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Main reports

On 28 January a new \$50m Palestinian private equity fund was announced by the Palestine Investment Fund and Abraaj Capital. \$15m has been secured for the fund and the remaining \$35m is expected from investors later this year.

The Portland Trust launched a new Corporate Leadership Programme for senior Palestinian executives. Global business leaders and international experts will come to the Palestinian Territory throughout 2010. The first session, held on 6-7 February in Jericho, focused on the topic of mergers and acquisitions.

The Palestinian Information and Communications Technology Incubator (PICTI) began operating in the Gaza Strip on 1 February. It will provide support, advice and professional services to the ICT sector.

36 young entrepreneurs in Jenin and Nablus have set up new businesses after taking part in a Sharek Youth Forum programme. Start-up grants and business training were provided.

Government Priorities

On 21 January, the Palestinian Authority (PA) launched a new plan of priority interventions for 2010. 'Palestine: Moving Forward, Priority Interventions for 2010' was prepared by the Ministry of Planning and Administrative Development (MoPAD) in conjunction with the Ministry of Finance. Bashar Juma'a, Coordinator of the Palestinian Reform and Development Plan (PRDP), told the Bulletin that the plan is designed to bridge the gap between the final phase of the PRDP and the government's programme to establish the institutions of a Palestinian state within two years.

A second PRDP, covering the period 2011-2013, is currently in development. The PA aims to absorb the priority interventions document and the two-year plan into the second PRDP as much as possible.

The Ministry of Planning consulted line ministries over a four month period and requested that Ministers identify which components of their budget should be prioritised this year. The resulting plan includes 201 projects with an estimated total budget of \$5.5bn. \$667m is required for projects to be undertaken in 2010. Juma'a told the Bulletin that this corresponds to the \$670m investment budget for 2010 in the existing PRDP. Four thematic areas were identified as particularly important: the building of central and local government institutions; the improvement of public service delivery; the construction of strategically significant infrastructure; and the promotion of the Palestinian cause internationally.¹

67% of the funding requested is for infrastructure projects. Priorities include the construction of wastewater treatment facilities and desalination plants, prisons, a railway network, a commercial port, at least one international airport and a new national postal service. 50 of the prioritised projects are fully funded, 4 are partially funded, 14 have received only expressions of interests and 133 are unfunded. The total funding shortfall is \$2.8bn.

The EU has already been discussing a financing package of €71m to support the new plan. This would cover 15% of the PA's overall investment budget for 2010. Final financing agreements are expected to be signed this May. The EU funding will be targeted towards strengthening the rule of law, private sector development, wastewater treatment, public financial management and social protection. However the funds are expected to take several years to disburse given that the tendering and implementation of such projects usually takes 18 to 24 months.

¹ See: <http://www.lfd.ps/ReportReleasePage.aspx> and http://www.lfd.ps/documentsShow.aspx?ATT_ID=2426

New Palestinian Private Equity Fund

On 28 January the Palestine Investment Fund (PIF) and Abraaj Capital, a private equity group based in Dubai, announced the first closing (\$15m) of a \$50 m private equity fund for the Palestinian Territory. The remaining \$35m is expected to be raised from investors later this year.

Abraaj was formed in 2002. It is the largest private equity group in the Middle East and North Africa, with offices in six countries. To date it has raised around \$7bn and distributed almost \$3bn to investors. It has made 36 investments across 11 countries.

Riyada Enterprise Development is the new and specialised small and medium sized enterprise (SME) investment-management platform of Abraaj that will manage the fund. It was created with \$50m of seed capital from Abraaj. Riyada will have a presence in Ramallah and, in time, employ 25-30 full-time investment professionals.

