The Private sector perspective to cope with the current Economic Crisis in Gaza Strip

المجلس التنسيقي لمؤسسات القطاع الخاص
The Private Sector Coordination Council
PALTRADE
Al-Watanieh Towers Bldg, 5th fl., Al-Bireh
P.O.Box 883, Ramallah, Palestine
Tel: + 970 (2) 240 8383, Fax: + 970 (2) 240 8370
email: info@paltrade.org, http://www.paltrade.org

Supported & Financed by
Sida
The Portland Trust

A- Project Overview

The economic situation in the Gaza Strip has severely deteriorated since the closure imposed on it after mid-June 2007, which has almost completely restricted commercial movement at Gaza's crossing points. The closure resulted in a massively negative impact on the local private sector in Gaza Strip, where 98% of Gaza's industrial operations were halted (3800 establishments). Moreover, Nearly 40,000 farmers in the agricultural sector and more than 70,000 workers in other private sectors were laid off.

The long duration of the closure has introduced a need to identify opportunities for the private sector in the Gaza Strip to cope with the current complicated business environment through identifying business alternatives. This is especially true as the political conflict and imposed closures have had a damaging impact on the private sector. Corresponding to that, and based on its role as the trade development and promotion organization in Palestine, PalTrade has proposed to lead a joint effort with main private sector representatives to formulate a coping plan for the major productive sectors in the Gaza Strip. The plan is intended to illustrate the damaged state of the private sector in Gaza and its view on the main influencing factors. It is also intended to address all stakeholders with direct recommendations for needed interventions in the context of the scenarios most likely to take place in the Gaza Strip in the foreseeable future.

Project objectives

A- Develop a common perspective for the private sector development strategy and identify priorities within certain scenarios.
B- Develop a joint strategy for the private sector in the Gaza Strip, with endorsement of the private sector representative associations.
C- Publish, disseminate and promote the developed strategy and plans to the government, international community and other stakeholders.

B- Introduction

As the current internal crisis and its consequences have rapidly and greatly hurt the private sector interests in Gaza Strip, the need for a better approach to cope with the resulting deterioration became very clear to all parties. The strategic approach, led by PalTrade, provided a reasonable solution to this need and was therefore adopted and supported by the key private sector entities and organizations. This adaptation was reflected by the high level representation and participation of these organizations as well as the number of those entities and organizations which were present at various meetings. They engaged in all preparatory articles starting with the project introduction session and ending with the endorsement of the presentation of the final report.

The strategic approach focused on key important areas of private sector special needs lined up with the current and expected environments – the two scenarios addressed later in this paper - affecting the private sector in the Gaza Strip. Private sector representatives have actively participated in the technical and strategic exercises and in meetings to discuss the plan preparation phases. They have jointly approved the outcomes which represented their view of how the strategy for Gaza's private sector would develop within the most relevant and expected environments. It is worth mentioning that participants emphasized that private sector demands are summarized in free movement of people, businessmen and goods as well as the opening of all border crossing points as a general key to a normal business environment. However, participants also committed to a high level of flexibility in trying to find ways to deal with the current business environment.

Friedrich Ebert Stiftung's appreciated cooperation in this activity made possible the effective arrangement of the whole activity and its proceedings. The development of the strategy was well designed with the support of business consultants from Gaza who have volunteered to participate in all levels of the strategy development. The consultants and PalTrade facilitated the latest strategic management approaches to avail the development of the strategy. The private sector developed groups identified the features of the current crisis and their implications on the private sector in the Gaza Strip as well as the most probable scenarios in the foreseeable future. This data was translated into clearly defined scenarios with special characteristics and clear private sector demands in each scenario. The activity was also enhanced with a programmatic detailing of needs per industrial/service sector in accordance with the identified scenarios, general characteristics and particular needs.

The outcomes of the strategic development exercise included tools which could be utilized in addressing relevant stakeholders to help support the programs and interventions recommended. It was highly important to produce these recommendations during such hard times in order to create a clear and unified position that represents the private sector in all communication, implementation and follow-up activities with all related parties and bodies. This position paper is perceived by Gaza's private sector as the first of its kind to be developed from the Gaza Strip and one that directly addresses Gaza's special conditions. The recommendations made in this strategy will be used by Gaza's private sector in all applicable occasions to create and enhance support for the private sector's position, needs and priorities even if political uncertainty continues to affect the Gaza Strip.

C- Methodology

The Gaza Strip's Private Sector Strategic Plan was prepared using a participatory approach with more than 80 participants from the private sector and civil society, including the Gaza private sector specialized associations and representatives. An introductory session was held by PalTrade with participation of local consultants, private sector entities to introduce the concept and participants confirmed their adaptation to this effort and proposed outcomes. The process started with a two day workshop to produce the strategic factors of the plan. During these two days, participants studied and analyzed the factors affecting the private sector and defined different scenarios that are most likely to take place over the short to short-medium terms. During this process, a high degree of consensus and ownership among participants was achieved.

