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Gaining an Edge

Tools for Achieving and Sustaining Real Growth

in the Palestinian Private Sector

PALESTINIAN DEVELOPMENT FUND

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Introduction

This Paper sets out a brief review of the present industrial situation and legislative background along with recommendations of where effective intervention in support of PSD can be made. It reflects the philosophy that considering only emergency actions to cope with extreme difficulties, without some reference to long term development, will only support the present unacceptable situation.

It is hoped that this Paper can help the Ministry of National Economy as it develops its “Framework for National Economic Development” to provide Palestine with a realistic strategy for industrial development and economic growth.

It builds on the Economic Stabilisation and Recovery Strategy (ESRS) previously prepared by the Ministry of Economy for the Ministry of Planning. Prepared with the support of the European Commission and the World Bank the ESRS provides an analysis of the private sector at that time and lists objectives to support PSD.

With a view of taking forward this planning the Palestinian Development Fund, supported by the EU, commissioned this further work.

Legislative Environment

Palestine’s legal system is of mixed heritage, making the legal reform process a challenge to legislators, policy-makers and legal drafters alike. The initial national policy goal of harmonising and updating the legal environment directly affecting PSD has become misguided as the layers of law inherited from past periods are layered yet again. The impact of this on the private sector is adverse and slows down the operation of a free-market economy.

Almost all laws do not have implementing rules and regulations, which has led the private sector to voice concerns about the arbitrariness and informal decision making by some public officials. It is of great importance to quickly prepare regulations and all required forms to reduce arbitrary decision-making and to ensure that the process of implementation is transparent and objective.

Private Sector Influence on Policy

The private sector has found it difficult to affect the legislative process due to various reasons, primarily a lack of time and lobbying skills. Their representative institutions are inadequately staffed and their effectiveness and input is either cursory or absent. It is strongly recommended that donors consider various ways in which the associations and institutions can be strengthened, since they are the voice of the private sector and should be ‘centre-stage’ in discussions on PSD.



Finance

The availability of financing to the private sector is critical for Palestinian businesses but due to the current political and ensuing economic crisis, the private sector is experiencing unparalleled financial distress.

Many businesses are undercapitalised which reduces their productive capacity. The private sector cites high interest rates, collateral requirements, and getting long term loans as problems areas. These constraints are greater for SMEs than larger businesses. Most businesses report that financing comes from either internal sources or retained earnings.

Private Sector Review

The *Stone and Marble* sector is one of the few natural resources available to the local economy with its rich stock of good quality, product varieties, colours and features. It contributes over \$600 million to the economy and more than 1,100 firms employ 12,000 workers. The sector has an invested capital of around US\$ 950 million

The sector needs support in participating in international exhibitions; a 'shop-window' in an EU Centre, better training facilities, improved geological research tools, quality control and international certification.

The local market for *Olive Oil* is the main consumer of while any surplus is sold to neighbouring Arab markets. It is safe to assume that 8-10 thousand tons of olives are pickled and up to 95% of production is used to produce olive oil.

The sector needs support to improve the quality of extra virgin olive oil through better harvesting, processing and transporting, bottling and packaging; cooperating to gain benefits of economies of scale and establish trade links with international markets.

The furniture manufacturing industry is one of the largest industries in the Gaza Strip in terms of established companies and number of employees, with about 600 companies employing some 5,000 people. The majority of establishments are small with six to seven workers.

Priority actions should include supporting IT developments, such as Computer Aided Design and supporting companies to work together to achieve some economies of scale



The majority of packaging firms are family owned businesses that are passed down from one generation to another. Management in general has unclear structures and

very weak strategic skills. They are production, rather than marketing orientated so they end up producing what they can produce and not what meets market demand.

The main problems identified by packaging companies are the cost of the infrastructure, the lack of industrial zones and problems with movement of goods and labour. They want help in developing good financial management systems and marketing.

Donor Support

Donors have played a large role in sustaining the PS as well as being one of the main sources of funding that allows the PA to remain operational at its current level.

However, despite various efforts to coordinate donor intervention in the development of Palestine's economy, much of the private sector expresses confusion in understanding how donors select programmes of support. Efforts should be made by donors to ensure greater synergy is achieved between interventions and greater transparency in donor planning.

PSD interventions over the past three years have clearly responded to a worsening economic situation and were launched largely as emergency measures. There is still a need for such measures but they tend to be focused on a safety-net approach with the emphasis on sustaining struggling SMEs until there are better times. This inevitably leads to SMEs that are surviving and even growing to be placed outside such a rescue package and so miss out on support. Consideration should be given to development measures that target good companies with a goal of developing them further to provide good role models for PSD and to equip them to better compete in a global market.

Short Term Interventions 2004

Dialogue between the private and the public sector is focused on the development of the Palestinian Private Sector Coordination Council (PPSCC) to be a single voice to represent the interest of the private sector. To do this it needs to build the capacity of its membership to best understand and articulate what is required. It is hoped that an ongoing empowerment of business associations and institutions will enable them to lead PSD in the future.

The Irish "National Competitiveness Council" would lend itself as a model for how the Council could mature into a driving force for increasing industrial competitiveness in a global market place. The NTC meets regularly to review data that benchmarks the country's performance against a collection of other countries. It is made up of private



sector leaders along with government officials so ensuring a meaningful discussion among people who can and do make a difference.

Industrial Modernisation Programmes have been supported by the EU in various MEDA countries and their experience provides valuable lessons for PSD in Palestine.

An IMP's main objective is to promote GDP growth and the competitiveness of the private enterprise sector, with special emphasis on small and medium enterprises (SMEs) in the context of economic liberalisation and internationalism. It does this through a multi-layered approach to PSD, supporting Technical Assistance to SMEs while working with the public sector and government to create an enabling economic and legal environment for growth. It would be an effective initiative in Palestine as it coordinates so many related activities.

For some thirty years enterprise development agencies have operated in Europe to support entrepreneurs to launch new SMEs and to help established businesses grow through the provision of various services. The manufacturing industry now needs support in achieving better marketing, increased sales, improved exports, improved quality, better production and management that needs to be delivered using either an existing or a new delivery network. This is especially true in Palestine where constant closures and difficulty with movement of goods and labour requires local delivery of support that can best be done through a network of business centres.

In law making there has to be a streamlining of the process at the executive level by ensuring that draft legislation is requested through the PLC and not the Diwan and that the executive works with the PLC within the scope of economic policy. The PLC should draft legislation at its own initiative (or at the request of the executive).

It is important to amend Law No. 4 of 1995 on the relationship between Diwan and Council of Ministers and Decree No. 286 of 1995 on the role of the Diwan in law-making so that duplication can be ended. With this in mind it would be important to strengthen the PLC by creating a legislative policy unit to link with the executive on drafting proposed legislation and to coordinate with the Cabinet.

Longer Term Interventions 2004

In the longer term it will be important to eliminate legal and regulatory vacuums to reduce legal inefficiencies and to start a review of existing legislation, identifying what needs to be completed to develop an enabling environment for the private sector. In particular there is a need to prepare implementing regulations for all prevailing laws along with explanatory notes to newly enacted legislation and the required forms for all prevailing legislation.

It is critical to develop a more stable and predictable macro-economy by setting the policies that enable private sector growth and development. Although, it is



established that the Palestinian/Israeli political equation is the most critical factor to shifting the performance of the Palestinian economy, be it at the level of movement of labour and goods or trade and tariff policies and rates, the PA has several policy areas to cover, including Macroeconomic Policy; Trade Policy; Sector Policy; Private Sector Recovery Post Crisis; Competition Policy; and Policies Concerning Public Sector Investment in Market

Education and professional training are areas that require special attention by the PA. Although Palestinians rank among the top developing countries in terms of education, it is quality and access that requires special attention along with encouraging higher education to focus on those disciplines that can best support PSD.

Regardless of the size of a business, issues of corporate governance and disclosure must be addressed. Workshops have been given on these subjects but follow-up has been limited and businesses still remain hazy on the idea of what needs to be done to implement good governance procedures. BAs also need to address this issue.

The private sector needs to improve its advocacy skills to affect policy and law making instead of complaining about the quality of laws when in force. The private sector institutions need to develop staff with highly qualified policy and legal analysis and business expertise to advance private sector agendas.

Better coordination between public-public institutions is essential for the effectiveness and efficiency of the private sector. For example, the PA should consider One Stop Shops for One Stop Approval to support investment. The various ministries, licensing authorities and municipalities should streamline the process of registration and ensure that the entire procedure is smooth and fast.

It is important to support the present momentum on public-private sector coordination and consultations. The Palestinian economy needs private sector champions for change rather than maintaining the status quo.

In addition to the need to enact legislation like secured lending, insurance, capital market authority and securities along with amending the banking law and redrafting the commercial law, it is important to focus on expanding the pool of assets used as collateral, enhancing credit information and introducing new Financial Products and Services

The importance in incorporating the use of new and up-to-date technology would benefit the efficiency of the various arms of the public and private sector. Using technology in the courts, in areas requiring paper work in registering businesses, and even for public information would be a method of change that could be implemented regardless to other external and internal restraints that remain.



It is important to act now and various priority actions are detailed at the end of the Paper. They include the completion of projects already started such as the work completed on reorganising the MNE, supporting development of key sectors such as Olive Oil and stone and marble, rationalising the numbers of BAs and Institutions and helping them to develop their macro skills, creating a National Competitiveness Council and directly supporting SMEs through the provision of technical assistance.

INTRODUCTION

This Paper sets out a brief review of the present industrial situation along with consideration of several sectors, an analysis of various business associations and institutions, a review of the legislative framework with reference to the private sector and especially how that legal framework and development affects Private Sector Development (PSD).

It also considers donor activities and in particular makes recommendations of where effective intervention in support of PSD can be made. It reflects the philosophy that considering only emergency actions to cope with extreme difficulties without some reference to long term development will only support the present unacceptable situation. The Private Sector has survived considerable and unfair pressure but needs more than rescue operations in its present efforts to grow.

It is hoped that this Paper can help the Ministry of National Economy as it develops its “Framework for National Economic Development” to provide Palestine with a realistic strategy for industrial development and economic growth. It fits into a philosophy that recognises the need to carry out activity to support PSD now rather than wait for a time when the situation is better. Such a pragmatic approach will help grow the economy and increase employment now rather than sometime in the future.

Economic Stabilisation and Recovery Strategy

In 2003 the Ministry of Planning of the Palestinian Authority adopted a plan for “Economic Stabilisation and Recovery Strategy”¹(ESRS) prepared by the Ministry of National Economy. The chapter on the revival of the Palestinian Private Sector has the following introduction.

¹ Prepared for the Ministry of Planning by the Ministry of National Economy, the Coordination Council of Palestinian Private Sector Institutions, with the assistance of the World Bank, and European Commission.



“The private sector has absorbed much of the economic shock of the Second Intifada and its survival depended to a large extent on its own resources and coping strategies. Three years into the Intifada, the prospects of sustainable recovery would be dim without a programmed revival of the private sector (PS). To this end, this chapter aims to make the case for the need to support PS in order to enable it to play its expected role as the engine for growth within the context of the recovery plan’s guidance and parameters, which aims at identifying PS support activities with a view to augmenting the development share of the PNA’s capital budget to help stimulate PS recovery.”

The paper went on to give this analysis of the health of the private sector at that time. There is little in the analysis that one could argue has improved – indeed, much of the present situation is more strained and the way forward to a fully independent and functioning economy for Palestine appears more difficult than ever.

“During the last three years of closures and curfews, productive capacities have been damaged or destroyed. Business links within the West Bank and Gaza and abroad have been severed and commercial activities burdened with high transaction costs and delivery delays. The private sector has also suffered from steep financial and physical losses. Over half of the raw physical damage has been inflicted on private assets, with agriculture as the hardest-hit sector and tourism in a close second. Factories, hotels, warehouses, travel agencies, stocks, private homes, wells, fields and orchards have been damaged or destroyed in the wake of military incursions, withdrawals, and bombing raids.

The cost of being involved in business has also increased. On average, transaction costs have tripled during the last three years. The introduction of a back-to-back system for goods transiting through different parts of the West Bank and Gaza has not only slowed down internal trade but also added new costs for suppliers who are required to offload their goods and transfer them to another vehicle at a number of crossing points.

Trade with Israel, Palestine’s principal commercial partner, has been affected by stricter security checks, with merchandise goods having to be screened individually. The destruction of the Gaza air and seaports has increased Palestinian dependence on Israel’s trading infrastructure and handling agents. Goods are sometimes retained in ships and warehouses, pending security clearance, resulting in high demurrage and storage fees. Overall, these clearance procedures tend to be arbitrary, with the result that the cost of delivering goods within the West Bank & Gaza and through Israel cannot be calculated into the pricing structure and severely impede the competitive capacity of these goods.



The demand for imports has fallen due to income losses and the trend keeps spiralling downwards. During the first quarter of 2003, merchandise imports from Israel totalled US\$ 209 million, i.e. 43.7% of the level recorded in the third quarter of 2000 (US\$ 478 million). For the same period, a 49.4% decline was recorded for merchandise exports to Israel, revealing the decline of Palestinian production in general.”

The paper, prepared with the support of the European Commission and the World Bank, specified the following objectives for activity that needed to take place to support PSD.

Under emergency objectives they specified: -

Objective 1 – Access to short-term financing

- *Small & Medium-Sized Enterprise Support*
- *Private Sector Debt Rescheduling*
- *Loan Guarantee Fund*

Objective 2 – Sustainable Employment Generation

- *Support to SMEs through job creation programmes (internships, training, demand for procurement of goods and services)*

Objective 3 – Repair & Rehabilitation of Private Sector Infrastructure

- *Support to Damaged Productive Sectors*

Their more medium-term **recovery** objectives were:

Objective 1 – Private sector institutional reform

- *Assess and review the present private sector institutional support.*
- *Strengthen the institutional capacity of private sector institutions that have already launched the process of institutional reform as well as start this process in the institutions that have not gone through this yet, to accomplish and maintain it.*
- *Equip business association with the analytical tools, expertise and strategy necessary to support their function.*
- *Deliver coordinated business & counselling assistance to businesses & SMEs*
- *Enhance the synergy among private sector institutions*
- *Strengthen the capacity of private sector institutions in creating and maintaining private sector institutional network.*

Objective 2 – Access to long term financing

- *Lending programs to enterprises such as risk guarantee, export financing and export guarantee scheme, and other long term financial tools.*



Objective 3 – Better enabling environment

- *Accelerate the legislative process, promulgate legislations pertinent to PS development and provide means in the form of TA and training to ensure law and order enforcement.*
- *Establish well coordination amongst PNA, PS and donor on issues pertinent to PS support.*
- *Enhance the private sector capacity to advocate a better enabling business environment (advocate more competitive legal and regulatory framework and advocate for transparent procedures)*
- *Strengthen the substantive knowledge of the private sector in advocating a private sector agenda in policy making on the national level and lobbying for a private sector supportive position when negotiating international trade arrangements.*
- *Introduce trade Facilitation measures*
- *Upgrade physical infrastructure.*

Objective 4 – Enhancing competitiveness

- *Formulate the national trade development plan including enhancing product and improving sectoral competitiveness, launching and maintaining branding strategies.*
- *Establish appropriate procedures for investment and trade.*
- *Support PS institutions to facilitate restructuring and Industrial modernization*
- *Expand market share of Palestinian products and services in the domestic and foreign markets.*
- *Ensure compatibility with WTO requirements.*
- *Comprehensive program for reforming & restructuring targeted PS institutions.*
- *Strengthen private sector capacity in enhancing market competitiveness, i.e. enhance and maintain the provision of effective support services such as transport and shipping, customs clearance.*
- *Promote the adoption of international best practices*

Objective 5 – Private-Public dialogue

- *Assist Ministry of National Economy in formulating agreed upon National Economic Development Strategy.*
- *Enhance the competence of private sector institutions to address and actively engage in a constructive dialogue with relevant public authorities over economic policies and procedural issues (and inefficiencies) affecting the conduct of business transactions.*
- *Support private sector institutions in institutionalizing an effective mechanism for the conduct of private-public dialogue.*
- *Support private sector institutions in attaining the substantive tools needed for preparing for meeting the challenges of international commitments.*
- *Assist in preparing for Palestine membership in the WTO and other bodies*



Further Private Sector Development – A Review and Recommendations

Following the adoption of this strategy work has been carried out in many different areas to promote Private Sector Development (PSD) and within government areas that directly impact upon PSD. International Donors have supported among other things structural reform within the Ministry of National Economy, the development of various Business Associations, the improvement of SME competitiveness and the emergency funding of Palestinian businesses.

For example, the Palestinian Development Fund (PDF) is supported by the European Commission (EC), which, realising the urgency of the prevailing situation and long term implications of the current crisis on the local economy, allocated €9.6 million to set up an Emergency Credit Fund program to support and sustain SMEs in West Bank and Gaza (WBG).

PDF was selected to operate and manage the programme and provides working capital loans to viable businesses.

Priority sectors were chosen on the basis of their contribution to the economic sustainability of the region. They face the same difficulties in coping with the current economic crisis and are in urgent need of fresh working capital.

With a view of taking forward the planning contained within the ESRS and as part of that PDF programme, a small Technical Assistance (TA) component was implemented at the beginning of 2004 to quickly review the state of the private sector and its various business associations along with a brief analysis of donor activity in PSD and a more detailed analysis of the enabling and legal framework for private sector development and activity. It was tasked to produce a report that would be helpful in the preparation of a government white paper on PSD.

The Paper looks at many of the medium term objectives identified within the ESRS. For example, it assesses the strengths of the present private sector institutional support and the programme started a process of strengthening institutions through a workshop on funding. It provides recommendations as to further support to take the institutions forward.

It considers in detail the present legislative process and those laws and regulations that contribute to difficulties facing SMEs as they try and grow, or even survive. Numerous recommendations are provided to make the legal background much more enabling for effective PSD.

Suggestions are made for greater public and private dialogue along with a particular recommendation for the PA to develop with the private sector platforms for constructive discussion, such as a National Competitiveness Council. A more effective dialogue can only happen when institutions representing the private sector have matured and developed sufficient communication skills. However, development must be reflected on the public-side where civil-servants need to be empowered to respond effectively to such messages.



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The key objective of this paper is not only to provide a brief and general review of the private sector, the legislative framework, donor activity and the business institutions/associations but more importantly to make recommendations for future potential donor-funded interventions along with priority activities. It recognises and builds on the work done in developing the ESRS and while it does not seek to be prescriptive it does aim to be helpful in developing well-informed discussion on future PSD activity.



I. BACKGROUND

The Palestinian economy and consequently its enterprises face important challenges in the beginning of the new century and must deal with important weaknesses and constraints related to structural and current crisis aspects. It is appropriate to introduce as a background the main economic findings obtained from the diagnostic analysis of key industrial sectors and of several existing studies, undertaken by the experts.

In relation to structural issues it is noted that the Palestinian economy is too small to achieve a large degree of autonomy from its neighbours. The Israeli economy is approximately ten times larger and after the 1967 war it was largely absorbed into the Israeli economy, practically putting to an end economic relations with Egypt and Jordan.² This, along with Israeli policies, resulted in a high integration with a stronger and higher income economy. Israel introduced their fiscal, currency and trade policies into the occupied areas and controlled investment policy, import/export activity and labour movement.

The integration of these miss-matched economies led to a Palestinian reliance upon Israel for services, unskilled and semi-skilled jobs, and trade while having its high end marketplace for quality and high profit goods dominated by Israeli manufacturers.

The market scope of most of Palestinian entrepreneurs has been too restrained and too local to be globally competitive. Industry sectors such as textile, shoes and leather, wooden furniture, metal and non metallic products, etc., could not compete with their better funded Israeli counterparts, let alone international producers like China. The local economy suffers from a high cost of manufacturing inputs like wages of skilled workers, land and utilities. Excepting stone and marble and agro-industry sectors, access to raw materials is difficult and costly. Traditional manufacturing has tended to suffer from poor design and quality, obsolete technology and weak marketing. Important exceptions are sectors such as stone & marbles, pharmaceuticals and ICT.

SMEs are mostly small and family owned and many only operate within a domestic marketplace being isolated from international partners or customers. Further constraints include the need for compulsory permits for construction and labour movement enforced by the Israeli military. Palestinian infrastructure has also suffered from years of little investment and the need of constant repairs from damage.

Following the launch of the peace process in 1993, the Palestinian economy did manage to experience some growth. The two economies started to develop in



different paths and while the Paris Protocol was designed to promote Palestinian economic growth and reduce the gaps and distortions connected to Israel's economy, it allowed also to Israel to maintain effective control over critical resources, such as electricity, international communications, land, water, trade, and customs. Furthermore trade liberalisation has generated a more intensive competition in low and medium priced products from countries such as Turkey and China.

The Interim Agreement transferred certain authorities to the PA, such as licensing and supervising industrial and commercial activity, the commercial register and the register of companies so that Palestinians no longer needed permits from the Israeli Civil Administration. A Palestinian treasury was established and Palestinian banks were set up with Arab banks, closed since occupation, reopened. Under the Paris Protocol, a Palestinian Monetary Authority (a central bank) was established, even though the PA could not issue its own currency. Legal tender consisted of three currencies: the U.S. Dollar, the Israeli Shekel, and the Jordanian Dinar.

The last three-and-a-half years of conflict have reduced the Palestinian economy to one that runs in "crisis" mode. Israeli and Palestinian markets have been extremely affected during this period by the collapse of both local demand and market share due to a declining competitiveness in relation to foreign products. Access to markets has been prevented or constrained by movement restrictions or by inflated costs. What has resulted is that the cost of goods has outweighed the profitability for many. Israeli producers continue to ship goods to areas controlled by the PA, while Palestinians have turned to donor assistance to sustain the economy. Moreover important disruptions of the local economy have come from infrastructure destruction. Traditional sectors in Palestine such as textile, leather, wood furniture and food processing as well as hotel and handicrafts are particularly damaged with more than half of the employees in these sectors being laid off.³

Some companies in sectors such as stone & marble, pharmaceuticals, information technology and light industrial engineering have been better able to cope with this hard environment thanks to a mixture of updating technology and employing a proactive marketing strategy focused on niche export markets.

Many cost cutting actions, primarily in capacity and staff, have been undertaken in the last two years. Large financial and investment needs are limited to specific companies and to a few sectors, such as hotels. Even with these measures employment and income have declined to an unsustainably low level, despite international cooperation, with high unemployment of 40% rising to 60% in industrial

³ See World Bank (2003) p. 28.



areas such as Hebron and Gaza, leaving 60 % of the population living under the poverty line.³

II. GOVERNMENT

The PA is not a traditional form of government as it is shaped by political agreements signed with Israel. Even the titles and functions of the two branches, namely, the legislature and executive, emanate from the peace agreements. In 2002, the PA created the third branch of government, an independent judiciary.

