MINISTRY OF NATIONAL ECONOMY

INTERNATIONAL LABOUR ORGANIZATION

Towards a Policy Framework for the Development of Micro, Small and Medium-sized Enterprises in the Occupied Palestine Territory:

Assessment Report

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Executive summary

This document reports on the findings of an assessment into the conditions for the development of micro, small and medium-sized enterprises (MSMEs) in the occupied Palestinian territory (oPt) and the creation of more and better employment for women and men in the MSME sector. It is the first output of a joint programme of cooperation between the Palestinian Authority (PA) and the International Labour Organization (ILO). The project, which the Ministry of National Economy (MNE) is leading, aims to formulate a policy framework for MSME promotion.

While there is no official PA definition for MSMEs in the oPt, this report defines microenterprise as employing one to four full-time equivalent workers, small enterprises as employing five to nine full-time equivalent workers and medium-sized enterprises employing ten to 19 full-time equivalent workers. Thus, any enterprises with 20 or more full-time equivalent workers are considered to be large enterprises. All MSMEs are privately owned and managed, as opposed to enterprises that may be run by government or by non-government organisations. However, the term MSME also includes enterprises of the above size classes that are cooperatively owned and managed (i.e., cooperative enterprises).

MSMEs perform a substantial role in the economies of the Remaining West Bank and Gaza Strip. While there are some regional variations, only one percent of all private enterprises can be considered large (i.e., with 20 or more fulltime equivalent workers). Most MSMEs operate in the Wholesale and Retail and Manufacturing sectors, which account for 70 percent of micro, small and medium-sized establishments.

Eighty-seven percent of the Palestinian workforce is employed in MSMEs in the oPt. Among these workers, women represent 17 percent in the Remaining West Bank and nine percent in the Gaza Strip. Women are better represented in the public sector and in large enterprises. In large enterprises employing 20 or more fulltime equivalent workers, women represent 24 percent of the workforce in the Remaining West Bank and 15 percent in the Gaza Strip.

Seventy-one percent of all MSMEs are found in the Remaining West Bank, while the number of enterprises in the Gaza Strip has been dramatically reduced as a result of the three-week Israeli war in December 2008 and January 2009. This conflict also led to a dramatic loss of employment in the Gaza Strip and significant increases in poverty levels.

Informality is high among MSMEs, especially among micro and small enterprises. Many micro and small enterprises employ family members and often work from the family home. Salaries are low and conditions are far from stable and safe. While micro and small enterprises provide employment for many who would otherwise be unemployed, this falls well short of Decent Work.

The conditions in which MSMEs in the oPt operate are not conducive to growth. Promoting decent MSME employment revolves around increasing access to markets and providing enterprises with the financial and non-financial inputs they require. Access to market information and developing a global perspective on markets and market opportunities is essential for business development. However, many MSMEs in the oPt lack this information and mindset. Indeed, there are many business development services that MSMEs require in the oPt if they are to grow and become sustainable. However, previous assessments have shown that most enterprises, especially micro and small enterprises, are unable to obtain these inputs.

Micro and small enterprises also struggle to obtain the finances they require to start and expand. In recent years, this demand has been met by microfinance institutions, of which there are many in the oPt. However, micro and small enterprises continue to find it difficult to access commercial finance. Medium-sized firms and some small enterprises are generally more able to access commercial finance.

While many micro and small enterprises are used to collaborating and trading with one another, they rarely participate in vertical value chains. This limits their access to markets and reduces their potential for growth. In addition, access to and ownership of land by micro and small enterprise owners is a problem that affects many other aspects of business development. It reduces the physical spaces enterprises can operate in and trade from, while eroding the collateral base of many firms.

There are a wide range of laws and regulations affecting the behaviour and development potential of MSMEs in the oPt. While many business related laws are currently being drafted and have been in this stage for some time, policy and legal reform can promote the formalisation of many informal MSMEs—especially when accompanied by development and support measures that incentivise formalisation. Reducing the legal and regulatory burden on MSME will allow them to invest more time and money into developing profitable and sustainable enterprises, while ensuring mechanisms are in place to effectively enforce those laws and regulations that protect businesses, customers, workers and the environment are essential.

While there is a wide and diverse range of business membership organisations in the oPt, many MSMEs are poorly represented—especially those enterprises at the lower end of the size spectrum (i.e., micro and small enterprises). Most representative organisations are comprised of large enterprises with specific, and relatively unique, interests, such as professional or sector-based organisations. The PA has established the Private Sector Coordinating Council to advocate private sector positions with the government and to coordinate development programmes with donors and development agencies working in the oPt in this field. However, the representation of, and engagement with, MSMEs in this structure is weak.

There are many public, private and civil society actors involved MSME development in the oPt. As valuable as these many actors are, their effective and harmonised contribution to MSME development can only be achieved through strategic coordination and careful facilitation. The PA has a central role to play in this regard.

Responding to the problems summarised above requires an integrated and holistic set of interventions that should be led by the PA. The proposed MSME policy framework provides a special opportunity to identify opportunities for synergy and collaboration among all MSME development actors. The policy framework should identify the following issues in this regard:

- Describe the specific roles to be performed by the PA in regulating, developing and monitoring of the MSME sector;
- Describe the specific roles and responsibilities of private sector representatives and other civil society organisations in MSME development;
- Identify strategic areas for intervention by public, private and civil society actors in the development of MSMEs and the creation of more and better jobs for women and men in the MSME sector;
- Describe the mechanisms required for effective MSME representation and public-private dialogue; and
- Describe mechanisms for monitoring and reporting on progress in MSME development.

After its analysis, attention is turned to a series of recommendations designed to inform the design of a PA policy framework for MSME development. The following recommendations are proposed:

- The PA formulate an official definition of MSMEs in the oPt that provides a means to legally recognise, count and administer these enterprises.
- The PA pursue specific measures to improve the policy, legal and regulatory framework and administrative mechanisms for MSMEs—with special attention given to streamlining, simplifying and centralising registration and licensing procedures, improving compliance with labour law and the conditions of workers in MSMEs, and harmonizing and integrating the policy, legal and regulatory framework for MSMEs.
- The PA, in collaboration with private and civil society actors, initiate activities designed to improve MSME access to financial and business development services through the assessment of key value chains, the development of local, area-based programmes, the promotion of entrepreneurship attitudes and skills, and by ensuring micro and small enterprises are specifically targeted in exiting PA-supported programmes and agencies.
- Existing business membership organisations, in collaboration with the PA, improve MSME representation, advocacy and dialogue with government.
- The PA, in collaboration with private and civil society actors, agree on and pursue a research agenda that fills the major gaps in knowledge on the needs and opportunities for MSME development and MSME employment.

At various stages proposals have been discussed concerning the possible need for an MSME development agency. It is clear that there are mixed views on this. Creating a single agency can provide a means through which the PA can focus its MSME-related activities. However, this does not necessarily create more capacity for the PA to do this work. The choice is to create an MSME agency with specific functions dealing with policy reform, monitoring and support, or to focus on transforming existing private sector oriented agencies to focus more on MSMEs. The latter option is considered more feasible and is recommended.

Pursuing the above recommendations will take time and resources. The ILO is eager to continue its cooperation with the PA in order to implement some of the above recommendations and to liaise with relevant donor and development agencies to help the PA establish a coherent and coordinated approach to this work.

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List of acronyms used

ALO	Arab Labour Organization
BDS	Business development services
BWF	Business Women Forum
CIDA	Canadian International Development Agency
DFID	Department for International Development
ESDC	The Economic and Social Development Centre
FNMD	Palestinian Facility for New Market Development
GDP	Gross Domestic Product
GTZ	German Agency for Technical Cooperation
ILO	International Labour Organization
IFC	International Finance Corporation
JICA	Japan International Cooperation Agency
KFW	German Development Bank
MAS	Palestine Economic Policy Research Institute
MFIs	Palestinian Network for Small and Micro Finance – "Sharakeh"
MNE	Palestinian Ministry of National Economy
MSMEs	Micro, small and medium-sized enterprises
NGO	Non-governmental organisation
oPt	Occupied Palestinian Territory
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
PA	Palestinian Authority
PARC	Palestinian Agricultural Relief Committees
PBA	Palestinian Businessmen Association
PCBS	Palestinian Central Bureau of Statistics
PCCIA	Palestinian Chambers of Commerce, Industry and Agriculture
PIEFZA	Palestinian Industrial Free Zones Authority
PICTI	Palestine Information and Communications Technology Incubator
PIPA	Palestinian Investment Promotion Agency
PITA	Palestine Information Technology Incubator
PFI	Palestinian Federation of Industries
PLC	Palestinian Legislative Council
PMA	Palestinian Monetary Authority
PSCC	Private Sector Coordinating Council
PSI	Palestine Standards Institute
PWWSD	Palestinian Working Women Society for Development
SEC	Small Enterprise Centre
SIDA	Swedish International Development Cooperation Agency
UCASC	The Union of Cooperative Associations for Savings and Credit
UNCTAD	United Nations Conference on Trade and Development
UNDP	United National Development Programme
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestine Refugees in the Near East
USAID	United States Agency for International Development
WBGS	West Bank and Gaza Strip
WCO	World Customs Organization
WTO	World Trade Organization
YEP	Young Entrepreneurs association Palestine

Chapter 1: Introduction

The occupied Palestinian territory (oPt) faces significant levels of poverty and unemployment. A September 2009 report published by the United Nations Conference on Trade and Development (UNCTAD) indicates that poverty is getting wider and deeper in the oPt, with 67 percent of Palestinian people living below the poverty line, and 48 percent living in extreme poverty. This is ten percent higher than ten years ago. In addition, Gaza and the West Bank have one of the highest youth unemployment rates in the Arab world at 40.2 percent (Palestinian Central Bureau of Statistics 2008).

Within this context, the demand for new jobs is critical, as is the need to promote sustainable enterprises that create productive and decent jobs for women and men.[1] In 2009, the Office of the Prime Minister requested assistance from the International Labour Organization (ILO) for assistance in preparing a policy framework for micro, small and medium-sized enterprise (MSME) promotion. In response, the ILO and the Ministry of National Economy (MNE) have formulated a project, entitled “Towards a Policy Framework for the Development of Micro, Small and Medium-sized Enterprises in the Palestine Territories”. The MNE is driving and overseeing this project in partnership with the ILO and in collaboration with other relevant public, private, civil and donor organisations.

This is the first report prepared for this project.[2] It presents the findings of an assessment of the MSME sector in the oPt, including its opportunities, constraints and capacities for development. These findings will be used to inform the design of a policy framework that will guide the PA in its efforts to support the development of MSMEs.

The ILO-MNE project complements and supports other initiatives of the Palestinian Authority (PA), including the PA’s programme entitled “Palestine: Ending the Occupation, Establishing the State”, launched on 25 August 2009. It outlines several national goals, including the achievement of “economic independence and national prosperity” (Palestinian Authority 2009, p. 11).

1.1 Project purpose

While the overall objective of the ILO-MNE project is to create a policy framework for the development of MSMEs and the promotion of productive and decent work in the oPt, the specific task of this report is to assess the opportunities, needs and constraints for MSME development within the territory.

A great deal of research has been conducted on the state of MSMEs in the oPt. Despite this, there is little agreement between the PA, the private sector and other civil society groups on the priorities for development of the sector. Fifteen years after the

1 The International Labour Conference’s 2007 conclusions on the promotion of sustainable enterprises frame a coherent and comprehensive approach to enterprise development. These conclusions build on the principles and provisions in the Job Creation in Small and Medium-Sized Enterprises Recommendation, 1998 (No. 189) and the Promotion of Cooperatives Recommendation, 2002 (No. 193). Thus, the objective is to promote sustainable enterprises in a manner that aligns enterprise growth with sustainable development objectives and the creation of productive and decent employment.

2 The ILO commissioned Mr. Hazem Kawasmi, a national consultant based in Ramallah, and Dr. Simon White, an international consultant based in Johannesburg, South Africa.

establishment of the PA, it is necessary to formulate a practical and coherent approach to supporting the development of MSMEs in the oPt.

1.2 Project methodology

This study informs a participatory process that engages key stakeholders in MSME development in the oPt in order to achieve a common understanding of the needs and challenges of MSMEs in the oPt under the PA. It deals with the demand for MSME development as well as the efforts underway to support MSME development. The assessment includes a review of the major policy, legal and regulatory instruments affecting MSME operations, as well as the development programmes targeting MSMEs.

To ensure the process of formulating a policy framework MSME development occurs within a collaborative and participatory manner, the project established a National Working Group to guide, support and strengthen processes that consider policy options and agree on a policy framework.. This group was comprise key government, private sector, civil society, and donor and development agency representatives.

The role of the working group was to:

- Guide and advise on assessment of MSMEs and the design of policy framework;
- Offer contacts and referrals to relevant programmes, projects and other stakeholders;
- Comment on and provide inputs to draft reports and other projects documentation.;
- Participate in the national workshop where findings will be presented;
- Endorse final report and framework; and
- Offer ideas on follow up activities.

The Ministry of National Economy chaired the working group and its members were drawn from the following organisations:

- Ministry of Tourism
- Ministry of Labour
- Ministry of Agriculture
- Ministry of Local Government
- Ministry of Planning and Development
- Palestinian Central Bureau of Statistics
- Federation of Chambers of Commerce
- Palestinian Federation of Industries
- Palestinian Private Sector Coordination Council (Technical Unit)
- Microfinance Institutions Network
- Palestine Information Technology Incubator German Agency for Technical Cooperation
- Swedish International Development Cooperation Agency
- Canadian International Development Agency
- Department for International Development (United Kingdom)
- United States Agency for International Development

- International Labour Organization

The ILO provided secretarial support to the activities of the working group.

1.3 A project definition

The PA has not established an official definition of micro, small and medium sized enterprises. This issue is discussed later in the report (see Chapter 4). However, for the purposed of this report, MSMEs are defined according to the following employment-based indicators.

Microenterprise: 1-4 full-time equivalent workers

Small enterprise: 5-9 full-time equivalent workers

Medium enterprise: 10-19 full-time equivalent workers

Any enterprises with 20 or more full-time equivalent workers are considered to be a large enterprise. All MSMEs are privately owned and managed, as opposed to enterprises that may be run by government or by non-government organisations (NGOs). However, the term MSME can also include enterprises within the above size classes that are cooperatively owned and managed (i.e., cooperative enterprises). Chapter 4 provides more details on this matter, including a comparison of definitions used my other countries, including other Arab states.

1.4 Report structure

This study has involved a qualitative and quantitative assessment of MSMEs in the oPt. Data has been drawn from statistical surveys produced by the Palestine Central Bureau of Statistics (PCBS) and others, as well as from consultations with ministries and representatives of the PA, and private sector and civil society representatives. In addition, a wide range of existing literature on MSME development in the oPt has been reviewed.

This report is divided into six chapters. After this introduction, the next chapter (Chapter 2) presents a general profile of MSMEs in the oPt. This includes an overview of the geographical distribution of MSMEs in the oPt, the distribution of MSMEs economic sectors and an assessment of the significant contribution MSMEs make to employment.

Chapter 3 reports on the major challenges facing MSMEs and their development, while Chapter 4 reports on the business environment in which MSMEs operate in the territories under the PA.

Chapter 5 describes the roles of key agencies that work to promote or support MSMEs in the oPt.

Chapter 6 summarizes the major findings of the study, and presents several priority areas to focus on in order to promote and support MSMEs in the oPt.

Chapter 2: Profile of the MSME sector in the occupied Palestinian territory

This chapter describes the nature of MSMEs and their role in the Palestinian economy. It shows the distribution of enterprises across the territory and economic sectors. Special attention is given to employment in MSMEs as well as to the markets MSMEs operate in.

2.1 The economy of the occupied Palestinian territory

The total population of the oPt in mid-2009 was about 3.9 million. Two million of these were males and 1.9 million females. The estimated population of the West Bank was 2.4 million and the Gaza Strip 1.5 million (Palestinian Central Bureau of Statistics, PCBS 2008).[3]

The Palestinian economy has gone through two major changes in the last fifty years. The first was the partial integration with the Israeli economy after 1967, which led to increased job opportunities for Palestinians to work in Israel. However, this created a fragile dependency on Israel. The second, more recent change, has involved a significant disengagement from Israel, which has placed Palestinian workers and enterprises in an increasingly vulnerable position (Dhillo 2009). The Palestinian economy remains dependant on Israel. Since its establishment in 1994, the PA has had no sovereignty over borders, natural resources, land, water or the movement of people and goods within its territory

During the period 1995-1999, real Gross Domestic Product (GDP) growth increased from 6.1 percent to 8.6 percent according to PCBS statistics. See Figure 1, below. The Palestine economy grew at a remarkable rate of 6.45 percent for the period 1995-1999. By 1999, GDP stood at US$4.52 billion (Global Investment House 2006, p 1).

The outbreak of the Second *Intifada* in September 2000 led to sharp drop in per capita GDP growth (-3.8%). Israeli invasions and the destruction of property and infrastructure hit the Palestine economy hard. Restrictions were placed on the movement of people and goods internally and across borders, while trade relations between Palestine and Israel also deteriorated. The combined effect of these processes has led to the “de-development” of the Palestine economy (PalTrade 2005, p. 1). However, in the last five years the economy has partially recovered with GDP per capita reaching US$1,261 in 2007. This is still less than the 1999 figure of $1,400 (as shown in Table 1).

Since 2007, the Palestine economy has stagnated. As a result, GDP per capita continued its downward trend and poverty deepened. If it were not for the resumption of foreign aid in the second half of 2007, GDP would have contracted for the second year in a row. The construction of the separation barrier, the Israeli closure policy and the erosion of productive capacity continued to prevent recovery and entrenched “de-development”. The economic gap between the West Bank and Gaza has widened as a result of recent political development and the tight closure imposed on the Gaza Strip (UNCTAD 2008).

3 In the West Bank, the governorate of Hebron was the highest populated governorate with 581,000 and Jericho the lowest, with 44,000. In the Gaza Strip, the most residents live in the Gaza Governorate (519,000), while Rafah Governorate has the fewest with (182,000). While the Jerusalem Governorate is considered part of the oPt it has been excluded from PCBS survey data because the PCBS has only limited access to East Jerusalem (PCBS 2008).

The recent trends indicate some change to this situation, with GDP increasing in 2009 to the six to seven percent range.

Table 1: Palestinian Economy (West Bank and Gaza Strip): Macroeconomic Performance

	2007	2006	2005	2004	2003	2002	1999	1995
Real GDP growth (%)	0.0	-4.8	6.0	6.0	5.8	-3.8	8.6	6.1
Gross domestic Product –GDP (US$m)	5 045	4 533	4 478	4 077	3 624	3 156	4 517	3 276
Gross national income – GNI (US$m)	5 620	5 068	5 017	4 534	4 105	3 546	5 454	3 779
Gross disposable income – GDI (US$m)	8001	7 108	6 583	5 951	5 395	985 4	5 853	4 200
GDP per capita (US$)	1 261	1 165	1 191	1 203	1 108	999	1 590	1 400
GNI per capita (US$)	1 405	1 303	1 334	1 337	1 255	1 122	1 920	1 615
Real GNI per capita growth (%)	-0.7	-14.9	-1.0	1.5	6.2	-8.9	4.1	7.9

SOURCE: PCBS (2007)

The 2007 Census shows that 23.8 percent of the households in the oPt suffered from Absolute Poverty in 2007 according to consumption patterns, (13.9% in the West Bank, and 43.0% in Gaza Strip), while according to income patterns 48.0 percent of households were suffering deep poverty (37.3% in the West Bank, and 69.0% in Gaza Strip) (PCBS 2008).

The table below provides a breakdown of the contribution the broad economic sectors make to GDP in the oPt 1985 to 2007. It clearly shows the dominance of the service sector.

Table 2: Economic Sectors Contribution to GDP (1985-2007)

Sector	1985	1994	1999	2002	2007
Industry	8	12	17	12	16
Services	11.5	21	62.6	70.2	65
Agriculture	29	14	10	10	8
Construction	17	22	8.5	5.5	2.5
Others	34.5	31	2	2.3	8.5

SOURCE: Palestinian Federation of Industries (2009)

The following are the main economic sectors of the oPt:[4]

- **Services:** the Palestine economy is dominated by services. The consumption value of this sector in GDP shows that in 2000-2004 the social and productive services proportion of the GDP ranged from 68.9 to 71.5 percent. By 2005, social services contributed US$2.17 billion (50.92% of GDP) and was growing by 8.22 percent.
- **Agriculture:** contributes around eight percent of GDP, ten percent of all exports and 16 percent of total employment (PCBS 2006). Exports include fruits, olives and olive oil, vegetables and, more recently, cut flowers. Livestock and fishing account for almost half of agricultural production in the West Bank, and around a third of that in Gaza. Agro-industry has great potential to expand, provided it secures access to foreign markets.[5] Private enterprises operating in the agricultural sector in Gaza constitute only 15 percent of the overall number of enterprises, while in the West Bank such number amounts to 85 percent.
- **Quarrying and Stone:** one of the most important Palestinian sub-sectors contributing around five percent of GDP. The total annual sales of this industry averages around US$450 million, of which 65 percent is exported to Israel and six percent to the rest of the world, leaving a major opportunity for expanding exports in this area. This sector exports to a number of countries, other than Israel, like Canada, the U.S. and Japan.
- **Garments and Textiles:** contributes approximately 15 percent of manufacturing output, and employs almost ten percent of the labour force. Palestinian producers sell approximately 70 percent of their production locally (accounting for 20 percent local market share) with an additional 20 percent being sold to Israel, and through Israeli agents, to oversees markets. After opening imports from China, this sector was hit harder than any other sector, in addition to shoe and leather sector.
- **Food Processing:** has witnessed a rapid growth in the second half of the 1990s as local market share increased from 25 to 30 percent. Market studies show that the average Palestinian family spends 42 percent of its income on food, demonstrating the importance of this sector and the ample room for investing in it to develop a competitive local industry to provide high quality food products.
- **Information and Communications Technology:** one of the fastest-growing sectors in the oPt, due mainly to private telecommunications services and software development. The growth rate of this sector has averaged 25–30 percent annually since 2000, and its output amounted to US$128 million in 2005.

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4 All data presented is based on PCBS (2008) unless otherwise indicated.

5 Presently, agro-industry firms satisfy a sizable portion of the local demand. These include olive presses, citrus packing, food processing, cigarettes, and dairy plants. There is also room for expansion in chemical fertilizers and agricultural machines and instruments. The total number of olive presses in the Palestinian Territory in 2008 is 296, of which 264 are operating, while 32 are temporarily closed. The distribution of operating presses by automation level is as follows: 224 full automatic, 40 half automatic and traditional presses. Data indicated that operating presses are concentrated in the Northern part of the West Bank, especially in Jenin and Tubas Governorates (52 presses), then Nablus Governorate (51 presses). (PCBS economic sectors survey 2008.)

