



هيئة تشجيع الاستثمار الفلسطينية  
Palestinian Investment Promotion Agency



# Palestine Investment Guide



## Vision of the Future Palestinian State

“Palestine is an independent Arab State with full sovereignty over the West Bank and the Gaza Strip on the 1967 borders, with East Jerusalem as its capital. Palestine is a stable democratic state that respects human rights and guarantees equal rights and duties for all citizens. Its people live in a safe and secure environment under the rule of law and it promotes equality between men and women. It is a state which highly values its social capital, social coherence and solidarity, and identifies itself with the Arab Palestinian culture, humanistic values and religious tolerance. It is a progressive state that values cordial relations with other states and people in the global community. The Palestinian government is open, inclusive, transparent and accountable. It is responsive to its citizens’ needs, delivers basic services effectively, and creates an enabling environment for a thriving private sector. Palestine’s human resources are the driving force for national development. The Palestinian economy is an open economy that strives to produce high value-added, competitive goods and services, and, over the long term, aspires to become a knowledge-based economy.”

**(Reform and Development Plan 2008 - 2010)**



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# Executive Summary





## **The Palestinian Economy:**

The Palestinian economy has a diversified structure in which different sectors contribute to the Gross Domestic Product (GDP). In 2009, the sectoral contributions to GDP were: Agriculture and Fishing 8.1%. Mining, manufacturing, water and electricity 14.6%.

Construction 7.4%. Transport, storage and communications 8.7%. Brokerage 5.5% and financial services 17.5%.

GDP increased by 6.5% in 2009, while real per capita incomes increased by 3%. This growth is largely the result of augmented development activities, which significantly expanded at the end of 2007 and the beginning of 2008. The most prominent feature of the development activity is that it included all sectors in the West Bank.

Development in the Gaza Strip is still disabled due to the Israeli blockade that has been in place for years. The macroeconomic framework for the reform and development plan expects a 15% increase in GDP in the year 2010.

## **Human Capital:**

The population in West Bank and Gaza Strip reached approximately 4 million at the end of 2009. The education level among Palestinians is classified as the highest in the Arab region. Demographically, 57% of the Palestinian population is under 20 years of age and 65% is under 25. Close to 5 million Palestinians live abroad. These people represent an important source of capital and relationships with international markets. The labour force is considered skilled and enjoys good relations and an outstanding reputation among investors. Palestinian human capital provides a genuine opportunity for business growth.



## **Natural Resources:**

Fertile soil and a moderate climate provide optimum agricultural conditions; some lands can be harvested two to three times a year. Dead Sea salts and minerals form a rich source of natural resources. The West Bank also enjoys large stock of rock that produce high quality stone and marble; the value of which reaches close to US\$500m per annum. Presently, stone and marble are exported to around 40 countries. Also, natural gas has been discovered on the Gazan coast, which could potentially possess quantities up to 1 trillion square feet of natural gas.<sup>[1]</sup>

## **The Government:**

The PNA is committed to the freedom and the leading role of the private sector as the driver of growth and development in West Bank and Gaza Strip. The Palestinian Reform and Development Plan 2008-2010 represents the imperative to build an environment that is conducive to the flourishing of the private sector; “The Palestinian Economic Vision is to bring about a free, varied, blossoming economy under the leadership of the private sector. It is open to regional and global markets and provides an economic basis to a free, democratic and just society.”

## **The Legal and Regulatory Framework:**

The PNA focuses on creating an inclusive legal framework, which provides the means to facilitate the establishment of commercial projects. This applies to both direct and indirect local and foreign investment. The 1998 Investment Promotion Law supports the development of industrial free zones and gives special incentives for investors, including certain income and customs tax exemptions.

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[1] MAS (2008) Economic and Social Monitor, Vol.12, April 2008



Income tax for individuals and companies is capped at 16%. Furthermore, the PNA signed trade agreements that offer preferential treatment for Palestinian exports in regional and global markets.

### **The Infrastructure:**

The PNA and the donor community have invested approximately US\$250 million annually in infrastructure between 1995 and 2000. Funds were directed to the rehabilitation of electrical, road and water networks and heightened efficiency of these systems. Despite persistent political obstacles after 2000, the PNA renewed its development activities in mid 2007 and allocated more than US\$2 billion for its Reform and Development Plan 2008-2010. These activities have resulted in a tangible improvement in infrastructure services. Additionally, the PNA opened the communication and electricity sectors to private investment, facilitating the establishment of the first Palestinian company for land and mobile telephony – PalTel.

### **Main Governorates**

#### **West Bank Governorates/Districts:**

Tulkarem, Jerusalem, Bethlehem, Jericho, Ramallah and Al Bireh, Hebron, Nablus, Jenin, Qalqilya, Tubas and Salfit

#### **Gaza Governorates/Districts:**

Rafah, Gaza, North Gaza, Deir Al Balah and Khan Younis

### **Highest Officials**

President: Mahmoud Abbas (Abu Mazen), January 15, 2005

Prime Minister: Salam Fayyad, June 15, 2007



## **Main Newspapers**

1. Al Quds Newspaper (Arabic)  
[www.alquds.com](http://www.alquds.com)
2. Al Ayyam Newspaper (Arabic)  
[www.al-ayyam.com](http://www.al-ayyam.com)
3. Al Hayat Al Jadeedah (Arabic)  
[www.alhayat-j.com](http://www.alhayat-j.com)

## **Currencies Used**

The US Dollar (\$US), the Jordanian Dinar (JD) and the New Israeli Shekel (NIS)

## **Religious and National Holidays**

Eid el-Fitr, Eid Al-Adha, Christmas Day, Easter Sunday, New Year's Day, Labor Day, Independence Day, Isra and Mi'raj, Hijra New Year, The Prophet's Birthday.

## **Units**

Kilometre  
Dunum (1,000 square metres)  
Liter (1,000 cubic millilitres)

# The People and the Resources





## 2-1 Population

The population of the West Bank and Gaza Strip reached approximately 4 million people in 2009, 62.1% in the West Bank including East Jerusalem and 37.9% in the Gaza Strip. Including the Diaspora, the Palestinian population is estimated at 10 million.<sup>[2]</sup> Palestinian society is characterised by high population growth, reaching 2.9% annually in 2008 and 2009.<sup>[3]</sup> Demographically, Palestinian society is predominately young; in 2007, 54.8% of the population was less than 20 years old. The rate of population less than 20 years old in the West Bank is 51.8% and is 59.7% in the Gaza Strip.

This age group is decreasing, while the numbers of those aged 15-64 is increasing, reaching 52.9% of population in 2007 (55.3% of the population in the West Bank and 49.0% in Gaza Strip).

Population density in the West Bank and Gaza Strip was approximately 654.5 people per km<sup>2</sup> in 2007. Population density varies across the region and between different Palestinian areas. The population density is very high in the Gaza Strip (4,004 people per km<sup>2</sup>) in comparison with the West Bank (432 people per km<sup>2</sup>). Gaza is considered among the most densely populated parts of the world.

## 2-2 Geography and Climate

Palestine has an excellent geographical location, forming an economic and cultural platform and point of contact between three continents – Europe, Asia and Africa.

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[2] PCBS (2010) Journalism Report: The Conditions of the Palestinian Population in 2009

[3] PCBS (2010) Estimates of the Population in the Palestinian Territories, Mid-Year According to Governorate from 1997 to 2010 (edited estimates) [http://www.pcbs.gov.ps/Portals\\_PCBS/Documents/GOVER1997-2010A.htm](http://www.pcbs.gov.ps/Portals_PCBS/Documents/GOVER1997-2010A.htm)



The combined area of the West Bank and the Gaza Strip (6,020 km<sup>2</sup>) constitutes 23% of the area of pre-1948 Palestine under the British Mandate. The West Bank covers 5,655 km<sup>2</sup> and is 130km long and ranges between 40 and 65 km in width. The land area of the Gaza Strip is equal to 365 km<sup>2</sup> and is 40 km long and 5-12 km wide.<sup>[4]</sup>

West Bank and Gaza Strip can be characterized by its geography, biodiversity and its multi-climate that varies between coastal, desert, mountains and valleys.

The Gaza Strip is located on the Mediterranean coast, in which there are flat beaches and mild waves, it also has sand dunes on the eastern part. The West Bank is more diverse, featuring four topographic zones. The Jordan River Rift Valley is a fertile plain, offering excellent conditions for agricultural production, while the Eastern Slopes overlooking the Valley are a rocky, semi-arid area, leading down to the Dead Sea. The Central Highlands constitute the largest zone, rising 1,000 metres above sea level in places and a semi-coastal zone is found in the west and north-west.

The climate is Mediterranean, with hot, dry summers and wet, mild winters. The temperature and rainfall vary with altitude and between topographic zones. This variation provides an attractive setting for tourism as well as cultivation.

In 2009, data indicates that the average monthly temperature reached 12.2 degrees Celsius in January and 39.8 in July<sup>[5]</sup>. Rain is the main source of water in Palestine. The amount of rainfall varies from year to year, depending on geographical diversity and topography of each region. During 2009, rainfall ranged between 115.7ml in the Jericho area and 593.1ml in the Jenin area.

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[4] PASSIA (2006) Yearbook

[5] PCBS and the General Administration for Weather Forecasting for the International Forecasting Day Press Release 23 March 2010



## 2-3 Natural Resources

### 2-3-1 Land

Palestine is considered to be an agricultural country where agriculture is concentrated on field crops, vegetables and fruit. 1,854 km<sup>2</sup> of Palestinian land is under cultivation and is harvested twice a year in some areas.

At present, however, Palestinians do not control all of the available land in the West Bank and Gaza Strip. Since 1967 – and especially since the late 1970s – Israel has pursued a policy of confiscating Palestinian public and private land, mainly to construct settlements and to create land reserves for future expansion.

In 2007, after two years of the Israeli disengagement from the Gaza Strip, which entailed the evacuation of 17 settlements in the Gaza Strip and four in the West Bank, the Palestinian Central Bureau of Statistics counted 144 ‘formal’ Israeli settlements in the West Bank, of which 26 are located in Jerusalem.<sup>[6]</sup> Besides these settlements, there are over a hundred other ‘unauthorised outposts’. 450,000 Israeli settlers inhabit the settlements and 40% of them live in the large settlement blocks around Jerusalem.<sup>[7]</sup>

Israel continues to attempt to Judaize the land with de-facto impunity, where Palestinian lands are still at risk of confiscation especially in Jerusalem and the surrounding areas.

The Israeli authorities demolished houses of Palestinian families in Jerusalem for the purpose of settlement building and confiscated identity cards, despite the official position of the international community condemning these settlements as illegal according to Article 49 of the Fourth Geneva Convention and various resolutions

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[6] PCBS (2007) Statistical Report on Israeli Settlements

[7] PASSIA (2008) Yearbook



of the UN Security Council.

### 2-3-2 Water

There are many water sources in the Palestinian territories, and Palestinians depend on the public network of water, wells, water tanks and other sources. The public water networks (the local water network and the Israeli water company) are the main source of water for about 83% of the population.

The primary source of water in Palestine is groundwater, extracted via wells or springs. The Mountain Aquifer system has an annual recharge of 679 million cubic metres (mcm) – 83% of which lies within the West Bank – while the Gaza Coastal Aquifer has a much smaller annual recharge of about 55 mcm/year. However, over-pumping of Gaza groundwater, at a rate of 110 mcm/year, has resulted in the salination and deterioration of the aquifer's water quality. Palestinians also rely heavily on rainfall, although the amount of precipitation varies considerably between different years. Rainwater harvested in cisterns supplies an estimated 6.6 mcm annually.<sup>[8]</sup>

### 2-3-3 Other Natural Resources

Dead Sea salts and minerals represent a unique natural wealth. This resource, however, is not available to the Palestinians since Israel controls all exploitation rights. The West Bank also possesses large amounts of good-quality marble and exploration indicates the existence of commercial quantities of natural gas off the Gaza Strip's coastline.

#### The Dead Sea

The Dead Sea is considered one the most important and significant natural resources in the world. It attracts tourists in addition to the

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[8] Palestinian Hydrology Group (2004) *Water for Life*



economic importance of its minerals and salts. These represent a unique natural wealth that is used in many industries such as salt, cosmetics and medicine.

### **Stone and Marble**

The West Bank possesses large amounts of good-quality marble, which is concentrated in the north and south of the West Bank where the land is more flat.

The stone and marble manufacturing in Palestine proved to be the finest and largest in the region, it is also one of the most developed Palestinian industrial sectors not only in terms of its products but also in the skilfulness of its workers and the level of technology used.

### **Natural Gas**

In 1999, natural gas was discovered off the coast of the Gaza Strip. The Palestinian National Authority granted British Gas company a concession for exploration of the natural gas. This confirmed the existence of commercial quantities, worth between US\$4-6 billion. After the company involved won a franchise to develop the Gaza Fields, it turned to Egypt as a market to sell this natural gas. They also received an offer to buy gas from Israel, who placed unacceptable conditions in their offer for both Palestinians and British Gas. British Gas owns 60% of the shares, the Consolidated Contractors Company owns 30% and the Palestine Investment Fund (PIF) owns 10% of the shares.

# The Palestinian Economy





### 3-1 Overall Indicators: National Accounts, Growth and Inflation

Despite the particularly unstable situation in the Gaza Strip, the Palestinian economy achieved positive growth, reaching 6.8% in 2009. Furthermore, there was a corresponding increase in GDP per capita, which reached around US\$1,390 at the end of 2009. The GDP per capita however remains at 84.7% of 1999 levels when it reached a high of US\$1,640 (see Table I).

**Table 1: Economic Growth at Constant Prices, Selected Years**

	*1995	*2000	2005	2006	2007	2008	**2009
GDP (US \$m)	3,193.2	4,118.50	4,559.50	4,322.30	4,554.10	4,820.90	5,147.20
Growth rate (%)	6.0	8.7	8.6	5.2	5.4	5.9	6.8
GDP Per Capita (\$)	1,388.20	1,450.20	1,387.20	1,275.40	1,303.20	1,340.40	1,389.90
GDP Per Capita Growth Rate(%)	(1.3)	(11.6)	5.3	(8.1)	2.2	2.9	3.7

Source: MAS (2010) Observer of the Economic and Social Council, No.20, Ramallah, Palestine.

\* The base year is 1997 (1997 = 100).

\*\* Figures are preliminary and subject to revision

The level of inflation in the Palestinian territories is moderate. In 2010, the rate of inflation was only 1.2%, down from 2.8% in 2009. During the period between 2004 and 2008, the annual rate of inflation reached 4.4%. Price levels have risen, and remain high, because of the global food crises and the rising costs of energy.



Despite this, the level of inflation in the West Bank and Gaza Strip remains acceptable.

**Table 2: GDP Contribution by Sector in 2009**

Economic Activity	Percentage Contribution to GDP
Agriculture and Fishing	8.1
Metal, Water and Electricity	14.6
Construction	7.4
Trade, Retail and Wholesale	10.7
Transportation	8.7
Financial Mediation	5.5
Hotels and Restaurants	1.3
Education, Health and Social Work	11.7
Public Administration and Defence	14.5
Other Services	17.5
Total	100

Source: PCBS (2009) National Accounts

### 3-2 The Sectoral Structure of the Palestinian Economy

The vast majority of establishments operating in the Palestinian economy in most sectors are SMEs<sup>[9]</sup>. They received considerable attention by virtue of their substantial role in job creation and great contribution to the GDP.

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[9] SMEs have been categorized according to the size of staff. Small enterprises employ up to 9 employees. Enterprises employing 10-19 employees are considered medium sized.



Data<sup>[10]</sup> indicate that more than 109,000 SMEs operate in the West Bank and Gaza Strip, 71% of which operate in the West Bank and the rest in the Gaza Strip. 99% of these enterprises employ less than 20 workers.

Most of these enterprises are still traditional family-run businesses, mostly working in light industry and the production of consumer goods – especially food, beverages, clothing, minerals and furniture, with limited marketing of products in the domestic market. One of the main obstacles facing these SMEs is the lack of reasonably priced technical support. Furthermore, there is a large inability to access financing and producers also have weak marketing capacity, especially when marketing to foreign markets. Israeli occupation measures also undermine the competitiveness of such enterprises.

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[10] PCBS (200) The General Survey of Population, Housing and Enterprises 2007, Economic Enterprises, Final Results



**Table 3: The Distribution of Economic Establishments Operating in the West Bank and the Gaza Strip by Types of Employment, 2007**

Economic Activity	Numbers of Employees (percentage)						
	Total	14-	59-	1019-	1049-	5099-	100+
Agriculture (livestock and other animals)	6,976	93.8	5.7	0.4	0.03	0	0
Mining and quarrying	299	46.8	40.5	9.4	2.7	0.7	0
Manufacturing	15,340	78.8	13.7	5.3	1.8	0.2	0.2
Electricity and water supply	477	90.6	4.4	1.5	0.6	1	1.9
Labor	627	57.9	22.5	13.9	4	1.3	0.5
Wholesale and retail trade and repair of vehicles and bicycles	59,253	95.7	3.6	0.6	0.1	0.02	0
Hotels and restaurants	4,643	91.6	6.5	1.4	0.4	0.04	0.02
Transport, storage and communications	1,215	64	20.7	9.9	3.9	0.9	0.7
Brokerage	844	68.4	12.8	10.4	6.3	1.5	0.8
Real Estate	4,304	89.3	8.1	1.9	0.5	0.2	0
Education	2,384	58	27.2	8.7	4.5	1.1	0.5
Health and social work	4,260	88.5	5.6	3.3	1.7	0.5	0.5



Economic activity	Numbers of Employees (percentage)						
	Total	14-	59-	1019-	1049-	5099-	100+
Social and other similar services	9,064	89.3	7.3	2.4	0.8	0.1	0.1
Total	109,686	98966	7449	2227	788	157	99
Percentage	100%	90.23	6.79	2.03	0.72	0.14	0.09

Source: PCBS (2008) General Survey of Population, Housing and Enterprises in 2007, Final Results.

The Palestinian National Authority has made an effort to provide an integrated support network for these enterprises, starting from the revitalization of private sector representatives such as the Chambers of Commerce, industry associations, the Palestine Trade Center (PalTrade), the Businessmen's Associations, the Palestinian Contractors' Union, Palestinian Information Technology Association and other sectoral institutions. The PNA also encouraged them to expand their services to their members working in the field of SMEs. The PNA also supported the establishment of SME support centres and agreed to implement dozens of programs from international institutions and donor countries aimed at stimulating SMEs on the technical, administrative, and marketing levels. Moreover, the PNA signed a range of agreements to facilitate SME access to adequate funding. The Palestine Investment Fund announced in January 2010 the launch of "The Palestine Growth Fund" in partnership with Abraaj Capital, specifically targeting investment in SMEs.

