

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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In Q1 2012 a total of 2,172 building licenses were issued, an increase of 15.3% from Q4 2011 and of 3.8% from Q1 2011.

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The Bulletin speaks to Ahmad Haj Hasan, General Manager of Al Rafah Microfinance Bank.

IMF Economy Update

The IMF has issued an update on the Palestinian economy.¹ Their analysis finds a continued slowdown in growth in the West Bank. This is attributed to a combination of fiscal retrenchment, shortfalls in donor aid which have in turn resulted in arrears accumulation, lack of progress in increasing movement and access and continued political uncertainty. Unemployment has risen in the West Bank to 20.1% from 17.4% in the same quarter last year.

In contrast the growth rate in Gaza remains high. This is primarily driven by the construction sector which has benefited from both the lifting of some Israeli restrictions on imports and the tunnel trade. The tunnel trade is profiting from political change in Egypt and the resultant easing of restrictions. However unemployment in Gaza has also increased to 31.5% compared to 30.8% in the same quarter last year.

The IMF update highlights a slowdown in the growth of private sector credit in the West Bank where it declined from 30.3% in Q1 2011 to 16.6% in Q4. In contrast private sector credit growth increased from 32.2% to 46.7% in Gaza.

The Palestinian Authority's (PA) fiscal position remains challenging. The IMF update reports that despite increases in clearance revenues (13% year-on-year in Q1 2012) and domestic tax collection (17%) total revenue collection is still 2% under the budget target for Q1 2012. The recurrent budget deficit was NIS 1,031m, NIS 126m above the budget to date. Prime Minister Dr Salam Fayyad said in January that his government owed \$1.1bn in bank loans, as well as \$400m in unpaid revenues to private sector contractors.² On 2 June Arab states pledged to provide the PA with \$100m each month as a back-up if clearance revenues are withheld.³

The IMF notes that the PA did not increase its borrowing from the domestic banking sector in the first three months of 2012. However that position has changed in subsequent months. Ma'an news reported in June that the Governor of the Palestinian Monetary Authority (PMA), Dr Jihad Al-Wazir, said that banks have increased lending to the government by over \$300m in the previous two months, and that they should not lend any more unless donors come forward with funds.⁴ The newly-appointed PA Minister of National Economy, Dr Jawad Naji, has said 'If we need, we will borrow from banks to pay salaries.'⁵

1 www.imf.org/external/country/WBG/RR/2012/052412.pdf

2 Bulletin 65, February 2012

3 www.maannews.net/eng/ViewDetails.aspx?ID=491603

4 www.maannews.net/eng/ViewDetails.aspx?ID=494054 and www.al-monitor.com/pulse/business/2012/06/palestinian-economy--the-banks.html

5 www.maannews.net/eng/ViewDetails.aspx?ID=494615

Export of Clothes from Gaza

On 14 May the first export of clothes in five years left Gaza.⁶ 2,000 pieces of woollen garments were shipped via Kerem Shalom crossing to J.D. Williams, a clothes retailer in Britain. The clothes were made by the Ashour Company, founded in 1996. The connection between the two was made by Moon Valley Enterprises, which is helping Palestinian food and textile businesses access export markets.

The transfer through Kerem Shalom was facilitated thanks to the combined lobbying efforts of the Office of the Quartet Representative, the Palestinian Crossing Authority and UK government officials. The Ashour Company, which had been dormant since 2007, has received support from the UK's Department for International Development's (DFID) Facility for New Market Development (FNMD), including investment in machinery and staff training. FNMD also provided technical assistance on pricing and UK quality standards. Altogether this support has enabled Ashour to not only resume operations but also to enter the international market.⁷

UK Development Minister Alan Duncan said, 'It is my hope that we quickly reach a stage where there is no longer a need for such assistance, because sustained exports from Gaza will be the norm.'

Siraj Palestine Fund I

The Overseas Private Investment Corporation (OPIC) has agreed to provide \$30m of funding for the Siraj Palestine Fund I – the first private equity fund designed to invest in companies in the Palestinian Territory.⁸ The fund, originally launched in February 2011, invests in start-ups and SMEs focusing on companies with the potential to become market leaders. OPIC is the US Government's development finance institution.