- **Tourism:** the strong cultural and religious heritage of the Palestinian people provides an opportunity to develop a tourism sector that could make a significant contribution to economic growth.[6]
- **Metal Products and Engineering:** this sector satisfies an estimated 60-80 percent of the local market demand, and its products have been increasingly successful in export markets. Products include wire, nails, welding rods, office furniture, warehouse shelving, household utensils, industrial scales, agricultural equipment, industrial machinery and tools and abrasives.
- **Chemicals:** includes three lines of production: traditional Nablus soap, which is based on olive oil and is popular in the region and worldwide; the paints sector, with ten major factories in Palestine with a production that covers 25-30 percent of the local market consumption; and the detergent industry, which has around 50 percent of the local market share. It produces powdered as well as liquid detergents, high foam for hand washing and semi-automatics and low foam for automatic and compact washers.
- **Construction:** this sector is expanding, contributing around 2.5 percent of GDP and 11.6 percent and of employment in the oPt in the third quarter of 2007. However, according to the World Bank (2008), the construction sector is still only 20 percent of what it was in 1999. The sector is important for growth as it carries significant forward and backward linkages, ranging from simple manufacturing plants to major construction materials and processing industries. In addition, the sector has also provided an impetus for local investment, and has contributed to the consolidation of the Palestinian economic base.
- **Transportation:** has been severely affected by the Israeli occupation policies. The border regime and closure policies imposed by Israel have made continuous transportation impossible in the oPt. Increased transportation costs and the inability to meet deadlines has put immense pressure on practically all Palestinian economic activities, as most sectors depend on transportation services (Ministry of National Economy 2008).

The Gaza Strip economy has been destroyed following the three-week Israeli war spanning December 2008 and January 2009. The damage assessment, recovery and reconstruction plan for Gaza has estimated the recovery costs for different affected sectors. Geographically the largest scale of destruction as a result of the war took place in the north of Gaza (i.e., Beit Lahyia, Jabalyia and Gaza City and Rafah in the south) on the border with Egypt.[7] In mid-2008, more than 75,000 out of 110,000 workers lost their jobs in the private sector (Palestinian National Authority 2009).[8]

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6 The oPt contains more than 1,600 archaeological sites. During the fourth quarter of 2007, 82 hotels were in operation, with 4,094 rooms and 8,901 beds. The number of guests and guest nights totalled 88,912 and 199,132, respectively

7 Also see European Network of Implementing Development Agencies (2009).

8 Thirty-three thousand workers were from the industrial sector alone. Twenty-four percent of furniture products is for export to Israel and other countries, 20 percent of food industries used to be exported to West bank, 90 percent of garments products is for export to Israel. Thus, these sectors were fatally affected by the Israeli continuous closure on the Gaza Strip (Palestinian National Authority 2009).

2.2 Geographic distribution, size and economic activity of MSMEs in the oPt

Sayre (2009) claims the Palestinian economy currently is best described as three separate economies. The first is the economy of the city of Ramallah, in the West Bank. As the seat of power for the PA of the West Bank, Ramallah serves as the headquarters for most international NGOs and embassies. It is through this city that nearly all of the hundreds of millions of dollars in aid has been flowing. As a result Ramallah's economy has recovered strongly since the end of the second Intifada.

The second economy is the rest of the West Bank. In cities such as Bethlehem, Khalil (Hebron) and Nablus, the restrictions on movement throughout the region and to jobs in Israel have thrown these cities into a long-term pattern of higher unemployment, lower wages and few private sector opportunities.

Thirdly, there is the economy of the Gaza Strip. In the Gaza Strip, even before the recent bout of violence, Gaza was cut-off from jobs and services not only found in Israel, but it was almost completely isolated from the West Bank and from the rest of the world. Since Gaza is dependent upon its ability to access export markets, the economy has been in a severe depression.

In 2007 there were 105,880 private sector enterprises in the oPt. Ninety-nine percent of these are MSMEs, with a significant majority being microenterprises employing four or less fulltime equivalent workers. See the table below.

Table 3: Enterprise Establishments West Bank and Gaza, 2007

Economic Activity	Total	Employment Size Group					
		1-4	5-9	10-19	20-49	50-99	100+
Agriculture, Hunting and Forestry	6,969	6,538	398	31	2	0	0
Mining and Quarrying	299	140	121	28	8	2	0
Manufacturing	15,287	12,055	2,090	804	275	37	26
Electricity and Water Supply	460	418	21	7	3	4	7
Construction	623	363	140	86	23	8	3
Wholesale, Retail and Repairs	59,177	56,639	2,097	351	78	10	2
Hotels and Restaurants	4,632	4,248	297	65	19	2	1
Transport, storage and communications	1,206	775	248	118	47	10	8
Financial intermediation	821	564	99	87	52	12	7
Real Estate, Renting and Business Activities	4,223	3,809	320	72	16	5	1
Education	1,790	1,126	459	130	58	13	4
Health and Social Work	3,705	3,529	107	53	12	3	1
Other community, social and personal services	6,688	6,424	210	41	12	1	0
Total	105,880	96,628	6,607	1,873	605	107	60

SOURCE: PCBS (2007)

Seventy-one percent of MSMEs are found in the West Bank, leaving 29 percent in Gaza. The map contained in the figure below shows the distribution of enterprise establishments, of all sizes, by governorates. It shows Hebron and Nablus in the West Bank are the governorates with the highest density of enterprise activity. These contain 21.3 percent and 17.6 percent of the total enterprise establishments in the Remaining West Bank, respectively. In the Remaining West Bank, the other governorates with a high number of enterprise establishments are Ramallah and El Bireh (14.2%) and Jenin (14.2%). Gaza contains the highest density of enterprise establishments in the Gaza Strip, with 41.4 percent of the total number of establishments in Gaza Strip. This is followed by Khan Yunis Governorate with 18.1 percent, then North Gaza (14.9%) and Deir Al-Balah (14.0%).

Figure 1: Map of Enterprise Establishment Distribution by Governorate

SOURCE: PCBS (2008)

The MSMEs size structure contained in the table below shows that 92 percent of enterprises are micro, six percent are small and two percent are medium. The figure shows that 91 percent of MSMEs in the oPt are found in six economic sectors:

- Wholesale and Retail: 56 percent;
- Manufacturing: 14 percent;
- Agriculture: seven percent;
- Community, Social and Personal Services: six percent;
- Hotel and Restaurants: four percent; and

- Real Estate: four percent.

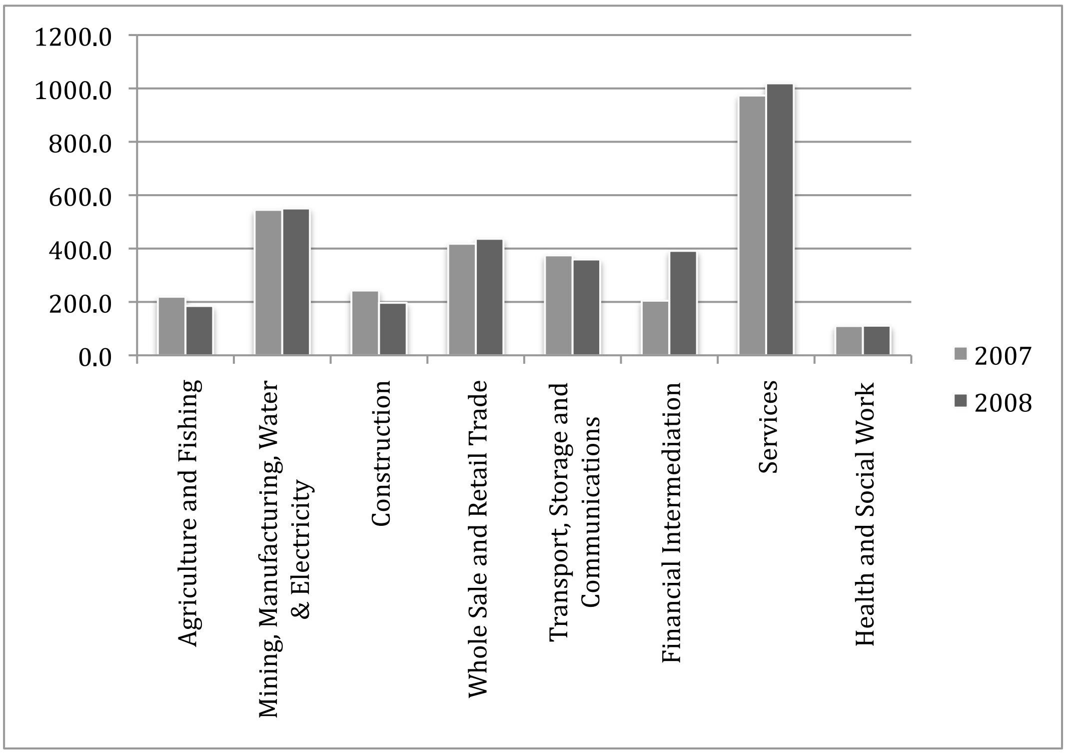
Table 4: Number of private sector enterprises in the remaining West Bank and Gaza Strip by Main Economic Activity and Employment Size Group, 2007

Economic Activity	Total WB	Total Gaza	Employment Size Group									
			WB	Gaza	WB	Gaza	WB	Gaza	WB	Gaza	WB	Gaza
			1-4		5-9		10-19		MSMEs		Large +20	Large +20
Agriculture, hunting and forestry (Animal Farming and Poultry)	5,924	1,045	5,559	979	337	61	26	5	5,922	1,045	2	0
Mining and quarrying	298	1	139	1	121	0	28	0	288	1	10	0
Manufacturing	11,773	3,514	9,179	2,876	1,651	439	648	156	11,478	3,471	295	43
Electricity and water supply	206	254	185	233	9	12	5	2	199	247	7	7
Construction	383	240	224	139	81	59	54	32	359	230	24	10
Wholesale and retail and repairs	40,664	18,513	38,975	17,664	1,378	719	242	109	40,595	18,492	69	21
Hotels and restaurants	3,317	1,315	3,076	1,172	184	113	44	21	3,304	1,306	13	9
Transport, storage and communications	707	499	372	403	190	58	91	27	653	488	54	11
Financial intermediation	579	242	384	180	76	23	63	24	523	227	56	15
Real estate, renting and business activities	2,831	1,392	2,540	1,269	228	92	46	26	2,814	1,387	17	5
Education	1,183	607	803	323	246	213	82	48	1,131	584	52	23
Health and social work	2,698	1,007	2,569	960	77	30	38	15	2,684	1,005	14	2
Other community, social and personal services	4,626	2,062	4,456	1,968	138	72	27	14	4,621	2,054	5	8
Total	**75,189**	**30,691**	**68,461**	**28,167**	**4,716**	**1,891**	**1,394**	**479**	**74,571**	**30,537**	**618**	**154**

SOURCE: PCBS (2007) Data from two reports: (1) Number of Establishments in Operation in the Private Sector in West Bank by Main Economic Activity and Employment Size Group, 2007; (2) Number of Establishments in Operation in the Private Sector in Gaza Strip by Main Economic Activity and Employment Size Group, 2007.

The table below shows the contribution of MSMEs to GDP in 2007 and 2008. As with the number of establishments, MSMEs dominate in the Services sector. This is followed by Mining, Manufacturing, Water and Electricity, followed by Wholesale and Retail.

Table 5: Contribution of MSMEs to GDP per Economic Activity (US$m)



Source: PCBS (2008) Contribution of MSMEs to GDP estimated on the basis of MSMEs contribution to employment in the oPt, due to lack of data.

2.3 MSME employment

Unemployment in the oPt remains high. The most recent data released by the PCBS indicates that 25.4 percent of labour force participants were unemployed in the first quarter of 2009.[9] While this presents a major challenge to the PA, it is far better than the 41 percent unemployment experienced in 2002. The unemployment rate has been slowly decreasing since this time. See the table below.

9 Unemployment rate reached 23.8 percent among females compared with 25.7 percent among males. Data showed that the highest unemployment rate was in Tulkarm governorate at 26.3 percent followed by Hebron governorate at 25.6 percent.

Table 6: Palestinian Economy (West Bank and Gaza Strip): Labour

	2007	2006	2005	2004	2003	2002	1999	1995
Unemployment (% of labour force)	28.9	29.6	29.0	32.5	33.4	41.3	21.2	26.6
Total Employment (in thousands)	665	621	696	578	654	477	588	417
In public sector (in thousands)	159	164	145	131	119	115	103	51
In Israel and settlements (in thousands)	63	64	63	50	55	49	127	50

SOURCE: PCBS (2008)

MSMEs are a significant contributor to the economy of the oPt in terms of the employment they create, the value they add to GDP and the products and services they provide. Ninety-nine percent of all private sector enterprises in the oPt employ less than 20 people. These enterprises employ 87 percent of all workers across the oPt (PCBS 2008).

Prior to 1994, when the PA was established, private sector employment was the only form of employment available in the oPt. While, private sector employers are still the majority, the PSBS (2008) shows that the public sector employed one quarter (24.4%) of total employment in the oPt, (16.3% in the West Bank and 48.4% in Gaza Strip).

Private sector enterprises, of all sizes, employ 264,137 people in oPt. Of this number, 190,019 (i.e., 72%) are found in the Remaining West Bank and 74,118 (i.e., 28%) in the Gaza Strip. While MSMEs represent 99 percent of all enterprises in the oPt, they employ 87 percent of all private sector workers (PCBS 2007). See the table below.

Table 7: Private Sector Employment by Enterprise Size, Area and Sex

Area	Sex	Total	Micro	Small	Medium	MSMEs	Large			Large +20
			1-4	5-9	10-19		20-49	50-99	100+	
West Bank	Male	156,871	97,844	24,277	13,992	136,113	9,605	4,143	7,010	20,758
	Female	33,148	16,779	4,959	3,848	25,586	3,855	1,484	2,223	7,562
	Sum	190,019	114,623	29,236	17,840	161,699	13,460	5,627	9,233	28,320
Gaza	Male	67,095	45,643	9,905	5,360	60,908	2,842	1,140	2,205	6,187
	Female	7,023	3,624	1,598	740	5,962	528	269	264	1,061
	Sum	74,118	49,267	11,503	6,100	66,870	3,370	1,409	2,469	7,248
Total		264,137	163,890	40,739	23,940	228,569	16,830	7,036	11,702	35,568

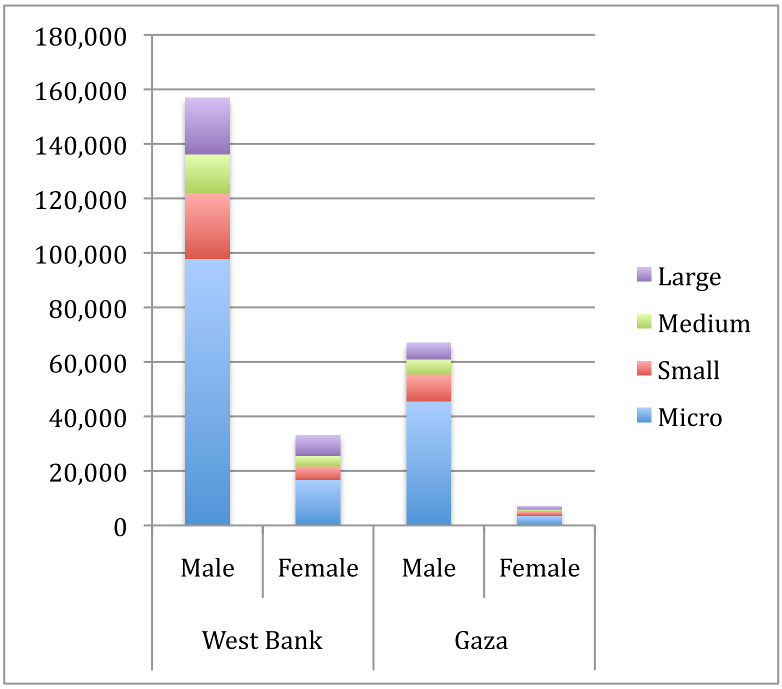
SOURCE: PCBS (2007)

Figure 2: Map Showing Number of Persons Engaged in Operation Establishment in the Remaining West Bank and Gaza Strip by Governorate, 2007

SOURCE: PCBS (2007)

Private sector employment in the oPt is skewed in favour of males compared with females. However, female employment is slightly higher in MSMEs than in large enterprises. Eighty-four percent of the people employed in the MSME sector in the Remaining West Bank are male, compared with 91 percent in Gaza. Compared with employment in large enterprises (i.e., those employment 20 or more workers), 76 percent of workers in the Remaining West Bank are male and 85 percent in Gaza.

Figure 3: Distribution of MSME Employment by Territory, Enterprise Size and Gender



SOURCE: PCBS (2007)

The above figures show that most private sector employees are employed in micro enterprises. Women's employment is substantially less in all private enterprises regardless of size, reflecting a broader characteristic of the Palestinian labour market.

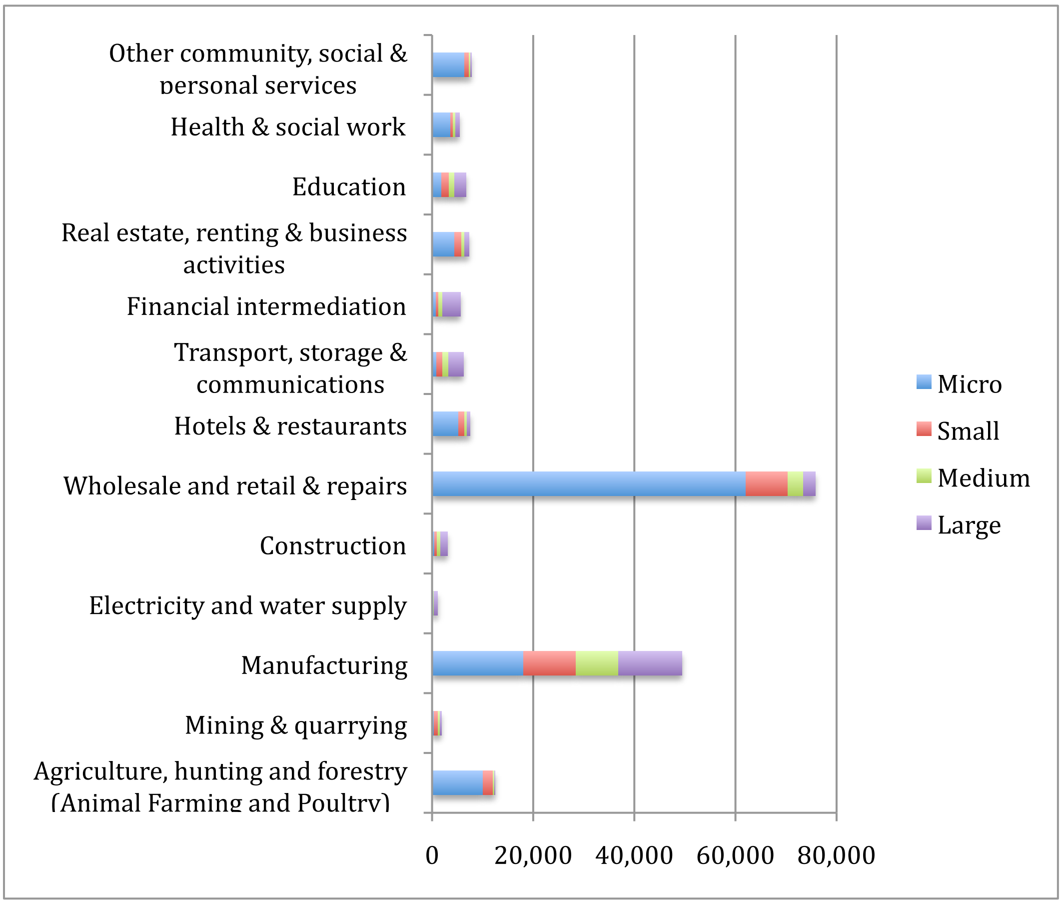
When MSME employment by industry sector is analysed, it shows an extremely high amount of employment in Wholesale, Retail and Repairs, compared to other sectors. This is followed by Manufacturing. See below.

Table 8: Private Sector Employment by Economic Sector and Enterprise Size

Industry Sector	Total	Employment Size Group					
		Micro (1-4)	Small (5-9)	Medium (10-19)	Large (20-49)	Large (50-99)	Large (100+)
Agriculture, hunting and forestry	12,400	10,059	2,016	279	46	0	0
Mining and quarrying	1,848	405	778	352	194	119	0
Manufacturing	49,397	18,031	10,454	8,379	6,652	2,120	3,761
Electricity and water supply	1,077	275	58	75	80	92	497
Construction	3,007	468	519	702	426	470	422
Wholesale and retail and repairs	75,789	62,109	8,253	3,030	1,645	522	230
Hotels and restaurants	7,532	5,259	1,112	572	344	80	165
Transport, storage and communications	6,196	831	1,260	1,154	1,103	436	1,412
Financial intermediation	5,615	751	510	850	1,126	709	1,669
Real estate, renting and business activities	7,277	4,467	1,396	576	267	323	248
Education	6,711	1,845	1,549	1,030	1,131	564	592
Health and social work	5,407	3,673	487	498	320	192	237
Other community, social and personal services	7,763	6,450	844	343	126	0	0
Total	**190,019**	**114,623**	**29,236**	**17,840**	**13,460**	**5,627**	**9,233**

SOURCE: PCBS (2008)

Figure 4: Private Sector Employment by Economic Sector and Enterprise Size



SOURCE: PCBS (2008)

2.4 Characteristics of MSME in the occupied Palestinian territory

The Organization for Economic Cooperation and Development (OECD 2004) claims that the characteristics of small and medium-sized enterprises (SMEs) not only reflects the economic patterns of a country, but also its social and cultural dimensions. The concept and practice of business in Arab culture differs significantly from European or Asian cultural concepts and practices. Palestinian MSMEs share a lot of characteristics with the MSMEs in the Arab world. In addition to cultural considerations, Palestinians live under Israeli occupation. As a result, MSMEs exhibit unique characteristics based on the need for economic survival in these harsh conditions.

Many Palestinian micro and small enterprises are informal. In the past, Palestinian businesses found ways to avoid paying taxes to the Israeli occupation authorities, and this has continued even after the PA was established in 1994.[10] There were modest attempts by the PA to convince MSMEs to register officially and pay taxes regularly but those efforts did not succeed.

10 There are some incentives for MSMEs to remain in the informal sector in order to avoid the financial burdens of abiding by the laws. In this case, MSMEs incur less procedures and expenses in opening and developing businesses, can evade taxes and have more employment flexibility (MAS 2009).

The informal sector is an important contributor economic growth and the people working in the informal sector in the oPt are independent, self-employed producers in urban areas, mostly employing family members. Such businesses require little or no capital, provide low incomes, unstable employment and operate amid unsafe working conditions. Palestinian scholars and practitioners agree that the size of the informal sector in the oPt never went less than 50 percent of the Palestinian economy, reaching sometimes up to 60 percent. However it is not agreed how to measure this informal sector whether quantitatively or qualitatively. The size of the Palestinian informal sector is not growing. However, it is still huge, and has serious consequences for private sector activity, economic growth and development, and the consolidation of democracy.

