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**Palestinian Diaspora Contribution to Investment and Philanthropy in Palestine:
An Economic Model**

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With the on-going peace process, local and international economic links could possibly be re-established after a long period of conflict. Already partially tied to their native community, diasporas could contribute to the reshaping and to the emergence of new economic networks. Focusing on recent history and medium-term prospects, the research program "The Palestinian Economy of the Diaspora" organized by the French Center of Economic, Juridical and Sociological Studies and Documentation (CEDEJ) represents an attempt to describe and analyze the pattern of the contribution of the Palestinian Diaspora in the construction of the Palestinian entity.

The Palestinian economy and economic development are now so uneven that generalizations based on central data are extremely hazardous. Starting at the bottom, tracing investments from the host countries into the homeland, 600 interviews with Palestinian business people (mainly from Jordan, the UAE, Egypt, Syria, Israel, Lebanon, Saudi Arabia, the US, Canada, Chile, the UK and Australia) were conducted during last three years. But at the same time a strategy of working upwards and outwards was carried out from the Diaspora and from the Palestinian Territories.

The financial support of Palestinian society by its diaspora community is examined in this presentation, between investment and the tradition of familial support, and charity. However it will point to the investment showing the obstacles and motives underlying the Diaspora's support. An economic model will be proposed to assess this contribution. Despite being helpful, it remains an estimate. I will demonstrate that although the investments are not great, they constitute one of the most important sources of Palestinian economy. The mobilization of the Palestinian Diaspora is not only necessary for its money but also for its expertise and its knowledge in science and technology acquired in the developed host country. Already programs such as TOKTEN, sponsored by donor countries, and the Palestinian Expatriate Professional Fund sponsored by the World Bank are underway.

Finally some questions will be raised regarding the similarities and differences between the Palestinian Diaspora and other diasporas such as the Jewish, Armenian and Chinese.

Among the numerous studies of the Palestinians abroad (identified as refugees, expatriates or diaspora), there are very few studies which point to the economic

relationship between them and the Palestinian Territories. The contribution of the Diaspora remains at a more general level, based either on wishful thinking, sentiment or ideology.

Financial Support of the Diaspora for Palestine: a Global View

I will consider separately the donations and the investments. However one has to keep in mind that the distinction between the two may become blurred. As an example, philanthropic actions contribute to the creation of economic activities.

The Investments of the Diaspora

It is difficult to assess the volume of Palestinian Diaspora investment using the findings of my survey. However the viability and eligibility of the statistics coming from within Palestine are questionable. There are two sources: the Ministry of Economy and Trade, and the Palestinian Central Bureau of Statistics (PCBS). This data is not appropriate to my type of analysis due to the following aspects:

The data concerns only companies that apply for tax holidays according to the Investment Law. Companies that have not applied are not accounted for.

The data defines a local investor as a Palestinian who holds a Palestinian/Israeli identity card even if s/he resides abroad.

According to international standards, any subsidiary of a foreign company in Palestine is considered a domestic company. In other words, an enterprise is considered resident wherever its center of economic interest lies. For example, although the PADICO is registered in Liberia, its subsidiaries in Palestine are considered local.

According to my surveys, the declared capital of some companies is less than in reality and sometimes stems from non-declared transfers from abroad.

There is no distinction between a foreigner and a foreign national. However it is probable that the overwhelming majority, if not all, of the investment comes from people of Palestinian origin.

For all of these considerations, it is not possible to fully rely on this data. It underestimates the reality. Moreover it is hard to distinguish between local and international investment. Thus, I came to the following conclusions:

The Investments Due to the Big Projects

The direct capital investments in new business firms and for the purchase or expansion of existing ones is very small in comparison to the estimations that were made at the outset of the Madrid agreement. There were US\$48.6 million in 1994, US\$62.5 million in 1995, US\$120.7 million in 1996 and US\$81.7 million in 1997, which constitute

respectively a small ratio to the GDP: 1.6 percent, 1.7 percent, 3.1 percent and 2 percent, while in most Arab countries, this ratio is not less than 15 percent. (Table 1) However the ratio of gross fixed capital formation (i.e., all kinds of investment, including the extraordinary activity in building, a large share of which is in the residential sector) to the GDP amounts to 11 percent of the GDP, which is quite high, as I will show below.

