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Seminar on Prospects for
the Palestinian Industrial Sector

Vienna, Austria, 11-13 October 1989

REPORT

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I. BACKGROUND AND OBJECTIVES OF THE SEMINAR

In response to the UNIDO Industrial Development Board decision IDB.4/Dec.17, a seminar was organized on prospects for the Palestinian industrial sector, with due consideration to the economic and social implications of the recent developments in the occupied Palestinian territory. The seminar took place from 11 to 13 October 1989 at the UNIDO Headquarters.

The objective of the seminar was to analyse industrial development in the occupied Palestinian territory and to contribute to the co-ordination of current and future assistance programmes within an international framework. It thus followed that the primary objective was to assess the prospects of and constraints on industrial development in the occupied Palestinian territory and to disseminate this information to parties interested in supporting the economic progress of the Palestinian people.

The seminar was attended by 64 participants: Palestinian experts from the occupied Palestinian territory, international experts and representatives of regional and international organizations, as well as UNIDO consultants and staff. A list of participants is given in Annex I. The list of papers presented to the seminar in Annex II and the agenda of the seminar in Annex III.

During the opening session, Mr. Y. Sayigh, was elected to the office of Chairman and Mr. I. Dakkak, to that of Vice-Chairman, and Mr. R. Shehadeh to that of Rapporteur.

The conclusions and recommendations of the seminar were adopted during the final session (see Chapter III).

II. SYNOPSIS OF PRESENTATIONS

i. Opening Statements

The seminar was opened on behalf of the Director-General of UNIDO by the Head of UNIDO Arab Countries Programme who presented a review of the past and current UNIDO programmes of technical assistance to the Palestinian people. The focus of the UNIDO programme has been on technical projects in such areas as human resource development, investment project identification and industrial infrastructure. In particular, the programme provided assistance to the plastic industry; prepared a study on the establishment of an industrial development bank; identified a number of investment opportunities in the industrial sector; and organized training programmes. He underlined that UNIDO faced major constraints in the occupied Palestinian territory owing to limited financial resources.

Furthermore, UNIDO staff and experts were unable to undertake field missions to the occupied Palestinian territory, although such missions were essential to identifying technical assistance requirements and monitoring ongoing projects.

In her opening statement, H.E. Ms. M. Tallawy, Ambassador and Permanent Representative of Egypt to UNIDO and Chairperson of the Group of 77 in Vienna, analyzed the economic situation in the occupied Palestinian territory and the social and economic implications of the intifada or uprising. She stressed the need to support local industries with financial resources and technical assistance, by providing training, equipment and technology. In that respect, various governmental authorities and non-governmental, regional and international organizations had a vital role to play in formulating and carrying out appropriate supporting actions.

In his opening speech, Mr. Y. Sayigh, representing the delegation of Palestine, assessed the main difficulties that had to be overcome, in order to boost economic development in the occupied Palestinian territory. Various economic and non-economic constraints, such as socio-cultural, structural, institutional and above-all political restrictions and limitations, were hindering dynamic industrial development. A totally new political climate was now emerging. The declaration of an independent Palestinian state by the Palestine National Council, and the intifada, had had a major socio-economic impact. It was against that background that the seminar had been organized. The task of the seminar was to seek appropriate measures to promote and support short- and long-term industrial development, taking into consideration the transitional nature of the present situation and the long-term prospects, when the Palestinian people would gain self-determination and independence. The Head of Regional and Country Studies Branch of UNIDO introduced the modalities and purpose of the seminar, together with the documentation provided by the UNIDO Secretariat. He reiterated that the main task was to assess the current situation and to ascertain the role of industrialization in the economic development of the occupied Palestinian territory.

2. Presentation by experts from the occupied Palestinian territory and international experts

Industrialists from the occupied Palestinian territory reported on the recent experience of Palestinian enterprises. Despite the prevailing constraints and restrictive procedures, low capacity, and limited market outlets, many enterprises were still able to operate profitably. They outlined a set of practical options for overcoming the main obstacles.

The implementation of new industrial development projects had been hindered by a protracted system of licensing. It was suggested that small-scale projects be implemented and the industries already in operation that did not require approval by the Israeli authorities be expanded. As a means of combating increasing trade and marketing problems, attention was drawn to the possibility of establishing an import/export company in one of the friendly neighbouring countries. The obstacles attributed to limited entrepreneurial and industrial skills and lack of training schemes should be overcome and full support was expressed for the UNDP business development centre project that would provide consultancy services to the occupied

Palestinian territory business community. Moreover, Palestinian industrialists proposed to use to their advantage loopholes in the legal framework and to draw on facilities and schemes provided by the EEC to attract foreign investment in developing countries and to establish joint ventures with foreign partners. The latter measure, which had already been successfully applied in a few cases, would enable Palestinian enterprises to achieve some manoeuvring space and secure support through international entities and enterprises, as well as gain access to external marketing infrastructure and facilities.

The need to set up an industrial development bank was discussed at length. The results of a study prepared by UNIDO in 1988 on the establishment of an industrial development bank in the occupied Palestinian territory were presented. As the low level of industrialization was partly due to a lack of financial intermediation, a development bank would be required to facilitate the accumulation of industrial investment capital. A sound banking institution, and not merely an entity providing grants, was needed. The study suggested that the capital structure should follow the World Bank scheme with equity loans, subordinate loans and other loans, and that local savings could be used, mobilized through fixed-term non-negotiable bonds. In addition, loans from overseas sources could probably be obtained. The question of lending policies should be carefully analysed to reduce the default rate. If it was to be successful, the bank should not provide soft loans at low interest rates, and the repayment period should be kept short to ensure better discipline and effective monitoring of operational activities. The creation of a business development association, institutionally linked to the bank, was suggested as a means of ensuring optimal allocation of resources. It was noted that businessmen in the occupied Palestinian territory had already expressed the willingness to put up the 50 per cent of the required capital. Two ways of obtaining a licence for such a bank were discussed: (a) submitting the available feasibility study to the Israeli authorities, with direct support and involvement of international organizations or countries with bilateral agreements with Israel; and (b) acting through other international banks that might open branches in the occupied Palestinian territory on the basis of reciprocity with Israeli entities.

