

Palestinian National Authority

Preparatory Survey for Assistance to Small and Medium Sized Enterprises

Final Report

March 2010

JAPAN INTERNATIONAL COOPERATION AGENCY

PADECO Co., Ltd.

Global Development & Management Consultants

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Preparatory Survey for Assistance to
Small and Medium Sized Enterprises**

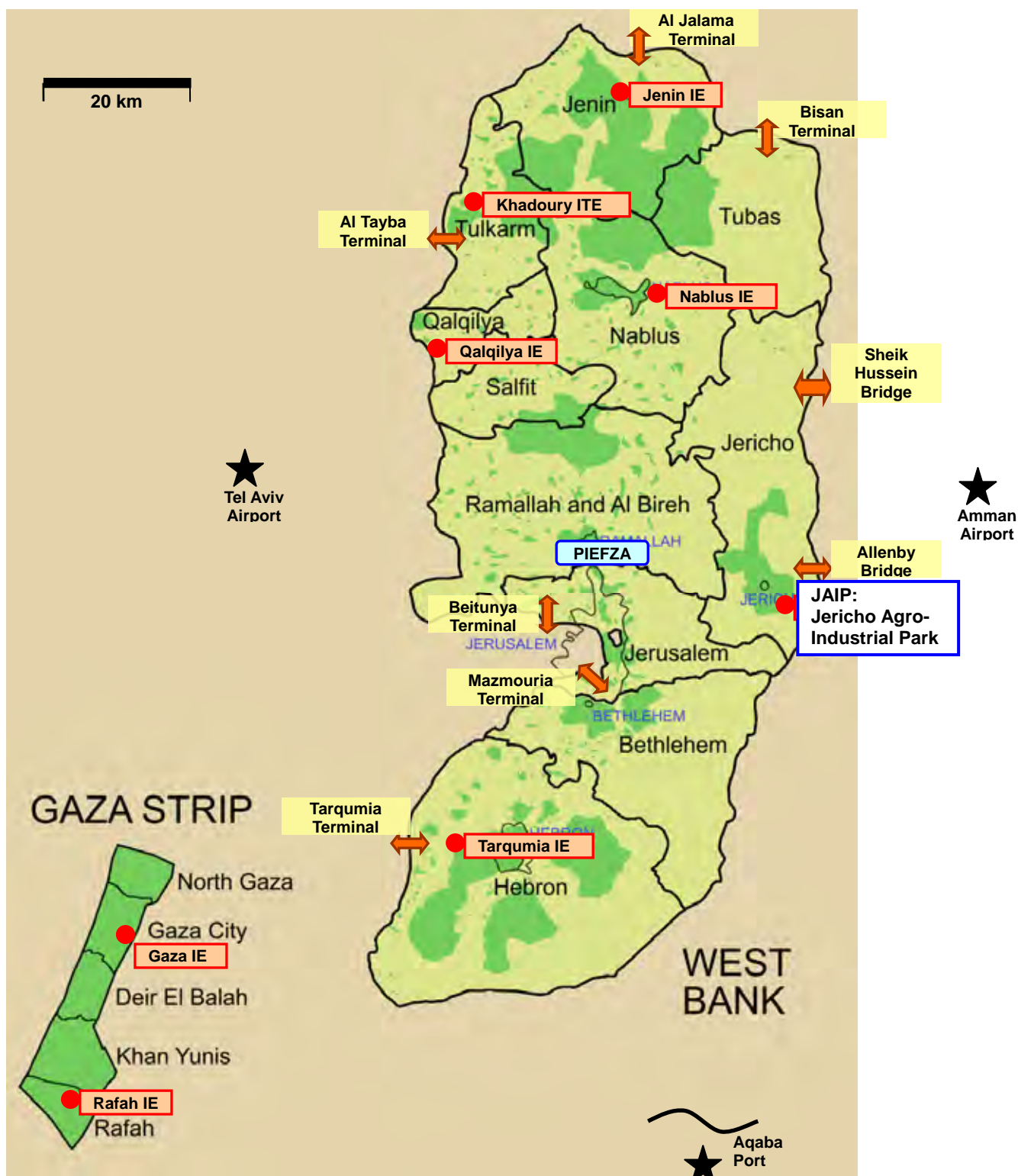
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Map of Jericho Agro-Industrial Park



Perspective View of Jericho Agro-Industrial Park



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Abbreviations and Acronyms

ABC	Agro Bio Connection
ABP	Association of Banks in Palestine
ACAD	Arab Center for Agriculture Development
ACDI-VOCA	Agricultural Cooperative Development International
ACS	Italian Development Agency
AFC	Artas Folklore Center
AFD	Assistance French Development Agency
ASALA	The Palestinian Businesswomen Association
ATC	Arja Textile Company
ATCC	Agricultural Technical Chemical Company
AWCC	Anin Womens Couscous Cooperative
AWU	Arab Women's Union
BAFTS	British Association of Fair Trade Shops
BCCI	Bethlehem Chamber of Commerce & Industry
BDS	Business Development Service
BFTA	Bethlehem Fair Trade Artisans
CFT	Canaan Fair Trade
CIDA	Canadian International Development Agency
CSFFT	Cooperative Society for the Farmers of Fruitful Trees
DAWS	Dutch Association of World Shops
EDIP	Enterprise Development & Investment Promotion
EEC	Environmental Education Center
EET	Equal Exchange Trading
EFTA	European Fair Trade Association
ELEMCO	Electromechanical Engineering Co. Ltd.
EQA	Environmental Quality Authority
FATEN	Palestine for Credit & Development
FF	Fairtrade Foundation
FFL	Fair for Life
FLO	Fair Trade Labeling Organization
FPCCIA	Federation of Palestinian Chambers of Commerce, Industry & Agriculture
FTAO	Fair Trade Advocacy Office
FTDC	Fair Trade Development Center
FTF	Fair Trade Federation
FTI	Fair Trade Institute
FTRN	Fair Trade Research Network
HCCI	Hebron Chamber of Commerce & Industry
HLHCS	Holy Land Handicrafts Cooperative Society
IAA	Israel Airports Authority
ICP	Institute for Community Partnership
IMO	Institute for Market Ecology
JAIP	Jericho Agricultural Industrial Park
JGFA	Jenin Governmental Farmers Association
JICA	Japan International Cooperation Agency
JIE	Jenin Industrial Estate
MHF	Max Havelaar Foundation
MoA	Ministry of Agriculture
MoNE	Ministry of National Economy
MoTA	Ministry of Tourism & Antiquities

MSA	The Palestinian Economic Policy Research Institute
NBC	National Beverage Company
NCAI	National Company for Agro Industries
NEITL	Near East Industrial and Trade Limited
NETWORK	Palestinian Microfinance Network for Small & Microfinance
NEWS	Network of European World Shops
NFC	New Farm Company
NIC	Nasser Investment Company
NICCOD	Japanese NGO affiliated with the Economic & Social Development Center
NMD	New Products New Markets/USAID DAI Project
OOTS	Out of the Shadow Foundation/Sikke Marinus
OGB	Oxfam Great Britain
PBA	Palestinian Businessmen Association
PBC	Palestinian Banking Corporation
PACE	Palestinian Association for Cultural Exchange
PADICO	Palestine Development & Investment Ltd.
PalTrade	Palestinian Trade Center
PARC	Palestinian Agricultural Relief Committee
PFI	Palestinian Federation of Industries
PFIA	Palestinian Food Industries Association
PFTA	Palestine Fair Trade Association
PFU	Palestinian Farmers Union
PHC	Palestinian Heritage Center
PICTI	Palestinian Information & Committee Technology Incubator
PIEFZA	Palestine Industrial Estates Zone Authority
PIF	Palestine Investment Fund
PIPA	Palestine Investment Promotion Agency
PITA	The Palestinian Information Technology Association
PNA	Palestinian National Authority
POOC	Palestinian Olive Oil Council
POTC	Palestine Olive Tree Association
PRDP	Palestinian Reform and Development Plan
PSC	Palestinian Shippers Council
PSCC	Private Sector Coordinating Council
PSI	Palestine Standards Institute
PWS	Palestine Wildlife Society
SCM	Supply Chain Management
SEC	Small Enterprise Center
SIS	Shared Interest Society
SME	Small and Medium sized Enterprise
TE	Traidcraft Exchange
TFC	Transfair Canada
TFJ	Transfair Japan
TFP	Tourism Federation of Palestine
TFUSA	Transfair USA
TPT	The Portland Trust
TTIA	Traditional & Tourism Industries Association
UAWC	Union of Agricultural Work Committees
UPWC	Union of Palestinian Womens Committees
USAID	United States Agency for International Development
WFTO	World Fair Trade Organization
YEP	Young Entrepreneurs of Palestine

EXECUTIVE SUMMARY

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(1) Introduction and Background

In July 2006, Japan proposed a concept of "the Corridor for Peace and Prosperity" as a medium/long-term effort toward the co-existence and co-prosperity between Israelis and Palestinians. Based on the idea that a two state solution is essential for achieving peace between Israel and Palestinians, this concept aims at strengthening of Palestinian economical independence and industrial infrastructure, focusing on the establishment of an agro-industrial park, while promoting confidence-building among Palestinians and their neighboring countries, particularly Israel and Jordan. In order to materialize this concept, the Four-Party Consultation Unit, the members of which are the Palestinian Authority, Israeli Government, Jordanian Government and Japanese Government, was established.

The Japan International Cooperation Agency (JICA) conducted a development study in Jericho and the Jordan Valley in October 2005 for medium/long-term regional development in the social and economic sectors. Based on this study, JICA decided to start the "Jericho Regional Development Program", which included three sub-programs: Social and Community Development Sub-Program; Agriculture and Agribusiness Development Sub-Program; and a Tourism and Urban Environment Sub-Program. Paying attention to JICA's study and its sub-programs, the Palestinian Authority and Japanese Government agreed to cooperate on the development of an industrial park for agro-industry and logistics improvement as one measure to realize the concept of "the Corridor for Peace and Prosperity" through discussions with Israel and Jordan. Based on the agreement, JICA conducted the "Feasibility Study on Agro-Industrial Park Development in the Jordan River Rift Valley (Phase I and II)" from March 2007 to May 2009.

As several Donors' surveys pointed out that the development of industrial parks, in which particular incentives are provided, is regarded as an effective approach for industrial promotion in the Palestinian Territories, where various conditions on business activities, such as control of move and access, control of information and so on, are set by Israel. However, considering the Palestinian Territories' political and economic relationship with Israel and the worldwide recession beginning in late 2008, it has not been easy to develop an industrial park by inviting the Foreign Direct Investment (FDI), which was effective for industrialization in ASEAN and others. Nevertheless, development of the Jericho Agro-Industrial Park (JAIP) is expected to provide the economic opportunities for the Palestinian companies which currently suffer from the lack of space for the expansion in present sites and have a plan to promote the exportation through the Allenby Bridge which is the only gateway to the Jordan, taking into account the availability of the spacious land and strategic location in JAIP.

In order to make JAIP more attractive for those companies, further analysis of incentives and necessary conditions is needed.

This study aims to follow up on the previous feasibility study for JAIP by examining the functions of JAIP as “soft components”, such as SME promotion, logistics improvement, and other relevant incentives, in order to make JAIP more concrete and attractive. Also, this study aims to strengthening the Agriculture and Agribusiness Development Sub-Program.

The scope of this study is to: (i) review the present status of industrial and export promotion and function for promotion; (ii) review the issues of logistics and recommend solutions; and (iii) develop incentives for the industries to expand or relocate to JAIP and develop functions as incentives.

In this Study, interviews and data collection were conducted in the West Bank. Neighboring Middle Eastern countries (Egypt and Jordan) and European countries (the United Kingdom and the Netherlands) were also visited as part of the survey. The survey schedule is shown in Figure 1.

	2009						2010	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Inception Report	▽							
	18	20						
First Field Survey								
Progress Meeting with PA (1)		▽						
Interim Report			▽					
			25	31				
Second Field Survey								
Progress Meeting with PA (2)				▽				
Draft Final Report						▽		
						13	24	
DFR Presentation								
Comments by PA								
Final Report								▽

Figure 1 Schedule of the Survey

(2) SMEs Promotion and Export Promotion in the Palestinian Territories

Development of SMEs

Small and Medium Enterprises (SMEs) in the Palestinian Territory are the dominant type of business, thereby forming the backbone of the economy. Over 95% of enterprises employ less than 50 people. SMEs play a major role in the socio-economic development and remain the main source of income and employment for the overwhelming majority of Palestinians. At present (in 2007), the number of establishments belonging to the private sector is approximately 110,000 operating across the following sectors: commerce sector (50%) and manufacturing sector (14%), with others distributed among mining, agriculture and agro-industry, and services (tourism, financial intermediations, transport, storage, etc). SMEs employ approximately 80% of the labor force working in the private sector.¹ Official statistics for 2009 from the Palestinian Central Bureau of Statistics show that the contribution of SMEs to the Palestinian GDP amounts to 24%.²

¹ Palestinian Central Bureau of Statistics. 2008. Census results of establishments (2007)–Final Results, Ramallah, Palestine http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1487.pdf.

² The average contribution of SMEs to the GDP in certain countries might reach 35% or more. Palestinian SME contribution to the GDP is approximately 24%. This seems low since enterprises operating in the agriculture sector are excluded. In addition, the percentage is low since some SMEs are not formally registered and are thus counted

SMEs in the Palestinian Territories constitute a vital part of the Palestinian economy; the development of SMEs is indispensable for future economic growth. At the same time, there are many challenges Palestinian SMEs need to overcome in order to achieve real growth. These include the weak role played by the public sector, family ownership and culture, gender issues, inefficient use of productive capacity, poor business management infrastructure, and the lack of access to credit.

Even though many institutions, both private and public, have been established in order to assist the development of the SME sector (besides the chamber of commerce and a few NGOs), most institutions were established after the formation of the Palestinian Authority. A major portion of the assistance was said to be diverted to medium size enterprises rather than small or micro enterprises. This is the reason why new initiatives have been undertaken by some NGOs or programs (like SEC³), to try to develop the capacity of smaller or micro enterprises or to promote the incubation of new businesses. One critical, but common, issue among most institutions is financial sustainability, since a majority of them depend on donor funds for their activities and even administration costs.

Table 1 tries to map each donor's program in accordance with six key business domains: (i) Management Capacity Development; (ii) Production Process; (iii) Market Development; (iv) Financial Support; (v) Human Resource Development and Management; and (iv) Business Environment and Business Networking.

- (1) Management Capacity Development: Enhancement of management capacity is a very challenging issue everywhere in the world, but it is even more critical in the Palestinian Territories since many SMEs are owned and run by families. Institutions such as PalTrade, PFI, EPCCIA, and PITA provide some assistance in this area, but further assistance, such as cluster development, establishment of value chain and so on, is needed.
- (2) Production Process: One of the critical issues for Palestinian products is competitiveness. The prices of Palestinian products are said to be high, although quality is not necessarily good in terms of value for money. This inefficiency is primarily due to high labor costs, outdated machinery, the lack of skilled labor, and inefficient production processes. The production process as well as basic technological capacity needs to be improved and rationalized in order to achieve higher quality and lower prices. In the manufacturing sector, the Palestinian Federation of Industries is an active institution that is trying to provide technical assistance based on support from UNIDO and the EU. Practical and specified support based on the individual consultation is required.
- (3) Market Development: The Palestinian domestic market is small and is divided between Gaza and the West Bank. It is imperative for Palestinian companies to reach out to the international market and also beyond Israel, which is the largest current market. Knowledge and know-how to compete in international markets is quite limited for many Palestinian companies. Many institutions and donors provide assistance in this area - Paltrade, PSCC, the Federation of Chamber, PARC, etc. In order to materialize the market development, integrated support with other issues is required.
- (4) Financial Support: SMEs in the Palestinian Territories lack access to credit and are generally reluctant to borrow due to collateral and lending conditions imposed by financial institutions. This situation leaves SMEs with limited capital as well as investment capital. There are a couple of credit guarantee schemes recently developed to encourage banks to offer more credit to SMEs, while some micro credit institutions are also supporting small

within the "informal sector" and are not recognized when conducting official surveys and statistics.

³ SEC: Small Enterprise Center NGO which was established with the financial support of German Government and continues to support small and micro enterprises

and micro industries. Accurate information regarding these financial supports should be delivered properly.

- (5) Human Resource Development and Human Resource Management: In the Palestinian Territories, although internal OJT and/or technology transfer beyond generations are weak, there is no standardized system for technical and vocational education and training at present to supplement such weakness. The family dominated way of business is another factor that prevents employees from attending any training to enhance their skill or capability. The Ministry of Education & Higher Education, Ministry of Labor, GTZ, UNRWA and UNESCO have begun to tackle this vocational training issue. Participation of females is to be considered carefully.
- (6) Business Environment and Business Networking: The Palestinian business environment, legal framework, rules and legislation related to SMEs, as well as physical infrastructure are not conducive to further investment, in particular foreign direct investment, while intervention for this issue is limited.

Due to the absence of a national vision and strategy for SME development, each initiative tends to tackle specific issues without a comprehensive picture and clear priority of targets. For example, many donors and institutions focus on trade facilitation and trade promotion, which are subject to duplication.

There are many implications and lessons drawn from the on-going program by existing institutions and donor initiatives, which can be reflected within newly proposed Business Development Services at JAIP. The function of Business Development Services at JAIP should not be designed as an innovative approach, but rather built on top of existing programs. Due consideration needs to be placed on clearly prioritizing among the issues in each business domain to determine the target, function and structure of BDS services at JAIP.

Export Promotion

With regard to trade, the Palestinian economy is characterized by a profound structural imbalance and high external dependence. This owes much to the lengthy period of dependency on Israel. The economy is highly dependent on imports and has a chronic trade deficit. Imports of goods and services are equivalent in the last five years to, on average, 70% of the GDP. Exports, by contrast, are equivalent only to, on average, 18%. Total Palestinian exports to Israel are equivalent around 90% of total exports. Total Palestinian imports from Israel are equivalent around 70% of total imports.

As for economic growth in Asia, export oriented industries made a leading role. In order to establish the economic independence and to achieve the sustainable economic development, Palestinian Authority should promote export as well as SME development simultaneously.

Trade activities over the past seven years show that total Palestinian exports increased by around 40% in 2007 compared to 2006, and by 53% compared to 2005, respectively. This increase resulted from an increase in exports to Israel by 40% and 57% over the same period.

Although the volume of trade is not significant, the Study Team recognized that fair trade has a certain potential. The European market may offer a 15% premium as far as the products are certified as fair trade from the Palestinian Territories.

As most of potential tenant enterprises have intention to expand their export, export promotion supported by the BDS at JAIP would be a great incentive to invite the investors.

In ASEAN countries, inviting foreign direct investments as industry policy made a great success to promote export. As for Palestinian industrial policy, the Palestinian Authority should continue to make efforts to invite foreign direct investment, particularly from Palestinian Diasporas. However world wide economic recession caused shrinking the foreign direct investment. In addition the neighboring countries, such as Jordan and Egypt, introduced the attractive incentives package. Palestinian Authority does not make the similar or better incentives package shortly. Therefore the study team recognized that it is not easy to invite foreign direct

investment in large scale. It is recommendable that JAIP gives its priority to invite domestic industries not to foreign direct investors at the initial stage.

Table 1 Mapping of the Focal Areas by the International Community (On-going, Recent, and under Planning)

International Community: Donors	Areas of Focus						Targeted to individual firms, sub-sector, ministries, and business institutions	Local partners
	Management capacity development	Production/ process related	Market development	Financial support	HRD and HRM	Business environment/ business networking		
World Bank			Market facilitation with EDIP			Logistics (movement and access) monitoring	MoNE policy level, SMEs through EDIP	MoNE, MoF, PalTrade, DAI (consulting)
EU	Poverty reduction projects through local NGOs			Credit guarantee		Logistics and trade facilitation (customs and logistics)	Olive oil industry/ MoNE policy level/ Shippers Council	Local NGOs, local banks, PalTrade, MoNE, Shippers Council
UNDP/DEEP	Entrepreneurs training			Credit facilities and grants	Vocational training		Poor families, and individuals	Local banks and local NGOs
UNCTAD						Logistic and trade facilitation (customs)	Policy level on customs management	MoF, MoNE, local NGOs, Shippers Council
UNIDO	Training in VC	HACCP	Marketing capacity building		TOT for SME consultants	ISO accreditation	Businesses/SMEs	MoNE, PFI, PalTrade
DFID/FNMD	Business management capacity		Export promotion and market development	Support grants			SMEs	DAI (Consulting firm)
USAID/EDIP		Technology transfer, upgrade capacity, training	Marketing /products/ market information /business plans	Support grants		Market match-making	Olive oil/ agro-industry/SMEs	CARANA (consulting firm), PFI
GTZ (Latest)	Entrepreneurs training		Marketing capacity, exhibitions		TOT for SMEs consultants	Revitalization of chambers and other private sector institutions	Policy advice for MoNE/individual SMEs	SEC, PalTrade, FPCCIA, PITA, PFI, MoNE
AFD			Agrosector development /(olive)			(Industrial park in Bethlehem)	Olive oil/herb sector	Local NGOs, Chambers and associations
CIDA	Women empowerment	Upgrading capacity of Paltrade (planning)	Export development				Policy framework for MoNE, Paltrade, women cooperatives	GTZ, Oxfam,
SIDA (Sweden)	SMEs training					Support to chambers' capacity	Chambers of Commerce, SMEs	FPCCIA, ILO
Italian Cooperation				Credit facilities (planning)		Support to farmers union/ associations	Agriculture sector/ SMEs	MoA, Farmers Union, PFI, Associations
ILO	SME trainings	Research and studies				Support to the associations	Business associations	MoL, FPCCIA, SEC

NOTES: 1) The Islamic Development Bank is not included,

2) Abbreviations are defined as: EDIP (Enterprise Development Investment Promotion), FNMD (Facility for New Market Development), DEEP (Deprived Families Economic Empowerment), and (PAPP) Project as part of UNDP Program of Assistance to the Palestinian People

3) Programs which are the Latest and Under Planning are shown with ()

(3) Food Industry SMEs and Expectation for JAIP

The Palestinian food industrial sector has recently been rebounding. Number of establishments increased from 2,315 in the year 2004 to 2,548 in 2008. Total sales amount increased by 48 percent. The sector consists of a wide variety of products including meats, vegetables (fresh and frozen), oils and fats, dairy, flour mills, animal feed, chocolates and confectionaries, spaghetti, water and soft drinks, chips and snacks, etc. The food industry has experienced a growth of exports mainly to Arab countries, with olive oil and other fair trade products have been exported to many countries. Food industry performance has significantly improved over the past three years as exemplified in Table 2.

Table 2 Some Indicators of the Food and Beverage Sector

Food and Beverage Sector	1998	2006	2007	2008
Percent of persons engaged	11.3%	15.5%	18.8%	16.7%
Output per person engaged	\$30,828.94	\$42,880	\$46,077	\$49,406
Output per paid employee	\$49,636.77	\$66,576	\$70,121	\$73,740
Value added per person engaged	\$11,730.54	\$11,246	\$18,273	\$20,090

Source: PCBC

The study team visited 71 companies for the first field survey. These enterprises were selected from four categories; i.e. (i) commodities for which raw materials are easily accessible from the Jericho district, (ii) commodities for which raw materials are not accessible within the vicinity of Jericho, (iii) commodities for which raw materials depend on imports, and (iv) commodities which are unlikely to be processed or produced in Jericho, but which are typical export commodities of the Palestinian Territories. It was observed that each company has experience to export their products overcoming the vulnerability. Comparative advantage on procurement of the raw material has been developed. Through the interview to 71 companies, 36 companies showed interest in JAIP. For the second field survey 14 food processing companies were visited. From the interviews and basic business information, needs and expectations are summarized as follows:

- Most of the companies intend to construct a new plant in a new site, but do not plan to move existing plants. The primary reason for moving to a new location is the lack of expansion space at present plant sites located in residential areas. In particular, the biggest motivation for site selection in JAIP is future urban planning, particularly land use plans in the Palestinian Territories in which a clear policy has been established to prohibit new plants and the expansion of existing plants in residential areas.⁴
- Most of the companies are very eager to expand the export market. Present exports mainly target the Palestinian diaspora in Jordan, and many companies are aiming to export to Arab countries following Jordan.
- Jericho, where JAIP is located, is the most appropriate place for export to Jordan or export through Jordan, because Jericho is closest to the Allenby Bridge.
- Because of Jericho's close location to the Allenby Bridge, transportation costs for export from JAIP to Jordan would be drastically reduced in comparison with export from existing production plants in other areas. One of the biggest factors for the high transportation cost in the Palestinian Territories is the high price of gasoline, which is around US\$2 per a liter.⁵
- Since the development plan of JAIP is made by Japan, high standards for infrastructure and facilities are expected. In addition, comprehensive business development services are anticipated. In particular, production process development, market development and financial support are expected by most potential tenants.

⁴ Study team hearing from PA officials.

⁵ Study team as of October 2009.

- As JAIP is authorized by four parties, direct and indirect cooperation can be expected.

In addition to geographical incentives on transport and logistics, an appropriate lease rate, crucial for realizing the occupancy of JAIP, has to be estimated. Furthermore, the Study Team examined a business plan simulation on the premise of an initial move-in of 6 companies, which were selected as a sample. In conclusion, the range of affordable annual land lease rates is from US\$5 to US\$20/m². If business conditions within the current industry are applied to JAIP, the estimated land lease rate can generate a reasonable return for JAIP developer. The actual lease rate structure, which will be applied to the tenants, should be carefully established by fully considering the business environment at the time of JAIP commencement.

(4) Logistics Issues and Solutions for SMEs

Many logistics problems exist in the Palestinian Territories – these arise from the political relationship with Israel. The logistics issue is considered the biggest bottleneck to economic activities in the Palestinian Territories. Major logistic issues in the Territories are uncertainty regarding transportation because of interferences caused by check-points, deteriorated road infrastructure (pavement, alignment, lighting and so on) and complicated and indistinct procedures. Jericho has a great geographical merit for the potential tenants of JAIP, which intends to expand the export through Allenby Bridge. Therefore the logistics issues at Allenby Bridge are critical to the potential tenants. These issues fall into several categories: Infrastructure, Security Check, Pallet, Procedures, and Transportation. Problems typically seen are summarized as follows.

Infrastructure

- Handling capacity of the Allenby Bridge is insufficient. .
- There is no bonded (gated) area and cooling warehouse available, which may cause damage.

Security Check

- The scanner at the bridge is small and an outdated model then its efficiency is low.
- Long waiting hours at the border are typical due to complicated and unpredictable measures.

Pallets

- Only palletised goods can be moved, which may cause damage.
- Liquid chemicals must be loaded and unloaded through pipes, some as long as 6m.

Procedures

- No licensed Palestinian freight forwarders can operate at the bridge.
- Procedures requested by Israeli Customs and/or Ministry of Health are very complicated and non-transparent.
- The Jordanian side works until 3:00PM only.

Transportation

- Only 40 trucks/day can pass through for exports and 20 trucks/day for imports.
- Israeli Customs at Allenby Bridge apply to the Israel-Jordan agreement, which is less favourable than the Pan Arab FTA, of which the PA is a signatory of.

In order to improve the logistics situation for Palestinian companies, JAIP is expected to provide logistics support functions as follows:

- Existing transporters and warehouse providers should be invited to JAIP, as well as manufacturing companies. These companies should be given incentives to come to Jericho and to support the logistics activities in JAIP. Interviews with transporters revealed that there is no urgent need to develop common facilities operated by a developer in the short-term (including distribution centers, common warehouses, and cooling storage). Main reasons are; companies prefer to choose their favorite transporter and the total cargo volume would not be so high.
- Customs clearance support is also considered as a potentially important function of JAIP. Support may include clearance, container sealing and GPS tracing. Jordan industrial estates may be worthwhile cases to study. This issue should be discussed in the Four Parties Dialogue together with improvement at the border.

Logistics is a part of the strategic infrastructure for the regional development, but also the lifeline for daily business and economic activities in each country. It also raises undeniable concerns as a matter of national security if and when border crossings are involved. This is especially relevant in the Palestinian Territories where divisions are currently in place and border crossings are relatively complicated. This is highlighted in the terminology of “Movement and Access” prevailing in the Palestinian Territories.

As stated in the logistics options, there are many suggested improvements measures, which are in lieu of maintaining the status quo. The following subjects are nonetheless reiterated as recommendations for the relevant countries.

- Customs control and clearance of security checks in the Allenby Bridge can be more advanced by using e-customs in the documentation process, containerization, as well as large scanning equipment in both Israel/Palestinian territory and at Jordan crossing points. To achieve this, it is recommended that additional studies be conducted by the three parties (PA, Israel and Jordan) with assistance by Japan. The end result could be more efficient, secure, and customer-oriented exports from the Palestinian Territories through the Allenby Bridge.
- Good cargo transport practices applied from the Jordan industrial parks to Haifa Port in Israel⁶ should be applied. Such procedural arrangements have to be initiated in tune with JAIP development.
- In the long run, along with JAIP in Jericho, boosting transportation through Aqaba Port and the Queen Alia Airport in Jordan would be beneficial. JAIP can serve as a suitable location for a logistic center for this purpose. The initiation of a study on cargo transport via Aqaba Port and Queen Alia Airport in Jordan is recommended, with support from Japan and other donors.

Measures expected to be taken by the Palestinian Authority, organizations and private sector include:

- Capacity building and modernization of customs
- Investment in infrastructure (Transportation, Customs)
- Streamlined procedures and publicity

⁶ Based on the agreement between Jordan and Israel, i) inspection of loading in the container at the industrial park in Jordan is made by Jordanian Custom, ii) after sealing the container transportation is monitored by GPS by respective customers within the respective territories, iii) without opening the container is transported by each countries

- Networking of organizations related to trade

Measures expected to be taken by Israel include:

- Coordination with Palestinians in customs control
- Streamlining border processes
- Improvement of infrastructure (Transportation, Customs)
- Change of movement regulations

Measures expected to be taken by Jordanian Government include:

- Facility development at the Allenby Bridge
- Operational improvement at the Allenby Bridge
- Trade facilitation policy
- Information and data exchange

Measures expected to be taken by Japan for the improvement of logistics around JAIP include:

- Training of relevant organizations
- Mediation of dialogue among related countries
- Assistance in infrastructure development

(5) Business Development Services (BDS) Center in JAIP

Based on interviews conducted during the study with possible Palestinian tenants for JAIP, many companies noted that an incentive to locate their business at JAIP would be if some sort of business development services were available. As detailed in (2) SME and export promotion in the Palestinian Territories, some potential tenants expect the establishment of integrated business development services, with one possible location at JAIP. The services would be provided to tenants as well as SMEs in the Palestine Territories. Many donors and development institutions anticipated using the facility for their technical assistance programs, since they have difficulty in finding appropriate venues.

Figure 2 details a comprehensive picture of such services in major business domains. Further assessment on priority as well as feasibility needs to be undertaken for this concept.

One critical issue that needs further consideration is the financial sustainability of such services. Some costs can be covered by the lease fees paid by tenants at JAIP, but this should be done only for the services that benefit these tenants. If services are for wider clients outside of JAIP tenants, for instance SMEs in the West Bank or even Gaza, another cost recovery mechanism excluding the international expatriates cost to be supported by the donors, needs to be established based on the beneficiary's cost sharing principle.

In order to expedite effective services to potential investors, various stages of BDS center development are proposed below. Technical assistance to coordinate and facilitate practical and effective operation is indispensable.

Stage 0 (Project Design)

Period:	3rd Quarter - 4th Quarter, 2010	Location:	Ramallah
Objective:	Develop basic concept of BDS (including review of the study)		
	Dissemination of the information to the potential tenants		
	Collection of the data to increase the potential tenants		

Stage 1 (Organization Set-up)

Period:	1st Quarter – 2nd Quarter, 2011	Location:	Ramallah
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Objective: Finalize the organizational arrangement
Capacity development of BDS center staff
Dissemination of the information to the potential tenants
Advisory services for improving business plan of the potential tenants

Stage 2 (Business Development Service Delivery)

Period: 3rd Quarter, 2011– 4th Quarter, 2012 **Location:** Ramallah
Objective: Advisory services for improving business plan of the potential tenants
Training services for potential and prospected tenants
Capacity development of BDS center staff and service provider

Stage 3 (Business Development Center)

Period: 1st Quarter, 2013 – 4th Quarter, 2014 **Location:** Jericho
Objective: Advisory services for improving business plan of the potential tenants
Training services for potential and prospected tenants
Expansion of activities

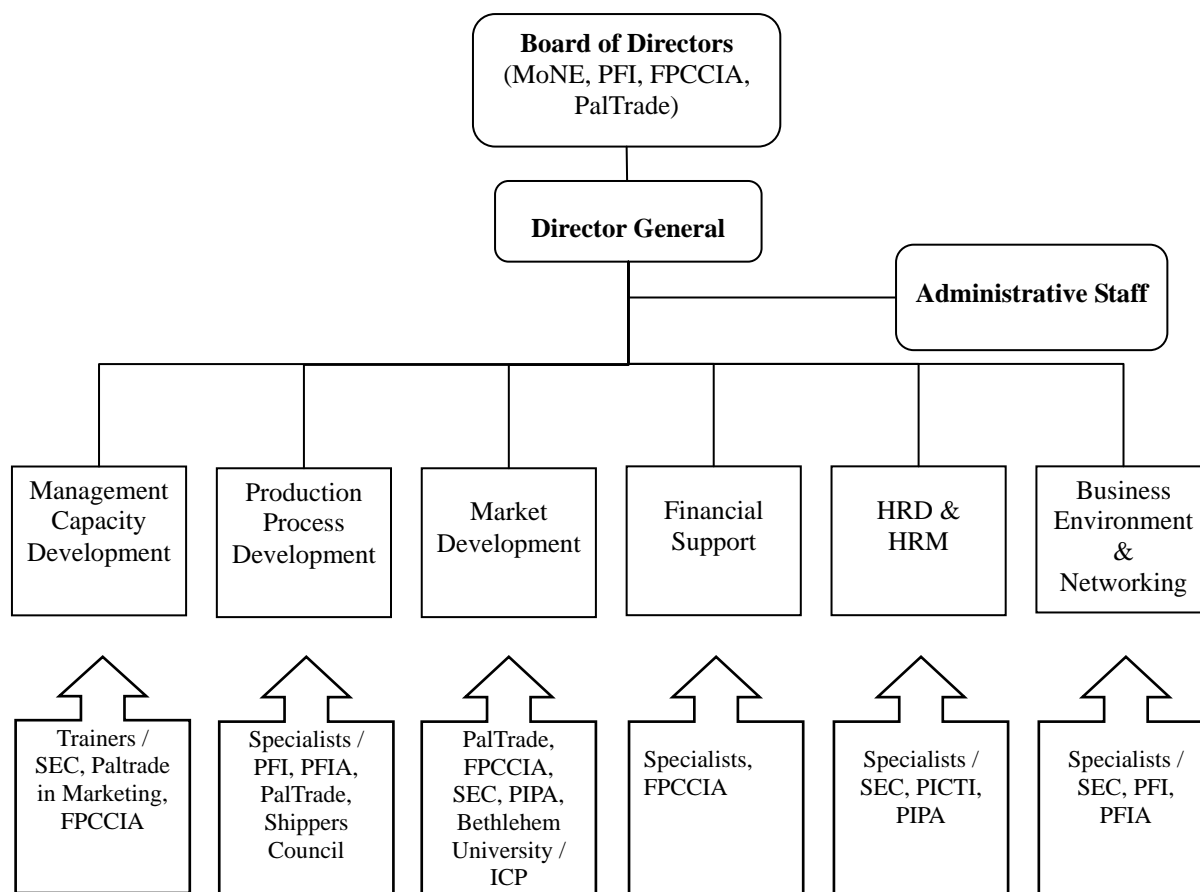


Figure 2 BDS Center Organization Chart (Functions)

(6) Business Plan for JAIP (Option B)

This section is described as a compilation of JAIP information, reflecting relevant results of preceding chapters, as well as the F/S and other prior studies. As selection of implementation

options has yet to be made, information in this section will change according to the selected option.

The followings information is based on Option B⁷, which calls for the simultaneous development of both Stages I and II. The public sector is responsible for off-site infrastructure for Stages I and II as well as on-site infrastructure for Stage I. The developer is responsible for on-site infrastructure for Stage II only.

Based on findings from prior JAIP studies, field surveys, and interviews, a draft business plan for JAIP has been proposed as described below. Major components of the business plan are as following:

1) Incentives:	Logistics Incentives, Investment Incentives Business Development Services
2) Land use:	Total: 61.5ha, for Industries: 34.3 ha
3) Factory lot size:	Small and Medium: 2,500 m ² , Large: 5,000 m ²
4) Lease rate:	Land lease rates for factory: US\$15 Lease rates for lot with factory: US\$ 60
5) On-site infrastructure:	Land reclamation, Wadi improvement, internal roads, storm water drainage channel, and power distribution lines Total investment cost: US\$31.8 mil
6) Off-site infrastructure:	Water supply, wastewater, solid waste, treatment plan, electricity power distribution, BDS Center (including office) Total investment cost: US\$34.3 mil.
7) Utility (water):	Total demand: 0.5 million m ³ , Water tariff: 1.00–4.00 NIS/m ³
8) Utility (wastewater):	Treatment plant will be constructed outside of JAIP
9) Utility (electricity):	Total demand: 12.5MW supplied by JDECO Electricity tariff (for Industry): Fixed 49.65 per kWh 0.55 NIS
10) Utility (telecommunication):	Total demand: 180 lines Tariff: same in Palestinian territory
11) Financial evaluation:	Internal Rate of Return: 12%

(7) Recommendation

The potential tenant enterprises would like to commence preparations to create a production base in JAIP as soon as possible. Therefore, the anticipated JAIP implementation action plan should be shown to potential tenants. Major actions include the implementation option selection, developer selection, promotion and sales to target tenants, and land acquisition.

The following 4 points are recommended for smooth and effective development of JAIP.

Initial target tenants should be Palestinian industries.

As noted in Chapter 3, the worldwide economic recession began in late 2008. Competition with the neighboring countries for foreign direct investment has become more severe. The competitiveness of products from Palestinian companies is vulnerable in general. Nevertheless, as shown in Chapter 3, export of some food processing products has been growing. Therefore, it is practical that initial target tenants should be Palestinian industries and not foreign industries. That being said, promotion to foreign investors should be continued and strengthened to make a sincere and consistent approach to the foreign industries showing interest in JAIP. As for

⁷ Please refer to Chapter 6, 6.4.

Palestinian industries other than food processing, active investment promotion for JAIP should be implemented as far as their products are considered to be competitive in the international market in the present or future.

With regard to the food processing industries, what at first seems like a weakness may actually be a strength. For instance: (i) the hot weather can extend the harvesting season; and (ii) the limited availability of chemical fertilizer forces the development of organic production. Developing the confidence of independent growth may invite foreign direct investment opportunities, particularly from the Palestinian Diaspora.

Business Development Services (BDS) should be strategically expanded.

As shown in Chapter 2, although donors have assisted SME development in various manners, comprehensive support has yet to be established. In addition, as analyzed in Chapter 3, potential tenants expect comprehensive business support at JAIP. Particularly, potential tenants expect consulting services for production efficiency, market development and financial support in order to improve their international competitiveness. At the initial stage, consulting services for business plans for potential investors in JAIP are expected. Competitiveness could deteriorate as soon as efforts are stopped to maintain competitiveness. Therefore comprehensive support for the capacity development of management, human resources and business environment development through training, learning, and improving is important to the sustainable growth of industries. BDS support services should target not just factories but also farmers and raw materials or related materials producers. The BDS should be provided for tenant companies as well as for SME industries in the West Bank. As it is considered appropriate to support potential tenant capacity, even prior to moving into JAIP, services may be initiated in Ramallah.

Incentives for the tenants should be prepared in order to expedite promotion.

As depicted in Chapter 3, decisions on investment in JAIP would be expedited if affordable lease rates are offered. This includes not only the level of the rate but also introductory payment support such as grace periods, subsidies under certain conditions and so on.

As well-prepared infrastructure with reasonable costs is expected by potential tenants, disclosure of development plans also becomes a type of incentive.

Investment incentives should not be less preferable than those available in neighboring countries; competitiveness in the international market should be emphasized.

As analyzed in Chapter 4, movement and access are key constraints on Palestinian companies. In particular, food products are sensitive (these in fact are the initial tenant's target products). Some products already enjoy an efficient system of donor support. Efficient arrangement brings benefits not only to Palestinian companies, but also to other parties by increasing business opportunities.

Institutional arrangements should be made, taking regulatory improvement and other strategic approaches into consideration.

JAIP should be constructed in an efficient manner. However, JAIP would take a leading role for self sustainable growth of the Palestinian economy through strengthening the international competitiveness of the tenant industries. To achieve such ends, an institutional arrangement for efficient construction as well as sustainable operation and maintenance should be made. Taking effective arrangement of donor support into consideration, division of the roles between the relative ministries, organization, developer and operator should be carefully decided by the Special Unit under the Ministry of National Economy. Capacity development to execute each role decided may be supported by the Japanese Government, as far as the Palestinian Authority would request such assistance. Partnership with the private sector is important to make flexible

and prompt actions responding to the market and economic situation once the division of roles is decided.

In addition, oversight and regulatory role for industrial development should be considered in order to secure the transparency.

OUTLINE BUSINESS PLAN FOR JAIP

1. JAIP Development and Mission

JAIP is envisaged in the preceding JICA studies in the years 2006-2009 as JAIP is one of the major elements of Japanese initiatives to construct the “Corridor for Peace and Prosperity in the Palestinian Territories” and JAIP is expected to play a role as a “production base” in the Jordan River Rift Valley (JRRV) as well as an export hub to Jordan, other Gulf countries and beyond.

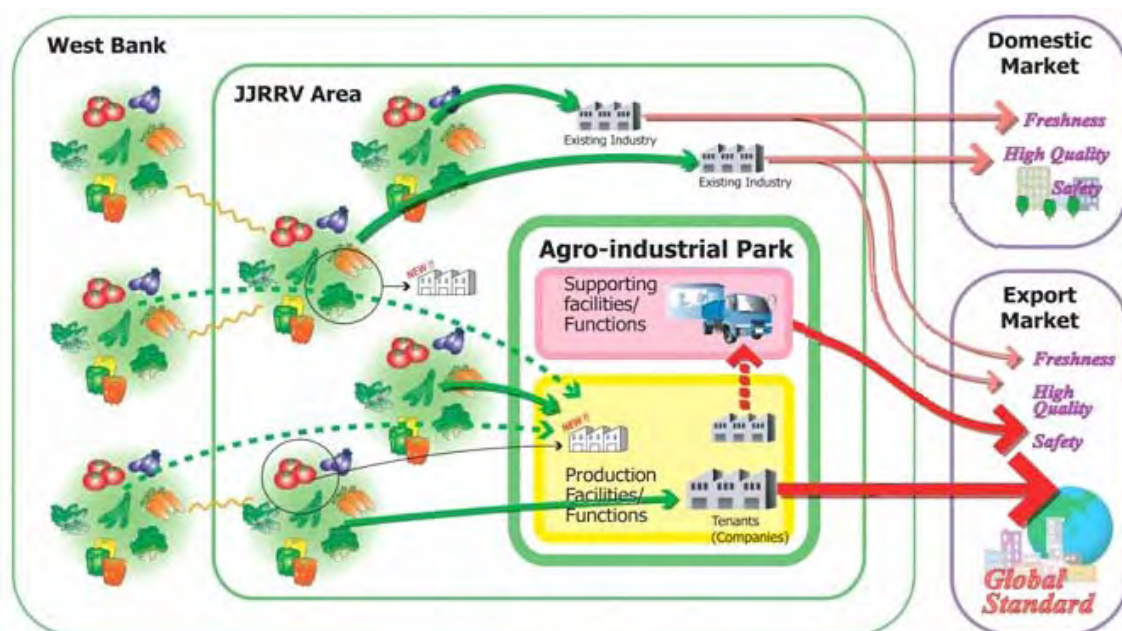


Figure 1 Schematic Image of the Future JRRV and Agro-Industrial Park

Support facilities and fundamental infrastructure in JAIP contribute to the enhancement of its value a through establishment of a competitive value chain for the industry.