Since 1994 the PA has succeeded in establishing a functioning government with a national mandate, which has started to create much of the needed institutional and regulatory framework for improving living conditions and stimulating economic growth. The PA is doing this despite not having exclusive jurisdiction over the legal and the administrative systems and a lack of access to external markets for the private sector. A large share of its operating budget and fiscal accounts is dependent on transfers of taxes and duties collected by Israel.

The PA has established a Ministerial Cabinet, created the post of the Prime Minister, delivered education and health care, administered tax collection, improved road and transportation infrastructure, and built a power generation plant in the Gaza Strip. It has, through private sector investments, enabled the establishment of a modern securities exchange and a state-of-the-art telecommunications network, fixed and cellular. Its legislature enacted, and is in the process of enacting, numerous laws to support the development of the economy and to modernise the commercial and financial laws.

Much forward progress can be made if the PA simplifies and revises certain procedures involved in the administrative, legal and regulatory process. This applies to corporate registration, industrial licenses, registration of land, municipal and local government permits, tax administration, among others. The processes at these levels lack transparency and predictability. Businesses need to know how the system works and how long it will take to receive official response for action.

³ See World Bank (2003).



III. THE ENABLING LEGAL AND REGULATORY ENVIRONMENT

Palestine's legal system is of mixed heritage, making the legal reform process a challenge to legislators, policy-makers and legal drafters alike. Nowhere is the need for legal reform more urgent than in the private law areas although jurisprudential matters involving constitutional and public law issues will take more time to develop due to their complexity. A major drawback affecting legal reform in Palestine, most notably in the area of private law, is the lack of a proper understanding of the world's two primary legal systems, Common Law and Civil Law. Palestine has to make a decision on which concept to follow during the course of preparing reform legislation.

The legal and enabling environment for the private sector is reflected in the legislation listed in *Annex B*. The list shows that the legal framework is at various stages of development. Upon careful analysis, it reflects weaknesses that must be addressed to enable businesses and firms to maximize operations.

Legislative and Executive Law Making Process

On the other hand, the PA must improve the process of law making at the executive and legislative levels where legislation is often held up or is made in such a manner as to detract from private sector interests because it fails to properly balance social and economic development interests.

Moreover, the law-making process suffers from a dual/duplicative process. There are two processes for law making: executive track (includes the Diwan Al-Fatwa wa Al-Tashrie ("Diwan")⁴ and legislative track. A fragile harmony exists between the two branches, yet the system sometimes either fails to achieve the desired policy or the process becomes dysfunctional. See *Annex C* for details on the Executive and Legislative process of law making.

Because of the seriously adverse impact on the dual law-making process and the content of legislation, it is important to highlight part of this process to shed light on the urgency for reform. A line ministry, for example the, Ministry of National Economy or Finance initiates legislation and submits it to the PLC for adoption. The Diwan often pre-empts by creating its own version of the law, for example the draft Companies Law and draft Secured Transactions and Insurance law. While the line

⁴ The Diwan Al-Fatwa wa Al-Tashree ("Diwan") is the legal opinion and legislation department at the Ministry of Justice. Its establishment was by presidential decree issued in 1994. It is a unique department because it was given specification functions in a law prepared by the Diwan and signed by the President in 1994. This Law empowers the Diwan to prepare and review legislation at the request of a line ministry. Over the years, the Diwan has self-empowered and expanded its role significantly by initiating legislation. When the PLC was established as the legislative branch, the Diwan, instead of curtailing its activities, embarked on a somewhat obstructionist process by establishing committees to review legislation enacted by the PLC, thus undermining the legislative process, changing the content of legislation and delaying law-making.



Ministry will have engaged in extensive policy and comparative law, spent time and effort vetting the proposed legislation with the PLC, the Diwan can enter the process with another draft copied from neighbouring countries which, has by-passed the entire critical path of comparative analysis and benchmarking.

The initial national policy goal of harmonizing and updating the private sector enabling environment has become misguided. Essentially, the layers inherited from past periods that the PA has been striving to harmonize are layered yet again. The impact on the private sector is adverse and slows down the operation of a free-market economy.

Judicial Process

The judiciary in the PA is multi-faceted mixture of doctrines, processes and structures that is bound up within the historical development of Palestine. This has left a large residue that often appears as a confused amalgam of structures from historical periods. Upon close observation, experienced lawyers can detect a progression from the Ottoman, via the British and to the Egyptian in the Gaza Strip and Jordanian in the West Bank.

In effect, Jordan altered the structure of the Judiciary from a four-tiered (trial, appeal, supreme-court, and cassation) system to a three-tiered system but it was during the Israeli occupation period that the judiciary and the bar became seriously impaired when both were subjected to the powers and authorities of the military commander in the West Bank and Gaza, respectively. In the West Bank, the Court system deteriorated from a three-tier level to a two-tier level (trial and appeals with no Supreme Court). The Palestinians, however, established an ad hoc system whereby they would have the appeals court preside over Supreme Court-related legal questions. In effect this meant that the appeals level was truncated and judicial review eliminated. In Gaza, the system was less impaired, but also deteriorated. In both areas, the final blow to the judicial system was dealt when Israel established military courts, which rendered the civil/criminal court system ineffective.

Therefore, the PA inherited an impaired judicial system and as the private sector started relying on the judiciary for the administration of justice and dispute resolution, it was faced with an ineffective and inadequate system. Between 1994 and 2002, there was no separation of powers and the authority between the judiciary and the executive were blurred. In effect, the judiciary was subject to the influence of the executive, both by the Minister of Justice and the President, be it judicial appointments, interference in judgments or lack of enforcement of judges. Restoration of confidence in the judiciary has not yet been achieved and reform remains a requirement and a priority of the private sector.



The reforms of 2002 improved the situation with a fundamental shift in the administration of judicial justice, which better safeguarded its independence. The PLC enacted and the President signed into law, the 'Law on the Independence of the Judiciary', which is a significant improvement.

Following this change, the EC is funding a seven million Euro programme to address the most urgent needs of the Judiciary. "Empowering the Palestinian Judiciary System" will cover institutional support, the development of a permanent training system and provide equipment to enable modernisation of the courts through computerisation and the development of legal databases.

See *Annex C* for additional information on the Palestinian Judicial Process.

Implementing Regulations

Most existing laws do not have implementing rules and regulations, the exceptions being the regulations to the Telecommunications Law of 1996 and the draft regulations to the Labour Law of 2000. This lack of rules has led the private sector to voice concerns about the arbitrariness and informal decision making by some public officials. It is of great importance to quickly prepare regulations and all required forms to reduce arbitrary decision-making and to ensure that the process of implementation is transparent and objective.

For example, the existing administrative appeal process is not of much practical use since administrative decisions may only be appealed to the Supreme Court. A tiered appeals process must be established as an alternative to directly involving the Supreme Court to more practically allow parties to seek.

Law Enforcement and Enforcement of Judgment

Law Enforcement tends to be lax and ad hoc due to a wide range of interventions that have left a severely weakened police force. Due process is absent, which shakes the confidence of the public and the private sector in the police force.

On the other hand, the recognition and implementation of court rulings by the law enforcement agencies is crucial to the restoration of an effective judiciary responsible for the administration of justice. Since 2002, with the 100 Day Reform Program, the PA is committed to the Rule of Law and rehabilitation of the police force and law enforcement, but results are slow in coming and it was only in January of 2004 that the Palestinian forces resumed their functions, interrupted since 2000 by Israel.



Private Sector Influence on Policy

The private sector has found it difficult to affect the legislative process due to various reasons, primarily a lack of time and lobbying skills. Many private sector institutions are inadequately staffed to assume the many responsibilities, and the members, boards and chairmen become directly involved. Their effectiveness is curtailed and input is either cursory or absent. There are numerous examples where the private sector has not been sufficiently influential, such as the PLC review and adoption of the Labour Law, Income Tax, Commercial Law, Civil Law, among others.

This topic is dealt with elsewhere in this paper but it is strongly recommend that donors consider various ways in which the institutions can be strengthened, since they are the voice of the private sector and should be 'centre-stage' in discussions on PSD.

Legal Vacuums and Harmonization

With the legal and regulatory system still in the early stages of development, there are various missing or outdated laws, e.g., interests in movables, commercial law, bankruptcy law, and tax law. *Annex B* details the status of the laws that directly impact the private sector, along with the laws that are in draft form and those that need to be drafted. As previously stated regulations for many of the laws are not prepared but are essential for their effective implementation.

The commercial laws of the West Bank and Gaza are not fully harmonized, which increases the transactional costs to firms that do business in both jurisdictions. This is most apparent in areas such as companies law registration, intellectual property registration, land zoning and municipal permits, industrial licenses, health and safety procedures and environmental safety.



IV. PRIVATE SECTOR

The Palestinian economy is quite small and is heavily dependent upon the Israeli economy. Much of the involvement of Israel has led to many of the present problems for the economy, such as the development of a labour force with few skills that for years gained employment in Israel but is now unemployed.

Private investments have evaporated as savings have dried up and profitable investment opportunities vanished. Imports and exports are severely depressed at about half their pre-Intifada levels: the former because Palestinian purchasing power has diminished, the latter because restrictions on movement of goods have rendered Palestinian products uncompetitive in international markets and because usually healthy Israeli/Palestinian business links have been severed.

During the first quarter of 2003, merchandise imports from Israel totalled US\$ 209 million, which is 44% of the level recorded in the third quarter of 2000 (US\$ 478 million). For the same period, a 50% decline was recorded for merchandise exports to Israel, revealing the decline of Palestinian production in general

The Gross National Income (GNI) declined considerably from 1999 to 2002. Taking into account that the Palestinian population is growing at an annual rate of about 4%, this implies that per capita incomes has been almost halved during this period.

Government finance is in severe disarray as revenue collapsed during the Intifada. Tax revenue is intimately related to the level of economic activity with more than 80% coming from indirect taxation on consumption (particularly VAT, import taxes, and excise taxes). The PA's fiscal situation eased somewhat following the decision by Israel to resume transfers of the so-called clearance revenue (taxes collected on behalf of the PA by the Government of Israel), but it remains highly precarious. The most recent estimate by the Ministry of Finance, presented to the donor community on 28th July 2003, suggested a financing gap of about US\$200 million for the remainder of 2003 alone.

Private Sector Finance

Availability of financing to the private sector is critical for Palestinian businesses. But due to the current political and ensuing economic crisis, the private sector is experiencing unparalleled financial distress.

Many businesses are undercapitalised which reduces their productive capacity. The private sector cites high interest rates, collateral requirements, and getting long term loans as problems areas. These constraints are greater for SME than larger businesses. Business financing through credit is limited. Most businesses report that financing comes from either internal sources or retained earnings even though



deposits in the banks are available but the loan to deposit ratio is low. Political risk, limited legal recourse, cultural factors, auditing and accounting standards and experience at banks are factors that affect lending.

In an effort to improve access to finance for enterprises and at least maintain industry, USAID injected cash into distressed businesses. It provided reimbursement of up to \$2 million (50%) on eligible bank loans. Banks charged low-end market interest rates and allowed flexible collateral requirement as lending under the programme was based on cash flow instead of collateral. There were two participating banks, the Cairo-Amman Bank and the Palestine Banking Corporation.

The EU established a programme to provide working capital to good businesses having problems in obtaining bank facilities as a result of the crisis. The total amount of the programme was Euro 9.1 million, with loans extended for up to 7 years including 2 years' grace period.

This programme followed a similar EU programme totalling Euro 4.3 million for East Jerusalem to assist tourism businesses in danger of foreclosure or liquidation as a result of their inability to pay bank interest and municipal taxes.

A new EU programme with a component of Euro 13.5 million for emergency loans to the private sector in West Bank, Gaza and East Jerusalem, will commence in June 2004.

Banking was severely affected in 1967, after Israel occupied the West Bank of Jordan, and forced all Arab banks to close transferring any collateral to Israeli interests. Following the Oslo Accords and the creation of the Palestinian National Authority, responsibility for bank licensing and supervision was given to the Palestine Monetary Authority (PMA). A PMA Law was promulgated and received Presidential consent in 1997, and a Banking Law received a Presidential Decree in 2002.

There are currently 21 banks licensed to operate in Palestine, of which 19 are retail banks and 2 are investment/development banks. However, under the current Banking Law, there is no differentiation between retail (commercial) and non-retail (investment, development) banks, and all banks are permitted to open customer accounts, take deposits, and make loans.

Generally, the banking system in Palestine is viewed as quite efficient, in spite of the impediments created by the occupation and closures. Many of the senior bankers have worked in the Gulf, Europe and the US, and are aware of modern banking techniques. The major problems for banks stem from the lack of suitable laws to protect them, lack of comprehensive registration of assets, lack of judicial procedures, and difficulty of enforcement of court rulings.



A further problem for the banks comes from the desire of the PMA to portray itself as a first class supervisory authority even during the current crisis, or war-like, environment. The private sector is suffering tremendously, and needs to be protected from bank foreclosures, yet the strict adherence to international practice required by the PMA could force the bank to take action which might destabilize the economy. Also, insistence of the PMA on prudent provisioning policies which are stricter than in most European countries could seriously affect the financial strength of the banks and remove confidence in the banking sector.

The PMA is also attempting to make the banks lend more of their deposits in Palestine, instead of placing funds overseas. This attempt ignores the fact that (a) banks are private sector entities that have to take into account the risk of lending in Palestine, and (b) depositors may have opted to keep their money in certain banks knowing that their exposure to Palestine is limited. Such regulations are anyway contrary to the concept of a free market economy, which is the principle that has been adopted by the Palestinian Authority.

Steps that could be taken to improve the impact of the banking sector in PSD are:

- a. Upgrading of banking human resources through training, e.g. knowledge of proper credit techniques is weak.
- b. Improvement in understanding of banking and banking contracts by the judiciary (a start has been made on this through a USAID-funded project).
- c. A review of PMA provisioning policies, taking into account the current situation, and also best practices in other similar countries. A phased approach could be adopted to protect the banking system whilst improving the banks' collection and enforcement policies.
- d. A merger of some of the smaller retail banks. There are too many bank licenses for a small population, a reduction from 20 to 14-15 or even less would seem to make sense.
- e. The Banking Law should be amended to allow different categories of banks. An investment/development bank taking institutional deposits should not have the same reporting requirements and restrictions as a retail bank accepting deposits from the public.
- f. An improvement in registration of acceptable security, to allow more real assets to be used as collateral to assist the development of the economy. Among these are a widening of the registration of land, registration of moveable assets, and a registry of powers of attorney used for land transfers pending full registration of land in Palestine.



g. An improvement in accounting standards and a requirement that companies applying for loans have audited financials from reputable accounting firms.

h. Transfer of PMA control from the President to the Ministry of Finance, a much more normal practice.

Palestinian-Israeli Economic Relations

There is ample evidence in various economic review documents over the past three to four years to recognise the damage suffered by both the Israeli and the Palestinian economies during the Intifada. Following the start of the Intifada the flow of workers from Palestine into Israel declined from 128,000 to 36,000 and some sixty per cent of Palestinians now live in poverty, existing on an income of about \$2 a day.

The reliance of the Palestinian economy on Israel is pronounced with around 80% of Palestinian trade now being with Israel.

Against this background it is vital to explore ways of improving economic relations between the two. A formal workshop, developed by PDF in partnership with the Peres Peace Centre, to do exactly this, was postponed in April for reasons outside the project's control. However an informal lunch with key players did take place to explore areas of greater co-operation. In particular environmental issues and trade were discussed and a formal meeting on trade was arranged for May. Among other matters the workings of the Shipping Council will be discussed.

This work needs to be developed and recognition is made of the considerable work already done by "The Aix Group" in developing an "Economic Road Map" to provide an Israeli-Palestinian Perspective on Permanent Status. They make the key observation that "cooperation can only grow on the basis of common interest, which exists in many spheres." It was in an effort to further explore these common interests that was the main consideration of the planned workshop under this project. It is very important that this specific activity be supported by a donor to take the broader wish for an improvement in the economy forward in a practical and focused way.

Of course many other areas, such as a Free Trade Area, development of effective labour flows through recognised corridors, reform of the situation regarding the collection of customs duties, review of the Paris Protocol (and possible revitalisation of the presently defunct "Joint Economic Committee) and the possibility of donors supporting joint ventures and reforms to better allow repatriation of profits between the two economies need to be addressed to ensure effective support for PSD. Of a longer term nature but vital to a truly independent economy, is the consideration of implementing a Palestinian Currency, presently forbidden under the Paris Protocol.



Business Associations

PSD is best served by mature and effective business institutions that can play a full and effective role in influencing and affecting policy and law-making. However, many are only now emerging as they are still building capacity and suffer from overlapping mandates and objectives which often hamper their influence or delay initiating interventions to steer policy and law makers. It is apparent that there are too many different organisations and the present efforts to rationalise the sheer number of organisation through various mergers is to be welcomed.

There are about fifty business associations in the West Bank & Gaza collected into five groups. Industrial unions collect into sectors such as food or pharmaceuticals; Chambers of Commerce are located geographically within certain towns; umbrella organisations like the PFI and the Federation of Chambers of Commerce provide focus for member associations; specialised organisations such as PalTrade focus on exporting; and associations of entrepreneurs form Business Associations.

There are 23 industry unions although some are stronger than others. Several though are well organised and have, or are in the process of defining, policies and strategies. They include the Palestinian Food Industries Association “PFIA”, the Union of Palestinian Pharmaceutical Manufacturing “UPPM”, the Union of Stone and Marble, the Union of Palestinian Textiles and the Palestinian Information Technology Association (PITA).

Many of the associations believe their key focus must be on ensuring that they produce improved services for the members. This has tended to lead most of them to focus on micro issues of service delivery rather than more macro issues, such as the effective articulation of their members’ views to government. They must develop an effective advocacy role to ensure that government reviews the legislative environment to ensure the most favourable background allowing economic growth and removing obstacle to PSD as they are identified.

Chambers of Commerce have a long tradition and represent all the various registered activities within industry, commerce and agriculture. They mainly represent small and micro enterprises or activities and are located in the thirteen major cities. The Federation of Chambers of Commerce (FCC) is their umbrella organisation and says it is the “official” representative of the private sector because it represents all industrial sectors. The Chambers membership base is some 45,000 SMEs located in West Bank Gaza. As registration is compulsory under law it represents all sectors and all registered companies, be they small or large.

The Palestinian Federation of Industries (PFI) would hardly embrace this assessment as they are the umbrella organisation for the industrial unions, although their membership base would be far smaller than the chambers due to, among other things, voluntary membership. It is presently rationalising its organisation and reducing the



number of unions from twenty-three to ten. It is insisting that each of these new ten unions formulate a policy and strategy.

The associations of entrepreneurs such as the Palestinian Business Association tend to be more like a businessman's club or 'think-tank' representing the interests of the larger enterprises. Informal discussions with high public officials are organized every six weeks on priority issues.

A much more detailed and extensive review of any of the BAs, Institutions and Unions has been completed within this project and a summary is available at Annex E. The full report, along with an extensive data base, is available at the offices of the PDF in Ramallah. It is hoped that this data base will now be maintained and annually brought up to date to provide a useful reference tool for donors, public and private sectors.



