PALTRADE

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PALESTINE TRADE CENTER

Investment in Palestine:

The Reality

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1. Introduction

The winds of investment blew with the hope for peace and a permanent resolution to establish a viable Palestinian state. Since the very beginning of the peace process, investment has been viewed by the Palestinian National Authority (PNA), the international community, and even by the Israelis as a driving force to achieve Palestinian social welfare. The positive investment climate provided by the horizons of the peace process at that time led to a boost in investments. Palestinian entrepreneurs both from inside Palestine and from the Diaspora launched many investment projects. Joint Israeli – Palestinian Ventures in addition to trilateral (joint Palestinian, Israeli and International) investments were highly promoted and many have been constructed.

This was also accompanied by enormous efforts by the PNA to create the enabling business and investment environment in Palestine. PNA created different institutions to promote and develop investments, enacted many laws to provide the necessary legal framework for investors, and launched many investment promotion activities. In addition, the PNA also concluded many free trade agreements that open the door wide for tremendous export opportunities. Still, PNA needs to exert more efforts to provide the enabling business environment to attract foreign direct investments. Such efforts include developing the legal framework, build the capacity of relevant institutions, and provide a competitive incentive package for investors.

Yet, these factors are not the main obstacles that face investors and affect attracting foreign direct investment in Palestine. The uncertainty and lack of a political horizon created by Israeli closure regime are hindering the potential of any future investments. The combined effect of the closure regime in the West Bank, the restrictions on the access and movement of investors, and the constricted trade between West Bank and Gaza have resulted in substantial increase in transaction costs, lowered the competitiveness of Palestinian products, and created a very poor investment climate in Palestine.

This paper first presents the PNA efforts to create an enabling business environment to attract investors. Second, it reviews the Israeli constraints that impede investment. Then the paper highlights the border Industrial Estates experience in Palestine where the Israeli restrictions and impediments formulated major obstacles against achieving Palestinian goals of such projects, in essence, economic development and employment generation. Finally, the paper will point the conclusions, recommendations and actions required from PNA, Government of Israel (GoI), and the international community in order to create an enabling business environment in Palestine.

2. PNA Efforts in Improving Investment Climate in Palestine

The PNA, since the very beginning of its establishment, has attempted to provide a supportive environment for private investment. It tried to promote investment in Palestine using the comparative advantage of Palestine - as a strategic location at the cross roads of Europe, Asia, and Africa and as one of the most holy and ancient places on earth -. In addition, the PNA also tried to create the competitive advantage needed. The PNA has accomplished many significant achievements in this regard:

1. The PNA established different institutions to promote and attract investment. The Palestinian Investment Promotion Agency (PIPA) that was established in 1998 to take a proactive role in promoting Palestine's potential to investors and to provide a One-Stop-Shop to assist all investors in licensing their projects, acquiring permits, obtaining incentives, and income tax exemptions. The Palestinian Industrial Estate and Free Zone Authority (PIEFZA) was also established to promote and supervise investments in the industrial Estates[1] and the free zones.[2] PIEFZA serves as a One-Stop-Shop to companies planning to invest at the industrial estates and industrial free zones. Industrial estates and free zones were one of the main strategies that the PNA used as a driving force to attract investment in order to revive and develop the Palestinian economy. It is also considered a key source for employment generation and technology transfer. The planned industrial zones include: Gaza Industrial Estate, Jenin Industrial Estate, Khadoury Information Technology Estate in Tulkarem, The Agro – Industrial Park in Jericho, Bethlehem Industrial Estate, in addition to the industrial zone in Tarkumia. It is important to note that Gaza Industrial Estate is the only one that has been established and operated for a period of time.[3]

2. The PNA has created a frame work of economic laws to encourage and support foreign and local investments in Palestine. There are two major laws that reflect the PNA’s commitment of encouraging investors and building a modern market economy, the Law on the Encouragement of Investment and The Industrial Estates and Free Zones law. These laws provide very attractive incentive packages that include the following:

    - Protection of investors and investments;
    - Specific incentives for projects creating or expanding economic activities in certain sectors;

[1] Geographically defined areas designated to serve a number of businesses that carry out industrial activities and services.

[2] Extraterritorial customs and duty free areas established with the aim of attracting direct foreign investments and joint ventures in export. To date there are no free zones established in Palestine.

[3] Unfortunately this industrial state is not functioning any more. Please see below the full description on this subject in the Industrial Estates experience – lessons learned part of this paper.

- Prohibition of discrimination against any investor on the basis of nationality;
- Prohibition of expropriation of investment;
- In the event of expropriation for a public purpose, enterprises will be compensated at fair market value;
- Protection of all confidential information unless the investor gives his written consent or a court order from a Palestinian court compels disclosure;
- Preferential treatment permitted on a narrow basis arising from bilateral or multilateral agreements; and
- Free transfers of foreign currency and freedom for repatriation of income generated from investment in Palestine; Investors may invest in any sector of the Palestinian economy under the free admission principle.

