



Palestine Authority

MINISTRY OF NATIONAL ECONOMY

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

FIRST DRAFT 18 APRIL 2010

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1 Introduction

The Palestinian Authority (PA) supports the development of micro, small and medium-sized enterprises (MSMEs) in order to contribute to economic growth, social development and the creation of productive and decent jobs for the women and men of the occupied Palestinian territory. This policy framework presents a coherent and integrated response to the challenges and opportunities facing existing and emerging MSMEs. It outlines the roles of the Palestinian Authority and the ways it will work with its social partners.

The policy framework is the result of a participatory assessment of the MSME sector in the occupied Palestinian territory. The Ministry of National Economy has led this process, with support from the International Labour Organization. The framework reinforces and complements the commitments of the Palestinian Authority towards the achievement of economic independence and national prosperity, most recently articulated in the Authority's programme entitled *Palestine: Ending the Occupation, Establishing the State*, launched on 25 August 2009.

The Palestinian Authority's response to the challenges and opportunities facing the MSME sector recognises the role the private sector plays in the development of the economy. The policy framework establishes a basis for the design, implementation and assessment of mechanisms and processes that support the development of a more competitive and sustainable MSME sector. It provides a basis for collaboration and coordination among public, private and civil society actors and creates the space for these actors to contribute to MSME development in a mutually reinforcing and synergistic manner, while enhancing opportunities to mobilise resources that can be used to boost the contribution MSMEs make to sustainable social and economic development.

2 Long-term vision and policy mission

The long-term vision for MSMEs in the occupied Palestinian territory is as follows:

The entrepreneurial spirit of Palestinian men and women drives sustainable MSME development, economic growth and the creation more and better employment opportunities.

In working toward this vision, the policy framework has the following mission:

To promote the development of the Palestinian economy by creating conditions for MSMEs that enhance their capacity to contribute to and benefit from sustained economic growth by becoming more competitive and profitable in local, regional and global markets.

3 The context for MSME development

MSMEs in the occupied Palestinian territory have established and grown in difficult circumstances. Israeli occupation limits the access MSMEs have to regional and global markets and undermines the dynamic contribution these enterprises can make to economic growth and the creation of productive and decent employment.

Private enterprises are the most important contributors to economic growth in the occupied Palestinian territory. Of these enterprises, MSMEs are the most prolific. In 2007, there were 105,880 private sector enterprises in the occupied Palestinian territory. Ninety-nine percent of these are enterprises employed less than 20 fulltime workers. Furthermore, 91 percent of all private enterprises employ four or less fulltime workers. Most MSMEs operate in the Wholesale and Retail and Manufacturing sectors, which account for 70 percent of MSME establishments.

MSMEs employ 87 percent of the Palestinian workforce in the occupied Palestinian territory. 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. Seventy-one percent of all MSMEs are found in the Remaining West Bank.

There are a number of critical factors that influence the priorities and focus of this policy framework:¹

3.1 Occupation and conflict

MSME experience the consequences of Israeli occupation on a daily basis. Israel has established more than 600 checkpoints, roadblocks and road barriers across the whole Remaining West Bank, dividing its villages and refugee camps from the city centres. This has significantly increased the cost of transporting goods. The loss of the East Jerusalem market for most Palestinian producers in the Remaining West Bank and Gaza Strip has had an increasing negative effect. MSMEs in the occupied Palestinian territory are also required to conduct their business in conflict-affected areas. The number of enterprises in the Gaza Strip, for example, was 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.

3.2 Lack of official recognition

Up to now, the Palestinian Authority has not had an official definition of MSMEs that can be constantly applied by its ministries and agencies, or by its development partners. This has produced an inconsistent and biased approach to the support and monitoring of the MSME sector in the occupied Palestinian territory. However, the policy framework for MSME development changes this. A definition for MSMEs is provided in Chapter 5.

¹ Much of this chapter has been taken from the assessment report prepared for this project: Kawasmi & White (2010) *Towards a Policy Framework for the Development of Micro, Small and Medium-sized Enterprises in the Occupied Palestine Territory: Assessment Report*, Ministry of National Economy, Ramallah.

