Palestine Business and Professional Services Export Strategy

ACRONYMS

AMC	Association of Management Consultants
FDI	Foreign Direct Investment
GATS	General Agreement on Trade in Services
GDP	Gross Domestic Product
ICT	Information and Communication Technology
ITC	International Trade Centre
IPR	Intellectual Property Rights
ISP	Internet Service Provider
IT	Information Technology
MENA	Middle East and North Africa
MoC	Ministry of Culture
MoEHE	Ministry of Education and Higher Education
MoF	Ministry of Finance
MoJ	Ministry of Justice
MoL	Ministry of Labour
MoNE	Ministry of National Economy
MoTIT	Ministry of Telecommunications and Information Technology
NEC	National Export Council
NES	National Export Strategy
PALTEL	Palestine Telecommunications Company
PalTrade	Palestine Trade Centre
PCBS	Palestinian Central Bureau of Statistics
PEC	Palestinian Export Council
PICTI	Palestine Information and Communications Technology Incubator
PIPA	Palestinian Investment Promotion Agency
PITA	Palestinian Information Technology Association of Companies
PNA	Palestinian National Authority
PoA	Plan of Action
PSI	Palestine Standards Institution
PTRA	Palestine Telecommunications Regulatory Authority

QA	Quality Assurance
R&D	Research & Development
TIS	Trade in Services
TSI	Trade Services Institution
TSN	Trade Services Network
UAE	United Arab Emirates
WTO	World Trade Organization

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METHODOLOGY

This document constitutes the export strategy for the Palestinian business and professional services sector and is the product of technical work conducted in Palestine during January 2014. This EU funded project has been commissioned by the Palestine trade Center (Paltrade) and is aimed at developing the export competitiveness of Palestinian firms specializing in the sector, and realizing the overall export potential for the sector.

This strategy follows a value-chain based approach. First, the key stages, processes, actors (primary and supporting), and market segments (national and international) are mapped to develop a composite current state snapshot of the sector. The information was derived from a series of consultations with service providers (held in Ramallah), interviews with key mode 2 (development partners and international firms active in Palestine), and an online survey. An important technical consideration was to ensure that both the supply side (private sector business and professional service providers), and the demand side (buyers across the different modes) were involved during consultations, surveys and interviews. The demand side consideration was especially important to understand the critical buyer requirements that the supply side must satisfy. This assisted in developed a composite picture of the sector.

In addition to the consultations, surveys and interviews conducted for this project, the export strategy builds upon existing body of research in the form of studies and reports that have been developed for business and professional services sector in the last few years as a means of strengthening the business case and analyses involved in this exercise. As far as possible, the strategy team has attempted to utilize existing analyses and break new ground rather than replicate analysis, except where considered essential.

SCOPE

- In terms of the scope, this strategy deliberately limits itself to proposing robust solutions to *technical* constraints facing the export value chain of the business and professional services sector. As a technical strategy, it does not attempt to address political level challenges that nevertheless also constrain the sector.

- While this is indeed a national export strategy and the bulk of the strategic interventions are also applicable to Gaza, severe data collection challenges as well as a relative lack of previous research specifically focusing on the Gaza market, limited the scope to which Gaza specific interventions could be elaborated. Although data and information gaps in the West Bank market were offset through the consultations and bilateral interviews, the only available source that could be leveraged in the short project lifecycle were the online survey and the limited body of research that exists for Gaza. Although this poses some limitations, it should be noted that the vast majority of strategic activities are applicable to Gaza as well.

REPRESENTATIVE GROUPS

Strategic interventions defined as part of this export strategy are based on inputs and feedback received for three representative groups identified in the Palestinian business and professional services sector. These three representative groups were selected due to their high export potential, as well as a variety of other factors including alignment with existing and forecasted mode 2 client business needs, as well as language/cultural factors.

Note: The selection of representative groups is not meant to imply that other sub-sector groups will be excluded as part of the strategy. The groups have been chosen so as to draw out the commonalities across sub-sectors in terms of challenges and opportunities that affect the overall business and professional services sector. This will especially pertinent given the compressed timeline associated with the project.

These three groups are identified as follows:

GROUP 1: CONSULTING FIRMS – GENERALIST/SPECIALIST

- Business consulting/management consulting
- Education and training services
- Staffing services
- Accounting, auditing and bookkeeping
- Editing and translation services (Including. Legal translation)

GROUP 2: MARKET RESEARCH BASED FIRMS

- Mailing list compilation and mailing services
- Market research and public opinion polling
- Marketing and advertising services

GROUP 3: CUSTOMER CARE CENTRES

- Telephone answering services and contact centres

BROAD METHODOLOGICAL STEPS

The following broad steps were undertaken as part of the strategy development process

1. Initial diagnostics

A thorough literature review was conducted in the preliminary stages, utilizing a variety of studies and reports related to the sector that have been commission in the recent past by national and international partners. The online survey was also conducted to develop a composite picture of the current situation and challenges facing the sector.

2. Value chain analysis

A comprehensive analysis of the sector's value chain is an integral part of the sector strategy development process. This analysis results in the identification of all players' processes and linkages along the sector. This was the basis for analysing the current performance of the value chain and for deliberating on options for future development of the sector. The analysis charts the main stages involved in the sector's export process, from inputs sourcing to distribution in market segments. This is followed by the identification of key stakeholders who include not just the primary players (e.g. producers, processors, distributors) but also those fulfilling support functions with direct linkages to the primary players. These support services include inputs providers, financial service providers, among others.

3. Trade Support Network (TSN) analysis

The trade support network comprises the support services available to the primary value chain players discussed above. It is constituted of policy institutions, trade support organisations, business services providers and civil society. An analysis of the quality of service delivery and constraints affecting the constituent trade support institutions (TSIs) is an important input to highlight gaps in service delivery relative to specific sector needs. A second analysis of TSIs assessed their *level of influence* (i.e. their ability to influence public policy and other development drivers in the country and therefore make things happen or change) and their *level of capacity* to respond to the sector's needs.

4. Problem tree analysis

The problem tree analysis used is based on the principles of root cause analysis and the Pareto principle. The reason for using the problem tree exercise is to gain a deeper understanding of *what* is causing the high level constraints, and *where* solution-seeking activities should be directed. This exercise involves a two-step process:

- *First,* the value chain analysis, surveys, and consultations with key public and private stakeholders identify constraints affecting sector-specific export value chains. These constraints are abstract and a more thorough breakdown is required to identify the specific root causes of constraints. Multiple levels of root causes are identified for each high-level constraint.

- *Second,* the problem tree uses the Pareto principle to identify critical root causes in the problem tree. This is especially important for resource limitations that usually exist during the *strategy implementation phase.* Therefore focus is needed on the 20% of root causes which result in 80% of constraints affecting the sector. Critical paths through the problem tree are charted to discover the most significant root causes constraining the sector.
  These steps resulted in a comprehensive problem tree detailing the constraints affecting the sector's export value chain, along with characterisations related to the types, granularity and intensity of the root causes. The problem tree then guides the design of the solution-seeking phase of the strategy.

5. Defining where we want to go

The strategic options for the development of the sector are reflected in the future value chain, which is the result of consultations, surveys and analysis conducted as part of the sector strategy design process. The future perspective has two components:

- A market-related component involving identification of key markets in the short and medium-to-long terms for Palestinian exporters, and,
- Structural adjustments/changes to the value chain that result in either strengthening of linkages, or introduction of new linkages.

Both components are integral parts of the future value chain, which is the basis of the strategic action plan developed for the sector.

EXECUTIVE SUMMARY

The Palestinian business and professional services sector is a fast evolving services sub-sector possessing high growth potential, especially in terms of exports. A number of enabling factors contribute to the high potential for the sector: *First*, the free-market policy orientation coupled with the entrepreneurial culture in Palestine has led to a proliferation of individual consultants and firms. *Second,* firms have a reliable client base in the form of development partners in-country who employ national consultants and local experts on a regular basis. Third, like other knowledge and human capital intensive service based sectors, the business and professional services sub-sector has been relatively shielded from the movement based restrictions that goods based sectors frequently face. *Finally,* human capital constitutes a comparative advantage for the sector, reflecting the relatively well-developed capability of Palestinian universities and training institutes to supply qualified graduates.

SCOPE OF THE STRATEGY

Strategic interventions defined as part of this export strategy are based on inputs and feedback received for three representative groups identified in the Palestinian business and professional services sector. These three representative groups were selected due to their high export potential, as well as a variety of other factors including alignment with existing and forecasted mode 2 client business needs, as well as language/cultural factors.

Group 1 consisted of consulting firms including business consulting/management consulting**,** Education and training services**,** staffing services**,** accounting, auditing and bookkeeping**, and** editing and translation services (Including. legal translation).

Group 2 consisted of market research based firms including mailing list compilation and mailing services**,** market research and public opinion polling**,** and Marketing and advertising services

Group 3 consisted of telephone answering services and contact centres.

STRUCTURE OF THE SECTOR

The vast majority of firms in the business and professional services sector are micro and small sized enterprises as indicated by the following fact - as of 2012, there are approximately 3,134 establishments operating in the sector with a total staff (full-time/part-time) headcount of 10,056. While these figures include government companies, it is assumed that the private sector constitutes the bulk of the number of companies. The micro-sized nature of sector firms is reflected in the small per-capita size in terms of headcount at approximately 3 employees per firm.

CURRENT ACTIVITY LEVELS IN THE SECTOR

Based on the GATS classification of service delivery, mode 2 constitutes an important export mechanism for this sector. Activity includes generalist consulting work (data analysis, report generation, hiring of national consultants to work alongside international consultants on complex development projects), specialist work such as evaluations, engineering work, agro-based quality management, 'translation and interpretation' work, and graphic design and advertising work.

Two of the four GATS export modes covering services, mode 1 and mode 2, do not require exporters to cross borders. For these modes, the services are rendered either over the email/post/telephone, or another communication medium (mode 1), or directly to clients such as international organizations located in Palestine (mode 2). In either case, the need for exporters to travel overseas to the client location is obviated, or at least drastically reduced.

The potential of mode 1 and mode 2 services exports has been demonstrated by the high activity level of business and management consultants that are engaged and provide services to international organizations and development partners located in hubs such as Ramallah.

Interestingly, evidence of growing maturity in the professional and business services sector is available through increased mode 2 to mode 4 transition activity. i.e. it is increasingly the case that Palestinian consultants, having developed expertise through consultant contracts with mode 2 clients (primarily development partners present in Palestine) are now transitioning to short-long term contracts in other client locations. In recent years, there has been a engagement of Palestinian consultants in development based projects in locations including Iraq, Yemen, Afghanistan, through development partners with whom the consultants have worked previously.

Service firms are also making inroads into hitherto uncharted territories such as call centres. Conventional decision-making paradigms would place Palestine in a significant competitive disadvantage when compared to regional competitors such as Jordan and Israel, that have a well-developed customer care center sector boosted by government support and a strong technological infrastructure and qualified labor base. However, even in this environment, this sector has exhibited signs of promise.

COMPETITIVENESS CONSTRAINTS

The following competitive constraints affect the current value chain of the Palestinian business and professional services sector. These constraints can be grouped in the following three categories: *Policy and institutional support*, *enterprise level*, and *market entry related challenges*.

At the ***policy and institutional support*** level, trade support institutions across the board have weak orientation and services on offer for the business and professional services sector. There are existing conflicts of interests at public institutions including ministries, which have a distorted effect on fair competition relating to awarding of contracts etc. There is also a lack of synchronization between the national TVET infrastructure, service providers and the current/potential client base for the sector – all leading to weak human capital, or human capital that is weakly aligned with the needs of the sector.

Data availability is also a challenge. The lack of solid data regarding the sector restricts effective policy making and interventions in the sector. In this regard, PCBS must urgently expedite transition to the MSITS classification in order to standardize data collection based on internationally accepted best practices.

Finally, at the policy and institutional support level, there exists an important need for government led adoption (in terms of branding and promotion) of the sector.

At the ***enterprise level,*** lack of collaboration between enterprises in the sector is a significant challenge. Collaboration ranging from basic networking to active partnerships on projects is widely absent among companies. Given that very limited innovation and ideas development is taking place, the combined net result of the innovation and collaboration gap is inhibited overall growth in the sector. Additionally, Palestinian business and professional services firms –especially in the consulting sub-sector- compete in a small and increasingly congested operating environment where the primary lever is cost rather than quality. The dependency on development partners as the main client base has also to an extent restricted competitiveness of firms. While the availability of the development partner client base is definitely an asset, there is a requirement to further diversify the client base to enable the sector to mature.

The lack of specialized sector associations and representative bodies is also a challenge. Apart from the legal and accountancy sector, there are no specialized sector associations / representative bodies for the business and professional services sector.

Investment capital is also a challenge that has prevented mode 3 development in the sector. Mode 3 exports have been primarily impeded due to the lack of investment capital available, as well as logistical complexities of registering a subsidiary firm in some countries. For instance, Palestinian firms face challenges in establishing a branch office in many countries in the MENA region due to requirements involvement of local nationals as partners.

At the ***market entry*** level , there is an important need for developing the domestic market. In Palestine, both the absorptive capacity as well as the general unwillingness of Palestinian private sector firms to contract professional and business services is a challenge.

- The domestic market requires significant gestation time to understand how best to utilize these services and also understand the value addition gained from such services. This is a natural consequence of the early stages of maturity of the sector. As the sector matures and buyers see the value of such services, this constraint in the domestic market will become less prevalent.

- The structural characteristics of the Palestinian private sector - primarily family owned and hesitant to contract value added services from outside the organization– also have an impact on the sector in the sense that there is an important need for change management in the domestic market on the benefits in terms of costs and value added that contracting such services may have on their core businesses.

In international markets also, business development is a challenge due to lack of familiarity of buyers with Palestinian services. In this regard, a strong campaign to build the Palestinian brand in this sector is required. The perception of Palestine as a relatively unstable host environment in which to do business also complicates matters to an extent. Positive aspects that indicate an improving business environment such as improvements in the doing business report etc all need to be strongly advertised to indicate that Palestine is a viable alternative providing good quality business and professional services that also prove to be cost effective.

In this context, it is extremely important to develop a strong brand for the sector that is focused on quality and cost effective service delivery across the 4 modes. This will require sustained efforts and participation of both public and private sectors, but if effectively executed, the efforts can have significant positive impact for the sector as a whole.

FUTURE PERSPECTIVE

The Palestinian business and professional services has certain comparative advantages that could be converted into competitive advantages if supported in a sustainable manner. The strategy notes these advantages but also points out the significant challenges facing the sector (as discussed above). In this regard, the strategy focuses on alleviating these constraints based on established best practices and specifically focuses on the identified root causes of the constraints. In addition to focusing on constraints, the strategy also seeks to leverage opportunities in the form of emerging trends in the sector in international markets.

The future state of the sector has been developed using a combination of consultations, surveys and analyses. This future state consists of two components:

- A target market-related component involving identification of key markets in the short and medium to long terms for exporters, and,

- Structural changes to the value chain that result in either strengthening of linkages or introduction of new processes;

The proposals related to both components are detailed out in the strategic plan of action.

FUTURE PERSPECTIVE → Target markets

In the short-term timeframe (0–5 years), existing trade relationships are expected to remain the main mechanisms for generating new business.

Over the medium to long term timeframe (5+ years), it is expected that the evolving capacities of business and professional services exporters – across multiple dimensions including ip development, on time delivery/responsiveness, quality of work, along with the improving business environment and export value chain improvements effected by the NES implementations – will allow exporters to target other markets in the medium to long term which seem hard to penetrate now.

The main market segments identified as having potential are international development organizations, contractor/consulting firms in the Gulf countries, as well as donor funded projects in the domestic market. Apart from these market segments, post-conflict and conflict countries in the Arabic speaking world - Iraq, Libya, Yemen, Afghanistan, in particular - have been identified as having high potential. For certain sub-sectors such as Editing and Translation Services, the US and EU markets have also been identified. The strategy details out individual identified market segments within target markets.

FUTURE PERSPECTIVE → Structural adjustments to the value chain

In addition to the target market identification, structural adjustments to the value chain, aimed at improving efficiency, and service delivery in support of service exporters in the sector are proposed.

Select recommendations include:

- Establishment of a Palestinian business and professional services association;
- Establishment of monthly seminar series hosted by Paltrade officers to firms in business services sector seeking to expand in the export value chain;
- Comprehensive gap analysis of the regulatory and legal framework relating to the sector,
- Annual road-shows to select target markets to promote the business/professional services sector, and to facilitate deal-making;
- Needs-assessment study related to Intellectual Property Rights (IPR) protection considerations;
- Revival of the currently defunct Association of Management Consultants (AMC) in Palestine;
- Feasibility study for assessing the potential and scope for signing Bilateral Labour Agreements (BLAs) with key target markets identified as high potential for the business/professional services sector
- Establishment of a government or private sector led grant program to sponsor paid internships or semester long coop programs for promising university students;
- Development of an incubation facility in Ramallah : will provide multi-dimensional incubation support to business/professional services firms selected through an application program;
- Consortium of Palestinian business/professional service providers to pool resources –with government and donor support – for establish a mode 3 consulting services provider entity in two selected pilot target markets (mode 2);
- Establishment of a system of named contacts located in specific target markets: will be informal ambassadors of the sector in the target market;
- Establishment of an 'ideas' lab, aimed at spurring innovation and influx of best practices in the management/business consulting and market research sector;
- Adoption and promotion of the customer services sector (including call centres) by the government through a broad-spectrum effort including financial and technical incentives, promotion by high level officials in international markets, assistance with business development efforts etc.

IMPLEMENTATION MANAGEMENT

This strategy capitalizes on, and is aligned with the key findings and interventions of the recently concluded National Export Strategy (NES) initiative in Palestine. There are significant business opportunities offered by the expected momentum of project activity generated when the NES PoAs reach the implementation phase, and this strategy recognizes the potential and bearing of such momentum on the business and professional services sector.

Additionally, it is expected that the National Export Council (NEC) that will be setup to guide NES implementation will also guide the implementation of the PoA for this business and professional services export strategy. In other words, the implementation framework for this services sector strategy will be integrated within the NEC. This is important from a point of view of maintaining consistency and coherence.

The following strategic objectives and sub-objectives have been defined for this strategy

Strategic objective	**Operational objective**
To develop an improved and enabling policy and institutional landscape for the sector	• Adjust policies and regulations in the sector in order to ease the burden on sector enterprises and facilitate growth • Improve the service delivery of TSIs so as to cater to the specific requirements of the sector

To enhance market development – domestic and international- efforts in the Palestinian business and professional services sector	• Facilitate growth in international markets including the mode 3 growth mechanism • Establish the domestic market as an initial growth mechanism for sector enterprises • Improve access to trade information and market intelligence for sector enterprises
To spur innovation as well as strengthen the core value chain operations based components in the sector	• Support the development of the customer care center sub-sector • Encourage greater organization and collaboration levels among sector enterprises • Spur innovation and human capital development n the sector

OVERVIEW OF THE PALESTINIAN BUSINESS AND PROFESSIONAL SERVICES SECTOR

The business and professional services sector is an evolving, and rapidly growing, services sub-sector in Palestine. Growth can primarily be attributed to five factors:

1. High levels of development project activity driven by a plethora of donor and technical agencies active across a variety of thematic areas,
2. An entrepreneurial culture that has exhibited resilience and a tendency to rebound with increased stability.
3. Principles of free market economy adopted by the government, which while beset by multi-dimensional challenges, have generally facilitated increased entrepreneurial activity.
4. Relative buffer from mobility restrictions that have served to constrict tangible goods based sectors such as Stones/Marble, Leather/Footwear, Fruits/Vegetables etc.
5. The sector is human capital intensive and therefore fared relatively (but only slightly) better during the intifada and other phases of unrest than other sectors that are technology intensive and faced equipment/facility damage.

STRUCTURE OF THE SECTOR

The vast majority of firms in the business and professional services sector are micro and small sized enterprises as indicated in the table below. As of 2012, there are approximately 3,134 establishments operating in the sector with a total staff (full-time/part-time) headcount of 10,056. While these figures include government companies, it is assumed that the private sector constitutes the bulk of the number of companies.

The micro-sized nature of sector firms is reflected in the small per-capita size in terms of headcount at approximately 3 employees per firm. Legal firms comprise the biggest share in terms of the number of firms as well as the staff count, while architectural/engineering services, 'accounting, bookkeeping and auditing' services and advertising services (including public relations and event management) are the other leaders in terms of number of firms in the sector.