A review was made of the role of banks already operating in the occupied Palestinian territory, viz. the Cairo-Amman Bank and the Bank of Palestine. Experts pointed to the difficulties that local banks experienced in providing loans owing to restrictions imposed by the Israeli authorities. It was reported that those banks were not allowed to invest, while the provision of loans was linked to cash flow and to a restrictive loans:deposits ratio. Other restrictions prevented the banks from confiscating property in cases of default on loans.

The changing role of existing local institutions and the impact of the intifada on the Palestinian economy were debated in detail. Local entities that provided loans and credit had been in existence before occupation. Recently other bodies had been set up to provide short-term loans, such as the Economic Development Group and the Association of the Heads of Companies for Loans and Development. Ninety per cent of loans had been repaid, thus reflecting the efficient allocation of funds. It was reported that the Economic Development Group, a non-profit organization officially registered with the Israeli authorities, had so far financed (through soft loans), and assisted in, the implementation of more than 150 agricultural projects and 80 pioneering industrial projects. Examples of industrial projects so financed

were the manufacture of solar heaters, television antennae, gas cookers and dairy products. The approach adopted by the Group included financial aid and training assistance, and the projects were financed only after the preparation and appraisal of a feasibility study.

The importance of linking local institutions with external entities was stressed, and ways of enhancing that approach were called for. Examples of the impact of intifada were cited. The boycott process had succeeded in implementing six pilot bilateral projects related to milk and dairy products. Experts from the occupied Palestinian territory emphasized that further assistance was required so as to increase production in those factories, and to provide entrepreneurs with market information through the establishment of a marketing information system and a marketing intelligence centre.

Due attention was given to the role played by chambers of commerce and the growing difficulties they faced in operating under the present circumstances. The main financial and operational problems that they faced under Israeli rule were the inability of the members to pay their fees and the increasing legal restrictions. It was pointed out that in order to sustain the local business community, those institutions should be provided with international financial and legal assistance.

In their presentations, the Palestinian and international experts assessed the need for specific industrial strategies. One of the presentations underlined that given the small market in the occupied Palestinian territory, any development strategy should be addressed towards creating small, specialized, niche-oriented and design-led production units. In that respect, import substitution and export orientation did not conflict. An optimal combination was an essential pre-condition to developing a small economy with human capital representing the key asset. Therefore, the industry to be promoted should be able to generate income and to foster social welfare by maximizing the value-added efficiency of the labour input. In that perspective, funds should be allocated to projects with evident productive and employment potential and to research and development activities.

The main objective of the industrial development strategy identified by the Palestinian experts was to minimize dependence on Israel and to enhance economic linkages and integration within the region. Through the presentation of detailed information on several manufacturing plants in the occupied Palestinian territory, the current conditions of the Palestinian industrial base and its requirements in terms of international and regional assistance were assessed. It was reiterated that support should be directed towards industries with high development potential. Examples of such industries were mentioned: soap manufacturing which offered good prospects of employment creation; the stone cutting industry, of which the products were currently being exported to Israel and which products could easily find market in Europe; manufacture of electric heaters; bamboo products; and food industries, such as dairy products, soft drinks, and vegetable oil. Moreover, expansion programmes that could be launched with the assistance of the international community were identified: plastic industries; tomato processing factories (where a feasibility study and the licence were available); production of paper and carton boxes (feasibility study and licence also available); and flour mills (closed by the Israeli authorities).

Participants from the occupied Palestinian territory remarked that whereas there was no lack of goals and ideas in the territory, flexible development priorities had to be defined. The competitiveness of Palestinian industries should be strengthened, with assistance directed towards improving product quality, and creating new market outlets. Increasing the productivity of the Palestinian industrial sector and overcoming difficulties so as to be able to compete with products that were highly subsidized in Israel and elsewhere were major tasks.

The prospects for industrial development were obviously constrained by the small size of the market in the occupied Palestinian territory. Prospective industrial development in the territory should, therefore, be labour-intensive with a strong export orientation. To that end, the Palestinian entrepreneurs should be permitted to attract foreign investment so as to sustain industrialization and create the necessary infrastructure. Regional integration and co-operation were essential. Key issues stressed in one of the presentations were: the involvement of Palestinians with high qualifications and entrepreneurial talent living abroad; the mobilization of capital; and the utilization of the trade agreement with EEC. Three specific areas for future potential international co-operation were proposed: the establishment of an agro-industrial complex; a construction-related industrial complex; and a mechanical/electrical industry complex to be set up using international financial support.

The Palestinian experts stressed the importance of the pharmaceutical industry in the occupied Palestinian territory. The industry met 75 per cent of the local demand, and had high export potential in the region. In order to increase competitiveness and move away from the present labour-intensive pattern, it was necessary to invest more in both plant and equipment drawing on external sources or a future development bank. Furthermore in order to sustain development in this subsector, the improvement of quality control and the development of human resource were seen as important measures to be undertaken in close co-operation with regional and international organizations.

Several examples of the successful involvement of women in the industrial process were cited. Projects managed by Palestinian women were described. More than 1,500 women were employed in the production of jewellery, and a Palestinian embroidery company that was currently exporting its products, was entirely managed by Palestinian women and was in the process of self-financing further expansion.

The prevalence of social and economic differences between the West Bank and Gaza Strip was highlighted. In the Gaza Strip, the status of occupation, characterized by the constant application of curfews, had affected the living conditions more adversely than on the West Bank. In the Strip, basic commodities were lacking, factories were allowed to operate only 4 hours per day, and the movements within the Strip and without were limited. The international community was called upon to take immediate action to ease the existing restrictions, to finance small-scale projects and to provide a wide range of legal assistance through an appropriate institutional framework.