3.3 High levels of informality and marginal returns

Informality is high among MSMEs, especially among micro and small enterprises. Estimates of informality among private enterprises in the occupied Palestinian territory range from 50 to 60 percent. 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.

3.4 Restricted access to markets

Israel is the destination for 89 percent of Palestinian products. While Israel offers an enormous potential market for MSMEs, access to this market is restricted as a result of the checkpoints and barriers. Most of Palestinians exporters cannot enter Israel without a special permit and are typically dependent on Israeli buyers to come to them. However, access to markets beyond Israel is also severely restricted. The Remaining West Bank and Gaza Strip is in a quasi-customs union with Israel. This results in all imports and exports travelling through Israel, which creates an additional layer of legal, regulatory and, in many cases, political burden, which undermines competitiveness and insulates Palestinian MSMEs from the global economy.

3.5 Inadequate access to development services

Access to market information and developing a global perspective on markets and market opportunities is essential for business development. However, many MSMEs in the occupied Palestinian territory lack this information and mindset. Indeed, there are many business development services that MSMEs require in the territory if they are to grow and become sustainable. However, most enterprises, especially micro and small enterprises, are unable to obtain these. 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 occupied Palestinian territory. 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.

3.6 Inadequate representation and dialogue

While there is a wide and diverse range of business membership organisations in the occupied Palestinian territory, many MSMEs are poorly represented—especially those enterprises at the lower end of the size spectrum (i.e., micro and small enterprises). Compulsory chamber membership in the occupied Palestinian territory ensures a high number of registered private enterprises are members of these important structures. The Palestinian Authority recognises the import role played by chambers of commerce and other business membership organisations. However, not all members are able to participate fully in these structures and, in many cases, these organisations tend to favour larger enterprises. Furthermore, there are many private enterprises in the occupied Palestinian territory that are not registered and not members of the chamber structure. These problems reduced the extent to which MSME are effectively represented and their capacity to participate in formal public-private dialogue. The Palestinian Authority 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 occupied Palestinian territory in this field. However, the representation of, and engagement with, MSMEs in this structure is weak.

3.7 Difficult business environment

The Palestinian Authority recognises the need for urgent reform of the business environment (i.e., the policy, legal, institutional, and regulatory conditions that govern business activities in the occupied Palestinian territory). There are a wide range of laws and regulations affecting the behaviour and development potential of Palestinian MSMEs. 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 MSMEs 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.

3.8 Poor coordination and collaboration in MSME development

There are many public, private and civil society actors involved MSME development in the occupied Palestinian territory. 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 Palestinian Authority has a central role to play in this regard.

4 Defining and targeting micro, small and medium enterprises

MSMEs need to be clearly defined and targeted if they are to be better understood and encouraged in their efforts to contribute more effectively to the development of the Palestine economy.

4.1 Defining micro, small and medium enterprises

The policy framework establishes the following definition of MSMEs operating in the occupied Palestinian territory:

Private enterprises in the occupied Palestinian territory are separate and distinct business entities managed by one or more owners. They can be formally and informally organised and can assume different legal and operational structures: family-owned, sole proprietor, partnership, company, cooperative and non-government organisation;² they can be independent entities, branches or subsidiaries and can operate in any economic sector or sub-sector, including agriculture.

Private enterprises in the occupied Palestinian territory can be classified into four size classes: microenterprise, small enterprise, medium enterprises and large enterprise. Three measures are applied to define enterprises:

- Employment

² Thus, private enterprises do not include enterprises that are fully or partially owned by any government authority.

- Annual turnover
- Registered capital

The table below defines enterprise size classes according to these measures.

Table 1: Enterprise size class definitions

Enterprise size class	Employment	Annual Turnover	Registered Capital
Micro enterprises	1-4	Up to 20,000	Up to 5,000
Small enterprise	5-9	20,001 to 200,000	5,001 to 50,000
Medium enterprise	10-19	200,001 to 500,000	50,0001 to 100,000
Large enterprise	20 or more	500,001 or more	100,001 or more

Notes: Employment: number of fulltime equivalent workers; Annual Turnover and Registered Capital: US Dollars

While the term “micro, small and medium enterprise” or “MSME” is used to describe private enterprise within the size classes that are defined in the above figure, care should be taken to avoid treating all MSMEs the same. MSMEs share two common characteristics only: they are all private and they all fall within the above-mentioned thresholds. Beyond this, MSMEs are an extremely diverse community of enterprises.

