

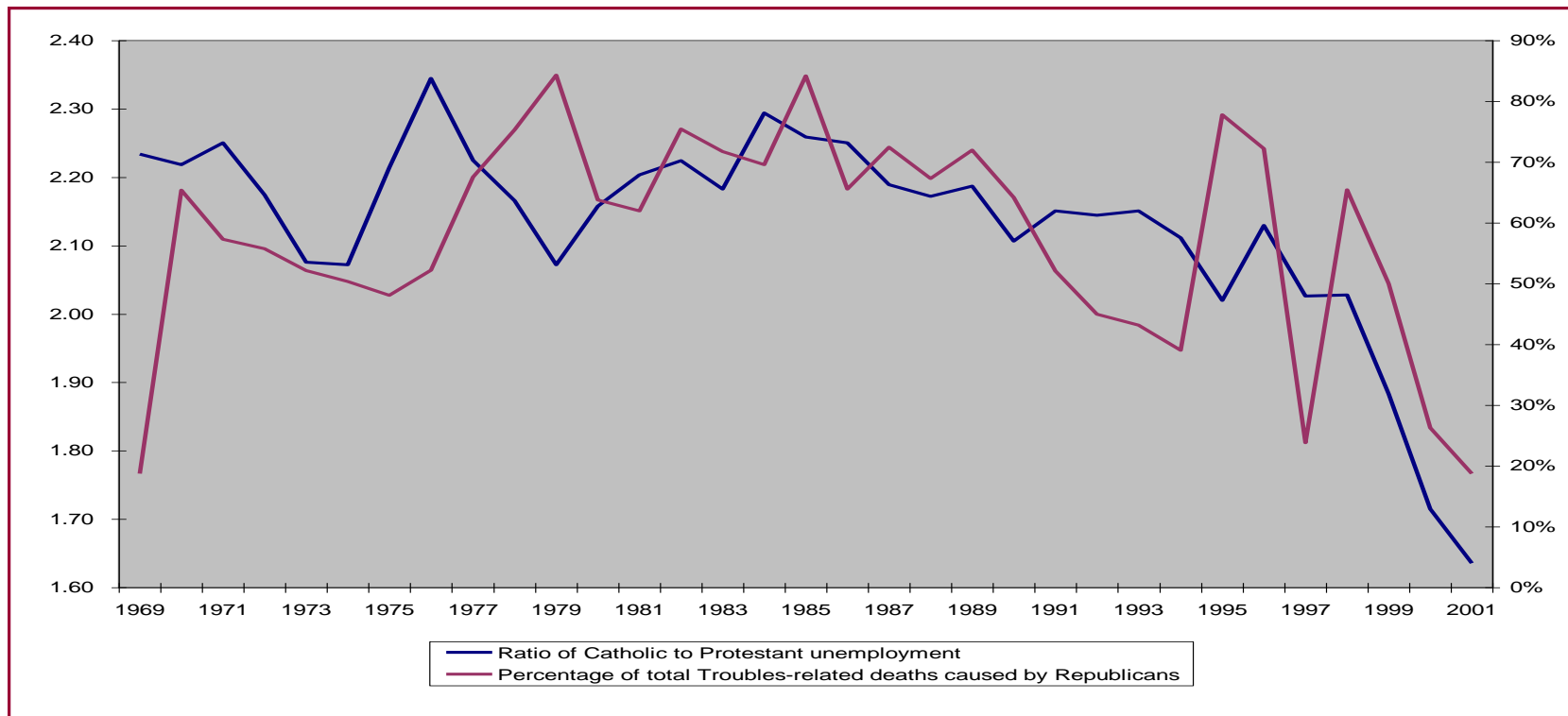
**Herzliya Conference – 3 February 2009**

**Down to Business: Boosting the  
Palestinian Private Sector**  
**Sir Ronald Cohen**

# Economics in Peacemaking: Northern Ireland

Not a parallel but we can learn important lessons

- Catholics suffered from unemployment rates more than double that of Protestants and violence was high;
- Today unemployment and violence are both low.