- Logistics and supply chain improvement
 - Completion of all production process, i.e. processing, packaging and storing at the same place
 - Availability of services by transporters and warehouse providers around JAIP
 - Facilitation of movement and access
 - Linkages to agriculture and Fair Trade
- Business development services
 - Technical assistance for upgrading technologies and developing products
 - Provision of appropriate trainings on human resource development
 - Provision of overseas market information

JAIP will fulfill the mission of:

- Promote priority industries that develop/produce new and high value-added products for regional and global markets.
- Attract investors as a flagship project by providing new investment opportunities with a preferable investment environment.
- Trigger facilitations of regional cooperation among neighboring countries in business cooperation, product development, human resources development and smooth movement of goods and people.

2. Marketing Information

2.1 Economic and Social Overviews of Jericho

According to the Palestinian Central Bureau of Statistics (PCBS), the Jericho governorate has 42,268 residents in 2005 and 1.1% of the population in the whole Palestinian Territories. Population growth in Jericho is 3.0%, which is higher than that of the West Bank and Gaza.

Table 1 Population Trends

Locality	1997	2000	2005	2006	2007	2008	2009	CAGR
Jericho	31,089	34,188	39,378	40,559	41,776	42,964	44,183	3.0%
West Bank	1,787,562	1,943,658	2,203,738	2,262,735	2,323,469	2,385,180	2,448,433	2.7%
West Bank & Gaza	2,783,084	3,053,335	3,508,126	3,611,998	3,719,189	3,852,512	3,935,249	2.9%

Note: CAGR (Compound Annual Growth Rate)

Source: PCBS

The Palestinian economy has suffered from economic distortion and setback due to closure and isolation measures. GDP has gradually recovered from the fall caused by the Second Intifada in 2000. Thus, the macroeconomic situation in the Palestinian Territories is influenced by the political situation with Israel as well as among the Middle East.

Table 2 Macroeconomic Indicators

Indicators	2002	2003	2004	2005	2006	2007
West Bank						
GDP (US\$ Million)	2,191.3	2,400.9	2,807.4	2,876.7	2,977.7	3,264.2
GDP per Capita (US\$)	1,681.1	1,635.5	1,772.9	1,919.3	1,969.5	2,042.9
West Bank and Gaza						
GDP (US\$ Million)	3,264.1	3,749.6	4,198.4	4,559.5	4,322.3	4,536.7
GDP per Capita	1,559.0	1,557.3	1,615.9	1,822.1	1,741.7	1,297.9

Source: PCBS

The recent number of establishments in Jericho is 1,227, which is 1.1% of that in both the West Bank and Gaza. 87.6% of establishments have less than 4 employees. The percentage of growth in 10 years is 14.8 % in Jericho, and it is higher than the average in the Palestinian Territories.

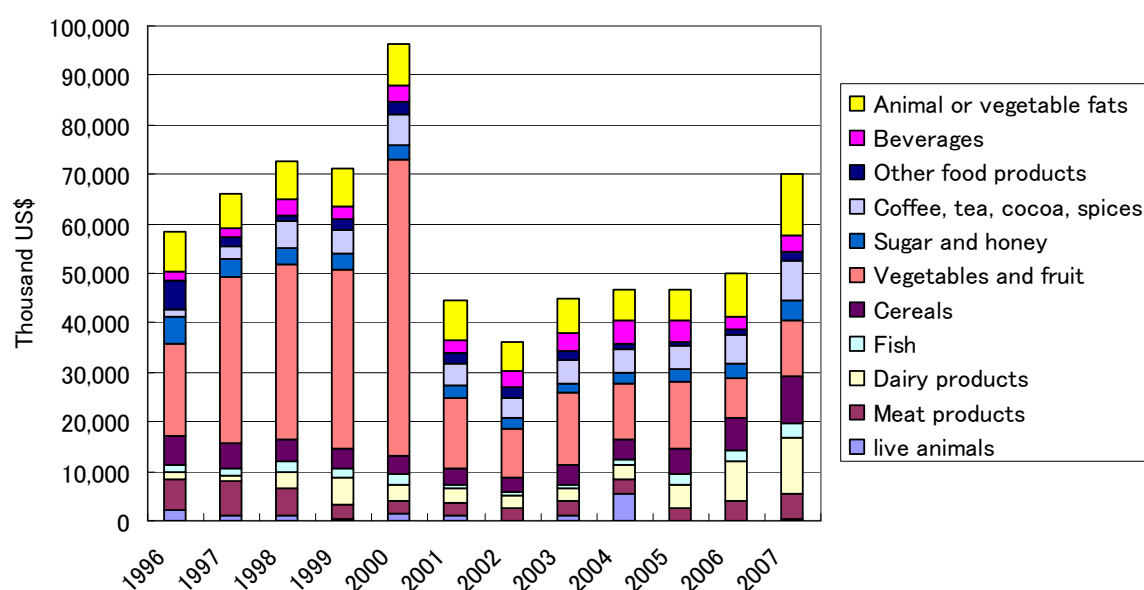
Table 3 Number of Establishments in Jericho

	Jericho	West Bank	West Bank & Gaza
1997	1,069	69,400	99,120
2007	1,227	77,639	109,686
Percentage of Growth	14.8%	11.9%	10.7%

Source: PCBS

2.2 Export Market

One of the major exporting commodities of the Palestinian Territories is food products including meat products, dairy products, vegetable and fruit products, spices, beverages and olive oil. In line with the overall trend of Palestinian export, export of food products has been increasing in recent years despite the significant fall due to unstable social and economic conditions after the second Intifada in 2000 JAIP will contribute the further growth of exports.



Source: PCBS

Figure 2 Palestinian Export of Processed Food Products

2.3 Labor Force

The participation in the labor force of total population, ages above 15 years and above are 48.7%. The unemployment rate is 9.8% in 2007, which is the lowest among the all governorates in the Palestinian Territories (the average is 21.5%). Furthermore, the average daily wage for employees in Jericho is 69.9 NIS and it is lower than that of the whole Palestinian Territories (74.4 NIS). It is also easy to obtain inexpensive labor force from cities close to Jericho.

Table 4 Labor Force Participation and Unemployment Rate of Persons Aged 15 Years and Above, 2007

Governorate	Labor Force Participation	Outside Labor Force	Unemployment Rate
Jericho & Al Aghwar	48.7%	51.3%	9.8%

Source: PCBS

In terms of distribution of employed persons by economic activity, Jericho has a much higher proportion engaging in agricultural industry, though the tertiary industry constitutes the largest portion in the West Bank and Gaza.

Table 5 Percentage of Employed Persons by Economic Activities, 2007

Economic Activity	Jericho & Al Aghwar	West Bank	West Bank & Gaza
Agriculture, Hunting, and Fishing	37.7	16.6	15.6
Mining, Quarrying, and Manufacturing	9.9	14.9	12.5
Construction	5.9	13.6	11.0
Commerce, Hotels, and Restaurants	12.3	20.0	19.5
Transportation, Storage, and Communications	4.8	5.1	5.6
Services, and Other Branches	29.4	29.8	35.8

Source: PCBS

2.4 Incentives to Industries

(1) Geographical Advantages

Jericho in the Jordan Rift Valley is warmer than other areas on the West Bank. The warmer climate in the winter enables the harvest of agricultural products even in the season and makes the Jericho area attractive to farmers and consumers. Moreover, the region has a sizable unused flat land¹ and several spring water resources.

Historically, Jericho was an oasis city serving as an intermediate place for trades. JAIP is located just a few kilometers away from the border with Jordan, and the Allenby Bridge terminal is used for trade. The location is advantageous for exports to Jordan and the Gulf countries.

(2) Logistics Incentives

The geographical location of Jericho itself is advantageous for export to Arab markets through King Hussein Bridge by reducing transport cost and damage within the West Bank. However, there is still room for improvement of logistics environment, which is expected as further incentives². Such logistics incentives would include:

- Facilitating through transit system of sealed container
- Introducing trace system using GPS
- Improving border facilities such as large scanner and refrigerated storage

Investors can reduce the cost and risk of transport and strengthen their competitiveness, when these incentives are developed around JAIP.

(3) Investment Incentives by PIEFZA

Incentives are given for promotion of investment to industrial estates. According to the Law regarding Industrial Estates and Free Zones, PIEFZA provides the following exemptions for fixed assets of projects functioning in the industrial estates:

- Fixed assets of the project shall be exempted from customs duties and purchase tax, on condition that they are brought in during a specific period determined by PIEFZA which approves the lists of the project's fixed assets. PIEFZA has the right to extend this period if it becomes clear that the nature of the project and the size of work necessitate it.
- Spare parts imported for the project shall be exempted from customs duties and purchase tax, on condition that their value does not exceed 15 % of the fixed assets value, and on condition that they are brought in or used in the project during a period of time determined by PIEFZA from the date of beginning production or work with a decision by PIEFZA approving the lists of spare parts and their quantities.
- Fixed assets necessary for the expansion, development, or modernization of the project shall be exempted from customs duties and purchase tax if that leads to increasing productivity approved by PIEFZA.

In addition, PIEFZA provides income tax exemptions for projects established in the industrial estates and/or the industrial free zones having approval by PIEFZA and necessary licenses as shown in Table 6.

¹ There are 88 km² of potential agricultural area for the future in the Greater Jericho region and the total area for agricultural development will be 175 km², according to Jericho Regional Development Plan (2006).

² Building logistics center is also foreseen in the future.

Table 6 Income Tax in the Industrial Estates and Free Zones

	Investment amount		
	100,000 ~ 1,000,000	1,000,000 ~ 5,000,000	5,000,000 ~
Income tax exemption	7 years	7 years	7 years
Nominal rate of 10% income tax on the profit	8 years	12 years	20 years

Source: PIEFZA

(4) Investment Incentives by PIPA

The Law on Encouragement of Investment encourages capital investment in all sectors of the Palestinian economy by both local and foreign corporations registered to do business in the Palestinian Territories. Incentives policy is dictated by the Law on Encouragement of Investment in Palestine, 1998, which is implemented by the Palestinian Investment Promotion Agency (PIPA).

- The fixed assets of a company receive various exemptions on customs duties for a defined period. This law also applies to spare parts (meeting certain criteria), fixed assets for developing or enlarging an already existing enterprise, and price increases due to changes in costs associated with price hikes in the exporting country, or increases in shipping or transformation costs.
- Exemptions on income taxes are also granted to investments of greater than US\$100,000, with nominal tax rates applied thereafter on net profit for a given number of years, based on the size of the investment.
- Additional exemptions and incentives may be granted to companies engaged in export activities.
- Special incentives and exemptions apply to investments in hospitals and hotels.³

(5) Further Incentives

Tax exemption policies should be more flexible for companies to utilize them easily. For instance, the durations of tax incentives explained above could be extended with some loan guarantee measures that could be developed in order to ease investment risks for investors. Additionally, the BDS in JAIP could be introduced as an incentive, where tailor made supports are applied for each investor to enhance capacity and competitiveness. Needless to say, one stop shop services to investors are a fundamental incentive if it is available in JAIP.

2.5 JAIP Facilities**(1) Land use**

The land use plan is shown in the Table 7.

Table 7 Comparison of Land Use Area

Stage	Unit: ha (%)	
	I	II
Industrial	7.4(64.2)	27.0(54.0)
Distribution	-	3.0(6.0)
Road	1.4(12.5)	9.3(18.6)
Utility	0.1(1.1)	0.4(0.8)
Administration	0.5(4.3)	0.8(1.6)
Green or Park	0.2(1.7)	2.1(4.2)
Solar Energy Panel	1.2(10.1)	-
Others	0.7(6.1)	7.4(14.8)
Total	11.5(100)	50.0(100)

³ PIPA (<http://www.pipa.gov.ps/>)

(2) Factory lot size and built up area

Factory lot size

Small and medium size: 2,500 m² Land size: 5,000 m²

Built-up area factory

In accordance with the urban planning standards of Jericho Municipality, a building coverage ratio of each lot is scheduled to be limited within 50%. As for JAIP, up to 75% is allowed.

Other main facilities

Distribution areas would support the tenant companies' packing, collection/delivery and warehouses with refrigerated facilities of products which will be provided on Stage II. These spaces for the frequent movement of trucks is necessary in these areas, a building-to-land ratio would be 50% or less. This is arranged at places near the entrances, for smooth transportation where it should be arranged to prevent cargo traffic congestion to the entrance gate.

An administration office with the Business Development Center (BDC) would manage and maintain public office' functions for tenants, workers and guests, and effectively utilize and operation and maintenance of common facilities and on-site infrastructure in JAIP.

2.6 Project Lease Rate

Since the site available for the first stage of JAIP is not able to sell the State-owned land, the only possibility is to lease the subdivided lot or the lot with factory. The site of second stage is able to sell the private-owned land.

Lease rates for lot for factory:	US\$ 15.
Lease rates for lot with factory:	US\$ 60

3. Operation and Management

3.1 Management Organization

PIEFZA, Developer and BDS center are shared various functions for management and operation with appropriate coordination. In corresponding to the functional requirements, the organization for PIEFZA and Developer in JAIP are shown as Table 8. The organizational structure and manning schedule should be based on the efficient business operation⁴

Table 8 JAIP Management

PIEFZA(Task Force)	Developer
Project Manager (CEO)	CEO and Project manager
Technical manger +4S	Planning and Technical /Surveyors (1M + 6S)
Legal Manager+1S	Marketing and Investor Relations (1M +2S)
Marketing and PR manager + 1S	Legal and Contract (1M + 2S)
Administration Manager +1S	Administration(1M +3S)
Office Clerk(2)	Billing /Procurement/IT
	Office Clerks (3)

Note: M denotes Manager, S for Staff and O for Office Clark

⁴ It is noted that the organizational costs based on those are reflected in the Financial Analysis., especially in the management stage .The costs at the stage of development is included in the engineering and technical cost.

3.2 Water Supply

(1) Water Supply System

Water, in sufficient quantity and quality, is indispensable for the factories' operation. PWA will supply the agreed volume of water mainly from the Ain Sultan Spring, which is located northwest of the Jericho city center. With due consideration of scarcity of the water resources, reduce, reuse and recycle of the water is the precondition and the most important production technology in the Palestinian Territories.

(2) Alternative of Water Supply

PWA intends to rehabilitate Jericho Well No.1. It is possible to utilize for JAIP. In addition, there are three alternatives for the water supply to JAIP.

Alternative 1: Existing irrigation water from Ain Sultan is the potable water. So the water from Jericho Well No.1 could be changed to irrigation water, and existing water for irrigation is supplied to JAIP. In the case of water shortage, a high capacity of water pump and water supply pipeline should be installed for the requirement of JAIP.

Alternative 2: Jericho Well No.1 could be used for exclusive water resources for JAIP, however the high capacity of water pump, desalination plant and distribution pipe line are required, because potable water should be used for the food processing and production of the agro-industries. Unit cost of reverse osmosis (RO) system is 20,200,000 USD/1,000m³/day.

Alternative 3: The water from Jericho Well No.1 will be mixed with the Ain Sultan water supply to the existing domestic water, irrigation water and JAIP. However the water quality study is required.

(3) Water Tariff

Water tariff of Industrial use is as follows:

- (i) 0 - 100 m³: 1.00 NIS/m³
- (ii) 101 - 200 m³: 2.00 NIS/m³
- (iii) 201 - 300 m³: 3.00 NIS/m³
- (iv) 301 m³ - : 4.00 NIS/m³

3.3 Waste Water Treatment

(1) Wastewater Treatment Plant

Construction of wastewater treatment plant (WWTP) for JAIP is inevitable for the proper operation, although primary wastewater treatment shall be carried out at each factory. However, since there are also needs of construction of WWTP for Jericho city, the development plan of WWTP of JAIP should be considered the needs of Jericho city as well. Detail information such as location, treatment method and operation and maintenance structure will be examined in the following study. Wastewater parameters should be kept for receiving and discharging of the wastewater at the WWTP. Wastewater parameter is described in Table 9:

Table 9 Wastewater Design Parameter

Major Parameter	Unit	Influent Quality (before treatment)	Effluent Quality (after treatment)
BOD5	mg/L	650	20
TSS	mg/L	650	30
T-N	mg/L	80	25

Fecal Coli	MPN/100mL	-	200
Source: JICA F/S Report			

(2) Location of the WWTP

Industrial estate is aiming towards the scale merit, reduction of investment cost and business linkage among investors. Investment costs namely road, water supply, wastewater treatment plant, solid waste management, communication network and electricity are effectively constructed. JAIP is the agro-industrial park that concentrates more on the agro-business.

The wastewater treatment, solid waste treatment, and compost facilities are the most important common service facilities. However, if these facilities are located in the park, a suitable location must be found to maintain order in the site, sanitary conditions, and product sanctity. Since the space for the factory in JAIP has limitation, there is an idea that these facilities should be located outside park. When and if such facilities are built, a green buffer must be considered and these facilities should be located some distance from the site.

(3) Wastewater Tariff

Al-Bireh Industrial Zone is adapting an automatic prepaid collection fee system for domestic use. Automatically, the Municipality collects water fee and wastewater fees together. In the case of industries, there is no automatic collection system, however if the industries do not pay the discharge fee, the water supply will be cut off. Wastewater discharge fee is 1.8 NIS/m³ for all activities in Al-Bireh.

3.4 Electricity Supply

(1) Existing Power Supply Network in Jericho

The present power supply in Jericho is 45 MVA in total, which consists of 20 MVA (10 MVA x 2) from the Jordan power system through two underground circuits of 33 kV, 15 MVA from Jerusalem through a JDECO-owned 33 kV line, and 10 MVA also from Jerusalem through an Israeli-owned 33 kV line.

The JDECO power supply in Jericho is dependent on the Jordan power system. Even the peak demand of 15 MVA in Jericho is being supplied only from the Jordan power system. Consequently, the two circuits of 33 kV lines (15 MVA and 10 MVA) from Jerusalem are not connected to the JDECO power system as a stand by for future expansion.

(2) Electricity Tariff

The electricity tariff of Jericho is shown in Table 10.

Table 10 Electricity Tariff

	NIS/kWh
Domestic	
Fixed Base Amount	11.06
Per kWh	0.46
Commercial/Industrial	
Fixed Base Amount	49.65
Per kWh	0.55
Street light for IP	
Fixed Base Amount	49.65
Per kWh	0.38

Source: JICA F/S Report

(3) Power Supply Network

The feeder to Maghtas substation is supplying power to the steel factories and two other huge customers. Accordingly, the new 33 kV line to JAIP should be constructed with a new switching station located in Area-A by JDECO.

(4) Future Electricity Supply Expansion Plan in Jericho

High Tension Transmission Line

Power supply through the 33 kV line is insufficient to accommodate the future load increase in Jericho Area. This is due to the limitation of its transmission capacity and its huge transmission loss. JDECO submitted a new expansion plan to the authorities concerned with upgrading the line to 132 kV, which is compatible with the voltage supplies by Jordanian Electricity Company. The 132 kV transmission line in Jordan side has been completed up to King Abdallah Bridge, and is ready to be connected with the requested 132 kV transmission line from the Palestinian side.

Photovoltaic Power Plant

Recently, JICA is focusing on the renewable power in the Middle East region. In this connection, around 300 kW of solar power system will be installed in JAIP Site and will be connected to the Jericho Power Network

(5) Facility Construction by JDECO

JDECO is responsible for the construction and operation & maintenance (O&M) of power facilities consisting of 33 kV transmission lines, new switching stations and onsite facilities for JAIP. The offsite power facilities will be financed by donor; grants and developers will finance onsite power facilities.

(6) Electricity Tariff for JAIP

JDECO should take responsibility for construction of all electric facility; distribute the power and electric contract between JDECO and companies. On the other hand, land for the photovoltaic power plant is provided by PIEFZA with Japan's support. so the right of power consumption could be negotiable with JDECO. For instance, electricity consumption for the common service facilities could be enjoyed free of charge during certain periods.

3.5 Telecommunication

(1) Telecommunication Lines

The required number of lines was preliminarily estimated based on the number of factories and other facilities, based on information from PalTel by the JICA F/S Team. The estimated distance from the point of line origin, which is located along Route 1, is 3.5km. The estimated number of telecommunication lines is 180 as total, and Telecommunication tariff is shown below, applicable in the Palestinian Territories.

Table 11 Telephone Tariff

Rates Fixed Telephone to Fixed Telephone		
Prices/Peak	Rates: 1st reduction time	Rates: 2nd reduction time
8:00am to 8:00pm	8:00pm to 2:00am and 6:00am to 8:00am	from 2:00am to 6:00am
1st 3 min 0.22 NIS	1st 8 min 0.16 NIS	each min 0.01/NIS
until 8 min 0.06 NIS	for each additional min 0.016 NIS	-
each additional min 0.03 NIS	-	-
Rates from fixed telephone to Local Mobile Company (JAWWAL) (example)		
Prices/Peak	Rates: off peak, fridays & holidays	-
8:00am to 6:00pm	6:00pm to 8:00am	-
0.62 NIS/min	0.46 NIS/min	-

Note: (1) above prices subject to VAT of 14.5%, (2) fixed charge for subscription fees at 20 NIS/month

3.6 Traffic Management

Estimated daily traffic volume for each development stage is presented in the Table 12.

Table 12 Daily Traffic Volume to and from JAIP

Vehicle Category	Existing steel factory	Stage I	Stage II	Total (I+II) Including steel factory
Passenger car/Van	17	424	1,498	1,939
Bus	8	57	202	266
Single unit truck	-	81	291	372
Inbound	-	13	49	62
Outbound	-	12	46	58
Maintenance	-	56	196	252
Heavy trailer	50	18	78	146
Inbound	30	7	33	70
Outbound	20	11	45	76
Total	75	580	2,069	2,723

Source: JICA F/S Study Team

3.7 BDS Center

The BDS Center is located as one-stop center to tenant companies in JAIP for management training and export and product promotion support. The building is integrated with an administration office for JAIP, and consists of a training center, business development center, an exhibition hall, incubation offices, a conference room, a fair trade office, an administration office and other necessary functions. The building, expected to be a three-storey structure, could have a solar energy system installed on the roof for sustainable environmental effects and demonstrational impacts.

3.8 Land

(1) Site Location and Conditions

The location of the site for JAIP is in the vicinity of an existing steel factory, in the south of Jericho City, which is part of the reserved area for future development of the Jericho City Plan. The site consists of three land parcels with a total of 111.5 ha, as summarized in the following figure and table.

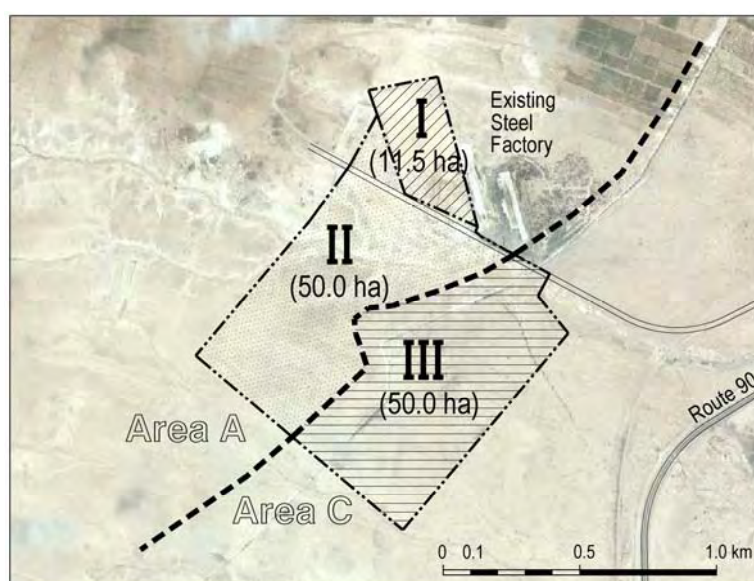


Figure 3 Site for the Agro-Industrial Park

Table 13 Area and Ownership of Candidate Site

Site Name	Area (ha)	Jurisdiction	Ownership
Stage I	11.5	Area A	State- owned Land (PNA)
Stage II	50.0	Area A	Privately-owned Land
Stage III	50.0	Area C	Privately-owned Land
Total	111.5		

The first stage site could be assessed as suitable for initial development in the first stage of implementation, considering its small scale, jurisdiction of Area A and state-owned status. The second stage shall be developed on a large scale, jurisdiction of Area A and private land status. Meanwhile, the third stage site shall also be reserved. Recently, PIEFZA is under negotiations with the private land owner of the Stage II site.

4. Financial Stability

For the stability check, FIRR (Financial Internal Rate of Return) is set out as 12 %, which would indicate the level of land lease rents to meet the FIRR. and its result is 15 USD as land lease rate.










Table 14 Land Lease Rate

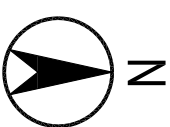
Assumption	Developers covers the On-Site infrastructure for Stage II ONLY
Input Sheet	
Open Land Plot Lease Rate	15
BDS Center / Admin. Office Lease Rate	90
Factory Area (sqm)	348,450
Distribution Area	29,700
BDS Center / Admin. Office (sqm)	1,500
Increase (decrease) in revenues every 3 years	3%
Increase (decrease) in O & M and Admin. Costs every 3 years	3%
Base Case Results/Outputs	
Total Profit (Loss)	\$66,511,823
Internal Rate of Return (IRR)	12%
Net Present Value (NPV)	\$8,716,803
Payback	Year 12
Return On Investment (ROI)	190%

5. Maps and Drawings

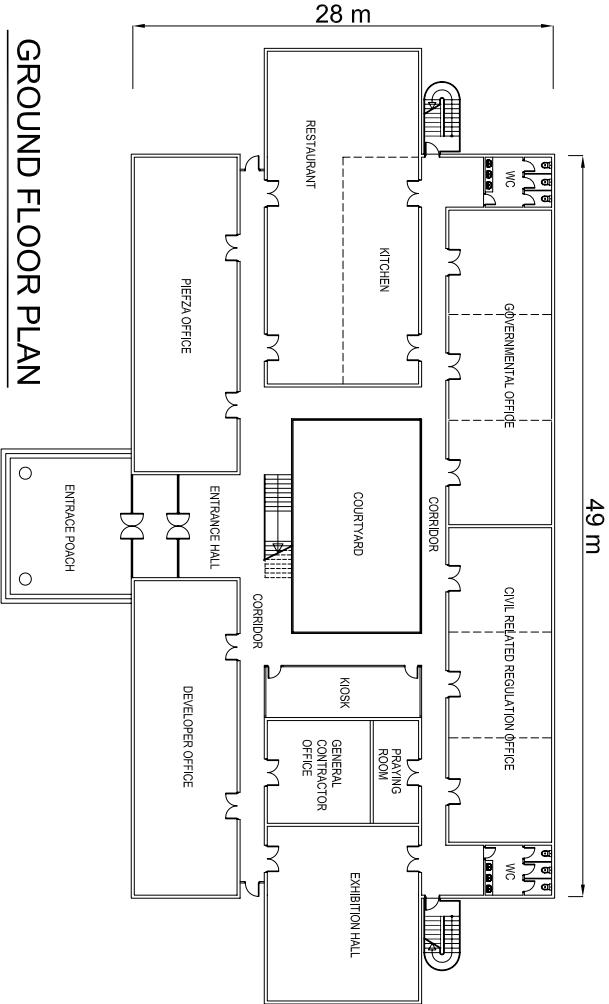
The following drawing shows the Land Use Plan and Master Plans for Stage I+II, and BDS Center Plan.

- 5.1 Master Plan Stage I+II
- 5.2 BDS Center Plan

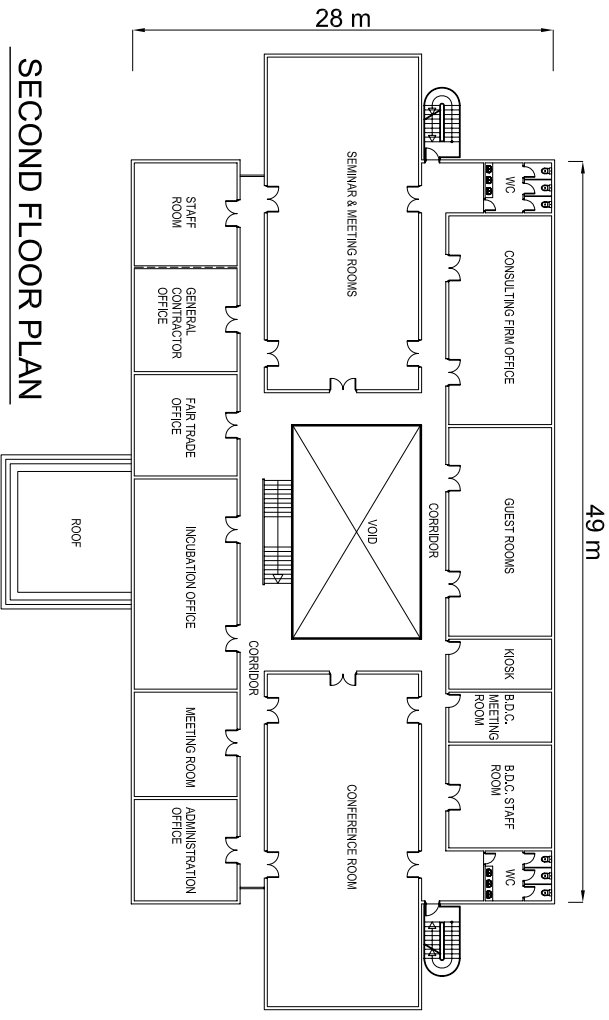
Legends	
Factory	
BDS Center Building	
Distribution Center	
Water Supply Tank	
Bus Station Area	
Park Area	
Wadi	
Sloped Land / Buffer Area	
Solar Energy Panel Area	



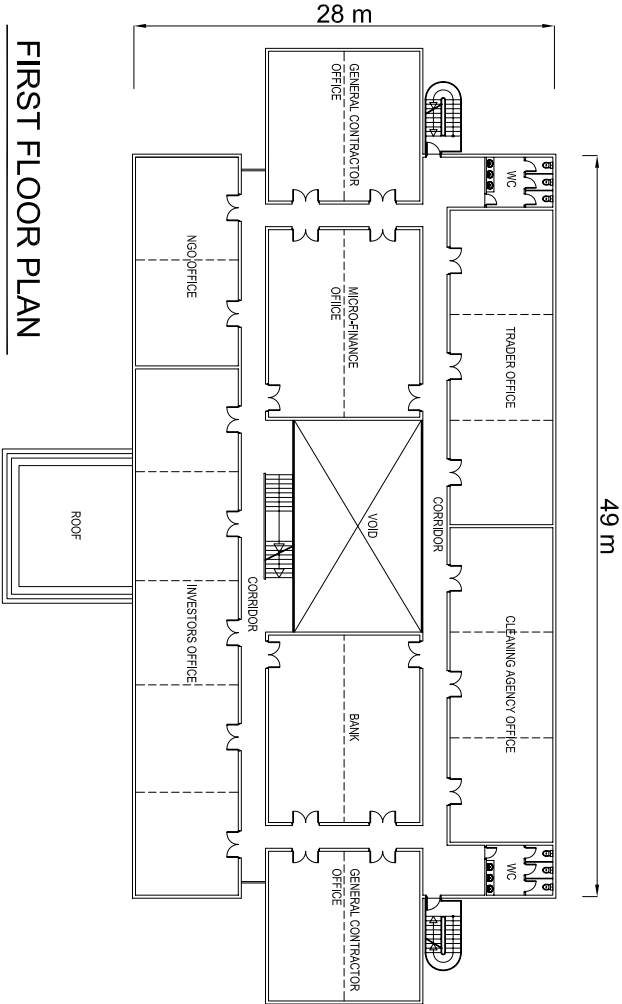
PROJECT		Palestine		Preparatory Survey for Assistance to Small and Medium Sized Enterprises	
NO.		DATE		DESCRIPTION	
BY		APP		CHECKED BY	
SCALE		DATE		DESIGNED BY	
1 / 8000		01 FEB. 2010		PADECO Co., Ltd.	
TITLE		DWG.NO		Global Development & Management Consultants	
Master Plan -2, Stage I+II					



GROUND FLOOR PLAN



SECOND FLOOR PLAN



FIRST FLOOR PLAN

PROJECT										TITLE		DWG.NO	
Palestine										BDS Center			
Preparatory Survey for Assistance to Small and Medium Sized Enterprises										PADECO Co., Ltd.			
										Global Development & Management Consultants			

1 INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Background

1.1.1 Initiative of the “Corridor for Peace and Prosperity”

In July 2006, Japan proposed a concept of "the Corridor for Peace and Prosperity" as a medium/long-term effort toward the co-existence and co-prosperity between Israelis and Palestinians. Based on the idea that a two state solution is essential for achieving peace between Israel and Palestinians, this concept aims at strengthening of Palestinian economical independence and industrial infrastructure, focusing on the establishment of an agro-industrial park, while promoting confidence-building among Palestinians and their neighboring countries, particularly Israel and Jordan. In order to materialize this concept, the Four-Party Consultation Unit, the members of which are the Palestinian Authority, Israeli Government, Jordanian Government and Japanese Government, was established.

Under this initiative, a governmental consultation platform called the Four-Party Consultative Unit was set up involving the Palestinian Authority (PA), Israel, Jordan and Japan for the purpose of promoting confidence-building through economic cooperation. The first Ministerial Meeting was held in Tokyo, Japan in March 2007. The second meeting was held in Jericho in August 2007.

The initiative has plans to build an agro-industrial park in the West Bank, long known to be a fertile land since ancient times. The park will become the export center to high-income Arab countries (such as Saudi Arabia and the United Arab Emirates (UAE)) as well as to Europe and America. With a view towards achieving economic independence of the Palestinian Territories, this plan is aiming at expanding the base of the economy in the Palestinian Territories, as well as improving logistical arrangements for goods exports among other goals. In addition, the attainment of confidence-building in the region is also expected throughout its process.

1.1.2 Environment for SMEs in the Palestinian Territories

The Palestinian industrial base is vulnerable and needs to be strengthened by promoting investment and the activities of small and medium-sized enterprises (SMEs). There are, however, various constraints on the Palestinian economy including the lack of SME promotion, necessary capacity building for related organizations and companies, and enhancement of logistics. The environment surrounding the Palestinian industry is characterized as follows.

- A large number of Palestinian companies are SMEs, most of which are household industries. These companies are vulnerable to political and economic fluctuations, due to limited information and unfavorable business conditions.
- Israeli checkpoints and the associated restrictions on movement and access generate delay and unreliability of transporting both people and goods. This is one of the largest obstacles to business activities in the Palestinian Territories. Inefficiency in Supply Chain Management (SCM) also weakens the competitiveness of Palestinian products. In order to mitigate this problem, some donors (e.g. USAID) have conducted pilot projects to improve logistics conditions, including restrictions by Israel.
- The Palestinian economy is highly dependent on Israel in terms of production, trade, and employment structure. It is important to promote export and strengthen international competitiveness.

Overall, however, some improvements can be achieved by changing the Palestinian industrial structure and increasing export opportunities such as: (i) investment promotion fairs; (ii) development of organizations for industrial promotion; (iii) tourism recovery; (iv) development of fair trade; (v) expectations for consolidation of the IT industry; and (vi) increases in the number of leading medium-sized enterprises and entrepreneurs.

1.1.3 Development of Jericho Agro-Industrial Park

The Japan International Cooperation Agency (JICA) conducted a development study in Jericho and the Jordan Valley in October 2005 for medium/long-term regional development in the social and economic sectors. Based on this study, JICA decided to start the “Jericho Regional Development Program”, which included three sub-programs: Social and Community Development Sub-Program; Agriculture and Agribusiness Development Sub-Program; and Tourism and Urban Environment Sub-Program. Paying attention to JICA's study and its sub-programs, the Palestinian Authority and Japanese Government agreed to cooperate on the development of an industrial park for agro-industry and logistics improvement as one measure to realize the concept of “the Corridor for Peace and Prosperity” through discussions with Israel and Jordan. Based on the agreement, JICA conducted the “Feasibility Study on Agro-Industrial Park Development in the Jordan River Rift Valley (Phase I and II)” from March 2007 to May 2009.

During the course of the study, a technical level meeting of the “Corridor for Peace and Prosperity” initiative was held. At the second technical meeting on 25 October, 2007, the site selection of the Agro-Industrial Park was agreed upon. Based on this study, during the third technical meeting on 3 December, 2007 it was decided that a full-scale feasibility study should be carried out immediately. The “Feasibility Study on Agro-Industrial Park Development in the Jordan River Rift Valley (Phase II)” started in December 2007. Up to March 2008, the basic conditions for efficient and effective implementation of the feasibility study were studied. In April 2008, the stage-wise development approach was presented in the fourth technical meeting. Engineering study, organizational arrangement for implementation, business scheme of the Agro-Industrial Park and financial viability were conducted by May, 2009. Promotion seminars targeting private sector investors were held in Ramallah in the Palestinian Territories, Amman in Jordan and Dubai in November, 2008.

As several Donors’ surveys pointed out that the development of industrial parks, in which particular incentives are provided, is regarded as an effective approach for industrial promotion in the Palestinian Territories, where various conditions on business activities, such as control of move and access, control of information and so on, are set by Israel. However, considering the Palestinian Territories’ political and economic relationship with Israel and the worldwide recession beginning in late 2008, it has not been easy to develop an industrial park by inviting the Foreign Direct Investment (FDI), which was effective for industrialization in ASEAN and others. Nevertheless, development of the Jericho Agro-Industrial Park (JAIP) is expected to provide the economic opportunities for the Palestinian companies which currently suffer from the lack of space for the expansion in present sites and have a plan to promote the exportation through the Allenby Bridge which is the only gateway to the Jordan, taking into account the availability of the spacious land and strategic location in JAIP.

In order to make JAIP more attractive for those companies, further analysis of incentives and necessary conditions is needed.

1.2 Study Objectives

This Survey follows up on the previous feasibility study for JAIP by examining the functions of JAIP as “soft components” such as SME promotion, logistics improvement, and other relevant incentives, in order to make JAIP more concrete and attractive. Also, this study aims to strengthen the Agriculture and Agribusiness Development Sub-Program.

The deliverables of this Survey are the Inception Report, the Interim Report, the Draft Final Report, and the Final Report to be submitted in February 2010.

1.3 Study Methodology

The scope of this Study is to: (i) review the present status of industrial and export promotion and functionality for promotion; (ii) review logistics issues and recommend solutions; and (iii) develop incentives for the industries to expand or relocate to JAIP and develop functions as incentives. The principal approach of this survey is as follows:

- To encourage both a public and private initiative to achieve long-term sustainability;
- To simultaneously solve the issues of industrial promotion and JAIP development;
- To adapt good practices of other countries with appropriate modification for Palestinian needs; and
- To consider the required support for SME industries.

The tasks of this Survey are summarized in Table 1.1.

Table 1.1 Tasks of the Survey

Task 0	Work Activities in Japan
Task 1	Review the Present Status of Industrial Promotion and Functions for Promotion
Task 1-1	Interviews and review of industrial promotion approaches
Task 1-2	Survey and analysis of needs and problems of SMEs
Task 1-3	Case studies on industrial promotion approaches adopted by other donors in the Palestinian Territories and SME promotion in other countries
Task 2	Review the Issues of Logistics and Recommend Solutions
Task 2-1	Summary of existing surveys on logistics (conducted by other donors)
Task 2-2	Case study on logistics improvement (conducted by other donors)
Task 2-3	Interview and review of actual distribution process of major agro-products
Task 2-4	Interview and review of existing situation of fair trade of Palestinian agro-products
Task 2-5	Summary of logistics issues on agriculture and agro-industry in the Palestinian Territories
Task 2-6	Suggestion of possible and required solutions for logistics improvement
Task 3	Develop Incentives for Industries to Expand or Relocate to JAIP and Develop Functions as Incentives
Task 3-1	Analysis of incentives and disincentives to move into JAIP and suggestions for promotion of JAIP
Task 3-2	Analysis and suggestions on lease rates through cost comparison with other areas
Task 3-3	Design of industrial promotion and logistics improvement plan
Task 3-4	Suggestions on technical assistance for industrial promotion and logistics improvement
Task 3-5	Suggestions on requirements for capacity building for implementation bodies
Task 4	Other Works (Deliverables)
Task 4-1	Inception Report
Task 4-2	Interim Report
Task 4-3	Draft Final Report
Task 4-4	Final Report

In this Survey, interviews and data collection were conducted in the West Bank. Neighboring Middle Eastern countries (Egypt and Jordan) and European countries (the United Kingdom and the Netherlands) were also visited as a part of the survey. The survey schedule is shown in Figure 1.1. Tasks 1 and 2 were covered in the first field survey, while Task 3 was carried out in the second field survey according to the schedule below.

	2009						2010	
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Inception Report		▽						
	18	20						
First Field Survey								
Progress Meeting with PA (1)		▽						
Interim Report			▽					
			25	31				
Second Field Survey								
Progress Meeting with PA (2)				▽				
Draft Final Report						▽		
						13 24		
DFR Presentation								
Comments by PA								
Final Report								▽

Figure 1.1 Schedule of the Survey

This Report, as a deliverable of the Study, consists of seven chapters:

- Chapter 1 introduces the background, objectives and methodology of the Study;
- Chapter 2 describes the policies, practices and institutions for SME development and export promotion, including an analysis on fair trade as a promotion tool for export;
- Chapter 3 focuses on SMEs in the food industry and summarizes their expectations for JAIP from the surveys;
- Chapter 4 summarizes major existing problems related to logistics and identifies possible solutions;
- Chapter 5 analyzes required Business Development Services (BDS) in JAIP and the development plan of a BDS center;
- Chapter 6 is the information regarding business plan for JAIP including market information, operation and management plans, and financial analyses;
- Chapter 7 presents the final recommendations of the Study.

