

# Ministry Of National Economy



## Small and medium –sized enterprises (SMEs)

&

## Their role in economic development of Palestine

**- COUNTRY REPORT -**

**Samir Sous,  
Head Of Policies, Analysis And Statistics Department,  
Ministry Of National Economy,  
Qalqilya District Office,  
Palestine –WB  
(2005)**

## **I. Introduction:**

The theory of large economies of scale prevailed among economists in the beginning of the 20<sup>th</sup> century to reduce production costs and increase competitiveness of the companies. Small and medium sized enterprises were never viewed in terms of their ability to play a key role in economic development. Economic studies at that time have just focused on the role of small and medium-sized enterprises, hereinafter referred to as "SMEs", as a contributor to job creating and poverty alleviating.

At the second half of the 20<sup>th</sup> century, economic researches started to admit the increasing power of SMEs for the distinguished role they played in the reconstruction of the economies of the countries defeated in World War II, in particular Japan and Germany.

As a result of the innovations of SMEs and the healing solutions they made to different economic problems, particularly in terms of employment, there was a sort of a consensus on the important key role these enterprises play in different economies.

Small businesses form an essential source of new ideas and innovations. With the beginning of the last third of the 20<sup>th</sup> century, economists discovered again the power of self-initiative of the small businesses.

There are numerous factors that had influenced the changes in standpoint of economists in terms of the importance of SMEs as an engine for economic development, namely:

1. The drop in employment opportunities in big firms in most industrial countries as a result of modern automation, and advanced computer technology. This factor contributed positively to the favor of SMEs as a job provider.
2. Rapid technological changes lead to continuously changing needs in the markets. It stressed the need for specialization in producing limited but different and distinguished products, that a company has a relative advantage in producing them, because no company can be good at producing everything.
3. The recognition that large mass production plants can be a horrible barrier to progress. There is a growing need for small, autonomous units with inherent flexibility, and capable of rapid changeover to readjust their production to respond to consumers' changing preferences.

4. The flexibility of SMEs to adapt quickly to increasing changes in the local and international markets. Moreover, they are able to readjust their production to respond to consumers' changing preferences. *Change is a rule in SMEs businesses.*

5. The unity of risk and ownership enables SMEs to respond quickly and flexibly to market situation. Owing to their closeness to markets and buyers they are more flexible than large firms and able to adapt to the specific needs of customers.

This might take many forms including prompt development of new needed products or services and introducing them to the market at reasonable costs. Such a direction enhances the ability of SMEs to avoid competition with large companies.

6. In recent years the international competition and the customer's requests have risen. The dynamic abilities (innovation readiness, creativity, flexibility, adaptability) and the technological authority decide whether enterprises exist successfully in this competition.

7. Small and medium enterprises (SMEs) have unbureaucratic organization forms, short information paths, flat hierarchies, close customer contact and high motivation and therefore special strengths.

In the future the computer-aided simulation will become more important, because the tendencies in economy like:

- increasing product complexity and variant variety
- Rising requirements of quality
- Ascending requirements of flexibility with special wishes
- increasing requirements at service time and degree
- Faster product changes
- Smaller lot sizes
- Rising cost pressure
- Increasing integration into worldwide production networks lead to shorter development and planning cycles.

8. It is worthy to mention that the huge technological innovations, especially in telecommunication and computer utilization, were introduced by SMEs. More than 50% of innovations in Japan come from SMEs.

9. Small and Medium Enterprises (SMEs) represent over 94% of enterprises in most countries worldwide. They are the driving force behind a large number of innovations and contribute to the growth of the national economy, through employment creation, investment and exports.

10. SMEs have been recognized as a transitory form of the economic development process. Most of the larger enterprises today have their origins in small and medium enterprises.

11. Small and medium-sized enterprises (SMEs) are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity and make a significant contribution to exports and trade.

12. The growing significance Importance of SMEs in a given economy is hard to ignore. SMEs have played a very important role in the economic development of China. Chinese and foreign experts estimate that SMEs are now responsible for about 60% of China's industrial output and employ about 75% of the workforce in China's cities and towns. SMEs are responsible for creating most new urban jobs, and they are the main destination for workers laid-off from state-owned enterprises (SOEs) that re-enter the workforce.

At present, there are more than 10 million of SMEs comprising 99 per cent of the total number of enterprises in China. SMEs they play an important role in releasing the employment pressure and maintaining social stability.

SMEs account for between 55 per cent and 80 per cent of total employment in Western Europe, Japan and USA. Their contribution in output in Japan is 65 per cent, Germany 48 per cent and USA 45 per cent.

It has been reported that SMEs are capable of creating most of the one billion new jobs the world will need in the current millennium. In developed countries, SMEs have constituted a significant portion of GNP and total employment.

### **SMEs have competitiveness in the production of goods -**

a) ***With limited volume.*** Where the volume required is limited, mass production by mechanization is not applicable on a large scale. *Smaller enterprises are more suited in such situation.*

b) ***With selective demand.*** Where the market is limited to certain regions or influenced big manufacturers who have to transport the goods from outside the region, *small firms operating in the community can economically meet the selective demand for them.*

c) ***Of high accuracy.*** Products calling for high accuracy and narrow tolerance are usually better produced by SMEs. Because of the nature of the products, a simple organization where the owner - manager can still closely and control production has an advantage.

d) **Made on light equipment.** SMEs are in a better position to turn out products, which are light, small, of moderate accuracy and frequently made of light equipment or by relatively simple assembly operations.

e) **When there is abundance of labor and use of simple production techniques.** SMEs are labor - intensive and use relatively simple techniques of production that correspond to the abundance of labor and the scarcity of physical and human capital that prevail in most developing countries

For the growing importance of SMEs in economic development, Many countries worldwide, in their programs for social and economic development have launched various programs to encourage establishment of small and medium businesses, for the important role they play in generating new jobs and creating of new projects, developing a pool of skilled and semi-skilled workers to meet the requirements of future industrial expansion, promoting industry in rural areas, and reinforcing the links between different economic sectors.

In addition, the growth of large enterprises often depends on small enterprises to fulfill requirements for a wide range of material, parts and components, and sub- assemblies.

The recognition of the increasing contribution of SMEs to the economy of different countries spurs the governments' attention to strengthen its support to SMEs as manifested in its share of laws and policies and regulations promoting enterprise development.

## **II. Advantages Of SMEs To Different Economies:**

Small and medium-sized enterprises (SMEs) are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity and make a significant contribution to exports and trade.