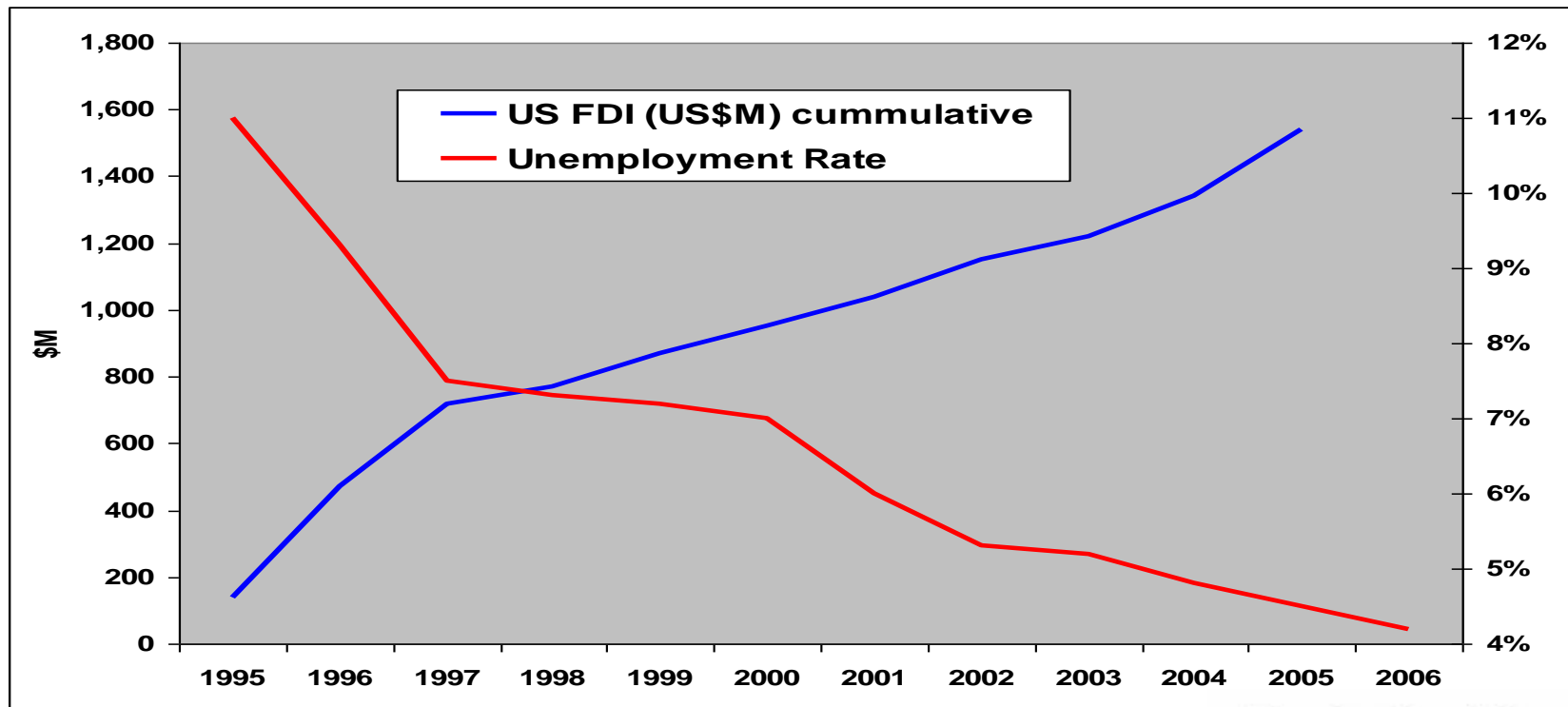


Source: Honaker, *Unemployment and Violence in Northern Ireland: A Missing Data Model for Ecological Inference* (2004)