4.2 Targeting micro, small and medium enterprises

When considering the development of the MSME sector all public, private and civil society actors are required to target their programmes and services. While the above definitions help these agencies to describe the MSME community and to measure changes in it, they are less useful for development programmes and services that are designed to develop MSMEs.

The policy framework recommends that all development agencies and membership organisations design their programmes and services based on a clear assessment of the needs, capacities and opportunities facing MSMEs in the occupied Palestinian territory. Drawing from this assessment, it these agencies should clearly define the target groups they seek to assist.

While this policy framework does not endeavour to direct all agencies towards a prescribed set of target groups, it acknowledges the following groups and encourages agencies to reflect the characteristics and issues facing these groups in their own assessment and design processes:

- **Micro, survivalist enterprises:** these enterprises are typically established by unemployed men and women who are forced into enterprise as a means of creating a livelihood. These firms are often family-owned and generally have a low capacity for expansion and because they tend to operate in crowded markets that offer marginal returns. These enterprises require support to find new markets to operate in.
- **Professional microenterprises:** medical practitioners, architects and accountants are just three examples of microenterprises that are run by professionals who often are do not need assistance to expand their business.

- **High-growth-oriented MSMEs:** these firms have usually been established for more than three years; they are most-often small or medium enterprises and have a good knowledge of the markets they operate in. With access to the right kinds of financial and business development services, these enterprises have a great potential for expansion.
- **MSMEs in high-growth sectors:** Economic development plans that identify sectors in the occupied Palestinian territory with the potential for rapid growth should explicitly describe the ways MSMEs in these sectors can grow. This will include strategies to increase their participation in the value chains of high-growth sectors.
- **Women-owned and youth-owned MSMEs:** MSME development provides a potent mechanism for the economic empowerment of social groups that are often excluded from full participation in the economy and its labour market, such as women and young people. Thus, MSME development programmes and services can be designed to support these groups.

Finally, it can be useful for development agencies to apply a Business Sophistication Model to their assessment of MSMEs and their identification of possible MSME target groups.

5 Principles of MSME development

The following principles inform the design and management of MSME development interventions in the occupied Palestinian territory:

- The Palestinian Authority provides oversight and leadership in the development of the MSME sector in the territory under the leadership of the Ministry of National Economy, which liaises closely with key government departments and agencies, as well as with all other relevant civil society and non-government organisations.
- MSME development interventions are strategically aligned with the Palestinian Authority's economic development plans and the identification of specific economic growth sectors.
- MSME development services enhance the potential for sustainable economic growth in the territory, while supporting the creation of productive and decent employment in the MSME sector.
- Wherever possible, systemic, market-oriented and sustainable approaches to MSME development are applied in order to address the underlying constraints and barriers experienced by the sector and ensuring all MSMEs benefit from these interventions.
- The creation of a Palestine business environment that is conducive to the growth of MSMEs is essential. This is achieved through a continuous process of assessment, reform and dialogue with the business community. This includes a strong emphasis on reforms that encourage the formalisation of informal enterprises.
- All MSME development services are carefully targeted, demand oriented, responsive, and integrated.

- Wherever possible, all actors engaged in the MSME sector – public, private and community, and the MSME sector itself (as represented by business membership organisations) – work together to ensure their actions are complementary and coordinated.
- Regular and structured dialogue between the Palestinian Authority, local municipalities and the MSME sector is essential to the design of effective support interventions and a better business environment.
- MSME development pays special attention to the constraints and challenges facing women and young people who run and manage their own enterprise.
- Investments are made into the generation and management of knowledge concerning the MSME sector and development interventions.

6 Key stakeholders and institutional arrangements

The policy framework recognises the full range of actors engaged in the development of the MSME sector in the occupied Palestinian territory. To be effective MSME development in the territory requires an institutional framework that builds on the strengths of all actors and promotes a platform for improved integration, collaboration, coordination and partnership.

