The Portland Trust

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Main reports

A recent study by the World Bank assesses the potential economic benefits of lifting restrictions on, and obstacles to, Palestinian investment in Area C.

Palestine was ranked 138th out of 189 economies in the 2014 edition of The World Bank's 'Doing Business'. This represents a relative drop of two positions with respect to the previous year.

In 2012 Palestine's International Investment Position (defined as external assets minus foreign liabilities) decreased by a quarter with respect to the previous year.

In October 2013 the overall Consumer Price Index (CPI) marked a year-on-year increase of 1.9%.

The Arab Center for Agricultural Development, a Palestinian microfinance institution, signed a $5.3m equity agreement with a number of European partners.

Palestinian Private Sector Economic Initiative

A number of Palestinian business leaders have begun implementation of a private sector-led investment initiative originally launched by them in early 2013. The main aspects of the initiative are summarised in a new report, entitled 'Beyond Aid: A Palestinian Private Sector Initiative for Investment, Growth and Employment.'[1] The document identifies a number of investment opportunities and private sector-led projects across five high-potential economic sectors: agriculture, information technology & digital entrepreneurship, tourism, construction, and energy. These were chosen as part of an assessment of over 20 economic sectors in terms of their potential for growth and job creation. Analysis carried out with the support of The Portland Trust (which built on contributions from international experts and over 250 Palestinian private sector stakeholders) also estimates that the projects defined for these five high-potential sectors could add up to around $8bn in incremental GDP and create up to 160,000 direct jobs and around 230,000 indirect jobs by 2030.

The Portland Trust's Chairman, Sir Ronald Cohen, said: *"The Palestinian economy offers attractive growth prospects and this powerful private sector initiative identifies specific business opportunities worthy of both domestic and international investors."*

Questioned about the motivation of the private sector to put together the initiative, Samir Hulileh, CEO of PADICO Holding and one of the members of the Coordinating Committee overseeing its implementation, told the Bulletin "*In a context of economic stagnation and persistent high unemployment, Palestinian businesses cannot sit idle. We have come together to take greater responsibility for, and command of, our economic future by defining a long-term vision and creating a practical plan of action."*

The original Coordinating Committee which launched the initiative also included business leaders Ammar Aker (Paltel Group), Bashar Masri (Massar International), Dr Mohammad Mustafa (Deputy Prime Minister for Economic Affairs and CEO of Palestine Investment Fund), and Hashim Shawa (Bank of Palestine), as well as the economist and researcher Dr Samir Abdullah (Palestine Economic Policy Research Institute - MAS). More recently, other local and diaspora business figures have joined the Committee and initial sector working groups have been established.

Looking forward, Hashim Shawa emphasised that "*Beyond Aid* is *an initiative in motion; therefore we expect projects to be enhanced and added as we progress. We hope we can continue to expand engagement in this plan of action, which we aim to drive together with colleagues across the wider private sector, the public sector, civil society and the Palestinian diaspora*." Dr Samir Abdullah considered that *"Coordinated action by the private sector will support both the international and PA efforts to resume strong private sector-led growth,*

1 www.portlandtrust.org/publications

the most feasible avenue to alleviate unemployment and poverty. As such, the initiative fosters the steadfastness of the Palestinian people, and creates a more conducive environment for the peace process."

World Bank Report on Area C

A recent study by The World Bank assesses the potential economic benefits of lifting restrictions on, and obstacles to, Palestinian investment and economic activity in Area C.[2] Current total losses due to restrictions are estimated at about $3.4bn per year. Area C makes up 61% of the West Bank territory and is the only contiguous land connecting 227 population centres. According to the 1993 Oslo Peace Accords, the area was to be gradually transferred to the Palestinian Authority (PA) by 1998, a move that did not take place. Area C is regarded as 'key to future Palestinian economic development' by The World Bank, as the majority of the West Bank's natural resources, including fertile agricultural land, lie in this area.