# Economics in Peacemaking: Northern Ireland

**Not a parallel but we can learn important lessons**

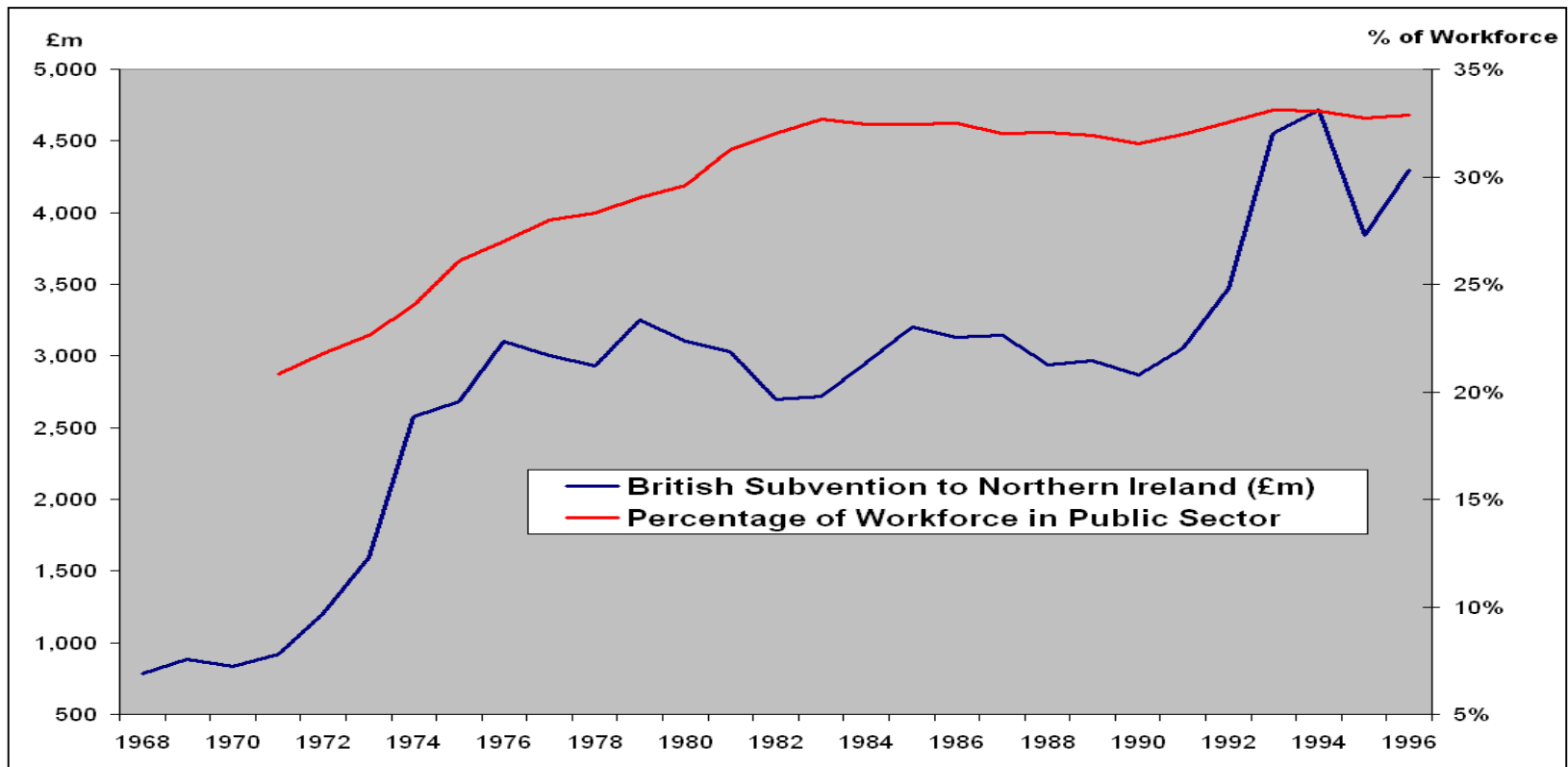
- Senator George Mitchell appointed as Clinton's special envoy in 1993.
- Economic discussions became a platform for political settlement.
- Private sector voice and institutions pushed for moderation.
- Substantial inward investment, from the US in particular, improved economic conditions.