Furthermore, there are other laws in this context which include:

a. The Capital Markets Authority Law - which provides an environment to achieve stable and sound non-banking financial market activities including, but not limited to, securities, issuance and trading activities, insurance activities, and leasing activities. Safeguard the interest of the investors and the public. And regulate disclosure of any adequate information and data of the non-banking financial sector.

b. The Palestinian Monetary Authority Law (central bank) enacted in 1997, and the Banking Law enacted in 2002 includes extensive provisions for the licensing and supervision of banks in a liberal manner within the guidelines of international best practices, by the Palestinian Monetary Authority (PMA).

In addition, private foreign investors can benefit from political risk insurance with coverage up to $3-5 million per project, during a 15-year period. Co-insurance is also available to increase investment coverage capacity. This investment Guarantee fund is administered by the Multilateral Investment Guarantee Agency (MIGA) and is funded by the World Bank.

3. The PNA has also signed 3 blocks of economic integration agreements that were concluded since 1995. The first block is the Interim Association Agreements signed with the EU, EFTA, and Turkey. The second block of agreements is the free trade arrangements with the US and Canada. And the third block is Palestine's membership in the Greater Arab Free Trade Area (GAFTA). Currently, a free trade agreement is being negotiated between Palestine and Mercosur countries (Brazil, Argentina, Uruguay, and Paraguay).

4. The PNA, with the support of the international community with the objective to attract foreign investment, organized many international investment conferences, two conferences in the holy city of Bethlehem-The Palestine Investment conference (PIC) of 2008 and The PIC of 2010 – and one investment conference in Nablus in November 2008. In addition to the Trade and Investment Forum held in London in December 2008. Large number of participants from abroad (1085 businesspeople and dignitaries from 38 countries participated in PIC 2010) with evident interest in investing in Palestine who attended the conferences.[4]

PIPA from its side continuously is working on improving the investment climate in Palestine. It is continuously investigating investors' demands and interests. In September 2004, PIPA conducted a survey that included 278 enterprises, representing 70 % of PIPA clients, of which 28% were foreign enterprises (a number which mirrors their limited share of the PIPA client base).5 The survey results revealed that the Occupied Palestinian Territory's geographical location is the main factor that is driving foreign investors' location decisions. Proximity to main markets was ranked as a positive factor by 59 % of respondents, followed by the Palestinian Authority's favorable tax treatment and the availability of relatively cheap labor. Other factors that influence the decision of foreign investors include access to regional markets and cheap raw materials. In addition, a limited percentage of foreign investors identified the availability of industrial zones as an influencing factor, along with the Palestinian Authority's trade agreements and the availability of skilled labor. As for foreign investors' assessment of the investment environment, the respondents identified obtaining and renewing business licenses as major factors working in their advantage. Other factors include renting and purchasing premises, the availability of local skilled staff and telecommunications services at reasonable prices.

The Palestinian investment climate is relatively good and in many ways superior to other economies in the region under normal conditions. Nevertheless, PNA still needs to exert more efforts to provide an enabling business environment that better attracts foreign direct investments. Such efforts include:

1. Developing the legal framework, filling the legal gaps, and harmonizing the legal and regulatory framework with the rules and regulation of the Multilateral Trading System (WTO principles, agreements, rules and regulations).

[4] The Palestine Investment Conference, Preliminary Report, 07 June 2010.

[5] Aftercare Strategy for Investors in the Occupied Palestinian Territory, United Nations Conference on Trade and Development, 2009.

2. Many efforts are needed to build the capacity of relevant institutions in order to formulate and implement policies to develop the socio economic structure in Palestine.

Although Israeli economic restrictions remain the main constraint to private sector investment, the PA needs to continue efforts to provide an investment climate that limits uncertainty and supports private investment. The PA's Ministry of National Economy (MoNE) has made improving the investment climate a priority and has taken a number of steps, but there remains significant work to be done. Amongst these steps is the recent drafting of a number of new laws to improve the investment climate. These laws have been passed by the Council of Ministers and are awaiting signature by the President. Among the important new laws waiting to be adopted are:

- New Companies Law: This new law modernizes how companies are registered and regulated. Among other things, it will reduce the minimum capital requirement for registration, which will make it easier to establish new enterprises;
- New Investment Law: This legislation changes the way investment incentives are given, including adding new sectors that are eligible for incentives;
- New Industry Law: This law will change the way industry is regulated and supported by the PA; and
- Movable Assets Law: This law establishes a movable assets registry in the MoNE, which will help enterprises access finance by allowing them to use movable assets as collateral.[6]

In addition, there are still many major gaps in the legislation that needs to be addressed as soon as possible in order to streamline and update the current legislation governing investment and unifying the legislations in both the West Bank and the Gaza Strip. Among other laws that need to be accomplished as soon as possible, the following laws are considered a corner stone in this regard:

- Competition Law;
- Secured Transaction Law;
- Foreign Trade Law;
- Bankruptcy Law;
- Foreign Exchange Regulations;
- A conducive tax system; and
- Issues related to intellectual property rights protection.

