

State of Palestine
Private Sector Development Cluster Project
Public Private Dialogue - Pilot Model
Bottom-Up Approach

By

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1- Background and Context

Taking into account the absence of a single missing gap to be targeted, and the analysed characteristics of the existing donors' support, the Palestinian private sector development rather needs a *new vertical complementary input* which would demonstrate “how” SMEs can be supported in a holistic and pragmatic manner, by targeting all levels of blockages through the same coherent innovative approach. To do this with limited resources will oblige to focus on some limited segments of the SME sector and to capitalize on the acquired knowledge coming from these specific targets.

The AFD' intervention will therefore find an advantage to function as a pilot model, linking the different stakeholders involved in private sector development in order to experiment – within limited scope and in a demand driven way - the efficiency of a **comprehensive intervention targeting simultaneously all the levels of constraint** at micro, meso and macro levels, with a **coherent, pragmatic, result-oriented approach through the Private Sector Development Clusters Project (PSDCP)**.

Past PPD initiatives - Main findings:

- All PPD initiatives regardless if they were national or sectoral, lack a clear mission statement and a regulatory mandate. They can be described as adhoc and a reaction rather than being institutional and proactive with the exception of the competitiveness council.
- Almost all of the past and existing initiatives do not provide for a secretariat that is responsible for a proper implementation of PPD and eventually these institutions and

initiatives lack the capacity for PPD. With the exception of the competitiveness council, there is no formal structure for PPD initiatives in Palestine - most of the PPD initiatives were either donor driven or came as reactions to appealing issues issued within the Palestinian society (i.e. income tax, lack of external funding etc.).

- The outputs of these PPD initiatives in Palestine are mainly policy papers which are presented and discussed at general conferences.
- None of the PPD initiatives had an outreach or communication strategy. Mostly these initiatives had media coverage from local media without a professional outreach and communication campaign. MSMEs were not involved or represented in the past PPD conferences.
- All previous PPD initiatives in Palestine were implemented on the national level only and with a national agenda, with no strategy or agenda to follow up sub national activities on the local level.

2- Partnership, Structure and Processes

The PSDCP project aimed at developing a new model by adapting a successful Cluster Methodology experimented in some countries like Italy and France. The project itself was designed as a model of Public-Private Partnership where the Ministry of National Economy and FPCCIA implement the three components to achieve the following General and Specific objectives:

- **General objective:** To develop all segments of a free and competitive Palestinian economic system, through cooperation between public and private sectors.
- **Specific objective:** To strengthen the competitiveness of local companies, and especially MSMEs, in order to increase their market share on local market and/or explore new markets for export through: (1) a support to the structuration of productive sectors/sub-sectors with high potential, through the creation of linkages between the stakeholders of the same value chain on a defined territory through the cluster approach, and, (2) an improvement of public-private dialogue.

Policies: Draw a clear strategic framework by sub-sector, which would be able to organize the stakeholders around pragmatic improvements in their productive practices.

Public-Private Dialogue: Stimulate **a bottom-up** organized private sector voicing capacity to participate in public/private dialogue and improve the way micro and small firms are represented in dialogue through business associations.

Business environment: Organize a sector and sub-sector level of advocacy which would be able to obtain the improvement of legal and regulatory frameworks according to specific sectors' needs.

Support institutions: Develop linkages between public support institutions (specifically universities, research and information centres, vocational training institutions,) and firms and business associations.

Business associations: Reinforce the business associations in their capacities to provide services to their members, as well as their lobbying capacities.

Sector coordination: Assess key value chains and enterprises clusters to identify opportunities for business linkages and the provision of BDS and SME finance by sub-sectors, through area-based local development new initiatives. Coordinate collective sector and sub-sectors strategic framework, which would guide the stakeholders toward competitive restructuring of their productive process.

Finance: Experiment a successful comprehensive model, which would demonstrate to the interested financial institutions how to securely finance small businesses, through a relevant combination of bank products, BDS and non-banking products.

Business development services (BDS): Subsidize BDS schemes to facilitate access to credit for SMEs, to facilitate enterprise creation via incubators, to reinforce well adapted vocational training, to implement research-development of new products and processes. Facilitate connection, exchanges, technology transfer and know-how with French firms and institutions.

