

# **Initiative for the Palestinian Economy**

## **Summary Overview**

**March 2014**

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# Initiative for the Palestinian Economy

## Main Objectives

- Setting out aspirational targets for the Palestinian economy
- Focus on transformational economic changes, integrated across eight key sectors
- Underpinned by in-depth sector analyses and project proposals
- Tied to clear economic, regulatory and political enablers on both sides
- Incorporates interdependency of different economic sectors
- Leverages the resources of the private sector to finance the economic plan

# Approach to Analyse Potential of Key Economic Sectors

## Method

- Reviewed economic performance and employment of **eight key sectors** of the Palestinian economy
- Assessed Palestinian competitiveness against global and regional benchmarks
- Analysis supported by interviews with local stakeholders, site visits of global experts and analysis of existing success stories
- Identified constraints to unlocking economic growth opportunities in current environment
- Focused on micro level analysis of practical and actionable projects
- Projected impact on focus sectors and broader economic activities with granular economic modelling tools

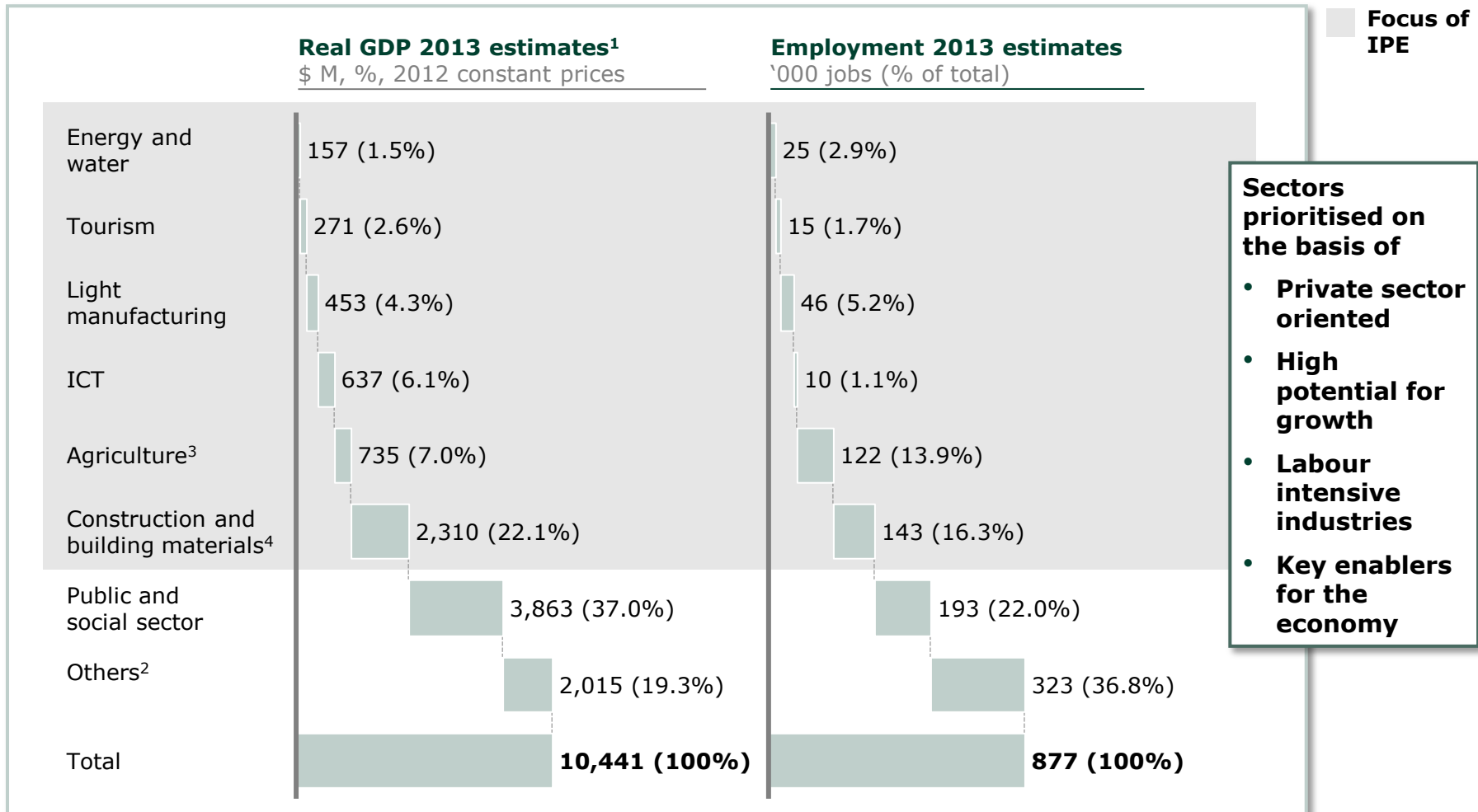
## Resources

- More than 100 Palestinian and Israeli private and public sector leaders interviewed
- More than 15 senior international domain experts from large MNCs (former CEOs, CFOs)
- OQR advisors – a team of more than a dozen policy advisors with in-depth knowledge of the Palestinian economy and focus sectors
- Economic analysts – an international team of >30 economic analysts with broad experience across focus sectors
- Coordination with IFIs (IMF and World Bank) on validating the macro-fiscal implications of the Initiative

## **Eight Sectors as Catalysts for Growth**

- Tourism**
- Light manufacturing**
- Information and communication technology**
- Agriculture**
- Energy**
- Construction**
- Building materials**
- Water**

# Eight Sectors Prioritised in Economic Initiative



1 GDP figures used are real 2013 GDP in 2012 constant prices. Real 2013 GDP was forecasted based on IMF projection of 5% real growth between 2012 and 2013

2 Includes retail and services, transport and logistics, 3 Excludes social sector, captured under other 3 Includes livestock and agri-processing 4 Includes processing of stone and marble

Reference: PCBS, PalTrade, IMF

## Three Main Pillars of Initiative

### Strategy

#### Provide private sector driven infrastructure

- Increase housing construction to ~100k housing units total in first 3 years to address pent up demand and reduce household overcrowding
- Roll out ubiquitous affordable high speed fixed and mobile internet
- Create enterprise zones to attract MNCs, i.e., one stop shop, financial incentives, high quality infrastructure and utilities, dispute resolution and regulatory environment

#### Unlock the intrinsic potential of the economy

- More than double agricultural outputs by using agriculture extension services to support shift to high value crops and increase access to water, fertilizer and better market access
- Facilitate access to building materials to support expansion of the construction sector
- Develop gas power plants fuelled by Gaza Marine to meet the energy needs of the Palestinian economy

#### Accelerate flagship sectors

- Create and market a new image of the region to attract foreign investments in light manufacturing, IT, and other sectors
- Double to triple tourist arrivals in three years
- Pursue a high end tourism strategy around five hubs and the unique cultural and historical heritage of the region

## Guiding Principles for Financing of the Initiative for the Palestinian Economy

- Where economically feasible, financing of the Initiative is private sector driven, from both domestic and international investors
- Donor support is channelled in priority towards mitigating risk level for private investors, by providing attractive loans and investment guarantees
- Donor grants are focused on feasibility studies and training grants, and step in where private sector driven solutions cannot be secured
- Capabilities are built with local financial institutions to support the development of the private sector, in particular with SMEs



## Progress Dependent on Political Environment, Policy Effectiveness and Increased Private Sector Investment



## Guiding Principles for Delivery Mechanism

- The IPE will complement the Palestinian National Development Plan, Public Sector Reform Agenda and public infrastructure priorities
- The IPE will be enabled by Palestinian Ministries and Agencies with support from the OQR, donors and the private sector
- The OQR will liaise separately between the Government of Israel and the Palestinian Authority to support the implementation of the initiative
- The Palestinian Authority will closely monitor progress to ensure implementation of priority economic projects
- Implementation will be accelerated and synchronized across sectors as progress is often interdependent (e.g., agriculture and water)