[6] The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee , September 21, 2010

In addition to drafting legislation, the MoNE is initiating other activities to create a more conducive investment climate. For example, the MoNE has created a Recognized Importer Card, which aims to improve government services for large importers. It recently took steps to activate the Palestinian Council for Consumer Protection and form a national committee for the implementation of labeling requirements in the Palestinian market. More importantly, the PA has recognized the importance of improving the capabilities of the Palestine Standards Institution (PSI). Raising the quality of Palestinian products and providing them with internationally recognized standards certificates is essential in order to expand access to Israeli and other markets. Consequently, the PA is making this a priority and has entered into an agreement with the European Union (EU) to support the PSI.

Progress in Building the Capacity of the National Institutions

PA's institution-building performance is generally satisfactory, having demonstrated its competence in the provision of basic services, so that the PA is well-positioned for the establishment of a Palestinian state at any point in the near future. The PA allocated in 2009 (as it did in 2008) the largest shares of public spending to the Ministries of Interior and National Security, Education, and Health. Together, these three Ministries absorb over half of the PA's total public spending, and over 80 percent of spending on wages and salaries. This spending pattern demonstrates the PA's commitment to providing security and delivering education and health services to the population.

In order for the PA to continue its demonstrated focus on providing security and basic services, it must remain fiscally viable, which in turn requires continued growth as well as progress on its reform agenda. Prior to 2000, WB&G did not face fiscal deficits in recurrent expenditures, though they did rely on donor funding for investment. Clearly, the sharp drop in GDP experienced since 2000 has had a severe impact on the PA's fiscal position. In addition to economic growth, the PA is focusing on a reform agenda that will further reduce its dependence on donor assistance for recurrent expenditures. This reform agenda for fiscal strengthening spans several areas, including the electricity sector, pensions, and the social safety net, and has recently achieved important milestones.[7]

By the same token, capacity building of MNE, PIPA and PIEFZA is key in developing the needed policies to attract investments and ease doing business in Palestine. Yet, despite being in a highly competitive market with a relatively reasonable investment

[7] The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, World Bank Economic Monitoring Report to the Ad Hoc Liaison Committee, September 21, 2010.

climate, Palestinian enterprises are struggling to survive and display low levels of productivity because of the continuous restrictive policies and measures implemented by the Israeli government (The occupying power).

3. Israeli Constraints Impeding Investment in Palestine

Israel has continuously adopted a strategy not to allow Palestinian economy to develop. The set of Israeli policies has intentionally kept the Palestinian business environment far below a normal one and has led to poor investment climate. The Israeli policies are reflected in a multilayer Israeli closure regime which aims at leaving the Palestinian economy in a highly fragmented shape, as well as Israeli unilateral control of borders to restrict movement and access of goods, businessmen and investors.

The obstacles facing private investment in Palestine are manifold, as many important GoI restrictions remain in place:

- Access to the majority of the territory's land and water (Area C) is severely curtailed;
- East Jerusalem is beyond reach;
- The ability of investors to enter into Israel and the West Bank is unpredictable;
- Access and movement restrictions in the West Bank; and
- Non implementation of Paris Protocol.

a. Lack of Access to Area C Resources

Given the fundamental importance of land to economic activity and development, the impact of continued Israeli control of Area C – fully 59 % of the West Bank – cannot be underestimated. Land is a common means of storing wealth and a powerful economic asset; provides a foundation for economic activity in sectors as varied as agriculture, industries, housing, and tourism; as well as being a key factor in the functioning of credit markets. Thus, the effects on the Palestinian economy of the current territorial distribution are manifold. The physical access restrictions are the most visible, but perhaps not the most pernicious. The land use and planning regulations in effect in Area C tend to limit development within the confines of existing villages, with too little suitable space for demographic growth, causing irrational land use and unsound environmental management. Predictably, economic activity in Area C is limited primarily to low intensity agriculture. High intensity agricultural, industrial, housing, tourism, and other investments are hindered by the inability to obtain construction permits from the Israeli authorities and the limited amount of titled land available.[8]

b. Constricted Movement in the Jordan Valley

No significant improvement took place in the access of Palestinians to areas beyond the Separation Wall, and to land and rural communities in the Jordan Valley. In addition, while the Israeli military removed some 80 roadblocks that impeded vehicular access for limited numbers of farmers to agricultural land in Area C, no improvement was observed regarding access to much larger agricultural areas in the Jordan Valley. In addition to its vast potential for agricultural development, the Jordan Valley has great potential for industrial development, as well as comparative advantages in the fields of tourism, transportation, and logistics. The present situation severely handicaps Palestinian economic activity in the Jordan Valley, as most of the Jordan Valley is Area C, comprised of Israeli closed military areas or firing zones, or settlement areas, and so is almost completely off limits to Palestinians.[9]

