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Palestinian Enterprise Development (PED) Project

Annual Report (October 2005 – September 2006)

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First Annual Report

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Palestinian Enterprise Development (PED) Project

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
THE PED PROJECT ... THE BEGINNING.....	1
THE PED PROJECT ... A PROMISE FOR SUSTAINABLE GROWTH	1
THE PED PROJECT ... THE CHALLENGE.....	2
PROJECT OVERVIEW.....	4
COMPONENT 1: IMPROVING THE BUSINESS OPERATING ENVIRONMENT	4
A. “Build Organizational Capacities at Public and Private Sector Institutions”	4
1. Review of Regulatory Quality Management in Palestine	5
2. Fostering Competitiveness and Building Public-Private Partnerships	5
3. London Conference: Promoting Economic Growth in the West Bank and Gaza	5
4. WTO Accession	5
COMPONENT 2: SUPPORTING THE GROWTH OF COMPETITIVE INDUSTRY CLUSTERS	6
A. Establish Clusters and Support Cluster Initiatives.....	6
B. Cluster Competitiveness Assessment – Eight Industrial and Service Clusters in Palestine.....	6
COMPONENT 3: ENERGY SECTOR POLICY REFORM	7
COMPONENT 4: DESIGN A PED GRANT FUND	7
COMPONENT 5: PRIVATE SECTOR MONITORING AND ASSESSMENT	9
A. Issuing the Weekly “SPOTLIGHT.. Palestinian Private Sector Update”	9
B. The Food Retailers and Other Critical Consumables Monitor Survey (RS)	9
C. The Household Survey (HS).....	9
D. The Pharmaceutical Industry and the Deteriorating Economic and Humanitarian Conditions in the West Bank and Gaza.	10
ANNEX 1: FINANCIAL REPORT.....	11

LIST OF FIGURES AND TABLES

FIGURE 1: PED OFFICIAL LAUNCH CEREMONY. RAMALLAH CULTURAL PALACE - NOV. 29, 2005 ..	1
TABLE 1: PED’S ORIGINAL CORE SOW COMPONENTS	2
FIGURE 2: PED’S MODIFIED CORE SOW COMPONENTS	3
FIGURE 3: PED’S POLICY & REGULATORY REFORM INTERVENTIONS	5
FIGURE 4: AGRI-BUSINESS CWG MEETING	6
FIGURE 5: PALESTINIAN PAVILION CAIRO INTERNATIONAL FAIR	8
FIGURE 6: PED’S GRANT FUND MANAGEMENT SCHEME.....	8

EXECUTIVE SUMMARY

THE PED PROJECT ... THE BEGINNING

USAID launched the *Palestinian Enterprise Development (PED) Project* in September 2005 as a reflection of, and direct response to, the demands voiced by leaders in the business community, public sector, and civil society to renew the country's momentum toward economic growth.

The project start-up activities commenced upon award and included office set-up, procurement, staff mobilization, recruitment of eleven (11) positions for a total of thirteen (13) vacancies, establishing administrative and financial policies and procedures, and designing the project initiatives and first year work plan.

A staff retreat was organized and held at the Intercontinental Hotel in Jericho on November 20 – 22, 2005. The overall goal of the retreat was to create an opportunity for the PED staff to meet and work in collaboration to begin formulating a work plan for the first year of the contract. The retreat hosted a number of guest speakers from USAID, private and public sector. Also a number of technical advisors and experts joined the retreat to share their rich experiences with the new PED staff through presentations, group work, and brainstorming sessions.

Immediately after the retreat, came the official launch of the PED project which was held on November 29 at the Ramallah Cultural Palace. The ceremony highlighted the importance of the PED project to the Palestinian economy and presented the framework of the PED Project. Speakers included H.E. Mr. Mazen Sinokrot, *Minister of National Economy*, as the event's patron; Mr. James Bever, *USAID's Mission Director*,



Figure 1: PED Official Launch Ceremony
Ramallah Cultural Palace - Nov. 29, 2005

who acknowledged PED's importance and conveyed USAID's continuous support. An important component of the launch was distributing awards to DAI's selected pioneers in recognition of the institutions and individuals that positively and significantly impacted the development of the Palestinian Private Sector.

