Palestinian Exports:
Best Practice

The Portland Trust

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Executive Summary

Global markets are changing daily and companies across the world need to adapt to new realities. As the downturn intensifies, weaker business will fail. Palestinian companies face extraordinary hurdles in competing in international markets. But the economic turmoil is an opportunity for local companies to focus on their internal weaknesses so that they are export ready when the markets revive.

There are three areas where Palestinian companies could improve in order to reach their full export potential: planning, R&D and marketing. These are the findings of a survey carried out by The Portland Trust, in partnership with the Palestinian Federation of Industries (PFI) and the Palestine Trade Center (Paltrade). Based on a tool developed by Dr Amjed Ghanim[1], we analysed the export viability of leading export companies across the West Bank.

Among the companies assessed, a few were exceptional. They had a very strong management structure, excellent financial planning and progressive product development and promotion. On the other side of the spectrum, there were a number of very weak companies who were crippled by poor management, development and production. Most of the companies in the survey had similar results with the same problem areas. We have called these companies - a "typical Palestinian company". The typical company could be improved upon greatly if more emphasis was placed on planning, product development, packaging and promotion.

The Palestinian business environment is particularly affected by the political uncertainties. Movement and access is very limited and a dependency on trading with Israel has deterred many exporters from seeking other markets. Unpredictable export patterns do not induce local companies to raise their game.

Despite 2006 figures from the Palestinian Central Bureau of Statistics (PCBS) that 89% of total Palestinian exports are to Israel, there is a growing realisation among exporters that Israel is disengaging (both politically and economically) from the Palestinian private sector. There have been structural changes in the Israeli market as incomes rise, product costs increase and Israel moves towards higher value products and services. Additionally, Israel has opened its markets to low cost imports as costs for Palestinian products rise because of expensive transportation and security issues. All this is making it difficult for Palestinian enterprises to compete.

1 Dr. Amjad Ghanim is a management consultant in Palestine. He was assisted by a team of local experts in all areas of the assessment.

The Palestinian private sector needs to shift from producing unfinished products and goods for sub-contractors in Israel to delivering final products for international markets. Several initiatives have been undertaken to assist the Palestinian private sector reach new markets, from product development and technical training to regional and international trade shows.

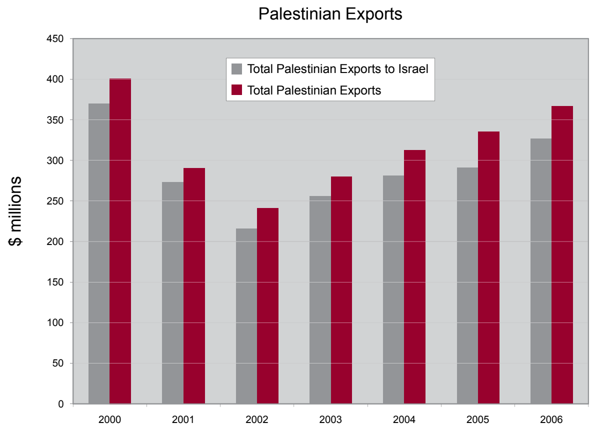
The Portland Trust believes that if Palestinian companies tackle their apparent weaknesses outlined in the paper, they will be transformed into successful export entities, opening new markets for them. We cannot ignore the political situation and the obstacles in trading abroad. But neither should these obstacles prevent Palestinian exporters from realising their export potential.

Background

Exports and imports were particularly affected by the outbreak of the Intifada in 2000 and the ensuing closures.[2] Between 1999 and 2002, exports and imports of goods and services declined by 60% and 47% respectively. Palestinian exports decreased from $763 million in 1999 to $306 million in 2002, while imports dropped from $3,712 million to $1,977 million.

Trade indicators began to recover in 2002. The three most important import sectors are mineral fuels (petroleum, electricity and gas), food and live animals, and manufactured goods. Together they accounted for 64.4% of Palestinian imports in 2006. Manufactured goods, especially stone and marble, accounted for 36% of Palestinian exports. Miscellaneous manufactured articles and food and live animals rank second and third in exports, with 19.3% and 12.5% respectively.