Table 1: Number of Operating Establishments and Persons Engaged in the Private Sector, Non Governmental Organization Sector and Government Companies in Palestine by Economic Activity (Fourth Digit), 2012

Economic Activities	Number of Establishments	Number of persons Engaged	Number of employees per establishment - Average
Legal activities	1,573	3,117	2.0
Accounting, bookkeeping and auditing activities; tax consultancy	306	990	3.2
Management consultancy activities	36	212	5.9
Architectural and engineering activities and related technical consultancy	638	2,704	4.2
Advertising	389	1,560	4.0
Market research and public opinion polling	23	180	7.8
Specialized design activities	161	353	2.2
Activities of employment placement agencies	6	20	3.3
Activities of customer care centers	2	920*	NA**
ALL sub-sectors	**3,134**	**10,056**	**3.2**

Source: Palestinian Central Bureau of Statistics 2013 ,Establishment Census 2012
*Official PCBS figures placed this value at 2, which appears to be a discrepancy. Values substituted by strategy team based on interviews with the two call centre companies active in the West Bank
**The first call centre company has approximately 900 employees, while staff count at other company is estimated at 20 (figures include full time and half time staff)

It is important to note that the above figures do not reflect the plethora of independent consultants that predominantly constitute this sector, and operate as generalist consultants. This information is not available, because independent consultants are not required to register with MoNE. It is expected that if this information was indeed available, the number of management consultant establishments specifically would shoot up, in addition to other categories such as market research etc.

SNAPSHOT OF CURRENT SECTOR OPERATIONS

Current operations in the sector can best be explained by segmenting activity along the 4 GATS modes of supply. In addition, the domestic market is of course an important consideration for this sector.

Box 1: The four modes of services supply

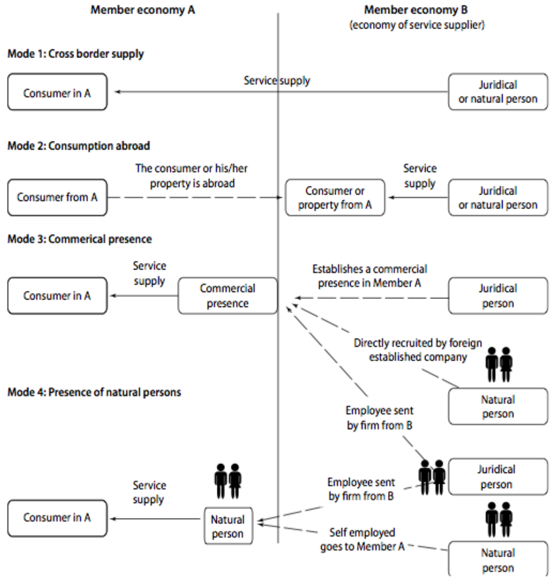
The GATS modes of supply are defined based on the location of the supplier and the consumer when a service is supplied, taking into account their nationality or origin. Those modes are generally referred to as:

- Cross-border supply (Mode 1), where both the supplier and the consumer remain in their respective territories (which would correspond to the tradi- tional notion of trade and cover, for example, services supplied by telephone or the Internet)
- Consumption abroad (Mode 2), where the consumer consumes the service outside his or her home territory (as is the case, typically, for international tourist activities and amusement parks abroad)
- Commercial presence (Mode 3), where service suppliers establish (or acquire) an affiliate, branch or representative office in another territory through which they provide their services (as is the case, for example, when a foreign bank investing in a host economy creates a subsidiary in order to supply banking services)
- Presence of natural persons (Mode 4), where an individual (either the service supplier himself if he or she is a self-employed person or his or her employee) is present abroad in order to supply a service (as is the case, for example, when an independent architect oversees a construction project abroad or a computer specialist is sent abroad by his employer to supply an information technology (IT) service)

Source: UN DESA. (2011). *Manual on Statistics of International Trade in Services 2010 (MSITS 2010)* . New York: UN DESA. P.15

The following figure indicates the 4-modes of supply of services across borders.

Figure 1: A synthetic view of modes of supply



source: (UN DESA, 2011, p. 27)

The following two figures capture the current value chain of the business and professional services sector. Two value chains are provided – the overall sector business and professional services value chain, and the value chain for the customer care center. The latter constitutes part of the overall sector value chain, but is also included separately to highlight specific detail as this sub-sector does have significant differences than other sub-sectors.

Figure 2: Current value chain – overall business and professional services

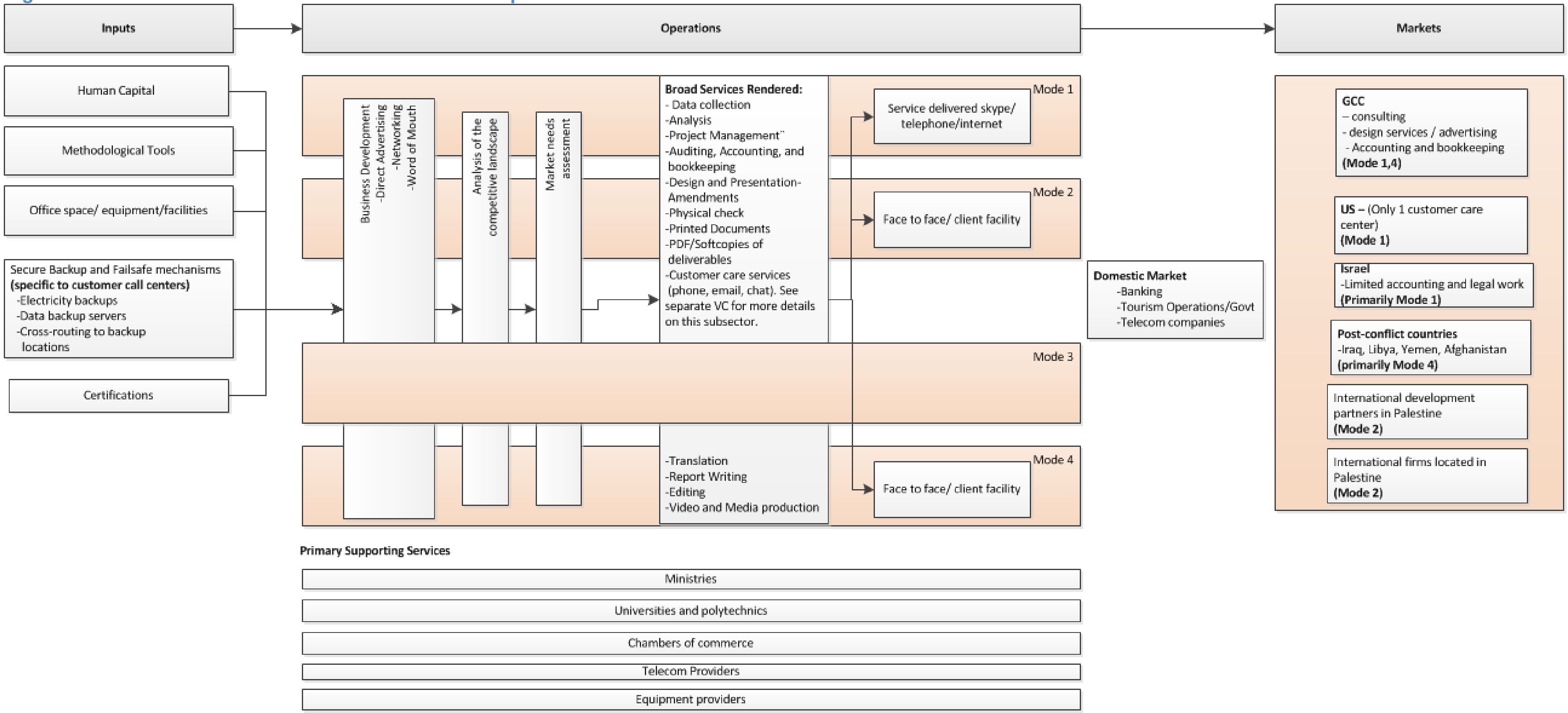
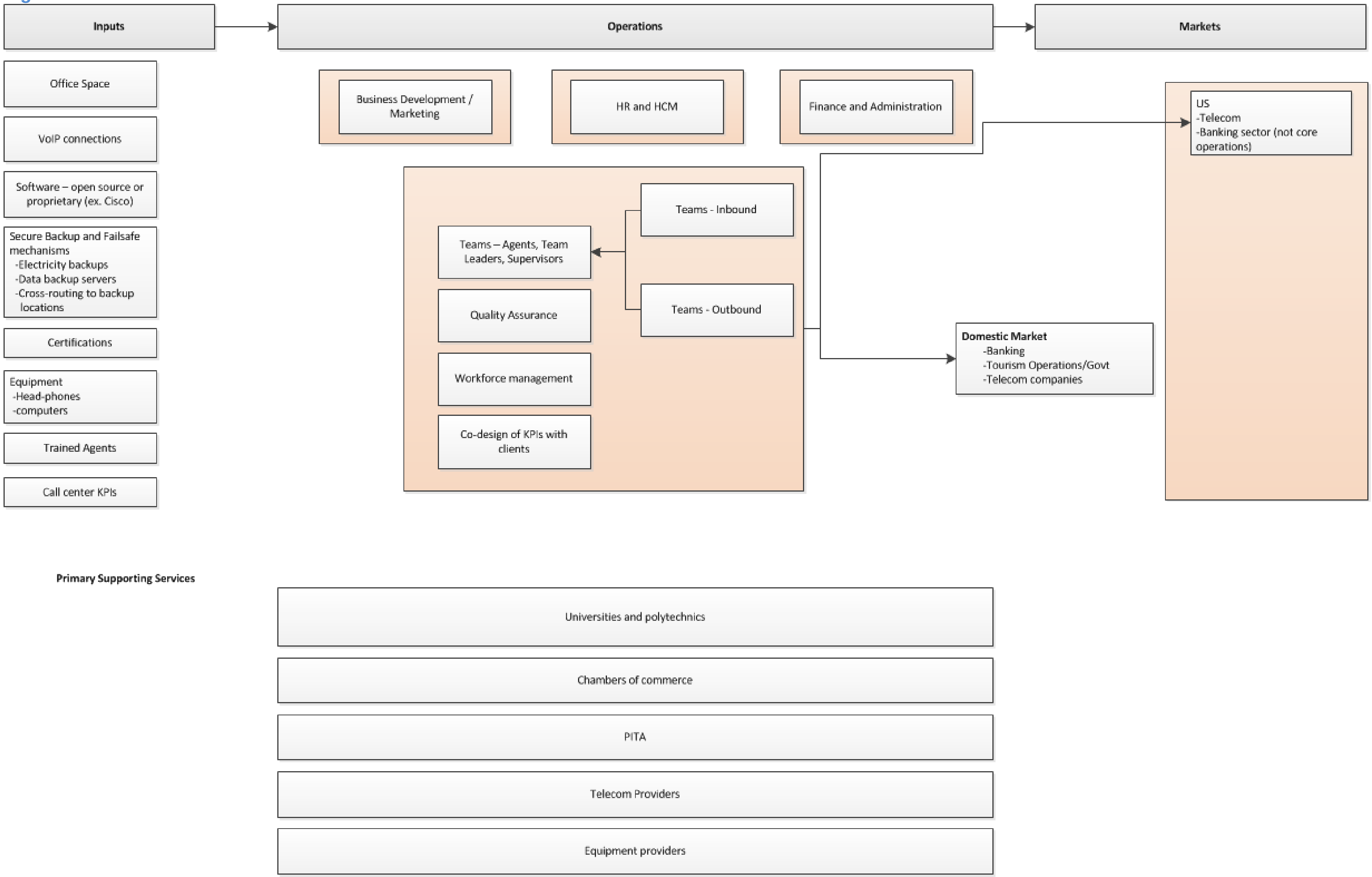


Figure 3: Current value chain – customer care centers



MODE 1

Export activity through the Mode 1 mechanism –through which only the services, rather than the client or the service provider, cross the borders- has proven to be rather limited for Palestinian operators in the sector.

Legal firms have some experience in working with international companies in areas such as registration of trademarks in Palestine, as well as performing legal due diligence. Design firms (graphic design) and accounting firms have also indicated project activity through the mode 1 mechanism. Customer care centers – currently two firms operating in Palestine – are also potentially high performing mode 1 exporters. One of the firms does currently export as well as provide services to the domestic market. The customer call center segment is further discussed in the box at the end of this section.

The lack/limited face-to-face interaction between the client and service provider in a mode 1 transaction inherently implies that service providers must compete on quality. Exposure to donor led project work as well as with Israeli clients in some cases has contributed to expertise and capacity development of Mode 1 operators.

MODE 2

The Mode 2 mechanism –in which the client /consumer is located abroad in the economy of the service provider – is by far the main mode through which exports in the business and professional services sector take place in Palestine. This is a natural consequence of the high level of development project activity that is ongoing in Palestine which offers a relatively stable and reliable client base for operators in the sector. Additionally, this mode has proven to be especially effective given that service providers are not affected by the mobility challenges that usually restrict service providers.

Services in demand through this mode primarily involve generalist consulting work – which may range from data entry work to complex project management and analytical technical work. The main clients are the development partners active in the country such as USAID, Chemonics, DAI, CHF, among others. In this regard, the knowledge of procurement mechanisms followed by international donor agencies is an important requirement for penetrating this market segment. Experience in a post-conflict/conflict environment has been cited by sector stakeholders as especially useful.

Typical business and professional services work procured by development partners include:

- Generalist consulting work – data analysis, report generation, hiring of national consultants to work alongside international consultants on complex development projects,
- Specialist work such as evaluations, engineering work, agro-based quality management,
- Translation and interpretation work,
- Graphic design and advertising work.

Legal firms have also found work with some of the international firms active in Palestine including in the pharmaceutical and telecommunications sectors. However, this offers a somewhat limited potential given that most international firms have their own technical legal departments that they typically utilize.

Select client engagements in the legal field include:

- Acquisitions of a Palestinian insurance provider firm by a leading international insurance firm,
- Legal due diligence by international firms with a presence in Palestine
- Trademark protection in Palestine by an international tobacco firm,
- Representing the interests of an Israeli client through coordination with an Israeli law firm which does not have jurisdiction in Palestine and therefore liaises with the Palestinian legal firm.

MODE 3

There is virtually no Mode 3 activity in the Palestinian business and professional services sector due to two reasons – lack of operational/investment capital available to firms for opening offices in international target markets (especially involving 'brick and mortar' investments), and a lack of visibility and pipeline of business deals that would justify such investments.

MODE 4

Export activity through mode 4 - involving professionals travelling to the client's economy on a temporary basis - is gaining pace among independent consultants. In recent years, there has been an increase in consultants who have gained experience, developed expertise through repeat projects with development partners in-country (mode 2), and have migrated across modes to work on development projects in other countries (mode 4). This trend may see increased activity as post-conflict reconstruction efforts –and therefore development projects- in Arabic speaking countries such as Iraq, Yemen, and Afghanistan ramp up.

Firm-level activity associated with this mode is still low, although it is expected to increase gradually as the capacities, experience and expertise levels of individual professionals grow.

Box 2:The customer care sub-sector – an important emerging mode 1 growth mechanism

The customer care center sub-sector - encompassing a breadth of services including inbound and outbound telephone answering services, email, chat services – is an important emerging segment in the Palestinian business and professional services sector. In terms of the GATS classification, it operates primarily through the Mode 1 mechanism. It has been included as one of the three representative groups through which the strategy for the business and professional sector is drawn, due to a variety of business and socio-economic drivers as indicated below:

- A well developed ICT infrastructure available in Palestine,
- The sub-sector is not affected by mobility challenges that affect goods based sectors,
- Wealth of young, professional, albeit relatively inexperienced talent that can be easily trained and deployed,
- The sub-sector can function as a pipeline of trained professionals who can easily fit in retail/client-facing roles after the end of their stint,
- In terms of language proficiency, the Palestinian Arabic accent is considered 'neutral' and well suited for telephone based services, while proficiency in English is also considered as an existing skill set.
- In comparison with competitors such as Jordan and Egypt, Palestine has potential advantages in terms of overall costs, even though wages are relatively higher in Palestine. For instance, even through operating costs in the form of wages are 30 per cent higher in Palestine than Egypt, the overall operating costs are still lower in Palestine.

STRUCTURE OF THE SUB-SECTOR

The current landscape consists of two firms, who are at very different points in the growth lifecycle and do not currently compete with each other:

1. The first firm (Firm A) – headquartered in Ramallah - was setup to cater to international operations/clients of a major telecommunications group in Palestine, and has in recent years expanded operations to the broader domestic market as well as international clients. The firm has a relatively diverse client portfolio consisting of 15 to 20 clients comprising of ministries, utility companies, banks, retail clients, and a medical firm. International clients are based primarily in the US. The firm has a staff count of over 900, and has three branch locations in Ramallah, Nablus and Bethlehem. One of the business drivers that led the firm's management to make the decision to diversify was excess spare capacity that was leveraged to identify additional clients.

   The firm has leveraged its strong ICT infrastructure as a strong value proposition for clients, boasting among other aspects, a high speed fiber optic connection linked to service providers in the US, multiple forms of physical and virtual failsafe mechanisms, load sharing capabilities in other locations, and an ISO 27001 security certification. The firm also operates a secure Cisco based operating system due to domain specific requirements (client-specific requirements). Related to the ISO 27001 certification, the firm has invested significantly in maintaining this certification, which is monitored by bi-annual visits by assessors based in the EU. These significant investments have made allowed the firm to consolidate its position as a niche player in the banking sector, among others. This investment can assist in future diversification in the medical industry which require high security levels (as well as additional certifications of compliance such as HAACP).

In the international market, business development through Diaspora based networks has proven to be the most effective approach, although the firm's leadership assessed a variety of routes including linking with international governmental agencies charged with promoting investments and private sector activity, members of the Jewish business community in the US, Palestinian consulates and trade representations, and independent business consultants hired to assist in market entry.

2. The second firm (Firm B)– located in Bethlehem – is a relatively new entrant in the customer care center field and is much smaller than Firm A in terms of staff size, and capacity. Market development has been relatively more difficult for Firm B – an important contributing factor being that it does not benefit from the investment capital as well as the overall capabilities that Firm A was able to leverage as an integral part of a big telecommunications firm. Moreover, firm A was able to test and develop its expertise through the internal client base available to it. Firm B is currently in active business development mode.

CONSTRAINTS FACED BY SUB-SECTOR

The sector faces significant challenges, some of which overlap with other subsectors in the business and professional services sector:

- While there is a wealth of human capital in the form of relatively inexperienced professionals and recent graduates who can be hired and mentored to fulfill roles as agents, there is a dearth of experienced professionals who can also fulfill semi-technical roles that are required in certain customer segments - i.e. telecommunications or computer engineering background for computer hardware or internet telephony based clients.

- Market development – especially the domestic segment – has posed significant challenges for both firms currently operating in the sub-sector. As with other sub-sectors such as consulting, marketing etc, the customer care center has struggled to convince Palestinian companies (potential clients) on the value proposition of such services and the potential impact that outsourcing such services will have on their bottom line. In part, this can be attributed to the structure of the majority of Palestinian firms that are strictly family owned, and have not experimented with outsourcing at any level.

  On the other hand, this is a natural market condition experienced by lead firms that are attempting to develop new service offerings, requiring a high degree of change management among potential clients. The larger of the two firms active in this sub-sector experienced significant first movers disadvantage, having to invest in conducting market research and assessing the gathered business intelligence firsthand.

- The lack of competition in the sector poses some challenges as well in terms of attracting international clients. In the absence of choices, clients may reticent to invest in hiring a Palestinian firm. The Indian call center industry context provides some insights. The high level of competition in that sector has led to cases where dissatisfied clients are able to switch service providers that may in some instances be located in the same building. The switch is conducted with relatively low transaction costs, and in some cases, the human capital (in the form of account managers) also migrate to the other firm. While this may be an exaggerated example, it offers the key insight that increased competition adds to the overall competitive advantage of a sector. In the absence of competition, potential clients may be hesitant to invest in the sector initially.

- There exists an important requirement for the government to adopt and promote the sub-sector, and there are valuable lessons that can be derived from other countries. For instance, the Jordan government has assessed the sub-sector as an important tool for managing unemployment as well as bringing in export revenues. In Israel, it is reported that the government subsidizes each call center employee to the tune of 1'000 Shekels on a monthly basis in order to promote employment for this sub-sector.

- The political and security risks associated with Palestine pose significant challenges for new business development in this sub-sector. This is partially a branding issue and must be tackled through a public-private effort involving the government as well as the key private sector players active in the sector.

Source: Bilateral interviews in Ramallah (January 2014)

ONLINE DIAGNOSTIC SURVEY RESULTS

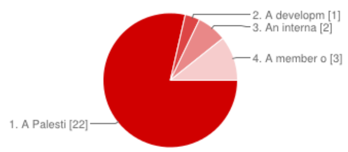
As part of the strategy development process, a brief online survey was conducted to capture basic information regarding the Palestinian business and professional services sector. The survey was primarily targeted to service providers, although three other segments were considered – development partners with operations in Palestine (mode 2 buyers), international private sector firms with current of potential presence in Palestine (mode 2 buyers), and members of the Palestinian Diaspora/interested third parties.

