



**Ministry of National Economy**

# **GAZA ECONOMIC STRATEGY**

March 2011

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# CONTENTS

<b>ACRONYMS</b> .....	<b>IV</b>
<b>FOREWORD</b> .....	<b>VI</b>
<b>ACKNOWLEDGEMENTS</b> .....	<b>VII</b>
<b>EXECUTIVE SUMMARY</b> .....	<b>ES-1</b>
<b>I. INTRODUCTION</b> .....	<b>1</b>
<b>A. Purpose</b> .....	<b>1</b>
What is the Economic Strategy? .....	1
<b>B. Background</b> .....	<b>2</b>
Period I: 1994 - 2000 .....	2
Period II: 2000 - 2005 .....	3
Period III: 2005 - 2006 .....	3
Period IV: 2006 - 2007 .....	3
Period V: 2007 - 2010 .....	4
<b>II. OVERVIEW OF CURRENT SITUATION</b> .....	<b>5</b>
<b>A. Sectoral Performance</b> .....	<b>6</b>
1. Agriculture .....	6
2. Manufacturing .....	7
3. Construction .....	9
4. Services .....	10
5. Trade .....	14
<b>B. Economic Foundations</b> .....	<b>18</b>
1. Human Resources .....	18
2. Access to Technology .....	20
3. Access to Finance .....	20
4. Business Enabling Environment .....	21
5. Physical infrastructure (roads, ports, utilities, telecom, etc) .....	22
6. Private Sector Institutions .....	24
<b>C. Key Constraints to Business Development</b> .....	<b>28</b>
<b>D. Key Opportunities</b> .....	<b>31</b>

# GAZA ECONOMIC STRATEGY

<b>III. NEEDS ANALYSIS FOR PHASE DEVELOPMENT</b> .....	<b>35</b>
<b>Environmental Scanning</b> .....	<b>35</b>
1. Economic Factors .....	35
2. Political Factors .....	35
3. Social Factors .....	35
4. Legal Factors .....	36
5. Technological Factors .....	36
<b>IV. ECONOMIC STRATEGY FOR GAZA</b> .....	<b>37</b>
<b>A. Current Situation – “Coping”</b> .....	<b>40</b>
Action Items for Current Situation .....	40
<b>B. Phase #1: Regrouping and Building Economic Capacity</b> .....	<b>40</b>
Action Items for Phase #1 .....	41
<b>C. Phase #2: Revitalization and Growth</b> .....	<b>42</b>
Action Items for Phase #2 .....	43
<b>D. Phase #3: Sovereign Trade Regime</b> .....	<b>43</b>
<b>V. REVITALIZING THE PRIVATE SECTOR</b> .....	<b>44</b>
<b>A. Entrepreneurship Development</b> .....	<b>44</b>
<b>B. Investment</b> .....	<b>46</b>
1. Political Risk Insurance Program .....	46
2. Commercial Risks .....	48
<b>C. Organizational Capacity Building</b> .....	<b>51</b>
<b>VI. IMPLEMENTING THE REVITALIZATION STRATEGY</b> .....	<b>52</b>
<b>A. Coordination Mechanism – the Gaza Action Network</b> .....	<b>52</b>
<b>B. Action Plan with Budget</b> .....	<b>53</b>
References .....	55

# TABLES AND FIGURES

## TABLES

Table 1: Gross Domestic Product in Gaza Strip by Economic Activity from 2000 to 2008.....	5
Table 2: Employment in Manufacturing in 2005 .....	7
Table 3: Employment and Establishments in Manufacturing during the Closure 2008.....	8
Table 4: Decline in Manufacturing during 2010 .....	9
Table 5: Overall Employment in Tourism Sector 2006-2010 .....	14
Table 6: Private Sector Institutions Currently Operating in the Gaza Strip .....	25
Table 7: Private Sector Institutions - Rendered Services .....	27
Table 8: Constraints Faced by Identified Business Sectors .....	29
Table 9: Business Development Opportunities by Sector .....	32

## Figures

Figure ES-1: Summary of Gaza Economic Development Strategy .....	ES-4
Figure 1: Unemployment Rates in the West Bank and Gaza Strip.....	2
Figure 2: Areas of Activity in the Information Technology Sector .....	12
Figure 3: Average Guest Nights and Length of Stay 2000-2009 .....	13
Figure 4: Border Crossings for Gaza Strip .....	14
Figure 5: Imported and Exported Truckloads 1997-2010 through Gaza Crossings .....	15
Figure 6: Number of Items Imported by Entry Point April 2010 .....	16
Figure 7: Volume of Imports 2005 - 2010 .....	16
Figure 8: Imported Goods by Classification .....	17
Figure 9: Exports from Gaza 2007 - 2010 .....	17
Figure 10: Electricity Consumption in the Gaza Strip and its Proportionate Sources .....	23
Figure 11: Summary of Strategy, by Phase .....	39

# ACRONYMS

<b>AMA</b>	Agreement on Movement and Access
<b>BSA</b>	Bit Stream Access
<b>CHF</b>	Cooperative Housing Foundation International
<b>CMWU</b>	Coastal Municipal Water Utility
<b>CWG</b>	Cluster Working Group
<b>DAI</b>	Development Alternatives, Inc
<b>DFID</b>	UK Department for International Development
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FDIC</b>	Federal Deposit Insurance Corporation
<b>GAN</b>	Gaza Action Network
<b>GCoC</b>	The Palestinian Chambers of Commerce - Gaza Governorates
<b>GDP</b>	Gross Domestic Product
<b>GEDCO</b>	Gaza Electricity Distribution Company
<b>GERP</b>	Gaza Early Recovery Program
<b>GNP</b>	Gross National Product
<b>GSM</b>	Global System for Mobile Communications
<b>HA</b>	Hectare
<b>HE</b>	Higher Education
<b>ICT</b>	Information and Communication Technology
<b>IMF</b>	International Monetary Fund
<b>INGO</b>	International Non-Governmental Organizations
<b>IT</b>	Internet Technology
<b>JD</b>	Jordanian Dinar
<b>LGP</b>	Loan Guarantee Program
<b>MCM</b>	Million Cubic Meters
<b>MIGA</b>	Multilateral Investment Guarantee Fund, World Bank
<b>MNE</b>	Ministry of National Economy

## ACRONYMS

<b>MoA</b>	Ministry of Agriculture
<b>MW</b>	Megawatts
<b>NGO</b>	Non-Governmental Organization
<b>NIS</b>	New Israeli Shekel
<b>OPIC</b>	Overseas Private Investment Corporation
<b>PalTrade</b>	Palestine Trade Center
<b>PBA</b>	Palestinian Businessmen Association
<b>PCBS</b>	Palestine Central Bureau of Statistics
<b>PCU</b>	Palestinian Contractors Union
<b>PFI</b>	Palestinian Federation of Industries
<b>PIPA</b>	Palestine Investment Promotion Agency
<b>PITA</b>	Palestinian Information Technology Association
<b>PNA</b>	Palestinian National Authority
<b>PRDP</b>	Palestinian Reform and Development Plan
<b>PSCC</b>	Private Sector Coordinating Council
<b>TVET</b>	Technical and Vocational Education and Training System
<b>U.S.</b>	United States
<b>UN</b>	United Nations
<b>UNDP</b>	United Nations Development Programme
<b>UNEP</b>	United Nations Environment Programme
<b>UNRWA</b>	United Nations Relief and Works Agency
<b>USD</b>	United States Dollar
<b>VAT</b>	Value Added Tax
<b>VoIP</b>	Voice over Internet Protocol
<b>WB</b>	West Bank
<b>WHO</b>	World Health Organization

# FOREWORD

This document lays out a short, medium and long-term Economic Strategy for the Gaza Strip and a Revitalization Plan for the private sector there. The Strategy builds directly on the Palestinian National Recovery and Reconstruction Plan for Gaza, promulgated in Sharm el-Sheikh in March 2009, and adheres to the same guiding principles. While that two-year plan focused on the most immediate needs of the Gaza Strip and identified joint activities to be carried out by the Palestinian National Authority and its local and international partners, this Strategy provides a roadmap for future economic development of the Strip.

While the heroic efforts at survival, both within Gaza and through outside assistance, have sustained living conditions above the level of acute humanitarian crisis, the cycle of destruction has left Gaza depleted. The economy is still far from sustainable and falls short of satisfying the internal market, with even less capacity to supply external markets. While Gaza has tremendous potential to produce competitive products for both markets, this capability has been severely restricted by the current conditions.

As the one certainty in Gaza's future is change, coordinated and systematic preparations to not only re-build Gaza, but to build it back better, must be undertaken as a matter of urgency. As soon as the restrictions on movement and trade are eased, the private sector must be ready to take advantage of the opportunity to serve markets from which it has been effectively banned for many years.

Our private sector will not be ready without extensive preparations, and this Strategy provides guidance to the private sector, government actors, and the international community on how to proceed under several expected phases. This Strategy is a reflection of our commitment to rebuild the economy, the private sector, and society as a whole in the Gaza Strip. Furthermore, it reflects our commitment to move forward with decisive actions to foster economic progress for the people of Gaza, as part of a future Palestinian State, regardless of the political factors that continue to inhibit Gaza's ability to reach its full potential.

I am hopeful that this Strategy will serve as a beacon pointing toward stability and prosperity, and be widely supported by the people of Gaza, and the international community, which has and will continue to play an important role in Gaza's future for some time.



**Hasan Abu-Libdeh**  
**Minister of National Economy**  
**March 10, 2011**

# ACKNOWLEDGEMENTS

The Palestinian National Authority would like to express its appreciation to the UK's Department for International Development (DFID) and the World Bank for their support to develop this Strategy.

We also wish to recognize the contribution of the Ministry of Planning and Administrative Development to this Strategy through their critical review and input. We also wish to extend our thanks to the Palestinian Private Sector Coordination Council and all other private sector institutions for their support in providing the research and data that underpins the information included in this Strategy. Helpful input was also provided by DFID, the World Bank, USAID, the EC, and GIZ. We thank all of these organizations for their comments and support.

Finally, special thanks are given to members of the business community in Gaza, who contributed with their experiences, insight and vision to this Strategy to ensure that it reflects their needs and priorities for building a better future.

# EXECUTIVE SUMMARY

The Gaza Economic Strategy aims to provide a roadmap for legislators, decision makers, stakeholders, representative organizations and the international donor community to contribute jointly, in a coordinated fashion, to the vital task of sustained economic development of the Gaza Strip.

This Strategy departs from past planning efforts in that it envisions a Gaza Strip well beyond the beleaguered territory of today, to a Gaza Strip that is a vital part of a unified Palestinian State with full access to world markets and a thriving private sector. Such a vision is not a near-term reality however, and as such, the Strategy provides guidance and action plans for each stage of progress along the road to that goal.

It is obvious that the devastated and demoralized private sector requires special attention. Accordingly, in addition to the broader Strategy and action plan components, the document contains a separate section that focuses in greater detail on the actions needed to revitalize the private sector.

Rather than trying to be all things to all people, however, the Strategy is meant to be focused and well-defined. It identifies the critical features of the current situation and the key drivers of the region's future economy. It also sets forth clear assumptions, concrete goals, and a limited number of actions and initiatives to achieve these goals.

## Current Situation and Needs Analysis

The private sector in the Gaza Strip has undergone more than a decade of strife since 2000. The 2008 Israeli military assault resulted in massive unemployment and a humanitarian crisis, with extensive damage to the infrastructure, the financial capacity, and to the business culture of the private sector. Aside from the direct damage to the infrastructure and the loss of human life, the nearly complete halt in imports to and exports from the Gaza Strip in 2008 resulted in a 75% drop in manufacturing output compared to its high point in 2000, and a corresponding 54% drop in agricultural output. While the blockade in place since 2006 has been somewhat relaxed in recent months, many items essential to private sector revitalization remain on banned lists and are inaccessible. This report documents the recent history and current status of private sector operations in agriculture, manufacturing, construction, services, and trade.

The preparation of this Strategy involved consultations in Gaza with over 70 business owners, private sector leaders, and other stakeholders, which took place in the form of interviews and focus groups, along with additional research and consultations in the West Bank. The focus group exercise featured a needs analysis that identified priority economic, political, social, legal, and technological factors impacting the ability of the private sector to develop. In the economic sphere, the top concerns are the ability to import raw materials and machinery, availability of skilled labor, and damage compensation. Politically, the primary issue is the need to change the political conditions and pursue re-conciliation. The top three social issues are the birth rate, unemployment and poverty, and restrictions on personal freedoms. Legally, in addition to political divisions, new legislation and legal relations between PNA institutions and the private sector lead the list. Finally, in the technology realm, the application of e-government, spreading the culture of technology use in the private sector, and a more competitive environment in telecommunications are key factors. Overall, economic and political factors were deemed of highest importance to the private sector. The phases developed for the strategy were based on the stakeholders' views of their highest priority current and future requirements.

# GAZA ECONOMIC STRATEGY

## A Vision for an Economically Vital Gaza

Despite today's significant challenges, Gaza has in the past demonstrated a high capacity for manufacturing and agricultural production in sectors such as furniture, strawberries, and flowers, to name a few. This capacity, along with its generous natural endowments, suggests a great potential for Gaza to serve as a hub for production of high quality goods and specialty services in the Middle East. The region's rich history, educated population and strategic location indicate that a highly productive and sophisticated economy is attainable. While its small scale and moderate wage rates will preclude direct competition with larger neighbors in product types where low-wage, low-skill labor predominate, Gaza has previously demonstrated its ability to thrive in high-value niches, and can do even better in the future.

Political factors will play a decisive role in the ability of Gaza to meet its potential—and the time frame in which it can do so. However, Gaza can and must start today to prepare for its future as part of the Palestinian State by establishing a shared economic vision and making progress in the right direction on identified key issues. This will entail much more than rebuilding factories and farms damaged in recent years, and much more than re-creating former linkages to past markets in traditional sectors. The economy in Gaza must be reconceived to understand what the world market will demand several years from now, and must prepare to meet these needs with dispatch. This will require investment in a highly skilled, modern work force, the technology and equipment to produce high quality goods and services that command competitive prices, and an up-to-date and ever evolving understanding of the demands of world markets.

## Four Steps to Achieve the Vision

Achievement of this vision will be a gradual process but it entails many activities that can begin today. These are laid out in a time frame that is not based on a rigid calendar, but rather on the evolution of the following phases:

**Current Situation:** Political instability and duplication of authority, imposition of severe border restrictions on movement of goods and persons and unclear economic policies.

**Phase #1:** Near-term re-building of economic capacity: assumes very little change in the external situation, but an improved internal economic capacity in terms of increased domestic market share and re-engagement with the economy of the West Bank, and concerted efforts to prepare for exports in the near future.

**Phase #2:** Medium-term revitalization and growth; assumes that severe restrictions on cross border movement and exports have been relaxed, with pay-off from economic capacity building and improved political stability resulting in increased domestic market share and exports, employment and a higher quality of life.

**Phase #3:** Future economy as a sovereign trade regime: the economy's future condition once full political and economic control over the West Bank and Gaza are attained. Each phase is based on explicit assumptions about the anticipated progress of internal and external changes. The Strategy is only as good as the assumptions on which it is based, so if these assumptions about the future evolution of the situation in Gaza prove to be false, then a new strategy will be required.

## **The Mission**

*To create the best possible economy for Gaza's citizens under the constraints of each situation, solving current problems as they arise, and planning wisely by making reasonable assumptions about the future.*

This Strategy is consistent with all the principles outlined in the Palestinian National Early Recovery and Reconstruction Plan for Gaza, 2009 – 2010, and applies those principles based on revitalization, broad participation and 'Building Back Better' to the medium and long-term action planning as well. Furthermore, while this Strategy focuses on the specific conditions and needs of the Gaza Strip, the goal of political and economic reconciliation between the Gaza Strip and the West Bank is implicit and underpins the phases of development outlined—most clearly in the 2nd and 3rd phases.

How quickly Gaza will move into and through the three future phases is, of course, impossible to forecast, but most observers agree that these phases represent the likely path of the Gaza's economic development. With this in mind, it is important that the relevant stakeholders – private sector, government, and the international community – lay the groundwork during each phase for the upcoming one, as shown in Figure ES-1.

## **Current Situation – “Coping”**

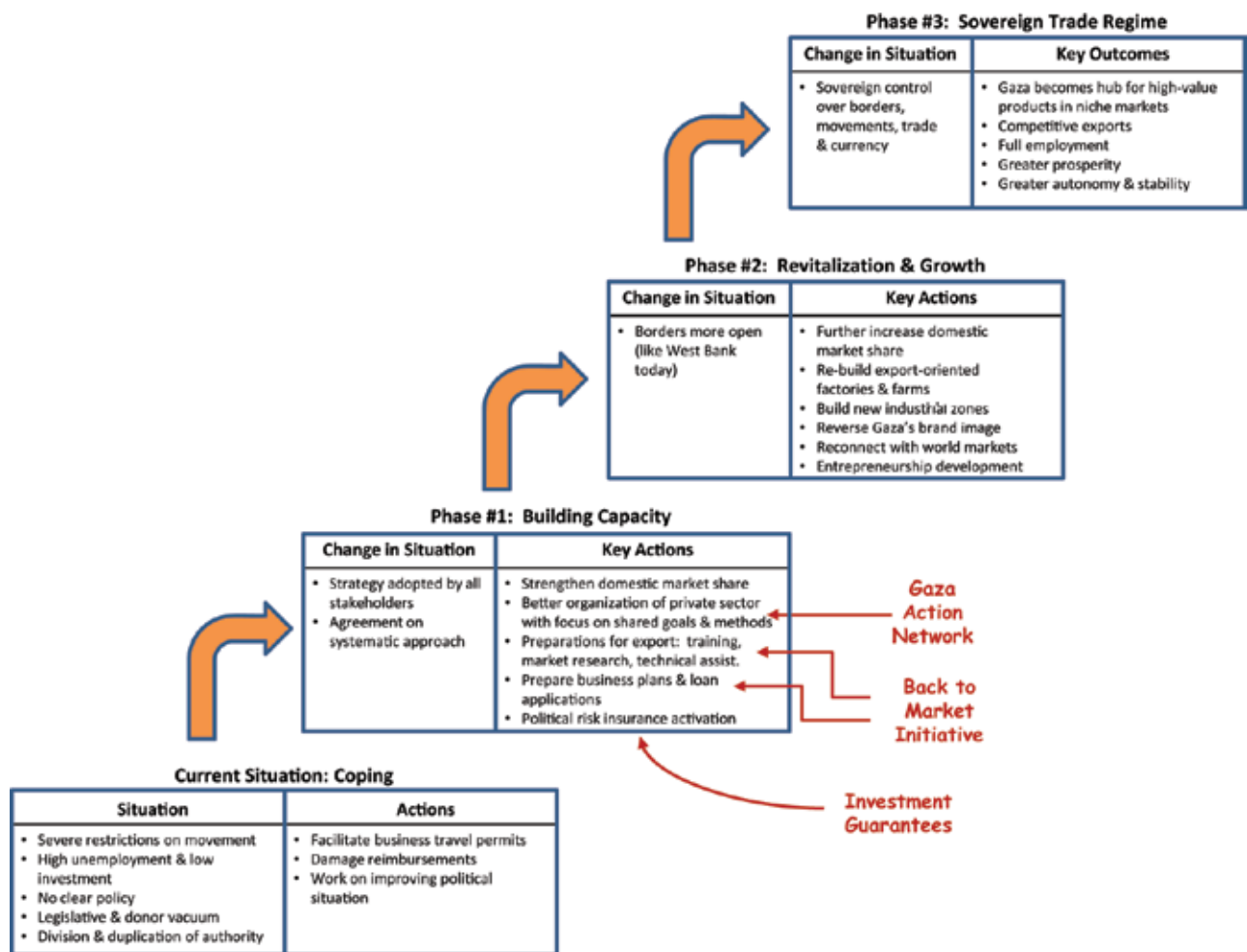
In light of the current situation of disarray in both the political and economic spheres, the main focus has been shifted to coping with the very challenging environment. This situation is characterized by political division, high unemployment and poverty rates, irregular and disorganized crossings, the absence of a clear economic policy for Gaza, a legislative vacuum, and a burgeoning informal economy.