3. Presentations by regional and international organizations

The representative of the Economic and Social Commission for Western Asia (ESCWA) reviewed economic patterns in the occupied Palestinian territory. The economy was dominated by transfer of resources, therefore it was not related to real productive capacity. In terms of industry, the sector had received only limited assistance and funds (e.g. 1.1 per cent of UNDP overall programme of assistance was directed to industry in 1980-86). At present, most of the enterprises were operating below capacity, and Israeli authorities had approved small-scale nature industrial projects, that served Israeli sub-contracting requirements. The measures imposed by the Israeli authorities to prevent the development of an independent economy and the implementation of productive projects had been stepped up since the intifa'a, with restrictions on the movement of the people, labour and capital, and the curtailment of production and foreign trade. The Palestinian boycott of Israeli products had been launched to achieve greater self-reliance, to foster the development of an independent household economy and to achieve self-determination. Technical assistance to the Palestinian people should focus on supporting existing industry, vocational centres and universities, and on the implementation of small-scale agro-industrial projects. If large-scale projects were to be established, strong support from the EEC and from individual countries would be necessary.

The representatives of the Arab Industrial Development Organization (AIDO) described the activities of the Organization in support of the Palestinian people. Some 25 per cent of the overall AIDO programme of assistance had been allocated to Palestine, which was a full member of the Organization. Under that programme, a feasibility study was being undertaken, in co-operation with the economic department of the Palestinian Liberation Organization, on the establishment of a vocational centre. An integrated development programme was also being prepared in co-operation with UNCTAD. The importance of analysing the overall economic development prospects and avoiding duplication in foreign assistance were emphasized. To that end, a solidarity meeting was being organized by AIDO to synchronize resource flows to the occupied Palestinian territory. The UNIDO seminar on Palestine was seen as one of the major inputs to the AIDO meeting. It was reiterated that the problem was not a lack of ideas, viable projects, manpower or financial resources but the political situation, which could only be changed by the pressure of public opinion. Furthermore, co-ordination should be enhanced between regional and international organizations, the Palestinian Liberation Organization (PLO), and the Palestinians living in the occupied Palestinian territory. It was stressed that the Arab states should take new measures to provide Palestinian products access to their markets and create a fund to subsidize and support the export of those products. It was suggested that UNIDO, AIDO and PLO should co-operate further in studying possibilities of implementing large-scale investment projects, of establishing a fund for industrial development and of setting up chambers of industry in the occupied Palestinian territory.

The Head of the Jordanian-Palestinian Joint Committee outlined the main factors hampering industrial development in the occupied Palestinian territory. The Palestinian economy was not an integrated system, but subject to domination by another economy which wished to suppress any possible competition. In order to build up an industrial structure, preference should

be given to agro-based industry. Action should also be taken to set up an independent statistical data bank, to establish an industrial development bank and create a fund financing agricultural and industrial investment projects. The latter would be aimed at fostering rural development and supporting the elaboration of an integrated programme for small-scale industrial projects. It was suggested that the required institutions be located outside the occupied Palestinian territory so as to be beyond the control of the Israeli authorities. The support of international and regional organizations was called upon in that context.

The Chief of the Special Economic Unit (Palestinian people) of the United Nations Conference on Trade and Development (UNCTAD) stressed that the intifada was an opportunity to pursue a structural reform of the Palestinian economy. Specific measures were needed to revive the industrial sector. The priorities would be to: (a) increase self-sufficiency; (b) create and improve linkages with neighbouring Arab countries; (c) utilize prevailing comparative advantages of the agro-industry; and (d) to look into possibilities of promoting trade with the rest of the world. Besides the EEC agreement, a group of developing countries at UNCTAD had agreed on non-reciprocal treatment for Palestinian products. Palestinian commodities and manufactured products, would enjoy duty-free access to these countries. To that end the "institutional capacity" needed to be set up so as to permit the occupied Palestinian territory to take advantage of those concessions offered at the international level. The creation of an institutional framework for industry should concentrate on the establishment of chambers of industry to provide statistics and information on trade, patents and trade marks. Moreover, a well equipped marketing centre should be set up in the occupied Palestinian territory. UNCTAD, in co-operation with ITC and UNDP, was preparing a feasibility study for the establishment of such a centre. It had been proposed to carry out an intersectoral study in co-operation with regional and international organizations, experts from the occupied Palestinian territory and representatives of Palestine. The aim of the study was to formulate a framework for assistance to the Palestinian people and to support Palestinian decision-makers in their increasingly complex task.

The representative of the International Co-ordinating Committee of the NGOs on the Question of Palestine reported on the efforts made by the committee to sustain economic development in the occupied Palestinian territory. Assistance should concentrate on legal advisory services, training and agro-industrial projects. As industrial development under Israeli rule was extremely difficult, the operative option was to formulate a flexible development strategy. The need of external support to develop the Palestinian human resource base was also emphasized.

The representative of the United Nations Relief and Work Agency for Palestine Refugees in the Near East (UNRWA) reported on that Agency's activities in the territory and the relevant financial resources made available to sustain economic development. The main areas of the support to economic development covered training according to demand on the labour market and small-scale household income-generating projects. The income-generating projects were aimed at assisting families with start-up capital and social workers. Assistance had been given to poultry, carpentry, handicraft, and agriculture with contribution in cash and kind, and through a small credit enterprise programme in co-operation with international NGOs. From January 1988, 133 economically profitable projects with a matching social impact

increasing self-reliance, had been supported with an average input of US \$10,000 per project. The positive effect of the infrastructure financed by UNRWA on the generation of employment opportunities and demand for local products was also noted. A feasibility study on long-term infrastructural requirements and related production requirement was being undertaken by UNRWA.

The representative of the Welfare Association drew attention to the need to enhance co-ordination among international and regional organizations in order to maximize the impact of funded projects. Within its programme of assistance to the Palestinian people, 600 projects had been supported in the past five years, of which 132 related to economic development whereof 60 had been in the industrial sector. Ten of the projects had been for medium-scale enterprises, while the remaining projects were for small-scale units. Activities aimed at replacing Israeli products and generating employment should be further promoted so as to increase self-sufficiency and self-reliance. It was suggested that appropriate actions be pursued to overcome the obstacles of the present legal framework.

