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Main reports

Massar International announced the initial closing of the Siraj Palestine Fund at $60m on 3 February. Siraj is the first private equity fund dedicated solely to companies operating in the Palestinian Territory.

Preliminary national accounts' estimates for Q3 2010, released by the Palestinian Central Bureau of Statistics, show that GDP was 0.6% lower compared to Q2 2010. The biggest decrease was seen in agriculture in the West Bank, reflecting seasonal changes in the sector.

The Palestine Economic Policy Research Institute (MAS) released the first Palestinian country report for the Global Entrepreneurship Monitor on 22 January. It found the opportunities for entrepreneurship to be favourable in the Palestinian Territory compared to other MENA countries. However the 'fear of failure' prevents 42% of people from starting a business. Average required start-up capital for new enterprises is around $10,000.

A package of $428m development projects for East Jerusalem was presented to the Arab Economic and Development Summit on 19 January. These projects form part of the PA's new strategic plan for Jerusalem. A committee has been formed to study the proposals.

Amendments to the Investment Promotion Law

On 13 January, Palestinian President Mahmoud Abbas approved new amendments to the investment promotion law. The purpose of the changes is to create a more attractive investment climate in the Palestinian Territory, thereby further encouraging investment, increasing exports, creating jobs and supporting the development process.[1] Preparation of the new law began after the second Palestine Investment Conference took place in Bethlehem June last year. Several workshops and sessions, led by the Ministry of National Economy, were held before the official draft of the law was presented for approval in January 2010.[2]

One of the most important amendments aims to simplify investment procedures and reduce bureaucracy. The existing investment department has been reformed with representatives from the relevant ministries (including the Ministry of National Economy, Ministry of Tourism and Ministry of Finance) playing a bigger role. This will facilitate the faster processing of important licenses and permits. The investment department will also be responsible for following up with investors and ministries as required. The Palestinian Investment Promotion Agency (PIPA) will also be reformed. The PIPA Board will be increased to include 17 members, seven of which will be representatives of private sector institutions and a representative of the Ministry of Local government.[3]

The amendments grant tax exemptions and incentives to new sectors such as real estate development and environmental projects as well as amending the terms of exemption for other sectors. For example, projects in the ICT sector are now granted tax exemptions based on the number of employees, not on the size of capital. Tourism, health and education projects are granted additional exemptions from customs duties and taxes on procurement of furniture and maintenance supplies for five years. Foreign and Palestinian investors now enjoy the same incentives and exemptions.

Specific development projects will also be eligible for exemptions and incentives if recommended by the PIPA Board and approved by the Council of Ministers.[4] The minimum threshold for eligible investment projects has been raised to $250,000 (from $100,000) and the exemption period varies according to the size of the project. Projects from $250,000 to $1m will be tax exempt for seven years; $1m to $5m for nine years; and projects larger than $5m for 11 years.

The law is yet to be put into effect, as this will follow a public information campaign about the new law, which will take place in Palestinian newspapers later in February or early March. Currently, PIPA is in the process of contacting existing investors with projects benefiting from the current investment law no. (1) 1998 in order to go through the necessary procedures to ensure they are eligible under the new law.

1 See: http://it.maannews.net/arb/ViewDetails.aspx?ID=351028
2 See: http://www.alhayat-j.com/newsite/details.php?opt=3&id=127843&cid=2108
3 Draft of Amended Investment Promotion Law as of 19 January 2011.
4 See: http://it.maannews.net/arb/ViewDetails.aspx?ID=351028

$60m Siraj Closing

On 3 February Massar International announced the initial closing of the Siraj Palestine Fund at $60m. Siraj is the first private equity fund dedicated to investing in companies operating in the Palestinian Territory. Commitments came from a diverse group of investors including the Overseas Private Investment Corporation (OPIC), the Soros Economic Development Fund and various Palestinian companies and individuals.

The founder and Chairman of Massar International, Bashar Masri, said that 'the strong response received from local and international investors underscores a clear determination to revive the Palestinian economy as well as to encourage direct foreign investment. We hope to see additional funds launched in the near future targeting Palestine.'

