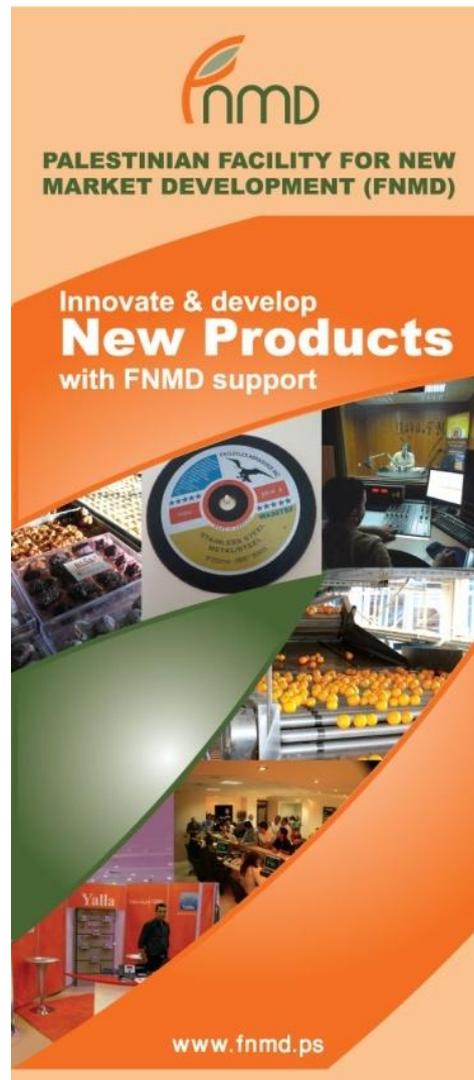


Business Services Sector Market Analysis – Volume 1

DFID Middle East and North Africa Department
Occupied Palestinian Territories/November 2011



DFID Policy 2011/Research 2011

Business Services Sector Market Analysis – Volume 1
Palestinian Facility for New Market Development
2011

Foreword

In 2011, DFID extended its Fund for New Markets Development (FNMD) programme in Palestine for one year. While FNMD was primarily a matching grant scheme designed to stimulate business linkages and investment in new markets and technologies, as part of the extension DFID wanted to introduce some deeper analysis into ways that could make the programme more systemic in nature and with broader outreach to the poor. Under the extension, DFID funded two sets of studies applying a “Making Markets Work for the Poor” – M4P – approach, also known as the Market Development Approach: one on business services sector and the other on agricultural value chains. This report presents the status of business services sector in Palestine, looking at the current supply of services and the demand for those services to identify ways to strengthen both the supply and demand. It is divided into two volumes – the main study focuses on the West Bank; while the second one focuses on Gaza. The two markets for business services are extremely different, given the situations in the two areas, and there is very little overlap between them.

The work in the West Bank and the majority of the writing were carried out by Kevin Billing and Basim Makhool during the month of August, 2011. Since this coincided with Ramadan the team made heroic efforts to meet key stakeholders and actors in the sectors, carrying out interviews with 80 different individuals at all times of day and night. Basim’s excellent contacts in the sector opened many doors, while Kevin’s innate curiosity kept the information flowing.

The interviews and majority of the report drafting for Gaza were carried out by Basim Makhool, using the same framework developed under the West Bank study. The team wishes to thank all of the participants in the study for their cooperation and their open sharing of information and perspectives on this sector. The team would also like to thank William Grant for his extensive work on critiquing and editing both documents and to the entire FNMD team for their assistance in setting up meetings and discussing the use of business services by the FNMD project, especially Halim Halabi in Gaza and Mahmoud AbuAmireh and Sana Alawi in the West Bank.

The contents of this report are the responsibility of the authors, and do not reflect the opinions or positions of DFID.

Mohammad Nuisebeh
Team Leader
FNMD, January 2012

Contents

Executive Summary	1
Introduction	1
Standards Certification	2
Business Planning Services to Increase Access to Finance	4
Business Services to Support Exporting Companies	7
Human Resource Management Training Services	9
Conclusions and Recommendations	11
Acronyms and Abbreviations	15
1. Introduction and Background	19
1.1 Purpose of the Study	19
1.2 The Palestinian Economy: Performance and Challenges	20
1.3 Description of the FNMD Programme	24
2. The Nature of Business Service Markets	29
2.1 General Description - External Factors Affecting Markets	29
2.2 Analysis of a Business Services Market.	31
2.3 Business Services Considered	32
3. Methodology	35
3.1 Inception Phase - Interviews with Key Informants and Major Stakeholders	35
3.2 Literature Review and Analysis of Existing Studies	37
3.3 Selection of Service Markets for Further Study	37
3.4 Telephone Interviews of BSPs Registered with FNMD	38
3.5 Interviews in Selected Business Service Markets	38
4. Information Gathered During Previous Studies on BDS in Palestine	43
4.1 Background on the Selected Studies	43
4.2 The Size of MSMEs Populating the Business Environment in Palestine	44
4.3 The Characteristics of Palestinian MSMEs and Their Management ...	45
4.4 Business Services Required by MSMEs in Palestine	47
4.5 The Low Commitment to Growth by MSMEs in the OPT	52
4.6 Poor performance by BSPs in Delivery and Marketing	55
4.7 MSMEs' Reluctance to Pay for Business Services	57
5. Telephone Survey of BSPs	61

6. The Service Market for Certification and Standards	65
6.1 Structure of the Market	65
6.2 Market Drivers	70
6.3 Specific Recommendations for the Certification Service market.....	75
6.4 Size of the Local Certification Market	76
7. The Market for Business Planning Services that Assist SMEs in Access to Finance	81
7.1 Background on the Palestinian Financial System	81
7.2 Market Drivers	83
7.3 Size of Market for Business Services that Assist MSMEs to Access Finance	85
7.4 Estimates of Potential Market Size	87
7.5 Specific Recommendations for this Service Market	89
8. The Training Services Market - with Special Reference to Human Resources	93
8.1 Market Drivers	93
8.2 The Business Services Market for Training in Human Resources.	98
8.3 Estimates of Potential Market Size	99
9. The Business Services Market to Support Exports	102
9.1 The Growing Potential for Exports and Current Constraints in Realising this Potential	102
9.2 Market Drivers	103
9.3 Provision of Services Required for Export Shipment and Clearance	103
9.4 Services Needed to Penetrate New Export Markets	107
9.5 The Business Services Market for Activities that Support Exports....	108
10. Conclusions and Recommendations	113
10.1 General Conclusions on Business Service Markets in Palestine	113
10.2 Common Recommendations from the Detailed Examination of Business Service Markets.....	115
Annex 1: Terms of Reference for Business Services Sector Market Analysis Palestinian Facility for New Market Development	131
Introduction	131
Scope of the Study	131
Focus	132
Understanding the Market Failure	132
Outputs and Recommendations	133
Timeframe, Deliverables, and Reports	133
Submission and Approval of Reports	134
Annex 2: Interviews	137
Annex 3: Results of Survey of BSP Providers Registered with FNMD	143
Detailed Results of the Survey	144
The Questionnaire Used.	149

Executive Summary

Introduction

This Business Services Sector Market Study is designed to provide the Facility for New Market Development (FNMD) and the wider donor community with:

- A detailed analysis of the nature of business services markets in Palestine.
- The types of firms and main players providing the services and their internal business models.
- The opportunities and incentives for the market.
- The root causes that have been limiting their impact.

It takes into consideration not only the direct factors affecting supply (providers) and demand (consumers), but also the surrounding political economy within which the markets operate that shape the nature of these service markets.

An effective market requires that the supply from business service providers (BSPs) understands who the buyers are and what their needs are. These BSPs have to have the right products to meet those needs (defined by service and quality) and to make them available at a price that makes business sense to the buyers. On the demand side, the enterprises or business service consumers need to understand that they have a problem and accept that it can be fixed with an outside service. They also need to know who the possible service providers are, how to find them and how to place a value on the service that they require, so that they know how much they should be paying for that service. When these conditions are met, an effective market can exist.

In order to understand the fundamentals of the market structure, the report contains a review of the political economy that affects development of the business service markets, as well as a detailed look at the structure of the private sector in Palestine in general, overall constraints to growth, and their perceptions of the types of business services. In particular the review of background studies highlighted:

- The small size of businesses in Palestine (90 percent have fewer than 10 employees), mostly family owned (88 percent), with a lack of managerial dynamism. The high incidence of family ownership with strong patriarch management can often exclude new ideas and stifle innovation by younger (and better trained) family members.
- Low commitment to growth by micro, small, and medium enterprises (MSMEs) in the Occupied Palestinian Territories (OPT). Linked to the lack of dynamism as well as the constrained economic environment, nearly 50 percent of firms want to work at the same level of business, while only 30 percent hoped to expand, and only 25 percent actually were planning on expanding.

- MSMEs are very reluctant to pay for business services - 37 percent of surveyed firms are not willing to pay for services and a further 28 percent were only willing to sometimes cover the cost of services. With two-thirds of all MSMEs not very interested in business services, there is reduced potential demand.

The poor performance by BSPs results from low-quality delivery of services, as well as their marketing of the services (that relies on personal relationships) and their ability to state a value proposition to their potential clients.

The study team put 12 service areas through an initial scan, selecting four distinct service markets for deeper analysis. Some of the selection criteria included the importance of the market for accessing export markets, factors affecting competitiveness within the Palestinian domestic market, and the feasibility of being able to analyze the sector within the time frame allotted for the analysis.

This summary looks primarily at the four service markets that were analyzed - certification services, business planning for access to finance, human resource training, and access to export services - and presents the overview of those market systems, the main constraints and recommendations, and then draws lessons from the four to broader generalizations for the Palestinian environment. The analysis identified a broad range of constraints on both the supply side and the demand side for services, most specifically around knowledge and awareness issues, pricing and valuation issues, general skill levels of service providers, and the effects of donor distortion and the political environment. For more detail on each of the service markets and the implementation of the recommendations the readers are directed to the main report.

Standards Certification

Demonstrating that a firm can meet international standards is an increasingly critical requirement for exporters around the world. But, standards are also important tools for building a sound and competitive business; investing in meeting the conditions needed for certification will lead to more efficient operations. At present, the standards certification market is very small in Palestine, though it is fairly well-structured. MAK International is the only standards certification audit firm registered in Palestine and represents most of the certification bodies as their local auditor (upon a successful audit, the Certification Body [CB], such as Lloyd's of London, will issue the certificate). The Palestinian Standards Institute (PSI) governs the whole sector, and a number of international firms also come in occasionally to perform audits for other CBs.

There are only about four to six companies providing business services on the implementation of standards and quality management systems in a fully responsible and competent manner. A second tier of five to eight firms provide a more varied quality of service, and focus on the basic International Organization for Standardization (ISO) 9000 and 9001 certifications. These two groups of companies are complemented by another 10 to 15 local consultants with experience in specific certifications, coming out of the PSI or local

nongovernmental organisations (NGOs) that work in conjunction with the other BSPs providing training and quality management services.

The forces driving the sector are related to demand. Strong requirements from the end market such as the European Union (EU) standards (hazard analysis and critical control points [HACCP] and health and safety), retailer standards (British Retail Council [BRC], GlobalGAP), or intermediate buyers (firms using Palestinian inputs in the manufacture of ISO-certified products) are stimulating demand.

On the negative side, poor experiences with certification processes in the past have had a dampening effect on broader demand. Incorrect training on the value of certification and how it should be applied to a company, and the overuse of subsidies in the certification process, led to poor responses by the companies getting certified and rapid breakdown of the quality management processes put in place to meet the certification standards. Firms did not see the increase in sales that they had been promised, nor any real value to the underlying benefits that the certification and quality control process should bring to their companies. This has led to a reduced appreciation of the value of the certification and the desire to renew certificates.

Demand Side Constraints

- Demand is primarily for the certificate as a requisite to export, as firms lack awareness of the importance of standards and certification as a factor for increasing competitiveness and profitability by implementing a quality management system (QMS). Their low ability to value the benefits of the certification leads to a perceived high “cost” of certification and renewal, unrealistically matched with high expectations that certification will increase prices and expand market share.
- Lack of information on the requirements for various standards and the basis of a good QMS so that they can monitor and deal with BSPs. Tying into the first point, since the companies do not fully understand the purpose and value of the certification, they do not internalize the steps that are required.
- Strong market distortion from donor programs leads to the expectation that donors should pay for all certification programmes and limits awareness of the real value of the certification.
- There is a very thin market, as the total demand for services related to standards certification is low (less than \$500,000 per year), which does not encourage investment by service providers.

Supply Side Constraints

- The market is relatively thin and so BSPs lack the ability to specialise - there are very few companies providing services, mostly independent consultants who provide a wide range of services. They are forced to be generalists in order to earn a living, and services related to standards certification are just one of the activities that many perform. This leads to:
 - Weak levels of experience among BSPs across all standards, leading to poor service delivery.

- Failure to understand the importance of good risk analysis, making compliance by their clients more difficult/demanding than the standard requires.
- Lack of local training and advisory skills in key certification standards, for example, EU-GMP for pharmaceutical companies.
- Separation between training/system development and certification must be strictly maintained to avoid conflict of interest - difficult in a small market.
- BSPs are not actively trying to develop the market with their clients, rather many BSPs respond primarily to donor initiatives, selling to the donors rather than to the firms that are the recipients of the services and the long-term market.
- BSPs lack effective marketing and promotion skills:
 - Some BSPs over estimate potential benefits of certification to over-sell their services, which is a short-term strategy. This leads to over expectation by clients, and they do not develop sound value propositions for their real clients.
 - BSPs often fail to carry out follow-up activities of clients, which is also a function of lack of understanding of how to develop the market.

Proposed Interventions (in order of importance)

- Organize an awareness campaign on benefits of standards and certification in local and international markets for clients and BSPs, with concrete value propositions described and attached.
- Assist local certification agent and BSPs to increase product range and update to latest standard by increasing coordination between them.
- Organize focused training to improve capacity of BSPs to interpret standards and improve their marketing strategies with respect to building up the local market for standards certification, especially how to develop a stronger value proposition.
- Introduce some form of monitoring of potential conflict of interest between CB and BSPs in export certification.
- Strengthen PSI to increase the number of locally benchmarked standards available to control non-Palestinian products that do not meet local standards, and improve their ability to test products in Palestine.

Business Planning Services to Increase Access to Finance

Palestine's financial services market is slowly becoming more dynamic. The banking industry is increasingly liquid due to the Palestinian Monetary Authority (PMA) tightening regulations governing off-shore investments, and there is growing interest from the banks to lend more money overall and to increase loans to businesses in particular. The PMA's new credit bureau service is improving banks' ability to check credit history of individuals and firms. Reforms to improve capital market regulation have also opened a number of opportunities for locally registered share-based companies to obtain external investment through share offerings. Some new investment funds have been

created to invest larger sums in local businesses in the information technology (IT) and other sectors. In fact, the availability of funding currently exceeds the absorptive capacity of business in the OPT to absorb it.

While credit is often cited as a constraint on the private sector, this constraint is diminishing for those that want it. According to a recent survey on the microfinance sector, while half of small businesses do not apply for loans, nearly 90 percent of those that do apply receive them. The interviews with financial institutions highlighted that poor supply of quality business plans and unreliable financial information in loan applications from external service providers working with the small businesses created a constraint to the banks to lend. This has led the banks to invest in creating teams of bank staff to manage the loan analysis process for most standard business loans, replacing the need for external service providers and speeding up the process. By internalizing (embedding) the analysis process, the banks are able to use historic performance from the applicant's accounts, which is more reliable information, to determine the risk and better assess the likelihood of repayment.

While the embedded system is effective for investments to expand existing enterprises or to lend into a common/existing sector that the banks are familiar with, it is not effective for new investments that are outside the experience of the bank. Two main areas where constraints still exist are for agricultural-based projects (where there has been limited historical lending by commercial banks) and export-driven projects going into new markets with which the banks are not familiar. A second consideration is for the investment funds that need much more detailed market and financial analysis and stronger overall business planning.

As few of the businesses have the capacity to present their business plans, financial information, and market analysis, they are dependent on outside service providers to help. There is a weak supply of BSPs that can adequately present these "new style" business plans for larger investments or for new markets and products, which require more original and thorough analysis. The banks report that there are maybe 10 service providers with this capacity, but only a few of them deliver regular, consistent, quality business plans. The investment funds, with even smaller staff, feel this constraint as well; they must often resort to helping to deepen and strengthen presented analyses.

The market for business planning services is a three-way market with two levels of demand, and one for supply. The end user of the loan applications, the financial institutions and investors, demand a high level of rigorous analysis from the small businesses, which the businesses cannot supply. There is demand from businesses that need sound loan applications to provide to the financial institutions, but do not know how to present the information, and do not know how difficult it is to actually prepare the applications or trust their service providers to provide them with accurate information. On the supply side, the service providers often do not have the capacity to deliver the needed services for a number of reasons.

The total size of the market (currently) for these larger business plans is estimated to be fairly small. Out of the thousands of requests for finance, it is estimated that only about 50 extensive business plans requiring the detail and

depth of analysis are produced each year (total cost for these business plans is probably less than \$1 million per year). With active BSPs, this small demand for detailed business plans does not encourage investment in developing the capacity to produce them.

Demand Side Constraints

- Businesses' lack of information and awareness about the requirements of financial institutions for detailed knowledge about the business (deeper than just an annual statement of accounts) or who can provide the business service.
- Low ability to value the service that is being provided and the risks involved. They have a weak understanding of the amount of work required to develop good business plan - often refuse to pay if funds are not secured.
- Only do the study to get the finance - no genuine commitment to use the study as a driver of expansion.
- Low financial sophistication - financial organisations (FOs) and banks report that clients need assistance in determining the sequencing of loan drawdown that they need for disbursement and resource flow analysis.

Supply Side Constraints

- A large number of BSPs are not capable of performing the necessary analysis, and often cut and paste from previous examples that do not meet the requirements of banks and investment companies.
- Failure of communication between BSPs and FOs - they do not understand the level of analysis that is required:
 - BSPs lack practical experience in the technical requirement of new projects or knowledge of markets, and are unable to interpret the consequences within the business plan.
- BSPs are not trying to develop the market for their services, either with the direct client (firms) or indirect client (financial institutions):
 - They do not advertise, they rely on existing relationships.
 - BSPs need to establish relationships with FOs and then be recommended to clients.
- Limited number of good firms/consultants to carry out high-quality analysis:
 - Number of part-time consultants offering poor-quality business plans with inadequate market research services for a low price.

Proposed Interventions

Given the nature of this market, where the end user of the service is the financial institution and not necessarily the firm itself, the recommendations reflect a greater integration with the end user, as well as improved understanding by the businesses of the real value of a business plan to chart out a path for increased competitiveness and growth, not just a tool to access finance.

- Improve linkages and communication between BSPs and FOs to increase awareness of required levels of quality, and then provide capacity building of BSPs on modern requirements of business plans.
- Educate consumers on requirements of a good business plan, its value beyond simply being a tool to access finance, and the work involved.
- Introduce some form of quality control of BSPs via peer review or reactivation of Association.

Business Services to Support Exporting Companies

The existing and potential export market is the main driver for the business services required to support exports. These business services can be broken into two broad categories:

- Those services that are needed to actually carry out the process of exporting - pre-shipment inspections, export documentation (including certificate of origin), border and customs clearance, transport and shipping logistics, and remittance/acquittal/clearance of export certificates.
- The group of services needed for local companies to explore and penetrate regional and international markets - such as market assessments; establishing linkage with local wholesalers and distributors; and dealing with health, safety, and labeling requirements in the target market.

For the first category, the process of exporting is complicated by the dual level of controls in place from both the Palestinian authorities and the Israeli authorities. While the General Administration for Borders and Crossings (of the Palestinian Authority [PA]) and the PA for Customs and Excise (PACE) are nominally authorised to manage the crossings and collect taxes; the Israeli authorities control the crossings. With this current political system at the borders, it is unofficially required that exporters use Israeli shipping and clearance agents, so Palestinian service providers generally act as mere agents to an existing Israeli export clearance and shipping company. For exporters, it is cheaper just to contract with the Israeli exporter rather than hire two service providers, causing double payment. However, this can also have negative ramifications on efficiency of exports should PACE check the goods inside Palestine and there is no agent to solve any problems that might occur.

Exporters interviewed during the study were generally not satisfied with the service of local BSPs, due to noncompliance in the export markets.

The overall market for these services is caught in a bind. Before there can be strong demand for local service providers to assist exporters, the PA must be able to manage its own exports to make it worthwhile for exporters to use local service providers. There is a developing market for service providers to assist the PA as it moves to get all the systems in place to meet World Trade Organization (WTO) requirements.

The second category of services required for exporters - those needed to penetrate new export markets - includes:

- Determine the market potential and possible constraints of the product in the target market.
- Determine customer's preference, carry out competitor analysis in order to determine the potential retail price, and verify duty conditions and standard wholesale markup.
- Determine specific quality standards, labeling requirements, and the legal environment, etc. in the target market.
- Help identify a good local partner/distribution agent to maybe assist with finalising a deal.

The findings from interviews with FNMD clients and other firms is that capacity to perform these services is extremely limited in Palestine. Even though it was anticipated that grants provided to FNMD clients would be used to hire local service providers, this was rarely the case. The local service providers do not have the experience in the end markets to know what is needed and then be able to provide that information back to the exporting companies. This was confirmed by the banks as well, which considered the market analysis components of the business plans in foreign markets to be the weakest elements.

Compounding this, the actual market for services is quite limited. With only about 150 firms actively involved in export from Palestine, there is very thin market demand for both of the categories. Given the large investment in learning about these foreign markets, the procedures for entering them, and the specifics about each product and market, it is natural that public institutions such as the Ministry of National Economy, PalTrade, and Chambers of Commerce that are externally funded, are able to provide these services from a generic standpoint, but are not able to take it down to the level of detail needed by the exporting firms.

The summary of the demand side and supply constraints includes:

Demand Side Constraints

- Lack of information by exporters on opportunities and growth potential created by favourable trade agreements.
- Lack of information on target market, consumer preference, and product promotion.
- Family owned and conservative firms perceive exporting as “too difficult” and risky because control passes to shipping agents and then importers.
- Firms typically over assess the quality and desirability of their products.
- Exporting requires long-term vision - early requirement for services/ investment and delayed return.
- Reluctance to accept technical advice on product quality; need for standards and modern packaging.
- Limited awareness of export procedures.
- Reluctance to pay for export support services.

Supply Side Constraints

- Small and very specialised market with potential for growth, but very few BSPs have the specific technical or geographic experience to add value.
- Local BSPs lack ability to assess export readiness of firm and product/service.
- Even BSPs specialising in market research lack ability to carry out market assessment in foreign markets - they lack contacts with complementary BSPs in target markets.
- Failure to market themselves to those with potential to export - no value proposition.
- Market dominated by Israeli export agents, so it is difficult for local BSPs to gain experience on procedures.

Proposed Interventions

Given the fact that Palestine holds a number of free trade agreements with the EU, the European Free Trade Association, the United States, Canada, Turkey, and most Arab countries, there are potential opportunities. The best way to stimulate the market for these services is to lead with public interventions to create awareness of the opportunities, then facilitate the acquisition of the needed services. Given the general lack of awareness of requirements and market analysis on both the supply and demand sides, capacity building by twinning with international firms needs to be facilitated:

- Provide information on export opportunities.
- Create awareness of requirements for exporting.
- Support firms for required quality standards/certification.
- Promote development of required financial and insurance products.
- Establish and maintain database of BSPs.
- Assist with establishing linkages between local BSPs and international BSPs.

Human Resource Management Training Services

The training services market is vast and difficult to map out, so the team placed a particular emphasis on human resource training. This is a fairly dynamic market being driven by the need for companies to comply with the new labour law, an increasing realisation among larger businesses that they can use improved customer relations as a factor in increasing their business, and a general desire on the part of Palestinians to invest in their own training. Interest in internationally certified training, which can be “exported” by people wishing to get jobs in other countries, is high. Several market segments are driving the training: large businesses, international NGOs, and the financial sector. Larger companies, in particular, are investing in training because they are visible and can be targets of the Labour Department. Financial institutions are very active as well. But, international NGOs are a particularly important market segment. They are the equivalent of large businesses, with thousands of employees, and their headquarters insist that they are in compliance with all labour laws, as well as bringing an ethos of investing in staff training.

The supply of training services is not vast, but it is becoming more formalised. There are a handful of private companies that concentrate on this area (some with internationally recognised certificate programs), as well as local NGOs, vocational training institutes, other formal training centers, training centers linked to the PA and the Central Bank, and individual financial institutions. On top of this, there are an estimated 100 freelance trainers.

The formal demand for human resource training services is estimated to run into the millions of dollars. Financial institutions spend \$1.4 million per year on human resource training, while the PA's capacity building programme budget for training institutes is \$4 million. As one looks at the small and medium businesses, they are becoming increasingly compliant, even if they are hesitant to invest much in training, and often do it only to meet labour law requirements.

Demand Side Constraints

- Firms do not know if they need training or how it can benefit them - no plan for growth.
- Firms are not prepared to pay for training or want a “cheap” product - they do not know how to value the benefits of training.
- Firms do not carry out post-training assessments to determine the benefits.
- In family businesses, they send relatives to training to retain skills and do not promote trained/competent staff. They are reluctant to release staff for training, even if it is self-improvement and paid by them. There is no incentive system to encourage staff to pursue skills upgrading.
- Often see donor-assisted capacity building as a “perk” and use any overseas training as a “reward” for favourite staff or relatives, which dampens the impact of international technical training.

Supply Side Constraints

- Lack of information on consumers' actual training needs.
- Lack of skills to meet customer requirements, for example, risk assessment for FOs or other specific technical training, or follow-up assessment to determine impact.
- Little or no promotion of their services, poor marketing of the courses they offer, and no ability to present a “value proposition” to potential clients.
- Few new training products being developed in response to changing market demand. Still relying on older nonspecific generic material.
- BSPs responding more to donor agendas rather than client requirements.
- No standard/qualification or quality control of BSPs.
- Structure and timing of courses not related to needs of participants - need modular training, given on evenings or weekends, rather than full-day training over a week or two.

Proposed Interventions

Training firms can be important generators of increased quality and competitiveness amongst private businesses. Most training in Palestine is being done for businesses that are servicing the local market, so a clear

understanding of how firms can use training services to improve their competitiveness in the local market is important.

- Create capacity for training needs assessment among BSPs and client firms.
- Build capacity of BSPs in course design based on needs and improved training methods.
- Assist in design and introduction of flexible and modular courses.
- Assist BSPs to develop stronger value propositions to sell training to private businesses.
- Introduce some form of quality control and standardisation (certification) for local training.
- Generate awareness of value of training among client firms, driven especially by training companies (through their understanding of their value proposition).

Conclusions and Recommendations

Conclusions

The analysis highlights that the level of development of business service provision needed to drive growth of Palestine's new products and exports is quite low. This is a function of numerous elements, especially the thin overall market (limited demand for services), which limits investment by service providers, low capacity of service providers to provide and sell services, a highly distorted economic environment from the many donor programs (which creates unrealistic expectations among service providers and limits effective commercial demand), and the conditions created by the Israeli occupation which makes exporting extremely difficult (lowering both demand and supply):

- Very thin markets limit demand for business service provision. A high proportion of small and medium enterprises in Palestine have conservative and cautious management. They have a low awareness of the need for the services, low perception of the value of the services, and are not willing to pay the real cost for them. This limits the paying market demand for business services overall, and when specific market segments are targeted that are dealing with small markets (such as for export certification, or sound business planning) the total size of the market can only support a few service providers and does not warrant much investment.
- Large, uncoordinated involvement of different donors and international NGOs has caused market distortions among the buyers of services. The large investments being made by many donors into private sector development are overwhelming the absorptive capacity of the private sector. Since these programs are often determined by external factors, without sufficient awareness and demand from the private sectors, the donor programs give away the services at highly subsidised prices that distort both the supply and demand sides of the market. They lower the ability of the businesses to value the product, and limit their understanding of why they are getting the product. Donor pricing also often pays higher fees to the service providers, limiting their awareness of what the local clients will pay

and driving them toward international contracts, rather than developing a sound business proposition for the local market.

- Service providers have weak specialisation because of limited exposure to international standards, undemanding clients, and general access to information. Palestinian service providers have, in many cases, been cut off from international markets and international standards and have not seen the value in specialising in narrow technical areas, where the real value could be derived by the exporting firms. This limits their ability to provide valuable services that can meet international standards, or their ability to overcome very specific technical and geographic requirements of firms. Meanwhile, demand for services supporting the domestic market is much more dynamic, and firms are responding to requirements to compete on the domestic market.
- The external political economy and regulatory environment can have a major impact on the development of a service market, either positive or negative. Sectors with legal requirements can stimulate development and provision of business services by artificially creating demand (as shown with certification services, and human resource management). While firms may not understand the immediate benefits, the regulatory environment is causing them to upgrade their capacity. Conversely, as with export process services, the political economy can have a limiting factor on their demand.
- Programmes have continued to focus on attempts to develop the market for generic business services instead of developing specific business services that can have impact. There could actually be a situation in Palestine where the supply of generic business services like those needed to develop business plans¹ for expansion and growth and improvement of management and strategic planning of MSMEs are in balance with current demand. This is not because these services are not needed - as clearly there are a large number of deficiencies in how many of these enterprises are run, operate, and perform - it is a result of the poor demand from a large group of conservative, family owned businesses whose managers/owners have low regard for outside assistance. No amount of intervention in the improvement of quality and quantity of these services is going to alter the demand side of the equation.

If specific areas can be identified where the provision of business services would make a major impact, then a specific campaign should be developed for that particular sub-market segment. Note that each of these would require careful analysis before launching such an initiative.

General Recommendations

Stimulating the market for business service provision to support exports and new product development requires activities at both the supporting environment level and the firm level (targeting both supply and demand). The most important element to create a stronger market for services is to apply continued pressure on Israel to ease access to international markets. Until there are more opportunities, the demand for services will remain low, creating a chicken and egg scenario. Within more direct control of donors is to foster greater coordination amongst them on best practices in service market development,

¹ The exception being the very demanding business plans required for large investment by venture capital companies or extended commercial bank support involving a package of capital injection and operational financing.

which will create a less distorted and more conducive market for their development.

At the firm level, a number of activities can be implemented to address the key constraints on both the supply and demand sides. They must be designed with a clear recognition of the reality on the ground, and not underestimate the challenges that exist caused by the situational environment and the rules of the game in Palestine. The rationale for each intervention must address a fundamental failure in the market system. Common recommendations across a range of areas to stimulate development for the four service markets are presented in summary form below (and explained in depth in the main report), which are also applicable to all service areas in general.

Category	Business Services Market 1 - Certification and Standards	Business Services Market 2 - Access to Finance	Business Services Market 3 - Training for Human Resource Development	Business Services Market 4 - Support for Exports
Demand side - create awareness in business community	Awareness campaign on benefits of standards and certification in local and international market for clients and BSPs.	Educate consumers on requirements and work involved.	Generate awareness of the value of human resource training among enterprises. Trained staff are more efficient staff.	Provide information on export opportunities (EU). Create awareness of requirements for exporting.
Ensure BSPs are in tune with current requirements of market		Improve linkage and communication between BSPs and FOs to improve quality.		
Capacity building of BSPs - definition of value proposition in all sectors	Improve capacity of BSPs to interpret standards.	Provide capacity building of BSPs on modern requirements of business plans.	Create capacity to conduct needs assessment among BSPs and client firms. Build capacity in BSPs in course design based on needs and improved training methods.	
Improve linkages, availability of information, and ability of BSPs to market their services	Improve capacity of BSPs to market their services in certification and standards, and develop sound value propositions.			Establish and maintain database of BSPs. Assist linkages between local BSPs and regional service providers.
Develop new product for market or improve range of products available	Assist local certification agent and BSPs to increase product range and update to latest standard. Increase the number of locally benchmarked standards available from PSI.		Assist in design and introduction of flexible and modular courses.	Promote development of required financial and insurance products. Provide support to firms for required quality standards/certification.
Need to introduce improved governance and/or quality control in the market	Introduce some form of monitoring of potential conflict of interest between CB and BSPs in export certification.	Introduce some form of quality control of BSPs via peer review or reactivation of Association.	Introduce some form of quality control.	

