

## PALESTINIAN ECONOMIC BULLETIN

Issue 21  
June 2008

### Main reports

*The Watan Company for Development and Investment was launched at the Palestine Investment Conference. The holding company has an initial \$100m for investment (slated to increase to over \$500m) and plans to open three factories producing cement, iron and YTONG bricks. Watan also plans to merge two Palestinian banks.*

*In the first Palestinian pharmaceutical consignment to Europe, Pharmacare or Dar Al-Shifa exported 2.4 million capsules of Tramal (an opioid painkiller) to Germany, following its award of the European Good Manufacturing Practice certificate in January by the German Ministry of Health.*

*The EU will provide €3.7m to settle the outstanding bills of 94 small and medium sized companies servicing the PA. The financial support will be administered by the EU financing mechanism PEGASE.*

*The PA and the European Commission formally re-launched the European Neighbourhood Policy (ENP) process in May, upgrading bilateral ties and furthering EU support for the future sustainable Palestinian state.*

### Real boost from Palestine Investment Conference

Investing in the West Bank and Gaza need not be altruistic, but a chance to achieve “considerable returns for those businesses prepared to get in the elevator on the ground floor.” So said Juan José Daboub, Managing Director of the World Bank, on the second day of the inaugural Palestine Investment Conference (PIC). Eminent speakers queued up to talk of Palestine’s “enormous untapped potential”, buoyed by its skilled, youthful and low-cost workforce, investment-friendly laws, modern banking system, dynamic private sector, natural resources and beneficial trade agreements.

The mood among the 1,200 or so visitors was optimistic, as they listened to presentations on manufacturing, construction, tourism, ICT, agriculture and finance, with special sessions on Gaza and East Jerusalem. By the end of the conference, deals worth an eventual \$1.4bn were agreed. Kamal Hassouneh, the Minister of National Economy, told the Bulletin that he was “very satisfied” with the outcome.

There is no doubt that more deals are in the pipeline. The construction sector looks comfortably placed to realise several of the 26 projects presented in Bethlehem, and two big housing projects worth \$500m (see May’s Bulletin) have secured co-financing with Qatari and Saudi money. Likewise, ICT emerged strongly from the event. Over 40% of the business-to-business meetings focused on this sector. The eagerly-awaited broadband system took a step closer with the announcement of a \$480,000 grant from the US Trade and Development Agency to the Palestinian firm BCI to develop a WiMax system in 10 West Bank cities. Meanwhile, Intel announced a range of education and digital inclusion initiatives, including the launch of a new multi-core computer lab at Birzeit University.

So is the “coiled spring”, as Sir Ronald Cohen described the Palestinian economy, about to unleash all that trapped potential energy? This depends on the actions of the two main forces: Israel and the PA. As Robert Mosbacher, President and CEO of the Overseas Private Investment Co-operation, told the conference, “lasting peace and stability is not possible when there is no economic growth.”

The Bethlehem Declaration on *Organising Public-Private Dialogue and Partnership* announced at the conference pledged that the PA would continue to work alongside the private sector to address its concerns in the fields of administrative reform, legislation and relations with Israel. A ministerial committee is being set up, headed by Prime Minister Fayyad, to institutionalise this relationship. The government committed to expand the role of the private sector in the implementation of the Reform and Development Plan (PRDP) – a step welcomed by the private sector. Considerable progress has already been made in creating a more conducive investment environment.

The crucial challenge now is to maintain the momentum and goodwill generated by the conference. This does not simply mean organising a similar event in 2009. As Dr Hassan Abu Libdeh, PIC CEO, told the Bulletin, "it is important to strike while the iron is hot". His suggestions include support for marketing, a series of road-shows abroad, the production of a regular investment guide detailing viable new investment projects, and the formation of an investors' intelligence unit to advise potential investors and connect them with Palestinian businesses. In addition, smaller, sector-specific conferences should be held in Palestine, and a separate event should be organised for small and medium-sized enterprises. The PA is currently considering how to institutionalise such moves.

Dr Abu Libdeh noted that the conference laid important foundations in the way the PA relates to and supports the private sector; in breaking the taboos on the flow of investment from outside Palestine; and in enabling the private sector to take the lead in mobilising the resources required for employment and development.

## **New Holding Company**

One of the more eye-catching announcements made at the Investment Conference concerned the formation of the Watan Company for Development and Investment, with investors from Palestine, Jordan and other Arab countries. The initial \$100m declared at the conference is slated to increase to over \$500m. The diverse investment portfolio includes projects in the housing, education, health, and financial sectors. The Bulletin interviewed Akram Abdel-Latif, one of the major shareholders, about Watan's plans for the first cement factory in the Palestinian Territory and the merger of two banks.

Abdel-Latif estimated that at least \$250m of investment was needed to cover future Palestinian demand for cement with the prospect of major housing and other construction deals underway. Watan had both the will and the financial clout to open a successful plant, which will be located near Jenin. It should be operational within three years. Watan also plans to finance factories producing iron and YTONG blocks.