# OQR Roles: Investor and Funding Outreach, Technical Support and Political Enabling

NOT EXHAUSTIVE

	Role	Description
<b>Investor and Funding Outreach</b>	<ul style="list-style-type: none"> <li>Engaging with international community</li> </ul>	<ul style="list-style-type: none"> <li>Engage with international community (donor agencies, nations, NGOs, IFIs, UN, etc.) in close coordination with Palestinian stakeholders</li> </ul>
	<ul style="list-style-type: none"> <li>Attracting financing and project participants</li> </ul>	<ul style="list-style-type: none"> <li>Present opportunities existing and new investors and donors</li> <li>Match investors with identified opportunities and donors</li> <li>Arrange financial support from IFIs and banks</li> </ul>
	<ul style="list-style-type: none"> <li>Tracking &amp; reporting</li> </ul>	<ul style="list-style-type: none"> <li>Track selected economic projects in the Palestinian Territories</li> <li>Regular progress reporting to donors and political stakeholders</li> </ul>
<b>Technical Support</b>	<ul style="list-style-type: none"> <li>Support Sector and Project planning</li> </ul>	<ul style="list-style-type: none"> <li>Assist in sectorial and project planning in coordination with all project stakeholders</li> </ul>
	<ul style="list-style-type: none"> <li>Facilitating delivery</li> </ul>	<ul style="list-style-type: none"> <li>Coordinate and facilitate projects and project stakeholders</li> </ul>
	<ul style="list-style-type: none"> <li>Facilitate Implementation of enabling projects</li> </ul>	<ul style="list-style-type: none"> <li>Coordinate and facilitate projects which are 'enabling' to investment (e.g., enterprise zones)</li> </ul>
<b>Political enabling</b>	<ul style="list-style-type: none"> <li>Capability building</li> </ul>	<ul style="list-style-type: none"> <li>Support capacity building of key stakeholders to execute projects</li> </ul>
	<ul style="list-style-type: none"> <li>Shaping enabling environment</li> </ul>	<ul style="list-style-type: none"> <li>Shape and advance the agenda of cross-cutting issues, enablers and legislation through high level interaction with relevant authorities</li> </ul>
	<ul style="list-style-type: none"> <li>Trouble-shooting</li> </ul>	<ul style="list-style-type: none"> <li>Rapid identification of issues facing projects and troubleshooting / escalation to relevant authorities and political levels</li> </ul>

**The OQR is augmenting its capacity to facilitate implementation with private sector development and functional experts in each sector**

# SECTOR STRATEGIES

SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *Tourism*



# Overview of the Tourism Sector

## Sector size

- Accounts for **\$271M** and represents **~3% of GDP**
- Contributes an estimated **15,000 direct jobs**
- International Tourists **1.8M/year**

## Sector description

- Same day visitors (**1.3M / year**)
- Overnight tourists (**0.5M**)
- High concentration of World Heritage Sites,
- Poor overall perception of security
- **103**, mostly small unbranded hotels with **low capacity**
- Average occupancy rates around **25%**
- Mostly religious pilgrimage
- Difficulties for nationals of neighbouring Arab countries and Moslem countries in acquiring visas

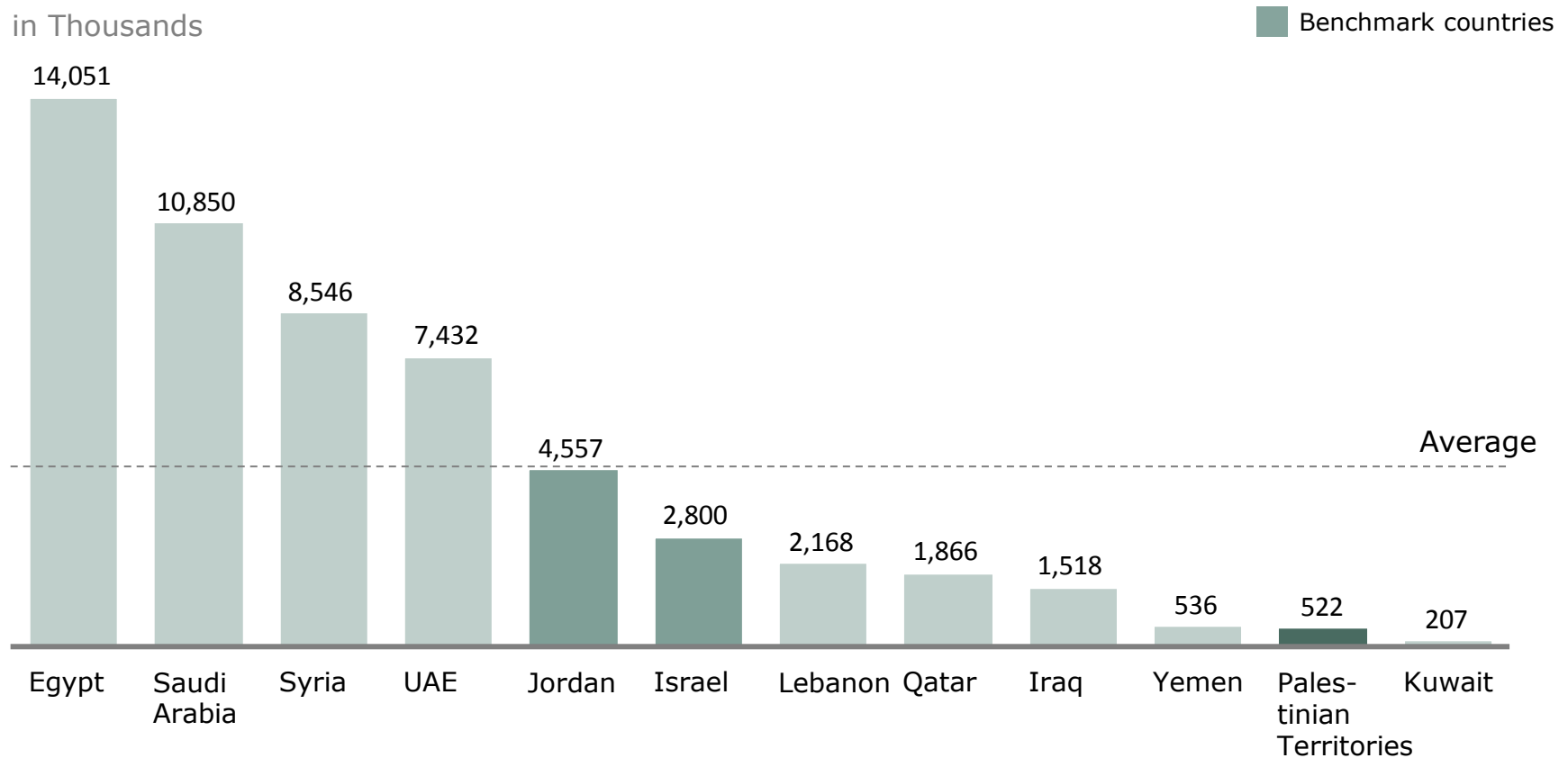
## Benchmarks

- Number of tourist arrivals - **2.8M in Israel and 4.0M in Jordan.**
- **Cash spend/stay is ~30% lower** than in Jordan and Israel.
- **Hotel occupancy rates are less than half** compared to Jordan and Israel.
- **Spend on tourism marketing is limited to \$0.5m**, mostly from donors – compared to \$10m in Jordan and \$40 in Israel

# International tourist arrivals to the Palestinian Territories are among the lowest in the Middle East

## International Tourist Arrivals, 2010<sup>1</sup>

in Thousands



<sup>1</sup> Tourist arrivals considers visitors that stayed at least one night  
Reference: World Tourism Organization, Israel ministry of tourism

# The Palestinian Territories have a large amount of historical and ecological attractions

## Nablus and Jenin

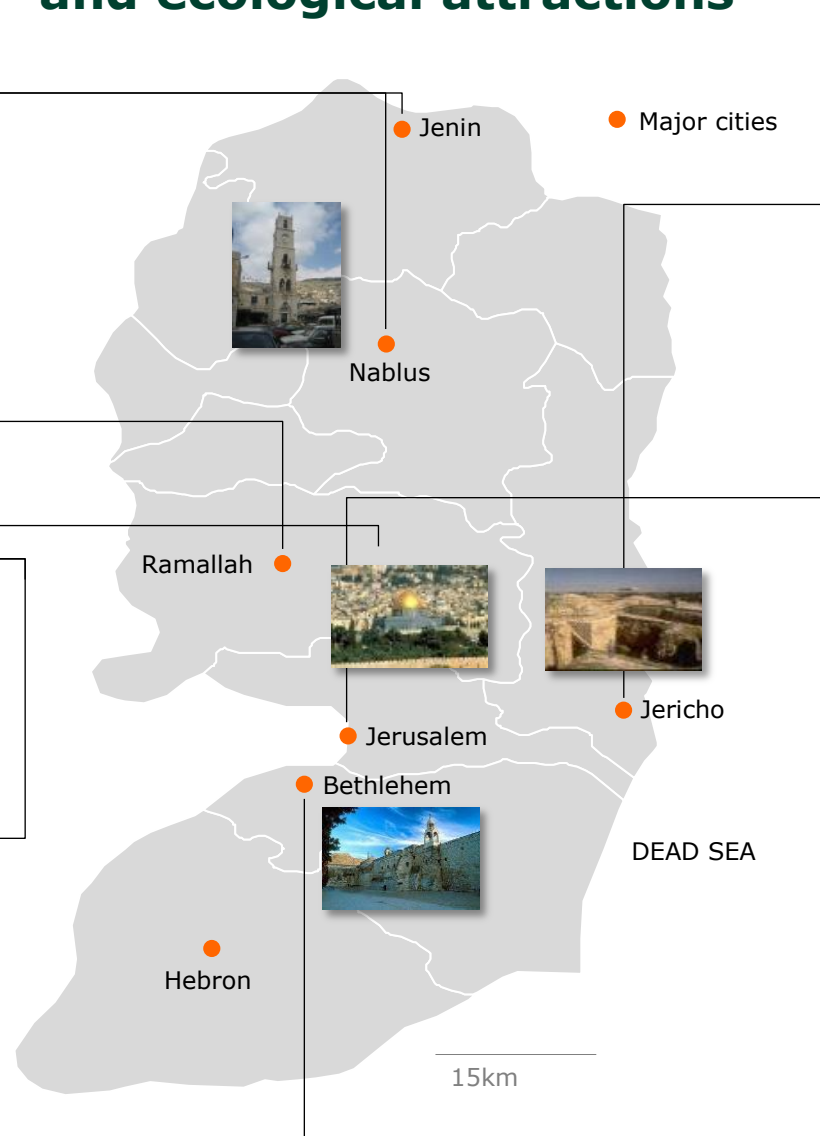
- Mount Gerizim
- Umm Al-Rihan Forest
- Sebastia
- Jacob's well
- Local souq
- Soap factories
- Turkish baths

