Palestinian Market Development Programme (PMDP) to Strengthen the Private Sector in the Occupied Palestinian Territories

Final Evaluation

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List of Abbreviations

AA	Annual Assessment
B2B	Gaza Back to Business
B2M	Back to Market
BPO	Business Process Outsourcing
BDA	Business Development Adviser
BDS	Business Development Service
BEE	Business Enabling Environment
BMOs	Business Membership Organisations
BWF	Business Women Forum
CCU	CTR Coordinating Unit
CMC	Certified Management Consulting
CTRs	Commercial Trade Representatives
DAI	Development Alternatives Incorporated
DFID	Department for International Development
EU	European Union
FAA	Finance, Accounting and Administrative
FCO	Foreign Commonwealth Office
FNMD	Facility for New Market Development
FPCCIA	Federation of Palestinian Chambers of Commerce, Industry and Agriculture
GDP	Gross Domestic Product
GIZ	German Agency for International Development
HDI	Human Development Index
HLITOA	The Holy Land Incoming Tour Operator Association
HMG	Her Majesty's Government
HR	Human Resources
ICA	Investment Climate Assessment
ICT	Information and Communication Technology
IFC	International Finance Corporation
ISIC	International Standard Industrial Classification
ISO	International Standards Organisation
IT	Information Technology
KPI	Key Performance Indicator
KSA	Kingdom of Saudi Arabia
LTQR	Light Touch Quarterly Report
M&E	Monitoring and Evaluation
M4P	Making Markets Work for the Poor
MDA	Market Development Adviser
MENAD	Middle East North Africa Department
MNE	Multinational Enterprises
MoF	Ministry of Finance

MoFA	Ministry of Foreign Affairs
MoNE	Ministry of National Economy
MSP	Management Service Provider
MoU	Memorandum of Understanding
MSMEs	Micro, Small, and Medium Enterprises
NES	National Export Strategy
NGO	Non-Government Organisation
OECD	Organisation for Economic Co-operation and Development
OPTs	Occupied Palestinian Territories
PA	Palestinian Authority
PALTRADE	Palestinian Trade Centre
PBF	The Palestinian Business Forum
PCBS	Palestinian Central Bureau of Statistics
PEC	Palestinian Export Council
PIPA	Palestinian Investment Promotion Agency
PITA	Palestinian Information Technology Agency
PMDP	Palestinian Market Development Programme
PSI	Palestinian Standards Institute
RFA	Request for Application
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprises
TA	Technical Assistance
TAMIS	DAI Management Information System
ToC	Theory of Change
ToR	Terms of Reference
UNDP	United Nations Development Programme
UNWRA	United Nations Relief and Works Agency for Palestine Refugees
USAID	United States Agency for International Development
VfM	Value for Money
WAYE	Women and Youth Employment
WB	World Bank
WBG	West Bank and Gaza

Executive Summary

Introduction

The Palestinian Market Development Program (PMDP), jointly financed by DFID and the EU, and implemented between 2013 and 2018, involved three components or outputs:

(i) a technical assistance and matching grant scheme aimed at improving the competitiveness of local firms

(ii) market analysis and follow-up activity including technical assistance grants and partnership grants to address critical underperforming market sectors

(iii) interventions in support of Palestine's trade and inward investment policies

PMDP's total financial commitment was of the order of £19.5 million.

The PMDP was a successor programme to the DFID/World Bank Facility for New Market Development (FNMD). Unlike FNMD, PMDP provided explicitly for the analytical work and policy support carried out under components (ii) and (iii) of the programme. PMDP's theory of change was comprehensive, innovative, and ambitious.

Implementation of PMDP was awarded to DAI Europe.

The overall context within which PMDP was conceived was DFID's commitment to:

- 'Making Markets Work for the Poor' (M4P)
- preparing the OPTs for a partnership role in a revived peace process.

PMDP had a theory of change, and logframe indicators, under each of the three components listed above. The hoped-for core impact of PMDP was improved private sector-led growth in the OPTs.

Evaluation in accordance with the OECD-DAC criteria

According to the Terms of Reference, the overall purpose of this assignment is "to undertake a full evaluation at the end of the Programme in line with DAC criteria". Over the course of our work on the project, we have refined the specific objectives as follows:

- To tell the story of how the design, management and delivery of the Programme affected the welfare of specific target groups and impacted on the general environment within which they were operating (in both short- and long-term time horizons)
- To identify the elements of the Programme that contributed positively to its overall performance and the internal and external factors that served to reduce its impact.
- To identify key issues that may need to be considered in the design of similar Market Development Programmes in the future (either in Palestine or elsewhere in

the world) and recommend specific measures that could help to improve the impact of any such future Programme.

In accordance with the requirements of the Terms of Reference, we have followed the five OECD-DAC criteria of relevance, efficiency, effectiveness, impact, and sustainability.

As to relevance, the present evaluation concludes that PMDP has been aligned with the policies and strategies of the Palestinian Authority, which emphasize the need for economic growth through private sector market development. PMDP provided direct support to the implementation of several specific PA policy objectives, in relation, for example, to connecting Palestinian firms with external markets, developing self-sufficiency in agriculture, promoting inward investment, and improving Palestine's Business Enabling Environment (BEE).

Central to the criterion of efficiency is the way such a programme is managed. A separate, detailed section of this report analyses the management of PMDP, the use of resources, and value for money. For reasons that we set out in detail, we conclude that PMDP was on the whole very well managed, with a notable capacity to adapt to changing circumstances. DFID management, supported by the EU, maintained a detailed knowledge of the day-to-day operations of the project and made effective management contributions at both strategic and operational levels.

The spend on management was high, partly because advice to client firms and potential grant applicants was an administrative overhead, and PMDP took these responsibilities seriously. In our recommendations below, we suggest that consideration be given to establishing a separate business advisory service for micro and small enterprises, with a supporting website. We propose a reduction in the overall number of grants. We also see no need to replicate in the immediate future the detailed analysis of market systems that underpinned PMDP's component 2. These three recommendations, if adopted in a future programme, would alter the ratio of 'spend on management' to 'spend on technical assistance.'

We conclude that PMDP has been effective – broadly speaking, it met its targets under all three components.

Under Component 1, the measure of success was whether client firms improved their skills and capacity, contributing to a pattern of private sector-led growth. The logframe indicators were broadly met or exceeded. Client companies have benefited in measurable ways. In many cases they have started to look beyond the local market.

Regarding the logframe indicators, we note here that the attribution of additional sales or employment to a specific donor intervention through a project like PMDP is difficult. For example, a product that is improved with PMDP assistance might increase the market potential of that item but an actual sale might be achieved only if a whole host of other conditions are met. The framing of indicators is discussed in more detail in the section of this report devoted to the management of PMDP.

Our evaluation has tended to confirm that numerous possible criteria for the allocation of grants are justifiable in principle – criteria based on sector, location, grant size, a focus on partners and co-facilitators, or addressing the needs of the marginalised. Our conclusion is that as a general rule, grants of between £10,000 and £20,000 to middle and small size companies have delivered the best results overall in the light of PMDP's objectives.

This group (SMEs), with this grant level, have delivered most in terms of new products, new markets, and increased use of BSPs. It is true that larger grants to larger companies have scored well in terms of sales and job creation. However, as discussed elsewhere in this report, attribution can be difficult in the case of a large enterprise, and it is an open question whether the bigger companies would have made similar investments in any case, even without PMDP grants. In general, middle size companies have a greater need for technical innovation and benefit more from technical assistance; and they do not have the financial reserves to incur risk.

Under Component 2, where the key measurement was the strengthening of market systems, we note the success of PMDP's intervention in the market system for animal feeds. Our study of the seedlings project in Gaza illustrates the importance, in certain instances, of a gradual, case-by-case approach even within a single sector. Effective intervention in a sector as complex and internationally competitive as ICT requires major resources; PMDP did not have the scale to follow up every opportunity. While PMDP had good relations with other donors, the development of new market sectors of systemic importance may require a step-change in the intensity of donor coordination. Regarding ICT, for example, there may be scope for DFID and several other donors to 'work around' ambitious thinking, already underway under the auspices of the World Bank, concerning a potential synergy between Israeli needs and Palestinian potential.

Under Component 3, the measure of success was to be a more diversified export trade, with new sources of inward investment also uncovered. We note, in particular, that according to World Bank estimates, $300m. of lending has taken place as a result the 2016 Secured Transactions Law: PMDP's contribution to the implementation of this law is one of the major successes of the programme.

Specifically, PMDP advisors supported MoNE at three levels:

- increasing awareness of the Secured Transactions Law and thereby helping to activate in practice the Registry of Interests in Movable Assets
- at a technical level, PMDP advisors reviewed and provided comments on the (draft) Secured Transaction Instructions (mainly focusing on the use and functionality of the Registry), which were eventually signed by the Minister
- PMDP helped the World Bank DB team to understand and acknowledge the role played by the Registry in improving the Business Enabling Environment

These interventions are discussed in more detail under component 3 below.

As a result of PMDP action, the PA has accepted the concept of appointing trade and investment officers (CTRs) to diplomatic missions as a strategic public good. However, the future of this concept remains uncertain, because of costs and because discussion continues on the profile and terms of reference of the CTRs; further donor intervention may be called for.

Other important new policy directions have been identified with the involvement of PMDP – for example, the value of a coordinated approach to mapping, and engaging with, the Palestinian diaspora.

PMDP's impact on the overall economy and business enabling environment is harder to assess, as we discuss in detail below.

With hindsight, we incline to the view that some of the most important changes attributable to PMDP are not fully captured by the agreed logframe indicators.

A significant additional benefit of PMDP is that it has created from within its staff an impressive cohort of local leaders who will undoubtedly contribute to the improvement of the competitive position of Palestinian enterprises in the medium- to long-term.

Cooperation between PMDP and the World Bank has been fruitful, combining the World Bank's international expertise and political leverage with PMDP advisors' local expertise and network.

It is reasonable that a grants programme would seek to measure the impact of grants on the commercial parameters of companies. However, as noted above, the attribution of additional sales or employment to a specific donor intervention through a project like PMDP is notoriously difficult. On the other hand, PMDP engagement with women entrepreneurs has begun to change mentalities and norms in a manner that has high prospects for sustainability if the PMDP message and methodology can be spread – a 'cultural' outcome that is difficult to capture using the conventional measurements of success. At the cultural level, a single instance of success, backed up by convincing narrative, can play a pathfinding role for others: a good example of such a case study is the story of the founder of Alasal vinegar, Ms. Asma Al Swirki, discussed under component 1 below. In all societies, those who work with potentially disadvantaged groups are on the look-out for role models and encouraging examples. In the present context, the identification of role models has played a significant part in our case studies on women entrepreneurs and agriculture in Gaza, respectively.

In our case study of PMDP's work on grafted seedlings, we saw that some of the arguments in favour of a change in economic behaviour – for example regarding long-term soil quality, consumer welfare, and economic self-sufficiency – involve more than an immediate commercial benefit to the company (nursery) or the farmer. In any future market development programme, there will be a need for constant awareness-raising in civic society regarding the long-term ecological issues at stake in agricultural production.

Our examination of PMDP's work in the sphere of IT and IT-related services points to the importance of effective coordination with the work of external stakeholders, which is one of the most underestimated challenges in international development. In general terms, PMDP was open to cooperation with other key stakeholders in the private sector, in the PA government and in the international donor community. On the other hand, there seems to have been no formal mechanism embracing all relevant donors, with a view to developing a shared development plan and ensuring full 'situational awareness' among grant recipients. In the context of a future market development programme, a donor's forum (bringing together DFID, USAID, WB, EU, Danida, SIDA, CIDA, etc) could get the donors on the same page and make it easier for projects to work together.

Future iterations of the PMDP project might consider more nuanced result indicators to capture outcomes and issues such as those just listed. Companies and beneficiaries might be selected for their representative or significant character in terms of future sovereignty and sustainability, against the background of an explicit commitment to the promotion of economic CBMs. These proposals are discussed further below under 'conclusions and recommendations.'

As to sustainability and impact, it is important to note that PMDP interventions were on the whole relevant and well-managed.

Under component 1, the development trajectory of many beneficiary companies was favourably affected in a sustainable way. Under component 2, certain PMDP interventions, for example in the animal feed sector and regarding the introduction of grafted seedlings in Gaza, have achieved a lasting change in assumptions. With PMDP assistance, the PA has 'internalised' new priorities under component 3 – for example, in relation to the importance of the World Bank DB criteria, the restructuring of trade and investment promotion services (PIPA), and outreach to the diaspora.

However, basic questions remain:

- Does the scale and coherence of the progress made have a systemic impact?
- Can we envisage a decisive systemic improvement in Palestine's economic circumstances in a foreseeable future?

In our assessment, the PMDP theory of change is perhaps too sanguine or optimistic in the actual circumstances of Palestine. Efforts by the PA, even when supported by business, international donors and civil society, may not be sufficient, ***absent cooperation from and with Israel,*** to put the Palestinian economy on a path of robust growth. Confidence that lasting economic improvement, based on comparative advantage, can ever be achieved is limited by the absence of what is often described as a 'political horizon.' We discuss this conclusion in more depth in the chapter of this report entitled 'PMDP: the broad context.'

Conclusions and recommendations

Our conclusions regarding impact and sustainability, and the associated recommendations for any future programme, are at the heart of the present report. We do point to some possible changes of direction. This must be seen in the context of the constraints on Palestine's development, the highly adverse conditions for business development in Gaza and Area C, and the absence for over a decade of a problem-solving economic forum bringing together the Palestinian Authority (MoNE and other Departments and agencies) and relevant Israeli authorities.

In the final stages of the end-term evaluation, stakeholders and key experts were almost unanimously of the view that twenty-five years after Oslo, the Palestinian economy is at a critical juncture, and not only because of the unfolding tragedy in Gaza.

We strongly recommend the initiation of a further multi-annual, multi-component market development programme in 2019. We hope that our evaluation of PMDP – both its considerable success and its inevitable limitations - can help ensure that the future programme is adequate to present circumstances.

We argue that among the core lessons of PMDP is that a future theory of change will need to take account of the distinction between parameters of 'competitiveness' and/or 'resilience' on the one hand, and on the other hand, a programme conceptualised as a set of *confidence-building or 'sovereignty-building' measures* with *demonstration value* in the perspective of a viable and inclusive Palestinian economy of the future.

Furthermore, in our judgment a central concern of the future market development programme should be the encouragement of *new frameworks of engagement*, bringing together a range of stakeholders, in order to identify and address the key 'contingent' obstacles to growth.

We recommend that consideration be given to a successor programme conceived somewhat differently to PMDP, based on five components. The first three components are mutually dependent and look to the transformation of the overall business enabling environment. The final two components, concerning ICT and Gaza, have a somewhat narrower scope, though of course they are essential (and resource-intensive) and will complement the work done under the first three components. There is a continuing need to build on PMDP's valuable work on market systems. Our assumption is that this may not require a separate programme component, at least in the next phase of Palestinian market development.

First component: matching grants

A new matching grant scheme should aim to provide larger grants to a smaller number of companies and beneficiaries chosen for their representative or significant character in terms of future sovereignty and sustainability; by way of example, the new programme could aim to reach 200/300 companies instead of the 800 plus companies assisted by PMDP. Successful firms don't necessarily need more money, they need better advice and support. In the new programme, we suggest a bias towards recipients who for reasons of scale or location have limited access to other sources of funding. Setting a lower target will allow business development officers more time to spend with each firm, instead of rushing through reviews because of the workload in terms of numbers of clients. A lower number of beneficiaries will reduce the burden of vetting applications. Finally, and importantly, a greater effort can then be put into ensuring that the demonstration value of each of the grant projects is extracted for the benefit of the wider business community

The new scheme should retain the flexibility in the matter of partnership grants that enabled PMDP to adapt to circumstances. It should continue PMDP's practice of using partners and co-facilitators. There should be scope within the programme for a number of small grants to micro projects with a high demonstration value. Consideration should be given to establishing a new business advisory service for micro and small enterprises. **This dimension of a new matching grant scheme will need to be financially sustainable and to add value. Under PMDP, the WAYE use of co-facilitators targeted very specific category – women owned firms – but using only pre-existing organisations for whom this was already their mission.**

Second component: policy support to the PA

The second component of a new programme would continue the work of PMDP's Component 3 in support of Palestine's trade and investment linkages.

The focus on BEE since 2016 is work in progress and should continue.

In our assessment, it is essential to adopt the bylaw on CTRs, an objective to which donors should pay close attention going forward. In this connection, the PA should retain the option of drawing on talent from outside the current ranks of the public service.

Third component: an initiative in the area of economic CBMs

The premise here is that the lack of progress in achieving intra-Palestinian and above all Israeli/Palestinian reconciliation is not just a 'risk factor' in a future theory of change; it is more like a 'road-block' that needs to be addressed in a separate, exploratory, confidence-building agenda.

In the initial phase, a new market development programme would foster policy planning capabilities and support an immediate scoping exercise with an eye to both future institutional arrangements and concrete confidence-building measures (CBMs).

As to the future institutional arrangements or *frameworks of engagement*, it was brought home to us, in the course of our evaluation, that COGAT, though it allows for issues of an economic character to be raised, is not an economic forum; it is led by senior military officers, and is not there to facilitate a structured policy dialogue between Palestinian and Israeli Departments and agencies. Nor has the promise of the ad hoc High-level Committee (AHLC) been fulfilled. The future programme should promote an informal dialogue inside and outside Palestine with a view to identifying parameters for a revival of the Joint Economic Committee, which has been inactive for many years, or its equivalent. 'Normalisation' remains a politically sensitive topic. Nevertheless, the precedent of the Joint Economic Committee suggests to us that i***mproving the quality of interdependence in a spirit of active confidence-building*** can become a shared interest.

In parallel with studying the Joint Economic Committee model (or some such mechanism), the future programme should promote a dialogue among different stakeholders, including universities and NGOs, on concrete examples of economic confidence-building that could help transform the overall environment. In the body of this report, we provide a number of illustrations of the measures that could be envisaged.

We note that in 2018, the UK has endorsed the planned International Fund for Israeli-Palestinian Peace, modelled on the International Fund for Ireland.[1] Against this background, a future market development programme could open communication with the International Fund (and other similar initiatives) with a view to playing a leadership role in the progressive development of economic confidence-building measures. The goal would be to identify mutually acceptable steps prefiguring the shared security and open cooperation which are the premises of a functioning peace process.

In the short-term, DFID might wish to consider a separate procurement with a view to commissioning a consultancy or consortium to 'map' the NGOs and institutes currently engaged in confidence-building between Israelis and Palestinians. Several of these initiatives have close links to the UK.

[1] The Alliance for Middle East Peace (ALLMEP) is based in Washington DC and had a positive influence on the bipartisan Palestinian Partnership Fund Act, approved by the US Congress in late 2018. The following statement is from the concept paper that can found on ALLMEP's website
www.allmep.org:
Inspired by the successful International Fund for Ireland (which spent more than $1.2 billion over 20 years to build grassroots cooperation and support for peace in Northern Ireland), the International Fund for Israeli-Palestinian Peace will leverage and increase public and private contributions worldwide, funding joint economic development and civil society projects that promote coexistence and broad support for peace even while they improve social and economic conditions on the ground.
A distinctive confidence-building component in a new DFID programme would be timely against this background and can complement and support initiatives such as the Israeli-Palestinian Support Fund.

Fourth component: ICT

We recommend the inclusion of a stand-alone ICT component in the future DFID program. This could be the object of a separate procurement exercise. It would incorporate the work that has been done with the Everest Group on outsourcing from the UK to Palestine, but crucially, it would also engage with other donors, notably the World Bank, on a broader ICT strategy for the OPTs. In this connection, we note new thinking regarding the further development of the 'industrial park' model in relation to ICT in WBG. This will require a strong research focus, bigger interventions than we have seen to date, more donor coordination, and (perhaps) a higher element of risk-sharing.

Fifth component: Infrastructure in Gaza

As in the ICT sector, bigger interventions will be needed, with more donor coordination and a higher element of risk-sharing, in order to address Gaza's very urgent needs in the realm of infrastructure. There may be scope here for a further stand-alone component in the future DFID programme.

As a final point in this executive summary, we note that for duty of care reasons, neither DFID nor the European Union was able to facilitate a visit by the leader of this evaluation to Gaza. This is an indication in itself of the exceptionally difficult conditions under which PMDP was carried forward.

Introduction

According to its Terms of Reference, the overall objective of the PMDP was "to improve the competitiveness of the Palestinian private sector through a programme of technical assistance and matching grants". When the Programme launched, it was initially was expected to meet the following minimum targets:

- 240 enterprises reporting improved annual performance due to PMDP work by 2019
- 96 enterprises reporting increase of annual exports or first time exporters by 2019
- 72 enterprises using their own funds to pay for Business Development Services by 2019
- 630 jobs directly created by PMDP by 2019
- £40 million additional sales attributable to PMDP by 2019

These targets were updated and refined at various stages over the course of the Programme implementation. By the end of the Programme, the PMDP Logframe had a total of 51 indicators covering the full gamut of impacts and outcomes that were to be achieved by the Programme. The final PMDP Logframe is presented in Annex 1.