c. Settlements

Over 120 official Israeli settlements were built in the West Bank, as well as approximately 100 outposts (i.e. settlements built without official authorization, but with the support and assistance of government ministries) between 1967 and May 2010. Israel has also established some 13 industrial areas near settlements, the major ones being Mishor Adumim, situated east of the Ma'ale Adumim settlement, and Barkan, adjacent to the Ariel settlement. Unfortunately, the full extent of the settler economy in the West Bank is not known since the Israeli Central Bureau of Statistics does not publish GDP statistics broken down by region. Nonetheless, a one-time glimpse into the economic activity of settlements is provided by the 2006 Annual Report of the Israel Internal Revenue Service (IIRS) which included, for the first time, information on all Israeli corporations by administrative district. On the basis of the figures published by the IIRS, it appears that many of the settlers depend for their livelihood on jobs within Israel, and not in the settlements themselves. Indeed, only 4,600 persons, i.e. 1.3 percent of those employed in industry in Israel, are employed in Israeli industrial areas in the West Bank. The exceptions to this rule are the settlements in the Jordan Valley of the West Bank that have developed a specialized agricultural production, primarily for export. Although their population is quite small, most settlers in the Jordan Valley are farmers who cultivate large areas of land and use most of the water resources in the area.[10]

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[8] The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, Economic Monitoring Report to the Ad Hoc Liaison Committee, September 21, 2010.

[9] Ibid.

[10] The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, Economic Monitoring Report to the Ad Hoc Liaison Committee, September 21, 2010.

d. Access to Water

Hand-in-hand with access to land, access to water is a key ingredient for all sectors of the economy and for agriculture in particular. Palestinians extract about 20 percent of the "estimated potential" of the aquifers that underlie both the West Bank and Israel. Israel extracts the balance, and in addition overdraws on the "estimated potential" by more than 50 percent. This over-extraction by deep wells combined with reduced recharge has created risks for the aquifers and a decline in water available to Palestinians through shallower wells. On a per capita basis, water withdrawals for Palestinians in the West Bank are about one quarter of those available to Israelis, and have declined over the last decade. By regional standards, Palestinians have the lowest access to fresh water resources. Declining availability of agricultural water in particular carries significant opportunity losses in terms of output and employment. Though the potential exists for expansion of irrigated areas, the dwindling water availability, with almost no new or replacement water sources receiving permits, has meant that this potential simply cannot be realized. An upper bound estimate of the cost to the economy of the foregone opportunity in irrigated agriculture is as high as 10 percent of GDP and 110,000 jobs).[11]

Water scarcity is the major constraint limiting large-scale development of the Palestinian Jordan Valley. Since Palestine's share of the Jordan River Basin water resources is the smallest among the three countries, the water shortage would constrain even smaller-scale urban or agricultural development programs. Even under the present low level of agricultural development and economic activity, the scarce water supply is far from satisfying the Palestinian demand for water. This imbalance is reflected, inter alia, in the extremely low average domestic water consumption per capita. One can expect that once economic recovery starts and the population of the Jordan Valley increases, there will be a substantial increase in the demand for water for domestic use, which will further divert water from agricultural uses. Settlements in the Jordan Valley are large consumers of water, and Israel control most of the water resources in the area and the supply of water barely meets Palestinian demand. Economic development in the Jordan Valley depends mainly on access to water, not to forget here that the agriculture in the Jordan Valley depends totally on irrigation water and not rain fed.

e. Severed Link to East Jerusalem

East Jerusalem historically has been the center of the West Bank economy and society and its separation from the rest of WB&G has had a profound economic effect. It cuts off nearly 10 percent of the West Bank population and since the East Jerusalem population has a higher level of income than the West Bank in general, it is a significant loss of market for West Bank enterprises and jobs for West Bank residents. In addition, it

[11] Ibid.

prevents access to the Jerusalem holy sites for many Palestinians, significantly disrupting the tourism industry. The separation of East Jerusalem has forced a reorientation of markets so that many institutions and businesses in East Jerusalem have shifted operations and refocused their attention only on Jerusalem. Likewise, many enterprises in the rest of the West Bank have either attempted to open separate operations in East Jerusalem or given up the market. The cutoff of the East Jerusalem market, combined with the blockade of Gaza, has reduced the size of the already small Palestinian market. This in turn makes it difficult for firms to achieve minimum efficient scale, thereby increasing costs and lowering productivity.[12]

