



INTERNATIONAL LABOUR ORGANIZATION

REGIONAL OFFICE FOR ARAB STATES

Concept note

Improving the Quality of Employment in Palestinian Micro, Small and Medium Enterprises (MSMEs)

Duration: 24 months

Implementing Partners: Palestinian Authority, employers' organizations, workers' organizations

Estimated Budget: US\$2,600,000

Brief Description: Building on extensive research and policy development in the micro, small and medium enterprise (MSME) sector in the occupied Palestinian territory in which the ILO has developed strong networks and detailed empirical knowledge, this project will improve the capacity of social partners to understand and respond to the challenge of poor job quality. 87 percent of the Palestinian workforce is employed in MSMEs; however, informality is extremely high and most workers in this sector suffer from poorly paid, insecure and sometimes unsafe working conditions. This action-research project will work with the social partners to improve the quality, productivity and sustainability of MSME employment through careful analysis, regular, structured dialogue and the identification and promotion of best practices.

**Meeting on the ILO programme of technical cooperation
in the occupied Palestinian territory**
Geneva, 15 November 2010

I. Rationale and justification

In 2009, the Office of the Prime Minister of the Palestinian Authority (PA) sought ILO technical assistance in preparing a policy framework for SME promotion in the oPt. In response to this and through consultations with key stakeholders, the ILO formulated a project with the overall objective of providing assistance to the PA on the promotion of enterprises to create productive and decent employment. The Minister for National Economy chaired the Project Working Group, comprised of representatives of relevant ministries and agencies and business membership organizations. The Minister played an active role in reviewing draft documents and the Project Working Group reviewed and commented on all reports.

Two ILO reports were produced, both of which are available on the Ministry of National Economy's website. The first report was an *Assessment Report*, which the minister launched in March 2010. This report presents the results of a qualitative and quantitative assessment of MSMEs in the oPt and highlights the substantial role of enterprises in the Palestinian economy. While there are some regional variations, only one percent of all private enterprises can be considered large (i.e. with 20 or more fulltime workers). Most MSMEs operate in the wholesale, retail and manufacturing sectors, and account for 70 percent of MSME establishments. 87 percent of the Palestinian workforce is employed in MSMEs in the oPt. Among these workers, women represent 17 percent in the West Bank and nine percent in Gaza. Women are better represented in the public sector and in large enterprises. Informality is high amongst MSMEs, especially among micro and small enterprises. Salaries are low and conditions are far from stable and safe. While micro and small enterprises provide employment for many who would otherwise be unemployed, this kind of employment falls well short of Decent Work and typically impedes enterprise growth and sustainability.

The second report was the *Policy Framework for the Development of MSMEs*, which the Minister launched on 13 May 2010. This document presents a coherent and integrated response to the challenges and opportunities facing existing and emerging MSMEs and outlines the roles of the PA and the ways it will work with its social partners. In addition to recommending an official definition for the MSME sector, the Policy Framework presents a response to the critical concerns of Palestinian MSMEs in the occupied Palestinian territory through a four-pillar framework:

Pillar 1: Improve the policy, legal and regulatory framework and administrative mechanisms for MSME development - formulation of a charter for harmonizing and integrating the policy, legal and regulatory framework for MSMEs; the establishment of one-stop-shops dealing with a wide range of registrations and licenses in one location; improving compliance with labour law and the conditions of workers in MSMEs; investigations into the creation of a single business license; and the review of investment policies and laws.

Pillar 2: Improve the access of MSMEs to markets and financial and business development services - formulation of a Palestinian enterprise development strategy; support for local economic and enterprise development; aligning Palestinian Authority agencies towards MSME needs and opportunities; support for entrepreneurship education; and facilitating the provision of MSME development services through business membership organizations.

Pillar 3: Improve MSME representation, advocacy and dialogue with government - support to MSME membership organizations; the promotion of a sustainable MSME membership development programme; and support to strategies for improving MSME participation in public-private dialogue.

Pillar 4: Fill the current knowledge gaps on MSME development and monitor change in the MSME sector - while knowledge gaps are likely to change from year to year, the critical gaps currently identified are the need to better understand the issues affecting poor compliance among MSMEs to

the Palestinian labour law, and the need for a detailed assessment of the markets for business development services.

This project proposal deals directly with the concerns raised in Pillars 1, 3 and 4 of the *Policy Framework*. It represents a systemic response to the concerns of job quality in the MSME sector and links this to the productivity, competitiveness and sustainability of enterprises in the oPt. Furthermore, this project draws on the significant range of capabilities and experience of the ILO in this field.

