

# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY 2014-2018



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The National Export Strategy of the State of Palestine was developed on the basis of the process, methodology and technical assistance of the International Trade Centre (ITC). The views expressed herein do not reflect the official opinion of the ITC. This document has not formally been edited by the ITC.

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## ACKNOWLEDGEMENTS

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This document represents the ambitions of the private and public stakeholders who dedicated long hours to defining the enhancements needed for the export growth and development of the State of Palestine (full list in Appendix 1).

Guidance and support were provided to the project by the following key personnel.

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### THE NES HIGH STEERING COMMITTEE

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- **The Minister of the National Economy & Deputy Prime Minister**  
(H.E. Dr. Mohammed Mustafa), and previously Dr. Jawad Naji;
- **PalTrade chairman**  
(previously: Mr. Arafat Asfour / currently: Mr. Ibrahim Barham);
- **Representative of the Prime Minister's Office**  
(Mr. Tayseer Amr);
- **Representative of the academic sector**  
(Dr. Mohammed Naser);
- **Representative of the Private Sector Coordinating Council**  
(Mr. Ibrahim Barham), previously Mr. Mohammed Masroji, and Mr. Arafat Asfour.

## THE NATIONAL EXPORT STRATEGY (NES) TEAM

The NES team itself consists of 27 members, comprised of the public, private and academic sectors. Following is a detailed matrix of those members according to each sector they represent.

### PUBLIC SECTOR

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- Mr. Khalid Dragmeh

#### Ministry of Women's Affairs

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- Mr. Fawaz Mujahed

#### Palestinian Investment Promotion Agency (PIPA)

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- Awad Abu Alia

#### Palestinian Businessmen Association

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- Mr. Peter Dallal

#### Palestinian Information Technology Association of Companies (PITA)

- Mr. Hassan Qasem

#### Business Women Forum

- Mz. Dua'a Wadi

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- Mr. Elias Alarja

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- **Mamoun Nazzal**  
Processed Meat

## OFFICIAL STATEMENTS

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### DPM & MINISTER OF NATIONAL ECONOMY'S STATEMENT

The Palestinian Government is fully committed to develop an independent and sustainable Palestinian economy. With the promotion of exports as a key strategic priority, the Palestinian Cabinet formed a joint public-private sector National Export Strategy Team led by the Ministry of National Economy to prepare the first Palestinian National Export Strategy.

The National Export Strategy is an important policy tool for the government working in partnership with the private sector to enhance the performance of Palestinian exports. By improving access to both traditional and non-traditional markets and enhancing export performance, the trade gap between imports and exports will be reduced. This will contribute to the sustainable development of the Palestinian economy and strengthen it to meet the challenges of the global economy as well as assisting in the reduction of unemployment and poverty in Palestine.

The strategy provides a national vision for export growth identifying a pivotal role for key export sectors in driving economic growth and development. The strategy has been prepared by a partnership of public and private sector organizations and integrates fully with other elements of the Government's economic development policies and programmes for the country.

Significantly it identifies a detailed programme of actions and activities over the next five years to achieve a growth in Palestinian exports under the banner of "Export-led prosperity, made in the state of Palestine". Specific objectives include:

1. Promote a dynamic business environment through policy and regulatory reform to support innovation and investment by the private sector.
2. Building the capacity of exporting companies to diversify and penetrate international markets.
3. Maximize the contribution of exports to the development of the Palestinian economy through increased export competitiveness.
4. Building and promoting the image and reputation of the State of Palestine as a supplier of quality products and services.

The Ministry of National Economy looks forward to working with our partners in both public and private sectors in the implementation of the National Plan of Action, the achievement of the objectives of the National Export Strategy and its contribution to the growth of the Palestinian economy.

I extend my thanks and appreciation to all who have worked on the preparation of the strategy including representatives from government bodies and the private sector, the national and international experts of the International Trade Centre (ITC) and the European Union (EU) for their support and assistance in the development of the strategy.

**Dr. Mohammed Mustafa**  
DPM & Minister of National Economy



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## PALTRADE'S CHAIRMAN OF THE BOARD STATEMENT

The National Export Strategy is the first Palestinian export strategy and is the result of a concentrated effort by the public and private sector which goes hand in hand with the ultimate goal of establishing a viable Palestinian State in accordance to our National Development Plan. The Strategy arrived at an opportune time as we are preparing for our independence.

The strategy will provide the private sector with a comprehensive framework and unique approach for export development, the benefits of the strategy will be realized as our exporters learn how to benefit from existing trade agreements, meet quality and standards regulations, target new markets, and finally develop their competitiveness in the regional and international markets. As Palestine start reaping the benefits of the strategy implementation, the economy will witness a steady increase in exports, employment, gender mainstreaming, and

regional integration. All of which will lead to improved standards of living and economic growth.

We as PalTrade look forward to continuing our partnership with the Ministry of National Economy, the International Trade Centre, and all other partners in the public and private sectors, and the international community in implementing the National Export Strategy. PalTrade hereby would like to extend its appreciation to the European Union for their generous and continuous support to the Palestinian private sector and the state of Palestine. The export challenge is huge but it is not mission impossible, The National Export Strategy is only the first concrete step towards overcoming challenges and achieving our vision – Export-Led Prosperity, Made in Palestine. And we will remain committed to the state building endeavor.

**Ibrahim Barham**  
Chairman of the Board

## OFFICIAL STATEMENTS

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### ITC'S EXECUTIVE DIRECTOR STATEMENT

The State of Palestine's first ever National Export Strategy is a testament to the resilience of the Palestinian people and a strong indication of the Palestinian Authority's success in institution building.

Palestine has a vision that places trade at the heart of its economic development. New markets and investments are targeted and there is an increased move to diversify the goods and services that can be provided. This National Export Strategy holds the promise of helping to transform the economic picture by focusing on potential growth areas, driving employment, including for women entrepreneurs, generating revenues and increasing economic diversity.

The product of a participative, inclusive approach that involved some 150 stakeholders, both public and private, led by the Ministry of National Economy and managed by the Palestinian Trade Centre (PaTrade). The strategy aims to promote a dynamic business environment, build the capacities of potential exporting sectors and ensure maximum contribution of trade to socioeconomic development. A fresh mindset and commitment to a better future reflect the ownership and accountability of the government, the private sector and civil society in designing this Strategy.

The strategy sets clear export targets for seven product sectors (olive oil, stones and marble, fresh fruits, vegetables and herbs, agro-processed meat, textiles and garments, footwear and leather, as well as furniture) and two service sectors (tourism and ICT) –all of which were

selected based on their capacity to contribute to employment generation and enhanced trade performance. In addition, priorities in four cross-sector functions that apply more broadly to the economy have been identified: access to finance, trade information, quality management, and trade facilitation and logistics. The National Export Strategy prioritizes the entrepreneurial Palestinian private sector that has continuously and remarkably adapted to a wide range of political and economic constraints.

This initiative was made possible with the support of the Trade Diversification and Competitiveness Enhancement Programme of the European Union.

Ultimately, the National Export Strategy is an economic policy instrument for restructuring the fragmented Palestinian economy and represents a major achievement for the Palestinian Authority and the Palestinian people on their way to greater economic independence. ITC is honoured to support the State of Palestine in this venture.

Going forward, ITC stands ready to assist the State of Palestine with implementation of the priorities identified in the strategy. An adequate governance structure will be indispensable to ensure that coordination, resource mobilization and policy advocacy are undertaken in a transparent and accountable manner. Only then will we realize stakeholders' vision of: "Export-led prosperity, made in Palestine".

**Arancha González**  
ITC Executive Director

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## EUROPEAN UNION STATEMENT

Facilitating and promoting Palestinian trade is a crucial element of the Palestinian **state building process** which the European Union has supported both politically and financially over the past years. The European Union shares the Palestinian Authority's commitment to achieve **sustainable economic development** and has concentrated on developing the Palestinian private sector as a matter of priority. Despite the ongoing Israeli restrictions and political uncertainty, a significant increase in Palestinian exports could have an immediate impact on the Palestinian economy and help bring it **back to positive growth**. Particular support should be provided to Gaza and Area C to allow the private sector to tap into their economic potential.

The completion of a National Export Strategy is therefore a major achievement which creates the ground for long-term recovery. The strategy itself sets out the framework for increasing Palestinian exports through the implementation of a detailed package of measures that need to be implemented by the Palestinian Authority across 12 promising sectors. It is the result of close collaboration between the private and public sectors and I pay tribute to the National Export Strategy team for their dedication and constructive dialogue.

The EU's support for the development of this Strategy is part of a fully-fledged trade programme with PalTrade which looks into different ways to facilitate Palestinian Trade and increase the competitiveness of Palestinian goods and service. A main objective of that programme is to identify new markets and promote alternative, cost-effective trade routes for Palestinian goods and services.

The EU has taken concrete actions to open its own market to Palestinian products. As of January 2012, we have put into effect a trade agreement with the Palestinian Authority which supplements the Interim Association Agreement and allows a number of agricultural, fish and fishery products to have duty-free, quota-free access to the EU market – a market of 500 million! The National Export Strategy is an important tool in guiding Palestinian businessmen to make full and effective use of this and other trade agreements.

I would like to extend my appreciation to the Ministry of National Economy, PalTrade and all those who worked to develop this Strategy. The EU will continue working closely with the Palestinian Authority towards a more competitive Palestinian economy which can generate income and jobs for the Palestinian people.

**John Gatt-Rutter**  
European Union Representative



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## ACRONYMS

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<b>ACAA</b>	Agreement on Conformity Assessment and Acceptance	<b>MENA</b>	Middle East and North Africa
<b>AMAN</b>	Coalition for Integrity and Accountability	<b>MFI</b>	Microfinance Institution
<b>ASYCUDA</b>	Automated System for Customs Data	<b>MFN</b>	Most Favoured Nation
<b>BWF</b>	Business Women Forum	<b>MoA</b>	Ministry of Agriculture
<b>CoC</b>	Chamber of Commerce	<b>MoF</b>	Ministry of Finance
<b>ECOWAS</b>	Economic Community of West African States	<b>MoFA</b>	Ministry of Foreign Affairs
<b>EFTA</b>	European Free Trade Association	<b>MoJ</b>	Ministry of Justice
<b>EU</b>	European Union	<b>MoH</b>	Ministry of Health
<b>FAO</b>	Food and Agriculture Organization of the United Nations	<b>MoHE</b>	Ministry of Higher Education
<b>FDI</b>	Foreign Direct Investment	<b>MoL</b>	Ministry of Labour
<b>FPCCIA</b>	Federation of Palestinian Chambers of Commerce, Industry and Agriculture	<b>MoNE</b>	Ministry of National Economy
<b>GAFTA</b>	Greater Arab Free Trade Area	<b>MoT</b>	Ministry of Transport
<b>GDP</b>	Gross Domestic Product	<b>MoTA</b>	Ministry of Tourism and Antiquities
<b>GLI</b>	Grubel-Lloyd Index	<b>MoWA</b>	Ministry of Women Affairs
<b>GoI</b>	Government of Israel	<b>MoU</b>	Memorandum of Understanding
<b>HCCI</b>	Hebron Chamber of Commerce	<b>MSME</b>	Micro, Small and Medium Enterprise
<b>IAA</b>	Interim Association Agreement on Trade and Cooperation with the EU	<b>MT</b>	Metric Ton
<b>ICA</b>	Investment Climate Assessment	<b>NDP</b>	National Development Plan
<b>ICT</b>	Information and Communications Technology	<b>NES</b>	National Export Strategy
<b>IFC</b>	International Finance Corporation	<b>NGO</b>	Non-Government Organization
<b>ISO</b>	International Organization for Standardization	<b>ODA</b>	Official Development Assistance
<b>ITC</b>	International Trade Centre	<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>KHB</b>	King Hussein Bridge	<b>PCBS</b>	Palestinian Central Bureau of Statistics
<b>MAS</b>	Palestine Economic Policy Research Institute	<b>PCMA</b>	Palestine Capital Markets Authority
<b>MEaA</b>	Ministry of Environmental Affairs	<b>PEC</b>	Palestinian Export Council
		<b>PFi</b>	Palestinian Federation of Industries
		<b>PIEFZA</b>	Palestinian Industrial Estate and Free Zone Authority

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<b>PIF</b>	Palestine Investment Fund	<b>SWOT</b>	Strengths, Weaknesses, Opportunities and Threats
<b>PIPA</b>	Palestine Investment Promotion Agency	<b>TBT</b>	Technical Barriers to Trade
<b>PLC</b>	Palestine Legislative Council	<b>TI</b>	Trade Information
<b>PLO</b>	Palestinian Liberation Organization	<b>TSI</b>	Trade Support Institution
<b>PMA</b>	Palestine Monetary Authority	<b>TSN</b>	Trade Support Network
<b>PNA</b>	Palestinian National Authority	<b>TVET</b>	Technical & Vocational Education and Training
<b>PoA</b>	Plan of Action	<b>UAE</b>	United Arab Emirates
<b>PP</b>	Paris Protocol	<b>UN</b>	United Nations
<b>PSCC</b>	Private Sector Coordinating Council	<b>UNCTAD</b>	United Nations Conference on Trade and Development
<b>PSI</b>	Palestine Standards Institution	<b>UNDP</b>	United Nations Development Programme
<b>PSC</b>	Palestinian Shippers' Council	<b>UNESCO</b>	United Nations Educational, Scientific and Cultural Organization
<b>PTB</b>	Physikalisch-Technische Bundesanstalt (national standards laboratory of Germany)	<b>UNIDO</b>	United Nations Industrial Development Organization
<b>PWA</b>	Palestinian Water Authority	<b>USAID</b>	United States Agency for International Development
<b>QM</b>	Quality Management	<b>USM</b>	Union of Stone and Marble
<b>RCA</b>	Revealed Comparative Advantage	<b>VAT</b>	Value Added Tax
<b>SITC</b>	Standard International Trade Classification	<b>WTO</b>	World Trade Organization
<b>SME</b>	Small and Medium Enterprise		
<b>SOP</b>	Standard Operating Procedure		
<b>SPS</b>	Sanitary and Phytosanitary		



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# EXECUTIVE SUMMARY

The Palestinian economy is characterized by an entrepreneurial private sector that has continuously, and to a remarkable degree, adapted well to the wide-ranging political and economic constraints affecting the state. However, the operating business environment is proving not to be conducive to future growth of the export sector and, if left unchecked, could result in stagnation of the national economy and non-realization of export potential.

In 2014 the State of Palestine's business environment was ranked 138 out of 189 economies in the World Bank Doing Business report, notably lower than the Middle East and North Africa (MENA) average of 107. Despite a slight improvement of 7 ranks over 2013, this result still reflects a number of structural weaknesses that are pertinent for the efficient functioning of the private sector.

The complex economic and political context has in large part driven the development of the National Export Strategy (NES). This strategy reflects the aspirations of the public and private sectors, and is the result of comprehensive, inclusive and participatory consultations. The overarching aim of this document is to provide the newly recognized State of Palestine with a roadmap for export growth.

## EXPORT PERFORMANCE

The State of Palestine's exports are concentrated in natural resource-based manufacturing, low technology manufacturing and commodities. Exports have increased in sectors that require minimal technology and minimal sophistication, and fallen in sectors that require a greater level of technology and sophistication.

The State of Palestine's main export products are worked and unworked stone, accounting for nearly 25% of all export value (on average) for 2008-2010. Remelting iron, plastics, pharmaceuticals, furniture and footwear are also important manufactured product exports. Together, these products accounted for 21.4% of export value 2008-2010.

Taken together, the top two destinations for Palestinian exports – Israel and Jordan – accounted for 93% of all exports of Palestinian products 2008-2010. This high concentration reflects the difficulty in diversifying export destinations faced by Palestinian exporters. Trade with other countries remains very low. Between 2002-2004 and 2008-2010, the share of Palestinian exports to the United States of America, the United Arab Emirates (UAE) and Saudi Arabia remained steady at between 1.4% and 2.8%.

As a small economy without control of its borders and characterized by a small and unsophisticated manufacturing base, the State of Palestine is largely dependent on imports for survival. With limited capacity to develop exports and a reliance on imports, its negative trade balance has continued to grow.

## EXPORT COMPETITIVENESS CONSTRAINTS

There is no single reason explaining the State of Palestine's difficulties in developing its export sector. Rather, the challenges are multidimensional and stem from a host of external (to the State of Palestine) factors – some of which fall squarely in the political domain and the resolution of which would depend on negotiations – as well as internal factors. The NES design process focused on the internal factors. Various competitiveness constraints related to supply-side capacity, business environment, market entry capacity and development aspects have been identified.

On the **supply** side, some key national constraints include:

- Declining productivity levels caused by increasing production costs and import restrictions on key inputs;
- Low foreign and domestic investment;
- Low value addition and differentiation;
- A steady brain drain affecting the human capital in NES sectors;

- A weak quality management framework at enterprise level;
- Difficulty in accessing machinery and production inputs;
- Low organization within NES priority sectors, leading to low collaboration levels for cross-pollination of ideas;
- Paucity of water resources; and
- Difficult access to land.

On the **business environment** side, some key challenges include:

- A weak regulatory and legislative framework pertaining to quality management;
- A regulatory structure that is burdensome for enterprises;
- Law implementation gaps hindering reforms;
- A lack of conformance with internationally recognized standards;
- The absence of an independent, internationally recognized accreditation body;
- Infrastructure gaps related to transportation services and storage areas;
- Limited risk guarantee instruments to protect investors;
- Cumbersome clearance processes at border crossings;
- Limited access to finance; and
- Certain overlaps and redundancies between ministries, trade support institutions (TSIs) and other supporting institutions.

On the **market entry** side, the principal issues identified are:

- High dependence on select markets;
- The absence of a policy to facilitate entry into new markets;
- Low recognition of trade agreements by key trade partners;
- The absence of a one-stop shop or single window system;
- Limited export promotion activities in international markets;
- High demurrage costs incurred by exporters;
- The paucity of logistics and procedural information;
- The lack of publicly available trade information (TI);
- The high costs of market research reports;
- Insufficient integration of Palestinian consulates and trade offices into the TI network;
- Low development and promotion of Brand Palestine; and
- Visa complications for exporters and potential buyers.

From a **development perspective**, key issues are:

- Increasing poverty levels and high dependence on international aid;
- Limited gender mainstreaming in the formal sector;
- The growing socioeconomic divide between Gaza and the West Bank;
- Limited ability to extend and deepen regional integration with neighbouring countries; and
- A gap in environmental focus at both institutional and enterprise levels.

## PRIORITY SECTORS AND FUNCTIONS

The following priority sectors were selected based on their capacity to contribute to export growth, trade deficit reduction and employment generation through their current and potential trade performance, as well as meeting selected qualitative criteria.

The elaboration of individual strategies for priority sectors is not intended to imply that other sectors in the State of Palestine will not benefit from the NES. In fact, the NES also includes cross-sector functional strategies aimed at strengthening the business environment for enterprises and exporters. The following cross-sectors were selected as priorities.

NES priority sectors		
1. Stone and marble	2. Olive oil	3. Agro-processed meat
4. Fresh fruits, vegetables and herbs	5. Textiles & garments	6. Footwear and leather
7. Furniture	8. Tourism	9. Information & Communications Technology (ICT)
NES priority cross-sector functions		
1. Trade facilitation and logistics	2. Quality management	
3. Access to finance	4. Trade information	



Finally, a special focus of the NES has been devoted to those existing high-performing Palestinian export-oriented enterprises that currently serve as engines of growth. The particular challenges and opportunities of these enterprises are not specifically covered by the priority sectors and cross-sector functions of the NES; rather a specific effort was dedicated to identifying opportunities for strengthening these promising enterprises position in global markets. To that effect, the National Export Strategy proposes a strategic programme for promising companies to develop further their ability to compete and thrive at exporting.

## VISION AND STRATEGIC OBJECTIVES

In addition to prioritizing a limited number of sectors and functions the following vision statement was adopted to guide the NES design and implementation, and reflects the aspirations of the many public and private sector stakeholders in the NES.

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“ Export-led prosperity, made in Palestine ”

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This vision sets the overall direction of the export strategy and captures its spirit. It is supported by four national strategic objectives that structure the overall direction of export development.

1. Promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.
2. Build the capacities of the exporting sector to diversify and penetrate international markets.
3. Maximize the contribution of exports to socio-economic development through enhanced export competitiveness.
4. Build and promote the image of the State of Palestine as a supplier of value-added quality products and services.

## TARGETS OF THE NES

The strategic direction of the NES it is structured along three main axes of market development, structural enhancements to sector value chains, and cross-sector improvements.

For the priority NES sectors, **market development** analyses follow a phased approach: a short-term perspective to capitalize on opportunities that are within reach of the existing capabilities of exporters; and a mid to long term outlook, by which time it is expected that a significant portion of the NES and sector plans of action will have been implemented and capabilities across the export value chain, along with the quality of the business environment, would have improved sufficiently. This phased approach is aimed at staging interventions in alignment with the evolving capacities of trade support institutions and sector enterprises as the NES implementation moves forward. Each sector strategy of the NES details specific

results to be achieved through their implementation. According to sector stakeholders, the implementation of priority sector strategies will contribute at the national level to:

- Increase the value of Palestinian exports over the next five years by approximately US\$ 722 million;
- Generate US\$ 483 million in exports of products from priority NES sectors;
- Grow exports of services from priority NES sectors by US\$ 239 million;
- Develop the export sector (products) at an average of 13% per year;
- Generate an overall growth of the export sector (products) of 67%.

In addition to market development, the NES will contribute to the development of export competitiveness through **structural enhancements** to the priority sectors' value chains. Each sector strategy of the NES proposes structural enhancements which will result in strengthened linkages within and between sectors, or the introduction of new linkages. The projected structural changes to the sectors are based on efficiency gains identified through the four gear analysis of each sector's performance, and through the identification of opportunities for improving each sector's capacity to:

- Acquire value by improving efficiency and competitiveness;
- Add value by reinforcing and extending the national component of the value chain;
- Create value by expanding production and/or entering new value chains within the sector or related sectors;
- Retain greater value by reducing leakage in the national component of the value chain;
- Distribute value by maximizing the developmental impact of the sector's value chain.



Source: © PalTrade

At the national level, implementation of the **cross-sector strategies** of the NES will contribute to an overall enhancement of the business environment for export development. Each cross-sector strategy contains specific targets it aims to improve at the national level.

For **trade facilitation and logistics**, the cross-sector strategy purposes to strengthen dialogue between all concerned parties (private, public, Israel, Jordan) to:

- Increase coordination and fulfilment of expectations;
- Develop a national one-stop shop to provide exporters with relevant and updated information on export procedures, regulations, operations and changes;
- Improve human capital and strengthen organizational setup within enterprises to formalize and develop expertise in the trade logistics function;
- Simplify and rationalize administrative procedures (documentation, charges, processes, and elimination of domestic obstacles) through the introduction of comprehensive e-government initiatives; and
- Develop innovative solutions focusing on identification of new export routes/transport mechanisms for efficiency gains.

For **access to finance**, the cross-sector strategy intends to:

- Strengthen the legal and regulatory framework related to the financial sector;
- Develop new, specialized financial instruments suited to the needs of the export sector;
- Streamline collateral requirements for micro, small and medium enterprises (MSMEs);
- Improve human capital within the financial sector to cater to and advise MSMEs; and

- Improve strategic planning and operational management practices at enterprise level.

For **quality management**, the cross-sector strategy plans to:

- Strengthen legal systems that empower institutions and professional organizations to legislate, regulate, inspect and control the quality of products and services;
- Develop a product classification system for Palestinian products and services;
- Update and strengthen lab infrastructure;
- Improve producer and consumer awareness of quality metrics;
- Enhance quality management infrastructure at the source (i.e. the enterprise level);
- Create a national accreditation body independent of the Palestine Standards Institution (PSI); and
- Establish a quality management policy formulation cycle.

For **trade information (TI)**, the cross-sector strategy aims to:

- Establish a clearly visible network of TI providers with improved coordination and collaboration and with limited gaps and redundancies;
- Provide detailed information about export destination countries through an easily accessible platform; and
- Improve capacity at the enterprise level to leverage existing sources of TI and synergize information sources to their advantage.

## IMPLEMENTING THE NES

The NES document is only the beginning. To achieve the vision laid out by the NES, a concerted effort needs to be undertaken on a variety of fronts by all NES stakeholders. The effective contribution of the NES to export development will largely depend on the ability of the State of Palestine to plan, mobilize resources, coordinate activities and monitor its implementation. Special attention needs to be given to building and reinforcing strategy implementation management capacities.

The broad range of activities, together with the complex nature of integrated interventions, requires careful implementation that efficiently directs resources and monitors results at both the micro and macro levels. In particular, the NES will ensure that existing development efforts, both national and donor driven, do not occur in isolation and instead are aligned with the State of Palestine's needs in the broader context of export growth for socioeconomic development. The following key steps are required to ensure the effective implementation of the NES.

**Endorsement** of the NES at the level of the Palestinian Parliament or Council of Ministers is the most important step towards implementation.

The **Palestinian Export Council (PEC)** will be established and operationalized to act as an independent institution mandated to spearhead the NES implementation and ensure its sustainability. It will play a number of crucial roles in ensuring the effective implementation and monitoring of the NES:

- Coordinate and monitor the implementation of the NES by the government, private sector organizations or international organizations;
- Identify and recommend allocation of resources necessary for the implementation of the NES;
- Recommend policies that support the implementation of the NES;
- Assess the effectiveness and impact of the NES;
- Design and recommend revisions and enhancements to the NES so that it continues to respond to current needs and the long-term interests of the national business and export communities;
- Establish specialized task forces to address specific challenges and issues emerging from NES implementation.

The **NES Executive Secretariat** will be set up to act as a technical and coordination unit in support of PEC and to complete the daily operational work required for NES implementation management.

The **transfer of capacities and tools** for NES implementation should be initiated as early as possible, even before the NES is endorsed, to ensure momentum built during

the NES design process is maintained and capitalized upon to foster support for NES implementation.

An integrated **resource mobilization plan** will be designed quickly to ensure rapid implementation of the NES. Resource mobilization involves planning the sequencing of communications with donors, project design, project proposals/applications and resource collection and management. It is estimated that approximately US\$ 130 million will be required to implement the NES.<sup>1</sup> The scope of the NES, with its nine sector strategies, four cross-sector strategies, and a promising companies' development outlook explains the large investment requirements. This investment in the State of Palestine's export development will establish a lasting basis for further growth.

**Monitoring of NES implementation** will be a key role of PEC and the NES Executive Secretariat as a means to evaluate progress and permit the effective allocation or reallocation of resources based on expected and achieved results.

**Targeted communication efforts** will be expanded to continue promoting the NES and preserve the momentum and support for its implementation.

There will be continued involvement of the **private sector** in the implementation of the NES through varied efforts such as providing business intelligence to institutions, contributing to development projects, establishing processing and transformation units, advocacy, etc. The private sector's practical knowledge of business operations is essential to ensure that the activities of the NES are effectively implemented and targeted.

## CONCLUSION

The design and implementation of the State of Palestine's NES strengthens and consolidates public and private sector efforts for export-led socioeconomic growth. This strategy is comprehensive, inclusive, and stakeholder-driven. Moreover, it ensures that implementation is a central consideration in the development of the roadmap. This strategy thus provides an important opportunity for strengthening the governance structure for economic development in the State of Palestine.

1. The overall cost of implementing NES Palestine is based on the estimated cost of each activity identified in the NES plans of actions (NES and sector/cross-sector strategies) and a five year implementation period.

## NOTE TO THE READER

The State of Palestine's NES is the result of a multi-dimensional design process which followed a participative, collaborative and stakeholder-driven approach aimed at unlocking the State of Palestine's export potential. The core focus of this initiative lies not only in diversifying the export basket of products, services and destinations, but also in providing significant socioeconomic contributions to the people of the State of Palestine.

In particular, the NES ensures that existing development efforts, both national and donor driven, do not occur in isolation and are instead aligned in the broader context of trade-related technical assistance. This focus exists to avoid fragmentation of development efforts, which would lead to an overall low impact and challenges in implementation.

The NES initiative is the beneficiary of the highest level of support from the Government of the State of Palestine. Official support and endorsement of the NES initiative from the Prime Minister's Office was confirmed by the Secretary-General of the Council of Ministers in January 2012. In March 2012 the Council adopted a formal decision to formulate an NES, appoint the NES team and assess options for establishing a Palestinian Export Council (PEC). PEC will spearhead the NES implementation and manage the sustainability of the implementation process in terms of monitoring, reporting, project selection, funds allocation, and donor liaison.

As discussed above, the NES implementation is designed to impart significant socioeconomic benefits to the State of Palestine. This is exemplified in the priority sector selection criterion, which takes into account the level of socioeconomic participation and contribution of each candidate sector in areas such as employment levels (especially youth and gender employment).

Another fundamental feature of the NES design process that speaks to the sustainability of the resulting strategy is the public-private partnership and dialogue which guided the development of the NES at both strategic and operational levels. At the strategic level, the high level team which oversaw the development of the NES is comprised of private and public stakeholders who ensured equitability in the strategic design process. At the operational level the strategy development process hinged on three important pivots, which were the first, second and third stakeholder consultations held in Ramallah and other important production centres. These consultations had equitable participation between Palestinian private and public sectors.

## Multiple documents

The State of Palestine NES is composed of fourteen documents, each containing specific analyses and opportunities for strengthening the export sector of the State of Palestine.

- The NES document provides the overarching analytical framework, key recommendations and national level action plan.
- The nine individual sector strategies provide detailed diagnostics of performance, market development orientations and specific plans of action (PoAs) to guide the export development efforts of sector stakeholders.
- The four cross-sector functional strategies analyse the institutional and enterprise level challenges of the functions and provide PoAs to be implemented by relevant stakeholders.

The sector and cross-sector functional strategies form an integral part of the State of Palestine's NES.



# WHERE ARE WE NOW?

## INTRODUCTION

The State of Palestine is a small, dynamic economy characterized by an entrepreneurial private sector. However, several political and economic constraints are preventing its economic potential from unfolding. These constraints either restrict market expansion for exporters or prevent aspiring exporters from accessing the export value chain altogether. Consequently, the Palestinian private sector is primarily oriented to the needs of the domestic market.

This challenging export situation is partly explained by a strenuous business environment characterized by diverse administrative procedures, challenging trade logistics for imports and exports, and a complicated regulatory system. This is confirmed by the State of Palestine's deteriorating performance on the World Bank Doing Business indicators. Gaps in TSI service provision in financial and insurance services, as well as promotion and branding, have been identified as making it more difficult for exporters to conduct business. Overlaps and redundancies between ministries, TSIs and other supporting institutions routinely create confusion and delays.

These difficulties are reinforced by cumbersome clearance processes at border crossings that effectively limit access to international markets and contribute to the deterioration of goods' quality. Palestinian companies have been unable to expand export destinations despite the relatively high level of market access available to them through bilateral and multilateral trade agreements. This has led to a narrow focus on a single market, which makes the State of Palestine appear almost a closed economy if Israel is removed from export statistics. The difficult trade environment is resulting in growing poverty levels and dependence on international aid, both of which are preventing economic growth and the development of a degree of self-reliance.

Another major issue confronting the State of Palestine's economy is the need to get its performance back to pre-2000 level, notably by: reducing the huge trade deficit and overreliance on the Israeli market for exports;

reducing dependency on foreign aid; increasing foreign exchange; fighting rampant unemployment; and boosting gross domestic product (GDP) per capita. More generally, there is a growing need to restructure a shrinking and fragmented economy by addressing constraints on productive capacities and the movement of goods, and by improving the business-enabling environment. These challenges guided the elaboration of the NES strategic objectives, which in turn drove the selection of priority sectors. Priority sectors were selected based on their capacity to contribute to trade deficit reduction and employment generation through their current and potential trade performance.

The NES serves to increase the export competitiveness of Palestinian enterprises and focuses on improving the business environment for developing and expanding exports. Emphasis was placed on ensuring that the NES<sup>2</sup> design process followed a participative, collaborative and stakeholder-driven approach.

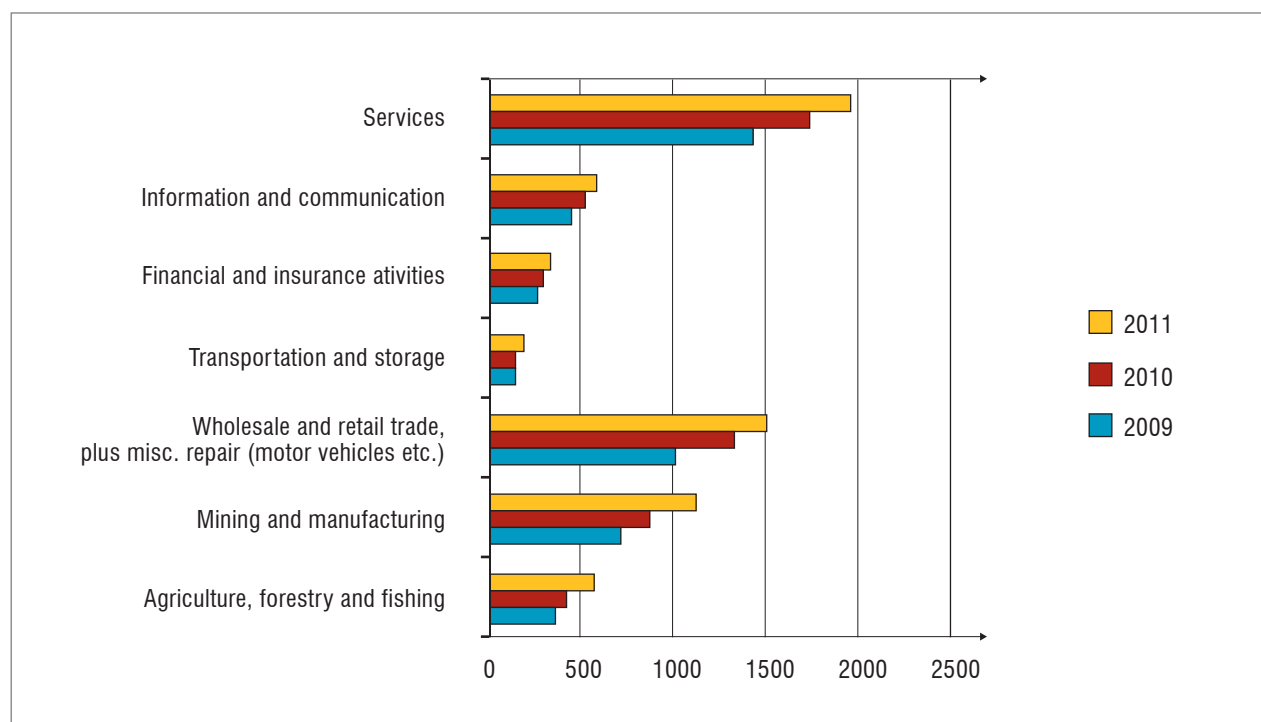
## MACROECONOMIC OVERVIEW

In 2012 the State of Palestine's GDP was estimated at US\$6.8 billion, reflecting a growth over 2010 (US\$5.72 billion) and 2011 (US\$6.42 billion) figures. The services sector contributes the highest value addition, followed by the wholesale/retail trade, mining/manufacturing, and agriculture/forestry/fishing sectors. Between 2010 and 2012, the general trend among all (except transportation/storage) sectors was one of growth, with services and wholesale/retail trading sectors exhibiting the highest year on year growth rates. These trends are indicated in the figure below.

2. The Palestinian NES project is part of a larger EU trade-related technical assistance programme called the EU Trade Diversification and Competitiveness Enhancement Programme, which contains four components: 1) Trade Corridors Facilitation; 2) National Export Strategy; 3) Trade in Services; and 4) Support to the Palestinian Quality Framework. The purpose of the NES project is to provide technical assistance to the State of Palestine in designing a National Export Strategy.



Figure 1: Value added by economic activity 2010-2012 (US\$ millions at constant prices)



Natl. GDP 2010	Natl. GDP 2011	Natl. GDP 2012
5724.5	6421.4	6797.3

Source: PCBS

The shares of agriculture and manufacturing in total output have followed a declining trend between 1994 and 2009. The share of agriculture dipped from 13% to 5% during this period, while the share of manufacturing in overall output went from 20% to 11%. Since 2009, however, the shares have slightly increased, largely due to an improving economic climate in the West Bank (and Gaza, but to a much lesser extent).

As indicated above, services constitute the largest share of economic activity. Compared with manufacturing and agriculture, private sector services trading mostly within the West Bank and Gaza have fared better.

## THE STATE OF PALESTINE = WEST BANK AND GAZA: A FRAGMENTED ECONOMY

The economy is geographically fragmented into the West Bank and Gaza economies, with the latter largely functioning as an isolated enclave due to the military and economic blockade imposed by Israel. On the other hand, the West Bank's relatively stable political and economic landscape, improving trade support institutions (TSIs), and relatively more open borders (compared with Gaza) have facilitated growth in economic activity.

Table 1: GDP contributions from West Bank and Gaza 2009-2011 (US\$ millions)

Sector	West Bank			Gaza		
	2010	2011	2012	2010	2011	2012
Agriculture, forestry and fishing	194.8	243.4	240.4	93.0	137.2	92.2
Mining and manufacturing	529.0	597.3	630.6	39.9	77.2	76.2
Wholesale and retail trade, plus misc. repair (motor vehicles etc.)	659.9	696.9	756.0	192.8	208.2	194.8
Transportation and storage	92.6	108.0	106.3	11.8	13.2	18.8
Financial and insurance activities	180.1	186.6	192.9	22.0	22.9	25.5
Information and communication	404.0	435.3	460.9	4.8.0	5.6	6.0
Services	714.1	788.5	887.7	420.4	414.0	474.3
Total Contributions	4315.4	4764.7	5,030.5	1409.1	1656.7	1766.8

Source: PCBS



Source: © PalTrade

**Table 2: GDP sector contributions for State of Palestine 2010-2012 (US\$ million at constant prices and % of total GDP)**

Sector	Palestine					
	2010	%	2011	%	2012	%
Agriculture, forestry and fishing	287.8	5.0	380.6	5.9	332.6	4.9
Mining and manufacturing	685.7	12.0	773.5	12.0	810.5	11.9
Wholesale and retail trade, plus misc. repair (motor vehicles etc.)	852.7	14.9	905.1	14.1	950.8	14.0
Transportation and storage	104.4	1.8	121.2	1.9	125.1	1.8
Financial and insurance activities	202.1	3.5	209.5	3.3	218.4	3.2
Information and communication	408.8	7.1	440.9	6.9	466.9	6.9
Services	1134.5	19.8	1202.5	18.7	1362.0	20.0
Total Contributions	5724.5		6421.4		6,797.3	

**Source:** PCBS

A review of sectoral GDP contributions as shown in tables 1 and 2 confirms this. Since 2010, Gaza's economy has contributed only about 25% to the overall national GDP. Each major sector in Gaza underperforms slightly relative to the West Bank. This includes both product and service sectors.

Human capital and employment trends also exhibit major differences between the West Bank and Gaza. These are discussed further in the section below.

## VOLATILE NATURE OF THE ECONOMY

Figure 2 shows the high amount of volatility in the State of Palestine's GDP growth rate over the last 40 years. The GDP growth rate was greatest in 1992 (23.9%) and most negative in 2002 (-13.3%).<sup>3</sup> The period with the highest three-year moving average was 1990-1992, when the Palestinian economy expanded at 12.9% per year on average. Even during this three-year period growth varied tremendously.<sup>4</sup>

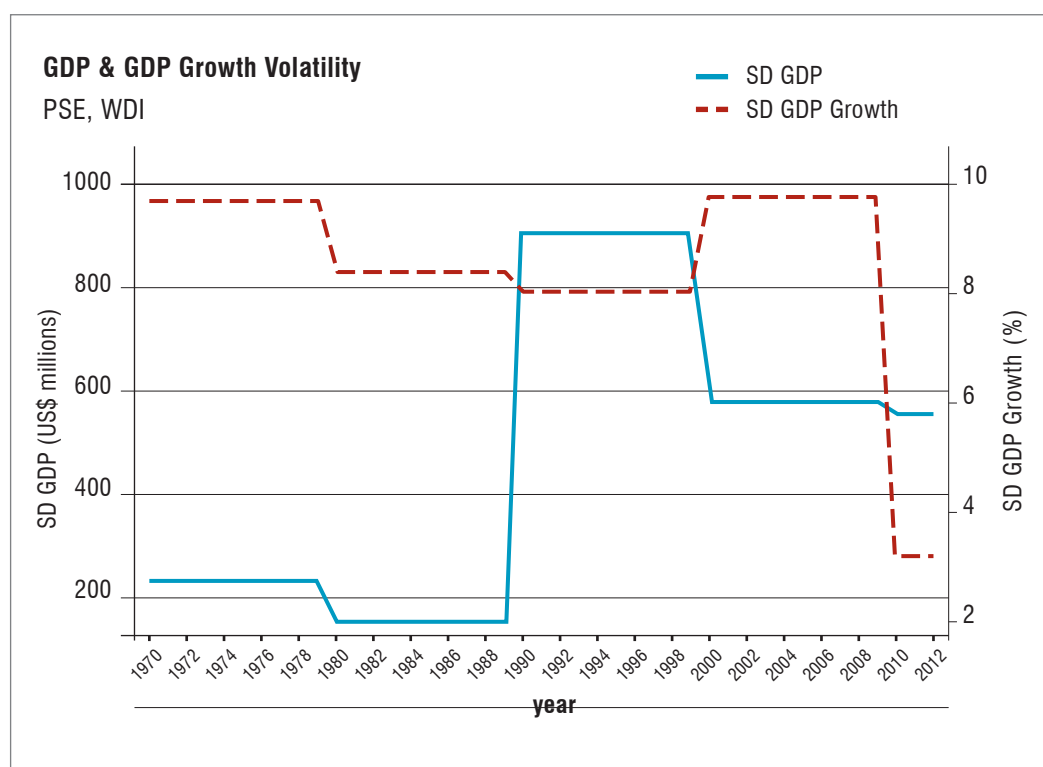
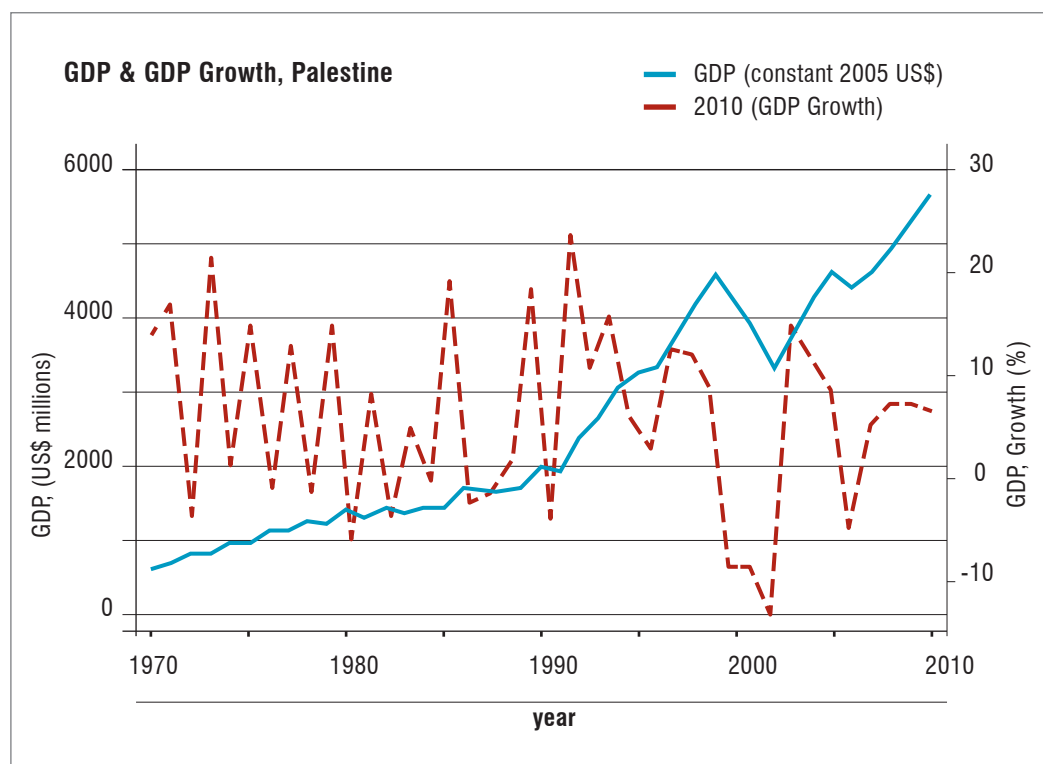
3. This fall coincides with the second intifada.

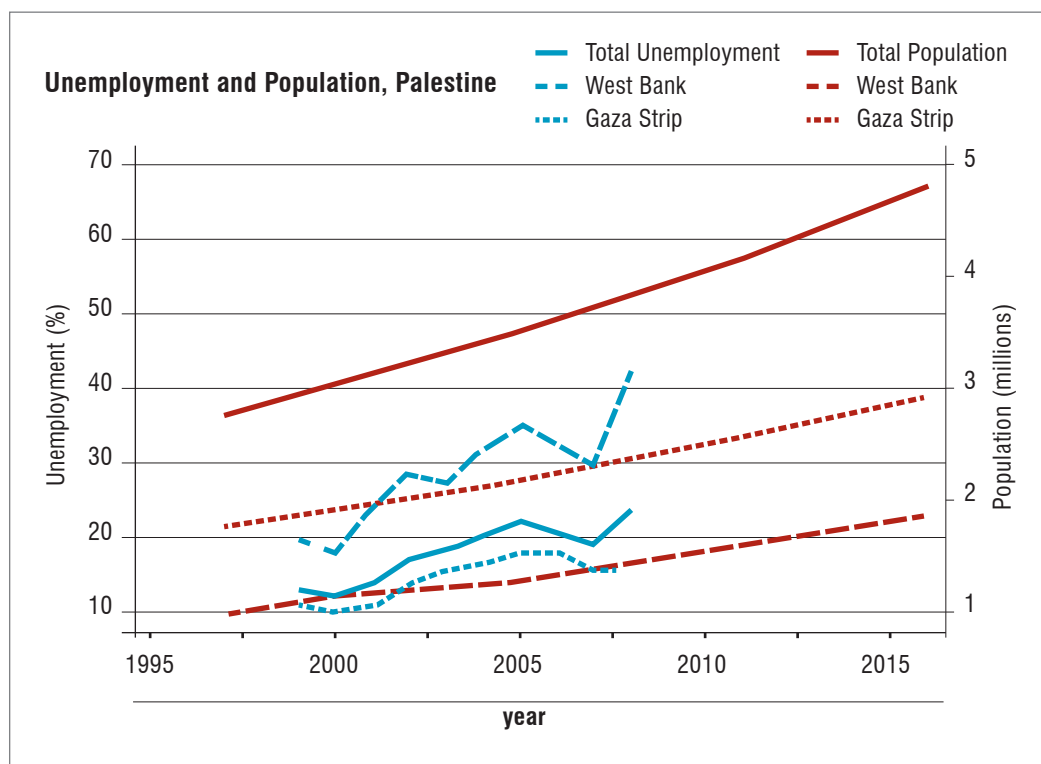
4. In 1990, the GDP growth rate was 19.0%, the growth rate was a negative 4.2% in 1991, and in 1992 the growth rate was 23.9%.

A major contributing factor for the high volatility is the fragile political and security climate that has affected development of sectors, national institutions (and supporting services) as well as the development of a sound business environment that is conducive to the growth of the private sector. This environment of economic instability is a challenge for the development of export sectors.

Unemployment trends in the economy are consistent with high GDP volatility. The Palestinian economy needs to increase the generation of employment opportunities for a fast-growing population. A signature of the Palestinian economy is the large performance differences between the West Bank and the Gaza Strip. The West Bank economy shows stronger economic indicators than the Gaza Strip. This is particularly true for employment. Figure 2 (lower panel) shows that unemployment rate in the Gaza Strip is over 40% of the labour force. While lower than in the Gaza Strip, the unemployment rate in the West Bank is still in excess of 15%. With the population expected to approach five million by 2015, it is crucial that the Palestinian economy reduces unemployment and improves job creation.

Figure 2: Palestinian Gross Domestic Product (GDP) &amp; GDP growth rates and volatility





**Source:** UN national accounts main aggregates database

### Box 1: Snapshot of 2011 industrial sector production in the State of Palestine

The industrial sector (mining, manufacturing and utilities) contributed 11.9% of GDP and employed 78,724 workers in 2012, i.e. 11.8% of total employment. The contribution to GDP has progressively declined from the peak year 2003 when it was 17.5% of GDP. There were some 16,263 registered manufacturing establishments in 2012. Small, owner-operated enterprises characterize the manufacturing sector. Only 0.5% of enterprises employ more than 50 workers; while nearly 78% employ less than five.

Manufacturing production is concentrated in a limited range of traditional manufacturing activities. Production of non-metallic mineral products accounts for 18.9% of employment and 13% of all establishments, followed by the food and beverages subsector accounting for another 17.3% of employment and 14.3% of establishments, and production of apparel and leather goods account for 15.1% of total employment and 12.3% of all industrial establishments. Other activities with some weight in the industrial sector are furniture, manufactured metal products, mostly catering to the construction industry, as well as rubber and plastic products. There is still limited development of high value added and high technology production.

Mining and stone-based industries are primarily concentrated in the southern areas of the West Bank where the quality of stone makes it highly competitive in export markets. Marble and stone exports to Israel, Jordan, other Arab countries and broader international markets have increased in recent years and now account for around 20% of total industrial exports.







# EXPORT PERFORMANCE

## EXPORTS BASKET: PRODUCTS

The main exported products are worked and unworked stone, accounting for nearly 25% of all export value (on average) for both 2002-2004 and 2009-2011 periods. Indeed, the value and share in exports of stone has increased over the past ten years. Between 2002-2004 and 2009-2011 unworked stone exports doubled in value, while the value of worked stone increased by only 16%.

In addition to stone and marble, exports of remelting iron, plastic, pharmaceuticals and furniture are important manufactured product exports. Together, these products accounted for 21.4% of export value in 2009-2011.

**Table 2: Top 10 Palestinian export products, 2002-2004 and 2008-2010 average**

Top export products (2002-2004)					Top export products (2008-2010)				
Rank	Product code (SITC 5 digit)	Product description	Value (US\$ thousands)	Share in exports (%)	Rank	Product code (SITC 5 digit)	Product description	Value (US\$ thousands)	Share in exports (%)
1	66135	Building stone, unworked	27,427,759	11.7	1	66135	Building stone, unworked	59,352,246	10.1
2	66134	Marble etc., worked	22,552,280	9.6	2	66134	Marble etc., worked	27,846,716	4.8
3	66122	Portland cement	6,171,426	2.6	3	28233	Remelting iron/steel ingots	23,133,511	4.0
4	82123	Mattress rubber/ plastic	5,567,500	2.4	4	89311	Plastic sacks/bags/cones	21,630,989	3.7
5	68421	Aluminium bars/rod/prof.	5,180,999	2.2	5	85131	Rubber/plastic footwear n.e.s.	15,956,166	2.7
6	54293	Medicam. n.e.s. retail packs	4,935,435	2.1	6	54293	Medicaments n.e.s. retail packs	15,585,601	2.7
7	63512	Wood pallets etc.	4,549,546	1.9	7	63512	Wood pallets etc.	12,049,905	2.1
8	89311	Plastic sacks/bags/cones	4,255,200	1.8	8	82155	Wood bedroom furniture	11,865,000	2.0
9	65319	Woven synth fil fab n.e.s.	3,994,476	1.7	9	68421	Aluminium bars/rod/prof.	11,513,574	2.0
10	69119	Iron/steel structure n.e.s.	3,455,825	1.5	10	09899	Misc. food preparations n.e.s.	9,921,799	1.7

**Source:** ITC calculations based on 5-digit Comtrade, SITC Revision 3 trade data.

## EXPORTS BASKET: SERVICES

As figure 1 indicates, the service sector has provided increased contribution and value addition to the economy in recent years. The increase in service exports is driven by gains in traditional<sup>5</sup> services versus modern services (figure 3 – upper right panel), which have contracted in terms of export activity. Figure 3 (upper left panel) identifies travel services as constituting the largest share of service exports by a large margin. Exports for this sub-category in 2009-2011 increased approximately three-fold from 2005-2007. The travel industry, like most other sectors of the economy, suffered a slowdown in 2000-2002. The industry has started to recover and is growing again.

As discussed throughout this document, a combination of production capacity/infrastructural weaknesses, as well as multi-dimensional restrictions in place on movement and border controls, have translated into a heavy

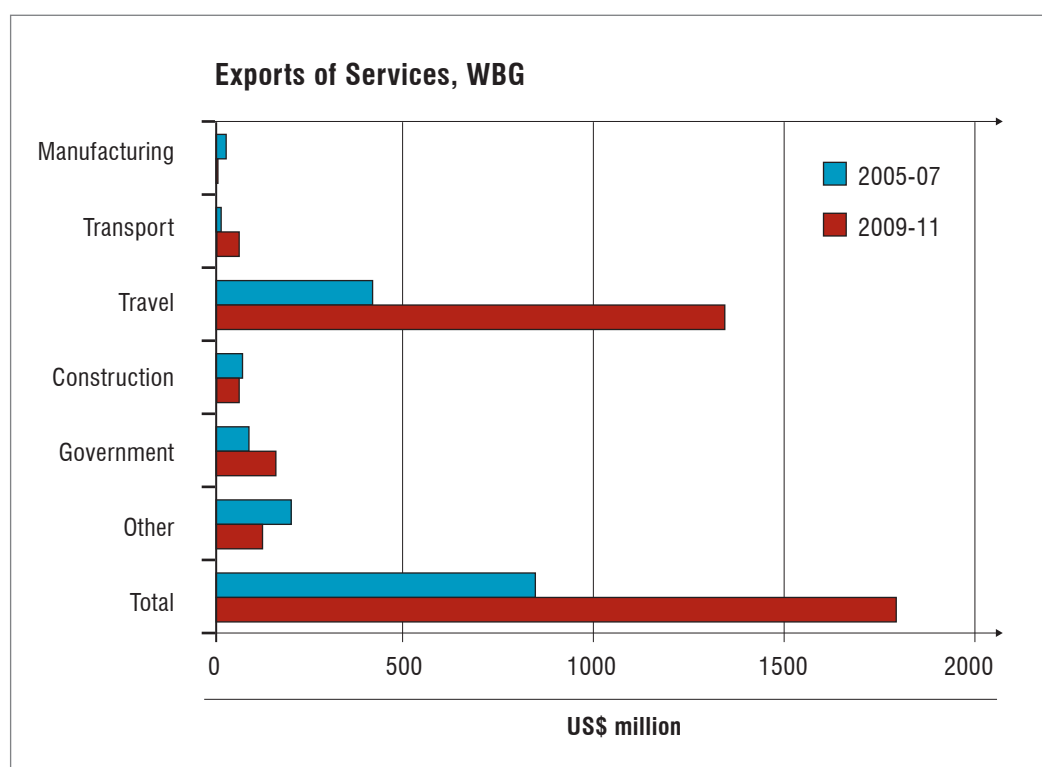
dependence on imports/services outside the State of Palestine. This has led to a consistently negative balance of payments for traditional services such as transport, construction, and cultural and recreational services as indicated in figure 3 (lower panel). Modern services such as ICT have fared much better, even exhibiting a positive balance of payment in recent years, although it represents a much smaller level of activity than traditional services such as travel.