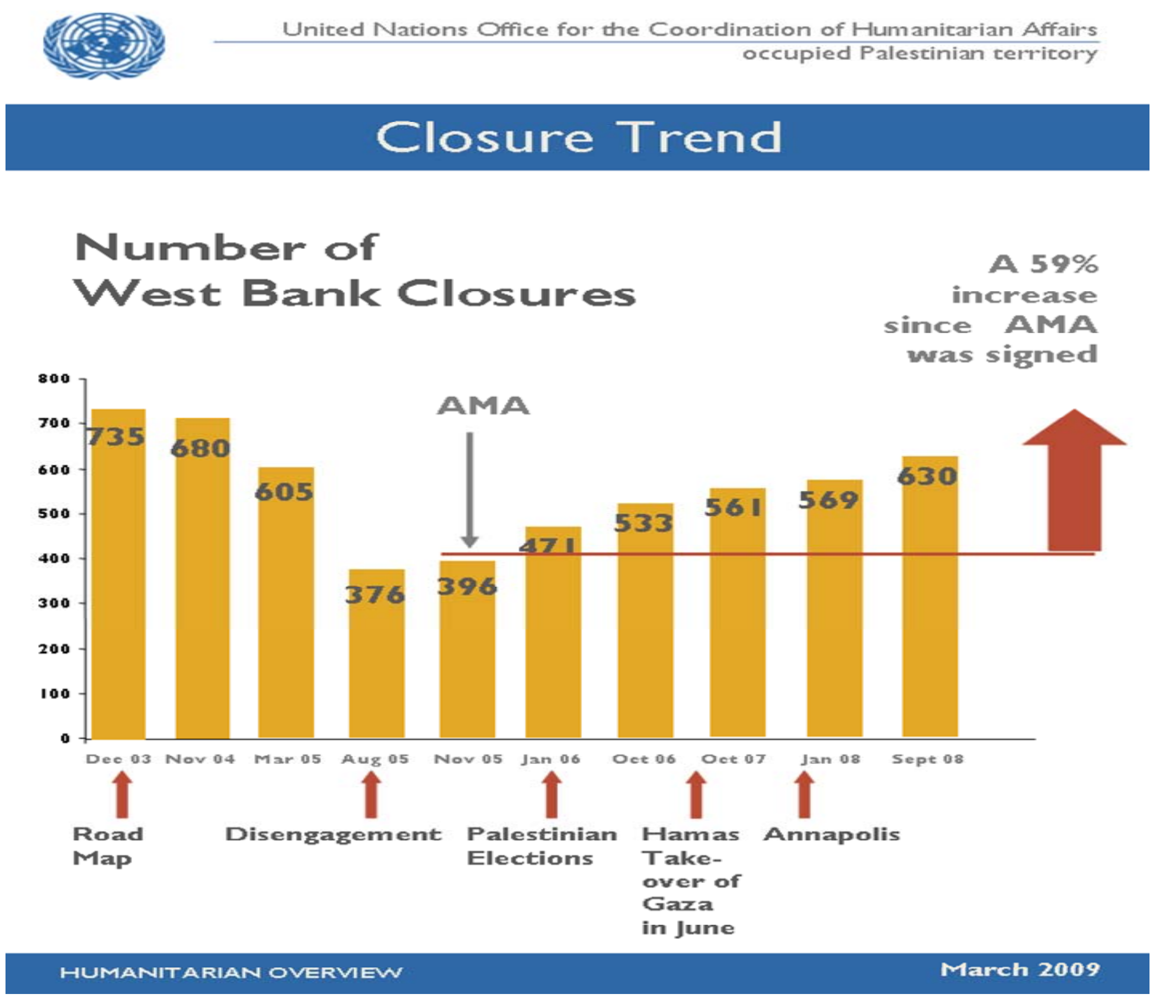
f. Access and Movement in the West Bank

In addition to Israeli administrative policies, physical barriers are another mean that used by the Israelis to restrict movement and access. Reports of the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) show that the Israeli authorities have implemented a series of measures that improved the freedom of movement of Palestinians between most urban centers, particularly in the north. In the comprehensive closure survey completed by the end of March 2010, OCHA field teams documented and mapped 505 obstacles blocking internal Palestinian movement and access throughout the West Bank. These include 65 permanently staffed checkpoints, 22 partial checkpoints (staffed on an ad-hoc basis) and 418 unstaffed obstacles, including roadblocks, earth mounds, earth walls, road gates, road barriers, and trenches.[13]

This number of closure obstacles accounts for a 19 percent decrease since March 2009 (626 closure obstacle). It is very important to consider how investors look at this decline in number of obstacles, and the degree it reduces uncertainty about investment in Palestine. Statistics show that the numbers of closure obstacle where below 400 in 2005, at that time the Access and Movement Agreement was signed with the hope to put an end to such closure system. Unfortunately, since that agreement, the number of closure obstacles has increased to reach 630 in 2008 and 626 in 2009. All international initiatives that accompany the peace process did not put an end to such closure system despite the rise or decline in the number of obstacle from one year to another. It is also important to consider how investors look at the continuous expansion of settlements in the West Bank, and the large increase of demolitions in Area C and East Jerusalem while obtaining a construction license from the Israeli authorities, which exercise exclusive and direct control on security and law enforcement matters, as well as over planning and construction in area C, is nearly impossible.

[12] Ibid.