### 3-2-1 Other Services

The service sector comprises approximately 17.5% of total local production<sup>[11]</sup> and employs around 38.4% of the total labor force.<sup>[12]</sup>

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[11] PCBS (2009) Statistics of National Accounts

[12] PCBS (2009) Survey of Manpower



This sector has clearly flourished since the establishment of the PNA, which contributed to its growth through the improvement and expansion of specific branches of services in education, health, finance, engineering, technical consultancy, communications, internet and other projects.

### 3-2-2 Agriculture and Fishing

The agricultural sector has long been a fundamental component of the total local production in the West Bank and Gaza Strip. It is a dynamic sector that contributes to the food security of the Palestinian people and absorbs a large part of the labor force. The agricultural sector contributes 8.1% of the gross domestic product,<sup>[13]</sup> 15.2% of total exports<sup>[14]</sup> and 13.4% of total employment.<sup>[15]</sup> Agricultural exports include citrus fruits, olives, vegetables, flowers, strawberries, and medicinal herbs. In the event that the political situation improves, it would be possible to rapidly increase exports in this sector to contribute to an increase in its productivity and employment capacity.

The diverse and mixed climate in the West Bank and Gaza Strip allows for farming of more than 110 different kinds of agricultural products. Vegetables are grown on 57% of irrigated agricultural lands, followed by field crops, citrus fruits, olives and dates. Olive trees are the most widely grown in the West Bank and Gaza Strip, constituting approximately 50% of the total agricultural area. Olive production, which has a two year cycle, represents close to one-third of total tree cultivation and around 2.9% of local exports. It should be noted here that olives and their produce have a huge importance to rural employment, particularly in terms of female labor participation.

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[13] PCBS (2009) Statistics of National Accounts

[14] PCBS (2008) Statistics of Foreign Trade, Good and Services

[15] PCBS (2008) Survey of Manpower



The last two decades have witnessed a large transformation in Palestinian agriculture, with the production of vegetables increasing dramatically. This is most prominent in the Gaza Strip where vegetable production is currently 62% of the value of total agriculture production, in comparison with only 11% in the late 1970s.

The agricultural sector has achieved self-sufficiency for vegetables, olives, olive oil, poultry, eggs, honey, grapes and figs. Self-sufficiency has not been achieved for red meat products and fish. Production of both can be increased to meet domestic demand if restrictions on the entry to grazing lands in the eastern slopes of the West Bank and on the Gaza Strip's fisheries are removed. It should be noted that most agricultural inputs and production requirements are imported.

### 3-2-3 Trade

Palestinians boast outstanding wholesale and retail trading skills and traditions. Cities and villages in the West Bank and the Gaza Strip are full of commercial shops and small workshops. 54% of the private and public establishments and NGOs in the West Bank and Gaza Strip work in internal commerce, amongst whom 83% work in retail (half of these shops sell foodstuff), while 4% work in wholesale trade.

Almost all internal trade businesses operate in small-scale activities, much like Palestinian commercial enterprises in general. 95.6% of these establishments have less than five employees, the majority of whom are males; only 9% are women. Internal trade facilities are spread all over the West Bank and Gaza Strip, with approximately one-third of these enterprises and jobs located in the Gaza Strip.

Agreements to reform the Palestinian economy have been made, which include the end of Israeli commercial hegemony in the West Bank and Gaza Strip and the easing of restrictions on Palestinian imports. Through its efforts to expand and diversify trade and commerce, the PNA implemented free trade agreements with a number of countries and relevant economic authorities. Furthermore, the PNA signed an agreement to regulate commercial relations and



cooperation agreements with a number of other countries.

**Some of these agreements are:**

1. The Free trade agreements between the Palestinian National Authority and the European Union, USA, Canada and Turkey.
2. A reciprocal 'Most Favored Nation' agreement with Russia.
3. Trade agreements with Jordan and Egypt allowing bilateral customs exemptions and slashing duties on specific products.
4. The Arab Presidents' Summit in 2001 agreed to give Palestinian products free access to Arab markets.
5. Cooperation agreements with the governments of Morocco and Tunisia in different areas.

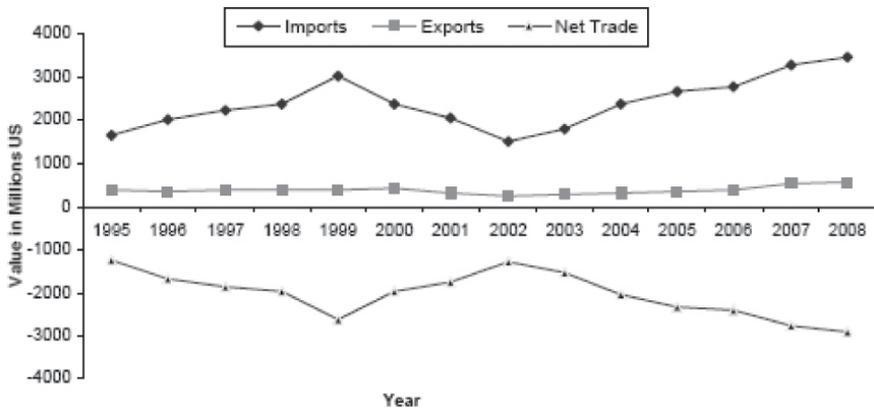
As in all other sectors, the commercial sector is influenced by the political and security situation. Data indicates that the total imports of goods reached US\$3.4 billion while merchandise exports were at US\$558.4 million.<sup>[16]</sup> The Palestinian economy enjoys a tremendous opportunity for export growth especially in view of the bilateral and regional trade agreements signed by the PNA, in addition to the customs and tax exemptions on Palestinian products provided by the Arab League in 2004.

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[16] PCBS (2008) Survey of Foreign Trade, Goods and Services



Figure 1: Palestinian Foreign Trade 1999-2008



Source: PCBS (2008) Foreign Trade Statistics

Recent data demonstrates that the three most important groups of imports are energy products (oil, gas and electricity), foodstuffs and livestock, and manufactured goods. They constitute approximately 73.6% of imports in 2008. 35% of total Palestinian exports are comprised of stone, marble and manufactured goods. Israel is the primary Palestinian trading partner, receiving 89.4% of the total exports and providing 80.6% of the total of Palestinian imports in 2008.<sup>[17]</sup>

[17] PCBS (2009) Annual Statistical Book No.10



**Table 4: Global Distribution of Palestinian Trade in 2008**

Place of Origin / Destination	Imports	Percentage	Exports	Percentage
Asia	263,727	7.6%	825	0.1%
Africa	26,505	0.8%	1,819	0.3%
Europe	265,327	7.7%	8,486	1.5%
America	60,232	1.7%	3,839	0.7%
Arab States	5,249	0.2%	9,932	1.8%
Jordan	47,126	1.4%	34,122	6.1%
Israel	2,794,829	80.6%	499,423	89.4%
Other countries	3,173	0.1%	0	0.0%



Total	3,466,168	100.0%	558,446	100.0%
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Source: PCBS (2009) Foreign Trade Statistics

**Table 5: Trade of Goods in the West Bank and Gaza Strip by Types of Product in 2008**

Type	Imports	Percentage	Exports	Percentage of the Total Value
Animal Products	134,438	3.9%	6,238	1.1%
Vegetable Products	244,737	7.1%	55,136	9.9%
Food Industry Products	285,775	8.2%	44,204	7.9%
Metal Products	1,548,996	44.7%	12,779	2.3%
Chemical Industry Products	181,741	5.2%	29,642	5.3%
Plastics	76,846	2.2%	46,419	8.3%
Animal Skin Handicrafts	10,200	0.3%	4,396	0.8%
Wood and its Products	59,884	1.7%	26,850	4.8%



Paper	60,224	1.7%	14,101	2.5%
Textiles	70,799	2.0%	14,764	2.6%
Footwear, headgear, umbrellas, sun umbrellas, artificial flowers	15,027	0.4%	27,598	4.9%
Articles made of stone, plaster, cement, ceramic; glass and glassware	115,620	3.3%	105,231	18.8%
Precious metals, and base metal products	1,967	0.1%	198	0.0%
Basemetal products	177,849	5.1%	89,156	16.0%
Machinery and mechanical appliances; electrical equipment	225,280	6.5%	25,976	4.7%
Transportation Equipment	183,314	5.3%	6,300	1.1%
Tools and Equipment for Optics, Photography, film	38,355	1.1%	2,321	0.4%
Works of Art and Artifacts	61	0.0%	124	0.0%



Other goods and Products	35,055	1.0%	47,013	8.4%
Total	3,466,168	100.0%	558,446	100.0%

Source: PCBS (2009) Foreign Trade Statistics

### 3-2-4 Transportation

Data indicate the existence of 775 enterprises that work in the shipping and transportation sector. 400 of these businesses work in the field of land transportation and the rest provide support and back up services, such as loading, storage, travel agencies and others. These establishments employ 4,434 people, 70% of whom work in the field of transporting passengers.<sup>[18]</sup>

The road network in the West Bank and the Gaza Strip has reached 5,147 km in 2009, divided into 10.4% main roads, 8.4% roads between governorates, 66.3% local roads and 14.9%<sup>[19]</sup> bypass roads. About 156,000 vehicles are licensed to use these roads, of which 68% are private and 8.4% are rental vehicles and transport buses. Cargo and commercial vehicles constitute 20%. The remaining 3.6% are trailers, agricultural tractors and motorcycles.<sup>[20]</sup>

### 3-2-5 Information and Communication Technology

In 2009, the percentage of Palestinian families in the West Bank and the Gaza Strip who possessed a fixed telephone line amounted to 47.5%. 92.4% of these families owned a mobile telephone, 49.2% possessed a computer and 28.5% had Internet services in their

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[18] PCBS (2008) SME Survey, Final Results

[19] PCBS (2009) Palestine Annual Statistical Book No.10

[20] PCBS (2009) Palestine Annual Statistical Book No.10



homes.<sup>[21]</sup> Until the mid-1990s, West Bank and Gaza Strip lagged behind the neighboring countries in communications infrastructure. However, since the establishment of PalTel in 1995, the number of fixed telephone lines increased dramatically, enabling the company to play a primary role in the preparation and integration of Palestinian communications infrastructure into the global network.

**Table 6: Communication Technologies in West Bank and Gaza Strip, Compared with Neighbouring Countries in 2008**

State	The Number of Land Telephone Lines per 100 persons	The Number of Mobile Phone Lines per 100 persons
West Bank and Gaza Strip	8.39	27.80
Egypt	14.64	50.62
Jordan	8.46	86.60
Lebanon	17.88	34.03
Syria	17.12	33.24
Israel	45.72	127.38

Source: ITU, Indicators of Information and Communication Technology

The number of fixed telephone lines more than doubled to reach 370,638 in 2009. In addition, a second mobile operator, Wataniya, was established for the provision of mobile telephone services alongside the current mobile operator Jawwal. According to the latest statistics, the number of mobile telephone service users reached

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[21] PCBS (2009) Families' Access to ICT



over 1,800,000 at the end of 2009 in comparison with 22,500 users in 1999.<sup>[22]</sup>

Providers supply Internet services to reach the global network through a range of information technology tools including telephone communication, rented lines, and broadband Internet service (ADSL). Some providers supply special packages for businesses including email and personal website registration.<sup>[23]</sup>

### 3-2-6 Tourism

Tourism enjoys a special importance in the national economy of many countries, especially developing countries, because it impacts other economic sectors such as agriculture and trade. Even though the tourism industry in the West Bank and Gaza Strip is a relatively young industry, it has become one of the most important sources of GDP, particularly when it comes to foreign currencies, which contribute to about 7% of the GDP. The amount of tourism fluctuates according to the month and the season, and mainly concentrated within the second half of the year.

The tourism sector has seen a moderate rate of growth in recent years. According to the Palestinian Ministry of Tourism and Antiquities, there are 100 active hotels in West Bank and Gaza Strip as of June 2009, with an occupancy of 575,000 guests spending over a million nights. Guests from the European Union accounted for 39% of these, guests from the United States and Canada 12%, and Palestinian lodgers accounted for 11% of the total lodging nights. Most of the hotels are concentrated in Jerusalem and the centre of the West Bank. The total number of tourists, both local and international, who visited the various governorates in 2009 reached 2.6 million visitors, 47% of whom were local tourists while the rest

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[22] PalTel (2009) Annual Report

[23] See, for example, <http://www.palnet.com>



came from outside the West Bank and Gaza Strip.

The West Bank and Gaza Strip enjoys a special status as a culturally diverse country, the cradle of all three monotheistic religions and the meeting point of ancient civilizations. Palestine boasts great environmental diversity in a small geographic area, in addition to over 12,000 touristic and heritage sites including 1,997 main sites and over 10,000 minor sites like castles, water springs, and religious shrines. Tourism is not only a source of financial income, but a main component of social and cultural development for the important role it plays in strengthening relations with other peoples and countries. It is also a means to present the cultural identity of the Palestinian people to the world.

In addition to hotels, there are a number of tourist establishments including restaurants, tourism and travel agencies, rental car offices, traditional and heritage industries, as well as businesses selling artifacts and gifts. In 2007, these establishments totalled 1,276.

### 3-2-7 Manufacture

The manufacturing industry has witnessed a steady growth from 8% of total local production in the mid-1980s, to 17% in the mid-1990s, then dropping to approximately 14% in recent years. In 2008, industrial sectors constituted 15% of the total Palestinian labor force.<sup>[24]</sup>

Despite the deteriorating conditions inflicting some traditional businesses after the Palestinian market was opened up to imports from East Asian countries, especially in the fields of clothing and shoes, the industrial sector is still open to many opportunities in the field of high quality and value-added products. The Palestinian economy boasts skilled labor capable of using new technologies

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[24] PCBS (2008) Series of Economic Surveys



and produce high quality competitive products. Currently, the food industries lead the sector enhancing access to foreign markets at the same time as it contributes to meeting local demand. These industries include: olive presses, citrus fruit packaging , food manufacturing, cigarettes, and dairy products. However, there remains a significant potential for expansion in the field of chemical fertilizers, as well as agricultural tools and machinery.

The manufacturing sector benefits from a wealth of human capital that has facilitated the development of new industries, from small tools and light manufacturing to more complex industries such as electronics, and plastics that require a high level of technical skills.

The PNA has initiated the establishment of special industrial zones, investing US\$85.4 million in the ‘Karni’ industrial zone, the first of many other similar zones to be established at a later stage.

Financing was shared between the Palestinian private sector and some international organizations. ‘Karni’ was opened in 1999, with the ambition to create job opportunities in the PNA areas, promote industrial development, and facilitate growth in exports and local and foreign investment.

### 3-2-7-1 Quarries, Stone and Marble

The mining, stone and marble industries constitute one of the most important branches of the overall industrial sector. This sector contributes more than 3% of GDP. In recent decades, it has developed and diversified in terms of size of investment, usage of technology, competitiveness, and export capacity. Marble scored the highest exports in 2008,<sup>[25]</sup> reaching around US\$84 million or 18.8% of the total exports.<sup>[26]</sup> 82.9% of stone and marble is exported to Israel, 9.7% to Jordan and other Arab countries and 7.4% to the

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[25] PCBS (2008) Foreign Trade Statistics (Unpublished data)

[26] Ibid.



rest of the world. International exports are currently low and there is a significant opportunity to expand exports in this field. There are approximately 300 establishments working in the sector, 87% are small enterprises that employ less than 10 workers. The total number of workers in this sector is 6,700.<sup>[27]</sup>

Raw quarried stone is available in commercial quantities, in various sizes, allowing factories to produce different types and colours of high quality and a competitive export edge.<sup>[28]</sup> The Stone and Marble industry is based in the West Bank, primarily in the governorates of Hebron, Nablus, Bethlehem and Jenin.

#### 3-2-7-2 Textile and garments

The textile and clothing sector contributes approximately 10% of the value-added to the Palestinian industrial sector and employs around 5% of the labour force. Palestinian producers sell close to 70% of their production to the local market, which constitutes 20% of the local market share. In addition, 20% of the exported production is sold to Israel. The textile and clothing sector has high potential for additional investments given the ease with which these products can reach European and American markets as a result of preferential trade agreements.

#### 3-2-7-3 Food Products

The food industry is developing remarkably fast with most companies working toward raising standards of quality in the West Bank and Gaza Strip through the application of specifications and standards based on global quality benchmarks. Food industries include meat

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[27] PCBS (2008) General Survey on Population, Housing and Enterprises, Final Results

[28] Please see Stone and Marble Products in Palestine  
[www.usm-pal.ps/pdfs/usm/catalogue.pdf](http://www.usm-pal.ps/pdfs/usm/catalogue.pdf)



and meat products, preparation and preservation of fruits and vegetables, vegetable oils and fat, dairy products, grain production, animal feed, bakery products, chocolate and confectionary, pasta and noodles in addition to drinks and mineral water.

The food industry witnessed rapid growth in the second half of the nineties, when it occupied a leading position in the industrial sector. Food and drink represented, in terms of the number of businesses, 16.6% of the Palestinian manufacturing sector and 14.2% of the total industrial sector in 2008. Food and drink manufacturing contributes approximately 20% of value in the industrial sector and more than 24% of the total productivity of the industrial sector.<sup>[29]</sup> The share of food production in local markets increased from 25% to 30% during the past few years.

#### **3-2-7-4 Metal and Engineering Products**

The metal and engineering products sector met 60% to 80% of local market demand and is achieving increased success in export markets. Metal and engineering products include wire, welding rods, nails, furniture, shelves, house wares, agricultural tools and machinery, industrial and metal cutting tools, and others.

#### **3-2-7-5 Chemical Industries**

The Chemical industries include many traditional and modern industries in Palestine, including the following:

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[29] PCBS (2008) General Survey on Population, Housing and Enterprises, Series of Economic Surveys



### **Soap**

Traditional olive oil soap is connected to the city of Nablus where it was first developed and is now widespread around the world. It is known to be a high quality organic product made of Olive Oil and boasts an excellent reputation all over the world. The soap industry remains primarily based in Nablus, and it completely meets the local demand for soap products in addition to exporting in the region.

### **Paint**

This sector enjoys diversity in lines of production. These lines include water and oil based paints, industrial paints and vehicle paint. In Palestine there are ten factories covering between 25% and 30% of local consumer demand.

### **Detergents**

The cleaning materials industry has close to 50% of local market share. It produces powder and liquid cleaning materials and foam hand washing liquids, in addition to powder washing detergent for automatic and semi automatic washing machines.

### **3-2-7-6 Pharmaceuticals**

The pharmaceutical industry witnessed significant expansion and restructuring in the last two decades, in addition to mergers of several companies leaving 6 major companies to share this sector. These companies participate in continuous training and technical assistance programs to meet international standards and raise the quality of their products to target foreign markets in Arab countries and Eastern Europe. At the beginning of 2008, four Palestinian companies were granted certificates of 'Good Manufacturing Practice' (GMP), which is considered to be an internationally accepted standard of safety and quality that qualifies these companies for export.