2 SMEs PROMOTION IN THE PALESTINIAN TERRITORIES

2.1 SME Policy and Practices

2.1.1 SMEs in the Palestinian Territories

(1) Growth of SMEs

Small and Medium Enterprises (SMEs) in the Palestinian Territories are the dominant form of business and form the backbone of the economy. Over 95% of companies employ fewer than 50 people. SMEs play a major role in the socio-economic development and remain the main source of income and employment for the overwhelming majority of Palestinians. At present (in 2007), the number of establishments¹ belonging to the private sector is approximately 110,000 operating across the following sectors: 50% operate in the commerce sector, while 14% operate in the manufacturing sector, respectively. The others are distributed among the following sectors: mining, agriculture and agro-industry, and services (tourism, financial intermediation, transport, storage, etc). SMEs employ approximately 80% of the labor force working in the private sector.² Official statistics for 2009 from the Palestinian Central Bureau of Statistics show that the contribution of SMEs to the Palestinian GDP amounts to 24%.³

Box 2.1 Palestinian Definition of SMEs

In the Palestinian context, SMEs were defined mostly the same, in general depending on the number of employees. Most of the studies agreed that SMEs have fewer than 50 employees.

- A recent UNCTAD study on Palestinian SMEs (*"Palestinian Small and Medium-Sized Enterprises: Dynamics and Contribution to Development"* (2004), United Nations Conference of Trade and Development, New York and Geneva) defined small and medium enterprises as those with 5-50 employees. The UNCTAD study is based on a survey conducted by PCBS in 2003.
- On the other hand, the Palestinian Central Bureau of Statistics (PCBS) Establishment Census - 2004 uses the following definitions:
 - A 'micro' or 'small' enterprise has 0-4 employees
 - A 'medium' enterprise has 5-9 employees
 - A 'large' enterprise has 10-19 employees
 - A 'very large' enterprise has more than 20 employees
- SEC (The Small Enterprise Center) considers enterprises with fewer than 5 employees as "micro", ones with 5-9 employees as "small", and ones with 10-25 as "medium".

Although the definitions used in the Palestinian Territories seem to be reasonable in relation to the general size of the business, it is obvious that there is no single, agreed-upon official definition used in the Palestinian Territories. However, this fact hinders efforts towards development of a national policy for SMEs, and reduces the consistency among the different studies.

This study refers to SEC's definition in general.

¹ Establishment: According to the PCBS definition, "an economic organization could be either a single establishment, a head office with bookkeeping or without bookkeeping, or a branch."

² Palestinian Central Bureau of Statistics, 2008. Census results of establishments (2007) – Final Results, Ramallah, Palestine http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1487.pdf

³ The average contribution of SMEs to the GDP in certain countries might reach 35% or more. In the Palestinian Territories, SMEs contribution to the GDP is approximately 24%. This seems to be low since enterprises operating in the agriculture sector are excluded. In addition, the percentage is low since some SMEs are not formally registered and labeled as "informal sector", hence they are also unrecognized when conducting official surveys and statistics.

Table 2.1 Percent Increase in the Number of Establishments per Economic Activity from 1997-2007

Economic activity	2007				2004				1997			
	No. of persons engaged			No. of establishments	No. of persons engaged			No. of establishments	No. of persons engaged			No. of establishments
	Total	Female	Male		Total	Female	Male		Total	Female	Male	
Agriculture	14,572	3,249	11,323	6,976	12,283	2,552	9,731	5,881	9,172	1,640	7,532	6,076
Mining and Quarrying	1,851	10	1,841	299	1,570	4	1,588	211	2,262	8	2,254	362
Manufacturing	62,832	8,363	54,489	15,340	56,565	5,291	51,274	13,177	60,877	9,581	51,296	14,813
Electricity and Water Supply	3,064	87	2,977	477	2,639	94	2,545	510	1,272	4	1,268	886
Construction	4,557	303	4,254	627	5,067	298	4,768	704	3,861	250	3,611	526
Wholesaler, Retail Trade & Repairs	111,829	9,958	101,871	59,253	99,333	6,983	92,350	55,048	65,722	4,283	61,459	39,600
Hotels & Restaurants	11,239	973	10,268	4,643	9,908	802	9,148	4,192	5,736	336	5,400	2,612
Transport, Storage, Communications	8,537	997	7,540	1,215	7,664	800	6,884	873	3,285	232	3,053	689
Financial Intermediation	7,142	1,811	5,331	844	5,118	1,145	3,973	725	4,167	1,085	3,082	619
Real Estate, Renting, & Business Activity	11,212	2,331	8,891	4,304	9,934	1,730	8,204	3,902	6,779	1,327	5,452	2,736
Education	20,091	11,811	8,280	2,384	16,952	9,126	7,826	1,960	10,284	6,349	3,935	1,487
Health and Social Work	16,586	6,941	9,645	4,260	15,102	6,148	8,956	3,682	10,613	4,592	6,021	2,996
Other Community, Social & Personal Activities	23,453	8,433	15,020	9,064	15,452	4,758	10,694	6,414	7,331	1,504	5,827	3,561
Total	296,965	55,267	241,698	109,686	257,587	39,689	217,898	97,279	191,361	31,171	160,190	76,963

(Source PCBC)

Table 2.1⁴ shows that the total number of establishments increased by 13% from 97,279 in 2004 to 109,686 in 2007. The total number of employees engaged in these establishments increased by around 39,000 employees as well.

Table 2.2 summarizes the number of establishments in operation and the number of persons engaged in the private and non-governmental organization sectors, as well as with state-owned companies in the 1997, 2004, and 2007 censuses (*Source, PCBS, National Survey 2008*)⁵.

Table 2.2. Establishments Created from 1997–2007

Economic Activity	1997	2004	% change vs. 1997	2007	% change vs. 1997
	No.of Establish ments	No.of Establish ments		No.of Establish ments	
Agriculture	6,076	5,881	-3.2	6,976	14.8
Mining and Quarrying	362	211	-41.7	299	-17.4
Manufacturing	14,813	13,177	-11.0	15,340	3.6
Electricity and Water Supply	886	510	-42.4	477	-46.2
Construction	526	704	33.8	627	19.2
Wholesaler, Retail Trade & Repairs	39,600	55,048	39.0	59,253	49.6
Hotels & Restaurants	2,612	4,192	60.5	4,643	77.8
Transport, Storage, Communications	689	873	26.7	1215	76.3
Financial Intermediation	619	725	17.1	844	26.7
Real Estate, Renting, & Business Activity	2,736	3,902	42.6	4,304	57.3
Education	1,487	1,960	31.8	2,384	60.3
Health and Social Work	2,996	3,682	22.8	4,260	42.2
Other Community, Social & Personal Activities	3,561	6,414	80.1	9,064	154.5

Source: Palestinian Central Bureau of Statistics. 2008. Census results of establishments (2007) - Final Results, Ramallah, Palestine http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1487.pdf.

The establishments created from 1997 to 2007, as shown in the table above, were concentrated in three primary areas: (i) wholesale, retail trade and repairs (an increase⁶ of 50%); (ii) social and personal activities (an increase of 155%); and hotels and restaurants (an increase of 78%). Transport, real estate, and education also grew by 76%, 57% and 60%, respectively. Mining and quarrying showed a 17% decrease in the number of establishments, while electricity and water Supply showed a 46% decrease.

Table 2.3. Employment Growth in Establishments from 1997–2007

Economic Activity	1997	2004	% change vs. 1997	2007	% change vs. 1997
	Employees	Employees		Employees	
Agriculture	9,172	12,283	33.9	14,572	58.9
Mining and Quarrying	2,262	1,570	-30.5	1,851	-18.2
Manufacturing	60,877	56,565	-7.1	62,832	3.2
Electricity and Water Supply	1,272	2,639	107.5	3,064	140.9
Construction	3,861	5,067	31.2	4,557	18.0
Wholesale, Retail Trade & Repairs	65,722	99,333	51.1	111,829	70.2
Hotels & Restaurants	5,736	9,908	72.7	11,239	95.9
Transport, Storage, Communications	3,285	7,664	133.3	8,537	159.9
Financial Intermediation	4,167	5,118	22.8	7,142	71.4
Real Estate, Renting, & Business Activity	6,779	9,934	46.5	11,212	65.4

⁴ Palestinian Central Bureau of Statistics. 2008. Census results of establishments in the Remaining West Bank (2007)–Final Results, Ramallah, Palestine http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1487.pdf.

⁵ Palestinian Central Bureau of Statistics. 2008. Census results of establishments (2007)–Final Results, Ramallah, Palestine http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1487.pdf

⁶ Increase and decrease are shown as net base, not as gross change of new establishments.

Economic Activity	1997	2004	% change vs. 1997	2007	% change vs. 1997
	Employees	Employees		Employees	
Education	10,284	16,952	64.8	20,091	95.4
Health and Social Work	10,613	15,102	42.3	16,586	56.2
Other Community, Social & Personal Activities	7,331	15,452	110.7	23,453	220

(Source PCBC)

Table 2.3⁷ shows that employment created over the period 1997–2007 was concentrated in the wholesale sector (70% increase), social and personal activities (220% increase), and education (95% increase), respectively. Electricity and water, transport, real estate, and hotels also grew by 141%, 160%, 65% and 96%, respectively. Mining and quarrying is the only sector showing a decrease in the number of employees (18%) - this could be due to quarry closures due to the ceasing of commercial operations in certain areas such as Beit Fajjar (a town) in the Bethlehem District.

Table 2.4. Contribution to GDP by Economic Activity and Sectors from 2001-07

Economic activity	Percentage Contribution to GDP						
	2001	2002	2003	2004	2005	2006	2007
Agriculture	9.1	7.7	7.9	7.1	5.2	5.6	5.6
Mining and Quarrying	0.6	0.8	0.6	0.7	0.6	0.5	0.4
Manufacturing	12.5	11.8	12.6	13.2	13.0	11.7	9.9
Electricity and Water Supply	3.3	3.8	3.8	3.2	3.4	2.8	3.5
Construction	5.5	3.9	5.0	5.7	6.8	7.2	6.2
Wholesale, Retail Trade & Repairs	9.6	11.9	9.8	9.8	9.4	9.6	9.2
Hotels & Restaurants	0.5	0.2	0.4	0.7	0.8	0.9	0.7
Transport, Storage, Communications	5.6	5.6	4.6	6.1	5.8	6.6	7.5
Financial Intermediation	3.6	4.2	4.1	3.6	4.4	4.3	5.2
Real Estate, Renting, & Business Activity	10.3	11.0	10.3	10.4	10.3	7.0	7.6
Education	7.1	8.0	7.6	7.8	8.2	7.9	9.6
Health and Social Work	2.8	3.3	3.3	3.0	2.5	2.7	2.8
Other Community, Social & Personal Activities	0.8	1.0	1.2	0.9	1.2	1.1	1.5
Public Administration and Defense	17.6	16.7	16.9	14.3	14.1	15.7	13.9
Household with Employed Persons	0.2	0.2	0.2	0.1	0.0	0.1	0.1
Less: FISIM (Financial Intermediation Services Indirectly Measured)	-3.1	-3.1	-3.0	-2.8	-2.6	-3.0	-5.7
Plus: Customs Duties	4.5	2.7	4.4	4.8	5.9	6.7	6.3
Plus: VAT on Imports Net	6.7	6.7	5.8	7.7	7.6	8.1	9.9
Total	100	100	100	100	100	100	100

(Source PCBC)

Although there is no dominant sector contributing to the GDP of the Palestinian Territories, the following sectors witnessed increase in percentage contribution to GDP over the analysis period:

- The education sector witnessed the largest increase in percentage point contribution to the GDP (2.5%).
- Transportation, storage, and communication sector also increased percentage point contributions by 1.9%, respectively.
- Other sectors showing increases included financial mediation (1.6%), the construction sector (0.7%), and hotel and restaurants (0.2%).

⁷ Source: Palestinian Central Bureau of Statistics (2008). Census results of establishments in the Remaining West Bank (2007)–Final Results, Ramallah, Palestine http://www.pcbs.gov.ps/Portals/_PCBS/Downloads/book1487.pdf.

Table 2.4 shows that the following sectors have experienced a decrease in percentage contribution to GDP over the 2001-07 period:

- The agriculture sector witnessed the largest decrease in contribution to GDP (3.5%), followed by real estate and business activities (2.7%), manufacturing (2.6%), wholesale, retail trade and repairs (0.4%), and mining and quarrying (0.2%).
- Other sector remained steady such as health and social work.

The above indicated that leading sectors for self sustainable economic growth are not defined clearly. Therefore political strategy to promote SMEs should be indispensable.

Box 2.2 Net Firm Creation in Subsectors

A study by UNCTAD, although somewhat dated, helps to analyze subsector-wise growth in economic activity. Entitled “*Palestinian Small and Medium-Sized Enterprises: Dynamics and Contribution to Development*”, this study indicated that most SMEs created between 1994–97 were:

- Concentrated in the construction sector (43%), the apparel manufacturing branch (37%), and in mining and quarrying (24%), respectively.
- The majority of new entrants into the apparel manufacturing branch were medium-size enterprises, while small enterprises dominated new entrants into the other two sectors.
- Although basic metallic manufacturing SMEs as well as those involved in the production of electrical machinery showed significant growth, the total number of new entrants was insignificant.
- Tourism SMEs fared poorly over this period, with their number decreasing by 2%.
- The period from 1994–97 witnessed the closure of a significant number of SMEs mainly involved in capital-intensive activities – over half of these involved in the production of medical equipment, vehicles and transport equipment were forced to exit the market.
- Most existing enterprises were small. Such enterprises show high death rates during their initial years, with as many as 95 percent failing to maintain their operations beyond the first two years.

The study then indicates that available 1997-99 statistics from the Palestinian Central Bureau of Statistics do not allow for an examination of SME growth at the branch level. Nonetheless, they show that:

- This period witnessed a surge in the number of tourism SMEs, which registered the highest growth rates.
- The number of construction SMEs grew by 8%, while the number of those involved in manufacturing and mining and quarrying activities increased by 4% and 2%, respectively. It is worth noting that growth rates vary significantly according to enterprise size, with medium-size enterprises accounting for nearly 41% of the SMEs involved in the surveyed sectors and being poised to expand their activities on the eve of the crisis in 1999.
- This was particularly the case for SMEs involved in tourism and construction, with more than half of these enterprises forced to postpone or cancel their expansion plans following the outbreak of the protracted conflict. Non-metallic producing enterprises ranked second, with 41% of the enterprises postponing or abandoning their expansion plans.
- These were followed by mining and quarrying, wearing apparel, and food and beverage SMEs, of which more than 30% postponed or cancelled their plans.

An examination of the expansion plans by sector shows that most were concentrated in the apparel and non-metallic manufacturing sectors. Moreover, small enterprises accounted for 90% of this expansion, with the construction sector being the lone exception, with 38% of expansion generated by medium-sized enterprises.⁸

⁸ UNCTAD (2004). Palestinian small and medium-sized enterprises: Dynamics and contribution to development

(2) SMEs Challenges

In the Palestinian Territories, as is the case in many developing countries, SMEs face major challenges and constraints as described in several documents and reports produced by the Small Enterprise Center (SEC):⁹

- *Poor Business Management Infrastructure:* Poor business management infrastructure and business culture is the most important factor contributing to weak business performance and sustainability, and limited capacity to develop new products and services. A total of 70% of all companies are family-owned, while around 90% of managers are owners. Family savings are the main source of financing start-ups. All these factors make Palestinian SMEs too individual and fail to promote a corporate culture. Despite the fact that family ownership has been a contributing factor to the survival and sustainability of SMEs in the Palestinian Territories, family ownership may, in many cases, be a hindering factor to growth due to limited financing sources and management capacity, as well as the resistance to partner with non-family members. There is fragmentation of related and necessary supporting industries in terms of supply inputs in the producing and marketing. This leads to higher price and inefficient delivery, while also tending to discourage the development of these industries due to the inability of SMEs to afford development services to businesses.
- *Lower Use of Productive Capacity:* The on-going political unrest and unstable market environment have affected SMEs in development. These environments and lack of growth opportunities have generated negative impacts, particularly in the inefficient use of productive capacity. For instance, the Utilized Production Capacity (UPC¹⁰) for SMEs operating in the Palestinian Territories is very low according to previous studies such as one conducted by the Federation of Chambers in 2002. This study indicated that UPC percentage in the Palestinian Territories industrial sector fails to reach 70% at best. In fact, it has deteriorated to 30% due to Israeli government measures including security arrangements. Internal factors also impact the UPC such as the marketing capacity of producers to sell in large quantities in “low demand” Palestinian market. The non-availability of raw materials, inability to obtain technology, and lack of human resource management are just another set of examples.
- *Limited Knowledge of International Market Standards:* Limited knowledge in this sense restricts the capacity to meet global demands and achieve meaningful export growth. The Palestinian Standards Institute (PSI), PalTrade, Palestinian Federation of Industries (PFI) and other institutions are working on international market standards; however, this effort is not coordinated nor well communicated with SMEs, as these efforts tend to cater to the needs of big companies.
- *Penetration of Israeli Products into the Palestinian Market:* The market share of Palestinian products into the Palestinian market does not exceed 20%, while the Israeli market share reaches 50%.¹¹ It is important to mention that if industries in the Palestinian

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT, New York and Geneva.

⁹ Eman Hadweh & Issa Bandak (2006), Micro, Small and Medium Enterprises in Palestine: Current Status and Future Outlook. ICP, Bethlehem University, Palestine)

¹⁰ UPC indicates the percentage of real production compared to the installed capacity for production.

¹¹ It is said that the superior competitiveness of Israel industries is due to the fact that Israel industries can enter the Palestinian market with larger quantities at cheaper (dumped) prices. This leads to unfair competition with Palestinian industries.

Territories could increase the domestic market share by 10%, up to 100,000 new jobs could be created.

- *Lack of Access to Credit:* Lack of access to credit and the general reluctance to borrow from banks and financial institutions due to unfriendly lending conditions leaves businesses with limited working capital, among other things. During recent years, different micro lending programs funded by donors have been implemented by international agencies and Palestinian NGOs to fight poverty. These have contributed to reducing burdens¹² from Israeli security measures and policies and to improving how everyday crises are coped with. However, NGO micro lending has not always been very successful because of the lack of enforcement mechanisms and the widespread perception that NGO loans are a “grant” rather than credit.
- *Weak Role Played by the Public Sector:* The role of the public sector has been very modest in assisting Palestinian SMEs. The Palestinian Authority does not provide enough support to SMEs development. It is worth noting that the role of the so-called “third sector”, comprised of NGOs and other civil society organizations in the Palestinian Territories, in providing support for the small business sector needs thorough investigation. In the Palestinian Territories, where the government's efforts are directed to more urgent issues and it is unable with its full capacity to assist SMEs, NGOs can fill the gap and come to the aid of small businesses. A consistent vision or strategy on how to assist this sector has yet to be defined. As such, synergy among the previous efforts was not effectively achieved due to the lack of a unified vision and, hence, consistency in the efforts invested.
- *Gender Issues:* The majority of business owners are males. Female owners consisted of only 4% of the SMEs owners’ operating in the formal sector. The effect of culture on inheritance of businesses and role in income generation causes businesses in the Palestinian Territories to be dominated by men.¹³ This trend also tends to reduce the potential growth of economic activities geared to women.

In summary, the growing number of SMEs in various sectors is generally categorized as less competitive than they should be. This is likely due to the lack of a development environment as well as political instability and upheaval that cannot be controlled by SMEs.

2.1.2 SME Development Policy in the Palestinian Territories

(1) Policy and Framework

The Palestinian economy has very few large businesses. Employment in big companies in the private sector is limited, less than 20% - this encourages Palestinians to establish their own businesses as a source of income and a means of survival to overcome hard political and economic situations. Much academic research and literature have emphasized the role that

¹² According to a UNCTAD report presented at the United Nations Conference on Trade and Development (2007), “After nearly seven years, economic siege has reduced Palestinian exports not only to Israel, but to the rest of the world as well. This reflects not domestic economic structural weaknesses, but increasing isolation from world and Arab markets, imposed under an ostensible “separation” policy. In 2006, imports as a percentage of GDP surged to 86 percent, up from 75 percent in 2005. This change equates to a \$500 million loss to the economy. At present, Palestinian companies are mainly dependent on Israeli port facilities for participating in international trade. On top of this, since 2000 Israel has been imposing complex security measures, including a system of checkpoints/roadblocks, and cumbersome customs and overland transport procedures at all crossing points. As a result, market access benefits are siphoned away by the prohibitive transaction costs facing Palestinian shippers (exporters and importers).”

¹³ It has to be noted that this disparity may cause distorted resource allocations and lead to a loss of business opportunities and economic growth.

micro and small businesses play in situations of crisis and their ability to adapt, survive, or even grow in an unstable environment.

Despite the significance of SMEs to the Palestinian economy, in terms of job creation and poverty alleviation, and despite the efforts of various stakeholders to support this sector, the legal and administrative developmental framework, as well as supporting policies and programs is still incomprehensive, weak, and unclear. Although government responsibility is to develop a policy framework and establish a special agency to follow and implement these policies, the Palestinian Authority has not developed a clear developmental policy for supporting the private sector and SMEs, in particular.

It is evident that the public private sector development framework, PRDP (Palestine Reform and Development Program), which is a mechanism for the Palestinian Authority to plan a series of development projects, is scrutinized and orchestrated by the donor community through the Ad Hoc Liaison Committee (AHLC). The aim of AHLC is to review donor aid and policy. The World Bank serves as the Secretariat of the AHLC, which is chaired by Norway and sponsored by the EC and US. The Local Aid Coordinating Secretariat (LACS) in the Palestinian Territories falls under the AHLC structure. AHLC covers four areas of work: social development, infrastructure, governance, and economic policy.

Four working groups fall under the economic policy:

- Private sector working group, co-chaired by the WB and MoNE.
- Agriculture sector working group, co-chaired by Spain and MoA.
- Micro finance sector task force, co-chaired by the Palestine Monetary Authority and USAID
- Fiscal sector working group, co-chaired by Ministry of Finance and IMF.

The capacity development for ministerial policy development, such as SME development policy, is well supported by the World Bank, UNDP, UNIDO, and other international organizations. These organizations mainly dispatch advisors and experts.

(2) Ministry of National Economy

The Ministry of National Economy is a combination of three ministries, the ministries of Trade, Industry, and Supply. Under the umbrella of the Ministry of National Economy are three agencies: the Palestinian Investment Promotion Agency (PIPA), Palestinian Standards Institute (PSI), and Palestinian Industrial Estate and Free Zones Authority (PIEFZA). Each agency has its own board of directors, which are chaired by the Minister.

The MoNE, in full cooperation with international organizations and donors, and through local NGOs and private sector institutions, implements different development projects for the private sector in general and SMEs in particular. The PA role is as a project facilitator rather than a direct provider. Donor programs for the MoNE are concentrated in the following areas:¹⁴

- Institutional reform for companies that includes land registration, commercial laws, improved business licensing, industrial development, and staff training.
- Trade infrastructure and facilitation that includes the improvement of the flow of goods through crossing points, improvement of products packaging/labeling to meet export requirement, upgrade of infrastructure at crossing points, entry to WTO, improvement of competitiveness, development of readiness for export, export promotion, etc.

¹⁴ Source: World Bank, the donors' contributions table has been provided via e-mail by the World Bank, Jerusalem.

- Enterprise investment and development that includes projects focused on a permanent exhibition center, technical assistance to SMEs, economic empowerment for women, and investment promotion, such as the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) Private Sector Development Program (2006–2009 1st phase).
- Industrial and services capacity development that includes the follow: quality standards testing labs, dissemination of information about international product quality standards, development and enforcement of construction standards, industrial zones, industrial business capacity development, technical assistance for businesses through UNIDO, ICT projects to improve product quality, etc.

Box 2.3 MoNE 100-Day Plan

The MoNE recently developed¹⁵ a 100-Day Plan for the ministry, in cooperation with international organizations and organizations that support the private sector. It is important to note that SME and business development is ranked on top of the Government Agenda as stated:

“Private sector development, mainly SMEs is at the heart of our plan and we want to develop our relationship with them. We’re keen for the Ministry to be working to build up local industries and Palestinian capacity for generating sustainable growth and employment opportunities. The plan includes re-organizing the issuing of businessmen’s permits and improving private sector performance and good governance”. (from interview report with the former Minister, 2009)

The plan has a number of key areas:

- Internal market regulation (e.g. certification, labeling, enforce consumer protection law)
- Legal and regulatory environment (commercial laws, income tax law, investment promotion, industry law, companies law, competition law, law on movable assets)
- Activation of the role of the ministry and associational institutions (contemplating SME agency in the future , PSI, PIPA, PIEFZA)
- Development of a strategic national plan
- Policy formulation
- Development of national strategy on the development of the Jordan Valley
- Enhancement of relations with international bodies within the Arab Free Trade Area and also ties with EU, EFTA and WTO.¹⁶

The 100-Day Plan has to be coordinated with related PA offices, the Cabinet, as well as the offices of the Prime Minister and President, depending on the topic.

(3) Ministry of Agriculture

Beside the MoNE, the Ministry of Agriculture is directly implementing a number of agriculture development projects as well as indirectly implementing projects through local organizations such as Palestinian Agriculture Relief Committee (PARC) and the Palestinian Farmers Union. The main donors for the Ministry of Agriculture over the last three years have been the Italian Government and related cooperation agencies, UNDP, and Japan, which focused on institutional capacity building projects in rural areas. Future MoA programs will concentrate on institutional capacity building and technical assistance for farmers, agriculture census, irrigation, establishment of exemplary farms, and tree planting, central testing laboratory projects, goat farming center, health lab, rehabilitation irrigation network, animal feed production, seed

¹⁵ This plan was initiated by the former Minister, Mr. Bassem Khoury, who was sworn in on 19 May 2009.

¹⁶ The plan includes reviving the US Palestine Economic Development Group and joining the Agadir Group (which includes Jordan, Egypt, Tunisia and Morocco) to help export products to EU member states the Portland Trust (2009). Economic Feature: Interview with Bassem Khoury Minister of National Economy. This economic feature was printed for the Portland Trust in Ramallah by Al Nasher Advertising and PR, 2009.

improvement, product development and standards, and improvement of olive oil productivity. There are many associations, unions and NGOs working under the umbrella of the Ministry of Agriculture, such as the Palestinian Farmers Union, PARC, Union of Agriculture Work Committee, Arab Center for Agricultural Development (ACAD), etc.

2.2 Development Institution Programs for SMEs

2.2.1 Measures by Private and Public BDS Institutions

Except for several chambers of commerce and a number of NGOs, the majority of private sector institutions have been established after the formation of the Palestinian Authority (PA), either based on donor request to achieve project sustainability or on the initiative of staff that used to work with donors. The key private sector institutions, such as the chambers, Federation of Palestinian Industries, and Paltrade, are working on a national policy level, although they are implementing interventions to serve big companies rather than SMEs. This has resulted in the creation of new NGOs to take on this role for small and micro enterprises such as the Small Enterprise Center (SEC).

The BDS facilitators, providers, and microfinance institutions have been very active in their support of SMEs. Institutions listed in the table below represent some of the recent efforts under the “caretaker regime” of the Palestinian Authority. These institutions can be classified under the following categories:¹⁷

- Union and membership organizations and agencies (e.g. PFI, Shippers Council, and PalTrade)
- BDS facilitator NGOs (e.g. SEC and PARC)
- Economic research (e.g. the Palestinian Economic Policy Research Institute (MAS))
- Financial institutions (e.g. ACAD)

Most of these institutions are registered at the Ministry of the Interior as NGOs, and are governed by Palestinian NGO law. Some of them have received public sector recognition by the abiding ministerial decrees such as PIPA, PIF, and PFCCIA, and PFI.

Among the most pressing questions facing most of the institutions and NGOs sectors in the Palestinian Territories is financial sustainability. Besides the chambers of commerce (which collects an annual membership fee of 45,000) and Credit and Development (FATEN, which collects through interest rates charged on credit), local institutions are still predominantly dependent on foreign donor funding. The PA does not allocate a budget for these institutions due to budget deficits; instead these institutions are funded by donors. Should foreign donors withdraw or reduce their support, the challenge of long-term sustainability will become even more urgent.

The table below presents map supporting measures by major institutions. This mapping charts the efforts of major institutions. It is understandable that while there is no major gap in the BDS offered, quality is relatively low and outreach is limited to certain areas or sectors. Major findings and remarks follow this table.

¹⁷ MAS and other research oriented institutions are not reported in this report.

Table 2.5 Supporting Measures by Private and Public BDS Major Institutions

Local association, organizations, NGOs	Management capacity development	Production process	Market development	Financial support	HRD and HRM	Business Environment/ Business Networking	Level of work (company level, institutional level, national or policy level)
FPCCIA	2	4	1	4	3	2	C,B
PFI	2	1	3	3	3	1	B,C
Paltrade	2	4	1	4	3	2	A,C
PFU	2	3	3	4	4	3	A
PITA	2	3	3	3	3	2	C
PICTI	2	3	3	4	3	2	A
PSC	2	2	1	4	4	3	A,C
PBA	3	3	4	3	3	3	C
PBC	3	3	3	2	3	3	A
FATEN	4	4	2	1	3	3	A
ACAD	4	3	3	1	4	4	A
SEC	1	3	2	4	1	4	A,C
PARC	2	2	1	3	3	2	A,C
YEP	2	4	4	3	3	3	A
Shippers Council	3	4	1	3	3	2	C
ABP	2	4	4	4	4	2	C
Network	3	4	2	2	3	2	C
PPSCC	4	4	2	4	4	1	C
PIF	2	4	3	1	4	2	A
PIPA	4	3	3	4	3	2	C
PSI	3	1	1	4	4	2	C
PIEFZA	4	4	4	4	4	2	C

NOTE: (1) The scoring system is defined as: 1-very active, 2-active, 3-weak, 4-very weak (scores based on observations and are used to mainly highlight priority areas set out by each institution); (2) The “level of work” scoring is defined as: A - company level, B - institutional level, C - national or policy level (scores based on observations and are used to mainly highlight areas of priority set out by each institution); (3) this table only shows specific coverage areas that these institutions work on.

(1) Management Capacity Development

General overview:

The SME sector faces many challenges illustrated in Section 2.1.1(2) SMEs Challenges, represented by poor business management infrastructure and a business culture that is skewed on easy imitation rather than innovation. This leads to weak business performance and sustainability as well as limited managerial capacity to develop new product ideas and investment proposals.

The Palestinian entrepreneurs are not implementing professional management styles in running their businesses, since the majority of them are family-owned or managed and prefer to follow the management style of their parents. In addition, due to the fact that SMEs in the Palestinian Territories are smaller ones, owners consider these companies as a source of income for their families, so they do not have plans for expansion. Besides these internal factors, other hindrances are from external factors such as the low quality of business development services offered in the market by local BDS providers, as well as the high cost of the BDS, which SMEs cannot afford. These two factors make owners and managers of SMEs reluctant to purchase BDS.

In general, SME owners in the Palestinian Territories use minimal technology in managing their entities. Official 2007 statistics indicate that 21.3% of Palestinian companies use PCs and that half of those using PCs (12.7%) are connected to the Internet. Around 43.3% of employees are computer literate, although this number rises to 50.0% of employees among companies with 10 or more employees. However, only 15.4% of employees actually use computers for work (*PCBS: Business Survey on ICT, 2007 Analysis of ICT-Access and Usage of Enterprises in the Palestinian Territories, June, 2009*).

Issues to be addressed:

There is no doubt that management skills are critical to the success of a company. It is important for solving challenges present in traditional and culture barriers to growth. Management skills also help to improve productivity and production capacity of SMEs as well as contribute to solving gender issues through managerial capacity building of women to startup and/or run their businesses in a professional manner.

Major donors' activities:

International development organizations such as UNIDO, UNCTAD, GTZ, CIDA, and other donors are working with selected local institutions such as the PalTrade, SEC, PFI, FPCCIA, PITA, and others to enhance their capacities in certain fields and to improve their qualifications in providing high quality management courses for members.

SEC is one of the few organizations that focus their services on SMEs in the Palestinian Territories. Therefore, SEC succeeded in designing and implementing tailored and quality BDS to overcome SME weaknesses. SEC provides an intensive training program based on a thorough needs assessment for potential participants. Extensive coaching after the delivery of the training is provided to foster the personal skills required for entrepreneurial success.¹⁸ Other institutions such as chambers of commerce and business associations such as PITA are somehow involved in the management training for their SMEs members, but on an ad hoc basis and on the availability of funds and donor interests. Normally these institutions contract or partner with the SEC or local consulting firms to deliver the services. It is important to note here that there is no integration between the financial services and the non-financial services (e.g. BDS). The financial institutions offer credit to SMEs, but not any kind of BDS prior to disbursement.

¹⁸ SEC Website: www.sme-pal.ps

Evaluation:

In general, local BDS providers depend on donor programs, so generally it is a donor driven market. Management capacity development for SME owners or employees is limited to certain donor programs designed to serve certain sectors in a particular geographical area. Moreover, these offered BDS are short-term, not customized to the real development needs of SMEs, and of poor quality due to the lack of qualifications and certifications of local BDS providers.

There is an opportunity to build capacity in these institutions to help SMEs develop their management capacity. Local institutions should design interventions that facilitate cooperation among SMEs by promoting joint ventures and business linkages mechanisms. SEC and PalTrade are leaders in promoting new economic development concepts that focus on promoting cooperation among groups of businesses such as value chain, Local Economic Development (LED¹⁹), and clustering.

As for JAIP or Palestinian Business Development Center, there is a great chance to capitalize on the existing experience. Therefore JAIP has to respond to market needs through:

- Designing and delivering medium-term BDS programs that are certified, action-oriented, and targeted to top management.
- Continuing to support economic development through promoting business linkages, by designing and implementing BDS that aims to develop the management capacity of the owners and top managers, as well as to enhance their strategic planning capacity and leadership capacity.
- Following training program with coaching services.
- Coordinating the recruitment of participant SMEs with chambers of commerce.

(2) Production Process

General overview:

The quality of Palestinian products is low and prices are high, in comparison to Israeli and other foreign products. This is mainly due to high labor costs, dated machinery, lack of skilled labor, and less efficient production processes.²⁰ Without solving these problems, the competitiveness of Palestinian products will remain low in the local, regional and international market.

The Palestinian industries lack experience in industry modernization. Other sectors, such as the agricultural sector, are even worse. The lack of tools and technologies makes it difficult for companies to meet international standards. The relevant ministries and specialized international organizations are aware of such problems, with some efforts underway by PARC, PSI, Farmers Unions, and others.

In the Palestinian Territories, Research and Development (R&D) to upgrade and modernize industries is also weak, stemming from the lack of cooperation among universities and research institutes specialized in this field. Unfortunately, the PA has no clear policy for upgrading this capacity. The lack of political/economic stability and financial resources are impediments to improve production capacity through proper technology.

Issues to be addressed:

Providing BDS for improving the production process is crucial to improve productivity, enhance production capacity, and enhance the ability to produce high quality products that correspond to

¹⁹ LED is focusing on improving local economy for selected region through enhancing the SMEs sector and start up businesses.

²⁰ Although the introduction rate of factory automation and other automation as well as the production related software (such as Enterprise Resource Planning (ERP)) is not widely used.

demand. The BDS will provide opportunity to participating SMEs to adapt innovative production styles, different from traditional ones inherited. It gives SMEs the opportunity to adapt better production planning methods.

Major donors' activities:

The most active institution in providing technical assistance (ISO certification) to the companies operating in the manufacturing sector is the Palestinian Federation of Industries (PFI) through its specialized unit that is heavily involved in industry modernization. This has been done in close cooperation with sector associations supported by the UNIDO, and EU.

Evaluation:

Improving the production process for SMEs in the Palestinian Territories is very crucial to improve the quality of products, and enhance product competitiveness in the market. Although some efforts are on-going by PFI, these are not enough and are limited to certain types of businesses.

JAIP is invited to invest in this field by designing and delivering BDS targeting the potential tenant mainly. Such BDS can be expanded to target SMEs operating in the Palestinian Territories, namely those operating in the agro-business sector. The Japanese have rich experience in industry modernization; this experience and know-how could be transferred to Palestinian SMEs through well designed production process capacity programs. Sectors or sub-sectors that have a competitive advantage, high value-added and high employability should be given priority.

(3) Market Development

General overview:

The Palestinian Territories is a small, resource poor country. Its economic growth has to depend on international market. Therefore, future growth will depend upon the capacity of Palestinian companies to access new markets beyond Israel, especially the Arab and European markets in the mid-term. The Palestinian market is divided between the Gaza Strip and the West Bank. Owners/managers of companies have limited knowledge on international market standards, poor skills in formulating marketing strategies and marketing plans, and limited capacity to meet global demands and hence to achieve meaningful export growth.

In the Palestinian Territories, imports of goods and services have been equivalent in the last five years to, on average, 70% of the GDP. By contrast, exports are only equivalent to around an average of 18%. The official statistics shows that total Palestinian exports increased by around 40% in 2007 compared to 2006, and by 53% compared to 2005. In 2007, total Palestinian exports to Israel were equivalent to 87% of total Palestinian exports.²¹

Total Palestinian exports increased by 28% in 2007 compared with 2000. This increase was a result of an increase in exports in the following sectors: chemicals (66%), leather & textile (41%), non-metallic (23%), metallic & machinery (55%), wood & furniture (70%), and others (57%), respectively. However, food and beverage decreased by 16%. It is worth mentioning that food and beverage exports have significantly improved in the last four years, though they still fail to return to 2001 levels because of the situation in the Gaza where fruit and food exports collapsed.

On the other hand, total Palestinian imports increased by 14% in 2007 compared to 2006, and

²¹ Total exports from the Gaza Strip to Israel decreased by 35% in 2007 compared with 2006, and decreased by 56% compared with 2005.

18% compared to 2005. Total Palestinian imports from Israel represent 73% of all Palestinian imports. The dominance of trade to Israel represents a defining characteristic of Palestinian trade.

It is also noteworthy that although the volume of trade is not significant, the Study Team recognized that fair trade has certain potential for value-added export channel development. The European market may offer a 15% premium as long as the products are certified as Fair Trade from the Palestinian Territories.

Reports on trade (export promotion) and Palestinian fair trade perspectives are presented in Appendices A2.3 and A2.5, respectively.

The Palestinian Authority, supported by donors and international organizations, has undergone a significant process of modernization over the past few years to enhance competitiveness and to promote export to external markets in European, Arab, and Islamic countries. Much effort still is required to find external markets benefiting from signed agreements with many countries like the USA, and EU and Arab countries, as well as from the PA embassies and representatives abroad. In addition, this effort would require cooperation and joint effort of all institutions (public sector, private sector, NGOs, and donors) working in private sector development. Already, there are efforts from the main player of the Private Sector Coordinating Council (PSCC) to promote Palestinian products in local and international markets. PalTrade, for example, has been working on the mandate of promoting Palestinian products in the regional and international markets through participating in exhibitions and trade missions, as well as by conducting market surveys to feed potential companies with information on the target groups, standards, regulations, traders, etc. Just in the last few years, PalTrade started focusing on the local market, aiming to increase the market share of Palestinian products in the local market.

Issues to be addressed:

Designing and implementing interventions or BDS to enhance the market development capacity could contribute to overcoming shortcomings and barriers that challenge SMEs development. These interventions could enhance the marketing capacity of SMEs owners and managers to develop marketing strategies and marketing plans to promote their products in the local, regional and international markets. Enhancing marketing competencies can lead to increased sales volumes, increased production capacity, enriched knowledge of market standards, and increased market share of Palestinian products in the local market.

Major donors' activities:

Different projects and exhibitions are implemented by, or are in strong cooperation with, Paltrade, funded by donors such as GTZ, Swiss Development Cooperation, and Islamic Development Bank. The Federation of Chambers is more active in promoting Palestinian products in the Palestinian market - for example, the main chambers are conducting local exhibitions on a regular basis to promote Palestinian products and increase awareness of purchasing such products by Palestinians. Nevertheless, all these efforts are needed, but they are still not enough. Interested organizations have to determine the roots of the problems and start to solve them as the marketing effort is just one step in the overall business development process.

Other organizations such as PARC and the Farmers Union focus on developing and promoting certain sectors/products such as dates, olive oil, sweet pipers, Majhoul dates, and cold cuts for the diaspora of Palestinians in the Gulf and European countries as well as Japan. These sectors/products would preferably be exported via Allenby Bridge through various marketing channels such as solidarity groups (who have various networks in different countries and thus act as consumers and intermediaries of the Palestinian goods), fair trade organizations, and

commercial marketing channels.

Most donor program target PalTrade as a focal point for promoting export. PalTrade focuses on development of new export channels for certain products such as olive oil, dates, traditional Arabic food, Herbs, honey, etc. In terms of market development and business environment/business networking, donors such as France, EC, Islamic Development Bank, Switzerland, Germany, Sweden, Norway and World Bank, USA, and Denmark focus on implementing a project with the relevant ministries and Palestinian organizations such as PalTrade, and the Shippers Council to build trade infrastructure and to support trade facilitation.

Evaluation:

Despite the aforementioned efforts implemented by local institutions to develop the marketing capacity of SMEs, the results are still below expectations. In order to achieve a significant impact, these efforts have to be implemented within a clear and a holistic framework, with targets and strategies geared towards increasing export. Fragmented efforts and ad hoc events will lead to no real impact in this regard. The marketing or market development efforts should be combined with other efforts to improve the quality of SMEs products.

- JAIP can focus on building marketing capacity to penetrate new markets and niches. The capacity of existing donor projects can be utilized in the JAIP BDS services.
- International trade and export is now facilitated by agents and donors. However, a more focused sector and company-wise approach is needed to boost exports, in addition to efforts in improving logistics. JAIP should have such a facility and the organization to support exports. A permanent exhibition or showcase on JAIP premises is recommended. An exhibition facility gives an opportunity for SMEs to exhibit and promote their products. This facility could also contribute to achieving financial sustainability through the fees collected from exhibitors.
- Many Palestinian companies are isolated from global developments and from information on international shipping and commercial transport. They are ill-informed about shipping areas, regulations and operating procedures, as well as new rules and regulations relating to standards. JAIP through the BDS Center could organize professional training programs to enhance SME marketing capacity, market information, standards, etc.
- Private sector institutional development (at PSCC, PalTrade, PFI, Chambers of Commerce, etc.), industrial policy development, and requisite networking infrastructure for international market access. JAIP could benefit from cooperating with these institutions.
- Initiate programs where the thrust is on improving the productivity and competitiveness of key export sectors and companies (e.g. food industry, meat processing companies, agriculture, furniture, etc), and improving economic environments.²²

(4) Financial Support

General overview

SMEs in the Palestinian Territories lack access to credit and have a general reluctance to borrow due to collateral and lending conditions imposed by the financial institutions, leaving SMEs

²² PA still lacks a clear coherent economic and trade strategy and priorities of those sectors with high value added and employment.

with limited working capital as well as investment capital. In the Palestinian Territories, the Network for Microfinance Institutions, with 12 member institutions and some banks, is involved in providing lending services.

