

WHY INVESTING IN PALESTINE?

MANY REASONS WHY DOING BUSINESS IN PALESTINE
IS A UNIQUE OPPORTUNITY



A positive business and investment environment

Not only has Palestine a skilled workforce at its disposal; it also impresses with an efficient banking system and the availability of needed infrastructure throughout all sectors and in almost the whole country. As indicated by the World Bank, the West Bank and Gaza business environment is highly favorable compared with much of the rest of the region. Palestine performed particularly well in terms of protecting investors (49th globally and 4th regionally) and paying taxes (55th globally and 10th regionally). The framework for investors' protection is the Investment Promotion Law, with the Palestinian Investment Promotion Agency as responsible body for investment promotion and extensive assistance to investors. The Palestinian Industrial Estate and Free Zone Authority (PIEFZA) is responsible for the investment and supervision of investments in the industrial estates.

INVESTMENT PROMOTION LAW: Terms of the Investment Promotion Law are very competitive when compared with similar regimes in the region and the world. Under the law, a new company can benefit from up to 100% exemption on income taxes for a period of 5 years, with an additional period of 2-12 years at a nominal tax rate depending on the type and value of the investment. More detailed, the law comprises the following guarantees and incentives:

1. Unrestricted movement of all their financial resources, including capital, profits, dividends, capital gains, wages, benefits, debt payments, administrative fees, technical assistance and compensation for the cancellation of licenses and others.
2. The project's fixed assets are exempted from taxes and customs under the condition the assets are brought in for the project.
3. The project's imported spare parts are exempted from taxes and customs, provided that its value does not formulate more than 15% of the value of fixed assets that were brought in for the project.
4. Any investment between US\$100,000 and US\$1,000,000 is granted an income tax exemption for the period of 5 years beginning from the start of production, and it shall be subject to income tax on net gains of nominal value reaching a maximum of 10% for an additional period reaching 8 years, beyond the first 5 years.
5. Any investment between US\$1,000,000 and US\$5,000,000 is granted an income tax exemption for the period of 5 years beginning from the start of production and it will be subject to Income tax on net gains of nominal value reaching a maximum of 10% for an additional period of 12 years, beyond the first 5 years.
6. Any investment with a value of US\$5,000,000 or more is exempted from income tax for a period of 5 years beginning from the date of production. It shall be subject to income tax on net gains of nominal value reaching a maximum of 10% for an additional period of 16 years, beyond the first 5 years.

PIPA/PIEFZA: PIPA 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.

PIEFZA was established to promote and supervise investments in industrial estates. The recently established Agro – Industrial Park in Jericho provides a very attractive package for investment, Bethlehem Industrial Estate is under development and provides a competitive package for investors, and work is in process to start developing Jenin Industrial Estate.

Palestine has free trade agreements with global economic players

ARAB COUNTRIES: Contributing towards establishing the Arab Common Market, the Greater Arab Free Trade Area (GAFTA) is one of the most important economic achievements in the area of Arab common work. As of January 1st, 2005, Palestinian exports enjoy duty free quota free entry for all industrial and agricultural goods to all Arab countries in GAFTA.

EU: The Interim Agreement on Trade and Cooperation with the European Union (IAA) between the Palestine Liberation Organization (PLO) and the European Commission to the benefit of Palestinian Authority provides, since January 2012, a duty free, quota free regime for the import of Palestinian industrial, agricultural, processed foods, and fish and fishery products to the 28 EU countries.

The European Neighborhood Policy (ENP) provides further opportunities to the Palestinian Authority to strengthen economic cooperation with the EU. Key objectives of cooperation include the facilitated access for Palestinian exports to Euro-Mediterranean markets, the support of the Palestinian private sector, and the integration of the Palestinian economy in the multilateral trading system.

EFTA STATES: In the framework of the Interim Agreement between the EFTA States – Iceland, Liechtenstein, Norway, and Switzerland - and the Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority, Palestinian industrial exports enjoy duty free, quota free entry to all EFTA countries. Furthermore, separate bilateral agreements on agriculture have been concluded.