Priority emphasis has thus catered to meeting humanitarian needs and the urgent, short-term requirements of existing businesses. While humanitarian needs remain pressing, there are a number of proactive initiatives that can begin to transform the economy and prepare for future phases:

- Build competitiveness within the domestic market
- Improve integration between educational institutions and the private sector
- Facilitate Special Business Travel Permits
- Accelerate reimbursements for damage
- Empower the private sector institutional platforms to support members' needs and to deal with current policy issues

# GAZA ECONOMIC STRATEGY

Figure Es-1: Summary of Gaza Economic Development Strategy



## Phase #1: Regrouping and Building Economic Capacity

In the immediate future, stakeholders can start making progress toward addressing more fundamental economic issues, despite continued stalemate at the political level. Some progress can be achieved in re-gaining domestic market share, and in accelerating the preparations for exports, which will ultimately be the primary engine of growth for the economy once outside assistance decreases. The main theme during this phase will be **building a springboard for the future economy**.

The only action needed to move Gaza from the current situation into Phase #1 is the adoption of this Strategy. This entails forging a consensus – across all key stakeholders – that joint actions in line with this Strategy will place Gaza in the best possible position to take advantage of changing events. This in itself will require a high degree of coordination and agreement between the government, international community, private sector and civil society regarding the vision for Gaza’s future, but requires no other specific internal or external events to take place for Phase #1 to unfold as laid out above.

# GAZA ECONOMIC STRATEGY

In this phase, the main strategic focus will be on economic capacity building, and most of the impetus for change will need to come from better coordination and shared commitment among all key players from both the private sector and public sectors, with assistance from the international community. Much of the effort is reflected in the recently proposed Gaza Early Recovery Program (GERP), but must be even more extensive.

The main goal of this phase is to prepare systematically for the cross-border ‘opening moment’ in each sector, not only among private sector producers but also among all the public and semi-public agencies (such as quality certification and market research) that play a role in production for export. Such preparation will ensure that time is not lost on “Day One Plus”, and more importantly, that the right equipment for the right products for the right markets are being utilized. It is essential that high quality production takes place from the start, avoiding reputation issues that could stall Gaza’s resurgence in world markets. The recommended action items for Phase #1 reflect these priorities:

- Begin to recapture some share of the domestic market
- Re-engage with political risk mechanisms and explore a universal investment guarantee mechanism if necessary
- Develop specialized training, marketing and applied research programs
- Implement the Back to Market initiative
- Support rapid expansion of funding for overseas training and internship programs
- Evaluate infrastructure and joint requirements for export-oriented industries

## Phase #2: Revitalization and Growth

The key distinguishing feature of this phase is the opening of Gaza’s borders toward a more free movement of goods and people, in both directions. There is no way to predict when this will occur; the only certainty is that it will occur. If enterprises and public sector entities have not prepared meticulously for this moment, years of potential growth could be lost, and some wrong directions may be taken.

Phase #2 represents a fresh start, during which Gaza will re-connect with world markets, entrepreneurs will be empowered, and Gaza will be re-branded in the eyes of the world as a region that produces high quality goods and services and is eager to regain its distinctive niche in world markets. The recommended action items for Phase #2 reflect these priorities:

- Increase domestic market share
- Re-build export-oriented factories & farms
- Build new industrial zones
- Reconnect with world markets
- Reverse Gaza’s current brand image
- Institute creative banking, finance & insurance schemes

## Phase #3: Sovereign Trade Regime

Phase #3 essentially embodies the vision of Gaza within the future Palestinian economy. It assumes full control of all flows across the border – the unfettered ability to export and import goods, services, financial instruments and people – as well as control over the currency, and a single government in control of the territory.

# GAZA ECONOMIC STRATEGY

The seeds for this high-value economy need to be developed during Phase #2, so that once the political issues blocking the sovereign control of key economic drivers are resolved, the full potential of the region's economy can be triggered. The outcome of the Economic Strategy is envisioned to be:

## **The Vision**

*The Gaza Strip serves as a hub for high-value products in niche markets in the Middle East and beyond, providing competitive exports and a thriving domestic market, with full employment and greater prosperity, autonomy, and stability.*

## **Special Focus on Private Sector Revitalization**

The positive phases described above cannot be attained without a vibrant private sector and dynamic business leaders who are again willing to be entrepreneurial. The current state of the existing private sector institutions, as well as most private companies, is quite weak. This section of the Strategy lays out detailed programs for making the private sector more dynamic, relying on initiatives in the following four areas:

### **■ Entrepreneurship Development**

Study tours, relevant formal education, internships, role models, network development, and opportunity identification.

### **■ Investment**

Risk mitigation, micro and small business finance mechanisms, attracting FDI, loans from sovereign funds.

### **■ Organizational Capacity Building**

Access to finance; access to markets; access to know-how, business development services, and other related capacity building initiatives for both firms and institutions.

One of the Ministry of National Economy's keynote initiatives to revitalize the private sector is a re-thinking of the current Strategy for mitigating political risk. While some have argued that the private sector should not have a 'free ride', this is true in every sphere except political risk. Donors have already shown a willingness to compensate investors who lost assets during the military assault—Operation Cast Lead—but this Strategy suggests that such expenditures are fruitless unless future guarantees of political risk mitigation are also in place. As detailed in the body of this document, specific cultural and economic factors may limit the ability of many qualifying enterprises to utilize the current MIGA program. But MIGA's top managers are willing to review the current program and as necessary put together a program that provides more nearly universal coverage (similar in some respects to the FDIC system in the U.S.), giving the private sector a chance to focus on the truly commercial risks. This will depend on donor willingness to provide funding, the bulk of which can be furnished on the basis of pledged capital (which may never need to be disbursed).

## Implementation Mechanisms

Given the need for sector development and private sector revitalization as outlined in the Strategy, an overarching coordination mechanism will be required for the cross-cutting initiatives in workforce development, physical infrastructure, financial measures, access to technology, business enabling environment improvements and institutional capacity-building.

### The Gaza Action Network

This ambitious Strategy cannot be successfully implemented without a significant departure from methods employed in the past. A pivotal element of this Strategy is building consensus around a shared vision and collaborative actions on the part of public and private entities, in order to compensate for the high degree of paralyzing uncertainty in the external environment. The Ministry of National Economy will therefore launch a collaborative process – already begun in the extensive stakeholder consultation process used to generate this Strategy – that will serve as an organizing framework for the elaboration and implementation of the Strategy.

This mechanism, dubbed the Gaza Action Network, will consist of a set of cluster working groups corresponding to the major sectors, with additional working groups for selected foundation areas, and a central council that meets quarterly to review and coordinate the activities of the various cluster and foundation working groups. Each of the working groups, as well as the council, will require balanced representation from the relevant public sector and private sector entities, as well as educators, NGOs and the international community.

### Back to Market Initiative

Economic sectors within the Gaza Action Network will be supported by a proposed Back to Market initiative, aimed at supporting firms to recapture domestic market share, rebuild export capacities, and reconnect with the closest export markets in Israel and the West Bank. This initiative will provide specialized technical resources needed at the sector level, including targeted assistance in market research, market development, productivity analysis, training programs, and – perhaps most importantly – business plan development and associated financing plans. Key staff from this initiative will play a crucial role in convening and facilitating, as well as participating in, the collaborative working groups in the Gaza Action Network.

*“The future influences the present just as much as the past.”*

*Friedrich Nietzsche, 1886*

# I. INTRODUCTION

## A. Purpose

This document offers an Economic Strategy for the Gaza Strip based on the region's previous track record, current status, and expected future. The plan begins with an overarching mission, and presents strategies tied to action plans for the immediate, medium, and long terms. A special emphasis has been placed on those elements of the Strategy that can be used to revitalize the private sector, whose response to the Strategy is especially crucial. The Strategy also includes an extensive review of the current situation and needs analysis, based on a review of key economic reports and published materials, interviews with specialists from various private, public and international entities, and on brainstorming workshops and focus group meetings with key private industry representatives in Gaza. The Strategy aims to become a reference tool for legislators, decision makers, stakeholders, representative organizations and the international donor community to contribute jointly to the economic development of the Gaza Strip in the coming years.

### What is the Economic Strategy?

The Economic Strategy for the Gaza Strip provides a roadmap to guide all relevant stakeholders to act in concert, so that their individual actions support and reinforce one another. This plan departs from past planning efforts in that it envisions a Gaza Strip beyond the beleaguered territory of today, a Gaza Strip that is a vital part of a unified Palestinian State with full access to world markets and a thriving private sector. Extensive preparations are required for Gaza to meet that goal, as indicated in the actions outlined below in three groups. Gaza will need to draw domestic and foreign investment to (1) build a high skilled, modern work force; (2) develop or import the technology and equipment to produce high quality goods and services that command competitive prices; and (3) develop an up-to-date and ever evolving understanding of the demands of world markets sector by sector.

Such a vision is not a near term reality however, so this Strategy provides phases and action plans for each stage of progress along the road to that goal. These phases begin with today's current environment of severe restrictions on movement, high unemployment and poverty rates, and a policy vacuum, through tomorrow's adoption of this Strategy, which will begin to build the foundation for a healthier economy even if today's economic and political challenges remain. These phases are followed by two additional ones reflecting actions that will be possible once the political situation changes, first, to conditions that are similar to the West Bank of today and eventually to a sovereign Palestinian state.

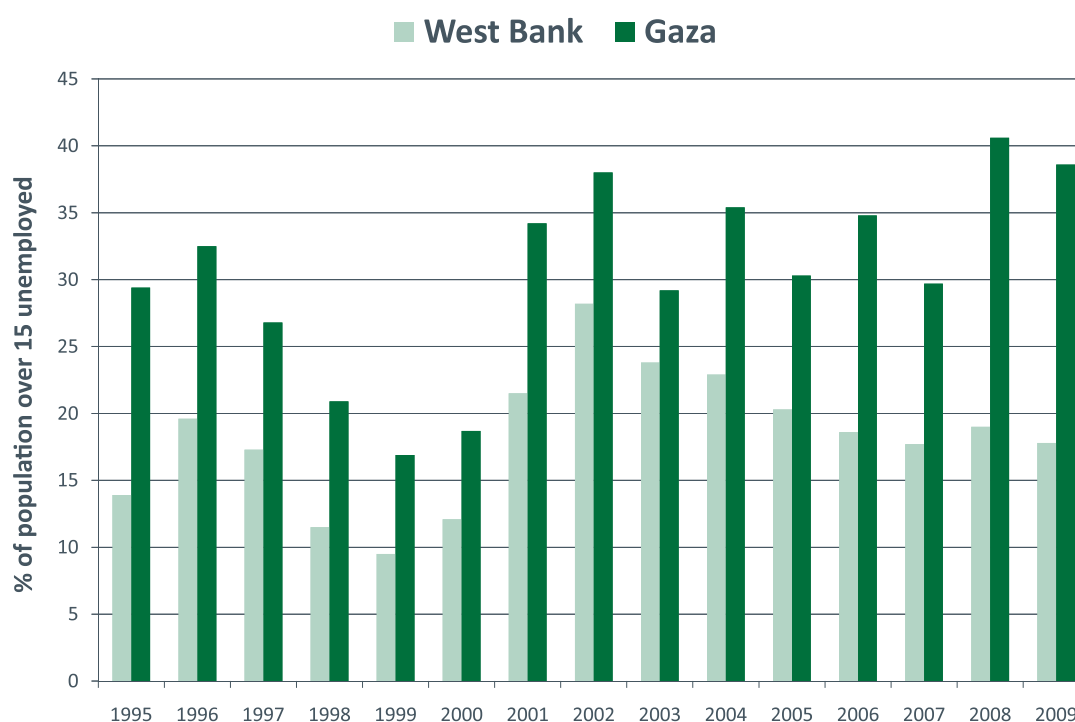
This Strategy places specific "bets" on the future – a series of logical inferences about the outcomes of specific actions. This highly selective approach is possible as the assumptions are clearly stated in each of the three phases. If, as events unfold, it becomes evident that the assumptions are not well founded, then the Strategy must be re-thought, and a new roadmap adopted.

Rather than providing a laundry list of every possible action, the Strategy identifies the critical features of the current situation, the key drivers of the region's future economy, clear goals, and a limited number of actions and initiatives to achieve these goals. The Strategy does not delve into details, since a clear understanding of, and consensus on, the "big picture" requires brevity and simplicity.

## B. Background

The Gaza Strip has been subject to a series of external shocks over a relatively short period of time. Since 1994, when the Palestinian National Authority was established, there have been at least five distinct periods of economic activity, during which time unemployment rates in Palestine saw a brief decline followed by incremental growth—particularly in Gaza—throughout the 2000s. Meanwhile, population growth has been steady at approximately 3% a year since 2006, creating a great deal of urgency for private sector growth and employment generation.

**Figure 1:** Unemployment Rates in the West Bank and Gaza Strip



Source: Palestinian Central Bureau of Statistics

The section below provides a summary of five recent periods.

### Period I: 1994 - 2000

From 1994, when the Palestinian National Authority (PNA) emerged as a result of the Oslo Agreement, until 2000, the Palestinian economy performed well and started to gain some ground. The PNA, with the support of the international community, started to create and invest in the re-building of the Palestinian economy and related institutions. In 1996, the first parliamentary elections took place. A Palestinian Legislative Council was created and was immediately engaged in passing new legislation and reviewing existing laws.

This period also witnessed the establishment and reform of important physical infrastructure assets such as networks of roads, water, sewage and the privatization of the telecommunication market. An airport was built in Gaza, which facilitated the travel of Palestinians and increased the potential for Palestinian products to reach export markets.

# GAZA ECONOMIC STRATEGY

New private investments were made in almost all sectors of the economy including industry, service and particularly construction. During this period, more than 80% of the private investment was in the construction industry. However, despite GDP growth in this period (GDP for West Bank and Gaza increased from USD 3.65 billion in 1994 to USD 5.3 billion in 2001)<sup>1</sup> real GNP per capita increased only marginally in Gaza from USD 1,162 in 1994 to USD 1,166 in 2003<sup>2</sup>.

## Period II: 2000 - 2005

Between September 2000 and August 2005—i.e., the start of the second Intifada up until the Israeli unilateral withdrawal from the Gaza Strip—restrictions on trade and movement of goods and people led to progressive economic deterioration. This period was characterized by unprecedented macroeconomic pressures, declining incomes and high rates of unemployment and poverty. By 2005, the real value of output produced (GDP) was estimated to be about 9% below its 1999 level; per capita income was about 33% below its 1999 level; unemployment averaged 24% of the labor force—twice its pre-crisis rate—and deep poverty affected 22% of Palestinian households—about twice its 1999 rate. By social scientific and historic measures, such conditions constitute prolonged socio-economic crisis.

## Period III: 2005 - 2006

In August 2005, Israel unilaterally disengaged from the Gaza Strip. The political developments that followed included the January 2006 parliamentary elections, where Hamas party won parliament majority, resulting in an international boycott of the Palestinian government.

In addition, factional violence occurred in the Gaza Strip and following the 2006 capture of an Israeli soldier, a strong siege on Gaza was imposed. A unity government was later formed with the hope of saving the situation but there were no tangible improvements on the ground. These developments led to an economic crisis in the West Bank and Gaza with commensurate drops in all economic indicators and the deterioration of the investment climate. During this period, public investment nearly ceased as almost all government funds were used to pay civil service salaries and cover operating costs. According to the IMF, private investments declined by over 15% between 2005 and 2006.

## Period IV: 2006 - 2007

Upon the Hamas movement's takeover of the Gaza Strip in May of 2007, the situation became worse. Israel imposed a full blockade on Gaza and enforced restrictions to squeeze the Strip's economic development with a declared political purpose. In the beginning, this blockade resulted in the full standstill of all key economic sectors in Gaza including trade, construction, industry, and agriculture. Gradually, the economy began to partially recover by importing goods and raw materials through smuggling tunnels with Egypt to compensate for the lost Israeli market. Improvements were seen in some working sectors but not in construction and industry, two of the most important sectors for the economy.

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<sup>1</sup> Dan Cork, "The Palestinian Economy Post Oslo : Unsustainable Development", July 2001, <http://www.thejerusalemfund.org/ht/display/ContentDetails/i/2106/pid/2254>

<sup>2</sup> Palestine Investment Conference, "Revitalizing Gaza - White Paper", May 2008.

## Period V: 2007 - 2010

The situation remained more or less the same until the Israeli military assault on Gaza, following which tunnel operations increased, industrial capacity decreased, and humanitarian aid took a larger role in the economy. This period witnessed reduced production in some industrial sub sectors, a further shift of trade towards Egypt, and the creation of an “Allowed Goods List” from Israel to Gaza resulting in a shift of trade and consumer behavior toward the Egyptian market.

Upon the relative “relaxation of the blockade” on Gaza after the Turkish flotilla incident in June of 2010, Israel adopted a new “Banned Goods List” which reversed the situation to favor trade routes with Israel. This placed new market pressures on local economic actors who had, by then, begun to adapt to the new markets, import destinations, and competition trends and norms. The two major economic sectors in Gaza, construction and industry, remain almost paralyzed as most of the inputs for their operations are on the banned list and/or they remain unable to access markets as of the preparation of this Strategy.

Developments are slowly taking place following the changes in Israeli policy toward Gaza, including greater international attention towards the needs of the private sector in Gaza, and the shift toward trade as a key economic sector. However, other historically leading sectors continue to deteriorate and the political horizon remains uncertain. Significant improvements in the economy of both the West Bank and Gaza will depend on meaningful commitments to the peace process from Israel and the international community as well as achieving internal reconciliation.

## II. OVERVIEW OF CURRENT SITUATION

The private sector in the Gaza Strip, which generates 53% of total employment, has been hard hit by the closure and the resulting lack of raw materials and trade opportunities. The majority of private businesses have closed down, resulting in the layoff of more than 75,000 out of approximately 110,000 workers employed by the private sector. Between 2004 and 2008, Gaza's GDP declined by about 20%. The manufacturing sector was the hardest hit with a decline of about 75% in its value of output. Transportation services—directly connected to manufacturing—declined by about 64%, while construction activities declined by about 54%. The decline in the agricultural sector was also estimated at about 54%. The Table below provides more insight on the status of the private sector contribution to Gaza's GDP between the years 2000-2008<sup>3</sup> (the latest available date).

In March 2009, the Private Sector Coordination Council (PSCC) issued a report estimating the value of damage to the industrial, commercial, and services sectors, based on a preliminary damage assessment conducted in partnership with the United Nations Development Programme (UNDP) in the immediate aftermath of the 2008 Israeli military assault. The PSCC report confirmed total estimated damages of USD 140 million, although its estimate of the distribution of damages differed from the UNDP findings. Another assessment of damages, undertaken by Development Alternatives Inc. (DAI) for the PNA and the European Union (EU), assessed the damages at a lower value. The UNDP-PSCC assessment was conducted immediately after the Israeli military assault and was not comprehensive.

Regardless of the precise value of the damage, all findings indicate that the private sector sustained major damage during the last four years as a result of the economic siege and the military assault. Reports concerning damages incurred by the private sector (excluding agriculture) indicated that about 1,165 private sector establishments were totally or partially destroyed as a result of the Israeli military assault, of which 324, i.e. one third, were industrial establishments (44% were totally destroyed, while 56% were partially destroyed). TABLE 1 summarizes the key variables tracing the economic impacts.

**Table 1:** Gross Domestic Product in Gaza Strip by Economic Activity from 2000 to 2008 (Millions of Constant USD)

Economic Activity	2000	2002	2004	2006	2008
Agriculture and fishing	116.8	90.7	115.6	90.3	89.4
Mining, manufacturing, electricity and water	74.1	172.5	183.8	131.5	74.7
Mining and quarrying	0.0	0.0	0.0	0.0	0.0
Manufacturing	37.7	104.5	113.9	85.2	28.1
Electricity and water supply	36.4	68.0	69.9	46.3	46.6
Construction	121.6	43.5	88.6	94.7	40.5
Wholesale and retail trade	126.1	121.9	129.3	125.2	84.5
Transport, storage and communications	26.8	18.4	22.2	25.2	8.1
Financial intermediation	42.9	32.4	33.9	55.3	42.7
Services	355.4	313.9	387.1	351.8	394.3
Real estate, renting and business services	192.4	142.6	172.3	104.8	129.8
Community, social and personal services	8.1	9.1	14.7	17.7	21.1
Hotels and restaurants	7.6	2.4	8.0	13.9	6.5
Education	113.4	113.1	153.3	172.5	187.7
Health and social work	33.9	46.7	38.8	42.9	49.2

<sup>3</sup> PCBS, unpublished data.