#### 3-2-7-7 Plastics

The plastic industry is considered to be well developed. There are a small number of companies serving the local market as well as Israel. These companies produce electrical and telecommunication cables, sewage pipes, plastics for greenhouses and agriculture, as well as polystyrene and other materials.

#### 3-2-7-8 Leather

This industry is concentrated mostly in the Hebron area and the south of the West Bank, where this sector was one of the largest industrial sectors until the end of the last century. This sector's productive capacity exceeds 13 million pairs of shoes a year, 60% of which get exported to different countries. The shoe manufacturing industry now produces 4 million pairs annually and employs about 2,500 workers; the sector employed approximately 10,000 a decade ago. The leather industry aims at regaining its focus by designing and producing new products, in addition to developing its competitive edge by investing in new technologies and benefiting from the accumulated experience and opportunities in the domestic and international markets.

#### 3-2-7-9 Paper

The paper industry in Palestine dates back to early last century. It existed in the Jerusalem and Nablus areas where an ancient printing press was found, thought to be one of the first printing presses in the region. Currently, there are more than 300 enterprises working in this sector and employing at least 4,000 worker and technicians in printing, newspapers, cardboard, tissue paper and packaging. The potential of this sector has grown significantly in the last few years and its products have been competing in regional and global markets.



### 3-2-7-10 Traditional Industries and Tourism

These are concentrated in the Bethlehem area due to its religious and touristic significance. Local industries produce many different kinds of products from olive wood, glass, ceramics, metals, pottery and candles. There are about 1,020 enterprises in this sector employing more than 1,500 workers.

### 3-2-7-11 Wood and Furniture

Wood is one of the most important Palestinian industries. It has been able to adapt to the requirements of domestic and overseas markets. This sector has been dependant on its export capacity, especially in the Gaza Strip (prior to the year 2000), where it employed a large number of workers and absorbed hundreds of them in its large enterprises. However, the siege has led to the closure of most enterprises pending the opening of new overseas markets. In the West Bank, the wood and furniture industry still occupies an important position within the Palestinian industrial sector.

### 3-2-8 Construction and Housing

Construction and housing is one of the most important and influential economic sectors in the Palestinian economy. Investments in this sector exceed US\$1 billion per annum. Investment in construction has contributed around 48% of the total capital structure. Private investments formed around 90% of the total investments in this sector. Construction and housing employ 11.8% of the Palestinian labour force. The sector is linked to approximately 36% of industrial establishments and contributes more 45% of the added value in industry.

According to data collected by the Palestinian Contractors' Union there are 326 contracting companies spread across different governorates. These companies possess high potential and have the capacity to respond to investment demands in building and housing. Through its long experience in the domestic and Israeli



markets, companies and the labour they employ are known for their exceptional performance in various construction projects.

The opportunities for investment in the construction sector and infrastructure are considerable. There is a growing local demand for housing estimated at around 50,000 housing units annually. The housing sector and infrastructure projects gained a large share of international assistance and demand is expected to skyrocket following the return of thousands of Palestinians to the West Bank and Gaza Strip should peace be finally attained.

Since its establishment, the PNA has given priority to the construction sector whether through investing in development projects, or through its strategic and development plans for the promotion of the sector itself. Based on the Palestinian Reform and Development Plan (2008-2010), the PNA allocated US\$90 million to finance infrastructure for new housing projects.

Banks in the West Bank have demonstrated an increased interest in offering real-estate loans. These loans represented more than 17% of bank loans at the end of 2009. They also provided housing loans, mortgages and sources of additional financing for the construction sector.

### **3-2-9 Social Sectors (Education and Health)**

Both the health and education sectors saw dramatic developments following the establishment of the Ministries of Health and Education in 1995. Following years of negligence, both ministries were able to achieve marked improvements in services offered to their beneficiaries. The following are some of the primary indicators that highlight these developments:

#### **The Health Sector**

Health services providers are increasing in the West Bank and Gaza Strip. In addition to the government, there is the private sector, the United Nations Relief and Works Agency for Palestinian refugees in the Near East (UNRWA) and a number of civil society organizations that provide health services. The total number of hospitals in the



West Bank and Gaza Strip reached 77 in 2007, with a total of 5,067 beds. 26 of these hospitals are governmental (24 civilian, 2 military), 25 are private, 25 are non-governmental and one hospital is supervised by the UNRWA. The number of health centres reached 665 in 2007, 62.3% of which are a part of the governmental health services program.<sup>[30]</sup>

Data indicates that there are 1.7 doctors and 2.1 nurses per thousand people in the West Bank and Gaza Strip. In general, doctors, pharmacists, nurses and other workers in the health sector are distributed among different organizations as follows: governmental organizations (41%), private institutions (28%), civil society organizations (24%) and UNRWA (6.5%).<sup>[31]</sup>

In 2007, government expenditure on the health sector reached about US\$150 million and has continued to increase exponentially, whereby the Ministry of Health has dedicated US\$353 million in the 2010 budget to healthcare.

The per capita spending on health will increase from US\$40 to US\$90. The public sector accounts for the majority of health services in the West Bank and Gaza Strip (around 42%). The following table clarifies the participation of health service providers in total spending in the sector.

**Table 7: The Participation of Different Sectors to Health Spending in the West Bank and Gaza Strip in 2004**

Sector	Rate
Family spending (carried by families)	24.5
Ministry of Health	42.3

[30] PCBS (2008) Primary and Secondary Healthcare in Palestine, Selected Indicators

[31] PCBS (2006) Survey of Healthcare Service Givers and Receivers in 2005



UNRWA	11.8
NGOs	21.5
Total	100

Source: The Palestinian Central Bureau for Statistics (2006) *Survey Presented on Health Services and Benefits in 2005*

The different indicators show an improvement in the level of coverage for health services in the West Bank and Gaza Strip, reaching approximately 96%.<sup>[32]</sup> Concurrently, the average rate of child mortality has decreased in recent years, from 22.9 for every thousand births in 2001 to 20.5 in 2004.<sup>[33]</sup>

The public and private sectors are considered the two primary providers of health insurance in the West Bank and Gaza Strip.

Governmental health insurance is compulsory for all employees of the public sector and there is specialised insurance for employees of the private sector. The law makes it compulsory for employers to insure workers against workplace accidents.

### The Education Sector

Palestinian society prioritizes childhood education and education in general. There is a continuous demand for quality educational services, which the PNA has endeavoured to meet since its establishment in 1994. Educational institutions have grown in the

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[32] PCBS (2004) Demographic Health Survey, Main Results

[33] Ladadweh, Hassan and Shalaby, Yasser (2007) Professional Culture in the Governmental Health Sector in the Palestinian Territories, Coalition for Integrity and Transparency, Amman, Mowatin Foundation – Palestinian Institution for Democratic Studies, Ramallah, Palestine



West Bank and Gaza, from schools offering education for 1 – 12th grade, to higher education establishments offering diplomas, BAs, MAs, and PhDs.

In 2008, there were 2,430 schools; 75% governmental, 12.7% UNWRA, and 11.9% private.<sup>[34]</sup> The total number of students attending these schools reached 1,441,455 over the last ten years.<sup>[35]</sup>

The number of enrolled students rose at the rate of 6% per annum, exceeding the average population growth of 3.4% per annum in the period between 1997 and 2007. This growth is indicative of the increasing emphasis on education and has led to a significant decrease in illiteracy rates from 13.9% in 1997 to less than 6% in 2008 –the lowest amongst the Arab countries.<sup>[36]</sup>

There are currently 12 universities in the West Bank and Gaza Strip (9 in the West Bank, 3 in the Gaza Strip), 8 of which offer graduate and post-graduate degrees. In addition to the universities, there are 13 colleges that grant BA degrees and intermediate diplomas and 19 colleges that only grant diplomas.

The number of registered students that were granted BA degrees in the school year 2007/2008 reached around 156,578, while 3,635 registered students obtained diplomas. The number of Palestinian students enrolled in higher studies increases every year, indicating the increasing interest within the Palestinian society in higher education. These universities were not able to enroll all of the students who applied; however, the number of students registered for higher studies in all specializations for the study year 2007-08 reached 4,965.

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[34] Website of the Palestinian Ministry of Education and Higher Education [www.mohe.gov.ps](http://www.mohe.gov.ps)

[35] PCBS (2009) Report on Education in Palestine from 1999/2000 – 2009/10

[36] PCBS (2009) Press Release on the Eve of the International Day of Illiteracy, PCBS Website, [www.pcbs.gov.ps](http://www.pcbs.gov.ps)



### 3-3 Financial Sector

There are many businesses, institutions and companies operating in the financial sector in the West Bank and Gaza Strip. These include the monetary authority and general banks that have risen in number to a total of 20. These include non-banking financial institutions including the Palestinian Capital Market Authority for securities, 9 private companies and financial centres as well as 10 insurance companies. The added value generated from financial establishments in both the banking and non-banking sides saw continuous growth, reaching US\$342.2 million in 2008,<sup>[37]</sup> a 34% increase from 2006.

#### 3-3-1 Banks

With the establishment of the PNA in 1994, the Palestinian Monetary Authority (PMA) emerged, accompanied by the opportunity to open the Palestinian banking sector once again after a blockade that extended since 1967. Since then, the number of banks has been regularly increasing, reaching 19 banks with 209 branches and offices at the end of the first quarter of 2010, among them 9 local banks and 10 foreign banks. Among the foreign banks, 8 are Jordanian, one is Egyptian and one is owned by HSBC. Also, 2 Islamic banks operate in the West Bank and Gaza Strip.

Banking activity since 1994 has increased in total value, with public deposits reaching US\$6.3 billion in 2009, and the total value reaching US\$2.2 billion at the end of 2009. Figure 2 below shows the growth of credit facilities from 1997 until 2009.

The ratio of loans to private sector deposits is low in the West Bank and Gaza in comparison with neighbouring countries. The growth

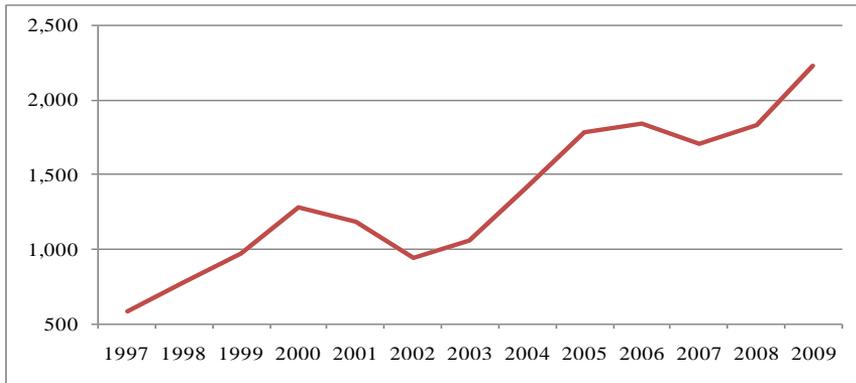
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[37] PASSIA (2006) Yearbook



in public deposits in 2009 was accompanied by a clear growth in lending. The percentage of credit to total lending facilities lending went up from 61% in 2008 to 69% at the end 2009. This increase was at the expense of the debit account which fell during the same period from 38% to 30%.

**Figure 2: Credit Facilities in 1997-2009, in Million Dollars**



Source: MAS (2010) Economic and Social Monitor

There is no national currency and so three different currencies are widely used in the West Bank and Gaza Strip; the Israeli Shekel in daily financial transactions, and the Jordanian Dinar and U.S. Dollar in savings and investments and for the purchase of durable goods. It is possible to make deposits and withdrawals from banks in any of these three currencies (see the following table).

**Table 8: Banks Operating in West Bank and Gaza at the End of 2009**

	Bank Name	Founded	The number of branches	Office Address / Regional
1	Jordan Kuwait Bank	1995	2	Ramallah – Almaref Street



2	Arab Islamic Bank	1995	7	Al-Bireh – Nablus Street
3	Palestine Islamic Bank	1995	13	Ramallah – Jerusalem Street
4	Ahli Bank	1995	5	Ramallah – Zahra Street
5	Jordan Commercial Bank	1994	3	Ramallah – Street Almanara
6	Commercial Bank of Palestine	1994	5	Ramallah District Qaddura – Alawda Street
7	Arab Bank	1994	14	Ramallah District Masyoun – Grand Park Hotel Street
8	Arab Palestinian Investment Bank	1996	1	Ramallah, Ramallah Al-Tahta
9	Egyptian Arab Land Bank	1994	4	Ramallah – Jerusalem Street
10	Union Bank	1995	1	Ramallah – Downtown – Albareed Street
11	Bank of Jordan	1994	10	Al-Bireh – Nablus Street
	<b>Bank Name</b>	<b>Founded</b>	<b>The number of branches</b>	<b>Office Address / Regional</b>
12	Palestinian Investment Bank	1995	7	Ramallah District Al-Nahda – Alhlal Street



13	The Housing Bank for Trade and Finance	1995	12	Ramallah – Albareed Street
14	Al Rafah Bank	2006	3	Ramallah – Al-Ersal
15	Cairo Amman Bank	1986	18	Ramallah – Masyon Al-Maahed Street
16	Al Quds Bank	1995	11	Ramallah – Main Street
17	Palestine International Bank	1996	3	Al-Bireh _ District Sbeha – Ras Al-Tahona
18	Bank of Palestine PLC	1960	19	Ramallah, Ein Misbah – Old Al – Mahkama Street
19	HSBC Bank	1998	1	Ramallah_Jaffa Street

### 3-3-2 Micro Finance

The small loans and microfinance market made notable developments in 2008 and 2009. The total value of loans reached US\$48.5 million in 2008 and US\$51.9 million in Q1 2009, as compared to US\$39.6, US\$38 and US\$32.3 million in 2005, 2006 and 2007 respectively. Note that this data refers to 9 credit organizations. Currently, there are 12 establishments offering these services.

In 2002, a network was established to regulate the small loans and microfinance market, named 'Sharaka'. This network aims to empower the service providers to promote their work and facilitate access to their services for SMEs, as well as low income beneficiaries. The members of this network are: the Palestine for Credit and Development (FATEN), the Palestinian Businesswomen's Association (Asala), The Palestinian Agricultural Relief Committees (PARC), American Near East Refugee Aid (ANERA), the Department of Micro Financing, the United Nations Relief and Works Agency (UNRWA), the Arab Centre for Agricultural Development (ACAD),



the Cooperative Housing Foundation (CHF)(RIADA), the Palestinian Development Fund (PDF), The Young Men’s Christian Association (YMCA), and Caritas Jerusalem (The Holy Land).

**Table 9: Average Size of Small and Medium Loans in Palestine 2005-2009**

	2005	2006	2007	2008	2009
Average Loan Size (\$US)	1,352	1,526	1,569	2,261	2,397
Average Loan Size / GNI per Capita (%)	89	102.5	104.9	147.6	154.6
Return on Portfolio (%)	13.5	12.1	11.5	17.1	19.4

To support this vital sector, the Palestinian Cabinet decided to delegate the responsibility of regulating this sector to the Palestinian Monetary Authority and the latter has started to provide its services to advance this sector including a system for a background check on borrowers.

The indicators report issued by “Sharaka” on 30 September 2009 showed a marked increase in credit at a 6% increase in the average of the first 3 quarters of 2009 compared to 2008.

A survey conducted by the company “Planet Finance” revealed that 79% of those surveyed in the West Bank are interested in borrowing to expand their existing businesses, 45% wish to begin a new business and 49% want to finance assets. For the Gaza Strip the figures were 43%, 8% and 6% respectively in the same year. The number of small loan customers and microfinance clients is 133,890 in the West Bank and 69,660 in the Gaza Strip with a total 203,550 during that year.



### 3-3-3 Insurance

The insurance industry in Palestine began working after the establishment of the PNA and was enhanced after the foundation of the Palestinian Capital Market Authority, which is the regulatory agency for the insurance sector.

In 2008, the insurance sector in Palestine achieved 28% growth in comparison with the previous year.<sup>[38]</sup> However, there still remain significant opportunities for development. The number of insurance companies operating in the West Bank and Gaza Strip has increased from 1 in 1993 to 9 today (see the table below). However, these companies are unable to completely cover the Palestinian market, so the insurance sector in the West Bank and Gaza Strip is still in need of expansion, development and increased investment.

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[38] Website of the PCMA, [www.pcma.ps](http://www.pcma.ps)



**Table 10: Insurance Companies  
Operating in the West Bank and Gaza**

	Name of the Insurance Company	Types of Insurance	Year of Establishment	Number of Branches	Address of Main Office/ Regional Office
1	Arab Life and Accident Insurance Company	Health, accidents, fire and property , marine, life	1995	7	Ramallah – Al-Quds Street next to the Esso Gas Station
2	Almashreq Insurance Company	Health, accidents, fire and property , marine, life	1992	10	Al-Bireh – Im Sharayet, near Yellow Pages
3	Palestine Insurance Company	Health, accidents, fire and property, marine,	1994	6	Al-Bireh – Im Sharayet, near Yellow Pages
4	American Life Insurance Company	Health, life	1996	3	Ramallah – Al-Mughtaribein Square, Central Building
5	National Insurance Company	Health, accidents, fire and property, marine, life	1993	8	Al-Bireh – Al-Bireh Municipality Street, Abraj Building
6	Trust International Insurance Company	Health, accidents, fire and property, marine, life	1994	12	Al-Bireh – Al Quds Street, Trust Building
7	Al Ahlia Insurance Group	Health, accidents, fire and property, marine,	1994	13	Ramallah – Masyoun, Behind the Jordanian Embassy
8	Al Takaful Palestinian Insurance Company	Health, accidents, fire and property, marine,	2008	4	Al-Bireh, Jerusalem Street, Al-Sheikh Building
9	Palestine Mortgage and Housing Corp	Real Estate Mortgage	1997	2	Ramallah – Jerusalem Street

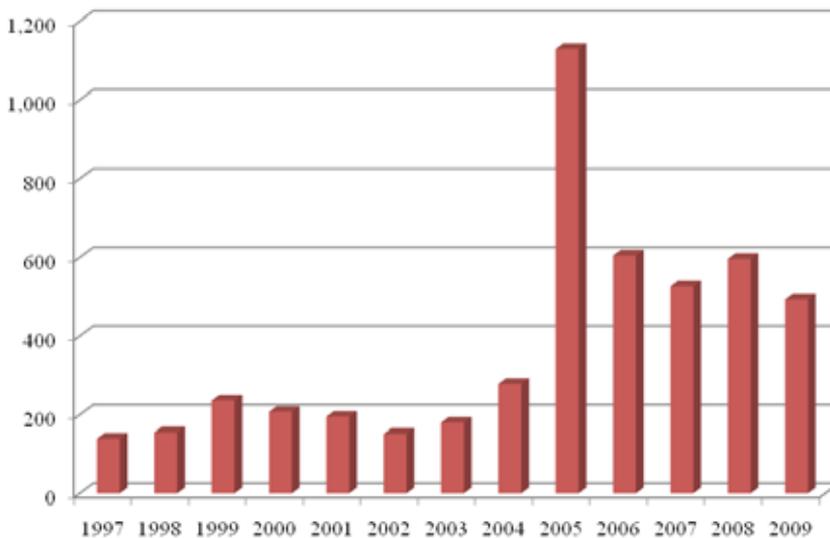
Source: The Palestinian Capital Markets Authority: [www.pcma.ps](http://www.pcma.ps)



### 3-3-4 Palestine Securities Exchange

The PSE saw stable returns in 2007, 2008 and 2009, even during the global market crisis that intensified from Q4 2008 and resulted in a huge drop in value. Despite this, investors managed to avoid significant losses. In 2009, the AlQuds index fell by 17.3%, considered to be relatively low in comparison to losses suffered by financial markets in other countries. This is indicative of the relative stability of the Palestinian financial market due to its limited integration with global markets.