The fund will focus on investing in SMEs across a range of sectors and stages of maturity. It is expected to make 20 to 25 investments over the next four years. In addition, as part of corporate social responsibility, the fund's sponsors will establish a mentoring programme for entrepreneurs called 'Bidaya'.²

Corporate Leadership Programme

On 6-7 February The Portland Trust launched the Corporate Leadership Programme. The programme will bring prominent global business leaders, international corporate trainers and experts to the Palestinian Territory to share their knowledge and experience with senior Palestinian executives. The first session was held in Jericho and focused on the topic of mergers and acquisitions. Experts and trainers from the international law firm, Berwin Leighton Paisner, and Oxford University's Said Business School conducted the two-day session for 27 senior Palestinian executives. In the evening participants were joined by other high-profile guests including the Minister of Tourism and the British Consul General.

Sir Ronald Cohen, co-founder and Chairman of The Portland Trust, and one of the world's leading private equity investors, gave a keynote speech on his experience of mergers and acquisitions and private equity investing. Samir Hulileh, CEO of Padico and the Chairman of The Portland Trust's Palestinian office, highlighted the opportunity for the local business community to benefit from international knowledge and

experience. A number of different initiatives were also discussed, including the importance of private sector pension funds for expanding the supply of long term capital. There are plans for a further three sessions this year, focusing on areas of strategic importance, including private equity and venture capital, corporate governance and senior management skills.³

PICTI in Gaza

The Palestinian Information and Communications Technology Incubator (PICTI) began operating in the Gaza Strip on 1 February. Support, advice and professional services will be offered for existing entrepreneurs in the ICT sector and those in the process of establishing new businesses.⁴ Gazan ICT professionals will also have access to the \$400,000 PICTI seed fund which provides investment for start ups and is supported by the PA, MercyCorps and other donors.

Until now PICTI has not had a physical presence in Gaza. However, Laith Kassis, CEO of both PICTI and the Palestine Information Technology Association (PITA), told the Bulletin that PICTI has been providing services via the internet and, when circumstances have allowed, through visits to conduct workshops and training courses. The PA has recently provided PICTI with a grant of \$500,000, part of which will be used to fund the operating costs of the new office.

Some Gazan ICT companies have been able to continue operations in spite of the blockade. Software and web-based products have the advantage of requiring relatively few physical inputs and can also be exported electronically. One company in Gaza continues to produce and export mobile phone ringtones for the national telecoms operator of the UAE. A second company writes bespoke software packages that are exported to Saudi Arabia. Kassis is confident that there remains potential for development in the sector, despite the current political situation.

Young Entrepreneurs in Nablus & Jenin

A Sharek Youth Forum project has helped 36 disadvantaged young people in Nablus and Jenin set up new businesses, benefitting 40 individuals directly and a further 297 indirectly. A range of businesses have been established including small shops, coffee houses, beauty salons, internet cafes, computer repair companies and a number of agricultural enterprises involved in crop production and livestock rearing. The monthly income of the ventures is expected to range from 500 to 3000 NIS.⁵

2 See: http://www.abraaj.com/mediacenter/Files/abraaj_Palestine-Investment_eng.pdf

3 http://www.lfd.ps/documentsShow.aspx?ATT_ID=2535

4 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=254427>

5 See: <http://www.alhayat-j.com/details.php?opt=7&id=102821&cid=1754>

The \$195,000 project provided grants and training to 61 disadvantaged young people in total (39 in Jenin and 22 in Nablus). A further 21 businesses are still in development.

The Sharek Field Coordinator for the northern West Bank, Amjad Asmar, told the Bulletin that participants were provided with at least two weeks of intensive business training prior to the distribution of start-up capital, premises or merchandise. The training covered basic accountancy, marketing and management skills. The project was part of the \$30m Deprived Families Economical Empowerment Program, which is funded by the Islamic Bank for Development through the United Nations Development Program.⁶

Sharek is just one of 11 organisations involved in the implementation of the project, which covers the whole of the West Bank and Gaza. According to the UNDP, the programme has benefited over 3,000 households via economic empowerment grants. Additionally, more than 1,800 small entrepreneurs have benefited from micro finance products.

Gaza Power Shortages

Residents of the Gaza Strip are currently experiencing long power cuts. Part of the problem is the closure on 23 January of one of the two turbines at Gaza's power station, reducing the plant's output from 60MW to 30MW.