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SN	Association Name	Establishment year	Members	No. of BA Employees	No. of main dpts.	Sector Workforce	Vision	Mission	Strategic objectives	Bylaws	HR Planning & development	Available procedures		
												A	T	F
1.	Palestinian Federation of Industries (PFI)	1999	23	12	4	N/A	Y	Y	Y	Y	Y	y	y	y
2.	Palestinian Food Industries Association (PFIA)	1995	106	3	3	7500	Y	Y	Y	Y	n	y	y	y
3.	Union of Palestinian Pharmaceutical Manufacturers (UPPM)	1996	6	1	N/A	800	Y	Y	N/A	N/A	n	y	n	y
4.	Union of Stone and Marble (USM)	1996	380	N/A	3	20	Y	Y	Y	Y	y	n	n	n
5.	Palestinian Association of Management Consulting Firms (Mustashar)	2000	12	1	N/A	N/A	Y	N/A	N/A	N/A	y	y	n	n
6.	Palestinian Information Technology Association (PITA)	1999	73	8	4	3500	Y	Y	Y	Y	y	y	y	y
7.	Palestinian Plastic Industries Association	1996	25	1	4	461	N	N/A	Y	N/A	N/A	y	n	n
8.	Tahkeem	2002	N/A	9	3	N/A	Y	Y	Y	Y	y	y	y	y
9.	Traditional Industries Union (TIU)	N/A	15	1	N/A	100	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
10.	Union of Cartons and Papers Manufacturer	2000	11	N/A	N/A	1000	Y	N/A	N/A	N/A	N/A	y	n	n
11.	Union of Chemical Industries (UCI)	1997	28	3	N/A	N/A	Y	Y	Y	Y	N/A	y	y	n
12.	Arab Hotel Association (AHA)	1962	75	2	4	2100	Y	Y	Y	Y	y	y	y	y
13.	Union of Clothes and Textiles	1997	28	1	1	N/A	N	Y	Y	Y	N/A	y	n	n
14.	Union of Construction Material Manufactures	1999	193	2	2	950	Y	Y	Y	Y	N	n	n	n
15.	Union of Mining and Engineering	1998	13	N	N/A	N/A	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A
16.	Union of Sewing Manufacturers	1993	576	6	4	35000	Y	Y	Y	Y	y	N/A	N/A	N/A
17.	Wood Industries Union (WIU)	1999	169	6	5	5000	Y	Y	Y	Y	y	y	y	y
18.	Union of Palestinian Textile Industries (UPTI)	1997	210	2	N/A	40,000	Y	Y	Y	Y	n	n	n	y
19.	Federation of Chambers of Commerce	1989	45,000	8	3	240,000	Y	Y	Y	Y	y	y	y	y
20.	Gaza Chamber of Commerce	1954	10520	25	6	N/A	Y	N/A	N/A	N/A	n	y	n	y
21.	Hebron Chamber of Commerce	1954	6200	11	9	N/A	Y	Y	Y	Y	y	y	y	y
22.	Jericho Chamber of Commerce	1953	477	4	4	3300	Y	Y	Y	Y	y	y	n	y
23.	Jerusalem Arab Chamber of Commerce and Industry	1936	1000	5	5	N/A	Y	Y	Y	Y	N/A	y	n	y
24.	Nablus Chamber of Commerce	1943	5391	15	3	N/A	N	Y	Y	Y	Y	y	y	y
25.	Qalqilia Chamber of Commerce	1972	1289	7	4	N/A	N/A	N/A	N/A	Y	Y	Y	y	y
26.	Ramallah Chamber of Commerce	1950	4107	11	6	N/A	Y	Y	Y	Y	y	n	n	y
27.	Salfeet Chamber of Commerce	1997	N/A	7	4	7	N/A	N/A	Y	Y	Y	N/A	N/A	N/A
28.	Toubas Chamber of Commerce	1999	520	4	4	1560	Y	Y	Y	Y	y	y	y	n
29.	Tulkarem Chamber of Commerce	1945	1000	10	4	N/A	Y	Y	Y	Y	Y	Y	n	y
30.	Palestine Trade Center (Pal Trade)	1998	149	25	5	N/A	Y	Y	Y	Y	y	y	y	y
31.	Palestinian Auditing and Accounting Association	1997	145	1	N/A	1000	Y	Y	Y	Y	y	y	n	n
32.	Palestinian Economic Association	1989	600	2	N/A	N/A	Y	N/A	N/A	Y	N/A	y	y	y
33.	Palestinian Investment Promotion Agency (PIPA)	2000	N/A	48	10	N/A	Y	Y	Y	Y	Y	y	y	y
34.	Palestinian Standard Institute (PSI)	1994	N/A	90	5	N/A	Y	Y	Y	Y	y	y	y	y



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SN	Association Name	Establishment year	Members	No. of BA Employees	No. of main dpts.	Sector Workforce	Vision	Mission	Strategic objectives	Bylaws	HR Planning & development	Available procedures		
												A	T	F
35	PITA	1999	73	8	4	3500	Y	Y	Y	Y	y	y	y	y
36	PSI	1994	N/A	90	5	N/A	Y	Y	Y	Y	y	y	y	y
37	PFIA	1995	106	3	3	7500	Y	Y	Y	Y	n	y	y	y
38	UPPM	1996	6	1	N/A	800	Y	Y	N/A	N/A	n	y	n	y
39	PalTrade	1998	149	25	5	N/A	Y	Y	Y	Y	y	y	y	y
40	Federation of Chambers of Commerce	1989	40,000	8	3	240,000	Y	Y	Y	Y	y	y	y	y
41	Ramallah Chamber of Commerce	1950	4107	11	6	N/A	Y	Y	Y	Y	y	n	n	y
42	Mustashar	2000	12	1	N/A	N/A	Y	N/A	N/A	N/A	y	y	n	n
43	AHA	1962	75	2	4	2100	Y	Y	Y	Y	y	y		y
44	USM	1996	380	N/A	3	20	Y	Y	Y	Y	y	n	n	n
45	Tahkeem	2002	N/A	9	3	N/A	Y	Y	Y	Y	y	y	y	y
46	Wood Industries Union (WIU)	1999	169	6	5	5000	Y	Y	Y	Y	y	y	y	y
47	UPTI	1997	210	2	N/A	40,000	Y	Y	Y	Y	n	n	n	y
48	UCI(Chemical Industries Union)	1997	28	3	N/A	N/A	Y	Y	Y	Y	N/A	y	y	n
49	Hebron Chamber of Commerce	1954	6200	11	9	N/A	Y	Y	Y	Y	y	y	y	y
50	Palestinian Auditing and Accounting Association	1997	145	1	N/A	1000	Y	Y	Y	Y	y	y	n	n
51	Jericho Chamber of Commerce	1953	477	4	4	3300	Y	Y	Y	Y	y	y	n	y
52	Union of Mining and Engineering	1998	13	N	n	N/A	Y	N/A	N/A	N/A	N/A	N/A	N/A	N/A
53	Union of Cartoon	2000	11	N/A	N/A	1000	Y	N/A	N/A	N/A	N/A	y	n	n
54	Palestinian Plastic Industries Association	1996	25	1	4	461	N	N/A	Y	N/A	N/A	y	n	n
55	TIU(Traditional Industries Union)	N/A	15	1	N/A	100	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
56	Gaza Chamber of Commerce	1954	10520	25	6	N/A	Y	N/A	N/A	N/A	n	y	n	y
57	Union of Clothes and Textiles	1997	28	1	1	N/A	N	Y	Y	Y	N/A	y	n	n
58	Union of Manufactures	1999	193	2	2	950	Y	Y	Y	Y	N	n	n	n
59	Union of sewing	1993	576	6	4	35000	Y	Y	Y	Y	y	N/A	N/A	N/A
60	Toubas Chamber of Commerce	1999	520	4	4	1560	Y	Y	Y	Y	y	y	y	n
61	Jerusalem Arab Chamber of Commerce and Industry	1936	1000	5	5	N/A	Y	Y	Y	Y	N/A	y	n	y
62	Tulkarem Chamber of Commerce	1945	1000	10	4	N/A	Y	Y	Y	Y	Y	Y	n	y
63	Qalqilia Chamber of Commerce	1972	1289	7	4	N/A	N/A	N/A	N/A	Y	Y	Y	y	y
64	Salfeet Chamber of Commerce	1997	N/A	7	4	7	N/A	N/A	Y	Y	Y	N/A	N/A	N/A
65	Nablus Chamber of Commerce	1943	5391	15	3	N/A	N	Y	Y	Y	Y	y	y	y
66	Palestinian Economists Association	1989	600	2	N/A	N/A	Y	N/A	N/A	Y	N/A	y	y	y
67	Palestinian Federation Industries	1999	23	12	4	N/A	Y	Y	Y	Y	Y	y	y	y
68	Palestinian Investment Promotion Agency (PIPA)	2000	N/A	48	10	N/A	Y	Y	Y	Y	Y	y	y	y



There are five main areas where donor support to develop:

BAs etc., need

1. Assistance to lay proper foundations for their organisation such as defining statutes and the role of members; the role of the Board and the Management staff rules for elections; basic rules of governance and transparency; defining policies and operating procedures; identifying useful services for members.
2. Improved communications with members who are sometimes difficult to identify. Most SMEs are family businesses and owners often do not see any need to become a member of a BA, especially as they are already a member of a Chamber of Commerce that they have to register with by law. Management teams need to identify the services expected by members and then deliver quality services in order to be able to better collect membership fees.
3. Improved fund raising skills to ensure adequate funds to address the needs of what are often ambitious strategies. Presently most of the BAs are heavily reliant on donors for setting up training services or promotion activities.
4. More specialised skills and the introduction of best practice such as protocol testing in the pharmaceuticals sector on formulation of drugs, or quality testing for qualifying marble.
5. Better quality and more focused information for their respective membership who mostly have little access to useful market information such as how to find a distributor to help with exporting or how to make products meet EU standards, etc. This could be addressed through the introduction of a European Information Centre as described at VII D.

Private Sector Review

Both an overview of the PS and specific sector reviews were carried out by various EU Experts with the support of local consultancy companies. Due to severe restrictions on time these reports are not comprehensive but do reflect the present situation of the respective sectors. The detailed reports are available from PDF and many other projects have also produced more detailed sector studies.

It is worthy of note that despite being informed of many and various sector reviews and planning documents during the collection of information for this Paper it proved difficult and sometimes impossible to gain sight of these documents. Donors should ensure that documents developed through programmes of support are placed in the public domain to ensure maximum benefit and avoidable duplication of effort.



Stone and Marble

Palestinian stone is one of the few natural resources available to the local economy with its rich stock of good quality, product varieties, colours and features. Stone and marble production comprises around 4% of world production and less than 2% of world production value. It represents one third of Turkey's output and half that of Germany

Quarries, stone workshops and beautiful stone buildings are a classic feature of Palestinian society.

Generation after generation, the skills of extracting, cutting and shaping Palestine's many different types and colours of stone have been handed down from father to son, keeping the tradition alive.

Stone workshops may be found all over the West Bank, nestled in the hills of Bethlehem, Hebron, Ramallah, Nablus and Jenin. But the significance of the Palestinian stone sector is not just sentimental. It represents a vital source of income for many people, with stone quarries and stone cutting establishments comprising the vast majority of business establishments. (Globally, the various types and colours of Palestinian stone are fashionable in world markets and compete with stone produced in Italy and elsewhere.)

Most of the stone cutting firms are SMEs that contribute 4% of the GNP and 5% of the GDP, the value added created is approximately 50% of revenues.

The Stone and Marble sector contributes over \$600 million to the economy and more than 1,100 firms employing 12,000 workers⁵. The sector has an invested capital of around US\$ 950 million

In terms of sales \$150 million is local, \$360 million exported to Israel and a further \$90 million to other countries.

It is important that the many small firms involved in this sector work on greater cooperation to be able to enjoy benefits of an economy of scale, such as funding a quality centre. Other areas where they need help are in funding participation in trade fairs and perhaps a permanent display centre in a major EU Centre, a training and services centre to act along the lines of a Technology centre for the sector and a quality centre. More details of these recommendations may be found in the detailed report available from PDF.

⁵ Market Access Programme (USAID) report April 2004



Olive Oil

Olives are one of the primary crops indigenous to the Middle East, and for centuries they were the mainstays of Palestinian farmers with the olive tree symbolizing permanence and connection to the land.

The agricultural sector contributes significantly to the food supply through a surplus of olives and citrus fruit. About 65% of the total population in Palestine live in rural areas and benefit either directly or indirectly from agriculture.

The olive sector is significant for a number of reasons, such as its contribution to the Gross National Product, its ability to provide job and income opportunities and it protects land against confiscation by Israel especially for lands without legal registration by owners who have cultivated the same land for hundreds of years.

The olive cultivation is spread all over the West Bank and Gaza except for the Jordan Valley area and the eastern mountainous areas, where the average rainfall is less than 350mm, which is considered to be the minimum required for the production of olives. It is concentrated in the northern districts of the West Bank, such as Jenin, Nablus, and Tulkarem, where olive trees cover a third of agricultural lands. There is a big potential to enlarge the olive cultivation in the Hebron area. Olive trees have been introduced to a limited extent in Gaza, where at present there are around 22 thousand dunums of olive trees. Olive cultivation is not expected to increase in Gaza due to the limited resources and the high value of rent of land to be used in alternative uses whether in agriculture, industry or construction.

The local market is the main consumer of olive oil while any surplus is sold to neighbouring Arab markets. Serious attempts have been made to break into international none Arab markets the most important of which was the contract made between the Cooperation Union (supported by the Palestinian Liberation Organization) and the Italian Government in the late eighties. In addition, some quantities of olive oil were exported by a Palestinian merchant to the US market in the middle of the nineties.

The main problem facing the olive oil sector is the Marketing of the surplus ordinary olive oil, estimated to be more than 10000 tons per year. Palestinian olive oil is not competitive in the international ordinary olive oil market due to the high production cost and relatively low quality due to a high acidity of more than 1,5% (the EU standards for extra virgin olive oil must be less than 0,8 %), caused by poor harvesting practice, poor quality presses in factories suffering from poor hygiene and maintenance, unsuitable tools used in the harvesting and the storage and transport of the fruit and oil and finally the absence of recognized organic legislation.

In order to solve the olive oil marketing problem it is essential to build the competitiveness of the Palestinian olive oil in the international market through better quality, the organic nature of the oil and marketing the Holy Land origin for branding.



It is strongly recommended to enhance the quality of the produced extra virgin olive oil in order to fit with the International Standards by improving the harvesting practices, the harvesting and post harvesting tools, the transporting, the storage of olives the operating conditions of the pressing factories, bottling and packaging tools and methodology; to develop the packaging and bottling practices and to enhance the registration of national trade marks to enhance the capacities of the existing laboratories and to establish new modern laboratories; to raise the awareness among farmers about the importance of producing and registering organic olive oil; to stimulate the farmers efforts in cooperatives and unions and to develop working links and cooperation programme between the main actors in the olive oil production area; to develop an internationally recognized organic olive oil certification body; and to establish international trade links.

Furniture

The furniture manufacturing industry evolved in Palestine almost 50 years ago and it has enjoyed growth through new start-ups in the sector over the past few years.

It is one of the largest industries in the Gaza Strip in terms of established companies and number of employees, with about 600 companies employing some 5,000 people. The majority of establishments are small with six to seven workers.

Intervention in the sector under the USAID backed Market Access Programme has resulted in Gaza based companies now having full control of their product and able to export-market it directly as against being low paid sub-contractors to Israeli companies.⁶

Despite only running at some 65% capacity, figures indicate that the sector contributes some 12% of Palestine's Industrial GDP.

Around 80% of sales are through the local Gaza market with what remains sold in the West Bank. Only about 19% of production is exported but manufacturers are currently seeking alternative potential distribution channels in the region while at the same time increasing production efficiency.

All main raw materials are imported, while the labour cost, (about \$350/month per person) is high in comparison with competitors in Egypt and Jordan.

The sector complains of a lack of an industrial area with a proper infrastructure, high VAT costs on raw materials that is not reimbursed on exported product and difficulty accessing finance. It should be helped with developing better design capabilities and also with technology such as Computer Aided Design. This might be done through a

⁶ MAP report submitted to joint donor meeting April 2004.



project that eventually provided a centre for design that could be used by a wide variety of furniture manufacturers.

Packaging

The majority of the packaging firms are family owned business that are passed down from one generation to another. Management in general has unclear structures and very weak strategic skills. They are production, rather than marketing orientated so they end up producing what they can produce and not what meets market demand.

The sector is dominated by small businesses with so-called family members forming a significant part of the work force with up 10% categorised as “unpaid family member”. Of the 20 companies interviewed, only one was less than four years old and half the others were founded in 1999 and 2000.

Almost all the companies said that obtaining raw materials was a problem and almost a third intended to lay workers off with only 5% intending to expand. A quarter of them are working at or more than 80% capacity and since none of the companies work a double shift pattern spare capacity is available across them all.

Almost half the companies said they were not in debt and while all the companies have investment plans, they are reluctant to implement them in the present operating environment. More than half the companies would use new finance to buy equipment with only 20% considering funding new projects.

The main problems identified by packaging companies are the cost of the infrastructure, the lack of industrial zones and problems with movement of goods and labour. They want help in developing good financial management systems and marketing.

Automotive and Light Engineering Sector

There are 131,000 officially registered vehicles in Palestine, which is the lowest car population in the region. Spare parts are available through authorised outlets and street traders (estimated total registered business in this sector is 3,400). An estimated eighty percent of the parts sold in the aftermarket are non-original from Turkey, China and the Far East.

There is an active parts reconditioned industry as well as spare parts available from vehicles stolen from Israel and broken down estimated at 1000 cars per month. Local production is limited to *rubber parts* in Ramallah and Hebron, *tyre re-treading and batteries* in Gaza and *oils* in Hebron. Research discovered only one company (rubber parts) exporting directly to a customer outside Israel.



Due to the limited size of the local market, restrictions imposed by Israel in preventing easy exporting and high labour costs it is not economically feasible to set up any type of automotive assembly plant or tier I and tier II manufacturing plant. The ideal situation may be to develop an industrial zone supplying the region but for the reason above this is unlikely.

A problem for the servicing centres, both authorised and non-authorised, is the increased sophistication of cars and trucks with the growth in electronics and engine management systems making it more difficult for the traditional shop mechanic to keep up with the technology. The German institute GTZ is helping in this field with training courses and the newly established Hisham Hijjawi College of Technology is also providing technical and vocational training to engineers. However, there is a gap between the engineers and shop floor mechanics.

This increased component sophistication is limiting the work that can be carried out by the traditional service outlet/local maintenance garage, requiring the car owner to use only specialist servicing centres, which is too expensive for the majority of car owners. There are opportunities for the development of a fleet of mobile servicing vans with electronic equipment that can be shared amongst a number of small garages and used for training purposes as well. This will support the small non-franchised service outlets, which represents the major part of the automotive industry.

Other areas of potential development identified were in the following items:

- Batteries, these are standard sizes common to all cars (subject to the importation of acid from Israel)
- Car- truck tyre remoulding and re treading
- Windscreen glass, laminated (subject to meeting test standards)
- Rubber parts, mats, windscreen wipers, suspension items
- Scrap recycling
- Interior trim, customised

For the reasons given the automotive sector development is considered small, and is proposed that future plans for investment and training should include the light industrial/engineering sector which constitutes the main part of the economy, and supports the key industries packaging, marble/stone and olive oil.

In addition most companies visited had serious problems with environmental and waste treatment, this is also an area that needs help with developing programmes to create a better atmosphere for change.



Workforce

The private sector employs two-thirds of the labour force that, through years of working in unskilled jobs in Israel, is largely unskilled. At the same time, professionals in management and mid-management levels, marketing, finance, law, medical/health services, IT, among others are difficult to identify. It is therefore important, and the private sector often cites the need, to improve and change the educational system.

Higher Education

The PA has worked to reform the higher education sector to set priority areas that will meet the needs where today there are gaps such as technical skills and knowledge of advanced technology. The government has suggested special loan programs for those who study in certain “priority” areas and then go on to work in this field. As the economy diversifies, new priority areas will appear. In attempting to meet this demand, institutions are also dealing with the growth rate of the population while trying to maintain quality and diversified courses to meet the demands of high enrolment.

Women

The West Bank and Gaza have a higher rate of unemployed women than any of the other MEDA countries, although, this does not mean that women are not educated. In fact, most unemployed women have a higher educational attainment in comparison to a low percentage of unemployed men. Nearly 90% of unemployed women have at least a secondary degree⁷, and 31% have a university education. The rate for unemployed men who have their post-secondary degree is only 13%.⁸ The low participation of women in the workforce is created by a number of factors, such as traditional roles that are highlighted due to the rate of a growing population forcing some women to stay at home caring for babies and young children.

⁷ See World Bank (2002) p.37-38.

⁸ Ibid.



<ul style="list-style-type: none"> • Inflation 	<ul style="list-style-type: none"> • Weak law enforcement and court system
<ul style="list-style-type: none"> • Taxes 	<ul style="list-style-type: none"> • Unfair competition
<ul style="list-style-type: none"> • Exchange rate and cash flow problems 	<ul style="list-style-type: none"> • High costs of production (transport, land, electricity services, labour, water)
<ul style="list-style-type: none"> • Inadequate infrastructure (road networks, water and sewage, power and electricity) 	<ul style="list-style-type: none"> • Low, uneven product quality and gaps with best practices
<ul style="list-style-type: none"> • Weak legal and regulatory environment 	<ul style="list-style-type: none"> • Weak law enforcement and court system
<ul style="list-style-type: none"> • Public Administrative and Institutional Support <ul style="list-style-type: none"> ○ Available Services (companies/commercial register, industrial register, land register, occupational/health safety procedures, etc., (controller vs. registrar)) ○ Obstructionist Practices (red tape, permits, licenses, expertise) ○ Labour and Employment Requirements (burdens on the employer) ○ Corporate Tax Treatment ○ Lending/Borrowing and Pledges 	

V. DONOR SUPPORT

Donors have played a large role in sustaining the PS as well as being one of the main sources of funding that allows the PA to remain operational at its current level. Palestinians have relied on donor support to rebuild and reconstruct roads, sidewalks, sewers, electricity, private homes, infrastructure, social service facilities, and other private sector structures.

Despite various efforts to coordinate donor intervention in the development of Palestine's economy, much of the private sector expresses confusion in understanding how donors select programmes of support. Efforts should be made by donors to communicate clearly to the private sector what they need from them to best inform the selection process for awarding of funds. In general they should work to ensure greater synergy is achieved between interventions and greater transparency in donor planning.

On the other hand, private sector institutions, especially national organizations such as PalTrade and the Palestinian Federation of Industries (PFI), must develop their internal management skills to better understand how donors consider and select projects for support. For example the EC uses a process called Project Cycle Management. Equally, the public authorities have to develop a coherent and well-articulated development strategy that can guide donors on what is needed to support a national plan and guide the private sector in the types of projects that will win support.

Help can also be provided by donors initiating a donor coordination task force able to discuss not only existing programmes, preferably at programming delivery level but



also at a forward planning level. While overlapping of project activity is not a major problem in Palestine, due to the small 'world' of donor activity, more worrying is the lack of synergy that could be achieved. An example of this is the difficulty this project has experienced in gaining sight of various sector reports produced under other initiatives – many of which have not been seen as of the time of writing. The process of greater coordination has been initiated by GTZ, at a meeting in Ramallah in April 2004, and this initiative should be supported and maintained.

A good example of where synergy can be achieved is the new initiative of the Italian Government to provide Euro 25 million of aid to Palestine with a first distribution of Euro 9 million through the PBC. The EC is shortly to announce various measures under their new emergency fund from the 2003 budget. The two funds working together can achieve far more than in isolation. For example the Italian money could be used to buy new technology etc., under very soft loan conditions and the EC fund could provide the needed TA to help a company best define that technology.

The development of the skills needed to develop and construct effective funding bids along with a coherent strategy for growth must be a project for a donor to urgently consider. It would be logical to adopt the same principles of achieving maximum impact in developing people's skills through training trainers rather than individual business-people. In this case the development of highly skilled management consultants to help businesses should be done through the existing structure of Mustashar, the Management Consultancy organisation. Through them a cadre of skilled consultants, perhaps even certified, could be developed for the benefit of both public and private sectors and, of course, donors.

In 2002 the donor community contributed US\$1,026 million against an anticipated commitment of US\$1,527 million.⁸ For 2003, the commitment has declined, mostly in the area of funds to the PA. This funding has been primarily for PA budget support and emergency and humanitarian programs such as food aid, employment generation, and UNRWA requests.

Currently the three largest donors to the West Bank and Gaza Strip are: the League of Arab States (US\$825 million), the European Commission (US\$333 million), and USAID (the USA US\$ 398 million) according to UNCTAD and the World Bank.⁹ Together, they supply over 70% of all donor assistance.¹⁰ Of this percentage, the European Commission and USAID have been the main sources of direct support for the Private Sector, especially through financing contracts and the improvement of legal and regulatory framework. Even though, overall support to the private sector by donor assistance has been relatively low in comparison to funds contributed to the public sector and humanitarian aid budgets. For instance, in 2002 alone an estimated

⁸ See World Bank (2003) p. 52.

⁹ Ibid p. 52-53.

¹⁰ Ibid.

¹¹ Ibid p. 66-67.



