

AgBEE SNAPSHOT

JANUARY 2012

SNAPSHOT OF THE BUSINESS ENABLING ENVIRONMENT FOR AGRICULTURE



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THE PALESTINIAN ECONOMY

EXECUTIVE SUMMARY

This Snapshot provides an overview of the major constraints within the business enabling environment for agriculture (AgBEE) in the West Bank as identified in the existing literature and confirmed through stakeholder interviews. In addition, this report identifies gaps and contradictions in current knowledge with respect to the AgBEE and provides recommendations for future action.¹ As summarized in the table below, the discussion spans five crucial steps in the lifecycle of successful agribusiness operation from obtaining inputs to competing in markets at home and abroad.

As set forth in numerous reports and repeated throughout the stakeholder interviews, the primary impediment faced by all agribusinesses in the West Bank and Gaza is access. The ongoing political and security situation with Israel constrains all aspects of economic life, impeding access to land, water and agricultural inputs, limiting the movement of people and goods, and adding costs and delays to import and export markets, all of which adds a sense of uncertainty that impedes investment. The agricultural sector is particularly affected due to its critical reliance on land and water; the perishable nature of its products and specific restrictions on the import of inputs. These issues are well known and well documented. Accordingly, this assessment focuses on identifying constraints within the AgBEE over which the Palestinian Authority (PA) has greater control. Due to restrictions on travel to Gaza, this assessment focuses primarily on the West Bank.²

The World Bank, International Monetary Fund (IMF) and United Nations Conference on Trade and Development (UNCTAD) have all noted the substantial progress made in recent years in improving the legal framework and institutional capacity of the PA government.³ This view was reiterated by the larger private sector agribusinesses interviewed who generally expressed satisfaction in their dealings with the PA. Nonetheless, a variety of constraints remain that limit private sector investment in agriculture. Moreover, most smallholders still operate informally in a “produce today, sell tomorrow” system due to their limited access to finance, storage, and marketing infrastructure.

¹ This assessment was conducted from September 26 – October 17, 2011 and consisted of a literature review followed by phone and in-country interviews with 27 stakeholders across a wide range of private agribusinesses, NGOs, government officials and donor representatives.

² Information on Gaza, where available, is included in footnotes.

³ World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee: Sustaining Achievements in Palestinian Institution-Building and Economic Growth (September 2011); IMF, Recent Experience and Prospects of the Economy of the West Bank and Gaza (September 2011); UNCTAD, Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory (2011).

OVERVIEW OF ANALYSIS

AREA OF ANALYSIS	KEY IMPEDIMENTS TO AGRIBUSINESS DEVELOPMENT
Accessing Inputs	<ul style="list-style-type: none"> • Agribusinesses face considerable restrictions on access to land, water and chemicals due to the security situation with Israel. • Land records are conflicting and out-dated, and informal land transactions abound. • Water resource management is inefficient and poorly monitored.
Accessing Finance	<ul style="list-style-type: none"> • Insecure land rights and lack of legislation permitting the use of moveable property as collateral contribute to a very low rate of formal lending to agriculture. • Agricultural insurance is unavailable.
Operating a Business	<ul style="list-style-type: none"> • Public administration processes are poorly coordinated and lack computerization. • Agribusinesses face long delays in receiving tax refunds.
Linking to Markets	<ul style="list-style-type: none"> • Smallholders lack access to postharvest storage facilities. • Mistrust between smallholders and larger agribusinesses inhibits the development of effective market linkages. • The lack of quality standards and a weak SPS framework limit the competitiveness of Palestinian products.
Competing Fairly	<ul style="list-style-type: none"> • No formal competition law and agency exists to protect smallholders from anti-competitive practices, such as price collusion in wholesale markets. • Competition for Palestinian agricultural products suffers from an unfavorable trade position with Israel.



ACCESSING INPUTS

Agricultural producers need stable rights to land and other resources, access to improved seed, fertilizer, and equipment, and the education and training required to put these inputs to productive use. Agribusinesses in the West Bank face a number of impediments to improved productivity. Land rights are insecure, and access to water and electricity is limited and costly. Domestic production of seed, fertilizer, and pesticides is limited by import restrictions, small market size and inadequate investment.

LAND

Under the 1995 Oslo Interim Agreement, land in the West Bank and Gaza was split into Areas A, B and C. Area A is controlled by the PA, Area C by the Israeli Civil Administration (ICA) and Area B split between the PA and ICA for civilian and security affairs, respectively. In Area C, which is predominantly rural and contains 62.9 percent of all arable land in the West Bank, businesses do not have secure ownership rights. Numerous reports cite the risks farmers face due to confiscation or restricted access to their land with little notice and no effective standing for appeal.⁴ Accordingly, investment is centered in the much smaller Areas A and B, which are largely non-contiguous and contain the major urban and rural population centers. According to the World Bank, land for agricultural use in Areas A and B is not protected by proper zoning and faces the threat of being crowded out by the competing demands for housing and industry.⁵

Approximately 16 percent of land in the West Bank and Gaza is cultivated for agriculture of which approximately 72 percent is used for crops, 13 percent for animal products, and 15 percent mixed holdings.⁶ The majority of agricultural land in the West Bank is in the hands of small family farms, which have been fragmented by inheritance rules over generations to an

⁴ See e.g., World Bank, *Economic Effects of Restricted Access to Land in the West Bank* (2009); Oxfam, *The Road to Olive Farming* (2010); FAO, *Palestinian Womens' Associations and Agricultural Value Chains* (2011).