There are two credit guarantee schemes launched three years ago to encourage banks to offer more credit services to SMEs through providing collateral up to 60% of the credit to selected banks to cover the risk. The first credit guarantee scheme is the European-Palestinian Credit Guarantee Scheme, which provides loans for SMEs through local banks. The second one, called “Loan Guarantee Facility”, is implemented by CHF international. For many businesses, the available lending programs are not attractive for the following reasons:

- High interest rate that reached 8% or more per year²³
- Collateral imposed on SMEs borrowers
- Limited amount of money (i.e. small loan size), which is on average less than US\$30,000 (especially under the first project “European–Palestinian Credit Guarantee Scheme”)
- Short to medium timeframe to repay the loan
- Most SMEs prefer to obtain loans that follow Islamic rules known as “Murabaha”²⁴

FATEN and ACAD are the main players in offering microfinance loans to women and farmers. However, banks in general are focusing on medium and large companies with good cash flow records. Most such borrowers operate in the trade sector, with a lower percentage in the agricultural sector. Special attention from the government and donors to promote credit in the industrial sector is needed.²⁵ As for micro credit, the following should be noted:

- Aside from UNRWA, PARC and FATEN, for other Micro Finance Institution (MFIs), the average number of active borrowers is 2,690, which is a small fraction of the global average of 47,688 (the accumulated total number of borrowers for all MFIs).
- The available micro and small lending supply (US\$30 million) currently represents only 30% of the actual need. Two micro finance institutions (MFIs), FATEN and UNRWA, represent close to 80% of the number of microfinance loans released.
- The sector has shifted over the past several years from making only micro-enterprise loans to making a variety of loans. (As of the end of September 2005, one third of loans made by Palestinian MFIs were consumption, housing and small loans. Several MFIs are now engaged in a mixture of traditional micro-lending and higher principal balance SMEs lending).
- A draft microfinance law was prepared by consultants on behalf of the European Union.

Currently there is no single regulator for MFIs. The responsible ministries for the various legal forms engaged in microfinance are the MoI for NGOs and the MoNE for companies (including the one MFI operating as a non-profit company), respectively.

²³ There is no Prime rate for the Palestinian Territories, and Israel has its own prime rate which is around 2.5%. The average prevailing lending rate from banks would be :12% for NIS

²⁴ Murabaha: A concept found in Islamic finance that governs a contract between a bank and its client, by which the bank purchases goods and then sells them to the client at a cost that includes a profit margin. The contract requires specific installment payments to the bank. This arrangement allows the bank to avoid charging interest, which is forbidden under some interpretations of Islamic law.

²⁵ World Vision (2006): Microfinance in Palestine: Profile and Challenges – A Quick Review, Ramallah, Palestine (2009), not published.

BOX 2.4 Nature of Financial Mechanisms in the Palestinian Territories

The nature of financial mechanisms in the Palestinian Territories are said to be as follows:

1) Demand for Credit

- The average loan size requested by micro and small enterprises in the Palestinian Territories is \$8,000, based on studies published by NGOs.
- Most of the loans are taken to finance working capital for existing projects, since these loans are only for enterprises in operation for at least two years. Few loans are taken to buy new business equipment or invest in new production technologies or improved shop facilities.
- Some want the loan to refinance their current debt.
- The majority (86%) of loans are long-term loans (over one year). This is due to the fact that lenders are MFIs, since borrowers have strong or good credit scores with the MFIs. In addition, donor policy decides the loan amount, which could affect the loan method and repayment period.
- Culturally, Palestinians are reluctant to borrow, since the majority prefers to obtain loans through the Murabaha system.
- The estimated total amount of microloans needed in the country is US\$37.5 million.

2) Supply for Credit

- The total funds available for micro and small lending in the West Bank and Gaza, including outstanding loans, is approximately US\$67 million, distributed between banks (US\$40 million) and NGOs (US\$27 million).
- The total amount of loans outstanding is about US\$25 million, representing approximately 19,000 outstanding loans. This total represents only 36% of the supply available for small lending.
- NGOs seem to have the largest share with US\$15 million in outstanding loans compared to US\$10 million for banks.
- Loans provided by NGOs are significantly larger in volume, but smaller in amount.
- NGOs have a large number of outstanding loans (about 17,000), while banks have about 2,300.
- These results show that NGOs are most likely to target the lower end of businesses (micro and for the most part, group lending, with very small loans), while banks tend to focus on small businesses.²⁶

Issues to be addressed

Financial support to SMEs is very much needed. Donor support is categorized in two ways i) through financial institutions where a certain budget is allocated to provide loans to SMEs or certain target groups, or ii) through Credit Guarantee Funds to encourage local banks to provide loans. Providing financial support enhances SME capacity to invest, expand, and grow. Financial support empowers women to start new or expand existing businesses and accounts for the fact that a woman's financial capacity is lower than that for a man due to Islamic rules, which give males the advantage (double shares of inherited properties) over women.

Major donors' activities:

Donors active in this field include the Islamic Development Bank through its different programs with financial institutions and USAD through CHF, KFW and the EU are implementing the European-Palestinian Credit Guarantee Scheme, the Italian Guarantee Fund, etc.

Evaluation

The credit sector is functioning well in the Palestinian Territories. However, certain gaps are present in terms of high interest rates, imposed collaterals, loan sizes, short payback periods, etc.

²⁶ Source: presentation prepared by the Palestinian Network for Small and Microfinance in 2008 "Micro Finance in Palestine: Characteristics of Palestinian Enterprises.

JAIP might serve their clients by collecting and disseminating information on available credit programs, referring and linking SMEs with proper financial institutions, and offering financial institutions a host at JAIP.

(5) HRD and HRM

General overview:

In the Palestinian Territories, at present there is no unified system for technical and vocational education and training. Training and education is carried out in separate types of institutions that are run respectively by the Ministry of Education & Higher Education (Vocational Secondary Schools and Technical Colleges), the Ministry of Labor (Vocational Training Centers), private institutions, as well as NGOs (accounting for 50% of all TVET courses and programs).²⁷ However, the vocational training system as a whole is very weak and is a traditional one, representing only 2% of the total number of graduates.

The existing institutions are largely unsystematic and limited in scope and capacity, equipment is dated, and in most cases, buildings are in poor shape. In different places, one could become a carpenter in 9 months, 11 months or 24 months, each time using a different curriculum. This fragmentation leads to a training policy which is diffused and uncoordinated, making it difficult for employers to interact with the training system on a regional or national level.²⁸

Due to the fact that the majority of SMEs are family-managed or owned, owners normally follow the experience and methods learned from their predecessors and parents, so the majority do not attend training courses to develop their skills. Even if they want to, owners lack sufficient time since owners are involved in every single activity – purchasing raw materials, manufacturing, marketing, and undertaking financial and bookkeeping work. For employees, owners do not normally send them to training courses because they cannot afford the cost and are afraid that if they invest in them, they are unsure if they will continue working or leave. Normally most hired employees from outside the family work in the technical and production process in “low skills jobs” or in accounting, especially if the company pays taxes. In this case, SMEs need accountants to support preparation of required financial documents to be presented to the PA departments. Without written job descriptions, owners/managers lack the experience and qualifications to identify employee needs. Even if they do, however, BDS providers are not available or the quality of the services offered is low.

Owners of SMEs lack capacity and systems to setup long term strategies and HRM/recruitment plans – this result in high turnover of skilled workers. No proper tools or systems are in place to evaluate staff performance or to attract new staff. In fact, the recruitment of new staff depends on the manager himself. In addition, recruitment of qualified staff is very difficult, though qualified persons in the Palestinian market is limited, as many of them have left to work abroad in the Gulf countries, the USA, EU, etc. Collectively, these conditions impact SME development. Therefore, much effort needs to be done for the HRD practices of the SMEs. An urgent policy is needed to regulate the relationship between workers and employers in terms of wages, working hours, health insurance, retirement, salary increases, job descriptions, etc.

Issues to be addressed:

Investing in HRD and HRM contributes to SMEs development and growth. Should owners of SMEs send their employees to attend training courses and events, employee satisfaction and commitment will increase. Greater satisfaction will improve productivity, production capacity of SMEs, and the ability to improve quality, decrease the percentage of waste, and improve marketing competencies and information gathering on external markets through international

²⁷ <http://www.tvet-pal.org/>

²⁸ <http://www.tvet-pal.org/>

exhibition participation. HRD programs empower and qualify women to participate in the labor market.

Major donors' activities:

The government, mainly the Ministry of Education & Higher Education, Ministry of Labor, GTZ, United Nations Relief and Works Agency (UNRWA), and UNESCO are currently working (in the initial phase) to develop a unified, new Technical and Vocational Education and Training (TVET) system in the Palestinian Territories that will provide the Palestinian labor force with:

- Market-oriented training offers (Relevance)
- The structural ability of the TVET system to adapt quickly to changing circumstances and market needs (Flexibility)
- High quality teaching through comprehensive and continuous teacher training and curricula development (Effectiveness)
- A financially secure and independent TVET system (Sustainability)
- Quotas that ensure participation of disadvantaged groups (Accessibility)²⁹

Evaluation:

There is a real need for HRD and HRM programs for SMEs in the Palestinian Territories. JAIP could design and implement HRD and HRM programs targeting owners, managers and employees in SMEs. Women should be encouraged and welcomed to participate in such important programs, especially those who are planning to start their businesses or those who already run companies. JAIP might provide services to existing vocational training centers to improve their training capacity and outreach. Another role for JAIP in establishing coordinating mechanisms among academic institutions, vocation centers, and SMEs is to design market-driven training programs. Programs promoting on-the-job training are recommended for JAIP.

(6) Business Environment and Business Networking

General overview:

The legal framework, existing laws, and regulations related to SMEs (e.g. labor law, investment law, tax law, social security law, commercial law) have had an impact on the performance of SMEs. As stated in Section 2.1.2, MoNE is now focusing on those regulations.

There are indeed challenges and constraints that are unique in the Palestinian context. So-called "Movement and Access" constraints such as *inter alia* poor public infrastructure, intensive internal and external movement restrictions for people and goods at checkpoints, insecurity, and the lack of direct access to export and import markets other than Israel collectively generate a high transaction cost.

SMEs are also facing the challenge of weak physical infrastructure such as proper roads, the high price of electricity, and the lack of suitable industrial zones. These reflect on major shortcomings in key areas of business and investment climate and the requirements for a more enabling and regulatory environment. The Ministry of National Economy, through its internal agencies such as PIEFZA, is involved in the development of industrial estates. Only leading organizations in the private sector such as the PFI, Paltrade and FPCCIA are implementing small development projects in this respect. However, they have no real impact on SME development because of the magnitude of their limited interventions.

²⁹ <http://www.tvet-pal.org>

Another task is the fragmentation of related supporting industries (inputs supply and marketing). New markets and marketing are ways to increase sales. There is a need for concluding more trade agreements with foreign countries, introducing innovative solutions to new market entry and cost reduction (clustering benefits, using independent marketing companies, creating business linkages, and forming strategic business alliances), and assisting businesses in joining international organizations such as the International Chamber of Commerce.

Issues to be addressed:

Creating a friendly business environment and promoting business linkages are crucial for SME development and growth, as well as for creating new businesses. Therefore, existing laws and rules have to be reviewed and adjusted to meet SME development needs. Designing and implementing interventions to promote investment in the SME sector, as well as updating and the supply chain and clustering can enhance SME productivity, product quality, and market access. Access to credit will improve when lending conditions change.

Major donors' activities:

The Shippers' Council, supported by government agencies such as PalTrade, is working on trade facilitation. Another project funded by USAID, UNCTAD, and the EU is working on trade facilitation and logistics issues.

The WTO and Qualified Industrial Zones may allow for new market entry. Donors nowadays, mainly the ILO, GTZ, and CHF International, promote a new economic development approach such as value chain, local economic development, and clustering.

Evaluation:

JAIP should join international efforts aimed at easing access and movement of Palestinian people and goods. JAIP will offer tenants facilities, proper infrastructure, cheaper electricity, tax exemptions, and BDS. As for trade facilitation, another issue is the complicated and unclear documentation and clearing procedures, along with the lack of export market information. JAIP could design interventions to fill this gap, while also offering BDS (e.g. management, marketing, information, incubation services, and legal) for SMEs in the Palestinian Territories (mainly those in other industrial parks).

2.2.2 Support Programs by the International Community

On the other side of the action for SME development, donors are working as shown in the following table. This table details the following³⁰:

- Direct support to SMEs is limited to EDIP and FNMD; other donors are implementing projects through local institutions.
- Capacity development of local institutions is jointly conducted along with sustainability by implementing various development programs funded by donors.
- Donor support is still required by many institutions as most of these institutions have yet to achieve self-sustainability, primarily self-financial sustainability.
- Some donors have focused on and concentrated their projects on certain sectors or districts. GTZ is more involved in enterprise development by providing direct technical assistance to companies or through capacity building of related institutions. However, other donors, such as USAID, are not limited to certain areas or levels; some projects

³⁰ This table is based on interviews, secondary materials and registered information of PRDP through World Bank Palestine.

are designed to improve trade facilitation, BDS to existing and startup companies, marketing and export activities, laws and regulations, etc.

- Integration among donor projects is improving (e.g. CIDA wants to support the MoNE policy framework through a GTZ/Private sector Development Project, the Swedish International Development Agency (SIDA) contracts with ILO to implement a project to build chamber capacity to better serve members, while the Islamic Development Bank contracts UNDP to implement DEEP project/poverty reduction).
- Donors are focusing and investing more in the agro-industry sector, such as French Development Agency (AFD), USAID and Italian Corporation Office.
- USAID and EU initiated a financial support program, “Credit Guarantee Fund”, aimed at mobilizing and promoting local banks to provide credit for SMEs.
- Italian Corporation Office is now preparing a credit/loan facility to SMEs that will be managed by the PFI.

Table 2.6 Mapping of the Focal Areas by the International Community (On-going, Latest, and Under Planning)

International Community: Donors	Areas of Focus						Targeted to individual companies, sub-sectors, ministries, and business institutions	Local partners
	Management Capacity Development	Production/ Process Related	Market Development	Financial Support	HRD and HRM	Business Environment/ Business Networking		
World Bank			Market facilitation with EDIP			Logistics (Movement and Access) monitoring	MoNE policy level, SMEs through EDIP	MoNE, MoF, PalTrade, DAI (Consulting firm)
EU	Poverty reduction projects through local NGOs			Credit Guarantee		Logistics and Trade facilitation (Customs and Logistics)	Olive oil industry/ MoNE Policy Level/Shippers Council	Local NGOs, local banks, PalTrade, MoNE, Shippers Council
UNDP/DEEP	Entrepreneur training			Credit facilities and grants	Vocational training		Poor families, and individuals	Local banks and local NGOs
UNCTAD						Logistic and trade facilitation (Customs)	Policy level on customs management	MoF, MoNE, local NGOs, Shippers Council
UNIDO	Training in VC	HACCP	Marketing capacity building		TOT for SME consultants	ISO accreditation	Businesses/SMEs	MoNE, PFI, PalTrade
DFID/FNMD	Business management capacity		Export promotion and market development	Support grants			SMEs	DAI (Consulting firm)
USAID/EDIP		Technology transfer, capacity building, training	Marketing/ products/ market information/ business plans	Support grants		Market matchmaking	Olive oil/, agro-industry/ SMEs	CARANA (Consulting firm), PFI
GTZ (Latest)	Entrepreneur training		Marketing capacity, exhibitions		TOT for SMEs consultants	Revitalization of chambers and other private sector institutions	Policy advice for MoNE/ individual SMEs	SEC, PalTrade, FPCCIA, PITA, PFI, MoNE

International Community: Donors	Areas of Focus						<i>Targeted to individual companies, sub-sectors, ministries, and business institutions</i>	<i>Local partners</i>
	Management Capacity Development	Production/ Process Related	Market Development	Financial Support	HRD and HRM	Business Environment/ Business Networking		
AFD			Agrosector development/ (olive)			(Industrial park in Bethlehem)	Olive oil /herb sector	Local NGOs , chambers and associations
CIDA	Women empowerment	Upgrading capacity of Paltrade (Planning)	Export development				Policy framework for MoNE, Paltrade, women cooperatives	GTZ, Oxfam,
SIDA (Sweden)	SMEs training					Support to the chambers capacity	Chambers of Commerce, SMEs	FPCCIA, ILO
Italian Cooperation Office				Credit facilities (Planning)		Support to Farmers Union/ associations	Agriculture sector/ SMEs	MoA, Farmers Union, PFI, Associations
ILO	SME trainings	Research and studies				Support to the associations	Business associations	MoL, FPCCIA, SEC

NOTES: 1) Islamic Development Bank is not included, 2) explanation of abbreviations - EDIP (Enterprise Development Investment Promotion), FNMD (Facility for New Market Development), c) DEEP (Deprived Families Economic Empowerment Project as part of UNDP Programme of Assistance to the Palestinian People (PAPP))
3) Programs which are Recent and Under Planning are shown with ()

2.2.3 Requirements of BDS for SMEs in the Palestinian Territories

Increased attention by the Palestinian Authority and local/international organizations/donors has been given to SMEs that are laden with financial, technology and management weaknesses and problems in an attempt to use this sector's capacity to assist Palestinians in surviving and developing as follows:

- The government role on the policy level focuses on trade facilitation and trade promotion – supported by donors and international development organizations. Less focus has been on areas such as business development services, women in business, rural areas, and the SME sector. The private sector institutions have been collaborating to collect and solve policy issues in the private sector council, and have been very active in liaising with concerned ministries and the offices of the Prime Minister and President.
- The private sector institutions including the NGOs and international organizations are feeding the PA to support policymakers to fill the gap that is left over. This includes proposals to develop laws such as SME definition and law, information to develop rules and regulations, views and problems facing the SMEs, research and studies on economic situations, trade issues, trade agreements, etc. The PA role in designing, planning, implementing and evaluating development programs is relatively weak. In fact, in most cases the donor and the local institutions (NGOs) are directly cooperating, planning, and implementing development projects, with the government role being very minimal.
- Many stakeholders from the public, private and NGO sectors in different fields are interested in SME development. No common vision or strategy to direct the work is in place.
- The existing cooperation between public and private sectors is weak in term of on-the-ground achievements for SMEs. Since representatives from the private sector are the owners of big companies, smaller companies are not represented.

A summary of BDS development for SMEs in the Palestinian Territories is detailed below:

- Some collaborative efforts among donors, for instance through partnership arrangements, have been implemented for the development of the BDS market. These efforts have been directed towards the growth of successful SMEs (modernization and development) with cooperation of private sector institutions, though the policy development will be eventually made in parallel.
- Enhancing the capacity of all relevant actors (PA institutions, private sector institutions, NGOs, and microfinance institutions) is a must. Though it is a lengthy process, it is needed to qualify them to better serve their members, enhance cooperation and networking among all players involved in private sector development, and develop a common vision and proper framework. All these challenges are interrelated.
- Greater emphasis of BDS institutions will be on:
 - Management capacity of SMEs in certain sectors (e.g. the agriculture and agro-industry sectors) by enhancing and capacity building of councils and associations to play an intermediate role between farmers/companies and markets through BDS interventions.
 - Enhancement of the local institution capacity in R&D to improve the quality of products, productivity, and processes.
 - Market information center development to collect and disseminate information on market standards, matchmaking with external businesses, product design, quality

- control, labs, etc.
- Development of financial support mechanisms to enhance SMEs access to credit.
- Capacity building of institutions in acquiring new techniques, methods, and tools to support SMEs development
- Promotion of certification and accreditation of SMEs, such as ISO.
- Logistics improvement and SCM and Clustering.
- Export promotion.
- The concentration of efforts on the olive oil sector is noteworthy, though focus should be on other sectors with export growth potential such as fresh and processed foods..

Despite the fact that a full range of BDS and provider institutions exist, greater integration, capacity enhancement to design and deliver high quality, and wider coverage are needed. Therefore, the roles of JAIP and its BDS center are not only limited to making those services available to incoming investors and SMEs, but also to integrating, coordinating, and developing those services provided by the BDS institutions. The BDS facility in JAIP could take on a central role in SME development in the Palestinian Territories.

In this regard, Appendix A2.2 shows a summary of Japanese ODA relating to SME and BDS development as well as to that of the JAIP BDS center and facility. It is highlighted that the experience and concept of Japan's ODA projects centers around the capacity development of a national BDS institution to better serve SMEs in terms of business management, human resource and technology management.

In addition, current industrial park and SME development in neighboring countries are also studied to draw on good practices and lessons for JAIP and its BDS facility. The survey findings are also shown in the Appendix A2.4.

3 FOOD INDUSTRY SMEs AND EXPECTATIONS FOR JAIP

3.1 Food Industries in the Palestinian Territories and JAIP

The food industrial sector in the Palestinian Territories has been recently experiencing a rebound. The sector consists of a wide variety of products including Meats, Vegetables (fresh and frozen), Oils and fats, Dairy, Flour mills, Animal feed, Chocolates and confectionaries, Spaghetti, Water and soft drinks, Chips and Snacks and others. The domestic market share of food products varies between 90% for meat products to 30% for dairy products; generally averaging around 50%. A wide variety of diversified products of the industry are consumed by the households purchasing basket (about 50% of its income). However, considerable differences can be observed in market share by product type, ranging from very high (meat) to very low (chocolates) in comparison to imported goods mainly from Israel, which require improvements in balancing the market equation.

The food industry has experienced growth in exports mainly to Arab countries. Furthermore, olive oil and other fair trade products have been exported to many countries, significantly improving industrial performance over the past three years. The growth is summarized as follows:

Table 3.1 Some Indicators of the Food and Beverage Sector

The Food and Beverage Sector	1998	2006	2007	2008
Percent of persons engaged	11.3%	15.5%	18.8%	16.7%
Output per person engaged	\$30,829	\$42,880	\$46,077	\$49,406
Output per paid employee	\$49,637	\$66,576	\$70,121	\$73,740
Value added per person engaged	\$11,731	\$11,246	\$18,273	\$20,090

Source: PCBC

The official figures of the sector¹ indicate that there are more than 1,600 working companies in this sector including bakeries. Excluding bakeries, the actual number of companies is 224, out of which 152 are active members of PFIA (Palestinian Food Industry Association) which is recognized as a strong association². The labor force in the sector is estimated at 8,000 workers. The Sector Study focusing on PFIA is shown in Appendix A3.1.

JAIP will become the center of agricultural products and create an industrial cluster for agricultural product processing in the Palestinian Territories which will eventually become a driving force behind the whole Palestinian economy. JAIP is seen as the prime investable place from the food industries. Although the study team understands FDI as the key factor in the enormous success of the industrial park development in Asia, a similar approach is not appropriate for JAIP at the moment.

The unemployment rate in the Palestinian Territories was 23.6% in FY2006³ due to various reasons such as unstable relations among neighboring countries, instability in the domestic politics and poor important resources. In order to materialize the “Corridor for Peace and Prosperity” advocated by Japan, it is essential to achieve Palestinian economic development under these harsh unemployment conditions. An effective measure is to formulate a policy to introduce the East Asian type economic development, which the Japanese government has been deeply committed to with significant results, namely, the “export-lead industry development”.

¹ IMC-PFI, 2005.

² The number of members in 2002 was 54.

³ Palestinian Central Bureau of Statistics.

However, it seems to be a premature thought to introduce the East Asian economic development model (FDI in manufacturing) due to the following reasons.

- Palestinian political risk is recognized to be extremely high by foreign investors, taking into account recent unfavorable situations.
- Although population growth rate is at an extremely high level of 3.3% in FY2006⁴, the population of the whole West Bank region, which leads to Palestinian economic growth, is only 2.3 million. Furthermore, labor cost is relatively high suggesting the Palestinian economy is not in a position to introduce labor-intensive industries with foreign capital, which was the original approach to lead the present economic development in Eastern Asia.
- Neighboring countries including Egypt and Jordan are promoting environmental improvements in order to invite foreign investors. The Palestinian Territories are in a comparatively disadvantage against their neighbors in terms of attractiveness for foreign capital inflow such as premises, infrastructure, technology and development of institutions.

Drawing from the above mentioned conditions, the study team suggests the approach of a “staged wise inducement of foreign direct investment.” The first step involves the construction of JAIP and the relocation of target companies, which will be predominately domestic investors (although foreign investors will not necessarily be excluded). This is due to the high overall costs (due to high labor and transportation costs) and weak international competitiveness of Palestinian companies in comparison to foreign companies intending to introduce the East Asian economic development model.

3.2 Survey on Targeted SMEs in Food Industry

3.2.1 Qualitative Analysis

The study team visited 71 companies for the first field survey. These enterprises were selected from four categories; i.e. (i) commodities for which raw materials are easily accessible from the Jericho district, (ii) commodities for which raw materials are not accessible within the vicinity of Jericho, (iii) commodities for which raw materials depend on imports, and (iv) commodities which are unlikely to be processed or produced in Jericho, but which are typical export commodities of the Palestinian Territories. It was observed that each company has experience to export their products overcoming the vulnerability. Comparative advantage on procurement of the raw material has been developed. Through the interview to 71 companies, 36 companies showed interest in JAIP (See Appendix A3.2).

In order to determine the corporate ability to bear relocation costs and other future finances, the Study Team visited 14 companies to obtain basic data for the business plan. The Study Team analyzed and made a forecast of business strategy utilizing the obtained basic investment information (investment amount, 5 year sales forecast, electricity usage, water consumption amount, logistics costs, labor costs, etc.)

⁴ Palestinian Central Bureau of Statistics

Table 3.2 List of Surveyed Companies

No.	Company Name Initial	Area	Visiting Day	Production
1	M1	Jerusalem	11/Oct	Turkey etc.
2	M2	Jerusalem	12/Oct	Turkey
3	A	Hebron	13/Oct	Snack
4	H	Jerusalem	14/Oct	Dairy Food etc.
5	P	Nabulus	18/Oct	Plastic Bottle
6	I	Tulkarem	19/Oct	Meat
7	Al	Tulkarem	19/Oct	Vegetables
8	Alr	Jericho	20/Oct	Dates
9	S	Ramallah	21/Oct	Meat
10	Al-M	Ramallah	22/Oct	Animal Feed
11	D	Ramallah	22/Oct	Packaging
12	J	Ramallah-Jerusalem	25/Oct	Soap
13	Dates	Jericho	26/Oct	Dates
14	K	Hebron	27/Oct	Spaghetti

Source: Study Team

(1) Company Profile and Comments

- 10 among 14 companies are considering expansion of the plant at new sites due to inadequate space for expansion in the present plant site. Therefore, most of the companies intend to construct a new plant in a new site, while they keep operating in the existing plant. The prime reason is the lack of space for expansion in present plant sites, located in residential areas. Specifically, the biggest factor for site selection in JAIP is the future urban planning, particularly land use plan policies in the Palestinian Territories which may prohibit construction of new plants and expansion of existing plants in residential areas⁵.
- 10 among 14 companies currently export their products to Jordan, etc., and are extremely interested in developing the export market. Current exports mainly target Palestinian diasporas in Jordan and many companies are aiming to export to Gulf countries following Jordan.
- On the basis of the above results, a survey regarding interests in planned JAIP and possibilities of participation has been conducted. All of the companies showed strong interest in JAIP for the reasons below. Among the companies, “S” company which is a representative producer of Halal food in the Palestinian Territories, “Al-M” company which is a producer of animal feed and “K” company which is a pasta producer, are very familiar with the framework of JAIP, and have the expansion plan in other sites. But it is subject to the construction schedule whether they will operate in JAIP.
- Jericho city, where JAIP is to be located, is the most appropriate place as the contact for desired export to Jordan, etc., due to its proximity to Jordan.
- In comparison to exports from the existing plants to Jordan, transportation costs will be significantly reduced when exporting from JAIP located in Jericho. Specifically, as gasoline prices in the Palestinian Territories are high at around US\$ 2 per liter,⁶ the cost reduction effect in transportation is enormous.
- As facilities are expected to be constructed with Japanese assistance, infrastructure and facilities are to be advanced and appropriate. Furthermore, high quality services rendered by the Business Development Service (BDS) Center will be expected. According to the interview survey, Production Process Development, Market Development and Financial Support are expected (See Appendix A3.2).

⁵. Interview by JICA Study Team⁶ JICA Study Team as of October 2009.

- JAIP is an ongoing project by the four parties' agreement (Japan, Israel, Jordan and Palestinian Authority), and therefore, direct and indirect assistance can be expected.

As explained above, each company has strong interests and high expectations concerning JAIP. The following results have been obtained through a close investigation in regards to the conditions to move in JAIP in comparison with the existing plant of each company.

- In case of "S" company producing Halal food, maximum cost of 14 USD/m² + α including a lease fee of a standard type of plant will be affordable. (Their existing plant is leased and the annual lease fee is 14 USD/m². Counting on a cost reduction effect of transportation for Jordan and BDS services, additional benefit (+ α) can be realized.)
- In case of "A" company producing pasta, the purchase price of present land is high at 150 USD/m² because of the narrow land. It is considered that company A will be able to afford a similar amount of land purchase, so there is no problem to move in JAIP as long as the annual lease fee of open lot land is 7–10 USD/m².
- "H" company, which produces dairy products, is a business conglomerate with a wide range of businesses such as food, logistics, construction and IT. Based on their experiences in business diversification, this company considers that the annual lease fee of open lot of JAIP should be 9.6–18 USD/m² depending on infrastructural improvements and 30–36 USD/m² is reasonable if it includes a standard type of factory.

As the above lease rate range has been estimated on the basis of actual present operation results of each company, it can be used as a benchmark.

(2) Potential Demand for JAIP

This study has revealed that existing businesses, such as Halal meat, fresh vegetable, traditional food and more have strong demand for new plants. Depending on the land lease fee of the industrial park for agricultural product processing, water supply quantity (in which they have shown specific interest) and service quality (which will be provided mainly by BDS), accumulated spatial demands from potential tenants indicate that 25–36 ha leasing space will be required by tenants.

Furthermore, a more careful examination of the previous survey suggests a further increase in demand for JAIP in the dates industry (although not limited to dates). As analyzed below, dates are expected to become important local cash products in Jericho city.

Dates are fruits which have been cultivated in North Africa and the Middle East from a long time ago. In Jericho city, a NGO started the promotion of dates cultivation with the assistance of Fair Trade System in 1994, hence the industry has only been around for 15 years. Dates cultivated in Jericho city are prime grade with a brand name of Medjoul Dates.

Regarding dates cultivation in Jericho city, the NGO named "P" plays a key role in purchasing greengrocery of dates from farmers and an affiliated company of "P" organization conducts a series of operations such as sorting, water washing, drying, maturing, packing and arranging shipping, and the exportation of final products.

As Jericho City is near the Dead Sea, the groundwater contains salt and its salt content has been increasing in recent years. Therefore, the groundwater is not suitable for cultivation of common vegetables and fruits. Furthermore, water consumption volume for cultivation is considered an issue. On the other hand, dates can be cultivated with salty groundwater and smaller volumes of consumption. Taking such merit into consideration, farmers near the Jericho city are rapidly

shifting from cultivation of fruits, represented by orange and vegetables such as tomato and cucumber, to dates.

Although “P” organization has so far monopolized commercialization of dates in Jericho City, farmers and investors who recognize the promising future of dates are now gaining ground rapidly. The President of Jordan Valley Dates Farmers Association firmly believes that the production of Jordan Valley dates cultivation in Jericho city which recorded 800 t/year in 2009 will expand rapidly to 10,000 t/year in 2014 (it can be estimated as 18,000 t from another perspective). It takes 4 years for dates from planting to harvesting. Therefore, the estimation method of the President based on the accumulated number of young trees so far planted in Jericho city is practical.

Efforts so far made by “P” organization in promoting dates cultivation and commercialization in Jericho city should be given high praise. However, the processing capacity of dates by “P” organization in Jericho city is only 400 t per year. Thus, it is an extremely difficult task to process the dates which will rapidly increase in volume within a few years. For this reason, the President plans to construct a new plant to process dates, which will still be insufficient to meet the growing demand to process dates. Consequently, it is expected that processing of dates will boost the demand for JAIP.

In Jericho City, as the present production of 800 tons will increase at least to 10,000 tons within 4 years, there is concern that the rapid increase of supply will mark down the prices, however, there is very little possibility that a sharp production increase in Jericho City will lead to a fall in prices since the present world production of dates is estimated at 6.7 million tons⁷.

Private investments to Medjoul dates by major companies are becoming enthusiastic in the Jericho area. It is anticipated that the production of Medjoul Dates will exceed 10,000 t. As the farmers and entrepreneurs who are expected to be tenants (from the previous survey) have already committed to “P” organization, the Study Team has met other dates farmers in order to search for new applicants.

Now that Jericho City is gathering attention as an export base for dates and other products, land price shows an upward trend. Thus, the conditions to be set in the business plan will become strict with the advancement of time (although the land price is still cheaper than Ramallah and Hebron).

3.2.2 Investors Business Plans and Affordable Land Lease Rates

(1) Assumptions and Methodology

As mentioned above, an appropriate lease fee level which is crucial for the realization of move-in to JAIP has been explained in reference to business conditions of the currently operating agricultural product processing industry. Furthermore, 6 companies have been selected as samples and a business plan simulation on the premise of move-in to JAIP has been conducted.

In the investors business plan, the amount of sales added value (operating profit), which is the total amount of sales minus external costs and expenses, is calculated. The value of the upper limit from land lease rent is obtained, assuming that all of the operating profit was appropriated to the land lease (m²/year).

⁷ Delight of the Garden of Eden by Nasralla Nawal.

Although their balance sheets are not yet available, it is possible that their debt loans have risen and their equity ratios have dropped because of loans to cover the initial investment. Any profits should be used to pay off short-term debts as soon as possible, and at least 50% of the profits determined on the P/L account should be appropriated to repayment.

(2) Results of Affordable Land Lease Rates

1) Of the six companies mentioned above, the four (Nos. 1, 2, 5 and 6) can be said to be sound companies based on their current operating profits. Trial calculation of the plan also yields substantial added values. Although achieving sales goals for these four companies could vary from one company to another, there will be little or no problem in paying the lease.

It will take at least half a year for the companies moving into the JAIP to begin operating their factories, and in the meantime production is likely to take place at other factories in parallel. Therefore the sales listed in the business plans could only be achieved at least half in the first year. Any assessment should be made taking this prospect into account. Generally speaking, their operating profits may be below the levels shown in the plan during the first year, but at a minimum covering the lease of 10 USD/m².

For the four companies with strong operation status, therefore, the lease may be appropriately in the range of 10–20 USD/m². However, their sales can drop during the first year of operation, and thus financial support would be required to some extent for several years after startup (for example, possible variation in the lease would be considered).

The remaining two companies must improve their financial status. Although the cost of raw materials may drop when they move to Jericho (lower shipping cost), their variable costs must still be lowered. To achieve this, they need to improve their business status with support from BDS, while increasing their sales. On this basis the land lease after eliminating the deficit is estimated at 5–10 USD/m².

In conclusion, the annual land lease will be from 5 to 20 USD/m². Without any drastic change in the prerequisite conditions, a reasonable lease will be about 10 USD/m².

2) To further clarify the above, an explanation will be made by taking up 'Business Plan – 1' as an example. 'Business Plan -1' is the business simulation plan for the company No.1 as explained above. This company is a good-standing food processing company whose main product is 'pickles' with strong efforts in export. (This Plan was chosen because other Plans may show some uncertain factors when dealing with the sales amount.)⁸

Supposing: Sales Amount – Variable Cost – Fixed Cost = Profit (Added Value):

Export ratio in 'Plan-1' is 35% of total sales which amounts to 4.5 million USD.

⁸ (Notes) The following issues have to be followed up for the investor's business plans:

- In the case of 'Business Plan-1,' rate of capacity utilization of an existing Tulkarem factory would go down in the first year, so the operating profit of the company as a whole will be lower than JAIP factory alone. This will also apply to other Business Plan companies in that even excellent companies would have to lower the capacity utilization rate of other factories and consequently their added value lowered.
- These judgment are made mostly only from their P/L (Profit and Loss), and there remains a question on how their B/S (Balance Sheet) would change. Capital-to-asset ratio will change depending on whether initial investment is made by borrowed money or own capital. Most would depend upon borrowing, so that when added value is realized, those borrowed money should be paid back as early as possible.

- Sales amount for the first year: JAIP factory will operate exclusively for the export to Gulf countries, therefore, sales amount will be 4.5 million USD.
For the growth rate of sales, in the case of an excellent company, assumption was made that it would be similar to SME of Japan who has acquired authorization as a business innovative company based on the 'Act on Supporting Business Innovation of SME.' Hence, growth rate is estimated at 10% each year for the 5 year period. (In Business Innovation Act, it would require yearly growth rate of 5% as value added which will be calculated to 10% in terms of sales amount.)
- As the variable expense ratio (vs. sales amount), 50% is assigned to raw materials and 10% for logistics which includes packaging. Logistics expense is estimated at half of current expense where the factory is located in Tulkrem. As utility cost, 10% for electricity and 5% for water will be spent, this is recognized as a large amount. The total variable expense ratio accounts for 75% of total sales amount.
- There are two items of fixed cost which relate to investment.
 - Depreciation for the invested assets such as machinery (10 years equal-installment, no consideration for residual value), and interest (10 years flat rate at 10%). Each accounts for 0.3 million USD/year for the investment of 3 million USD.
If the buildings are to be constructed in the first year, depreciation and interest for that will be accounted for. Construction cost is estimated at 250 USD/m² (estimated by facility staff) and this company's request is 3,000 m², which will be calculated to 750 thousand USD. With 60 years equal-installments depreciation and interest of 10% (10 years flat rate), 1.25 thousand USD and 75 thousand USD respectively will be accounted for the fixed cost each year.
 - Labor cost: To start with 10 workers and increase as sales increases. Unit cost is assumed at 500 USD/month/person. The first year accounts for 0.06 million USD.
Added value for the first year will be calculated as follows:
Sales amount (4.5 million USD) – variable cost (3.38 million USD) – fixed cost (0.736 million USD) = Operating profit (added value) (0.39 million USD)
Allocate this 390,000 USD as the added value amount for the first year. The maximum payable lease fee for 6,000 m² from here will be calculated as 65 USD/m². If 50% of added value is allocated for lease fee payment, it will be 33 USD/m², and there is also a concept to employ the three-way-split theory (internal reserve, new investment, shareholder return), 22 USD/m² is also regarded as reasonable.

Considering above, it is concluded that 'Plan-1' company investment will be able to pay for a land lease rate at least 20 USD/m², if its first year starts as planned. Judging from this, for promising companies, the land lease rate could be set at 20 USD/m². Those Investors' Business Plan evaluation is detailed in Appendix A3.3.

3.3 Incentives for SMEs in Food Industries to JAIP

The table below shows different kinds of non-prioritized incentives to JAIP. In the second survey mission, the re-survey was conducted to assure the incentives/disincentives to SMEs.

**Table 3.3 Classification Table of Incentive/Disincentive to JAIP
(Relocation/Expansion)**

Classification of Items on Management	Incentive (or Disincentive)	Cost	Income	Context
Relocation Cost	Relocation expenses account for an increase in direct costs, which is a disincentive.	Increase	Neutral	New investment
R&D	If better access and a stronger coalition with R&D institutions are induced, this could be regarded as an incentive.	Neutral	Neutral	Possibility of cooperation with university
Processing Production	This could be an incentive in light of: Higher production efficiency (technology imports); More efficiency by expanding production scale; Better access with verification (QA) institutions; Time saving	Decrease	Increase	Quality improvement supported by BDS
Procurement	This could be an incentive in light of: Lowering raw material costs by joint purchase; Lowering costs by extending buying channels	Decrease	Neutral	Joint work possible by dividing the industry into three clusters
Transportation	This could be an incentive in light of: Lowering of logistic expenses; Effect of logistics improvement (actual effect); Joint purchase of secondary materials; Saving of access time.	Decrease Decrease	Neutral Neutral	Jericho is located as a gateway to Jordan; Suitable location for export
Marketing (Sales)	This could be an incentive in light of: More target commodities (new products); More sales channels; More access and exchange of information with clients;	Increase Neutral	Increase Increase	BDS will fulfill its role
Human Resources	This could be an incentive if sufficient (quality, cheap) labor can be secured.	Increase	Neutral	Uncertain at this point
Other Management Control Items	This could be an incentive if common services prevail widely.	Decrease	Neutral	Uncertain factors
Previously Used Facility	This could be an incentive if there is a gain on disposal (sale). It could also be a disincentive if the recovery time of outstanding investment is lengthened.	Decrease Increase	Increase Decrease	No use of land after moving-out May take longer time
Social Relations	Restructuring of social relations and segmenting of the community could be regarded as a disincentive.	Increase	Neutral	Characteristic of Jericho
Support Environment (Incentive for Promotion)	The following could be incentives: Support by BDS (financial, non-financial); Tax exemption; Subsidy.	Decrease	Increase	

(Source Study Team)

Decision Factors to move into JAIP can be summarized as follows:

Advantage of moving in to Industrial Park + Incentive (grand total of promotions offered) > Cost of relocation / moving in (disadvantages) + Risks (projected future)

Advantages have increased potential investor expectation as shown below.

- The biggest incentive in moving to JAIP is its proximal location to the outlet to Jordan. Jordan is considered the export center of Palestinian companies for the Gulf countries.
- Relatively low cost of logistics and can make deliveries in less time.
- Fully facilitate function of BDS and offer services.

This study has also made it clear that the Palestinian processing industry of agricultural products and food industry are at a high level in terms of management capacity in comparison to other developing countries' SMEs. Such level of capacity is owing to the assistance from supporting countries and the introduction of technology from Europe and others. Furthermore, there are many companies which already have their own certificate of ISO 22000 and HACCP. Consequently, on the stage of basic design and detail design of BDS at JAIP, it is required to conduct a specific survey, taking precise evaluation of the technical level and requests of Palestinian companies, as well as global trends.

According to this study, required functions of BDS from the viewpoints of Palestinian companies are as follows:

- Concerning human resources development, it is necessary to introduce advanced human resources development programs intended for management level employees such as supervisors rather than general employees.
- Although the technical level of plants is considerably high in comparison to SMEs in other countries, as production process development facilities, the efficiency and safety of the operation process are to be improved. Case of extremely inefficient operation and safety problems are observed. For example, a seven-story plant constructed in narrow land. It is required to introduce an efficient operation system and safety standards, which are common and available in developed countries such as Japan.
- In addition to production process development, as water and electricity supply is limited, there is demand to introduce energy saving and water saving technology from developed countries such as Japan.
- To provide market information and access instructions in regards to Palestinian products is necessary. Specifically in areas where Palestinian products such as olive oil and olive oil soap including dates products have a competitive advantage, but have nevertheless been exported in small quantity in the past, there are strong demand for providing market information and access instructions to the new export market.

In general, there is definitely demand for JAIP which will be able to serve the eagerness of Palestinian companies to expand their production capacity. However, in order to achieve the goal not only to integrate the processing industry of agricultural products and food but also to make it a first step of Palestinian economic independence and eventually a future leader of economy, BDS functions are extremely important. Therefore, it is required to conduct a close study on the functions of BDS as well as the functional design to accelerate the JAIP development.

In addition, the following are other perceived incentives of JAIP.

- For non-financial support, human resources development should start well before the physical completion of JAIP so that immediate action can be arranged at the time of commercial operation of the tenants.
- Arrangement of the "Machinery and Equipment Leasing System" and "Credit Guarantee Program" without financing are also important. Although the invested amount will eventually be recovered, the majority of prospective tenants (21 companies out of 29) are asking for financial support in the initial stage.
- Access to Japanese Market: Although the possibility is not so high at the moment, currently a small amount of products such as olive oil, soap, and beer are exported to Japan. Using this as a bridgehead, and cooperating with NPOs and NGOs in Japan, an

effort should be made to find some business agents who will act as distributors of competitive products, such as dates, turkey meat and so on.