Distribution Between Palestinian Diaspora and Local Investment

Available only in the West Bank, the statistics of the Ministry of Economy and Trade report that there were 74 projects registered in 1997 in the West Bank: 20 foreign investment projects, 44 local investment projects, and ten mixed investment projects. Concerning the foreign direct investment (FDI), almost all of the FDI is coming from the Diaspora. The distribution available concerns only the West Bank. From US\$199.874, there are US\$14.490 (7 percent) from the Diaspora, US\$74.376 (37 percent) mixed. But according to the General Secretary of the High Committee of Investment in Gaza, Jamil Harara, more than 90 percent of the investment comes from the Diaspora. It is reasonable to assume that 70 percent of all investments come from foreign nationals. Upon calculation, the contribution of the Diaspora to big project investment is estimated at US\$116.83 million in 1996 and US\$154.87 million in 1997.

These figures need to be modified by taking into account that which was omitted by the statistics.

I will add the investment of the largest three companies coming from the Diaspora: Palestine Development and Investment Company (PADICO), Arab Palestinian Investment Company (APIC), and Salam International Investment Company, as shown in Table 5. With the exception of the Palestinian communication Co. (PALTEL), a subsidiary of PADICO, these companies did not apply for exemption of taxes according to the Investment Law. These investments amount to US\$49.826 million in 1996 and US\$56.826 million in 1997. If we add these figures to the official data we get US\$134.3 million in 1996 and US\$114 million in 1997.

Small Diaspora Investment Especially in the Residential Sector

To gain a foothold in Palestine, some of the Palestinians abroad buy or build an apartment or a house to be used for vacationing. Others build for the family remaining in Palestine. The PCBS carried out an "Existing Building Survey" and a study of "Expenditure and Consumption Levels," which allowed it to assess the small investment in the private residential sector. One has to take into consideration that the figures of these surveys are independent from the previous statistics concerning the commercial construction projects. The PCBS estimated individual transfers from the Diaspora to private construction in Palestine to be approximately US\$169.5 million in 1996 and US\$197.1 million in 1997.

To summarize, the total of the Palestinian Diaspora contribution to investment amounts to US\$303.8 million in 1996 and US\$311.1 million in 1997.

Distribution of the Official Investment Data by Sector

The arrival of Netanyahu on the scene caused Palestinian investment in existing industrial projects to decline from 55.4 percent and 44.3 percent in 1995 and 1996 to 28.7 percent in 1997. This is due to the fears that arose concerning the future of the peace process. (Table 2)

Table 3 shows that the majority of investment went to consumer product industries and industries related to construction activities, which create intensive employment. In 1997 there were 1,434 employees who constituted 45 percent of all employees involved in economic activities due to investment. (Table 4)

The trend in the service sector (which includes banking, insurance, education and health) has gone the opposite way of the trend in industry and grown. The general percentages have increased from 19.2 percent in 1994 (17.0 percent in 1995 and 16.3 percent in 1996) to 44.5 percent in 1997.

In the tourism sector, the year 1996 was very important because 26.4 percent of all existing project investment were spent to establish hotel projects. However this trend declined in 1997 to 19.2 percent.

Regarding the construction sector, it is important to note that it reached its peak in 1994 (44.6 percent) with the idea of the massive return of the Palestinian refugees. After 1994 the ratio of investment started to decline steadily. As an indicator, there are 3,242 vacant buildings in Palestine and another 19,311 under construction. (PCBS, 1998b) In Ramallah there are 3,166 apartments that are vacant and/or unfinished, according to the Director of PEC DAR, Mohammed Shetiyyeh. In my opinion, the portion of construction remains huge because of the small building projects not included in the ministry's statistics.

Investment in the agricultural sector is minimal due to the scarcity of land and water in Palestine.