II. Project development objective and outcomes

The project will work with the social partners (the Palestinian Authority, employers' organizations, workers' organizations) to *improve the conditions in which MSMEs establish, expand and employ Palestinian women and men*. The following outcomes are targeted through an action-research project that will assess challenges and design responses for:

- a. Improved capacities of relevant PA agencies and the social partners and stakeholders to improve the regulatory and administrative framework to make it conducive to decent job creation in MSMEs;
- b. PA agencies, social partners and other stakeholders engage in dialogue concerning the quality, productivity and sustainability of MSME employment and undertake a reform of labour regulatory and administrative frameworks and mechanisms; and
- c. PA agencies, social partners and other stakeholders have improved institutional quality that supports MSMEs in their compliance with existing and new labour regulations.

III. Project Strategy

The project strategy is based on a systemic approach to MSME development that promotes analysis and action across the whole system that affects MSME behaviour rather than just one part of it. The systemic approach enables the project to identify and influence key issues that affect behaviour over time to maximize impact. Four levels of interaction of stakeholders are distinguished: (1) the meta level, which is comprised of the broader cultural context (e.g., existence and efficiency of the rule of law), (2) the macro-level of the system consists of labour policies, laws and regulations and the broader business enabling environment for MSMEs, (3) the meso-level of the system is constituted by organizations that facilitate or deliver labour regulation advisory services and also represent the MSMEs at the macro level; and (4) the micro-level of the system, which is made up by the MSMEs and their awareness of the regulatory environment. The four-level systemic approach allows for comprehensive analysis to take place giving the project a holistic approach to MSME development. However, most of the project interventions will focus on two of the levels, the macro and meso levels.

The project will build the knowledge base and understanding of job quality issues within MSMEs in the oPt and will build the capacity of the social partners to deal with these challenges and formulate practical, strategic and sustainable responses. Key activities to be conducted include:

- Research into the quality of MSME employment;
 - Consultation with MSME employers and workers;
 - Consultation with PA agencies regulating MSME employment;
 - Identifying good and bad employment practices among MSMEs in the oPt;
 - Facilitation of social dialogue between the MSME sector (i.e., MSME employers and workers) and the PA;
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- Formulation of policy, legal, programme and practice proposals designed to improve the quality, productivity and sustainability of MSME employment;
- Pilot initiatives to test methods for improving the quality, productivity and sustainability of MSME employment; and
- Capacity building of all social partners, through training courses and information products (including a best practice guide published in the final phase of the project).

Relevance

The proposed project supports the Palestinian Authority in its ongoing efforts for economic independence, national prosperity and sustainable business growth as outlined in the Thirteenth Government Programme. The Programme has in fact confirmed the Government's commitment to building a free and competitive economic system through close cooperation between a competent, capable and visionary public sector and a pioneering private sector. It also confirms the Government's commitment towards economic policies and development plans that focus on developing domestic capacities and resources, creating an environment that attracts investment, and laying the foundations of sustainable growth and development. This proposed initiative supports the Government, under the leadership of the Ministry of National Economy, to advance the growth of the MSME sector and the creation of more and better employment for women and men.

Project partners

The key project partners will include, but will not necessarily be limited to, the Palestinian Authority (Ministry of Labour, Ministry of National Economy), employers' organizations and other relevant business membership organizations (e.g., Federation of Palestinian Chambers of Commerce, Industry and Agriculture), and workers' organizations.

Target Beneficiary Groups

The target groups benefiting from this intervention are existing and potential MSMEs and their workers - male and female. The direct beneficiaries will include the Palestinian Authority, which will have a better understanding of the influence the labour law and its enforcement mechanisms have on the quality of employment in the oPt; and employers' organizations and workers' organizations, which will have a more objective, evidence base on which to respond to the concerns of their current and potential members.

Sustainability plan

This project is focused on long-term sustainability from the outset. By building knowledge of job quality concerns in the MSME sector and building the capacity of the key actors who are able to deal with these concerns, the project has a long-term and sustainable outcome as its ultimate goal.

IV. Duration and Budget

The project will run for a period of two years with a target start date of March 2011, divided into three phases:

Phase 1 - Inception (four months): this phase will involve close consultation and collaboration with all programme partners to develop a realistic and output-oriented workplan. It will include the sensitization of the project partners and other key stakeholders of the project and its focus.

Phase 2 - Assessment and Response (16 months): this phase will collect and analyze data from MSMEs and their workers, as well as from all relevant government and other partners engaged in the

promotion, regulation and monitoring of labour conditions. It will identify the critical concerns and challenges associated with promoting quality employment in the MSME sector and will use this data to formulate relevant and achievable responses.

Phase 3 - Lessons learned and capacity building (four months): while Phase 2 will involve a significant degree of capacity building among the project partners, the final phase of the project will focus on the identifying the lessons learned from the project and using these to formulate strategies and proposals that can be used in the future to develop meaningful and sustainable responses to the challenges faced to MSME employment in the oPt.

The overall budget of this project is estimated at a total budget of US\$2,600,000. A detailed breakdown can be made available on request.

For further information, please contact

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