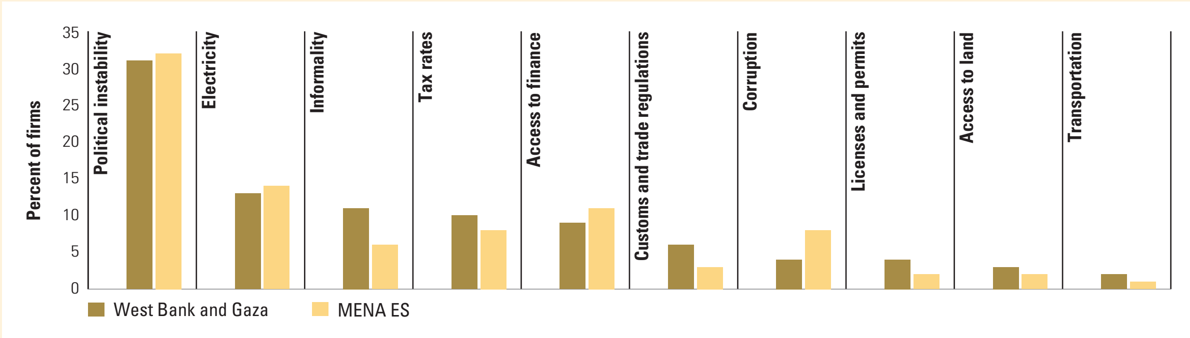
WEST BANK AND GAZA

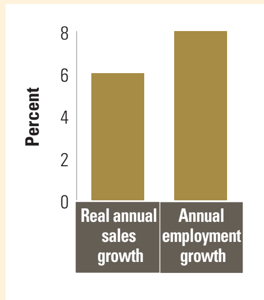
FIGURE 1: Ranking of top business environment obstacles for firms in the West Bank and Gaza



Political instability is the top obstacle reported by firms in the West Bank and Gaza

Roughly one in three firms in the West Bank and Gaza report political instability as the top obstacle in the business environment, in line with the average in the MENA ES economies (figure 1). Electricity and practices of the informal sector are the second and third ranked top obstacle. Despite persistent instability, firms in the West Bank and Gaza experienced robust growth rates in the period 2009–2012, in terms of both sales revenues, which increased at nearly 6 percent per year, and employment, with an annual growth rate of nearly 8 percent (figure 2). Although not ranked as the top obstacle, corruption is considered a major or very severe obstacle to their operations by half of all firms. In addition, over half of all firms consider both access to finance and electricity as major/very severe obstacles to their current operations. The current and future economic outlook, however, is much more uncertain as overall donor aid and disbursements have decreased, Israeli-Palestinian peace talks remain stalled, and fiscal pressures on the Palestinian Authority continue to grow. Given continuing political instability in the West Bank and Gaza and the uncertain economic outlook, policies are needed to promote private sector growth.

FIGURE 2: Sales and employment growth



The unreliable provision of electricity is particularly acute in Gaza

Firms in the West Bank and Gaza report losses due to power outages of above 6 percent of annual sales, larger than losses reported by any other MENA ES economy's firms (figure 3). The supply of electricity is particularly unreliable in Gaza, where losses due to power outages average over 22 percent of annual sales and firms experience nearly 29 outages per month, compared with reported losses of just above 1 percent and almost two power outages each month in the West Bank (figure 4). The blockade of the Gaza strip, political infighting, perpetual fuel shortages, a crumbling infrastructure, and perpetual conflict and insecurity all result in the very unreliable supply of electricity in Gaza.

FIGURE 3: Losses due to electrical outages

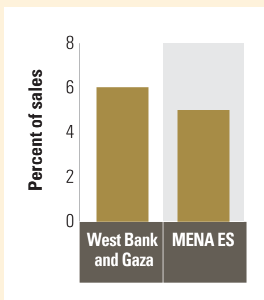
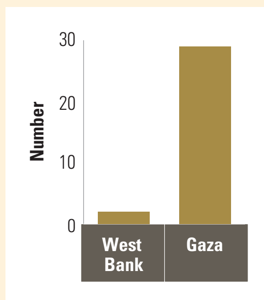