The survey was aimed at understanding the key constraints facing the sector in terms of supply side issues, human capital management, target market penetration among other areas, which were then substantiated and further examined during the private sector stakeholder consultations and the bilateral interviews that were conducted. The majority of identified challenges have been incorporated in the strategic plan of action.

THE FOLLOWING LISTS OUT THE MAIN FINDINGS OF THIS ONLINE SURVEY – SPECIFIC TO PARTICIPANTS WHO ARE SERVICE PROVIDERS:

1. **SAMPLE SIZE AND GEOGRAPHICAL LOCATION OF PARTICIPANTS:** 28 responses were received of which 22 belonged to service operators as indicated in the following picture. 2 survey participants (both service providers) were located in Gaza.

Which option best describes you/your organization?



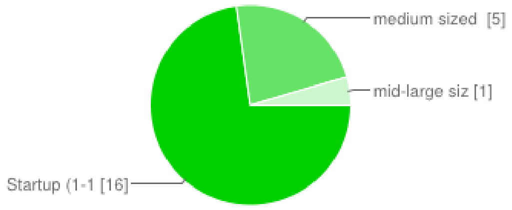
1. A Palestinian firm offering business/professional services	22	79%
2. A development partner with operations in Palestine	1	4%
3. An international private sector firm with (current or potential) presence in Palestine	2	7%
4. A member of the Palestinian diaspora / interested third party (not falling in any of the above categories)	3	11%

2. **SPECIALIZATION:** As indicated (by 82 selected niches identified by 22 service providers), most firms identify as having more than one specialization. The main niches identified were *'management and business consulting', 'education and training services', 'writing, editing and translation services'.*

Architectural services	1	1%
Engineering Services	3	4%
Specialty Design Services	7	9%
Intergrated Engineering Services	1	1%
Urban planning and landscape architecture	2	2%
Marketing and advertising services	7	9%
Writing, editing and translation services	9	11%
Mailing list compilation and mailing services	3	4%
Market research and public opinion polling	7	9%
Education and training services	10	12%
Accounting, auditing and bookkeeping	1	1%
Management and business consulting	13	16%
Telephone answering services	0	0%
Printing and publishing	6	7%
Human resource management	3	4%
Legal Services	0	0%
Credit reporting services	0	0%
Invoicing and collection services	0	0%
Placement services	1	1%
Other	8	10%

3. **YEAR OF ESTABLISHMENT:** The bulk of companies in the sector are relatively new (between 2005-2010). The two exceptions include a firm setup in 1950 and another firm responding date of establishment as '25 years'. Most of the respondents are startups at indicated below -

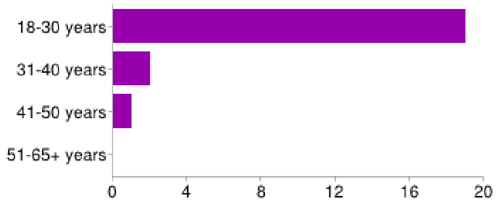
Are you a:



Startup (1-10 employees)?	16	73%
medium sized firm (11-50 employees)?	5	23%
mid-large sized firm (51-100+ employees)?	1	5%

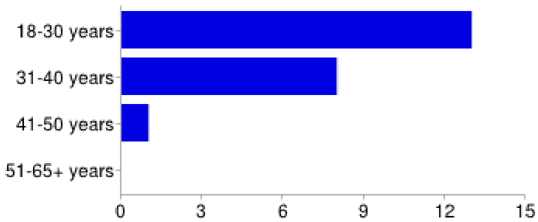
4. **AGE DISTRIBUTION OF STAFF:** The age distribution among the various layers in the firm are as expected. The interns and apprentices groups mainly range between 18-30 years. The technical staff group ranges between 18-40 years. The management layer primarily falls in the 31-65 years range.

Interns and apprentices [Please help us understand the average age distribution per the main 'layers' of your firm]



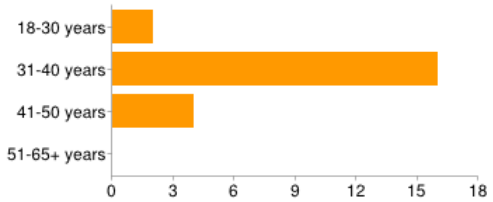
18-30 years	19	86%
31-40 years	2	9%
41-50 years	1	5%
51-65+ years	0	0%

Technical staff [Please help us understand the average age distribution per the main 'layers' of your firm]



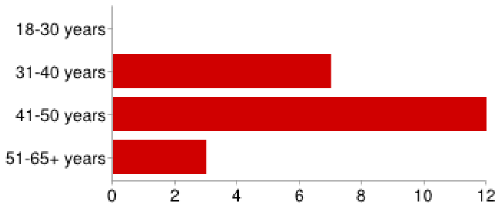
18-30 years	13	59%
31-40 years	8	36%
41-50 years	1	5%
51-65+ years	0	0%

Middle layer management [Please help us understand the average age distribution per the main 'layers' of your firm]



18-30 years	2	9%
31-40 years	16	73%
41-50 years	4	18%
51-65+ years	0	0%

Top level management [Please help us understand the average age distribution per the main 'layers' of your firm]



18-30 years	0	0%
31-40 years	7	32%
41-50 years	12	55%
51-65+ years	3	14%

5. **PRIMARY MODE OF SERVICE DELIVERY, AS PERTAINING TO INTERNATIONAL CLIENTS:** As expected, Mode 2 is the most popular mode of service delivery. Mode 1 is popular with the advertising/design firms as well as accountancy firms, while Mode 4 has also exhibited increased activity since the recent future. As substantiated through the private sector consultations, there is very little activity through Mode 3, with only one survey respondent (consulting firm) indicating services delivered through this mechanism.

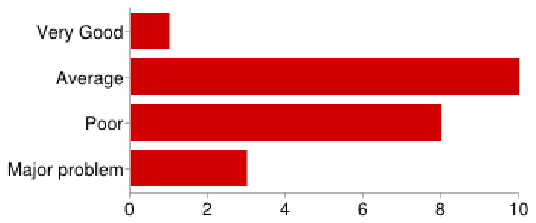
Client is outside Palestine - business is conducted primarily over the internet/phone or other virtual mechanisms (mode 1)	**13**	30%
The client has a presence in Palestine and your firm provides services directly (mode 2)	**20**	45%
Your firm has subsidiaries/branches in the client's country and directly provide services through them (mode 3)	**1**	2%
consultants/project personnel from your firm travel temporarily to client location to provide services (mode 4)	**10**	23%

6. **LEVEL OF ORGANIZATION IN THE SECTOR:** In response to the question "How well organized do you perceive your sector to be?", 36 per cent (8 respondents) of the participants responded that the level of organization was very poor, 32 per cent (7 respondents) responded that the level of organization was average, 18 per cent (4 respondents) noted that the organization levels were between *'very poor'* and *'average', and* 14 per cent (3 respondents) assessed the level of organization as between *'average'* and *'very good'*

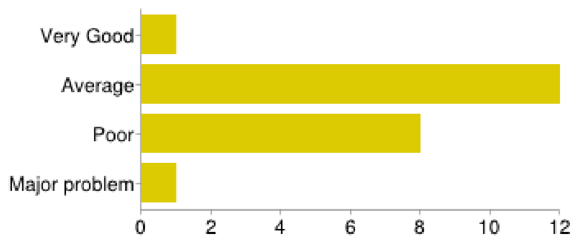
7. **INSTITUTIONAL SUPPORT:** In response to the question "Are existing government policies helpful to companies seeking to export business services?", 45 per cent (10 respondents) of the participants assessed the service delivery as *'average'* 41 per cent (9 respondents) assessed the support as very unhelpful, and 14 per cent (3 respondents) put the assessment as between *'very unhelpful'* and *'average'.*

The following is a snapshot of the perception of the various institutional support needs among companies in the business and professional services sector. The x-axis indicates the number of respondents.

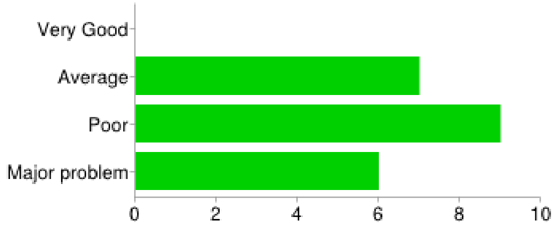
Business Incubation Support



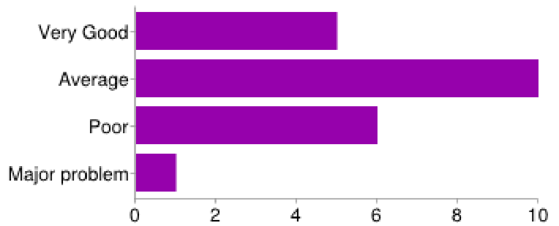
Customized Training Programs



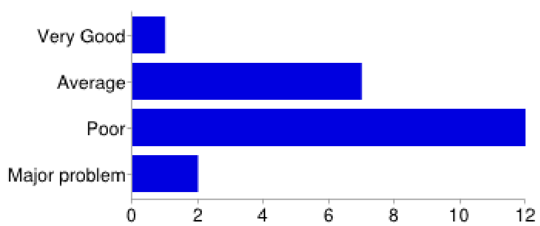
Assistance from Business Associations



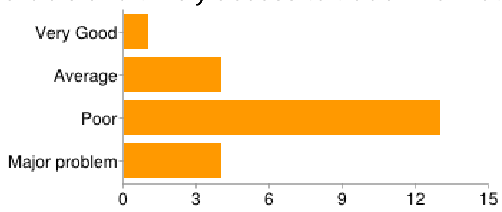
Affordability of Internet and other comm. media



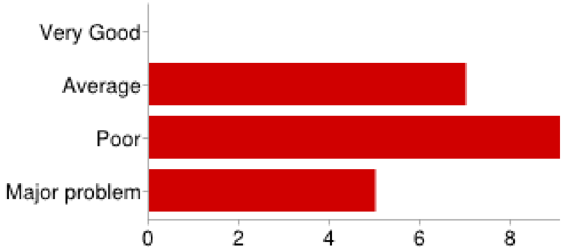
Access to Finance



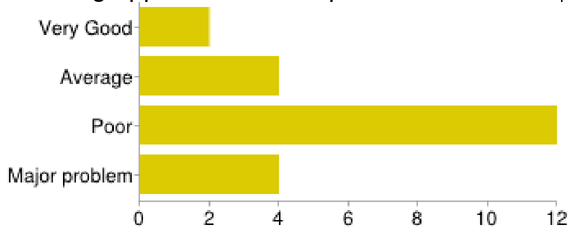
Reliable and timely access to trade Information



Networking opportunities w/ other sector firms

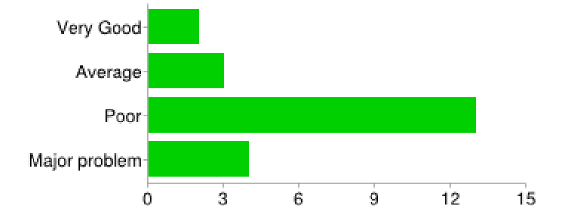


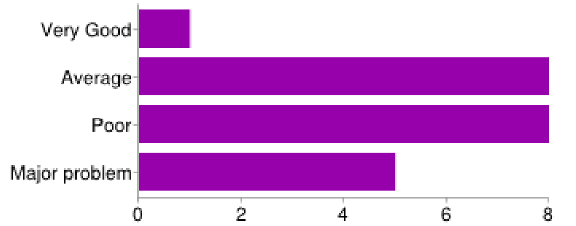
Networking opportunities with potential clients



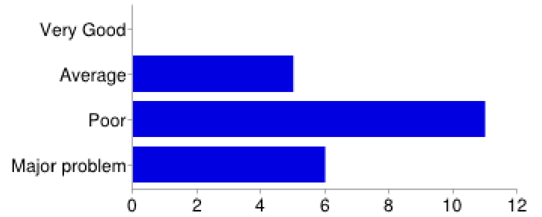
Access to technical talent

Access to middle/senior management talent

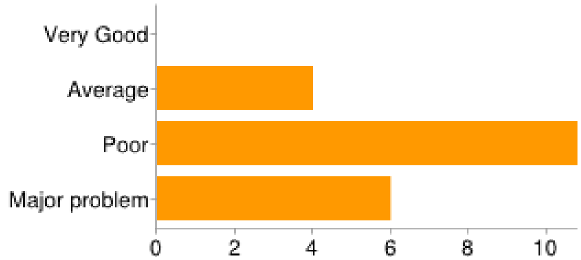




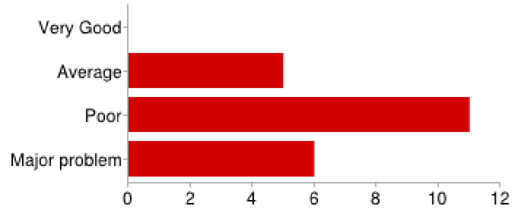
Tax structure



Export incentives put in place by government



Access to latest sector news and updates



8. SPECIFIC CONSTRAINTS – ACCESS TO TALENT/SKILLS DEVELOPMENT

A. CHALLENGES IN ACCESSING TALENT: As indicated below, brain drain (including professionals leaving Palestine altogether as well as lack of talent supply for domestic firms caused by individuals preferring to work with international organizations) was perceived by survey respondents as a significant challenge.

MAIN PROBLEM	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Not enough talent supply to meet sector demand	**13**	23%
Poaching by other sector firms	**6**	11%
Talent is attracted by relative higher wage levels offered by international development organizations	**14**	25%
Brain drain - talent migrating outside Palestine	**13**	23%
Average wage levels in this sector are low and do not attract talent	**10**	18%
Other	**0**	0%

B. ABILITY OF UNIVERSITY/TECHNICAL/VOCATIONAL TRAINING SCHOOLS TO PRODUCE GOOD QUALITY TALENT FOR REQUIREMENTS OF SECTOR FIRMS

RATING	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
1 – Very Poor	**3**	14%
2	**10**	45%
3 - Average	**8**	36%
4	**1**	5%
5 – Very Good	**0**	0%

C. CONTRIBUTING FACTORS RESULTING IN WEAK SKILLS DEVELOPMENT IN THE SECTOR: There are weaknesses across the board in universities including the lack of specialized degree programs as well as a requirement to upgrade the competencies of teaching staff.

MAIN PROBLEM	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Universities do not have specialized degree programs in this sector	**13**	31%
University curriculum is outdated	**8**	19%
This service sector does not attract enough talent	**6**	14%
Lack of skilled educators/teachers	**11**	26%
Other	**4**	10%

9. SPECIFIC CONSTRAINTS – ACCESS TO CREDIT

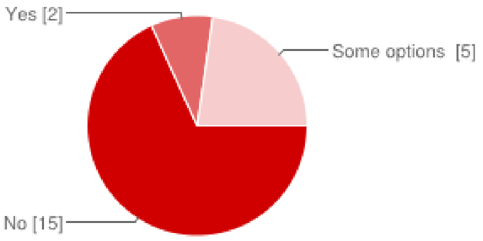
A. OVERALL ACCESS TO CREDIT IN THE SECTOR: As expected and in line with other sectors, access to finance appears to be a significant challenge even in the business and professional services sector.

RATING	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
1 – Very Poor	**5**	23%
2	**8**	36%
3 - Average	**7**	32%
4	**2**	9%
5 – Very Good	**0**	0%

B. MAIN SOURCE OF FINANCING FOR SECTOR FIRMS: RELATED TO EXPORT ACTIVITY As indicated, working capital is the main source of funding that enterprises utilize for export related activity.

SOURCE	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Working Capital (i.e. cash available in your firm)	**20**	74%
Shareholders loans (i.e. cash that you lend to the firm as a major shareholder)	**2**	7%
Creditor debt (i.e. credit card/line of credit with banks)	**3**	11%
Other	**2**	7%

C. WHETHER BANKS OFFER SPECIFIC FINANCIAL SERVICES TAILORED TO SECTOR BUSINESS NEEDS: As confirmed during the stakeholder consultations, there is a requirement for developing specific financial instruments for the services sector in general.



No	**15**	68%
Yes	**2**	9%
Some options exist but are inadequate	**5**	23%

D. MAIN CONTRIBUTING FACTORS RESULTING IN WEAK ACCESS TO FINANCE: Respondents noted that high/burdensome interest rates and other loan terms is the main challenge related to accessing loans. Collateral and paperwork requirements are also cited as challenges. In the case of the former, applicants are unable to show enough collateral, or even have the type of collateral that banks would typically like to review – such as ‘brick and mortar’ establishments, machinery etc. Being a knowledge based services sector, it is expected that enterprises in this particular sector – as well as other services sectors – will be unable to show such collateral, thus pointing the need to develop specific financial instruments.

MAIN PROBLEM	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Awareness on part of loan officers on how to approach loan requests from small scale enterprises	**4**	11%
I am unable to provide sufficient collateral requested by banks OR the banks do not accept the type of collateral that I can provide	**7**	20%
Interest rates / loan terms are burdensome	**11**	31%
The paperwork is cumbersome / processing times are high	**6**	17%
Other	**7**	20%

10. SPECIFIC CONSTRAINTS – ACCESS TO TRADE INFORMATION AND BUSINESS DEVELOPMENT

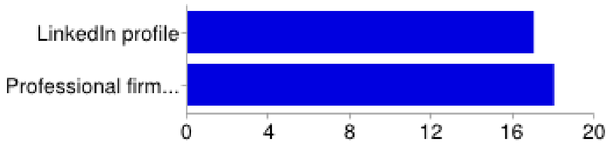
A. MAIN MECHANISMS UTILIZED FOR GENERATING NEW BUSINESS: Word of mouth referrals as well as direct submission of proposals to advertised bids are both major modes of new business generation. Repeat business has also been cited as a major channel. Surprisingly, it appears that direct business development – through cold calling and other forms of direct contact – have also proven effective to a certain degree.

MECHANISMS	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Continuation of current/existing export relationships	**14**	18%
Receiving unsolicited inquiries from potential customers	**12**	15%
Word of mouth - recommendations by existing clients to prospective clients	**20**	26%
Direct business development (cold calling/linked in etc)	**9**	12%
Submitting bids on advertised opportunities	**15**	19%
Participation in trade fairs, business delegations, exhibitions etc	**5**	6%
Staffing agencies	**1**	1%
Other	**2**	3%

B. PRIMARY DRIVING FACTORS FOR FIRMS SEEKING TO EXPORT: As indicated below, respondents cited a broad range of reasons that compel them to enter the exports market.

DRIVERS	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
You receive unsolicited inquiries from potential partners and customers abroad	**9**	9%
Demand for your services in the domestic market is saturated	**7**	7%
Your competitors are exporting and you need to stay competitive	**3**	3%
You need to spread your risk across different geographic markets	**8**	8%
You need to extend the product life cycle of your service offering	**7**	7%
You have excess staff capacity and need new contracts	**3**	3%
You see a unique opportunity emerging in a foreign market	**14**	15%
You see an opportunity to exploit a unique competence that your firm has	**13**	14%
You see an opportunity to increase your firm's profitability	**15**	16%
You see an opportunity to enhance your firm's competitive advantage	**14**	15%
Other	**3**	3%

C. FIRMS CURRENTLY HAVING A PROFESSIONAL WEBSITE OR LINKEDIN PROFILE



LinkedIn profile	17	49%
Professional firm website	18	51%

D. GENERAL ASSESSMENT OF ABILITY OF SECTOR FIRMS TO STAY IN TUNE IN INTERNATIONAL BUSINESS OPPORTUNITIES

RATING	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
1 – Very Poor	**1**	5%
2	**4**	18%
3 - Average	**6**	27%
4	**8**	36%
5 – Very Good	**3**	14%

E. MAIN MECHANISMS UTILIZED FOR PERFORMING MARKET RESEARCH

MECHANISMS FOR MARKET RESEARCH	NUMBER OF RESPONDENTS	PERCENTAGE OF RESPONDENTS
Internet scan - industry websites etc	**16**	57%
Industry associations in Palestine such as Paltrade	**4**	14%
You hire consultancy firms to do the market research for you	**2**	7%
You have subscriptions to industry journals	**2**	7%
Other	**4**	14%

COMPETITIVENESS CONSTRAINTS

The following competitive constraints affect the current value chain of the Palestinian business and professional services sector. These constraints can be grouped in the following three categories: *Policy and institutional support*, *enterprise level*, and *market entry related challenges*.

