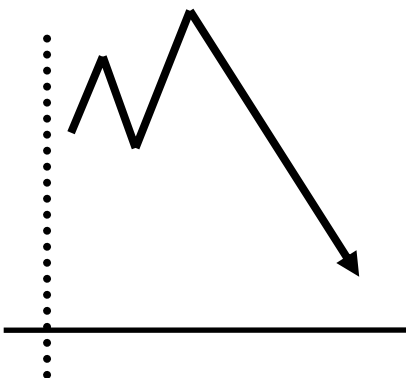




The Gaza Strip: A Private Sector in Decline

December 2007



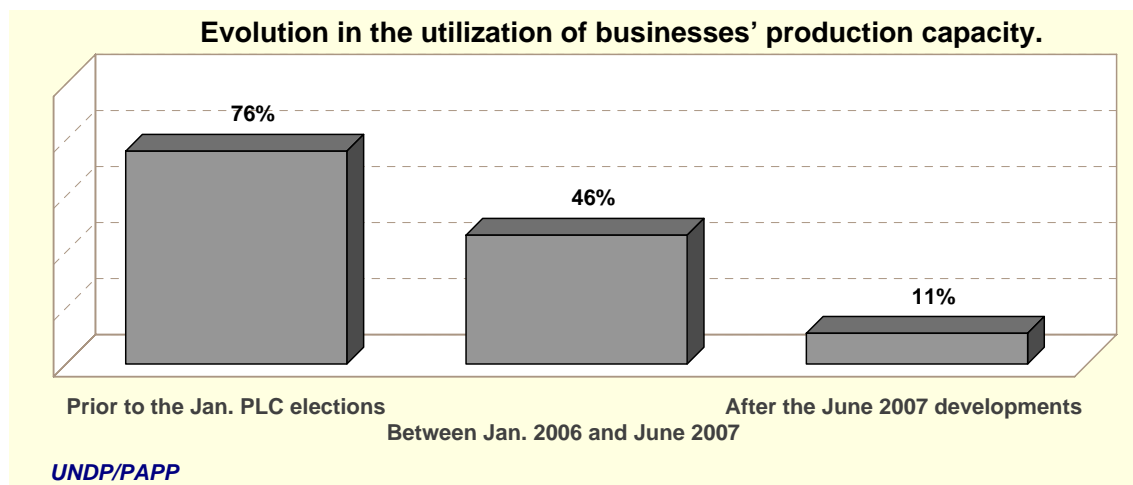
The Gaza Strip: A Private Sector in Decline

The private sector is labeled as the engine of sustainable economic growth and development in the occupied Palestinian territory (oPt). The Palestinian Reform and Development Plan 2008-2010 calls for the private sector to generate productive employment, produce high value-added goods and services, and create the surplus needed to enhance national prosperity. However, evidence suggests that the private sector in the Gaza Strip finds itself in dire straits, and the obstacles it faces need to be removed, if it is to recover and carry out its role as the key actor stimulating growth.

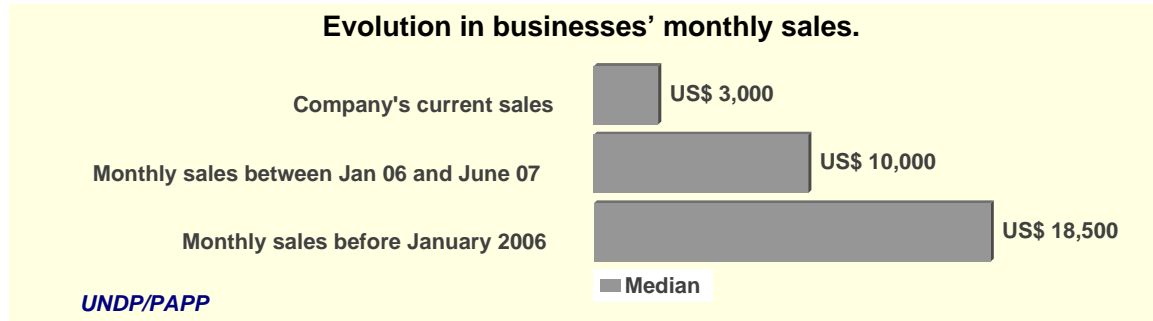
UNDP/PAPP has commissioned a phone survey targeted at the business community in the Gaza Strip, which was conducted between 4 and 9 December 2007. Three hundred and nineteen businesses in the Gaza Strip were successfully surveyed. The results are staggering and indicate that the private sector in the Gaza Strip is on the verge of collapse with no scope for recovery unless the strict imposed closure regime on the Strip is lifted.