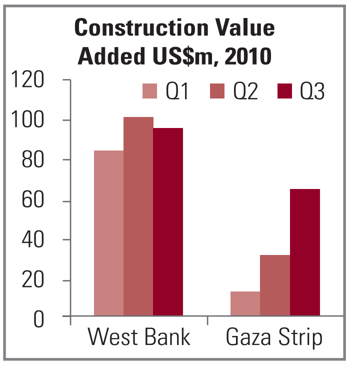
Massar expect the fund to reach $80m by its final closing in a few months time. Siraj is now carrying out due diligence on a range of companies and its first investments are expected within a month.[5]

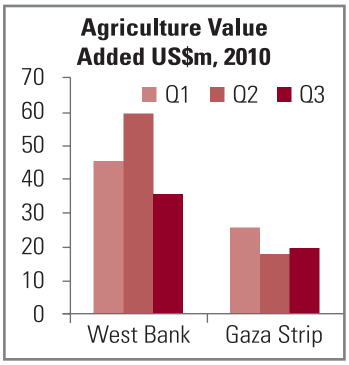
Quarterly GDP Figures

Preliminary national accounts` estimates, released by the Palestinian Central Bureau of Statistics (PCBS) on 4 January, show that real terms GDP (base year 2004) reached $1,409m in Q3 2010 ($1,019m from the West Bank and $390m from Gaza). This is a 7.8% increase compared to the same period last year (Q3 2009).

However, on a quarterly basis, Palestinian GDP was 0.6% lower compared to Q2 2010. While economic activity in the Gaza Strip increased by 8% during Q3 2010, it fell by 3.5% in the West Bank over the same period, thus reducing Palestinian GDP overall.[6]

Agricultural activity decreased significantly in the West Bank in Q3 2010, by over 40%, reflecting seasonal changes and high agricultural activity in Q2. Activity in both the construction and mining and manufacturing sectors also decreased, but less significantly, at 9% and 6% respectively. Conversely, in the Gaza Strip, construction, agriculture and mining and manufacturing were up by 71%, 12% and 22% respectively.





5 See: http://www.siraj.ps/press_view.php?id=2 and July 2010 Bulletin and August 2010 Bulletin for further background.

6 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/pressQ3-10_%20E.pdf

Palestinian Entrepreneurship Report

The Palestine Economic Policy Research Institute (MAS) released the first Palestinian country report of the Global Entrepreneurship Monitor (GEM) on 22 January 2011.[7] The results showed that there are greater opportunities for entrepreneurship in the Palestinian Territory than in other MENA countries.[8] However, Palestinians were found to be lacking in confidence about their skills, knowledge and experience and are therefore less likely to set up a new business than their regional counterparts. The 'fear of failure' prevents 42% of people from starting a business.

According to the study most new Palestinian entrepreneurs are 25 - 44 year old men with high school diplomas. Understandably the study found that there is higher entrepreneurial activity in the West Bank than the Gaza Strip. 38% of Palestinian entrepreneurs are motivated by necessity rather than opportunity. The average needed start-up capital is around $10,000, 39% of which is self-financed and 61% comes from other sources – including family members, microfinance institutions, friends and neighbours, work colleagues, banks, government programmes and venture capital funds.

10% of newly established Palestinian businesses closed in 2009. In 2010 this number decreased to almost 4%, which is less than the rate for factor driven countries (e.g. Saudi Arabia, Venezuela, Uganda) but still more than for efficiency-driven (e.g. Russia, Brazil, China) and innovation-driven countries (e.g. Japan, Germany, USA).[9] The key reason for Palestinian businesses closing was non-profitability (57%) followed by a lack of ongoing finance (28%).

GEM is an international research effort - initiated in 1999 by the G7, Denmark, Finland and Israel - that studies entrepreneurial activity in different countries. The GEM definition of entrepreneurship focuses on the creation and sustainability of new businesses. In 2010 the GEM initiative involved researchers from more than 75 countries worldwide, making it the largest single study of entrepreneurial activity in the world.

Jerusalem

The Jerusalem unit of the Presidential Office released the PA's strategic development plan for East Jerusalem for years 2011-2013. The plan was prepared by the Arab Studies Association and was funded by the EU.

7 See: http://www.pal-econ.org/index.php?option=com_docman&task=cat_view&gid=46&Itemid=29

8 The GEM MENA region grouping of countries includes Algeria, Jordan, Lebanon, Morocco, Palestine, Syria and Yemen.

9 'Factor-driven countries' compete based on their factor endowments, primarily unskilled labour and natural resources. Companies in factor-driven countries compete on the basis of prices and sell basic products or commodities, with their low productivity reflected in low wages. 'Efficiency-driven countries' begin to develop more efficient production processes and increase product quality. 'Innovation-driven countries' sustain higher wages and standards of living if their businesses are able to compete with new and unique products

The objective of the plan is to improve the livelihoods of Jerusalemites, reduce unemployment and poverty in East Jerusalem and revive the economy. The study highlights the lack of an institutional framework for East Jerusalem. A number of measures are proposed to deal with the problem. This includes procedures to foster partnerships and coordination between public, private and civil society institutions.

