

PD-ABF-971

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AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D.C. 20523

WEST BANK AND GAZA

PRIVATE SECTOR SUPPORT

294-0001

PROJECT PAPER

DATED SIGNED: 4/23/93

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UNCLASSIFIED



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

**ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR, NE**

**FROM:** NE/DR, Satish Shah *Shah*

**SUBJECT:** West Bank/Gaza (WB/G) - Private Sector Support Project  
(294-0001)

**ACTION REQUESTED:** Your authorization is requested for a LOP Grant of \$11.0 million for the subject project over a term of four years with a PACD of April 30, 1997. The Project Paper including the authorization is at Attachment A.

**BACKGROUND:** West Bank and Gaza have experienced over several years a prolonged stagnation of output and growth. The industrial sector's decline has led to declining living standards, undue dependence on donor assistance, and high unemployment. With a growing population WB/G will suffer further decline exacerbating an already tense, sometimes volatile socio/political situation, unless effective assistance is provided to stimulate the economy. Although many of the factors leading to sustained development are external, other impediments can be addressed in the interim until a more favorable environment can be achieved for the private sector.

In November 1992 the NE Bureau approved its Program Strategy for the West Bank and Gaza Strip for the period 1993-1997. The Strategy sets forth three strategic objectives for the WB/G. Two of these objectives relate to assistance to the Palestinian private sector, i.e. increased marketed production of agricultural and manufactured goods and improved planning and management of development activities by selected Palestinian institutions.

The NE Bureau, encouraged by State's clearance of the new Strategy for the WB/G, proceeded to design a PID for a new Private Sector Support Project. The PID was completed by NE/ME in December 1992, reviewed and approved by the Project Review Committee on 10 December 1992 with a recommendation that the PID be presented to the Near East Development Committee (NEDAC) which approved the Project on 15 December 1992 (See reporting cable at Attachment B). The Bureau then contracted with a U.S. consulting firm (SRI) to develop the Project Paper addressing the design issues identified during the PRC and NEDAC reviews of the PID. SRI presented a draft PP which was reviewed by the PRC on February 23 and reviewed and approved by the NEDAC on March 9.

The results of the PRC review are at Attachment C. The NEDAC reporting cable is at Attachment D. PRC and NEDAC issues and comments have been appropriately addressed/incorporated in the final PP draft.

**DISCUSSION:** The purpose of the WB/G Private Sector Support Project is to increase the marketed production of manufactured goods through the enhancement of the management, production, and marketing capabilities of private sector manufacturing enterprises in the West Bank and Gaza. The project will have three components: training, technical assistance and information services. The project will focus on the manufacturing industries. The training component will consist primarily of training in general management skills, such as marketing, finance and accounting, human resource development and company management. The technical assistance component will concentrate on industry-specific technical needs, such as equipment procurement and maintenance, quality control, and plant design and lay-out. The information services component will be directed toward the development and dissemination of relevant business information such as local and foreign market opportunities, local service and input suppliers, operating costs and conditions, and basic promotional materials.

The project will be implemented by a U.S. contractor selected on a competitive basis. The contractor will enter into contractual relationships with (1) business organizations (Chambers of Commerce in the West Bank, and the Chamber of Commerce and Union of Industrialists in Gaza); and (2) a select number of local universities with established business training programs. One PVO, America-Mideast Educational and Training Services, Inc. (Amideast) will also participate as a designated subcontractor to the U.S. contractor. The options for accessing Amideast's participation were the subject of much debate during project design. Further discussion of the rationale for selection of the designated subcontractor option is presented later in this memorandum. The project will also access the services of other U.S. organizations as needed to carry out discrete activities through subcontracts with the U.S. prime contractor. The U.S. contractor will be responsible for recruiting technical assistance and training resources in the United States and in neighboring countries.

The U.S. contractor will also enter into contracts with Palestinian consultants on an "as needed" basis.

The U.S. contractor will establish a project office on the premises of Amideast in Jerusalem and Gaza. The project will also fund home support contractor staff in the U.S.

The total life-of-project A.I.D. funding required is estimated at \$11.0 million. A small amount of local counterpart funding will

be obtained through fees paid for technical assistance and training courses. Of the \$11.0 million, about \$5.3 million will be allocated to training, \$4.0 million for technical assistance, \$1.5 million for information services, and \$0.2 million for evaluation and audit.

Annex E of the Project Paper (Attachment A) addresses issues raised during project design. Several of these issues deserve highlighting herein: selection of a contracting mechanism and the role of Amideast; U.S. contractor's collection and use of fees for project services; the implications of the Lautenberg Amendment and Section 599 of the Foreign Appropriations Bill of 1993 on the project, and tailored firm assistance packages.

Selection of a contracting mechanism and the role of Amideast:

During the review of the PID, the State Department indicated that given its desire to maintain a low U.S. profile because of existing political and security arrangements, it would not permit A.I.D. to place an American contractor team in the field to oversee the management of the project. A.I.D. did not believe that the project could be effectively implemented without the field presence of an American contractor. The project design team was charged with examining all possible alternatives with a view toward finding a solution to this impasse. One alternative would be to use the resources and capabilities of a existing PVO operating in the territories.

The project design team conducted extensive field interviews with the PVOs in West Bank/Gaza to assess their institutional capabilities and their potential roles in the project. It concluded that Amideast is the only PVO which has both moved towards assisting the private sector engaged in manufacturing, and which has the institutional capability to participate in the implementation of the project. Amideast will bring to the arrangement several attractive assets. Amideast has widely recognized expertise in designing, administering and monitoring training programs, and so the project would be building on rather than duplicating existing experience and expertise. Amideast is willing to share office space with the contractor, and thus reduce the visibility of a new contractor operating in West Bank and Gaza. Amideast is familiar with the political and institutional setting, and is respected by Palestinians.

Two options are most appropriate for accessing Amideast's participation in the project. Under the first option, A.I.D. could enter into a cooperative agreement with Amideast, but Amideast would take technical direction from the U.S. contractor. The major benefit of this option is that it creates no complications with A.I.D. contractual procedures. The potential problem is that the arrangement does not establish clear lines of responsibility and authority between the contractor and Amideast, which could lead to friction and confusion. In addition, it

creates another management unit in the private enterprise area. The second option is for Amideast to be designated as a subcontractor in the RFP. This allows for clear lines of responsibility and authority. An additional benefit is that the project activities would be coordinated by one rather than two (potentially competing) organizations. The major drawback of this option is that it does not represent a standard contracting action, and will require greater efforts by A.I.D. to prepare the RFP. Finally, accountability for less than satisfactory performance would ultimately rest with A.I.D. since the prime contractor could claim that it was forced by A.I.D. into a contractual relationship with Amideast.

The design team recommended the second option stating that, although more difficult to put in place, the subcontractor relationship provides the best management model with regard to coordination, authority, and accountability.

The NE Bureau agrees with the design team's assessment and strongly supports the option of competitively selecting a contractor with Amideast as a designated subcontractor. This option provides for a more integrated approach to project implementation. Subsequent to the NEDAC approval of this contracting option, the Office of Procurement expressed some concerns about proceeding with this option. To resolve this issue a meeting was convened on March 23 in which the A-AA/NE and officers of NE/ME, NE/DR, GC/NE, and FA/OP were represented. After lengthy discussion of all apparent contracting options, the NE Bureau reiterated its preference for a single competitive contract with Amideast as a designated subcontractor. Although FA/OP would still prefer that project contracting proceed in some other way, it has agreed to support the Bureau's choice of contracting option. A more detailed justification for the non-competitive selection of Amideast as a designated subcontractor is included at Attachment E. Judy Johnson (FA/OP/B), in reviewing this authorization memorandum for clearance, has provided a memorandum dated April 14, 1993, (Attachment F) which agrees to proceed with the NE Bureau's recommended contracting approach but states for the record her continuing concerns with this approach. Diana Swain has responded to Judy's concerns (See Attachment G). It should be noted that there are no new issues raised in Judy's memo that weren't already discussed in our March 23 meeting with representatives of her office, and that while we don't want to downplay their relevance, on balance, we still believe our recommended approach is sound and in the best interest of the project.

Other options, including providing a cooperative agreement to Amideast to carry out the entire project, were considered and rejected by the Bureau, which concluded that Amideast does not have sufficient experience in private sector development to carry out the project.

U.S. Contractor's Collection and Use of Fees for Project Services: The collection of fees from firms receiving training, TA, and information is important for several reasons. First, it contributes to the sustainability of activities both during and after completion of the project by nurturing a business support structure in which companies are willing to pay for services rendered to them by business training programs, consulting firms and business associations. Second, it encourages the active participation of firms, who will seek to maximize the utility of services provided to them at a cost.

Because of these benefits, the project will require fees for services, particularly for training and technical assistance. In view of the financial situation of Palestinian firms, fees collected will not be sufficient to cover full expenditures, especially costs associated with expatriate experts. However, fees or appropriate in-kind contributions will be able to cover at least a portion of local expenses. The contractor will develop a plan for the collection and utilization of fees, including a fee schedule based on the ability to pay among Palestinian businesses, in consultation with Amideast and other selected PVOs and university programs that have provided services for fees in the past.

The contractor will set up a special account to deposit the fees collected in local currency. The contractor will also be responsible for determining criteria and procedures for identifying activities for which the special account funds will be used. Priority will be placed on activities which enhance the long-term sustainability of business training and TA initiatives.

Implications of the Lautenberg Amendment on the Project: Briefly stated, the Lautenberg Amendment prohibits the use of A.I.D. funds to assist in the establishment of facilities which manufacture import-sensitive commodities for export either to the United States or to third countries in direct competition with U.S. exports to such third countries. More specifically, the Lautenberg Amendment prohibits the use of A.I.D. funds:

"(1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles ...; or

(2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to United States or to third country markets in direct competition with United States exports, of import-sensitive articles . . ."

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For the purpose of the Lautenberg Amendment, "import sensitive" commodities include textiles and apparel, footwear, handbags, luggage, leather flatgoods, work gloves, and leather wearing apparel.

The proposed project does not include funding for feasibility studies or prefeasibility studies, but rather focuses on general management training and technical assistance.

The design team examined a sample of documents related to similar projects that address the Lautenberg Amendment issue. The typical method used to ameliorate this concern is the inclusion of a clause or covenant in grants, cooperative agreements, etc., stating that the proposed project will not finance activities which are in violation of the restrictions set forth by the Lautenberg Amendment. The master contract will contain such a clause.

In the course of reviewing and approving the annual work plans, A.I.D. will examine the plans to identify any possible violations of the Lautenberg Amendment, and will reject A.I.D. funding of any such activity.

Implications of Section 599 of the FY 93 Foreign Appropriations Bill on the Project: Briefly, this section of the legislation prohibits the use of funds appropriated thereunder to support an activity which: may induce a business enterprise located in the U.S. to relocate outside the U.S. with resultant loss of jobs in the U.S. because the U.S. production is being replaced by such enterprise outside the U.S.; is for the purpose of establishing or developing export free zones in such foreign country (unless the President determines and certifies that such assistance is not likely to cause a loss of jobs within the U.S.); contributes to the violation of internationally recognized workers rights.

This project will not violate any of the provisions of Section 599 because it will not induce enterprises located in the U.S. to relocate outside the U.S., nor will it provide assistance for any free zone activity or contribute to a violation of internationally recognized labor laws. The prime contract will contain language which requires the contractor to review all proposed activities under the project with an eye toward ensuring that none of Section 599 provisions are violated during the life of the projects and to report any proposed activities which might be questionable to A.I.D.

Tailored Firm Assistance Packages: The three components of the project -- training, technical assistance and information services -- will be administered on a "demand driven" basis, and open to all firms interested in participating. At the end of the first year, as an optional initiative within the project, up to ten firms each in West Bank and Gaza could participate in a more comprehensive program of technical assistance and training.

If a program of tailored assistance is deemed appropriate, it will also be open to all manufacturing firms. Since this optional program will be limited in size, however, a selection process might be necessary. If so, the contractor will develop a set of objective selection criteria and implement the selection process. Once participants have been selected, the contractor will begin with a diagnostic evaluation of the enterprise's objectives, constraints and opportunities, including an assessment of training and technical assistance needs. The contractor will then implement the tailored assistance programs, using Palestinian centers and consultants to the maximum extent possible. In order to preclude any hindrance to competition in specific industries, the program will include more than one company in any specific sector or industry.

#### Implementing Details:

##### A. Implementation Schedule

The following presents an illustrative time line of activities to be undertaken to complete implementation of the overall project.

- |   |                |
|---|----------------|
| 1. Project Paper Approved   | April 1993     |
| 2. PIO/T for US Contractor approved   | April 1993     |
| 3. RFP for Central US Contractor issued<br>and pre-proposal conference held | May 1993       |
| 4. US Contractor selected   | August 1993    |
| 5. Contract Awarded   | September 1993 |
| 6. First annual work plan approved  | October 1993   |
| 7. Amideast subcontract negotiated  | November 1993  |
| 8. Contractor Team arrives  | December 1994  |
| 9. Project activities commence  | January 1994   |
| 10. First internal evaluation, second<br>annual work plan prepared          | September 1994 |
| 11. First external evaluation completed                                     | March 1995     |
| 12. Third annual work plan prepared   | September 1995 |
| 13. Final evaluation completed  | September 1996 |
| 14. PACD  | April 1997     |

**B. Project Management:** The Office of Middle East Affairs (NE/ME) in the Near East Bureau will have primary A.I.D. responsibility for monitoring the project. This role will focus on coordination of A.I.D. involvement with the U.S. contractor, which, as stated above, will have offices on the premises of Amideast in Jerusalem and Gaza. The Contractor's office in Jerusalem will be headed by a resident American, while the office in Gaza will initially be headed by a Palestinian. A.I.D. may, with Department of State ~~concurrence~~, establish a position for an American in the Gaza office at some future date if it is deemed critical to the success of the project. NE/ME will coordinate the application of A.I.D.'s functions at key planning points, particularly the review and approval of annual plans, semi-annual progress reports, disbursement requests, and of scopes of work. NE/ME will work closely with the U.S. contractor in developing semi-annual and annual implementation targets and in reviewing progress in achieving these targets. NE/ME will also take the lead in developing and carrying out plans for regular project evaluations. NE/ME will assign one USDH project officer to coordinate A.I.D.'S implementation functions.

A.I.D. field officers located respectively in Jerusalem and in Tel Aviv will maintain contact with U.S. contractor personnel, who will keep these field officers informed of project activities. These officers will meet periodically with contractor personnel to review project plans and progress, and will assist in official logistical matters (e.g. country clearance). However, to minimize the administrative burden on these officers, formal project management and oversight will be the responsibility of NE/ME.

**C. Eligible Source/Origin/Nationality:** The eligible source/origin/nationality for goods and services procured under the project are the United States (Code 000), the West Bank and Gaza, and Israel. It is anticipated that no exceptions to the Buy America guidance will be required for commodity procurements under the project. Technical assistance and training resources will be procured primarily from the U.S. and from local sources, but a small amount may come from other Middle Eastern countries. To the extent that a source/origin/nationality waiver may be required to procure such goods and services from non-eligible source countries, such waiver would be put forward when the details of these procurements become known.

**D. 8(a) Considerations:** The project design team carried out an assessment of possible 8(a) firms to provide the required technical assistance. This assessment included a review of available profile and capability statements of firms working in the area of business assistance. The assessment indicated that the requisite expertise is not available from these firms. In particular, none of the statements reviewed indicated significant experience in working in the entire range of project activities

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required. Accordingly, it has been determined that this contract should be awarded following full and open competition. Small business and minority firms will be encouraged to participate in the contractor team, in evaluation of this project, and in such other activities as feasible.

E. Initial Environmental Examination (IEE): A negative IEE determination is included at Annex G of Attachment A.

F. Project Evaluation: The U.S. contractor will be charged with conducting annual internal evaluations at the end of each year of the project as preparation to the development of annual work plans. These internal evaluations will focus on activities undertaken and on progress achieved toward meeting project goals. The first external evaluation will be completed during the second year of the project (approximately 18 months after project initiation). A second external evaluation will be completed during the last year of the project and will focus on the effectiveness of the project as measured against the approved indicators.

G. Congressional Notification (CN): The CN was forwarded to the Hill on March 31, 1993, and expired without objection on April 15, 1993.

H. Contract Period: The prime contract will include an option for up to two one-year extensions. If necessary, additional funding will be provided through an authorization amendment to finance activities during these extensions. For bidding purposes, however, contractors will be asked to assume a three-year contract period.

Recommendation: That, subject to the availability of funds under the A.I.D. OYB allotment process, you authorize the WB/G Private Sector Support Project at a life-of-project funding level of \$11.0 million with a PACD of April 30, 1997 by signing the Project Paper facesheet and the Project Authorization at Attachment A of this memorandum.

Approve: Diana M. Swain

Disapprove: \_\_\_\_\_

Date: 4/23/93

Attachments:

- A. Project Paper
- B. PID Approval Reporting Cable (State 000420)
- C. PRC Meeting to Review PP - Memo to Files
- D. NEDAC Reporting Cable
- E. Justification for Non-Competitive Selection of Amideast
- F. Judy Johnson's April 14, 1993 Memo to Satish Shah
- G. Diana Swain's April 20, 1993 Memo to Judy Johnson

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Clearance:

NE/DR/MENA:RRedman	<u>Draft</u>	Date	<u>04/07/93</u>
NE/ME:DSwain	<u>Draft</u>	Date	<u>04/02/93</u>
NE/ME:TO'Keefe	<u>Draft</u>	Date	<u>04/08/93</u>
NE/DP:VMolldrem	<u>Draft</u>	Date	<u>04/08/93</u>
GC/NE:KO'Donnell	<u>CGM</u>	Date	<u>4/22/93</u>
FA/OP/B/HNE:JJohnson	*	Date	
State/NEA/IAI:JWallis	<u>Draft</u>	Date	<u>04/16/93</u>
NE/ME:RMachmer	<u>✓</u>	Date	<u>4-21-93</u>

Drafter:NE/DR/MENA:CShorter/RRedman:AF:3/29/93:afs

Doc ID:U:NEDRMENA\DOCS\WBG\PSSP.ACT

\* See discussion on pg. 4 of the Authorization Memo and Attachments F & G.

AGENCY FOR INTERNATIONAL DEVELOPMENT <b>PROJECT DATA SHEET</b>		1. TRANSACTION CODE <input checked="" type="checkbox"/> A    A = Add C = Change D = Delete	Amendment Number _____	DOCUMENT CODE 3
2. COUNTRY/ENTITY West Bank/ Gaza		3. PROJECT NUMBER 294-0001		
4. BUREAU/OFFICE NE/ME		5. PROJECT TITLE (maximum 40 characters) Private Sector Support Project		
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 04 30 97		7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4) A. Initial FY 93    B. Quarter 4    C. Final FY 96		

8. COSTS (\$000 OR EQUIVALENT \$1 = )						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total	4,000		4,000	11,000		11,000
(Grant)	(4,000)	( )	(4,000)	(11,000)	( )	(11,000)
(Loan)	( )	( )	( )	( )	( )	( )
Other U.S.						
1.						
2.						
Host Country						
Other Donor(s)						
<b>TOTALS</b>	<b>4,000</b>		<b>4,000</b>	<b>11,000</b>		<b>11,000</b>

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1)	PEBD					11,000		11,000	
(2)	PETI								
(3)									
(4)									
<b>TOTALS</b>						<b>11,000</b>		<b>11,000</b>	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)						11. SECONDARY PURPOSE CODE			
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									

15. PROJECT PURPOSE (maximum 480 characters)

To increase the marketed production of manufactured goods through the enhancement of the management, production and marketing capabilities of private sector manufacturing enterprises in West Bank and Gaza.

14. SCHEDULED EVALUATIONS						15. SOURCE/ORIGIN OF GOODS AND SERVICES					
Interim		MM	YY	MM		YY	MM		YY	<input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input type="checkbox"/> Other (Specify) <u>Israel</u>	
		03	95				09		96		

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a \_\_\_\_\_ page PP Amendment.)

17. APPROVED BY	Signature <i>Deborah M. [Signature]</i>				18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION						
	Title Acting Assistant Administrator Bureau for Near East										
				Date Signed							
				MM	DD	YY					
				04	23	93					

**PRIVATE SECTOR SUPPORT PROJECT  
FOR  
THE WEST BANK AND GAZA STRIP**

**APRIL 1993**

**WEST BANK & GAZA PRIVATE SECTOR SUPPORT**  
**Project Paper**  
**(Project No. 294-0001)**

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**ANNEXES**

- A: Project Authorization
- B: NEDAC Approval Cable
- C: Logical Framework
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- E: Institutional Analysis
- F: Design Issues and Potential Problems/Solutions
- G: Initial Environmental Examination Statement
- H: List of Individuals Interviewed

## GLOSSARY OF ACRONYMS

### West Bank & Gaza Private Sector Support PP

A.I.D.	U.S. Agency for International Development
ACDI	Agricultural Cooperative Development International
ADCC	Arab Development and Credit Company
AMIDEAST	American-Mideast Educational and Training Services, Inc.
ANERA	American Near East Refugee Aid
CD	Cooperation for Development
CDP	Cooperative Development Program
CRS	Catholic Relief Services
EC	European Community
EDG	Economic Development Group
FSN	Foreign Service National
FY	Fiscal Year
MIS	Management Information System
PID	Project Identification Document
PP	Project Paper
PVO	Private and Voluntary Organization
RFP	Request for Proposals
SCF	Save the Children Foundation
TA	Technical Assistance
TDC	Technical Development Company
UNDP	United Nations Development Program
UNIDO	United Nations Industrial Development Organization
WB/G	West Bank and Gaza

**WEST BANK & GAZA PRIVATE SECTOR SUPPORT**  
(No. 294-0001)

**Project Paper**

**I. EXECUTIVE SUMMARY AND RECOMMENDATION**

This Project Paper (PP) presents the rationale, detailed description, analytical findings and implementation plan for the West Bank & Gaza Private Sector Support Project. This project will provide assistance to indigenous private enterprises in both West Bank and Gaza. The initiative represents a focused expansion of private enterprise support activities recently begun in these two areas. The project has been conceived and designed to take into direct consideration the special circumstances facing the people and firms respectively living and operating in West Bank and Gaza.

**A. Introduction**

West Bank and Gaza have witnessed a prolonged stagnation of economic output and growth for over a decade. The lack of growth has led to declining standards of living, continued dependence on external assistance to meet basic needs, and high unemployment. These conditions have undoubtedly contributed to social dislocation and unrest. The size of the population is growing rapidly, placing higher demands on inadequate infrastructure (education, health, sanitation, transportation, etc.) and limited resources (land, water, etc.), thereby leading to the conclusion that living standards will fall due to both increasing demand and inadequate capacity to meet this demand.

Many of the factors leading to economic stagnation are beyond the control of Palestinian entrepreneurs and are related to political or "external" factors. Other impediments are within the control of entrepreneurs and thus can be removed or reduced. Constraints to private enterprise growth in West Bank and Gaza fall into three categories: Microeconomic (firm level), business infrastructure, and macroeconomic.

Most of the factors associated with the first two categories are typical of constraints faced by entrepreneurs in developing countries. In addition, many firms operating in developing nations must also deal with economic instability and restrictive policy environments. However, West Bank and Gaza firms have undoubtedly suffered from the political status of and uncertainties prevalent in these areas.

Notwithstanding these serious constraints to growth, private sector companies in the West Bank and Gaza do benefit from certain

advantages or "assets," including a heritage of entrepreneurship, well-educated labor, and a capacity to cope with economic hardship. These attributes suggest that the growth potential of the private sector would be significant under the right circumstances. This project seeks to strengthen the internal capacity of private Palestinian enterprises, both to deal more effectively with current conditions and to take full advantage of potential improvements in the "enabling environment" for business.