The strategic management process used was a streamlined approach which consisted of two major important phases: **thinking and planning**. This process identified present and future needs of an entity – in this case the private sector in the Gaza Strip - during a special current and proposed circumstance and empowered its leaders to provide positive, scientific and developmental guidance to meet those needs.

The following sections of the report present the strategy development detailed process and the resulting outcomes.

I. Strategic Thinking

Strategic planning was introduced as the process of assessing future effects of external influences; which consists of two steps, Environmental Scanning and Scenario Planning. The process was led in the above context and as follows:

First: Environmental Scanning:

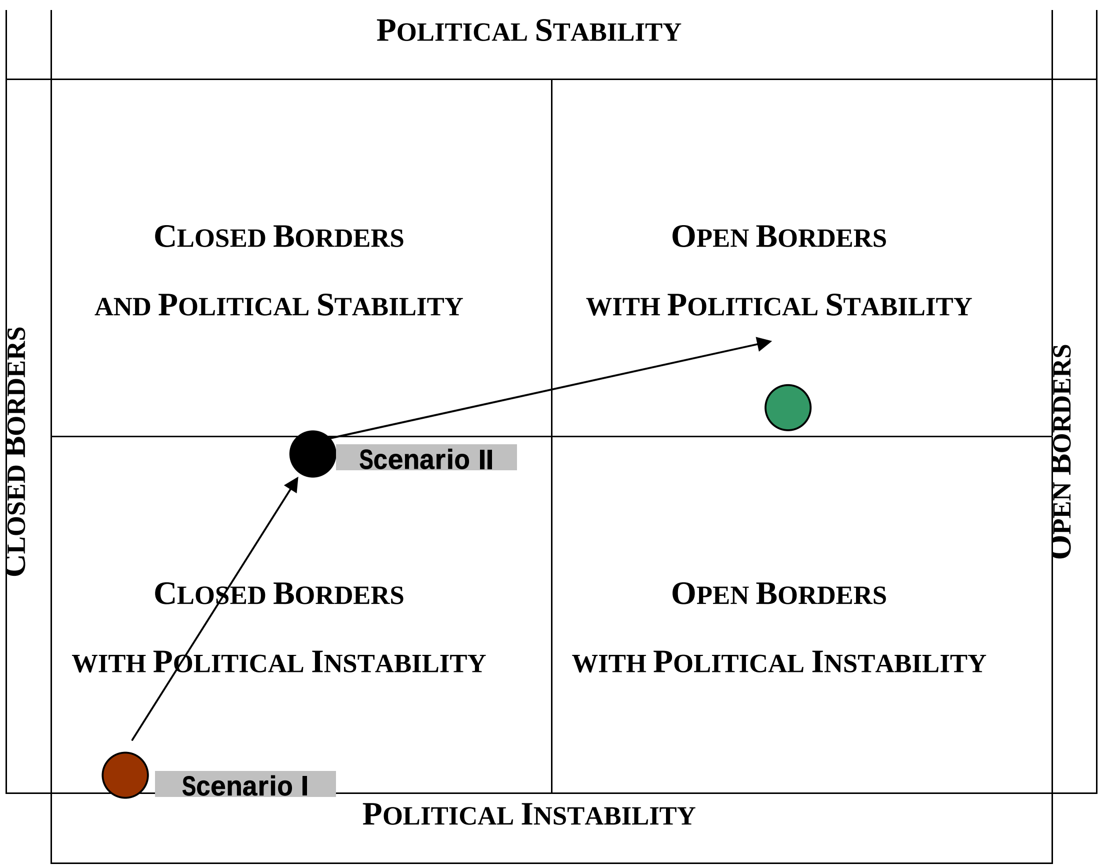
The participants were divided into five groups to study the external factors that affect operations of the private sector. These factors studied were:

- Political
- Economic
- Legal
- Social

- Technological

Second: Scenario Planning:

The above groups' work, exercise and discussions revealed that the two most important factors with the highest effect on the operations and development of the private sector in Gaza are the **political and economic factors**. Moreover, the two most critical issues in these two factors were the current cease fire (political) and borders, or crossing point status. These two factors determined the axis for the scenario planning model. The group later considered a case where the cease fire is prolonged leading to further political stability with Israel as well as internally. The following graph illustrates the four possible scenarios resulting from the above exercise together with their strategic path.