New Pattern of Economic Activities

The impact of these contributions of the Diaspora is not only quantitative but also qualitative. The idea of a holding company allows the establishment of strategic and long-term investment and heavy projects that are beyond the capacity of one person. It is a new model infused in a country dominated by the family-based small or medium firms. Infusing vitality into the Palestinian economy at this early stage of its development is crucial to any future prospect of stability and sustainable development. Vitality not only relieves the economic, social and political tensions that are now a fact of daily life; it also initiated a catalytic process of capital accumulation in a low-resource based economy that consumes a very high rate of imports.

The leader of such companies is PADICO. Founded by 140 prominent Palestinian businessmen in the Diaspora with a capital of US\$350 million, its plan is to invest US\$1 billion by the end of the decade. One of its objectives is to help channel new capital, either directly or through affiliated or subsidiary companies, towards projects that can create jobs while providing competitive financial returns to investors; in short, to attract and use investment to help rebuild the economic infrastructure in the Palestinian Territories.

Even in the service sector, the private sector becomes a leader; examples include the phone company (PALTEL) and the electricity generators (The Palestine Electricity Company, incorporated with a capital of US\$100 million). In the industry sector, incorporated in January 1995 with a capital of US\$22 million, of which PADICO's share is 70 percent, the Palestine Industrial Investment Company (PIIC) aims to strengthen the Palestinian economy by investing in new light, medium and heavy industries and by bolstering and expanding qualified existing industries. We have some relevant examples: The Tannery Project (expected cost around US\$10 million), Home Appliances Project (expected cost around US\$3 million), Thermal Pipes Project (expected cost around US\$1.3 million), The Poultry Project (expected cost around US\$9 million), The Carpet Project (expected cost around US\$5 million), The Poly Ethylene Teraphtalate (PET.) Project (expected cost around US\$4.5 million), and The Steel Pipes Project (expected cost around US\$6 million). At present, and despite initial trials and errors, numerous projects drafted by these companies are already at the implementation stage.

A collective mobilization of resources has also taken place. A number of stockholding companies have been founded, chief among them the Arab Palestinian Investment company (APIC), whose activities include the joint efforts of Palestinian business people from both sides of the Green Line. The Arab Palestinian Financial Foundation (Beit Al-Mal Al-Arabi Al-Falestini), the Palestine Bank for Investment, and the Arab Islamic Bank constitute other examples. The impact of such societies has been limited when compared with that of PADICO.

However the new pattern of big companies is not necessarily the best. Within developed countries it is clear that some challengers to corporate hegemony have appeared. Small businesses, in decline, and universally stereotyped as dependent, backward and low-skilled until the 1970s, have begun to increase in number again. Some of these, at least, have been highly successful and innovative self-starters, using and developing the latest technology and designing for the newest markets. Silicon Valley and Third Italy have become a model to imitate, denoting mutually supportive communities of such firms. Few, however, have thought of these small firms as actual or potential actors on a global stage or as nascent rivals to the international operations of the multinationals. (Lever- Tracy, Ip & Tracy, 1996)

Philanthropic Palestinian Activities

These contributions were analyzed on the basis of the following sources:

Donations and expenses on the occasion of visits from Palestinians abroad to the Palestinian Territories. According to the PCBS these donations and expenses amounted to US\$96.4 million in 1996 and US\$90.9 million in 1997.

Individual transfers to support the family in Palestine. It is rather difficult to give an estimation of the dimensions of these transfers because most of them do not pass through banks. Anyway, parts of these transfers overlap with the donations and expenses related to Palestinian visitors from abroad.

Institutional unilateral transfers from abroad, such as from Islamic or Christian charities or simply pro-Palestinian solidarity groups/organizations. Here also it is difficult to obtain precise data. However some indicators will be useful. The Welfare Association could be considered without hesitation as the most important association in this field. Gathering prominent Palestinian business people and intellectuals, the association is a philanthropic and independent voluntary foundation. Established in 1983, it has certainly earned its solid reputation as a serious organization helping to lead Palestinian development. From the start, it adopted the principle of self-sustainability. To guarantee financial durability, the association trustees set up an endowment, supervised by an investment committee and looked after by professional portfolio managers. The revenue is utilized to cover the association's recurring costs. This ensures that annual dues and donations are wholly appropriated to fund grants related to Welfare Association programs and projects.