A 2003 study by Massar Associates claims that the informal sector is significant both as a source of employment generation and income. The study estimated that the informal sector employs more than 180,000 people and generates about $300 million annually: “It is a source of self-employment for around 100,000 Palestinians, of which a significant proportion (14 percent), are women. On average, it contributes more than 50 percent of the monthly income for about 100 thousand households, constituting about 25 percent of the Palestinian population” (Massar Associates 2003).

The Palestine Economic Policy Research Institute (MAS) has conducted a number of studies on informal enterprises. The first comprehensive survey of the informal sector in the WBGS, undertaken by the PCBS in cooperation with MAS was in 2003. This study aimed at discovering the “sector’s structure, characteristics, and features, and those of the people who operate within it” (Malki *et al.,* 2004).[11]

While the preliminary study undertaken by MAS concludes that the informal sector performs a valuable economic and social role, Hilal, *et. at.,* (2008) say this ignores “the vulnerabilities and lack of protection of workers and their families” that characterise the sector. This perspective does not recognise that informal employment

> is not sought out of choice but rather out of necessity (often desperate need), and that while it may protect the worker and his/her family against starvation, it does not, in most cases, protect against poverty and deprivation. Furthermore, economists and development practitioners do not usually consider the gender component of this kind of work, despite its role in protecting households from starvation, it adds further burdens and pressures on women and affects the gender relations and dynamics within the family.

The MAS studies identify the following characteristics of the informal economy in the Remaining West Bank and Gaza Strip (Malki *et. al.,* 2004):

- A majority of enterprises in the Palestinian economy were informal;
- Of all informal enterprises, just over two-thirds were located in the Remaining West Bank and the rest in the Gaza Strip;
- By sector, 65 percent of enterprises operated in domestic commerce (18% in services, 17% in industry);
- Over 90 percent of enterprises had three or less workers—the average number of workers per enterprise was 1.96 in Gaza Strip and 1.73 in the Remaining West Bank;
- The average turnover of the single enterprise was US$7,221;
- The total value of informal sector enterprises in 2003 amounted to nearly US$115 million;

11 A preliminary study was published in 2000 based on in-depth interviews with 64 owners of micro-enterprises (Malki et al., 2000).

- The industrial sector was the leader in generating added value, contributing by nearly 43 percent of the total, followed by the service sector, which contributed 13 percent; and
- The average wage in 2003 in informal enterprises was around US$800 annually per worker (with wide regional variations).

The main characteristics of Palestinian MSMEs are as follows:

- **Family owned:** of all the enterprises in 2008, of which 99 percent are MSMEs, 92 percent were individually or family owned, (i.e., 71% of these in the Remaining West Bank and 29% in the Gaza Strip). The governorate of Hebron holds 21 percent of the total individually or family-owned enterprises, the highest percentage in the Remaining West Bank, followed by the Nablus governorate (18%) and the Jenin governorate, (15%). The highest percentage of individually or family-owned enterprises in the Gaza Strip is in the Gaza governorate (41%), followed by Khan Younis governorate (18%) (PCBS 2009). Family businesses tend to lack proper management practices, in addition to marketing skills, and good financial practices.
- **Flexibility:** Palestinian MSMEs are accustomed to being flexible because of the unique situation they operate in under Israeli occupation. Those MSMEs that do not show flexibility close in a very short time.
- **Low investment:** microenterprises generally start with minimal investments and tend not to re-invest their profits into the operations associated with their businesses. Finances of family businesses are managed professionally, and many microenterprises do not give salaries to their relatives working with them, and mix their personal and enterprise expenses together. Furthermore, some microenterprise workers live and work in the same building. For example, it is noticeable in Hebron and Nablus to see a two-floor building where the industrial workshop is situated in the first floor, while the workshop owner lives with his family in the second floor.
- **Simplicity of organisation:** most microenterprises have very simple organisational structures, and unsophisticated methods of operation. Those that have one to four employees do not have a written structures, documented procedures or job descriptions. In many cases, the owner of the business is the accountant, and at the same time the marketing manager and everything. The more the employees increase the more the tendency for specialization increases.
- **Short life cycle for start-ups:** a large number of Palestinian microenterprises close only after a short while of starting their businesses. Such numbers are not available officially, but it is well known that a small percentage of new start-ups sustain their operations. The reasons for that vary, such as choosing the wrong place for opening the business, or shortage of finance and bad accounting and management, or lack of experience in the field.
- **Low safety:** most industrial MSMEs have low safety measures for their production facilities, or insurance for their premises or employees on work accidents or fire.
- **Sole proprietorship:** based on the results of the 2007 Census on the distribution of enterprises by legal status, the legal status of 95.1 percent of all private enterprises is sole proprietor, while 4.9 percent have another legal status.

2.5 Key markets of MSME participation

MSMEs in the oPt participate in three kinds of markets: domestic (Palestinian) markets, the Israeli market and international markets

2.5.1 Palestinian market

Most MSMEs in the oPt participate in local domestic markets. While the size of exports in 2007 was US$595 million, local manufacturing alone is valued around US $4.3 billion (PCBS 2008).[12] Palestinian imports of industrial products are valued at around US$3.1 billion, more than 70 percent of which comes from Israel. The market share of the Palestinian products has been affected in the past ten years by internal movement restrictions of people and goods imposed by Israel (United Nations Commodity Trade (2009).

With the tightening of the Israeli military checkpoints over each city and village, many Palestinian businesspeople have shifted to doing business locally in the localities where they live. In the past few years, Israel has established more than 600 checkpoints, roadblocks and road barriers across the whole West Bank, dividing its villages and refugee camps from the city centres. Such a system doubles, and in some cases triples, the cost of transportation for goods, which to a great extent weakens the competitiveness of Palestinian industries.

The loss of the East Jerusalem market for most Palestinian producers in the Remaining West Bank and Gaza has had an increasing negative effect on them. East Jerusalem has been an integral part of the Palestinian market and business community. After Israel built the wall with a system of permits and travel restrictions, it has become almost fully separate from the Remaining West Bank and Gaza Strip economy.

In the Gaza Strip, industries and agricultural produce shifted from being export oriented to products for local consumption, since borders rarely open for export. Although it is not easy for businesses to shift its production and change its products range, businesses in Gaza Strip do not have a choice even if they have to lose much of their profits. Few businesses survived the last war on the Gaza Strip in December 2008- January 2009, and even those businesses face the threat of collapse if the current siege continues for a longer period, causing a total collapse of the Gaza economy.

2.5.2 Israeli market

Israel is the destination for 89 percent of Palestinian products (United Nations Commodity Trade (2009). Israel is a high-income economy that dwarfs the Palestinian economy and offers an enormous potential market. The Remaining West Bank and Gaza Strip is in a quasi-customs union with Israel and in theory should have open access to exploit its lower labour costs. However, relatively few Palestinian enterprises are able to directly access the Israeli market. The closures and movement restrictions are the main factors. They both reduce competitiveness of Palestinian products and physically prevent movement into Israel. Most of Palestinians exporters cannot enter Israel without a special permit they mostly dependent on Israeli buyers to come to them. Micro enterprises in the

12 By sectors, the local market share of some industrial sectors reach up to 93 percent in wooden furniture, 91 percent in agriculture, 80 percent in marble and stone sector, 58 percent in garment and textile, 45 percent in pharmaceutical products, 32 percent in processed food sector and fall in other industrial sectors depending mainly on the international competition in the industry (PCBS 2008).

Remaining West Bank still benefit from the outsourcing opportunities that Israeli companies offer them, but to a very low extent after the mentioned permit system. As Israel moves more toward separation, Palestinians will have less access to the Israeli market and expertise. In addition, relying on Israeli middlemen drives up the cost of Palestinian products.

2.5.3 International markets

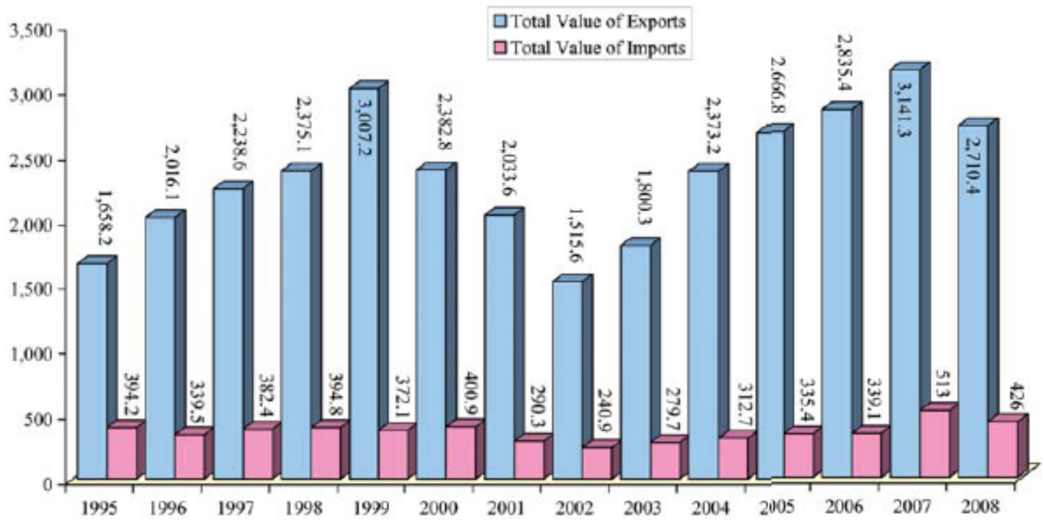
Because Palestinians have been relying on Israelis to access the world market, they have not developed the required market contacts of knowledge. Few Palestinian firms have offices abroad. Being fully dependent on the Israeli companies as mediators to international markets, very few Palestinian producers have been able to develop their own market contacts.

Furthermore, many of the Palestinian products today do not meet international standards and cannot be exported. The Palestinian pharmaceutical industry and the stone and marble industry have been the most successful sectors in upgrading the quality of their products and have managed to penetrate different international markets in Europe and the world. However, most of the firms in the pharmaceutical sector are large.

The Palestinian economy's small agricultural and manufacturing base makes it dependent on imports of both goods and services. Most Palestinian enterprises currently find it difficult to compete on the world market because of their low productivity.

The figure below shows that Palestinian imports were always around six or seven times the amount of Palestinian exports.

Figure 5: Total Value of Exports and Imports of West Bank and Gaza Strip, 1995-2008 (US$m)



SOURCE: PCBS (2006)

Interestingly, recent figures from the Palestinian Federation of Chambers show that Palestinian exports to Arab countries have increased 35 percent compared to the year 2007. The main export products are presented in the table below.

Table 9: Main export products

Products	Percentage
Marble and stone	30%
Food products	16%
Metal and plastic products	10%
Agricultural products	19%
All other sectors	25%

2.6 Conclusions

This chapter has shown the substantial role MSMEs perform in the economies of the Remaining West Bank and Gaza Strip. While there are some regional variations, only one percent of all private enterprises can be considered large (i.e., with 20 or more fulltime equivalent workers). Most MSMEs operate in the Wholesale and Retail and Manufacturing sectors, which account for 70 percent of micro, small and medium-sized establishments.

Eighty-seven percent of the Palestinian workforce is employed in MSMEs in the oPt. Among these workers, women represent 17 percent in the Remaining West Bank and nine percent in the Gaza Strip. Women are better represented in the public sector and in large enterprises. In large enterprises employing 20 or more fulltime equivalent workers, women represent 24 percent of the workforce in the Remaining West Bank and 15 percent in the Gaza Strip.

Seventy-one percent of all MSMEs are found in the Remaining West Bank, while the number of enterprises in the Gaza Strip has been dramatically reduced as a result of the three-week Israeli war in December 2008 and January 2009. This conflict also led to a dramatic loss of employment in the Gaza Strip and significant increases in poverty levels.

Informality is high among MSMEs, especially among micro and small enterprises. Many micro and small enterprises employ family members and often work from the family home. Salaries are low and conditions are far from stable and safe. While micro and small enterprises provide employment for many who would otherwise be unemployed, this falls well short of Decent Work.

As the following chapter will show, the conditions in which MSMEs in the oPt operate are not conducive to enterprise growth. Promotion decent MSME employment revolves around increasing access to markets and providing enterprises with the financial and non-financial inputs they require.

Chapter 3: Challenges to MSME growth and job creation

This chapter provides an overview to the major challenges to MSME growth in the Remaining West Bank and Gaza in order to identify how Palestinian MSME participation in the domestic and global markets can be expanded.

The following issues have been found to constrain the growth of MSMEs in the oPt:

- Limited access to markets, which is largely a result of Israeli occupation;
- Limited access business development services;
- Varying access to financial services;
- Limited enterprise linkages and participation in value chains; and
- Limits on land ownership.

These issues are described in more detail below. In addition to these, the investment climate and business environment found in the oPt is a major influence on the growth potential of MSMEs. These influences are assessed in Chapter 4.

3.1 Israeli Occupation and Access to Markets

Clearly the constraints on movement and access are the most serious impediments to growth in the economy. Despite this, UNCTAD (2008) claims the Palestinian economy has “demonstrated resilience despite a number of serious internal and external challenges”. The almost complete closure imposed on Gaza effectively cuts off 1.5 million Palestinians from the Remaining West Bank and the rest of the world, with only the bare minimum of essential and humanitarian imports allowed in.

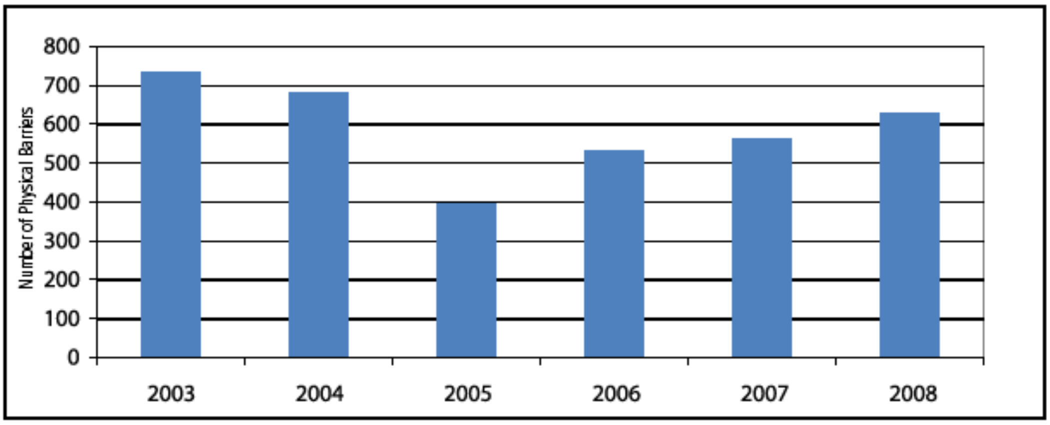
The strongest challenges facing Palestinian businesses today take the shape of severe closure on the Gaza Strip and hundreds of checkpoints cutting the Remaining West Bank into divided cantons and separating it from East Jerusalem. In the Remaining West Bank, the PA does not have jurisdiction over 60 percent of the land known as “Area C” and is totally controlled by Israeli occupation forces. This makes it impossible for factories to be built in these areas or for industrial zones to be established. In addition, the PA does not have sovereign authority over any of its borders with Jordan and Egypt. Thus, it cannot control the movement of products in and out of the oPt.

Despite the achievements the PA has accomplished on maintaining security, the number of checkpoints in 2008 is very close to the number of checkpoints during the unstable years of the second intifada 2003 and 2004. See the figure on the following page.

The border restrictions of the past eight years have stunted the economy, battered its productive capacity and eroded the institutional structure of the territory. The map in the following figure shows the distribution of Israeli military checkpoints and barriers in the Remaining West Bank.

The policies of Israeli occupation in the Remaining West Bank and Gaza Strip have been devastating for both small and large businesses, causing hindrances and severe damage to infrastructure, capital, labour movements and productivity (MAS 2009). These impediments are the primary cause of the economic crisis in the Remaining West Bank and the Gaza Strip (OCHA 2006). The Israeli wall has fragmented Palestinian life and economic activity.

Figure 6: Evolution of Physical Obstacles in the Remaining West Bank Since 2003



SOURCE: United Nations Office for the Coordination of Humanitarian Affairs (2008) quoted in World Bank (2010). Note: Annual data reflect Q4. Data for 2008 (September) comprise 75 checkpoints, 18 partial checkpoints, 98 road gates, 67 roadblocks, 230 earth mounds, 22 trenches, 74 road barriers, and 46 earth walls, and excludes the Separation Wall and flying checkpoints.

A recent World Bank (2010) report described how the Israeli "apparatus of control" has:

> become more sophisticated and effective in its ability to interfere in and affect every aspect of Palestinian life, including job opportunities, work, and earnings. Extensive and multilayered, the apparatus of control includes a permit system, physical obstacles known as closures, restricted roads, prohibitions on entering large areas of land in the West Bank, and most notably the Separation Barrier. It has turned the West Bank into a fragmented set of social and economic islands or enclaves cut off from one another.

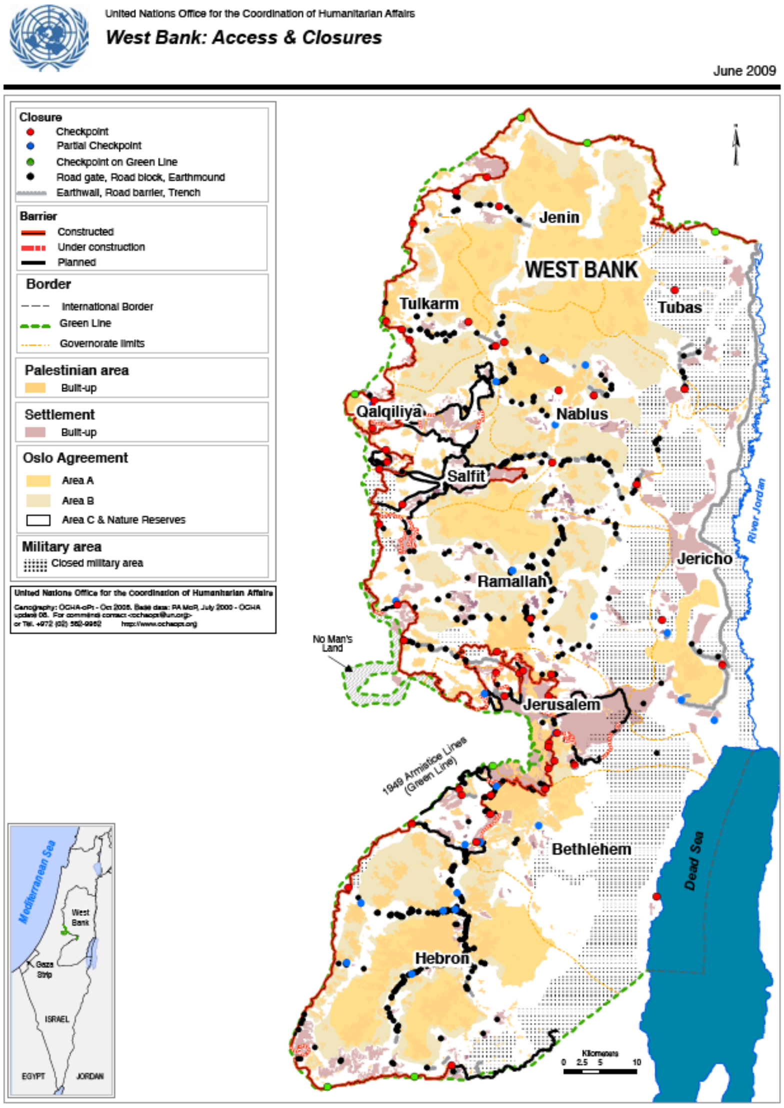
A stringent permit system limits access by producers, farmers and workers to their place of work or business. Under the permit system, individuals are allowed access to their work through designated gates that operate only at certain times. Some gates are open to Palestinians on a seasonal or weekly basis, while others are never open to them. The movement of equipment and material, such as tractors and livestock, is restricted at some gates. Transportation costs have increased considerably owing to the longer distances to designated gates, as the barrier severs traditional roads (United Nations Office for the Coordination of Humanitarian Affairs 2007).

Furthermore, Palestinian firms are unable to commit to fixed delivery schedules, which effectively preclude them from entering most high value markets where just in time delivery is essential. In addition to high costs and the lack of market connections, Palestinian products face a number of other challenges accessing international markets.

The MNE reports that, in total violation of the economic agreement between Palestine and Israel, known as the Paris Protocol, Israeli authorities are forbidding West Bank licensed distributors of imported products from selling into East Jerusalem.[13] In March 2009, the Israeli authorities notified Palestinian firms that as of April 2009 their permits would no longer be valid and they would not be permitted to market their products in East Jerusalem.

13 The "Paris Protocol" was signed on April 9, 1994 by Israel and the Palestine Liberation Organization and attached as Annex V to the Palestinian-Israeli Interim Agreement on the West Bank and Gaza Strip.

Figure 7: West Bank Access and Closures



SOURCE: World Bank (2010, p. 10)

The economy of the Gaza Strip faces far more challenges than any other parts of the oPt. In the past, there are many examples of export-oriented farming and manufacturing, as well as the migration of workers from Gaza to Israel. However, such activities require an open border with Israel, which has existed for a very long period of time.

The table below shows the dramatic drop of working establishments in Gaza from 3,900 in June 2005 to only 130 establishments in March 2008.

Table 10: Industrial Decline in the Gaza Strip

	June 2005	July 2007	December 2007	January 2008	February 2008	March 2008
Working establishments	3,900	780	195	150	150	130
Working employees	35,000	4,200	1,750	1,500	1,500	1,300

SOURCE: World Bank (2008), original data taken from industrial associations in Gaza reported to PalTrade and recent World Bank interviews with Palestinian Federation of Industries.

Before leaving the topic of markets, it is important to recognise the markets that is created by government procurement. Anecdotal evidence suggests that many MSMEs are constrained by overly bureaucratic government tendering procedures. Thus, it appears that new MSME market opportunities could be created by removing constraints that prevent MSMEs from winning government bids and encouraging large enterprises to outsource some of its activities to MSMEs.

3.2 Business development services

A major challenge faced by many MSMEs in the oPt is the limited access they have to market information, technical and business advice and training. Many MSMEs lack business management skills and strategies for running a business under difficult conditions, such as those created by the Israel. The ILO concept of Sustainable Enterprise (referred to in Chapter 1) is far from a reality in the oPt.

Fifteen years ago, the term used internationally to describe business development services (BDS) was ‘non-financial services’. In the 1970s and early-1980s, financial and non-financial services were combined in integrated business development programs. However, in the late-1980s and early-1990s, there was a separation of financial and non-financial services in an effort to achieve greater sustainability through specialization.[14] Where financial services referred to the range of financial mechanisms that are used to help enterprises start-up and expand (e.g., loans, banking services, revolving funds, microfinance), the term non-financial services referred to everything else.