[13] UNITED NATIONS Office for the Coordination of Humanitarian Affairs, occupied Palestinian territory, Special Focus, June, 2010.



g. Full Control of Borders and the Curtailed Entry of Visa Holders

One of the major factors limiting investment in WB&G is the difficulty and uncertainty of obtaining visas for foreign investors and technical staff as well. The GoI controls entry into the PNA territories and issues visas and entry permits. Potential investors from countries with visa agreements with Israel can expect to be allowed entry to Israel as well as the PNA territory, and those from countries with no such agreements can expect to receive visas upon submission of their application. While this process usually works, it does not always: many times, entry is denied to those whose countries have visa agreements, and visa applications are rejected for others -- and often no reason is given (PalTrade 2010). Other times potential investors are given visas that only allow them to be in PNA-controlled areas, effectively cutting them off from East Jerusalem and Israel. Yet other times, internationals who enter Israel through Ben Gurion Airport are requested to sign a commitment statement in which they agree not to enter PNA-controlled areas. Even more problematic is obtaining multiple entry visas or work permits for individuals working with Palestinian firms. Yet it is possible for investors to gain entry, as evidenced by the large number of permits approved for the 2010 Palestine Investment Conference, held June 2-3, 2010 in Bethlehem (including many permits for citizens of countries that have no diplomatic relations with Israel). There is therefore a high level of uncertainty in terms of obtaining and renewing entry permits and visas, which in turn leads many private investors to report that they are discouraged from attempting new projects.[14]

The Joint Investment Committee (JIC) that was created to address all issues related to investor's access and promotion of investment in WBG has failed to meet since late 2000 - with the exception of meetings held for the purpose of Palestinian investment conferences in 2008 and 2010.[15]

The control of Borders by Israel is making the WBG economy one of the world's most open economies. It is completely open to the large Israeli economy, which itself is one of the world's most open and most productive. The Israeli import policies which do not suit the Palestinian economy are automatically applied on the Palestinian side. On the one hand, Palestinian enterprises must compete with imports from all over the world including from some of the most productive and lowest cost producers. On the other hand, Israel puts obstacles to prevent the entry of Palestinian products to Israel and do not recognize trade agreements signed between the PNA and other countries like the Interim Association Agreement with the EU. In addition it turned its back to Paris Protocol which governs the economic relations between Israel and Palestine.

h. Non-Implementation of Paris Protocol and Trade Agreements

Paris Protocol and its amendments is the only legal framework that governs Palestinian – Israeli economic and trade relations. This framework, however, no longer formulates a real regulatory structure due to the infringement or lack of implementation of a numerous articles in this agreement by the Israeli side. Under the current situation, Israel is contravening the basic principles of Paris Protocol "intentionally" thereby putting the whole agreement in question of further effectiveness for the Palestinian side. It is imperative to note that the Paris Protocol is no longer functioning as agreed, and is missing the spirit of mutuality that was built into it when it was first signed. Israeli continuous violations of the Paris Protocol that originally intended to develop the Palestinian economy and lure investments are reflected in larger uncertainty and larger frustration among investors.[16] In addition, West Bank trade to Gaza faces many trade and transport restrictions, the procedures at the internal crossings and the prolonged coordination time are also considered significant elements that hamper trade between West Bank and Gaza Strip. Israel obviously discriminates in terms of procedures,

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[14] The Underpinnings of the Future Palestinian State: Sustainable Growth and Institutions, Economic Monitoring Report to the Ad Hoc Liaison Committee, September 21, 2010.

[15] These meeting were held with large intervention and pressure from the international community.

[16] Palestine Trade Center, Position Paper On Economic Prospects for Israeli-Palestinians Relations - *Paris Protocol, Implementation (Practical Issues)*, *Trade Facilitation vis-à-vis Promoting Bilateral Trade*, November 2009.

certificates needed, coordination time, products allowed and quantities between Palestinian and Israeli traders.[17]

The Investment Climate Enterprise Survey conducted by the Palestinian Central Bureau of Statistics revealed[18] that the most important constraints to doing business in the Palestinian Territory are the uncertainty linked to the political environment. These results are similar to the Governance and Business Environment Survey conducted in the West Bank and Gaza in 2001, and it is also similar to the results of the investment survey of the agro-business industrial park conducted in 2008. Overall, except for the issues related to the closures and violence, the Palestinian investment climate is strong compared to other countries in the region, though many areas still need substantial improvement.

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[17] Private Sector Technical Unit – Palestine, Blockade and Discrimination, 17/3/2010

[18] THE WORLD BANK, Report No. 39109 – GZ , WEST BANK AND GAZA, INVESTMENT CLIMATE ASSESSMENT: UNLOCKING THE POTENTIAL OF THE PRIVATE SECTOR , March 20, 2007.

4. Industrial Estates Experience – lessons learned

Palestinian economic recovery will depend on creating an export-based economy with unimpeded access to global markets. This requires a secure, predictable and efficient border crossing regime to help build Palestinian competitiveness and attract investors. It will also depend on the PNA to create a business friendly and secure environment. In an improved operating environment, Palestinian entrepreneurs and foreign investors will look for well serviced industrial land and supporting infrastructure. Industrial Estates (IEs), particularly those on the border between Palestinian and Israeli, can fulfill this need and thereby play an important role in supporting export-based growth.

Consequently, and since the very beginning of the peace process, IEs have been viewed by the PNA, the international community and even by the Israelis as a potential strategic source of economic growth and employment generation. Therefore, the PNA with the support of international community was working to establish many IEs in different locations in Palestine. One of these was constructed (Gaza Industrial Estate), one is still in the first stages of infrastructure construction (Bethlehem Industrial Estate), two are still in the planning phase (The Agro – Industrial Park in Jericho, Jenin Industrial Estate), and the other two (Khadoury Information Technology Estate in Tulkarem and the industrial zones in Tarqumia) were frozen.

