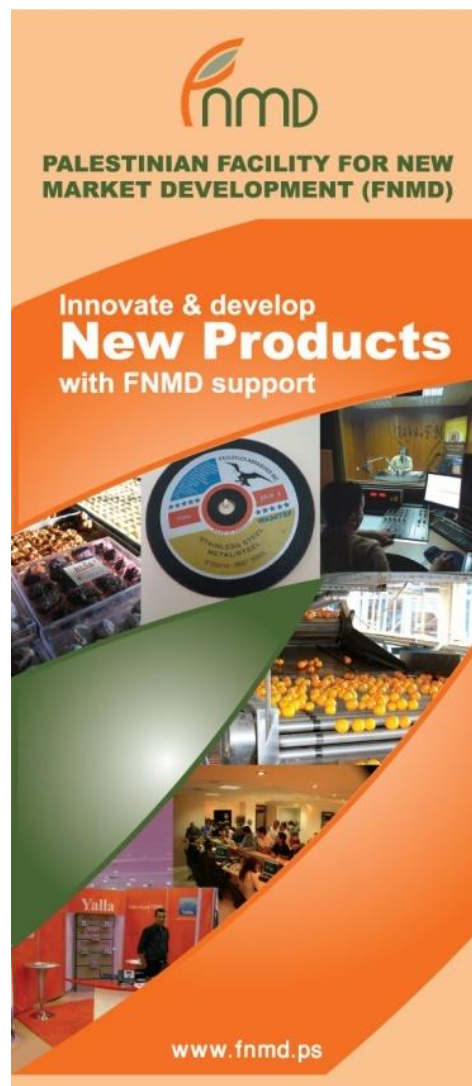


Business Services Sector Market Analysis – Volume 1

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Business Services Sector Market Analysis – Volume 1
Palestinian Facility for New Market Development
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Foreword

In 2011, DFID extended its Fund for New Markets Development (FNMD) programme in Palestine for one year. While FNMD was primarily a matching grant scheme designed to stimulate business linkages and investment in new markets and technologies, as part of the extension DFID wanted to introduce some deeper analysis into ways that could make the programme more systemic in nature and with broader outreach to the poor. Under the extension, DFID funded two sets of studies applying a “Making Markets Work for the Poor” – M4P – approach, also known as the Market Development Approach: one on business services sector and the other on agricultural value chains. This report presents the status of business services sector in Palestine, looking at the current supply of services and the demand for those services to identify ways to strengthen both the supply and demand. It is divided into two volumes – the main study focuses on the West Bank; while the second one focuses on Gaza. The two markets for business services are extremely different, given the situations in the two areas, and there is very little overlap between them.

The work in the West Bank and the majority of the writing were carried out by Kevin Billing and Basim Makhool during the month of August, 2011. Since this coincided with Ramadan the team made heroic efforts to meet key stakeholders and actors in the sectors, carrying out interviews with 80 different individuals at all times of day and night. Basim’s excellent contacts in the sector opened many doors, while Kevin’s innate curiosity kept the information flowing.

The interviews and majority of the report drafting for Gaza were carried out by Basim Makhool, using the same framework developed under the West Bank study. The team wishes to thank all of the participants in the study for their cooperation and their open sharing of information and perspectives on this sector. The team would also like to thank William Grant for his extensive work on critiquing and editing both documents and to the entire FNMD team for their assistance in setting up meetings and discussing the use of business services by the FNMD project, especially Halim Halabi in Gaza and Mahmoud AbuAmireh and Sana Alawi in the West Bank.

The contents of this report are the responsibility of the authors, and do not reflect the opinions or positions of DFID.

Mohammad Nuisebeh
Team Leader
FNMD, January 2012

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Executive Summary

Introduction

This Business Services Sector Market Study is designed to provide the Facility for New Market Development (FNMD) and the wider donor community with:

- A detailed analysis of the nature of business services markets in Palestine.
- The types of firms and main players providing the services and their internal business models.
- The opportunities and incentives for the market.
- The root causes that have been limiting their impact.