The Deputy Director of the Division for the Advancement of Women, representing the United Nations Office at Vienna (UNOV) pointed to the active function of women in social and economic activities in the occupied Palestinian territory. Particular emphasis was placed on the growing role of women as earners of remunerated or unremunerated income and their widespread impact on sustaining the local economy. Despite the decrease in the share of industrial labour force in total employment, new activities were expected to change the industrial structure (e.g. electronics, assembly, textiles) and the increased engagement of women in industrial development would be necessary. The need to improve the industrial skills of the Palestinian people, and of women in particular, was seen as a priority to be accurately investigated and promoted.

The Permanent Observer of the League of Arab States to UNIDO described the decisions and resolutions adopted by the decision-making bodies of the League of Arab States in support of the Palestinian people and the intifada and strengthening links between economic, financial and market opportunities. The financial support pledged in the past to the PLO and to the Jordanian Palestinian Joint Committee was not significantly directed to agricultural and industrial projects. However, during the intifada, large amounts of funds had been channelled to the occupied Palestinian territory to compensate partially for the losses caused by the uprising and the boycott of Israeli products. A greater involvement of international entities, Arab people and Palestinians living abroad in supporting the occupied Palestinian territory was called upon, and appropriate approaches should be adopted by foreign institutions to assist local entities. In conclusion, it was mentioned that the decision-making bodies of the League of Arab States had recently moved to give preferential access to Palestinian products, and in that context the possibilities of establishing marketing institutions in the occupied Palestinian territory and preparing a full marketing programme were being studied.

The Director of the Office of Programme Co-ordination of United Nations Centre for Human Settlements (HABITAT) presented the results of two major studies undertaken in pursuance of UN General Assembly resolutions and HABITAT Board decisions regarding assistance to the Palestinian people. The studies concerned the living conditions in the occupied Palestinian territory, and

incorporated a proposal to assess housing conditions and future needs in terms of infrastructure, with emphasis on transportation that played an important role in economic development. Moreover, the Centre was evaluating some 26 development projects in industry and infrastructure. In that evaluation particular attention was given to the effects on employment and self-reliance.

The representatives of the delegation of Palestine expressed the wish to make optimal use of the expertise available and of the suggestions proposed in the seminar, and pointed out the importance of convening the seminar on industrialization in the occupied Palestinian territory in light of the present situation. With reference to recent draft resolutions of UN Bodies, it was emphasized that full development and occupation were indeed incompatible. As a result of the existing political set-up, growth of the Palestinian economy was inhibited and the industrial sector had not grown over the past 20 years. Its share in GDP remained unchanged, with employment in industry and the value-added declining. In that respect, a crucial factor was the lack of a national authority able to set up and implement industrial plans. Taking into account that the main objective was strategic and political, the goals to be pursued in order to change the current situation were identified as: (a) reducing emigration, and reducing Palestinian labour in Israeli institutions; (b) providing decent living conditions for the Palestinian people; (c) concentrating on productive activities that could generate employment and implementing small-scale industrial projects to sever links with the Israeli economy; (d) creating the industrial infrastructure required; (e) establishing vocational centres for industry (PLO was currently financing and supporting such a project); (f) increasing marketing capability with the help of neighbouring countries; and (g) strengthening the co-ordination of the representatives of Palestine with other international and regional institutions. Accordingly, the task of PLO was to seek practical possibilities, and facilitate the implementation of economic development programmes.

4. Presentations of working papers by UNIDO consultants

The Regional and Country Studies Branch of UNIDO provided the participants with four working papers, covering the main topics of the seminar.

4.1 Palestinian industrial development and institution-building

An overview of structure and performance of the Palestinian industry was presented. The industrial sector had stagnated since 1967, and the structure was still dominated by small-scale workshops. The increase of sub-contracting arrangements with Israeli firms had had no impact on changing this structure. Three broad categories of constraints to more dynamic industrial development were identified. First, trade restrictions designed to protect Israeli products from competition through quotas on imports and exports, certificates of origin and licensing. Secondly, limited availability of finance owing to the absence of institutions for financial intermediation, which would channel financial resources into productive areas, and restrictions on receiving external funds. Thirdly, educational constraints in terms of lack of technical and vocational training institutions. Those impediments had to be removed. Some essential measures to spur development were suggested: the enhancement of inter-linkages between existing factories; the creation of industrial parks for small-scale industries, especially in the Gaza Strip; the

creation of consultancy firms in engineering, industrial services and feasibility studies etc.; the establishment of a small-scale business development centre. The need was also stressed for continued assistance to local institutions for co-ordinating the external assistance provided, and that support should be based on standardized criteria for assessing priority needs. It was considered important to link the various institutions engaged in complementary economic development functions and support them politically and financially. To that end, the flow of resources should be designed and controlled by Palestinian entities as partners and not merely as recipients of assistance. The need to build up the technical, financial and managerial capacity of Palestinian people, through the establishment of industry-related technical and vocational training capacities, was addressed.

4.2 Investment opportunities and possibilities for future development

The effects of the intifada on both the Palestinian and Israeli economies was reviewed. The cost to Israel of the uprising was estimated at US \$1 billion (UNCTAD estimates); this was attributable to a delinkage process by which Israeli products were squeezed out of the Palestinian captive market, and to the fact that an increasing number of Palestinian micro-industries had been established to fill the gaps left by Israeli products. Another causal factor was the reduced availability of cheap Palestinian labour for Israeli agricultural and industrial production. An industrial strategy should integrate macro-level planning and investment projects. To that end 19 investment opportunities in the industrial sector had been identified by UNIDO and analysed in terms of value-added, foreign exchange and job creation. The problem of employment was seen as crucial. It was estimated that more than 300,000 new jobs in industry would have to be created after independence in order to absorb the increasing Palestinian labour force. It was suggested that a more balanced development between the West Bank and the Gaza Strip should be achieved, and that priority should be given to small-scale, resource-based industry (e.g. agro-food, stone and quarrying etc.). The possibility of setting up assembly industries in free trade zones in the occupied Palestinian territory was also taken up. In order to attain those goals it was suggested that international support be increased and contacts between the Palestinian business community and foreign partners be facilitated.