The PMDP, which was jointly financed by DFID and the EU, and implemented between 2013 and 2018, sought to achieve its targets through three components or action areas:

(i) a technical assistance and matching grant scheme aimed at improving the competitiveness of local firms
(ii) market systems analysis and follow-up activity including technical assistance grants and partnership grants to address critical underperforming market sectors
(iii) interventions in support of Palestine's trade and inward investment policies

The way in which these 3 main Activity areas were expected to produce project targets was articulated in a detailed Theory of Change, which was updated a number of times over the course of the project. This Theory of Change can be reviewed in Annex 2.

Altogether, approximately £19.5 m was spent under PMDP.

The PMDP was a successor programme to the DFID/World Bank Facility for New Market Development (FNMD). FNMD ran from 2008 to 2012, with a similar overall objective of strengthening the private sector.

Part of the rationale for FNMD, PMDP, and similar initiatives is that businesses in Palestine are typically SMEs with limited access to business support services – and are often reluctant to risk investing in such an uncertain environment. Matching grants can help offset these disadvantages. However, PMDP went beyond this rationale in providing explicitly for the analytical work and public policy support carried out under Components

2 and 3 of the programme[2]. In other words, PMDP's theory of change was comprehensive, innovative, and ambitious. The UK Government's overarching objective is to prepare the PA and the Palestinian economy for a future two-state political solution. In the background is DFID's commitment to 'Making Markets Work for the Poor' (M4P)[3].

In Component 1, PMDP was guided by a specific target in terms of the number of firms assisted (eventually 800 plus) and indicators in terms of sales, employment, product development, and exports; logframe values evolved in the course of the programme.

While the hoped-for output of Component 1 was a step-change in the level of private sector skills leading to improved competitiveness and a pattern of private sector-led growth, this core element in the 'theory of change' was set in a broad and very sophisticated policy context, or 'systems analysis,' embracing both the public and private sectors and a range of outputs under Components 2 and 3. What was ultimately at stake under the three interlocking components of PMDP was whether the programme could bring about a strategically significant change in the business enabling environment in the broadest sense. This read-across from specific indicators regarding company performance, to the overall economy and business environment, poses a challenge for the end-term evaluation of PMDP.

Implementation of PMDP was awarded to DAI Europe. The DAI team included a team leader, a deputy team leader, and a highly qualified staff of around 30.

The progress of PMDP was supervised by a steering committee, in which DFID, the European Union, and the Ministry of National Economy were represented. The Steering Committee met more than thirty times during the life of the programme[4].

Our evaluation is structured under several key chapter headings. Chapter 1 offers a brief summary of the methodological approach that we took to the evaluation exercise. Chapter 2 presents the general economic, political and institutional context within which PMDP was implemented while Chapter 3 reviews the management of PMDP and considers the key organisational and management challenges to the implementation of the Programme. Chapter 4 assesses the role that PMDP has played in enhancing the competitiveness of the private sector, looking particularly at the operation and effectiveness of the grant scheme. Chapter 5 reviews the role of PMDP in addressing market failures and focuses especially on the lessons that can be drawn from the project's work in identifying and addressing market opportunities in various sectors. Chapter 6 looks at the experience of PMDP in building business linkages for Palestinian firms in international markets. Chapter 7 assesses the work of the programme in building employment and entrepreneurship amongst women and young people. Finally, Chapter 8 presents our conclusions and recommendations broken down by each of the above key activity areas.

[2] See PMDP Terms of Reference
[3] See PMDP Business Case at https://devtracker.dfid.gov.uk/projects/GB-1-201828/documents/
[4] Deduced from project records and Steering Committee minutes

Methodological approach

According to our Terms of Reference, the overall purpose of this assignment is "to undertake a full evaluation at the end of the Programme in line with DAC criteria". Over the course of our work on the project, we have refined the specific objectives as follows[5]:

- To tell the story of how the design, management and delivery of the Programme affected the welfare of specific target groups and impacted on the general environment within which they were operating (in both short- and long-term time horizons)
- To identify the elements of the Programme that contributed positively to its overall performance and the internal and external factors that served to reduce its impact.
- To identify key issues that may need to be considered in the design of similar Market Development Programmes in the future (either in Palestine or elsewhere in the world) and recommend specific measures that could help to improve the impact of any such future Programme.

These evaluation objectives are to be achieved by answering a series of evaluation questions that relate to each of the OECD-DAC criteria. These questions are presented in our Evaluation Framework in Annex 3.

According to the ToRs of the evaluation assignment, the main target groups of the end-term evaluation were:

- Beneficiaries (including grantee firms and business service providers)
- Other stakeholders including DFID, the EU, other donors, the PA Ministry of National Economy and other donors[6].

Each of these key stakeholders informed our end-term evaluation through individual or group meetings. Naturally, PMDP management also played a very significant role in informing the findings.

The evaluation was carried out by GDSI on behalf of the Department for International Development (DFID). Its primary purpose is to inform DFID and the EU about what worked and why, particularly with a view to contributing to the design of any follow-on programme. Our report is written with this purpose clearly in focus.

GDSI's end-term evaluation, occupying most of the calendar year 2018, was able to draw on five years of detailed engagement with the Programme. GDSI has worked closely with PMDP from the outset and presented an inception report to DFID and the EU in April 2014. GDSI contributed to PMDP's robust in-house system of monitoring and evaluation

[5] See Evaluation Plan in Annex 3

[6] See p. 20 of the ToR for the present evaluation assignment (Annex 4)

and has been providing quality assurance on the monitoring data that is supplied on a quarterly basis by the implementing contractor.

In addition to these 'Light Touch Quarterly Reviews,' GDSI has also carried out annual assessments of Programme progress against output and outcome indicators. The overall approach has required GDSI to maintain an overview and running assessment of PMDP throughout its lifetime, reporting to the Steering Committee at quarterly and annual intervals, identifying any weaknesses, and providing recommendations where scope for improvements was evident.

Over the course of its work in these Quarterly and Annual Reviews, GDSI interviewed PMDP staff on regular occasions as well as a large sample of Programme beneficiaries (over 100 interviews), Palestine Authority staff and international donors. All of this data was available in compiling this end-term evaluation report..

During our final evaluation missions, we sought structured feedback from individuals in the following broad categories: (i) DFID and the EU; (ii) the PMDP team; (ii) beneficiaries, including both companies and partner organisations; (iii) the PA and its officials; (iv) other donors, in particular USAID, WB, Quartet; (v) civic society organisations; and (vi) independent commentators (academics, journalists, consultants). In many cases we had more than one discussion, or even a continuing conversation, with a single interlocutor.

In our final mission, we benefited considerably from our participation in a workshop in Jericho bringing together a range of stakeholders with an interest in outreach to the diaspora. This was organised by PMDP (component 3) and took place in July 2018.

We ourselves convened a workshop in Ramallah in September 2018 in which the key colleagues from PMDP and DFID reviewed the experience of PMDP and responded to our questions (see Annex 6 for details).

The end-term evaluation is carried out in line with Paris Declaration principles. It seeks to understand the extent to which PMDP was consistent with local policy and integrated into local systems. It is also consistent with the harmonisation principle in the sense that it represents an evaluation of a joint DFID-EU intervention and should feed into the further planning deliberations of both donors and improve coordination between them in the area of private sector development. Finally, the evaluation enhances the accountability of both DFID and the EU for their interventions in Palestine and represents both donors' joint efforts to measure the results and impacts of their respective interventions.

Methodological Approaches

A Theory-based evaluation: We took a theory-based approach to the current evaluation. Our starting point was the final iteration of PMDP's Theory of Change, which had been updated a number of times over the course of the project. This Theory of Change presented the expected (or observed) casual relationships between inputs, outputs, outcomes and impacts in each of the Programme's key intervention areas (see Annex 2). Our evaluation systematically examined the nature of the causal relationships across the results chain and assessed the validity of the assumptions that underpinned these causal relationships.

This assessment was done using a number of methodological tools. *Contribution analysis* was used to investigate the various aspects of the "contribution claims" made by PMDP management. In carrying out this work, we collected a mix of evidence that supported (or weakened) the various contribution claims. We also looked for possible alternative explanations for the outcome or impact that was being claimed by PMDP management and, on this basis, we tried to place the relative importance of PMDP contributions in the broader business environment in Palestine. In this regards, *Most Significant Change* analysis was used to assess effects based on the perceptions of respondents. These perceptions were gathered in Ramallah during discussions and workshops with key stakeholders (programme managers, programme beneficiaries, DFID, other donors, government agencies, etc.).

Case Study Approaches: The contribution analysis was supported by a series of case studies that sought to understand the complexity of the behavioural or environmental changes that occurred as a result of the Programme. Our various Case Studies are presented in Annex 5. Case studies were selected to be representative of the overall portfolio of actions carried out by PMDP (both in relation to location of implementation and the various PMDP Components). In each Case Study, we reviewed all documentary literature available in relation to PMDP support in that particular area (reports, grant agreements, monitoring data, etc.) and we interviewed each of the key stakeholders engaged in each Case Study area. The Case Studies selected for review were:

- PMDP as a driver of job creation
- The effectiveness of PMDP by grant size and grant type
- PMDP support to grafted seedlings in Gaza
- PMDP support to Commercial Trade Representatives overseas
- The contribution of PMDP to Palestine's "Doing Business" rankings
- PMDP support to women-owned/managed businesses

Depending on the study, we relied more on some sources than others. For example, the study on Palestine's "Doing Business" rankings relied to a significant extent on the World Bank; the case study on CTRs relied on PIPA and the CTRs themselves, and the case study on seedlings relied on beneficiaries in Gaza.

Synthesis Studies: The Contribution Analysis and Case Studies were further reinforces with synthesis studies of all of the Quarterly Reviews and Annual Assessments that GDSI had carried out over the period of the Programme. This meta-analysis allowed us to identify and understand how particular issues were addressed at particular points in time and the various factors that may have contributed to success or failure as the Programme proceeded. This meta-analysis was, of course, based on the regular surveys and interviews with Programme participants that we carried out over the course of the Programme.

The long-term involvement of GDSI in monitoring PMDP was both an advantage and a risk factor in carrying out the end-term evaluation. On the one hand, it ensured that we had direct and easy access to all of detailed monitoring data that were generated over the course of the project. The key risk, however, was that preconceived ideas may have developed within our project monitoring team and that the "big picture" might be lost in all of the detailed information that was available to us. To mitigate this risk, and to ensure the avoidance of any conflicts of interest, we introduced two new end-term evaluators, Mr. Philip McDonagh and Mr. Pauric Brophy, while retaining the team that had worked on Programme monitoring over the previous 5 years..

The evaluation has considered each of the five standard OECD/DAC evaluation criteria:

(i) Relevance: Did the Programme target the correct intervention areas and did it adequately respond to the needs of the target groups that it identified?
(ii) Effectiveness: To what extent did the Programme reach its targets and what were the factors that affected the Programme's success or failure in the achievement of expected results?
(iii) Efficiency: Was the Programme managed well and did it represent good value for money?
(iv) Impact: What is the impact of the Programme on grantee firms and on the competitiveness of the private sector in OPTs overall?
(v) Sustainability: To what extent can the benefits of the programme be maintained without further support?

Our evaluation is based in the first instance on a review of documents, reports, and data-sets, including PMDP's final report published on 20 October 2018. GDSI probed the data in depth; we sought to understand the outcomes of the project from the perspective of the PMDP's beneficiaries and partners; and we reviewed outputs and outcomes (backwards mapping) in the perspective of PMDP's high-level goals.

For the purposes of the end-term evaluation and with a view to 'backwards mapping,' the team prepared six detailed case studies as follows:

Case study 1 (Waddah Abdulsalam) – employment: how the PMDP contributed to job creation in Palestinian enterprises.

Case study 2 (Adrian Marti) – grant size/grant type: how grant size and type influenced the effectiveness of PMDP interventions, regarding partnership grants as well as matching grants

Case study 3 (Mamoun Besaiso) - fruit and vegetable seedlings project in Gaza: the market for seedlings in Gaza as an example of PMDP support to the agricultural sector.

Case study 4 (Adrian Marti) – CTRs: the role of CTRs in promoting trade and other economic linkages.

Case study 5 (Philip McDonagh) - ease of doing business: the contribution of PMDP to the improvement in Palestine's 'Doing Business Ranking' and related policy issues.

Case study 6 (Waddah Abdulsalam) – women and leadership: key issues in the development of entrepreneurship and leadership amongst women, in the context of PMDP's overall commitment to inclusivity

The six case studies are included as annexes with this report.

GDSI undertook extensive fieldwork at every stage of the assignment, including for the purposes of the end-term evaluation. This required detailed discussions in spring, summer, and autumn 2018 with PMDP staff as well as with DFID project officers and European Union experts. The leader of the evaluation team consulted a range of other stakeholders and several key experts in the donor community and in Palestinian civil society. GDSI adhered to best international practice in ethical data gathering by assuring the confidentiality of information provided by interviewees and by creating comfortable environments for interviewing vulnerable or marginalised programme beneficiaries. Unfortunately, however, we were unable to obtain approval to travel to Gaza during the evaluation. We overcame this problem by inviting key Gazan stakeholders to come to Ramallah.

The evaluation team visited a number of companies, diverse in terms of size, sector, and location, in order to assess the results of PMPD outputs.

A final 'theory of change' meeting was held in Ramallah with the participation of DFID and all senior leaders and section heads in PMDP. The report of this is included with this report as Annex 6.

Methodological Departures from the ToR

Although the original Terms of Reference foresaw a special survey conducted at project end, this was considered to be unnecessary because the end-term evaluation of PMDP already had access to significant data gathered systematically since 2014, as well as new information gathered during 2018. A further survey was not considered to add much value to the information that was already available to us.

PMDP: the broader context

The Palestinian economy is characterised in present circumstances by a lack of confidence in the future. There is no clear pathway to a level of economic growth sufficient to improve – or even maintain – the standard of living of Palestine's growing population. 2018 has seen aid cuts, revenue losses, and in Gaza, according to several interlocutors, a return to an economic outlook no better than in the immediate aftermath of the war in 2014. The IMF's latest report to the Ad Hoc Liaison Committee (6 September 2018) states the issue clearly: 'The outlook is increasingly untenable…The overriding challenge is to revive growth and alleviate poverty in the face of shrinking resources.'[7]

In the present chapter, we offer a short profile of the Palestinian economy; we point to the important levers that remain in Israel's hands; and we acknowledge the Palestinian authorities' commitment to private sector development.

The West Bank and Gaza (WBG) is home to about 4.7 million people[8].

Palestine is classified as a 'lower medium income' economy. Its Human Development Index is far below that of Israel and somewhat lower than that of neighbouring Arab countries. In the light of growth forecasts and population trends, it cannot be taken for granted that per capita income in the OPTs will remain stable (at a current level of around $US 3,000, according to some estimates[9]).

Differences in development between Gaza and the West Bank are substantial.

A decade ago, Palestine recorded promising GDP growth over a number of years. This was due in part to bank lending, increases in donor support, and the income of Palestinians working in Israel. In recent years, growth has flat-lined. The IMF report referred to above predicts that growth in WBG will remain at under two per cent for several years to come.[10] Gaza, where the economy is shrinking, faces 'an unfolding humanitarian catastrophe.'[11]

WBG imports amount to almost US$ 5.8 billion. Exports, though increasing, amount to approximately US$ 1 billion.[12] This extremely unfavourable trade balance has remained more or less unchanged for a generation.

Over 80% of Palestinian exports go to Israel. Israel is set to remain Palestine's main trading partner[13].

[7] *WEST BANK AND GAZA*, Report to the Ad Hoc Liaison Committee, IMF, September 6 2018, under "Key Issues"
[8] https://data.worldbank.org/country/west-bank-and-gaza
[9] e.g. countryeconomy.com
[10] Ibid., p. 10
[11] Ibid., under "Key Issues"
[12] Data from the Palestinian Central Bureau of Statistics ttp://www.pcbs.gov.ps/Portals/_Rainbow/Documents/Main%20Indicator_E.html
[13] Op cit

Palestine's population growth rate is among the highest in the world. Estimates suggest that by 2030 the population will have grown to 7 million people (in broad figures)[14].

In principle, the human capital of Palestine is considerable. Figures of a few years ago showed that 96.3% of the population of Palestine is literate.[15] Women have made great strides in literacy over the past two decades, with the rate jumping from 78.6% in 1995 to 94.1% in 2014. Amongst males, 98.4% are literate. Indeed, the illiteracy rate in Palestine is one of the lowest in the world.

Secondary school enrolment is climbing towards 100%, and a growing number of young people are pursuing tertiary education.[16] In practice, however, unemployment and under-employment are at a very high level and would be higher were it not for the fact that 150,000 Palestinians work daily in Israel, often in precarious jobs.[17] The unemployment rate is of the order of one-fifth in WB, one-half in Gaza, and one-third overall.[18] The trend is in the wrong direction. A recent profile of the West Bank in the Financial Times (19 October 2018) focuses on the town of Balata where 58% of the adult residents have no jobs – including huge numbers of young people.

The structure of the Palestinian private sector is weak. It has been estimated that only about 100 firms have a workforce of more than 100, the rest being family-managed with an average workforce of below 5. The number of enterprises, including informal small firms, has been estimated at 80,000.[19] Within the West Bank, private sector activity is concentrated in agro-processing in the North and around Jericho, in services around Ramallah, and in manufacturing in the South as well as in Nablus.

Only very few of the industrial establishments in Gaza are still functioning. The textile sector has almost come to a stand-still. The same applies to the furniture factories[20].

The 'informal economy' is a major problem for Palestine, denying the Palestinian Authority much-needed revenue.

A question widely asked is whether the Palestinian economy, and the private sector in particular, have benefited in a measurable way from the new situation brought about by the Oslo Agreement in 1993 and the subsequent Paris Protocol. Despite initial hopes (up to the turn of the century), Palestinian interlocutors hesitate to give a positive answer to the basic question. To mention just one indicator: WBG enjoyed much higher

[14] UNFPA (2017) Palestine 2030 - Demographic Change: Opportunities for Development
[15] PCBS (2014) 'Literacy Rate of Persons (15 Years and Over) in Palestine by Age Groups and Sex'
[16] Conclusions inferred from the statistics regarding 'expected years at school' in UNDP Human Development Report 2018
[17] PCBS, 2018: The Labour Force Survey Results Fourth Quarter (October– December, 2018) Round Main Results. The PCBS figure is 131,000 and rising, but there are difficulties in estimating the numbers working without a permit. Also, those employed from East Jerusalem have Israeli IDs and can move freely. The last ILO Report on 'The situation of workers of the occupied Arab territories (2018)' estimates the number of Palestinians working without a permit in Israel and the settlements at more than 40,000 Palestinians, which points to the higher overall figure suggested here (150,000)
[18] Ibid., p.6
[19] These figures are taken from the FNMD Final Evaluation, 2012, p.16. While they are round figures, they are indicative of a basic pattern.
[20] Derived from interviews with Gaza-based stakeholders

employment in the 1980s than today[21].

Any account of the political economy of Palestine needs to emphasise the contingent difficulties arising from the state of intra-Palestinian relations and Palestinian relations with Israel. Among economies at an equivalent stage of development, Palestine is impeded to a unique degree by unresolved political difficulties.

The blockade on the Gaza Strip, in force since 2006, has delinked Gaza from the West Bank and the rest of the world. Multiple restrictions are a hurdle to any economic growth.

For Palestine, the customs union with Israel is a mixed blessing:

- the Palestinian authority does not control either an airport or a seaport, and the regulatory and customs checks on goods in transit lead to extra costs and delays[22]
- partly because of the difficulty in moving goods from other countries, three quarters of all imports come from Israel
- restrictions on access and mobility impede the export of perishable goods (this applies even to movements between the West Bank and East Jerusalem)
- the liberalisation of imports into Israel (cheap consumer goods) has affected Palestinian producers who are now competing with large-scale low-cost producers in Asia
- Palestine is unable to implement an industrial policy within its domestic market along the lines followed by other economies at a similar stage of development

Israel's role in collecting customs revenue and VAT on imports on behalf of the Palestinian territories imposes an economic cost. As of 2018, the intended withholding of clearance revenues by Israel under new Israeli legislation will seriously undermine the already fragile fiscal situation in Palestine. According to the IMF report to the Ad Hoc Liaison Committee, the loss to the PA will amount to 2% of GDP, outweighing the gains from new revenue measures and from continued expenditure restraint.

According to the World Bank,[23]'the complex system of restrictions on movement and access imposed by Israel is 'the most significant impediment to Palestinian private sector growth.'

As is well-known, the movement of people and goods into and out of the Palestinian territories, and within the West Bank, is severely limited by a multi-layered system of physical, institutional, and administrative impediments. Physical barriers are compounded by unpredictable regulatory measures and practices – notably the large list of 'dual use' items that cannot be imported because Israel regards them as a security risk - and by

[21] *Poverty and the Labor Market: A Sheer Lack of Jobs?". Coping with Conflict: Poverty and Inclusion in the West Bank and Gaza (PDF). pp. 37–61*

[22] see for example the studies undertaken by Paltrade - https://www.paltrade.org/upload/eguide/pdf/en_US_ORGINAL.pdf

[23] AUS2922, 2013: *Area C and the future of the Palestinian Economy*, p.3

limited access to water and to the electromagnetic spectrum.[24] In other words, Israeli-imposed restrictions on movement and access are central to the absence of a conventional 'business enabling environment' in WBG.