Economic Activity	2000	2002	2004	2006	2008
Public administration and defense	222.9	209.8	249.7	298.0	265.1
Households with employed persons	2.1	1.5	1.3	0.4	0.0
Public owned employed persons	77.3	54.1	53.4	79.6	109.8
FISIM	-61.7	-39.9	-45.7	-51.6	-110.1
Customs duties	57.8	15.1	64.7	61.5	43.9
VAT on imports, net	80.8	38.9	107.1	82.7	72.6
Gross Domestic Product	1,115.5	1,344.6	1,391.0	1,072.8	1,242.9

Source: Palestinian Central Bureau of Statistics

Connections between businesses in Israel and the Gaza Strip, which had continued despite the political turmoil, are now severed. Even if there is a resumption of Gaza-Israel trade, Israeli entrepreneurs may be reluctant to return to their business contacts in Gaza once they find alternative trading partners and suppliers.

Banking services in Gaza, particularly those serving the private sector, have been gravely affected due to the restrictions on cash supplies to banks in Gaza, bank transfers between branch offices in Gaza and headquarters in the West Bank, and banking operations between banks in Gaza and Israel. Restrictions have been applied on all three currencies used in Gaza [New Israeli Shekel (NIS), Jordanian Dinar (JD), and United States Dollar (USD)]. As the NIS is the main currency Palestinians use in their daily transactions, Israel has allowed some intermittent supply. However, these restrictions prevented businessmen in Gaza from conducting any financial transactions with Israeli banks and / or collecting money owed from Israeli traders.

Upon the relative “relaxation” of the blockade on Gaza in June of 2010, imports to Gaza from Israel and the West Bank increased. However, many items needed for the revitalization of the economy in Gaza remain on the banned list, including construction materials and raw materials for major industries. Thus the improvement in GDP indicators is quite small, with no real growth.

## A. Sectoral Performance

### 1. Agriculture

The agricultural sector has historically been a key driver of economic growth in the Palestinian economy. Agricultural practices in the Gaza Strip are divided into two main categories: i) cash and export-oriented crops (cherry tomatoes, strawberries, cut flowers, etc.); and ii) traditional crops of vegetables and fruits that are produced mainly for local consumption with some sales in the West Bank and Israel.

Prior to the second Intifada initiated on September 29th, 2000, there were approximately 170,000 donums<sup>4</sup> (17,000 Ha) of cultivated land in the Gaza Strip, of which 42,000 were planted with citrus fruits; 62,000 were devoted to irrigated vegetables, including strawberries and vegetables planted in greenhouses and 21,000 were planted with fruit trees such as almonds, guava, grapes, palm seedlings, and olives. The rest of the land was planted with rain-fed crops such as wheat, barley, and okra. An estimated 21,000 people worked in the cash crops sub-sector, while some 37,000 people worked in the traditional farming sub-sector prior to the June 2007 events.

<sup>4</sup> This report uses donums, defined as 1/10 of a hectare, or 1,000 square meters.

# GAZA ECONOMIC STRATEGY

Since the start of the Intifada the agriculture sector in the Gaza Strip suffered a great number of attacks and reprisals by the Israeli Army and Jewish settlers. These attacks took the form of bulldozing hundreds of donums, the demolition of houses, as well as the destruction of greenhouses, trees, vegetables, watering systems and wells. Furthermore, a large number of donums were sealed off as “Closed Military Areas” while others were confiscated to be used for settlement expansions, the creation of by-pass roads and buffer zones. The Palestinian Ministry of Agriculture (MoA) reported that from 2000-2006 some 77,000 donums (7,700 Ha) were bulldozed, with the total damages to the agricultural sector estimated at USD 1,350 million.

The blockade of Gaza that started in 2006 has had a severe impact on the agriculture sector. Total agricultural export losses, including cash crop losses, are estimated at USD 30 million in 2009 and about 40,000 farmers were laid off<sup>5</sup>. Cash crop losses individually are estimated at USD 15 million, with 7,500 jobs lost. Moreover, additional losses were incurred during the Israeli military assault.

In December of 2010, Israel allowed exports of certain agricultural products to the West Bank. However, farmers had already shifted to plant crops suitable for their local market, not those banned from exportation. The new agricultural products will be ready to export in two to three months at the earliest. Even then, the overall supply response to this unanticipated demand will be limited, as imports of the necessary equipment and inputs for the high quality required for the export sector are still very limited.

## 2. Manufacturing

Since 2000 industrial establishments in Gaza have struggled to survive through continuous closures and military incursions. The direct damage to the manufacturing sector during Israeli incursions and air-strikes between September 2000 and March 2007 was estimated at USD 37 million. Nonetheless, the sector maintained 3,900 working establishments and employed around 35,000 workers. The table below provides additional data on some of the leading sub-sectors.

**Table 2:** Employment in Manufacturing in 2005

Industry	Normal Situation 2005	
	Employment	Establishments
Furniture	6,500	600
Garments	25,000	660
Food Processing	2,500	100

Source: Palestinian Central Bureau of Statistics

On June 14, 2007, Israel banned the export of all goods from the Gaza Strip, and imports of all goods into Gaza except what the Israeli government itself labeled as “humanitarian”. The blockade resulted in the closure of most of the manufacturing industry, which was deprived of materials and an export market, leading to a surge in unemployment.

According to the Palestinian Federation of Industries (PFI), 97% of manufacturing establishments closed with the remaining 3% producing animal feed and milling flour. The number of establishments in operation gradually increased to 10% throughout 2007 as processed food manufacturers gradually returned to operations, employing about 2,000 individuals.

<sup>5</sup> Gaza, A Year Siege!, PalTrade July 14,2008

**Table 3:** Employment and Establishments in Manufacturing During the Closure 2008

Industry	During the Closure 2008	
	Employment	Establishments
Furniture	75	25
Garments	100	30
Food Processing	120	20

Source: Palestinian Central Bureau of Statistics

During 2009, the flow of goods arriving through tunnels from Egypt, including fuel, spare parts, raw materials and other items, has apparently allowed some production and industrial activities to resume. By 2009 the number of working establishments had increased to about 30% of the 2007 baseline.

The 23-day Israeli military assault against the Gaza Strip was the latest in a series of control measures taken by Israel, which had intensified since 2000. According to the Gaza Private Sector Revitalization Program, 1,033 private sector establishments—of which 324 were industrial establishments—have registered as partially or fully damaged. Exact damage and loss figures are not final, however, the Palestinian National Authority estimated the damage from the military assault at approximately USD 48 million. Some 94% of all damage was the destruction of the main production elements—buildings and equipment. Destroyed goods constituted only a small percentage (6%) of the total destruction as most of the manufacturing plants had already shut down and no finished goods existed. No raw and construction goods were allowed to enter Gaza before and after the military assault.

Although still too low to allow for sufficient economic activity, levels of imports of raw materials have risen a bit following the introduction of new Israeli policies on June 20, 2010, allowing Gaza’s industrial sector to improve slightly. Many factories in Gaza were able to restart manufacturing soon after the necessary inputs were allowed in, with the food industry, plastics and packaging sectors being the first to recover. Meanwhile, the flow of goods through tunnels from Egypt, including fuel, spare parts, and other limited inputs, continued to arrive. This allowed some production and private sector activities to resume – albeit in the context of an unregulated informal economy. In some cases, industrial production restarted on a limited scale and focused solely on the domestic market.

Local business organizations reported that employment in the industrial sector increased from about 2,000 during 2008 to nearly 5,000 at the end of 2009; still well short of the 35,000 employed in June 2007 before the total closure. Ongoing restrictions on imports are matched by strict bans on the flow of goods from Gaza to the West Bank, Israel and the rest of the world. As a result, economic activity is nearly completely dependent on domestic demand. Companies that manufacture products for the domestic market are therefore at an advantage although chemicals and metalwork firms are also expected to recover. The vital and once vibrant furniture and textiles sectors (which export 76% and 90% of their products to Israel respectively) will need significant assistance if they are ever to re-establish themselves.

# GAZA ECONOMIC STRATEGY

Table 4 provides some information on the status of the manufacturing sector after the Flotilla incident in the Gaza Sea.

**Table 4:** Decline in Manufacturing during 2010

Sector	Indicator	Aug-Sep 2010	Notes
Manufacturing	Number of establishments in operation	35%	Approximately 15% of establishments are working at 30%-60% capacity utilization.
	Number of workers	6,000	Another 20% are operating at around 20% capacity.

Source: Palestinian Central Bureau of Statistics

## 3. Construction

Since the establishment of the PNA in 1994 up until the blockade of Gaza, the construction and building sector has been the fastest growing among all economic sectors. In 2000, the sector comprised over 33% of total GDP and employed over 22% of the work force. The construction materials imported through Gaza crossings before the 2007 blockade comprised over 52% of the total imports to Gaza. The Palestinian Central Bureau of Statistics (PCBS) estimated the value of implemented projects as of 1999 at over USD 1.5 billion. However, the sector performance and growth in Gaza slowed down as a result of political factors including the 2000 Intifada, the 2007 blockade of the Gaza Strip, as well as the Israeli military assault on Gaza.

Today's great demand for construction results from insufficient construction during the blockade, representing a significant opportunity for the sector if the political environment moves forward positively. Tens of building projects were suspended pending the availability of building and finishing materials and many residential units, roads, infrastructure, official buildings, schools and other resources have received no maintenance in recent years. Furthermore, over 4,000 residential units were totally destroyed and 15,000 were partially damaged during the military assault on Gaza.

Currently, there is a need for over 35,000 residential units, and around 250 schools (UNRWA and government operated), in addition to at least 5,000 new residential units needed annually in the Gaza Strip. The freeze on construction has also led to higher costs and lower profit margins in commercial, tourist, industrial, and other investments, which would benefit from greater access to inputs.

In 2009, the international community pledged USD 4.7 billion at "The International Conference in Support for the Palestinian Economy for the Reconstruction of Gaza". A large portion of the pledges were dedicated for the reconstruction of the physical damage resulting from the Israeli military assault. However, due to the continued blockade, to date there has been no disbursement of these funds. Some attempts to address the urgent construction needs in Gaza were conducted by local and international community agencies through "Mud Building". However, these attempts were challenged on the basis of wasting limited agricultural land, limitations in vertical expansion options, high costs, and lack of finishing and support building materials.

It is worth mentioning that building materials were the first items to be banned upon the inception of the blockade. Israel continued to keep these materials on the blocked items list until early 2010. Pressure from the international community resulted in partial allowance of some finishing items including glass, aluminum, and wood but the quantities allowed were not sufficient for

major construction and the main materials needed (i.e. gravel, cement, etc.) are still blocked for commercial use. It is also worth mentioning that continued international pressure has led to the entry of such materials for the benefit of international construction projects, under the responsibility of the beneficiary international agencies, and using UN fleets for transportation.

## **Sector Characteristics**

The construction sector in Gaza is characterized by many key advantages that create opportunities for the future. Among these are:

1. A well organized representative organization, the Palestinian Contractors' Union, which is an active player with all stakeholders.
2. An updated classification system for the working companies in accordance with standards and local conditions.
3. Experienced labor with technical know-how. The number of workers in the sector is estimated at 50,000.
4. Management experts with experience in regional countries, international contractors, and local firms.
5. Equipment is available for the sector including ready mix factories, pumps, and tile factories. Although Israel destroyed the productive capacity of many of these factories during the Israeli military assault on Gaza to limit/delay any reconstruction attempts, some remain.
6. Management and financial capacity to implement and manage relatively large size projects.
7. Experienced engineering services sector and firms.
8. The availability of immediate funding for several large size projects including 110 schools for UNRWA, Sheikh Khalifa Housing Project (5,000 units), water and sanitation, sewage treatment, clinics, infrastructure, etc.
9. Financing support and international donor support projects.

The existing opportunities for the sector, upon removal of the blockade, include:

- Immediate resumption of building projects that are currently on hold
- Investment in low income housing projects
- Reconstruction of destroyed houses and buildings
- Reconstruction of destroyed private and public establishments
- Higher level housing residential towers
- Commercial tourist and service development projects
- Infrastructure maintenance and development
- Development of additional industrial estates

## **4. Services**

### **A. Information and Communication Technology (ICT)**

The ICT sector in the Gaza Strip is similar to that in the West Bank except for minor differences resulting from Gaza-specific conditions and the investment climate. The sector is composed of four main components:

1. Telecommunication Services and Products.
2. Software Programming and Solutions.
3. Professional Technical Training, Certification and Consulting.
4. Hardware and Accessories Products.

# GAZA ECONOMIC STRATEGY

Although by its nature the sector does not require high mobility, the continued limited access of people and goods has impacted the development of the business and readiness of this sector. Therefore, while the technical skills of workers in the sector reflect a strong ability to compete, business and marketing skills are limited to a few professionals and leading companies. In addition, sales of hardware, accessories, and telecom services in the Strip have increased along with increased demand. As for software programming and solutions, the sector started with development and Arabization of special accounting software in the late 1980's which also increased the demand and awareness for hardware, networking and other related equipment. In the mid 1990's demand from the PNA and a rapidly growing private sector created a new segment for software and hardware as development of the sector started to mature. The academic sector has also kept pace by establishing well equipped IT departments that graduate approximately 400 IT professionals annually. In addition, and as certification and upgrading of knowledge is a must in this field, many companies started investing in training and certification.

Following the Hamas takeover of Gaza in June of 2007, the ICT sector immediately faced bans on entry of equipment from Israel. This resulted in a slight lag in availability and quality of services. The sector import market was therefore replaced with tunnel supply from Egypt and the structure of the supplied products, prices and consumer behavior have all shifted accordingly. Despite the fact that main telecom operators have managed to coordinate the entry of some equipment with special authorizations from Israel, the need for more equipment remains.

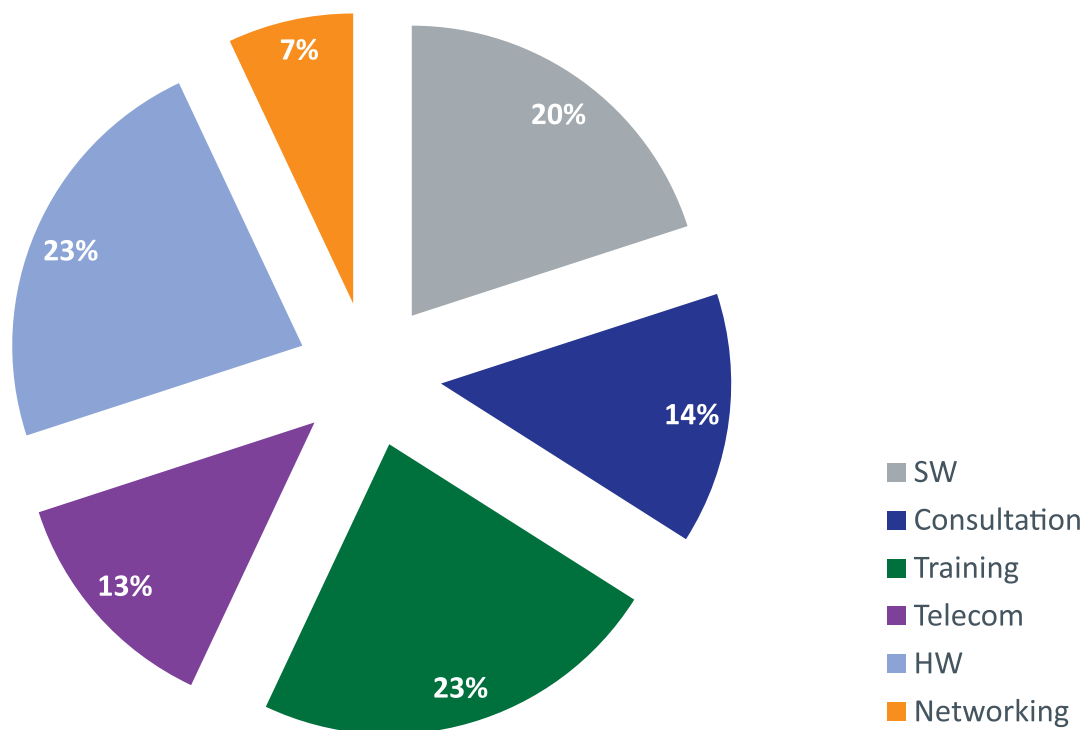
The sector today can be described as follows:

- 1. Telecommunication Services and Products:** Opportunities include: wide involvement; technical readiness with difficulties; high level of awareness; largest employer in the sector; and large market base with more demand expected as service offerings broaden and new regulations support service provision. Challenges include: the lack of entry of equipment and materials; no clear regulatory environment or existing authority; inability for professionals and staff to travel and receive advanced training; irregular electricity supply; as well as implications of blockade on purchasing power. This subsector is witnessing new opportunities with the second mobile entrant (Wataniya Mobile) in the West Bank planning to operate in the Gaza Strip and new providers utilizing business models including Bit Stream Access (BSA), VoIP, etc.
- 2. Software Programming and Solutions:** Opportunities include: technically ready companies and staff with experience working and contracting with projects and business partners; companies that are limited in size but growing and developing specialties in web development and related opportunities. In 2010 many donors began looking at this subsector as an opportunity to work with Gaza under the blockade conditions. Challenges include: the need for programs assisting this sector to entail a more in-depth analysis of the technical and business readiness as well as investment and management needs to proceed.
- 3. Professional Technical Training and Certification:** Opportunities include: availability in most common areas including advanced technical topics and solutions; a market that is growing annually with skilled graduates and advanced technologies being developed worldwide; the lack of mobility of trainers and trainees can be partially addressed through on line training of trainers programs and testing. Challenges include: the need for this subsector to be assisted with many technical and business issues that relate to advancement of provided material and topics as well as building sustainable business models in this complex environment.

**4. Hardware and Accessories Products:** Opportunities include: Gaza IT suppliers possess well established links in West Bank, Israel, and recently with Egypt which make it possible to place orders and work together with suppliers on support and delivery. Challenges include: The political situation in Gaza has had a significant impact on this subsector as fluctuations in import markets leads to unregulated competition, drops in prices and profit margins, changes in main players and suppliers, and changes in distribution and marketing mechanisms.

Figure 2 shows the sectors' sub-specialties based on 2010 estimations by the Palestinian Information Technology Association (PITA)<sup>6</sup>. The figure shows clearly that 70% of the companies in the sector in Gaza focus on services provision operation.

**Figure 2:** Areas of Activity in the Information Technology Sector



## B. Tourism Services

Gaza City is one of the most ancient and historical towns in the world. It is an Arab Canaanite town gifted with a location which has been targeted by invaders for many centuries. The strategic significance of Gaza is no less important than its trading significance. This is due to the fact that most of the important trade routes in the ancient world led to Gaza, where goods such as spices, incense, rosemary and others from South East Asia and the Arab Peninsula were exported to all cities of the Mediterranean Sea.

Until the 18th century, the city was fortified with walls and gates leading to seven towns. These gates were given the names of those towns; Balakhiya Gate, Minas Gate, Sea Gate, Ashquelon Gate, Hebron Gate, Monter Gate and Daroum Gate<sup>7</sup>.