4.3 Legal and institutional constraints to industrial development

An analysis of the legal context of the occupied Palestinian territory was presented, with emphasis on the legal actions taken by the Israeli authorities after the declaration of a Palestinian state. The legal status of the occupied Palestinian territory was characterized by administration through military laws. Some major legal obstacles were reported: (a) discrimination between different religions, with a different legal status for the Israeli settlers in the occupied Palestinian territory; (b) cancellation of the High Court of Justice; (c) extended control of industries, institutions and professions; (d) financial restrictions on operating in foreign currencies and transferring funds to the occupied Palestinian territory; (e) cancellation of the need for the Israeli authorities to publish the budget with the accountability of tax collection. Possibilities of reacting to those obstacles through legal measures were seen to exist. It was thus suggested

that the Fourth Geneva Convention should be applied as well as the national laws in many countries that prohibited trading with states acting against human rights. Action should be taken to: (a) establish a Palestinian Arbitration Board to solve commercial and trade disputes, as considered in Jordanian law; (b) restructure the chambers of commerce so as to ensure that they provide statistics and protect Palestinian trade marks; (c) secure access to information on taxes collected in the occupied Palestinian territory; and (d) identify mechanisms to facilitate the provision of assistance and funds to the occupied Palestinian territory by external agencies with support of individual countries.

4.4 Financial structure and credit demand

The credit and financial structure in the occupied Palestinian territory and the potential credit demand were described. In that context, attention was drawn to the need to optimize the use of the limited financial resources available to the existing industrial sector. The lack of institutions engaged in financial intermediation, duplication of project financing and absence of long-term loans had had negative effects on development. In order to ease and overcome those constraints, means and mechanisms were needed to attract funds to and foreign investment in the occupied Palestinian territory. An analysis was presented of the impact of the drop of the Jordanian dinar on the economy of the occupied Palestinian territory and on the cost of living, as well as the effects of the co-existence of two currencies i.e. the Jordanian dinar and the Israeli shekel. Another key problem analysed in detail was the effect of the Israeli income tax rate on the income of the Palestinian people. Possible supporting actions to sustain the Palestinian business community should consider the need to set up an accounting board to supervise the accounting profession. Moreover, it was suggested that an in-depth survey be undertaken to assess the capital structure of the Palestinian business sector so as to facilitate the allocation of financial resources to the occupied Palestinian territory.

III. CONCLUSIONS AND RECOMMENDATIONS

1. Summary of Findings

1.1 General considerations

The seminar was guided by a number of considerations. It was emphasized from the outset that while recognizing the severe constraints that Palestinian industry is subjected to, due to the Israeli rule, the task of the seminar was to go beyond the survey of these constraints and to concentrate on devising possible mechanisms and strategies to overcome the impediments. For the purpose of analyzing development patterns and outlining prospects for future industrial development in the occupied Palestinian territory, three main periods were identified: the period 1967-1987, the period starting 1987 and going on at present and the post-independence period.

The first period was characterized by increasing dependence on the Israeli economy including reliance on Israeli products, and the exploitation of Palestinian labour in the Israeli economy. The second period is a transitional period towards independence. This period began with the Palestinian intifada and encompasses the declaration of independence and the

pursuit of a vigorous Palestinian peace offensive. The third period, is the post-independence, in which the constraints imposed by the occupying authorities obviously will terminate.

It was stressed that sovereignty is a prerequisite for the ability to plan and pursue national socio-economic development. However, this does not negate the need for devising industrial development strategies in the immediate future while pursuing all efforts during this period of transition to attain a lasting and definitive solution for the Palestinian people. Thus, industrial development was seen primarily to meet the following objectives:

- Work towards realizing the vision of a Palestinian industrialized economy that has connections to partners in and outside the region;
- Establish stronger linkages within industry and with other sectors of the economy;
- Further the process of disengagement between the occupied Palestinian territory and Israel;
- Provide employment opportunities contributing to the absorption of the Palestinian workforce including those working in Israel and abroad;
- Expand and provide education opportunities to create the necessary human resources and expertise needed for the present and the future expansion of the Palestinian economy;
- Attain an independent Palestinian institutional infrastructure for industry;
- Give protection for and assistance to existing Palestinian institutions, and encourage the emergence of other key institutional bodies as a basis for future state organization.

1.2 Role and structure of the industrial sector

The existing structure and the exigencies of the industrial development process which have emerged as a consequence of recent developments in the occupied Palestinian territory were subject to particular attention in the presentations and discussions.

The contribution of industry to the economy of the occupied Palestinian territory has remained minimal. Its role has been steadily declining over two decades of occupation, mainly due to a series of politically determined forces. There is a great need to introduce programmes that not only expand existing outputs and systems of production but also open up new areas of industrial activity. The intifada is creating a major boost to new initiatives for industrial development and this constitutes indeed a major departure from previous development patterns. The need to reduce dependency on industrial raw materials, intermediate and final goods from Israel and to create a greater structural integration among Palestinian companies was emphasized. Also the income generating side of industrial development was given due attention and the need to create productive employment opportunities for the Palestinian people was stressed. In this context special efforts would be required to encourage and support the further participation of women

in the industrial development process in the occupied Palestinian territory.

To sustain healthy industrial development and proper project selection and implementation it was seen essential that integrated approaches be followed. It is therefore necessary to set basic priorities and to create a vision of industrial development in its proper context within the present period and for the post-independence period. The comprehensive intersectoral study being prepared by UNCTAD on the Palestinian national economy was referred to as an important basis for such a development approach.