Acronyms and Abbreviations

ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated SYstem for CUstoms DAta
B2B	business-to-business
BDS	business development services
BMO	business membership organization
BRC	British Retail Council
BSP	business service provider
BSU	business start-up
CA	Chartered Accountancy
CB	Certification Body
CCI	Chambers of Commerce and Industry
CIP	Competitive Industrial Performance
CIPR	Chartered Institute of Public Relations
CIS	Chartered Institutes of Secretaries
CRM	customer relations management
CSR	corporate social responsibility
ESAF	Expanded and Sustained Access to Financial Services
ETI	Ethical Trading Initiative
EU	European Union
FNMD	Facility for New Market Development
FO	financial organization
GAP	good agricultural practices
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HACCP	hazard analysis and critical control points
ICT	information and communications technology
ILO	International Labour Organization
ISO	International Organization for Standardization
IT	information technology
M4P	making markets work for the poor
MAS	Palestine Economic Policy Research Institute
MFI	microfinance institution
MSME	micro, small, and medium enterprise
NGO	nongovernmental organizations
OPT	Occupied Palestinian Territories
PA	Palestinian Authority
PACE	Palestinian Authority for Customs and Excise
PAL GMP	Palestine Good Manufacturing Practices
PCBS	Palestinian Central Bureau of Statistics
PIFBS	Palestine Institute for Financial and Banking Studies
PITA	Palestine IT Association of Companies
PMA	Palestine Monetary Authority
PMI	Palestinian Monetary Authority
PSI	Palestinian Standards Institute
QMS	quality management system
SEC	Small Enterprise Centre
SME	small and medium enterprise
TA	technical assistance
TVET	Technical and Vocational Education and Training
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
USAID	U.S. Agency for International Development
WTO	World Trade Organization

Chapter 1

Introduction and Background

1. Introduction and Background

1.1 Purpose of the study

The DFID-supported Palestinian FNMD project is a matching grants project that works with private companies to help them develop new products and enter new markets. During the past three years, the project has assisted more than 250 companies in the West Bank and Gaza in the fields of agriculture, agro-processing, construction, light manufacturing, information and communications technology (ICT), services, tourism, quarrying, pharmaceuticals, and media with matching grants to address constraints, identified by the businesses, to improve their business performance.

FNMD has always sought to develop a greater understanding of the broader market systems within which the different market players operate in order to identify systemic failures that are limiting the effectiveness of the various market systems. While the project has focused on providing matching grants to individual companies in most of the sectors in Palestine, the business development services (BDS) sector has benefited and participated the least. Experience has confirmed the belief that without a vibrant and effective group of domestic BSPs, it is very unlikely that sustainable business development can take place within any sector. It is particularly critical for small and medium enterprises (SMEs) to have business services in order to grow. This study takes a very broad view of the required services - ranging from direct technical and advisory support in the specific sector in which the firm operates to generic support assisting in the day-to-day running and function of the enterprise. These smallest companies, often an important engine in an economy, need a full range of services available in the market because they do not have the ability, because of their size, to include these services in-house.

This Business Services Sector Market Study is designed to provide FNMD and the wider donor community with:

- A detailed analysis of the nature of the business services market in Palestine.
- The types of firms and main players providing the services and their internal business models.
- The opportunities and incentives for the market.
- The root causes that have been limiting their impact.

It is intended for this study to feed into the future market development programme currently being considered by DFID, the World Bank, and the EU, and will identify opportunities for the FNMD to more strategically apply its matching grants programme to broaden and deepen the programme's impact.

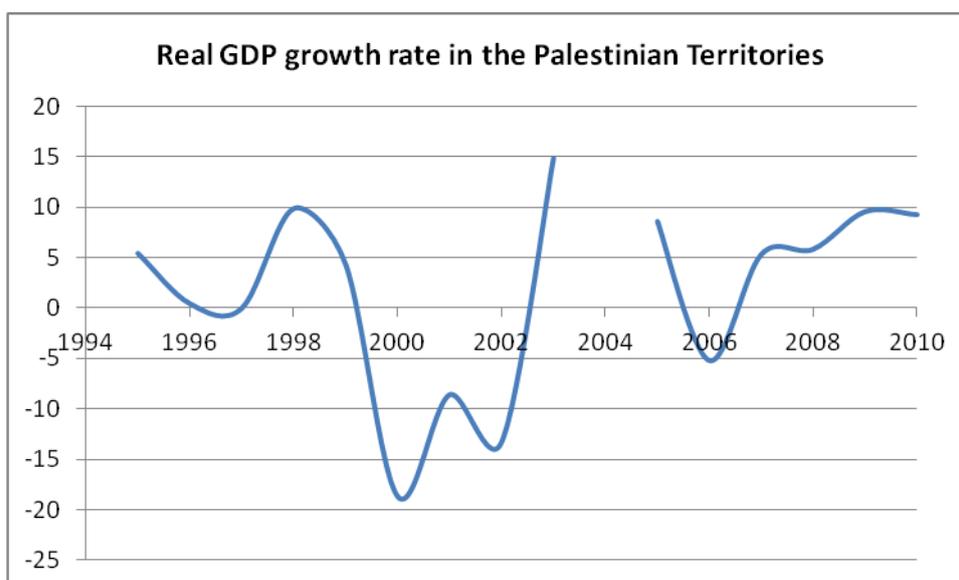
The Terms of Reference for the study are contained in Annex 1.

1.2 The Palestinian Economy: Performance and Challenges

Historic Performance

The Palestinian economy has gone through two major changes in the last 50 years. The first was the partial integration with the Israeli economy after 1967, which led to increased job opportunities for Palestinians to work in Israel. However, this created a fragile dependency on Israel. The second, more recent change, has involved a significant disengagement from Israel, which has placed Palestinian workers and enterprises in an increasingly vulnerable position. The Palestinian economy remains dependant on Israel, largely because all exports and inputs pass through that State; even the Jordan River borders providing a link to trade with Jordan and other Arab nations are controlled by Israel. Since its establishment in 1994, the PA has had no sovereignty over borders, natural resources, land, water, or the movement of people and goods within its territory. Also, the PA heavily relies on donations and donor in-flows to finance its activities, and remains highly vulnerable to the availability of such donor support. As a result, the Palestinian economy has experienced sharp fluctuations, as shown in the growth rates of gross domestic product (GDP) in Figure 1.

Figure 1: Real GDP in Palestinian Territories



Note: Data available from the Palestinian Central Bureau of Statistics (PCBS) is discontinuous because of a change in the currency base rate used to calculate constant USD exchange rates between 1994 and 2004.

The World Bank survey² of the investment climate in 2007 summarised the main obstacles of doing business in Palestine as follows:

- Uncertainty linked to the unstable political environment and the resulting economic instability.
- Shrinking market access and the lack of free movement.

² World Bank. *West Bank and Gaza investment climate assessment: Unlocking the potential of the private sector*. Report No. 39109. 2007.

- Lack of competitiveness in both local and international markets. Most machinery is more than 10 years old, and less than 26 percent of the World Bank surveyed enterprises conducted worker training (and only a small share had international quality standards).
- The financial sector is highly liquid, yet most enterprises have not even applied for a bank loan. This is largely because most businesses do not currently want a loan given the few profitable investment opportunities, their aversity to risk, and a traditional fear of borrowing from “money lenders.”
- The growing Israeli settlements on occupied Palestinian territory and movement restrictions imposed on Palestinians by Israeli authorities overshadow all other elements of the investment climate. The restrictions close off markets, raise transaction costs, and prevent producers from guaranteeing delivery dates. The closures also serve to keep firms small and prevent them from attaining a minimally efficient scale.

A recent 2010 study by Kawasmi and White³ re-emphasised these obstacles to a large extent. It highlighted other obstacles, including limited access to BDS, limited linkages between enterprises, and low participation in profitable and growing value chains.

Given the wild swings in economic growth, most a result of political instability and not based on economic conditions and trends (which are slightly more predictable), many businesses in the OPT have adopted a very conservative and risk-adverse approach to growth and development.

Structure of the Economy

The Palestinian economy in relation to some of its regional neighbours is strongly private sector-orientated. For example, the private sector comprised about 77.8 percent of total GDP in 2010.⁴ According to the 2007 Census,⁵ there were 105,880 private sector enterprises in the Palestinian Territory: 71 percent in the West Bank, 29 percent in Gaza. The size structure shows that 91 percent of the enterprises are micro (employing less than 5 workers), 5 percent are small (5 to 9 workers), 2 percent are medium (10 to 50 workers), and 1.5 percent are large enterprises (more than 50 workers).⁶ Enterprises in wholesale and retail form the largest portion (56 percent); manufacturing 14 percent; agriculture 7 percent; community, social, and personal services 6 percent; hotel and restaurants 4 percent; and real estate 4 percent.

Recent Economic Performance

The OPT witnessed growth of the GDP (total size = \$5.7 billion) by 9.3 percent during the year 2010 compared to 2009.⁷ The construction sector recorded the highest growth (35.8 percent) during 2010. Other activities recorded growth of

³ Kawasmi, Hazem, and White Simon. *Towards a policy framework for the development of micro, small and medium-sized enterprises in the Occupied Palestine Territory: Assessment report*. International Labour Organization (ILO). 2010.

⁴ PCBS. *National accounts 2010: Preliminary results*. Ramallah, Palestine. 2011.

⁵ PCBS. *Population, housing and establishment census 2007, economic establishments: Main findings*. Ramallah, Palestine. 2008.

⁶ The actual size of the productive economy in Palestine is extremely small - for example it is estimated that the total number of large corporations (with more than 50 employees) is only between 1,600 and 1,700 firms (from various sources).

⁷ PCBS. *Performance of Palestinian economy, 2010*. Ramallah, Palestine. 2011.

the value added, including the hotel and restaurant sector, which grew by 43.6 percent, agriculture and fishing 22.8 percent, retail and wholesale trade 12 percent, and transport and communication services 6 percent, while manufacturing declined by 5.5 percent. The value added in the West Bank had increased by 7.6 percent during 2010 compared to 2009. The GDP in the Gaza Strip had increased by 15.1 percent (this figure is distorted by the very low base and significant donor in-flows). Among economic activities, construction recorded the highest annual increase of 232.2 percent during 2010, but this is also partially distorted because it represents the major rebuilding required after the destruction caused by the Israeli invasion - delayed by the blockage of essential rebuilding material such as cement.

GDP per capita increased in 2010 by 6.1 percent to reach \$1,502.4 in the whole Palestinian Territory. Regarding Gaza Strip, the GDP per capita in 2010 reached \$876.7 compared to \$1,924.6 in the West Bank.

The service sector provided the highest contribution to the GDP by 20.9 percent, compared to a contribution of 13.9 percent by public administration and defence. The contribution of manufacturing and mining to GDP reached 12.3 percent (the majority coming from the quarrying sub-sector, which in addition to export lead growth is also benefitting from the ongoing construction boom because local stone is always used in facia cladding). Other sectors making significant contributions included 11.1 percent for trade and 9.2 percent for construction activity. The share of agriculture reached 6.3 percent, 11 percent from the wholesale and retail sectors, 7.8 percent from transportation and communication, and 5.2 percent from the financial sector.⁸

The impressive growth recorded in 2010 is not a sign of sustainable recovery. A recent study by the United Nations Conference on Trade and Development (UNCTAD) in 2011⁹ showed that such growth came after a decade-long economic regression and continuing de-industrialisation, relying on substantial donor aid and public expenditure. Private sector revival is still constrained by the Israeli repressive measures. In addition, the UNCTAD study highlighted the role of the separation barrier in isolating the Palestinian economy from global markets. Restrictions on the movement of people and goods have fostered small-scale cost inefficiencies and technological decline and have blocked the emergence of an export sector capable of substantial contributions to economic development. The report notes that prohibitive transaction costs, long waiting times, and damage to goods at crossing points undermine existing Palestinian businesses and discourage potential investment.

Given the strong growth of agriculture, construction, and tourism, these represent sectors where further targeted investment and development should achieve maximum impact. The continuing poor performance of the manufacturing sector, due to the lack of regional competitiveness, might indicate that continued support for this sector should be targeted more on the

⁸ PCBS. *Performance of Palestinian economy - 2010*. Ramallah, Palestine. 2011.

⁹ UNCTAD. *Developments in the economy of the Occupied Palestinian Territory*. 2011.

small, but specialised, sub-sectors in light manufacturing where there is still a degree of competitive advantage.¹⁰

Despite the problems noted above with exports, most reports looking at the Palestinian economy going forward come back to the need to have export-led growth. The most recent World Bank report states:

However, as a small open economy, the future Palestinian state is likely to depend upon increasing trade and especially the export of high value added goods and services that exploit its comparative advantage arising from a workforce with low wages relative to its high level of education.

Increasing trade and integration into the international markets will provide consumers access to a wider range of products at lower prices, while producers will benefit from higher prices found on the world market. The Palestinian market's small size means that, without access to the world market, Palestinian producers will not be able to achieve minimum efficient scale. In addition, becoming competitive on the export market will force Palestinian producers to improve their productivity, thereby increasing employment, raising wages, and lowering poverty."

In order to achieve sustainable growth, the West Bank and Gaza economy must increase overall trade, expand trade beyond the Israeli market, and increase the value added in exports.

In addition to the potential for export-driven growth, there is also considerable opportunity to increase the competitiveness of many of the local sectors of the economy via an improvement in their efficiency. The current structure of the economy with a large number of small, moderately resourced SMEs with considerable overlap and duplication of supply in goods and service provision lends itself to an improvement in efficiency and resource utilisation. For example, the SME sector is dominated by the commercial sector - 70 percent of the firms captured in the Federated Chamber of Commerce survey were involved in trading. These represent a very large number of small stores and mini supermarkets all engaged in separate, non-amalgamated purchases of goods, mainly from either local manufacturers or Israeli or Jordanian-based wholesalers and agents involved in the primary importation of the goods. There appears to be very few local wholesalers that purchase in bulk and then make consolidated deliveries of the mixed requirements needed by each store. The same level of inefficiency is noted in the local manufacturing where each company appears to be running its own logistics and delivery system.

¹⁰ As reported by one respondent, these sub-sectors include the manufacture of small, but high-value components in some production machinery, hydraulic control systems, and electronic switching equipment. Ironically, much of the development of this high technology and specialised machining work in Palestine has been driven by subcontracting arrangements between Israeli defence contractors and small manufacturing companies in the West Bank. The technology transfer and lucrative contracts enabled the enterprises involved to acquire modern machinery and equipment.

1.3 Description of the FNMD Programme

The FNMD has disbursed \$3.22 million¹¹ to 226 grantees in the West Bank and Gaza. The majority of the grants have been in the West Bank - 152 grants (receiving \$2,659,690) and a decision to only work in this area was made for logistical reasons because travel between the two sections of the OPT is very difficult. Therefore, information for the West Bank has been extracted from the FNMD database of the matching grants disbursed and reviewed on the basis of sector, location, and type of service acquired.

The amounts disbursed as matching grants vary considerably from as little as \$753 for attendance at a trade show/business-to-business (B2B) event to six grants at the maximum value of \$50,000 (all in the West Bank). The range of companies selected in terms of their size, financial maturity, and the sector they operate in, is diverse. The lack of specific focus has been driven by the open invitation for enterprises to participate based on the principle that they should be committed to penetrating a new market (either locally or internationally) or to developing a new product.

At the start of the programme, clients were allowed to determine the services they wanted and there was an early commitment to try and avoid the programme being donor-led and supply driven. However, as the programme matured, FNMD has paid more attention to working closely with applicants to “assist” them in determining what they need and what business service would most effectively meet those needs. This is an important change because, as will be shown in the review of other studies, there is often a mismatch between the “perceived” and “actual” needs of SMEs for services.

Table 1: FNMD Grants in the West Bank by Sector

Sector	Number of Grants	Sector Grants as a % of Total
Light Manufacturing	45	30%
Agribusiness	32	21%
ICT	23	15%
Services	16	11%
Tourism	11	7%
Marble and Stone	10	7%
Media	6	4%
Construction	3	2%
Textiles and Garments	3	2%
Pharmaceuticals	2	1%
TOTAL	152	100%

On the basis of the following observations, it was decided to limit the number of sectors for further study, restricting the following two sectors:

- The manufacturing sector in Palestine is currently experiencing major problems, especially in Gaza where the blockade is seriously affecting the supply of both raw materials and spare parts for machinery. Even in the West Bank the sector is experiencing shrinkage, mainly as a result of strong competition from direct imports into the OPT and further competition from

¹¹ Note the figures presented here are based on FNMD disbursement data and as such represent the project 50% contribution to the matching

these cheaper imports into their traditional markets such as Israel and Jordan. This industrial sector, more than any other is experiencing a drastic loss of competitive advantage because of its small volume, high input cost (because of the cost of importing through Israeli agents), and lack of investment in new machinery. For these reasons, this sector was not subjected to further detailed evaluation, but it was considered in relation to the market for certification.

- The ICT sector has already received considerable donor focus and is experiencing good sector growth, so it was not considered for further detailed evaluation. In addition, after a series of preliminary interviews with the sector in the inception phase, it became apparent that fully understanding the technical issues facing the cutting edge of the industry required a specific IT background that the consultants lacked, and that in the formation and recent election of a dynamic new executive for the Palestine IT Association of Companies (PITA), the industry has one of the best business membership organisations (BMOs) in the OPT, capable of fully understanding and dealing with any failures or problems it may experience in its business services market. The main problem facing PITA is the classic problem of Palestine that member enterprises still consider themselves rivals rather than full partners in an expanding sector with considerable potential. Examples abound where a lack of cooperation between IT companies with complementary skills and basic business conservatism of the companies resulted in missed opportunities in one of the fastest moving sectors in the world. However, ICT was included in the analysis of the market failures in access to finance for this sector.

It was decided by the study team that greater traction might be obtained by looking at:

- The agribusiness sector.
- The service sector, especially training.
- The finance sector, but with a specific focus on larger lending.

The agribusiness sector was examined in detail to determine if there were any trends in the type of assistance given and in the belief that the database could be used to identify respondents who had used a particular business service. The details of the analysis are summarised below:

- Total of 32 matching grants with a value of just more than \$492,000, with an average grant size of \$15,383.
- The range in grant size is very wide, from \$850 to \$51,286.
- There are 18 categories in the type of support that could be covered by the matching grant (3 were not use in the period studied). A number of companies only received funds for a single category, while one grantee actually got funds for 9 different categories (there is an average of 2.1 categories per grantee). This large number of categories again shows the wide range of support offered and anticipated by the programme.

- In terms of the amount granted, the biggest categories are: local marketing campaigns (38 percent of value granted); market research (16.5 percent); preparing companies for certification (15 percent) and provision of marketing tools and support to attend specialised trade fairs (both at 7 percent).
- In terms of number of companies receiving support in each category, the most frequently used were: preparing companies for certification (10 sub-grants - 15 percent); specialised trade fairs (9–13 percent); provision of marketing tools (8–12 percent); local marketing campaigns (8–12 percent); and market research plus attendance at general trade shows, B2B trips, and business missions (both with 7 grants representing 10.5 percent of total individual categories granted).

This analysis of the grants in the agribusiness sector shows the predominance of support in the area of marketing in terms of the amount granted (two-thirds of total spent on agribusiness - 65.6 percent).

The matching grants awarded in other industry sectors were also subjected to detailed analysis, but this revealed no significant patterns - in fact, the entire grant portfolio in the West Bank is characterised more by its wide diversity than by any specific focus, other than in the broad area of marketing and development on new market opportunities (generally more about local market development than regional and international). There is little focus on new product development, for example, only 19 companies in the West Bank (12.5 percent of the total) received grants for product design and redesign.

Chapter 2

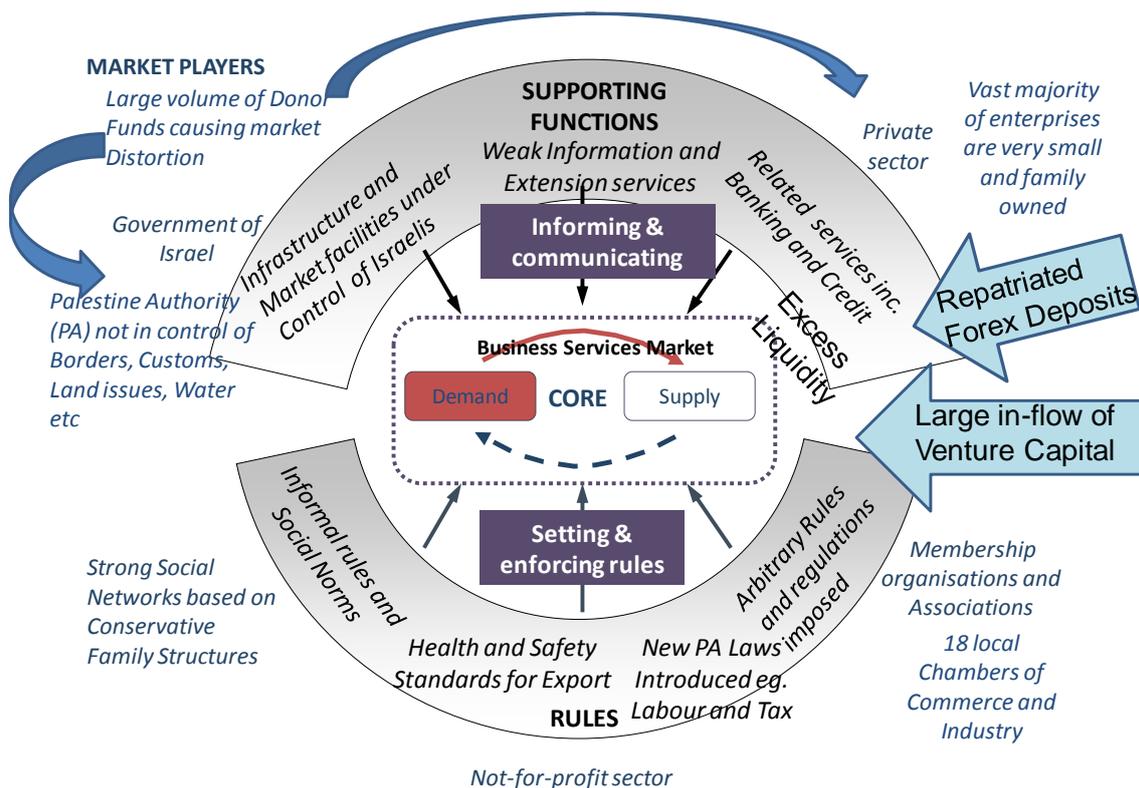
The Nature of Business Service Markets

2. The Nature of Business Service Markets

2.1 General Description - External Factors Affecting Markets

All markets exist in an environment made up of the political economy in which it operates. Unfortunately for Palestine, this represents one of the longest, ongoing, and as yet unresolved international conflicts in the world. In fact, there are some who argue that the very small Palestinian/Israeli conflict is the root cause of a large part of the inter-religious problems experienced and the basis for a number of the more serious wars raging on the planet. The specific commercial impacts of the Israeli occupation are discussed at a number of points in this report. In the diagram below - which makes an attempt to explain the overall environment in Palestine and how it affects the market for business services - it is included as a factor because of the ongoing control exercised over infrastructure and markets by the Israelis, and the fact that Palestine as a country has problems delivering the necessary supporting functions in an economy they do not control. What the diagram fails to communicate is the impact the occupation has on the national psyche in terms of self-confidence, and how enterprise owners view the future and their aversion to taking risks in the context of ongoing uncertainty.

Figure 2: The M4P Market System



The other key aspects in the external environment include:

- The various market players, and again here a key characteristic of the Palestine situation is the large role played by donors - multinational, bilateral, and International and regional NGOs. This is an indirect result of the international concern about the political situation and economic condition of some of the long-term refugee communities,¹² but the biggest problem is the volume of the assistance in relation to the total size of the country and its population. In addition to creating a national economy dependent on donor in-flows, this has resulted in fairly extensive distortion of many service markets. Fees and charge-out rates are much higher than the regional average, the proportion of total income level attributable to donor organisations is disproportionately high, and the consistency of dependency on “easy” and steady contracts is an unsustainable way to run a business. Some of these specialised service providers have rarely had a commercial contract.
- The majority of the players in the market are small, privately owned companies. This large number of small companies is more than adequately represented by 18 locally based Chambers of Commerce and Industry (CCIs) (some in areas with agricultural potential also represent agriculture).¹³ These various CCIs form a national-level Federated Association of Chambers of Commerce, Industry and Agricultural, which really needs to be considered as a major asset in the economic development of the OPT - a coherent and well-run organisation that would be the envy of much more developed nations.
- The next level of market influence is provided by the structures and organisations that make up the supporting functions in the market, which include infrastructure, extension and information services, banking, financial services, and credit.
- The small compact size of the OPT and the massive investment in transport infrastructure give unrivalled access; unfortunately this excellent network of roads and access is also designed to be easily closed off. Lack of access to essential resources like water makes provision of this service impossible to control or guarantee by the PA.
- The effect of insufficient supporting functions in terms of efficient information and local extension services also impacts on the market that informs and communicates with the series of core markets that make up the economy. One area where there has been major improvement in the last 10 years is with banking and financial services, many arguing that the country is adequately banked. Currently, as discussed later, there is excess liquidity in the banking and investment sector that should spell growth. This growth is happening in certain “safe” sectors like construction, but the existing instability dampens productive investment in other parts of the economy.

¹² Some communities in Palestine have been receiving United Nations (UN) support through the UN High Commissioner for Refugees (UNHCR), albeit at fairly low and inadequate levels for more than 40 years. Studies in other parts of the world indicate how unmotivating and stifling this extended donor dependency can be.

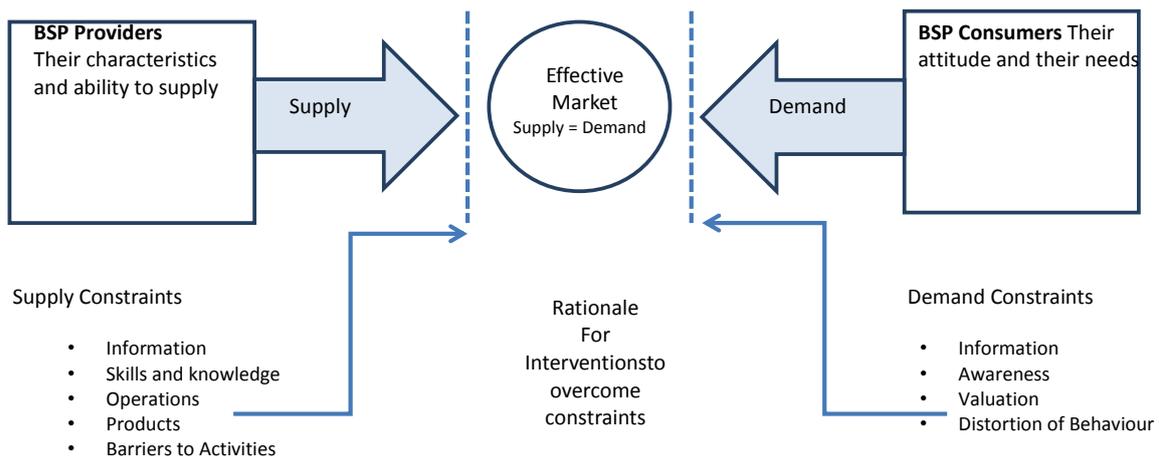
¹³ It is interesting that the decentralised system based on Governorates favours mixed Chambers (commerce, industry, services, and agriculture), and that the strong desire to retain regional identity does not result in an exclusively agricultural MBO.

The other factors that influence markets include the rules and regulations - these are affected by the interaction of social norms and the naturally conservative, strongly family orientated society that represents Palestine. The various laws and how they are implemented by the PA - such as tax and labour regulations - play a major role in the establishment of the overall business climate. Here again, external factors driven by the sudden imposition of arbitrary regulations and restrictions on the part of the Israeli authorities represent something outside the control of the local authorities. This group of factors also includes all the rules and conditions for health and safety that impinge on development of the local market, and are especially important if the target is to export.

2.2 Analysis of a Business Services Market.

In order to look systematically at various business service markets, and to determine what contributes to an effective market, the following structured format has been used.

Figure 3: Market System for the Supply and Demand of Business Services



This analysis assumes that, in a fully functioning market, there is a balance between a market-driven supply of a service that responds equally to a paying demand for that service. This “effective market” has both supply and demand elements. It requires that the supply, provided by BSPs, understands who the buyers are and what their needs are. These BSPs need to have the right products to meet those needs (defined by service and quality) and make them available at a price that makes business sense to the buyers. On the demand side, the enterprises or business service consumers need to understand that they have a problem and accept that it can be fixed with an outside service. They also need to know who the possible service providers are, how to find them, and be able to place a value on the service that they require, so that they know how much they should be paying for that service. Any factors that either contribute to a lack of supply or an absence of demand represent a constraint or market failure. Equally, the market failure could be that certain services are over supplied because BSPs have offered a service that is not appreciated or needed by the customers. Market failure could also result when high demand is not being met by an appropriate business service because service providers have failed to respond to market signals.

2.3 Business Services Considered

The Terms of Reference contain a broad list of business services that might be considered. These were reviewed by the consultants, and two were selected to form the basis for a couple of the BDS demand surveys and reviews already undertaken in Palestine. Following is a list of general, and in some cases specific, business services:

- Financial services.
- Financial capacity building.
- Business and strategic planning.
- Business process engineering.
- Product development.
- Research.
- Standards and certification.
- Training.
- Marketing and packaging.
- ICT.
- Human resources.
- General management.

This list of services and the various categories of services they define were used in discussions with stakeholders and BSPs.

Chapter 3

Methodology

3. Methodology

This section provides a full description of the methods use in this study.

Due to time and logistical constraints, it was decided to limit the analysis and field work activities in Palestine to the West Bank only. Gaza - given its small size and extremely high population density - is a bit different from the larger portion of the OPT (the remaining part of the West Bank). The biggest difference is that the Gaza Strip has recently suffered the disruption of another invasion in 2008 and is still subject to blockade activities that have constrained recovery and growth.

The field work phase of this study ran from 8 August to 2 September 2011, and as such coincided with the Holy Month of Ramadan and the Eid holidays. This created some difficulties as most respondents were fasting during the first three weeks. The authors would like to thank those who made themselves available for interviews and especially those who agreed to meet out-of-business hours in the evenings after Iftar.

3.1 Inception Phase - Interviews with Key Informants and Major Stakeholders

During an eight-day Inception Phase, the following activities were undertaken:

- A broad range of stakeholders and business service practitioners in a variety of sectors were consulted on:
 - Business services most needed.
 - Those services with the potential to have major impact.
 - Possible reasons limiting impact and effectiveness of existing services.

A total of 20 interviews were conducted with the management of major organisations and other key respondents, including the CCI; the Small Enterprise Centre (SEC) Association; representatives of the micro-finance, banking, insurance, and ICT sectors; service providers in the field of standards, certification, business and management advice, and technical support; and major donor programmes working on SME development and the improved access of SMEs to finance. (A full list of people contacted during the study is contained in Annex 2.)

In addition to detailed discussions with each respondent about the particulars of his or her organisation, enterprise, or project - and the sector they operated in - a series of generic questions were asked on the recent and current business climate, the impact of the political economy on business behaviour, economic trends, the structure of the SME sector, and

social factors influencing the attitude of Palestinian enterprises toward growth and development.

Where the respondents had time to engage in deeper discussions additional information was sought on the following issues: understanding the interaction between various stakeholders; examining how a medium-to-large consultancy company operates and makes use of a group of independent consultants as part-timers; how the BSP market operates in terms of contract acquisition; discussing the role played by donors and international NGOs in the market.