# Economics in Peacemaking: Northern Ireland

Not a parallel but we can learn important lessons

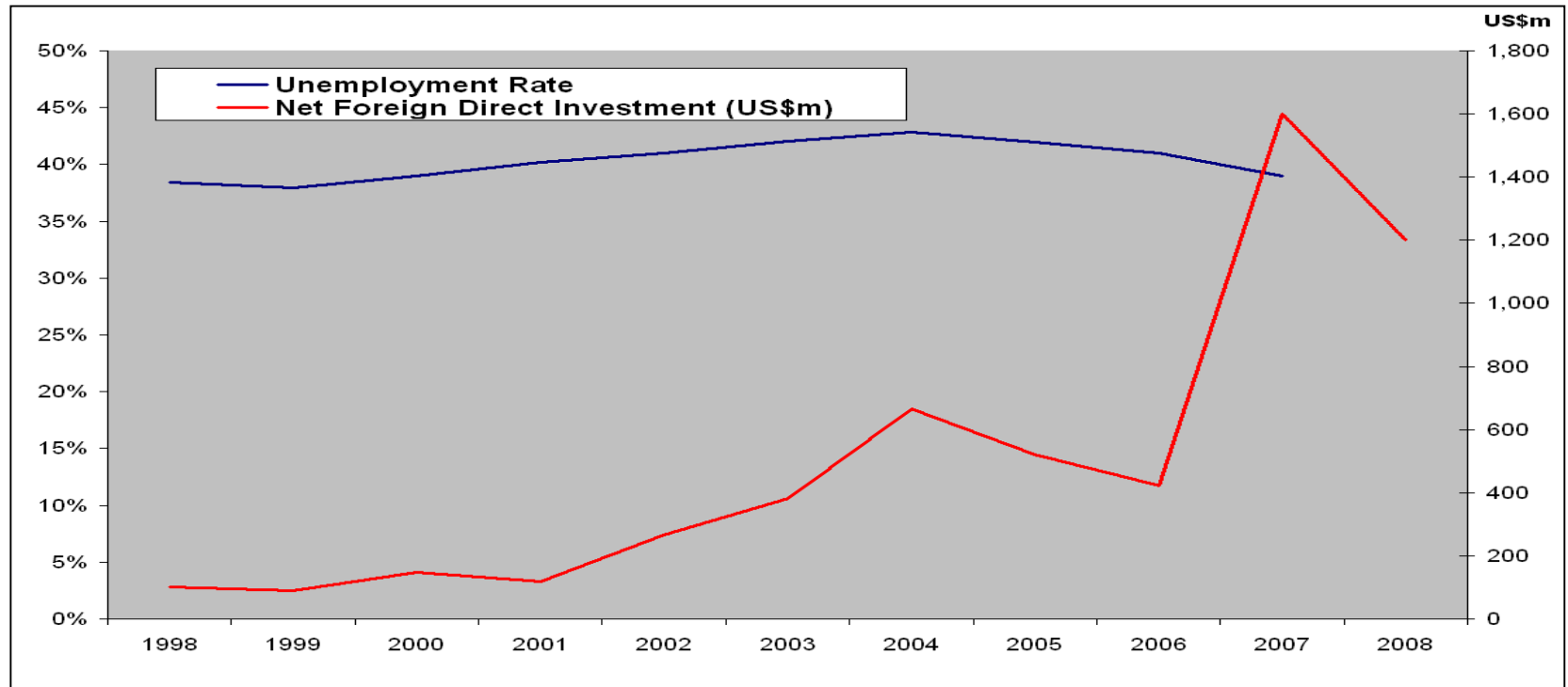
During difficult periods of the conflict, public sector financial support and employment underpinned the economy