US\$75 million was put towards food aid, US\$60 million for emergency infrastructure, and US\$464 million or combined PA support, whereas direct private-firm support was approximately US\$19 million.¹¹

It is recognized however that the private sector is indirectly supported through these activities. Infrastructure has to be built and private firms are often employed. Aid to help pay PA salaries eventually finds its way into shops selling goods produced by the private sector. Nevertheless, the state of the Palestinian economy and society-at-large will continue to need and benefit from donor assistance for sustainability. However, donors are finding it increasingly difficult to justify the funding that has been essential for rebuilding much of the necessary infrastructure destroyed or damaged by the Israeli military. With each incursion, physical damage continues to be an obstacle and often projects that have been rebuilt or repaired are again damaged. There are discussions among key donors about ongoing relationships and the pursuit of increased PA fiscal reform and management and the connection with donors.

Continued support is vital for the preparation of a post-crisis economy, one that is not dependant on demand locally but can become more competitive through an export-led initiative. Donors are again reallocating funding from humanitarian projects to more development related projects. In addition, many of the ministries are currently working together to formulate visions for medium and long-term socio-economic planning and other development areas. In doing so, planning for establishing priority areas, especially in the area of private sector support, is one of the possibilities to change the way in which this funding has been distributed in the past. This will lead to an environment with a more durable foundation of plans and transparent fiscal accountability. Diversification of funding will help the private sector grow, increase confidence, encourage investments, and enhance job creation. Donors will also be able to assist by contributing in the provision of training programs. These types of programs will aid in the development of a more skilled workforce.

See *Annex E* for a summarized list of some of the current private sector donor-funded projects.

VI. RECOMMENDATIONS

Introduction

Much of the PSD intervention over the past three years has been clearly responding to a worsening economic situation and has been launched largely through emergency measures. There is still clearly a need for such measures but they tend to be focused on a safety-net approach with the emphasis on sustaining struggling SMEs until there are better times. This inevitably leads to SMEs that are surviving and even growing to be placed outside the rescue package. Consideration should be given to development measures that target good companies with a goal of developing them further to



provide good role models for PSD but also to equip them to compete in a global market.

The Economic Stabilisation and Recovery Strategy of the Ministry of Planning identified “emergency objectives” along with “medium term recovery objectives”.

The **emergency** objectives included access to short-term financing, sustainable employment generation and the repair and rehabilitation of the Private Sector Infrastructure

The more medium-term **recovery** objectives included Private Sector institutional reform, access to long term financing, a better enabling environment, enhancing competitiveness and greater private-public dialogue.

Many of these headings are reflected in the following recommendations of future donor supported activity for the acceleration of effective PSD.

Short Term Interventions 2004

A. Private/Public Sector Partnership & Dialogue – A Competitiveness Centre

Dialogue between the private and the public sector in Palestine is focused on the development of the Palestinian Private Sector Coordination Council (PPSCC) to be a single voice to represent the interest of the private sector. The Council includes representation from PalTrade, the Palestinian Trade Centre, PFI, the Federation of Chambers of Commerce, the Banking Association, PITA, the Federation of Insurance Companies, the Businessmen Association, the Tourism Coordinating Group and elected businessmen. It meets once every two months and has the power to create specialist committees to conduct specified business.

It was established in 2000 with the aim of coordinating private sector positions and vision for growth and being an organisation to best coordinate these views with relevant public sector authorities. Perhaps the most vital role foreseen for the Council is to coordinate policy needs with donors.

Its role is to coordinate the views of different economic sectors; to cooperate with government in the development of laws, policies, taxes, etc., that affect PSD; to achieve integration in PSD activity; mobilise the private sector in development; prepare studies on economic issues and to develop better relations with Arab and foreign sector institutions.

It is generally accepted that for the Council to best carry out these various duties it needs to build the capacity of its membership to best understand and articulate what is



required. It is hoped that an ongoing empowerment of business associations and institutions will enable them to lead PSD in the future.

A couple of examples are now provided of how other countries, France and Ireland, approach the problem of developing an effective communication platform to allow for dialogue between the private and the public sector. The Irish Competitiveness Council would closely lend itself as a model for how the Council could mature into a driving force for increasing industrial competitiveness in a global market place. Such a development would need the support and the involvement of the public authority at the highest level. (See *Annex F*)

France believes that it is essential that representatives of the country's "driving forces" - company directors, employees, farmers and professionals - be consulted on matters within their competence and that their views on such matters be duly expressed and taken into account.

This is reflected in its third most important constitutional assembly, the Conseil Économique et Social (Economic and Social Council), which is: -

- a constitutional assembly completely independent of both the Executive and Parliament;
- a representative assembly consisting mainly of members designated by nationwide social and economic groups;
- an advisory assembly, which issues opinions and recommendations to the French government on matters of economic and social relevance.

The Conseil Économique et Social issues recommendations to the French authorities and also takes part in the legislative process on bills to be submitted for approval in the French Parliament.

The Irish economy has undergone a remarkable transformation over the past two decades and is now one of the most vibrant and strong in Europe. A key part of this success can be attributed to the National Competitiveness Council (NTC) that was established by the Government in 1997. It is required to report to the Taoiseach (Prime Minister) on key competitiveness issues for the Irish economy together with recommendations on policy actions required to enhance Ireland's competitive position.

The NTC defines competitiveness as, *“the ability to achieve success in markets leading to better standards of living for all. It stems from a number of factors, notably firm level competitiveness and a supportive business environment that encourages innovation and investment, which combined lead to strong productivity growth, real income gains and sustainable development”*.



The NTC meets regularly to review data that benchmarks the country's performance against a collection of other countries. It is made up of private sector leaders along with government officials so ensuring a meaningful discussion among people who can and do make a difference.

They benchmark, using 128 indicators, against 15 other countries that include six European countries within the Eurozone and three outside it, two EU accession countries and four others (including USA and Japan).

For further information on these programmes see *Annex F*.

B. An Industrial Modernisation Programme for Palestine

IMPs have been supported by the EU in various MEDA countries and their experience provides valuable lessons if such an initiative, or one like it, is to be launched in Palestine. Such an initiative was considered during the second meeting of the Joint Committee of the Interim Association Agreement on Trade and Cooperation between the EC and the PA held in Ramallah in June 2003.

An IMP's main objective is to promote GDP growth and the competitiveness of the private enterprise sector, with special emphasis on small and medium enterprises (SMEs) in the context of economic liberalisation and internationalism. An IMP coordinates a wide range of activity in support of the development of SMEs and focuses on making SMEs more competitive and better able to compete in an open global market place. An IMP would be an effective initiative in Palestine as it coordinates so many related activities.

The IMP in Egypt is the largest programme of activity ever supported by the EC outside Europe with five distinct programmes of activity including export promotion and policy and finance advice to government. However, the size of the budget, in excess of four hundred million Euros, created major problems in terms of delivery through present rules and regulations. For an IMP to be successful the provider and the beneficiary must have a clear understanding of what an IMP can do and what outcomes/outputs are expected and required. Numerous delays in starting this programme meant that when it was finally launched it suffered from a severely outdated Specific Financing Agreement that made implementation extremely difficult.

The IMP in Lebanon has a budget of Euro 11 million and was planned with an implementation period of 50 months. Its original planning required the tendering process to select the PMU to be over in six months, the planning and agreeing of work plans within another six months so leaving three years of project activity. However the last six months of a project are non-operational to allow for closing down so at best the IMP had a 2.5 year life. Slippage in launching any programme is inevitable



and it is probably more sensible to look at a life of 60 months to allow for a realistic programme of more than three years of interventions.

The IMP in Jordan is known as the “EuroJordanian Action for the Development of Enterprise” (EJADA). With a relatively small manufacturing sector, the ability to create jobs and growth is constrained by the limited growth potential in other sectors and the small contribution of the SME sector. However, the SME sector has probably the best potential for growth and providing the impetus for national advance. EJADA provides a specifically designed range of services as well as the banking, training and public policy areas. There are four components of activity, Policy Support and Institutional Strengthening (PSIS), Financial Support, TA to SMEs and Vocational Training. PSIS focuses on three main themes; Industrial Policy, Institutional Strengthening and Research.

Syria does not have an IMP but its programme, the Syrian European Business Centre, carries out essentially the same role and is considered by many to be extremely successful. It is a Private Sector Development Programme (PSDP) funded by the European Union. Such a programme was the predecessor of the IMP in Egypt. It focuses on SME development through a wide range of services including business information, training, export promotion, policy advice and consultancy support.

IMPs vary in their rates of success and quite often a simple approach proves most effective as project implementation is increasingly difficult. EJADA is a fine example of the success that can be achieved with a straightforward approach that builds on the strengths of experienced EU experts. It is hoped that should Palestine host its own IMP that it will be to benefit from the experience and success of its close neighbour. For more information on the above countries and the IMPs that are in place, see *Annex G*.

In Palestine an industrial modernisation programme is being delivered through the “UNIDO Support Programme to the Palestinian Industry” (SPPI).

Its objective is to “To foster sustainable industrial development by strengthening human and institutional capacities at the Ministry of National Economy and at the private sector focusing on industrial upgrading of enterprise business performance” and so essentially it is like the IMPs already described in the other MEDA countries but is presently limited to two key components, Policy Reform and Business Upgrading. It also works with Business Institutions to support its industrial upgrading work.

The project has so far been funded by Italy, Sweden and a contribution from the UNIDO Regular Budget and an initial phase has been completed. The project has a steering committee chaired by the Minister of National Economy and made up of public and private sector representatives.



The “Industrial Upgrading Programme” supports the manufacturing sector to:

- enhance its competitiveness
- increase its exporting capabilities
- strengthen institutional advocacy and business advisory function
- become ultimately a significant contributor to the GDP and a major permanent creator of employment opportunities in the Palestinian economy

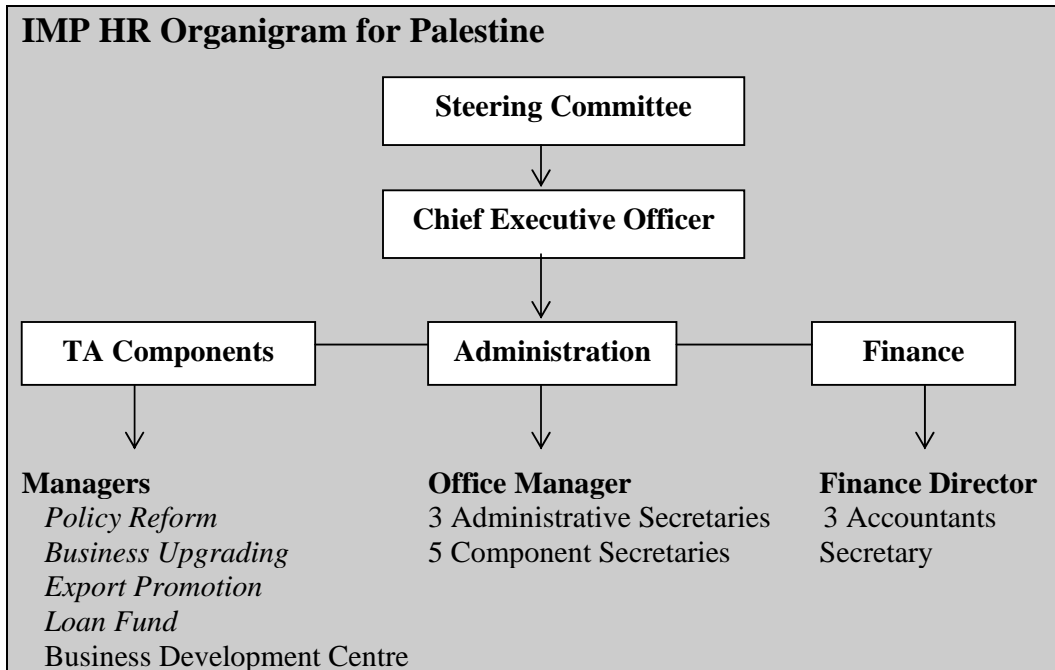
And the other key component “Capacity Building for the MNE” is concerned with capacity-building within the Ministry for Industrial Policy formulation, monitoring and the updating and upgrading of the industrial policies.

In other components the programme works with PIS, PIPA and PFI to:

- Develop calibration laboratories
- Participate in international forums
- Provide greater TA to members
- Develop an Investment promotion Unit
- Establish a Cleaner Production Centre

Essentially this programme is a modest IMP closely paralleling the project in Syria. With suitable donor support the programme could be developed into a broader IMP with three additional components making a five component programme; being Export Trade Promotion, the establishment of Business Support Centres as described elsewhere in this paper, a Revolving Loan Fund for SMEs (that should be tied into TA assistance under the Business Development Component).

The total budget envisaged for the SPPI is four and a quarter million USD but this is for the somewhat modest programme as described above. A budget similar to the Jordanian IMP of some forty million EURO would appear to be required to fund the activity envisaged within a five component programme.



The above illustrates the key people required. The Management team of CEO, Finance Director and five Component Managers would be International Consultants and a local staff of experts in respective fields would be recruited to deliver the TA and loans. This would probably be five or six in each component with additional staff having to be recruited to manage the Business Development centres as they come on stream.

Such a programme can easily benefit from the experience gained in other MEDA countries to fast track its launch, and a realistic ToR could be available within three months, dependent of the commitment of a donor and the MNE.

C. Business Development Centres

For some thirty years enterprise development agencies have operated in Europe to support the entrepreneurs launch new SMEs and also to help established businesses grow through the provision of various services.

The situation of the private sector in Palestine is well documented else-where in this document but the provision of a business development centre, or a network of centres, is worthy of consideration in any package supporting PSD.

The manufacturing industry now needs support in achieving better marketing, increased sales, improved exports, improved quality, better production and



management. This can be delivered in various ways, not least of which is an integrated programme of support such as an IMP, (see above) that might well include the development of such centres, as in the Egyptian programme.

Whatever technical assistance is made available to the private sector it has to be delivered on the ground using some form of existing or new delivery network. This is especially true in Palestine where constant closures and difficulty with movement of goods or labour requires local delivery of support. This can best be done through a network of business centres.

Such centres come in various forms but all are focussed on economic development within a local region. They are locally owned and to be successful should draw support from a wide base of concerned interest within a given area. They should be more focussed on growth and development than rescue missions.

SME Development Centres tend to focus on start-ups and provide a wide range of services around a nucleus of training, business advice, legal advice on setting up, mentoring in the early stages and help with developing business, marketing and financial planning. This is normally supported through additional support services such as specialised training (sub-contracted) and specialised consultancy support – such as in exporting. Effective access to business information is also provided and may be driven through an EICC (as described in the next section). To support sustainability for the centre it normally has work-space units available for rent to new businesses.

It is noted that the Empretec¹⁰ Programme in 2000 set out to address the development and training needs of SMEs in helping them meet the challenges of a global market place. With funding of \$439,000 it was hoped the programme would be integrated into a regional and international network. The programme is presently suspended due to funding difficulties.

More specialised is a Business Incubation Centre, which involves a dynamic process of business enterprise development. Incubators nurture young firms, helping them to survive and grow during the start-up period when they are most vulnerable. Incubators provide hands-on management assistance, access to financing and planned exposure to additional outside business or technical support services.

These incubator "graduates" create jobs, revitalize neighbourhoods, commercialise critical new technologies and strengthen local and national economies. They are generally far more likely to stay in business than the average new SME. According to the Impact of Incubator Investments Study, 1997, 87 % of incubator graduates remain in business.

¹⁰ Empretec is UNCTAD's capacity building programme to help promising entrepreneurs develop innovative and internationally competitive SMEs.



Business Incubators concerned more with established companies that are innovative in nature are known as Business Innovation Centres which support innovative SMEs and entrepreneurs. They may be officially certified by the EC.

Palestine's first IT Incubator is located in Ramallah and has budget support of \$3.2 million. The Palestinian Information Communications Technology Incubator (PICTI) is a project of PITA and offers support to entrepreneurs wishing to develop their ICT ideas into viable businesses.

D. European Information Correspondence Centre

Euro Info Centres (EICs) are part of a network of 300 centres, across Europe and beyond, which provide information and assistance to businesses. They provide a local access point for businesses to obtain information in a wide range of areas including; business partners, projects, programmes, EU legislation, standards, funding, tenders and the euro.

There are also 14 Euro Info Correspondence Centres (EICC) and 340 relay points outside the EU. In total the EIC network is active in 42 countries. The combination of skills, knowledge, location and a privileged relationship with the Commission means that the network is in a great position to add value for a company. An EICC is hosted within a country, for example the one in Egypt is hosted by the Industrial Modernisation Council. A host would have to be found in Palestine such as PalTrade or the PFI.

Being part of a vast network, an EICC can access on-the-ground knowledge and information from their counterparts. They can normally give information on customs regulations, legislative restrictions and requirements as well as funding opportunities and company lists. Being in contact with similar centres, it is in an excellent position to obtain country specific information, and can assist in finding business partners.

An EICC can help an organisation looking for EU funding as it can offer a funding search facility to identify programmes that might be applicable. They can locate standards for companies and give information about CE marking and legislation.

E. Registry of Movable and Immovable Interests Law

The current system in Palestine is a manual system of land registration. Registration of movables except for vehicles and securities (shares and bonds) is not even in place. These drawbacks affect the lending cycle and preclude effective financing schemes. It is therefore important to establish electronic registries for real property and movable



interests to assist lenders to perfect and secure their interests and by the same token borrowers can move capital and create financial growth.

F. Cheque Collection Procedures

The private sector experiences difficulties in collecting on bad cheques. Existing procedures at the judicial level are cumbersome and time-consuming. Businesses have always expressed a need to streamline the legal procedures for collecting on bad cheques. A programme instituted between the private sector and the judiciary may go a long way in meeting private sector needs in the area of collection on bad debts

G. Procedural Framework for the Trade Agreements with Arab Countries

The Palestinian Authority has established FTA agreements with:

- 1) Preferential trade agreements with Jordan and Egypt (1996, 1998)
- 2) Unilateral acts by other Arab trade partners extending preferential treatment to trade with Palestine
- 3) Greater Arab Free Trade Area, to which Palestine is a party (2003)
- 4) Free Trade Agreement with Turkey (2004)

The implementing rules and procedures have yet to be prepared and established. In that regards, it will be important to launch a programme to accomplish these regulations and have the following effects:

- facilitating entry of Middle Eastern companies in the Palestinian market, as well as forging partnerships with their Palestinian counterparts, resulting in boosting the financial, technical and technological capacity of the local productive sectors;
- boosting Palestinian exports to the Middle Eastern market;
- strengthening of industries that rely on human resources in knowledge industries, such as information and communications technology;
- strengthening of Palestinian companies to allow them to compete regionally and globally, and to invest in upgrading their management, production systems, and product specifications, in order to satisfy global market requirements

H. Streamline the Legislative and Law-Making Process between the PLC, Executive and the Diwan

- Streamline the process at the executive level by ensuring that draft legislation is requested through the PLC and not the Diwan.
- Ensure that the executive works with the PLC within the scope of economic policy.



- Ensure that the PLC is the address to draft legislation at its own initiative or at the request of the executive, at least until, it develops experience and the knowledge base required for formulating law that enable the private sector.
- Amend Law No. 4 of 1995 on the relationship between Diwan and Council of Ministers.
- Amend Decree No. 286 of 1995 on the role of the Diwan in law-making to end duplication.
- Strengthen the PLC by creating a legislative policy unit to link with the executive on drafting proposed legislation and to coordinate with the Cabinet.
- Develop a legislative drafting policy at the national level.

I. Arbitration

- Improve the understanding of the members of the judiciary of commercial and financial sectors laws.
- Hold special training for members of the judiciary in commercial and financial sector laws.
- Improve law enforcement
- Review all judicial execution laws and procedures.

Long Term Interventions 2005-2006

A. Eliminate the Legal and Regulatory Vacuums

To reduce legal inefficiencies and commence a cohesive review of existing legislation and identify needed ones to complete the enabling environment for the private sector, it is essential to work both at the legislative and executive levels simultaneously. It is therefore important to establish a steering committee of experts to:

- Assess all existing laws and regulations that constitute the basis and framework for enabling the private sector;
- Identify areas that need to be harmonized;
- Identify areas that need new legislation or in-depth review of draft legislation (e.g. Commercial Law, mortgages law, civil code)
- Identify all required regulations.
- Harmonize the process of municipal and official licenses and permits to be obtained by a business by create a one-stop-shop process

Implementing Regulations

- Prepare implementing regulations for all prevailing laws.
- Prepare the explanatory notes to newly enacted legislation.
- Prepare the required forms for all prevailing legislation.
-



- Review the existing administrative appeal process for contesting official decisions.
- Prepare an administrative law.

Human Resource Capacity and Comparative Legal Capacity at the PLC

- Enhance the role of the PLC in lawmaking.
- Improve the skills of the human resource base at the PLC to conduct comparative legal research and analysis.
- Provide multilingual legal resources and upgrade language skills of legislative drafters.

B. Establish a National Policy Institute

It is critical to develop a more stable and predictable macro-economy by setting the policies that enable private sector growth and development. Although, it is established that the Palestinian/Israeli political equation is the most critical factor to shifting the performance of the Palestinian economy, be it at the level of movement of labour and goods or trade and tariff policies and rates, the PA has several policy areas to cover, namely:

- Macroeconomic Policy
- Trade Policy
- Sector Policy
- Private Sector Recovery Post Crisis
- Competition Policy
- Policies Concerning Public Sector Investment in Market

C. Education and Professional Training

Education and professional training are areas that require special attention by the PA. Although Palestinians rank among the top developing countries in terms of education, it is quality and access that requires special attention.

With the rapid growth of the population, the number of students is on the rise. Higher education is feeling the strain of increasing numbers in enrolment while not having the financial capacity to sustain them. At this time, about ¾ of Palestinians are enrolled in the area of humanities, which is not reflective of the demands of the labour force, and many are unemployed or underemployed.

Specifically, the private sector would benefit from areas that include:

- IT
Special focus must be given to education in computer science and information technology. These are areas where the Palestinian can excel having both the basic education and the incentive to improve. The National Institute for Information Technology is a good start, however, the private sector requires more sophisticated skills than the Institute provides. At the same time, the



potential for private sector enterprises to develop the IT industry in Palestine is huge, especially as this industry may become a major export. Ensuring that computers and other IT courses and are available in classrooms and advanced instructional courses are provided will initiate this movement. However, creating a competitive advantage will require other supportive internal factors and skills that will require a basis in higher education, for example: financial, marketing, operating and technical production, personnel, quality management, information systems, organization and general management skills, and business planning, just to name a few.

- **Judicial and Legal**

The private sector must be supported by competent judges and lawyers. Advanced and continued legal education is essential for the forward movement of this profession and for reducing the costs to the private sector resulting from the inefficiency and ineffectiveness of the judiciary and legal profession. A judicial and legal training institute is important to support private sector activity.