In 1997, the Donor Committee for Enterprise Development (formerly the Committee of Donors for Small Enterprise Development) coined the term ‘business development service’ and suggested that interventions designed to support the development of MSMEs could operate across three levels: micro, meso and macro. Micro-level interventions referred to instruments delivered directly to enterprises; meso-level interventions referred to the organisations that provide services to enterprises; while macro-level interventions are those dealing with national policies, laws and regulations. Macro-level interventions shape the conditions in which small enterprises operate and have been more recently referred to as the ‘business environment’ or ‘investment climate’ (see Chapter 4).

Within this framework, BDS has been defined as:

14 This long-time separation between BDS and financial services has recently been contested. There is growing evidence of improvements gained through a more integrated approach (see Sievers and Vandenburg 2004).

> Services that improve the performance of the enterprise, its access to markets, and its ability to compete. [This includes] a wide array of business services, both strategic and operational. BDS are designed to serve individual businesses, as opposed to the larger business community (Committee of Donor Agencies for Small Enterprise Development 1997).

BDS has come to embrace the following micro-level development instruments:[15]

- Training
- Counselling and advice
- Developing commercial entities
- Technology development and transfer
- Information
- Business linkages

Lack of access to technology is a major constraint for MSMEs in the oPt. According to a 2008 PCBS survey, 21.1 percent of the total number of enterprises in the oPt used computers in the year 2007, including 23.1 percent for West Bank enterprises and 16.3 percent for Gaza Strip enterprises. Noticeably, the highest rate for computer use reached 83.0 percent for enterprises with ten employees or more. On the other hand, the rate for the enterprises with 0-4 employees reached 16.4 percent and 43.2 percent for the enterprises with 5-9 employees. Moreover, 12.7 percent of the total number of enterprises accessed the Internet. Sixty seven percent of the enterprises that used computers accessed the Internet.[16] Thus, there is a need to introduce more small-scale technologies suited for MSME development and for a technological knowledge through skills formation.

There are a number of organisations that provide BDS in the oPt, such as the chambers of commerce, PalTrade, the federation of industries and many other non-governmental organisations working in the business development sector. However, these organisations provide BDS with the support of consultancy companies and training centres and need further support to promote their services among micro and small enterprises.

Palestinian policy making institutions and business representative organisations are largely unacquainted with the concept of BDS. Many try to enhance their understanding and improve their related programmes by sending their staff to participate in regional and international training seminars and conferences. For example, GTZ supported a Palestinian delegation to participate in the First Annual Regional Conference on Business Development Services, entitled “Developing Service Markets for Small and Medium Enterprises”, in Amman in November 2006. The Jordanian Business Development Centre organised this event. GTZ, among other donors, gave special attention to the development of a professional approach to BDS in the oPt, through financing a number of Palestinian missions to Germany and a number of Arab States, and through the strengthening of the Small Enterprise Centre (SEC) and its connection with the BDS providers in Palestine.

15 The Committee of Donors went on to derive principles of good practice. However, these principles have be refined and improved over the years. This process culminated in the production of the 2001 Donor Guidelines (otherwise known as the ‘Blue Book’).

16 The regional differences between the Remaining West Bank and Gaza Strip with respect to enterprises accessing the Internet were not significant and stood at 68.0 percent and 67.3 percent, respectively.

Being designed as a facilitator and not a provider of BDS, the SEC is one of the NGOs that serve as a matchmaker between private enterprises and BDS providers.[17] SEC:

- Provides the SMEs with information about suitable services rendered by third parties;
- Referred them to those providers, organisations, and programs;
- Enabled a utilization by offering subsidies; and
- Partially provides services directly (i.e., to fill the gaps in existing services).

In their assessment of the demand for BDS in the oPt, Makhoul and Odwan (2006) found that there was great demand for accounting, marketing and promotional services. The table below shows the levels of demand for BDS. These are divided into four degrees: "frequently" shows a continuous active movement of the service and indicates the high importance attached to these services by respondent Palestinian enterprises of all sizes.

Table 11: Demand for BDS in the Occupied Palestinian Territory

Type of service	Demand levels			
	Frequently	Sometimes	Once	Not demanded
Accounting	29.5	14.2	6.9	49.4
Marketing	15.4	9.4	3.5	71.7
Promotion	10.4	15.2	5.8	68.7
Finance	7.9	6.9	4.4	80.8
Administration	6.7	4.8	3.5	85
Legal counselling	5.5	14	6.4	74.1
Production and technical issues	8.4	5.8	3	82.7
Human capital development	8.1	8.5	4.8	78.6

SOURCE: Makhoul and Odwan (2006)

A 2006 study on BDS in the oPt by the Palestine Economic Policy Research Institute identified a series of problems on both the demand and supply sides in the market for BDS (Makhoul and Odwan 2006). On the demand side the study found that:

- Beneficiaries' knowledge of BDS in the Remaining West Bank and Gaza Strip is poor—there is little in the way of a training and consulting culture among beneficiaries;
- Business owners' acceptance of BDS, their belief that such services could improve their businesses, and their willingness to accept proposed changes in their businesses, declines with age;

17 In September 2006, the SEC database indicated that a total of 471 enterprises had been provided with BDS.

- The high cost of BDS is the most important element in considering whether or not to request a service;
- There are inadequate financial resources for covering expenses, especially as Palestinian institutions rely heavily on private funds when requesting business development services; and
- Beneficiaries complain of the low quality of certain services in terms of the duration of training courses, their timing and the environment under which they are held, the precision of analysis, the methods of presenting information and recommendations, and the fact that information was at times out of date.

On the supply side:

- There is a lack of supervision of individual and institutional BDS activities, as well as a lack of professional categorization in the industry;
- There are insufficient financial resources to cover operating expenses, especially in light of rising costs related to consulting and training firms;
- There is a short supply of experts with specific specializations needed to meet rising demand;
- There is poor demand for many services due to the small market size and high cost;
- There is increased price-based competition at the expense of quality-based competition;
- There is unwillingness by some beneficiaries to accept required business adjustments;
- Some beneficiaries are unable to assess the quality of business development services;
- Some beneficiaries are unable to prioritize their needs;
- The international funding of certain services has caused cost increases in these services beyond the beneficiaries' financial capabilities—60 percent of BDS providers believed that consultancy is the most costly element in the pricing of their services; and
- BDS is centred on traditional services and ignore technological areas, know-how and regional and international competitiveness analysis and trends.

Micro, small and medium-sized cooperative enterprises suffer from the lack of information and marketing capabilities. There are five key institutions whose mandate is to support primarily cooperatives, among other institutions, through long-term and consistent financial and non-financial programmes. These include the Arab Centre for Agricultural Development, the Palestinian Agricultural Relief Committee, the Economic and Social Development Centre, and Reef Finance (International Labour Organization (2010).

In general, there is a lack of harmony between what is demanded and what is supplied in terms of BDS. This particularly applies to training and consulting. For instance, from the beneficiaries' perspective, information is more important than consulting services, whereas from the perspective of BDS suppliers, consulting services are more emphasized as donor agencies often finance these services.

Donor and development agencies, as well as civil society organisations (often themselves supported by donor and development agencies) have played an important role in researching, designing and piloting BDS in the oPt. This has helped to improve the understanding of BDS markets and dynamics. However, it has also tended to distort BDS markets and sometimes crowded out private sector actors from this field.

3.3 Access to Finance

Despite their dominant numbers and importance in job creation, MSMEs traditionally have faced difficulty in obtaining formal credit or equity. MSMEs need access to finance in order to start and expand. A major problem in Palestine is the lack of credit guarantees. Most microenterprises in the oPt start their businesses with their own financial resources or tend to rely on loans from family or friends. Few entrepreneurs go to MFIs for start-up loans, although some microenterprise owners approach MFIs when they want to expand their investments and maintain enough working capital for their business. Formal credit providers consider MSMEs as high-risk borrowers, because of their insufficient assets, low capitalization, vulnerability to market fluctuations, and high mortality rates.

The financial sector in Palestine includes about thirty two banks with 135 branches, nine insurance corporations, and 270 money change firms, a stock market of 25 listed Palestinian corporations and six brokerage corporations (Sabri, 2008). As of September 2008, there were 27,298 active microfinance clients in the oPt borrowing a total US$37.5 million. Fifty-seven percent of these clients were women. It is estimated that the Palestinian microfinance sector serve over 30,000 clients, while the market is estimated to be around 200,000 clients, which indicates a market penetration rate of approximately 15 percent (Palestinian Network for Small and Microfinance 2008).[18]

The financial situation in Palestine is marked by high interest rates and an imposition of considerable thresholds of guarantees. These impediments often hinder access to capital and loans urgently needed to finance new machines and/or expand existing capacities. The Palestine Monetary Authority does not regulate enterprise-financing institutions. However, this will be changed with the passing of the new Palestine Banking Law (MAS 2009). MFIs are not yet able to cover their costs and are, hence, not self-financing despite continuous demands from donors. The key challenge is how to balance sustainability with affordability.

Microenterprises usually deal with MFIs, while SMEs normally try to obtain loans from commercial banks. Palestinian MFIs have achieved much in their support to microenterprises, but they have not been so successful in enabling their clients to graduate to accessing loans from banks.

In 2006, the World Bank conducted a survey that showed the reasons why businesspeople do not apply for loans. The results in the table below clearly show that the majority (68.5%) answered that they have sufficient capital. Not surprisingly in this region, the second reason for not going for a loan was for religious reasons.

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18 Figures are estimated based on International Finance Corporation (2007). The Network of Micro-Finance Institutions (MFIs) is made up of nine MFIs: Palestinian Businesswomen's Association, United Nations Relief and Works Agency for Palestine Refugees, Palestine for Credit and Development, Arab Center for Agricultural Development, Palestinian Agricultural Relief Committees, American Near East Refugee Aid, CHF International, Young Men's Christian Association and the Palestine Banking Corporation.

Table 12: Main Reason for Not Applying For A Loan

Reason for not applying for a loan	% of Responses
No need for a loan - establishment has sufficient capital	68.5
Application procedures for loans or line of credit are complex	9.2
Interest rates are not favourable	6.5
Collateral requirements for loans or line of credit are unattainable	1.2
Size of loan and maturity are insufficient	0.3
Did not think it would be approved	1.8
Religious Reasons	12.5

SOURCE: World Bank (2007, p. 24)

While access to finance appears to be a major constraint to MSMEs in the informal sector, this does not appear to be a serious constraint to formal Palestinian enterprises, most of which are able to obtain the financing they need for current operations.

The Gaza Strip witnessed severe unique situation in the past four years, after Hamas won the elections in 2006. At the end of 2007, only 20 percent of the microfinance activity in the oPt was focused in the Gaza Strip, showing a reduction of approximately 40 percent. With continuous efforts from MFIs to survive the crisis, they managed to slightly raise the scale of their activities in Gaza. Although the number of loans in Gaza slightly increased during the first three quarters of 2008, the percentage of total loans disbursed in the oPt dropped to 18 percent at the end of September 2008 (Palestinian Network for Small and Microfinance 2008).

The United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) provides loans only to refugees. Its micro-finance and microenterprise program (MMP) has been running successfully in the Remaining West Bank and Gaza since June 1991. Today, the MMP comprises five revolving loan funds, each targeting different segments of the population, but with a strong focus on women and youth. Despite the complete closure of Gaza’s borders and terminals and the absence of raw materials, UNRWA’s microfinance department’s three branch offices in Gaza financed 452 loans valued at US$ 902,400 during the months of October and November 2008 (Palestinian Network for Small and Microfinance 2008). Looking at the needs of Palestinian refugees, this number is relatively small due to the financial crisis that UNRWA keeps getting into from time to time because of shortage of financing to its operations in the oPt.

OPEC Fund for International Development’s involvement in micro-financing in Palestine began in 2004, when it set up its own dedicated fund, the PalFund, and entrusted its administration to UNRWA. Through the initial grant of US$2.5 million to PalFund, the OPEC Fund for International Development became the largest single sponsor of UNWRA’s micro-finance activities. These funds have revolved four times since its inception, providing more than 9,000 loans with a total value of more than US$10 million (Haylins 2007).

Careful consideration should be given to improving the access of small and medium enterprises have to financial services. This may involve, for example, encouraging banks to become more involved in SME financing, the creation of a credit bureau and the establishment of an SME loan guarantee facility.

3.4 Value chains and linkages

In mature economies, MSMEs and large enterprises specialize in a complementary way. Micro and small enterprises typically acts as suppliers, franchise or service providers for medium and large enterprises; they specialize in niche markets for customized goods. Owing to their specialization, MSMEs fit into competitive value chains and contribute to the efficiency and competitiveness of the whole system.

Networking is considered a very useful tool at the disposal of MSMEs to build, manage, and maintain relationships with large enterprises, suppliers, and distributors.

Value chain operators relate to each other both horizontally (i.e., among enterprises at the same stage of the value chain, pursuing the same type of activity) as well as vertically (i.e., between suppliers and buyers of produce). In Palestine, the horizontal level is working well. Micro and small enterprises are used to collaborating and trading with one another. However, vertical integration, where micro and small enterprises feed into a value chain dominated by larger firms, is far less common. Palestinian MSMEs prefer to work with their sister enterprises while they are reluctant to open any channels with the big players in business.

3.5 Land ownership

The availability of serviced land is a major constraint to developing new businesses and expanding existing ones in the oPt. Most businesses operate on land long owned by the family and business premises are often attached to the personal residence of the owner. The lack of suitable industrial land has serious consequences for Palestinian businesses.
In the Remaining West Bank, it is only possible to establish new businesses in the area administered by the PA[19]. Most Palestinians no longer attempt to register land as the process is expensive and complicated and rejections cannot be appealed.

Under the pretext of ‘military need’, approximately 11,750 acres of Palestinian land was seized in order to establish a large number of settlements, without the payment of compensation as outlined under International Humanitarian Law. The declaration of land as ‘state land’ through the use of the Ottoman Land Law of 1858 has permitted Israeli control of approximately 40 percent of West Bank land. Ninety percent of settlements have been established on state land (O’Callaghan, *et. al.,* 2009).

3.6 Conclusions

This chapter has charted a number of critical constraints on the development of MSMEs in the oPt. It has highlighted the importance of access to markets for MSME development and shown how Israeli occupation has significantly reduced the access MSMEs have to markets. While this problem is a political one, it highlights the need to find avenues to new markets. Access to market information and developing a global perspective on markets and market opportunities is essential for business development. However, many MSMEs in the oPt lack this information and mindset. Indeed, there are many business development services that MSMEs require in the oPt if they are to grow and become

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19 Area A, the area assigned to be fully controlled by the PA, is only about 17 percent of the West Bank. The PA is in charge of administration in Area B, while Israel retains security and planning control. Area C, where Israel retains full control is about 60 percent of the West Bank. Area C is the only fully contiguous area in the Occupied West Bank; it surrounds and divides Areas A and B.

sustainable, but previous assessments have shown that most enterprises, especially micro and small enterprises, are unable to obtain these inputs.

Micro and small enterprises also struggle to obtain the finances they require to start and expand. In recent year this demand has been met by microfinance institutions, of which there are many in the oPt. However, micro and small enterprises continue to find it difficult to access commercial finance. Medium-sized firms and some small enterprises are generally more able to access commercial finance. While many micro and small enterprises are used to collaborating and trading with one another, they rarely participate in vertical value chains. This limits their access to markets and reduces their potential for growth. Finally, access to and ownership of land by micro and small enterprise owners is a problem that affects many other aspects of business development. It reduces the physical spaces enterprises can operate in and trade from, while eroding the collateral base of many firms.

Finally, it is while the donor community and civil society organisations have played an important role in the provision of financial and business development services for MSME development, care must be taken to ensure these actors don’t distort the markets in which these services are offered. Such distortions can undermine the sustainability of these initiatives and reduce their impact. Responding to these problems requires an integrated and holistic set of interventions that should be led by the PA. In the next chapter, the business environment and the role of government in regulating and enabling the MSME sector is considered.

Chapter 4: The business environment for MSMEs

This chapter examines the business environment in which MSMEs in the oPt operate. The business environment is a sub-set of the investment climate. The "investment climate" is a term used to describe a broad range of issues affecting the development of the private sector. The World Bank (2004) has defined the investment climate as "the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand". In many cases, the investment climate contains what might be considered to be "macro-level" issues.[20]

The Donor Committee for Enterprise Development (2008) defines the business environment as a sub-set of the investment climate, consisting of a complex of policy, legal, institutional, and regulatory conditions that govern business activities. It includes the relationship between public, private and civil actors. Whereas the investment climate - referring to the judicial system and the broader macro and political conditions in which the economy operates - has an overall affect on private sector activities, the business environment is directly affected by government decisions at national, provincial and local levels.

Along with other private sector development initiatives, the business environment affects the performance of private enterprises in both the formal and informal economies. The three broad sub-components of the national business environment comprise the following:

1 Policy, legal and regulatory framework: this refers to the range of policies, laws and regulations that affect business owners – men and women.

2 Administrative systems: this refers to the ways in which policies, laws and regulations are enforced, and includes issues such as governance (public and private governance, corruption, etc.).

3 National organisational arrangements: this refers to the ways in which government and business represent themselves and communicate with each other, and includes the issues of social dialogue and public-private dialogue.

4.1 General profile of the Palestinian investment climate and business environment

The World Bank's 2007 assessment of the Palestine investment climate found that "by most measures, the Palestinian investment climate is relatively good and in many ways superior to other economies in the region. Yet, despite being in a highly competitive market with a relatively strong investment climate, Palestinian enterprises are struggling to survive and display low levels of productivity, which speaks to the special circumstances of the occupation" (World Bank 2007).

Generally, with the uncertain political and security situation makes it difficult for Palestine to attract foreign investment or promote local investments. In the Gaza Strip, the siege imposed since 2006 has forced a number of businesses to leave the Strip for Egypt. In the Remaining West Bank no investment licenses or residence permits can be given to foreign investors without the approval of the Israeli authorities first, which rarely occurs.

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20 This includes issues such as the rule of law, the presence of open financial markets, economic predictability, infrastructure, political stability, efficient labour markets, and skills and human resource development.

The World Bank's 2007 Investment Climate Enterprise Survey indicates that "the most important constraints to doing business in the Palestinian territories are the uncertainty linked to the political environment. Respondent managers perceive the unstable political environment and the resulting economic instability as the "biggest constraints to doing business" in the oPt (World Bank 2007, p. 22).

Other investment climate concerns, says the World Bank (2007), pale in comparison. However, they include:

- Shrinking market access and the lack of free movement are major constraints to growth for Palestinian enterprises.
- Most Palestinian enterprises are no longer internationally competitive in the low value goods they specialize in—most machinery is over 10 years old, less than 26 percent of the World Bank surveyed enterprises conducted worker training and only a small share had international quality standards. The average wage of a production worker in WBG is about twice that of a Jordanian worker and almost three times an Egyptian's.
- The financial sector is highly liquid—most enterprises do not have a bank loan. This is largely because most businesspeople do not want a loan given the few profitable investment opportunities.
- The growing Israeli settlements on occupied Palestinian territory and movement restrictions imposed on Palestinians by Israeli authorities overshadow all other elements of the investment climate. The restrictions close off markets, raise transaction costs and prevent producers from guaranteeing delivery dates. The closures also serve to keep firms small and prevent them from attaining minimum efficient scale.

The PA has concluded a number of free trade agreements with different blocs and countries in the world, such as the European Union, the European Free Trade Association, the United States, Canada and Turkey. Additionally, it has signed agreements regulating trade relations and cooperation with Russia, Jordan, Egypt, Saudi Arabia, United Arab Emirates, Yemen, Morocco, Tunisia and other Arab countries. This should make the whole territory attractive for all kinds of investment, especially when directed for export markets with duty free access. However, with all mentioned agreements, FDI is minimal.

In 2007, the International Labour Conference produced a report on *Conclusions Concerning the Promotion of Sustainable Enterprises.* This report identified 17 conditions that are necessary for the promotion of sustainable enterprises. Below is a brief assessment of these conditions in the oPt.

1 **Peace and political stability:** The lack of political stability and security in the past six decades was a key constraint in attracting any kind of foreign investments into the oPt. The total control of the Israeli occupation authorities on the border of the oPt, the presence of more than 600 military checkpoints inside the West Bank, and the separation between the West Bank, Gaza Strip and Jerusalem, made any kind of sustainable development impossible.

2 **Good governance:** Since its establishment in 1994, the Palestinian Authority has endeavoured to promote good governance with support from Palestinian NGOs, private sector, and the international organizations and donors working in the oPt. However, it has proven difficult to eliminate key forms of corruption in its structures and functions. There is a lack of transparency and accountability, and despite the efforts of Prime Minister Fayyad to achieve good governance, the way is still too long and the internal challenges are as difficult as the external challenges and pressures.

3 **Social dialogue:** Palestine presents a vibrant, regular and structure dialogue between government, business and labour. The lengthy discussions and lobbying for a modern labour law in Palestine, showed that social dialogue exists and Palestinians are using it for effective, equitable and mutually beneficial outcomes for governments, employers, workers and wider society interest.

4 **Respect for universal human rights and international labour standards:** With their relatively high levels of education, Palestinians generally have good respect for human rights and international labour standards, especially for freedom of association and collective bargaining, the abolition of child labour, forced labour and all forms of discrimination. Many improvements have been achieved to prevent child labour and other areas related to Decent Work including rights of women at work. However, there is room for improvement.

5 **Entrepreneurial culture:** The PA has recognised the role of enterprises in development and tries to show its support for entrepreneurship, innovation, and creativity. The first entrepreneurship conference held last year by YEP has put the concept of entrepreneurship on the table for policy makers, and linked it to the concept of mentorship and coaching particularly for start-ups, small enterprises and targeted groups such as women and youth, which is important determinant of a conducive business environment. Respect for workers' rights are still not embedded clearly in programmes targeting entrepreneurial culture in the oPt.

6 **Sound and stable macroeconomic policy:** The PA does not have a central Bank nor a Palestinian currency. There are three main currencies that are used in the oPt: the Jordanian Dinar, the Israeli Shekel and the US dollar. The inflation change in any of the three currencies directly affects the Palestinian economy. The Palestinian Monetary Authority attempts to play the role of a Palestinian central bank, but the constraints and challenges are huge. The lack of fiscal and exchange rate policies make it impossible to guarantee stable and predictable economic conditions.

7 **Trade and sustainable economic integration:** Palestinian merchants and industrialists suffer on a daily basis from the lack of access to local and international markets. Efficiency gains caused by trade integration can lead to positive employment effects either in terms of quantity or quality of jobs or a combination of both. Consequently, decision makers are trying hard to achieve trade integration by all available means and with the assistance of donor programs.

8 **Enabling legal and regulatory environment:** This condition is discussed below (see 4.2).

9 **Rule of law and secure property rights**: The PA has been working hard to secure property rights, but still a lot needs to be done on this regard.

10 **Fair competition:** The PA has drafted a new competition law, but this will require some time before it is completed and passed. There has been evidence of anti-competitive behaviour by large enterprises operating in the oPt, but to date there has been no mechanism to address this.

11 **Access to financial services:** This has been described in the previous chapter.