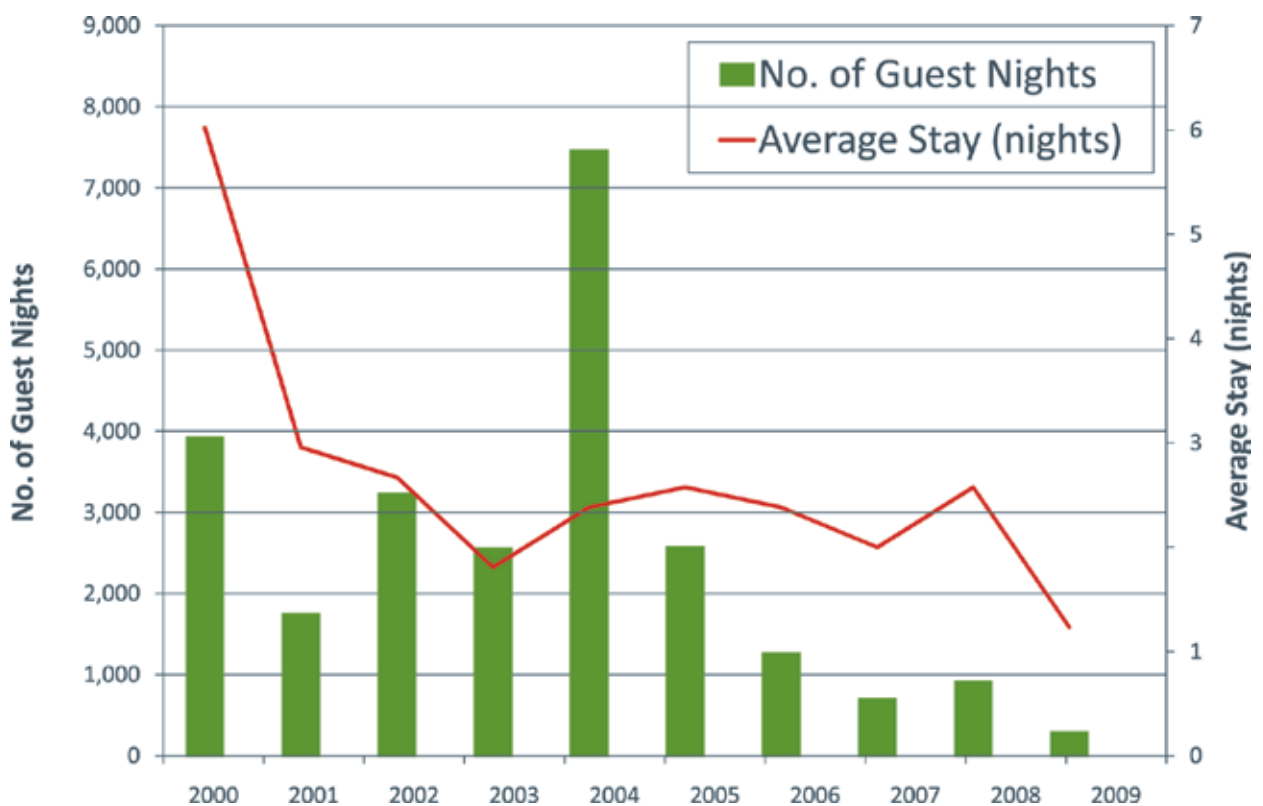
<sup>6</sup> PITA - 2010

<sup>7</sup> Palguide.com, <http://www.palguide.com/gaza.htm>

# GAZA ECONOMIC STRATEGY

From 1994 to 2000, optimism about the future political situation prevailed in the West Bank and Gaza, with the result that tourist accommodations, ancillary facilities, and services grew significantly. Today, according to PCBS, there are approximately 16 operational hotels in Gaza with a total of 500 rooms. The chart below illustrates the number of guest nights during the fourth quarter of each year between 2000 and 2009—a proxy for tourism activities in Gaza. Most of these rooms were occupied by international aid workers during the time measured.

**Figure 3:** Average Guest Nights and Length of Stay 2000-2009



Source: Palestinian Central Bureau of Statistics

Despite this clear down turn in hotel stays, Gaza has witnessed real growth in domestic tourism as residents look to internal recreational areas due to their limited ability to travel. During the summer of 2010, many large recreational projects were built along the Mediterranean Beach Road and many restaurants owners reported growth during this time. Most of these new recreational facilities were built to provide water games away from the sea, which became contaminated with sewage. It is expected that this domestic growth will continue, especially if borders open and expatriate Palestinians come back next summer to visit their families in Gaza. Despite this growth, no official data is available on the market value of this sector. Most of the information available is anecdotal or from news reports.

Although the number of persons employed in the Hotel, Restaurant and Trade sector declined from 2006-2010, the sector was able to maintain at least 96% of the jobs that were held in 2006, as shown in table 5 . It is clear from the above analysis that the tourism sector is able to maintain jobs and create additional ones even during hard times and it continues to be a sector that can create additional jobs if political and economic stability is realized.

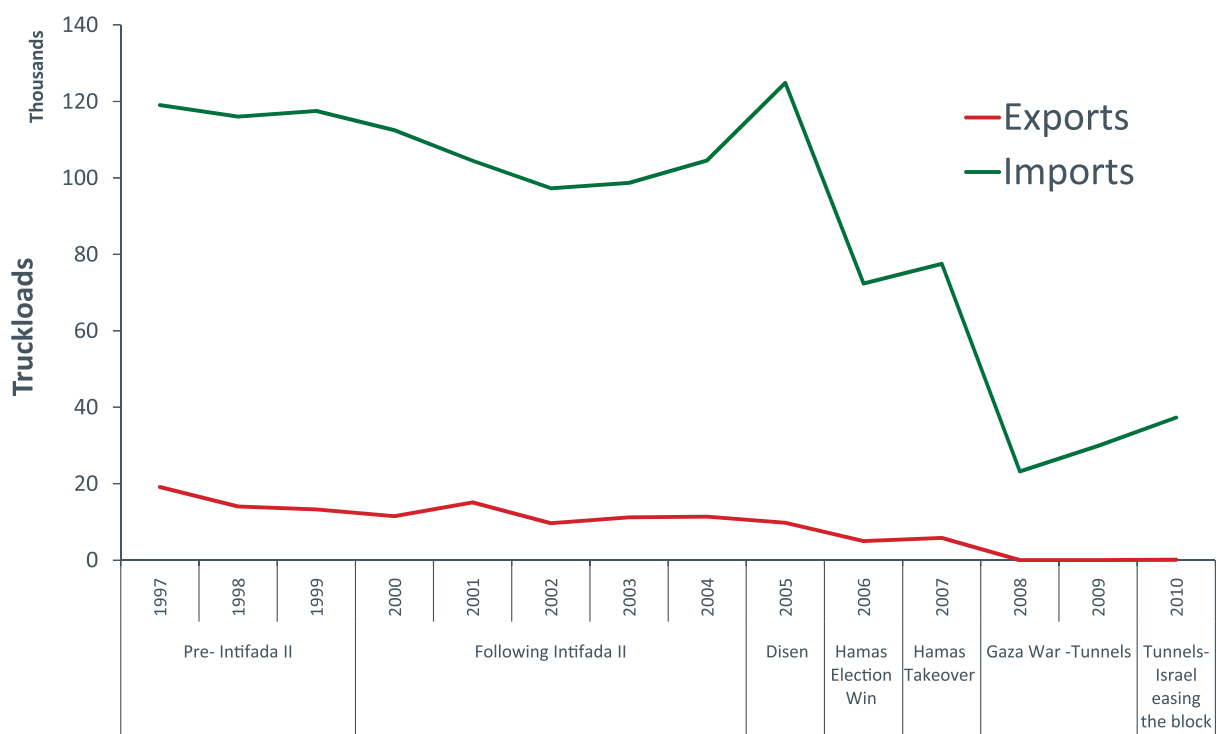


# GAZA ECONOMIC STRATEGY

The trade status and volume dropped slowly from 1997 through 2005, with the overall decline accelerating, with fluctuations and instability, until June of 2007.

Since 2007 the International Monetary Fund (IMF) has reported one percent real GDP growth resulting from the development of coping mechanisms that have allowed some economic activity to resume on a very limited scale in Gaza. However, full closure of all Gaza crossings, a revoked import code for Gaza, generation of an “allowed goods” list starting with 13 items and ending with a maximum of 103 items, and many other restrictive measures led to a dramatic decrease in trade volume after the closure and an increase in humanitarian suffering. In addition, a new crossing point (Kerem Shalom) was unilaterally opened by Israel outside of all Oslo and other signed agreements.

**Figure 5:** Imported and Exported Truckloads 1997-2010 through Gaza Crossings

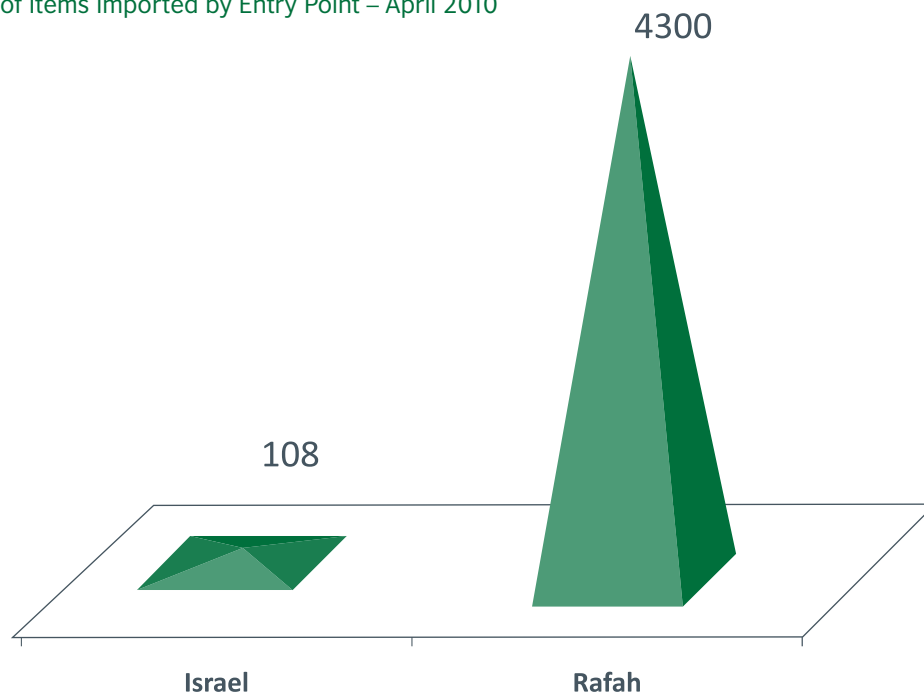


Source: Palestine Trade Center

However, the Gaza Strip’s economy enjoyed an “operational sustainability” in the number of items circulating in local markets that exceeded 4,300 items<sup>8</sup>. These multi-sector items imported from Egypt through the Rafah tunnels have created a large pool of commercial activity, labor, money exchange, and other related economic cycle components. It is reportedly safe to mention that since July of 2007 and until 2010, over 1,300 tunnels are operating, in different sizes for different commodities. Each tunnel can reportedly reap a profit of up to half a million dollars, employing thousands of workers in roles including guarding, lifting, maintenance, supervision, coordination, etc.

<sup>8</sup> PalTrade and PFI, 2010

**Figure 6:** Number of Items Imported by Entry Point – April 2010

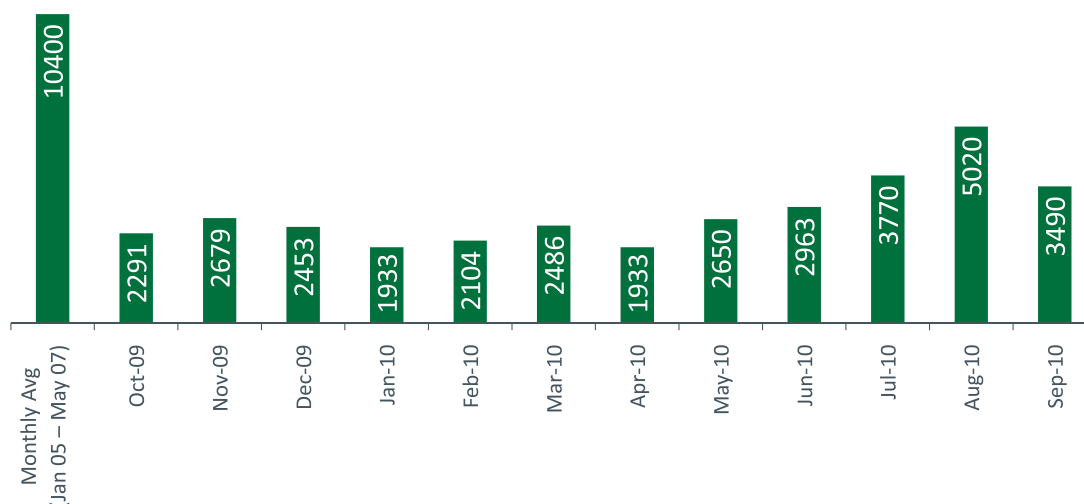


Source: Palestine Trade Center

In June 2010, the trade restrictions imposed by Israel on Gaza were relaxed somewhat, particularly on goods that Israel did not label “sensitive” goods—a measure that carries both economic and political connotations. As the relaxation excluded construction materials, some industrial raw materials, and select other goods, this caused an additional disturbance in an already disturbed market, whereby many of the components of an organized economy and trade movement are still lacking. The selective import policy that Israel is using creates confusion not only among the private sector but also among consumers buying from a mixed market of goods coming from Israel and from Egypt.

Since June 2007, import volume fluctuated between 19% and 41% of the pre-closure levels. Although, there has been some increase in volume and variety of imports with the new Israeli import policy, it remains relatively low at only 28% of pre-closure levels.

**Figure 7:** Volume of Imports 2005 - 2010

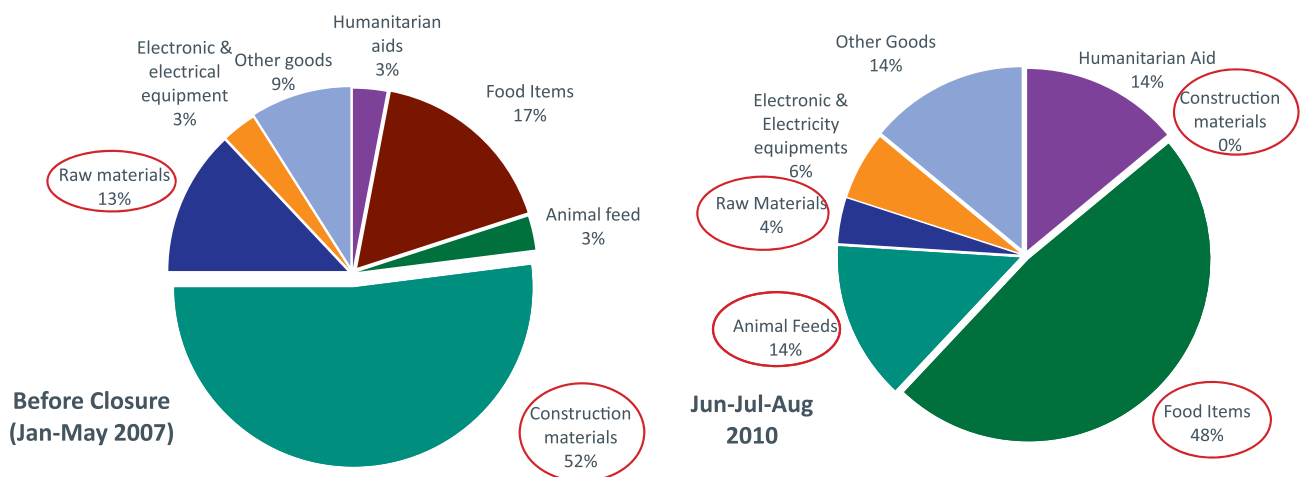


Source: Palestine Trade Center

# GAZA ECONOMIC STRATEGY

Figure 6 shows that the share of imports of raw materials and construction materials dropped significantly following the closure, along with the overall volume of imports. Raw materials comprised 13% of imports prior the closure, before falling to 4%. Construction materials dropped to zero and food items and animal feed, which had previously represented relatively small shares of imports, skyrocketed to 2.5 times and 4.5 times their previous shares as the region's self-sufficiency and ability to feed itself plummeted.

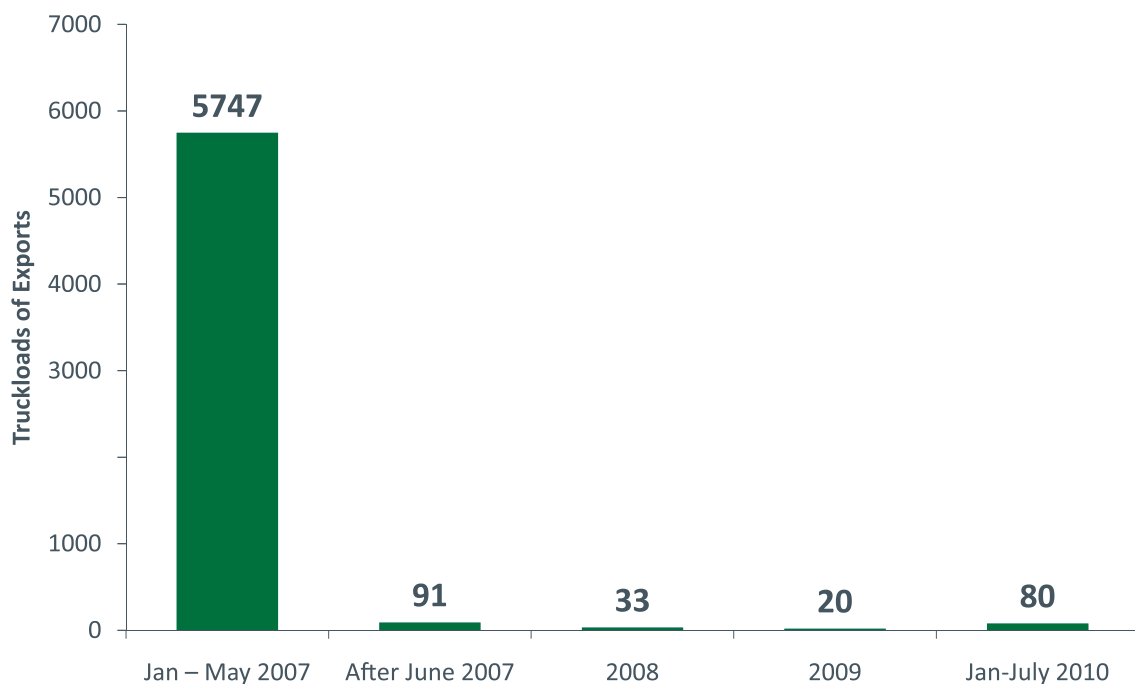
**Figure 8: Imported Goods by Classification**



Source: Palestine Trade Center

Similarly, exports of both manufactured goods and agriculture dropped significantly. Producers in Gaza have increasingly turned toward the local market, rendering them unable to take advantage of any limited openings for exports.

**Figure 9: Exports from Gaza 2007 - 2010**



Source: Palestine Trade Center

This fluctuation resulted in an unstable environment for trade in the Gaza Strip with an increased drive toward turning the Strip into a consumer market with a scattered base rather than a productive export oriented market with a stable customer base. The following recommendations are in line with the requirements to realign the trade sector in Gaza:

1. Support Agency and Distribution Agreements to market the products of other companies or expand distribution networks.
2. Provide financial support for “back to business” operations.
3. Provide special treatment for “raw material” access to Gaza.
4. Reduce costs significantly and subsidize fees of transportation, crossing, and special packaging arrangement.
5. Open existing crossing points.
6. Increase capacity of current crossing points.
7. Allow upgrades of supporting infrastructure.
8. Increase private sector engagement in planning and monitoring.
9. Activate signed trade agreements with special emphasis on the Agreement on Movement and Access (AMA).

## B. Economic Foundations

### 1. Human Resources

Human resource development has traditionally been an issue in the Gaza Strip, faced with the challenge of matching job market needs with the type and value of educational qualifications. Prior to 2006 the private sector played a major role in providing on-the-job training to university graduates, while donor projects provided support through various apprenticeship programs. However, the imposed closure of the Gaza Strip in 2006 resulted in the layoff of many employees and an inability to generate jobs to absorb new graduates. The level of the skilled workforce has declined tremendously over the past four years, due to lack of use of these skills, while many new university graduates never had the chance to join the workforce.

Since the relative easing of the Gaza closure and the resumption of some manufacturing activities, private sector actors have requested assistance from their associations to train or re-train available human resources for the job market.

The Ministry of Education and Higher Education Strategic Plan for 2008-2012 sets a good example for human resource sector intervention as it highlights the goal of providing a qualified and trained workforce, presented in the below text:

*“To realize a gradual conversion of the HE Sector and TVET sector from a supply oriented to a demand oriented sector, which, accordingly, guarantees more compatibility between outputs and labor market(s) needs (Relevance)”*

# GAZA ECONOMIC STRATEGY

The Strategy also identifies the following to be the major challenges facing the higher education sector:

- **Technical and Vocational Education and Training System (TVET):** Enrollment in secondary vocational education is low, with 5.06% of the total number of students in the secondary cycle in 2007/2008 up from 4% in 1999/2000. Although the percentage of female students in secondary vocational education has increased, it remains at 33.5%. The main reason for the low enrollment rates in TVET at secondary and post-secondary levels is the negative perception of technical and vocational education in society. Traditionally, it is thought that those who fail in academic studies or who are not admitted to academic programs of study end up in vocational and technical specializations. Career counseling in schools and post-secondary institutions is almost non-existent which exacerbates this problem. Increasing enrollment percentages and improving the availability of well-equipped schools continue to be major challenges.