# Economics in Peacemaking: Bosnia and Herzegovina

Not a parallel but we can learn important lessons

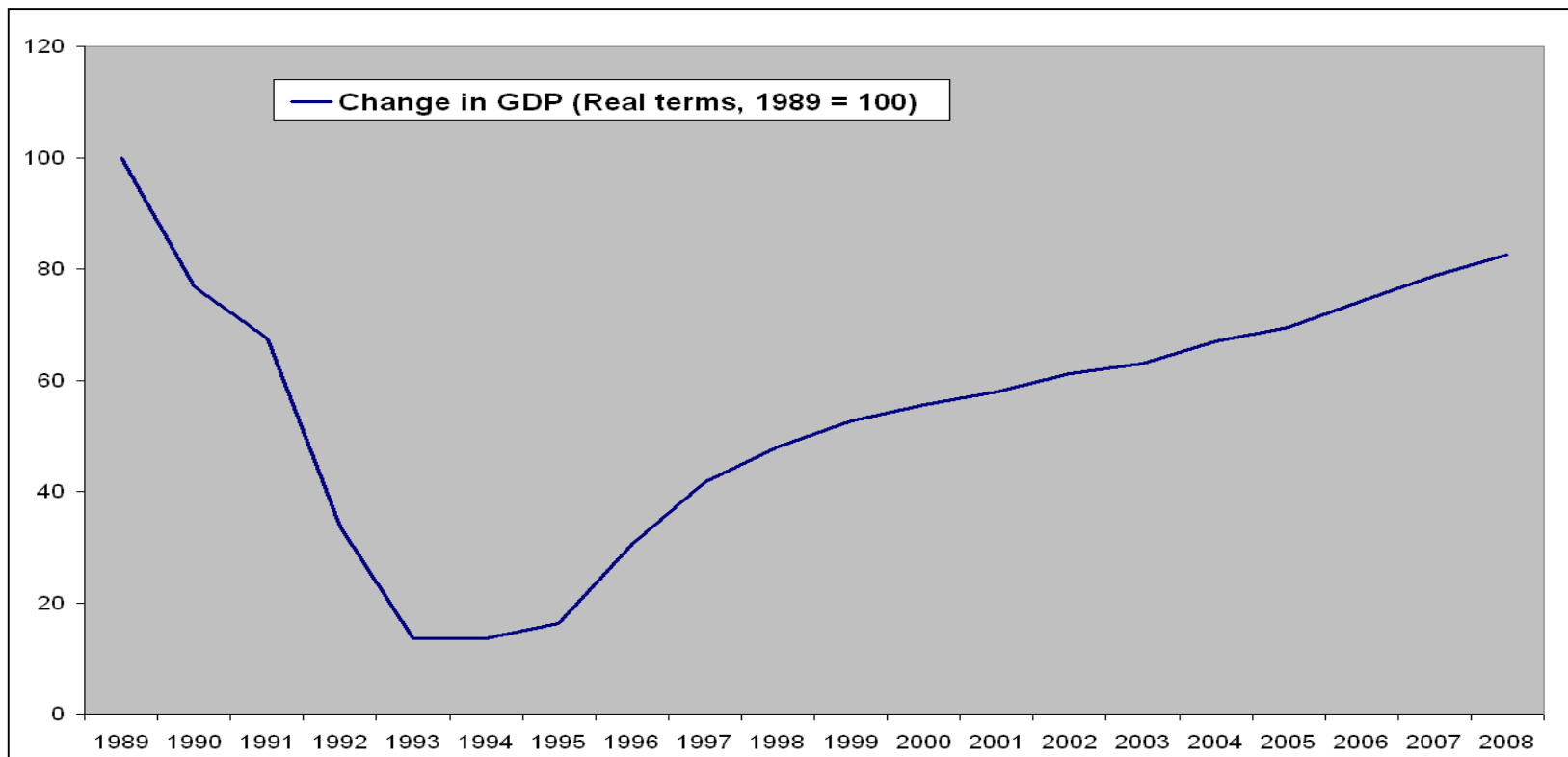
Because inward investment was difficult to attract, the economy remains weak with high unemployment.