TURKEY: The substance of the Interim Agreement between Turkey and Palestine is related to duty free, quota free entry of industrial products to Turkey, and duty free entry for determined agricultural and fishery products.

MERCOSUR: In 2011, Palestine signed a free trade agreement with Mercosur, which provides duty free trade of goods with Brazil, Uruguay, Paraguay and Argentina.

ISRAEL: The economic agreement with Israel (Paris Protocol), which resembles somehow a customs union, is an economic agreement on relations between the government of the state of Israel and the State of Palestine. It provides the basis for the free exchange of goods between both parties with no tariff or non-tariff barriers what so ever.

USA/CANADA: The free trade arrangements with the United States and Canada are considered an extension of the free trade agreements signed with Israel, which allow for the entry of products of both parties into their respective markets exempted from duties.

MOROCCO/EGYPT/JORDAN/TUNISIA: Palestine has joined the Agadir agreement, which has opened the door for Palestine to be part of the cumulation of origin with other members of the agreement for products targeting the EU market.

Besides the creation of free trade areas, the economic agreements and arrangements also include financial and technical assistance for Palestine, cooperation between small and medium size companies, investment cooperation, cooperation with regard to IPR, competition, standards and conformity assessment, government procurement, etc.

Numerous incentive programs

Besides the incentives provided in the framework of the Investment Promotion Law, local and foreign investors can benefit from further loans and grants as listed below:

FRENCH LOAN/GRANT: The French Grant is set up to facilitate the financing of small and medium sized projects and the establishment of SMEs in the fields of industry, tourism, agriculture and services, or the modernization and the strengthening of existing private Palestinian companies.

ITALIAN LOAN: The Italian Credit Line aims to providing soft loans for Palestinian SMEs to finance purchasing equipment and services of Italian origin within the sectors of industry and the food processing and agricultural industry, and related services to those sectors.

THE EUROPEAN PALESTINIAN CREDIT GUARANTEE FUND (EPCGF): This fund, supported by the European Commission, Germany and the European Investment Bank, aims to help SMEs in Palestine to overcome credit difficulties.

THE LOAN GUARANTEE FACILITY (LGF) FOR SMEs: Through this project, Palestine Investment Fund (PIF) and its partners provide banks working in Palestine with guarantees to encourage them to grant loans to small and medium-size enterprises throughout Palestine.

FURTHER PROGRAMS: In the past years, the international community has provided strong support to the Palestinian private sector, including through financial, technical, economic and other assistance in the past years. The most important of them are UNSCO, the Office of the Quartet Representative, the European Union, the World Bank, USAID and OPIC, the French Agency for Development (AFD), German Agency for International Cooperation (GIZ) and the Department for International Development (DFID) in the UK, and the Arab Fund for Economic and Social Development.

Current programs allocated with international development assistance are, for example, the *Trade Diversification/Competitiveness Enhancement program*, which aims at supporting the Palestinian private sector in reaching new markets and developing their marketing strategies. Palestinian companies can further participate in the *Cluster program*, which aims at structuring productive sectors/sub-sectors with high potential, by the creation of linkages between the stakeholders of the same value chain on a defined territory through the cluster approach and (2) an improvement of public-private dialogue. Finally, the recently finalized *National Export Strategy (NES)* is expected to mobilize a range of incentives in line with the identified priority sectors and export strategies.

Protection of investments from political risk and other hazards

Investment Guarantee Fund / MIGA

In November 2008, the PNA signed an agreement with the World Bank that provides for guarantees to local and foreign investments in the West Bank and Gaza. The fund is administered by the Multilateral Investment Guarantee Agency (MIGA), a member of the World Bank Group specializing in the field of political risk insurance. MIGA covers risks related to currency inconvertibility and transfer restriction, expropriation and political risk.