Special effort is needed to attract females to nontraditional educational programs in general and to TVET in particular, through awareness-raising to make these programs socially acceptable. A major challenge, recognized by the Education Development Strategic Plan 2008-2012, is to better link TVET and its outputs, quantitatively and qualitatively, to the widely diversified needs of the labor market. Since the latter are quick to change within the present globalized world economy, programs of study should be flexible and easily updated and modernized, which is currently not the case. Additional resources will be needed to achieve this goal.

- **Access:** A major challenge continuously facing post-secondary institutions is insufficient funding. The higher education market has always been characterized by competition between institutions to attract more students in order to increase their income. In the past, new educational programs have been added to increase enrollment without necessarily considering the needs of the job market. The negative impacts of this approach on quality are evident. Furthermore, while rates of enrollment in educational institutions are high in general, access for students with special needs and from marginalized and poorer segments of society remains a challenge that could be partially addressed through improvements in student loan programs.
- **Teaching and Training Staff:** Low salaries have led staff members to take up extra work, which has a negative impact on the quality of teaching and on the amount and quality of research, especially at university level. The professional growth of staff members is restricted due to the absence of regular fellowship and scholarship programs to upgrade their qualifications and teaching skills.
- **Quality and Relevance:** This is the central challenge facing tertiary education. The weak link between educational programs and the needs of the labor market is presently a central issue in all national development programs and projects, notably the Education Development Strategic Plan and the soon to be published National Development Plan 2011-2013. The high percentage of students studying social sciences (75%) is a major contributor to unemployment among graduates, while the high student/teacher ratio leads to lower standards of teaching and learning. Addressing this issue will be a challenge under the present financial constraints as will the issue of the limited physical, material and educational resources which could enhance quality and relevance. One solution is improved electronic linking and networking among local universities and Arab and other international university resources and research networks.

Furthermore, the new Education Strategy places a strong emphasis on research, which has a direct impact on the quality of teaching. Additional programs are needed to encourage and fund research and to provide information about what research is being conducted and where. A national policy for science, technology and research is also required. There is an evident need to better link the two sub-sectors of general education and tertiary education, as the outputs from one provide inputs to the other. The National Strategy for Teacher Education will make a significant contribution in this regard since most of its implementation will be executed by post-secondary institutions.

- **Funding Tertiary Education:** As mentioned above, insufficient funding is an ongoing concern, which has a negative impact on the quality and relevance of higher education. Between 60-70% of operating budgets of universities are covered by tuition fees. Since there is no consistency in payment of tuition fees, budgets of universities suffer annual deficits. USD 20 million has been the constant figure allocated to higher education in the PNA annual budgets since 2002 but in most cases only around 60% of this budget is disbursed per year in the course of the mentioned period. Revolving funds for student loans, although of significant importance, have also suffered from lack of repayment by students and lack of grants from international sources.

## 2. Access to Technology

Access to technology is very much related to the status of the higher education and vocational training system. Access to technology has two distinct features; one is the quality and type of training Palestinians in Gaza obtain through higher education and vocational training facilities and the second is the technology used in the manufacturing and services sector. The issue of education has been discussed above and in this section we will shed some light on the issue of manufacturing technology.

Most of the technology currently used in Gaza goes back to the 1970's and 1980's with very few developments in the 1990's. Although no assessment has been conducted to determine the status of the used technology, it is clear from discussions with various sector experts that some sectors are more advanced than others. For example, furniture sector technology dates back mainly to the 1990's.

During the most recent Israeli military assault on Gaza, many industrial sectors lost their machinery, while others had to sell assets to generate liquidity. In a study prepared by PFI and Dar El Khebra it was found that 21% of firms have sold some assets and 56% of those who sold assets sold tools and machinery. The sale of assets was found to be concentrated in the garment sector.

## 3. Access to Finance

Access to finance in Palestine is divided into three main types. These three sections are: 1) Regular bank loan mechanisms; 2) Micro finance non-governmental and commercial institutions; and 3) International private sector support projects. The Gaza Strip was, together with the West Bank, receiving equal treatment in access to finance until the blockade imposed in 2007 when most of the programs in Gaza were put on hold.

Upon the establishment of the Palestinian National Authority, all three types of finance witnessed quick advancement in the number of providers, available portfolio size, variety of programs, and penetration of local markets. However, following the eruption of the 2000 Intifada the growth of

# GAZA ECONOMIC STRATEGY

these programs and institutional offerings began to slow. In 2005, and upon the Israeli unilateral withdrawal from the Gaza Strip, there were high hopes to re-energize the provision of access to finance and preparations to do so began. However, the international community's suspension of most of its support programs to the PNA after the 2006 elections resulted in:

1. Local banks limiting their loaning schemes to individuals and almost freezing their corporate loaning facilities.
2. Donor community freezing portfolio funding to local micro finance NGOs.
3. International private sector support programs holding back funding to financial support and access projects.

This situation lasted until the Israeli military assault on Gaza in 2009, when the parties involved resumed the availability of finance under specific schemes. For example, local banks resumed personal/individual loans to government and corporate employees with lower funding ceilings, gradual resumption of funding to the micro finance portfolio aimed at Gaza Strip borrowers and micro/very small size projects, and inclusion, with careful selection criteria, of Gaza based businesses in specialized private sector development projects.

In mid-2010, in the wake of the Israeli attack on the Turkish flotilla, the international community pressured Israel to end the siege on Gaza. Israel began to do so under a "relaxation of the blockade" strategy which was underway as of the completion of this Strategy. Furthermore, many international development agencies have started to investigate reengagement with the private sector in the Gaza Strip, including through access to finance. These organizations are including the Gaza Strip based businesses in their existing and planned programs for 2011 with services including access to finance, donations, loans, and others. However, no clear policy is foreseen in this line of funding and very weak promotion of the availability of this new re-activation achievement has been witnessed.

It is recommended that access to finance in the Gaza Strip be increased in general and in particular in sectors that are beginning to rebuild. Local banks, NGOs, and international agencies can all work to ensure that access to finance is improved across sectors. International pressure should support the durability of these programs in order to avoid any Israeli steps that would undermine the development sought from these related programs. Finally, further technical assistance should be offered to the recipients in order to guarantee fruitful outcomes from the available money.

## 4. Business Enabling Environment

The business regulatory framework in Gaza is governed by a set of laws that date back to different historic eras of the Palestinian history. For private business to grow it is essential that investors be assured of the rule of law and good regulatory practices that will enhance competitiveness. This has not been possible in Gaza over the past three years. The political division, the closure and the Israeli military assault have all contributed to creating an unstable environment for business.

Any private sector strategy will have to support the following areas within the business enabling environment:

- Investor confidence: Provide far broader incentives to investors such as a guarantee fund that their investment is safe in case of any military actions or instabilities.
- Access to finance: Support the financial system (banks and other financial institutions) to provide quick and risk free financial transactions to investors.
- Incentives: Provide additional tax breaks (as compared with what is offered today in the West Bank) for new investors or any expansion to existing businesses.

## 5. Physical infrastructure (roads, ports, utilities, telecom, etc)

Two years after the Israeli military assault and despite intensive efforts to initiate recovery, three quarters of the damage inflicted on buildings and infrastructure remain unrepaired and unconstructed. The UNDP estimated that around USD 527 million are required just to return the Gaza Strip to the state it was in on December 26, 2008.

A closer look reveals that the infrastructure which remains unrepaired is often that which is most essential to the basic needs of private sector development.

Gaza's limited recovery is to be attributed first and foremost to the resilience and creativity of Palestinians living there, since over the past years they have maximized the use of locally available resources. For instance, local solutions were developed to cope with the absence of pesticides. Agricultural roads were repaired with the rubble of destroyed houses. The restarting of the construction sector was prompted by the recycling of crushed rubble mixed with cement imported from tunnels. Alternative construction technologies, such as compressed Earth Block technology, are also being explored to build houses despite the Israeli blockade on construction materials.

### A. TRANSPORTATION STATUS

Transportation in the Gaza Strip depends almost exclusively on the road network. The Gaza Strip also boasts an airport that has been closed for several years after it was completely destroyed by the Israeli military, and a number of small fishing ports with a reduced fleet of fishing boats. Movements by sea are restricted by Israeli limitations on how far fishing boats can move out, a policy reinforced by a constant, heavily armed Israeli naval presence.

The ban on imports of construction materials has led to a semi-total suspension of all road construction and development projects, including projects nearing completion. In addition, most of the road maintenance projects have been suspended, which has accelerated the deterioration of the surface conditions of many roads. Poor road surface conditions have also resulted in traffic congestion, especially in major roads in urban centers.

According to PFI, for the private sector to operate fully it will need more than 500,000 m<sup>2</sup> of asphalt to repair the road network

### B. PORTS

According to PFI, the current capacity of crossing borders (Ports) is 210,000 truck loads. However it is estimated that, should all industrial establishments be bought back into full operation, Gaza ports would need to accommodate 240,000 truck loads annually.

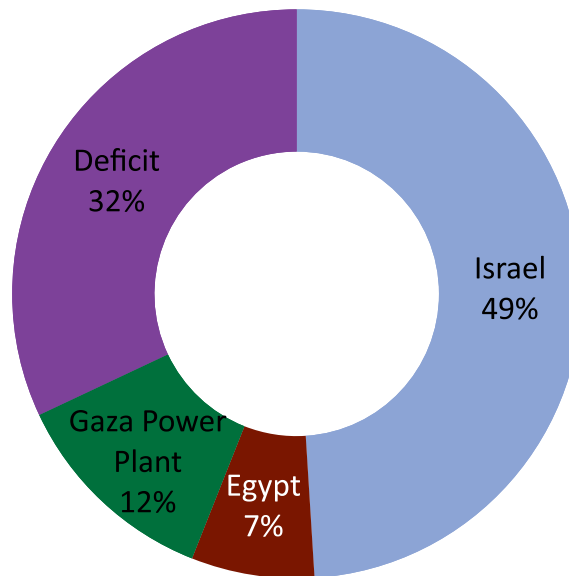
### C. ELECTRICITY

The Gaza Strip is fed by electric power from three sources:

1. The power generation station: This is the sole local power source. Power output of the station varies according to the industrial fuel allowed in by Israel, and is around 52 megawatts (MW).
2. Ten Israeli feeding lines: Currently, Israel is the main source of electric power supplied to the Gaza Strip. Power provided to the Gaza Strip from Israel reaches 120 MW. Consumption charges are paid through the Net Lending Account of the Palestinian National Authority.
3. Two Egyptian feeding lines: Egypt supplies the Gaza Strip with 17 MW. Consumption is financed from the Gaza Electricity Distribution Company's (GEDCO) subscription revenues.

# GAZA ECONOMIC STRATEGY

**Figure 10:** Electricity Consumption in the Gaza Strip and its Proportionate Sources



The Gaza Strip has been suffering from a continuous electricity deficit since 2006. Following the declaration of the Gaza Strip as a ‘hostile entity’ in November 2007, Israel decided to reduce the amount of all types of fuel allowed into Gaza, including gasoline, diesel, cooking gas, and industrial fuel. This reduction created a protracted energy crisis, with negative implications on the provision of key services.

One component of this energy crisis is the electricity deficit created by the reduction in the production levels of Gaza’s sole power plant. Production levels had already been reduced drastically following the destruction of six electric transformers by the Israeli air force in June 2006, and the restrictions on imports of fuel further compounded this problem. In the two years preceding the Israeli assault on Gaza, the power plant was forced to shut down completely for several days at a time due to lack of fuel, which resulted in power blackouts across the Gaza Strip lasting up to sixteen hours a day.

The Gaza Strip presently experiences 8-12 hours of scheduled power outages per day, which disrupt the normal functioning of humanitarian infrastructure, including health and education institutions and water and sewage systems, as well as the private sector.

The Gaza Strip presently requires a total electricity supply of approximately 244 megawatts (MW). One hundred twenty megawatts are transferred through ten high-voltage lines from Israel, 17 MW are carried from Egypt to the Rafah area and the rest of the needed electricity, 107 MW, is intended to be supplied by the Gaza Power Plant.

## F. TELECOMMUNICATION

PalTel Group has control over the provision of landline and mobile telephone services within the Gaza Strip. Landline telecommunications are provided by PalTel and mobile telecommunications by Jawwal. Telecommunication services have “in some cases” degraded due to the lack of essential spare parts and new equipment for upgrades and repairs of previously damaged equipment.

In some cases, spare parts have been in storage awaiting approval from Israel for importation into the Gaza Strip for more than four years.

## E. WATER AND SANITATION

Gaza is “downstream” from the portion of the aquifer that underlies Israel, with flows coming from Israel into the Gaza portion of the aquifer. With normal flows, the current sustainable yield of the aquifer segment underlying Gaza is estimated at about 57 million cubic meters (MCM), around 15% of the total yield of the shared aquifer, which is estimated at 360-420 MCM.

Abstractions in recent years have been running well above any estimate of sustainable yield. The overdraft is estimated at 100 MCM (2008), or almost 200%. As a result, there has been a continual decline in the static water level, water quality has been deteriorating, and there is an increase of seawater intrusion. 5-10% of the portion of the aquifer underlying Gaza is currently drinkable, with more than 90% of all 150 municipal wells containing salt and nitrate levels above the World Health Organization (WHO) standards and therefore unfit for human consumption.

Overall, significant progress was achieved by water and sanitation stakeholders in 2009 and 2010. Most recent damage has been repaired and water and sanitation stakeholders have succeeded in implementing interventions targeting the availability of potable water (water wells, water desalination, networks) and sewage treatment (emergency treatment plants), that brought some improvements to the sector. A key factor in the rehabilitation of the damaged water and sanitation infrastructure is the fact that some imports of construction materials, spare parts and equipment for the rehabilitation of water and sanitation infrastructure by the Coastal Municipalities Water Utility (CMWU) and its partners were allowed into the Gaza Strip by Israel.

In December 2009, the UN, working with the CMWU, the PNA and a range of local and international partners, put forward a strategic overview of water and sanitation needs to the Israeli authorities. The package of projects is in line with the pre-existing Water Sector Master Plan for Gaza, and, if implemented, would constitute a major move forward in addressing the water crisis in Gaza. The projects would support more efficient water extraction and distribution, and establish sewage treatment systems which recharge treated water to the ground and ultimately to the aquifer. Whilst the entire package (80 projects at an estimated value of USD 152 million) requires implementation, it includes some activities required immediately and those of an environmental strategic nature.

To date, a limited number of these projects have been considered by the Coordinator of Government Activities in the Territories. Meanwhile, the overall situation continues to deteriorate. Major interventions are needed to help reverse the current deterioration of the water and sanitation situation in the Gaza Strip. The United Nations Environment Programme (UNEP) report concluded that nearly USD 1.5 billion may be needed over a 20 year period to return the aquifer back to health, through the installation of sea water desalination plants to take pressure off the underground water supplies, and decrease the salt-water intrusion from the sea caused by over extraction.

Major interventions are also needed to repair and maintain water networks and decrease losses that have in some places reached over 60%. With regard to sewage treatment and discharge, major structural projects need to be implemented to increase the Gaza Strip sewage treatment capacity. In addition, repair, maintenance and expansion of sewage networks need to take place to decrease sewage infiltration in underground water source.

## 6. Private Sector Institutions

Private sector institutions are an important pillar in the structure of the Palestinian private sector. The private sector is represented by national and sectoral organizations specifically established

# GAZA ECONOMIC STRATEGY

**Table 6:** Private Sector Institutions Currently Operating in the Gaza Strip

Association		Mandate	
		Geographical	Objective
1	Palestine Trade Center (PalTrade)	National	Export promotion
2	Palestinian Federation of Industries	National	Industrial Development
3	Palestinian Chambers of Commerce	National and Regional	Representation
4	Palestinian IT Association of Companies (PITA)	Sectoral	Sector Development
5	Wood Industries Union	Regional	Sector Development
6	Palestinian Contractors Union	Sectoral	Sector Development
7	Palestinian Plastic Industries Association	Sectoral	Sector Development
8	Palestinian Leather Industries Association Palestinian Traditional Industries Association	Sectoral	Sector Development
9	Palestinian Constructions Industries Union	Sectoral	Sector Development
10	Palestinian Constructions Industries Union	Sectoral	Sector Development
11	Palestinian Food Industries Association	Sectoral	Sector Development
12	Palestinian Carton & Paper Industries Association	Sectoral	Sector Development
13	Palestinian Chemical Industries Association	Sectoral	Sector Development
14	Palestinian Metal & Engineering Industries Association	Sectoral	Sector Development
15	Sewing Factories Owners Association	Sectoral	Sector Development

There are a number of successful examples of specialized sector associations that are tangible and have contributed to a real private sector development, better organization and economic development. The Private Sector Coordination Council (PSCC) was established to improve coordination among the different private sector organizations in 2000. The PSCC has been playing an important role in coordinating among various private sector organizations. The PSCC does not have a legal status and it is only a coordination mechanism. The PSCC has a rotational chairmanship every six months among 4 of the members of the council. The following is a brief background on the main organizations constituting the PSCC. Table 7 provides a snapshot of the services rendered by these institutions.

**The Palestine Trade Center (PalTrade)** was established as a national, non-profit, fully private sector, and membership-based organization for exporting firms. It operates through offices in the West Bank and Gaza Strip and has strong market networks worldwide. As the National Trade Development Organization and with a membership of more than 320 Palestinian leading businesses, PalTrade advocates a competitive, enabling business environment and is dedicated to improving trade competitiveness. PalTrade was organized under the NGO Law Number 1 for the year 2000. In 2005 PalTrade was recognized by a Ministerial Decree as the Palestinian National Trade Promotion Agency. PalTrade is governed by a board of directors of 11 members, of which four are from the Gaza Strip.

**The Palestinian Federation of Industries (PFI)** is the national institution representing the Palestinian industrial sector through its federated unions. Founded in 1999 as a permanent private sector organization, PFI facilitates industrial development as the basis for economic performance. PFI's representational role is to educate, advocate, and communicate the value of a developed, socially-responsible, and globally competitive industry. PFI includes the membership

of 13 industrial unions representing various industrial sectors, of which 11 are operating in the Gaza Strip. The federation is organized under a special law number 2/2006 “Palestinian Federation of Industries and Industrial Specialized Unions”. PFI is governed by a board of directors consisting of representatives of the 13 specialized unions, out of the 13 board members five are from the Gaza Strip, including the Vice-Chairman.

**The Palestinian Information Technology Association of Companies (PITA)** was founded in early 1999 in Ramallah as a membership-based organization for locally registered companies in the ICT sector. The association represents approximately 100 companies from various sub-sectors including hardware distributors, software development firms, office automation vendors, Internet service providers, telecommunications, IT consulting, IT training and related businesses. PITA membership represents 80% of the ICT private sector (excluding PalTel, the telecom carrier and Jawwal the GSM carrier) and is an initiator for major ICT related initiatives targeting Internet diffusion, telecom regulation, establishment of high-tech parks, the university curriculum upgrade, etc. Gaza membership represents 30% of the association members. As a membership-based non-governmental and non-profit organization, PITA is organized under the NGO Law Number 1 for the year 2000 and is governed by a board of directors of nine members of which three are from the Gaza Strip.

**The Palestinian Contractors Union (PCU)** is a non-profit membership-based business organization that represents local contractors and serves the construction industry at large. The PCU aims to organize practices associated with the construction contracting profession in Palestine. The union plays an efficient role in the national economic development. PCU operates through two main offices in the West Bank and Gaza. The Gaza Branch represents 252 members or 37% of the association membership. PCU is organized under the NGO Law Number 1 for the year 2000 and is governed by a board of directors of 13 members of which six are from the Gaza Strip, including the Chairman.

**The Palestinian Businessmen Association (PBA)** was founded in 1994 in Gaza and is organized under the NGO Law Number 1 for the year 2000 and is governed by a board of directors of nine members. The association membership includes 200 businessmen and is currently hosting the PSCC.

**The Palestinian Chambers of Commerce - Gaza Governorates (GCoC)** was founded in 1954, by the Governor of Gaza during the period of Egyptian Administration of the Gaza Strip. The Chamber membership includes around 9,550 members from three main economic sectors, namely; Commerce, Industry and Agriculture. The main role of the chamber of commerce is to represent the interests of its members and provide information about the Palestinian economy and the private sector’s activity in the Gaza Strip.