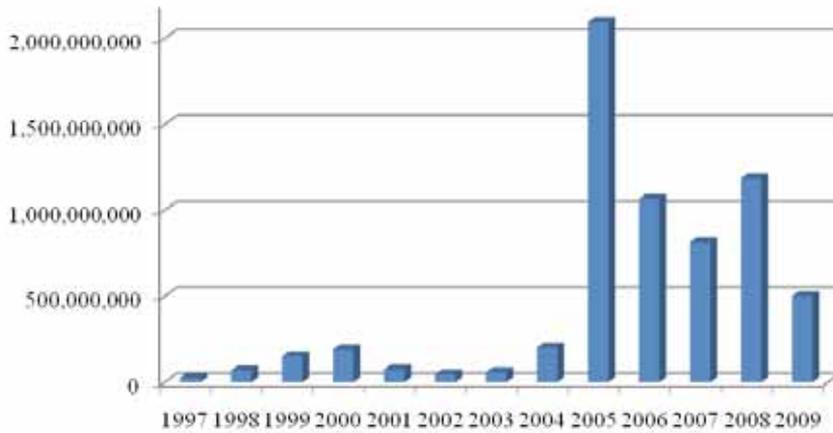
**Figure 3: Al-Quds Index Value in 1997-2009 (Points)**



Source: Website of the Palestine Securities Exchange [www.pse.com](http://www.pse.com)

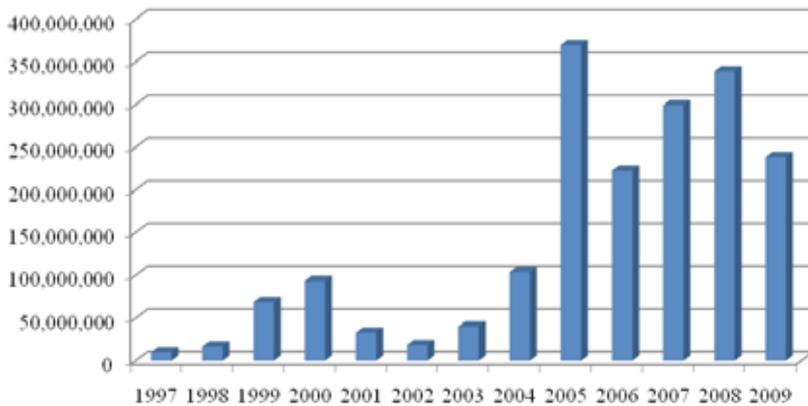


**Figure 4: The Value of Shares Traded in 1997-2009  
(US Dollars)**



Source: Website of the Palestine Securities Exchange [www.pse.com](http://www.pse.com)

**Figure 5: The Number of Shares Traded in 1997-2009**



Source: Website of the Palestine Securities Exchange [www.pse.com](http://www.pse.com)  
<http://www.pse.com>

39 companies were listed on the PSE at the end of 2009 distributed as follows according to sector: the banking sector (7 companies), the insurance sector (5 companies), the investment sector (8 companies), the service sector (9 companies) and the industrial sector (10 companies).

# Human Resources: Labour, Wages and Productivity





#### 4-1 Labour Force and Employment

The Palestinian labour force is distinguished by its young age, high level of training and education, linguistic diversity and expertise in information technology and communications. The rate of participation among individuals that have obtained higher education is significant. However, there is also a high rate of unemployment, especially among female university graduates.

**Table 11: Percentage Distribution of Labour Force Participation of Individuals Aged 15 Years or Over in West Bank and Gaza in Q4 2009**

Years of schooling	Gender		Total – Both Male and Female
	Male	Female	
0	22.3	7.8	11.4
1-6	73.0	10.4	42.7
7-9	72.4	6.4	41.4
10-12	66.1	6.3	36.8
+13	66.5	42.1	55.0
Total Percentage of Participation	67.3	15.1	41.5

Source: PCBS (2009) Labour Force Survey, Oct-Dec 2009

#### 4-2 Wages

The daily wage rate for workers in the West Bank in 2009 was approximately US\$21.9 and US\$16.0 for workers in the Gaza Strip. This rate has become less dependent on the Israeli equivalent because of the recent Israeli restrictions and blockade policies imposed upon the West Bank and Gaza. The table below details the levels of wages and working hours in the West Bank And Gaza in 2009. Individuals generally work longer hours in the West Bank, reaching an average of 42.5 hours a week. This corresponds to the Palestinian labour legislation that limits weekly working hours to a maximum of 45.



**Table 12: Working Hours and Wages in the West Bank and Gaza according to Governorate in 2009**

Workplace	Average Weekly Hours	Monthly Working Days	Daily Wage Rate (Dollars)	Median Daily Wage (Dollars)
West Bank	42.5	22.4	21.9	19.6
Gaza Strip	39.4	23.6	16.0	14.7

Source: PCBS (2009) Labour Force Survey

#### 4-3 Productivity

Worker's productivity (the value added by workers) is high in the transportation, storage and communication sectors, reaching US\$76,900. Following this is the industrial sector, where productivity is high in some industrial activities such as the manufacture of food and beverages and metals production. Table 10 shows productivity and annual compensation for businesses according to primary economic activities.

**Table 13: Value-Added and the Annual Wage of Workers in the West Bank and the Gaza Strip in 2008\***

Economic Activity	The Gross Value Added (Thousand US\$)	The Added Value of Workers (Thousand US\$)	Annual Wage of the Worker (Thousand US\$)
Industry **	968,337.8	16.2	5.44
Manufacturing of food products and beverages	200,666.6	20.1	5.36
Textile and clothing industry	87,423.7	6.8	3.57
Manufacturing of metal products	289,296.9	18.5	6.3
Furniture manufacturing	62,731.6	9.5	4.88
Construction	51,233.6	11.8	7.79
Internal Trade	1,052,288.0	9.4	5.02
Services	659,032.5	9.0	5.95
Transport, storage and telecommunications	653,222.7	76.9	11.29

Source: PCBS (2009) *Economic Surveys Series, Main Findings in 2008*

\* Data does not include East Jerusalem

\*\* Figure reflects the average for 24 different sub-industries. The four sectors mentioned are of the highest value-added generated in the industrial sector.



#### 4-4 Labour Legislation

The most recent Palestinian Labour Law, No.6, was endorsed at the end of April 2000. Studies have indicated that the law corresponds to both global standards,<sup>[39]</sup> as well as the laws of neighbouring countries. However, the Palestinian Labour Law gives a higher degree of flexibility to employers in the hiring and dismissal of workers when compared with the laws of neighbouring countries.

The Labour Law affords the Ministry of Labour the right to authorize work for non-Palestinians, to regulate the labour market and to regulate the employment of Palestinian workers abroad.

##### Temporary work contracts:

Temporary work contracts cannot exceed a maximum of two consecutive years with the same employer. If work continues for longer than this period then the contract is then considered a long-term contract of unlimited duration. Additionally, the law limits the trial period of employment to no more than three months.

Individual contracts may be terminated under any of the following circumstances: the agreement of both parties, the end of its duration for ad hoc, temporary or seasonal business, at the expressed wish of any of the two parties during the trial period or at the expressed wish of the employee on the condition that the employee informs the employer one month in advance if he/she is paid a monthly wage, or one week in advance if he/she is paid on a daily/weekly/or by contract.

The law permits employers to unilaterally terminate a contract without prior notification in case of grave breaches.

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[39] MAS, Albatama, Samia and Asrarar, Zahran (2007) The Influence of Applying the Palestinian Labor Law on the Competitiveness of the Private Sector, Ramallah, Palestine



**Labour Disputes:**

Labour disputes are solved by negotiation within each establishment.

If a dispute cannot be resolved within the establishment, either one or both parties have the right to resort to the reconciliation office at the Ministry of Labour. If the reconciliation officer fails to resolve the conflict within 10 days, the minister is obliged to refer this dispute to a reconciliation committee consisting of a ministry staff member who heads the committee and an equal number of members selected by both the employer and the workers. If this committee fails to resolve the dispute within two weeks, the parties are free to resort to court.

**Working Hours:**

A working week consists of 45 working hours; however, workers are entitled to one-hour rest on a daily basis. It is permissible for both parties to reach an agreement on overtime that does not exceed 12 hours per week. The worker also has the right to be paid weekly time off no less than 24 consecutive hours.

**Holidays:**

Workers are entitled to 14 days paid holidays annually. There are also religious and official holidays.

**Wages:**

Under the current law, wages are paid on a monthly basis for monthly contracts, and a weekly basis for daily or hourly or weekly contracts.

It is not permitted to delay payment of wages for more than 5 days from their due date as the wage is considered to be an outstanding debt.

**Health and Safety:**

The safety and health of workers is dealt with in the special regulations on the health and security of the workers from work risks and hazards as well as necessary conditions of the work place, means of medical aid and regular medical checks for workers.

**Juvenile Work:**

It is forbidden to employ children under the age of 15. For juveniles aged 15 – 18 who are eligible to work, they need to be subjected to a medical examination prior to employment, to be repeated every 6 months. Those under the age of 18 cannot be employed in dangerous industries or industries that damage health, nor are they allowed to work at night.

The daily working hours must be reduced for juveniles by no less than one hour daily. The annual holiday for juveniles is 21 days and it cannot be postponed to the following year.

**Employment of women:**

Discrimination between men and women at work is prohibited. The employment of women for dangerous work, additional working hours during pregnancy or six months following birth, or hours in the late night is also prohibited.

**Special Employment Offices:**

Based on Clause 8 of the Labour Law and on Regulation 1 of 2009 concerning the licensing of special employment offices, the Minister of Labour on 24 December 2009 issued a decision allowing for the licensing of special employment offices.



The offices act as intermediaries between employers and jobseekers to meet the needs of both parties. They communicate with international parties to meet their needs of Palestinian labour. They also can undertake media campaigns to invite Palestinian jobseekers to submit their applications and benefit from the services of these offices.

The decision further detailed that these offices should be registered as regular companies, and the law also permits any foreign company registered in its home country to register a branch in Palestine.

Following the decision of the Minister of Labour of 2 January 2010, jobseekers pay a retainer (5% of their basic wage for the first year) in return for these services. This rate decreases by 1% per year of employment and continues as long as the contract is renewed.

# Infrastructure





These retainers are paid on a monthly basis and are terminated at the end of the third year of the contract.

From the beginning of the occupation until the formation of the Palestinian National Authority, Palestinian infrastructure suffered from low levels of investment (less than 1% of local production) and neglect in maintenance. However, after the emergence of the PNA in 1994, infrastructure became a priority area receiving no less than US\$250 million annually between 1995 and 2000, primarily to rehabilitate the electrical, road and water networks. During this period, private sector investment was directed toward electricity and developing the telecommunications sector.

Due to the total blockade against further development between the years 2000-2007, the PNA and its donor partners resumed their investments in infrastructure starting in June 2007 in the West Bank, and to a more limited extent in the Gaza Strip. Around US\$500 million were allocated to the infrastructure within the Reform and Development Plan (2008-2010) and an equal amount for the reconstruction and revival of the Gaza Strip, out of a total value allocated to the PRDP of US\$1.2 billion to rehabilitate and develop the infrastructure.

The PNA also focused on the development of a sound legal framework. It set up a number of credible public and private institutions such as the Palestinian Energy Authority and the Palestinian Water Authority. It delegated the task of developing the telecommunications and electricity sectors to the private sector who established the Palestinian Telecommunications Company (PaTel), and the two mobile telephone companies (Jawwal) and (Al Wataniya), in addition to the Palestine Electricity Company. Many new legislations were also ratified and the final draft for the electricity law is pending the President's signature.



## 5-1 Energy

The number of Palestinian families that have houses connected to the general electricity network has reached around 99.9%.<sup>[40]</sup> The PNA is now purchasing a greater quantity of electricity from the Israeli electrical company than before. The Palestinian electricity company was established in 1999 and is currently producing electrical energy in the Gaza Strip. Its production capacity reached 140 Megawatts in 2003. There is still a need to increase investments in the electricity distribution network because, according to estimates, losses within the system have reached up to 20%.<sup>[41]</sup>

During 2008, the governorates of Jericho and Rafah were supplied with electricity through projects tied with Jordan and Egypt. Despite the small contribution these projects made to cover Palestinian needs, it is considered an important step towards gradually dispensing of the dependence on the Israeli supply in this field.<sup>[42]</sup>

In relation to the use of solar energy in the housing sector, 67.6% of Palestinian families exploit solar energy for heating water (68.7% in the West Bank and 65.5% in the Gaza Strip). Liquid gas is used for cooking by 99.3% of families in the Palestinian territories.<sup>[43]</sup>

## 5-2 Strategic Projects

### The Red - Dead Canal Project

The Red Sea-Dead Sea Canal Project, also known as the 2-Seas-Canal Project or Al-Bahrain Project, is a partnership initiative among Jordan, Palestine, Israel and the international community.

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[40] PCBS (2009) Domestic Energy Survey

[41] World Bank (2004) Bulletin on the West Bank and the Gaza Strip

[42] MAS, PCBS and PMA (2009) Economic and Social Monitor, No.19

[43] PCBS (2009) Domestic Energy Survey



It is providing up to US\$11 billion of the total cost. The project is meant to address the environmental challenges – especially those related to water storage – in the Dead Sea area by digging a channel and installing a 250 km long pipeline between the Gulf of Aqaba and the Dead Sea. A major pumping station between Aqaba and Eilat will be established to siphon off 1.9 billion cubic meters of seawater per year and pump it from an altitude of 230 meters at the Gulf of Aqaba down to the Dead Sea. The aim of this project is to use the falling water to generate electricity and to desalinate this water in order to provide the region with clean drinking water.<sup>[44]</sup>

In 2008, the World Bank approved the commencement of the project's feasibility study upon the request of the three beneficiaries. The feasibility study will consider, in depth, the various dimensions of the project. It is expected to be completed by early 2011, and is financed by several European countries, the United States, Korea and Japan.<sup>[45]</sup>

The project received wide acclaim for its potentially positive impact on the environment of the Dead Sea area, which is facing growing challenges, as well as its potential to rehabilitate vast arid regions to turn them into touristic locations. It has also been viewed as a means of enhancing Arab-Israeli collaboration in the region.

Others, however, have questioned the environmental impact of the project, which may result in serious damage to the ecosystem of the Dead Sea area. These concerns are valid and may prevent the implementation of the project, especially in view of the World Bank's emphasis on the necessity of compliance with its social environmental standards as a prerequisite for its support for the

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[44] MAS (2009) Economic and Social Monitor, No.18

[45] Ibid.



project.<sup>[46]</sup>

In July 2009, the three beneficiary countries of the project confirmed their commitment to completing an assessment of options related to the implementation phases of the project and discussed the possibility of conducting a 'pilot program' in order to test the mixing of Red Sea water with that of the Dead Sea.<sup>[47]</sup>

### The Octagonal Electric Linkage Project

This project aims to link the electrical networks in the Levant through the establishment of an aerial electrical line with a 400-500 Kilowatt capacity. The project is part of an ambitious plan to link the electrical networks of the countries in the region with other neighbouring countries. The project began in 1998 with Jordan, Syria, Egypt, Iraq and Turkey. Lebanon and Libya joined in 2000 and 2001 respectively. When Palestine formally joined in 2008, the initiative became known as the Octagonal Project (or the project of the Eight).<sup>[48]</sup>

Since 2008, a number of feasibility, logistical, and technical studies were prepared. The linkage project involves two parts: the first between the West Bank and Jordan, and the second between Egypt and the Gaza Strip. The stages of linking the Levant countries took place in the following chronological order: Electrical linkage between Jordan and Egypt and Egypt and Libya took place in 1998; Electrical linkage between Jordan and Syria took place in 2001; Syria and Turkey in the period 1997-2003; Egypt and Palestine and Jordan

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[46] World Bank (2009) World Bank Group Statement on the Program of the Red Sea-Dead Sea Project Study, <http://web.worldbank.org> opened on 4/4/2010

[47] World Bank (2009) Jordan, Israel and Palestine Confirm Their Commitment to Finish the Study Program on the Red Sea-Dead Sea Canal, <http://web.worldbank.org>, opened on 4/4/2010

[48] Al-Azzam, Amani, (2009) The Octagonal Electric Linkage Project, Tunisia: The 3rd Conference for Arab Producers and Transporters of Electricity.



and Palestine in 2008; Jordan and Syria and Egypt and Lebanon in 2009; Syria and Iraq in 2010 and Iraq and Turkey in 2012.

# The Regulatory and Legal Framework





Once the linkage between the Levant countries is complete, the long-term vision of the project is to extend the network to North Africa, Spain, other Mediterranean countries and potentially countries in Sub-Saharan Africa.

## **6-1 The Regulatory and Institutional Framework**

### **6-1-1 The Current Situation**

With regard to companies' laws, the Jordanian Companies Law No.12 of 1964 is still the applicable law in the West Bank, while in the Gaza Strip two laws from the British mandate are applicable: the Companies Law No. 18 of 1929 and the Ordinary Companies' Law No. 19 of 1930. Provisions in company laws implemented in the West Bank and the Gaza Strip vary in relation to the types of companies, designation, and capital, among others.

In order to clarify this, it is necessary to list the types of companies operating in both the West Bank and the Gaza Strip.

### **6-1-2 Companies according to the Applicable Law in the West Bank**

Jordanian Law No.12 of 1964 refers to two primary groups of companies; each category contains several types of companies as follows:

#### **Regular Companies:**

##### **Regular Public Company (Solidarity company):**

- Number of founders between 2 to 20.
- The law does not specify its capital.
- All partners within a company are jointly liable for covering the debts of the company and for all of their contracts and obligations.



- It is permitted for every partner to participate in managing the company, without having the right to receive any benefits and rewards as compensation, unless all partners agree otherwise

**Regular Limited Liability Company:**

- Number of founders between 2 to 20.
- The law does not specify its capital.
- It consists of two kinds of partners; one or more general partners who are jointly and severely liable for the company's debts and its contracts and obligations and one or more partners whose liability for the company's debts is limited to their contribution to the company's capital.
- Partners with limited liability may not participate in the management of the company.