These discussions helped sharpen and refine an improved understanding of the complexity of the business environment in Palestine. It is this contextual background that has proved to be most useful in attempting to explain the difficult market for business services in the OPT. Many of these initial BSPs were identified by the local consultant who was a member of the study team. In some cases, because he knew them (many were his former students or they had previously worked with him on projects), this could have introduced a bias, but it represented a practical necessity as this “connection” enabled the team to quickly obtain an interview during Ramadan when many of these BSPs had adapted their work schedules to fit with the demands of the fasting period.

- The existing database of grantees at FNMD was examined to determine its suitability as a sampling frame for the detailed follow-up phase of the survey. The general results of this analysis are presented above in Section 1.3.
- A series of preliminary hypotheses was proposed to explore why the more important business service areas were experiencing market failures on both the supply and demand sides.
 - These hypotheses were adjusted and refined during the Inception Phase. The general tenure of these hypotheses was used to drive discussions with stakeholders and to elicit responses from various respondents. They are presented below:

Demand Side

- Low perception that the need for and possible benefits of business services affects demand.
- Previous experience of over-pricing and poorly targeted supply-driven business services with very little impact at the enterprise level have dampened demand.
- Many areas of service provision, including the need for a commercial orientation in the acquisition of business services and appreciation of the value of advisory services, have been severely distorted by the excessive involvement of donors in the market.

Supply Side

- Local BSPs have developed their “offer” and portfolio of services based on donor “requirements” rather than on the needs of their potential clients.

- Local BSPs lack the capacity/skills to deliver the level and quality of business services needed by their clients.
- Local BSPs lack actual experience in business, making it difficult for them to provide practical advice.
- BSPs have failed to develop appropriate products and effective delivery mechanisms to meet the needs of their clients.
- Preliminary selection of four business service areas most likely to assist in the development of SMEs in high-potential economic sectors.

A PowerPoint of the Inception Presentation containing the preliminary views of the study team was presented to the FNMD management team and Bill Grant from the DAI Washington office on 16 August. After extensive discussions on the business service market areas that could be effectively covered in the time available and the way in which the constraints and potentials of the selected business services could be effectively investigated and presented, an additional draft outline Inception Report was produced and further discussed.

3.2 Literature Review and Analysis of Existing Studies

A large number of studies have been undertaken on BDS in Palestine. A number of these have been conducted on the basis of well-constructed and drawn samples. These studies have been subjected to detailed review because they present a valuable source of secondary information on demand for business services and the characteristics of the MSMEs that make up the private sector in the OPT (see Section 4).

All of these studies have been available in the donor and NGO circles for a few years, and it is interesting to note that despite sound and analytical details on demand for a full range of business services there seems to have been little or no attempt by any of the BSPs to try and deliver these services in a systematic way. This represents another example of important studies being undertaken not for the benefit or ultimate improvement of the industry or service sector involved, but for a donor-funded programme. In most of these major studies, no attempt was made to effectively disseminate the findings to relevant BSPs.

3.3 Selection of Service Markets for Further Study

The initial set of service markets identified during the Inception Phase as possible candidates for detailed study were:

- Certification and Standards in agro-processing.
- Business services required for SMEs to access finance.
- Technical support services for the construction industry.
- Business services to increase exports.

These initial recommendations were altered in the following ways:

- It was decided to look at certification and the role standards play in all industries not just agro-processing.

- It was decided that the size of the third business service area - technical support services in construction was too big and complex to be covered in the time available and therefore it was dropped. It was replaced with a smaller, more distinct service sector - training for human resources.
- Further concerns about the amount of field work required resulted in the fourth business service sector initially being dropped, but then it was reinstated because it was considered critical to look at business services required to promote and develop exports.

The detailed discussions and analysis of the business service markets selected are found in Sections 6–9.

3.4 Telephone Interviews of BSPs Registered with FNMD

At the start of the FNMD project, the management advertised for local BSPs to register - no contracted work was promised, but it was agreed that potential grantees who applied for the matching grant facility and who needed a BSP would be given the list. Subsequently, local BSPs who had heard of the FNMD programme and asked to be included on a list of “approved buyers” were also added to the list. This list of BSPs, including more than 50 enterprises, was used as the sample for a telephone-based survey. The objective of this survey was to obtain further information on BSPs - it was hoped that as these BSPs registered with FNMD they would be more inclined to answer questions in a telephone interview. The methods used to conduct the survey and the results of the telephone survey are in Annex 3.

3.5 Interviews in Selected Business Service Markets

In each of the four selected business service markets, an attempt was made to conduct at least four detailed interviews with BSPs supplying that service, and then a similar sample size of enterprises either requiring the service or that had previously made use of the service. This planned sample size was difficult to achieve in the case of business services relevant to exports because there are very few examples of BSPs in this field. Even enterprises receiving grants from FNMD to expand exports had not used BSPs, but made contacts in the target market or actually visited potential marketing agents themselves. (A list of persons contacted during the study and interviewed is in Annex 2).

Some of the BSP respondents used for the selected business service markets were initially identified and interviewed during the Inception Phase. They were recontacted if they reported that they had provided one of the selected services and asked to make some additional time available for a more detailed discussion.

Some representatives of the specific BSP sector and clients receiving the selected service were selected because they had been part of the FNMD grant process. This was particularly important in the field of services for the acquisition of quality standards and certification. The fact that 17 percent of the total value of grants given by FNMD in the agribusiness sector and that 15 (22 percent) of the individual grants issued were for either preparation of companies for certification or the cost of obtaining certification (international and local) is

one of the reasons this business service was selected for more detailed study. All agribusiness grantees who received support in this field were either visited and interviewed or contacted via telephone in order to record their experience, perceived benefits, and problems they faced.

Another technique used to identify potential respondents (BSPs and clients) involved asking some of those interviewed to suggest others to interview. The small size of the business services market means that most “rival” providers know each other and often, on larger contracts, collaborate with each other.

Toward the end of the field work phase, some of the earlier respondents were phoned to obtain further information and to confirm specific facts that required verification.

Chapter 4

Information Gathered During Previous Studies on Business Development Services in Palestine

4. Information Gathered During Previous Studies on BDS in Palestine

A number of detailed studies have been undertaken on BDS in Palestine during the last five to six years, and the information they contain provides useful details on the demand and supply of business services. These studies also provide detailed information on the requirement for business services by different types of SMEs, the perceived and actual need for services by SMEs, the problems created by the nature and character of small family enterprises in the West Bank and Gaza, and the fact that a great many of these local enterprises are not growth orientated. This section describes the background to these studies, and then under various topic areas presents relevant findings extracted from the results of individual studies.

The studies selected for review fully complement the information collected in the very rapid study done for this 2011 effort on behalf of FNMD. Comments made about the difficulty created by the attitude and behaviour of SMEs have been inserted as quotes - they were made by the people conducting and managing the surveys, and all of them were resident Palestinians with a cultural understanding of the local business environment.

4.1 Background on the Selected Studies

The studies included in this review are:

The SEC BDS Demand Study - 2005¹⁴

The SEC is a Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)-funded project that both delivered and facilitated the provision of BDS for MSMEs in Palestine (the majority of their clients are in the West Bank). This survey involved 242 enterprises that had worked with the SEC and had received training and support (it is not, therefore, a random sample allowing extrapolation, but it does have aspects that are particularly interesting). The study was based on the actual performance of MSME clients during a two to three-year period and it examined the changes in their demand for business services over time and during their different stages of development. The SEC also focused on business start-ups (BSUs), and this group of enterprises represented 23 percent of total participants. Because BSUs are accepted as having a high risk of failure, they would not normally be included in matching grants.

¹⁴ This study was undertaken in September 2005 by SEC. It is titled *Demand, Needs of Micro and Small Enterprises for BDS in Palestine and Impact of SEC Activities*.

The SEC Gaza Study - 2006¹⁵

Although this GIZ-funded study was undertaken in the Gaza Strip, it was conducted before the 2008 invasion and contains some useful information on the service demand of SMEs because it was performed in a sound and coherent way with a statistically representative sample of 529 enterprises.

The Palestine Economic Policy Research Institute (MAS) Survey on BDS - 2007¹⁶

This study was specifically designed to describe and analyse the BDS market in Palestine, and focuses on factors affecting supply and demand. It reviewed lessons learned in international experience, and includes a comprehensive literature review of best practices in BDS market development. It also specifically examined the status and experiences of the market for BDS in neighbouring Arab states (Jordan, Syria, Lebanon, and Egypt). The survey work comprises detailed questionnaire-based interviews with 493 SMEs (69 percent in the West Bank and 31 percent in Gaza) and 40 BDS providers, which includes Chambers of Commerce, civil society institutions, private companies, and independent consultants and advisors.

The Federation of Palestinian Chambers of Commerce, Industry, and Agriculture Survey of Business Services Needs - 2010¹⁷

This survey is possibly the most comprehensive, representative, and recent information on SME needs for business services, and the data has been extensively studied by the DAI team in order to extract information on SMEs in the West Bank and to examine the interaction of demand for business services among different enterprises in a variety of sectors and in different size categories. This survey was based on a large, stratified, and randomly selected sample from the membership lists (active and inactive) of the Chambers. This database is reasonably unbiased because of the extremely wide SME membership in the Chambers, driven by the role this plays in obtaining Israeli travel permits. The survey included 2,850 respondents (2,200 in the West Bank).

4.2 The Size of MSMEs Populating the Business Environment in Palestine

The 2005 SEC study (based on a sample of their clients) found that the breakdown of enterprises in size categories (excluding start-ups) is:

- Self-employed (basically individuals) - 19 percent.
- Micro enterprises (2 to 4 employees) - 56 percent.
- Small enterprises (5 to 9 employees) - 18 percent.
- Medium enterprises (10 to 25 employees) - 7 percent.

¹⁵ This study was undertaken by Fahmi N. Abu-Shaabani in Nov 2006, titled *Demands of Micro and Small Enterprises for BDS in Gaza Governorates*.

¹⁶ This study, titled *The Market for BDS in the Palestinian Territory (Analysis of Supply and Demand)*, was carried out in November 2006 by Dr Basim Makhool and Youssef Odwan for MAS.

¹⁷ This recent study, undertaken in August 2011 by Dr Basim Makhool, is titled *Firms' Needs of BDS and the Potential Role of the Chambers of Commerce, Industry, and Agriculture in the Palestinian Territories: A Survey Based Assessment*.

This sample indicates that 93 percent of SEC clients - those seeking assistance from the programme - had less than 10 employees.

The 2006 MAS study actually did a detailed review of the latest available information for the whole territory, making use of the PCBS General Census of Economic Enterprises, undertaken in 2004 and published in the survey's main results (July 2005).

Table 2: Breakdown of Palestinian Enterprises by Number of Employees (PCBS - 2004)

Number of Employees	0 – 4	5 - 9	10 – 19	20 - 49	50 – 99	100 plus	Total
Number	88,489	6,059	1,826	682	138	85	97,279
As % of Total	91%	6%	1.9%	0.7%	0.1%	0.09%	100%

The figures clearly show that the vast majority of enterprises in Palestine are not only SMEs, but also have less than four employees (they would normally be classified as micro enterprises). The SEC figures given above also indicate that a sizeable proportion of the enterprises seeking assistance are actually self-employed (19 percent) - highly likely that it is an individual working on his or her own, or with family members.

The very large CCI survey of MSMEs found that 71.2 percent of all the enterprises in West Bank and Gaza have between 1 and 5 employees, 18.5 percent have between 6 and 10 employees, and only 10.3 percent in the sample have more than 10 employees. Since these were members of the CCI and formally registered, it is logical that they would have provided a sample with larger firms.

The overall size of Palestinian business sector is also revealed in the PCBS census data (not a sample) given above. There were only some 220 companies in the entire OPT with more than 50 employees - in any normal international business analysis most of these would only be considered medium-sized companies.¹⁸

4.3 The Characteristics of Palestinian MSMEs and Their Management

The MAS study reviews other PCBS figures that indicate the vast majority of enterprises and entities in Palestine are part of the private sector (91 percent). Governmental enterprises constituted 5 percent, civil society's share is 2.6 percent, and others (1.4 percent) are divided among local authorities, the UN, and other international organisations.

The survey results indicate an “immature” commercial/industrial sector, especially in terms of a modern economy: 94 percent of all enterprises in the PCBS census were individual enterprises, neither related to another enterprise/branch nor a branch of a controlling enterprise; 2.2 percent of total enterprises were a main centre of at least one branch or a number of branches; and 3.9

¹⁸ The MAS study classifies enterprises with more than 10 employees as a medium enterprise.

percent of the enterprises covered by the census were branches of another enterprise.

In general, Palestinian enterprises are family owned. In the MAS survey sample the percentage of enterprises directly managed by their owners was 87.6 percent. As expected, larger companies are more likely to have hired managers because they have sufficient resources to employ one. Most enterprise managers (both owners and hired managers) are males - 93.6 percent, compared to only 6.4 percent female - but, women do represent 20 percent of all hired managers.

Ownership and management of enterprise are more likely to be linked as the manager's age advances. Where managers are over 40 - 92.4 percent of them are also owners of the enterprise and where they are over 50 years old - 95.6 percent are also the owner of the company. This is to be expected given the family character of Palestinian enterprises, their inheritance from fathers and their continuation in the family. Further evidence is that owner managers tend to stay at the helm of the business for an extended period in that 94.1 percent of them in the MAS survey had more than 10 years of experience as the manager of the existing enterprise. The fact that a large number of current enterprise managers come from a series of Palestinian generations who were in the school-going generation when the Israelis invaded and started their occupation back in 1967, has resulted in them being deprived of educational opportunities. This has resulted in a situation when the MAS survey finds that only 26 percent of owner managers have a bachelor's degree or higher and a further 12 percent have diploma-level education. Fully 62 percent of the sample only have basically secondary education or lower.

Consequences

The high incidence of family ownership with strong (and increasingly aged) patriarch management excludes new ideas and also stifles innovation by younger and better-trained family members. This natural conservatism also makes many of the MSMEs very risk adverse. This lack of managerial dynamism is noted in a number of the studies and one of the consequences is that this significantly reduces both the appreciation of the need for business services and a reluctance to purchase them.

Managerial weakness has been identified as a key factor in small business failure while, at the other end, the success of MSMEs largely hinges on management's competencies and performance (page 5 SEC study 2006).

Despite the importance and demand for staff training at both managerial and vocational levels, it remains though some MSME managers are reluctant to engage in training. A number of reasons could explain such hostility. A large population of all MSMEs is family businesses with some of them even being inherited from the previous generation. The fear of losing skilled labour explains such reluctance. Some other managers perceive training as a sign of weakness and deficiency (page 7 SEC Gaza study 2006).

The lack of perception of the needs for improved strategic planning on the part of enterprise managers is reflected in this comment:

Following the experience of the Centre, MSMEs, by their very nature, tend to be primarily preoccupied by immediate day-to-day requirements of running their businesses. This directly leads to an unawareness or neglect of strategic development needs such as supply chain management, networking, clustering, innovation, etc. (page 11 SEC study).

4.4 Business Services Required by MSMEs in Palestine

Many of the organisations involved in BDS and business service provision use a standard definition of potential services. Those used by the SEC are representative of most general classifications and these are detailed below and, as is normally the case in Palestine, they are divided into the main categories of training, consulting, and information.

<p>Training</p> <ul style="list-style-type: none"> • Vocational • Management skills • Language skills • Computer skills • Financial management • Production management • Marketing <p>Finance</p> <ul style="list-style-type: none"> • Loans¹⁹ 	<p>Consulting</p> <ul style="list-style-type: none"> • Diagnostic studies • Coaching • Special consultations <p>Information</p> <ul style="list-style-type: none"> • Machines and products • Skilled labour • Raw materials • Exhibitions • Credit information • General
---	---

The SEC study analysed the demand for services in detail in their report by both size category and enterprise type - the most salient factors:

- The demand from the full sample indicates that the average number of services demanded is 2.18 per enterprise.²⁰
- The demand for BDS increases proportionately with size. With lowest demand from start-ups and the self-employed and major demand for a diverse range of services from SMEs.
- The services demanded vary by the stage of development of the enterprises:
 - BSUs and the self-employed focus on vocational training and information on credit and financial institutions.
 - Enterprises that have been in business some time now realise that the most important services are in management skills (training and consulting).
- Micro enterprises have specific service demands:
 - They would like to upgrade their machines.
 - They would like to visit exhibitions to update their knowledge.

¹⁹ Although many BDS do not offer any credit, they do facilitate contact and application to suitable financial institutions.

²⁰ The relatively high demand for services noted in the SEC study is a result of the respondents being clients who had approached the Centre for assistance.

- They need to adapt to market needs, effectively determine what these needs are, and expand their client base in order to grow.
- This gives them a service demand profile that is half information, 25 percent training, and 25 percent consulting.
- Their major service demand remains how to obtain credit and financial support.
- Small enterprises service demand tends to focus on marketing and diagnostic studies. Their priority areas include:
 - Acquiring basic management skills.
 - Selling product by improving sales techniques.
 - Improving promotional activities.
 - Doing proper costing and improving pricing strategy.
- The more established small enterprises and most of the medium enterprises indicate that they would like training and consultancy support in the area of human resources.

The procedures used by SEC with their MSME clients starts with a full and detailed assessment of the services wanted. This gives them the ability to assess the perceived demand for services. This enabled the SEC to undertake an interesting bit of research. In working with their clients, they carry out intensive one-on-one counseling and mentoring - they used this to determine what services were really essential to the development of their clients' businesses, following a detailed needs assessment of the enterprises. They deem these services to be the agreed/identified needs. This study showed that the services initially demanded by the MSMEs differ considerably from those finally determined to be critical.

This research showed how the need for each service changed and how this varied among the different categories of enterprise. Common features are highlighted below:

- The agreed number of services needed increased from 2.18 to 3.2 identified services per enterprise.
- The bigger the enterprise (in terms of employment) the larger the number of agreed services required.
- The ranking of the requirement for the main BDS category changed from:

Topic	Before	After
Training	49%	53%
Consulting	18%	30%
Information	34%	17%

- All groups changed their service requirement, after consultation, to reflect an increased understanding that they needed more training and detailed consulting in management issues.
- A general trend was that most enterprises found on reflection that the services they thought they needed were basically immediate, not thought out and often influenced by a personal requirement (the owner needing training)

rather than a business one. Being more analytical the finally agreed services were broader and more strategic - better suited to achieving growth.

This research finding indicates that even a small amount of counseling makes enterprise owners realise that what they thought they needed, was not what they required. This has major consequences for programs offering support in the acquisition of business services.²¹ The assumption that enterprises, given a choice, would select the service they most need - may be incorrect.

This issue is well summed up in the following comment:

Most entrepreneurs addressed the Centre vested with only very vague understandings of the needs they actually had. Few of these entrepreneurs were prepared to pinpoint these needs. Fewer had even rudimentary ideas about the skills and techniques that would have to be acquired before solving them. As a result, at times it proved difficult to convert the interests of entrepreneurs into meaningful forward planning. The Centre considers this conversion as a precondition to identify those needs which, in a further step, might actually serve the individual entrepreneur to further his/her businesses (page 11 SEC study).

The other SEC study in Gaza found that the most demanded services were:

- Marketing.
- Financial and accounting.
- Laws and regulations.
- Management.
- Production.
- Information technology.

The study also assessed the preferred method of delivery that was (in order) consultation, provision of information, and training.

The most demanded individual business services were:

- Retaining customers.
- Acquiring new customers.
- Opening new markets for MSME products and services.
- Acquiring new technologies and know-how.
- Costing.
- Market competition and analysis.
- Financial facilitation.

In the MAS study, the most demanded services were:

- Accounting.

²¹ For example, the FNMD programme made a decision to try and not influence the choice of required services from enterprises applying for matching grants. The reasoning being that if enterprises were given a "free and open" choice their selection would be more demand led and less supply driven.

- Marketing.
- Promotion.
- Finance.
- Administration.
- Legal counseling.
- Production and technical issues.
- Human capital development.

It is also interesting to note, after discussions earlier in this section, that the least-demanded service was for development of management.

The CCI survey first asked each respondent firm what their major and minor problems were and then carried out a detailed analysis of the respondents' requirements for business services. Table 3 provides an indicative guide of the main concerns facing MSMEs in the West Bank by adding together the two categories.

Table 3: List of Problems Facing MSMEs

Rank	Problem	Composite score
1	Tax issues	71%
2	Commercial/trade law and customs	70%
3=	International markets	67%
3=	Arab markets	67%
3=	Constant changes in the law and legal requirements	67%
6	Standards and specifications	61%
7	Domestic markets	60%
8=	Access to technology	57%
8=	Licensing	57%
8=	Acquisition of land	57%
11	Banking services and access to loans	54%
12	Information on visiting trade missions and fairs, exhibits at shows (local and regional)	53%
13=	Access to industrial zones	49%
13=	Suppliers/importers	49%
15=	Wages	46%
15=	Obtaining legal services in the field of labour law	46%
17	Availability of skilled labour	45%

Note: This list of major and minor problems was partially used to help determine potential Business Services for further detailed study.

This CCI survey also determined the demand for business services under the three categories normally used. **Training** in the subject, **consulting** on the problems and the potential solutions, and provision of **information** on the subject (and potential solutions). The questionnaire asked each respondent to state the need for business services on a list of common services. It also asked where there was no need for support. Basically, it was these latter questions that received the biggest responses, demonstrating the low regard that business services, in all forms, are held and possibly is a reflection that most enterprises doubt the ability of local BSPs to be able to solve their problems. For example, despite perceived problems in tax issues, banking services, and access to credit (highlighted in Table 3), 46 percent of respondents in the West

Bank reported that there was no need for any form of support (training, consultancy, or information) in financial management. As noted in the MAS study, the low potential for business services to advise and develop companies in the area of management is reflected in the results - 55.3 percent of all respondents answered “yes” to the statement “There is no need for any management training.”

In selected fields, the following specific needs for key business services were identified:

- The high proportion of commercial enterprises (especially retail shops and supermarkets) in the sample is reflected in the fact that the most “needed” business service (62 percent responding positively) is for training in retail and wholesale trade.
- In the West Bank, 51 percent of those in the agricultural sector reported a need for both training and consultancy in financial management, and 46 percent indicated a need for information on the subject. This may relate to market opportunities from improved productivity and the need to access loans and other financial services to achieve the required investments.
- Fifty-two percent of construction contractors specified a need for consultancy in financial services, possibly due to the current difficulty facing smaller contractors with the increasing size of local contracts.
- Moderate demand for assistance and training in marketing was noted in commercial firms in the West Bank who expressed a need for consultancy in the preparation of marketing plans (64.8 percent).
- Agricultural and industrial enterprises had a moderate demand for training in marketing - 38 percent and 37 percent respectively reporting a need.

The CCI survey also covered a number of production planning operations, including a number of sub-topics (such as obtaining supplies, quality control, inventory management, waste management, occupational and health safety, maintenance, environmental issues, productivity enhancement, and management training in process control) . The total demand in the whole data base is low (23 percent) because of the high proportion of commercial enterprises which, apart from inventory control, do not need most of the topics. However, in some sectors there is reasonable demand and even higher demand levels if only the larger companies are included.

- Agricultural (40 percent) and industrial companies (32 percent) have a need for training in productivity improvement services.
- Agriculture (29 percent), industry (30 percent), and construction/subcontracting (36 percent) all have an elevated need for consultancy services in production planning.
- Agriculture also recorded a high demand for information in production services (44 percent).

Unfortunately, the most significant aspect of the CCI survey is the extremely low demand for business services in areas where it was assumed there would be a significant need. These include:

- It is acknowledged that a major problem for MSMEs in the West Bank is their inability to collect outstanding debts. Many SMEs are known to regularly give unsecured credit in their community, and often experience severe cash flow constraints because of this practice. It is therefore hard to explain why 75 percent of all respondents report no need for training or consultancy services in the management, collection, and rescheduling of these debts.
- Despite numerous examples where marketing is seen as a problem, between 71 and 75 percent of survey respondents said they did not need training, consultancy, or information on marketing plans.
- After nominating export performance as both a major and minor problem, most responded that they did not need consultancy (78 percent) or training (79 percent) in exports.
- The same lack of interest is noted in training for promotional plans to help sell products (77 percent report no demand) and 74 percent report they do not require any advice on promotion.
- Human resource development is an essential element in the sustainable development of an enterprise, but 77.9 percent reported no need for any kind of training in human resources and 81.1 percent reported that they have no need for advisory services in human resources.

This illustrates the disconnect between real business problems and a belief that these problems can be solved by outside help and advice provided by a BSP.

4.5 The Low Commitment to Growth by MSMEs in the OPT: A Contributing Factor in the Market for Business Services?

The main report of the very large and comprehensive survey undertaken for CCI in 2010 makes an extremely significant statement attributable to the owners of the enterprises surveyed:

When they were asked about future plans and expectations...most (were) focusing on maintaining the current situation and adapting to existing local, regional, and international developments and circumstances. About 49.1 percent of the entrepreneurs wanted to continue their work at the same current volume while about 30 percent wanted to expand their business (page 4 Palestine Federation of Chambers of Commerce, Industry, and Agriculture Report, August 2010).

The data revealed that maintaining their enterprises at current volume was a common objective in both parts of the OPT, with 49.4 percent of those in the West Bank reporting this as their medium-term strategy. Only 30.1 percent hoped to expand, and only about one-quarter of this group were anticipating or planning major expansion (8.4 percent of the total sample). The ongoing problem of doing business in the current climate in the OPT is reflected in the level of respondents either expecting to shutdown (3.4 percent) or facing a possible reduction in business (8.7 percent). Therefore, 12.1 percent of the larger firms have a negative vision of the immediate future, more than those with a commitment to expansion at a level that might require the assistance of BSPs. This could, in itself, significantly limit the demand for business services.

Further analysis of this survey data revealed that:

- There was a lack of commitment to growth in the commerce/trade sector where 52.2 percent aim for continuity and only 27 percent plan some form of growth.
- The sectors with the biggest commitment to some form of expansion are handicrafts (48.1 percent), manufacturing (43.5 percent), services (41.6 percent), and construction (38.6 percent).
- The least optimistic sector is agriculture with only 16.5 percent expecting any expansion, while 23.9 percent anticipated some form of reduction. The continued uncertainty of the agriculture sector is further reflected in the fact that 16.4 percent did not know how they would be placed in the future. The poor, and at times unreliable, rainfall in Palestine means that continued growth of high-value agriculture and related agribusiness is totally dependent on irrigation water - and access to water is the one area of Palestinian development still totally in the control of the State of Israel.²²

The other factor thought to contribute to the low or no-growth scenario noted in the survey was firm size. This was examined for the different size categories determined by number of employees and the reported level of monthly turnover.

Table 4: Percentage of Firms in Each Sector Expecting Expansion, No Change, or Reduction in Level of Business Against Number of Employees

Number of Employees	Sector	Planned Expansion	No Change	Expect Reduction	Possible Shut Down	Do not Know	Total
1 to 5	Commercial	25.6%	52.9%	9.2%	3.6%	8.7%	100%
	Manufacturing	23.0%	58.2%	8.2%	7.4%	3.3%	100%
	Agriculture	14.3%	45.7%	14.3%		25.7%	100%
	Services	34.1%	46.2%	7.6%	4.5%	7.6%	100%
	Construction	17.2%	58.8%	17.2%		6.9%	100%
	Handicrafts	46.5%	35.2%	11.2%	5.6%	1.4%	100%
	TOTAL		26.6%	51.9%	9.3%	3.9%	8.2%
6 to 10	Commercial	39.1%	47.4%	4.5%	0.8%	8.3%	100%
	Manufacturing	33.0%	53.9%	7.7%	3.3%	2.2%	100%
	Agriculture	13.6%	45.5%	31.8%		9.1%	100%
	Services	45.7%	34.8%	6.5%	2.2%	10.9%	100%
	Construction	39.1%	39.1%	13.0%		8.7%	100%
	Handicrafts	50.0%	33.3%	16.7%			100%
	TOTAL		36.8%	46.4%	8.4%	1.6%	6.9%
More than 10	Commercial	35.0%	42.5%	7.5%	10.0%	5.0%	100%
	Manufacturing	50.0%	31.9%	9.7%		8.3%	100%
	Agriculture	30.0%	30.0%	40.0%			100%
	Services	62.9%	20.0%	5.7%		11.4%	100%
	Construction	58.1%	35.5%	3.2%	3.2%		100%
	Handicrafts	100%					100%
	TOTAL		50.0%	32.1%	8.9%	2.8%	6.3%

The details presented in Table 4 illustrate that:

²² The issue of unfair and chronically biased distribution of water rights is a reoccurring theme in the OPT and remains an ongoing contributor to political tension.

- The smaller enterprises, with 1 to 5 employees, are more inclined toward a no-change scenario (51.9 percent) with a low commitment to growth (26.2 percent).
- In firms with 6 to 10 employees there is a lower proportion planning to maintain their status quo (46.4 percent) and more are committed to expansion (36.8 percent).
- For larger firms (more than 10 employees) slightly less than one-third only want to maintain their current output and fully 50 percent are committed to growth.

Given the data presented in Section 4.2 on the size of enterprises in the West Bank and Gaza, it is clear that the size of companies itself will limit the commitment to growth and consequently the need/demand for business services. Equally, it could be argued that any assistance programmes should be targeted at these “larger” firms as clearly it is only here that there is sufficient commitment to growth and the potential of an active (but small) market for business services.

The data for each sector under each category of employee also contains some interesting variation. In the 1 to 5 employee category:

- Handicrafts has the largest commitment to expansion, a possible reflection of the increase in tourist visitors and the overall growth of the sector that has occurred during the last few years.
- Small construction firms have the lowest level of planned expansion and the highest expectation of experiencing a reduction in business volume (again a reflection of real economic trends highlighted by respondents in the sector). The sector is changing as more large investment construction projects come on stream - these projects demand larger firms, and many of the smaller building contractors are being forced to revise their strategies - some amalgamating and others buying out their smaller competitors.
- The response from small agricultural enterprises indicates the uncertainty facing the sector with the lowest level of planned expansion and almost 26 percent reporting that they “do not know” about possible trends.

The uncertainty in agriculture is also reflected in the 6 to 10 employee category where the sector again has the lowest expectation of growth (13.6 percent) and the high expectation that they will experience a reduced level of business (31.8 percent). Growth in agriculture is further constrained by a reported lack of credit for investment and expansion of small farm-based enterprises.

The sectors that have the highest acceptance that growth is difficult are manufacturing (53.9 percent) and commerce (47.4 percent). Results that are supported by macroeconomic data.²³

The services sector is strongly committed to growth with 45.7 percent of enterprises planning expansion in the 6 to 10 employee category and 62.9

²³ Manufacturing sector has experienced contraction due to falling regional competitiveness. The commercial sector is constrained by the ongoing international financial crisis, which results in lower remittances from the Palestinian diaspora both overseas and in the Gulf countries

percent of those in the more than 10 employees category. There are many economists who argue that given Palestine's well-educated, bilingual population - many with regional and international work experience - there is a good potential that the service sector (especially banking, insurance, software development, and ICT) will make a major contribution to economic growth. The service sector makes a significant contribution to the total number of enterprises in the 30.1 percent portion of the survey committed to growth, and as such should be targeted in any project to develop the business services market. It is for this reason that business services to assist MSMEs to access finance have been selected for more detailed study (see Section 7).

The analysis of commitment to growth by the various size categories of enterprises based on income gives results similar to the previous analysis based on number of employees. Bigger companies with higher income are more committed to growth.

This analysis of enterprise turnover in the West Bank reveals one of the other problems facing the development of an effective business services market. Generally, monthly turnover is low and this possibly leaves very little discretionary expenditure to purchase relevant business services.²⁴

More than 70 percent of the firms in the West Bank have a total monthly turnover below NIS 50,000 (\$15,200), 17.8 percent between NIS 50 and 100,000 (up to \$30,400 per month) and only 2 percent of companies in the survey (33 enterprises in total) have income in excess of \$152,000.²⁵

4.6 Poor Performance by BSPs in Delivery and Marketing

The SEC has for many years intentionally supported BDS providers via technical and management training. However, their 2005 BDS demand study indicates that the capacity of BDS providers fell far short of where they could make an effective contribution to MSME development.