In recent years, the use of drones, heat-sensing cameras, on-line surveillance and other methods by the Israeli authorities has in many cases reduced hindrances at check points and border-crossings. Despite some changes on the ground, in the course of the present evaluation we were confronted with numerous examples of Israeli-imposed restrictions affecting business – the inability of PMDP's office staff in Gaza to have a face-to-face meeting with their colleagues in Ramallah; the PA not being able to promise a visa to a business visitor; the arrest, detention, and release without charge of an investor with an Australian passport; delays in the delivery of imported components for a manufacturing process; business persons missing flights as a result of delays at the King Hussein bridge (described by a leading expert in one of the donor agencies as an invisible barrier to trade); the unpredictable application of property and planning laws; even the day-to-day delays and uncertainties faced by ordinary workers (or farmers of land in Area C) who need to cross a line to get to their place of employment.

The West Bank and Gaza are small economies with few natural resources. In Gaza, security concerns result in one third of agricultural land falling in to no-go or high-risk areas, in which agricultural production is impossible. In the West Bank, Area C, over 60% of the area, remains under Israel authority regarding law enforcement and spatial planning[25]. Area C was to have been handed over gradually to the PA under the Oslo agreement; this has not happened. Israel appropriates (or expropriates) for its own use water and other scarce resources.

Area C is at the heart of the perception in many quarters that Israel deliberately undermines the Palestinian economy, following an agenda that goes beyond Israel's need for physical security. This perception erodes belief in the prospect of a balanced political settlement. A change for the worse in expectations is reflected since 2017 in opinion poll data on both sides.

In the context of what is happening or not happening in Area C, the World Bank report cited above remains the unavoidable point of reference. Here are two quotations from that report:

- Access to Area C will not cure all Palestinian economic problems – but the alternative is bleak. Without the ability to conduct purposeful economic activity in Area C, the economic space of the West Bank will remain crowded and stunted, inhabited by people whose daily interactions with the State of Israel are characterized by inconvenience, expense and frustration.[26]

[24] The World Bank, in a 2016 report, estimated that Palestinian cellular companies lost between $436 million and $1.5 billion in potential revenue in 2013 to 2015 due to Israeli restrictions on frequencies and equipment imports, and unauthorised competition by Israeli operators. According to news reports, these issues were largely resolved in the West Bank in 2018.

[25] https://maannews.com/Content.aspx?id=783020

[26] Ibid., p. xii

- Neglecting indirect positive effects, we estimate that the potential additional output from [certain sectors][27] would amount to at least USD 2.2 billion per annum in valued added terms – a sum equivalent to 23 percent of 2011 Palestinian GDP. The bulk of this would come from agriculture and Dead Sea minerals exploitation.

As rainfall decreases as a consequence of climate change, Israel's diversion of water resources from the West Bank is having a harsher impact on the Palestinian population and Palestinian economic prospects with each year that passes.

Against the very difficult background we are describing here, private sector development and the promotion of small enterprises remain important goals of the Palestinian Authority. We met with a number of organisations active in support of this policy, for example:

- *Paltrade*, founded with donor assistance, is a broad-based membership organisation mandated to promote trade and in particular exports
- *The Federation of Palestinian Chambers of Commerce, Industry and Agricultural (FPCCIA)* is the umbrella organisation of thirteen independent chambers
- *Business Womens' Forum* (BWF) offers start-up support to women and counsels women-owned enterprises
- the *Portland Trust* is a privately organised initiative supporting the development of the private sector
- the *World Ban*k is prominent among the several development partner organisations active in private sector development in Palestine

In support of an enhanced role for the private sector, the PA has taken significant steps in such areas as institution-building, fiscal management, and improving the business enabling environment. The present evaluation seeks to assess the place of the PMDP in this important dimension of Palestinian public policy.

The PMDP, as well as intervening at enterprise level to help offset risk, has done important work, in some instances ground-breaking work, in several of the most relevant policy areas such as:

- analyzing and correcting market system failure
- addressing challenges in the area of standards-setting, accreditation, and quality management capacity
- in selected areas, supporting the implementation of the National Export Strategy
- strengthening the PA's institutional capacity to support investment and trade (PIPA, CTRs – see below)

[27] ibid. p. viii: "The sectors we examine are agriculture, Dead Sea minerals exploitation, stone mining and quarrying, construction, tourism, telecommunications and cosmetics…" This part of the WB analysis is worth consulting by anyone interested in the data underlying our argument here. The WB thesis regarding Area C is if anything understated in what we are saying in this report.

- *in the agricultural sector, supporting efforts to establish a risk management fund and an insurance law*
- *promoting inclusivity in relation to women and youth and marginalized areas*
- *improving access to credit*

The targeted interventions by PMDP in relation to access to credit and business licensing, described in detail below, are an indication of what can be achieved when the deficits in public administration are identified and acknowledged.

This being the case, we believe it is important to sound a note of warning in relation to the broad context in which PMDP operated. Unilateral efforts by the PA, even when supported by business and civil society, may not be sufficient to put the Palestinian economy on a path of robust growth. Confidence that lasting economic improvement, based on comparative advantage, can ever be achieved is limited by the absence of what is often described as a 'political horizon' – the lack of progress in achieving intra-Palestinian and above all Israeli/Palestinian reconciliation.

We note that in 2018, the UK has endorsed the planned International Fund for Israeli-Palestinian Peace, modelled on the International Fund for Ireland. Against this background, a future market development programme could include a forward-looking component aiming at the progressive development of economic confidence-building measures and examples of best practice.

Evaluation Findings – the management of PMDP

Introduction

Our assessment of the management of PMDP helps us to answer, at least partially, the following key evaluation questions.

EQ 1: To what extent has the Programme been consistent with, and supportive of, Partner Government policies?

EQ3: To what extent did the Programme achieve its targets and what could have been done to make the Programme more effective overall?

EQ5: How well was the Programme harmonised with the work of other aid agencies and the Palestinian Authority itself?

EQ6: What evidence is there that the Programme represented/s Value for Money (VfM)?

EQ7: Would it have been possible to increase the Programme's Value for Money in some way?

Further findings in relation to some of these questions are presented in later chapters. We have presented the evaluation report in this way so that the reader can maintain a clearer picture of how the various PMDP building blocks have contributed to various impacts and outcomes.

Building on the experience of FNMD

The management structure of the PMDP was built on the experiences that DAI had accumulated during the implementation of FNMD. The FNMD project, which focused primarily on grants delivery, already contained several of the key organisational elements that were to become crucial to the implementation of the PMDP. In particular, grants management and procurement systems had already been set up in FNMD, as well as a specialized Business Development Advisory Service, the Gaza office and an M&E facility. Each of these elements of FNMD's management structure was to become a cornerstone of the PMDP's management framework.

In addition to inheriting some of the important management systems from FNMD, PMDP also benefited from the hiring of several of the key staff of that project. In delivering FNMD, DAI had put in place a team that was split fairly evenly between local and international expertise. As FNMD reached maturity, however, the local staff took on a greater responsibility for the leadership and management of the programme. For example, Mr. Mohammed Nuseibeh, who had been a Business Development Advisor on

FNMD since that project's inception, was promoted to Team Leader during the first quarter of FNMD's extension period. The promotion of local staff was a particular feature of that project.

It was against the background of FNMD experience that the early management arrangements of the PMDP were set up. The early organisational structure of PMDP is presented in Annex 7. In simple terms, this added a Market Development Unit and a Trade and Investment Unit to the structures that had existed in FNMD.

This logical extension of FNMD experiences, institutional knowledge, staffing and networks had a number of advantages. In the first place, it meant that the grants programme could be launched quickly and effectively. In the first year of the programme, PMDP received 233 grant applications, a number that wasn't exceeded until 2017. This high level of enterprise engagement from the beginning of the programme reflected the pre-existence of systems, structures and networks between staff and the business community in the oPt. Similarly, the historical involvement of DAI's Gaza Manager in FNMD meant that local networks were already established and the new programme could be more quickly embedded in the local community. Indeed, these long-term relationships in Gaza almost certainly contributed to the very effective reorientation of PMDP activities in Gaza after the war in 2014.

Balancing stability with innovation

In development programmes such as PMDP, the price to pay for management stability and continuity is sometimes a shortage of new ideas and innovations. The contractual history of the PMDP suggests that this was not a particular problem for the PMDP. In many cases, the impulses for programme innovations came from within the Steering Committee and, in particular, Programme Managers from both DFID and the EU. The fact that the Programme Management team from DFID and the EU rotated a number of times over the course of the project served as a useful counterpoint to the stable management and staffing arrangements on DAI's side. Each of the DFID/EU managers brought important new perspectives to the implementation of the programme. These new perspectives often forced PMDP management to respond creatively to new problems that became important as the project proceeded (e.g. in post-war Gaza, the particular difficulties for women and youth employment, etc.), and these inputs from DFID managers helped to keep the project fresh and relevant. On the other hand, the additional project funds for the WAYE activities promoted by DFID did not ultimately materialise, which was a disappointment for PMDP.

The evolution of PMDP's organisational structure

Over time, the PMDP's organisational structure evolved in line with the new challenges that emerged over the course of the programme. The PMDP's three main output areas (business development, market development and trade and investment), along with the

Gaza office, remained at the heart of the PMDP's organisation. However, in 2016, following discussions with DFID, a new unit was set up to focus on women and youth. Around the same time, several new advisors to support the business enabling environment were added to the Trade and Investment unit following the receipt of additional funds from the EU for improving the regulatory framework for business and for activating the implementation of the National Export Strategy. In general terms, the new functions that were added during the course of the project were integrated quite seamlessly into the organisational structure of the PMDP. As a demonstration of the evolution of the management framework, we present the end-stage organisational structure of the programme in Annex 8.

The management team

Stable top management

The top management of the Programme showed remarkable stability over the entire period of the project. Both the Team Leader (Maher Hamdan) and the Deputy Team Leader (Mohammad Nuseibeh) were in position for the entire period of the project. Similarly, William Grant from DAI HQ was involved in the backstopping of the project from its inception, having worked for a number of years in FNMD as a Strategic Advisor. As already explained, this provided a great deal of stability and continuity to the programme, which helped create a high level of clarity about the vision and approach of PMDP management over the lifetime of the programme.

Youthful committed team

The PMDP was characterised by a relatively youthful management team, comprising mainly but not exclusively Palestinian staff and experts. On the basis of our observations in the field over several years, the team gives the overwhelming impression of being an energetic and knowledgeable group with a high level of personal commitment to PMDP aims and objectives. This commitment is demonstrated by a willingness to take on heavy workloads at various stages of the project (especially in the area of grant management). This commitment is also demonstrated by the very low staff turnover despite some salary difficulties over the period caused by exchange rate fluctuations.

The employment of local expertise in senior programme management positions not only helps to embed the Programme more firmly in the local environment but it also contributes to the development of a long-term enterprise support capacity in the country. Many of the staff have gained valuable experience and knowledge about the practical aspects of enterprise development in Palestine and this experience and knowledge can be applied in a whole range of contexts in the future. Some staff, inspired by the experiences that they have had in PMDP, have decided to pursue international studies in the field, for example in the area of monitoring and evaluation. PMDP has created from within its staff an impressive cohort of local leaders who will undoubtedly contribute to the improvement of the competitive position of Palestinian enterprises in the medium- to long-term.

Management approaches and philosophy

Over the course of the programme, the PMDP exhibited a number of important general management characteristics:

A relatively flat management structure: Even though final grant approval depended for understandable reasons on the top PMDP management in Ramallah, our observations of the project over a long period suggest that the project operated with a relatively non-hierarchical management philosophy. High levels of authority were devolved from DAI HQ to the local offices (aided by Mr. Grant's consistent involvement throughout the entire project period) and the local management team demonstrated high levels of ownership of the process. Mr. Nuseibeh in particular played an important hands-on role linking management decision-making with the practical implementation of project tasks on the ground. Component Leaders were given a high level of autonomy in driving the activities of their Component while most BDAs and junior staff seemed to have a clear idea of their role within the project.

One complicating factor that deserves mention was the physical separation of the teams in Gaza and the West Bank – an issue also referred to above in our discussion of the broader context.

A flexible and nimble approach to project management: By its nature, a development project in the oPt is always likely to throw up unexpected challenges and difficulties. One measure of the strength of the management system is how effectively the project can react to these challenges. Over the course of the programme, the management team demonstrated a strong ability to adapt to new circumstances. A good early example of such adaptation came after the 2014 war in Gaza. With businesses in Gaza devastated by the war, the original TA grants became largely irrelevant in the local context. With DFID's prompting and support, the project management expeditiously designed and launched a new Back to Business grant window which aimed to provide businesses with the concrete assistance that they needed to relaunch their business after the way. This involved a changed emphasis to a results-based grant system, which allowed for the purchase of equipment and materials as well as the payment of some salaries. The change of approach in Gaza made a very positive contribution to the overall success of the PMDP program.

In addition to responding quickly to these contextual changes, the project also demonstrated a good capacity to alter the course of the project from within. While the driving force for many of these programme adjustments came from DfID and the EU, PMDP showed a strong capacity to respond in an effective and positive way.

Personal engagement with PMDP clients: One of the important features of the programme was the extent to which PMDP staff, and in particular BDAs, engaged directly on the various business challenges being faced by local enterprises. Although it may have been assumed that local enterprises would be able to determine their own TA needs and manage them accordingly, the reality was that this is not the case, especially amongst smaller companies. For this reason, the level of technical engagement between BDAs and PMDP clients may have been higher than was originally presumed. In Gaza after the war in 2014, BDAs were exceptionally generous in the time and effort they devoted to helping their clients. Throughout the programme, BDAs helped grant applicants to diagnose their key problems, to develop their business development plans, to identify the needed technical assistance (TA), and to source and engage suitable Business Services Providers. In many cases, there was very careful monitoring of the progress of the Business Service Provider's work after the grant was issued. Similarly, high levels of engagement could be observed in the work of PMDP staff in Component 2 (e.g. in collaborating with the nurseries or the IT companies). This personal engagement was an important ingredient in the overall success of the Programme and distinguished it from traditional paper-based grant schemes that operate on the (erroneous) assumption that companies always know what they need, that they are able to independently articulate this need on paper and that they are able to identify and mobilise the technical help they need when they are given the resources to do so.

The burden of vetting: The reputation of the international donor community in Palestine demands that there is a high level of due diligence carried out on all funds provided to Palestinian organisations. In practice, this means that all applicants for PMDP support must go through a careful vetting process to ensure that the UK's financial support is used for its intended purposes. However, the vetting procedures for applications had the effect of slowing down the administration of the programming and adding considerably to the management burden attaching to it. In planning any future iterations of grants schemes, consideration should be given to ways and means of reducing the inevitable delays associated with vetting – whether by adapting the system, providing additional resources for carrying out the procedures, or reducing the overall number of grants.

Collaborative management approaches: Effective coordination with the work of external stakeholders is one of the most underestimated challenges in international development. While cooperation with other relevant agencies is almost always prioritised by donors, there are rarely clear mechanisms established for ensuring such cooperation. When all parties are focused on fulfilling the requirements of their own ToR, it is easy to overlook opportunities to add value through collaboration with other actors.

In general terms, PMDP appeared to be quite open to cooperation with other key stakeholders in the private sector, in the PA government and in the international donor community when such opportunities presented themselves. There appeared to be a relatively open relationship with other Private Sector Development projects such as AWEF and COMPETE and there were examples of companies that benefited from more than one programme, which often strengthened the overall impact on the recipient company. On the other hand, while projects did interact on a fairly regular basis, there was no formal mechanism for developing a shared growth plan for grant recipients. Given that COMPETE was also implemented by DAI, a little more might have been expected in this regard. The creation of a formal partnership forum between relevant Private Sector Development projects might have some value for future iterations of the PMDP. Any such forum would obviously require the imprimatur of the various parent donors..

Partnerships with some of the relevant sectoral business associations was generally weak (although there were some exceptions to this such as the Palestinian Aluminium Industry Union, PITA, BWF, the cluster forum in Hebron, and the business service providers association). A particular problem in the collaboration with business associations was the lack of technical and management capacity within these organisations. The absence of strong local business associations inevitably reduces the efficiency of efforts to bring about systemic change in the various business sectors so some additional effort could be put into building the capacity of these business associations in the future.

The Market Development Component obviously depended heavily on collaboration with a range of actors who played an important "systemic" role in the competitive environment of the various selected sectors. PMDP's work in bringing universities and employers together to design new curricula was an example of good practice in stakeholder cooperation. So too was ensuring Ministry of Agriculture participation in project activities in the area of milk production for example. Overall, management showed a good awareness of the demonstration value of PMDP activities for policy makers, and there are some examples of public bodies using these lessons in their own decision-making. A good example is the development of the IT curriculum at Bir Zeit University. On the other hand, it could be argued that more could have been done to translate the multiple enterprise-level experiences generated by PMDP into a more coherent policy dialogue with the PA (notwithstanding the fact that such coherence is obviously undermined by the division between governments in Gaza and West Bank).

In Components 2 and 3, Working Groups were set up to tackle sector wide problems (e.g. through the Diaspora Working Group). In particular, they tried to address the lack of institutional cohesion within the various sectors. These Working Groups aimed to enhance cooperation between stakeholders, and in some respects, they achieved that aim. On the other hand, it could be argued that the weakness of the institutional framework in these areas was, in itself, a systemic problem which probably deserved more attention throughout the Programme.

Innovative support models: PMDP used a number of interesting support models, especially towards the end of the programme. The use of co-facilitators, for example, proved to be an excellent example of how cooperation with third party organisations can add significant value to the PMDP's efforts. The co-facilitators chosen to work with women entrepreneurs had already built up the networks of women in business and had earned their trust. The investments that PMDP made in building the capacity of these groups proved particularly worthwhile and leaves a further institutional legacy that will benefit local women in the long term.

The role of DFID and the EU: As noted above, Project Managers at DFID and the EU played an important role in the overall success of the programme. In addition to their participation in the formal Steering Committee meetings, DFID management in particular maintained a detailed knowledge of the day-to-day operations of the project, allowing them to make effective management contributions at both strategic and operational levels. In some ways, this detailed knowledge of project operations, and the management inputs that it allowed DFID/EU to make, provided at least some positive externalities to the project's burdensome vetting system.

The number of DFID and EU managers responsible for PMDP over the course of the program was very large. This staff rotation had both advantages and disadvantages. The key advantage was that each new staff member brought new perspectives to program implementation. For example, a "New Directions" document was produced in 2016 in response to PMDP engagement with a new DFID project manager. While it is true that the long timespan (15 months) of a UK Government review at around this time led to some uncertainties for PMDP management, the eventual outcome was a more focused and targeted programme.

On the other hand, there is always a danger when staff are rotated too frequently that institutional memory is lost and the donor's vision and expectations becomes less clear to the Contractor. The high quality of DFID and EU management staff ensured that this did not happen on this occasion but, in general terms, it is an issue that might be considered for similar future programmes.

Internal monitoring and evaluation systems

The M&E Function

Following the experience of the FNMD, DAI put in place a dedicated M&E manager from the beginning of the PMDP project. The M&E function remained quite stable over the period of the project, though there were some staff changes; approximately half-way through the programme, an additional M&E specialist was added to the Gaza office to oversee data collection there.

It is clear that considerable thought was put into the project monitoring effort over the course of the project, driven both by the M&E specialists and DFID management. The reorientation of project priorities in 2016 meant that there was a need to reconsider the key output indicators, which in turn required a reorganization of data collection and management systems. In keeping with the experience of PMDP generally, the M&E staff responded well to these new challenges. In December 2017, PMDP in cooperation with

GDSI, EU and DFID finalized and approved a revised Logframe for the Programme. This updated Logframe mainly aimed to ensure the inclusion of relevant indicators for both Output II and III.

Indicators

As already indicated, PMDP paid considerable attention to the indicators that would be used to measure project performance. Several updates to the logframe indicators were made over the lifetime of the project, with increasing demands from DFID to record the sales and employment impact of PMDP interventions. The attribution of additional sales or employment to a specific donor intervention through a project like PMDP is notoriously difficult. For example, a product that is improved with PMDP assistance might increase the market potential of that item but an actual sale might be achieved only if a whole host of other conditions are met (suitable production capacity, adequate marketing, relations with buyer, etc.).

It is reasonable that a grants programme would seek to measure the grant's impact on the commercial parameters of the company. However, to do so accurately is probably feasible only through quite detailed case studies (rather than through surveys of the general population of grant recipients). The general data collected on sales and employment provide some quantum of PMDP's impact on the recipient enterprises, and they allow for comparisons of this quantum over time, but it would be unwise to take the numbers literally.