THE PED PROJECT ... A PROMISE FOR SUSTAINABLE GROWTH

After conducting both the staff retreat and official launch of the project, the real engagement process started. DAI/PED has been designed to focus on enhancing the competitiveness of stakeholders in key industry-clusters of the Palestinian economy. The most effective mechanisms to support industry cluster development are *cross-cutting programs* that were crafted to identify and diminish impediments and promote competitiveness. DAI/PED cross-cutting programs included:

- Policy and Regulatory Reform
- Business Development Services
- Institutional Development
- Grant Fund

SOW Component	DAI/PED Objectives / Tasks
Component 1: Improving the Business Operating Environment	<p>Objective: Improve access to business development services (BDS) by facilitating demand driven markets for BDS and improving capabilities of local business service providers.</p> <p><i>Task 1</i> - Improve Access to Business Development Services by WBG Firms</p> <p><i>Task 2</i> - Strengthen Business Associations</p> <p><i>Task 3</i> - Support Institutional Service Provides (ISPs)</p> <p><i>Task 4</i> - Improve the Legal and Regulatory Environment and Policy Advocacy Capabilities</p>
Component 2: Supporting the Growth of Competitive Industry Clusters	<p>Objective: Establish and support key industry clusters including tourism, stone and marble, wood and furniture, handicrafts, pharmaceuticals, ICT, construction materials, and agro industry.</p> <p><i>Task 1</i> - Establish Clusters and Support Cluster Initiatives</p> <p><i>Task 2</i> - Establish and Support Key Industry Clusters</p> <p><i>Task 3</i> - Support Growth of Selected Long-Term Clusters</p>
Component 3: Reforming Energy Sector Policy	<p><i>Task 1</i> - Review Existing Legal and Institutional Framework</p> <p><i>Task 2</i> - Prepare for Restructuring of the Energy Sector</p> <p><i>Task 3</i> - Improve the Regulatory Framework</p> <p><i>Task 4</i> - Develop Tariff Policy and Plans</p>
Component 4: Design a PED Grant Fund	<p>Implement grant fund to support DAI/PED objectives</p>

Table 1: PED's Original Core SOW Components

THE PED PROJECT ... THE CHALLENGE

The economic and political conditions in the West Bank and Gaza have changed significantly since the installation of a Hamas-led government in March 2006. Shifts in foreign policy by the international community at-large, compared to the time of award of the PED contract in September 2005 were evident which led to many of the positive trends in the private sector quickly turned downward. DAI received USAID's Notice of Intent to Suspend/Stop Work under the PED contract which remained in effect through the period April 26 - July 27. During this period PED proceeded with project activities in accordance with the Cognizant Technical Officer (CTO) instructions and was marked with significant outreach efforts to stakeholders in the private sector, coordination with other international agencies and donors, and the completion of significant project milestones.

Upon receiving USAID official notification of lifting the intent to suspend PED project, it was agreed between USAID and DAI to transform DAI/PED into a flexible humanitarian program that will fulfill critical consumption needs and sustain private sector employment. Accordingly PED submitted the modified work plan and budget in which modifications were made to the original Statement of Work (SOW) and the approach for the design and management of the grants fund. Also, a new function area "Private Sector Monitoring and Assessment" was added to enable PED to serve as one of USAID's emergency response mechanisms for helping the Palestinian private sector alleviate the looming humanitarian crisis.

The following are the project components:

- a) Improving the Business Operating Environment;
- b) Supporting the Growth of Competitive Industry Clusters;
- c) Energy Sector Policy Reform (*Suspended*);
- d) Design and Manage a PED Grant Fund; and
- e) Private Sector Monitoring and Assessment. (*New*)