As part of the research, SEC followed up on clients who had, after extensive and detailed counselling, agreed to obtain specific business services from outsourced providers in the areas of:

- Financial management.
- Production management.
- Marketing services and studies.

The results indicated that most of these recommendations for additional BDS had not been implemented. The reasons given were often that:

- The training and consulting services from local BDS providers was very poor (lacked capacity).

²⁴ Many respondents report that local BSPs demand inflated fees and charges, and many insist that this is a result of price distortion caused by excessive donor involvement.

²⁵ The top end of the income scale were not randomly selected, but target-picked from the largest companies registered with the Federated Chambers to represent a quota of the group of largest members (which are disproportionately high given the distribution of small members, but represent a key target in the development of financial sustainability for the CCI).

- The training times were inconvenient for them because it clashed with their opening hours (inappropriate training times).
- Enterprise owners were too busy to spend the length of time the BDS providers expected (training sessions poorly planned - too long).

All these comments indicate that the BDS providers in the OPT were very poor in adapting to the market demands and were totally failing to adjust their service delivery to the needs of their clients. This, the SEC concluded, indicated that there was a considerable distance to go before local BSPs would be able to provide the required level of services. As a consequence, SEC introduced a coaching opportunity for enterprises needing these specialised interventions. This was normally successful because it is often provided by a senior person with experience who can specifically tailor the advice to the situation. Unfortunately, it is an expensive option.

The MAS study which interviewed enterprises that had previously used BDS found that there was general satisfaction with the way the services met the needs of the enterprise, and with the degree of benefit the enterprise derived from them. The degree of satisfaction decreased with regard to the remaining criteria that included:

- The availability of the BDS when needed (criticism about the timing of service delivery). For example, 34 percent of enterprises surveyed thought that the timing of training was inconvenient, and 36 percent believed that the duration of training was too long, and interfered with work.
- The location of the service (concern that many of the BDS providers are concentrated in the main urban areas like Ramallah).
- Unsatisfactory procedures to obtain the service (complaints about locating service providers and not knowing that certain services were available).

It is telling to quote one of the findings from the MAS Study:

The weakest aspect was a perceived dependence on old data and out-of-date information, which they believe all Palestinian BDS providers rely on and repeat regardless of the specific nature of the consultation. In addition, enterprises benefiting from consulting complain that the presentation of conclusions lacks in-depth analysis, and concentrates merely on the presentation of “dumb figures” (page 22 MAS study).

The SEC study in Gaza noted:

On average, more than three-fourths of all respondents have not received any previous BDS, while the remaining respondents have received BDS once or more.²⁶ A number of reasons could be attributed to this finding, including MSMEs’ unawareness of BDS providers and services offering due to lack of advertising of BDS themselves... (page 20 SEC Gaza study 2006).

²⁶ Almost two-thirds of those reporting previous use of BDS (63 percent) stated that it had been in the field of accountancy.

Service providers in the OPT are poor at marketing themselves; they do not advertise. Often the services they provide are not well-delivered. In many cases, their technical knowledge is either out of date or not in line with current international best practice. A large proportion of service providers are not part of consultancy companies, but are freelancers, many of whom are employed by existing PA departments, international donors/organisations, or local and international NGOs.²⁷ This phenomenon is indicative of a small market with extremely variable demand. The big variation in demand across the year is not driven by cyclic variations in the economy nor by any sudden shifts in demand for services because of new market opportunities, but by the spending pattern and activity focus of donor-funded initiatives either directly or through targeted support given to the PA.

4.7 MSMEs' Reluctance to Pay for Business Services

All the studies noted that a major effect on the market for business services was the reluctance of MSMEs to pay the fees and service charges anticipated by the BSPs.

The most comprehensive research on how willing enterprises were to pay for business services was conducted in the 2010 CCI study, but this focused exclusively on the services offered by the various Chambers of Commerce (see Table 5).

Table 5: Willingness of Firms in the West Bank to Pay for BDS from Chambers of Commerce

Category	Response
Willing to pay for BDS if the Chamber improves the quality of the services they offer	35.2%
Willing to sometimes cover the cost of the services they may receive from the Chamber	28.0%
Not willing to pay for any services that might be delivered by the Chamber	36.8%
TOTAL	100%

The results are not very encouraging in terms of sustainability of training, consulting, and information provision services by the Federated Chambers of Commerce and Industry. More than one-third (37 percent) of potential clients are not prepared to pay for services, and only 28 percent are prepared to pay “sometimes.”

In the past, services provided by the Chambers were often partially subsidised by various donor programmes - especially in terms of the design and production of the training and advisory products, many of which were produced during attachment of international technical assistance (TA). Given the significant investment in building up capacity to deliver improved services, it is of concern that only one-third of potential customers are prepared to pay if these services were further improved.

²⁷ The fact that these independent BSPs and consultants in making use of their employees' facilities to carry out their temporary service provision means they incur no overhead costs like rent and equipment maintenance. Equally, because they are often not formally registered, they pay no tax. All the formal consultancy companies brought this up as an example of unfair competition and provided examples where competitive bidding procedures gives this group an advantage in how they can cost a proposal.

Chapter 5

Telephone Survey of BSPs

5. Telephone Survey of BSPs

A telephone survey of BSPs was undertaken as part of the field work phase of this study. The base for this survey was the original list prepared by FNMD at the start of the programme and additions that were added to this internal data base as various BSPs contacted the programme about the possibility of being included.

Using the same assumptions as an often quoted study of BDS service providers undertaken in South Africa in 2008, the survey was also used to access the availability/contactability/approachability of the BSPs. The earlier study assumed that because most MSME clients seeking assistance would make initial contact via a telephone call, the response to telephone queries requesting information on the services offered by the BSP would partially reflect the difficulties experienced by an MSME about to use a BSP, but basically not being sure of what they required. Accordingly, the local researcher undertaking the telephone survey initially tried to use the call to gauge the response of the BSP to a call from an MSME seeking information. The details of the method used are and the questions asked are in Annex 3.

The full results of the survey are presented in Annex 3. The basic aspects and significant findings of the survey are highlighted below:

- Fifty contacts on the FNMD BSP list were recorded as being operational in the West Bank. The survey found that three of the telephone numbers were disconnected and no longer in service; and seven, despite numerous and repeated phone calls, did not answer the phone number provided. This means that in this sample one-fifth or 20 percent could not be contacted.
- One of those contacted was actually operating in Gaza. Eventually, 39 were contacted, 1 was no longer in business and 5 of these refused to be interviewed.
- Nineteen percent of respondents to the survey offered a single business service (ICT and software support, market research, advertising, and promotion and public relations); 42 percent offered training plus another service such as production of business and strategic plans.
- Most of the BSPs were small enterprises - one-third with fewer than 5 employees and half with between 6 and 20 employees. Most report extensive use of short-term/temporary staff - an indication of a variable demand for services and a need for providers to have a flexible and easily expandable workforce in the event of a large workload.
- The number of contracts BSPs have in a year also basically indicate the thin market for services: 17 percent report less than 10 contracts, 52 percent less than 25 (one every two weeks), and 75 percent report less than 48 contracts (just under one a week).

- Many of the responding BSPs source their contracts from the private sector. More than one-half getting less than 50 percent of their business. But, there is still a strong dependency on donor funding for overall business: one-third reported that at least 50 percent of their business was sourced from the donor community.
- As already noted in the previous studies reviewed in Section 4 - BSPs are poor at advertising or self-promoting their services. Two-thirds reported that they mainly rely on personal relationships for promotion, and more than a quarter reported that they spend nothing on promotion or advertising.

All the factors reviewed in this survey indicated a less than dynamic market for business services, and a major portion of BSPs are not actively pursuing market potential.

Chapter 6

The Service Market for Certification and Standards

6. The Service Market for Certification and Standards

6.1 Structure of the Market

The actual certification of all the various standards rests with internationally accredited CBs: there is no such body in Palestine. In fact, apart from Halaal certification, there are no recognised CBs in all of the Middle East. In the absence of a local CB, this function is provided by an agent who works on behalf of the CB, and is generally subject to very strict control and supervision by the CB in order to protect its professional reputation. CBs or their agents provide audit and certification services and are also allowed to engage in the provision of public training courses on the various standards. The CBs and their agents are not allowed to engage in:

- Direct consultancy services to companies seeking certification.
- Provision of TA to a company in the establishment of a QMS.
- In-house training for company staff in the implementation of a QMS.

If at any point they are going to audit that company or the QMS, this is considered to represent a “conflict of interest.” This separation of function is similar to the system used in education where there is separation between Examination Boards and the teaching profession - between those assessing performance against an externally accepted standard and those developing their students to “pass” the standard (the exam).

The agent may consult on the general needs for certifications and standards and may run awareness and training courses for the public on the standard or standards, but cannot, if it is to avoid “conflict of interest,” advise or train anyone who it will later audit for issuance of a certificate in a standard for which it serves as an agent of an external CB.

This requirement for “separation” then automatically creates a need for consultancy and training companies offering:

- A wide range of advisory services (general need for certification, which certification product to aim for).
- Direct consultancy services on the establishment of a QMS.
- Training for staff and management in system control.
- Pre-audit inspections.

The service providers at this level are also meant to maintain a level of “professional separation.” For example, it would be considered “good practice” to advise the company receiving TA to get another service provider to review the QMS developed before it is subjected to formal audit by the CB or its agent,

or to have another qualified consultant either participate on the pre-audit or carry out a separate, final pre-audit of the company before the certification audit.

The remaining, and very important, element in the structure of the certification and standards market, especially in a small country like Palestine, is:

- Individual consultants working directly for companies - assisting in QMS design and establishment, carrying out direct in-house training and helping company staff adjust and improve the various processes and product flows in the factory, manufacturing facility, or packing shed. Often, this level of technical skill is required for a medium to long term, as full implementation of a new and competent QMS and its continued use, maintenance, and adaptation can be a long process.
- For companies requiring constant attention to standards (for example, the pharmaceutical industry or export horticulture concentrating on the European supermarket industry) quality control can only be achieved by having an internal Quality Assurance Manager/Department. This means that, in the long term, as Palestinian industry and agribusiness becomes more export orientated and quality standards conscious an increasing number of people either qualified or trained in quality assurance and use of QMSs will be required.

The structure of the industry in Palestine includes:

[A Single Agency for International CBs - MAK International](#)

This company has a strong regional presence; it has a regional office in Israel (under which its Palestine operation falls), but also has other regional offices in Egypt, Jordan, and Dubai. MAK is an agent for a number of international CBs in order to supply the full range of standards required by enterprises in Palestine and the region, including:

Lloyds Quality Assurance

This CB covers the complete ISO standards. The most common being:

- ISO 9000/9001 - General process/management systems code.
- ISO 14,000 - Environmental.
- ISO 18,000 - Occupational health and safety.
- ISO 22,000 - Food safety standards.
- ISO 27,000 - Newly introduced information security standard.

Lloyds is also the CB for a large range of non-ISO products such as the Ethical Trading Initiative (ETI) - a certification system that provides assurance that the product is produced exclusively by smallholders (not by large multinationals) and that the producers are effectively involved in the control of that production chain, or at least are assured of an open and transparent payment system, which ensures that they receive a fair financial reward for their product.

Control Union of the Netherlands

This CB concentrates largely on the various standards required by the demanding European food wholesale and retail market - largely driven by the requirements of the giant supermarket chains that have such a dominant role in the provision of consumer goods.

- GlobalGAP (formerly EuroGAP) - GAP stands for the good agricultural practices that are required from producers. Many of the requirements of this standard are about pesticide residues, and are based on strict control of the type and method of application of chemicals; basic product handling procedures (regular handwashing and health checks on the workers); and the system by which the product is transported from the field to the point of packaging/shipment. The standard also covers land preparation, use of irrigation water, and disposal of waste, ensuring that production also protects the environment from erosion and pollution. The standard has also covered worker health and safety, and more recently, working conditions and compliance with international labour standards such as prevention of sexual harassment in the work place, establishment of worker committees, and inclusion of labour unions monitoring worker rights.
- BRC - This standard covers the management and food safety requirements of packaging, processing, and shipment of food and food products. Control Union also manages a number of European processing and handling standards.
- Organic - A variety of different standards, basically driven by the various target markets (for example, the British Soils Science Institute in the UK and FLO in the Netherlands).

Chartered Institute of Environmental Health

This CB provides certification for a number of hygiene standards:

- HACCP.
- Various control systems and standards for the catering and hospitality industry.

PSI

PSI is the authorised organisation through which all local standards and technical regulations are registered, administered, and monitored. The organisation is currently receiving considerable donor support because of the need to increase their capacity and get the organisation up to speed to play the role it is expected to perform under implementation of the WTO protocols.²⁸

Although still in its early stages of development, PSI has already shown to be a competent standards organisation, responding well to various donor-funded initiatives to improve its technical capacity and administration ability. Its achievements include:

- Establishment of a functioning National Committee on Technical Regulations. This inter-ministerial body has developed a rapidly increasing portfolio of Technical Regulations issued by PSI under the delegated

²⁸ Palestine has applied for and has been granted observer status at the WTO, and will no doubt apply for full membership once it is granted membership to the UN. This accession to the WTO requires the country to establish and register various national standards.

authority of the responsible ministry, and administered and monitored by that ministry. The rollout of national standards has progressed in the following manner: 2009 - 900; 2010 - 1,500, and 2011 - 2,000.

- They have approached the task in a systematic way, developing the Technical Regulations, and controlling systems of the laboratories needed for inspection and accreditation requirements for export and imports. Thirty-three labs have already been accredited and certified, and all the requirements for the building and construction industry (materials testing and certification) and the food, beverage, and much of the chemical industries are already in place. The system to officially monitor and certify calibration equipment such as weighing scales and other measurement devices and machines, etc., is already in place.
- PSI has already developed a Palestine Quality Mark and issued authority for more than 300 brands to use it.
- PSI has developed and successfully implemented a local standard for pharmaceutical companies - PAL GMP (Palestine Good Manufacturing Practices) all producers of medicines (both human and animal/vet products) require the certification in order to sell locally to the Ministry of Health and the vet service. It is a prerequisite for the export of any pharmaceutical to a neighbouring country. It is a respected standard and accepted as a valid standard by Jordan, Egypt, Tunisia, and Algeria.

Much additional work still needs to be done in Palestine in terms of making the imposition and management of international standards and the regulation surrounding them easier and cheaper to administer:

- Issuing national benchmarks on food safety issues that need to be based on relevant standard and practical hazard analysis. This includes identifying which soils require specific chemical tests because of potential salinity issues and separating these from standard soils that represent no hazard and therefore do not require individual (and expensive) chemical tests.
- Some products produced locally cannot be exported because the importation requirement in the destination economy requires safety tests that cannot be currently undertaken locally due to the lack of testing equipment. The costs of obtaining the required tests at labs outside the country is prohibitively expensive.
- PSI still lacks the capacity to monitor its Quality Mark and carry out market surveillance. The introduction of the Mark resulted in a significant increase in standards - so much so that it actually enhanced the reputation of PSI in the eyes of consumers. The organisation now suspects that some producers improved quality in order to obtain the Quality Mark as a marketing ploy (basically because their market rivals had obtained it) and are now being very slack on their quality control. In order to maintain the reputation of the Palestine Quality Mark, PSI needs to have the inspection capability to check that the products with the label remain compliant with the standard and remove products from the market where the quality has fallen below standard.

Local Service Providers in Consultancy on Standards, QMS Design/ Implementation and Training.

There are only about four to six companies providing business services on the implementation of standards and QMSs in a fully responsible and competent manner:

- One of these has specialised in the provision of training and capacity building to the health sector and is currently only operating in the implementation of a health provider system of improved management and recordkeeping based on ISO 9001 (a standard ISO 9000 system with specific tailor-made health provider orientation).
- Only two or three of the providers are fully competent in a wide range of standards, and these are regularly requested to provide consultancy and training to develop a QMS and to carry out pre-audits.
- One of the companies also involved in the sector has very little in-house QMS capacity, but considerable experience in management of the process. Therefore, it contracts and supervises either another company or independent consultants on behalf of its clients, who generally approach it to carry out an external market study or business plan involving expansion into new foreign markets, to carry out the required business services to prepare for certification, and then also contracts MAK International to carry out the certification required.

There are about five to eight other companies that claim to be able to deliver the business services required to prepare for and achieve certification. Many of these started up during the period when a U.S. Agency for International Development (USAID)-funded project flooded the market with heavily subsidised ISO 9000 and ISO 9001 certification for industrial and manufacturing enterprises. The survivors of this period have become a bit more professional and technically competent, but still over-sell their services and generally have very poor follow-up activities, meaning that many of their customers fail to retain their certification as they often give up on quality control the moment they encounter a problem. This is often caused by the certified companies' lack of understanding on the long-term benefits due to the phenomenon of over-selling that creates the belief of "instant benefits" in the market place. The more competent set of service providers (described in the section above) are generally in high demand from customers genuinely needing services and therefore more inclined to pay top prices. The sub-group described here is less in commercial demand and therefore prepared to work in the less lucrative NGO-funded market, which generally pays less than the major donors and top-flight private sector. A number of these providers also supply other business services not involved with certification - again an indication of the relatively thin commercial market. A couple of firms in this group were open in admitting that they only pursued certification-related work in donor-funded programmes and that the rates chargeable to these clients were significantly higher than they would ask from members of the public.²⁹

There are 10 to 15 local consultants who occasionally enter the market. Some of these "part-timers" are reasonably good in that they have either previously

²⁹ During interviews it was confirmed, by a couple of the more open BSPs suppliers, that the price distortion introduced by donors was on the order of 3.5 to 5 times what they would normally charge a local unsupported business.

worked for some of the more competent services providers or the CB agent, or are an existing senior employee in a PA Department or Organisation (like PSI) or work for an international NGO or bilateral programme, where they may have received the very costly official training in the standard. This group provides an essential stock of additional staffing when a number of certification exercises come up at the same time. The bigger and more competent BSPs explained that they cannot maintain a full-time staff because of the thin and unpredictable market and must rely on competent part-timers.

There are a large number of independent consultants (and some of the company-based BSPs) purporting to be fully competent in various standards. However, though they may have previously worked in the standard, they completely lack the practical experience and industrial process experience needed to adapt the standard to the specific conditions of the client enterprise. For example, a service provider whose only previous experience with GlobalGAP certification was a large, commercially run company using modern greenhouses with automatic control systems will not be able to effectively advise a rural cooperative with a number of scattered members, each with their own individual greenhouse and separate production plan, but controlled by a QMS formally accepted by the group.

6.2 Market Drivers

The **demand** drivers in the market for certification (and consequently, the need for associated business services of consultancy on certification in a particular market, QMS design/implementation, staff training, and pre-audit) are:

- Introduction of import regulations in the EU based on strictly applied health and safety standards for all food products. It is important to note that these standards are obligatory, not driven by the food safety demands of the supermarkets, require an official system of inspection and documentation in-country,³⁰ and are supported by a massive standing TA programme funded by the EU to assist countries to become compliant.
- Growing dominance of the international supermarket chains in most consumer markets with marketing strategies to create brand divergence based on guaranteed food safety and top-quality fresh product. This is a global trend and it has changed forever the market forces at play in the fresh fruit and vegetable market. For example, the presence of the French supermarket chain Carrefour in the Gulf countries means that regular sales of fresh produce to that high-end market will require exporters to be GlobalGAP compliant, even though this is not a requirement of the importing country (the United Arab Emirates). A further example is the fact that some supermarket standards like *Farm-to-Fork* (Sainsbury) and Tesco's *Nature's Choice* (similar, but more stringent than GlobalGAP³¹) are increasingly becoming an export requirement, especially if the producer is a registered supplier to one of the chains. These supermarket chains, in addition to enforcing their particular standard through inspection by their own inspectors, would also require that certification is done by a CB acceptable

³⁰ The establishment of a National Inspection Service in the OPT for the export of fruits, vegetables, processed food (ranging from olive oil to processed meat) should be a priority of the PA in order to prepare for the day when eventually the country may be able to make direct exports to the EU.

³¹ Any producer achieving a standard like *Nature's Choice* or *Farm-to-Fork* could ask for co-audit for GlobalGAP and be awarded this certificate at the same time.

to them and would generally only accept it if the QMS and related training was carried out by a BSP with which they have previously worked. None of the existing BSPs in Palestine have ever achieved this distinction, but this is partly a result of the fact that all supermarket certification rests with an Israeli fresh fruit and vegetable supplier who would have only used an Israeli BSP to prepare the couple of Palestinian producers currently involved.

- Rigid supermarket standards are now being applied in a more forceful manner - and this requirement is being forced down the market chain. The heavy sanction associated with the rejection of a shipment into the EU (because of pesticide residues³²) is making exporters more cautious. The growing refusal by some supermarket chains to purchase from their traditional suppliers of top-up supplies (the large wholesale markets in the UK, Holland, and France) unless they can provide an assurance that **all products** at the market is at least GlobalGAP- and BRC-compliant is forcing these markets to demand certified products. Israeli exporters are being told by their major EU wholesalers that all products must be compliant (“just in case”) even when the final destination may not be the EU. The exporting companies are informing the Israeli product consolidator (the agent) of this “requirement” and they in turn are telling all their suppliers. This process is currently very arbitrary and at times unfair - producers are being told “You have six weeks to get certified” - clearly impossible given the requirements of GlobalGAP (an operational QMS, plant material certificates and records, auditable pesticide records covering at least 3 months, etc.).
- Market demand (based on consumer preference) for niche products to have all the official certification. For example, if the product is labelled “extra virgin olive oil produced in Palestine by smallholders under organic conditions,” the stores selling the product would expect that the complete chain from the Palestine company to the exporter to the importer to the wholesaler who supplied it, has checked that there is an ETI and Organic certificate covering the smallhold growers, that the oil expessor was ISO 22,000 certified, and that the bottling plant had both ISO 22,000 and 9001 certificates. The strength and depth of this “expectation” would need to stand up to a criminal liability suit - even if the buyer, store, importer, and producer who exported the oil all had trusted relationships going back decades. Such is the modern world of consumer expectations.
- Maintaining standards across a complete manufacturing or assembly process. A small Palestinian company producing a minor component of a machine assembled in Israel is now expected to get the whole operation ISO 9001 certified if it is to remain a supplier to the company that has just obtained (at great expense) international certification. An international construction company in the Gulf is asking the Palestinian stone quarry supplying the stone to obtain ISO 14,000, environmental certification, and ISO 18,000, occupational health and safety certification, because the company whose new regional headquarters are being constructed in Dubai has a corporate social responsibility (CSR) policy that requires compliance to strict environmental and worker safety standards across its entire supply

³² Any shipment or consignment failing EU health and safety standards results in an immediate sanction (suspension of operation until the matter is resolved) and a heavy fine on the importer. Given this, it is understandable that exporters have become very sensitive about risky producers.

chain. (Given the current status of most local stone quarries it is extremely doubtful that this certification could be achieved.³³)

There are a number of **negative** forces affecting the **demand** for certification and the related business services that support the certification process. The most important of these factors are:

- A large number of respondents interviewed related their unfavourable experiences with previous certification exercises as the reason they were not interested in pursuing any form of certification exercise again.³⁴ There was a substantial drive to get many manufacturing and small industrial companies certified in ISO 9000 and 9001. This was mainly funded by two large USAID programmes and both made the classic mistake of failing to sufficiently prepare the service providers who were expected to deliver the services to client enterprises. Technical training courses on the ISO standard were provided, but this exercise did not seem to take into account the previous educational/training background and work experience of the participants. No training was given in marketing, customer relations, and basic business principles, and no skills training was provided in how to train the general workers and supervisors involved in the production process. Finally, and most critically, no follow-up was made on the BSPs performance with client business.

The services provided under USAID campaign to ensure that a large number of Palestinian companies acquired ISO 9000 and 9001 included:

- Consulting targeted companies on their need for certification.
- Risk and hazard analysis.
- Identification of improvements required in existing control and documentation systems.
- Introduction of appropriate quality systems and control procedures.
- Training for company management in control and supervisory and production staff in implementation and maintenance.

These services were all fully subsidised (the later programme may have had a small matching grant component). This encouraged a process of heavy over-selling. Clients skeptical about their need to get certification were promised wildly exaggerated benefits to get them to sign up for the programme. The successful completion of actual certification was not used as the trigger to release payments to the BSPs - they were paid once they proved that they had done the HAACP study, produced a QMS, and held a training course for staff. The whole programme became a “cash cow” for a group of small consulting firms.

Certification audits were provided by MAK and the certification issued by Lloyds Quality Assurance. A large proportion of the enterprises involved failed the

³³ The nature of the ISO system would require the company to already have ISO 9001 - especially an existing documentation and recordkeeping system that has achieved a competent standard before it could even embark on ISO 18,000, because worker and employment records are a prerequisite.

³⁴ One respondent commented “I had thought about getting involved in exporting, but once I heard that it meant I should be ‘certified’ I remembered the hardship of getting 9000 and decided to simply concentrate on my local market.”

initial audit, and the programme was forced to allocate additional BSP support to try and correct major deficiencies. Even after this additional input by BSPs, and sometimes considerable investment in factory-level changes by the enterprises, many companies again failed the preliminary audit. Most of these refused to continue with the project.

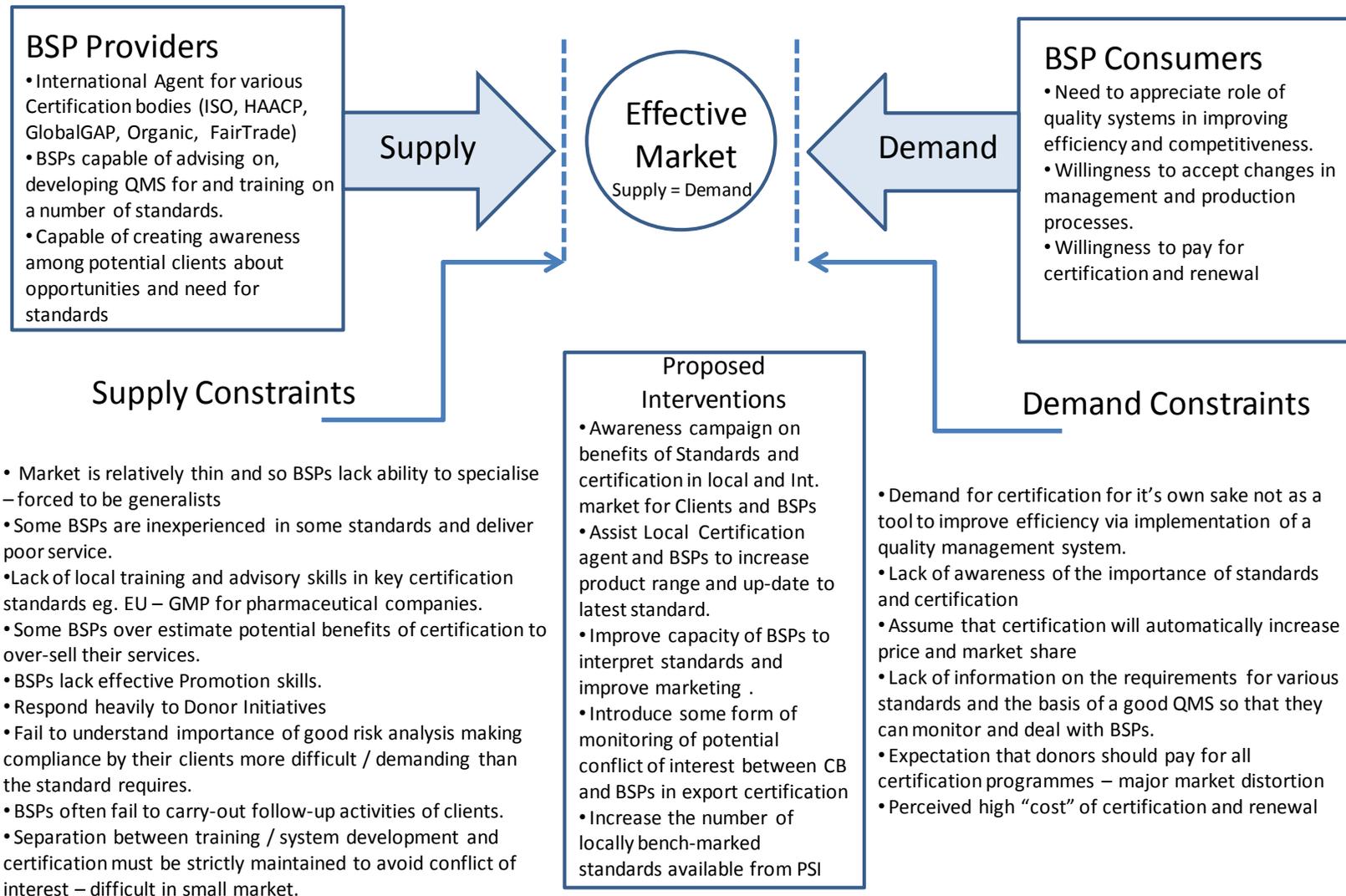
A significant number of companies passed and were awarded the certification. Unfortunately, for many of these companies the experience was:

- No benefit in terms of sales (as had been promised).
- A fairly rapid breakdown in the systems established because of poor understanding on the part of management of the long-term role of quality control (not just something established to pass the certification “exam”); a poorly designed quality control system, making it difficult (if not impossible) to maintain; and inadequate training of staff actually involved in implementation.
- Annual renewal costs of the certificate, especially if nothing of the original certification costs were paid (including the BSP support), are seen as excessively high. Most companies, especially those that had seen no benefit, opted to not renew. Allowing a significant investment in their enterprise to be lost.

It would be unfair to the donors involved in the previous supply-driven delivery of certification services to not acknowledge the benefits many companies received from their experiences on the ISO 9000/9001 programme. Some of the most successful companies interviewed during this study report that they learned their enterprises could be significantly improved and grown by the introduction of improved management systems and these services had to be provided by professional service providers recruited from outside the existing management structure (generally dominated by family members).

The supply and demand effects in the certification and related business services market is presented in Figure 4.

Figure 4: Business Services Market for Standards and Certification



6.3 Specific Recommendations for the Certification Service Market

There is an urgent need to **focus** activities in business services and BSP development and capacity building, and this must be strictly applied to any further investments in this area.

If there is a genuine potential for local producers/exporters to penetrate a new market with a distinctly Palestinian product or to grow a market in which the country already has a presence, then 1) the certification and related business services need to be analysed; 2) local BSP capacity in that particular field needs to be assessed; and 3) only those activities needed to improve or complement existing BSPs in this area should be the concern of any future programme.

An example of this would be high-end organic and fair trade certified olive oil, where FNMD already has an excellent model and detailed experience in the form of the Nablus-based company AL'ARD - a former grantee and now major exporter of premium grade. If the existing capacity in BSPs for organic and ethical (fair trade) service provision and certification is not able to match demand (this should also be based on a realistic assessment of requirements), then invest in the establishment of increased supply of services. If existing BSPs are fully capable of delivering, then establish a long-term supply contract with them to provide anticipated services to future grantees. This will enable them to plan and implement a strategic expansion of service provision.

Focusing certification activities on a particular agricultural product might achieve more significant and sustainable impact. For example, it is anticipated that there will soon be a significant increase in the production volumes of certain varieties of Palestinian dates, which are strongly preferred in regional and international markets. These larger dates are expected to come on stream in the next couple of years because of the extensive new plantings of the favoured varieties and investment in improved irrigation already made. Potential competition from similar dates produced in other countries of the Middle East suggest that the Palestinian production would sell better in the boutique market segment, where organic and fair trade certification are required. If these forms of certification were promoted, based on dates produced in existing villages and cooperatives and hand-pitted production by female and youth in employment schemes based on strict ethical standards, the country could tap into an extremely lucrative and rapidly growing niche market. By focusing efforts on targeted interventions like this, the investment in certification could release significant benefits for participating communities.

