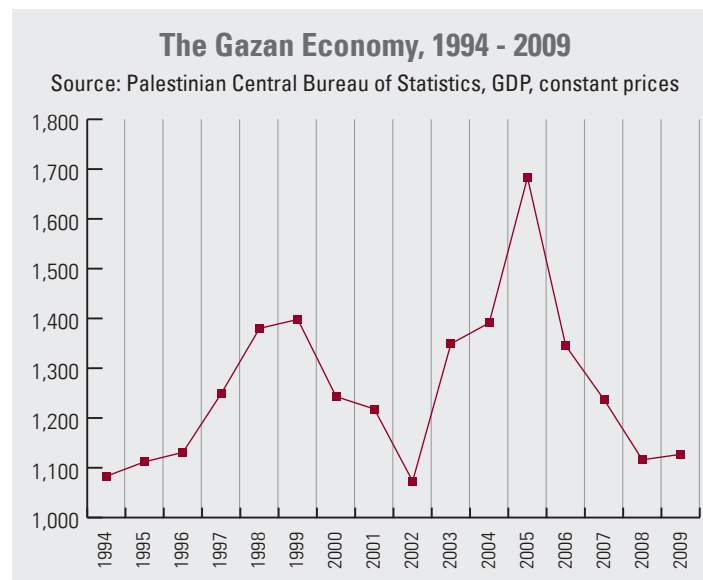


## The Private Sector in Gaza

*In December 2007 the Bulletin included a special feature on the situation of the private sector in Gaza. At that time there was almost complete closure of the crossing points following the Hamas takeover of the Gaza Strip six months earlier. The prospects for the business community were not promising. Three years on the Bulletin is revisiting the topic to see what has changed and what, if anything, can be done to support the private sector in the current circumstances.*

The Gaza Strip has been an important part of the Palestinian economy in the last 20 years and, according to the Palestinian Central Bureau of Statistics, contributed approximately 35%, or \$1.7bn, to overall GDP in 2005. Official figures recorded unemployment at 17% in 1999. While 15% of workers were employed in Israel or the settlements, the vast majority were absorbed by the local economy. In particular the private sector was a driving force, employing an approximate 100,000 people in 1999, or 55% of those employed. Private sector activity was concentrated in agriculture, manufacturing, construction, general commerce and retail/wholesale. A number of high value added goods were produced and exported from Gaza, including cash crops, furniture and clothing. For example, in 2001 57 million carnations were exported, generating an estimated \$2m in net profit and 173,000 days of employment.

However, with the ongoing restrictions on movement and access, there has been a significant economic decline in recent years. By 2008, official figures estimated that the Gazan economy had been reduced to \$1.1bn, and contributed only 22% of total Palestinian GDP. In 2009 the economy stagnated and commercial activity was limited.<sup>1</sup> Official figures now estimate unemployment at 40%, yet many think the true level could be as high as 65%.<sup>2</sup>



### The Shrinking of the Private Sector

The private sector has been particularly affected by the situation. A comparison of employment figures in 2006 and 2010 shows that while the total number of people employed has not changed, the workforce has increased by over 50%. In addition, the effect of retaining PA employees on the pay roll has been to more than double the size of the public sector. Conversely, employment in industry and construction – the productive private sector – has fallen by over 75% and is now thought to number less than 10,000.

<sup>1</sup> See: [http://www.pcbs.gov.ps/Portals/\\_pcbs/NationalAccounts/a8ed5aa7-b2ca-4205-b1fc-423b18a51147.htm](http://www.pcbs.gov.ps/Portals/_pcbs/NationalAccounts/a8ed5aa7-b2ca-4205-b1fc-423b18a51147.htm)