6.1 Palestinian Authority

The Palestinian Authority establishes the policy and legal framework in which MSMEs start-up and operate. While all public, private and civil society actors have a role to play in MSME development, the Palestinian Authority, and in particular the Ministry of National Economy, sets the direction and focus of these efforts.

The Palestinian Authority performs the following functions with regard to MSME development:

- Establish the policy, legal and regulatory framework and administrative mechanisms for MSME activity and ensure this is operating at optimal levels that balance the costs of regulatory burdens with the benefits;
- Coordinate all Palestinian Authority ministries and agencies engaged in MSME development;
- Liaise and collaborate with local municipalities on all issues related to MSME compliance, development and monitoring;
- Facilitate, enhance and monitor the access MSMEs have to the inputs they require to become productive and sustainable enterprises—this includes access to the markets that are required to drive enterprise growth as well as the provision of financial and business development services, the creation of industrial zones and business incubators and the promotion of innovation and technology transfer;
- Ensure MSME representation and public-private dialogue processes and mechanisms are in place and functioning effectively;
- Identify knowledge gaps in MSME development and liaise with the social partners in how these can be addressed;

- Monitor changes in the MSME sector and measure the impact of development programmes.

It is important to recognise that the Ministry of National Economy is primarily responsible for promoting MSME development because it is through the strengthening of the productive capacities of these enterprises that economic growth and job creation will be achieved. However, it is recognised that other ministries and, indeed, other non-government organisations are more concerned with income generation and various other forms of poverty alleviation. While these measures are appropriate and relevant in the occupied Palestinian territory, they are not the primary focus of the Ministry of National Economy.

6.2 Local municipalities

Local municipalities perform a primary role in the administration of a number of important registrations and licenses that MSMEs are required to comply with. Thus, improvements to the policy, legal and regulatory framework and administrative mechanisms for MSME development will require direct involvement by local municipalities. Local municipalities should identify and pursue opportunities to reduce the regulatory and procedural barriers to full compliance, for example, through the creation of one-stop-shops and the introduction of electronic and internet-based registration, licensing and monitoring systems.

Palestinian municipalities are encouraged to cooperate with the local offices of the Ministry of National Economy and build partnerships in order to develop local economic development strategies, including the creation of industrial parks and business incubators. Local municipalities should work closely with the Palestinian Authority, the private sector, local chambers of commerce and other business membership organisations, including other civil society organisations, to formulate local economic development policies and strategies that address the concerns, constraints and opportunities facing MSMEs in their area.

6.3 Private sector and business membership organisations

The MSME sector in the occupied Palestinian territory is represented through a range of business membership organisations, which reflect the diversity of the sector. Business membership organisations can provide important membership and development services. In addition, they present the Palestinian Authority and local municipalities with an opportunity to discuss concerns directly with the business community.

Business membership organisations and platforms for public-private dialogue should develop specific measures to ensure they incorporate the needs and interests of MSMEs, especially those at the small end of the size spectrum. Membership services should cater for the specific needs of MSMEs, including the need for active participation. Where enterprise development services are offered, these should address the priorities faced by MSMEs. Business membership organisations provide a unique mechanism for linking large enterprises with smaller enterprises, facilitating business linkages within specific value chains and creating opportunities for mentorship.

6.4 Academic and research agencies

There are a number of Palestinian academic and research agencies that can contribute to MSME development. Education and training institutions, for example, can provide basic,

technical and tertiary education, training, advice and research to MSMEs as well as to MSME development agencies. The development of the Palestinian MSME sector requires close collaboration between the business community, in particular the MSME sector, and academia. Public agencies and private investors should be encouraged to promote innovation and technology transfer that improves the competitiveness of MSMEs. Special attention should also be given to the creation of MSME incubators, innovations centres and the creation of technology-based clusters. In addition, education and training institutions should develop courses that teach entrepreneurial skills and attitudes.