- Jericho is also a tourist site, hence launching the JAIP product outlet as a coalition with the tourism industry can be considered.
- With the cooperation of the foreign organization for trade facilitation such as JETRO (Japan External Trade Organization), a trade fair of Palestinian products to export target countries could be organized.
- Inviting companies from related industries other than food processing, such as packaging, storage, and transportation, could be considered. Those industries, which have a close relation to production as well as marketing, will contribute to reduce the cost.

4 ISSUES AND SOLUTIONS OF LOGISTICS FOR SMEs

4.1 General Views of Logistics in the Palestinian Territories

Many problems with logistics exist in the Palestinian Territories from its political relationship with Israel. This logistics situation is considered the largest bottleneck for the Palestinian economy. Two types of problems are observed for logistics: those from within the Palestinian Territories (IN/IN) and those dealing with exports or imports to/from neighboring countries (IN/OUT).

4.1.1 In/In Movement and Access

Since 1967 after the Six-Day War, the Palestinian Territories have been occupied by Israel and controlled under the occupation policy of Israel.

The current length of the recently completed Separation Barrier is 474 km out of a total length of 790 km. The 1995 Oslo II agreement created, as an interim (5-year) measure, three distinct zone (Areas A, B, and C), with different security and administrative arrangements as shown below. The current status of the Agreement is frozen at the levels of the 1999 Sharm El-Sheikh summit.

- Area A: 17.2% of land is under full Palestinian control
- Area B: 28.8% of land is under Palestinian civil and Israeli security control
- Area C: 59.0% of land is under full Israeli control



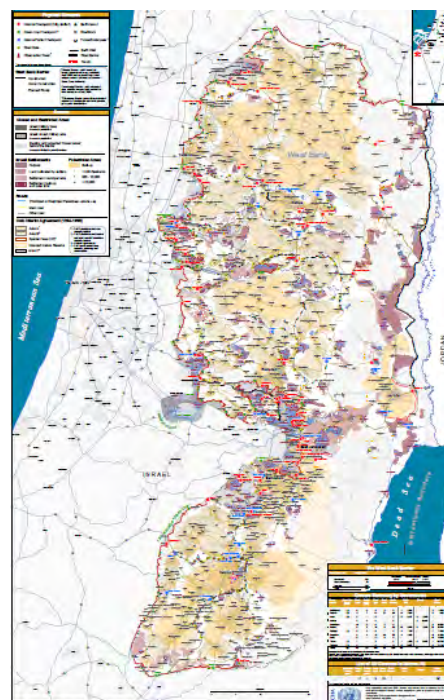
Area A

Area B

Area C

Source: An Atlas of Palestine (the West Bank and Gaza) Applied Research Institute- Jerusalem (ARIJ) January 2000

Figure 4.1 Three Areas in the West Bank



Source: UNOCHA, West Bank : Movement and Closure, June 2009

Figure 4.2 Major Road Checkpoints

More than 578 closure obstacles are setup on the main roads and borders of each area¹. Major checkpoints are placed continuously throughout the Palestinian Territories, this includes so-called “flying checkpoints” that temporarily appear in the territories. These checkpoints cause delay and uncertainty in delivery. According to the data, on average, a truck waits anywhere from 0.5 to 4.0 hours. This uncertainty is a big risk for companies especially shipping perishable goods.

The following table shows the approximate time and cost required for the transport of goods from the West Bank cities to the border point, Allenby Bridge (King Hussein Bridge), which is the nearest border point from Jericho and the most influential one to JAIP.

Table 4.1 Transport to the Border through Checkpoint

Estimation costs of transportation between West Bank and Allenby Bridge							
City (Destination)	Distance in KM	Time in hours/minutes	Cost / per Truck in NIS (ex VAT)			Check points	Wait time at the checkpoint
			-7 ton (12 pallet)	8-32 ton (22-24 pallet)	33-38 ton (26-28 pallet)		
Jerusalem Suburbs	32	45 minutes	800-1,100	1,200-1,500	1,600-1,900	Alze'ayem	0.5-4.0 hours
Ramallah	42	1.5 hours	900-1,200	1,300-1,600	1,700-2,000	Jaba'	0.5-4.0 hours
Nablus	65	1.5 hours	1,200	1,600	2,000	Za'tara, Ma'ali Afraim Al Hamra	0.5-4.0 hours
Tulkarem	85	2.5 hours	1,800-2,100	2,200-2,500	2,600-2,900	Anabta, Howara, Za'ataea, Al Hamra	0.5-4.0 hours
Jenin	140	3.0 hours	2,600-3,100	3,000-3,500	3,400-3,900	Anabta, Howara, Za'atara, Al Hamra	0.5-4.0 hours
Qalqelia	85	2.5 hours	2,200-2,500	2,200-2,500	2,200-2,500	Anabta, Howara, Za'ataea, Al Hamra	0.5-4.0 hours
Salfeit	65	1.5 hours	1,200	1,600	2,000	Za'atara	0.5-4.0 hours
Tubass	140	3.0 hours	2,600-3,100	3,000-3,500	3,400-3,900	Alhamra	0.5-4.0 hours
Bethlehem area	58	2.5 hours	600	2,000	2,400	Wadi Alnar	0.5-4.0 hours
Hebron	88	3.5 hours	2,100	2,500	2,900	Wadi Alnar	0.5-4.0 hours
Jericho	10	20 minutes	400	800	1,200	-	

***note:** Trucks cost depends on many conditions for example: type of products, time of shipment, quantity, etc.

Source: Concord Transportation Company

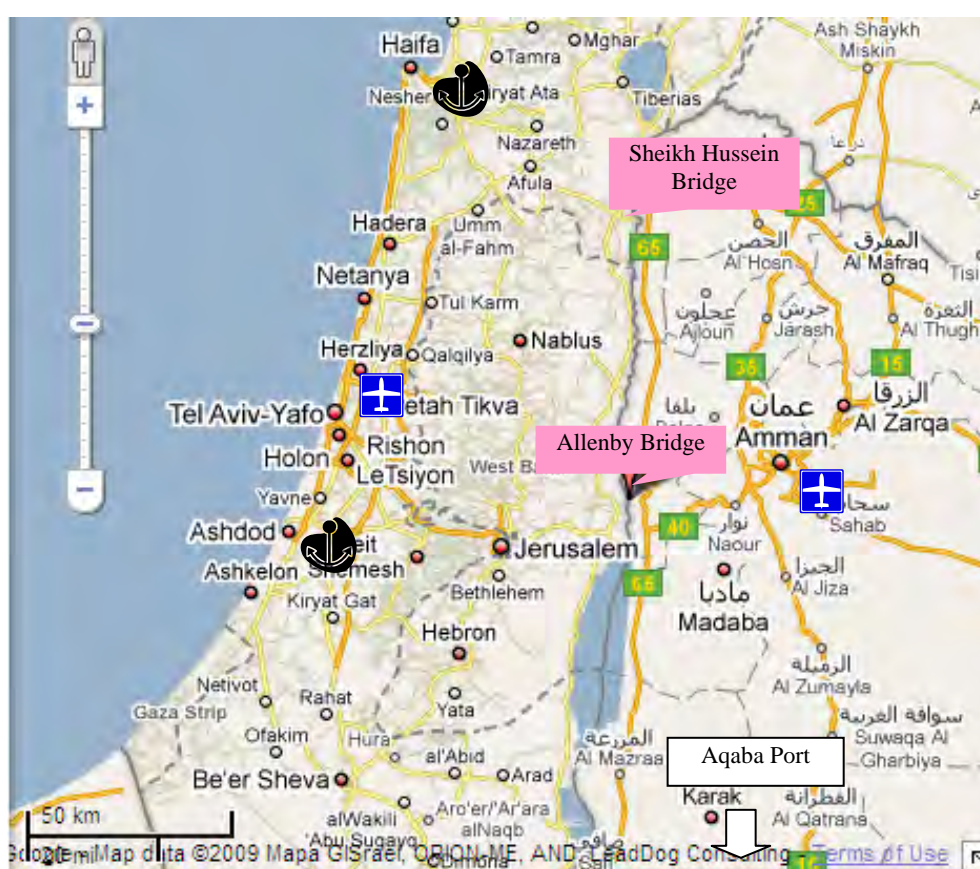
¹ UNOCHA, West Bank Movement and Access Update, November 2009

4.1.2 In/Out Movement and Access

There are 5 access points to move the shipment into (IN) the Palestinian Territories and out of it (OUT). Palestinian traders use the following access points to move their shipments:

- Allenby Bridge (King Hussein Bridge)
- Ashdod Port
- Haifa Port
- Sheikh Hussein Bridge
- Ben Gurion Airport (Tel Aviv)

Among these international border points, the Allenby Bridge is located nearby JAIP and used for trade through Jericho to Jordan to Arab countries. Palestinian companies rely heavily on this Bridge for their export despite some constraints. Hence, the following analysis mainly focuses on issues for the Allenby Bridge as an important export channel.



Source: Google map

Figure 4.3 Location of Major Ports and Crossing Points

The following table summarizes the required steps for export through the bridge and estimated time and cost for each step.

Table 4.2 Export Flow and Procedures through Allenby Bridge

Procedures	Time	Cost*
Origin: Palestinian Cities (factories) Client → Clearing Agent 1) Coordination with Customs 2) Custom declaration (BAYAN) 3) Preparing invoice, packing list, certificate of origin 4) Certificate from Ministry of Health (if needed) (These procedures are simultaneous.)	1) One week before 2) 2 days before 3) 7 days before 4) 7 days	1) --- 2) 600 NIS 3) --- 4) 1,000 NIS
Transport to the Border (Passing through checkpoints)	Different by origin (Shown in Appendix A4.1)	---
Border Gate (Palestinian side) 1) Driver hands related documents to customs agent. 2) Customs agent permits custom clearance. 3) Payment of service charge	1) 10 minutes 2) 30 minutes 3) 10 minutes	600 NIS
Passing Gate Crossing Bridge Jordanian truck waits on the other side.	1–3 hours (includes passing the bridge, security check, and loading to the Jordanian truck.)	<ul style="list-style-type: none"> • Entry fees: 134-165 NIS/pallet • Clearing agent: 600 NIS/file • Crossing fees: 131 NIS/truck • VAT: 14.5% (PA), 16.5% (Israel)
Security Check (Jordanian side) Back-to-back transfer	Back-to-back transfer needs 45 minutes to load the truck.	<ul style="list-style-type: none"> • Loading fees: 25 NIS/pallet • Unloading fees: 25 NIS/pallet • Security Check: 35 NIS/pallet
Transport to Destination (Jordanian markets, Queen Alia Airport, Aqaba Port, Gulf countries) For transit cargo, police or customs car accompanies it to check the truck. (costs are for Allenby Bridge on the Jordanian side)	Depends on destination	<ul style="list-style-type: none"> • Preparation for custom clearance: 25-30 JD • Custom fees at the border: 10 JD • Trucking fees from bridge

* NIS: New Israel Shekel, JD: Jordanian Dinar

4.2 Issues and Constraints Regarding Logistics

4.2.1 Logistics Cost Survey

The Study Team conducted interviews targeting five selected companies related to the food industry. These companies produce core commodities of the Palestinian Territories and are highly interested in doing operation in JAIP. The survey results are summarized in Table 4.3, which includes company profile, the existing transportation situation, and needs for JAIP. Samples of supply chain also are shown in Appendix A4.2.

As shown in the table, significant cost reduction is expected for companies moving from other cities to Jericho, which use the Allenby Bridge for export toward Jordan and Arab countries. Shorter transport distances are advantageous considering increasing fuel costs. This reduction in costs could be an incentive for export-oriented companies to operate in JAIP.

Table 4.3 Logistics Situation of Selected Companies

Case	Company A	Company B	Company C	Company D	Company E
Main Product	Plastic pipes, cannes, etc	80 different dairy and food products	Foods and snacks	Canned beef and cold cut, Vegetables and food products	Canned beef and cold cuts, vegetables and food products
Location	Nablus	Jerusalem - Al Sawahra	Hebron	Tulkarem	Ramallah
Employee Number		180	250	85	70
Total Annual Sales (turn over)	2-3 million dollars	10 million dollars	25-30 million dollar	10-11 million dollars	
Objective of using JAIP	Expanding their business	<ul style="list-style-type: none"> - Expanding their business - Minimizing transportation costs - Complimentary project - Reducing production cost - Potential for development 	<ul style="list-style-type: none"> - Current storage shortage - Expanding their business - Packaging - Minimizing transportation costs - Complimentary project - The nature of Jericho's area is better than other cities - Easier to export to Jordan and other Arab countries 	<ul style="list-style-type: none"> - Current storage shortage - Expanding their business - Packaging - Minimizing transportation costs - Complimentary project 	<ul style="list-style-type: none"> -current storage shortage *expanding your business - Packaging - Minimizing transportation costs
Space needed	An open space of 2.5 hectare	They need a total space of 1,000 m ² divided to three phases: Phase (1): 2,500 m ² Phase (2): 3,500 m ² Phase (3): 4,000 m ²	15,000 m ²	Total space of 10,000 m ² divided to two phases: Phase (1): 2,000 m ² for warehouse Phase (2): 6,000 m ² -8,000 m ² for the factory	First phase: 5,000 m ² Final phase: 10,000 m ²
Need a cooling warehouse	No	Yes	Yes	Yes	Yes
Need transportation for waste system	No	No	No	No	No
Use special trucks	No	Yes	Yes, all of them are temp.controlled	Yes, all of them are temp.controlled	Yes, all of them are temp.controlled
Number of trucks	25 trucks	50 trucks			
Frequency of transportation	10 Trucks/Month are sent to Jordan	4 trucks each two days, 20% of the sales amount is for transportation	Daily, 30 trucks/week	Daily	15 trucks/month
Own or other companies trucks	Other companies, they pay 500 USD/truck to Jericho, and additional cost to Allenby	Both, and they have 50 cooling trucks	Both	Both	Own all trucks
Trucks size	- 7 ton truck	<ul style="list-style-type: none"> - 3.5 tons trucks - 50 tons trucks and more for long distance and whole sale 	<ul style="list-style-type: none"> - 7 tons (12 Pallets): locally - 32 tons (22-24 Pallets): 2,000 Nis/truck - 38 tons (26-28 Pallets): 2,000 Nis/truck 	- Three types of cooling trucks of different sizes	- 32 ton (22-24 pallets)
Potential Cost Reduction for Transportation	\$5,000/month (*1)	\$33,000 / month (*2)	\$212,500 / month (*3)	\$34,000 / month (*2)	\$2,000 / month (*4)

Note: *1: Estimated by interviewee

*2: The amount is based on the following formula: [(Current turnover) x (Portion of export) x (Portion of transport cost)]

*3: [(Current turnover) x (Portion of export) x (Portion of transport cost)] + [(Current turnover) x (Portion of import) x (Portion of transport cost)]

*4: [(Transport cost by truck) x (Number of truck used)]

4.2.2 In/Out Movement and Access

Allenby Bridge is used for import and export between the Palestinian Territories and Jordan (and many other countries via Jordan). Problems associated with import and export, at Allenby Bridge, will be outlined below. Additionally, some problems at other access points will also be detailed. General procedures for import and export are described in Appendix A4.3. Required procedures are shown in Table 4.2.

(1) Reservation Date for Shipments and Procedures

- Customs clearing agents must make reservations for the entry date. Often, the date is arbitrary and does not necessarily coincide for what is best for a particular product.
- Procedures, requirements and changes for shipments are applied for without publishing information to the Palestinian traders by the Israeli Customs at the bridge. This causes delays and extra damage for Jordanian and Palestinian trucks.
- Only drivers permitted to work on the bridge may enter.

(2) Waiting Time at the Bridge

- Wait time for shipments prior to entering the bridge and the security check for trucks and drivers generates delay.
- There is no cooling storage at the bridge, so some products cannot be imported from Allenby Bridge as they will be damaged due to the hot temperatures at Jericho. Traders prefer to import/export through Ashdod and Haifa Port.
- Goods are not allowed to move through the bridge on the Jewish weekend (Fridays and Saturdays) and the holidays.
- Actual working hours of the bridge are not stable due to the political situation.

(3) Back-to-back Operation

- Israeli customs use the back-to-back system on the bridge. This causes double handling of shipments. Time is lost and companies are forced to pay workers extra for loading and unloading goods.

(4) Security Check of the Shipments

- Some of the imported products need a special technician to check the goods and the documents of Israeli Standard Institute (checking product quality). As for water equipment, telecommunication and coordination sometimes takes time to be finalized. It takes a minimum of one week for the Israeli custom agent to coordinate with the appropriate Israel bodies (Ministry of Telecommunication, the Israel Standard Institute, or the Ministry of Health.)
- Some shipments (equipment for water units, waste water, pumps, water meters and pipes) are transferred by Israeli Customs to the Ashdod Port in order to conduct security checks by large-scale scanners. This takes at least two working days. Moreover, if this occurs during the weekend, shipments must be stored at the bridge or the Ashdod Port. Additional costs are incurred for storage at Ashdod Port and for the transfer trucks to Ashdod Port (about US\$2,000-\$3,000).

(5) Container Shipments

- Palletized shipments coming through Allenby Bridge must be on pallets with a height not exceeding 1.6 m. Israeli Customs are very strict on this point and return shipments to the Jordanians side if pallets do not meet these exact standards.

- The security check is carried out at the bridge. There is only a small scanner that can scan pallets within a height of 1.6 m. Other products like furniture must be checked manually, which takes additional time.
- The container shipments are not allowed to enter through the bridge at all. The lack of a large scanner or mobile scanner to check containers such as the one in Ashdod causes additional delay as Palestinian traders are forced to repack the shipments at the Jordanian side and put them on pallets before shipping them to the Palestinian side.

(6) Problems at the Ports (Ashdod & Haifa) and the Airport (Ben Gurion)

There are three major ports in Israel used for trade – two seaports (Ashdod and Haifa) and one airport (Ben Gurion). Problems at these ports are detailed below:

- Approval from the Israeli ministries (Ministries of Health, the Standards Institute, and the Ministry of Telecommunications) is needed before arrival of the shipment to the ports. This process takes a minimum of 1 month to obtain such approvals.
- After obtaining such approvals, when the shipment arrives at the port a technician must check the products. Coordination of the technician's arrival takes a minimum of 2–4 days.
- Worker shifts and time breaks for them causes some delay, especially when the shipments is coming as a bulk shipment and needs to be unpacked from the vessel.
- The quality of workers is often poor. This impacts the handling of heavy products or precision instruments, which are sometimes damaged (pipes, units, and computers).
- Within the port, there are long distances between the unloading dock to the security scanners. Shipments are unpacked from the vessel, with shipments then proceeding either to the bonded area or being loaded onto a truck to be sent for the security check. A cost is thus needed for internal trucking inside the port.
- In cases where a physical security check is necessary, a customs broker is unable to attend due to the extended time allocated to manually search. This can sometimes cause damages and also result in lost items.
- Congestion at the port causes delays in clearance or security checks.
- Worker strikes are often a problem at the port, which can generate delay and additional damage inside the port.
- The current political situation also affects the security process at the ports, as shown in closure or tightened security procedures at the ports during the Lebanon and Gaza wars. Often the result is congestion. Israeli Customs and the security department adopt extra security procedures at the ports. This results in Palestinian traders paying extra money for these additional security measures.

4.2.3 Summary of In/In and In/Out Border Control Problems

Below is the description of problems at the borders according to the In/In and In/Out cases. These problems fall into the categories of Infrastructure, Security Checks, Pallet, Documentation, and Transportation. Problems typically seen at the Allenby Bridge are summarized as follows.

(1) Infrastructure

- Capacity of the bridge is insufficient for higher export/import volumes. Also, the bridge is less developed than the Ashdod Port.
- There is no bonded (gated) area, which leads to many stolen and damaged products. Many companies do not re-export due to high losses.

- The security inspections area does not have a cooling warehouse to protect food that needs refrigeration when awaiting security checks. Thus, foods such as dairy and meat products are exposed to the hot weather for hours.

(2) Security Check

- The scanner at the bridge is small and cannot scan large volumes at a time, elongating security checks and only permitting pallets through. Materials, such as certain chemicals, are stored in tanks and cannot be checked at Allenby and must be sent to Tarkumia near (Tulkarem) to be checked.
- The scanner speed is slow as it is an outdated model. There is only one scanning line to access the scanner.
- Long waiting hours exist at the border due to complicated and unpredictable measures.
- Manual inspection of goods requires extra time and costs to unload/reload on the ground so that a security dog can search the products.
- Suspicious products are subject to further security inspections that can take an additional 2-3 days.
- Security inspection procedures are complicated and unclear; there is no official source for such information.

(3) Pallets

- Only palletized goods can be moved as containers are not allowed.
- The maximum pallet height is restricted to 120/160 cm.
- Each pallet is restricted to only one type of goods.
- The loading and unloading process (back-to-back system) of pallets, undertaken by a private company, causes damage and loss to products. Moreover, there is no way to claim damages since no one declares responsibility.
- Liquids chemicals must be loaded and unloaded through pipes, some of which are as long as 6 m long.
- Palestinian companies are forced to hire staff for their products at the borders which causes delay and damage due to the staff inexperience in packing.

(4) Procedures

- No licensed Palestinian freight forwarders can operate at the bridge. However, there are five licensed Israeli companies.
- Date for imports or exports needs to be the same date which has been declared and coordinated in advance with Israeli Customs.
- The Israeli side chooses which products enter, despite previous coordination.
- The Jordanian side works until 3:00PM only, which requires exported products to remain at the bridge until the next business day.
- Companies have problems with the Palestinian Authority refunding their taxes. Once the PA collects the taxes, they can take years to refund them or reimburse them in small payments.
- It takes time to obtain permits from the Israeli Ministry of Health for some kinds of products.
- Jordan implemented 210% taxes on some export products like Taybeh Beer in order to protect Jordan's license with Amstel. When Amstel is imported to the Palestinian Territories, however, those taxes are not applied to them.

(5) Transportation

- Only 40 trucks/day can pass through for exports and 20 trucks/day for imports.
- Transport costs are generally high, which hinders trade.
- Israeli Customs at Allenby apply to the Israel–Jordan agreement without distinction, which is less favourable than the Pan Arab FTA, which the PA is a signatory of.

4.3 Solutions, Issues and Constraints in JAIP**4.3.1 Past/Current Practices to Cope with the Problems****(1) Donor Support**

International donors have implemented various projects for logistics improvement in the Palestinian Territories. In particular, USAID has supported improvement by diverse approaches. Major donor projects are listed below. It is worth analyzing some of these.

- USAID – Trade Facilitation Program
- USAID – Promoting Industrial Zones and Investment Mobilization
- USAID – Office of Transition Initiatives Program
- USAID – PalTrade Institutional Development Program
- USAID – Palestinian Integrated Trade Agreement (PITA)
- USAID – Modernizing Customs with Help from the World Customs Organization
- USAID – Opening New Routes for Jordan Valley Traders
- USAID – Removing Roadblocks Revitalizes Industry in Hebron
- EC, UNCTAD – Development of Palestinian Shippers Council
- EC, UNCTAD – Launching of the Computerized Palestinian Customs System ASYCUDA WORLD/TAWASOL
- EC – Trade Corridors Facilitation Project
- UNCTAD – Transit Trade and Transport
- UNCTAD – Strengthening Operational Capacities in Customs Administration
- UNCTAD – Strengthening Trade Efficiency: Trade Point Palestine Ramallah
- UNCTAD – Training Program in International Commercial Diplomacy
- UNCTAD – PA Sub regional Cooperation with Egypt and Jordan

In terms of the Trade Facilitation Program, USAID supports development through installation of equipment and standards for inspection service, improvement of logistics routes, and reorganization of the logistics center. Import of chemical fertilizers was approved through coordination with Israeli security.

Box 4.1 Lessons from USAID / Trade Facilitation Project

This project has been implemented since 2008 by the way to approach to a company individually to facilitate its trading. In order to fulfill the requirement of Israeli Crossing Points Authority (CPA) and/or the Civil Administration, various practical improvements have been made for product by product. As security issue is the main concern of CPA, how to clear their anxiety is one of the key approaches.

Particularly, CPA agreed to allow some products, by trial scan and review, to take the way of sealed container export without further check. As for food and agricultural products, cous-cous, cherry tomatoes and bell peppers were already allowed to use this arrangement.

However, certain products, which do not lend themselves to easy X-ray scanning, are difficult to be allowed. These include extremely dense materials and goods with high moisture content, e.g. olive oil and some agricultural products, may not be accepted. The Israeli CPA and the Civil Administration seem to prefer a coordinated and pre-arranged trial scan and review before accepting. Though a trial scan of a full container of canned pickles was not successful, trial scans can be requested and arranged through the Economic Branch at Bet El. The Israeli CPA could also provide information and advice on moving full containers through their crossing points.

Although there is no unified solution, the approach and idea will inspire to others. Followings are lessons learned other than sealed container;

1. Goods must be palletized, preferably at a height not to exceed 1.6m.
2. Space should be left between the ceiling of the container and the top of the stacked pallets; also a space should be left between the two rows of pallets inside the container to allow for a clear line of sight.
3. Marble and stone should be packed in a way that allows enough space for sniffing dogs to enter the container and for manual inspection. This can, however, significantly reduce the size of the shipment.
4. CPA currently requires be loaded on flat bed trucks in a single row for scanning.

(Interview to CHMONICS: USAID Contractor)

In terms of USAID's Promoting Industrial Zones and Investment Mobilization, the business plan including logistics improvement was proposed through market analysis by industries. Technical support was also implemented for the Palestinian Investment Promotion Agency (PIPA) and PIEFZA.

USAID's Office of Transitions Initiatives Program facilitates the acceleration and stabilization of logistics through capacity building of local administrations. Four cities were targeted for technical support for improvement of public transport. At the same time, citizens were also targeted for awareness building for logistics facilitation.

Several support projects/programs have been analyzed in-depth to develop options for proposal in this survey.

(2) Palestinian Organizations

The following Palestinian organizations engage in improvement of the logistics environment.

- a) Palestinian Shippers Council (PSC)
- b) PalTrade

The Palestinian Shippers Council (PSC) represents the interests of the Palestinian traders and works towards meeting the needs of shippers by providing contacts, representations and other interventions to reduce transport and transit related bottlenecks. In addition, PSC provides direct assistance to Palestinian shippers through training workshops and study tours to develop and promote trade.

PalTrade is to lead the development of Palestinian trade. PalTrade advocates a competitive,

enabling business environment and is dedicated to improving trade competitiveness through trade promotion and capacity building.

4.3.2 Ways to Improve Logistics

Various provisions can be considered for the improvement of logistics in the Palestinian Territories as listed below. However, some of them are difficult to realize in the short-term or as a function attached to JAIP. It is necessary to prioritize them to specify realistic and effective solutions.

(1) At the Border (Case of Allenby Bridge)

The back-to-back system is noted as a big problem as it requires additional time and often results in additional damage to certain products. This system needs to be replaced by a door-to-door system on both the Jordanian and Israeli sides. Palestinian companies require the elimination of the system, however, it is difficult to improve it immediately. In the short-term, it is better to consider more realistic solutions to implement under the back-to-back system. The table below summarizes possible solutions.

Table 4.4 Ways to Improve at the Border

Explanation	Availability	Priority
The working hours at the bridge have to be expanded to increase flow volumes on both the Jordanian and Israeli sides. Current working hours from 10:00AM to 6:00PM are insufficient, while Jordanian Customs work only until 3:00PM each day. This requires exported products to remain at the bridge until the next business day. This suggestion could be immediately implemented with minimal cost to both the Jordanian and Israeli sides.	Realistic - Can be immediately implemented	High
A cooling warehouse is needed near or around the Allenby Bridge on both the Jordanian and Israeli sides for special kinds of products such as agricultural ones. Such a warehouse would be beneficial because products are exposed to extreme weather conditions (heat or cold).	Realistic - Needs special coordination and financing	High
Large and speedy scanners and x-ray machines should be installed on both the Jordanian and Israeli sides. The small scanner and manual inspection system at the bridge slow down processing. Sometimes, suspicious imported products would be subject to further security inspection, which takes an additional 2–3 days.	Realistic - Needs coordination and financing	High
Palestinian forwarders, traders, and custom agents must be involved in all procedures at the Israeli side on Allenby Bridge, which help the Palestinian exporters and importers to have access to information to monitor their shipments and to ease documents issuing.	Realistic - Can be immediately implemented	Medium
Need to add safety barriers around the inspection area on both the Jordanian and the Israeli sides. This helps to prevent stolen products and minimizes damage to products, especially electronics products. Safety barriers also provide shelter for these products from the sun. This is a viable option for both the Jordanians and Israelis to increase productivity.	Realistic	Medium
Containers must be allowed to enter on the Israeli side because at present, only palletized goods can be moved, which causes damage and losses to the products. Moreover, there is no way to claim damages since no one declares responsibility. Allowing for goods to be packaged in various techniques such as bins, containers, pipes, etc. can allow for a larger array of goods.	Realistic	Medium
Clear security and document issuance procedures are needed on the Israeli side as the current procedures are complicated and unclear. There is no official source for such information. Publishing procedures and requirements would provide clarity and avoid misunderstandings. This can also aid in hastening the custom process.	Realistic	Medium
The regulation for the size (height) of pallets must align with international standard sizes for all types of products on the Israeli side.	Contingent on the scanner size	Medium

Explanation	Availability	Priority
At present, the maximum pallet height is restricted to 120/160 cm, while each pallet is restricted to only one type of good.	and procedures	
The manner in which taxes are refunded must be changed. Taxes taken at the Israeli side for the Palestinian Authority can sometimes take nearly one year to refund. The Palestinian Authority need a more concise and organized system of keeping track of taxes and offering refunds within a reasonable time.	Needs coordination	Low

(2) Road Conditions

Table 4.5 Ways to Improve Road Conditions

Explanation	Availability	Priority
The Palestinian Authority must improve the domestic road infrastructure. Some portions of the roads to Jericho (Allenby Bridge) are hilly with winding curves and sharp turns. Drivers should be careful to avoid not only accidents but also damage to products.	Realistic - Needs financing and coordination	Low
New bridges to cross the valleys and bypass steep winding roads in the Palestinian Territories as well as better trucking routes would improve the situation (e.g. Route 398 between Bethlehem and Jericho)	Needs research	Low

(3) At the Checkpoints

Table 4.6 Ways to Improve at the Checkpoints

Explanation	Availability	Priority
Reduction/elimination of checkpoints that lower productivity of vulnerable Palestinian companies by forcing long waiting times.	Realistic - Needs coordination with Israeli government	High
Security check procedures are not integrated with goods/product handling activities which causes damage and in some cases shortages. Insuring security check officers are properly trained minimizes damages.	Realistic - Can be immediately implemented	Medium
Many times, the need to use Israeli trucks burdens traders with inconveniently high prices charged by Israeli transporters. Allowing the Palestinians to have their own network of transportation eliminates the need to rely upon the Israeli system.	Realistic - Needs coordination with the Israeli and Palestinian Authority	Medium

Free movement of goods and services is a key principle to economic development. Efforts should be made to unite all Palestinian, Israeli, and international parties to find practical and technical solutions for mobilization and border management of goods.

4.3.3 Logistics Improvement Solutions Expected in JAIP

Although there are various options for logistics solutions, some of them are difficult to realize. These options are examined using convenience criteria in terms of relation with neighboring countries, effectiveness to SCM, value addition to JAIP, and cost/risk. The evaluated results are shown in Appendix A4.4. Potential logistics improvements expected in Jericho and JAIP are summarized below.

(1) Solution for In/In Transport

For IN/IN transport within the West Bank area, the following solutions are expected for logistics improvement in Jericho².

² It is noted that road access to the Allenby Bridge to/from JAIP will be closely examined by the JICA Study Team (particularly routes suggested in the previous F/S). The geographic separation between the West Bank and Gaza Strip and the division of the West Bank into areas A, B, and C together with the lack of financial resources are factors that complicate the ability of the PA to develop its road network. Such factors hinder PA areas and neighboring countries. Israel could greatly aid in allowing new and safer roads to be built/replaced.

- Moving into Jericho itself can be a solution for companies importing materials from the Jordanian side or using raw food materials produced in Jericho by reducing transport costs.
- Reducing clearance time at checkpoints is an anticipated result, however it is something that cannot be achieved quickly in the short-term. On the other hand, containerization can be a long-term solution to change from the back-to-back system. To improve the logistics situation relating to checkpoints, it is necessary to make continuous efforts with donor organizations.
- Providing refrigerated trucks and storage can prevent perishable food products from spoiling. Financial support for those facilities or the provision of common facilities can be solutions for transporters and manufacturers relating to JAIP.

(2) Solution for In/Out Transport

For IN/OUT transport to/from the West Bank area, the following solutions are expected for logistics improvement. These solutions should be provided in Jericho as advance investments for infrastructure that would benefit all related parties by facilitating smoother transport and more transport.

- Installation of a large scanner and x-ray machine facilitates smoother transport using containers.
- Automation/computerization of custom documents facilitates smoother clearance. Donors are expected to support it.
- Sheltered cargo handling areas, as an immediate solution, protect commercial goods from strong sunshine.

(3) Logistics Functions in JAIP

JAIP is expected to provide logistics support functions as follows.

- Existing transporters and warehouse providers should be invited as well as manufacturing companies coming to JAIP. These entities should be given incentives to come to Jericho and support JAIP logistics activities. Through interviews with transporters, JAIP does not need to develop common facilities operated by a developer such as distribution centers, common warehouses and cooling storage in the short-term. That is because companies choose their favorite transporter and the total cargo volume is not so high.
- Customs clearance support is also considered as a potential important function of JAIP. This support includes clearance, container sealing and GPS trace functions. Examples of industrial estates in Jordan are worth learning from (see Appendix A2.4). This should be discussed together with improvement at the border.

4.4 Recommendation to Relevant Parties

Logistics is a part of the strategic infrastructure for regional development and the lifeline to daily business and economic activities of each party. It also undeniably raises concerns as a matter of security if and when border crossing is involved, especially in the Palestinian Territories where divisions are currently in place and border crossings to three parties are relatively complicated. This is highlighted in the terminology “Movement and Access”—meaning logistics issues—prevailing in the Palestinian Territories.

As stated in the logistical options, there are many suggested improvements, which is the same as the status quo. The following subjects are nonetheless to be reiterated as recommendations for the relevant parties³.

- Customs control and clearance of security checks in the Allenby Bridge can be more advanced in using e-customs in documentation process, containerization and large scanning equipment in both Israeli, Palestinian, and Jordanian crossing points. Further studies with the three parties, with assistance by Japan, is recommended to initiate this process which could enable exports from the Palestinian Territories to pass through the Bridge more efficiently and securely, with an orientation towards customer.
- Application of Jordanian good practice in cargo transportation that depart from Jordan industrial parks and arrives in Haifa in Israel can be beneficial. The commencement of arrangement procedures have to be initiated in tune with the development of the JAIP.
- In the long run, to boost transportation among the Palestinian Territories, Israel and Jordan, the Aqaba Port and Queen Alia Airport in Jordan could be used. This would be beneficial, along with JAIP in Jericho for the region. JAIP can be seen as a location suitable for a logistic center for this purpose. The commencement of the study for the strategic use of the Aqaba Port and Queen Alia Airport in Jordan for cargo transport is recommended with Japanese and other donor support. This study will assist in the streamlining of container inspection and utilization of IT to raise competitiveness of the ports⁴.

4.4.1 Measures expected to be taken by the Palestinian Authority

The followings are suggested to the Palestinian officials, organizations and private sector.

- **Capacity building and modernization of customs**
It is important to organize training programs on customs clearance, WTO procedures, customs valuations, risk management, and the use of computer and electronic information for efficient border control by PA. The exchange of customs personnel on a short-term basis would also be helpful. At the same time, Palestinian customs system should be more computerized to centrally manage documentation and to shorten transaction time.
- **Investment in infrastructure**
Terminals for cargo and passenger vehicles need to be developed at important hubs/ junctions inside Jordan, the Palestinian Territories, and at border points where large volumes of traffic pass to/from various directions including Jericho. In addition, the deteriorated road network should be upgraded.
- **Streamlining procedures and publicity**
The PA must aim to integrate all procedures, formalities, measures, instructions, and regulations governing overland transportation, goods clearance, customs administration and pre-trade documentation in a single “binding legislation”. It is also necessary to raise awareness of the agreements and understandings that exist between Jordan and the PA, the PA and Israel, as well as Jordan and Israel in order to take advantage of opportunities they might provide.
- **Networking of organizations related to trade**
In coordination with the Chamber of Commerce, workshops should be conducted for

³ EU funded “Trade Corridors’ Facilitation Project” in which similar and informative recommendations have been studied.

⁴ At present, Haifa Port is regarded more competitive for export to Europe in terms of cost and time.

SMEs in order to demonstrate the importance of the Internet and the electronic commerce in developing efficient trade relations.

4.4.2 Measures expected to be taken by Israel

The following measures are expected to be taken by Israel.

- **Coordination with Palestinians for customs control**
It is important to demonstrate the customs operations process to Palestinian officials and agents and involve them. The process does not seem transparent for Palestinians, and they become confused. Publication of trade information could help in understanding rules.
- **Streamlining border processes**
Allowing a modernized scanner or sealed container system would greatly expedite the procedure allowing more trucks to pass through bridges every day. Extra time and damage could be reduced by applying such systems and relaxation of security measure.
- **Improvement of infrastructure**
Infrastructure at the crossing point needs to be improved. Installation of a large scanner and x-ray machine allows for quick inspection of containerized cargo. In addition, financial assistance is needed for road development in area C.
- **Change of movement regulations**
Restrictions on movement and the back-to-back system should be discussed and changed among Israel, PA and Jordan based on best practices from donors and Jordanian industrial estates.

4.4.3 Measures expected to be taken by Jordan

The following measures are expected to be taken by Jordan.

- **Facility development at the Allenby Bridge**
Large speedy scanners and x-ray machines should be installed on the Jordanian side to shorten inspection time. Inspection areas on the Jordanian side should be equipped with shelter and proper safety barriers to save goods from sunshine and theft. For smoother clearance, Allenby Bridge also needs overnight parking for 24 hours operation, bonded warehouses, as well as cooling storage.
- **Operational improvement at the Allenby Bridge**
Extension of working hours of the border office is important to handle increasing volumes of trade flows. It is also important to coordinate and simplify the customs procedures. In addition, improvement of cargo haulage is needed for avoiding damage to goods.
- **Trade facilitation policy**
Facilitation policy is needed for more active movement of goods. Such policies include lowering tax, allowing entry of Palestinian trucks, smooth clearance for transit cargo, and so on.
- **Information and data exchange**
Information and data exchange is needed to build a clear and systematic procedure to exchange customs data between the Jordanian side and PA. Furthermore, Jordanian and Palestinian companies should cooperate to exchange trade-related information in order to obtain benefits from building joint business ventures to expand their marketing networks, for instance. Although the need for information and database exchange is stipulated in agreements and protocols, in practice there has been little progress.

4.4.4 Measures expected to be taken by Japan

The followings roles are expected of Japan for improvement of logistics surrounding JAIP.

- **Training of relevant organizations**
Various trainings are needed such as capacity development of customs, improvement of packaging technology and so on.
- **Mediating dialogue among related countries**
Japan, as a member of the Four Parties Dialogue, is expected to mediate talks on changing logistics treatment for smoother transport.
- **Assisting infrastructure development**
Japanese assistance, including its advanced technology, would be beneficial for improving the logistics environment.

5 BUSINESS DEVELOPMENT SERVICES (BDS) IN JAIP

This chapter provides the justification, objectives, functions, facilities as well as necessary technical assistance for the BDS Center in JAIP. Although the services may start earlier as mentioned later, the center itself is developed together with JAIP to support Palestinian SMEs for their modernization, to empower the tenant industries for successful management and operation, and also to ensure the SME platform for sustainable growth.

5.1 Requirements of the BDS Center/Business Development Center (BDC)

(1) Unsolved Issues for SME Development

In reality, SMEs still face many challenges, though there are a variety of business support schemes available in the Palestinian Territories. In particular, the following issues still need to be further addressed to enhance business support schemes for Palestinian SMEs.

- **Limited marketing and technical services:** The number of organizations which provide specific services such as legal, market information on export countries, and production technology/product development is still limited and not disseminated to the SMEs.
- **Low cost-effectiveness:** Most Palestinian SMEs are still unable to access business support services, particularly those provided by private consulting firms due to high service costs.¹ If these SMEs are organized as a group and the necessary support services are provided to them, their accessibility to business development schemes will therefore increase since the cost per SME will be reduced.
- **Needs for product development:** New products (not necessarily through new market channel development) and some research and development efforts should be encouraged to further strengthen the value chain.

(2) SME Development Institution under the PPP Management

Several donors have direct support schemes to the private organizations, however, due to the weakness of coordinating functions by the PA, donor support to the government and private organizations is implemented separately in many cases. Though implementation of business support services to SMEs largely depends on financial assistance from donors, support for private business will still be promoted under public private partnerships (PPP). Depending on current trends, the services would be privately marketed at reasonable prices.

The SME development policy/strategy and its implementation mechanism by the PA have yet to be developed. As stated in the Chapter 2, however, there are many private sector institutions that provide various services in line with SME revitalization under the current political stability and economic growth. These institutions are now focused on modernization and export promotion. In order to fill unsolved issues stated in (1) above, the PA should take the lead to build its capacity to formulate a national SME development strategy and an implementation institution/mechanism. The PA's coordination of activities or establishment of a platform to integrate the activities of each supporting institution activities can be integrated.

¹ A business support center will provide partially subsidized training services to those companies that are incapable of purchasing these services at market based prices, which are costly and unaffordable to most companies due to the shortage of supply. In addition, those services are not comprehensive enough or effective enough. It is also noted that this kind of intervention does not crowd out market players in the current development stage.

As far as regional planning is concerned, JAIP should support a cluster development for agro industry. It will require a key institution devoted to strengthen cluster development of the agro industry sector.

Thus establishing an appropriate structure, such as the BDS Platform based on PPP, is strongly recommended. This means that the BDS Center in Jericho can be seen as a national institution that can be called the Palestinian Business Development Center (PBDC).

(3) BD Services Relevant to JAIP

JAIP is expected to play a role as “production base “in the region, attracting and inducing SME investors that are initially from the food industry. Specific support activities and facilities will be included in JAIP, which will be beneficial to investors and SMEs in the sector. Moreover, for indigenous investors to JAIP that will take risks to expand their production to seize opportunities, it still needs to provide support for business development. In particular, as far as export expansion or international marketing is concerned, various additional support is needed in terms of technical and financial matters in comparison to the domestic market.

The result of the interviews to the potential investors has confirmed that the majority of those investors think of business development services in JAIP being as one of major incentives. As indicated in Chapter 3, the development of an integrated business development service is expected by those investors to be materialized in JAIP. The services in JAIP can be used by not only the tenants but also other SMEs in the Palestinian Territories. It is also noted that a newly developed facility in JAIP will be used for other technical support projects and schemes by the other donors that have had difficulties in locating appropriate venues.