It was agreed among participants that the two most likely scenarios that should further be developed and tackled are:

Scenario I: **the current status with closed borders and political instability**

Scenario II: **the slightly better situation with slightly open borders and political stability**

Scenarios Description/Possibilities	
Scenario I	**Scenario II**
The Current Status	***The Slightly Better Situation***
• No Exports • Limited Imports (Humanitarian Needs) • Difficulty in movement of goods and people • Closed businesses • Sales to local market only • High unemployment • Dual Authorities in Gaza Strip and West Bank	• National Unity - Government Stability • The Cease fire would become a Truce • Elections leading to new government • Rafah crossing point would open for the movement of goods and people • Possibility of International presence at borders • Trade Terminals would be functional • Crossing points possibly managed by private companies • Export is resumed

II. Planning Framework

In a separate session, the representatives of the private sector and each related association held a second focused meeting to determine the needs for each sector under each of the identified scenarios (Scenario I and II). The needs were later grouped in more comprehensive categories as follows:

- Access to Finance
- Access to Markets
- Access to Information
- Production Development

- Work Force Development
- Business Approaches
- Advocacy Issues

The participants from each sector used a certain number of criteria into consideration when identifying the needs and projects under each scenario.

Projects/ Programs Criteria	
Scenario I	**Scenario II**
• Immediate needs which consider the attributes of Scenario I • Could be implemented during the current conditions in Gaza • Developing current projects • Making use of all available local resources • Maintaining work for skilled labor • Develop management, marketing & operational skills of businesses	• Takes into consideration the features of Scenario "I" • Proposed projects in this Scenario "II" consider present projects and build on them • Recommendations/projects need to be flexible enough to fit the changing political and economic conditions • Projects would re-employ a large number of workers • Activate relations with targeted markets • Resume operations of currently stopped factories and businesses.

D- Scope of Intervention Needs

The following sections describe the intervention needs of the Gaza Private Sector taking into account the current and expected political environments.

The list of intervention programs was selected by Gaza Private Sector through:

- Applying the selected criteria towards recommended projects within these areas of intervention.
- Insuring "guided" definition of the areas of intervention

- Maintaining focus on areas of intervention within the framework of the current crisis and continuous operations of the private sector.
- Keeping selected scenarios scope to govern the development of plans and programs.
- Realistically aiming to gain adoption of the plan by the Palestinian Authority, Related Bodies and Donor Organizations planning efforts for the private sector.

Full program and project proposals could be developed upon the specific expression of donor/related body interest.

E- Intervention Needs – By Sector

This section presents the current status of each sector as well as the needed interventions; in which there is a need to further determine priorities by sector.

Under the umbrella of the developed strategy and in accordance with its recommendations, this should serve the private sector in determining the most critical projects, or initiatives, which must be carried out in the Gaza Strip in order to enable it to go forward in a way that maximizes productivity and return. Return would be assessed by either enabling other priorities or success in a particular project or initiative.

I- Furniture Sector

Sector Background

Over the past years of its lifetime, the furniture industry has developed significantly to include 600 establishments which utilize advanced manufacturing techniques and employ more than 5500 laborers, placing the estimated annual sales of manufacturers at around USD 55 million in the year 2005. Of this, around 33% was destined for sale in the Israeli market or through Israel to other markets, where around 168 truckloads of furniture were exported on a monthly basis through Al-Montar (Karni) terminal. More than 67% of furniture manufacturers specialize in home furniture production, 21% in producing office furniture, and almost 12% in producing construction-related components. Strengths of the furniture sector are typified in high carpentry workmanship skills, good working conditions in factories, fine quality of produced furniture and the newly-emerged Palestinian original designs.[6]

[6] PalTrade & Wood Industries Union, Furniture Sector Brief, 2006

Impact of Crisis

The furniture sector suffered considerable losses of about USD 30 million as cumulative direct export losses since June 2007, where about 97% of establishments are temporarily closed due to the continued absence of raw materials. Only 30 workshops that employ 100 workers are still running and target the local market. [7]

Intervention Strategy

Support the local manufacturers through the following methods,

- Advocate the supply of contract furniture for international organizations (i.e. health and education organizations) through local producers, utilizing collective efforts to allow the import of needed raw materials. Advocate a preferential position for local production in public tendering.
- Develop sales opportunities for furniture stock, currently present at warehouses of local manufacturers, which could not be supplied to the export markets - through trade promotion activities.
- Rehabilitate and support of workers and administrative staff of local manufacturers through specialized job creation projects.
- Collect efforts to launch an integrated media campaign that calls for opening crossing points, especially those dedicated to trade, for the exchange of raw materials and goods in both directions - through effective media channels.

