

## PALESTINIAN ECONOMIC BULLETIN

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### Main reports

*The Government of Israel has taken steps to ease the flow of goods into the Gaza Strip. Special arrangements have been established for the entry of construction materials.*

*The Palestinian Banking Corporation (PBC) has set up a \$2.5m fund for agriculture, which could increase to \$10m in the longer term. Loans of \$10,000 - \$100,000 will be available for agricultural engineers and farmers.*

*Zawya, a leading online source for investors, has agreed to publish data on the Palestinian market from the brokerage firm Sahem Trading and Investments Company. With over 70,000 subscribers Zawya will expose the Palestinian market to a greater number of investors.*

*The US Overseas Private Investment Corporation has approved \$30m of financing for the Palestinian private equity fund Siraj. The fund is expected to launch later in 2010 and hopes to raise a total capital of \$80m.*

### The Insurance Sector

The first Palestinian insurance conference took place on 29-30 June in Jericho with around 350 participants, including local and international experts and representatives from the public and private sectors. Discussions focused on the developmental prospects for the sector, reinsurance and risk prevention, the relationship between insurance and other sectors of the economy, the legal framework and compulsory insurance.<sup>1</sup>

The importance and potential of the insurance sector was highlighted on the first day. There are currently ten insurance companies operating in the Palestinian Territory: Ahleia Insurance Group, ALICO, Al-Mashriq Insurance, Al-Takaful, Arab Insurance Company, National Insurance Company, Palestine Insurance, Palestine Micro Insurance Finance Trust International and United International Insurance. The General Manager of Ibdaa for Economic and Administrative Solutions, Dr. Basem Makhool, estimated that only 3.5% of the population have insurance and the sector contributes 2-2.5% to Palestinian GDP. With the international average contribution to GDP at around 12%, and over fifty insurance companies in countries like Lebanon, this leaves much room for growth.<sup>2</sup>

Nihad Asad, Director of the Palestinian Insurance Federation (PIF) told the Bulletin that one of the biggest challenges facing the sector is the lack of implementation of the compulsory insurance law. In 2005 it became compulsory for all vehicles to have insurance against injuries incurred in an accident. However it is still not fully implemented.

According to the Ministry of Labour and the traffic police, a lack of capacity means it has not been possible to carry out a full inspection and check if all registered vehicles have insurance. The traffic police conducted a workshop during the conference on this issue. One suggested solution was to link vehicle registration with insurance. It is also compulsory for employers to have insurance to cover the risk of injury in the workplace. However, only 20% of registered companies have such insurance.

It was agreed that a number of measures should be taken to help develop the sector and a set of recommended actions were released at the end of the conference. This includes a review of the insurance law, a study on the tariffs for compulsory insurance, consideration of ways to increase the number of products and services on offer, the development of human resources and organizational structure of insurance companies and raising awareness about insurance. Asad told the Bulletin that the PIF, the Palestinian Capital Markets Authority, and the Palestinian Road Accidents Fund will launch an awareness campaign by the end of this month. It was also suggested that the conference should become an annual event.<sup>3</sup>

<sup>1</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

<sup>2</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

<sup>3</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

## Restrictions on Gaza

On 17 June the Government of Israel announced that it would take steps to ease the flow of goods into the Gaza Strip. The list of permitted items, which in May 2010 included 114 products, was replaced with a list of prohibited goods on 5 July. The list prohibits arms and munitions as well as items which Israel considers as having a potential dual civilian and military use. This includes certain types of fertilizers and chemical, flares and fireworks and missile related technology.<sup>4</sup>

Special arrangements have also been announced to allow the entry of a number of construction materials for projects that have been authorized by the Palestinian Authority and will be implemented and monitored by the international community. This includes ready-made concrete, steel cables and stone products.

## Finance for Agriculture

On 2 June, the Palestinian Banking Corporation (PBC), in coordination with the Ministry of Agriculture, announced a new agricultural fund. The fund will provide loans of \$10,000 - \$100,000 for projects developed by agricultural engineers and small farmers. The first ten loans are expected to be made in the coming weeks. Projects that create employment will be specifically targeted, including those that employ former settlement workers.

The General Manager of PBC, Dr. Amin Haddad, told the Bulletin that the fund will provide 50% of funds required in the form of a loan, with the owner of the project providing the other 50%. Following a successful evaluation of the project the financing from PBC could increase to 70%. \$2.5m will be available at this stage, increasing to \$10m in the longer term.<sup>5</sup>

The PBC also announced that they will be part of a team that will establish a new holding company in the next three months with capital of \$100m. The company will focus on investing in several sectors including agribusiness and export based produce. Dr. Haddad told the Bulletin that he expects the number of investors in the agricultural sector to increase if peace negotiations restart and political stability increases.