It takes into consideration not only the direct factors affecting supply (providers) and demand (consumers), but also the surrounding political economy within which the markets operate that shape the nature of these service markets.

An effective market requires that the supply from business service providers (BSPs) understands who the buyers are and what their needs are. These BSPs have to have the right products to meet those needs (defined by service and quality) and to make them available at a price that makes business sense to the buyers. On the demand side, the enterprises or business service consumers need to understand that they have a problem and accept that it can be fixed with an outside service. They also need to know who the possible service providers are, how to find them and how to place a value on the service that they require, so that they know how much they should be paying for that service. When these conditions are met, an effective market can exist.

In order to understand the fundamentals of the market structure, the report contains a review of the political economy that affects development of the business service markets, as well as a detailed look at the structure of the private sector in Palestine in general, overall constraints to growth, and their perceptions of the types of business services. In particular the review of background studies highlighted:

- The small size of businesses in Palestine (90 percent have fewer than 10 employees), mostly family owned (88 percent), with a lack of managerial dynamism. The high incidence of family ownership with strong patriarch management can often exclude new ideas and stifle innovation by younger (and better trained) family members.
- Low commitment to growth by micro, small, and medium enterprises (MSMEs) in the Occupied Palestinian Territories (OPT). Linked to the lack of dynamism as well as the constrained economic environment, nearly 50 percent of firms want to work at the same level of business, while only 30 percent hoped to expand, and only 25 percent actually were planning on expanding.

- MSMEs are very reluctant to pay for business services - 37 percent of surveyed firms are not willing to pay for services and a further 28 percent were only willing to sometimes cover the cost of services. With two-thirds of all MSMEs not very interested in business services, there is reduced potential demand.

The poor performance by BSPs results from low-quality delivery of services, as well as their marketing of the services (that relies on personal relationships) and their ability to state a value proposition to their potential clients.

The study team put 12 service areas through an initial scan, selecting four distinct service markets for deeper analysis. Some of the selection criteria included the importance of the market for accessing export markets, factors affecting competitiveness within the Palestinian domestic market, and the feasibility of being able to analyze the sector within the time frame allotted for the analysis.

This summary looks primarily at the four service markets that were analyzed - certification services, business planning for access to finance, human resource training, and access to export services - and presents the overview of those market systems, the main constraints and recommendations, and then draws lessons from the four to broader generalizations for the Palestinian environment. The analysis identified a broad range of constraints on both the supply side and the demand side for services, most specifically around knowledge and awareness issues, pricing and valuation issues, general skill levels of service providers, and the effects of donor distortion and the political environment. For more detail on each of the service markets and the implementation of the recommendations the readers are directed to the main report.

Standards Certification

Demonstrating that a firm can meet international standards is an increasingly critical requirement for exporters around the world. But, standards are also important tools for building a sound and competitive business; investing in meeting the conditions needed for certification will lead to more efficient operations. At present, the standards certification market is very small in Palestine, though it is fairly well-structured. MAK International is the only standards certification audit firm registered in Palestine and represents most of the certification bodies as their local auditor (upon a successful audit, the Certification Body [CB], such as Lloyd's of London, will issue the certificate). The Palestinian Standards Institute (PSI) governs the whole sector, and a number of international firms also come in occasionally to perform audits for other CBs.

There are only about four to six companies providing business services on the implementation of standards and quality management systems in a fully responsible and competent manner. A second tier of five to eight firms provide a more varied quality of service, and focus on the basic International Organization for Standardization (ISO) 9000 and 9001 certifications. These two groups of companies are complemented by another 10 to 15 local consultants with experience in specific certifications, coming out of the PSI or local

nongovernmental organisations (NGOs) that work in conjunction with the other BSPs providing training and quality management services.

The forces driving the sector are related to demand. Strong requirements from the end market such as the European Union (EU) standards (hazard analysis and critical control points [HACCP] and health and safety), retailer standards (British Retail Council [BRC], GlobalGAP), or intermediate buyers (firms using Palestinian inputs in the manufacture of ISO-certified products) are stimulating demand.

