



Palestine Economic Policy Research Institute

Enabling Palestinian Micro, Small and Medium Enterprises to meet International Product Standards

Ahmad Jalad

2009

The Palestine Economic Policy Research Institute (MAS)

Founded in Jerusalem in 1994 as an independent, non-profit institution to contribute to the policy-making process by conducting economic and social policy research. MAS is governed by a Board of Trustees consisting of prominent academics, businessmen and distinguished personalities from Palestine and the Arab Countries.

Mission

MAS is dedicated to producing sound and innovative policy research, relevant to economic and social development in Palestine, with the aim of assisting policy-makers and fostering public participation in the formulation of economic and social policies.

Strategic Objectives

- ♦ Promoting knowledge-based policy formulation by conducting economic and social policy research in accordance with the expressed priorities and needs of decision-makers.
- ♦ Evaluating economic and social policies and their impact at different levels for correction and review of existing policies.
- ♦ Providing a forum for free, open and democratic public debate among all stakeholders on the socio-economic policy-making process.
- ♦ Disseminating up-to-date socio-economic information and research results.
- ♦ Providing technical support and expert advice to PNA bodies, the private sector, and NGOs to enhance their engagement and participation in policy formulation.
- ♦ Strengthening economic and social policy research capabilities and resources in Palestine.

Board of Trustees

Ghania Malhees (Chairman), Samer Khoury (Vice chairman), Ghassan Khatib (Treasurer), Luay Shabaneh (Secretary), Nabil Kaddumi, Heba Handoussa, George Abed, Raja Khalidi, Rami Hamdallah, Radwan Shaban, Taher Kanaan, Sabri Saidam, Samir Huleileh, Numan Kanafani (Director General).



Palestine Economic Policy Research Institute

Enabling Palestinian Micro, Small and Medium Enterprises to meet International Product Standards

Ahmad Jalad

2009

Enabling Palestinian Micro, Small and Medium Enterprises to meet International Product Standards

Researcher: Ahmad Jalad, Palestine Standards Institution

Reviewer: Salah Eddin Al-Odeh, lecturer in Economics at Al-Quds University

Layout: Lina Abdallah

Funding: This study was funded by The International Development Research Centre-IDRC

Palestine Economic Policy Research Institute (MAS)
Jerusalem and Ramallah

Foreword

In October 2008, the Palestine Economic Policy Research Institute (MAS), in conjunction with the International Development Research Center-Canada (IDRC), began a two year Research Programme on Micro, Small, Medium Enterprises (MSMEs) in the Palestinian Territories. The programme aims to examine the state of MSMEs and evaluate their role in the Palestinian economy in terms of valued added, employment and export. In doing so, the Programme seeks to highlight possible problems confronting MSMEs and to recommend measures that would create a more enabling environment for development.

At the beginning of 2009, MAS produced three studies in connection with this programme: "Evaluation of the Legal Environment of Micro, Small, and Medium Enterprises in Palestine", "International Experiences in Supporting MSMEs: Lessons for Palestine", and "Problems of Micro, Small, and Medium Enterprises in Palestine".

In this intermediary phase of the programme, MAS is publishing four additional studies: "Enabling Palestinian Micro, Small and Medium Enterprises to Meet International Product Standards", "Irrigated Agriculture as Business Enterprise in Palestine", "Marketing Products of Palestinian Micro, Small and Medium Enterprises", and "Review of Draft Law of Micro, Small and Medium Enterprises".

MAS's interest in MSMEs is based on an understanding that they are the foundation of the Palestinian private sector, as reflected by their contribution to employment, output and export. The future of MSMEs remains inextricably linked to the quality of life in the Palestinian Territories. Research into this sector and analysis of current problems will aide policymakers in their efforts to help foster a more conducive environment for MSMEs to flourish and stimulate further growth.

I, on behalf of MAS, would like to express my gratitude to the IDRC-Canada for funding this Research Programme.