In the near future, UNDP/PAPP will release a full-fledged report on the private sector based on the information gathered. Meanwhile, some of the main findings merit immediate attention if action is to be taken in order to resuscitate the private sector in the Gaza Strip.

More than two years since the Israeli Disengagement from the Gaza Strip, political events have cast a shadow over the then anticipated economic boom. Prior to the January 2006 PLC elections, businesses in the Gaza Strip still functioned at 76% of their production capacity. From January 2006 to June 2007, the production level fell to 46%. Since the political events last June, the closure regime became even tighter, resulting in a further drastic drop in productivity to an average of 11%.



The sharp decline in businesses' production caused a similar free-fall in monthly sales. Whereas the median monthly sales per business before January 2006 reached US\$ 18,500, the figure for the period January 2006-June 2007 is US\$ 10,000. At present, median monthly sales are a mere US\$ 3,000.

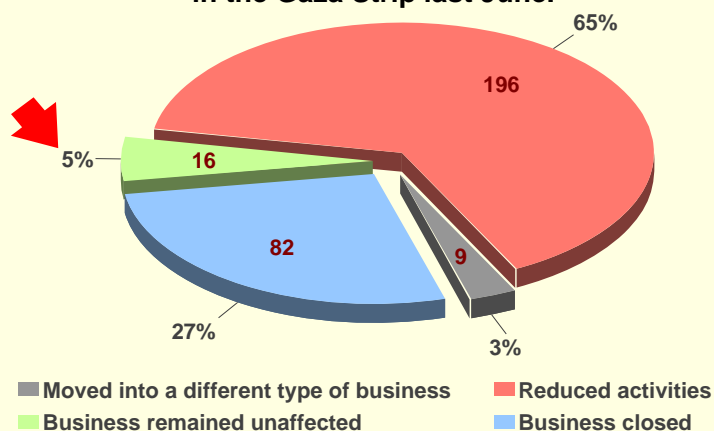


This unprecedented decline in productivity has had an impact on salaries and on the number of employed in the private sector. In the past six months alone, 36% of the surveyed businesses reduced salaries per se by an average of 40%. In addition, since June, 78% of the surveyed businesses have laid off a considerable number of their employees. Compared to six months ago when the average number of employees was 31 per business, the average today is 9 employees per business.



Equally concerning, in the past six months alone, 91% of the surveyed businesses saw their ability to market products in the Gaza Strip drastically reduced; 94% saw their ability to market products outside the Gaza Strip deteriorate; for 92% buying raw materials or products became more difficult, and 84% are not able to pay back bank loans. Furthermore, since June, 65% of the private sector reduced their activities, 27% closed business, 3% moved into a different type of business, whilst only 5% remained unaffected.

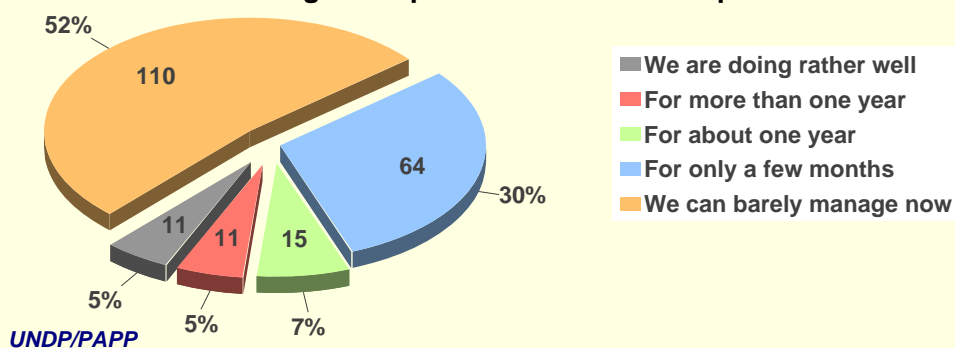
Moves by the private sector since the developments in the Gaza Strip last June.