# GAZA ECONOMIC STRATEGY

**Table 7:** Private Sector Institutions – Rendered Services

Rendered Service	PalTrade	PITA	PCU	PBA	PFI	GCoC
Training & Capacity Building	✓	✓			✓	✓
Quality Management & Standards	✓	✓			✓	✓
Expert Technical Assistance Services	✓	✓		✓	✓	
Public Policy & Advocacy	✓	✓	✓	✓	✓	✓
Research & Info. Services	✓	✓	✓	✓	✓	✓
Trade Promotion	✓	✓				
Market Access	✓	✓		✓	✓	✓
Logistics Services	✓	✓	✓	✓	✓	✓
Roundtables & Forums	✓	✓		✓	✓	✓
Employment Generation	✓	✓	✓		✓	✓

Any actual development of the private sector will require an assessment of organizational and operational capacities of the private sector institutions to introduce necessary adjustments, at both the operational and organizational level. This will enable the preservation of organizational flexibility, strengthen institutional comparative advantages and enable synergies among the various players in the private sector. Nonetheless, there are a few key issues that can be addressed in order to enable the private sector institutions to re-engage on a technical level and facilitate a favorable business enabling environment that would reinforce the business and social benefits of private sector activity. The following are the proposed interventions for institutional capacity building and development:

### Strategy and Corporate Governance:

- Review the institutional set-up and launch a comprehensive institutional assessment to better identify current status and required sector specific interventions.
- Identify areas of focus to promote good governance and different forms of policy and institutional dialogue with different key stakeholders including public sector in support of private-sector development.

### Membership and Services:

- Develop and adopt a systematic approach to data gathering through standardized survey instruments that serve as part of a regular analysis feeding into the preparation of private sector strategies.
- Launch programs that attract private participation in the transportation and delivery of raw materials, goods and services.
- Increase efficiency and effectiveness of existing institutions within the limited and currently available resources as well as working to the extent possible to minimize duplication of functions.

## **Organization Operations:**

- Work with the education industry to agree on a framework to develop the skills base in institutional and management practices essential for building a viable private sector.
- Strengthen capacity and provide technical assistance to build human resources and improve professional skills of executive teams. Infrastructure provision (effective and strong institutional/organizational set-up) and human resources development are particularly fundamental for any actual institutional development.
- Launch an aggressive capacity building program targeting the PSCC to better serve as a central focal point for the private sector. The program would include best practice development, staff development and organizational structuring.
- Develop strong institutional support systems to administer and monitor institutional performance thus promoting integrity and proper management concepts and values.

## **Networking and Outreach:**

Learn from the experiences of other development organizations working with the private sector. Networking, sharing of experiences and the development of partnerships with regional and international private sector institutions. This will enhance the ability of the private sector institutions and provide them with new information and tools that could be used to expand and improve their performance and service delivery.

## **C. Key Constraints to Business Development**

In this analysis, the assessment identified a number of constraints (on the horizontal) and ranked them according to their potential threat to the development of the sector. This analysis was completed through Key Informant Interviews conducted with experts from each of the listed sectors. The constraints have been ranked as High, Medium and Low with High being the biggest constraint to the development of the sector. Table 8 illustrates that while there are a large number of constraints ranked at a medium level, workforce and machinery/maintenance are the highest constraints for the largest number of traditional sectors, including plastic, garment & textile, furniture, and handicrafts. These are followed by access to markets, which is a high constraint for plastic and fishing in particular. While remaining important issues for the private sector in Gaza, electricity/water, access to finance and access to technology & know-how were ranked as medium or low constraints for the largest number of sectors.

# GAZA ECONOMIC STRATEGY

**Table 8:** Constraints Faced by Identified Business Sectors

Sector	Access to raw material	Workforce	Regulations	Access to markets	Machinery/ Maintenance	Electricity/Water	Access to finance	Access to technology & know-how	Political Instability	LEGEND: High ● Medium ○ Low ○			Narrative on Constraints
Plastic	○	●	○	●	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Quality of end products, old machinery and production lines.</li> </ul>	
Food	○	○	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Saturated market of illegal imports, lack of spare parts, product quality and standards.</li> </ul>	
Construction & Construction material	○	○	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Access to raw material, machinery and spare parts.</li> </ul>	
Garment & Textile	○	●	○	○	●	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Illegal imports: limited local market.</li> <li>Many of the industry factories are non-operational. Machinery and production lines are old and require renovations.</li> <li>Access to maintenance is limited and spare parts availability is a major concern.</li> </ul>	
Metal	○	○	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Lack of raw material. Machinery damaged over the last 3 years or outdated. Electricity outage is a major impediment. Lack of specialized industrial zones.</li> </ul>	
Chemicals	○	○	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Know-how and experience in quality and standards is a major constraint, including the access to information on formulation and chemical substitutes. Limited markets. Old machinery, especially those used for detergent and paint manufacturing.</li> </ul>	
Leather	○	○	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Limited number of products. Limited local market due to lack of variation of products. High competition from illegally imported products. Low quality of locally produced products.</li> </ul>	
Furniture	○	●	○	○	●	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Limited access to specific types of wood and accessories. Machinery and spare parts. Electricity outage. Lack of access to packaging materials.</li> </ul>	
Handicrafts	○	○	○	○	●	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>Limited market as it is directly linked to tourism.</li> </ul>	

# GAZA ECONOMIC STRATEGY

LEGEND: High ● Medium ○ Low ○		Narrative on Constraints								
Sector	Access to raw material	Workforce	Regulations	Access to markets	Machinery/ Maintenance	Electricity/Water	Access to finance	Access to technology & know-how	Political Instability	
Tourism	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>• Border Closure. Hotel sector requires a lot of maintenance services due to low occupancy rates.</li> <li>• Quality issues of hotel and restaurants services and customer.</li> <li>• Human Resources.</li> </ul>
ICT	○	○	○	○	○	○	○	○	○	<ul style="list-style-type: none"> <li>• Markets are still not developed.</li> <li>• Lack of experience approaching external market buyers.</li> <li>• Electricity cut offs add an extra burden on IT companies as they have use power generators which is an added cost.</li> <li>• Human resources.</li> </ul>
Fishing	○	○	○	●	○	○	○	○	○	<ul style="list-style-type: none"> <li>• Limited fishing area, fishing equipment, fishing ports.</li> </ul>

## D. Key Opportunities

Table 9 provides a brief analysis of various business sectors in terms of their potential for development. The results in this table do not correspond directly to individual phases, but rather present some opportunities at each phase. Those sectors with the highest potential, signified by a filled-in circle, include plastic, construction & construction material, furniture, tourism, IT/IT applications, fishing, and agriculture & agri-business. These represent both traditional sectors and those building upon traditional strengths.

In particular, within the categories of construction & construction materials, firms in Gaza have a unique opportunity to capitalize on the need for new construction by entering the green building market through energy efficient buildings and recycled and environmentally friendly building materials. Additionally, engineering services—and the potential for outsourcing in this area—builds on the traditional strength of engineering among the Palestinian private sector. Furthermore, while IT/IT applications remains relatively new, the opportunities in this sector are limitless, with opportunities for growth within the sector itself and as IT applications are disseminated throughout the private sector as a whole.






Low priority sectors include garment & textile, metal, and leather, which have historically been strong sectors within both the West Bank and Gaza, but today suffer from a combination of internal and external factors. Strategies to strengthen and revive the garment & textile and leather sectors in particular will rely on high value-added producers meeting demand from niche markets and any investment into these sectors will need to be carefully considered. The additional market research proposed under the Strategy will provide greater clarity on the direction for each of the sectors.

**Table 9:** Business Development Opportunities by Sector

		LEGEND: High ● Medium ○ Low ○	
		Possible business development opportunities	
Potential	Justification Analysis		
Sector			
Plastic	<ul style="list-style-type: none"> <li>• Low competition due to high variety in manufactured products and limited numbers of players (around 30 factories)</li> <li>• Availability of skilled and trained labor</li> <li>• Availability of raw material</li> <li>• Good access to maintenance services</li> <li>• Local demand used to require an average of %50 of the production capacity of available factories' production. However, with the expected construction activities to take place, it is expected that local factories production will all be absorbed in the local market through water, sanitary and electrical connections and fittings.</li> <li>• Plastic raw material was part of the allowed items list for import</li> </ul>	<ul style="list-style-type: none"> <li>• Plastic sheet manufacturing for green houses</li> <li>• Plastic packaging material</li> <li>• Plastic pipes and fittings</li> </ul>	
Construction material &	<ul style="list-style-type: none"> <li>• Labor intensive, employs about 4.3 percent of labor force in Gaza, most of which are skilled workers.</li> <li>• Provides the vehicle to reconstruction</li> <li>• High demand: around 35,000 housing units are needed as a result of the last 3 years. (yearly demand is 5,000 unit)</li> <li>• Huge demand for infrastructure projects</li> <li>• Market will be driven by PNA, UN bodies and INGOs projects. Private sector opportunity is very low due to access to raw materials that are listed on the banned items lists for import</li> <li>• Medium condition machinery and good access to maintenance services</li> <li>• Shortage in spare parts</li> <li>• Total Market Value is about USD 370 million, with more than 90 percent of which are donor financed projects.</li> <li>• Contribution to the Gaza GDP in 2006 is estimated at about 1.86 percent for a value of USD 23.2 million</li> <li>• There are 120 engineering consulting firms providing services to the construction industry in Gaza, about 15 of these firms are well experienced and have been involved in many local mega projects and bring in internationally gained experience.</li> </ul>	<ul style="list-style-type: none"> <li>• Contracting services and industry</li> <li>• Construction management and consultants</li> <li>• "Green" buildings and environmentally-friendly business materials</li> <li>• Engineering services</li> </ul>	
Furniture	<ul style="list-style-type: none"> <li>• Availability of raw material as wood and its accessories were part of the allowed items list. Expectations to have 7 truckloads to enter Gaza on daily basis as compare to 40-30 truckloads prior to the closure</li> <li>• High quality &amp; high demand in the local market</li> <li>• Previous export experience</li> <li>• Gaza furniture is a well-regarded brand. Proven ability to produce various types of customized designs per customers request</li> <li>• Skilled labor. Total employment is about 5,500 workers highly skilled in fine wood work</li> <li>• Good condition machinery and production lines</li> <li>• Good access to maintenance services</li> <li>• Supporting service industry: furniture design and interior design</li> </ul>	<ul style="list-style-type: none"> <li>• Home furniture and school furniture (Home furniture makes up more than %67 of production value, followed by office furniture of about %20 and construction related furniture takes up the remaining %13)</li> <li>• Furniture design and interior design services</li> </ul>	

# GAZA ECONOMIC STRATEGY

		Justification Analysis		LEGEND: High ● Medium ◎ Low ○	
				Possible business development opportunities	
Sector	Potential				
IT/IT applications	●	<ul style="list-style-type: none"> <li>• Not affected by border closures</li> <li>• Abundance in trained workforce graduating from local universities</li> <li>• Same language and time zone with many countries in the region</li> <li>• English is the second language in Gaza that is spoken by a wide segment of the population</li> </ul>	<ul style="list-style-type: none"> <li>• Outsourcing for Arab market (Gulf)</li> <li>• customized Software solutions</li> <li>• IT diffusion into civil society</li> <li>• Web design</li> <li>• Design, media, advertising</li> </ul>		
Tourism	●	<ul style="list-style-type: none"> <li>• Internal tourism has proved to be in demand especially with the growing number of recreational projects that started this summer</li> <li>• Labor intensive</li> <li>• Semi-skilled labor</li> </ul>	<ul style="list-style-type: none"> <li>• Internal tourism that focus on summer recreational services (Water parks, etc)</li> <li>• Human resources development and certification programs in areas of hospitality management and services.</li> </ul>		
Fishing	●	<ul style="list-style-type: none"> <li>• Good source of employment</li> <li>• Does not need input raw material other than material for maintenance of nets and boats and a good source of nutrients for Gaza Residents.</li> <li>• Not much development assistance has been given to this sector with the exception of few Danish projects<sup>9</sup></li> </ul>	<ul style="list-style-type: none"> <li>• Boat maintenance including structure and engine</li> <li>• Training and capacity building for new fishermen</li> </ul>		
Agriculture & Agro-business	●	<ul style="list-style-type: none"> <li>• Historically is known a key driver for economic growth in the Palestinian economy at large and especially the Gaza Strip. Gaza agricultural sector contributed 6.69 percent<sup>10</sup> to the total GDP in Gaza at a value of USD 83.2 million. It's one of the largest employers with employment contribution of about 13.1 percent</li> <li>• Skilled labor mainly those associated with Cash crops</li> <li>• Good export capabilities and readiness</li> <li>• Availability of raw materials</li> <li>• Good know-how and familiarity with standards</li> </ul>	<ul style="list-style-type: none"> <li>• Food processing using locally produced vegetables and fruits</li> <li>• Fish farms</li> <li>• Cash crops (export-oriented crops - cherry tomatoes, strawberries, cut flowers, etc.)</li> </ul>		
Food	◎	<ul style="list-style-type: none"> <li>• High competition due to imported products from Egypt, West Bank and Israel</li> <li>• Availability of raw material</li> <li>• Skilled labor</li> <li>• Good access to maintenance services</li> <li>• High performing production lines with relatively new machinery</li> <li>• Good access to know-how on quality and standards</li> <li>• This situation will further change due to the increased number of allowed items list for import</li> </ul>	<ul style="list-style-type: none"> <li>• Processed Food (Vegetables</li> <li>• Homemade-like products</li> <li>• Gaza specific traditional food</li> </ul>		

Sector	Potential	Justification Analysis	Possible business development opportunities
Chemicals		<ul style="list-style-type: none"> <li>• Development and growth of some sub-industries such as detergents and sponge.</li> <li>• Good condition machinery and good access to maintenance services</li> <li>• Decline in the manufacturing of paints due to the band for some imported items necessary for production</li> </ul>	<ul style="list-style-type: none"> <li>• Sponge manufacturing industry. It plays an important role as an associated industry that supports many other industries such as furniture, cushions, interior design, stuffed toys for children, packaging material, etc. Also, it's directly linked to the Healthcare sector through the production of mattresses for hospital beds as well as custom-made mattresses that are used for special cases.</li> </ul>
Leather		<ul style="list-style-type: none"> <li>• Availability of raw material</li> <li>• Medium skilled labor</li> <li>• Medium condition machinery and good access to maintenance services</li> <li>• Good demand for their products in the local market</li> </ul>	
Garment & Textile		<ul style="list-style-type: none"> <li>• Labor intensive</li> <li>• Limited market and non-competitive prices</li> <li>• The ratio of the local market will change as more items will be allowed to enter Gaza in the coming few weeks</li> <li>• Good condition machinery and good access to maintenance services</li> <li>• Within the coming 2 weeks access to raw material will increase (allowed as part of the allowed items list)</li> </ul>	<ul style="list-style-type: none"> <li>• Local market products and designs</li> </ul>
Metal		<ul style="list-style-type: none"> <li>• Most of the core machines demolished</li> <li>• Low production capacity</li> <li>• Growing demand for products mainly for construction</li> <li>• Available workforce</li> </ul>	<ul style="list-style-type: none"> <li>• Steel construction plants</li> <li>• Metal furniture plant for schools and hospitals</li> </ul>
Handicrafts		<ul style="list-style-type: none"> <li>• Many small workshops</li> <li>• Availability of raw materials</li> <li>• Self employment and social employment platform</li> </ul>	<ul style="list-style-type: none"> <li>• Mass production for local social events (weddings, newborn cards and gifts)</li> <li>• Develop new and innovative manufacturing methods particularly through the use of recycled products</li> </ul>

<sup>6</sup> More information on these projects is available from: <http://www.cpsd.ps/activities/research7.html>, [http://overfishing.org/interesting/documents/fisheries\\_gaza/2000\\_gaza\\_article\\_underseize.pdf](http://overfishing.org/interesting/documents/fisheries_gaza/2000_gaza_article_underseize.pdf)

<sup>10</sup> PCBS, National Accounts Statistics, 2006, Unpublished

# III. NEEDS ANALYSIS FOR PHASE DEVELOPMENT

This section summarizes the interactive engagement and input of 70 businessmen in Gaza during a full-day retreat to get their perspectives on key factors affecting the private sector in Gaza. These inputs are used as an impetus for moving forward and therefore the Palestinian Government would like to thank these professional businessmen for the insights and prospective. The following is a summary of key drivers as perceived by the private sector leaders.

## ENVIRONMENTAL SCANNING

The first step was to identify the key economic, political, social, legal, and technological factors affecting private sector development, using an Environmental Scanning process. The highest priority factors in each category are ranked as follows:

### 1. ECONOMIC FACTORS

- 1.1 Border opening for imports of raw material
- 1.2 Import of new machinery
- 1.3 Availability of skilled labor
- 1.4 Speedy payment of damage compensation amounts
- 1.5 Donor support to private sector
- 1.6 Electrical supply
- 1.7 Unfair competition
- 1.8 Border open for export
- 1.9 Relations with Israeli banks
- 1.10 Starting Gaza reconstruction projects
- 1.11 Taxes, VAT returns and other payments owed by the Government to the private sector

### 2. POLITICAL FACTORS

- 2.1 Political conditions remain unchanged
- 2.2 Re-conciliation
- 2.3 Israel imposes an economic solution
- 2.4 New Israeli military assault on Gaza
- 2.5 Collapse of the PNA

### 3. SOCIAL FACTORS

- 3.1 Increased number of new births compared to number of deaths
- 3.2 Increase in unemployment and poverty
- 3.3 Increased restrictions on personal freedom and movement
- 3.4 Immigration of youth and capital
- 3.5 Good educational system
- 3.6 Political division causes internal family division
- 3.7 Women role is neglected
- 3.8 Lack of social security system

## 4. LEGAL FACTORS

- 4.1 Political division
- 4.2 New legislation
- 4.3 Legal relationship between PNA institutions and private sector
- 4.4 Different legal references between West Bank and Gaza
- 4.5 Lack of enforcement of laws
- 4.6 Lack of legal protection from a new Israeli military assault on Gaza

## 5. TECHNOLOGICAL FACTORS

- 5.1 The application of e-government
- 5.2 Spreading the culture of the use of technology in the private sector
- 5.3 Entry of competitors in the telecommunications sector (landline & mobile)
- 5.4 Improve Internet speed and lower prices
- 5.5 Match the quality of education in different disciplines according to the needs of the private sector
- 5.6 Methodology for the development of efficient local specialized
- 5.7 Free access to machinery and high-tech
- 5.8 Free access to communications equipment

Participants in the stakeholder process were then asked to identify the two highest priority factors, whereby Economic and Political factors were selected as the primary drivers. A set of phases were developed by looking at both positive and negative assumptions about each factor, and this phase development exercise was incorporated into the four phases presented in the following section.

## IV. ECONOMIC STRATEGY FOR GAZA

Despite the significant challenges outlined in the previous sections, Gaza has in the past demonstrated high capacity for manufacturing and agricultural production, notably in sectors such as furniture, strawberries, and tourism, to name a few. Furthermore, Gaza maintains a number of natural endowments that suggest great potential for it to serve as a hub of high quality goods and specialty services in the Middle East. The region's rich history, educated population and strategic location suggest that a highly productive and sophisticated economy is attainable. While its small scale and moderate wage rates will preclude direct competition with larger neighbors in product types where low-wage, low-skill labor predominate, Gaza has previously demonstrated its ability to thrive in high-value niches.

Political factors will play a decisive role in the ability of Gaza to meet its potential—and the time frame in which it can do so. However, Gaza can and must start today to prepare for its future as part of the Palestinian State by establishing a shared economic vision and making progress in the right direction on key issues. This will entail much more than simply rebuilding factories and farms that have been damaged in recent years, and much more than simply re-creating former linkages to past markets in traditional sectors. Instead, the economy in Gaza must be reconceived to understand what the world market will demand five years (or more) from now and must prepare to meet these needs as soon as it is able to do so. This will require investment in a highly skilled, modern workforce; the technology and equipment to produce high quality goods and services that command competitive prices; and an up-to-date and ever evolving understanding of the demands of world markets.