- **Management and Finance**

Management, Finance, marketing and business development skills are essential to support private sector development especially as Palestinian firms prepare to join the global market. An advanced management and finance institute is essential to assist in private sector development. Banks and credit officers need to upgrade their skills. Businesses need the support of skilled professionals.

D. Corporate Governance and Disclosure

Regardless of the size of the business, the issues of corporate governance and disclosure must be addressed. Workshops have been given on these subjects but follow-up has been limited or businesses still remain hazy on the idea of what needs to be done to implement governance procedures.

At the same time, the majority of private sector establishments are small family owned and operated SMEs with few employees who are usually family. Governance measures are viewed as not very cost effective, making them more difficult to implement. The private sector must first be further educated on the strategies for implementing corporate governance and disclosure policies. Also, principles and increased advocacy for proper legal framework must be initiated, in addition to following financial compliance standards, encouraging transparency, ensuring that there is adequate infrastructure, and suitable regulation procedures must be encouraged and/or in place.

E. Lobbying and Advocacy

The private sector needs to improve its advocacy skills to affect policy and law making, rather than complaining about the quality of laws when in force. The private



sector institutions need to develop their ability in this regard and develop the skills of their staff in areas such as policy and legal analysis to better advance private sector agendas.

F. Land Registry

The problem of land registration seems eternal in Palestine. Land titling and registration, surveys and cadastrating (plotting, surveying and dividing into shares) are issues that considerably restrict the lending and borrowing cycle. It is important that the newly established Land Authority take initiative to register land in the West Bank where only 30% of the land is registered. Areas A and B are available for surveying. The Land Authority needs to increase the number of certified surveyors and launch this program with urgency. It is important to introduce legislation that would permit the development of mortgage-type instruments for using unregistered land as collateral as well as promote the efficient process of land registration.

G. Improve Public-Public Sector Coordination

The coordination between public-public institutions is essential for the effectiveness and efficiency of the private sector. For example, the PA should consider One Stop Shops to One Stop Approval to support investment. The various ministries, licensing authorities and the municipalities should streamline the processes of registration and ensure that the entire procedure is smooth and fast. Departments in the various ministries in the PA vary considerably with the clarity, speed, efficiency and quality of their services. Even the knowledge base of civil servants is varied and sometimes confusing as not all the laws and regulations have been developed. The PA has suggested various recommendations for ministerial and civil service reform that discuss structural, management and institutional arrangements that may lead to greater efficiency and clearer roles. The public-public sector coordination includes:

- Assess all registration and licensing procedures at all ministries in relation to private sector activity and streamline them;
- Assess the multiple and duplicative requirements for approval and oversight and eliminate them;
- Prepare instructions and forms;
- Publish rules and regulations; and
- Ensure inter-ministerial and interagency coordination, establish clear guidelines for each ministry and establish a process to intervene in cases of abuse of power and hold civil servants accountable.

H. Improve Public-Private Sector Coordination

It is important to support the present momentum on public-private sector coordination and consultations. For instance, in 2003 the National Task Force was created that consists of Public and Private sector representatives that will coordinate and lead the national input into a harmonized plan for Palestine's compliance with the Multilateral Trading System. At the same time, the Private Sector is taking steps to minimize its fragmentation with the development of the Coordination Council of the Palestinian Private Sector Organizations (CCPPSO), creating white papers that have a broad base



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of suggestions and strategies. The Palestinian economy is undergoing fundamental transformation in its external and internal relations, it needs these consultants to implement reforms. It needs private sector champions for changes rather maintaining the status quo.



I. Promote a Healthy Financial Sector

In addition to the need to enact legislation like secured lending, insurance, capital market authority and securities; amending the banking law and redrafting the commercial law, it is important to focus on the following interventions:

- Expand the pool of assets used as collateral
- Enhance credit information
- Introduce new financial products and services

The importance in incorporating the use of new and up-to-date technology in most areas above would benefit the efficiency of the various arms of the public and private sector. Using technology in the courts, in areas requiring paper work in registering businesses, and even for public information would be a method of change that could be implemented regardless to other external and internal restraints that remain.

VII. PRIORITY ACTIONS

There is a need to prioritise what activity should be initiated immediately. Obviously this will be influenced on existing donor activity. For example it makes sense to continue the work completed on reorganising the Ministry of National Economy by funding the implementation of the various restructuring plans.

While Palestine would certainly benefit from an IMP action can be taken immediately to launch a pilot Business Centre. This should be locally owned and the local Chamber of Commerce would therefore have a critical role to play. A network of more than 30 sustainable centres has been developed in Northern Ireland over the past 40 years and consideration should be given to using their experience in developing such a pilot centre, especially given the fact that these centres were developed within an economy struggling to survive the Northern Ireland “Troubles”.

The Olive Oil sector is dealt with throughout this report and has been the subject of various reports and interventions. Importantly it is being discussed as one of the sectors to be granted a tax free quota by the EC and it should be helped to ensure that it is ready to exploit such an opportunity. It is not clear how much Palestinian Olive Oil can regularly meet EC quality marks and standards. An immediate need is to improve harvesting methods through the provision of funding for farmers to buy modern nets to collect the olives rather than ground sheets, and to purchase suitable tools for dislodging the olives as the traditional method of shaking can damage the tree in the stony ground of Palestine. The operations within the pressing facilities need upgraded and the sector needs help in improving its bottling and marketing.

The Stone and Marble Sector is very important to Palestine providing much needed employment across the country through small businesses. The companies involved tend to be too small to employ effective marketing practice and the sector needs help in participating in International exhibitions that would be one of the best ways to



market and promote Palestinian Stone and Marble. This could be supported with a permanent exhibition in a new 'EU Centre' where European companies could examine the product and request detailed information on it. Such a Centre might be located in Brussels or Strasbourg.

The Sector would also benefit from help in improving its production processes through a Training and Services Centre that might be located at the USM premises. It would specialise in studies and research and conduct a series of educational and training programmes.

The ongoing crisis situation in Palestine has reduced to a minimum tourist sector activities that have a direct impact on market opportunities for the handicraft sector causing a collapse of many businesses within this sector. Immediate help should be provided in sponsoring a permanent exhibition of Palestinian Handicraft Products in a European Center, which could be located in Brussels or Strasbourg. The surviving businesses would benefit from training on marketing, accountancy, promotion, use of IT, use of internet, design, new tools and techniques. There should be an immediate initiative to develop a website to display handicrafts that could be made available to potential customers not planning on actually visiting Palestine in the near future.

It is unlikely that a country the size of Palestine needs so many various business institutions and a priority must be to support the various efforts being made to rationalise this number through various mergers. Equally important is that these emerging institutions and associations are helped to develop effective strategies and skilled staff to implement them. They must be developed into articulate lobbyists for their members to enable a useful and effective dialogue with government. Consideration must be given to developing the role of the Chambers of Commerce, which represent all registered companies, along with the present focus on national institutions.

The role of the PS Coordination Council should be developed. It is an obvious vehicle through which a National Competitiveness Council could be launched. There are various good models in Europe but the Irish model would be highly recommended due to the success it has achieved and the size of the economy it works within being reasonably close to the Palestinian one. There are already ties with Ireland through the Standards Institute that could also support such a 'twinning' that would accelerate the implementation process here.

PalTrade has started to reform itself into a strategic driving force within Palestine to promote trade through exports. It requires TA on along term basis to best mature into this difficult role and this should be an immediate priority.



ANNEXES



Annex A: Background of the Palestinian Economy

By late 2002, the flow of labour into Israel by Palestinians declined from 128,000 to 36,000.¹ Sixty percent of the Palestinian population now lives in poverty (US\$2 a day), resulting in consumers who spend less, while the increase in transactional costs for transporting goods, the taxes, and the extreme procedures such as back-to-back checks have forced the private sector to assume costs which have been reflected in the reduction of their workers and/or reduction in wages.²

Most businesses in Palestine are small family-run institutions, an element that has been critical in withstanding the severe regime now in place since these smaller businesses are more flexible than larger enterprises when dealing with the volatility of the market. Before the Intifada, Palestinians had an advantage in areas such as: technology, agro-industry, construction, textiles, and tourism. Yet, in 2002, sixty-two percent of Palestinians, age 15 and older were out of the labour force.³ The service sector supplied most of the Palestinian employment at 31%, with agricultural areas and trade and tourism each supplying 20% of jobs.⁴

Israeli military operations against Palestinian towns and villages has led to extensive physical damage totalling an estimated \$930 million, with private sector assets comprised around 52% of this amount.⁵

In 1999 only thirty percent of Palestinians lived in rural areas.⁶ With the increased closures and curfews that have lasted 40-75% of the time since 2002, the number has decreased in 2003, but workers are still unable to cross the checkpoints on a daily basis.⁷ The corridor or safe-passage, that linked the West Bank and Gaza, has been closed, physically disconnecting the two areas.

The Separation Wall is estimated to total over \$1 billion dollars and consists of a variety of forms from electrical fences with trace cameras to concrete barriers almost 8 meters high with watchtowers.⁸ With the completion of this phase, close to 200,000 Palestinians will be surrounded on at least three sides and almost 70,000 live on the East side of the wall while their farmland is west of it.⁹ It prevents farmers from access to water which

¹ See World Bank (2003).

² Ibid p. xi.

³ See MAS Economic Monitor (2003) p.11.

⁴ Ibid p. 10.

⁵ World Bank (2003) p. xi, 19.

⁶ See Atlas Investment Group (1999).

⁷ See IMF (2003) p. 17

⁸ See PENGON (2003).

⁹ See PICCR (2003) p.7-11.



has forced some into methods such as greenhouses, that accrue high expenses, making it necessary for farmers to take out loans which they have difficulty repaying. The Wall keeps the goods from easy access to markets, and disrupts movement of other trade and services.

Approximately 80% of Palestinian trade now occurs with Israel, often made up of imports from Israel that originated in other countries.¹⁰ Over the past few years, exports have decreased due to a number of obstacles including: interruptions in production and shipping which has led foreign purchasers to refocus attention on more reliable markets, according to the World Bank. A Back-to-back system was imposed and requires that all non-humanitarian goods be unloaded and reloaded onto different trucks under military (IDF [Israeli Defence Force]) supervision. These points of transfer are located between Israel and the West Bank as well as at points within the West Bank.

Exporters face problems due to the lack of a recognised border and therefore no jurisdiction over it. Since Israel regulates control over these areas, Palestinians do not have access to landing strips or shipping ports, vital to support a productive and effective trade regime. The Palestinian Liberation Organization, (PLO) for the benefit of the Palestinian National Authority of the West Bank and Gaza Strip, has signed free trade agreements with the European Union, the United States, Canada, and the EFTA States and has secured membership in the Greater Arab Free Trade Area (GAFTA). Due to restricted movement, Palestinians lack the means to follow-through and implement fair trade policies, along with the application of customs and tariffs, and it impairs the ability of the Palestinian private sector to keep contractual agreements.

Per capita GDP declined 19% in 2002, and a total of 33% from 1999-2002, and stands at approximately -23%.¹¹ There was however, growth of 1% in 2003, even if the peace returns on course in 2004, real GDP growth is not expected.

Throughout this struggle, the private sector has been able to develop and show initiative, although not able to reach its full potential. Over the last few years, the Palestinian Securities Exchange, the first Arab Palestinian Shopping Centre, and telecommunications were able to take off. However areas such as natural gas and tourism have since declined and experienced negative growth. Pre-2000, the PA had begun talks in selling natural gas supplies to Israel in combination with British Gas but the conflict has halted these talks. The conflict has devastated the tourist sector. Villages that used to use larger urban centres such as Ramallah, Nablus, Jenin, and Bethlehem for much of their economic activity, are now closed to these towns and businesses suffer from this loss.

¹⁰ See World Bank (2003) p. 16.

¹¹ Ibid p. 24-25.



The occupation limits the interaction of the Palestinian economy with that of other Arab states. Some trade and movement increased in the 1990's with Egypt and Jordan but other Arab nations have listed drawbacks such as, "border closure, restriction by the Israeli government, and Israeli cross border restrictions" as well as listing the area as one of the most problematic for trade. MEDA countries find that the difficult internal and external investment environment and related higher costs of doing business tend to offset the potential advantages.

International experience indicates a direct and strong correlation between improvements made in the investment climate and increased foreign direct investment flows. Internal investment conditions must be improved before FDI can progress. The situation in the West Bank and Gaza make it costly due to a number of issues such as a lack of available land, appropriate facilities and adequate infrastructure services. On the other hand, adjusted labour costs and market access are highly favourable. For success in this realm, attention would have to be paid to the creation of a competitive policy framework for private investors, host country cost advantages, and effective investment promotion programs. The PA has begun to do this by making changes and improvements in policies and reducing costs.

Annex B: Laws Affecting the Private Sector

Laws: Sect. I In force Sect. II Pending Sect. III Not Drafted	Purpose	New Legislation	Regulations	Forms	Timetable	Action Needed			Agency Set- up
						Text Review	Regs.	Forms	
I. Arbitration Law 2000	Sets out the rules for domestic arbitration and enforcement of arbitral awards.	In force	To be drafted	To be prepared	3 months				
Banking Law 2002	Addresses a number of areas: the Palestinian Monetary Authority's (PMA) involvement in regulating licenses to local and international banks; establishes legal & non legal requirements; bank mergers; and regulates the relationship between the PMA and Islamic banks.	In force	To be drafted Directives are issued periodically	To be prepared	4-6 months				
Civil and Commercial Procedure Law 2001	Provides the procedural steps for litigation.	In force	Some are drafted, many to be drafted	Some in force, many to be prepared	6 months				
Commercial Agents 2000	Agency/distributorship registration requirements; labelling requirements; discrepancies between WB & Gaza; third parties; & issues of subagents.	In force	To be drafted	To be prepared	2-3 months				
Industrial Zones 1998	Provides investors doing business in the industrial	In force	Instructions and	To be prepared	2-4 months				

	zones with swift procedures to ensure the proper conduct of their business and movement of their goods and raw materials as well as storage.		directives issues						
Labor Law 2000	Regulates the employer-employee contractual relationships; provides for the rights and obligations of the employer-employee, addresses termination; compensation; unions; & inspections.	In force	Some have been drafted, most are still in the process of being drafted	To be prepared	4-6 months				
Law on the Encouragement of Investment 1998	Provide investors with approved investment schemes with a formula for tax exemption.	In force, Amendments in PLC	To be drafted	To be prepared	2-3 months				
NGO Law No. 1 of 2000	Regulates the registration of Non Profit Organizations	In force	To be drafted	To be drafted	4 months				
Palestinian Monetary Authority Law 1998	Establishes the Palestinian Monetary Authority that regulates the banking sector.	In force.	To be drafted; directives are provides.	To be prepared	6 months				
II. Agriculture Law	Regulates the agricultural industry, including public safety and health requirements, sets out rules for use of pesticides, etc; sets out rules for inspection.	Draft pending before PLC the Ministry	To be drafted	To be drafted	6 months				
Capital Market Authority	Provides for the creation of the Capital Market Authority, the governmental regulator for: the stock exchange, financial services	Pending the signature of the President. Pending President's signature	To be drafted	To be prepared	6 months				

	companies, insurance companies, mortgage finance, financial leasing and private pensions.								
Chamber of Commerce	Regulates the licensing merchants, issues certificates of origin	Draft pending at the PLC	To be drafted	To be drafted	4 months				
Civil Law	Provides the requirements and rules for civil contracts, pledges, guarantee, personal injury (torts); guarantees with the exception of family law and personal matters as well as civil companies.	Draft at Ministry of Justice	To be drafted	To be prepared	12 months				
Commercial Exchanges and Electronic Trade Law		Draft at the Ministry of National Economy	To be drafted	To be prepared					
Commercial Law	Provides requirements and rules for the commercial registry, commercial contracts, commercial paper, pledges, and corporate and personal bankruptcy.	Draft pending review by the Ministries justice and National Economy	To be drafted	To be prepared	12 months				
Companies Law Gaza (1929) and West Bank (1964)	Addresses discrepancies between Gaza and the West Bank. Incorporates: Registered Capital Requirements; Authorization to do business in Palestine; Incorporation; Audited Financial Statements; Corporate Structure Changes; Registration of	2 Drafts pending review at Ministry of National Economy & Ministry of Justice	To be drafted	To be prepared	4-6 months				

	Foreign Companies; Penalties and Duties of officers. Company wind up procedures are included. Bankruptcy is part of the commercial code.								
Competition Law	Regulates competition issues including dominant position, monopolies, unfair prices, unfair competition; sets out reporting requirement for corporate entities including mergers and acquisitions. Provides remedies and penalties.	Draft to be introduced to PLC pending at the Ministry of National Economy	To be drafted	To be prepared	6 months				
Criminal Law									
Customs Law	Regulates imports and export, sets out the administrative procedures and the tariff structure.	Draft under preparation by the Ministry of Finance.	To be drafted	To be prepared	12 months				
Federation of Industry Law									
Food Safety Law	Regulates public health and safety at the national level	Draft pending at the Ministry of National Economy	To be drafted	To be drafted	3 months				
Foreign Trade Act	Regulates foreign trade transactions at the national level	Draft pending at the Ministry of National Economy	To be drafted	To be drafted	6 months				

Health Law	Establishes the rules for licensing public health providers including doctors and nurses, sets out rules for the administration and licensing of health facilities and hospitals. Sets out rules for pharmaceutical licensing; sets out rules for inspection.	Draft pending before PLC the Ministry	To be drafted	To be drafted	9 months				
Income Tax Law	Regulates corporate and individual income taxation.	Draft pending PLC third reading. at Ministry of Finance	To be drafted	To be prepared	12 months				
Industrial Law	Regulates manufacturers and factories; goods and quality; factory investment promotion; & incentives for industries dealing with areas selected as necessary by the PNA.	Draft at PLC Pending before PLC for the past 2 years To be drafted	To be drafted	To be prepared	6 months				
Insurance Law	Regulates the insurance industry, brokers, companies, actuaries, rights and duties of companies and insured for all types of insurance, including motor vehicle, private health insurance, life insurance and other private insurance schemes.	Pending PLC Ministry of Finance	To be drafted	To be prepared	4-6 months				
Intellectual Property	Addresses discrepancies of WB & Gaza on trade names, trademarks, patents; issues of notarization & jurisdiction.	Draft to be considered	To be drafted	To be prepared	----				
International	Sets out the rules of	Proposed	To be drafted	To be	3 months				

Commercial Arbitration	arbitration involving international parties and the enforcement of foreign awards.	draft prepared, pending at the Ministry of National Economy		prepared					
Leasing Regulations	Regulates financial and operational leasing. Provides for the tax treatment of leasing contracts.	Draft pending at Ministry of Finance	Pending before Ministry of Finance	To be prepared	1 month				
Real Property Law	Regulates the registration of real property, titles, and sale and purchase.	Draft to be reconsidered	To be drafted	To be prepared	9 months				
Secured Lending Law	Regulates the pledge of movable assets. Creates the registry for movables.	Draft to be submitted to the PLC	To be drafted	To be prepared	12 months				
Securities Law	Provides provisions for the regulation over the issuance and trading of securities. It regulates the stock exchange, the securities firms and the sets the requirements for disclosure.	Draft pending PLC First Reading	To be drafted	To be prepared	6 months				
III. Administrative Law	Establishes the fundamentals of creating a system of administrative procedures that govern the activities of the executive and its agencies, provides the procedural mechanism for executive rule and regulation making and publication of these rules, and provides injured parties with legal remedies.	To be drafted	To be drafted	To be prepared	---				

Mortgages Law	Regulates real property mortgages.	To be drafted	To be drafted	To be prepared	---				
Pensions Law	Regulates the establishment and management of public pension schemes.	To be drafted	To be drafted	To be prepared	---				
Tourism Law	Regulations the tourism industry including licensing of travel agents and guides.	To be drafted	To be drafted	To be drafted	---				

Annex C: Enabling Legal and Regulatory Environment: The Executive, Legislative and Judicial Processes

Background

The system in Palestine combines Islamic rules as codified in the Ottoman Code (Mejelle), Anglo-Saxon English Common Law and French Civil Code principles, an amalgamation of Jordanian legislation and Israeli military orders, and a rich tradition of customary practices. The complexity of legal reform arises from the fact that over the last three centuries new legal principles were layered atop old ones without any effort to resolve the philosophical and procedural discrepancies between them, and new laws were promulgated that neither repealed nor superseded earlier laws governing the same subject matter.

The challenge facing Palestinian law reformers lies in deciding the course to chart in institutionalising a comprehensive, cohesive and consistent legal system. This system should be based on all the existing Palestinian legal traditions, which will require deciphering, peeling away and reassembling the various layers. Palestine requires a system of laws to support the development and evolution of its own jurisprudence, interweaving its rich legal heritage into the fabric of modern legal concepts.

The range of development of the Palestinian legal system is wide, some laws are those existing since the Ottoman period (1517-1917), the British Mandate period (1917-1948), the Jordanian and Egyptian period (1948-1967); the Israeli occupation period (1967-1994) and more recently the Palestinian Authority ("PA") period (1994-present). The layering of laws has brought with it diversity of legal thought, yet many contradictions and conflicts remain, to a large extent, unresolved to this present day.

Executive Process

Scope of the Executive Process in Law Making

When the Palestinian Authority started the law-making process, it did not have a well-defined legislative policy relative to process, procedure or content. Two factors affected the content: (1) failure to distinguish between the common law and continental legal thinking and philosophy; and (2) absence of coordinated national policy to be reflected in the new legislation.

The political context within which the PA was established pre-determined the course for law making. Members of the executive including the President's office, ministries and executive agencies were created first in 1994 as soon as the Israeli side transferred civil authorities to the PA in 1994. Immediately the executive began issuing decrees and promulgating legislation. The Executive embarked on law-making having assumed the role of both the legislator and executive as the PA was beginning to emerge. First it decreed that all existing legislation in the West Bank and Gaza Strip shall remain in effect until amended or repealed. Indeed, between 1994 and 1997, when the legislature assumed its legislative functions, the Executive promulgated numerous laws and issued several decrees, 23 laws to be exact: 2 in 1994, 17 in 1995 and 4 in 1996. During this period the Diwan Al Fatwa wa Al Tashree ("Diwan") was

established by Decree No. 286 of 1995 as a department within the Ministry of Justice. This Diwan was vested with the power to prepare legislation at the request of line ministries and agencies. It often assumed this role and expanded its powers considerably by initiating legislation at no request.

Diwan's Role: Overlap with the Legislative Process

In a vacuum, and prior to the establishment of the Palestinian Legislative Council ("PLC") in 1996 following the first elections, the Diwan filled a much needed role. However, as the legislative branch under the auspices of the PLC commenced assuming its functions in adopting legislation, the vacuum filled by the Diwan was no longer required. The dilemma of the Diwan today is that it ignores the PLC and functions totally independently from the legislative process thus persisting in a parallel track in law-making. Two factors contribute to maintaining the Diwan.

