

PALESTINIAN ECONOMIC BULLETIN

Issue 83

August 2013

Main reports

Among other recent IT developments, Fast Forward, the West Bank's first start-up accelerator, has completed a five week pre-acceleration summer bootcamp.

The Palestine Monetary Authority and an international banking technology firm signed an agreement to implement a 'National Switch' electronic payments system.

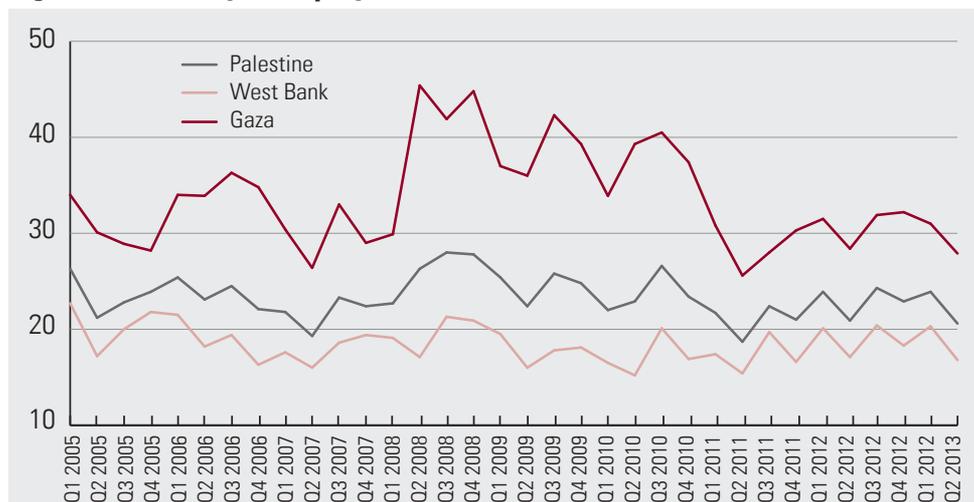
In Q2 2013 Palestinian companies registered the highest quarterly rate of improvements in overall performance in the past two years.

The Bulletin interviews David Khoury, CEO of Taybeh Brewing Company, the first micro-brewery in the Middle East.

Labour Market

The results of the Palestinian Central Bureau of Statistics (PCBS) labour force survey for Q2 2013 show decreasing (although still high) unemployment.¹ Total unemployment in Palestine reached 20.6%, down from 23.9% in Q1 2013 and 20.9% in Q2 2012. While the quarter on quarter drop from Q1 follows a long-term seasonal trend, Q2 unemployment in 2013 was remarkably the second lowest rate observed in the same quarter over the last six years. Also, while labour force participation remained low at 43%, unemployment in Gaza (27.9%) continued to be significantly higher than in the West Bank (16.8%).

Figure 1: Quarterly unemployment, 2005-2013 (%)



Among Palestinian women unemployment was 33.6%, an increase of 4.1 percentage points from Q2 2012. Male unemployment, at 17.6%, was 1.2 percentage points lower than in Q2 2012, which explained the observed year-on-year slight fall in the overall rate.

The number of those employed in the local market (persons working in the West Bank or the Gaza Strip rather than in Israel, the settlements or abroad) rose from 768,000 in Q1 to 801,000 in Q2 2013 (only 3,000 more than in Q2 2012). Services continued to be the most important sector in terms of job creation, employing 33.1% of all workers in the West Bank and 50.2% in Gaza. Also public sector employment, at 22.5%, remained high, rising from 21.9% in Q2 2012.

The number of West Bank workers in Israel and the settlements increased from 93,000 in the previous quarter to 96,000 in Q4 2012. Almost 60% of those were employed in construction, while 34,000 did not have a permit (or Israeli or foreign documents). The average daily net wage for Palestinians employed in Israel or Israeli settlements remained significantly higher (172 NIS) than in both the West Bank (89 NIS) and Gaza (63 NIS).