Achievement of this vision will be a gradual process but it entails many activities that can begin today. These are presented in the following section based on the timeframe and phase that they fit:

### **Current Situation:**

Political instability and duplication of authority, imposition of severe border restrictions on movement of goods and persons, and unclear economic policies.

### **Phase #1:**

Near-term re-building of economic capacity: assumes very little change in the external situation, but improved internal economic capacity in terms of increasing domestic market share and engagement with the economy of the West Bank, improved access to finance, and concerted efforts to prepare for exports in the near future.

### **Phase #2:**

Medium-term revitalization and growth; assumes that severe restrictions on cross border movement and exports have been relaxed, with pay-off from economic capacity building and improved political stability resulting in increased domestic market share and exports, employment and a higher quality of life.

### **Phase #3:**

Future economy as a sovereign trade regime: the economy's future condition once full political and economic control over the West Bank and Gaza are attained.

## **The Mission**

*To create the best possible economy for Gaza's citizens under the constraints of each situation, solving current problems as they arise, and planning wisely by making reasonable assumptions about the future.*

This Strategy is consistent with the principles outlined in the Palestinian National Early Recovery and Reconstruction Plan for Gaza, 2009 – 2010<sup>11</sup>, namely:

- Building back better
- Revitalizing the private sector, civil society and the local economy by facilitating the conditions for local economic development
- Promoting equity and broad-based participation
- Efficient coordination and information sharing
- Ensuring local ownership [in the plan and process]
- Ensuring that interventions link with, reinforce, and facilitate the PRDP process

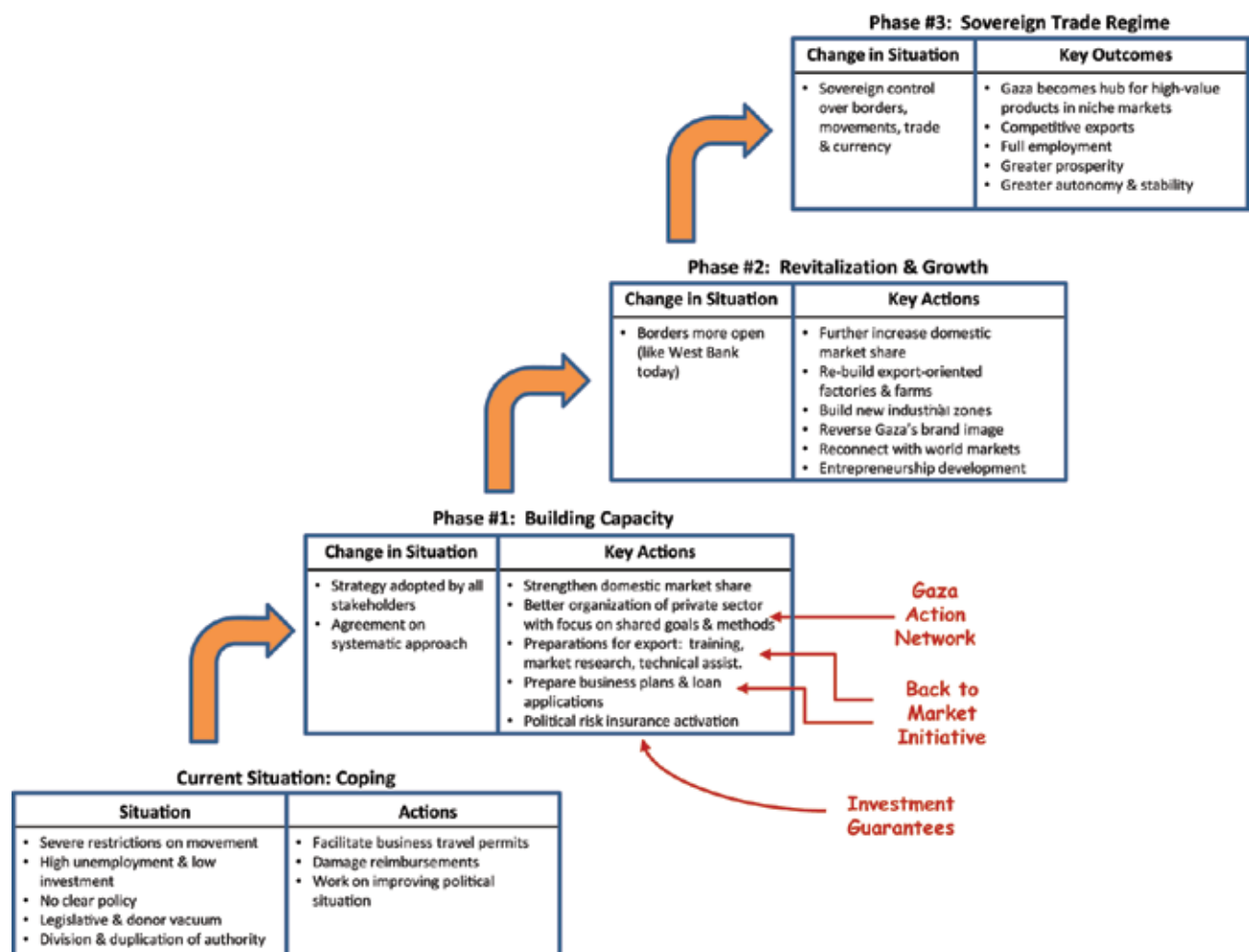
How quickly Gaza will move into and through the three future phases is, of course, impossible to forecast – but most observers agree that they represent the likely path of the Gaza economy's development. Knowing this, it is important that during each phase, the relevant stakeholders – private sector, government, and the international community – lay the groundwork for the next phase in advance. For example, even though exports of furniture are banned today (Current Situation), preparations in terms of training, market analysis, and technical specifications of necessary machinery and equipment should be actively taking place (Phase #1) in preparation for potential exports (Phase #2). The overall Strategy is summarized in Figure 10.

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<sup>11</sup> Palestinian National Authority, March 2, 2009.

# GAZA ECONOMIC STRATEGY

Figure 11: Summary of Strategy, by Phase



## A. Current Situation – “Coping”

In the current situation, with disarray in both the political and economic spheres, the main focus has been on coping with the very challenging environment. This situation is characterized by political division, high unemployment and poverty rates, irregular and disorganized crossings, the absence of a clear economic policy for Gaza, a legislative vacuum, and a burgeoning informal economy.

Primary activities have thus catered to meeting humanitarian needs and the urgent, short-term needs of existing businesses. Furthermore, efforts to resolve the outstanding political issues so as to make this phase as short as possible are showing signs of progress<sup>12</sup>. While humanitarian needs remain pressing, there are a number of pro-active initiatives that can begin to transform the economy and prepare for future phases as described below.

### Action Items for Current Situation

- **Build competitiveness within the domestic market.** The domestic market is the main focus at this time and ability to compete with imports would be strengthened by beginning worker rehabilitation, promotion of locally produced products, and improved quality, and quality control, for locally produced goods.
- **Improve integration between educational institutions and the private sector.** Link training and educational programs to more effectively meet the needs of the private sector (and thus the job market) through a two-way communication stream that supports tailoring of program offerings, certifications, and degree programs as necessary.
- **Facilitate Special Business Travel Permits.** Maximum assistance to immediate needs of businesses such as negotiating open-ended border crossing permits for a “short list” of perhaps business owners and managers whose businesses are suffering due to lack of access to the outside world.
- **Accelerated reimbursements for damage.** Continued high priority of assistance via the Gaza Reconstruction Unit to businesses that were damaged in the most recent aggression. Many of these companies are not ready to reinvest the recovered damages, but it is important to have the process completed so that they are ready to act when the time comes for them to invest.
- **Empower the private sector institutional platforms to support members’ needs and deal with current policy issues.**

## B. Phase #1: Regrouping and Building Economic Capacity

In the immediate future, stakeholders can start making progress toward addressing more fundamental economic issues, despite continued stalemate at the political level. Some progress can be achieved in re-capturing the domestic market, and in accelerating the preparations for exporting, which will ultimately have to be the real engine of growth for the economy once outside assistance ramps downward. The main theme during this phase will be building a springboard for the future economy. The main assumption behind this phase is the adoption of this Strategy, with a consensus across all key stakeholders that concerted actions in a positive direction will place Gaza in the best possible position to take advantage of changing events. This in itself will require a high degree of coordination and agreement between the government, international community, private sector and civil society regarding the vision for Gaza’s future, but requires no other specific internal or external events to take place for Phase #1 to unfold as laid out below.

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<sup>12</sup>Such signs include the easing of restrictions on exports of some agricultural products, December 2010.

# GAZA ECONOMIC STRATEGY

In this phase, the main strategic focus will be on economic capacity building, and most of the impetus for change will need to come from better coordination and shared commitment among the key private sector and public sector players, with assistance from the international community. Much of the effort is reflected in the recently proposed Gaza Early Recovery Program (GERP), but needs to be even more extensive.

In December, 2010, Israel without warning allowed the export of limited quantities of certain agricultural products. However, producers in Gaza will not be able to respond to this new market for at least three months, as all of their current capacity is already geared toward the domestic market, which has significantly different requirements. Even for products with a three-month growing cycle, it will take much longer than three months to come up to full capacity in these markets, as production issues like lack of inputs, health certifications, and distribution channels are being addressed.

The main goal of the Strategy during this phase is to prepare systematically for this ‘opening moment’ in each sector, not only among private sector producers but also among all the public and semi-public agencies (such as quality certification and market research) that play a role in production for export. Not only can such preparation ensure that time is not lost on “Day One Plus”, but, more importantly, that the right equipment for the right products for the right markets is being utilized, and that high quality production is taking place from the start, avoiding reputation issues that could stall Gaza’s resurgence in world markets. The recommended action items for Phase #1 reflect these priorities.

## Action Items for Phase #1

- **Make initial efforts to increase domestic market share.** Special emphasis to be placed on industries that will eventually be the main exporters, such as agriculture, furniture, tourism and IT.
- Review existing **political risk insurance mechanisms** under institutions including the Palestine Investment Fund’s Loan Guarantee Program (LGP), Multilateral Investment Guarantee Fund (MIGA), and Overseas Private Investment Corporation (OPIC). These may be tailored to meet the current need or directly reactivated. However, should this not satisfy the needs of the private sector for Gaza at this stage, a **Universal Investment Guarantee Mechanism** should be considered to cover political risk. This would expand upon the existing MIGA program to provide nearly automatic coverage for all investors guaranteed through the MIGA. While funds for this program would be required from members of the international community, it would not be significantly more burdensome than other commitments made from 2007-2009 and would significantly expand the incentive to invest. This mechanism needs to be put in place during Phase 1 as the investments at which the coverage is primarily targeted will take place in Phase 2. Details are included in Section V.B below.
- Establish the **Back to Market initiative** to assist business owners who are launching or re-launching a business. Provision of assistance with market analysis, technology selection, financing, preparation of business plans, etc. Specialists will be required for the biggest potential export sectors (e.g. furniture, tourism, and food processing), as well as those that provide general business support. One key role for the program will be to assist in intensive planning with entrepreneurs on how to re-build their factories and related production capabilities once exports become widely feasible in Phase 2. The focus will be on evaluating markets, product types, technologies, types of equipment, training requirements, so that when reconstruction begins, a forward-looking plan is in place for each sub-sector, and ideally, for each enterprise. Re-training programs at this stage will be key – training can take

place even while exports are still banned, preparing workers, technicians and managers for a rapid take-off as soon as the restrictions on exports are eased.

- Establish **specialized training, marketing and applied research programs** to assist companies to understand changes in the marketplace and new requirements on the part of customers and changes in distribution channels, and to develop products and marketing strategies to be successful as soon as exports are allowed. Marketing and research may be housed within PalTrade or other relevant organizations, or require additional investments for specialized training centers in particular.
  - Further **build the capacity of existing private sector infrastructure**, including universities that could support this agenda.
- Rapid expansion of funding for **overseas training and internship programs**, combined with study tours and ‘business brokerage’ opportunities (expos, trade fairs), also with emphasis on targeted sectors. While permits to cross the border for commercial purposes are still severely limited, trips with an educational purpose (including internships) are permitted, and valuable training, experience, market knowledge and network contacts can be obtained in 6-month internships in carefully selected host companies (e.g. Danish furniture factories, or Dutch flower operations).
  - Put in place **linkages to key markets**, through PalTrade and others: events, webinars, video-conferences and other tools for improved communications with Israel and the West Bank initially, followed by regional neighbors. During this phase, key markets for priority sectors should be identified and approaches established for eventually reaching out to markets in the rest of the Middle East and eventually Turkey, Europe, the U.S., and Africa. This activity is designed for improved market positioning in preparation for an export drive in Phase 2.
  - Working with the Palestinian Federation of Industries, evaluation of **infrastructure** and joint requirements for export-oriented industries, such as irrigation and power to greenhouses, facilities at fishing port(s), cold storage/cold chain, and packaging facilities.

## C. Phase #2: Revitalization and Growth

The key distinguishing feature of this phase is the opening of Gaza’s borders toward a more free movement of goods and people, in both directions. There is no way to predict when this will occur; the only certainty is that it will occur. If either enterprises or public sector entities have not prepared meticulously for this moment, years of potential growth could be lost, and some wrong directions may be taken. The specter of a factory owner, finally seeing that exports are permitted and using his compensation funds to replace a factory that was originally built in 1995 with the same type of equipment, when the market has changed considerably in the meantime, is only one of the negative phases that this Strategy is intended to prevent.

Phase 3 represents a fresh start, during which Gaza will re-connect with world markets, entrepreneurs will be empowered, and Gaza will be re-branded in the eyes of the world as a region that produces high quality goods and services and is eager to regain its distinctive niche in world markets.

The assumptions behind this phase include increasingly open borders, integrated and supportive economic policies, and the establishment of a second industrial area (in addition to the Gaza industrial zone), increased exports and further development of the tourism industry; strengthened private sector institutions; and a stable legal environment.

*The recommended action items for Phase #2 reflect these priorities.*

# GAZA ECONOMIC STRATEGY

## Action Items for Phase #2

- **Re-capture domestic market share.** As import restrictions are lifted firms will be able to produce for the local market in increasing quantity and in a wider variety of sectors.
- **Re-build export-oriented factories and farms.** Most export-oriented businesses will not replace damaged or destroyed assets, or put in new capacity until trade restrictions have been lifted. During Phase #1, those businesses will have worked with the Back to Market initiative to develop technically sound business plans with a fully developed financing plans and contingent bank loan approvals in place so that no time is lost in gearing up for export once the opportunity presents itself.
- **Build new industrial zones.** To the extent that such zones can be built during Phase #1, they should be, but in any case by the beginning of Phase #2 at least two new zones (one in the north and one in the center or south) should be under construction.
- **Reconnect with world markets.** Businesses in Gaza will need to reach out via trade fairs and marketing tours to re-establish contact with old clients and identify new customers, building on research conducted under Phase 1 with the assistance of the Market Research and Assistance Programs and/or the Back to Market initiative.
- Utilizing world recognition of Gaza's re-emergence into world markets ("free" publicity) as an opportunity to **reverse Gaza's current brand image.** The story – backed up by some specific examples – needs to describe a region of highly productive people who are pulling themselves up by the bootstraps. This would be the primary responsibility of the marketing center proposed in Phase 1, but with its capabilities and staff expanded to handle increased work load as exports ramp up.
- **Banking, Finance and Insurance Schemes.** Here again, creative schemes are necessary, to re-establish credit for businesses that were previously healthy and now appear to be credit risks due to factors outside their control. Lenders must be shown how to distinguish between business owners who really were bad credit risks in the past and businesses that were viable and well-run until the political situation destroyed their capacity or ability to reach their markets.

## D. Phase #3: Sovereign Trade Regime

Phase #3 is essentially the vision of the future Gaza economy. The assumptions behind this phase include full control of all flows across the border, unfettered ability to export and import goods, services, financial instruments and people, control over the currency<sup>13</sup>, and a single government in control of the territory.

The seeds for this high-value economy need to be developed during Phase #2, so that once the political issues blocking the sovereign control of key economic drivers are resolved, the full potential of the region's economy can be released. The outcome in this more fully realized Gaza economy would be:

- The Gaza Strip serving as a hub for high-value products in niche markets in the Middle East and beyond, providing competitive exports and a thriving domestic market, with
  - Full employment
  - Greater prosperity
  - Greater autonomy and stability

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<sup>13</sup> Control over the currency may still involve utilization of the Shekel (or a separate currency tied to the Shekel) for pragmatic purposes, much as many countries tie their currency to the U.S. dollar. But in this scenario the use of the Shekel as a domestic currency would be as a matter of choice, not imposed from outside.

# V. REVITALIZING THE PRIVATE SECTOR

The Ministry of National Economy has recognized from the outset that the positive phases described in the previous section cannot be attained without a vibrant private sector and dynamic business leaders. The current state of the existing private sector institutions, as well as private companies, is quite weak. This section lays out a strategy for making the private sector more dynamic, relying on initiatives in the following four areas:

## ■ Entrepreneurship Development

Study tours, relevant formal education, internships, role models, network development, and opportunity identification.

## ■ Investment

Risk mitigation, micro finance mechanisms, attracting foreign direct investment (FDI), loans from sovereign funds.

## ■ Organizational Capacity Building

Access to finance; access to markets; access to know-how, business development services, and other related capacity building initiatives for both firms and institutions.

Each of these initiatives will derive greater strength and credibility through their enhanced linkages to existing west bank counterparts, as cross-border movement of goods and people improves.

## A. Entrepreneurship Development

During the recent years of continued struggle, siege, boycott and blockade, the entrepreneurs and investors in Gaza were limited in options, environment and methodologies. The lack of a solid and recognized regulatory and legal framework to protect these private sector players has also contributed, among the other limitations, to reduce capacity and readiness for growth. Today, and as the Gaza Strip is witnessing a relaxation in its extreme conditions, the need for promotion and support of entrepreneurship and investment is needed for both newcomers and existing players. Some of the main concerns facing Gaza and potential interventions in that regard today are:

1. **Sector-specific business development services.** Paralyzed and destroyed businesses are either a result of the Israeli military assault or of the long years of non-operation due to external conditions. These businesses have not yet been fully compensated in accordance with the real values that would bring them back to business, due to the challenges of designing, financing, and delivering programs. Thus, these businesses will remain in a non- or low-operational capacity until they are assisted to get back to business as before. The following actions are required to re-engage these businesses to become operational:
  - Conducting an assessment of the previous operational capacity and determining needed actions/compensations to return to business as previously operated.
  - Initiating an additional fund from the donor community.
  - Utilizing international pressure to allow for the entry of any needed machinery or equipment as per the assessed results.
  - Conducting applied technical training for skilled workers to be able to re-engage in the workforce with previous efficiency.

# GAZA ECONOMIC STRATEGY

- Developing soft loans for needed operational periods necessary to sustain the business with grace periods and leaner conditions.
- Co-funding any development plans related to industrial/service upgrade and quality improvement under “national product quality enhancement and image building programs”.

**2. Marketing and network development.** Loss of markets, market share, and business links has been a common phenomenon in Gaza. The limitations imposed have shifted attention of the international, regional and local investors from the local market to other markets or safer investment areas i.e. stock markets, regional industrial estates, outside banks, etc. In addition, the unregulated economy that was dominant in Gaza Strip and still is partially influencing the local market has also contributed to the creation of new business methods, consumer behavioral patterns, products, and trends. This resulted disturbance in the market bases is recommended to be gradually treated through:

- Business network development and re-development in order to re-organize the relationships among local stakeholders and banks, insurance agencies, and service companies. In addition, re-activation of agency licensing and sole distribution structures with vendors is key to re-engage formal economy foundations leading to better market re-alignment.
- A sector-by-sector assessment should be conducted through key organizations with expert assistance to identify new opportunities based on current sector status. An in-depth analysis of each sectors real capacity in all business functions i.e. production, management, financial, legal, and technical is necessary to understanding the specific conditions within each sector and identify potential for business development.

**3. Advanced human resource development and technical upgrading.** Continued mobility limitations of people and goods has not only reduced awareness of outside markets and technology trends but also limited human resource development and technical upgrading. Reversing this “syndrome” is key to revitalizing awareness and creativity among targeted private sector entrepreneurs. A variety of programs to address this weakness are required, including:

- Advanced general and sector-specific study tours.
- Direct mentorship programs in regional and international markets (medium to long term periods).
- Training-the-trainers programs for skilled workers, management level professionals, and service sector experts.
- Technical assistance in advanced marketing, sales, and export logistics.
- Study tours in relevant markets to exhibit available tools with possible match making for business development.
- Short academic programs at international institutions to offer wider perspective and updates on creative entrepreneurship. Key sectors such as ICT, consulting, tourism, trade and distribution, etc. are priority at first stages.