Small and medium-sized enterprises (SMEs) are considered to be one of the principal driving forces in economic development. They stimulate private ownership and entrepreneurial skills, they are flexible and can adapt quickly to changing market demand and supply situations, they generate employment, help diversify economic activity and make a significant contribution to exports and trade. SMEs can make significant contribution to achieve social and economic objectives such as labor absorption, income distribution, rural development, poverty eradication and balanced economic growth. Generally said, the advantages of SMEs stems from the following factors:

a). SMEs play a vital role in inventions and innovations, market modernization and dynamism.

There is a clear relationship between innovation and enterprise growth. The successful enterprise is that one which has innovative and creative activities in the form of new products, technologies, human resources development or dissemination of new technologies. This played a key role in having an active and dynamic economy, as well as a high productivity for SMEs . It worth noting that most of the larger enterprises today have their origins in small and medium-sized enterprises

b). Creation of new businesses in the market by translating ideas into real projects.

c). Creation of employment opportunities and alleviating poverty.

The importance of these factors varies between developing and developed countries. *Whereas inventions, innovations, market modernization and creation of new enterprises are of primary importance in the developed countries, contribution to employment, creation of employment opportunities and eradication of poverty are of parallel importance in developing countries, too.*

The reasons for the strategic importance of SMEs are as follows:

1. SMEs have their effect on the GDP, income distribution, tax revenue, and employment, efficient utilization of resources and stability of family income.
2. *SMEs* they play an important part in the provision of services in the community, and can make an important contribution to regional development programs.
3. They have a high degree of creativity and readiness to take risks.
4. SMEs increase the competitiveness of the market place and restrain the monopolistic positions of large enterprises.
5. Contribute to a comprehensive and diverse supply of goods and services, which give customers a wider choice and a large number of alternatives.
6. They are in a constant state of evolution, with successful enterprises graduating into large firms and new firms emerging to replace the ones that have been forced out of the market. During periods of recession, they work as "shock absorber" enabling troubled economies to survive the crisis.
7. *SMEs* contribute to employment growth at a higher rate than larger firms and they may well, in the long-term, provide a very significant share of overall employment by absorbing redundant employees.
8. SMEs provide economies with greater flexibility in the provision of services and the manufacture of a variety of consumer goods, and help diversify economic activity and make a significant contribution to exports and trade.

9. They stimulate private ownership and entrepreneurial skills, and they are flexible and can adapt quickly to changing market demand and supply situations.
10. Economic dynamism, in the form of both moves into new economic territories and capacity cuts in line with declining demand as well as structural adjustment, largely results from the activity of SMEs.
11. Contribute to regional economic development and rural industrialization
13. SMEs play a complementary role in enhancing large companies international competitiveness as they can produce parts, assemble components, process intermediate inputs, and offer services at lower cost than their larger counterparts.
14. Small and Medium-scale industries (SMI) can play an important role in the process of a country's industrial and economic development. They are the starting point of development in countries desiring industrialization. Small industry can be set up with small capital, and can produce goods for domestic consumption by using labor intensive technology.
15. SMEs can act as the seed-bed for the development of entrepreneurial skills and innovation. They play an important part in the provision of services in the community; and they can make an important contribution to regional development programs.
16. SMEs are the primary vehicles by which new entrepreneurs provide the economy a continuous supply of ideas, skills and innovation.
17. The increasing importance of SMEs is explained by their ability to create a job opportunity with a relatively small amount of capital.
18. As a job-creator SMEs would be more important for preserving social stability, by helping people to reduce poverty, in areas where other work is not possible.
19. The contribution of SMEs in establishing a more balanced economy through mainly decreasing unemployment and promoting growth.
20. SMEs are more labor-intensive and tend to lead a more equitable distribution of income than larger companies.
21. SMEs contribute to a more efficient allocation of resources in developing countries. They tend to adopt relatively labor-intensive production methods and thus more accurately reflect the resource endowments in developing countries where labor is plentiful and capital is scarce.
22. SMEs support the building of systematic productive capacities. They help to absorb productive resources at all levels of the economy and contribute to the establishment of dynamic and flexible economic system, in which small and large firms are interlinked.

23. Creation of backward and forward linkages between existing industries, and between industrial sector and different economic sectors. SMEs are capable of supplying components and other raw materials to large companies who are in need of such suppliers.

24. SMEs can also function as the vital supporting industries to the large, downstream assembling industries.

25. They increase competition, contribute to a comprehensive and varied supply of goods and services, give customers a wider choice, put new ideas to the test and speed up the dissemination of new economic knowledge.

### III. Disadvantages OF SMEs:

1. **Diseconomies of scale:** SMEs may have economic disadvantages compared to larger competitors in terms of ability to benefit from economies of scale, in terms of cost per unit of production.

Due to their size, however, SMEs suffer from constraint that lower their resiliency to risks and prevent them from attaining administrative economies of scale. These challenges are particularly significant in the areas of human resources development and access to financing, markets, technology and information.

2. **Poor Managerial Skills:** In large firms no single individual is responsible for the decisions. In SMEs, on the other hand, almost all decisions are taken by the owners or the managing director. This implies that decisions made by small firms are highly influenced by the qualifications and skills of the manager or owner of the firm.

3. **Environment Pollution:** Some small and medium-sized industrial enterprises work without any concern for environmental issues. They cause pollution and hazards to environment, because of the high expenses associated with protective measures that should be taken to handling such problems.

### IV. SMEs In Palestine:

#### 1. Historical Overview:

The reality of the Palestinian economy is part of the history of the region. It is an outcome of a series of historical development taken place in the region. The British captured Palestine from the Ottomans after World War I, Balfour Declaration of 1917, promised the Jews, a Jewish “national home” in Palestine; Jewish migration to Palestine; the establishment of Israel in 1948; Jordanian administration of West Bank, and Egyptian administration of Gaza

Strip; the 1967 War between Arabs and Israel and the Israeli occupation of the West Bank and Gaza Strip 1967-1994; the first uprising in 1987-1993, Oslo Peace Agreement between Israel and Palestinian National Authority (PNA) 1993, Withdrawal of Israel from principal cities in West Bank and Gaza Strip and inception of Palestinian National Authority (1994); the second uprising (2000); the withdrawal of Israeli forces from Gaza Strip in 2005.