¹ www.pcbs.gov.ps/site/512/default.aspx?tabID=512&lang=en&ItemID=865&mid=3171&wvversion=Staging

Support for IT Entrepreneurs

Fast Forward, the West Bank's first start-up accelerator (funded by the Welfare Association and managed by the Leaders Organisation²), has recently completed a five-week pre-acceleration summer bootcamp in which eight start-up teams worked on the development of web and mobile solutions.³ The teams pitched their ideas and the five best were chosen to participate in a four-month acceleration programme, to start in early September. Participants will receive training on venture deals, pitching, legal issues, marketing and sales. The start-ups, who will also spend time at a regional accelerator, will receive mentoring from various local and international experts in the fields of communications, public relations, marketing and finance. Fast Forward will invest around \$20,000 in cash and another \$30,000 in in-kind services to allow innovative ideas to move past the concept stage into effective implementation. The initiative has additional support from Mercy Corps, who will join efforts to connect the start-ups with international investors, mentors and experts. Nedal Zahran, Team Leader at Leaders Organisation, told the Bulletin: *"The importance of entrepreneurship to economic development cannot be underestimated. However, a key obstacle that faces entrepreneurs is access to financing. While small-scale financing is available in the form of personal loans or micro-finance and larger-scale venture capital and growth equity financing funds are active in Palestine, investment financing at the seed (around \$20,000-\$30,000) and angel (\$100,000-\$500,000) level is lacking. These levels of investment are crucial for the development of new enterprises."*

Efforts by Fast Forward are part of broader local and international support for IT entrepreneurship in Palestine. Earlier in June, USAID's Compete Project and Dawilah Investment launched 'Arabreneur', a seed investment and support vehicle for Palestinian IT start-ups.⁴ This angel investor/seed fund will help young entrepreneurs to grow their start-ups with the aim of spurring employment and fostering an environment of creativity in the emerging local IT sector.⁵ In its first year Arabreneur is to support a minimum of ten start-ups with an investment of \$50,000-\$150,000 in each, creating approximately 50-100 new jobs. A co-working space, where highly experienced mentors from the MENA region will provide specialised business support to participants, will be established. Moreover, the establishment of the Seed Fund and Angel Network is expected to facilitate global exposure and attract investment in Palestinian companies.

More recently, PALinnO, a Nablus-based mentorship initiative, launched 'Palestine to Silicon Valley' (P2SV),⁶

a programme aimed at empowering young Palestinian start-up entrepreneurs in the IT sector to gain exposure to Silicon Valley investors.⁷ PALinnO will supply them with office space and facilities, technical support, extensive business mentorship, and funding. The programme is set to start on 1 September.

National Switch System

The Palestine Monetary Authority (PMA) and the Swiss-based international company BPC Banking Technologies signed an agreement to implement a 'National Switch' electronic payments system. The initiative will link all ATM machines in the West Bank and Gaza through one unified network, enabling card holders to use any machine or point of sale, regardless of which the operating bank is and with no additional charge for the user.⁸

According to the PMA Governor, Dr Jihad Al Wazir, the National Switch will help the PMA to *"better manage liquidity in the banking system"* by promoting a shift from the current extended use of cash, cheques and other paper-based payments, to the adoption of modern electronic payment methods.⁹

Business Perceptions

The latest 'Survey of the Perceptions of Owners/Managers of Active Industrial Enterprises Regarding the Economic Situation' shows that in Q2 2013 32% of Palestinian companies registered improvements in overall performance with respect to the previous quarter.¹⁰ This is the highest quarterly rate registered in the past two years.

However, in a context of general economic slowdown,¹¹ there was deterioration in the expectations of businesses in Palestine: the proportion of companies expecting to improve their performance in the next quarter reached 34.6% in Q2 2013, down from 36.4% in Q1 2013. This was mainly explained by a sharp drop in Gazan companies' prospects, which declined from 58.0% in Q1 to 33.2% in Q2. Expectations of enterprises can be a leading GDP growth trend indicator as businesses that envision enhanced performance are more likely to invest and expand.

The survey also asked respondents about the institutional provision of services by the government and private enterprises. The results show a very high level of dissatisfaction with the quality of infrastructure and facilities in the Gaza Strip. All owners/managers are dissatisfied with electricity supply; nearly three-quarters are not satisfied with the quality of roads; and almost half with water supply services.

In the West Bank on the other hand, businesses reported significantly higher levels of satisfaction with physical

2 www.wamda.com/2013/01/palestine-gets-its-first-startup-accelerator

3 www.fastforward.ps/#!/schedule/c1zn8

4 www.wamda.com/2013/07/palestine-gets-its-first-seed-fund-supported-by-mena-apps-and-usaid

5 www.arabreneur.com/?p=111

6 www.wamda.com/2013/07/new-incubator-seeks-to-send-palestinian-startups-to-silicon-valley?ref=fb

7 www.palinnO.com/

8 www.bit.ly/14SW6bf

9 www.bit.ly/166mL4L

10 www.bit.ly/18HG3Bg

11 www.portlandtrust.org/sites/default/files/peb/issue82_july_2013.pdf

infrastructure, illustrating the gap between the physical business environment in the two areas. Overall, the figures demonstrate the urgent need to enhance the provision of reliable services in both Gaza and the West Bank, which can play a crucial role in sustaining long-term economic growth.