There is a need to improve branding opportunities for Palestinian products and grow the export market for fresh produce. Currently, most fresh fruit and vegetable exports from Palestine are being included in consolidated shipments by Israeli exporters, allowing for no Palestinian or "Holy Land" branding opportunities. It appears that only one large Palestinian enterprise is managing to export fresh herbs to the lucrative EU market, where a Palestine country-of-origin label is generating impressive sales and reasonably profitable prices.³⁵

³⁵ The "captured" position of Palestinian fresh produce exporters without a complete cold chain, no access to airfreight other than through Israel, and total exclusion of them being able to do business in Israel and thereby contract international shipping agents directly means they have no alternative but to deal with Israeli agents who often make

Without better access to direct export opportunities, any major investment in GlobalGAP certification for local exporters might only benefit Israeli agents and result in no increased return for local producers. However, given the existing availability of EU technical support for key elements in the required EU export standards compliance (pesticide residues and phyto-sanitary) it might be worth FNMD developing a coherent and systematic programme to grow the relevant service providers and the business services needed to support the industry. The already mentioned lack of experience by some BSPs in Palestine to better and more practically interpret the compliance points of the various “musts” and “major musts” in the GlobalGAP certification process, and to employ more inventive ways by which small producers can be covered under the various group certification options of the standard are both areas where study tours to countries already applying the standard for smallholders would improve performance and reduce costs. These linkage events and other aspects of technical information sharing could easily be included as options for a matching grants programme.

One area of business services support in the export/certification trade that has proved to be both international “best practice” and something that can significantly boost productivity are IT solutions that improve electronic field recording of production data like spraying/pesticide use and then ensuring its timely onward transmission to importers as part of product traceability requirements.

6.4 Size of the Local Certification Market

In discussions with the agent for the major CB operating in Palestine, two of the major service providers, and a representative of PSI it was agreed that the market for certification and related business services (designing quality assurance system, staff training, etc.) was rather thin, but that it had potential to expand. This expansion is dependent on the political environment and it was assumed that if the current improved climate between Palestine and Israel continues and the eventual handover of control of some export routes occurs (as envisaged under the Oslo Accords), then this increase in opportunities for exports and the necessary certification requirements would certainly lift market volume.

Estimates of Potential Market Size

The requirement for various ISO certifications especially for ISO 22,000 in food and food products, and for environmental certification in some industries where Palestine still had a competitive advantage, such as stone and stone quarrying, would come to something like 40 to 50 per year. These ISO certifications, including the more simple requirement for ISO 9001 would cost about \$5,000 to \$7,000 per certification (business services and certifications). This would represent between \$ 200,000 and \$ 350,000 per year.

most the profit. Stories of the highest form of abuse of these trade barriers abound, including one where a new producer who tried to export directly was simply put out of business by targeted disruption of all his shipments by Israeli border searches (being forced to unload refrigerated containers in the heat of the day).

If the more complex development and certification of full QMSs, like those required for pharmaceutical and export horticulture enterprises, were included it was estimated that it might be realistic to expect that these would number between 50 and 100 during the next year or two. These, including the business service requirements that would be a major cost component would cost between \$10,000 and \$20,000 each. This represents \$500,000 to \$2 million.

It has been estimated that both these business streams would represent approximately \$1 million per year.

Chapter 7

The Market for Business Planning Services that Assist SMEs in Access to Finance

7. The Market for Business Planning Services that Assist SMEs in Access to Finance

Earlier analysis undertaken in the reasonable comprehensive survey of BDS and business service markets indicated that there is very good potential in the services market and that one area where Palestine is already showing a degree of competitive advantage is in financial services. Growth of the economy is going to have to be driven by investment because generally the vast majority of Palestinian businesses are small and under-capitalised. Thus investment-driven growth strategy is going to have to proceed slowly as the strong conservatism and risk adverse nature of Palestinian enterprises managers and owners means loan up take will be slow and borrowing cautious.

7.1 Background on the Palestinian Financial System

The Palestinian financial system consists of the banking sector, insurance companies, leasing companies, microfinance institutions, money changers and a privately-operated stock exchange.

The banking sector now consists of 18 banks.³⁶ Although banks have more than adequate liquidity regarding their total deposits of more than about \$7.5 billion (as at March 2011), the sector's credit-to-deposit ratio is relatively low (41 percent), and only about 50 percent of current GDP. Such a ratio, though improving, is still very low compared to neighbouring countries (it was about 133 percent in relation to GDP in Egypt in 2009 and 106 percent of GDP in Jordan at the end of 2009). Total outstanding credit reached \$3.1 billion, of which 70 percent is in loans, 29.7 percent in overdrafts, and only 0.2 percent in leasing finance. The private sector captured 68 percent of the total credit. However, banks recently are lending more, but not directly to the productive sectors. Most borrowing is mainly for real estate (composed largely of new apartments), which captured 16.4 percent of total credit, automobiles 4.3 percent, and personal loans 7.7 percent. The commerce and services sector accounted for 40 percent of total credit, while only 15 percent went to the industrial and agriculture sectors.

Improved management of the banking sector and tightening of regulation governing the ability of banks to invest off shore have significantly increased the liquidity of local banks and created a large pool of medium-term investment, mortgage funding, and near-term funds to support operational costs and cashflow problems often caused by delays in export payments.

³⁶ This number is marginally down on the peak of 22 banks because of some mergers by smaller banks needing to ensure the requirement of newly increased capital reserve positions).

Leasing is a fairly new service, currently only four companies offer financial and operation leasing services. Total leasing financing is only about \$8 million. The use of this financial instrument has played a key role in the development of the SME sector in other parts of the world, and it could be an extremely useful financial service once the enterprises in Palestine realise its advantages.

Recently, the Palestine Monetary Authority (PMA) introduced a well-functioning credit bureau service that has helped banks check on the credit history of individuals and firms, and assess their likelihood of default. The Credit Bureau uses the personal identification number (ID) for individuals, which was initiated by the Israelis as part of their identification card system rigidly enforced as part of their security apparatus. For firms, the Credit Bureau system uses the enterprise's licensing number. Banks all report that they are very satisfied with the service so far. The PMA has also allowed microfinance institutions (MFIs) to access the Credit Bureau database, too.

Today 10 MFIs are functioning in the OPT. The registered and functioning MFIs include NGOs, for-profit and non-profit companies, and savings and credit cooperatives. They offer only micro loans and minor BDS. MFIs have failed to offer the comprehensive financial services package required by the poor. This is due to legal barriers and other operational problems, as well as the lack of clear and detailed information on current demand. Until now, the MFIs are not regulated, but the PMA is preparing a new regulatory framework that will also open the door for major growth in the sector as it will also allow for the introduction of deposit taking, a big increase in lending capital, and eventual graduation for the larger MFIs. MFIs serve altogether an estimated 31,000 clients with an outstanding portfolio of \$64 million (Makhool 2011³⁷). These numbers represent less than 21 percent of the overall estimated market potential.

There is a big debate about whether there is a credit constraint on the private sector or not. Banks are insisting that they are willing to lend to prudent applicants with enough collateral. Indeed, banks approved 79 percent of all credit applications in 2009, only 21 percent were rejected. However, critics are saying that most of the newly approved loans are "personal consumption loans" that will be used to finance automobiles, furniture, and other personal items. The World Bank Investment Climate Survey 2007 showed that there is a major credit constraint facing the private sector.

The recent study on the MFI sector also found that 48.3 percent of small enterprise owners (employing fewer than six workers) did not apply for loans, and 88.9 percent of those who applied for loans actually got them during the study period (from 2007 to 2011). When asked about their plans, 21 percent of the owners reported that they hope to apply for financing for their projects during the next two years. The average value of the required financing is estimated at about \$7,740. This clearly indicates that there will be a considerable demand for future service provision in the area of acquiring this finance as most, if not all, of the sources of finance report that they would require coherent business plans with a clear description and rationale for the financial requirements.

³⁷ Makhool, Basim. Current and Expected Demand - Supply Conditions on Islamic Micro-finance in the Palestinian Territories. Palestinian Network for Micro-finance. Sharaka, 2011. Ramallah.

The introduction of various reforms to the financial market in terms of improving capital market regulation has also opened a number of opportunities for locally registered share-based companies to obtain investments via the floating of additional equity. In addition to this possibility, a number of investment funds have recently been established that specifically target Palestine. These funds have considerable resources at their disposal. One is estimated to have \$65 million, while another has in excess of \$30 million - these amounts may actually exceed the current absorption capacity of enterprises in the West Bank - which are the target of much investment interest because of their low perceived risk profile.³⁸

7.2 Market Drivers

Demand

The availability of finance (currently a highly liquid sector) is the current driver of demand for services from BSPs to assist in the production of the financial analysis and necessary documentation related to securing a loan or investment (business plan and strategic plans), rather than the desire for companies to expand and grow. Other major drivers include:

- The suddenly increased local liquidity of the commercial banks, a direct result of the PMA lowering the percentage of total assets that could be held off shore to 55 percent, has meant that most of the banks were required to bring assets back into Palestine where they quickly exceeded the near-term assets required to be held locally. Since then banks have been encouraging their clients to borrow.
- In addition, there are a couple of donor programmes that have active loan guarantee funds available that have been experiencing poor take-up and recently have been publishing the availability of the facility through participating commercial banks.

The increasing number of opportunities in the Palestinian economy is also a major factor in the demand for finance and the business services required to access it. Solid growth in the economy during the last couple of years, especially in the hotel and restaurant, pharmaceutical, and construction sectors is translating into increased optimism and a realisation that there are potentially some good investments. The relative stability that has prevailed in the West Bank has encouraged some Palestinians to return from overseas. The soaring property market has seen some families being able to convert portions of unused family owned land into significant liquid assets, commercial properties are being built and quickly rented. Young married couples are entering the property market by buying one of the many new apartments and investing in furniture and appliances. As a consequence, some families are borrowing to expand an existing business or to establish a new one.

There are also some **negative** factors that impact on **demand** for these services from the private sector:

- The poor quality of business plans produced by private BSPs had triggered most of the banks to develop their own system for producing the required

³⁸ The fact that many West Bank companies have been in existence for extended periods during some difficult times and have a low exposure to debt (and in some cases have considerable fixed assets) makes them ideal investment targets. However, the general conservatism of the families owning the enterprises limits opportunities.

documentation. As revealed in discussions with senior bank officials, they have become increasingly frustrated with the quality and lack of depth of business plans produced by BSPs. The establishment of an “internal” capacity by the major banks has in effect seriously dampened the demand for business services in this field from local BSPs.

- For banks, the most important part of the financial analysis of the loan applicant is the veracity and accuracy of previous financial performance. As most of the borrowers are already account holders at the bank where the loan/investment request is placed, it was logical that bank employees would be best placed to access previous financial records already held by the bank.
- The BSPs producing business plans for their clients were first relying on information provided by the clients and then often “enhancing” the financial information to make the plan and the investment profile appear more attractive. The desire on the part of the BSP to satisfy the client’s need for the finance simply did not match the requirement of the bank to have brutally honest financial information. The bigger banks have established teams who review loan requests and using their own information, based on the historic performance of all the accounts of the applicant and determine risk and the likelihood that the loan will be repaid. This system works reasonably well with requests for investments to expand an existing enterprise or where the planned activity is for a common/existing sector - something the average bank manager is already familiar with.
- Where the problem arises is when the planned investment is something new and outside the experience of the bank. In the discussions, the two areas mentioned when this often happened was for agricultural-based projects, for which there appears to be a very slim history of lending by commercial banks and export-driven projects where the financial projections and market growth factors are in a country for which the bank has no prior experience.³⁹
- In cases where there are new-style investments requiring more “original” analysis, the banks admit that they have already established reasonable working relationships with most of the BSPs who have a reputation of being able to deliver the required level of professionalism and depth that banks require for a business/investment plan. These BSPs are “recommended” to the clients and more often than not the potential borrower contracts them direct to produce the necessary documentation and financial analysis. This situation with only a few⁴⁰ BSPs trusted to “deliver the goods” makes for a very weak market with little or no competition and where good ideas and new thinking in investments and approaches are stifled by the standard and the “tried and tested.”⁴¹
- The established structure of the major banks with local branches; Governorate-based, sub-regional offices; and regional headquarters lends itself to a series of loan committees with increasing authority levels who can evaluate and then pass on project requests to a higher level. This system

³⁹ Two of the large banks interviewed had either head offices or major branch offices in Jordan, and as many requests for new investments were for that country they could easily draw on the experience of senior staff stationed there to assess proposed ventures.

⁴⁰ One banker commented “There are about 10 good BSPs who claim they can produce good business plans, but in my experience there are only two or three who do it well on a consistent basis.”

⁴¹ One of the more “experienced” and respected BSPs remarked “I can see my staff spirits sinking the moment they know we have another investment analysis or full business plan to do - they now consider it so boring.”

prevents what could be a conflict of interest or a lack of due diligence as the investment request can always be cross-checked by officials who do not directly know the client requesting the loan.

- The problem of due diligence and the need to independently assess and critically appraise an investment proposal is the major problem facing the venture capital companies. They, like the major banks, are very critical of the quality of business plans produced to support major new investments. One of the senior officials with one of the funds commented that the level of analysis of the financial information presented by local BSPs “lacked depth and had absolutely no colour - simply bland.” The venture capital funds interviewed have also resorted to helping produce the investment proposals and the detailed business plans themselves, with or for their clients. However, their much smaller size and their lack of a broad structure has meant they cannot cross-check the product. This has left them in the awkward position of having to defend a proposal they had been involved in to their own investment committee. Irrespective of the problems they face, this important demand component for business services, in the field of access to finance, is not being met by local BSPs.
- Some of the business service requirements of venture capital/investment organisations are very specific. They often involve advisory services in restructuring and “cleaning out” groups of companies, i.e., defining the complex set of inter-relationships and unclear cross holding of shares that are sometimes found in family owned companies. Some of these have “evolved” and grown from a single set of brothers who with a sequence of large families with differential inheritance patterns and a tradition of creating many different companies have become ownership minefields for any investor buy-in into the enterprises. It is interesting to note that in this area some of the investment organisations find the service offered by the traditional big accountancy companies to also be very weak. They also admit that the option of bringing in external consultancy does not seem to work because of the need to be culturally sensitive in dealing with these complex family arrangements.

Of all the four selected business service markets covered the biggest failure in terms of market demand – from the banks and FOs in this case - is the failure of most BSPs to deliver what is required in terms of developing a bankable Business Plan. There is obviously a very big divide between the two and this urgently needs some correction. The average BSP involved in this aspect of consultancy is basing the BP they produce for clients, on what would be the standard international format taught at most of the Universities in Palestine. The comments that the style of BP being produced “lacks depth” and “fails to highlight the risks involved in the investment” or to provide “sufficient depth” and “meaningful analysis” of both the recent financial performance and the financial implications of the planned investment – clearly indicates that an opportunity exists to improve the performance of BSPs and to close the gap between expectation and delivery.

7.3 Size of Market for Business Services that Assist MSMEs to Access Finance

In discussion with senior officials from a number of the major Banks, the three main venture capital companies operating in the OPT, two of the largest BSPs providing a series of business services including the production of business plans for the major customers of most of the banks and a couple of the venture capital companies, a series of small BSPs, and some independent consultants it was agreed that the actual market size was reasonably large. For example, in discussions with bankers and the Palestine Institute for Financial and Banking Studies (PIFBS) it was estimated that the current level of credit applications from corporate customers to banks were at an all-time high - and that level was about 10,000 per year. To reinforce this observation - this excludes personal requests for short-term loans and overdrafts (the current demand for personal funding is estimated to be of the order of 150,000 requests and that about 40 to 50 percent are currently being approved based on the customers' account history and their salary slips if they are employed).

The vast majority of the 10,000 corporate requests for finance are generally handled by the bank based on an analysis of the companies' cash flow and their financial statements. Now for the sake of this analysis, the number of small-scale accountancy firms that produce these annual financial statements - a requirement of company law in Palestine - are not considered to be producing a document to secure finance. One banker estimated that in the OPT there are about 100 freelance accountants and small accountancy firms that "do the books" of the large number of small companies that make up the private sector. One official at PIFBS estimated that the "Big Three" accountancy companies actually handle about 30 to 40 percent of all annual statements of accounts produced - the reason for this is the high level of acceptance of these statements by the Tax Office, because of the assumed integrity of the larger companies.

Most of the "larger" companies (which as explained earlier can mean companies with only 20 employees) are getting their books done by the Big Three and about 20 to 30 private sector (medium sized) accountancy and secretarial companies.

Another factor in this accountancy market is the large number of small companies that are "doing their own books" on computer-based packages, like Sage, Sovereign, Quick Books and AccPac (or similar products). In fact, it is interesting to note that it is estimated there are 11 NGOs and training BSPs who are offering continuous training in the main accountancy packages.

Some bankers estimate that 10 to 15 companies are handling the majority of the most complicated and "specialised" business plans being produced. These business plans are different from the average in that they are normally providing details of particular investments rather than just requests for loans to cover cash flow problems or operational funding.

As already described, a couple of these bankers are claiming that only two to three of these are any good.

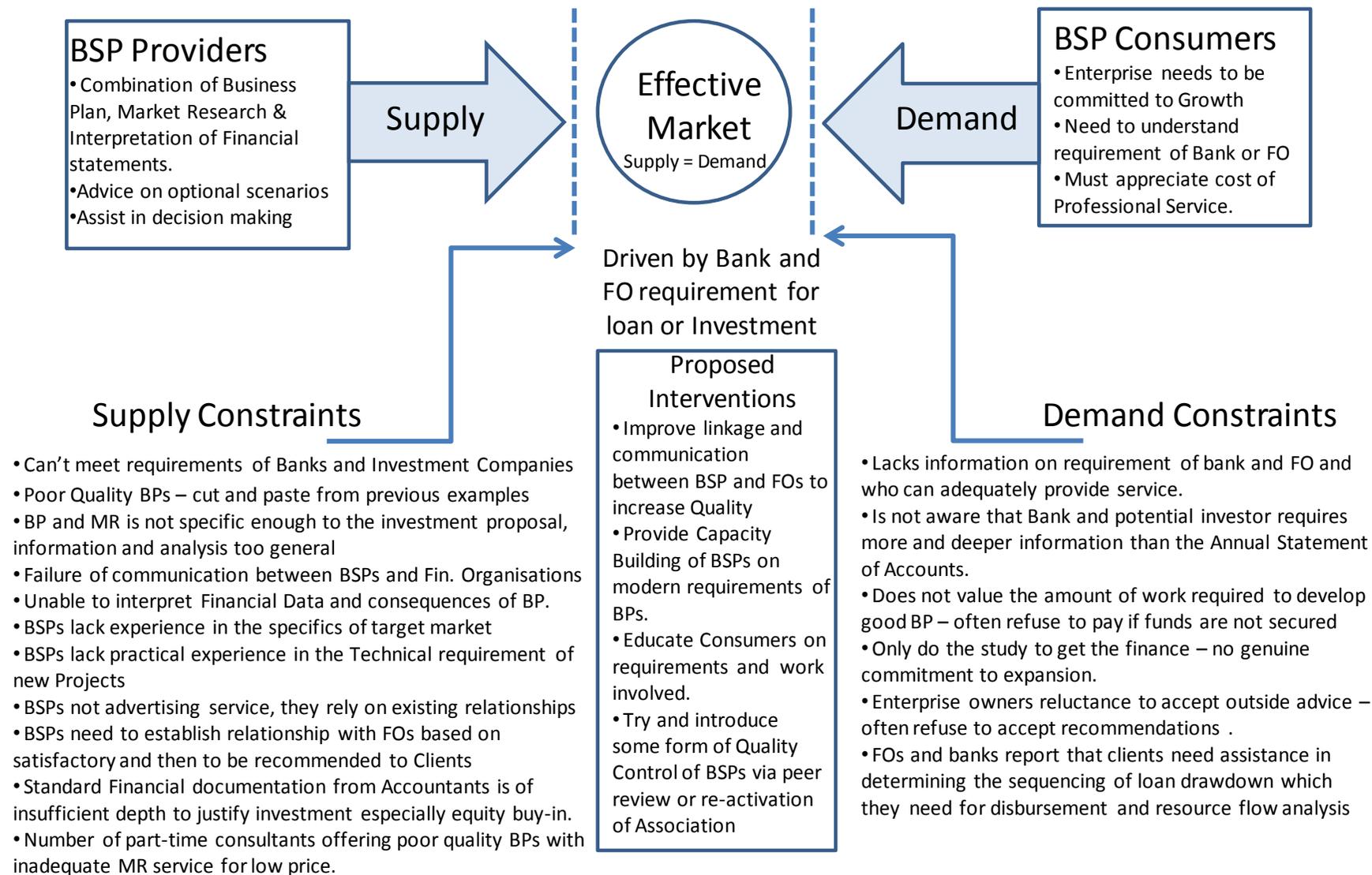
7.4 Estimates of Potential Market Size

A “full” business plan - at the sort of detail and depth required by major banks and venture capital companies for a major investment - costs on average \$10,000, and some respondents estimate that about 50 of these are being produced each year. This values this business market at \$500,000.

One of the larger BSP companies reported that some of their bigger business plans are charged out at \$50,000, and that last year their turnover in this particular area of business services was \$750,000 (production of business plans is not their only business service activity). This BSP is ranked as one of the “premier” producers of business plans for two of the key venture capital companies. It is hard to translate the sudden increase in interest by venture capital companies in West Bank investments into something that indicates an average annual market.

The supply and demand effects in the business services market that assists SMEs in obtaining finance is presented in Figure 5.

Figure 5: Business Services Market for Business Planning Services to Improve Access to Finance



7.5 Specific Recommendations for this Service Market

Specific recommendations for development of services that improve access to finance for SMEs made on above and that require some expansion are covered here.

Most of the recommendations made in Figure 5 are generic and will be covered in the later section. For example, updating BSPs in the latest requirements for particular services; educating consumers and the general market on what are the needs and requirements of particular services, so that there is a better understanding on the limitations of what BSPs can achieve in the time usually allocated and the reasons for the current market costs; and the need to introduce some form of quality control among BSPs.

One of the specific problems mentioned is the fact that the business plans produced by BSPs often lack sufficient detail on the actual financial situation of the client who contracted them. Very little can be done about the problem, in that the client may not have been prepared to give the BSP all the financial records that the bank already has in the detailed account records. But, some agreement could be reached on a standard analysis of the day-to-day running costs, income generated by an enterprise, value and turnover of stock, and outstanding payments and unpaid invoices, etc., an analysis that the BSP carries out with the client based on a simple procedure where common factors are determined and evaluated. If this was done in a standardised and transparent way, with the BSP cross-checking on the compatibility of the data made available by the client, the bank would obtain some information on performance and current viability of the enterprise that simple deposit and withdrawal information in the accounts may not provide. This information should improve the ability of the FO to assess the risks inherent in the existing enterprise. There are those who might argue that the best situation is for the bank to do its own analysis based on the clients in-house bank records - an embedded service, so to speak. The BSP could then be used to provide the analysis of the growth potential of the planned expansion. This would be especially useful if the BSP had specific technical experience on the planned new venture that the bank might not be able to provide from among its own.

Equally, by agreeing to a set of standardised sensitivity tests that looks at a series of scenarios for the planned investment, covering different growth rates, different levels of inflation, variable exchange rates, and percentage of increases/decreases in input costs and output income, the BSP could produce a better analysis of the potential financial performance of the planned intervention and obtain a fairer and more consistent view of future risks.⁴² These economic factors and the different levels of variation could be agreed by the FOs and the regular BSPs that work with their clients. This common format, carried out in each business plan produced, would then provide a more consistent way of comparing different investment proposals.

⁴² This more sophisticated level of analysis would only need to be undertaken for the more complex and large investments.

The capacity of banks and FOs to assist clients in the production of business plans acceptable to their standards, may meet current demand. But clearly, in a growing and expanding Palestine, the volume of business and investment plans that will need to be produced will exceed their internal capacity and they will have to rely on external BSPs to produce them. Working with existing BSPs and the teaching staff of universities offering MBAs to the future staff of BSPs to develop the capacity to produce these critical financial/investment documents in the style/level of detail acceptable to them represents a useful intervention.

Chapter 8

The Training Services Market - with Special Reference to Human Resources

8. The Training Services Market - with Special Reference to Human Resources

8.1 Market Drivers

There are a number of major drivers in the market for human resource training that can basically be put into some broad categories:

- First is the increased need for local companies to comply with the new labour law that recently has been more forcibly and effectively implemented.
- The second major driver is the commitment by certain important sectors of the Palestine business community to the improvement of the service they offer to the public and the realisation that this can only be achieved via improved customer relations management (CRM) in which first-line interaction with their clients is their own staff, and that this interaction can be significantly improved via training.
- The third might be considered a sub-market, but given the relatively small size of the total human resource training market in Palestine and the very important role played by this sector in the economy, then it is worth considering the human resource/staff training needs of international NGOs and charitable organisations⁴³ separately.
- The fourth and final market driver is the demand that comes from the universal desire for self-improvement, and here there is a danger that this might become too broad because the local training market driven by Palestinians' strong commitment to education and acquiring marketable skills is vibrant, complex, and large. An attempt is made to try and only focus on the strictly human resource training component of this important local market.

The PA has already promulgated and enacted a new Labour Law, and has recently started to effectively enforce it. The PA has been the recipient of much donor support and as one respondent, a senior industrialist, commented "The biggest problem is that liberal Nordic countries and the ILO helped write our very socialist labour regulations which give too much power to the workers." The previous law was based on outdated Jordanian law, basically from the post-World War II era (late 1940s) with amendments made during a burst of Jordanian reform in the early to mid 1960s, before the 1967 invasion. From that point, this outdated and inconsistent law⁴⁴ governed (or failed to govern) the

⁴³ In this context, Official Missions and Embassies of other countries are not considered as NGOs, because they often are in other studies. A more strict definition of nongovernment is taken. Embassy and multilateral organisation staff may not be Government of Palestine, but they are certainly not an NGO.

⁴⁴ The old Labour Law still contained reference to the arbitration role to be played by Royal Jordanian bodies that have subsequently been abolished.

labour market in Palestine. This law, and how it was applied, offered no protection of workers' rights. The new law is one of the most comprehensive in the Middle East, with clearly spelt out workers' rights, standard provisions governing all aspects (appointment, leave, overtime, disciplinary action, dismissal, etc.) and an efficient mechanism to ensure compliance with the new regulations. It is the recent implementation of these control measures that has suddenly made the business/enterprise community sit up and notice the full implications of the labour laws and how they apply "retroactively." Fired workers are demanding that terminal benefits be fully paid before they leave, and Labour Department officials are ruling in their favour. Enterprise owners are finding that calculation of overtime (with time-and-a-half and double-time for late closing and official public holidays), and untaken leave for workers who have basically been working extended periods (decades in some cases) for six and sometimes seven days a week can quickly mount up into sizeable payments. Companies and even the smallest supermarket are rushing to implement a staff recordkeeping system, establish a leave and overtime policy, and generally improve and regularise workers' conditions. Many families are discovering that their "small little" enterprises that represent their major source of income are actually "businesses with legal responsibility to their workers" (even if many might be related).

The other factor is that an additional aspect of donor assistance has been quietly operating in the background - capacity building of labour unions, many of whom have strong solidarity agreements and good practical linkages with some of the largest labour unions in Europe - the new Labour Law has given organised labour something to work with.⁴⁵ Training programmes for worker committees⁴⁶ that have been carried out since before the Labour Law was enacted, means that in many cases they are better informed about requirements than management.

All of this has created a major market for business services and, for many small enterprises, this is their first real and urgent need to hire outside consultants or contract a BSP specialising in labour matters. Equally, this sudden demand has had a consequential drive on the supply of BSPs offering "appropriate" training products. Some of these BSPs are new entrants into the market, while others are established companies that are offering new tailor-made products to cater to the specific demands of the new regulations.

As described in the previous section, one of the fastest growing service sectors in Palestine is banking and to a lesser extent insurance. The changes to the law and the introduction of improved control and regulation have resulted in fierce competition between the major banks, and one of the battlegrounds for customers is customer relations. Currently the major player in the training market for human resource development are the banks, but the sort of training and training products required in CRM are different from the previous driver. In terms of the previous driver of labour regulation, most banks also have operational human resource departments that are monitoring the recruitment,

⁴⁵ It is interesting to note that Israeli Labour Unions which are a strong political force in their own country have also been assisting Palestinian labour Unions on implementation of the law because they see the exploitation of Palestinian labourers by Israeli Settlements in the OPTs as a major loophole in the Israeli labour law which strangely doesn't cover the "illegal" but officially sanctioned settlements.

⁴⁶ Another new but now obligatory requirement for companies of a certain size.

induction training, salary progression, leave, disciplinary actions, etc., of all staff.

As discussed in previous sections, **negative** effects on **demand** are also described. Various factors are taken as “negative” if they result in a decreased demand for business services by private BSPs. In some cases, like those described below, these are not really negative in terms of the whole industry because they still involve the effective delivery of business services, but because they are supplied internally they automatically reduce market demand for external BSPs.

- The branding and differentiation of banks is being driven by the level of professionalism exhibited by staff and as such most major banks have their own training department staffed with a core administrative capacity and a set of dedicated trainers. One of the larger banks visited during the field work has its own separate Training Centre with a comprehensive and detailed modular training programme. Some of the medium-sized banks interviewed also have an annual training programme and included in this are a number of training sessions that directly focus on the development of staff in dealing with customers and other aspects of human resource development. Clearly embedded services reduce the level of outsourced training contracts, but it also gives the bank exactly what it wants - proprietary training only available to its staff - important if their objective is to differentiate themselves from rivals.
- In 1999, the PMA established under its legal mandate the PIFBS. This training service provider is a nonprofit organisation funded by a compulsory levy on the turnover of all banks. This annual levy payment (naturally larger from the bigger banks) entitles the bank to send trainees to the various training courses. PIFBS has been instrumental in successful introduction of the new banking regulation and the rapid establishment of regulated financial management information systems and improved analysis and reporting on management of non-performing loan portfolios. Since about 2005, they have also offered a series of professional diplomas in different domains that range from specific issues like implementation of treasury policy and interbank clearance to general customer relations. Their performance has been impressive, well-received, and fully supported by the member banks. The courses are designed and offered in short duration modules at times that suit bank employees who all have designated training times and planned day releases. They have also experimented with trainee-paced computer-based training modules that the trainees can come in and work on whenever they have time. In fact the functioning of this Institute, its flexible training times, and its interaction with its clients is a model for any industry-based capacity building programme.
- As most of the top-level management training of management on PMA and Central Bank regulations is now completed, they are thinking of offering more generic courses such as general human resource development, and specialist training like CRM via internet and telephone banking. If they run courses like this, they will attempt to use senior local trainers drawn from member banks with good practical experience and a reputation as good trainers and mix them with regional and international trainers bringing in new ideas and international best practice. They are also thinking of expanding

their own training capacity and using their excellent facilities to offer full-cost payable training to non-members.⁴⁷ If this happens, their professionalism will make them serious competition for some of the local BSPs. It might also introduce a new standard in public training provision that would be a welcome challenge.