After a promising start in the late 1990s, IEs projects in the West Bank and Gaza have suffered significantly from political uncertainty and the movement restrictions imposed on Palestinian goods and people since 2000. The following is a brief description of these industrial states and the impact of Israeli measures on its implementation:

a. Gaza Industrial Estate (GIE)

The ambitious project of the IEs became a reality with the construction of the Gaza Industrial Estate (GIE) at the Karni (Al Montar) border crossing. PIEDCO, a private developer, signed a long-term lease agreement to develop and operate the GIE. At the same time, PIEFZA was established to oversee site development and operations. The GIE offers tenants over 40 hectares of first-rate infrastructure, including a fully dedicated 10 megawatt power supply with emergency backup, reverse osmosis-treated water supply, solid waste disposal services, a well-lit and maintained internal road network and on-site security services.

The GIE remains the only industrial estate that has actually opened its doors to business. After the promising start, the GIE has been unable to meet its objectives because of the closure regime and the impossibility of moving goods in and out of the estate on any predictable schedule. Furthermore, interventions by the Israeli Forces have constrained site development, and have signaled that GIE's special status and preferential treatment agreed upon could not guarantee that continuous production is assured. By mid- 2004, only 16 enterprises remained, a decline by half since 2000, and today this industrial estate is considered a ghost area. The GIE clearly illustrates how border estates can be effective in facilitating Palestinian trade with Israel and third country markets. However, the experience proves that without a predictable and efficient regime for moving goods across borders, there will be no future for such initiatives.

b. **Jenin Industrial Estate (JIE)**

The Jenin Industrial Estate (JIE) feasibility study showed many promising opportunities. The proposed site is located in a flat plain north of Jenin city and has an area of 933 dunums. A feasibility study was completed in 1998. In spite of German commitment and interest in supporting the construction of both off-site and on-site infrastructure, this IE has not been developed yet. There are many complications related to the site location. Israel transferred part of the location from Area “c” to Area “A” in order to develop the JIE. At the same time, Israel is asking for providing a buffer zone of 500 meters between the JIE and the green line. The JIE is already 250 meters away from the green line. Therefore, another 250 meter will take 30% of land allocated for this project. This is still preventing the Turkish developer (TOBB-BISS co.) from pushing it to the starting point. Investors in this area would depend mainly on their perceptions about the future access regime.

c. **Bethlehem Industrial Park**

This project aims to facilitate the development of the industrial fabric of Bethlehem and the creation of jobs (between 500 and 1000) by developing a business park south of the city. It also aims to support Small and Medium Size Enterprises (SMEs) in developing new practices to strengthen their positions in the local and external markets, while improving their environmental practices. The displacement of industrial companies from the city center should allow the municipality to take better advantage of its attraction as a tourist center. The training centre and the building of partnerships with the French private sector should eventually foster an increase in the human capital of the SMEs.

All detailed studies were conducted concerning the off-site infrastructure and the connection works to the water and electricity network should start very soon. Further, studies are underway for the access road and sanitation. The sustainability of the project’s success largely depends on relations between the PNA and Israel.[19] As a main anticipated risk, the project implementation is subject to authorization being obtained from Israel for: (i) the possibility to use access roads in Area C (under Israeli control) and the adaptation of checkpoints to facilitate access to the zone; (ii) an increase in the municipality’s water supply; (iii) agreement on the norms for wastewater treatment. The soundness of this project is a second major risk because, at this stage, the financial arrangements for the

[19] AFD, PUBLIC COMMUNICATION BRIEF ON OPERATIONS, Palestinian Territories, Bethlehem industrial zone.

industrial park are based on hypotheses that must be validated when the park is marketed to companies. Moreover, as stated in the market study, the interest of companies in the park will only be confirmed when they have precise information on accessibility for goods and individuals which is considered a key factor for its attractiveness.

d. Agro-Industrial Park in the Jordan Valley

This Industrial Park is part of the Japanese "Corridor for Peace and Prosperity" initiative which has been declared nearly five years ago. This project aims at contributing to creating a viable Palestinian economy in the future by promoting the economic development in the Jordan Valley. Under this initiative, the industrial park will be connected to Prince Mohammed “Damia” Crossing after rehabilitation for exports. Unfortunately, Israel refused to comply with the agreement and directed all exports through King Hussein Crossing. The planned Agro-industrial Park is located southeast of Jericho with an area of 1115 dunums. The park is going to be constructed on three phases; the first phase will be constructed on 115 dunums which is the only available area for the time being. Around 500 dunums are in Area ‘c’ and the remaining are private property and “wakf land”.