# Economics in Peacemaking: Bosnia and Herzegovina

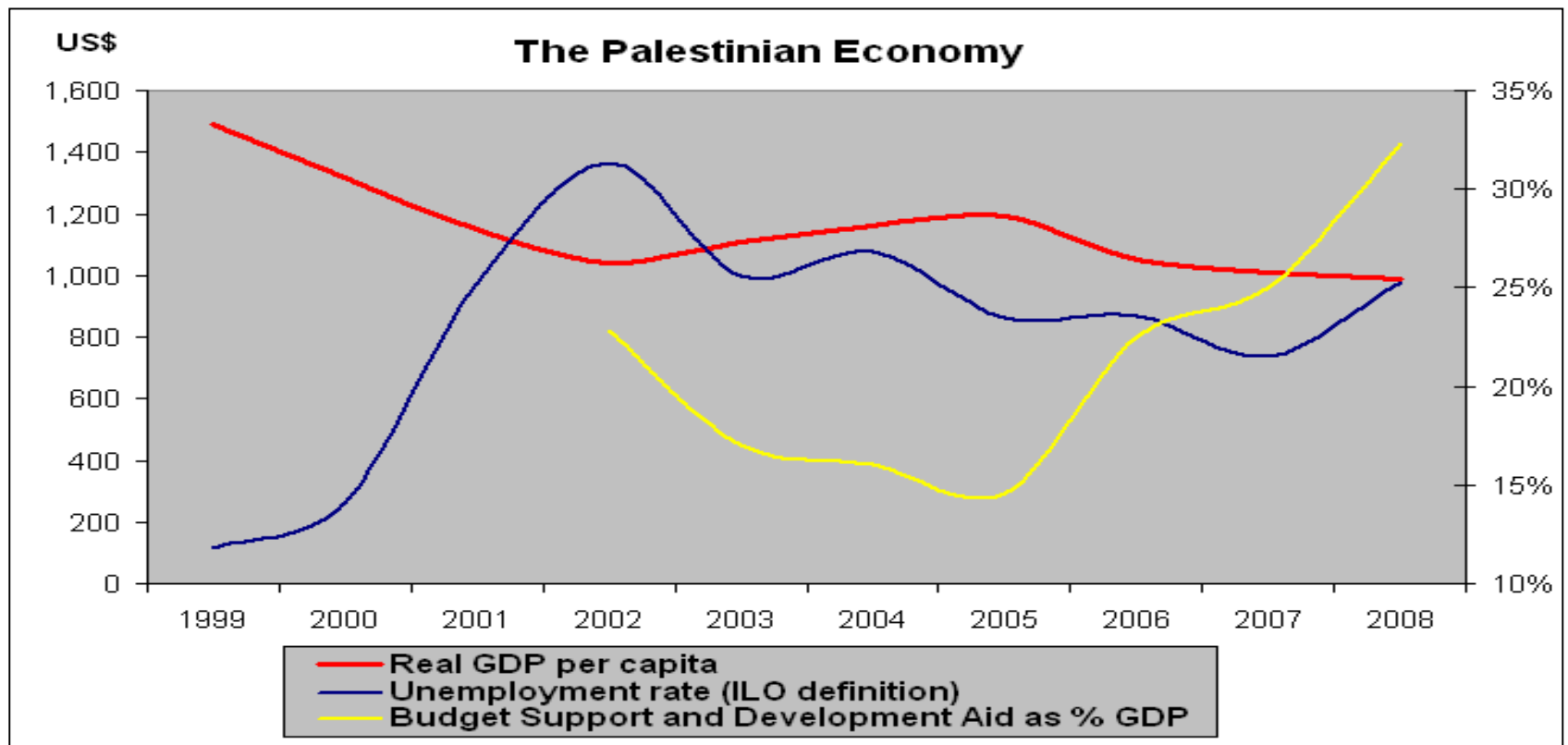
## Not a parallel but we can learn important lessons

- 1995 Dayton Peace Accords ended the war by creating two ethnic entities.
- Despite \$6 billion + of international assistance (1996 – 2003) real level of GDP is 20% lower than 1989.