Our observations suggest that the logframe indicators were unable to capture some of the more important results that were achieved by the project. For example, the project had clear achievements in improving enterprise's culture of using technical advisors, building a culture of entrepreneurship amongst women, and bringing about systemic changes in selected economic sectors. Future iterations of the PMDP project might consider more nuanced result indicators to capture such achievements.

Information collection

In keeping with the priority given to M&E issues, information was collected in a quite systematic way over the course of the PMDP project. The primary sources of performance data were the semi-annual and annual surveys of PMDP grant recipients and other partners. These surveys required recipient partners to provide data on the particular aspects of their business that have changed as a result of PMDP support. Enterprises were asked, for example, about additional sales, employment, new products developed, new markets found, etc. as a result of the programme. The underlying assumption here is that enterprises will be willing to provide honest assessments about sales, employment and other commercial data. It also assumes that, even if they were happy to provide such data, enterprises would be able to accurately recall how PMDP affected changes in sales, employment, etc. In reality, and as shown by our own case studies, this recall may not always have been perfect.

Similarly, any comparison of increased sales amongst PMDP companies with the sales figures of the general population of enterprises is also fraught with difficulties. The key problem is that selection bias may be an important explanatory factor for any difference in performance – the fact that PMDP enterprises were resourceful enough to apply for support, were perceptive enough to make a successful application and were organised enough to ensure that the support was actually used in the business probably indicates that these enterprises were more likely to succeed in any case. For this reason, it cannot be assumed that differences in performance between PMDP enterprises and the general population can be attributed to PMDP intervention.

Information management

PMDP/DAI developed a quite sophisticated information management system, which was known as TAMIS. TAMIS contained a complete data set of grantee firms which included basic information related to the company, PMDP grants support, the results achieved in the company, etc. This master database was used to select samples for survey and other work. It was also used to produce interesting presentations of project performance using PowerBi software (an innovation which came in the second half of the project). TAMIS also included PMDP cost accounting data, which was used to conduct annual value for money analysis. Overall, the data management system appears to have been very robust, with impressive efforts made to continually improve the system over time.

Reporting

The quality of reports prepared by PMDP over the course of the project was very high. Regular quarterly and annual reports contained reflections on all of the key logframe indicators that had been agreed at various stages of the project. The reports provided both snapshots in time but also an aggregated picture of progress over the course of the project.

Given the vast experience accumulated by PMDP across a range of economic sectors, and given the large volume of data collected, it could be argued that more might have been done to consider what all of this data means both for the project itself and for the wider policy context. In particular, it may have been possible to use project data to produce policy notes for the PA or the donor community on a more regular basis. Some policy papers were produced, especially in the context of Component 2, but these were not the norm for the project as a whole. The preparation of policy notes was not, of course, a requirement of the ToR but perhaps this could be considered as a possible innovation for future programmes.

The use of information in management decision-making

The reports and other data generated by the PMDP were considered on a regular basis by the project Steering Committee. The minutes of these Steering Committee meetings show that the data produced by the project informed the Steering Committee's deliberations and contributed to some of the important management decisions taken over the course of the project, such as the prioritization of work on the business enabling environment. DFID also used these data extensively in bilateral meetings.

On the other hand, there is less evidence that the data produced by the project filtered into the operational management of the project. For example, based on Steering Committee reports, the data does not seem to have been used to suggest refinements to the targeting of the various grant batches, nor does it seem to have been used to streamline PMDP efforts in less successful areas of intervention. We found no examples where robust analysis of project data led to concrete proposals for alterations in programme design from the side of PMDP. Overall, there may have been more potential for the use of PMDP's extensive datasets in the operational management of the project.

Financial management and Value for Money

Financial management challenges

The financial management of a project like PMDP brings some specific challenges. Robust systems need to be in place to ensure adequate audit trails for the support provided and, in particular, to ensure that this support reaches those who will use it for productive purposes. The difficulties of visiting Gaza added another complication – oversight and control systems must generally be entrusted to the local office (with the additional oversight of DFID's vetting system).

Financial control systems

All evidence suggests that PMDP had robust financial control systems in place for the duration of the contract. The Operations and Finance Unit was managed by Mr. Steve Khawaja, expert DAI corporate staff member with considerable experience in the financial management of DFID projects. All payments were carefully recorded and supporting evidence for these payments was systematically collected. The management of financial transactions with Gaza presented particular difficulties but these difficulties were overcome with the help of staff in the Gaza office.

DFID conducted an internal audit during the second half of the project and this had certain implications for management decision-making over the remainder of the project. The audit recommended a number of "risk mitigation" measures, principally aimed at ensuring no reputational damage to DFID as a result of PMDP's funding decisions. Given that PMDP was specifically set up to fund more risky projects (i.e. projects that would not have been self-funded) it will always be possible to represent these risky initiatives in a negative light. Nevertheless, the extra safeguards proposed by the auditors did not serve as a hindrance to the identification of successful projects.

The finding of the auditors demonstrates the fine balance that needs to be struck between funding risky projects and ensuring that the donor's reputation is not left open to attack. In general terms, it is our view that PMDP found a reasonable balance for the most part.

Value for Money

PMDP carried out a number of VfM analyses over the course of the project. These analyses focused on the traditional "3 Es" of Value for Money – Economy, Efficiency and Effectiveness. From 2017, the VfM analysis also considered the extent to which the benefits of PMDP's activity were shared equitably, particularly amongst vulnerable groups.

Understandably, the VfM analyses prepared by the PMDP were based heavily on the logframe indicators (e.g. measuring VfM in terms of the cost of generating one additional job or a £1 increase in sales). However, because the basic data on sales, employment, investment, etc. may always be questioned, the same question marks will apply to the VfM calculations. Nevertheless, they do allow for comparisons over time and also between indicators (e.g. the relative cost of generating domestic sales versus the cost of generating export sales). This, in itself, is useful information.

It is probably worth noting that the VfM analyses did not attempt to calculate the value of the systemic changes that may have occurred in particular economic sectors. For example, the commercial relationship-building between IT firms in Palestine and Israel probably has a value beyond the additional sales that were generated or the jobs that were created. Similarly, the value of important cultural shifts, such as the emerging role of women in business or the use of business support services, were not addressed in the VfM analysis. A little more attention to the value of such systemic or cultural changes might yield interesting and important results in future programs.

Evaluation Findings – the role of the PMDP in enhancing the competitiveness of the private sector

Introduction

Our assessment of the role of PMDP in enhancing competitiveness of the private sector of PMDP helps us to answer, at least partially, the following key evaluation questions.

EQ1: To what extent has the Programme been consistent with, and supportive of, Partner Government policies?

EQ2: Did the Programme respond to the needs of all of the various target groups including those in specific geographic locations (for example, area C of West Bank; Gaza etc.) and particular groups (e.g. women and other marginalised groups)?

EQ3: To what extent did the Programme achieve its targets and what could have been done to make the Programme more effective overall?

EQ4: What were the specific effects of the Programme on female owned or run businesses and on marginalised or vulnerable groups?

EQ5: How well was the Programme harmonised with the work of other aid agencies and the Palestinian Authority itself?

EQ 8: Has the Programme produced any catalytic effects that may sustain further change for the benefit of OPTs economy overall, grantee firms and PIPA in particular?

EQ9: To what extent will benefits continue without additional assistance?

EQ 10: What are the impacts of the Programme on the overall business environment in the OPTs and the competitiveness of the Palestinian private sector?

EQ11: What are the impacts of the Programme on its grantee firms and other beneficiaries (PIPA)?

EQ 12: Are there differences in the impacts experienced by different target groups (by geographical location, firm size, women, vulnerable groups)? How can these differences be explained?

EQ14: How did the Programme contribute to peace-building and state-building and how did it contribute towards the achievement of a viable two state solution

Overview and theory of change

As stated above, PMDP involved three components or outputs:

1) a technical assistance and matching grant scheme (for firms, consortia, and co-facilitating organisations)
2) market analysis and follow-up activity including output 1 grants to address critical underperforming markets
3) interventions in support of Palestine's trade and inward investment policies

Component 1 can be seen as the bedrock of PMDP; and the bedrock of Component 1 was technical assistance to firms to help them innovate, develop new products and services, improve processes, and enter into new markets.

PMDP was guided, in this respect, by a specific target in terms of the number of firms assisted (a target that became 800 plus as the logframe evolved) and logframe indicators in terms of sales, employment, product development, and exports. During the second half of PMDP's lifetime there was a particular emphasis on employment creation, leading to revised criteria for grant applications (primarily under the output-based window). The first of the six case studies prepared in the context of this evaluation concerns job creation under PMDP (this is discussed below: see also Annex 5a).

Over the lifetime of PMDP, Component 1 provided six different types of grant, and within each of the 'windows', grants varied by type of beneficiary (company, NGO, business association), sector, location, purpose, grant-size, etc. For a single firm the maximum grant was £50,000. This was intended to provide for up to 50% (or in some cases 75%) of the cost of a new project. A further case study prepared for the present evaluation explores the policy implications of grant type and size in a programme like PMDP (Annex 5b).

Ultimately, the measure of success for PMDP was whether client firms improved their skills and capacity (and use of technology), in such a way as to:

- add to sales and create employment
- spearhead changes in behaviour across the wider economy
- foster improved service provision by private suppliers (BSP)

However, these essentially market-driven performance indicators were set in a context in which other factors were also relevant:

- PMDP's parallel objectives (Components 2 and 3) of re-ordering market systems where necessary and improving the overall policy environment and institutional support
- The recognition that Component 1 grants could serve the objectives of Components 2 and 3
- The recognition that beneficiaries other than firms should be enabled by PMDP as

partners and co-facilitators

- PMDP's particular interest in building employment and fostering entrepreneurship among women and young people
- the UK Government's overarching objective of preparing the OPTs for a partnership role in a revived peace process

To put this in a different way: while the hoped-for output of component 1 was a step-change in the level of private sector skills leading to improved competitiveness and a pattern of private sector-led growth, this core element in the 'theory of change' was set in a broad policy context embracing both the public and private sectors. We have discussed this in the introduction above and will return to the subject under 'conclusions and recommendations' below.

How the grant scheme worked

The grant application process meant that under Component 1, PMDP's approach was demand-driven - guided by the demands of local and international markets and by the standards required for firms to access those markets. In designing its matching-grants scheme, PMDP needed to take into consideration two basic lessons learnt from FNMD, the predecessor project:

- mechanisms for private sector skills development and innovation in OPT are not highly developed
- most Palestinian private sector enterprises have limited experience of strategic business services in such fields as market research, quality standards, marketing strategies, product development or other business support services.

PMDP developed an outreach and promotion strategy to engage business support organizations in the promotion and implementation of the Programme. PMDP made skilful use of 'partnership grants' (see below) and also used co-facilitators to help reach, and work with, the most disadvantaged, such as women-owned businesses in the informal sector. Where necessary, the allowable activities and expenses covered by grants for businesses were adjusted to circumstances, for example in Gaza after 2014.

PMDP's business development advisors (BDAs) played a key role in ensuring that MSMEs received the type and quality of assistance they needed. BDAs helped grant applicants to diagnose their key problems and identify future steps. Once a grant was issued, the BDAs followed-up (in principle) with after-care services, offering advice regarding the implementation of the TA and controlling the quality of the BSP's contribution.

The implementation of PMDP started immediately after the submission of the Inception Report on 20 February 2014. The outreach efforts referred to above resulted in a strong pipeline of applications from all regions in the West Bank, East Jerusalem and Gaza. To ensure that applicants' needs were promptly addressed, and to get immediate traction at the beginning of the project, PMDP used a 'first-in, first-served' approach under which applications were registered in the grants management system as they came in and then transferred to the assigned committee for immediate appraisal and evaluation. PMDP sought to build a reputation as a responsive partner, though pressure of work could result in delays. PMDP received 138 applications by the end of June 2014, and 233 by end of December 2014. The 'first-in, first-served' approach continued until end of 2016.

In July 2014, the war broke out in Gaza. The demand for TA grants declined throughout the OPT, but especially in Gaza. After the ceasefire in late August, PMDP collaborated with the Palestinian Federation of Industries (PFI) to conduct an assessment of the productive sector, the levels of damage to companies, and the interventions that would be needed to get businesses back on their feet. By November, PMDP launched its Gaza Back to Business (B2B) sub-component to support the rehabilitation of affected companies.

Meanwhile, the demand for grant assistance continued to grow in the West Bank. There was a backlog of grant applications. To address this problem, PMDP shifted from the 'first-in, first-served approach' to a 'batch' approach, under which a Request for Applications was announced with a well-defined deadline and pre-set criteria, including additional weighting for job creation. Batches of applications were then screened and compared with one another to select the best. The PMDP team of advisors processed five successive 'batches' (altogether 688 applications) during 2017 and 2018. In this phase, a particular effort was made to support women- and youth-owned businesses and businesses located within marginalised areas (Gaza Strip, Area C including the Seam Zone, the Jordan Valley, and East Jerusalem). In practice, the major step forward was in relation to women-led businesses. Most companies that are counted as 'Area C' in PMDP's final figures are headquartered in the big West Bank cities. The restrictions that apply in Area C are discussed in our conclusions and recommendations.

While the adoption of the batch system did seem to help systematize the priorities of PMDP, it did not eliminate delay: we found in our successive evaluations (quarterly and annual) that the period between the receipt of batch applications and the award of grants was often longer than six months.

Overall, the PMDP did a very good job in supporting the grant application process and handling the contractual and financial elements of the programme. It is also worth underlining the imaginative flexibility demonstrated by PMDP in two major adaptations of policy, namely the Back to Business initiative in Gaza and the additional measures introduced to promote entrepreneurship among women.

Analysis of grant type and size

We draw attention here to some of the principal conclusions arrived at in the course of our case study (Annex 5). In terms of technical assistance to companies, our experience points towards the conclusion that *as a general rule, grants of between £10,000 and £20,000 to middle and small size companies have delivered the best results overall.*

This group (SMEs), with this grant level, have delivered most in terms of new products, new markets, and increased use of BSPs. It is true that larger grants to larger companies have scored well in terms of sales and job creation. However, as discussed above, attribution can be difficult in the case of a large enterprise, and it is an open question whether the bigger companies would have made similar investments in any case, even without PMDP grants. In general, middle size companies have a greater need for technical innovation and benefit more from technical assistance; and they do not have the financial reserves to incur risk.

The 'general rule' proposed above should not cause us to overlook the very significant business achievements underpinned in individual instances by other types of grant assistance.

The promotion of women owned/managed businesses from 2017, involving more than 100 grants of a low average value of £2,542, offers another model of grant assistance – one that does not follow the paradigm of supporting medium-sized businesses with relatively large grants.

For the purposes of our case study, we interviewed the founder of Alasal vinegar. This young entrepreneur is a chemist by education. Her start-up company makes good use of her academic qualifications.

PMDP's funding assisted with:

- raw materials needed to produce the vinegar
- equipment (apple pressing machine, fermentation barrels, packaging materials for the new two products (bottles),
- preparation of the new production area.
- technical consultations
- a social media marketing campaign over 4 months

PMDP's investment of $3,000 contributed to an approximately tenfold increase in production. [28]

The company management is quoted as follows: 'PMDP is the first grant I got, and it was my gateway for developing my businesses…the PMDP procedures ran smoothly and the team was helpful and cooperative.'

Employment in Alasal vinegar rose from 2 to 7 persons.

Partnership Grants - grants designed for non-profit organizations and cooperatives[29] -

[28] See our case study, Annex 5

[29] The following definition is from the inception report: "Partnership Grants will be used to fund strategic interventions and will also be used to facilitate market development/systemic change and to catalyse innovation in product development and service delivery by system actors. Partnership grants will also be used to fund interventions to develop trade and investment linkages."

were used under all three 'components' but mostly under Components 2 and 3. The 58 Partnership Grants, at an average value of £25,000, allowed PMDP to influence economic development in Palestine in innovative ways.

For example, two weeks before the end of the Gaza War in 2014, the Palestine Federation of Industry (PFI) was already planning to make a study of the damages to the industrial sector in Gaza. The partnership grant of £36,000 with PFI was signed on September 6th 2014 only two weeks after the end of the war. No other donor was able to move this fast.

Similarly, in 2015, when there was a big focus by donors on area C, a small grant was given to prepare a listing of Palestinian companies present there. This again shows the flexibility of the Partnership Grant instrument[30].

Gaza

As mentioned above, within PMDP's first year the war in Gaza erupted, resulting in the almost total halt of business operations. Production plants and other business facilities were destroyed. Right across Gaza, day-to-day activity, including normal business activity, was disrupted.

The PMDP team contacted 28 of its beneficiaries to better understand the impact of the war on their operations. The majority of these beneficiaries had concerns about their ability to implement the approved grant activities within the originally agreed-on timeframes. Even for enterprises that were not directly damaged by the war, the disruption of business operations for over a month created challenges that threatened their survival. Nearly all 28 business strategies/development plans required revision.

As soon as a ceasefire took place, PMDP, in cooperation with the Palestinian Federation of Industries (PFI), conducted an in-depth analysis of the manufacturing, agriculture and service sectors. The results of this analysis enabled PMDP to design a new grant window, called 'Gaza Back-to- Business' (GB2B). Owners of damaged enterprises are by definition less likely to invest in technical assistance; PMDP modified its criteria to cover additional activities and expenses. Many farmers farm as individuals and are not registered as a company; it was important to assist these farmers to get back to work.

The GB2B Window was later re-designed to include a Gaza Back-to-Market (GB2M) Window, which focused on helping affected enterprises improve their market share in the local market and (whenever possible) target external markets. To implement this programme, PMDP received budget add-ons from DFID.

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[30] It can be noted here that during the final years of the programme it was decided to count a company as 'Area C' if it had a production facility in Area C or sourced from there, even if these activities were a small part of the company's overall footprint. As it happens, most companies that are counted as 'Area C' in PMDP's final figures are headquartered in the big West Bank cities. We have more to say about Area C in our conclusions and recommendations.

At the time of the Gaza Back-to-Business grants, according to the PMDP final report, 54.2% of the businesses were totally out of operation; the remaining 45.8% were operating, but only partially compared to their status before the 2014 Israeli war on Gaza. As of September 30, 2018, 25% of the assisted companies were fully operational, 69% were in a partially operational mode, and only 6% continued non-operational or had discontinued business altogether.

These and other figures, which we have reviewed in the course of our earlier reports, testify to a strong consensus among stakeholders that the Gaza Back-to-Business Window and Gaza Back-to-Market (GB2M) Window were fit for purpose and played a crucial part in ensuring the resilience of Gaza's economy and society in extreme circumstances.

The historical involvement of the Gaza Manager in FNMD, PMDP's excellent relationships on the ground, and the dedication of PMDP staff (warmly referred to by clients and stakeholders) contributed to PMDP's very effective response to the changed conditions in Gaza.

Overall, PMDP's flexibility allowed for an important injection of money into the Gazan economy after the war and helped motivate both larger and smaller companies to get operations up and running again – even if the B2B programme is not a solution for the economic problems of Gaza in the long term.

Job creation

As stated above, job creation became one of the main indicators for PMDP. When the 'batch approach' was adopted, PMDP gave an additional weighting to job creation, especially for women and youth, within the criteria governing the allocation of grants. Although we have expressed some reservations about the attribution of jobs to PMDP interventions on a broad scale, the PMDP Final Report indicates that 2,978 net jobs were created as a result of the support provided to MSMEs. Within the workforce of PMDP clients, there was a noticeable increase in jobs for women (both youth and adults) – namely 46.3% - and for youth of both genders – namely 55%. This is encouraging in the light of the high levels of unemployment for women and youth in Palestine – 53.7% for women (as reported by the Palestinian Central Bureau of Statistics (PCBS) in the second quarter of 2018), and 40% for youth 15-29 years of age (as reported by the PCBS in the fourth quarter of 2017).

When indirect and induced jobs are included in the figures, the total increase in the number of jobs attributable to PMDP rises to well over 6,000, according to the matrices developed to measure indirect and induced jobs in both the formal and informal sectors. The region that was most likely to experience indirect and induced job creation as a result of PMDP support was the Gaza Strip. The sector that supported the most indirect jobs was food manufacturing. Most of the induced jobs created were in the services sector, followed by industry and then agriculture.

The valuable social impact of promoting employment for marginalized groups, which could be described as a 'knock-on effect', in discussed in detail in the section of this report dealing with women entrepreneurs.

Component 1: Summary Findings

The PMDP team have managed Component 1 very well. The log-frame indicators, whatever their shortcomings, have broadly speaking been met or exceeded. Interventions have been consistent with the overall logic of PMDP. The team has mainstreamed gender and youth. There has been a rigorous approach to the administration of funds. Client companies have benefited in measurable ways. Many companies have started to look beyond the local market, a useful read-across to Component 3. The pool of skills in WBG has been enlarged. Business culture has changed in important respects; for example, mentalities and norms have begun to change regarding the role of women in business. PMDP helped ensure the resilience of Gaza's economy post-2014.