Numan Kanafani
Director General

Executive Summary

Micro, Small and Medium Enterprises (MSMEs) are attracting growing interest since they constitute 99% of the enterprises operating in Palestine as well as for their significant role in the local economy. However, MSMEs are facing challenges and difficulties such as their limited capacity to meet the requirements of the standards imposed by the governmental licensing and inspection agencies as well as those favored by the consumer to enhance confidence and desire in the products of these enterprises. In addition, the MSMEs need to enhance their competitive capacity in local and international markets by means of decreasing the costs of production and improving the quality of the product whether it is a commodity, service, or a process.

This study aims to identify and clarify the important role of standards in the development of MSMEs and in increasing their productivity and thus increasing competitiveness and attracting new markets locally and abroad. The study examines the validity of the hypothesis that the application of standards by MSMEs helps to raise the productive and competitive capacity as well as the ability to attract and open new markets locally and internationally.

To achieve the goals of this study, a review of the existing literature related to the subject matter has been conducted. The review covers the theoretical definition of standards, the reasons behind their inception, the mechanisms and stages of identifying the specifications as well as their subdivisions and importance to various parties. International trade agreements and the Paris Economic Protocol are also reviewed to explore how they affect standards and mandatory technical regulations in the Palestinian Territories. The study also reviews the structure and role of the Palestine Standards Institution in regulating and supporting the Palestinian MSMEs.

In order to gain a better understanding of the role of standards, and the perception of the Palestinian business community of standards, a detailed survey was conducted. The survey provides information regarding the awareness of Palestinian enterprises of the importance of standards and the impact of standard application on the costs of production and in enhancing the competitiveness of these enterprises as well as exploring the obstacles that impede the application of standards.

Literature review

Previous studies reviewed indicate that the application of internationally accepted standards by enterprises facilitate the entry of their products to numerous world markets. The studies also point out that the application of standards contributes to the competitive capacity of MSMEs and eliminates technical obstacles. The application of standards positively reflects on the quality of products and considerably decreases the costs of production.

As for the effect of standards on the economy in general, one of the studies concluded that the application of standards contributed to raising the productivity of the British worker by 13% during the period 1948-2002. According to another study prepared in Germany, the application of standards contributes to the growth in GDP by 1%. The results of a study prepared on the Palestinian food industries demonstrated that development of a quality control system that is consistent with the relevant standards leads to the reduction of the costs of production by 19%.

Definition of standards and mandatory regulations

Standards are known as a document composed by general agreement and endorsed by a recognized entity such as the Palestine Standard Institution or the International Organization for Standardization (ISO) or other bodies of corporate capacity. This document specifies the rules and guidelines or characteristics for the activities and their outcomes with the purpose of achieving optimal levels of quality, environmental, and health safety. A standard must therefore be based on scientific and technical results and established expertise in various fields. Standards usually emerge from human needs and a desire to maintain a balance between the increase of production and quality assurance. The development of standards is associated with the growth of these needs and the change in the patterns of production. Standards are devised by specialized experts and vary in terms of their classification with regard to the level of their acceptance, subject matter, and the participants in their preparation. Standards are different than mandatory regulations in many ways, mainly that regulations have a mandatory characteristic while standards are of a guidance nature. Also, mandatory regulations aim to ensure environmental and health protection while standards are related to quality control and performance improvement.

International Trade Agreements & Paris Economic Protocol

According to the World Trade Organization (WTO), standards are considered one of the prominent non-tariff obstacles. International trade agreements highlight that member countries are obliged to remove tariff and non-tariff technical barriers that prevent the mobility and flow of products among WTO member countries. Member countries should prepare and adopt standards and mandatory technical regulations that are consistent with international standards issued by the International Organization for Standardization (ISO). Those countries are also obliged to grant the same preference to imported products as those granted to local products in terms of standards and mandatory technical regulations. In its pursuit to join the WTO and benefit from the ensuing advantages, the Palestinian Authority must abide by the provisions and implications of the WTO agreements in all subjects and mainly those related to standards and technical regulations.