## **B. Project Description**

The goal of this project is to contribute to self-sustaining economic growth in the West Bank and Gaza. The purpose is to increase the marketed production of manufactured goods through the enhancement of the management, production, and marketing capabilities of private sector manufacturing enterprises in West Bank and Gaza.

The project will have three components: Training, technical assistance and information services. Each of these components addresses specific needs identified during the design of the project. The project will focus on the manufacturing industries. Direct assistance to agricultural enterprises is being provided by A.I.D. through several on-going Private Voluntary Organization (PVO) activities.

- o The training component will consist primarily of training in general management skills, such as marketing, finance and accounting, human resource development, company management and technical training.
- o The technical assistance component will concentrate on industry-specific technical needs, such as equipment procurement and maintenance, quality control, plant design and lay-out, environmental protection and production technologies.
- o The information services component will be directed toward the development and dissemination of relevant business information, such as local and foreign market opportunities, local service and input suppliers, operating costs and conditions, and basic promotional materials.

This proposed structure represents a modification of the project as described in the Project Identification Document (PID). The PID noted that the project's components were (1) strengthening of Palestinian professional associations, (2) strengthening of Palestinian consulting groups, and (3) supporting individual industrial enterprises. The design team has concluded that the components proposed are more appropriate, based on the needs

assessment and institutional analyses. Specifically, there are almost no consulting firms in the West Bank and Gaza, only individuals who consult on a part-time basis, largely for international donors.

The project as proposed does not constitute a fundamental change in the project, since it will strengthen business associations, work with local consultants and support individual firms. The modification simply reorients the project from an institutional focus to a functional focus. As described in the project paper, this change is justified on technical grounds, and also avoids potential political problems.

The project will be implemented by a U.S. contractor selected on a competitive bid basis. The contractor will be responsible for conducting all three project components. The contractor will enter into contractual relationships with (1) business organizations (Chambers of Commerce in the West Bank, and the Chamber of Commerce and Union of Industrialists in Gaza); and (2) a select number of local universities with established business training programs. These organizations will participate in project implementation activities.

One PVO -- America-Mideast Educational and Training Services, Inc. (AMIDEAST) will also participate as a subcontractor to the U.S. contractor. In addition, the contractor will have the opportunity to issue subcontracts to access other technical resources associated with on-the-job training and industry-specific technical assistance. The contractor and AMIDEAST will be responsible for recruiting technical assistance and training resources in the United States and in neighboring countries.

The contractor will establish a project office on the premises of AMIDEAST in Jerusalem, and staff the office with one American (Chief of Party), one local hire professional and one secretary. An additional local hire professional and a secretary will be located in the AMIDEAST office in Gaza, and the contractor will have the option to place an American project advisor in Gaza if circumstances are appropriate. The project will also fund home support contractor staff in the United States.

### **C. Cost Estimates and Financial Plan**

The total life-of-project funding required is estimated at \$11.0 million, all of which will be provided as an A.I.D. grant. A small amount of local counterpart funding will be obtained through fees paid for technical assistance and training courses.

Of the \$11.0 million grant, about \$5.3 million will be allocated to training, \$4.0 million for technical assistance and \$1.5 million for information services. These figures are

that remittances and other private transfers accounted for about one fourth of GNP.

For over a decade, West Bank and Gaza have witnessed a prolonged stagnation of economic output and growth. The lack of growth has led to declining standards of living, continued dependence on external assistance to meet basic needs, and high unemployment. These conditions have undoubtedly contributed to social dislocation and unrest.

The size of the population is growing rapidly, placing higher demands on inadequate infrastructure (education, health, sanitation, transportation, etc.) and limited resources (land, water, etc.), thereby leading to the conclusion that living standards will fall due to both increasing demand and inadequate capacity to meet this demand.

While not discounting the magnitude of problems in the West Bank, the difficulties facing Gaza are especially pronounced. The area is among the most densely populated in the world. As much as one half of the population is displaced refugees. Social services are poor, and Gaza's economic infrastructure is very weak. Even necessities such as water are in short supply, as groundwater resources are depleted, leading to absolute shortages and increasing salinization of existing supplies. In sum, poverty is widespread, and Gaza has fewer options for new sources of production and income. Even Gaza's traditional revenues from citrus exports are jeopardized by competition from Israeli other strong producers.

Many of the factors leading to economic stagnation are beyond the control of Palestinian entrepreneurs and are related to political or "external" factors. Other impediments are within the control of entrepreneurs and thus can be removed or reduced. Constraints to private enterprise growth in West Bank and Gaza fall into three categories:

- o Problems encountered at the level of the firm (microeconomic), such as inadequate skills in general management, marketing, finance and accounting, quality control, maintenance, etc., and difficulties in expanding family owned and operated businesses;
- o Deficiencies in the business infrastructure (defined as the institutions and services that collectively support business development), including access to finance, business services, technology, information, markets, and other inputs; and
- o A constraining macroeconomic and policy climate driven by political considerations, such as the tightly controlled regulatory environment under which the West Bank and Gaza

## II. PROJECT RATIONALE AND DESCRIPTION

### A. Project Rationale

#### 1. Background

The economies of West Bank and Gaza, as well as private enterprises within them, have operated under what could be considered "suspended animation" for years if not decades. Traditionally, both areas depended on agriculture, trading and tourism (religious sites in West Bank and seaside resorts in Gaza) for income, employment and foreign exchange. All of these sectors, particularly trading and tourism, have suffered from endemic political unrest.

Over the past century, the West Bank and Gaza have been controlled by no less than five occupying forces: The Ottomans, Great Britain, Jordan (West Bank), Egypt (Gaza) and Israel. For reasons of clear self interest, none of these countries saw fit to provide an environment supportive of diversified economic activity. Instead, the West Bank and Gaza were treated as captive markets and as marginal suppliers of raw materials. In short, there was never any dynamic to encourage increasing value added in production.

As if this long-term restrictive climate were not enough of a constraint on development, two politically-instigated events in the past five years have even further exacerbated the regions' economic prospects. The first was the onset and continuation to this day of the "Intifada," or revolt against the Israeli occupation. This has created several important economic and commercial problems -- dramatic reductions in Palestinian firms' access to Israeli markets, major decreases in the flows of Palestinian workers to Israel, and almost daily disruptions to normal life. Security concerns alone have diminished tourism, reduced flows of inputs and finished goods, and forced transactions between Palestinian and Israeli firms to move "underground."

The second blow to the economies of West Bank and Gaza was the Gulf War of 1990. This event has caused two adverse impacts -- the forced return of expatriate Palestinian workers from the Gulf States, and the boycott against Palestinian products imposed by several countries. The decline of expatriate workers' remittances (from both Israel and the Gulf) has been particularly worrisome, given the importance of this income. Hard data are not available, but prior to these political developments as much as one quarter of West Bank/Gaza income could be accounted for by remittances. In 1986, for example, the size of West Bank/Gaza gross national product (GNP, including remittances) was estimated at about \$2.0 billion, whereas gross domestic product (GDP, excluding remittances) was measured at about \$1.5 billion. This suggests

are administered, and the market restrictions faced by local producers. Other problems include uncertainty regarding legal issues, currency restrictions, limitations on the undertaking of normal business transactions, etc.

Most of the factors associated with the first two categories are typical of constraints faced by entrepreneurs in developing countries. In addition, many firms operating in developing nations must also deal with economic instability and restrictive policy environments. However, it is clear that firms in West Bank and Gaza suffer from the political status of and uncertainties prevalent in these areas.

Notwithstanding these serious constraints to growth, private sector companies in the West Bank and Gaza do benefit from certain advantages or "assets." Palestinians exhibit a strong level of entrepreneurship. The work force is highly educated by developing country standards, and the cost of labor is moderate. Most important, firms have shown a high degree of resilience and capacity to survive amid considerable disadvantages and hardships. These attributes suggest that the growth potential of the private sector could be significant under the right circumstances. This project seeks to strengthen the internal capacity of private Palestinian enterprises, both to deal more effectively with current conditions and to take full advantage of potential improvements in the "enabling environment" for business.

## **2. The Outlook for Private Sector Industry**

An objective assessment of potential sources of economic growth, employment and income in the West Bank and Gaza leads one to the conclusion that the range of options available is limited. Some gains in agriculture are possible if market access improves, but major gains in employment are unlikely and agriculture faces absolute shortages of land and especially water. Growth in services is also possible, particularly in tourism and trade activities, but this will be dependent on improvements in political and security conditions. Mining and natural resource development can be ruled out due to the lack of commercial mineral deposits except building stone (in the West Bank) and possible mineral resources in the Dead Sea area.

This assessment suggests that the prospects for economic growth in the West Bank and Gaza are essentially tied to industrial activity, particularly manufacturing. Increases in manufacturing are possible if they are tied to the West Bank's and Gaza's actual resource base and true comparative advantages -- labor and agricultural production. From an economic perspective, new ventures or expansions of manufacturing operations are most likely to be associated with the following:

estimates, since the project is designed to be demand driven, and so specific allocations will vary.

**D. Recommendation**

The Near East Bureau of A.I.D. recommends approval and authorization of an \$11.0 million grant to finance the West Bank and Gaza Private Sector Support Project. The Project will be for four years (PACD) to support a three year contract. The contract will include options for (1) an extension by up to two years; (2) the establishment of a resident American project advisor position in Gaza; and (3) a program of comprehensive and tailored technical assistance and training for participating firms.

- o Labor-intensive production of consumer goods for the local market as well as regional and international markets. Potential product lines would include garments, leather goods, electronics and assembled products such as appliances. Certain "niche" opportunities for more capital-intensive production of consumer goods for local markets are also available, particularly to accommodate local tastes (e.g., pharmaceuticals, cosmetics, household chemicals, etc.);
- o Food processing to take advantage of locally available agricultural commodities, such as citrus, grapes, olives, and vegetables. These would represent a shift toward "downstream" production; and
- o Production of inputs to local or regional companies manufacturing final goods. These would represent a movement toward "upstream" production, and could include packaging (paper and plastic), components, and processed inputs that are currently imported.

The technical analysis (Annex C) describes in detail the conditions, opportunities and constraints facing manufacturers and private enterprise in general. This analysis is summarized below (see Section III.A of this Project Paper). The basic conclusion of the analysis is that private firms do in fact face a wide range of constraints; however, these problems do not preclude the development of a viable and growing manufacturing industry. Accordingly, a project which seeks to remove obstacles within the control and responsibility of entrepreneurs will help prepare private manufacturing firms to function more effectively under both current and hopefully improved operating conditions.

### 3. USAID Strategy

The goals, objectives and initiatives of A.I.D. are articulated in the recently published "USAID Program Strategy for the West Bank and Gaza: 1993-1997."<sup>1</sup> As expressed in this document, A.I.D.'s program goal is ". . . to improve the economic and social wellbeing of Palestinians in the West Bank and Gaza." This project is fully consistent with that goal.

In addition, the project is directed specifically toward meeting two (underlined) of A.I.D.'s three strategic objectives:

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<sup>1</sup> U.S. Agency for International Development, Near East Bureau, "USAID Program Strategy for the West Bank and Gaza Strip," November 1992.

- o Increased marketed production of agricultural and manufactured goods;
- o Increased use of selected improved health care services; and
- o Improved planning and management of development activities by selected Palestinian institutions.

This project will assist private sector Palestinian firms to improve their management capacities, thereby enhancing their capacity to expand marketed production, the first and highest priority objective. The project is targeted toward the manufactured goods sector. To assist producers of agricultural products, A.I.D. will rely primarily on on-going PVO activities.

The project will also address the third strategic objective by strengthening the capacities of and increase the services provided by private sector institutions (business organizations and private universities). This organizational strengthening activity will be a byproduct of the institutions' participation in the implementation of training, technical assistance, and information service activities. As stated in the program strategy, "Institutional and human resource development -- especially as relates to A.I.D.'s areas of focus. . . -- will be a key theme cutting through all of A.I.D.'s programs.

The project will impact directly on three program outcomes identified in the A.I.D. strategy for the West Bank and Gaza:

- Increased adoption of modern business . . . practices;
- Increased business access to marketing, investment, regulatory, and technical information; and
- Increased value-added in Palestinian industrial production.

The project will provide indirect impacts toward an additional program outcome -- improved financial sector practices -- since the information, training and technical assistance offered under the project will improve firms' financial performance and ability to engage in modern financial practices. In conclusion, the West Bank & Gaza Private Sector Support Project represents an integral part of A.I.D.'s program, and is fully consistent with the Agency's and Near East Bureau's approach and strategy.

## **B. Project Description**

### **1. Project Goal and Purpose**

The goal and purpose of the West Bank and Gaza Private Sector Support Project have been set forth to contribute directly to the achievement of A.I.D.'s overall program goal, namely ". . . to improve the economic and social wellbeing of Palestinians in the West Bank and Gaza."

- o The Project Goal is to contribute to self-sustaining economic growth in the West Bank and Gaza.
- o The Project Purpose is to increase the marketed production of manufactured goods through the enhancement of the management, production and marketing capabilities of private sector manufacturing enterprises in West Bank and Gaza.

### **2. End of Project Conditions**

The project and its activities will lead to the following End of Project Status (EOPS): Employment in private Palestinian firms participating in the project will have increased by 20 percent over pre-project levels; a number of firms will have been assisted to adopt modern business practices and improve production line techniques; and access to relevant business information will be significantly improved. In addition, private business associations and universities in WB/G will be strengthened to provide business information and participate in technical assistance and training on a sustainable basis.

### **3. Project Activities**

#### **a. General**

The West Bank and Gaza Private Sector Support Project is designed to provide to private Palestinian firms direct support in the form of training, technical assistance and information services. This assistance will help these companies to operate more effectively in the current constrained operating environment, and to position themselves for rapid growth when the business climate improves. Private business activities, and the income and employment created by them, offer the most viable means to achieve accelerated economic growth and improved standards of living in West Bank and Gaza.

As noted above, private sector manufacturers face constraints in at least three areas: Firm-level management, business infrastructure and the macroeconomic/policy climate. This project will focus primarily on enhancing the management of Palestinian

companies through the provision of management training, technical assistance and relevant information.

In addition, the project will improve business support systems by extending assistance to private business associations and by conducting project activities in collaboration with business education/development programs of local universities. The experience of industrial countries and successful industrializing countries has shown that strong business associations and business education institutions represent vital parts of business support systems that support private enterprise growth on a sustainable basis. Both of these sets of institutions are currently very weak in West Bank and Gaza.

The project will not directly address macroeconomic or policy constraints. These issues are now strongly associated with sensitive political conditions, and are hence difficult to approach on an objective, pragmatic basis. However, by assisting firms to operate more effectively, strengthening business associations and educational programs, and preparing and disseminating relevant business condition information, the project will lay the groundwork for productive policy dialogue and appropriate reform. This in turn will accelerate needed change at that time when the fundamental political issues and disputes are resolved or at least ameliorated.

#### **b. Organizational Approach**

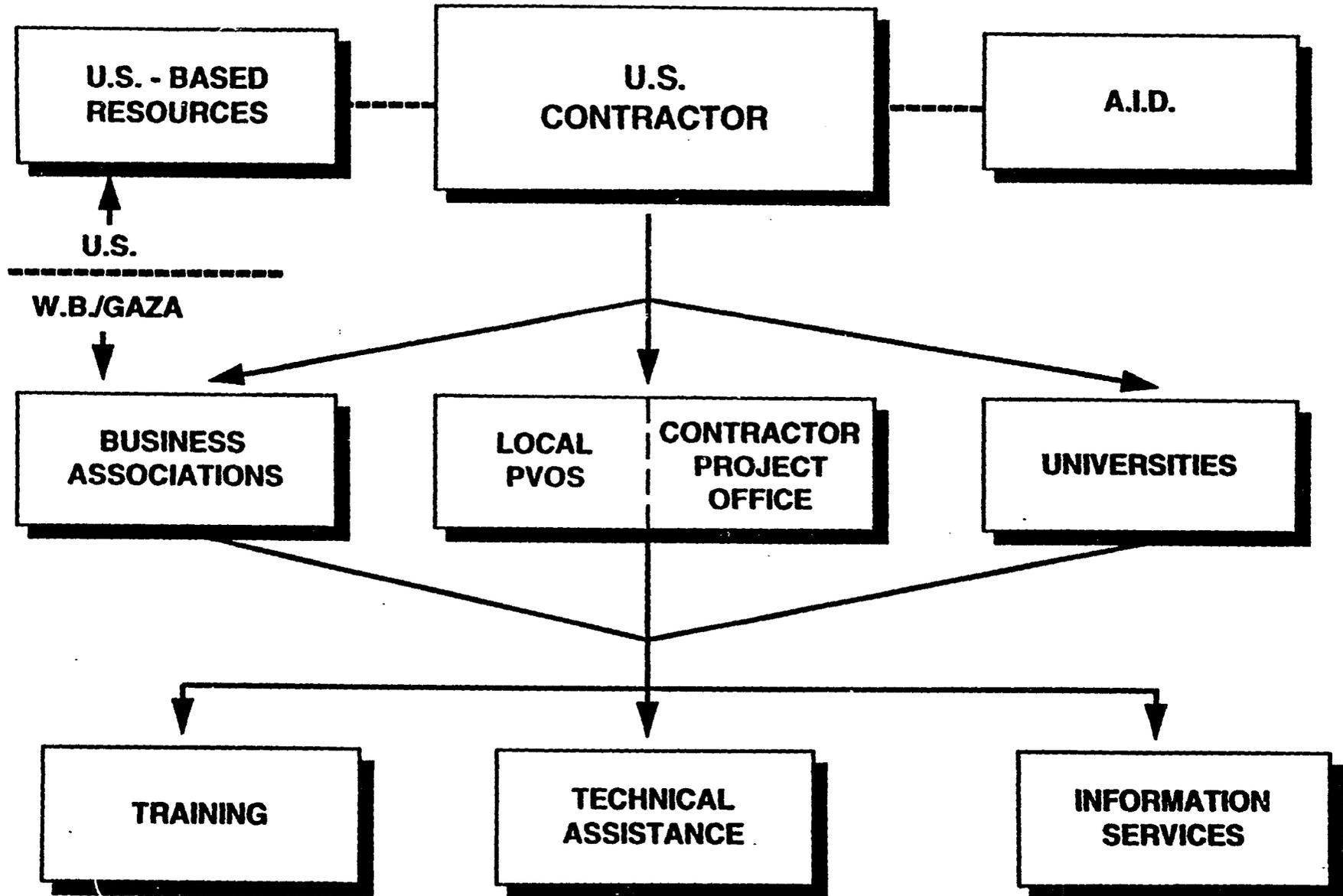
The organizational structure of the project is shown schematically on the following page. As indicated, the project will be implemented by a U.S. contractor, selected on a competitive basis. The contractor will be responsible for overall management and coordination of the project, as well as for implementation of the project's three functional components.

The U.S. contractor will enter into subcontract arrangements with the following locally-based organizations: Private business associations (chambers of commerce in the West Bank and the Chamber of Commerce and Union of Industrialists in Gaza), and business training programs of a select number of universities. In view of political sensitivities in the area, prior written approval from the technical officer will be required before any funds are extended to business organizations.

AMIDEAST will also participate through a subcontract arrangement. These organizations will participate in the implementation of project activities, as described below. The U.S. contractor will also enter into contracts with Palestinian consultants on an "as needed" basis.

# WEST BANK & GAZA PRIVATE SECTOR SUPPORT PROJECT

## PROPOSED ORGANIZATIONAL STRUCTURE



To provide access to relevant expertise and programs in the United States, the U.S. contractor can also enter into contractual arrangements with U.S.-based organizations that offer programs on ~~firm-level technical assistance and on-the-job training.~~

The U.S. contractor will supply the following staff for project management and implementation: In the United States, one full-time Project Director (Chief of Party) and one administrative assistant (the Project Director will oversee project administration and serve as a backstop for training activities); in the West Bank, one American project director, one local hire assistant project director, and one administrative assistant; and in Gaza, one local hire assistant project director and one administrative assistant, with the option of assigning an American project advisor if circumstances warrant.

The U.S. contractor and the project offices in West Bank and Gaza will be located physically on the premises of AMIDEAST. In addition to playing a major role in providing business training and technical assistance under this project, AMIDEAST will be provided with funds for office rent and associated business services. However, the project offices will be operated and managed by the U.S. contractor and not by AMIDEAST.

There are several reasons for this arrangement: (1) It minimizes the start-up time for office location and furnishing; (2) it allows the project to benefit from the good reputation and networks of AMIDEAST, limiting potential sensitivities to and mistrust of a new organizational entity; and (3) it permits the project team to focus on firm-level assistance without raising undesired perceptions or expectations on the part of local constituencies.

#### Organizational Approach under Alternative Circumstances

The project design team has concluded that the above organizational arrangement will best accommodate A.I.D.'s needs for effective project implementation, management and oversight, given the security concerns and the potential sensitivities in the territories to new foreign entities. Under alternative circumstances -- specifically, if the issues of security and political perception were less sensitive -- the project design team would have concluded that the contractor should enter into subcontracting arrangements with whichever firms as are deemed appropriate, regardless of whether they already have a presence in Gaza and West Bank. The contractor would also not be required to physically locate its office within the existing premises of AMIDEAST. Nonetheless, the project team has concluded that even in a less sensitive political environment, it is still highly likely that the contractor would choose to enter into subcontracting arrangement with AMIDEAST based on its established reputation, technical merits and institutional capability.

### **e. Project Components**

~~The project will include three separate but inter-related components: Training, technical assistance and information services. Those interviewed during project design were unanimous in the need for and potential benefits of these three activities (See the Technical Analysis in Annex C for further details). As described below, each component will be oriented toward a different focus. However, each provides assistance to Palestinian companies at the firm level.~~

#### Component 1: Training

The training component will concentrate on business training to improve general management skills, aimed at increasing the management capacity of Palestinian manufacturing companies. Appropriate technical training will also be provided. The training will be delivered principally in the form of short-term (one to two week) courses and workshops, with participation by senior and middle-level management. The courses will be organized into regularly scheduled "modules" on general management areas, particularly the following:

- Marketing -- market research, new market penetration, market requirements, promotional materials such as catalogues, advertising campaigns, etc.
- Finance and Accounting -- balance sheet analysis, cash flow analysis, direct and indirect cost accounting, depreciation, product costing, overhead calculations, financial projections, creditor information requirements, etc.
- Human Resource Development -- Staff recruitment, benefits administration, training programs, performance incentives, etc.
- General Management -- New business start-up, alternative financing mechanisms, corporate structure models, supplier and client relations, legal requirements, production-line management, equipment acquisition and maintenance, etc.
- Technical Training -- This training will focus on technical issues related to manufacturing, to be identified by the project team. These might include production technologies in particular industries (e.g., food processing), quality control, pollution prevention, packaging, etc.

The proposed implementation of training courses is as follows. The U.S. contractor will develop a course curriculum and provide U.S.-based trainers (one or in some cases two per course given). These trainers will be teamed with local university-based trainers drawn primarily from business programs. These teams would then give courses jointly, based on set curricula previously developed by the contractor. The local trainers could serve as interpreters, as required, in addition to their substantive contributions to course offerings. In this way, the responsibility for conducting training would gradually be transferred from the contractor to the local trainers.

To conduct the training component, the contractor team will include a roster of specialists in the following areas: Marketing (domestic and international), accounting, corporate finance, human resource development, general management, and small business startups and management. Additional areas will be covered by technical specialists recruited by the contractor. The U.S.-based Project Director will backstop project training activities.

AMIDEAST will play a major role in the training component of the project. AMIDEAST will collaborate with the U.S. contractor to prepare work plans, draw upon its technical resource network in the United States and in the Middle East to recruit qualified training and technical experts, and implement training activities. The project is expected to benefit from the relationships AMIDEAST has developed with the business community and with local university training programs.