Within modern services the ICT sector, which did not export before 2000, has been growing steadily as a service export sector. This favourable trend demonstrates the increasing potential of the sector to contribute to the State of Palestine's export development. According to PITA,<sup>6</sup> the data indicate that the ICT sector has grown in value from about US\$ 130 million in 1999 to US\$ 231 million in 2008; an average growth of 8% per year. ICT's contribution to GDP has increased from about 2.87% in 1999 to about 5% in 2008.

5. Modern services include communication, insurance, finance, computer & information, royalties and licence fees and other business services. Traditional service are transport, travel, construction, personal, cultural and recreational services.

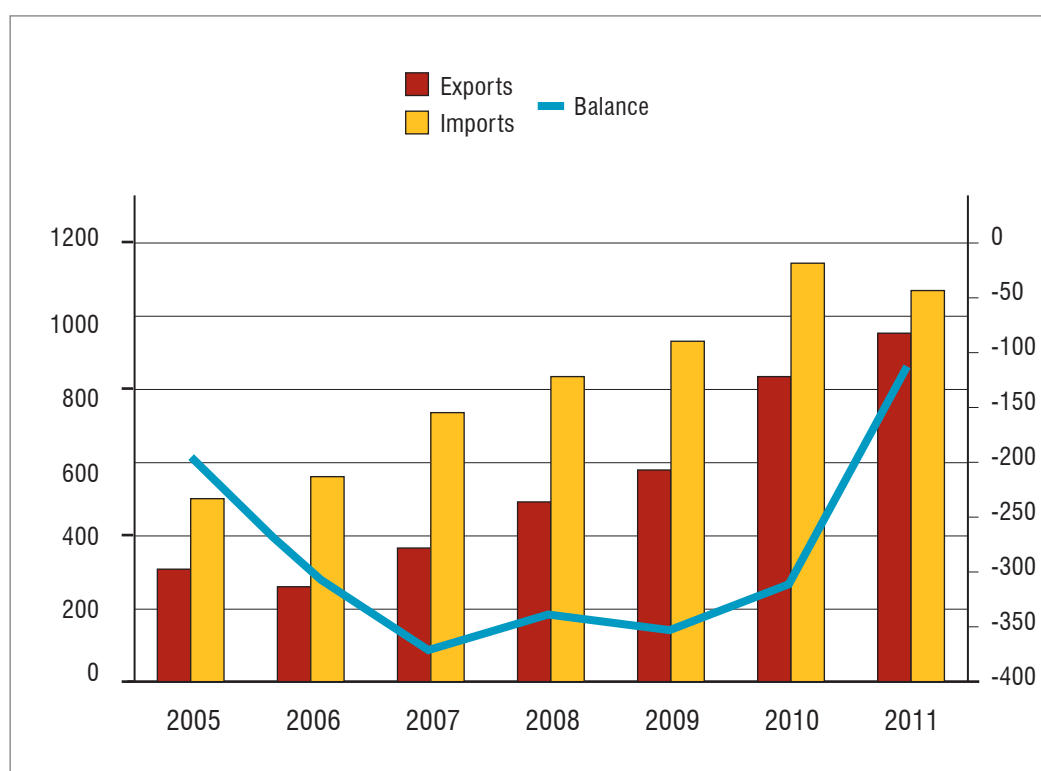
6. USAID/The Palestinian IT Association of Companies (PITA) (2009). *The Palestinian ICT Sector... A Three-Year Outlook... Based on Economic Indicators*, p. 12.

Figure 3: Exports of services from the West Bank and Gaza 2005-2011





Source: © PalTrade



Source: WDI data 2005-2011

## EXPORT DESTINATIONS

Exports are very concentrated on a few destinations. Taken together, the top three destinations – Israel, Jordan and Egypt – accounted for 79% of all exports in 2002-2004. This important share only slightly decreased for the period 2009-2011, when these three countries still accounted for 75%.<sup>7</sup> The share in exports going to the top three destination countries reflects the difficulty faced by exporters in diversifying export destinations.

As has historically been the case, Israel remains the main trading partner of the State of Palestine. On average, between 2009 and 2011, 63% of all exports were destined for Israel. This underscores the importance of the Israeli market but also the need to explore opportunities for market diversification.

Trade with other destinations remains very low. Between 2002-2004 and 2009-2011, the share of Palestinian exports to the other countries did not exceed 5%. The number of countries whose share in total exports exceeded 1% has remained stable, reflecting the reliance on a small number of destination markets.

7. This percentage has been calculated using aggregated trade data from Comtrade in SITC, Revision 3. These figures are obviously subjected to the biases and aggregation issues of the chosen classification.

**Table 3: Top 10 Palestinian export destinations 2002-2004 average**

Top export destinations (2002-2004)			
Rank	Country	Value (US\$ million)	Share in exports (%)
1	Israel	146.1	63.2
2	Jordan	24.1	10.4
3	Egypt	12.3	5.3
4	Germany	9.6	4.1
5	Italy	6.5	2.8
6	China	5.5	2.4
7	Switzerland	5.5	2.4
8	Turkey	3.8	1.7
9	Poland	3.8	1.7
10	Netherlands	3.8	1.6

The State of Palestine has great potential to increase the number of destinations for its exports. We can deepen our understanding of the trade performance of the State of Palestine by looking at the number of export destinations reached per traded product.

Figure 4, figure 27<sup>8</sup> panels left and right, illustrates the success of individual Palestinian exports in reaching their destinations. Over the eight-year period, 2002-2010, the State of Palestine managed to expand the number of export markets that receive at least one product (at the SITC Revision 3 five-digit level) from 8 to 16. No product in 2002 was reaching 10 destinations, but by 2010 four products reached more than 10 destinations. The most prolific products are olive oil (16 destinations), dates (11) and spices (10).<sup>9</sup> In 2002, 808 products reached at least one market but this figure dropped to 712 products by 2010. Of these, 193 products achieved a higher number of markets than in 2002, and 156 products were completely new (accounting for roughly US\$40 million of new trade).

8. The red dots are products that were exported in 2002 but not in 2010. These indicate a possible extinction or suspension of the trade flows. The green dots indicate products that were not exported in 2002 but were exported in 2010, which proxy for new discoveries.

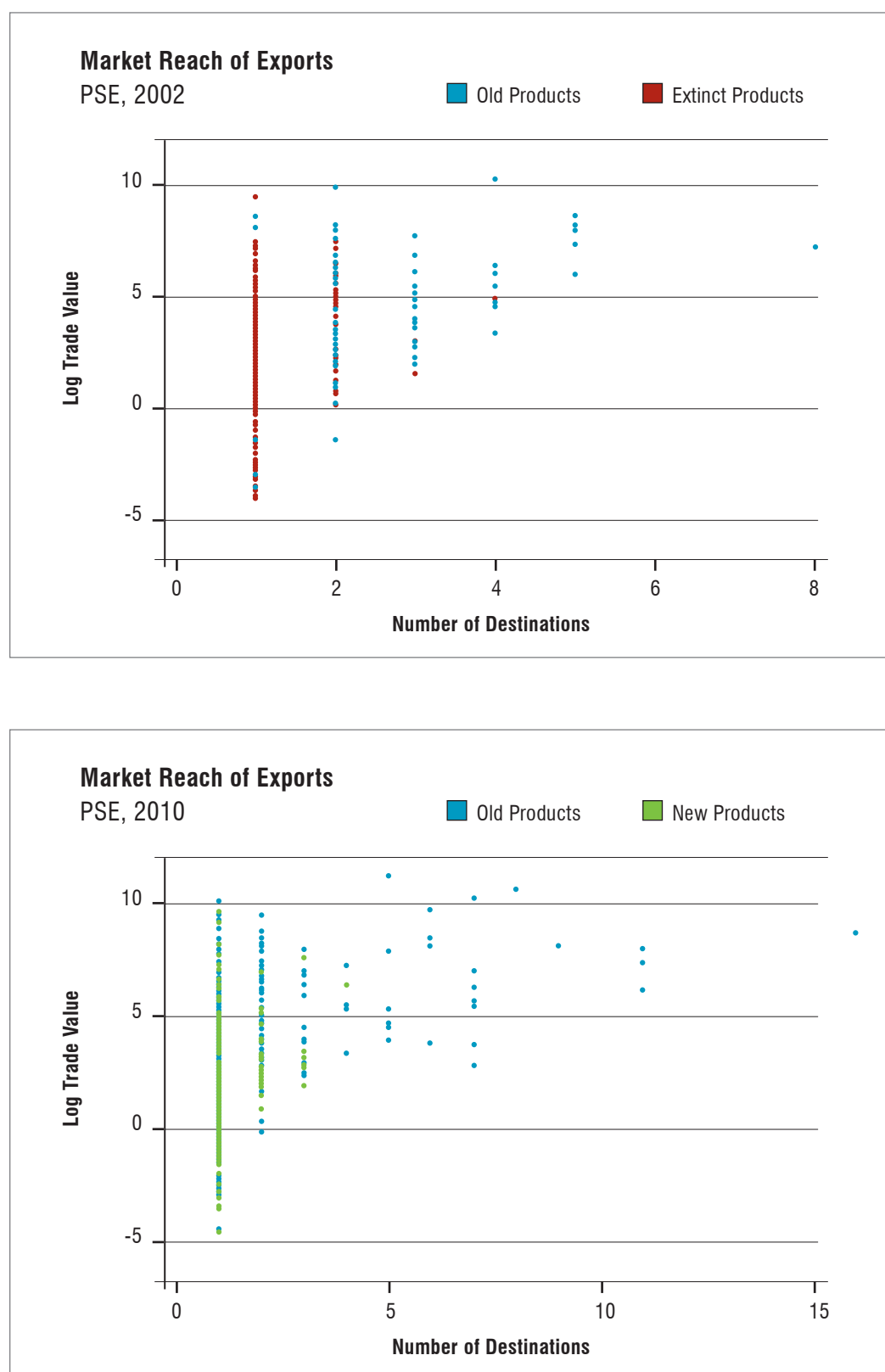
9. SITC Revision 3. Code numbers 42141 (16 destinations), 05794 and 05796 (11), and 07529 (10).

**Table 4: Top 10 Palestinian export destinations 2008-2010 average**

Top export destinations (2008-2010)			
Rank	Country	Value (US\$ thousands)	Share in exports (%)
1	Israel	303.3	53.6
2	Egypt	74.3	13.1
3	Jordan	43.6	7.7
4	China	27.3	4.8
5	Germany	25.9	4.6
6	Turkey	25.2	4.5
7	Switzerland	17.2	3.0
8	Brazil	13.8	2.4
9	Netherlands	10.3	1.8
10	Sweden	7.7	1.4

**Source:** PCBS and ITC calculations based on UN Comtrade statistics

Figure 4: Export destinations of Palestinian products reached in 2002 (left) and 2010 (right)



Source: ITC calculations based on 5-digit Comtrade, SITC Revision 3 trade data.



The value of individual export products has also grown. The total value of the State of Palestine's existing products (black) in newly expanded or existing markets has increased. Some new exports in 2010 (green dots) have already reached three or four destinations. These include some textiles, vegetables, and furniture goods.<sup>10</sup> Understanding why these products have achieved relative success in this period deserves further analysis, which is included in following sections as well as individual sector strategies of the NES.

## THE ROLE OF ISRAEL IN RELATION TO THE STATE OF PALESTINE'S TRADE EQUATION

The importance of trade with Israel cannot be overly stressed. For both 2002-2004 and 2008-2010, Israel was the top destination by share of export value for eight of the State of Palestine's top 10 export products. For example, exports of unworked stone to Israel alone constituted 12.8% of total exports by value for the years 2008-2010.

10. SITC Revision 3 Code numbers 05452 (four destinations), 82118, 82118 and 05451 (three).

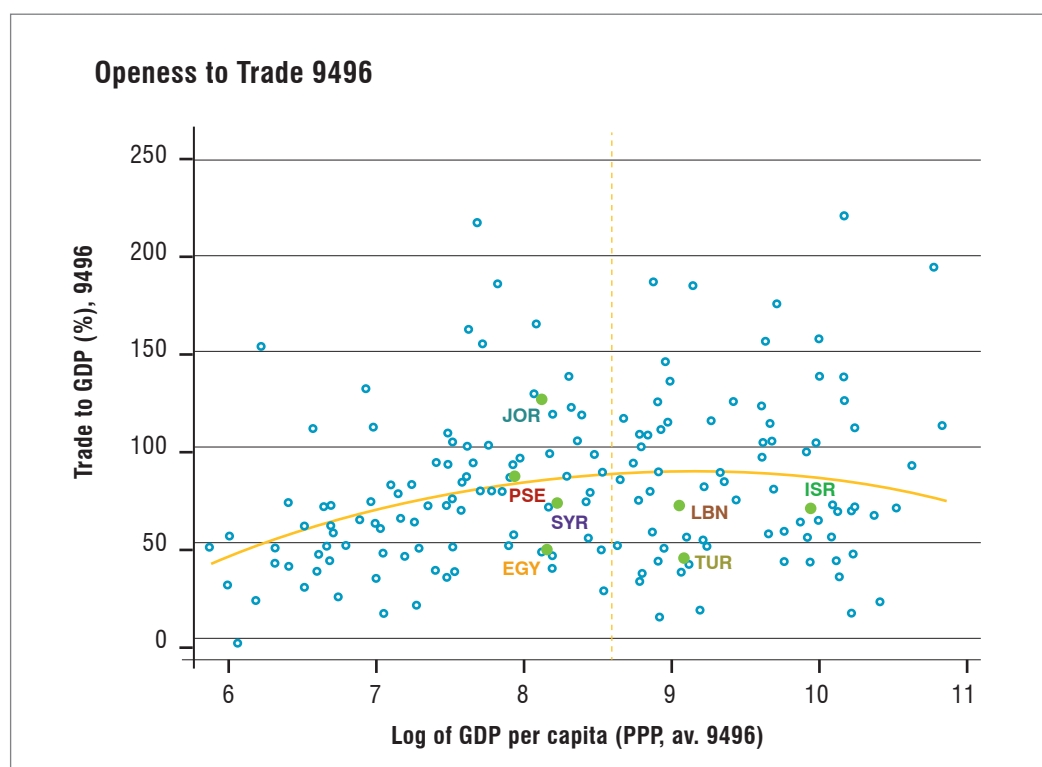
When all the trade with the rest of the world is considered, the State of Palestine appears to be a relatively open economy. The economy's level of integration with the rest of the world appears to be in line with what it would be expected given its income level. However, when trade with Israel is controlled for, the State of Palestine becomes one of the most closed economies in the world.

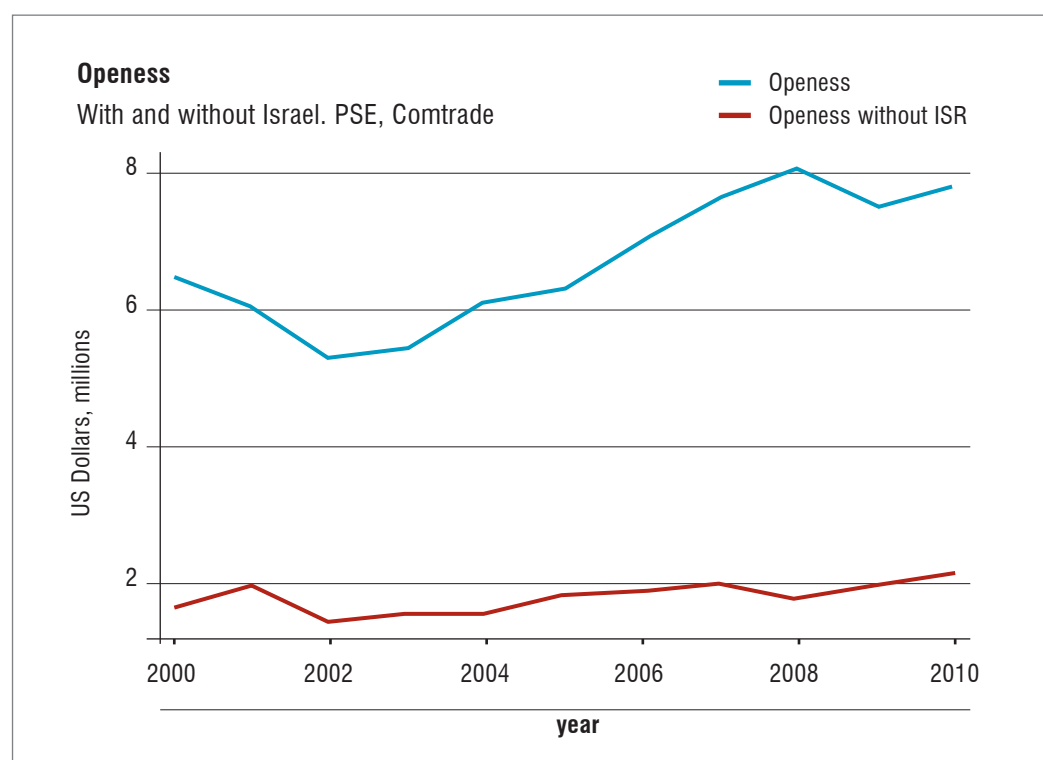
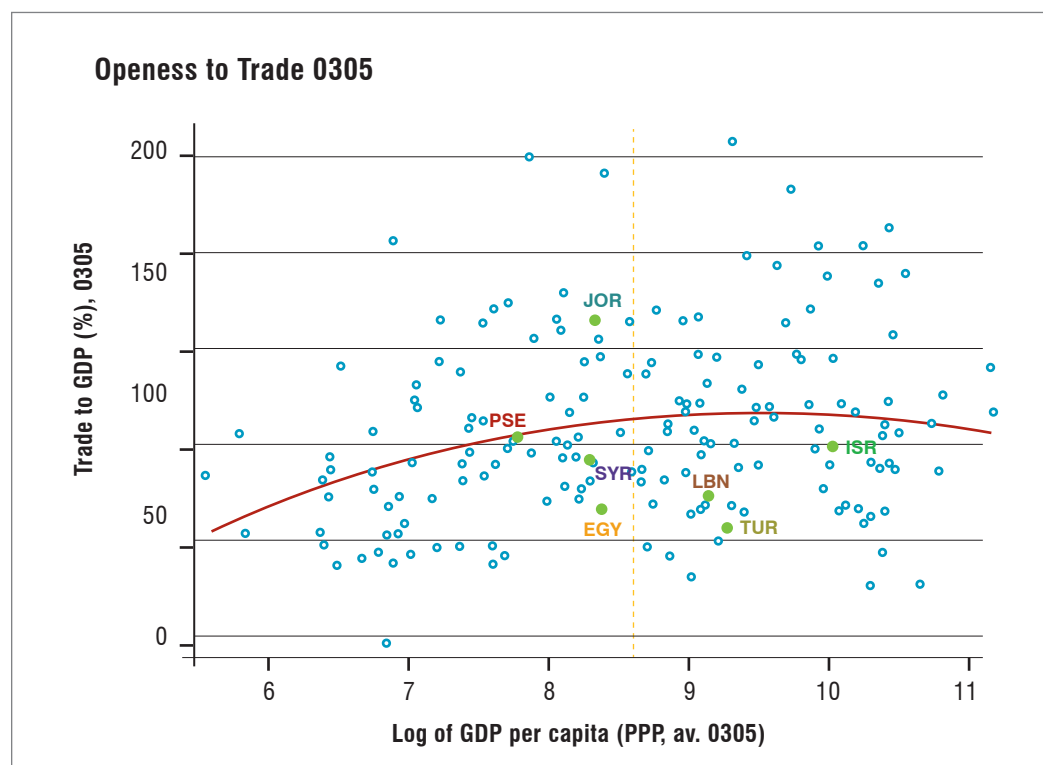
Figure 5, panels left and right, shows scatter plots of averaged trade-to-GDP ratios from 1994 to 1996 and from 2003 to 2005 against the log of GDP per capita.<sup>11</sup> The dashed line indicates the world median income, and the curve is an ordinary least squares (OLS) regression line of the trade-to-GDP ratio on the log of GDP per capita as well as its squared value. This curve reflects a stylized fact that countries tend to trade more, relative to nominal GDP, as their per capita incomes rise, but they do so at a decreasing rate.<sup>12</sup> In both periods analysed, the State of Palestine shows in the chart where one would reasonably expect it to be given its level of income.

11. GDP per capita in purchasing power parity (constant international dollars).

12. When trade is divided by real GDP in purchasing power parity terms (and not nominal GDP), the relationship is slightly different because real openness corrects for distortions created when non-traded goods are priced differently across countries.

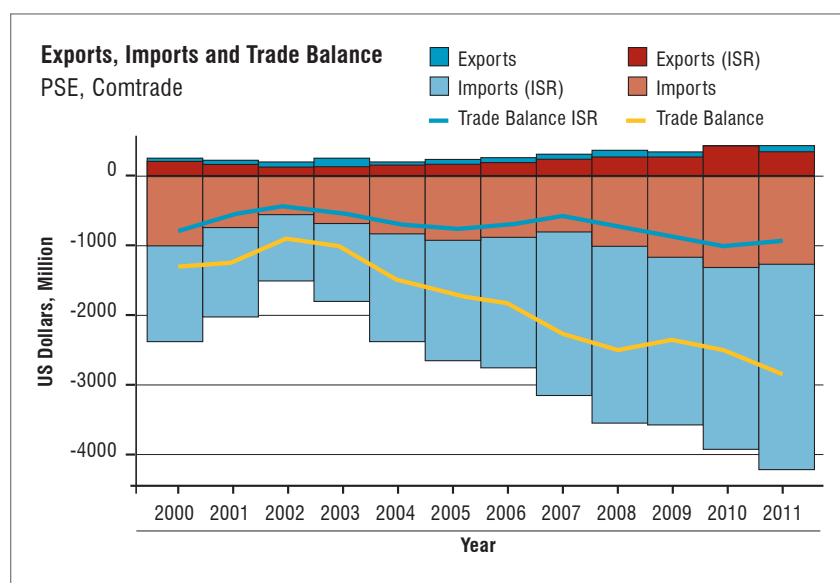
Figure 5: Openness to trade (first, 1994-1996; second, 2003-2005)





**Source:** ITC calculations based on Comtrade's SITC Revision 3 data

Figure 6: The State of Palestine's trade balance disaggregated with Israel 2000-2011



Source: ITC calculations based on Comtrade's SITC Revision 3 data

## ISRAEL AS A SOURCE OF IMPORTS

As a result of the significant restrictions that the Palestinian economy has been subjected to, the economy has become highly dependent on Israel for both Israeli-made goods and goods sourced from a third country through Israel into the State of Palestine. Figure 6 shows the growing importance of imports from Israel since 2002 and their contribution to the negative trade balance.

As expected, Israel is also an important conduit of third country products to the State of Palestine, and not all imports reported to be from Israel are Israeli goods. It is estimated that 58% of reported Israeli imports are produced in a third country and transported to the State of Palestine via Israel.<sup>13</sup>

## ISRAEL AS A LEADING CONSUMER OF PALESTINIAN EXPORTS

The geographical proximity and the existing customer relationships that Palestinian exporters have been able to forge in Israel have contributed to the significance of Israel as the leading consumer of Palestinian exports. For 2002-2004, Israel was the top destination for 58 of the State of Palestine's top 100 export products. By the period 2008-2010 this number had increased to 64 out of 100. This shows that between 2002 and 2010, Israel

increased the number of products for which it is the State of Palestine's main export market, deepening the trade relationship.

## TECHNOLOGICAL SOPHISTICATION

Exports are characterized by low levels of technological sophistication. Exports are concentrated in natural resource-based manufacturing, low technology manufacturing and commodities. These product groups do not generally generate high knowledge spillovers or linkages to other production. The value of medium and high technology manufactured products has decreased since 2002. Indeed, high technology goods have almost completely disappeared from the State of Palestine's exports.

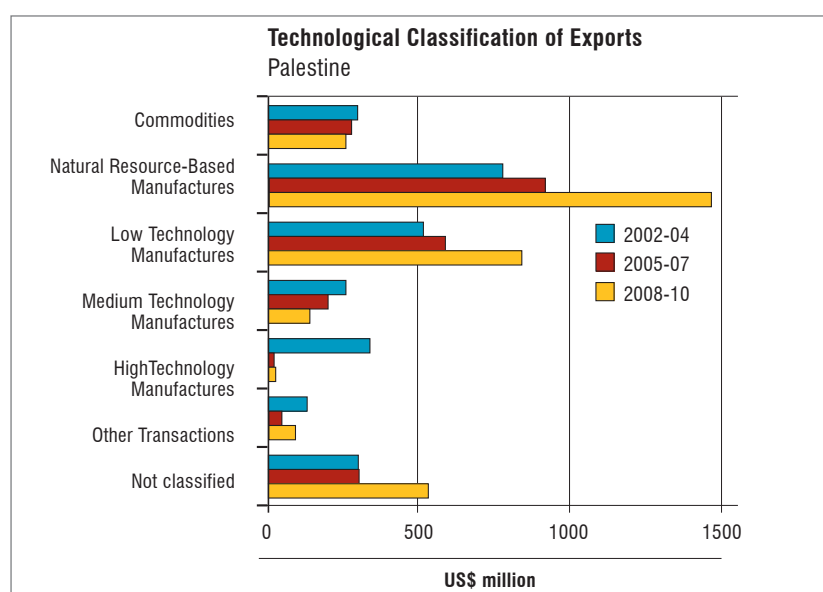
The decline in these sectors is of concern from an exports standpoint, as exports of sophisticated products have been shown to be important to broad-based economic development.<sup>14</sup> The decline in low and medium technology manufacturing in the State of Palestine may be partially explained by Israel's trade liberalization. As Israel has opened its markets, lower cost goods produced in Asia have been substituted for Palestinian-produced goods.<sup>15</sup>

13. UNCTAD (2011). *Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory*.

14. Anand, R., Mishra, S., & Spatafora, N. (2012). *Structural Transformation and the Sophistication of Production*, IMF WP/12/59. International Monetary Fund (IMF).

15. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*.

Figure 7: Technology content of Palestinian exports



**Source:** ITC calculations based on Comtrade's SITC Revision 3 data

As shown in figure 7, the State of Palestine's exports have increased in sectors that require minimal technology and minimal sophistication and fallen in sectors that require a greater level of technology and sophistication.<sup>16</sup> The greatest increase in value of exports has been in natural resource-based exports. Exports have also increased in low technology manufacturing. These sectors do not have the positive linkages and spillovers associated with medium and high technology production, sectors which have declining export values. The ability to increase knowledge spillover and linkages is a main reason for seeking to increase the value of medium and high technology product exports.

## REVEALED COMPARATIVE ADVANTAGE (RCA)

Revealed Comparative Advantage (RCA) indicates potential for growth in sectors that promote economic diversification. The RCA analysis<sup>17</sup> demonstrates that the fruits and vegetables (including herbs), minerals, hides and skins, wood, and stone sectors have a positive comparative advantage. Of these sectors, industries with potential spillover effects to the rest of the economy include hides



**Source:** © PalTrade

and skins (10 products) and stone and marble (71 products) out of a total of 1,421 identified products.

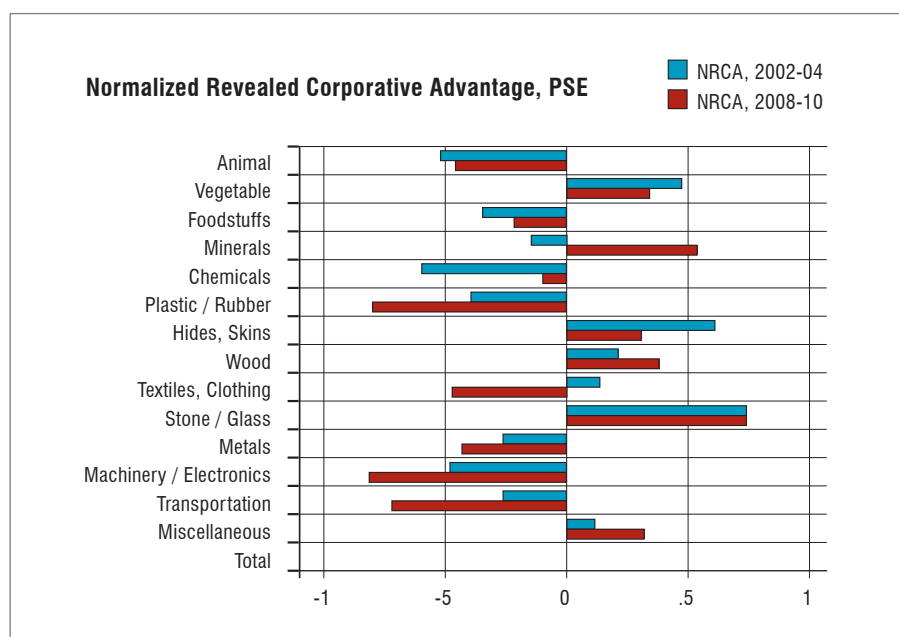
Sectors such as footwear and leather, stone and marble, and fruits and vegetables are characterized by generations of knowledge passed on in the form of family-owned MSMEs. Such specialization may be considered promising because the capabilities developed in those sectors can be easily redeployed to other industries, fostering the process of economic diversification. Sectors with a more limited capacity to provide engines of diversification include minerals (28 products).<sup>18</sup>

16. The sectors are based on the methods used in: Lall, S. (2000). The Technological Structure and Performance of Developing Country Manufactured Exports, 1985-1998, QEH Working Paper Series – QEHWPS44.

17. The NRCA is a simple transformation of the RCA to make it take values between – 1 and 1.

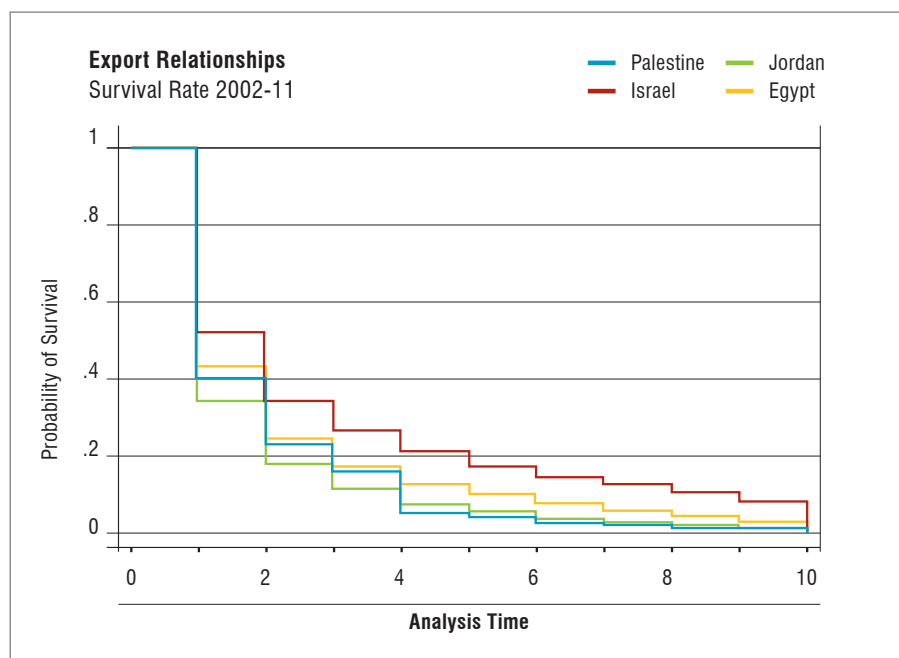
18. The products are defined at the five-digit SITC Revision 3.

Figure 8: Normalized Revealed Comparative Advantage (RCA); averages 2002-2004 and 2008-2010



Source: ITC calculations based on Comtrade's SITC Revision 3 data

Figure 9: Survivability of export relationships



Source: ITC calculations based on Comtrade's SITC Revision 3 data



## SUSTAINABILITY OF EXPORT RELATIONSHIPS

Export relationships have proved to be short-lived and unsustainable. The State of Palestine's export basket is limited, both in terms of the number of major export products and also in terms of destination markets. This trend demonstrates the difficulty of enterprises in penetrating and surviving in international markets. The average duration of export relationships is 1.8 years, meaning that new export agreements normally last less than two years before they are ended.

The probability of export relationships surviving until the second year is 0.39 (on a 0-1 scale), and of maintaining a relationship for five years is 0.04. On average, the probability of an export relationship surviving over a ten year period is much lower in comparison to neighbouring economies such as Israel, Jordan, and Egypt, as indicated below.

The difficulty of enterprises in developing and diversifying exports can be partly explained by declining productivity levels resulting in increased production costs, difficulties in securing production inputs for consistent export delivery, low quality levels driven by voluntary compliance, and a traditional dependence on domestic markets. Moreover, local enterprises are at a competitive disadvantage due to the shortage of internationally accredited laboratories and of one-stop shops providing relevant trade information on emerging/current market trends, market entry requirements, and opportunities for export promotion activities in international markets.

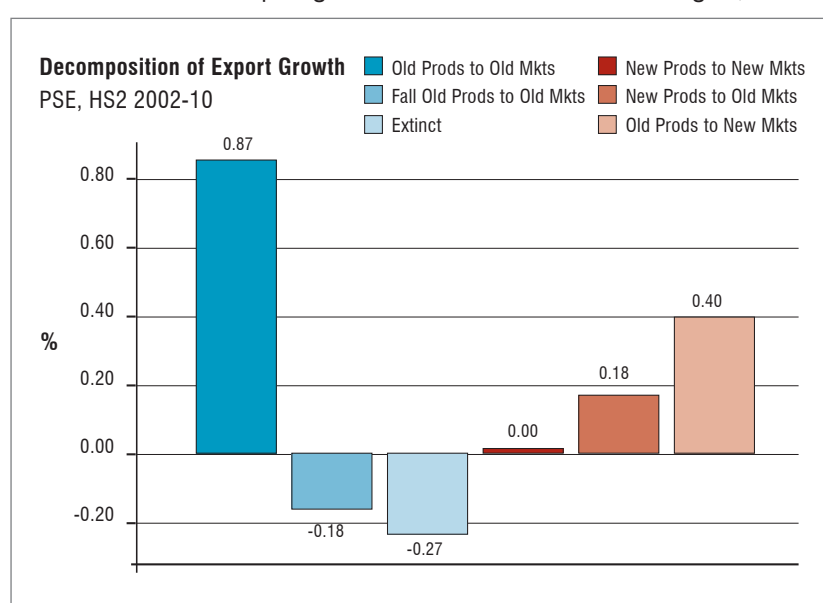
## DECOMPOSITION OF EXPORT GROWTH

An analysis (decomposition) of export growth reveals that Palestinian exporters have been unable to diversify their product base in new markets, and that growth is mainly driven by products being exported to existing markets.

As expected in an economy that is struggling with product/market diversification, existing flows to current destinations accounted for the majority of export growth (roughly 87%). However, this growth was offset by declining exports to existing markets (18%) and notably by products that became extinct (27%). This reflects the low survivability rate of export relationships in the State of Palestine, while also alluding to the overall low capabilities of exporters to maintain supply consistency and customer commitments.

In terms of diversification, analysis indicates that approximately 40% of export growth is explained by existing products being exported to new markets (market development), and 18% can be attributed to new products being exported to existing markets (product diversification). Growth attributed to new products reaching new markets (full diversification) was negligible. This is indicative of the low capacities of the Palestinian export sector to forge export relationships in hitherto untapped markets through previously unexploited products with export potential.

**Figure 10: Decomposition of Palestinian export growth – intensive & extensive margins, 2002-2010**



**Source:** ITC calculations based on Comtrade's SITC Revision 3 data

## TRADE INTENSITY

The State of Palestine has few intense<sup>19</sup> trade relationships.<sup>20</sup> In 2008-2010, the State of Palestine had only seven intense trade relationships. Countries with which the State of Palestine shares an intense trade relationship include: Israel, Jordan, Kuwait, Saudi Arabia, Algeria and the UAE.<sup>21</sup> The trade relationship with Israel was significantly more intense than the second most intense trade relationship with Jordan.

The low level of intense trade relationships suggests difficulties in establishing and maintaining trade relationships. Many of the State of Palestine's trade relationships became less intense in the period between 2002-2004 and 2008-2010. For example, the trade intensity with important regional partners such as Egypt, Saudi Arabia and the UAE declined during this period. Maintaining and growing these regional trade relationships is important to the State of Palestine's long-term success as an exporter.

## TRADE BALANCE

The State of Palestine has consistently run large negative trade balances due to high dependence on imports. As a small economy without control of its borders, constrained

by multifaceted restrictions and characterized by a small and unsophisticated manufacturing base, the State of Palestine is largely dependent on imports for survival. The large and growing trade deficit is partly a by-product of the uncertain political and economic environment, due to which investments have stalled, industries and the manufacturing base remain stagnated, and the domestically produced goods basket remains small and limited.

The negative trade balance in the State of Palestine has continued to grow as a result of growth of imports exceeding growth of exports in the last decade. In 2010 the trade balance was -52.3% of GDP.<sup>22</sup> This is consistent with the large negative trade balances that the economy ran in the period from 1994 to 2000. Between those years, the trade balance deficit ranged from 50% to 65% of GDP.<sup>23</sup>

As a percentage of GDP, the trade balance was most negative in 1999.<sup>24</sup> Figure 11 shows the trend since 2000. Since 2002 the trade balance has become more negative as the growth in imports exceeds the growth in exports. This long-standing trade deficit could have a negative impact on the State of Palestine's ability to mobilize the necessary capital to invest in trade development, thereby further limiting enterprise growth and export diversification.

19. Trade intensity measures whether a country exports more to a partner than the world does on average.

20. Where  $i$  is the exporting country,  $j$  is the trading partner, and  $w$  is the world. A trade relationship is considered to be intense when the trade intensity index is greater than 1.

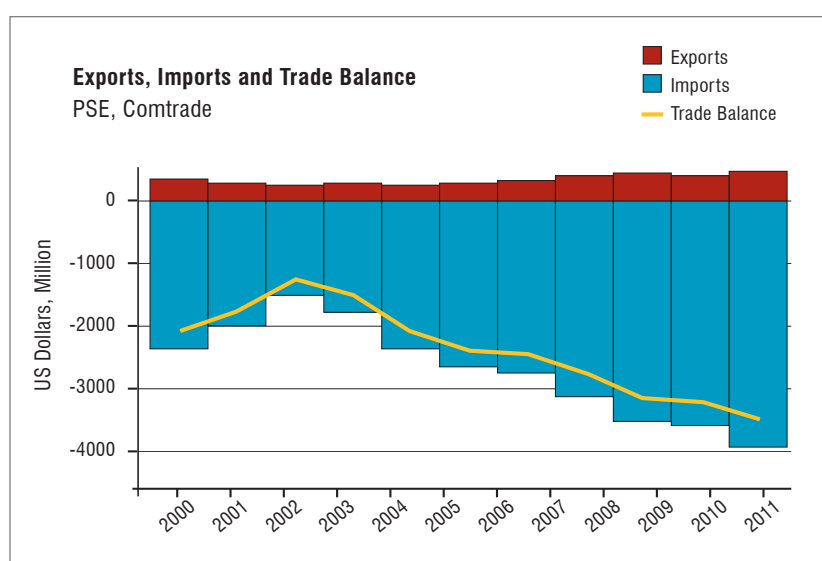
21. Belize also had a trade intensity great than 1, but only imported about US\$88,000 of Palestinian goods.

22. UNCTAD (2011). *Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory*.

23. World Bank (a) (2011). *Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza*.

24. UNCTAD (2011). *Report on UNCTAD Assistance to the Palestinian People: Developments in the Economy of the Occupied Palestinian Territory*.

Figure 11: The State of Palestine's overall trade balance 2000-2010



Source: ITC calculations based on Comtrade's SITC Revision 3 data



Source: © PalTrade

## INTEGRATION IN GLOBAL PRODUCTION NETWORKS

Integration of the State of Palestine's export value chains in global value chains is weak. The share of imports of parts and components has remained relatively constant over the past ten years. However, this has not generated consistency in assembly activities in the State of Palestine. In fact, there is a decline in the export share of parts and components,<sup>25</sup> suggesting a diminishing presence in global or regional supply chains.<sup>26</sup> This trend has accelerated during the past five years.

To explore the extent of the role of the State of Palestine in global production networks, it is useful to classify trade

data into parts/components and final goods. Figure 12 (left panel), shows the evolution of export and import shares over time.<sup>27</sup> As indicated, the share of parts and components in total manufactured exports at the SITC five-digit level declined from 15% to less than 1% between 2002 and 2010.<sup>28</sup> The exports decline is much more pronounced in intensity (rate of decline), as well as value, than is the case for imports.

The right panel in the figure below – representing the Grubel-Lloyd index – provides an indication of whether trade is characterized by inter-industry or intra-industry trade. This index is particularly relevant for countries seeking to diversify exports not across industries but rather within an industry. As indicated, analysis of the six digit disaggregated view shows that the State of Palestine's trade pattern is more characterized by inter-industry than intra-industry trade.<sup>29</sup>

25. Trade in components offers opportunities to specialize in niches rather than an entire production chain. But competitiveness in this form of trade requires a mix of policy openness, low wages, and good infrastructure; what is often referred to as 'service links' or the overall business environment.

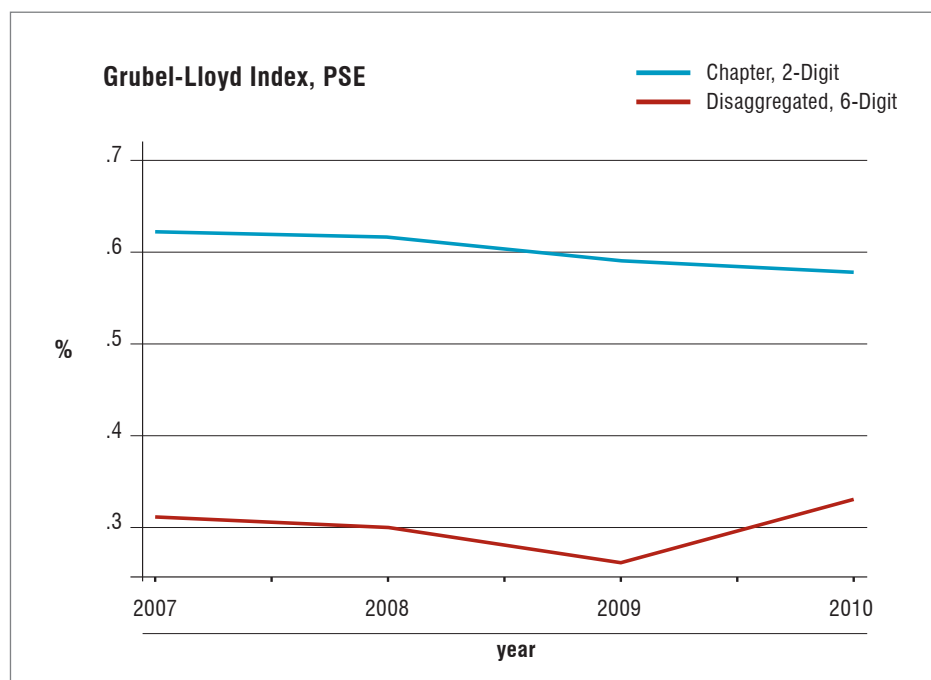
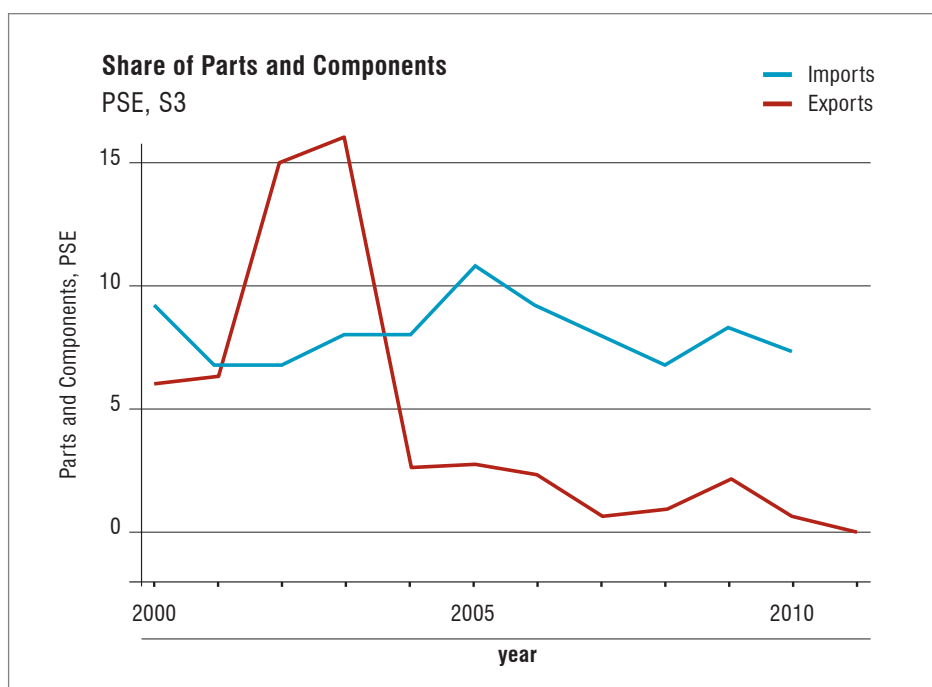
26. Analysing the share of parts and components in trade can be very informative when it is difficult to trace and assign value added to different phases of production. Rising imports of parts and components normally indicate a country's increased assembly activity, whereas a rise in their export suggests its growing importance in the global supply chain. See: Reis, Jose Guilherme; Farole, Thomas (2012). *Trade Competitiveness Diagnostic Toolkit*. World Bank. Available from <https://openknowledge.worldbank.org/handle/10986/2248>.

27. An assessment of parts and components is also important to determine whether the level of sophistication of a country's export basket as judged by looking at final goods is illusory.

28. The share of trade in parts and components is calculated by classifying the different Comtrade categories as either 'final goods' or 'parts/components'.

29. The Grubel-Lloyd Index (GLI) measures the scale of intra-industry trade. A GLI of one indicates maximum intra-industry trade and a GLI of zero indicates the presence of only inter-industry trade.

Figure 12: Share of parts and components



**Source:** ITC calculations based on Comtrade's SITC Revision 3 data

# BUSINESS ENVIRONMENT

The business environment is an important component of the export value chain, and therefore an examination of an economy's business environment provides valuable insights. The quality of the business environment can either increase or decrease the costs/administrative burdens associated with the operations of enterprises. In either case, the capability of the enterprises to develop export competitiveness is affected.

The World Bank has included the economy of West Bank and Gaza in its evaluation<sup>30</sup> since 2011.<sup>31</sup> For the purposes of assessing the export value chain in an economy, these rankings can provide useful indicators of functional areas where service improvements are required – especially by (but not necessarily limited to) government ministries and agencies.

In 2014, the State of Palestine's business environment was ranked 138 out of 189 economies, notably lower than the Middle East and North Africa (MENA) average of 107. Although this ranking has slightly improved over 2013 by moving by 7 ranks up from 145, it still reflects a number of structural weaknesses that are pertinent for the efficient functioning of the private sector. While some of the topics highlighted are more relevant to the general ease with which one may operate a business, others have a direct impact on export competitiveness. Regardless, however, of just how correlated each issue is with trade facilitation, all of them contribute to either diminishing or stimulating the growth, investment, and sales potential of private enterprise.

Of the ten topics covered by the report, the State of Palestine ranked reasonably well in paying taxes (62), protecting investors (80), getting electricity (87) and

enforcing contracts (88). On the remaining topics it ranked poorly, with ranks much lower than the average for the Middle-East and North Africa (MENA) region: registering property (122), trading across borders (123), dealing with construction permits (131), starting a business (143), getting credit (165), and resolving insolvency (189).

**Table 5: Doing Business indicators for the State of Palestine 2013**

Indicators	Rank	MENA average
Overall Rank	138	107
Paying taxes	62	64
Protecting investors	80	113
Getting electricity	87	77
Enforcing contracts	88	118
Registering property	122	93
Trading across borders	123	89
Dealing with construction permits	131	108
Starting a business	143	112
Getting credit	165	133
Resolving insolvency	189	105

**Source:** World Bank

## PAYING TAXES

The one area where the State of Palestine stands out is the tax environment. Although only slightly stronger than the regional average of 64, the State of Palestine's rank of 62 places it in the top third of surveyed economies. In particular, although Palestinian companies have to make a larger number of payments (39) each year when compared with both regional (18) and OECD high income peers (12), they pay significantly lower tax rates (16.5% compared to 32.3% regional average and 41.3% OECD high income average) and spend fewer hours per year dealing with tax procedures. This ranking, however, does not reflect the key challenge of tax avoidance

30. The 'Doing Business' ranking and its ten underlying constituent indicators offer significant insights into the business environment of an economy. They cover a whole range of services that an exporting enterprise depends on to successfully enter or operate within the export value chain. These service indicators are varied, and include, as an example, the ease of or difficulty in: starting a business, accessing credit, resolving insolvency, trading across borders, etc.

31. Refers to overall rankings. Data on individual indicators available.



and non-compliance among the majority of Palestinian MSMEs. This is a significant challenge on the client side that will need to be tackled through stricter monitoring mechanisms and exercises in change management.

## PROTECTING INVESTORS

A strong framework for protecting investors allows enterprises to raise capital in order to expand, innovate, and adapt to changing market requirements. Without the legal conditions that would protect company accounts from being used for directors' personal gain, investors would be less likely to provide capital in situations where they are not majority shareholders. The State of Palestine's rank of 80 is notably healthier than the regional average of 113, indicating that the regulatory environment facilitates transparency for related-party transactions (disclosure), establishes liability for self-dealing (director liability), and allows shareholders to bring lawsuits against officers for misconduct. The indicators for the State of Palestine are in line with those of OECD high income nations. In comparison with MENA, the State of Palestine scores better on investor protection and the ease with which shareholders may bring lawsuits.

## GETTING ELECTRICITY

For accessing electricity, the State of Palestine's rank of 87 is slightly worse than the regional average of 77. Being able to obtain a reliable connection to electricity is of key importance to any enterprise, as a stable supply must be relied upon for various production processes. Long waiting times or unreliable supplies can decrease competitiveness and increase costs for exporters. According to the Doing Business report, getting electricity requires five procedures and 63 days, and costs 1,472.2% of income per capita. It should be noted that the cost has decreased from 1,549.1% of income per capita in 2013.

## ENFORCING CONTRACTS

Another area of key importance is the enforcement of contracts. Without a strong regulatory framework for enforcement, enterprises are more likely to limit their dealings to close acquaintances. The ability to rely upon the legal framework for contract resolution allows businesses to expand their network by engaging in a wider array of unrelated suppliers, partners, and service providers. Not only does this stimulate stronger and more competitive relationships, but firms in such an environment are more likely to engage with new borrowers and customers. Moreover, they tend to have more access to external credit. The State of Palestine has an average rank of 88, which is notably stronger than the 118 regional average. Enforcing a contract in the State of Palestine takes 540 days (compared with 658 for

MENA), costs 21.2% of the claim value (24.6% for MENA) and calls for 44 procedures (same for MENA). Of particular note, contract enforcement has become quicker as of 2010 thanks to the training and recruitment of new judges and the implementation of computerized case management software (enforcement times dropped from 700 days).

## REGISTERING PROPERTY

The State of Palestine ranks slightly below the average for its protection of property rights, and its score of 122 is significantly below the regional average of 108. Such rights are indispensable for enterprises and investors wishing to build businesses as they guarantee the formal protection of their endeavours. Moreover, formally registered property is often an important source of collateral for businesses wishing to obtain access to finance in order to innovate, grow, and diversify their products and services. Registering property in the State of Palestine requires 8 procedures and 30 days, and costs 3% of the property value. Although a positive step was taken in 2010 to speed up the processing of registration through the use of computerized records at the land registry, 2013 saw an increase in the property transfer fee.

## TRADING ACROSS BORDERS

Of utmost importance for export competitiveness is the ease with which companies can trade across borders. Regulatory requirements, burdensome procedures, inefficient port operations, and high costs all lead to decreased competitiveness for domestic exporters. Unfortunately, the State of Palestine ranks 123 in this area, far lower than the regional average of 89. Although more efficient processes at customs points made trading easier in the West Bank in 2011, the cost to import (2009) and export (2011) one container increased by several hundred dollars. Six documents are required to export or import, while the time in days to export and import is 23 days and 38 days respectively. This is significantly more than the time required for both regional neighbours (19 days and 22 days respectively) and OECD high income countries (11 days for both procedures). Moreover, the cost to export and import is in line with MENA average but still roughly \$300 higher than in OECD high income countries.

## DEALING WITH CONSTRUCTION PERMITS

An inefficient or costly construction permit process may lead to bribery as well as illegal and hazardous construction. This can lead to environmental and health risks, both on site and due to product contamination, which can lead to decreased export competitiveness. Moreover, burdensome regulations may deter foreign investors from



Source: © PalTrade

partaking in projects that require infrastructure investment. The State of Palestine ranks poorly at 131, compared with the regional average of 99. The Doing Business report calculates that obtaining a permit to build a warehouse in the State of Palestine requires 17 procedures, takes 119 days, and costs 948.1% of income per capita.

## STARTING A BUSINESS

For starting a business the State of Palestine ranks 143, while the regional average is 112. Establishing a formal enterprise is a prerequisite for engaging in export activity. Formally registered companies have access to essential services such as those provided by courts and banks, all of which facilitate access to new markets. Moreover, the legal separation of personal assets from a firm's stimulates investment and risk-taking activity. Starting a business in the State of Palestine requires 9 procedures and 45 days, and costs 85.5% of income per capita. Trends have been contrasting. While a new information management system in 2009 significantly reduced the time required to start a business, reforms in 2010 and 2011 created new difficulties. In particular, both the minimum paid-in capital requirements and the necessary legal fees were increased. However, in 2014 the minimum paid-in capital required was reduced from 206.7% to 0.0% of income per capita, which marks a significant advance.