POLICY AND INSTITUTIONAL SUPPORT

TRADE SUPPORT INSTITUTIONS ACROSS THE BOARD HAVE WEAK ORIENTATION AND SERVICES ON OFFER REGARDING THE SERVICES SECTOR, INCLUDING THE BUSINESS AND PROFESSIONAL SERVICES SUB-SECTOR

Support services provided by trade support institutions are notably weak in terms of orientation towards the business and professional services sector. This includes ministries, technical agencies such as the Palestinian Standards Institute (PSI), and trade promotion agencies such as Paltrade, which have traditionally focused on product sectors rather than services. At the policy level, there is a marked gap in terms of strategies and laws pertaining to the sector.

There is however a growing recognition regarding this gap, and relevant institutions have reoriented their mandates/strategic operations to improve coverage of services. For instance, the main standards setting institute, PSI, has initiated work to benchmark global standards/certifications existing globally, and thereafter set up technical (public/private sector mix) committees to explore adoption such standards in the Palestinian context. This is crucial as standardization for ensuring quality of services in the sector is currently very weak.

On similar lines, Paltrade has embarked on an ambitious reorientation of its strategic plan that will be geared towards improved support towards the services sector. As momentum grows through initiatives let by development partners and national actors , it is expected that this gap in the services sector will gradually close.

Box 3: Key requirements from chambers of commerce

In 2010, The Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA) conducted a study/survey to identify business development services (BDS) needs for the Palestinian private sector, and to assess the perception of the private sector towards service delivery of the chambers of commerce. This study was funded by the Swedish International Development Cooperation Agency (SIDA) and the International Labor Organization (ILO). Survey participants were drawn from databases available at the eighteen chambers of commerce in the West Bank and the Gaza Strip.

The following key recommendations were developed through the survey, and are relevant to the current exercise:

- Greater interaction and coordination between the chambers of commerce and government institutions, especially ministries.
- Improved advocacy by chambers in terms of making constituents (and potential members) aware of offered services, and the RoI to be gained through membership.
- Context specific training courses are in short supply and need to be developed based on industry type, and firm-size.
- Importing and Exporting requirements for specific markets – provision of advisory services to firms involved in foreign trade.
- Establishment of specialized units in the chambers to provide financial consultation and give business owners advice on how to get loans and banking facilities from different funding resources.
- Provision of specialized services/access to information for businesses to keep up with local, regional and international developments.
- Assistance in organizational development for businesses to manage their human capital effectively, and develop efficient organizational hierarchies.
- Developing effective linkages between the national TVET infrastructure with the chambers of commerce, and developing a series of training courses so as to supply the Palestinian labor market with skilled and experienced workers.

While the above recommendations are focused on capacity development of the chambers of commerce so that they can provide more effective services to the Palestinian private sector, the findings and recommendations can be extrapolated to the business and professional services sector given that the services provided by chambers of commerce and business and professional services providers often overlap.

Source: (Creative business solutions, 2010)

EXISTING CONFLICTS OF INTERESTS AT PUBLIC INSTITUTIONS HAVE A DISTORTED EFFECT ON FAIR COMPETITION FOR CONTRACTS

There is a requirement to ensure that public service officers in ministries and other public institutions are prohibited from being associated – in an earning capacity - with an external business service provider as this constitutes a conflict of interest. Anecdotal evidence gathered during the stakeholder consultations has suggested that this is a significant concern among sector operators and serves to diminish their trust in the public sector while also restricting business opportunities.

LACK OF SYNCHRONIZATION BETWEEN NATIONAL TVET INFRASTRUCTURE, SERVICE PROVIDERS AND THE CURRENT/POTENTIAL CLIENT BASE

A key challenge is the near complete lack of synchronization between the national TVET infrastructure, business/professional services providers, and the client base. At the macro level, there should ideally exist a feedback loop associated with the key services in demand by the client base, flowing through to operators in the business/professional services sector who can adjust their service offerings accordingly, and also link with universities/TVET providers to ensure the availability of a steady pipeline of skilled professionals possessing the relevant skills. This feedback loop is significantly weak across the board in Palestine, including for the business and professional services sector. Consequently, university courses, curricula are not geared towards specific in-demand skills leading to a shortage in the market for relevant skills, and at the same time an abundance of skills for which there is limited demand. In order to improve the competitiveness of the sector, it is imperative that the feedback loop mentioned above is improved as soon as possible.

LACK OF SOLID DATA REGARDING THE SECTOR RESTRICTS EFFECTIVE POLICY MAKING AND INTERVENTIONS IN THE SECTOR

Lack of solid data and technical analyses regarding the sector is a significant challenge that inhibits policymaking and other technical interventions to support the sector. Overall, there is a lack of information, technical studies, reports, and organized statistics. For instance, data collection on service-based exports is non-existent outside of Palestine-Israel based transactions, and even that is limited to transactions involving VAT. The diagnostic study notes:

> *Statistics concerning the export of business related and professional services are not available. The PCBS only focuses on good statistics when it comes to export information as it relies on information provided by the Chambers of Commerce based on certificates of origin. Exports of services do not need certificates of origin and therefore service export statistics are not provided by any organization in Palestine. The PCBS usually publish the level of service export with Israel only,*[1]

URGENT REQUIREMENT FOR PCBS TO TRANSITION TO THE MSITS CLASSIFICATION IN ORDER TO STANDARDIZE DATA COLLECTION IN THE SECTOR BASED ON INTERNATIONALLY ACCEPTED BEST PRACTICES

Another important improvement that is required relates to the adoption of the MSITS classification of service sub-sectors as recommended under the GATS framework. While there are ongoing efforts to transition to this classification at PCBS, it is important to speed up this process in order to bring the Palestinian services data collection system up to par with international standards, and also to facilitate

[1] Barreto, E. (2013). *Diagnostic Study – Palestine: Export Readiness & Potential of Services Sectors.* Paltrade, MoNE, Eurofin Hospitality SA. P. 173

better data interpretation, better benchmarking with other countries and overall improve policy making.

There are significant weaknesses in the overall regulatory framework that must be addressed vis-à-vis the business and professional services sub-sector:

- The existence and application of multiple laws - Jordanian, Ottoman, tribal, among others – has generally led to confusion and efficiency losses for business service providers, although almost all other sectors are also affected. There exists an important requirement to harmonize the application of laws as a best practice.

- There are no official policies or strategies related to this sub-sector, given that the main focus of existing national strategies has been on goods based sectors. While certain services sectors such as the financial services and ICT sector have recently developed strategies, the business and professional services lags behind in this regard.

- Laws and regulations exist for certain service sub-sectors such as engineering and legal services with limited bearing on the other sub-sectors.

IMPORTANT NEED FOR GOVERNMENT LED BRANDING, PROMOTION OF SECTOR, ESPECIALLY THE CUSTOMER-CARE CENTER SUB-SECTOR

There exists an important requirement for the government to adopt the business and professional services sector, and spearhead efforts to develop and promote a brand for the services. Existing success stories of government interventions to develop a sector range from subsidies to co-branding a particular sector in international markets. For certain sub-sectors, government intervention can provide much required impetus such as in the case of the customer care sector services. Jordan and Israel are two markets in the region that have actively promoted the sector at the government level with reasonable levels of success.

For the customer-care sub-sector especially, the government can take active steps in terms of brand development and promotion in international target markets, as well as providing active financial/technical support to firms that are attempting to set up operations in this sub-sector. Financial support could range from temporary allowances to call center staff, or subsidies in the form of waivers on import taxes for firms seeking to procure software and hardware from international sellers. Technical support could take the form of government led technology transfer initiatives from foreign suppliers.

ENTERPRISE LEVEL CONSTRAINTS

LACK OF COLLABORATION BETWEEN OPERATORS IN THE SECTOR

Service providers are hesitant to collaborate with other companies whom they may perceive to be competitors in a small and increasingly saturated domestic market. Collaboration ranging from basic networking to active partnerships on projects is widely absent among companies. Given that very limited innovation and ideas development is taking place, the combined net result of the innovation and collaboration gap is inhibited overall growth in the sector.

LACK OF INNOVATION THROUGHOUT THE SECTOR

There is a lack of innovation within the business and professional services sector, especially relating to the management/business consulting, and the marketing/advertising/PR sub-sectors. A natural reason for this is the relatively nascent growth stages of the sector in general and the fact that existing client relationships have mainly focused on development based projects with well-defined scope of work. The portfolio of services developed by firms is primarily oriented towards the recurring needs of ongoing development projects, rather than any visionary approach. Sector operators do not have experience in complex projects requiring analytical /technical depth, which typically serve to promote innovation and new ideas generation. Price competition in the relatively small domestic market has also played a part in inhibiting investments in terms of developing IP and innovation. Finally, innovation has stagnated due to the lack of operational and investment capital possessed by the predominantly micro-sized enterprises.

SERVICE PROVIDERS COMPETE IN A SATURATED, UNDERDEVELOPED, DOMESTIC MARKET, OFFERING RELATIVELY LOW VALUE PROPOSITION TO BUYERS

Palestinian business and professional services firms –especially in the consulting sub-sector- compete in a small and increasingly congested operating environment where the primary lever is cost rather than quality. Competition levels have been increasing rapidly with large number of new firms entering the market on an annual basis. The increased competition in itself is not the main challenge. The root cause is that firms in the sector, new and old, have significantly low levels of value proposition to offer to buyers. Interviews with mode 2 buyers (primarily development firms) have confirmed the challenges that buyers face in identifying good quality service providers with good value proposition amongst the plethora of companies that apply for specific projects. This has led to a situation in which new entrants face tremendous challenges in securing contracts. Repeat business is partially driven by the lack of any visible alternatives (competing on quality) on the supply side.

LACK OF SPECIALIZED SECTOR ASSOCIATIONS/REPRESENTATIVE BODIES IN THE SECTOR

Apart from the legal and accountancy sector, there are no specialized sector associations/representative bodies for the business and professional services sector. Existing associations such as PACPA, Bar association and the engineering association primarily function as trade unions with individual memberships, rather than business associations which would serve as formal platforms for addressing issues of market entry, growth etc can be addressed jointly. Such associations can serve an important role in facilitating growth and evolution within the sector and are urgently required. There is no umbrella association for the overall sector. An association for management consultants with a charter and bylaws existed briefly, but is now defunct and needs to be revived.

SKILLS AVAILABILITY IS A CHALLENGE

In terms of availability of skills, it is easy to find candidates with less than one years of experience, however finding specialist skills has proven to be much more challenging. Interviews with development partners have confirmed that this poses significant challenges, often resulting in project delays or having to bring in international experts. This constraint is partially the result of a weak TVET infrastructure in Palestine, and the lack of a feedback loop between the academia, and industry resulting in a weak talent pipeline.

LACK OF INVESTMENT CAPITAL IN THE SECTOR PREVENTS MODE 3 DEVELOPMENT

Mode 3 exports have been primarily impeded due to the lack of investment capital available, as well as logistical complexities of registering a subsidiary firm in some countries. For instance, Palestinian firms face challenges in establishing a branch office in many countries in the MENA region due to requirements involvement of local nationals as partners. The lack of investment capital is a challenge, especially given the fragmented, MSME based structure of most firms in the sector.

LIMITED EXPERIENCE WITH NON-DEVELOPMENT PARTNER CLIENTS

Firms will progress to Mode 3 only after several annual business cycles of successful operations in domestic and foreign markets. This is currently not the case as most operations are conducted either via mode 2 or mode 4 at the latest, and are heavily dependant on projects driven by international development partners. In this regard, it is noteworthy that Palestinian business/management consulting firms, which constitute a major share of the overall sector, have extremely limited experience with non-development partner clients, i.e. the private sector which often has much more stringent buyer requirements and constitute a much harder market segment to penetrate.

Box 4:Key findings and recommendations of diagnostic study

A diagnostic study aimed at assessing the export readiness and export potential of four priority services sectors in Palestine was conducted between August 2012 and January 2013. The scope of this EU funded project included four sectors - financial services, Information and communications technology (ICT), tourism and business related professional services.

This export strategy builds upon the results of this diagnostic study among other sources of analysis. The main findings and recommendations of the diagnostic study as pertaining to the business and professional services sector are included below.

KEY FINDINGS

- Lack of export markets information,
- Weak specialization and innovation,
- Lack of governmental strategies pertaining to the sector,
- Educated workforce but limited specific skills,
- Unavailability of specialized business associations ,
- Regulatory framework does not support export activities,
- Quality standard are mostly set for tangible products not services,
- Lack of specialized sector strategies and policies to support export activities

KEY RECOMMANDATIONS

- Development of sector strategies and promotion policies to be able to expand and penetrate other markets,
- Requirement to review regulations on business consulting, management consulting, PR & marketing, and other sub-sectors,
- Quality standards are not in place for most of the sub-sectors, this needs more focus by the government and business associations to develop such quality standards based on international practices,
- Development of appropriate training models to identify needs and meet the needs of skills and knowledge improvement of the sector,
- Provide information to the market about the services offered by its members and create awareness of the importance of such services,

Source: (Barreto, 2013)

MARKET ENTRY CONSTRAINTS

WEAK ABSORPTIVE CAPACITY OF BUSINESS AND PROFESSIONAL SERVICES IN THE DOMESTIC MARKET

Efficient and value-driven delivery of business services requires a minimum level of 'absorptive capacity' possessed by clients. This is because unlike physical goods, the value addition of services such as management consulting can only be tangibly generated when it is 'co-produced' in collaboration with clients. i.e. the client must be able to process the services rendered on its end, as well as support the rendering of such services by service providers through client-side investment in *knowledge, capacity, and dedicated resources and effort*[2]. In Palestine, this absorptive capacity is very poor, and can primarily be attributed to two contributing factors – the early stages of domestic market development for business/professional services sector, and the structural characteristics of the Palestinian private sector.

- The domestic market requires significant gestation time to understand how best to utilize these services and also understand the value addition gained from such services. This is a natural consequence of the early stages of maturity of the sector. As the sector matures and buyers see the value of such services, this constraint in the domestic market will become less prevalent.

- The structural characteristics of the Palestinian private sector - primarily family owned and hesitant to contract value added services from outside the organization– also have an impact on the sector in the sense that there is an important need for change management in the domestic market on the benefits in terms of costs and value added that contracting such

[2] Plaisier, N., Linders, G.-J., & Canton, E. (2012). *Study on business-related services.* Rotterdam: ECORYS. See P.23, 25

services may have on their core businesses. This particular constraint is discussed in detail below.

CHALLENGES IN DEVELOPING THE DOMESTIC MARKET

The domestic market offers fertile ground for business and professional service providers, and an important requirement exists for developing this domestic market further as this would provide exposure and experience to sector firms in addition to providing client companies in general with reliable partners who can provide value added support. Indeed, in developing sectors, the domestic market offers the first and readily available client base, however this market has proved extremely challenging to develop and penetrate due to a variety of factors.

First, a significant percentage of the Palestinian private sector is primarily comprised of family based enterprises that follow a traditional approach in terms of operations. These firms are typically reticent to contracting external partners or outsourcing any part of their operations given that this constitutes unfamiliar territory, and because firms prefer to manage their operations in-house. The domestic market requires significant change management before potential clients exhibit broader willingness to contract service providers.

Second, the value proposition of services rendered by business and professional services providers is unclear to potential clients – a challenge that is experienced by other potential buyer segments as well. This is a reflection on the lack of differentiation and clarity amongst service providers vis-à-vis their services. As an example, interviewed Palestinian accounting firms reported that potential clients often do not understand the difference between bookkeeping services, and certified accountancy services, and are thus unwilling to pay a higher price-point for the latter. This is partially due to a lack of efficient business development on the part of the service providers.

NEW BUSINESS DEVELOPMENT IS A CHALLENGE IN INTERNATIONAL TARGET MARKETS DUE TO LACK OF FAMILIARITY OF BUYERS WITH PALESTINIAN SERVICES

New business development is a challenge for advisory firms seeking to enter new markets, an expected condition found in any sector that is in the early stages of evolution.

- Referral, existing business and Diaspora-based connections are the main source of new business for sector firms. Outside of these routes, firms have limited experience and know-how on business development.

- Financial considerations prevent firms for allocating resources to conduct customized market research related to target markets. In this regard, companies do not invest in developing and incorporating export strategies (at their firm level) as part of their corporate planning lifecycle. This is primarily driven by lack of funds as well as a lack of expertise on how to develop such strategies.

REQUIREMENT TO STRENGTHEN THE PALESTINIAN BRAND IN THE SECTOR

The sector has important comparative advantages that can be leveraged into competitive advantages provided that it is supported by a strong brand. This is because for all sub-sectors, the competition is severe and competing players in other countries are relatively much more mature, with a good understanding of the global industry trends, and have wide differentiators that Palestinian service providers do not currently possess.
The perception of Palestine as a relatively unstable host environment in which to do business also complicates matters to an extent. Positive aspects that indicate an improving business environment such as improvements in the doing business report etc all need to be strongly advertised to indicate that Palestine is a viable alternative providing good quality business and professional services that also prove to be cost effective.
In this context, it is extremely important to develop a strong brand for the sector that is focused on quality and cost effective service delivery across the 4 modes. This will require sustained efforts and participation of both public and private sectors, but if effectively executed, the efforts can have significant positive impact for the sector as a whole.

TRADE SUPPORT ANALYSIS

Trade support institutions (TSI) are public or private sector institutions whose mandate includes supporting private sector enterprises that currently export or are seeking to export. Services offered by TSIs broadly fall under four categories:

1. *Policy development:* these include ministries such as MoNE and other technical agencies such as PSI directly involved in policy making work,

2. *Provision of business services:* These primarily include membership associations such as chambers of commerce, Paltrade and other organizations that cater to the specific needs of its constituent members,

3. *Provision of trade services:* These primarily refer to technical agencies that provide information and a variety of services that directly assist exporters. Typical examples include agencies as a the statistical bureaus(PCBS), freight forwarders/custom agents, certification agencies (for quality management)

4. *Broad support by civil society organizations:* These primarily include domestic and international NGOs/development partners who, through the auspices of their project work, assist in the development of the export value chain.

The composite group of TSIs operating in a country constitutes the overall Trade Support Network (TSN) of the country. There is often overall between the four categories defined above, especially in a small economy such as Palestine where agencies/ministries have multiple areas of responsibilities assigned to them.

Assessment of TSN relative to the business and professional services sector

It is important to note that the efficacy and service delivery of the trade support network must be assessed *relative* to each sector. i.e. the service delivery of a particular TSI may vary based on the particular sector under consideration. For instance – As recognized by Paltrade management, the services offered by Paltrade are weak for the services sector but are relatively strong and robust for goods based sectors. Similarly, most other TSIs have also been assessed as having weak services on offer to the services sector relative to goods based sectors.

- Stakeholders –across the board- who participated in the consultations, survey and bilateral interviews assessed the service delivery of the overall TSN (with respect to the sector) as very weak. Traditionally, there has been a dearth of focus on the services sector. This includes all 4 types of TSIs described above.

- The overall weakness of Palestinian TSI's vis-à-vis the services sector poses significant challenges. However, there is growing recognition of this gap among all categories of TSIs and is being addressed in a gradual fashion by national and international (development) partners.

The following is an assessment of gaps/recommendations for key TSIs relevant to the sector, which emerged through the consultation, surveys and bilateral interviews that were conducted as part of this project.