5.2 Draft Implementation Plan of BDS Center

5.2.1 Services to be Offered by the BDC

Corresponding to the requirements stated in Section 5.1., BDC will ensure the development of the hub and cluster in JAIP and will combine a management training center, a one-stop (business development) center², and export and product promotion catered for SMEs and investors. BDC will offer these functions and facilitate a range of services to attract and assist investors. BDC will also support potential businesses owners as well as entrepreneurs to start, improve and expand their businesses. The range of non-financial services includes but is not limited to:

- Management capacity development
- Production process development
- Market development
- Financial support
- Human resource development and management
- Business environment and networking

The level of services provided, which dictate the functional and staffing requirement, are based on the following conditions:

² It is noted that a “one-stop center” in this context differs from the PIEFZA’s version of a one-stop shop, which is aimed at making it quick and easy in terms of administrative and governmental procedures to locate.

- The number of SME trainees involved in the management training would average over a thousand per year.³
- The number of possible investors to be supported in Stages I and II would be over 50 investors.
- Management of the PBDC is self reliant and would cover the aforementioned principal services and would involve relevant available providers.

5.2.2 Functions at BDC

(1) Management Training Division

The management training division will offer regular intensive training programs, seminars, and professional customized training courses as described below.

Regular Intensive Training Programs/Seminars – Medium Term

The training programs will target middle and top managers and owners of SMEs to enhance their core management competencies, who will then transfer knowledge to their employees through OJT training. This training program will be designed for the medium to long-term, with at least 280 training hours delivered over a period of 4 to 6 months. The timing of delivering such training courses should be flexible and align with the availability of owners/managers.

When developing training materials/curricula, continuous consultation is needed with businesses to meet their business development expectations. Moreover, the training structure should adopt practical methodologies, not limited to academic literature, covering case studies, exercises and business tools that help in making the training program more attractive and different.

In the Palestinian Territories, the training courses that are currently offered in the market are relatively short, not demand-oriented, of modest quality, and costly. Other programs are provided through few local universities, which are designed for students not business people. The majority of businesses in the Palestinian Territories are family owned or managed and follow their parents' management style. Thus, there is an immediate need to provide regular training programs to build professional managerial capacity of entrepreneurs. The existing capacity in the Palestinian Territories to conduct such training is limited and international consulting firms/training centers are needed to help fill this gap.

The training program will consist of 10 modules, each equivalent to approximately 30 contact hours. The modules will be designed and developed by a pool of local and international experts, especially from Japan for the most in-demand subjects such as Production Management, Marketing, and Strategic Management. Those modules could include:

- Module 1: Strategic Business Management
- Module 2: Market and Marketing
- Module 3: Basic Accounting
- Module 4: Financial Analysis
- Module 5: Human Resource Development
- Module 6: Human Resource Management
- Module 7: Production Management
- Module 8: Bankable Business Plan
- Module 9: Entrepreneurship
- Module 10: Project Management

³ The demand for training will be comparable to the number of PFCCIA (40,000 to 60,000).

Professional Training Courses – Short Term

Professional customized training courses for individual and special subjects will target SMEs owners and managers, as well as business starters who lack certain skill and knowledge sets. These courses should be practical and easy to apply to business operations. The training could be designed to be short-term, perhaps 30 training hours. Training fees would be set lower than the total cost of the training for the initial period, with the balance being covered by donors/sponsors subsidized by the PA. Through this exercise, the capacity of local trainers could be developed to provide management consultants or lectures.⁴ Possible topics to be provided for the needs of SMEs are:

- Production management
- Quality control
- Finance and accounting
- Marketing skills
- Sales techniques
- Customer relation
- Pricing strategy
- International marketing
- Human resource management
- Logistics and SCM and Inventory control

Incubation for Start-Up

Incubation offers strategic support and practical assistance for starters. Support to starters to develop and finance their business model will be provided through the expert and incubation network contacts. Services to be offered are listed below:

- Office space: The incubation will offer a working space and “work station” equipment for the starters.
- Networking with partners and providers: Networking will help with the exchange of experience and transfer of know-how for the development of innovative business models. It will also facilitate the arrangement of contacts with industry, technology and financing institutions.
- Development of financing strategies and links with financial institutions: Via credit institutions, the incubation specialist will help starters to secure financing opportunities to realize the business concept. There are many donors who are running credit programs including Italian Cooperation, DAI, CHF, etc.
- Development of business model: Product ideas identification and screening at a very early stage is needed to systematically evaluate market potential. A continuous feedback process and incubation specialist coaching allows for constant adaptation and development of the business concept.
- Coaching to implement developed business plans: Coaching will focus on team recruitment, enhancement of entrepreneurial capacity, business registration, legal advice, licensing, etc
- Marketing support: Support will be provided in conducting market research activities, in developing sales concepts, and in establishing a distribution network.

⁴ SEC's experience indicates that one of the major weaknesses of local trainers is the lack of a suitable training methodology. To fill this gap in 2007, SEC conducted a CEFE TOT (Competency based Economics, Formation of Enterprise). This TOT resulted in the capacity building of 20 trained CEFE trainers, who are in the process of certification. CEFE training curricula was developed and promoted by the German Agency for Technical Cooperation (GTZ).

Fair Trade

There is an opportunity in JAIP to promote not only agro related fair trade, but also for the entire fair triangle – food exports, handicrafts, and tourism development. One of the effective tools to achieve the objectives of JAIP is to strengthen the potential for fair trade in terms of international marketing (channel development and marketing). Coordinating staff will be appointed to implement the following services:

- Educate and advocate on fair trade through coordinating events and developing publications
- Provide information on new fair trade markets
- Establish networks and channels to increase exports
- Exhibit new technologies to producers.

Box 5.1 Business Development Services for Fair Trade

BDS for fair trade can be provided by the following institutions.

- Small Enterprise Center – Business and marketing plans
- Bethlehem University/Institute for Community Participation and Fair Trade Development Center – Fair trade advice for producers/co-ops, traders or exporters, and retailers on the rules of becoming FLO (including FT Label Japan) and organically certified including JAS (Japan Agricultural Standard); assistance with certification and awareness of the importance of quality; assistance with web training and FT promotions; linkages to markets of certified FLO categories including flowers, fresh fruit, juices, spice, herbs/zaatar, olive oil, wine (Canaan is trying to obtain FLO standard for processed vegetables; fresh vegetables).
- Palestinian Shippers' Council – Training on shipping regulations and export plans
- Oxfam/PFU/PARC – Training on water conserving cropping patterns matched to high value exports and irrigation efficiency – cisterns, drip lines, and water pipe maintenance; strategic planting plans so crops are planted to market conditions to stabilize pricing)
- ELEMCO – Solar energy utilization training

(2) Business Support Division

The business support division will be devoted to serve domestic investors not only to smooth their transition to JAIP, but also to support them in their operation in JAIP. In fact, investors in the Palestinian Territories require business development services before, during, and after the transition. Potential services to be provided are:

Consulting Services

Advisory services will be provided to help each potential investor improve their business performance by assessing business needs and reviewing business functions.

- Conduct business diagnosis and needs assessment
- Develop and facilitate a plan to overcome needs and weaknesses
- Develop and update business plans
- Identify sources of capital
- Setup record-keeping systems and analyze financial records
- Identify foreign markets for products or services
- Conduct specialized research geared to specific needs of the business-owner
- Create marketing strategies and advertising campaign
- Provide continuous coaching services and feedback.

Export Promotion and Marketing Information

The division will support investor export capacity through:

- Market information center: Information on new external markets, target groups, standard, competitors, exhibitions, etc.
- Counseling investor needs: Conduct business diagnosis for investors to solve problems and identify needs that obstruct export capacity.
- Networking and referral services: Refer investors to fulfill their needs via other service providers such as PalTrade, Shippers' Council, and PFI.
- Training: Design and conduct training courses for investors in relevant topics such as marketing research, and marketing strategies to enhance their export competencies.
- Advice on import and exports: Advises and information on import and export procedures.
- Branding specialist: A branding specialist to help investors in developing brand names, registering patents, etc.

Legal and Financial Services

- Provide legal advice on laws and regulations, rules, customs laws and procedures, tax exemptions, investment laws, and applicability to JAIP.
- Provide advice on business licensing, and registration.
- Business linkages with financial institutions to get loans.

(3) Export and Product Promotion Division

- BDC will provide “showcase” space to enable investors to exhibit their products. This would help investors and industrial associations to market their products in both the local and external markets.

Training schemes and other facilities are shown in Appendix A5.2.

5.2.3 Organization and Management

(1) Ownership and Management

The ownership of BDC shall be under the Ministry of National Economy's discretion; however, the key relevant private sector institutions should take the management role. Therefore, the planned board of directors is composed of various stakeholders from both the public and private sectors, namely the Ministry of National Economy (MoNE), the Federation of Chambers of Commerce, Industry and Agriculture (FPCCIA), the Palestinian Federation of Industries (PFI), and PalTrade. The PBDS Board will provide directions and guidance to the management level.

The legal status of BDC will be determined based on MoNE directions. In order to avoid registration complexities, a ministerial decree would be a reasonable option.

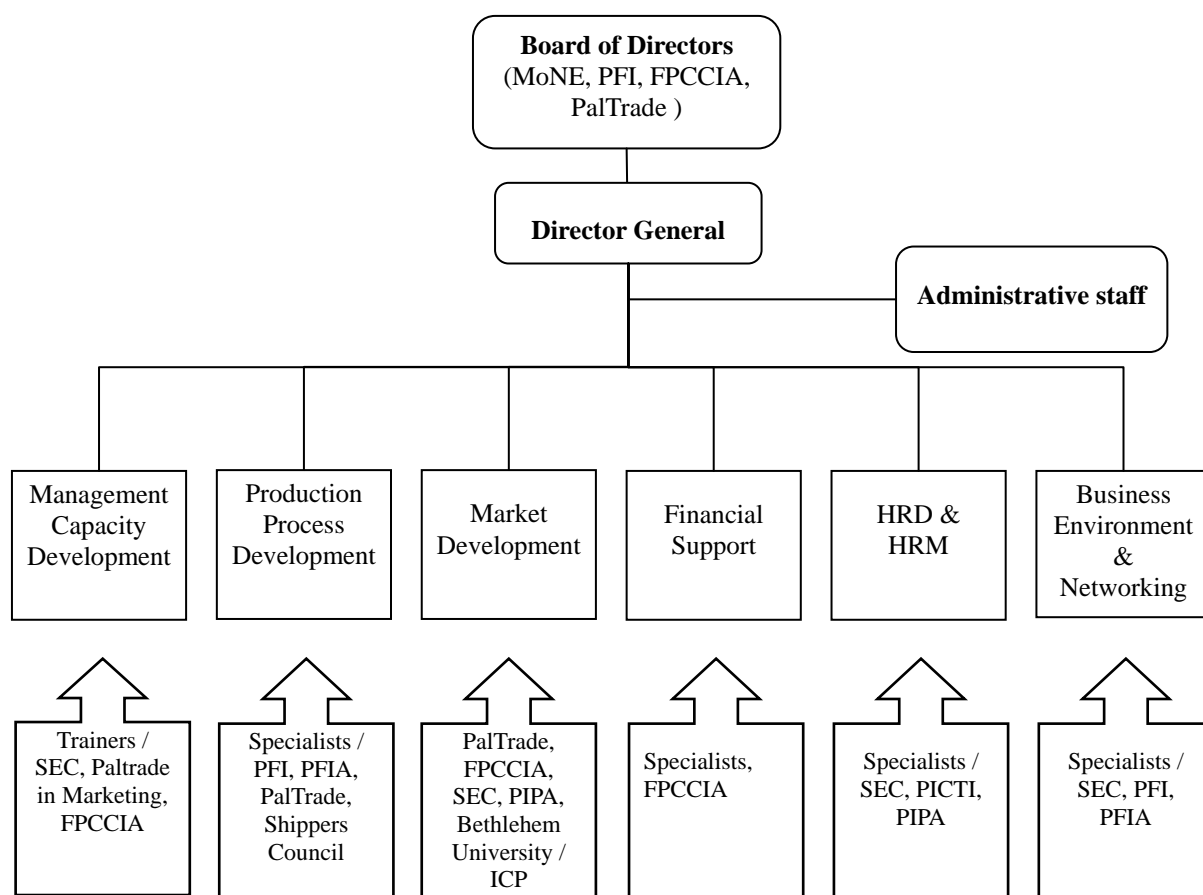


Figure 5.1 BDS Center Organization Chart (Functions)

(2) Candidate BDS Providers

The capacity of current providers is used to serve SMEs and investors. The allocation of the providers to the services rendered in the BDC is shown in the following table. It is noted that core services such as training division and business support division are directly managed by BDC as a provider.

Table 5.1 Services of PBDC and Providers

	Service/Functions	Facilitator	Providers	Potential Partners and Intermediaries Institutions	Target Group	Linking Donor Projects
Management Training Division	Management training and production management (regular and intensive programs)	BDC	BDC	Local and international trainers, SEC	Investors, potential investors, and SMEs	SIDA, CIDA, GTZ
	Incubations services (e.g. referral to academic and research institutions)	BDC	BDC	SEC, PICTI	Start-up and small companies	USAID
	Fair trade	BDC	ICP	PARC, SEC	SMEs	EU, USAID, CIDA
Business Support Division	Technical services (e.g. quality assurance, logistic services)	BDC	BDC	PFI, PFIA, local trainers, specialist, consulting firms	Investors	UNIDO
	Export promotion, and market information	BDC	PalTrade	PalTrade	Investors	CIDA, GTZ, UNCTAD
	Consulting services for individual companies and networking	BDC	BDC	SEC, FPCCIA	Investors	ILO, PSDP
	Legal and financial services	BDC	BDC	FPCCIA, SEC, PFI	Investors	Italian cooperation, CHF, EU, WB
Export Promotion	Exhibition “show case”	BDC	BDC	Chambers, PalTrade, FPCCIA	Investors and SMEs, and industrial associations	

(3) Staffing Requirements and Financial Sustainability

In order to fulfill all the functions and services pertinent to the organizational structure of the center, a total of 24 staff members (inclusive of specialists) on average is estimated. The center's financial scheme will be checked to gauge sustainability to understand sponsor/donor contributions on the condition that facilities are granted to PBDC by MoNE. The administration costs will be covered by training fees and the share of JAIP revenues from land leases, office rents, as well as donors/sponsors. The issue of sustainability is addressed in Appendix A5.1.

As this center is planned to operate with payments from JAIP tenants, the primary function is to serve potential tenants for successful business expansion and operation. However, in the future, it will serve Palestinian SMEs for their business development with a beneficiary's cost sharing principle. It is expected that more elaboration on the financial stability has to be made, which is based on the prioritization of the services in order to be more sustainable in financial terms.

(4) Effects and Impact of the PBDC when Fully Fledged

- An average of around 1,000 SMEs and starters per year will be trained. In the first year it is expected that the BDC will train around 475 SMEs, 700 SMEs in the second year, 875 in the third year, 1,000 in the fourth year, 1,050 in the fifth year, 1,075 in the sixth year, and 1,200 in the seventh year, respectively. This is based on the development scenario and road map.
- The center will provide 389,500 training hours in the first year for 475 participants. Later, the center will provide 938,000 training hours in the second year, 1,408,750 in the third year, and reach 2,328,000 training hours in the seventh year, respectively.

- The center will coach investors to facilitate a transition to JAIP, and reduce the failure rate.
- PBDC will help both SMEs and investor to expand and improve their businesses.
- PBDC will attract new investors to JAIP.
- PBDC will facilitate the creation of new businesses by providing professional training programs for those who want to start businesses.
- PBDC will organize special training programs to target existing or potential female businesses, especially those in rural areas.
- Participants in the training programs offered by PBDC will acquire new skills that would help in improving SME productivity.
- New sustainable jobs will be created and new businesses will be established to help the Palestinian economy by helping to reduce the unemployment rate.
- PBDC will enhance the capacity of local trainers; this will enhance their capacity to design and provide quality services to the SMEs. PBDC will provide special training to qualify new trainers also. Increasing the number of trainers in the Palestinian market will increase the level of competition and thus reduce the daily rate of trainers, encouraging SMEs to use their services with reduced donor subsidies.

Box 5.2 Agriculture and Farmers Support by PBDC

PBDC provides appropriate services to tenant companies in JAIP as well as to the agriculture sector, farmers and cooperatives that are to be key raw material suppliers. These supplies are not organized and linkages with local factories are weak. PBDC could provide the following services to facilitate linkages:

- Organize and enhance linkages between farmer and factory “investors” to maintain the supply of input and raw materials. This needs to be coordinated with different organizations working to support this sector, together with MoNE and MoA.
- Provide incubation services for farmers to enhance their productivity in the agriculture sector.
- Provide business related training programs for farmers to enhance technical and managerial competencies (the “value chain program”).
- Promotion of fair trade and collective farmer actions (agriculture stations, collective purchases of seeds and other materials, shipments, insurance, transportation, purchasing tools and machines, credit approval, marketing studies, market information, collection, lobbying ,etc)

Other direct services would be provided in PBDC by the MoA and other relevant providers.

5.2.4 Stages of PBDC Development (Road Map)

PBDC will begin from Ramallah in an early stage to build operational and managerial capacity and accumulate expertise to successfully establish and run PBDC in JAIP in subsequent stages. PBDC in Ramallah will provide coaching and support the transition of potential investors from the West Bank to the Jericho Agro-Industrial Park. With careful planning and preparation, PBDC can greatly increase the chances of success and sustainability. The table below presents a road map of PBDC development, showing objectives, requirements, and services in each stage.

After successful stationing in Jericho, the Ramallah office will limit its functions and resources to the PBDC headquarters to oversee the BDC in JAIP and administer board activities. In its function, other BDCs in different cities in the West Bank might be planned and established by the Ramallah office, depending on need as well as the availability of the resources. It is envisioned that the BDCs will be located in other industrial parks in the Palestinian Territories.

Table 5.2 Stages of PBDC Development

Year	Pre-Venture Phase										Venture Phase	
	2010		2011		2011		2012				2013	2014
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1-4	Q1-4
Stage	Stage 0: Project Design		Stage 1: Organization Set up and One Center Approach		Stage 2: BDS Delivery in Ramallah						Stage 3: PBDC operating in a Jericho, facility inside the JAIP	
Objective	<ul style="list-style-type: none"> Conclude agreement between the Japans' Government and Palestinian Authority Maintain interest of potential tenants through JAIP related information and marketing 		<ul style="list-style-type: none"> Finalize the PBDC organizational arrangement as well as the legal status Maintain interest of investors with consultations /advices and seek potential investors Build PBDC staff capacity in different departments 		<ul style="list-style-type: none"> PBDC will coach the investors to facilitate their transition to the JAIP, and thus reducing the failure rate. Enhance the technical and managerial capacity of the PBDC to serve potential investors and SMEs 						<ul style="list-style-type: none"> Sustainability PBDC Expansion to new governorates Maturity 	
Requirements	<ul style="list-style-type: none"> Finalize and approve Project design 		<ul style="list-style-type: none"> Business Support Center (One stop approach) to help investors JICA will send International experts to help build the management and technical capacities at PBDC Provide technical assistance to one stop center through sending experts in different fields to provide advice in legal aspects, certificate of origins, registration in the JAIP, etc 		<ul style="list-style-type: none"> Expand the functions to establish a Business Support Center for Investors Training Center is operational 						Business Support Center for Investors <ul style="list-style-type: none"> Training Center Exhibition Business incubation Fair trade (others) Japan Desk to promote business opportunities in Japan 	
Services/Functions/activities	<ul style="list-style-type: none"> International and local expert to work on business plan and business feasibility 		<ul style="list-style-type: none"> Provide investment services for investors and potential investors (e.g. licensing, applications, Legal aspects, certificate of origin, etc. Provide mainly training programs for investors or potential investors Provide advice on business plan development 		<ul style="list-style-type: none"> Provide BDS to investors and SMEs 							

5.3 Draft Facility Plan for BDC

The BDS Center is to facilitate capacity development of agribusiness industries. This center is established to provide three main functions:

- Providing various kinds of business support, including a one-stop center for tenant companies in JAIP and others;
- Serving as a management training center to tenant companies in JAIP and others; and
- Providing export and product promotion support to tenant companies in JAIP.

This building is integrated with an administration office for JAIP, in order to maintain areas that generate economic benefits through charges and also to reduce construction costs. The facility itself should be provided by the public sector and JICA and listed as an “off site facility” in line with the JAIP development framework.

BDS Center consists of a training center, business development center, an exhibition hall, incubation offices, a conference room, a fair trade office, an administration office and other necessary functions. The building, expected to be a three-story structure, could have a solar energy system installed on the roof to improve sustainability and to demonstrate benefits of such as system.⁵

If only Stage I is developed, the building would be located at the southeast end of the Stage I site, which is in the vicinity of the entrance area. In the simultaneous development of Stages I+II, the building would be located at the northern part of the Stage II site to provide customers with easy access.

The floor size of rooms in BDS Center building is shown in the table below, while the conceptual design of the building is presented in Chapter 6.

⁵An analysis of social/economic and financial costs impacts is required for the solar energy system during the basic design phase of BDC facility

Table 5.3 Floor Area of BDS Center

	Division	Room name	Area (m ²)	Area (m ² /person)	Quantity	Floor Area (m ²)
1	Training center	Seminar rooms	40		3	147
		Guest room (2 person units)	10		10	98
		Meeting rooms	20		4	80
		Staff rooms		8.2	6	49
	Sub-total					374
2	Business development center	Staff in the one-stop-center room		8.2	8	49
		Meeting rooms	20		1	25
	Sub-total					74
3	Exhibition hall	Showroom	80		1	120
4	Incubation	Offices	10		10	99
5	Conference	Conference room	200		1	227
6	Fair trade	Staff rooms		6.0	2	12
		Meeting room	20		1	36
7	Administration	Administration staff rooms		6.0	8	48
		Meeting rooms	20		2	49
	Sub-total					591
	Total					1,039
8	Governmental office	Customs	50		1	49
		Police department	50		1	49
		Post office	50		1	49
		Civil related regulation/agencies	50		3	147
	Sub-total					294
9	Private companies center	Traders	50		3	147
		Forwarders/cleaning agencies	50		3	147
		Banks	50		2	129
		Microfinance institutions	50		2	129
		General contractors	50		6	304
		Consulting firms	50		2	98
		NGO/associations branches				98
		Additional offices to investors	50		5	245
	Sub-total					1,297
10	PIEFZA	Office		11.3	13	147
11	Developer	Office		9.2	16	147
	Sub-total					294
12	Shops and kiosks		30		2	60
13	Restaurants	Restaurant/kitchen	250		1	226
	Sub-total					286
	Total					2,171
14	Other public space					937
	Grand Total					4,147

5.4 Support Schemes to BDS Center

5.4.1 Support Requirements

The capacity of PBDC service provisions in the various divisions at the moment is shown in the following table. There are many areas to which technical assistance in line with development of JAIP, is required to fill the gaps to conduct tasks shown in Table 5.4.

Table 5.4 Capacity/Responsibility Chart

	Functions	Current Availability of Providers	Actions to Develop Capacity (Direct)	Other Support and Considerations
1.0	Management Training Division	Not available	Capacity of the operation and management of the division to deliver training programs	<ul style="list-style-type: none"> • Grants to build facility • Operational support, starting from Ramallah • Advisor to support training coordinator to develop, implement, and evaluate quality training • Financial subsidies to develop and conduct regular training programs
	Long-term regular management training programs	Not available	<ul style="list-style-type: none"> • International experts to design training materials and curricula • Tot to build the capacity of local trainers 	Build the management capacity of the PBDC to organize and implement such programs on a regular basis. Short-term international experts to deliver lectures in specific fields
	Short professional training	Local trainers are available	Adapt new training methodology	Certification and accreditation system for trainers Short-term international experts in specific subject to fill the gap in the market
	Technical training “production management”	PFI with limited resources and capacity	Capacity building in design and deliver training in KAIZEN, TQM, just -in-time, and other technology-related subjects such as cooling systems, solar energy, etc	International experts to come to conduct training
	Incubation services	PICTI ⁶ , only one incubation in the IT sector	<ul style="list-style-type: none"> • Lack of management experience • New setup of business incubation models • New competitive models and products in agro-sector and other sectors • Database on network of professional resources 	<ul style="list-style-type: none"> • On-site visits to enhance management experience (e.g. Japanese business incubation model) • Incubation rooms at the PBDC facility • International incubation advisor
2.0	Business Support Division	SEC, but limited capacity and outreach	Further qualifications to conduct business diagnosis and identify development needs of companies	<ul style="list-style-type: none"> • Link SMEs with donors program • International experience
3.0	Export and Product Development Division	PalTrade, and chambers	No permanent exhibitions, except the one at Bethlehem Chamber of Commerce	<ul style="list-style-type: none"> • Facility • Experience in event management

⁶ PICTI: Palestinian Information Communication Technology Incubation.

5.4.2 Candidate Technical Assistance

Apart from the establishment of a PBDC facility, technical assistance is required to send experts/advisors to provide technical guidance and assistance in managing day-to-day operation of PBDC and to build institutional and technical capacity of the local PBDC staff to manage and operate the center in a business-oriented, professional and sustainable manner. Advisors /specialists will be under the supervision of the PBDC Director General.

Table 5.5 Positions of PBDC Advisers/Specialists

Employment Duration: Initial five years; possibility of extension depending on availability of funds and need.

	Position	Specific duties and responsibilities include:
1.0	PBDC/ Chief Advisor	<ul style="list-style-type: none"> • Provide technical and managerial support for PBDC itself as well as to the Director General to support management of PBDC. • Advise in the preparation of a strategy plan for PBDC for review and approval by PBDC management • Provide hands-on training and coaching to PBDC management unit to effectively manage and operate PBDC in a cost-efficient, highly productive manner while offering high quality businesses services. • Provide technical supervision in the establishment of a client database and use database to prepare useful analysis and reports. • Formulate a sustainable plan for PBDC to ensure resources are available after the completion of the 5-year support.
2.0	Training Center Advisor	<ul style="list-style-type: none"> • Support the training coordinators to develop, implement, and evaluate approved training materials and courses. • Assist the training coordinators in outsourcing training programs for local and international training organizations and experts, and help in recruitment of international lecturers to present various topics (e.g. marketing, KAIZEN, Japanese-style production management). • Provide hands-on training and coaching to the training center to build their technical competencies and skills in the delivery of high quality training programs.
3.0	Business Support Center Specialist	<ul style="list-style-type: none"> • Support the business counselors to adapt/develop, implement, and evaluate formats and toolkits to conduct business diagnosis to resolve problems and needs. • Provide coaching to both business counselors at PBDC and local counselors to identify needs of the investors and SMEs. • Assist in outsourcing and recruitment of international experts to provide solutions for the businesses.
4.0	Incubation Specialist	<ul style="list-style-type: none"> • Offer advice and guidance to the local incubator specialist at PBDC. • Provide general business advice to incubating companies in marketing, technology, finance, sales, distribution, and company business practices. • Offer specialist advice in their particular area on the request of mentor colleagues to other businesses in the incubator. • Develop and maintain a network of advisors available on specialist topics to be called upon as needed by businesses.

In addition, financial support is be considered to operate the PBDC, since the MoNE and PBDC cannot finance the full cost of the operation, especially in the early stage.

5.5 Conclusion

Not only the dissemination of the comprehensive information of the currently donor supported initiatives and schemes to SMEs shown in Chapter 2 but also additional and new innovative schemes such as cluster development has to be introduced to the Palestinian SMEs that still face many challenges. Moreover the integrated supporting system to correspond to a variety of the issues will be needed.

The result of the interviews to the potential investors has confirmed that the majority of those investors think of many business development services that will be offered in JAIP being as one

of major incentives. As indicated in Chapter 3, the development of an integrated business development service center is expected by those investors to be materialized in JAIP. The services in JAIP can be used by not only the investors but also SMEs in the Palestinian Territories. It is also confirmed that a newly developed facility in JAIP will be used for other technical support projects and schemes by the other donors that have had difficulties in locating appropriate venues.

In response to the required support to potential tenants to JAIP as well as maximizing the effect of the existing various services provided by development institutions to SME development, a business development service center is appropriate to develop in JAIP. Management organization, function and candidates for service providers are planned as in Figure 5.1.

As this center is planned to operate with payments from JAIP tenants, the primary function is to serve potential tenants for successful business expansion and operation. However, in the future, it will serve Palestinian SMEs for their business development with a beneficiary's cost sharing principle. It is expected that more elaboration on the financial stability has to be made in terms of the feasibility that is based on the prioritization of the services in order for the center to be more sustainable in financial terms. It shall be noted that in order for the center to be sustainable, more elaboration on the financial stability has to be made, which is based on the prioritization of the services.

In order to make effective services available to potential investors and SMEs, a staged plan by the BDS center development is considered below. Technical assistance to coordinate and facilitate for practical and effective operation is indispensable.

Stage 0 (Project Design)

Period: 3rd Quarter - 4th Quarter, 2010 Location: Ramallah
 Objective: Develop basic concept of BDS (including review of the study)
 Dissemination of the information to the potential tenants
 Collection of the data to increase the potential tenants

Stage 1 (Organization Set-up)

Period: 1st Quarter – 2nd Quarter, 2011 Location: Ramallah
 Objective: Finalize the organizational arrangement
 Capacity development of BDS center staff
 Dissemination of the information to the potential tenants
 Advisory services for improving business plan of the potential tenants

Stage 2 (Business Development Service Delivery)

Period: 3rd Quarter, 2011– 4th Quarter, 2012 Location: Ramallah
 Objective: Advisory services for improving business plan of the potential tenants
 Training services for potential and prospected tenants
 Capacity development of BDS center staff and service provider

Stage 3 (Business Development Center)

Period: 1st Quarter, 2013 – 4th Quarter, 2014 Location: Jericho
 Objective: Advisory services for improving business plan of the potential tenants
 Training services for potential and prospected tenants
 Expansion of activities

6 INFORMATION ON BUSINESS PLAN FOR JAIP

This chapter provides a business plan for JAIP including background information, assumed development conditions, and financial evaluation based on scenarios that are based on findings from prior JAIP studies, field surveys, and interviews.

6.1 JAIP Development and Mission

6.1.1 Development Strategy

Industrial Estates (IEs) have been seen as a potential source of economic growth and a measure to strengthen industrial infrastructure in the Palestinian Territories since the 1990s. Currently, two industrial estates in Jenin and Bethlehem in the West Bank are in the planning phase. These IEs are planned to attract industrial (foreign and local) investments, which will contribute to the growth of the Palestinian economy, and also generate foreign exchange through export promotion.

JAIP has been added to this list and has been envisaged in prior JICA study projects from 2006-09. JAIP is one of the major elements of the Japanese initiative to construct the “Corridor for Peace and Prosperity”.

JAIP is expected to play a role as a “production base” in the Jordan River Rift Valley (JRRV) as well as an export hub to Jordan, other Gulf countries and beyond. JAIP will handle high quality and high value-added agricultural products and processed foods, which have comparative advantages so that Jordan, the Gulf States and beyond would be the targeted, promising export markets.

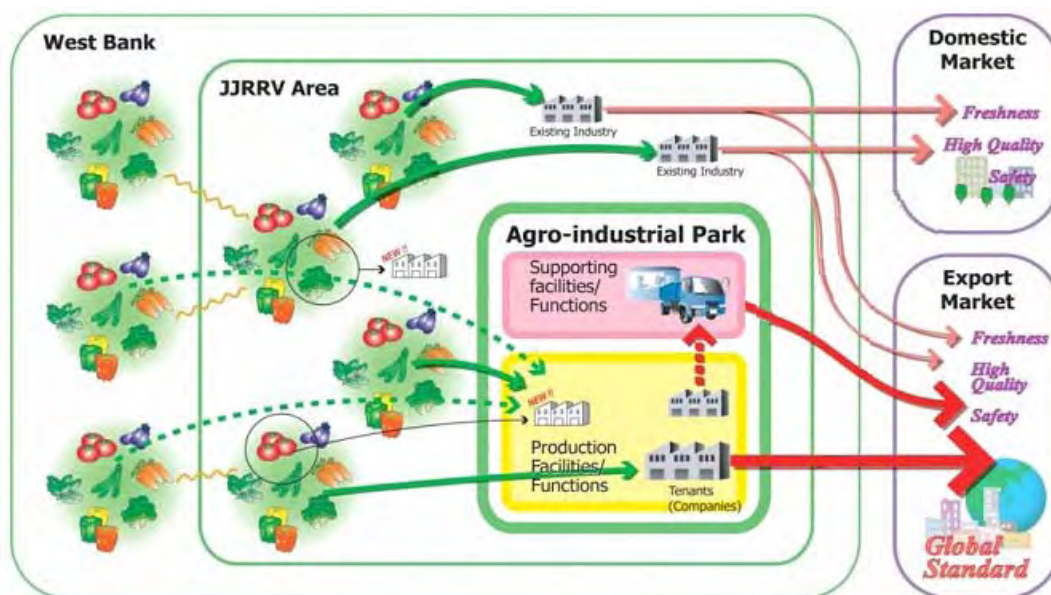


Figure 6.1 Schematic Image of the Future JRRV and Agro-Industrial Park

The following support activities as well as fundamental infrastructure for production will be provided in JAIP. These contribute to the enhancement of its value as a production base for the agro-industry, as well as an export hub to foreign markets through the establishment of a competitive value chain for the industry.

- Logistics and supply chain improvement

- Completion of all production process (i.e. processing, packaging and storing at the same place)
- Availability of services by transporters and warehouse providers around JAIP
- Facilitation of movement and access
- Linkages to agriculture and Fair Trade
- Business development services
 - Technical assistance for upgrading technologies and developing products
 - Provision of appropriate trainings on human resource development
 - Provision of overseas market information

Since most of the agribusiness and food processing industries in the Palestinian Territories belong to SMEs, appropriate support schemes which would enhance their business activities could attract them to invest in JAIP (along with other incentives). To achieve this, the BDS Center aims to provide business support.

6.1.2 Objectives and Goals

JAIP supports peace and prosperity of the region by achieving several development goals in the region: (i) agricultural improvement; (ii) agro-industry promotion; and (iii) export competitiveness enhancement of Palestinian export industries. In this regard, the goals of JAIP are to:

- Promote priority industries that develop/produce new and high value-added products for regional and global markets;
- Attract investors as a flagship project by providing new investment opportunities with a preferable investment environment; and
- Trigger facilitation of regional cooperation among neighboring countries in business cooperation, product development, human resources development, and smooth goods and people movement.

In order to achieve these goals, JAIP must provide an attractive environment for tenants and investors.

6.2 Marketing Information

6.2.1 Economic and Social Overviews of Jericho

According to the Palestinian Central Bureau of Statistics (PCBS), the Jericho governorate has 42,268 residents (as of 2005), with 1.1% of the population entirely within the Palestinian Territories. The average annual population growth in Jericho is 3.8%, which is higher than that of the West Bank and Gaza.

Table 6.1 Population Trends

Locality	1997	2000	2005	2006	2007	2008	2009	CAGR
Jericho	31,089	34,188	39,378	40,559	41,776	42,964	44,183	3.0%
West Bank	1,787,562	1,943,658	2,203,738	2,262,735	2,323,469	2,385,180	2,448,433	2.7%
West Bank & Gaza	2,783,084	3,053,335	3,508,126	3,611,998	3,719,189	3,852,512	3,935,249	2.9%

Note: CAGR (Compound Annual Growth Rate)

Source: PCBS

The Palestinian economy has suffered from economic distortion and setbacks due to closure and isolation measures from the Israeli Government. However, GDP has gradually recovered from the fall caused by the Second Intifada in 2000.

Table 6.2 Macroeconomic Indicators

Indicators	2002	2003	2004	2005	2006	2007
West Bank						
GDP (US\$ Million)	2,191.3	2,400.9	2,807.4	2,876.7	2,977.7	3,264.2
GDP per Capita (US\$)	1,681.1	1,635.5	1,772.9	1,919.3	1,969.5	2,042.9
West Bank and Gaza						
GDP (US\$ Million)	3,264.1	3,749.6	4,198.4	4,559.5	4,322.3	4,536.7
GDP per Capita	1,559.0	1,557.3	1,615.9	1,822.1	1,741.7	1,297.9

Source: PCBS

The recent number of business establishments in Jericho is 1,227, which is 1.1% of that in both the West Bank and Gaza. Of the business establishments, 87.6% of them have fewer than 4 employees. The growth rate in establishments over the last decade has been 14.8% in Jericho, which is higher than the average in the Palestinian Territories.

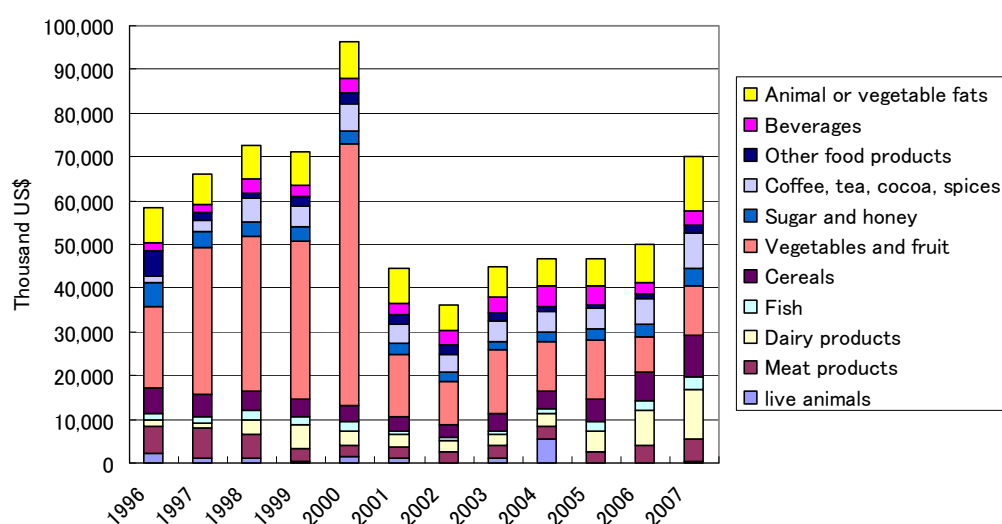
Table 6.3 Number of Business Establishments in Jericho

	Jericho	West Bank	West Bank & Gaza
1997	1,069	69,400	99,120
2007	1,227	77,639	109,686
Percentage of Growth	14.8%	11.9%	10.7%

Source: PCBS

6.2.2 Export Market

One of the major export commodities from the Palestinian Territories is food products including meat, dairy, vegetable and fruit, spice, beverage, and olive oil products. In line with the overall trend of Palestinian exports, the export of food products has increased in recent years despite a significant fall due to unstable social and economic conditions after the Second Intifada in 2000.¹



Source: PCBS

¹ In particular, fruit and vegetable production was strongly affected by destruction of the Gaza Strip as a major production base.

Figure 6.2 Palestinian Export of Processed Food Products

Most of the exported food products are sold in Israel and Jordan. However, the export market has been expanding and diversifying into Gulf countries, other Arab countries and European countries in recent years.

Table 6.4 Palestinian Export of Fresh Fruits and Vegetables by Destination

(Value in Thousand US\$, Percentage in total value in respective year)							
	1999	2000	2001	2002	2003	2004	2005
Israel	36,491.53 98.24%	44,729.88 69.52%	16,912.08 91.69%	11,542.16 65.15%	14,908.10 70.61%	16,566.43 74.80%	14,103.96 66.11%
Jordan	654.32 1.76%	848.12 1.32%	564.03 3.06%	324.75 1.83%	1,527.21 7.23%	464.20 2.10%	498.36 2.34%
Europe	0 0%	0 0%	923.16 5.01%	5,827.61 32.90%	4,651.29 22.03%	3,832.64 17.31%	5,625.84 26.37%
Gulf Countries	0 0%	18,762.08 29.16%	45.41 0.25%	20.30 0.11%	25.58 0.12%	75.78 0.34%	102.91 0.48%
Other Arab League Countries	0 0%	0 0%	0 0%	0 0%	0 0%	0.34 0%	32.36 0.15%
North/South America	0 0%	0 0%	0 0%	0 0%	0 0%	0.33 0%	0.64 0%
Other Countries	0 0%	0 0%	0 0%	0.66 0%	1.97 0.01%	1,206.72 5.45%	970.81 4.55%
TOTAL	37,145.85 100.00%	64,340.08 100.00%	18,444.68 100.00%	17,715.48 100.00%	21,114.14 100.00%	22,146.43 100.00%	21,334.88 100.00%

Source: PCBS

6.2.3 Labor Force

The labor force participation for people 15 years old and above is 48.7%. The unemployment rate is 9.8% in 2007, which is the lowest among all governorates in the Palestinian Territories (the average is 21.5%). However, the average daily wage for employees in Jericho is 69.9 NIS, compared to 74.4 NIS within the Palestinian Territories. Lastly, it is easy to procure inexpensive labor from cities close to Jericho.

Table 6.5 Labor Force Participation and Unemployment Rate of Persons Aged 15 Years and Above, 2007

Governorate	Labor Force Participation	Outside Labor Force	Unemployment Rate
Jericho & Al Aghwar	48.7%	51.3%	9.8%

Source: PCBS

In terms of distribution of employed persons by economic activity, Jericho has a much higher proportion of employed persons within the agricultural industry, though the tertiary industries constitute the largest portion in the West Bank and Gaza.

Table 6.6 Percentage of Employed Persons by Economic Activities, 2007

Economic Activity	Jericho & Al Aghwar	West Bank	West Bank & Gaza
Agriculture, Hunting, and Fishing	37.7	16.6	15.6
Mining, Quarrying, and Manufacturing	9.9	14.9	12.5
Construction	5.9	13.6	11.0
Commerce, Hotels, and Restaurants	12.3	20.0	19.5
Transportation, Storage, and Communications	4.8	5.1	5.6
Services, and Other Branches	29.4	29.8	35.8

Source: PCBS

6.2.4 Incentives to Industries

(1) Geographical Advantages

Jericho, which is located in the Jordan Rift Valley, is warmer than other areas in the West Bank. The warmer climate in the winter enables the harvest of agricultural products even out of season and makes the Jericho area attractive to farmers and consumers. Moreover, the region has sizable and unused flatlands² and several spring water resources.

Historically, Jericho was an oasis city serving as an intermediate place for trade. JAIP is located just a few kilometers away from the border with Jordan and the Allenby Bridge terminal, which would be used for cross border trade. The location is advantageous for exports to Jordan and the Gulf countries.

Table 6.7 SWOT Analysis for the Jordan Rift Valley Area

<p>Strengths</p> <ul style="list-style-type: none"> • Availability of water and land resources • Warm climate in winter (*) • Geographic location (international border and at the crossroads of several corridors) • Relative stability in political and social situation • Friendliness and hospitality of local people 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Lack of social and economic infrastructures • Lack of social services • Weakness of governance and institutions • Lack of legal system and regulation control capacity • Current situation of being under occupation
<p>Opportunities</p> <ul style="list-style-type: none"> • Interest in international support • Potential for water and land resources • Potential to receive immigrants • Collaboration of local communities 	<p>Threats</p> <ul style="list-style-type: none"> • Unstable political situation • Separation wall • Environmental degradation

Note: (*) High temperatures could be a weakness in processing of olive oil.

Source: Jericho Regional Development Study, 2006

(2) Logistics Enticements

The geographical location of Jericho itself is advantageous for export to Arab markets through the Allenby Bridge by reducing transport cost and damage within the West Bank. However, there is still room for improvement of the logistics environment, which could include additional enticements such as:³

- Facilitating with sealed container transport;
- Introducing trace systems using GPS; and
- Improving border facilities with large scanners and refrigerated storage.