Returning to the positive drivers:

- Almost every large international NGO⁴⁸ has an office in Palestine, and most of these are required to implement a fairly rigid human resource code developed by their head offices. As part of the standard operational manual, they are required to also “follow the laws of the country in which they operate.” One of the BSPs interviewed had targeted this requirement as a marketing tool - developing a short two-day training programme on the implementation requirements of the new Palestinian Labour Law, and developing a checklist that related these legal requirements to the existing staff regulations being utilised by the NGO. This two-day training quickly identified the fact that there were always a number of inconsistencies and provided an additional one-day consultancy to produce a revised standard employment contract, which amalgamated the two.⁴⁹
- Many of the international NGOs contracted local consultants to run a seminar and/or short training programmes on the requirements of the new Labour Law for the management and the staff department.
- The other market drivers in this NGO sector are that some organisations require annual compliance to a staff consultative procedure conducted by an external consultant to ensure that existing grievance and conflict resolution procedures have been followed. One of BSPs interviewed had developed a good relationship with a number of US-based NGOs that all required similar services and that had become a regular annual exercise, and the perceived success of the exercise had seen the number of clients more than double during the last three years.
- The examples given here reveal a fairly large amount of targeted marketing and some clear indication that there are some competent BSPs operating efficiently as an enterprise that understands the market constraints and opportunities, adapts the product offer to the client’s requirement, and efficiently delivers. This is contrary to what has been noted in the other selected business service markets where both performance and adaptability to market factors has not been impressive. It is worth noting that this demonstration of improved market targeting only occurs in a market segment totally composed of international NGOs because this particular form of staff consultation does not apply to local companies. This again demonstrates the high level of market distortion generated by the prevalence of donors and donor-funded international NGOs.

⁴⁷ This is still a strategy under discussion, as it will require Board of Directors approval.

⁴⁸ There are some sources that claim the total number of registered NGOs is almost 4,000, but a great many of these are merely a registration number - they have no office, registered office bearers, or any visible activities.

⁴⁹ This potential market for the production of harmonised employment contracts was driven by one of the earliest rulings of the Labour Department that existing labour contracts could not be “legally” enforced if they were at variance with or directly contradicted the provisions of the new Labour Law. The moot point was an NGO employment contract that specified summary and immediate dismissal for certain infringements of the contract and the new regulation on procedures for dismissal that require a prior written warning to be issued before any action for termination can occur.

- The political history of Palestine has created a situation where many of its citizens choose to leave to make a future for themselves and their families elsewhere. One way of doing this is to obtain an international acceptable qualification with which to secure employment elsewhere. For this reason, there is a considerable market for courses that open up opportunities from the simplest first step such as a business English course to transportable and temporary skills training courses such as TOEFL (Training of English as a Foreign Language) in high demand in other Arab states (where Palestinian skills in English and Arabic are appreciated), and then internationally certificates such as Chartered Accountancy (CA) and Chartered Institutes of Secretaries (CIS) that provide stepping stones into commerce in the Gulf and other prime labour markets such as Australia and New Zealand. A destination of choice still remains the UK, but recent massive increases in tuition fees for overseas students and the extreme difficulty in obtaining a visitor visa because of concerns about possible overstay.

During the investigations of the general training market in Palestine, it became apparent that so-called “internationally accepted courses,” especially those that are offered by providers that merely “sound like” reputable organisations are being exploitive of unsuspecting members of the public. The provision of unbiased information to prospective students would be a useful service.

In the human resource field, there is a clear set of options available for practitioners who would like to obtain professional qualifications. A couple of the most senior people in human resource training in Palestine are already members of the Chartered Institute of Personnel and Development (UK) - the largest professional organisation involved in human resources in Europe. The Chartered Institute of Public Relations (CIPR) has resulted from a sequence of amalgamations involving the Institute of Personnel Management, the original Institute of Training Officers and its follow-on the Institute of Training and Development. This organisation offers a series of modularised three-level international certificates, including the Certificate in Personnel Practice, the Certificate in Training Practice, and the Certificate in Coaching and Mentoring. The organisation has already targeted the Middle East, and runs some of its courses in Saudi Arabia, Qatar, and Dubai.

One of the respondents also mentioned the potential to use some of the UK-based, intensive, one-year taught MSc courses for senior people already having a full degree or the series of acceptable certificates like those from CIPR plus considerable work experience (for example, the MSc in International Human Resource Management at University of Manchester).

There are already a number of senior Palestinians working in human resource development in the region (Jordan, Syria, Kuwait, Saudi, and Dubai), and their bilingual skills and exceptional training skills have contributed to their achievements. Given the large number of mid-level staff involved in human resources, plus those already involved in training in the banking sector, and the opportunities in the regional service market it would indicate that there might be a real potential to focus on the systematic development of this potential via targeted TA and advanced training.

8.2 The Business Services Market for Training in Human Resources

Discussions with various stakeholders, university faculty staff, human resource training managers at major banks, private sector BSPs, and local training institutions resulted in the study collecting the following facts used to assess the market for training in human resources. The overall market includes:

- Five private sector companies - providing training leading to human resource certification. Four of these actually offer training in internationally recognised certificate programmes such as Chartered Financial Analyst (CFA) and Certified Facility Manager (CFM).
- There are 11 NGOs (some international) running continuous training programmes that offer various human resource courses (these would be the same group of training establishments providing training in accountancy, etc., detailed in Section 7).
- The PA has a major training institute in Ramallah responsible for the enormous amount of internal training (and retraining) of Government staff that has been instrumental in the marked improvement in service delivery in the West Bank. This institute has received considerable donor support.
- There are three extremely well-respected vocational training institutions that initially were established to provide skills training for refugees, and which have continued during the last 40 years to continue their valuable contribution to skills acquisition among youth in the OPT. These Technical and Vocational Education and Training (TVET) institutions are extremely well supported by various NGOs and a couple of faith-based organisations, and are often cited as an example of some of the best such institutions in the Middle East.
- The banking industry has an extremely comprehensive human resource programme making use, at the most senior level, of regionally based management training facilities in Amman, Jordan. Three to four of the major banks have their own training facilities in the West Bank, and almost every one of the banks has a comprehensive staff training programme making use of their own internal trainers, specialising in various components of commercial banking, and a number of external/part-time trainers. The banks have actually created a niche market in that they have been making use of a small but competent group of independent trainers who have specialised in training individual Staff Departments on the consequences and requirements of the new Palestinian Labour Law.
- In addition to the banks themselves, the industry has PIFBS, which also carries out an important training role, especially in supporting implementation of the new regulations and control procedures introduced for the financial sector.
- A number of the largest companies - especially in the pharmaceutical and telecommunications industries (especially the rapidly growing mobile phone providers) have their own staff training programmes, making use of internal trainers for technical training and external trainers for some generic skills.
- It is estimated that there are about 100 freelancers operating in the training sub-sector - many either graduates of the various faculties of business or

still-active staff members who also fill in on the numerous in-house and publicly available training programmes. A couple of the most sought after independent trainers in the banking sector are retired managers, renowned because of their ability to inspire and motivate trainees with their “entertaining” and incisive presentations.

8.3 Estimates of Potential Market Size

This is difficult given the fragmented nature of the market, but the following estimates have been provided by a number of respondents. The five private sector training companies are doing about \$200,000 per year in specific human resource training (about 20 percent of their training portfolio).

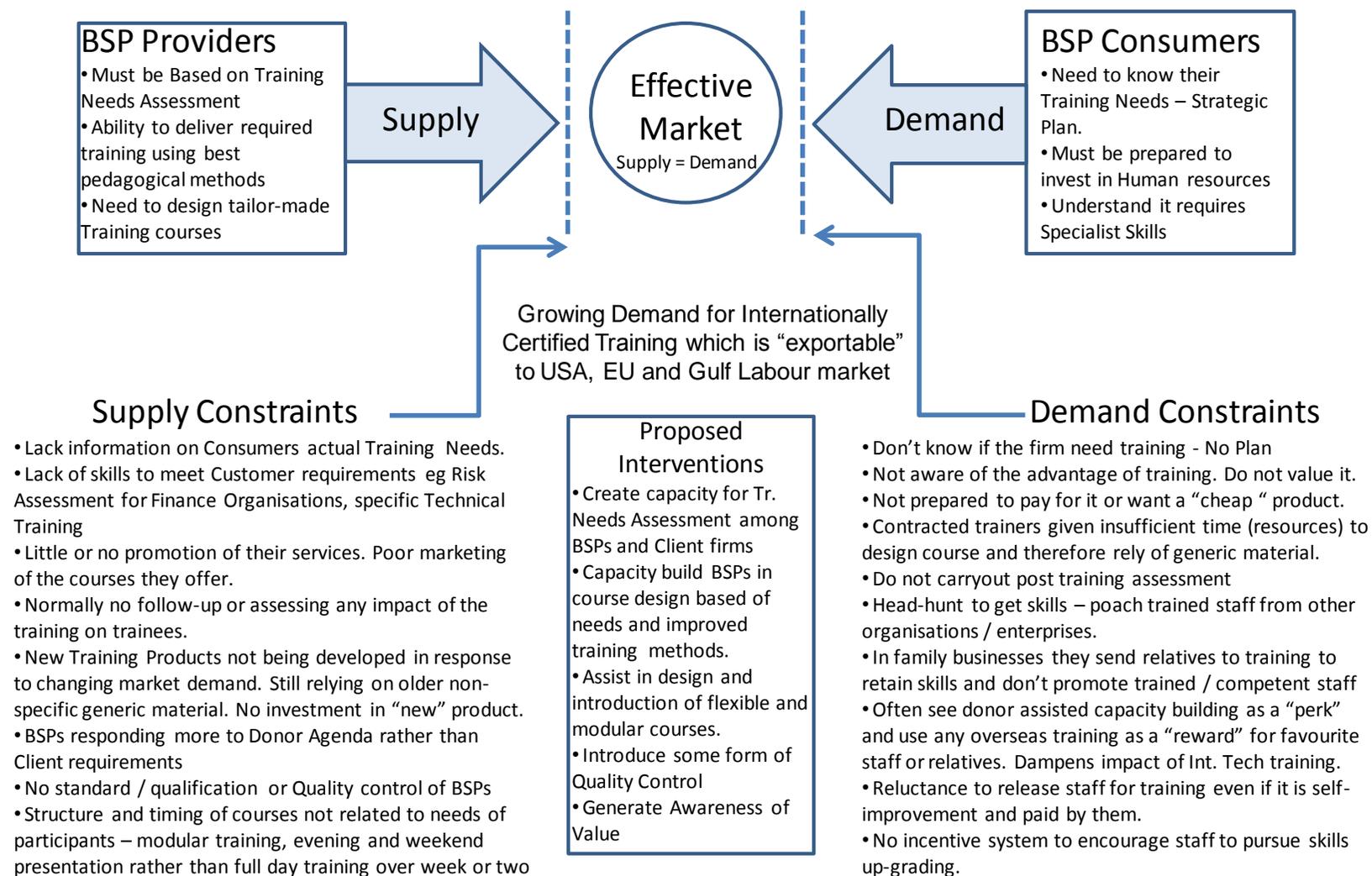
One of the NGO-based training facilities in Nablus estimated that as they currently run 60 training courses per year (course duration of three to five days) and that generally this involves about 15 trainers who get paid fees of \$100 per day, that their market represents about \$360,000 per year.

The banking community estimates that they are spending about \$1.4 million per year on direct costs of staff training (they are not costing training staff overhead). PIFBS itself has a training budget of \$700,000 per year paid from the new financial sector levy

Donor support to the PA capacity building programme and their training institute totals \$4 million per year. One of the largest telecom companies, PALTEL, has an annual training budget of \$400,000.

The supply and demand effects in the business services market for training in human resource development is presented in Figure 6.

Figure 6: Supply and Demand in the Business Service Market for Human Resource Training



Chapter 9

The Business Services Market to Support Exports

9. The Business Services Market to Support Exports

9.1 The Growing Potential for Exports and Current Constraints in Realising this Potential

The need to achieve export led growth calls, as mentioned earlier, for the necessary institutional support systems to be in place. Palestine during the last few years has been very successful in negotiating and establishing a large number of preferential trade agreements. In 2004, the Arab League agreed to uphold customs, fees and tax exemptions on Palestinian products, making Palestinian exports to Arab countries more accessible and desirable. The PA also has free trade relations with the European Free Trade Association (Norway, Switzerland, Iceland, and Liechtenstein), the United States, Canada, and Turkey. In April 2011, the PA signed an agreement with the EU that gives agricultural products, processed foods, 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 liberalisation is the specific duty for imports of fruit and vegetables under the entry price system⁵⁰. Previous agreements with the EU also provide free trade access for a large number of other potential exports. Despite these advantages the Palestinian economy has not achieved substantial growth in exports, although in the five years from 2004 to 2009 exports grew significantly from \$312 million to \$518 million - overall growth of 66 percent or about 11 percent per annum.

Palestine finds itself in a difficult position in terms of regional industrial competitiveness its over-reliance on the Israeli market for much of its industrial exports, the higher input costs⁵¹ it is subject to because of its need to import everything via Israel, and its lack of investment in new machinery has seen its Competitive Industrial Performance (CIP) index for 2007 fall to 0.27 placing it 11th amongst its 12 regional competitors.⁵² Palestine does, however, have a situation where 87 percent of its exports are manufactured goods, making it even more vulnerable to severe shocks because of its continuing drop in competitiveness. Analysis also indicates that Palestine exports are very reliant on low technology, resource based products with quarried stone playing a major role. Given the finite nature of reserves of this already over-exploited resource it indicates further shrinkage in this sector over the next decade or so. There is potential to exploit the OPT competitive edge in agricultural products where “grown in the Holy Land” ensures that olive oil and date exports can command

⁵⁰ The entry price system protects some 15 products produced within the EU from imports that are significantly lower in price than those pegged to ensure price stabilisation during the main production period of these fruits and vegetables.

⁵¹ Including high transport costs because it must often use Israeli trucks from the port then switch to Palestinian registered vehicles for delivery within the OPT.

⁵² These competitors include close neighbours like Jordan that has a CIP of 0.57, more than twice that of Palestine and Turkey, which at 0.73 is almost three times more competitive. The only nation it beats in its group (Middle East and North Africa) is Yemen.

premium prices on regional and international markets. There is also a growing market for fruit and vegetables from Palestine promoted by politically sensitive consumers who are specifically buying everything Palestinian while also rejecting product from Israel (especially if it is produced in illegal settlements in the West Bank) because of the ongoing Middle East conflict. This market does however have limitations in terms of the difficulty Palestine experiences in a) increasing access to its own water resources for irrigation b) developing its own export route and cold chain infrastructure because the only viable airfreight outlet is through Israel. There is potential to increase fresh exports through Jordan where already some of the exporters in that country are benefitting from the growing demand from both the Gulf region⁵³ and the rapidly re-establishing fresh produce markets in the main cities of Iraq. This latter option requires fairer export control procedures at crossing places from Palestine into its neighbour (currently still controlled by Israel).

9.2 Market Drivers

The existing and potential export market is the main driver for the business services required to support exports. These business services can be broken into two broad categories.

- Those services that are needed to actually carry out the process of exporting - pre-shipment inspections, export documentation (including certificate of origin), border and customs clearance, transport and shipping logistics, and remittance/acquittal/clearance of export certificates.
- The group of services needed for local companies to explore and penetrate regional and international markets - such as market assessments; establishing linkage with local wholesalers and distributors; and dealing with health, safety, and labelling requirements in the target market.

9.3 Provision of Services Required for Export Shipment and Clearance

In the area of customs clearance, market forces that may be positively encouraging the develop of local business service providers are weak to nonexistent because there is an almost unwritten law that if any export is required to pass through Israeli Customs (and this currently means all exports) then you have to use an Israeli shipping and clearance agent. The following quotes from the most recent World Bank report on Palestine clearly illustrate the situation:

The General Administration for Borders and Crossings (of the PA) is assigned overall authority to manage borders, the Customs and Excise Department in the Ministry of Finance is designated to collect taxes, while the Border Police provide security. However, since the closures of Karni and Rafah crossings in Gaza, the PA has had no opportunity to manage any borders or crossings. Palestinian Customs was previously working at Allenby Bridge with Israeli counterparts but they were removed by the Israeli government in 2001.

⁵³ The airport in Amman is rapidly becoming a major airfreight hub with daily flights to Kuwaiti, Dubai, Abu Dhabi, and Qatar - most with spare freight capacity. There are also regular flights to Saudi Arabia.

One of the most harmful aspects of the current Israeli security regime (and export procedures) is the uncertainty it causes traders. Procedures are unclear and often change, which makes it difficult for shippers to plan

Currently, PACE is small and under-resourced and consequently inefficient. Since it has no presence at the borders or crossings, and receives limited data from Israel Customs, its activities are limited to entering paper-based submissions from local traders into ASYCUDA⁵⁴ and performing post-clearance revaluation of declarations. The customs police operate random checkpoints on the side of the road inside the PA-controlled areas to check traders for proper customs documents. While increased enforcement has led to increased government revenues, it has come at the cost of additional delays in shipping and a perception that customs enforcement is random and unfair.

The average Palestinian BSPs in this field has been forced into acting as a mere agent to an existing Israeli export clearance and shipping company. This has had a very negative impact on the development of this critical local capacity. Exporters simply contact the Israeli shipping agent directly as use of a local agent represents to them a double payment. This has a further negative effect on the efficiency of exports as the movement of goods internally occasionally subject to roadside checks by PACE (as described in the World Bank report) has no local agent in order to solve any problem which may occur.

Discussions with respondents involved in any exporting activity report considerable dissatisfaction with the competency of local BSPs in this field. Some provided specific examples where assistance provided by local BSPs had actually resulted in losses when shipments were either held up in Israel or in one case the final export destination due to noncompliance with relevant documentation.

In the 2006 MAS study on BDS, it is reported that 20 percent and 25 percent of the all BSPs surveyed claimed they were offering information and training in the field of “knowledge of exports and imports procedures,” and a very high proportion - 40 percent - claimed to be offering consultancy services in this area. These figures in themselves illustrate the fact that most BSPs obviously exaggerate their ability and their range of expertise.

During the field work phase anyone claiming that they were proficient in support to exporters was asked the following question - “Do you offer training in ASYCUDA?” - judging by the responses (or lack of a coherent answer) it is patently clear that none of those interviewed could offer this critical and currently much-needed business service. Further discussions with a couple of exporters (basically on a call-back to a respondent previously interviewed) revealed that there apparently is **one** BSP who is offering to assist exporters with practical staff training carried out at their company in the inputting of data into ASYCUDA.⁵⁵ While this example of provision of tailor-made and specific

⁵⁴ ASYCUDA is the Automated SYstem for CUstoms DAta.

⁵⁵ Unfortunately the study team could not contact the BSP in question to carry out a follow-up interview.

demand-led consultancy and training is encouraging, it is of concern that the obvious demand for these services is not being met by an adequate response from local BSPs, clearly a major market failure.

It is worth reporting here that during discussions with some of the major companies (manufacturing and pharmaceutical) and the bigger banks (who were being asked about the attitude of their customers to the investment requirements of developing export potentials) it became apparent that an emerging trend is the number of companies which are establishing new production facilities in Jordan rather than trying to export from Palestine. Again, this is a reflection on the enormous problems being faced. The importance of this area of business service is again reflected on the very positive and forward looking approach adopted by the World Bank in its advice to the Quartet involved in trying to resolve the Palestinian crisis. (World Bank, April 2010). The commitment to allow a reintegration of the PA into border control is meant to happen in a sequence: first control of exports into Jordan (clearly with no security implications) will be allowed, and subsequently shared responsibility for imports (because of the security implications):

Once the PA has decided what type of trade regime it envisions for a future state, it must move speedily to develop the legal, institutional, and physical infrastructure required to implement it. Developing the infrastructure required to manage a sophisticated trade regime will take time and considerable resources, so it is important that the PA begin immediately.

Along with the necessary legislation, the Palestinian government must have the institutional ability to implement its trade policy. Controlling borders is the most immediate issue. It is therefore essential that the PA modernise its border management system and develop its capabilities if it wants to be prepared to implement an independent trade policy.

In the short term, PACE should move quickly to expand its system of direct trader input, which allows large traders to directly input information about shipments into the ASYCUDA system. This information will enable customs to speed processing and enable businesses to more quickly finalise their tax liabilities. It will also enable PACE to develop its post clearance audit and risk management systems. These developments are needed to facilitate trade so that PACE can keep compliance efforts at the borders to a minimum: all but high risk cargo should be allowed to quickly cross and then compliance with customs requirements can be enforced through post clearance audits at the shipper's place of business. The PA is currently developing this capacity but efforts need to be strengthened. A critical component is for the PACE to receive current and historical data for Palestinian traders from Israeli Customs. This will allow the PACE to develop a risk management strategy that checks only high risk cargo instead of delaying all cargo. The PA's ASYCUDA system is ready to accept these data and PACE is working with Israeli Customs to build an interface and transfer it.

The PA border management and customs system should avoid adding to that uncertainty by ensuring that procedures are transparent and all traders are aware of them. If shippers have provided the correct information before they arrive at the border and are fully prepared, crossings will be quicker and the PA's risk management system will work smoothly. Thus, it is imperative that the PA accelerate its current efforts to develop, implement, and publish all of its procedures and educate traders on how to properly comply with customs requirements. A modern trade facilitation infrastructure will take years to fully develop. Consequently, the PA must focus its efforts on this area now so it will not only be ready when it does take control of its borders, but will reap the benefits of improved trade facilitation now.

To reiterate the point, it is critical that there is a strong commitment by the PA and the local BSP community to move toward capacity building in this particular area. This need again reflects the problem facing BSP development - the capacity to deliver competent services is not there and there is a need to develop this capacity before it is required by the market - a typical chicken and egg situation. However, given the importance of developing export capacity in Palestine, this could be considered a very good medium-term investment. But again, the counter problem is to determine when Palestine will be able to take up a role in managing its own exports. This, like most of the potential solutions in the Middle East, is dependent not on the Palestinian nation, but on the whims of the occupying force.

In terms of other issues in export documentation and regulation, the PA has decided to apply for observer status at the WTO. This requires a massive amount of work to get everything in place, and currently the PA is receiving considerable support from the EU (the Quality Infrastructure Programme) to build capacity of PSI, which has to develop its own specified standard or adopt standard WTO.

This process also creates another major demand for BSPs to assist in the production of these standard descriptions - the potential exists for individual private sector companies to contract BSPs (local, regional, and international) to prepare a detailed standard description for PSI - this enables companies who have a specific product to assist in the formalisation of the national standard. This requires concrete proof that the standard as written is coherent both with the general code of WTO and matches those of neighbouring standards associations and organisations - if it meets the criteria of the PSI it can be lodged as the standard. This normally requires considerable research and cross references (including certified copies of the standards of the major exporters of the product) - to ensure coherent and acceptable standards. This process of "assistance" allows companies in the active process of exporting to quickly ensure that their product will have a recorded and registered standard, so that when they apply for their pre-delivery check on quality an existing local standard already exists. In discussion with staff of PSI there are a couple of BSPs providing this back-up service locally to private sector exporters. The other advantage of quickly having a locally registered standard is that the regulations enable producers to get shipments of competitor products refused entry if they

are below standard. This activity, contrary to the spirit of the WTO, has been used in other countries to slow down the process by which local markets are getting flooded by cheap and easily identifiable poor-quality products.

The other business service that will also be required under a WTO export (and import regime) is the need for pre-shipment inspection. This is often driven by who provides the service to the importing countries customs and their own standards monitoring organisation. Often it is a large international company like SGS or BVQ, but the inspection is normally performed locally by a company that has an approved franchise with the inspection company. This would represent a very positive cash flow for small specialised companies - and will represent an essential business service for exporters. Again the process of establishing these inspection franchise holders will require an investment - something that would again be a justifiable target for a grant facility.

9.4 Services Needed to Penetrate New Export Markets

In order to penetrate a new export market, specialised and critical business services are required to:

- Determine the market potential and possible constraints of the product in the target market.
- Determine customers' preference, carry out competitor analysis in order to determine the potential retail price, and verify duty conditions and standard wholesale markup.
- Determine specific quality standards and labelling requirements, etc., in the target market.
- Provide help in identifying a good local partner/distribution agent to assist in finalising a deal.

The initial idea used by the team to try and find out about the market for business services to support exports (like target market research in other countries) was to go through the FNMD grants list and:

- Interview the grant recipients about their experiences in international market research.
- Interview the service providers they used.

This did not work because it was discovered that the grantees did not actually do the things that were anticipated. They either:

- Hired a local market research company who tried to do the study in the target market and experienced difficulty.
- Hired a market research provider in the target economy.
- Used a smart local provider who linked up with a partner in a target market.

One of the more honest BSPs when asked had he ever provided this anticipated business service admitted "I wouldn't have a clue where to start!"

From everyone the team spoke to, it appeared that very few (if any) of the local consultants can deliver competent services in this area. There was one exception - the biggest BSP in the field of market research had done a lot of work for companies targeting the Jordan market and they had during the last three years developed a useful database. They established some connections to reliable Jordanian service providers who could do local market research and to companies who could advise on customer preferences, packaging design, and wholesalers. But, this is an exception, and Jordan is already a very similar market with a large Palestinian population.

The banks and venture capital companies interviewed all cited that market research done by local consultants was the poorest and least-trusted section of the documents presented by producers looking for investment capital to expand into a new market. This is again an area where there has been another significant market failure.

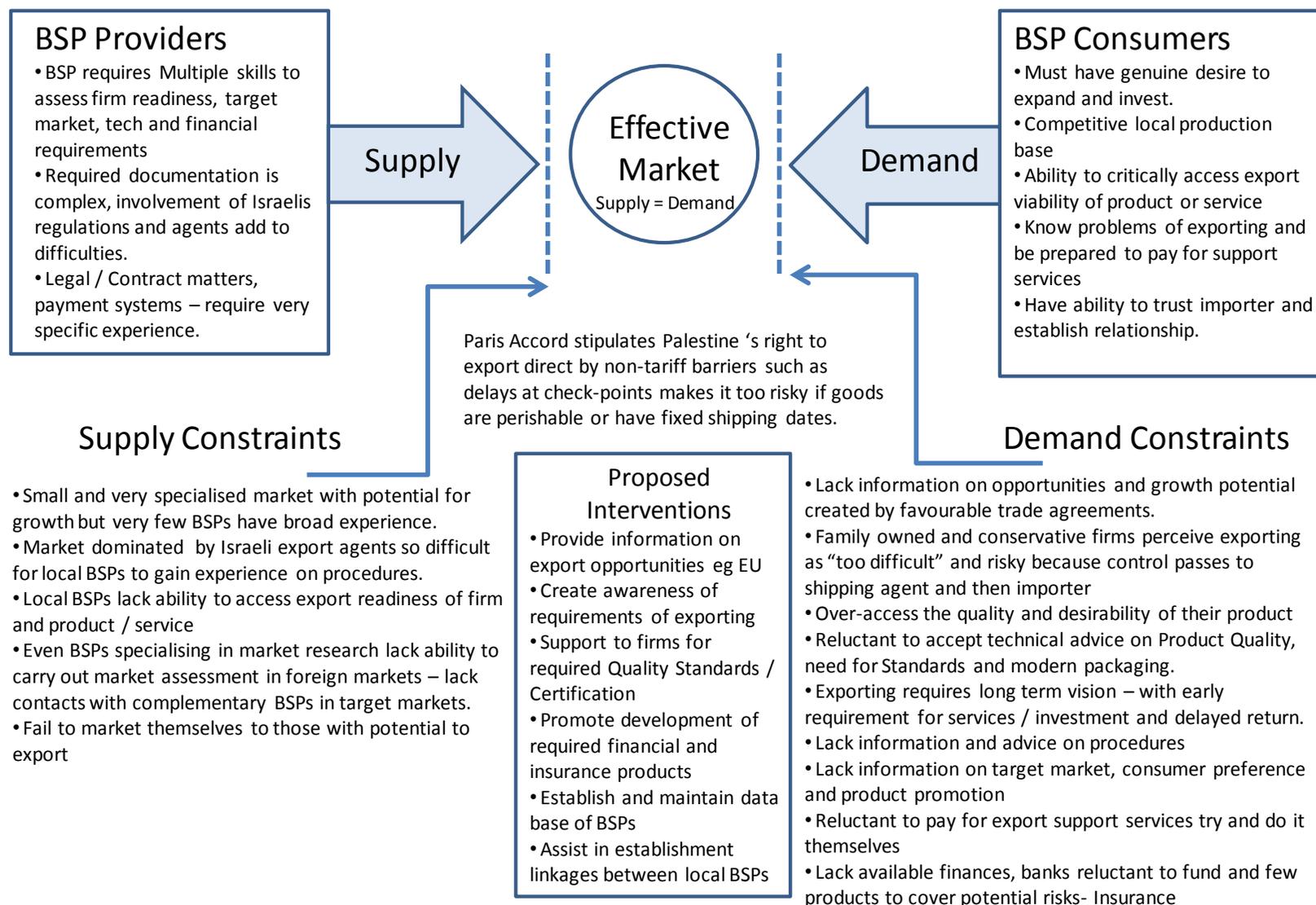
9.5 The Business Services Market for Activities that Support Exports

This market - its size, structure, and overall value - is extremely difficult to quantify because of its position as an appendage of the Israeli economy rather than part of some functioning part of Palestine. But the following is the current situation:

- Total exports from Palestine are currently worth \$500 million.
- Some 150 individual companies have contributed to total exports.
- CCIs play an important role in providing the necessary documentation and advisory services. There are a total of 18 Chambers - 13 in the West Bank and 5 in Gaza.
- There are 15 active service providers who claim they can provide customs clearance and shipment services. Most have strong relationships with Israeli freight forwarding and shipping companies.

The supply and demand effects in the business services market for support to export activities are presented in Figure 7.

Figure 7: Business Services Market for Export Services



Chapter 10

Conclusions and Recommendations

10. Conclusions and Recommendations

10.1 General Conclusions on Business Service Markets in Palestine

There are a number of overarching considerations that affect the nature of the development of business service markets in Palestine, affecting the risk profile of the enterprises.

Uncertainty in the Political Economy of the OPT

The current political climate in the OPT and its uncertainty is not conducive to long-term investment in the growth of the majority of enterprises. This seriously distorts the demand profile for business services, so that even if there is a real and identified need it is likely that the majority of enterprises will either delay the required investment in services or only partially implement the full series of measures (direct investment and possibly a series of business service inputs) required to ensure success. It is very difficult to suggest any project activity that can fully ameliorate this key market driver (or dampener on demand) it is a fact of life in the OPT and even if it is polite to try and ignore or down play it, it must be taken as the key reality in the development of a vibrant business services market in Palestine.

High Proportion of Small Enterprises with Conservative and Cautious Management

The social structure and predominance of small, family owned enterprises in the composition of the private sector in Palestine is another fixed reality. Study after study reveal a large, non-dynamic portion of family owned enterprises with owner-managers who do not “believe” that they need external assistance to improve or better run their firms. A significant proportion of the decision makers in these companies may be convinced that they could significantly increase the size and value of their turnover and, as a consequence, grow their companies, but they do not because of their strong aversion to risk. Part of this is due to the uncertainty of the political economy, especially on the part of the older generation in control of many of the productive assets of the economy. But, part is also based on social issues tied to family owned businesses: such as the large number of family members either working in the company⁵⁶ or dependent for their financial security on company pensions or the salaries earned by their siblings and in some cases younger family members. It is one thing to risk your company’s assets in a new venture, it is another to make decisions that, if they are wrong, risk the livelihood of a number of family members. In some cases,

⁵⁶ The owner of one of the companies visited admitted that out of a total of 50 employees 28 were either his close relatives, their spouses, or relatives of those spouses.

strong family traditions and the history of enterprises actually restrict the ability to make sensible business decisions.⁵⁷

Provision of expansion grants to procure business services to support the growth of these types of small, family owned enterprises is possibly a wasted effort until there has been an attitudinal/motivational change. There may be a need to provide this set of enterprises with some sort of preliminary support in order to better prepare them to “contemplate” a growth path. The critical need is for projects like FNMD to be able to carry out a rapid assessment of a company to determine its potential for growth, and consideration should be given to either developing a simplified tool to do this or to train a group of BSPs to deliver this style of rapid assessment of social/managerial factors.