On the negative side, poor experiences with certification processes in the past have had a dampening effect on broader demand. Incorrect training on the value of certification and how it should be applied to a company, and the overuse of subsidies in the certification process, led to poor responses by the companies getting certified and rapid breakdown of the quality management processes put in place to meet the certification standards. Firms did not see the increase in sales that they had been promised, nor any real value to the underlying benefits that the certification and quality control process should bring to their companies. This has led to a reduced appreciation of the value of the certification and the desire to renew certificates.

Demand Side Constraints

- Demand is primarily for the certificate as a requisite to export, as firms lack awareness of the importance of standards and certification as a factor for increasing competitiveness and profitability by implementing a quality management system (QMS). Their low ability to value the benefits of the certification leads to a perceived high “cost” of certification and renewal, unrealistically matched with high expectations that certification will increase prices and expand market share.
- Lack of information on the requirements for various standards and the basis of a good QMS so that they can monitor and deal with BSPs. Tying into the first point, since the companies do not fully understand the purpose and value of the certification, they do not internalize the steps that are required.
- Strong market distortion from donor programs leads to the expectation that donors should pay for all certification programmes and limits awareness of the real value of the certification.
- There is a very thin market, as the total demand for services related to standards certification is low (less than \$500,000 per year), which does not encourage investment by service providers.

Supply Side Constraints

- The market is relatively thin and so BSPs lack the ability to specialise - there are very few companies providing services, mostly independent consultants who provide a wide range of services. They are forced to be generalists in order to earn a living, and services related to standards certification are just one of the activities that many perform. This leads to:
 - Weak levels of experience among BSPs across all standards, leading to poor service delivery.

- Failure to understand the importance of good risk analysis, making compliance by their clients more difficult/demanding than the standard requires.
- Lack of local training and advisory skills in key certification standards, for example, EU-GMP for pharmaceutical companies.
- Separation between training/system development and certification must be strictly maintained to avoid conflict of interest - difficult in a small market.
- BSPs are not actively trying to develop the market with their clients, rather many BSPs respond primarily to donor initiatives, selling to the donors rather than to the firms that are the recipients of the services and the long-term market.
- BSPs lack effective marketing and promotion skills:
 - Some BSPs over estimate potential benefits of certification to over-sell their services, which is a short-term strategy. This leads to over expectation by clients, and they do not develop sound value propositions for their real clients.
 - BSPs often fail to carry out follow-up activities of clients, which is also a function of lack of understanding of how to develop the market.

Proposed Interventions (in order of importance)

- Organize an awareness campaign on benefits of standards and certification in local and international markets for clients and BSPs, with concrete value propositions described and attached.
- Assist local certification agent and BSPs to increase product range and update to latest standard by increasing coordination between them.
- Organize focused training to improve capacity of BSPs to interpret standards and improve their marketing strategies with respect to building up the local market for standards certification, especially how to develop a stronger value proposition.
- Introduce some form of monitoring of potential conflict of interest between CB and BSPs in export certification.
- Strengthen PSI to increase the number of locally benchmarked standards available to control non-Palestinian products that do not meet local standards, and improve their ability to test products in Palestine.

Business Planning Services to Increase Access to Finance

Palestine's financial services market is slowly becoming more dynamic. The banking industry is increasingly liquid due to the Palestinian Monetary Authority (PMA) tightening regulations governing off-shore investments, and there is growing interest from the banks to lend more money overall and to increase loans to businesses in particular. The PMA's new credit bureau service is improving banks' ability to check credit history of individuals and firms. Reforms to improve capital market regulation have also opened a number of opportunities for locally registered share-based companies to obtain external investment through share offerings. Some new investment funds have been

created to invest larger sums in local businesses in the information technology (IT) and other sectors. In fact, the availability of funding currently exceeds the absorptive capacity of business in the OPT to absorb it.