Whereas various goods manufactured in the occupied Palestinian territory are internationally competitive, a range of other products lack the required quality standards to be exportable at this stage. In respect to industrial subsectors the agro-based industries were mentioned as having particular potentials. Increased food production should indeed assume a major role in an industrialization process towards greater self-reliance. Rural development through integrated programmes for household economies and small-scale enterprises could play an important role, as the type of small-scale self-support and income-generating projects supported by UNRWA in co-operation with NGOs. Also non-traditional export industries could, however, be established since significant prospects seem to prevail.

Despite major impediments due to the present political set-up with various severe restrictions imposed, increasing self-reliance would need to be pursued. To this end, greater transparency of the availability of local production and supply capacities as well as the establishment of proper infrastructural facilities should be pursued.

The establishment of small-scale industrial estates and export processing zones may be an important vehicle to provide a basis for industrial development. In a longer term perspective, endeavours need to be stepped up to integrate Palestinian industry with the neighbouring Arab markets as well as in the international production system.

In order to generally build up an efficient, competitive industry, priority should be given to:

- providing technical assistance to existing industries in the fields of quality control, projects evaluation, establishing contacts with foreign partners etc.;
- providing for an upgrading of operational and entrepreneurial skills in specific branches of industry, enhancing training already being provided through UNRWA and other NGOs' vocational training centres;
- implementation of a series of small-scale industrial projects with wide impact on the industrial development, such as the investment projects recently analyzed by UNIDO (UC/PAL/87/045);
- identification and promotion of medium-scale investment opportunities in key subsectors.

Generally, it was suggested that a workable near-term industrial development strategy and a process of industrial planning and programming for the longer term be developed, setting out the goals of industrial restructuring and development. These goals should have regard to the current

needs created by the delinking of the Palestinian economy from that of Israel, and also to the necessity to set up a base for the future independent development of the Palestinian economy. To realize the above, it was pointed out:

- That industrial subsector studies be undertaken in the occupied Palestinian territory;
- That small-scale industrial development be encouraged and supported by promoting producer organizations as channels for information on upgrading production techniques, supply and marketing options;
- That the appropriate indigenous organizations already in existence in the occupied Palestinian territory be strengthened and their roles enhanced: organizations concerned with industrial production, technical development and related issues as well as chambers of commerce and co-operatives. Relationships with similar groups in the outside world should be developed as a means of tapping the goodwill available, and to better relate with the world's markets as a whole.

1.3 Industrial financing

The seminar addressed itself in detail to the question of finance. It highlighted the need to improve the provision of resources for the immediate revival of Palestinian industry, and the establishment of an appropriate institutional network for industrial financing for future development.

It was recognized that the acute weaknesses of existing financial institutions in resource mobilization and allocation, had severely constrained industrial investment and production. Apart from limited ordinary financial activities, these institutions are unable to carry any financial intermediation that assists industry. As a result, industry had been deprived of required financial resources for fixed investment and working capital including the financing of industrial exports. The non-existence of equity financing, the fragmented (dual) monetary system and the absence of an autonomous Palestinian monetary authority, had further compounded the problems of financing the industrial sector.

The development of an adequate and efficient Palestinian financial system is being systematically blocked through a series of measures imposed by the Israeli authorities since 1967. The situation had been further aggravated by the recent additional legal measures (limitation imposed on resource transfers from abroad and intensification of taxes and their collection) that are applied to control the finances and economic performance of the occupied Palestinian territory.

The situation left much to be desired and the following main issues emerged from the discussion:

- Major institutional changes are required in order to mobilize local savings and effectively allocate them to productive sectors for investments in plants and equipment as well as working capital. It is, therefore, urgently needed to facilitate the inward flow of foreign funds and their management at the local level, as well as foreign

funding for large and medium-scale infrastructural investment. Parallel efforts are also needed to channel such resources into ventures engaged in the development and supply of indigenous human capital and entrepreneurial know-how, upon which prospects for the creation of a dynamic industrial sector rested;

- Efforts should be made to encourage direct investment through joint ventures in Palestinian productive sectors and direct assistance in the form of loans to small businesses in order to alleviate capital scarcities. This would serve to protect Palestinian industry from economic or administrative harassment, as the imposition of any unjustified sanctions would have potentially harmful consequences for Israel's own external trade relationship with the rest of the world;
- The recommendations of UNIDO Report UC/PAL/85/090 concerning the establishment of an industrial development bank should be discussed in appropriate form and steps should be taken for the incorporation of this bank.

1.4 Foreign trade and marketing issues

Given the limited size of the local market, Palestinian manufacturing industry will have to increasingly rely on foreign suppliers of material inputs and foreign markets for the sale of the products. Effective international sourcing and export marketing will require particular attention within the prevailing severe constraints imposed. In this context, collaboration with foreign commercial entities was seen as important. It was proposed that international fairs be utilized, and that trading house functions be set up within the framework of the chamber of commerce, in order to improve marketing capabilities at the company level. In this connection, it is important to ensure the identification of Palestinian goods through appropriate labelling of the origin. These and other aspects of marketing will be adequately dealt with in the feasibility study planned to be prepared by ITC/UNCTAD/UNDP on the establishment of a marketing centre in the occupied Palestinian territory.

The financial aspects of foreign trade were also given due attention. Currently, export credits and import loan facilities are not available and this constitutes a major constraint to industrial enterprises' activities. An export financing and guarantee scheme would need to be set up.

The following specific issues were raised:

- The absence of collatorals for importing necessary raw materials and machineries from foreign exporters negatively affects Palestinian industries; ways should be sought to overcome this situation;
- In view of the absence of a Trade Board located either inside or outside the occupied Palestinian territory, infrastructure to explore markets and develop foreign trade would need to be established;
- The role of Arab countries in facilitating the marketing of Palestinian goods was investigated. It was recognized that many products manufactured in Palestine, have a potential market in the Arab world. However, due to the absence of subsidies these products cannot compete

with other officially supported foreign goods. Thus, consideration of this problem is necessary as a prerequisite for successful trading between the occupied Palestinian territory and Arab countries;

- Direct trade with local industries and businesses by European companies would need to be cultivated now that the precedent for such trade has been established by the EEC;
- Research by local firms and entrepreneurs of marketing/trade possibilities with European and EEC countries would need to be promoted;

1.5 Institutional infrastructure

The existing structural constraints are characterized by a low level of institutional support for industry and trade from both internal and external sources. Major constraints include, among others, the imposition of heavy taxes, the absence of institutions able to engage in financial intermediation and to mobilize savings which can be channelled into productive areas, including industry; the limited availability of technical and vocational training opportunities to support the development of an industrial labour force; and the absence of reliable statistical data for economic development purposes.