⁵ World Bank, *Economic Effects of Restricted Access to Land in the West Bank* (2009).

⁶ Palestinian National Authority, *Press Conference on the Preliminary Findings of Agriculture Census-2010* (April 2011), available at http://www.pcb.gov.ps/portals/_pcbs/agri_cen_2010e.pdf.

average farm size of less than five contiguous parcels. For example, only 30 percent of all land in the West Bank is formally registered with the Palestinian Land Authority (PLA).⁸ The PA inherited out-dated and conflicting land records from the Ottoman, British and Jordanian periods, and land ownership is further clouded by the common use of irrevocable powers of attorney (IPAs) in lieu of formal transfers through the PLA.⁹ Systematic land registration by the PLA is underway, but the process is time consuming and costly and, by PLA estimates, may take 30 to 40 years to complete. According to the PLA, a highly-criticized draft Land Law has been set aside, and a new Land Law is needed.

WATER

Access to water is extremely limited in the West Bank and Gaza. Under Article 40 of the Oslo Agreement, water infrastructure projects require the collective approval of Israel and the PA through the Joint Water Council. Agribusinesses report that applications are subject to lengthy delays and frequently rejected. With many existing wells drying up, farmers have resorted to digging illegal wells, which decreases water quality and threatens water security.¹⁰ Interviewees report that illegal wells are regularly filled in by the Israeli Defense Forces. Currently there is little water recycling, and there is an untapped opportunity for reusing waste water for agriculture that has not yet been scaled up. NGOs have reported some success in developing water cooperatives. For example, American Near East Refugee Aid (ANERA) connected more than 940 farming families to an advanced irrigation system fed by the Ein al-Sultan spring in Jericho and established a water users' cooperative to maintain the system and ensure fair pricing for users.¹¹

The Palestinian Water Authority (PWA) manages the water supply provided by the existing network of wells and public supply lines. According to the World Bank, that management is inefficient and poorly monitored: only 40 to 50 percent of consumer water bills are paid, and 34 percent of water is unaccounted for due to aging infrastructure and illegal siphoning from supply lines. Disconnecting customers for nonpayment is viewed as simply exacerbating illegal tapping, and enforcement capability is weak. Moreover, incentives for the utility to enforce payment do not exist because the utility itself does not pay for bulk water received from the PWA and/or the Israeli water company, Mekorot. Most utilities are in debt to the PWA, and the PA ultimately foots the bill for Mekorot water, which is deducted by Israel from clearance revenue.¹² The PA also lacks a comprehensive vision for water usage that balances the competing demands for public drinking supply and the demands of various sectors such as agriculture and tourism.

ELECTRICITY

Electricity is unavailable in some portions of the West Bank and, where available, is very expensive. Sixty-five percent of the West Bank energy needs are supplied by Israel.¹³ Village Councils manage electric connections and bill collection. Due to the expense, many people do not pay their electric bills. As a result, there has been a push to privatize existing Palestinian electric companies.¹⁴ Where the infrastructure for electricity does not exist, farmers resort to diesel-based power sources, including using old car engines to power water pumps. One agribusiness reported having to seek an electric connection from a nearby municipality because none was available locally. The total cost was estimated at \$40,000 for the connection permit, paying the service technicians, and purchasing a tower and transformer to get the services to the property.

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⁷ OIE, PVS Evaluation Report of the Veterinary Services of the Palestinian Territories (West Bank) (2010).

⁸ By contrast, 97 percent of the land in Gaza was registered during the Egyptian period from the 1940s to 1967.

⁹ World Bank, Economic Effects of Restricted Access to Land in the West Bank (2009).

¹⁰ Similarly, in Gaza, illegal drilling and overpumping have substantially deteriorated the size and quality of the existing water supply. Agriculture in Gaza is 97 percent irrigated using brackish water, and irrigation methods are considered highly efficient. World Bank, Assessment of Restrictions on Palestinian Water Sector Development (2009).

¹¹ ANERA, Agriculture in the West Bank and Gaza (2011).

¹² World Bank, Assessment of Restrictions on Palestinian Water Sector Development (2009).

¹³ USAID, BizCLIR for the Palestinian Economy (2009) and World Bank, West Bank and Gaza Energy Sector Review (2007). In Gaza, 56 percent of electricity comes from Israel. There is currently an electricity shortage, and power is unavailable between 2pm and 8pm daily.

¹⁴ World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee: Sustaining Achievements in Palestinian Institution-Building and Economic Growth (September 2011).



PHOTO BY ENTRAC INC.

SEED

There is not much discussion surrounding seed policy in the West Bank, and the topic is largely ignored in the literature. The 2003 Law on Agriculture provides for regulation by the Ministry of Agriculture (MoA) on the import and export of seeds, their selection and use and the development of a genetic bank for seeds. However, according to an input supplier, there is virtually no domestic seed production, and the vast majority of seed is imported through Israel. The interviewee expressed concern over Israeli country of origin requirements for the import of seed that limit the varieties available to Palestinian firms. In addition, Israeli testing of seed destined for the Palestinian market is reported to take days, rather than the 24 hours for seed destined for the Israeli market. The justification given for this extra testing is that there is not an appropriate quality tracking system in the West Bank. An NGO reported that the available seed is very expensive, and obtaining seed outside of the official channels is nearly impossible.