**4. Practical training and internships.** For the past few years, thousands of fresh graduates have joined the unemployment rolls in Gaza. No job opportunities were available to these graduates and the majority of them eventually lost their university knowledge or required educational rehabilitation. These unemployed graduates are today in need of multiple level support including the following:

- Advanced theoretical training in their respective fields of specialty.
- Well designed and monitored apprenticeship programs with local firms, NGOs, universities, international projects, and other related institutions to offer a solid experience compensating for the long unemployment upon graduation.
- Six-month internships in companies overseas.
- Short-listing of potential creative young entrepreneurs with solid projects. Assistance should be offered to those short-listed to join similar projects in the region and internationally to build awareness of key success factors. In addition, further assistance is also recommended to incubate these projects with various levels of support and international mentorship to insure success and sustainability.
- Classic and non-classic Cash for Work programs to be offered to graduates and employing firms based on a combination of performance indicators related to employee delivery, project delivery, and company advancement.
- Added Value Skills Development through highly subsidized programs including Business English, Marketing, Sales, Team Work, Web Marketing, etc.

## B. Investment

During the recent years of continued struggle, siege, boycott and blockade, the entrepreneurs and investors in Gaza were limited in options, environment and methodologies. The lack of a solid and recognized regulatory and legal framework to protect these private sector players has also contributed, among the other limitations, to reduce capacity and readiness for growth. Today, and as the Gaza Strip is witnessing a relaxation in its extreme conditions, the need for promotion and support of entrepreneurship and investment is needed for both newcomers and existing players. Some of the main concerns facing Gaza and potential interventions in that regard today are:

### 1. Political Risk Insurance Program

This bold Strategy cannot generate the necessary levels of investment unless the political risk issue is addressed. While the other components of the Strategy will greatly expand the opportunities for enterprise growth, ultimately the return on investment (ROI) will not be sufficient unless the margin for political risk can be reduced to manageable proportions.

#### A. Risk Insurance Background

There are today several programs designed to address political risk, including the LGP, and the MIGA. The LGP actually targets commercial risk, guaranteeing 70% of the collateral risk borne by banks for loans that meet its criteria. This approach encourages banks to undertake loans where they believe the risks are otherwise reasonable, but where the borrower cannot meet the collateral requirements. As only the banks, and not the borrower, are aware of which loans are backed by LGP, the issue of moral hazard does not arise. However, as CHF International (which is helping the Palestine Investment Fund to implement the program) points out, if the borrower does not have separate political risk insurance, then in effect the LGP is effectively covering both commercial and political risk.

MIGA, an arm of the World Bank Group, has an excellent program in place to provide political risk insurance, covering currency transfer restrictions, expropriation, war and civil disturbance and breach of contract<sup>14</sup>. Given the low rate of utilization of this program in the West Bank, MIGA lowered the cost of the coverage from above 2% per year to a range from 0.7%-1.7%, and hired

<sup>14</sup> MIGA has also just rolled out a separate guarantee program called the Small Investment Program (SIP) which is targeted at SMEs and financial institutions that provide loans to SMEs. It features a streamlined application process (with no application fee) and discounted premiums, and covers three of the four risks listed above breach of contract not being covered.

# GAZA ECONOMIC STRATEGY

a representative to market the program in Palestine. However, the experience to date in the West Bank indicates that only a small number of investors—mainly large investors who already have some portfolio diversification—are likely to utilize the program. Observers cite myriad historical and cultural factors, all of which are operative in the Gaza Strip as well, that explain this reluctance to utilize the insurance, despite the compelling business case in its favor.

## *B. Details of Proposed Political Risk Insurance Program*

The current situation as described is a classic conundrum in development: services are available and necessary for the desired rate of economic development, yet there are institutional and cultural obstacles to their being utilized. As a result, the growth of Gaza's economy, particularly under Phase #2, which could be quite strong, is likely to be stunted and well below potential due to a single missing factor.

The Strategy proposes first that the above programs—and others operating in this sphere—be analyzed and potentially restructured to improve their capacity to fill the current need. The following details should be referenced to determine if they can be activated to meet current private sector needs. If this is not possible, a universal political risk guarantee program<sup>15</sup> may be put in place, with the following characteristics:

- A wide variety of sectors and enterprise types covered.
- Free coverage for qualifying enterprises until political risk falls to normal levels.
- Streamlined procedures to verify status of investments and amounts covered.
- The Palestinian National Authority and the international community pay the cost of the program.

**Justification:** Many observers have made the point that the private sector should not have a “free ride” so as not to seriously distort market incentives. This principle is valid with regard to any ordinary business expense, such as ordinary commercial risk insurance. However, the companies in Gaza are not responsible for the political situation, and the need for political risk insurance of the magnitudes required in Gaza is not an ordinary business expense. Moreover, the international donor community has already implicitly recognized this, by underwriting the compensation fund for damages incurred in Gaza during 2007-2009. It is not too much of a stretch to suggest that they can and should provide the necessary funding, allowing emergent investors in Gaza to focus solely on the already daunting commercial challenges facing them.

Some observers have also voiced concern regarding the potential for moral hazard with such universal coverage. What is to prevent the enterprise owner from arranging a damage event and alleging that it is politically motivated? Who determines what is a political event? These issues are not new, and MIGA already has extensive experience in developing criteria for this kind of risk, criteria which are already in place. The Ministry of National Economy proposes here simply to broaden the existing program, not to provide a new type of coverage which may be impossible to provide.

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<sup>15</sup> This solution is inspired in part by the Federal Deposit Insurance Corporation (FDIC) in the U.S., which provides insurance up to \$250,000 on all funds deposited in banks that are members of the FDIC. Depositors in such institutions, which are the majority of commercial banks, need not inquire as to the financial strength of their banking institution, the integrity of officers and board members or any other aspect of the bank. If the FDIC sticker is in the window of the bank, their deposits up to that maximum coverage are automatically covered. The cost of the insurance is borne by the banks, and ultimately guaranteed by the U.S. Federal Reserve as the lender of last resort. While the situation in Gaza is quite different in many respects, the essential element of providing free, universal coverage was deemed necessary by U.S. regulators during the Great Depression, and that kind of radical solution to re-starting the economy is inspiring.

**Coverage of sectors and enterprise types:** The program must cover enough sectors and enterprise types to have sufficient impact at the macro level. Limiting the program to only small or only medium-sized businesses or only to a short list of selected sectors will defeat the purpose. It may be necessary, for practical purposes to put in a floor investment size, or floor enterprise size, and perhaps also a ceiling (as it can be argued that investors above a certain size can afford to pay directly for risk insurance), but these criteria should leave a generous range of enterprise sizes in between.

**Donor funding:** The willingness of the international community to fund such a program has not yet been explored in detail. However, the fact that the damage from the last Israeli assault was partially compensated suggests that a careful program designed to prevent conflict by providing a healthy, fast-growing economy will also receive the necessary financial support. MIGA has confirmed that the majority of the funding can consist of pledged capital (i.e. not disbursed), which would only be fully committed in the event of another Israeli assault.

**Stakeholder support:** This concept has been tested on a variety of owners of small, medium and large businesses active in Gaza, and all have been supportive of the concept. Many investors stated that they believe the number one priority for economic recovery in Gaza is to address this problem, either via a more comprehensive and workable risk insurance scheme, or a grant leveraging facility, which will also help assume some of the risk of “first cost” impacts on operations by politically-motivated events.

## 1. 2. Commercial Risks

Due to the overall political climate, the Gaza Strip is perhaps one of the highest risk areas for investment in the world. <sup>16</sup> The investment market is characterized with a mix of small to medium size businesses, which are the largest segment in numbers, together with major banks, corporations, insurance companies, and publicly listed companies. The need for additional investment in many key and strategic areas is still valid due to the lack of infrastructure, the largely youthful population, and other demographic factors. Therefore, creative steps to promote local and outside investment are needed.

The past three years have witnessed a fluctuation in investment quantity and quality. The freezing of traditional investments in Gaza was accompanied by other investments that were foreseen as rapid profit-making avenues.

However, other types of investment also emerged, especially in the trade sector, and many profitable operations were witnessed with capital investment shifting to new segments of investors. The other generated investments were made in “relatively stable” sectors including hospitality, service, telecom, IT, and trade. The profitability of these investments was considered reasonable in light of the overall situation. However, the Gaza Strip is still in need of various investments in all fields of the economy, and in infrastructure, to regain its stable development status. The following actions must be undertaken, either under existing or new programs, to ensure that new investments take place in the Gaza Strip in the short and medium terms:

**1. Commercial Risk Mitigation:** Mitigating the commercial risks generated from investment operations in Gaza Strip requires two parallel initiatives.

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<sup>16</sup> Despite this, due to the high population density, many major Palestinian corporations in are still generating 40-50% of their revenues from their Gaza-based operations.

# GAZA ECONOMIC STRATEGY

## First is the business side of the mitigation which involves:

- Development of Project Concept and Investment Plan.
- Development of Feasibility Studies with clear financial and market indicators.
- Verification of project needed resources including human resources, materials, and other inputs.
- Development of a clear marketing plan with an entry strategy to act as a main indicator of successful operations.
- The above points are especially needed in high risk areas to offer a business outlook on the return on investment and to be measured against potential risk. This step is proposed to be supported by international community and other stakeholders to break the stereotypes and offer tangible projects for investments with clear indicators.
- Developing soft loans for needed operational periods necessary to sustain the business with grace periods and leaner conditions.
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## Second is the risks involved with on-the-ground negative developments which need to be mitigated from the investors point of view through:

- International development agencies and corporations partnership with major projects.
- Supporting obtaining international insurances on assets and operations resulted from these partnerships.
- Promoting Palestine/Gaza as an investment destination through available international public funds and available investment channels i.e. large size infrastructure projects, medium size businesses, export operations, stock markets, etc.
- Involving local banks in risk sharing with portfolios of investments and through guaranteed soft loans provision.

2. **Microfinance mechanisms and targeted assistance:** The micro finance funds available through the various multiple organizations and institutions in Palestine is a generator of investment for many marginalized groups, families below poverty line, as well as other normal businesses. The size of the available new funding decreased to zero in 2006 but picked up again to reach over USD 300 million upon the Israeli military assault on Gaza.

The existing organizations are large in portfolio size with multiple sector funding, including agriculture, poultry, light manufacturing, service, and trade. The mechanisms followed through these organizations are routine based with less risk taking and accelerated guarantees for funding. It is observed that repeated funding for the same borrowers is prevalent in Gaza as lenders prefer to lower the risk. Future mechanisms should therefore be designed to encourage new entrants and reasonable risk, as well as faster turnover. In addition, more coordination between these organizations and the private sector and donors is needed in order to coordinate with the primary development targets and create a critical mass of within-sector momentum.

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- 3. Encouraging foreign direct investment:** It is clear the Gaza Strip, and Palestine in general does not offer a comfortable attraction for Foreign Direct Investment (FDI). However, there are previous successful experiences in the electricity, banking, construction and telecom sectors. These investments have made success stories highlighted in operational as well as financial indicators. This attraction can be repeated through offering major infrastructure projects as well as new dimensions for investment incubation and partnership. Such efforts need to be carefully planned by related local and support international community parties and need to also be in line with realities on the ground. The mix of attractions is recommended to include:
  - Outlook of valid and feasible larger scale projects;
  - Clear government support and incentives;
  - Promotional effort from Palestinian commercial attaches worldwide; and
  - Other recommendations included in above sub sections.

Regulatory interventions related to investor confidence include:

- 1. Re-establish Investment Guarantee Funds:** The PNA with the support of multilateral agencies such as MIGA should revise existing programs or establish a new fund to promote new investments into the private sector in Gaza.
- 2. Provide Banking Support Mechanism:** The PNA through the Palestine Monetary Authority to provide support to the banking services through the creation of an investor banking facility. This facility would work to provide investors with needed credit facilities but will also make sure to provide all other needed banking services including the withdrawal of cash.
- 3. Effective implementation of the Palestinian Law on Encouragement of Investment** to provide additional incentives for new or expanding investors.

## C. Organizational Capacity Building

As discussed above, private sector institutions have been actively involved prior to 2007 in providing member services. In addition, investments have been made to build strong private sector, membership-based organizations. However, due to the circumstances that prevailed in Gaza in terms of political instability and the Israeli assault, many of these organizations have diverted their attention to advocacy and defending the interests of their members. Less attention has been given to building on previous experiences and further enhancing capacity. Based on this, a few initiatives are proposed below to help private sector institutions resume their role as service providers to their members, including:

1. **Provide a Strategic Focus** – that builds on previous experience but also takes into consideration the new realities that currently exist in Gaza as a result of the closure and the damage caused by the Israeli war.
2. **Governance** – Re-examine existing governance systems in order to assess training needs on these systems and determine gaps if any.
3. **Leadership Development** - Establish a leadership program that orients and trains private sector executives and current leadership on the new roles they need to assume under the current new realities.
4. **Member Services** – Despite the fact that many assessments have been conducted since the Israeli assault on Gaza regarding private sector needs, all have looked at macro issues and non has addressed the various business’s needs. In order for private sector institutions to assume their role as membership based organizations, a structured survey needs to be conducted in order to assess the needs of the members and design new programs accordingly.
5. **Technology Infrastructure** – For the private sector institutions to assume their role in serving their members, an assessment of their available technology infrastructure (hardware, software, HR) needs to be conducted to determine their needs and develop proposals to solicit funding to fill the technological gaps.

## VI. IMPLEMENTING THE REVITALIZATION STRATEGY

Given the need for sectoral development and private sector revitalization as outlined in the Strategy, a set of cross-cutting initiatives in workforce development, physical infrastructure, financial measures, access to technology, business enabling environment improvements and institutional capacity-building will be required. This section outlines those initiatives, specifying the role of each of the key players and an overarching coordination mechanism.

### A. Coordination Mechanism – The Gaza Action Network

This ambitious Strategy cannot be successfully implemented without a significant departure from methods employed in the past. Aside from the obvious “external” impact of the on-going conflict with Israel, most of the remaining issues confronting Gaza’s economy are quite similar in principle, though extreme in degree, to those that plague other regions experiencing economic stagnation: a dysfunctional relationship between the key public and private sector institutions. A pivotal element of this Strategy, therefore, needs to be an effort spearheaded by the Ministry of National Economy to promote a shared vision and collaborative actions on the part of public and private entities, in order to compensate for the high degree of the paralyzing uncertainty in the external environment.

The central recommendation in this section is to launch a collaborative process – already begun in the extensive stakeholder consultation process used to generate this Strategy – that will serve as an organizing framework for the elaboration and implementation of the Strategy.

This mechanism, dubbed here the Gaza Action Network, can only be effective in the current environment if it is informal (e.g. not a statutory body) and derives its authority due to the voluntary participation of all key stakeholders under the leadership of the Government. It will consist of a set of cluster working groups corresponding to the major sectors, with additional working groups for selected foundation areas (see below), and a central council that meets quarterly to review and coordinate the activities of the various cluster and foundation working groups. Each of the working groups, as well as the Council, will require balanced representation from the relevant public sector and private sector entities, as well as educators, NGOs and the international community.

Key representatives of all major stakeholders need to be involved in the cluster working groups. For example, in a Cluster Working Group (CWG) on pharmaceuticals, donors that are providing free medicines in Gaza today would work with private sector investors to carefully manage the resurgence of production of generics and other drugs that can be manufactured in Gaza. While provision of free medicines has ‘killed’ the market for local producers, the timing of the withdrawal of free medicines will need to be carefully planned so that a) there is no interruption in supplies of these vital goods (if imports are withdrawn too soon) but b) local producers do not suffer economically (if withdrawn too late). Similar careful trade-offs will need to be made in each sector as detailed plans for the revitalization of that sector are developed, implemented and monitored by the CWGs.

# GAZA ECONOMIC STRATEGY

## B. Action Plan with Budget

Foundation Area / Activity		Phase			Sector	Estimated Cost (USD Mill)
		1	2	3		
Priority	Overall					
●	Gaza Action Network	✓	✓	✓	All Sectors	0
	Sub-total					0
Priority	Access to Finance					
●	Review and activate existing credit guarantee schemes*	✓	✓		All Sectors	TBD
	Universal Investment Guarantee Fund (Political Risk)*		✓	✓	All Sectors	TBD
	Provision of Soft Loans to medium and large investments	✓	✓		All Sectors	300
	Consumer Lending Program	✓	✓		All Sectors	20
●	Supporting Operational Back to Work Capital and Operating Cost for both damaged and non-damaged clients	✓			All Sectors	50
	Establish Young Entrepreneur Business Incubators and Funds	✓	✓		Services: Logistics, ICT, Engineering, trade	20
	Create Additional Micro-finance Lending Facilities	✓	✓		All Sectors	50
	Private Sector Debt Management Fund	✓	✓		All Sectors	200
	Sub-total					640
Priority	Access to Technology					
	Machinery Sourcing and Importing Technical Assistance Program	✓	✓		All Sectors	5
●	Accreditation Programs for Professionals	✓	✓	✓	Accounting, Legal, Management	5
	Mapping of available agricultural lands and develop a comprehensive agricultural revitalization strategy	✓			All Sectors	5
●	Damaged Machinery Repair and Replacement Program	✓			All Sectors	30
●	Technical Support Facilities, Quality Control Labs and Testing Equipment	✓	✓		Agriculture, construction, engineering, IT	50
	Sub-total					95
Priority	Access to Markets					
●	Back to Market Initiative <ul style="list-style-type: none"> <li>Local Market Focus Enhancement Program (local exhibitions, packing and packaging techniques)</li> <li>International Market Linkages</li> <li>Export Support/Facilitation Program</li> <li>Support existing research/data center for local/export markets information</li> </ul>	✓	✓		All Sectors	30

# GAZA ECONOMIC STRATEGY

Foundation Area / Activity		Phase			Sector	Estimated Cost (USD Mill)
		1	2	3		
●	Quality Support Program for increased local and export market share	✓	✓		All Sectors	5
	Outsourcing Support Program	✓	✓		ICT	3
	ICT Diffusion in non-ICT sectors	✓	✓		ICT	5
	Gaza Tourism Promotion Program	✓	✓	✓	Tourism	5
	Sub-total					68
Priority	Workforce Development					
●	Skilled Labor Training Program	✓	✓		All Sectors	5
●	Vocational Training Program/TVET	✓	✓	✓	All Sectors	5
	Apprenticeship Programs	✓	✓	✓	All Sectors	8
	Cash for Work Programs	✓			All Sectors	5
	Middle and Top Management Training	✓	✓		All Sectors	5
●	Added Value Training Programs (Business English, web marketing, etc)	✓	✓		All Sectors	2
	Sub-total					30
Priority	Organizational Development					
●	Private Sector Capacity Building Program (HR and Technical Support with focus on programming and service delivery)	✓	✓		All Sectors	7
	Executive and Staff Training and Accreditation	✓	✓		All Sectors	3
	Sub-total					10
Priority	Regulatory Reform					
	Institutionalize the Private Sector Coordination Council	✓			All Sectors	2
	Support PIPA to expand its services to the Gaza Strip	✓			All Sectors	3
	Immediate Support to Activate the work of Palestine Standard Institute (PSI)	✓			All Sectors	3
	Advocacy and Lobbying to supply international organizations' needs through local providers	✓			All Sectors	2
	Sub-total					10
Priority	Business Related Infrastructure					
●	Roads 500,000 meter square	✓	✓		All Sectors	50
●	Agricultural roads	✓	✓		All Sectors	20
●	Fishing ports	✓	✓		All Sectors	10
●	Water and waste water for industrial operations	✓	✓		All Sectors	20
	Sub-total					100

\* A budget for activating existing risk insurance mechanisms will be determined as more details are finalized. Should it not be possible to meet private sector needs with existing mechanisms, a broader "Universal Investment Guarantee Fund" will be designed, using a combination of disbursed funds and pledged capital, which would only be fully committed in the event of another political event causing widespread damage.

• Designates top priority activities within each program area.

# GAZA ECONOMIC STRATEGY

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**Ministry of National Economy**

**GAZA ECONOMIC STRATEGY**

March 2011