In 2004, the Arab League agreed to uphold customs, fees and tax exemptions on Palestinian products, making Palestinian exports to Arab countries more accessible and desirable. The Palestinian Authority also has free trade relations with the European Union, EFTA, the US, Canada and Turkey. However, many Palestinian companies are unaware of these trade agreements and do not benefit from them.



Israel remains the main trading partner of the Palestinians.[3] Palestinian net imports from Israel represented 74% of the total trade deficit of the PA in 2006. The deficit is covered mainly by external assistance and remittances. Palestinian economic and trade relations with Israel are regulated in the Paris Protocol of 1994. While the Israeli customs tariffs are high, the arrangement has given certain advantages to the Palestinian economy, as recent Israeli trade liberalisation policies have enabled liberalisation for Palestinian imports.

2 http://www.paltrade.org/en/about-palestine/pic-investment-guide-English.pdf

3 Palestinian Central Bureau of Statistics (PCBS): https://www.pcbs.gov.ps/DesktopDefault.aspx?tabID=3565&lang=en

Export Assessment

The Portland Trust commissioned a competitive capacity assessment tool to rate Palestinian companies' export capabilities. The tool was launched in February 2008. 33 companies have since been evaluated– results of 21 have contributed to this paper.

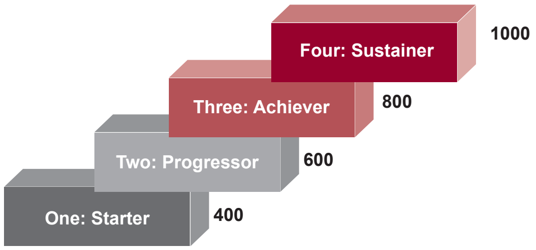
The aim of the assessment was to:

1. Assess and improve the capacity of Palestinian companies to export products to regional and international markets.

2. Guide and assist companies in improving the quality of their products and production systems, strengthen human resources, use efficient IT tools, and implement international standards and best practices.

The companies assessed were medium sized with an average of 50 employees and average investment capital of NIS 6 million. All were leading export companies in their fields. Interestingly, the size of the investment capital did not impact on their results. But the constraints on exporting their products did.

The tool developed by Dr. Amjed Ghanim consists of four main maturity levels designed to lead companies to sustainable export readiness by implementing developmental reforms. Each maturity level reflected the firm's ability to meet predetermined requirements relating to Key Process Area (KPAs). The result placed the company in one of four maturity levels where clear benchmarks identified the key interventions needed by each company, based on its score, to move to the next maturity level. The score was used to determine how far away the company is from export readiness and what steps were deemed necessary to improve their export potential.



Export Competitiveness Maturity Levels

Results

The average results of the survey indicate that Palestinian companies are operating at half of their capacity or their potential. Most are seen to have adequate management structures although planning and evaluation across the board bring the results down. Promotional events and activities' scores are low.

The average results, however, disguise the real picture. Of the 21 companies assessed for this survey, 5 were considered exceptionally run companies with a 75% overall rating. 4 companies were awarded a 40% rating or below.

Of the five very strong companies in the survey, all have robust organisational structures with proper planning and evaluation. They score extremely highly on R&D of their products and well above average on the promotional activities. Interestingly these companies have lower investment capital than the average but a greater number of employees (80 and above). Most of the exceptional companies

Average Results			
		Grade	Max. Grade
Management system	Management structure	114	180
	Human resource	166	240
	Planning & evaluation	77	160
	Communication	92	180
	Financial structure	159	240
Sub-Total		**608**	**1000**
Product development	Design and development	183	350
	Production channels	244	400
	Packaging	162	250
Sub-Total		**589**	**1000**
Export market Development	Promotion materials	68	150
	Export department	394	700
	Promotion event	73	150
Sub-Total		**535**	**1000**
Total		577.3	1000

Strongest Company			
		Grade	Max. Grade
Management system	Management structure	157	180
	Human resource	208	240
	Planning & evaluation	124	160
	Communication	148	180
	Financial structure	196	240
Sub-Total		**833**	**1000**
Product development	Design and development	317	350
	Production channels	344	400
	Packaging	225	250
Sub-Total		**886**	**1000**
Export market Development	Promotion materials	125	150
	Export department	599	700
	Promotion event	118	150
Sub-Total		**842**	**1000**
Total		853.7	1000

have relatively easy access to exports and are less affected by the political and security restrictions than the other companies in the survey. The company on the left works in one of the strongest export sectors in the Palestinian Territory. Their focus on product development has produced excellent results across the board. Management is decentralised and internal communications are effective.