The fund has already invested in four companies: PalGaz (a gas distribution company), Wassel (a logistics and distribution services company), Nakheel (an agricultural products company) and Ziadeh Consulting and Engineering (an engineering firm). Five more investments were approved in April.

NBC Award

In May the National Beverage Company (NBC) received an award from Coca Cola for sustainable development in Africa and Eurasia.⁹ The NBC was chosen from around 100 Coca Cola bottling partners operating in the region. The award for 'Best Country Bottling Operation' came with a \$100,000 cash

prize and was announced at a ceremony in Istanbul. The NBC also received an \$80,000 award for 'Best Performing Plant 2011 – Environment.' The Ramallah based company holds the licence for producing Coca Cola products in the Palestinian Territory.

Building Licences Q1 2012

In Q1 2012 a total of 2,172 building licences were issued, an increase of 15.3% from Q4 2011 and of 3.8% from Q1 2011.¹⁰ The area of licensed residential and non-residential buildings reached 976,800m²: 849,400m² for new buildings and 127,400m² for existing buildings.

Figure 1: Building Licences in the Palestinian Territory



Source: PCBS

New Cabinet Ministers

Dr Nabil Kassis, a political independent and former Birzeit University president, has been appointed as Minister of Finance in the PA's 14th Cabinet.¹¹ Dr Kassis was first appointed to a cabinet position in 1998 as Minister of State. In 2002 he served as Minister of Tourism. He was then appointed Minister of Planning in the emergency government formed in October 2003 and continued to serve in this position until 2005.¹² Dr Kassis taught physics in various international institutions before joining Birzeit University in 1980. From 1996-1998, Dr Kassis co-founded and became Director of the Palestine Economic Research and Policy Institute (MAS).¹³

Dr Jawad Naji, a former adviser for Islamic and Arab Fund affairs to Dr Salam Fayyad, has been appointed the new Minister of National Economy. Before his appointment as minister, Dr Naji was the vice president for the board of directors of the Palestine Capital Market Authority. Dr Naji holds a PhD in Economic Science (1980) from the Academy of Economical Science in Bucharest, Romania.¹⁴

6 www.maannnews.net/eng/ViewDetails.aspx?ID=485747

7 english.wafa.ps/index.php?action=detail&id=19830

8 www.siraj.ps/index.php?TemplateId=3&PageId=0&ParentId=3&Lang=en&agement

9 www.zawya.com/story/Middle_East_Bottling_Companies_recognized_at_Coca_Cola_Group_presents_sustainability_awards-ZAWYA20120527113631/

10 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/BuildLicQ12012E.pdf

11 www.maannnews.net/eng/ViewDetails.aspx?ID=486602

12 www.jmcc.org/people.aspx?idd=168&pch=N

13 cosmos.ucc.ie/cs1064/jabowen/IPSC/php/authors.php?aid=6736

14 www.maannnews.net/eng/ViewDetails.aspx?ID=486602

Gaza Fuel Crisis

The fuel crisis in Gaza has entered its fifth month and the majority of households face daily power cuts of an average of 12 hours.¹⁵ 40% of the population receives water at home once every four days because of the need for fuel to pump the water.¹⁶ Private companies are now importing fuel from Israel at much higher prices.

Partly as a result of the fuel crisis the agricultural season in Gaza, which ends in April, finished with lower than expected income for farmers.¹⁷ Crops suffered from the ongoing water shortages as well as being affected by the unusually cold weather. As a result of the electricity cuts, farmers were unable to store their flowers in refrigerators, which lowered the quality of the exported carnations and thus their market value. Oxfam reports that the number of exported carnations decreased from 11m to 9m last year.