12 **Physical infrastructure:** In general, the roads and transportation systems in the oPt are poor, and progress to address this has been slow. Every attempt to build a port or airport in the Gaza Strip has failed, either because of poor project management or Israeli army incursions. In the West Bank, there were lots of talks about building a new airport, either in Qalandia (north of East Jerusalem) or just recently in Jericho, but these talks still never materialized because of the

obstacles that the Israeli occupation put in front of such big projects. However, Dr. Salam Fayyad has achieved some progress in other areas like in water and waste-water projects and other infrastructural projects funded by the donor community.

13 **Information and communications technology:** Palestinians have relatively advanced access to information and communications technology and even affordable broad band technology and internet. Recently, a new mobile company called Wataniyya launched its services, and the competition with Jawwal, which was the only mobile company, has brought call prices down for the benefit of the Palestinian consumers. Research centres are increasingly opening in different universities, and more alliances are being seen between Palestinian universities and international ICT companies such as Cisco and Intel. Birzeit University, a Cisco Regional Academy since September 2000, received the Against All Odds award, one of five awards for the 2,300 Cisco Academies in Europe, Africa and the Middle East.

14 **Education, training and lifelong learning:** Palestinians are known to be highly educated. Enrolment rates are relatively high by regional and global standards. This reflects the great values that Palestinians attach to educational attainment. According to PCBS Millennium Development Goals report of January 2009, the net enrolment ratio in basic education in 2007 is 83.9 percent while the literacy rate of 15-24 year old male and female reaches 99.1 percent. Governmental and non-governmental organizations, with support from donor programs in the oPt, have made a good number of training programs abundant in the market for those who want to develop their skills continuously.

15 **Social justice and social inclusion:** Palestine, like most Arab countries, is trying to improve its gender balance in employment and in social inclusion. In order to create sustainable enterprise development in Palestine, there is a need for continuous advancement on elements related to social justice. Today, the situation is still far from where it should be, but the PA is committed to bridging the gap and achieving acceptable milestones towards perceived social justice.

16 **Adequate social protection:** In general, social protection for Palestinians is poor. Those in formal employment may be able to benefit from health insurance and pension schemes, but the rest are vulnerable.

17 **Responsible stewardship of the environment:** While the Palestinian-Israeli conflict has produced significant environment damage, the lack of policy, legal and regulatory measures has allowed local factories, quarries and mines to disregard environmental protection measures.

4.2 Policy, legal and regulatory framework for MSMEs

This section examines a key element of the business environment for MSMEs in Palestine: the policy, legal and regulatory framework. This framework should theoretically protect and assists MSMEs by providing them with the legal space they require to operate and physical facilities in which to conduct their business. Nowadays, they are not protected physically against the unlawful behaviour of others, and also legally (e.g., protection against unfair competition). However, an enabling business environment can take remedial steps, such as by providing incentives to encourage entrepreneurship and job creation among MSMEs.

There are three layers of government activity that shape the environment for small enterprises.

The first layer made up of policies and laws. These set the directions and intentions of government. They underpin development efforts and influence the role MSMEs can perform in the national economy. Policies and laws provide the justification for programme and regulatory action. They can also establish a stable economic climate where the rule of law promotes transparent and enforceable transactions between government and small enterprises as well as in the commercial transactions of the private sector.

The second layer concerns programmes, regulations and procedures. These are a means through which policies and laws are implemented. Programmes are direct forms of government intervention. They are usually designed to promote, encourage or assist certain behaviours in order to achieve a defined and desired outcome. Regulations and procedures represent the 'tools' that are used to enact the policies and legislation.

The third layer of activities is that of institutional arrangements or administration. This refers to the ways in which policies, laws, programmes, procedures and regulations are applied, managed and monitored. Whilst all three of these layers of government activity are important in their own right it must be remembered that there are connections between them.

In this section, the following elements of the policy, legal and regulatory framework for MSMEs in Palestine are assessed:

- Official definitions of micro, small and medium-sized enterprises;
- Business, company and cooperative legislation;
- Business registration and licensing;
- Labour laws and regulations;
- Investment and tax laws; and
- Trade policies, laws and regulations.

The environment in which businesses operate can be affected by factors that have been deliberately designed to do so. However, it can also be influenced by factors that were not primarily intended for this purpose. Thus, there can be intentional and unintentional consequences of the policy, legal and regulatory framework that influences the growth of MSMEs and the volume and quality of employment found in this sector.

The legal environment in the oPt is not conducive for MSME development. The current laws do not distinguish between enterprises according to size or activity. This applies to almost more than 25 economic laws. Some efforts have been invested in the past decade to give certain incentives to MSMEs in the new draft laws that are in the making. However, these have not produced tangible results. It is extremely important to consider MSME when formulating new legislations, regulations and product standards.

One of the key challenges that face Palestinians in terms of MSME development evident in the oPt, is the high cost of doing business. There is a slow effort towards raising transparency, minimizing bureaucracy and red tape for business regulation, transactions and registration. All of these are meant to reduce the cost of business in the oPt.

4.2.1 Official definitions of micro, small and medium-sized enterprises

Recommendation Number 189 of the International Labour Conference, Recommendation Concerning General Conditions to Stimulate Job Creation in Small and Medium-Sized Enterprises, encourages all member States to define MSMEs according to national social and economic conditions (International Labour Conference 1998). This definition should apply to all types of economic activity and all types of enterprises, irrespective of the form of ownership (i.e., including private and public companies, co-operatives, partnerships, family enterprises and sole proprietorships). Common definitions will assist in the consistent collection and analysis of data concerning MSMEs.

Countries have adopted varying definitions of MSMEs based on the size of their overall economies. Some countries base their definition on the number of employees, while others use the value of assets of the firm, the capital, volume of sales or value added. Many countries base their definition of MSMEs on a mix of these factors.

Table 13: Comparison of MSME Definitions Based on Number of People in Full-Time Employment

	Micro	Small	Medium	Source
Egypt	1-4	5-14	15-19	UNCDF
Israel	0-9	10-49	50-99	ICBS
Jordan	1-4	5-19	20-99	DOS
UAE	0-9	10-49	50-499	HSBC
Tunisia	1-9	10-49	50-99	UNIDO

SOURCE: USAID (2007)

For example, in the European Union a business with fewer than 250 fulltime equivalent employees is classified as medium-sized; a business with fewer than 50 fulltime equivalent employees is classified as small; and a business with fewer than ten fulltime equivalent employees is considered as micro-business. The European system also takes into account a business's turnover rate and its balance sheet. In the United States, 500 is the maximum number of workers in medium-sized enterprise. Industry Canada uses the term SME to refer to businesses with fewer than 500 employees, while classifying firms with 500 or more employees as "large" businesses, and a micro business is defined as a business with fewer than five employees.

The PA does not have a formal definition of MSMEs that all ministries can use as a basis for their strategies and programmes. All actors, whether government, non-governmental or private, apply their own definition to this diverse sector.

The Palestinian Chambers of Commerce does not define MSMEs, but categorises firms based on their registered capital. This determines the fee a business has to pay to become a member in the chamber in a certain category.[21]

The Palestinian Central Bureau of Statistics bases its data on the categories it defines to serve the objectives of its surveys, and its definition is not considered to be a national definition for MSMEs.

SEC defines MSMEs based on the number of employers:

- Micro enterprises employ 1- 4 persons
- Small enterprises employ 5-10 persons
- Medium enterprises employ 11-25 persons
- Large enterprises employ more than 25 persons

Many Palestinians have argued that MSME definition should also take enterprise turnover into account and not only employment. However, others argue that it is difficult to use this criterion in the Palestinian context. There are two reasons for this: Firstly, more than

21 There is currently a draft law for the chambers of commerce that the ministry is coordinating with the Federation of Chambers but it does not define MSMEs.

50 percent of businesses work in the informal sector and cannot be properly assessed by this criterion. Secondly, as a result of the deteriorating economic situation and Israel occupation, few companies declare accurate data on their turnover to avoid taxation. Moreover, the PA is flexible in collecting taxes from MSMEs because it understands the difficult environment the Palestinian businesses work in.

Since 2006, there have been three conferences on MSME development in Palestine: the MSME conference in 2006; the entrepreneurship conference in 2009; and the microfinance conference in 2009. None of these conferences came to any conclusions on how to define MSMEs in Palestine.

4.2.2 Business, company and cooperative legislation

There are a range of possible business entities that can be used in the oPt:

- Sole proprietorship;
- De facto company;
- General partnership company;
- Limited partnership company;
- Shareholding limited partnership;
- Public shareholding company;
- Limited shares company;
- Limited liability company;
- Unlimited liability company;
- Cooperative company;
- Association or Charity; and
- Foreign company branch.

At present, companies may be registered under Companies Law No 12 for 1964, applicable in the Remaining West Bank, and the Companies law of 1929 applicable in Gaza. A new Palestinian company law has been drafted and is awaiting approval. The new legislation aims to provide a modern and unified framework for companies across the oPt, and closely follows the Jordanian model, incorporating revisions made in Jordan in 1997 and 2003.[22]

An Egyptian company law has been enforced in Gaza since 1929, and a Jordanian law in the West Bank since 1963. The PA has worked on a number of drafts since 1998 for a Palestinian new company law, but did not yet succeed in finalizing this work even with the presence of international support in terms of technical and financial assistance.

Cooperative enterprises in the oPt operate according to a variety of laws and regulations. The Jordanian Cooperative Law no. 17 of 1956 and Regulation no. 835 of 1957 apply in the West Bank, while the Cooperatives Law no. 50 of 1933 and the Cooperative Regulation of 1934 apply in the Gaza Strip. The difference in laws and legislations

22 The Company Laws set out the procedures for incorporation and the process of corporate governance including, the content of articles, by-laws for companies and partnership. They include: registered share capital requirements, incorporation, audited financial statements, corporate structure changes, registration of foreign companies, penalties and duties of officers, company wind-up procedures, voluntary and involuntary liquidation procedures (EC technical assistance to MNE. Status of the economic and financial legislation in Palestine. September 2005)

between the two regions can be attributed to the first decree of the President of the PNA issued on May 20, 1994, which stipulates that the laws that were in effect prior to 5 June 1967 will remain effective in the West Bank and Gaza Strip until their amendment by the Palestinian Legislative Council (International Labour Organization and the Palestinian Ministry of Labour, General Directorate for Cooperatives 2008).

Table 14: Registered Companies in the Remaining West Bank by Governorate

Governorate	Registered Companies
Jericho	530
Hebron	3,016
Jerusalem	545
Bethlehem	1,291
Jenin	882
Ramallah	4,958
Salfit	149
Tobas	61
Qalqilia	421
Tulkarem	988
Nablus	2,345
Total	**15,186**

SOURCE: Date provided by the MNE 2010

4.2.3 Business registration and licensing

This section examines the various kinds of registration and licensing that MSMEs in the oPt are required to comply with.

The World Bank's *Doing Business* reports provide a quantitative measure of regulations for starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business—as they apply to domestic small and medium-size enterprises (World Bank 2010). Palestine ranks 14 among 20 Arab countries and 139 among 183 countries worldwide in the ranking that the World Bank (2009) did in its report on *Doing Business in the Arab World 2010*, as shown in the table below.

Table 15: Doing Business 2010 Rankings – Top Ten Global Economies Compared with Arab World Rankings

Global Ranking	Economy	Arab World Ranking	Global Ranking	Economy
1	Singapore	**1**	**13**	Saudi Arabia
2	New Zealand	**2**	**20**	Bahrain
3	Hong Kong China	**3**	**33**	United Arab Emirates
4	USA	**4**	**39**	Qatar
5	United Kingdom	**5**	**61**	Kuwait
6	Denmark	**6**	**65**	Oman
7	Iceland	**7**	**69**	Tunisia
8	Canada	**8**	**99**	Yemen, Rep.
9	Australia	**9**	**100**	Jordan
10	Norway	**10**	**106**	Egypt
		11	**108**	Lebanon
		12	**128**	Morocco
		13	**136**	Algeria
		14	**139**	West Bank and Gaza

SOURCE: World Bank (2009). Note: The rankings for all economies are benchmarked to June 2009. Rankings on the ease of doing business are the average of the economy's rankings on the 10 topics covered in Doing Business 2010.

Business registration

All businesses in the oPt, regardless of their size, are required to register with the MNE. Registration includes lodging a business name and, where appropriate, registering a company. All businesses are also required to register for taxation purposes with the Ministry of Finance.

Local companies (i.e., limited liability company and public liability companies) must register in the following manner (Palestine Economic Policy Research Institute 2008):

1 Obtain temporary copy of certificate of registration from the MNE;

2 Deposit initial capital, which is 25 percent of the capital plus official bank fees;

3 Obtain signature of the required documents by a local lawyer;

4 Register with the commercial registry;

5 Pay registration fee;

6 Register for income and VAT;

7 Register with Chamber of Commerce;

8. Obtain business license from the municipality (details on licenses are discussed further below); and

9. Obtain and legalise special company books.

The figure below provides further details on the steps and costs required to establish a formal company in the oPt.

Figure 8: A Step-by-Step Guide to Establishing a Company in the Occupied Palestine Territory

Step 1: Obtain a temporary copy of certificate of registration from the Ministry of Economy

The purpose of this temporary registration certificate is to enable the business-owner to open a bank account prior to depositing the initial capital in the bank. No charge required.

Step 2: Deposit the initial capital in the bank

This normally has to be 25 percent of initial capital plus official bank fees. Upon payment, a receipt is obtained and supplied to the MNE.

Step 3: Select a company name and reserve proposed name

Once a name is selected the MNE checks to ensure the name is not already registered. Fee: $20.

Step 4: Hire a local lawyer to sign the company documents

Although it is recommended to hire a lawyer for the drafting of the articles, it is not mandatory. However, an accredited lawyer must sign the documents. Fees charged range between $200 and $3000 (e.g., a company starting up with $11,000 would be charged around $500-700).

Step 5: Registering with the Commercial Registry

Documents required include: (1) articles of association, (2) by-laws of the company, (3) copies of shareholder identification cards, and (4) verified company name. The fee to be paid is broken down as follows: (1) name verification: $20; (2) application fee: $66; (3) signature verification fee (i.e., signing before the Company Register: $20 per signature; minimum two required to form a Ltd or seven to form a Plc); and (4) 1/1000 of the stated capital.

Step 6: Payment of registration fees

The fees noted in Step 5 must be paid at a local bank upon submission of the registration documents. The MNE will not review the application until the fees are paid.

Step 7: Register for income tax and VAT

The registration number for income tax and VAT is the same. In most cases, accountants register the company for tax (i.e., in over 90% of cases). There is a fee for accountants, which starts at $400/per annum. There are no official fees.

Step 8: Register with chamber of commerce

Cost of registration depends on the company's capital and varies from chamber to chamber. As a guide, the fees for the Ramallah Chamber of Commerce are as follows:

- Grade Excellent: Companies whose registered capital is over 50,000 JD pay an initial fee of 100 JD plus an annual fee of 100 JD.
- Grade A: Companies whose registered capital is 15,000 to 50,000 JD pay an initial fee of 75 JD plus an annual fee of 75 JD.
- Grade B: Companies whose registered capital is 5,000 to 15,000 JD pay an initial fee of 50 JD plus an annual fee of 50 JD.
- Grade C: Companies whose registered capital is below 5,000 JD pay an initial fee of 25 JD plus an annual fee of 25 JD.

Step 9: Obtain business license from municipality

Normally costs between $100-500.

Step 10: Obtain and legalise special company books

All corporate and financial records must be legalised by the Companies Controller and auditors. While this applies to all forms of companies, supervision is more stringent with respect to public shareholding companies compared to others.

Step 11: Obtain approval from fire department

The cost of this varies according to the area of the business to be registered, but is around 15 Cents / square metre / year. For example, registering 100 m^2 in Ramallah costs 80 Shekels annually, while 1,000 m^2 costs 650 Shekels.

SOURCE: Palestine Economic Policy Research Institute (2008)

The World Bank's *Doing Business 2010* report claims that it requires 11 procedures, takes 49 days, and costs 54.95 percent GNI per capita to start a business in Remaining West Bank and Gaza. The table below compares this with other economies in the region. It should be noted that the best performing economies in this field (i.e., Denmark and New Zealand) take less than one day and only one procedure to start a business.

Table 16: Doing Business 2010: Procedures, Time and Cost of Starting a Business in West Bank and Gaza and Neighbouring Economies

Economy	Procedures (Number)	Time (Days)	Cost (% of income per capita)	Minimal Capital (% of income per capita)
West Bank and Gaza	11	49	55.0	220.4
Egypt	6	7	16.1	0.0
Jordan	8	13	49.5	19.9
Lebanon	5	9	78.2	51.0
Syria	7	17	27.8	1,012.5
Turkey	6	6	14.2	9.5

SOURCE: World Bank (2009)

The General Directorate of Cooperatives in the Ministry of Labour (MOL), is responsible for registering cooperatives in the oPt. Cooperatives are registered under the following categories: agricultural, handicrafts, consumers, housing and services sectors.[23]

By the end of 2008 there were 561 cooperatives registered in the Remaining West Bank and Gaza Strip, with a total membership of 39,502 individuals. Of the 461 registered cooperatives in the Remaining West Bank, only 101 cooperatives have female membership (i.e., 22% of all registered cooperatives in the West Bank).

Business licenses

There are a number of laws and regulations that are enforced in the Remaining West Bank and Gaza Strip with regard to business, craft and industrial licensing. The most important of these laws are:

- Jordanian Law No 16 of 1953 which was amended by the Israeli Civil Administration by a Military order No2 1985 order No 5547;
- Jordanian Law No 89 from the year 1966 (dealing with licensing of craft and Industry in the West Bank municipalities); and
- Israeli Military order (413) of 1972.

23 According to International Cooperative Association, a cooperative is defined as "an autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".

Aside from the new Palestinian Local Government Law of 2006, all other laws are old and have minimal influence on business registration in the oPt. The new law does not differentiate between a small and large enterprise, like all other laws. This of course puts the Palestinian MSMES at a disadvantaged position since they have the least resources and technical know-how to tackle challenges incorporated in the local government law.

Local municipalities are responsible for issuing business licenses. Obtaining a business license can sometimes take up to six months or more. The process is lengthy, complicated and costly, as shown in the figure below, Different departments of a municipality are involved in granting approval to a business owner's application to start a business.

To get the official approval to state a business one must:

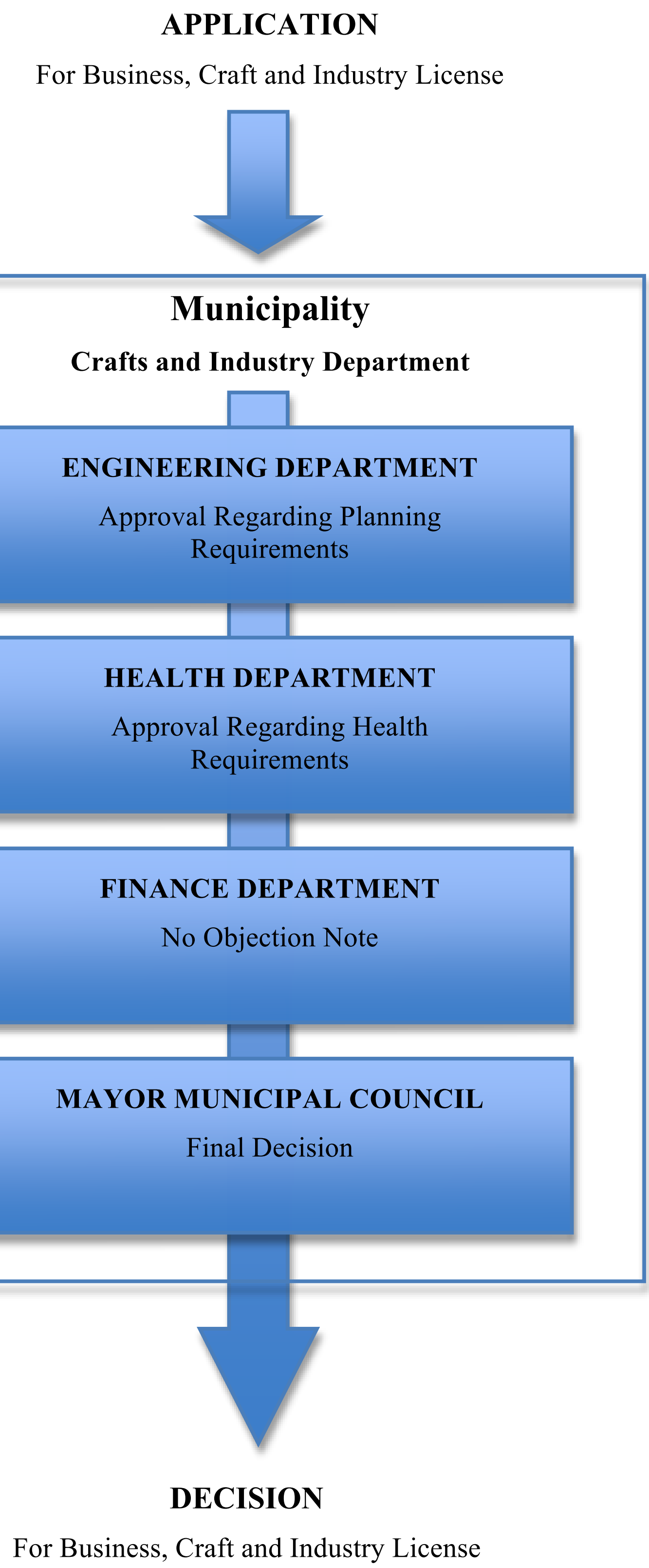
- Visiting the municipality physically in order to collect the appropriate forms—the visit starts with the crafts and industry department in the municipality and in this same visit the entrepreneur has to go to the finance department, health department and then finally to the mayor's office, who will ask him to come back after two weeks to get the initial approval.
- After getting the initial approval from the municipality, the business-owner has to go to the Civil Defence Department in order to get their approval on the application—this normally takes three days;
- Then, the business owner has to go to the Ministry of Health to get approval, which takes normally one week;
- Then the business owner has to go to the fire department, and for some businesses the owner has to get the approval of the Ministry of Agriculture.
- After getting all these approvals, the business owner has to go back to the municipality once again to get the final approval.

After obtaining a license from the municipality, one cannot start business or apply for electricity, water and phone line, before visiting the ministry of finance and registering for taxation.

The above scenario applies to most municipalities. However, municipalities set their own procedures and internal rules, within the parameters of the Palestinian Local Government Law of 2000.

One of the major obstacles facing Palestinian municipalities in the field of business licensing is the legal environment governing and regulating such a municipal service. The laws that regulate this service are outdated and do not meet the challenges resulted from the development of new business. It is necessary to initiate and backstop a dialogue process between relevant stakeholders affected by business, craft and trade licensing with the aim of addressing the complexity of this issue and improve the regulatory framework and business climate at the local level.