While credit is often cited as a constraint on the private sector, this constraint is diminishing for those that want it. According to a recent survey on the microfinance sector, while half of small businesses do not apply for loans, nearly 90 percent of those that do apply receive them. The interviews with financial institutions highlighted that poor supply of quality business plans and unreliable financial information in loan applications from external service providers working with the small businesses created a constraint to the banks to lend. This has led the banks to invest in creating teams of bank staff to manage the loan analysis process for most standard business loans, replacing the need for external service providers and speeding up the process. By internalizing (embedding) the analysis process, the banks are able to use historic performance from the applicant's accounts, which is more reliable information, to determine the risk and better assess the likelihood of repayment.

While the embedded system is effective for investments to expand existing enterprises or to lend into a common/existing sector that the banks are familiar with, it is not effective for new investments that are outside the experience of the bank. Two main areas where constraints still exist are for agricultural-based projects (where there has been limited historical lending by commercial banks) and export-driven projects going into new markets with which the banks are not familiar. A second consideration is for the investment funds that need much more detailed market and financial analysis and stronger overall business planning.

As few of the businesses have the capacity to present their business plans, financial information, and market analysis, they are dependent on outside service providers to help. There is a weak supply of BSPs that can adequately present these "new style" business plans for larger investments or for new markets and products, which require more original and thorough analysis. The banks report that there are maybe 10 service providers with this capacity, but only a few of them deliver regular, consistent, quality business plans. The investment funds, with even smaller staff, feel this constraint as well; they must often resort to helping to deepen and strengthen presented analyses.

The market for business planning services is a three-way market with two levels of demand, and one for supply. The end user of the loan applications, the financial institutions and investors, demand a high level of rigorous analysis from the small businesses, which the businesses cannot supply. There is demand from businesses that need sound loan applications to provide to the financial institutions, but do not know how to present the information, and do not know how difficult it is to actually prepare the applications or trust their service providers to provide them with accurate information. On the supply side, the service providers often do not have the capacity to deliver the needed services for a number of reasons.

The total size of the market (currently) for these larger business plans is estimated to be fairly small. Out of the thousands of requests for finance, it is estimated that only about 50 extensive business plans requiring the detail and

depth of analysis are produced each year (total cost for these business plans is probably less than \$1 million per year). With active BSPs, this small demand for detailed business plans does not encourage investment in developing the capacity to produce them.

Demand Side Constraints

- Businesses' lack of information and awareness about the requirements of financial institutions for detailed knowledge about the business (deeper than just an annual statement of accounts) or who can provide the business service.
- Low ability to value the service that is being provided and the risks involved. They have a weak understanding of the amount of work required to develop good business plan - often refuse to pay if funds are not secured.
- Only do the study to get the finance - no genuine commitment to use the study as a driver of expansion.
- Low financial sophistication - financial organisations (FOs) and banks report that clients need assistance in determining the sequencing of loan drawdown that they need for disbursement and resource flow analysis.

Supply Side Constraints

- A large number of BSPs are not capable of performing the necessary analysis, and often cut and paste from previous examples that do not meet the requirements of banks and investment companies.
- Failure of communication between BSPs and FOs - they do not understand the level of analysis that is required:
 - BSPs lack practical experience in the technical requirement of new projects or knowledge of markets, and are unable to interpret the consequences within the business plan.
- BSPs are not trying to develop the market for their services, either with the direct client (firms) or indirect client (financial institutions):
 - They do not advertise, they rely on existing relationships.
 - BSPs need to establish relationships with FOs and then be recommended to clients.
- Limited number of good firms/consultants to carry out high-quality analysis:
 - Number of part-time consultants offering poor-quality business plans with inadequate market research services for a low price.

Proposed Interventions

Given the nature of this market, where the end user of the service is the financial institution and not necessarily the firm itself, the recommendations reflect a greater integration with the end user, as well as improved understanding by the businesses of the real value of a business plan to chart out a path for increased competitiveness and growth, not just a tool to access finance.