## Ramallah

- Palestinian business hub
- Cafes, bars, and restaurants

## Gaza

- Palestine Square Bazaar
- Beaches, amusement parks
- Archaeology museum



- Cultural Attraction
- Ecological Attraction
- Historical Attraction

## Jericho

- St George Monastery
- Mount of Temptation
- Hisham's Palace
- Wadi Qelt synagogue
- Tell Es Sultan
- Naraan Synagogue

## East Jerusalem

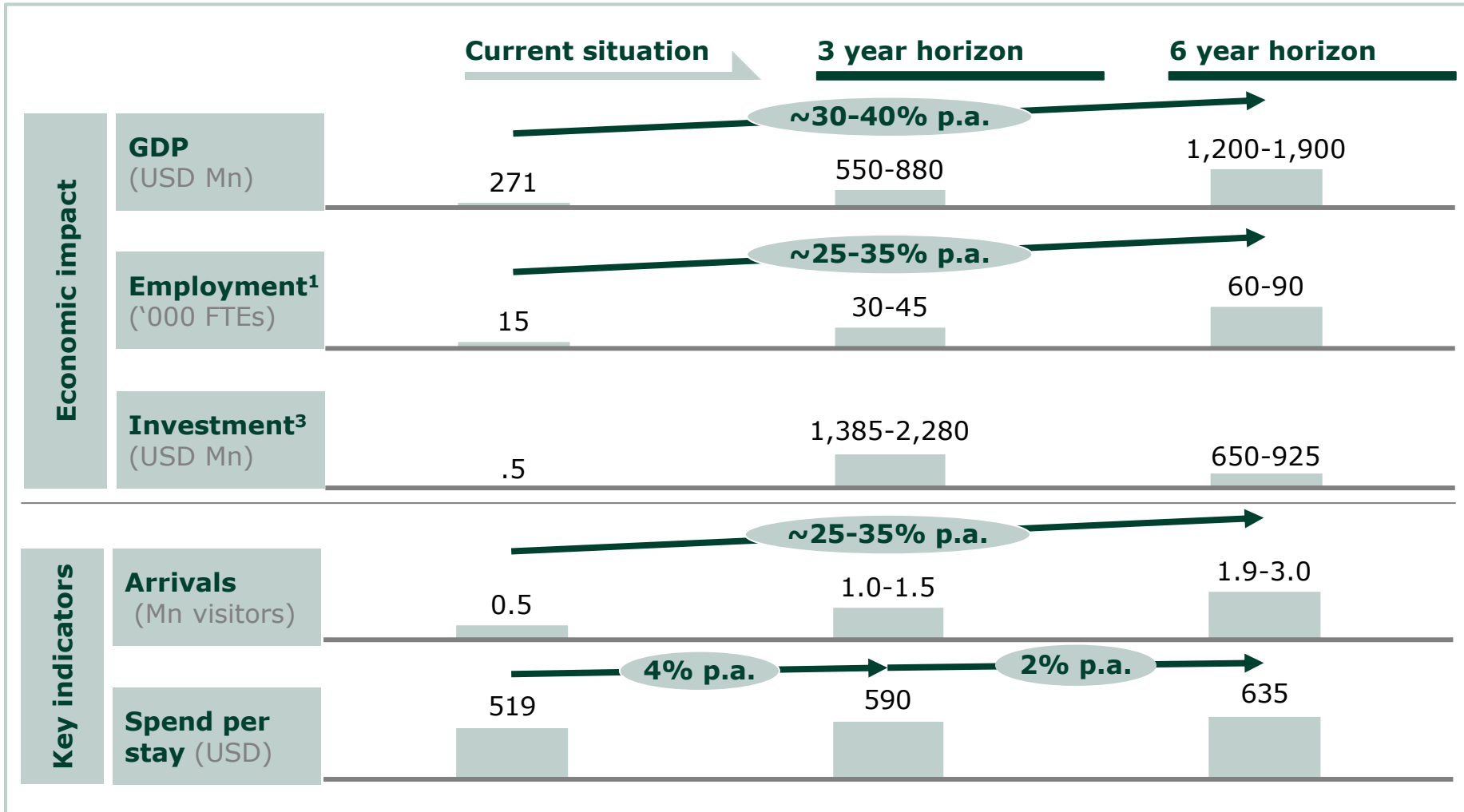
- Al Aqsa Mosque
- Garden Tomb
- Mount of Olives
- Old City
- Church of Holy Sepulchre
- Dome of the Rock
- Via Dolorosa

## Bethlehem

- Church of Nativity
- Rachel's Tomb
- Shepherd's Fields
- Solomon's pool
- Mosque of Omar
- Star Street
- Banksy graffiti
- Herodium
- Monastery of Mar Saba
- Milk Grotto chapel
- King David's well



# The tourism sector could grow by up to ~0.6b USD over 3 years, and create up to ~30K additional jobs



1 Based on benchmark country growth levels 2 Assumes 5% direct employment per 6% of revenue growth 3 Cumulative capex and opex, which does not reflect investments in the economy (e.g., marketing)

# Tourism Sector Strategy

## Strategy

- Develop the Palestinian Territories as a religious and cultural destination;
  - by building global **awareness of the wealth of tourism attractions** offered and
  - by **improving the offer** through upgrading existing sites and infrastructure within geographical hubs and developing the necessary skills
- Attract new segments to the Palestinian Territories;
  - Upscale tourists: by developing a **high end, strategically located offering** of up-scale branded hotels and
  - Arab and Moslem Tourists: by facilitating **ease of access for visitors** from Arab and Moslem countries

SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *Light Manufacturing*



# Overview of the Light Manufacturing Sector

## Sector size

- ~4% of GDP, at \$453M<sup>1</sup>
- ~4% of employment, at ~45K jobs<sup>1</sup>

## Sector description

- **Diverse group of subsectors** such as:
  - Fabricated metal, Pharmaceuticals, furniture, clothing and Textile
- **With some barriers to growth** :
  - Sub-optimal productive facilities, limited electricity, limited manufacturing expertise and marketing efforts, unpredictable import and export processes, limited innovation and no brand image (with exceptions)
- **And untapped strengths conducive to growth:**
  - Unique bilateral agreements with large markets, high level of education and trainable skills, strategic geographical location (including proximity to Israel and the GCC)

