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PALESTINE ECONOMIC POLICY
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A Summary of Background Paper

Round Table (9)



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Strengthening Private Sector Resilience in the Gaza Strip: An Integrated Framework for Economic Recovery and Sustainable Development

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The views expressed herein are those of the author(s) and therefore do not necessarily reflect the opinion of Tasdeer.

The October 2023 war has devastated the productive base of Gaza's private sector, leaving 88% to 92% of economic establishments fully or partially destroyed. Recovery needs in the productive sectors alone are estimated at about US\$20 billion. Yet the policy problem lies not only in the scale of destruction but also in the prevailing reconstruction approaches that focus on rebuilding physical assets, assuming economic recovery will follow automatically. The return of goods' flow does not mean the economy is operating again, nor does rebuilding an establishment mean restoring its capacity to produce. The problem shows up in four interlinked distortions:

- **A survival economy instead of a productive economy:** Imports are concentrated in consumer goods while the entry of productive inputs remains limited, and more than 80% of traders operate in the informal sector.
- **Operational bottlenecks that disable remaining capacity:** The cost of commercial electricity has risen from about NIS 0.6 to about NIS 35 per kilowatt-hour, and inputs, spare parts, and working capital are in short supply. Employment in the garment factories covered by the study fell from about 9,000 workers to about 300, while some 100 poultry farms could cover nearly 40% of pre-war demand within weeks if inputs were available.
- **Gaza's disconnection from the Palestinian economy:** Any establishment that restores production will have limited impact if it remains cut off from suppliers, financial services, and markets in the West Bank and abroad.
- **A gap in finance and financial intermediation:** Establishments have lost their collateral and cash flows, and banking intermediation in Gaza has broken down despite the soundness of the Palestinian banking system as a whole, while recovery financing remains fragmented and reliant on grants. The longer the disruption in activities, the more skills, trade relationships, and working capital erode, and the more establishments that could have recovered turn into ones requiring costlier reconstruction.

1. Proposed Policies

The background paper underpinning this summary proposes a gradual transition from protecting the remaining productive capacity to restarting operations, and then to expansion and investment, through the following policies:

1. **Mapping the remaining productive capacity rather than relying only on damage counts:** Establish a mechanism, updated regularly at the level of establishments and value chains, to identify activities that can be restarted, within a shared and transparent economic information system.
2. **Directing early support to bottlenecks with systemic effects:** Prioritize energy, inputs, spare parts, working capital, and skilled labor, and adopt the value chain as the unit of intervention instead of spreading support evenly across establishments.
3. **Leveraging reconstruction procurement to build local capacity:** Open participation to Palestinian firms where genuine capacity exists, unbundle contracts and encourage consortia so that small and medium enterprises can take part, and provide advance payments, suitable payment terms, and early announcement of upcoming projects.
4. **Building a staged financing system:** Grants to restore core assets, then working capital, concessional loans, and risk-sharing guarantees during restart, then commercial finance and private investment for expansion, while separating the treatment of legacy debt from new financing and linking support to operational and production indicators.
5. **Reconnecting Gaza with the Palestinian economy from the outset:** Rebuild supply, service, payment, and contracting channels with the West Bank as a bridge to regional and international markets rather than a substitute and make use of digital services where infrastructure allows.
6. **Safeguarding human capital:** Reconnect workers with establishments, restore critical skills, and direct training toward the gaps that actually hinder restarting operations.
7. **Assigning a clear coordination responsibility within existing frameworks:** This function should link economic priorities with physical reconstruction, urban planning, financing, and monitoring, and involve the private sector, chambers, and federations on an institutional basis without creating parallel structures.

2. Key Message

The success of recovery should not be measured by the volume of funds mobilized or assets rebuilt, but by the number of establishments back in operation, the workers who have regained their income, and the supply chains moving again. The goal is not a return to the pre-war economy, which was already fragile, but a Palestinian economy that is more capable of production, integration, and resilience.