Since 1967 Israel has launched numerous programmed policies and procedures to tie the Palestine with Israeli economy, by reshaping Palestinian economy in a way that makes it entirely dependent on Israeli economy. These policies and procedures turned Palestinian market to a consumer for Israeli products, and a main resource for cheap labor for Israeli economy.

## **2. Israeli policies and procedures during the period from 1967-1994 were concentrated on achieving the following targets:**

- Opening Israeli labor market for Palestinian workers, working mainly in Israeli construction (3D's), agriculture and service sectors, with wages three times less than wages of their Israeli counterparts. The number reached at the eve of outbreak of the first uprising in 9/12/1987 about 119.000 workers. Before the outbreak of the second uprising 28/9/2000, the number was 145.886 workers.
- Putting all Palestinian outlets and border crossings with Jordan and Egypt, Gaza airport in Gaza Strip under Israeli control
- Prohibition of all Palestinian industrial and agricultural goods from entering the Israeli market, while – at the same time - opening Palestinian market for all Israeli products.
- Letting some of Palestinian products that serve and meet the needs of Israeli industries and contracting companies to enter Israeli market through subcontracting arrangements, such as working of construction materials, apparel and textile, leather and footwear, for the good quality and cheap price of these products, in comparison with Israeli market.
- Imposing high rate of taxes on Palestinian industries which reached more than 30-40% comparing with their counterparts in Israeli industries, aiming at weakening competitiveness of Palestinian firms and products.
- Complicating requirements and procedures in getting a license for industrial firms from Israeli Occupation Authority in occupied territories.
- Arab countries boycotted Palestinian industrial goods during the period of indirect Israeli occupation of the West Bank and Gaza Strip (1967-94), on pretext that the value added (VA) of Palestinian products not reached the required 40% that eligible these goods to be treated as of

Palestinian origin, because most of inputs of Palestinian industries were of Israeli origin or imported through Israeli agents and channels. At the same time Arab countries permitted Palestinian agricultural products to flow freely into their local markets. Some product (such as Soap, seedlings, honey, citrus, white Stone and Hebron marble) in addition to some traditional handicrafts were also permitted to enter Arab markets.

As a result, dependence of Palestine on Israeli economy has deepened in all its aspects, and has a deep regressive effect on Palestinian economy. Exports from Palestinian territories (West Bank and Gaza Strip) have been characterized by concentration on a limited number of products, while Imports from Israel (or Israeli exports to Palestine) have had a great diversity.

These programmed policies have succeeded, to a large extent, in achieving its goals. It has made critical changes in Palestinian production structure and consumption pattern. The Palestinian production sectors have concentrated on certain types of products, which meet the needs of Israeli market. The structure of Palestinian exported goods has been characterized by its concentration on a limited number of products produced according to subcontracting arrangements with Israeli enterprises, namely, footwear and leather industry, textile and wearing apparel industry, construction materials industry ...etc.

This has led to a great restriction of opportunities and options available to adopt exporting policies that would suit Palestinian development needs.

In contrast with export, large variety of products has characterized the structure of Palestinian imported goods. Consequently, this has led to grow rapidly the size of import and thus cause chronic increase in Palestinian trade balance deficit with Israel. The latter become the major trade partner with Palestine. Statistics show that more than 96.8% of Palestinian foreign trade is concentrated with Israel and/or through Israeli channels.

In 2003 the value of imports exceeded US\$ 3007 million. While exports -in the same year- were less than US\$ 375 million.

The deficit of trade balance is covered mainly from labor returns of Palestinians working in Israel, the flow of remittances from Palestinians working abroad in Arab Gulf countries, and to lesser extents by grants, aids from Arab Governments, European Union and USA, and borrowings from foreign institutions.

## **V. Definition of SMEs :**

There is no generally agreed definition of SMEs. Each organization has derived their own definition of SMEs for convenience in their work. The

various administrative organizations which deal with the SMEs classify SMEs based on measures of fixed assets, registered capital, sales turnover or number of employees. Some organizations recognize that size (of an enterprise) is relevant to sector, that is to say, a firm of a given size could be small in relation to one sector where the market is large and there are many competitors; whereas a firm of similar proportions could be considered large in another sector with fewer players and/or generally smaller firms within it. In the same way, they recognize that it may be more appropriate to define size by the number of employees in some sectors, but more appropriate to use value of capital assets or sales turnover in others.

Therefore which criteria are actually used for the purpose of classification depends mostly on one or a mix of the following factors:

1. The perspective and purpose of the analysis
2. Government policies that encourage establishment of SMEs
3. the degree of economic development and the industrial superiority of the concerned country,
4. the degree to which SMEs already play a role in economic development
5. Size of local market and size of export-import activities
6. The classification varies depending on whether structural, regulatory, labor market, fiscal or competition policy issues are being addressed.

Financial institution for instance, take into account **fixed assets** and the capacity of a given enterprise to pay back its financial obligations.

Labor Unions, on the other hand, show more concern in *the number of employees* rather than financial aspects.

While other institutions pay more attention to **net sales turnover, market share**, and many other Market-specific criteria may be considered.

Albeit the differences in the above-mentioned criteria for definition of SMEs, there are still two basic elements in the definition, namely, *number of employees and invested capital* (Investment excluding land, buildings and working Capital).

Almost developed countries use these two elements in defining SMEs and tend to relate both of them to another determinant factor, namely economic activity.

Some countries give different definitions for small and medium sized enterprises according to their **sphere of activity**, even in the same sector.

Some countries take into account number of employees as a sole criterion for definition of SMEs, rather than other criteria, because it is very easy to

measure the number of employees, than measuring the size of capital invested, net sales turnover or market share ... etc. To qualify as a small or medium-sized enterprises, both the **number of employees and the independence criteria** (a firm should not be owned or be a subsidiary of a large company. Independent enterprises are those which are not owned as to 25% or more of the capital or the voting rights by one enterprise, or jointly by several enterprises, falling outside the definition of SME) must be satisfied and either the capital assets or sales turnover.

**a) Definitions of SMEs in selected countries:**

The definition of SMEs differs between countries and even the size of SMEs in term of number of employees, capital assets, value added and sales turnover varies from country to country.

To be considered as SME a firm should satisfy at least one of the above criteria is defined as the SME. Most countries use a combination of the number of employees and the assets value in their SMEs' definitions.

In developed countries the criteria for the definition of small and medium - sized enterprises varies according to their sphere of activity.