<sup>2</sup> See Bulletin May 2010 for background analysis

**Table 1 - Employment Estimates, 2006 & 2010<sup>3</sup>**

	2006		2010		
	Total	% of 2006 total	Total	% of 2010 total	% of 2006
Labour Force	265,000		400,000		
Employed	160,000		160,000		
of which:					
International organisations	22,000	14%	15,000	9%	
Public sector	45,000	28%	112,000	70%	
<i>of which:</i>					
<i>    Palestinian Authority</i>	<i>45,000</i>	<i>28%</i>	<i>77,000</i>		
<i>    Hamis</i>	<i>-</i>		<i>35,000</i>		
Private sector	93,000	58%	33,000	21%	
<i>of which:</i>					
<i>    Agriculture</i>	<i>18,000</i>	<i>11%</i>	<i>10,000</i>	<i>6%</i>	<i>56%</i>
<i>    Construction</i>	<i>4,900</i>	<i>3%</i>	<i>1,150</i>	<i>1%</i>	<i>23%</i>
<i>    Manufacturing</i>	<i>33,150</i>	<i>21%</i>	<i>6,546</i>	<i>4%</i>	<i>20%</i>
<i>    Services</i>	<i>38,000</i>	<i>24%</i>	<i>15,000</i>	<i>9%</i>	<i>39%</i>

While the first half of 2010 has seen some improvement - with around \$700m of economic activity and 16% growth since the same period last year – it comes from a low base. The IMF estimate that living standards are still 60% below those in 1994.<sup>4</sup> According to the UN, 80% of Gaza's population are aid dependent and over 60% suffer from food insecurity.<sup>5</sup>

It was hoped that the change in Israeli policy in June, to ease the restrictions on goods allowed to enter Gaza, would halt the continuous decline in the private sector. Paltrade analysis indicates it has had some positive impact with an increase in the number and variety of consumer goods coming in. However, there has not been much change in the import of much-needed construction materials.<sup>6</sup> The level of export has also remained virtually non-existent. At the time of writing the Government of Israel has recently approved an increase in the goods to be exported through the Kerem Shalom crossing point in Gaza. Three types of goods have been approved for export – agricultural produce, furniture and light industrial goods. If this is implemented it will provide a much needed boost to the private sector. In the meantime, the tunnels continue to provide residents of the Gaza Strip with access to other goods. However, this is not judged to be sustainable in the long term. It is in effect unregulated trade, or smuggling, which has all the associated issues regarding quality, price and reliability of goods.<sup>7</sup>

## Current Activity

It is difficult to accurately assess the current activities of the private sector in the Gaza Strip. Approximately 13,000 businesses are registered at the Gazan Chamber of Commerce. These are all small and small-to-medium sized firms, most employing less than 50 people and providing goods or services (for example shops, supermarkets and barber shops etc.) However, a number of these are not actually operating, or have permanently closed, due to the situation. 1,600 companies are registered with the Palestinian Federation of Industries (PFI). These are mainly larger manufacturing businesses or factories in the Gaza Strip, but again, not all of these are currently operational.

Two main efforts to assess damage to the private sector have taken place since January 2009. The Private Sector Coordination Council (PSCC) in Gaza conducted a survey of private sector losses in cooperation with UNDP. The initial PSCC findings were revised in a later effort led by the European Commission (EC) in cooperation with the Palestinian Authority.<sup>8</sup> 1,033 businesses were assessed and as a result the EC launched a €22m Private Sector Reconstruction in Gaza (PSRG) programme to aid their repair. As of September 2010, €8.4m had been transferred through the PSRG programme, to approximately 440 businesses.<sup>9</sup>

3 2006 figures for the total labour force and employed are based on PCBS data for 2006. The breakdown is estimated by comparing and rationalizing PCBS data from 2006 and surveys on the ground conducted by PFI. 2010 data is based on previous analysis in the May 2010 Bulletin.

4 See: <http://www.imf.org/external/country/WBG/RR/2010/092110.pdf>

5 See: <http://www.unrwa.org/etemplate.php?id=731> and <http://home.wfp.org/stellent/groups/public/documents/ena/wfp213663.pdf>

6 See: [http://www.paltrade.org/cms/images/enpublications/GAZA%20REPORT%20Aug%20\\_%20Sep.pdf](http://www.paltrade.org/cms/images/enpublications/GAZA%20REPORT%20Aug%20_%20Sep.pdf)

7 See Portland Trust Bulletin March 2010 for further background on the tunnels.

8 See: [http://ec.europa.eu/europeaid/where/neighbourhood/country-cooperation/occupied\\_palestinian\\_territory/tim/documents/final\\_report\\_version6\\_t1.pdf](http://ec.europa.eu/europeaid/where/neighbourhood/country-cooperation/occupied_palestinian_territory/tim/documents/final_report_version6_t1.pdf)