Garment and Textile Sector

Sector Background

The Palestinian garment and textile sector is a crucial sector with regard to employment, exports, production/output and investment. The strengths of the garment sub-sector are mainly demonstrated in the accumulated experience in producing for Israeli and international brands, the high quality of local production, and competitive prices, while the textile sub-sector strengths are typified in integration of the industry lines to produce custom-made textile products at high quality and competitive prices. Total annual output of the sector was estimated at USD 39 million in the year 2005 which was mostly exported to Israel[8], where around 172 truckloads of garments were exported on a monthly basis through Al-Montar (Karni) crossing point[9]. There are an estimated 10,000 garment and textile workers, and 550 manufacturers in the Gaza Strip[10]; majority of them are working in the garment production, where the sector includes some 20 textile manufacturers with large investments, which target the local market segments of

[7] PalTrade & Wood Industries Union, 2008
[8] PalTrade, Textile and Garments Sector Brief, 2006
[9] PalTrade, Exports Database, 2006
[10] PalTrade, Textile and Garments Sector Brief, 2006

education, health and hospitality. Despite globalization of the industry, Palestinian sewing factories are still vital for hundreds of Israeli producers, due to geographic proximity, skilled and productive laborers, competitive prices which do not compromise quality, experience in sub-contracting, common cultural background and flexibility for small and customized orders.

Impact of Crisis

Most of the garment workshops are temporarily shut down, while five such factories have relocated to the West Bank and Jordan and about 9,500 workers were laid off as a result. The cumulative garment sector losses are estimated at USD 26 million as direct potential-export losses since June 2007, in addition to other indirect losses. Some 60 workshops (of which 5 are textile manufacturers) that employ 500 workers are still running to serve the local market.

Intervention Strategy

Support local manufacturers through the following methods,

- Increase the local market share of domestic production through effective control of the imports of garment and textile products based on standardized specifications.
- Rehabilitate and develop the capacities of workers and administrative staff within local garment and textile sector through specialized internship and job creation programs.
- Advocate the supply of contract garments and textile for international organizations (i.e. health and education organizations) through local producers, utilizing collective efforts to allow the import of needed raw materials. Advocate a preferential position for local production in public tendering.

II- Cash Crops Sector

Sector Background

The total revenue generated by the agricultural sector in the Gaza Strip was estimated at USD 154.5 million in 2005. This was generated from utilizing 70 thousand dunums planted by 40 thousand farmers with citrus fruit, vegetables, olives, cash crops (strawberries, cherry tomatoes, bell peppers, flowers) and others. Gaza produces about 280-300 thousand tons of agricultural products, a third of which is exported when crossing points are operating relatively normally[11]. Cash crops are mostly exported through Israel in large quantities, where around 500 truckloads of cash-crop produce was exported on a monthly basis through Al-Montar (Karni) crossing point, in a given season. Palestinian farmers are almost entirely dependent on Israeli companies, primarily AGREXCO[12], for export to Israel and Europe. Successful relations between Palestinian farmers and large Israeli marketing companies have proven to be effective and profitable. However, there is potential in diversifying marketing channels, seeking alternative Israeli marketing companies, improving contractual terms/profit margins, developing new crops, installing new planting and irrigation technologies and more.

Impact of Crisis

The agricultural sector, including cash crops, is severely affected by the siege imposed on the Gaza Strip and its consequences on movement and access. Around 35 thousand farmers were laid off, and export losses are estimated at about USD 30 million. The cumulative direct losses of the cash crop sector are estimated at USD 22 million since June 2007, while layoffs have affected about 7,500 workers and only 2,100 dunums were planted during the season of 2008 by 15 thousand farmers.[13]

Intervention Strategy

Develop and support the agricultural sector through the following methods,

- Develop self-sufficiency in the agricultural sector through processing agricultural produce, developing substitute products, and planting market-driven crops, identified based on market research and a consumer need/perception study.
- Develop and promote seasonal sales opportunities for Gaza's agricultural produce in the local market through trade promotion activities.
- Rehabilitate and support agricultural engineers through specialized job creation projects.

[11] Palestine Investment Conference, Revitalizing Gaza, A White Paper, 2008
[12] PalTrade, Exports Database, 2006
[13] PalTrade & Related Agricultural Cooperatives, 2008

- Collect efforts to launch an integrated media campaign that calls for opening trade terminals for the crossing of raw materials and goods in both directions - through effective media channels.
- Develop the crossing/terminal infrastructure to maintain quality of produce and to ensure proper delivery.

III- Processed Food Sector

Sector Background

There are 100 operating firms in food industries in the Gaza Strip with about 2,500 people working in this sector. The main categories of foodstuffs manufactured include confectionery and sweets, dairy products, beverages, pasta and grain products and canned food. The resulting output is estimated at USD 12 million which primarily provides for the local market, with only 15% of sales destined for the Israeli and other markets[14]. Average monthly exports through Al-Montar (Karni) crossing point were estimated at 155 truckloads[15].

