

PALESTINIAN ECONOMIC BULLETIN

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Main reports

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Palestinian companies are to put forward proposals to build up to 10,000 new hotel rooms in East Jerusalem, Bethlehem and Jericho over the next three years. Projects worth nearly \$300m will be presented at the Palestine Investment Conference.

Following March's court victory over unpopular measures to enforce the payment of utility bills, the trade unions reached a formal agreement with the PA in April to end the strikes protesting this move.

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Investment Conference

The list of projects to be presented at this month's Bethlehem Palestine Investment Conference (PIC), has been approved. Hundreds of potential projects from Palestinian businesses, individuals, municipalities and universities were sent to the PIC team for consideration. The 105 most feasible projects were chosen to be presented. Some of the projects will be showcased at special sessions in the conference.

The projects are valued at almost \$2bn. Most come from the construction, tourism and ICT sectors. In some cases, investors will be faced with a choice of competing proposals, such as three offers to introduce WiMAX broadband technology to the West Bank. Others, such as the proposed teaching hospital at Najah University, may be considered for more philanthropic investments.

Some of the more imaginative proposals include using locally-available resources to produce products which would otherwise be imported. Examples include a \$73m plant to convert solid waste into electricity, and Hebron Municipality's 'Dry Sludge' project, which will extract calcium carbonate for building materials from the waste product of the stone and marble quarrying process. Several of Gaza's \$258m projects, such as the fish farm, grain silos and desalination plant, are clearly designed to reduce vulnerability and dependency on Israel, while also making money for their investors at the same time.

A total of 1,800 invitations were sent out and so far 804 people have registered – more than double the number expected. The majority of potential investors, many of them members of the Palestinian Diaspora, will be coming from the UAE and Jordan. Israel has promised to ensure their access to the event is as smooth as possible. In addition, official delegations from China, Japan, Russia, Sweden, the UK, France and the US will attend, in most cases led by government ministers. High-profile speakers have been booked to address the conference, but so far their names are being kept a closely-guarded secret.

Housing deals

Following work initiated by The Portland Trust on the provision of Affordable Housing in the Palestinian Territory, Bayti ('my house') Real Estate Investment Company, signed an agreement with the PA on 20 April setting out joint responsibilities for the construction of a new town north of Ramallah. The new development (called 'Rawabi' – 'the hills' – after a competition to choose the name), will initially contain 5,000 housing units, to be priced at between \$40,000 and \$80,000. In addition to providing homes for up to 25,000 people, it is hoped that the project will provide thousands of jobs over the five-year construction period.

Affordable Housing was presented as a key priority in the Palestinian Reform and Development Plan at the Paris Donor conference. International donors were asked to fund the internal and external infrastructure and public facilities. Infrastructure, including roads, schools and medical facilities, will be provided by the PA as part of the Bayti deal, and will also benefit the surrounding seven villages. Bayti told the Bulletin that construction will start as soon as the master plan is finalised, hopefully by the end of the year.

On 14 April, the Palestine Investment Fund (PIF) formally launched its \$1.5bn scheme whose goal is to provide 30,000 housing units for low- and middle-income Palestinian families over the next five years. Underpinning this scheme is the establishment of AMAL ('hope') – the Affordable Mortgage And Loan Company – for which a Memorandum of Understanding was signed on the same day between PIF, the Overseas Private Investment Corporation (OPIC), the World Bank Group's International Finance Corporation (IFC), the Bank of Palestine (BOP) and the Palestine Mortgage and Housing Corporation (PMHC). OPIC, which is also a partner with PIF on the Loan Guarantee Scheme, will provide up to \$250m, PIF, IFC and BOP \$75m each and PMHC up to \$15m. The UK's Department for International Development announced that it will provide up to \$20m for the project.

Long-term mortgage financing is all but unavailable in the West Bank and Gaza Strip, where most property transactions are conducted in cash and are thus the preserve of the wealthy. The \$500m AMAL scheme aims to make mortgages available worth between \$40,000 and \$70,000 on up to 25 years' duration, which should open the market to those earning under \$1,000 per month. This will be an important step to encourage both home ownership and economic growth. However, according to a forthcoming PIF report on the housing market, 73% of Palestinians say they have no idea about the benefits of mortgage financing. The total outstanding mortgage portfolio in 2007 was only \$60m ¹.