Priorities for the establishment of an institutional infrastructure for industry and trade must first be assessed against the short-term requirements of the industrial sector and the changes introduced by the intifada and, secondly, against the long-term needs of industry within a different political set-up. Accordingly, the setting of industrial priorities in the short-term must be based on a strategy of industrial development that emphasizes greater self-reliance through a structural disengagement from Israel and the creation of independent trade links with external parties.

Hence, a short-term strategy for self-reliant industrial development should focus on the creation of an institutional infrastructure that supports both the strengthening and expansion of existing local institutions engaged in some form of assistance to the industrial sector, and the creation of new entities. Institutional growth in the following areas should be promoted: credit and finance, with the establishment of an industrial development bank, trade and marketing, setting up marketing facilities; technical and managerial training, focusing on industry, and research. Discussion on priority needs focussed also on the role of the chamber of commerce, creation of chambers of industry and of a Palestinian Arbitration Board to resolve commercial disputes. Furthermore, the present situation under which development decisions are hampered by scarce and biased statistical information should be corrected. In fact, the only source available - Israeli statistics - do not respond to the needs of the business community nor local and external planners, therefore, the importance of setting up a centre to provide independent and reliable statistical data often emerged during the seminar.

The outflow of skilled labour force due to lack of appropriate domestic employment opportunities in the last two decades has deprived the Palestinian industry of an important human resource base. Emphasis was placed on the necessity to create vocational centres to service the industrial sector and to improve existing technical curricula. Therefore, direct international

assistance in support of additional technical and vocational training programmes and facilities to provide effectively for the requirements of industry at different levels of development was called upon. Existing training centres should be utilized in support of local industry with low technological requirements such as dairy production, olive oil canning, and maintenance. It was also stressed that opportunities for advanced technical training need to be provided for the promotion of more high tech industries. Moreover, training in accounting and fiscal practices, auditing, planning and industrial management was recognized as important, and regional and international bodies were called upon to take initiatives in this area, including campaigning for the re-opening of universities and vocational training centres closed by the Israeli authorities.

2. Recommendations

Realizing that occupation and full-scale industrial development are not compatible, the seminar recommended that all those countries and agencies wishing to help Palestinian industry call for and work towards bringing the end of the Israeli rule of the Palestinian territory. Pending the termination of the occupation, countries which have signed the Fourth Geneva Convention, are bound by the terms of this convention and often by their own domestic law to take concrete actions against Israel for its discriminatory policies aimed at preventing the full development of local Palestinian industry and to desist from availing it with trade or other economic benefits as long as these discriminatory practices continue.

The following final recommendations were made:

1. To prepare a programme for industrial development in the occupied Palestinian territory to take into consideration the transitional nature of the present stage.
2. To promote the establishment of chambers of industry.
3. To implement industrial development projects including the seaport in Gaza, the cement factory in Hebron and the citrus plant in Gaza referred to in General Assembly resolution 39/223 of 18 December 1984.
4. To establish a modern marketing centre.
5. To establish a Palestinian Arbitration Board to compensate for the inadequate legal system which now exists in the occupied Palestinian territory.
6. To pursue work towards establishing an industrial development bank.
7. To establish a special fund for supporting industry in the occupied Palestinian territory.
8. To undertake work to bring an end to the Israeli monopoly over the available statistical information by establishing a centre for information in the form of an industrial data bank.

9. To expand the opportunities for technical and managerial training for the labour force that will be needed to develop and, in the future, sustain a developed Palestinian industry, and increase international pressure on the Israeli occupation authorities to ensure the re-opening of universities and vocational training centres closed by the occupation authorities particularly for the last two years.
10. To promote the establishment of a Palestinian Accounting Standards Board for regulating the profession of accounting practice and auditing.
11. To promote nationally desirable joint investments with foreign partners.
12. To take the necessary steps to facilitate export marketing of Palestinian manufactured products. To this end, to call for the granting of trade concessions and concrete preferential measures for Palestinian exports on the basis of Palestinian certificates of origin as called for in General Assembly resolution 43/178 of 20 December 1988.
13. To call for the immediate lifting of Israeli restrictions and obstacles hindering the implementation of assistance projects by UN bodies and other entities providing economic and social assistance to the Palestinian people in the occupied Palestinian territory.
14. To establish an institute for economic analysis and technology research in industry and industry-related issues. This institute would inter-alia carry out manpower studies, sub-sectoral analysis, and feasibility studies in the occupied Palestinian territory. To this end, the project proposal for the establishment of an investment evaluation centre, prepared by UNCTAD, should be implemented.
15. To denounce the proposed amendment to the Israeli "Anti-Terrorism Law" of 1948 which, if passed, will, inter alia, have an adverse effect on industrial development by restricting the flow of funds from outside sources.
16. To call upon UNIDO and other relevant bodies to follow-up within their areas of competence the implementation of the preceding recommendations in close co-operation and co-ordination with the representatives of Palestine.

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A N N E X I I

LIST OF PAPERS PRESENTED TO THE SEMINAR

1. Documents prepared by UNIDO Secretariat

(a) WORKING PAPERS

- NO.1. The Palestinian Industrial Sector: Structure, institutional framework and future requirements (prepared by Sara Roy, UNIDO Consultant).
- NO.2. Brief overview of the Investment opportunities in the OPT and possibilities for future development (prepared by Peter Sadler, UNIDO Consultant).
- NO.3. Assessment of the availability and demand for credit financing by the Palestinian Industrial Sector (prepared by Monther Nijim, UNIDO Consultant).
- NO.4. Legal and institutional constraints to industrial development in the Palestinian Occupied Territories (prepared by Raja Shihadeh, UNIDO Consultant).