## GETTING CREDIT

Accessing credit is of particular importance to export competitiveness. Financial access allows enterprises to invest in new technology and processes in order to increase productivity, while at the same time investing in new product design that allows them to stay ahead of changing market conditions. Moreover, an accessible supply of working capital allows firms to respond to changing demand and market orders through flexible inventory and product management.

Unfortunately, the State of Palestine ranks 165 for this category, in contrast to the regional average of 133. The

State of Palestine scores low on all indicators, including the strength of legal rights and the depth of credit information. Of particular importance, however, is that only 8.8% of adults are covered by the public registry, while 0% are covered by a private registry (as opposed to 42.9% and 74.6% respectively in OECD countries).

The country has, however, made some progress. In 2008, the public credit registry lowered the minimum loan requirement from US\$ 10,000 to 0 and banks were instructed to disclose loan activity, all of which led to a tripling of coverage. Moreover, the public registry established an online system that allows banks to update information and receive credit reports, thereby increasing coverage and the availability of information. Finally, in 2013, borrowers were guaranteed the right to inspect their personal credit data. Although certainly not enough to compensate for all of the deficiencies, these developments do signal that the country is taking at least some positive steps towards increasing access to credit.

## RESOLVING INSOLVENCY

Finally, the State of Palestine ranked 189, i.e. last in the world for resolving insolvency, while the regional average was 105. Well-functioning insolvency regulations are very important for increasing access to finance, as creditors and debtors are guaranteed a greater degree of certainty with regards to the outcome of insolvency. A stronger regulatory environment would therefore facilitate greater investment, both foreign and domestic, allowing enterprises to make the necessary innovations for greater export competitiveness. Moreover, efficient bankruptcy proceedings allow the economy to reallocate resources in an optimal manner, thereby directing capital to promising areas of economic activity. The bankruptcy environment in the State of Palestine is dismal: the Doing Business report gave it a mark of 'no practice', which means that in the last five years there were no cases 'involving a judicial reorganization, judicial liquidation, or debt enforcement procedure'. The average recovery rate is therefore 0%, indicating that investors take significant risks when deciding to engage in the Palestinian economy.

## Box 2: World Bank Investment Climate Assessment (ICA) – the State of Palestine

A 2006 World Bank survey conducted as part of the ICA lists obstacles that exporting enterprises in the West Bank and Gaza considered either major or severe. Figure 13 captures these impediments. Movement and access for raw materials (including for imports) and exports were cited as the biggest impediments to trade).<sup>32</sup>

For the West Bank, 51.6% of exporting establishments cited movement and access for raw materials as a major/severe obstacle, while 50% cited movement and access for export goods as a major obstacle. In the same survey, 83.3% of Gaza-based exporting enterprises cited movement and access for raw materials as a major/severe obstacle while 80.6% cited movement and access for export goods as a major obstacle. Given that Gaza faces a near complete blockade and restriction on movement of goods and Palestinian personnel between borders, these percentages may still hold true or be greater than the reported 2006 survey values. These results are consistent export development issues of import quotas, restrictions on certain imports, and the long clearance procedures at border crossings.

The movement and access restrictions have also contributed to lost revenue in terms of intra-territories trade. A natural consequence of this lost revenue is a decrease in operating and investment capital available to businesses – in turn leading to decreased competitiveness of currently exporting establishments and companies seeking to enter the export value chain.

**Figure 13: Main challenges faced by enterprises in the State of Palestine (in percentages)**

	WB	GZ
Movement and access for raw materials	51.6	83.3
Movement and access for export goods	50	80.6
Production capacity to meet order quantities and delivery dates	40.6	36.1
Difficulty attaining visa and entry issues	33	50
Lack of export financing	31.6	25
Import regulations and non-tariff barriers in the export markets	29.7	38.2
Information and contacts in external markets	23.9	31.4
Price competitiveness in export markets	14.6	13.9
Meeting export market packaging specifications and requirements	9.6	5.7
Meeting export market product specifications and requirements	8.2	8.3

**Source:** World Bank (2007). West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector.

32. World Bank (2007). West Bank and Gaza Investment Climate Assessment: *Unlocking the Potential of the Private Sector*, p. 20.

## ANTI-CORRUPTION INITIATIVES

In the context of export competitiveness and quality of the business environment, corruption increases the cost and uncertainties of doing business in a given economy. Regular occurrences of graft and bribe-seeking behaviour can introduce delays and costs across the export value chain. The Palestinian operating environment – already beset with significant challenges as covered in the competitiveness constraints section – can benefit from good governance to reduce corruption and improve the business environment.

The Palestinian government has taken promising steps, both legislative and institutional, to combat corruption. Notwithstanding logistical and capacity challenges, these developments send positive signals to investors and private sector enterprises affirming the intent of the government to manage corruption levels. The conduciveness of the Palestinian business environment should grow in direct proportion to increases in capacity of the actors within the anti-corruption framework – and ultimately facilitate growth within the export value chain.

With regards to reforms at the legal and institutional level, a number of initiatives have been set forth by the Palestinian government, albeit with varying degrees of efficacy. These include the *Law on the Right to Access Information*. This law – when implemented<sup>33</sup> – will be an important instrument in facilitating transparency in the dealings of government and public offices. The 2005 illicit gains law and the 2007 anti-money laundering law have also been passed. From an institutional standpoint, an anti-corruption commission, an anti-corruption court (to which the anti-corruption commission refers cases), and a complaints bureau have been recently established.

The general perception<sup>34</sup> in the State of Palestine regarding corruption is that corruption levels in government and public offices are high, but are decreasing at a gradual pace, led by government efforts.

33. A draft version of this law was presented to the Palestinian Legislative council in 2005 and has been lying in limbo. For more information, see: Coalition for Integrity and Accountability (AMAN) (2012). *Corruption Report Palestine 2011*, p. 6.

34. See Box 4 for a snapshot (based on surveys) of perceptions surrounding corruption in Palestine

### Box 3: Select challenges faced by the Palestinian anti-corruption commission and anti-corruption court

Anti-corruption commission	Anti-corruption court
<ul style="list-style-type: none"> <li>■ Lack of cooperation of some countries in delivering individuals convicted for corruption cases.</li> <li>■ Difficulty in recovering money kept in countries other than the State of Palestine.</li> <li>■ Delay in implementing a protection system for witnesses and whistle-blowers.</li> <li>■ Lack of sufficient information, hence requiring extra effort and more time to close investigations.</li> </ul>	<ul style="list-style-type: none"> <li>■ Checkpoints and movement restrictions hinder transfer of offenders, bringing in witnesses, etc.</li> <li>■ Lack of a specialized, full-time, designated committee of judges.<sup>35</sup></li> <li>■ Lack of appropriate court premises in terms of seating capacity etc.</li> <li>■ Lack of commitment to times/dates stipulated by the anti-corruption law to court meetings.</li> </ul>

35. AMAN reports that there are currently only three judges assigned to handle corruption, two of whom also have commitments (unrelated to corruption) at other courts. The long life cycle of a corruption case exacerbates the challenge.

**Source:** Coalition for Integrity and Accountability (AMAN) (2012). *Corruption Report Palestine 2011*, pp. 43-44.

### Box 4: Public perception of corruption in the State of Palestine

- In a 2011 poll conducted by the Coalition for Transparency and Integrity (AMAN), respondents cited 'mediation, favouritism and nepotism, embezzlement, and bribery'<sup>36</sup> as the three most prevalent forms of corruption in the State of Palestine.
- Transparency International's Global Corruption Barometer measures the general perception of corruption in a country based on interviews with 100,000 people across 100 countries.<sup>37</sup> The latest Global Corruption Barometer publication<sup>38</sup> reports the following as predominant perceptions regarding corruption levels in the State of Palestine:
  - Of the interviewees, 26% perceived that corruption had declined in the State of Palestine within the last two years, 30% perceived the level of corruption to be the same, and 43% perceived the corruption levels to have gone up during the same timeframe.<sup>39</sup>
  - The following percentages of interviewees felt these institutions were corrupt or extremely corrupt:

**Figure 14: Global Corruption Barometer 2010-2011: perception of corruption in the State of Palestine**

Country	Political Parties	Parliament	Police	Business	Media	Public Officials	Judiciary	NGOs	Religious Bodies	Military	Education	Medical & Health Services
Palestine	42%	26%	28%	24%	26%	25%	22%	27%	20%	31%	19%	22%

**Source:** Transparency International (2013). Global Corruption Barometer 2013.

- Of the Palestinian interviewees, 31% felt that the Palestinian government's actions in the fight against corruption are effective, while 43% felt that the actions are ineffective, and 26% were of the opinion that the actions are neither effective nor ineffective.<sup>40</sup>
- A recent public opinion poll<sup>41</sup> (conducted by the Palestinian Center for Policy and Survey Research) in the West Bank and Gaza found perceptions of corruption in Palestinian institutions to be high. Belief that corruption exists in West Bank Palestinian National Authority (PNA) institutions stood at 73%, while the figure for Gaza government (now dismissed) institutions stood at 62%.<sup>42</sup> When asked if they believed that the PNA was serious about fighting corruption, 53% reported in the affirmative and 43% reported in the negative.<sup>43</sup>

36. Coalition for Integrity and Accountability (AMAN) (2012). *Corruption Report Palestine 2011*, p. 16.

37. Transparency International also releases the Corruption Perception Index. The latest rankings and analysis do not cover the State of Palestine, and last included it in 2005, when Palestine was ranked 108 out of 159 countries.

38. Transparency International (2013). Global Corruption Barometer 2013. Available from <http://www.transparency.org/gcb2013>

39. *Ibid.*

40. *Ibid.*

41. Palestinian Center for Policy and Survey Research (2012). *Palestinian Public Opinion Poll No (43)*.

42. *Ibid.*

43. *Ibid.*



# THE STATE OF PALESTINE'S TRADE SUPPORT NETWORK (TSN)

Trade support institutions are essential to the overall development of trade competitiveness in an economy. They provide vital and multi-dimensional support to enterprises across the export value chain in areas ranging from human capital development to market access support.<sup>44</sup> Enterprises succeed in the export value chain when these myriad support needs are satisfied to an extent that facilitates transformation of their comparative strengths to competitive advantages. Conversely, enterprises fail to maintain sustained export performance if they operate in isolated 'silos', or if their support needs are not adequately met.

To a large extent, these support needs are met by the economy's aggregate TSN. A strong TSN empowers and builds the capacity of enterprises, and a weak TSN creates bottlenecks and constrains enterprises. TSIs provide essential intelligence about trade development; support enterprises by providing trainings, tools and assistance; and represent the interests of the business community. TSIs are among the principal contributors to export development, and also one of the main stakeholders and beneficiaries of the NES initiative.

## UNDERSTANDING THE TSN ORGANIZATIONAL LANDSCAPE: TSI TYPES AND BUDGETARY SPLITS

A mapping of 31 TSIs (that provide important services to Palestinian exporters) was conducted to understand their service delivery portfolio as well as their strengths and weaknesses.

As indicated in figure 15, the surveyed institutions were primarily comprised of:

- Trade service support institutions (14);
- Policy support institutions (13); and

- Business services providers (4).

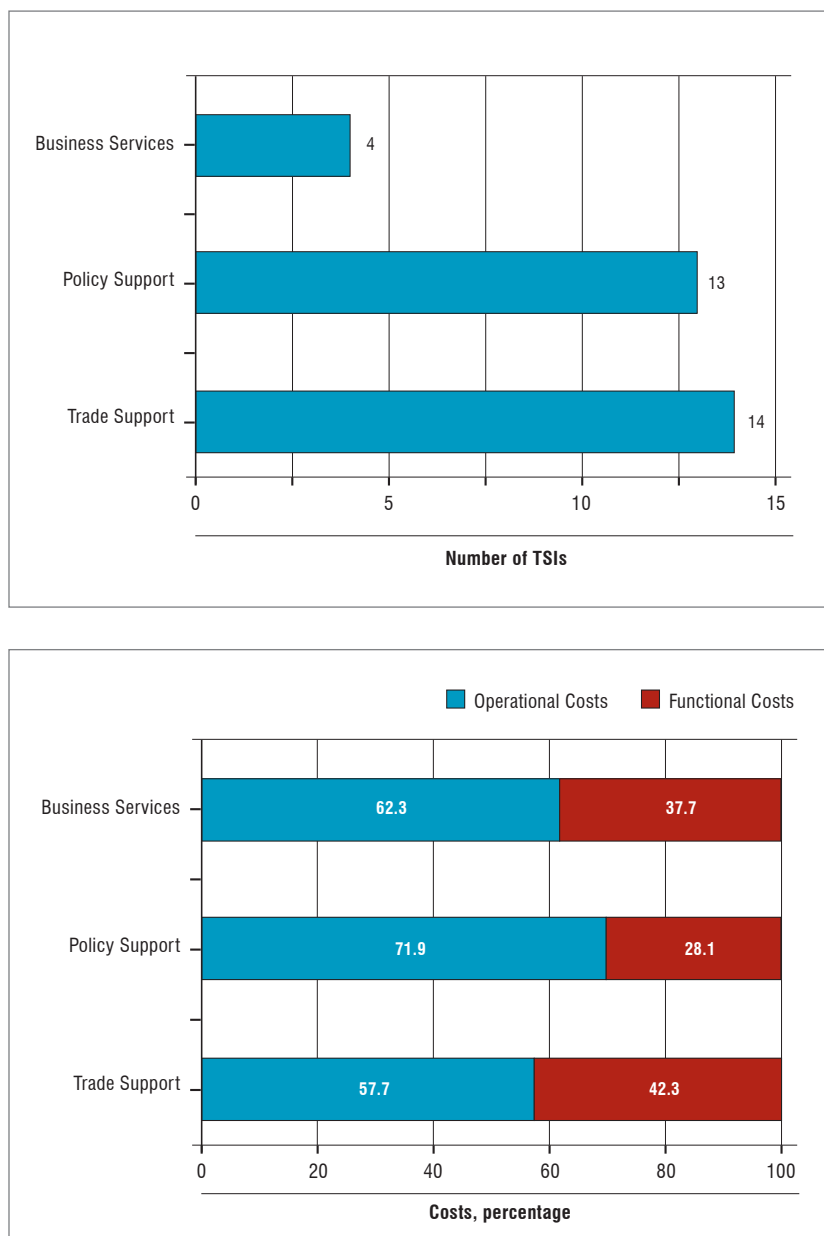
The following are the main results of the TSI self-assessment:

- **Budgetary spending trends:** An analysis of the spending trends among the three categories of TSIs reflects the high burden of operational costs versus service delivery. For all three varieties of Palestinian TSIs budgetary expenditure reflects a high focus on operational costs relative to funds spent on service delivery. Operational costs were more than 50% of the total spend on average. The relatively lower spend focus on functional service delivery is problematic.
  - Business service providers that offer services used by exporters to effect international trade transactions have high operational costs that reach more than 62% of their allocated budget.
  - Policy institutions, responsible for influencing or implementing policies, spend approximately 26% of their allocations on service provision and nearly 72% on operational costs.
  - On average, trade service support organisations spend 42% of their budget on service delivery to clients and 58% on operational costs.
- **Awareness of service offerings among customers (current/potential exporters):** The majority of TSIs note that clients are not aware of their products/services, and even when they are aware, they are unable to afford these services. This difficulty points to low promotion of services to clients and/or a service or a price offer that does not adequately reflect the client's capacity to react. This situation confirms why most TSIs have higher operational and management costs than service delivery costs. Provision of a greater variety of services, more adequately conforming to the needs of enterprises, is difficult for TSIs since very few of them have the necessary capacities to effectively monitor and evaluate their service provision.
- **Resource constraints:** The majority of TSIs are often obliged to operate with limited resources in term of financial, institutional and human capital. Institutions often have irregular funding sources, making it difficult for them to have efficient development and service programming. The funding challenge extends to a high dependence of institutions on donor or project funding for their operations.

44. These include, but are not limited to *Access to Finance*, *Access to Technology*, *Business Incubation and Coaching Support*, *TVET (Technical and Vocational Education and Training)*, *Quality Management*, *Transportation and Logistics*, *Market Access and Entry Support*, and *Access to Information*.

- **Inter-TSI coordination:** Another identified challenge is the limited coordination and collaboration among institutions leading to overlaps in term of functions and responsibilities. This aspect is further clarified below when exploring the service delivery of TSIs.

**Figure 15:** Types of TSIs serving Palestinian exporters and budgetary split



**Source:** ITC Calculations based on TSN survey

## UNDERSTANDING THE TSN ORGANIZATIONAL LAND-SCAPE: SERVICE OFFERINGS

Palestinian TSIs offer, on average, 5-10 different types of services to their clients:

- Business service providers (private sector) have a focused mandate since they provide on average six services and have a focused concentration of efforts.<sup>45</sup>

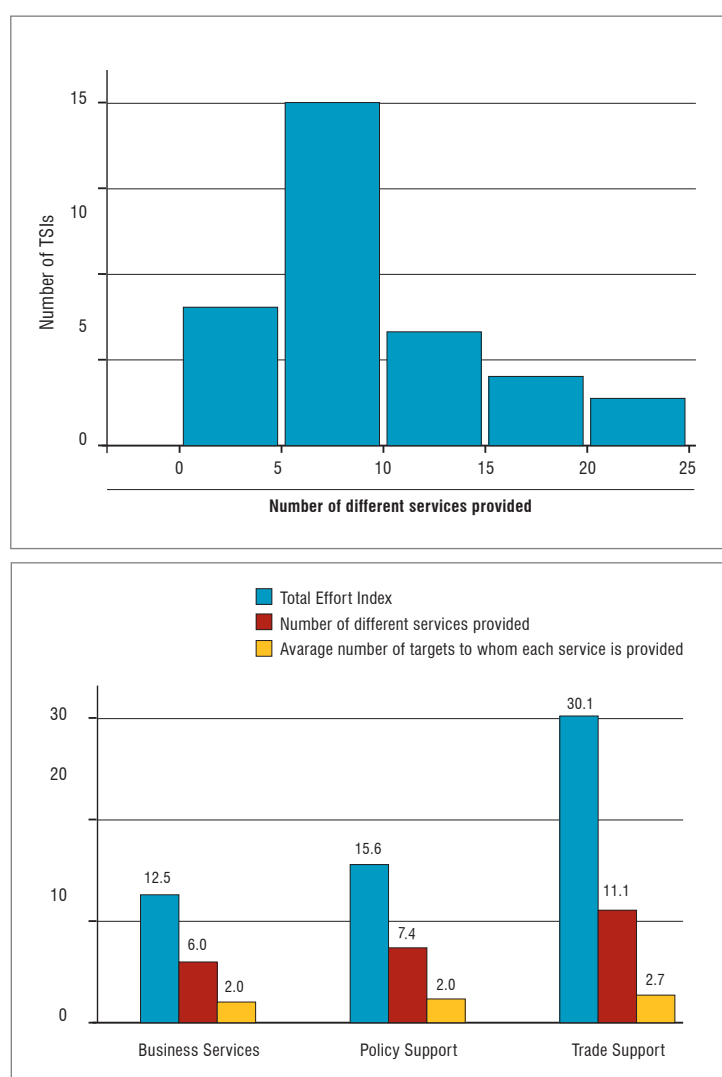
45. Institutions were asked to indicate which services they provide and to whom (local enterprises, foreign enterprises, local TSIs, foreign TSIs, government). The *Total Effort Index* is the sum of all the services provided to all target actors. This aims to account for the fact that some institutions deliver several different services to numerous target actors. The human and financial resources of these TSIs should be commensurate to their overall effort.

- Policy institutions deliver, on average, 7.4 services to their client with a service provision which is less targeted.
- Trade service institutions are the least structured institutions when looking at service provision. They provide, on average, more services than their peers, are not equally focused on a specific client type and, most importantly, are achieving this at a relatively high effort cost.

In sum, many institutions have a specific area of expertise while others would require a rationalization of their service offerings.

Figures 17 to 20 detail the types of services offered by Palestinian TSIs to the export sector across four dimensions – supply-side, business environment, market entry, and development services.

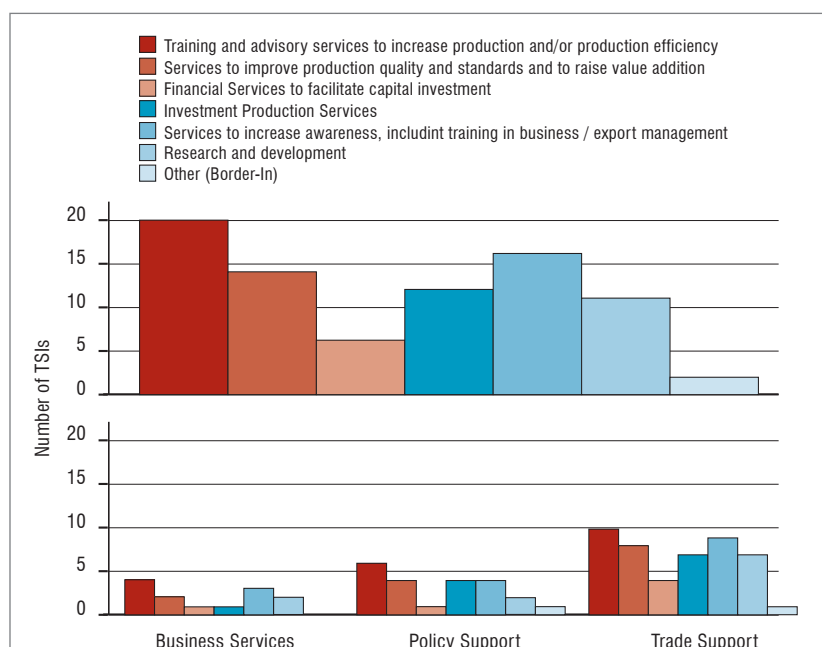
**Figure 16: Number, targets and effort of TSI service provision**



**Source:** ITC Calculations based on TSN survey

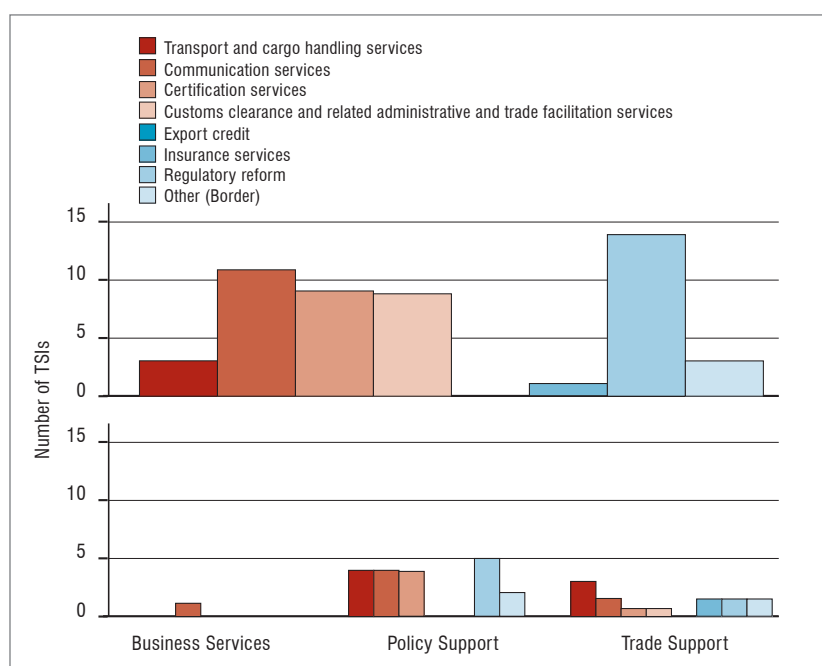
## SUPPLY-SIDE SERVICES

Figure 17: Supply-side service provision (border-in)



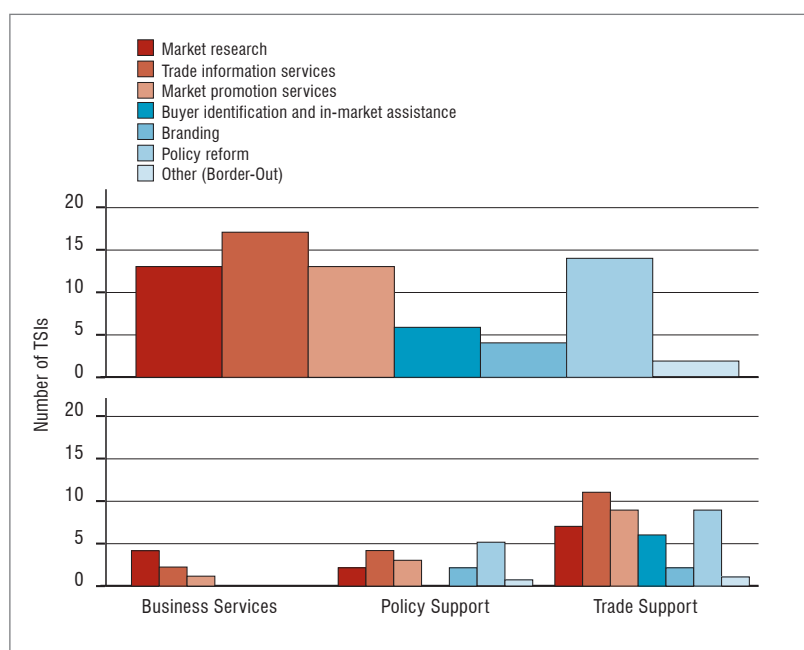
Source: ITC Calculations based on TSN survey

Figure 18: Business environment service provision (border)



Source: ITC Calculations based on TSN survey

Figure 19: Market entry services (border-out)



**Source:** ITC Calculations based on TSN survey

The State of Palestine's institutions provide a number of key services to strengthen the supply capacity of enterprises. Figure 17 indicates that the provision of supply-side services is largely fulfilled by trade services and policy support institutions. This figure also points to a duplication in service provision. The high concentration on aspects of production and business management indicates that specialisation in service provision will contribute to increasing the efficiency of service delivery. The fact that the NES plan of action calls for the provision of numerous capacity-building training to SMEs indicates that current services are either not satisfactory or that they are too dispersed to effectively satisfy needs. In either case, the NES calls for revising the content and structure of trainings.

Figure 17 shows that financial services to facilitate capital investment is one of the least provided services. This is confirmed by the access to finance cross-sector strategy of the NES, which proposes activities to strengthen support to SMEs requiring capital to grow their businesses.

## BUSINESS ENVIRONMENT SERVICES

The State of Palestine's trade support institutions are less dynamic in providing business environment services (figure 18) than supply-side services. A notable exception is the provision of services aimed at reforming the regulatory environment. This is explained by the mandate of

unions and chambers of commerce to defend the interests of their members. However, the provision of other key services remains insufficient; namely transport services, export credit and insurance services.<sup>46</sup> For this reason, many activities of the NES and its specific sector and cross-sector strategies request the establishment of more appropriate trade logistics services, the development of export credit schemes (pre – and post-shipment), and the development of risk and agricultural insurance schemes.

The results indicate that the majority of critical business environment services are provided by trade and policy support institutions. The NES plan of action recommends incentivizing the private sector to take ownership of certain critical trade functions.

## MARKET ENTRY SERVICES

Market-entry services (figure 19) are critical for export development and are mostly covered by Palestinian institutions. Enterprises are receiving ample market research, trade information and market promotion services. This might be the case in terms of quantity; however the NES plan of action points out the need to strengthen the quality of the service provision. This implies the definition of

46. It should be noted that the Palestinian Shippers' Council has been classified as a trade support service and not a business service provider. This affects the image of figure 18. Also, the Bankers Association did not complete the survey.



a specialized trade information function in the State of Palestine. The trade information strategy of the NES encourages the definition of clear rules and responsibilities in the collection, analysis and dissemination of any type of trade information. Such specialization should lead to a reduced concentration (duplication) in trade information services.

The least provided services, buyer identification and in-market support as well as branding, are confirmed by the NES plan of action, which aims for the development of increased in-market support through the Ministry of Foreign Affairs and the building of linkages with the diaspora. As indicated by the TSI survey, key attention needs to be provided towards strengthening the image and brand of the State of Palestine to ensure increased visibility of 'made in the State of Palestine'.

## DEVELOPMENT BASED SERVICES

The social development component of export appears to be adequately responded to by the various TSIs. This encouraging finding confirms that a strong socioeconomic development focus is at the core of numerous Palestinian institutions, and the NES plan of action aims to continue this. However, the NES also calls for specialized interventions in the areas of environment protection and involvement of marginalized groups into the export value chain.

The strong focus of TSIs on development issues confirms a key issue; namely TSIs strong dependence on donor

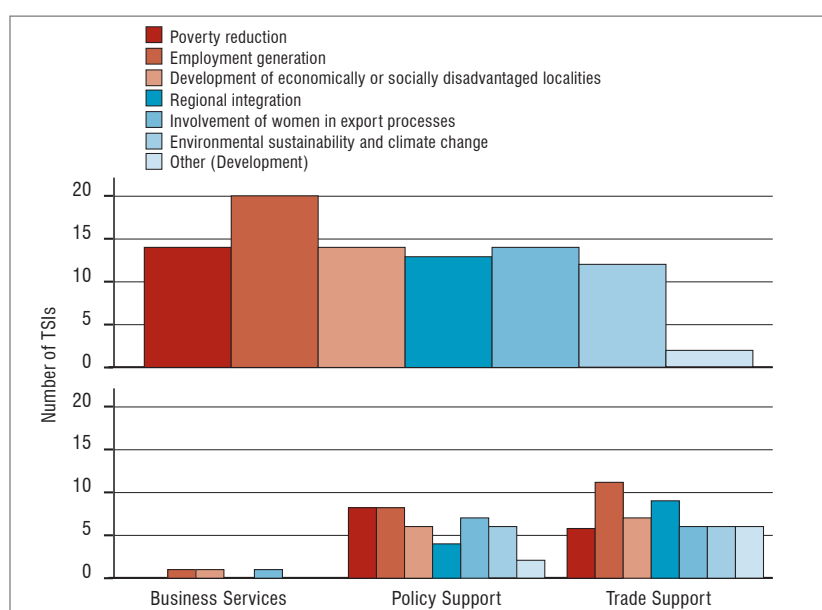
projects for their sustenance. This concentration on services for socioeconomic development could otherwise be oriented towards other essential areas of trade and export growth.

## PRIVATE SECTOR PERSPECTIVE ON TSI SERVICE DELIVERY

In addition to the TSN mapping analysis discussed above, an assessment of the service delivery of TSIs was conducted through an enterprise survey. The TSIs were assessed by enterprises on their capacity to respond to the needs of exporting enterprises and their level of influence on issues related to export development.<sup>47</sup> The results of this survey, discussed below, are based on the enterprises' perceptions of the services provided by individual TSIs.

47. Through the TSI Perception Survey, 35 enterprises evaluated the influence and capacity of Palestinian TSIs, assigning them a grade between four (very strong influence or capacity) and zero (very weak influence and capacity). These scores were first averaged across the 35 observations and then averaged together to obtain one single Influence/Capacity score for each TSI. This score approximately follows a normal distribution, which we have standardized to create the *Influence/Capacity Index* with mean(1) and std(1). This means that approximately 70% of TSIs have a score between zero and two, while the influence and capacity of institutions whose index is beyond those limits are to be considered particularly weak (index below zero) or particularly strong (index above two).

Figure 20: Development services

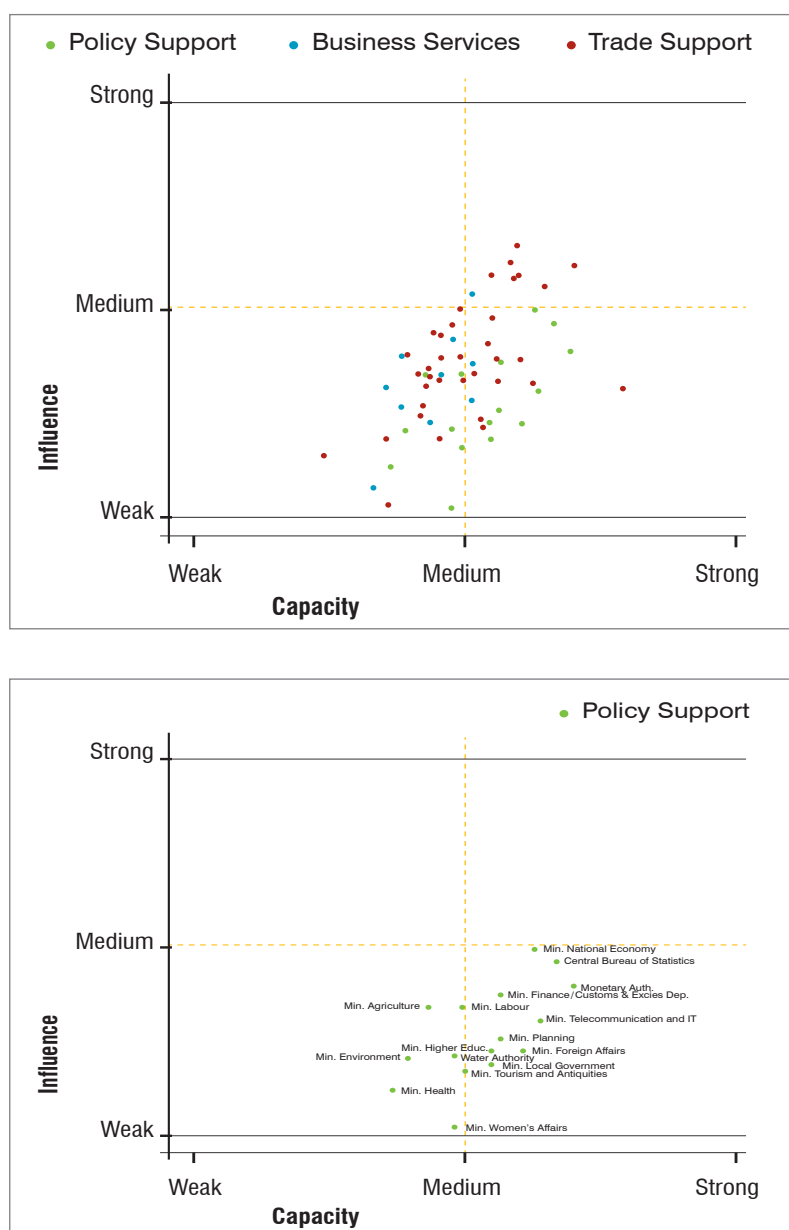


Source: ITC Calculations based on TSN survey



Source: © By Rgaudin.

- The analysis reveals that there are very few institutions that have high influence over the export development agenda. Figure 21 (top left panel) shows the overall capacity vs. influence picture. Most institutions are perceived as having medium level capacities, but levels of influence remain low. There is a perception that private sector institutions (chambers, unions, associations) have a stronger influence on export development issues than policy institutions. The NES plan of action addresses some of the key influence gaps identified through strengthening advocacy competencies of institutions and building up specialized private and public committees on export development issues.
- The other three panels in figure 21 take a closer look at influence and capacities by category of TSI. Strikingly, policy support institutions are perceived as having less influence on trade development issues than certain private sector TSIs. The Ministry of National Economy (MoNE) is naturally considered has having the most policy influence on trade issues followed closely by the Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA). Alternatively, the Ministry of Foreign Affairs (MoFA) is not perceived as influential and is actually ranked just a bit lower than the Ministry of Planning and Administrative Development (MoPAD).
- Most of the institutions assessed are from the trade service category of TSIs and these institutions are considered as having medium-high influence and medium capacity on export development. The chambers of commerce of Hebron, Nablus, Ramallah and Bethlehem, the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA) and the Palestine Trade Center (PalTrade) are the most dynamic. For the priority sectors of the NES, it is apparent that capacities will need to be strengthened at the Palestinian Shippers' Council (PSC), Holy Land tour operators, the Palestine Standards Institution (PSI) and the Palestinian Industrial Estate and Free Zone Authority (PIEFZA) to ensure successful NES implementation. Also, the influence of the Palestine Investment Promotion Agency (PIPA) and Palestine Investment Fund (PIF) are to be augmented.
- For the business services network, it appears that some private sector consultancies actually have more influence than certain institutions over export development. The light density of institutions surveyed points to a certain gap in overall service availability to exporters.

Figure 21: Influence vs. capacity of Palestinian TSIs: overall and per TSI type<sup>48</sup>

**Source:** ITC Calculations based on perception survey

48. Full figures in Appendix 3.

*The analysis of the trade support network strengthens and confirms many of the recommendations of the NES plan of action. It points to a number of service areas that need to be rethought or strengthened in order to maximize the service delivery of institutions to enterprises. Much of the responsibility for restructuring their service delivery will fall on the institutions themselves, which will need to elaborate their institutional response to the recommendation of the NES. In this case, many institutions will require targeted support to transition the State of Palestine towards better service provision.*

# POLICY OVERVIEW

The policy landscape in the State of Palestine is by and large incomplete and not comparable to any other country. Due to the lack of sovereignty over its borders, land and endowments, and scarce resources to fund its public institutions, the PNA has not been able to develop a full range of policies –not least in the economic area– nor to ensure that policy instruments in place are appropriate and effective. To a large extent the economic policies pertaining to trade and exports are determined or affected by the Paris Protocol (PP), which governs economic relations between Israel and the State of Palestine. This section provides an overview of the main policies relevant to trade and exports in particular.

## INDUSTRIAL POLICY

Although industry accounts for only 12.6% of GDP, certain industries have excelled within the Palestinian economy and have significant export potential. Palestinian industrial policy aims at increasing investment in these sectors. Policies also aim at increasing the value added in production, inter alia by increasing linkages between academic institutions and industry in order to foster innovative research and development. MoNE, which spearheads industrial policymaking, is working with the private sector and international partners to increase technology transfer and introduce automation and quality management concepts into this sector. Further work is being done on increasing the competitive capacity of Palestinian industry through promotion of sector clustering and the creation of export consortia.

## FISCAL POLICY

Public finances come primarily from foreign aid, most of it in the form of budget support. Government revenue currently accounts for about half of its expenditure. Around one-third of government revenue is from internal sources (tax and non-tax revenue); the remaining two-thirds derives from customs duties and value added tax (VAT) levied on Palestinian imports. The high dependency on

ODA for managing the government's budget had led to 'further conditioning [of] the policy space'<sup>49</sup> available to the government.

Under the terms of the interim bilateral Palestinian-Israeli agreement on economic relations (the Paris Protocol), customs duties and import VAT are usually collected by Israeli authorities at the time of importation and remitted to the PNA on a monthly basis. For the VAT collected on trade between Israel and the State of Palestine a monthly clearance session is organized between the representatives of the two sides for this purpose; usually the result of the clearance session is to the benefit of the PNA since purchases by Palestinian traders from Israel are much higher.

## MONETARY POLICY

Based on current arrangements between the State of Palestine and Israel, policymakers are unable to use exchange rates and money as macroeconomic policy instruments, nor are they allowed to use currency board arrangements as alternatives to a national currency which does not exist.<sup>50</sup> The absence of a national Palestinian currency in circulation means that the new Israeli shekel, United States dollar and Jordanian dinar are all legal tender in the State of Palestine, leading to a degree of inefficiency/uncertainty within the markets and associated international business relationships. Restrictions on free flow of the new Israeli shekel have reportedly resulted in liquidity problems, especially within Gaza.<sup>51</sup>

49. UNCTAD (2012). *The Palestinian Economy: Macroeconomic and Trade Policymaking under Occupation*, p. 44.

50. *Ibid.*, p.44. Originally UNCTAD (2009). *Policy Alternatives for Sustained Palestinian, Development and State Formation*. UNCTAD/GDS/APP/2008/1. New York and Geneva.

51. *Ibid.*, p. 44.





Source: © PalTrade

## AGRICULTURAL POLICY

The Ministry of Agriculture is responsible for the formulation and implementation of agricultural policies. Agriculture is an essential component of the Palestinian national, cultural, economic and social fabric. Currently there are no export subsidies or domestic support mechanisms in place favouring agriculture in the State of Palestine which might have trade distorting effects. The agricultural community, led by the Ministry of Agriculture and supported by the Food and Agriculture Organization of the United Nations (FAO), has developed the agriculture sector strategy 'A Shared Vision 2011-2013', with an evidence-based action plan. The strategy envisions sustainable agriculture that is capable of: achieving food security; being competitive in local and foreign markets through optimal use of resources; and cementing the bonds and sovereignty of Palestinians over their land, towards building a state.

## INVESTMENT POLICY

Public investment has been rising steadily since 1994, underpinned by donor funding. By contrast, private investment (other than in the housing sector) has not been very dynamic. A United Nations Conference on Trade and Development (UNCTAD) report notes that the Palestinian productive base has been gradually eroded, and private sector recovery that would otherwise serve to revitalize the base has not been forthcoming.<sup>52</sup> The PNA has introduced a number of measures to stimulate domestic and foreign investment, in particular in productive sectors. These have taken the form of investment incentives, industrial estates and free zones, and investment guarantees.

The Law for the Encouragement of Investment (Law Number (1) 1998) and its amendments (introduced in 2011) offer a series of incentives, and incentives contracts, on the basis of the capital invested, geographic location and the labour force employed. It fully exempts investors from income tax – according to the amount of investment and/or local professional labour force hired – for a variable number of years. It guarantees free transfer of foreign currency and repatriation of income generated in the West Bank and Gaza Strip. The law applies uniformly to all investors, irrespective of their nationality.

The Palestinian Investment Promotion Agency (PIPA) was established in 1998 as an independent agency, pursuant to the promulgation of the Investment Law. PIPA's mission is to build a better future for all Palestinians by promoting investment through providing constantly improved customer service to foreign and domestic investors, including an effective one-stop shop. PIPA facilitates cooperation between the private sector and the government, thereby creating and maintaining a more competitive investment environment.

The Law on Industrial Estates and Industrial Free Zones, enacted in 1998, governs the establishment of industrial estates and free zones for purposes of export to regional and international markets. PIEFZA provides regulatory oversight and off-site infrastructure. It acts as a one-stop shop for all licences, permits, and official registrations needed. The Gaza Industrial Estate was the first to open in 1999; three other industrial estates are currently being established in Jericho, Bethlehem and Jenin. It is expected that these three industrial estates will generate 3,000 direct, and another 8,000 indirect, jobs.

52. *Ibid.*, p. 5.



# TRADE POLICY FRAMEWORK

The State of Palestine's trade policy is an integral instrument in facilitating access for Palestinian goods and services in external markets. Palestinian products have access to a number of countries through bilateral agreements as well as agreements with unions. The State of Palestine enjoys significant political capital, especially within the Arab community, which can benefit exporters.

The common thread running through the State of Palestine's participation in trade agreements is the low utilization levels of the agreements by Palestinian enterprises. Palestinian exporters have been unable to capitalize on agreements with countries/unions such as the United States, the European Union (EU), Canada, and the Greater Arab Free Trade Area (GAFTA), which open doors for exporters to very large markets. On a technical level, low levels of production capacity, value addition, product quality, packaging capability, and the lack of marketing experience may contribute to the inability of Palestinian enterprises to enter new markets in general. The root cause, however, is the offsetting effect of the closure regime on the potential offered by international economies to the State of Palestine for exporting its goods. The Palestinian authorities<sup>53</sup> frequently cite the restrictions placed on movement (on goods and services) as the primary reason for the lack of capacity of Palestinian enterprises, as a result of which they are often unable to meet local demand, let alone that of international markets.

## OVERALL LEGAL FRAMEWORK FOR TRADE POLICY

The Palestinian legal framework is a combination of several layers of laws, ranging from British Mandate laws to Ottoman laws, Israeli military orders, Jordanian pre-1967 laws in the West Bank and Egyptian legislation in the Gaza Strip, and Palestinian laws issued after 1995. A comprehensive legal reform process is under way. New

laws have been adopted, replacing old laws, and several drafts of new laws are pending approval.

Laws are enacted by the Palestine Legislative Council (PLC). The Basic Law, as amended in 2003, authorizes the President of the PNA to issue laws by decree in cases of necessity that cannot be delayed, and when the PLC is not in session. In the latter case these laws must be brought before the PLC during its first session after issuing the law. A draft Foreign Trade Law is pending approval.

The current Palestinian foreign trade regime is based on the PP, an agreement governing the economic relations between Israel and the State of Palestine for an interim period. Although the PP provides for a mix of customs union and free trade arrangements, economic relations between the State of Palestine and Israel are far from representing a full economic integration between two equal parties.

Rather, the current arrangement can be described as a quasi-customs union.<sup>54</sup> The Palestinians are expected to adopt the Israeli import and tax policy (Paris Protocol Article III), with common external tariffs implying that all bilateral trade agreements with Israel are valid for the PNA as well. With regard to import policy, the PNA may modify the purchase tax rules, customs rates, other levies and licensing regulation requirements. However, the PP also regulates trade between the State of Palestine and the rest of the world. As a result, it prohibits the PNA from trading with states that do not have diplomatic relations with Israel.

## TARIFFS AND INDIRECT TAXES

Under the PP, the PNA agreed not to set tariffs below those applied by Israel. However, the PNA remains free to raise import tariffs above the Israeli ones for all tariff lines

53. PalTrade (2009). *Israeli impediments versus Palestinian private sector requirements under the current political situation*.

54. Semi Customs Union



Source: © PalTrade

of the Harmonized System. The PNA has all powers and responsibilities to independently determine and change from time to time, lowering them if it so decides, the rates of customs, purchase taxes, levies, excises and other charges with respect to certain goods listed in Annexes to the PP (lists A1, A2 and B).<sup>55</sup> In practice, however, the PNA has decided to set its tariffs at the same level as Israel with the exception of motor vehicles, where a different regime is in place and charges are lower.

The decision to follow Israeli tariffs has implied the progressive liberalization of trade in the State of Palestine. The simple average applied most-favoured-nation (MFN) tariff has fallen from 10.8% to 8.9% since 2000. The MFN simple tariff average on agricultural goods is 30%, and 5% for non-agricultural products. The maximum tariff of 560% affects very few products. About 50% of all tariff lines are duty free; 73% of non-agricultural products tariff lines are duty free.

Under preferential trade agreements concluded with Israel, the Arab States (GAFTA), the European Communities, the European Free Trade Association (EFTA), Turkey and Canada, most goods originating in these countries enjoy preferential access to the Palestinian market. The same applies, on a reciprocal unilateral basis, to goods from the United States. In cases in which Israeli customs collects the duties from preferential imports destined for Palestinian importers, the Palestinian customs authority reimburses the duties paid to the importer.

55. List A1 includes 67 Israeli tariff positions, which have to be produced particularly in Egypt or Jordan and in other Arab countries, and Palestine is able to import in quantities agreed by both sides up to Palestinian market needs. Goods in List A2 can be imported without limit from any country and is composed mainly of agricultural products, 36 Israeli tariff positions. List B includes a wide range of basic food items and other goods for the Palestinian economic development programme, including capital goods and equipment and parts, inputs and pharmaceutical products. A total of around 240 tariff positions are identified in the list. Goods imported under List B are not subject to quantitative restrictions but are subject to Israeli standards.

Other duties and charges are currently set at zero. Domestic indirect taxes consist of a unified 14.5% VAT rate with a very limited list of goods and services that are exempted from VAT. There is also a purchase tax which is imposed on specific goods such as motor vehicles, tobacco, alcohol, spare parts, batteries, some electronic products, and petroleum products. The purchase tax is applied at different rates according to the kind of commodity. Various excise taxes are applied to a limited number of products. No distinction is made between foreign and domestic goods.

The PNA does not apply export duties, taxes or other charges on exported goods. A range of products is subject to export control and licensing, mainly for sanitary and quality control. Automatic export licensing is the basis for the PNA export regime, with some exceptions relevant to security and security-related technology. There are no export subsidies in effect. The PNA is implementing export advisory, facilitation and information services to promote private sector engagement in export activities.

## CUSTOMS

As agreed in the PP, most Palestinian imports from countries other than Israel are cleared by Israeli Customs upon landing at Israeli ports and points of entry following Israeli import rules. In order to cover the Israeli administrative costs in collecting the duties and taxes on behalf of the PNA, Israeli Customs deducts 3% from each transfer to the Palestinian side. The resulting tariff and VAT collections are transferred to the PNA.

The processing of imports by Palestinian Customs is done through replacing the Israeli customs declaration with a Palestinian customs declaration, which is produced by the Automated System for Customs Data (ASYCUDA) sponsored by UNCTAD. Customs valuation is performed by the Palestinian Customs Administration in post-audit procedures at regional offices, depending on risk management criteria, ensuring no delay in the clearance of the products. In coordination with Israeli Customs, and according to the PP, Palestinian Customs performs certain functions such as processing donations, exemptions and vehicles, and certain tasks regarding agricultural products originating in neighbouring countries.

Palestinian Customs acts under the Customs Law No. 1 of 1962, which sets its functions and procedures and ensures transparency and integrity standards. Palestinian Customs has benefited from the technical support of the World Customs Organization regional office for the Middle East and North Africa. A new customs law is under elaboration; and in 2011 two levels of the customs court, with jurisdiction over customs issues, began operations.

## FOREIGN TRADE RELATIONS

Third party trade relations of the State of Palestine are also governed by the PP, under the following principles:

- The PLO has the freedom to negotiate and conclude trade agreements for the benefit of the PNA, as long as the same import policy is applied in Israeli and Palestinian territories.
- Israeli regulations on customs, purchase taxes and standards apply to Palestinian imports with the exception of goods in Lists A1, A2 and B. The PNA has the right to apply, within pre-defined quotas, its customs rates, purchase taxes and other import charges on those imports. In addition, the PNA has autonomy in importing goods listed in A1 and A2 regardless of Israeli standards requirements.
- A result of applying the Israeli import policy is that bilateral trade agreements between Israel and other parties are considered valid in Palestinian territories. Currently, Palestinian traders can benefit from free trade agreements with Slovakia, Hungary, Turkey and the Czech Republic.
- Israeli import policy prohibits trade with several countries, mainly those that do not have diplomatic relations with Israel, including a number of Arab States. The only exception to the Palestinian territories is represented by imports in Lists A1, A2 and B.



Source: © Tomorrow's Youth Organization





# TRADE AGREEMENTS

Figure 22: Palestinian bilateral and multilateral trade agreements

Individual countries	Regional unions or plurilateral entities
<ul style="list-style-type: none"> <li>■ Israel</li> <li>■ Jordan</li> <li>■ Egypt</li> <li>■ Saudi Arabia</li> <li>■ Russia</li> <li>■ Canada</li> <li>■ United States of America</li> <li>■ Turkey</li> </ul>	<ul style="list-style-type: none"> <li>■ European Union (EU)</li> <li>■ European Free Trade Association (EFTA)</li> <li>■ Greater Arab Free Trade Area (GAFTA)</li> <li>■ Mercosur</li> <li>■ Agadir Agreement (in principle)</li> </ul>

The State of Palestine as a customs territory is not a World Trade Organization (WTO) member, and so far no plans to become one have crystallized. At a more technical level, external assistance propped up capacities of the public sector to deal with WTO issues and raised private sector awareness about the pros and the cons of WTO membership, as well as about the challenges lying ahead of it. In the meantime, the PNA has resolved to obtain observer status with WTO pending a formal accession request. This would allow it to participate in most WTO meetings and to receive WTO-specific technical assistance. However, further open public debate and capacity-building is required to prepare the PNA to formulate a clear vision for WTO accession and to start the process. Remaining outside the WTO puts the State of Palestine at a disadvantage, as it has to de facto comply with increasing regulatory obligations related to the multilateral trading system (notably sanitary and phytosanitary (SPS) standards and technical barriers to trade (TBT)), while not enjoying any benefits.<sup>56</sup> Therefore, a deliberate effort towards WTO accession should be pursued by the PNA and supported by donors. This would support the objectives set forth by the NES, notably by providing incentives for the economic and institutional reforms needed to boost export performance.

While in a quasi-customs union with Israel, and in the absence of formal WTO membership, the PNA has been

able to enter into a number of bilateral free trade agreements and regional trade arrangements, which gives it formal preferential access to a number of markets. So far the following agreements have been concluded.

## ECONOMIC AGREEMENT WITH ISRAEL (PARIS PROTOCOL)

The Paris Protocol is an economic agreement on relations between the Government of the State of Israel and the Palestinian Liberation Organization (PLO), signed on April 9, 1994 in Paris. This agreement somewhat resembles a customs union or a joint customs envelope built on three basic principles:

- Free exchange of goods between both parties with no tariff or non-tariff barriers whatsoever;
- Adoption of a unified tariff by both parties, with the exception that the PNA has the right of customs determination on a limited list of strategic goods and has the right to determine specifications for lists;
- Sharing revenues in customs clearance, where Israeli Customs are responsible for clearing the Palestinian imports on behalf of Palestinian Customs (based on the customs envelope) and then transfer the revenues to the PNA.

The PP – at least in theory – is built on reciprocity between the Israelis and the Palestinians. However, the agreement is not currently functioning as agreed.

56. A more detailed analysis of opportunities and challenges of WTO membership for the State of Palestine, see Haziz & Schloemann (2013). *The World Trade Organization: Why and how it matters for Palestinian business*. PalTrade. Publication funded by USAID.



### Box 5: Asymmetric implementation of the Paris Protocol

While the Paris Protocol was meant to be an interim instrument to govern economic relations between the PNA and Israel, it has remained in force since its signing in 1994 but was never fully implemented as planned. Free movement of labour and goods is hampered by Israeli security restrictions and severely impacts Palestinians' ability to trade.

Other major obstacles which hamper full implementation of the PP relate to the lack of reciprocal recognition of standards; a non-functioning dispute settlement system; restrictions on imports destined for the State of Palestine, notably for dual use products; asymmetric application of trade facilitation measures; and non-recognition of free trade agreements by Israel.

As a result of the asymmetrical application of the PP, the underlying principle of reciprocity between the Israelis and the Palestinians has been gradually eroded. Thus there is an urgent need to create a new formula to best serve the interests of both Israelis and Palestinians, in which reciprocity is the fundamental basis.

## GREATER ARAB FREE TRADE AREA (GAFTA)

GAFTA is a multilateral agreement which aims at full liberalization of trade in goods of Arab national origin during a specified period of ten years, using the method of gradual reduction by 10% per annum on the taxes and customs duties of similar effect, leading to abolition of all customs barriers and other non-tariff barriers that restrict the flow of goods between the Arab states in this area. It was supposed to reach zero tariff on 31 December 2007, which was amended to 31 December 2004.