Investors can reduce cost and risk from transport and strengthen competitiveness, when these logistic enticements are developed around JAIP.

(3) Investment Incentives by PIEFZA

Incentives are given for promotion of investment in industrial estates. According to the Law on Industrial Estates and Free Zones, PIEFZA provides the following exemptions for fixed assets of projects functioning in industrial estates:

- Fixed assets of the project shall be exempted from customs duties and purchase taxes, on condition that they are brought in during a specific period determined by PIEFZA,

² According to the Jericho Regional Development Plan (2006), there are 88 km² of potential agricultural lands in the Greater Jericho region, with a agricultural development area of 175 km².

³ Building a logistics center is also anticipated in the future.

which approves the list of the project's fixed assets. PIEFZA has the right to extend this period if it becomes clear that the nature of the project and the size of work necessitate it.

- Spare parts imported for the project shall be exempted from customs duties and purchase taxes, on condition that their value does not exceed 15% of the fixed assets value, and on condition that they are brought in or used in the project during a period of time determined by PIEFZA. This period spans from the start date of production or work with a decision by PIEFZA approving the lists of spare parts and their quantities.
- Fixed assets necessary for the expansion, development, or modernization of the project shall be exempt from customs duties and purchase taxes if they lead to increasing productivity, as approved by PIEFZA.

In addition, PIEFZA provides income tax exemptions for projects established in the industrial estates and/or industrial free zones approved by PIEFZA and possessing necessary licenses as shown in Table 6.8.

Table 6.8 Income Tax in the Industrial Estates and Free Zones

	Investment amount		
	100,000–1,000,000	1,000,000–5,000,000	5,000,000–
Income tax exemption	7 years	7 years	7 years
Nominal rate of 10% income tax on profit	8 years	12 years	20 years

Source: PIEFZA

(4) Investment Incentives by PIPA

The Law on Encouragement of Investment encourages capital investment in all sectors of the Palestinian economy by both local and foreign corporations registered to do business in the Palestinian Territories. The Palestinian Authority hopes that increased capital investment growth will generate jobs, and help to develop an export-oriented manufacturing base.

Incentives policy is dictated by the Law on Encouragement of Investment in Palestine, 1998, which is implemented by the Palestinian Investment Promotion Agency (PIPA). Although there are common incentives as provided by PIEFZA, the essence is as follows:

- The fixed assets of a company receive various exemptions on customs duties for a defined period. This law also applies to spare parts (meeting certain criteria), fixed assets for developing or enlarging an already existing company, and price increases due to changes in costs associated with price hikes in the exporting country, or increases in shipping or transformation costs.
- Exemptions on income taxes are also granted to investments greater than US\$100,000, with nominal tax rates applied thereafter on net profit for a given number of years, based on the size of the investment.
- Additional exemptions and incentives may be granted to companies engaged in export activities.
- Special incentives and exemptions apply to investments in hospitals and hotels.⁴

(5) Further Incentives

Tax exemption policies should be more flexible for companies to utilize them easily. For instance, the duration of tax incentives explained above could be extended with some loan guarantee measures that could be developed in order to ease investment risks for investors. Additionally, the BDS in JAIP could be introduced as an incentive, where tailor-made supports

⁴ PIPA (<http://www.pipa.gov.ps/>)

are applied for each investor to enhance capacity and competitiveness. Needless to say, one-stop shop services to investors are a fundamental incentive if it is available in JAIP.

6.2.5 Estimated Required Facilities

(1) Land Use

Based on the analysis of the other industrial parks, 75-80% of land could be designated for factory lots, with the remaining 20-25% for roads and other public services. The Gaza and Bethlehem Industrial Parks have adopted this planning concept. The Jenin Industrial Estate has not adopted this concept even from initiation (with its first feasibility study in 1998), although the latest feasibility study has adopted it in 2007 to acquire land. The F/S mentioned that the planning concept for JAIP was benefited on a stage-by-stage basis, which is inefficient for good land use, because each functional site is arranged during each stage, respectively. Consequently, the ratio of factory lots decrease, while the ratio of others lots increase. The land use plan of F/S should be reviewed to increase areas to generate the income. As shown in Table 6.10, land for factory in Stage I development case and I+II development case increases from 47,590 sqm and 236,730 sqm to 73,750 sqm and 252,550 sqm respectively.

Table 6.9 Comparison of Land Use Area

Unit: ha (%)

Land Use	Jericho (F/S) * ¹		Jericho (Review)* ²		Bethlehem* ³	Jenin* ⁴	
Stage	I	II	I	II	I	I	Review of I
Industrial	4.8(41.7)	18.9 (37.8)	7.4 (64.2)	27.0 (54.0)	13.7 (69.8)	38.0 (48.5)	63.2 (71.0)
Distribution	1.4 (12.1)	3.7 (7.4)	-	3.0 (6.0)	-	2.3 (3.0)	-
Road	1.4 (15.7)	11.7 (23.4)	1.4 (12.5)	9.3 (18.6)	2.7 (13.6)	19.3 (23.7)	15.8 (17.7)
Utility	1.3 (11.3)	3.0 (6.0)	0.1 (1.1)	0.4 (0.8)	0.3 (1.8)	-	-
Administration	1.3 (11.3)	1.9 (3.8)	0.5 (4.3)	0.8 (1.6)	0.4 (2.0)	6.1 (7.8)	1.0 (1.3)
Green or Park	0.2 (7.8)	6.6 (13.2)	0.2 (1.7)	2.1 (4.2)	2.5 (12.8)	12.6 (16.0)	12.6 (16.0)
Solar Energy Panel	-	-	1.2 (10.1)	-	-	-	-
Others	0.4 ha (3.4%) for Parking	4.2 (8.4)	0.7 (6.1)	7.4 (14.8)	-	-	-
Total	11.5 (100)	50.0 (100)	11.5 (100)	50.0 (100)	19.6 (100)	78.4 (100)	

Source:

*¹ Feasibility Study on Agro-Industrial Park Development in the Jordan River Rift Valley, Final report, May 2009.

*² JICA Study Team.

*³ Business Plan for the Project of Bethlehem Multidisciplinary Industrial Park (BMIP), June 2009.

*⁴ Ministry of Industry Jenin Industrial Estate, Feasibility Study, Final Report, September 1998, Updated, November 2007.

Table 6.10 Review of Land Use Area in JAIP

Unit: sqm

Land use	Area (F/S Study Team)			Area (Study Team)	
	Stage I	Stage II	Total	Stage I	Stage I+II
Factory	47,590	189,140	236,730	73,750	252,550
Office Building	12,760	10,000	22,760	0	0
BDS Center	0	8,990	8,990	5,000	7,500
Distribution	14,330	24,070	38,400	0	29,700
Storage		13,220	13,220	0	0
Park	1,880	18,750	20,630	1,910	26,000
Common Utility	12,890	29,500	42,390	1,290	4,500
Parking	4,100	16,290	20,390	0	0
Bus Station/Security	0	12,890	12,890	0	8,400
Internal Road	14,370	69,470	83,840	14,370	69,470
Access Road	0	17,950	17,950	0	17,950
Area Required for Wadi Improvement	0	27,670	27,670	0	27,670
Sloped Land due to Land Reclamation	7,080	20,010	27,090	7,080	20,010
Unused	0	42,050	42,050	0	36,250

Land use	Area (F/S Study Team)			Area (Study Team)	
	Stage I	Stage II	Total	Stage I	Stage I+II
Solar Energy Panel	0	0	0	11,600	0
Total	115,000	500,000	615,000	115,000	500,000

Source: JICA Study Team

(2) Factory Lot Size and Built Up Area**Factory Lot Size**

In comparison with other industrial estates, JAIP should provide for larger sizes of lots and factories restricted to agro-industries only. In spite the fact that other industrial estates have invited various kinds of industries, the estates only provide for smaller sizes. Most agro-industries are small to medium size enterprises that use small factories. As such, it is necessary to review the adequate lot size and floor size for these factories in the next design stage, as per analysis of demand investments.

Table 6.11 Comparison of Lot Size

Unit: sqm

Lot size	Jericho (F/S)	Bethlehem	Jenin	Gaza
Small size	2,500	1,500–2,500	570	720
Medium size			1,450	1,440
Large size	5,000	4,000	1,720	2,830

Built-up Area Factory

About 60% of total development area in JAIP would be utilized for factories, which would have various lot sizes. In accordance with urban planning standards of the Jericho Municipality, the building coverage ratio of each lot is to be limited to within 50% of the lot. Most allocated lot sizes for factory areas are planned to be 0.25 ha, with different lot sizes available for large and small-scale tenants. In order to provide opportunities for small-scale tenants that do not have enough funds to construct new factory buildings, model factory buildings would be planned for construction at the site with an a 1,250 sqm floor area within a 0.25 ha site. Also, the buildings would be divided into four or eight parts by flexible partition walls. These factories should install solar energy systems on the roof for sustainable and environmental effects. Even though the initial cost is very high, the operating cost is much lower, which will lead to better returns on investment.

Table 6.12 Comparison of Factory Floor Size

Unit: sq.m

Factory floor size	Jericho (F/S)	Bethlehem	Jenin	Gaza
Small size	625*	100–500	400	600
Medium size	1,250	750–3,000	800	1,200
Large size	2,500		1,200	2,100

Note: * Shared type of one factory which divided into two areas.

Each building must conform to urban planning regulations for each lot in the industrial zone. This includes: building coverage ratio (building construction area), maximum floor area ratio, maximum building height and building setback lines which are shown in the following table.

Table 6.13 Urban Planning Regulation for Buildings

Projector usage classification	Maximum		Minimum distance (m)				
	Building coverage ratio (%)	Floor ratio (%)	Number of Stories	Building height (m)	Front boundary	Back boundary	Side boundary
Large industrial assemblies	50	300	Undecided	Undecided	10	8	6
Factory	50	300	6	23	10	5	4

Light factories and art crafts	50	300	4	16	6	4	3
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In reviewing the F/S, main constraints included building coverage ratio and setback lines. Therefore, it is proposed to the Municipality that the building coverage ratio be increased by 10-20% to improve efficiency and expand potential factory lot size.

Other Necessary Facilities

Distribution area

Distribution areas should be provided to support the packing, collection/delivery and refrigerated warehouse operations of tenant companies, which will be provided in Stage II. Space for frequent truck movements is required and ideally the building-to-land ratio would be 50% or less to accommodate truck movements. Adequate movement areas should be placed near entrances for smooth transportation to prevent cargo congestion at the entrance gate.

Bus Terminal

The size of bus terminal depends on the assumed number of commuter trips in each stage from the F/S (approximately 1,420 trips/day in Stage I and 6,460 trips/day in Stage II, respectively). A mass transportation system should be established to limit traffic congestion from vehicle movement. A bus system between cities and JAIP could be arranged by size with 20 or 40-seat buses.

Parking Area

Parking areas should be provided for visitors and maintenance vehicles to JAIP at appropriate locations. Each factory should provide parking areas for employees and visitors, respectively.

Administration Office

The functions of an administration office are required to manage and maintain JAIP, to provide services to tenants, workers and guests, and to effectively utilize, operation, and maintain common facilities and on-site infrastructure. This office could consist of an administrative area/office, governmental offices, lease offices, an on-site leased restaurant, shop/kiosks, and other functions, as needed. Finally, this office should be integrated with the BDS Center to reduce construction costs, but not usable areas.

6.2.6 Project Lease Rate

(1) Lease Rate

Annual lease rates of the industrial estates in neighboring countries (Jordan and Egypt) range from US\$3-4/sqm for an open lot to around US\$20/sqm for a lot with a factory. These rates are much lower than those found in other industrial estates and zones in the Palestinian Territories, which range from US\$8-12/sqm for an open lot to US\$26-80/sqm for a lot with a factory.

It was mentioned above that the expected manpower cost and utility charges are also lower in neighboring countries than in the Palestinian Territories. Economical, social and security conditions, such as the restriction on movement of persons and goods, as well as social instability in the Palestinian Territories differ in these countries as well. Therefore, a comparison of lease rates with neighboring countries is meaningless, and it may be difficult to expect Foreign Direct Investment (FDI) to flow into JAIP.

Table 6.14 Sample Lease Rates in Industrial Estates in Neighboring Countries

Unit: US\$/sqm

County	Name of industrial estate or governorate	Selling price	Lease rate
Jordan	Abdullah II Ibn Al-Hussein	Open lot: 75 SFB: 120–150	Open lot: 3.5 SFB:21.1
	Al Hassan	Open lot: 42 SFB: 106–141	Open lot: 3.5 SFB:21.1
	Al Tajamouat Industrial Park	Open lot: SFB: 357–428	Open lot: 28.6–35.7 SFB:
Egypt	Polaris Industrial Estate	Open lot: 19.3–26.4 SFB:	Open lot: 1.75–3.5 SFB: 3.7–7.0
The Palestinian Territories	Ramallah	Open lot: 200–300 SFB:	Open lot: SFB:20–50
	Hebron	Open lot: SFB:	Open lot:20 SFB:40-60
	Nablus	Open lot: 200–300 SFB:	Open lot:15 SFB:30
	Jenin Industrial Estate (2008)*1	Open lot: SFB:	Open lot:10 SFB:80
	Gaza Industrial Estate (2008)*2	Open lot: SFB:	Open lot:10–12 SFB:26*3
	Proposed rate for Bethlehem Park		Open lot: 7 SFB:30

Note: *1 : JIE Feasibility Study updated in November 2007

*2 : Information from PIEDCO

*3 : In addition to 15% of maintenance, cleaning and security service cost

(2) Estimated Lease Rates for JAIP

Since the site available for the first stage of JAIP is on State-owned land, it cannot be sold. Thus, the only possibility is to lease the subdivided lot or the lot with the factory. The site of the second stage sits on privately-owned land, which can be sold as far as private ownership remains.

Determining factors on lease rates include local economic conditions, the merits of the location, physical characteristics, as well as prevailing market rates. Specific key factors include:

- The location of JAIP near the Jordanian boundary.
- Fully provided off-site and on-site infrastructure including the BDS Center.
- High quality services such as a management training center, the business support center, and export/product promotion.

Lease rates for an open lot would be similar to the average in other industrial estates in the Palestinian Territories (anywhere from US\$10-15/sqm). Similarly, the lease rates for a lot with a factory would be similar to the average range in the Palestinian Territories (anywhere from US\$26-60/sqm).

Lease rates are based on the construction cost of on- and off-site infrastructure. The JICA Study Team adopted construction costs from the F/S as mentioned. However, it is assumed that the F/S Team estimates built in high contingency factors to the unit costs due to the 2008 economic recession. Thus, an updated construction cost survey is needed to more precisely estimate construction costs and establish more appropriate lease rates.

If the annual lease rates for an open lot in JAIP are assumed to be US\$10/sqm and an average Palestinian company leases a standard open lot of 2,500 sqm in JAIP, the company would have

to pay US\$25,000 per year or 16.5%⁵ of the average gross value-added in the food and beverages manufacturing sector. This implies that a lease rate of US\$10/sqm could be beyond the means of a small-scale private company. Accordingly, initial investment costs for on-site infrastructure components would need public financial assistance to reduce these annual lease rates for an open lot and a lot with factory in JAIP.

The analyses above suggest that the rent rate should be based on the fact that:

- A well established industrial park with superior infrastructure and services when compared to the current industrial working environment, justifies higher average rates than currently paid in the industry.

Based on this assertion, it seems that the suggested rate in the park is the minimum that can be charged. It may be possible to initially charge a rate at US\$30/sqm, which could later be increased once several industries are up and running. Comparing this rate to the current industry rates of around US\$20/sqm, an additional increase of US\$10/sqm should not be a burden. Furthermore, once industries operate in the park, the industries will enjoy better infrastructure, better services, and additional incentive packages that will increase turnover and/or reduce total costs.

6.2.7 On-Site Infrastructure

To provide functions and facilities as required for JAIP, the following on-site infrastructure is planned:

(1) Land Reclamation

Site soil conditions vary and consist mainly of sandy soils with minimal moisture content. Soil sampling and core drilling tests were conducted that confirmed that the site has a sufficient bearing capacity for foundations suitable to normal building structures. Preliminary planning for land reclamation was conducted using the available topographic data, with 0.5m interval contour lines. It was confirmed that the excavation volume is sufficient for the embankment in the site of Stage I and II (with total excavation volumes for Stage I and II being 48,000 cu.m and 550,000 cu.m, respectively, as mentioned in the F/S report).

A request for land reclamation work for Stage I has been made to UNDP, with starting at the end of 2009.

(2) Wadi Improvement

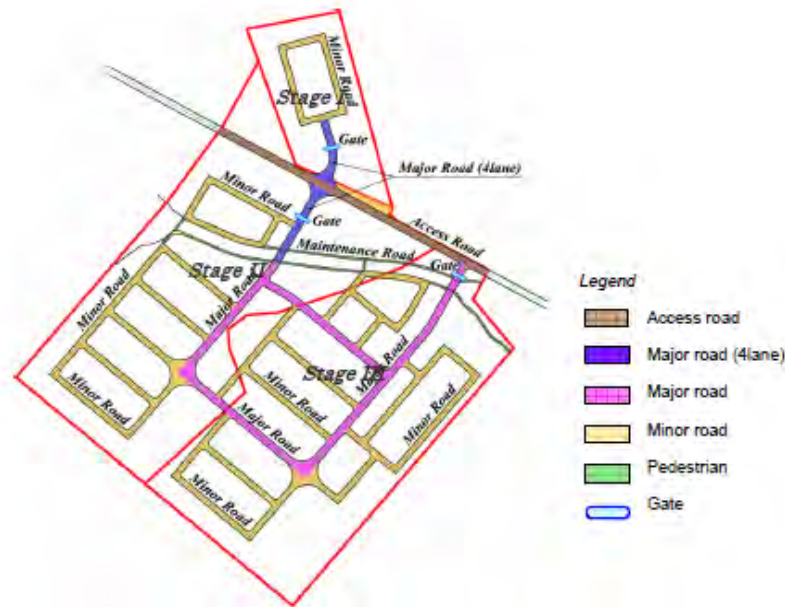
Improvement of the Wadi crossing, the central part of the candidate site from east to west, was planned in consideration of its alignment, channel depth and protection works. The design discharge for the improvement works is based on a 50-year flood event of 55 cu.m per second. Protection works are designed to prevent partial erosion at both river sides, at locations downstream of the bridges, and at inlet/outlet portions of the area for each construction stage. The design considers the sandy clay condition of the area, which is weak against erosion due to water flow, as mentioned in the F/S report.

(3) Internal Roads

In order to achieve smooth daily traffic flow (for some 2,730 vehicles/day) inside the site in stage II, an internal road network was designed with both major and minor roads. Major roads

⁵ According to the latest average gross value-added in the food and beverage manufacturing sector, this percentage may decrease to 13.3%.

are to enhance mobility, while minor roads are to maximize accessibility to each factory. The access road to JAIP is directly connected to the major roads in accordance with the road network hierarchy to reduce security checkpoints for JAIP and Israel. At each stage, three gates will be provided along the major roads. The following figure shows the internal road network, encompassing major roads (with two and four lanes), minor roads (with two lanes) and maintenance roads along the Wadi for inspection purposes, as mentioned in the F/S report.



Source: F/S Study Team

Figure 6.3 Planned Internal Road Network

(4) Stormwater Drainage Channel

Despite relatively small rainfall in Jericho, a stormwater drainage channel is planned to discharge stormwater into the Wadi. Stormwater inside the site is to be collected in roadside ditches along internal roads, and then released into the Wadi. Pipe culverts are to be installed at sections where provision of a roadside ditch is difficult, as mentioned in the F/S report. These ditches are provided for stormwater runoff from roads and for factory flood prevention.

(5) Power Distribution Lines

Overhead power distribution lines (33 kV) from the new Dead Sea power station would be extended to each tenant company inside the site. Installation of step-down transformers to convert 33 kV to 400 V will be planned for small and medium power consumers, while 33 kV lines will be directly extended to big power consumers, as mentioned in the F/S report.

(6) Water Distribution Lines

Water distribution facilities consist of water supply tanks and distribution pipelines. The storage capacity of water tanks was designed by taking into account the hourly water demand fluctuations, as well as the requisite volume of water for fire fighting and emergency (cut-off of water supply) situations. The diameter of water distribution pipes was designed to accommodate the required hourly maximum water consumption, as mentioned in the F/S report.

(7) Telecommunication Distribution Facilities

As basic infrastructure, telecommunication distribution facilities are required in all facilities

inside JAIP. On-site infrastructure for telecommunication distribution facilities includes supplying, installing, testing, and commissioning the system, which consists of lines, underground ducts, manholes, distribution boxes, etc. The detailed plan of the distribution system has been based on design criteria of PalTel and site conditions after construction of common utilities and factories, as mentioned in the F/S report.

(8) Wastewater Collection System

The wastewater collection facilities are to collect pre-treated effluent from each factory and sewage from other facilities, in accordance with the following basic concepts:

- Separate systems for transporting wastewater and stormwater are to utilize a drainage ditch alongside the internal road network.
- Industrial wastewater and toilet sewage are collected in the same pipe to avoid duplication of facilities.
- Wastewater is transported basically free-flowing using gravity to avoid potentially clogging pipes and to reduce the cost of construction and maintenance of the pumping system, as mentioned in the F/S report.

(9) Solid Waste Collection System

The solid waste collection systems are to collect solid wastes from each factory, in accordance with the following basic concepts:

- Inside JAIP, each type of waste is separated at the source, collected, and put in storage bins prepared by each factory.
- Recyclables are sold, while sludge and other waste are transported to the landfill site.
- Food processing waste can be reused as feed and is transported outside the site and then treated, as mentioned in the F/S report.

(10) Security Facilities

The security system of JAIP has been studied and must consider the proper balance between risk and costs. The following need to be considered for on-site security in JAIP:

Target Persons:	Employees, clients, transient labors and visitors
Procedures:	Admissions, inspection, packaging, shipping, receiving, and delivery
Infrastructure:	Office buildings, factories, and all other infrastructure such as power and water supply

The required security system has been studied for each item mentioned above and an efficient security system should be arranged considering security levels and potential risks. Nevertheless, it was clarified that high security will result in higher capital and recurrent costs that would put the financial burden on the developer. This may lead to reduced financial feasibility, as mentioned in the F/S report.

However, the JICA Study Team should note that total pedestrian, vehicle, and cargo traffic volumes will be relatively light in Stages I and II due to limited production volumes within the small sites and contemporary production lines in factories. As such, minimum security requirements should be provided for inspections. The security measures would include the following:

Target Persons:	Employees, clients, transient labors and visitors
Infrastructure:	Hazardous area of infrastructures such as transformer and water tanks

Security facilities could include a boundary fence, as well as hazardous area fencing and gates, as is done in other industrial zones in the Palestinian Territories and industrial estates in neighboring counties.

6.3 Operation and Management

6.3.1 Management Organization

(1) Functions of the Agro-Industrial Park Management

For the successful development and management of JAIP, required functions are detailed below. Focus should be on investor friendliness and investor support. PIEFZA shall be responsible for governmental services such as the one-stop shop services to ensure smooth and quick acquisitions for applications for administrative licensing, certificates, approval and permits, etc. as well as for oversight activities to control the developer. The developer shall be directly responsible for efficient operation and maintenance of the on-site infrastructure, and its facilities. The rest of the required services shall be either under the responsibility of a private developer or under the services rendered by the BDS that is detailed in Chapter 5.

Table 6.15 Management of JAIP Development and Operation

Functions	Activities	Entity in Charge		
		PIEFZA	Developer	BDS
Marketing	• Promotion activities of JAIP	X	X	X
	• Provision of information to prospective investors		X	
	• Sales and closing of investor contracts		X	
Investor Service	• One-stop shop (permits, licensing, approvals, certificates, labor recruitment, incentives)	X		
	• Dispute mitigation for investors	X		
	• Business development services and investor supporting services			X
Operation and Maintenance of Infrastructure and Utility	• Supply of utilities and monitoring /coordinating outside utility suppliers	X	(X)	
	• Arrangement for waste treatment		X	
	• Maintenance of infrastructure and utility facilities includes back up inside		X	
	• Environmental control	X	X	
	• Ancillary service provision (catering, general shops)		X	
Security and Safety	• Security control to prevent trespassing		X	
	• Safety and security control over internal movements		X	
	• Establishment of safety control rules and regulations		X	
	• Authorization and monitoring of security and safety control	X		
Administration and General Affairs	• General administration (administration and general logistics, legal, contractual and procurement, and general accounting)	X	X	
	• Billing and accounting to investors		X	
	• Coordination of JAIP operation	X	X	

Note: X denotes the responsible party

Source: JICA Study Team

It is noted that services such as security/safety control, maintenance works (whenever necessary), and additional services such as catering, accommodations, and shops can be

contracted out to qualified private companies by the developer.⁶ In return, the developer can secure reasonable charges from the investors for proper maintenance. Candidate items to be charged include:

- Management fees for maintenance work on the park's infrastructure and facilities;
- Electricity and water supply charges; and
- Waste treatment charges (both for solid and liquid waste) and garbage collection inside the park.

(2) Organizational Structure

To meet functional needs, staffing requirements for PIEFZA and the developer in JAIP are detailed below.⁷ The resulting organizational structure and staffing proposals should be based on efficient business operation.⁸ It is noted, however, that inclusive decision making bodies for each party at the headquarters are not included in this schedule.

Table 6.16 Proposed Staffing and Organization of JAIP Management for PIEFZA at the Development Stage

PIEFZA (Task Force)	Developer
Project Manager (CEO)	CEO and Project Manager
Technical Manager +4S	Planning and Technical /Surveyors (1M + 6S)
Legal Manager+1S	Marketing and Investor Relations (1M +2S)
Marketing and PR Manager + 1S	Legal and Contract (1M + 2S)
Administration Manager +1S	Administration (1M +3S)
Office Clerk (2)	Billing /Procurement/IT
	Office Clerks (3)
1 CEO + 4 M + 8 S + 2 O	1 CEO + 4 M + 11 S + 3 O

Note: M denotes Manager, S denotes Staff, and O denotes Office Clerk.

Table 6.17 Proposed Staffing and Organization of JAIP Management for PIEFZA at the Operating and Management Stage

PIEFZA(Task Force)	Developer
Project Manager (CEO)	CEO and Project Manager
Operation and Management (M + 3 S)	Marketing and Planning (1M + 2S)
Office Clerk (1)	Operation and Management (1M + 4S)
	Office Clerks (2)
1 CEO + 1 M + 3 S +1 O	1 CEO + 2 M + 6 S + 2 O

Note: M denotes Manager, S denotes Staff, and O denotes Office Clerk.

6.3.2 Water Supply

(1) Water Demand at JAIP

Water demand at JAIP is based on that for: (i) factories; (ii) office buildings; (iii) the business development service (BDS) center; (iv) distribution facilities; and (v) common utilities. Water demand assumptions are as follows, based on the investment survey and collected data information by the JICA F/S Team:

(i) Factories:

- The water demand is set at a mean value of 2.0 m³/ton/year.

⁶ The idea of contracting is incorporated in the financial analysis. It is also noted that those additional services are divided into two types whereby: (i) rent is charged to users if a developer purchases the properties from private companies; and (ii) service fees are charged to tenant companies if a developer introduces the properties to them.

⁷ The organization of the BDS is shown in Chapter 5.

⁸ It is noted that organizational costs based on those are reflected within the financial analysis, especially in the management stage. Costs at the stage of development are included in the engineering and technical cost.

(ii) Office Building and Business Development Service Center:

- The water demand per employee is 73 m³/person/year.

(iii) Distribution Facilities:

- The water demand per employee is 73m³/person/year.

On the basis of the assumptions above, total water demand for JAIP is estimated at 0.1 MCM/year for Stage I and 0.4 MCM/year for Stage II, respectively. Total water demand for both Stages I and II is 0.5 MCM/year.

Table 6.18 Water Demand for JAIP

Item	Stage I	Stage II	Total	Remarks
(i) Water Demand for the Factories				
Production Volume (ton/year)	38,000	152,000	190,000	-
Water Demand (MCM/year)	0.08	0.30	0.38	production volume x 2.0 m ³ /ton/year
(ii & iii) Water Demand for the Office Building and BDS Center				
Number of Employees (person)	100	130	230	-
Water Demand (MCM/year)	0.01	0.01	0.02	# of employees x 73 m ³ /person/year
(iv) Water Demand for Distribution Facilities				
Number of Employees (person)	130	500	630	-
Water Demand (MCM/year)	0.01	0.04	0.05	# of employees x 73 m ³ /person/year
(v) Water Demand for the JAIP				
Factories (MCM/year)	0.08	0.30	0.38	-
Office Buildings and BDS Center (MCM/year)	0.01	0.01	0.02	-
Distribution Facilities (MCM/year)	0.01	0.04	0.05	-
Total (MCM/year)	0.09	0.35	0.44	-
Value for Planning (MCM/year)	0.10	0.40	0.50	-

Source: JICA F/S Team

Water quality should be up to drinking water standard under the regulation of PSI for agro-industrial use. Water quality is summarized in Appendix A6.1.7.

(2) Existing Water Supply System

Water supply is a critical issue for the development of JAIP. Water, in sufficient quantity and quality, is indispensable for factory operations. Water supply around the candidate site, however, is extremely limited. In the last five years starting from 2005, Wadi Auja, with a catchment area of 291 km², has faced a serious drought during the summer. Wadi Qilt, with a catchment area of 172 km², also has faced a shortage of Ain Sultan spring water in 2009. At present, the major water source for domestic and agriculture is the Ain Sultan Spring, which is located northwest of the city center.

(3) Alternative Water Supply

Appropriate alternative water sources for JAIP were identified by the JICA F/S Report. Four such schemes are proposed and detailed below:

Alternative 1: Private farmers own agricultural wells, although most wells are shallow. Altogether, these wells do not meet the water needs of JAIP.

- Alternative 2: The Ain Sultan could be a source, which has a constant flow of 650 m³/hour, and is potable. Some 42% of the spring water is for domestic use, while the rest is for agricultural use. There is not enough capacity for JAIP.
- Alternative 3: Israel's water company operates the Mekorot water supply. Since detailed information is not available, the Palestinian Authority wishes to use their owned water resources.
- Alternative 4: Jericho Well No.1 from the Qilt spring was officially handed over from Mekorot to the Palestinian Water Authority (PWA) in 2000. The capacity of Jericho Well No.1 is 3,000 tons/day (150 tons/hour x 20 hours). The well could have clear water for the first 50 tons, however the water becomes brackish after this first 50 tons.

PWA intends to rehabilitate Jericho Well No.1. A pumping system will be installed and a water supply pump will connect with the existing irrigation pump station. This project is only to serve as an emergency backup system for Jericho City and the capacity is relatively small. If JAIP is requested to construct the water supply system, it is possible to use Jericho Well No.1 as coordinated with Jericho City. In this case, there are three other alternatives for JAIP water supply under the discussion with PWA.

- New alternative 1: Existing irrigation water from Ain Sultan is potable. So water from Jericho Well No.1 could be changed to irrigation water, and existing water for irrigation could be supplied to JAIP. In the case of water shortage, a high capacity water pump and water supply pipeline should be installed to meet JAIP requirements.
- New alternative 2: Jericho Well No.1 could be used for exclusive water resources for JAIP. High capacity water pumps, a desalination plant, as well as distribution pipe lines are required since potable water should be used for food processing and agro-industry production. The unit cost for a reverse osmosis (RO) system is US\$20,200,000/1,000 m³/day.
- New alternative 3: The water from Jericho Well No.1 will be mixed with the Ain Sultan water supply for domestic water needs, irrigation water and JAIP. However, a water quality study is required.

(4) Water Tariff

The water tariff of Jericho is shown in the table below, with a comparison of water tariffs among other cities shown in Appendix A6.1.5. The water tariff of Qulqlliya is the lowest, while that in Jericho is the second lowest. The water tariff categories are different among other cities, so it is not easy to compare, however those in Jericho City are relatively low.

Table 6.19 Water Tariff of Jericho City

	m ³	NIS/m ³
Domestic Use	0–100	1.00
	101–150	2.00
	151–250	4.00
	251–	5.00
Commercial Use & Industry	0–20	1.00
	21–50	2.00
	51–100	4.00
	101–	5.00

Source: Jericho Municipality

PWA is responsible for water resources development and delivery to the Municipality, while the Municipality is responsible to deliver the water to the customers. According to PWA, when JICA contributes to the development of water resources, water tariffs become negotiable with PWA and the Municipality. According to the JICA F/S Report, the water tariff was provisionally set at 3.0 NIS/m³ for 280 m³/day with the Jericho Municipality. As such, water tariffs for industrial use are recommended as follows:

Table 6.20 Proposed Water Tariff of Jericho City

m ³	NIS/m ³
0–100	1.00
101–200	2.00
201–300	3.00
301–	4.00

Source: JICA Study Team

6.3.3 Wastewater Treatment

(1) Outline of the Wastewater Treatment Plant

Construction of wastewater treatment plant (WWTP) for JAIP is inevitable for the proper operation, although primary wastewater treatment shall be carried out at each factory. However, since there are also needs of construction of WWTP for Jericho city, the development plan of WWTP of JAIP should be considered the needs of Jericho city as well. Detail information such as location, treatment method and operation and maintenance structure will be examined in the following study.

Wastewater parameters are needed to regulate the reception and discharge of wastewater at WWTP and as follows:

Table 6.21 Wastewater Design Parameter of JAIP

Major Parameter	Unit	Influent Quality (before treatment)	Effluent Quality (after treatment)
BOD5	mg/L	650	20
TSS	mg/L	650	30
T-N	mg/L	80	25
Fecal Coli	MPN/100mL	-	200

Source: JICA F/S Report

In the case of the Al-Bireh WWTP, treated wastewater could be use for agriculture. The Al-Bireh WWTP laboratory carries out wastewater management. Moreover, treated wastewater can be used for planting agricultural products, namely fruit trees, cooked vegetables and fresh vegetables in a test plantation. The wastewater quality could used for the cooked vegetables, although it is likely that people would have a negative impression of using treated wastewater for agriculture.

Treated wastewater empties into a final storage tank, and anyone could use this treated wastewater free of charge. Construction sites for roads and buildings can use this water to control dust.

(2) Location of the WWTP

Industrial estate is aiming towards the scale merit, reduction of investment cost and business linkage among investors. Investment costs, namely for roads, water supply, a wastewater treatment plant, solid waste management, the communication networks and electricity are effectively constructed. JAIP is the agro-industrial park that concentrates more on the agro-business.

The wastewater treatment, solid waste treatment, and compost facilities are the most important common service facilities. However, if these facilities are located in the park, a suitable location must be found to maintain order in the site, sanitary conditions, and product sanctity. Since the space for the factory in JAIP has limitation, there is an idea that these facilities should be located outside park. When and if such facilities are built, a green buffer must be considered and these facilities should be located some distance from the site.

In this park, a photovoltaic power station will be constructed at the site of a formerly planned wastewater treatment plant, solid waste dumping site and compost facility. These previous facilities must be planned to relocate outside of the park, to the east of the Jericho suburbs.

(3) Wastewater Tariff

Al-Bireh Industrial Zone is adapting an automatic prepaid collection fee system for domestic use. Automatically, the Municipality collects water and wastewater fees together. In the case of industries, there is no automatic collection system, however if industries fail to pay the discharge fee, water supply will be cut off. The wastewater discharge fee is 1.8 NIS/m³ for all activities at Al-Bireh.

6.3.4 Electricity Supply

(1) Power Demand for JAIP

Power demand for the Jericho Agro-industrial Park (JAIP) is estimated on the basis of the power demand from: (i) factories; (ii) office buildings; (iii) the business development service (BDS) center; (iv) distribution facilities; (v) common utilities; and (iv) street lighting. Estimates of the power demand for these items are defined from the investment survey and collected data information by the JICA F/S Team as follows:

(i) Factories

- Factory buildings are assumed to be one story high with a building to land ratio at 50%.
- The number of employees per floor area for each factory is 200 person/ha.
- Production volume per employee is 80 ton/person/year.
- Power demand per production volume is 56 W/ton.

(ii) Office Buildings and (iii) BDS Center

- Power demand per person is 0.68 kW/person.

(iv) Distribution Facilities

- Power demand per person is 0.68 kW/person.
- Annual production volume per workers is 300 ton/person/year.

(v) Common Utilities

- Power demand for each common utility, namely the water supply system, the wastewater treatment facility, and the solid waste treatment facility is estimated on the basis of power consumption required by each.

(vi) Street Lighting

- Lighting fixtures for major roads are 400 W/each.
- Lighting fixtures for minor roads are 250 W/each.
- Lighting fixtures are to be placed every 25 meter in a zigzag arrangement on both sides.

Based on the above estimates, the total power demand for JAIP Stage-I and Stage-II is tabulated below.

Table 6.22 Total Power Demand for JAIP

Item	Stage I	Stage II	Total	Remarks
(i) Power Demand for Factories				
Land Use Area (m ²)	47,590	189,140	236,730	-
Floor Area (m ²)	23,800	94,500	118,300	land use area x 50%
Number of Employees (person)	480	1,890	2,370	floor area x 200 person/ha
Production Volume (ton/year)	38,000	152,000	190,000	# of employees x 80 ton/person/year
Electric Power Demand (MW)	2.13	8.51	10.64	production volume x 56 W/ton
(ii) & (iii) Power Demand for Office Buildings and Business Development Service Center				
Land Use Area (m ²)	12,760	18,990	31,750	-
Number of Employees (person)	100	130	230	assumption
Electric Power Demand (MW)	0.07	0.09	0.16	# of employees x 0.68 kW /person
(iv) Power Demand for Distribution Facilities				
Production Volume (ton/year)	38,000	152,000	190,000	-
Number of Employees (person)	130	500	630	production volume/ 300 ton/person/year
Electric Power Demand (MW)	0.09	0.34	0.43	number of employees x 0.68 kW
(v) Power Demand for Common Utilities				
Water Supply System (kW)	0.00	0.09	0.09	desalination facilities
Electric Power Demand (MW)	0.19	0.54	0.73	-
(vi) Power Demand for Street/Road Lighting				
Major Streets/Roads				
Length of Street/Road (m)	172	841	1,013	-
Number of Lighting Utilities (#)	14	67	81	length of road/25 m x 2
Electric Power Demand (kW)	6.00	27.00	33.00	# of lighting utilities x 400W
Minor Road				
Length of Road (m)	664	2,838	3,502	-
Number of Lighting Utilities (#)	53	227	280	length of road/25 m x 2
Electric Power Demand (kW)	13	57	70	# of lighting utilities x 250 W
Electric Power Demand (MW)	0.02	0.08	0.10	-
Total Power Demand for the JAIP				
Factories	2.13	8.51	10.64	-
Office Building & BDS	0.07	0.09	0.16	-
Distribution Facilities	0.09	0.34	0.43	-
Common Facilities	0.19	0.54	0.73	-
Road Lighting	0.02	0.08	0.10	-
Total	2.49	9.56	12.06	-
Value for Planning	2.50	10.00	12.50	-

Source: JICA F/S Report

As shown in the total power demand table, the power to JAIP is planned to be 12.5 MW in total (2.5 MW for Stage I and 10.0 MW for Stage II). Consequently, the possibility of power supply from JDECO was confirmed, considering the supply capacity of the existing power system in Jericho.

(2) Existing Power Supply Network in Jericho

The present power supply in Jericho is 45 MVA in total, which consists of 20 MVA (10 MVA x 2) from the Jordan power system through two underground circuits of 33 kV, 15 MVA from

Jerusalem through a JDECO-owned 33 kV line, and 10 MVA also from Jerusalem through an Israeli-owned 33 kV line, respectively.

The JDECO power supply in Jericho is dependent on the Jordan power system. Even the peak demand of 15 MVA in Jericho is being supplied solely from the Jordan power system. Consequently, the two 33 kV line circuits (15 MVA and 10 MVA) from Jerusalem are not connected to the JDECO power system as a standby for future expansion.

(3) Electricity Tariff in Jericho

Since the power plant is established in Israel only, tariffs reflect oil prices in the Israel market. Due to the high price of oil in the world, electricity tariffs in Israel/the Palestinian Territories are reviewed every month, and now everyday. This being said, Jericho received power from Jordan, whose prices have held stable for the last 5 years. As a result, the electricity tariff in Jericho is relatively low compared with other Palestinian cities.

The type of electricity tariff depends on the economic background of each city. In the case of Jericho, the electricity tariff consists of: (i) domestic use; (ii) commercial & industry use; and (iii) street lights for industrial park use. Ramallah and Bethlehem are also included in the same category, although tariffs are slightly more expensive than in Jericho. The electricity tariff of Jericho is tabulated below and a comparative table is shown in Appendix A6.1.5.

Table 6.23 Electricity Tariff of Jericho

	NIS/kWh
Domestic	
Fixed Base Amount	11.06
Per kWh	0.46
Commercial/Industrial	
Fixed Base Amount	49.65
Per kWh	0.55
Street light for IP	
Fixed Base Amount	49.65
Per kWh	0.38

Source: JDECO

(4) Power Supply Network for JAIP

The feeder to the Maghtas substation supplies power to the steel factories and two other large customers. Accordingly, the new 33 kV line to JAIP should be constructed with a new switching station located in Area-A by JDECO.

(5) Future Electricity Supply Expansion Plan in Jericho

High Tension Transmission Line

Power supply through the 33 kV line is insufficient to accommodate the future load increase in the Jericho Area. This is due to the limitation of its transmission capacity and its huge transmission loss. JDECO submitted a new expansion plan to the authorities concerned with upgrading the line to 132 kV, which is compatible with the voltage supplied by the Jordanian Electricity Company. The 132 kV transmission line on the Jordanian side has been completed up to King Abdallah Bridge, and is ready to be connected with the requested 132 kV transmission line from the Palestinian side.

Photovoltaic Power Plant

Recently, JICA has been focused on renewable power in the Middle East. Around 300 kW of solar power system will be installed at the JAIP Site and will be connected to the Jericho power network.

(6) Facility Construction by JDECO

JDECO is responsible for the construction and operation & maintenance (O&M) of power facilities. Power facilities consist of 33 kV transmission lines, new switching stations and onsite facilities for JAIP. The offsite power facilities will be financed by donor, while grants and developers will finance onsite power facilities.

(7) Electricity Tariff for JAIP

JDECO should take responsibility for construction of all electric facilities and distribute the power and electric contract between JDECO and the companies. On the other hand, land for the photovoltaic power plant is provided by PIEFZA, so the right of power consumption could be negotiable with JDECO. For instance, electricity consumption for common service facilities could be enjoyed free of charge during certain periods.

The existing electricity tariff on the industry is considered reasonable in Jericho.

6.3.5 Telecommunication

(1) Telecommunication Lines

The required number of lines was tentatively estimated based on the number of factories and other facilities provided by PalTel to the JICA F/S Team. The estimated distance from the point-of-line origin, which is located along Route 1, is 3.5km. The estimated number of telecommunication lines is shown below.