It is envisioned that the contractor will develop joint programs to administer a series of business training courses (perhaps 4-6 per year) with a set of university business centers. Likely candidates in the West Bank include Birzeit University, the University of Bethlehem and Najah University in Nablus. The likely candidate in Gaza would be Al-Azhar University, a recently established institution. If, for example, a given course is one week in duration, the contractor would bring U.S. business trainers to the area for about one month, and give the one week course sequentially at each of the four universities involved.

The training component will also include a select amount of training to business associations, to improve their management structure and services. In addition, the project will include targeted U.S.-based training for Palestinian business managers. Individual training programs could be arranged by the U.S. contractor, by AMIDEAST, or by other subcontractors.

#### Component 2: Technical Assistance (TA)

While the project's training component concentrates on general management issues, the technical assistance component will focus on firm-specific or industry-specific TA, at least that provided at

the level of the firm. Those business executives interviewed by the project design team expressed a clear consensus on the need for highly targeted TA related to the following areas:

- Equipment Procurement -- Equipment requirements and specifications, alternative suppliers, production line modifications, etc.
- Equipment Maintenance -- Proper maintenance procedures and schedules, on-line versus shutdown maintenance alternatives, appropriate maintenance equipment and supplies, parts acquisition and installation, etc.
- Quality Control -- Product quality standards (local and international), quality improvement measures and programs, quality/cost tradeoffs, etc.
- Environmental Protection and Pollution Prevention -- Effluents and waste management, pollution reduction methods, recycling opportunities, packaging alternatives, etc.
- Plant Design and Lay-Out -- Production line improvements, efficiency measures, employee deployment, etc.
- Production Technologies -- Alternative technologies associated with specific manufacturing lines (e.g., food processing, packaging, building materials, etc.)

These and related technical areas tend to be industry-specific or even product-specific in nature, and thus require TA provided by individuals experienced in manufacturing industry issues.

The project will provide this TA from several resource bases. The contractor will be asked to supply industry experts on its project team. These will include, but not be limited to, the following areas of expertise: Equipment procurement, equipment maintenance, quality control, plant design and modification, environmental protection and pollution prevention, and production technologies.

The project also includes funding for the utilization of outside resources with specialized programs for on-the-job training and firm-level technical assistance. In addition, the contractor and AMIDEAST can draw TA from their networks of consultants in West Bank and Gaza and from other countries in the region. Finally, a roster of consultants will be developed from West Bank and Gaza (individual consultants, university-based engineers, etc.). To the extent possible, as in training, efforts will be made to team outside TA consultants with locally-based Palestinian consultants.

# WEST BANK & GAZA PRIVATE SECTOR SUPPORT PROJECT

## FIELD ACTIVITIES MATRIX

	TRAINING	TECHNICAL ASSISTANCE	INFORMATION SERVICES
LOCAL PRIVATE SECTOR FIRMS		<ul style="list-style-type: none"> <li>• RECIPIENTS</li> </ul>	
LOCAL BUSINESS ASSOCIATION	<ul style="list-style-type: none"> <li>• RECRUITMENT</li> <li>• HOSTING</li> <li>• RECIPIENTS</li> </ul>	<ul style="list-style-type: none"> <li>• RECRUITMENT</li> <li>• RECIPIENTS</li> </ul>	<ul style="list-style-type: none"> <li>• PREPARATION</li> <li>• DISSEMINATION</li> </ul>
LOCAL UNIVERSITIES	<ul style="list-style-type: none"> <li>• IMPLEMENTATION</li> <li>• HOSTING</li> <li>• RECRUITMENT</li> <li>• RECIPIENTS (U.S.)</li> </ul>	<ul style="list-style-type: none"> <li>• IMPLEMENTATION</li> <li>• RECRUITMENT</li> </ul>	<ul style="list-style-type: none"> <li>• PREPARATION</li> <li>• DISSEMINATION</li> </ul>
LOCAL PVOS	<ul style="list-style-type: none"> <li>• IMPLEMENTATION</li> <li>• JOINT ACTIVITIES</li> </ul>	<ul style="list-style-type: none"> <li>• IMPLEMENTATION</li> <li>• JOINT ACTIVITIES</li> </ul>	<ul style="list-style-type: none"> <li>• JOINT ACTIVITIES</li> </ul>
US - BASED CONTRACTOR	<ul style="list-style-type: none"> <li>• COORDINATION</li> <li>• MANAGEMENT</li> </ul>	<ul style="list-style-type: none"> <li>• IMPLEMENTATION</li> <li>• FUNDING</li> </ul>	

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### Component 3: Information Services

As discussed in the Technical Analysis (Annex C), private firms in West Bank and Gaza are hampered by an almost complete dearth of information on markets and other business climate factors which affect their operations. To fill this need, the project will support a series of activities to develop and disseminate general business information. This information will fall into several categories:

- Market Conditions and Opportunities -- Current and potential demand in West Bank and Gaza, regional and international markets for specific manufactured products, market requirements, etc.
- Operating Costs and Conditions -- Input costs (labor, utilities, land, factory space, etc.), transportation alternatives, licensing arrangements, etc.)
- Business Laws and Regulations -- Incorporation and licensing approvals, travel requirements, import and export regulations, foreign exchange transaction rules, etc.
- Business Support Services -- Sources of information, training, finance, business consulting, legal advice, etc.
- Business Institution Structures and Activities -- Roles and services of chambers of commerce, membership requirements, local and overseas networks, etc.

In this component, the contractor will initially meet with business associations, university business centers and relevant PVOs to develop a list of critical information needs. The contractor will then design and implement work plans to collect and analyze data and prepare relevant informational materials (pamphlets, brochures, databases, audiovisual materials etc.). The U.S. contractor will seek to use local subcontractors to the maximum extent possible. Task teams will vary, but may include contractor personnel, business association staff, business program faculty and local consultants. Work plans will include detailed dissemination strategies, using business association as the primary vehicle for dissemination to the maximum extent possible.

#### **d. Additional Project Elements**

Aside from the three main project components described above, several other elements are incorporated to increase the effectiveness of the project (based on lessons learned from other, similar projects), and to address the needs and responsibilities of the West Bank and Gazan private sector firms which are going to be

the beneficiaries of the project. These additional project elements include industry targeting, fees for project services, and tailored firm assistance packages.

### Industry Targeting

In projects of this kind, it is generally useful to target activities for specific sectors or industries. The project design team has determined that in West Bank and Gaza, there are very few manufacturing enterprises in any given industry. Accordingly, it does not make sense to predetermine specific industries, particularly for training activities. However, it is appropriate to narrow the focus toward particular types of manufacturing industries, especially in the delivery of technical assistance and certain information services.

Therefore, the project will concentrate on the following types of firms that offer potential for growth, as noted above and in the Technical and Economic Analysis: Consumer goods producers (primarily but not exclusively goods requiring labor-intensive manufacturing techniques); food processors; and manufacturers of inputs to local economic activities. These subsectors were chosen on the basis of the following criteria: (1) The comparative advantages/disadvantages of Gaza and West Bank, considering their limited natural resource bases and relatively low wages; (2) the opportunities for generating employment; (3) the opportunities for marketing the outputs locally; and (4) the prospects for developing backward linkages to stimulate additional demand and economic activities.

The services provided under the project will be demand-driven, and will be open to all manufacturing industry firms. While food processing firms and even agricultural packing companies will be eligible to participate in project activities, those producing unprocessed commodities will not be directly assisted under the technical assistance component. Assistance exclusively provided to agricultural cooperatives are already being undertaken by PVOs such as ANERA and ACDI. This project is designed specifically to strengthen the manufacturing sector in Gaza and West Bank.

### Fees for Project Services

The collection of fees from firms receiving training, TA and information is important for several reasons. First, it contributes to the sustainability of activities both during and after completion of the project. Second, it encourages the active participation of firms, who will seek to maximize the utility of services provided to them at a cost. Third, it nurtures a business support structure in which companies are willing to pay for services rendered to them by business training programs, consulting firms and business associations.

Because of these benefits, the project will require fees for services, particularly training and technical assistance. In view of the financial situation of Palestinian firms, fees collected will not be sufficient to cover full expenditures, especially costs associated with expatriate experts. However, fees will be able to cover at least a major portion of local expenses. The contractor will be responsible for developing a fee schedule based on the ability to pay among Palestinian businesses, in consultation with AMIDEAST and other selected PVOs and university programs that have provided services for fees in the past.

The contractor will set up a special account to deposit the fees collected in local currency. The contractor will also be responsible for determining criteria and procedures for identifying activities for which the special account funds will be used. Priority should be placed on activities which enhance the long-term sustainability of business training and TA initiatives. All disbursements of funds must be used for project purposes for training, technical assistance and information services activities. Prior approval by A.I.D. will be required for any use of funds collected as fees. It is estimated that fees generated over the course of the project will amount to about \$100,000.

#### Optional Tailored Firm Assistance Packages

Throughout the duration of the project, the three components will be administered on a "demand-driven" basis, and open to all firms interested in participating. Only this form of demand-driven participant selection will be used in the first year of the project. At the end of the first year, as an optional initiative within the project, up to ten firms could participate in a more comprehensive, twenty-four month program of technical assistance and training. This optional program would be designed to promote the profitable expansion of individual manufacturing enterprises through an assistance package tailored specifically to the needs of the each participating firm.

If a program of tailored assistance is deemed appropriate, it will also be "demand driven" and open to all manufacturing firms. However, since the program would be limited in size, a selection process might be necessary. If so, the selection of participating firms will be based on the following set of objective criteria: (1) The potential for the firm's increased profitability and growth; (2) the potential contribution of the firm to the economy (especially employment generation); (3) the ability and willingness of the firm to pay an increased fee for services; and (4) the applicability of the firm's activities to any subsectors or industry clusters identified to receive targeted assistance. The contractor will be responsible for refining the criteria and evaluating applicants objectively.

The enterprise assistance activity will begin with a diagnostic evaluation of the enterprise's objectives, constraints and opportunities. This will include an assessment of training and technical assistance needs. Training and technical assistance will be provided to assist the firm develop business plans and feasibility studies, improve the management structure of the firm, obtain financing through non-project sources of funds, enhance marketing and production functions, and expand operations. This company-specific assistance will be managed by the U.S. contractor team, but will include participation by Palestinian business centers and consultants.

This optional activity should not be implemented in such a way as to hinder competition among companies in the same sector or industry, since it is not intended to provide advantages to participants over nonparticipants. Accordingly, the activity will include more than one company in any specific sector or industry. In addition, the contractor must provide evidence that participation in the activity will not create monopolistic advantages for participating firms.

#### **4. Project Inputs**

The following inputs will be required under the project to ensure that the project goals and objectives are met:

- One full-time Project Director (and one administrative assistant) located in the United States to manage the project, oversee recruitment of U.S. training and technical assistance teams, liaise with A.I.D., and coordinate project activities;
- One long-term U.S. Project Manager with extensive experience in organizing and managing a business assistance program, located in Jerusalem for three years;
- If warranted by security and technical considerations, one long-term U.S. advisor located in Gaza for three years (optional);
- Two Palestinian professionals (one each located in West Bank and Gaza) and two administrative assistants (one each located in West Bank and Gaza) to support and coordinate project activities, for three years;
- Funding of a subcontract to be let to AMIDEAST to participate in project activities and provide office facilities in West Bank and Gaza;
- Two automobiles and office equipment (other than that provided by AMIDEAST) required for project implementation;

- Funding of subcontracts with Palestinian business associations and university business programs to acquire their services in support of project activities;
- 130 person months of TA used to implement business training programs administered to Palestinian business executives;
- 90 person months of TA used to implement firm-level TA to Palestinian firms and business associations;
- 40 person months and funding for data collection, and preparation and dissemination of business information.

#### **5. Project Outputs**

The proposed project has been designed to produce the following outputs:

- Management training courses and workshops, and curriculum modules;
- 100 technical assistance assignments with individual Palestinian firms;
- Business information brochures, marketing data and promotional materials.

#### **6. Indicators of Performance**

Indicators demonstrating the project's performance include the following:

- Total employment in the firms participating in the project will be increased by at least 20 percent over employment at the outset of the project. Employment is to be used as a proxy for higher marketed production (as described below).
- Managers of at least 300 Palestinian firms will be trained;
- At least 100 Palestinian firms will be advised on how to improve production processes;
- 7 private business associations will have increased their capacity to provide information to members.

The selection of employment generation as the key quantitative target is based on the following considerations. Small and medium sized firms in all countries are loathe to provide information on their output or profitability. This problem is pronounced in West

Bank and Gaza due to continuing disputes between private firms and Israeli tax authorities. Companies are much more willing to indicate their current employment. Employment is also numerically easy to monitor. Finally, employment generation on a sustainable basis is centrally integrated into the objective of the project.

The U.S. contractor will be charged with developing additional quantitative targets, based on information gathered during the preparation of work plans, implementation of project activities, and administration of surveys with project-assisted firms. These additional targets will be added to project monitoring data and procedures.

#### **7. End of Project Status**

The project and its activities will lead to the following End of Project Status (EOPS):

- Employment in private Palestinian firms participating in the project will have increased by 20 percent over pre-project levels;
- A number of firms will have been assisted to adopt modern business practices and improve production line techniques;
- Access to relevant business information will be significantly improved;
- Universities in Gaza and West Bank will be providing relevant training on a sustainable basis;
- Private business associations in Gaza and West Bank will be providing business information and participate in technical assistance and training on a sustainable basis.

### III. SUMMARY OF ANALYSES

#### A. Technical and Economic Analysis

##### Overview of the Industrial Sector

The share of Palestinian industries in the gross domestic product (GDP) of West Bank and Gaza has remained small, at around 9 percent since 1987. The industrial sector in Gaza is significantly less developed than that in West Bank. Output in some sectors has stagnated or even declined in recent years due to decreasing investment, the loss of work days, emigration and liquidation, most of which are related to the Intifada.

Traditional manufacturing enterprises in West Bank and Gaza include textiles and apparel, food processing, construction materials, pharmaceutical products, plastics, and tourism-related souvenirs, especially in the Bethlehem area. The food processing industry has been buoyant relative to other industries in recent years due to the boycott of Israeli products and the drive in the territories to become self-sufficient.

Most of the estimated 4,000 industrial enterprises in West Bank and Gaza are small-scale, family-owned workshops, 90 percent of which employ less than 10 workers. Most fixed investment and working capital come from personal savings, since commercial loans are extremely difficult to obtain. The average wages in West Bank and Gaza are approximately one third of those in Israel for comparable skill levels.

Subcontracting by Palestinian firms to Israeli firms in small-scale production has become increasingly prevalent since 1967. Most of the subcontracting arrangements have concentrated in labor-intensive industries such as textiles and apparel, footwear, electrical appliances and construction materials. Although subcontracting has provided significant employment opportunities, especially to Palestinian women, it has been perceived and criticized by some Palestinians as exploitative, given the limited opportunities for Palestinian firms and workers to pursue other high value-added operations.

The ownership and management of Palestinian firms is dominated by family units, particularly male family members. The role of women in industry and enterprise in West Bank and Gaza has been limited. Only an estimated 25 percent of the industrial labor force is female, and these workers are mostly employed in traditional low-wage, low-skill industries.

Enterprises in West Bank and Gaza have been operating under a wide range of severe constraints. In addition to financial and

firm-level management impediments, Palestinian firms have faced decades of constraints related to the region's unsettled political situation. Over a period of many years, few incentives for locally-owned enterprise growth have been implemented.

### Policy-Related Constraints

Current policy constraints include restricted market access, high levels of taxation, and the complex procedures associated with obtaining operating licenses and permits and with conducting normal business transactions. Israel's commercial policies in general are restrictive, and government intervention is high.

Palestinian producers claim that they have limited market access for their output due to the small size of their domestic market and to restrictions on trade between West Bank and Gaza, and trade with Israel, Jordan, and other Arab countries. Exporting to or through Israel entails a host of permits, licenses, authorizations, as well as security clearances. Approval is perceived to be uncertain and arbitrary by many Palestinian producers. On the other hand, competition in the domestic market is intense due to the free inflow of Israeli imports. Exporting to Jordan and other Arab countries has also been adversely affected by the Arab boycott of products with any Israeli content.

Operating in territories occupied by the Israeli authorities, residents and businesses in West Bank and Gaza are subject to a variety of direct and indirect taxes. Palestinian businesses are constrained by the high-tax environment created by Israeli policies. In addition, Palestinians are also subject to additional fees on bridge-crossing (to Jordan), travel exit permits and vehicles.

Businesses in West Bank and Gaza also are subject to Israeli laws and procedures governing business registration and start-ups. It is not uncommon for a Palestinian entrepreneur to be required to obtain approvals from up to ten Israeli Government departments before he can open a factory. Overall, the approval process for business licenses are viewed by Palestinians as onerous and arbitrary.

### Financial Constraints

Industrial development in West Bank and Gaza is severely constrained by the shortage of credit for fixed investment and working capital. The financial sector in the territories is weak, fragmented, and largely defunct. All Israeli banks operating in West Bank and Gaza have been closed since the Intifada, except for a branch in Bethlehem operated by Bank Leumi.

The two existing commercial banks - the Cairo-Amman Bank in West Bank and the Bank of Palestine in Gaza are operating under

numerous Israeli restrictions. The two banks also practice extremely conservative lending policies, due to adverse business conditions and the absence of a functioning legal system and law enforcing agencies in West Bank and Gaza (rendering delinquent loan collection difficult if not impossible). As a result, these banks supply very limited loan capital to business, and only serve to provide basic services such as taking deposits and cashing checks.

The informal financial sector has become increasingly important in carrying out day-to-day financial transactions. In 1986, it is estimated that there were over 200 informal money changers and small lending agencies in the West Bank alone. Their activities range from holding short-term deposits, transferring funds, and providing check clearance, to granting small short-term loans. Overall, however, the informal sector is small and fragmented, and has not served as a effective channel to mobilize large sums of savings for industrial investment.

The project team has concluded that although the shortage of capital and credit will continue to have a negative impact on industrial development, it is not an overriding or "binding" constraint on prospects for strengthening the manufacturing sector in West Bank and Gaza. Larger industrial enterprises which have an established reputation and business history are likely to obtain short-term credit, usually in the form of suppliers' credit, as well as medium-term to long-term loans from commercial and development banks.

Technical assistance and training to strengthen skills in business management, financial analysis, accounting, market research, etc., will enhance the overall ability of Palestinian business operators to identify feasible projects and practice sound financial planning and management. Should the credit constraint be relaxed in the future, entrepreneurs in West Bank and Gaza will be better positioned to present viable business plans to prospective creditors.

#### Firm-Level Constraints

In addition to the financial and policy constraints, manufacturing enterprises in West Bank and Gaza also suffered from other firm-level, structural weaknesses which have significantly weakened their performance. These structural constraints can be broadly categorized in such areas as marketing, management, and technical and operational skills.

Due to the small size of the internal market and overseas marketing constraints, market information is critical to the development of industrial enterprises in West Bank and Gaza. Most local producers know little about potential markets, the most effective channels to market their products, and the quality/cost requirements for competitiveness, both locally and overseas.

Chambers of commerce have little experience or institutional capability in providing market information. Lack of market information has been a major obstacle in developing vertical linkages in the local economy, as well as penetrating overseas markets. In addition, many producers are constrained by inadequate marketing and promotional skills. Most of the industrialists interviewed have expressed that training assistance in improving marketing skills and export promotion techniques would be extremely beneficial to the manufacturing sector.

Most of the manufacturers interviewed agreed that there is a dearth of management skills in the manufacturing sector, in areas such as accounting, finance, quality control, personnel management, inventory management, etc. Poor accounting records and inadequate financial planning has precluded many enterprises from obtaining loans, while the lack of quality control has been a major obstacle in obtaining the required certifications of standards for export, especially in the pharmaceutical and food processing sectors. While management training seminars and workshops have been conducted by universities and PVOs, demand far outstrips supply and there is a general lack of coordination in the management training that is offered.

Apart from management capability, there is also a serious shortage of qualified technicians and engineers to manage the technical aspects of industrial operations, such as equipment adjustment, maintenance and repair. Many viewed university programs as being overly theoretical, and turning out graduates who are slow to apply their knowledge to practical use. Most also concur that the vocational programs offered fall short of the training needs required by industries. Furthermore, the local capability for delivering technical assistance is extremely limited. The lack of managerial, operational and technical assistance support services has been a serious obstacle to the development and expansion of manufacturing enterprises in West Bank and Gaza.

The objectives and intrinsic nature of this project differ from typical foreign assistance projects. This project involves training and technical assistance extended directly to private enterprises, which varies from normal government-to-government projects. It also seeks to establish cooperation among private business organizations, universities, PVOs and consulting groups in West Bank and Gaza to develop an increasingly effective network to nurture and support private enterprise growth. To this extent, the project is experimental and unique.

A standard cost/benefit economic analysis cannot be completed due to the absence of any macroeconomic or microeconomic data for West Bank and Gaza. No information is available on overall or disaggregated output, employment, investment or income. As a

result, there is no way to estimate changes in these variables at the macroeconomic level. In addition, private firms are loathe to provide detailed information on their output, sales or income. In fact, recent surveys have concluded that most entrepreneurs do not even know how to calculate such measures as overhead costs, marginal costs, depreciation, or rates of return. This precludes analysis on the microeconomic level. Therefore, the economic justification is based on a thorough assessment of need in Gaza and West Bank, and the experience of other business training and technical assistance projects, which have yielded high returns with regard to increasing private sector employment, output and income.

## **B. Institutional Analysis**

As part of the project design, the design team examined the activities, capabilities and potential contributions of private business associations, financial institutions, PVOs, university business programs and private consulting organizations currently operating in West Bank and Gaza.

### **Business Associations**

Eight chambers of commerce operate in the West Bank, and one chamber represents all business enterprises in Gaza. Over the past two decades, the chambers have not been active in performing the traditional functions of chambers in other countries, such as providing business information and lobbying for pro-business policy changes. Rather, in the absence of a civilian government, the chambers have assumed the role of quasi-government agencies and devoted their resources to delivering public services such as issuing certificates of origins, renewing travel documents, etc.

The Chamber of Commerce in Gaza and several of the chambers in the West Bank have been revitalized by the recent elections of their Boards of Directors. Overall, as newly and legitimately elected bodies, they are viewed as generally representative and respectable organizations, especially relative to other organizations in these highly politicized areas.

In Gaza, the Union of Industrialists have also emerged recently to represent the interests of industries in their dealings with formal authorities and informal organizations. The Union is a viable and ambitious organization which is well regarded in the business community. The membership of the Union tends to be larger scale firms in the industrial sector. By contrast, memberships in chambers covers all business sectors and includes many small firms.

The recently established Higher Council of Industries for West Bank and Gaza is viewed generally as a highly politicized institution whose agenda is more political than business-related.

Higher Councils have been established in many functional areas, and are seen as "shadow government" agencies awaiting autonomy.

Judging from their lack of experience and their limited institutional capabilities at this time, Palestinian business associations are not likely to serve as effective implementing agencies for the proposed project. However, they can play an important role in identifying recipients of technical assistance, as well as recruiting and hosting training sessions for their members. Their institutional capability in delivering business information services can also be enhanced through direct technical assistance proposed under the project.

#### Financial Institutions

In many countries, financial institutions can serve as effective administrators of business training and technical assistance. Financial institutions in Gaza and West Bank are weak and have generally failed to serve as effective financial intermediaries for the business community. Credit institutions, cooperative societies, and development banks are mostly funded by the European Community and Arab countries. They mainly serve as conduits to disperse donor-financed credit and are not engaged in retail banking.

Many of these financial institutions suffer from problems in managing their own loan portfolios and the politicization of lending (i.e., directing loans toward entrepreneurs with "preferred" political leanings). Thus, an active implementing role for the financial institutions is not warranted at this time. However, the proposed project can work with the financial institutions to identify business needs in the areas of training and technical assistance to strengthen skills in accounting and financial planning.