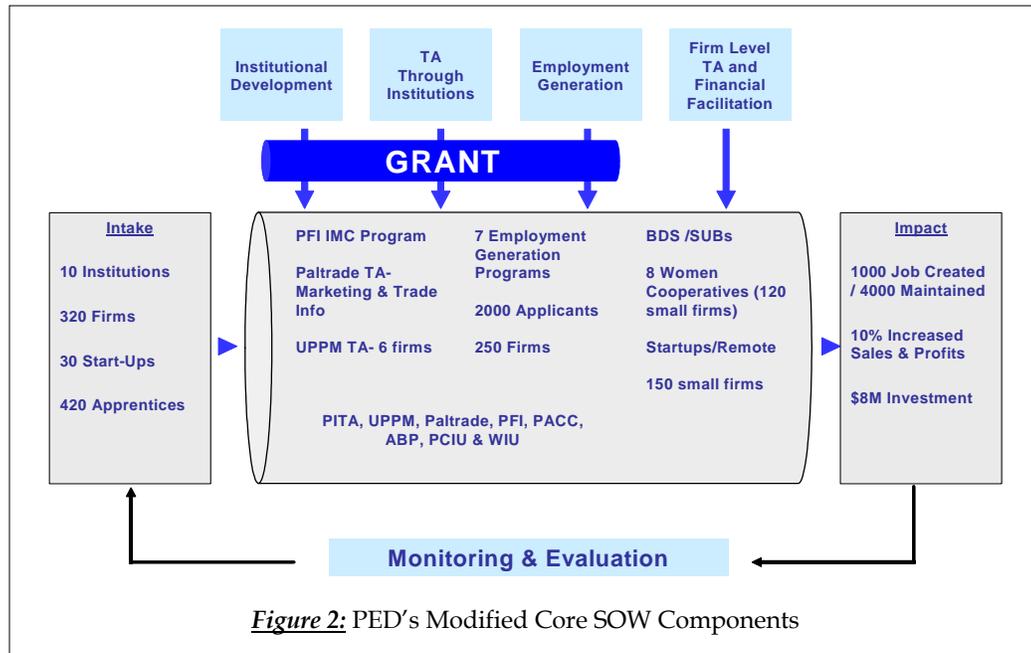


Figure 2: PED's Modified Core SOW Components

The challenge of PED's first year was to shift its orientation from pursuing development objectives to meeting humanitarian needs and yet maintaining A Promise for Sustainable Growth.

PROJECT OVERVIEW

The main thrust of the Palestinian Enterprise Development (PED) project is to increase the competitiveness of those industries with the potential to drive the Palestinian economy forward. PED was launched under USAID Strategic Objective SO 1 – Expanded Private Sector Economic Opportunities. During the first year, PED focused on enhancing the competitiveness of stakeholders in key industry-clusters of the Palestinian economy. Core cluster stakeholders were drawn from enterprises active in industrial sector associations as well as small and medium size enterprises that trade goods and services within defined value and supply chains of the economy. These clusters were targeted with an enhanced institutional support in order to transfer program implementation responsibilities to institutional service providers over the three-year term of the project. PED main project components and activities over the first year were as follows:

COMPONENT 1: IMPROVING THE BUSINESS OPERATING ENVIRONMENT

A. **“Build Organizational Capacities at Public and Private Sector Institutions”** is a strategic goal of the project institutional development component. To realize this goal, PED Institutional Development team focused on enhancing the competitiveness of institutions in key industry-clusters of the Palestinian economy for rolling out initiatives that will support the needs of their members and the cluster at large.

Using its proprietary *Institutional Assessment Tool*, PED launched the organizational assessment program under which fourteen (14) associations representing (3) backbone institutions and eleven (11) business unions from different sectors were audited in the WBG. The purpose of the program was to establish a framework for improving performance that puts forth a structure for analyzing the strengths and weaknesses of client organizations in respect to their performance. Furthermore, the assessment was designed to diagnose areas of support so as to guide capacity building efforts. In the best sense, we are setting an approach that serves as a reforming process, seeking ways to make the institutions stronger, better and more effective partners.

Multiple tools were employed to conduct the assessment program including, a number of assessment instruments, site-visits, one-on-one discussions and phone conversations. Gathered data was studied and analyzed by the team and communicated to audited organizations in the form of a comprehensive institutional assessment report. Although the level of maturity and readiness differs from one organization to the other, the following are some of the common areas that were addressed by organizational assessment program:

- Strategy and Corporate Governance;
- Membership and Services;
- Organization Operations;
- Networking and Outreach;
- Legal and Regulatory Framework;
- Public-Private Sector Dialogue;
- Public Policy Management;
- Internal Control and Audit;
- Fund Control and Accounting Systems; and;
- Grants Management.

The Institutional Development and Policy Team prepared detailed assessment reports and presentations that were discussed with the board members and executive staff of those organizations. The program aimed at offering a comprehensive and realistic picture of the capabilities of each organization and provided recommendations to help empower them as backbone institutions for their respective industries.