Access to finance is a recognized issue for the agricultural sector. Despite contributing 5.2% of GDP and employing 11.8% of workers in Q1 2010, agriculture received less than 1.8% of private sector banking credit.<sup>6</sup> According to the Ministry of Agriculture, \$150m of finance is required each year but only 30% of the demand for credit is being met.

<sup>4</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

<sup>5</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

<sup>6</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

The announcements are part of the Ministry's new strategy that aims to overcome this shortfall.

The PBC is an investment and development bank specifically focused on providing banking services to the private sector. It has a total capital of \$30m and offers a range of services including loan funds for SMEs, finance for larger businesses, trade finance and equity and investment financing. To date 3,238 loans have been made from the PBC, totalling \$111m. The PBC was established in March 2001 and is owned by the Euro-Palestinian Foundation Limited (90%), the European Investment Bank (8%) and others (2%).

## Zawya to publish Palestinian market data

A leading online source for investors, Zawya, has agreed to publish details of the Palestinian market on their platform. Information will come from one of the top Palestinian brokerage firms, Sahem Trading and Investments Company, and includes market reports, analysis on the Palestinian Securities Exchange (PSE) and its listed companies, flash results and details of dividends and new listings.

Zawya is based in Dubai and brings together over 135 local and international content providers, as well as a database of major Arab companies. It currently has over 70,000 subscribers and hundreds of fee-paying premium members.

The agreement means that news on the PSE and updates and reports on the financial situation will be available for a large number of potential investors in the Arab world and internationally. Vice President for Global Affairs at Sahem, Diala Saadeh, told the Bulletin that the fruits of the agreement are already being seen. Several international funds have shown an interest in the Palestinian market through Zawya. This is the first step by Sahem to expose the Palestinian market to wider and more diverse array of investors she added. It is hoped the exposure will help attract foreign investment.

## OPIC Support for Private Equity

On 24 June the US Overseas Private Investment Corporation (OPIC) approved \$30m of financing for the Palestinian private equity fund Siraj. This is part of a bigger OPIC commitment to provide \$455m of financing for private equity funds in the Middle East and North African region overall.<sup>7</sup>

Siraj is a Ramallah-based company owned by Massar International. For its first fund Siraj hopes to raise total capital of \$80m and aims to invest in 20-34 companies. The fund is expected to launch later in 2010.

<sup>7</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

It has a broad investment strategy and plans to target start-ups, distressed companies, SMEs and larger companies in different economic sectors, including information and communication technology, agriculture, clean technology, healthcare, education, manufacturing and financial services.

The minimum investment will be \$250,000 and the maximum \$12m, or 15% of the total expected fund size. No more than 35% will be invested in any one sector and the targeted Return on Investment is 15%. In addition to capital, the fund will offer companies technical assistance, including guidance on corporate restructuring.

## Bethlehem Industrial Park

While its construction is still underway, the Bethlehem Multidisciplinary Industrial Park (BMIP) has already received multiple international investment applications.<sup>8</sup> This includes a spare parts factory for the French car company Renault and other applications from the pharmaceutical and food industries.

Applications will now be put through a screening process. Those factories that are labour intensive will have a priority, as well as those that are environmentally friendly. Local factories have also been encouraged to apply.

A number of incentives are on offer for companies that move to the industrial park. For example, successful applicants will benefit from the investment promotion law and be tax exempt for the first seven years. The Palestinian Industrial Estates and Free Zones Authority (PIEFZA) will cover up to 40% of relocation costs for local firms.

Assistant Project Manager at Palestine Industrial Estate and Free Zone Authority (PIEFZA), Khaled Al- Amleh, told the Bulletin that BMIP is expected to house around 50 local and foreign factories when it opens in 2011, creating around 2,500 jobs.<sup>9</sup>

## Trade with Europe

The EU trade commissioner, Karel De Gucht, recently announced that there are plans to increase Palestinian trade to the EU by granting duty-free and quota-free access for Palestinian exports. The announcement follows a series of meetings between De Gucht and the Palestinian Minister of National Economy, Dr. Hasan Abu Libdeh. De Gucht also confirmed that the EU will support the Palestinian bid for WTO observership.<sup>10</sup>

The new policies are expected to come into effect within the coming months.

8 See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

9 See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

10 See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

They will extend the current free trade agreement which gives Palestinian industrial goods duty free access to the EU. All Palestinian exports – agricultural and industrial – will benefit from the proposed new agreement.