	Organization	Function with respect to the business / professional services sector	Proposed recommendations
1	MoNE	- Primarily provide company registration services to operators in the sector	- Review of unfair competition between private firms, NGOs providing similar services but exhibit discrepancies in the form of tax liabilities. - Review registration requirements for individual consultants as well as companies to decrease burden but also ensure important information is

			collected for dissemination to PCBS and tax authorities - Better dissemination of changes in policies and regulations – specifically through an online medium, - Improve coordination between MoNE and other ministries as well as other TSIs within the overall TSN - Review trade promotion role for Palestinian consulates, specifically aimed at the business and professional services sector
2	Paltrade	- Currently, bulk of Paltrade services are primarily based to goods based sectors, and orientation towards services is weak. This is being addressed as part of the updated Paltrade strategic plan that is under development	- Conduct needs assessment in terms of identifying new service offerings through benchmarking exercise with other global TPOs that have strong services based offerings. - Develop innovative service offers specifically catering to the service sector - Lead market development efforts for the domestic and the international market. o Improving coordination and collaboration between the business/professional services sector and the Palestinian manufacturing sector o For the domestic market, an advocacy role aimed at increasing awareness of the value proposition and benefits from procuring such services by domestic enterprises will be essential. o Assist Mode 2 consumers – especially development partners and international firms based in Palestine – in selecting and vetting service providers, as well as ensuring ongoing quality services. - Bring in best practices, current industry trends, and global lessons learned for the business and processional services sector, by developing case studies, hosting events for international experts, universities, consulting firms. - Customized training on relevant topics that are important for the sector - Leading efforts to promoting the sector internationally and building a strong brand
3	PSI	- Standards setting body. Service delivery with respect to services sector is currently evolving.	- Identify global standards and certifications that are utilized for the business and professional services sector - Establish technical committees who will assess the potential and mechanisms for adopting these standards relative to the Palestinian markets and context. - Assisting Paltrade and other TSIs in potentially developing certification capabilities relative to these standards
4	Chambers of Commerce	- Formal platform for various sector enterprises to discuss pertinent sector related issues	- Provide networking opportunities for members to discuss challenges and updates, and generally serve as forums for ideas generation - Collect and disseminate domestic and global industry trends and existing market opportunities - Represent the interests of the sector in international events featuring international chambers of commerce and other associations

			- Conduct studies on a regular basis to assess the 'health' of the sector
5	Palestinian Federation of Industries (PFI)	- Umbrella organization of industries/sector associations - Provides a formal platform for discussing pertinent issues relevant to various sectors (primarily goods based)	- Improving connectivity and linkages between PFI members (especially manufacturing firms) and the business and professional services sector - Assisting in facilitating change management among PFI members on the value gained by procuring such services. - Identifying clear expectations from service providers relative to the needs of PFI members – so as to build the business case for services and assist service providers in developing relevant service offerings - Support experiential learning opportunities for students through internships, apprenticeships at member institutions in areas directly related to business and professional service niche such as process improvement, project management etc
6	PCBS	- Data collection, analysis and dissemination	- Strengthened data collection related to services sector in general in order to assist in improved policy making, trend analysis and decision making - In addition to providing access to statistics, include provision of more interpretive qualitative analysis on the data, as part of PCBS's mandate
7	MoE	- Development of policies related to the TVET and higher education structure in the sector	- Comprehensive gap analysis and needs assessment for the TVET and higher education system, to better cater to the business and professional services sector - Assist in establishing a feedback loop between '*academia – domestic and international consumers of business and professional services – service providers'* in order to develop a steady pipeline of *relevant and in-demand* skill-sets in the sector.
8	Private Sector Coordination Council (PSCC)	- Currently defunct	- Revive the council and develop an executive secretariat that can provide direction to the PSCC - Play an advisory role to policy makers as well as its key constituents in terms of facilitating activity on the demand side-supply sides related to business and professional services - Domestic and International market development for Palestinian services providers - Leading efforts to promoting the sector internationally and building a strong brand
9	Association of management consultants	- Currently defunct	- Revive the association and reaffirm/modify by laws as required - Function as the primary networking platform for management, business, and generalist consultants - Facilitate flow of best practices, current industry trends, and lessons learned from the global industry - Assist in brand development for the sector
10	Palestinian Association of Certified Public	- Sector association promoting the interests of accounting,	- Advise policy makers and other key TSIs on the needs and constraints facing the accounting, bookkeeping and auditing sector

	Accountants (PACPA)	bookkeeping and auditing firms	- Domestic and International market development for Palestinian services providers - Leading efforts to promoting the sector internationally and building a strong brand
11	Ministry of Labor	- Labor based regulations and policy setting	- Undertake a leading role in discussions / negotiations related to BLAs / preferential trading agreements as pertaining to labor movement of professionals from the business and professional services sector - Improve linkages with staffing services to guide them on forecasted skills shortages among other areas
12	Banks and other lending institutions	- Credit financing	- Develop specific loan instruments targeted towards the services sector - Improve awareness/training among loan officers on specific requirements of MSMEs in the services sector
13	Educational institutions including Universities	- Development of the talent pipeline in the sector	- Overhaul curricula in areas directly relevant to business and professional services such as consulting, project management, design courses, public relations etc. - Assist in establishing a feedback loop between '*academia – domestic and international consumers of business and professional services – service providers'* in order to develop a steady pipeline of *relevant and in-demand* skill-sets in the sector. - Establish a rigorous placement services platform that is well linked with industry to facilitate internship based, and post-graduation placement opportunities for students - Encourage – and facilitate opportunities for - professors and instructors to gain more industry exposure so that lessons learned can be integrated in the classroom environment

Box 5: Private Sector Coordination Council (PSCC)

The Palestinian private sector is represented by a number of specialized institutions, which are governed by elected boards of directors chosen by general assembly's of the members. These institutions provide a wide range of specialized services, which benefit their members and support them in their business endeavors. These institutions carry the responsibility of representing their members in the administrative, technical and advocacy roles with the aim of improving the business-enabling environment.

An umbrella association called the PSCC currently exists , which includes within its membership the major institutions(described above) representing most of the Palestinian private sector:

1. Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA)
2. Palestinian Federation of Industries (PFI)
3. Palestine Trade Centre – Paltrade
4. Palestinian Federation of Businessmen's Associations (PALBA)
5. Palestinian Information Technology Association of Companies (PITA)
6. Palestinian Banking Association
7. Palestinian Contractors Union

8. Union of Insurance Companies
9. Administrative Services for Tourism Industry (ASTAP)
10. Shipper's Council

The PSCC is chaired by a rotating secretariat between the first four members every 6 months. Executive body for the PSCC is not exist, as the member organizations paly the role of the executive body and provide service to their members, therefore, PSCC is not a service provider body, it only coordinates efforts among private sector organizations to avoid overlapping and advocate the private sector needs and requirements.

- Despite the strong potential offered by the PSCC, it currently functions primarily as a public relation body among the private sector institutions. Informal interviews with select members have revealed that operations are limited, and the organization is largely inactive.

- At least in theory, the PSCC is strongly positioned to play a valuable role in assessing opportunities for the business and professional services sector that can be utilized for domestic market development. The organization could also serve as a linking point –through its convening power- between the demand side (PSCC member organizations), and the supply side (featuring the individual membership associations in the sector such as PACPA as well as an umbrella association for the sector when it is formed).

SNAPSHOT OF GLOBAL BUSINESS AND PROFESSIONAL SERVICES

Exports of business and professional services currently constitute more than 1/3rd of all exports in services. According to the IMF, and as reported by the ITC:

> Business and professional services have been the fastest-growing sector of world trade from an export earnings perspective since the General Agreement on Trade in Services was launched in 1995, with an average annual growth rate of 7.6%. This compares with growth of 4.9% for goods exports and 3.8% for tourism. Since 1999, the average annual growth rate has risen to 8.9%.[3]

Export related data for business and professional services from Palestine are not available, and this is one of the severe gaps that have been identified and addressed as part of this strategy. While trade data specific to Palestine is not available, there is global trade data available for the overall business and professional services sector.

The following table provides an indication of the leading importers and exporters of business and professional services globally. Two columns in the table – 'Total other business services[4]', and 'Miscellaneous business, professional and technical services' are useful for the purposes of this strategy. The former provides an estimate of the overall exports in the 'other business services' categories, while the latter provides an indication of the percentage share of the misc business service category in which information on the major sub-sector categories included as part of this strategy is indicated (in red).

As indicated, The EU (27), US, China and Japan are the leading exporters overall in the sector, and also constitute the major consumers of such services. To an extent, this indicates the high maturity level of the demand and supply sides in these markets.

As indicated, the MENA region is not well represented in the table, indicating that from a global standpoint, service providers in the region operate on a lower scale, although this does not mean that they do not provide good value business and professional services.

Table 2[5]: 'Trade in other business services by category in selected economies, 2011

		Value (USD millions)	Share		
		Total other business services	Merchanting and other trade-related services	Operational leasing services	Miscellaneous business, professional and technical services

[3] http://www.tradeforum.org/Business-and-Professional-Services-Fast-growing-Markets/#sthash.gcIDQ5sd.dpuf

[4] This also indicates Merchanting and other trade-related services, Operational leasing services, which are out of the scope covered by this strategy. The 'Miscellaneous business, professional and technical services' covers the main scope of this work and is therefore very relevant to this strategy.

[5] a Covers other services not included elsewhere as well as services between related enterprises n.i.e
b Market research and public opinion polling are included in "other".
c Does not include merchanting.
d May cover transactions belonging to other services items.

					Total	Legal, accounting, management and public relations	Advertising, market research and public opinion polling	Research and development	Architectural, engineering and other technical services	Agricultural, mining and other on-site processing services	Other a
Exporters											
European Union (27)		541 280	**24.2**	**3.8**	**72.0**	14.9	6.5	9.6	9.9	2.1	29.0
Extra-EU (27) exports		254 182	**23.0**	**4.3**	**72.7**	14.4	5.7	11.3	12.5	2.9	25.8
United States b		117 175	**3.6**	**6.1**	**90.3**	34.6	3.6	19.9	7.1	2.2	23.0
China		58 270	**44.4**	**…**	**55.6**	48.7	6.9	…	…	…	…
Japan		45 367	**52.6**	**7.8**	**39.6**	…	…	9.3	…	…	…
Hong Kong, China		39 573	**83.1**	**0.1**	**16.8**	10.2	1.9	…	1.2	…	…
Canada		26 461	**7.1**	**2.5**	**90.5**	39.3	3.8	16.7	19.5	0.7	10.5
Singapore c		23 469	**16.2**	**…**	**83.8**	53.2	5.6	2.3	10.3	…	12.4
Brazil		19 675	**6.4**	**0.3**	**93.2**	15.7	3.0	2.3	37.4	0.2	34.6
Korea, Republic of		18 464	**41.6**	**4.1**	**54.3**	6.2	1.9	1.9	3.1	0.2	41.0
Russian Federation		15 859	**7.0**	**8.4**	**84.5**	17.9	23.2	2.6	22.6	4.6	13.7
Lebanon		8 974	**8.5**	**…**	**91.5**	3.5	2.2	0.3	4.6	0.1	80.7
Argentina		5 178	**2.8**	**4.0**	**93.1**	48.6	11.9	9.1	8.6	…	14.9
Algeria		2 130	**…**	**0.6**	**99.4**	0.6	4.4	…	8.1	0.0	86.2
Morocco		2 065	**2.7**	**…**	**97.3**	…	7.7	…	…	…	89.6
New Zealand		1 289	**19.7**	**1.3**	**78.9**	18.1	4.3	7.3	9.6	0.6	39.0
Croatia		1 218	**11.0**	**2.8**	**86.1**	12.9	25.5	9.5	30.3	5.2	2.8
Serbia		1 191	**6.6**	**0.6**	**92.9**	17.8	19.8	5.5	9.6	0.1	40.1
Mauritius		876	**25.2**	**0.1**	**74.7**	…	…	…	…	…	…
Costa Rica		818	**30.5**	**2.5**	**67.0**	45.7	0.2	1.2	0.0	…	19.8
Pakistan		765	**3.9**	**0.7**	**95.5**	14.3	2.8	0.9	3.6	…	73.8
Importers											
European Union (27)		466419	**12.6**	**4.1**	**83.2**	15.4	8.9	13.1	8.2	1.2	36.4
Extra-EU (27) imports		187611	**13.0**	**4.7**	**82.3**	14.8	9.2	15.4	7.0	0.9	35.0
United States b		78192	**2.0**	**2.5**	**95.5**	36.9	3.7	28.6	1.9	1.1	23.3
Japan		45889	**27.0**	**1.1**	**71.9**	…	…	23.2	…	…	…
China		39 620	**46.1**	**…**	**53.9**	46.9	7.0	…	…	…	…
Korea, Republic of		34 679	**35.7**	**3.7**	**60.5**	6.3	11.0	5.1	2.5	0.2	35.5
Singapore		28 736	**20.2**	**…**	**79.8**	37.2	6.3	11.6	5.4	…	19.3
Brazil		25 367	**3.8**	**66.0**	**30.1**	3.8	3.0	0.1	17.8	0.0	5.5
Canada		19 974	**4.1**	**6.4**	**89.5**	45.5	3.9	6.5	17.9	2.0	13.7
Russian Federation		18 565	**…**	**19.6**	**80.4**	19.6	8.2	0.6	25.8	13.4	12.8
Hong Kong, China		10 680	**39.9**	**17.9**	**42.2**	27.4	4.8	…	3.0	…	…
Algeria		5 564	**…**	**0.3**	**99.7**	0.0	0.2	…	96.0	0.0	3.4
Lebanon		5 058	**17.0**	**…**	**83.0**	9.9	1.2	0.5	4.1	0.5	66.9
Kazakhstan		4 181	**0.4**	**11.8**	**87.8**	11.2	0.5	2.7	50.2	18.7	4.5
Argentina		3 161	**6.4**	**18.4**	**75.2**	33.4	3.9	1.2	13.5	5.2	18.0
Venezuela, Bolivarian Rep. of d		2 622	**…**	**29.8**	**70.2**	46.2	0.1	…	18.5	0.2	5.3
Colombia		2 258	**10.3**	**12.9**	**76.9**	8.4	2.5	…	56.9	…	9.0
Azerbaijan		2 157	**0.7**	**0.6**	**98.6**	3.4	0.5	0.1	…	…	94.7
New Zealand		2 077	**6.8**	**14.6**	**78.6**	16.1	10.3	2.0	12.4	1.9	35.8
Egypt		1 965	**…**	**…**	**100.0**	8.3	…	…	…	…	91.7
Turkey		1 727	**3.1**	**15.1**	**81.9**	2.3	4.9	…	0.5	…	74.2

THE FUTURE PERSPECTIVE

The preceding sections are primarily aimed at assessing the export potential for the Palestinian business and professional services sector, and developing the business case for an export strategy for this this services sector. The analysis reveals that the sector indeed possesses strong comparative advantages that can be translated into competitive advantages. The following is an enumeration of the main comparative advantages for this sector.

The Palestinian business and professional services has certain comparative advantages that could be converted into competitive advantages if supported in a sustainable manner. These include the following aspects:

- *An entrepreneurial culture coupled with a good higher education system that fosters a steady pipeline of high caliber professionals:* The majority of enterprises in the sector are MSMEs with average employee strength of 3 employees. The entrepreneurship culture is firmly embedded in Palestine. Additionally, the high literacy rate and a relatively strong national educational system have resulted in a steady pipeline of fresh graduates entering the employment stream every year.

- *High level of development project activity provide exposure and employment opportunities for consultants:* Due to the heavy presence of international development partners in Palestine, consultants – especially generalist consultants – are exposed to a variety of projects in the country. This is relevant because in general, the small size and the underdeveloped nature of the domestic economy, as well as challenges in penetrating market segments outside of Palestine offer significant challenges to operators in the business and professional services sector. Experiences in working with development projects allow a conduit for professionals to hone their capabilities, which might otherwise not be available.

- *Language proficiency (English-Arabic) levels have partially resulted increasing trends of professional consultants being engaged in Arabic speaking countries:* In the recent past, there have been increased mode 4 activities in Arabic speaking markets including Yemen, Afghanistan, Iraq among others. The language proficiency is an important comparative advantage that will gain increased relevance when reconstruction efforts (development activity) ramps up in Libya, Syria and other conflict/post-conflict states.
  The language proficiency also offers a strong value proposition relative to the customer care and translation services sectors.

- *NES implementation activity is expected to result in high demand for business services:* As discussed earlier, development projects offer an important revenue pipeline for operators in the business and professional services sector given the small size of the domestic market and the challenges that operators face regularly in penetrating outside markets. In this context, the expected implementation activity stemming from the just completed National Export Strategy (NES) initiative is expected to offer significant opportunities to sector operators. NES implementation will result in a wide variety of projects being launched across ten sectors and three cross-sectors, offering opportunities for sector operators to render their services across many cross-cutting areas.

- *Prevailing client perception that Palestinian consultants are in a better position to understand the socio-political environment prevailing in the client country:* The sector consultations revealed a belief among sector stakeholders that current and potential clients outside Palestine, especially in post-conflict and conflict affected countries such as Afghanistan are relatively open to the involvement of Palestinian consultants on projects as they identify closely with the Palestinian context – and have faith in the ability of Palestinian consultants to understand better the operating environment in the client country. While it is difficult to validate whether this is indeed the case, this is at least a theoretical possibility that could serve as a selling point for the sector, especially of course when combined with professional and language based competencies.

- *Dual citizenship can assist business services owners in reaching international markets:* In addition to retaining a Palestinian passport/ID, Palestinian businessmen often have dual citizenships with countries such as the US, Jordan etc which can offer advantages in terms of developing new export relationships, if leveraged. The relative ease of movement access across borders as well as the ability to register and open new business entities in the target markets are indeed two important comparative advantages.

Despite the above comparative advantages, there are significant challenges existing at the policy, enterprise, institutional levels, as well on the market side related to the sector. The strategy focuses on alleviating these constraints based on established best practices and specifically focuses on the identified root causes of the constraints. In addition to focusing on constraints, the strategy also seeks to leverage opportunities in the form of emerging trends in the sector in international markets.

The future state of the sector has been developed using a combination of consultations, surveys and analyses. This future state consists of two components:

- A target market-related component involving identification of key markets in the short and medium to long terms for exporters, and,

- Structural changes to the value chain that result in either strengthening of linkages or introduction of new processes;

Target markets and structural adjustments to the value chain are identified in the figures below. As in the case of the current value chain, both the overall value chain as well as the customer care center component are highlighted separately.