The State of Palestine is treated as a least developed country and began to apply the reduction of tariffs, starting in 2005, by 16% for a period of five years and 20% in the last year. Recently Palestinian Customs started to refund the value of customs duties paid by Palestinian importers for goods subject to customs exemption under this agreement, as an obligation of membership in GAFTA.

Eighteen Arab countries are members of GAFTA (Jordan, Morocco, Kuwait, UAE, Bahrain, Saudi Arabia, Oman, Qatar, Syria, Lebanon, Iraq, Egypt, the State of Palestine, Tunisia, Libya, Sudan, Yemen and Algeria).

GAFTA is one of the most important economic achievements in the area of Arab common work. It contributes to efforts towards establishing the Arab Common Market. As of 1 January 2005, the agreement reached full trade liberalization of goods through the full exemption of customs duties and charges having equivalent effect between all Arab country members of GAFTA. This means Palestinian exports are duty free and quota free for all goods to all Arab countries in GAFTA. This treatment includes all industrial and agricultural products.

## INTERIM AGREEMENT ON TRADE AND COOPERATION WITH THE EU (IAA)

The IAA was signed on 17 February 1997 between the PLO and the European Commission to the benefit of the PNA. The IAA started with immediate duty free treatment of bilateral industrial trade, and duty free quotas for agricultural, agri-business and fishery products. The scope of IAA can be summarized as follows:

- Gradual trade liberalization;
- Sustainable economic and social development in the West Bank and Gaza Strip;
- Create balanced economic and social relations between the two parties;
- Regional cooperation;
- Comprehensive dialogue between the two parties;
- Formation of the Union for the Mediterranean in July 2008 as a re-launched Euro-Med partnership;
- Adoption of the Palermo Protocol for harmonized rules of origin as a means to diagonal cumulation of origin with partners within the Euro-Mediterranean zone for export to Europe.

On 13 April 2011 the PNA and the EU signed a Duty Free–Quota Free Agreement, giving all agricultural products, processed agricultural products and fish and fishery products originating in the West Bank and Gaza Strip immediate duty free access to the EU market. The only exception from full liberalization is the specific duty for imports of fruit and vegetables under the entry price system. This duty will remain applicable if entry prices are not respected. The agreement came into effect in January 2012.

A package of measures to facilitate trade of Palestinian products with other Euro-Mediterranean partners on a bilateral and regional basis was adopted at the 9th Union for the Mediterranean Trade Ministerial Conference in Brussels on 11 November 2010. The package contains three major measures:

- Facilitating access for Palestinian exports to Euro-Mediterranean markets;
- Integration of the Palestinian economy into the multi-lateral trading system;
- Strengthening administrative capacity to enhance trade of Palestinian products to Euro-Mediterranean markets.

## AGADIR AGREEMENT

In 2009 the Palestinian cabinet took the decision to join the Agadir Agreement. In 2011 the State of Palestine was accepted (in principle) as a member of the Agadir Agreement, which includes Morocco, Egypt, Jordan, and Tunisia. This agreement opens the door for the State of Palestine to be part of the cumulation of origin with other members of this agreement, targeting export of products to EU markets. Trade between other Agadir members, in sectors such as leather and footwear, would also be simplified.

## INTERIM AGREEMENT WITH THE EFTA STATES

This agreement was signed between the EFTA states – Iceland, Liechtenstein, Norway, and Switzerland – and the PLO for the benefit of the PNA on 30 November 1998, and entered into force on 1 July 1999. The scope of this agreement can be summarized in the following points:

- Elimination of all trade tariffs for industrial goods between both parties from 1 July 1999;
- Elimination of non-tariff barriers, as well as other trade-related issues such as competition rules, intellectual property protection, public procurement, monopolies, aid, payments and transfers.

The PNA signed separate bilateral agreements on agriculture with EFTA countries. These agreements are considered a vital part of the tools required to create a free trade zone.

## FREE TRADE AGREEMENT WITH MERCOSUR

A free trade agreement was signed in 2011 between the State of Palestine and Mercosur,<sup>57</sup> consistent with Article XXIV of the General Agreement on Tariffs and Trade 1994 and the Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries of 1979. The objectives of this agreement are to:

- Eliminate barriers to trade in, and facilitate the movement of goods between the territories of the parties;
- Promote conditions of fair competition in the free trade area;
- Increase substantially investment opportunities in the territories of the parties, and increase cooperation in areas which are of mutual interest to the parties;
- Create effective procedures for the implementation and application of, and compliance with, the Agreement, and its joint administration; and
- Establish a framework for further bilateral and multilateral cooperation to expand and enhance the benefits of the Agreement.

## ECONOMIC AGREEMENT BETWEEN THE PLO AND JORDAN<sup>58</sup>

The Agreement provides preferential tariffs for goods traded between the State of Palestine and Jordan. Goods in Lists A1, A2, and B entering the State of Palestine, and agreed upon products entering Jordan, are duty free, provided that the import volume does not exceed the pre-determined quota.

## ECONOMIC AGREEMENT BETWEEN THE PLO AND EGYPT<sup>59</sup>

The Palestinian-Egyptian Trade Agreement states that Egyptian products of national origin are exempt from customs and related duties if they conform to certain product list criteria. Palestinian products are granted duty free entrance to Egypt according to a defined list.

57. Brazil, Uruguay, Paraguay and Argentina.

58. PalTrade (2012). Trade Agreement with Jordan. Available from <http://www.paltrade.org/en/about-palestine/agreements/jordan.php>

59. PalTrade (2012). Trade Agreement with Egypt. Available from <http://www.paltrade.org/en/about-palestine/agreements/egypt.php>

## TRADE AGREEMENT WITH SAUDI ARABIA<sup>60</sup>

Palestinian traders can export all types of products to Saudi Arabia, but in the meantime the government of Saudi Arabia grants duty free treatment to the following Palestinian products: agricultural products, livestock, metallic and non-metallic raw materials.

## AGREEMENT ON COMMERCIAL COOPERATION BETWEEN THE PLO AND RUSSIA<sup>61</sup>

Both parties extend to one another the status of MFN in regard to trade. Imports and exports between the two parties are duty free for the following goods:

Instruments and items specified for montage and repair;

- Equipment and instruments specified for undertaking experiments and scientific research;
- Articles for demonstration during fairs and exhibitions; and
- Containers and similar packages used in international trade on a return basis.

## FREE TRADE ARRANGEMENT WITH CANADA

The arrangement states that Canada will support a program of economic development in the State of Palestine. It also focuses on reciprocity in liberalization of markets for products of both sides, taking into consideration that the PNA needs to protect its newly established industries. The agreement has stipulated the elimination of tariffs on industrial products, while tariffs on agricultural products and processed food have been reduced or abolished pursuant to a quota system.

This arrangement is considered an extension of the free trade agreement signed with Israel, which allows for the entry of products of both parties into their respective markets exempt from duties. This arrangement, signed in 1999, potentially opens the door for Palestinian exporters to penetrate the large Canadian market. The current closure regime, affecting movement of goods and services, and the lack of capacity of Palestinian producers/processors and exporters, has resulted in little to no utilization of this arrangement.

60. PalTrade (2012). Trade Agreement with Saudi Arabia – KSA. Available from <http://www.paltrade.org/en/about-palestine/agreements/KSA.php>

61. PalTrade (2012). Trade Agreement with Russia. Available from <http://www.paltrade.org/en/about-palestine/agreements/Russia.php>

## INTERIM AGREEMENT ON TRADE WITH TURKEY

This agreement, which is a reflection of the IAA, was signed between Turkey and the PLO in 2004. The substance of this agreement is:

- Creating a free trade area;
- Financial and technical assistance;
- Economic cooperation; and
- Cooperation between small and medium-size companies.

Scope of the agreement:

- Enhance and strengthen economic cooperation as well as raising the standard of living for the two parties;
- Gradual elimination of all restrictions on commodities, including agricultural products;
- Encourage the development of sustainable economic relations between the two parties by expanding mutual trade;
- Provide for fair competition in trade between both parties;
- Eliminate trade restrictions and contribute to the development of global trade;
- Create conditions to encourage investments, in particular joint investments, in both countries;
- Strengthen trade and cooperation between the two parties when entering third country markets.

## FREE TRADE ARRANGEMENT WITH THE UNITED STATES

Another type of free trade arrangement is the one reached with both the United States and Canada as an extension of their free trade agreements with Israel, signed in 1985. The United States Arrangement is a two-way unilateral declaration of duty free and quota free entry of products of both sides into the other's market, simultaneously signed by the parties in 1996. Reciprocal preferences have been further established with the United States on the basis of unilateral action. The United States Presidential Proclamation of 13 November 1996 grants duty free treatment to products of the West Bank and Gaza entering the United States market. The PNA reciprocated unilaterally and granted American products duty-free treatment upon entering the West Bank and Gaza.

The United States–Israeli agreement also provides for entrance of goods of both parties to their respective markets exempted from tariffs, which facilitates the entrance of Palestinian products to the American market. Rules and regulations of the free trade agreement signed between Israel and the United States in 1985 apply to the Free Trade Arrangement with the State of Palestine, including the rules of origin.

**Box 6:** Preferential market access provided by free trade agreements remains largely unused

The State of Palestine's trade performance indicates that, in general, Palestinian companies have been unable to expand export destinations despite the relatively high level of market access available to them through bilateral, plurilateral or regional trade agreements, notably due to fragmented enforcement of free trade agreements by trading partners, complicated rules of origin in free trade agreements, and a lack of recognition of Palestinian Certificates of Origin, amongst other things.

The United States and Canada Arrangements potentially open the door for Palestinian exporters to penetrate a large market but, in reality, Israeli impediments on movement of goods and discrimination against Palestinian products in the Israeli ports on the one hand, and the lack of capacity of local producers on the other, has resulted in minimal utilization of these Arrangements.



Source: © PalTrade



# OFFICIAL DEVELOPMENT ASSISTANCE TRENDS

Official development assistance (ODA) in the State of Palestine has two important roles: funding development interventions in a variety of thematic areas, and providing direct budgetary support to the Government of the State of Palestine. The latter has proved especially critical given the severe fiscal crisis that is affecting the country, while the former continues to play an important role in sectoral development and other areas.

As shown the figures, OECD development aid to the State of Palestine has been steadily increasing since 2001. In 2010 the largest donor was the United States, which contributed over US\$720 million. This is approximately 29% of all development aid received by the State of Palestine in that year. The second most significant donor was the EU, which contributed over US\$441 million in 2010.<sup>62</sup>

As noted by the Economist Intelligence Unit, 'the Palestinian economy remains heavily dependent on foreign aid channelled through the PNA, the United Nations and civil society groups, and would contract sharply if there were a prolonged and sustained drop in aid'.<sup>63</sup> The Palestinian government depends on international aid to pay wages in the public sector, and this reliance has grown during the current fiscal crisis. This level of dependence was demonstrated by sharp increases in poverty levels (especially in Gaza) and the economic shock caused by the drop in international aid following Hamas's 2006 election victory.

ODA to the State of Palestine has been trending downwards in the last few years. In 2011, the total ODA received was US\$2.4 billion, down from US\$2.5 billion in 2010 and US\$2.8 billion in 2009.<sup>64</sup> This fall in ODA is leading the authorities to try to generate new sources of revenue in other manners, such as expanding the property tax.

## KEY CHARACTERISTICS OF DONOR ACTIVITY IN THE STATE OF PALESTINE:

- Donor activity in the State of Palestine has, until recently, chiefly focused on the provision of humanitarian aid and supporting the Palestinian government in managing its high fiscal deficit. In recent years the share of ODA in the government's budget has reached up to 50%.
- A recent UNCTAD<sup>65</sup> report notes that agriculture has traditionally been seen as a vulnerable, and therefore weaker, candidate for donor funding, and that this has also affected and been reflected in the policies of the PNA. The report notes a 'persistent' policy bias against the agriculture sector.
- The same UNCTAD report also notes that the vision, agenda and conditions imposed by the donor community have limited the scope for development of a national development policy and strategy,<sup>66</sup> and have contributed to a lack of coherence within policies developed by the Palestinian Authority. The report also notes that the 'numerous and sometimes contradictory aid conditionalities' have also resulted in 'fragmentations within Palestinian institutions and ministries'.<sup>67</sup> This has been confirmed through stakeholder group workshops and bilateral interviews conducted as part of the NES development process.
- There has been a renewed focus on the trade-related technical assistance and economic development sphere in recent years, primarily in the West Bank. The shift from development aid to economic aid and institution-building assistance is partially a result of increasing economic and political stability in the West Bank.

62. EU member states also contributed aid directly to Palestine outside of the EU contribution.

63. Economist Intelligence Unit Limited (2013). *Country Outlook: Palestinian Territories*.

64. UN Data (2013). Net official development assistance and official aid received. Available from <http://data.un.org>. Accessed 30 May 2013.

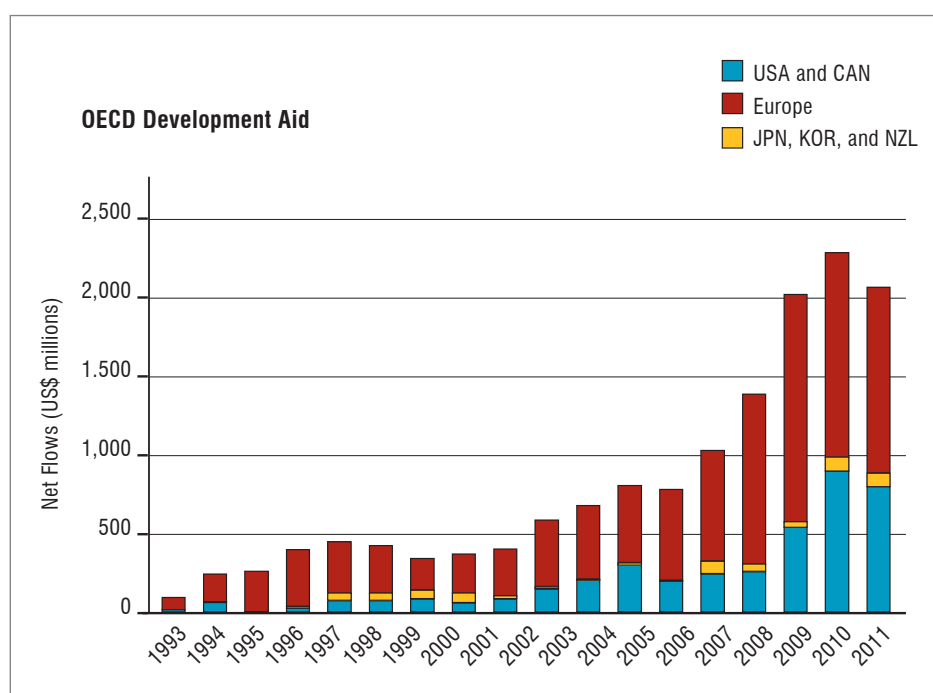
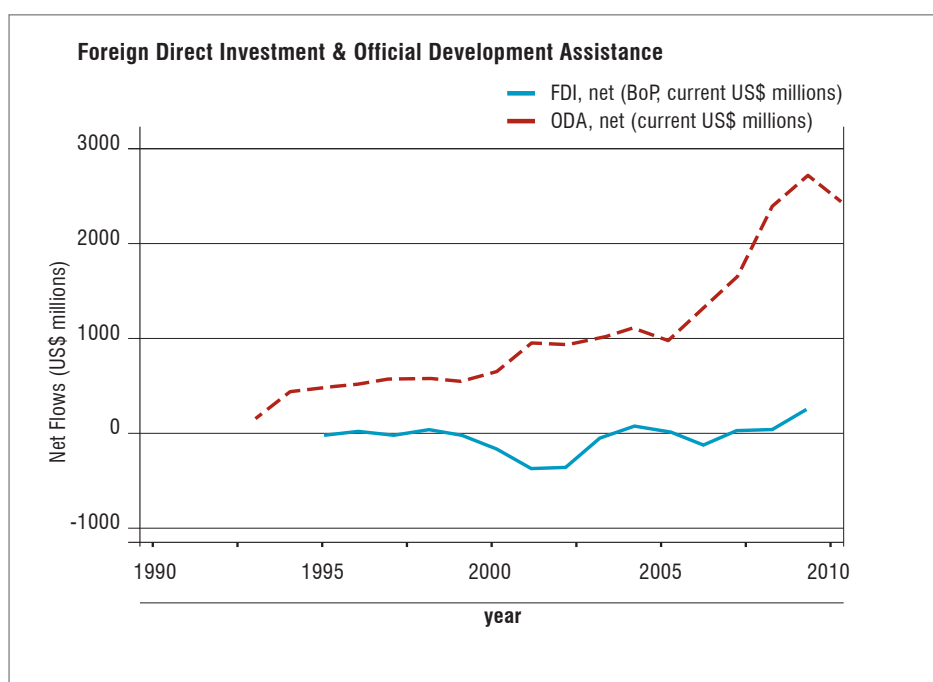
65. UNCTAD (2012). *The Palestinian Economy: Macroeconomic and Trade Policymaking under Occupation*.

66. *Ibid.*, p. 10.

67. *Ibid.*, p. 10.



**Figure 23:** Official Development Aid (ODA) and Foreign Direct Investment (FDI) from OECD countries to the State of Palestine



**Source:** ODA data from OECD; FDI data from the World Bank, World Development Indicators and UNCTAD.



Source: © PalTrade

# SELECT NATIONAL DEVELOPMENT PLANS AND STRATEGIES

An examination of national development plans is important to understand the directional thrust and level of momentum generated by existing initiatives. As noted throughout this paper, the NES will align itself, where possible and relevant, to these plans so as to maximize

results in specific areas. A review of existing national development plans and strategies is therefore useful.

Table 6 is a comprehensive list of existing or recently concluded national strategies.

**Table 6:** *Existing sector and cross-sector development strategies in the State of Palestine*

	Sector	Cross-sector
Official Strategies	<ul style="list-style-type: none"> <li>• Agricultural Sector Strategy (2011-2013)</li> <li>• National Strategy of the Ministry of Telecommunications and Information Technology (MoTIT) (2011-)</li> </ul>	<ul style="list-style-type: none"> <li>• Palestinian National Development Plan (2011-2013)</li> <li>• Strategic Planning of the Ministry of Labour (2011-2013)</li> <li>• National Sector Strategy for Water and Wastewater (2011-2013)</li> <li>• Cross-Sectoral National Gender Strategy: Promoting Gender Equality and Equity (2011-2013)</li> <li>• Palestinian National Early Recovery and Reconstruction for Gaza (2009-2010)</li> </ul>
Unofficial Strategies	<ul style="list-style-type: none"> <li>• Stone and Marble (2011-)</li> </ul>	

At the moment there is limited information available on the implementation levels of existing strategies. Implementation of the strategies, with the essential precondition of resource mobilization, is vital. Given the current fiscal and resource mobilization challenges facing the PNA, implementation efforts may be under stress and require attention. In addition to existing strategies, there is a need to develop strategies for important sectors such as olive oil and tourism, and cross-sector functions such as Technical and Vocational Education and Training (TVET).



## SECTOR STRATEGIES

### STONE AND MARBLE IN THE STATE OF PALESTINE – DEVELOPING A STRATEGY FOR THE FUTURE

While the State of Palestine does *not* have a national stone and marble sector strategy, the Union of Stone and Marble (USM) (the main Palestinian trade organization for this sector) has published a report<sup>68</sup> that aims to 'provide background to the key priorities of the sector, to put some definition around them and to give practical guidance for next steps'.<sup>69</sup>

The document outlines seven key priorities for intervention in the Palestinian stone and marble sector as follows:

- Build the capacity of USM;
- Reduce environmental impact of quarrying activities;
- Improve access to raw materials;
- Improve product quality and equipment;
- Increase exports;
- Facilitate transportation to markets; and
- Enhance the role of universities for assistance in research and TVET.

### NATIONAL STRATEGY OF THE MINISTRY OF TELECOMMUNICATIONS AND INFORMATION TECHNOLOGY IN THE STATE OF PALESTINE (2011-)

This strategy provides an overview of the current situation of the ICT sector, includes a SWOT (strengths, weaknesses, opportunities and threats) analysis for the sector and establishes strategic objectives. In particular, the strategy focuses on increasing sector competitiveness, creating a viable legislative framework, improving Internet infrastructure, and enhancing the participation of the ICT sector in the Palestinian economy.

### AGRICULTURAL SECTOR STRATEGY<sup>70</sup> (2011-2013)

Agriculture is an essential component of the Palestinian national, cultural, economic and social fabric. The Palestinian agricultural community, led by MoA and supported by the FAO, has developed the agriculture sector strategy, 'A Shared Vision 2011-2013', with an

evidence-based action plan. The strategy underlines broad challenges faced by the Palestinian agricultural sector including access to finance, the provision of insurance, and marketing, among others. It also carried out a SWOT analysis for the sector and evaluated the role of agriculture within the Palestinian economy, underlining its importance for national exports. The strategy envisions sustainable agriculture that is capable of the following:

- Achieving food security;
- Being competitive in local and foreign markets through optimal use of resources; and
- Cementing the bonds and sovereignty of Palestinians over their land, towards building a state.

The strategy also proposes actions to address some of the above issues, focusing in particular on establishing a quality infrastructure and a qualified and well-trained workforce, improving production in both crops and livestock, and increasing the efficiency of natural resources management.

## CROSS-SECTOR STRATEGIES

### NATIONAL SECTOR STRATEGY FOR WATER AND WASTEWATER (2011-2013)

Inadequate access to water (drinking, industrial and other purposes) and wastewater management services have important socioeconomic implications for the Palestinian population and economy. With this in mind, a study was conducted 2008-2010 to assess the status quo in the sector. The Water and Wastewater Strategy for 2011-2013 was developed based on the results of this study. To manage and monitor implementation of the strategy, a steering committee has been appointed by the cabinet to oversee activities allocated to the Palestinian Water Authority (PWA) and other implementation agencies. The strategy has four key objectives:<sup>71</sup>

- Promote good governance and provide a legal and institutional environment that guarantees equitable services and sound management of the sector, ensuring its sustainability;
- Integrated water management ensuring equitable and continuous services as well as resource sustainability;
- Integrated wastewater management which ensures equitable and continuous services, contributes to preserving public health and safeguards the environment; and
- Efficient and effective water and wastewater institutions engaging all segments of society.

68. Union of Stone and Marble Industry (2011). *Stone & Marble in the State of Palestine – Developing a Strategy for the Future*.

69. *Ibid.*, p. 3.

70. Palestinian Ministry of Agriculture (2010). *Agriculture Sector Strategy "A Shared Vision" 2011-2013*.

71. Palestinian Water Authority (2010). *National Sector Strategy for Water and Wastewater (2011-2013)*, p. 12.

## PALESTINIAN NATIONAL DEVELOPMENT PLAN<sup>72</sup> (2011-2013)

The National Development Plan (NDP) contains the national policy agenda, outlines the macroeconomic and fiscal framework, defines the national development expenditure plan, and provides for higher governmental accountability. A key priority is to obtain recognition of the State of Palestine as a sovereign and independent country within the 1967 borders, with East Jerusalem as capital. The PNA also aims to: improve public governance, the judicial system, and delivery of services such as education, health and social protection; and enhance economic growth, especially through an increase in trade with neighbours and an improvement in the business environment.

Infrastructure will also be restored and potentiated, along with the creation of a territorial link between the Gaza Strip and the West Bank. The government will also foster economic growth and stability, ensuring the sustainability of public finances and creating a more conducive economic and institutional environment. The implementation of the Palestinian Reform and Development Plan 2008-2010 allowed an increase in public revenues and a decrease in expenditure, improving overall efficiency of public administration. The government plans on progressively reducing reliance on external aid in the future, relying on higher economic growth and improved revenue administration.

The plan allocates expenditures for 2011-2013 among four major policy sectors: governance, social, economic and infrastructure. It also identifies the reconstruction of the Gaza Strip as the single biggest challenge for the same period. Finally, the NDP provides for increasing transparency, monitoring the performance of public administration, enhancing private-public partnerships, and improving accountability and oversight of public officers as well as of the private sector.

## STRATEGIC PLANNING OF THE MINISTRY OF LABOUR<sup>73</sup> (2011-2013)

This document provides a summary of the recent achievements of the Ministry of Labour (MoL) and outlines its strategy for action for 2011-2013. It focuses on improving health and safety conditions for the Palestinian labour force, with specific attention on involving women, people with special needs and fresh graduates. The strategy also aims to reduce unemployment, establish an environment conducive to growth and development, and increase workforce efficiency and productivity.

72. Palestinian Ministry of Planning and Administrative Development (2010). *National Development Plan: Establishing the State, Building our Future 2011-13*.

73. Palestinian Ministry of Labour (2010). *Strategic Planning of the Ministry of Labour*.

## CROSS-SECTORAL NATIONAL GENDER STRATEGY: PROMOTING GENDER EQUALITY AND EQUITY<sup>74</sup> (2011-2013)

This strategy analyses the current situation of women, outlining the main issues related to family law, social life, health and economic empowerment. It provides an overview of the mechanisms in place to protect women and reduce discrimination, and outlines the main strategic objectives and policy interventions. In particular, the strategy focuses on the following:

- Enabling women to enjoy family law and civil rights that ensure equality and equity;
- Ensuring that Palestinian women of Jerusalem preserve their rights to residency, movement and nationality;
- Reducing all forms of violence against women in the State of Palestine;
- Improving the status of Palestinian women prisoners;
- Facilitating women's active political involvement and activating their role in decision-making;
- Improving the quantity and quality of educational services from a gender perspective;
- Increasing protection of women's health;
- Improving women's participation in the labour market and increasing their participation in economic decision-making; and
- Mainstreaming gender concerns and issues in the work of Palestinian government ministries.

## PALESTINIAN NATIONAL EARLY RECOVERY AND RECONSTRUCTION FOR GAZA<sup>75</sup> (2009-2010)

This plan details the damage inflicted to the Gaza Strip by the sustained Israeli attack on Gaza that took place between December 2009 and January 2010. It outlines the guiding principles for reconstruction, focusing on building back better; revitalizing the private sector; promoting equity and broad-based participation; enhancing efficient coordination and information sharing; and ensuring local ownership and the intervention's alignment with the Palestinian Reform and Development Plan. Hence, the plan provides a detailed summary of the impact of the crisis on the social sector, infrastructural facilities, economy, public governance, natural resources management and environment. The plan sets precise interventions for each of the above areas, specifying estimated costs and the implementation framework.

74. Palestinian Ministry of Women's Affairs (2011). *Cross-Sectoral National Gender Strategy: Promoting Gender Equality and Equity (2011-2013)*.

75. Palestinian National Authority (2009). *Palestinian National Early Recovery and Reconstruction for Gaza 2009-2010*.



## KEY CONSIDERATIONS OF NATIONAL DEVELOPMENT PLANS

Palestinian planners and policymakers have kept key considerations in mind when formulating these development policies. These considerations, enumerated below, are reflected frequently in each existing plan and strategy, due to the State of Palestine's unique political situation.

### NATIONAL SOVEREIGNTY AND RECONCILIATION REMAIN THE KEY PRIORITIES FOR THE STATE OF PALESTINE

The formation of a Palestinian State within the 1967 borders, with East Jerusalem as the capital, remains the fundamental priority and guiding principle in Palestinian development strategies. Since the breakout of the second intifada in 2000, national plans have focused on the need for reconstruction and state formation. Following the 2006 elections particular attention was given to the situation in the Gaza Strip. The Palestinian National Early Recovery and Reconstruction Plan for Gaza (2009) details the damage to Gaza's economy and society caused by the Israeli attack and sets lines of intervention. As the administrative division between the West Bank (controlled by the Fatah party) and the Gaza Strip (controlled by Hamas party) still drags on, and after the postponement of general elections due to political instability caused by the Arab Spring, the restoration of unity between Gaza and the West Bank has arisen as a priority.

### POLITICAL UNCERTAINTY REMAINS THE MAIN OBSTACLE TO A MORE CONDUCTIVE BUSINESS ENVIRONMENT

The political situation of the State of Palestine is the main cause of the poor business environment in the West Bank and Gaza Strip. According to the ICA conducted by the World Bank, Palestinian businesses viewed the prevailing politically uncertain climate and the resulting macroeconomic instability as their greatest challenges, and much greater than any other cited challenges.<sup>76</sup>

Uncertainty generated by violence and recurrent political instability undermines the willingness of enterprises to invest and also reduces the willingness of financial institutions to provide accessible finance. Development strategies have focused on these aspects of the Palestinian context, suggesting carrying out investments more

resistant to destruction and with lower replacement costs, and improving access to finance and the provision of insurance. Restrictions on the movement of goods and people and the lack of political, administrative and territorial integration between the West Bank and Gaza further discourage investments and development. Instability of public finances is also a source of uncertainty for the private sector. Within the 2011-2013 NDP, and previously with the implementation of the Palestinian Reform and Development Plan, the PNA has moved towards more sustainable fiscal policies, trying to reduce dependency on foreign aid, increase domestic revenues and reduce expenditures.

### TRADE COMPETITIVENESS HAS EMERGED AS A KEY ELEMENT OF DEVELOPMENT PLANNING IN THE STATE OF PALESTINE

Given the prime geographical location of the State of Palestine in the centre of the Middle East, Palestinian planners have focused on trade as a driver of economic growth. The NDP (2011-2013), the Agricultural Sector Strategy, the Stone and Marble Strategy (designed by USM), and the Industrial Sector Study carried out by USAID all include analyses of the export potential of the Palestinian economy.<sup>77/78</sup> The importance of exports both as a means to obtain foreign exchange and as an economic ambassador in support of the Palestinian cause is often cited in the documents. The State of Palestine has also signed several trade and economic agreements: the Paris Protocol with Israel (1994) establishing free exchange of goods; the Interim Agreements with the EU (1997), EFTA (1998), and Turkey (2004) granting free access to a wide range of industrial and agricultural products; the Free Trade Arrangements with the United States (1996) and Canada (1999); and the Free Trade Agreement with Mercosur countries (2011).

### SECTOR-SPECIFIC INTERVENTIONS FOCUS ON AGRICULTURE, CONSTRUCTION MATERIALS, ICT AND ADVANCED MANUFACTURING

In the context of scarce public resources for investments and reliance on foreign aid, there is a need to prioritize intervention in sectors with high potential. Development planning has shown some consistency in focusing on sectors such as: agriculture and food products; stone, marble and construction materials; ICT; and advanced manufacturing. UNCTAD had also outlined a tentative

76. World Bank (2007). *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector*, pp. 21-22.

77. Union of Stone and Marble Industry (2011). *Stone & Marble in the State of Palestine – Developing a Strategy for the Future*.

78. PFI/CARANA Corp. (2009). *The Current Status of the Industrial Sector in Palestine*. USAID.



Source: © PalTrade

framework for the selection of sectors with higher growth potential, underlining the importance of employment creation, backward and forward linkages, export potential, resistance to destruction, and strategic overall importance for the economy.<sup>79</sup>

79. UNCTAD (2006). *The Palestine War-torn Economy: Aid, Development and State Formation*. Geneva.

### THE GOVERNMENT HAS ENGAGED IN POLICIES TO IMPROVE GENDER EQUALITY.

The State of Palestine's government has focused particular attention on gender mainstreaming issues. In 2010 the Cross-Sectoral National Gender Strategy was enacted, dealing with family law, social life, health and economic empowerment, and outlining strategic objectives and policy interventions. MoL also focused on the conditions of women, youth and people with special needs in its 2011-2013 Strategic Planning.

*The national development plans are intended to build capacity throughout specific value chains as well as promote socioeconomic development in the State of Palestine. In this sense, there is significant alignment with the goals of the NES and the momentum developed by the national plans is leveraged as part of the sectoral and cross-sectoral strategic plans of action.*

# EXPORT COMPETITIVENESS ISSUES (4-GEARS ANALYSIS)

The export constraints analysis uses a four gears framework presented below to determine the major concerns to export development.

- **Supply-side issues** affect production capacity and include challenges in areas such as availability of appropriate skills and competencies; diversification capacity; technology, and low value addition in the sector's products.
- **The quality of the business environment** are constraints that influence transaction costs, such as regulatory environment; administrative procedures and documentation; infrastructure bottlenecks; certification costs; Internet access; and cost of support services.
- **Market entry issues** are essentially external to the country (but may also be manifested internally), such as market access, market development, market diversification and export promotion.

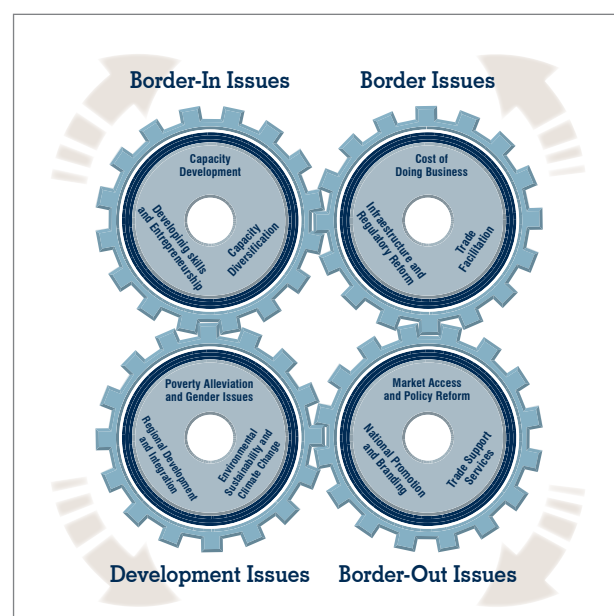
The analysis presents those constraints that are currently major export competitiveness bottlenecks in the State of Palestine. However, the assessment also explores issues limiting socioeconomic spillovers of exports to the larger society:

- **Social and economic concerns** include poverty reduction, gender equity, youth development, environmental sustainability and regional integration.

The results of this comprehensive analysis are analysed and detailed below. These overarching constraints are detailed and scrutinized throughout the NES document.

## THE BORDER-IN GEAR (SUPPLY-SIDE)

Difficulty in importing production inputs and capital equipment, stemming from movement restrictions, affects development of the production and transformation capacities of Palestinian MSMEs. This also prevents capacity diversification in terms of products characterized by differentiation and value addition. Traditional dependence on the small domestic economy has further led to lax compliance with quality standards. Political instability, followed by the resulting macroeconomic instability, has also dissuaded domestic and foreign investors. In terms of human capital development rising population levels, accompanied by the slow pace of job creation, pose challenges which are important drivers of high unemployment.



### Box 7: Overview of supply-side issues

- Increasing production/operating costs have resulted in declining productivity levels.
- Land confiscation and movement restrictions have created severe challenges in accessing agricultural production sites.
- Import restrictions on production inputs affect the productivity of Palestinian enterprises.
- Paucity of water resources affects production in the agricultural sector.
- The weak quality management framework at enterprises adversely affects export competitiveness.
- Lack of organization within NES priority sectors leads to low cross-pollination of ideas and collaboration levels.
- Low foreign and domestic investment levels constrain capacity development and diversification.
- The main products exported from the State of Palestine are marked by low value addition and differentiation.
- Constraints in accessing machinery and production inputs inhibit diversification.
- Unemployment is a key driver of poverty, increasing in significance proportionate to rising population levels.
- There is a need to boost human capital and skills development in line with private sector requirements.
- There is a steady brain drain affecting human capital in the NES sectors.
- Strategic and business management capabilities of enterprises need to be strengthened in order to improve their candidacy when applying for loans.
- Enterprises must improve at fulfilling documentation requirements involved in trade facilitation procedures.

### INCREASING PRODUCTION/OPERATING COSTS HAVE RESULTED IN DECLINING PRODUCTIVITY LEVELS

The shares of agriculture and manufacturing in total output followed a declining trend between 1994 and 2009. The manufacturing sector has been affected by increasing production costs (rising labour costs as well as import restrictions on capital goods and raw materials). The agricultural sector has limited supply capacity due to seasonality of crops (including olives), fragmented production and unorganized small scale landowners. Similarly to the manufacturing sector, costs of agricultural inputs, excepting labour, can be prohibitive.

### LAND CONFISCATION AND MOVEMENT RESTRICTIONS HAVE CREATED SEVERE CHALLENGES IN ACCESSING AGRICULTURAL PRODUCTION SITES

A combination of land confiscation –stemming from rising settlement development activity– and increased movement restrictions severely constrains access to production sites. According to 2009 estimates, 40% of agricultural land in the West Bank has been lost due to confiscation resulting from settlement activity and related

infrastructure.<sup>80</sup> The separation barrier cuts deep inside West Bank territory and limits farmers' access to their land.<sup>81</sup> Farmers also have to apply for permits to access their land, now separated by the barrier, and this has resulted in a high level of discouragement within the farming community.<sup>82</sup>

The intricate network of roadblocks and checkpoints has resulted in generating uncertainty, given that shippers cannot accurately predict the turnaround time for shipping their goods and therefore face difficulties in committing to delivery times.<sup>83</sup> The limited availability of industrial land curtails the creation of clusters that could contribute to economies of scale for enterprises. This is a significant competitive disadvantage in terms of meeting customer commitments.

80. UNCTAD (2012). *The Palestinian Economy: Macroeconomic and Trade Policymaking under Occupation*, p. 3.

81. *Ibid.*

82. *Ibid.*

83. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*, p. 2.





Source: © PalTrade

### IMPORT RESTRICTIONS ON PRODUCTS USED AS PRODUCTION INPUTS AFFECT THE PRODUCTIVITY OF PALESTINIAN ENTERPRISES

The State of Palestine's economy is also adversely affected by a growing list of 'dual use' items that are perennially in short supply. The shortage stems from the restrictions imposed by Israeli authorities on these items, which have legitimate civilian uses but can also be weaponized. Limits on fertilizer imports have, for example, reduced the productivity of Palestinian agriculture and thus crop yields. Continual shortages of sulphuric acid and glue used in leather tanning and footwear manufacturing processes have constrained production in the footwear sector.

Ensuring access to inputs for Palestinian production is important to improving export potential. Dual use restrictions raise the costs of inputs, force companies to use inappropriate inputs in their production, and may oblige companies to stop production. One potential solution could be to find suitable substitutes for the restricted items, although that would involve investments in research and other capital investments that may not be feasible in the short term.

### PAUCITY OF WATER RESOURCES AFFECTS PRODUCTION IN THE AGRICULTURAL SECTOR

The water infrastructure is inefficient and is marked by supply inconsistencies, leakages and a low capacity for recycling. Mismanagement and natural factors have contributed to a severe water shortage, affecting the agriculture sector. The turmoil brought about by the second intifada and the separation barrier (construction started in 2002), also destroyed a major part of the water infrastructure including 'water wells, irrigation networks, agricultural roads, greenhouses, and farms'.<sup>84</sup>

84. UNCTAD (2012). *The Palestinian Economy: Macroeconomic and Trade Policymaking under Occupation*, p. 3.

It is estimated that Palestinians in the West Bank use only about 15% to 20% of the water available annually in the area, the rest being used either by Israeli settlements or within Israel itself.<sup>85</sup> This has significantly affected the level of water resources available for agricultural purposes.

### THE WEAK QUALITY MANAGEMENT FRAMEWORK AT ENTERPRISES ADVERSELY AFFECTS EXPORT COMPETITIVENESS

The majority of Palestinian enterprises do not have adequate internal quality management systems, leading to high levels of non-compliance with national and international standards. About 57% of MSMEs apply standards and only 22% of MSMEs attain a quality assurance certification proving the quality of their products and their conformity with relevant standards.

The manufacturing process is not linked to quality metrics throughout the value chain. This is due to the ad hoc manufacturing process followed at firms, as well as the weak skills base and experience in terms of mapping of safety and quality requirements during production cycles. The majority of firms within the priority sectors are MSMEs and family-owned businesses which have historically catered to the domestic market. They have limited experience, information and financial resources to take on the additional risks and investments required to develop a sustainable export relationship.

In general, Palestinian firms follow a reactive approach to quality management due to their low capacities in gauging the value of establishing and enforcing quality control systems. Testing facilities at the enterprise level are basic and substandard. Lack of experience in deploying such systems and facilities is a major root cause, while poor business management skills in terms of cost benefit analysis, project management and database management are also important contributing factors. The unstable political and economic climate and the weak institutional support available across the export value chain further contribute to a weak value proposition for MSMEs to invest in developing efficient quality management systems.

### LACK OF ORGANIZATION WITHIN PRIORITY SECTORS LEADS TO LOW CROSS-POLLINATION OF IDEAS AND COLLABORATION LEVELS

The bulk of enterprises in the State of Palestine are family owned microenterprises which operate largely in isolation. Professional networking is low and as a result the potential

85. *Ibid.*



benefits from increased collaboration and cross-pollination of ideas have not been realized. This is indicated by the absence of consortiums and clustering initiatives.

### LOW FOREIGN AND DOMESTIC INVESTMENT LEVELS CONSTRAIN CAPACITY DEVELOPMENT AND DIVERSIFICATION

Unlike ODA, net FDI into the State of Palestine remains low and in some recent years has been negative. The difference in the importance of ODA versus FDI can be illustrated by the fact that in 2008 ODA was 1,000% larger than FDI. Figure 23, left panel, shows the difference between the level of ODA and FDI since the mid-1990s. ODA and FDI have reacted very differently to the end of the second intifada (2004-2005). While donors have come back to the State of Palestine with renewed strength, private investors have not followed suit.

There are a number of reasons for the low foreign and domestic investment levels. Foreign investment is largely constrained by political instability and the resulting macroeconomic instability. There is a prevalent notion among Palestinian and foreign investors that a third intifada is inevitable and that any investment may be lost. Domestic investments are constrained for similar reasons, especially the low operating and investment capital that is available to Palestinian investors.

Another important reason for low investment levels is the lack of effective Palestinian financial intermediation. Following the 1967 war the majority of Arab banks were closed, and it is only recently that activity in the banking sector has started to increase.<sup>86</sup> This has partially contributed to the lack of investment in the State of Palestine.

The low foreign and domestic investment levels constrain export development and diversification. This also leads to a decline in the technological content of exports and a concentration of export growth on commodities and natural resource-based products.

Risks of low returns are also a concern for investors. The economy is characterized by low value addition, dated capital stock, outdated manufacturing processes, and production on a relatively small scale. The Palestinian domestic customer base is small, so export revenues will be an important requirement for an investor. Given the current limited export performance in most Palestinian sectors the NES should favour an expansion of export revenues, possibly encouraging investment to return to key sectors.

86. *Ibid.*, p. 6.

### THE MAIN PRODUCTS EXPORTED FROM THE STATE OF PALESTINE ARE MARKED BY LOW VALUE ADDITION AND DIFFERENTIATION

Exports of sophisticated products (marked by high value addition) have significant bearing on enabling broad-based economic development in a country.<sup>87</sup> As discussed in the trade analysis section, the State of Palestine's export basket is concentrated in natural resource-based manufacturing, low technology manufacturing and commodities.

The exported value of high technology manufactures between 2008 and 2010 is several times lower than exports between 2002 and 2004, while the exported value of medium technology manufactures 2008-2010 is approximately half that of exports in 2002-2004.

Regardless of the sector under review, Palestinian enterprises are characterized by their small size, dated capital stock, inadequate supply of raw materials and limited technological base. In light of these constraints and the ongoing political turmoil in the economy, companies find limited scope for devising creative ways of adding value to production.

One of the main reasons for the low technological sophistication is the weak capital equipment base in a landscape dominated by MSMEs. Production lines/systems are outdated, and enterprises lack (and face challenges in accessing) the capital to make investments.

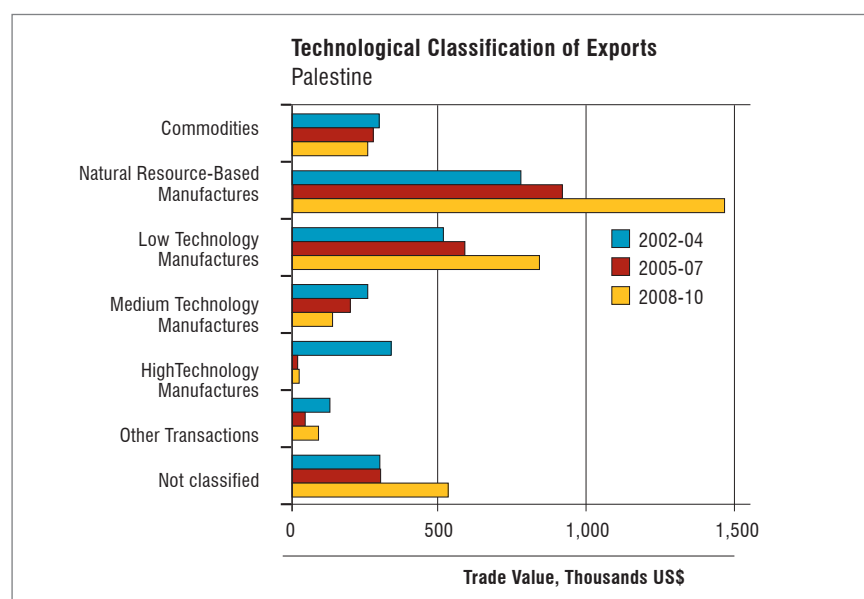
As discussed earlier, Israel's trade liberalization is another contributing factor. As Israel – the State of Palestine's main export market – has opened its markets, lower cost goods produced in Asia have been substituted for Palestinian-produced goods,<sup>88</sup> which have become more expensive with the rising operating cost structures in the State of Palestine.

Value addition in manufactured products will contribute to an increase in Palestinian enterprises' revenues, penetration into new markets and development of differentiated products – all important requirements for developing a sustainable export sector.

87. Anand, R., Mishra, S., & Spatafora, N. (2012). *Structural Transformation and the Sophistication of Production*, IMF WP/12/59. International Monetary Fund.

88. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*.

Figure 24: Technology content of Palestinian exports



**Source:** ITC's calculations based on 5-digit Comtrade, SITC Revision 3 trade data.

## CONSTRAINTS IN ACCESSING MACHINERY AND PRODUCTION INPUTS INHIBIT DIVERSIFICATION

The fragile political and economic situation, coupled with extensive competition from foreign imports, has forced Palestinian enterprises to take a survivalist approach rather than focusing on innovating or upgrading their capital equipment. Palestinian exporters face significant challenges, such as access to financial resources and inputs, when wanting to acquire production equipment and other capital assets. Faced with dated machinery and lack of production inputs, enterprises are unable to diversify and add new products to their offerings. This challenge in maintaining competitiveness is accentuated by rapid improvements in the industrial sectors of neighbouring countries such as Jordan. For instance, the Jordanian olive oil sector has seen rapid development in recent years. The Jordanian market, which functioned as a major customer in the past, has reduced Palestinian olive oil imports in recent years and has emerged instead as a competitor.

## UNEMPLOYMENT IS A KEY DRIVER OF POVERTY, INCREASING IN SIGNIFICANCE PROPORTIONATE TO RISING POPULATION LEVELS

Unemployment is an enduring driver of poverty in the West Bank and especially in Gaza. The unemployment rate in the Gaza Strip is over 40% of the labour force.

While lower than in the Gaza Strip, the unemployment rate in the West Bank is still in excess of 15%.

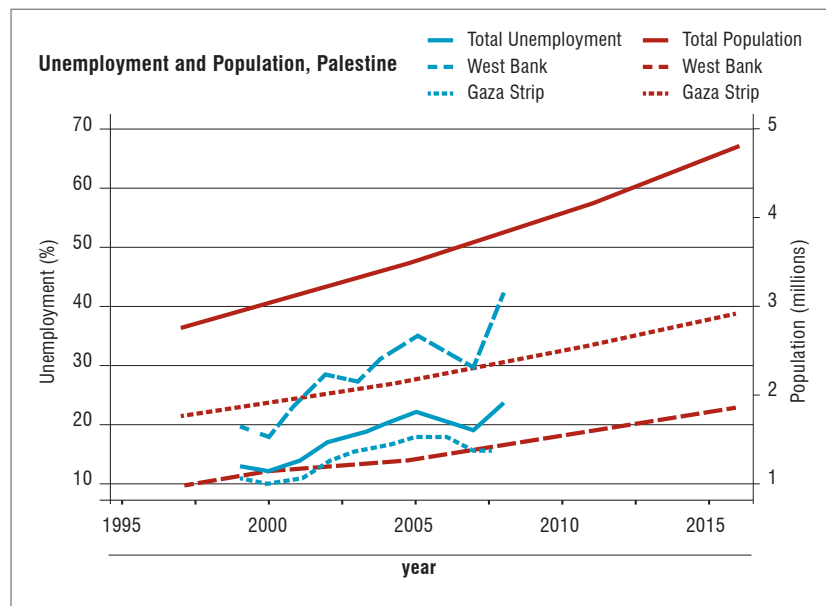
The World Bank estimates that if the head of a typical household (composed of two adults and four children) becomes unemployed, the risk of the household falling into poverty *doubles* in the case of the West Bank, and *triples* in the case of Gaza.<sup>89</sup> Youth have a significantly higher unemployment rate than other groups in the economy (46.9 % in 2009). This situation confirms the need for accelerating job creation efforts at the national level. With the population expected to approach five million by 2015, it is crucial that the Palestinian economy reduces unemployment and improves job creation.

The unemployment rate is also greatly influenced by age. Youth have a significantly higher unemployment rate than other groups. For example, the overall unemployment rate for youth was 46.9% in 2009.<sup>90</sup> A high youth unemployment rate is one of the early signs of an economy failing to generate jobs for a growing population.

89. World Bank (a) (2011). *Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza*, p. xi.

90. World Bank world development indicators. Interestingly, despite having a much lower labour force participation rate, the reported female unemployment rate is generally lower than that reported for men.

Figure 25: Palestinian unemployment rate and population size (%)



Source: Palestinian Central Bureau of Statistics

### THERE IS A NEED TO BOOST HUMAN CAPITAL AND SKILLS DEVELOPMENT IN LINE WITH PRIVATE SECTOR REQUIREMENTS

Human capital development remains a priority area for Palestinian enterprises. There is a shortage of skilled personnel in technical functional areas, as well as a lack of skills at the managerial level. The State of Palestine already enjoys a strategic advantage in terms of its high literacy rate<sup>91</sup> compared with the MENA region, which can be leveraged to build the economy's human capital, aligned to its strategic development objectives.

There is limited partnership and collaboration between the public and private sectors and academia in the State of Palestine. The need for harmonization (synchronization) between educational systems and the labour market are important factors for ensuring relevant skillsets are available to enterprises. Additionally, the human capital talent pipeline must be managed in close coordination with the needs of the private sector. In specific terms, skills exist but they are not always aligned to the requirements and needs of industry. Consequently, there is an important need for enhanced consultation between the private sector, government and educational institutions to manage the needs of the private sector.

91. World Bank world development indicators.

### THERE IS A STEADY BRAIN DRAIN AFFECTING HUMAN CAPITAL IN THE NES SECTORS

Brain drain is a real and important challenge affecting the State of Palestine. The priority sectors have seen a rising level of skilled personnel leaving for Jordan, the United States and other countries. The fragile political, security and economic climate has been the main reason skilled Palestinians seek to migrate. Decades of accumulated experience gained in sectors such as leather and footwear, textiles and garments (and others) is one of the main comparative advantages for Palestinian enterprises competing in international markets, and will be diluted if the current trend of brain drain does not reverse.



Source: © Ridvan Yumlu-Schiessl. More Road Safety through Vehicle Inspections



Source: © Ridvan Yumlu-Schiesl.

### Box 8: Economic impact of the second intifada on the Palestinian economy and trade

The second intifada (uprising) and the subsequent security, economic and political restrictions imposed on the State of Palestine between 2000 and 2005 have significantly affected Palestinian society, as well as the economy and its fledgling export sectors. Beyond the collateral damage –which can be measured in terms of civilian lives and the destruction of property/public services– the intifada resulted in severe restrictions that continue today and have considerably decreased export competitiveness.

During the intifada, free movement of goods and services in the Gaza and the West Bank was significantly restricted – resulting in socioeconomic distress for the population and disrupting the value chain for exporting businesses. Curfews (sometimes lasting weeks at stretch) restricted economic activities of residents in the West Bank and Gaza, affecting both daily wage workers (previously commuting to and from Israel daily for work) and regular wage employees.<sup>92</sup> During the period of high tension and violence between 2000 and 2004, unemployment rose from 17% to 29%, while poverty levels rose from 32% (1999) to 64%.<sup>93</sup> Exports as a share of industrial production dropped from 22% in 2000 to 12% in 2005.<sup>94</sup> These restrictions still exist to a considerable extent. The closures regime has also resulted in a fragmented Palestinian economy due to the near total socioeconomic separation between the West Bank and Gaza.<sup>95</sup> United Nations Office for the Coordination of Humanitarian Affairs maps indicate that the closures have effectively 'partitioned the West Bank into a northern, a central and a southern economic zone, bounded on three sides by the Separation Barrier, and to the east by a Jordan Valley that is increasingly difficult for Palestinians to access'.<sup>96</sup>

The current investment and industrial growth climate in the State of Palestine remains bleak. This pessimism in turn affects FDI as well as local investment in manufacturing equipment and processes. The overall impact is that the bulk of current Palestinian exports are low value added goods that require little processing.<sup>97</sup>

92. World Bank (a) (2011). *Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza*, p. 5.

93. International Alert (2006). *Local Business, Local Peace: the Peacebuilding Potential of the Domestic Private Sector*, p. 365.

94. World Bank (a) (2011). *Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza*, p. 5.

95. World Bank (2007). *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector*, p. i.

96. *Ibid.*, p. 13 footnote 13.

97. *Ibid.*, p. 10.



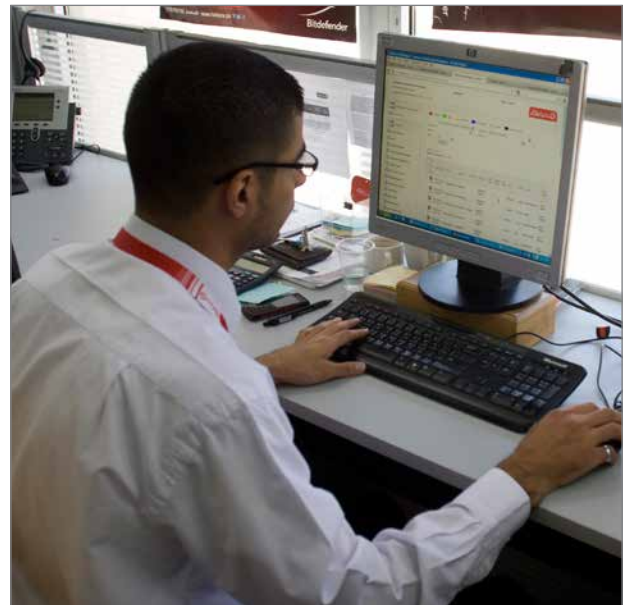
## STRATEGIC AND BUSINESS MANAGEMENT CAPABILITIES OF ENTERPRISES NEED TO BE STRENGTHENED IN ORDER TO IMPROVE THEIR CANDIDACY WHEN APPLYING FOR LOANS

There are a number of deficiencies at the enterprise level which prevent enterprises from demonstrating good creditworthiness to lending institutions.