In 2009 total Palestinian trade with the EU equaled only €59m (€52m imports and €7m exports) compared to €71m in 2008 (€64 import and €7m exports). Palestinian exports to the EU predominantly consist of agricultural products, animal and vegetable oils and stone products.<sup>11</sup>

## Israeli-Palestinian Chamber of Commerce

The Israeli-Palestinian Chamber of Commerce (IPCC) held its Second Annual Gala Dinner on 9 June in Tel Aviv with 320 guests. Approximately 50 top Palestinian business people attended the event with the Israeli business community, Ambassadors, representatives from international organisations and government officials.

The IPCC was officially launched in May 2009 and promotes business opportunities, trade and cooperation between Israelis and Palestinians. In its first year of operation a number of B2B events have been held, a Breakfast Club has been launched for its members to meet prominent Palestinian business people, Palestinian business opportunities have been studied and links have been made with other business chambers around the world.<sup>12</sup>

The importance of economic cooperation between the business communities was highlighted at the event, as well as the vital role that the economy can play in paving the way for and supporting political progress.

## Bank Profits

Palestinian banks recorded \$42m of profits in the first quarter of 2010. This is over 50% higher than the same period last year (\$25m profits in Q1 2009) and 5% higher than the previous quarter (\$40m profits in Q4 2009). The Palestinian Banking Association, which reports on the activities of the Palestinian banking sector, also reported a 4% increase (\$310m) in assets compared to the previous quarter, reaching \$8.2bn at the end of Q1 2010.

Customer deposits increased by \$200m, up 3% from the previous quarter to reach \$6.5 bn. Credit facilities also increased, by 16% or \$350m, over the same period. However only 66% of credit was channeled to the private sector compared to 72% in the previous quarter.<sup>13</sup>

11 See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

12 See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

13 See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

## GDP Growth

Preliminary national accounts` estimates, released by the Palestinian Central Bureau of Statistics on 30 June, show that real GDP (base year 2004) was \$1,365m in Q1 2010. This is a 2.9% increase compared to Q4 2009 and a 12.5% increase compared to Q1 2009. GDP per capita also increased in Q1 2010, by 2.1% compared to Q4 2009 and 9.3% compared to Q1 2009.

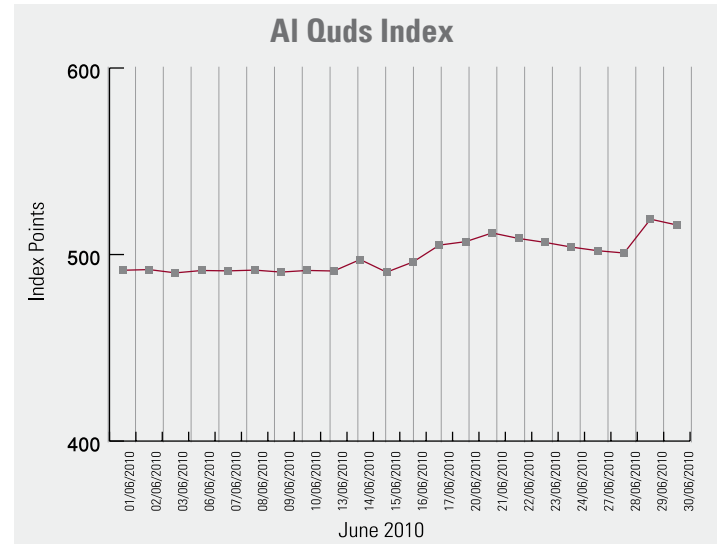
The biggest increases in economic activity, compared to the same period last year, were recorded in the health and social work sector (up 27% since Q1 2009), agriculture (up 20%) and construction (up 19%).<sup>14</sup>

## June Trading News

The AI Quds index increased by 24.26 points, or 4.9%, in June and was the best performing index in the Arab world. It reached 515.84 points on the last day of trading in June after peaking at 518.96 points on 29 June. Despite this rally, after three months of decline the index is still below the year high of 528 points in mid March.<sup>15</sup>

Trade volume was also up 40% compared to May 2010, with 38.5m shares changing hands in 22 sessions in June. The value of traded shares in June also rose, by 87%, to reach \$76.8m. Market capitalisation increased by almost 5% to reach \$ 2.54 bn.

The top performing shares in the AI Quds index this month were Arab Real Estate Establishment (ARE), Palestine Poultry (AZIZA), and Palestine Industrial Investment Company (PIIC) which increased by 53%, 39%, 13% respectively.



<sup>14</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

<sup>15</sup> See: [http://pif.org.ps/site\\_obj/uploads/image/agenda.pdf](http://pif.org.ps/site_obj/uploads/image/agenda.pdf) and June 2010 Bulletin for background

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