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Attorneys and Counselors at Law

Congress of the United States
House of Representatives
Committee on International Relations
Chairman, Henry J. Hyde

Palestinian Private Sector

Prepared by: Attorney Dr. Hiba Husseini

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53 Irsal St. Awwad Bldg, 3rd Floor, Ramallah, Palestine
Tel (970/972) (2) 296-1733, Fax (970/972) (2) 296-0244
info@husseini.com, www.husseini.l.com



**The Honorable Henry J. Hyde, Chairman
Committee members**

I testify before this Committee on behalf of 99% of the Palestinian businesses who want to grow, prosper and build a viable Palestinian economy. These businesses have made huge investments in the West Bank/Gaza Strip. Today, they face a struggle to merely survive. And, yet despite the formidable challenges posed by curfews, checkpoints, border closure and restrictions on the movement of goods and people, they have a clear vision of the future but cannot achieve it on their own. They need assistance that facilitates financing and capital mobilization. President Bush, in his speech on June 24, called for a Palestinian state three years from now. A state needs an economy and our private sector can build this economy. The economy, however, cannot wait three years. We must start today.

Introduction

When the peace process was launched in 1993, a vibrant private sector in Palestine was regarded as a powerful force to create a competitive economic environment. The Palestinian private sector was rightly viewed as the engine of economic growth, jobs, and increased living standards for the Palestinian people. When the Oslo Agreement was signed here on the lawn of the White House, the energy and drive of the business community was unsurpassed. I will give you an example. A group of Palestinian businessmen from the Diaspora was able to raise \$180 million (over the phone) to form a holding company that invested this seed money to create: the telecom companies (fixed and cellular), the Palestine Securities Exchange, the Gaza Industrial Estates, the Bethlehem Jacir Palace Hotel (Intercontinental), the largest real estate company and numerous industrial plants. Scores of other medium size, and hundreds of small businesses sprung up; thousands of jobs were created.

Without a doubt, the path for private sector-led economic growth was laid down between 1995 and 2000, despite the political setbacks and Israeli closures experienced in 1997. The jobs created then started a cycle for a much needed domestic employment of the ever-increasing Palestinian working force. Palestinians needed to progressively reduce reliance on external economic and political factors that affect the domestic labor force. The macroeconomic indicators showed progress.

The commitment of the private sector triggered a dynamic capital inflow to the Palestinian market. With the emergence of globalization, the Palestinian business community was positioning itself to become a participant in world markets. Today, it faces severe hardship which, if not reversed, will inevitably



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lead to increasing hardship for the Palestinian people, and continued turmoil in the Middle East. The Palestinian economy faces unprecedented unemployment and, for the first time in history, Palestinians are starving. Recent World Bank reports have cited cases of mal-nutrition.

The Palestinian economy and its private sector have been in crisis since September 28, 2000, and with the Israeli incursions in March 2002, are on the verge of collapse. The restrictions on movement of workers, people and goods by the Israeli Defense Force (IDF) have led to a dramatic increase in business failures. Many businesses are facing failure because of reduced demand and restricted access to raw materials and markets.

Although much of the entrepreneurial resilience of the Palestinian private sector is still evident, few businesses are currently able to maintain break-even levels of operation. Internal and external closures, curfews, logistics delays, and administrative barriers produced several damaging economic results. Businesses are defaulting on loans and banks have ceased lending. An illustration of the adverse effect includes:

- Per capita income has declined an estimated US\$2.4 billion in Palestinian GNI by March 2002. This is equivalent to 1/3 of the annual GNI and over 50% of the GDP.
- Infrastructure losses reached at least US\$305 million.
- Over 50% of the population are living below the poverty line which is US\$2 per day.
- 70% of the Palestinian private sector labor force is currently unemployed.
- Basic utilities and physical infrastructure such as water, electricity generation and grids, solid waste disposal stations, road networks, as well as public and private institutions suffered direct losses estimated at US\$360 million.
- Cash flows of private sector enterprises have been substantially curtailed while, at the same time, they have obligations towards creditors and employees. Businesses are defaulting on loans to lenders. The banking industry as a result is experiencing adverse conditions and has stopped all lending.
- Investments in all productive sectors of the economy have been severely curtailed, if not forced to stop, including agriculture, tourism, manufacturing, production, and construction.
- Import and export activity has come to a near standstill.
- The net result is that the private sector in the Palestinian economy is the hardest hit, contrary to the repeatedly and publicly stated Israeli policy that the private sector is not the target of their measures.



Future Outlook

It was a strong sense of commitment that brought private sector investments to Palestine, and it is this very spirit that continues to hold sway among private entrepreneurs today. Hope, despite the hardship, and faith, despite the losses, remain central to the resilience of the private sector. Its long-standing interests have not wavered. Core to all businesses is to ride out this period in anticipation of better times. This resilience is very particular to Palestinians: Our people do not just fold and give up. This long-term commitment prevents total flight of capital.

Tenacity and resilience cannot stand-alone. Support becomes crucial and must not be cut off. The strategic outlook of the US for the Palestinian private sector has had tremendous impact on growth and development between 1993-present. It is the private sector, with promise of improved times, that will match this support and result in a qualitative shift.

The private sector wants peace—like every other business community, its wants to make money and increase cash flows. A close look at the nature of investments over the past 8 years shows that the private sector had strategic goals that required large multi-million capital commitments including telecommunications, IT, industrial zones, tourism, pharmaceuticals, stone and marble, food and beverage, among others. Many businesses entered into joint ventures with multinationals and, despite the inherit risks, the private sector maintained its interest. Today, the private sector is drawing damage control plans. It has decided to remain invested. No where else in the world, under a similar collapse of the private sector, would business decide to remain active. This is the nature of the Palestinian spirit and this is what we need support for. We need to sustain it in anticipation of better times.

The Palestinian private sector pioneered privatization in the Arab World. The Palestinian private sector played a key role in directing official policy regarding investment and finance of the infrastructure. It leap-frogged the tradition of having the government establish telecommunications, industrial zones, power plants, stock market, pharmaceuticals, just to name a few. It is also remarkable what the private sector accomplished in the past 8 years.

United States Support

To sustain the survivability of the Palestinian private sector and create sustainable economic development, United States support is critical in both the near and medium-term.



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The short-term assistance required is an immediate infusion of capital by the donor community. Under the present circumstances and risks, no investor, seeing an Israeli bulldozer in the heart of Palestinian cities, will invest, and no bank will lend. Recognizing this, the World Bank is discussing the injection of US\$100 million into viable companies. This Committee can encourage this and similar initiatives, and support similar efforts to target emergency financing for Palestinian businesses.

Over the medium-term, the Marshall Plan for building the Palestinian economy can succeed only if the indices of statehood are there. A state needs an economy first and a viable economy requires:

- Creation of a developed economic infrastructure, including independent electrical generation, water facilities, and air/seaport facilities.
- Continuation of the internal Palestinian reform effort and institution building capacity.
- Creation of a trade regime focused on reciprocity, as a matter of policy.
- Provision of post-crisis business recovery support including export and general market development, financial restructuring and related strategic technical assistance, business reorganization, and joint venture and foreign investment promotion.
- Establishment of an education scholarship fund

Mr. Chairman and Committee Members, the Palestinian private sector needs America's help. I urge you to inject immediate capital into its enterprises and proceed with plans for a Marshall Plan.