#### Private Voluntary Organizations

Among the existing PVOs operating in West Bank and Gaza, the project team has identified AMIDEAST as the most viable institution to participate directly in the implementation of the proposed project. This conclusion is based on two considerations -- identification of an organization most suited for project activities, and elimination of less appropriate candidates from the standpoint of project goals and requirements. Organizations not selected are all carrying out important activities in the territories, and so their not being selected is not intended to place any negative connotations on their work.

The Agricultural Cooperative Development International (ACDI) is working almost exclusively with agricultural cooperatives. Catholic Relief Services (CRS), Save the Children Foundation, and the Society for the Care of the Handicapped have focused their

activities on initiatives to meet the basic needs of low income, primarily rural families. These organizations have not been engaged substantively with industrial firms. YMCA activities have focussed on vocational training and job placement, a related activity but not directly focused on improving performance at the firm-level. Anera has indicated in writing that the project is outside the scope of its interest.

AMIDEAST has, on the other hand, has moved aggressively towards initiatives to assist private firms in the manufacturing sector. It has developed good working relationships with local universities and chambers of commerce, and has earned a strong reputation throughout the business and academic community as a result of its responsive style of delivering training assistance. As part of an effort to increase its private sector training activities, AMIDEAST has recently assigned a full-time staff member to coordinate training in the business development area.

#### University Business Programs

Several academic institutions in West Bank and Gaza have been initially identified as viable counterpart institutions to participate in the training, technical assistance, and information service components of the proposed project. They include Birzeit University, Najah University, and the University of Bethlehem in the West Bank, and the newly established Al-Azhar University in Gaza (with the Islamic University perhaps serving as a backup).

All of these universities have established business development programs, although the scope of their activities has been limited due to the scarce financial resource available. Most have established contacts with the local business communities and have delivered ad hoc training courses and consulting services.

The business community has expressed concern that the approach of the academics tends to be overly theoretical for practical business applications. Thus, "on-the-job" training (working beside external specialists) can be offered to the university staff under this project to enhance their skills in delivering business-related services and to ensure project sustainability. Technical assistance can also be provided to strengthen their business programs. Furthermore, universities have the resources to act as host sites for training seminars and workshops.

The Business, Engineering and other departments of the universities also represent a resource for delivering technical assistance and training programs. In fact, some of them already act as part-time consultants on a fee or pro bono basis. Their capability for delivering consulting services can be enhanced through training assistance. In addition, university business program staff can participate in conducting research on business conditions and opportunities.

### Consulting Firms

The private sector consulting capability in West Bank and especially in Gaza is extremely limited. There are no known consulting firms which specialize in providing management and technical consulting services in Gaza, and very few in West Bank. The little consulting activities that exist are mostly conducted by part-time consultants who hold other full-time jobs such as university professors, accountants, engineers, and so forth.

Although there is no dearth of demand for assistance, especially in the management and marketing areas, most firms have expressed their reservations about hiring outside consultants, especially for a fee. Most executives would not be willing to provide information on their operations to outsiders (Palestinians). Business leaders have no problem confiding in U.S. technical advisors.

For the project, it is proposed that expatriate technical assistance (with some participation by local consultants) be provided to firms so that new demand is developed for local consulting services in the future. The capability of potential consultants to deliver management advice can also be enhanced through training and technical assistance to university staff and business associations. The project can also draw upon additional U.S.-based resources to provide on-the-job training and industry specific technical assistance to private sector firms in Gaza and West Bank.

### C. Social Soundness Analysis

Focusing on the growth of manufacturing enterprises, the proposed project complements the current AID development assistance program in West Bank and Gaza, which concentrates on basic services and on agricultural development. The proposed project will enhance the capability of local private institutions to deliver training, services, and information, and directly strengthen the human resources in the manufacturing sector.

The direct beneficiaries of the project will be the manufacturing firms and their employees. Small to medium size firms will be the primary beneficiaries of management training, while larger firms will be the initial beneficiaries of technical assistance. The market and business information services component will help to increase market knowledge and coordination in the local markets, stimulating "upstream" activities such as supplier and subcontractor arrangements which will most likely benefit the small local suppliers of raw materials and other inputs.

Technical assistance and training in marketing and promotion will also improve the overseas market prospects for West Bank and

Gazan industries, increase foreign exchange earnings and generate capital for additional investment in the manufacturing sector. Higher foreign exchange income can be used to finance imports of goods and services needed to improve living standards in West Bank and Gaza.

Overall, efforts to promote growth in the manufacturing sectors will raise productive, sustained employment and household income. Social conditions in West Bank and Gaza will be improved as a direct consequence of increased economic activity generated by a thriving manufacturing sector, and by increased government revenues to finance basic services.

Since the project focuses on strengthening the manufacturing sector, the project will have a favorable impact on the income of workers in West Bank and Gaza. Manufacturing wages are higher than agricultural wages, and so expanding manufacturing activities will create more employment opportunities for workers in sectors which yield higher value-added and higher wages.

Services provided under the project will be demand-driven and will be accessible to all individuals regardless of gender. Project benefits will accrue to female workers and entrepreneurs and workers and well as males. To date, women may constitute 25 percent of the industrial work force and they are mostly concentrated in the low-wage, low-skill end of manufacturing operations. This is due partly to the high drop-out rates of women from high schools, and the lack of vocational training programs for women in West Bank and Gaza.

The project will be instructed to place a high priority on assisting women-owned or operated enterprises, and on enhancing the skill levels of female workers in industries. In addition, project monitoring systems will be designed to provide gender specific information for reporting purposes. Since productivity and wages in the manufacturing sectors are typically higher than in agriculture, both male and female workers in project-assisted firms will receive greater training and earnings, and consequently higher standards of living and opportunities for advancement.

#### **D. Financial Analysis**

The financial analysis and justification of a standard foreign assistance project is derived largely from its economic justification. As such, a formal financial analysis which generates figures on rates of return cannot be utilized for this project, given its nature and scope. As noted above, statistics on macroeconomic activity are not available, and individual firm data is not reliable. As a result, the project's financial analysis is instead based on a thorough investigation and plan designed to

achieve the project's fundamental goals and purposes in the most cost efficient manner possible.

The project does not establish new institutions, which tend to carry large start-up and administrative costs. Instead, the approach is to draw upon and enhance the capabilities of existing institutions and resources, which minimizes financial costs and obligations. Similarly, the project does not suggest the development of expensive electronic data bases. The project does not involve the necessity to hire large numbers of personnel to carry out and administer project activities, but instead makes use of existing staff in many activities on a part-time basis. In addition, the project does not attempt to finance basic research, which is costly and often neglected once completed.

In short, the project is designed to augment and coordinate resources already in place, addressing a felt need to marshall existing resources and information. The project design is as streamlined as possible in view of the number of interested parties and variables involved. This attempt to conduct a limited number of activities well rather than a large number of activities has served as a guiding principle in the design of the project.

#### **IV. IMPLEMENTATION PLAN**

##### **A. Management and Administrative Responsibilities**

The responsibilities of each of the principal parties involved in the project are described below.

###### **1. Role of A.I.D.**

The Office of Middle East/West Bank Gaza (NE/ME/WBG) in the Near East Bureau will have primary A.I.D. responsibility for managing the project. It will coordinate the application of A.I.D.'s functions at key planning points, particularly the review and approval of semiannual plans, quarterly progress reports and disbursement requests, and of scopes of work. NE/ME/WBG will work closely with the U.S. contractor in developing implementation targets and in reviewing progress in achieving these targets. NE/ME/WBG will also take the lead in developing and carrying out plans for regular project evaluations.

It is anticipated that A.I.D. management of the project will be more intensive during the initial period during which the key technical advisors are contracted and the initial work plans are developed. Following this period, it is anticipated that A.I.D. will not have to review and approve detailed subproject activity proposals but will instead review and approve funding requests based on developed annual business plans that operationalize the achievement of agreed to project benchmarks. NE/ME/WBG will assign one USDH project officer to coordinate A.I.D.'s implementation functions.

A.I.D. affairs officers located respectively in Jerusalem and in Tel Aviv will monitor project activities. These officers will meet periodically with contractor personnel to review project plans and progress, and will assist in official logistical matters (e.g., country clearances).

###### **2. Role of the U.S. Contractor**

The U.S. contractor, selected on a competitive basis, will have the primary responsibility for implementing the project. The U.S. contractor will: Develop detailed strategies and plans for training, technical assistance and information services; enter into contractual arrangements with other project participants (e.g., AMIDEAST, Palestinian business associations and universities, and U.S.-based technical resources); prepare a detailed procurement plan; administer project activities in collaboration with cooperating organizations; procure needed materials and equipment and local technical services; and establish and maintain an effective MIS for monitoring project activities and outputs. This latter task will include responsibility for conducting surveys of

firms assisted and the development of additional project evaluation targets for the project, based on the survey data and additional information gathered.

In addition, the U.S. contractor will review and provide comments to A.I.D. on proposals for private sector activities on an informal basis to preclude overlap, enhance additionality and complementarity, and identify areas of potential collaboration. The U.S. contractor will also maintain adequate internal control structures and policies for use of project funds and will produce timely and complete reports on implementation progress and project resource utilization.

### 3. Role of AMIDEAST

AMIDEAST will enter into a subcontract arrangement with the U.S. contractor. This sole source arrangement will be based on AMIDEAST's unique and predominant qualifications regarding the project, namely: (1) Its previous working relations and reputation with Palestinian business associations, university business programs and private firms in the manufacturing area; (2) its experience in assisting private manufacturers, particularly in the area of training; and (3) its facilities and administrative infrastructure in West Bank and Gaza.

Working collaboratively with but under the direction of the U.S. contractor, AMIDEAST will have the following responsibilities: Participate directly in project training and technical assistance activities; provide office facilities for U.S. contractor personnel in both West Bank and Gaza; assist in the procurement of project commodities; provide such common office equipment/services (e.g., telephone, photocopier, etc.) as are deemed appropriate; collaborate with the U.S. contractor to prepare project work plans; draw upon AMIDEAST's offices and good relations with Palestinian business associations and business training programs to assist the U.S. contractor to develop project implementation arrangements; and utilize AMIDEAST's technical resource networks in the United States and in the Middle East to recruit training and technical assistance experts.

## **B. Procurement**

### **1. General**

The primary procurement requirements under the project will include technical assistance, training, and basic office and data processing equipment. The contractor will be responsible for preparing a detailed procurement plan during the first two months of the project. The authorized geographic code for project financed goods (materials and supplies) is the United States (000) and Israel and the Occupied Territories. None of the commodity procurement will require justifications of exceptions to the Buy America guidance. Technical assistance and training resources will be procured primarily from the United States and from local sources, but a small amount will come from Middle Eastern countries. In these instances, the project officer will ensure that the appropriate waivers are prepared. The needed expatriate technical assistance, U.S. commodity procurement, and training services will be provided through one A.I.D. direct contract with a U.S. firm. AMIDEAST may be asked to assist in the procurement of commodities. The contract will require the selected consultant firm to carry out all training activities in conformance with standard AID HB 10 procedures.

The U.S. contractor will enter into subcontract arrangements with AMIDEAST to support AMIDEAST's role in the project, as described above. Over the course of the project, the U.S. contractor may also enter into contractual arrangements with other U.S.-based organizations that provide specialized training and technical assistance services to developing country businesses deemed important to the achievement of project objectives.

The U.S. contractor will enter into separate subcontracts for local training, technical assistance and information services activities. The estimated value of each technical services contract entered into between the U.S. contractor and any local subcontractor will not exceed \$100,000 or its equivalent. The U.S. contractor will also procure locally furniture and office equipment valued at less than \$5,000 per transaction. In view of political sensitivities in West Bank and Gaza, prior approval by A.I.D. is required before any funds can be provided to Palestinian business organizations.

The majority of project funds will be used to procure technical assistance. However, certain physical equipment and supplies will be required. A list of procurement items envisioned under the project is shown on the following page.

<u>Item Description</u>	<u>Number of Units</u>
Automobiles	2
Telefaxes	2
Photocopy machines	2
Office furniture	Various
<b>MIS System - Hardware</b>	
Personal computers (PCs)	4
Laser Printers	2
Modems	2
Mouse	2
<b>MIS System - Software</b>	
Package systems (word processing, spread sheet, operating system, etc.)	Various
Project monitoring system	1
Financial management system	1

2. Exception to Competitive Procedures

A.I.D. will administer a competitive bidding process for selection of the U.S. contractor. However, a justification will be prepared for the non-competitive selection of AMIDEAST as a designated sub-contractor.

### 3. 8(a) Considerations

The project design team carried out an assessment of possible 8a firms to provide the required technical assistance. This assessment included a review of available profile and capability statements of firms working in the area of business assistance (training, technical assistance and information services). The assessment indicated that the requisite expertise is not available from these firms. In particular, none of the statements reviewed indicated significant experience in working the entire range of project activities required. Accordingly, it has been determined that this contract should be awarded following full and open competition. Small business and minority firms will be encouraged to participate in the contractor team, in evaluation of this project and in such other activities as feasible. The Request for Proposals will require bidding contractors to provide an authorized minority firm subcontracting plan and evidence indicating that qualified 8A/Gray Amendment firms will provide at least 10 percent of goods and services financed under the contract.

### 4. Anticipated Problems and Solutions

During the design of the project several implementation issues were identified and given careful consideration. They included problems associated with a new U.S. contractor presence, financial sustainability, the implications of the Lautenberg Amendment, the need to avoid administrative overload, and other issues. Annex E addresses each of these issues and presents solutions for potential problems identified.

**C. Implementation Schedule**

The following presents an illustrative time line of activities to be undertaken to complete implementation of the overall project.

- |   |                |
|---|----------------|
| 1. Project Paper Approved   | April 1993     |
| 2. PIO/T for US Contractor approved   | April 1993     |
| 3. RFP for Central US Contractor issued and pre-proposal conference held                              | May 1993       |
| 4. US Contractor selected   | August 1993    |
| 5. Contract Awarded   | September 1993 |
| 6. First semiannual work plan approved (covering period through 3/31/94)                              | October 1993   |
| 7. AMIDEAST subcontract negotiated  | November 1993  |
| 8. Contractor team arrives  | December 1994  |
| 9. Project activities commence  | January 1994   |
| 10. First internal evaluation, second semiannual work plan prepared (covering period through 9/30/94) | March 1994     |
| 11. Third semiannual work plan prepared (covering period through 3/31/95)                             | August 1994    |
| 12. First external evaluation completed   | March 1995     |
| 13. Fourth semiannual work plan prepared (covering period through 9/31/95)                            | March 1995     |
| 14. Fifth semiannual work plan prepared (covering period through 3/31/96)                             | August 1995    |
| 15. Sixth semiannual work plan prepared   | March 1996     |
| 16. Final evaluation completed  | September 1996 |
| 16. PACD  | April 1997     |

## **V. MONITORING AND EVALUATION PLAN**

### **A. Introduction**

This new project will provide relatively traditional training, technical assistance and information services activities, delivered directly and indirectly to private Palestinian manufacturing firms. The monitoring of project activities is straightforward, measuring the types and quantities of training and technical assistance delivered, and identifying the information services tasks carried out. However, the collection of macroeconomic data is problematic, since little baseline data exists. Project impact monitoring indicators are discussed below.

### **B. Users of the Information**

The major information users will be: On a daily and weekly basis, the U.S. contractor project director and staff; and, on a monthly and semiannual basis, the U.S. contractor and A.I.D.

### **C. Institutional Locus**

The U.S. contractor will be responsible for developing and maintaining a Management Information System (MIS) to respond adequately to requests for information from A.I.D. This MIS will also provide a capacity for overall project data collection, monitoring, and evaluation.

The MIS will generate administrative information which will provide contract management and the A.I.D. project officer with an internal accounting of the use of financial and human resources. Quarterly and annual monitoring reports will aggregate and analyze administrative information so that decision-makers can track progress against predetermined targets. The MIS will be designed to measure performance against the objectives and targets outlined in the contractor's annual work plans and budget.

**D. Methodologies for Data Collection, Monitoring and Evaluation**

Information collected will address project impact and achievements, and project costs and budgeting requirements for contractor planning and resource allocation decisions. An illustrative set of indicators for the project is presented below.

<u>Goal-level Indicators</u>	<u>Data Collection Methodology</u>
Economic growth rates	IMF, IBRD statistical reports GOI statistical reports
<u>Purpose-level Indicators</u>	
Employment in manufacturing	Contractor MIS system Surveys of firms assisted
Additional indicators	To be developed by contractor
<u>Output-level Indicators</u>	
Managers from 300 firms trained	MIS system, evaluations
10 one week training courses designed	MIS system, evaluations
90 to 129 one week training courses delivered	MIS system, evaluations
25 on-the-job training opportunities in the U.S. provided	MIS system, evaluations
97 person months of technical assistance provided	MIS system, evaluations
30 information packages (brochures, guidebooks, etc.,) prepared and distributed	MIS system, evaluations
<u>Input-level Indicators</u>	
166 p.m. TA associated with training	Evaluations
97 p.m. TA associated with firm-level TA	Evaluations

37 p.m. TA associated with information services	Evaluations
MIS hardware, software	Evaluations, audits
Subcontracts	Evaluations, audits

All firms participating in the project will be required to complete a brief survey indicating their levels of employment, capacity utilization, etc. The U.S. contractor will conduct periodic (about once every six months) surveys of project participants, updating employment and other firm-level data, and providing information indicating the usefulness and impact of project-funded assistance. These surveys will be designed to complement the information otherwise available through the MIS and help assess the effectiveness of the project-financed activities. These surveys will be directed at gathering information to examine:

- the extent to which the project is delivering appropriate, relevant, and timely training, TA and information services to private manufacturers;
- which services appear to have had the greatest impact;
- differentiation of the impacts of project activities on firms operating respectively in West Bank and Gaza;
- differentiation of the impacts of project activities on men versus women entrepreneurs and employees;
- the extent to which the services appear to have been cost effective; and
- the extent to which the project has had an impact on the firms they assist, particularly with regard to firm-level employment.

As the project progresses, the U.S. contractor and A.I.D. will further develop mutually agreed to indicators for measuring progress, performance, and achievements. These indicators will provide the basis for determining which data to collect and analyze, and will provide a focus for Project evaluations.

#### **E. Feedback**

As the project becomes fully operational, the U.S. contractor will ensure that the required periodic reports are completed and reported to the users of the information. In addition, the first reports produced will be reviewed by A.I.D. for appropriateness of data and overall efficiency as an evaluation exercise.

**F. Evaluation Schedule**

The U.S. contractor will be charged with conducting annual internal evaluations at the end of each year of the project as preparation to the development of annual work plans. These internal evaluations will focus on activities undertaken and on progress achieved toward meeting project goals. The first external evaluation will be completed during the second year of the project. This first external evaluation will use the indicators described above to assess project performance. The second evaluation will be completed during the project's last year and will focus on the effectiveness of the project as measured by the indicators presented above.

## **VI. CONDITIONS AND COVENANTS**

Inasmuch as the project will be managed in Washington in line with regular administrative procedures for projects in West Bank and Gaza, no formal governmental agreements for overall project approval are required. It is anticipated that the following covenants will apply to the project.

### **Covenants to be Included in the Contract between the U.S. Contractor and A.I.D.**

The contract will include a covenant requiring the U.S. contractor to enter into a negotiated subcontract with AMIDEAST pursuant to the roles and responsibilities specified in this Project Paper. In addition, the U.S. contractor will agree not to use resources made available under the contract for any activities which violate the Lautenberg Amendment or Section 599 of the U.S. Foreign Assistance Act.

## **VII. COST ESTIMATES AND FINANCIAL PLAN**

### **A. Budget**

The total cost of the project is estimated to be \$11.0 million, all of which will be financed with AID grant funds. Additional project funds will be generated by fees for services, contributions (financial and in kind), and other government or donor support. The amount of this incremental income cannot be determined with any degree of accuracy at this time given the experimental nature of the project, but is estimated at a level of about \$100,000 over the course of the project.

Table 1 shows project expenditures by project element, and Table 2 indicates expenditures by project year. Inflation is estimated to be 20 percent for local currency costs and 5 percent for dollar costs. Inflation estimates are included in all detailed costs.

### **B. Financial Arrangements**

The primary A.I.D. contribution is for financing the costs of project activities -- training, technical assistance and information services. This include the costs incurred by the U.S. contractor for full-time and part-time staff, facilities and other direct costs. In addition, project funds are allocated for subcontracts to organizations and individuals participating in project implementation. Finally, project funds will support the technical assistance costs of project monitoring and evaluation and audits.

The method of implementation will be a contract between A.I.D. and a qualified U.S. contractor. A.I.D. will directly reimburse contractor costs, in response to vouchers submitted by the contractor to A.I.D.

**Table 1**  
**Summary Cost Estimate and Financial Plan**  
**(AID Funding: U.S. \$ Thousands)**

<u>Project Element</u>	<u>FX</u>	<u>LC</u>	<u>Total</u>
1. Training	4,500	800	5,300
2. Technical Assistance	3,545	500	4,045
3. Information Services	1,000	455	1,455
4. Evaluations/Audit	<u>200</u>	<u>-</u>	<u>200</u>
TOTAL	9,245	1,755	11,000

Table 2

Budget Estimates by Year

(US \$ Thousands)

<u>Category</u>	<u>Year 1</u>		<u>Year 2</u>		<u>Year 3</u>		<u>Total IOP</u>	
	<u>US\$</u>	<u>LC</u>	<u>US\$</u>	<u>LC</u>	<u>US\$</u>	<u>LC</u>	<u>US\$</u>	<u>LC</u>
<u>PROJECT TOTAL</u>	2765	535	3170	582	3310	638	9245	1755
<u>U.S. Contractor</u>	2265	535	2095	582	2109	638	6469	1755
<u>Long Term Costs</u>	1435	235	1265	282	1279	338	3979	855
<u>U.S. Costs</u>	705	-	740	-	698	-	2143	-
Staff	341	-	358	-	376	-	1075	-
Other Direct	135	-	142	-	149	-	426	-
Contingency	229	-	240	-	173	-	642	-
<u>Local Costs</u>	730	235	525	282	581	338	1836	855
U.S. Staff	500	-	525	-	551	-	1576	-
Local Staff	-	175	-	210	-	252	-	637
Other Direct	230	60	-	72	30	86	260	218
<u>Short-Term TA</u>	830	300	830	300	830	300	2490	900
Project TA	730	300	730	300	730	300	2190	900
Tasked TA	100	-	100	-	100	-	300	-
<u>Subcontracts</u>	500	-	1025	-	1051	-	2576	-
AMIDEAST	500	-	525	-	551	-	1576	-
Others	-	-	500	-	500	-	1000	-
<u>Audit/Evaluation</u>	-	-	50	-	150	-	200	-

- 
- Notes:   1.   Cost details are shown in the attached Project Budget Assumptions.
2.   The figure for Project TA (under Short-Term TA) includes travel costs associated with short-term TA activities.   See attached Project Budget Assumptions.