6.5 International donor and development agencies

International donor and development agencies perform an important role in the development of Palestinian MSMEs. These agencies should perform the following functions:

- **Support the development of market-based financial and business development services through local intermediaries:** rather than provide these services directly to MSMEs, donor and development agencies should facilitate the development of market-based mechanisms for MSME development. This requires donor and development agencies to be committed to long-term sustainability of their interventions and to take care not to distort further the markets they are working in.
- **Support the development of Palestinian women and men to identify and pursue new market opportunities:** donor and development agencies should support the development of entrepreneurial skills and attitudes that help business owners and managers to identify new business opportunities.
- **Support for new methods and tools:** Support from agencies such as these should focus on the trialling of new methods and instruments for MSME development, as well as on disseminating lessons from international best practice.
- **Support to business membership organisations and dialogue processes:** Support for the building and strengthening of business membership organisations is also required in order for these organisations to operate on a sustainable basis providing valuable membership and development services.

7 Pillars of the policy framework

In order to establish a more vibrant and dynamic MSME sector that contributes to the economic growth and social development in the territory, Palestinian MSMEs need to be able to compete successfully in local, national and international markets and provide a diverse range of new and lasting decent employment opportunities for women and men.

The MSME sector should reflect the heritage, culture and dynamism of the Palestinian people. It should contain strong commercial linkages between firms of different sizes and along strategic value chains. The Palestinian economy should contain effective, independent business organisation that represent and support a wide range of business-members that the Palestinian Authority liaises with on a regular basis. Furthermore, MSME ownership and management should become a desired career for many young women and men in the occupied Palestinian territory and no longer an option of last-resort.

In responding to the critical concerns of Palestinian MSMEs in the occupied Palestinian territory and achieving the policy vision and mission describe above (Chapter 2) a four-pillar framework is established:

- Pillar 1: Improve the policy, legal and regulatory framework and administrative mechanisms for MSME development**
- Pillar 2: Improve the access MSMEs to markets and financial and business development services**
- Pillar 3: Improve MSME representation, advocacy and dialogue with government**
- Pillar 4: Fill the current knowledge gaps on MSME development and monitor change in the MSME sector**

Each of these pillars is described in more detail below.

7.1 Pillar 1: Improve the policy, legal and regulatory framework and administrative mechanisms for MSME development

The Palestinian Authority recognises the urgent need to improve the policy, legal and regulatory framework and administrative mechanisms for MSME development. To this end, the Ministry of National Economy will initiate and manage a policy, legal and regulatory reform programme focussed on the specific needs of MSMEs. Special attention will be given to enterprises at the lower end of the size spectrum (i.e., micro and small enterprises) as well as to reforms that will encourage the formalisation of informal enterprises.

This work will involve close collaboration with the current reforms that are underway within the ministry. It will also require collaboration with other ministries and local municipalities.

The following programme interventions will be introduced within this pillar:

7.1.1 *Formulation of a charter for harmonizing and integrating the policy, legal and regulatory framework for MSME*

The charter will identify a set of criteria that will be used to guide the Palestinian Authority and local municipalities in their efforts to ensure MSMEs have a policy, legal and regulatory framework that is conducive to enterprise growth and competitiveness. It will draw from a wide range of international principles and regulatory best practices as well as from the views obtained in close consultations with government, business and civil society organisations in the occupied Palestinian territory.

7.1.2 *Establishment of a one-stop-shop dealing with a wide range of registrations and licenses in one location*

Building on recent initiatives, the Ministry of National Economy will work with two or three selected local municipalities to pilot the establishment of a one-stop-shop dealing with a wide range of registrations and licenses in one location. This programme will complement the Palestinian Authority's decentralisation strategy and will provide a practical demonstration of the ways central and local government registration and licensing requirements can be streamlined and simplified.

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

The Palestinian Authority will 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 occupied Palestinian territory. This will involve collaboration with the International Labour Organization as well as the Ministry of Labour, business membership organisations and trade unions.

7.1.4 *Investigations into the creation of a single business licence*

The Palestinian Authority will investigate the feasibility and impact of creating a single business licence for all MSMEs operating in the occupied Palestinian territory. This license would bring together a range of registrations and licenses that are currently required of MSMEs into a single, easy to obtain document. It would be cheap and easy to obtain and would provide access to a range of benefits for micro and small enterprises.