Figure 4: Future value chain - overall sector

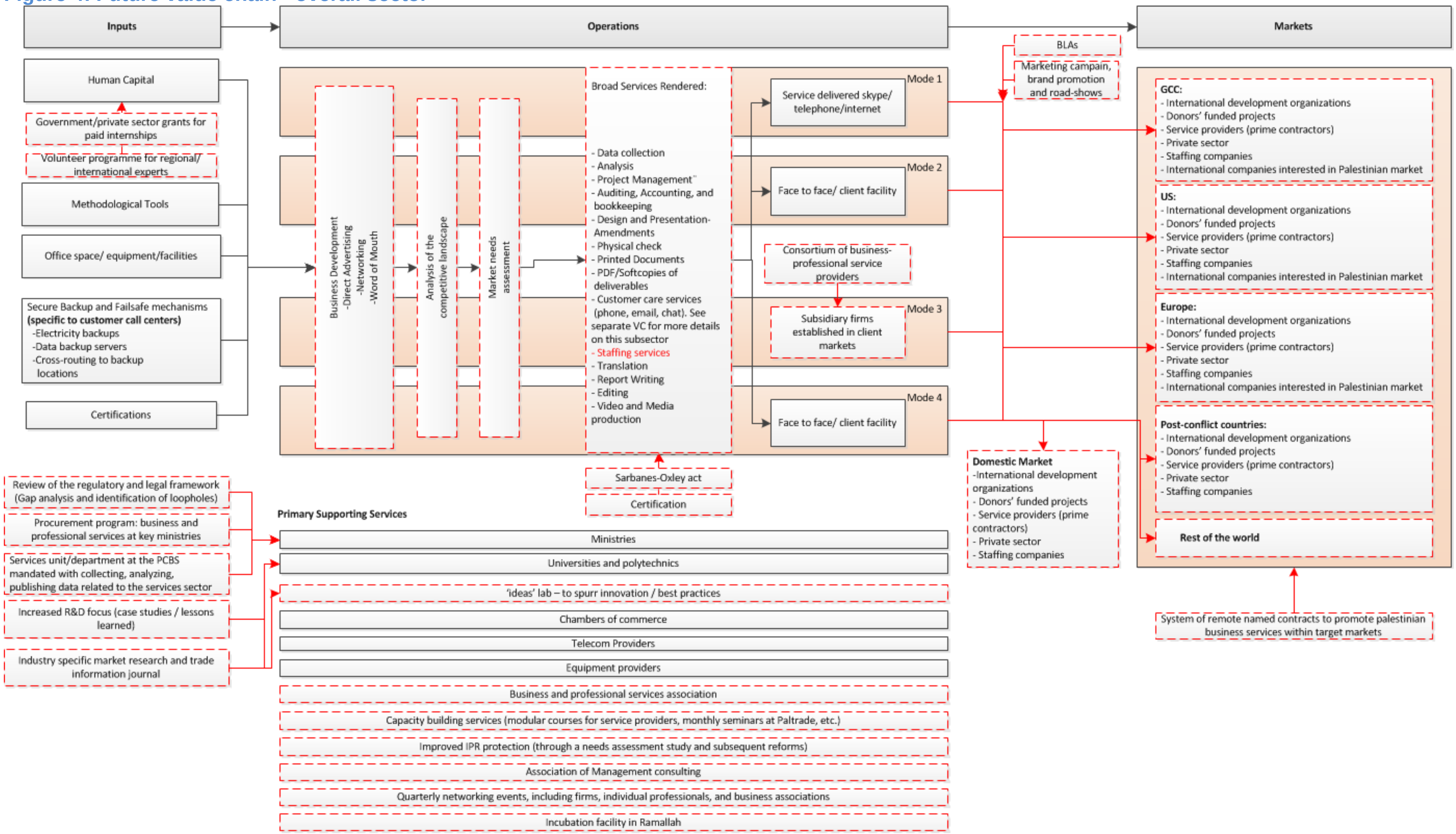
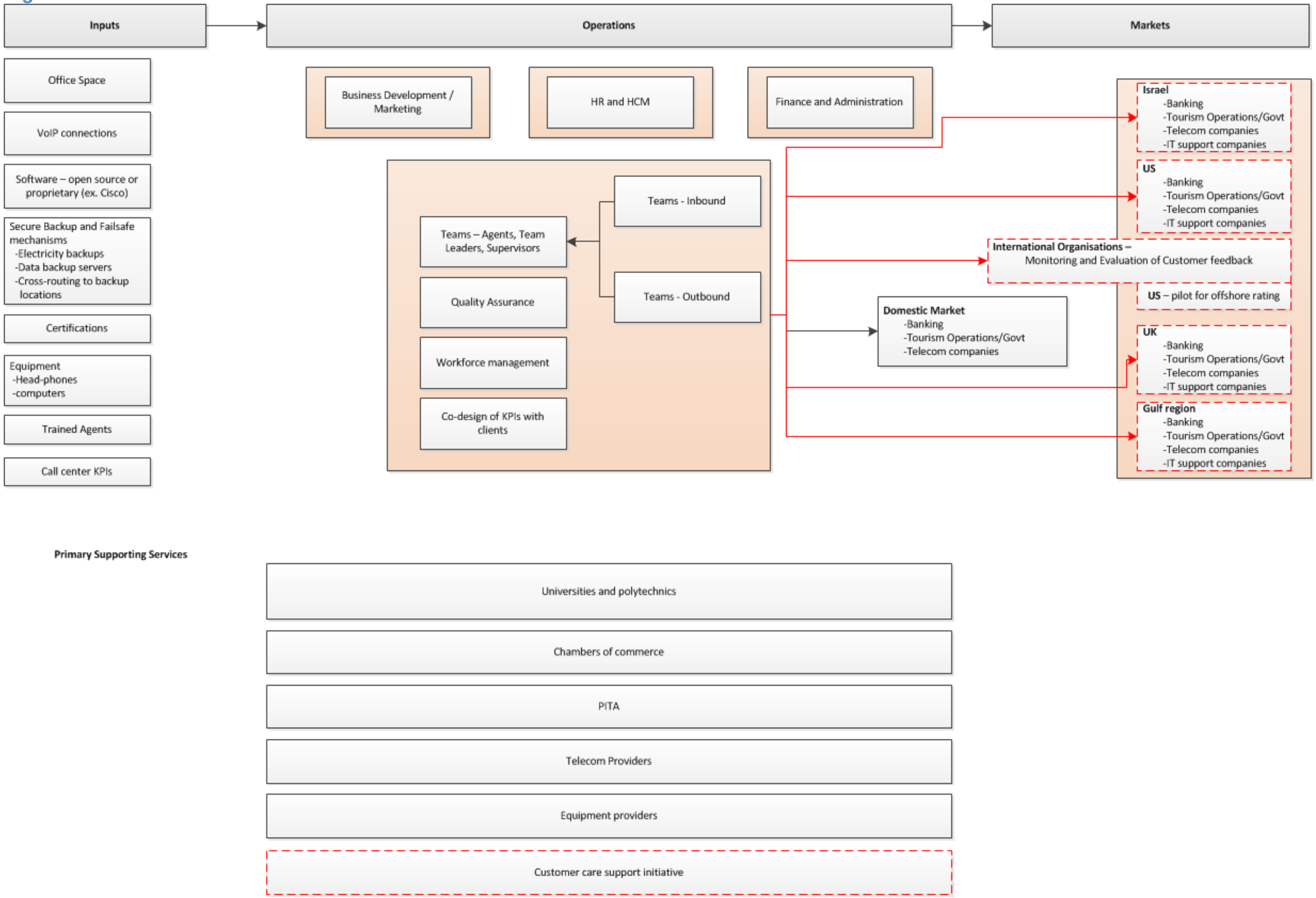


Figure 5:Future value chain – customer care center sub-sector



TARGET MARKETS

In the short-term timeframe (0–5 years), existing trade relationships are expected to remain the main mechanisms for generating new business.

Over the medium to long term timeframe (5+ years), it is expected that the evolving capacities of business and professional services exporters – across multiple dimensions including ip development, on time delivery/responsiveness, quality of work, along with the improving business environment and export value chain improvements effected by the NES implementations – will allow exporters to target other markets in the medium to long term which seem hard to penetrate now.

BUSINESS AND MANAGEMENT CONSULTING:

For this sub-sector, the main market segments identified as having potential are international development organizations, contractor/consulting firms in the Gulf countries, as well as donor funded projects in the domestic market. Apart from these market segments, post-conflict and conflict countries in the Arabic speaking world - Iraq, Libya, Yemen, Afghanistan, in particular - have been identified as having high potential due to the language proficiencies as well as a perception among client countries that Palestinian consultants are more familiar and better suited to adapting and delivering services that incorporate specific considerations related to fragile state economies. This has been borne out by increasing cases of Palestinian management consultants travelling to countries such as Yemen, Afghanistan, and Iraq. Specifically, mode 2 to mode 4 transition trends – involving consultants who work with the same umbrella donor group in Palestine and then transition to another country- are on the rise.

While activity through mode 3 does not exist right now except in very select cases, it is expected that this will change as the strategy implementation ramps up, and the sector matures further.

EDUCATION AND TRAINING SERVICES:

Potential for these services have been identified in post-conflict as well as the domestic market. Modes 2 and 4 have been identified as key channels, driven by expected increase in donor project activity by donors and international development actors. Similar to the case of business and management consultants, individual service providers in the training industry have accumulated experience in countries through independent consulting projects and there is significant potential for scale up these opportunities.
Another comparative advantage is the strong linkages of the sub-sector with the robust ICT (software development) capabilities in Palestine that could be utilized to develop training software.

STAFFING SERVICES:

With growing development and reconstruction based activity expected in Palestine and Arabic speaking post-conflict countries respectively, there is increased potential for staffing services to operate from Palestine and provide services in the MENA region. The gulf region is also a potentially valuable market offering absorption capacity for a wide variety of staffing services. As development project activity ramps up in Palestine, the domestic market also offers strong potential.

ACCOUNTING, AUDITING AND BOOKKEEPING:

The accounting, auditing and bookkeeping sector is relatively well organized in Palestine. The sub-sector –especially companies providing certified accountancy services- does face certain limitations in terms of being registered in the client country, however PACPA’s membership in IFAC potentially opens up other markets for Palestinian accounting firms.
The domestic market, as well mode 2 clients such as international firms and international development partners with presence in Palestine are considered especially important for this sector.
It is also expected that the Palestinian private sector will gradually increase appreciation and procurement of the various value added services that are offered through the accountancy, auditing, and bookkeeping sectors. With this evolution, there will be growth in business opportunities for the service providers.

EDITING AND TRANSLATION SERVICES (INCLUDING. LEGAL TRANSLATION):

The editing and translation services sector has a significant comparative advantage due to the high language proficiency in both English and Arabic in Palestine. Palestinian firms are already providing translation services to international development firms operation in the state, and there is high potential for penetrating the market further through improved business development efforts as well as increased organization/consolidation among service providers.
The value proposition for this sector is especially strong given that project work can be conducted relatively efficiently through the mode 1 mechanism. The high target markets identified are the Gulf market, USA and the EU markets.

MARKET RESEARCH AND PUBLIC OPINION POLLING / MARKETING AND ADVERTISING SERVICES / EVENT MANAGEMENT

This sub-sector in particular the graphic design, advertising, public relations field - has developed a relatively high degree of expertise through experience with the domestic private sector. Palestinian private sector firms have gradually increased their understanding on effectively leveraging advertising and public relations activities to gain visibility in the market.
The Identified target markets having a high degree of potential for this sub-sector are the EU, domestic and the gulf markets. Demand is expected to increase in the domestic market as well as through international agencies/firms located in Palestine.

CUSTOMER CARE CENTERS

While the business case for Palestinian customer call centers (with an export orientation) may not be readily obvious, this export strategy has identified potential for this sub-sector. For the purposes of this strategy, the scope of this sub-sector includes call centres, as well as email/chat customer care services that are both inbound and outbound.

As described earlier in the document, there are currently two customer care center firms that are active in Palestine. They vary significantly in terms of size and scope of operations, and do not currently compete with each other.

- For the call centre segment, the ‘neutral’ (and therefore easier to understand) Palestinian Arabic accent is a comparative advantage among other relatively well-established peers such as Jordan and Egypt.
- Applicable to all segments – the steady pipeline of human capital (especially in term fresh university graduates) is an important advantage.
- The sector can also play an important part as a feeder service of well trained professionals that may be well suited for roles in sectors where client-facing requirements are important – such as in the case of the retail sector.
- Some –albeit limited- capacity exists in these firms to scale up operations in languages other than English and Arabic (such as Hebrew, French, and Spanish).
- For the two existing firms in the sub-sector, it has been difficult breaking into the domestic market, and they have experienced the first-movers disadvantages that are associated with initial market development.

Identified market segments include – the Banking sector, Tourism and travel agencies, Telecommunication firms, IT support companies in the domestic market, the gulf region, and the US. Some EU markets such as the UK may also offer potential.

The following table lists,in a consolidated form, the main target markets, modes associated with sub-sectors in the Palestinian business and professional services sector that have been identified as being high potential.

Table 3: Identified high potential target markets for the Palestinian business and professional services sector

Sub-Sector	Target Markets: Country	Target Markets: Market Segment	Business Case / Opportunities
Business consulting/ management consulting (modes 2, 3, and 4)	- Post Conflict Countries (Iraq, Libya, Yemen, Afghanistan) - Gulf Region - Domestic market	- International development organizations. - Donors' funded projects - Service providers (prime contractors) in gulf countries.	- Repeat business with organizations operating in Palestine in different countries. - Many Palestinian consultants are providing services to different organizations in post conflict countries - Some big consulting firms in Gulf area are interested in subcontracting smaller firms to deliver certain services (short term) - Demand on management and business consulting in post conflict countries is increasing especially by international development organizations and donors. - Gulf region is recovering from the recent economic reception and thus demand will be increasing. - More focus on service export by PA and private sector institutions will help business related services in market penetration. - Experience of Palestinian firms in post conflict environment. - Experience of Palestinian firms working with international organizations in Palestine.
Education and training services (mode 2 and mode 4)	- Post conflict countries - Domestic market	- International development organizations and donors in post conflict countries	- Increasing demand on training an education of public organizations in post conflict countries. - Individual trainers delivered training services in such countries, can build on existing clients to expand business. - Repeat business with international organizations in Palestine to deliver service in different countries - Experience of Palestinian firms working with international organizations in Palestine. - Can meet the demand for e-learning systems through linkages with the ICT sector.
Staffing services (mode 1 and mode 4)	- Gulf region - Domestic market - Post conflict countries	- Private sector / staffing companies in Gulf - International organizations	- Cooperation with staffing companies in Gulf region. - Can reach employers directly - virtually. - Increasing demand for staffing services in post-conflict countries. -
Accounting, auditing and bookkeeping (mode 1 and mode 2)	- Gulf region - International firms/development partners in Palestine - Domestic market - Israel - Africa	- Private sector	- PACPA new membership in IFAC. - Heavy existing demand for bookkeeping and accountancy services globally that Palestinian enterprise could tap.
Editing and translation services (Including. Legal translation) (mode 1)	- USA - Europe - Gulf Region	- Private sector - International development organizations	- Palestinian companies are providing translation services (English-Arabic and Arabic English) to different international organizations and companies. -
Market research and public opinion polling	- World wide	- International companies interested in	- Different international companies have used this services and requested market research and due diligence of the Palestinian market.

(mode 1 and 2)		Palestinian market	
Marketing and advertising services / event management (mode 1 and 2)	- Domestic market - Gulf region - Europe	- International development organizations and donors - Private sector	- Palestinian companies already export their services to different companies and organization abroad. - International firms have used such services in Palestine (mainly branding and promotional campaigns of their products)
Graphic design (mode 1 and 2)	- Domestic market - Gulf region - Europe	- International development organizations and donors - Private sector	- Existing track record and projects with domestic and international clients. - Reasonably high expertise in graphic design and other aspects.
Customer care centers (mode 1)	- Domestic market - USA - UK - Gulf Region - -Israel	- Banking sector - Tourism and travel agencies - Telecom - IT support companies - International organizations present in Palestine	- 'Neutral' Arabic accent is a comparative advantage - Steady pipeline of human capital (especially recent graduates) available in the market - Important linkages with the retail sector – as a feeder service of experienced professionals - One of the two Palestinian companies are already providing their services to international companies in USA and UK. Can build on such success. - Language proficiency (Arabic and English, with possibility to provide the services in more languages, e.g. Hebrew, French and Spanish)

STRUCTURAL ADJUSTMENTS TO THE VALUE CHAIN

The following list constitutes a subset of the main structural adjustments that have been proposed and addressed as part of this strategy:

1. Establishment of a Palestinian business and professional services association,
2. Development of modular courses for service providers in a host of technical areas,
3. Establishment of monthly seminar series hosted by Paltrade officers to firms in business services sector seeking to expand in the export value chain
4. Comprehensive gap analysis of the regulatory and legal framework relating to the sector,
5. Investigation into regulatory loopholes that may result in conflict of interest situations in public institutions (ministries and official agencies)
6. Marketing campaign to promote the services of the ‘auditing, bookkeeping and accounting’ sector and to assist in the development of the domestic market for service providers
7. Annual road-shows to select target markets to promote the business/professional services sector, and to facilitate deal-making
8. Adoption of Sarbanes-Oxley act in Palestine: provision that forbids auditors from rendering consultancy services to clients to whom they are also providing auditing services
9. Needs-assessment study related to Intellectual Property Rights (IPR) protection considerations
10. Development of a case-study series in collaboration with select global and Palestinian universities (lessons learned in the sector)
11. Revival of the currently defunct Association of Management Consultants (AMC) in Palestine
12. Feasibility study for assessing the potential and scope for signing Bilateral Labour Agreements (BLAs) with key target markets identified as high potential for the business/professional services sector
13. Establishment of a government or private sector led grant program to sponsor paid internships or semester long coop programs for promising university students
14. Development of an incubation facility in Ramallah : will provide multi-dimensional incubation support to business/professional services firms selected through an application program
15. Consortium of Palestinian business/professional service providers to pool resources –with government and donor support – for establish a mode 3 consulting services provider entity in two selected pilot target markets (mode 2)
16. Establishment of a system of named contacts located in specific target markets: will be informal ambassadors of the sector in the target market
17. Establishment of an ‘ideas’ lab, aimed at spurring innovation and influx of best practices in the management/business consulting and market research sector
18. Provision of support (technical or financial) to PCBS in relation to the planned transition of data collection activities to the MSITS classification recommended as per the GATS
19. Development of a broad procurement program aimed at contracting Palestinian business and professional services at key ministries and public sector institutions

20. Palestinian ‘business and professional services certification’ – developed jointly with domestic partners such as Paltrade, and the association of management consulting (to be revived) and international partners (possibly international consulting firms).

21. Development of a volunteer programme for regional and international experts to engage with the Palestinian business and professional services sector

22. Quarterly networking event that brings together firms, individual professionals, and business associations.

23. Provision of assistance to staffing services (including online job boards) in building linkages and accordingly managing the demand and supply sides of the staffing sub-sector, through a broad initiative

24. Establishment of a services unit/department at the PCBS mandated with collecting, analyzing, publishing data related to the services sector

25. Launch of a brand promotion campaign in select target markets (by sub-sector) focused on promoting Palestine as a promising destination for procuring business and professional services

26. Development of an industry specific market research and trade information journal

27. Adoption and promotion of the customer services sector (including call centres) by the government through a broad-spectrum effort including financial and technical incentives, promotion by high level officials in international markets, assistance with business development efforts etc

28. Assist staffing services (including online job boards) in building linkages with different sectors (including other business and professional services sub-sectors such as call-centres) and accordingly managing the demand and supply sides of the staffing sub-sector.

Box 6: Case Study – UK Growth vouchers Scheme

The GBP 30 million ‘Growth Vouchers’ scheme recently launched in the UK is aimed at connecting micro-businesses with less than 10 employees and small businesses with up to 50 employees with professional services firms, through subsidized support by the government in the form of randomly allocated vouchers awarded to participating businesses. The businesses can then spend the vouchers –covering up-to 50 per cent of the advisors fees matched with their own funds-on procuring business and professional services in one of the following five areas of support:

1. Managing cashflow, late payments and negotiating finance
2. Developing skills and taking on staff
3. Improving Leadership and Management
4. Marketing, attracting and keeping customers
5. Making the most of digital technology

The vouchers will vary between GBP 100 and 2,000 and can be utilized to procure services rendered face-to-face, through the telephone, online or through a combination of any of the previous options.

The central premise of this initiative is that small business can grow by investing in strategic external advice, provided they are convinced of the value of such services. Recognizing that small firms, being cash strapped, are hesitant to experiment in such procurement and do require an initial dose of encouragement, the initiative seeks to reduce the risk on the demand side so that enterprises can test the value of professional services that they need. This mechanism also provides a potentially valuable revenue generation stream for professional service advisors, an aspect that is especially relevant in the context of exploring growth options for the Palestinian business and professional services sector.

The program will feature a soon-to-be-released online marketplace for connecting small businesses with professional service advisors that are members of Founding Trade and Professional bodies. This marketplace will be the central gateway through which the matching and selection of partners will take place. It is expected that around 20,000 businesses will benefit from this scheme.

While it is too early to predict the success of the 'growth vouchers' initiative in the UK, the guiding principles do serve to highlight interesting aspects that can be applied to the Palestinian business and professional services sector context.

- **The role of the government as a catalyst:** In an environment where the private sector has limited funds, trust, and experience in terms of procuring professional services, the government can act as a catalyst in terms of temporarily subsidizing such services for companies, and developing a formal platform for connecting the demand and supply sides. In this particular example, the government connects small businesses and professional services.

- **Addressing root causes is important:** The initiatives addresses a key root cause that would otherwise prevent small businesses to seek advisory services – the issue of investing valuable capital that is in short supply, in a yet unproven (at least for the individual business) commodity. By subsidizing the services temporarily, the business is offered an incentive to *try* a service and gauge the value for themselves, all with reduced financial cost. Once they are convinced of the value the businesses would then incorporate such procurement as part of their strategic planning and accordingly allocate financial resources. This can be potentially applied to the Palestinian context where domestic market development for the business and professional services sector remains a challenge.

- **Effective utilization of ICT:** By developing a virtual online marketplace rather than a 'brick and mortar' mechanism for interaction, the demand and supply sides can interact much easier and quicker, while incurring limited burden. The role of technology in this regard can prove quite useful.

THE TRADE POLICY PERSPECTIVE

There is recognition that for developing countries, *the temporary movement of people, in particular semiskilled and low-skilled workers, is the basis of their comparative advantage in trade in services*[6]*.* Unlike goods, activity in the trade in services arena depends heavily on the ability of professionals to move across borders – for instance as part of the mode 4 mechanisms where professionals from the economy of the service provider temporarily cross borders to provide services to the client and then return after the services have been rendered. In emerging economies such as Palestine, this is an important mode of service exports involving professional consultants.

Changes in the political/economic/labor parameters in the client economy can adversely affect the movement of labor – both skilled and unskilled from the source economy. For instance, when disagreements between governments occur, visa restrictions put in place act as a powerful barrier to trade in services. There are several tools utilized to hinder labor mobility by economies[7]:

- Quantitative restrictions,
- Residency and Nationality Requirements
- Technical standards and licensing
- Price (fees) based controls
- Discriminatory Access to Information Channels and Distribution Networks
- Government sourcing and procurement policies
- Economic Needs Tests (ENTs)
- Visa and employment permits

Unlike goods, a liberalized trade regime for services has been slow to emerge. Most of current trade agreements currently in place –including those between Palestine and other countries - do not cover trade in services.

While WTO agreements do not cover clauses for labor mobility, the scope of the GATS do covers the movement of individuals as service suppliers (mode 4). However, the flexibility offered in theory has not really translated into practice. The arrangements under the GATS for encouraging mode 4 exports activity is primarily focused on highly skilled labor/intra-corporate transfers (such as employees of multinationals travelling temporarily). Restrictions relating to *prior employment, quotas, ENTs, or residency requirements*[8] often make it difficult to meet the criteria. Also, given that commitments under the GATS are legally binding, bilateral partners, especially the recipient 'sink side' have shied away from making such commitments due to the lack of flexibility. Another factor reducing the effectiveness of GATS as a tool for promotion mode 4 services exports is the blurriness around the definition of *'temporary labor migration'*. The definition can vary depending on the context – ranging from 90 days in some cases to 5 years in others (as in the case of intra-corporate transferees), causing confusion for immigration officials who may be trying to assess whether a specific applicant qualifies as a valid case for a mode 4 service provider.