The weak companies were smaller than the average company in the survey. Their investment base was generally unknown or undisclosed. Internal communications and financial managements were very poor as were their product design, development and production. The table on the right shows the results of the weakest company in the survey. This is a company that produces non–edible exports and has an average pool of investment capital. The staff is small and this may explain why they are not functioning at full capacity. Its export promotions are barely functional. There are no promotional events and scarce marketing materials. Investment in product development is very weak as is their organisational structure and planning and evaluation components.

Weakest Company			
		Grade	Max. Grade
Management system	Management structure	45.5	180
	Human resource	125.5	240
	Planning & evaluation	20.8	160
	Communication	38	180
	Financial structure	89	240
Sub-Total		**318.8**	**1000**
Product development	Design and development	79.5	350
	Production channels	164	400
	Packaging	75	250
Sub-Total		**318.5**	**1000**
Export market Development	Promotion materials	42	150
	Export department	171.5	700
	Promotion event	28.5	150
Sub-Total		**242**	**1000**
Total		293.1	1000

More than half (13) of the companies assessed in the survey showed very common patterns and are what we have called here - the "typical Palestinian company". On the right are the survey results of a typical company. This company has over 40 employees and an invested capital of NIS 4 million. Its organisational structure is sound with enough staff to implement its strategy. But it is unable to plan or evaluate effectively. Its financial management could be more organised.

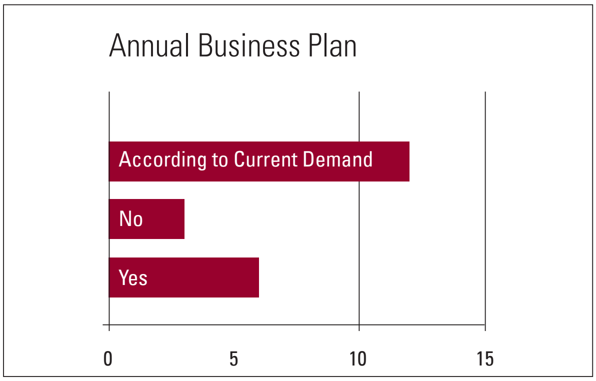
While its scores in product development are generally high, it rates low on packaging. Its export department is well established but it does not organise or seek promotional events properly and its promotional materials can be improved on.

Undoubtedly, local companies would benefit from proper planning in spite of the political uncertainties that affect their operations. The primary evaluation indicator for most Palestinian firms is the immediate sales and profits of the company and the current demand for its product. They do not take into consideration overall demand or the company's share of the whole market.

Only six of 21 companies evaluated have annual business plans. The other companies draw up budgets for expenditures and employees costs, according to current demand. The demand is analysed by the owner/ manager and not professionally assessed. The short term planning of the companies can be seen in their budgeting – which is done according to current demand and not on an annual basis. The lack of financial certainty prevents companies from stock-piling products for future sales. Companies do not evaluate currency fluctuations, cost of inputs and movement and access difficulties in their financial planning. It is often difficult to measure some of these costs, particularly when the management relies upon previous cost assessments made under different circumstances.