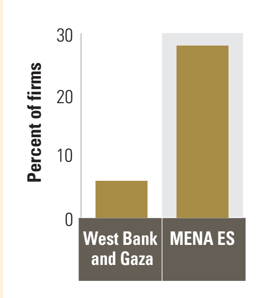
FIGURE 4: Electrical outages in a typical month



Many firms in the West Bank and Gaza are disconnected from financial services

The majority of firms' working capital is financed by internal funds and supplier credit. Banks account for only 3 percent of working capital financing in the West Bank and Gaza, which is well below the MENA ES average of 10 percent. Almost three-quarters of firms did not apply for a loan as they have sufficient capital and are thus classified as disconnected from the financial sector, the second highest share of firms in the MENA ES. The fact that almost 30 percent of formal private sector firms do not have a checking or savings account and therefore do not use the financial system even for payment services suggests that the disconnect is structural. Indeed, only 6 percent of firms indicate having a loan or line of credit (figure 5). Despite the low prevalence of business loans, the West Bank and Gaza does stand out in terms of client-friendly collateral practices. The share of movable collateral, such as machinery and equipment or receivables, is the highest among the MENA ES economies. At the same time, the average collateral ratio is the second lowest among the MENA ES economies.

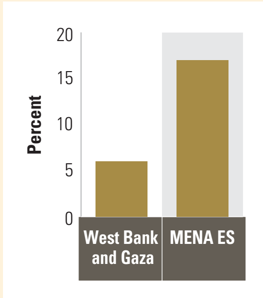
FIGURE 5: Firms with a bank loan or line of credit



Women's participation in the private sector lags behind other MENA ES economies

The West Bank and Gaza has some of the lowest rates of women's participation both in the workforce and in firm ownership or management among the MENA ES economies. Of permanent full-time workers, only 6 percent are women, lower than the MENA ES average of 17 percent (figure 6). In addition, only 13 percent of firms have women's participation in ownership and 1 percent of firms have a woman top manager; the comparable averages for the MENA ES region are 25 percent and 6 percent. Commonly cited reasons for this lack of women's participation include a dearth of opportunities as well as social, cultural, and institutional norms. Due to persistent conflict and instability, additional concerns of personal safety and mobility restrictions further inhibit women's participation in the formal private sector.

FIGURE 6: Permanent full-time workers that are women



Firms in the West Bank and Gaza spend less on R&D

In the West Bank and Gaza, exporters account for approximately 40 percent of all manufacturers and more than half of those firms' inputs are of foreign origin (figure 7). Nonetheless, importers face by far the longest customs waiting times in the MENA ES region: 17 days. In addition, compared with the MENA ES region as a whole, a slightly lower percentage of firms in the West Bank and Gaza are spending on R&D or the acquisition of external knowledge (figure 8). Almost a third of higher technology manufacturing firms do so, on par with Tunisia and Djibouti.

FIGURE 7: Degree of foreign engagement in manufacturing

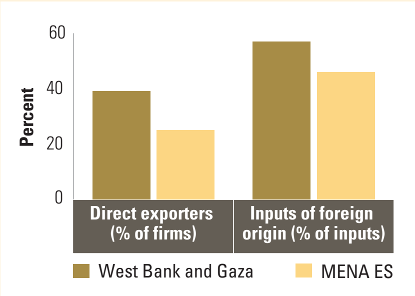
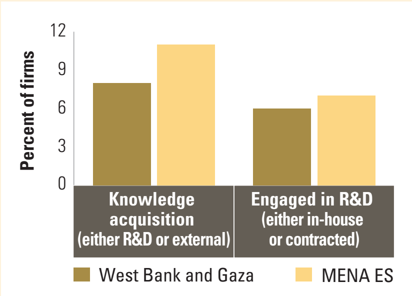


FIGURE 8: Different types of knowledge acquisition



The Economy Fiches summarize the economy-specific findings of the report "What's Holding Back the Private Sector in MENA?" Note that annualized sales and employment growth statistics are calculated using the reference years 2009 and 2012; these reference years are used due to when the Enterprise Survey was administered. The findings, interpretations, and conclusions expressed in this fiche are entirely those of the authors. They do not necessarily represent the views of the European Bank for Reconstruction and Development/European Investment Bank/World Bank and its affiliated organizations, or those of their Executive Directors or the governments they represent.