B. “Improve the Legal and Regulatory Environment and Policy Advocacy Capabilities” is a strategic goal of the project Policy and Regulatory Reform component. To realize this goal, PED designed a number of initiatives to boost economic growth in Palestine by creating a low-cost, low-risk enabling business environment to become among the most competitive in the Middle East. Within that context, PED has been engaged in a number of key activities:

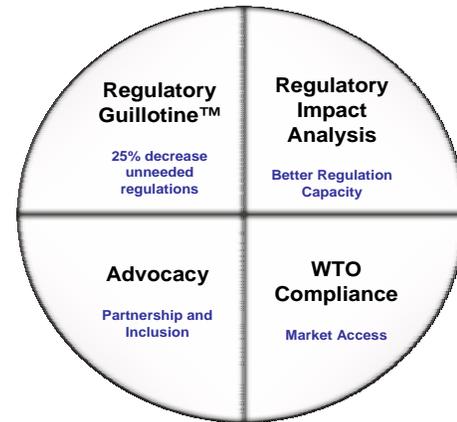


Figure 3: PED’s Policy & Regulatory Reform Interventions

1. Review of Regulatory Quality Management in Palestine

PED team assisted by Jacobs and Associates produced a diagnostic report in early 2006. This report reviewed the capacities of the Palestinian Authority to produce and implement high-quality regulation suited to its development needs, and concluded with recommendations that could form the basis for a medium-term regulatory reform strategy through which Palestine improves the domestic enabling environment for business and converges with international good practices for investment. Using a short written questionnaire, PED team started the diagnosis process through meetings with key experts in this field. In addition, the search process included all valid regulations related to clusters covered by PED.

2. Fostering Competitiveness and Building Public-Private Partnerships

PED facilitated a day and a half retreat at the Intercontinental Hotel in Jericho to discuss fostering competitiveness and building Public-Private Partnerships among different partners from the private and public sector. The event was organized by the Ministry of National Economy (MoNE). This event marked the Jericho Declaration that emphasized the importance of creating the Palestinian Competitiveness Council.

3. London Conference: Promoting Economic Growth in the West Bank and Gaza

PED provided funds to cover the hosting of a reception, and dinner for about 120 participants and other guests under the name "London Conference: Promoting Economic Growth in West Bank and Gaza". The conference offered the opportunity to release an investor’s declaration, which laid out the main concerns of the private sector in starting economic development in Palestinian Territories.

4. WTO Accession

PED facilitated the participation of four (4) representatives from the public and private sectors in Palestine as observers at the WTO sixth Ministerial Conference in Hong Kong. Palestinian participation at this conference provided an opportunity to experience the dynamics of the trade negotiations. In addition, it significantly contributed to the PA on-going efforts in formulating a comprehensive trade policy for Palestine, and in reforming the internal market and the legal and regulatory framework. The delegation included

relevant participants from PA Ministries as well as representatives of the Private Sector in the West Bank and Gaza Strip.

Finally and as of March 29, 2006 all work related to PED Policy and Regulatory Reform Tasks has been put on hold in accordance with guidance received from USAID.

COMPONENT 2: SUPPORTING THE GROWTH OF COMPETITIVE INDUSTRY CLUSTERS

A. Establish Clusters and Support Cluster Initiatives

PED built the momentum of the project by an internal comprehensive and systematic process of orientation and training sessions aimed at developing the team cluster awareness on the concept and various tools for clusters development prior to beginning the engagement process with cluster clients. Through conducting in depth interviews with key players, PED team formed Cluster Working Groups (CWGs) representing the eight (8) clusters identified in the project statement of work. These clusters were chosen because of their historical importance to



Figure 4: Agri-business CWG Meeting

the West Bank and Gaza economy, preliminary views as to their competitive potential, or their nature as emerging or forward-looking clusters.

After announcing CWGs to cluster members and stakeholders, formal meetings with each of the CWGs were held at various locations across the West Bank and Gaza. A total of sixteen (16) meetings were attended by approximately 92 people. During the workshops baseline indicators were collected, cluster maps were finalized, value chains were agreed upon, SWOT analyses were conducted, and possible PED interventions were identified.

Also, the first year was marked with significant outreach efforts to cluster stakeholders, and coordination with other international donors; such as supporting the World Bank's efforts to produce the Country Economic Memorandum. PED provided the World Bank with industry-related statistics and research for a number of industries to be included in the Memorandum.