The Political Risk Insurance in Partnership with OPIC: In 2005, President Bill Clinton initiated the Palestinian Political Risk Insurance (PPRI). Within PPRI a number of experts in the domain of administration, insurance and politics started forming mechanisms and tools for promoting the development of the Palestinian economy. Furthermore, it protects against losses resulting from trade disruption and political violence and allows businesses to benefit from investment potential in Palestine. PPRI established a funding committee from the private and public sectors, the Special Investments Committee and MEIJ.

Huge investment opportunities in many sectors

Palestine is an uprising economy with stable annual GDP growth rates, an excellent investment environment and huge potential for further growth in many sectors. Since 2005, the average annual growth rate of the GDP was 7.5 percent and investors have benefitted from a high and stable return on investments, which has reached between 6.09 and 6.92 percent in the years 2007 until 2012. The company register identified 211 companies of foreign private shareholders with a total capital of 1.8 billion USD.

As outlined above, Palestine enjoys numerous advantages that make it a highly interesting destination for investment: The strategic geographic location of Palestine, the presence of a skilled and young labor force, along with the attractive incentive packages provided by the International Community, numerous free trade agreements with the main trading partners all over the world, the industrial states incentives, strongly encouraging governmental policies for trade and investment in the framework of the Palestinian Investment Promotion Law and investment guarantees and insurance from local and international institutions.

In the past years, almost all sectors in the Palestinian economy have experienced high growth rates. Currently, investment opportunities are located in a wide range of economic sectors:

CONSTRUCTION

The importance of the real estate sector is evident: With its contribution of 14.1% to economic activities in the West Bank and Gaza Strip, it is the most important sector after services. Because it is linked to numerous sectors, including trade, tourism, mining, manufacturing, etc., the real estate and construction sector has grown by almost 700 percent since 2005.

INVESTMENT OPPORTUNITIES:

1. *Housing* has become a growing need in the West Bank, Gaza Strip and East Jerusalem. In the West Bank, recent projects such as Rawabi have successfully been implemented and given a positive example for further investments in housing projects.
2. In East Jerusalem, the need for *housing* has been a key issue since many years. Opportunities exist in housing projects for middle class Palestinian Jerusalemites and residential buildings for nearby consulates, diplomatic missions, international organizations and their employees. Furthermore, opportunities exist for entrepreneurs able to access the lengthy process necessary to obtain authorizations, raise the required financing and secure the proper technology. The establishment of specialized services businesses to secure the authorities' construction licenses offers further opportunities.
3. Construction management for the overall planning, coordination and control of a project

PUBLIC TRANSPORT

As the Palestinians plan to build their own state, the private sector will play a key role in developing the infrastructure in the public transportation sector and its sub-sectors.

INVESTMENT OPPORTUNITIES:

1. *Taxis and buses* are potential areas for increase, especially for shared taxis, including services to rural areas.
2. On the other hand, the investment opportunities for *land border crossings* are highly significant in view of the plan to build a Palestinian state, which includes investment in planning and design work, rehabilitation and construction, support services for the handling of goods including storage, lifting, concessionary services provided to persons including shops, cafes, parking facilities, etc., the transportation of people and goods to and from the crossings.
3. Finally, it is important to note that the potential role that the private sector can play in the development and operation of *rail, seaports and airports* should be studied to maximize the potential benefits.

STONE AND MARBLE

Stone and marble products have good potential based on its large value of exports, a large number of existing export markets, a strong supply base and solid global demand. Palestinian stone and marble is in high demand in international markets, particularly the bright colored natural lime stone. The sector is a priority sector and therefore part of Palestine's National Export Strategy (NES), which benefits from preferential treatment to all countries that Palestine has concluded trade agreements/arrangements with. In addition, the sector will receive continued support from the national partners the wider trade support network in Palestine in terms of product development, market assessments, and risk mitigation.