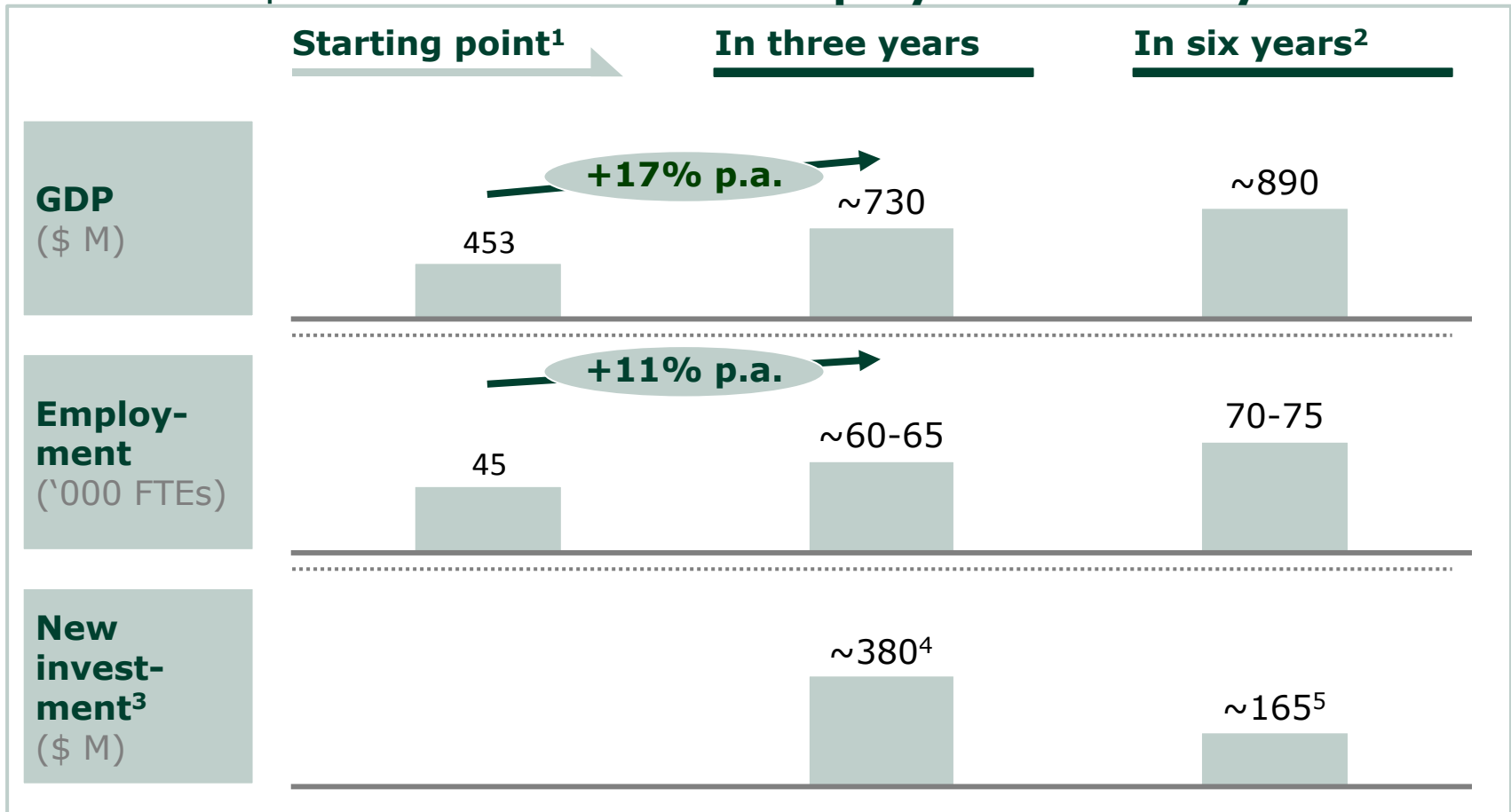
## Benchmarks

- Light manufacturing has seen bursts of rapid growth across the Middle East in recent years, especially after discontinuity in trade environment (e.g., EU free trade agreements)
  - Egypt, 38% annual export growth<sup>2</sup> '04-07
  - Jordan, 35% annual export growth<sup>2</sup> '96-99
  - Turkey, 31% annual export growth<sup>2</sup> '01-04

<sup>1</sup> Estimated 2013 GDP and employment (excludes Agribusiness, Stone and Marble)

<sup>2</sup> 3-year Compound Annual Growth Rates

# Potential Growth: From \$453M in GDP and 45K jobs to ~\$730M and ~60-65K employees in three years



1 Estimated 2013 GDP and employment taken as reference year for calculating impact numbers

2 Six year projection reflects three additional years of historical manufacturing GDP CAGR of ~6.75% (from PCBS 2009-2012) after implementation of 3-year strategy

3 Cumulative investment in each time period

4 Total new investment is driven by production facilities (~\$255M, equivalent to ~4-7 large plants, or up to ~20-25 small plants), marketing (~\$45M over three years), training and human capital development (~\$30M), and shared infrastructure in enterprise zones (~\$50M)

5 Calculated as investment needed for ~6.75% p.a. growth, and for expansion of enterprise zones

Reference: PCBS data, 2009-2011

## Light Manufacturing Sector Strategy: *'MNC-led growth and strengthened SMEs'*

### Strategy

- **Attract multi-national corporation** investment in Palestine as a regional manufacturing hub, focusing on sectors with high growth regionally
  - Through developing integrated and business friendly **Special Economic Zones**, providing **risk insurance, financial incentives** and **coordinated marketing** of the 'made in Palestine' brand
- **Enhance and modernize existing local MSME manufacturers** to:
  - **Supply multinational corporations** (skills enhancement, financial incentives..etc)
  - **Expand exports/transfers** in select subsectors (e.g., Generic pharmaceuticals in West Bank, Textiles and Clothing in Gaza)
  - **Improve domestic market share** (better quality standards and improved marketing and awareness)

## Out of 40 subsectors, 7 appear to have the highest potential for MNC investment

40 manufacturing sub-sectors



- **Criteria developed in conjunction with industry experts**
- **Criteria to exclude companies**
  - Labour intensive
  - Energy intensive
  - Requires regional processing

### Industries with highest potential for MNC investment (similar outcome to the National Export Strategy):

- **Medical and measuring equipment**, e.g., industrial process controls, surgical equipment
- **Pharmaceuticals**, e.g., generic and proprietary drugs
- **Wire, cable and batteries**, e.g., accumulators, primary cells
- **Electricity distribution and control**, e.g., switches, fuses, voltage limiters
- **Soap, cleaning and cosmetics**, e.g., detergents, shampoos, deodorants
- **Parts and accessories for motor vehicles**, e.g., wire harnesses, steering wheels
- **Domestic appliances**, e.g., microwaves, refrigerators, space heaters, sewing machines

SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *ICT*





# Overview of the ICT Sector

## ICT overview

- Estimated to reach **\$637M** and **6 %** of GDP by end of 2013
  - **Telecom** makes **70%** of sector revenues
  - **IT** makes **30%** of sector revenues

## Current size of the sector

### Information Technology

- Sector revenues: software **~\$100M & ~\$100M** in hardware,
- **1,900 direct jobs + ~2-3 indirect** jobs for each direct job

### Telecommunications

- Sector revenues: **~\$440M USD**,
- **3,100 direct jobs + ~2-3 indirect** jobs for each direct job

## IT sector description

- Over **~200 companies**, software, services, hardware and training
- Highly educated workforce
  - literacy rates exceeding 90%
  - 2,500/year university graduates
  - ~10% of graduates find a job in IT
- Growth driven by international partnerships (Cisco, Intel and Google)

- 2 mobile communication companies (Jawwal 80% and Wataniya 20%), 1 fixed communication company (Paltel) and 11 ISPs
- 77% penetration for voice and SMS service
- Low data penetration (2G and WiFi) representing 11% of mobile revenues
- Israeli operators captures 20-40% of market share
- Restrictions on access to spectrum, import and installation of equipment
- High quality broadband fixed line network

## ICT Sector - Benchmarks

### Benchmarks

#### Information Technology

- Neighbouring countries IT growth;
  - Jordan in the last 10 years: (from ~\$**100M in 2000** to ~\$**600M in 2005**),
  - Israel (~\$**19B**, 8% of GDP)
- Palestinian IT labour is competitive with Jordanian IT labour in terms of wages and education levels.

#### Telecommunications

- Neighboring countries Telecom growth:
  - Mobile penetration reaches ~**120% in Israel** and ~**150% in Jordan**, driven by dual-simming,
  - 3G is available in Jordan and Israel with data accounting for ~**20%** of mobile revenues in Jordan

# ICT Sector Strategy

## Strategy

### IT

- Attract international and domestic investments in targeted IT services,
- Leveraging the quality of IT labor force and relative regional wage competitiveness;
  - Mid-skilled software development from international companies, especially in software programming
  - Specialised Business Process Outsourcing needs

### Telecom

- Enhance performance across economic sectors by:
  - Creating a level playing field with Israeli operators allowing cost-effective high speed mobile and fixed broadband through;
    - Access to spectrum,
      - Deployment of 3G/4G services and,
      - Expansion of 2G network
    - Equipment availability and installation
    - Clear demarcation of service areas for different telecommunication providers

## Potential projects to attract IT investments



### IT training

- 3-6 months specialised certificates for IT graduates
- Programs tied to job creation with employers, ideally with off take agreements
- Funding sources include aid programs, employers, private sector, and self-funding, with potential payroll incentives