Bilateral Labor Agreements have been proposed –and utilized in some cases- as a solution. BLAs can be defined *as cooperation arrangements, legally binding or not, between destination and origin countries to manage labor migration.*[9] BLAs set out commitments between countries in the form of quotas on the number of annual migrants, maximum length of stay allowances etc and are considered advantageous because they are flexible (so can be renegotiated in case of compelling circumstances), and bilateral (rather than applicable to all WTO members as in the case of the GATS). Another key proposed advantage of BLAs is that they can be negotiated on a one-on-one basis rather than being applicable to all members of the WTO (some exemptions aside), and in this regard reduces hesitancy among partners in terms of the risk perception of opening up their labor markets on a multilateral basis. This is further elaborated below –

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[6] Sáez, Sebastián, ed. 2013. *Let Workers Move: Using Bilateral Labor Agreements to Increase Trade in Services.* Directions in Development. Washington, DC: World Bank. doi:10.1596/978-0-8213-9915-6. License: Creative Commons Attribution CC BY 3.0

[7] For more details, see ibid p. 21-25
[8] ibid p.27
[9] ibid p. 2

> Although not specifically designed to promote the services exports through the temporary movement of people, BLAs can serve as an alternative or complement to multilateral and regional agreements on trade in services. Because BLAs involve only two parties and the principle of nondiscrimination against third parties is not present, the limitations on market access and national treatment are less restrictive than they are in multilateral and regional agreements. In addition, it is easier for two parties to reach consensus on harmonization of their regulatory frameworks.[10]

While there are examples of BLAs that have been implemented with a fair degree of success, they are relatively uncommon, and their efficacy is still being gauged. The primary rationale for BLAs is to create a win-win situation regarding labor flows as discussed below–

> Countries may sign such agreements to promote political interests, reflect friendly relations, or reinforce cooperation in managing irregular migration. For receiving countries, BLAs help achieve a labor flow that meets the needs of employers and industry while providing for better management of labor flows and the promotion of cultural ties and exchanges. For sending countries, BLAs ensure continued access to overseas labor markets[11]

Since such arrangements are relatively a new phenomenon, there is a requirement to study and accommodate risks involved in greater detail. From the source country's perspective, a steady outflow of professionals out of the country can led to loss of expertise in-country, unless there is a high surplus of such professionals. From the 'sink' economy's perspective, a high inflow of professionals can serve to potentially disrupt the domestic market.

Can BLAs succeed in facilitating ease of movement access for Palestinian professionals in the business and professional services sector? Possibly yes, but the unique context of Palestine's political economy will pose important considerations that will need to be reviewed:

First, BLAs offer potential in the Palestinian context as it is not a member of the WTO, and therefore the conditions of the GATS do not currently apply. Since BLAs are by definition bilateral, they offer flexibility in negotiating flexible mechanisms between the parties. Additionally, the preferential bilateral trade agreements that Palestine has already signed with bilateral partners must be further examined to see if they can be renegotiated to include considerations for temporary labor flows. As part of any negotiated agreements – whether BLAs or PTAs – uncertainty over the definition of temporary, mutual recognition of educational/professional credentials. Quota numbers, length of stay etc must be minimized as much as possible to ensure the long term sustainability of such arrangements.

Second, Palestine offers limited potential for inflow of labor due to the mobility restrictions in place, and so the BLAs or PTAs would primarily be oriented towards outflow of human capital from Palestine as a one-way mechanism. Therefore, the identification of potential partners that would be willing to agree to this mechanism could be a possible next step. In parallel, identification of skill shortages that Palestinian professionals could possibly fulfill on a temporary basis would need to be performed.

Third, a dual approach combining labor considerations (i.e.shortages in the 'sink' country's workforce) and leveraging existing political capital (enjoyed by Palestine globally, especially in Arab markets) is recommended. A possible example lies in the recent announcement by Qatar regarding allocation of 20,000 work visas for Palestinian workers in Qatar, which combines considerations of the Qatari labor market, as well as a increasing political goodwill from the government towards Palestine. The following abstract from a news report highlights the broad aspects of this arrangement.

> The Palestinian ministries of labor and foreign affairs will coordinate with their Qatari counterparts to determine what specialists the Qatari labor market can absorb, according to the ambassador. The two ministries will soon begin publicizing a list of vacancies in Qatar.
>
> Workers and specialists who plan to take advantage of the Qatari announcement will have to sign a contract through the Palestinian ministries of labor and foreign affairs, added the ambassador.
>
> If a Qatari employer decides later to end the contract for whatever reason, he explained, the Palestinian will return to his homeland and will not be allowed to work again in Qatar until two years have passed.[12]

[10] ibid P. 40
[11] ibid P. 5
[12] Ma'an news Agency. (2014, 1 14). *Ambassador: Qatar to grant work visas to 20,000 Palestinians*. Retrieved from Ma'an News: http://www.maannews.net/eng/ViewDetails.aspx?ID=664983

Fourth, From the perspective of the business and professional services sector, the focus on facilitating Mode 4 ease of travel for professionals must be given priority as this offers high potential and is a rapidly evolving model in Palestine – especially in the case of independent consultants who transition from Mode 2 (collaboration with development partners) to Mode 4 activity.

Fifth, In recognition of the significant mobility restrictions, and the variance of such mobility restrictions currently in place between the West Bank and Gaza, any agreement that is signed must impart due considerations to the specific situation in Gaza, in order to ensure that the scope offered on paper also translates into action for business and professional service providers in Gaza.

Sixth, Recognizing the potential for reconstruction efforts that will be required in countries such as Iraq, Syria,Libya and other conflict affected/post-conflict countries, there must be due focus on negotiating agreements with these countries in terms of Mode 4 or even Mode 3 work.

Finally, to ensure sustainability in any such initiative, the TVET and higher education structure in Palestine must be geared up to cater to expected demand, quality of labor etc. A monitoring mechanism must be deployed to identify current/future dips and highs in labor needs in partner economies. A dedicated unit situated in a ministry of a technical agency can serve to fulfill this role.

Overall, there is potential to utilize arrangements such as the BLAs or PTAs to develop a win-win situation for Palestine and partner countries. However the key tenets of any such arrangements would need to be flexibility, sustainability and coherence.

IMPLEMENTATION FRAMEWORK

This strategy constitutes an initial, albeit important, step in developing export competitiveness in the Palestinian business and professional services sector. As discussed earlier, this sector is characterized by significant comparative advantages that were key considerations during the strategy development process. In order to fully capitalize on those comparative advantages however, a coherent, implementable and realistic roadmap is required. The strategic plan of action (PoA) constitutes this roadmap.

The activities contained in the PoA are aimed at not only solving the constraints that have been identified during the strategy development process, but also exploring options to leverage opportunities (derived from global industry trends as well as activity in Palestine) that the sector currently faces.

ELEMENTS OF THE PoA

The PoA is comprised of three strategic objectives, which can be further disaggregated into sub-objectives and activities. Activities denote actual projects which will proceed to implementation. Reading from left to right, six columns define the attributes for each activity and provide a minimum level of detail that will be further elaborated when project proposals are developed for feasibility assessment, project management, and resource mobilization purposes.

Strategic objectives: These are the overarching goals that the strategy seeks to achieve through its implementation lifecycle. Three strategic objectives have been defined

Sub-objectives: The strategic objective is broken down into at least 2 sub-objectives for purposes of maintaining readability and a logical structure to the roadmap. Each sub-objective is comprised of a range of activities that if successfully executed would satisfy the goal stated by the sub-objective.

Strategic objective	Operational objective
To develop an improved and enabling policy and institutional landscape for the sector	• Adjust policies and regulations in the sector in order to ease the burden on sector enterprises and facilitate growth • Improve the service delivery of TSIs so as to cater to the specific requirements of the sector
To enhance market development – domestic and international- efforts in the Palestinian business and professional services sector	• Facilitate growth in international markets including the mode 3 growth mechanism • Establish the domestic market as an initial growth mechanism for sector enterprises • Improve access to trade information and market intelligence for sector enterprises
To spur innovation as well as strengthen the core value chain operations based components in the sector	• Support the development of the customer care center sub-sector • Encourage greater organization and collaboration levels among sector enterprises • Spur innovation and human capital development n the sector

Activities: Activities constitute the core of the PoA. Each activity in effect offers an aggregated view of a potential project/initiative. During the implementation-planning phase, the feasibility of each activity will be re-assessed and if successfully vetted, selected activities will proceed to implementation. Ideally, 100% of the activities would be converted to actual implemented projects, given that the superset of listed activities serves to address all identified constraints and opportunities facing the value chain. However, given that financial resources for implementation will inevitably be limited, it is expected that an important subset of the activities will be selected for implementation.

The following columns provide detailed information on each activity:

- **Priority:** In recognition of the resource-constrained environment that is typical in a developing economy, each activity is prioritized to ensure that the critical constraints, and opportunities are addressed first and that ensures that funds are available for implementation. The priority column thus serves as an important indicator for the implementation phase.

- **Entry point of intervention:** Along with the priority of the intervention, the entry point is also noted for each activity. Each activity requires a certain level of capacity and maturity in the operating environment, which can affect the timeline during which the implementation of the particular activity would be most effective. For instance, some activities are more complex than others, and would require fulfillment of certain conditions/capacity enhancements that would be taken care of by another less-complex but greater foundation-building activity. Therefore, activities are staggered in terms of timelines and this 'readiness level' is reflected in the 'entry point of intervention' column.

- **Primary Beneficiaries:** This column indicates the main beneficiary stakeholders of the particular activity. If the impact (from the activity's implementation) is directly focused on a particular sub-sector of the business and professional services sector, the expected beneficiaries are listed. In cases where the impact is beyond the direct value chain actors (i.e. the service providers), the beneficiaries are listed as 'entire value chain'.

- **Target measures:** The target measures column is meant to be a combination of metrics that can be utilized to assess the successful completion of a particular activity (along with timelines), as well as indicating the means of verification (where relevant) that can be utilized to assess the level of completion.

- **Implementing partners:** This column lists potential leading and supporting stakeholder organizations – both public and private – that have been identified as suitable partners during the implementation of the activity. More partners are typically identified as each activity transitions from paper to the project development phase.

- **Estimated costs:** While it is challenging to identify specific costs related to each activity at this stage, the strategy provides an indicative value of the expected costs of implementation.

CONCLUSION → ALIGNMENT WITH PALESTINE"S NATIONAL EXPORT STRATEGY PROCESS

This strategy capitalizes on, and is aligned with the key findings and interventions of the recently concluded National Export Strategy (NES) initiative in Palestine. There are significant business opportunities offered by the expected momentum of project activity generated when the NES PoAs reach the implementation phase, and this strategy recognizes the potential and bearing of such momentum on the business and professional services sector.

Additionally, it is expected that the National Export Council (NEC) that will be setup to guide NES implementation will also guide the implementation of the PoA for this business and professional services export strategy. In other words, the implementation framework for this services sector strategy will be integrated within the NEC. This is important from a point of view of maintaining consistency and coherence.

STRATEGIC PLAN OF ACTION

Strategic Objective 1: To develop an improved and enabling policy and institutional landscape for the sector

Operational objectives	Activities	Priority 1=low 2=medium 3=high	Entry Point of intervention S-short term M – medium term L – Long term	Primary Beneficiaries	Target measures	implementing partners	Estimated costs (H, M, L)
Operational Objective 1.1: Adjust policies and regulations in the sector in order to ease the burden on sector enterprises and facilitate growth	**1.1.1** Conduct a gap analysis of the regulatory and legal framework affecting the business and professional services sector, with specific focus on: a. Mapping types of Jordanian/Palestinian/British/Ottoman/Tribal laws currently active in the sector (keeping in account the current initiatives in this regard already being undertaken at various ministries), b. Identifying specific laws (such as the companies law) that need to be updated in reflection of the current business environment, c. Level of application of different laws in directorates and assessment of transaction costs/inefficiencies associated with the ambiguity resulting from these redundancies. The gap analysis will result in recommendations aimed at: a. Harmonization of select laws and regulations prioritized as contributing to high degrees of transaction costs for sector firms. b. Updating existing laws to reflect current context of the business environment in Palestine c. Re-training for managers in directorates on consistent application of harmonized laws, d. Information dissemination campaign to adequately inform sector firms and other stakeholders on the changes.	High priority	Short term entry point	All service providers	- Gap analysis conducted, and recommendations presented to key government entities for consideration, by end-2014. - Based on accepted recommendations, re-training programs for ministry officials and other key actors initiated by early-2015 - Awareness building campaign developed and kicked-off in Palestine in early-2015	MoNE	Low cost
	1.1.2 Conduct an investigation into regulatory loopholes that may result in conflict of interest situations in public institutions (ministries and official agencies). Study will be conducted by a neutral non-governmental party, keeping in context prevailing best practices in the sector worldwide.	High priority	Short term entry point	Entire value chain	- Study conducted, and recommendations provided to relevant authorities by end-2014	MoNE Independent entity	Low cost

Recommendations will be developed aimed at curbing the following specific activities: a. Restrictions on public officials on operating services based firms (directly or indirectly as board members/shareholders) providing management/business consulting and accountancy/bookkeeping/auditing services. b. Unfair competition/lack of competition/insider transactions on contracts issuance.						
1.1.3 Expedite the adoption and application of the Sarbanes-Oxley act in Palestine, with specific focus on the provision that forbids auditors from rendering consultancy services to clients to whom they are also providing auditing services. - Provide support to current efforts to speed up adoption - Support will be in the form of feasibility studies, lobbying, and advocacy efforts	Medium priority	Mid-term entry point	Accounting, bookkeeping, auditing service providers	Law to be adopted by mid-2015	PACPA, MoNE	Low cost
1.1.4 Commission a needs-assessment study related to Intellectual Property Rights (IPR) protection considerations (including copyright, trademarks, patents, industrial design rights, table dress etc) in the business/professional services sector. The study will: a. Assess the quality of existing (if any) IPR protection mechanisms in Palestine specifically pertaining to the sector, including monitoring and enforcement measures, b. Quantify the impact of IPR related infringements in the business/professional services sector, c. Provide recommendations at the policy (regulations), institutional (monitoring, enforcement, grievance redress), and enterprise(awareness building on rights and responsibilities) levels.	Medium priority	Mid-term entry point	All service providers	- Needs-assessment study completed by mid-2015 - Recommendations released to appropriate decision making authorities	Paltrade, MoNE, private sector associations	**Low cost**
1.1.5 In line with the 'growth vouchers' scheme currently being piloted in the UK, commission a similar pilot program in Palestine –spanning 1 year- funded through government	High priority	Mid-term entry point	Domestic client base (potential and current), service providers	- Pilot program designed and commissioned by end-2015	Paltrade, MoNE, MoF	**High cost**

and donor support aimed at spurring growth in the MSME sector while also facilitating entry to the domestic market for business/professional services firms. The program will comprise of the following: a. Financial support (as a form of subsidy) to Palestinian firms seeking to test and contract business/professional services for their core operations. b. Specific service focus areas to include: market development, agri-business advisory, operational and financial management, leadership and organizational development. c. Matching program to connect service providers with potential clients. Matching mechanisms will include an online platform as well as an in-person guidance facility that will be available to both service providers and consumers. d. Rigorous monitoring and evaluation mechanism implemented in parallel to gauge scalability of such programs, and to assess priority services with high potential in the domestic market.				- Marketing and advocacy campaign to be initiated 6 months prior to program launch		
1.1.6 As a long term approach to stem the utilization of pirated and illegally downloaded software by companies in the sector, develop mechanism to assist firms in transitioning to legally procured software – - Prioritize list of software most heavily utilized by sector firms - Collaborate with international software development firms to facilitate entry and scale sales in Palestine, including increasing points of sale locations/ stores, and download based options. - Develop an awareness-based campaign to effect change management in the sector related to the benefits of procuring legal software. The campaign - jointly launched with software firms – will focus on the value added after sale support services that are available. - Options to be considered include subsidization of software products by the government for a limited period of time.	High-priority	Medium-term entry point	Across the value chain	- Change management, awareness building campaign launched mid-2015	MoTIT, International Software firms, PITA	High cost

	1.1.7 Conduct a feasibility study for assessing the potential and scope for signing Bilateral Labour Agreements (BLAs) with key target markets identified as high potential for the business/professional services sector. Specifically, the following aspects will be considered: a. Consultations to include public and private sectors in/outside Palestine, b. Assess whether current PTAs can be modified to include mechanisms for labor flows in select sectors in including the business and professional services sector c. Assess feasibility of BLAs in the context of mobility/visa restrictions in Palestine, d. Assess potential impact of outbound and inbound migration on the development of the domestic Palestinian market, e. Maintaining and updating mutual occupational shortage lists (OSLs) , for which visa and other mobility restrictions will be eased in case of qualified professionals, f. Monitoring framework for coordinating with partners, managing demand/supply trends, and ensuring compliance with provisions of BLAs including aspects such as mutual recognition of Educational credentials including formal and non-formal education, Based on the recommendations of the feasibility study, launch pilot programs –over a limited time duration- with select partners to test provisions of proposed BLAs.	**Medium priority**	Mid-term entry point	All service providers	- Feasibility study conducted by mid-2015, and recommendations shared with relevant authorities. - Based on recommendations with high potential, negotiations for launching pilot projects (to test provisions of proposed BLAs) initiated with 2 partner countries	MoL, MoNE, Paltrade	Medium cost
Operational Objective 1.2 Improve the service delivery of TSIs so as to cater to the specific requirements of the sector	**1.2.1** Assess and provide support (technical or financial) to PCBS in relation to the planned transition of data collection activities to the MSITS classification recommended as per the GATS. • Support will include re-training of PCBS analysts and officers on all aspects of MSITS classification ranging from data collection to analysis and publication • Provision for support will also include an informational dissemination campaign to make the general public (especially service providers) aware of the changes and enhancements.	High Priority	Short-term entry point	Entire value chain	- Assess current efforts at PCBS and identify gaps/needs in terms of financial, technical, and human resources by end-2014 - Develop a support package for PCBS to assist in the transition to the MSITS classification.	PCBS	Medium cost

1.2.2 In an effort to reduce the number of unqualified consultants saturating the market (as well as to provide potential buyers with an assurance on quality), introduce a Palestinian 'business and professional services certification' – developed jointly with domestic partners such as Paltrade, and the association of management consultants (to be revived) and international partners (possibly international consulting firms). a. Certification process would involve an examination to assess proficiency in basic consulting/analytical areas. b. Involvement of international partners would assist in facilitating international recognition / mutual recognition within target markets c. Certification program would include provision for applicants to specialize in specific business services. For instance – '*certified management consultant, specializing in financial services consulting/business process re-engineering/project management/translation* ' etc d. Certification holders would need to renew certification every two years, through a renewal process involving skill refresher examinations	High priority	Mid-term entry point	Entire value chain	- International partners and certification content/model developed by mid-2015 - Certification program launched by end-2015, accompanying a strong marketing and awareness campaign	Paltrade, international Partners, PSI, Association of management consultants	Medium cost
1.2.3 To stem the significant data gap that currently exists related to the sector, establish a services unit/department at the PCBS mandated with collecting, analyzing, publishing data related to the services sector, including for the business and professional services sector. In the interim period while the unit is being set up, officers to be trained and deputed with existing units on a temporary basis to fill the gap, and to ensure an efficient transition when the unit is operational. The main gaps that the unit will fill include: - Monitoring global services exports trends - Contribution and value added to GDP - Imports and Export figures based on the MSITS classification and with a global scope (rather than solely on a bilateral basis vis-à-vis Israel) - Integration of services data into other data analytics that PCBS performs and publishes on a periodic	High Priority	Short-term entry point	Entire value chain	- Select batch of officers trained on services data collation and analysis by end-2014 - Department established by mid-2015	PCBS, Paltrade, MoNE	High cost

basis.						
1.2.4 Assist PSI in ongoing efforts to identify and develop standards for the business and professional services sector. - Identifying global standards, and community of best practices existing and in-use by the sector globally. - Facilitating development of Palestinian standards based on adoption of global standards and best practices - Assisting in development of public/private sector technical working groups and committees led by PSI.	High Priority	Short-term entry point	All service providers	- Initial diagnosis/.desk research of global standards completed by end-2014 - Technical working groups/committees established on a rolling basis - First Palestinian set of standards relating to the business and professional services sector established by mid-2015	PSI, Paltrade (through its association with ITC on the trade in services project)	Medium cost
1.2.5 Conduct a comprehensive benchmarking exercise for Paltrade with other trade promotion organizations (TPOs) regarding types of services offered that are oriented towards the business and professional services sector: - Benchmarking exercise will result in recommendations that will feed into Paltrade's services portfolio, - A wide variety of benchmarking partners from the MENA region as well as in the rest of the developing/developed world will be selected.	High-priority	short-term entry point	Paltrade and service providers	- Benchmarking exercise completed by end-2015 and recommendations provide	Paltrade	Medium cost
1.2.6 Utilize the platform available through LACS to improve coordination among development partners active in development projects related to the business and professional services sector. Options for improving this coordination include: - Greater interaction during the initial project planning and scope development phases between partners on an informal or formal basis to identify overlaps and opportunities for future collaboration.	High-priority	Short-term entry point	Entire value chain	- On a rolling basis	LACS, Paltrade, Individual development partners	Low cost