9 See: [http://www.enpi-info.eu/main.php?id=22243&id\\_type=1](http://www.enpi-info.eu/main.php?id=22243&id_type=1) and <http://www.reliefweb.int/rw/rwb.nsf/db900SID/SKEA-89GGE8?OpenDocument>

In general, three main types of business activities now dominate the Gaza Strip:

1. Formal retail, which is limited to consumable items admitted by Israel and distributed to supermarkets and others retail stores.
2. Informal retail of items sourced through the tunnels running between Egypt and the Gaza Strip.
3. A small number of construction projects commissioned and/or sponsored by the international community.

Companies that have survived in Gaza's private sector are mainly those which benefit from at least one of the activities aforementioned. These are predominantly businesses involved in consumables and/or commodities admitted via crossing points with Israel and, in some cases, light industry which relies on the tunnels for the acquisition of raw materials. There are also a few companies which are involved in infrastructure or public service projects such as sewage treatment.

The Secretary General of Palestinian Businessmen in Gaza, Mr Abu Shalah, told the Bulletin about his own business. Three years ago, his engineering consulting firm had 30 staff, 25 of whom were engineers. He has been forced to let all of them go apart from his son, and they are struggling to keep afloat. A small number of his ex-employees found work with international NGOs - albeit working in positions they are overqualified for. However most are still unemployed or seeking informal employment, for example as taxi drivers.

This is not an isolated example, and represents what has happened across the private sector. The barriers that the private sector faces are many – not only are there the problems of accessing raw materials and export markets, but capital – whether in the form of machinery or skills and experience – continues to erode. Despite some programmes in place – e.g. US Loan Guarantee Fund and MIGA Investment Guarantee Trust Fund – most companies find it difficult to access finance and/or insurance given the inherent risks.

Despite these challenges the private sector in Gaza has shown itself to be adaptable and created alternative solutions to the shortages and scarcity of equipment. Some businesses have adopted novel coping strategies, including recycling rubble and debris to make gravel for roads. For example there is a company manufacturing and selling tiles from crushed rubble and glass. However many companies have simply closed down or moved to set up in the West Bank or neighbouring countries.

A comparison of firms operating in 2006 and 2010 shows that only a third of firms were still in operation in June 2010, and of these most were operating at a third of their productive capacity.

**Table 2 - Manufacturing and Construction Firms in Gaza, June 2010 compared to 2006<sup>10</sup>**

Sector	Total Firms 2006	Employed	Total Firms Open or Working in 2010	Production Capacity of Open Firms in 2010	Employed	% of Total Firms in 2006	% of Total Employed in 2006
Garments	928	16,000	200	20%	1500	22%	9%
Wood & Furniture	600	6,000	300	30%	2200	50%	37%
Construction	495	4,900	161	14%	1150	33%	23%
Metal & Engineering	300	3,500	45	25%	200	15%	6%
Plastics	70	3500,	60	25%	1500	86%	43%
Food & Beverage	40	1,800	32	50%	1000	80%	56%
Chemical/ Cosmetic	44	300	9	10%	18	20%	6%
Paper & Packaging	16	200	8	15%	18	50%	9%
Textiles	20	250	5	10%	20	25%	8%
Leather	32	300	6	30%	80	19%	27%
Handicrafts	32	1,300	10	5%	10	31%	1%
<b>Total</b>	<b>2,577</b>	<b>38,050</b>	<b>836</b>		<b>7,696</b>	<b>32%</b>	<b>20%</b>

## Signs of Resilience – Sectors to Target

Analysis of the current firms operating in the Gaza Strip, and the jobs they create, has shown that some sub-sectors are more resilient than others. For example, 86% of plastics firms are still operating, followed by 80% of food and beverage firms, 50% of wood and furniture firms and 50% of paper and packaging firms. All these firms are operating significantly below their normal production capacity. For example the eight paper and packaging firms are only operating at 15% capacity. However the fact that many of them are still operating at all is an indication of their suitability as a target for support.