Taking into consideration the continuous commitment by Japan to support and finance this initiative in general and the Agro Industrial Park in the Jordan Valley in Particular, still, it has been a slow process leading up to the start which has not materialized yet. The basic idea behind this does not differ much from the reasons complicating the other IEs. The private sector showed large interest in investing in this region, however, not under the current conditions of access and movement restrictions in that region.

e. The Tulkarm Peace Park (TPP)

The same applies for the Tulkarm Peace Park (TPP) which appears feasible, but its development is likely to be constrained by its particular location. The proposed site, with an area of 20 hectares, is west of the Separation Wall and east of the Green Line, just outside the city of Tulkarm. The site is close to the land terminal of Sha’ar Efraim, where Israel is considering building a railway terminal for the transfer of goods to Ashdod and people between the West Bank and Gaza. The anticipated demand for the TPP is for industrial, warehousing, storage and logistics activities, as well as for office space, research and training activities. The TPP is considered by both the Palestinian and Israeli private sector to be the most commercially attractive of all the West Bank sites, due to its proximity to the Israeli High Tech Corridor centered around Herzliya. However, the construction of the Separation Wall to the east of the site, and the TPP’s location in the Seam Zone (Palestinian land that falls behind the Separation Wall), make it problematic from a Palestinian perspective because the TPP would be under the Israeli security control, which makes Palestinian access subject to permits and other controls. Both the PNA and donors were guided by the International Court of Justice ruling on the Separation Wall, which indicates that the provision of infrastructure in the Seam Zone would constitute a violation of international law.

f. Tarqumia Industrial Estate (TIE)

Tarqumia Industrial Estate (TIE) also faces location issues. The TIE is currently in the pre-feasibility stage. The site is located close to major Palestinian population centers (Hebron and Bethlehem) and is close to the former West Bank–Gaza safe passage route. It has an area of up to 250 hectares, and is one of only a few potential sites on the Green Line west of Hebron city. Tarkumia is relatively close to the Israeli ports of Ashdod and Ashkelon. The mix of industry would include medium to heavy industry (stone, construction materials), logistics and transit enterprises, and textile and garments production. The site is located in Area C, however, it would thereby fall under the Israeli control of civil and security matters. This is not acceptable to the PNA as it has no competence for planning or zoning activities in Area C, and it has requested that the status of the site be converted to Area A.

5. Conclusions and Recommendations

1. Political uncertainty and the movement and access restrictions are the main obstacles impeding investors and foreign direct investment in Palestine. Israel is intentionally feeding the investors feeling of this uncertainty using a continuous internal and external closure regime. This regime raised tremendously the transaction costs, weakened competitiveness, constricted access to the local, regional and international markets, and prevented Palestinian firms from attaining economies of scale. Consequently:

    - Israel must respect its obligations under the international law and Paris Protocol and should provide the needed investment climate that will allow Palestinian economy to revive and develop.
    - Israel must elevate the current unjustified closure and fragmentation system of the West Bank, between the West Bank and Gaza and between the Palestinian Territory and the regional and international markets. The solution goes significantly beyond the removal or movement of some physical barriers to the removal of the entire closure system, including the provision of residency and travel permits, which has created enormous uncertainty for investors.
    - An immediate first step should consider reviving the trade linkages between the West Bank and Gaza as called for under the Agreement for Movement and Access (AMA) and in the longer term establishing a permanent territorial link between the two territories (as both are considered one political, economic and geographic unit).
    - An efficient and reliable crossing and trade corridor through Jordan and Egypt would provide many advantages in terms of direct market access to the regional and international markets. However, for such a corridor to be successful, it is crucial that Israel reverse the current policy of highly restricted access and movement system for goods and investors. As well as, progress on the rehabilitation and construction of the Palestinian airport and port as provided for under the AMA should begin in order to provide other alternatives for reaching third country markets.

2. The PNA should have a comprehensive socio-economic development strategy and any industrial estate project should be an option to be used only when it contributes to achieve the goals and objectives of such strategy.

3. Reaching a concrete agreement with Israel that guarantees access and movement to and from these IEs, in addition to the free movement of international investors investing in Palestine in general and in these IEs in particular.

4. The international partners should be part of this agreement in order to guarantee, monitor, and facilitate its implementation.

5. The PNA with the support of the international community should improve the capabilities and services provided by the key institutions needed by investors. Among key institutions in this regard are PIPA, PIEFZA, Ministry of National Economy, land Administration, Customs, and Palestinian Standards Institute.

6. PNA should launch a regulatory and legal reform in order to cover any legal gaps and harmonize legislations with those of the multilateral trading system.

7. The international community should support the PNA in developing enterprises capacities to be able to compete in the regional and international market. Specialized programs should be designed to:

- Support investment to develop new products, increase productivity, improve quality and reduce costs;
- Formulate marketing plans and developing contacts in new markets and minimize working through Israeli firms;
- Support enterprises in lowering the cost of developing learning mechanisms and to offset some of the risk of investing in new capabilities;
- Support creating a "made in Palestine" brand that will offset some of the negative perceptions about the ability of Palestinians to reliably supply goods; and
- Provide a matching grant, challenge fund or some other type of program that directly supports individual Palestinian enterprises upgrade their internal capabilities could help jump start private investment. Such support must target specific market failure and should focus on helping find and adopt new technologies and opening new markets.