

PALESTINIAN ECONOMIC BULLETIN

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Main reports

The Palestine Monetary Authority (PMA) has developed and launched the Business Cycle Indicator, a monthly index which aims to capture the state and evolution of the Palestinian business environment.

Hotel activities: in 2012 a total of 575,000 guests spent nearly 1.34m guest nights in hotels in the West Bank and East Jerusalem.

The PMA issued new regulations to stimulate bank lending to Palestinian Small and Medium Enterprises.

The Bulletin interviews Nidal Al-Juneidi, deputy General Manager of Al-Juneidi Dairy and Food Products Co.

Establishments Census

The Palestinian Central Bureau of Statistics (PCBS) released the final results of its 2012 Establishments Census, covering firms in the private sector, non-governmental organisations and government bodies in the Palestinian Territory.¹ A total of 134,505 establishments were in operation in the West Bank and Gaza in 2012.² More than half of all Palestinian establishments are wholesale and retail businesses, almost 30% operate in the services sector and 12.4% are manufacturing firms.

The survey results show that the Palestinian economy is dominated by small and medium family-owned businesses: more than 85% of all establishments are owned by a single individual. Private and public shareholder companies and partnerships constitute less than 11% of all firms.

The Small and Medium Enterprise (SME) character of the Palestinian economy is again reflected in the fact that only 137 establishments employ more than 100 people (100 in the West Bank and 37 in Gaza). Of those, 27 are manufacturing establishments, 26 are health care institutions, 17 are educational establishments, 13 offer financial services and 12 operate in the ICT sector. The vast majority of establishments in the Palestinian Territory employ less than nine workers.

Table 1: Distribution of establishments by size (number of workers employed)

Number of employees	1-4	5-19	10-19	20-49	50-99	100+
Palestinian Territory	89.0%	7.6%	2.3%	0.9%	0.2%	0.1%
West Bank	89.1%	7.3%	2.3%	0.9%	0.2%	0.1%
Gaza Strip	88.8%	8.1%	2.1%	0.8%	0.1%	0.1%

Business Cycle Indicator

The Palestine Monetary Authority (PMA) has developed and launched the Business Cycle Indicator (BCI), a monthly index which aims to capture the state and evolution of the Palestinian business environment and reflect fluctuations in production and economic activity.³ The construction of the indicator follows international standards and is based on qualitative data obtained from monthly business surveys, conducted by the Palestinian Federation of Industries (PFI) on behalf of the PMA.

To produce the indicator more than 200 manufacturing firms (around 10% of PFI's associates), classified according to the two-digit International Standard Industrial Classification (ISIC), are asked a number of qualitative questions relating to production, sales, inventories and short-term expectations about production and employment. Their answers are then weighted according to each manufacturing sub-sector's share of total industrial employment, to obtain

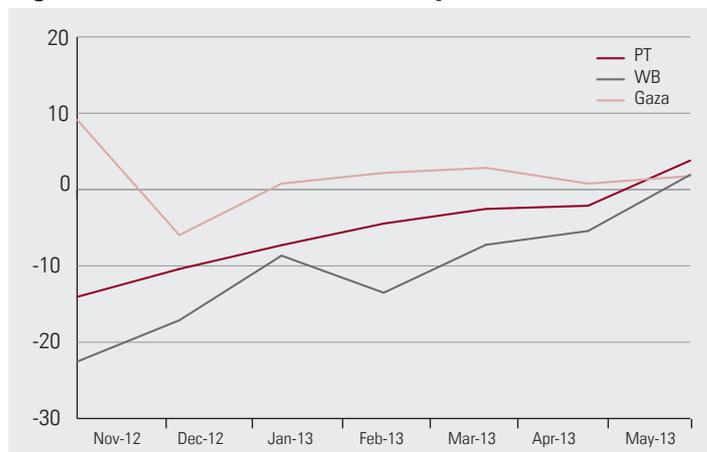
1 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1970.pdf

2 This number excludes those establishments based in East Jerusalem, reported by the PCBS under the 'West Bank' category

3 www.bit.ly/1945w9i

a single value ranging from -100 to +100. Higher values are indicative of solid business performance and positive prospects. The evolution of the index over time intends to reflect the cycle of the business activity.

Figure 1: BCI November 2012 – May 2013



Source: PMA

At the national level, the overall BCI has increased steadily since November 2012 (the first time it was calculated) and in May 2013 reached a record high of 3.8 (its first ever positive value).⁴ The behaviour of the index has been different in the West Bank and the Gaza Strip. While in the former a slight drop occurred in February 2013, in Gaza there was a significant deterioration during the last month of 2012 and recovery was also interrupted in April 2013.

Mohammad Atallah, PMA Research and Monetary Policy Director, told the Bulletin: *'The BCI provides real-time information about the economy, and thus helps the PMA in designing the appropriate monetary policy without having to wait for the release of actual data, which takes time to publish. Furthermore, we aim to continue to improve the indicator and, as more observations become available, the BCI will be tested against the GDP cycle in order to assess its power to predict product fluctuations'*.