Private sector priorities for PA

Representatives of the private sector met Prime Minister Fayyad and other PA Ministers on 23 April, as part of an ongoing dialogue between the sides to improve the business climate in the Palestinian Territory. A list of items was previously discussed and prioritised by key private-sector stakeholders, including individual businessmen, the Palestine Federation of Industries, PalTrade, the Palestine Shippers Council

and Chambers of Commerce. The following concerns, out of 40 issues raised, were at the top of the agenda:

Public Administration: Reducing the cost of utilities; accelerating the process of tax and customs refunds and; establishing permanent mechanisms for encouraging foreign investment.

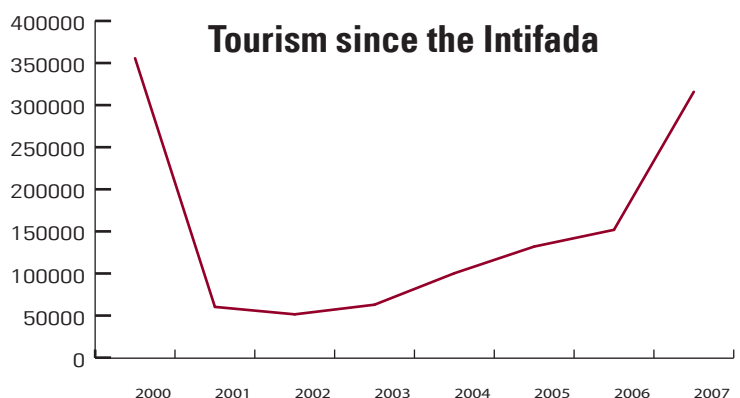
Legal Environment: Institutionalising a consultative process with the private sector to define priorities for laws and regulations (two at the top of the list are approving the amended Investment Promotion Law and preparing a law on using movable assets as collateral).

Relations with Israel: Taking private-sector considerations into account when conducting negotiations and; asking international partners to put pressure on Israel to lift the Gaza blockade and remove barriers to the movement of people and goods.

Eye-catching announcements concerning these and other issues are expected at the Palestine Investment Conference. But the overall objective of the April meeting was to establish clear and permanently open channels of communication for the private sector to air its concerns to the government.

Plans for \$300m hotel investment

According to a recently released PCBS survey², the number of guests staying in hotels in the Palestinian Territory more than doubled between 2006 and 2007, almost approaching pre-Intifada levels. By the end of the year, 315,866 guests had spent 673,458 nights in Palestine's 82 hotels, up 108% from the previous year and only 11% below the number in 2000. Emboldened by these numbers, Palestinian companies are putting forward proposals to build up to 10,000 new hotel rooms in East Jerusalem, Bethlehem and Jericho over the next three years. Projects worth nearly \$300m will be presented at the Palestine Investment Conference.



¹<http://www.pif.ps/etemplate.php?id=338>

²www.pcbs.gov.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=585&mID=11170

Although room occupancy rates are still only at 25%, they have approached 90% at times, with bookings last Christmas at their highest for seven years. The planned investment would treble the number of rooms available.

Developing the tourist industry is one of Tony Blair's 'Quick Impact Projects' announced in November last year. The Palestinian Reform and Development Plan earmarks \$32m to tourism, with the goal of doubling its contribution both to GDP and employment.

PADICO restructuring

In a major restructuring, the Palestine Development and Investment Company (PADICO) will focus on investments abroad and opportunities in the West Bank and Gaza.

Current CEO Farouk Zouaiter is to lead foreign investments, while Portland Trust Executive Samir Hulileh is to become CEO of the Group and will concentrate on the Palestinian side of the business.

PADICO's founder and chairman, Munib al-Masri, estimates that the Group accounts for between a quarter and a fifth of the Palestinian economy. Hulileh intends to sell off loss-making investments in industry and replace them with finance and real estate ventures. He also plans to take PADICO into new sectors.

AHLC Meet in London conference

Members of the Ad Hoc Liaison Committee met in London on 2 May to provide further impetus to last year's meetings in Annapolis and Paris. The core group of donors, as well as donors who pledged at least \$100m to the Palestinian Reform and Development Plan (PRDP), were joined by Prime Minister Fayyad and Israeli Foreign Minister Livni. The Norwegian chairman of the meeting, Jonas Støre, urged all donors "to channel as much as possible of their contributions directly through the PA, as direct support to the state-building process."