### Trade promotion

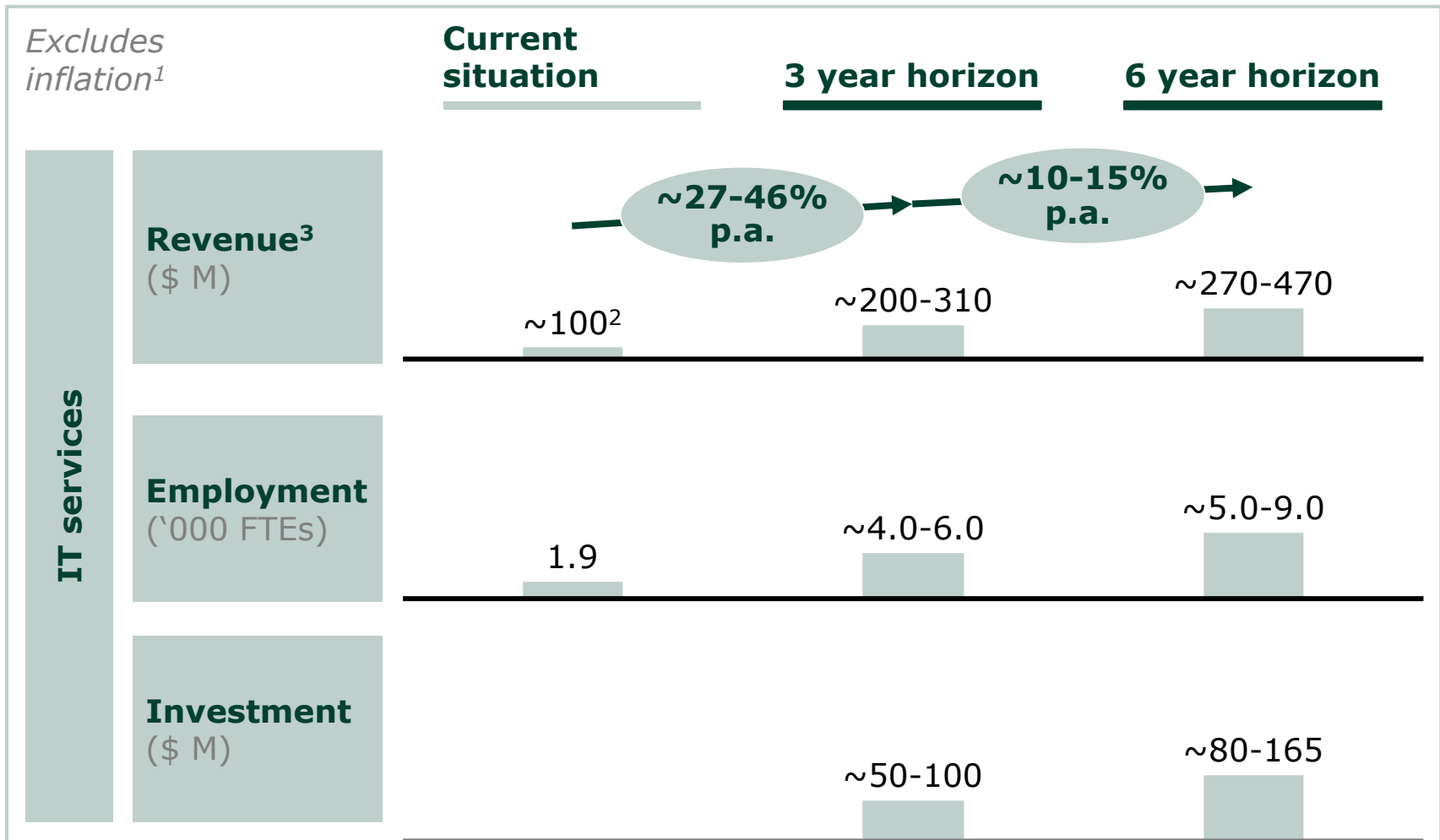
- Direct trade promotion offices in international high tech markets, focused on generating contracts with MNCs and US-based firms
- Road show to fifty strong opportunities with multinational corporations that have large outsourcing operations, especially in the United States
- Attract private sector funding from MNCs, venture funds, and accelerators to support industry growth
- Develop brand that reflects attractive place to do business



### Special economic zone

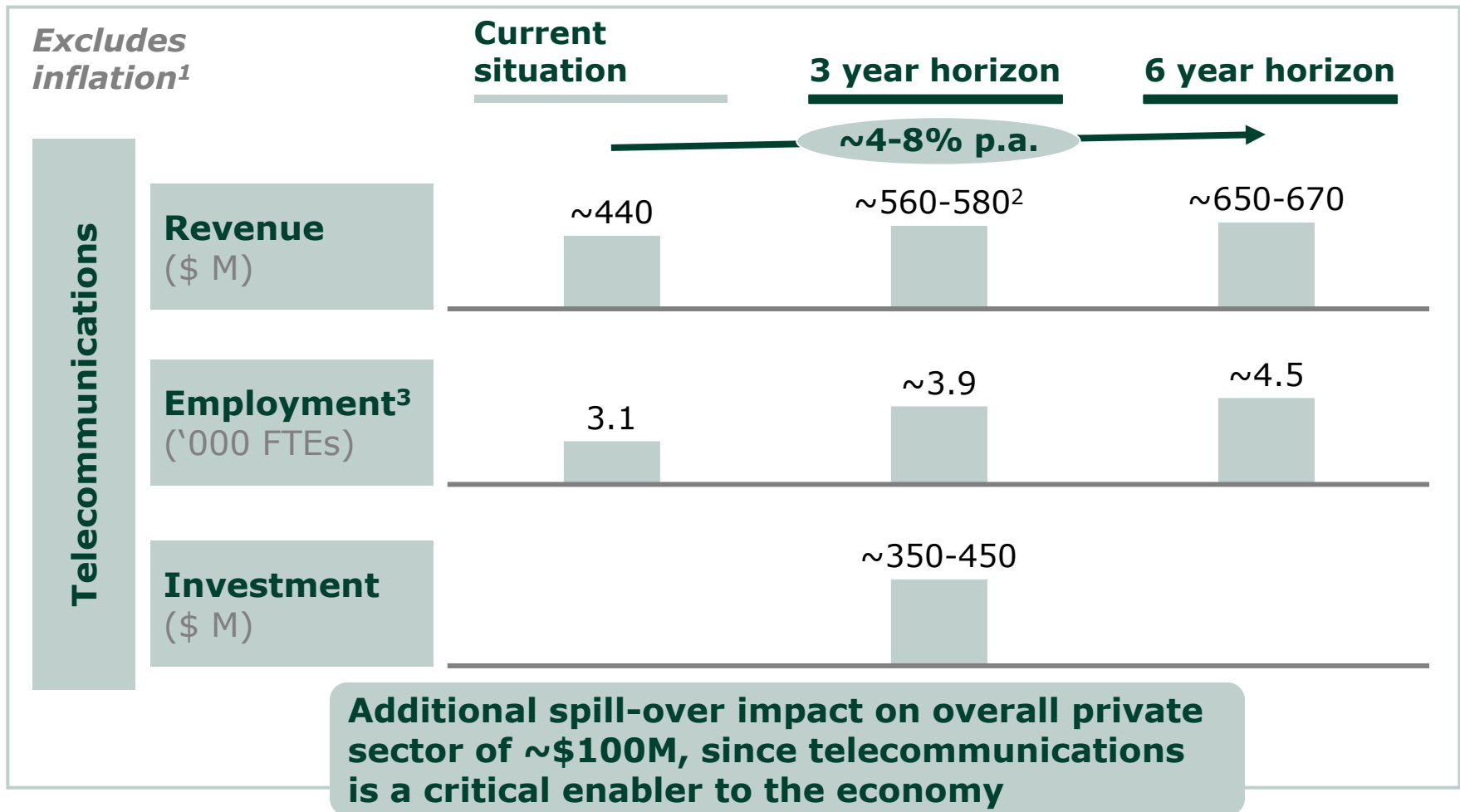
- Extra-governmental economic free zone across sectors
- Improved framework to protect investments and IP rights
- Government incentives to encourage investment and ease foreign ownership
  - MNC investment in IT companies or to build local office
  - Build up of seed funding opportunities

# Potential impact of the IT sector development on the economy



1 All GDP figures are real GDP in constant 2012 dollars 2 100 Software, 100 Hardware 3 Revenue and employment estimates based on historical Palestinian ICT growth and growth of expanding IT sectors in benchmark economies

# Potential impact of Telecommunications sector development



1 All GDP figures are real GDP in constant 2012 dollars.

2 Assumes 3-4% revenue growth from 3G, 10-12% market share recapture. Assumed 5% industry growth per year. Assumes networks are built and operational within 18 months.

3 Employment growth assumed to be proportional to revenue growth.

SECTOR SUMMARY

# Initiative for the Palestinian Economy *Agriculture*



# Overview of the Agriculture Sector

## Sector description

- Primarily dependent on crop cultivation, with low levels of irrigation and yield, and a highly fragmented structure
- Requires horizontal integration of production through aggregation of productive units
- Increase value of production by increasing percentage of high value crops, increasing quality, increase area
- Requires vertical integration of the value chain from inputs, through production and on-shore processing to marketing