Hotel Activities 2012

In 2012 a total of 575,000 guests spent nearly 1.34m guest nights in hotels in the West Bank and East Jerusalem.⁵ The figures represent an increase of 13% in the number of guests and of 7% in the number of guest nights from 2011. Around a third of all guests stayed in hotels in East Jerusalem.⁶ Nearly half of the guests came from European countries, around 10% from North and South America and 12% from Israel. Palestinian hotel guests constituted 15% of the total.

4 www.bit.ly/10kT5Tp

5 www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1975.pdf

6 The PCBS Hotel Activities in the West Bank Annual Bulletin divides the West Bank into four areas: north (Jenin, Tulkarm, Nablus, Qalqiliya, Salfit, and Tubas governorates); middle (Ramallah and Al-Bireh, Jericho and Al-Aghwar governorates); south (Bethlehem and Hebron governorates; and Jerusalem (Jerusalem governorate).

Table 2: Main Hotel Indicators, 2009-2012 (West Bank and East Jerusalem)

	2009	2010	2011	2012
Number of Guests	451,840	576,259	507,372	575,495
Number of Guest Nights	1,041,246	1,283,178	1,245,509	1,336,860
Number of Operating Hotels	92	87	91	98
Number of Rooms	5,126	4,890	5,833	5,377
Number of Beds	11,301	10,375	12,759	12,286
Room Occupancy	34.3%	37.9%	28.4%	29.1%
Average Number of Workers	1,541	1,692	2,091	2,449

In December 2012 there were 98 hotels in the West Bank (up from 91 in December 2011): 30 in East Jerusalem, 30 in the middle region of the West Bank, 27 in the south and 11 in the north. In 2011 and 2012 average room occupancy dropped as the number of guests did not follow the increase in hotel facilities (rooms and beds).

West Bank and East Jerusalem hotels employed about 2,250 people throughout 2012, nearly a third of whom were female. Given the Palestinian Territory's multiple religious, historical and natural assets, tourism is regarded as one of the economic sectors with the greatest potential to boost economic growth and generate employment. Despite this, in Q4 2012 accommodation and food services activities accounted for only 4.5% of the West Bank's services GDP and 0.8% of its overall GDP.^{7 8}

PMA Regulations to Stimulate SME Lending

Following the recommendations of the fourth International Banking Conference (held in Jericho in February 2013)⁹, the PMA issued new regulations to stimulate bank lending to Palestinian SMEs.¹⁰

Banks were instructed to exempt SMEs that are willing to restructure their defaulted loans from the upfront payment of the 10% of the outstanding debt, previously required as a pre-condition for the rescheduling. This measure is aimed at helping SMEs to normalise their credit status. Additionally, with the intention of liberating additional capital for SME lending, the legal reserve requirement of 2% over outstanding loans previously imposed on banks was eliminated.

According to the SME definitions agreed by the banks and the PMA, the measures will benefit those firms which employ less than 25 workers and whose annual sales do not exceed \$7m. At the same time, the new regulations will be exclusively applied to those SME loans partially

7 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_QNAQ42012E.pdf

8 The PCBS Preliminary Estimates of Quarterly National Accounts Press Report excludes data on those parts of Jerusalem which were annexed by Israeli in 1967.

9 www.bit.ly/Zdi1xF

10 <http://bit.ly/1946hPG> Consultation with PMA

guaranteed by one of the loan guarantee facilities operating in the Palestinian Territory.

Private Equity Investment in Palestinian SME

The Palestine Growth Capital Fund (PGCF), a private equity fund that targets SMEs in the Palestinian Territory and is managed by Abraaj Capital, announced its second investment since its launch in 2010. The fund invested in Anoud Games, a Jerusalem-based designer, developer, and manufacturer of Arabic-language educational toys and games.¹¹ It was established in 1996 and employs 14 workers.

The newly announced investment, which includes a co-investment by the Palestine Investment Fund (PIF), will be used to expand the company's product offering and outreach to markets in the MENA region.

Ahmed Badreldin, Head of the Abraaj Group in the MENA region, explained that the fund's investment in Anoud Games "underlines the Abraaj Group's commitment to the SME space in Palestine." At the same time, co-founders of Anoud Games, George Kusa and Rania Ghneim, considered the transaction to be "an important milestone" in their growth. In this sense, they added: "Our partnering with the Abraaj Group and the Palestine Investment Fund will act as a real catalyst in the accelerated development of our business in the region."

The Episcopal Church Invests in the Palestinian Economy

The Executive Council of the Episcopal Church's¹² Economic Justice Loan Committee (EJLC) purchased a three year certificate of deposit worth \$500,000 in the Bank of Palestine (BoP) as a part of its economic justice portfolio.¹³

The investment comes from the assets set by the Executive Council in November 1989 for socially responsible fixed-income investments. By the end of 2012, the Church had invested \$3.6m in deposits at credit unions and other intermediaries and \$2.1m in loans to community development intermediaries through the Economic Justice Community Development Loan Fund. The Church's finance office worked with several organisations to identify investment opportunities in the Palestinian Territory and selected the banking sector, due to the liquidity it offers. BoP was chosen based on its corporate governance and risk management structures; its practice of giving around 20% of its \$720m loan portfolio

to Palestinian SMEs; its green loans programme; and its contributions to corporate social responsibility.