- *Improvements are required in the quality management framework at enterprises.* Quality levels at the enterprise level must be brought in accordance with Palestinian, as well as target market, requirements. This will lead to more sustainable growth in terms of export relationships, and in turn provide more confidence to lending institutions. Specifically, there is a need to ensure that standard quality certifications such as the International Organization for Standardization (ISO) ISO 9001 etc. are implemented at the enterprise level.
- *Compliance with Palestinian taxation laws and rules is needed.* Demonstrable compliance through requisite paperwork is an important aspect of assuring lending institutions that the enterprise seeking financing is responsible.
- *Improved strategic planning, reflected in documentation such as business plans, is needed.* Among the documentation required by banks in order to issue loans, evidence of solid strategic and operational planning is greatly desired. Technical assistance and training is needed to improve skills within enterprises related to management and planning. Efficient management of production processes throughout the value chain could increase lending potential. This planning extends to marketing and business development (market penetration) plans.
- *Improved MSME awareness of available financial instruments and rules of trade such as letters of credit, Cost Insurance and Freight (CIF), Free on Board (FOB), etc. is needed.* The high dependence on Israeli customers has partially led to low awareness levels of these rules of trade.

## ENTERPRISES MUST IMPROVE AT FULFILLING DOCUMENTATION REQUIREMENTS INVOLVED IN TRADE FACILITATION PROCEDURES

A poor understanding of trade procedures and requirements complicates Palestinian trade facilitation. As the Israeli Government does not disseminate such information, it is up to Palestinian associations to research the latest developments in TI and costs. Palestinian exporters and importers regularly experience delays and increased



Source: © <Sin datos de vínculo>.

costs because of paperwork rejected at border crossings due to lack of information and experience in preparing documentation for import and export procedural requirements.

Palestinian exporters/importers need to be trained on ensuring that all necessary documentation – such as forms and certifications – is available and with custom agents prior to shipment arrival in order to start all the process of clearance. It is estimated that this proactive approach may eliminate at least three to four days of the delays.

## THE BORDER GEAR (QUALITY OF THE BUSINESS ENVIRONMENT)

There are significant trade facilitation challenges faced by Palestinian exporters at border crossings. These include delays at the border because of security checks, the lack of adequate scanning equipment (as at the King Hussein crossing with Jordan), and lack of customs representation at borders. Access to finance (export finance, risk guarantees etc.) is a challenge faced across the board by MSMEs. Issues exist both on the supply side (banks and other financial institutions) and on the demand side (inadequate collateral, limited creditworthiness etc.). The regulatory structure – ranging from high costs of utilities to processes for starting a new business to filling out customs forms – is characterized by burdensome requirements and a lack of information. TSIs, especially the policy, trade services, and business support networks, all suffer from redundancies and lack of capacities. In this regard, the quality of institutional support requires significant improvement.



### Box 9: Overview of business environment issues

- Competition from foreign exporters operating in the Palestinian market, coupled with poor quality monitoring and compliance, is eroding the market share of Palestinian firms in the domestic market.
- The regulatory structure is burdensome for enterprises.
- Implementation gaps related to laws are hindering reforms in the business climate.
- There is a weak regulatory and legislative framework pertaining to quality management.
- There is an urgent need to separate the accreditation and testing functions of PSI and develop an independent, internationally recognized accreditation body.
- The absence of a product classification system is one of the most critical gaps affecting the quality infrastructure.
- The weak lab infrastructure forces firms to use foreign labs, leading to added costs and time delays.
- Capacity challenges at PSI limit the effectiveness and scope of the organization in fulfilling its mandate.
- PSI certifications have full recognition benefits only in limited target markets.
- The weak SPS framework is leading to a reduction in agricultural export flows to target markets.
- Lack of conformance with the internationally recognized standards contained in the Codex Alimentarius affects conformance with best practices.
- Infrastructure gaps in transportation services and storage areas drive up costs and delays.
- There is a need to develop risk guarantee instruments to protect investors and their investments.
- Clearance processes at border crossings are cumbersome and limit access to international markets, as well as causing deterioration of goods.
- Scanners at King Hussein Bridge (KHB) cannot scan containers, necessitating palletized shipment and resulting in delays.
- Pre-shipment inspections are a potential solution to reduce delays at the border with Israel, but are not implemented because of access issues.
- The lack of a Palestinian customs presence at any commercial border crossings acts as a major trade bottleneck.
- Access to finance is limited.
- Greater public and private sector dialogue is needed to manage the access to finance development agenda at the national level.
- Regulations affecting microfinance institutions (MFIs) must be modified in order to increase efficiency in the sector.
- There is a need to develop political risk coverage schemes to protect Palestinian exporters from the high risk environment in which they operate.
- Reforms to the court system to deal with loan defaults in the commercial sector are urgently needed.
- The current legal framework does not allow movable assets to be used as collateral.
- Land control arrangements increase the challenges faced by enterprises in meeting collateral requirements demanded by lending institutions.
- Overlaps and redundancies between ministries, TSIs and other supporting institutions create confusion and delays.
- Gaps in trade support services related to trade logistics increase uncertainty and burdens for exporting enterprises.
- The lack of a Palestinian customs presence at commercial border crossings acts as a major trade bottleneck.
- Restrictions on free movement of goods and services, combined with strict and unpredictable border controls, increase the cost of doing business.
- Costs involved in seeking internationally recognized certifications are perceived to be unaffordable by most Palestinian MSMEs.
- High variable costs affect Palestinian enterprises' bottom line.
- Palestinian traders incur high transportation costs due to unpredictability at border crossings.
- High storage costs at Israeli ports for Palestinian goods held for clearance add to costs and delays.

The analysis of export constraints has also alluded to the need for infrastructure and regulatory reform in the State of Palestine.

### COMPETITION FROM FOREIGN EXPORTERS OPERATING IN THE PALESTINIAN MARKET, COUPLED WITH POOR QUALITY MONITORING AND COMPLIANCE, IS ERODING THE MARKET SHARE OF PALESTINIAN FIRMS IN THE DOMESTIC MARKET

The Palestinian domestic market has experienced significantly increased competition from exporters in China, Vietnam, Turkey and other countries in recent years. This has especially affected sectors, such as leather and footwear, where enterprises are unable to compete with imported products on the basis of price or quantity.

Monitoring capacities at the borders are weak, leading to a proliferation of cheap and low quality products in the domestic market. Apart from capacity challenges, weak monitoring is also the result of poor coordination and collaboration between government, industrial, and non-government sectors. These overlaps create important operational issues in terms of monitoring compliance and maintaining quality assurance levels.

The lax monitoring, both for locally produced goods and imports, has also contributed to the unwillingness of enterprises to invest in equipment and best practices related to quality management. They view these investments as costs that are not recoupable given that poor quality, cheaper goods from foreign suppliers consistently flood the domestic market without any disciplinary action.

### THE REGULATORY STRUCTURE IS BURDENSOME FOR ENTERPRISES

As indicated in the business environment section of this paper, regulations in the State of Palestine are burdensome for businesses. These include laws governing customs, cash transactions, building regulations etc. Specific examples where reform is required include:

- Simplification of administrative procedures (documentation, charges, processes, and eliminating domestic obstacles) by introducing an e-government initiative at all ministries;
- Rationalization of legal fees/costs incurred to register and close a company, in order to make it more efficient to formalize start-up businesses;

- Streamlining of procedures involved in obtaining licences, Certificates of Origin, standards certificates, etc., and introducing electronic workflow (acceptance of electronic documents and applications as part of standard application procedures) in order to speed up processes and reduce delays and costs;
- Provision of online information on procedures and processes involved in the exporting process from a trade facilitation and logistics point of view.

### IMPLEMENTATION GAPS RELATED TO LAWS ARE HINDERING REFORMS IN THE BUSINESS CLIMATE

Implementation of laws passed by legislative bodies is also an issue. For instance, the government passed an international arbitration law in 2000, based largely on the United Nations Commission on International Trade Law (UNCITRAL) model. This is effectively an interim measure, and the implementation gap has constrained enterprises from getting timely resolution. Effective and working arbitration courts will serve as an alternative dispute resolution mechanism and reduce the burden on judicial courts, reducing delays.

Legislation lying in limbo – such as the chamber of commerce (CoC) law – is delaying the development of important service areas such as the TI cross-sector function. This particular law involves tenets that are expected to result in increased financial sustainability for CoCs, which provide important services to their constituent members. The current financial instability faced by CoCs has in turn affected their service delivery in the areas of TI and training services.

### THERE IS A WEAK REGULATORY AND LEGISLATIVE FRAMEWORK PERTAINING TO QUALITY MANAGEMENT

Weak legislation for enforcing establishment of quality and safety monitoring systems is a significant policy issue. Relevant laws on quality do not designate a single authoritative body to lead the quality management framework. The absence of a single authoritative body to deal with WTO issues related to quality management has also resulted in a slow rate of progress.

Enforcement is also a challenge. There is an overall lack of enforcement of quality requirements throughout production life cycles of enterprises in the NES priority sectors, due to which a culture of non-compliance has spread within the MSME sector.

There is an urgent need to separate the accreditation and testing functions of PSI and develop an independent, internationally recognized accreditation body.

Current legislation related to the quality function grants PSI the authority to license and run testing laboratories, contrary to international trends. There is a need to separate the accreditation, certification and testing functions of PSI in order to maintain impartiality. Given the absence of dedicated national institutions, PSI is currently responsible for four important functions – accreditation, standardization, certification, and metrology. The accreditation function especially leads to a conflict of interest, given that PSI itself manages a network of labs. Under the current arrangement, PSI is therefore responsible for certifying testing labs, which it also operates. Also, private sector firms in the quality management arena seeking to develop new services have to obtain certification from PSI, which is effectively a competitor.

To resolve this situation it will be necessary to develop an independent body for accrediting labs and certification providers. This would separate the accreditation and certification functions of PSI, and in the process alleviate pressures on the resource-strapped institution and reduce potential for conflict of interest. While the creation of such a body has been discussed, progress towards implementation has been slow. Part of the cause lies in the high initial costs involved in setting up such body. This is accompanied by an overall lack of integrated effort between different sectors to share the initial cost.

### THE ABSENCE OF A PRODUCT CLASSIFICATION SYSTEM IS ONE OF THE MOST CRITICAL GAPS AFFECTING THE QUALITY INFRASTRUCTURE

There is an urgent need to develop a product classification system through comprehensive statistical analysis and public and private sector dialogue. The function of this classification system will be to guide the main standards issuing body, PSI, in developing quality standards according to specific classifications. Currently, the standards development at PSI is arbitrary and not prioritized. A product classification system will assist PSI to prioritize standards development for products with high export potential. A classification system will also help identify the different product categories being produced, as well as establishing a frame of reference while assessing the size of the market for these products.

Establishing a product classification system will in turn assist testing laboratories and compliance bodies perform their functions. A comprehensive skills and financial and equipment needs assessment for these professional bodies can be conducted based on the product classification system. The product classification system will enable faster standards development based on a certain product subgroup or directory. It will also focus efforts on establishing quality requirements for locally produced products and services, and use these requirements to

control imports from external markets, indirectly supporting local manufacturers and deterring imports of low quality products and services.

### THE WEAK LAB INFRASTRUCTURE FORCES FIRMS TO USE FOREIGN LABS, LEADING TO ADDED COSTS AND TIME DELAYS

Palestinian labs are unable to conduct tests on certain products, which means product samples must be shipped to labs in Israel, Jordan and other countries. Capacity challenges in Palestinian labs extend to shortages and the outdated nature of equipment. For instance, some measurement and calibration equipment is not available for metrology actions to be performed (particle size machines, frequency and electricity, moist measurements in working conditions, rupture measurements).

The shortage of certified and internationally accredited testing labs obliges enterprises to send samples to Israel or other countries for testing. The need to transport the samples adds to the time required for export and to its cost. For instance, there are no internationally accredited testing labs for performing pesticide residue tests, which forces companies to use Israeli labs.

### CAPACITY CHALLENGES AT PSI LIMIT THE EFFECTIVENESS AND SCOPE OF THE ORGANIZATION IN FULFILLING ITS MANDATE

The apex body for quality management (PSI) suffers from significant capacity constraints and organizational weaknesses. These constraints fall within a technical, human resources, and financial scope and have prevented the organization from delivering on a par with expected performance levels. This has ripple effects throughout the quality management function and ultimately affects the main stakeholders – the private sector.

The certification process at PSI is time-consuming. Procedures are very generic in their nature and are neither well-established for specific products or services nor available to the public for ready dissemination. Updates to these procedures are also not quickly disseminated to the public.

Human capital is an important challenge at PSI, and the institution's staff not only suffers from overall low technical qualifications and experience levels, but is also spread too thin. More technical and management staff, as well as boosting existing staff capabilities, is required.

Dialogue between PSI and the private sector needs to be strengthened to ensure relevant and timely collection



**Source:** © andresbedia. Fábrica de jabón de aceite de oliva en Nablus

of feedback, and also to ensure that the feedback loop is completed through the adjustment of PSI services. It is crucial for this strategy to establish an independent body (government or non-government) in charge of coordinating all donor and regional activities related to development of quality information. A stronger international information network and wider participation by the private sector are also key requirements.

### PSI CERTIFICATIONS HAVE FULL RECOGNITION BENEFITS ONLY IN LIMITED TARGET MARKETS

PSI currently has full mutual recognition agreements with five countries (Jordan, Algeria, Morocco, the UAE and Sudan), while the agreement with Israel is undergoing an enhancement process. PSI does not have agreements with other important target markets such as the United States and EU. Surveyed stakeholders have argued that even the agreements with the five countries mentioned are not activated because of 'Arab market lack of trust in PSI certification' and hence, direct personal efforts in sales and marketing are usually the key to accessing these markets.

While PSI may grant accreditation to national laboratories or grant certifications to individual exporting companies, the full benefits of these will only be recognized in the select countries. This has significant bearing on the compliance of Palestinian products in target markets. Products may not meet international quality standards, or may be subjected to stringent testing requirements. In the worst case, Palestinian products may be rejected. Therefore, there is an urgent need to increase the level of international accreditation for PSI. International recognition of PSI will

be established only after PSI certificates become trustworthy, which is itself built on having PSI accredited by an internationally recognized domestic accreditation body.

### THE WEAK SPS FRAMEWORK IS LEADING TO A REDUCTION IN AGRICULTURAL EXPORT FLOWS TO TARGET MARKETS

SPS measures are designed to protect human, animal and plant health, and are frequently a barrier to entry for exports from developing countries owing to capacity issues ranging from issuing guidelines to monitoring compliance. Under the SPS agreement signed at the WTO in 1995, member countries have the right to demand information on imported products and their components throughout the value chain, as a means to maintain traceability.

Traceability refers to the ability to map information on a specific agricultural product as it travels through the value chain – from the inputs stage to final product. Traceability is a tool frequently used by leading importing markets (such as the EU and the United States) as a way to ensure quality of the imported product. Increasingly, the lack of demonstrable capacity in traceability is a significant barrier to entry for exporting firms. Setting up an efficient traceability mechanism requires discipline and resources, not only from enterprises, but also from stakeholders involved across the value chain. It is, therefore, a function of collective effort in the value chain.

Traceability systems are largely non-existent in the State of Palestine. For the most part there is no infrastructure at the enterprise level for applying traceability across



the value chain. Development costs are high, which dissuades enterprises from investing in such infrastructure.

Since most farmers cater to the domestic market, agricultural practices do not stress documentation. This has a significant bearing on the export competitiveness of the agriculture sector, as has been evidenced by recent instances of exports being rejected at the borders. There is thus a need to introduce and implement tracking systems. Regulations must be passed/modified to bring domestic traceability standards in line with international ones, and in parallel training/awareness-building programmes aimed at producers must developed.

Weaknesses related to SPS standards extend to the agro-meat sector as well as crop-based systems, as identified in two studies conducted in 2010: Palestinian Sanitary And Phytosanitary Standards, the World Organization for Animal Health study on veterinary services; and a gap analysis by Technical Assistance and Information Exchange of the European Commission (TAIEX) that compares Palestinian SPS standards to European ones. Both reports identified gaps in Palestinian SPS requirements, including an unclear division of responsibilities between relevant ministries and bodies, the absence of a clear legal authority for food inspection, inadequate lab facilities to test to EU standards, and a number of laws that are not in line with international requirements. MoA has instigated a strategy for addressing the findings, and amendments to the legal framework governing SPS measures are ongoing.

### LACK OF CONFORMANCE WITH THE INTERNATIONALLY RECOGNIZED STANDARDS CONTAINED IN THE CODEX ALIMENTARIUS AFFECTS CONFORMANCE WITH BEST PRACTICES

As part of the WTO's SPS agreement the joint FAO/World Health Organization (WHO) Codex Alimentarius Commission (also known as the codex) has been designated as the 'relevant standard setting organization for food safety'.<sup>98</sup> The Codex Alimentarius is a set of international food safety standards that have been adopted by the Commission. These standards have become the de facto baseline requirements in the trade of processed, semi-processed and unprocessed agricultural products.

The codex recommends proactive inspections and sanctions to maintain food safety, while in the State of Palestine retroactive inspections and sanctions are the norm. This stems from the lack of national legislation for food safety that adopts the international codex as the guiding principles.

98. World Trade Organization (n.d.). The WTO and the FAO/WHO Codex Alimentarius. Available from [http://www.wto.org/english/thewto\\_e/coher\\_e/wto\\_codex\\_e.htm](http://www.wto.org/english/thewto_e/coher_e/wto_codex_e.htm)

#### Box 10: The Codex Alimentarius Commission

In the early 1960s the FAO and WHO recognized the importance of developing international standards for the purposes of protecting public health and minimizing disruption to international food trade. The Joint FAO/WHO Food Standards Programme was established, and the Codex Alimentarius Commission was designated to administer it.

Those who established the Food Standards Programme and the Codex Alimentarius Commission were concerned with protecting the health of consumers and ensuring fair practices in the food trade. They felt that both of these objectives could be best met if countries harmonized their food regulations and adopted internationally agreed standards. Through harmonization, they envisaged fewer barriers to trade and freer movement of food products between countries, which would be to the benefit of farmers and their families and would also help to reduce hunger and poverty. They concluded that the Food Standards Programme would be a solution to some of the difficulties that were impeding free trade.

Over the years, the codex has: developed over 200 standards covering processed, semi-processed or unprocessed foods intended for sale to the consumer or for intermediate processing; developed over 40 hygienic and technological codes of practice; evaluated over 1,000 food additives and 54 veterinary drugs; set more than 3,000 maximum levels for pesticide residues; and specified over 30 guidelines for contaminants.



## INFRASTRUCTURE GAPS IN TRANSPORTATION SERVICES AND STORAGE AREAS DRIVE UP COSTS AND DELAYS

Weaknesses in logistics infrastructure cause significant costs to Palestinian enterprises. For example, there are no major trucking companies in the State of Palestine and fleet sizes are small in most cases. Also, capacity in existing companies is quite low, and the high fleet idle time is driven by movement restrictions and delays at checkpoints, which in turn prevent a greater number of trips per truck per day.<sup>99</sup>

Another constraint is the absence of storage areas such as warehouses and storage depots, especially close to border crossings. This is primarily related to access restrictions imposed on Area C. These infrastructure weaknesses also exist for non-Area C regions, in line with low investment levels resulting from the prevailing political instability in the region. The setting up in the long term of logistics centres, extensions of one-stop shops, could ensure Palestinian exporters have access to all key services in collective service areas.

## THERE IS A NEED TO DEVELOP RISK GUARANTEE INSTRUMENTS TO PROTECT INVESTORS AND THEIR INVESTMENTS

The fragile economic, political and security climate is detrimental to the inflow of investment – both domestic and international – into the economy. While the underlying conditions are not expected to change in the near term, the government can still put in place measures to improve the level of confidence that investors have in the Palestinian economy. Government-backed risk guarantee schemes are a good example of such measures. There are currently no government-backed risk guarantees for investors to protect their investments. There is also no tax incentive associated with investments, especially domestic investments.

## CLEARANCE PROCESSES AT BORDER CROSSINGS ARE CUMBERSOME AND LIMIT ACCESS TO INTERNATIONAL MARKETS, AS WELL AS CAUSING DETERIORATION OF GOODS

Complex and time-consuming administrative and security procedures at border crossings are frequently considered a primary constraint to efficient trade facilitation.

Prohibitive transaction costs at major commercial crossings mostly cause losses in the way of damaged goods and long waiting times.<sup>100</sup>

Regulations and procedures – both in terms of administration and physical movement – are cumbersome and ultimately result in inflated prices for businesses/end customers, while also adversely affecting the ability of exporters to manage customer expectations.

Delays at commercial crossings make it necessary for goods to arrive early in the day. Goods that arrive to the crossings in the afternoon risk not being able to cross the border before the evening closing.<sup>101</sup> Furthermore, crossings lack the infrastructure to store perishables. Security inspections take a substantial amount of time because of the lack of container scanners. As a result, all goods crossing the border must be transported by pallets rather than in containers.

The clearance process at border crossings involves the back-to-back system, in which trucks from either side are not allowed to cross over and goods from one side of the border are offloaded, inspected (thoroughly in the case of goods inbound to Israel) and transported to trucks on the other side.<sup>102</sup> This causes significant delays, backlogs, and spoilage in the case of agricultural goods because of cold chain disruption. Risk of damage to furniture goods which cannot be palletized is also high when they are cross-loaded or manually inspected.<sup>103</sup>

The back-to-back loading process is expensive and inefficient. Back-to-back loading, even if performed as efficiently as possible, adds time and costs to the shipping process. A World Bank study found that travel times out of the State of Palestine averaged nearly double the predicted time if there were no delays.<sup>104</sup> Reducing the amount of back-to-back shipments would reduce the costs of bringing Palestinian goods to market.

While Gaza is under a near-complete embargo by Israel, the West Bank technically has access to markets in Israel, Jordan and regional/global economies (primarily through the King Hussein Bridge connecting the West Bank with Jordan).<sup>105</sup>

100. UNCTAD (2012). *The Palestinian Economy: Macroeconomic and Trade Policymaking under Occupation*, 2012, p. 4.

101. The border is only open from 8:00 to 17:00; the shipment has to arrive by 15:00 to have time to cross.

102. PalTrade/Palestinian Shippers' Council (2009). *Facilitating Palestinian Global Trade Through Jordan and Egypt*, p. 47.

103. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*, p. ii.

104. *Ibid.*

105. PalTrade/Palestinian Shippers' Council (2009). *Facilitating Palestinian Global Trade Through Jordan and Egypt*, p. 36.

99. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*, p. 5.



Source: © Michael.Loadenthal. Beit Furik checkpoint.

### SCANNERS AT KING HUSSEIN BRIDGE (KHB) CANNOT SCAN CONTAINERS, NECESSITATING PALLETIZED SHIPMENT AND RESULTING IN DELAYS

Container shipping is seen as preferable in many cases because of lower costs and better protection of the goods being shipped. In the absence of scanners that can scan containerized shipments (entire containers/trucks), shipments are either scanned pallet by pallet (as in the case of KHB), or inspected by dogs, as in the case of the West Bank-Israel border crossings. The latter results in a transportation loss of 20% as exporters are forced to reduce material per truck (from 20 tons to 16 tons) to accommodate inspections (both human and by trained security dogs).<sup>106</sup>

### PRE-SHIPMENT INSPECTIONS ARE A POTENTIAL SOLUTION TO REDUCE DELAYS AT THE BORDER WITH ISRAEL, BUT ARE NOT IMPLEMENTED BECAUSE OF ACCESS ISSUES

The information received noted that Israeli standards testing at the border are a challenge because shipments have to wait at a designated area until the test results are out. There is no provision yet for pre-shipment inspections, mainly because current border management regulations do not permit them.

### THE LACK OF A PALESTINIAN CUSTOMS PRESENCE AT ANY COMMERCIAL BORDER CROSSINGS ACTS AS A MAJOR TRADE BOTTLENECK

There is no Palestinian representation (either private or public) at ports and airports. This leaves the Israeli authority in complete control over the whole customs and clearance processes, including setting of costs.

While the Oslo accords called for joint supervision at Israeli/Palestinian borders, the second intifada resulted in the cessation of joint control, the closure of Damia Bridge,<sup>107</sup> increased security control, and consequently increased delays at borders. This lack of Palestinian customs representation is a lost channel of communication from the perspective of Palestinian exporters.

Palestinian traders always need an Israeli clearing/customs agent because Palestinian agents are not allowed to operate inside Israel. The absence of Palestinian customs agents at border crossings complicates communications processes and leads to information asymmetry.<sup>108</sup> This also results in a high reliance on Israeli brokers or companies for transferring or moving goods.

The PNA used to have a limited presence at KHB, which could have been expanded to include customs and other logistics functions. For instance, because of the lack of Palestinian presence at KHB the border crossing remains an Israeli-controlled border despite being intended as an alternative route to existing routes through Ashdod, Haifa and other Israeli-controlled borders. The strict and rigid procedures and treatment that Palestinians face at other controlled borders are also as an impediment at KHB.

106. Palestinian Shippers' Council/UNCTAD (2012). *Capacity Development for Facilitating Palestinian Trade: A Study on the Proposed Mobile Scanner at King Hussein Bridge*.

107. PalTrade/Palestinian Shippers' Council (2009). *Facilitating Palestinian Global Trade Through Jordan and Egypt*, p. 8.

108. Palestinian Shippers' Council (2012). *Capacity Development for Facilitating Palestinian Trade: A Study on the Proposed Mobile Scanner at King Hussein Bridge*. UNCTAD.

### Box 11: King Hussein Bridge

Allenby Bridge, commonly known as the King Hussein Bridge (KHB) became the only major commercial crossing between the State of Palestine and Jordan and the rest of the Arab world due to the closure of Prince Muhammad Bridge in 2003. The State of Palestine has maintained the flow of goods via KHB in order to ensure that Arab markets remain an option for the majority of the Palestinian products; however this arrangement poses significant challenges to Palestinian exporters.

The setup at KHB (Israeli and Jordanian sides) is unable to handle the flow of goods in both directions despite the slight increase in volume that has been noted over the past few years. Therefore, a major revamp on both sides is necessary to improve efficiency levels and to ensure that the route becomes a major one for Palestinian inflow and outflow of goods.

Major infrastructure challenges at the bridge include lack of storage and cooling facilities and the lack of containerized scanning facilities. The crossing lacks the necessary infrastructure to store perishables. There are no cold storage facilities available at the crossing, and the loading and unloading areas are not protected from the weather.<sup>109</sup>

Procedural constraints affect Palestinian exports, primarily related to the use of the back-to-back system, which is discussed below in more detail.

109. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*, p. iii.

## ACCESS TO FINANCE IS LIMITED

The ability of enterprises to access operating and investment capital, as well as export finance, is a key condition for the success of an exporting State of Palestine. At the moment access to finance can be difficult for Palestinian enterprises. There are numerous factors contributing to this situation.

In general enterprises in urban areas have access to bank branches, which can often be very limited outside of major towns and cities.<sup>110</sup> Even when the physical infrastructure is present, access to credit is very limited, particularly for MSMEs, which comprise the vast majority of businesses in the State of Palestine.<sup>111</sup> The limited access to credit is confirmed by the getting access to credit indicator of the Doing Business report. This report places the State of Palestine at a rank of 166 out of 183 because of numerous gaps in the financial regulatory framework and the absence of reforms to address the issues over the last three years.

According to past research a third of loan applications are rejected for insufficient collateral, and SMEs indicate that

over 70% of all applications are rejected for this reason.<sup>112</sup> A key reason for this may be that banks continue to apply conservative lending policies.<sup>113</sup>

In addition to operating and investment capital, exporting SMEs require specific financial instruments such as pre-shipment export finance to cover the costs of developing a new export venture, and post-shipment export finance to ensure the enterprise continues to have working capital until the cargo has been sent and payment from the buyer received. At the moment, there are certain export finance mechanisms available to exporters;<sup>114</sup> nonetheless additional mechanisms from banks and the government should be made available to exporters. The NES defines the priorities for exporters to increase their access to financial instruments for export development.

110. Oxford Policy Management (2011). *The Future of Financial Inclusion Through Electronic Banking Models in the State of Palestine and the Resulting Regulatory Implications*. USAID, p. 2.

111. *Ibid.*, p. 4.

112. Palestine Economic Policy Research Institute (2005). *Report: Financing Palestinian SMEs*, p. 3.

113. Palestine Monetary Authority (2011). *Key Macroeconomic and financial indicators in the State of Palestine, Israel and some MENA countries*, p. 23.

114. HSBC (n.d.) Retail and Commercial Banking in Palestine. Available from <http://www.hsbc.jo/1/2/hsbc-palestine>

## GREATER PUBLIC AND PRIVATE SECTOR DIALOGUE IS NEEDED TO MANAGE THE ACCESS TO FINANCE DEVELOPMENT AGENDA AT THE NATIONAL LEVEL

A private and public platform to ensure adequate coordination of efforts aimed at improving access to finance options is urgently required. This could be implemented through the establishment of a standing public-private committee to manage the finance development agenda. In this regard the role of public sector entities such as MoNE, MoF and PMA, and private sector representative bodies such as PalTrade and the Banking Association, will be important.

## REGULATIONS AFFECTING MICROFINANCE INSTITUTIONS (MFIS) MUST BE MODIFIED IN ORDER TO INCREASE EFFICIENCY IN THE SECTOR

There is no regulatory framework relating to microfinance institutions in the State of Palestine. In the absence of a framework, microfinance institutions are led through donor support and are registered as charities. To an extent, this has affected the efficiency and infusion of best practices that the commercial lending sector is usually associated with. Microfinance institutions do not operate under strict commercial rules, leading to low levels of transparency and efficiency.

In order to bring the regulatory requirements for MFIs in line with those of commercial banks, registration requirements should be modified for non-profit MFIs. This has already been indicated in the PMA MFI regulation work plan and will be implemented through a regulation passed by PMA after deliberations are completed.

## THERE IS A NEED TO DEVELOP POLITICAL RISK COVERAGE SCHEMES TO PROTECT PALESTINIAN EXPORTERS FROM THE HIGH RISK ENVIRONMENT IN WHICH THEY OPERATE

There is a need to develop political risk coverage/insurance schemes that will provide insurance on delays in delivery resulting from political risks such as closures, curfews, delays at checkpoints etc. A number of public and private sector actors will play a critical role in ensuring the development of such financial risk mitigation instruments. They include MoNE, the Palestine Capital Markets Authority (PCMA), PIF, the Palestine Insurance Federation, MoF and PalTrade.

Source: © PalTrade



## REFORMS TO THE COURT SYSTEM TO DEAL WITH LOAN DEFAULTS IN THE COMMERCIAL SECTOR ARE URGENTLY NEEDED

Lending institutions reduce the risk of default on loans by asking for high collateral. One of the factors leading to this risk is the prevailing inefficiency within the judicial system. The turnaround time for a liquidation process initiated based on loan defaults is very long and adds to transaction costs for banks. This increases the overall cost for banks to provide loans.

To improve this situation, mechanisms to expedite the collateral liquidation process and legal mechanisms for the enforcement of court decisions are urgently required. This would increase financial institutions' trust in the system and thereby increase the provision of credit granted by banks. Key actors involved in this reform process will include the Ministry of Justice (MoJ), PMA, MoNE, and the Land Authority.

A related critical gap is the absence of specialized courts that can deal with business challenges in a swift and efficient manner. Creation of specialized commercial/financial courts to expedite the process of dispute resolution through specialized venues will help alleviate this constraint. For international trade disputes, alternative dispute resolution mechanisms could be implemented by MoJ and the International Chamber of Commerce's Arbitration Center.



## THE CURRENT LEGAL FRAMEWORK DOES NOT ALLOW MOVABLE ASSETS TO BE USED AS COLLATERAL

There is currently no registry for movable assets and the legal framework for such a registry does not exist. Given the challenges that companies face in using land as collateral, movable assets collateralization could offer alternate options. The enactment of a movable assets law and creation of a movable assets registry would ensure the possibility of using movable assets as collateral by protecting creditors that accept movable assets, and also allowing more flexibility for loan seekers to access credit.

## LAND CONTROL ARRANGEMENTS INCREASE THE CHALLENGES FACED BY ENTERPRISES IN MEETING COLLATERAL REQUIREMENTS DEMANDED BY LENDING INSTITUTIONS

Exporting enterprises face significant challenges in using land as collateral for securing loans. There is no land registry in Area C, which is under Israeli military control. For this reason, land owned in Area C cannot be used as a collateral requirement.

For Area B also, collateral use of land is not possible in cases where there is a security issue. According to the Oslo accords, civilian affairs in Area B are the responsibility of the PNA, while security affairs are the responsibility of the Israeli side. In reality, this arrangement has led to no development of facilitation of land registration. There is an urgent need to extend the effectiveness of the land registry to include Area B so that more real estate collateral can be used to access credit.

In Area A, the land registry functions quite well but there are some issues with contracted land, especially in Bethlehem, and Hebron to a lesser extent. Most of the land in these areas is either owned by the government or the church, and land is contracted out by these entities. Such land cannot be used as collateral.

## OVERLAPS AND REDUNDANCIES BETWEEN MINISTRIES, TSIS AND OTHER SUPPORTING INSTITUTIONS CREATE CONFUSION AND DELAYS

The survey of TSIs identified a number of overlaps in the services offered by different institutions. These overlaps transfer the burden – in terms of cost, time delays, and additional paperwork – to businesses, effectively increasing the cost of doing business. Following are select examples of overlaps that prove burdensome to enterprises:

- Even though PSI is the only government agency mandated with setting and issuing standards, there are instances where Palestinian ministries have issued their own standards – which enterprises are also obliged to satisfy. This results in confusion and increased costs.
- There are multiple approval requirements (from different ministries) for activities like building new constructions (of a particular size, such as in the case of factories etc.). In certain cases, it may take several years to gain the required approval, at which point the business case for the project may not seem feasible anymore.
- Based on the information received, duplication of services between TVET centres is also an issue.

## GAPS IN TRADE SUPPORT SERVICES RELATED TO TRADE LOGISTICS INCREASE UNCERTAINTY AND BURDENS FOR EXPORTING ENTERPRISES

Service delivery of TSIs supporting the exporting sector is uncoordinated and often incomplete. Frequently, exporters are left to their own devices to find out important information rather than depending on TSIs mandated for this purpose.

- Palestinian ministries do not offer a hotline or out of hours help desk for beneficiaries who urgently need assistance, such as a last minute Certificate of Origin, sample testing, etc.
- Exports licensing is a tedious process for enterprises. Israeli traders can obtain an importing license or exporting licence in some cases in a few hours, whereas a Palestinian counterpart would need 4-7 working days and sometimes more. This is an additional burden in terms of delays and costs to the private sector.
- Another important requirement is to establish a help desk support for Palestinian exporters to liaise with Israeli officials when technical problems arise in terms of paperwork etc. Palestinian traders are left to the hands of Israeli freight forwarders and custom agents to resolve technical problems with Israeli customs, ministries, army, etc., whereas this is the responsibility of Palestinian ministries to resolve.

The absence of these and other key export services make it difficult for SMEs to effectively enter and compete in international markets.



## RESTRICTIONS ON FREE MOVEMENT OF GOODS AND SERVICES, COMBINED WITH STRICT AND UNPREDICTABLE BORDER CONTROLS, INCREASE THE COST OF DOING BUSINESS

Movement restrictions on goods and services within the State of Palestine have resulted in increases in transportation costs (fuel, equipment, labour) as well as high opportunity costs stemming from the inability of Palestinian enterprises to achieve economies of scale.<sup>115</sup> Delays at checkpoints and border crossings also lead to increased transaction costs as indicated by the following restrictions (partial list):

- The back-to-back handling process and inspection of palletized goods (versus containerized scanning) frequently leads to handling damage;
- Decreased capacity utilization of trucks due to inspection procedures (use of security dogs);
- Spoilage of perishable goods waiting in line for inspections at border crossings;
- Diversion to Ashdod port at the shipper's expense if the cargo is unsuitable for the small scanners available at King Hussein Bridge.<sup>116</sup>

## COSTS INVOLVED IN SEEKING INTERNATIONALLY RECOGNIZED CERTIFICATIONS ARE PERCEIVED TO BE UNAFFORDABLE BY MOST PALESTINIAN MSMEs

International certifications including ISO, Hazard Analysis and Critical Control Points (HACCP), Good Manufacturing Practices (GMP) and Good Agricultural Practices (GAP) involve fees which are relatively high and thus limit the number of MSMEs in the Palestinian private sector that can afford to apply for them. These fees include the costs involved in the initial assessment of readiness audit that enterprises have to go through as part of the certification process.

The high fees are primarily driven by the relatively low number of auditing institutions available within the State of Palestine. The root cause for the low number of qualified and certified auditors is the low demand in the domestic market.

What contributes most to this problem is the fact that the certification process, in most cases, requires investments in production lines and related infrastructure, which adds to the perception of high costs involved in seeking certifications.

115. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*, p. i.

116. *Ibid.*, p. iii.

## HIGH VARIABLE COSTS AFFECT PALESTINIAN ENTERPRISES' BOTTOM LINE

World Bank survey results point to the fact that variable costs such as fuel, tyres and maintenance are higher in the State of Palestine than neighbouring countries such as Jordan. Fuel costs are more than double that of Jordan, while the cost of tyres is 70% higher.<sup>117</sup> Detours necessitated by road closures and checkpoints often lead trucks onto poor roads that are unsuitable for commercial cargo, leading to long transit times and increased maintenance costs.<sup>118</sup> These costs affect the bottom line of Palestinian enterprises.

## PALESTINIAN TRADERS INCUR HIGH TRANSPORTATION COSTS DUE TO UNPREDICTABILITY AT BORDER CROSSINGS

Palestinian traders incur high transportation costs in getting their export products from warehouses to ports, and vice versa in the case of imports. Because of movement restrictions, Israeli cars are allowed to pick up shipments from the West Bank and deliver them to ports or airports in Israel through only two crossings out of the four.

Palestinian vehicles going from warehouses to border crossings (and vice versa), and Israeli vehicles going from border crossings to the port (and vice versa) have to coordinate their arrival at the border crossings in order to perform the back-to-back movement of goods. Additionally, if the vehicles reach border crossings after 16:00, or if the crossings are closed, drivers on either side are liable to double or quadruple their charges.

Unpredictability of border management remains an important reason for the high overages, delays and general hardship faced by exporters in logistical matters. Measures that would help to alleviate these constraints include ensuring that borders operate 24 hours and ensuring that goods that leave the port do not require any additional security checks once they arrive at border crossings (in the case of imports).

## HIGH STORAGE COSTS AT ISRAELI PORTS FOR PALESTINIAN GOODS HELD FOR CLEARANCE ADD TO COSTS AND DELAYS

Storage costs at ports/borders are high for Palestinian goods awaiting clearance, for a variety of reasons including the following:

117. *Ibid.*, p. 5.

118. *Ibid.*, p. 5.



Source: © PalTrade

- Non-declaration of imported products, or importing raw materials that are prohibited;
- Missing documentation and licences, including Israeli *Teken* certifications;
- Delays due to rigorous inspections. For instance, all hardware goods take longer than usual due to extra inspections conducted by the military.

These constraints result in exporters having to store goods in a storage area for longer than expected, until the customs authorities either clear them or refuse entry. Given the limited space, the cost for storage at ports usually runs almost 20 times higher than the cost of storing goods elsewhere. Storage space is also allocated by Israeli customs agents, with general disregard for the preferences of Palestinian exporters or importers.

Certain facilities –such as bonded warehouses close to Israeli ports and airports– are freely available to Israeli exporters, but Palestinian firms face challenges in negotiating good prices. The issue of negotiating rates is left to the contracted Israeli customs agents to decide, which is not advisable considering they operate on a commission basis.

Israeli companies are privileged to use their own warehouses as bonded, while Palestinian firms do not have

this option. For instance, an Israeli car importer can use their own warehouse or showroom as a bonded area under the supervision of Israeli Customs. This enables them to have better cash flow and not to pay customs until the car is sold. In this regard, Israeli companies have a significant competitive advantage. Lobbying and advocacy for the setting up of bonded areas for Palestinian exporters/importers at ports/borders could contribute to reducing storage costs.

## THE BORDER-OUT GEAR (MARKET ENTRY)

Despite many markets being available through preferential access and bilateral/multilateral trade agreements, the Palestinian private sector has been largely unable to penetrate international markets. Israel remains the biggest export market for Palestinian products, a relationship which is being tested by structural changes in the Israeli economy. The constraints noted for the supply-side and business environment areas are partly to blame for the low capacity of Palestinian enterprises in sustaining export relationships. Lack of information on market opportunities and inadequate representation and participation in international markets by enterprises and trade representatives also contribute to the challenge.

## Box 12: Overview of market entry issues

- Inability to penetrate new markets has led to dependence on select markets.
- Heavy dependency on Israel and structural changes in the Israeli economy transfer significant increased risk to Palestinian exporters.
- There is a need to develop market access policies to facilitate entry into new markets.
- Low recognition of trade agreements by the Government of Israel (GoI) adversely affects the competitiveness of Palestinian exports.
- There is no one-stop shop or single window system to provide Palestinian exporters with information on emerging/current market trends, market entry requirements, opportunities, etc.
- Lack of export promotion activities in international markets limits visibility for Palestinian brands, and also limits flows of information related to trends, opportunities and market requirements.
- Exporters incur high demurrage costs.
- Paucity of logistics and procedural information has increased dependency and resulted in a weak negotiating position vis-à-vis Israeli logistics providers.
- Enterprises need to take a proactive approach to increase their level of self-reliance in collecting information on documentation requirements and import/export procedures.
- Lack of publicly available TI is a significant challenge for MSMEs.
- The high costs of market research reports, and inadequate knowledge on accessing free (and reliable) sources of TI, deprives MSMEs of information about target markets.
- There is a need to increase the public-private dialogue on trade.
- There is a need to integrate Palestinian consulates and trade representations into the TI function.
- Lack of coordination between Palestinian and Israeli officials places a high administrative burden on Palestinian exporters and adds to the information gap.
- Development and promotion of the Palestinian brand has an important bearing on export competitiveness.
- Visa restrictions make it difficult to organize international trade fairs in the State of Palestine.

## MARKET ACCESS AND POLICY REFORM

### INABILITY TO PENETRATE NEW MARKETS HAS LED TO DEPENDENCE ON SELECT MARKETS

Palestinian exports remain confined to select markets. As indicated in the macroeconomic overview section, the State of Palestine is reliant on a small number of destination markets, specifically Israel. The number of countries with a share in total exports exceeding 1% has remained in the single digits, while Palestinian exports to the United States, UAE and Saudi Arabia have remained steady at between 0.9% and 1.9%.

The lack of market diversification can be attributed to a combination of factors, including (but not limited to) inadequate utilization of market access opportunities (in terms of preferential access and bilateral/multilateral trade agreements), inability to meet target market requirements in the areas of product quality and volumes, and lack of capacity diversification in line with consumer trends in international markets. The dependence on select markets

leaves the Palestinian economy susceptible and unable to manage external shocks (for instance, economic upheavals affecting markets).

### HEAVY DEPENDENCY ON ISRAEL AND STRUCTURAL CHANGES IN THE ISRAELI ECONOMY TRANSFER SIGNIFICANT INCREASED RISK TO PALESTINIAN EXPORTERS

The interconnectedness of the Palestinian and Israeli economies has been well documented. The two countries exist as a quasi-customs union. In recent years over 80% of all Palestinian exports have gone to Israel. This traditional dependency primarily involves low value added goods.

These strong economic ties are greatly influenced by the complex political climate that exists between the State of Palestine and Israel. Some restrictive policies regarding the movement of products and labour have constrained the Palestinian economy and limited the level of economic growth and investment. These policies towards





Source: © reway2007. Palestinian Dates

the State of Palestine have directly and indirectly affected its trade competitiveness. Israel's economy has also undergone structural changes in recent years, with consumers moving towards higher value goods as income levels rise. Implications for Palestinian businesses will include the need to find new customers, as well as increase value addition in products and services. This challenge is important and will require a coordinated effort of public and private stakeholders in the export sector.

### THERE IS A NEED TO DEVELOP MARKET ACCESS POLICIES TO FACILITATE ENTRY INTO NEW MARKETS

The State of Palestine has access –in principle– to a host of international markets through bilateral and multi-lateral free trade and preferential trade agreements. The Palestinian cause enjoys a high degree of political goodwill in the international community (especially within the Arab world), that Palestinian exporters can potentially leverage to their advantage. In practice, however, deep integration of exporters and Palestinian institutions in export markets through trade agreements has not taken place, and in some cases there is limited follow-up on the implementation of free trade agreements.

### LOW RECOGNITION OF TRADE AGREEMENTS BY THE GOVERNMENT OF ISRAEL (GOI) ADVERSELY AFFECTS THE COMPETITIVENESS OF PALESTINIAN EXPORTS

Trade agreements such as the Interim Association Agreement signed between the EU and the State of Palestine are not recognized by the GoI, resulting in Palestinian enterprises having to pay tariffs at border controls even when they are not required to do so. This increases both the cost of doing business and the level of uncertainty in the export value chain.

### THERE IS NO ONE-STOP SHOP OR SINGLE WINDOW SYSTEM TO PROVIDE PALESTINIAN EXPORTERS WITH INFORMATION ON EMERGING/CURRENT MARKET TRENDS, MARKET ENTRY REQUIREMENTS, OPPORTUNITIES, ETC

Enterprises wishing to access trade services (including TI, administrative permissions, and logistical services such as packaging and shipping) must rely upon various uncoordinated government agencies and institutions.

Although many of the services that they require may, in fact, be available, they have to liaise with a variety of agencies and service providers to access them. The fragmented nature of the service infrastructure, spread across multiple sources that are disconnected and unsynchronized, is a significant issue. As a result, companies are often left frustrated by their inability to navigate a complex web of institutional data sources.

There is an urgent need for the development of a one-stop shop that is a comprehensive source of reliable trade services. This resource, which would collect and organize all relevant services in one location, would become the focal point for such trade services. Such a solution would provide easy and quick access to data on TI (market trends, access, preferences, regulations, logistics, import/export procedures, consumer trends in target markets, market opportunities, etc.) as well as trade services such as packaging, shipping, etc.

The one-stop shop will be dependent on the single window system, which is a single gateway to fulfilling all administrative requirements involved in trading. The absence of a single window system in the State of Palestine has led to very little coordination and multiple redundancies in terms of documentation requirements of ministries and official agencies.

Under the current system, exporters are required to coordinate with onerous and often redundant requirements between ministries to fill out important paperwork, often resulting in mistakes and missing details.

There is no point of reference at any of the Palestinian ministries or a joint office that can assist with administrative details. This increases the burden for exporters, and results in frequent rejections of paperwork on the Israeli side. Ministries possess limited capacity for advising importers on the technical needs for certain products, which leaves them in the hands of Israeli freight forwarders.

## LACK OF EXPORT PROMOTION ACTIVITIES IN INTERNATIONAL MARKETS LIMITS VISIBILITY FOR PALESTINIAN BRANDS, AND ALSO LIMITS FLOWS OF INFORMATION RELATED TO TRENDS, OPPORTUNITIES AND MARKET REQUIREMENTS

There is an urgent need to expand promotion activities in international markets through exhibitions and trade fairs. There is also a need to train and deploy commercial attachés at Palestinian embassies or representation offices. These attachés would be responsible for promoting Palestinian goods and services in international markets, linking exporters with the Palestinian diaspora in the country, and be a valuable source of TI to feed back to the State of Palestine.

## EXPORTERS INCUR HIGH DEMURRAGE COSTS

Palestinian goods take an average of 10 to 14 days to clear from Israeli ports, leading to high demurrage costs due to the delay in clearance. The delay is partly because of security controls. Palestinian containers go through rigorous checks, which sometimes exceed the free time allowed by shipping lines. This results in an extra cost incurred by exporters for returning the containers past the normally allowed demurrage time of seven days.

Advocacy and lobbying with international shipping lines (through Palestinian private sector institutions and other public representations) to ease restrictions on containers destined for the State of Palestine is needed. An increase from the current seven day timeframe to 14-21 days is required. However, the onus also lies on exporting enterprises. Enterprises need to prepare better, with required documents and certifications made available to customs agents prior to the shipment arrival in order to start the clearance process. This has the potential to eliminate at least 3-4 days of the delay.

## PAUCITY OF LOGISTICS AND PROCEDURAL INFORMATION HAS INCREASED DEPENDENCY AND RESULTED IN A WEAK NEGOTIATING POSITION VIS-À-VIS ISRAELI LOGISTICS PROVIDERS

Palestinian exporters have very limited access to information on ports, airports, set procedures for import/export, documentation requirements, etc. This has increased the reliance on Israeli freight forwarders and custom agents. In many cases, this dependence has resulted in higher

service costs as well as delays, including the high variance in exchange rates set by agents. It has also weakened the negotiating position of Palestinian exporters.

Even with the Palestinian Trade Facilitation Portal, exporters generally lack the knowledge, experience and practical awareness of all the steps that a certain product or shipment has to go through. Some enterprises do build a knowledge base on procedures and paperwork requirements (both Palestinian and Israeli), but they generally face challenges in keeping this base regularly updated or exhibit a heavy reliance on Israeli counterparts to complete it on their behalf.

Moreover, movement restrictions have resulted in enterprises relying more on research rather than practical fact finding missions to ports, crossings, airports, etc. Infrequent assistance from Israeli officials to facilitate such visits is also a contributing factor. These gaps have a significant impact on costs and time wastage within the chain of supply.

A Palestinian centralized, online and regularly updated database must be made available for Palestinian exporters to access up-to-date information related to procedures and regulations for exporting through Israeli ports and other logistics hubs. The establishment of an information service or office that can directly support exporters (provide alternatives) in case of closures or delays at the crossings would also be an important improvement.

## ENTERPRISES NEED TO TAKE A PROACTIVE APPROACH TO INCREASE THEIR LEVEL OF SELF-RELIANCE IN COLLECTING INFORMATION ON DOCUMENTATION REQUIREMENTS AND IMPORT/EXPORT PROCEDURES

A poor understanding of trade procedures and requirements further complicates Palestinian trade facilitation. As the Israeli Government does not disseminate such information, it is up to Palestinian associations to research the latest developments in TI and costs. Due to lack of information and experience in preparing documentation for import and export procedural requirements, Palestinian exporters and importers regularly experience delays and increased costs because of paperwork being rejected at border crossings.

Palestinian exporters/importers need to be trained on ensuring that all necessary documentation, such as forms and certifications, are available and with custom agents prior to shipment arrival in order to start the clearance process. It is estimated that this proactive approach may eliminate at least 3-4 days of delays.



## LACK OF PUBLICLY AVAILABLE TI IS A SIGNIFICANT CHALLENGE FOR MSMEs

Given that the Palestinian economy is primarily comprised of MSMEs (many of them family-owned) with small budgets on average, the relevance and importance of publicly available TI is high, since these enterprises are largely unable to afford on-demand TI. When information is available publicly it is often unreliable and outdated, which leads to further confusion for enterprises. Developing timely and reliable TI requires a level of rigorous analysis and financial investment which Palestinian TI providers are unable to provide for free beyond a certain point.

## THE HIGH COSTS OF MARKET RESEARCH REPORTS, AND INADEQUATE KNOWLEDGE ON ACCESSING FREE (AND RELIABLE) SOURCES OF TI, DEPRIVES MSMEs OF INFORMATION ABOUT TARGET MARKETS

One aspect of the due diligence involved in exploring new target markets involves seeking out sources of TI specific to the enterprise's sector and desired target markets. Market research reports like those compiled by sources such as Euromonitor are financially prohibitive for the majority of Palestinian enterprises. Accompanying this challenge is the lack of systematic identification of free sources of TI that enterprises can access. The sum effect is a vacuum of TI.

## THERE IS A NEED TO INCREASE THE PUBLIC-PRIVATE DIALOGUE ON TRADE

The lack of dialogue between the public and private sectors has increased the gap between political and economic strategies, ultimately affecting progress on trade facilitation issues. This gap is related to official channels on both the Palestinian and Israeli sides, and also the private sector. Successive governments have neglected to use private sector experience in determining prioritized needs to use in negotiations. The private sector was not involved in any of the consultations that led to negotiating briefs for free trade agreements. This has contributed to the trade facilitation and logistics challenges faced by enterprises.

Another factor affecting the levels and quality of public-private partnership is the high turnover rate at both private and public enterprises. The current public/private institutions capacity is worse than five years ago due to high personnel turnover, and this slows progress.

Therefore, there is an important need to bridge the gap and generate synergy between the Palestinian Private Sector Coordinating Council (PSCC), which represents 11 of the major trade institutions, and the government. This would involve the Council in assessing needs and evaluating project proposals and ongoing projects.

Donors can also play an important role in strengthening the public-private partnership by ensuring and insisting that projects involve strong linkages between the private sector and government institutions.

## THERE IS A NEED TO INTEGRATE PALESTINIAN CONSULATES AND TRADE REPRESENTATIONS INTO THE TI FUNCTION

Palestinian trade representations and consulates are in an ideal position to collect valuable market intelligence and trends in target markets in which they are present, and feed this information back to Palestinian TI providers for dissemination to enterprises. However, this feedback loop – which exists but functions on an ad hoc basis – is weak and must be formalized. A network of TI providers will need to be linked with consulates/trade representations to assess capabilities and assign responsibilities. Training will also play an important part. Officers at consulates and trade representations will need adequate training on the kind of information that will be required, the sources to tap into, and the frequency at which to feed this information back to the State of Palestine.

## LACK OF COORDINATION BETWEEN PALESTINIAN AND ISRAELI OFFICIALS PLACES A HIGH ADMINISTRATIVE BURDEN ON PALESTINIAN EXPORTERS AND ADDS TO THE INFORMATION GAP

There is a near complete lack of coordination between Palestinian and Israeli ministries. Since Israeli authorities change rules and regulations without necessarily informing or consulting with their Palestinian counterparts, it is important for relevant Palestinian authorities to manage the efficient collection and dissemination of information.