First, the Diwan continued to solicit other members of the executive to draft legislation on their behalf. Between 1995-1997, the Diwan established certain capacity to draft legislation. It had relied on the Law Concerning Legislation that gives it the authority to prepare legislation at the request of a member of the executive (Law no. 4 of 1995). Moreover, the Diwan, often, does not wait for a request, it initiates laws. Examples include the draft Commercial Law, the draft Insurance Law, the draft Insurance Regulator, the draft Competition Law.

By the same token, the Diwan, pursuant to Law no 4 of 1995, it is not supposed to change the content in any material way (Article 3). Often the laws reviewed by the Diwan are materially and substantially changed in both content and policy. Examples include the Water Law of 2000 and the Labour Law of 2000.

In other instances, it ignores a draft submitted for wording and initiates its own version of the law. Examples include the draft Secured Transactions Law (Interests in Movables), the draft Companies Law.

Second, the PLC did not assume its powers quickly and has not become the address for initiating legislation. The PLC is a few years behind. When the PLC commenced its functions, Law no. 4 of 1995 should have been repealed as the power to draft legislation is now vested with the legislator. The repeal did not happen.

Instead, the Diwan has created a parallel process by relying on Articles (4-6) of Law No 4 of 1995 which relates only to the law-making process at the executive level, and describes the relationship between the Diwan and the Council of Ministers. In effect, the Diwan can form committees to review draft legislation submitted to the Cabinet, Article (4) of Law No. 4 of 1995, yet it applies this authority to legislation enacted by the PLC and pending the signature of the President. This in effect happened with various laws including the Labour Law and the Capital Market Authority Law.

Legislative Process

The legislative process at the PLC is two fold. It starts with a committee review of any draft law which may be either initiated by the PLC member or committee or introduced

by a minister or the Council of Ministers. Once the committee engages in the policy analysis, commentary and discussion of every article, and hearings, the draft law moves to the plenaries in a first, second and possibly a third reading. The first reading includes an article-by-article review; the second includes only amendments suggested on the first draft; upon the conclusion of the second reading, the PLC submits the draft to the Council of Ministers for comments. The Council of Ministers has two weeks to submit its comments, then the law then goes into a third reading. Absent of any comments, the law is enacted on the basis of the draft of the second reading.

The PLC has initiated 9 laws since 1997; it has enacted 54 laws; 25 have been signed by the President and published while the others pending before the President or are under consideration.

Human Resource Capacity and Comparative Legal Capacity at the PLC

The PLC has not fully embraced the legislative process. It has not fully exercised its powers and authorities. It remains hampered in initiating legislation because the executive develops the drafts and submits to the PLC for review only. Often these laws were developed by international experts and are translated into Arabic so the drafts received by the PLC are poor translations, often the policy guidelines are not made clear to the PLC and the various laws are inconsistent with each other. Often time, the PLC does not have full capacity to work with English language drafts or to review foreign legislation and benefit from other experiences especially in complex areas of the law like securities, insurance, competition, among others. Moreover, the conflict in mandates between the PLC and the Diwan is serious and adversely affects the legislative process, its effectiveness and efficiency.

Judicial Process

As stated, the PA inherited a fragile and impaired judicial system, one that the private sector began to rely on for administration of justice and dispute resolution, yet instead faced an ineffective and inadequate system. Since 1994, the PA has come a very long way especially the last two years, but the repairs and reconstruction were slow and failed to meet the significant needs of the judiciary. Moreover, between 1994-2002, there was no separation of powers and the authority between the judiciary and the executive were blurred. In effect, the judiciary was subject to the influence of the executive, both by the Minister of Justice and the President, be it judicial appointments, interference in judgments or lack of enforcement of judges. The needed restoration of confidence in the judiciary was not achieved and reform at that level has remained a major requirement and a priority of the private sector.

The public prosecutor, or attorney general, who as a public official prosecutes public criminal matters was a relatively weakened office because the public prosecutor must address problems in both the West Bank and Gaza. His input is rendered ineffective because of the restrictions on movement imposed by Israel. Many criminal matters are and were prosecuted, which is another significant factor in weakening the judiciary. Palestinians took dispute resolution in their hands and started resolving matters through *Sulha* (reconciliation), this dealt further blows to the process of justice.

The judicial reform over the last few years has meant that the High Judicial Council was empowered to serve the judiciary, discipline its members and supervise their functions. It holds the right to appoint judges and thus guarantee their independence and that of the judiciary as the third branch of government. Effectively, the Minister of Justice's powers over the judiciary have become curtailed and equally those of the President's, leading to decreased patrimonial influences.

Moreover, the judiciary established additional courts to handle the increased and overburdened dockets. They have increased the number of trial courts and in busy jurisdictions like Ramallah created two trial courts. They appointed new judges to meet the growing demand. The docket started moving better with increased speed and efficiency. A number of training programs in commercial laws and commercial matters were introduced and considerable measured impacts have been recorded.

Gaps

The transitional relationship from a dominant Executive to shared powers with the legislature (PLC) has not been very smooth and needs corrective action. Moreover, members of the Executive like the ministries, continue to propose legislation and the PLC reviews and enacts. To date, the PLC has initiated very few laws, 9 out of 70 laws that have been enacted. This is caused by an absence of overall legislative policy direction in Palestine that is set on a national level whereby the Legislature exercises its due powers to initiate legislation and to the lack of true separation of powers. Legislation continues to be initiated outside the PLC and the PLC reacts to such proposals. This is fine in a transition, but the process has to be closely examined to ensure the viability of long-term legislative development. The result of which is sub-policy set at the level of each ministry alone without coordination.

Although the process is improving, the lack of coordination has continued to result in duplication. The donor community has contributed to the duplication by not pre-determining nor coordinating the legislative drafting thus it has funded the same draft legislation at the executive level. Examples of this include work done by the Ministries of National Economy and Finance but duplicated by the Ministry of Justice, namely, Diwan Al Fatwa wa Al Tashree, the legal opinion and legal drafting unit.

The duplication has caused adverse results especially because most of the duplication took place at the level of laws related to economic developments. Time, money and effort have been wasted.

Many policy makers now correctly argue that the role of the Diwan has to change. In the period prior to the PLC, the Diwan filled a vacuum, even though there is a serious question mark concerning the quality of the drafts it has produced and the President signed into law. The Diwan copies neighbouring laws without accounting for the local context nor the existing jurisprudence. This is a serious drawback that has left many laws needed amending—just a few years after promulgation.

Annex D: Overview of Business Associations and Institutions

1. Palestinian Federation of Industry (PFI)

The PFI is a non-profit organisation established in 1999 as the umbrella for industrial associations in Palestine. It is a membership-based organisation for all industrial associations. There are no figures available about revenue or membership fees but the federation presently represents 23 associations. However, under a new law this will be rationalised through some integration to produce ten members. Governance is through thirteen Boards of Directors, which are elected every two years from the GA.

The PFI federation has 10 staff in WB, including the general manager, and 3 in Gaza, located within the institutional development, the policy management, and the IT and communication departments.

The vision of the PFI is to become the main body representing industrial associations and helping them to achieved unified policies, strategies, and objectives so as to most effectively develop the economy. Its mission is to develop industry through facilitating, adopting, and developing activities to serve the improvement of industry. It is working on developing industrial policies that includes legislation advocacy policy, etc., and on developing a detailed strategic plan with USAID support.

The PFI is currently (March 2004) under strong chairmanship who is determined on its reorganisation and rationalisation under new laws. It is being supported by USAID in its development and the drafting of a three year strategy.

It is clearly concerned with the development of industrial associations and was helpful in supporting the development of the database made on associations now held at PDF. It has been efficient in developing a new law to rationalise and organise relationships between associations and the federation. Donor support for the development of the various associations should be carefully integrated with the work of PFI to ensure maximum effect and synergy. It should be the focal point for all industrial associations.

It needs now to concentrate of the development of skills within its staff to implement and ambitious strategy. Without access to balance statements it is difficult to estimate its financial situation but fund raising is almost certainly to be an issue over the next few years as its membership base struggles to survive in an extremely difficult economic environment.

2. Palestinian Standard Institute “PSI”

PSI was established as an independent institution in 1994 under presidential decree. It is governed by a Board of Directors, chaired by the Minister of National Economy. The 14 members represent the public and private sectors as well as academic organisations and are appointed from the Ministers’ cabinet every two years.

The estimated annual budget is \$800,000 that is provided by the Ministry of Finance. It also has an annual revenues of \$175,000 obtained from the provision of services such as commercial marks, certificates issuance, testing, revenues from standards, calibration, etc., in addition to revenue from donor funded projects. The institute has a staff of 90 employees including the general manager, department heads in technical, administrative & financial, cooperation and international relation, national metrology, quality and certification, standardization, and other departments. Auditing is internal through the administrative and financial auditing unit and the Palestinian Monitoring Agency also externally audits. The Board of Directors meets once every two months.

The vision of the PSI is to be recognised by the business community and consumers, both locally and internationally, as the focal point for Palestinian participation in the global system of harmonisation of standards. Its mission is to facilitate trade and investment in Palestine through meeting the metrology, standards, testing, and quality (MSTQ) related needs of the business community while ensuring environmental safety and consumer health and safety.

The institution serves all industrial sectors so as to develop, adopt, and adapt harmonised standards, granting Palestinian quality marks and certificates, calibration of the measurement equipment in factories and laboratories, training programmes, provision of information about the regulations in the neighbouring countries, accreditation of testing laboratories.

Several studies, projects, and programmes are implemented in the association at the current time (March 2004) that includes the preparation of a strategic plan for the coming three years with the help of USAID. They are also developing a calibration’s laboratory supported by UNIDO.

PSI is cooperating with International Standardization Organization ISO to become certification body of ISO 9000 and ISO 14000 during the coming 3 years. PSI is also planning to adopt standardisation according to European model and is working with Ireland and Sweden to accomplish unification stabilisation functions.

Its three year plan includes various goals and objectives such as: -

- Identifying the needs of priority sectors
- Preparing for and conducting workshops to priority areas
- Review and modify standardisation rules with a European standardization body
- Development of staff
- Activate standards committees
- Reviewing and updating the national metrology system in cooperation with the international organization
- Developing the legal metrology system based on international best practices in cooperation with an EU organisation

PSI hopes to become a private sector organisation in order to become profitable and be able to achieve its plans while becoming more self sustainable and less dependent on government or donor funding. Meanwhile it still needs to seek fundraising to implement its programmes.

It has a plan that includes a timeframe and the required HR for implementing identified activities and projects. Some of the activities include in the plan may be implemented immediately from the PSI budget but some depend on obtaining donor funds. The present staff, with some additional training in areas that require specialty skills can handle and manage the implementation of the activities included in the plan.

3. Palestinian Food Industries Union “PFIU”

The PFIU was established in 1995 in Ramallah and Gaza City with the aim of serving the needs and aspirations of the food sector. It recently renamed itself the Palestinian Food Industries Union “PFIU”. It is a membership-based organization for locally registered companies in various food sectors. The annual membership fee is \$250 and members, some 106 companies from various sectors including confectionary, dairy, meat processing, soft drinks, snacks, grain, canned food, oils and ghee, traditional industries (halva, etc.), animal feeds industry. It has a nine member Board of Directors, which is elected every three years by the members.

The capital investment for the union is approximately \$45,000, 80% from members and 20% from grants. Annual revenue is \$65,000, which is largely used to cover costs, while the sector’s annual revenue is estimated at \$300 million. The union employs three staff, and uses an external auditor.

Members meet once a year and the Board of Directors meets every two months or when requested.

Their vision is to help members develop truly competitive food products that meet national, social and health safety requirements. Their mission is to support and develop the food industry through achieving their own strategic objectives, which will lead to developing a domestic product with high quality that is capable of ensuring customer's satisfaction. The main objective is to help upgrade the food sector so that it best meets the rising demands of the Palestinian consumer. It believes that representing the interests of the food sector will lead to building a food industry with competitive capabilities and ensure effective regulation within the industry.

Some of their key programmes and services include training programmes; promoting modern quality, production standards and specifications; providing consultation services in the field of legislation, product development, and management and safety systems and communication; the organisation of commercial and technical exhibitions such as the Palestine Food Day; and the production of various studies like on the opportunities of marketing Palestinian food products in Arab markets

The PFIU has developed a strategic plan that consists of the union's vision, mission, strategic goals with identified several objectives and strategies for achieving each goal, which was developed in cooperation with DAI. Goals include developing the HR capabilities of members in the administrative and technical fields, in productivity and IT capability, in developing fundraising methods and techniques and facilitating acquiring the needed funds. Other goals included are in representing the food industry sector and defending their interests in front of the domestic and international parties, and increasing the market share domestically and internationally. Each of these goals will be achieved through adopting certain strategies listed in their plan.

PFIU depends on grants for implementing activities and projects through a limited number of employees. It will need more staff to effectively manage and implement planned activities and projects to achieve their strategic goals.

It needs to carefully consider these goals in regard to a timeframe, the required HR, the impact on the sectors, the costs, and the proposed methodology for implementing the project as well as identifying the process for maintaining the projects after implementation. This detailed analysis is under way within a detailed plan of activity but it is not yet available. Perhaps the key activity is to raise the funds necessary to employ more staff.

4. Palestine Trade Centre "PalTrade"

PalTrade was founded in 1998 by a group of Palestinian businessmen as a non-profit organisation with the aim of developing and promoting the trade performance of businesses. It has an office in Ramallah, one in Gaza and a promotion centre in Jordan. Its annual membership fee is \$500 paid by 150 companies from about 70% of the various business sectors. Their main role is in providing services and assistance to members in developing

markets, capacity building, information providence, and lobbying for the benefit of the private sector.

PalTrade has an eight member of Board of Directors, which is elected every two years. Capitalisation was 5% from members and 95% from funding organisations. The Average Annual Turnover is approximately \$1,260,000 (that is consumed by costs) and is largely supported by donors, mostly USAID with some income from membership fees. It employs 25 staff, 15 of which are in the technical department, (although as of March 2004 PalTrade is implementing various changes in its role and was reviewing its staffing). Auditing is carried out by the financial department. The members meet once a year and the Board of Directors every 6 months.

PalTrade's vision is to lead the development process that ensures trade development and promotion for sustainable business sectors. Its mission is to promote and develop trade for the various existing business sectors in Palestine through advocating business enabling policies, mechanisms and environment, and promoting the Palestinian trade domestically and internationally through facilitating access to markets.

Their main objective is to lead the development of Palestinian trade as a force for a sustainable economic growth of Palestine. Services and assistance provided to members and sector through PalTrade include trade promotion programs (exhibitions, trade missions, etc.), trade support (technical assistance, capacity building, and sector support programs, trade policy development, information dissemination, and trade information.

Several studies, projects, and programmes are implemented by PalTrade. They include trade promotion activities, "around 119 different events per year", trade policy "12 white papers per year", strategic planning, "4 are ready, 2 in pipeline, and 6 will be developed".

It manages the national economic dialogue programme "NEDP", which aims to assist and instigate private sector representatives and business leaders in formulating and advocating policy issues of concern through a consensus building process.

PalTrade is currently working on developing a three-year strategic national plan for the private sector to include the building and developing of the capacity of institutions, and enhance the communications amongst institutions. The goals and strategies are promoting a competitive enabling business environment; improving trade competitiveness through trade promotion and capacity building; fostering international business practices and standards amongst professionals, firms, and business organizations through developing a close working relationship with local and international standards institutions; building awareness and disseminating best business and technical practices through seminars, workshops and other activities; and providing trade enabling knowledge.

PalTrade HR policy is to employ qualified, skilled, and well-educated employees and to pay them good salaries to encourage them to remain at work and achieve concrete outputs. They are undergoing an organisational restructuring that will affect their HR but the outcome is not yet known.

They have an organisational structure and quality management system that makes them capable of managing the implementation of the planned projects and activities, bearing in mind that PalTrade had developed the financial and administrative manuals that include their policies and procedure.

5. Ramallah Chamber of Commerce

Ramallah Chamber of Commerce is a Palestinian membership-based organisation for locally registered companies in different businesses in Ramallah district. It was established in 1950 in Ramallah City to provide services to members, represent them in front of different parties, and work to improve the local economic environment chamber. It has 4107 members from different business sectors who pay an annual membership fee of between \$140 and \$280 dependent on profession or industry. It's Board of Directors is elected every four years. The capital investment for the chamber is approximately \$500,000, made up of 40% from members and 60% from other sources. Annual Revenue is \$230,000 and they estimate their growth over last year as 5%.

There are eleven staff and six main departments, which include administrative, technical, financial, IT, etc. Auditing is carried out by the general manager and treasurer. Members meet once every six months the Board of Directors monthly. The chamber works according to Jordanian based law.

The chamber's vision is to become the best chamber in Palestine in terms of service provision to its members. To help it achieve this goal it is planning to establish an international trade fair centre for the interests of local and international trade fairs. Its mission is to represent and defend the private sector interests in Ramallah governorate, and work on providing a local investment climate.

Services and assistance provided to members include internal information related to members, international markets, training programmes, consultation services, trade fairs, issuance of financial warrantees, issuance of certificates of origin, organising and receiving international commercial delegations, defending the interests of members in front of formal parties, librarian and Internet services, gaining of visas, accessing external markets.

The chamber's annual plan includes: -

- Studies and printing material to include a newsletter about the chamber activities.

- Cooperation agreements with South Africa and France.
- The international exhibition in Cairo and Damascus, and the Moitex exhibition.
- Training to include web site design, planning and projects management, electronic commerce, etc.

The chamber is engaged in several training programs supported by the funding agencies, which indicates its serious intention to strengthen and develop its HR.

The chamber obtains revenue from rented properties, rent hall, approval on certain documents, fees for issuance of certificates of origin, etc., which indicates that the chamber has its own budget to maintain its sustainability. It needs help with funding the development of its members but is determined to do what it can with existing funds.

6. Arab Hotel Association, (AHA)

Established in 1962 the AHA represents Palestinian hotels through out the Holy land 2 and has 58 members with approximately 3500 guestrooms representing 81% available. It is working on restructuring to include all Palestinian hotels under its umbrella through establishing four regions.

The Palestine Hospitality and Tourism Resource Centre “PHTRC” was a result of cooperation and coordination between MAP/DAI, AHA, and Bethlehem University, to service the hospitality sector in particular and the tourism sector in general.

AHA has a nine member Board of Directors that meets monthly, representing regional committees in Jerusalem, North, South, and Gaza and a national assembly of 20 members.

Annual revenue is \$35,000 and the association employs two staff who are supported voluntarily by members.

Their vision is to include all hotels in Palestine under its umbrella and its mission is to enhance the overall quality of Palestinian hotels.

The main goal of the association is to work for the interests of the tourism sector through all possible resources. This goal will be achieved through objectives that include developing the hotel industry up to international standards, defending the interests of members, and building and maintaining balanced relations between the association and all related parties.

Services and assistance provided to members include marketing, HR development, setting standards in service delivery, safety, environment, labour, and professional management; and legal representation. It also carried out various studies such as periodic occupancy rates, business suppliers' database, sector marketing plan, a tax campaign, tourism and environmental awareness and the tourism magazine, Pillars.

AHA is working on building the capacity of the association and creating initiatives to help overcome the present difficulties in the tourism sector. It will probably have to recruit more staff and its ambitious project to create a training centre should be supported.

7. The Palestinian American Chamber of Commerce (PACC)

Established in 1997 PACC aims to help promote and strengthen commercial ties between the USA and Palestine by facilitating business opportunities. It is a membership-based organization for locally registered companies interested in trade exchange with the American enterprises and markets. Its annual membership fees are \$300 for individuals and \$400 for companies.

There are a hundred companies and the chamber has an eleven member Board of Directors. The capital investment for PACC is approximately \$50,000 and annual revenue is approximately \$42,000. The chamber is run by a single member of staff.

PACC works closely with the Palestinian Authority to enhance the business climate and foster direct relations with US businesses. It provides advice and relevant information to Palestinian and American businesses on matters of commerce, finance, and industry, assists in the formation and development of direct agency and franchise relationships with US companies. It hosts visiting delegations from US and provides opportunities for members to meet with them.

PACC expects to have support for the extension of its operations for this year from the USAID, but are looking for other sponsors to support additional activities and programs. Some of PACC intention is implementing the Dead Sea conference for young entrepreneurs, training from international experts, issuing the monthly report about the chamber's activities, achievements, and the financial report, and rehabilitation of businesses due to the damages caused during the Israelis incursions.

For more activities and activation it should consider recruiting additional employees to extend the chamber's activities for serving the businessmen and companies interested in import from US, and export to US. It is important to open new channels of marketing in the USA in order to export the Palestinian products to this big market and be benefited from the agreement between the PNA and the US.

8. Palestinian Association of Certified Public Accountants (PACPA)

Established in 1965 PACPA started operations in 1997 and is currently registered at the Ministry of Interior. It is a member of the Arab accountants and auditors association in Cairo and has 145 members from both WB & Gaza being 75% of certified auditors.

Annual membership fees are \$100 annually and annual revenue in 2002 was about \$30,000, which largely covers costs. This income is now depleted through a reduction from external funds. Activity is managed largely voluntarily with the support of a single member of staff.

Members meet once a year and the Board of Directors twice a year. The law is according to Jordan law of 1997, and the new Palestinian law that is in negotiation in PLC. The bylaws are approved from the board of members.

Their vision is to develop the accounting auditing profession and related law and their mission is to achieve an independent association, which will organize the profession and defend the members in front of public and private parties.

Services and assistance is provided to members through the distribution of magazines for accounting auditors, printing books and newsletters, implementing internal and external training courses, and preparing index for accounting auditors.

The association had been engaged in various projects such as the USAID three million dollar project to develop the accounting and auditing sector where the association performs translations of international accounting documents such as systems, standards, etc. Translations mostly focus on international accounting standards of International Federation of Accounting in New York "IFAC". Through the pre-mentioned project, PACPA has issued various publications that include a CPA guide to professionals, international evaluation standards, rules and procedures of profession.

It wishes to:

- Implement a continuous education programme about international standards and the new law
- Establish a training institute
- Establish a library specialized in accounting, auditing and related sciences
- Issue Al- Madaqek magazine
- Twin with an EU based organisation, such as the English association for accounting auditors

The association depends on volunteers to perform its activities and will need additional staff in order to extend its operations and implement its plan. For example the awareness campaign for the new law and the establishment of the training institute will require big efforts. The Al-Mudaqek magazine was issued several times but was discontinued after the end of the support project. Additional skilled and qualified staffs will be needed specially when implementing the training institute. PACPA shall investigate the ability of establishing a training institute in terms of HR planning, financial costs and feasibility.

