved the transfer of NIS 50m of the NIS 200m requested on 7 April. Quartet Representative, Tony Blair said that "this is a welcome first step but we need to ensure that larger transfers continue to be made as soon as possible and thereafter on a predictable basis so that all the necessary payments can be made to help people in Gaza."⁶

Water

According to a recent report by Palestinian Water Authority (PWA), the average daily allocation of water for domestic use in the Palestinian Territory is 78 litres/capita/day (l/c/d), 22 litres less than the minimum recommended by the World Health Organisation (WHO). The most marginalised communities live on less than 15 l/c/d.⁷ Results from a 2008 PCBS Household Environment Survey show that 84% of households in the West Bank and 97% in the Gaza Strip are connected to the water network.⁸ An estimated 48% of total consumption does not meet WHO drinking quality standards and up to 80% of the areas' water supply is distributed without being treated. 70% of the population is not connected to a sewerage system.⁹

Since 1967, Palestinian access to fresh water sources in the West Bank (the Mountain Aquifer and the Jordan River) has been heavily restricted. Water continues to be a contested issue, despite arrangements made under the Oslo Accords in 1993. Israel sells approximately 50 million m³ of water to the PWA each year. Local municipalities charge households 4.2NIS/m³. On average, households use 10 m³ per month and pay 42NIS. In 2007, water payment collection reached 55%. The PWA expects that more people will have paid their bills in 2008 (around 60%) because public sector employees began receiving regular salaries.

The military operation severely damaged water and sewerage infrastructure in the Gaza Strip. The Palestinian Authority requested \$6.3m at the donors' conference in March 2009 for repairs to water, sanitation and hygiene infrastructure.¹⁰ With high water demands, the Coastal Aquifer, the only fresh water resource in Gaza, has for some time been in danger of collapsing. In 2008, just 10-20% of the aquifer's water was drinkable. Projects to improve Gazan water security include building a large-scale desalination plant, constructing wastewater

6 See: <http://uk.reuters.com/article/worldNews/idUKTRE53655F20090407>

7 See: <http://www.pwa.ps/links.html>

8 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/water_dayE.pdf

9 See: <http://www.chfinternational.org/node/21341>

10 See: <http://www.reliefweb.int/rw/rwb.nsf/db900sid/MUMA-7NT52E?OpenDocument>

3 See: <http://www.maannews.net/en/index.php?opr=ShowDetails&ID=36184>

4 See: <http://www.pif.ps/pdfs/pif-investment-news-february-2009.pdf>

5 See: <http://www.maannews.net/en/index.php?opr=ShowDetails&ID=36905>

treatment facilities and building an undersea pipeline from a third country, such as Turkey. The PWA recently reported that the lack of project implementation has not been due to insufficient funding but the difficulty of importing construction materials into Gaza.

PADICO Strategy 2009

PADICO, the largest holding company in the Palestinian Territory, is reviewing restructuring options to better integrate its companies. Samir Hulileh, Chief Executive Officer of PADICO, confirmed that by September he hopes to have 'a set of conclusions, proposals and draft resolutions that will open the door to better years'.¹¹ The options include the restructuring and consolidation of the real estate companies that PADICO currently invests in, into one holding company with a capital of \$300m. Its 2009 investment strategy also entails investing in infrastructure, where detailed studies will be carried out on the water, solid waste management and electricity generation sectors.

PADICO was founded in 1993 to help build Palestine's economy with a solid economic foundation. Hulileh explained that PADICO has had no quality additions since 1999 and suffered from instability during 2001-2005. In 2008, PADICO registered a net profit of \$23m, where operating and affiliates revenues increased by around 50% and 70% respectively. However its investment portfolio registered a net loss of \$8m. Some of the impact of the economic crisis was avoided because of decisions to reposition the financial portfolios from PADICO's main operations in the first half of 2008, and the liquidation of a sizable proportion of these investments.

There have been recent reports that Paltel, a subsidiary of PADICO, is close to finalising the partnership deal with Zain Communications.¹²

Energy Globe Award

MENA Geothermal has been awarded a 2009 Energy Globe Award for its application of geothermal heating and cooling technology at the Union Construction and Investment Corporation (UCI) headquarters in Ramallah. Khaled Sabawi, President of MENA Geothermal, told the Bulletin that with low levels of maintenance and energy consumption, the specially designed headquarters are likely to make annual savings of \$25,000. MENA Geothermal is also working on the 'completely green' UCI2 commercial building in Ramallah. The building's 64 ton cooling and 43 ton heating requirements will be

met by a vertical closed-loop geothermal system that uses two Water Furnace heat-pumps. This will save 75,500 kWh of electricity consumption, 8,600 litres of diesel fuel and 37 tons of CO₂ annually. This will reduce UCI's overheads by an estimated \$20,000 per year. With high diesel prices and inefficient conventional heating and cooling systems in Palestine, installing geothermal technology cuts around 65% of total energy consumption.¹³