Due to the non-availability of updates, enterprises often have to repeat the documentation process post-submission. Ministries lack access to information and daily updates on importing/exporting procedures that Israel imposes or changes. Therefore, traders' documentation is sometimes exchanged back and forth between Israel and the State of Palestine owing to lack of knowledge on the Palestinian side concerning the latest requirements.

The lack of coordination between Palestinian ministries, especially on licensing and ensuring that applications are complete prior to sending them to Israeli ministries for approval and issuance, often results in rejection of the paperwork by the pertinent agency on the Israeli side.

### DEVELOPMENT AND PROMOTION OF THE PALESTINIAN BRAND HAS AN IMPORTANT BEARING ON EXPORT COMPETITIVENESS

There is a need to develop a national brand for Palestinian products that conveys values such as high product quality, diversity of products and, ultimately, values associated with and important to the Palestinian people. The lack of financial resources for supporting participation of Palestinian exporters and official representatives in international trade fairs/exhibitions has resulted in the slow pace of development and promotion of such a Palestinian brand. Such a brand is also important given that the State of Palestine currently conjures up images associated with conflict. There is a lack of awareness of the importance of national branding and its effect on client behaviour in target markets. There is a need for change management in order to educate Palestinian entrepreneurs and managers regarding the important relationship between branding and export competitiveness.

### VISA RESTRICTIONS MAKE IT DIFFICULT TO ORGANIZE INTERNATIONAL TRADE FAIRS IN THE STATE OF PALESTINE

International trade fairs provide significant value in terms of facilitating marketplace exchanges and deal-making, but an important prerequisite for organizing such events

is freedom of movement for participants. Such an event is difficult to organize in the State of Palestine due to visa restrictions, due to which participants from Arab target markets are unable to attend.

## DEVELOPMENT GEAR

High poverty levels, coupled with high unemployment rates in both the West Bank and Gaza, adversely affect human development in the State of Palestine. Low levels of government revenue and domestic/foreign investment have resulted in high dependence on international aid, which can in turn slow down capacity development. Gender mainstreaming in Palestinian businesses is also an important requirement. Women in the State of Palestine are active in economic activity; however their role is primarily relegated to low value added work in non-leadership roles.

In terms of regional development and inclusion, the geographical and political separation between Gaza and the West Bank has disrupted communication and interaction on social, political and economic levels. Increasing socioeconomic gaps may result in disharmony and conflict. On a regional level also, the strict closure regime imposed on the State of Palestine restricts trade and movement of people, goods and services between the State of Palestine and regional neighbours such as Jordan. This is challenging from an export competitiveness point of view.

There is a requirement to develop, at both institutional and enterprise levels, capacity to manage environmental waste stemming from operations. The current waste management infrastructure is inadequate in industrial sectors, including the stone and marble sector.

### Box 13: Overview of development issues

- Increasing poverty levels and dependence on international aid are preventing economic growth and the development of a degree of self-reliance.
- Gender mainstreaming in the formal sector is important for gender equity.
- The growing socioeconomic divide between Gaza and the West Bank threatens stability, hinders coordination, and prevents equitable development of the State of Palestine.
- There is limited ability to extend and deepen regional integration between the State of Palestine and neighbouring countries such as Jordan.
- Improving focus on environmental sustainability is a critical need at both institutional and enterprise levels.



Source: © PalTrade

### INCREASING POVERTY LEVELS AND DEPENDENCE ON INTERNATIONAL AID ARE PREVENTING ECONOMIC GROWTH AND THE DEVELOPMENT OF A DEGREE OF SELF-RELIANCE

In 2009, one-fifth of the State of Palestine's population was estimated to be living in poverty. This translated into nearly 33.7% of Gaza residents, double that of the West Bank.<sup>119</sup> The State of Palestine has one of the highest rates of unemployment in the world, with overall unemployment rates of 20% in 2009,<sup>120</sup> and youth unemployment remaining 10% higher than the overall rates on average.<sup>121</sup> The closure regime and weaknesses in the business environment and the economy have resulted in a general lack of work opportunities for Palestinians. The unemployment rate and high poverty levels have a negative effect on the general state of discontent, and contribute adversely to the peace building process. At a macro level, there is a cyclic process at play –high unemployment leads to high poverty levels which, coupled with other socioeconomic conditions, results in increasing resentment, discontent and, ultimately, violence in the State of Palestine. This results in reinforcement of the existing closure regime.

The high poverty levels have necessitated an increasing dependence on international aid. The level of aid greatly exceeds the amount of FDI. In recent years, ODA has comprised more than 50% of GDP. In 2008 alone, ODA was 1,000% larger than FDI. The main sources of development aid are the OECD member countries. In 2010 the

largest donor was the United States (US\$ 720 million), making up approximately 29% of all development aid received by the State of Palestine in that year. The second most significant donor was the EU, which contributed over US\$ 441 million in 2010. The Palestinian government depends on international aid to pay wages in the public sector and this reliance has grown during the current fiscal crisis. This level of dependence was demonstrated by sharp increases in poverty levels (especially in Gaza) and the economic shock caused by the cut off in international aid following Hamas's election victory in 2006.

### GENDER MAINSTREAMING IN THE FORMAL SECTOR IS IMPORTANT FOR GENDER EQUITY<sup>122</sup>

While women comprise approximately 49% of the Palestinian population, their representation in the total labour force is only slightly higher than 16%.<sup>123</sup> Labour force participation for women has remained below 16% on average, much less than the MENA average of 26%, which itself is one of the lowest regional rates in the developing world.<sup>124</sup> Women are the primary gender active in the informal sector but are significantly less active in the formal sector, especially in decision-making roles. There are limited opportunities for women to apply for loans, and cultural expectations prevent women from assuming management positions. Instead, women are typecast in certain roles including teachers, nurses, secretaries, etc.

119. World Bank (a) (2011). *Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza*, p. xi.

120. *Ibid.*, p. xxi.

121. *Ibid.*, p. xxi.

122. Primary source – inputs from a Ministry of Women's Affairs representative.

123. PCBS (2011). *Labour Force Participation*.

124. World Bank (a) (2011). *Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza*, p. 40.

Consistent with cultural norms in the MENA region, Palestinian women face certain constraints on working outside their homes. These include 'social restrictions on working outside their home; a societal preference for women confining themselves to an often dwindling public sector; constrained mobility in both looking for jobs and commuting to work; and a perception among employers that women are less productive'.<sup>125</sup> Safety and mobility concerns have added to the lack of participation of women in the formal economy.

There is a need to incentivize the entry of women into the formal sector and leadership positions. This may take the shape of tax breaks, increasing levels of organization in the sector, developing programmes to impart management and business skills (such as marketing, accounting and financial management) to female entrepreneurs, and developing support services such as transportation, child care, etc. Ultimately the aim is to develop an equitable climate for Palestinian women so that they are able and willing to migrate to the formal sector and to assume positions of responsibility.

### THE GROWING SOCIOECONOMIC DIVIDE BETWEEN GAZA AND THE WEST BANK THREATENS STABILITY, HINDERS COORDINATION, AND PREVENTS EQUITABLE DEVELOPMENT OF THE STATE OF PALESTINE

While Gaza and the West Bank share common challenges and restrictions, these are more severe in Gaza. A sustained blockade of Gaza has led to increased poverty, deterioration of public services, an increased per capita wage gap, and decreased private sector and trade activity relative to the West Bank. For instance, while the combined annual growth rate of Palestinian territories reached 6.8% in 2009, the bulk of the growth was led by the West Bank (8.5%) rather than Gaza (1%).<sup>126</sup>

The variance extends to the judicial system. An example is the variance in commercial law enforcement between the West Bank and Gaza. In the West Bank in some cases Jordanian and Ottoman laws apply, while in Gaza Egyptian or British Mandate laws are applied. More specifically, in Gaza there are reports of the non-implementation of certain articles of the law, such as a regulation requiring repayment with interest on non-payment of contracts and certain loans –leading banks to inflate loan amounts to reflect interest up front.<sup>127</sup>

125. *Ibid.*, p. 41.

126. *Ibid.*, p. 9.

127. World Bank (2011). *Building the Palestinian State: Sustaining Growth, Institutions, and Service Delivery*, pp. 26-27.

The implications of this growing economic and human development gap could be serious in the future. Geographical separation means intra-territories interaction (trade, movement of goods and services, interaction at the official level) is already weak,<sup>128</sup> and a wide socio-economic gap may result in disharmony.

The complicated challenges and restrictions faced by the State of Palestine limit its ability to engage in regional cooperation with neighbouring countries. Trade agreements are signed but these do not always translate to effective economic and trade development. For instance, even though the State of Palestine has signed the GAFTA agreement, it still does not have full access to Saudi Arabia's market for certain products because of the limited access or willingness of Saudi enterprises and quality inspectors to enter Palestinian territories to verify production processes or enterprises.<sup>129</sup>

### THERE IS LIMITED ABILITY TO EXTEND AND DEEPEN REGIONAL INTEGRATION BETWEEN THE STATE OF PALESTINE AND NEIGHBOURING COUNTRIES SUCH AS JORDAN

A significant level of opportunity cost is incurred by Palestinian exporters due to the restrictive border controls put in place by Israel, as a result of which the potential for enterprises to export to Jordan and other regional countries is underutilized. Regional markets such as Saudi Arabia and Jordan offer growth markets for Palestinian goods and services; however, Palestinian exporters have traditionally been unable to gain significant market share, partly due to constraints involving border controls which result in delays and spoilage. These constraints include the lack of Palestinian customs representation at borders, lack of containerized scanning options (e.g. the KHB bridge linking the State of Palestine and Jordan), and the restrictive back-to-back loading process at borders.

### IMPROVING FOCUS ON ENVIRONMENTAL SUSTAINABILITY IS A CRITICAL NEED AT BOTH INSTITUTIONAL AND ENTERPRISE LEVELS

Palestinian enterprises generally lack the knowhow to manage environmental waste created as part of their operations. The stone and marble sector is a major polluter. USM notes:

128. For additional details, please refer to the business environment section in this paper.

129. Anecdotal evidence collected by ITC.





Source: © PalTrade

It is estimated that the stone industry in the State of Palestine uses approximately 0.5 million cubic meters of water each year. The water is used principally to cool the saws that cut the blocks and slabs. The water mixes with the dust – principally calcium carbonate – to form a viscous liquid waste, known as slurry. It is estimated that the industry generates approximately 0.7-1.0 million tons of this slurry waste. The impact is not just on the health & safety of workers but on the surrounding environment if the water run-off is not contained. Some of the water and the slurry are recycled but not enough.<sup>130</sup>

130. Union of Stone and Marble Industry (2011). *Stone & Marble in the State of Palestine – Developing a Strategy for the Future*, p. 15.

According to the State of Palestine's water management strategy for 2011-2013, the wastewater infrastructure is underdeveloped in comparison to international conventions. Only 10% of wastewater generated is treated and a small portion is reused.<sup>131</sup> Wastewater often overflows in the limited number of collection and primary treatment plants available in Gaza and the West Bank, creating health and environmental hazards for the populace.

Finally, there is a need to enhance the institutional management of natural resources through the development of better infrastructure and the strengthening of institutions for efficient utilization.

131. Palestinian Water Authority (2010). *National Sector Strategy for Water and Wastewater (2011-2013)*, p. 8.

*The four gears analysis delivers a compelling and well-rounded perspective of the constraints that affect the export value chain in the State of Palestine. The identified constraints support or reinforce the trade analysis presented in this paper by providing additional evidence of the causes of difficult export diversification, low survival rates of exports and their limited technology content. The identification and thorough analysis of the major export development constraints faced by the State of Palestine establishes the basis that guided the NES design process.*



# PRIORITY SECTOR SELECTION

One of the major issues confronting the State of Palestine's economy is the need to bring its performance back to pre-2000 level, notably by: reducing the huge trade deficit and overreliance on the Israeli market for exports; reducing dependency on foreign aid; increasing foreign exchange; fighting unemployment; and boosting GDP per capita. More generally, there is a growing need to restructure a fragmented economy by addressing constraints on productive capacities and the movement of goods, and by improving the business-enabling environment. These challenges and the limited resources available for export development justified the need to select a limited number of priority sectors for the NES. The following priority sectors were selected based on their capacity to contribute to trade deficit reduction and employment generation through their current and potential trade performance, as well as meeting selected qualitative criteria.

## NES priority sectors

### Product sectors

1. Stone and marble
2. Olive oil
3. Agro-processed meat
4. Fresh fruits, vegetables and herbs
5. Textiles & garments
6. Footwear and leather
7. Furniture

### Service sectors

8. Tourism
9. ICT

The final selection of priority sectors does not mean that other sectors in the State of Palestine will not benefit from the NES. In fact, the NES is also composed of cross-sector functional strategies addressing TI, trade facilitation and logistics, quality management, and access to finance. The implementation of the cross-sector functional strategies will benefit other export sectors of the national economy.

Additionally, the initiative on 'promising companies initiative' will target certain upcoming companies in non-NES priority sectors (such as pharma, metals etc) in an effort to incubate and build up their export competitiveness. This initiative will contribute to the positive cross-cutting ripple efforts generated by the cross-sector functional strategies.

## METHODOLOGY

Sector<sup>132</sup> selection responded to specific criteria such as trade performance, overseas market expansion and diversification, potential for generating jobs and foreign earnings. A set of criteria was used to pre-select sectors:

1. Trade performance, including export dynamics and world demand dynamics for a given product;
2. Domestic supply conditions captured by production capacity and RCA;
3. Socioeconomic impact captured in the current employment rate; and
4. Other qualitative criteria determined by the NES team.

These four filters combined a number of quantitative trade and economic indicators, as well as qualitative information drawn from desk research, surveys and stakeholder

132. Sectors are groups of products or services that are closely related through their inputs, production and transformation processes, and that share a common value chain. Usually sectors are not limited to single products or single tariff lines but are built around clusters of products or services. Some sectors can be considered as having high potential because they have both a consolidated export track record and the capacity to expand: existing export capacity can be seen, for example, by high export values or high growth rates in recent years (e.g. stone and marble, wooden furniture, pharmaceuticals). For other sectors, however, exports may not yet exist or be relatively negligible, but many of the necessary supply-side conditions to enable exports may be fulfilled (e.g. tourism, IT services). Yet other sectors may feature a high trade performance, but do not have any significant potential for value addition (e.g. metal scrap). Some other sectors may be important from the socioeconomic perspective, but are declining due to fierce external competition and decreasing demand in world markets (e.g. footwear and leather). Contribution to overall socioeconomic development was evaluated by estimates of the current employment rate of the sector as a proxy for the contribution towards poverty reduction.

consultations. Using a combination of quantitative and qualitative analyses allowed for a balanced selection of high performing goods and services sectors, but also emerging sectors with future potential.

Table 6 summarizes the results of the sector selection process against the set of criteria. The sectors have been placed in the table according to their export performance, competitiveness, socioeconomic contribution, and the additional qualitative criteria mentioned above.<sup>133</sup>

## PRIORITY SECTOR SNAPSHOTS

The priority sectors selected based on the four above-mentioned sets of criteria are presented and discussed in greater details in the following snapshots. Furthermore, it is to be noted that each sector is the subject of a distinct sector strategy.

133. Full sector selection analysis in Appendix 4.



Source: © PalTrade

### OLIVE OIL

The olive oil production industry has an important capacity for development due to its high quality relative to international peers. Quality tests indicate that Palestinian olive oil has the potential to be classified as a first-class extra virgin olive oil. The subsector benefits from the Mediterranean climate, fertile soil and traditional growing knowledge.

There are 272 olive press companies in the State of Palestine, of which 240 are fully automatic.<sup>134</sup> The industry employs 100,000 families and three million seasonal work days per year. One third of those employed are women.<sup>135</sup> Total annual production in the olive oil subsector is between US\$ 160 million and US\$ 191 million. Current production is 20,754 metric tons<sup>136</sup> (MT) but can potentially grow up to 34,000 MT.<sup>137</sup> Domestic consumption is only 12,000 MT, which leaves an important capacity for export. The export value for 2010 was US\$ 13.8 million, which comprises 2.6% of total exports. Main competitors in the region are Turkey, Lebanon, Jordan, Egypt and Israel. The subsector has large social development, fair trade and organic marketing potential.

The primary constraints affecting the olive oil sector include the high costs of production, quality management, and disruptions in production cycles driven by uncertain weather patterns. The competitive landscape is becoming increasingly difficult for Palestinian olive oil products due to reduced sales to Israel and Jordan in recent years. Exports to Israel dipped during and after the second intifada, while Jordan has reduced imports to protect its own olive oil sector, which has been growing at a rapid pace in recent years.

134. PCBS (2012). *Press Release on Olive Press Survey in the Palestinian Territory, 2011*. Available from [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/OlivePrsSurv2011E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/OlivePrsSurv2011E.pdf)

135. Oxfam (2010). *The road to olive farming: Challenges to developing the economy of olive oil in the West Bank*.

136. PCBS (2012). *Press Release on Olive Press Survey in the Palestinian Territory, 2011*. Available from [http://www.pcbs.gov.ps/Portals/\\_pcbs/PressRelease/OlivePrsSurv2011E.pdf](http://www.pcbs.gov.ps/Portals/_pcbs/PressRelease/OlivePrsSurv2011E.pdf)

137. Oxfam (2010). *The road to olive farming: Challenges to developing the economy of olive oil in the West Bank*.

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## STONE AND MARBLE <sup>138</sup>

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The Palestinian stone and marble sector is important from the perspective of employment generation, contribution to GDP and export potential. Annual sales in the sector are estimated to be US\$400 million, amounting to a 5% contribution to GDP. The sector accounts for nearly 13% of non-agricultural employment in the economy.

According to 2011 estimates, the stone and marble sector has exhibited the highest RCA in the State of Palestine's export basket. Reserves in the sector are valued at US\$30 billion, reflecting its export potential. In 2010 approximately US\$86.9 million, or 22% of total revenues in the sector, resulted from exports.

The comparative advantage in this sector mainly stems from the availability of large deposits of high quality stone primarily in Hebron, Bethlehem, Nablus, Ramallah and Jenin. Due to the location of most quarries and cutting factories in the West Bank, Gaza plays a relatively minor role in the sector's operations.

The State of Palestine faces a host of international competitors, which includes quality leaders such as Italy, volume leaders such as China, and rising regional competition in Jordan, Egypt and Turkey. The sector faces significant logistical and technical constraints in the form of movement restrictions and paucity of capital equipment. For instance, the significant restrictions in place for Palestinian enterprises to access Area C have resulted in high opportunity costs for the stone and marble sector (in addition to agricultural sectors), due to high depletion of the quarrying areas in areas A and B. The Union of Stone and Marble estimates that if the constraints are not eased in a few years, the sector will face a major crisis of supply. The sector also faces financial constraints along two dimensions – high operating costs brought about by high costs of fuel and transportation, and the low levels of access to finance available to Palestinian businesses to manage operating and investment costs. Other constraints include low sales and marketing expertise, and quality management.

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## FRESH FRUITS AND VEGETABLES / HERBS (FFVH)

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- Fresh fruits and vegetables is a relevant subsector from an export viewpoint. It has been a major source of employment and a large percentage of Palestinians depend on it as either a main or a secondary source of income. The total production in 2008, including fruit-bearing trees, vegetables and citrus trees, was 420,883 tons. In 2007 Palestinian agricultural exports represented approximately 15.2% of total Palestinian exports, amounting to around US\$40 million.
- Fresh herbs is also considered an emerging export subsector with strong potential. According to ITC's export potential index, the herbs and spices sector has strong global demand and the State of Palestine's exporters have been gaining global market shares since 2007. This sector also has strong potential for socioeconomic development of rural regions as the majority of producers are male and female farmer associations. Furthermore, there is a possibility to explore linkages between the herbs and spices sub-sector as a component of agro-processed meat production.

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<sup>138</sup> Data indicated for the stone and marble sector profile is primarily extracted from: Union of Stone and Marble Industry (2011). *Stone & Marble in the State of Palestine – Developing a Strategy for the Future*.

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### AGRO-PROCESSED MEAT

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Agro-processed meat production is one of the best performing subsectors among all industrial sectors. The subsector is composed of 15 factories producing various types of cold cuts and canned processed meat. The sub-sector directly contributes to more than 500 jobs, and indirectly to 2,000. It is estimated that the local market share for the factories is around 80% for cold cuts. The per capita consumption of these products is around 8-10 kg per year which, according to the Palestinian Food Industries Union, is estimated at US\$40 million annually.

The manufacturing and export of meat products was at its peak in 2008 during the period 2007-2009. Exports amounted to US\$6 million, rising from US\$2.8 million in 2007 and dropping to US\$4 million in 2009. Its share of total Palestinian exports during the same period was 1% and constant over the three years. Main regional competitors in this subsector are Jordan, Israel, and Saudi Arabia.

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### TEXTILE AND GARMENTS

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The textile and garment sector is composed mainly of textile, garment and clothing production, dyeing, wool wear, and other accessories. This sector provides 6% of the output of the entire industrial sector and includes more than 14% of all industrial establishments. According to 2007 estimates around 20% of all industrial labour is employed in this sector; the sector labour force was estimated at 12,000 workers. The number of manufacturers is estimated at 1,942 in West Bank and Gaza. However, according to the industry association's estimation the numbers of working firms became between 700 and 1,000 in the West Bank alone, whereas there were 1,700 before the second intifada. Women are the major workforce in this sector. The sector is spread all over the West Bank and represented by an industrial association.

The export market was estimated at US\$ 15 million in 2000 and less than US\$ 10 million in 2001. The sector considers access to new markets as a first priority for financing. Following that is the upgrading and development of machinery.

This sector has been adversely affected due to increased competition from countries such as China. The availability of raw materials and the increase in production costs has further decreased competitiveness. As with other Palestinian sectors, access to finance and capital equipment are key challenges that affect the textile and garment sector.

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### FOOTWEAR AND LEATHER

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Footwear and leather used to be one of the largest industrial sectors ten years ago because of its high quality natural leather and skilled workers. It is composed mainly of tanneries and shoe-making enterprises.

The leather industry faces severe problems in the supply of raw materials, availability of chemicals for tanning, lack of modern production methods, environmental considerations, training and adapting new technologies, and family business administrative problems. Shoemaking enterprises also face shortages of sales, maintenance and machinery problems, difficult access to markets, unfair competition in the local market, lack of creative design specialists, etc. This sector faces a key competitor in China, whose high volume, low price strategy has been successful and has resulted in the flood of footwear products into regional markets.



## FURNITURE

The furniture sector is one of the most well-established sectors in the State of Palestine, characterized by high workmanship skills and unique/high quality Palestinian design. The sector is primarily composed of micro-enterprises – 97% of enterprises employ between one and nine employees, and only 3% employ 10-50 employees<sup>139</sup> – and is resource as well as labour intensive. The sector is primarily segmented into three categories – home furniture production (67% of manufacturers), office furniture production (21% of manufacturers), and construction components (12% of manufacturers).<sup>140</sup> Wooden furniture comprises 3% of the economy's total export basket, with 100% of exports from the sector going to Israel.<sup>141</sup> The EU, United States and Arab countries have been identified as potential target markets for Palestinian furniture.

The sector is particularly vulnerable to border closures and movement restrictions due to the resulting impact on imports (procurement of raw materials), exports (delivery commitments of finished goods) and intra-territory trade (between Gaza and the West Bank). Rises in operational costs associated with fuel and transportation are also factors that constrain this sector. The sector faces significant international competition from China in the form of mass produced, low cost furniture exports that are flooding key customer markets for Palestinian furniture.

## TOURISM

The tourism sector, and complementary sectors such as handicrafts, possess significant potential. In the West Bank cities like Bethlehem, Jericho, Ramallah and (East) Jerusalem offer significant potential for 'cultural/religious tourism' stemming from the region's importance for Islam, Judaism and Christianity. Gaza's coastal location offers potential for 'sun and sand' tourism. The tourism sector has important linkages with the handicrafts sector. Other feeder and linked subsectors include tour operators, transportation, restaurants, guides, shops, and culture centres.

Despite the high growth rate of tourism in the Middle East (9% per annum), the State of Palestine has not been able to capitalize on this regional trend. Movement restrictions and security perceptions have resulted in the trend that tourists entering the West Bank do not stay. Tourism in Gaza has fallen drastically as a result of the near complete embargo imposed on Gaza by the Israeli government. It is estimated that 92-94 cents of every tourist dollar flow to Israel.<sup>142</sup>

Lack of operating and investment capital is a significant constraint in this sector. Hotel infrastructure caters primarily to religious tourism (lower revenues). Lack of 3-4 star hotels is partly responsible for tourists preferring to stay in Israel and opting for day-long excursions into the State of Palestine.

## ICT

The Palestinian ICT sector possesses several comparative advantages, including an abundance of information technology graduates, lower labour costs relative to other countries in the region, a rapidly improving communication infrastructure backbone, and proven experience in software development. The current size of the ICT market in the State of Palestine is estimated at US\$250 million, up from US\$87 million during the second intifada in 2003, and US\$120 million in 2000.<sup>143</sup> The sector's contribution to GDP reached 5% in 2008.<sup>144</sup>

The sector has also established business partnerships in regional markets including the UAE, Saudi Arabia, Yemen, Iraq and Jordan. ICT's selection as a priority sector for the NES also makes sense because the ICT sector has been recognized in strategic government economic planning as an important economic pillar. The Palestinian government has been an especially reliable customer for the sector in the past.

139. PalTrade (a) (2012). *Palestinian Wood Furniture Sector*. Available from <http://www.ptfp.ps/etemplate.php?id=210>

140. *Ibid.*

141. *Ibid.*

142. Portland Trust (2010). *The Contribution of Tourism to Israeli and Palestinian Economic Development*. Available from [http://www.portlandtrust.org/sites/default/files/tourism\\_oct2010.pdf](http://www.portlandtrust.org/sites/default/files/tourism_oct2010.pdf)

143. USAID/Palestinian IT Association of Companies (PITA) (2009). *The Palestinian ICT Sector – A Three-Year Outlook... Based on Economic Indicators*, Executive Summary.

144. *Ibid.*

## PRIORITY CROSS-SECTOR FUNCTION SNAPSHOTS

In addition to sector strategies aimed at improving the performance of key product/service sectors of an economy, a National Export Strategy is also composed of cross-sector functional strategies, which target areas

such as trade information, national promotion and branding, export skills development, etc. Due to their cross-cutting nature, functional strategies also benefit enterprises outside the priority sectors of the NES.

**As part of the State of Palestine's NES, the following have been selected as priority cross-sector functions.**

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### ACCESS TO FINANCE

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Access to finance is a pressing need for existing and potential exporters in the State of Palestine. According to the Palestine Economic Policy Research Institute (MAS), even with the State of Palestine's relatively advanced banking system there is a clear need for improving credit access for SMEs. For instance, even when approved by banks the size of loans can be insufficient to meet the needs of enterprises. According to a MAS report, only 25% of enterprises' loan requests get fully financed and normally accepted credit arrangements finance on average 75% of SME needs.<sup>145</sup> A principal cause of this situation is that guarantees required by banks represent one of the most important obstacles to access to financial and funding services.<sup>146</sup>

Straightforward export finance mechanisms are available to enterprises but more sophisticated tools such as government facilities, specific bank lines or even an export bank could contribute to accelerating export development. Difficult access to suitable financial mechanisms exacerbates the challenge of SMEs to access working and investment capital, which in turn limits the capacity of enterprises to diversify their export offerings and penetrate target markets. Recent improvements in the financial market infrastructure include the establishment of the credit registry,<sup>147</sup> although reforms appear to have stalled in 2011 and 2012.<sup>148</sup> In this context, the NES explored the financial needs and requirements of exporters' and proposes an alignment of financial policies and mechanisms with export development priorities.

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### TRADE INFORMATION

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Access to relevant and timely trade information (TI) ranging from market research/trends to import-export requirements in specific markets, is a critical requirement for building export competitiveness in an economy. The ability to get the right information at the right time, and knowing how to use it, is a major factor influencing success in international trade. Ultimately international trade is about making decisions, and decisions require adequate information.<sup>149</sup>

According to the TSI survey, fourteen institutions in the State of Palestine are providing trade information. On the other hand, additional data gathered so far indicates that enterprises still have difficulty in accessing the right information at the right time from these 14 TSIs. Enterprises actually appear to prefer using private sector companies to provide them with the desired information. A more detailed analysis of one of the 14 TSIs surveyed validated this difficulty of converting trade data and information into practical reports that can be used by exporters.<sup>150</sup> This situation confirms the need for an organized and efficient delivery of TI to target clients – enterprises.

The TI strategy for the State of Palestine evaluated the general market information requirements of potential and exiting exporters, and defined specific market access information requirements and the type of market intelligence they need to enter and perform in target markets. Based on these needs, the final strategy defines actions to better structure the TI network of the State of Palestine.

145. Palestine Economic Policy Research Institute (2005). *Report: Financing Palestinian SMEs*, p. 5.

146. GlZ and Optimum (2011). *Study of Economic Opportunities in Bethlehem Governorate*, p. 11.

147. Palestine Monetary Authority (2011). *Key Macroeconomic and Financial Indicators in Palestine, Israel and some MENA countries*, p. 17.

148. World Bank (2012). *Doing Business: Measuring Business Regulations Report* (2012).

149. Said, A. J. (September 2001). *Is Your Trade Support Network Working?* ITC Executive Forum on National Export Strategies 24-28 September 2001. Available from [www.intracen.org/workarea/DownloadAsset.aspx?id=53145](http://www.intracen.org/workarea/DownloadAsset.aspx?id=53145)

150. ITC (December 2011). *Draft Report: Institutional Assessment Report PalTrade*, p. 10.

## QUALITY MANAGEMENT

High quality levels reinforce the ability of enterprises to enter and compete in target markets. Enterprises must manufacture products according to standards, technical regulations and sanitary measures prevailing in their markets; they need to be able to use testing laboratories to test the compliance of their products; and laboratories and certification bodies have to be accredited to demonstrate their technical competence.<sup>151</sup>

The quality infrastructure in the State of Palestine has various gaps that need to be addressed to ensure exporting enterprises receive appropriate support to provide quality products to markets. PSI<sup>152</sup> indicated the pressing need to have laboratories accredited according to international standards. At the moment only a few laboratories are accredited to test products according to international regulations.<sup>153</sup> Additionally, it is essential that international accreditation is in line with priority targets markets such as GAFTA countries, the United States and Europe.

Having accredited labs is not sufficient to ensure the quality of products. A sound quality infrastructure needs qualified technicians to run quality tests. It also requires effective dissemination of information about quality standards and certificates to enterprises. Also, there is a crucial need for efficient and coordinated institutions capable of providing quality management support, training services to producers and enterprises, and product testing and controls including technical support.<sup>154</sup>

Setting up a quality infrastructure comprising standardization, metrology, testing, inspection, certification and accreditation is complex, expensive and time-consuming. However, it is a critical element of the export competitiveness of countries. The quality management strategy for the NES allows national stakeholders to determine the priorities to implement in order to improve the quality and competitiveness of Palestinian products.

## TRADE FACILITATION AND LOGISTICS

Efficient flow of products and services to international markets is an essential condition for export development and competitiveness. As pointed out in this paper, Palestinian exporters face significant restrictions in nearly all the stages of the export value chain. Key hurdles to export development are often related to infrastructure requirements at border crossings, border procedures – the back-to-back system, container content allowance – and administrative arrangements and procedures.<sup>155</sup> Some of these impediments stem from the non-implementation or recognition of certain transit clauses of trade agreements.<sup>156</sup> The absence of a ‘known trader’ system or any type of risk management system also impedes the speedy processing of trucks at crossings.<sup>157</sup>

In addition to border issues, there are transportation challenges such as the low utilization rate of trucks, high transport variable costs (fuel, tyres and maintenance) and no official dissemination system/body for any changes in procedures or crossing requirements. According to a Euromed transport report<sup>158</sup> some of the important issues to be addressed in the Palestinian transport system include an updated database of transport statistics, as well as a possible liberalization of the transport system.

In order to increase the regularity, quality and consistency of product flows inside and outside the State of Palestine, such issues and other are addressed in the trade facilitation and logistics strategy.

151. ITC/PTB (2011). *Export Quality Management, A Guide to SMEs*, p. 2.

152. Bilateral discussion with PSI employee.

153. A new food testing laboratory that meets ISO standards was open in June 2012:

<http://www.maannnews.net/eng/ViewDetails.aspx?ID=494929>: there is also the Birzeit University Testing Laboratories (BZUTL)

154. Palestinian Ministry of Agriculture (2010). *Agriculture Sector Strategy "A Shared Vision" 2011-2013*.

155. PalTrade/Palestinian Shippers' Council (2009). *Facilitating Palestinian Global Trade Through Jordan and Egypt*, p. 8.

156. *Ibid.*

157. World Bank (2008). *West Bank and Gaza Palestinian Trade: West Bank Routes*, p. 12.

158. EU/Euromed Transport Project (2012). *Report on the state of play in the implementation of the RTAP actions on road transport in the MEDA countries of Mashrek*, p. 59.

## PROMISING COMPANIES

In the context of the National Export Strategy, a special attention has been devoted to those Palestinian export-oriented enterprises, which are especially important for the Palestinian economy as engines of growth and present particular opportunities and challenges, which are not covered by the priority sectors or by the cross-sector functions.

The objective of the promising companies' initiative is to contribute to the sustainable expansion and diversification of exports from Palestine.. The expected medium-term results of the initiative are to increase promising companies abilities to compete in global market, increase their market presence and ability to project, build up their export earnings, and skills at value addition. Most importantly, the initiative is also aimed at reinforcing Palestinian TSIs capacities to provide on a sustainable basis adequate and up-to-date services to emerging and existing exporters. .

Firms participating in the initiative will learn how to improve their marketing, product offer, understanding of customer needs and find new clients and business partners, thereby creating the basis for future business success. The programme provide enterprises with ability to better understand their own opportunities, needs and limitations and become able to properly use trade intelligence and advisory services to fill their knowledge and skill gaps. They will understand that the large size of the international markets and the requirements for reliable supply mean that other Palestinian firms in a given sector are potential partners as much as competitors, likely leading to restructuring of the sector for improved long term competitiveness.

Other local firms supplying goods and services of various kinds, even if unlikely to export directly and not participating in any project activities, will have improved opportunities to sell their products to these high-performing exporters, whether for inclusion into items for export or for otherwise meeting the exporters' needs for inputs. This will acquaint them with the quality and service requirements of international markets and give them incentives to improve their own supply in order to expand and secure the sustainability of their business, providing improved opportunities for gainful employment in the process.



Source: © PalTrade





# WHERE WE WANT TO GO

## THE VISION OF THE NATIONAL EXPORT STRATEGY

The following vision statement was adopted to guide the NES design process:

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“ Export-led prosperity, made in Palestine ”

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This vision sets the overall national direction for the export strategy and captures its spirit. However, the vision alone does not suffice to orient the strategy. It is supported by four broad national strategic objectives.

### THE STRATEGIC OBJECTIVES

The national strategic objectives define the main thrusts that guided the NES design process. The strategic objectives agreed upon are sufficiently broad to encompass all the more detailed sector and functional strategic objectives and activities.

The stakeholders defined the following strategic objectives:

1. **To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.**

Innovation and investment, both key requisites for a successful export sector, have been identified as lacking in the Palestinian economy. The burdensome business environment in the State of Palestine, accompanied by the small size of the domestic market, has resulted in a net effect of overreliance on the domestic market by Palestinian enterprises and an overall lack

of innovation in the economy. Investment has also suffered as a result of the adverse consequences of the closure regime and the ongoing security concerns in the region, both of which deter investors. Across the board, Palestinian enterprises lack both operating and investment capital.

This strategic objective aims to improve this state of affairs by concerted efforts to reduce the regulatory burden on enterprises while also spurring the flow of credit, investment, and technology in the State of Palestine.

2. **To build the capacities of the exporting sector to diversify and penetrate international markets.**

This strategic objective is focused on building the capacities of Palestinian firms to help them penetrate new markets and reliably manage customer commitments, especially in terms of product quality and supply levels. As highlighted by ITC's trade analysis, Palestinian firms that are able to export despite the unfavourable business environment suffer from fatigue and experience drop-offs within a few years.<sup>159</sup> This is the result of a challenging business environment, as well as capacity challenges faced by Palestinian enterprises on multiple fronts –including but not limited to quality management, operational and business management,

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<sup>159</sup>. See section titled 'Macroeconomic overview'.





Source: © PalTrade

and capacity diversification. While improvements in the business and regulatory environment (addressed through strategic objective #1) will reduce regulatory burden and the costs of doing business for exporters, this alone will not suffice to increase survivability rates. Capacity enhancements along multiple dimensions are required for stakeholders throughout the export value chain and the NES will facilitate these enhancements through targeted activities at the national and sector level.

**3. To maximize the contribution of exports to socio-economic development through enhanced export competitiveness.**

This strategic objective will ensure that increased export competitiveness goes hand in hand with socio-economic benefits for a wide spectrum of groups, including women and youth. In terms of human development the State of Palestine ranks 114 out of 187 economies, placing it below the regional average.<sup>160</sup> The need for positive discrimination efforts to the benefit of women and Palestinian youth has been identified. The selected product sectors, especially olive oil and ICT, possess significant potential for increasing and mainstreaming the involvement of women and youth in the economy. The NES stresses the integration of marginalized groups into the export value chain at the national and sector level, and also ensures equitable distribution of benefits from export growth.

**4. To build and promote the image of the State of Palestine as a supplier of value-added quality products and services.**

This strategic objective will result in the development and promulgation of a Palestinian brand, internationally recognized for products and services that exude quality, value addition, diversification, and ethical manufacturing standards. There are some examples in the olive oil sector, where the combination of organized producer groups, joint overseas marketing and branding has led to successful market penetration and share capture.<sup>161</sup> Additionally, Palestinian exporters must leverage the significant political capital that the State of Palestine possesses within international markets (especially within the Arab world) to facilitate market entry for their products. However, care must be taken to ensure that brand development is built on the bedrock principles of value addition and quality. This will guarantee a long-term market share retention for Palestinian products and services. Through targeted activities, the NES will ensure brand development and promotion takes place both at national level and at sector levels.

## MARKET DEVELOPMENT

### THE TRADE ANALYSIS INDICATES THAT THERE ARE SEVERAL UNTAPPED MARKETS THAT COULD OFFER OPPORTUNITIES FOR PALESTINIAN EXPORTS

Figure 26 applies a gravity model<sup>162</sup> to the State of Palestine to assess whether it trades as would be predicted with potentially important partners. Most countries in the sample fall under the 45-degree line, suggesting a large untapped potential. This result suggests that there is scope for exploring other opportunities for export diversification.

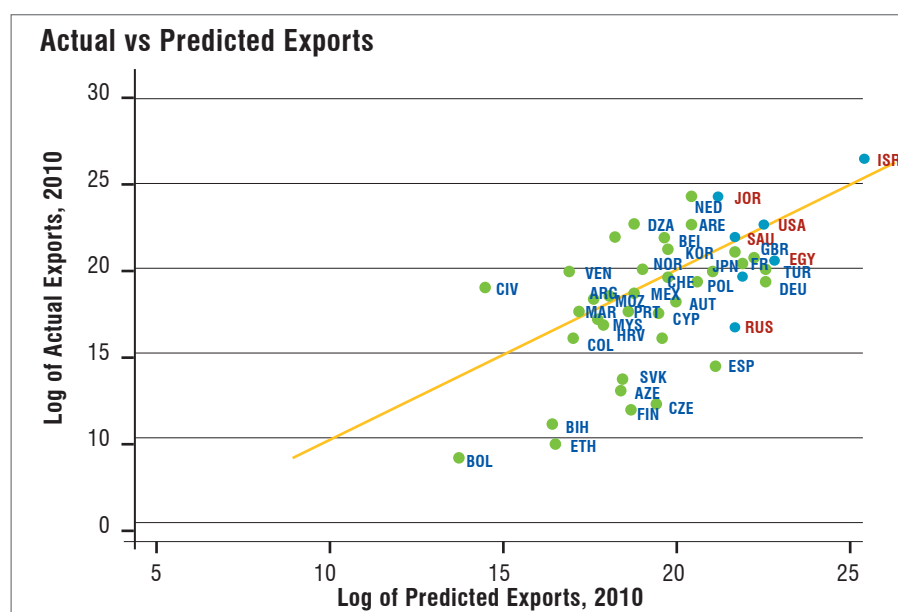
The State of Palestine's exports are currently much less than would be expected with notably large countries such as China, Russia, and Germany (located *below* the 45-degree line). The stronger export relationship with Algeria, Israel and Jordan is also indicated. Its trade with the United States and Saudi Arabia is roughly in line with predictions of the gravity model.

161. For example, see <http://daskara.com/>

162. The model plots actual export amounts (divided by 1,000 and then converted to log) earned in those markets against amounts that were predicted by a regression model. Log value of 13.35, for example, is a US dollar amount equivalent to  $\exp(13.35) \times 1,000$ , which is approximately US\$632 million.

160. UNDP (2011). International Human Development Indicators – the State of Palestine. Available from <http://hdrstats.undp.org/en/countries/profiles/PSE.html>

Figure 26: Gravity model analysis of the State of Palestine's bilateral trade: untapped potential



**Source:** ITC's calculations based on 5-Digit Comtrade, SITC Revision 3 trade data.

**Note:** ISR = Israel; EGY= Egypt; USA = United States; CHN = China; CIV = Cote D'Ivoire; DEU = Germany; RUS = Russia; ESP = Spain; SAU = Saudi Arabia.

## THE STATE OF PALESTINE HAS GREAT POTENTIAL TO INCREASE THE NUMBER OF DESTINATIONS FOR ITS EXPORTS

A useful analysis to deepen our understanding of the trade performance of the State of Palestine consists in looking at the number of export destinations reached per traded product. Figure 27, panels left and right, illustrates the success of individual Palestinian exports in reaching their destinations. Over the eight-year period 2002-2010, the State of Palestine managed to expand the number of export markets that receive at least one product (at the SITC Revision 3 five-digit level) from eight to 16. No product in 2002 was reaching 10 destinations, but by 2010 four products reached more than 10 destinations. The most prolific products are olive oil (16 destinations), dates (11) and spices (10).<sup>163</sup> In 2002, 808 products reached at least one market but this figure dropped to 712 products by 2010. Of these, 193 products achieved a higher number of markets than in 2002, and 156 products were completely new (accounting for roughly US\$40 million of new trade).

The value of individual export products has also grown. The total value of the State of Palestine's existing products (black) in newly expanded or existing markets has increased. The green dots indicate products that were not exported in 2002 but were exported in 2010, which proxy for new discoveries. Some new exports in 2010 (green dots) have already reached three or four destinations. These include some textiles, vegetables, and furniture goods.<sup>164</sup>

## TARGET MARKET IDENTIFICATION<sup>165</sup>

For the priority NES sectors, target market analysis followed a phased approach: an immediate, short-term perspective followed by the mid to long term outlook, by which time it is expected that a significant portion of the NES and sector PoAs will have been implemented. This phased approach is aimed at staging interventions in alignment with the evolving capacities of the sector's trade support institutions and sector enterprises as the NES implementation moves forward.

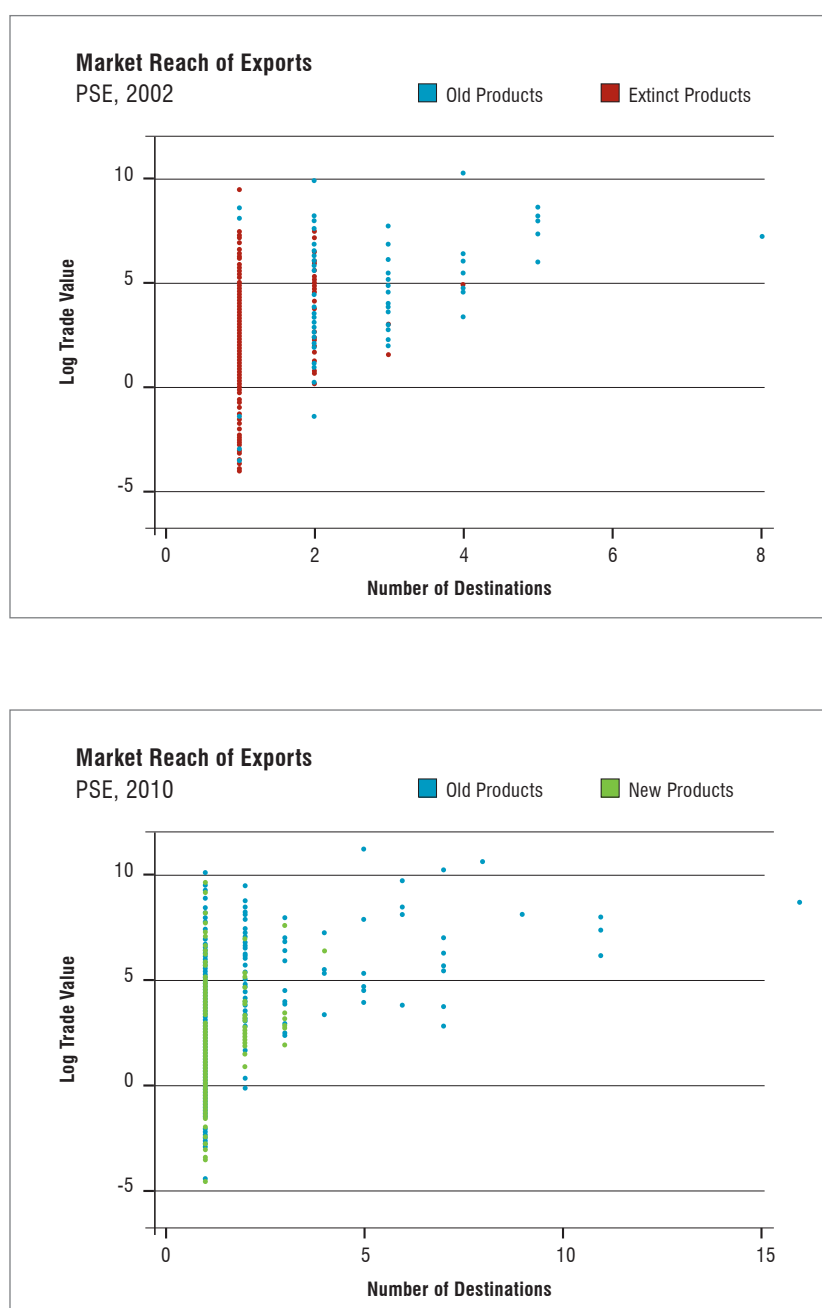
163. SITC Revision 3. Code numbers 42141 (16 destinations), 05794 and 05796 (11), and 07529 (10).

164. SITC Revision 3. Code numbers 05452 (four destinations), 82118, 82118 and 05451 (three)

165. For target market identification for specific sectors, please review individual strategies.



Figure 27: Destinations reached by Palestinian exports in 2002 (left) and 2010 (right)



**Source:** ITC's calculations based on 5-digit Comtrade, SITC Revision 3 trade data.

### Box 14: Short term market perspective

**In the short term**, cultural affinity, bilateral geographical distances, and existing trade relationships will form the major criteria determining the markets for products in the NES priority sectors. Given that capacity development of sectors will follow a gradual progression path at the beginning of the NES implementation cycle, feasibility of target market selection will be dictated more in the short term by existing relationships, market penetration (existing products to existing markets) options, and product diversification (new products to existing markets) options.

Israel and Jordan stand out as the markets with high potential in the short term for almost all sectors – Israel will serve as a prominent market for the short-medium term at least due to the extensive export relationships in place, and also due to the high level of dependency caused by geographical proximity and the unique trade union in place.

Jordan also serves as an important option due to cultural/geographical proximity, as well as the extensive export relationships that are already in place. In certain cases the GAFTA countries also fall under this category, based on the high market access available to Palestinian exporters through various trade agreements.

### Box 15: Medium-long term market perspective

**In the medium-long term**, it is expected that the evolving capacities of Palestinian exporters – across multiple dimensions including quality management, supply capacities, product diversification, time to market efficiency, and marketing/branding – in conjunction with the improving business environment and export value chain improvements effected by the NES and sector PoA implementations, will allow exporters to target other markets which seem hard to penetrate at the moment. Identified markets in the mid-long term include the EU, United States, and GAFTA markets. The markets identified in the short-term perspective are also expected to remain as candidates for the long term perspective.

The high market access available in the EU and United States markets provides significant opportunity for exporters provided they are able to manage the strict buyer requirements, especially in the areas of supply consistency and quality management. As mentioned above, these capabilities are expected to evolve gradually over time.

High access in the GAFTA markets, coupled with close cultural ties and existing diaspora, make them promising candidates in the long term as well. Other markets such as Iraq and Libya also figure on a sector specific basis.



Source: © PalTrade

## STRUCTURAL ENHANCEMENTS FOR SECTOR VALUE CHAINS

In addition to market development options, structural enhancements of sectoral value chains are required in order to develop export competitiveness in a holistic manner. These structural enhancements to the value chains will result in either strengthening of existing linkages or introduction of new linkages. The projected structural changes to the sector are based on efficiency gains identified through the four gear analysis of the sector's performance, and through the identification of opportunities for improving the sector's capacity to:

- **Acquire value by improving competitiveness.** Examples include:
  - Better communication and coordination;
  - Waste reduction;
  - Improved import operations.

- **Add value by reinforcing and extending the national component of the value chain.** Examples include:
  - Promoting a distinct attribute that differentiates the product;
  - Capitalizing on buyer preferences such as certifications;
  - Developing new, higher value added product lines.
- **Create value by expanding production and/or entering new value chains within the sector or related sectors.** Examples include:
  - Expansion of output and capacity;
  - Expanding into value chains of associated sectors.
- **Retain greater value by reducing leakage in the national component of the value chain.** Examples include:
  - Replacing importers with local suppliers;
  - Maximizing involvement of local personnel in operations of foreign-owned firms;
  - Reinvestment of profits of foreign-owned firms into the national economy.
- **Distribute value by maximizing the developmental impact of the sector's value chain.** Examples include:
  - Increasing the role of women across the value chain, especially in the communication, marketing and business development functional areas;
  - Increasing the role of youth across the value chain stages.

## CROSS-SECTOR IMPROVEMENTS

### ACCESS TO FINANCE

Access to finance is a pressing need for existing and potential exporters in the State of Palestine. Straightforward export finance mechanisms are available to enterprises but more sophisticated tools such as government facilities, specific bank lines or even an export bank could contribute to accelerating export development. Difficulty accessing suitable financial mechanisms exacerbates the challenge of SMEs to access working and investment capital, which in turn limits the capacity of enterprises to diversify their export offerings and penetrate target markets. Recent improvements in the financial market infrastructure include the establishment of the credit registry,<sup>166</sup> although reforms appear to have stalled in 2011 and 2012.<sup>167</sup>

166. Palestine Monetary Authority (2011). *Key Macroeconomic and Financial Indicators in Palestine, Israel and some MENA countries*, p. 17.

167. World Bank (2012). *Doing Business: Measuring Business Regulations Report (2012)*

In this context, the NES explored the financial needs of exporters and proposes an alignment of financial policies and mechanisms with export development priorities. The following elements are addressed through the cross-sector's strategic plan of action.

- *Strengthen* legal and regulatory framework related to the financial sector.
- *Develop* new specialized financial instruments suited to the needs of the export sector.
- *Streamline* collateral requirements for MSMEs.
- *Improve* human capital within the financial sector to cater to and advise MSMEs.
- *Improve* strategic planning and operational management practices at enterprises.

## QUALITY MANAGEMENT

A reliable quality management (QM) infrastructure has important bearing on export competitiveness. It allows the private sector to maintain long-term export relationships based on products that consistently meet or exceed customer expectations. Not only is the function important for adhering to current requirements, but the ability to penetrate new, and especially advanced, markets hinges upon an enterprise's capacity to conform to market standards. Moreover, production processes based on strict quality standards can help enterprises identify problems before goods reach the market, thereby reducing both the cost and reputational impact of eventual deficiencies.

At all three levels –policy, institutional and enterprise– the Palestinian QM framework suffers from a variety of weaknesses that constrain exporting enterprises (and potential exporters) from bringing quality products to markets. There is thus an urgent need to revamp the framework so as to align it with global best practices in QM. The following elements are addressed through the cross-sector's strategic plan of action.

- *Strengthen* legal systems to empower institutions and professional organizations to legislate, regulate, inspect and control the quality of products and services using properly established and accredited testing laboratories.
- *Develop* a product classification system for Palestinian products and services.
- *Update and strengthen* lab infrastructure. Lab infrastructure will be developed to provide effective service, quickly and at a reasonable price.
- *Improve* producer and consumer awareness of quality metrics.

- *Enhance* quality management infrastructure at the source (i.e. the enterprise level). Through training, workshops and seminars, local manufacturers and service providers will be exposed to the latest and the greatest tools to enhance the quality of their products and services to stay ahead of competition.
- *Create* a national accreditation body independent of PSI, with the primary mandate of providing accreditation to service providers in the area of standards development, inspection, certifying, and lab testing.
- *Establish* a quality management policy formulation cycle.

## TRADE INFORMATION

In the State of Palestine there is a considerable lack of TI relating to current and potential target markets in terms of market developments, trends, culture and other relevant factors for exporting products to these countries. For specific information –and even for basic information– enterprises have to refer to international data banks and other forms of TI provided by international institutions. Often the TI gathered through this route is generic; it is not conditioned to the needs of Palestinian stakeholders, nor does it refer to the specific relationship between the respective countries and the State of Palestine. The following elements are addressed through the cross-sector's strategic plan of action.

- *Create* a clearly visible network of TI providers, with improved coordination and collaboration and with limited gaps and redundancies.
- *Provide* detailed information about countries of destination in relation to Palestinian trade –about specific sectors, markets and products– through an easily accessible platform.
- *Improve* capacity at the enterprise level in terms of leveraging existing sources of trade information and synergizing information sources to their advantage.

## TRADE FACILITATION AND LOGISTICS

The current trade facilitation and logistics (TFL) environment remains challenging for Palestinian exporters. The trade landscape is dominated by Israeli procedures and controls, and the Palestinian government has little influence in matters of trade facilitation. The majority of Palestinian private sector trade (both exports and imports) is controlled and logistically managed by Israel because of its control over ports and airports. Internal Palestinian trade, within the West Bank and between the West Bank and the Gaza Strip, travels along roads and passages which are also controlled by Israel. The following elements are addressed through the cross-sector's strategic plan of action.