1. Japan:

Sphere of Activity	Employees	Investment
Industry	300	100 million Yen
Wholesale trade	100	30 million Yen
Retail trade	50	10 million Yen
Micro enterprises		
Industry	Less than 20	
Retail activities	Less than 5	

2. USA – less than 500 employees

3. Korea – In Korea SMEs is generally defined as a company which employs less than 300 employees, or who's paid in capital amounts to below 8 million won. More specific standards on the classification of SMEs is stipulated in article 2 of the Framework Act on Small and Medium Enterprises.

4. Australia – less than 100 employees in industry and less than 50 in services

5. France – fewer than 250 employees

6. Canada – less than 500 employees in industry, and less than 50 in services.

7. Malaysia - SMEs in Malaysia are defined as companies with annual sales turnover not exceeding RM25 million and full-time employees not exceeding 150.

8. Myanmar (ex Burma) - defines small industrial enterprises as the businesses that employs less than 9 workers, and using 3 Horse Power (HP) of machine.

9. Panama uses a definition based on gross income or annual turnover

10. World Bank & Labor Organization define SMEs as those enterprises that employ less than 50 employees in developing countries, and less than 500 employees in developed countries.

11. Europe – The most commonly used quantitative measure in Europe for SMEs is the number of people employed by the business.

<b>EC European Commission SME Definitions</b>			
<b>Criterion</b>	<b>Micro</b>	<b>Small</b>	<b>Medium</b>
Max. number of employees	9	49	249
Max. annual turnover	-	7 million	40 million
Max. annual balance sheet total	-	euros	euros
Max. % owned by one, or jointly by several, enterprise(s) not satisfying the same criteria	-	5 million euros	27 million euros
		25%	25%

12. UNIDO -

<b>Country</b>	<b>Classification</b>	<b># of Employees</b>
Developed Countries	Small	Less than 99
	Medium	100-499
	Large	More than 500 -
Developing Countries	Micro	1-4
	Small	5-19
	Medium	20-99
	Large	More than 100 -

Percentage of firms' share of employment in USA and European Union for the year 1995:

<b>Enterprises Employment</b>	<b>Percentage of firms</b>		<b>Percentage of Jobs</b>	
	<b>USA</b>	<b>EU</b>	<b>USA</b>	<b>EU</b>

Less than 10 employees	78.2%	93.3%	12.2%	31.8%
More than 10 and less than 100	20%	6.2%	27%	24.9%
More than 100 and less than 500	1.4%	0.5%	14.4%	15.1%
More than 500	0.3%	1.0%	46.3%	28.1%

Source: US Small Business Administration – report (1995), The European Observatory for SMEs - report (1994)

However, the number of employees continues to be the criterion most frequently used by the developing countries.

### **b) Definition of SMEs in Arab Countries:**

In Arab countries SMEs are defined (according to Arabian Organization for Industrial Development and Mining) by the size of activity, and the capital invested ((excluding land, building and working capital) as follow:

- Micro – Enterprises employing less than 5 employees with invested capital less than US\$5.000
- Small – Enterprises employing 6-15 employees, with invested capital less than US\$15.000
- Medium - Enterprises employing 15-25 employees with invested capital between US\$15.000 – US\$25.000

Albeit the prevalence of different definitions, the critical importance of SMEs is highly acknowledged due to the key role they play in the economies of different countries, as well as in socioeconomic texture of these countries.

## **VI. Small & Medium Businesses in Palestine**

### **a) Definition of SMEs :**

Palestinian Center Bureau of Statistics (PCBS) defines an enterprise as an economic entity that is capable in its own right of owning assets, incurring liabilities and engaging in economic activity and transactions with other entities.

### **b) Classification of SMEs:**

In spite of the fact that SMEs are an essential element of Palestinian economy, there is nor clear classification for small and medium-sized enterprises, and neither accurate or reliable statistics about the number of small and medium-sized enterprises. This is simply due to the lack of criteria determining the size of small and medium-sized enterprise, due to the negligence of SMEs from the side of governmental institutions, private organization, Chambers of Commerce and NGOs. Besides, great portion of small firms are operating within the informal sector (not registered officially) and not included in any statistical survey.

However, For statistical purposes, the Palestinian Center Bureau of Statistics (PCBS) uses the following classifications of enterprises, **according to number of employees** including the owner:

<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
1-4	5-19	20-49	50- over

For the purposes of granting membership to the owners of private enterprises, Chambers of Commerce uses the following classifications based on a single criterion- value of capital invested:

<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>
Less than \$7,000	\$7,000-22,000	\$22,000-70,000	Over \$70,000

Number of establishment in operation in Palestinian private sector (Micro & small enterprises working in informal sector are excluded).

<b>Economic Activity</b>	<b>Employment Size Group</b>					<b>Total</b>
	<b>Micro</b>	<b>Small</b>	<b>Medium</b>	<b>Large</b>	<b>V. Large</b>	
	<b>1-4</b>	<b>5-19</b>	<b>20-49</b>	<b>50-99</b>	<b>100+</b>	
Agriculture	5,980	119	2	0	0	6,101
Mining and Quarrying,	181	168	8	5	1	363
Manufacturing	11,879	3,176	304	47	22	15,428
Electricity & Water Supply	381	10	2	1	1	395
Construction	268	171	34	6	4	483
Wholesale, Retail trade, and Repairs	40,684	1272	45	4	1	42,006
Hotels and Restaurant	2,645	206	33	4	1	2,889
Transport, Storage, and Communication	544	168	24	12	4	752
Financial Intermediation	511	100	50	9	3	673
Real State, Renting and businesses activities	2,805	272	16	1	1	3095
Education	956	507	81	13	7	1564
Health and Social work	2,791	293	60	18	16	3,178
Social and personal Services, other community	3440	303	24	4	1	3772
<b>Total</b>	<b>73,065</b>	<b>6,765</b>	<b>683</b>	<b>124</b>	<b>62</b>	<b>80,699</b>
<b>Percentage %</b>	<b>90.54</b>	<b>8.38</b>	<b>0.846</b>	<b>0.154</b>	<b>0.08</b>	<b>100%</b>
<b>Total Percentage %</b>	<b>98.92</b>		<b>99.78</b>	<b>0.22</b>		<b>100%</b>

\*Source: Palestinian Central Bureau of Statistics (2001) – data is published on the PCBS main Website on the Internet

As we see from the table above, Palestinian SMEs are dominated by Micro enterprises. The total number of officially registered enterprises in Palestine accounted for 80699 enterprises (in 2001).