Impact of Crisis

The processed food sector had considerable cumulative losses of about USD 5 million as direct potential-export losses since June 2007. About 70% of establishments are temporarily closed due to the continued absence of raw materials needed for packaging, and only 30 workshops that employ 300 workers are still running to target the local market.[16]

Intervention Strategy

Support the survival of local manufacturers through the following methods,

- Increase their market share of food sector in the domestic market through development and promotion of potentially demanded processed food products. This would be identified and developed based on market research, company assessment and a consumer need/perception study.
- Advocate the supply of food products for international organizations (i.e. health and education organizations) through local producers, utilizing collective efforts to allow the import of needed raw materials (including packaging). Advocate a preferential position for local production in public tendering.
- Rehabilitate and support of workers and administrative staff of local manufacturers through specialized job creation projects.

[14] Palestinian Food Industries Association, 2006
[15] PalTrade, Exports Database, 2006
[16] PalTrade & Palestinian Food Industries Association, 2008

- Collect efforts to launch an integrated media campaign that calls for opening trade terminals for the crossing of raw materials and goods in both directions - through effective media channels.
- Call for controlling the crossing of processed food imports based on standardized specifications.

IV- Trade Sector

Sector Background

The wholesale and trade sector revenues were estimated at USD 125.3 million in the year 2006, which contributed around 10% to the Gaza Gross Domestic Product (GDP)[17]. The total monthly average imports through Gaza's crossing points used for trade, before June 2007, were estimated at around 9400 truckloads of goods, while average daily imports were estimated at 430 truckloads. Hundreds of types of goods used to cross into the Gaza Strip through trade terminals[18].

Impact of Crisis

The total monthly average imports through Gaza's trade terminals after June 2007 were estimated at around 1930 truckloads of goods, while average daily imports were estimated at 66 truckloads. Only 26 items were allowed to cross into the Gaza Strip since June, 2007.

As of August 2008 and since June of 2007, more than 1970 containers (20 ft^2) of different commercial goods destined to Gaza were stuck at Israeli ports and West Bank storage locations due to the cancellation of the Gaza customs code by the Israeli Customs Authority. None of these containers have been allowed to enter Gaza Strip, resulting in accumulating storage expenses - high demurrage charges - that are estimated at USD 1 million per month, forcing some importers to sell out their goods in either West Bank or Israel at lower prices.

Intervention Strategy

Support and develop the sector through the following methods,

- Form a private sector representative committee to regulate and coordinate the crossing of imports through the Gaza Strip trade terminals with related public sector representative(s), as well as to report seasonal private sector priorities based on common criteria and consensus, and to hold periodic meetings amongst public and private representative to highlight on pending issues.

[17] PCBS, National Accounts Statistics, 2006
[18] PalTrade, Export Database, 2007/08

- Rehabilitate and support the administrative staff of local companies through specialized job creation projects.
- Advocate the offering of compensation for traders affected by the Israeli Customs Authority's suspension of the Gaza customs code, on a case-by-case basis.

V- ICT Sector

Sector Background

The Information Technology (IT) sector plays a vital role in the Palestinian economy. It is characterized by its fast development and growth. The software industry produced a wide range of solutions and packages in areas such as human resources management, projects and sales management, finance and accounting, education related solutions, management information systems, children education and entertainment. In addition, many solutions were specifically designed to address specific public, NGO, and private enterprise needs. Other firms also provide services in web development, e-business solutions, web portals development, ICT consulting, training and office automation. Very few firms (less than 5) are currently involved in export and outsourcing of ICT services and these operate on a limited scale.

There are around 40-50 professional IT firms in the Gaza strip employing around 200 IT specialists, in addition to the Palestinian Telecom and Cellular Company "PalTel Group" which employs around 700 people in Gaza. Graduates of ICT related majors from Gaza Universities are estimated at about 400 annually[19].

Impact of Crisis

The hardware and telecom sub-sectors are the main entities affected by the siege imposed on the Gaza Strip and its consequences on access and movement. Nevertheless, software programming firms were also affected by losing potential market linkages and decreasing business networks.

Intervention Strategy

Interventions are also recommended to include the methods below,

- Software outsourcing is a promising sector in the Gaza Strip due to the availability of literate and skilled workers at reasonable rates, and the practicability of distance and virtual communication for business management. Strategic intervention is recommended to include the development of outsourcing management, exposure to market requirements and dynamics, and establishing business relations with potential businesses in identified target market(s).

[19] Palestine Information Technology Association-Gaza, 2008

- Establish ICT incubator(s) to nurture innovative ideas, as well as to qualify IT professionals for accessing export markets.
- Develop the capacities of fresh ICT graduates through specialized internship programs.
- Advocate the development of social responsibility programs within leading ICT firms in the Gaza Strip, so as to support the development priorities of the ICT sector.

