

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The Multilateral Investment Guarantee Agency (MIGA) has appointed a local representative to raise awareness about its Investment Guarantee Trust Fund. Eligible investors can apply for risk insurance to cover projects in the Palestinian Territory of up to \$10m.*

*The cornerstone of the new \$400m Ersal Commercial Centre in Ramallah was laid on 22 July. The Ersal Centre will include offices, housing, entertainment facilities, shops and hotels.*

*An 18-month pilot project has been launched to support the development of the IT sector in Gaza. Firms can apply for financial assistance to support product development. Regional markets for export will also be identified.*

*The EU has announced a new financial aid package of €71m for the Palestinian Territory in 2010. This is in addition to the existing commitment of €158.5m.*

### Domestic Tourism

Recently published figures from the annual survey on domestic tourism show that around 40% of Palestinians took a local trip in 2009, spending a total of \$10.5m (\$7.7m in the West Bank and \$2.8m in Gaza). Trips were taken for a variety of reasons – to visit relatives and friends, for work purposes or leisure and recreation. Over 30% of trips were to Jericho.<sup>1</sup>

According to the Director of Investment Projects at the Ministry of Tourism and Antiquities, Khaled Daraghme, a number of projects have recently been launched, or are in the pipeline, to cater for domestic demand. This includes new restaurants, hotels and entertainment facilities. For example, in Ramallah a branch of the popular Jordanian Tche Tche cafe-restaurant chain has recently opened, a 5 star Movenpick hotel will be opened in September and the construction of a 4 star Days Inn hotel is already underway. Other projects include a proposal to develop a dedicated tourist bus and guide service – PAL Jet – to connect different sites, cities and towns in the West Bank.

Cinema Jenin is another example. After being closed for over 20 years, the cinema in Jenin was reopened on 5 August during a three day film festival. A range of events, including concerts and educational workshops, took place alongside film screenings. Going forward it is hoped that the cinema will act as cultural hub for Jenin and the region as a whole. Facilities include a 400-seat cinema, an open air cinema and a small guesthouse on site. The cinema will also be available to hire for private functions, including weddings.<sup>2</sup> The renovations, which were initiated by German filmmaker Marcus Vetter, are estimated to have cost around \$650,000. It took almost two years for a team of local professionals and international volunteers to complete. Funding was made available by the German government, the Palestinian Authority and individual donors. Another \$650,000 of equipment is estimated to have been donated.

### MIGA Local Representative

On 1 July, the Multilateral Investment Guarantee Agency (MIGA) appointed its first local representative in the Palestinian Territory.<sup>3</sup> MIGA is part of the World Bank Group and works to support growth and reduce poverty by promoting Foreign Direct Investment (FDI). It is present in several emerging markets and provides investors with guarantees and insurance against political risks.

1 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Tour\\_2009E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Tour_2009E.pdf)

2 See: <http://www.cinemajenin.org/new/project/index.php?name=project>

3 See: [http://www.miga.org/news/index\\_sv.cfm?aid=2702](http://www.miga.org/news/index_sv.cfm?aid=2702)

MIGA has had a dedicated \$30m Investment Guarantee Trust Fund for the Palestinian Territory since 1997. However only one project (a \$5m investment to develop Solomon's Pools into a tourist centre) has benefited from the fund and this project was cancelled after a year. Layali Abdeen, who joined MIGA from the Palestinian Development and Investment Company (PADICO), has been appointed to raise awareness about the fund. Abdeen told the Bulletin that she will engage in 'an aggressive outreach effort to spread awareness.'

According to Abdeen, the reason for the low uptake of MIGA's guarantees was that originally only international investors were eligible to apply for support. With the second intifada in 2000, and the ongoing political instability, foreign investment projects were scarce.

In November 2008, MIGA made a number of changes to the criteria of the fund in an attempt to increase its scope. Most importantly local investors became eligible users of the fund. Guarantees were also made available for existing investments and insurance was extended to cover losses from delays of over 30 days at crossing points. Despite these changes, and increased investment activity in the West Bank, MIGA has still not received any applications from eligible projects. This has motivated the decision to appoint a local representative.