	- Efficient exchange and utilization of key findings and plans of action stemming from previously executed studies. Focus to be on carrying forward important recommendations from previous studies that have yet to be implemented. - Improved collaboration with national TSIs, especially policy makers so that all relevant actors are aware of the scope of work and possible alignments with their own projects.						
	1.2.7 Develop a monthly seminar series hosted by Paltrade officers and guest hosted by Palestinian/foreign speakers, on specific topics relevant to global business services industry trends, and best practices for developing export competitiveness in the sector. Seminars will follow a round table format, and will target Palestinian firms in business services sector seeking to expand in the export value chain. Seminar contents will be captured, distilled and uploaded on dedicated pages on the primary Paltrade website, as well as on Paltrade's social media presence (LinkedIn, Facebook, Twitter).	Medium priority	Short term entry point	All service providers / general interested stakeholders	- Series and agenda completed by end-2014. RSVP campaign for speakers launched - Social media strategy developed by end-2014 - Program launched by early-2014.	Paltrade	Low cost

Strategic Objective 2: To enhance market development –domestic and international- efforts in the Palestinian business and professional services sector							
Operational objectives	**Activities**	**Priority** 1=low 2=medium 3=high	**Entry Point of intervention** S-short term M – medium term L – Long term	**Primary Beneficiaries**	**Target measures**	**implementing partners**	**Estimated costs (H, M, L)**
Operational Objective 1: Facilitate growth in international markets including the mode 3 growth mechanism	**2.1.1** Launch a brand promotion campaign in select target markets (by sub-sector) focused on promoting Palestine as a promising destination for procuring business and professional services. - Campaign will be launched in priority markets identified in the future perspective section - Campaign will be a joint public and private sector initiative	High Priority	Short-term entry point	Entire value chain	- Brand promotion campaign launched by end-2014	Paltrade, MoNE, MOFA	Medium cost
	2.1.2 Conduct annual road-shows to select target markets to promote the business/professional services sector, and to facilitate deal-making. Palestinian delegation of business firms will be comprised of priority service-subsectors including consulting, accountancy, market research, marketing and advertising, and design firms. Target markets to be selected per sub-sector as indicated in the future perspective section.	**Medium priority**	Short-term entry point	All service providers – specifically in the consulting, accountancy, market research, marketing and advertising, and design sub-sectors	- At least 2 road-shows conducted for business services providers on an annual basis to identified target markets	Paltrade	Medium cost
	2.1.3 Establish a system of named contacts (prominent members of Palestinian Diaspora/business community) located in specific target markets (or travelling from Palestine regularly to specific markets). Named contacts will be informal ambassadors of the sector in the target market – and will represent the sector's interests in target markets. Specific responsibilities to include: a. Liaising with Palestinian consulates/representations on issues related to market development, b. Leading/hosting sector business delegations in target markets, c. Assist Palestinian policy makers in developing a negotiation position related to BLAs and other market access instruments d. Remaining available to market related queries by sector enterprises	Medium Priority	Mid-term entry point	Entire value chain	- A pilot program spanning 6-12 months initiated by mid-2015 to 3 target markets identified as having high potential - Initiative to be scaled up/modified based on successes and lessons learned during the pilot initiative	MoFA, Paltrade, MoNE	Medium cost

	2.1.4 Develop a consortium of Palestinian business/professional service providers who will pool resources –with government and donor support – to establish a mode 3 consulting services provider entity in two selected pilot target markets. 1. Consortium will feature a roster of local consultants, and will be managed by an elected board. In-country representation will be managed by a core staff tasked with client account management, business development, and administration of the office. 2. Consultants will be rotated in/out on a per-project basis to client locations within the pilot market 3. Each project lifecycle will be supported by local universities and international experts hired to mentor the project teams. Case study development and rigorous project management will be mandatory for all projects 4. As pilot projects – an initial pipeline of 2 projects will be established in YR 1 of operation 5. Consortium is expected to spur additional activity through mode 2 operations, by serving as a successful case study for other Palestinian services providers 6. To curb conflict of interest and to maintain impartiality - all aspects of contract negotiations, constitution of project teams to be monitored by neutral donor/development partner representation on the board	**High priority**	Long-term entry point	Service providers seeking to export through mode 2	- Business case for consortium to be developed by mid-2015 - Consortium to be setup by mid-2016	Paltrade, international partners, MoNE	High cost
	2.1.5 In line with commencement of NES implementation activities, identify projects for the business/professional development services that are aligned with individual NES sector/cross-sector projects transitioning from project planning → implementation phase. This will be the single-most important mechanism for enabling growth through the domestic market and mode 2 mechanisms. a. Project planning for prioritized NES activities to include specific business/professional services requirements that will be required. b. Identified services requirements will be funnelled through transparent/impartial procurement system to be set up as part of NES	High Priority	Short-term entry point	Service providers	- Alignment with NES implementation activities identified by mid-2014 - Awareness building campaign on the procurement initiative launched by mid-2014 - Procurement initiative through the NES implementation procurement mechanism started by end-2014	NEC Secretariat, Paltrade, MoNE	Medium cost

	implementation framework. c. A strong advocacy / awareness building initiative to be launched prior to the start of the procurement initiative to apprise service providers on the types of business opportunities that will be procured, as well as the overall mechanism utilized for procurement						
	2.1.6 Launch a marketing campaign – through the auspices of PACPA – to promote the services of the 'auditing, bookkeeping and accounting' sector and to assist in the development of the domestic market for service providers. Components of the campaign to include: a. Promoting awareness in the potential client base on the difference between bookkeepers, and certified public accountants and auditors. b. Increasing awareness among exporting/non-exporting firms across the Palestinian private sector tangible benefits that can be derived through utilization of services provided by the accounting sector	Medium priority	Short term entry point	Accounting, bookkeeping, auditing service providers	- Marketing campaign launched by end-2014	PACPA	Low cost
Operational Objective 2: Establish the domestic market as an initial growth mechanism for sector enterprises	**2.2.1** Launch a broad procurement program aimed at contracting Palestinian business and professional services at key ministries and public sector institutions. The initiative will serve the dual purpose of providing exposure/a potentially valuable market for local service providers, as well as facilitating access to institutions for necessary work. a. Conduct a comprehensive needs assessment at ministries and public sector institutions related to process improvements, staffing requirements, accounting and bookkeeping and other sub-sectors associated with the business and professional services sector. In case needs assessment initiatives are already ongoing at individual institutions, b. Launch a procurement initiative, with requisite transparency and fair play mechanisms integrated, to procure services from Palestinian services providers.	High priority	Short-term entry point	Ministries and other relevant public sector institutions, service providers	- Consolidation of results of existing initiatives for identifying process improvement requirements at ministries completed by mid-2014 - Procurement program launched by mid-2014	Key ministries and other public sector institutions, NEC secretariat	High cost

	2.2.2 Assist staffing services (including online job boards) in building linkages and accordingly managing the demand and supply sides of the staffing sub-sector, through a broad initiative:
	
	On the demand side:
	
	- Assessing market demand for specific skill sets through strong linkages developed by a variety of entities including –
	    ○ The NEC, which will be the primary organ for coordinating NES implementation and will serve as a natural source of staffing requirements for development projects funded through the NEC,
	    ○ Ministries and other public sector organizations
	    ○ Development partners active in Palestine
	    ○ Representative associations including Paltrade and chambers of commerce
	
	- Staffing services will be provided with training on developing and maintaining strong linkages with above-mentioned sources of staffing requirement trends.
	- Assisting staffing agencies to provide value added services for prospective employers, such as middle-level/executive head-hunting, staffing for specialized positions, and capacity for providing expedited support for facilitating urgent fulfilments (such as in the case of retail stores, call centers where demand can be seasonally high)
	
	On the supply side:
	
	- Establishing strong linkages with universities and TVET institutions, as well as independent professionals offering services,
	- Training staffing services to effectively vet candidates based on the specific requirements laid out by buyers on the demand side.
	- Assisting staffing agencies to provide value added services for job seekers/professionals such as CV development, career advice, reporting on sector specific trends etc.
		High Priority	Short-term entry point	Staffing services providers	- Pilot for training program (geared towards staffing agencies) launched by end-2014	MoL,Universities, MoEHE	Medium cost

Operational Objective 3: Improve access to trade information and market intelligence for sector enterprises	**2.3.1** Develop and publish, on a periodic basis, an industry specific market research and trade information journal that is accessible to business and professional services providers in Palestine. - Journal will be published both in hardcopy and in the online format, - Substantive content will include current market and consumer trends in select target markets, networking opportunities through exhibitions etc, and information on new techniques, methodologies and processes trending globally	Medium Priority	Medium-term entry point	All service providers	- First iteration of journal launched by mid-2015	Paltrade	Medium cost
	2.3.2 Provide specialized training to officers in consulates and existing trade representations related to the business and professional services sector. - Training program to last 2-3 weeks. - This training will be aligned with the existing efforts planned as part of the NES interventions. - Efforts will focus on establishing an effective feedback loop for conveying market intelligence covering a variety of aspects between target markets and the Palestinian TSN, and ultimately reaching service providers.	High Priority	Short-term entry point	All service providers	- Training program developed and launched by mid-2015 - First batch of officers trained from target markets by mid-2015	MoFA, Paltrade, MoNE	Medium cost

Strategic Objective 3: To spur innovation as well as strengthen the core value chain operations based components in the sector							
Operational objectives	**Activities**	**Priority** 1=low 2=medium 3=high	**Entry Point of intervention** S-short term M – medium term L – Long term	**Primary Beneficiaries**	**Target measures**	**implementing partners**	**Estimated costs (H, M, L)**
Operational Objective 1: Support the development of the customer care center sub-sector	**3.1.1** Support Palestinian customer care centres (specifically offering the call centre functionality) to get positive ratings with international agencies that assess and provide ratings for offshore call centers. Specifically, the US market will be selected as a pilot. This government led support package will constitute: - Lobbying efforts - Assistance in paperwork and other administrative assistance, - Assistance with facilitating site visits for assessors etc	High Priority	Medium-term entry point	Customer care center service providers (specifically call centers)	- Support package developed and launched by end-2015	MoTiT, PITA, MoNE	Medium cost
	3.1.2 Launch a wide-ranging initiative –led by the government- for promoting and developing the 'customer care center' sub-sector. The initiative will be multidimensional and will include the following: a. Examine support mechanisms implemented to support the sub-sector in other countries such as Israel, Jordan, and India and assess which measures can be replicated to the Palestinian context. Extensive benchmarking with operators in other countries, and case study analysis will be conducted. b. Government led support options would include financial (subsidies, provision of specialized loans, temporary allowance per staff count), technical (tax-free procurement of technical equipment, facilitating increased access to equipment from international companies), as well as market penetration support (co-branding initiatives, facilitating high level business delegations to and from target markets). c. Support a branding/advertising campaign in select international markets that have been	High priority	Short-term entry point	Customer call centre sub-sector service providers	- Study to examine international case studies and options for government led support for the sector completed by end-2014. Study will identify options for to translating success stories from other countries to the Palestinian context. - Branding/advertising campaign launched by the government and key private sector actors in identified international target markets	MoNE, PITA, Paltrade, MoTIT,	Medium cost

	identified as part of this strategy aimed at changing the perception of the Palestinian business environment, and effectively conveying the value proposition of the sub-sector.						
Operational Objective 2: Encourage greater organization and collaboration levels among sector enterprises	**3.2.1** Develop a pilot initiative - a quarterly networking event -that brings together firms, individual professionals, and business associations. The main goal of this initiative would be to facilitate cross-pollination of ideas and networking among practitioners	High priority	Short-term entry point	Service providers	- Pilot event held in end-2014	Paltrade, representative associations	Low cost
	3.2.2 Develop a Palestinian business and professional services association aimed at *stimulating growth*, *organization levels*, and *brand development* for the sector. The association will be an umbrella association for the sub-sector, and provide a combination or paid/free services including: a. Organizing formal networking events in Ramallah and other major hubs, b. Conducting Market research on key markets covering current industry trends, up coming opportunities, information on international networking events, c. Organizing bilateral meetings between national and foreign business delegations aimed at facilitating deal-making and other cooperation measures, d. Facilitating participation of sector companies in international trade fairs and exhibitions, e. Active promotion and marketing for the sector in key target markets through strategic advertising.	High priority	Short term entry point	All service providers	- Business plan –including detailed overview of mandate and service offerings- for association prepared by mid-2014 - Strategic multiyear plan for the association developed by the end of 2014. Resource mobilization for 2 year funding cycle concluded by end-2014 - Board elected by early -2015; associative active by early-2015	Paltrade, MoNE	Medium cost
	3.2.3 Facilitate development of strong linkages between the customer care centre (especially call centres) sub-sector and the retail sector. Linkages will particularly focus on the potential role played by call centre firms in providing trained professionals to sectors with high client-facing roles such as in the case of retail. Potential areas of linkages: - Employment fairs sponsored by call centre firms, featuring alumni call centre agents who are discharged after the successful completion of their	Medium priority	Short-term entry point	Customer care centres	- An employment fair co-sponsored with the public sector, and select retail sector firms launched by end-2014	Reach and other customer care center firms, retail sector firms	Medium cost

	contractual agreements. - Employment fairs will involve placements with companies from the domestic retail sector as well as other customer care and client facing requirements.						
	3.2.4 Revive the Association of management consultants, which was established but is currently defunct. - Assess previously existing bylaws for continuity and modify as necessary - Develop a portfolio of value added services that the association would provide to members - Launch promotion campaign to attract members	High Priority	Short-term entry point	Management consultants	- Initial assessment of current bylaws and existing structure of the association completed by mid-2014 - Business plan –including detailed overview of mandate and service offerings- for association prepared by end-2014 - Strategic multiyear plan for the association developed by mid-2015. Resource mobilization for 2 year funding cycle concluded by mid-2015 - Board elected by early - 2015; associative active by early-2015	Paltrade, MoNE	Medium Cost
Operational Objective 3: Spur innovation and human capital development in the sector	**3.3.1** Develop a volunteer programme for regional and international experts to engage with the Palestinian business and professional services sector, and in the process transfer and increase adoption of best practices among sector operators.	Medium priority	Mid-term entry point	Service providers	- First round of volunteer intake with initial batch of 20 experts initiated by the end of 2014	Paltrade, MoNE, representative associations	Medium cost
	3.3.2 Sponsor a business plan competition for firms in the sector, aimed at identifying high potential sector firms and facilitating their growth. Support aspects: - Seed funding and mentorship advice provided to finalists and winning firms, - Competition will be a regular event and will be held on an annual or 6 monthly basis, - Competition will be open to all Liberian service providers in the sector, and will feature international	Medium priority	Medium-term entry point	All service providers	- First iteration of the competition to be held in end-2016	MoF, Paltrade, MoNE	High cost

	and national panel of judges.						
	3.3.3 Provide active support to joint ventures between Palestinian sector firms and international consulting firms that are especially active in mature (from a consulting sector standpoint) economies such as the US market. Knowledge and expertise transfer occurring as a result of such ventures will also be a key consideration. Support elements will include: - Incentives for both international firms and domestic firms to setup these joint ventures either in the target market (as a mode 3 entity) or within Palestine, - Facilitation of speedy regulatory and registration approvals from relevant Palestinian authorities, - Assistance provided to individual Palestinian firms (or a consortium of firms) to seek out and liaise with potential international partners, - Government led support in terms of branding, promotion, lobbying and business development.	High-priority	Short-term entry point	Service providers	- Feasibility study conducted to identify key components of such an incentive package, by end 2014. - Incentive package designed and launched by mid-2015	MONE, MoFA, Paltrade	Medium cost
	3.3.4 Develop an 'ideas' lab, aimed at spurring innovation and influx of best practices in the management/business consulting and market research sector. Lab will feature: a. Library with books and e-documents –related to market research, case studies etc- featuring open access for professionals. Access will be negotiated with industry leading companies in the market research sphere such as Euromonitor, Harvard business review, McKinsey among others. b. Lab to host open brainstorming/speaking sessions on a regular basis to provide a networking and ideas generation platform for service providers	Medium priority	Long-term entry point	Entire value chain	- Business case for ideas lab developed by mid-2015 - Funding secured by end-2015 - Access to research databases and other options negotiated by end-2015 - Lab open for business by mid-2016	Paltrade, Representative associations	High Cost
	3.3.5 Develop an incubation facility in Ramallah (initially as a pilot to be scaled to other areas based on the success) which will provide multi-dimensional incubation support to business/professional services firms selected through an application program –	High priority	Long-term entry point	Entire value chain	- Feasibility study conducted by mid-2015 to assess investment requirements related to developing the facility	Paltrade, MoNE, Representative associations	High cost

	a. Program to be developed in collaboration/mentorship with successful peer programs outside Palestine b. Application based program will involve existing/potential entrants in the sector with a 1-5 person staff c. Each cohort to host between 50-75 firms d. 12 month intensive program with graduation and roll-out at the end of the period to facilitate new entrants e. Key benefits - Ideas exchange, costs pooling, access to supporting infrastructure, mentorship and exposure to market trends, methodologies, networking f. Program to include alumni participation in the form of mentoring current class				- Identification of international partners completed by end-2015, and agreements signed - Incubation facility established by end-2016		
	3.3.6 Sponsor a government or private sector led grant program to sponsor paid internships or semester long coop programs for promising university students. - Scope of program to extend to international universities (including within the MENA region)	Medium priority	Short-term entry point	Graduate students seeking to enter the sector	- Memorandum of Understanding (MoU) signed with at least 2 international universities by mid-2015	MoEHE, Paltrade	Medium cost
	3.3.7 Conduct a comprehensive gap analysis between the national TVET infrastructure (supply of human capital) and demand for business and professional services vis-à-vis the domestic market and select international target markets. The analysis (and recommendations) will focus on specific priority sub-sector services and cover the following aspects: a. Quality of the teaching staff and the curricula in universities in relation to demand, b. Capacity requirements for vocational and technical training institutes, c. Quality of placement services, and formal/informal network development between industry and academia, d. Mechanisms for accepting practical training experiences as course credit, in lieu of classroom experience.	High priority	Short-term entry point	Across value chain	- Comprehensive gap analysis conducted by mid-2015 - Concrete action plan on recommendations developed and submitted to MoE for consideration by end-2015	MoEHE	Medium cost

	3.3.8 Commission a project for case-study series development in collaboration with select global and Palestinian universities. The initiative will capture and study lessons learned in the sector, and will be aimed at highlighting and promulgating models of engagement that have proved successful in the Palestinian context. a. Successful mode 2 to mode 4 transition (and vice-versa) based on repeat business with international development organizations, b. Knowledge/best practices transfer within the sector based on international exposure of professional consultants, c. Instances of local professionals filling expertise gaps previously filled in by international experts, d. New market penetration from a mode 1 and mode 3 context. e. Case studies will be shared and made available through a variety of mediums including hard-copies and online through websites of Paltrade and its partners.	Medium priority	Short-term entry point	Entire value chain	- Case study series development starts on a rolling basis in mid-2014	Paltrade, International partners – universities and research institutions	Low cost
	3.3.9 Design (as Paltrade service offerings) modular courses for service providers seeking to cater to exporting/seeking-to-export firms, in alignment with priorities elaborated in the NES sector and cross sector strategies. Specific topics include: a. Export readiness assessment (business/management consulting service providers) b. Business plan development - with specific focus on interpreting and incorporating services based targets/goals in the plan c. Operational and financial management – best practices d. Exporting in the Palestinian context (trade and logistics) e. Developing and operationalizing effective market entry and trade information strategies.	Medium priority	Short term entry point	Business/ Management consultancy firms	- Identify relevant course topics, and develop course material by end-2014, including physical as well as on-line training material - Launch pilot courses for a small batch of participants by early-2014	Paltrade, ICT contractors	Medium cost

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