Approximately NIS 50m of fuel is required each month to keep both turbines running. Since November the Palestinian Energy Authority (PEA) has been responsible for ensuring adequate fuel is transferred to the Gaza Strip. Prior to this the EU had been providing approximately NIS50m or \$13.4m every month to guarantee the maintenance of energy supplies. According to the EC's Communications Officer, Shadi Othman, the EU has provided €270m for fuel in the last three and a half years. However, due to restrictions on resources, the EU is now concentrating its efforts on funding PA salaries and social welfare programmes.

The Director General of the PEA, Dr. Abdel Karim Abdeen, told the Bulletin that the PA has been providing NIS36m worth of fuel since the transfer of responsibility from the EU to the PA, but that this is not sufficient to keep the plant running at its full 60MW capacity. The PEA has difficulty in providing additional funding for fuel due to a financial deficit resulting from non-payment of electricity bills by Gaza's residents.

Collection of electricity bills is the responsibility of the Gaza Electricity Distribution Company (GEDCO).

6 See: http://www.dubai-microfinance.org/presentation/hiba_barakat.pdf

Approximately NIS55m worth of bills are distributed every month yet only NIS20m worth of revenues are collected. The Palestinian Centre for Human Rights estimates that 60-70% of electricity beneficiaries have not paid their bills since 2000, owing GEDCO approximately \$2.7bn. The Director of the Government Media Centre, Ghassan Khatib, told the Bulletin that revenues collected by GEDCO have not been transferred to the PA.⁷ The financial shortfall has effectively been passed onto the PEA making it unable to purchase sufficient quantities of fuel.

At present, the PA is asking GEDCO to not only transfer the revenues it collects but also to look at ways to reduce levels of non-payment and increase transparency over the way it spends fuel revenues. GEDCO is advocating the adoption of a pre-paid meter system in an attempt to reduce levels of non-payment. Dr. Abdeen said that an infrastructure upgrade of this kind could cost \$10m and therefore is likely to require external financing.

PA Budget

On 19 January the European Union agreed to provide €158.5m to support the PA's recurrent expenditures in 2010.⁸ This includes a €0.5m contribution from Austria alongside funding from the European Commission budget.

The funds will be channelled through the European mechanism PEGASE to help pay the salaries and pensions of civil servants. They will also be used to help provide regular social allowances to the most vulnerable Palestinian families. The majority of the funds will be disbursed in the first half of 2010.

On 1 February PA salaries were increased by 4%. 2.75% of the pay rise is to cover increased living costs. 1.25% is being given to reflect increases in employee experience.⁹

Movement and Access

The operating hours of the Tarqumia commercial goods crossing between the West Bank and Israel, situated in the Governorate of Hebron, have been extended by 3 hours per working day. The crossing is now open between 0630 and 1900 from Sunday to Thursday.¹⁰

It is hoped that the increased operating hours will reduce congestion at the crossing. According to Paltrade, between March and September 2009, the average time

7 See: <http://www.pchrgaza.org/files/PressR/English/2009/04-2010.html>

8 See: http://www.lfd.ps/documentsShow.aspx?ATT_ID=2458

9 See: <http://www.maannnews.net/eng/ViewDetails.aspx?ID=256541>

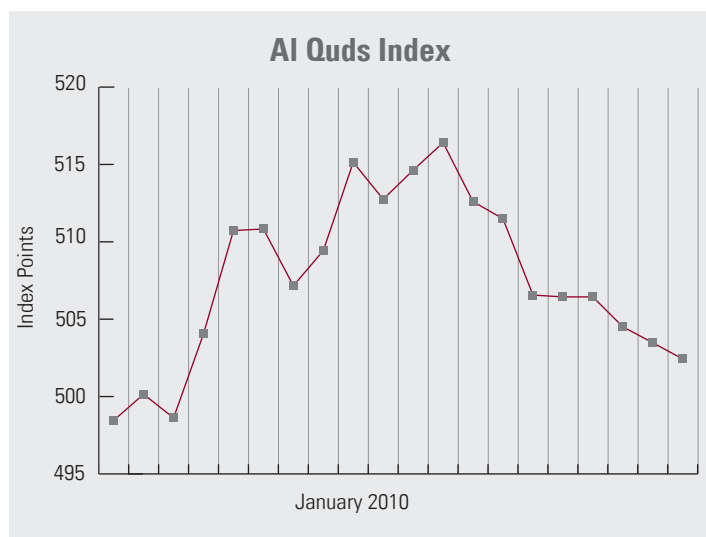
10 See: <http://tonyblairoffice.org/quartet/news-entry/office-of-the-quartet-representative-secures-extension-of-tarkumiya-crossin/>