Large Number of Retail Stores and Commercial Outlets Have Low Need for Business Services

Many studies indicate that a large proportion of the more than 100,000 enterprises are small stores, supermarkets, and commercial outlets engaged in retail sales and not in production, so they have a very low need for business services (other than accountancy/bookkeeping services). The high proportion of enterprises happy to remain “as they are” is a reflection of this phenomenon. Given the saturated market in food stores and mini-supermarkets and reduced consumer spending because of remittance inflows limited by the current financial crisis, it may be even “ambitious” to maintain the status quo. The MAS study quotes PCBS figures that indicate 57 percent of all enterprises are in the wholesale and retail sector. The CCI survey analysis notes that 69.5 percent of their stratified sample, randomly drawn from the membership lists of Chamber members, were commercial outlets.

Previous Programmes Have Failed to Focus on Sectors and Industries with Realistic Growth Potential that Is Based on Local Competitive Advantage and Regional Competitiveness

There needs to be an improved focus on the support that Palestine is receiving in terms of developing various sectors and industries. As already described in this report, the manufacturing and light industrial sector is facing major problems in terms of shrinking competitiveness. The fact that so many recent programmes have continued to help the manufacturing sector find improved markets without addressing the real problems facing the sector are examples of this lack of practical focus. Some sectors that used to have an important role in the Palestine economy, like textiles and footwear, have been eclipsed by cheap imports from China and other parts of Asia.

Programmes Have Continued to Focus on Attempts to Develop the Market for Generic Business Services Instead of Developing Specific Business Services that Can Have Impact

There could actually be a situation in Palestine where the supply of generic business services like those needed to develop business plans⁵⁸ for expansion and growth, improvement of management, and strategic planning of MSMEs

⁵⁷ One major food processing company visited was experiencing major problems in reorganising product flow in order to get ISO 22,000 certification. When it was suggested that they might move to a newly designed factory, they stated that it was impossible because the factory had been built by their grandfather and they could not abandon it.

⁵⁸ The exception being the very demanding business plans required for large investment by venture capital companies or extended commercial bank support involving a package of capital injection and operational financing.

are in balance with current demand. This is not because these services are not needed - as clearly there are a large number of deficiencies in how many of these enterprises are run, operate, and perform - it is a result of the poor demand from a large group of conservative, family owned businesses whose managers/owners have low regard for outside assistance. No amount of intervention in the improvement of quality and quantity of these services is going to alter the demand side of the equation.

If specific areas can be identified where the provision of business services would make a major impact, then a specific campaign should be developed for that particular sub-market segment. This intervention should be carefully researched, planned, and executed by facilitating market stimulation rather than a crude decision to jump in to simply improve supply level.

Large Uncoordinated Involvement of Different Donors has Caused Massive Market Distortions

As already described, the level of donor support to the OPT is enormous and as more and more donors realise that Private Sector Development can offer truly sustainable growth and development, then more funds will be poured into enterprise development, improving MSME competitiveness, and like FNMD itself, developing new market potential. The small size of the OPT economy, the constrained potential for economic growth because of the current political economy, the largesse of many of these donor programmes, and the fact that a large amount of duplication is occurring is causing serious market distortion.

There are many examples where some Palestinian companies have been supported by a number of donor programmes during the last couple of years, making any attempt at attribution for the investments unlikely. During one interview, the question “When did you get the FNMD matching grant?” provoked an extended discussion between the Managing Director and owner of the company and the Finance Officer, which illustrated that they had received about five donor-funded grants in the last three years - all basically in the same area - assistance in the development of their high-end export market.

By using the existing Donor Co-ordination Committee - and possibly establishing some mechanism that better informs each programme about which clients have already received or are about to receive support - donor assistance could be made more effective.

10.2 Common Recommendations from the Detailed Examination of Business Service Markets

The detailed examination of the four business service markets that support enterprises in the fields of certification and standards, access to finance, training in human resource issues, and assistance in exporting made recommendations on how the market for these specific services could be improved. Many of these recommendations have common elements or theme. These have been combined and are discussed on subsequent pages under the business service categories given in Table 6.

Table 6: Business Service Categories

Category	Business Services Market 1: Certification and Standards	Business Services Market 2: Access to Finance	Business Services Market 3: Training for Human Resource Development	Business Services Market 4: Support for Exports
Create Awareness in Business Community	Awareness campaign on benefits of standards and certification in local and international market for clients and BSPs	Educate consumers on requirements and work involved	Generate awareness of the value of human resource training among enterprises	<ul style="list-style-type: none"> • Provide information on export opportunities in the EU • Create awareness of requirements of exporting
Ensure BSPs are in tune with current requirements of market		Improve linkage and communication between BSPs and FOs to increase quality		
Capacity building of BSPs	Improve capacity of BSPs to interpret standards	Provide capacity building of BSPs on modern requirements of business plans	<ul style="list-style-type: none"> • Create capacity to conduct needs assessments among BSPs and client firms • Capacity build BSPs in course design based on needs and improved training methods 	
Improve linkages, availability of information and ability of BSPs to market their services	Improve capacity of BSPs in marketing of their services in certification and standards			<ul style="list-style-type: none"> • Establish and maintain database of BSPs • Assist in establishment of linkages between local and regional BSPs
Develop new product for market or improve range of products available	<ul style="list-style-type: none"> • Assist local certification agent and BSPs to increase product range and update to latest standard • Increase the number of locally benchmarked standards available from PSI 		Assist in design and introduction of flexible and modular courses	<ul style="list-style-type: none"> • Promote development of required financial and insurance products • Support firms for required quality standards/certification
Introduce improved governance and/or quality control	Introduce monitoring of conflict of interest between CB and BSPs in export certification	Introduce some form of quality control of BSPs	Introduce some form of quality control	

Create Awareness in the Business Community

As has emerged in this study, one of the biggest overall constraints to market development is the existing attitude of enterprise owners and managers toward the use and consequential usefulness of the range of services offered by business service providers. No amount of tinkering with the market is going to change that. Projects and donor-supported programmes need to take a step back from offering the services that best judgment indicates are needed, instead they should first make sure that the general business community accepts that they are needed and appreciates that these services will significantly improve their businesses.

A number of examples exist in the first services market studied - the previous donor-driven drive to deliver the generic quality certification (ISO 9000 and more recently ISO 9001) in order to improve the production efficiencies across a full range of industrial and manufacturing sectors clearly illustrating the prior need for awareness. There was a lack of understanding of the benefits of a QMS to overall performance and quality control. Developing this understanding and appreciation in general was not focussed on by any of the previous programmes. The distorted expectation of getting immediate benefits from the “certificate” rather than understanding the long-term benefits from upgrading their production systems has caused many of the recipients of the grant support to discontinue the recommended quality control improvements. A sizeable proportion did not even bother to renew the certification they had received.

More recent experiences in the olive oil industry reveal a similar pattern. Small and medium producers were taken through a massively expensive ISO 22,000 and ethical trade certification exercise of their farms and oil expressing facilities by a donor-funded project. Later evaluation reveals that most of them did it in order to obtain the additional grant funds provided to make repairs/improvement to the building housing the oil press (a requirement of certain components of the QMS for ISO 22,000). Their failure to carry on with the basic health/safety procedures detailed in the QMS has resulted in their certification lapsing, rendering them unable to participate in a rapidly expanding market opportunity for smallholder-produced and cold-pressed olive oil that is being sold internationally at significantly higher prices.

Examples of the need to create awareness, from the business service sectors, include:

- The inability of enterprises to appreciate the long-term advantage of a good business plan. Especially, in terms of planning and identifying what needs to be focused on in order to promote growth of the company.
- The failure of companies to appreciate the real and genuine advantage of investing in the development of the existing human capital in a company through training. Or, even the indirect benefits the company can get by simply allowing their staff time off to attend training courses that improve their general skills.
- The incredible potential that exists in some export markets because of a significant number of advantageous low-tariff regimes.

This low level of awareness needs to be countered by a series of broad-based information campaigns targeted at both providing information and changing

attitudes. A change in attitude in a business community is difficult, especially among family owned businesses, but the use of well-known and respected business personalities, who share their experience and detail their positive experiences in both the mass media and in local area meetings, has been shown to be effective. Simply offering the business service or developing the service providers capable of delivering it is not going to result in the change required.

The vast number of Palestinian companies need to be convinced that new economic opportunities exist and some form of mass media or targeted media marketing campaign, at a national level needs to be considered. These awareness and information campaigns should be based on a selected theme or an industrial sector with potential. Campaigns like this need to be run and managed by local organisations like the CCI or PalTrade (if it involves exporting). The advantage of organisations like the CCI is that they have a decentralised structure with offices and facilities in all parts of the country - the best way to impress and motivate local enterprises is by having locally successful entrepreneurs present their stories.

Ensure BSPs are In Tune with Current Requirements of the Market

The high level of dissatisfaction with business plans produced by local BSPs for local enterprises seeking to access finance from major banks and venture capital companies is the clearest example of the failure to match supply and demand in this business service sub-market. The recommendation is to actively support the improvement in the linkage and communication between FOs requiring the business plans and the BSPs producing them. Not much can be done about some of the business plan quality problems when clients are reluctant to provide factual information of their actual financial situation to the BSP. However, as discussed earlier, the sharing of the FOs requirements to: have the BSPs “dig a bit deeper” in their analysis of the potential of the project, be more realistic in their projections, and be more circumspect of the potential risks that need to be considered could significantly improve their ability to match supply to demand. Again, this a fairly complex market situation as the average BSP feels they should “sweeten” the business plan to please their client enterprise, but discussion and information sharing should assist in the ultimate goal of all parties involved - to secure finance for a viable and sustainable investment.

Capacity Building of BSPs

A number of the BSPs interviewed and the Regional Agents/Representatives for the CB all supported the recommendation that some support/capacity building should be provided to enable local BSPs to better interpret the most common standards being applied. The local agent (MAK) can offer public training in some aspects of the certification procedure - the most critical being in the interpretation of the various control points in standards like GlobalGAP and ISO 22,000, but individual coaching and specific field visits with the BSPs to their clients' properties/production facilities would represent a direct conflict of interest. This conflict of interest would occur because they, as the only CB agent, would eventually be required to evaluate the QMS and the interpretation of the standard made by the BSP at the subsequent audit inspection. During the field work phase of this study it became apparent that some of the local BSPs

offering their services to clients requesting support from FNMD were taking an extremely narrow position on the interpretation of the GlobalGAP standard and, as a consequence, adding considerably to the costs of compliance for the client enterprise trying to get certification. For example, while calling for “adequate and justifiable soil testing to determine plant nutrient requirements” the GlobalGAP standard does not imply that every single field should be subject to multiple full-spectrum, all-element tests - some on which (like those for heavy metals) require the use of overseas-based laboratories. The standard actually provides for considerable flexibility on most control points - in this case it would be sufficient for the QMS (being developed by the BSP) to argue that soils in the locality are generally consistent and have low variability and refer to area soil mapping to confirm this. Equally, a single multiple-site, mixed sample could be drawn and a single soil test used to confirm that the entire area exhibits no evidence of heavy metals. This could be further supported by a good hazard analysis (arguing that no industries in the area represent any pollution threat), and the evidence of full soil analysis previously undertaken in the area. This well-reasoned interpretation of the control point would definitely be passed at the certification inspection and result in massive cost reduction for the enterprise obtaining the certification.

The non-rigid interpretation of the standard and its numerous control points, competence in practical environmental hazard analysis⁵⁹ and use of the various options under the group certification provisions of GlobalGAP could easily be “taught” to local BSPs by the importation of experienced certification specialists from another country/region. It would be especially useful if they came from areas with a similar agricultural sector (for example, large numbers of scattered small family farms where single exporters buy from many producers). This sort of capacity building that has such an impact in drastically lowering the costs of applying a standard in something as valuable as an export business is an ideal target for a programme like FNMD. Although this represents a purely supply-driven intervention, which the support programme needs to plan and implement, there is strong evidence from major vegetable exporting countries like Kenya, Thailand, and Vietnam of its long-term benefits.

As already discussed above, there needs to be some improvement in the performance of BSPs involved in the production of business plans, especially on those to be presented to FOs in order to secure investment capital. As most of the people working in the financial consultancy business are products of the MBA and economic honours programmes at the major universities in Palestine, it would be logical to arrange a series of “refresher courses” for the professors and lecturers on the teaching staff of these institutions. This would be a supply-driven exercise, but it is felt this would be a useful injection of modern techniques and thinking. Bringing in international and regional specialists in the production of investment/expansion-based business plans to hold a series of workshops for relevant university staff, which also involves the eventual “consumers” of these products - senior banking and venture capital company executives - would be an extremely beneficial exercise for a grant support programme. It is doubtful that the university staff would be prepared to pay for

⁵⁹ For ISO 14,000, ISO 22,000, and GlobalGAP.
www.dfid.gov.uk

such a course,⁶⁰ but clearly as it would have such a major multiplier effect across all graduates, a subsidy is justifiable.

This business services market issue is based on a reorientation and refocusing of how business plans are done, not a complete revision of the principles and procedures of preparing business plans. As such, it represents an ideal subject for a short course offered commercially to BSPs in Palestine. This course could target consultants and BSPs working with the banking sector and the venture capital funds. With some effective marketing, a significant number of the BSPs might be prepared to pay for a well-designed and conveniently timed capacity building product.

The topic mentioned in the previous paragraph is again an element of capacity building needed in the field of human resource training - the improvement in course design and the development of more effective training methods. The existing BSPs in this field are not adapting their “offer” to the requirements of the private sector market. They are still offering full-week courses at expensive venues where the daily programme demands a morning and afternoon tea/coffee break, an extended time for lunch, and activity sessions to wake up participants dozing off in the post-lunch period after their large meal - the donor-funded training programmes regularly held in the OPT. They are not offering intensive modular courses with repeat sessions during the week at convenient times (during the lunch hour or after work). Very few local trainers have discovered the usefulness of business breakfast functions or fully understood that managers of SMEs cannot afford to be away from their businesses for the whole day. These observations on lack of innovation in course design and delivery can be applied to all forms of training being offered to the private sector not just human resource training.

A couple of training providers interviewed had already realised that there is a major market demand for internationally recognised courses in generic and specific business fields like CIS and CA. The beauty of these courses is that they come pre-designed as modular courses with a clear logical sequence in the training objectives, a defined lesson plan, detailed learning objectives and a comprehensive post-course handout that reinforce the learning experience. It would be very useful to provide capacity building to BSPs to help them develop similar packages for locally required courses.⁶¹ It is worth noting here that despite a massive investment in staff capacity building by the major commercial banks - supported by the PIFBS - there are no BSPs in Palestine offering the Institute of Bankers training programme on an agency basis. This is the most widely respected international qualification in banking practice.

The other missing capacity required by BSPs involved in the staff training sub-market is the ability to carry out effective training needs assessments. The systematic assessment of the skills required in an organisation/enterprise for it

⁶⁰ University strengthening, including sub-components on faculty exchange, short-term TA, and a visiting scholar programme have been part of the USAID Expanded and Sustained Access to Financial Services (ESAF) project. This programme is coming to an end, and FNMD should collect detailed information on which university participated and contact details of the lecturers involved if it plans to work on this recommendation in the future.

⁶¹ One of the organisations interviewed remarked that local trainers in Palestine had developed extremely lacklustre training methods driven by the often complete lack of quality control and performance indicators from the donors funding the training. Trainers often simply plod through a PowerPoint presentation that they have used many times before or aimlessly talk around a session topic. Despite claiming preparation time, formal course outlines with learning objectives for each session are rarely, if ever, produced.

to operate effectively and then a gap analysis between that requirement and the existing skills of staff should form the basis of training programme design. The use of standard techniques should enable a BSP to design a tailor-made training programme for an enterprise, doing something for which the BSP has no prior technical experience. These skills are critical in a market with few competent BSPs providing training and a large number of diverse SMEs carry out a wide range of activities.

Improve Linkages, Availability of Information, and Ability of BSPs to Market Services

A strongly reoccurring theme in most the discussions is the poor marketing of BSPs - SME after SME reported that they did not know that service providers are available to help and support in specific fields - this is particularly true of the smaller urban centres. Others report that they know that service providers are available, but do not know how to contact them or where their premises are. It appears that many BSPs carry out hardly any marketing activities - apparently often relying on their existing contacts to ensure further work. This is a common practice, but in areas like training in standards and certification where most clients are completely new to the field there is an urgent need for marketing.

Very few service providers interviewed had a good approach to marketing.⁶² These improved and innovative marketing approaches need to be replicated, and there is potential to offer BSPs some form of grant/matching grant facility to improve their marketing plan or to actually market a specific product in a targeted market.

The experience of various programmes, including FNMD, is that there are very few BSPs providing support to enterprises trying to export. Some of this lack of supply of critical services is a result of the dominance of Israeli shipping and forwarding agents because of Israel's control over all the borders and airfreight outlets. The other service that is in short supply is BSPs capable of carrying out marketing studies and advisory services for Palestinian companies contemplating exporting to other countries. There is some experience and competent BSPs if the target market is Jordan, and some knowledge on the Gulf States, especially Dubai. However, once "new" or recently opened markets like Turkey and Iraq are considered, there is very little experience and few BSPs capable of providing effective and professional services. Once one considers specialised high-end markets like the EU and Nordic countries, then the lack of support services is a major constraint to the effective penetration of these markets.

Organisations like FNMD and others should collaborate and maintain a database of professional service providers accepting that the level of experience and an estimate of competency must be based on performance and recommendation from clients who have already used them. Equally, there needs to be an understanding that experience is generally site specific and that

⁶² One of the service providers in standards had an effective marketing programme. His company has run a series of "free" information sessions explaining the advantages of applying standards and obtaining certification - these have been run in targeted areas across the whole OPT, including Gaza. He has also been instrumental in introducing numerous potential clients to donor-supported programmes offering assistance in this area - and as a consequence - secured a sizeable proportion of the subsequent TA provided.

someone who has worked in parts of the EU is not competent to advise on or work in all countries in the EU.

In terms of developing new markets and capacitating BSPs to support export drives, which target these new markets, there needs to be a more structured and systematic way of supporting it:

- First, there needs to be a process by which national-level organisations agree on potential target markets and on an agreed range of products/commodities that have both a genuine potential and a production capacity to meet all aspects of market demand (quality, quantity, price, etc.). There already exists an impressive array of special and privileged market access to a number of countries - the conditions and tariff regimes of these various opportunities need to be widely published and information shared with potential exporters. The exercise suggested here must analyse these export opportunities and match them with potential products that are currently available and being produced in sufficient volume and at the standard required.
- Second, identify competent BSPs for the various business service sub-sectors required. Again, this must be based on the preliminary assessment on what market segment is being targeted and what specific area needs to be addressed by potential exporters, including quality standards, market surveys, packaging, and labelling.
- Third, determine information sources and business service support organisations and associations in the target markets, determining which organisations can arrange specific linkages between their members and the potential Palestinian BSPs that can in turn offer key marketing and advisory services to potential exports.
- Fourth, arrange B2B meetings between local service providers and potential partners in the target market. These could be actual visits, virtual conferences, or simply email and telephone-based introductions. This linkage between BSPs in both the source and target market is critical.
- Fifth, launch a call for exporters who meet the criteria established for the target market, or are interested in investing in those markets. Provide briefings on the opportunities and requirements of the new market.
- Sixth, introduce potential exporters to BSPs already connected and informed about the target market and monitor the quality of the services delivered. This stage could also benefit from additional TA support in mentoring and supporting the BSPs through their first penetration of a new market with a new client.

The suggestions made above must be based on a tight and focused strategy. In the past, too much effort has been placed on too many markets and too many products, so that no group of local BSPs could become proficient and experienced in a particular area of the export spectrum.

Develop New Products for Market or Improve Range of Products Available

One of the biggest challenges in the export market is meeting the official import regulations in the target markets and consumer demands, especially in the area of food safety, environmental compliance, and in some cases the need to

demonstrate that products are produced not by large multinationals, but on small, family farms. There is currently a reasonable stock of BSPs capable of providing the currently required standards and certification, but as market demand shifts or changes, there is a need for these BSPs to keep abreast of these requirements. In the exercise of targeting specific new markets with potential (described above) there is a need to identify, ahead of time, what these standards/certification requirements may be. It would seem a logical extension of any systematic support in the promotion of exports to:

- Offer BSPs matching grants to obtain experience in assessing exporters' needs for new or specific standards, to attend training in how to undertake hazard and critical point assessment for the new standard, design any relevant QMS, and provide training to exporters and their staff required to upgrade process and production techniques.
- If the demand for certification in the new standard is going to be significant, then it is justifiable to support the local agent to establish the link and become registered with the relevant CB so that a local audit function can be established. This would be expensive for a few suppliers, but significant savings could be achieved if there were to be lots of certification required. If the initial requirement for audit inspections is low, then it would be more economical to bring in external auditors, especially if a small cluster of producers had been assisted to get to their audit stage.
- Provide matching grants to participating enterprises to achieve the required standard and certification.

The international experience in regional export markets that do not have such rigid health and safety standards is that local benchmarked standards, governed locally by similar organisations are becoming acceptable in the guarantee of quality. The best example of this phenomenon is Southeast Asia where the Association of Southeast Asian Nations (ASEAN) network is moving toward full acceptance of each other's national standards institute quality mark or export certification. This provides a high degree of flexibility in the export trade. Thailand, for example, has a large export trade to the United States and Europe where products are certified to the highest international standards required such as ISO 22,000, the International Flower Council, and GlobalGAP. In addition, the kingdom has established ThaiGAP, which is benchmarked to GlobalGAP, but controlled by the local Royal Institute responsible for phyto-sanitary and chemical residue monitoring. This local standard, much cheaper to maintain and provided at a low cost to producers who export regionally (as an export incentive subsidy), is now fully accepted in the target markets of Japan, southern China, the Philippines, and Indonesia.

For this reason, it is recommended that assistance should be provided to PSI to increase the range of locally defined and designated standards. A good example of the early existence of a comparable system in the Middle East is the introduction of the PSI-controlled and audited PAL GMP of the pharmaceutical industry that is already accepted by Jordan, Egypt, Morocco, and Tunisia. This standard allows the pharmaceuticals imported under this certification regime to be used in public health facilities - a clear indication of the regional acceptance of PSI's competency.

It must be stressed that the suggestions made above - all heavily supply driven - must be based on the recommendation that a detailed and systematic evaluation of a couple of target markets be undertaken. That the specific requirements of those selected markets must be predetermined and an assessment of the capacity and needs of potential BSPs who could provide the service carried out. Allowing another market-driven free-for-all where BSPs apply for grants to provide services they “think are needed” in potential export markets that they “feel” are important to their clients is simply unacceptable. Investment in services to support export markets needs new products, but provision of these services and the capacity building of BSPs to provide them must be focused and directed.

One area where it may be useful to assist in the increase in product range is with Halal certification - clearly there is an important and growing market for this standard, especially for exports to Saudi Arabia.

Another recommendation on the need to increase the range of products available from BSPs was centred on the need to assist BSPs to design, introduce and market training courses that are modular and can be delivered in a more flexible and convenient way.

Need to Introduce Improved Governance and/or Quality Control in the Market

Almost every one of the four service markets studied in detail indicated a need to attempt some form of quality control or improved governance of their sub-sector. Basically current practice enables anyone to establish and advertise themselves as a “consultant,” “financial advisor,” or “technical expert.” BSP can sell their services without any form of official registration or quality control - no one even checks their credentials or educational background.

In the area of standards and certification, there is an established mechanism in that consultants / BSPs prepare a QMS based on the requirements of the standard, help establish the system at the enterprise including assisting the enterprise in training staff and then they are audited by the agent of the certification body (MAK). This effectively ensures an element of quality control. The agent must be registered with the CB they represent and in the case of most the standards they must also be included on the IRCA list - the International Register for Certified Auditors (continued inclusion on the Register is based on an assessment of performance in the submission of audit reports).

The main problem here is the critical need to ensure that there is no conflict of interest between the BSP establishing the quality control system and the agent carrying the audit on behalf of the CB. If at any point there was suspicion that there had been collusion between the auditor and the BSP it would seriously damage the credibility of the whole certification system in Palestine. Given the very small market in Palestine and the limited demand for most ISO 22,000 and GlobalGAP certification because of the current environment, which does not favour exporting fresh produce, it is extremely likely that the auditors and consultants will have a reasonably close relationship - often working together.

A number of stakeholders, when the issue was discussed with them, recommended that some form of independent monitoring be introduced

In both the business service markets that assist enterprises to access finance and provide training in human resource development all respondents accepted that there is a need to have some form of quality control. In many of the previous studies on BDS and business services in Palestine, recommendations were made on this issue - some like the MAS Study proposed a role for the Palestine Authority:

Increasing the PA's attention to the business services market through the adoption of a unified classification system for business service providers that is based on their professional capabilities.

Given the fact that the business services market is mainly private sector, this recommendation may not be the most effective way of introducing quality control. Current best international practice would be a system of peer review and the involvement of a BMO. In the past, this suggestion was made and a BMO was established and was active for a period; the Association of Consulting Firms. This was a forum that brought together all the consulting firms together, and despite what seemed to be a considerable interest and initial commitment to making it work it has become moribund. One respondent claimed that the demise of the association was a result of the start-up being too donor driven rather than demand led by the members, and it died because it was too dependent on donor funding, had never examined how it might be self-sufficient by generating its own income, and there was real appetite for the organisation to have a role in censuring members or "black listing" those who did not perform. This is often a problem in small associations in relatively small communities where most of the members know each other. Despite these difficulties it is recommended that the association be resurrected and capacity built to play a role in quality control.

The sections above are based on the analysis of the four selected business service markets studied in detail. The short section below is based on observations made during the Inception Phase and subsequent discussions with various stakeholders. It recommends a focused approach on other sectors that many respondents feel provide a competitive advantage and significant economic advantage.

Potential to Focus on Additional Industries with a Competitive Advantage

Recently, a number of significant studies have been carried out on various manufacturing and industrial sectors. For example, detailed sector studies have been undertaken and well-funded support programmes put in place in the stones and quarry and olive oil sector - this level of focus is required in a few other prime sectors which could include:

- The construction sector, especially in the services sector that supports this important investment destination (for example, surveying, construction project management, input supply chain management and logistics, property and scheme promotion/marketing, specific legal services in areas like condominium group leases, estate and sectional titled property management/administration, etc.).

This sector, which is the fastest growing sector in the OPT, is also a significant (if not the major) generator of local employment opportunities in the form of sub-contracting in auxiliary construction services such as

electrical installation, plumbing, window and door manufacture, and glazing, etc. Unfortunately, as the construction projects have grown in complexity and size, many of the local sub-contractors have failed to expand their operations to meet the increased demand and level of sophistication. Some of the bigger construction projects are now resorting to contracting large sub-contractors that operate in Jordan and the Gulf. If this trend continues it will result in a significant job loss scenario for Palestine - something that existing high levels of unemployment, especially among youth, do not need. One of the major problems in benefiting from this expansion situation is the extreme difficulty local contractors seem to have in forming consortiums and in working in joint ventures involving a number of companies. One respondent stated that this is a direct result of the strong and competitive rivalry between family firms that their hierarchical management structures simply cannot cope with - even if it represents a major loss of business for all concerned. The growth and expansion of sub-contracting firms in this expanding market represents a major way in which unemployment could be tackled, but one constraint may be the lack of technical and vocational trained graduates - a shortage of the practical skills required. Many Palestinian families focus their significant investment in their children's education on the potential to secure white-collar jobs. However, the pioneering work of many NGOs working during the last few decades in the refugee camps that still dot the OPT have achieved major success in some TVET programmes. These skill training initiatives and the work experience obtained during the period when a large number of Palestinians worked in Israel (many in large construction projects) have provided a significant pool of skilled construction labour.

- The tourism and hospitality sector has good potential, especially if the current period of peace in the West Bank can be maintained. Major changes need to be made in the sector to break the strangle-hold that Israeli tour companies still have on tourism in the OPT. Most tourists enter the region via the international airport in Tel Aviv and are collected by Israeli-owned tour companies. A large number of these tourists visit the religious sites in the OPT from Israel for the day and are whisked back to hotels there at the end of the visit. Some tours even bring their own packed lunches (because they argue that there are no suitable local restaurants) and there are stories that some guides even discourage potential customers from buying curios in the West Bank because they are "too expensive" and then visit stalls in Israel selling handicrafts actually made in Palestine. There is very asymmetric access granted to Palestinian tour companies who are even excluded from operating in the extremely lucrative East Jerusalem market still theoretically part of the OPT.

The only way that Palestine can emerge from this disadvantageous situation is for their tour companies to be allowed to freely run tours with international visitors entering from Amman without them being treated differentially by the Israeli controlled border controls. The other way is to promote and develop "Independent Palestine" tourism, provide secure online accommodation booking and payment systems for Palestinian hotels, and promote and advertise local restaurants via an internationally branded quality assurance/gourmet rating system. These all require distinct BDS that should again receive targeted and focused support.

The current designation of different areas in the OPT as part of the Oslo Accords 1993–1995 (which was meant to be a temporary measure in the Peace Process) has created a situation where prime tourism sites near and along the Dead Sea and Jordan valley are still under total control of the Israeli Military - severely restricting their use as areas for tourism, especially for what has become an extremely high-end niche market for the Dead Sea salt and mud spa treatments.

The increasing international support for the Palestinian cause based on a growing appreciation of their case for Statehood needs to be translated into tourist income. A growing number of liberal-minded visitors may actually like to experience the problems ordinary citizens of the region experience in crossing through the various security barriers and checkpoints.

- As already mentioned, there are a number of potential high-value agricultural products that draw on their traditional association with the Holy Land - dates, fresh herbs, traditional goat's and sheep's milk cheeses and honey. These products, like Palestinian olive oil (especially the extra virgin, cold-pressed, and ethically produced products) could command extremely high international prices if marketed and packaged properly. Again, a number of important technical business services like certification and quality control need to be developed to support these sub-sectors.

Annex 1

Terms of Reference for Business Services Sector Market Analysis

Annex 1 Terms of Reference for Business Services Sector Market Analysis Palestinian FNMD

Introduction

The FNMD project is a matching grants project working with private companies to help them develop new products and enter new markets. Over the past three years, the project has assisted more than 250 companies in agriculture, light manufacturing, IT, business services, and finance with matching grants to address constraints felt by businesses to improve their business performance.

FNMD seeks to develop a greater understanding of the broader market systems within which the different market players operate in order to identify systemic failures that are limiting the effectiveness of the market system. While the FNMD is focused on providing matching grants to individual companies from most sectors, the BDS sector has benefited and participated the least. Without a vibrant and effective domestic business service providers, it is very unlikely that sustainable business development can take place within any sector. The BDS providers have long been used to getting contracts paid for by donors. This created both a disincentive to investment in self development by the service providers and a disincentive to use service providers by the business community without donors' assistance. What is required is a BDS sector that is equipped to add value to the development of business processes, products and markets; to the extent that firms would become willing to use their own resources to pay for these services.

This study is designed to provide FNMD and the wider donor community with a detailed analysis of the nature of business services market in Palestine, the types of firms and main players providing the services, their internal business models, the opportunities, the incentives and the root causes that have been limiting their impact. The study will feed into the future market development programme currently being designed by DFID, the World Bank and the EU, and will identify opportunities for the FNMD to more strategically apply its matching grants programme to broaden and deepen the programme's impact, and

Scope of the study

This study will focus on the particular business services that are most needed and with the greatest potential to promote the development of the private sector in Palestine. The study will uncover the root causes behind the underdevelopment of this sector across the value chain, and propose recommendations for systemic interventions.

Focus

The BDS sector incorporates many different types of services: from finance, to education, to health, to accounting and consulting. The focus of this assignment is to analyse those services that are most used by enterprises as they grow and develop into more sophisticated and competitive enterprises. Some of these supporting services are entire industries unto themselves (like finance and information technology - IT), which have already had tremendous amounts of analysis and support, so may receive less focus in FNMD's business services sector analysis.