B. Cluster Competitiveness Assessment – Eight Industrial and Service Clusters in Palestine

PED issued the “Cluster Competitiveness Assessment – Eight Industrial and Service Clusters in Palestine” Report. PED team, in cooperation with three (3) subject matter experts from SRI International, began competitive analyses of each of the eight (8) clusters that were identified in PED statement of work. The report identified these eight (8) clusters in Palestine that hold the most promise in terms of their ability to sustain long-term economic growth and contribute to the development of the country. It scored each cluster based on (i) growth potential; (ii) cluster readiness; and (iii) Palestine-specific factors, such as potential for rapid employment generation and sensitivity to border closures. Based on the scoring, each cluster was placed into one of four categories:



Advanced (recommended for intensive cluster support); **Developing** (recommended for

selected interventions); **Emerging** (recommended for limited intervention); and **Non-competitive** (intervention not recommended). The classifications then framed and justified the proposed level of support that each cluster might receive through the PED Project resulting in a pipeline of PED initiatives through 2008. **Potential Emerging** clusters were also identified for possible limited interventions based on future assessments. Individual briefings were also conducted for the assessed clusters. Cluster Working Groups were briefed on the assessment. Competitive assessments commenced for the following eight (8) clusters:

- Stone & Marble
- Furniture and Wood Products
- Information Communications Technology
- Pharmaceuticals
- Construction Industry
- Agro-Industry
- Tourism
- Handicrafts

Work associated with the tasks under this component was has been put on hold in accordance with guidance received from USAID in April 26, 2006. The fourth quarter of the project first year marked the beginning of formal re-engagement with a number of client organizations and their corresponding clusters. The re-engagement process involved holding meetings with the pharmaceutical and agri-business CWGs aimed at introducing the project's new direction, revisiting and prioritizing initiatives, and finally identifying and agreeing on next steps for future cooperation.

COMPONENT 3: ENERGY SECTOR POLICY REFORM

PED recognized the various initiatives and projects targeting the restructure and development of the energy sector to help make the energy supply more reliable and affordable. To support achieving this objective, PED designed a number of selective initiatives focusing on reforming the institutional framework of the energy sector through the direct involvement with Palestine Energy Authority (PEA). To this end, PED held a number of meetings with Mr. Omar Kittaneh, *Deputy Director - PEA* aimed at introducing the project and planned interventions in the energy sector, obtaining a briefing on the sector's situation and discussing common interests and cooperation, as well as areas in which PED can support.

In accordance with guidance received from USAID, all work related to the Policy and Regulatory Reform activities including energy sector policy reform was put on hold. Furthermore, this component and its corresponding tasks were suspended under PED's modified SOW in response to the written guidance from the Cognizant Technical Officer (CTO) outlining the program areas that had been approved as priority areas under the project.

COMPONENT 4: DESIGN A PED GRANT FUND

The PED Grant Fund represents an unprecedented approach that provides direct stimulus to program objectives with a powerful blend of market stimulation and programmatic institutional strengthening. To this end, the grant management team spent the first couple of months of the project in preparing concept paper for PED Grants Fund, developing the project

Grant Manual, formalizing the first year action plan for grants fund and designing TAMIS Grants Management Module.

DAI/PED was able to provide a total of seven (7) grants worth USD 77,555.00 to support the achievement the project objectives. During the first year of the project, the following grants were awarded to different institutional clients:

- **East West Institution** - Fixed Obligation grant to support their sponsorship of the London Conference to Promote Economic Development in WBG.
- **Ministry of National Economy** - In-kind grant to support the ministry’s mobilization of the Palestinian delegation for the Hong Kong World Trade Organization meeting.
- **Palestine Trade Center (PalTrade)** - Simplified grant to mobilize Palestinian delegation for World Bank London Conference
- **Union of Palestinian Pharmaceuticals Manufacturers (UPPM)** - Simplified grant to co-sponsor the participation of a delegation from UPPM to the Arab Union of the Manufacturers of Pharmaceuticals and Medical Appliances (AUPAM) Conference in Sharm Al-Sheik, Egypt.
- **Arab Hotels Associations (AHA)** - In-kind grant to co-sponsor the participation of a delegation from the AHA to attend the Final Tourism Trade Fair in Berlin in March.
- **Wood Industry Union (WIU)** - In-kind grant to provide technical assistance and procurement of promotional services for WIU to participate in the Cairo International Fair.
- **Ministry of National Economy** - In-kind grant to provide conference management and technical assistance for a workshop in Jericho titled “Fostering Competitiveness and Building Private - Public partnerships.”