**Shareholding Companies:**

**Public Shareholding Limited Liability Company:**

- Minimum number of founders should be 7.
- The capital of the company should not be less than JD 30,000 which shall consist of tradable shares that are offered to the public.
- The responsibility of the shareholders is limited to the contribution of each person in the Company's capital.
- A board of directors of 5 to 11 members elected for 4 years shall manage the Company.

**Private Limited liability Corporation:**

- Number of founders between 2-50 people.



- The company's capital must not be less than JD 2,000, which shall be divided into shares that are not offered to the public.
- The responsibility of shareholders is limited to the contribution of each in the company's capital.
- If the number of shareholders is less than 20 shareholders, the partners shall agree on how to administer the company, as is the case with a regular company. However, if the number of shareholders exceeds 20 people, it shall be managed by a Board of Directors of 2-5 members, elected in the same manner as the Board of Directors is elected in Public Shareholding Companies.

#### Foreign Companies

- Foreign companies could be regular or shareholding companies. They will register as foreign companies or branches of foreign companies.
- It is not permitted for any foreign Company to perform any business unless it is registered with the Companies' Registrar. It must present the required documents to the Companies Registrar who shall then recommend the registration to the Minister. If any changes occur in the company's documents, the company must inform the authority through the same Registration procedure. If the company is a shareholding, it must present a report on their business within 3 months of the end of every financial year and a copy of their financial reports prepared by a certified audit firm. The company has to indicate clearly in all its documents and papers the name of the country it was established in.

#### **6-1-3 Companies according to the Applicable Law in the Gaza Strip**

According to Law No.18 of 1929, the minimum number of founding members of any company should be seven people and the law does not limit their capital; the law distinguishes between three types of companies:

Limited Shareholding Company:



The members' responsibility is indicated in the company's articles of incorporation, which shall be limited to the pending unpaid amount of the share value after they have paid their shares, should that be the case. The company's bylaws shall include its equity capital.

#### Limited Liability Company:

Its members' liabilities are determined in its articles of incorporation, in relation to the amount pledged by each member to pay in case of liquidation of assets. The company's bylaws shall indicate the number of members the company plans on registering.

#### Unlimited Company:

It is a company that does not limit its members' liabilities.

Law No.19 of 1930 does not permit the establishment of a regular company in Palestine consisting of more than ten people. Nor does the law indicate the minimum capital and each partner have the right to take part in the management of the company. This law is in relation to regular companies in four kinds:

**Regular Limited Liability Company:** it consists of one or more general partners who are jointly and severely liable for the company's debts and obligations and one or more partners whose liability for the company's debts is limited to their contribution to the company's capital only.

**Foreign Trade Shops:** These are regular companies registered outside Palestine that would like to conduct their businesses in Palestine.

**Non-Profit or Charitable Company:** This is a limited liability company that practices trade, arts, sciences, religion, charitable business or any other charitable purpose and aims to spend its revenues – if any – in order to achieve its purpose and does not pay any dividends to its members.



**Foreign Company:** This is a company established outside Palestine or is associated with a regular company composed of more than ten members and is registered or established outside Palestine. Any foreign company wishing to operate in Palestine must first register in Palestine as a foreign company and submit an application for registration within a month of its establishment in Palestine.

#### **6-1-4 Legal Adjustments**

A Presidential Decree was issued in 2008, amending Law No.12 of 1964. Some of the most important amendments of the law were regulating civil companies and increasing the capital of shareholding companies; the minimum capital for a private and public shareholding company was set at JD 10,000 and JD 250,000 respectively.

Furthermore, the Ministry of National Economy prepared a new draft Companies' law in early 2008 which aims to unify the current laws and update them to correspond with the current local, regional and global political and economic developments.

#### **6-2 Guarantees and Incentives for Investors: the Investment Promotion Law**

Given the importance of investment to economic development in Palestine and since most investments originate from the private sector; the PNA implemented the Investment Promotion Law No.1 of 1998 to encourage investment in a systematic, equitable and transparent way and to provide Palestinian and non-Palestinian investors with needed protection and legal guarantees to encourage them to invest in Palestine.

The Law comprises of several guarantees and incentives:

The PNA guarantees, for all Palestinian and non-Palestinian investors, unrestricted movement of all their financial resources to outside Palestine. This includes moving their capital, profits, dividends, capital gains, wages, benefits, debt payments, administrative fees, technical assistance and compensation for the cancellation of licences and any other kind of financial resources (Article 11 of the Law).



The project's fixed assets are exempted from taxes and customs under the condition the assets are brought in for the project. (Article 22 of the Law)

The project's imported spare parts are exempted from taxes and customs, provided that its value does not increase above 15% from the value of fixed assets that were brought in for the project. (Article 22 of the Law)

Article 23 of the Law states that projects licensed by the authority according to the Law are granted the following incentives:

- Any investment between US\$100,000 and US\$1,000,000 is granted an income tax exemption for the period of 5 years beginning from the start of production, and it shall be subject to income tax on net gains of nominal value reaching 10% for an additional period reaching 8 years.
- Any investment between US\$1,000,000 and US\$5,000,000 is granted an income tax exemption for the period of 5 years beginning from the start of production. It shall be subject to income tax on net gains of nominal value reaching 10% for an additional period of 12 years.
- Any investment with a value of US\$5,000,000 or more is exempted from income tax for a period of 5 years beginning from the date of production. It shall be subject to income tax on net gains of nominal value reaching 10% for an additional period of 16 years.

### **6-3 Trade dispute resolution mechanisms**

Arbitration Law No.3 issued in 2000 aims to settle trade disputes and its main points are:

The Scope of Law:

- The provisions of this law apply to all arbitrations between natural or legal persons taking into account the international agreements Palestine has adhered to.



- All matters relating to public order in Palestine, disputes related to personal affairs and issues that are not permitted to be settled outside of courts shall not be subject to the general provisions of the arbitration law.

Venue of the Arbitration:

- The venue of arbitration shall be local if it is not related to international trade.
- The venue of the arbitration shall be international if the relevant parties are from different countries or if the dispute is related to more than one country.

Arbitration Authority:

- The law clarified the mechanisms for forming an arbitration commission and defined its specializations.
- The Arbitration commission has the right to seek the opinion of the specialized court in any legal matter that arises during the consideration of the dispute.
- The Arbitration commission shall proceed with its work immediately when a dispute is referred to it, after accepting the task of arbitration between the parties.
- The Arbitration commission may appoint an expert upon the request of one of the parties of the dispute or at its own discretion regarding any issue pertinent to the dispute.

The dispute in case of International Arbitration

- Substantive Palestinian rules regarding conflict of laws shall apply; however, referral articles shall not be applied unless they lead to the implementation of Palestinian laws.
- In all cases, the Arbitration commission shall take into account the norms and customs applicable to the relationship between the parties of the dispute.



#### Private Sector Initiatives:

- The Palestinian Contractors' Union, Engineers' Syndicate, Lawyers' Union, the Palestinian Federation of Industries jointly initiated the project of setting up a Palestinian Chamber for Arbitration. The Chamber was established through a Presidential Decree dated 10/6/2007 and was officially set up in December 2007.
- In 2008, an agreement was signed between the Businessmen's Association and the Dubai International Arbitration Centre (DIAC), permitting Palestinian businessmen to seek the DIAC in relation to trade disputes. The centre further pledged to grant the Association all necessary facilities needed to undertake arbitration on an international level.
- The Ministry of Justice has set up a special arbitration department, whose primary goal is to present the necessary assistance to initiatives in this field.
- In 2008, the Palestinian Centre for International Arbitration was established, using the help of a group of experts and consultants. Their services can be secured through the Palestinian Businessmen's Association.

A study on the methods used to solve trade disputes indicated that:

- 45.3% of disputes are resolved by resorting to the courts.
- 54.7% of disputes are resolved through arbitration; 11.3% through the chamber of commerce, 27.3% through mediation by community elders, 16.2% through PNA officials.

#### 6-4 Import and Export Procedures

The PNA has signed a number of trade agreements with the European Union, United States, Canada, Jordan and Egypt. Simultaneously, it worked on developing a set of legislation aiming to facilitate the processes of import and export through Palestinian lands and additionally reduce the high costs that results from the use of Israeli crossing points.



Recently, Palestine has undergone developments in the processes of importation and exportation, especially on the regulatory side. Since 2007, the Palestine Trade Center (PalTrade) established a guide containing detailed information on most Palestinian companies that export abroad. Additionally, the General Administration for Customs and Tolls in the Ministry of Finance developed a new customs system (Tawasol) to efficiently administer foreign trade. This system improved the monitoring of financial transactions for customs and eased custom procedures for Palestinian companies. Additionally, it provided companies with information on international trade and any commercial agreements with Palestine.

To authorise importing goods into the West Bank and Gaza Strip, the goods should meet the health and environmental specifications as indicated by the Palestinian Standards Institute. Normally, it takes 15 days to obtain the necessary papers for importation, and the licences are valid for a period ranging between 6 months and a year. This is in accordance to the type of product. The documents required for importation are the following:

- Articles of Incorporation if it was an incorporated company
- Certificate of foreign trade transactions issued from the National Ministry of Economy
- Pro-forma invoice for imported goods
- Permission to import the indicated goods

With regards to companies exporting from the West Bank and the Gaza Strip, they do not generally need applications or authorization. This is with the exception of some specific goods. Exporters must hand over their certificate of registration to the Ministry of Economy for final authentication. The Ministry of the Economy shall certify and issue multiple certificates to businesses that export the same product regularly.



## 6-5 The Legal Framework Regulating the Financial Sector

### 6-5-1 The Legal Framework Regulating the Banking Sector

The PNA issued a set of legislations to regulate commercial banking and its institutions in Palestine. The PNA worked on emphasizing proper banking instruments through the Banking Law No.2 of 2002 and monitoring banks through the Palestinian Monetary Authority Law No.2 of 1997 and Law No.1 of 1997 regarding the organization of commercial banking. The current banking law is considered to be a relatively developed law. The law suits the developmental requirements in Palestine, presents good guarantees for practicing banking, and gives protection for depositors and shareholders. The law also provides a suitable environment to implement the principles of banking governance, which guarantees strengthening the stability of the banking authority and development performance. The Palestinian Monetary Authority, in partnership with specialist international foundations, prepared a developed draft amending the current Banking Law.

The Palestinian Monetary Authority, according to powers granted to it by law, has issued several memorandums and directives regulating banking activities, including decreasing the investments of foreign banks in Palestine. This decrease resulted in expanding credit facilities and provided new funding resources for individuals and economic projects. In December 2008, the Monetary Authority issued instructions to increase the minimum capital for both local and foreign banks from 20 million (US\$20,000,000) to thirty-five million (US\$35,000,000). This was followed in 2009, by another decision to raise the minimum capital for banks to US\$50,000,000, by the end of 2010. Compliance with these decisions shall increase the banks' overall capital and strengthen their financial position.



### 6-5-2 The Monetary System - The Law of the Monetary Authority

The Palestinian Monetary Authority (PMA) was established in 1994 and began its work in 1995. The PMA is the equivalent of the Central Bank. It exercises several of the tasks entrusted to a central bank, though not all of them. There is no national currency in Palestine; three different currencies are widely used. They include the Israeli Shekel in daily financial transactions, along with the the Jordanian Dinar and U.S. Dollar for savings, investments and to buy durable goods. It is possible to make deposits and withdrawals from banks in any of these three currencies.

In early 2008, the PMA began implementing a three-year plan with the goal of creating suitable conditions to create a central Palestinian bank with the ability to issue a Palestinian national currency. The issuance of a Palestinian currency is dependent upon a number of factors; the most important of these is achieving sovereignty, complete independence, guaranteed freedom of movement and the existence of an independent central bank that enjoys all powers and the legal provision to issue currency. Given the nonexistence of a Palestinian currency and fundamental dependency on the Israeli Shekel, U.S. Dollar and Jordanian Dinar, the scope of monetary policy in Palestine is extremely limited.

The Palestinian Monetary Authority specializes in the following areas:

- Licensing banks, and monitoring the domestic banking sector.
- Regulating banking operations and protecting the rights of depositors.
- Structuring, organizing and implementing monetary and credit policies.
- The presentation of financial and economic counseling to the PNA.
- The management of gold reserves and private foreign currencies for the PNA.



Within the PMA's framework to develop mechanisms, policies and monitoring tools, it developed a 'System of Credit Information' through building a comprehensive database on borrowers and making it securely accessible online to the banks. Additionally, they created a new electronic system to decrease the cases of bounced checks.

The PMA also played an important role in increasing the number of bank branches and raising the quality of banking services in Palestine. The number of banks rose from 3 banks, with 13 branches in 1993, to 19 banks with 200 branches by the end of the first quarter of 2010. These 19 banks are comprised of 9 local banks and 10 foreign banks.

### **6-5-3 Anti-Money Laundering Law and the Anti-Graft Commission**

#### **Anti-Money Laundering**

In order to prevent money laundering and profit from illegal sources, the PNA issued in 2007 the Anti-money Laundering Decree No. 8 of 2007. The law indicated money-laundering crimes and limited it to 20 provisions. The law also regulates mechanisms for transferring money from and to Palestine, and the obligations of the financial institutions. An anti-money laundering commission has been established as a financially and administratively independent institution under the administration of a representative from the PMA. This comes with the participation of the banks, private sector and the judicial authority.

#### **Anti-Graft Law**

The PNA issued the Anti-Graft Law No. 1 of 2005, which regulates the establishment of an independent commission to fight the unlawful acquisition of money. This commission specializes in financial disclosures and investigating any complaints referred to them regarding this matter. All PNA officials are subject to the provisions of this law, which includes the President, the ministers, high officials and any other officials as decided by the Cabinet. The Commission has been established and a director has been appointed in 2010.



It is expected that after the Commission finishes its administrative and logistical procedures and starts operating, it will promote and spread integrity and accountability in the Palestinian society. Additionally, the PNA has adopted the United Nations Convention against Corruption. However, the PNA is not yet a member in the UN.

#### **6-5-4 The Law of the Palestinian Capital Market Authority and its Activities**

The Palestinian Capital Market Authority (PCMA) was founded in accordance with the Law of the Capital Market Authority No.14 of 2003 pursuant to the Cabinet decision on 11 August 2005. The PCMA's objective is to organize, develop, and monitor the Palestinian Capital Market and it aspires to guarantee the stability and growth of investment and economic development, alongside the protection of investors' rights.

The responsibilities of the PCMA include; organizing and monitoring the stock market, insurance companies, leasing and financing companies as well as mortgage companies. The PCMA implements the laws relating to these sectors and guarantees the rights of all their clients. It also provides a competitive and transparent environment to stimulate an active market.

#### **6-5-5 Mortgage Financing**

This economic activity started by establishing the Palestinian Mortgage and Housing Corporation with a capital of US\$20 million in 1997, though it did not start giving real estate loans until the year 2000. As the need for Mortgage financing increased, the Palestinian Investment Fund established the "Amal" project for mortgage and easy lending with a funding of US\$500 million. This funding is to be provided by the Palestinian Investment Fund and its partner institutions: the *International Finance Corporation and the Overseas Private Investment Corporation* in cooperation with the Cairo Amman Bank and the Bank of Palestine.



The Mortgage market is divided in two parts: the first market which is the market where the banks give loans directly to the lenders. The second market is the mortgage financing companies market where the Palestinian Mortgage and Housing Corporation operates and “Amal” project will join; their work consists of refinancing the loans in the first market.

According to the mortgage companies and real estate professionals' licensing instructions No.7 TRA for 2007, the paid capital of the company shall not be less than US\$5 million in order to get a license from the administrating mortgage authority in the Palestine Capital Market Authority; the company's aim shall be to operate in real estate mortgage and medium and long term loans for real estate.

#### **6-5-6 Leasing**

According to the Financial Leasing draft law, financial lease is the investment or commercial activity that is practiced by the leaser that involves buying the leased property in accordance with the conditions agreed upon by the tenant and utilising the property by the tenant according to the lease agreement. The financial leasing sector is an emerging one; however it is also promising for potential investors. It is expected that the demand on such kind of financing will increase significantly, especially since it does not need collateral guarantees as is the case with banks. The Palestinian Authority is currently working on removing some difficulties, especially in the fields of: incomplete legal environment, the novelty of the subject, and the lack of sufficient awareness amongst the public and investors, in addition to difficulties in obtaining financing sources. Currently, there are regulations that organize the market, and there are instructions to license finance leasing companies No.5 TT of 2007 and instructions to regulate finance lease records No.6 TT for 2007. One of the instructions states that a company's capital shall not be less than US\$500,000 and it is permitted for foreign companies to practice financial leasing, on the condition that they register as a branch of a foreign company according to the law.



#### **6-5-7 The Legal Framework Regulating the Insurance Sector**

The Insurance sector is regulated through the Insurance Law No.20 of 2005, which is a relatively developed law that responds to the ongoing developments in the insurance industry. The law guarantees the existence of good insurance companies with the ability to cover different kinds of insurance in demand by individuals and institutions. According to the law, the PCMA issued a special system to grant licenses to insurance companies. The minimum capital required to set up an insurance company is US\$5,000,000 for general insurance companies, US\$8,000,000 for life insurance companies, and US\$100,000,000 for re-insurance companies. In 2007, the PCMA issued important policies regarding reinsurance through reorganizing the reinsurance sub-sector. The new instructions aim is to maintain the stability of insurance companies through ensuring the solvency of re-insurers and monitoring the agreements signed between insurance companies in Palestine and re-insurance companies.

#### **6-5-8 Competition and Intellectual Property**

All policies and documents of the PNA repeatedly confirm the importance of a free market to the Palestinian economy. It has undertaken the necessary measures to incorporate this into the Basic Law and in several economic laws. The PNA has prepared a draft law on the protection of competition with the goal of strengthening and protecting the pluralism and freedom of economic activities, commercial exchange and ensuring the accessibility of individuals and institutions to markets. The draft also aims at preventing monopoly and the abuse of economic power; and finally, to create a free and competitive business environment.

In order to create the desired competitive environment to exchange services and goods and prevent any agreement and arrangements that might restrict or weaken the competition, the PNA strives to accede to and to attain membership in different intellectual property bodies, especially those pertinent to the commercial aspects of intellectual property. The PNA has observer status at the World Intellectual Property Organization since 2005.



The Protection of Intellectual Property Rights Law is in the drafting phase and it includes copyright and related rights, industrial property that stresses patent rights, licenses, publishing rights, and other relevant rights that distinguish between publishing rights and copyrights.[49] Currently, the Civil Complaints Law of 1933 regulates intellectual property in Gaza and the Commercial Law No.19 of 1953 and the Patents Law No. 22 of 1953 in the West Bank. Both laws can be summarized as follows:

#### Trademarks:

Trademarks fall under law No.33 of 1952 in the West Bank, and Trademarks Law No. 35 of 1938 in the Gaza Strip. The primary ownership of trademarks is seven years and it is possible to renew or extend the ownership of trademarks for longer periods successively.