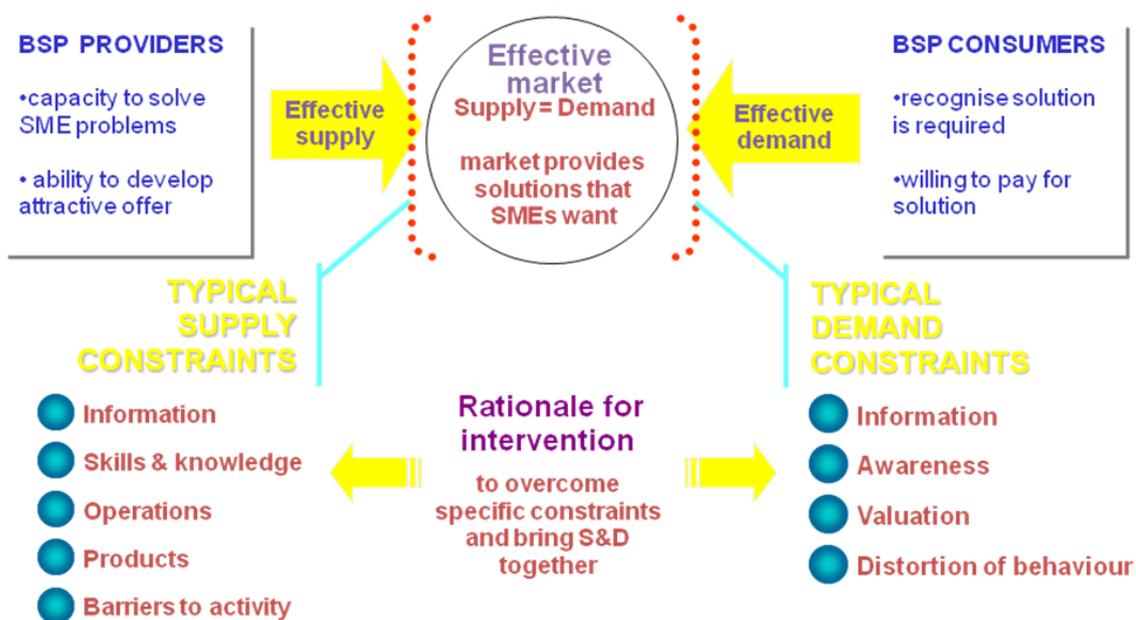
The main services supporting the development of the business sector in general are financial services (including credit, saving, insurance, transfer, etc), information technology, business process engineering, consulting for business and strategic planning, research, standards training and certification, marketing and packaging, training (generic and specialised), financial capacity building (financial and cost accounting, financial analysis, etc), and product development. In addition, there are sector specific supporting services. For example in agriculture there are lab services for soil testing, input services (fertiliser, chemicals, etc) and extension services.

As it will not be possible to analyse all of these sectors, the study team should provide an overview of the entire set of business support services and then propose the overarching analytic framework to choose the service markets to be analysed during the inception phase of the study. With agreement on the service markets for analysis, the consultants will then carry out a detailed analysis of the market systems and identify the systemic constraints that are causing the gaps between supply and demand.

Understanding the market failure

Figure 1-1 provides a visual description of what can make an effective market for a particular service. This is defined by the point where there is a market driven supply of a service to respond to a paying demand for that service. The effective market has both supply and demand elements. It requires that the supply understands the needs to know who the buyers are, the needs of the buyers, have the right products to meet those needs (defined by service and quality) at a price that makes business sense to the buyers. On the demand side, the businesses need to understand that they have a problem that can be fixed with an outside service, know who those possible service providers are, and be able to value the service that they need, so that they will know how much they should be paying for that service. Many factors are incorporated into the reasons why these business service markets do not develop, and this study needs to identify their relative importance for each service area and highlight recommendations for how to address them and to measure their development.

Figure 1-1: Effective Markets



The analysis will require meetings with representative sample of firms on the supply and demand sides of each service market. In order to carry out the analysis of the market failures, the study team will need to provide a clear definition of properly functioning service market for each product to allow provide for clarity in diagnosing the specific constraints contributing to the underdevelopment of the service markets.

Outputs and Recommendations

The main output from the study will be:

- the overall analysis of the market systems for each of the main business services
 - Overall nature of the supply and demand for the services, including the level of development of the service providers and the sophistication of the demand;
 - Identification of the level of development of the market, and the key factors that have limited the current status of the market the reasons for constraints and market failures); and
 - Identification of the key results that can be witnessed within the Palestinian economy if those markets were to function more efficiently.
- recommendations for key strategic and systemic interventions that will address the address the root causes that are constraining the development of the market for services, addressing both the supply and demand sides of the equation.

Timeframe, Deliverables, and Reports

The overall study should take approximately five weeks, to be completed by September 15, 2011 and to deliver the following:

- An inception report on the selection of the four service markets to be analysed within one week of contract award, to be discussed and agreed with the FNMD team. This selection process should provide an overview of the overall types of business services, and a rationale for the selection of the four service markets to be analysed;
- The detailed analysis of the target service markets sectors within 3 weeks of starting the assignment, to be presented to and reviewed by the FNMD team, DFID and the World Bank at the beginning of the 4th week;
- A final report will be delivered at the end of week 5, covering the analysis of the four service markets and with a detailed set of recommendations for each market (based on international best practice) that address:
 - The systemic interventions that should be undertaken by donor programmes to incentivise an effective business service providers market system (while not being part of it);
 - How best to use matching grants, as a short term tool, to incentives a long term change in behavior among business service providers and client businesses.

Submission and Approval of Reports

All reports should be delivered to DAI-FNMD for approval to :

Mr. William Grant
Senior Principal Development Specialist,
Economic Growth, DAI
william_grant@DAI.com

Payment requests should be sent to:

Sana Alawi
DAI-FNMD Deputy Team Leader / Grants Manager
Sana_alawi@dai.com

Annex 2

Interviews

Annex 2 Interviews

1. List of Persons Interviewed in Inception Phase

Name	Title	Institution	interview date	Role
Issa Beitoni	CEO	Business Excellence Sercies	9/8/2011	BDS provder
Mazen Asa'd	Investment advisor	Siraj Fund Management Company	11/8/2001	Client of BDS
laith qasis	CEO	Enterventures	11/8/2001	BDS provder
osama sbo sli	Olive oil export promotion project manager	Paltrade	11/8/2001	Client of BDS
Ahmed Abo Baker	CEO	Small Enterprise center Association	15/8/2001	BDS provder
Salah Odeh	GM	Ramallah Chamber of Commerce	13/8/2011	BDS provder
Adnan Abo Homous		Financial advisor	11/8/2001	BDS provder
Shoa'a Morar	CEO	Riyada Consultancy	14/8/2011	BDS provder
Amjad Qasas	Director of trade promotion	Paltrade	14/8/2011	BDS provder
Nihad Asad	Secretary General	palestine Insurance Federation	14/8/2011	BDS provder
Anwar jayosi	GM	Faten- Palestine for credit and development	13/8/2011	BDS provder
nabil abo diab	Director General	Assocation of Banks in Palestine	14/8/2011	BDS provder
Ayman Mimi	Manager of training dept.	Ramallah Chamber of Commerce	13/8/2011	BDS provder
Salah Hussein	Manager of Foreign trade dept.	Ramallah Chamber of Commerce	13/8/2011	BDS provder
rafat jalad		Amaar group	14/8/2011	Client of BDS
izz tawil	GM	Sharakeh- The Palestinian network for Small and Microfinance		Client of BDS
hasan qasem	chairman	PITA	15/8/2011	BDS provder
nidal abo alrub	GM	Indusry Development Center	15/8/2011	BDS provder
Mohammed noor	gm	Masters for advanced systems	15/8/2011	BDS provder
Nader Ackall	Financial Servises Program Manager	ESAF	15/8/2011	BDS provder
Amad jadallah	Financial Servise Adisor	ShoreBank International	15/8/2011	BDS provder
Ihab Jabari	ICT sector manager	CARANA - USAID	15/8/2011	BDS provder
Hazem Abo kalaf	Investment advisor	Riyad Enterprise Development - Abraj	16/8/2011	Client of BDS
Talal Naser Al deen	CEO	Bir zeit pharmacueticals	17/8/2011	Client of BDS
Mazen Sinokrot	CEO	Pal Gardens -medical herbs	16/8/2011	Client of BDS

2. List of Persons Interviewed in Four Selected Business Service Markets

	Name	Title	Institution	interview date	Role
Certification					
1	Issa Beitoni	CEO	Business Excellence Services	15/8/2011	BDS provider
2	Mohammed Noor	GM	Masters for Advanced systems	15/8/2011	BDS provider
3	Talal Naser Al Deen	CEO	Bir Zeit Pharmacueticals	17/8/2011	Client of BDS
4	Faheem Zobeidy	Quality assurance manager	BirZeit Pharmaceuticals	17/8/2011	Client of BDS
5	Yasmeen Abu-Baker	Certification manager	MAK International - Training and Certification Services	18/8/2011	BDS provider
6	Amjad Ghanim	CEO	Industrial Details Management Consultants	22/8/2011	BDS provider
7	Ziad Anabtawi	CEO	Al 'Ard Palestinian Agri-Product	22/8/2011	Client of BDS
8	Radwan Hamzeh	CEO	Radwan Hamzeh & Brothers Company	22/8/2011	Client of BDS
9	Sami Qaisi	CEO	Qaisi Company Brothers for Trading and Manufacturing Ltd.	23/8/2011	Client of BDS
10	Abdel Hakeem Fqaha	CEO	Palestine Poultry Company L.T.D	24/8/2011	Client of BDS
11	Taher Dwekat	CEO	Food Land Millenium	23/8/2011	Client of BDS
12	Isam Abo Kaizaran	CEO	Palestine Gardens Company	23/8/2011	Client of BDS
13	Said Dwekat	Private sector advisor	GIZ	17/8/2011	BDS provider
14	Jamal Maslamany	CEO	Al Maslamani Brothers Co.	23/8/2011	Client of BDS
15	Angele Zaboura	CEO	Beit Jala Pharmaceutical Company	25/8/2011	Client of BDS
16	Feras Nierock	CEO	Nierokh for Manufacturing Metal Furniture	25/8/2011	Client of BDS
17	Ahmad Jalad		Palestine Standard Institute	28/8/2011	BDS provider
Venture capital and banks					
1	Mazen Asa'd	Investment advisor	Siraj Fund Management Company	17/8/2011	Client of BDS
2	Laith Qasis	CEO	Enterventures	17/8/2011	BDS provider
3	Hazem Abo Kalaf	Investment advisor	Riyad Enterprise Development - Abraj	16/8/2011	Client of BDS
4	Sami Saidy	CEO	Arab Islamic Bank	23/8/2011	Client of BDS
5	Jamal Horany	VP credit	Arab Bank	23/8/2011	Client of BDS
6	Ihab Jabari	ICT sector manager	CARANA - USAID	15/8/2011	BDS provider
7	Rafat Jalad	VP Investment	Amaar Group-real estate com.	14/8/2011	Client of BDS
Export Promotion and marketing					
1	Osama Abo Ali	Olive oil export promotion project manager	Paltrade	13/8/2011	Client of BDS
2	Salah Odeh	GM	Ramallah Chamber of Commerce	13/8/2011	BDS provider
3	Amjad Qasas	Director of trade promotion	Paltrade	14/8/2011	BDS provider

	Name	Title	Institution	interview date	Role
4	Ayman Mimi	Manager of training dept.	Ramallah Chamber of Commerce	13/8/2011	BDS provider
5	Salah Hussein	Manager of foreign trade dept.	Ramallah Chamber of Commerce	13/8/2011	BDS provider
6	Hana Taha	CEO	Paltrade	24/8/2011	BDS provider
7	Emad Hamaiel	Finance manager	New Farm Processing & Marketing Co.	24/8/2011	Client of BDS
8	Dr. Abdel Hakim	CEO	The National Company for Agro-Industries	24/8/2011	Client of BDS
9	Mazen Sinokrot	CEO	Pal Gardens -Medical herbs	16/8/2011	Client of BDS
Business Plans					
1	Ahmed Abo Baker	CEO	Small Enterprise center Association	15/8/2001	BDS provider
2	Adnan Abo Homous	Financial advisor	Freelancer	15/8/2001	BDS provider
3	Shoa'a Morar	CEO	Riyada Consultancy	14/8/2011	BDS provider
4	Nihad Asad	Secretary general	Palestine Insurance Federation	14/8/2011	BDS provider
5	Anwar jayosi	GM	Faten- Palestine for Credit and Development	13/8/2011	BDS provider
6	Nabil Abo Diab	Director general	Assocation of Banks in Palestine	14/8/2011	BDS provider
7	Izz Tawil	GM	Sharakeh- The Palestinian Network for Small and Microfinance	16/8/2011	Client of BDS
8	Hasan Qasem	Chairman	PITA	15/8/2011	BDS provider
9	Nidal Abo Alrub	GM	Indusry Development Center	15/8/2011	BDS provider
10	Nader Ackall	Financial servises program manager	ESAF-USAID	15/8/2011	BDS provider
11	Amad Jadallah	Financial servise adisor	ShoreBank International	15/8/2011	BDS provider
12	Firas Zagal	CEO	Dimension	24/8/2011	Client of BDS
13	Waddah Abdel Salam	CEO	ABC Consulting	24/8/2011	BDS provider
14	Hosam Dwekat	CEO	Isra' Software and Computer com.	22/8/2011	BDS provider
Training-Human Resources					
1	Salam Aqad	Human Resources manager	Arab Bank	24/8/2011	Client of BDS
2	Nisreen Mesleh	CEO	Ritaj Training	24/8/2011	
3	Ali Safi	CEO	General for Training	24/8/2011	BDS provider
4	Tamer Abo Qahooq	Training amager	Palestine Institute for Financial and Banking Studies	23/8/2011	BDS provider
5	Majad Habaieb	Human Resources manager	Palestine Institute for Financial and Banking Studies	23/8/2011	BDS provider
5	Mohamed Masri	Training amager	British Academy	23/8/2011	BDS provider
6	Maen Daragmeh	Training amager	Cairo Amman Bank	23/8/2011	Client of BDS
7	Jamal Khaleel	CEO	Atlas for Mapping Technology	24/8/2011	Client of BDS

ANNEX 2
INTERVIEWS

	Name	Title	Institution	interview date	Role
8	Khaled Zery	CEO	PaltelGroup Training Academy	25/8/2011	Client of BDS

Annex 3

Results of Survey of BSPs Registered with FNMD

Annex 3: Results of Survey of BSP providers registered with FNMD

The basis for this survey is the list of BSPs registered with FNMD as potential providers. The survey, designed after one undertaken in South Africa in 2008⁶³, also tested the premise that if the list and telephone contacts had been given to a prospective grantee the ability to contact the BSP via the information provided would provide an initial test of accessibility of the service provider.

In addition, to making it a survey questionnaire the telephone call used to contact the BSPs was also used to test how easy it was to contact the BSP and how “well” the enterprise would respond to a telephone query from a potential SME. In order to achieve this, the following methodology was used and these instructions were issued to the research workers establishing contact and starting the interview.

- Use the official / office number of the BSP even if subsequent contact and knowledge means the cell phone number of senior staff / management is available. Clearly a SME client would not have the cell phone number of the owner / MD of the BSP.
- Use the following statement to explain the telephone call – “ I have obtained your contact details from the programme FNMD – Facilitating New Market Development in Palestine and I would like to find out the sort of services that your company / organisation offers”
- Initial Contact question – “What sort of services do you provide?”
- If the person who has answered the call can’t answer that question ask if you can talk with a person who can provide the details.
- If you have connected with the relevant person – proceed with the questions and complete Information required.
- If you are told the person who can provide the information is currently not in the office – ask the person to take a message for that person to call you back – provide a number – note a) the time / date of your call b) the name of the person given as responsible for providing the information c) when the contact thinks that the person can return your call. This exercise was designed to see how good BSPs are at following up on potential customers.
- When the person phones back – proceed with the questionnaire.
- If after the period given in c) above has passed, phone back and ask for the person by name – if they are still not there, remind the contact that there had been a promise to call back and get another estimate of when they will call back.

⁶³ Supply/Demand for Financial Business Services – Gauteng. for USAID by Khulisa Management Services (2008).
www.dfid.gov.uk

Given the lengths the researchers went to get the company to respond to a potential business query it is a very poor reflection that some still failed to do so.

Once the responsible person was finally the short questionnaire was administered. These questions minus the introductory section are presented at the end of this Annex.

Detailed Results of the Survey

The Sample Size

Of the 50 contacts reported to be operational in the West Bank - 3 of the telephone numbers were disconnected and were no longer in service and 7, despite numerous and repeated phone calls did not answer the phone number provided. This means that in this sample one-fifth or 20 percent could not be contacted.

One of those that did respond was actually operating in Gaza and not in the West Bank as their records had indicated. Eventually 39 companies in the West Bank were contacted by phone. One of these was no longer in business and 5 of those contacted declined to be interviewed on the phone. These contacts were either concerned about the identity of the caller and or the purpose of the survey insisting either i) that a letter explaining the background and purpose of the survey or ii) a copy of the questionnaire be forwarded by fax for consideration by management. Despite sending the required documentation there has been no follow-up response. The attitude of this group, all of whom confirmed that they were the company on the list used for the survey – which meant they had obviously initially registered as a business service provider with FNMD is somewhat strange and doesn't indicate a strong commitment to providing information on the services they offer. One of the respondents didn't complete the questionnaire because he claimed after a few questions that he was "too busy".

Structure of the Responding Sample of BSPs.

Location. 28 (90.3 percent) of respondents were located in Ramallah with 1 each in Nablus and Hebron (and one other location). The concentration of BSPs in Ramallah, possibly driven by many of the major providers' reliance on donors and International NGOs for the major part of their business, is often given as one of the reasons why SMEs in other major towns do not often contract business services. If a registry of BSPs is to be used in future FNMD programmes, more attention must be taken to get BSPs stationed in the other urban centres to register.

8 of those contacted (26 percent) reported that they had other branches / offices apart from the location contacted by the researcher.

Legal Form. About three-quarters of those participating in the survey (74.2 percent) reported that they were private companies many basically partnership of at least two person and 5 respondents (16.1 percent) were operating as individually owned companies. (In 2 cases the person responding to the phone interview could not reliably answer this question).

Services Offered. The general trend is that BSPs tend to offer multiple services – only 6 (19 percent) offered a single service – one specialising in market research, 2 provided software and ICT solutions, 2 were involved in advertising and one specialised in promotion and public relations.

The most commonly combined service is training –13 of the respondents (42 percent) offered training with another service or services, and one of the BSPs offered training in combination with every other service categories in the survey (except ICT).

The phenomenon of multiple service provision by BSPs is again a reflection of a thin market, where there is insufficient work in generic business services in a market as small as that found in Palestine to specialise in one field. This has some advantages in that many SMEs actually need a mixture of complementary services – the counter argument is that it prevents a single BSP becoming a real expert in a particular field, something that could be a disadvantage in this age of specialism.

The various service combinations are complex but it is encouraging to note that a number of the BSPs are exclusively offering generic business services such as: Training / Market Research/ Production of Strategic and Business Plans; or Market Research / Promotion / Market and Advertising Campaigns; and Training / Production of Business Plans / Promotion. The reason why this is encouraging is because most of the previous studies indicate that most MSMEs need a wide range of business services and to meet this demand BSPs in this small market must be providers of multiple services.

Two of the BSPs interviewed were supplying services related to Standard and Certification with Training or Strategic Planning.

Size of BSPs – based on number of employees.

One third of BSPs (33 percent) who responded had under 5 employees – one admitted to having no staff what so ever. A further 30 percent had between 6 and 10 employees. 20 percent of the respondent had between 11 and 20. This means that 50 percent have between 6 to 20 employees and fully 83 percent of those in the survey had less than 20 employees..

The analysis Most surprising about the results are the fact that 5 BSPs have between 30 and 36 full-time employees – an average of 32.6 – these Providers include 2 in IT and 3 in Advertising (including one of the with the largest agencies providing outside advertising and billboards).

Use of part-time staff

This question was originally asked to determine how much use was made of short-term consultants – in order to determine if and how often BSPs used independents to deal with increases in work load when there was a temporary demand for services and the BSPs wanted to avoid having to carry excess staff.

Five BSPs reported that they never use part-timers (16.7 percent) while 10 BSPs used between 2 and 5 short-term staff – a third of all respondents. Again 5 respondents (16.7 percent) used either 6 or 10 part-timers and 6 (20 percent)

used 15 and 20 – the later figures were initially re-checked as they seemed high. The respondent confirmed that in one case the part-timers / short-term employees were not used as consultants or trainers but as field staff / enumerators / data capture staff on a large survey. Two companies confirmed that they had at times used up to 40 or 48 short-term employees during the course of the year and then two respondents claimed that they had occasionally had up to 100 extra short-term staff. Both these were advertising companies and the extra staff had been general labourers used to erect large out-door billboards, and put up posters for an event and decorations etc. for a promotional / advertising campaign. This use of labourers in the field of promotion and general commercial advertising had not been foreseen in the design of the questionnaire and the survey data collected is distorted by this phenomenon.

What is clear from some of the smaller BSPs respondents in this telephone survey is that the use of short-term and part-time trainers and consultants is a common practice. In discussions with other BSPs during general interviews carried out during the Inception phase and for the detailed discussions on selected service markets – the main source of these part-time participants in Business services provision is from among university lecturers and technical specialists working in Government Departments, Research organisations, International NGOs and even some donor programmes.

Operation and Performance of BSPs

Average Number of Consultancies

It was hoped that the average of this data set would indicate the basic volume of consultancy and training work being undertaken by BSPs. Unfortunately, the inclusion of service providers such as ICT companies carrying out data processing and advertising agencies designing and placing adverts in print media, radio and television and erecting large roadside adverts and billboards have somewhat distorted the data base. Attempts have been made to disaggregate the data the results of this are presented below.

One of the large advertising agencies estimated that they handled 350 contracts a year, another agency 100 and one of the ICT companies supplying software solutions, processing and analyse data also reporting at least 100 contracts a year. It is further noted that:

the least active 5 (17.2 percent of respondents) had less than 10 contracts in the year (one BSP an independent / individual had the least – only 6 contracts – one every two months indicating that they are possibly only working part-time as a BSP.

15 (52 percent) of the registered BSPs who responded had less than 25 contracts in a year (a maximum of about 1 every two weeks).

75 percent of respondent had less than 48 contracts per year.

These figures again indicate that, with the exception of the large established ICT, advertising and promotional companies included in the sample, generally the business service market in Palestine is extremely undeveloped and

particular thin. Three quarters of the BSPs have less than one contract a week – as many of these contracts are often only of couple of days work.

Number of Years in Operation.

Of the 31 companies responding to the telephone survey the range of time they had been operating ranged from 3 to 20 years with a sample average of 10.13 years – indicating a reasonable mature stock of BSPs – a reasonably good sign for the market. The largest number of companies in a single category (the mode?) was 5 who had been operational for 5 years. One had been in business for 20 years and 8 (almost a quarter of the respondents) had been in business 15 years or more

Source of Business

The responses indicate that the donor / NGO sector is a major source of business but also that a sizeable proportion rely heavily on the private sector – another healthy aspect of the industry. Just over half of all respondent got at least 50 percent of their business from the private sector and a further 25 percent between 50 and 75 percent of the business from private sources. 4 companies reporting that more than 90 percent of their business was from this sector.

The sector with the least contribution was the Public Sector (it is interesting to note that in Palestine – this generally only means work carried out for the PA – international donors are not seen as public sector but rather as NGOs.) – 25 percent of the companies reporting that none of their work was generated by this sector and only one respondent that 50 percent of their consultancy work was from the public sector.

A proportion of BSPs are heavily dependent on donor / NGO funding sources - for 4 of the BSPs responding (13.3 percent) this represented more than 75 percent of their income stream and 20 percent of the sample depended on this for between 50 and 75 percent of their income. Given that the nature of the BSPs in the sample was a bit biased by the inclusion of some of the largest commercial advertising companies these figures illustrate a high level of donor dependency.

Who pays for Services?

This question was asked at the end of questionnaire after a series of questions on promotion activities and how service prices were set. At this point of asking only 6 responded that clients pay (19.4 percent) – over a third (36.7 percent) reported that donors actually pay for the services and a further 43.3 percent reported that payment was made by both donors and clients – indicating some form of subsidy support / or cross-funding. This indicates an extremely high reliance on donor support as a full 80 percent of the respondents indicate that donor funds represent a proportion of who pays for their services. This again highlights the concern about the lack of viability and sustainability of the industry as a purely commercial venture.

Obtaining Consultancies and other Contracts

Over half of all respondents (17 – 54.8 percent) reported that they obtain their contracts via a competitive bidding process. However, in many of the general discussions with stakeholders they admit that this is a stock answer given to anyone asking. “Competitive bidding” is often a slightly abused system in Palestine, with rival suppliers and contractors collaborating on the submission of elevated bid documents and dividing up contracts based on local network arrangements. It is therefore of more interest that over 45 percent of respondents report that their contracts are secured via personal relations between supplier and contractee or another form of recommendation (each category having an equal weighting).

Utilisation of capacity

The initial idea of this question was to get an estimate of the balance between demand and capacity of the BSPs to deliver services but given the high level of short-term and part-time consultants utilised, the answer obtained is fairly consistent with a strategy of quickly adjusting staff levels to demand by hiring temporary staff. More than half the respondents (53.3 percent) reported 100 percent utilisation and the average for the whole sample is 86 percent utilisation.

Current trends in the Demand for Services

20 respondents (64.5 percent) report that demand is growing and 10 (32.3 percent) that it remains stable – only one reported that they thought it had declined. This is again supported by information from other interviews – where business trends in most service provision seem positive. This is encouraging more persons to either move out the public sector or leave an existing business service practice and establish their own company.

Method of Promotion

The colloquial nature of the Business Service Market in Palestine is revealed in the response to this question – two thirds (65.5 percent) report that their main source of promotion is personal relations. This and the fact that a significant portion of new contracts are obtained via personal recommendation clearly reflects the way the existing market operates. However, the lack of promotion and marketing activities by BSPs does little or nothing to encourage new market opportunities – this is critical where a growing number of new SME are being formed every month. How do new entrants into the SME sector find the necessary BSPs to assist in their development and growth?

Only 6 BSPs (20 percent) report that they have a Web page and one respondent reported that he promoted his business by regularly participating in exhibits.

Respondents were also asked how much they spent on annual promotional activities – over one-quarter of the respondents reported no expenditure – again when one links this to the belief that simply developing personal relationship is a way of promoting your company – it shows a lack of commitment to commercially driven marketing.

The mean response to this question is USD10173 per annum but again this is distorted by the few (4) but large advertising and ICT service providers spending in the USD 20 to 50,000 per annum range.

Pricing Setting methods

13 (44.8 percent) reported that they generally change a daily rate – and only 11 (36.5 percent) that they charge a lump sum. International work on business service markets generally finds that SMEs normally only agree to pay lump sums for a specific service (often defined by an individual and distinct task) and that BSPs reporting either hourly or daily rates are often being paid (fully or in part) by donors (or by a professional driven private sector). So these figures again partially indicate the predominant role of donor funding in the business services industry.

Presence of a Business Plan

At the end of the interview all respondents were asked if they had a Business Plan – given that these companies are all BSPs – some of them selling the necessity of professional produced business plans in which the key strategic vision of the enterprise is elaborated – it comes as a surprise that 13 respondents (42 percent) of the sample had no Business Plan. In discussions with other service providers, during the course of this study, a number commented that they had no need for a Business Plan at the current point of their development because they were not seeking to obtain a loan or secure investment finance. This illustrates a common attitude among SMEs in Palestine – often reported by BSPs and bankers in the various interviews undertaken – that producing a business plan is only done to obtain finance – not as a business development and essential management and planning tool.

The Questionnaire Used.

Questions to Develop a Typology of BDS Providers

Organisational information

1. Organisation name and Contact details provided on possibly a variety of lists of Service Providers. Eg. FNMD list of Service Providers in the West Bank.

It is important to use the official / office number of the BSP. This survey is intended to also measure how easy it would be for a client SME to contact the Service Provider.

Service provision

2. What Type of services are offered by your organisation / company?

List these on the report format provided and where the answer is unclear ask additional questions in order to clarify the full range of services offered and do they offer specific services for a particular sub-sector or service.

3. Category of services provided e.g. training, mentorship, advice – etc.

4. Where are their offices? Can someone come to the office to get further information?

IF BY THIS STAGE THE RESPONDENT HAS BEEN VERY CO-OPERATIVE – Then explain you are trying to collect information on the type of services offered in Palestine and would they be prepared to answer additional questions on their operation - either on the phone now or later if they are busy now or would they like someone to come and see them for an interview.

Further Information on the Company / organisation.

The following questions relate to the structure of the enterprise. This information should be obtained later in the interview either once the person involved have been a good provider of information.

5. Type of organisation e.g. public, private, family business, registered company etc.
6. How long have they been in the Service Provider business?
7. Is Business Service provision their main business activity? And if No – what are these other interests / activities?
8. Do they have other offices in the West Bank and Gaza? Where are these located?
9. Do they have key partners or organisations that they often work with or who regularly supply them with clients.
10. Key contact person for further information on Business Service provision – if the person providing the information has limited knowledge of services..

Operations of the Organisation

11. Employee / service provider status viz. are their own employees or third parties used to provide BDS to clients. Include information on other branches / offices if the answer to Q8 was positive.
12. Based on previous questions, total number of service providers / employees offering the main services
13. Average number of clients per service provider
14. Average number of clients served per month by the firm / organisation.
15. What sort of clients have they been servicing over the last couple of years?
16. What are the qualifying criteria for the services offered by this provider

17. Are there any educational / experience qualifications that are required by the persons working as service providers.

Marketing information

18. How do they get most of their clients / customers?

19. Do they currently have enough clients? How do they estimate the current demand for services.

20. How are their services marketed? If they have produced marketing material – how often do they do this? and how do they distribute it?

21. Do they have a website? – if yes get the address.

22. How are services priced (e.g. hourly rate) or do they give a price for a “whole product”.

23. Who generally pays for the service; (does the client pay for full price or are services subsidised) – if yes who is subsidising the service.

24. What is the average cost of marketing per month

What is international development?

International development is about helping people fight poverty. Thanks to the efforts of governments and people around the world, there are 500 million fewer people living in poverty today than there were 25 years ago. But there is still much more to do.

1.4 billion people still live on less than \$1.25 a day. More needs to happen to increase incomes, settle conflicts, increase opportunities for trade, tackle climate change, improve people's health and their chances to get an education.

Why is the UK Government involved?

Each year the UK Government helps three million people to lift themselves out of poverty. Ridding the world of poverty is not just morally right, it will make the world a better place for everyone. Problems faced by poor countries affect all of us, including the UK. Britain's fastest growing export markets are in poor countries. Weak government and social exclusion can cause conflict, threatening peace and security around the world. All countries of the world face dangerous climate change together.

What is the Department for International Development?

The Department for International Development (DFID) leads the UK Government's fight against world poverty. DFID has helped more than 250 million people lift themselves from poverty and helped 40 million more children to go to primary school. But there is still much to do to help make a fair, safe and sustainable world for all. Through its network of offices throughout the world, DFID works with governments of developing countries, charities, nongovernment organisations, businesses and international organisations, like the United Nations, European Commission and the World Bank, to eliminate global poverty and its causes. DFID also responds to overseas emergencies. DFID's work forms part of a global promise, the eight UN Millennium Development Goals, for tackling elements of global poverty by 2015.

What is UK aid?

UK aid is the logo DFID uses to demonstrate how the UK Government's development work is improving the lives of the world's poorest people.

Department for International Development

1 Palace Street
London SW1E 5HE
UK

and at:

Abercrombie House
Eaglesham Road
East Kilbride
Glasgow G75 8EA
UK

Tel: +44 (0)20 7023 0000
Fax: +44 (0)20 7023 0016
Website: www.dfid.gov.uk
Email: enquiry@dfid.gov.uk
Public enquiry point: 0845 3004100
or +44 1355 84 3132 (if you are calling from abroad)

'This material has been funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the UK Government's official policies. Published by DFID.