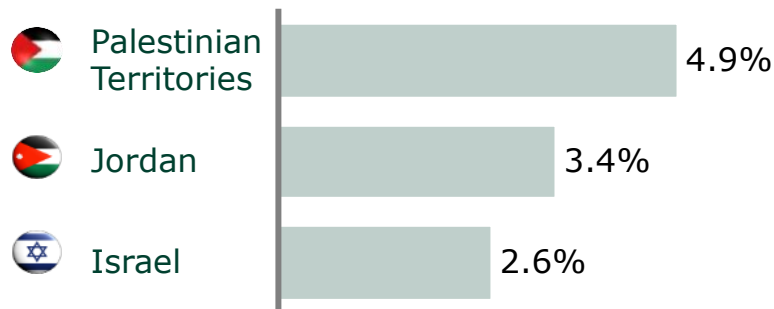


# Important for the Palestinian Economy, but lags neighbouring countries in productivity

## High importance to the economy...

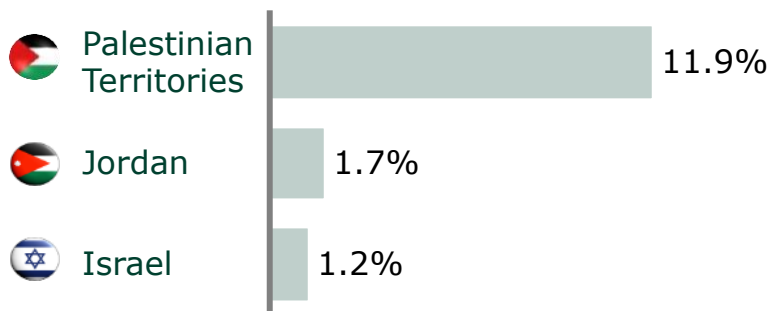
### Contribution to GDP<sup>1</sup>

Percent, 2009/2010



### Contribution to employment

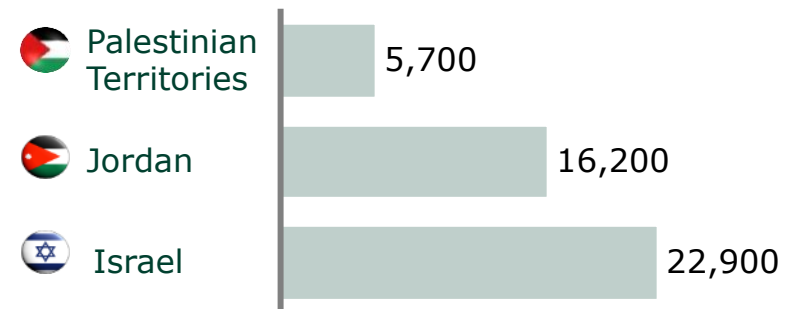
Percent of total employment, 2012



## ...but low productivity compared to neighbours

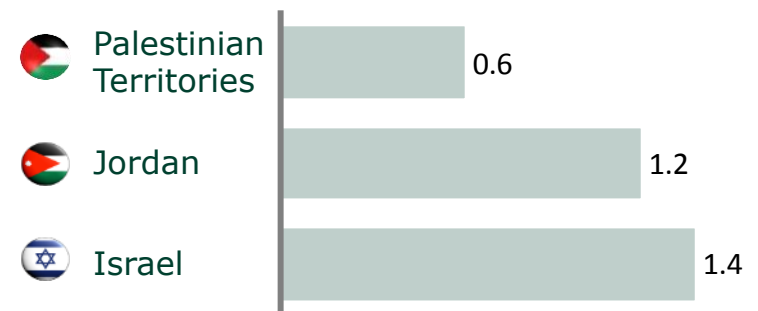
### Agriculture GDP per FTE in agriculture<sup>2</sup>

USD / person, 2010/2011



### Yield

metric tons/dunam, average



1 For all comparisons to benchmarks, Palestinian territories numbers exclude Agro-processing

2 Agriculture GDP / Number of FTE in the Agriculture sector

Reference: FAO, PCBS, EIU World Data, Israel Government website, Jordan Department of Statistics

## Agriculture Sector Strategy

### Strategy

**Increase vertical integration of value chain** – strong commercial links between producers, processors and marketing bodies

**Increase integration across value chain** – increase number of farmer cooperatives, improve farmer cooperative function, increase leasing into bigger units

**Increase production of high value crops**, increase use of irrigation, fertiliser, high value seed stock, and improve farming practices

**Increase land under cultivation** through access and rehabilitation

**Spur shift in agricultural practices** - extension services, financing mechanisms, insurance. Continue shift of producers from low investment, low risk model.

## Opportunities in Agriculture

- The most significant opportunities for large investment lie in processing and marketing
- There are investment opportunities and requirements at all stages in the value chain and from small through medium to large business

Optimum investment opportunities are in:

- Food processing of vegetables, fruit, or poultry
- Based on technical and contractual input into production level for assured, high quality supply
- Aimed at local and regional market opportunities
- Limited local added value at present

Production sector has demonstrated ability to produce high value:

- fresh vegetables
- poultry
- Good infrastructure – roads, electricity etc.
- Potential partners in local industry
- Local industry is small: greenfield and 'first mover' opportunity



SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *Energy*



## Sector Summary

# Overview of the Energy Sector

### Hydrocarbons

- Gas field offshore (Gaza Marine). Gaza Marine license holders and various stakeholders in discussions to progress development of the field. Project could transform Palestinian energy sector and boost the economy.
  - Additional hydrocarbon resources may include Oil Shale and Oil in the West Bank.
- 

### Electricity

- **West Bank**
  - No generation capacity
  - Electricity use ~860 MW annually
  - Estimated needs in 2020 ~1310 MW annually
- **Gaza**
  - 12-16 hours of daily electricity outages
  - Electricity use ~210 MW annually (sourced from one power plant in poor condition and imports from Israel/Egypt)
  - Current need ~410 MW annually
  - Need in 2020 is estimated ~855 MW annually

# Hydrocarbons

## **Snapshot:**

- Develop Gaza Marine field.
- There are potentially other hydrocarbon reserves under the West Bank (Meged Oil Field) and possibly offshore Gaza. In addition, there is potential for Oil Shale in the Palestinian Territories.

## **Enablers:**

- Where necessary, approvals and permitting from the PA and GoI.
- Revision of Palestinian energy law and regulation.

## **Strategy:**

- Facilitate the development of the Gaza Marine field (in respect of the sale of the gas, transportation route, etc.) and further hydrocarbon exploration.
- Support the PA on advancing sector reform.

## **Impact:**

- Exploiting the Gaza Marine gas field could provide the PA with dozens of millions of USD of annual revenue and ensure security of supply for gas-generated power plants in the Palestinian Territories.

# Electricity

- **Current situation:**
  - West Bank: No power shortages. Power imported through 230 low and medium voltage lines.
  - Gaza: Frequent power shortages. Nearly idle power plant.
  - Future capacity needs will increase (due to population and economic growth).
- **Strategy:**
  - Gaza: Convert the power plant to gas and increase electricity imports.
  - West Bank and Gaza: Improve the transmission grid (reducing losses). Increase large-scale domestic generation capacity with gas power plants at affordable cost (by using offshore gas). Invest in solar PV generation.
  - Palestinian transmission company (PETL) was established, which will allow for single buyer system from the electricity generators such as IEC and the independent power producers (IPPs). Resolve IEC debt and agree new commercial agreement between PETL and IEC.
  - Establishment of regional distribution companies (DISCOS) will enable effective distribution.
  - Support reform of the regulatory environment (e.g. licensing and permitting).
- **Impact:**
  - Increasing domestic generation from ~60 MW (2014) to ~1600 MW (2020).
- **Financing:**
  - In order to achieve these goals, major financing needed in next few years, as well as political risk insurance for large infrastructure projects.

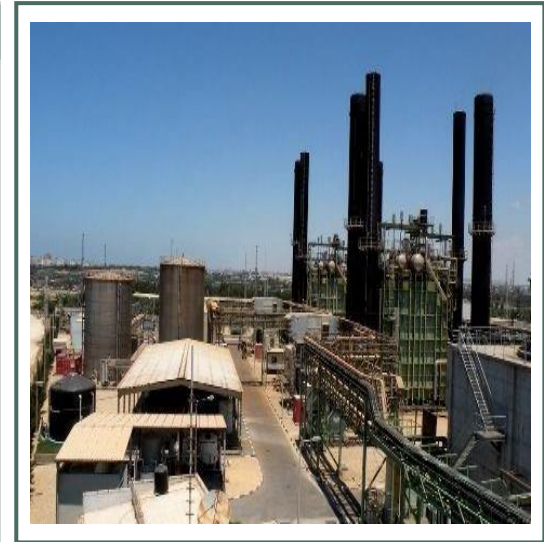
# Expand and change Gaza power plant

## Potential

- Gaza power plant (built in 2002 to run on gas) is running on imported Diesel Currently at 60 MW
- Major overhaul needed to avoid shutdown of plant
- Estimated potential capacity for power plant is 240 MW after conversion and extension

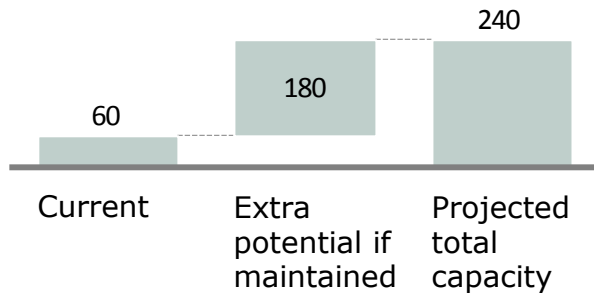
## Description

- Perform essential maintenance on Gaza Power plant
- Changes to enable Gaza power plant to operate on gas
- Expand capacity to 240 MW by adding additional turbines
- Build gas pipeline to the plant