CHEMICALS, FERTILIZER AND EQUIPMENT

According to interviewees, the domestic industry for fertilizers, pesticides, and other chemicals for agricultural use is generally considered non-existent or immature in the West Bank and Gaza, and the majority of these products are imported at great cost. Pesticides, fertilizers, and piping require a permit from the Israeli Police's Bomb Disposal Unit for security reasons, and restrictions apply on certain chemicals, such as nitrogen and ammonium, and certain types of metal and concrete piping.¹⁵ Agribusinesses report that these restrictions limit potential productivity gains and lower the shelf life of packaged products.

In addition to Israeli restrictions, the import of these products is also subject to regulation by the Palestinian MoA under the Law on Agriculture (2003). Packaging materials are subject to testing and approval by the Palestinian Standards Institution (PSI). One interviewee expressed frustration with extra cost and delays created by this approval process, citing an example of a two week delay due to the PSI administrator (whose signature is required) being out of town. Pesticides are regulated by a pesticides committee, which disallows a number of pesticides that are allowed by Israel. As the PA has no control over access to the West Bank, Palestinian input suppliers who comply with the regulations report that they can be undercut by Palestinian and Israeli merchants who bring in banned products directly from Israel. In addition, concerns were voiced over the transparency of the pesticides committee's processes for registering new active ingredients.

AGRICULTURAL RESEARCH AND EXTENSION SERVICES

Interviewees report that MoA extension services for farmers are weak and largely unavailable, due in part to a frequent lack of vehicles or fuel necessary to visit farms. According to the MoA, much of the assistance to smallholders is limited to providing equipment or monetary assistance incentives to participate in Global Good Agricultural Practices (GlobalG.A.P.), although there is a current effort to train employees to assist smallholders in complying with GlobalGAP requirements. Extension services are also provided by donors, and NGOs report that lack of coordination has often resulted in farmers receiving duplicative or conflicting training.

According to interviewees, there is little independent agricultural research in the West Bank due to the availability of highly sophisticated technology from Israel. One exception is the Applied Research Institute – Jerusalem (ARIJ), which is involved in the practical development and testing of new agricultural technologies and techniques in the West Bank, including a current project to pilot the use of treated waste water for agricultural purposes.¹⁶

¹⁵ Al-Mustakbal Foundation, *Development of Palestinian Agricultural Sector: Movement, Crossings, and Trade Arrangements for Crossing* (2007).

¹⁶ ARIJ, *An Integrated System for the Treatment and Reuse of Wastewater in Wadi Al Arrub*, available at <http://www.arj.org/projects/current-projects/468-wastewater-treatment-in-wadi-alarrub.html>.

ACCESSING FINANCE

Lack of credit is one of the greatest barriers to agricultural enterprise growth in developing countries. Agribusiness is considered risky, and loan products that are available are often very expensive and the terms unsuited to the seasonal nature of agriculture. Where secure land rights are unavailable, farmers are frequently unable to produce suitable collateral. The West Bank is no exception. While large agribusinesses with sizeable bank accounts, land, and/or realty to offer as collateral do not face difficulties in accessing credit, smallholder farmers have very little access.

ACCESS TO FINANCIAL SERVICES

Although the banking sector in the West Bank is strong and highly capitalized, only 1.5 percent of all loans service the agricultural sector, even though agriculture constituted 6 percent of GDP in 2010.¹⁷ Microfinance institutions (MFIs) are prevalent, although NGOs report that the demand for these loans far outstrips the supply. MFI loans are generally small (average size \$1,500) with interest rates of one to 2 percent per month.¹⁸ The Palestinian Monetary Authority has recently taken over responsibility for regulating microfinance institutions, which will be required to transfer to corporate form and adhere to governance regulations. It is unclear what impact this change will have on their operations and the costs to borrowers.

SECURED TRANSACTIONS

There is no formal secured transactions law or regulations, although the Banking Law (No. 2) (2002) allows banks to take title to land and moveable property as collateral for a loan. According to interviewees, banks require security for a loan in the form of land, realty or deposit money, which most smallholders do not have. Banks do not currently accept moveable property as collateral, and there is no collateral registry. Some lenders refuse to accept land as collateral due to the tenuous nature of land rights in Area C and a general reluctance to seize land if it will mean taking away the individual's livelihood. Two donor-funded loan guarantee programs have improved smallholders' eligibility for loans despite a lack of suitable collateral.¹⁹ However, banks also frequently require a guarantor with assets in Area A, as well as a feasibility study. NGOs report that farmers are reluctant to spend money on a feasibility study for a loan that may not materialize.

NON-TRADITIONAL FINANCING ARRANGEMENTS

Absent access to bank or microfinance loans, NGOs report that some farmers borrow in kind from middlemen in the form of inputs, for which the middleman deducts his cost when the crops are sold at the wholesale market. These financing arrangements are not regulated, and farmers lack access to market information to assess the risk of these deals or to verify price quotes from merchants. Some farmers have ended up in a cycle of debt, forcing them to continue to work with the same merchants year after year. Three party arrangements are also reportedly available, in which loans to the farmer are repaid by the trader or marketing company that purchases the farmer's products. According to the World Bank, there is no leasing law, and equipment leasing is in its infancy.

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¹⁷ Figure for 2011 year to date, up from 1 percent in 2010 (Palestinian Monetary Authority). Portland Trust, Palestinian Economic Bulletin, Issue 60 (September 2011), available at http://www.portlandtrust.org/documents/pdfs/bulletins/Issue60_September_2011.pdf.

¹⁸ World Bank, West Bank and Gaza Financial Sector Review (2008).

¹⁹ These loan guarantee programs are: the European-Palestinian Loan Guarantee Program and the OPIC/PIF loan guarantee facility.