The law states that trademark infringement is punishable by one year imprisonment or a fine that does not exceed JD 100. Thus, it is necessary for foreign companies to register their trademarks in Palestine through the legitimate authority that establishes trademark ownership, or through a lawyer. Trademarks can be registered unless they do not meet the required conditions, i.e. if they are similar or identical to a registered trademark, or are likely to deceive the public or are contrary to public values and ethics.

It should be noted that trade names are registered in Palestine according to specific procedures and conditions stated in the Jordanian Law No.30 of 1953 that is still applicable in the West Bank and Law No.2 of 1929 in the Gaza Strip. To register a trademark, four copies of the trademark should be attached to the registration application on the condition that one is in color, with the Company's registration certificate.

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[49] MAS, Makhoul and Itany (2003) Critical Review of the Two Laws Protecting Industrial Ownership and Copyright



### **Patents, Drawing and Designs**

The Patents and Design Law No.22 of 1953 is applicable in the West Bank while Patent Law No.64 of 1947 is applicable in the Gaza Strip. A foreign company must have a trademark and design registered by the relevant authority or a lawyer with the required documents.

### **Publishing Rights**

Publishing rights in Palestine fall under the Copyrights Laws for the years 1911 and 1924. According to these laws, protection remains applicable until 50 years after the death of the writer. The law also deals with counterfeiting and forced licensing and many similar procedural issues. Additionally, in 2005 a law for Publications and Publishing was issued that treats issues related to establishing newspapers and magazines, as well as regulating the publishing process.

It should be noted that these laws, despite the fact that they are outdated, still improve and protect economic capacity and competitiveness. However, the need still remains to update and amend these laws, and for that purpose the PNA continues to research the legal framework to achieve this objective; in addition to its efforts in drafting the law for intellectual property and other related rights.

# Public Finance and Taxation





## 7-1 The Public Budget

During recent years, the PNA has managed to develop its capacities for efficient planning and budgeting. In 2008, the PNA moved into a medium-term expenditures framework to merge economic activity and improve the correlation between objectives, priorities, and financial allocations, moving into a program-based budget. These important developments came hand in hand with financial reform efforts, consolidating revenues and strengthening transparency and accountability. Expenditures are now connected to allocations, and the PNA fulfilled its promises and commitments to the private sector.

The PNA is continually focusing on construction and development. This is reflected in its budgetary support for several development projects. The PNA has increased spending on development projects in its 2010 Budget to reach US\$667 million, an increase of 67% compared to previous years. This corresponds with 17.5% of total government expenditure. Out of this amount, US\$350 million are allocated for social development projects, in line with the PNA strategies for a solid sustainable development for all Palestinian citizens.

The new budget includes forecasts that increase public sector salaries by 6%, even though the ratio of salaries to GDP will continue to fall for the third year in a row to reach 20% in 2010. In addition to the forecast of a decrease in current expenditures based on the decrease in net loans in 2009 (US\$75 million), which contributes to financial sustainability.

It is expected that PNA expenditures will reach US\$3.13 billion in 2010. Half of this figure will be allotted to the Gaza Strip. It is expected that there will be an increase in revenues of the PNA by 20% in comparison with 2009, exceeding US\$2 billion for the first time. This comes as a consequence of administrative reforms that have been pursued by the PNA concerning tax collection. There is a positive outlook for the local economy, building upon the increased revenue gained from income tax collections during the second half of 2009 (by 58%) in addition to the rise in tax revenue from value added taxes of 35%.



The current deficit in the budget of 2010 is the smallest since 2000. It is expected that this deficit will decrease from US\$1.45 billion in 2009 to US\$1.21 billion in 2010, or from 22% to 16% of GNP. It is also expected that the revenues of the PNA will cover 65% of the overall spending in 2010 in comparison with 55% in 2009. The total deficit will reach US\$1.88 billion after additional development spending. It is expected that donors will undertake the financing of the deficit.

## **7-2 Public Revenues**

Public revenues for the PNA are composed of direct and indirect taxes, customs and sales tax on some commodities, taxes from the revenues of the Palestinian Investment Fund (PIF) and from other excises and revenues.

### **7-2-1 Taxes**

The PNA initiated a new income tax by issuing an amended Income Tax Law (No.17 of 2004), which unified the legal framework in both parts of the country, expanded the tax base and reduced its rates, and unifies the income tax rate on all commercial establishments. Given the emergence of some problems pertaining to the implementation of Income Tax Law (No.17 of 2004) and the continuation of policies of financial reform pursued by the government, the decision was issued passing Law No.1 of 2008 amending the Income Tax Law (No.16 of 2004). Core amendments were made on some clauses of the original law; namely the decreases on income and tax exemptions.

The new law takes into consideration the difficult economic circumstances that Palestinians face, both as individuals and companies. These amendments are intended to redistribute wealth and promote investment in Palestine by Palestinian and non-Palestinian investors.



### Personal Income Tax:

The law accords a number of tax exemptions for the lower income sectors before they become subject to income tax. Some of them are:

- Exemptions are granted for residents for up to US\$7,200, instead of US\$3,000, as in the original law. Hence, individuals whose total income is less than US\$600 a month are exempt from paying income tax.
- Exemption on the real amount paid by employees in the private sector on physical transportation, are up to a maximum of 10% of total wages
- Exemption on the contributions of employees in savings funds, retirement, social security or health insurance and any other funds approved by the Minister of Finance.
- Exemptions on profits, revenue distribution and dividends for individual investors in Palestinian companies that have paid their income taxes.
- The cabinet has the right to use its discretion to amend these exemptions upon the recommendation of the Minister of Finance for the public good. The law stipulates the exemption of interest paid on housing loans at a maximum of US\$2000 per annum, granted to one of the spouses only, based on adequate documentation.
- After reaching a taxable income, the rate is determined on the basis of income level in the following table.



**Table 14: Income Tax Rates and Brackets in the OPT**

Annual Income Taxable	Percent
<b>Personal Income Tax</b>	
USD 1-10,000	5%
USD 10,001-20,000	10%
More than US\$20,000	15%
<b>Corporate Income Tax</b>	
Domestic and foreign	15%

**Corporate Income Tax**

The law provides a package of exemptions and reductions on the income of companies, which include:

- Exemptions on profits, revenue distribution and dividends distributed by a company based in Palestine.
- An exemption on profits on capital accrued from trading in investment portfolios.
- The law caps training expenses at US\$100,000, or 1% of the total income, whichever is less.
- The law caps expenditures on research and development and scientific research at US\$100,000 or 1% of the total income, whichever is less.
- The law caps expenditures for compliance with Palestinian standards at US \$100,000 or 1% of the total income, whichever is less.
- The law caps expenditures on market research or researching new markets at US\$100,000 or 1% of the total income, whichever is less.



- The law allows for reassigning losses to the following years up to a maximum of 5 years, as long as these losses are not a result of a re-evaluation of assets.
- The law caps hospitality expenses at US\$50,000
- The law stipulates that 5% of debts can be considered bad debts if the borrower cannot pay back for three years. The cap value of bad debts was raised to US\$100,000 for limited liability private companies and to US\$300,000 for public shareholding companies.
- The law specified the share of branches of the expenses of the headquarters at US\$100,000.
- The law allowed a reduction of 40% of the municipal taxes paid by the company as expenditures.
- The tax rate that life insurance companies are subjected to is set at 10% of the total insurance premiums. Any money that is withdrawn by any shareholder as advance or loan is considered a distribution of profit.
- After reaching a level of taxable income, the law imposes a 15% tax rate on companies, whether local or foreign. This is considered an incentive for foreign companies to invest in Palestine since they benefit from the same treatment as national companies.

#### **Property Tax:**

This tax is regulated by the law for property and real estate taxes within municipal areas (Law No. 11 of 1954 and its amendments).

This law imposes the following tax rates:

- 17% of the real rental value, after discounting 20% for depreciation.
- 10% of the estimated value of the land, estimated at 6% of the real sale value of the land.
- The determination of tax rates for agricultural land differs from one year to another depending on the crop.



## Taxes on local goods and services:

### Value Added Tax:

This tax is imposed on goods and services at a rate of 14.5% in accordance with the Paris Accord of 1994.

This tax is imposed on all goods and materials produced locally and imported.

Farmers are exempt from this tax.

### 7-2-2 Total Tax Burden

The total tax burden represents the total taxes paid by the Palestinian society, including the private sector, individuals and establishments. This can be expressed as a percentage of the GDP. The tax burden in Palestine has fluctuated over time. In 2000, the tax burden amounted to 21.7%. Between 2006-2008 the tax burden has decreased as a result of the faster increase in the GDP compared to tax revenues. The tax burden in 2009 was 19.6%.

**Table 15: Tax Burden in the OPT**

	2000	2006	2007	2008	2009
Tax Revenue (million dollars)	963.8	993	1,097	1,279	1,313
GDP Current (million dollars)	4,194.7	4,619.5	5,182.4	6,108.2	6,692
The tax burden	23.0%	21.50%	21.17%	20.94%	19.62%

Source: PCBS (Various Years)



### 7-3 Government Expenditure

Government spending is considered a significant component of the GDP as it stimulates economic activities by increasing aggregate demand for goods and services. As part of current government expenses, the Palestinian Government pays salaries and social support as well as buys consumables and long-term products. It is expected that current economic expenses of the government will reach US\$3128 million in 2010, 49% of which cover salaries, 15% operating expenses, and 25% social support, while 13.7% are spent on capital expenditures. As for developmental expenses they are estimated at US\$667 million. They are to be added to the government current expenses.

Government procurement and the implementation of development projects in the Palestinian Territories are regulated by two laws. The first is the Law of Tenders for Public Works (No. 6 of 1999), which establishes procedures for the implementation of development projects, the procurement of consulting services and the formation of Tender Committees. It also provides guidelines for the classification of contractors, consultants and engineering firms. The second is the Law of General Supplies (No.9 of 1998). This law regulates the mechanisms through which the government purchases goods and services as operational expenses and capital and identifies mechanisms for the management of supplies, including inventory records, control and oversight. The PNA Ministry of Finance oversees the implementation of these laws.

Recently, the Ministry of Finance has drafted a new law entitled the Government Procurement Law. The proposed law, which is under review, combines the aforementioned laws into a single piece of legislation. The proposed law aims to foster the principles of accountability and transparency and to curb conflict of interest in government dealings; as well as to enable competition through the guarantee of equal opportunities for all providers of goods and services to government institutions.



#### **7-4 Public Debt**

At the end of 2009, the gross national debt of the Palestinian government was US\$1.5 billion. About a billion dollars was external debt, the rest was domestic debt in the form of bank loans and public sector debt. The national debt constitutes about 22% of the GDP; this percentage is relatively low when compared with neighbouring countries. This debt is unlikely to increase during the next three years, because the budget deficit is covered through international aid due the disciplined and cautious loan policy pursued by the government.

#### **7-5 Public Investment in Development**

Data from the Palestinian government's general budget for 2010 shows clear improvements in the allocation of development investment. Its value reached US\$667 million, with an increase of 32.6% in comparison to 2009 (US\$503 million). The percentage of total development investment reached 21.3% of gross current expenditure, in comparison with 18.1% in 2009. These percentages show the continuous efforts of the Palestinian Government to improve the environment of investment in infrastructure and public facilities.

All development investments are funded by donations and international aid. It should be noted that the gross current expenditure for 2010 has increased 12.5% in comparison with 2009. This will have a significant effect on economic activities, as government spending constitutes a substantial percentage of the GDP – ranging from 60%-65%. Therefore, any increase in government spending is likely to create increases in the level of GDP through increases in aggregate demand, resulting in increased incomes and standards of living. All of these indicators show an improvement in the general environment of private investment in the West Bank and Gaza Strip.

# Incentives and Protection for Investors





There is a consensus on the importance of the Palestinian private sector. It is believed to have the primary role in facilitating economic growth, employment, fighting poverty, reducing the trade deficit and reducing the PNA's budget deficit. To achieve this, the PNA has established several institutions and entrusted international development agencies with the task of assisting the private sector and enabling it to play its intended role. Incentives have focused on encouraging small and medium enterprises, which comprise more than 95% of the Palestinian private sector.

These initiatives include:

### **8-1 Agreement with MIGA on Insurance of investment against Political Risks**

In November 2008, the PNA signed an agreement with the World Bank that guaranteed local and foreign investments in the West Bank and Gaza. An Investment Guarantees' Fund was established within this project to offer investors guarantees that they would still be able to reclaim their investments in case the security situation deteriorated, or if they were unable to complete their investment projects due to non-commercial risks. The European Investment Bank, the Japanese Government and the PNA funded this project. The fund is administered by the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group specializing in the field of political risk insurance.

### **8-2 The European Palestinian Credit Guarantee Fund (EPCGF)**

This EPCGF was established in 2005 with an initial capital of EUR 29 million, supported by the European Commission, Germany and the European Investment Bank. The fund aims to help SMEs in Palestine to overcome credit difficulties. The project also encourages partner banks to approach smaller companies and companies that otherwise could be ruled out from qualifying for credit extension. The EPCGF has signed agreements with seven banks working in the Palestinian Territories to implement the credit guarantee programme.



They include: the Arab Bank, Bank of Palestine, Cairo Amman Bank, Bank of Jordan, Arab Islamic Bank, Housing Bank for Trade and Finance and Jordan Ahli Bank. More than 1,114 loans were granted to SMEs by September 2009, with a value of US\$33 million.

### **8-3 The Loan Guarantee Facility (LGF) from the Palestine Investment Fund and OPIC for SMEs**

At the end of May 2007, the Palestine Investment Fund (PIF) launched a partnership with the Overseas Private Investment Corporation (OPIC) and the Middle East Investment Initiative (MEII) called the Loan Guarantee Facility Project (LGF) for SME loans. This totalled US\$230 million over the course of ten years. Through this project, PIF and its partners will provide banks working in the Palestinian Territories with guarantees to encourage them to grant loans to small and medium-size enterprises throughout Palestine. The LGF provides SMEs with greater access to funding, which in turn helps facilitate their growth. By the end of December 2009, the number of loans awarded amounted to 228, with guarantees reaching US\$51.3 million, which were given to SMEs working in a variety of sectors and locations.

### **8-4 The Political Risk Insurance in Partnership with OPIC**

In 2005, President Bill Clinton initiated the Palestinian Political Risk Insurance (PPRI). Within PPRI a number of experts in the domain of administration, insurance and politics started forming mechanisms and tools for promoting the development of the Palestinian economy. Furthermore, it protects against losses resulting from trade disruption and political violence and allows businesses to benefit from investment potential in Palestine.

PPRI established a funding committee from the private and public sectors, the Special Investments Committee and the Middle East Investment Initiative (MEII). The MEII launched a credit program with more than US\$160 Million in July 2007 in Ramallah.



In addition, the National Insurance Company (NIC), a local Palestinian insurance company based in Ramallah, signed an agreement with OPIC and MEI in May 2008 to create a new form of insurance called Palestinian Political Risk Insurance, covering the Palestinian exporters sector. Palestinian exporters were compensated for their losses and fines accruing from their inability to deliver their goods, due to Israeli restrictions on movement. Exporters were eligible for insurance services at affordable prices covering shipped goods or vulnerable properties.

# Opportunities for Investment in SMEs





The Palestinian economy is, and has been for a quite some time, operating below potential capacity. Once the political situation improves and stability is achieved, the economy is expected to move ahead and regain ground lost in the last three decades. At such a time, considerable growth will occur in numerous sectors. This prediction is far from unfounded, it is a realistic expectation given the way the economy performed during the periods of relative calm in the 1990s. Economic activity in every sector responded rapidly to the partial improvement in the security situation during those periods. It also responded to the extent that GDP was able to grow at approximately 10 percent. Following is a brief description of expected growth sectors in the event of a breakthrough in the political situation.

### **9-1 The Construction Sector**

Naturally, the reconstruction program will start with the construction of physical infrastructure and the reconstruction of the public institutions that were damaged over the past few years. Building of hotels, restaurants and recreational sites will be needed to revive the tourism sector, which has been almost stagnant over the past seven years. In addition, building residential houses is likely to increase to accommodate the natural increase in population, the rehabilitation of refugee camps and the expected flow of Palestinian returnees. Thus, the sector will offer an unprecedented opportunity for investment.

### **9-2 The Agricultural Sector**

Despite the limitations suffered by the agricultural sector, there are opportunities of economic recovery, as well as employment and investment opportunities. The early stages of economic recovery will witness substantial expansion in the agricultural sector for two main reasons. The first is due to the expected expansion in the production of food to accommodate increases in income and population. The former arises from new spending on infrastructure and public institutions and the latter occurs from the natural increase in population and the expected flow of Palestinian returnees.



For certain food items, supply could increase automatically as unused capacity is utilized. Supply, however, will be inadequate in other items, where there is little or no local production and where shortages are already evident. Investments in such items as wheat, seed oil and sugar would have very good returns.

The second reason for the expected expansion in the agriculture sector is the very profitable prospect of regaining the lost share of Palestinian cash crops in foreign markets, including exports to Israel. The major exported crops are citrus, olives, olive oil, vegetables, flowers, strawberries, and medicinal herbs. These items continue to be exported to, and through, Israel suggesting that they are competitive and capable of regaining their old share in neighbouring markets, given suitable investment in export facilities. The infrastructure was rehabilitated and the agricultural services were improved with better external marketing prospects. It is worth mentioning that there are abundant agricultural domains where investment is possible, like: cut flowers and roses, fattening calves and sheep, production of improved rams, improved export crops, palms, slaughterhouses, processing of agricultural products and others.

There is also an ever-increasing international interest in Palestinian food security willing to be funded by international donors.

The considerable increase in food prices provides a large opportunity to develop the agricultural sector in the West Bank and Gaza Strip. Local, official and civil society efforts can be utilised to facilitate the move towards more profitable agricultural projects by the technical assistance given from the donor community. In particular, certified GLOBALGAP Palestinian farmers are qualified to produce food to international export standards. This assistance contributes to the development of the potential productivity of the Palestinian agricultural sector. The agricultural sector awaits strategic partners with expertise in international marketing networks to coordinate with.



### 9-3 The Manufacturing Sector

The expansion of the construction and the agricultural sectors will require an expansion of the manufacturing sector. Construction of infrastructure will increase the demand for building materials substantially, especially cement, concrete, asphalt, crushed stones, aluminium, iron and steel rods. The PNA has a great incentive to encourage domestic production to meet this increased demand so that a shortage of foreign exchange is avoided. At the same time, the expansion in agriculture will require a parallel expansion in agro-industries as an outlet for agricultural surpluses and a supplier of processed food. This could reduce the pressure on both foreign exchange reserves and the price of food.