Direct economic benefits were evaluated across a number of economic sectors. Access to arable land and the availability of water for irrigation could contribute $704m per year in agriculture value added to the Palestinian economy (around 7% of 2011 GDP). The study estimates irrigable surface in Area C to be around 400,000 dunums (almost 50% of total agricultural land in the West Bank). Development of the agriculture sector is much needed: its contribution to Palestinian GDP dropped from 13% in 1995 to 6% in 2011 and agricultural productivity, measured by output per worker, halved during this same period.[3]

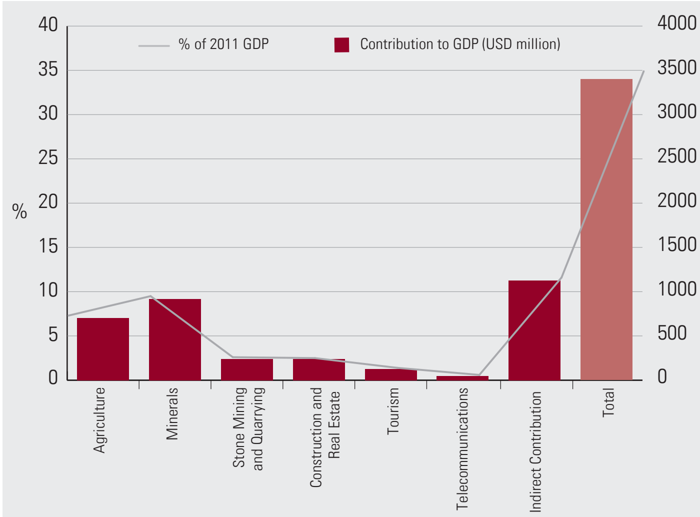
The World Bank reports that Israel and Jordan contribute 73% of global bromine production by exploiting minerals in the Dead Sea area. Palestinian access to bromine, potash and magnesium resources available in the Dead Sea is estimated to have the potential to contribute $918m in value added (or 9% of GDP) to the economy.

Activity in the Stone, Mining and Quarrying sector, currently an important contributor to employment, is constrained since Palestinian companies are not able to extend their operating permits in Area C. Increased access to resources leading to the development of new mining and quarrying operations could result in incremental value added of $240m.

Additionally, lifting of restrictions on construction of buildings in Area C (needed as Area A and Area B are very densely populated) could expand the construction and real estate sector and contribute an additional $239m per year to the economy. Tourism activities (currently severely limited in Area C) could generate an extra $126m in value added per year if the building of tourist complexes is permitted in the Dead Sea area. By connecting Areas A and B, Area C also offers suitable locations for the installation of 3G towers. If allowed, this could contribute $48m in the telecommunications sector (around 0.5% of GDP).

Significant indirect benefits are also expected from Palestinian access to economic activity in Area C. The World Bank analysis states that these "*would arise from improvements in the quality and cost of physical and institutional infrastructure, as well as spillover effects to other sectors of the economy."*

Figure 1: Area C: Potential contribution by economic sector



Source: The World Bank

The volume of increased economic activity in Area C would also greatly improve the Palestinian Authority's fiscal position. It is estimated that government revenues would increase by $800m, which would cut the public deficit by half. The World Bank also highlighted reduced unemployment, poverty and aid dependence among potential benefits.

Doing Business Rankings 2014

The World Bank's annual 'Doing Business' report uses a series of indicators to quantify the ease and difficulty for entrepreneurs to open and run small to medium sized businesses. In this year´s edition Palestine was ranked 138th out of 189 economies.[4] This is three absolute positions lower than in the 2013 ranking, but represents a relative drop of two positions given that one of the four new economies incorporated to the 2014 report ranks 81st (San Marino). Palestine ranks behind Israel (35th), Lebanon (111th), Jordan (119th) and Egypt (128th).

In terms of starting a business, Palestine ranks 143rd, a major improvement from the 179th position achieved in 2013. This was due to the fact that there are now 9 procedures to go through (down from 11 in the previous

2 www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/10/03/000456286_20131003173450/Rendered/PDF/AUS29220GZ0Are030Box379840B00OUO090.pdf

3 www.siteresources.worldbank.org/INTWESTBANKGAZA/Resources/AHLCMarchfinal.pdf

4 www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB14-Full-Report.pdf

year), which can take up to 43 days (down from 45 in 2013 and 106 in 2005). Notably, the paid-in minimum capital required to start a business in Palestine was eliminated (it was over 200% of income per capita in 2013), in line with practices observed in Israel, Egypt and Jordan.

The cost of starting a business, including registration fees (e.g. with an official body or a chamber of commerce), stood at 85.5% of income per capita (down from 91% in the previous year). This remains sensibly higher than in Israel (4.1%), Egypt (9.7%) and Jordan (22.3%), while it is similar to the level observed in Lebanon (76.5%).