VI- Engineering Sector

The engineering sub-sector comprises of 5 - 7 professional engineering consulting firms that employ around 50 design engineers who are qualified and experienced in developing and implementing engineering jobs for international consulting firms over the last 15 years. Furthermore, some of these firms have engineering outsourcing experience to Germany, Afghanistan, UAE and other countries.

These companies have the potential to outsource their standardized engineering services to the Gulf Market (Abu Dhabi, UAE in particular). Nevertheless, development of outsourcing management and market linkages are needed to maximize market access opportunities for such firms.

Accordingly, intervention is recommended in this sub-sector to include the following methods,

- Assess the capacity of local engineering firms so as to identify development priorities against target market requirements.
- Develop the capacities of local engineering firms by professional consultant(s) in the field.
- Develop the marketing image of Gaza’s engineering firms through the development of appropriate marketing collaterals.
- Match-making between local firms and potential customers in the identified target market(s), and facilitating business engagement.

VII- Construction Sector

Sector Background

The construction sector is one of the largest in Gaza Strip with an estimated contribution to the Gaza GDP in 2006 of about 1.86% with a value of USD 23.2 million. The total Market Value is about USD 370 million, more than 90% of which are donor financed projects. The construction sector employs 4.3% of the labor force in Gaza, most of which are skilled workers. As of 2006, 200 local contracting firms were registered in Gaza performing various construction activities including roads, buildings, electro mechanic, water and sewage and public works and maintenance.[20]

Impact of Crisis

As a result of the closure, all the construction and development projects estimated at US$240 million, including those for UNDP and UNRWA which are valued at more than US$116 million, were halted due to the absence of construction materials such as cement, iron enforcement steel, and aggregates, in addition to the infrastructure projects. Moreover, the construction-related industries such as tiles, blocks, ready-mix concrete, infrastructure, etc. were also halted, leading to shutting down about 120 establishments, and laying off about 42 thousand employees.[21]

Intervention Strategy

Interventions are also recommended to include the methods below:

- Advocacy to resume funding for critical projects (including UNRWA projects), with lobbying of entry of needed raw materials.
- Advocacy to resume "Construction Rehabilitation Projects" were raw materials are available.
- Rehabilitate and develop the capacities of workers within the construction sector through specialized internship and job creation programs.
- Develop maintenance mechanism of construction equipment
- A number of leading construction companies have the potential to outsource their services to target markets. Nevertheless, development of outsourcing management and market linkages are needed to maximize market access opportunities for such firms.
    - Develop the marketing image of Gaza's construction firms through the development of appropriate marketing collaterals.

[20] Palestine Investment Conference, Revitalizing Gaza, A White Paper, 2008
[21] PalTrade and Palestine Contractors Union, 2008

- Match-making between local firms and potential customers in the identified target market(s), and facilitating business engagement.

F- General Advocacy Intervention Needs

I. PROPOSED MECHANISM TO ASSIST THE PRIVATE SECTOR

This section proposes policy-related steps that are categorized in three main areas: crossing points, access to finances and financial support, and issues where action could be taken. The specific steps within each area are either currently absent, or have not been carried out in a comprehensive and complimenting manner – forming an entire mechanism - as is proposed in this paper.

Once the mechanism below gains initial acceptance, committees or teams would be formed to act on it according to a protocol that would be agreed to by the private sector, government and the donor community, potentially.

First: Crossing Point Operations

Each of the following points (or steps) corresponds directly to the priorities in the developed strategy. In section "E" above, the listing of these steps is a further illustration of necessary interventions which would be carried out in accordance with local market needs and know how, and after determining the programs, lobbies, and networking needed to undertake these tasks.

1. **Examine and Determine Compatibility of Imports with Sector Priorities.** Particularly after the commencement of the truce in June 2008, and given the negligible increase in shipments to Gaza and the admittance of some products previously banned, a new challenge has been the inability of the private sector to utilize whatever is allowed in for lack of complimenting materials. A policy to necessitate the import of "sets of goods/materials" would be critical in meeting the needs and set priorities of the private sector.

   A relevant example is how cement is allowed into the Gaza Strip in meager volumes since the truce began. Setting aside the issue of low volumes, the fact that cement is allowed in without complimenting materials such as steel and others makes it impossible for the private sector to effectively utilize whatever is imported in critical construction projects.

2. **Increase Volumes of Admitted Products/Materials.** This is mainly a lobbying matter which serves the end purpose of reaching adequate volumes of raw material imports – or sets of goods/materials - to address sector needs based on set priorities.