- Improve linkages and communication between BSPs and FOs to increase awareness of required levels of quality, and then provide capacity building of BSPs on modern requirements of business plans.
- Educate consumers on requirements of a good business plan, its value beyond simply being a tool to access finance, and the work involved.
- Introduce some form of quality control of BSPs via peer review or reactivation of Association.

Business Services to Support Exporting Companies

The existing and potential export market is the main driver for the business services required to support exports. These business services can be broken into two broad categories:

- Those services that are needed to actually carry out the process of exporting - pre-shipment inspections, export documentation (including certificate of origin), border and customs clearance, transport and shipping logistics, and remittance/acquittal/clearance of export certificates.
- The group of services needed for local companies to explore and penetrate regional and international markets - such as market assessments; establishing linkage with local wholesalers and distributors; and dealing with health, safety, and labeling requirements in the target market.

For the first category, the process of exporting is complicated by the dual level of controls in place from both the Palestinian authorities and the Israeli authorities. While the General Administration for Borders and Crossings (of the Palestinian Authority [PA]) and the PA for Customs and Excise (PACE) are nominally authorised to manage the crossings and collect taxes; the Israeli authorities control the crossings. With this current political system at the borders, it is unofficially required that exporters use Israeli shipping and clearance agents, so Palestinian service providers generally act as mere agents to an existing Israeli export clearance and shipping company. For exporters, it is cheaper just to contract with the Israeli exporter rather than hire two service providers, causing double payment. However, this can also have negative ramifications on efficiency of exports should PACE check the goods inside Palestine and there is no agent to solve any problems that might occur.

Exporters interviewed during the study were generally not satisfied with the service of local BSPs, due to noncompliance in the export markets.

The overall market for these services is caught in a bind. Before there can be strong demand for local service providers to assist exporters, the PA must be able to manage its own exports to make it worthwhile for exporters to use local service providers. There is a developing market for service providers to assist the PA as it moves to get all the systems in place to meet World Trade Organization (WTO) requirements.

The second category of services required for exporters - those needed to penetrate new export markets - includes:

- Determine the market potential and possible constraints of the product in the target market.
- Determine customer's preference, carry out competitor analysis in order to determine the potential retail price, and verify duty conditions and standard wholesale markup.
- Determine specific quality standards, labeling requirements, and the legal environment, etc. in the target market.
- Help identify a good local partner/distribution agent to maybe assist with finalising a deal.

The findings from interviews with FNMD clients and other firms is that capacity to perform these services is extremely limited in Palestine. Even though it was anticipated that grants provided to FNMD clients would be used to hire local service providers, this was rarely the case. The local service providers do not have the experience in the end markets to know what is needed and then be able to provide that information back to the exporting companies. This was confirmed by the banks as well, which considered the market analysis components of the business plans in foreign markets to be the weakest elements.

Compounding this, the actual market for services is quite limited. With only about 150 firms actively involved in export from Palestine, there is very thin market demand for both of the categories. Given the large investment in learning about these foreign markets, the procedures for entering them, and the specifics about each product and market, it is natural that public institutions such as the Ministry of National Economy, PalTrade, and Chambers of Commerce that are externally funded, are able to provide these services from a generic standpoint, but are not able to take it down to the level of detail needed by the exporting firms.

The summary of the demand side and supply constraints includes:

Demand Side Constraints

- Lack of information by exporters on opportunities and growth potential created by favourable trade agreements.
- Lack of information on target market, consumer preference, and product promotion.
- Family owned and conservative firms perceive exporting as “too difficult” and risky because control passes to shipping agents and then importers.
- Firms typically over assess the quality and desirability of their products.
- Exporting requires long-term vision - early requirement for services/ investment and delayed return.
- Reluctance to accept technical advice on product quality; need for standards and modern packaging.
- Limited awareness of export procedures.
- Reluctance to pay for export support services.