The Trust Fund is sponsored by the Palestinian Authority, European Investment Bank and Government of Japan. On top of offering risk insurance and guarantees, MIGA also helps investors identify investment opportunities, manage risks through various online resources and provides technical assistance. The fund targets small or medium size investments projects and can guarantee 90% of investments, providing maximum cover of \$10m. Coverage lasts for 15 years and the premiums vary depending on the sector and types of risk covered.

## IT in Gaza

The French Development Agency is funding an 18 month pilot project to develop the IT sector in Gaza. A grant of €500,000 has been made to Palestinian Information Technology Association (PITA). PITA hopes to raise another €3m to expand the project over 3 - 5 years.<sup>4</sup>

The project aims to develop the local market for Gazan IT companies and identify regional markets to target for export. Up to eight software companies will receive direct financial assistance during the pilot phase of the project. Grants of \$8,000-\$20,000 will be provided to support product development projects. The firms will be expected to fund 20 - 40% of the projects themselves. Decisions on funding will be taken by a committee of business people.

Other members of PITA will also benefit from the programme through capacity building workshops, market surveys and trade missions. According to PITA, the IT sector in Gaza is growing and hundreds of new IT professionals are graduating from Gaza's universities each year. The breadth of services offered by Gazan firms is also expanding. These include software development, web design, animation, business process outsourcing, consulting and other services.

PITA was established in 1999 by a group of Palestinian entrepreneurs who wanted to create a body to defend the interests of the ICT sector. It now represents more than 80% of the 300 firms working in the Palestinian IT sector.

## Ersal Commercial Centre

On 22 July, the cornerstone of the new Ersal Commercial Centre in Ramallah was laid by Amaar Group, the real estate investment arm of the Palestine Investment Fund (PIF), in the presence of Palestinian President Mahmoud Abbas.

The Ersal Centre project was launched in October 2008. It is a \$400m development project covering an area of 50,000m<sup>2</sup>. It will include commercial offices, housing, entertainment facilities, shops and hotels. There will be 13 commercial towers built in total and the project is expected to create thousands of jobs.<sup>5</sup>

## European Aid

On 14 July the European Union (EU) announced a new financial aid package of €71m for the Palestinian Territory. This is in addition to the existing EU commitment of €158.5m for 2010, of which €120m contributes towards the salaries and pensions of PA civil servants and €38.5m is provided in support for the most vulnerable Palestinian families.<sup>6</sup> The EU is currently preparing to disburse €9m of their existing commitment through the PEGASE mechanism to help pay the August salaries and pensions of 80,500 civil servants and pensioners.

The EU representative office in Jerusalem told the Bulletin that €31m of the additional funding will be for institution building and law enforcement, €21m is for infrastructure, €11m for private sector development, €6m for social services in Jerusalem and €2m for the UNRWA's summer games in Gaza.

The EU, with the Palestinian Authority, also officially launched a €22m programme to help reconstruct the private sector in Gaza in July. The programme aims to repair the machinery and equipment that was damaged during Operation Cast Lead in January 2009. Over 1,000

<sup>5</sup> See: [http://www.pif.ps/index.php?lang=en&page=our\\_news&news\\_item=127977835511716](http://www.pif.ps/index.php?lang=en&page=our_news&news_item=127977835511716) and November 2008 Bulletin for background.