Table 6.24 Required Number of Telecommunication Lines

Item	Stage I	Stage II	Total
Required Number of Lines	30	150	180

Source: JICA F/S Report

(2) Telecommunication of Tariff

Telephone and Internet tariffs are the same throughout the Palestinian Territories. Telecommunication tariffs are shown below:

Table 6.25 Telephone Tariffs

Rates: Fixed Telephone to Fixed Telephone		
Prices/Peak	Rates: 1st reduction time	Rates: 2nd reduction time
8:00am to 8:00pm	8:00pm to 2:00am and 6:00am to 8:00am	from 2:00am to 6:00am
1st 3 min 0.22 NIS	1st 8 min 0.16 NIS	each min 0.01/NIS
until 8 min 0.06 NIS	for each additional min 0.016 NIS	-
each additional min 0.03 NIS	-	-
Rates: Fixed Telephone to Local Mobile Company (JAWWAL)		
Prices/Peak	Rates: Off-peak, Fridays & Holidays	-
8:00am to 6:00pm	6:00pm to 8:00am	-
0.62 NIS/min	0.46 NIS/min	-
Rates: Fixed Telephone to Fixed Israeli Telephone Company (CellCom/Orange/BillPhone)		
Prices/Peak	Rates: Off-peak, Fridays & Holidays	-
8:00am to 10:00pm	10:00pm to 8:00am	-
0.34 NIS/mnt.	0.17 NIS/min	-
Rates: Fixed Telephone to Israeli Mobile Companies		

Prices/Peak	Rates: Off-peak, Fridays & Holidays	-
8:00am to 6:00pm	6:00pm to 8:00am	-
0.66 NIS/mnt.	0.63 NIS/min	-
Installation Fees for Fixed Telephone Line		
Homes	100 NIS	-
Commercial and Industrial	199 NIS	-
Institutions	285 NIS	-

Note: (1) The noted prices are subject to VAT of 14.5%

(2) The fixed charge for subscription fees are 20 NIS/month

Source: TelPal, JAWWAL, CellCom, Orange, BillPhone, etc.

6.3.6 Traffic Volume Forecasting

The daily traffic volume to and from JAIP is forecasted on the basis of the expected number of employees/factories, production volume, and the results of the investment survey. Estimated daily traffic volumes for each development stage are presented below (the estimation process is described in Appendix A6.1.8).

Table 6.26 Daily Traffic Volume to/from JAIP and the Existing Steel Factory

Vehicle Category	Existing steel factory	Stage I	Stage II	Total (I+II) Including steel factory
Passenger Car/Van	17	423	1,500	1,940
Bus	8	52	210	270
Single Unit Truck	-	80	290	370
Inbound	-	40	147	187
Outbound	-	40	143	183
Heavy Trailer	50	20	80	150
Inbound	30	8	34	72
Outbound	20	12	45	78
Total	70	575	2,080	2,730

Source: JICA F/S Study Team

6.3.7 Supporting Service for BDS Center Related with Utility

(1) Laboratory for Quality Control

Food industries are requesting the following special rules:

- Water quality required for food processing and production should be equivalent to that of potable drinking water, as specified in the “Second Modified Draft of Drinking Water Quality Guidelines”.
- Product quality control under the Palestine Standard Institute (PSI) requires a PS or PSM mark for each product. The PS mark is given for PSI certified company products, while the PSM mark is given for certified products of small companies that could not apply for the PSI registration.
- Simplified periodical inspection of food products should be conducted by the company at the production site.
- Complete periodic inspection of food products by the authorized R&D institute under PSI jurisdiction.

In this instance, R&D facilities and the inspection services could be a common service provided by the BDS Center.

- A simplified inspection facility should be installed in the laboratory of the BDS Center to service individual factories and to keep JAIP standards.

- PSI rules guidance should be taught in BDS classrooms, with regulations and rule books kept in the library.
- A one-stop service window for periodic inspection could be provided by the BDS Center as a common service.

Inspection items under the rule of PSI for each type of food industry and test fees are tabulated in Appendix A6.1.6. According to the test item, laboratory instruments shall be carefully investigated and identified during the implementation stage in the common laboratory. Periodical data collection at the laboratory institute could be done by one laboratory specialist at 600 NIS/person.

(2) One-Stop Service Window for Trading

When a factory exports their product, they require a packing list, invoice and origin certificate under the bilateral economical agreement. Also, the regulations of PSI require a PS or PSM mark to secure product quality and product origin. These documents are required for every export cargo. This processing could be a common service for the BDS Center, providing a one-stop service for export-oriented companies.

The cost of service for PSI, the laboratory, the chamber of commerce and industry (CCI) shall be adopted to each service at the JAIP site.

(3) Design Center for Packaging

Packaging cartons are assembled corrugated boards, printed and precut by the paper product company. The design company provides these carton design specifications, and each factory should buy these carton boxes. Small size carton boxes are assembled at the factory, while large size carton boxes for vegetables are pre-assembled and brought to the factory. In the case of large carton boxes, transportation is not efficient and costs are high. This results in a more expensive product price. Also though, the design and printing technology is not sophisticated enough to attract customers.

Paper product needs are not satisfied under the common service facilities, however the design technology could be met by the BDS Center, which could provide design courses, quality control classes, as well as production technology courses. These classes could be provided to coordinate with CCI, PSI, the R&D laboratory, as well as the university. Operating costs should be provided for the specialists and cover the room rental fee.

6.3.8 Land

(1) Site Location and Conditions

The location of JAIP site is within the vicinity of an existing steel factory south of Jericho City, which is part of a reserved future development area as defined by the Jericho City Plan. The site consists of three parcels with a total area of 111.5 ha, as summarized in the following figure and table.

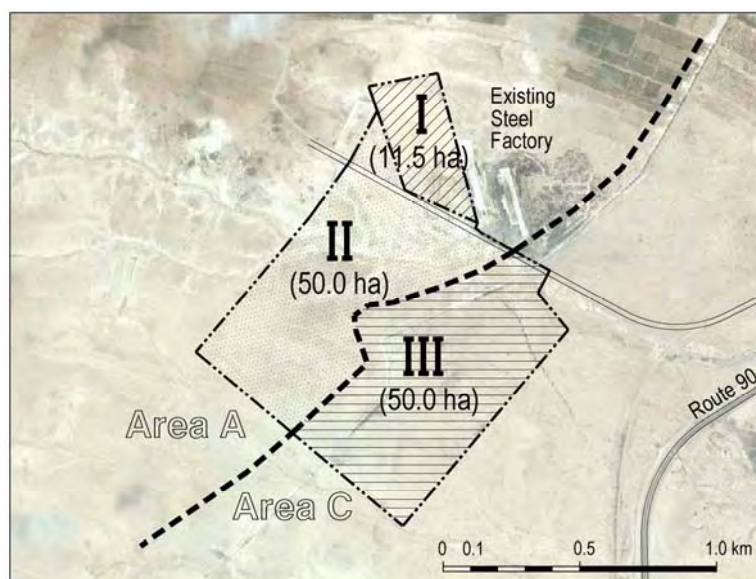


Figure 6.4 Site of the Agro-Industrial Park

Table 6.27 Land Area and Current Ownership of Candidate Site

Site Name	Area (ha)	Jurisdiction	Ownership
Stage I	11.5	Area A	State- owned land (PNA)
Stage II	50.0	Area A	Privately-owned land
Stage III	50.0	Area C	Privately-owned land
Total	111.5		

The Stage I site could be classified as suitable for initial development due to its relatively small scale, jurisdiction of Area A and state-owned status. The Stage II site could be developed on a large scale and is under jurisdiction of Area A and has private land status. Meanwhile, the Stage III site could be developed on a large scale and has private land status, however, it needs special coordination/agreement with Israeli authorities since it is located in Area C.

The F/S report notes that the site would be reserved for Stage II, which shall be developed on a large scale after reaching agreement with its current private land owner. Moreover, it was reported by MoP that the state-owned land (for Stage I) has been secured for agro-industrial park use based on decisions during a cabinet meeting on February 18, 2008.

Recently, PIEFZA has been under negotiations with the private land owner of the Stage II site, with some conditions detailed below:

- PIEFZA will provide off-site infrastructure for Stages I & II, while the developer will provide on-site infrastructure for Stage II.
- The site of Stage II is divided into two areas, one for PIEFZA and one for the private owner, excluding the road and park areas.
- PIEFZA shall acquire 30% of the total land without a purchase cost, when the land is utilized for public uses such as administrative offices, utilities, etc.
- The private owner shall acquire 70% of the land where sold factory lots are utilized.

The total area is thus equal to: Area of the Stage II site (500,000 sqm) – Internal Road Area (69,470 sqm) – Park Area (18,750 sqm) = 411,780 sqm

Table 6.28 Conditions of PIEFZA and Private Land Owner

	Percentage (%)	Area (sqm)	Land Use
PIEFZA	30	123,534	Office, utilities, and public use
Private Land Owner	70	288,246	Selling factory lot
Total	100	411,780	

(2) Additional Condition***Photovoltaic Power Plant***

PENRA, together with PIEFZA, agreed with the JICA Study Team that a solar power plant would use the southwest corner of Stage I site in JAIP. This location would be an efficient location for installing solar panels and the planned site of a utility area for a wastewater facility and compost facility in the F/S. This results in the Stage I site area in JAIP being reduced. As such, requests should be made to move these utility facilities outside the JAIP site so that the land can be utilized.

6.4 Financial Evaluation

Based on the business plan presented in this chapter, a financial analysis has been conducted on financial viability and profitability of JAIP from the viewpoint of a developer that would undertake both on-site infrastructure development and management (see Section 6.3.1). The analysis considers various supportive options which may ease the risks to a developer, who would disburse large initial investments to develop Stage I and II. To evaluate profitability, three different FIRR (10%, 11%, and 12%, respectively)⁹ are assumed to estimate the land lease rents required to meet the FIRRs¹⁰.

Together with the assessment of financial viability, an economic analysis of the JAIP (Stage I and II) is undertaken to forecast EIRRs stated in Appendix A6.2.

6.4.1 Evaluation Options

The followings options are defined to estimate the land lease rents for a perspective developer, based on an assumed Internal Rate of Return (IRR) (of between 10%-12%).

Table 6.29 Option Table

For Stage I	For Stage I and II
<u>Option A</u> for developers who do not cover on-site infrastructure for Stage I.	<u>Option B</u> for developers cover on-site infrastructure for Stage II ONLY.
<u>Option C</u> for developers who cover on-site infrastructure for Stage I ONLY.	<u>Option D</u> for developers who cover on-site infrastructure for Stage I+II.

In those options where the development is not managed by the developer, the uncovered infrastructure is assumed to be provided by the public sector.

6.4.2 Projected Financial Results**(1) Assumptions*****General Assumptions***

- Project is assumed to be implemented from Year-1 and be completed by end of Year-4

⁹ These figures are assumed according to reasonable rates seen in the Palestinian Territories.

¹⁰ SFB could be developed by developers according to investor demand. For the evaluation, however, only a land lease option for investors is considered. The revenue for office spaces for BDS is included.

- Operating period is assumed to be 20 years after completion of the projects (from Year 1 to 20)

Revenue Assumptions

- Total rental revenues are calculated for the Open Land Plot and BDS Center by multiplying the area (square meters) by the lease rate per square meter.
- Occupancy rate for the first year is 30%, 50% for the 2nd year, 70% for the 3rd year, and 90% for the 4th year and beyond, respectively.
- Revenues increase by 3% every 3 years.
- An 8% interest rate is assumed for Net Present Value (NPV) calculations.

Cost Assumptions

- Off-site infrastructure is fully covered by the public fund for each option.
- On-site infrastructure is disbursed between Years 1-4 for the following major costs:
 - Base construction
 - Administration
 - Engineering services
 - Physical contingency
- Operation and management costs
- Administration costs
- Costs increases by 3% every 3 years

(2) FIRR and Corresponding Land Lease Rates

Case 1: For each option, an **Internal Rate of Return (IRR) of 12%** will produce the following:

Table 6.30 Case 1 Land Lease Rate

Assumptions	BASE CASE			
	Stage I	Stage II	Sage I	Stage II
	Option A	Option B	Option C	Option D
	Developers do not cover on-site infrastructure for Stage I	Developers cover on-site infrastructure for Stage II ONLY	Developers cover on-site infrastructure for Stage I ONLY	Developers cover on-site infrastructure for Stages I + II
Input Sheet				
Open Land Plot Lease Rate (US\$/sqm)	US\$4.9	US\$15	US\$19	US\$18
BDS Center / Admin. Office Lease Rate	US\$90	US\$90	US\$90	US\$90
Factory Area (sqm)	73,750	348,450	73,750	348,450
Distribution Area	0	29,700	0	29,700
BDS Center / Admin. Office (sqm)	1,500	1,500	1,500	1,500
Increase (Decrease) in Revenues Every 3 Years	3%	3%	3%	3%
Increase (Decrease) in O&M and Admin. Costs Every 3 Years	3%	3%	3%	3%
Base Case Results/Outputs				
Total Profit (Loss)	\$2,477,083	\$66,511,823	\$15,913,703	\$82,721,269
Internal Rate of Return (IRR)	12%	12%	12%	12%
Net Present Value (NPV)	\$376,486	\$8,716,803	\$2,189,288	\$12,002,004
Payback	Year 11	Year 12	Year 12	Year 12
Return On Investment (ROI)	Undefined	190%	248%	208%

Despite the IRR being equal among the four options above, Stage I Option A has the lowest lease rate of US\$4.9/sqm for the Open Land Plot, while Stage I Option C has the highest at US\$19/sqm. The reason of high lease rate is due to the coverage of the on-site infrastructure by the developer(s).

Case 2: For each option, an **Internal Rate of Return (IRR)** of 11% will produce the following:

Table 6.31 Case 2 Land Lease Rate

Assumptions	BASE CASE			
	Stage I	Stage II	Sage I	Stage II
	Option A	Option B	Option C	Option D
	Developers do not cover on-site infrastructure for Stage I	Developers cover on-site infrastructure for Stage II ONLY	Developers cover on-site infrastructure for Stage I ONLY	Developers cover on-site infrastructure for Stages I + II
Input Sheet				
Open Land Plot Lease Rate (US\$/sqm)	US\$4.6	US\$14	US\$18	US\$17
BDS Center / Admin. Office Lease Rate	US\$90	US\$90	US\$90	US\$90
Factory Area (sqm)	73,750	348,450	73,750	348,450
Distribution Area	0	29,700	0	29,700
BDS Center / Admin. Office (sqm)	1,500	1,500	1,500	1,500
Increase (Decrease) in Revenues Every 3 Years	3%	3%	3%	3%
Increase (Decrease) in O&M and Admin. Costs Every 3 Years	3%	3%	3%	3%
Base Case Results/ Outputs				
Total Profit (Loss)	\$2,054,474	\$59,517,939	\$14,786,744	\$75,727,385
Internal Rate of Return (IRR)	11%	11%	11%	11%
Net Present Value (NPV)	\$231,549	\$6,384,202	\$1,802,790	\$9,669,404
Payback	Year 12	Year 12	Year 12	Year 12
Return On Investment (ROI)	Undefined	170%	230%	190%

Despite the IRR being equal among the four options above, Stage I Option A has the lowest lease rate of US\$4.6/sqm for the Open Land Plot, while Stage I Option C has the highest one at US\$18/sqm. The reason for the high lease rate is that the developers cover the on-site infrastructure. In addition, the Stage I payback year increases to 12 years at an IRR of 11%.

Case 3: For each option, an **Internal Rate of Return (IRR) of 10%** will produce the following:

Table 6.32 Case 3 Land Lease Rate

Assumptions	BASE CASE			
	Stage I Option A	Stage II Option B	Stage I Option C	Stage II Option D
	Developers do not cover on-site infrastructure for Stage I	Developers cover on-site infrastructure for Stage II ONLY	Developers cover on-site infrastructure for Stage I ONLY	Developers cover on-site infrastructure for Stages I + II
Input Sheet				
Open Land Plot Lease Rate (US\$/sqm)	US\$4.4	US\$13	US\$17	US\$15
BDS Center / Admin. Office Lease Rate	US\$90	US\$90	US\$90	US\$90
Factory Area (sqm)	73,750	348,450	73,750	348,450
Distribution Area	0	29,700	0	29,700
BDS Center / Admin. Office (sqm)	1,500	1,500	1,500	1,500
Increase (Decrease) in Revenues Every 3 Years	3%	3%	3%	3%
Increase (Decrease) in O&M and Admin. Costs Every 3 Years	3%	3%	3%	3%
Base Case Results/ Outputs				
Total Profit (Loss)	\$1,772,734	\$52,524,055	\$13,096,306	\$61,739,616
Internal Rate of Return (IRR)	10%	10%	10%	10%
Net Present Value (NPV)	\$134,925	\$4,051,602	\$1,223,044	\$5,004,204
Payback	Year 13	Year 13	Year 13	Year 13
Return On Investment (ROI)	Undefined	150%	204%	155%

Despite the IRR being equal among four options above, Stage I Option A has the lowest lease rate of US\$4.4/sqm for the Open Land Plot, while Stage I Option C has the highest at US\$17/sqm. The reason for the high lease rate is developer coverage of on-site infrastructure. In addition, the Stage I payback option increases by a year to 13 years at an IRR of 10%.

6.4.3 Financial Analysis Summary

The financial analysis is summarized below. The land lease rates for a developer range from US\$4.5/m² (with on- and off-site infrastructure not being covered by the developer in Stage I) to US\$22/m² (where the developer covers Stage I off-site infrastructure).

Table 6.33 Summary of Land Lease Rates to Meet Expected FIRR by Developer










Options	Stage I		Stages I and II	
	Option A	Option C	Option B	Option D
Off Site Infrastructure	P	P	P	P
On Site Infrastructure (Stage I)	P	D	P	D
On Site (Stage II)	N/A	N/A	D	D
Case 1 FIRR = 12%	4.9	19	15	18
Case 2 FIRR = 11%	4.6	18	14	17
Case 3 FIRR = 10%	4.4	17	13	15

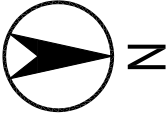
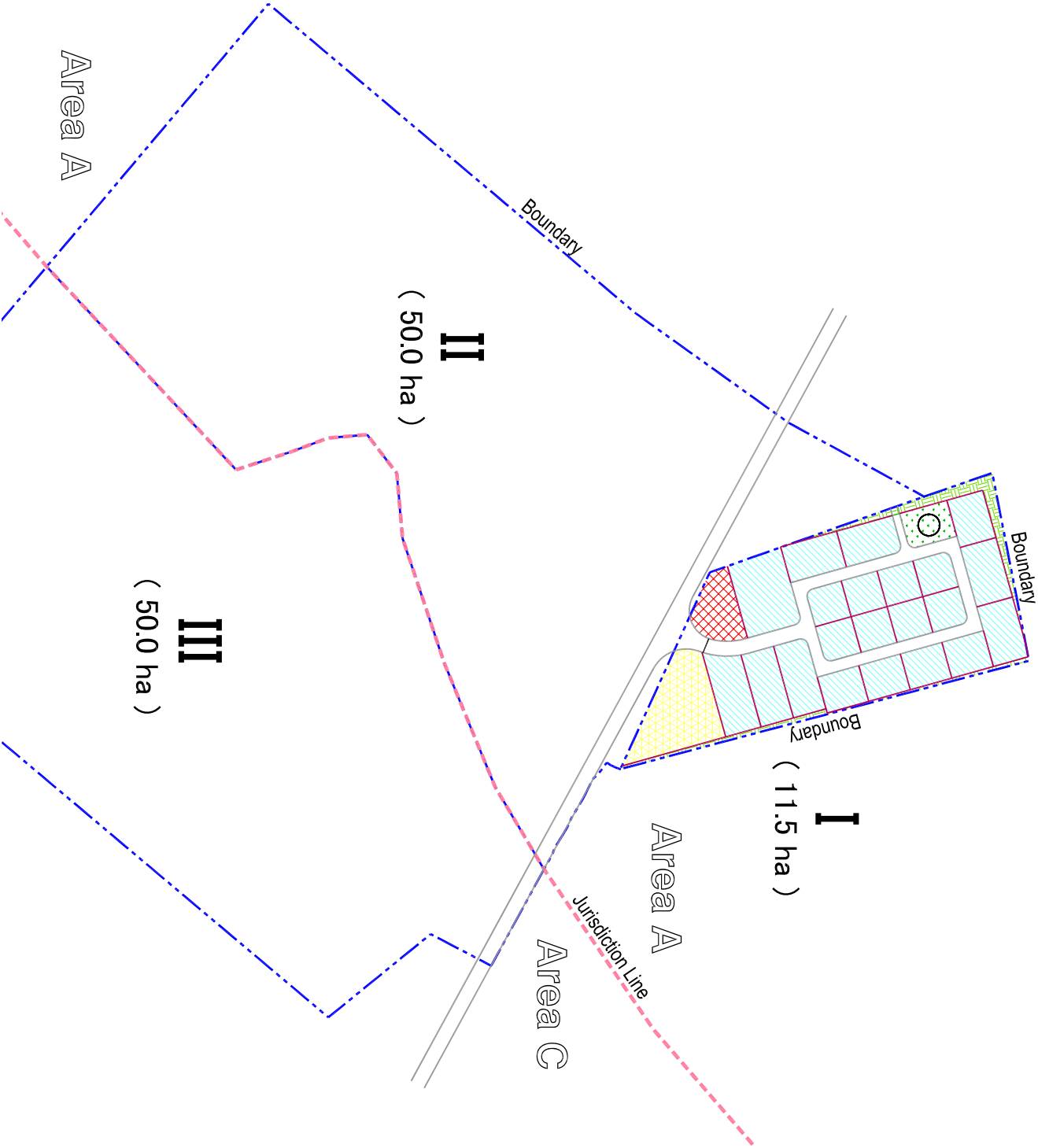
Note: P denotes "By Public"; D denotes "By Developer"

6.5 Maps and Drawings










The following drawing shows the Land Use Plans and Master Plans for Stage I and Stages I+II, as well as the BDS Center Plan:

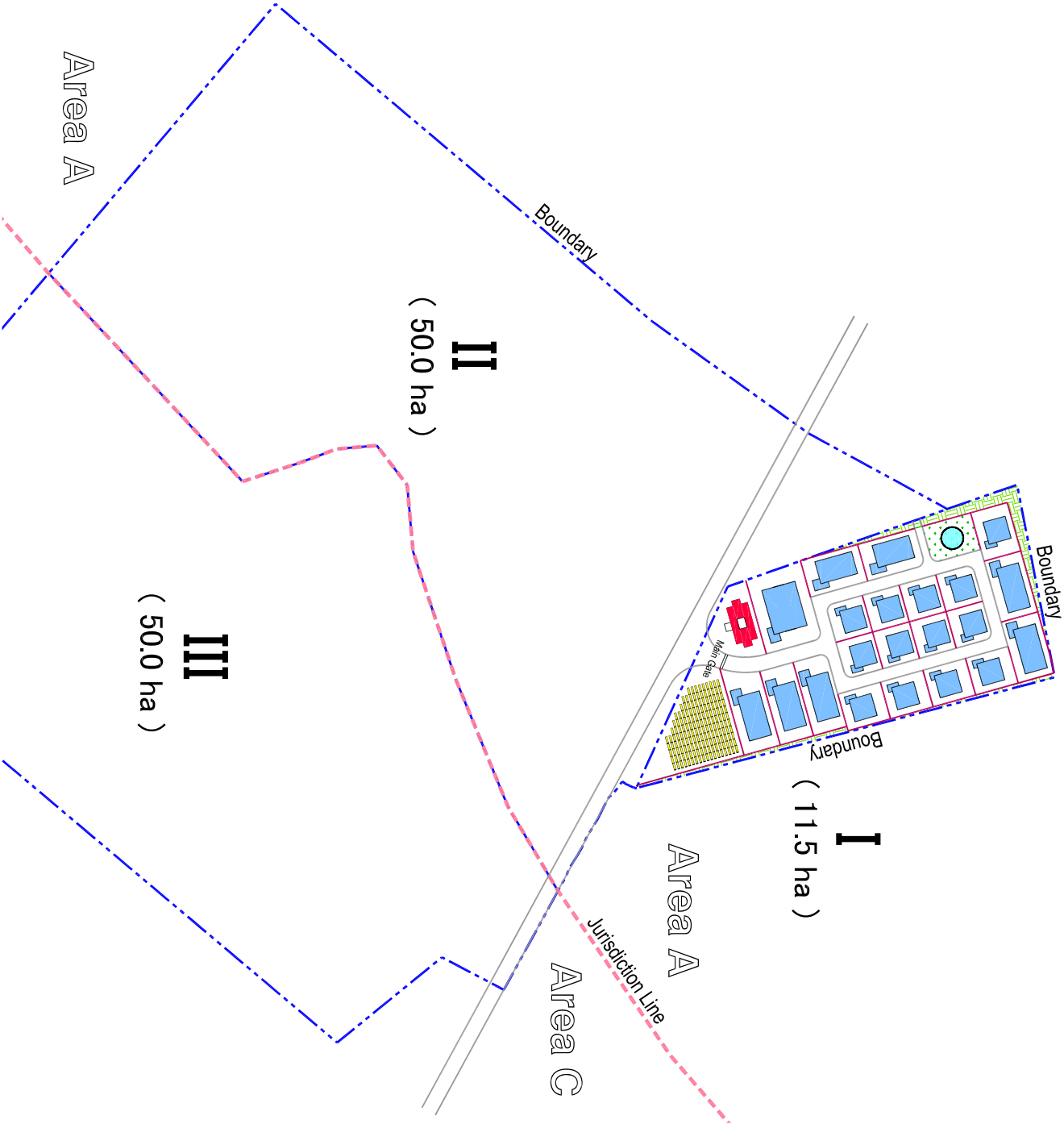
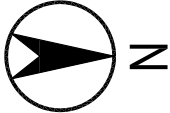
- 6.5.1 Land Use Plan-1, Stage I only
- 6.5.2 Master Plan-1, Stage I only
- 6.5.3 Land Use Plan-2, Stages I+II
- 6.5.4 Master Plan-2, Stages I+II
- 6.5.5 BDS Center Plan

Legends	
Factory Area	
BDS Center Building Area	
Distribution Center Area	
Park Area	
Bus Station Area	
Utility Area	
Sloped Land / Buffer Area	
Wadi	
Solar Energy Panel Area	

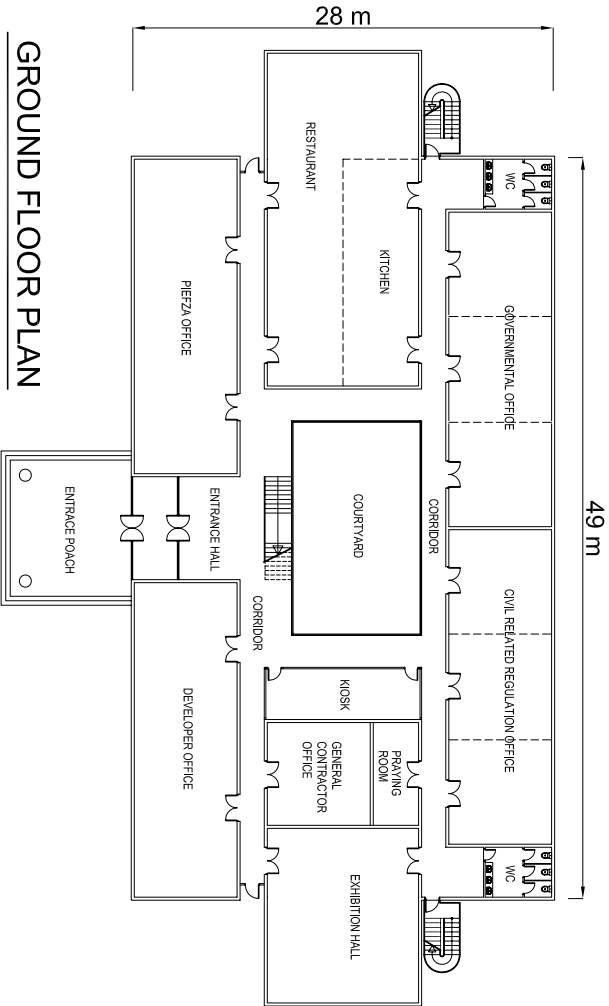


PROJECT										TITLE	
Palestine Preparatory Survey for Assistance to Small and Medium Sized Enterprises										Land Use Plan -1, Stage I only	
										PADECO Co., Ltd. Global Development & Management Consultants	
										DWG.NO	
NO.	DATE	DESCRIPTION REVISIONS			BY	APP	CHECKED BY			SCALE 1 / 8000	
										DATE 01 FEB. 2010	
										DESIGNED BY	

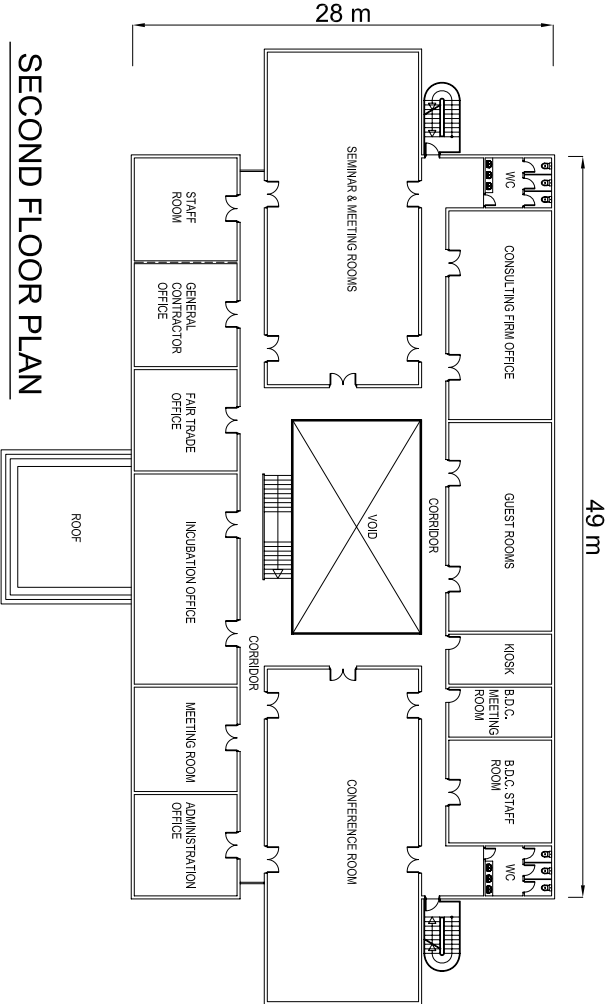
Legends	
Factory	
BDS Center Building	
Distribution Center	
Water Supply Tank	
Bus Station Area	
Park Area	
Wadi	
Sloped Land / Buffer Area	
Solar Energy Panel Area	



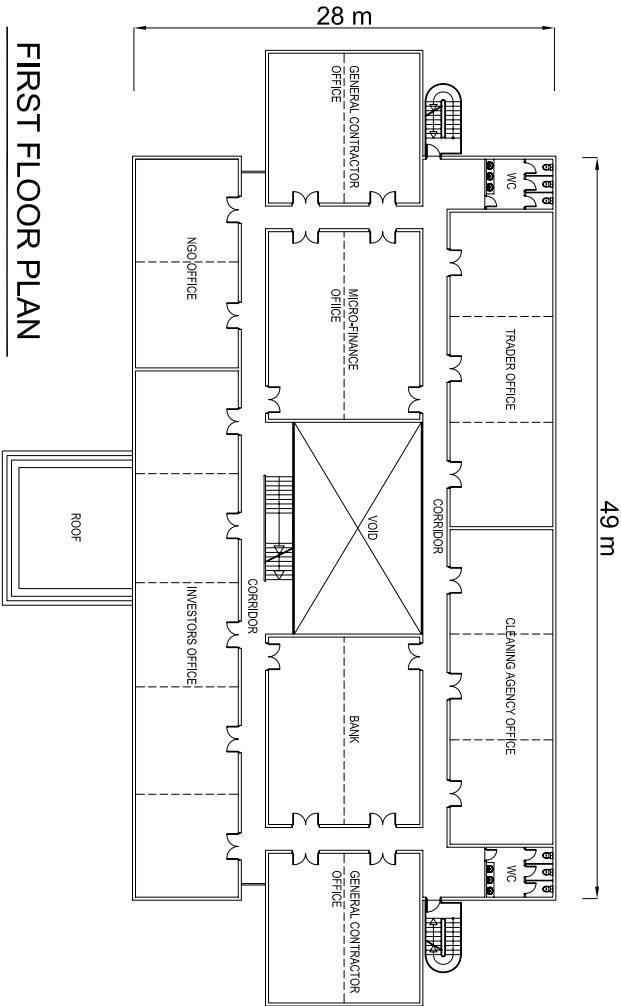
PROJECT										TITLE	
Palestine Preparatory Survey for Assistance to Small and Medium Sized Enterprises										SCALE 1 / 8000	Master Plan -I-, Stage I only
NO.	DATE	DESCRIPTION REVISIONS					BY	APP	CHECKED BY	DATE	DWG.NO
										01 FEB. 2010	PADECO Co., Ltd. Global Development & Management Consultants



GROUND FLOOR PLAN



SECOND FLOOR PLAN



FIRST FLOOR PLAN

PROJECT		Palestine		Preparatory Survey for Assistance to Small and Medium Sized Enterprises	
NO.	DATE	DESCRIPTION	BY	APP.	CHECKED BY
		REVISIONS			
SCALE 1/500		DATE 01 FEB. 2010		DESIGNED BY	
TITLE		BDS Center		PADECO Co., Ltd.	
DWG.NO				Global Development & Management Consultants	

7 RECOMMENDATION

7.1 Summary

This study examined the functions of JAIP as “soft components”, such as SME promotion, logistics improvement, and other relevant benefits in order to make JAIP more concrete and attractive. Issues and risks remaining from the F/S included: (i) how to make a strategic approach to invite investors to JAIP; (ii) how to make attractive incentives; and (iii) how to design practical business development services.

Following Chapter 1 (Introduction), Chapter 2 analyzed Small and Medium Enterprises (SMEs) in the Palestinian Territories. SMEs are the dominant type of business and form the backbone of the economy. PA is focusing on trade facilitation and trade promotion, which have been supported by various donors. Less focus has been on areas such as business development services, women in business, rural areas, and the SME sector. The private sector institutions, such as Paltrade, PSC and SEC, are providing a supplemental role. Therefore resources are available for business development services.

For exports, performance is greatly affected by external factors. Similar to SME development, the donor community is focused on NGOs, business associations, and private sector organizations to deliver direct services to the SMEs. Most of the donor programs target Paltrade as a focal point for promoting exports in the Palestinian Territories. Donor programs also focus on development of new export channels for certain products such as olive oil, dates, traditional Arabic food, herbs, honey, etc. In addition, fair trade has been growing to find a niche market.

Chapter 3 found that the food industry has recently rebounded and experienced a growth of exports mainly to Arab countries. Considering the severe competition for inviting foreign direct investments, the food sector is considered as a potential tenant of JAIP. Through field surveys over the Palestinian Territories, it is strongly expected that several companies will move to JAIP due to appropriate land area, infrastructure, improved access to the Allenby Bridge, and the presence of comprehensive business support. Based on the available estimation of potential tenant business plans, the Study Team estimated that the affordable land lease rate would be US\$10-20/m².

Chapter 4 analyzed logistic problems, which are considered to be the biggest bottlenecks for economic activities in the Palestinian Territories. Logistics problems are categorized into the following categories: Infrastructure, Security Check, Pallets, Documentation and Transportation. As a solution to these problems, JAIP is expected to provide support functions, such as transportation, warehouses, and customs clearance. The Study Team also made suggestions to the Palestinian, Israeli, Jordanian as well as Japanese sides.

Chapter 5 noted that the BDC should have two primary functions - business support and management training - in order to respond to the requests of potential investors of JAIP. Organizations and potential service providers are also examined. BDC will also contribute to SMEs in the Palestinian Territories besides JAIP and will help to maximize the benefits from various existing services provided by development institutions.

Chapter 6 compiles JAIP information into a Business Plan that reflects relevant results from this Study and previous work (including the F/S and previous studies).

7.2 Action Plan for Implementation of JAIP

As described in Chapter 3, the potential tenant companies would like to commence preparations to create a production base in JAIP as soon as possible. Therefore, the anticipated implementation action plan for JAIP needs to be shown to potential tenants. Decisions on implementation options, land acquisition, developer selection, as well as promotion and sales to target tenants are considered the next set of actions.

7.2.1 Decision on Implementation Option

The implementation option is to be decided on as soon as possible. Pros and cons of the three options described in Chapter 6 are shown in Table 7.1.¹

Table 7.1 Pros and Cons of Implementation Options

		Option A	Option B	Option D
Description	Off-site Infrastructure	Public Sector		
	On-site Infrastructure. Stage I	Public Sector	Public Sector	Private Sector
	On-site Infrastructure. Stage II	N/A	Private Sector	Private Sector
Pros		<ul style="list-style-type: none"> Land is secured Selection of developer may be made later than the start of construction. PA can assure transparency on developer selection. Attractive rate of land lease is offered. 	<ul style="list-style-type: none"> On-site development cost efficiency is secured. Land for lease shares is relatively high. PA can assure transparency on developer selection. Developer's investment cost recovery for Stage I on-site infrastructure can be reduced. 	<ul style="list-style-type: none"> On-site development cost efficiency is secured. Land for lease shares is relatively high. Preferable terms of land lease rate may be introduced to support the political target group such as infant enterprises, utilizing the land sales income..
Cons		<ul style="list-style-type: none"> Less cost efficient for on-site infrastructure. Land for administration shares is relatively high. Strategic plan for Stage II development should be made. 	<ul style="list-style-type: none"> Land acquisition is to be made in a transparent and reasonable way. Structure of developer is to be designed carefully. 	<ul style="list-style-type: none"> Land acquisition is to be made in a transparent and reasonable way. Selection of developer is to be made in a transparent way.

Source: Study Team

From the perspective of economic development of the on-site infrastructure, Options B or D is considered as appropriate. However, if land acquisition and formation, as well as developer selection are considered to take time, Option A should be considered as most realistic in quickly realizing the project. Even if implementation starts on Option A, it is possible to shift to Option B afterward when land acquisition is confirmed.

7.2.2 Land Acquisition

After or at the same time of selecting the implementation option, land acquisition for the Stage II area should be finalized. PIEFZA has been negotiating with the authorized representative of the Stage II area landowner since July, 2009. Although it was reported that an agreement was made in principle, the Minutes of Understanding have not been signed.

¹ As Option C cannot offer affordable land leases for potential tenants, Option C has been excluded.

The opportunity to purchase developed land is a great incentive for investors as the land can be used as collateral for borrowing from private financial institution. However, accountable terms and conditions for dealing should be carefully examined.

7.2.3 Selection of Developer

The developer of the industrial park should take a role in the: (i) development of the on-site infrastructure; (ii) promotion and sales to tenants; and (iii) operation and maintenance of the industrial park. If the implementation option is selected by PA from the perspective of financial support for on-site and off-site infrastructure, the public sector should take responsibility in the role of developing the on-site infrastructure mentioned above.

In terms of (ii) and (iii) above, the experience of the private sector is indispensable. At the very least, the roles of operation and maintenance should be contracted out to the private sector in order to establish a sustainable and efficient institutional framework. Lastly, a transparent method for selecting the developer is required to utilize public funds of donors and the Palestinian Authority.

7.2.4 Promotion and Sales to Target Investors

Various companies in the food industry have shown interest to make an investment in JAIP to expand production and their businesses. Non-disclosure of JAIP development to prospective investors may cause a loss in interest or a change in willingness to invest. Therefore, updated information and public relations efforts and, most importantly, a predictable program, action plan, and progress reports on JAIP should be provided. PA or the nominated developer should not only provide information, but also take a tailored approach to responding to investor requests.

Furthermore, the arrangement of necessary procedures and schemes such as the initiation of land use plan changes as well as capacity building of investors should be made available in advance. The land lease contracts, however, would officially start after commencement of infrastructure construction.

7.3 Recommendations

Initial target tenants should be Palestinian industries.

As noted in Chapter 3, the worldwide economic recession began in late 2008. Competition with the neighboring countries for foreign direct investment has become more severe. The competitiveness of products from Palestinian companies is vulnerable in general. Nevertheless, as shown in Chapter 3, export of some food processing products has been growing. Therefore, it is practical that initial target tenants should be Palestinian industries and not foreign industries. That being said, promotion to foreign investors should be continued and strengthened to make a sincere and consistent approach to the foreign industries showing interest in JAIP. As for Palestinian industries other than food processing, active investment promotion for JAIP should be implemented as far as their products are considered to be competitive in the international market in the present or future.

With regard to the food processing industries, what at first seems like a weakness may actually be a strength. For instance: (i) the hot weather can extend the harvesting season; and (ii) the limited availability of chemical fertilizer forces the development of organic production. Developing the confidence of independent growth may invite foreign direct investment opportunities, particularly from the Palestinian Diaspora.

Business Development Services (BDS) should be strategically expanded.

As shown in Chapter 2, although donors have assisted SME development in various manners, comprehensive support has yet to be established. In addition, as analyzed in Chapter 3, potential tenants expect comprehensive business support at JAIP. Particularly, potential tenants expect consulting services for production efficiency, market development and financial support in order to improve their international competitiveness. At the initial stage, consulting services for business plans for potential investors in JAIP are expected. Competitiveness could deteriorate as soon as efforts are stopped to maintain competitiveness. Therefore comprehensive support for the capacity development of management, human resources and business environment development through training, learning, and improving is important to the sustainable growth of industries. BDS support services should target not just factories but also farmers and raw materials or related materials producers. The BDS should be provided for tenant companies as well as for SME industries in the West Bank. As it is considered appropriate to support potential tenant capacity, even prior to moving into JAIP, services may be initiated in Ramallah.

Incentives for the tenants should be prepared in order to expedite promotion.

As depicted in Chapter 3, decisions on investment in JAIP would be expedited if affordable lease rates are offered. This includes not only the level of the rate but also introductory payment support such as grace periods, subsidies under certain conditions and so on.

As well-prepared infrastructure with reasonable costs is expected by potential tenants, disclosure of development plans also becomes a type of incentive.

Investment incentives should not be less preferable than those available in neighboring countries; competitiveness in the international market should be emphasized.

As analyzed in Chapter 4, movement and access are key constraints on Palestinian companies. In particular, food products are sensitive (these in fact are the initial tenant's target products). Some products already enjoy an efficient system of donor support. Efficient arrangement brings benefits not only to Palestinian companies, but also to other parties by increasing business opportunities.

Institutional arrangements should be made, taking regulatory improvement and other strategic approaches into consideration.

JAIP should be constructed in an efficient manner. However, JAIP would take a leading role for self sustainable growth of the Palestinian economy through strengthening the international competitiveness of the tenant industries. To achieve such ends, an institutional arrangement for efficient construction as well as sustainable operation and maintenance should be made. Taking effective arrangement of donor support into consideration, division of the roles between the relative ministries, organization, developer and operator should be carefully decided by the Special Unit under the Ministry of National Economy. Capacity development to execute each role decided may be supported by the Japanese Government, as far as the Palestinian Authority would request such assistance. Partnership with the private sector is important to make flexible and prompt actions responding to the market and economic situation once the division of roles is decided.

In addition, oversight and regulatory role for industrial development should be considered in order to secure the transparency.