AGRICULTURAL INSURANCE

Agricultural insurance is not available in the West Bank. Currently, the MoA pays out of pocket in case of disasters. According to the MoA, this process absorbs a tremendous amount of time, money and manpower. Despite much discussion, a law governing agricultural insurance has yet to be passed. In addition, interviewees report that the project lacks funding and practical operating procedures. Moreover, smallholder farmers who are unfamiliar with insurance and lacking in disposable income may be unwilling to purchase a policy.

CREDIT INFORMATION

Credit information is available to banks and microfinance institutions through the Credit Bureau. The Credit Bureau is considered efficient and contains both positive and negative information. There is no minimum threshold for transactions included, and the database includes guarantees.²⁰

OPERATING A BUSINESS

Regulation and taxation are crucial to the ability of the government to protect the health and safety of its people and fund long-term growth initiatives such as health and education programs, infrastructure projects and social security. In the West Bank, aside from the frustrations discussed below, large agribusinesses generally report little concern with the PA licensing and taxation system. At the smallholder level, most farms operate largely as informal businesses outside the confines of this regulatory environment.

BUSINESS REGISTRATION AND LICENSING

Analysis of public administration within the PA has noted that it is in need of greater coordination and computerization.²¹ Most processes are still conducted through paper forms, and some agribusinesses complained about the need to fill out multiple forms at different ministries to obtain a single license or register a business. Registering a business in the West Bank is costly, and agribusinesses must satisfy a variety of licensing and reporting requirements from the Ministries of National Economy, Finance, Health, Agriculture and Environment, among others. In addition, they must register with the Chamber of Commerce, industry federations and the local municipality. Large agribusinesses stress the need to create a “one-stop shop” within the Ministry of National Economy to facilitate these processes.

Although many smallholder farms are informal, studies have found that roughly a quarter of farmers are affiliated with cooperatives.²² Cooperatives are registered and regulated by the Ministry of Labor (MoL). Interviewees report that the MoL has become stricter in its approvals of new cooperatives and now requires the submission of a budget. A new Cooperatives Law has been drafted but has yet to be passed. According to NGOs, although the draft law still contains some gaps, it has been revised to address many of their concerns. A new agency is being formed to address the issues faced by small and medium-sized enterprises (SMEs). It is not yet known what impact this new agency will have on agribusiness.

²⁰ World Bank, West Bank and Gaza Financial Sector Review (2008).

²¹ USAID, BizCLIR: For the Palestinian Economy (2009). For example, one NGO reported that a financial report was delivered as required to the Ministry of Interior but received a notice from the Ministry of Finance that it was never received.

²² See e.g., Swiss Agency for Cooperation and Development, Intajuna Project: Palestinian Fresh Fruits and Vegetables Sector Overview (2009).

TAXATION

Agribusinesses in the West Bank generally consider taxes to be low and do not perceive them to be an impediment to agribusiness growth.²³ New companies that register with the Palestinian Investment Promotion Agency receive a five year tax holiday. Producers and cooperatives are exempt from income and VAT taxes, although a new amendment to the tax law removes the income tax exemption. Municipalities, however, charge a variety of fees based on residency, such as for electricity and water, public works, safety, business licenses, and in some cities, property taxes.

Taxes on imports and exports are collected by Israel at checkpoints and submitted regularly to the PA. According to agribusinesses, the PA monitors the payment of these taxes by collecting a copy of the shipment invoice from the business and reconciling it with the clearance revenue received. This invoice, known as a “makasa”, is supplied by Israel. Agribusinesses report that shipments can be delayed when makasa supplies run out. Imported raw materials for industry are exempt from import taxes, but the tax must be paid upfront and a refund sought from the PA. Agribusinesses expressed frustration with excessive delays (sometimes over one year) in receiving the refund.

EMPLOYING WORKERS

Agribusinesses did not report difficulties in employing workers. Much of the seasonal agricultural workforce in the West Bank is informal. According to industry associations, agricultural processing factories hire formal workers, for whom they must provide accident insurance. There is no minimum wage and no social security.

According to interviewees, the formal education system generates a large number of agronomists but fails to produce graduates with the practical expertise needed by the MoA and private sector, such as pesticide spraying and tree pruning techniques. This problem is due in part to the limited access university faculties of agriculture have to good facilities, labs, and practice farms for training. In addition, agricultural vocational schools are considered largely neglected and receive little funding. NGOs report the farm-level agricultural workforce, much of which is unpaid, largely lacks formal training in agriculture. Studies estimate that 30 percent of unpaid agricultural work is conducted by women in the course of their domestic duties.²⁴

CREATING AND ENFORCING CONTRACTS

According to the literature, the judicial system has made substantial improvements in recent years.²⁵ Nonetheless, there is a perception that judges are young and inexperienced and unfamiliar with business laws and practices. In addition, interviewees report a cultural preference for settling disputes amicably outside of the legal system through business federations (some of which offer mediation services) or the use of a committee of relatives or community members. Formal contract enforcement is complicated by the fact that 97.5 percent of merchants in the West Bank purchase agricultural produce directly from farmers without using signed contracts.²⁶



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²³ Although there is very little information available regarding the administration of the Hamas government in Gaza, interviewees believed that ministries are operating regularly with respect to licensing and registration requirements, but that businesses in Gaza have been on an extended tax holiday since 2007.

²⁴ FAO, Palestinian Womens' Associations and Agricultural Value Chains (2011).

²⁵ World Bank, Economic Monitoring Report to the Ad Hoc Liaison Committee: Building the Palestinian State; Sustaining Growth, Institutions, and Service Delivery (April 2011).