9. Palestinian Information Technology Association of companies “PITA”

Established in 1999 PITA is a membership-based organization for companies in the information and communication technology (ICT) sector. Annual membership fees are \$500. Registered at the Ministry of National Economy the association represents 75 ICT enterprises and has a seven member Board of Directors, elected every two years.

Annual revenue is \$120,000 which helps the association employ eight staff. Members meet once a year and the Board of Directors meets weekly.

Its vision is to lead the ICT sector to become the economic pillar of Palestine. Its mission is to promote and defend its sector through advocating business enabling policies, mechanisms and environment through public-private partnership.

PITA provides services to members including exhibitions & trade missions, workshops and training, promoting products to Gulf area. Several studies, projects, and programmes are also being implemented, such as policy development supported by DAI/ MAP; Palestinian ICT Incubator (PICTI) supported by USAID, UNDP and others; IT Diffusion supported by DAI/ MAP, PalTrade, UNDP; Palestine@Gulf Marketing and Business Development Office established in Dubai Internet City, supported by the Islamic Development Bank (IDB), Paltrade, DAI/ MAP, and member companies; capacity building for Palestinian IT Companies, supported by the UNDP/ PAPP; Development of Human Resource for Economic Growth and Job Creation supported by UNDP/ PAPP; a Sector Marketing Plan, developed by a team from PITA, PalTrade, and DAI/MAP.

PITA does not have enough finance for the planned projects but are working to obtain funding to achieve their plans. The association is well organised and it is hoped that their ambitious planning will find donor support.

10. Union of Palestinian Pharmaceutical Manufacturers “UPPM”

Founded in 1996 as an independent, membership based organization the UPPM promotes industrial self-regulation within its sector through the establishment of standard guidelines for the protection of the consumer. It works with government to improve the quality and standard of the industry, as well as with the health care professionals to promote and publicize the effectiveness and safety of its products. The members are firmly committed to the union mission and objectives. To ensure the involvement of all members in the decision making process, the position of the chairman and treasurer are rotated every six months.

The union’s vision is to create a competitive pharmaceutical industry that is capable of serving its local community as well as competing in international markets by providing exceptional quality and value.

Annual membership fees are \$1000 collected from the six members that are all the manufacturers in Palestine, and all of them are represented on the Board of Directors. The chairman is elected every 6 months. Members and the Board of Directors meet three times per year and technical committees meet once every month.

Annual revenue is approximately \$50,000. The sector’s annual revenue is estimated at \$31 Million and the estimated annual growth for pharmaceutical companies is 10%. The association has one employee, who acts as director, and performs all required activities and services to members. The union is efficient in following up the required activities through the formed committees (i.e., local, export, and technical committees).

Their vision is to make Palestine a healthier place while their mission is to represent the common business interests of all members, to coordinate an industry position on key legislative and regulatory issues, and to promote the reputation of the Palestinian pharmaceutical industry and its quality products worldwide.

They want to achieve and retain ISO9001 certification for all member companies; assist the Ministry of Health in adopting and enforcing an internationally recognized GMP standard; organize industry trade events in Palestine and target markets worldwide; educate the public on the safety and effectiveness of the Palestinian pharmaceutical products; and provide specialised technical assistance and business counselling for member companies.

Projects include an ISO 14000 project; training programmes; a visit to the UAE exhibition; cooperation with World Health Organization (WHO) to unify systems;

Good Manufacturing Practices; exports to countries such as Ukraine, Kazakhstan, etc., and the Arab countries.

UPPM provides TA to its members. For example while facilities in pharmaceutical companies conform to GMP standards they need systems and HR development. They need to develop their advocacy skills and are planning to prepare and issue an index related to advertisement for drugs manufacturing companies, clinics, pharmacies, etc. They are developing a three years strategy in cooperation with USAID.

Revenues are obtained through membership fees and their contributions. The union depends on fundraising for achieving its objectives and is planning to recruit an administrative assistant to help in following up certain activities They believe an additional three staff will eventually be needed.

11. Federation of Chambers of Commerce (FCC)

Established in 1989 the FCC is a membership-based organization for chambers of commerce, industry, and agriculture. Annual membership fees are between \$140 and \$280 and it represents 45,000 enterprises in 13 chambers. They make up the 13 member Board of Directors elected every two years and meeting monthly.

Revenue figures are not available, but the federation should obtain 10% of the total incomes of all chambers according to law, but actually doesn't acquire them. The federation has eight staff.

Its vision is to become the main effective defence of the interests of chambers and its mission is to provide effective services to members and working with chambers and businesses.

Services include capacity building within the chambers through training courses, the creation of projects, workshops and training seminars in management, financial management and quality, study tours for transferring of knowledge and expertise.

Projects include a study of the Palestinian workforce and the main economic indicators with German support; an HR project supported by Sweden; creation of Job Opportunities with USAID; and an SME report about the impact of Israeli procedures on the private sector performance.

Its goals include:

- Building the capacity of the chambers of commerce for more cooperation
- Adopting a methodology to connect the members of chambers of commerce in a network based on the national interest
- Enhancing the relationship with official organizations, especially MNE, for the benefit of PSD
- Participating in developing the necessary laws and legislation for supporting PSD
- Creating joint projects between the chambers and international organizations
- Establishing a network with Arab and other international businessmen
- Developing relationships with Arabic and Islamic chambers

12. The Palestinian Association of Management Consulting Firms (Mustashar)

Founded in 2000 Mustashar by 15 consulting firms from the West Bank and Gaza, it is the only organisation exclusively devoted to promote and enhance the management consulting business in Palestine. Established at the outset of the Intifada it could not progress as planned as the whole management-consulting sector was severely damaged by the worsening economic situation.

Membership of twelve companies represents 80% of existing consulting companies. The six member of Board of Directors is elected every two years. The current members of Mustashar are only private management consulting companies but it is about to open membership to individual management consultants. A company membership fee is \$300 and the annual fee is \$300. Additional funding has been provided by UNIDO Industrial Upgrade Programme and EU Emergency Technical Assistance Programme,

Mustashar has an office in Ramallah with one staff member. Members meet once a year and the Board of Directors on monthly bases. Mustashar is the process of registering itself as a legal entity at the MNE.

Its goals include:

- Upgrading the quality of consultancy and training in Palestine
- Increasing the local market share of consulting service-delivery

- Enhancing the appreciation of the value of consulting by clients and external audiences
- Organize the management consulting industry in Palestine.
- Gain recognition of Mustashar as the voice of the consulting industry

Services to members include seminars, information exchange, research, training courses, study tours and introducing new tools and knowledge.

Mustashar is a viable institute that has tremendous potential for growth if given the appropriate opportunity. Its Board is working hard to institutionalise the association through building internal policies, procedures, registering the association at the Ministry of National Economy, signing memorandum of understanding with different organizations and through opening the doors for the individual consultants to join.

Management Consulting is considered of good quality in Palestine with opportunities for upgrades. For that, any TA for Mustashar will have a positive impact on the association to better organize the sector and this will be reflected on the performance of the members. Management consulting is the corner stone for any real development in Palestine.

13. TAHKEEM Centre for Settlement of Commercial Disputes

Established with the support of USAID in 2002 it is the first Alternative Dispute Resolution (ADR) centre in Palestine and utilises arbitration and mediation to resolve local and international commercial disputes, which serves as an efficient and cost effective alternative to traditional courts of law. TAHKEEM has a seven member Board of Directors, elected every two years and meeting monthly.

Its capital investment was \$716,131, 30% from members and 70% donors. Its annual revenue is \$100,000 with an annual budget of \$200,000. The centre employs nine staff and enjoys financial support from USAID, which will keep it operating until April 2004, when it will have to locate other funding.

Its ADR services are of great value to the business community, offering win-win solutions and allowing disputing parties to maintain good business relationships. Its mission is to assist private sector companies and to contribute to PSD through the provision of effective tools of dispute resolution. Its goal is to satisfy the conflicting parties by achieving rapid results with amicable, legally binding, enforceable and cost-effective solutions to their disputes. It fills a vacuum resulting from the absence of any specialized local institution capable of providing rapid, low-cost arbitration.

It offers services that include institutional commercial arbitration and mediation services in accordance with the centre's rules of procedure or any other rules the disputants mutually agree upon; legal guidance regarding the inclusion of arbitration and/or mediation clauses in commercial contracts; promoting public awareness of professionally conducted commercial arbitration and mediation; conferences and training along with information related to commercial arbitration and mediation practices locally and internationally; lists of arbitrators and mediators categorized according to their qualifications, skills, and specialists.

Projects include the training of a pool of mediators and arbitrators from different sectors, legal research in arbitration in specialized sectors and a monthly newsletter.

TAHKEEM is currently planning to open channels with a large number of economic sectors by conducting cooperation agreements with major organizations, unions and associations. At present much of its work is in negotiating rather than arbitrating but it is still establishing itself and against a background of a judiciary that often finds it hard to implement court decisions it has an increasingly important role to play in PSD.

14. Union of Stone and Marble Industry (USM)

Established in 1966 USM promotes the stone and marble industry and defends the interests of the members. It has been involved in various development programmes to develop the effectiveness of the union, such as the export development program through the DAI.

Headquarters is located in Bethlehem, with branches Hebron and Nablus. It is a membership-based organization for locally registered companies in the stone and marble industry with annual membership fees of \$280. Its capital investment was \$180,000, with 52% from members, 8% from donors and 40% as loans and annual revenue is \$93,000.

It has 400 members-companies, which represent 67% of the sector. It has an eleven Board of Directors, elected every two years, which meets monthly.

Its vision is to position the Palestinian stone and marble sector in the global market and its mission is to become the leading representative of the industry, to promote and defend its interests and to support and encourage its development.

It aims to represent the industry in its relationships with government and non-governmental institutions; advocate the needs and interests of its members; advise government on infrastructure needs; foster the development of skills needed to promote better production and export development, through training programmes; participate in the world network of exhibitions and conferences.

The union scope of work and major activities include policy and advocacy development, human resources planning and development through adopting training programs, managing the implementation of TA programs to sector, and exhibitions participation, arrangements, and coordination. Also, include promoting the sector, defending the members' interests, provision of information about stone and marble industry to beneficiaries and customers, and interested entrepreneurs, and solving commercial disputes related to members and providing solutions in certain cases.

Its services include: promoting new events and activities, encouraging members to participate in commercial Trade fairs, publishing a members' directory, training programmes, facilitating access to visas to allow members to perform missions abroad, assisting members to obtain permits to enter to Israel, publishing catalogues and promotion sheets in different languages to promote the industry in international markets, assisting members to communicate with international companies, preparing companies for exporting through the export development programme, assisting members in obtaining discounts on insurance through the union, internet service improvements for members, information, regulatory consulting services for his members.

It is implementing a marketing strategy plan and is working on developing a strategic plan with another six associations through PalTrade, supported by USAID. It appears efficient in managing the implementation of TA projects through its skilled staff. The strategic plan may require recruiting additional staff and performing certain training for performing some courses that assist in implementing the project and maintaining it after the implementation.

15. The Delegate of German Industry and Trade

Established in 1995 and registered with MoI, the Delegate of German Industry and Trade in Palestine is part of the worldwide network of the association of German Chambers of Commerce and Industry "DIHT" in Bonn, Germany. Their network covers the federal republic of German with 85 chambers and industry and over 110 chambers, delegates and representative offices in more than 70 countries.

Their budget of \$100,000 is provided by DIHT and the Delegate employs three staff.

It aims to develop business relationships between Germany and Palestine through enhancing and promoting bilateral trade. In order to achieve this goal, the Delegate developed a number of services to facilitate local businesses to access the German market.

Services include provision of information through the information and Internet centre, visiting international trade fairs in Germany; facilitating and acting as arbitrators and mediators to solve commercial disputes between German and Palestinian companies; keeping beneficiaries informed about Delegate events; marketing services and consulting; training seminars and workshops on subjects like customs and taxes.

The Delegate cooperates extensively with PalTrade in organizing and arranging visits to German trade fairs through obtaining the visas, hotels reservations, tickets, arranging with expert to meeting participants in Germany, helping to find funds for visits.

The Delegate is efficient and creative and implements the required services according to the needs of the business and services related to their scope of work. For instance, the training is determined according to a needs assessment, which is determined through a close relationship with the companies as they express their needs and requirements in meetings.

16. Palestinian Economic Association (PEA)

Established in 1998 PEA promotes sustainable and equitable Socio-economic development by mobilising economists and other specialists to engage in research and debate on the economy and policy making in Palestine. PEA is an academic membership-based organization with annual membership fees of \$25. It includes 400 members with a nine member Board of Directors that meets monthly and is elected every two years. In addition, the MoF provides funds that cover running costs of almost \$120,000.

Studies and reports are produced with the support of donors and it has one employee. It is registered under the Ministry of Interior and has its bylaws approved by it.

Their main objective is to promote economic growth through building relations with businessmen, chambers of commerce, etc., through encouraging independent and informal analysis, fostering interaction and exchange knowledge and experience amongst local researchers and international research institutions. It also serves as a

channel of communication between the civil society and policy makers, and upgrades the professional skills of members by providing appropriate training seminars.

Its services include organising conferences, reviewing and following up laws issued by PLC, providing opportunities to members regarding education continuation and training programs. Also, conducting training activities, and providing members with the opportunities in conducting assessment studies on behalf of PEA.

Projects include a symposium about the actual economy and methods to overcome the crises; a study about joint ventures; publication of the “Palestine Economic Pulse”, the only economic journal in English in Palestine; cooperation with the Middle East Research Centre in Cairo with Ford Foundation Support through raising proposals regarding the security wall built by the Israelis, along with others regarding women and work.

17. Palestinian Investment Promotion Agency (PIPA)

Starting operations in 2000 PIPA is an independent agency established under the law on the promotion of investment in Palestine. It has a thirteen member Board of Directors that includes eight representatives from the public sector and five from the private. The Minister of National Economy is Chairman with other ministries being represented and it meets twice a month.

Estimated costs of 48 staff are NIS 1.5 million with running costs of NIS 2.5 million. PIPA does not acquire any companies’ registration fees from investors due to the current difficult economical situation in the territories, and funding is provided by MoF and donors, including UNCTAD, Norwegian programmes, USAID, UNDP and World Bank.

Its mission is to provide a constantly improving service to foreign and domestic investors through a One Stop Shop “OSS”, special investment incentives and state of the art technology to attract investment, facilitate cooperation between the private sector and the government.

The main objectives of PIPA are to encourage and promote investment in Palestine, provide guarantees to investments, grant the incentives to investors, and provide the appropriate environment for investment.

Its services include: -

- Information on costs, investment, opportunities and financing,
- Acquiring incentives and income tax exemptions
- Disputes settlement between investors and national authority that relates to rights and obligations provided for in the investment law
- Aftercare programme for investors
- Training programmes for staff, including workshops and study tours
- Periodic newsletter that include information regarding PIPA mission, services, and other activities
- Promotion law and a brochure

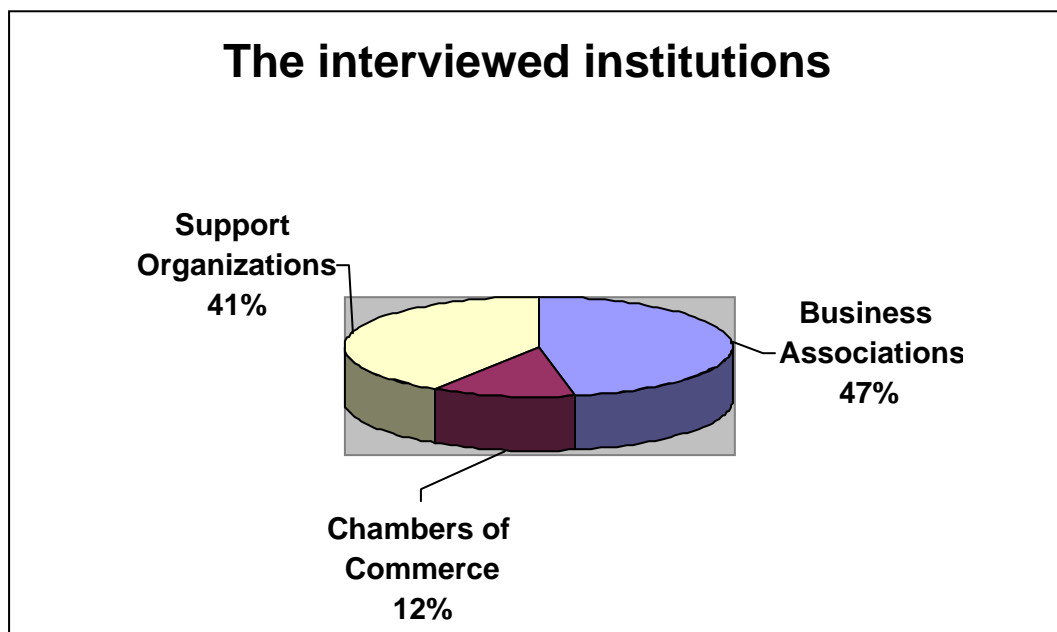
Aided by the USAID, PIPA has developed a three year strategy, drafted in 2000 through a World Bank funded project. The original plan was prepared for 2000 through 2003 but implementation was delayed due to the uncertain situation in Palestine.

It is vital that PIPA integrates its work with other initiatives, such as donor driven interventions such as PDF or MAP, to best support PSD in Palestine through better inward investment. Particular issues such as cost of land, registration of business and labour costs have to be addressed against a national plan.

2.0 Statistical Review of Interviewed Institutions

This section summarizes the current status of the interviewed institutions in regard to management, administration, HR, technical, provision of services and financial data.

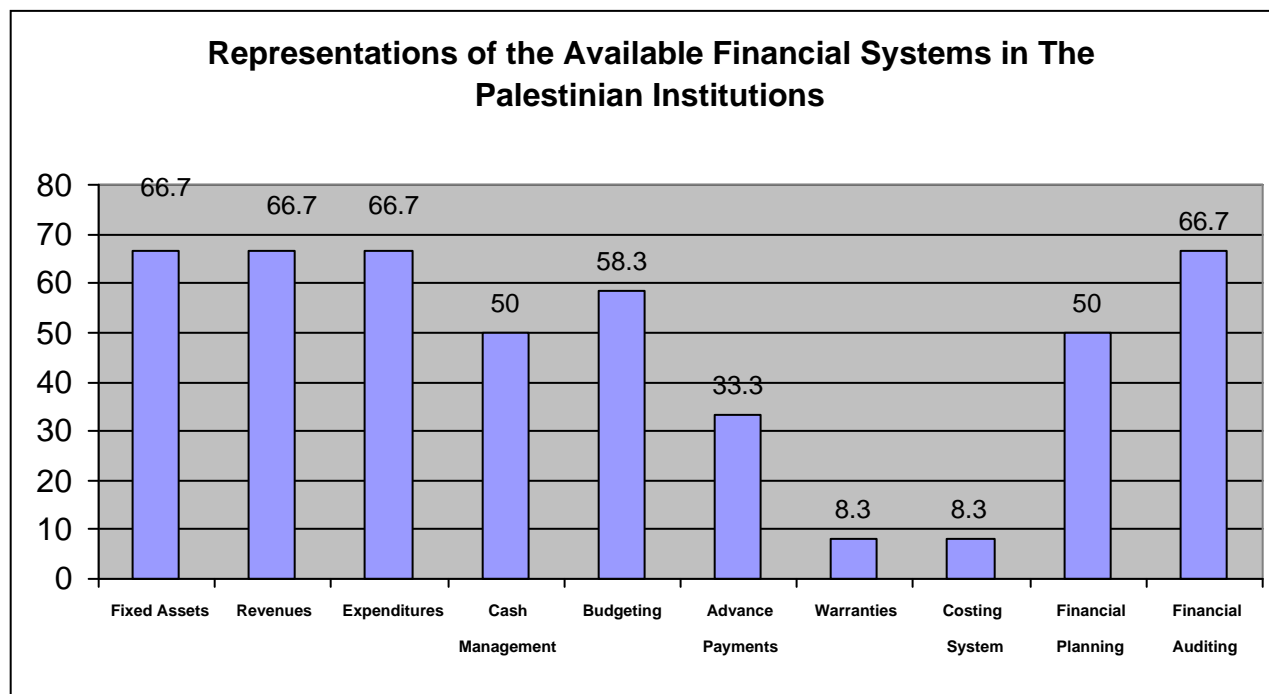
The interviewed institutions include 17 institutions that are business associations, support organizations, and chambers of commerce, which represent 47%, 41%, and 12% respectively. The following pie- chart shows these representations:



2.1 Analysis of present findings

- Around 58% of them were established during the years 1990 to 2000, around 25% during 1980 to 1990, and the rest during 1950 to 1962. This indicates that most of the institutions are new established ones.
- Most institutions have Boards of Directors of 10 to 15 members.
- There are 20% of the institutions that have less than 20 members of companies or individuals, 20% have 21 to 100, 30% have 101 to 200, 10% have 380, and 10% have 40,000. (Note. Institutions with low membership due to big companies).
- 80% produce printed documents such as brochures, newsletters, catalogue, etc, some of them need additional printed documents.
- All the institutions have a vision, mission and strategic objectives and bylaws.
- Those that have developed policies regarding strategic planning, public relations, financial affairs, and administrative affairs represent 90%, 80%, 75%, and 65% respectively.
- The institutions that have developed strategic systems regarding strategic planning, meetings management, human resources planning, public relations, decision making, and performance evaluation represent 40%, 60%, 25%, 33%, 42%, and 33% respectively.

- All institutions involve their members during the planning process and the strategies and policies developments.
- There are 83% of the institutions that perform HR planning and development in recruitment processes and training according to needs assessment.
- Around 60% of the institutions perform evaluation of the Boards of Directors performance.
- Around 80% have an organisation chart and 65% have job descriptions.
- The institutions that implement administrative, technical, and financial procedures represent 80%, 60%, 75%, and 75% respectively.
- Around 66% implement a personnel management system in their institutions, 58% implement performance indicators and 67% implement monitoring and auditing systems.
- Around 80% employ less than 10, 8% employ 25 and 8% employ approximately 90.
- Only 25% of the institutions have made allowance for training in their annual budgets.
- Needs expressed for training courses in administrative, technical, marketing, financial, quality, and IT skills represent 58%, 42%, 50%, 17%, 17%, and 50% respectively.
- Around 90% of the institutions deal with concern of their members and try to provide solutions but only 36% have a documented complaints system.
- 35% use an appropriate costing system.