Table 3

Implementation and Financing Methods  
(LOP AID Financing Only)

<u>Activity</u>	<u>Method of Implementation</u>	<u>Financing Method</u>	<u>Approximate Cost (\$000)</u>	<u>Implementing Entity</u>
Project Implement.	AID Direct Contract	Direct Payment	8,224	AID
Sub-contracts	Subcontracts	Direct Payment	2,576	Contractor
Audit and Evaluations	AID Direct Contracts	Direct Payment	<u>200</u>	AID
TOTAL			11,000	

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Table 4

Obligation and Budget Estimates  
(U.S. \$ Thousands)

<u>SUMMARY OBLIGATION</u>	<u>AID LOP</u>	<u>AID FIRST FY 91</u>
1. U.S. CONTRACTOR EXPENSES	8,224	2,800
2. SUBCONTRACTS	2,576	500
3. AUDIT AND EVALUATION	<u>200</u>	<u>-</u>
PROJECT TOTAL	11,000	3,300

WEST BANK & GAZA PRIVATE SECTOR SUPPORT PROJECT  
Project Budget Assumptions

<u>FIRST YEAR BUDGET</u>	<b>\$3,300,000</b>
U.S. Contractor	\$2,800,000
AMIDEAST Subcontract	500,000
<u>U.S. Contractor</u>	<b>2,800,000</b>
Project Staff and Administration	1,211,000
U.S.-Sourced TA	830,000
Locally-Sourced TA/Subcontracts	300,000
Start-Up Expenditures	230,000
Contingency	229,000
<u>Professional Costs - U.S.</u>	<b>341,000</b>
U.S.-Based Project Coordinator (full-time) (\$86,000 x 2.7 multiplier)	232,200
U.S.-Based Adm. Assistant (\$40,000 x 2.7 multiplier)	108,000
Rounding factor	800
<u>Other Direct Costs - U.S.</u>	<b>135,000</b>
Communications	20,000
Report Preparation/Production	5,000
Travel (10 trips x \$2,000)	20,000
Subsistence (10 trips x 10 days x \$200)	20,000
Training Materials	40,000
DBA Insurance	20,000
Other Miscellaneous	10,000
<u>Professional Costs - WB/G</u>	<b>745,000</b>
West Bank American Project Manager (\$86,000 x 2.5 multiplier)	285,000
Allowances	70,000
Gaza American Project Manager (\$86,000 x 2.5 multiplier)	285,000
Allowances	70,000
<u>Local Project Staff</u>	<b>175,000</b>
Local Hire Project Assistant - West Bank (\$20,000 x 2.5 multiplier)	50,000
Local Hire Secretary - West Bank (\$15,000 x 2.5)	37,500
Local Hire Project Assistant - Gaza (\$20,000 x 2.5)	50,000
Local Hire Secretary - Gaza (\$15,000 x 2.5)	37,500

<u>Other Direct Costs - WB/G (On-Going)</u>	60,000
Utilities	10,000
Communications	10,000
Miscellaneous	10,000
Other local purchases	30,000
<u>U.S.-Sourced Short-Term TA</u>	830,000
<u>Professional Costs</u>	700,000
AID-Directed Task Orders (\$20,000 x 5 person months)	100,000
Project TA/Training (\$20,000 x 30 person months)	600,000
<u>Travel/Subsistence</u>	130,000
Travel (20 trips x \$2,000)	40,000
Subsistence (20 trips x 20 days x \$200)	80,000
Miscellaneous (20 trips x \$500)	10,000
<u>Locally-Sourced TA/Subcontracts</u>	300,000
(10 subcontracts w/ Bus.Assns./Univs. x \$20,000)	200,000
(\$5,000 x 20 person months TA)	100,000
<u>Contingency</u>	159,000
<u>First-Year Start-Up Expenses</u>	230,000
Project automobiles (\$40,000 x 2)	80,000
Telefax machines (\$4,000 x 2)	8,000
Copiers (\$6,000 x 2)	12,000
Office furniture (various)	10,000
Moving Expenses (2 X \$15,000)	30,000
(To be added to third year as well)	
Personal computers (\$6,000 x 4)	20,000
Printers (\$5,000 x 2)	10,000
Computer peripheral equipment (various)	10,000
Software packages (various)	10,000
Project monitoring system software	20,000
Project management system software	20,000
<u>Subcontracts</u>	500,000
AMIDEAST	500,000

### Outlying Year Budget Assumptions

1. U.S. inflation is projected at 5 percent annually, and this factor is applied to U.S. contractor long-term costs and to the AMIDEAST subcontract.
2. West Bank/Gaza inflation is projected at 20 percent annually, and this factor is applied to U.S. contractor local costs.
3. Years 2 and 3 include additional subcontracts amounting to \$500,000 in each year to U.S.-based training and technical assistance providers. These subcontractor resources will be identified over the course of the first year of the project.
4. Locally-sourced subcontracts (with universities and business associations) total \$100,000 per year (10 contracts x \$10,000). These subcontracts are costed at \$20,000 per subcontract in the first year due to higher assumed start-up costs. Local TA is estimated at \$100,000 per year (\$5,000 x 20 person months).

PROJECT AUTHORIZATION

REGION: West Bank/Gaza

PROJECT TITLE: Private Sector Support Project

PROJECT No.: 294-0001

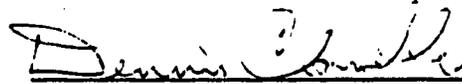
1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Private Sector Support Project, to be carried out in the West Bank and Gaza, involving planned obligations of not to exceed \$11,000,000 in grant funds over a four year period from the date of the authorization of the project until April 30, 1997.

2. The project will aim to increase the marketed production of manufactured goods through the enhancement of the management, production and marketing capabilities of private sector manufacturing enterprises in the West Bank and Gaza.

3. The Project Agreement, which may be negotiated and executed by the officers to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and covenants as A.I.D. may deem appropriate.

a. Source and Origin of Commodities, Nationality of Services:

Commodities financed by A.I.D. under this project shall have their source and origin in the West Bank/Gaza, Israel, or in the United States, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the West Bank and Gaza, Israel or the United States as their place of nationality. Ocean shipping financed by A.I.D. under the project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

  
\_\_\_\_\_  
Dennis Chandler  
Acting Assistant Administrator  
Bureau for Near East

4/23/93  
\_\_\_\_\_  
Date

Subject: WB/G PSSP Project Authorization

Clearance:

NE/DR:SShah	<u>                    </u>	Date	<u>4/21/93</u>
NE/ME:RMachmer	<u>                    </u>	Date	<u>4-21-93</u>
NE/DP:VMoldrem	<u>                    </u>	Date	<u>4/8/93</u>
GC/NE:KO'Donnell	<u>                    </u>	Date	<u>4/22/93</u>

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DRAFT:	CS	(S)
CLEAR:	JW	(S)
CLEAR:	SS	(S)
CLEAR:		( )
CLEAR:		( )
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AID/AA/NE/DR:CSHORTER:AF:WBG\PSSPNED.CAB  
 04/06/93 663-2477  
 AID/AA/NE/DR:DCHANDLER

AID/NE/DR:SSHAN  
 AID/DP:VMOLLDREM (DRAFT)  
 AID/GC/NE:JSILVERSTONE (DRAFT)  
 AID/FA/OP/B:TBEANS (DRAFT)

AID/NE/DR/MENA:KREDMAN (DRAFT)  
 AID/NE/NE:DSWAIN (DRAFT)  
 STATE/NEA/IAI:JWALLES

PRIORITY TEL AVIV

PRIORITY JERUSALEM, AMMAN PRIORITY

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: WEST BANK AND GAZA PRIVATE SECTOR SUPPORT  
 PROJECT - NEAR EAST DEVELOPMENT ADVISORY COMMITTEE (NEDAC)  
 REVIEW OF PROJECT PAPER (PP)

REF: STATE 000420

1. SUMMARY: THE AID NEDAC ON 9 MARCH 1993 APPROVED THE SUBJECT PROJECT IN THE AMOUNT OF DOLS 11,000,000 FOR A TERM OF FOUR YEARS. PRINCIPAL ISSUES AND RESOLUTIONS ARE SUMMARIZED BELOW. END SUMMARY.
2. ISSUE NO. 1: WHAT CONTRACT MODALITY WILL BEST ENGAGE THE DESIGNATED SERVICES OF AMIDEAST ?

DISCUSSION: QUESTION WAS RAISED WHETHER SUFFICIENT EVIDENCE EXISTS TO SUPPORT NON-COMPETITIVE USE OF AMIDEAST'S SERVICES. IT WAS GENERALLY ACCEPTED THAT AMIDEAST HAS UNIQUE PREDOMINANT CAPABILITIES IN THE WB/G IN THE TYPE OF TRAINING PLANNED UNDER THIS PROJECT. AFTER MUCH DEBATE THE NEDAC AGREED THAT THE MOST EFFICACIOUS CONTRACT MODALITY IS TO DESIGNATE AMIDEAST AS SUB-CONTRACTOR TO THE COMPETITIVELY SELECTED PRIME CONTRACTOR.

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THE OTHER MODALITY CONSIDERED WAS A SEPARATE COOPERATIVE AGREEMENT WITH AMIDEAST.

RESOLUTION: AMIDEAST WILL BE DESIGNATED AS THE SUB-CONTRACTOR TO THE PRIME. A NON-COMPETITIVE SELECTION JUSTIFICATION MEMORANDUM BASED ON PREDOMINANT CAPABILITY AND THE WB/G POLITICAL SITUATION WILL BE DRAFTED. THIS JUSTIFICATION MEMO WILL BE FORWARDED WITH THE AUTHORIZATION MEMORANDUM TO THE A-AA FOR APPROVAL.

3. ISSUE NO.2: WHETHER THE PROJECT SHOULD PICK THE WB/GAZA FIRMS (WINNERS) WHO WILL RECEIVE TAILORED ASSISTANCE PACKAGES?

DISCUSSION: IT WAS THOUGHT THAT BY PICKING THE WINNERS WITH TAILORED ASSISTANCE PACKAGES WE DISTORT THE COMPETITIVE PROCESS. THE CONCERN WAS ALSO EXPRESSED THAT SUPPORT TO MORE THAN ONE FIRM PER SECTOR IS NEEDED TO AVOID MONOPOLIES AND TO ENSURE COMPETITION.

RESOLUTION: THE NEDAC AGREED THAT THE OPTION FOR TAILORED ASSISTANCE WILL BE PUT IN THE PP, WITH THE STIPULATION THAT SUCH ASSISTANCE PACKAGES MUST BE PROVIDED TO AT LEAST TWO FIRMS FOR ANY GIVEN SECTOR, IN ORDER TO ENSURE THAT COMPETITION IS MAINTAINED IN THE SECTOR, AND AID WILL LOOK AT THE SITUATION IN ONE YEAR FOR ANY REQUIRED ADJUSTMENTS.

4. ISSUE NO.3: WHETHER THE PROJECT SHOULD HAVE AN AMERICAN MANAGEMENT/MONITOR RESIDENT IN GAZA? THE QUESTION IS WHETHER AN AMERICAN SHOULD BE PLACED IN GAZA FOR REASONS OF ACCOUNTABILITY AND RELATIVE EQUALITY OF GAZA PROGRAM TO WB PROGRAMS.

DISCUSSION: GIVEN THE PROJECT COMPLEXITIES AND ITS EXPERIMENTAL NATURE THE NEDAC AGREED THAT ON-THE-GROUND CONTRACTOR ASSISTANCE MAY FACILITATE PROJECT SUCCESS IN GAZA, HOWEVER, THE NEDAC RECOGNIZED THAT SUCH A PRESENCE IS NOT POSSIBLE AT THIS TIME.

RESOLUTION: THE PP WILL CONTAIN AN OPTION THAT THE PRIME CONTRACTOR MAY AT SOME LATER DATE PUT AN ADDITIONAL PERSON IN GAZA IN THE OFFICE SPACES OF AMIDEAST IF WARRANTED BY THE NEEDS OF THE PROJECT AND THE SECURITY SITUATION IN GAZA.

5. ISSUE NO.4: WHETHER THE PRIME CONTRACTOR'S SCOPE OF WORK (SOW) SHOULD REQUIRE ITS REVIEW OF PROPOSALS FOR PRIVATE SECTOR ACTIVITIES AND ITS ACCEPTANCE OF ~~IN~~ MONITORING AND MANAGING GRANTS FOR SUCH ACTIVITIES.

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**DISCUSSION:** IT WAS STATED THAT THE SOW SHOULD BE VERY CLEAR REGARDING THE REQUIREMENTS.

**RESOLUTION:** THE PRIME CONTRACT WILL PROVIDE FOR 15 MONTHS OF TA FOR THE CONTRACTOR TO REVIEW PROPOSALS AND MONITOR PRIVATE SECTOR ACTIVITIES OUTSIDE OF THE PRIVATE SECTOR SUPPORT PROJECT. THE PROJECT LOP FUNDING WILL BE INCREASED TO ACCOMMODATE THIS.

**6. ISSUE NO.5: HOW SHOULD THE ACCOUNT CONTAINING SPECIAL FEES COLLECTED BY THE CONTRACTOR BE HANDLED?**

**RESOLUTION:** IT WAS GENERALLY AGREED THAT THE FEES MUST BE USED TO SUPPORT LOCAL CURRENCY PROJECT COSTS, ALTHOUGH THE AMOUNT COLLECTED WOULD PROBABLY (ESTIMATES ARE DIFFICULT) BE SMALL VIS A VIS TOTAL PROJECT COSTS. THE CONTROL OF THE ACCOUNT MUST BE IN AMERICAN HANDS.

**7. ISSUE NO.6: IS THE PROJECT ADEQUATELY FUNDED?**

**DISCUSSION:** IT WAS EXPRESSED THAT GIVEN THE COMPLEX MIX OF ACTIVITIES AND FACTORS THAT ARE DIFFICULT TO QUANTIFY WITH GREAT ACCURACY, ADDITIONAL (TO ISSUE 4 ABOVE) LOP FUNDING MIGHT BE REQUIRED.

**RESOLUTION:** NE/ME AND NE/DR WILL COST OUT WITH SRI ADDITIONALLY REQUIRED LOP FUNDS AND PUT THESE IN THE PP AND THE AUTHORIZATION MEMORANDUM.

**8. ISSUE NO. 7: HOW WILL THE PROJECT MEASURE END OF PROJECT STATUS (EOPS)?**

**DISCUSSION:** QUESTION WAS RAISED WHETHER EOPS COULD BE MEASURED TRANSACTIONALLY, E.G., INCREASE IN EXPORTS OR EMPLOYMENT. THE SRI DESIGN CONSULTANT STATED THAT SECTORAL GROWTH, MACRO ECONOMIC DATA AND OTHER QUANTIFIABLE INDICATORS ARE SUBSTANTIALLY LACKING IN WB/G. THE NEDAC GENERALLY ACKNOWLEDGED THAT THE PROBLEM WAS DIFFICULT, BUT DID NOT THINK IT INSURMOUNTABLE.

**RESOLUTION:** THE PRIME CONTRACTOR WILL BE TASKED WITH DEVELOPING EVALUATIVE CRITERIA AND CREDIBLE BASELINE DATA FROM THE FIRMS THAT WILL BE ASSISTED IN ORDER TO DETERMINE IMPACT AND WHETHER OR NOT THEY ARE SUCCEEDING. CONTRACTOR WILL ALSO BE TASKED WITH APPROPRIATELY DESEGREGATING BASELINE DATA BY GENDER, E.G. EMPLOYMENT.

**9. ISSUE NO. 8: IS A PROJECT CREDIT COMPONENT REQUIRED FOR PROJECT SUCCESS?**

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DISCUSSION: IT WAS GENERALLY AGREED THAT CREDIT IN WB/G IS PROBLEMATICAL BUT WOULD NOT BE AN INSURMOUNTABLE BARRIER FOR THIS PROJECT. IT WAS STATED THAT MANY FIRMS WOULD NOT BE ABLE TO EFFECTIVELY HANDLE CREDIT WERE IT AVAILABLE. IT WAS NOTED THAT THE WB/G ECONOMIES DO NOT APPEAR TO BE CASH DEFICIENT.

RESOLUTION: THE NEDAC WILL ACCEPT THE JUDGEMENT OF THE DESIGN TEAM AS EXPRESSED IN THE PP ON PAGE 26, I.E., THAT ALTHOUGH SHORTAGE OF CREDIT WILL CONTINUE TO HAVE A NEGATIVE IMPACT ON INDUSTRIAL DEVELOPMENT IT IS NOT A BINDING CONSTRAINT. THE PROJECT WILL PERMIT ASSISTED FIRMS TO BETTER POSITION THEMSELVES FOR EXPANDED AVAILABLE CREDIT ONCE CONSTRAINTS ARE LIFTED IN THE FUTURE.

11. OTHER POINTS OF NOTE:

A. THE PRIME CONTRACTOR WILL BE ENCOURAGED TO PROCURE AMERICAN MADE EQUIPMENT.

B. APPROXIMATELY DOLS 4 MILLION IS INTENDED FOR OBLIGATION IN FY 1993.

C. A BREAKDOWN OF ALL PROCUREMENT INTENDED FOR THE PROJECT WILL BE ANNEXED IN THE PP. YY

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**Project Inputs:**

<b>Project Components:</b>	<b><u>FY 93</u></b>	<b><u>FY 94</u></b>	<b><u>FY 95</u></b>	<b><u>Total</u></b>
<b>Training</b>	<b>1414</b>	<b>1943</b>	<b>1943</b>	<b>5300</b>
<b>Technical Assistance</b>	<b>1079</b>	<b>1483</b>	<b>1483</b>	<b>4045</b>
<b>Information Services</b>	<b>388</b>	<b>533</b>	<b>534</b>	<b>1455</b>
<b>Evaluation / Audit</b>	<b>0</b>	<b>50</b>	<b>150</b>	<b>200</b>
<b>TOTAL</b>	<b>2881</b>	<b>4009</b>	<b>4110</b>	<b>11000</b>

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## ANNEX D

### TECHNICAL AND ECONOMIC ANALYSIS

#### A. Overview of the Industrial Sectors in West Bank and Gaza

The share of Palestinian industry in the gross domestic product (GDP) of the Occupied Territories has remained small, at around 9 percent since 1987. The industrial sector in Gaza is significantly less developed than that in West Bank. Output in some industry sectors has stagnated or even declined in recent years due to decreasing investment and the loss of work days, emigration, and liquidation related to Intifada. Strike days alone has caused the loss of 60 work days in 1992, or over 20 percent of total work days in in the year.

Industrial decline also reflects the fundamental problem of underutilized capacity in the industries in the territories. Research prior to the Intifada indicated that Palestinian industry was operating at only 57 percent of capacity in 1986, while less than 15 percent of the firms operated at 90 or more capacity. The underutilization of capacity reduces competitiveness and the ability of the manufacturing sector to create employment.

In late 1991, the Government of Israel issued 73 licenses for new industrial firms in the Occupied Territories, and 337 licenses for existing companies operating without a license, compared to a total of 80 licenses issued for new starts in 1990<sup>1</sup>. However, many of the existing firms which recently obtained licenses are not operating at full capacity. Moreover, in many cases those firms which obtained licenses lack investment capital to initiate the new business.

#### Industrial Structure in West Bank

Industrial activities in the West Bank are concentrated around the major population centers of Nablus, Ramallah, and Hebron. Traditional manufacturing enterprises include textiles and apparel, food processing, construction materials, pharmaceutical products, plastics, and souvenirs for tourists, especially around the Bethlehem area. Most of the industries in West Bank are labor-intensive.

Textiles and apparel comprise a major part of the industrial sector in the West Bank. The major textile centers are Nablus, Tulkram, Ramallah, Bethlehem, Jericho, and Hebron. Leather processing operations are concentrated in Hebron and Nablus. In

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<sup>1</sup> See "Development Opportunities in the Occupied Territories," Policy Research Incorporated, October 1992.

1987, the most recent year for which data is available, textiles and apparel accounted for 33 percent of the industrial labor force in the West Bank.

Olive oil processing is a major component of the food processing industry in West Bank. It is estimated that 40 percent of all cultivable land in West Bank is planted with olive trees. In 1985, olive oil pressing accounted for 34 percent of total industrial output in West Bank. However, olive pressing is seasonal and dependent on crop yield. Thus, employment in this sector can vary from 500 to 2,500 workers in any given year. Overall, in the the food processing sector, the boycott of Israeli products has led to increased activities in the areas of vegetable and fruit preservation, storing, grading, and packaging.

Due to the abundance of rocks and stones as building materials, quarrying and construction have been an important industrial activity in West Bank. Quarrying and crushed aggregate industries are mostly located in the Nablus and Hebron districts. The quarrying industry has been significantly modernized in recent years. Overall, employment in the construction industry has grown significantly between 1987 and 1990, fueled by donor-funded housing construction activities (and by settlement activities).

Pharmaceuticals is an emerging industry in West Bank. While no pharmaceutical companies existed prior to 1967, over ten are currently operating in West Bank. To a large extent, the industry owed its recent growth to the fact that Palestinian doctors tend to prescribe pharmaceuticals from Palestinian companies. However, most of these pharmaceutical firms are not engaged in the manufacturing process but rather in re-packaging imported chemicals. Medical professionals and health workers interviewed have expressed that the overall competitiveness of the Palestinian pharmaceutical industry can be improved by better management and quality control.

Tourism has been an important sector in the Palestinian economy, especially in the West Bank, despite the constraints imposed by the Intifada. Growth in this service sector can stimulate increases in industrial activity in both manufacturing and construction. The tourism sector consists of hotels, tour operators, transport companies, restaurants, and traditional craft industries such as olive wood carving, Hebron glass, Jerusalem pottery, embroidery, etc. With infrastructure improvements, tourism offers considerable growth potential. Currently, 36 Palestinian tourist agencies are in operation. It is estimated that tourist receipts in the West Bank and East Jerusalem totalled approximately \$100 million in 1989. The tourism sector suffered heavy losses during the Gulf War in 1990-91, but has reportedly resumed growth since early 1992.

### Industrial Structure in Gaza

The industrial sector in Gaza is small, fragmented and generally less developed than in West Bank. Firms tend to be small, family-owned operations with only an estimated 5 percent employing more than 20 workers. Wages are also considerably below those in West Bank. Industrial production is estimated to be only one-sixth that of West Bank. Gazan industries have been more adversely affected by the Intifada-related strikes, violence, and curfews. As a result, manufacturing capacity utilization in Gaza is also below that in West Bank.

Traditional small workshops in textiles and apparel, furniture, repair, building materials, bakeries and food products represent the bulk of industrial activities. Several medium size firms also produce soft drinks and wood products, and a few are pioneering non-traditional products such as plastics, pharmaceuticals and metal manufactures. Tourism activities are almost non-existent. Most industrial investment is financed by owners. Less than 5 percent of total investment in the Gaza Strip is financed by commercial banks or credit institutions.

Textiles, apparel, and leather goods firms comprise a major part of the industrial sector in Gaza. Most activities in the clothing industry are generated through subcontracting arrangements with Israeli firms. In 1987, the most recent year for which data are available, these industries accounted for 44 percent of the industrial labor force in Gaza, earning revenues of \$2 million. The average daily wages in the textiles and clothing sectors are among the lowest manufacturing wages in both West Bank and Gaza. Garment and textile firms employ a large proportion of the women in the work force.

Production of soft drinks is among the emerging industries in Gaza. Out of the 11 larger companies in Gaza, two produce soft drinks, primarily for the local market. Several citrus producers of fairly large size are also emerging in Gaza. The food, beverage and tobacco industries have become particularly vibrant in recent years partly as a result of the growth in local market share due to the boycott against Israeli products. The agricultural sector has been a major supplier of raw materials to the agro-processing industries.

Given the current high unemployment rate in Gaza, workers have been increasingly dependent on employment in Israel. In 1991, it is estimated that over one half of the Gaza Strip's labor force depended on work in Israel, a six-fold increase since 1970. Most of these workers are unskilled or semi-skilled, and are employed in labor-intensive sectors such as construction.

## Management of Industrial Enterprises

According to UNIDO, most of the estimated 4,000 industrial enterprises in West Bank and Gaza are small-scale, family-owned workshops, 90 percent of which employ less than 10 workers. Although there is abundant entrepreneurial talent among owners of small Palestinian enterprises, most lack basic training in accounting, finance, and marketing. Experiences of PVOs have shown that entrepreneurs are very receptive to basic management training workshops to the extent that they are available.

Even among larger enterprises in West Bank and Gaza, very few firms are professionally managed. Managers who are trained in specific technical areas often have to perform general managerial functions from accounting to inventory management with minimum training in management. While this approach can work in small-scale enterprises, it is not feasible for large and expanding enterprises which require specialization in different management areas.