INVESTMENT OPPORTUNITIES:

1. There is a great need for creating a **PLANT FOR THE REPROCESSING OF WASTE STONE**: Annually, the Stone and Marble industry produces half a million cups of waste stone. The reprocessing of waste stone would provide new products for the plastic pipes and cement industries, paints and insulators for walls and ceilings, not to mention the positive environmental effects of making use of the harmful waste stone.
2. Furthermore, the **ESTABLISHMENT OF A POLISHING AND FINISHING FACTORY** for the Stone and Marble sector is a great opportunity, since around 90% of all related factories don't have precise polishing technologies for the stone.
3. Antique Marble manufacturing and cultured marble manufacturing are areas of potential investment as highlighted by many businesses in the sector.
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AGRI-BUSINESS / DAIRY

Agricultural products include olives, citrus fruits, vegetables, flowers and strawberries, and medicinal herbs, have accounted the larger part of priority sectors in the Palestinian NES, high value added, high quality agricultural products are exported to the US, EU and Gulf markets and are gaining larger market shares on yearly bases. The particularly high growth potential of the processed meat sub-sector has been identified in the Palestinian NES. The quota free, duty free entry for these products since 2012 provides huge export potential in the EU markets for the high value added agricultural products.

INVESTMENT OPPORTUNITIES:

1. Because there are no CANNING FACTORIES FOR AGRICULTURAL AND FOOD PRODUCTS except for pickles, there is a need for investment in establishing such factories. Three factories are currently operating in the field, but they are limited to the pickles sector only.
2. There is a raw material required for the dairy industry that is related to cow's milk only. Because of the lack of MILK COW FARMING, the local Palestinian market can supply only 40 percent of this raw material, and the rest is imported from Israel. For this reason, investment in dairy cow farming in Palestine provides great opportunities.
3. Filling and packaging center for natural herbs
4. Establishment of a marketing company for agricultural goods.
5. Factory for instant yeast in Gaza Strip

PROCESSED MEAT / FISHERY

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INVESTMENT OPPORTUNITIES:

1. Because there are no TURKEY FARMS AND SLAUGHTERHOUSES in Palestine, all turkey products are imported from Israel. 14 factories in Palestine are operating in the cold cuts sector which requires the import of the raw material 'NDM' from Israeli suppliers. Since Israel's major target market for turkey products is the USA, the Palestinian production can enjoy duty free access to the US markets too, in addition many promising opportunities in the regional markets especially the Gulf countries where Palestinian products enjoy duty free access.
2. Feed factory plant
3. Cattle breeding farm
4. Poultry feed plant in Gaza Strip
5. Fish farm in the West Bank

HANDICRAFT

Handicraft production facilities and individual producers are scattered all over the West Bank and Gaza Strip. The sector is composed of diversified production facilities and product types, classified as oriental handicrafts, olive wood carving, and mother of pearl, ceramics, glass works, pottery, embroidery, carpet knitting, wax products, accessories jewelry and other handmade products. The religious importance of Bethlehem has led to a predominant role of this city for handicraft producers. Hebron is famous for family owned pottery, glass and ceramic workshops.

INVESTMENT OPPORTUNITIES:

1. The creation of a COMPANY THAT PROVIDES SPECIALIZED MARKETING AND EXPORT SERVICES to the local workshops interested in exporting handicraft products.
2. The establishment of a COMPANY SPECIALIZED IN DRYING WOOD: For the quality production of wood handicraft, it is essential that the wood is dry. Currently, there is no drying company in Palestine. A local drying company could offer services to around 100 workshops in the handicraft sector.
3. The supply of 3D DEVICES to reach high quality and accuracy in the finishing and design of handicraft products. The availability of machines using 3D technology would considerably enhance the competitiveness of Palestinian handicraft in the foreign market.

PHARMACEUTICAL SECTOR

Considerable investments in facilities and equipment to comply with international standards and requirements have led to a high diversification of targeted import countries in the global market, a high technological level, and the capability to satisfy the overwhelming regional demand for its associated products. Over the last 25 years, Palestinian pharmaceutical companies have expanded capacities and product lines at a rate of 7-10 percent per annum. In this context, the pharmaceutical sector has been identified as one of the priority sectors in the NES. It has the highest export potential rank among the Palestinian export products and the sector is exporting its products to a large number of countries including the EU.