²⁶ Swiss Agency for Cooperation and Development, Intajuna Project: Palestinian Fresh Fruits and Vegetables Sector Overview (2009).



LINKING TO MARKETS

A primary component of agricultural competitiveness is marketing infrastructure, i.e. the physical and information systems for marketing agricultural products beyond the farm gate. In the West Bank, large agribusinesses have relatively efficient marketing infrastructure in terms of adequate storage and refrigerated trucks for transport and, despite security restrictions, manage to export agricultural products profitably. However, they lack affordable access to land and thus sufficient production to meet export demands. Smallholders, on the other hand, are largely removed from the marketing chain, with little or no storage facilities or market information.

TRANSPORTATION

Interviewees did not express any major concerns with physical infrastructure, noting that beyond the issue of access (physical obstacles such as checkpoints, roadblocks, gates, etc.), road quality was not a serious impediment to agricultural trade. However, the World Bank has noted several constraints within the road transport system. Roads reserved for settlers, to which Palestinian access is restricted, fragment Palestinian land and constitute additional barriers for Palestinian agribusinesses. The World Bank notes that although the settler road network adds only 0.4 percent to the restricted area of the West Bank, its impact on Palestinian livelihoods is incommensurate. In addition, in Area C, poor quality roads increase the cost of shipping, as trucks often have to navigate small roads unsuitable for shipping. The World Bank reports that infrastructure projects, such as road repairs, are often rejected by the ICA despite the availability of donor funding.²⁷

POSTHARVEST STORAGE FACILITIES

Many larger agribusinesses, GlobalGAP-certified farmers, packing houses, and some merchants have their own suitable storage facilities, in part due to the support of the United States Agency for International Development (USAID) PAPA Project.²⁸ However, interviewees report that smallholder farmers in the West Bank still lack suitable access to refrigerated storage. The Ministry of National Economy noted that opportunities exist for capitalizing on the use of existing facilities, which are often underutilized, and could be leased to cooperatives and farmers groups for parts of the year.

LOCAL MARKETS

Farm produce is generally sold in either wholesale or retail markets.²⁹ At wholesale markets, sales are subject to a 10 percent fee per transaction (6 to 7 percent for the merchant, and three to 4 percent for the municipality). A thorough study by the Intajuna Project in 2009 found that farmers generally receive higher prices from direct sales to retail markets. However, most retail markets prefer to purchase from wholesale markets because of the convenience of transport, variety, and receiving all goods in one shipment. Institutions, such as hotels, restaurants, and hospitals, generally contract with wholesalers for the same reason.³⁰

²⁷ World Bank, *Economic Effects of Restricted Access to Land in the West Bank* (2009).

²⁸ USAID, *Palestinian Agribusiness Partnership Activity, Draft Final Report* (2009).

²⁹ Some farmers also sell their produce directly to consumers through roadside stands.

³⁰ Swiss Agency for Cooperation and Development, *Intajuna Project: Palestinian Fresh Fruits and Vegetables Sector Overview* (2009).

According to numerous reports and interviewees, local markets are currently saturated by the large quantity of Israeli products regularly flowing into the West Bank economy as well as substandard goods from Israel, Turkey and China that endanger consumers and suppress local prices.³¹ There are little to no government standards in respect to quality, packing, grading, and measurement to allow Palestinian producers to differentiate their products,³² and the PA has no effective mechanism for enforcement of such requirements.³³ In addition, complementary industries, such as processing, exist but lack enough capacity to absorb the excess supply.

MARKET INFORMATION SYSTEMS

The literature consulted for this report contained no discussion of market information gathering in the West Bank. Interviewees noted that municipalities currently collect daily price data from wholesale markets, but there is no effective market information system for economy-wide data collection, storage, and dissemination. Farmers lack information with respect to prices and supply, resulting in large price differences between wholesale markets in different villages. In addition, without information on demand and the needs of the market, farmers are unable to conduct effective crop planning and often produce similar goods at the same time, thus suppressing prices. As part of the MoA's Agricultural Strategy 2011-2013 "A Shared Vision," the MoA intends to develop an agricultural database and review data collection mechanisms.³⁴

STANDARDS AND LABORATORY TESTING

Due to donor efforts, many West Bank farmers now adhere to GlobalGAP and other private standards for plant materials for export. However, they lack proper standards for processed meat and dairy, which is mainly exported to Arab countries where standards are more lenient. In 2010, two studies examined Palestinian sanitary and phytosanitary standards (SPS): The World Organisation for Animal Health (OIE) study on veterinary services³⁵ and a gap analysis by Technical Assistance and Information Exchange of the European Commission (TAIEX)³⁶ that compares Palestinian SPS to European ones. Both reports identified gaps in Palestinian SPS requirements, including an unclear division of responsibilities between relevant ministries and bodies, the absence of a clear legal authority for food inspection, inadequate lab facilities to test EU standards and a number of laws that are not in line with international requirements. The MoA has instigated a strategy for addressing the findings, and amendments to the legal framework governing SPS are ongoing.

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³¹ See e.g., Swiss Agency for Cooperation and Development, Intajuna Project: Palestinian Fresh Fruits and Vegetables Sector Overview (2009); FAO, Palestinian Womens' Associations and Agricultural Value Chains (2011); and Al-Mustakbal Foundation, Development of Palestinian Agricultural Sector: Movement, Crossings, and Trade Arrangements for Crossing (2007).

³² The Palestinian Standards Institute recently passed 33 quality standards for fresh produce based on UNECE. However, PSI standards are voluntary, and enforceable technical requirements do not yet exist.