7.2 *Pillar 2: Improve the access MSMEs to markets and financial and business development services*

The Palestinian Authority recognises that MSMEs require access to markets if they are to grow in a sustainable and job-creating manner. MSMEs also require access to productive inputs, such as financial and business services, that can help them to become more competitive in these markets. To this end, the following programme interventions will be pursued.

7.2.1 *Formulation of a Palestinian enterprise development strategy*

Guided by the policy framework, the Ministry of National Economy will formulate a Palestinian enterprise development strategy that provides a coherent and integrated response by the agencies of the Palestinian Authority to the specific needs, capacities and opportunities facing the MSME sector. The strategy will identify key economic growth sectors in the Palestinian economy and describe how MSME participation in these sectors will be enhanced.

Key elements of this strategy will likely include:

- Creation of business incubators, industrial parks and innovation centres;
- Incentives for research and development within the MSME sector;
- Improvements in the access MSMEs have to market information and specific market development and trade promotion initiatives;
- Skill development programmes designed to improve business management and technical skills within MSMEs;
- Mechanisms to improve the access MSMEs have to commercial financial services.

7.2.2 *Local economic and enterprise development*

The Palestinian Authority will work with local municipalities in the occupied Palestinian territory to develop local economic and enterprise development plans. These plans will identify opportunities for local interventions that can support the development of local MSMEs. These plans will be developed in close consultation with the local business community and other civil society organisations.

Key elements of these plans will likely include:

- Support to local enterprise clusters;
- Assessment of local value chains and identification of strategies to enhance local participation in these value chains;
- Partnerships with the local private sector to market the locality and provide practical business development services.

7.2.3 Aligning Palestinian Authority agencies towards MSME needs and opportunities

The Palestinian Authority will require all its agencies involved in the promotion of Palestinian business, trade and investment, to formulate strategies that target MSMEs more effectively (e.g., PalTrade, the Palestinian Investment Promotion Agency and the Palestinian Industrial Free Zones Authority). These strategies will include annual targets for MSME participation, which the Ministry of National Economy will monitor.

7.2.4 Entrepreneurship education

The Ministry of Labour and the Ministry of National Economy will collaborate on the formulation of a curriculum on entrepreneurship education, which will be introduced into secondary, tertiary and technical education programmes. This will involve the adaption of internationally tested curriculum to ensure it is relevant to Palestinian education standards, reflects cultural and social norms and is applicable in the Palestinian economy and labour market.

7.2.5 Facilitating the provision of MSME development services through business membership organisations

The Palestinian Authority, in collaboration with relevant donor and development agencies, will support business membership organisations to design and develop business development services for MSMEs. Wherever possible, this will include the facilitation of partnerships between business membership organisations and private sector providers, including bank and other commercial finance providers.

7.3 Pillar 3: Improve MSME representation, advocacy and dialogue with government

The Palestinian Authority recognises the need to support the representation of MSMEs across the occupied Palestinian territory. While this issue has been largely dealt with by the introduction of mandatory chamber membership, it is clear that not all MSMEs are active members of these structures. Thus, the Ministry of National Economy will liaise with key programme partners, including international donor and development agencies, to support the following initiatives:

7.3.1 MSME membership audit

An audit of all business membership organisations operating in the occupied Palestinian territory will be conducted in order to accurately determine the extent of MSME participation in these structures. This audit will not focus on the number of micro, small or medium enterprise members alone. It will also assess the extent to which enterprises of these size classes participate in the management and programmes of these organisations.

7.3.2 *Sustainable MSME membership development programme*

A technical assistance project designed to help business membership organisations assess their potential for long term sustainability and to design and pursue measures that will lead to viable organisations with a dynamic MSME membership base.

7.3.3 *Strategies for improving MSME participation in public-private dialogue*

A technical assistance project designed to identify and develop strategies that will enhance the participation of MSME, and particularly micro and small enterprises, in public-private dialogue. This will include an assessment of the Private Sector Coordinating Council, leading to a series of recommendations on how the council can more effectively engage micro and small enterprises in its dialogue processes and structures.