INVESTMENT OPPORTUNITIES: There is a need to invest in the PRODUCTION OF DRUGS FOR THE TREATMENT OF CANCER.

LEATHER AND FOOTWEAR

The leather and footwear industry, as one of the identified priority sectors within the NES, is largely concentrated in Hebron with 10 tanneries and 420 businesses. The sector produces high quality products, including casual shoes, tennis shoes, women's and children's slippers, sandals and hand and travel bags, and exports to Europe, Jordan and Saudi Arabia.

INVESTMENT OPPORTUNITIES:

1. The leather and shoes sector currently fully depends on the import of INSOLES, INDUSTRIAL LEATHER AND ADHESIVES. For this reason, there is a need to create factories in order to supply the local leather and shoes market with these three products.
2. Center for leather and footwear design.
3. Establishment of a company in charge of sales and promotion.

PAPER INDUSTRY

This industry goes back to the early parts of the last century and has shown a great development after mid-nineties. In the printing sector, almost 90% of the market volume is Palestinian. The number of operating firms increased to 300 firms, with about 140 firms being active players in the industry. In recent years, the sector experienced a great shift towards quality production, with large investments that were seen in the cities of Nablus, Hebron and Ramallah.

INVESTMENT OPPORTUNITIES:

1. The import of raw material for the paper production is unorganized and costly, and requires therefore the establishment of a company specialized on the import of raw paper.
2. The establishment of maintenance systems for the relevant equipment in the paper industry.
3. There is a need to create a packaging center for the paper industry.
4. Paper cutting factory.

TEXTILE AND GARMENTS

This sector largely consists of sub-contract manufacturing for international brands, with a highly skilled labor force and quality of production. The sector is a priority sector that is part of Palestine's NES. The free trade agreements Palestine has opened the door wide for many investments targeting niche markets in the regional and international markets.

INVESTMENT OPPORTUNITIES:

1. Investment in MODERN TECHNOLOGY AND MACHINES considerably increases the production capacity of the sector.
2. DESIGN CENTER for textile and garments.
3. Knitting workshop for women and girls clothes

CHEMICAL INDUSTRIES

This sector is comprised by three major categories: paints and ink, detergents and cosmetics, and recently, a growing tendency was noticed in developing these products. The industry is spread all over the West Bank, with a total number of 60 firms. Cosmetics are the most exported products, and export opportunities exist in markets like Jordan, Algeria, Gulf States and Yemen.

INVESTMENT OPPORTUNITIES: In this sector it is crucial to invest in COMPLEMENTARY INDUSTRIES FOR THE SUPPLY OF RAW MATERIALS, e.g. oil and calcium carbonate. The establishment of factories that provide the chemical industries sector with such raw materials will decrease the dependency of the sector on imports and therefore decrease production costs.

ICT

The Palestinian ICT sector, as one of the priority sectors in the NES, is the fastest growing sector in Palestine. It benefits from a well-educated and skilled workforce, low costs for human resources compared to other countries in the region, an excellent infrastructure in the telecommunication sector, and high recognition in the past years both in Palestine and in the rest of the world. In recent years there has been an increase in the number of companies, as well as inward investment from international companies such as Cisco and Intel. A good example for the potential of the sector is Al-Wataniya Mobile, which is a foreign and local investment as the second cellular phone operator in Palestine.

INVESTMENT OPPORTUNITIES:

1. There are many success stories about business process outsourcing (BPO) projects of Israeli ICT companies that have established back-offices in Palestine. The Palestinian ICT sector is highly advanced and ready for international markets other than Israel, and BPO projects with foreign investors offer great investment opportunities.
2. The establishment of a company for animated media as a business idea.
3. Creating a training center for fresh graduates and existing employees in the sector to enhance skills and capacities.
4. Within the ICT sector, the development of postal services is considered a key area for investment.