### c) Characteristics of Palestinian SMEs:

SMEs operating in Palestinian private sector are characterized by the following:

1. **Size:** The vast majority of enterprises operating in Palestinian economy are Micro enterprises, which accounted for (90.54%) of officially registered enterprises, employing less than 5 employees (1-4).
  - Small enterprises employing between (5-19) employees, accounted for 8.38%
  - Medium enterprises employing (20-49) employees accounted for less than 1.0% (0.846).
  - Large enterprises employing 50 employees and over are merely accounted for 0.23% of the grand total of enterprises working in Palestinian economy.
2. **Employment:** SMEs that employ less than 20 employees constitute the backbone of the Palestinian economy and a key factor in the socioeconomic texture. These enterprises indeed offer employment opportunities for more than 286.000 employees in 1999 – which form 89.2% of the total labor force in the Palestinian private sector (excluding those working in Israeli market).
3. **Small enterprises drive** the SMEs' sector, accounting for 76% of its workforce, 71% of total value added, 69% of total output, 67% of GFCF and 68% of total employment compensation in 1999.
4. The contribution of small and medium enterprises (SMEs ) to the Gross Domestic Product (GDP) is estimated to be 36% (1.02 US\$ billion 1999).
5. The majority of SMEs is **involved in trade and other service activities**, and constitutes about 72% of the grand total of the registered SMEs, while 28% of these enterprises are working in material production sectors (agriculture, Industry, construction).
6. **Low capital-labor ratio:** SMEs in Palestine characterized with low capital-labor ratio, which amounted in average to US\$ 6.730 (in fixed assets excluding land and buildings) for enterprises in the industrial sector.
7. **Manpower:** Micro and small enterprises (MSEs) have remarkable percentage of unpaid employees, which reaches around 32% of all employees working in this sector.
8. **Ownership:** The SMEs are dominated by family-owned businesses, which account for around 65% of the officially registered enterprises. However, this type of ownership is mainly a feature of small enterprises, which show a high sole-proprietorship ratio of 67% on average. Medium-size enterprises feature a stronger presence of partnership structures (63%), with sole-proprietorship enterprises accounting for only 37% of total medium-size enterprises. Family-owned medium-size enterprises are mainly involved in the manufacturing of wearing apparel and furniture, showing a sole-proprietorship ratio of more than 50% on average.

High percentage of micro and small enterprises are traditionally family-owned. This lead to passive results reside in the following aspects:

- *Owner-managers lack of the motivation to grow their businesses once they are able to sustain a livelihood for their family members.*
- *Many of these firms also are unwilling to transform themselves into larger enterprises because that would require entrusting non-family members with the firm's valuable information and resources.*
- *Family owned businesses have limited experience with financial matters*
- *Growth is limited by size and skills of family*
- *Family owners undertake most of the managerial and administrative activities.*

This should not be surprising, since the economy is dominated by micro enterprises that are mainly involved in subsistence activities.

At the micro level, managements tend to be small and multi- functional, with entrepreneurs running the businesses single-handedly and taking all key decisions. Moreover, SMEs' outdated machines and lack of skilled labor have been undermining their ability to improve the quality of their products.

9. **Location:** The choice of location differs from one enterprise to another, depending on its orientation and the nature of its activities. It is mainly influenced by cost considerations. Proximity to main markets and sources of supply, the availability of developed infrastructure and public utilities, seem to be the most important factors influencing the decision.

However, only 24% of the surveyed SMEs are located in industrial zones. The majority (around 50%) operates from residential areas particularly those involved in the manufacturing of wearing apparel products. The remaining enterprises are located in commercial areas, particularly small food and beverage manufacturing enterprises.

West Bank accommodates 67% of medium-sized enterprises, and the majority of capital-intensive SMEs.

10. **Entrepreneurs:** The majority of entrepreneurs (more than 70%) have prior business experience in areas related to their present activities. Most of SMEs (77%) are owned by entrepreneurs between 36-55 years old. The share of young entrepreneurs between the age of 25 -35 years old does not exceed 8% of the officially registered enterprises.

11. **Labor force:** 80% of SMEs' total workforce are paid workers. 87% of these paid workers are involved in operative tasks related to production, with only 9% involved in managerial activities, and 4% in marketing and accounting. This reflects informal management structures, whereby owners undertake most of managerial and administrative activities.

12. Since SMEs in Palestine are often single-product firms, the possibilities of risk-spreading as a rule very limited, this raises their sensitivity to cyclical and structural fluctuations.

13. SMEs produce solely for the domestic market

14. Widely dispersed geographically than larger enterprises. This helps reduce economic gap between urban and rural areas.

15. Businesses are too small to take advantage of economies of scale

It is worth to note that In 1965 during the Jordanian administration, the number of enterprises in the West Bank amounted to 3842 enterprises, of which 2927 enterprises (76%) were employing less than 5 employees.

Although several decades have passed, the small sized enterprises are still dominated in Palestinian economy.

## **VII. Importance of SMEs:**

Generally said, the importance of SMEs stems from the following factors:

1. SMEs play a vital role in inventions and innovations, market modernization and dynamism.

There is a clear relationship between innovation and enterprise growth. The successful enterprise is that one which has innovative and creative activities in the form of new products, technologies, human resources development or dissemination of new technologies. This played a key role in having an active and dynamic economy, as well as a high productivity for SMEs .

2. Creation of new businesses in the market by translating ideas into real projects.

3. Creation of employment opportunities and alleviating poverty.

The importance of these factors varies between developing and developed countries. *Whereas inventions, innovations, market modernization and creation of new enterprises are of primary importance in the developed countries, contribution to employment, creation of employment opportunities and eradication of poverty are of parallel importance in developing countries, too.*

## **VIII. Profile Of Small And Medium-Sized Enterprises Involved In Industrial Activities (SMI):**

The industrial structure in Palestine, can be described as a structure that attracts mostly the small and medium industrial enterprises (SMIs), and very little of big industrial institutions. Small and Medium-scale industries (SMIs) can play an important role in the process of a country's industrial and economic development. SMIs can make significant contribution to achieve social and economic objectives such as labor absorption, income distribution, rural development, poverty eradication and balanced economic growth.