Start-Up Boot Camp in Ramallah

56 entrepreneurs presented their business ideas in the fields of e-commerce, online services, mobile applications and other digital content at the Oasis500 12th Start-Up Boot Camp which was the first to take place in Ramallah.¹⁸

The Boot Camp in May, was held in partnership with local Palestinian organisations including PADICO Holdings, the Palestine Information and Communications Technology Incubator (PCTI), CISCO, CHF International and Palestine for a New Beginning (PNB). Oasis500's Boot Camps provide entrepreneurs and established start-ups with top-level training in marketing and investment techniques, business model creation and marketing through creative campaigns, market segmentation, attracting investment and approaching investors.

Foreign Aid

The DFID funded Facility for New Market Development project was completed on 18 May.¹⁹ Running since 2008, and with additional funding from the World Bank, the programme has assisted over 600 Palestinian SMEs through matching grants and provision of technical assistance for the development of new products and to enter new local and international markets. One of its last projects was the export of clothes from Gaza reported above.

Nassim Nour, Head of Private Sector Development at DFID told the Bulletin, 'We are very pleased with the return on our \$11m investment over the past four years. Matched by a similar investment from Palestinian partner firms, we were able to attribute over \$120m in sales of new products

15 www.ochaopt.org/documents/ocha_opt_protection_of_civilians_weekly_report_2012_05_25_english.pdf

16 www.ewash.org/en/?view=79YOcy0nNs3Du69tjVnyumlu1jfxPKNuunzXkRpKQ_N7lwQ8TRTG

17 Oxfam Gaza Weekly Update, 29 April-5 May 2012

18 www.ameinfo.com/oasis500-concludes-12th-start-up-boot-camp-301253

19 dai.com/news-publications/news/dfid-economic-growth-project-palestine-assists-600-firms-creates-3400-jobs

and exports into new markets. 3,426 new permanent jobs were also created by the 603 assisted firms. This proves that investment in the Palestinian Territory does bring good return despite the political instability, and that investment in acquiring good business services is as good and critical as investment in assets. More results are yet to come that we will monitor and learn from as we develop the next programme.'

At the end of May Australia pledged \$90m of funding to UNRWA's core programmes in the Middle East over the next five years.²⁰ Australia was the tenth largest contributor to UNRWA's core budget in 2011 with a donation of \$15m. Under the new programme, contributions will progressively increase to \$20m a year.

Palestinian-Israeli Fuel Deal

On 28 May the PA signed a two-year deal with two Israeli companies, Oil Refineries (also known as Bazan) and Petrochemical Industries. Under the deal, valued at \$491m, the two companies will provide gasoline, diesel fuel and other oil products to the PA.²¹ The agreement, to be implemented at the beginning of October, will supply 50% of Palestinian fuel needs. PAZ Oil has extended a deal to supply fuel to the Palestinian Authority through October 2014, which will provide the rest of the PA's fuel requirements.²²

Landlines Market Competition

On 29 May the Palestinian Cabinet announced that it will open the telecommunications market to competition in the field of landline services to allow new providers to enter the market.²³ The Cabinet has asked the Ministry of Telecommunications to prepare a feasibility study.

Foreign Trade

In March the Palestinian trade deficit in goods decreased by 34.8% compared with the same month last year due to a major decline in imports (31.3%) and despite a decrease in exports (9.8%).²⁴

Figure 2: Trade in Goods for March 2012

	Exports	Imports
Level	\$61.6m	\$341.6m
Change from 02/2012	+4.0%	+0.5%
Change from 03/2011	-9.8%	-31.3%
To/from Israel (% of total)	88.4%	69.2%
Trade deficit		\$280.0m
Change from 02/2012		-0.2%

Source: PCBS

20 www.unrwa.org/etemplate.php?id=1355

21 www.haaretz.com/business/israeli-energy-firms-sign-deal-to-supply-energy-to-palestinians-1.433056 and www.maannnews.net/eng/Viewdetails.aspx?ID=490286