## Gaza Power Plant reconversion

MW capacity



## Key Enablers

- PA & GoI approvals
- Funding
- Gas Supply Agreements



# Build new power plants in the West Bank

Potential	Description	
<p>Two sites targeted for new Combined Cycle Gas Turbine (CCGT) power plants in the West Bank:</p> <ul style="list-style-type: none"> <li>- Jenin</li> <li>- South West Bank (Hebron)</li> </ul>	<ul style="list-style-type: none"> <li>• Jenin power plant at 200 MW (possible future expansion)</li> <li>• Construct pipeline to Jenin (~12km)</li> <li>• Construct 100 MW power plant in the South West Bank (possible future expansion)</li> <li>• Cost – ~240 million USD (Jenin), ~150 million USD (SWB)</li> </ul>	
	<th data-bbox="855 764 1641 824">Enablers</th>	Enablers
	<ul style="list-style-type: none"> <li>• PA and GoI permitting</li> <li>• Investment</li> <li>• Agreement with gas suppliers on gas imports (done for Jenin)</li> <li>• Agreement on selling excess generation capacity to IEC</li> </ul>	

## Summary - Energy Opportunities

### IPPs

- EPC Contractors – Jenin, Hebron
- EPC Finance – Jenin, Hebron
- Plant conversion to gas and expansion – Gaza
- Transportation infrastructure (grid, pipeline to IPPs)

### Electric Grid

- Improve transmission and distribution grid with additional 5 substations
- Increase electricity imports from Israel
- 161 kv line

### Oil & Gas

- Develop Gaza Marine:
  - Production of field
  - Transportation infrastructure
  - Development of finance
- Further exploration in Gaza and West Bank

### Solar

- Build small-scale (<5 MW) solar PV plants
- Build large-scale solar power plants
- Expand rooftop solar projects in West Bank and Gaza

SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *Construction*



# Overview of the Construction Sector

## Sector summary

- Increasing household size in recent years (5.4 in 2007 to 6.0 in 2013) driven by limited new housing construction
- Housing construction not targeted at low to middle income (average unit prices are higher than housing budget of 50% to 80% of population)
- Significant challenges with titling, land registry and fragmented ownership; only ~38% of West Bank land is registered (at current target registration rate it will take approximately 80 years to register entire West Bank)
- Tight mortgage lending standards (e.g., only 5-15% of Areas A/B available for mortgages; of \$500M AMAL program <1% allocated)
- Lengthy permit process for new construction in East Jerusalem (24 to 84 months) and Area C

## Baseline

- Represents ~22% of GDP, at \$2.3B
- Accounts for ~16% of employment, at ~143K jobs
- Average construction ~9,000 housing units 2008-2011

## Regional benchmarks

- Housing cost \$550-700 per sq. m. in Palestinian Territories vs. \$375-550 per sq. m. in Turkey and \$250 per sq. m. for affordable housing in India
- Average mortgage rate 5 to 6.5% vs. 3.2%-4.0% in Israel

## Investment case

### Engage

- As artificial, externally imposed economic and political constraints are removed, catch-up growth in Palestinian Territories will drive increases in household income
- Introducing large-scale affordable housing schemes will unlock housing demand from new socio-economic segments
- Increasing access to low-interest mortgages, through loan guarantees and first loss schemes, will further boost demand
- Improved land registration creates new investment opportunities across West Bank
- Modernised rental regulation (ending rent control, automatic right to renewal) increases flexibility in rental market and spurs investments in new rental property







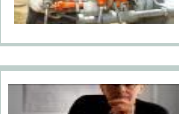
# Creating profit opportunities in the housing sector

Mainly potential investable opportunities

Mainly supporting initiatives

	Activities	Status
Understanding demand	<ul style="list-style-type: none"> <li>Effective demand survey</li> </ul>	<ul style="list-style-type: none"> <li>Under way</li> </ul>
Identification of suitable land	<ul style="list-style-type: none"> <li>Further analysis ~100K dunums of suitable land identified in IPE</li> </ul>	<ul style="list-style-type: none"> <li>Under way</li> </ul>
Land registration	<ul style="list-style-type: none"> <li>PLA resource and capacity building</li> <li>Judges dedicated to land disputes</li> </ul>	<ul style="list-style-type: none"> <li>Under way - ramping up of land registration efforts</li> </ul>
Housing development	<ul style="list-style-type: none"> <li>PPP to drive affordable housing</li> <li>Urban infill and periphery development</li> <li>Donor financing of off-site infrastructure</li> <li>Leveraging affordable housing experiences from other regions, e.g., Turkey, Africa</li> </ul>	<ul style="list-style-type: none"> <li>Affordable housing pilot program initiated</li> <li>Ongoing private sector discussions</li> </ul>
Mortgage financing	<ul style="list-style-type: none"> <li>Consumer education</li> <li>Training of banking personnel</li> <li>Affordable mortgage programs</li> </ul>	<ul style="list-style-type: none"> <li>AMAL restructuring under way</li> <li>Financial literacy ongoing</li> <li>Mortgage market development initiated</li> </ul>
Sales & rental	<ul style="list-style-type: none"> <li>Development of specialised real estate agents, with broad portfolio of houses</li> </ul>	<ul style="list-style-type: none"> <li>Rental regulation improvements</li> </ul>

# Affordable housing as a profitable industry

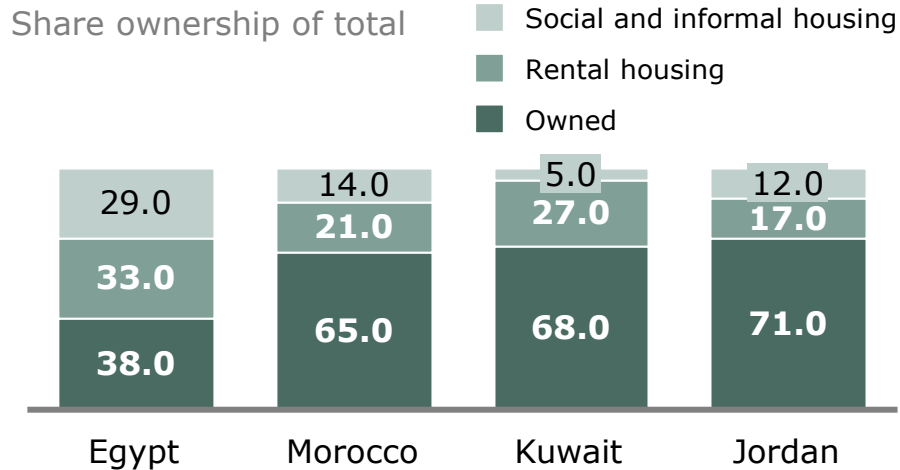
Enabler	Description
 <p><b>Price</b></p>	<ul style="list-style-type: none"> <li>Carefully priced at the exact price point (between 3 - 5x household income range) given price elasticity of customers</li> </ul>
 <p><b>Construction</b></p>	<ul style="list-style-type: none"> <li>Use of techniques such as aluminium concrete form etc. to lessen costs and construction cycle time (e.g.,: 20% less costs, 21 day cycle time); construction process industrialised</li> </ul>
 <p><b>Land/ location</b></p>	<ul style="list-style-type: none"> <li>In the outskirts of the city at lower land purchase costs; large plot sizes (e.g.,: ~50,000 sqm) to build low density units and land cost managed at ~ 15-20% of overall cost/unit</li> </ul>
 <p><b>Development strategy</b></p>	<ul style="list-style-type: none"> <li>High-rise structures avoided; development strategy is to buy parcel of land, build as quickly as possible and achieve high inventory turnover on the units</li> </ul>
 <p><b>Infra-structure</b></p>	<ul style="list-style-type: none"> <li>Primary infrastructure connectivity provided by government; but secondary infrastructure (internal roads, street lights, sewage treatment ...) managed at ~ 15-20% of overall costs</li> </ul>
 <p><b>Technology</b></p>	<ul style="list-style-type: none"> <li>Selective use of alternate technology to lower costs (e.g.,: fly ash bricks); both process and building material technology used</li> </ul>
 <p><b>Financing</b></p>	<ul style="list-style-type: none"> <li>Partnerships with lending institutions to provide loan schemes to the unorganised sector; innovations in lending such as Micro-Housing finance and flexible credit check processes</li> </ul>

# Potential for rental schemes in Palestinian Territories

## Small share of housing is rented in Palestinian Territories...



## ...whereas comparable economies show a larger share of rental housing



## Potential initiatives

- Develop existing **rent schemes** and design **rental solution for low-income housing** by making finance available
- Use Gaza-focused affordable housing and planned city projects to enable **increased access to rental housing**
- **Investigate potential for government to act as rental agency**, especially for low-income groups
- Consider **changing tenant protection** (rent control and right to lease renewal) which limits rental sector



SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *Building materials*



# Overview of the Building Materials Sector

## Sector description

- The Palestinian Territories Building Materials sector is largely dependent on imports, specifically of cement (1.5M tonnes / year), steel (300K tonnes / year) and sand (255K tonnes / year)
- Domestic production is dominated by stone and marble (2.4 M tonnes/year), and gravel (6.7 M tonnes/year). Stone and marble account for the largest Palestinian manufacturing activity
- The main issues facing domestic production of these key materials are a
  - Diffuse nature of the industry
  - Lack of modern machinery
  - Limited access to new quarry land
  - Lack of permits to use explosives to produce gravel
- Rapid construction growth as a result of the IPE will amplify these challenges