Israeli-Palestinian Chamber of Commerce

The Israeli-Palestinian Chamber of Commerce held its first B2B meeting in February 2009.¹⁴ 60 Israeli and Palestinian business people met to discuss ways of improving imports and exports. Representatives from the Ashdod Port Company, Israeli Customs and the Israeli Civil Administration also took part in the meeting. The Israeli-Palestinian Chamber of Commerce started work in early 2009 and recently appointed Ofir Gendelman as its Chief Executive Officer. It is chaired by Eival Gilady, who heads the Portland Trust's office in Tel Aviv. The Chamber was established by the Peres Center in cooperation with the Federation of Israeli Bi-National Chambers of Commerce and the Portland Trust. The Chamber will work to foster and strengthen economic and trade relations between Israelis and Palestinians. Its first annual event will be held in Tel Aviv on 18 May. The keynote speaker will be Quartet Representative, Tony Blair. President Peres, Prime Minister Netanyahu, Israeli and Palestinian ministers, as well as business people and ambassadors, will attend the event. It is hoped that the Palestinian-Israeli Chamber of Commerce will be established in due course.

Indices

The Consumer Price Index (CPI) reached 122.82 in March 2009, an increase of 1.1% compared to February 2009. The greatest increases were recorded in the food and soft drink group (1.8%), miscellaneous goods and services (1.7%), housing (1.1%) and furniture and household goods (0.7%). The medical care group declined by -0.6%, followed by the communication and transportation groups by -0.1% each. CPI rose in the West Bank, the Gaza Strip and East Jerusalem by 1.2%, 1% and 0.9% respectively. This is an increase of 3.5% compared with March 2008.¹⁵

The Road Cost Index (RCI) in the West Bank increased by 34% in January 2009 compared to December 2008.¹⁶ The greatest increases in January were in the road

11 See: <http://www.sahem-inv.com/news.php?id=593>

12 See March 2009 bulletin

13 See: <http://www.menageothermal.com/>

14 See: <http://www.peres-center.org/SectionProject.asp?cc=01100209>

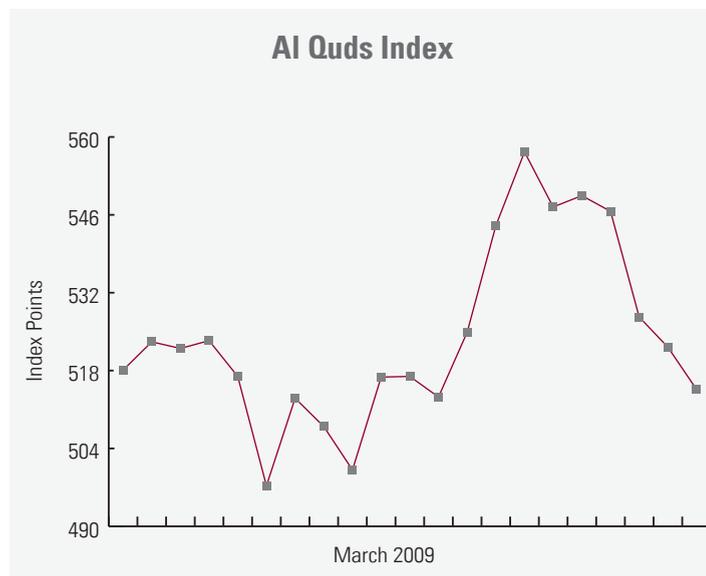
15 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/7okmE.pdf

16 Data from the Gaza Strip was not available, due to the closure of PCBS' offices in Gaza.

paints group (5.2%), quarries and quarrying products (3.9%) and rental of equipment (1.7%). Decreases were recorded in the iron and steel group (-6%), operating costs of equipment and maintenance (-5.9%), transportation fees (-5.6%) and cement (-3.4%).¹⁷

March Trading

The AI Quds index peaked on 23 March at 557.30 points but fell to 514.61 points on the last day of March 2009. This was a minor increase of 0.8% from February 2009. 31 million shares changed hands in 21 trading sessions, a decrease of -38.7% compared to February 2009. The value of traded shares in March 2009 rose substantially to \$92.5m (39.4% more than the previous month). Market capitalisation remained steady at \$2.4bn.



¹⁷ See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/road_E.pdf

The Portland Trust

42 Portland Place
London W1B 1NB

P.O. Box Al Bireh 4102
Ramallah Al Masyoun

Azrieli 3
132 Menachem Begin Road, Tel Aviv 67023

Email: feedback@portlandtrust.org

Website: www.portlandtrust.org

The Palestinian Economic Bulletin is prepared by the Palestine Economic Policy Research Institute (MAS) and edited by The Portland Trust. Please send any comments, suggestions, or complaints to feedback@portlandtrust.org

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