Accordingly, the manufacturing sector is expected to grow at a rate similar to the overall growth rate of the economy. This provides a great opportunity for investing in stones, textiles, leather, pharmaceuticals, in addition to agro-industries and building materials industries. The expected expansion in the service sector, especially financial services and the modernization of construction offers another great opportunity for investing in industries employing highly skilled labour and using advanced technology, like engineering designs, electronics and ICT.

### 9-4 The Tourism Sector

With an improvement in the security situation, the tourism industry has the potential of becoming an important growth sector. In the early 1990s, the World Bank estimated 'that given political stability, the Palestinian tourism industry can expect to receive between 500,000 and 1,000,000 tourists (both religious and recreational) on an annual basis, generating income in the entire tourism sector of US\$250-300 million'.<sup>[50]</sup> Realizing this potential, however, will require an effective

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[50] World Bank (2003) Developing the Occupied Territories: An Investment in Peace, Washington D.C., September 2003, Vol.3, p.44



partnership between the public and the private sectors.

The former has to coordinate with neighbouring countries to establish a regional framework needed to facilitate the expected increase in the number of foreign tourists. The latter has to put up the financial resources needed for investment in hotels, restaurants and places of entertainment. Domestic and foreign investments have a great opportunity to modernize the sector and expand its scope. This may include a range of activities, such as publishing pamphlets, trade fairs and conferences on various cultural and historical issues, festivals and exhibitions.

### **9-5 The Information and Communication Technology Sector**

Palestinian human capital is sufficient to attract considerable new investment into the information technology sector. The attraction of new technology within the Palestinian industry depends mainly on a number of factors, the most important of which are the low cost of relevant technology, the economic feasibility of exporting ICT products and the potential utilization of such products in Palestinian industrial enterprises. It is expected that the economic recovery and the expansion of the various economic sectors will provide good opportunities for the private sector to invest in information and communication technology. A good example of the potential of the sector is Al-Wataniya Mobile, which won the tender to become the second cellular phone operator in Palestine.

### **9-6 Education and Health Sectors**

The Palestinian Reform and Development Plan supports the education sector and reinforces its main role in building the Palestinian economy, including various projects to improve the quality of education in Palestine. Despite the noted development in the education sector in terms of the numbers of students and schools, the two shifts system - morning and evening - is still common in a number of Palestinian governorates. Additionally, the public sector has thus far been incapable of responding to the growing demand for education in light of the enormous increase in education enrollments



each year. That is why the PNA is encouraging private investment to establish private schools that can provide higher quality education.

This represents an excellent opportunity for private investment in this sector.

As for the health sector, it suffers from the problem of poor medical services, which in turn drains the general budget and the wealth of individuals who feel they must seek treatment abroad. This shows that there are real opportunities for the establishment of hospitals and specialized clinics for the treatment of diseases such as cancer and facilities for the treatment of ophthalmic and heart conditions.

### **9-7 Strategies to Promote the Products of SMEs**

Marketing is one of the problems faced by SMEs in the Palestinian territories. This is largely due to a lack of awareness and poor marketing expertise on the part of the owners of these facilities. Given the small size of the domestic market, there is a high level of competition, which compels SMEs to look for marketing assistance, mostly from international service providers. The costs of procuring these services can be quite high, thus there is a need for additional technical and financial support for these enterprises to facilitate their entry and success in the market.

To overcome the problems of marketing the products of SMEs, there are several government and non-governmental bodies and institutions that offer support and assistance through various services. They can include legal and financial consultations and the organization of expos and trade shows both in the Palestinian territories and abroad. Public and private bodies supporting SMEs include: the Ministry of National Economy, Palestinian Investment Promotion Agency (PIPA), the Palestinian Federation of Industries, Palestine Trade Center (PalTrade), the Palestinian Federation of Chambers of Commerce, Industry and Agriculture, and the Centre for Small Enterprises. It should be noted that there are major opportunities for investment in the field of marketing as there is a clear need for marketing companies to promote the products of SMEs.

# Appendices





## Appendix I:

### The A-Z guide to investment in Palestine

#### How to Start a Business: A Step-by-Step Guide

Registration at the Ministry of National Economy:

The Jordanian Companies Law No.12 of 1964 regulates registration of companies in the West Bank, and the British mandate Law No.18 of 1929 regulates companies in the Gaza Strip. According to the Jordanian Law, companies are classified into two types: Regular companies owned by individuals and can be either a Public or of limited liability. The second type is shareholding companies, which could be either public shareholding companies Ltd. or private shareholding companies Ltd.

For registration of any of the aforementioned types of companies investors should:

- Prepare the company's legal documents, memorandum of association and bylaws. It is advised that an experienced lawyer, specializing in commercial law, is consulted.
- The company's owner or the officially designated lawyer should present 3 copies of the legal documents to the Registrar of companies at the Ministry of National Economy.
- The Ministry will initially check for the availability of the company's commercial name. If no other company has the same name, the Ministry will approve the name.
- The next step is to complete the registration form according to the type of company at the Ministry of National Economy.



- The following documents should be enclosed with the registration form: copies of identity documents or passports of the founding members; the ministry's letter of approval regarding the name of the company; the lawyer's power of attorney to follow up registration procedures; and the bank deposit slip ascertaining that 25% of the company's capital (applicable only to private shareholding companies) has been deposited in the bank. To register a regular and shareholding company the memorandum of association also needs to be enclosed. To register a Public Foreign Shareholding company, investors should enclose a work permit from the Prime Minister's office. Additional requirements are the registration form; the memorandum of association; the company's bylaws duly certified; the lawyer's power of attorney; the board of directors decision on the authorized signatories on behalf of the company; and authorization to follow up registration procedures in Palestine.

Registration fees differ according to the legal entity of the company. If the company is a private shareholding company, the Ministry charges 0.1% of the company's authorized capital. This is in addition to a NIS 285 registration fee, NIS 87 for the ministry for authorizing the company's name and NIS 84 for each founding member's signature.

For the registration of a regular public shareholding company, the same amounts are charged, except for the registration fees which total up to NIS 493 for regular companies and NIS 285 for public shareholding companies. No capital deposit is required.

**Issuing the registration certificate:**

After completion of the aforementioned procedures, a temporary certificate of registration is issued. Once the bank deposit certificate of 25% is presented at the Ministry, the original certificate is issued.

Registration at the Registrar of commercial companies:



The following documents should be included: memorandum of association, by-laws, copies of shareholder identification cards and the verified company name.

Fees to be paid are broken down as follows:

- Name verification: US\$22
- Registration form fee: US\$81
- Signature verification fee: US\$24 per signature (for forming a limited company the minimum signatures are two, for a public limited company, seven signatures at least are required).
- 0.1% of the authorized capital.

### **Foreign Investors:**

Foreigners interested in starting an investment should submit an application form to the Palestinian Investment Promotion Agency (PIPA) to obtain an investment certificate. Following this, registration at the Ministry of National Economy and at the Registrar of commercial companies is required. These applications are helpful for investor as they simplify procedures and offer them incentives for initiating their businesses.

### **Incentives for Investors**

Foreigners or Palestinians residing abroad benefit from a number of investor incentives. These include generous tax exemptions from customs on production inputs. Investors enjoy unrestricted transfer of all their financial resources from outside of Palestine – provided that they have fully paid their obligations according to the law. The PNA guarantees investors protection against expropriation, confiscation of capital and repatriation, except through the proper judicial channels. These incentives are valid upon fulfilment of all project requirements, and starting actual work on the project. All these details are detailed in the Investment Promotion Law No.1 of 1998.

Obtaining the municipality trade license Trade licence fees (for professions like pharmacists, barbers and grocers,) range from JD 24-144.



### Registration at the income tax and VAT departments

The registration number for income tax and VAT is the same. In most cases, chartered accountants register the company at the tax department (over 90% of cases). Chartered accountants' charges usually start at US\$400/per annum. However, there are no fees to be paid for registration.

Investors are requested only to open a file and submit a copy of their identification document and registration certificate.

### Registration at the chamber of commerce

Cost of registration is subject to the company's capital and varies from one chamber to the other. As an example we can use the fees for the Ramallah Chamber of Commerce as a guide:

- Grade A+: Companies whose registered capital is over JD 50,000 pay an initial fee of US\$140 plus an annual fee of US\$140.
- Grade A: Companies whose registered capital is JD 15,000 to 50,000 pay an initial fee of US\$106 plus an annual fee of US\$106.
- Grade B: Companies whose registered capital is JD 6,000 to 15,000 pay an initial fee of US\$70 plus an annual fee of US\$70.
- Grade C: Companies whose registered capital is below JD 6,000 pay an initial fee of US\$35 plus an annual fee of US\$35.

Applicants should submit to the business services office at the Chamber an application form duly signed for consideration. For individual establishments the applicant has to attach a photocopy of the rental agreement for the shop or establishment, in addition to the trade license from the relevant municipality.

For shareholding companies, applicants should enclose a copy of the Company's registration certificate (issued by the Ministry of



National Economy), a copy of the memorandum of association and the company's bylaws, in addition to the office rental contract.

#### Obtaining approval from the Directorate of civil defense

The directorate of civil defence needs to inspect the general safety conditions including, alarm and fire systems, emergency exits, safety of site and its convenience to the company's activities. In return, the company should pay the directorate according to the type of business. For example, registering a 100m<sup>2</sup> project in Ramallah city costs NIS 80 annually, while 1,000m<sup>2</sup> costs NIS 650.

An additional NIS 20 is added for areas exceeding 10,000m<sup>2</sup>. This fee is paid at the bank using a deposit slip provided by the directorate.



## Appendix II:

### Supporting Institutions: Names and Contact information

#### 1. Official Institutions

##### The Ministry of National Economy

The function of the Ministry of National Economy is to create an economically enabling environment for private sector development. This is expressed in its three strategic objectives:

- Provide a wide range of high quality services responsive to private sector needs.
- Coordinate with the private sector to form a national consensus on economic policy.
- Help expand trade relations between Palestine and other countries.

The Ministry's operations are carried out through the following departments:

- Policy Analysis and Statistics.
- Company Registration and Industrial Licenses.
- Intellectual Property Rights.
- Industry, Trade and Consumer Services.
- IT, MIS and Information & Internet/web Services.
- International Trade Relations.
- Regional Office Management – West Bank.
- Regional Office Management – Gaza Strip.

These departments provide a long list of vital services to businessmen, investors and consumers, including trade licenses, company



registration, consumer protection, and information and research.

**Contact:**

Tel: + 970 2 2981218

Fax: +970 2 2981207

Email: [info@met.gov.ps](mailto:info@met.gov.ps)

[www.mne.gov.ps](http://www.mne.gov.ps)

## **The Palestinian Investment Promotion Agency (PIPA)**

The Palestinian Investment Promotion Agency (PIPA) was created in accordance with Law No. 1 of 1998, encouraging investment in Palestine as a sovereign and independent entity.

The law provides investors with guarantees, procedures and incentives for rewarding investments in Palestine within a climate that is free from bureaucracy, routines and complications. PIPA is the concrete interpretation of the vision of the PNA and implements policies for the promotion of the private sector and an environment conducive to investment.

### **PIPA's Message**

The agency works on building a better future for all Palestinians by providing advanced services to local and foreign investors; by easing communication between the private and public sectors; and by creating a one-stop-shop for investor services. It also provides rewarding incentives for investment and ensures a competitive investment environment in Palestine.

### **The Partnership between the public and private sectors in the management of PIPA:**

The agency's board is made up of thirteen members, five from the private sector and eight from the public sector. The Minister



of National Economy chairs the board, and the vice-chair is the representative of the Ministry of Finance.

Having members from both the private and public sectors represented in the board is important to ensure the necessary cooperation to monitor and implement necessary amendments to the laws and procedures that could impede investment in Palestine. The board also puts in place and recommends the necessary policies to create a conducive climate for investment, and contributes to the implementation of the necessary policies and procedures to achieve a competitive position for Palestine within the global market.

The public sector members of the board effectively communicate internal changes made within their respective ministries including the ministries of Tourism, Industry, Housing, Planning, Agriculture, and the Monetary Authority.

The solid cooperation between the public and private sectors, in the board enables the Agency to pursue a unified promotional strategy that benefits all the economic productive sectors.

#### **Incentives for Investment**

- The projects fixed assets are exempted from customs and taxes.
- The projects imported spare parts for the project will be exempted from customs and taxes as long as the value of these parts does not exceed 15% of the value of fixed assets.
- Fixed assets that are necessary for expanding, developing or modernizing the project are exempted from customs and taxes.
- Any investment that exceeds US\$100,000 is given a 5 year income tax exemption after its due date.
- Furniture, electrical and electronic items imported for hotels, hospitals and tourism projects, are exempted from taxes and customs.
- With the board approval, it is possible for the investment



promotion agency to sanction additional incentives to projects that are seen to play an important role in building the Palestinian economy

- There is no discrimination between local and foreign investors.

#### **Services provided by PIPA:**

PIPA provides investors with everything they need to start their business in Palestine and allows investors to obtain all of the necessary licenses through the authority's one-stop-shop. The investment support unit also provides information and data on emerging trends in the fields of investment opportunities, costs, and financing in Palestine.

The relationship between the investor and PIPA does not end with the fulfillment of the benefits and incentives provided for in the law. The relationship continues to complete the circle of caring for the investment through helping the investors by providing additional services and solutions to problems they might face after they start their business in Palestine. PIPA also monitors laws and regulations that may restrict the rights and guarantees of investors.

PIPA, in the course of the difficult years that the Palestinian economy has experienced, has kept on working to help keep projects going under difficult conditions. PIPA also provides foreign and Palestinian investors with information pertaining to investment, the laws related to it, and how to obtain incentives and tax exemptions. In partnership with the private sector, PIPA strives to convene local and international conferences to expose potential investors to the vast amount of hidden opportunities that abound in Palestine.

#### **For Communication:**

Palestinian Investment Promotion Agency:  
Ain Misbah, Ramallah, Palestine P.O Box 1984



Telephone: +970 2 2988791 Fax: +970 2 2988793  
Email: info@pipa.gov.ps Website: www.pipa.gov.ps

## **Palestinian Industrial Estates and Free Zones Authority (PIEFZA)**

PIEFZA was established in 1998 as an independent agency of the PNA, following the promulgation of the Industrial Estates and Free Zones Law. The objectives and responsibilities of the Authority are outlined in this law and include the following:

Putting into effect and following up the Industrial Estates and Free Zones Law and the Investment Promotion Law in favor of investors in Palestinian Industrial Estates and Free Zones.

Preparing, promoting and supervising the development of all Palestinian Industrial Estates and Free Zones.

Providing investors with the necessary services for starting a successful business.

Setting up good quality infrastructure necessary to support new investment activities.

Offering a one-stop-shop to simplify investment procedures and minimize bureaucratic requirements.

**PIEFZA consists of the following departments:**

1. Operations and Administration Department.
2. Public and International Relations and Marketing Department.
3. Technical Department.
4. Financial Affairs Department.
5. Information Technology Department.

**Contact:**

Tel: +970 2 29809912



Fax: +970 2 2960351  
E-mail: [info@piefza.org](mailto:info@piefza.org)  
[www.piefza.org](http://www.piefza.org)

## **Palestine Standards Institution (PSI)**

The PSI is a public institution founded in 1994 to facilitate trade and investment in the OPT by meeting the needs of business and industry for metrology, standards and quality assessment. PSI headquarters is located in Ramallah city and has branches in Gaza, Hebron and Nablus. The PSI seeks to advance citizens' health and safety and environmental protection and is currently developing a new legal framework for quality infrastructure in Palestine.

The PSI provides a range of services to business start-ups and existing firms to ensure their compliance with quality standards and specifications. It provides access to national and global standards, accredited testing facilities, product calibration and certification and continuous inspection services.

The institution also provides training in different areas related to its scope of work and disseminates information on local and international measurement standards. Finally, the PSI seeks to promote cooperation between the public, private and academic sectors to encourage investment in the fields of product examination, measurement, specification and quality.

### **Contact:**

Tel: +970 2 2984144/2989650  
Fax: +970 2 2964433  
E-mail: [info@psi.gov.ps](mailto:info@psi.gov.ps)  
[www.psi.gov.ps](http://www.psi.gov.ps)

## **The Palestinian Central Bureau of Statistics (PCBS)**



The PCBS was founded in 1993 by a PLO decree months before the establishment of the PNA. The General Statistics Law No.4 of 2000 regulates the apparatus. Here the main functions and tasks are assigned. The advisory council for statistics was formed under this law.

The main functions of PCBS include:

1. To establish a comprehensive and unified statistical system to serve Palestinian authorities as an instrument of guidance for diagnosing problems and evaluating progress made.
2. To serve the instrumental needs of businesses and their organizations for statistical information on states and trends.
3. To conduct a population and housing census and agriculture census every ten years or less in accordance with the rules of a special census act issued by the President of the Palestinian National Authority, and to conduct an Establishment census every five years or less.
4. To participate in the international cooperation and exchange of official statistics in accordance with international standards which guarantee Palestinian membership in international organizations.
5. To establish statistical training centers in order to prepare qualified personnel to carry out the statistical activities conducted by governmental or non-governmental departments or agencies.
6. To create and maintain a library of Palestinian and international statistics and an archive of Palestinian censuses and surveys covering the areas listed.
7. To publish a statistical yearbook annually.



8. To update the Voting Register based on the Population Register regularly and every three months, and to provide voter listings when needed.

**Contact:**

Tel: +970 2 2982700  
Fax: +970 2 2982710  
Email: [diwan@pcbs.gov.ps](mailto:diwan@pcbs.gov.ps)  
[www.pcbs.gov.ps](http://www.pcbs.gov.ps)

## **2- Public Institutions**

### **The Palestinian Monetary Authority**

The Palestinian Monetary Authority (PMA) was established in 1994 and began its work in 1995. The PMA is the equivalent of the Central Bank and it exercises several of the tasks entrusted to a central bank, though not all of them. The tasks entrusted to the PMA are banking supervision, payment services, research and statistics, alongside other administrative tasks.

In 2006, the PMA adopted an ambitious plan to become a fully-fledged central bank. The first stage of this plan has been executed over the last 3 years. It is expected to complete the subsequent stages over the next 3 years. When this is achieved, the PMA will be able to play a significant role in the growth and development of an independent sovereign Palestinian state. In which case it will be qualified to launch a national currency and develop monetary policy suitable for Palestinian economic conditions.

This is based upon a clear and meticulous plan to achieve this vision,



derived from international practices in modern banking. The PMA's plans encompass the principles of good governance, transparency and accountability. This will enable the PMA to consolidate its ability to give advice in the field of political economy, thus complementing financial and monetary stability.

**Contact:**

Tel: +970 2 2415251/50

Fax: +970 2 240 99 22

Email: [info@pma.ps](mailto:info@pma.ps)

[www.pma.ps](http://www.pma.ps)

**The Palestinian Capital Market Authority:**

The Palestinian Capital Market Authority (PCMA) was established in accordance with the Law for the Capital Market Authority (No. 14 of 2003) following the Cabinet decision of 11 August 2005. It aims at organizing, developing and monitoring the Palestinian capital market and aspires to guarantee the stability and development of the movement of investment and to protect the rights of investors.