The strategy also includes an investment plan for East Jerusalem. The estimated budget is $428m. 18% of this will be devoted to social development and protection, 77% to economic development and 5% to the protection of human rights.

The PA presented the $428m investment plan to the Arab Economic and Development Summit that was held in Egypt on 19 January 2011. The plan includes $127m for projects in the tourism sector, $125m for housing projects, $77m for the development of the financial sector, $26m for the education sector, $16m for youth programmes and $15m for heritage and culture projects.[10]

At the summit a committee was formed to study the projects proposed by the PA with a view to financing them from the Jerusalem and Al-Aqsa Funds dedicated for Palestinian socio-economic development.[11]

New Industrial Establishments

On 18 January, the Industrial Unit at the Ministry of National Economy issued 133 new licenses for the construction of factories and other premises in the industrial sector.[12] The licenses will inject a total investment of 52.5m JD ($74m) in the sector. Most investments are in the foods and drinks sub-sector (34%) and the construction, marble and stone industries (24%).

The sector includes several sub-sectors, namely stone and marble, textiles and garments, food processing, engineering and metallurgical industries, chemical industries, pharmaceuticals and veterinary, construction materials, handicrafts, paper and printing, furniture, leather and shoes, and plastics. The sector's share of GDP was 11.5% in Q3 2010, down from 14.4% in Q3 2009.[13]

Inflation

According to a Palestinian Central Bureau of Statistics (PCBS) report published on 13 January, the Consumer Price Index (CPI) increased by 3.75% during 2010 to reach 131.36 at the end of the year. Prices increased 5.25% in Jerusalem, 4.24% in the West Bank, and 1.72% in the Gaza Strip. The highest price rises were seen in the alcoholic beverages and tobacco group (12%) followed by education services (6%). Within the food group the highest increases were seen in olive oil prices (20%), sugar (17%) and vegetables (11%).[14]

Several union representatives have expressed concern that the methodology used to calculate CPI does not reflect reality and that wage increases do not compensate for the higher prices. PCBS calculates CPI using the internationally agreed standard of measuring 950 items according to local household consumption. The Head of the Union of Government Employees, Bassam Zakarneh, has publicly argued that CPI should instead be calculated using a basket of 200-300 basic goods and services (e.g. wheat, gas, transport etc.). [15]

MAS annual conference

The Palestine Economic Policy Research Institute (MAS) held its annual conference in Ramallah on 23-24 January 2011. The conference was titled 'Palestinian Economic Unity: A Key for Ending the Occupation and for Sustainable Development'. More than 200 policy makers, businessesmen, economists, academics and civil society representatives from the West Bank attended the event alongside the small number of participants from Gaza that were able to attend.

In his keynote speech the Palestinian Prime Minister, Dr. Salam Fayyad, emphasized the importance of this year's conference given the current separation between the West Bank and the Gaza Strip. This was followed by a number of presentations addressing the issue of economic integration and physical connectivity within the Palestinian economy.

Topics covered included the role that the Gazan economy can play in the sustainable development of a future independent Palestinian state and the mechanisms at work in Gaza's economy. Many recommendations were made throughout the conference. Political reconciliation between the West Bank and the Gaza Strip was highlighted as the main milestone for integrated economic development. It was suggested that the high population density and urbanised economy of Gaza should be considered an opportunity rather than a weakness. The importance of having an effective internal transport system within the West Bank and the Gaza Strip, and between them, was also highlighted as a key factor for substantial future economic development.

Trading

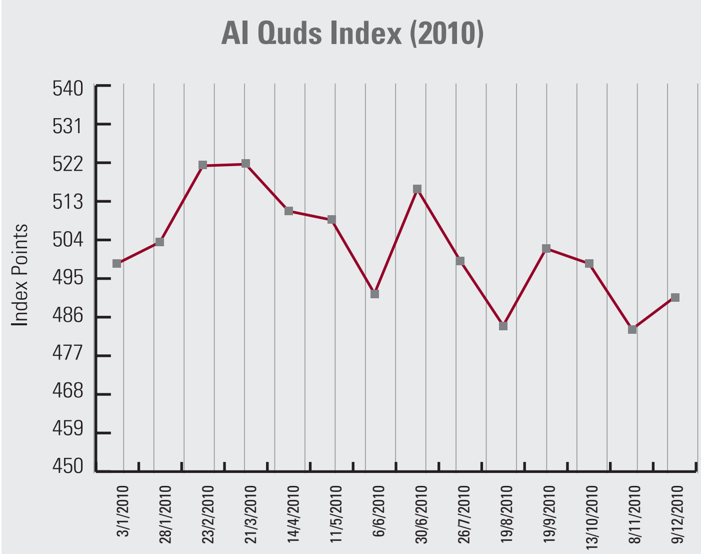
The Al Quds index closed at 489.5 points on the last day of trading in January, compared to 489.6 points on the last day of trading in December 2010. The index peaked on 23 January at 507.89 points and was at its lowest on 30 January with 489.31 points.[16]