Figure 9: Procedures for Obtaining a Municipal Business, Craft and Industry License



4.2.4 Labour laws and regulations

The MOL oversees the policy and regulatory framework for employment in the oPt. Since its establishment, the MOL has initiated the Labour Law, the Social Security Law, the Cooperatives Law and the draft Trade Unions Law.[24] Labour Law No. 7 of 2000 replaced the 1960 Jordanian Labour Law in the West Bank and the 1964 Egyptian Labour Law in the Gaza Strip. It was drafted in line with Arab Labour Organization and ILO standards.

Some business representative organisations have argued that the Labour Law of 2000 needs significant review and improvement to address key concerns, such as end-of-service compensation, minimum wage requirements, compensation and vacation rights during the probation period, compensation system for injuries while on the job, equality of women employment, and others, providing a sound balance between the rights of employers and employees (DFC Strategic Advisors and Project Managers 2005). The labour law does not provide for special treatment for SMEs and applies equally to all businesses. This can leave SMEs with a heavy burden of costs that they cannot bear and can encourage micro and small firms to opt-out. For example, paid vacations, compensations and insurance to employees, and other costly obligations (Small Enterprise Centre 2006).

At present, there are outstanding problems surrounding the management of labour relations in small enterprises in the oPt. These include ineffective implementation of the labour law and enterprise internal regulatory frameworks, non-payment of wages, absence of labour contracts, non-payment of overtime wages; sabotage and frequent turnover of employees, disclosure of business secrets and other forms of non-compliance. All of these have led to conflicts and disputes between employers and workers. At the root of the conflicts are non-compliance with the law and absence of integrity.

In December 2009, H.E. Dr. Ahmad Majdalani, Minister of Labour, pointed out in a meeting with an ILO delegation in Ramallah that the labour law applies to almost 50,000 enterprises in the Remaining West Bank, and does not apply to about 25,000 family owned businesses. This does not say automatically that for those which the labour law applies, they implement labour law very effectively in their businesses. Most MSMEs try to run away from all commitments of the Palestinian labour law. Since the courts do not work effectively, many employees choose not to take this route. Additionally, even those enterprises that implement the labour law effectively, most of them do not take into consideration gender issues and balance.

The ILO has a growing body of experience in the field of labour law and micro and small enterprises. There appears to be a great opportunity for the ILO to partner with the PA and other development and donor agencies to examine the ways in which micro and small enterprise compliance with International Labour Standards can be enhanced for the benefit of enterprise owner-managers and their employees.

4.2.5 Trade policies, laws and regulations

For enterprises in the Remaining West Bank and Gaza wishing to export, the Doing Business 2010 report indicates there are six documents to submit, which takes an average of 25 days and costs an average of US$835 per container. For the same enterprise to import, six documents are required, taking 40 days to process at a cost of US$1,225 per container. This is more complicated and time-consuming than most neighbouring economies.

24 It is currently implementing programmes like the Labor Market Information System, the Employment, Training and Labour Market Organization and activities related to capacity building and the cooperatives movement.

Table 17: Exporting and Importing

Economy	Document to Export (Number)	Time to Export (Days)	Cost to Export (US$ per container)	Documents to Import (Number)	Time to Import (Days)	Cost to Import (US$ per container)
West Bank and Gaza	6	25	835	6	40	1,225
Egypt	6	14	737	6	15	823
Jordan	7	17	730	7	19	1,290
Lebanon	5	26	1,002	7	35	1,203
Syria	8	15	1,190	9	21	1,625
Turkey	7	14	990	8	15	10,063

SOURCE: World Bank (2010)

Since its establishment in 1994, the Palestinian MNE has tried several times to formulate trade and economic policies that promote market economy. However, achievement in this field has been quite modest. One of the very few issues that have been well coordinated among line economic ministries is the signing of international free trade agreements. Examples of such agreements are the Palestinian EU association agreement and the free trade agreement with Turkey.

Whether in economic policies or on international trade agreements, MSMEs were never highlighted as an issue that needs special attention. This shows clearly why MSMEs contribution to exports is negligible. Most exporters are large businesses in the stone and marble sector and the agricultural sector, and almost no MSMEs have been established to target export markets.

The PA, lead by the Prime Minister's Office and the ministry of planning, has succeeded recently to coordinate strategic plans for different sectors. However, little has been covering MSME development in Palestine. Until today, each ministry practically sets its own policies, and despite different efforts to increase coordination, there is still a lot to be done in this regard.

PFI (2008) has been advocating for "an immediate need to draft a legislation to regulate the import policy measures (Import prohibitions, restrictions and licensing systems) in order to develop a proactive import – support policy that takes into consideration the small size and the weak structure of the Palestinian economy and with the aim to effectively manage the import system in a manner that support the development of the Palestinian local industries and trade sector, there is always a possibility to impose non-distortive trade measures on certain imports".

There is a range of initiatives that could be pursued by the MNE and PalTrade to facilitate the access MSMEs have to external markets. These include, for example, initiatives that facilitate the exporting of goods from a number of enterprises through one large company with sufficient resources and exporting experience; using a mediator or trader to gather a number of exporters; and forming an export consortium.

4.2.6 Investment and Tax Laws

The Palestinian Investment Promotion Agency, PIPA, was established in 1998 as an autonomous agency following the promulgation of the Investment Promotion Law.[25] Its mission is to create and maintain a competitive investment environment by providing high-quality services and incentives to foreign and domestic investors, and facilitating cooperation between the private sector and the government. It was supposed to be a one-stop-shop for local and foreign investors, but government bureaucracy continued to be a major constraint on its work. Foreign investment deals often pass through other avenues, leaving the PIPA out of the equation.

The MNE has launched a concerted effort to improve the regulatory environment, streamline the firm registration procedure and modernize their internal functions to give better services, but the development process has not yet reached its goals and there is a need for further decentralization and empowerment of the ministry regional offices.

Many micro and small enterprises are too small to be required to pay income tax on their enterprise. However, all are required to pay individual tax based on their individual earnings. Tax must also be paid on goods purchased (i.e., Purchase Tax, see below), fuel (i.e., Fuel Tax, see below) and the sale of products and services (i.e., Value Added Tax, see below). See the figure below.

Revising the internal tax system, with the aim to encourage local and foreign investments was a priority on the private sector agenda. It is important to study the impact of the current internal tax system on the Palestinian economic and trade developments. Then to start with developing the new legal draft for the internal tax system and to be submitted to the Palestinian Legislative Council. Some groups have proposed a tax holiday legislations for certain development and trade projects are to be considered (PFI 2008).

Figure 10: Palestine Taxation Regime

<table>
<tr><td>Income Tax: Individuals</td></tr>
<tr><td>The tax is levied on residents on a universal basis (including income from work, craft, business, profession or vocation, and accruing as salaries or wages, profits, dividends, rent, and interest). Note that there are certain deductions on taxable income related to the type of family and individual, education and medical expenses.</td></tr>
<tr><td>Income Tax: Companies</td></tr>
<tr><td>Based on corporate profits. Exemptions: The Investment Promotion Law adopted in 1998 allows for the following exemptions:
• Five years exemptions for a project with a paid-up capital between $100,000 and $1 million. Additional eight years of paying a tax rate of just 8 percent on net profit.
• Five years exemptions for a project with a paid-up capital between $1 million and $5 million. Additional twelve years of paying a tax rate of just 10 percent on net profit.
• Five years exemption for a project with paid-up capital of more than five million dollars. Additional sixteen years of paying a tax rate of just 10 percent on net profit.
• A special exemption may be granted to certain projects by the Cabinet of Ministers, upon the recommendations of the Palestinian Higher Agency for the Encouragement of Investment (PHAEI), depending on their nature and the priorities of the Palestinian development program.</td></tr>
</table>

25 The Investment Law is considered to be one of the best investment laws in the region. It provides for non-discriminatory treatment, protection against expropriation, and repatriation guarantees. In addition, the law provides incentives for investors in the form of tax and customs exemptions that are granted automatically upon the fulfilment of certain conditions.

Property Taxes	
A	Buildings and Non-farmed Land: Buildings and land within municipalities—17 percent of the net annual value (net value= gross value-20 percent depreciation); Buildings and land outside municipalities—10 percent of the net annual value.
B	Farm land tax: all land planted with fruits and vegetables—rate varies from year to year and according to crop.
Taxes on Domestic Goods and Services	
A	Value Added Tax: All domestically produced goods and services (after deductions of purchases of intermediate goods); 14.5 percent except for zero-rate on exported goods, tourist services and fruits and vegetables.
B	Purchase Tax: On all the wholesale prices of consumer goods, and several raw materials and processed goods.
C	Fuel Tax: a specific rate for 1,000 litters updated every three months, according to the rise in consumer prices—Gasoline: $489.73, Diesel oil: $223.23, Kerosene: $223.23.
SOURCE: Palestine Economic Policy Research Institute (2008)	

4.3 Summary

There are a wide range of laws and regulations affecting the behaviour and development potential of MSMEs in the oPt. It is beyond the scope of this study to examine all of these. However, it is clear that the legislative challenge facing the PA is enormous. Many business related laws are currently being drafted and have been in this stage for some time. The figure blow provided an overview of the current laws and draft legislation that affect private enterprises. Annex 1 provides a greater detail on some of the most relevant.

Figure 11: List of Relevant Laws

Investment Laws

Law on the Encouragement of Investment in Palestine Law No. (1) of 1998

Tax Laws

Palestinian Income Tax Law No. 17 of 2004

Jordanian Property Tax Law No. (30) of 1955 in the West Bank

Labour laws

Palestinian Labour Law No. (7) of 2000

Company Law

Jordanian Company law in West Bank of 1963

British Mandate Company Law No. (22) of 1929

Jordanian Cooperative Societies Law (No. 17 of 1957) in the West Bank

Capital Markets

Capital Markets Authority Law 2004

Commercial Law

There is a draft Palestinian Law

The laws used are the Jordanian Law of 1966 in the West Bank,

The British Mandate Law of 1931 in Gaza

Competition Law

There is a Palestinian draft law

Customs Law

There is a Palestinian draft law

The laws used is Jordanian Customs Law No.(1) of 1962 in the West Bank

And the British Mandate laws in Gaza

E-Commerce law

There is a draft Palestinian law; no laws implemented.

Financial Legislation

Palestinian Banking Act No. (2) of 2002

Palestinian Monetary Authority law No. (2) of 1997

Law No. 18 Concerning Amendments to Law No. 2 of 1997 Concerning the PMA, 2004

Palestinian Securities Law No. (12) 2004

Foreign Trade Act Law

Palestinian Draft Law

Industrial Zones Law

Palestinian Industrial Zones Law No. (10) of 1998

Intellectual Property Law

There is a draft Industrial property law and a draft copyright law

Currently implemented: The Patents and Design Law No. 22 of 1953 is applicable in the West Bank and the Patents Design Law No 64 of 1947 is applicable in Gaza.

Copyrights laws of 1911 and 1924

Trademarks Law

Jordanian Trademarks Law No 33 of the 1952 in the West Bank and

Trademark Law No. 35 of 1938 in Gaza.

Procurement Law

Palestinian Procurement law of 1998 and modified May 2003

Secured Transactions Law

There is a draft Palestinian law

Standards and Measurement Law

Palestinian Standards and Measurements Law No (6) of 2000

Other

There is the Palestinian Commercial Agents law No. (2) of 2000

The Palestinian arbitration law No. (3) of 2000

The Palestinian consumer protection law No. (21) of 2005

The new local government law passed in 1997

And two draft laws:

The draft law for the Chambers of Commerce, and Industry Law draft: Law of the general federation of the Palestinian industries and the specialized industries unions

While there are a number of important extraneous factors that inhibit the prospects of MSME growth in the oPt (e.g., Israeli occupation) there are many factors that are within the immediate grasp of the PA.

Development Alternatives International (2008), for example, suggest that if Palestine were to improve its *Doing Business* rankings it should explore the combined impact of reforms on a number of fronts:

- Starting a Business: reduce the number of procedures by four (through the application of one- stop shop principles), trimming the time for filing documents drastically to 23 days, and bringing down the cost to 63 percent of per capita GNI;
- Dealing with Licenses: cut the number of procedures to 15, reduce the duration by 54 days to 145, and lower the cost to the average for the JEL countries, some 400 percent of GNI;
- Employing Workers: no changes, since the rules and legal requirements are rooted in culture and legislation;
- Registering Property: reduce the number of procedures from 10 to 8, reduce the duration by 7 days, from 72 to 65;
- Getting Credit: any changes here depend on the impact on the expansion of the coverage of public credit bureaus, or the launch of a private credit bureau;
- Protecting Investors: any impact will require legislative changes and improved functioning of the judiciary;
- Paying Taxes: assume quarterly filing for VAT and for corporate income taxes, bringing down the number of procedures from 27 to 11;
- Trading Across Borders: no change assumed, given the lack of Palestinian control over border procedures;
- Enforcing Contracts: changes will require new legislation and improved efficiency of the judicial system;
- Closing a Business: longer term legislative action and institutional development are required to have an impact on this indicator.

Policy and legal reform can be used to promote the formalisation of many informal MSMEs in the oPt, provided this is accompanied by a series of development and support measures that incentivise formalisation. Reducing the legal and regulatory burden on MSME will allow them to invest more time and money into developing profitable and sustainable enterprises, while ensuring mechanism are in place to effectively enforce those laws and regulations that protect businesses, customers, workers and the environment are essential.

Chapter 5: Key actors in MSME development

While the PA can lead and facilitate initiatives that support the development of MSMEs and the creation of more and better MSME jobs in the oPt, it cannot do this alone. This requires a strategic collaboration with the private sector and its representatives, as well as with other civil society actors. Even within government, successful MSME development requires proper coordination and collaboration.

This chapter maps the key agencies engaged in MSME development in order to identify the opportunities for strategic and programmatic collaboration.

5.1 The Palestine Authority and MSMEs

5.1.1 Ministry of National Economy

The MNE's vision is "to create an economically-enabling environment for private sector development. This is expressed in its three strategic objectives" (MNE 2010). It's mission is to:

- Provide a wide range of high-quality services responsive to private sector needs;
- Coordinate with the private sector to form a national consensus on economic policy; and
- Help expand trade relations between Palestine and other countries.

The MNE is the primary ministry in the PA responsible for the support of MSMEs. It is required to cooperate with private sector institutions, especially chambers of commerce, in providing logistical, technical, and professional services. The MNE liaises with the donor community with regard to MSME development issues. The ministry provide certificates of origin, which are available through the chambers of commerce.

The ministry's operations are organised according to the following departments, located in the structure displayed in the figure below:

- Policy Analysis and Statistics
- Company Registration and Industrial Licences
- Intellectual Property Rights
- Industry, Trade and Consumer Services
- IT, MIS and Information Services
- International Trade Relations
- Regional Office Management – West Bank
- Regional Office Management – Gaza Strip

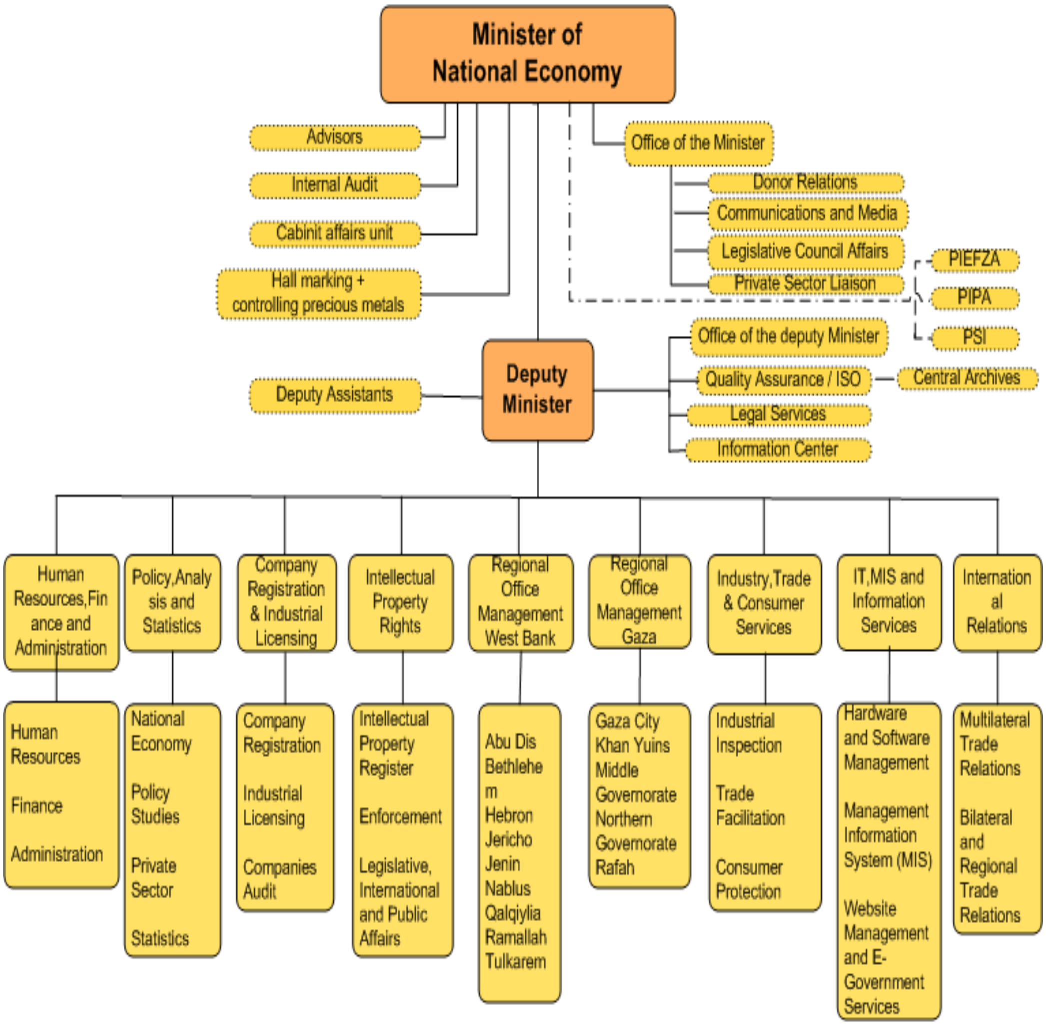
These departments provide services to businesses, investors and consumers, including trade licences and facilitation, company registration, consumer protection, information and research.[26] MNE headquarters has been connected with its regional offices in the main governorates by an electronic network supported with sophisticated systems. Moreover, the ministry's economic and trade data and information, especially

26 The MNE has prepared the first *Services Quality Manual* in cooperation with the GTZ, which includes 92 different services provided by the ministry.

information related to import, export and crossing points' movement, is posted on the ministry's website to be within the reach of the public. This contributed in efficient provision of services to the public and improved the quality of services provided.

In 2005, the MNE established an SME department. However, this department only lasted six months before being dismantled after failing to do meet its objectives. MNE has recently undertaken new efforts to support MSME development, which includes the current MNE-ILO project.

Figure 12: Structure of the Ministry of National Economy



SOURCE: MNE (2010)

5.1.2 Palestine Standards Institute

Founded in 1994, the Palestine Standards Institute (PSI) is a public institution that facilitates trade and investment in the oPt by meeting the needs of business and industry for metrology, standards, and quality assessment. The PSI seeks to advance citizens' health and safety and environmental protection. PSI has stated its vision as an institute recognized by the business community and consumers both locally and internationally to be the focal point for Palestinian participation in the global system of harmonized standards. PSI is an autonomous institution governed by a board of directors composed of both partners from the government and the private sector, with the national economy minister as its chair.

5.1.3 Palestine Investment Promotion Agency (PIPA)

The Palestine Investment Promotion Agency (PIPA) was established in 1998 as an autonomous agency of the Palestinian Authority, pursuant to the promulgation of the Investment Promotion Law. With a ruling board of directors composed of members from both the public and the private sectors, and chaired by the minister of national economy, PIPA tries to promote Palestine's advantages to international investors during its participations in international events and the local investment promotion events that it holds almost every year. This year, there is a planned investment conference in May 2010 that will focus on SME development. The services provided by PIPA include implementing the Investment Promotion Law to stimulate the flow of foreign and domestic investments in line with national priorities. Investors that have capital equal or beyond $100,000 are assisted by PIPA in licensing their projects, acquiring permits, obtaining incentives and acquiring income tax exemptions.

5.1.4 Palestinian Industrial Estate and Free Zone Authority (PIEFZA)

The Palestinian Industrial Estate and Free Zone Authority (PIEFZA) was established in 1998 as an autonomous agency of the PA, following the promulgation of the Industrial Estates and Free Zones Law. It has a board composed of the public and private sector and chaired by the minister of National Economy. The objectives and responsibilities of PIEFZA are summarized in preparing, promoting and supervising the development of all Palestinian industrial estates and free zones with adequate, good-quality infrastructure necessary to support new investment activities. The director of PIEFZA has described how the authority plans to pay special attention to MSMEs in developing new industrial parks in the West Bank. Two examples of this are the handicraft park planned for Tulkarem city on 70 dunums, and a park planned for Nablus city on 500 dunums.

5.1.5 The Palestine Authority’s support for MSME development

Since its establishment, the PA has paid general attention to private sector development without distinguishing between enterprise sizes. However, while large businesses are typically in a better position to advocate their positions with the government and have better relations with public officials, micro and small enterprises usually miss out.

PA programmes typically do not include more than 50 percent of the MSMEs that are not registered officially and work in the informal sector. Thus, the support given by the PA to MSMEs, has not generally focussed on the specific challenges and threats MSMEs face in the oPt.

The Ministry of Planning is attempting to integrate MSME support programmes in its strategic plans. However, the level of coordination among PA institutions and donors is still poor, despite recent improvements.

5.2 Local municipalities

Three municipalities in the Remaining West Bank have begun to better serve their local businesspeople in a more efficient manner: Ramallah, Al-Bireh and Beitounia municipalities. For example, Al-Bireh municipality, hosts the first pilot one-stop-shop where residents only need to visit the municipality to obtain the business, craft and industry license, without the need to visit also the Civil Defence Department, the Ministry of Health, Police Department, Ministry of Agriculture, or any other governmental body.

Most local municipalities do not become involved in economic policies, planning or strategies, yet they perform a central role in the administration of a number of important registrations and licenses.

Palestinian municipalities are encouraged to cooperate more with the local offices of the Ministry of National Economy and build partnerships for the purpose of strengthened local development strategies, especially on areas such as industrial parks and local business incubators. Hebron municipality in the south and Nablus municipality in the north are doing well in terms of giving enough focus for economic development projects. However, like all other municipalities, they need to give attention to improving licensing procedures and establishing the one-stop-shop model. More Palestinian municipalities are using their websites to serve their local communities, and it is recommended that they continue to do so with special focus on electronic services and business registration.

5.3 Private sector support: business membership organisations

There are a wide range of private sector actors that influence MSME development in the oPt. While a number of private sector firms provide services that MSME benefit from, such as lawyers, accountants and business trainers, this section is mostly concerned with the ways the private sector is represented through business membership organisations.

The oPt contains a wide range of business membership organisations. The major organisations are described below.