7.4 *Pillar 4: Fill the current knowledge gaps on MSME development and monitor change in the MSME sector*

The Palestinian Authority recognises that there are significant gaps in knowledge regarding the problems, constraints and opportunities facing MSMEs in the occupied Palestinian territory. To address this, the Ministry of National Economy will pursue an annual research agenda. It will liaise with relevant research institutions as well as international donor and development agencies in the commissioning of research that will fill these gaps.

While the identified gaps are likely to change from year to year, the following are current priorities:

- Palestinian Labour Law and MSMEs: research is required to investigate the dynamic of MSME compliance and the Palestinian Labour Law in order to identify strategies that can be used to improve compliance among MSMEs.
- Markets for business development services: research is required to provide an intensive assessment of the supply and demand sides of BDS. This would differentiate the needs, constraints and capacities of MSMEs, while accommodating gender-based variations.

Finally, the Palestinian Authority recognises the importance of high-quality and regular data on the MSME sector. It will ensure that the MSME sector is regularly monitored and will produce a report on the sector each year.

8 Implementing the policy framework

The Ministry of National Economy is responsible for implementing the policy framework for MSME development.

8.1 Establish a MSME Development Agency

In order to do this effectively, the Ministry of National Economy will establish an MSME Development Agency within its organisational structure. The MSME Development Agency will perform the following functions:

8.1.1 Policy and programme coherence and coordination

The MSME Development Agency will promote policy and programme coherence and coordination across the Ministry of National Economy and its agencies to ensure MSME concerns are effectively integrated into the programmes and services offered by this group of institutions.

8.1.2 Coordination of MSME policy, legal and regulatory reforms

The MSME Development Agency will lead the Ministry of National Economy in its efforts to reform the policy, legal and regulatory framework in which MSMEs are governed and developed. This will include the formulation of the charter (7.1.1) and the coordination of key reform initiatives.

8.1.3 Formulation of an enterprise development strategy

The MSME Development Agency will lead the ministry's efforts in formulating the enterprise development strategy describe in 7.2.1, above. This will involve close consultation with all public, private and civil society organisations. It will especially involve business membership organisations.

8.1.4 Promote and coordinate donor support for MSME development

The MSME Development Agency will host an annual meeting between international donor and development agencies and public, private and community-based MSME development agencies operating in the occupied Palestinian territory. These meetings will provide the opportunity to exchange views and experiences on contemporary MSME issues and to formulate specific technical assistance programmes.

8.1.5 Coordinate MSME research

The MSME Development Agency will pursue an annual MSME research agenda. It will liaise with relevant research institutions as well as international donor and development agencies in the commissioning of research that will fill these gaps.

8.1.6 Regularly monitor the MSME sector and the impact of MSME development programmes

The MSME Development Agency will liaise with the Palestinian Central Bureau of Statistics to ensure the regular monitoring of the MSME community over time. This will include the monitoring of changes in:

- Number of MSME establishments by size, area and sector;

- Number of men and women employed in MSMEs by enterprise size, area and sector;
- Contribution MSMEs make to Value Addition and Gross Domestic Product;
- Levels of formality — as measured by official registration and licenses.

In addition, the MSME Development Agency will design a monitoring framework for assessing the outcomes and impact of MSME development programmes in the occupied Palestinian territory. It will provide information and training to MSME development agencies and practitioners on the use of this framework and will coordinate reporting processes.

The above information will be published in an annual *State of Palestinian MSMEs* report, which the Ministry of National Economy will produce.

8.2 Review of the MSME policy framework

In 2012 the Ministry of National Economy will review the policy framework for MSME development. This review will be done in close consultation with the MSME sector, formal business membership organisations and other civil society organisations. The purpose of the review will be to determine:

- Relevance of the policy framework vision and mission, and achievements made toward these;
- Relevance of the policy framework priorities (i.e., the critical issues presented in Chapter 3)
- Use of the official definition of MSME by Palestinian Authority ministries and agencies and other MSME development agencies and civil society organisations;
- Relevance of the pillars that define the policy framework (Chapter 7) and achievements made toward these;
- Changes in the MSME sector since 2010;
- Any programmes or projects that have stemmed from the policy framework;
- Any other priorities, needs or opportunities to be considered in a revised policy framework.