22 uk.reuters.com/article/2012/05/28/pazoil-palestinians-idUKL5E8GS73R20120528

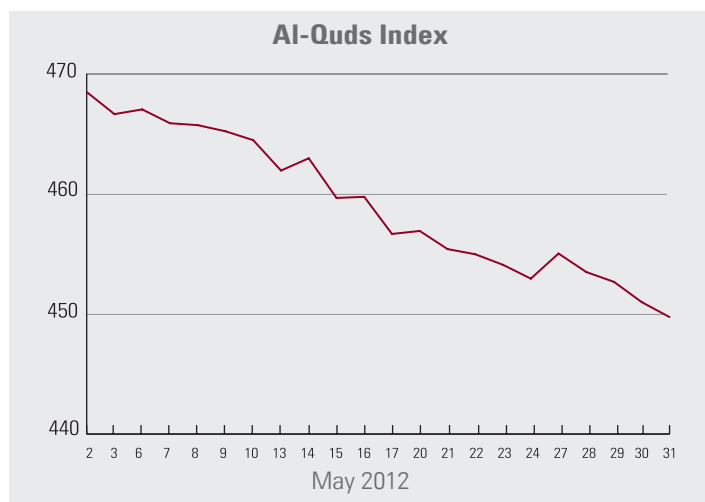
23 www.lfd.ps/documents/Show.aspx?ATT_ID=5633

24 www.pcbs.gov.ps/Portals/_pcbs/PressRelease/ext_trade2012e.pdf

May Trading News

In May the AI-Quds index decreased by 3.78% from 468.5 points (the highest level for the month) on the first day of trading (2 May) to 449.7 points (the lowest level for the month) on the last day of trading (31 May).

A total of 14.3m shares worth \$26.3m were traded in 22 sessions during May. Market capitalisation was \$2.7bn.



Source: PEX

Interview with Al Rafah Bank

Continuing the occasional series of interviews with CEOs of PEX listed companies, the Bulletin speaks to Ahmad Haj Hasan, General Manager of Al Rafah Microfinance Bank.

You achieved good profits in 2011, is that part of a trend?

Yes, in fact our profits for Q1 2012 were higher than for the whole of 2011. We are actively expanding the business: our credit portfolio has grown by 200%, and our deposits are up 60%.

Which part of the business are you growing in particular?

We're aiming to expand our microfinance business. We're proud of our achievements in microfinance over the last six years. It's an area that is neglected by other banks and we've shown that it can be a profitable business.

But the regulations make it hard to be a specialist bank. In line with the rest of the banking sector here, we've been required to increase our capital to a level that's more than necessary for microfinance.

So last year we decided to start operating as a full commercial bank, with retail and corporate operations, keeping a specialised arm in microfinance. We're changing our name too, and will soon be, 'The National Bank.' We're attracting a number of corporate accounts because of our focus on hedging products to manage foreign exchange risk, essential for local businesses since this is a three-currency economy.

Where's the focus of your microfinance business?

Mainly on 'productive' loans, where the maximum amount is \$30,000. That's quite high, but inputs imported from abroad are expensive. We do lend to start-ups, but we focus more on solidarity groups from the same family, or geographical area, who guarantee each other. One of our biggest areas is loans to taxi drivers, to buy new cars. We have zero defaults on those loans.

We're also finding that there is increasing demand for mortgages. There's a growing middle class with fixed, regular salaries that are choosing to take advantage of the housing developments like Rawabi and Al Reehan. These developments are generating good demand.

Are you taking on more staff as part of the expansion?

Yes, last year we had 120 staff, and we're now up to 170. If we open in Gaza, we'll need 50 more. The majority are new graduates, who we mostly develop through our own training scheme so that they can learn the particular skills needed for microfinance. Sometimes we send staff outside Palestine for more specialised training. Our strategy depends on our people, and technology. So we make sure that we invest in both.

Do you have any comment on the Palestinian Monetary Authority?

It is a very efficient authority. Sometimes I think that they are involved in certain areas which could be better left to the market, but we have to recognise that they are working to maintain confidence in the banking sector in a very high risk environment. They do that well: in fact at times when the security situation has deteriorated deposits have even flowed into the banks.

The Portland Trust



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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