Our evaluation has tended to confirm that numerous possible criteria for the allocation of grants are justifiable in principle – criteria based on sector, location, grant size, a focus on partners and co-facilitators, or addressing the needs of the marginalised. In our view, there is no one right answer to the question of where to place the emphasis. However, there is a case for a somewhat simpler 'matrix' of criteria than PMDP had to work with. It will be important in a future market development programme to question standard thinking regarding pathways to development and to continue to develop theories of change that fully factor in the unique circumstances of Palestine.

The donors might consider developing an approach that is both more focussed and flexible:

- *more focussed,* by envisaging fewer grants with a stronger emphasis on supporting the social fabric of Palestine in specific thematic areas
- *more flexible,* by maintaining and enhancing the partnership grants mechanism and other aspects of the PMDP model that allow for policy development, engagement with civic society, and course corrections along the way

Any future programme should take account of the deep uncertainty in WBG, the risk of renewed conflict, and the need for resilience.

Evaluation Findings: the role of PMDP in addressing market system failures

Introduction

Our assessment of the role of PMDP in addressing market system failures of PMDP helps us to answer, at least partially, the following key evaluation questions.

EQ1: To what extent has the Programme been consistent with, and supportive of, Partner Government policies?

EQ2: Did the Programme respond to the needs of all of the various target groups including those in specific geographic locations (for example, area C of West Bank; Gaza etc.) and particular groups (e.g. women and other marginalised groups)?

EQ3: To what extent did the Programme achieve its targets and what could have been done to make the Programme more effective overall?

EQ4: What were the specific effects of the Programme on female owned or run businesses and on marginalised or vulnerable groups?

EQ5: How well was the Programme harmonised with the work of other aid agencies and the Palestinian Authority itself?

EQ 8: Has the Programme produced any catalytic effects that may sustain further change for the benefit of OPTs economy overall, grantee firms and PIPA in particular?

EQ9: To what extent will benefits continue without additional assistance?

EQ 10: What are the impacts of the Programme on the overall business environment in the OPTs and the competitiveness of the Palestinian private sector?

EQ11: What are the impacts of the Programme on its grantee firms and other beneficiaries (PIPA)?

EQ 12: Are there differences in the impacts experienced by different target groups (by geographical location, firm size, women, vulnerable groups)? How can these differences be explained?

EQ14: How did the Programme contribute to peace-building and state-building and how did it contribute towards the achievement of a viable two state solution

Overview and theory of change

PMDP's theory of change under Output 2 was relatively straightforward. The goal was to 'scan' the Palestinian economy with a view to identifying market failures in sectors with a high potential to create jobs; and in the light of the results of this exercise, to intervene in the relevant sectors at three levels:

- policy guidance / partnerships with key actors
- matching grants
- outreach to other donors/actors

In broad terms, the measurement of success would be changed behaviour among market actors in the chosen areas leading to a strengthening of market systems leading, in turn, to improved productivity and an increase in employment.

In terms of 'scanning' or analysis of the Palestinian economy, the interventions of PMDP were at three levels: sector selection; fifteen studies of market systems carried out at intervals over the lifetime of PMDP; and the elaboration of three substantive 'sector facilitation plans' prepared during the second half of the Programme.

The following were the completed market system studies:

- multinational enterprises outsourcing to Palestinians (2014)
- market for quality certification for management consulting (2014)
- EMMA – irrigation water market in the Al Zannah and Sureij
- quality of frontline workers in tourism (2015)
- animal feed (2015)
- quality of IT Engineers (2015)
- tourism in the North-West Bank (2015)
- business process outsourcing in oPt (2015)
- weaned lambs (2015)
- olive pressing services in Gaza (2015)
- veterinary services in the oPt (2016)
- fruit and vegetable seedlings in Gaza (2016)
- online Freelancing for women in oPt (2016)
- furniture (2016)
- Jerusalem High Tech Labour Market assessment (2017)

In the final years of PMDP, accelerated efforts were made to step up the analysis of market constraints and the reach of PMDP interventions in three specific areas, for which detailed 'sector facilitation plans' were prepared:

I. Agriculture
II. IT services
III. Tourism

The follow-up activity undertaken by PMDP fell mainly in five sectors: business service provision and furniture, plus the three priority areas of agriculture, IT services, and tourism.

We are satisfied, as recorded in our annual assessments, that the advice and facilitation provided by PMDP was in accordance with the logic of the Programme, that the grant-issuing process worked well, and that quantitative targets were comfortably met. In certain areas, specific systemic change actually occurred in the targeted sectors as a result of PMDP facilitation – notably in relation to animal feed /alternative feed; grafting; and adaptations to the curriculum at third level (ICT).

Tourism

PMDP's investment of £53,000 in tourism workforce development sought to address underlying causes for market failure by promoting higher quality vocational education for the tourism industry and market-relevant vocational training.

PMDP supported well-conceived 'train the trainer' programmes at Bethlehem University and two other colleges serving the hospitality sector, including the culinary arts. Students intending to establish or improve small family businesses in the hospitality sector are among the main beneficiaries of such programmes. The change was that the organisations delivering the training were taking a commercially viable approach. However, the sustainability of the culinary arts initiative, and other similar 'modules' offering professional training, depends in the long run on the ability of students to pay fees, which in turn may depend on overall market conditions.

A PMDP initiative intended to heighten interest in tourism in the north of the West Bank was not brought to fruition. The lack of interest by the commercial tour operators reflects weak commercial viability under current conditions.

From these examples, there is a lesson to be learned about the need for 'critical mass' in any intervention aimed at transforming a whole sector.

PMDP's follow-up interventions in relation to selected market systems in the spheres of agriculture and IT respectively give more grounds for encouragement.

Agriculture

The agriculture sector in the Palestinian economy suffers from different market failures that are leading to a decrease in the contribution of agriculture to Palestinian GDP. It was decided that PMDP should target this sector given the historical role of agriculture in Palestine, its potential for growth, and its special contribution to pro-poor growth in particular.

The sector facilitation plan for agriculture focused on five market systems, namely: animal feed, the irrigation water market, veterinary services, olive pressing, and lamb rearing. Within these sectors, PMDP identified two subsectors as immediate priorities for intervention: livestock, and fruits and vegetables. PMDP introduced innovative solutions to private sector suppliers and linked the suppliers in turn to resource-poor farmers, improving their access to affordable better-quality inputs. These initiatives (seventeen in total) were in the areas of alternative feed, milk replacement, seedlings, and irrigation water.

For the purposes of the present evaluation, we visited Bani Naim, a village near Hebron in which dozens of small herders rear a total of 36,000 sheep. At Bani Naim we examined at first hand the interventions of PMDP in the animal feed sector.

The starting point of PMDP's analysis was that the lack of a viable livestock feed alternative was pushing herders to depend on expensive imported feed. The high cost of the feed was affecting the profitability of the herders in general and vulnerable small-scale herders in particular. PMDP further established that large amounts of crop by-products suitable for use in animal feed were going to waste every year.

PMDP proposed a new business model aligning the incentives for (i) companies producing animal feed; (ii) crop farmers; and (iii) herders; while at the same time (iv) opening up the prospect of a number of new jobs in any new companies producing the animal feed. One of the keys to this initiative was to use PMDP's flexible grant scheme to share the risk taken by the new company in purchasing specialised machinery in Israel (a mixer) and Turkey (a bag packer).

The outcome was a textbook example of changed behaviour among market actors leading to a strengthening of market systems leading to improved productivity and an increase in employment. A successful new company was created by an individual who moved from the not-for-profit to the private sector. A better-quality product became available at a lower cost to the farmer - a 30% savings in feed cost – leading as well to increased productivity - a 20% increase in milk production for herders. Additional employment opportunities became available in the new company.

On top of these immediate outcomes, the Bani Naim example had a clear ***demonstration value***. PMDP raised awareness of the project among herders, other feed firms, and related stakeholders by organizing a series of workshops and meetings with Ministry of Agriculture (MoA), and other ag-focused donors and institutions, and by presenting PMDP's work in radio interviews on local channels.

The return on investment for the pilot project in Bani Naim (and a parallel project in Gaza) encouraged four more feed producers to adopt a similar business model. PMDP's total investment in the reform of the animal feed market was GBP 182,488 which leveraged a co-investment from the six private sector firms of GBP 231,365.

By autumn 2018, the number of herders in Bani Naim switching to alternative feed was growing steadily, beyond the capacity PMDP's initial client firm to meet demand. We were informed that other varieties of alternative feed were likely to come on the market and that a similar approach would be tried out in relation to cattle feed.

The wider impact ('catalysing effect') for which PMDP has been striving in all its interventions was clearly visible in this instance.

Grafted seedlings

Another interesting example of PMDP's engagement with market systems in the sphere of agriculture is the grafted seedlings project in Gaza. One of the case studies prepared for this evaluation (Annex 5 below) concerns this initiative. The judgments expressed here draw on our case study.

Grafting is a horticultural technique used to join parts from two or more plants so that they appear to grow as a single plant. Grafting techniques started in Japan and Korea in the early 1920s and are used today in many Arab countries, such as Jordan, Lebanon, Syria, Egypt, and Morocco, and also in Israel, which is a world leader in the field.

In 2008, the Japan International Cooperation Agency (JICA) started introducing the grafting technique for watermelon to the West Bank. Grafted watermelon cultivation is now carried out over a considerable area of the West Bank. However, attempts to introduce the grafting technique in Gaza did not at that time attract major interest or support and encountered technical difficulties which the initial pilot projects had not been able to resolve.

Most of the seedlings in circulation in Gaza were of sub-optimal quality, making them vulnerable to soil diseases and salinity. This resulted in lower yields and the use of expensive fertilizers and pesticides. Fertilizer and pesticide, because they contaminate ground water, have potentially negative impacts on health and wellbeing. Gaza's lateadoption of the technique of grafting is attributable to: a) the need for expertise; b) the need for capital investments by nurseries in infrastructure, equipment, and staff training. From the point of view of this evaluation, it is disappointing to learn that over many years Gaza was unable to benefit from the expertise that was available so close to hand.

Although a recent graduate of the Faculty of Agriculture at Al-Azhar University succeeded in introducing the first pilot grafting of watermelon seedlings in Gaza in 2013, he could not, however, market the idea and convince farmers. The Ministry of Agriculture (MoA) in Gaza recognises that, in effect, PMDP piloted the commercial production of grafted seedlings by supporting a major nursery in the production of watermelon seedlings and facilitating the engagement of a qualified external consultant to build the capacities of the nursery employees. PMDP also helped raise awareness among small-scale farmers. For the nursery, grafted seedlings are more profitable than traditionally produced seedlings;

for farmers, reduced production costs and increased yields provide an economic incentive to switch to higher quality seedlings.

The increasing demand for grafted seedlings led to three additional nurseries producing grafted seedlings, one of them adopting this business model with its own financial resources without PMDP assistance. As more nurseries entered the market, the practice began to spread to other crops, including cucumbers and tomatoes.

To achieve more robust market growth, PMDP organized a capacity-building program for agronomists and an outreach program of workshops and meetings for international and local organizations, as well as MoA representatives and local academics.

According to the final report of PMDP, currently more than 778 small-scale farmers have switched to grafted seedlings, and more than 2.5 million seedlings were sold between December 2016 and July 2018 (from a starting point of zero). PMDP expects that by 2020, six nurseries will be producing grafted seedlings.

Dependence on Israel as a supplier of certain crops is being reduced.

The Ministry of Agriculture (MoA) and other stakeholders have declared that PMDP's initiative on seedlings is a success in terms of increased production and an improvement in the quality of watermelon. *A combination of interventions by PMDP has brought about a promising change of perspective regarding the potential use of grafted seedlings in Gaza.* The MoA looks forward to introducing the grafting technique to other crops such as tomatoes, eggplant, pepper, cucumber, and zucchini. The MoA has begun to cultivate many types of grafted seedlings in its demonstration sites and is disseminating grafting know-how among farmers. Many NGOs are also promoting the use of grafted seedlings.

However, a number of further comments are called for, some highly positive, others introducing a note of caution.

On the positive side, as described above, productivity has increased and a number of new jobs have been created. The grafting technique, as well as enhancing productivity, leads to a reduction in soil contamination and salinity. It also produces a safe product that is healthy for consumers. The opportunities provided for young agronomists are in keeping with PMDP's brief to enhance the participation of women and youth in the Palestinian economy. Local universities arelooking forward to introducing grafting into their curricula both theoretically and as a practicum.

On the side of caution, our assessment of PMDP's bold steps to bring about a change in economic behaviour needs to take into account, in the end, the following evidence:

- the cultivation of melon using seedlings – as opposed to watermelon - involves high outlays: according to our case study, it may cost three times as much to grow melon in one dunum of land as watermelon

- tomatoes are also more expensive to produce than watermelon; grafted tomatoes are both more expensive than the non-grafted variant and have a production time of one year as opposed to eight months
- many farmers believe that the grafting of cucumber is not economically feasible. The sale price of grafted and non-grafted cucumber is almost the same and the consumer does not care much about the distinction (even if the use of grafted seedlings is in principle a safer method). Some farmers prefer to use the ordinary cucumber seedlings and to seek to obtain a yield twice a year by using gas for soil sterilization
- one nursery lost a significant amount of money over a failed cucumber crop (the technical reasons for this are beyond our competence to evaluate)
- the second half of the 2018 season for watermelon was a disaster. According to MoA, the hot weather and high humidity led to the spread of a white fly that brought a virus to the grafted watermelon crop. While this cannot be blamed on PMDP, it may impact on consumer confidence going forward

This evidence points towards a number of conclusions.

First, the incentives that apply in the case of watermelon seedlings do not seem to apply in exactly the same way in other analogous market systems (melon, tomato, cucumber). Therefore, in any future programme, the approach that has been shown to work well in the animal feed sector may need refinement in the more complex area of grafted seedlings – though of course the nurseries' experience of market dynamics going forward will play the central role.

Second, some of the arguments in favour of a change in economic behaviour – for example regarding long-term soil quality, consumer welfare, and economic self-sufficiency – involve more than an immediate commercial benefit to the company (nursery) or the farmer. In any future market development programme, there will be a need for constant awareness-raising in civic society regarding the long-term ecological issues at stake in agricultural production.

Third, it appears that there is a good case for more emphasis on scientific research and testing. For example, according to some of the experts we have consulted, grafting techniques should be tested over a complete season before being introduced to the market. This implies a continuous dialogue with the university sector on initiatives in the agriculture sector and a possible role for academia in monitoring and testing activities. Similarly, grafting techniques should be captured and documented in the form of official 'best practice guidelines' for practitioners, especially nursery owners and farmers.

IT and IT-enabled services

In the IT and IT enabled services sector, PMDP's analysis showed that for this segment to expand, it would be critical to develop the capacity of IT services providers to enter into new niche markets and expand into key export markets. PMDP initially focused on analysing key markets. These included the markets for:

- outsourcing by multinationals
- business process and engineering services outsourcing
- online freelancing

PMDP then identified three key areas of underperformance:

- business development platforms and practices
- investment in skills
- educational reform in line with international standards.

Subsequent PMDP interventions demonstrate the difficulty of bringing about systemic change through activity on the limited scale that was possible for PMDP – which is not to dispute the value of what was achieved.

PMDP took a number of steps to improve the relevance of the available ICT qualifications to employers' current needs and to market trends.

The Bridges project (Jossor) brought universities and the private sector together to work on joint technical projects. A steering committee with representatives from leading universities (Birzeit University, Al Quds University, Hebron Polytechnic, and others, as well as PITA) launched a pilot project to stimulate local companies to engage university faculty and students in applied projects. This committee also encouraged universities to reform their strategic outlook.

PMDP designed and implemented a pilot intervention with Palestine Ahliyyeh College University (PACU), a leading local university, to reform its IT curricula. This became a model for other universities to follow. Bethlehem University, Al-Najah University and Birzeit University began to upgrade their IT programs with the support of PMDP.

Al Najah University, with the support of the Portland Trust, installed the first VLSI Lab (Very Large-Scale Integration Lab) in Palestine, essential for developing skills in chip design and verification, and updated five courses which are now being offered in the present academic year (2018/2019) to third, fourth and fifth yearstudents.

At Birzeit University, the University's Computer Science and Computer Engineering Departments are under reassessment.

With encouragement from PMDP, a new Bachelor's programme in software engineering is being offered beginning this academic year at Bethlehem University. The programme is the first of its kind in Palestine. Since nearly 70% of Bethlehem University students are female, this degree program could potentially attract a large number of women into the ICT field.

PMDP signed a partnership agreement with a consortium of three local ICT firms (Asal, Harmony, Ultimit) to hire an external training provider to conduct a 'Boot Camp,' that is, a customized, intensive demand-driven training program which helps bridge the gap between the skills IT firms need and the IT skills coming out of universities. Encouraged by this example, three training providers have adopted the model and are currently working to promote it on a fully commercial basis.

These educational initiatives were complemented by the formation of an Outsourcing Working Group, involving the Portland Trust, PITA, and other players to establish common policies.

At the direction of DFID, PMDP launched the 1% Initiative to increase British outsourcing to the OPTs.[31] First, a partnership with Everest Global, a leading IT advisory firm, developed a value proposition for Palestinian IT Services, identifying 18 lead suppliers and 83 potential clients in the UK. This was followed by a business development phase, under which PMDP collaborated with Avasant, a strategic sourcing firm, to develop marketing collateral in collaboration with PITA and industry suppliers, and utilise it to pitch Palestinian IT and Business Process services to 30 UK-based companies. Unfortunately, there has been little time for the business development phase to show results - though of course players other than PMDP can follow up on the leads that have been identified.

PMDP tasked the Jerusalem Entrepreneurs for Society and Technology (JEST) to prepare an assessment report on Jerusalem high tech labour markets. The report, available after some delays, shows the difficulties faced by East Jerusalem tech workers in accessing work in Israeli companies. There are concerns that with the end of the PMDP programme any follow-up activity will be limited in scope.

Component 2: Summary Findings

The Component Lead and his market development specialists have managed this component well, and the work plan has been kept on track. PMDP has exceeded agreed quantitative targets. Its interventions have been consistent with the intervention logic of the programme. PMDP has sought to mainstream gender and youth in its activities under this component.

There are some potential lessons to be considered.

First, the seedlings project and TMR project illustrate the importance, in some instances, of a case-by-case approach even within a single sector.

Second, effective intervention in a sector as complex and internationally competitive as ICT requires major resources and a long lead-time to show results. PMDP did not have the scale to follow up every opportunity. Actors other than PMDP will need to follow up on what has been achieved so far.

[31] The concept is that if the OPT can capture 1% of the market for outsourcing by British companies in IT and IT-enabled services, it can make a huge difference to Palestine while benefitting both the UK and the OPTs

Third, while PMDP had good relations with other donors, the development of new market sectors of systemic importance may require a step-change in the intensity of donor coordination.

Fourth, continuity of donor support contributes to sustainability. For example, under Component 2, stakeholders have expressed a high regard for PMDP's work in identifying a value proposition for Palestine in the area of technology and business process outsourcing; but it did not prove possible within the timeframe of PMDP to implement PMDP's vision. From that perspective, the time interval between the conclusion of PMDP and the initiation of a new market development programme is not ideal.

Evaluation Findings: The role of the PMDP in strengthening trade and investment linkages with international markets

Introduction

Our assessment of the role of PMDP in strengthening trade and investment linkages with international markets helps us to answer, at least partially, the following key evaluation questions.

EQ1: To what extent has the Programme been consistent with, and supportive of, Partner Government policies?

EQ2: Did the Programme respond to the needs of all of the various target groups including those in specific geographic locations (for example, area C of West Bank; Gaza etc.) and particular groups (e.g. women and other marginalised groups)?

EQ3: To what extent did the Programme achieve its targets and what could have been done to make the Programme more effective overall?

EQ4: What were the specific effects of the Programme on female owned or run businesses and on marginalised or vulnerable groups?

EQ5: How well was the Programme harmonised with the work of other aid agencies and the Palestinian Authority itself?

EQ 8: Has the Programme produced any catalytic effects that may sustain further change for the benefit of OPTs economy overall, grantee firms and PIPA in particular?

EQ9: To what extent will benefits continue without additional assistance?

EQ 10: What are the impacts of the Programme on the overall business environment in the OPTs and the competitiveness of the Palestinian private sector?

EQ11: What are the impacts of the Programme on its grantee firms and other beneficiaries (PIPA)?

EQ 12: Are there differences in the impacts experienced by different target groups (by geographical location, firm size, women, vulnerable groups)? How can these differences be explained?

EQ14: How did the Programme contribute to peace-building and state-building and how did it contribute towards the achievement of a viable two state solution

Overview and theory of change

PMDP's theory of change under Output 3 took account of a number of serious imbalances in the Palestinian economy:

- imports outweigh exports by a factor of more than 5 to 1
- over 80% of Palestinian exports go to Israel
- there is a mismatch between consistently low growth predictions and a rapidly growing population

Against this background, PMDP's theory of change envisaged a major strengthening of PA capacity in the area of trade and investment promotion, with a particular focus on PIPA and the appointment of trade representatives (CTRs) to Palestinian missions abroad. In support of these initiatives, PMDP sought to encourage a more organised engagement by the PA and other Palestinian actors with the Palestinian diaspora. With additional EU funding, the scope of PMDP under component 3 was expanded in 2016 to address additional policy and BEE issues. The new funding covered the salaries of highly qualified team members working on the BEE and NES and enabled PMDP to recruit a consultant to work within MoNE.