Distribution of Industrial Enterprises employing less than 50 employees by Industrial Activities:

Industrial Activity	# of enterprises	Percent %
SMEs	16109	%100
1. Mining & Quarrying	357	2.2%
2. Electricity and Water supply	393	2.4%
<b>3. Manufacturing</b>	<b>15359</b>	<b>95.4%</b>
- Food & Beverages	- 2264	-14.1%
- Wearing Apparel & Textile	- 4059	-25.2%
- Wood and Furniture	- 3396	-21%
- Remaining Manufacturing Activities (tanning of leather and leather products, footwear, metals, paper, plastic ...)	- 5640	-35.1%

Source: Palestinian Central Bureau of Statistics (Estimates 2001)

### Small and medium-sized industrial enterprises (SMEs) account for:

- 20% of the grand total of officially registered enterprises
- 97% of total manufacturing enterprises.
- 93% of total enterprises working in industrial sector.
- 82% of total employment in industrial sector
- 60.3% of enterprises are concentrated in the manufacturing of :
  - food and beverages,
  - wearing apparel and textile,
  - Wood and furniture.
- 35.1% of SMEs cover other areas such as – paper, plastics, chemicals, cement products, pharmaceuticals, electric and electronic equipment, information technology ...etc.
- SMEs contribute with 64% of the share of the industrial sector in the Gross Domestic Product (GDP).
- 40% of the sector's gross fixed capital formation (GFCF),
- 56% of the sector's value added, and
- 62% of total Manufacturing output.
- Industrial SMEs are more dependent on imported intermediate goods, as reflected by 39% value-added-to-output ratio for medium-size enterprises, as compared with 44% for small enterprises.
- **Employment:** Wearing apparel manufacturing SMEs stand as a major source of employment The latter also stand as the second contributor to value added and GFCF, while food and beverage SMEs are the second-largest contributors to output.
- **Composition of activities:** The majority of enterprises are engaged in the production of final goods. This is particularly the case of Gaza-based SMEs, where 91% of the enterprises produce final products, reflecting a limited industrial base that lacks enterprises specialized in the production of intermediary goods.

- In West Bank, 78% of small enterprises and 72% of medium-size enterprises are involved in the production of final goods.
- Businesses are too small to take advantage of economies of scale
- **Linkages to markets:**

On the whole, SMIs appear to prefer establishing direct contacts with their customers. The market linkages between SME enterprises are limited, with approximately 40 per cent selling directly to final consumers rather than to other firms. Although more than 30% of the SMEs sell to other firms, they deal mainly with one type of market intermediary, namely wholesalers. On the whole, SMEs appear to prefer establishing direct contacts with their customers.

- **Sources of raw materials and equipment:**

Palestinian SMEs import a large share of their raw materials and all of their equipment. Israel is the main source of raw materials, especially for SMEs involved in the manufacturing of wearing apparel products, food and beverages, and furniture.

Apart from Israel, Europe is the second main source of SMEs' raw materials, especially for those operating in the West Bank. Europe is also the major source of equipment, followed by Israel,

- **Sources of finance:**

Source of finance: More than 80% of the surveyed enterprises rely on personal savings to cover their start-up and operating costs. Bank loans do not figure as an important source of finance for SMEs, except for West Bank-based medium-size enterprises. Most SMEs fail to meet banks' collateral requirements, Moreover, enterprises find the application procedures "complex" and the interest rates high.

Banks are second source of finance for 49% of these enterprises. It is worth noting that, SMEs do not consider the lack of finance to be a major obstacle in improving their performance

- **subcontracting arrangements:**

Only 22% of SMEs are involved in industrial subcontracting arrangements. Israel is the main subcontractor for 55% of these enterprises, continuing a trend that was established during the occupation period. These enterprises are mainly medium-sized ones engaged in construction activities and the manufacturing of food and beverages and wearing apparel.

In contrast, small enterprises are mainly involved with local partners that account for 52% of these enterprises' contracting arrangements. In general, the SMEs' subcontracting arrangements involve labor- intensive tasks and offer the enterprises limited benefits, including advanced payments, on-the-job training, supply inputs, machines and equipment.

- **Main markets:**

The surveyed SMEs focus mainly on local markets, Only 42% of enterprises were participating in foreign trade, with Israel as their main export market. Israel is also an important market for wearing apparel, furniture, mining and quarrying SMEs.

Majority of SMEs are inward-looking enterprises that are less interested in extending their reach beyond local markets due to restrictive Israeli security measures and the burdensome customs and overland transport procedures at the main border.

- **Capital/ labor ratio**

SMEs can be grouped into low capital-intensive with the average amount of fixed capital per worker standing at \$2,650 medium capital-intensive with fixed capital per worker averaging \$8,161, and high capital-intensive industries with fixed capital per worker averaging \$16,022.

- Since **SMEs in Palestine are often single-product firms**, the possibilities of risk-spreading as a rule very limited, this raises their sensitivity to cyclical and structural fluctuations.

- **Widely dispersed geographically than larger enterprises**. This helps reduce economic gap between urban and rural areas.

### **IX. Role of the SMEs in Palestinian Economy:**

Small and medium industries play a major and vital role on the economic development of the country through their contribution in the following:

- Creation of employment opportunities with minimum amounts of capital

- Reduction of unemployment levels, alleviating of poverty and associated social problems

- Their remarkable share in generating of Value Added

- Contribute to lessening of the deficit in the trade balance, through the production of goods that substitute imported ones, and consequently help to reduce the volume of imported goods.

- Better utilization of local resources

- SMEs rely on Labor-intensive production method, therefore they can absorb great portion of labor force, with different work skills with relatively small amounts of capital.

- Reduce the effect of economic fluctuations and work as a "shock absorber" of unexpected changes in the economy.

### **X. Problems and obstacles encountering Palestinian small and medium businesses:**

In the context of globalization and international trade liberalization, SMEs have been facing many challenges in competing against large-scale establishments

in a rapidly changing uncertain world, where the flow of new goods and services continuously re-shape competitive conditions.

As SMEs, and more specifically, micro and small enterprises constitute the bulk of working institutions in Palestinian economy, the concerned authorities should take serious steps towards assisting SMEs to become more competitive.

While Palestinian economy is dominated by **micro and small enterprises (MSEs)** (97%) they suffer from the **lacking of appropriate laws and legislation necessary to** secure the suitable environment essential for the proper growth of these businesses. They also suffer from the **absence of specialized institutions capable of providing technical and consulting** services and information throughout the project life cycle.

*Because of the high degree of uncertainty generated by the lack of political stability*, enterprises were forced to **concentrate purely on survival techniques**, and managed to be more **concerned with short-term problems** and needs than long-term improvement opportunities.