In terms of protecting investors, the West Bank and Gaza is still relatively well ranked (80th), although it lost several positions with respect to the previous year (when it ranked 49th). Palestine still ranks higher than Egypt (147th) and Jordan (170th), but has been overtaken by Turkey (ranked 34th, up from the 70th position in 2013). The indicator is based on an index that measures the strength of large private companies' minority shareholder protection against directors' use of corporate assets for personal gain.

2012 International Investment Position

In 2012 the stock of investments of Palestinian residents outside Palestine (external assets) exceeded investments in Palestine by non-residents (foreign liabilities) by $532m.[5] Overall, Palestine´s International Investment Position (IPP - defined as external assets minus foreign liabilities) decreased by a quarter in 2012 with respect to the previous year. The year-on-year change is largely explained by the fact that the increase in total external assets (stocks of residents in Palestine including individuals, institutions and government invested abroad) of $29m was more than offset by an increase in total foreign liabilities (stocks of non-residents including individuals, institutions and governments invested in Palestine) of $218m. According to the Palestine Monetary Authority, the recorded growth in foreign liabilities can be partially attributed to a new, more comprehensive data measurement methodology employed in 2012. While in previous years data came exclusively from a survey of companies, in 2012 statistical reports from the Palestine Stock Exchange were incorporated to complement survey data.

Nearly three quarters of total external investments in Palestine were made in the banking sector. At the same time, most of the growth in total foreign liabilities took place as a result of an increase of $200m in foreign portfolio investments (FPI) in Palestine, while the stock of foreign direct investment (FDI) remained largely unchanged form the previous year (table 1). FDI is generally preferred over FPI, which can be withdrawn more quickly and easily. FDI inflows not only bring capital into the economy but also typically imply know-how and skills transfers.

5 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_IIPExD2012E.pdf

Table 1: IIP in 2011 and 2012

	2011	2012	% Change
International Investment Position	**$721m**	**$532m**	**-26.2%**
Total External Assets	**$5,233m**	**$5,262m**	**+0.6%**
FDI Abroad	$192m	$232m	+20.8%
Portfolio Investments Abroad	$1,147m	$1,030m	-10.2%
Other Investments Abroad	$3,397m	$3,336m	-1.8%
Currency and Deposits	$3,326m	$3,234m	-2.8%
Reserve Assets	$497m	$664m	+33.6%
Total Foreign Liabilities	**$4,512m**	**$4,730m**	**+4.8%**
FDI in Palestine	$2,328m	$2,336m	+0.3%
Foreign Portfolio Investments in Palestine	$611m	$811m	+32.7%
Foreign Other Investments in Palestine	$1,573m	$1,583m	+0.6%
Loans from Abroad	$1,208m	$1,040m	-13.9%
Currency and Deposits	$359m	$443m	+23.4%

Source: PCBS and PMA

Inflation

The overall Consumer Price Index (CPI), measuring changes in the prices of a basket of goods and services purchased by Palestinian households, reached a level of 140.6 points in October 2013, marking a year-on-year increase of 1.9%.[6] The average CPI for the first ten months of 2013, for its part, was 1.7% higher than in the equivalent period of 2012.[7]

Prices rose by 3.6% in the West Bank between October 2012 and October 2013, while they decreased by 0.2% in Gaza. Inflation was observed in the West Bank despite the drop in GDP registered in the first quarter of the year and the continued economic slowdown during Q2.

At the national level, the highest price increments between October 2012 and October 2013 were recorded in Alcoholic Beverages and Tobacco (12.2%), Education (9.2%), and Housing (5.9%). These items represent, respectively, 4.6%, 3%, and 8.7% of average household expenditure in Palestine.[8]

At the same time, year-on-year price drops were observed in Transportation (-1.9%), and Textiles, Clothing and Footwear (-1.4%). These two consumption categories represent 11.1% and 6.6% of average monthly household expenditure, respectively.

In a context of economic slowdown, even moderate consumer price inflation is likely to continue to result in real wage drops by the end of the year, following a long-term trend of nominal wages growth falling behind CPI inflation (Table 2). As a result, between 2004 and 2012 real wages declined by an average of 1% per year.