³³ Roadblocks manned by PA customs officials and MoA inspectors at town entrances have limited effectiveness.

³⁴ MoA/FAO, Action Plan of the National Agricultural Strategy "Shared Vision" 2011-2013 (2011).

³⁵ OIE, PVS Evaluation Report of the Veterinary Services of the Palestinian Territories (West Bank) (2010).

³⁶ EU, TAIEX Assessment Mission on SPS Policies to the Occupied Palestinian Territory (2010).



TRADE FACILITATION

There is widespread acknowledgement in the literature and by interviewees that security procedures put in place by Israel increase agribusiness export costs and threaten the viability of perishable agricultural products.³⁷ To facilitate security inspections at checkpoints, products must be offloaded for scanning or physical inspection and reloaded on to Israeli vehicles, during which time the cold storage chain is broken. Additional security limitations on the height of pallets and the density with which the products are loaded on to the truck decrease economies of scale in shipments. One trader interviewed noted the lack of suitable scanners at any of the commercial crossing points between Israel and the West Bank, which means that for some high density agricultural produce, such as olive oil, trucks can only be half filled. In addition, checkpoint opening hours and wait times can be unpredictable, and when shipments are delayed in port, agribusinesses must pay for their own storage, further increasing costs, and the risk of spoilage.

Agribusinesses reported that these requirements add up to 20 percent to the cost of each container. Many Palestinian agribusinesses pay Israeli shipping agents to facilitate the transport of products through Israel, which adds further costs. According to interviewees, some agribusinesses have recently been able to negotiate special “trusted trader” treatment with the Israelis that allows them to pass through checkpoints with less invasive screening.

While acknowledging that the security restrictions are the overriding constraint faced by agribusinesses in import and export, agribusinesses expressed their desire for a centralized one stop shop for all import and export documentation to reduce the bureaucratic hassle of obtaining a variety of different documents from different authorities for each shipment.³⁸

CUSTOMS AND CLEARANCE REVENUE

The Palestinian economy is highly dependent on customs clearance revenue, which represents 60 to 70 percent of total PA revenue according to UNCTAD.³⁹ UNCTAD notes that Israel has withheld tax and customs clearance revenue more than three times over the past three years, most recently in May 2011. In addition, UNCTAD notes customs revenue from indirect imports into the West Bank through Israel is collected by the Israeli authorities but not transferred to the PA. These indirect imports account for an estimated 58 percent of what is officially reported as Palestinian imports from Israel and clearance revenue from these imports would amount to more than 8 percent of GDP. It is unclear what percentage of these indirect imports is attributable to agricultural goods.

INTRA-INDUSTRY LINKAGES

The varied agroecological zones and climate put the West Bank and Gaza in a strong position to meet the winter market needs of Europe. However, large agro-exporters expressed a desire for greater collaboration with producers to obtain sufficient supply to meet the demands of export markets. According to agribusinesses and the MoA, attempted collaboration between smallholders and agro-exporters in the form of outgrower schemes has resulted in a large degree of mistrust between the parties. Agribusinesses generally complain about the unreliability of the small farmers in terms of their ability to produce on a set time scale to the required quality and quantity needed as well as the tendency of farmers to side-sell their produce in volatile markets. Smallholders, on the other hand, argue that they are taking all the risk and none of the profit. The MoA was recently asked to intervene on behalf of both parties to supervise these contracts.

³⁷ See e.g., UNCTAD, Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory (2011); Al-Mustakbal Foundation, Development of Palestinian Agricultural Sector: Movement, Crossings, and Trade Arrangements for Crossing (2007).

³⁸ A report completed by the Al-Mustakbal Foundation contains a very thorough explanation of paperwork required and the procedures for each crossing between Israel and the West Bank and Gaza. Al-Mustakbal Foundation, Development of Palestinian Agricultural Sector: Movement, Crossings, and Trade Arrangements for Crossing (2007).

³⁹ UNCTAD, Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory (2011).

Large agri-exporters expressed the desire to see the development of more medium-sized farms as a means of achieving greater productivity and ensuring sufficient export supply. However, the inherent risks in agricultural investment in the West Bank, including insecure land rights and the lack of agricultural insurance, has made it difficult to attract investment in this model. Instead, efforts have focused on the use of cooperatives to better integrate smallholders into the marketing chain. These projects have met with mixed success. According to interviewees, many cooperatives have been formed to enable participation in donor projects but lack true ability and expertise for export marketing.

COMPETING FAIRLY

An open “culture of competition” is essential to agriculture-led growth. Domestically, there is currently no legal framework to protect and promote competition in the West Bank and Gaza. The PA has a forward-looking approach to international trade policy but faces considerable challenges in its trade relationship with Israel.

COMPETITION LAW AND POLICY

Despite the lack of a formal competition law, businesses report that markets generally operate by supply and demand. Nonetheless, a lack of price information, poor negotiating skills and poor regulation of merchants puts farmers at risk of falling victim to anticompetitive practices in the marketplace. For example, interviewees report that it is common for merchants in wholesale markets to collude to lower the purchase prices farmers receive for their products.

GOVERNMENT INTERVENTIONS IN THE AGRICULTURAL MARKET

In general, the PA does not intervene directly in the agricultural markets through crop boards, agricultural subsidies, strategic reserves or price setting. According to one agribusiness, a recent attempt to create an olive oil bank was defeated through private sector lobbying and, to date, the government has not introduced any mechanisms to control supply or restrict exports based on food security concerns. However, the MoA does give direct cash handouts to smallholders as an incentive to participate in GlobalGAP as well as to offset farmers’ losses in case of drought or other natural disasters. While these programs fill the gap created by the lack of agricultural insurance or a social safety net, the competition effect of this practice on the market is unknown.