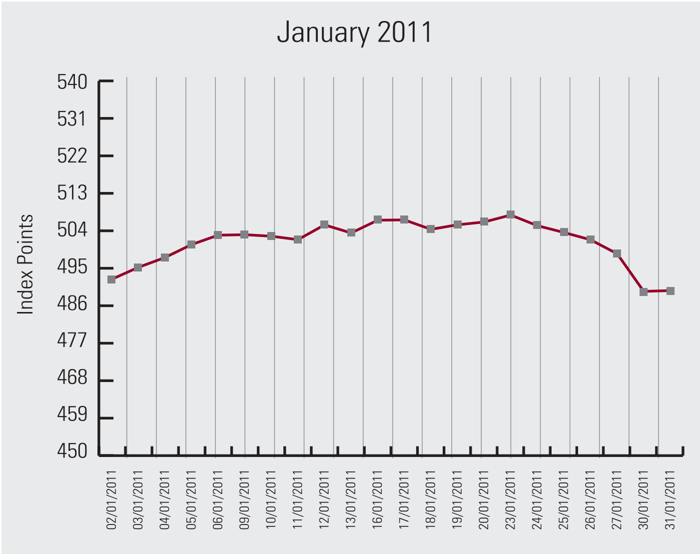
10 See: http://www.alquds.com/node/319660
11 See: http://www.arabeconomicsummit.org/Declar2List.aspx?ID=3 (page 19)
12 See: http://www.maannews.net/arb/ViewDetails.aspx?ID=352139
13 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/pressQ3-10_%20A.pdf (Table 5)
14 See: http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/CPI_arabic%202010.pdf
15 See: http://www.maannews.net/arb/ViewDetails.aspx?ID=351853
16 See: http://www.p-s-e.com/PSEWebSite/NASHRA/20110131.pdf

Trade volume decreased slightly compared to December 2010, with 17.6m shares changing hands in 22 sessions. The value of traded shares decreased by $16m, or 36%, to reach $28m. Market capitalization increased by 13% to reach $2.76bn. This increase reflects the listing of Wataniya in January. The best performing shares were the Arab Real Estate Establishment (ARE) and the Palestinian Distribution and Logistics Services (WASSEL), which saw price increases of 18% and 7% respectively.

During 2010 the Al Quds Index performance was relatively stable although it decreased overall. It began the year at 498.46 on the first day of trading and ended at 489.60. The high point was recorded on 10 February at 532.65 points and the index reached its lowest point, of 480.67, at the end of November.

On 1 January the Palestine Securities Exchange announced a new sample for the Al-Quds Index for the year 2011. The Index still includes 12 of the companies listed and represents 80% of total market capitalization. The criteria for choosing the companies are stock liquidity, turnover ratio, market capitalization, the number of transactions executed through 2010 and other factors. Three companies included in the 2010 index (Union Construction and Investment (UCI), Al Rafah Microfinance Bank (AMB) and Golden Wheat Mills (GMC)) have been replaced by Palestine Real Estate Investment (PRICO), Palestine Islamic Bank (ISBK) and Jerusalem Cigarettes (JCC).[17]





17 See: http://www.p-s-e.com/PSEWebSite/NEWS/Press%20Release-Alquds-Index-Change-for-2011-Eng%20E.version.doc. The 2011 Al Quds Index includes the following companies across different sectors. Services: Palestine Telecommunications (PALTEL), Palestine Electric (PEC), and Palestinian Distribution and Logistics Services (WASSEL). Banking and Finance: Arab Islamic Bank (AIB), Bank of Palestine (BOP), and Palestine Islamic Bank (ISBK). Insurance: AHLIEA Insurance Group (AIG). Investment: Palestine Development & Investment (PADICO), Palestine Industrial Investment (PIIC) and Palestine Real Estate Investment (PRICO). Industry: Birzeit Pharmaceuticals (BPC) and Jerusalem Cigarettes (JCC).

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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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