The responsibilities of the Authority include the organization and monitoring of the stock market, insurance companies, leasing and credit companies and mortgage companies. The PCMA works on the implementation of laws relating to these sectors and on the protection of the rights of all their clients. It is also concerned with the provision of a competitive and transparent environment to stimulate an active market.

The PCMA carries out its tasks through the following three administrations:

**The General Administration for Securities:**

The General Administration for Securities monitors and organizes the activities inside the Palestinian Stock Exchange (PSE) focusing on disclosure and transparency. It follows a number of necessary instructions and systems to regulate, develop, and monitor the market. The administration is in charge of licensing companies on the stock market, investment consultants and investment funds. The law of the stock exchange (law No. 12 of 2004) regulates the work of this sector in addition to a number of general regulations, instructions and decisions further regulating the market.

**The General Administration for Insurance:**

The General Administration for Insurance is in charge of the development, supervision and control of the insurance sector and aims at regulating activities within the sector. The supervisory administration takes charge of the market and undertakes the licensing of all companies and insurance agencies, in addition to all professions related to the insurance sector.

The Administration also developed several market regulations, instructions and decisions and helped to solve problems faced by insurance companies. The work of this sector is regulated by the insurance law (No.20 of 2005), in addition to a number of regulations, instructions and decisions. These include regulations on monetary payments, decisions on standards for auto insurance, and many others.

**The General Administration for Financing Real Estate Mortgages and Leasing:**

The General Administration for Financing Real Estate Mortgages and Leasing is entrusted with the task of regulating, supervising and developing both markets. The administration is currently drafting a law on real-estate mortgages in cooperation with the World Bank. It also worked on the draft leasing law (No. 15), which has already been submitted to the Cabinet for approval.



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### **3. Private Institutions**

#### **Palestine Trade Centre (PalTrade)**

PalTrade was founded in 1998 as an initiative fully supported by the Palestinian Ministry of National Economy for enhancing private sector development. PalTrade was registered as a non-profit institution, comprising member companies of the Private sector. The institution serves as a national trade development organization dedicated to improving Palestinian competitiveness through trade promotion and building the capacities of the private sector. Over 300 leading Palestinian businesses are members of PalTrade.

PalTrade's operation and services are guided by sector-based strategies for trade development, supported by assessment of cross-sectoral opportunities and impediments. These strategies are deployed through a range of services and activities aimed at vitalizing sectors to export to target markets.

PalTrade's Mission is to Develop Trade Through:

- Advocating a competitive, business enabling environment.
- Improving trade competitiveness through trade promotion and capacity building.
- Fostering international business practices and standards among professionals, firms and business organizations.
- Providing trade-enabling knowledge.

PalTrade promotes the following major principles:

1. Trade Promotion: through assessing and improving capacities of sectors and Palestinian businesses operating in the global markets and increasing the market share in the local Palestinian



market.

2. Trade Policies: for managing programs to build and develop a legal economic environment and lobbying and establishing a national economic dialogue program.
3. Trade Information: essential for providing Palestinian businesses with market research and information necessary for export markets.

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[www.paltrade.org](http://www.paltrade.org)

### **Palestinian Federation of Industries (PFI)**

The PFI, founded in 1999, is a national institution representing the Palestinian industrial sector through its federated associations. The federation works for the empowerment of industrial development, which is considered the basis for Palestinian economic progress. It seeks to achieve this objective by educating, training and advocating members' interests in international, regional, and local fora, in addition to managing the development of efficient industrial policies that serve their members' interests and contribute to the development of the national economy.

### **Federation of Palestinian Chambers of Commerce, Industry and Agriculture**

The Federation was established to represent the Palestinian



Chambers of Commerce and Industry in 1989 in Jerusalem at the initiative of some of the Palestinian Chamber members. The Federation, which is the main umbrella for the various Palestinian trade Chambers, includes 14 chambers (13 in the West Bank and one in the Gaza Strip with its four branches). There are about 50,000 associate members. The Federation is a member of many Arab, Islamic and international organizations such as The General Federation of Chambers of Trade and Industry in the Arab World, the Islamic Chamber of Trade and Industry, the Arab Labor Organization, the International Labor Organization, and the World Chambers Federation among other organizations.

Vision: To build the national economy and to coordinate the work of the private sector.

Mission: To serve and develop the Palestinian Chambers of Commerce, Industry and Agriculture and to enhance their contribution to economic and social development.

The Federation's strategic goals are:

- To organize the work of the various Chambers and develop their capacities, skills and human resources.
- To participate in the formulation of policies for trade and industry and in the development of strategies and plans necessary for their implementation.
- To contribute to the development of trade and industry.
- To protect and defend the interests of their members.
- To create an appropriate economic and investment environment through partnership with the public sector, civil society organizations and the private sector.
- To represent the Chambers and their members on the local, national and international levels and enhance regional and international networks and relations.
- To develop an economic database and statistics about the members.

**Contact:**

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E-mail: [info@pal-chambers.org](mailto:info@pal-chambers.org) , [fpccia@palnet.com](mailto:fpccia@palnet.com)

**Palestinian Businessmen's Association**

The Palestinian Businessmen's Association (PBA) is a non-governmental organization established in 1995 to serve the Palestinian business community, its organizations and forums. In 2001, it founded the Federation of Palestinian Business Associations along with other relevant associations. It addresses issues of concern to its members and to the business community in general through analyzing policies and regulations, conducting field studies and surveys, and providing technical assistance and training to improve working conditions and managerial practices.

In addition, the PBA seeks to provide a forum for advocacy, lobbying and discussing the priorities and concerns of the private sector in order to promote good governance, economic and social reforms, free trade and democratic values.

PBA organizes and participates actively in conferences, seminars, trade missions, exhibitions and other activities promoting trade and investment in Palestine. The PBA maintains economic ties with the Palestinian business communities in the Diaspora and other business communities in Arab and other amicable countries through the establishment of joint business councils with similar organizations in these countries. The PBA has been the vice president of the Arab Union of Business Associations for several consecutive sessions.

PBA publishes the 'Palestinian Executive', a professional journal of excellent quality. The PBA established the Palestinian Centre for



International Arbitration to help resolve trade and financial disputes and to assist the Palestinian Judiciary. PBA services are directed to all Palestinian businessmen but give special privileges to its members and the associations and forums under its umbrella.

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Website: [www.pba-palestine.org/](http://www.pba-palestine.org/)

**The Palestinian Information Technology Association (PITA)**

PITA was founded in early 1999 as a membership based organization for locally registered companies in the IT sector. The association represents approximately 69 companies from various sub-sectors. These include hardware distributors, software development firms, office automation vendors, Internet service providers, telecommunications, IT consulting, IT training and related businesses.

PITA's objective is to represent the interests of the private sector in the information and communication field in Palestine. It functions with a view to lead the Palestinian technology and information sector to form a fundamental pillar for the Palestinian economy.

PITA aims at advocating business enabling policies, mechanisms and environment through public-private partnerships and promoting the Palestinian IT sector locally and internationally by facilitating access to the markets for the benefit of PITA members.

PITA provides a range of services to its members and the IT community, including business development services, training programs, IT policy analysis, and preparation of specialized exhibitions and workshops. In its efforts to promote and defend the



information technology private sector in Palestine, PITA assumes the following functions:

- Advocating policies for a supportive environment and mechanisms to economic activities in the IT sector.
- Promoting the Palestinian IT sector locally and internationally by facilitating access to markets for the benefit of PITA members.
- Upgrading the level of Palestinian information systems locally and internationally through engaging the technical and non-technical IT human resources and related institutions to expand the qualified pool and uphold the level of professional standards.

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Other institutions relevant to potential investors include: the Association of Banks, the Federation of Insurance Companies, the Federation of Contractors and the Loading and Shipping Association.



## Appendix III:

### Efforts for Development and Reform

#### The Political System

The PNA and the Palestinian people have taken several important steps towards nation-building and economic recovery (see next section). In the midst of the raging *Intifada* and Israeli military closures and incursions, the PNA has embarked upon an intensified reform and democratisation process, leading the way towards free elections and good governance.

The reform agenda has included measures to improve the accountability and transparency of fiscal management as well as reform of judicial institutions, enforcement of the rule of law, and the protection of public safety and security of citizens. The Palestinians have also continued on the road towards democracy by holding both presidential and local municipal elections during 2005 and parliamentary elections in 2006. Those elections were described as fair, transparent and democratic by the foreign observers who monitored the process as well as international media.

According to the Palestinian Basic Law (PBL), which was signed by the President of the PNA in 2002, the structure of the PNA is based on three separate branches: executive, legislative, and judicial. The Palestinian people directly elect the president of the PNA. An amendment to the PBL was approved in 2003, stipulating that the president should appoint a prime minister who also heads the national security services. The prime minister forms a Cabinet of ministers and runs the government, reporting directly to the president.

The Palestinian Legislative Council (PLC) acts as a parliament. It discusses and approves all cabinet proposals as submitted by the Prime Minister.



It must also endorse the Prime Minister and the government. The amended Election Law of 2005 raised the number of parliamentary seats from 88 to 132, elected through a mixed electoral system (proportional representation and constituencies 50% for each system).

Since its election in 2006 the Palestinian Legislative Council (PLC) has reviewed, approved and ratified more than 100 Palestinian laws relating to economic, financial, judicial, and social matters. Other laws are awaiting the signature of the President or are still in the drafting phase. Some of those laws that have been approved and signed are the Investment Promotion Law, the Industrial Zones Law, the Labour Law, Amendment of the Income Tax Law, the Monetary Authority Law, and the Palestine Capital Market Authority.

Since the formation of the Emergency Government following the events of June 2007 in Gaza, ten laws and amendments have been approved by presidential decree. These include legislation on money laundering, insurance, and the 2007 and 2008 budgets, while others await the President's signature. However, according to the PBL, these laws must be ratified at the first possible session of the PLC.

## **The Palestinian Judicial System**

The judiciary is independent and their authority is exercised by the different courts spread across the Palestinian territory. Judges are independent and in exercising their duties they do not need to be subject to any authority other than the authority of the law.

Two laws govern the judiciary in Palestine: the Law of Judicial Organisations (No.15 of 2005), and the amended Law for the Formation of Regular Courts (No.5 of 2001). Courts in Palestine are of three types: regular, religious and special. Regular courts are divided into Civil Courts and Criminal Courts.

Regular courts are hierarchically divided into the Magistrate Courts, Courts of First Instance, Courts of Appeal and Courts of Cassation. Shari'a Courts adjudicate Muslim personal status matters, and



religious courts adjudicate matters relating to non-Muslim faiths that are recognised in Palestine. Special Courts are assigned to look into specific matters, such as the Customs Court, Juvenile Court, Labour Court, Municipality Court and the Military Court.

## PNA's Development Activities

### The Palestinian Reform and Development Plan (PRDP) for 2008 – 2010

During the 2007 Paris Donors Conference, the Palestinian Reform and Development Plan (PRDP) was launched. The Plan aims at achieving institutional reform and economic and social development, implementation of major reform measures to security and civil governance, fiscal stability, job creation, and improvement of public services. Since its launch, the government started its fiscal planning through implementation of the MTEF approach.

The major economic indicators included in the PRDP were cutting the payroll of public sector workers,<sup>[51]</sup> reducing the expenditure of net credit, improving the earnings, and paying the due amounts to the public sector workers and the governmental officials, which is estimated at US\$500 million. Moreover, the plan sets up seven basic programs for a thriving economy and seven additional programs for the development of the infrastructure.

Although the plan proposed for US\$5.6 billion, donors pledged over

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[51] In 2007, the Palestinian payroll totaled up to 27% of the GDP, due to the huge number of employees working in the governmental sector (189,000). The PNA aims at decreasing the percent to 22% by reducing the number of workers to 150,000 by 2010.



US\$7.7 billion to the three-year plan <sup>[52]</sup>.

Major donors include the European Commission (US\$1,192 million), Saudi Arabia (US\$776 million), USA (US\$555 million) and the United Kingdom (US\$500 million). The World Bank announced, as an initiative to assist in the implementation of the plan, the establishment of a new joint credit fund to direct international aid directly to the budget. By March 2008, expenditure standards were completed and funds started to flow.

### **The Palestinian National Plan for Early Recovery and Reconstruction of Gaza (2009-2010) (GERRP)**

Following the Israeli attack against Gaza (Dec 27 – Jan 18), the GERRP plan was launched. The Ministry of Planning coordinated the development of this plan with other PNA ministries, UN agencies, the European Commission, the World Bank and other partners. The plan proposes to raise funds and resources for the reconstruction and rehabilitation of the Gaza Strip and helping the people of Gaza to rebuild their destroyed houses and livelihoods. The plan considers the situation prior to 27 December as its starting point. Nevertheless it covers the entire siege period.

The document demonstrates the general conditions of the Strip following the Israeli aggression, along with the plan that is needed for dealing with the consequences of the Israeli aggression. The assessment of needs resulting from the aggression is the backbone of the plan, as it is considered the foundation upon which the early recovery interventions and medium-and long-term efforts for reconstruction should be built. The total value of interventions for the

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[52] By Feb 2008.



reconstruction reached more than US\$1.32 billion for the following five key sectors:-

- The social sector: the plan has shown that there was a great pressure on emergency and primary health care systems in Gaza and a severe lack of resources during the Israeli attack, where many medical facilities were seriously damaged. Based on a quick assessment of needs, the total interventions needed in the social sector mounts up to US\$315 million.
- The infrastructure: vital infrastructure facilities were severely damaged during the last Israeli invasion. For reconstruction of this sector more than US\$502 million is needed, in addition to the need for humanitarian support for affected groups.
- The economic sector: the plan documented the effects of Israeli attacks on Gaza's economy, which was already stagnant and fragile. The agricultural sector was affected significantly, as massive damage was registered on farmland, greenhouses, and livestock, poultry farms, water wells, irrigation systems and other productive assets. For reconstruction of this sector in Gaza, US\$412 million is needed.
- Governance: The plan documented how most of the people of Gaza had witnessed the collapse of decision-making channels, security and human rights. Israeli action also weakened social and civic structures. This is in addition to the displacement of many families and the death of many breadwinners. Based on this, the plan anticipates that US\$68 million will be needed for this sector.
- The natural resources and environment sector: the quick assessment of needs demonstrates the extent of destruction brought about by the Israeli aggression on the natural resources and the environmental sector. Based on this assessment the plan anticipates that US\$29 million will be needed for this sector.

In addition to the US\$1.32 billion requested for interventions and reconstruction, the plan requested that donors provide US\$1.45 billion to support the budget and emergency supplementary budget of 2009.



It is important that political risk does not negatively influence the new investments called for in the plan. In addition, the success of this plan will be dependent on opening the border crossings and checkpoints and lifting the siege imposed by Israel upon 1.5 million people.

### **The Program for assembling the building blocks and Institutions of the Palestinian State (2010-2011)**

#### **Palestine: Ending the Occupation and Establishing the State**

The Program of the 13th Palestinian Government, August 2009, lays out a plan for the building and upgrading of critical institutions for the future Palestinian State, established over its national lands within the 1967 borders with Jerusalem as its capital. It also seeks to enhance the capacity of its citizens to thrive and reach their full potential in preparation for statehood, which is expected to occur within the next two years.

As such, the Palestinian government has obtained the support of its people and the international community for this program in order to move forward with the Palestinian vision of state building and to work towards ending the Israeli occupation. This vision holds Palestine as an independent Arab country that maintains full sovereignty over its lands, respects peace and rejects violence, upholds the principles of democracy and the rule of law, and respects, protects and fulfils the rights of all its citizens.

In its efforts to achieve the establishment of the Palestinian State, the government asserts its full commitment to these general national goals: end the occupation of the Palestinian territories which began in 1967; strengthen national unity, guard Jerusalem as the eternal capital of the Palestinian State; protect the rights of refugees including their inalienable right to return; secure the release of prisoners; foster human development, facilitate economic independence and national prosperity; achieve equality and social justice and enhance the elements of good governance; provide safety and security for the people of Palestine; and finally, build positive regional and international relations.



For the building of critical national institutions, the government has set priorities in five key areas: unification and modernization of the legal framework, streamline governmental organizational structures and processes, use of information technology systems to facilitate government work, management of national financial resources, as well as management of the human resources in both the civil and security sectors.

To translate public policies into results, the government has identified sector priorities as a preliminary step. Priorities, policies and programs are presented in four sectors:

- **Governance:** policy priorities in this sector are public administration, civil and criminal justice, security services, local government, and fiscal stability.
- **Social:** priorities in this sector are preserving social cohesion, providing social protection, preserving cultural heritage, and promoting equal opportunities.
- **Economy:** to initiate a sustainable economic recovery and to rebuild the national economy as a pillar of a modern Palestinian state, the government has defined policy priorities in this sector in seven domains: creating an enabling investment environment; promoting the role of the private sector in social and economic development; supporting Palestinian products and expertise; developing national resources; developing infrastructure; transmitting knowledge and supporting Palestinian innovation; and expanding bilateral and multilateral cooperation.
- **Infrastructure:** to develop the infrastructure in Palestine and promote social and economic development, the government has defined policy priorities in six domains; developing infrastructure in rural and marginalized areas; developing and maintaining existing infrastructure; developing large infrastructure projects; developing regional infrastructure; ensuring local participation in developing infrastructure; and improving local implementation capacity.



## **The National Development Plan (NDP) for 2011-2013**

The National Development Plan (NDP) for 2011-2013 was approved by the Cabinet on 17 August 2009 and was initially conceived to promote and develop the methodology used for preparing the Reform and Development Plan 2008-2010. Generally, its aims are to strengthen the previous methodology by developing sectoral strategies for sub-sectors and to determine the priorities of principal public sectors as part of the national strategy.

The most significant elements of the NDP include structuring the reform and development plan as a comprehensive national strategy, as opposed to merely a government strategy that derives its legitimacy and priorities from a process of consultation with all parties in Palestinian society. Additionally emphasis was placed on the integration of policies and interventions adopted in the 'Reconstruction and Development Plan for the Gaza Strip', which was prepared by the PNA and presented to the donors conference held in Sharm el-Sheikh on 2 March 2009.

The NDP also aimed to review the distribution of responsibilities in the social, economic, governance and infrastructure sectors, and to review the over 30 national programs that were established in the previous Reform and Development Plans. It is on this basis that policy analysis and interventions at the sectoral levels should be conducted, taking into account the needs and priorities at the level of the different governorates.

To summarize, the NDP prescribes that a national strategy should be founded on the review of the national policy agenda and identification of national priorities and directions. These include the development of sectoral strategies, the development of cross-sector strategies (horizontal), and the preparation of guidelines and directives on issues of public policy.

## **Government Achievements 2007-2010**

In recent years, the government has been able to achieve several economic and political accomplishments.

These have been achieved despite the considerable obstacles the



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