5.3.1 Palestinian Federation of Chambers of Commerce

The chambers of commerce mostly existed before the PA's establishment in 1994. They have mandatory membership by law and try hard to improve their services and support to MSMEs especially that they are located in every city in the oPt, including East Jerusalem. The Palestinian Federation of Chambers of Commerce (PFCCIA) is a federation of chambers covering the oPt, with about 48,000 members.

5.3.2 Palestinian Federation of Industries

The PA supported the establishment of the Palestinian Federation of Industries (PFI) in order to give special attention to the Palestinian manufacturing sector. PFI works on strengthening institutional development of its member industrial associations in support of achieving their goals. These associations are:

- Plastics industry
- Food industries
- Wood and furniture industry
- Paper industry
- Metal and engineering industry
- Leather and shoes industry
- Textile and garments industry
- Marble and stone industry
- Pharmaceuticals industry
- Chemical and detergents industry
- Traditional industries including Handicrafts industry
- Construction industry

Most of the services of PFI go to well-established factories and large businesses more than micro enterprises and workshops. Additionally, PFI hosts the Industrial Modernization Centre (IMC) that aims at enhancing the capacity of and providing technical assistance to manufacturing enterprises.

5.3.3 Palestine Trade Centre (PalTrade)

The Palestine Trade Centre, otherwise known as PalTrade, is a private membership organisation with a national mandate, established in 1998 for the purpose of supporting the development and promotion of exports and facilitating international trade.[27] Paltrade is a key policy advocate among other private sector organizations. Paltrade launched the public private sector initiative dialogue and hosts the "Technical Unit" which constitutes the technical arm of the Private Sector Coordinating Council (see below), and is expected to continue to play a major law in facilitating public private dialogue.

5.3.4 Palestinian Federation of Businessmen Association

The mission of the Palestinian Federation of Businessmen Association (FPBA) is to defend the interests of its members and the private sector at large, and to improve the business climate in the west bank and Gaza. It is worth noting that FPBA is a merger of three businessmen associations in the south, middle and North, since they share the same goals and objectives. They have an annual membership fee of US$1,000 and lead many business missions internationally.

5.3.5 Young Entrepreneurs Association

The Young Entrepreneurs Association (YEP) was established in 2004 in response to the need to provide assistance to fresh graduates who are seeking to start their own business. YEP tries to be the voice of young entrepreneurs on economic issues, and advocate their position with the government. YEP has about 100 members. Its services target the community in general, but specifically focus in young people. It has initiated a Business Incubation Programme that provides training and technical assistance to foster entrepreneurial capabilities of youth and encourages youth to set up income generating enterprises. YEP lobbies for the modification of the existing laws so that they would include benefits for micro and small enterprises.

5.3.6 Business Women Forum

Established in 2006, the Business Women Forum (BWF) aims to strengthen the role of Palestinian businesswomen by developing their skills and abilities, increasing the number of women in the private sector, and providing useful information to help members manage and promote their businesses. The forum also encourages the formation of policies and financial legislation that protect the interests of businesswomen, and works to strengthen relations among local, Arab, and international businesswomen. A group of successful Palestinian businesswomen established the BWF to support women getting into business. The BWF currently has about sixty members. Together with other newly established associations, they try to fill the gaps that the traditional business representatives do not cover, especially in providing services to micro enterprises.

5.3.7 Other business membership organisations

Additionally, there are a number of small business associations that were established in specific sub-sectors like agriculture in the Jordan Valley and handicrafts in Bethlehem. An example in Gaza is the Cooperative Agriculture Association of Beit Hanoun (CAP). There are also a number of professional and sector-specific organisations, such as:

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27 Generally, the companies that benefit from PalTrade services are large and medium ones who can afford a membership yearly fee of US$750. PalTrade has offices in the West Bank, Gaza and Jordan. Below you can find the geographical distribution of PalTrade members as well as according toe the economic sector.

- Administrative Services for the Tourism Association in Palestine: supporting policy and management issues in the tourism sector, with members from Arab Tourist and Travel Agents Association, Arab Hotel Association, Arab Tourist Guides Union, Arab Tourist Transport Union, Arab Tourist Restaurants Association, Arab Handicrafts and Merchants Association, and Panel of Airline representatives.
- Association of Banks in Palestine: a representative body of the banking sector, which aims to improve banking performance and services; seeks to examine and research issues of common interest to its members and publishes a quarterly magazine that covers a range of banking related topics.
- Palestinian Contractors Union: organises the practice of the construction contracting profession and represents the construction sector.
- Palestinian Farmers' Union Society: encourages the organisation of Palestinian farmers in committees, specialized agricultural gatherings and strengthening their role to influence Palestinian agricultural development.
- Palestinian Shippers' Council: launched in 2006 as a focal point for addressing the Palestinian shipping community's needs—now a vibrant private sector institution and a growing membership of 350 members.

5.3.8 MSME representation and dialogue

The above mapping of private sector representative organisations demonstrates a wide and diverse range of organisations. However, despite this breadth and diversity, many MSME appear to be poorly represented—especially those enterprises at the lower end of the size spectrum (i.e., micro and small enterprises).

Most business organisations are comprised of large enterprises with specific, and relatively unique, interests, such as professional or sector-based organisations.

Because it is based on mandatory membership, the chambers of commerce represent the largest body of private enterprises and, indeed, many of these include small and medium-sized enterprises, and possibly a significant number of microenterprises. However, it is unclear how many of the smaller enterprises are fully paid members. Furthermore, it is clear that, while many micro and small enterprises are listed as chamber members, their participation in these structures is minimal.

Enterprises at the smaller end of the size spectrum (i.e., micro and small enterprises) typically have different needs and concerns when compared with medium-sized and large enterprises. Indeed, there are many issues where enterprises in these different size classes have competing interests and it can be difficult for those organisations to moderate these and find common ground. Thus, business membership organisations with a broad base that includes enterprises of all sizes tend to be dominated by those with more resources and scale.

The PA has established the Private Sector Coordinating Council (PSCC) to advocate private sector positions with the government and to coordinate development programmes with donors and development agencies working in the oPt in this field. The PSCC represents over 70,000 businesses in Palestine and employs around 80% of the Palestinian workforce (Palestinian Private Sector Resilience and Recovery Plan, March 2007, PSCC), and its members are:

- Federation of Chambers of Commerce, Industry and Agriculture
- Federation of Palestinian Businessmen Associations
- Palestine Trade Centre (Paltrade)

- Palestinian Federation of Industries
- Association of Palestinian Banks
- Association of Palestinian insurance companies
- Palestinian Information Technology Association
- Administrative Services for the Tourism Association in Palestine:
- Palestinian Contractors Union
- Palestinian Shippers Council

PSCC rotates its management between four organizations: the Federation of Chambers, Federation of Industries, the Businessmen Association, and Paltrade. The Secretariat of the PSCC rotates every six months from one organization to the other among these four. While there have been modest efforts by different PSCC members to advocate MSME positions, the representation of, and engagement with, MSMEs is weak.

5.4 Civil society organisations

Some of the main civil society organisations working on MSME development and related fields are briefly described below.

5.4.1 Arab Centre for Agricultural Development

The Arab Centre for Agricultural Development (ACAD) is a Palestinian non-profit NGO that has been officially registered in Jerusalem since 1993, and also registered by Palestinian National Authority since 2001 according to Palestinian Law. Promotes self-sustaining employment and income generating projects in the agricultural sector and rural areas. ACAD aims at graduating poor and small rural producers into capital lending markets by shifting the balance from power towards those needing credit, and mobilizing rural savings, eventually developing and empowering rural marginalized communities.

5.4.2 Palestinian Agricultural Relief Committee

Founded in 1983 by a group of Palestinian agronomists responding voluntarily to the deterioration in agricultural extension programmes in the Jordan Valley area of the West Bank as a result of the Israeli occupation by offering expert advice to marginalized, poor farmers in the area. This voluntary effort gained momentum and recognition over a short period of time, and, transformed into an NGO dedicated to promoting sustainable development in rural areas in Palestine.

5.4.3 Palestinian Information Technology Association

The ministry of economy supported the establishment of the Palestine Information Technology Association in order to give a boost to this sector. Since few years, PITA holds a yearly ICT exhibition in cooperation with PalTrade called Expotech to market the products of its member companies locally and participates in international ICT exhibitions such as Gitex in Dubai.

5.4.4 Palestinian Information and Communication Technology Incubator

Hosts the first IT incubator in Palestine. It helps non-ICT industry sectors integrate ICT into their business operations, create promotion and marketing strategies focused on regional and international markets, introduce PICTI's ICT oriented business creation/development goals and objectives, create and nurture relationships with bi/multilateral development organisations, work with regional/international investors and financial institutions to create a loan fund for new ICT enterprises, and facilitate establishment of market driven industry-university linkage initiative focusing on developing a world-class ICT curriculum.

5.4.5 Small Enterprise Centre

SEC delivers and facilitates services to SMEs in support of their growth, their increase in employment and income and the expansion of their business potentials. SEC also assists start-up enterprises in exploring their direction and sharpening their knowledge and skills through facilitation, referral and other types of services and to develop sustainable financial and non financial resources.

5.4.6 Palestinian Network for Small and Micro Finance (Sharakeh)

Sharakeh was established in 2004 with the aim to develop the microfinance sector in Palestine. Sharakeh's activities aim at enhancing coordination between members, combining efforts to elevate the performance and achievements of the sector, as well as lobbying and representing the sector on the national and international levels. Sharakeh provides trainings and capacity building activities and back-office and marketing services for the 13 microfinance programs and institutions (MFIs) which also comprise its membership.

5.4.7 Research-oriented organisations

There are a number of research organisations in the oPt that try to assist policy and decision makers to adopt and formulate policies in favour of MSME and private sector development. Among them are:

- **Palestine Economic Policy Research Institute** (MAS): the most active economic research organisation based in Ramallah. It was first founded in Jerusalem in 1994 as an independent non-profit institution to contribute to the policy-making process by conducting economic and social policy research. Since ten years, and after hundreds of publications, MAS has proved to be a reliable research centre that applies high standards of intellectual independence, relevance and methodological excellence in its economic and social research and analysis. However, the recommendations of MAS are sometimes not taken seriously enough by the decision making level in the PA, and in many times their research efforts go unrealized.
- **Al-Mustaqbal Foundation for Strategic and Policy Studies** (AMF): serves as an independent, not-for-profit institution that actively addresses pressing economic, legal and regulatory issues facing Palestinian society on the road to statehood. As a think-tank, AMF is engaged in setting strategic policy directions through research, analysis, and advocacy activities, which focus on economic, legal and regulatory policy change. AMF's policy-driven programs help inform the public debate on these issues, the latter of which is also encouraged through other programs that promote the free and civil exchange of ideas and the exercise of the right to self-expression.
- **Palestinian Agricultural Relief Committees** (PARC): conducts research on the agricultural sector, in addition to providing guidance and counselling to the small farmer. Specifically, PARC does a lot of research on improving the quality of the agricultural products so that they meet the standards of international potential markets. They have a research department that works continuously to empower farmers and agricultural entities to improve agricultural produce.

- **Applied Research Institute** (Arij): frequently provides current data and research necessary to the formulation of position papers and policy strategies on such issues as land and water resources. There are few environmental research organisations, some of which have an office in Palestine but work on a regional scale.

5.4.8 Civil society and MSME development

The civil society is very active in the oPt and is considered one of the most active ones in the Arab World. Lots of people who want to conduct voluntary work get together and establish an NGO to serve the specific needs that they identified. And with donor money available for such NGOs have become much easier for civil society to act as a key player and to complement the work of the PA in many areas related to socio-economic development.

The work of the civil society organisations is noticeable in the areas of women's empowerment and youth and rural development. Many of these organisations are also specifically concerned with the promotion of democracy and human rights, more than they are with economic and private sector development. However, civil society organisations are active in promoting microenterprise development in the rural areas with focus on women doing business from home. This covers traditional businesses such as handicraft, food and agriculture.

Civil society organisations clearly have a great deal to offer MSME development in the oPt. They provide valuable technical and financial support for development programmes and provide many valuable services. They also have a substantial capacity for research in this field. Many NGOs step into the spaces that are left open by the government's limited capacity or by the private sector.

As valuable as the role of civil society is, care must be taken to ensure that civil society does not crowd-out the role of private sector providers in MSME development. While there is room and a need for both kinds of actors, the impact and sustainability of financial and business development that focus on MSMEs promotion will ultimately be determined by the ability of the private sector to provide the inputs it requires.

5.5 Donor and development agencies' programmes

Donor support for MSMEs development interventions has increased substantially over recent years and donor and development agencies have accumulated considerable experience in this field. For many donors, poverty alleviation and a more equitable distribution of income and opportunities are key objectives. Some MSME development programmes focus on empowering specific groups of people, such as women or those on the margins of society.

Many donors working in the oPt, whether with the PA or the private sector, do not coordinate properly despite many different efforts to improve this coordination. After several years, it is clear that an effective mechanism for donor harmonisation and coordination has not been created. Even with the great efforts of the ministry of planning and the PA in general to try to coordinate donor projects and programmes, this area is still lacking proper coordination and results in serious duplication.

Annex 2 contains a description of some of the donor and development agencies working in MSME development or related areas.

It should be recalled from Chapter 3 that, despite the valuable interventions provided by donor and development agencies in the provision of financial and business development services, a number of these agencies have distorted these markets and reduced the opportunities for the provision of long-term and sustainable solutions.

The PA should work closely with donor and development agencies engaged in MSME development in an effort to create a long-term strategy for MSME development and the creation of more and better jobs for women and men in the MSME sector. The proposed policy framework would provide a useful foundation for this strategy.

5.6 Conclusions

There are a great many actors involved MSME issues in the oPt. These include public, private and civil society actors, all of which have many skills, resources and experiences that they bring to bear on this topic. As valuable as these many actors are, their effective and harmonised contribution to MSME development can only be achieved through strategic coordination and careful facilitation. The PA has a central role to play in this regard.

The proposed MSME policy framework provides a special opportunity to identify opportunities for synergy and collaboration among these actors. The policy framework should identify the following issues in this regard:

- Describe the specific roles to be performed by the PA in the regulation, development and monitoring of the MSME sector;
- Describe the specific roles and responsibilities of private sector representatives and other civil society organisations in MSME development;
- Identify strategic areas for intervention by public, private and civil society actors in the development of MSMEs and the creation of more and better jobs for women and men in the MSME sector;
- Describe the mechanisms required for effective MSME representation and public-private dialogue; and
- Describe mechanisms for monitoring and reporting on progress in MSME development.

Chapter 6: Conclusions and recommendations

This chapter draw on the analysis of the previous chapters and presents a series of conclusions and recommendations towards the formulation of a policy framework for MSME development. The main elements of the chapter deal with the following:

- Defining MSME in the oPt;
- Reforming the policy, legal and regulatory framework and administrative mechanisms;
- Improving MSME access to financial and business development services;
- Improving MSME representation, advocacy and dialogue with government; and
- Addressing information gaps through research.

While these elements represent the main concerns of MSME development identified in this assessment, they are not necessarily exhaustive. Indeed, this chapter is presented as a framework for further discussion on the needs, opportunities and interventions required for MSME development and the creation or more and better jobs in the MSME sector.

6.1 Defining micro, small and medium enterprises

The PA does not have an official definition of MSMEs. Given the size and significance of this sector, a definition should be formulated. Official definitions of business are formulated to perform a number of functions. These include:

- Legal recognition: governments develop official definitions to recognise the existence of these economic actors. While other, specific legal instruments are often created by the State (i.e., company law, cooperative law), an official definition gives general recognition to the existence and role of businesses.
- Count and measure: governments count businesses of different kinds and measure changes in their population, distribution and contribution to national development, such as their contribution to employment, productivity and economic growth. This information most often used for planning and monitoring purposes.
- Administration: governments may define businesses in order to aid the administration of government services to the business sector or to assign specific rights or obligations on the sector.

The definition would be informed by this and other assessments of MSMEs in the oPt, as well as from international best practice, including that of other Arab states, and in consultation with key business, government and civil society representatives.

A definition should be based on employment levels, annual turnover and, possibly invested capital. The definition should recognise sector variations. The policy framework could propose a definition.

6.2 Reforming the policy, legal and regulatory framework and administrative mechanisms

This report has identified a number of policy, legal and regulatory instruments that affect the growth potential of MSMEs. High levels of informality demonstrate a high degree of non-compliance and tend to dampen the potential contribution firms can make to social and economic development, as well as to state building.

In general, many PA policies, laws and regulations were found to be blind to the needs, capacities and opportunities of MSMEs. In addition, the policy, legal and regulatory framework in which MSMEs operate is not harmonised or consistent.

Addressing these concerns requires interventions at two levels.

First, there is a need to revise selected policies, laws and regulations to ensure they respond to the specific needs and opportunities of MSMEs. In general, many of the policies, laws and regulations developed by the PA or inherited from other authorities have been developed in response to the dynamics of large enterprises. However, this report has shown these enterprises represent only one percent of the total number of private enterprises in the oPt.

Second, there is a need to improve the enforcement and implementation mechanisms of many policies, laws and regulations. Improving compliance often requires an understanding of the ways MSMEs perceive the costs and benefits of compliance. Streamlining regulations and simplifying laws can increase compliance, but these reforms should often be accompanied by efforts that rebalance the incentives and disincentives associated with compliance.

The proposed policy framework provides an opportunity to establish principles and priorities that guide the PA in its efforts to reform the policy, legal and regulatory framework and administrative mechanisms.

6.2.1 Streamlining, simplifying and centralising registration and licensing procedures

Most MSMEs in the oPt are overly burdened by complicated business registration and licensing procedures. This is worse in the oPt than for most other Arab economies. Thus, there are clear benefits that will result from a programme that supports the streamlining, simplifying and centralising registration and licensing procedures.

While there are a number of interventions that can be introduced to support these measures, it is recommended that attention be given to two options:

- Creation of a single business permit that brings together a range of registrations and licenses required of MSMEs into a single, easy to obtain document;
- Establishment of a one-stop-shop (OSS) dealing with a wide range of registrations and licenses in one location. This would complement the PA's decentralisation strategy and could be tested in one or two municipalities in the West Bank.

6.2.2 Improving compliance with Labour Law and the conditions of workers in MSMEs

The Palestinian labour regime is relatively new. While it has its detractors, it contains many provisions that make it an important and useful instrument for the promotion of decent work. However, it is clear that many private enterprises, especially micro and small enterprise, choose not to comply with the labour regime.

The ILO has pioneered a great deal of work that examines the link between labour law and micro and small enterprise compliance. Appropriate and effective regulation is necessary for reducing the burden and cost for enterprises in complying with the regulatory requirements while maintaining workers' protection. The challenge of balancing the needs for enterprise growth while maintaining workers' protection requires an active role of the State, particularly in providing and effectively implementing a legal framework for the labour market.[28] International Labour Standards are an important benchmark of labour and labour-related reforms. Government has a direct and important role to play in promoting social protection and ensuring labour markets operate effectively.

The ILO, in association with the PA, could initiate an action-research project on the ways the Labour Law and its enforcement mechanisms can be improved for the benefit of MSME growth and MSME workers in the oPt.

6.2.3 Harmonizing and integrating the policy, legal and regulatory framework for MSME

The proposed policy framework for MSME promotion in the oPt provides a instrument for harmonising and integrating the PA's full range of policy, legal and programme responses. It promotes collaboration and coordination among all key actors as well as across all levels of government.

The framework can establish principles that guide the PA, its ministries and agencies, in their efforts to provide a coherent response to the needs and opportunities facing the majority of private enterprises. These principles will influence the formulation and reform of policies and laws, the design of programmes and incentives, the management of public and private support services, and the monitoring and evaluation of development interventions.

In addition, the PA can promote the harmonization and integration of its policies, laws and regulations through the use of regulatory impact assessments. A regulatory impact assessment is a policy tool for applying regulatory best practices in policy and law making processes. It involves a systematic appraisal of the costs and benefits associated with a proposed new law or regulation and evaluation of the performance of existing regulations. Government authorities use regulatory impact assessments to better understand the effect their policies, laws and regulations have on the competitiveness of private enterprises, and MSMEs in particular.

6.3 Improving MSME access to financial and business development services

It is essential to differentiate the needs, capacities and development opportunities faced by micro, small and medium-sized enterprises. A one-size-fits-all approach will not work.

Donor and development activity in this field has distorted the markets in which financial and business development services are offered. Despite this, there has been some good progress shown in the delivery of micro-finance to poor women and men, including those who own and manage micro and small enterprises.

New initiatives in the provision of financial and business development services should be sensitive to the specific concerns of women business owners and managers and should include:

- Area-based programmes that mobilise micro and small enterprises through local economic development initiatives;

28 The ILO's *Labour and labour-related laws and MSEs resource kit* highlights the difficulties MSE experience when attempting to comply with labour and labour-related laws and illustrates how various countries have used innovative approaches in extending the labour law to very small enterprises. The kit provides materials and country examples on how to examine issues relating to the design and applies labour law on MSEs and how to bridge the gap between formal and informal economies.

- Assessment of key value chains and enterprise clusters (also area-based) to identify opportunities for business linkages and the provision of development services specifically targeting enterprises in these sectors and sub-sectors;
- Promotion of entrepreneurship attitudes and skills among young women and men—especially those entering the labour market as well as among those who have begun some form of microenterprise;
- Ensuring micro and small enterprises are specifically targeted in exiting PA-supported programmes, such as those offered by PalTrade, the Palestinian Investment Promotion Agency and the Palestinian Industrial Free Zones Authority; and
- Enhancing the provision of development services through business membership organisations.

6.4 Improving MSME representation, advocacy and dialogue with government

Many micro and small enterprises are inadequately represented through the current arrangements of business membership organisations. There is a need for improvements in the means through which micro and small enterprises engage in dialogue with government as well as with the medium-sized and large enterprises that tend to dominate the major business membership organisations. However, it is also important to recognise that the interests of micro and small enterprises and medium-sized and large enterprises are not always the same. Indeed, these groups of enterprises often have conflicting interests and needs.

Current business membership organisation should be supported further in their efforts to engage more effectively in evidence-based advocacy. This involves the organisation and production of targeted research, which informs business proposals to the PA on necessary reforms.

6.5 Creating a specialised agency or integrating MSME development into existing institutions

At various stages in the preparation of this report, proposals have been discussed concerning the possible need for an MSME development agency. It is clear that there are mixed views on this. Creating a single agency can provide a means through which the PA can focus its MSME-related activities. However, this does not necessarily create more capacity for the PA to do this work. The premature demise of the SME department within the MNE illustrates this point. An agency can become a flagship for PA efforts, but it can also distract from addressing the specific needs MSMEs face.

The choice is to create an MSME agency with specific functions dealing with policy reform, monitoring and support, or to focus on transforming existing private sector oriented agencies (e.g., PalTrade, Palestinian Investment Promotion Agency, Palestinian Industrial Free Zones Authority) to focus more on MSMEs—and to account to the PA on the impact of the support they provide to MSMEs. The latter option is considered more feasible and is recommended.