3. **Monitor and Report on Quality of Imports and whether the Stated Needs are Fulfilled.** Specialized periodic reports should be compiled, made public and distributed to the media in order to offer updates and comparisons on the actual flow of imports versus the volumes needed according to the private sector's set priorities. This would apply positive pressure on all concerned parties by continuously evaluating and publicizing progress. This evaluation process would be based on the quality, quantity, utilization, as well as impact of imports on market status in each sector according to pre-set feedback and reporting points.

4. **Allocation of Imports; Mainly Raw Materials.** This step in the mechanism utilizes the results of the preceding steps, "1", "2" and "3" to enable effective allocation of imports to sector priorities set in "third section: Specific Action Steps" below. Regardless of import volumes, or political circumstances for that matter, recommendations on import allocation are meant to ensure that whatever is admitted into the Gaza Strip is effectively utilized per sector.

5. **Enhancement of Ability to Export.** A natural necessity to the steps above and to enable the private sector to integrate with local, regional and international trade bodies, a set of export enhancement measures need to be addressed by trade experts. Those experts would include private sector leaders, government officials, as well as donors who could exert political pressure as well as assist in funding the creation of such measures. A minimum of export led business operations should be agreed upon during times of conflict, bearing in mind that Gaza's private sector must be sustained as it would have a key role in economic development and employment generation upon the end of the current crisis.

6. **Movement of People, Especially the Business Community**. The considerable restrictions on the movement of people, particularly a great number of businessmen, inhibit the ability of the private sector to cope with the current situation in the Gaza Strip. This is especially important in the context of the private sector's ability to meet with counterparts outside Gaza in order to resolve some of the, still, pending issues such as the great number of containers held at Israeli ports, government financial intervention and interaction with the donor community on ways to assist the Gaza Strip. The private sector needs the government's intervention, with the

government of Israel, to facilitate continuing permission to move in and out of the Gaza Strip for Gaza's business community.

Second: Financial Support

In a recent study by the Palestinian Federation of Industries (PFI)[22], it was found that more than 66% of the industrial sector in the Gaza Strip will require working capital to start operating again. Additionally, it stated that the loans owed to banks, including accumulated interest, is currently consuming what is left of the available working capital.

Given the findings above, the private sector in the Gaza Strip is in great need for the government to assist in writing-off some of its debt, cancel the accumulating interest owed as well as to reimburse the private sector with the public sector debt owed to it. This should help preserve what is left of the working capital for businesses to benefit from when circumstances permit operations to start again. Such government intervention would help the private sector cope with the continuing closure of the Gaza Strip and its consequences on businesses, as well as retain hope that some financial stability remains in order to enable the private sector to resume operations when circumstances change.

Third: Specific Action Steps

In addition to the above points, and through the strategy development sessions, the private sector emphasized immediate action steps to be lobbied and advocated for. These action steps are recommended to be of immediate attention by all related bodies and to be developed, upon initial success, into longer term programs which would be maintained for as long as the crisis and current status in the Gaza Strip prevail. The recommended action steps are,

1. Advocating a preferential position for local products in public tendering, with commitment of assistance and utilization of resources from all bodies.
2. Advocating with international agencies to influence them to procure goods and services through local sources, preferably locally produced products if available and of high quality. International organizations are currently purchasing products from sources outside the Gaza Strip and importing them into Gaza, through coordination with Israel. Gaza businesses and private sector could play the role of sourcing such products and delivering them to the same destination for pick up by international agencies. This would also help in after sales service contract activation and maintenance.
3. Calling on the government to suspend investment period facilities and tax free options (2006-2008) from the allowed investment period until crisis is over.

[22] Gaza Industries: A Year After the Siege, Palestinian of Industries and Dar EL Khebra, Gaza, September 2008.

4. Advocating for the compensation of traders affected by the Israeli Customs Authority's suspension of the Gaza Customs Code, on a case-by-case basis, and with the involvement of related bodies.
5. Calling on the government to control the quality of imports based on standardized specifications to protect the market and encourage a better trade environment.

II. PROPOSED POINTS IN SUPPORT OF ASSISTANCE MECHANISM

1. Immediate publishing of the private sector strategy and direct presentation of its components to the government, international bodies and all other related parties. This would include a request from government to adopt and support the strategy and, thus, allowing the private sector to follow-up with designated government officials or offices to begin implementing the components of the strategy.

2. The creation of a media component to publicize the developed strategy. This would include reporting progress on the steps mentioned in the previous sections of this paper as well as to inform and engage the government, the public and the donor community on issues of interest.

3. Formation of a joint committee or "task force" from the government, the private sector and representatives of the donor community to be responsible for progress, follow-up and monitoring. Alternatively, the enactment of similar committees if they exist already, whether in their current form or in a new and more effective format.