Apart from such large funding, Palestinian development also involves many individuals in and outside Palestine. The Welfare Association works with a wide range of them. These include private donors, some of whom enhance their investments in Palestine due to its activities. Several of these donors have also entrusted the association with managing grants. The Welfare has been acting as an intermediary NGO since 1984. Between 1983 and 1996, it disbursed 1,200 grants to over 300 NGOs in Palestine and abroad. (Tanmiya, 1997:1,2)

The association has funded - since 1983, the date of its foundation to 1996 – 1,307 projects, totaling US\$90 million (US\$43 million from its own sources and US\$47 million from external ones), which gives an average of approximately US\$6.42 million per year, of which US\$3.071 million are from its own sources. The yearly total average for 1997 – US\$4.211 million - showed a decrease from the previous year, although it should be noted that the association is now totally reliant on its own sources, external funding having come to an end. (Welfare A, 1997:7)

The association has the following characteristics:

Because of their financial and intellectual capacities, the members of the Welfare Association have the potential to influence the decision-making processes concerning national affairs.

It is a very important pole of philanthropic Palestinian activities with the ability to help beyond the first small-aid plans.

A good international reputation turned the Welfare Association into a counterpart for the donor institutions willing to help the Palestinian NGOs. Funds under management from donors such as The European Union and Arab Fund for Social and Economic Development (AFSED) are used for projects in the Palestinian Territories, Israel and Lebanon. The Welfare Association, heading a consortium including the British Council (BC) and Charities Aid Foundation (CAF), has presented to the World Bank a successful proposal for the establishment of a Project Management Organization (PMO) to manage World Bank assistance to Palestinian NGOs. This project is a major breakthrough when it comes to NGO activity in Palestine. (Tanmiya, 1997:1,2)

There are other associations working in different countries but their impact is really small in comparison with that of the Welfare Association. The most important associations of this kind are probably the Islamic charities raising their funds from Arabs and Moslems from the US, Europe and Arab countries. According to a survey conducted by Jamil Hilal and Majdi Malki, 40.9 percent of the funding of the Zakat Committees comes from abroad. (1997: 21)

Other solidarity organizations such as the United Palestinian Appeal (allocated US\$492.964 in 1995), the United Holy Land Fund and the Arab Palestinian Fund, which are based in the Europe and US do not have religious motivations for their activities.

I would estimate that the contribution of all these organizations, except the Welfare Association, amounts to approximately US\$4.0 million.

Total Financial Contribution

In summary, as Table 7 shows, the financial support from the Diaspora amounted to US\$408.006 million in 1996 (from which 74 percent came from investment) and US\$410.211 million in 1997, from which 76 percent came from investment.

It seems to me that these estimations are reasonable if one takes into consideration the net transfers from abroad (current transfers received by residents from non-residents, minus current transfers paid by residents to non-residents). The net transfers amounted to US\$437.53 million in 1997. (PCBS, 1998a)

Furthermore, the Diaspora contribution constituted 74 percent of the total foreign aid (US\$549.414 million) in 1996, and 95 percent of the total foreign aid in 1997 (US\$432.259 million). (MOPIC, 1998) (See Table 7)

These facts show us that the aid of the Palestinian diaspora is very important in spite of the political instability. However, it does not cover the amount of aid which theoretically

would be needed for the (re)construction of the young Palestinian entity, which would require much larger financial support from the Diaspora. The capacity is far greater than the aid which is actually given. This is linked mainly to the fact that the majority of the members of the diaspora are still unable to live in Palestine or at least to come as visitors. It is important to note that a special Israeli military law, which allows Palestinian investors to have a residence permit, in practice, has never been applied.

It is also worthy to note that it is not possible to consider this contribution as a peace dividend because it started a long time before the Oslo Agreement, although some investors were encouraged by it. Thus there is no direct correlation with the peace process.

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