## Baseline

- Along with construction,
  - Represents ~22% of GDP, at \$2.3B
  - Accounts for ~16% of employment, at ~143K jobs

## Regional benchmarks

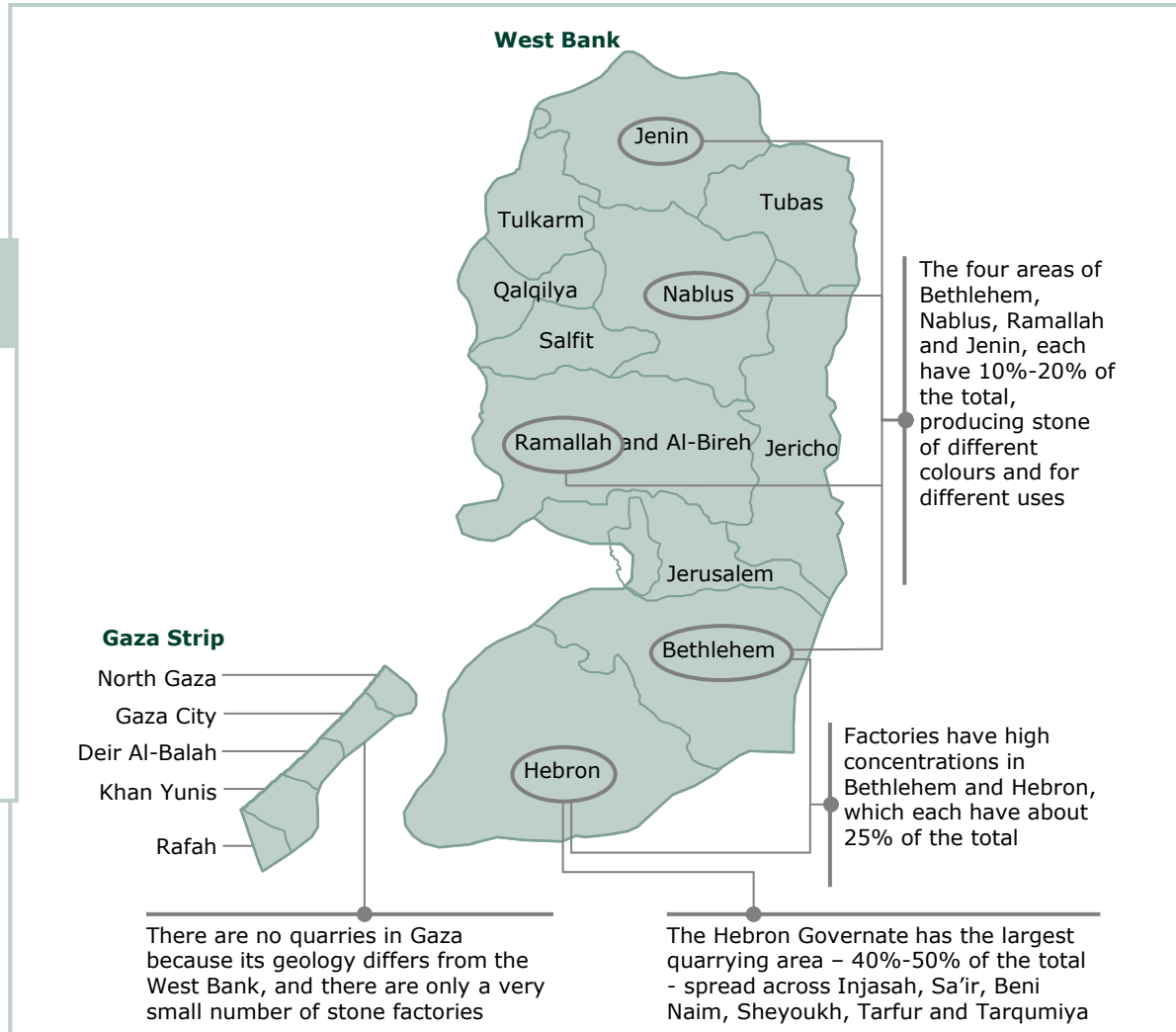
- Stone average international export (excluding Israel) price \$~56 vs. Turkey \$60, driven by Turkey's higher local value added
- Cement average price \$115-123 vs. Turkey \$75
- Gravel production value for integrated crushers is 5x lower for Palestinian versus Israeli run operations (\$21 M versus \$105 M)

# Conduct geological survey to determine location and magnitude of additional stone deposits



## Stone/marble as a key industry which faces risk of depletion

- 300+ quarries, 1,000 factories and workshops
- Annual production of more than 2.38 M tonnes (of which 20% consumed domestically)
- Annual sales of around \$400 M (of which \$70 M exports outside of Israel)
- Experts estimate stone quarries in Area A/B to be 70-80% depleted<sup>1</sup>



## To counter risk of depletion

- Conduct **geological survey** to prioritize areas for guiding excavation and to estimate the volume and type of the stone; focus on Hebron and Bethlehem with estimated reserves of 1,500 cubic meters (estimated cost: \$0.5 M for a 3,000-dunum area)
  - 1,200 dunum in Hebron (200 A/B; 1,000 C) and 1,500 in Bethlehem (300 A/B; 1,200 C)
- **Possible next step:** Establish a transparent, affordable and efficient **permitting process for new quarries**

## Investment Case

### Engage

- As artificial, externally imposed economic and political constraints are removed, catch-up growth in OPT will drive increase demand for building materials (tourism, agriculture, construction, water, energy)
- Increased demand will provide investment opportunities:
  - A domestic cement mill in WB to provide sufficient cement to meet increasing needs (possibly another in Gaza?)
  - More ready-mix concrete plants
  - More operational quarries
- Take advantage of domestic stone and marble industry to develop value-add proposition
  - Increased mechanisation to improve local productivity in international stone and marble exports (slabs and tiles)
  - Improve stone & marble processing (e.g., in industrial zones) and introduce aggregation mechanism for small producers to grow exports of high-value stone & marble

- Investable opportunity
- Supporting initiative

## Potential projects in Building Materials sector

### Potential project

### Description

Increase **reliable supply** of key building materials through **diversified imports** and increased **local productivity** to support incremental demand for housing and infrastructure

**1** Conduct geological survey

Determine size and location of additional stone reserves

**2** Controlled and regulated use of explosives<sup>1</sup>

Facilitate access to gravel and ensure future economic viability of local production sites

**3** Build local cement mill

Substitute cement imports by creating local production site and building up new partnerships with international exporters

**4** Build truck staging areas/conveyors

Facilitate all material imports; would have effects across materials if import increase needed

Increase **local value added** and grow **stone and marble exports**

**5** Facilitate consolidation of the stone and marble industry

Improve/introduce access to industrial zones to improve ability to export higher value stone products

**6** Increase mechanisation

Improve local productivity in international stone and marble exports (slabs and tiles)

SECTOR SUMMARY

# Initiative for the Palestinian Economy

## *Water*



## Overview of the Water Sector

### Current size of the sector

- In the West Bank, current needs are 220 MCM annually, with a 80 MCM gap, while 2020 needs could be 390 MCM, leaving a 250 MCM gap
- Needs in Gaza are 200 MCM, mainly sourced from unsustainable extraction from the aquifer, with a 10 MCM gap. 2020 needs could be 270 MCM, leaving a gap of 200 MCM (assuming unsustainable extraction from aquifer is limited to sustainable levels)

### Sector description

- Average domestic water consumption varies between Gaza (90 l/d/c) and West Bank (70 l)
- Irrigation water for agriculture purposes is severely constrained in the West Bank
- In Gaza, majority of available water is sourced from a depleting aquifer, from which the extraction has become unsustainable leading to deteriorating water quality
- In the West Bank, available water is sourced from shared aquifers with Israel under outdated and poorly maintained wells and from water purchases
- Overall, the water network is inefficient with high leakages and limited waste water treatment, leading to environmental concerns

### Benchmarks

- Leakages and theft are currently high at an average of 35% (West Bank) & 42% (Gaza) of produced water
- A low amount of waste water (~3%) is treated in the West Bank, compared to 90% in Israel, and none of it is re-used for agriculture

## Water Sector Strategy

### Strategy

- Improve water and waste water management (including aquifer recharge) with efficiency and re-use measures in West Bank and Gaza
- Extract additional water from available natural sources: aquifers (well rehabilitation and new wells), brackish springs and dams in the West Bank and desalination in Gaza (both small and large scale)
- Address current critical shortages in Gaza by increasing purchases from Mekorot and Independent Water Producers in the short term

### Potential Projects

1. Increased wastewater treatment and re-use
2. Reduce leakages / theft
3. Improve collection rates
4. Rehabilitate / drill new wells in the West Bank
5. Roll out small scale desalination in Gaza
6. Roll out large scale desalination in Gaza
7. Roll out desalination of brackish springs
8. Build dams and other systems to collect WB rainwater
9. Facilitate consolidation of water utilities
10. Increase purchases from Israel in short term