taken to pass through Tarqumia was 2 hours 58 minutes, compared to 1 hour 44 minutes at Al Jalameh crossing in Jenin, 1 hour 9 minutes at Taybeh crossing north of Ramallah and 1 hour 4 minutes at Betunia crossing in Ramallah.¹¹

Paltrade are currently in the process of evaluating the impact of the new hours on import and export volumes. In November 2009, 3300 truckloads of imports (including empty containers) and 3022 truckloads of exports passed through the terminal at Tarqumia.

January Trading

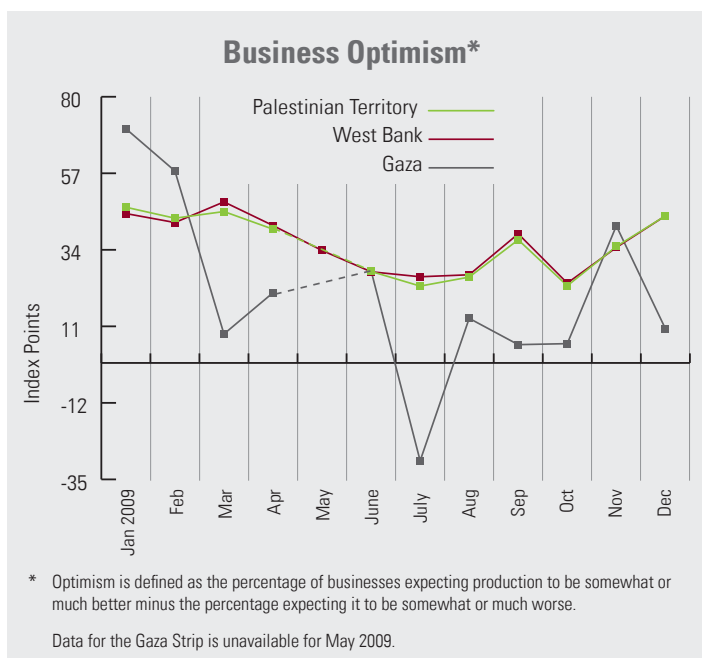
The AI Quds index increased by 0.8%, or 3.97 points, to close at 502.43 points on the last day of trading in January. The index peaked at 516.41 on the twelfth day of trading. In 20 trading sessions, 10.1 million shares changed hands, a decrease of -45.8% since the previous month (18.7 million). The value of traded shares fell by -38.7% to \$21m, while market capitalization was virtually unchanged at \$2.4bn.



11 See: <http://www.paltrade.org/en/publications.php?id=161>

Business Confidence

The Palestinian Central Bureau of Statistics (PCBS) survey of Industrial Establishments in December 2009 reported that the percentage of businesses in the West Bank expecting production to rise over the medium term (six months) was 44.2% higher than those expecting a decline. This shows an increase in optimism in the West Bank since July 2009 when businesses expecting production to rise over the medium term (six months) was only 27.4% higher than those expecting a decline. Gazan businessmen were much less optimistic with only 10.3% more expecting an improvement over those expecting a decline, a significant decrease from 27.7% recorded in July 2009. During Q4 2009, 93.2% of surveyed owners and industrial enterprises in the West Bank refrained from borrowing from the banks, 100% in the Gaza Strip.¹²



12 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/SepEng%202009hh.pdf

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