Supply Side Constraints

- Small and very specialised market with potential for growth, but very few BSPs have the specific technical or geographic experience to add value.
- Local BSPs lack ability to assess export readiness of firm and product/service.
- Even BSPs specialising in market research lack ability to carry out market assessment in foreign markets - they lack contacts with complementary BSPs in target markets.
- Failure to market themselves to those with potential to export - no value proposition.
- Market dominated by Israeli export agents, so it is difficult for local BSPs to gain experience on procedures.

Proposed Interventions

Given the fact that Palestine holds a number of free trade agreements with the EU, the European Free Trade Association, the United States, Canada, Turkey, and most Arab countries, there are potential opportunities. The best way to stimulate the market for these services is to lead with public interventions to create awareness of the opportunities, then facilitate the acquisition of the needed services. Given the general lack of awareness of requirements and market analysis on both the supply and demand sides, capacity building by twinning with international firms needs to be facilitated:

- Provide information on export opportunities.
- Create awareness of requirements for exporting.
- Support firms for required quality standards/certification.
- Promote development of required financial and insurance products.
- Establish and maintain database of BSPs.
- Assist with establishing linkages between local BSPs and international BSPs.

Human Resource Management Training Services

The training services market is vast and difficult to map out, so the team placed a particular emphasis on human resource training. This is a fairly dynamic market being driven by the need for companies to comply with the new labour law, an increasing realisation among larger businesses that they can use improved customer relations as a factor in increasing their business, and a general desire on the part of Palestinians to invest in their own training. Interest in internationally certified training, which can be “exported” by people wishing to get jobs in other countries, is high. Several market segments are driving the training: large businesses, international NGOs, and the financial sector. Larger companies, in particular, are investing in training because they are visible and can be targets of the Labour Department. Financial institutions are very active as well. But, international NGOs are a particularly important market segment. They are the equivalent of large businesses, with thousands of employees, and their headquarters insist that they are in compliance with all labour laws, as well as bringing an ethos of investing in staff training.

The supply of training services is not vast, but it is becoming more formalised. There are a handful of private companies that concentrate on this area (some with internationally recognised certificate programs), as well as local NGOs, vocational training institutes, other formal training centers, training centers linked to the PA and the Central Bank, and individual financial institutions. On top of this, there are an estimated 100 freelance trainers.

The formal demand for human resource training services is estimated to run into the millions of dollars. Financial institutions spend \$1.4 million per year on human resource training, while the PA's capacity building programme budget for training institutes is \$4 million. As one looks at the small and medium businesses, they are becoming increasingly compliant, even if they are hesitant to invest much in training, and often do it only to meet labour law requirements.

Demand Side Constraints

- Firms do not know if they need training or how it can benefit them - no plan for growth.
- Firms are not prepared to pay for training or want a "cheap" product - they do not know how to value the benefits of training.
- Firms do not carry out post-training assessments to determine the benefits.
- In family businesses, they send relatives to training to retain skills and do not promote trained/competent staff. They are reluctant to release staff for training, even if it is self-improvement and paid by them. There is no incentive system to encourage staff to pursue skills upgrading.
- Often see donor-assisted capacity building as a "perk" and use any overseas training as a "reward" for favourite staff or relatives, which dampens the impact of international technical training.

Supply Side Constraints

- Lack of information on consumers' actual training needs.
- Lack of skills to meet customer requirements, for example, risk assessment for FOs or other specific technical training, or follow-up assessment to determine impact.
- Little or no promotion of their services, poor marketing of the courses they offer, and no ability to present a "value proposition" to potential clients.
- Few new training products being developed in response to changing market demand. Still relying on older nonspecific generic material.
- BSPs responding more to donor agendas rather than client requirements.
- No standard/qualification or quality control of BSPs.
- Structure and timing of courses not related to needs of participants - need modular training, given on evenings or weekends, rather than full-day training over a week or two.

Proposed Interventions

Training firms can be important generators of increased quality and competitiveness amongst private businesses. Most training in Palestine is being done for businesses that are servicing the local market, so a clear

understanding of how firms can use training services to improve their competitiveness in the local market is important.