2.2 Analysis of a previous study of 19 sector unions by DAI

The following results are given in a scale of 1.0 to 4.0, (1.00 indicates weak, and 4.00 indicates very strong in the corresponding field):

- The current status of the BAs in regard to documented and implemented vision, mission, objectives, and systems represent in average 3.07.
- The implementation of issues that is related to top management infrastructure such as registration in the related official PNA organizations, OS availability, authorities and responsibilities of Boards of Directors and committees, evaluation system, etc. represent 2.40
- The implementation of issues that is related to membership such as following up procedures, commitments of members in paying the required fees, etc. represent 2.56.
- Serving the members in regard to preparation of plans to fulfil its objectives, performing member's needs assessments, updating the members' database, etc. represent 2.40.

- The awareness to members in regard to implementation of local standards represents 2.75.
- The implementation of issues that is related to the general policies such as the associations' relationship with official organizations, documented policies, conducting workshops for discussing general policies related to industry, etc. represent 2.33.
- The implementation of issues that is related to associations' staffs such as availability of OS, employees' evaluation, preparation of progress reports, etc. represents 1.93.
- The implementation of issues that is related to financial aspects such as preparation of annual financial data, performing external financial auditing, search to increase its revenues, following up clear and transparent financial policies and procedures, etc. represent 2.36.
- The implementation of issues that is related to public relations such as the associations' capability in presenting members in the international organizations, promote industry internationally, etc. represent 2.58.
- The implementation of issues that is related to IT such as availability of web site, promotions of the associations' programs through web page, etc. represent 1.62.

3.0 General Suggestions & Recommendations

- Most members from the general assemblies are willing voluntarily to assist in managing and implementing the required activities whenever needed.
- Special attention should be given to strengthen the capacity of BAs in terms of needed TA in order to manage the implementation of their plans inside the institutions or to the benefited enterprises.
- While BAs are generally capable of implementing planned activities and programmes, they are not so capable in conserving and maintaining the projects after implementation. The commitment of top management's successful efforts depends on the qualification of the staff and the adopted strategies, policies, and systems in the association.
- The consultancy services provision is highly motivated in Palestine. In certain cases, when international experts are needed, the international experts should coach the local experts, which will allow local experts

in gaining the new expertise and be reflected on other institutions that have similar cases.

- TA should be provided to help the BAs develop their skills and effectiveness, and on a macro level in developing their vision and mission statements, policies, strategies, etc. It should be aimed at training programmes to enhance the awareness of Boards of Directors and staff in regard to performance indicators and evaluation systems to better evaluate the impact of their performance.

Annex E: Overview of Donor Funded Private Sector Projects

PROJECT BODY	AMOUNT	SPONSOR	BENEFICIARY	PURPOSE	OBJECTIVE
Small Enterprise Center	\$2,000,000	GTZ	Palestinian SMEs	2 Technical Assistance programs for SME development	Technical assistance; institutional strengthening; diagnostics and needs assessment.
Palestinian Enterprise Revitalization	\$2,587,896	USAID	Palestinian Business community at large	The program targets the "missing middle" and is comprised of three components: (1) firm level technical assistance in enterprise diagnostics, turnaround and crisis management, and business stabilization; (2) financial facilitation to assist firms to the "bankable" stage and source financing for these firms from domestic, regional and international sources; and (3) capacity building in the business consulting sector through an apprenticeship program.	Stabilizing existing enterprises revitalizing languishing businesses and stimulate the creation of new businesses to contribute to economic growth and job creation.
Chambers of Commerce (I) & Chamber of Commerce in Southern Sweden	14 million Corona	SIDA-Swedish Government Development Agency	Jerusalem, Bethlehem, Jericho, Salfeet, Qalqilia, Tulkarem and the Federation of Chambers	Consultant services: Strengthen 6 Palestinian Chambers, including: providing of computers and other equipment; covering 20% of Federation's expenses; costs of training, consultant fees, travelling, etc.	Capacity building; skills training; update service systems; identification of new income generation; & strengthen cross-relationships.
Chambers of	Consultant fees/	German	CC of Industry &	To enhance and improve	Capacity building of local consultants:

Commerce (II)	computers/ newsletters and training costs.	Ministry of Economy and Development	Agriculture--Nablus, Ramallah, & Jenin; Colon Chamber of Small Industries & Trade	Chamber's capacity to provide services & advocate for best interests of members; & assist Private Sector in development efforts.	training sessions; & expert exchange; vocational (IT) training; International Trade Department; assist advocacy and policy arms; & marketing plans.
Chambers of Commerce (III)	Consultant fees & 2/3 of external audit fees \$ 15,000	USAID	Gaza, Jenin, Nablus, & Toubas	Strengthen Capacity of Federation of Chambers to assist the Private Sector by assisting with the ISO 9000: 2000 Certification	Establish and implementing quality management systems; internal administrative and procedural work: service delivery & membership management.
Chambers of Commerce (IV)	\$ 15,000	USAID	WBGs & business community at-large	Internal Audit System	Aimed at reform: evaluate chambers; needs assessments; service development and quality services upgrading; build competence and ensure quality; internal reforms; & clarify role (institutional developments & local/international relation to private sector & multi-lateral trading system.
Chamber of Commerce (V) w/Paltrade	\$ 500,000	USAID	West Bank & Gaza Strip	Internship Assistance Program	Match recent graduates w/Private Sector orgs. Database of grads.; create full-time trained employees; provide services; safeguard against 'brain-drain'; increase training capacity; & enhance company image & corp. responsibility.
Chemomics	\$4,026,000	USAID	Micro enterprises	Sustainable Microenterprise Industry (ISAMI)	Growth of Micro-lending and financial services for micro-enterprises, develop skills of microfinance specialists; develop monitoring & coordination; raise public awareness; assist in services for low income.
CHF	\$ 2,600,000	USAID	West Bank & Gaza	Palestinian Economic Opportunity Program for Loans & Economic Development (PEOPLED)	Expand Home Improvement Loan Programs for WBGs low-income Palestinians.
FATEN w/Save the Children (SCF)	\$1,743,673	USAID	Micro enterprises	Palestinian Micro-Entrepreneur Support (through Group Guaranteed Lending & Savings Product)	Financial services & needs, increase outreach on GGLS & expand individual loans to low income females and trained youth. Also, life insurance product concept for low-income micro-entrepreneurs.

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FMI	\$5 Million 3yrs	USAID	Palestinian Securities Exchange; Capital Market Authority	Non-Bank Financial Institution (NBFIs) interventions; soft loans to businesses in need; & corporate restructuring.	Generate near-term employment opportunities and economic growth; respond to obstacles to private capital mobilization; provide multi-reinforcing benefits; promote legal/regulatory, institutional, & operational infrastructure development. Proposed interventions: Mortgage financing (title insurance); leasing tax policy clarification; leasing (small contractor and farmer leasing & rentals); direct assistance to insolvent insurance companies; mobilization of existing capital pools (transitional private pension development); new capital pool (retirement annuities); & securitized asset (Government [PNA] Bond issue.
Market Access Program (MAP)	\$10,719,141	USAID	Paltrade; Palestinian Federation of Industries; Palestinian Standards Institute; etc.)	Focus on Specific Sectors already contributing significantly to economy, including: stone & marble; tourism; IT; pharmaceuticals; wood; agriculture; construction; & trade services.	Institutional strengthening; increase adherence to international product standards; establish internationally accepted trade data collection procedures; & advisory services for a private sector policy agenda.
Palestinian Banking Corporation (PBC) & Palestinian Development Fund (PDF)	\$10,000,000	EU	Palestinian Business community at large	IDB program for medium term loans	\$5K-\$25K medium term loans plus technical assistance & marketing support
Palestinian Banking Corporation W/EMPRETEC	\$300,000 (O/HS \$39K & 100K PBC)	UNCTAD	Palestinian Business community at large	Training & Support capacity program & public/private sector coordination.	To provide assistance in financial capacity and coordination between gov. & non-gov. enterprise support organizations. Also, to prepare a study on the Palestinian SME in cooperation w/Central Bureau of Statistics.
Paltrade	\$2,817,747	USAID	Palestinian Business community at large	Increase volume and value of exports from WBGS	Expand access to trade shows; specialized training & technical support; expand volume, standards, quality of trade shows; develop and coordinate policy & legal framework; expansion of membership base; & pilot projects for recent

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					graduates* (*see Chambers of Commerce V).
Private Sector	\$25,000,000	Italian bilateral coop. agency	Palestinian Business community at large	Long-term soft loans (thru the PNA)	Commodity aid program (to be finalized)
Private Sector Small businesses	3 million Euro	KFW (Germany)	Palestinian Business community at large	Loan program	Assist small businesses of up to 10 employees w/loans up to \$30,000.



Annex F: Competitive Centres: Country Profiles

France

In a democracy political power stems from universal suffrage. However, owing to the increasing influence of socio-economic groups and the important role which the State is called upon to play in a modern economy, it is essential that representatives of the country's "driving forces" - company directors, employees, farmers and professionals - be consulted on matters within their competence and that their views on such matters be duly expressed and taken into account.

In France this is reflected in its third most important constitutional assembly, the Conseil Économique et Social (Economic and Social Council), which is: -

- a constitutional assembly completely independent of both the Executive and Parliament;
- a representative assembly consisting mainly of members designated by nationwide social and economic groups;
- an advisory assembly, which issues opinions and recommendations to the French government on matters of economic and social relevance.

The Conseil Économique et Social issues recommendations to the French authorities and also takes part in the legislative process on bills to be submitted for approval in the French Parliament.

Ireland

The Irish economy has undergone a remarkable transformation over the past two decades and is now one of the most vibrant and strong in Europe. A key part of this success can be attributed to the National Competitiveness Council (NTC) that was established by the Government in May 1997 as part of the Partnership 2000 Agreement. It is required to report to the Taoiseach (Prime Minister) on key competitiveness issues for the Irish economy together with recommendations on policy actions required to enhance Ireland's competitive position. [Forfás](#), the national policy and advisory board for enterprise, trade, science, technology and innovation, provides the Council's secretariat.

The Council publishes an Annual Competitiveness Report and a Competitiveness Challenge Report. In addition, the Council publishes a number of statements each year on key competitiveness issues.

The NTC defines competitiveness as, *“the ability to achieve success in markets leading to better standards of living for all. It stems from a number of factors, notably firm level*



competitiveness and a supportive business environment that encourages innovation and investment, which combined lead to strong productivity growth, real income gains and sustainable development”.

The NTC meets regularly to review data that benchmarks the country’s performance against a collection of other countries. It is made up of private sector leaders along with government officials so ensuring a meaningful discussion among people who can and do make a difference.

As it states in its 2003 annual report, “Benchmarking exercises are a useful tool for policymakers. However, it is important to draw attention to the limitations of competitiveness benchmarking. Much of the data that we would wish to use to measure competitiveness is not available. Moreover, when we wish to use internationally comparable data, availability becomes even more limited. Apart from not having internationally comparable data for matters which are essentially measurable, there is also the problem that certain matters – quality of life and social capital being a prime example – are difficult to measure by conventional methods and so have to be approached through proxy measures.

In any case they benchmark against 16 countries that include seven European countries within the Eurozone countries, three outside it, two EU accession countries and four others (including USA and Japan).

This benchmarking generates a competitiveness summary, which is reported in the annual report. “It is clear that firm level activity is being hampered by a three-pronged threat. Firstly, weak and fragile global economic conditions are continuing to dampen export growth. Secondly, the continuing recovery of the euro vis-à-vis the US dollar and UK sterling is putting upward pressure on Irish export prices. Thirdly, the cost competitiveness position of firms has deteriorated further as domestic price pressures continue to escalate, placing pressure on margins which, in many sectors, are already thin.

It is this final threat to firms, namely from competitiveness issues including costs and other factors, that this report addresses.

In attempting to quantify this competitiveness threat, this report benchmarks Ireland’s competitiveness performance for 128 indicators on the international stage, against 15 other countries. An overall summary of the findings from each section of the report, with Ireland ranking performance (1=most competitive) is outlined below.

Table 2 Summary of Findings of ACR2003

Business Environment – Positive

The tax and regulatory environment is still attractive compared to international competitors, but firm level competitiveness is being undermined by weak levels of competition and high costs.



Rankings: Levels of corporation tax – 1/16; FDI net inflows – 1/16; Intensity of local competition – 13/16

Economic and Technological Infrastructure – Very Weak

All round performance is poor and progress on broadband and transport remains slow.

Rankings: Overall infrastructure quality – 15/16; Broadband access – 13/16; Efficiency of distribution infrastructure – 15/16

Competitiveness performance for enterprise development is mixed, reflecting the diverse structure of the Irish economy and the associated varying needs and performances for firms.

Rankings: Entrepreneurial Activity – 4/16; Cluster Development – 8/16; Value chain presence – 11/16

Innovation and Creativity – Weak

The foundations for transition to an innovation-driven knowledge economy remain weak. Competitiveness performance will need to improve in this key area if future growth potential is to be realised.

Rankings: Business expenditure on R&D – 11/16; Total researchers per 1,000 people in employment – 12/16; US patent applications – 10/12

This benchmarking helps Government to target activity to address weaknesses in the economies competitiveness while also helping it to implement policy change that focuses on improving the performance of the private sector.



Annex G: Industrial Modernisation Programmes (IMPs) in MEDA Region

IMPs have been supported by the EU in various MEDA countries and their experience provides valuable lessons if such an initiative, or one like it, is to be launched in Palestine.

An IMP's main objective is to promote GDP growth and the competitiveness of the private enterprise sector, with special emphasis on small and medium enterprises (SMEs) in the context of economic liberalisation and internationalism.

The IMP in Egypt is the largest programme of activity ever supported by the EC outside Europe. However, the size of the budget, in excess of four hundred million Euros, created major problems in terms of delivery through present rules and regulations. For an IMP to be successful the provider and the beneficiary must have a clear understanding of what an IMP can do and what outcomes/outputs are expected and required.

The IMP in Lebanon has a budget of Euro 11 million and was planned with an implementation period of 50 months. Its original planning required the tendering process to select the PMU to be over in six months, the planning and agreeing of work plans within another six months so leaving three years of project activity. However the last six months of a project are non-operational to allow for closing down so at best the IMP had a 2.5 year life. Slippage in launching any programme is inevitable and it is probably more sensible to look at a life of 60 months to allow for a realistic programme of more than three years of interventions.

The IMP in Jordan is the "EuroJordanian action for the development of enterprise" (EJADA). With a relatively small manufacturing sector the ability to create jobs and growth is constrained by the small contribution of the SME sector. However, the SME sector has probably the best potential for growth and providing the impetus for national advance. EJADA provides a specifically designed range of services as well as the banking, training and public policy areas. There are four components of activity, Policy Support and Institutional Strengthening (PSIS), Financial Support, TA to SMEs and Vocational Training. PSIS focuses on three main themes; Industrial Policy, Institutional Strengthening and Research.

Egypt

The IMP in Egypt is managed and delivered by the Industrial Modernisation Centre (IMC), which is an autonomous, private sector oriented organisation, created under Presidential Decree. The Minister of Industry and Technological Development chairs the



IMC, which works through five components of activity, Policy and Finance, TA to SMEs, Foreign Trade and Inward Investment, Business Resource Centres and Quality.

It was recognised early on that to ensure long-term sustainability the IMP should be delivered through an effective, professional, business like network of business development institutions operating within a favourable regulatory and policy environment. To achieve this required the mobilisation of high-level international experts and the strong involvement of local partners, trainers and consultants and while this approach places direct support to SME at the centre of the programme, it also creates synergies and leverage effects to ensure the greatest impact by integrating institutional strengthening and policy development activity.

The objectives of the IMP will only be met against a background of policy change made to improve the environment for enterprise, to make it easier for enterprises to access funds to complement capacity building initiatives, and to encourage more appropriate and easily accessed business development services. Helping policy makers remove obstacles to industry is one of the prime concerns of the programme.

Companies are often supported in groups to facilitate experience exchange. Eligible companies are: -

- fully privately owned or with a majority private share
- capable of growth
- Operate in the industry or service sectors
- Have at least 10 full time employees
- Are legally established

The overall approach to the provision of TA is to provide assistance at critical points in a company's lifetime with a mixture of information, upgrading, access to markets and partners, etc. Over time, companies are encouraged to take more responsibility for their own development and fee structures are developed so that the company gradually becomes accustomed to paying more realistic fees and also becomes a more discerning client, able to articulate requirements more clearly to service providers and make a more informed choice among them.

The IMP in Egypt was in a planning stage for many years and was mobilised some time after the Specific Financing Agreement (SFA) was signed. This contributed to the greatest obstacle to TA delivery in that the SFA stated that all payments must be made in the currency of the beneficiary country and with the rapid collapse of the Egyptian Pound currency exchange became impossible so EU based companies could not be contracted. Lessons from Egypt include the need for a clear agreement between the beneficiary and the EU on what needs to be done, flexibility of approach so that too many rules do not make delivery almost impossible and a realistic time frame to allow for delivery.



Jordan

The IMP in Jordan is known as the “EuroJordanian action for the development of enterprise” (EJADA). In Jordan, with a relatively small manufacturing sector, the ability to create jobs and growth is constrained by the limited growth potential in other sectors and the small contribution of the SME sector. However, the SME sector has probably the best potential for growth and providing the impetus for national advance. The joining of the international trading community as represented by the WTO, other multilateral/regional and bilateral trade agreements, provides the opportunities for improved national growth as well as a challenge to meet import competition for SMEs.

EJADA provides a specifically designed range of services as well as the banking, training and public policy areas. Being a foreign-aid assisted programme it is only capable of providing a limited contribution in terms of resources and time but it has successfully worked with the government to develop a sustainable body to continue its work, known as the Jordan Upgrading Modernisation Programme (JUMP).

There are four components of activity, Policy Support and Institutional Strengthening (PSIS), Financial Support, TA to SMEs and Vocational Training. PSIS focuses on three main themes; Industrial Policy, Institutional Strengthening and Research.

PSIS supported the drafting and designing of a national industrial upgrading and modernisation programme called JUMP and the Competition Law. EJADA encourages wide dissemination of findings in order to inform, change the mindset and create a sense of urgency about the competitiveness of Jordanian industry and the economy through public seminars following all interventions.

A Loan Guarantee Scheme will have disbursed €7 million this year.

The eligibility criteria for SMEs are in: -

Service sector companies:

- Not less than 5 full time employees.
- Annual sales turnover not less than JD 100,000.
- Be established for two or more years.

Manufacturing sector companies:

- Not less than 10 full time employees.
- Annual sales turnover not less than JD 200,000.
- Be established for two or more years.



Recently TA was offered to a number of SMEs, identified from a list of companies provided by the Ministry of Industry and Trade, as having suffered a severe downturn in business due to the recent war in Iraq and thereby requiring some short term assistance to maintain viability. Other companies have been reviewed and found to be 'not yet export ready' and will receive appropriate support to help them achieve export readiness. To support export development four Strategic Marketing Groups (SMGs) have been established in Stone, Ready Made Garments, Cut-Flowers and Jewellery sectors with others planned.

The IMP has established two Business Incubators.

Direct support to SMEs is provided through various components such as: -

'Business Upgrading' offers technical assistance to eligible individual or cluster-based companies to increase their competitiveness and upgrade their operational efficiency.

'Export Promotion' helps SMEs to increase exports through workshops and seminars based on requirements identified through Needs Assessment surveys. Training programmes may be in the form of generic, sector-specific or in-company training.

'Information Services' uses the EICC to disseminate information to member companies about the EC markets, European standards and regulations, Trade Agreements and all other issues related to trade with the EC.

The IMP in Jordan is widely acknowledged as being the most successful of the models. It has adopted a straight forward approach to delivery of services and built on the wide experience of its team members in similar projects elsewhere. Most importantly it is now working closely with the government to ensure that the work already completed is not lost at the end of the project but provides a strong foundation for a government initiative that will maintain PSD in Jordan

Lebanon.

The IMP in Lebanon was launched to support the development of the manufacturing private sector.

Traditionally the Lebanese economy depended on commerce and service industries such as banking and tourism. During the war new financial centres opened in the Gulf, tourism was slow to pick up and continued unrest in the Middle East has affected opportunities for re-growth in trade. All of this has created a new focus on the manufacturing sector to be the engine of change in the Lebanese economy.



Manufacturing in Lebanon faced three major challenges.

Firstly the fragmentation of SMEs through geographical and cultural reasons, secondly the damage done during the war years when factories and plant were systematically destroyed and little investment in new products and equipment was possible and thirdly a lack of an effective support structure in for PSD.

To address this situation a Ministry of Industry was created in 1997 and the Industrial Development Authority of Lebanon along with the Association of Lebanese Industrialists has worked on an industrial development policy that mainly generated duty free zones and industrial parks. The Government is now encouraging bank lending to SMEs through the creation of a Credit Guarantee Institution but access to finance is still a major problem for SMEs.

The IMP in Lebanon focuses on established SMEs in the food processing, printing and packaging sectors.

It has six objectives: -

1. To improve the performance of SMEs in the target sectors through advanced technology, improved quality and better marketing.
2. To open new markets.
3. To facilitate better access to long term finance.
4. To develop partnerships of local SMEs with EU companies.
5. To improve the skills of support services.
6. To improve the business environment and PSD policy.

The IMP in Lebanon is based on the following approach characteristics: -

- Modernisation of SMEs to match international standards of corporate governance, marketing, technical skill and quality of production.
- Strengthening of the manufacturing sector's export capacity.
- Improving SMEs' financial management and planning skills to allow them greater access to long term finance.
- Supporting partnerships between the private sector and the Government in developing initiatives designed to promote the strengthening of the manufacturing sector.



- Targeting SMEs that have shown an ability to grow and focussing on helping them to address barriers to growth and exporting and to overcome them.

As in Egypt the IMP in Lebanon has faced many challenges over and above those to be expected with such a project. Perhaps the greatest lesson to be learned is that there has to be a clear understanding between the beneficiary and the donor on the purpose of the project. There also has to be great effort made in the opening stages to win the support of the private sector.

The lesson learned in Lebanon is that one cannot assume that the private sector will automatically take over an IMP following its intensive support by the EC for three years. With new programmes of SME support the Lebanon is adopting a different approach of greater support to institutional organisations such as Chambers, BAs Universities and NGOs, who demonstrate from the start of the programme their commitment to be a partner in the PSD programme. In reality this will translate into activity on the ground of a call for proposals and then an examination by the EC before funding and TA will be provided.

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