The food and beverages sub-sector has been the most resilient in terms of jobs held (56%), followed by plastics (43%)

<sup>10</sup> Data was provided by the Palestinian Federation of Industries. 'Firms' includes businesses, manufacturers, factories and contractors.

and wood and furniture (37%). Paper and packaging, while resilient in terms of the number of firms, employs only a small number of people. Wood and furniture, food and beverages and plastics are amongst the biggest remaining employers in the manufacturing sector with 2,200, 1,500 and 1,000 employees respectively. The garments sector also still employs 1,500 persons. However only one-fifth of firms are still operational and thus it will have lost significant market share which it is unlikely to be able to recover quickly.<sup>11</sup>

It is anticipated that the construction sector will be in high demand when the required raw materials are able to enter the Gaza Strip. This sector has also demonstrated resilience. 33% of firms are still operational and 1,150 people are employed by the sector – which is 23% of 2006 levels. Facilities for the local population and resident international workers and visitors are increasingly in demand – this includes hotels, conference centres, cafes and restaurants. Agriculture, which is labour intensive, is also predicted to contribute to significant employment once greater volumes of export are possible. It is the only sector that has managed to successfully export in the current conditions. With the agricultural season underway two truckloads containing 25,000 carnations and 2.3MT of strawberries were recently exported with the assistance of the Dutch government.

There are also potential interlinkages between different sectors – for example agriculture and food processing, and construction with the wood and plastics sub-sectors. If revived, construction and agriculture will also impact the retail/wholesale market as a result of employment generation and increased disposable income. A multiplier effect, with indirect generation of employment to cater for rising consumer demand, should also be expected. Other manufacturing and services sectors, excluding the sub-sectors highlighted, are expected to take time to recover.

## Going Forward

In 2007 the Bulletin reported on the despair felt by the business community in Gaza. While the banking sector hasn't collapsed as feared, and some restrictions have been lifted, there is still little cause for optimism within the private sector. A key concern is the loss of skills and expertise that is taking place. The longer the situation continues the greater the risk of an irreplaceable loss which could take more than a generation to recover. Many are acutely aware of this danger and a number of ideas are being discussed, including ways in which to engage the currently paid PA workforce in voluntary community activity.

The majority of efforts to support Gaza are focused on the private sector which is understandable given the political constraints. A number of projects were presented for investment at the Palestine Investment Conference, including recreational facilities, fish farms and recycling plants. While it perhaps seemed optimistic to discuss international investment into Gaza at that stage, there are signs that work is underway on the domestic front. Projects are in the pipeline to develop facilities for local residents and supply chains between producers and food manufacturers.

In addition one of the largest Palestinian investors, the Palestine Development & Investment Company (PADICO), recently announced its commitment to invest in Gaza and enhance its connections with the private sector there.<sup>12</sup> The CEO of PADICO, Samir Hulileh, said that 'despite the challenges and difficulties of operating in Gaza under the current conditions there is business that can be done and therefore potential from investment. Like most people, the population in Gaza needs to eat, work, use products and spend time outside the home with their families. The private sector should be supported to grow their businesses again to provide such goods and services to the population.'

PADICO'S main subsidiaries in Gaza include the Palestine Industrial Estate Development and Management Company (PIEDCO) which owns and runs Almuntar Industrial Estate and the Palestine Real Estate Investment Company (PRICO) which owns and manages Al-Mashtal Hotel. In addition PADICO has a share in the Palestine Electricity Generation Company.

Construction of Al-Mashtal hotel started in 2000 and was finally completed in 2007. The plan is to start operating the hotel early next year, and to complete the construction of 220 chalets in the vicinity of the hotel by June 2011. PADICO also plans to re-open the industrial zone, which currently only houses 10 factories (down from 40 in 2006) and is mostly used for storing humanitarian aid. Abdullah Sha'rawi, PADICO's Business Development Manager, told the Bulletin that additional PADICO projects in the pipeline include a waste water management station and a solid waste recycling project. By re-entering the Gazan economy PADICO aims to encourage other Palestinian and international investors to invest in the Strip, despite all the obstacles.<sup>13</sup>

---

<sup>11</sup> See Table 1

<sup>12</sup> See: <http://www.padico.com/press20.shtml>

<sup>13</sup> See: <http://www.al-ayyam.com/znews/site/template/article.aspx?did=132807&date=2/3/2010> and <http://www.al-ayyam.com/znews/site/pdfs/3-10-2010/p17.pdf>