The Paris Protocol provides the Palestinian Authority with the opportunity to devise import conditions and determine the technical standards for imported goods for A1 and A2 lists of goods. The Protocol also allows the Palestinians to determine the conditions for good importation and their technical specifications within the quota agreed upon. On the other hand, Palestinian imports beyond the quota are subjected to the Israeli technical standards. The Palestinian Authority is facing practical difficulties in the application of Palestinian standards on imported goods as a result of the weak technical and financial capabilities and capacity necessary for testing imported goods.

The Role of Palestine Standards Institution (PSI)

Since its inception and assumption of its duties, the PSI has played a significant role. The PSI prepared and adopted 950 standards and 24 mandatory technical regulations. It granted 159 certificates of supervision and 73 quality assurance certifications. The PSI has also accredited 33 testing facilities. The PSI is facing many challenges that are limiting its effectiveness and its ability to fulfill its mission. One of the main challenges is the prospect for the acceptance of Palestinian standards and their harmonization with international standards and the capability of Palestinian productive enterprises to apply mandatory technical regulations, in addition to the credibility and acceptance of PSI certification for supervision, quality assurance, and testing facilities. The most prominent challenge lies in the PSIs ability to provide technical

capacity for testing and conformation through the provision and operation of testing facilities. One of the most important missions in which the PSI had not yet achieved tangible accomplishments is to raise the awareness regarding standards culture.

Main conclusions

The study arrives to the following conclusions:

- ✧ About 57% of MSMEs operating in the Palestinian Territories apply standards and 22% of MSMEs attained a quality assurance certification proving the quality of their products and their conformity with relevant standards.
- ✧ The MSMEs face difficulties impeding the application of standards, the most important of which are:
 - The lack of MSMEs awareness regarding the importance of standards and their role in the development of these enterprises.
 - The low awareness on the side of the consumer of the importance of standards for health, environmental, and economic protection.
 - The absence of laws and mandatory regulations for the application of technical standards.
 - The lack of technical capacity on the side of the PSI for the application or verification of standards such as laboratory testing.
- ✧ The Palestinian MSMEs adopt standards when purchasing raw materials, in production processes, qualities of final products as well as in packaging, transport, and storage.
- ✧ Through the application of standards, the MSMEs aim to broaden marketing options and ensure quality stability. MSMEs see this as an appropriate method to verify the conformity of the production elements with raw materials and to meet the requirements of official bodies and clients.
- ✧ The application of standards by MSMEs contributes to the reduction of the production costs by means of abstention from the use of non conforming raw materials. It also contributes to the decrease of costs resulting from the poor management of production and the reduction of non conforming products. It is realized that the application of standards increases the volume of sales.
- ✧ The study emphasizes that the application of standards is relatively costly and that the average of this added cost is about 6%. But on the other hand, the financial returns outdo the extra costs making the application of standards cost effective.

Recommendations

In light of the previous results, the study recommends the following:

- ✧ The need to review (and re-write) some laws and regulations related to the application and activation of standards ensuring their compatibility specifically those relevant to overlapping authorities and various technical references.
- ✧ The importance of coordinating the efforts of the PSI with other specialized public and private bodies (such as chambers of commerce, trade promotion center) in order to raise the awareness on the importance of the application of standards.
- ✧ Limit dumping of non-conformed products by activating the control staff of the Ministry of National Economy and establishing better coordination with the customs department at the same Ministry.
- ✧ Providing financial and human resources capacity necessary for the preparation, application, and verification of standards through the increase of the PSI allocations in the public budget and supporting the Ministry with the technical staff and expertise necessary to carry out its responsibilities.
- ✧ It is necessary that MSMEs apply standards to raise the confidence of consumers in their products and in order to improve their competitive via reducing costs, improving quality, and accessing new markets.