Abdel-Latif, in his other role as Chairman of Al-Quds bank, confirmed that there are plans afoot to merge Al-Quds bank with the Palestinian branches of the Jordanian Commercial Bank. Although he stressed that the merger has not yet been presented to the board, and that many procedures would have to be finalised with both the PMA and the Central Bank of Jordan, he pointed out there were several positive auguries. Both banks share the same external auditor, which could help facilitate the

merger, and the other key investor in Watan is Michael Sabagh, Chairman of the Jordanian Commercial Bank. The new bank would have a paid-in capital of \$70m and with assets of over \$320m it would become the second largest Palestinian bank.

## **Pharmaceutical Milestone**

In an historic move for the burgeoning Palestinian pharmaceutical industry, the first consignment of Palestinian medicine was dispatched to the European market at the beginning of June. The Palestinian pharmaceutical company Pharmacare or Dar Al-Shifa exported 2.4 million capsules of Tramal (an opioid painkiller) to Germany, following its award of the European Good Manufacturing Practice certificate in January by the German Ministry of Health. A ceremony was held to mark the event at the company's headquarters in Ramallah where Prime Minister Fayyad noted that if such Palestinian products are able to penetrate the European market despite the ongoing restrictions, tomorrow will be even better when these obstacles are eventually removed.

Pharmacare was established in 1985 and employs 235 people, mostly graduates. Since 1993 the firm has exported drugs to the less-regulated African, Asian and Eastern European markets, but Europe marks a new chapter in the company's history. CEO Bassim Khoury said that European sales would be worth €1m in 2008, with orders from its German partner Grunenthal for antibiotic and ulcer treatment medicine. By the end of 2010 he expects Pharmacare, which also owns Pharmacare Europe, to have a turnover of €30m and employ approximately 500 staff.

Like other local firms, Pharmacare develops generic drugs, but Khoury told the Bulletin that Pharmacare is the only one to have a dedicated research department. It is currently working on cancer treatments, and hopes to be the first Palestinian firm to market its own branded medicines. The company plans to float on the Palestinian Securities Exchange by the end of 2008.

## **Jenin receives \$3m from US**

US Consul General Jake Walles announced a government grant of \$3m at the end of May for development projects in the Jenin governorate. The money will support local business and rehabilitate health facilities and schools. Walles hoped that the projects would benefit the day-to-day life of the entire governorate population, strengthen the local economy and create jobs in the private sector.

## Helping Hand for Palestinian Firms

June will see the official launch of the Palestinian Facility for New Market Development (PFNMD), which aims to assist Palestinian firms to expand into new markets both in Palestine and internationally. The 3-year project will provide grants of up to \$50,000 for individual enterprises and \$100,000 for consortia to finance business development services relating to improving managerial and technical knowhow, upgrading product quality and branding, conducting market research and forging links with overseas firms. The PFNMD will also gather data on local obstacles to growth and seek to promote first-time exporters.

The \$7m facility, mainly financed by DfID with a \$1.2m contribution from the World Bank, is being managed by DAI Palestine. Denis Dunn, the general manager, told the Bulletin that other donors were also interested, and the project had the potential to expand significantly if local demand was high.

## EU settles PA debts to private sector

The EU will provide €3.7m to settle the outstanding bills of 94 small and medium sized companies servicing the PA. The financial support will be administered by the EU financing mechanism PEGASE.

The support comes at a time of multiple efforts to invigorate the private sector. John Kjaer, European Commission Representative in Jerusalem, believes that "the arrears payment scheme not only helps the Palestinian Authority to balance its books, but it injects some much needed cash directly into the economy".

## ENP Relunched

Officials from PA Ministries and the European Commission and Member States convened the 'Joint Committee' on 19 May for the first time in three years. Together they formally re-launched the European Neighbourhood Policy (ENP) process, upgrading bilateral ties and furthering EU support for the future sustainable Palestinian state. Resuming all aspects of EU-PA relations means the PA will be now treated like other governments in the Middle East.

The 60 participants at the meeting exchanged views about the energy, trade and environment sectors as well as political and social reform, set out in the joint ENP Action Plan. The plan also covers many of the aspects of the Palestinian Reform and Development Plan (PRDP). Alix de Mauny from the European Commission Technical

Assistance office explained that three sub-committees (economic issues and trade; social issues; and energy, transport, environment, science and technology) will meet to discuss and implement ENP projects.

## Employment and Youth

The PCBS released the results of its first quarter labour force survey<sup>1</sup>, which showed a slight increase overall in unemployment rates in Q1 2008 from the previous quarter. ILO-definition figures rose from 22.2% to 22.6% in the Palestinian Territory. The unemployment rate fell in the West Bank (from 19.2% to 19.0%) but rose in Gaza (from 29.0% to 29.8%). Jerusalem residents are clearly benefiting from the booming Israeli economy, as the East Jerusalem unemployment rate fell from 13.9% to 10.9%. Average daily wages in the city rose to 134.3 NIS. The daily wage for Palestinians not employed in Israel or the settlements rose to 84.8 NIS in the West Bank but fell to 63.6 NIS in Gaza.