## Investment in Industry

The amount of fixed capital investment in West Bank has been estimated at NIS 100.4 million in 1989, and NIS 23.4 million in Gaza. Most private sector investment in West Bank and Gaza is in the form of equity capital, derived primarily from family and friends and concentrated in larger enterprises (those with more than 8 employees). In the Gaza Strip in particular, over 95 percent of the capital formation has been financed by families. Overall, commercial lending institutions supply very limited investment capital to enterprises in the two areas. The result of dependence on family funds has been under-investment in the manufacturing sectors.

The scarcity of investment capital is primarily caused by the weakness of financial intermediaries. All Israeli banks operating in West Bank and Gaza have closed since the beginning of the Intifada. The current banking sector in the two areas is small and largely defunct. Banks provide very limited financial services aside from accepting deposits and issuing letters of credit. Most financial institutions are extremely conservative in lending to enterprises in Gaza and West Bank due to the risks of unpredictable business and production disruptions caused by the Intifada. There are currently no Palestinian banks in West Bank and Gaza.

Three donor-funded credit institutions have provided a limited yet important supply of investment capital for Palestinian enterprises. The Economic Development Group, the Technical Development Company, and the Arab Development and Credit Company together have supplied loans which totalled an estimated \$4 million over the past four years. Thus, relatively scarce financial resources have been available for the modest expansion of existing

enterprises in recent years. Most of the loans, ranging from \$5,000 to \$60,000, were made to small and medium size enterprises.

### Industrial Employment

In the West Bank, the proportion of the labor force engaged in industrial employment remained relatively stable throughout the 1980s, while it has declined by 16 percent in Gaza. The trend in Gaza was due in part to the increasing employment of Gazans in Israel, at least until the Intifada.

Manufacturing establishments in Gaza and West Bank are very small in terms of employment. As of 1987, less than 60 percent of industrial enterprises in these areas had any employees other than the owner-operators, while only 30 companies employed 50 or more workers. For the Gaza Strip, a 1990 industrial survey showed that approximately 40 percent of the firms were family-owned and operated<sup>2</sup>. In the West Bank, half of the firms were self-employment establishments with no hired labor, while fewer than 60 firms employed more than 20 workers.

In 1989, the latest year for which data are available, the average annual wage was \$3,390 in West Bank and \$3,597 in Gaza. Most workers in the two areas are not covered by employment-related benefits such as health insurance and unemployment insurance. Average wages in West Bank and Gaza are approximately one-third of those prevailing in Israel, due in part to skill level differentials between Israeli and Palestinian workers.

Most workers in West Bank and Gaza are unskilled when hired, and are trained on-the-job. With the lack of formal industrial education and outside training resources, firms have primarily relied on informal skill transfers by more senior employees.

### Subcontracting Arrangements with Israeli Firms

Subcontracting by Palestinian firms to Israeli firms in small-scale production has become prevalent since the Occupation. Most subcontracting arrangements have concentrated in labor-intensive sectors such as apparel, footwear, wood and leather products, electrical appliances and construction materials, in which Israeli producers can take advantage of lower wages for unskilled workers in West Bank and Gaza.

Due to the restrictions imposed by Israeli authorities on direct exports both to Israel and other countries, subcontracting has become an important channel for manufacturing enterprises in West Bank and Gaza to gain access to external markets. Although no

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<sup>2</sup> See "Development Opportunities in the Occupied Territories," Policy Research Incorporated, October 1992.

data has been collected on the extent of subcontracting arrangements between Palestinian and Israeli producers, it is widely believed that a large part of West Bank/Gaza exports to Israel consist of re-exports of finished products by Palestinian subcontractors. The proportion of industrial exports which went to Israel from West Bank and Gaza increased from 50 percent in 1972 to 80 percent in 1990.

Although subcontracting with Israeli producers has provided significant employment opportunities, especially for Palestinian women, it has been perceived and criticized by some Palestinians as exploitative, given the business and legal restrictions imposed on Palestinian businesses in pursuing other high value-added operations by means of vertical integration. Recent studies indicate that subcontracting activities have been reduced since 1990 due to rising wages, especially in the West Bank, as well as the trend toward more capital intensive production in Israel.

#### Opportunities for Women in Industry

The role of women in industry and enterprise in Gaza and West Bank has been relatively insignificant. Of the estimated total of 27,000 workers employed in West Bank and Gaza industrial enterprises in 1990, only 25 percent were women. Women's industrial employment was concentrated in the low-wage, low-skill sectors such as food processing, clothing and chemical industries, and in such service occupations as cleaners, secretaries, clerks, nurses, teachers, and waitresses.

One of the main reasons for the concentration of women in traditional occupations is their high drop-out rates from high schools, and the lack of vocational training programs for women. In the early 1980s, the average percentage of female students in secondary school was 37 percent in the West Bank and 42 percent in Gaza. The limited number of vocational training programs that are available to women tend to focus on traditional female activities like sewing and typing. To date, women have been only minimally involved in technical training for employment in industry and enterprises. In 1987 for instance, only 3.3 percent of the 695 students enrolled in technical training in the three community colleges were women.

#### B. Policy-Related Constraints to Industrial Development

Enterprises in West Bank and Gaza have been operating under numerous constraints. Among them are restricted market access, high levels of taxation, and procedures of obtaining operating licenses and permits.

### Restricted Market Access

Palestinian producers have expressed that they have limited markets for their products due to the small size of their domestic market, and the constraints on trading between West Bank and Gaza, and with Israel, Jordan and other Arab countries. The domestic market for industries in West Bank and Gaza is limited due to their small population size. The population of West Bank is estimated at around one million and that of Gaza at about 700,000. Per capita GNP is estimated at around \$1,400 in West Bank and \$780 in Gaza.

While trading between West Bank and Gaza can increase market size, this has been constrained by the host of permits, licenses, and authorization required to transport goods across Israel. Aside from the procedures involved in obtaining the necessary licenses and permits, Palestinians believe that approval is often arbitrary and dependent on tax and security clearance. Many Palestinian producers have found it extremely cumbersome and difficult to try to tap into the outside market. Meanwhile, their competitiveness in the domestic market has been hurt by the free inflow of imports from Israeli.

Manufacturers in West Bank and Gaza assert that it is extremely difficult to export their products to Israel. Due to the market protection granted to Israeli farmers, processed agricultural products are prohibited from entering the Israeli market. For other products, Palestinian producers who would like to export to Israel face a host of bureaucratic requirements such as labelling, permits, licensing, and quality control.

Similarly, Palestinian manufacturers who would like to export to overseas markets through Israel must also go through similar bureaucratic procedures. In general, exporting to or through Israel is very difficult, partly due to security measures. The only exception is for products exported under subcontracting arrangements with Israeli firms, a system used widely in the apparel market.

While Israeli policies favor Palestinian producers to export through Israel over direct exportation, Arab countries have made this difficult by boycotting products with any Israeli content. Jordan, for example, has until recently restricted the entry of Palestinian goods produced from raw materials or by means of equipment brought from Israel or imported through it. Jordan has also restricted exports from Palestinian firms established after 1967. Thus, while direct sales to Arab countries are allowed and even encouraged by the Israeli authorities in recent years, prospective Palestinian manufacturers must negotiate through a maze of both Israeli and Jordanian bureaucracy to obtain proper security clearances, licenses, and permits. Finally, market access to Jordan and other Arab countries are further restricted by a host of price controls and import restrictions prevalent in these markets.

## Taxation

Operating in territories occupied by Israel, residents and business in West Bank and Gaza are subject to a variety of direct and indirect taxes. Direct taxes include income tax, customs duties, property taxes, and a host of business taxes. Indirect taxes include import duties, excise on local products, VAT, inventory tax, fuel tax and stamp tax. Businesses in West Bank and Gaza are constrained by a high-tax environment. In addition, firms in West Bank and Gaza are subject to fees such as the bridge-crossing fees (to Jordan), travel and exit permit fees, and vehicle fees.

As in most developing countries, rudimentary bookkeeping and poor accounting records are widespread in West Bank and Gaza, resulting in frequent tax evasion and tax frauds, as well as arbitrary assessments of tax liability by the tax authorities. As a result, tax disputes occur very often, and resentment against taxation is widespread.

## Registration and Permits

As in the area of taxation, Palestinian enterprises are subject to laws and requirements on business registration. Thus, the start-ups of Palestinian businesses have been constrained by the bureaucratic procedures of obtaining the proper licenses and certifications issued by the Israeli authorities.

These procedures are viewed by the Palestinian business community as onerous; it is not unusual for a Palestinian entrepreneur to be required to seek approval from up to ten Israeli Government departments before a factory can be opened. Furthermore, approval for business licenses requires clearance with the Israeli tax authorities, which, as discussed above, is difficult to obtain due to poor bookkeeping in most Palestinian enterprises. Overall, the approval process for a business licence is viewed by many Palestinians as difficult and arbitrary.

Israeli regulations for establishing new industries in West Bank and Gaza have been relaxed since 1991. This general liberalization in the operating environment for Palestinian business includes an exemption of income and property taxes for up to five years, if certain conditions are met. Consequently, 140 requests to set up new factories in Gaza have been recently approved, compared to an average of ten approvals each year between 1981 and 1991. In West Bank, 67 industrial enterprises (of which 32 were already in operation) were also given new licenses to operate.

## C. Financial Constraints to Industrial Development

There is universal consensus among the Palestinian entrepreneurs interviewed that the inadequate supply of credit has been a major constraint to industrial development. There is an overall shortage of financial resources for fixed investment and working capital in West Bank and Gaza. The shortage of credit was not caused by low savings rates, since some banks have offered reasonable and positive real interest rates. Rather, financial institutions in West Bank and Gaza are small and weak, and largely have failed to serve as effective intermediaries between lenders and borrowers. This is due partly to the restrictive Israeli regulation on banking activities, and partly to the reluctance of existing banks to lend to local business.

### The Formal Sector

The Bank of Israel has assumed authority over all financial sector activities in West Bank and Gaza. Since all the Arab banks closed in 1967, 22 branches of Israeli banks operated in the territories until the Intifada. However, even before the Intifada, Palestinians did not bank extensively with Israeli institutions because most Palestinians preferred to conduct their financial transactions in Jordanian dinars. Since nearly all Israeli banks closed in 1982, there is only one commercial bank each in West Bank and in Gaza (except for Bank Leumi, which still operates a branch in Bethlehem).

The Cairo-Amman bank opened in the West Bank in 1986, and the Bank of Palestine began operations in Gaza in 1981. Both banks operate under several restrictions imposed by the Bank of Israel. Until recently, these banks were not allowed to deal in foreign exchange or issue letters of credit. They are also restricted by a ceiling in the total amount of deposits they can hold.

Due to these restrictions and also to their own conservative management styles, these banks do not offer enough financial resources for business and industrial enterprises. To be sure, lending to enterprises in the West Bank and especially in Gaza can be risky, given the volatility of operations due to strike days, curfews, etc. To aggravate the situation, the absence of a functioning legal system as well as law enforcing agencies has essentially precluded the option of foreclosure in the event of default. Thus, banks are extremely reluctant to lend, and when they do, only at very high interest rates -- 12-13 percent at Cairo-Amman Bank and 25 percent at the Bank of Palestine.

As a family-owned bank, the Bank of Palestine in particular pursues extremely tight credit policies and is reluctant to lend even at high interest rates in many cases, unless borrowers can put up large collateral deposits. Both banks reportedly maintain high liquidity ratios and hold a large portion of their assets not in the form of loans but in high-yield Israeli Treasury Bonds. Thus, both the Bank of Palestine and the Cairo-Amman Bank offer few

financial services other than taking deposits, cashing checks, or issuing money orders.

A host of other credit institutions are funded by donor agencies, the European Community, and other Arab countries. These include the Economic Development Group, the Cooperation for Development, the Technical Development Company, the cooperative societies, and the Arab-funded development banks. These institutions have supplemented banks in providing small loans, especially for rural development and housing projects, but they have not been able to fill the credit gap, particularly lending to manufacturing firms. Further, since these institutions are primarily funded by donor agencies, lending tends to be politicized and is not always conducted according to the merits of particular projects. The dependence on donor funding has also reduced the incentive for these institutions to become self-sustaining.

### The Informal Sector

Since the formal banking sector has not acted as an effective financial intermediary, the informal financial sector has assumed increasing importance in day-to-day transactions. In 1986, it was estimated that there were over 200 informal money changers and small lending agencies in the West Bank. The legality of these agencies is marginal, as they have not been formally approved by Israeli authorities. Their activities range from holding short-term deposits, transferring funds, and providing check clearance, to granting small short-term loans. Since most transactions are oral and undocumented, the viability of these institutions often depends on their reputation among their clientele.

While the informal sector serves to facilitate the daily financial transactions in the void of a functioning financial sector in West Bank and Gaza, it is not an effective channel to mobilize large sums of savings for medium-term and long-term industrial investment. Overall, the informal financial sector is small and fragmented, and has not filled the critical gap between the supply and demand for credit for business and industrial development.

### Patterns of Investment

In 1989, the latest year for which data on business investment are available, 44.5 percent of enterprises employing over 8 workers sourced their working and long-term capital from their own private funds. The rest were able to secure loans of some sort for business investment. By contrast, close to two-thirds of those employing less than 8 people had to rely solely on their own capital. In general, Palestinian enterprises tend to avoid debt, partly because traditional family ownership and closed partnership render debt a personal liability. The heavy dependence on private funds in West Bank and Gaza, especially among small enterprises,

- Identifying overseas markets for the industrial products from the Gaza Strip through participation in trade shows held in other Arab countries;
- Organizing local industrial exhibitions to market successful local industrial products to the local consumers; and
- Establishing an industrial database to offer information services at both the micro and macro levels to the business world and the policy makers. The Union of Industrialists has participated in a survey of 1700 industrial enterprises in Gaza, which will be published in April 1993.

The Union has also conducted two training courses for industrialists on "How to start a business" and "Aspects of clothing industry."

#### The Higher Council of Industrialists

The Higher Council of Industrialists is a new organization recently established to represent the interests of larger industrial enterprises in both West Bank and Gaza. At present, 12 members sit in the Executive Committee, and elections will be held in the next six months by an expected membership of 800 to 1,000 industrial enterprises.

The mandate of the Higher Council is promote the industrial products and represent the industries of West Bank and Gaza in negotiating bilateral trading agreements. It is generally viewed as a highly politicized organization which is possibly establishing the superstructure for a future ministry of industry in the event of greater autonomy.

#### Project Implications

Due to the political circumstances, the chambers of commerce in Gaza and West Bank have had little experience in the past in providing information services or lobbying for policy changes in favor of business. However, as newly and legitimately elected bodies, they are considered representative and respected in the business community. The Union of Industrialists in Gaza is also a viable and promising institution which can make significant contributions to the development of industrial enterprises in the Gaza Strip. With their credibility in the business community, these business associations can provide an important venue for recruiting recipients of training programs and technical assistance proposed under this project. Representatives from some of the Chambers and the Union interviewed have also indicated interest in hosting some of the training sessions for their members.

Judging from their present limited institutional capabilities, business associations in West Bank and Gaza are not likely to be able to serve as effective implementing agencies for the proposed project at this stage. Their most important role will be the identification of recipients for technical participants, and recruitment of participants for and hosting of training sessions. Business associations can also participate actively in the delivery of information services to the business community.

While some of the associations have already started to establish business information databases, most of these initiatives are still in rudimentary or planning stages. Their institutional capability to conduct research, manage databases and disseminate information can be significantly enhanced by training and other technical assistance. Strengthening the institutional capability of the existing business associations in West Bank and Gaza to deliver services can also help to ensure the sustainability of the proposed project.

## **B. Financial Institutions**

### **Israeli Banks**

Between 1967 and 1985, six Israeli banks established 30 branches throughout West Bank and Gaza. Since they only dealt in shekels and charged high interest rates for loans, they were not been extensively used by residents in West Bank and Gaza. Nevertheless, they were an important source of short-term financing such as letters of credit. With the exception of Bank Leumi, which operates a branch in Bethlehem, all the Israeli banks in West Bank and Gaza were closed since the Intifada.

### **Palestinian and Arab Banks**

Currently two commercial banks operate in the Occupied Territories: The Bank of Palestine in Gaza and the Cairo-Amman Bank in the West Bank. Both primarily serve as holders of short-term cash balances. They represent a very limited source of credit due to their severely conservative lending policies and their limited supply of funds.

**The Bank of Palestine.** Established in 1960 and closed in 1967, the Bank of Palestine reopened in the Gaza Strip in 1981 and was allowed to offer only limited financial services. Although it offers loans to business, the high lending rate of up to 27 percent has deterred many prospective borrowers. As a result of recent negotiations, the Bank can now deal in foreign exchange and foreign currencies, and issue letters of credit. The total assets of the Bank of Palestine was estimated at around \$13 million at the end of 1990. Due to both the constrained policy environment and its

conservative family-operated management, the Bank of Palestine pursues very tight lending policies. On 1990, for example, the bank reportedly maintained a high liquidity ratio of 73 percent.

The Cairo-Amman Bank. Headquartered in Amman, the Cairo-Amman Bank began operations in 1986 and currently operates four branches in the West Bank. As of the end of 1991, the Cairo-Amman Bank had \$16 million of outstanding loans, 25 percent of which was in default. The Bank has not been permitted to deal in foreign exchange until recently and is required to observe a pre-set ceiling in the total amount of deposits it can hold. In addition, the Bank must operate under the complex financial restrictions of both Israel and Jordan. Operating under these restrictions as well as its own extremely conservative lending policies, the Cairo-Amman Bank has only provided limited investment funds for enterprises in the West Bank.

### Credit Institutions

Over the past few years, four credit institutions have played an important role in channelling donor-financed credit to industries and enterprises in West Bank and Gaza. These credit institutions do not carry out commercial banking functions such as cashing checks and taking deposits. They primarily serve as conduits for disbursing credit to rural and industrial enterprises.

The Arab Development and Credit Company (ADCC), founded in 1987, provides loans mainly to agricultural cooperatives to finance many aspects of agricultural development projects, including land reclamation, irrigation, marketing and finance, etc. ADCC operates with 9 Board members and a staff of eight in Jerusalem. Over the past four years, ADCC has issued \$4 million worth of loans, which comprises 650 loans ranging from \$3,000 to \$10,000, mostly in the West Bank. With 2,000 outstanding loan applications, the primary constraint to increased lending is capital resources. ADCC has a collection rate of about 45 percent. ADCC operates on a loan capital of \$2.8 million, of which 50 percent is from the European Community.

Other credit institutions include The Economic Development Group (EDG), The Cooperation for Development (CD), and the newly formed Technical Development Company. They provide short to medium term loans to agricultural and industrial development projects on a loan capital of \$2-3 million. Similar to ADCC, the size of their loans are relatively small, averaging \$8,000, mostly made to small to medium size enterprises.

The primary source of funds for these four institutions is the European Community, which currently accounts for 70 percent of their total liquid assets. The initial start-up expenses were mostly paid for by funds from Palestinian and other Arab sources. The EC is in the process of releasing an estimated \$19.8 million in new funds to support credit expansion through these institutions

over the next few years. The new EC funding was issued as part of an Emergency Fund approved in March 1991. The EC is also planning to provide technical assistance to these institutions in improving credit and loan portfolio management.

### Cooperative Societies

Cooperative societies were an important source of credit in West Bank and Gaza until 1967. Since 1978, they have resumed some of their previous activities with extensive support from donor agencies, particularly the United States. The cooperative societies have provided loans for a wide range of economic activities including housing construction and improvement, purchase of capital equipment, and infrastructure development. Occasionally, they also provide technical assistance in marketing and management of small development projects.

The level of donor support to the cooperative societies has been reduced in recent years. Of concern to donors has been the poor records in portfolio management and loan repayment, estimated at between 30-50 percent in 1986. This may be due in part to the lack of incentives among cooperatives to become self-sustaining, having been wholly dependent upon donor financing. The poor financial performances of the cooperatives is also the result of poor management practices and the politicization in the selection of loan projects.

### Development Banks

Several Arab development banks have been established in West Bank and Gaza since 1967 to serve as a conduit of development funds, primarily from Arab states. These include, among others, the Housing Bank of Jordan, Industrial Development Bank of Jordan, and the Bank for the Development of Municipalities and Villages. These development banks fund a variety of activities ranging from housing construction to small enterprise development in West Bank and Gaza.

### Project Implication

The financial sector in West Bank and Gaza is weak and fragmented, and many of the financial institutions are suffering from politicization and poor management themselves. Thus, the project team does not see an active role for the financial institutions in West Bank and Gaza at this stage. However, the proposed project can work with the financial institutions to identify needs in training and technical assistance in the areas of finance, accounting, business planning and feasibility studies. Training can be provided for both the prospective borrowers and the loan officers and managers of the financial institutions. The provision of training and technical assistance in financial

management can also be coordinated with lending activities of some of these institutions.

**C. Private Voluntary Organizations**

**American-Mideast Educational and Training Services (AMIDEAST)**

**Organizational Goal.** The American-Mideast Educational and Training Services (AMIDEAST) is a Washington D.C.-based organization specializing in coordinating activities in education and human resource development in Middle Eastern countries.

**Organizational Structure.** To coordinate and implement training programs in West Bank and Gaza, AMIDEAST has one office each in Jerusalem (total staff of 21) and Gaza (total staff of 8). While most of the full-time staff are recruited locally, most of the part-time consultants are Americans. AMIDEAST has recently assigned a full-time specialist to plan and coordinate programs and activities in its one-and-a-half year old Business Development Program.

**Activities.** AMIDEAST has traditionally focused on training in the public health and education sectors. Over the past 18 months, AMIDEAST has operated a Business Development Program on an annual budget of approximately \$250,000, funded by A.I.D. Under this program, a series of training sessions and workshops have been conducted for enhancing skills in the manufacturing industries. AMIDEAST has also begun working the newly elected chambers of commerce in West Bank and Gaza to develop training programs to enhance their management skills.

AMIDEAST supports the development of human resources in West Bank and Gaza with the following tools:

- o **Local Training** involves conducting training workshops in various regions to upgrade the technical skills of Palestinians workers. To date, courses in textiles (including design and management) have been taught in north and central West Bank, and a two-month training program on maintenance and repair of textile machinery has been successfully implemented. AMIDEAST has also funded training programs for female textile workers to upgrade their skills in cutting and sewing. Local training has been the most heavily utilized venue in AMIDEAST's Business Development Program.
- o **Material Assistance.** This component makes available funding for equipment, materials and supplies required in association with training programs. For instance, AMIDEAST has provided a grant to the Business Development Center of Bethlehem

University to buy acquire furniture, computers and other audio and visual equipment to support its start-up.

- o Technical Assistance. AMIDEAST utilizes external consultants, usually from the United States, to provide expertise and assistance in specialized technical subjects. Thus far, technical assistance is concentrated in health manpower development and has not been provided under the Business Development Program.
- o Technical Training. Technical training involves sending Palestinians overseas to attend courses and workshops in universities and training institutions for training usually in specialized subjects, from personnel management to laboratory management.
- o Conferences and Sabbaticals. This program assists faculty members in Palestinian universities to attend conferences and workshops. The fields of study remain diverse, including hydrology, psychology, computer modeling and engineering.
- o Degree and Certificate Programs. AMIDEAST has arranged academic degree placements and provided scholarships for individuals nominated by their institutions. Several faculty members in the Business Department in Bethlehem University have been able to complete their Doctorates under this program.

#### Cooperative Development Program (CDP) - ACDI

Organization Goal. Founded in 1986, the Cooperative Development Program (CDP) is a training and technical assistance program established by a group of eight national U.S. cooperative development organizations. It was initiated in response to needs expressed by Palestinian cooperative leaders. The goal of the organization is to assist Palestinian cooperatives in improving management and profitability.

Organization Structure. CDP is headquartered in Jerusalem, where it maintains a full time staff of 16. Among its professional staff are U.S. and locally trained finance, accounting, marketing, and management specialists, and other professionals specialized in livestock and crops management.