Under Component 3, as with the other components, PMDP was able to intervene at three levels:

- policy guidance / partnerships with key actors
- matching grants
- outreach to other donors/actors

The measure of success was to be a more diversified export trade, with new sources of inward investment also uncovered.

The single most important intervention undertaken under Component 3 was to help deliver the following objective of the National Export Strategy 2014-2018:

> There is also a need to train and deploy commercial attachés at Palestinian embassies or representation offices. These attachés would be responsible for promoting Palestinian goods and services in international markets, linking exporters with the Palestinian diaspora in the country, and be a valuable source of trade information to feed back to the State of Palestine.[32]

[32] The State of Palestine National Export Strategy 2014 – 2018 (pg. 82)

The plan was to place ten 'commercial trade representatives' (CTRs) in priority countries. PMDP would provide the seed money. Over time, the PA would assume the full cost. For the purposes of the present evaluation, we have prepared a case study on PMDP's several interventions in support of the recruitment of CTRs, the definition of their role, and the development of support structures (Annex 5).

From 2016 on, PMDP played a major part in a push by the PA to improve Palestine's ranking under the World Bank Doing Business Indicators. This was the subject of our fifth case study for the present evaluation (Annex5).

Component 3 is the most diverse of PMDP's three components. Without repeating here the detail that is to be found in PMDP's final report, we are satisfied that the programme has contributed materially to a number of positive changes:

- PIPA has been restructured and has broadened its agenda
- The PA has embraced the concept of appointing trade and investment officers to diplomatic missions
- Progress has been made on the National Export Strategy
- The relevant Palestinian stakeholders have begun to work together to reach out to the diaspora
- Palestine has jumped from 140 to 114 under the WB Doing Business Indicators and has supported the activation of the relevant technical committees

Regarding PMDP's flagship project of appointing CTRs, the core achievement is that the PA has accepted the concept of appointing trade and investment officers to diplomatic missions as a strategic public good. However, the sustainability of this initiative now depends on resolving the budgetary and other issues that arise as the PA seeks to integrate a new, specialised public service into PA structures. We examine further below the implications of this challenge.

The breakthrough in the CTR programme is associated with another key achievement of PMDP, namely the support given to the positive transformation of PIPA. A future market development programme should support further capacity-building in the sphere of trade and investment promotion – a topic that is taken up below.

Improving Palestine's ranking under the Doing Business Indicators was a narrower objective than that of appointing ten CTRs to ten key diplomatic missions. Arguably it provides a more convincing example of what a programme on the scale of PMDP can realistically hope to achieve.

Commercial trade representatives

Historically[33] there have been a number of attempts to institute Palestinian Trade Representatives, for example in the IT sector in Dubai from 2003-2007 (through PITA) and

[33] PMDP Inception Report Feb 2014 (pg.60)

in Jordan from 2003-2011 (through Paltrade). The Ministry of National Economy (MoNE) also placed some trade attachés in Palestinian Representation offices. All these previous efforts were discontinued. Contributory factors included the unwillingness of the private sector to pay for services, which may be connected to the level of results achieved, and the lack of donor support.

In the light of the new National Export Strategy, quoted above, PMDP decided to support MoNE in deploying trade representatives. This became the most prominent objective of PMDP under the heading of building business linkages in international markets. The plan was to place ten 'commercial trade representatives' in priority countries. PMDP would pay 100% of Year 1 salaries and 50% of Year 2 salaries. From Year 3 onwards, the PA would cover the full cost. Consultants contracted by PMDP would be taken on by MoNE.

As a basis for discussion, a survey of the main export markets for Palestine was undertaken as part of the PMDP inception report. This was a valuable exercise which clarified the importance, but also the limitations, of the Palestinian diaspora as a source of trade deals and inward investment.

There were inherent difficulties in 'grafting' relatively highly paid consultants, often of different nationalities, onto the complex and in some ways fragile infrastructure of Palestinian diplomatic missions and the PA's domestic administration in the area of trade and investment. The MoU between MoNE and MoFA was signed two years later than planned, in 2016. The first CTR was deployed in late 2016, eighteen months later than planned.

The factors behind this delay included the following:

1) A lack of clarity in the respective competencies of MoNE and MoFA
2) Changes in personnel at the highest levels
3) A difficulty in determining the location within PA structures of the necessary support staff at HQ: the central coordinating unit (CCU) was eventually allocated to PIPA
4) Differences from Mission to Mission in the treatment of CTRs (the US decision to close the representation office of the PLO was an additional complication)
5) Budgetary issues including the question of running expenses

In December 2015, the PMDP proposed to DFID to reduce the number of deployed CTRs from 10 to 6. Though at one point 6 CTRs had been recruited and were in place, as of October 2018, only four CTRs were operational, in UK, Germany, Russia, and Kuwait. All four CTRs are now on PIPA contracts. These contracts end either late this year or in the course of 2019.[34]

[34] The CTR role in the US was cancelled because of the US cancellation of the PA mission to the US

The future is uncertain. There was a budget of one million shekels in the 2018 PIPA budget but that amount, assuming it is replicated in the budget for 2019, is not enough to cover four CTRs plus their running expenses.[35] There is pressure to change the profile of the CTRs – broadly speaking, by replacing some of the consultants by career officials or by secondees from relevant Palestinian organisations.

Our evaluation suggests that the role profile of the CTRs was perhaps unduly detailed, specifying key performance indicators under fifteen headings. We have also identified challenges relating to the procedures at HQ (Ramallah) and the back-up and guidance provided to the trade representatives in the field. It is therefore impressive that (in our judgment) the output indicators in the logframe were met (see case study 4). As to outcomes, fifteen deals were signed (slightly over target). Here again, we are confident that PMDP's figure is correct; they had a robust monitoring system. The total value of these deals was £1.5 million.

Generally, the view among stakeholders (Paltrade, Chambers of Commerce, companies), is that the appointment of CTRs is a valid policy objective that should be maintained. However, there are differing views as to future priorities and the administrative adjustments that may be required. We have found that not all businesses are aware of the CTRs. Given that the CTR programme started late, and is to a degree behind schedule, it is hard to evaluate the overall effectiveness of CTRs in securing trade deals.

The reduction in the level of ambition in this area over the lifetime of PMDP may imply that the intervention as originally planned was somewhat too 'theoretical' and underestimated the difficulties. In our view it is important that the CTR programme should continue into 2019 for its demonstration value and as a confidence-building measure. The present scheme is a 'place-holder' – an indication of the future direction of policy. The goal should remain of having trade representation in at least the top ten Palestinian export markets.

In planning for the future, the following key questions will need to be answered satisfactorily:

- Is the CTR bylaw the right way forward to give a legal basis for the CTRs? In particular, should the PA allow for different CTR 'types', i.e. consultants, secondees from Palestinian organisations, and regular civil servants? A related question is whether the roster of CTRs can include non-Palestinians with expertise in international trade.
- Do CTRs always need to reside in their country of accreditation? Or always to belong within the Embassy?
- What 'systems' are needed in Ramallah to support the trade and investment agenda? What is the role of Paltrade? What can donors do?

[35] The 1M budget that was allocated in 2018 took into account the PMDP contribution. In practice, the budget needs to be higher next year

In our assessment, the next essential step is to adopt the bylaw on CTRs. In addition, it should prove possible to satisfy the private sector that a variant of the CTR programme remains the most cost-effective way of achieving specific objectives in the sphere of external trade and inward investment. We return to the question of CTRs below, in relation to the remit of a future market development programme in the sphere of trade and investment promotion.

Doing Business Indicators

In December 2015, a mission to Ramallah from the World Bank made a number of recommendations to the Ministry of National Economy (MoNE) to improve the regulatory environment and investment climate in the light of the World Bank's 'doing business' criteria. Against this background, an explicit 'business enabling environment' (BEE) component became part of PMDP in the middle of 2016 as part of an expansion of the programme with additional funding from the European Union.

This new area of work was a natural fit with Component 3 of PMDP. It overlapped in practice with other key objectives in that component, notably strengthening PIPA, which has a key role in creating an enabling environment for foreign investment; engaging the diaspora; and putting in place effective CTRs.

To help address the new priorities, one additional advisor, Bashir Assi, was recruited by PMDP on a full-time basis. Another full-time advisor, Rami Rabah, was recruited by the PMDP to be 'embedded' at the Ministry of National Economy. In addition, at least four consultants, some of them from abroad, were engaged by PMDP to work in individual policy areas such as the training of judges in the operation of the e-transactions law, product standards, and certifying e-signatures.

We focus here on four priority interventions by PMDP:

1. the Doing Business Action Plan and the activation of Ministerial and Technical Committees
2. the Secured Transactions Law and access to credit
3. business licensing and access to credit
4. construction permits

Doing Business Action Plan and Activation of Ministerial and Technical Committees

- *What was the intervention?*

Drafting an Action Plan for reforms related to the Doing Business (DB) indicators, activating the Ministerial Committee, and establishing and activating Technical Committees.

- *What problem was it supposed to address?*

The lack of a clear Action Plan (regarding the Doing Business indicators) and insufficient engagement by stakeholders.

- *What did PMDP actually do?*

Action Plan: PMDP advisors drafted an Action Plan listing the actions that should be implemented for each indicator (of the World Bank Doing Business report), focusing on eight indicators (out of eleven), in order to improve the ranking of Palestine in the DB report. The Action Plan was to some extent based on the World Bank team's recommendations; it followed careful study of the Doing Business report methodology, and discussions with the World Bank team (in East Jerusalem and in Washington DC) and with numerous local stakeholders (including, the Ministry of Telecommunication and Information Technology, the Palestinian Energy Authority, Ramallah Municipality, the Palestine Monetary Authority, and others). The Action Plan was presented to the Minister of National Economy (H.E. Abeer Odeh) and became the basis of the work of the Ministerial Committee.

Ministerial Committee: PMDP advisors facilitated meetings of the Doing Business Ministerial Committee (two meetings during the relevant period), at which the Action Plan was presented. The Ministerial Committee members were supportive of the Action Plan and approved the suggested next steps, including the establishment of three Technical Committees to work on the various indicators in the Doing Business report.

Technical Committees: following Ministerial Committee endorsement, invitations were sent to the various Ministries and other authorities that are members in the Technical Committees. These bodies appointed representatives to the Technical Committees, which have met about five times during the relevant period. PMDP advisors have raised their awareness of the DB indicators and specifications, and helped them with advancing their reforms; while ensuring that the Doing Business team was made aware of developments.

- *Why is this intervention important?*

The DB ranking of Palestine is a reflection, in one way or another, of the BEE in Palestine; it offers a point of comparison with the BEE in other countries. This is important for foreign investors - advancing the ranking of Palestine is critical for improving their perception. In a broader sense, improving the DB rankings demonstrates the capacity of the Palestinian public administration to respond creatively to a challenge.

- *The status of the intervention/results (October 2018):*

Completed.

Access to Credit

- *What is the intervention?*

Ensuring the implementation of the Secured Transactions Law (as well as finalising the bye-laws), improving awareness of this reform, and facilitating acknowledgment by the World Bank Doing Business team of this reform.

- *What problem it was supposed to address?*

Lack of full implementation of the Secured Transactions Law reform – principally because MSMEs were not sufficiently aware that they can use movable assets, once registered, as collateral for borrowing money or borrowing at a reduced rate of interest.

- *What did PMDP actually do?*

PMDP advisors supported MoNE in its work on the World Bank's 'getting credit' indicator - to increase awareness of the Secured Transactions Law, activate the Registry of Interests in Movable Assets (RIMA- http://registry.mne.gov.ps/), and increase the visibility of the Registry.

PMDP advisers have been in touch with the IFC as well, to facilitate IFC's engagement with the project. PMDP advisors reviewed and provided comments on the (draft) Secured Transaction Instructions (mainly focusing on the use and functionality of the Registry), which were eventually signed by the Minister.

In order to (i) improve awareness among financial institutions and in the private sector and (ii) ensure that the DB team would acknowledge the role played by the Registry, PMDP advisors have:

- organised, together with the World Bank local team, including the Country Director (in East Jerusalem), a video conference with the World Bank-DB team (in Washington) to discuss the state of the Registry of Interests in Movable Assets
- organised, together with MoNE and the Banks Organization, a meeting with heads of Credit Departments at the banks to learn about their experience using the Registry
- organised, together with MoNE, a high-level meeting chaired by the Minister of National Economy, with participants from the relevant Palestinian authorities, IFC, and the banking and microfinance organisations; all the General Managers of the banks, leasing companies and microfinance organisations were present and discussed the functionality of the Registry
- together with MoNE staff, drafted, designed and printed brochures (3,000 copies) on the Registry of Interests in Movable Assets (RIMA) for distribution to the financial institutions, the private sector and relevant stakeholders
- met with the General Managers of leasing companies and major banks to discuss their awareness and use of the Registry; learn about any issues, problems, or hurdles they have been facing; and suggest ways of resolving these issues

- provided to the World Bank-Doing Business team a list of potential contributors who were willing to fill out the 'getting credit' questionnaire

- *Why is this intervention important?*

Raising awareness of the Secured Transactions Law and ensuring its implementation is of utmost importance for improving access to credit for MSMEs, who can use movable assets as collateral for borrowing money.

- *The status of the intervention/results:*

Completed.

The DB team has acknowledged the reform. Palestine was ranked no. 20 worldwide under the 'getting credit' indicator, and no. 1 in the MENA region.

Overall, Palestine jumped from 140 to 114 under the WB Doing Business indicators.

According to World Bank estimates, $300m. of lending has taken place on foot of the Secured Transactions Law reform.[36]

Business Licensing

- *What is the intervention?*

Facilitating a reform of the process for business licensing.

- *What problem it was supposed to address?*

Cumbersome business licensing procedures.

- *What did PMDP actually do?*

PMDP advisors worked in collaboration with the World Bank (Private Sector Development team and their external experts) on two main reforms, (i) business licensing and (ii) construction permits, providing legal and technical support.

Following several World Bank missions to Palestine, and extensive data-gathering and consultation with stakeholders, a reform proposal was formulated – namely, to amend the Annex to the Craft and Industry Law of 1953 which classifies business activities.

For this purpose, and in cooperation with the World Bank, an updated and modern list of business activities was compiled, based on International Standard Industrial Classification (ISIC). In addition, PMDP advisors assisted in the preparation of the amended articles of the law and the explanatory note stipulating the proposed reform. The proposed reform

[36] Repeated interviews with World Bank staff are our source for this important statement

was submitted to the Cabinet in 2017 by the Minister of Health (whose role in the matter goes back to the 1953 law) and the Minister of National Economy in a memorandum that included:

- the (amended) Annex to the 1953 law, including the classification of business activities on the basis of the International Standard Industrial Classification (ISIC)
- amendments to articles in the law, relevant for this purpose
- the explanatory note stipulating the proposed reform, and listing the justifications and benefits

In April 2018, the Cabinet of Ministers endorsed the proposed amendment of the Annex to the Law of Crafts and Industries of 1953. Following this endorsement, PMDP worked in collaboration with the World Bank to draft the instructions that were signed and issued by the Ministry of Health in July 2018.

In collaboration with the World Bank, PMDP has conducted several training workshops for municipalities and local authorities to inform them about the amendment to the Law and its practical implications.

- *Time-line for business licensing*

PMDP, through its contacts with municipal authorities, has supported an intervention by the World Bank to shorten the time-line for business licensing by simplifying the process for obtaining security clearances. These measures complement the major reform of the 1953 Law.[37]

- *Why are these interventions important?*

The business licensing reform is crucial for easing and streamlining the business licensing procedure for any business in Palestine.

- *The status of the intervention/results:*

The Cabinet of Ministers has endorsed the reform, the Minister of Health has issued instructions, and implementation by local authorities is underway.

Cooperation between PMDP and the World Bank has been fruitful, combining the World Bank's international expertise and political leverage with PMDP advisors' local expertise and network. This has led to notable progress on the ground, in terms of engagement with stakeholders, discussions with the public sector at the highest level (e.g., the Ministers of National Economy and Health), and the submission of reforms to the Cabinet of Ministers.

[37] Our interlocutors at the World Bank speak of the natural complementarity between (i) WB's global awareness and expertise and (ii) PMDP's exceptionally good knowledge of conditions on the ground

Construction Permits

- *What is the intervention?*

An analysis of construction permits procedures and providing recommendations for reforms/practical measures to ease and streamline these procedures.

- *What problem was it supposed to address?*

Cumbersome and inefficient construction permits procedures, and insufficient coordination between various authorities involved in these procedures.

- *What did PMDP actually do?*

PMDP advisors have supported World Bank missions and team of experts in analysing the 'construction permits' procedures in Palestine and providing all needed technical and legal assistance.

The World Bank team has conducted two missions to map and analyse the current situation, in order to come up with a reform proposal.[38] The emerging conclusion is that there is duplication of procedures owing to the lack of a unified code for construction and safety standards. Therefore, the main recommendation is to minimise the duplication of procedures, and modernise and unify the code for construction including safety standards.

- Why is this intervention important?

The procedure for obtaining construction permits is cumbersome, lengthy and multi-layered. There has been no comprehensive analysis of these procedures and their pitfalls. For any effective reform to take place, the first step was to provide a comprehensive analysis on the basis of consultations with all the relevant authorities and stakeholders. Such an analysis could point towards recommendations for reform aimed at making the procedures more efficient.

- The status of the intervention/results:

Completed. A final report has been prepared, including recommendations for reform.

Component 3: Summary of Findings

Our general assessment is that Component 3 was well managed and that well-judged inputs were delivered in a number of fields. In that sense, objectives have been met.

In particular, we note that according to World Bank estimates, $300m. of lending has taken place as a result the 2016 Secured Transactions Law. PMDP made a significant

[38] see footnote 17

contribution to the implementation of this law. The World Bank predicts that Palestine's ranking under the Doing Business Indicators, although it did not improve further in the 2018 rankings, has the potential to improve in future as a result of other reforms implemented with PMDP involvement - shortening the time-line for business licensing, re-classifying business activities, and on-going work on construction permits and the Companies Law.

The PA has accepted the concept of appointing trade and investment officers to diplomatic missions as a strategic public good.

The comprehensive reform of PIPA with PMDP support points the way towards a much stronger institutional underpinning of the PA's trade and investment strategies.

As a result of PMDP action, important new policy directions have been identified – for example, the value of a coordinated approach to mapping and engaging with the Palestinian diaspora.

The impressive change in Palestine's rating under the Doing Business indicators is very significant. Building on this achievement can have systemic importance. Nevertheless, as under the other components, a systemic impact is for the most part as yet difficult to discern under Component 3. It is worth briefly suggesting some possible explanations.

The financial and political pressure on government institutions for reasons extraneous to PMDP is a constant factor.

There are inherent complexities in the deployment of public sector assets and resources in support of the private sector. For example, under Component 3, it is a major success for the policy vision of PMDP that the PA has adopted the CTR concept. However, the sustainability of this initiative hinges on challenging policy decisions.

The PMDP theory of change was perhaps too sanguine or optimistic in the actual circumstances of Palestine. Efforts by the PA, even when supported by business, international donors and civil society, may not be sufficient, absent cooperation from and with Israel, to put the Palestinian economy on a path of robust growth. Confidence that lasting economic improvement, based on comparative advantage, can ever be achieved is limited by the absence of what is often described as a 'political horizon.'

A core question is whether PMDP attempted too much under Component 3. It is unlikely that any programme on the scale of PMDP or probable scale of the new programme can 'fix' the Palestinian economy.

A second core question is whether it is possible to stand back from the 'political' angle described above in promoting Palestinian development. Standard ideas concerning the pathways to private sector-led development do not apply under Palestinian conditions, or do not apply unless a simultaneous effort is made to address the 'contingent' political factors that impede development.

We return to these questions under our conclusions and recommendations below.

Evaluation Findings: the role of the PMDP in building employment and entrepreneurship amongst women and young people

Introduction

Our assessment of the role of PMDP in building employment and entrepreneurship amongst women and young people helps us to answer, at least partially, the following key evaluation questions.

EQ2: Did the Programme respond to the needs of all of the various target groups including those in specific geographic locations (for example, area C of West Bank; Gaza etc.) and particular groups (e.g. women and other marginalised groups)?

EQ3: To what extent did the Programme achieve its targets and what could have been done to make the Programme more effective overall?

EQ4: What were the specific effects of the Programme on female owned or run businesses and on marginalised or vulnerable groups?

EQ 8: Has the Programme produced any catalytic effects that may sustain further change for the benefit of OPTs economy overall, grantee firms and PIPA in particular?

EQ 10: What are the impacts of the Programme on the overall business environment in the OPTs and the competitiveness of the Palestinian private sector?

EQ11: What are the impacts of the Programme on its grantee firms and other beneficiaries (PIPA)?

EQ 12: Are there differences in the impacts experienced by different target groups (by geographical location, firm size, women, vulnerable groups)? How can these differences be explained?

EQ13: How successful has the Programme been in addressing cross-cutting issues such as gender, the environmental protection and climate change?