Gaza

It is estimated that since last June the Gazan economy has lost around \$230m (nearly 10% of Gaza's GDP in 2012¹²) due to the closure of around 80% of the trade tunnels connecting Egypt and the Gaza Strip.¹³ In February the Egyptian military authorities flooded many of the approximately 200 trade tunnels with the purpose of closing them down for security reasons.¹⁴ More recently, closure of tunnel activities intensified following conflict in Egypt after the deposition of President Mohamed Morsi in early July.¹⁵ This resulted in a decrease in the supply of critical goods into Gaza, such as fuel and construction materials.

As a result of the shortages, 90% of Turkey¹⁶ and Qatar¹⁷ funded construction projects in Gaza were suspended, resulting in 20,000 construction workers being laid off. Also rationing of the use of diesel was introduced by the local authorities to guarantee the supply of fuel to basic service providers (including hospitals, power plants and water facilities).¹⁸

According to recent estimates, more than 60% of Gaza's imports (worth \$1.5bn) go through the tunnels. Furthermore, around a fifth of Gaza's government annual budget of \$1bn comes from taxes and fees imposed on the operations of the tunnels.¹⁹

Russian Investment in Bethlehem

The Ministry of National Economy announced that a Russian investment company is currently developing a new \$30m building complex in Bethlehem, with support from the Russian government.²⁰ The 15 dunam complex, to be located in Vladimir Putin street in Bethlehem, will host a music and arts school, a school gym, administrative offices and a commercial area.

PEX

Thomas Murray Limited, a British company which monitors the risk of over 100 capital market infrastructures worldwide, upgraded the Counterparty Risk (CR) rating for the Palestine Exchange (PEX) Clearing, Depository

and Settlement (CDS) Centre, from 'A-' to 'A'.²¹ The upgrade came as a result of the new Delivery Versus Payment (DVP) arrangements adopted by the CDS earlier in March this year. Ahmad Aweidah, PEX CEO, said, "This upgrade corresponds to the PEX performance within best international practices and the recommendations of the International Organization of Securities Commissions (IOSCO) and the Bank for International Settlement".

July Trading Data

In July the Al-Quds index increased by 4.6% and closed at 473.16 points on the last day of trading. The index reached its lowest (452.43) and highest (475.28) levels on 7 and 30 July respectively.

A total of 12.9m shares (up from 6.5m shares in June) worth \$21.7m (up from \$11.6m in June) were traded in 23 sessions. Market capitalisation was \$2.9bn.

The Bulletin interviews David Khoury, CEO of Taybeh Brewing Company

Taybeh Brewing Company, the first micro-brewery in the Middle East, is a family owned business established in 1994 by two brothers, David and Nadim Khoury, and their late father Canaan Khoury. It currently produces five types of beers following the German Purity Law.

You and your brother started the company after living in the US for more than 20 years, what made you decide to return to Palestine?

The Oslo Agreement in 1993 inspired us to come back and establish the first microbrewery in Palestine. We wanted to contribute to the Palestinian economy and, on a personal level, we wanted our children to grow up in the Village of Taybeh, where our family roots are. We were hopeful of the opportunities that would come with peace and thought of the Palestinian economy as 'a giant waking up'.

Taybeh Beer's vision is to become 'the top performing beverage company in the Middle East'. How was the journey from small beginnings to the vibrant present? What were the major challenges you faced along the way?