<sup>6</sup> See: [http://www.idf.ps/documentsShow.aspx?ATT\\_ID=3075](http://www.idf.ps/documentsShow.aspx?ATT_ID=3075), [http://www.idf.ps/documentsShow.aspx?ATT\\_ID=3035](http://www.idf.ps/documentsShow.aspx?ATT_ID=3035)

<sup>4</sup> See: [http://www.themedialine.org/news/print\\_news\\_detail.asp?NewsID=29446](http://www.themedialine.org/news/print_news_detail.asp?NewsID=29446)

companies are eligible for support through the programme. In the first phase, 203 companies will benefit from €4.8m of support.<sup>7</sup>

## Jenin Water Project

The Palestinian Water Authority (PWA) has launched a new €10m project in the villages around Jenin. The project aims to rehabilitate water wells, construct a 26km pipeline connecting six villages and build water tanks. It is estimated that 20,000 Palestinian residents will benefit from the project.<sup>8</sup>

This is one of the largest water projects in the West Bank and will be implemented by four local companies. The project is funded by the French Development Agency (AFD). In a new approach for the PWA, residents are also being asked to pay a contribution of approximately NIS 500 per household towards the development of the water system.

## Prices and Purchasing Power

Figures released by the Palestinian Central Bureau of Statistics on 14 July showed that prices increased slightly in June 2010.<sup>9</sup> The Consumer Price Index (CPI) rose to 127.<sup>9</sup> (base year 2004) – an increase of 0.24% compared to May 2010 and 3.58% compared to June 2009.

	D09	J10	F10	M10	A10	M10	J10
CPI	127.75	127.83	127.48	127.44	127.50	127.60	127.90
% change	0.58	0.06	-0.27	-0.03	0.05	0.08	0.24

The biggest monthly price rises were recorded in the textiles, clothing and footwear group (0.67%) and the food and soft drink group (0.50%). Transport costs fell by 0.71%. Greater price increases were seen in East Jerusalem (0.62%) than the West Bank (0.19%) and Gaza (0.13%). Over the year significant price rises have been seen in housing (7.27%) and education (8.05%) while communication costs have fallen by 2.5%.<sup>10</sup>

Purchasing power in the Palestinian Territory is also affected by fluctuations in the exchange rate between NIS and US\$. The US\$ appreciated by 1.6% in June compared to NIS. This means that holders of US\$ actually increased their purchasing power, by 1.4%, controlling for inflationary effects.<sup>11</sup>

## Finance and Real Estate Exhibition

A three day exhibition of leading financial institutions and real estate projects took place in Ramallah from 19 July. 25 institutions participated and 3,500 people visited the exhibition, which was organized by United Expo and sponsored by Arab Insurance and the Palestinian Monetary Authority. According to the organizers the majority of visitors were businessmen. A number of deals are expected to result from the event.<sup>12</sup>

The General Manager of United Expo, Haitham Yakhoulf, highlighted the quality of exhibitors. From the financial sector this included the Bank of Palestine, Cairo Amman Bank, Islamic Arabic Bank, Jordan Ahli Bank and HSBC. Three investment companies were also present - Al Wasata, United Securities and Al-Hadaf. These companies sought to raise awareness about investing in securities and the financial market more generally.

A number of housing projects were presented at the event. These included Al Reehan (Ramallah), Al Jinan (Jenin), Etihad (north-west Ramallah) and Al-Rawada, a proposed 297 unit development in Gaza by the Union Construction and Investment Corporation.<sup>13</sup> Other exhibitors included companies providing computer and technology services, insurance, and other services for the financial and real estate sectors.

## Transport and Communication

On 15 July, the Palestinian Central Bureau of Statistics released its 2009 annual report on the transport and communications sector. Figures showed that 5.7% of workers were employed in the sector in 2009, up from 5.0% in 2008.<sup>14</sup>

The average daily wage for transport and communications workers, across the Palestinian Territory, was NIS 76.9 (\$19.6). This is comparable to other sectors. However there are large regional differences with employees in the West Bank earning NIS 96.2 per day (above the average wage of NIS 82.7), compared to NIS 40 in the Gaza Strip (below the average wage of NIS 57.7).