(b) OTHER DOCUMENTATION

- NO.1. Identification of priority projects in the Industrial Sector. Occupied Palestinian Territories, UNIDO, IO/R.111, 1989.
- NO.2. Study for the Establishment of an Industrial Development Bank in the Palestinian Occupied Territories, UNIDO, IO/R.76, 1988.

2. Papers prepared by experts

- NO.1. Industrial Development for Palestine - A Conceptual Framework with Special Reference to the Size Constraints (prepared by Dieter Weiss).
- NO.2. Industrial Prospects for Palestine (prepared by A. Abu-Shokoor).
- NO.3. Prospects of agricultural food processing in the OPT (prepared by F.H. Beseiso).

3. Papers presented by representatives of regional and international organizations

- NO.1. The Support of Arab League to Palestine's Economy (presented by A. Khalid, League of Arab States).
- NO.2. Palestinian economic development - constraints and perspective (presented by S. Kazemi, UNCTAD).
- NO.3. The Occupied Palestinian Territories: Industrial Development Policies: Constraints and Prospects (presented by A. Mansour, ESCWA).
- NO.4. The Situation of Palestinian Women (presented by J. Mathiason, UNOV, Division for the Advancement of Women).
- NO.5. Statement - UNIDO Seminar on Prospects for the Palestinian Industrial Sector (presented by Ms. Nasra Hassan, UNRWA)
- NO.6. Living conditions and housing requirements of the Palestinian people in the OPT (presented by D. Johal, HABITAT).
- NO.7. The Committee on the Exercise of the Inalienable Rights of the Palestinian People and the Division for Palestinian Rights (prepared by UN Division for Palestinian Rights, 89-18667, August 1989).

A N N E X III

AGENDA

WEDNESDAY, 11 OCTOBER 1989

08.00 Registration

09.30 i. Opening Session

- Opening statement on behalf of UNIDO's Director-General by Mr. Tariq Al-Khudayri, Head, Arab Countries Programme;
- Statement by H. E. Mrs. Mervat Tallawy, Ambassador and Permanent Representative of the Arab Republic of Egypt to UNIDO, Chairperson of the Group of 77 in Vienna;
- Statement by the Delegation of Palestine, delivered by Mr. Yusif Sayigh;
- Election of Chairperson and rapporteur;
- Adoption of agenda.

11.00 2. Introduction to the Seminar by UNIDO Secretariat

Presentation of purpose, programme and modalities of the Seminar, issues and documentation, by Mr. Herman Muegge, Head, Regional and Country Studies Branch.

10.45 3. The Palestinian Industrial Sector: an Overview

Main issue: Structure and performance of the Industrial Sector.

Presentation of working papers by:

Ms. S. Roy, U.S.A., UNIDO Consultant;

Mr. A. Mansour, ESCWA;

Mr. M. Said Ali, AIDO;

Mr. F. Beseiso, Jordanian-Palestinian Joint Committee.

14.00 3. The Palestinian Industrial Sector: an Overview
(continued)

Main issues:

- Prevailing development constraints and prospects;
- Analysis of possible market outlets for the OPT's industrial products.

Presentation of working papers by:

Mr. R. Shehadeh, OPT, UNIDO Consultant;
Mr. S. Kazemi, UNCTAD;
Mr. I. Dakkak, OPT, ICCP of NGOs on the Question of Palestine;
Mr. D. Weiss, West Germany, Free University of Berlin;
Mr. I. Hassouneh, industrialist, OPT.

15.45 Discussion

THURSDAY, 12 OCTOBER 1989

09.00 4. Financial Situation and Investment Climate in the Occupied
Territories

Main issues:

- Analysis of current and future credit demand of the Palestinian industrial sector;
- Means to mobilize and attract investible resources to the OPT.

Presentation of working papers by:

Mr. M. Nijim, OPT, UNIDO Consultant;
Mr. L. Harris, UK, Open University;
Mr. B. Qaddan, OPT, Chamber of Commerce of Tulkarem;
Mr. C. Shamas, OPT, industrialist;
Mr. S. Reyashi Smir, OPT, industrialist.

10.45 4. Financial Situation and Investment Climate in the Occupied Territories
(continued)

Main issue: Analysis of the investment opportunity studies prepared by UNIDO and other industrial project proposals: economic and political viability.

Presentation of working papers by:

Mr. P. Sadler, UK, UNIDO Consultant;

Ms. N. Hassan, UNRWA;

Mr. M. Shadid, Welfare Association;

Mr. A. Alawnah, OPT, Al-Najan University;

Mr. R. Abdul-Hadi, OPT, Centre for Engineering and Planning.

11.45 Discussion

14.00 5. Institutional Infrastructure for Industrial Development

Main issues:

- Analysis of existing facilities for economic development, marketing, finance and human resources development, and future requirements;
- Role of Arab and non-Arab external institutions supporting the OPT industrial sector.

Presentation of working papers by:

Ms. S. Roy, USA, UNIDO Consultant;

Mr. A. K. Abu Shokor, OPT, Al-Najan University;

Mr. J. Mathiason, UNOV;

Mr. K. M. Khaled, League of Arab States;

Ms. S. Dajani, OPT, Economic Development Group;

Mr. D. G. Istambuli, OPT, Agricultural Development and Credit Committee;

Mr. D. Johal, HABITAT.

16.15 6. General Discussion

Main issues:

- Status, constraints and prospects for the development of the Palestinian industrial sector in light of the recent developments;
- The need for concerted measures and international co-operation to foster industrialization in the OPT and to overcome present obstacles.

FRIDAY, 13 OCTOBER 1989

09.00 7. Special Informal Consultations

10.00 8. Presentation of the Video "Financing the future"

Joint production of UNRWA and Co-operation for Development (UK).

14.00 9. Presentation of Draft Summary Report and Discussion

Adoption of main findings and recommendations.

10. Closure of the Seminar