TOURISM

Palestine not only provides tourists with an opportunity to bask in the glow of its many religious and historical monuments, but also with a unique geography and a very favorable weather year-round, in which to enjoy their vacation. With an improvement in the security situation, the tourist industry has proven to be an important growth sector. The World Bank estimated that given the political stability, Palestinian industry can expect to receive between 500,000 and 1,000,000 tourists annually. The sector has not only realized but surpassed this target, with approximately 2 million tourists in 2010. Domestic and foreign investments therefore have a great opportunity to modernize the sector and expand its scope, which in turn will have pulling effects on numerous sectors such as real estate (hotel development), tour operators and guides, handicraft, wholesale and retail, car rental, cultural events, restaurants etc.

INVESTMENT OPPORTUNITIES:

1. Since tourism in Palestine is mostly related to religion and pilgrimage, it is important to invest in additional services, such as culture, sports, leisure and entertainment, amongst others. In this context, the establishment of a HIGH STANDARD WATER PARK with waterslides, relaxing zones and attractions, international and local food and beverage and live entertainment is an excellent business idea. Furthermore, the creation of a SPORTS CITY can be targeted, with sports academies, soccer pitches, a swimming center with an Olympic swimming pool, a thalassotherapy center, and indoors sports services center.
2. In East Jerusalem, tourism is the major economic sector, covering around 40 percent of all economic activities. Since 2005, the tourism industry has experienced steady growth rates. With 3.2 million annual visitors it has even exceeded the peak number of tourists from 2000. Consequently, the value of the hotel market has increased and continues to increase, reaching an estimated 1 billion USD from foreign tourism only. Investments in the REHABILITATION OF HOTELS have recently shown great success and significantly increased the number of visitors in the city, e.g. in the case of St. George Landmark Hotel. Further wide-scale hotel construction and rehabilitation therefore offers promising investment opportunities.
3. Investing in establishing a HOTEL SCHOOL will considerably enhance the capacities of the local hospitality market, and create a well-trained and professional workforce in the tourism sector.

RENEWABLE ENERGY AND WATER

The plan to build a state includes enabling the Palestinians throughout their whole national territory to build utility networks, including national and regional networks that are capable of delivering sustainable supplies of energy and water.

INVESTMENT OPPORTUNITIES:

1. Investments in desalination plants and the development of local electricity generation capacity, along with a responsible and sustainable use and conservation of the Palestinian natural resources are priority issues.
2. The establishment of fuel storage facilities in the West Bank and Gaza Strip.
3. The extensive rehabilitation of water wells and water supply networks, the properly regulated drilling of new wells, as well as wastewater treatment facilities and efficient rainwater harvesting and irrigation systems are further key areas of investment.

EDUCATION

The lack of facilities and schools provides significant opportunities. Promising areas of investment are:

1. Higher education institutions tied to the identified growth sectors, especially tourism, health, construction and ICT.
2. Furthermore, given the shortage of public educational institutions and a 3.3 percent annual growth rate in East Jerusalem, the potential for education development looks promising. Investment in private schools is therefore an excellent opportunity.

OTHER OPPORTUNITIES

FINANCIAL SECTOR: Venture Capital financing to invest money in startup firms and small businesses with perceived long-term growth potential could be targeting specific sectors. Furthermore, the creation of an investment bank, that acts as a broker for institutional clients and as an intermediary between an issuer of securities and the investing public to facilitate mergers and other corporate reorganizations.

BUSINESS RELATED SECTOR: Accounting processing for global auditing companies (BPO);

WASTE MANAGEMENT: Private sector involvement in waste management could offer significant business opportunities, including tires recycling, medical waste recycling, paper recycling factory and a plastic recycling factory in Gaza Strip.

HEALTH: Medicine Development Center; A company for medical consulting to provide specialized consulting services and trainings for hospitals, clinics and socio medical centers.

PACKAGING CENTER

NAPPIES FACTORY IN GAZA STRIP

REINFORCED CONCRETE FACTORY IN GAZA STRIP

ENTERTAINMENT/SPORTS: The establishment of a games center or an entertainment Park for children in Gaza Strip offers business opportunities, as well as the development of a games children's center, a garden Park and a sports club in East Jerusalem.

COMMERCIAL CENTER in East Jerusalem