Source: © PalTrade

- *Strengthen dialogue* between all concerned parties (private, public, Israel, Jordan) to increase coordination and fulfilment of expectations on various fronts.
- *Develop* a national one-stop shop to easily provide exporters with relevant and updated information on export procedures, regulations, operations and changes, and in the process reduce time, money and effort wastage for Palestinian exporters.
- *Improve human capital and strengthen the organizational setup* within enterprises, so as to formalize and develop expertise in the trade logistics function, and also develop efficiency gains through reduced delays and costs.
- *Simplify and rationalize* administrative procedures (documentation, charges, processes and eliminating domestic obstacles) through the introduction of comprehensive e-government initiatives that are implemented at all ministries and based on best practices followed globally.
- *Develop* innovative solutions through rigorous research conducted at the cross-sector level, focusing on identification of new export routes/transport mechanisms that would result in efficiency gains for exporters.

## PROMISING COMPANIES' INITIATIVE

The project will enable selected Palestinian exporters to better integrate into the global market, enhance their competitiveness and contribute to export diversification. From a developmental perspective, increased SME competitiveness will result in creating jobs and incomes.

The project is expected to constitute 2 phases:

1. The initial phase will enable enterprises to acquire capacities in understanding critical competitiveness issues for their business, the actual demand in target markets, assess the supply capacities and market positioning. It will also assist enterprises in understand the services of trade and business support institutions. Finally, this phase will also contribute to TSIs realignment of their services towards the needs of promising companies.
2. The second phase will provide targeted and individual support to build the specific capacities required of selected promising companies with a view to enable these SMEs to effectively access markets and enhance the international competitiveness of their products.

The main beneficiaries of the project will be the following, with the benefits cascading down and out from the first participants in the project to the general public:

- As direct beneficiaries: selected Palestinian Promising Industries, whether already exporting or with potential for doing so, and national TSIs, in particular (manufacturing, food processing and support services such as trade logistics, regulatory, testing, inspection and advisory)
- As indirect beneficiaries: this will include all support services that don't get first hand support such as transportation services, packaging, warehousing, etc.

This initiative emerging from the NES will serve as an initial catalyst to implement some of the NES plan of action for specific enterprises.

# HOW TO GET THERE

## NES IMPLEMENTATION

The NES document is only the beginning. To achieve the vision laid out by the NES, a concerted effort along a variety of fronts needs to be undertaken by all NES stakeholders. The effective contribution of the NES to export development will largely depend on the ability of the State of Palestine to plan, mobilize resources, coordinate activities and monitor its implementation. Special attention needs to be given to the building and reinforcing of strategy implementation management capacities.

The NES was prepared by the supervision and leadership of the Ministry of National Economy, and the management of Palestine Trade Center (PalTrade) as the national trade development and export promotion organization in Palestine, mandated by the Palestinian Cabinet Resolution No.(4) for the year 2005.

The broad range of activities, together with the complex nature of integrated interventions, requires careful implementation that efficiently directs resources and monitors results at both the micro and macro levels. In particular, the NES will ensure that existing development efforts, both national and donor driven, do not occur in isolation and instead are aligned with the State of Palestine's needs in the broader context of export growth for socioeconomic development. This is essential to avoid fragmentation of development efforts, which would otherwise lead to an overall low impact and challenges in implementation. Through its design process, the NES is already contributing to aligning different trade development efforts in the State of Palestine.

Accordingly, several key factors are important to ensure the implementation of the strategy, among which: the approval of the strategy at a high political level (i.e. Cabinet of Ministers), including the strategy in the National Development Plan 2014-2016, and the creation of an effective management framework working to strengthen the spirit of partnership in the implementation and optimization of all available resources.

## PALESTINIAN EXPORT COUNCIL

### 1. PALESTINIAN EXPORT COUNCIL

The Palestinian Export Council (hereinafter "PEC") aims to facilitate public/private partnership in the elaboration, coordination and monitoring of the Palestinian National Export Strategy (NES) in a manner that best enhances exports and international competitiveness.

The PEC is an independent council composed of representatives of the public and private sector, the academia including labour and employer unions. The Palestinian Export Council acts in an advisory capacity to the public and the private sector on a permanent and regular basis.

The PEC should be established by legislative act (enacted by the legislator). A legislative act will warrant stability, independence and autonomy of the PEC.

### 2. PEC ESTABLISHED BY THE CABINET

For effective NES implementation, it is recommended that the PEC obtains the highest political support. This avoids unnecessary duplications, builds collaboration and ensures consistency with the government's policies, plans, and strategies. Governmental institutions and agencies and private sector institutions will have stronger willingness and ownership to contribute to the NES implementation, by aligning their internal plans and interventions with the plans of action of the NES, with a high-level political endorsement of the PEC by Cabinet.

High level formalization of the PEC gives it an official mandate to coordinate, monitor and mobilize resources across governmental institutions and agencies and private sector institutions. The PEC is a formal public-private platform for NES that enable the formulation and endorsement of strategies and policies for export development.

### 3. HIGH LEVEL PRIVATE PUBLIC DIALOGUE ON EXPORT DEVELOPMENT

The PEC—is chaired “president” by the Minister of National Economy, while the chairman of Palestine Trade Centre (PalTrade) acts as the vice president of the PEC. The Minister of National Economy and PalTrade’s Chairman hold regular meetings of the PEC to better monitor NES and take corrective policies as necessary. In the first year of the PEC, quarterly meetings can contribute to securing efficient NES implementation.

In addition to the public sector, the PEC is co-chaired by the private sector to safeguard representativeness of the business community. This is aligned with the proposal that 50% of the PEC members should be from the private sector. As enterprises are the ultimate beneficiaries of the NES, their representativeness in the PEC fosters their long term support for the NES and guarantees it remains aligned to actual business’s needs.

### 4. FUNCTIONS OF THE PEC

- The Palestine’s Export Council is an independent council for public/private deliberation, that acts in an advisory capacity to the public and the private sector over issues related to or affecting the Palestine’s Export Strategy.

The PEC has a number of critical roles:

1. Help support the coordination and monitoring of implementation of the NES by the government, private sector organizations or international organizations;
2. Identifies and recommends allocation of resources necessary for the implementation of the NES by the different partners
3. Recommends policies that support the implementation of the NES.
4. Elaborates and recommends revisions and enhancement to the NES so that it continues to best respond to the needs and long term interests of the national business and export community.

### 5. STRUCTURE AND ORGANIZATION OF THE PEC

On the policy level the Palestinian Cabinet of Ministries—should be appraised on annual or bi-annual basis of the NES implementation progress.

#### 1. THE PALESTINIAN EXPORT COUNCIL :

- Adopt resolutions and recommendations for the effective implementation of the NES.
- Recommend the necessary strategic restructuring of the NES.
- Report once/twice a year to the Cabinet of Ministers on NES implementation progress.
- Fulfil the management functions of the Palestine’s Export Council;
- Amend the internal regulations and procedures of the PEC
- Create and dissolve specialized committees.

#### Composition of the Palestinian Export Council

1. The Council is composed of 26 members:
  - i. President: The Minister of National Economy
  - ii. Vice President: Chairman of Palestine Trade Center-PalTrade
2. The following institutions shall each have an appointed representative on behalf of the public sector in the Council:
  - a. Ministry of National Economy (MoNE)<sup>168</sup>
  - b. Ministry Of Finance/Customs & Excise Dep.
  - c. Ministry of Agriculture
  - d. Ministry of Tourism and Antiquities (MOTA)
  - e. Ministry of Foreign Affairs (MOFA)
  - f. Ministry of Telecommunication and Information Technologies (MTIT)
  - g. Palestinian Investment Promotion Agency (PIPA)
  - h. Palestine Standards Institution (PSI)
  - i. Palestinian Monetary Authority (PMA)
  - j. Palestinian Industrial Estate and Free Zone Authority (PIEFZA).

*“Each representative of the public sector is appointed and replaced with a decision of the specialized Minister.”*

3. The following institutions shall each have an appointed representative on behalf of the private sector at the Council:
  - a. Palestine Trade Center (PalTrade)<sup>169</sup>
  - b. Palestine Federation of Industries (PFI)
  - c. Palestinian Federation of Chamber of Commerce and Industry (PFCCI)
  - d. Palestinian Businessmen Association
  - e. Association of Banks in Palestine
  - f. Palestinian Shippers’ Council (PSC)
  - g. Palestine Information Technology Association (PITA)
  - h. Business Women Forum (BWF)
  - i. Arab Hotels Association
  - j. Agricultural producers

<sup>168</sup>. The number inside the brackets indicates the voting power of each institution

<sup>169</sup>. *Idem*





Source: © PalTrade

*"Each representative of the private sector is appointed and replaced by the Board of Directors of their respective organization. While representatives for the agricultural producers are chosen based on the recommendation of the members of the Palestinian Export Council (PEC) during the first meeting of the PEC"*

4. Four representatives from the academic sector will also be appointed to the Council, in following manner: two representatives will be appointed by the government and nominated by the Minister of National Economy, one of the two representatives will be from Palestine Economic Policy Research Institute (MAS), and two representatives will be appointed by and agreed upon by the private sector members in PEC and will be nominated by PalTrade's Chairman of the Board.

## 2. PEC SECRETARIAT:

PEC secretariat Supports the PEC in the daily operational work related to the NES, the secretariat will assume the management function of the PEC activities.

The PEC secretariat is to be mandated for and managed by Palestine Trade Center (PalTrade) as the national trade development and export promotion organization in Palestine, mandated by the Palestinian Cabinet Resolution No.(4) for the year 2005.

The core responsibilities of the PEC secretariat should be:

- Select the issues to be discussed at the PEC meetings and preparing a detailed report on those issues in order to inform the PEC and facilitate its deliberations;
- Ensure implementation of the PEC resolutions;
- Develop work plans for approval by the PEC;
- Collect information from project implementation and prepare regular monitoring and evaluation reports to be submitted PEC;
- Provide recommendations on the NES if needed;
- Provide inputs to the elaboration of projects proposals including budgets for implementation of activities of the NES;
- Execute any other tasks required by the PEC.

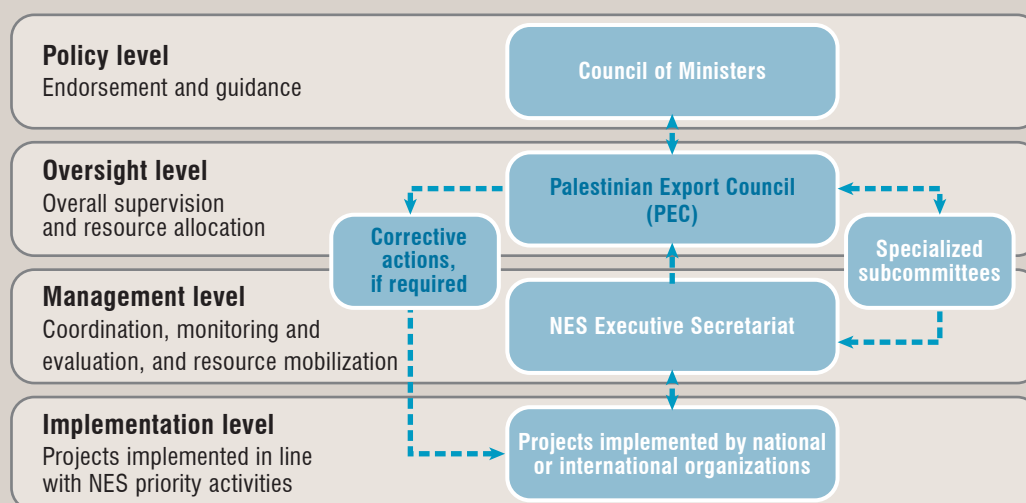


6. DEVELOP THE INTERNAL LAWS AND PROCEDURE OF THE COUNCIL AND SUBMIT IT TO THE CABINET FOR APPROVAL AFTER ITS ADOPTION BY THE PALESTINIAN EXPORT COUNCIL.

7. PALESTINE TRADE CENTER-PALTRADE WILL REVIEW ITS INTERNAL BYLAWS AND MAKE THE NECESSARY ADJUSTMENTS IF NEEDED, IN ACCORDANCE WITH THE ROLE OF THE PALESTINIAN EXPORT COUNCIL.

### Box 16: Governance structure for implementation of the State of Palestine NES

Below is the governance structure for the implementation management of the NES. It aims at providing a visual framework to define responsibilities.



The Cabinet of Ministers should be apprised on an annual or bi-annual basis of the NES implementation progress. The Cabinet of Ministers should validate the NES implementation plans elaborated by PEC.

PEC acts as the core export development decision-making body of the government. Specialized committees, created by the PEC General Meeting on an ad hoc, temporary or permanent basis, discharge the tasks of PEC over the subject matter they have been created for.

PEC should be supported by an executive secretariat to complete the daily operational work related to the implementation management of the NES.

Projects contributing to the implementation of the NES should be implemented by government institutions and agencies as well as international partners, when applicable.

## IMPLEMENTATION MANAGEMENT CAPACITIES

The ability and skills of PEC need to be sufficient to ensure effective management of NES implementation. PEC and the NES Executive Secretariat should have knowledge of monitoring frameworks, resource mobilization and programming, communications and advocacy. Without such skills PEC and the NES Executive Secretariat will not be in a strong position to assume the responsibility of managing NES implementation.

It is therefore important to provide PEC and the NES Executive Secretariat with the appropriate tools and capacities to manage NES implementation efficiently, and the transfer of these should be initiated as early as possible, even before the NES is endorsed, to ensure momentum built during the NES design process is maintained and capitalized upon to foster further ownership and support for NES implementation. Effective support for the establishment, operationalization and management of PEC and the NES Executive Secretariat will increase the chances of success of the NES.

## FINANCIAL RESOURCE MOBILIZATION FOR IMPLEMENTATION

It is estimated that approximately US\$ 130 million will be required to implement the NES.<sup>170</sup> The scope of the NES, with its nine sector strategies and four cross-sector strategies, explains fully the large investment requirements.

Resource mobilization will play an indispensable role in supporting NES implementation. An integrated resource mobilization plan will be designed as soon as possible once the strategy is adopted. Resource mobilization will involve planning the sequencing of communications with donors, project design, project proposals/applications, and resource collection and management. Active resource mobilization planning will facilitate, leverage and strengthen the impact of diverse sources of finance to support sustainable and inclusive implementation, including national resources, development aid and private investment.

**National resources through direct budget support:** The PNA will need to validate defined minimum budget support towards the implementation of the NES. Direct support for activities of the NES confirms the government's commitment to the NES initiative.

**Alignment of donor support and interventions with the NES:** The majority of international development partners already acknowledge that the NES provides them with the proper implementation plan and framework as well as favourable conditions for operation (i.e. political endorsement, private sector buy-in and improved collaboration with national institutions and international organizations). The next step consists of capitalizing on the significant momentum gained as part of the NES design process and leveraging it for smooth and efficient implementation. The NES PoA will serve PEC and the NES Executive Secretariat, as well as national institutions, to improve communication and facilitate negotiation, planning, coordination and evaluation of commitments made in the context of development aid.

## MONITORING IMPLEMENTATION FOR EFFECTIVE RESOURCE ALLOCATION

A key role of PEC and the NES Executive Secretariat is to monitor the implementation of the NES. Effective exploitation of reports and data will ensure that progress is evaluated in line with expected results and allocated resources. Monitoring will permit effective allocation or reallocation of resources based on expected and achieved results. This critical work will facilitate effective implementation of activities and enable the NES to achieve its strategic objectives, contributing to its overall success.

## COMMUNICATION

Targeted communication is required to inform and mobilize public and private partners. The current communication plan will be extended in order to continue promoting the NES and preserve the momentum and support for its implementation. Informing the national public and implementing agencies builds confidence and trust in support of the NES.

The key implementing institutions detailed in the various PoAs of the sector and cross-sector strategies need to be informed of the content of the strategies and the implications for their 2013-2018 programming. This sensitization is essential to build further ownership and will provide institutions with the opportunity to review the PoAs in order to confirm the activities to be implemented. Such a programming approach permits better resource allocation within the responsible agencies. This allocation can be formalized by integrating the activities of the NES into the programme planning of the institution. While the financial dimension is required, the human resource element is no less important.

170. The overall cost of implementing the NES is based on the estimated costs of each activity identified in the NES PoAs (NES and sector/cross-sector strategies), and on a five year implementation period.



Source: © PalTrade

## PRIVATE SECTOR SUPPORT AND PARTICIPATION

The private sector will benefit from the NES implementation through improved productive capacities, reduced costs of doing business, facilitated administrative procedures, enhanced access to finance, etc. However, the private sector clearly expressed, during the strategy

design process, its willingness to contribute, directly or in partnership with public institutions, to the implementation of the NES. Their implementation efforts can range from providing business intelligence to institutions to contributing to development projects, establishing processing and transformation units, advocacy, etc. In brief, the private sector practical knowledge of business operations is essential to ensure that the activities of the NES are effectively implemented and targeted.

# THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY

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## NES STRATEGIC PLAN OF ACTION

The consolidated plan of action of the NES is composed of macro-level activities that emerged in the sector and cross-sector strategies design process, as well as complementary activities necessary to reach the strategic objectives of the NES. Each sector and cross-sector strategy possesses its own specific plan of action.





Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)*
1.1 Establish enabling policies and frameworks to improve access to finance for export development.	1.1.1 Ensure constant communication and coordination of efforts to improve access to finance for export development through the establishment of a standing public–private committee to discuss and implement an export finance development agenda.	3	Private sector	Committee established and operational	Statutes and minutes of meetings	MoNE	MoF, Banking Association, PMA, PalTrade	GiZ + Canadian International Development Agency Public–Private Dialogue Programme through the Private Sector Development Programme.	30 000
	1.1.2 Change registration requirements for not-for-profit companies, as indicated in the PMA MFI regulation work plan. This should be done through regulations to be issued by PMA to ensure that MFIs operate on a commercial basis.	1	MSMEs	Registration requirements changed	PMA regulations	PMA	Palestinian Network for Small and Microfinance (Sharakeh), MoF, PalTrade, FPCCIA	MFI regulation programme implemented by PMA	50 000
	1.1.3 Create a political risk insurance scheme to provide protection in case of delivery delays resulting from political risks such as closures, curfews, delays at checkpoints and others. This type of insurance will be available to Palestinian exporters to protect them from these types of risks and will be provided through local insurance companies.	3	Private sector exporters	Scheme project defined; scheme endorsed and set up	Records of meetings; and operational framework of scheme	MoNE	PCMA, PIF, Palestine Insurance Federation, PalTrade, MoF		10 000 000
	1.1.4 Expedite the collateral liquidation process through ensuring that the legal mechanisms are in place to enforce court decisions. This would increase the financial institutions' trust in the system, and thereby facilitate exporting businesses getting credit through providing collateral.	2	Banks and financial institutions	Legal mechanisms operations; reduced time to liquidate	Records of liquidation process	MoJ	PMA, MoNE, Land Authority		250 000
	1.1.5 Enact a Movable Assets Law and create a movable assets registry to ensure the use of movable assets as collateral. Support with a legal registry of utilization to ensure the rights of the creditors accepting movable assets.	3	Private sector	Law enacted; registry established; increase in use of movable assets as collateral	Parliament/cabinet decision; registry logs; bank records	MoNE	PMA, PCMA, MoT, MoF, MoJ	Programme by the World Bank International Finance Corporation (IFC) for drafting of the movable assets law and regulations, and creation of a registry	250 000
	1.1.6 Streamline land registration procedures through the establishment of an effective land registration database, to enable enterprises to make use of real estate as collateral for financial institutions.	3	Private sector	Land registration database established; increase in use of land as collateral	Records of land registration database; bank records	Land Registration Authority	MoF, Ministry of Local Government, MoJ	EU land registration assistance programme to Land Authority	1 000 000

\* The costs for implementing the NES have been estimated by NES stakeholders. These costs will be revised and adjusted in the NES implementation phase.

Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.1 Establish enabling policies and frameworks to improve access to finance for export development.	1.1.7 Increase benefits of loan guarantee funds by reducing requirements for users. This can be achieved through ensuring that the guarantee effectively translates to less collateral requirements for borrowers and not just increased security for banks.	3	Private sector	Increase in use of guarantee funds by SMEs	Bank records	PMA	PMA, loan guarantee funds, banks		20 000
	1.1.8 Operationalize the legal and regulatory framework for financial leasing through endorsement of the law and the setting up of the authority.	2	SMEs with export potential	Law endorsed; authority established and operational	Parliament/cabinet decision; regulators' operation records; bank records	PCMA	Financial leasing companies, PMA	PCMA programme on financial leasing supported by IFC	400 000
	1.1.9 Establish an agricultural insurance scheme – government-backed – in association with Palestinian insurance companies to mitigate the risks of agricultural production for farmers and investors. This is to be supported by an agricultural insurance law.	3	Agriculture sector	Scheme defined; law drafted; scheme operational	Parliament/cabinet decision; insurance records	MoA	Parliament, ACU, Palestinian Fresh Produce Council		2 000 000
	1.1.10 Establish specific government funded agricultural credit lines (or agricultural bank /credit union) aimed at providing preferential loans and credits to organized enterprises or cooperatives.	3	Agriculture sector	Agricultural bank/credit line established; increased use of agricultural finance	Record of decision; records of loans for farmers	MoA	Private Sector Coordination Council (PSCC), agricultural NGOs		20 000 000
	1.1.11 Lobby to enhance the efficiency of reimbursements (mainly income tax /VAT refunds) and allow new payment options.	3	Private sector	Reduction in time for tax and VAT refunds; online payment available	Record of MoF; e-government platform	MoF	ACU, PFFU		66 000–100 000
1.1 Establish enabling policies and frameworks to improve access to finance for export development.	1.1.12 Adopt a modern Companies Law (new draft to include mergers and acquisitions, share distribution, venture capital provisions and new classifications of companies) to enhance responsibility of enterprises. These additions to the Companies Law would facilitate access to finance by modernizing the structure and mandates of companies.	3	Private sector	Law enacted	Parliament/cabinet decision	MoNE	Council of Ministers, President's Office, TSIs, MoJ, PMA, PCMA		160 000
	1.1.13 Reinforce the contractual agreement framework for commercial transactions through the development of a legislative and monitoring framework and strengthening litigation mechanisms. (TBC)	3	Growers and business owners	Enhanced contractual framework	Records of litigation	Palestinian Business Forum	MoNE, PSCC		120 000–130 000
	1.1.14 Create specialized commercial /financial courts to expedite the process of dispute resolution.	2	Private sector	Court established	Records of court decisions	High Council of Justice	MoJ, MoNE, MoF, PalTrade, chambers of commerce		1 500 000
	1.1.15 Adopt alternative dispute resolution mechanisms for international trade disputes, to be implemented by MoJ and the International Chamber of Commerce's Arbitration Centre.	1	Private sector	Alternative mechanisms established	Records of dispute settlements	MoJ	International Chambers of Commerce – Palestine, chambers of commerce	ICC, MOJ programme for updating arbitration law and regulations and training of judges	300 000

Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.1 Establish enabling policies and frameworks to improve access to finance for export development.	1.1.16 Reduce the registration legal fees /costs incurred to register and close a company in order to make it more efficient to formalize start-up businesses.	2	Private sector	Cost of opening a business reduced	Doing business	MoNE	MoF, PSCC, PalTrade		20 000
1.2 Establish a national level framework to improve trade facilitation and logistics for Palestinian exporters.	1.2.1 Establish a public and private (50/50) technical group on TFL mandated to implement a medium to long term agenda on TFL (i.e. advisory forum for trade facilitation or reactivate the border crossings authority). The committee should be supported by cabinet.	3	Private /public sectors	Committee established and operational	List of members, records of meetings	MoNE	PalTrade, PSC	Public-Private Sector Dialogue Programme	n.a.
	1.2.2 Simplify and streamline administrative procedures (documentation, charges, processes and eliminating domestic obstacles) by introducing e-government. This process should be implemented at all ministries to ensure that information is exchanged and approved electronically, similarly to other countries (i.e. single window).	3	Exporters	Single window or similar established and operation; reduction in time for export procedures	Records of operation; doing business; surveys of exporters	MoNE	PalTrade, FPCCIA, all relevant ministries	New Trade Facilitation project by USAID/Deloitte	100 000
	1.2.3 Create a website for exporters containing step-by-step information about the export process, indicating and explaining requirements and delivery times at each step, and containing an entry point to all border agencies and relevant ministries, with all the necessary documentation to be filled out by exporters downloadable in electronic format. (Avoid unnecessary duplication of websites.)	3	Exporters	Website and database operational and updated	Statistics of users; survey of validity of information	PalTrade	MoNE, PFI, sector associations, FPCCIA	CIDA project	5 000
	1.2.4 Ensure that standard operating procedures (SOPs) are in place to ensure Customs can clear the issuing of traders' paperwork (i.e. Certificate of Origin) rapidly. Also ensure that the Customs database is continually updated.	3	Customs	SOP established and operational; reduction in time to issue papers	SOP document; doing business	MoNE	FPCCIA, PSC		100 000
	1.2.5 Advocate and lobby to international shipping lines to ease restrictions on containers destined for the State of Palestine to increase the number of demurrage days from seven to 14-21 days. This might encourage these shipping lines to grant direct agencies to Palestinians.	3	Private sector	Reduction in in-demurrage fees	PSC survey	PSC	MoT, PalTrade		10 000
	1.2.6 Establish a joint logistics centre at Bissan/Prince Mohammed Bridge crossings through the development of a joint Jordanian and Palestinian agreement and through advocacy and lobbying to the Gol.	2	Exporters	Advocacy campaign operational; feasibility study; investment promotion agreement signed; logistics centre established	Advocacy & feasibility study documents, agreement; records of operations	PalTrade	PSC, MoNE		200 000

Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)*
1.2 Establish a national level framework to improve trade facilitation and logistics for Palestinian exporters.	1.2.7 Establish a framework (bilateral joint ventures or private sector ventures) to allow Palestinian customs agents to operate up to the Jordanian borders. Jordanian and Palestinian agents to agree on a price range that would protect the interests of both if the export volume is to increase through this route. Join this activity with the clarification of trade agreements.	2	Shippers	Framework established; number of Palestinian agents active	Framework document; Customs records	PSC	MoNE	EU Alternative Routes	TBD
	1.2.8 Establish a hotline to provide a guidance and information service to exporters facing problems in cases of closures or delays at crossings /borders (provide alternatives) (this is a preliminary measure until one-stop shops are open).	2	Exporters	Hotline established		Border Authority	PSC, private sector, MoNE, Customs		None
	1.2.9 Implement an advocacy campaign to the international community to request that borders operate on a 24 hour basis. The private sector should lead the elaboration of the position papers.	3	Shippers	Position papers elaborated; campaign launched	Papers; news coverage; media reports	Border Authority, PalTrade	PSC, PalTrade, MoNE		20 000
	1.2.10 Implement an advocacy campaign for imported goods that leave port to require no more security checks once they arrive at the crossing. This would eliminate almost 30% of extra costs and delays.	3	Shippers	Position papers elaborated; campaign launched	Papers; news coverage; media reports	Border Authority, PalTrade	PSC, PalTrade, MoNE		20 000
	1.2.11 Activate and implement the transit trade agreements signed between the State of Palestine and other trading partners.	2	Exporters	Key clauses of agreements implemented in the State of Palestine; clauses implemented in partner countries	Record of transit procedures; studies of trade routes	MoNE	PSC, PalTrade		200 000
1.3 Ensure adequate policies, regulations and frameworks to support the development of a quality export culture.	1.2.12 Establish and implement an agreement on non-manipulation certificates with Jordan and Egypt in order to speed up transit to destinations.	2	Exporters	Agreement drafted and ratified; agreement implemented and monitored	Agreement document; monitoring reports	MoNE	PSC, PalTrade		10 000
	1.2.13 Build capacity in the private sector (traders) in order to facilitate its integration into global systems such as authorized economic operators.	2	Exporters	Capacity – building programme defined and implemented; number of traders accredited	Training material, accreditation records	Border Authority	PSC, PalTrade, MoNE		20 000
	1.3.1 Apply effectively the law (No. 6 – 2000) that mandates PSI to be solely responsible for developing and issuing standards (through use of technical committees).	2	PSI	Law appropriately applied	PSI activity reports	MoNE	PSI		50 000



Strategic objective 1 : To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)*
1.1.3 Ensure adequate policies, regulations and frameworks to support the development of a quality export culture.	1.1.3.2 Update the Palestine Standards and Metrology Law No. (6) to improve definitions of regulations and standards and enact penalties for non-compliance with regulations. This will be done through the following: » Differentiate between regulations and standards; » Define a penalty structure for not complying with regulations; » Strengthen the capacity of market surveillance authorities.	3	SMEs and government	Law updated and implemented; number of penalties; number of market surveillance controls	Parliament / cabinet decision; records of penalties; reports of controls	MoNE	PSI, all ministries, PFI, and industrial unions		100 000
	1.1.3.3 Strengthen and increase the operational capacity of the QM framework in Palestine to ensure private and public sector stakeholders have formalized roles and responsibilities regarding formulation of QM systems within the quality infrastructure. The framework should clearly define hierarchy, a responsibility matrix, reporting structure etc. among all stakeholders involved in decision-making about formulating the quality infrastructure.	2	Exporters, quality management system institutions	QM roles and responsibilities matrix defined and enforced	Efficiency reports	MoNE	PSI, PalTrade, MoHE, PFI, MoH	National Quality Infrastructure Development Programme	50 000
	1.1.3.4 Align the Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) with the priority sectors of the NES and the sectors for which the EU market is considered a priority market.	1	Exporters to the EU	ACAA – Palestine aligned to some of the NES priority sectors	Clauses in ACAA	MoNE	PSI, PFI, MoH		none
	1.1.3.5 Encourage the setting up of conformity assessment bodies (testing laboratories, certification and inspection bodies) to respond to the needs of the private sector through specific incentives.	3	Exporters	Incentive measures active; number of newly established and operational conformity assessment bodies	Incentive package: enterprise registration forms; number of tests performed	MoNE	PSI, MoA, MoH, PFI, sector associations, PalTrade		1 500 000
	1.1.3.6 Develop and improve the capacities of Palestinian certification bodies to offer quality certificates. Continuous training programmes required.	2	Certification bodies and the private sector	Number of certification bodies trained	Records of training	MoNE	PSI, PFI, PalTrade		200 000
	1.1.3.7 Create an independent accreditation system recognized internationally. An accreditation body (local or regional) is essential for accrediting certifying bodies and laboratories.	3	Exporters, quality management system institutions	System established; accreditation received	Accreditation record	MoNE	PSI, PFI MOH		500 000

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Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)*
1.3 Ensure adequate policies, regulations and frameworks to support the development of a quality export culture.	1.3.8 Establish a regulatory framework to enable product traceability.	3	Exporters	Multiphase programme established; legal framework developed	Programme documents; policies established	MoNE	PSI, MoA, MoH, PFI, sector associations	COMPETE/USAID	2 000 000
	<ul style="list-style-type: none"> <li>» Establish proper traceability framework: a multi-phased programme should be designed to do the following: <ul style="list-style-type: none"> <li>– Assess and prioritize the needs for traceability for different sectors;</li> <li>– Consult with specialists in the field who will design a product traceability programme;</li> <li>– Work with the specialists to define an implementation plan.</li> </ul> </li> <li>» Create a legal framework to support the system: this includes setting out new laws and policies; training workshops and awareness-raising campaigns.</li> </ul>								
1.4 Strengthen the network of institutions providing trade information.	1.3.9 Activate /reactivate and implement (negotiations required) existing mutual recognition agreements. Sign and implement new mutual recognition agreements with target countries.	3	Exporters	Number of times agreements are used	Records of PSI	PalTrade	MoFA, PSI	Private sector development programme	400 000
	1.4.1 Formalize and operationalize a private-public TI network with dedicated resources pooled from the various public-private TI institutions – MoNE, PalTrade, PCBS, PSI, FPCCIA, PFI, PSC, border authorities, MoF, Sharakeh, Business Women Forum (BWF) and MoFA.	3	Private sector	TI network operationalized with clear resources, mandate and responsibilities	Statutes, resource allocations, reports	PalTrade	Other members of the network		15 000
	1.4.2 Establish a protocol, supported by a Memorandum of Understanding (MoU), to increase collaboration in the TI network defining: <ul style="list-style-type: none"> <li>» Roles and responsibilities for TI providers to provide updated information to the centralized database of the TI network on a regular basis (i.e. weekly/monthly);</li> <li>» Specific analytical functions of each institution (e.g. PalTrade to provide market reports to the network). In that protocol each institution would be responsible for updating specific analytical components of the network database;</li> <li>» Specific requirements for institutions to support the dissemination of TI through the network.</li> </ul>	3	Private sector	MoU of responsibilities and roles in TI provision signed and implemented; quality of TI provided	MoU document; survey of enterprises	PCBS	Other members of the network		25 000
	1.4.3 Establish local representation (i.e. people in regular contact with respective MSMEs) to provide guidance to MSMEs on their TI needs. Local focal point to build up links for cooperation with local government structures such as municipalities.	1	MSMEs	Number of local representations established; number of enterprises accessing TI locally	Records of establishment; utilization reports	FPCCIA	Other members of the network		20 000

Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.4 Strengthen the network of institutions providing trade information.	1.4.4 Strengthen the capacity of MoFA to collect key trade information in target markets and disseminate it as part of the TI network.	3	Exporters, TI providers	Number of commercial attachés trained; volume and quality of TI collected and disseminated by MoFA	Training reports; data/report transfers	MoFA	PalTrade		3 000 000
	1.4.5 Establish agreements with the diaspora (through MoFA) to encourage them to collect and disseminate key trade information.	3	Exporters	Number of agreements; quality and quantity of TI collected	Agreements; data transfers	PalTrade	PFI, FPCCIA, MoFA		1 000 000
1.5 Increase the efficiency of the trade support network.	1.5.1 Develop specialized capacity-building programme(s) for trade-related institutions in the State of Palestine – based on identified responsibilities and assessed capacities (TSN analysis – national and sector specific) – to have the capacities to implement their responsibilities as part of the NES. Align existing capacity-building programmes to the implementation responsibilities assigned by the NES.	3	Export value chain	Number of specific capacity-building initiatives implemented	Reports	MoPAD	PEC, MoNE, universities		150 000
	1.5.2 Establish and operationalize PEC as a key representative body of the private and public sector stakeholders related to export development. PEC will be responsible for coordinating, monitoring, evaluating and mobilizing resources for the implementation of the NES. PEC is to be supported by an executive secretariat.	3	Export value chain	PEC established, operational and meeting on a regular basis; executive secretariat operational	PEC statutes, PEC meeting records, membership, staff list of executive secretariat	Cabinet	PalTrade and MoNE		900 000
	1.5.3 Institutionalize PSCC to better serve and advocate the interests of the private sector, contribute to role identification and avoid overlaps among organizations.	1	Private sector	Increased satisfaction of private sector on the role of institutions	Surveys	PSCC	MoNE, PFI, PalTrade, FPCCIA		300 000
1.6 Build a digital government platform to increase overall export development.	1.6.1 Conduct a gap analysis of digital legislation (i.e. digital signatures, data protection, online payments etc.) to: » Identify areas where pro-industry improvements can be made; » Elaborate specific policy recommendations, including legislative text, to align digital legislation with the long-term requirements of the export sector (and the overall digital economy); » Develop related policy paper(s) to form the basis of an advocacy and awareness-raising campaign (target: policymakers, industry, consumers).	3	Government and private sector	Gap analysis conducted; number of policy papers	Report; papers	PITA	MoTIT, MoJ, MoNE, PalTrade		25 000

Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)*
1.6 Build a digital government platform to increase overall export development.	1.6.2 Create a legal and regulatory framework for an electronic payment gateway in order to facilitate electronic trade and electronic payment procedures for potential export of products.	1	Private sector, banks, financial services institutions	Gateway established and operational	Activity reports	MoTIT	PMA, banks, MoNE		100 000
	1.6.3 Create the legal and regulatory framework for e-commerce, including e-contracts, data protection, and e-payment regulations in order to allow for electronic commerce.	2	Private sector	Framework for e-commerce established	Legislation	MoTIT	MoNE, PMA, PCMA, MoJ, banks		150 000
	1.7.1 Define, establish and implement an energy and utilities pricing policy (fuel, electricity, water, telephone/broadband) to provide differentiated energy and utilities prices for industries and enterprises.	3	MSMEs	Reduction in utilities prices for MSMEs	Policy documentation, reports	PSCC	MoNE and Electricity Regulatory Council, MoNE		40 000
1.7 Establish incentives and a support structure for the development of exporters.	1.7.2 Develop and propose special incentives packages for exporters (on the basis of eligibility criteria) as a means to increase export growth. Packages should be composed of reduced taxes, lower utilities and energy costs, preferential access to free trade zones or industrial zones, etc. As required, prepare position papers to lobby and create an advocacy campaign.	3	Exporters, current or emerging	Adequate incentive packages established; policy papers drafted and used	Reports; policy papers	MoNE (apply)	PalTrade (lobby)		120 000
	1.7.3 Reduce/subsidize the broadband access tariff, for IT companies mainly and SMEs in general, to reduce input costs, and negotiate an increase in Palestinian access to 3G capacity.	3	IT exporters and SMEs	Reduction in broadband costs	Reports; enterprise survey	MoTIT	PalTel, Wataniya Wireless, Internet service providers, PTIRA if active, PITA		20 000 (campaign); subsidies /price support as appropriate
	1.8.1 MoNE to coordinate with PSCC (and research institutes) before advising the PLC (President) on the most needed negotiations, legislation and policies that affect the exporting community and the population in general. This is important to ensure consultation before agreements are proposed. PSCC should be involved in directing the public sector towards enhancing, cancelling, or establishing any trade agreement that might affect any of the industries positively or negatively.	2	Shippers	Consultations with public and private sectors held for each trade agreement signed by the PNA	Reports of consultations	PSCC	Private sector, MoNE		none
1.8 Increase the benefits of trade agreements for the Palestinian economy and exporters.	1.8.2 Design a special capacity-building programme in the field of international trade agreements, pre and post evaluation, their analysis, benefits and use. Once the capacity is built, review and assess existing trade agreements and sign new agreements with target markets.	1	Exporters	Training programme implemented; 1-2 agreements reviewed each year	Records of programme; newly signed agreements or addendums	PalTrade	FPCCIA, PFI, MoNE		20 000



Strategic objective 1: To promote a dynamic business environment enabled by a policy and regulatory environment to support innovation and investment in the export sector.									
Operational ob- jective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verifi- cation	Leading implementing partners	Supporting imple- menting partners	Existing pro- grammes or poten- tial support	Estimated costs (US\$)*
1.8 Increase the benefits of trade agreements for the Palestinian economy and exporters.	1.8.3 Introduce a special mechanism to disseminate information by regular bulletins, reports, workshops, specialized training and other related mechanisms as deemed appropriate to maximize utilization of such trade agreements.	1	Exporters	Information on agree- ments disseminated	Dissemination mechanism; re- ports	PalTrade	MoNE		30 000
	1.9 Ensure access to new zones for pro- duction of export products.								
1.9 Ensure access to new zones for pro- duction of export products.	1.9.1 Advocate and lobby the international community for more access to Area C and the Jordan Valley, more physical representation at Customs, and recognition of trade agreements by Gol.	2	MSMEs	Policy papers elab- orated; campaign launched	Papers, media reports	Negotiation unit of the President's office	MoFA, MoF, MoNE, Customs, PalTrade (position papers)		62 000
	1.9.2 Establish a National Parks Authority (a semi-governmental public-private partnership) in charge of keeping, maintaining and selling /licensing experi- ence and services at designated natural and historical sites and parks.	1	Tourism sector	Authority established	Statutes and re- sources	MoTA	MoA, MEnA, local government, private sector		250 000

Strategic objective 2: To build the capacities of the exporting sector to diversify and penetrate international markets.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.1 Ensure enterprises have access to quality TI to complete their market assessments.	2.1.1 Launch a structured communication campaign to enterprises in order to promote the services of the TI network and its interface (see 1.4.1). Ensure enterprises can have a member access page in order to have access to specific services (free or fee-based) aligned to their enterprise profile.	2	TI institutions, exporters	100% of current exporters aware of TI network and interface	Survey of enterprises	PalTrade	Media, MoNE, PIPA, FPCCIA		25 000
	2.1.2 Organize annual meetings of MSMEs and the TI network to assess the TI network platform and discuss and agree on TI requirements for priority NES sectors' export development.	2	TI institutions, exporters	Annual meeting held	List of participants and meeting report	FPCCIA	Media, MoNE, PIPA, PalTrade		20 000
	2.1.3 Monitor and assess, on a regular basis, the quality of TI provided to Palestinian enterprises, and publish the results.	2	Enterprises			PalTrade, (through feedback from members, client survey)	MoNE		20 000
	2.1.4 Organize regular trainings (minimum of one per year per sector) for sector associations/unions, aimed at building their market intelligence collection, analysis and management capacities.	3	Sector unions, SMEs	One meeting per year/sector held	List of participants, agenda, training materials	PalTrade	Unions		1 000 000
	2.1.5 Establish a network of market intelligence points in target markets for detailed analysis and updated information on business trends. This should be done with specialized related organizations or private sector companies. Proper dissemination of collected information should be secured in a very transparent way for all enterprises and related stakeholders by regular bulletins, reports, workshops, specialized training and other related mechanisms as deemed appropriate.	3	TI network, SMEs	At least one market intelligence point per target market of the NES priority sectors	List of market intelligence points; sector strategy documents	PalTrade	Other members of the TI network		none
	2.1.6 Build the capacities of selected institutions (MoNE, PalTrade, PSI, FPCCIA, PFI, etc.) of TI network members to better collect standards and requirements of target markets and disseminate them to enterprises through regular bulletins, specialized workshops, training, and other mechanisms as deemed appropriate.	2	Sector unions, SMEs	Increase in quality of information concerning standards and requirements, and information easily available	TI network and website	PalTrade	PSI, MoNE		20 000
	2.1.7 Establish a reliable information gathering and dissemination system for TFL procedures. The system needs to ensure rapid translation of updated Hebrew sites and ensure information from ports, airports, Israeli and Palestinian ministries are all collated and filtered.	2	Exporters	Exporters are satisfied with TFL information received	Survey of exporters	PSC	PalTrade		10 000
	2.1.8 Make available for free 'public good' information relating to market access and entry, international regulatory frameworks and the multilateral trading system, regional trade agreements, etc., in a user-friendly manner and easily accessible.	3	Exporters	Free market information of quality available	Review of website	PalTrade	MoNE, other ministries of PNA, PFI, PFBA, FPCCIA		20 000

Strategic objective 2: To build the capacities of the exporting sector to diversify and penetrate international markets.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.2 Build the capacities of exporters to develop their export businesses.	2.2.1 Combine the knowledge and experience of institutions in the TI network to write and publish a Palestinian guide on 'how to develop an export development plan' specific to Palestinian enterprises. Conduct training workshops for businesses about developing an export development plan.	3	Enterprises	Guide written; guide available online; four public trainings per year	Document, websites; training records	PalTrade	FPCCIA, PFI		6 000
	2.2.2 Establish an online tool for enterprises to assess their export readiness and, based on their capacity level, propose a number of free and fee-based services.	2	Enterprises	Export readiness tool available online	Website statistics	PalTrade	FPCCIA, PFI		8 000
	2.2.3 Implement a multi-phased programme structured in a way to enhance the competency of current exporters and introduce new exporters to export readiness assessments, capacity-building and access to markets. The programme will provide training in specialized fields in the areas of export development and quality management and enhance managerial skills. Based on export readiness assessments, train enterprises on how to prepare for market development and participation in trade fairs.	3	Exporters and potential exporters	Programme established; 15 graduating exporters per year; increase in export volumes of graduates	Records of programme; certificates; export figures	PalTrade	PSI, industry unions, ministries		5 000 000
2.3 Improve product development and design across multiple sectors.	2.3.1 Establish /strengthen public-private research and development centres for different industries, in cooperation with universities, to conduct applied research and development to develop and test new products, plants and crops based on market needs and international trends.	2	SMEs	Public-private dialogue on research and development structured; at least one yearly research and development project per NES sector	Minutes of meetings; results of research and development	Industrial unions	MoNE, MoA, PSI, MoHE		400 000
	2.3.2 Establish a professional design centre for training and service provision to various industries (computer-aided design, fashion design, industrial design, etc.) in order to ensure enterprises have access to the latest techniques in product development and design.	2	SMEs	Centre established, resourced and operational	Activity reports	Palestine Polytechnic University	FPCCIA, MoNE, MoF		350 000
	2.3.3 Linked to the design centre, establish a network with international designers to offer innovative designs for local manufacturers and increase awareness of their impact on business.	1	Design centre, SMEs	Network established; training and events held in the State of Palestine	List of members; reports of trainings	Palestine Polytechnic University	FPCCIA, MoNE, MoF		250 000
2.4 Establish better control of export quality as a critical success factor for exporting enterprises.	2.4.1 Develop a plan to quantify and quality current laboratory capacity and accreditation levels through creation of a master log listing all existing labs and their current capacity, scope of service, limitations, and details of current levels of accreditation. The log will be used: to obtain international accreditation of labs; by local manufacturers who want to test products; by local certifying companies; and by international markets which want to buy lab services.	1	Quality management system, SMEs	Master list elaborated and covering 100% of labs in Palestine	Document list and database	PSI	MoNE		50 000

Strategic objective 2: To build the capacities of the exporting sector to diversify and penetrate international markets.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.4 Establish better control of export quality as a critical success factor for exporting enterprises.	2.4.2 Strengthen the capacity of existing lab services including (but not limited to) management, technical and marketing skills, and machinery, to improve the level of service offered and to increase their exposure. Capacity strengthening to be executed through trainings and specialized incentive packages for labs improving their services. Evaluate performance through continued monitoring and assessments.	1	Laboratories	Measurable increase in lab service	Assessment and monitoring reports	PSI	Relevant ministries		1 000 000
	2.4.3 Conduct an awareness-raising campaign and trainings to enterprises on international standards (voluntary standards, GlobalGAP, HACCP, British Retail Consortium, Field to Fork, SEDEX, SA8000, etc.)	2	Private sector	500 enterprises sensitized per year	Records of training; information distribution list.	PFI	PalTrade, MoNE, MoA, PSI		200 000
	2.5.1 Develop a 'Palestinian guide to export finance' (pre-shipment and post-shipment), to be available online through trade information websites, and conduct an information campaign to MSMEs.	3	Exporters, MSMEs	Guide developed; guide easily available online	Document; websites	PalTrade	PMA, PCMA, Banking Association, MoNE		100 000
2.5 Ease access to export finance for enterprises.	2.5.2 Provide training to increase the business skills of MSMEs in producing business plans, financial planning, and sales and marketing plans in order to demonstrate their creditworthiness.	2	MSMEs	At least 100 enterprises trained per year	Records of trainings	PalTrade	MFIs, Banking Association		500 000
	2.5.3 Establish export credit schemes through banks or credit institutions, including buyer credit and supplier credit financing facilities, loans, export-oriented project financing, and payment instruments. This activity needs to be combined with a feasibility study.	2	Private sector exporters	Feasibility study completed; volume of credit distributed through an operational pilot or full export scheme	Report; credit records	PMA	MoF, MoNE	International Development Bank export credit programme	5 100 000
	2.5.4 Design an awareness-raising programme to inform export-oriented companies of existing international guarantee mechanisms available in the State of Palestine (MIGA, International Development Bank Guarantee Funds, etc.) as well as their procedures, as a means to promote FDI in Palestinian export sectors.	3	Exporters, MSMEs	At least 100 companies informed per year	Records of trainings	PIPA	FPCCIA, PFPA, PalTrade, PFI		30 000
2.6 Build up a global business culture.	2.5.5 Create a public-private equity fund to target export-oriented SMEs to minimize private risk in case of small return values, and to provide for technical upgrading and capacity-building for targeted SMEs. This activity needs to be combined with a feasibility study.	1	SMEs with export potential	Feasibility study completed; equity fund established and operational	Report; records of investments	PIF	International Development Bank, IFC, MoF, PCMA, value chain companies		200 000
	2.6.1 Design special curricula for business tracks in universities on practical aspects of integration into global value chains for specific sectors.	1	SMEs	Private-public discussion held; curricula established; 50% of universities providing the training	Record of meetings; curricula document; school enrolments	MoHE	Universities, FPCCIA, PFI		1 400 000
	2.6.2 Conduct awareness-raising campaigns on, and create business awards for, innovative business practices and success stories explaining the value of employing skilled labour and staff as a means to strengthen a business culture.	2	SMEs	Award event held annually	Awards records	FPCCIA	MoHE, PFI		150 000



Strategic objective 2: To build the capacities of the exporting sector to diversify and penetrate international markets.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.7 Increase the efficiency and effectiveness of market penetration efforts for small and fragmented export sectors.	2.7.1 Implement pilot export business models (marketing company, bulk exports, financial pooling, etc.) to build market linkages and enhance practical knowledge of companies about best practices in export.	3	Producers and exporters	One to two pilots established and evaluated in the first three years of the NES	Official registration documents; evaluation reports	FPCCIA	PFI, PalTrade MoNE		2 100 000 (3 pilots)
	2.7.2 Increase the availability of business to business meetings with international clients to enhance the knowledge and experience of Palestinian companies to be able to manage relations with potential international clients.	3	Exporting companies	At least one meeting per priority sector per year	List of attendance at meeting	PalTrade	MoNE, MoFA, MoA, PFI, FPCCIA, PFBA		1 500 000
	2.8.1 Create and maintain a database, based on traders' needs, of detailed trade statistics which are relevant, user-friendly and easily accessible for traders. This will help traders better predict times and routes for export.	1	Traders	Database operational; at least 50% of traders using it	Database statistics	PCBS	PalTrade, MoNE, MoF, MoA, FPCCIA, PFI		100 000
2.8 Simplify export procedures for enterprises.	2.8.2 Establish, initially on a pilot basis, trade and logistics hubs in multiple places in the State of Palestine, in industrial zones, close to border crossings or along main trade routes, to provide a number of basic logistical services: transportation; shipping; clearing; storing; coordinating on both sides of the border; cold storage facilities; overnight storage in some cases through renting areas in and around crossings; palletizing of products in accordance with international requirements; brokerage; freight-forwarding; and transportation.	2	Exporters, shippers	Pilot implemented and evaluated in the first three years of the NES	Setting up documents; evaluation report	MoNE	PSC, PalTrade, PFI, FPCCIA	Private investment	
	2.9.1 Engage a dialogue and establish linkages between the public and private sectors and higher education institutions to create or adapt certified curricula aligned to the needs of the labour market and the economy, and include practical training through internships so that graduates can be more productive and employable and fully in tune with technology trends.	3	Students, graduates, enterprises	Public-private dialogue on TVET operational; curricula adjusted	Meeting minutes; curricula documents	MoHE	PalTrade, MoL		1 400 000
	2.9.2 Conduct technical, vocational and on-the-job training courses with regard to the technical needs of NES priority sectors, based on the newly developed curricula and training material for tackling the key technical, production and maintenance issues in each NES priority sector.	3	Private sector	One course available per priority sector per year	Training records	MoHE	Industrial unions, MoNE		150 000
2.9 Increase employability in export sectors through Technical & Vocational Education & Training (TVET).	2.9.3 Develop incentives (tax or other) for export-oriented enterprises to offer continuing and on-the-job training for employees to increase their skills and capacities and thereby increase their competitiveness.	1	Students, graduates, enterprises	Incentive package developed; at least 5% of exporting enterprises benefiting	Package documents; records of disbursement	MoF	MoNE, MoL, PFI, PalTrade, FPCCIA		260 000
	2.9.4 Devise and implement a programme for academic exchange at the PhD/professor level to attract high-quality foreign academics as teachers at Palestinian universities in order to expose students to the latest global trends.	1	Students, graduates, enterprises	Exchange programme established	Records of programme	MoHE	PITA, MoTIT, PalTrade, PFI		250 000 (initially, plus yearly support depending on size)

Strategic objective 3: To maximize the contribution of exports to socioeconomic development through enhanced export competitiveness.								
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Estimated costs (US\$)
3.1 Improve water management practices of the export sector.	3.1.1 Conduct trainings and awareness-raising campaigns directly to farmers, producers, processors and manufacturers to address water management practices and environmental risks/degradation.	2	Value chain	At least one training per year per priority sector of the NES	Records of trainings	PWA	MEaA, MoNE, MoH, PFFU, PSI, FPCCIA	400 000
	3.1.2 Encourage efficient water management practices in the agriculture and manufacturing sectors, including optimizing water usage, recycling and treatment, and finding additional water resources, through incentives to enterprises. Efforts to be monitored on a yearly basis and awards could be distributed.	3	Enterprises, farmers, producers	Incentive package defined; monitoring conducted; awards provided to the top three most water efficient enterprises.	Records of incentive allocation; monitoring reports; list of award winners	PWA	MoA, MoNE, MEaA, private sector organizations	1 500 000
	3.1.3 Advocate the international community for a greater say by the State of Palestine in water resources control and access to water. This is in line with Article 40 of the Oslo Accord.	3	Enterprises, farmers, producers	Advocacy campaign launched; increased control of water wells by PNA	Media reports; water assessment report	PWA	MoA, MoNE, MEaA, private sector organizations	50 000
3.2 Promote involvement of women and marginalized groups in export value chains.	3.2.1 Promote and encourage gender sensitivity and women's participation in export-oriented sectors through incentives and business linkages.	3	Women	Incentive package defined and implemented; volume of incentives disbursed; a measured increase in women's employment for enterprises benefiting from incentives	Incentives records; employee records	MoWA	MoL, MoA, MoNE, BWF, private sector organizations	400 000
	3.2.2 Conduct a gap analysis to assess how conducive the current labour laws are towards mainstreaming women, youth, and people with special needs into the talent pool of priority NES sectors.	1	Marginalized groups	Gap analysis conducted	Report	MoL	MoWA, PalTrade, PFI, BWF, trade unions	30 000
3.3 Strengthen cooperatives and associations.	3.2.3 Based on the gap analysis, build the capacities of public institutions to better monitor and enforce legislation related to women, youth, and special needs workers.	1	Marginalized groups	Increase in number of reports published from various institutions on marginalized groups' integration into the workforce	Reports	MoL	MoWA, PalTrade, PFI, BWF, trade unions	50 000
	3.3.1 Develop/revamp a manual for cooperatives and other key associations on good governance, management and business practices, and conduct multilevel trainings about related benefits.	2	Cooperatives, associations, producers	Updated manual available; 100% of cooperatives/associations trained in three years	Manual; trainings records	MoL	PFFU, MoA, MoNE, PFI, ACU, PARC	120 000