# Challenges to the Palestinian Economy in 2009

- High population growth and a shrinking economy means real GDP per capita is a third less than 1999.
- The economy is becoming increasingly aid dependent, investment is low and unemployment is high.



# Creating the right economic environment

- Palestinian Authority has made significant progress in its reform effort:
  - Reduced budget deficit from 27% of GDP in 2007 to 23% in 2008
  - Reduced government employment by 22% from 180,000 in 2007 to 141,000 in 2008.
- The donor community has provided approx \$2.5 billion of support to the Palestinians in 2008 of which 70% is in budget support
- An investment agenda has been pursued:
  - International investment conference held in Bethlehem, Nablus and London
  - Over \$1 billion of investment announced including a 5,000 unit new town outside Ramallah and the launch of the second mobile phone operator Wataniya.
- There has been a significant increase in tourism in the West Bank, with 1.2 million visitors to Bethlehem and Jericho in 2008, double 2007 for Bethlehem a 40% increase for Jericho.



# **Palestinian Economy: A Coiled Spring**

- The Palestinian economy is like a coiled spring, ready to spring back.
- It could grow to three times its current size and quickly.
- The foundations for telecommunications, pharmaceuticals and finance are established.
- Donor money can attract capital into the private sector by improving the risk/return profile and underpinning the debt and equity capital needed.

# Private Sector Development

The Portland Trust has been supporting Palestinian efforts to develop the private sector in these areas:

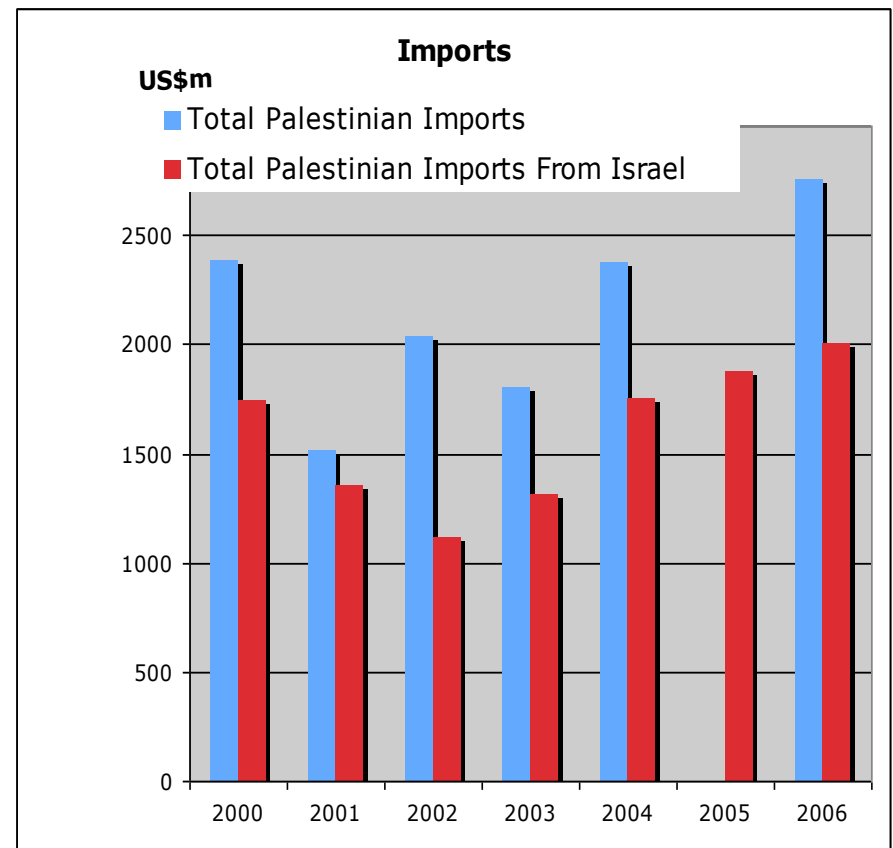
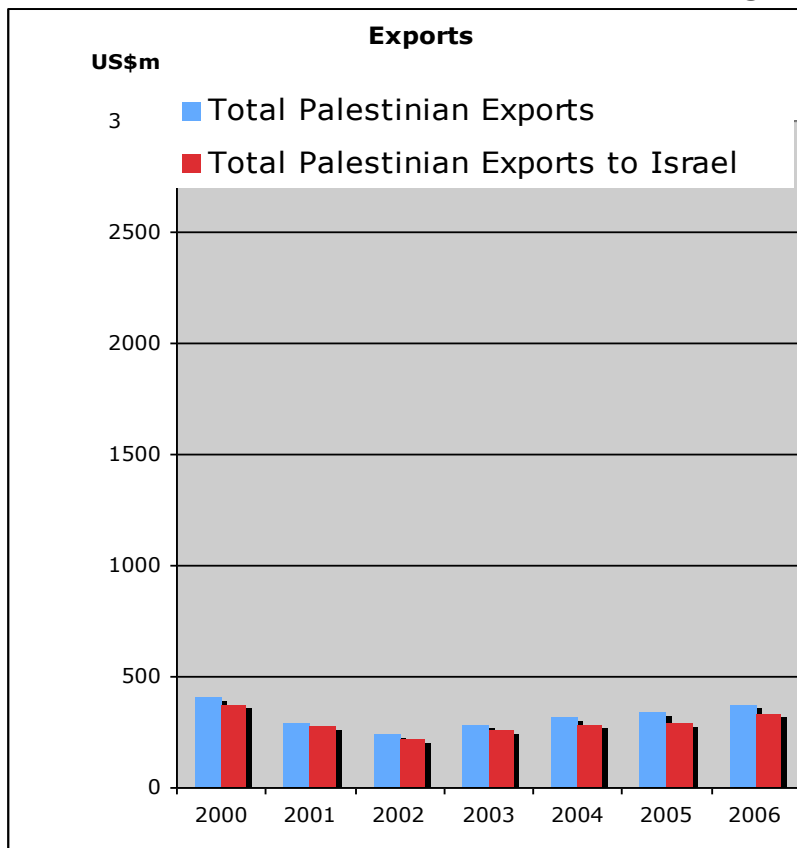
- **Loan Guarantee Scheme:** capacity of \$300 million of loans to the private sector to fund SME expansion
- **Microfinance:** support for the Microfinance Network
- **Private Sector Pensions:** draft legislation for a modern scheme to provide long term capital
- **Affordable Housing** – \$1bn programme to build 15,000 affordable homes in six new West Bank communities:
  - Increases GDP by 1.5% p.a. for each of 5 years
  - Thousands of new jobs
  - Improves the lives of over 200,000 Palestinians

# The Private Sector Challenge in Gaza

- 95-97% of firms have closed and more than 65,000 jobs have been lost.
- Finance for private sector recovery needed from the outset.
- Soft loans rather than grants are best way to inject funds for a business driven recovery.
- A package for the Gazan private sector should include, at the right time:
  - Compensation packages for businesses and factories
  - Capital provision into the banking sector
  - Microfinance
  - An investment fund

# Openness to trade and investment

- 2008 GDP growth is estimated at 0.8% and expected to be negative in 2009
- No future for economy without an openness to trade and investment
- Israel remains the main trading partner of the Palestinians.



# Openness to trade and investment (cont.)

- Palestinian economy has a number of Free Trade Agreements (FTAs) with Arab states, the EU, US, Canada, Turkey – effectively 75% of the world's economy.
- However, there are two constraints on Palestinian trade:
  - Access to market through low volume checkpoints.
  - Capacity of Palestinian exporters.
- Portland Trust with others has recently established Israeli-Palestinian Chamber of Commerce to promote business and facilitate trade.

# **The Portland Trust**

42 Portland Place  
London W1B 1NB

Azrieli 3  
132 Menachem Begin Road  
Tel Aviv 67023

P.O. Box Al Bireh 4102  
Ramallah Al Masyoun

Website: [www.portlandtrust.org](http://www.portlandtrust.org)