**Small and medium enterprises in general suffer from both external and internal factors:**

**A. External factors:**

- Political instability constitutes a decisive factor in undermining the enabling environment for the growth and evolving of small businesses from micro and small enterprises to large ones.
- The recent crisis has resulted in a severe contraction in the size of medium enterprises and a surge in the number of labor-intensive small enterprises (1-4 employees), accounted for more than 90% of all enterprises operating in Palestinian economy .The remarkably small size of these enterprises reflects the political instability in the country. Under such instable environment these enterprises struggle to survive, not to develop!!
  - Poor quality of services offered by these institutions. The lack of specialized institutions capable of assisting them in complying with Palestinian and international quality standards and industrial specifications.
  - The SMEs' limited investments can also be explained by the absence of a comprehensive legal framework regulating economic transactions.
  - Lacking of key laws for ensuring a favorable business environment. There is a lack of supporting industries, factors of production, and capable market support institutions
  - New entrants: In view of the heavy influx of cheaper Jordanian, Turkish and other products into the Palestinian market. Palestinian entrepreneurs regularly complain that the local markets are “flooded” with cheaper products. Moreover, these products are often of low quality, thereby fueling

price-based competition among local enterprises, particularly micro and small enterprises. This is reflected in the limited number of new entrants into the market over the period. This in turn has discouraged the entry of new firms.

- At present, the legal framework for economic activity consists of a combination of different legal codes, including Israeli military orders, in addition to outdated Ottoman, British, Jordanian and Egyptian laws.
- Lack of legal framework, infrastructure, financial means and credit policies are major obstacles for the development of SMEs.
- lacking of appropriate laws and legislation necessary to secure the suitable environment essential for the proper growth of these businesses
- Whereas these enterprises play a vital role in the Palestinian economy, there is an apparent lack in clear policies, programs and legislation, as well as, a weakness in the supporting services provided to SMEs either from public or private institutions.
- Small domestic market
- All export and import channels and outlets of Palestinian goods are in the hands of Israel, and under its strict control and regulation, which derives Palestine from a free trade with foreign countries.
- Weak infrastructure facilities such as paved roads, water supply and electricity and increasing cost of utilities. This a major problem especially for those industries located outside towns and cities. Weak infrastructure thereby causes negative effects on costs of production.
- Lack of legal framework, credit policies and incentive programs for the development of SMEs.
- Weakness in the supporting services provided to SMEs
- Lack of Government Policies and Incentive programs
- The absence of specialized institutions capable of providing technical and consulting services and information throughout the project life cycle.
- Insufficient specialized training Institutes
- The absence of political stability is the most important obstacle for economic development of the country.
- Severe economic dependency on Israeli economy, and the adaptation of the Palestinian economy to meet the needs of Israeli economy
- Lack of an entrepreneurial spirit and skills in the population as one of the weaknesses hindering the country's growth.

## **B) Internal Factors:**

### **a) Market**

- Most of Enterprises depend on local market for lack of information, such as the lack of pre-entry market information, for limited knowledge in international marketing, consultancy services, human resource development services, products, local and foreign markets.

- Lack of marketing capabilities and skills need to enter new markets.
- Lack of marketing & distribution skills. Most of the entrepreneurs follow the traditional marketing techniques such as selling through middlemen.
- SMEs are also not familiar either with foreign trade and customs regulations
- SMEs do not comply with the international quality standards
- Competition from cheap imported products
- Lack of management skills, as the majority of SMEs are owned and run by individuals, or by family members. Majority of the entrepreneurs have a weak knowledge of management and basic marketing skills.

**b) Structure:**

- The structure of many SMEs and their organizational behavior are constraint to growth. Many of them are family-owned and run. Owner-managers lack the motivation to grow their businesses beyond a certain point, once they are able to sustain a livelihood for the family members.

**c) Financial**

- Lack of legal framework, credit policies and incentive programs.
- Lack of capital and great dependency on personal savings and mobilized fund from family or relatives, or personal credit from friends.
- Credit guarantee is a major handicap for further development and growth, especially of micro- and small-scale enterprises. In contrast with large firms SMEs have poor access to the capital market. Owing to their relatively small size, SMEs have little or no access to certain sources of finance. Only those with land or property guarantees can normally borrow money from the banks or other financial institutions.

**d) Human Resources**

- Poor managerial skills
- Lack of technical skills of the workers
- High staff turnover
- Insufficient specialized training
- Low skill & not knowledge – based

**e) Technology**

- Low technology level
- Low level of productivity. Productions lines are not well organized and the costing system to calculate the true costs of a product may be unknown.
  - Insufficient equipment
  - Limited and low automation
  - Lack of information
  - Lack of R&D
  - Lack of synergy with research institution

**f) Productivity & Quality (P&Q)**

- P&Q program are not very much emphasized
- Low level of productivity
- Hardly any use of ICT except the mobile phone
- Low quality products as a result of not being aware of industrial standards and specifications, or with product liability, quality and consumer protection requirements.
- Quality control systems for food industries are not widely implemented
- Lack of awareness related to productivity & quality issues
- Lack of capability product design & innovation
- Low health, and safety standards and regulations
- Low quality as a result of not being aware of industrial standards and specifications.
- Entrepreneurial culture adopts imitation rather than innovation (except for SMEs in information technology sector).

**XI. Recommendations:**

The problems encountered by SMEs need to be analyzed and studied carefully by Government and private organizations, taking into consideration the following topics:

**a) Policy Environment:**

The Palestinian Authority's role should support the creation of an enabling environment that fosters SME development within the context of the above-mentioned policy framework. In particular, policy measures need to be designed in such a way that help support SMEs They should include:

- The creation of a favorable business environment for the set up and development of SMEs
- Introduction of a special Framework Act for SMEs that acknowledges and enhances the effective role they play in the Palestinian economy. The enactment of such a law would be necessary to promote the efforts of SMEs towards achieving a well-balanced growth and development. It is essential this Act take into account the following:
  - Developing a definition for SMEs based on professional standards and criteria in order to create an enabling legal environment for SMEs and formulate relevant support.
  - Taking into consideration the interests of small and medium-sized enterprises in the process of creating an industrial law
  - Encouraging growth and development of SMEs , and formulation of policies and incentives targeting SMEs, for their important role in unemployment declination and poverty alleviation.

- The task of empowering and promoting SMEs requires appropriate policies and programs and supportive institutions and organizations
- Evaluations of national policies with a view to their impact on the operations of small and medium enterprises.