The EJLC was established in 1988 to administer the Economic Justice Loan Funds.¹⁴ Loans of \$150,000-\$300,000 are usually granted to organisations for a term of 3 to 5 years in the form of mortgages, small business loans, community economic development, affordable housing, job creation and others to institutions which may not qualify in the regular credit market. The EJLC does not lend to end-users but to financial intermediaries only.

April Trading Data

In April the Al-Quds index dropped by 3.54%, closing at 456.84 points on the last day of trading. The index reached its highest (473.38) and lowest (450.92) levels on 1 and 8 April respectively.

A total of 18.7m shares worth \$48.0m were traded in 22 sessions. Market capitalisation was \$2.7bn.



Source: PEX

Interview with Al-Juneidi

This month the Bulletin interviews Nidal Al-Juneidi, deputy General Manager of Al-Juneidi Dairy and Food Products Co, a Hebron-based firm dedicated to the integrated production of dairy products, fresh salads, snacks and juices. Founded in 1982, the company is the largest Palestinian dairy firm, employing around 420 specialised permanent workers from across the West Bank.

During recent years Al-Juneidi's strategy has been focused on product quality development. What can you tell us about this?

As our business expanded and grew throughout the years - in some products our production has doubled in the last two years - we decided to work towards the adoption of a comprehensive quality system following international standards. In 2010 we engaged in a one-year project which demanded a total investment of around \$0.9m in training,

¹¹ www.abraaj.com/news-and-insight/news/press-releasethe-abraaj-group-announces-investment-in-anoud/

¹² The Episcopal Church is an Anglican Christian denomination found mainly in the United States. (www.episcopalchurch.org)

¹³ www.episcopalchurch.org/notice/episcopal-church-economic-justice-committee-invests-bank-palestine

¹⁴ www.archive.episcopalchurch.org/newsline_123077_ENG_HTM.htm

health and safety and physical capital. We also improved our laboratory and testing facilities, which allowed us to develop better quality control systems. As a result, in the beginning of 2011 we became the first and only Palestinian dairy factory to obtain the ISO-9001 certification.

What is Al-Juneidi's outlook for 2014-2015? What are the major challenges you face?

The dairy market has been growing steadily during recent years and is one of those with the greatest potential in Palestine. As long as this trend continues we estimate that we will have to increase our production capacity by at least 50% during the next two years in order to be able to meet the increasing demand.

Although this is not merely a matter of quantity: as Palestinian living standards improve, customers consume a wider variety of products, such as low fat milk, flavoured and fruit yogurts and products specially tailored to different dietary requirements and nutritional needs of specific groups (e.g. babies and children). In this context, our aim is to continue to offer a high quality Palestinian alternative to our clients.

It is often said that there is a disconnect between the skills of Palestinian graduates and the needs of the private sector. Is that your experience?

Palestinian universities are good in general terms, but do not offer students adequate practical training. There should be more laboratory work, on-field training and applied research. At Al-Juneidi we closely collaborate with Palestinian universities to bridge this gap by offering training for students both in our factory and our farms. The areas we cover include process operations, quality control and management, filling and packaging systems, finance, accounting and human resources.

Over the years we have also worked together with local universities on research projects. Most recently, in partnership with Hebron University, we conducted a study on somatic cells, which are critical for the monitoring of

animal health variables. The results were shared with local farmers and the academic community.

What are the prospects for the food and agribusiness sectors as a whole?

There is really big potential for the food, dairy and agriculture industry in Palestine. Although the economic situation is difficult, demand for food, dairy and agriculture products will continue to grow as more people incorporate a wider range of food products into their diets. Local firms will have to invest to meet that demand, which will of course not be easy given the many challenges we face as a sector.

Can you discuss some of those challenges?

The biggest challenge is linked to the nature of investment in such a particular industry. Building a food factory or acquiring and operating a farm require large sums of capital. Under the current circumstances the environment for investment is not really the best in Palestine. Most companies are not willing to take big loans from the banks given the inherent risks of the local market. Many firms that were highly financially exposed during the first and second Intifadas went bankrupt and nobody wants to repeat that experience.

How do you see the prospects for the Palestinian economy as a whole?

Despite the many challenges we face as a country I believe there is scope for the Palestinian economy to continue growing if we focus on the development of the private sector. The Government can collaborate with this process by reducing taxes, issuing more flexible regulations and fewer bureaucratic procedures for investors and improving the state of infrastructure. As a company we always think that 'next year will be better', and that motto has kept us going and growing for more than 30 years.

The Portland Trust



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