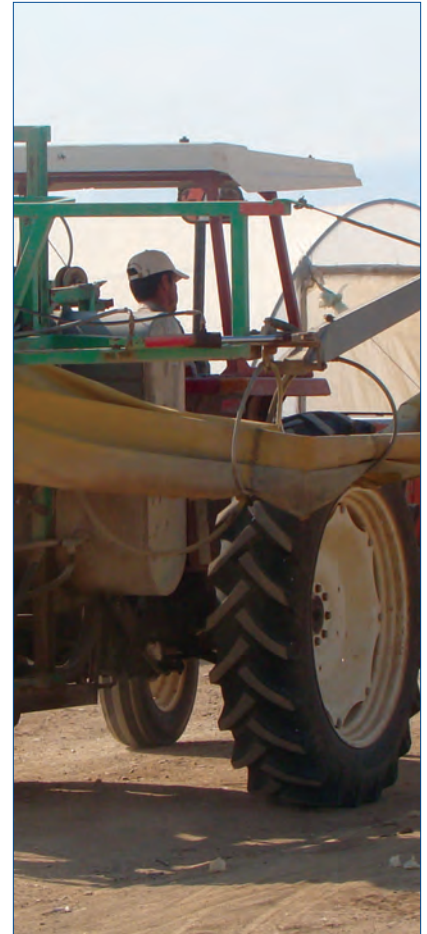


PHOTO BY ENTRAC INC.



TRADE POLICY WITH ISRAEL

The West Bank and Gaza are treated as a customs envelope within Israel under the Paris Protocol. This arrangement provides for free movement of goods and services between the two parties. However, in effect the Palestinian economy runs a large trade deficit with Israel. In 2010, the trade deficit rose from \$2.6 to \$2.8 billion, a figure greater than the \$2.7 billion in transfers the PA received from donors and equal to 52 percent of GDP. According to UNCTAD and interviewees, the contraction of the Israeli market in recent years is attributable to the decrease in physical access to Israel due to the Separation Barrier as well as rejection of Palestinian goods by Israel on the basis of quality, particularly with respect to meat and dairy products.⁴⁰ This trade imbalance has undermined local production by flooding the market with an excess supply of cheaper Israeli goods. Israeli goods are produced more competitively because they have better technology and cheaper access to inputs such as water and electricity.

INTERNATIONAL TRADE POLICY

The PA sees the value of international trade and maintains a very open trade policy, although under the Paris Protocol, common external tariffs set by Israel are applicable in the West Bank, including those for agricultural products and inputs.⁴¹ The PA is party to trade agreements with the EU, the US and Canada that provide for preferential treatment of Palestinian products in those markets. At the end of September, the EU extended its current trade agreement with the West Bank and Gaza that will provide direct, duty-free and predominantly quota-free access for Palestinian agricultural products. Additionally, the PA recently signed the Agadir free trade agreement with Morocco, Tunisia, Egypt and Jordan, which is seen as precursor to a Greater Arab Free Trade Area (GAFTA).⁴² The PA has also been working to develop its laws and institutional practices with a view to obtaining World Trade Organization (WTO) Observer Status, an effort that has been facilitated by USAID's Investment Climate Improvement (ICI) Project. The most important step in this regard will be the reform of practices governing agricultural standards, as detailed in the previous section on Linking to Markets.

⁴⁰ According to UNCTAD, Palestinian exports to Israel decreased by 30 percent between 2008 and 2009. UNCTAD, Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the occupied Palestinian territory (July 2011).

⁴¹ Al-Mustakbal Foundation, Development of Palestinian Agricultural Sector: Movement, Crossings, and Trade Arrangements for Crossing (2007).

⁴² Portland Trust, Palestinian Economic Bulletin, Issue 61 (October 2011), available at http://www.portlandtrust.org/documents/pdfs/bulletins/Issue61_Oct_2011.pdf.

RECOMMENDATIONS FOR FUTURE ACTION

ACCESSING INPUTS

Water	<p>Analyze water needs across the various cross-sections of the agricultural sector. While the limitations on the availability of water are well documented, more research is needed to understand the relative impact of these restrictions on different agricultural subsectors, regions and types of producers. This research would help to inform priority interventions and value chains with the highest potential of success given the constraints.</p> <p>Investigate the success or failure of water users' cooperatives in improving agricultural irrigation schemes. NGOs have had some success in establishing water users' cooperatives in the West Bank. Examining the characteristics of successful cooperatives (in terms of community make-up, type of water source, type of farming, etc.) would lay the groundwork for creating a roadmap for future interventions.</p>
Seed	<p>Investigate progress made in fostering local seed production. There is currently little information on seed production in the West Bank. A feasibility study on the potential for local seed production is needed. In addition, research should be conducted on efforts by the MoA to implement commitments made in the 2003 Law on Agriculture toward regulation of seed import and export, seed selection and quality control and the introduction of a genetic bank for seeds.</p>
Chemicals and Equipment	<p>Examine recent initiatives to increase access to banned agricultural products through altering their chemical composition. Interviewees noted efforts by the Israel Bomb Disposal Unit to change the chemical properties of products containing nitrogen and ammonium so that they no longer security threats. Further clarity is needed on this initiative and its potential impact on the agricultural sector.</p> <p>Investigate the PA pesticides committee's process for registering new products. Agribusinesses interviewed raised concerns over burdensome restrictions and opaque processes to register new active ingredients for pesticides. Research is needed to clarify the existing procedures.</p>