The number of licensed vehicles in the West Bank reached 123,621 in 2009, equivalent to 1 vehicle per 18 persons.<sup>15</sup> There were 368,216 fixed phone lines across the Palestinian Territory and mobile phone subscribers reached 1.8m. The number of ASDL lines reached 92,482, (65,257 in the West Bank and 27,225 in Gaza). This is an increase of 28% from 2008 when the figure was 72,518.<sup>16</sup>

7 See: [http://ec.europa.eu/delegations/westbank/documents/news/20100718businessrecoveryprogramme\\_en.pdf](http://ec.europa.eu/delegations/westbank/documents/news/20100718businessrecoveryprogramme_en.pdf)

8 See: <http://alquds.com/node/273953>

9 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/CPI\\_062010\\_E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_062010_E.pdf)

10 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/cpi/dad5d515-9e34-4b7c-99fa-2a051624d5c8.htm](http://www.pcbs.gov.ps/Portals/_pcbs/cpi/dad5d515-9e34-4b7c-99fa-2a051624d5c8.htm) and [http://www.pcbs.gov.ps/Portals/\\_pcbs/cpi/e-June-09\\_2010.htm](http://www.pcbs.gov.ps/Portals/_pcbs/cpi/e-June-09_2010.htm)

11 See: <http://www.pma.ps/exchange.aspx>

12 See: <http://www.alhayat-j.com/details.php?opt=7&id=116196&cid=1938#>

13 See: <http://www.uci.ps/projects/rawda.html> and September 2009 Bulletin, July 2009 Bulletin and November 2008 Bulletin.

14 See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1674.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1674.pdf) and [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1582.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1582.pdf)

15 Data for some indicators was not available for the Gaza Strip in 2009.

16 See: [http://www.paltel.ps/site\\_files/files/f1268649379.pdf](http://www.paltel.ps/site_files/files/f1268649379.pdf) and [http://www.paltel.ps/site\\_files/files/f1236162107.pdf](http://www.paltel.ps/site_files/files/f1236162107.pdf)

The number of internet cafes in the West Bank increased dramatically, by 85%, from 39 in 2008 to 72 in 2009.

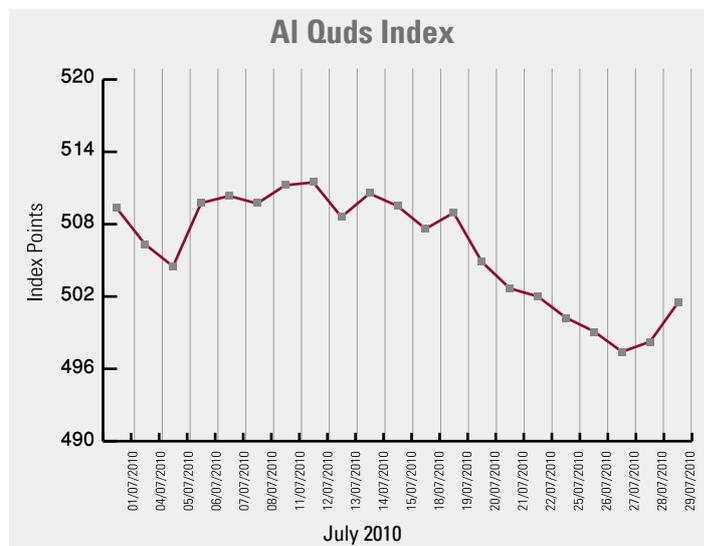
## July Trading

The AI Quds index fell by 7.8 points, or 1.5%, to reach 501.5 points on the last day of trading in July. The index peaked at 511.50 points on 12 July, below the year high of 528 points in mid March.

Trade volume was down, by 64%, compared to June 2010, with 13.8m shares trading hands in 21 sessions. This decline is inline with year-on-year trends in the run up to the holiday period (see Bulletins from August 2009, 2008 and 2007). Compared to July 2009, trade volume was up by 17%.

The value of traded shares reached \$24.9m in July. This was up, by 25%, compared to July 2009 but down, by 68%, compared to June 2010. Market capitalisation decreased slightly over the month to reach \$ 2.49 bn.

The top performing shares in the AI-Quds index this month were Ramallah Summer Resorts (RSR) and the Nablus Surgical Center (NSC) which increased respectively 18% and 14%.



## The Portland Trust

Email: [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)  
Website: [www.portlandtrust.org](http://www.portlandtrust.org)

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