The primary sponsor of CDP is Agricultural Cooperative Development International (ACDI), a non-profit organization created by forty leading agricultural cooperatives and farmer organizations in America. ACDI supervises the project from its Washington DC office and in addition has on-going development projects in the South Pacific, Asia, Latin America, the Caribbean, the Near East, and Africa. ACDI receives financial support from A.I.D.

**Activities.** CDP provides assistance to strengthen agricultural cooperatives through the following services:

- o **Training.** CDP provides a broad range of training courses in all cooperative sectors, including management, accounting, staff and member relations, and marketing. CDP may arrange for participants to attend training courses in the United States or a third country.
- o **Technical Assistance.** CDP experts work both individually and as a team with selected agricultural cooperatives to conduct thorough assessments of needs. This often results in the development of work plans, setting targets and creating overall strategies for the cooperatives. A new area for CDP includes assistance to certain cooperatives to establish and maintain well managed credit and loan programs for their members.
- o **Project Proposal.** Under special circumstances, CDP may assist a cooperative develop a proposal addressed to another organization or donor agency for funding cooperative development.

#### **American Near East Refugee Aid (ANERA)**

**Organizational Goal.** ANERA has provided extensive support to strengthen the agricultural sector in West Bank and Gaza by supplying financial resources and technical expertise.

**Organizational Structure.** ANERA operates one office each in West Bank and Gaza, staffed with 23 full time employees and consultants, most of whom are locally recruited. The field staff are specialized in particular technical or management areas, including agricultural and livestock management, marketing, mechanical engineering and civil engineering, in which they can provide technical assistance as well as training.

**Activities.** The major activities of ANERA are to implement projects to support and strengthen Palestinian cooperatives, often through municipalities by bringing about infrastructural improvements in areas such as refrigeration and irrigation. The assistance usually comprises a loan component to fund the purchases of machinery and equipment, as well as a technical assistance and training component in the technical and operational areas. Overall, technical assistance and training provided by ANERA are specific and project-related.

**United Nations Development Program (UNDP) - Business Development Center**

**Organisational Goal.** The United Nations Development Program (UNDP) opened its Jerusalem office in 1986, with the goal of providing development assistance in West Bank and Gaza. In the area of industrial development, it has coordinated training to upgrade technical and industrial skills, sponsored infrastructure development, and provided direct technical assistance to Palestinian entrepreneurs. UNDP established the Business Development Center (BDC) three years ago to assist existing business and to encourage new start-ups in West Bank and Gaza.

**Organisational Structure.** BDC works closely with a Board of Directors, which consists of nine members from the West Bank, and two from Gaza. BDC has recently hired a team of 14 Palestinian associate consultants who have been recruited specifically to provide consulting services to Palestinian enterprises.

**Activities.**

- o **Loans.** Over the next three years, BDC has programmed \$1 million in loans to finance the establishment and expansion of medium and large enterprises in West Bank and Gaza. These loans are expected to range from \$75,000 to \$250,000. To date, 250 applications have been received and reviewed. The first loan has been recently approved to finance the construction of a industrial plant in the West Bank. More are expected to be approved in 1993.
- o **Technical Assistance.** One of the main activities of BDC is to provide direct technical assistance to enterprises. The 14 local associate consultants are currently assisting five companies in the West Bank and three companies in Gaza. The companies selected to receive technical assistance are generally asked to contribute a small copayment of \$300 to \$500. BDC has allocated approximately \$600,000 for technical assistance over the next three years.
- o **Training.** Over the past two years, BDC has conducted management training workshops for enterprises, which covers topics ranging from accounting, marketing and taxation, to computer application and engineering. BDC has occasionally drawn on faculty members of the local universities to provide training. UNDP has also recently sponsored the newly elected members of the chambers of commerce in the West Bank on an overseas study tour to study the various functions and responsibilities of chambers of commerce.

## Save the Children Foundation (SCF)

Organizational Goal. The objectives of SCF are to offer technical and financial assistance to local institutions and cooperatives. SCF also provides small income-generating loans to the low income families in West Bank and Gaza, with the purpose of raising their long-term standards of living.

Organizational Structure. SCF currently employs 16 persons including 2 directors (both are Americans), 6 coordinators holding University degrees, an accountant, a secretary, and 3 administrative assistants. The foundation is financed by foreign governments, corporations, and individuals.

Activities. SCF supports educational and health programs and finance credit facilities. SCF offers small loans, usually under \$5,000, to families to finance agricultural projects in order to increase income in the long term. Since it began operations, SCF has given approximately 400 loans and some small grants to low income families. Thus far, SCF loans are only made to the rural sector and has negligible impact on the development of the industrial sector. The consulting services offered by SCF have been limited to investment opportunities and sources of raw materials.

### Project Implications

The project team has identified AMIDEAST as the institution to act as an active participant in the proposed project, based on AMIDEAST's unique and predominant experience and capabilities. This conclusion is based on the following considerations.

- AMIDEAST is the only organization that has developed a training and technical assistance program for private sector businesses in the manufacturing area.
- AMIDEAST has established close working relationships with local universities and chambers of commerce, both of which will participate in the project.
- AMIDEAST has strong reputation throughout the business and academic community as a result of its business assistance activities.
- AMIDEAST has recently assigned a full-time staff member in coordinating training in the private sector area, and has appropriate facilities in both West Bank and Gaza.

Other PVOs are conducting important activities in West Bank and GAZA, and as such are actively supported by A.I.D. and other donors. However, these activities are not those required for this particular project. For example, ACIDI and ANERA are working almost

exclusively with agricultural cooperatives. Although training and technical assistance have been offered, they are often organized in association with loans to finance infrastructure and municipal projects, rather as training/TA per se. Both ACDI and ANERA have little experience in providing technical assistance and training to manufacturing enterprises.

The most relevant aspect of UNDP's current activities in business development is the study tour for the members of Chambers of Commerce. The proposed project can collaborate with UNDP in coordinating technical assistance and training to the Chambers to strengthen their capability in delivering information and other services to the business community.

The activities of the Catholic Relief Services and Save the Children Foundation have focused primarily on the basic needs of low-income, rural families. Both of these organization have little experience in implementing any training or technical assistance projects specifically to assist manufacturing enterprises.

**D. Academic Institutions**

**Bethlehem University - Business Development Center**

**Organisational Goal.** The Business Development Center (BDC) was established in 1989 by the Faculty of Business Administration at Bethlehem University. The goal of BDC is to increase the cooperation between the academic community and business in the Bethlehem area to strengthen business enterprises. This to be achieved by means of industrial exhibitions, conferences with operators of companies and factories, training, and other technical assistance.

**Organisational Structure.** BDC is staffed by one full-time administrative assistant and a part-time Director, who teaches part time in the Department of Business Administration. For the training workshops, technical assistance and other activities, BDC can draw on 12 faculty members in the Department of business Administration. The initial establishment of BDC, including the site, building, and equipment, was funded by grants from the European Community and AMIDEAST. BDC currently operates on an annual budget of approximately \$25,000.

**Activities.** The Bethlehem has established contacts with business enterprises in Gaza for several years through formal lecture given by businessmen for students, seminars for business operators, and placement of students in factories and firms as apprentices to gain hands-on experience in business and industrial operations. Specifically, the Business Development Center has conducted the following activities:

- o **Feasibility Studies.** BDC conducts feasibility studies for the existing and planned projects at the request of business in the West Bank. BDC has also organized student teams to conduct market research and analysis as part of business feasibility studies. Many of the feasibility studies are conducted free of charge as a service to the business community as well as field experience for students specialized in business administration.
- o **Training.** BDC conducts business training workshops for companies, factories, and small business owners covering topics such as general management, marketing, accounting, computer applications etc. Training workshops usually runs about six days at three hours daily, and participants are usually asked to contribute a small copayment of \$10-20.
- o **Information Dissemination.** In an effort to educate business entrepreneurs and consumers, BDC frequently sets up exhibitions for consumer and industrial goods, and publishes and disseminates booklets and pamphlets on management,

accounting, marketing, and consumer awareness. In addition, BDC is also preparing a business directory for the Bethlehem area, which will be expanded to include more areas in the West Bank area in the future.

### Islamic University in Gaza - Center of Business Studies

Organizational Goal. The Center of Business Studies (CBS) was established two years ago to conduct economic and business research, and to provide technical consultation to the business community to Gaza, especially in the fields of accounting, business administration, economics, and engineering.

Organizational Structure. CBS is a unit of the Research Center of the Islamic University of Gaza, managed by a Board of Directors drawn from the Faculty of Commerce (which includes Accounting, Economics, and Business Administration). There are five full time members in the Center. CBS partially funded by the Islamic University, and local and international donor agencies.

#### Activities.

- o Training. CBS conducts training workshops for local business in Gaza. Topics covered range from general business management to taxation, to machine operations. Most of the training is conducted in Arabic. Participants are usually recruited by advertising in local newspapers, and they are asked to contribute a small copayment to help cover the costs.
- o Technical Assistance. CBS provides assistance to local enterprises in technical areas, such as machine maintenance and operations and other practical technical skills. Occasionally, CBS also conducts feasibility studies for organizations and private business.

### Al-Azhar University of Gaza - Research and Development Center

Currently in its planning phase, the Research and Development Center will operate under the auspices of Al-Azhar University, but will be physically located outside the University campus so that its services are more accessible to the public. The main objective for establishing this center is to provide technical and management advice, training, and business information to the community, and conduct research on the economic conditions in the Gaza Strip.

At present, the Center is staffed with members of the academic community who are qualified to provide technical assistance in various management and technical areas. It has planned to become active in April 1993. As a nonprofit entity, the Center will rely

mainly on funding from Al-Azhar University and donor agencies, and partially on the small fees collected for some of its services. The major activity planned is to establish a databank on economic and environmental indicators.

### Project Implications

Several universities in West Bank and Gaza have developed small but active business development programs in recent years. The scope of their activities has been limited primarily due to the limited amount of financial resources available. Some of them have obtained funding from donor agencies through PVOs, especially in the start-up phase.

Some of the university business programs have already developed a working relationship with the business community, with faculty members providing training and consulting services in an ad hoc manner. Overall, their efforts in strengthening business and industries have been appreciated by the business community. However, representatives from business and industry have expressed concern that approach of the academics tend to be overly theoretical for practical business application. Thus, under this project, "on the job" training (working with outside trainers) can be provided to university staff to enhance their skills in delivering business-related courses. Technical assistance can also be provided to universities to help strengthen their business programs. Several of universities also have the resources needed to act as hosting organizations for some of the training courses and workshops.

The business, economic, accounting, engineering and other departments of the universities also represent a resource for delivering technical assistance and training services. Some of the faculty members are already acting as part time consultants for business and industries for a fee or on a pro bono basis, especially in the technical and engineering areas. In addition, the university business programs can participate in conducting data research on the business and market conditions to disseminate to the public.

#### **D. Consulting Firms**

The consulting capability in the Occupied Territories is extremely limited, particularly in Gaza. There is also universal consensus that no consulting firm exists by the standards and definition of those operating in industrialized countries. The little consulting activities that exist are mostly conducted by part time consultants who hold other full-time jobs as university professors, accountants, engineers, and so forth. There are no

known consulting firms in either Gaza or West Bank which specialize in providing management and technical consulting services.

In West Bank, most quasi-consulting agencies started as donor-funded credit institutions which expanded their activities to assist firms in conducting feasibility studies and other general management consulting, usually related to obtaining loans. The Business Faculties in the universities also occasionally provide some ad hoc assistance in market research or advice in business management issues.

There have been less consulting activities in the Gaza Strip, primarily due to the fact that there are fewer firms of sufficient size to pay for consulting services. However, a few potential start-ups have been identified, including Team International, an Egyptian-based international business consulting group operated by Palestinians. A representative from a computer software company has also expressed interest in developing a consulting division in the company.

Although there is no dearth of demand for assistance in especially in the management and marketing areas, most manufacturing firms have expressed reservations about hiring external consultants, especially when they are required to pay for these services. Since even the larger industrial enterprises are predominately family-owned and operated, there is also a certain degree of mistrust and suspicion of outside Palestinian consultants. Furthermore, since the management structures of most firms consist exclusively of immediate family members, they tend to be less familiar with the concept of professional management and hence are more reluctant to entrust management issues to outsiders.

Project Implication. Currently, the consulting capability in West Bank and Gaza only exists marginally. In the short term, it would make more sense to concentrate on assisting individual business, and enhance the skills of potential consultants through training and technical assistance to university staff and business associations. Private consultants can also participate directly in project activities.

## ANNEX F

### DESIGN ISSUES AND POTENTIAL PROBLEMS/SOLUTIONS

This Annex addresses each of the design issues raised in the Project Identification Document (PID) and during project design.

1. The PID proposes a schedule that permits a FY 93 obligation of funds. Is the schedule realistic? What actions can be taken to shave time from the process? What are the implications of not making the FY 1993 obligation?

This Project Paper has already defined the objectives and framework for project implementation. In the view of the design team, the schedule for designing and approving the project as presented in the Project Paper is realistic, given that the design of specific activities will be left to the project implementation stage with the contractor selected. The Request for Proposals is expected to be issued in timely fashion so that a contractor can be selected for a FY 93 obligation.

2. Industrial activity in textiles, clothing and leather production has been estimated to account for 30% of Palestinian companies and 37% of industrial employment in the Occupied Territories. Do the Lautenberg prohibitions present problems for our assistance to these sectors? Are there other sectors that present similar problems? What impact will the new 599 legislation have on the project? How should these issues be addressed in the project design?

Briefly stated, Section 559 of the Foreign Assistance Act, the "Lautenberg Amendment," prohibits the use of A.I.D. funds to finance activities that are intended specifically or primarily to assist in the establishment of facilities which manufacture import-sensitive commodities for export either to the United States or to third countries in direct competition with U.S. exports to such third countries. More specifically, the Lautenberg Amendment prohibits the use of A.I.D. funds:

"(1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles . . . ; or

(2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles . . ."

For the purpose of the Lautenberg Amendment, "import sensitive" commodities include textiles and apparel, footwear, handbags, luggage, leather flatgoods, work gloves, and leather wearing apparel.

The proposed project does not include funding for feasibility studies or prefeasibility studies, but rather focuses on general management training and technical assistance.

The design team examined a sample of documents related to similar projects that address the Lautenberg Amendment issue. The typical method used is the inclusion of a clause or covenant in grants, cooperative agreements, etc., stating that the proposed project will not finance activities which are in violation of the restrictions set forth by the Lautenberg Amendment.

A summary of legal opinion on the Lautenberg Amendment prepared by the Office of the General Counsel of AID on June 8, 1987, states that Amendment does not prohibit financing that aids the manufacture of articles:

- "(a) primarily for the host country's domestic market, or
- (b) for export to third countries to which the United States does not export statistically significant quantities of articles which are similar (considering factors such as fabrication, function, appearance or price)."

The summary goes on to state that ". . . The Amendment prohibits "direct," but not "indirect," assistance for the prohibited activities."

The project design team has reached the following conclusions regarding the application of the Lautenberg Amendment to the West Bank/Gaza Project.

- o The activities of the project do not assist directly in the establishment of facilities designed for the manufacture of import sensitive goods. The project activities relate to existing producers and facilities, not to new facilities;
- o The products currently and prospectively produced by manufacturers in West Bank and Gaza are destined primarily for local markets. Most exported products are likely to be processed foodstuffs. Manufactures are most likely to be sold to countries in the region. The quality and price of the specific import sensitive products involved in the project are highly likely to fall well below the quality and price of comparable products produced and exported by U.S. firms;

These conclusions, along with the points raised earlier in this section, confirm that the proposed project is not in violation of the Lautenberg Amendment. Nevertheless, the following actions are recommended for inclusion in the project design in order to fully and explicitly take the Lautenberg Amendment restrictions into account:

The following covenant, or some variation thereof, should be included in the master contract:

"The U.S. contractor will not use AID funds to finance activities which are expended (1) to procure directly feasibility studies or prefeasibility studies for, or project profiles of potential investment in, the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles as defined by section 503(c)(1)(A) and (E) of the Trade Act of 1974 (19 U.S.C. 2463(c)(1)(A) and (E)); or (2) to assist directly in the establishment of facilities specifically designed for the manufacture, for export to the United States or to third country markets in direct competition with United States exports, of import-sensitive articles as defined above."

In the course of reviewing and approving the annual work plans, A.I.D. should examine the plans to identify any possible violations of the Lautenberg Amendment, and to reject A.I.D. funding of any such activity.

The project will not address free zone development, and so is not subject to provisions of Section 599.

3. **AMIDEAST is providing training in the business sector and has been active in promoting university/business linkages. ANERA works with professional associations. How will/should this project affect, complement, and/or take advantage of the on-going and future activities of the PVOs? (e.g., would it make sense to provide project training through AMIDEAST?)**

Background. During the review of the PID, the State Department indicated that given its desire to maintain a low U.S. profile because of existing political and security arrangements, it would not permit A.I.D. to place an American contractor team in the field to oversee the management of the project. A.I.D. did not believe that the project could be effectively implemented without the field presence of an American contractor. The project design team was charged with examining all possible alternatives with a view toward finding a solution to this impasse. One alternative would be to use the resources and capabilities of an existing PVO operating in the territories.

The project design team conducted extensive field interviews with the PVOs in West Bank/Gaza to assess their institutional capabilities and their potential roles in the project. The findings and assessments are presented in detail in Annex D: Institutional Analysis. In summary, ANERA and ACDI are working almost exclusively with agricultural cooperatives and have little experience in implementing a large-scale initiative specific to training and technical assistance to the manufacturing sector. CRS and SCF have focused their activities on meeting the basic needs of low income families.

AMIDEAST is the only PVO identified by the design team which has moved towards assisting the private sector engaged in manufacturing. After thorough analysis, the design team has concluded that AMIDEAST is a viable organization with the institutional capability to participate in the implementation of the project. Thus, the design team proposes that AMIDEAST undertake a portion of the project under a subcontract arrangement with the contractor.

AMIDEAST will bring to the arrangement several attractive assets. AMIDEAST has widely recognized expertise in designing, administering and monitoring training programs, and so the project would be building on rather than duplicating existing experience and expertise. AMIDEAST is willing to share office space with the contractor, and thus reduce the visibility of a new contractor operating in West Bank and Gaza. AMIDEAST is familiar with the political and institutional setting, and is respected by Palestinians. AMIDEAST also has an exemption from the Government of Israel for customs duties and value added taxes for imported/purchased commodities.

It is proposed that AMIDEAST be designated as a subcontractor in the RFP. This allows for clear lines of responsibility and authority. An additional benefit is that the project activities would be coordinated by one rather than two (potentially competing) organizations. The major drawback of this option is that it does not represent a standard contracting action, and will require greater efforts by A.I.D. to prepare the RFP.

Other options were considered and rejected by the design team. One included placing the entire project into the hands of a new U.S. subcontractor; this has been strongly resisted by the State Department. Another option would be to provide a grant/cooperative agreement to AMIDEAST to carry out the entire project. The design team concluded that AMIDEAST does not have sufficient experience in private sector development to conduct the project by itself. An additional option would be to set forth needs and requirements (e.g., a local presence in West Bank/Gaza), and let bidders identify AMIDEAST and/or other PVOs and add them to their project teams. This was rejected on grounds that considerable confusion and excessive expectations would be created in West Bank and Gaza as

potential bidders sought to teaming partners when only one appears to have a predominant capability.

4. **Constraints on the availability of credit in the Occupied Territories will significantly impede expansion of the industrial sector and will have a direct impact on the success of this project, given that firms may be unable to take advantage of project-generated recommendations due to a lack of financial resources. Should this project include a credit component to complement other proposed activities? If so, should the component be limited to technical assistance and training for credit institutions or should financial resources be made available to the credit sector? What plans does the EC have for continuing its assistance to the credit sector?**

The design team has concluded that this project should not include a credit component. Credit assistance would be premature at this stage, given the limited capability among Palestinian enterprises to undertake sound financial and business planning, and the poor loan repayment record experienced by the existing donor-financed credit institutions. Further, should there be a loan component in this project, there would be no viable financial institutions in Gaza and West Bank to administer it.

Although credit is a severe constraint in Gaza and West Bank, it is not an overriding constraint to the development of manufacturing enterprises. A detailed analysis of the financial constraints is present in Annex C. At this stage, assistance should be limited to technical assistance and training for credit institutions as well as for prospective borrowers. The project can collaborate with credit institutions to identify training needs in the sector and recruit training recipients especially in financial management and business planning.

The EC has been a major sponsor of credit assistance to West Bank and Gaza. Over the next few years, the EC plans to allocate an estimated \$20 million for credit expansion through the existing credit institutions in Gaza and West Bank. Approximately \$17 million of these funds will be allocated to agriculture, industry and services with the remainder to be used to export credits. This is granted as part of an Emergency Fund approved in March 1991. The credit institutions have reportedly received their first tranche of funding in January 1993.

5. **The PID proposes a competitively-selected contractor to assist with the implementation of the project. Given the political sensitivities in the Occupied Territories and the desire to obligate funds in FY 1993, should a sole source award be considered?**

The design team has concluded that a competitively-selected U.S. contractor should undertake the implementation of the project.

Given the sensitivity in the Occupied Territories and to address the concern of a new U.S. presence by the U.S. Consulate General, a special project organizational arrangement has been designed to address the issue, the details of which are presented in Section IIB.3.b: Organizational Approach, and above in the discussion on design issue #3.

The following is a discussion of the additional issues raised in the PID review:

**Issue No.1:** The NEDAC identified an overriding issue regarding how to design the project with effective implementation/monitoring/management control given State's negative position on additional, long-term U.S. contractor presence in the WB/G.

The design team has conducted an objective assessment and concluded that a U.S. resident contractor should be assigned to Jerusalem to provide overall management and coordination of project activities. The U.S. resident contractor will be fully accountable for fulfilling project goals and objectives, and providing effective oversight of all project activities undertaken by the subcontractors. A detailed project implementation plan is presented in Section IV of the Project Paper.

To address the concerns of the Department of State given the political sensitivity in the Occupied Territories, a special organizational arrangement has been designed, aimed at maximizing accountability and project oversight while minimizing the extent to which a new U.S. contractor presence would be perceived. This issue is also addressed above in the discussion on design issue #3.

**Issue No.2:** Should agro-produce be excluded from the project given its importance as a major employer in WB/G.

The design team recommends that agro-processing be included in the project, given the importance of the food processing sector in both Gaza and West Bank. This can include training for firms that engage in food packaging activities. Processed food also has good export prospects should marketing capability and information dissemination be improved under the project. Unprocessed agro-produce should not be the focus of the project. Agricultural firms will not be eligible for technical assistance under the project. PVOs such as ACDI and ANERA have been providing assistance almost exclusively to agricultural cooperatives. This project is designed specifically to strengthening the manufacturing sector in Gaza and West Bank.

**Issue No.3:** Should consideration be given to having the U.S. contractor review proposals for private sector activities as well as monitor and manage A.I.D. grants for such activities (i.e. act as umbrella

**organization for WB/G AID-financed private sector activities) to reduce A.I.D. management burden and enhance coordination?**

The design team concludes that the U.S. contractor can review and provide comments on proposals for private sector activities to preclude overlaps, enhance additionality and complementarity, and identify areas of potential collaboration. The project includes funding for task order requests by A.I.D. asking the contractor to review incoming proposals.

**Issue No.4: Should the project select 7 to 8 successful Palestinian entrepreneurs (as described in the PID) with which to work, or should it deal with a larger number of smaller enterprises?**

The design team recommends that during the first year of the initiative, all three project components (training, technical assistance and information service) will be open only to all firms interested in participating on a general basis. At the end of the first year, as an optional initiative within the project, up to ten firms each in Gaza and West Bank could participate in a more intensive and tailored technical assistance and training program, as deemed appropriate by the contractor in consultation with A.I.D. However, participating firms should be selected according to a set of objective criteria approved by A.I.D. See II.B.3.c. Project Components to details.