**b) Simplifying the tax system and improving the availability of sources of financing:**

- Reforming of tax policy: Tax policy is a crucial element in promoting new business development. Unfavorable taxation policies are likely to depress the development of SMEs .
- Creating an appropriate tax system that should stimulate the investments in the SME sector
- Define the impact of tax structure on small and medium businesses.
- Encourage and facilitate the establishment of SMEs by providing favorable tax treatment, reducing government regulations barriers, limitations and constraints. ...etc.
- Examine the ability of financial markets and institutions to meet and facilitate the credit needs of SMEs under most favorable conditions.
- Simplifying the tax system and improving the availability of sources of financing.
- Increasing the transparency of the tax law and improving the availability of financing from sources such as structural funds and venture capital.

**c) Financial Assistance Program for SMEs:**

- facilitate the credit needs of SMEs by providing credit under most favorable conditions.
- granting subsidies in the form of credit guarantees by establishing a Credit Guarantee System to complement the shortage of collateral provided by SMEs.
- Recognizing the limited financial opportunities available to SMEs, the government should create a network of credit guarantee agencies in the country.
- High interest rate is the main hurdle facing SMEs. Credit may be offered to such enterprises at subsidized rates. All commercial banks should also reshape their credit policies for promoting the SMEs and achieving self sustaining economic development.

**d) Simplifying Requirements and procedures:**

Eliminating the bureaucratic barriers that bring about additional, unreasonable costs for the setting up and functioning of an enterprise, by means of:

- Simplifying the and improving the legislative framework
- Removing the administrative barriers with a view to simplify the procedures of licenses and registration for a new firm
- Shortening the time required to register a new firm

- Simplifying and improving the legislative framework

**e) Development and improving of education and training :**

Policy-makers have a major role to play to foster entrepreneurial activities through education and training:

- Assisting individuals and would-be-entrepreneurs in developing the skills necessary to pursue business opportunities.
- Supporting training programs for the development of entrepreneurial skills and the promotion of entrepreneurial culture.
- Encouraging individuals to open their own business activities and developing training program for SMEs.
- Involving media in the promotion of entrepreneurial culture.
- Developing training programs and training facilities to meet the emerging needs of labor market
- A relationship should be existed between the needs of labor market and educational curriculum in universities and institutions.
- Because of high rate of unemployment among university graduates, the government should developed a program for the public awareness to clear the importance of SMEs, and to encourage the entrepreneurship spirit among students and newly graduates, in such a way that could develop their basic skills and management techniques, so they can start up their own businesses, instead of waiting for government jobs.
- Mobilization of training opportunities for the absorption of technical know-how and upgrading.
- Policy measures may include research and development (R&D) and state-subsidized R&D programs,

**f) Supporting Services to SMEs:**

Establishing a systematic approach for providing support services to the small and medium scale enterprises (SMEs) such as:

- supporting consultancy services for SMEs
- supporting cooperation between SMEs
- supporting research devoted to SMEs
- supporting the SMEs participation in international fairs and exhibitions
- supporting SMEs access to foreign markets
- Supporting the access to business information regarding foreign markets.

**g) ) Enhancing development of SMEs:**

Develop programs that enhance the dynamics of SMEs and facilitate their role in the sustainable economic development. Such programs should include:

- Promotion of demand on the products of SMEs (through Governmental and NGOs tenders).
- Facilitate access to information and communications technology for SMEs and micro-enterprises.

- Facilitate the attempts of SMEs to acquire technologies needed to improve and enhance their competitive capacity and advantages.
- Accelerating technological transfer/exchange and development among, SMEs in order to make them more productive and competitive in both the domestic and international markets.
- Give incentives for SMEs that use local raw materials .
- Give export incentives for SMEs to promote export in the form of tax exemptions of income in proportion with the value of export.
- Granting incentives for SMEs that use local raw materials
- Give generous incentives for SMEs that use recycling materials, and thus keep environment clean and healthy.
- Promoting the co-operation between SMEs in the two geographical parts of Palestine: Gaza Strip and the West Bank.
- Facilitating the collaboration with large companies – developing subcontracting activities by externalizing some operations to SMEs
- Fostering the co-operation with universities and research centers
- The improvement of SMEs access on foreign markets
- - Supporting the SMEs participation in international fairs and events
- Establishing of a special information center for provision and dissemination of information needed by SMEs, which might include the following aspects:
  - Business information about the local and foreign markets.
  - The current and future demand in these markets on particular products
  - Information about the possible investment opportunities in the local economy, size of initial capital needed, sources of raw material, machines and equipment and their expected prices, possibilities of export to foreign countries... and so on.
  - Information about export and import procedures and requirements, such as tariff and customs imposed on imported goods, services of custom clearing agencies, services of transport agencies...etc.
  - Information on credit institutions, rate of interest, and required credit guarantee

#### **I) Improving productivity in SMEs**

- Active support from government and related organizations to improve productivity in SMEs . This involves enhancing the enterprises capacity to adapt imported technologies to local needs and assimilating more complex techniques through product development.
- Improve quality and encourage SMEs to stick to quality standards and specifications.
- Promoting and supporting the introduction of international quality standards

**J) Reconsidering existing investment laws** so as to enable SMEs to benefit from tax holidays. In addition, the PA can establish a special inter-

ministerial body to monitor SMEs' performance and ensure that their development interests are incorporated into trade and industrial policy, in accordance with the overall sectoral focus of the development strategy.

Government should increase awareness in the importance of SMEs in Palestinian economy, and enhance attention to these enterprises for the role they play in the socioeconomic life and eliminating of the negative aspects encountering them. The lack of specific policies and strategies for the development of SMEs also restricts their development.

Continued negligence of SMEs from the side of governmental institutions will lead to parallel negligence of the key role of these small businesses, which will consequently weaken and negatively impact on the performance of the Palestinian economy.

It shall pursue an initial action program focusing on four key areas: human resources development, access to technology and information, access to credit and capital, and access to market opportunities. The success of this program requires the support of appropriate government agencies.

## **XII. Results & Impacts:**

- Increased productivity & quality
- Cost reduction
- Delivery on time
- Competitive price
- Increased profits
- Safety and hygiene
- Environmental friendly
- High morale
- More Efficient
- Increased market share
- Tangibly contribute to the development of a new nation by growing its business sector
- Boost the development of existing and developing new small and medium enterprises.

-END-