Figure 5: Palestinian Pavilion
Cairo International Fair

Upon receiving USAID’s Notice of Intent to Suspend/Stop Work under the PED contract in April 26, 2006, the grant management unit revised and introduced modifications to the approach for the design and management of the grant fund (including re-allocation of funds, if necessary). Also, no new grants were awarded since that date to institutional clients during the first year of the project.

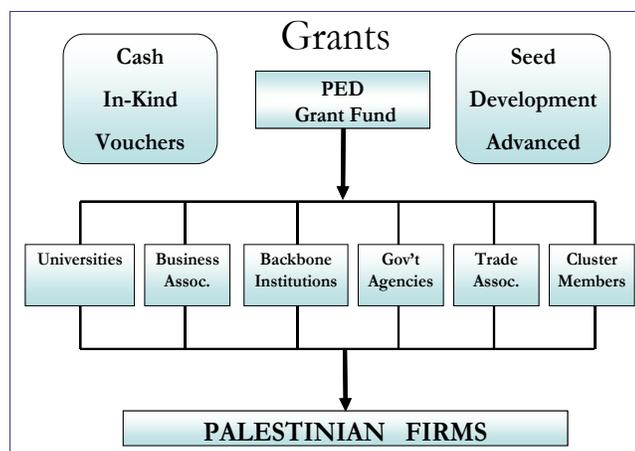


Figure 6: PED’s Grant Fund Management Scheme

COMPONENT 5: PRIVATE SECTOR MONITORING AND ASSESSMENT

The Private Sector Monitoring and Assessment is a new project component that came as a direct response to PED's new direction to serve as one of USAID's emergency response mechanisms for helping the Palestinian private sector alleviate the looming humanitarian crisis. During the first year of the project, PED began designing mechanisms to monitor the humanitarian situation. Within that context, the newly established Monitoring and Evaluation Unit has been engaged in a number of critical activities:

A. Issuing the Weekly "SPOTLIGHT.. Palestinian Private Sector Update"



As part of monitoring and highlighting the most current developments in the Palestinian private sector and the impact of the current crisis, PED issued a weekly report assessing the current crisis on industries and firms throughout the WBG.

This report provided the USAID with real-time information on the state of affairs in the Palestinian private sector. The PED team released seven (7) issues of the **SPOTLIGHT** capturing a number of ongoing developments in the Palestinian private sector.

B. The Food Retailers and Other Critical Consumables Monitor Survey (RS)

PED commenced the implementation of the RS that was designed in June, 2006 to monitor key economic and behavioral indicators associated with food security, availability, prices and other critical consumption items under the economic constraints of the current crisis.

PED divided the WBG into 64 different zones and collected data from 175 collection points (109 in WB and 66 in GS) covering various zones including rural, urban and camps areas of the Palestinian community. Eight rounds of weekly surveys took place and PED released a number of reports (on weekly and monthly basis) that provided statistical information and reveals a number of noteworthy findings



C. The Household Survey (HS)

PED commenced the implementation of the HS that was designed in August, 2006 to monitor the degree to which living standards are deteriorating under the economic constraints of the current crisis, as well as households' ability to cope under these circumstances.



PED divided the WBG into 64 different zones and collected data from 1601 households (966 in WB and 635 in GS) covering rural, urban and camps areas of the Palestinian community. In September, PED issued the "Household Monitor Survey - 1st.

Report" which presented a detailed analysis of the HS main finding and provided a better insight on the households coping strategies under the current circumstances therefore opening the door for additional data collection and analysis on the specific humanitarian needs.

D. The Pharmaceutical Industry and the Deteriorating Economic and Humanitarian Conditions in the West Bank and Gaza.

PED engaged in a number of critical activities with the pharmaceutical industry in the West Bank and Gaza, including:

- Assessing the medical needs (*both medicines and supplies*) as published by the Ministry of Health and its various hospitals in Gaza Strip. The statistics obtained represented the urgent needs for the coming three (3) months, especially those that are needed for renal failure patients. In addition, PED staff identified several local NGOs that can deliver humanitarian aid in Gaza Strip.
- Assisting the Union of Palestinian Pharmaceutical Manufacturers (UPPM) in organizing the "*Humanitarian Crisis and the Role of the Palestinian Pharmaceutical Industry in the Aid Efforts for the Palestinian People*" Meeting. The meeting aimed to clarify the role of the Palestinian Pharmaceutical Industry in supplying humanitarian assistance during this critical time. The event was attended by local and international NGOs, international donor organizations, consulates and representative offices.