**Issue No.5: Should the project focus on institutional development vs. individual firms?**

The project focus is to provide training, technical assistance and information services directly to individual firms. The project is not, therefore, designed as an institution development activity. However, institutional strengthening will take place in business associations and university business programs through their active implementation of the project.

**THRESHOLD DECISION BASED ON  
INITIAL ENVIRONMENTAL EXAMINATION**

(A) PROGRAM COUNTRY : NEAR EAST REGIONAL

(B) ACTIVITY LOCATION : WEST BANK AND GAZA

(C) PROJECT TITLE/ID : PRIVATE SECTOR SUPPORT  
(294-0001)

(D) PERIOD OF FUNDING : FY 93-96

(E) AMOUNT : \$ 13 MILLION *asc 4-13-93*

(F) IEE PREPARED BY : Signature *Diana Swain*  
Diana Swain  
Officer-in-Charge

(G) ENVIRONMENTAL ACTION RECOMMENDED : NEGATIVE DETERMINATION  
under A.I.D. Regulation 216  
Section 216.3 (a)(2)(iii).

(H) DECISION OF NE BUREAU ASSISTANT ADMINISTRATOR

APPROVED: *Dennis M. Chandler*

DISAPPROVED: \_\_\_\_\_

DATE: *2-26-93*

(J) DECISION OF THE NE BUREAU ENVIRONMENTAL COORDINATION

*1/26-93* APPROVED: *John, Director NE*

DISAPPROVED: \_\_\_\_\_

DATE: *2/26/93*

INITIAL ENVIRONMENTAL EXAMINATION

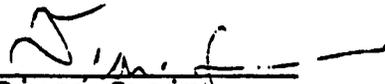
Project Location: West Bank/Gaza  
Project Title: Private Sector Support  
Funding: \$7 Million  
Environmental Action Recommended: Negative Determination  
per:  
Education, technical assistance, or training programs.  
[22 CFR 216.3(a)(2)(iii)]

Discussion of Major Environmental Relationship of the Project  
Relevant to Attached Impact Identification and Evaluation Form:

The purpose of the project is to improve the management, production, and marketing capabilities of industrial enterprises through the provision of improved services from Palestinian professional associations and technical and management consulting groups. Through the project, A.I.D. will support training, technical assistance, and other support related to strengthening the capabilities of professional associations, consulting groups, and Palestinian industrial enterprises. No construction or program-related commodity procurement will be financed and none of the activities funded by the project is expected to have a direct impact on the environment; however, given that an objective of the project is an expanded industrial capacity in the Occupied Territories, it is probable that the certain actions taken by industry as a result of the project will have an environmental impact. In instances in which the output of a particular activity is expected to have an environmental impact, a separate Initial Environment Examination will be completed before the activity is initiated. Funds will be set aside in the Project Paper budget for this purpose.

IEE Prepared by:

Date:

  
Diana Swain  
NE/ME/WBG

12/11/92

Office Director's Concurrence:

Date:

*John Champagne*  
John Champagne  
NE/ME

12/11/92

Decision of Environmental  
Coordinator, Bureau for  
the Near East

*J.P.H.*  
2-26-93 Approved: \_\_\_\_\_  
Disapproved: \_\_\_\_\_

*Stan*

Date: 2/26/93

Clearances:

NE/DR: Ron Redman 114

**ENVIRONMENTAL IMPACT IDENTIFICATION AND EVALUATION FORM\*\***  
(see 2nd page)

**ENVIRONMENTAL IMPACT INDICATOR AREAS**

**A. LAND USE**

- |  |   |
|--|---|
| 1. Changing the character of the land through:     |   |
| a. Land clearing                                   | U |
| b. Construction (roads, buildings)                 | U |
| c. Extraction of minerals                          | U |
| d. Creation of Deposits for Unwanted Materials     | U |
| 2. Alteration of Natural Barriers (dunes, marshes) | N |
| 3. Foreclosing Important Future Uses               | N |
| 4. Potential for Endangering Populated Areas       | N |
| 5. Other Factors                                   |   |
- 

**B. SURFACE AND GROUND WATER**

- |  |   |
|--|---|
| 1. Effects on Quality                            |   |
| a. Introduction of industrial pollutants         | U |
| b. Introduction of agricultural pollutants       | N |
| c. Introduction of urban/sewage wastes           | N |
| d. Introduction of biomedically important wastes | N |
| e. Potential for Transnational Impacts           | N |
| 2. Effects on Quantity                           |   |
| a. Changes in Water Flow Rates                   | U |
| b. Increasing probability of floods              | N |
| c. Potential for changing Demand/Supply Relation | U |
| d. Potential for Transnational Impacts           | N |

**C. AIR**

- |  |   |
|--|---|
| 1. Potential for increased NO <sub>x</sub> , SO <sub>x</sub> , HC, CO <sub>2</sub> /CO emissions | U |
| 2. Potential for increased Particulate emissions   | U |
| 3. Potential increase of noxious Odors, Vapors   | U |
| 4. Noise pollution   | U |
| 5. Other factors   |   |
- 
- 

**D. ENERGY**

- |   |   |
|---|---|
| 1. Potential for Increased Energy Demand    | U |
| 2. Use of Renewable Energy Sources          | U |
| 3. Plans for Energy Efficiency/Conservation | U |
| 4. Other Factors                            |   |
-

**E. COASTAL AND MARINE RESOURCES**

- 1. Introduction of Biological/Chemical Pollutants U
- 2. Introduction of Agricultural Runoff N
- 3. Mineral Extractions U
- 4. Impacts on Fish/Shellfish Harvest U
- 5. Impacts to Existing Biota by new Introduced Species N
- 6. Potential for Algal Blooms U
- 6. Others \_\_\_\_\_

**F. BIOTA**

- 1. Introduction of Exotic Organisms N
- 2. Destruction/Alteration of Critical Habitat N
- 3. Potential for Impact to Endangered Species N

**G. ANTIQUITIES PROTECTION**

- 1. Potential for Harm to Historic Sites N
- 2. Increased Access/Use of Historic Sites N

**H. PESTICIDE USE (Required by 22 CFR 216)**

- 1. Will Pesticides be used? NO
  - a. Are they USEPA registered? N/A
  - b. Are they "Restricted-Use", Cancelled on under "Special Review"? N/A
  - c. Are complete plans in place to train and fully protect applicators? N/A
- 2. Impacts on wildlife & aquatic organisms N/A

Form Prepared by: \_\_\_\_\_

*Alejandro E. Segarra*  
Alejandro E. Segarra  
AAAS Fellow

Date 2-25-93

Project Location:  
Project Title/ID:

Fill the blanks with the following:

- \*\* N- NO perceived environmental impact.
- U- UNKNOWN environmental impact (substantiate).
- L- LITTLE environmental impact (briefly describe).
- M- MODERATE environmental impact (substantiate with cost/benefit analysis).
- H- HIGH environmental impact (substantiate and present possible mitigative actions).
- N/A- Not applicable; YES; or NO.

**ANNEX H**

**List of Individuals Interviewed**

**Agency for International Development**

Dennis Chandler, DAA/NE

John Champagne, Office Director, NE/ME

Satish Shah, Director, NE/DR

Diana Swain, Country Officer, NE/ME

Gaby R. Abboud, Program Assistant, Jerusalem

Harry Bernholz, Program Coordinator, Tel Aviv

Salah S. Sakka, Gaza Field Representative

Karen Turner, Program Coordinator, Jerusalem

Dorothy Young, Project Officer, NE/ME

**U.S. Department of State**

Ambassador William Harrup, U.S. Ambassador to Israel, Tel Aviv

Molly Williamson, U.S. Consul General, Jerusalem

Carl Eugene Dorris, Deputy Principal Officer, U.S. Consulate General, Jerusalem

Charles Dunne, U.S. Consulate General, Jerusalem

Norman Olsen, U.S. Embassy, Tel Aviv

Alan Parker, Commerce Counsellor, U.S. Embassy, Tel Aviv

Jake Walles, NEA

Kent Wiederman, Deputy Chief of Mission, U.S. Embassy, Tel Aviv

**Government of Israel**

General Shifman, Deputy Coordinator for Government Operations in Judea, Samaria, and Gaza District, Ministry of Defence, Tel Aviv

Lt. Col. Shraga Kurz, Office of the Coordinator for Government Operations in Judea, Samaria & Gaza District, Ministry of Defence, Tel Aviv

**Private Sector**

Ahmad Abdeen, General Manager, Bethlehem Plastic Company, West Bank

Dr. Maruf Al-Asman, Director, Business Development Center, Bethlehem University, West Bank

Ali Ala Araj, Accountant Association, Gaza

Dr. Odel Shehadeh Alzaghmory, former Coordinator of Technical Consultation Unit, Birzeit University, West Bank

Issam Al Buhaisi, Accountant Association, Gaza

Muhammed Alami, Director, Planning and Research Center, Jerusalem

Jean-Louis Balladier, Program Management Officer, UNDP, Jerusalem

Ibrahim Abu Dakka, Vice President, Loyers Associates, Gaza

Ehab Ezeldeen Dajani, Managing Consultant, Team International, Gaza

Omar Daoudi, National Program officer, UNDP, Jerusalem

Francis Dubois, Deputy Special Representative, Program of Assistance to the Palestinian People, UNDP, Jerusalem

Salman H. El Helou, Board Member, Chamber of Commerce, Gaza

Basil A. Eleiwa, Program Officer, AMIDEAST, Gaza

Constanza Farina, Chief Program Division, UNDP, Jerusalem

Nabiel Ferowaha, Accountant Association, Gaza

Elias Freij, Mayor of Bethlehem; Chairman, Chamber of Commerce Bethlehem, West Bank

Peter Gubser, American New East Refugee Aid (ANERA), Washington DC

Dr. Adnon Hammad, Planning and Research Center, Jerusalem

Daniel Issa, Chairman - Higher Council of Industrialist, West Bank;  
Chairman, Modern Beverage Company, Ramallah, West Bank

Daoud Istanbuli, Vice Chairman, Arab Development and Credit Company  
(ADCC), Jerusalem

Majed Jafarawi, plastics manufacturer, Gaza

Mr. Jacaman, olive wood manufacturer, Bethlehem, West Bank

Leo Kramer, Kramer Associates, Washington DC

Dr. Kuhail, Islamic University, Gaza

Thomas A. LaQuey, Project Director, Cooperative Development  
Project, ACDI, Jerusalem

Dr. Ismail Mahfouth, Islamic University, Gaza

Lance Matteson, Middle East Representative, American Near East  
Refugee Aid (ANERA), Jerusalem

Dr. Shatif Abu Middin, Economic Consultant, Cooperation for  
Development, Gaza

Ghazi M. Mushtaha, Director, El Arusa Ice Cream Company, Gaza

Sa'eed Najar, brick and tiles manufacturer, Gaza

Yousef M. Najem, Board Member, Chamber of Commerce, Gaza

Dr. Mahmoud Okasha, Al-Azhar University, Gaza

George B. Rizik, General Manager, Rizik Textile Company, Beit Jala,  
West Bank

Dr. Ahmad Saa'ti, Islamic University, Gaza

Fuad Sahouri, Arab-American Business and Professional Association,  
Washington DC

Rami K. Saker, Executive Director, Union of Industrialists, Gaza

Dr. Hind Salman, Business Development Center, Bethlehem University,  
West Bank

Nasser Sarraj, cosmetics manufacturer, Gaza

Abed El-Rahim Abu Sedo, Keer Glass Company, Gaza

Dr. Enad Abu Shaban, Al-Azhar University, Gaza

Dr. Bayan Abu Shaban, Al-Azhar university, Gaza

Dr. Mohammed Shadid, Director, Consultancy Development Center,  
Jerusalem

Dr. Bruce Stanley, Country Director, AMIDEAST, Jerusalem

Mohammed T. Yaxegi, Chairman, Union of Industrialists, Gaza

meant that significantly less investment capital was available in the past two years due to reduced remittances from Palestinians previously working in the Gulf states.

Statistics reveal that it is not impossible to obtain short-term and medium-term credit for working capital needs as well as to expand operations. Larger industrial enterprises (over 20 workers) which have established a reputation and business history are likely to obtain short-term loans, usually in the form of suppliers' credit, as well as medium-term to long-term loans from commercial and development banks. The availability of credit is a more serious constraint for small to medium size enterprises, most of which do not practice sound bookkeeping or financial planning and thus would have difficulty convincing potential lenders of the feasibility of their proposed projects.

The project team has concluded that although the shortage of credit will continue to have a negative impact on industrial development, it is not an overriding or "binding" constraint on efforts to strengthen the manufacturing sector in West Bank and Gaza. Credit, albeit in limited amounts, has been available to some of the larger enterprises, and many smaller scale entrepreneurs have hidden forms of savings.

Training and technical assistance to strengthen skills in business management, financial analysis, accounting, market research, feasibility studies, etc., will enhance the overall ability of Palestinian business operators to identify feasible projects and develop viable business expansion strategies. Should the credit constraint be relaxed in the future, entrepreneurs in West Bank and Gaza will be better positioned to present viable business plans to prospective creditors.

#### **D. Firm-Level Constraints to Industrial Development**

In addition to the constraints imposed by the policy environment and credit shortages, manufacturing enterprises in West Bank and Gaza also suffered from other structural, firm-level weaknesses which have significantly weakened their performance. These structural constraints can be broadly categorized in the areas of marketing, management, and technical and operational skills.

## Market Information and Marketing Skills

Due to the small size of the internal market and the overseas marketing constraints previously discussed, market information is critical to the development of industrial enterprises in West Bank and Gaza. Domestic marketing activities are characterized by inadequate vertical linkages, market research and marketing techniques. For example, the lack of market information and coordination has led to many lost opportunities in selling locally produced raw materials as inputs to local manufacturers. Some of the products manufactured in the territories are internationally competitive, and a few of the manufacturers interviewed have profited from exporting through the appropriate marketing channels. Although market research has been sporadically conducted in various industry subsectors for individual enterprises, a comprehensive set of data and information on both local and overseas market conditions has never been compiled.

Most local producers have little if any information on potential markets and the most effective marketing channels for their products, and on their relative competitiveness, both locally and overseas. Many producers are understandably confused about the regulations which affect alternative marketing and exporting channels, given their complexity. This general confusion and the lack of clarification by the authorities often give rise to myths and rumors about what is feasible and realistic and what is not.

In many countries, certain forms of market information have been effectively provided by the local chambers of commerce to the business community. This has not been the case in West Bank and Gaza due to the peculiar political situation in which the chambers of commerce have more or less taken on the status of quasi-government offices. As such, many of the local chambers in West Bank and Gaza have been devoting their resources to the more mundane tasks of issuing certificates of origins, and processing passports and other documents. Some of the chambers have undergone recent elections and are in the process of redefining their priorities toward delivering more business-related services. Both most of the chambers have little experience in collecting and disseminating market information and statistics to business.

In addition to the generalized lack of market information, many manufacturers interviewed expressed concern that they lack the expertise needed to make contact with buyers and promote their products. One manufacturer in Bethlehem, for instance, pointed out that no effort has ever been made (nor is there the capability) to produce a catalog that would include all the variations of olive wood carvings produced in the Bethlehem area that could be distributed to prospective buyers overseas. Most of the industrialists interviewed indicated that training assistance in improving marketing skills and export promotion techniques would be extremely beneficial to the manufacturing sector.

### Management Skills

Most manufacturing enterprises in West Bank and Gaza are small-scale family workshops, the owners of which perform a wide range of management functions. Even in larger industrial establishments, management is mostly staffed by immediate family members or by technical personnel who are not trained in specialized areas of management. Several of the executives interviewed maintained that they had the capital needed to expand operations, but were unable to recruit qualified managers and technicians to fill their staffing needs. Most of the those interviewed agreed that the lack of professional management has been a major constraint to the growth of industrial enterprises in West Bank and Gaza.

There is complete consensus among the manufacturers interviewed regarding the dearth of management skills, especially in the areas of marketing, accounting and finance, quality control, personnel management, inventory management, and general management. For instance, according to the representatives from the Accounting Association interviewed, fewer than 20 companies (out of 1,700 manufacturing enterprises) in Gaza keep properly audited books by the standards of industrialized countries. Surveys have gathered information that few firms have any knowledge of appropriate overhead and cost accounting, depreciation, cash flow analysis and other financial measures.

Poor accounting records and inadequate financial planning have precluded many manufacturing enterprises from obtaining loans to finance business expansion. The lack of quality control has also been a major obstacle to industries in West Bank and Gaza to obtain the certifications of quality and the appropriate labels required for export through Israel, especially in the pharmaceutical and food processing sectors.

Management training seminars and workshops have been conducted by PVOs as well as by business development centers in several local universities. These courses usually last from one day to one week, and cover topics ranging from finance and taxation to inventory management and quality control. Some courses have been organized for managers by their companies, while others have targeted smaller enterprises and recruited mainly through newspaper advertisements.

Manufacturers interviewed indicate that these short courses have been well received by the business community in West Bank and Gaza. However, many feel that the current supply of training courses not only falls short of demand, but also lack practical information and coordination. Those interviewed believe that a series of well-organized, regularly offered seminars in different management areas could significantly improve management capabilities in industrial enterprises in West Bank and Gaza.

### Technical and Operational Skills

Apart from managerial capabilities, there is also a serious shortage of qualified technicians and engineers to manage the technical aspects of industrial operations, such as equipment adjustment, machinery repair, maintenance, etc., especially in the Gaza Strip. Currently, industrial and mechanical engineering courses are taught in several local universities. But many of the executives interviewed expressed concern that university programs tend to be overly theoretical and turn out graduates who are slow to apply their knowledge to practical use. Most also agree that the few vocational programs available fall short of the training needs required by private firms.

Short-term training courses in machinery maintenance and repair, and industrial application of computer programming have been offered by universities and PVOs. Overall, however, the training programs and facilities currently available are insufficient to meet the needs of the manufacturing sector. Representatives from manufacturing industries expressed strong interest in programs which would provide overseas training for personnel to enhance their technical and operational skills.

Industrial leaders also feel that the local capability for delivering technical assistance is extremely limited. There are virtually no private consulting firms in West Bank and Gaza which could provide short term assistance to industries in the technical and operational areas. The limited consulting activities that exist are mostly undertaken by engineers, computer programmers, or university professors on a part-time, ad hoc basis. The lack of managerial, operational and technical assistance support services has been a serious obstacle to the development and expansion of manufacturing enterprises in West Bank and Gaza.

### Conclusion

Based on the information collected and analyzed, the design team confirmed the strong need for a project to provide direct assistance to Palestinian manufacturing companies in Gaza and West Bank. While policy and financial problems represent important constraints, they cannot be addressed adequately by this project. However, overcoming firm-level constraints in the management area will have considerable positive impacts on the manufacturing sector. These impediments can be confronted most effectively through management training and technical assistance, and the provision of practical market and business information.

## ANNEX E

### INSTITUTIONAL ANALYSIS

This analysis examines the activities, strengths, weaknesses and potential contributions of several sets of organizations toward private enterprise development in Gaza and West Bank. These include private business associations, university business programs, PVOs, financial institutions and consulting firms. The conclusions drawn from this assessment are incorporated into the project design.

The project team has identified AMIDEAST to act as an active participant in the proposed project, based on AMIDEAST's unique and predominant experience and capabilities. This conclusion is based on the following considerations. AMIDEAST is the only organization that has developed a training and technical assistance program for private sector businesses in the manufacturing area. AMIDEAST has established close working relationships with local universities and chambers of commerce, both of which will participate in the project. AMIDEAST has strong reputation throughout the business and academic community as a result of its business assistance activities. Other PVOs are conducting important activities in West Bank and GAZA, and as such are actively supported by A.I.D. and other donors. However, these activities and experience are not those required for this particular project.

Additional participants in the project are Palestinian business organizations and university-based business programs. These and other candidates are described below.

#### A. Business Associations

##### Chambers of Commerce - West Bank

The eight chambers of commerce in the West Bank were established under Jordanian laws between 1952 and 1967, and they represent both commercial establishments and industries. Each chamber has a board of directors consisting of 12 members, elected for a term of four years. Although no elections have been held until recently, the chambers have continued to function since 1967.

Due to the political situation and some of the restrictions imposed, the chambers have not conducted the traditional set of activities usually undertaken by chambers in other countries. These typical activities include, among others, the collection and dissemination of business information and statistics, and lobbying for policy changes on behalf of members. Rather, in the absence of a government, local chambers have assumed the role of quasi-governmental agencies, and assumed responsibility for such

functions as certifying origins of industrial and agricultural products, processing forms for passports, issuing birth certificates, and so forth.

Currently, there are no separate chambers of industries to represent the interest of specific industries. Jordanian laws stipulated that a chamber of industry for a region can only be formed by a union of at least 20 factories, each with a minimum of 20 employees. Since most manufacturing enterprises in the West Bank are small and there are eight chambers in the West Bank, this condition has not been met and thus no chamber of industry has been established.

Several of the chambers have undergone recent elections, including the Chambers of Commerce in Hebron, Nablus, Ramallah, Jericho and Qalqilya. Although the elections could not avoid some of the political undertones prevalent throughout this area, the Chambers are nevertheless legitimately elected bodies which are credible representatives of the business community in the West Bank.

Until recently the chambers of commerce have not played a significant role in disseminating business information and promoting business interests, but they could be better equipped to perform some of these functions in the future. UNDP recently sponsored a very well received study tour for the newly-elected members of the chambers in West Bank and Gaza to visit chambers in Egypt, Cyprus, Jordan, Austria and Italy.

#### The Chamber of Commerce - Gaza

Elected in 1991, the present Board of Directors of the Chamber of Commerce in Gaza is the first Board elected since 1976. Since the chamber represents the interests of agricultural, industrial, and commercial enterprises, the board members are drawn from a variety of commercial and industrial sectors, including farming, food processing, electrical appliance merchandising, cosmetics, wholesaling, etc. The chamber has a membership of 3,200 and currently employs 15 staff members to carry out administrative functions and provide services to its members and the business community.

Similar to the chambers in the West Bank, the chamber in Gaza has assumed some quasi-governmental functions -- providing travel documents and certificates of origin and warranty for agricultural and industrial exports. To a very limited extent, the chamber has also provided advice and guidance to farmers, industrialists and traders regarding exporting channels and procedures, and facilitated contact between potential exporters in Gaza and overseas buyers by disseminating the market information and contacts it has collected.

Since the new elections, the chamber in Gaza has sought to redefine its priorities and identify areas in which it could strengthen its institutional capability to deliver services. Some of the possible programs in the future include:

- Establishing a credit program for financing the export of industrial and agricultural products;
- Providing of management and technical consulting services;
- Creating technical training capability; and
- Creating and maintaining a database on business conditions and market information.

The chamber has planned to undertake these activities should some external funding become available. Its current financial resources, derived primarily from memberships fees and fees for services such as issuing certificates of origin, would be inadequate to finance an expanded scope of activities.

#### The Union of Industrialists - Gaza

The Union of Industrialist was founded in 1991 with the objective of representing the interests of industrial firms in the Gaza Strip in their dealings with formal authorities and informal organizations. The mandate of the Union also includes providing members with management and technical assistance, facilitating marketing and exporting, and disseminating current information on business and industry in the Gaza Strip with the help of a database.

Membership of the Union is drawn from the owners of industrial enterprises in Gaza. Membership rose to 500 in January 1993 when the first election of its 11 Board of Directors was held. The Board of Directors has responsibility for overseeing all aspects of the Union's operation. The Union also employs two industrial engineers, an accountant, an administrator and 6 field researchers, all of whom hold University degrees, and a secretary. The activities of the Union are financed by membership fees and donations from individuals and institutions.

The current activities of the Union include:

- Providing a limited amount of technical and management assistance to the industrialists through its current staff of engineers and other specialists;
- Facilitating the formal procedures involved in exporting industrial products through Jordan to other Arab countries;