Table 2: CPI and Nominal Wages in Palestine (2004-2012)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	% Change (2004-2012)
CPI	100	104.11	108.11	110.12	121.01	124.34	129	132.71	138.24	38.24%
Nominal Average Daily Wage (current NIS)	66.8	68.8	73.7	73.2	76.4	79.7	77.9	77.8	79.8	19.46%

Source: PCBS

6 www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-cpi-October-12-2013.htm
7 www.pcbs.gov.ps/Portals/_Rainbow/Documents/e-cpi-ave-2013.htm
8 www.pcbs.gov.ps/Portals/_Rainbow/Documents/Expenditure_2011_e.htm

Microfinance for Women and Farmers

On 11 September the Arab Center for Agricultural Development (ACAD), a Palestinian microfinance institution, signed a $5.3m equity agreement with the European Investment Bank (EIB), the French social investment company Solidarité Internationale pour le Développement et l'Investissement (SIDI), the Grameen Crédit Agricole Microfinance Foundation (GCAMF) and the Amsterdam-based investment management firm Triple Jump.[9] Funding came from ACAD ($3m), the EIB ($1m), SIDI ($0.5m), GCAMF ($0.5m) and Triple Jump ($0.3m). The EIB is making its first financial contribution to support a microfinance institution in Palestine, and will also provide technical assistance.

The agreement established a new for-profit microfinance institution, ACAD Finance Co., which is expected to become functional by early 2014. The new company will focus on the provision of micro- and small-scale loans and will act as an independent organisation.

Loans will promote sustainable development in rural areas and Area C with the objective of reducing inequality, supporting micro and small entrepreneurs (in particular women and farmers) and creating sustainable jobs. In the short term, ACAD Finance aims to finance over 25,000 micro- and small-scale projects for a total amount of $43m. Products offered by ACAD Finance will include group loans, micro and small individual loans and consumption loans. Loans will range between $500 and $8,000 and will have a repayment period of six to 36 months (depending on the size of the loan). Interest rates will depend on the amount of loan and are expected to be higher than rates offered by banks (and comparable to the rates offered by other microfinance institutions).

Construction activities in Gaza

The closure of Gazan trade tunnels by Egypt is negatively impacting construction activities in the Strip. It is estimated that the almost total interruption of tunnel trade following the destruction of almost 90% of all tunnels represents a total monthly loss of around $230m to the Gaza economy.[10]

9 www.europa.eu/rapid/press-release_BEI-13-135_en.htm
10 www.english.ahram.org.eg/NewsContent/3/12/84969/Business/Economy/Tunnel-closure-costs-Gaza--million-monthly-Officia.aspx

Gaza is believed to rely on tunnels to meet 40% of its construction materials supply. As reported by OCHA, 1,052 truckloads (or 67,000 tonnes) of construction materials entered Gaza on a monthly basis, prior to the closure.[11]

During the first week of November, the UN had to disrupt works on 19 out of 20 of its building projects in Gaza after Israel banned imports of construction materials into Gaza.[12] The ban came after the discovery of a 1.8 km long tunnel running from Gaza Strip into Israel on 13 October, which raised security concerns. As the Bulletin went to print OCHA reported that "the total halt in the transfer of basic construction materials (primarily cement, steel bars and aggregate) into Gaza via Israel, both for international organisations and the private sector, continued for the fifth week in a row." The UN organisation also reported that "the very limited quantities of available construction materials are being sold in the local market at more than twice the June 2013 prices, especially for cement and aggregates."[13]

Construction is particularly relevant to economic activity in Gaza. Interruptions to the flow of materials might result in poor overall growth, since growth in the sector explained around 80% of total GDP growth in the Strip during Q1 2013.[14] Construction activities represented more than 27% of Gaza GDP in Q2 2013, up from 7% in Q2 2010 and around 20% in Q2 2011.[15]

October Trading News

In October the Al-Quds index increased by 1.9%, reaching its lowest (471.20 points) and highest (479.13) levels on the first (1 October) and last (31 October) days of trading, respectively. A total of 6.8m shares worth $10.4m were traded in 18 sessions. Market capitalisation was $2.9bn.

In related news, during Q3 2013 companies listed on the Palestine Exchange (PEX) jointly achieved total net profits after tax of $188.7m, almost 30% more than in the equivalent quarter of 2012.[16] 77% of all listed companies were profitable in Q3 2013, up from 65% in Q3 2012.

11 www.ochaopt.org/documents/ocha_opt_protection_of_civilians_weekly_report_2013_10_31_english.pdf
12 www.haaretz.com/news/middle-east/1.556464
13 www.ldf.ps/documentsShow.aspx?ATT_ID=7862
14 www.pcbs.gov.ps/portals/_pcbs/PressRelease/Press_En_NatAccQ12013E.pdf
15 www.pcbs.gov.ps/Portals/_Rainbow/Documents/GDP-Contribution%202009-2013E.htm
16 www.pex.ps/PSEWebSite/NEWS/061120133.docx

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