EQ14: How did the Programme contribute to peace-building and state-building and how did it contribute towards the achievement of a viable two state solution

Women and Youth in the PMDP

One of the six case studies prepared in the course of the end-term evaluation concerns the role of women in business (Annex 5). The judgments expressed here are based on our case study.

From its inception, PMDP mainstreamed gender and ensured that programme outputs were gender sensitive. Two years into the life of the programme, a comprehensive review exercise was undertaken, to identify constraints to women and youth employment and identify opportunities to optimize PMDP's impact on these target groups.

The review indicated that certain women- and youth-led businesses — economically disadvantaged enterprises — may have been unsuccessful in benefiting from PMDP for a number of reasons, including inability to pay the client share of open grants (the cause of rejection for around 50% of applications from these target groups); the fact that the businesses were very small, and their needs and priorities were beyond technical assistance only; or because start-ups and other informal small enterprises have been sidestepping legal registration to avoid paying fees and taxes (PMDP can only work with formally registered businesses). Moreover, PMDP did not have sufficient staff to provide the intensive advisory service required by disadvantaged enterprises.

At the end of 2016, PMDP added WAYE as a sub-component with its own dedicated staff. The plan was to build a team of 'co-facilitators' to work together with PMDP on interventions aimed at the disadvantaged businesses in question and with a view to generating jobs for disadvantaged women and youth. The WAYE team improved PMDP's grants program to better reach and serve these target populations. The definition used for women-owned and women-managed businesses was further refined. It was more clearly recognised that women's economic empowerment is in itself a critical component in economic development and poverty alleviation. According to the PCBS 2016 report, *Women and Men in Palestine*, the percentage of women working in informal businesses and home-based businesses is around 23.3% of the workforce (25.9% in West Bank and 15% in Gaza).

As noted above, the WAYE team adopted a 'co-facilitator' approach, working through experienced local non-governmental organisations (NGOs) with access to the target groups. The co-facilitators supported their eligible constituents in making applications to the WAYE Grants Window and continued to support them through project implementation and post-project follow-up.

The WAYE team recognized the need to provide the co-facilitators with strategies, tools and techniques to work with applicants and grantees one-on-one and in groups to prepare their business development plans and submit applications that could successfully leverage PMDP's co-financing. PMDP conducted two sets of capacity- building trainings for the co-facilitators, the first covering PMDP's grant-making process and the second introducing tools and techniques to assess the beneficiaries' needs and develop strategies and plans to address them.

As a result of the WAYE team's outreach and the work of the co-facilitators, WAYE received 153 applications that met the disadvantaged women and youth criteria. The disadvantaged applicants in the West Bank were largely engaged in services and light manufacturing, while those from Gaza were working in services and agriculture. From the 153 applications, 83 grants were made, assisting altogether 105 disadvantaged women-owned enterprises (there were some group applications).

A clear benefit of the use of co-facilitators is that these organisations become a permanent presence carrying forward the work beyond the lifetime of PMDP. The co-facilitators included the Business Women Forum (BWF), ADWAR for Social Change, and the Cooperative Society for Saving and Lending. Outreach was achieved even to isolated areas such as Bedouin communities and villages.

The WAYE team worked with the Component 3 team on the publication of a Guidebook, of particular relevance to micro-businesses led by women, summarising thebenefits of business formalisation and setting out theregistration process in the Chambers of Commerce and with the public authorities.

By the end of the second quarter of 2018, and taking into account grants issued before the WAYE sub-component came into operation in 2017, a cumulative total of 209 women-owned and/or managed businesses had been supported through technical assistance grants by PMDP, and co-facilitators had provided capacity building for 140 women working in 42 small businesses in the West Bank and Gaza (see our case study at Annex 5).

In evaluating PMDP's role in supporting entrepreneurship among women, we are inclined to the view that statistics related to profit, new markets and employment, though they are important and impressive, are less illuminating than the social changes documented by the beneficiaries – for example, a change of status in the home and the community, and greater self-confidence and decision-making power.

Grantees report increased self-confidence and trust in their abilities to run and manage all aspects of a business. They also mention that their immediate and extended families, as well as their communities in general, have gained an increased respect for their work and the work of women in general.

A number of female grantees recalled that when they received their grant (whether for establishing the business or expanding it), many extended family members, community members, and even immediate family members were against the idea of a woman having a business that required her to leave the house and interact with different people – such as wholesalers and distributors. They report that this negative pressure was reduced as the project progressed. Their business successes coupled with their increased self-confidence in managing a business helped to change the mentality of the people around them.

Another key point of change raised by female grantees interviewed by us is the improvement in their communication and negotiation skills. Previously, grantees would have been hesitant or completely unwilling to talk with male suppliers and distributors and negotiate prices and contracts. They now have more confidence in their abilities in this regard. For a number of grantees, this has opened doors to cooperating and networking with different organizations in the private, public and non-profit sectors.

These changes have high prospects for sustainability in that mentalities and norms have begun to change: the business environment for women-run and managed businesses has fewer obstacles and more opportunities.

It is recommended that in any future market development programme, this kind of impact should be used as a measurement of change, and that women beneficiaries should be provided a space to discuss the social impact that their business and their role in the business world is having on their communities, their families and themselves. Similarly, it is recommended to continue to use co-facilitators in future interventions, with a rigorous process for selecting facilitators with the ability and profile to reach target communities.

There is a read-across from PMDP's experience of women's empowerment to other aspects of this or any future market development programme – namely *the potentially pathfinding, confidence-building, and demonstration value of any successful intervention in support of marginalized groups.*

Conclusions

General Conclusions

PMDP was a well-conceived and well-managed programme, creatively combining technical assistance and policy reform.

Under Component 1, the log-frame indicators were met or exceeded. Client companies have benefited in measurable ways and in many cases have started to look beyond the local market (a read-across to Component 3). We have not been in a position to survey skills and innovation levels in non-client companies. Overall statistics on the Palestinian economy suggest that PMDP client companies have done better than the economy as a whole; though selection bias may be an important explanatory factor here.

Under Component 2, PMDP analysed a number of critically underperforming markets. In the animal feed sector, PMDP developed a business model that was taken up by six companies and is currently being taken up by others. This model brings an improved product at reduced cost to a wide number of small producers. Something similar has been achieved with seedlings in Gaza. In the case of seedlings, however, the policy and operational environment is more complex, as we have discussed above.

Overall, PMDP prepared studies on fifteen underperforming markets. In three sectors – ICT and tourism as well as agriculture – these studies were translated into detailed facilitation plans. To our eyes, there was scope for further interventions over and above what was actually achieved by PMDP. But effective intervention requires resources; PMDP did not have the scale to follow up every opportunity. While PMDP had good relations with other donors, the development of new market sectors of systemic importance may require a step-change in the intensity of donor coordination. We suggest that the creation of a formal partnership forum between relevant private sector development programmes might have some value for future iterations of the PMDP.

Component 3 was the most diverse of PMDP's three components. For reasons extraneous to the programme, notably the absence of a political horizon, it was difficult to achieve a qualitative leap forward in the environment for trade and investment. That said, PMDP has contributed to a number of positive changes.

Palestine jumped from 140 to 114 under the World Bank Doing Business Indicators. We accept the World Bank estimate that $300m. of lending has taken place as a result of the 2016 Secured Transactions Law. This outcome can in large part be attributed to PMDP. The World Bank predicts that Palestine's ranking under the Doing Business Indicators can improve further as a result of other reforms implemented with PMDP involvement -

shortening the time-line for municipal business licensing, re-classifying business activities in accordance with ISIC standards, and on-going work on construction permits.

Other developments to which PMDP has contributed include the following:

- PIPA has been restructured and has broadened its agenda
- the PA has embraced the concept of appointing trade and investment officers to diplomatic missions
- PMDP has assisted in the implemention of elements of the National Export Strategy
- the relevant Palestinian stakeholders have begun to work together to reach out to the diaspora
- there is commitment to reform in the area of standards and certification
- PMDP has supported the Agricultural Credit and Agricultural Insurance agencies

Our assessment is that objectives have been met under Component 3 – and important new directions have been identified even if, as under the other components, a systemic impact in most of the policy areas in question is as yet difficult to discern.

An additional benefit of PMDP is the development of a long-term enterprise support capacity. PMDP staff have gained valuable experience and knowledge about the practical aspects of enterprise development in Palestine. They form an impressive cohort of local leaders who will undoubtedly contribute to the improvement of the competitive position of Palestinian enterprises in the medium- to long-term.

Other than those outlined above, we have not observed any unexpected findings that had been missed in logframe indicators. This is probably linked to the PMDP management structure (involving both DAI and DFID/EU) which showed a high level of flexibility in absorbing lessons as the project proceeded and in adjusting project design and focus over time.

Overall, the present evaluation points towards a paradox: PMDP has achieved its intended results at several levels without there being evidence of a decisive impact on the Palestinian economy as a whole.

Evaluation Questions

EQ1: To what extent has the Programme been consistent with, and supportive of, Partner Government policies?

The Programme has been strongly consistent with, and supportive of, Palestinian Authority (PA) policies. The economic strategy of the PA emphasises the need for economic growth through private sector market development.

The matching grant scheme improved private sector skills, competitiveness, and the scope for private sector-led growth. In accordance with PA priorities, the Programme also helped to re-order certain market systems and to strengthen the overall policy environment and institutional support.

The UK Government's overarching objective of preparing the OPTs for a partnership role in a revived peace process is of course fully in line with the vision of the Partner Government.

EQ2: Did the Programme respond to the needs of all of the various target groups including those in specific geographic locations (for example, area C of West Bank; Gaza etc.) and particular groups (e.g. women and other marginalised groups)?

The Programme was strongly geared to respond to the needs of the various target groups.

The matching grants scheme, and in particular the role played by the BDAs in working with applicants, skillfully took account of the needs of small enterprises.

At the end of 2016, PMDP added WAYE as a sub-component with its own dedicated staff. It was clearly recognised that women's economic empowerment is a critical component in economic development and poverty alleviation.

In November 2014, PMDP launched its Gaza Back to Business (B2B) sub-component to support the rehabilitation of affected companies following the war in July of that year. The course correction in Gaza in response to the emergency is one of PMDP's outstanding successes.

Under the WAYE sub-component, the co-facilitators included the Business Women Forum (BWF), ADWAR for Social Change, and the Cooperative Society for Saving and Lending. Outreach was achieved even to isolated areas such as Bedouin communities and villages.

Area C is at the heart of the loss of confidence in Israel/Palestine relations, as we discuss elsewhere in this report. It is to be regretted that most of the companies that are counted as 'Area C' in PMDP's final figures are headquartered in the big West Bank cities. The restrictions that apply in Area C and how they might be addressed in a future market development programme are discussed in our conclusions and recommendations.

EQ3: To what extent did the Programme achieve its targets and what could have been done to make the Programme more effective overall?

We conclude that PMDP has been effective – broadly speaking, it met its targets under all three components.

Under Component 1, the measure of success was whether client firms improved their skills and capacity, contributing to a pattern of private sector-led growth. The logframe indicators were broadly met or exceeded. Client companies have benefited in measurable ways. In many cases they have started to look beyond the local market.

Under Component 2, where the key measurement was the strengthening of market systems, we note the success of PMDP's interventions in relation to animal feeds and grafted seedlings, as well as useful adaptations, inspired by PMDP, to the curriculum at third level.

Under Component 3, we note, in particular, the strong development of PIPA, improvements in the business enabling environment (in relation, for example, to the 2016 Secured Transactions Law), and PMDP support for new initiatives vis-à-vis the Palestinian diaspora.

Our evaluation has tended to confirm that numerous possible criteria for the allocation of grants are justifiable in principle. However, in terms of effectiveness, there is a case for a somewhat simpler 'matrix' of criteria than PMDP had to work with – involving, probably, a significant reduction in the overall number of grants.

Effective intervention in a sector as complex and internationally competitive as ICT requires major resources; PMDP did not have the scale to follow up every opportunity. We address the question of effectiveness in this sector in our conclusions and recommendations.

We note that a carefully designed donor's forum (bringing together DFID, USAID, WB, EU, Danida, SIDA, CIDA, etc) could make it easier for donor-funded projects to work together.

It will be important in a future market development programme to question standard thinking regarding pathways to development and to continue to develop theories of change that fully factor in the unique circumstances of Palestine.

EQ4: What were the specific effects of the Programme on female owned or run businesses and on marginalised or vulnerable groups?

From its inception, PMDP mainstreamed gender and ensured that programme outputs were gender sensitive. At the end of 2016, PMDP added WAYE as a sub-component with its own dedicated staff.

By the end of the second quarter of 2018, and taking into account grants issued before the WAYE sub-component came into operation in 2017, a cumulative total of 209 women-owned and/or managed businesses had been supported through technical assistance grants by PMDP, and co-facilitators had provided capacity building for 140 women working in 42 small businesses in the West Bank and Gaza (see our case study at Annex 5).

Grantees report increased self-confidence and trust in their abilities to run and manage all aspects of a business. They also mention that their immediate and extended families, as well as their communities in general, have gained an increased respect for their work and the work of women in general.

EQ5: How well was the Programme harmonised with the work of other aid agencies and the Palestinian Authority itself?

PMDP worked closely and successfully with the MoNE and several other departments and agencies of the PA.

Cooperation between PMDP and the World Bank was particularly fruitful, combining the World Bank's international expertise and political leverage with PMDP advisors' local expertise and network.

DFID and the European Union worked closely and effectively together under PMDP.

PMDP had good relations with other donors. Going forward, the development of new market sectors of systemic importance may require a step-change in the intensity of donor coordination. Regarding ICT, for example, there may be scope for DFID and several other donors to 'work around' ambitious thinking, already underway under the auspices of the World Bank, concerning a potential synergy between Israeli needs and Palestinian potential.

In the Palestinian Territories, there seems not to be a formal mechanism aimed at a development plan shared among all donors and at ensuring full 'situational awareness' among grant recipients. In the context of a future market development programme, a donor's forum (bringing together DFID, USAID, WB, EU, Danida, SIDA, CIDA, etc) could make it easier for projects to work together, as mentioned above

EQ6: What evidence is there that the Programme represented/s Value for Money (VfM)?

As indicated above, the PMDP carried out a number of VfM analyses over the course of the project. These analyses focused on the traditional "3 Es" of Value for Money – Economy, Efficiency and Effectiveness. From 2017, the VfM analysis also considered the extent to which the benefits of PMDP's activity were shared equitably, particularly amongst vulnerable groups.

The PMDP analyses showed that most VfM indicators were continually improving over the lifetime of the project. For example, the cost of a £1 increase in sales gradually reduced from 10 pence in 2015 to 7 pence in 2017 (with an average cost over the programme period of 9 pence). There were similar improvements in the vast majority of the VfM indicators contained in PMDP planning documents over the course of the Programme.

These improvements arose primarily as a result of improved management and greater economies of scale as the project took on more and more clients.

The absence of benchmarking against similar programmes in Palestine or elsewhere makes it difficult to conclude definitively if PMDP represented good Value for Money. However, the overwhelming evidence from the data presented by PMDP management is that each pound invested by the programme resulted in very impressive outcomes for beneficiary firms (in terms of increased sales, new jobs created and new markets entered). For example, the total cost of each full-time equivalent job created with PMDP support was about £1,500 in 2017[39]. However, World Bank estimates of the cost of job creation in Tunisia suggests an average cost of somewhere between £25,000 and £75,000, depending on the sector[40]. Even allowing for differences in the measurement of the cost of creating a job and the different cost bases in Palestine and Tunisia, the PMDP programme appears to offer extraordinarily good value for money against this benchmark.

PMDP analyses also show that each £1 investment that was facilitated by PIPA costed PMDP about 0.3p. To be able to leverage investment at this cost ratio suggests very impressive value for money.

If anything, the VfM analysis carried out by PMDP probably underestimates its value added. It did not attempt to calculate the value of the systemic changes that may have occurred in particular economic sectors. For example, the commercial relationship-building between IT firms in Palestine and Israel probably has a value beyond the additional sales that were generated or the jobs that were created. Similarly, the value of important cultural shifts, such as the emerging role of women in business or the use of business support services, was not addressed in the VfM analysis. A little more attention to the value of such systemic or cultural changes might yield interesting and important results in future programs.

EQ7: Would it have been possible to increase the Programme's Value for Money in some way?

The VfM indicators produced by the PMDP management are very impressive. We did not identify any obvious area where VfM could be quickly and easily enhanced. Financial control systems appeared to be robust and there seemed to be a reasonable balance struck between risky, high-return projects and low-risk, lower return projects.

As noted above, it could be argued that some of the less tangible benefits associated with PMDP (e.g. relating to changing perceptions of the role of women in business) were not captured in the VfM indicators. Of course, the actual value of the programme would not have altered as a result of any such change in the metrics but its specific nature may have

[39] See Annex 14 of PMDP's Final Report
[40] http://blogs.worldbank.org/jobs/how-much-does-it-cost-create-job

been better understood.

EQ 8: Has the Programme produced any catalytic effects that may sustain further change for the benefit of OPTs economy overall, grantee firms and PIPA in particular?

The comprehensive reform of PIPA with PMDP support opens pathways to the further development of the CTR concept and to a stronger overall institutional underpinning of the PA's trade and investment strategies.

The PMDP has enabled the development of a long-term enterprise support capacity in the Palestinian territories. PMDP staff have gained valuable experience and knowledge about the practical aspects of enterprise development in Palestine. They form an impressive cohort of local leaders who will undoubtedly contribute to the improvement of the competitive position of Palestinian enterprises in the medium- to long-term.

A clear benefit of the use of co-facilitators is that these organisations become a permanent presence carrying forward their work beyond the lifetime of PMDP.

There is a read-across from PMDP's experience of women's empowerment to any future market development programme – namely the potentially pathfinding, confidence-building, and demonstration value of any successful intervention in support of marginalized groups.

EQ9: To what extent will benefits continue without additional assistance?

As a result of PMDP engagement, the PA sees the appointment of trade and investment officers to diplomatic missions as a strategic public good. It is recommended that donors pay close attention going forward to the budgetary and policy issues that will inevitably arise during the rolling out of an effective network of CTRs.

PMDP contributed to the impressive change in Palestine's rating under the Doing Business indicators. Building on this achievement can have systemic importance. The World Bank predicts that Palestine's ranking under the Doing Business Indicators can improve further as a result of other reforms - shortening the time-line for municipal business licensing, re-classifying business activities in accordance with ISIC standards, and on-going work on construction permits. Achieving these goals will depend in part on the continuing engagement and support of donors.

As a result of PMDP action, potential new policy directions have been identified – for example, in relation to market systems (tourism, ICT) and mapping and engaging with the Palestinian diaspora. Additional assistance will be required if the PA is to take full and timely advantage of these opportunities.

Our evaluation found that the response of Palestinian business operators to PMDP has been extremely positive, with many expressions of appreciation for PMDP's 'accompaniment' of a number of ambitious, small-scale entrepreneurs. It is hard to quantify what the absence of a successor programme (or the gap between programmes) might mean. Our judgment is that the absence of a follow-up programme would, in all likelihood, constitute a significant setback for the Palestinian private sector.

EQ 10: What are the impacts of the Programme on the overall business environment in the OPTs and the competitiveness of the Palestinian private sector?

According to one definition (USAID), the business enabling environment (BEE) is 'the set of policy, institutional, regulatory, infrastructure and cultural conditions that govern formal and informal business activities.' In this broad sense, the PMDP as a whole, as defined in the initial business case, was intended to be conducive to a sustainable improvement in the business enabling environment. A multifaceted, adaptive approach, such as PMDP followed, is especially valuable in the particular circumstances of Palestine. Factors such as functioning courts, healthcare, education, and a 'political horizon' interact with classic 'doing business indicators' to determine the investment climate and the outlook for private sector development.

Palestine jumped from 140 to 114 under the World Bank Doing Business Indicators. We accept the World Bank estimate that $300m. of lending has taken place as a result of the 2016 Secured Transactions Law. This outcome can in large part be attributed to PMDP.

Other policy areas in which PMDP has contributed include the following:

- Restructuring of PIPA
- CTRs
- implementation of the National Export Strategy
- relations with the diaspora
- reform in the area of standards and certification
- Agricultural Credit and Agricultural Insurance

Under Component 2, PMDP analysed a number of critically underperforming markets. In the animal feed sector, PMDP developed a business model that was taken up by six companies and is currently being taken up by others. Something similar has been achieved with seedlings in Gaza. PMDP's analysis and preparatory work in other sectors, including tourism and third-level education, can bear fruit in the course of time.

PMDP's matching grants scheme has helped improve the competitive position and business culture in a large number of enterprises (though the read-across to non-beneficiaries is difficult to assess).

Our overall assessment is that PMDP has made a significant, positive contribution to the business environment in the OPTs and the competitiveness of Palestinian enterprises.