The whole process has been a rollercoaster. We faced an uphill battle; people thought we were crazy to invest in the dream of becoming the Palestinian national beer and most believed we would fail. There were religious and cultural issues at the time and we also had to compete against imported beers. What differentiated us from the competition was that we chose to produce a 'craft' beer made from natural ingredients, targeting educated consumers who understood the benefits of organic produce. The first few years went well as we sold our product to hotels, bars and restaurants throughout Palestine and Israel. However, the downturn following the second Intifada hit us really badly and our sales

12 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_NatAccQ12013E.pdf

13 www.maannews.net/eng/Default.aspx

14 www.portlandtrust.org/publications/peb/issue-78-march-2013

15 www.reuters.com/article/2013/06/24/us-palestinians-egypt-tunnels-idUSBRE95N0H220130624

16 www.todayszaman.com/news-286663-turkey-qatar-will-contribute-to-gaza-reconstruction.html

17 www.maannews.net/eng/ViewDetails.aspx?ID=576402

18 www.theguardian.com/world/2013/jul/19/palestinians-gaza-city-smuggling-tunnels

19 www.weekly.ahram.org.eg/News/3292/32/A-glimpse-into-Gaza%E2%80%99s-tunnels.aspx

20 www.maannews.net/arb/ViewDetails.aspx?ID=620482

21 www.mondovisione.com/media-and-resources/news/thomas-murray-limited-upgrades-the-counterparty-risk-cr-rating-for-the-palesti?disablemobileredirect=true

dropped by 90%. Establishments closed down; there was no tourism and with no port or airport in Palestine and all of our inputs coming via Israel, we had to lay off staff and faced closure. I remember that many who had returned after Oslo closed their businesses and left Palestine.

As we managed to stay in the business, things eventually began to improve around 2005 and the company started flourishing. Other than family members, we now employ 15 people in the brewery, and many more work for us externally (including distribution and sales).

What are the company's plans for the next few years?

Even though we still face significant challenges, the future is looking positive. We are committed to investing in our expansion, and, as such, this week we opened the first winery in Palestine. With the assistance of an Italian expert, we have begun production of cabernet sauvignon, petite syrah and merlot. We hope to have the first bottles on the market by summer 2014. Moreover, the winery is located on the ground level of the new 80-room Taybeh Golden Hotel we are currently constructing as part of our activities in the tourism sector.

Will you continue to organise the Oktoberfest festival in Taybeh alongside these new developments? How did the idea of the festival come about?

From the beginning our company has been orientated towards tourism and we want to play an active role in the industry. Whilst I was Mayor of Taybeh from 2005 I helped create the Taybeh Oktoberfest. The festival has now run for eight years, attracting tourists from all over the world to visit Taybeh and to experience the culture, music, food and drink of Palestine. We also encourage those attending the festival to buy local products, including olive oil, honey, soap and embroidery. We hope that Oktoberfest will carry on for many years to come and that local tourism is further enhanced by the new hotel, which will be integrated with the winery and micro-brewery, as part of a broader agritourism offering in Taybeh.

Madees, the daughter of co-founder Nadim Khoury, is the first female brewer in Palestine. What is the role played by women in the company?

Women are fundamental to our success and four of them

sit on the company's board. My sister, Buthina Khoury, a filmmaker, is a board member and has played an important role in defining the look of our brand. She encouraged Madees to join the company after finishing her Leadership and Management studies in Boston. My wife, Dr Maria Khoury, is vital to all elements of the business, particularly managing the company's PR and the organisation of Oktoberfest. My sister, Dr Grace Khoury, who is also the Director of the MBA Programme at Birzeit University, plays an important part in the marketing of Taybeh Beer and advises us on financial matters.

What is your presence in international markets? Where do you source your production and packing inputs?

In 1998 we franchised the production of Taybeh Beer in Germany to access European markets, following numerous difficulties to export our product from Palestine. From there we source the German market and also export to other European countries. In 2005 we began exporting directly to Japan from Palestine, where all Carrefour stores now sell our beer, together with other Palestinian products. We are now also considering brewing Taybeh Beer in Jordan, after we had to stop exporting there due to a major increase in taxes by the Jordanian authorities. We are also exploring opportunities to brew Taybeh beer in the USA.

Regarding inputs, we have to import everything but water: our malt comes from Belgium and France; hops from Bavaria and the Czech Republic; yeast from England and packaging material from Israel. We used to import bottles from Portugal but then shipping containers started to be repeatedly held in the Israeli port, for periods of up to 70 days. Because of this we had to face extra storage costs and custom fees (making a bottle originally costing 0.5 NIS to cost over 1NIS), so we now buy bottles from an Israeli supplier.

How do you see the prospects for the Palestinian economy?

The current situation is very challenging but I am hopeful we will have a bright future if we achieve peace and stability. It is important for restrictions on movement and access to natural resources to be removed. If we manage to attract investment, particularly from the Diaspora, I believe that the future of Palestine is very promising.

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

© 2013 The Portland Trust

Printed for The Portland Trust in Ramallah by Al Nasher Advertising and PR