G- Intervention Needs – By Type

This section presents the needed interventions under each scenario by type.

	Type	No.	Areas of Intervention	Sectors
			Scenario I	
	Type	**No.**	**Areas of Intervention**	**Sectors**
1	Financial Support	1.1.1	Assessment of Private Sector losses and provision of compensations	All Sectors
		1.1.2	Provision of Soft/ Long-Term Loans	All Sectors
		1.1.3	Rescheduling companies debt	All Sectors
2	Increase market share in domestic market	1.2.1	Gaza products exhibition in Gaza	Agribusiness, Processed Food, Garment
		1.2.2	National Furniture Show	Furniture
		1.2.3	Agri-products development and marketing	Agribusiness
		1.2.4	Local Seasonal Points of Sale	Agribusiness
3	Business Approach	1.3.1	Engineering Services Development & Export	Engineering
		1.3.2	Develop & Advance Software Outsourcing	Software
4	Production Development	1.4.1	Raw Materials Alternatives Assessment and Integration	Processed Food

		1.4.2	Maintenance of Machinery & Equipment	Garment, Food, Furniture
		1.4.3	Agriculture - New Production Development	Agribusiness
5	Work Force Development	1.5.1	Employment Maintenance/Preservation Program	All Sectors
		1.5.2	Capacity Building Programs- Management & Marketing	All Sectors
		1.5.3	Labor Incubators	All Sectors
6	Local Market Studies/Research	1.6.1	Study on Local Market Needs & Opportunities	All Sectors

		Scenario II		
	Type		**Areas of Intervention**	**Sectors**
1	Access to Finance	2.1.1	Private Sector Financial Support Fund	All Sectors
		2.1.2	Soft Loans for re-operating businesses	All Sectors
2	Access to Markets	2.2.1	National Promotion Exhibitions & Campaigns	All Sectors
		2.2.2	Participation in International Exhibitions/Trade Missions	Export Oriented Sectors (garment, furniture, cash crops)
		2.2.3	Improve local market share	All Sectors
		2.2.4	Re-build previous trade partners relations.	All Sectors
3	Business Approach	2.3.1	Engineering Services Development & Export	Engineering
		2.3.2	Develop & Advance Software Outsourcing	Software
		2.3.3	Construction Services Development & Export	Construction
4	Production Development	2.4.1	Packing & Packaging Development	Agri Business/ Processed Food
		2.4.2	International Certifications	Processed Food, Agri Business, Pharmaceutical
		2.4.3	International Joint Venture projects –	All Sectors

			Border Industrial Zone	
		2.4.4	Agriculture - new product development (export oriented)	Agri Business
5	Work Force Development	2.5.1	Capacity Development Programs- Management & Marketing	All Sectors
		2.5.2	Re-activating Development, Training, and Marketing Centers.	All Sectors
		2.5.3	Employment Program (Training, development, job creation opportunities)	All Sectors
6	Access to Information	2.6.1	Research/ Studies for export opportunities in Target Markets	All Sectors

H- Closing Notes

One of the main symptoms of the political deterioration which have taken place over the past few years, particularly in the Gaza Strip, has been a common lack of understanding of the magnitude of the resulting economic problems. Additionally, there has been increasing ambiguity regarding what it would truly take to revive the private sector as a major driver of the Palestinian economy. The private sector has been hard hit by staggering unemployment and a great risk of the workforce becoming obsolete. Equally critical has been the great regress in public infrastructure and services which, ordinarily, support private sector operations and development.

The greatest challenge facing any effort to revive Gaza's economy is, therefore, "where to start from?" This is given the near-zero level economic activity in the Gaza Strip and a private sector that is threatened to disappear if the current situation is prolonged and the fundamentals of the Palestinian economy in Gaza continue to be compromised.

This paper highly recommends the implementation of very basic, yet highly critical steps, believed to be valid and practicable in assisting Gaza's private sector. One advantage behind these steps is the belief that they could be carried out irrespective of the political circumstances present at the time of implementation. They would also serve as an effective transition from the current state, of the Gaza Strip continuing to be under siege, to a state where political developments give way to either easing of the siege or, hopefully, lifting it.

However, it is critical to point out the principle position that even if the private sector is able to effectively implement the mechanism proposed in this paper in order to sustain or restart its operations through the current circumstances, it would still be combating a very abnormal business and economic environment. This would still hold true even through an improved state of affairs compared with the current circumstances. Ultimately, the business sector ought to be immune from political conflict and must not be placed in a position of having to devise survival mechanisms through political and policy pressures such as those which continue to be imposed on the Gaza Strip.

Sida

This document has been financed by the Swedish International Development Cooperation Agency, Sida. Sida does not necessarily share the views expressed in this material. Responsibility for its contents rests entirely with the author.