- Create capacity for training needs assessment among BSPs and client firms.
- Build capacity of BSPs in course design based on needs and improved training methods.
- Assist in design and introduction of flexible and modular courses.
- Assist BSPs to develop stronger value propositions to sell training to private businesses.
- Introduce some form of quality control and standardisation (certification) for local training.
- Generate awareness of value of training among client firms, driven especially by training companies (through their understanding of their value proposition).

Conclusions and Recommendations

Conclusions

The analysis highlights that the level of development of business service provision needed to drive growth of Palestine's new products and exports is quite low. This is a function of numerous elements, especially the thin overall market (limited demand for services), which limits investment by service providers, low capacity of service providers to provide and sell services, a highly distorted economic environment from the many donor programs (which creates unrealistic expectations among service providers and limits effective commercial demand), and the conditions created by the Israeli occupation which makes exporting extremely difficult (lowering both demand and supply):

- Very thin markets limit demand for business service provision. A high proportion of small and medium enterprises in Palestine have conservative and cautious management. They have a low awareness of the need for the services, low perception of the value of the services, and are not willing to pay the real cost for them. This limits the paying market demand for business services overall, and when specific market segments are targeted that are dealing with small markets (such as for export certification, or sound business planning) the total size of the market can only support a few service providers and does not warrant much investment.
- Large, uncoordinated involvement of different donors and international NGOs has caused market distortions among the buyers of services. The large investments being made by many donors into private sector development are overwhelming the absorptive capacity of the private sector. Since these programs are often determined by external factors, without sufficient awareness and demand from the private sectors, the donor programs give away the services at highly subsidised prices that distort both the supply and demand sides of the market. They lower the ability of the businesses to value the product, and limit their understanding of why they are getting the product. Donor pricing also often pays higher fees to the service providers, limiting their awareness of what the local clients will pay

and driving them toward international contracts, rather than developing a sound business proposition for the local market.

- Service providers have weak specialisation because of limited exposure to international standards, undemanding clients, and general access to information. Palestinian service providers have, in many cases, been cut off from international markets and international standards and have not seen the value in specialising in narrow technical areas, where the real value could be derived by the exporting firms. This limits their ability to provide valuable services that can meet international standards, or their ability to overcome very specific technical and geographic requirements of firms. Meanwhile, demand for services supporting the domestic market is much more dynamic, and firms are responding to requirements to compete on the domestic market.
- The external political economy and regulatory environment can have a major impact on the development of a service market, either positive or negative. Sectors with legal requirements can stimulate development and provision of business services by artificially creating demand (as shown with certification services, and human resource management). While firms may not understand the immediate benefits, the regulatory environment is causing them to upgrade their capacity. Conversely, as with export process services, the political economy can have a limiting factor on their demand.
- Programmes have continued to focus on attempts to develop the market for generic business services instead of developing specific business services that can have impact. There could actually be a situation in Palestine where the supply of generic business services like those needed to develop business plans¹ for expansion and growth and improvement of management and strategic planning of MSMEs are in balance with current demand. This is not because these services are not needed - as clearly there are a large number of deficiencies in how many of these enterprises are run, operate, and perform - it is a result of the poor demand from a large group of conservative, family owned businesses whose managers/owners have low regard for outside assistance. No amount of intervention in the improvement of quality and quantity of these services is going to alter the demand side of the equation.

If specific areas can be identified where the provision of business services would make a major impact, then a specific campaign should be developed for that particular sub-market segment. Note that each of these would require careful analysis before launching such an initiative.

General Recommendations

Stimulating the market for business service provision to support exports and new product development requires activities at both the supporting environment level and the firm level (targeting both supply and demand). The most important element to create a stronger market for services is to apply continued pressure on Israel to ease access to international markets. Until there are more opportunities, the demand for services will remain low, creating a chicken and egg scenario. Within more direct control of donors is to foster greater coordination amongst them on best practices in service market development,

¹ The exception being the very demanding business plans required for large investment by venture capital companies or extended commercial bank support involving a package of capital injection and operational financing.

which will create a less distorted and more conducive market for their development.