Strategic objective 3: To maximize the contribution of exports to socioeconomic development through enhanced export competitiveness.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
3.3 Strengthen cooperatives and associations.	3.3.2 Ensure regular monitoring of cooperatives and associations to confirm efficient and transparent governance, management, and business practices to ensure sustainable management of the organizations.	3	Cooperatives, associations, producers	100% of cooperatives /associations monitored	Monitoring reports	MoL	MoL, MoA, Ministry of Housing, MoNE, PFI, ACU		150 000
	3.3.3 Review and modernize the legal framework pertaining to cooperatives and associations to ensure they provide regular financial and governance reports. This has to be accompanied with enforcement measures.	1	Cooperatives, associations, producers	Legal and enforcement framework revised; 100% of cooperatives /associations provide financial /governance reports	Legal framework; financial /activity reports	MoL	MoL, MoA, Ministry of Housing, MoNE, PFI, ACU		60 000
3.4 Improve consumer awareness of quality export and local products.	3.4.1 Initiate awareness-raising campaigns on addressing the importance of quality, safety and health aspects of products.	1	Consumers, producers and exporters	Awareness-raising campaign launched	Media reports	MoNE	MoH, MoT, PalTrade, PSI, PFI, PCPA		250 000
	3.4.2 Strengthen enforcement of technical regulations and compliance with standards for both locally produced products and imported ones: » Organize inspection activities; » Build capacities of enforcement agencies; » Provide tighter control at borders; » Enact and publicize non-compliances that present hazards to health and safety.	3	Consumers, producers and exporters	Gradual reduction in non-compliant products after three years of increased enforcement	Inspection reports	MoNE	PSI, MoH, MoA, MoJ, Ministry of Interior		3 000 000
3.5 Create environmental sustainability for export development.	3.5.1 Develop an organic agriculture legislative framework confirming organic inputs required for production and processing to increase traceability.	2	Producers, exporters, consumers	Legislative framework designed and endorsed	Legislative or cabinet decision	MoA	PSI, ACU, PFIU		80 000
	3.5.2 Build capacity of farmers and producers to develop organic products to expand organic agriculture, reduce dependency on imported chemicals and increase market share of organic products. Support and monitor well-organized organic projects with technical and possibly additional incentives.	1	Producers, exporters, consumers	At least 20% of farmers informed or trained after two years; specific support and monitoring package defined	Survey, monitoring reports	PARC	Arab Agronomists Association, Applied Research Institute Jerusalem, MoA, PFIU, COAP		1 250 000
	3.5.3 Ensure mechanisms and special incentive schemes are established to expand the use of renewable energies (solar and wind) in production and conduct feasibility studies and pilot projects to that effect.	3	Producers, exporters	Feasibility studies conducted; at least four pilot projects implemented	Studies documents; project monitoring results	PEA	FPCCIA, MoNE, MoF		50 000
	3.5.4 Implement a study to investigate the feasibility of establishing an electricity generation company in the southern area of the West Bank. This is a cross-cutting issue aimed at reducing the cost of electricity.	1	Producers, exporters, consumers	Feasibility study completed	Study	PEA	MoNE, HCCL, Ministry of Local Government, Applied Research Institute of Jerusalem		500 000

Strategic objective 4: To build and promote the image of Palestine as a supplier of value-added quality products and services.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
4.1 Reinforce the visibility of PSI quality marks.	4.1.1 Publicize and promote PSM and PSI quality marks (updated criteria) through: » Creating and implementing awareness-raising campaigns for enterprises and exporters to promote quality marks as a means to access preferential treatment for exports through mutual agreements. This needs to be combined with implementation of mutual recognition agreements (1.3.9); » Promotion of quality marks in educational curricula.	2	SMEs, exporters	Within three years 75% of exporters use the PSI mark; 20% of SMEs use the mark (benchmark: 2%-3%)	PSI statistics	PSI	PalTrade, MoNE, MoHE		400 000
	4.1.2 Ensure alignment of PSM and PSI quality marks with international standards. Train all technical committees to use international standards when creating new Palestinian standards.	2	Exporters	100% of members of technical committees informed of international standards	List of members; list of documentation provided to the committee	PSI	MoNE, PFI		25 000
4.2 Establish and promote Brand Palestine.	4.2.1 Review and build on the results of the 'Branding Palestine' project through the development of an implementation plan and the mobilization of resources for implementation.	3	Exporters	Results of project reviewed; implementation plan developed; resources mobilized; implementation monitored	Monitoring reports; resource allocations	PalTrade	PSI, MoNE, FPCCIA, PFI		170 000
	4.2.2 Encourage the use of 'Made in Palestine' for key priority target markets through an advocacy and communication campaign to private sector and exporting enterprises.	3	SMEs and exporters	Communication package developed; 50% of exporters use 'Made in Palestine' on their products in three years	Communication material; review of packaging material /product stamps	PalTrade	PSI, MoNE, FPCCIA, MoFA, PFI		1 600 000
	4.2.3 Establish a set of criteria and standards to be applied to products receiving the Brand Palestine logo. The Brand Palestine logo could be based on PSM and PSI logos – updated version.	3	SMEs, exporters	Brand Palestine standards established	Standards	PSI	MoNE, PFI, PalTrade, FPCCIA, BWF		25 000
	4.2.4 Establish (and build the capacity of) an evaluation and monitoring unit responsible for certifying companies using the Brand Palestine logo.	2	Exporters	Brand Palestine monitored and low fault rate	Assessment reports of enterprises using logo	PFI	MoNE, PSI, FPCCIA		100 000
	4.2.5 Establish and implement a communication strategy to promote Brand Palestine with a constant, consistent, constituent image of the State of Palestine. Possible actions: » Organize structured tours of the State of Palestine (with enhanced tourism sites) and its enterprises for foreign delegations, enterprises and institutions to demonstrate the safe and positive image of the State of Palestine; » Reinstitute promotion of Palestinian festivals; » Organize a lobbying campaign to foreign chambers of commerce; » Monitor travel warnings.	3	Exporters	Communication strategy developed; resourced and implemented; reduction in negative perception of the State of Palestine	Multiple surveys in multiple target countries	PalTrade	MoFA, MoNE, PFI, PalTrade, FPCCIA, BWF		1 000 000



Strategic objective 4: To build and promote the image of Palestine as a supplier of value-added quality products and services.								
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partners	Supporting implementing partners	Existing programmes or potential support
4.2 Establish and promote Brand Palestine.	4.2.6 Expand strategy to obtain UNESCO (United Nations Educational, Scientific and Cultural Organization) heritage designation and protection, which offers free marketing and a credibility upgrade, both specific to the site and to the tourism destination generally.	2	All sectors	Heritage designation received	UNESCO records; media reports	MoTA	MoNE, Hotel Association	50 000
	4.2.7 Make a concerted effort to establish and operationalize a GS1 in the State of Palestine as a means to identify products of Palestinian origin. Review and assess successes achieved by current initiatives to have Palestinian barcodes. As needed, establish a lobbying campaign to GS1 headquarters.	3	All sectors	GS1 Palestine established	Registration documents; barcodes produced	PFI	FPCCIA, PalTrade, MoNE, PSCC	30 000
	4.3 Structure the physical development of the State of Palestine to promote a positive image.	1	All sectors	50% of development plans and urban plans consider the visual image of Palestine within three years	Documents and plans	Ministry of Local Government	MoTA, private sector tourism stakeholder organizations	50 000
4.4 Increase exposure in international markets.	4.4.1 Establish a promotion fund financed by a contribution (TBD) from exporters or by taxes. The payment of these fees should be supported by law.	3	Exporters	Financing scheme of fund defined and operationalized; 50% of exporters use the fund for promotion activities in three years	Fund rules and regulations; disbursements; monitoring reports	PalTrade	MoF, third party auditors	TBD
	4.4.2 Improve enterprises' visibility of global trends through increased participation in international events on latest trends and materials. This needs to be joined with increased dissemination of information on these events, raised awareness of the value of these events, and a specific mechanism to encourage and support participants.	2	SMEs, exporters	Increase Palestinian enterprises' participation in international events by 25% in three years	Registration forms	PalTrade	MoFA, industry unions	5 000 000
	4.4.3 Identify potential exporters and offer training programmes to develop soft skills (international marketing and presentation) as part of a massive programme for integration into global markets.	3	Exporters	Selection criteria defined; 20 exporters trained per year	Training registries	PalTrade	PFI, FPCCIA, universities and learning institutions	300 000
	4.4.4 Organize an annual trade fair in the State of Palestine to promote the image and products of the State of Palestine to foreign buyers, organize visits to local production sites, and expose MSMEs to the requirements of foreign buyers.	2	All sectors	Committee to structure and organize event established; fair organized within three years.	List of committee members and list of participants	PalTrade	MoNE, MoTA, PSCC, MoFA,	250 000 (pilot)

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# APPENDIX 1: NES TEAM

The NES team was assigned by the Palestinian cabinet to supervise the formulation of the NES; to guide the work process throughout its different stages; and to ensure the NES will build on, rather than duplicate, existing Palestinian policies and objectives. The NES team is composed of two levels.

The NES High Steering Committee has the mandate to review and validate the documents for endorsement by the Cabinet of Ministers. It is composed of the following members:

- **The Minister of the National Economy & Deputy Prime Minister**  
(H.E. Dr. Mohammed Mustafa),  
and previously Dr. Jawad Naji;
- **PalTrade chairman**  
(previously: Mr. Arafat Asfour /  
currently: Mr. Ibrahim Barham);
- **Representative of the Prime Minister's Office**  
(Mr. Tayseer Amr);
- **Representative of the academic sector**  
(Dr. Mohammed Naser);
- **Representative of the Private Sector Coordinating Council**  
(Mr. Ibrahim Barham),  
previously Mr. Mohammed Masroji,  
and Mr. Arafat Asfour.

The NES team itself consists of 27 members, comprised of the public, private and academic sectors. Following is a detailed matrix of those members according to each sector they represent.

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## APPENDIX 2: STAKEHOLDERS IN THE NES DESIGN PROCESS

### PARTICIPANTS IN THE FIRST NES CONSULTATION

	Name	Organization	Position
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2	Nadim Abush	PIEFZA	Manager
3	Ikram Omar	MoNE	
4	Jamal Abu Farha	MoNE	CAU
5	Nedal Aljaberi	PIEFZA	Managing Director
6	Samer Dewkat	Ministry of Environmental Affairs	Director
7	Wahid Elased	MoT	Director
8	Mohammed Alsayed	PSI	Director of International Cooperation
9	Asef Said	MoL	Director
10	Israa Melhem	MoNE	International Relations
11	Dr. Rayan Darwish	MoNE	Director of Bilateral Relations with Europe
12	Mohammed Almasri	MoA	Postharvest Technology Department Director
13	Ahmad Alahmad	PSI	Director
14	Basell Aldeek	MoF	ASYCUDA Manager
15	Khaled Daragmeh	MoTA	Director of Investment
16	Ghadeer Hithnawi	PIPA	Director of Incentive Department
17	Dalia Qumsieh	Trade in Services Project	Legal Advisor
18	Reem Najjar	PIEFZA	Director General
19	Mohammed Himidan	MoNE	
20	Ahmad Abbas	MoPAD	
21	Lamis Saify	MoWA	
22	Sami Sehwal	MoWA	Director of Planning
23	Eng. Ahmad Q.	MoNE	
24	Eng. Khader Daraghma	MoNE	Director
25	Flond Zurba	MoTIT	Director
26	Maysa Muucyer	MoTIT	Engineer

	Name	Organization	Position
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31	Tareq Abo Haykal	Royal Industrial Trading	Export Manager
32	Mohammed Khader	Lausanne	General Manager
33	Muntaser Badarneh	Pinar	CEO
34	William Geroosis	Sharakeh	General Manager
35	Husam Mahmed Zakarny	Union of Stone and Marble	Jenin Branch Director
36	Ramadan Badha	PalTrade	P.A.
37	Khalail Rizeq		
38	Amal Daraghmeah Masri	Ogarit Group	CEO
39	Firas Karaki	PIF	Manager
40	Reem	PEIC	Public Relations
41	Abdallah Anati	Movement Forum	CEO
42	Mohammed Qutqut	Qalqilia Chamber of Commerce	General Manager
43	Ibrahim Ghawmneh	Beauty Paints	Executive Director
44	Ahmad Deeb	Solutions	Consultant
45	Mahmoud Shehab	Alhijaz for Chocolate	
46	Suhail Jultew	PPU	
47	Majed Ma'ali	Palestinian Businessmen Association	
48	Do'a Wadi	BWF	Executive Director
49	Jamal Jawabreh	FPCCIA	S.G.
50	Sharief Mohammed Alhaj	ةيحيى السلا تامدخ لل فير ةكرش	Manager
51	Shadi Hussien/Shahen	PalTrade	Trade Policy Officer
52	Eyad Anabtawi	Compete Project	Monitoring and Evaluation Specialist
53	Hanna Rabah	Compete Project	Monitoring and Evaluation Coordinator
54	Mohammed Attoun	Wassel	Director of IT & Business Process Reengineering
55	Jawad Sayyed Al-Herbawi	HCCI	CEO
56	Hussien Al Ahmad	Palestinian Food Industries Association	CEO
57	Khalil Khoury	NIC	Business Development Manager
58	Abdalwahab Khatib	PIF	Project Manager
59	Bassam Walweel	GWMC	General Manager
60		Middle East Cosmetics	
61	Murad Tahboub	Asal Technology	General Manager
62	Rana Warrad Sandouka	Swiss Cooperation Office Gaza & West Bank	National Programme Officer
63	Bader Rock	OQR	Private Sector & Trade Advisor
64	Dr. Tim Williams	OQR	Movement & Access Advisor
65	Giovanni Gottuso	Italian Consulate	

	Name	Organization	Position
66	Mostafa Nada	Representative Office Egypt	Political Section Chief
67	Fadi Abdellatif	USAID	Senior Programme Manager and Advisor
68	Ahmed Qabajehi	MAS	Researcher
69	Nadejda Dagash	FAO	Agriculture Sector Coordinator
70	Youssef Habeseh	IFC	Resident Representative
71	Maher Hamdan	ICI	COP
72	Jamil Ahmad	UNDP	Development Expert
73	Ian Bomberg	Middle East Investment Initiative	Project Manager
74	Kubo Eiji	JICA	Representative
75	John B. Cnihfield, Ph.D	USAID	Director
76	Younis Sbeih	UNDP	Programme Manager (Poverty Reduction Unit)
77	Bayan Abed	GIZ	Programme Advisor
78	Lidwine Maltete	AFC	Project Officer
79	Franz Weizsaecker	GIZ	B2B Advisor
80	Waleed F. Zaru	DAI	Country Director
81	Hanspeter Hirschi	Swiss Cooperation Office Gaza & West Bank	Deputy Head
82	Sandra Bernasconi	SDC	Deputy Director of Cooperation

## PARTICIPANTS IN SECTOR STRATEGY CONSULTATIONS

### FRESH FRUITS, VEGETABLES AND HERBS

	Name	Organization
1	Majeda Salameh	Ministry of National Economy
2	Ramiz Obaied	Ministry of Agriculture
3	E. Abeed	Ministry of Labour
4	Ahmad Eid	Ministry of Agriculture
5	Yazan Odeh	PARC
6	Hasanein Hasanein	PARC
7	Yousef Salah	General Directorate of Extension & Rural Development
8	Suha Arar	Ministry of Health
9	Ibrahim Atiya	Ministry of Health
10	Moayyad Al Housani	Fedex
11	Harbi Daraghme	Al Jeflek Cooperative
12	Khaled Dawod	PARC
13	Emad Al Banna	Banna
14	Ala Masoud	ARIJ
15	Said Janan	Mount of Green Olives
16	Saleh Ahmad	UAWC
17	Adnan Jaber	Sinokrot

	Name	Organization
18	Tareq Abu Khaizaran	Agripal
19	Younes Yameen	Team Coordinator
20	Ayman Mousa	PARC
21	Sameer Aljunaidy	Aljunaidy Co.
22	Shadi Darwesh	Ministry of Agriculture
23	Yousef Abo Awwad	Siniora Food Co.
24	Mohammad Alamsri	Ministry of Agriculture
25	Tareq Abu Laban	Ministry of Agriculture
26	Mohammad Abu Khaizran	Zadona
27	Hosam Al Zorba	Palgardens
28	Bassam Waleel	Golden Wheat Mills Company
29	Mustafa Barakat	Ministry of Agriculture
30	Bassam Al Nimer	
31	Sanad Sabri	Palgardens
32	Bakr Bsharat	
33	Saber Amleh	MoNE
34	Ahmad Showakah	Palestine Polytechnic University
35	Hussien Ahmad	PFIA
36	Ramzi Abu Khaizaran	Al Khaizaran Co.
37	Majdi Daraghme	Al Khaizaran Co.
38	Mohammed Al Sayyed	PSI
39	Manal Dsui	Ministry of National Economy
40	Munther Orekat	Ministry of National Economy
41	Saleh Fareed	Ministry of Labour

## TEXTILES AND GARMENTS

	Name	Organization
1	Khalid Arja	Arja Textile Co.
2	Abdallah Hodali	Hodali Textile Co.
3	Hani Murad	Consultant
4	Ibrahim Mukarker	Mukarker Textile Co.
5	Zeyad Fadel	Ministry of National Economy
6	Ahmad Al Qinnah	Ministry of National Economy
7	Lubna Jaber	UPTI
8	Mamoun Nazzal	PalTrade
9	Akef Hamouda	UPTI
10	Tareq Sous	UPTI
11	Khader Rizkallah	Rizkallah Co.
12	Bassam Abdul Rahim	Team Coordinator
13	Nafez Nieroukh	Nieroukh co.



	Name	Organization
14	Tarek Sous	UPTI
15	Saiph Sharabati	Saiph Wear
16	Tamara Arja	Arja Textile Co.
17	Tareq Saqf Al Hait	Al Huda Textile Company
18	Majdi Abu Ruman	National Textile Company
19	Emad Bali	Home Touch Industrial Co.
20	Jamil Jaraysah	Models Dress Co.
21	Mohammoud Zarour	PalTrade

## AGRO-PROCESSED MEAT

	Name	Organization
1	Ayman Abu Zarour	M.A.K Int.
2	Yasmeen Abu Baker	M.A.K Int.
3	Samir Alfuqha	Ministry of Agriculture
4	Ahmad Al Karmi	Siniora Food Industries
5	Fuad Akra	PFIA
6	Issa Beitouni	BESCO
7	Husein Al Ahmad	PFIA
8	Moheeb Al-Jabari	Ministry of National Economy
9	Mohammad Al-Sayyed	PSI
10	Anwar Kabajeh	Ministry of Planning
11	Mohammad Tarshan	Ministry of Planning
12	Rinda Hamouri	Business Women Forum
13	Iman Hassasneh	Business Women Forum
14	Younis Sbeih	UNDP
15	Samah Jaouni	UNDP
16	Samah Khayyat	Ministry of Agriculture
17	Baha Khader	Ministry of Agriculture
18	Kamal Odeh	Al Salwa Co.
19	Adnan Jaber	Zadona
20	Ismael Izhiman	Saniora Co.
21	Mustafa Al Masri	PCBS
22	Ahmad Deeb	Hulul
23	Osama Abu Ali	PalTrade
24	Rami Kort	PalTrade
25	Mohammad Al Ramah	PalTrade
26	Rawan Salameh	PalTrade
27	Mary Khalil	PalTrade
28	Shadi Shaheen	PalTrade
29	Mamoun Nazzal	Team Coordinator

## TOURISM

	Name	Organization
1	Mohammed Himidan	Ministry of National Economy
2	Dalia Qumsieh	Ministry of National Economy
3	Tony Hosh	Bethlehem Star Olive Wood
4	Jerjes Fcoosh	Olive Art
5	Daoud Al Deik	Ministry of National Economy
6	Rana Abu Sibaa	Ministry of Foreign Affairs
7	Naheed Jaber	Palestine Standards Institution
8	Manal Dasouqi	Ministry of National Economy
9	Ghadeer Hirzallah	Ministry of Tourism
10	Atiyeh Sartawi	Ministry of Tourism
11	Samir Hazboun	BCCI
12	Rafiq Bargoti	Ministry of Tourism
13	Khaled Daraghmeh	Ministry of Tourism
14	Naeem Hamad	Ministry of National Economy
15	Nuha Atick	Laila Tours
16	Haitham Shtiah	Ministry of Tourism
17	Sayel Al Deek	Ministry of Tourism
18	Jawad Al Muty	Ministry of National Economy
19	Ramadan Badaha	Ministry of National Economy
20	Sameera Qazzaz	Ministry of National Economy
21	Fadi Daraghmeh	Ministry of National Economy
22	Yusef Daher	Team Coordinator
23	Laila Asfour	Laila Tours & Travel
24	Rana Abu Sibaa	MoFA
25	Elias Arja	Arab Hotels Association
26	Isra'a Melhem	Ministry of National Economy
27	Raed Al Khatib	Arab Hotels Association
28	Maha Saqa	
29	Richard Elias	Arab Hotels Association
30	Ali Abu Sorur	Ministry of Tourism
31	Sami Khoury	
32	Mohammed Zomlot	Grand Park Hotel

## LEATHER AND FOOTWEAR

	Name	Organization
1	Tareq Abu El Filat	Palestinian Leather Industry Union
2	Ibrahim Jabareen	Palestine Standards Institution
3	Hamdi Za'tary	Al Tawfiq Co.
4	Abd Abu Rajab	Al Worod Co.

	Name	Organization
5	Awni Julani	First Shoes Co.
6	Abeed Al Za'tary	Al Waleed Co.
7	Adel Al Za'tary	Palestinian Leather Industry Union
8	Dalal Abu Hamed	Ministry of Labour
9	Asma'a Al Haj Hamd	Ministry of Labour
10	Raed Al Zighaier	Blue Co.
11	Hamzeh Abu Dab'at	Palestinian Leather Industry Union
12	Shaban Natsheh	Palestinian Leather Industry Union
13	Kamel Al Zighaier	Al Ramah Al Masieah Co.
14	Ismail Sharif	HCCI
15	Jawad Herbawi	Team Coordinator
16	Baha Sartawi	MoL
17	Mazen Zghier	HCCI
18	Jawdi Abu Rageb	Glad Baby Company
19	Farhat Sijaj	Tossetti Shoes
20	Zeyad Fadel	MoNE
21	Rami Zughear	Golf Horse
22	Fdel Natsheh	Naboli
23	Ghandi Al Za'al	Palestinian Leather Industry Union
24	Ameer Haboub	Palestinian Leather Industry Union
25	Adel Zatari	Al Walid Co.
26	Mohammed Atawenih	
27	Faten Alomlah	
28	Omar Syaj	Tossetti Shoes

## STONE AND MARBLE

	Name	Organization
1	Moheeb Al Jabaree	Ministry of National Economy
2	Iyad Al Saheb	Suhil and Saheb Co.
3	Nidal Jabaree	PIEFZA
4	Ahmad Diwkat	PCBS
5	Wissam Tarweh	Union of Stone and Marble
6	Haitham Abu Rayan	Palestine Standards Institution
7	Amjad Issa	PIPA
8	Abdallah Abu Rayan	Ministry of National Economy
9	Nasser Jwiles	Ministry of National Economy
10	Abdelkarim Al Haliqa	Arabic Islamic Company for Stone and Marble
11	Maher Hushayesh	Team Coordinator
12	Mohammad Elatrash	ALANAN Co.
13	Ahmad Almasry	Sharabati Co.
14	Mohammed Hmidan	MoNE

	Name	Organization
15	Manal Farhan	MoNE
16	Samir Hulielah	PADICO
17	Suheel Sultan	PhD. Strategic Development
18	Oriana Nasser	Jerusalem Stone Source Co.
19	Omar Zareer	Al Taqaddom company
20	Subhi Thawabteh	Union Stone and Marble
21	Mohammed Saheb	
22	Hafeth Khmour	
23	Waleed Deeria	
24	Akram Bader	Verona For Marble
25	Ayoub Sharabaty	Sharabati Co.
26	Ahmad Masri	Sharabati Co.

## OLIVE OIL

	Name	Organization
1	Osama Abu Ali	PalTrade
2	Qusai Abu Zaitoun	Al Ard Agri Products
3	Mohammed Sawafta	Oxfam GB
4	Mohammed Turshan	Ministry of Planning and Administrative Development
5	Taghreed Shadeh	Palestine Standards Institution
6	Salim Abu Gazaleh	Reef
7	Rafat Alqam	Al Zaytoona
8	Ali Ghanem	Al Ard Co.
9	Laila Yaseen	Canaan Fair Trade Company
10	Diana Musleh	Ministry of National Economy
11	Imad Assad	Sama Palestine For Marketing
12	Khaled Hidmi	Mount of Green Olives
13	Murad Ibdah	Zietna for Olive Oil
14	Ahmad Abufarha	Canaan Fair Trade Company
15	Nadeem Khoury	Taybeh Olive Oil Company
16	Shadi Mahmoud	Team Coordinator
17	Rinda Hamouri	BWF
18	Shady Shaheen	PalTrade
19	Yunis Sbeh	UNDP
20	Samir Tete	Ministry of Agriculture
21	Fouad Al Aqra	Palestinian Food Industries Association
22	Ziad Anabtawi	Near East Industries & Trade Ltd
23	Fayyad Fayyad	Olive Oil Coop's Union

## ICT

	Name	Organization
1	Murad Tahboub	ASAL Tech.
2	Hussein Yassien	Nasher
3	Mohammed Alameh	Amaar Group
4	Anas Abu Sara	PalTrade
5	Muhannad Hijawi	PalTrade
6	Ramadan Badaha	Ministry of National Economy
7	Ahmed El Farra	Palinvest
8	Bashar Skaik	PalTrade
9	Nahed Jaber	Palestine Standards Institution
10	Florid Zurba	Ministry of Telecommunications and Information Technology
11	Isra'a Milhem	Ministry of National Economy
12	Rayan Darwish	Ministry of National Economy
13	Muhanna Manasrah	Babilsoft
14	Maher Al-Tabbaa	GCCI
15	Laith Kasis	Team Coordinator
16	Anan Ghazi	Ministry of Telecommunications and Information Technology
17	Yaser M. Waheidi	Ministry of Telecommunications and Information Technology
18	Hassan Qasem	Dimensions
19	Abeer Hazboun	PITA
20	Rami Wehidi	Consultant
21	Muhammed Musleh	PITA
22	Ala Aladdin	Intertech
23	Tareq Maayah	EXALT
24	Sireen Sabi	Reach
25	Yousef Jabr	Reach
26	Saeed Zidan	Ultimit
27	Rasha Salahiden	2isoftware
28	Jawad Abdelkarem	Ministry of Telecommunications and Information Technology
29	Dalia Qumseh	Ministry of National Economy

## FURNITURE

	Name	Organization
1	Mohammed Al Ryashi	Palestinian Wood Industries Union
2	Ahmed Ahmed	Al Barbrawi Company
3	Abdallah Barassi	PalTrade
4	Ahmad Salama	Modern Industrial Group
5	Nazeh Al Mashkarawi	Al Mashkarawi Co.
6	Sami Fogo	Fogo Co.
7	Hussien Abdel Salim	Alquds Co.



	Name	Organization
8	Mohammed Mhana	Issa Muhanna Co.
9	Zaki Hussien	Al Barbrawi Company
10	Kamal Al Sa'afeen	Kamal Co.
11	Wadah Bessisso	Bessisso Co.
12	Mohammed Skaik	PalTrade
13	Hatem Mughani	Team Coordinator
14	Husam Maree	Al Abdee Co.
15	Wasef Mutee	
16	Suad Surakji	Zawaya Furniture
17	Ahmad Musalam	Talfeet Co.
18	Firas Al Kataloni	AL Kholwod Co.

## PARTICIPANTS IN FUNCTIONAL STRATEGIES CONSULTATIONS

### ACCESS TO FINANCE

	Name	Organization
1	Nahid Qudsi	Ministry of National Economy
2	Abeer Odeh	PCMA
3	Ahmad Sartawi	Arab Islamic Bank
4	Mohammed Abusair	PIPA
5	Sami Saidi	Arab Islamic Bank
6	Hussein Yassien	Nasher
7	Amjad Qasas	Pallease
8	Ahmad Safadi	Solutions
9	Said Khatib	Team Coordinator
10	Muawiah Alqwasmi	BOF
11	Samer Dwekat	MoA
12	Hussein Habab	Quds Bank
13	Fida Musleh /Azar	JEF
14	Mohammed Attallah	PMA
15	Mohammed Manasrah	PMA
16	Khader Daraghmeh	MoNE
17	Iyad Joudeh	Solutions
18	Majed Malee	Palestine Businessmen Association
19	Basel Aldeek	MoF
20	Abdalwahab Khatib	Palestine Investment Fund
21	Suha Awadallah	PalTrade
22	Bashar Zarour	PCMA

## TRADE INFORMATION

	Name	Organization
1	Rinda Hammouri	Business Women Forum
2	Rana Abu Sibaa	Ministry of Foreign Affairs
3	Dalal Abu Hamed	Ministry of Labour
4	Asmaa Haj Mohammed	Ministry of Labour
5	Angham Krakra	Ministry of National Economy
6	Ikhlas Anati	Ministry of National Economy
7	Samer Altaher	PalTrade
8	Mustafa Almasri	PCBS
9	Thaer Bedear	PalTrade
10	Ulrike Qubaja	MAS
11	Muhannad Hamed	Palestinian Shippers' Council
12	Ahmed Qubaja	Team Coordinator
13	Dou Wadi	Business Women Forum
14	Husam Khalefah	PCBS
15	Ahmed Diwkat	PCBS
16	Ghadeer Hithnawi	Palestine Investment Promotion Agency
17	Faisal Awartani	Alpha
18	Majeed Nazzal	Mazaya
19	Hani Kayeed	Ministry of Local Government
20	Fawaz Mujaheed	Ministry of Education
21	Manal Zreeq	Massar
22	Ibrahim Najjar	Palcircless
23	Jamal Abu Farha	Ministry of National Economy
24	Osama Abu Ali	PalTrade
25	Shawqi Makhtoub	PalTrade

## QUALITY MANAGEMENT

	Name	Organization
1	Ayman Abu Zarour	M.A.K Int.
2	Faheem Alzubaidy	Birzeit Pharmaceuticals Co.
3	Issa Beitouni	BESCO
4	Yasmeen Abu Bakr	M.A.K Int.
5	Ali Ghanem	Anabtawi Group
6	Mohammed Abu Rahmah	Ministry of National Economy
7	Nahed Jaber	Palestine Standards Institution
8	Ahmed Safadi	Team Coordinator
9	Ahmad Deeb	Solutions
10	Mohammad Al-Sayyed	PSI
11	Haider Hajjeh	PSI

	Name	Organization
12	Rabeh Morar	Al-Najah National University
13	Sami Sehweel	Ministry of Women's Affairs
14	Safwat Balassi	Ministry of Women's Affairs
15	Odeh Shehadeh	Palestinian Federation of Industries
16	Moheeb Jabaree	Ministry of National Economy
17	Nidal Junaidi	Al Junaidi
18	Ibrahim Salameh	Ministry of Agriculture

## TRADE FACILITATION AND LOGISTICS

	Name	Organization
1	Basel Aldeek	Ministry of Finance
2	Ibrahim Ahmad	Ministry of Finance
3	Muhannad Hamed	Palestinian Shippers' Council
4	Abdallah Salameh	PalTrade
5	Amjad Issa	PIPA
6	Saba Barghothi	Carmel Co.
7	Mohammed Atallah	PMA
8	Mohammed Manasrah	PMA
9	Shaher Mousa	PMA
10	Sayel Jabareeb	PMA
11	Mohammed Atton	Wassel
12	Nahid Qudsi	Ministry of National Economy
13	Majdi Khalil	Team Coordinator
14	Iyad Salameh	Border A
15	Peter Dallal	PSC
16	Odeh H. Odeh	JEFLTD
17	Ibrahim Habash	FLC
18	Mohammed Abu Ein	
19	Said Khaldi	Palestinian Shippers' Council
20	Abed Hammuri	Trade Facilitation Project (TFP)
21	Ahmad Mushasha	National Insurance Company (NIC)
22	Muntaser Al Arda	Al Karmal
23	Moayyad Housni	Fedex
24	Khaleel Khoury	National Insurance Company (NIC)

## PARTICIPANTS IN THE FOURTH CONSULTATION

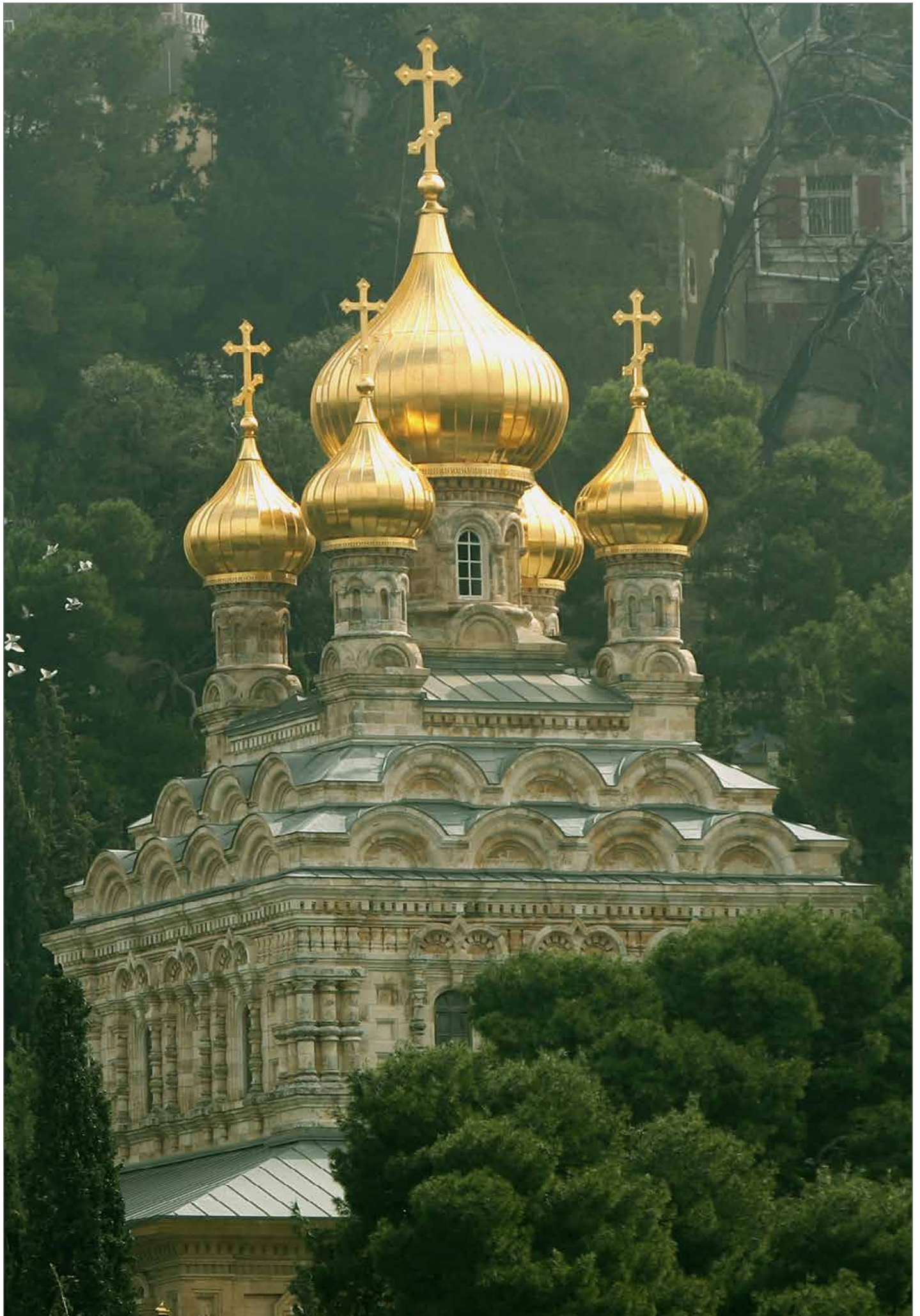
	Name	Organization
1	Foud Akra	Palestinian Food Industries Association
2	Majed Maalee	Palestinian Businessmen Association
3	Issa Beitouni	Business Excellence Services Co. Ltd
4	Said Khaldi	Palestinian Shippers' Council
5	Jawad Herbawi	Hebron Chamber of Commerce
6	Jehad Jadou	Nakheel Palestine
7	Basel Al Deek	Ministry of Finance
8	Fida Musleh	Palestine Exchange
9	Manal Farhan	Ministry of National Economy
10	Moayyad Hussien	Fedex
11	Maher Hushaysh	Union of Stone and Marble
12	Saleem Abu Ghazaleh	Palestinian Agricultural Relief Committees
13	Mohammed Al Sayeed	Palestine Standards Institution
14	Shawqi Makhtoub	PalTrade
15	Nour Mani	PalTrade
16	Muhawee Al Qawasmi	Bank of Palestine
17	George Abu Ghazaleh	Nakheel Palestine
18	Asma Ahmad	Solutions
19	Mohammed Himidan	Ministry of National Economy
20	Majdi Khalil	Clara
21	Abeer Hazboun	Palestine IT Association
22	Mohammed Sawafta	Oxfam GB
23	Fadwa Rouhana	Palestinian Shippers' Council
24	Iyad Joudeh	Solutions
25	Mohammed Alameh	Amaar Group
26	Wisam Taraweh	Union of Stone and Marble
27	Abdallah Salameh	PalTrade
28	Samoor Zughaer	Palestinian Leather Industry Union
29	Ahmad Dweikat	Palestinian Central Bureau of Statistics
30	Rabeh Morar	Al Najah University
31	Sami Shewiel	Ministry of Women's Affairs
32	Mohammed Abu Khaizaran	Zadona
33	Ramzi Abu Khaizaran	Farmer
34	Jawad Abo Zahra	Ministry of Telecommunications and Information Technology
35	Bashar Abu Zarour	Palestine Capital Market Authority
36	Nedal Al Jabaree	Palestinian Industrial Estate and Free Zone Authority
37	Moheeb Jabari	Ministry of National Economy
38	Asma Haj Mohammed	Ministry of Labour
39	Dalal Abu Hammed	Ministry of Labour
40	Tareq Abu Khaizaran	Agripal

	Name	Organization
41	Samer Dwikat	Ministry of Environmental Affairs
42	Mohammed Turshan	Ministry of Planning and Administrative Development
43	Yunis Sbeh	UNDP
44	Bassam Abel Rahim	Textile Coordinator
45	Ahmad Qubajah	MAS
46	Mohammed Almasri	Ministry of Agriculture
47	Haitham Shtiah	Ministry of Transport
48	Saber Amleh	Ministry of National Economy
49	Allan Ghazi	Ministry of Telecommunications and Information Technology
50	Yaser Waheidi	Ministry of Telecommunications and Information Technology
51	Younes Yameen	Moon Valley
52	Adel Zatari	Al Walid Co.
53	Odeh Shehadeh	Palestinian Federation of Industries
54	Osama Abu Ali	PalTrade
55	Samir Maree	PalTrade
56	Noura Abd Al Hadi	PalTrade
57	Hanan Taha	PalTrade
58	Nahid Qudsi	PalTrade
59	Mohammed Al-Ramah	PalTrade
60	Tareq Abu Felat	Palestinian Leather Industry Union
61	Mustafa Al Masri	Palestinian Central Bureau of Statistics
62	Ahmad Safadi	Solutions
63	Zeyad Fadel	Ministry of National Economy
64	Ramadan Baddha	PalTrade
65	Yusef Laham	PalTrade
66	Mamoun Nazzal	PalTrade
67	Mayada Diab	PalTrade
68	Zeina Mabuk	Zain
69	Ameer Haboub	Palestinian Leather Industry Union
70	Mohammed Ismail	
71	Dalia Qumsieah	Ministry of National Economy
72	Iyad Salameh	Al Ma'aber
73	Mohammed Jaber	Zain
74	Margret Zarour	Zain
75	Ghandi Al Za'al	Palestinian Leather Industry Union
76	Dalal Musa	PalTrade
77	Raed Khatib	Arab Hotel Association
78	Mohammed Attalah	Palestine Monetary Authority
79	Shaza Azazmeh	



## APPENDIX 3: TSI CAPACITY VS. INFLUENCE





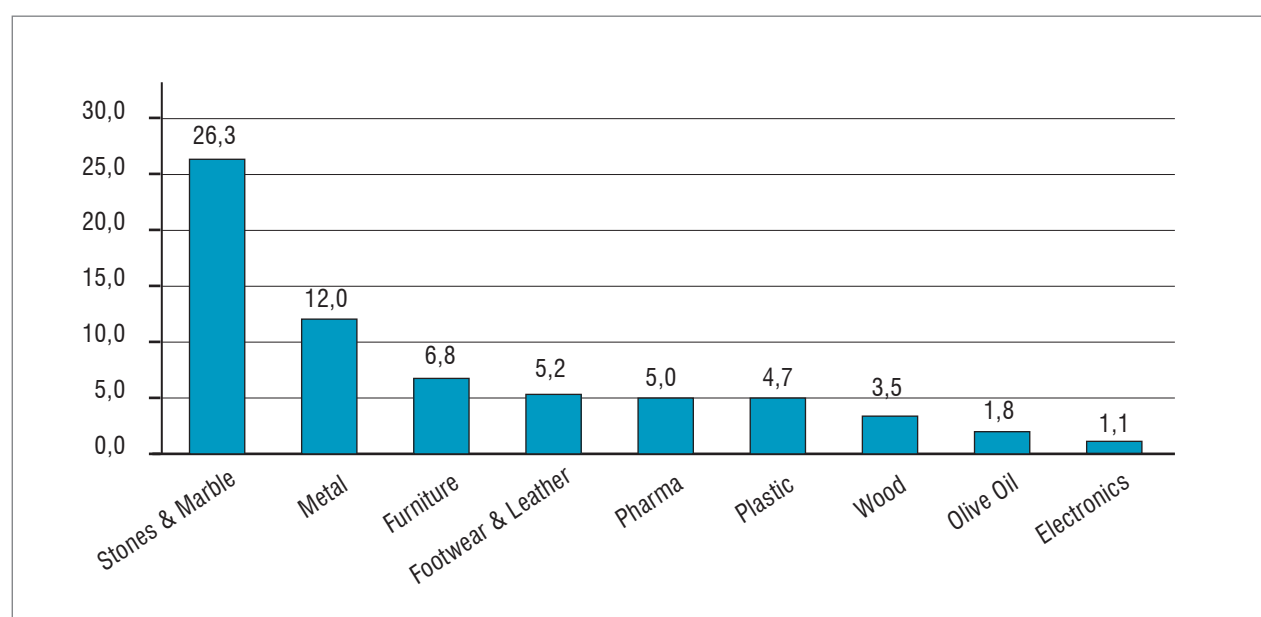
## APPENDIX 4: SECTOR SELECTION ANALYSIS

### TRADE PERFORMANCE

The preselection of sectors was based on the export performance of Palestinian products in international markets in terms of export value and share in total exports over the period 2008-2010. Figure 1 shows the main performing sectors according to national statistics. These are well-performing sectors that have already proven their export capacity and can thus be considered as having potential for future exports.

The list of potential priority sectors was refined based on export performance analyses in terms of international demand, world import growth, share and growth of attractive regional markets in world imports, and the average tariff advantage of the State of Palestine. These indicators are captured in one single index, the Export Potential Index, which ranks products according to their trade performance (see table 1).

**Figure 28:** Main Palestinian export sectors based on top 20 products (2008-2010), percentage contributions



**Source:** PCBS

Table 7: *Export Potential Index – top 20 Palestinian products 2007-2009*

No.	Product label	Export potential index	Global demand index	Global performance index	Relevance: share in total exports
1	Ferrous waste and scrap; remelting scrap ingots of iron or steel	75	81	68	7
2	Medicament mixtures (not 3002, 3005, 3006) not in dosage	73	58	87	1
3	Mattress supports; mattresses, quilts, etc.	71	60	83	5
4	Footwear, n.e.s.	71	65	78	1
5	Packaging materials of wood	69	57	81	4
6	Sheet piling, etc. of iron/steel	68	66	69	0
7	Ginger, saffron, turmeric, thyme, bay leaves & curry	66	64	68	0
8	Footwear, upper of leather	65	68	62	1
9	Waterproof footwear, outer sole/upper of rubber/plastic upper not fixed to sole nor assembled	65	53	76	4
10	Sausages and similar products, of meat, offal or blood	65	59	70	1
11	Iron ores & concentrates; including roasted iron pyrites	65	88	41	0
12	Fixed vegetable fats & oils & their fractions	63	65	62	2
13	Vegetables, provisionally preserved (unfit for immediate consumption)	63	51	75	1
14	Worked monumental/building stone & art; mosaic cubes, granules	63	53	73	24
15	Plastic packing goods or closures, stoppers, lids, caps, closures, etc.	63	67	58	5
16	Marble, travertine, ecaussine etc.	62	60	64	0
17	Transfers (decalcomanias)	62	56	68	0
18	Cucumbers, gherkins and onions preserved by vinegar	62	55	69	0
19	Other furniture and parts thereof	62	74	49	4
20	Olive oil and its fractions	61	44	79	3

Source: ITC calculations based on UN Comtrade statistics

## REVEALED COMPARATIVE ADVANTAGE

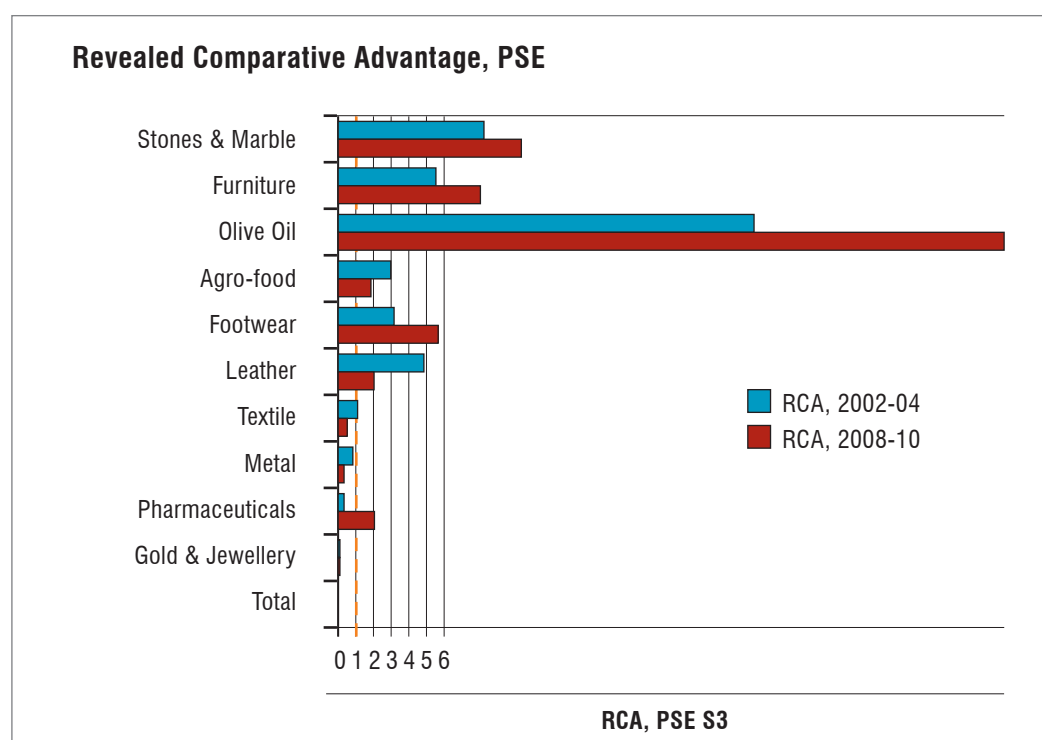
This first selection of product sectors was evaluated against an indicator of Revealed Comparative Advantage,<sup>171</sup> which was used as a proxy for supply capacity and competitiveness. An RCA with a value over

1 indicates that the country has a comparative advantage in the sector. Using the RCA, olive oil stands out as the most competitive export sector the State of Palestine can boast: its strong export performance makes it best in class, well beyond the agro-processed food industry.

According to figure 2, between 2008 and 2010 the most competitive product sectors were: 1) *olive oil*, 2) *stone and marble*, 3) *furniture*; 4) *footwear*; 5) *leather*; 6) *agro-food*; and 7) *pharmaceuticals*, all of which actually increased their RCA over the period 2002-2004.

171. Revealed comparative advantage is calculated as:  $\frac{E_{ij}}{E_i} \div \frac{E_{jw}}{E_w}$ , where  $s$  is the exporter of interest,  $w$  is the set of all countries in the world,  $i$  is the export sector,  $x$  is the commodity export flow.

Figure 29: Revealed Comparative Advantage of main exported products



Source: ITC/PCBS

The RCA confirms that the State of Palestine features some degree of specialization in specific sectors, but also that in some instances its competitiveness has increased relative to other exporting countries. Considering the current low utilization of production capacity in some of those advantaged sectors (35%-40%), it appears that production is capable of matching growing international demand which, combined with existing competitive advantage, may suggest that those are sectors with high export potential.

## SOCIOECONOMIC IMPACT

The last step to refine the selection was an assessment of socioeconomic impact. This assessment took into account the social desirability of the sectors in order to prioritize based on factors other than purely economic data. Socioeconomic development impact is assessed by an estimation of current employment, employment of women, number and size of enterprises in the sector, and percentage contribution of the sector to GDP.

It has to be noted that employment in manufacturing sectors has been shrinking over the last 10 years, with striking job losses following the second intifada. For instance, the

footwear sector lost some 75% of jobs, partly to Chinese competition but also as a result of an economy shrinking because of restrictions and political turmoil. Among the sectors considered for the NES, most jobs are concentrated in the stone and marble sector with 15,000 to 20,000 direct jobs,<sup>172</sup> while the agro-food and furniture sectors each provide an estimated 8,000 to 10,000 direct jobs. Also important is the textile sector, which provides some 5,000 direct jobs. Olive oil, despite few manufacturing jobs, provides livelihoods to some 100,000 families and creates large seasonal employment opportunities, which makes it very important from the socioeconomic point of view along with stone and marble, agro-food, furniture and textiles. Among services, tourism is the purveyor of some 15,000 jobs and ICT some 5,200. ICT alone contributes 5% of the State of Palestine's GDP.

Consequently, measured by current employment figures, sectors having a high socioeconomic impact are: 1) *stone and marble*; 2) *furniture*; 3) *olive oil*; 4) *agro-food*; and 5) *tourism*. Those having a moderate impact are: 1) *ICT and 2) textiles*. Finally, those with low impact are: 1) *footwear and leather*; 2) *pharmaceuticals*; 3) *handicrafts*; and 4) *metal*.

172. Union of Stone and Marble Industry (2011). *Stone & Marble in the State of Palestine – Developing a Strategy for the Future*, p. 7.

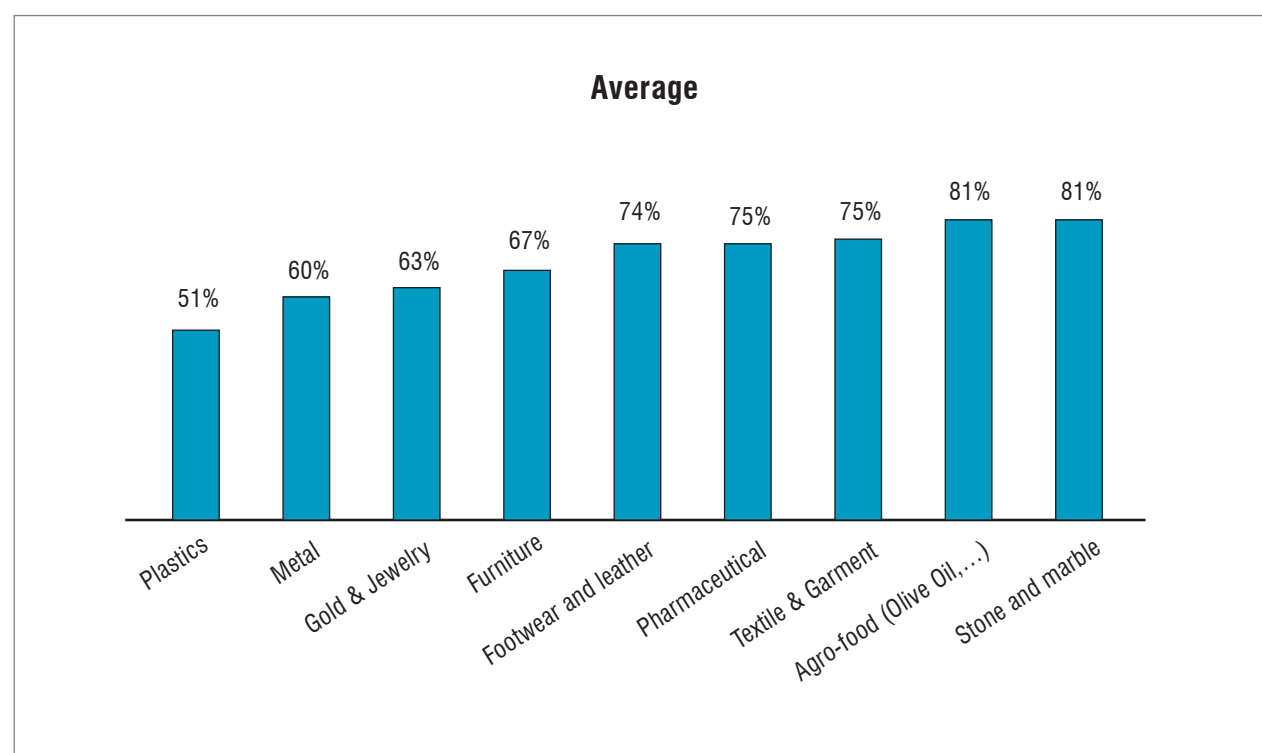


## ADDITIONAL QUALITATIVE CRITERIA

Alongside the criteria of trade performance, competitiveness and socioeconomic impact, the NES team used the following qualitative criteria to make the final selection of priority sectors: 1) *potential for value addition*; 2) *scope for diversification of markets*; 3) *scope for integration into global value chains*; and 4) *scope for integrating and*

*consolidating the Palestinian economy*. These additional qualitative criteria were considered particularly relevant for the State of Palestine. They were used to bring the potential sectors in perspective and approach their potential from slightly different angles, based on the knowledge and business experience of private and public stakeholders. Figure 3 presents the ranking of the sectors as a result of consultations of the NES team.

Figure 30: Qualitative criteria used in sector selection



Source: PalTrade