ACCESSING FINANCE

Secured Transactions	<p>Research potential mechanisms for the use of moveable property as collateral. At present, banks do not accept moveable property as collateral. However, there is also little information as to what types of moveable property smallholders could offer as collateral, as well as any legal, logistical or cultural obstacles that would limit the effectiveness of this form of agricultural lending.</p>
Agricultural Insurance	<p>Investigate the feasibility and impact of an agricultural insurance scheme. Although a law governing agricultural insurance may soon be passed, it is unclear whether there is true private sector dedication to participating in the project, both as investors and as policyholders. A thorough analysis of the anticipated market coverage and economic costs of this model is needed, as well as practical operating guidelines and public awareness strategies.</p>

OPERATING A BUSINESS

Business Registration and Licensing	<p>Assess the obstacles to the creation of a "one-stop shop" for business registration and licensing. To-date, efforts to institute such a "one-stop shop" within the Ministry of National Economy have been unsuccessful. A study should be conducted to determine the reasons for this failure, the ongoing obstacles and potential solutions.</p> <p>Investigate the causes of widespread informality in the agricultural sector. An estimated 39 percent of the informal sector works in agriculture. Informality denies the PA of needed tax revenue and these businesses and their workers of the protections of the law. Any attempt to rein in the informal sector should be informed by analysis of the reasons individuals and businesses choose to remain informal and the potential benefits they would gain from joining the formal sector.</p>
Taxation	<p>Examine the PA system for the refund of import duties on exempt raw materials. Agribusinesses reported long delays (upwards of one year) in obtaining a refund of import duties paid on exempt raw materials and inputs. More research is needed to understand the causes of these delays and illuminate potential reforms.</p>

RECOMMENDATIONS FOR FUTURE ACTION (Continued)

LINKING TO MARKETS

Roads	<p>Research the transportation needs of the agricultural sector in the West Bank, particularly as it pertains to Area C. Although the literature details where and how many checkpoints exist within the West Bank, no study was uncovered that examines the impact of these barriers by region, agricultural sub-sector or type of transportation. In addition, further research into the specific limitations or restrictions at various checkpoints could illuminate innovative approaches to improving economies of scale and decreasing overall delays.</p>
Postharvest Storage Facilities	<p>Investigate the potential for capitalizing on the use of existing under-utilized storage facilities for cooperatives and farmers groups. Interviews revealed that existing storage is largely privately owned and underutilized. Further research is warranted to determine the potential impact on smallholder productivity and agricultural sector growth if these facilities could be made available to smallholders through leasing or other mechanisms.</p>
Local Markets	<p>Identify enforcement mechanisms for quality standards and food safety in local markets. The Palestinian Standards Institution is in the process of developing quality standards for fresh produce, with the goal of eventually enacting compulsory technical requirements in this area. However, the PA has no effective mechanism for enforcement of such requirements. Research is needed to identify obstacles to effective and fair enforcement and lay the groundwork for the development of such a system despite the PA's lack of border control.</p>
Market Information Systems	<p>Research the feasibility of introducing an agricultural market information system (MIS). Farmers currently lack suitable information on agricultural prices and production across the West Bank, which limits their ability to plan production and gain a fair price in the marketplace. Avenues for the collection and dissemination of this data should be explored, including the possible use of daily price data currently collected in municipality markets.</p>
Intra-industry Linkages	<p>Assess the most viable means to integrate or consolidate smallholder production to improve efficiencies of scale in production. PA and donors efforts in this regard have focused on increasing smallholder production, and donor-supported cooperatives have had a mixed track record in this regard. Future interventions would benefit from a thorough analysis of successes and failures in this area to identify the motivations of various stakeholders, common pitfalls to avoid and innovative methods for integrating the value chain.</p>
Trade Facilitation	<p>Investigate how some agribusinesses have been able to secure special or favorable trade facilitation treatment and whether this can be replicated on a larger scale. Despite the many barriers placed on export from the West Bank, some agribusinesses have been able to secure preferential treatment from Israel as 'trusted traders'. Research on how this has been achieved could open the door for other agribusinesses to replicate this success and/or open dialogue for loosening the restrictions on an economy-wide basis.</p>
Customs and Clearance Revenue	<p>Research the quantity and types of indirect imports and the means through which they enter the Palestinian market. Indirect imports from third countries account for an estimated 58 percent of official imports from Israel, and clearance revenue for these imports is not currently transferred to the PA. No study was found to indicate the portion of these indirect imports attributable to agricultural goods nor the various mechanisms through which these goods enter the Palestinian market. Further research in this area would help the PA identify mechanisms to track these sales and improve revenue collection.</p>

COMPETING FAIRLY

Government and Donor Interventions in the Agricultural Market	<p>Assess the process and potential distortionary impacts of direct government and donor handouts to farmers. The MoA currently gives direct cash handouts to smallholders as an incentive to participate in GlobalGAP as well as to offset farmers' losses in case of drought or other natural disasters. In addition, donor projects frequently provide smallholders with equipment and training to meet GlobalGAP and other private standards. No analysis was found that examines these interventions to identify long-term success rates and/or any distortionary impacts on local and external agricultural markets for Palestinian goods.</p>
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Nate Kline, Chief of Party
EAT/Fintrac
202.621.7349
nkline@fintrac.com

Deanna Gordon, COTR
USAID/BFS
202.712.0623
degordon@usaid.gov

This document was written by Amy D'Angelo and David Quinn
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