UNDP/PAPP

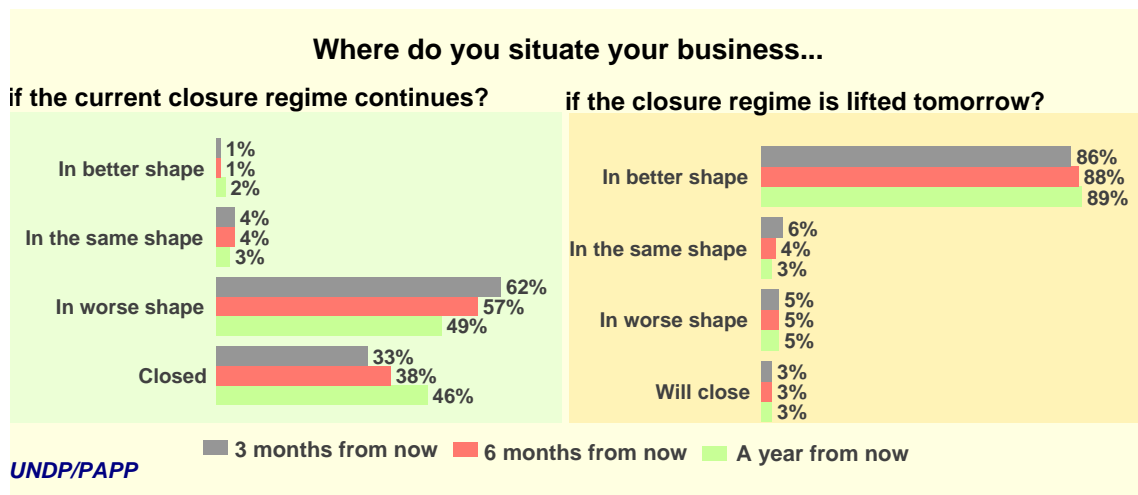
As a result of the difficulties in Gaza, more than half of the private sector is barely managing to keep their businesses afloat. Additionally, if the closure regime on the Gaza Strip continues, 30% of the surveyed businesses could keep up financially for only another few months. A meager 5% are still doing rather well, and 12% can keep their business open for at least another year.

Ability of your business to keep up financially in the future if the current closure regime imposed on the Gaza Strip continues.

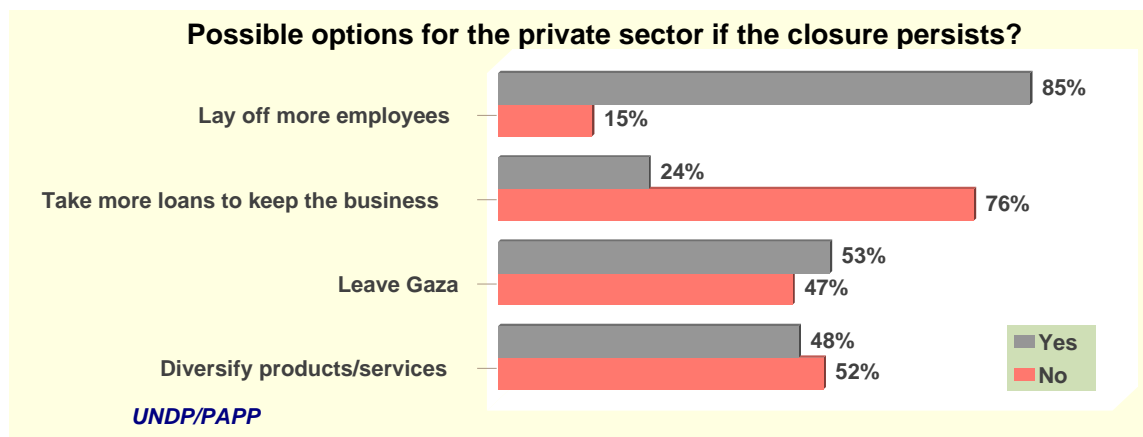


UNDP/PAPP

In an attempt to gauge the business climate and prospects, representatives of businesses were questioned about how they anticipate their business to perform in a period of 3 months, 6 months and a year from now under two different scenarios: (1) a protracted closure on the Gaza Strip, (2) a lifting of the closure on the Strip tomorrow. As illustrated in the figure below, a continuing closure of the Gaza Strip would entail an increasing percentage of businesses closing over time to reach 46% by next year. Under such a scenario, only 1% of businesses anticipate growth over the next year, whilst about 4% of businesses in the Gaza Strip foresee that they will remain at today's level. In contrast, if the closure were to be lifted tomorrow, the positive impact would be almost instantaneous with 86% of surveyed businesses foreseeing to be in better shape in a matter of three months. For about 8% of the private sector, the lifting of the closure would still come too late, as 5% would remain in bad shape and another 3% risk closing.



If the closure persists, 85% of the surveyed businesses will have to lay off more employees, 53% would try and leave the Gaza Strip all together, while 48% would still consider trying to diversify products and/or services in order to adapt to the prevailing conditions. A majority of 76% are not prepared to take more loans to keep their businesses running.



The results of the UNDP/PAPP survey highlight the predicament of the private sector in the Gaza Strip. Maintaining the closure on the Gaza Strip will certainly not enable the private sector to contribute to development and sustainable economic growth as foreseen in the PRDP. Lifting the closure regime is the key to reversing the damage sustained by the Gazan private sector. On a positive note, the survey suggests that an immediate lifting of the closure would still enable the majority of the private sector to recover fast.

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