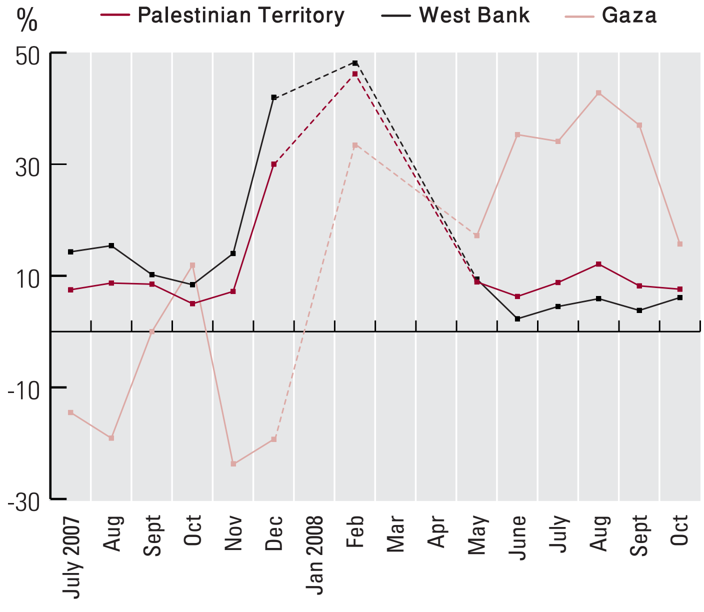
Typical Company in the Survey

		Grade	Max. Grade
Management system	Management structure	117	180
	Human resource	161	240
	Planning & evaluation	47.5	160
	Communication	84.5	180
	Financial structure	103	240
Sub-Total		**513**	**1000**
Product development	Design and development	253	350
	Production channels	234	400
	Packaging	62.5	250
Sub-Total		**549.5**	**1000**
Export market Development	Promotion materials	84	150
	Export department	411	700
	Promotion event	58	150
Sub-Total		**553**	**1000**
Total		538.5	1000



Business Confidence

Many Palestinians explain the absence of yearly business plans and poor evaluation as a direct result of the political circumstances they find themselves in. As the business confidence figures show, there is a clear correlation between medium term optimism and facts on the ground. The monthly PCBS survey of industrial establishments found that the percentage of Palestinian businesses in October expecting production to rise over the medium term (six months) was 7.6% higher than those expecting a decline. As the ceasefire falters, Gazan businessmen are losing their confidence in the future and the figures fall to 15.7% by October. The West Bank business community is even less optimistic. Only 6.1% more believe that there would be an improvement in the coming six months than those who anticipate a fall.[4]



* Optimism is defined as the percentage of businesses expecting production to be somewhat or much better over the next six months minus the percentage expecting it to be somewhat or much worse.
** PCBS did not release surveys for January, March and April 2008 business confidence.

4 www.pcbs.gov.ps

> "The capacity assessment tool helped me identify key strengths and weaknesses in my product development. I am now working closely with colleagues to improve the packaging of my product."
>
> Mohammed El-Nimer, Owner, Super Nimer,
> a leading door manufacturing company

Conclusion

Over recent months, there have been significant moves on the part of the Palestinian Authority and the Palestinian private sector to attract foreign direct investment into the Palestinian Territory. Funds have been set up by the Palestinian government, international donors and private companies to encourage and revive local businesses. Local companies need to ensure that they are best placed to take advantage of the investment opportunities presented at the conferences and through economic funds.

This is an opportunity to change the business culture in Palestine. Until relatively recently, most business in the Palestinian Territory was carried out on a social basis. Many businesses are still family-run and use old-fashioned business practices. Centralised management is prevalent in most Palestinian companies. The difficulties in exporting abroad have also led local companies to focus on the local markets. Many products do not yet comply with international standards and cannot enter foreign markets.

With changes in society and increased competition in the markets, companies have begun to seek profit and professionalise their working environments. Past experiences are less and less relevant as new technologies develop and international opportunities increase. Investors and international donors expect a level of corporate governance that does not always exist in small and medium sized companies. Organisational structures need be adapted to more modern and forward thinking. New blood should be brought into senior management.

What the survey reveals is that most companies fall in to typical patterns with similar problems affecting their performance. None of these problems are insurmountable. Strategic planning, product development and export promotion are essential if a company is to benefit from the investment opportunities on offer. With relatively modest attention – a management consultant to help with strategic planning and a packaging expert – Palestinian companies can raise their game significantly. If attention is focused on improving some of the “typical weaknesses”, the Palestinian export market can realise its true potential.

The Portland Trust was founded in London in 2003 by Sir Ronald Cohen, co-founder of Apax Partners and Sir Harry Solomon, co-founder and former chairman and CEO of Hillsdown Holdings. The historian Sir Martin Gilbert is the third trustee. David Freud, former vice-chairman of UBS Investment Banking, is the chief executive and the fourth trustee.

The Portland Trust is a not-for-profit British foundation committed to encouraging peace and stability between Palestinians and Israelis through economic development. It promotes initiatives which are designed to support the development of the private sector, particularly in the Palestinian Territory.

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