A *systemic impact* is as yet difficult to discern. This is partly because of the limited scale of the programme in comparison with the challenges faced by the Palestinian private sector; and more importantly for 'contingent' reasons, notably the highly adverse conditions for business development in Gaza and Area C, and the absence for over a decade of a problem-solving economic forum bringing together the Palestinian Authority (MoNE and other Departments and agencies) and relevant Israeli authorities. According to the World Bank, as discussed elsewhere in this evaluation, 'the complex system of restrictions on movement and access imposed by Israel is 'the most significant impediment to Palestinian private sector growth.' [41]

In the final stages of the end-term evaluation, stakeholders and key experts were almost unanimously of the view that twenty-five years after Oslo, the Palestinian economy is at a critical juncture, and not only because of the unfolding tragedy in Gaza.

EQ11: What are the impacts of the Programme on its grantee firms and other beneficiaries (PIPA)?

Under Component 1, the log-frame indicators were met or exceeded. Client companies have benefited in measurable ways and in many cases have started to look beyond the local market. Overall statistics on the Palestinian economy suggest that PMDP client companies have done better than the economy as a whole.

Feedback from grantee firms was overwhelmingly positive. This points to the value of a 'cultural factor' – the value of role models and encouraging examples in market development, especially but not only in the case of marginalised or vulnerable groups.

PMDP has had a significant positive impact on the re-structuring and 're-imagining' of PIPA.

EQ 12: Are there differences in the impacts experienced by different target groups (by geographical location, firm size, women, vulnerable groups)? How can these differences be explained?

In terms of technical assistance to companies, we suggest that as a general rule, grants of between £10,000 and £20,000 to middle and small size companies have delivered the best results overall. This group (SMEs), with this grant level, have delivered most in terms of new products, new markets, and increased use of BSPs. In general, middle size companies have a greater need for technical innovation and benefit more from technical assistance; and they do not have the financial reserves to incur risk. The 'general rule' proposed here should not cause us to overlook the very significant business achievements underpinned in individual instances by other types of grant assistance.

In Gaza, the target groups often benefited in terms of 'resilience' as much as enhanced competitiveness. Conditions in Gaza after the war placed many businesses and economic

[41] AUS2922, 2013: *Area C and the future of the Palestinian Economy,* p.3

operators (fishermen) in a 'survival situation,' with inevitable implications for the use of the partnership grants mechanism, the role of BDAs , and the criteria for PMDP grant support. PMDP support for other vulnerable groups combined market development objectives with the need to help sustain the social fabric of Palestine.

For reasons discussed elsewhere in this report, economic activity and market development in Area C posed almost insurmountable problems for reasons beyond the control of PMDP.

EQ13: How successful has the Programme been in addressing cross-cutting issues such as gender, the environmental protection and climate change?

From its inception, PMDP mainstreamed gender and ensured that programme outputs were gender sensitive. Two years into the life of the programme, a comprehensive review exercise was undertaken, to identify constraints to women and youth employment and identify opportunities to optimize PMDP's impact on these target groups.

The review indicated that certain women- and youth-led businesses — economically disadvantaged enterprises — may have been relatively unsuccessful up to that point in benefiting from PMDP for a number of reasons, including inability to pay the client share of open grants (the cause of rejection for around 50% of applications from these target groups); the fact that the businesses were very small, and their needs and priorities were beyond technical assistance only; or because start-ups and other informal small enterprises have been sidestepping legal registration to avoid paying fees and taxes (PMDP can only work with formally registered businesses). Moreover, PMDP did not have sufficient staff to provide the intensive advisory service required by disadvantaged enterprises.

At the end of 2016, PMDP added WAYE as a sub-component with its own dedicated staff. The plan was to build a team of 'co-facilitators' to work together with PMDP on interventions aimed at the disadvantaged businesses in question and with a view to generating jobs for disadvantaged women and youth.

PMDP is to be commended for its proactive engagement on the cross-cutting issue of gender and women's empowerment.

A combination of interventions by PMDP has brought about a promising change of perspective regarding the potential use of grafted seedlings in Gaza. The grafting technique, as well as enhancing productivity, leads to a reduction in soil contamination and salinity. It also produces a safe product that is healthy for consumers. There is an important learning here: some of the arguments in favour of a change in economic behaviour – for example regarding long-term soil quality, consumer welfare, and economic self-sufficiency – involve more than an immediate commercial benefit to the company (nursery) or the farmer. In any future market development programme, there will be a need for constant awareness-raising in civic society regarding the long-term ecological issues at stake in agricultural production.

The opportunities provided in Gaza for young agronomists are in keeping with PMDP's brief to enhance the participation of women and youth in the Palestinian economy.

As rainfall decreases as a consequence of climate change, Israel's diversion of water resources from the West Bank is having a harsher impact on the Palestinian population and Palestinian economic prospects with each year that passes. This increases the urgency of confidence-building measures in Area C.

EQ14: How did the Programme contribute to peace-building and state-building and how did it contribute towards the achievement of a viable two state solution

Under each of its components, the PMDP contributed to state-building in Palestine. By definition, greater economic capacity in Palestine, more successful governance in key sectors, and better prospects for a growing population of educated young people can only be helpful from that perspective. That PMDP operated in all the relevant geographies gave the Programme a further peace-building dimension. Overall, PMDP made a highly significant contribution towards the achievement of a viable two state solution. We recommend that any successor programme builds on this important aspect of PMDP.

Nevertheless, we argue in the present report that among the core lessons of PMDP are the following:

(i) under the prevailing political conditions, no programme on the scale of PMDP or probable scale of the new programme is likely to 'fix' the Palestinian economy
(ii) standard ideas concerning the pathways to private sector-led development cannot be applied under Palestinian conditions without, in parallel, giving serious attention to the political impediments to progress

A future market development programme might be conceptualised in part as promoting a set of ***'sovereignty-building' measures*** with ***demonstration value*** in the perspective of a viable and inclusive Palestinian economy of the future ('agency') and ***confidence-building measures*** in the perspective of continuing interdependence ('agency' vis-a-vis Israeli partners).

A central concern of the future market development programme should be the encouragement of ***new frameworks of engagement*** within which key contingent (political) obstacles to growth can be identified and addressed

Recommendations

The recommendations contained in this document presented for DFID's use and consideration. These recommendations are designed to support the design of any follow-up programme that DFID may decide to fund in Palestine.

We recommend a renewed DFID programme in Palestine in support of private sector development. However, the successes and limitations of PMDP point in the direction of possible new approaches and criteria for evaluation.

We argue above that among the core lessons of PMDP are:

(iii) under the prevailing political conditions, no programme on the scale of PMDP or probable scale of the new programme is likely to 'fix' the Palestinian economy

(iv) standard ideas concerning the pathways to private sector-led development cannot be applied under Palestinian conditions without, in parallel, giving serious attention to the political impediments to progress

A future theory of change will need to take account of the distinctions between the following three parameters:

1) a market development programme as a factor of systemic importance in promoting competitiveness
2) a programme primarily or partly aimed at contributing to resilience in a 'survival situation,' as was the case, for example, with PMDP grant support in Gaza post-2014 and some of the WAYE grants
3) a programme conceptualised as a set of ***'sovereignty-building' measures*** with ***demonstration value*** in the perspective of a viable and inclusive Palestinian economy of the future ('agency') and ***confidence-building measures*** in the perspective of continuing interdependence ('agency' vis-a-vis Israeli partners)

A central concern of the future market development programme should be the encouragement of ***new frameworks of engagement*** within which key contingent (political) obstacles to growth can be identified and addressed. We think here primarily of a forum that unlike COGAT would have a mandate to bring relevant Palestinian and Israeli agencies around the table to promote economic confidence-building measures and mutually beneficial policy initiatives.

For the sake of argument – and without in any way minimising the complexity of the choices that need to be made - we recommend that consideration be given to a successor programme conceived somewhat differently to PMDP, based on five components. The first three components are mutually dependent and look to the transformation of the overall business enabling environment. The final two components, concerning ICT and Gaza, have a somewhat narrower scope. They will complement the work done under the first three components. There is a continuing need to build on PMDP's valuable work on market systems. Our thinking is that given the excellent analytical work that has already been done under PMDP, this may not require a separate programme component, at least in the next phase of Palestinian market development.

Component 1: A new matching grant scheme

First, and centrally, we recommend the establishment of another matching grant scheme on a scale comparable to that of PMDP.

There are numerous possible criteria for the allocation of grants – based on sector, location, grant size, a focus on company beneficiaries as opposed to partners and co-facilitators, and so on. In our view, there is no one right answer to the question of where to place the emphasis. We note that under PMDP's component 1, 620 grants were made at an average value (£6892) that was lower than had been planned. We reiterate our own conclusion (Component 1 above) that as a general rule, grants of between £10,000 and £20,000 to middle and small size companies have delivered the best results overall.

We tentatively suggest that the following criteria should be looked at in the preparation of a new programme:

1. The goal should be to preserve or create prospects for sustainability in the perspective of a viable and inclusive Palestinian economy of the future; that is, due weight should be given to the confidence-building or sovereignty-building parameters formulated above

2. In this connection, what are often called 'marginalised areas' are 'existentially' important, which implies broad coverage under a new programme: Gaza, Area C, East Jerusalem and women and youth should be well represented among the beneficiaries

3. The new programme could aim to provide larger grants to a smaller number of companies and beneficiaries chosen for their representative or significant character in terms of future sovereignty and sustainability; with a bias towards recipients who for reasons of scale or location have limited access to other sources of funding. By way of example, the new programme could aim to reach 200/300 companies instead of the 800 plus companies assisted by PMDP. This would reduce the burden of vetting applications and might also reduce overheads. More effort would then be put into ensuring that the demonstration value of each of the grant projects would be extracted for the benefit of the wider business community

4. Higher than 50% matching grants could be available for proposals with a clear ‘pioneer’ character, for example, where a lead firm undertakes to bring SMEs into the supply chain, or in cases where international consultants need to be involved or a company needs to participate in an international gathering

5. The programme should retain the flexibility regarding partnership grants that enabled PMDP to adapt to circumstances and should continue PMDP’s practice of using partners and co-facilitators. We have argued above that one clear benefit of the use of co-facilitators is that these organisations become a permanent presence carrying forward the work beyond the lifetime of the programme itself

6. There should be scope within the programme for a number of small grants to micro projects with a high demonstration value

7. Throughout PMDP, BDAs helped grant applicants to diagnose their key problems. The present evaluation has highlighted the importance of the role played by the BDAs in reviewing applications and working with the firms to diagnose their real problems and shape their final applications. This critical role should continue to be provided for under a successor programme. At the same time, consideration should be given to establishing a business advisory service for micro and small enterprises, with a supporting website. In other words, the ‘strategic counselling’ provided by PMDP to grant recipients (and treated as an overhead in the process of approving and monitoring grants) could be complemented by a new service with its own budget available to companies below a certain size

8. Under PMDP, it could be argued that more might have been done to consider what the reports prepared in the course of the project signified in the wider policy context. In particular, it may have been possible to use project data to produce policy notes for the PA or the donor community on a more regular basis; though this was not, of course, a requirement of the ToR. Under a future market development programme, the information gathered in allocating and monitoring grants, and in offering business advisory services, should contribute to the policy work undertaken under a trade and investment component – just as priorities relating to the strengthening of trade and investment linkages should be underpinned by the technical assistance provided under the new Component 1.

Component 2: Strengthening trade and investment linkages and the BEE

The second component of a new programme would continue the work of PMDP’s Component 3 in support of Palestine’s trade and investment linkages.

Direct engagement with the the Palestinian Authority and capacity-building within Palestinian institutions, trade associations, and civic society are essential aspects of this component – and should help compensate for the fact that some other potential donors, notably the US, have a self-imposed limitation on engaging with the PA.

The focus on BEE since 2016 is work in progress and should continue. The recent improvement in Palestine's ranking under the Doing Business indicators is a measurable outcome of PMDP and has real value for the Palestinian Authority and for the private sector: there is a strong case for further work on the Doing Business indicators, even if such rankings are not a complete guide to the business environment.

Building on the work that has been done with PIPA, there is scope under this component to take a strategic look at the institutions of the PA that support trade and investment.

The development of the CTR concept will benefit from being considered in this wider context. In our assessment, the next essential step is to adopt the bylaw on CTRs, an objective to which donors should pay close attention going forward. The PA should have the option of drawing on talent from outside the current ranks of the public service in appointing CTRs. Stakeholders need to be engaged: it should prove possible to satisfy the private sector that a variant of the CTR programme remains the most cost-effective way of achieving specific objectives in the sphere of external trade and inward investment. There is a case for simplifying the CTRs' day-to-day work, by imposing fewer KPIs; and for clarifying the relative importance of trade and investment, respectively, in the CTRs' terms of reference. The outcome of a strategic review of the different agencies promoting trade and investment in Palestine may have implications for the organisation of back-up services for the CTRs.

Given the complexity and time-scale of some of the other reforms now underway, DFID's broad-based engagement should be sustained, though with keen 'situational awareness' in the form of coordination with other donors; this is especially important in the context of Brexit, which is likely to bring with it a technical impediment to a renewal of the 'delegation agreement' with the European Union.

A future DFID program should take into account, for example, that the European Union already strongly supports the Palestinian 'quality' framework (standardisation and certification); the US and the Quartet are likely to continue to support customs and trade facilitation measures; and other donors are active in capacity-building in different sectors of the Palestinian public administration.

The donor community should continue to assist the Palestinian Authority in its efforts to identify and address 'big picture' issues in the realm of tax and revenue, and training and education.

Component 3: An economic confidence-building strategy in support of sovereignty and sustainability

In the course of the present evaluation exercise, interlocutors of all backgrounds drew our attention to a major obstacle to progress that is hidden in plain sight ('the elephant in the room'), namely the lack of a 'political horizon.' Against this background, the most significant new departure that we propose for consideration is the development of a medium-term confidence-building strategy as the counterpart in the domain of general policy of the following (first) criterion suggested by us for the allocation of grants:

> *to preserve or create prospects for sustainability in the perspective of a viable and inclusive Palestinian economy of the future*

According to one definition (USAID), the business enabling environment (BEE) is 'the set of policy, institutional, regulatory, infrastructure and cultural conditions that govern formal and informal business activities.' In this broad sense, the PMDP as a whole, as defined in the initial business case, was intended to be conducive to a sustainable improvement in the business enabling environment. A multifaceted, adaptive approach, such as PMDP followed, is essential in the particular circumstances of Palestine. Such approaches are gaining ground internationally in the light of the sustainable development goals and attempts within the World Bank and elsewhere to 'image' or visualise the characteristics of peaceful development using a systems-based analysis. Factors such as functioning courts, healthcare, education, and a 'political horizon' interact with classic 'doing business indicators' to determine the investment climate and the outlook for private sector development.

As we argue in more detail above, under 'context', the Palestinian economy is characterised in present circumstances by a lack of confidence in the future. There is no clear pathway to a level of economic growth sufficient to improve – or even maintain – the standard of living of Palestine's growing population. On the contrary, the current state of affairs, and not only in Gaza, led many of our interlocutors in the present evaluation (if the truth be told, the majority) to signal informally that the state-building goal shared by all major donors remains elusive. In the words (quoted above) of the IMF's latest report to the Ad Hoc Liaison Committee (6 September 2018), 'the outlook is increasingly untenable…'

It is necessary to face the awkward truth that unilateral efforts by the PA, even when supported by business, international donors and civic society, may not be sufficient, absent cooperation from and with Israel, to put the Palestinian economy on a path of robust growth. To put the same point differently: confidence that lasting economic improvement, based on comparative advantage, can ever be achieved is limited by the absence of what is often described as a 'political horizon.'

The lack of progress in achieving intra-Palestinian and above all Israeli/Palestinian reconciliation is not just a 'risk factor' in a future theory of change; it is more like a 'road-block' that needs to be addressed in a separate, exploratory, confidence-building agenda pursued in tandem with the trade and investment component of a future market development programme.

The reality of the OPTs is that decisive progress will depend on:

i. dialogue and medium-term consensus building involving all parties in the OPTs, including government authorities, the private sector and its representative organisations, universities, think tanks and donor-supported initiatives
ii. progress in intra-Palestinian understanding and regulatory convergence between the West Bank and Gaza
iii. above all, positive engagement with Israel
iv. international support

These four dimensions of consensus-building can become mutually reinforcing. In particular, the prospect of renewed engagement with Israel can become a catalyst of activity within the other dimensions.

What we recommend, in particular, is a clearer focus on the concept of **economic confidence-building**. In the initial phase, a new market development programme would foster ***policy planning capabilities*** and support an immediate ***scoping exercise*** with an eye to both future institutional arrangements and concrete confidence-building measures (CBMs).

As to future institutional arrangements or ***frameworks of engagement***, it was brought home to us, in the course of our evaluation, that COGAT, though it allows for issues of an economic character to be raised, is not an economic forum; it is led by senior military officers, and is not there to facilitate a structured policy dialogue between Palestinian and Israeli Departments and agencies. Nor has the promise of the ad hoc High-level Committee (AHLC) been fulfilled. The future programme should promote an informal dialogue inside and outside Palestine with a view to identifying parameters for a revival of the Joint Economic Committee, which has been inactive for many years, or its equivalent.

'Normalisation' remains a politically sensitive topic. Nevertheless, the precedent of the Joint Economic Committee suggests to us that ***improving the quality of interdependence in a spirit of active confidence-building*** can become a shared interest. A decade ago, and from time-to-time in the interim, significant constituencies in both Israel and Palestine have supported both the concept of economic confidence-building and the activation of a framework of engagement such as the Joint Economic Committee.

At the same time, the 'peace-imaging' and 'confidence-building' component of the future programme should promote a dialogue among a variety of stakeholders, including universities and NGOs, on the precise forms of economic confidence-building that could help transform the overall environment.

What we say here about collaborative approaches among stakeholders and capacity-building in relevant institutions builds on some of the most important pillars of PMDP.

Under PMDP, a number of collaborative approaches were tried and tested. Component 2 obviously depended on collaboration with a range of actors who played an important 'systemic' role in the competitive environment of the various selected sectors. PMDP's work in bringing universities and employers together to design new curricula was a further example of good practice in stakeholder cooperation. So too was engaging with the Ministry of Agriculture in certain policy areas.

In both Components 2 and 3, Working Groups were set up to tackle sector wide problems (e.g. through the Diaspora Working Group). In particular, they tried to address any lack of institutional cohesion within the various sectors. It could be argued that the weakness of certain institutional frameworks is, in itself, a systemic problem which deserves close attention in a future market development programme.

We note that in 2018, the UK has endorsed the planned International Fund for Israeli-Palestinian Peace, modelled on the International Fund for Ireland. Against this background, a future market development programme could open communication with the International Fund (and other similar initiatives) with a view to playing a leadership role in the progressive development of economic confidence-building measures.

Economic CBMs anticipate a common future. They are stepping stones. They contain in embryo the normal and good relationships that reconciliation implies. Confidence-building measures in several different spheres, including the security sector, are at the heart of the wider European process of the OSCE in which Israel is a partner.

Examples of economic CBMs mentioned to us in the course of our evaluation include the following:

a) mapping areas of interdependence such as banking relations
b) new sectoral agreements in Area C
c) eliminating delays at the King Hussein bridge and other crossing points
d) improving speed and transparency in decision-making on dual use items
e) facilitating Palestinian customs administration
f) an initiative to include Palestinian companies in Israeli supply chains
g) targeted measures to enable Gaza-based companies to engage in external travel
h) collaboration between Palestinian and Israeli scientists to promote innovation in business
i) supporting collaborations between businesses in the IT sector (see below)
j) supporting Palestinian-Israeli collaborations in the development of social enterprises

These are just initial examples of what economic confidence-building could mean in an initial phase. The goal would be to identify mutually acceptable steps prefiguring the shared security and open cooperation which are the premises of a functioning peace process.

In the short-term, DFID might wish to consider a separate procurement with a view to commissioning a consultancy or consortium to 'map' the NGOs and institutes currently engaged in confidence-building between Israelis and Palestinians. Several of these initiatives have close links to the UK.

Component 4: ICT

Israel's dramatic progress in developing the ICT sector ought in principle to represent a downstream opportunity for the OPTs. The search for niches for products and services in which Palestine can compete is a challenge of central importance, presenting win-win opportunities for Israel, foreign companies operating in Israel, and Palestine. Fluctuating employment opportunities for residents of East Jerusalem and WBG do not represent an adequate response either to Palestinian needs or to the likely future needs of Israel in a sector that is expanding rapidly.

In this connection, we note new thinking regarding the further development of the 'industrial park' model in relation to ICT in WBG. This will require a strong research focus, bigger interventions than we have seen to date, more donor coordination, and (perhaps) a higher element of risk-sharing.

We recommend the inclusion of a stand-alone ICT component in the future DFID program. This could be the object of a separate procurement exercise. It would incorporate the work that has been done with the Everest group on outsourcing from the UK to Palestine, but crucially, it would also engage with other donors, notably the World Bank, on a broader ICT strategy for the OPTs.

Component 5: infrastructure in Gaza

As in the ICT sector, bigger interventions will be needed, with more donor coordination and a higher element of risk-sharing, in order to address Gaza's very urgent needs in the realm of infrastructure. There may be scope here for a further stand-alone component in the future DFID programme, to be defined through a broad consultation with stakeholders and other donors.

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