The highest rate of unemployment remains among those in the 15-19 (37.3%) and 20-24 (36.8%) age groups. In April, the Sharek Youth Forum<sup>2</sup>, carried out a telephone survey of 1,220 people aged 16-25 about their socio-economic attitudes. A third thought personal contacts were the most important factor in obtaining a job, 28% practical experience and 20% a university degree. They blamed unemployment on national policy shortcomings (31%), a saturated labour market (26%), and a lack of investment opportunities (16%). Many (36%) said they would consider emigrating, of whom 44% cited economic reasons, 29% social freedoms and 22% education. The most popular type of future profession was business (25%), followed by education (23%), engineering (17%) and medicine (13%).

## More Palestinians working in Israel

A report prepared for the annual ILO conference<sup>3</sup> in late May showed that although the total number of Palestinians working in Israel and the settlements is far below pre-Intifada levels, the number of work permits issued for Palestinians has increased by around 9,000 since 2005 (although not all the permits are used). But the system is seen to encourage trafficking of workers, with an estimated 15,000 Palestinians currently working without a permit. 8.3% of the estimated 63,000 Palestinians working in Israel and the Israeli settlements have Palestinian identity while 7.7% have Israeli or

1 See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Q1e\\_2008.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Q1e_2008.pdf)

2 See: [www.sharek.ps/eng2.php](http://www.sharek.ps/eng2.php)

3 See: [http://www.ilo.org/global/About\\_the\\_ILO/Media\\_and\\_public\\_information/Press\\_releases/lang--en/WCMS\\_093578/index.htm](http://www.ilo.org/global/About_the_ILO/Media_and_public_information/Press_releases/lang--en/WCMS_093578/index.htm)

foreign identity.<sup>4</sup> Almost half work in construction. Wages are on average 1.7 times higher than in the West Bank, but the conditions of work were often described by interviewees in the report as 'cumbersome, arbitrary and humiliating'. Diverging views on policy emerged whether to increase the number of Palestinians working in Israel or discourage the dependence on the Israeli labour market.

## Q1 2008 hotel success

First-quarter hotel statistics were released by the PCBS<sup>5</sup>, which show that the recovery in the sector continues. Almost as many guests stayed in Palestinian hotels during the first three months of 2008 as in the traditionally strongest fourth quarter (86,700 compared to 89,000), with more nights spent (207,800 compared to 199,100). Compared to the first quarter of 2007 the upturn is startling: the numbers of guests are up by 76%, nights by 96% and room occupancy by 117%. The best first-quarter figures since before the Intifada will strengthen the case for the 26 tourism-based projects proposed by Palestinian businesses at the Investment Conference.

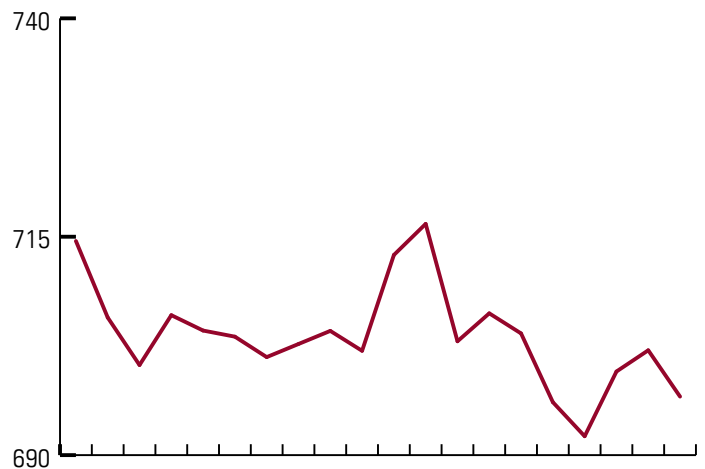
<sup>4</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/Q1e\\_2008.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/Q1e_2008.pdf)

<sup>5</sup> See: [http://www.pcbs.gov.ps/Portals/\\_PCBS/Downloads/book1434.pdf](http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1434.pdf)

## Slow trading month

The Al-Quds index of leading shares finished the month at 696.7 points, down 2.4%. May saw lacklustre trading compared to April, with 42.8 million shares worth \$182.8m changing hands, decreases of 25% and 22% respectively. The accumulative market capitalization was \$3.1bn, 3% lower than the previous month. PADICO was by far the most important stock traded, although its share price hardly changed. The main excitement came with the floating of Trust International Insurance Company on 13 May, the fifth such firm to be listed on the PSE. The opening price of \$3.40 rose to \$5 before finishing the day at \$4.60 (and the month at \$4.27).

## May Trading



## The Portland Trust

42 Portland Place  
London W1B 1NB

P.O. Box Al Bireh 4102  
Ramallah Al Masyoun

Azrieli 3  
132 Menachem Begin Road, Tel Aviv 67023

Email: [feedback@portlandtrust.org](mailto:feedback@portlandtrust.org)  
Website: [www.portlandtrust.org](http://www.portlandtrust.org)

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](mailto:feedback@portlandtrust.org)

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