6.6 Addressing information gaps through research

This assessment has identified a range of gaps in the current knowledge concerning MSMEs in the oPt and their potential to create more and better jobs for Palestinian women and men. Two major gaps in this knowledge deserve particular attention:

- Palestinian Labour Law and MSMEs: this research would investigate the dynamic of MSME compliance and the labour law. It would identify specific areas where the enforcement and incentives can be improved.
- Markets for business development services: this research would involve an intensive assessment of the supply and demand sides of BDS and would differentiate the needs of micro, small and medium enterprises, while accommodating gender-based variations. The investigation would focus on a strategic selection of value chains operating in defined locations.

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Annex 1: Other laws and regulations affecting MSMEs

There are currently a number of key Palestinian legislations and economic laws that are not yet finalized and impede the work of the MSMEs. The Palestinian laws that have been finalized do not give special attention to MSMEs. However, there is a good chance for the new laws that are under processing to tackle issues related to MSME development, especially that MNE is bringing good attention to the topic recently. The legislations are briefly described below.

Capital Markets Authority

The Capital Markets Authority is responsible for regulating all non-bank financial institutions and businesses. While they are well managed and funded, they do not have the capacity to develop all of the new laws and regulations they need. Leasing, Mortgage finance and micro-finance all exist but there are no laws governing them. The Capital Markets Authority should be supported to develop the laws and secondary regulations required by the financial markets.

Commercial law

This is one of the first priority laws for MSMEs. It will regulate trade transactions and provide the requirements and rules for commercial registry, commercial contracts, commercial paper, and pledges. The laws used are the Gaza mandate law of 1931, and in the West Bank, the Jordanian law of 1966. In this regard, there is an urgent need to consider a new unified law in the West Bank and Gaza, which takes into account the private sector priorities, and to be harmonized according to the international commercial best practices. (PFI: Industrial policy and private sector agenda 2008). A new Palestinian commercial law is one of the first priority laws for the private sector. It will facilitate trade transactions and provide the requirements and rules for commercial registry, commercial contracts, commercial paper, and pledge, and corporate and personal bankruptcy.

Competition law

The PA has not yet succeeded for example in pursuing a fair and transparent competition policy, and implementing effective anti-corruption measures. The work on a competition law has been going on since few years, but did not yet materialize. Even the new laws like the Industrial Free Zones Act were limited to providing support for projects which are often of large enterprises. It is widely believed that the Palestinian economy is becoming less competitive and that monopolies and large businesses are using the current crisis to expand their market power. Given the importance of maintaining confidence in the economic system and trust of the population, the PA should renew efforts to develop a competition policy and establish necessary regulatory bodies.

Enacting the competition law will develop a competition policy that makes balance between the regulation of anti-competitive practices vs. the development of domestic markets and FDI. It will provide protection for the Palestinian consumers and suppliers from uncompetitive trade practices and eliminate the de facto discrimination (abuse of dominant position and concessions) granted to certain Palestinian businesses to be eliminated. Any competition policy should adhere to the WTO principles of transparency and non-discrimination and should have an impact on overall economic development. A competition council (independent body) is to be established to monitor and administer the application of the law, and price controls to be imposed on some sectors such as water and electricity services. (PFI: Industrial policy and private sector agenda 2008)

Customs Law

The current framework for Customs consists of the Customs Law No.(1) of 1962, the British Mandate laws in Gaza; the Jordanian Law in the West Bank. The new legislation is under preparation by the Ministry of Finance. The Customs Directorate General at the Ministry of Finance has initiated a state-of-the-art draft customs code with the support of GTZ, following the mission that visited Muenster University in Germany. However, since the PA does have yet any sovereignty on the borders, it still useless to raise the issue of customs code since it will be impossible to implement it on the ground.

E-Commerce law

There is no legal document that regulates e-commerce on contractual and evidentiary issues. Nevertheless, there is a Draft pending at the PLC Economic Committee. MNE has conducted number of awareness workshops for the private sector on e-commerce and its benefits for micro entrepreneurs especially women who would like to work from home, but still a lot has to be done, especially on the physical and financial infrastructure, in addition to the legal infrastructure.

Financial Legislation

There is also a lack of adequate financial legislation to the idea of Palestinian small-scale pilot project funding, in particular the Banking Act and the law of the Palestinian Monetary Authority. The Social Insurance Law also needs to be revised in order to differentiate between small and larger businesses and decrease the burden on MSMEs.

Foreign Trade Act Law

A Foreign Trade Act drafted by international experts supported by the EU should be adopted at the earliest possible time. The draft has been done since five years and needs update. Currently, Al-Mustakbal Foundation together with PalTrade are doing some preparations to launch a workshop to put this draft under the attention of key stakeholders, but the efforts are still at the early stages. Additionally, there is a draft for an export promotion law, and the question is whether we need a different law for export promotion separate from the Foreign Trade Act. The Foreign Trade Act should be suitable for operating under existing and future bilateral agreements, as well as under probable membership of the WTO and WCO.

Industrial Zones law

Industrial Zones Law No.(10) of 1998 provides investors doing business in industrial zones with procedures to ensure the proper conduct of their business and movement of goods and raw materials as well as storage. The Palestinian Industrial Estates and Free Zones Authority (PIEFZA) is the executing agency.

Intellectual Property Law

Intellectual Property protection regulation includes: patents, layout design of integrated circuits, undisclosed information, trade marks and geographical indications, industrial design and models, copyright and related rights, and plant varieties. The Patents and Design Law No. 22 of 1953 is applicable in the West Bank and the Patents Design Law No 64 of 1947 is applicable in Gaza. Copyright in Palestine is governed by the Copyrights laws of 1911 and 1924. The protection of copyrights lasts for a period of 50 years after the death of the author of the work. The law also deals with infringements, compulsory licenses, and many other procedural issues as well.

Enacting the Intellectual property rights IP laws is important for the development of businesses and for the flow of FDIs. There should be a clear enforcement mechanism to include fines or imprisonment. PA should work on creation of a supported center for IP studies and educational centre and to obtain the membership of international treaties and conventions. (PFI: Industrial policy and private sector agenda 2008)

Recently, there have been efforts by MNE to study the possibility to issue a new industrial property law and a copyright law, but since the PLC is not functional nowadays it looks impossible to finalize these two laws together with other necessary draft laws.

Trademarks Law

Trademarks are governed by Law No 33 of the 1952 in the West Bank and Trademark Law No. 35 of 1938 in Gaza. Trademarks are protected under the trademark laws if they are distinctive and capable of distinguishing the goods or services to which it will be applied. The period of initial protection of trademarks is seven years, and trademarks may be renewed for successive periods of time. The law prescribes imprisonment for a maximum period of one year or a fine not exceeding 100 JD for infringement of a registered mark. A foreign company is entitled to register its trademark in Palestine by giving power of attorney in this regard either to a trademark agent or to a lawyer. Trademarks are registerable unless they fall within the recognised prohibition, such as being similar to or identical to an already registered trademark, likely to be lead to deception of the public, or contrary to public morality.

It should be noted that trade names are also registered in Palestine according to specific procedures and conditions that are laid out in the Jordanian Trade Names Registration Law No. 30 of 1953, which is still applicable in the West Bank, and Law No 1 of 1929 in Gaza. The procedure to register a trademark requires the following:

- Submit an application for the registration of trademarks.
- The proposed trademark in colour must be attached to the application.
- Four copies of the Trademark must also be attached.
- A copy of the company's Certificate of Registration must also be attached.

Procurement Law

Furthermore, there a number of laws that can affect MSME development if given the right attention from the Palestinian Authority. One example is the procurement law, where the government is required to work on an efficient procurement strategy with preference to the local industries and MSMEs.

Revising the existing procurement law, will help develop an efficient procurement strategy with preference to the local industries. The procurement strategy should support the development of national economy. Domestic products to be given preference over imported products in government tenders, with 20 per cent preferential margin. In addition, a contractor procuring foreign products should buy these products from the local market rather than by direct importation. And extensive efforts are to exerted to enhance the transparency to achieve market access for foreign suppliers. (PFI: Industrial policy and private sector agenda 2008)

Secured Transactions Law

A law has been drafted by IFC and is under consideration at the MNE before it is presented to the PLC. Providing for the establishment of a Registry of Movables, this law would legislate all obligations secured by movables, and to some extent secured sales contracts and leasing. MNE has conducted with the cooperation of IFC a number of workshops to create awareness on this law and the benefits that the private sector and MSMEs can gain from such a law.

The draft law addresses the concepts of collateral interest and secured obligation, security agreement, ways to perfect a collateral interest, priorities, registration, notices, enforcement, disposition or retention of collateral, debtor’s rights and Transitional provisions, as it would replace the Decree on Collateral Interest in Movable Property of May 2005. The law, when finalized, establishes a Registry of Collateral Interests in Movable Property under the Ministry of National Economy.

Standards and Measurement Law

The Standards and Measurements Law No (6) of 2000 regulates the preparation and adoption of standards, measurements and technical regulations to be implemented by the Palestinian Standards Institute (PSI). Proposed amendments are currently under discussion at the PLC.

Specialized Courts

The PA, together with the private sector and civil society, need to reach consensus soon on whether to establish separate labour and commercial courts, or only establish special departments for them in the existing courts. This decision, which has been pending for some time, has negatively affected MSMEs on a number of levels, and would help a lot if finalized soon.

Businesses need certainty, predictability and to know how the system works and how long it will take to materialize official action. Much progress can be made if the PA simplifies and revises certain procedures in the administrative, legal and regulatory process and, most importantly, puts these procedures in writing.

Annex 2: Donor and development agencies

Key donor agencies in the West Bank that are working on private sector development include:

American Near-East Refugee Aid (ANERA)

Provides financial services to poor Palestinians and micro entrepreneurs, and help Palestinians to create/build enterprises to generate income and create employment opportunities to lift them out of poverty and improve their standard of living.

Agents Francaise De Development (AFD)

Supporting PalTrade in export promotion for the olive oil sector. The project duration is 36 months, and is partnering with PFU, PSI, and PFIA.

The Project Components are:

- Component 1 (PFU): Improving the productivity and supporting the cooperatives of producers
- Component 2 (PSI): Quality control and national regulation
- Component 3 (PFIA): Quality and food safety certification
- Component 4 (PalTrade): Export strategy and Promotion PalTrade will be responsible for managing the partners and the financial and coordination aspects of the project

Canadian International Development Agency (CIDA)

In 2007-08, CIDA's total disbursements amounted to $50.4 million. This included assistance to the West Bank and Gaza, support to Palestinian refugees in the region, and funding for projects related to the Middle East Peace Process. On MSME support for 2010, CIDA will be joining the GTZ private sector development programme and will use GTZ experience and network of experts to channel its support to MSMEs and the ministry of national economy.

Economic and Social Development Centre (ESDC)

The ESDC was established in 2003 with the objective of contributing to strengthening civil society through promoting sustainable livelihoods and democratic values with the Palestinian society. ESDC espouses values of solidarity, equality, democracy, self-help, self-reliance through asset building, and social justice. The centre’s developmental message revolves around strengthening cooperatives and other community-based organizations’ capacity to become self-reliant in affecting their own economic and social development. ESDC reports having worked with more than 100 cooperatives across the West Bank and Gaza Strip since its establishment, providing them with training, market linkages, loans, and inputs through two integrated programs being largely funded by the Swedish Cooperative Centre (SCC): (1)The cross-sectoral capacity building and institutional development program, and (2) The technical and economic development program.

Freidrich Nauman Foundation

A German foundation that provides support for the Young Entrepreneurs Palestine (YEP) in promoting market economy through supporting entrepreneurship with universities and start-ups. The program involves a number of yearly workshops to create awareness on key policy issues related to micro enterprise development.

Konrad Adenaur Foundation

Provided support for a number of Palestinian private sector institutions and civil society organizations such as PFI to strengthen the presence of local industries in local and international markets, and Birzeit university law center to create awareness on a number of policy issues related to socio-economic development.

German Agency for Technical Cooperation (GTZ): has a private sector development programme (PSDP) that provided key funding for the establishment and running of SEC, and other key activities supporting the federation of chambers of commerce. Currently, GTZ is coordinating PSDP with the ministry of national economy and while the project is targeting private sector organizations, it might have an element that will provide the ministry with technical assistance support to improve its functions and services to the private sector.

German Bank (KFW)

The creation of the European Palestinian Credit Guarantee Fund (EPCGF) is helping counteract the collapse of market-economy structures. EPCGF takes a portion of the credit risk away from the banks, and in so doing creates an incentive for the liquidity that is on hand to be made available to the market. This is making it easier for small and medium-sized enterprises to obtain bank loans, thus boosting their ability to survive, which in turn secures jobs and income". To extend loans for SMEs "the EPCGF has been provided with capital of EUR 5 million through Financial Cooperation. Under a mandate of the European Commission (EC) to KFW, an additional figure of around EUR 13.3 million (grant) has also been made available. This will be supplemented by a parallel financing arrangement of the European Investment bank (EIB) worth EUR 10 million".

International Finance Corporation (IFC)

IFC began investing in the West Bank and Gaza in 1996, and since then it has committed $160 million in investments in a variety of sectors including trade and finance facilities and commercial banks, and others. Most recently, the IFC approved $75 million as a loan to support the new $500 million Affordable Housing Initiative, and invested $30 million in Wataniya Palestine, a mobile phone company. Along with a 5% equity stake in the Bank of Palestine, these projects represent the first IFC investments in the West Bank and Gaza since 1999. The Bank's interim strategy for West Bank and Gaza also mentions the possibility of IFC investment in offshore gas development along the Gazan coast.

International Labour Organization (ILO)

The primary goal of the ILO is to promote opportunities for women and men to obtain decent and productive work, in conditions of freedom, equity, security and human dignity. The ILO Representative Office in Jerusalem is responsible for programme planning, implementation and evaluation of ILO's programme of work in the West Bank and Gaza. The ILO is expanding its technical cooperation portfolio and will continue to support the Palestinian Authority and employers' and workers' organizations with policy guidance, advocacy and support normative action. The ILO has currently a number of projects supporting the Ministry of Labour, chambers of commerce, and trade unions, as well as targeted interventions in promoting cooperatives sector, youth and women economic empowerment through skills development and entrepreneurship. The ILO project with the Federation of Chambers of Commerce, Industry and Agriculture, is funded by the Swedish International Development Agency, and aims at enhancing the capacity of the chambers to play a more effective role as an employers representative organization in policy making and dialogue with the government and improving their service provision to their members from the business community.

Italian Cooperation

Emergency Program for Gaza, 4 million Euros from Italian Cooperation. The first 3 initiatives are delivered by Italian NGOs Terre Des Hommes, Gvc and ACS and aim at rehabilitate agriculture and water and sanitation infrastructures in Gaza. The first project funded with 368,000 Euros is managed by NGO Terre des Homme and aims at strengthening basic sanitations services in the Northern Gaza and in the refugee camp of Jabalia. Gcv is working at the rehabilitation of irrigation infrastructures damaged by Cast Lead military operations in Gaza. The project is funded with 380,000 Euros and will help the local people to start again agriculture after the war ended in January 2009. ACS Ngo aims at a very ambitious project: to farm 150 domestic vegetable gardens in urban and semi-urban zones in Gaza city and Deir el Balah with a total budget of 222,000 Euros.

Japanese International Cooperation Agency (JICA – Palestine Office): In Palestine, JICA has given priorities of extending technical assistance to improve basic human needs, such as water supply and primary health, in addition to the assistance to promote industry and to achieve good governance including judicial reform. It has the following projects: Project for Improvement in Local Governance in Jericho and Ramallah; Project for Strengthening Support System focusing on Sustainable Agriculture in Jericho and Jordan River Rift Valley 2007-2010; The Project for Capacity Development on Solid Waste Management in Jericho and Jordan River Rift Valley 2005 -2010; And The Project for Sustainable Tourism Development in Jericho through Public-Private Partnership.

Norwegian People's Aid (NPA)

Norwegian People's Aid has worked actively in Palestine since 1987, having opened a local office in Gaza in 1996. The work is financed mainly from NORAD. NPA co-operates with several local partners in fields like: land and resource rights, right to participate in the civil society for women and refugees, democratic working right, youth and their right to participate and violence against women. NPA Palestine also have program for emergency aid focusing on education and agriculture. These projects started after the second intifada in 2000. Norwegian Ministry of Foreign Affair funds the projects. The Norwegian Consultant Trust Fund Under the supervision of The World Bank (MNSED) Finance and Private Sector Unit also supports PalTrade in Cargo Movement and Access Monitoring and Reporting Program.

Portland Trust

The Portland Trust is a private British foundation committed to encourage peace and stability in the Middle East region through economic development has been working with the Palestinian private sector since 2006. One of its projects was conducted as a pilot and supposed to train 120 Palestinian entrepreneurs in order to ensure that at least 60 per cent of trainees would start their business within a year from the end of training. The number of actual trainees was 89 due to time and space constraints. The pilot project aimed at preparing a "bankable" business plans for micro enterprises included six training courses implemented through local partners in six main cities in the West Bank from March to June, followed by individual coaching of trainees between August and November 2008.

Swedish International Development Cooperation Agency (SIDA)

The Swedish government has been a major supporter of the chambers of commerce since many years, and recently SIDA signed a new agreement in 2009 to empower the chambers even more in order to strengthen its internal structures to be able to provide better services for the MSMEs. This project aims at conducting a comprehensive survey to know MSME needs in the West Bank and Gaza Strip, and thus if it succeeds it will make a major milestone in MSME development.

Swiss Agency for Development and Cooperation (SDC)

The SDC is part of the Swiss Ministry of Foreign Affairs. Swiss-sponsored project is for the first time bringing together producers and retailers to try to change the negative perceptions of Palestinian products and help farmers raise their share of the local market.

The agriculture minister, Ismail Duaiq, launched the project called *Intajuna* or "our production" in Ramallah in December 2009. The project developers believe they can reach two million consumers, and that In Tajuna will not only open up the domestic market to local producers, but also eventually allow them to export their produce abroad.

UK Department for International Development (DFID): (Palestinian Facility for New Market Development FNMD) Palestinian businesses grow through becoming competitive and gaining increased access to new markets. FNMD is a private sector development initiative funded by DFID and the World Bank under which DAI will serve as a venture capitalist, providing matching funds to help Palestinian businesses diversify their product range and enter new markets locally and internationally. The three-year project provides Palestinian businesses with the capital required to invest in needed knowledge and skills. By sharing risk with the private sector, FNMD will stimulate economic growth and thus increase Palestinians' economic stake in the peace process.

Union of Cooperative Associations for Savings and Credit

In 2005, the Union of Cooperative Associations for Savings and Credit (UCASC) was established and registered in order to support and provide a legal umbrella for the registered Savings and Credit Associations (SCAs) in Gaza and the West Bank. UCASC built on the accumulated experiences by PARC. In 2003, 12 Saving and Credit Associations (SCA) have been registered as cooperative at the Palestinian Ministry of Labour, with each cooperative including an elected Administrative Committee that manages the cooperatives. In 2005, the union of these cooperative was registered and licensed as a legal umbrella for 12 cooperatives consisting from (162) 133 SCGs as of 31/12/2005.

United Nations Development Programme (UNDP)

Two years ago, UNDP began a pilot programme targeting chronically poor West Bank and Gaza families called the Deprived Families Economic Empowerment Programme. UNDP has continued to administer this programme, which aims to help families achieve economic independence and self-reliance, in spite of the crisis situation, reflecting their firm belief that economic and human development are key elements of any recovery situation. The project became especially crucial following the widespread destruction of infrastructure and livelihoods during the fighting in Gaza in December-January of 2008-2009. UNDP has stepped up its response.

United National Corporation for Trade And Development (UNCTAD)

UNCTAD´s work on the Palestinian economy is centred on the secretariat's three main interrelated pillars of activities: 1) Research and analysis, 2) Technical cooperation, and 3) Supporting intergovernmental consensus-building in this area of work. Activities under each pillar respond to the evolving needs of the Palestinian people within four programmatic clusters:

Development strategies and trade policies

Trade facilitation and logistics

Public finance modernization and reform

Enterprise, investment and competition

One of UNCTAD's successes in the areas of institution-building and trade facilitation is the European Commission-funded project "Establishment of the Palestinian Shippers' Council (PSC)".

United Nations Industrial Development Organization (UNIDO)

UNIDO and the Ministry of National Economy have launched the second phase of the UNIDO Integrated Programme for the support of the Palestinian Industry. The main objective of the Integrated Programme, Phase II is to continue assisting the Palestinian Authority in promoting and fostering the sustainable development of the Palestinian economy by upgrading local industrial enterprises and public and private support institutions and by generating employment opportunities and better integrating the economy into the global production and commercial chains and markets. By focusing on the strengthening of MNE in policy and strategy making, the IP will support governance and institutional building much needed to set up an enabling and facilitating support system for the local enterprises. On the other side focusing on industrial upgrading, the Integrated Programme will support the manufacturing sector in improving its competitiveness, strengthening its export capabilities, reinforcing the advocacy role of its representatives and increasing its overall contribution to the GDP.

United Nations Relief and Works Agency for Palestine Refugees (UNRWA)

The Palestinian SMEs received a substantial support of the microfinance programmes run by the UNRWA agency. For example, the mission statement of UNRWA Micro- enterprise Programme aimed to improve small business and micro entrepreneurs, sustain jobs, decrease unemployment, empower women and provide income-generating opportunities to Palestine refugees (UNRWA, 2005). The UNRWA granted about 130,000 loans for SMEs since it operated this program of a value of $ 120 million up to 2007. One third of the total granted microfinance loans were directed to small firms operated by women (UNRWA in Figures. Public Information office, United Nations Relief and Works Agency for Palestine Refugees Headquarter, Gaza, Palestine, February 2008).

United States Agency for International Development (USAID)

The US assistance promotes business and agricultural development, including increased Palestinian exports. The $12.1 million Palestinian Enterprise Development project has supported the formation of partnerships involving close to 130 Palestinian industries to increase exports, enable investment, provide training, generate employment, and improve quality standards. USAID works through a number of projects:

PITA Project: has two components: 1) procedural streamlining and organizational strengthening for trade efficiency (technical assistance) 2) security enhancement and implementation (Procurement and Installation of Technology/Equipment)

Small and Microfinance Assistance for Recovery and Transition Project (SMART) that aims to Preserve the microfinance infrastructure in the West Bank and Gaza and help to build a stronger, more sustainable and integrated microfinance industry that can serve a growing number of poor Palestinians. The time frame for this project ended by September 2008.

PED Palestinian Enterprise Development Project. Its components are: Clusters Development and Cluster Initiatives, and Cross Cutting Program Areas like: Policy Reform, Business Development, Services, Institutional Development, and Grant Fund.

Palestinian Agribusiness Partnership Activity (PAPA), which provides Capital assets, training and technical assistance, supports private farmers and agribusinesses in Palestine, and seeks to improve: food production, quality, safety and marketing.

The World Bank

Through its engagement with the Palestinian Authority, The World Bank has influenced certain policies and public sector decisions such as prices of and access to basic goods and services, the number of public sector employees of the Palestinian Authority, the number and structure of the Authority's civil and security agencies.