3- Expected Results

1. *Selected clusters have reached a high level of maturity and coordination between all relevant private and public stakeholders, allowing them to sustainably struggle for their own competitiveness in front of external challenges.*
2. *The collective projects of these clusters have been supported, financed and implemented successfully, resulting in a significant improvement of competitiveness and employment generation, both at firm level and at local and national business environment level.*
3. *The model approach of cluster promotion has been facilitated, monitored, and capitalized by the MoNE, through capacity development of MoNE in a way to support the public/private dialogue, the improvement of the business environment and the policy making process.*

Activities to be implemented during the PSDCP period 2012-2016

Component. 1: Technical assistance to animate and coordinate clusters

Component. 2: Support for clusters' collective projects

Component. 3: Dialogue, sector watch, capitalization, and policy making

3.1 : Public Private Dialogue based on cluster emerging needs :

- Animation of a bottom-up dialogue process between SMEs and public sector
- A Permanent dialogue forum on clusters' business environment

3.2 : Watch on sub-sectors competitiveness and capitalization of best practices:

- Observation and analysis of best practices on field cluster experience
- Study tours
- Communication on obtained results

3.3 : Dissemination of a cluster approach within the policy making process:

- Integration of cluster approach in SME public policy

3.4 Support for Capitalization Unit capacities

- Aid coordination for advocacy and lobbying on the clustering approach
- Aid coordination for policy formulation capacities
- Aid coordination for building capacities among clusters

4- Results so far

- Five clusters from different sectors and proximities have been selected and identified to work with during the project period (Stone and Marbles, Furniture, Tourism and handcrafts, Leather and Shoes, Dates and Palm trees) with clear strategic plans.
- The Capitalization Unit (CU) within the Ministry of National Economy intends to create a PPD mechanism that enables SMEs to communicate with relevant ministries.

Basic Steps of PPD:

1. Problem Diagnosis
2. Solution Design/ potential Solutions
3. Solution Acceptance
4. Solution Implementation

5. Monitoring and Evaluation.

- **A Recommended PPD Mechanism For Clusters in Palestine would include the following:**
 - **Cluster Enterprise Consultation:** With all or part of cluster members they collectively decide upon a number of potential issues, and if resolved, could benefit all cluster members. The clusters then prioritize these issues and determine which to pursue through PPD first.
 - **Cluster Focus Groups (CFGs):** These are responsible for taking the prioritized issues forward on behalf of all Cluster members where each CFG focuses on one prioritized issue. CFGs are nominated or elected in a way that all stakeholders from public and private sector are represented (FPCCIA, PFI, Paltrade, BA, BDS providers, Universities..etc.)
 - **Cluster Working Groups (CWGs):** CWG members are identified and selected by the CFG, either from inside or outside the cluster based on the individual's knowledge and experience and their availability and ability to get things done. The CWG provides practical support if the issue is complex or if there is need to speed up activities.
 - **Cluster Technical Committees (CTC):** CWGs may decide that there is a need of specialist or information to fulfill their tasks. CTC might also provide technical documentation to support CFG in the PPD activity and during the PPD Process.
 - **FPCCIA:** CFG spokesperson provides a full brief on the issue it is concerned with, presents the position paper to enable FPCCIA to develop an in depth understanding of the change requested and the case for change. FPCCIA considers the proposal and requests further information from CFG that is necessary for the case to be presented in a holistic way at government level. *This dialogue between CFG and FPCCIA and the exchange of information should provide a useful platform for developing networking and trust building at both local and national level.*
 - **Ministerial Platform:** Recommended as a Permanent PPD Forum (PPPDF), chaired by MoNE, containing relevant ministers and their deputies to maintain continuity of PPD in case of any change of the government. It should meet on quarterly basis even if no position papers are scheduled to be presented in order to feedback FPCCIA and cluster representative(s) on ministry activities and progress regarding previously submitted proposals. PPPDFs formed on a need basis usually involve small number of ministries or the relevant ministry and MoNE.
 - **Prime Minister:** The Ministerial Platform(s) should keep the Prime Minister informed of Cluster activities and the issues raised to effect change required at the Prime Minister's level.
 - **Secretariat:** Responsible for facilitating constructive dialogue between the business community and government i.e. the planned PPD activities.
 - **Champions:** To encourage, promote and maintain interest, enthusiasm and momentum in the PPD process, Champions are essential. Champions must have the

power to motivate all actors in the PPD process at all levels of the PPD mechanism to participate in a full and effective manner.

5- Private Sector Growth Component

The private sector plays a major role in providing the foundation for a sustainable economic development. There are many factors affecting the PA's endeavour to Private sector development and most importantly is the general economic situation and specificities in the West Bank and the Gaza Strip. Geographically fragmented, Palestine not only has to deal with the complexities of the separation of Gaza from the West Bank but also has to face constraints in terms of limitations in Access and Movement of goods and individuals within its regions and to outside destinations, a strong and one-way dependency on Israeli economy, and a political instability resulting from this complex conflict situation. The closures and restrictions imposed to the Palestinian economy are definitely the strongest impediments to private sector development.

The Palestinian economy is dominated by MSMEs and by services activities., where 91% are micro (0-4 employees), 6% small (5-9 employees), 3% medium and 0,1% large (more than 50 employees). Services were contributing to 60% of GDP (including wholesale and retail), the Manufacturing and Electricity and water 16 %, Agriculture to 4%, and Construction 5%. The estimated private sector contribution in total Palestinian GDP 72%.

ANNEX - A Recommended PPD Mechanism for Clusters in Palestine