At the firm level, a number of activities can be implemented to address the key constraints on both the supply and demand sides. They must be designed with a clear recognition of the reality on the ground, and not underestimate the challenges that exist caused by the situational environment and the rules of the game in Palestine. The rationale for each intervention must address a fundamental failure in the market system. Common recommendations across a range of areas to stimulate development for the four service markets are presented in summary form below (and explained in depth in the main report), which are also applicable to all service areas in general.

Category	Business Services Market 1 - Certification and Standards	Business Services Market 2 - Access to Finance	Business Services Market 3 - Training for Human Resource Development	Business Services Market 4 - Support for Exports
Demand side - create awareness in business community	Awareness campaign on benefits of standards and certification in local and international market for clients and BSPs.	Educate consumers on requirements and work involved.	Generate awareness of the value of human resource training among enterprises. Trained staff are more efficient staff.	Provide information on export opportunities (EU). Create awareness of requirements for exporting.
Ensure BSPs are in tune with current requirements of market		Improve linkage and communication between BSPs and FOs to improve quality.		
Capacity building of BSPs - definition of value proposition in all sectors	Improve capacity of BSPs to interpret standards.	Provide capacity building of BSPs on modern requirements of business plans.	Create capacity to conduct needs assessment among BSPs and client firms. Build capacity in BSPs in course design based on needs and improved training methods.	
Improve linkages, availability of information, and ability of BSPs to market their services	Improve capacity of BSPs to market their services in certification and standards, and develop sound value propositions.			Establish and maintain database of BSPs. Assist linkages between local BSPs and regional service providers.
Develop new product for market or improve range of products available	Assist local certification agent and BSPs to increase product range and update to latest standard. Increase the number of locally benchmarked standards available from PSI.		Assist in design and introduction of flexible and modular courses.	Promote development of required financial and insurance products. Provide support to firms for required quality standards/certification.
Need to introduce improved governance and/or quality control in the market	Introduce some form of monitoring of potential conflict of interest between CB and BSPs in export certification.	Introduce some form of quality control of BSPs via peer review or reactivation of Association.	Introduce some form of quality control.	

Acronyms and Abbreviations

ASEAN	Association of Southeast Asian Nations
ASYCUDA	Automated SYstem for CUsoms DAta
B2B	business-to-business
BDS	business development services
BMO	business membership organization
BRC	British Retail Council
BSP	business service provider
BSU	business start-up
CA	Chartered Accountancy
CB	Certification Body
CCI	Chambers of Commerce and Industry
CIP	Competitive Industrial Performance
CIPR	Chartered Institute of Public Relations
CIS	Chartered Institutes of Secretaries
CRM	customer relations management
CSR	corporate social responsibility
ESAF	Expanded and Sustained Access to Financial Services
ETI	Ethical Trading Initiative
EU	European Union
FNMD	Facility for New Market Development
FO	financial organization
GAP	good agricultural practices
GDP	gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
HACCP	hazard analysis and critical control points
ICT	information and communications technology
ILO	International Labour Organization
ISO	International Organization for Standardization
IT	information technology
M4P	making markets work for the poor
MAS	Palestine Economic Policy Research Institute
MFI	microfinance institution
MSME	micro, small, and medium enterprise
NGO	nongovernmental organizations
OPT	Occupied Palestinian Territories
PA	Palestinian Authority
PACE	Palestinian Authority for Customs and Excise
PAL GMP	Palestine Good Manufacturing Practices
PCBS	Palestinian Central Bureau of Statistics
PIFBS	Palestine Institute for Financial and Banking Studies
PITA	Palestine IT Association of Companies
PMA	Palestine Monetary Authority
PMI	Palestinian Monetary Authority
PSI	Palestinian Standards Institute
QMS	quality management system
SEC	Small Enterprise Centre
SME	small and medium enterprise
TA	technical assistance
TVET	Technical and Vocational Education and Training
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
USAID	U.S. Agency for International Development
WTO	World Trade Organization

Chapter 1

Introduction and Background