Reports released by the World Bank and IMF to coincide with the meeting praised the PA's progress in implementing its reform agenda, including cutting the public-sector wage bill and net lending. The IMF also noted that cooperation between the Palestinian and Israeli Ministries of Finance has been good, leading to the recent repayment of clearance revenues withheld since 2006.

Donors were praised for having followed through on many of their December commitments, but were warned that the PA faces a recurrent expenditure shortfall in the second half of 2008 of around \$400m - partly due to the depreciation of the dollar, and partly because donors have over-committed to development projects and under-funded budget support. Some of the \$500m pledged for development projects in 2008, over and above the amount actually requested in the PRDP, could be reallocated. This would allow the PA to stick to its commitment not to lengthen its shopping list as a result of its Paris windfall.

If donors and the PA meet the PRDP targets, the IMF projects real GDP to grow by 3% in 2008, rising to 5.5% in 2009 and 6.5% in 2010, broadly in line with the projections outlined in the PRDP (3.5%, 5% and 6%). But both macroeconomic frameworks are based on scenarios whereby Israel gradually reduces restrictions on movement and access. According to the latest UN³ report, the number of obstacles to movement in the West Bank increased to 612 in March, compared to a monthly average of 552 during 2007. At these levels, even with external financing and fiscal reform, the IMF predicts per-capita GDP to fall by 2% annually until 2010, and unemployment to hit 30%.

Strike deal reached

Following March's court victory over unpopular measures to enforce the payment of utility bills, the trade unions reached a formal agreement with the PA in April to end the strikes protesting this move (see February 2008 bulletin). The deal includes establishing a committee to recommend ways of alleviating cost-of-living increases, as well as the repayment of all remaining public-sector wage arrears by October. These amount to around \$220m, and will significantly increase pressure on the PA's expenditure in the second half of the year.

Corporate News

Palestinian companies reported healthy profits for the first quarter of 2008, with 26 out of the 33 PSE listed firms that disclosed their results ending March in the black. Of the fourteen biggest Palestinian companies, only one posted a loss in the first quarter.

Partly as a result of this performance, the stock market saw another record month of trading, with the Al-Quds index hitting a two-year high of 738.7 points. It closed the month at 714 points, an increase of 8.9% during April and

³www.pcbs.gov.ps/desktopmodules/newsscrollEnglish/newsscrollView.aspx?ItemID=585&mID=11170

35.6% since the beginning of the year. Sufyan Barghouti, head of the Ramallah branch of the PSE, told the Bulletin that the mood was optimistic, spurred on both by good corporate earnings and by increased interest by foreign investors in the market.

In 22 trading sessions, 57.1 million shares changed hands, an increase of 24.9% over March. The value of shares traded – the vast majority being the three high-value stocks of PADICO, Bank of Palestine and PalTel – increased by 82.1% to reach \$234.4 million, while market capitalisation rose by 10% to \$3.2 bn.

Q1 2008 Performance of biggest Palestinian companies(preliminary results)⁴

Listed company	Reuters RIC	Pre-tax Profit 2007	Pre-tax Profit 2006	Change
Banking				
Al-Quds Bank for Development & Innovation	QUDS	\$ (110,499)	-\$ 362,515	+131%
Arab Islamic Bank	AIB	\$ 1,812,556	\$ 1,301,280	+ 39%
Bank of Palestine	BOP	\$ 8,568,304	\$ 4,172,324	+105%
Palestine Investment Bank	PIBC	\$ 2,199,110	\$ 1,112,635	+ 98%
Industry				
Birzeit Pharmaceuticals	BPC	JD 836,997	JD 879,752	- 5%
Jerusalem Cigarette	JCC	JD 965,032	JD 955,427	+ 1%
Jerusalem Pharmaceutical	JPH	JD 707,946	JD 442,094	+ 60%
Services				
Palestine Electric	PEC	\$ 2,730,387	\$ 1,358,666	+101%
Palestine Telecommunications	PALTEL	JD 22,698,588	JD 13,015,334	+ 74%
Insurance				
Ahliea Insurance Group	AIG	\$ 809,160	\$ 948,656	- 15%
National Insurance	NIC	\$ 1,246,427	\$ 1,441,342	- 14%
Investment				
Palestine Development & Investment	PADICO	\$ 8,324,000	\$ 16,239,000	- 49%
Palestine Real Estate Investment	PRICO	JD 218,294	JD 424,397	- 49%
Union Construction & Investment	UCI	\$ 152,388	\$ 22,488	+ 578%

⁴ Market capitalisation over \$30m

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