



**ACTION  
AGAINST  
HUNGER**



# **MICRO ENTERPRISES IN GAZA**

**PERFORMANCE ASSESSMENT REPORT  
SEPTEMBER 2018**



## MICRO ENTERPRISES IN GAZA

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## INTRODUCTION AND BACKGROUND

As part of its strategy to help the most vulnerable communities in the Gaza Strip, Action Against Hunger (AAH) has supported, **479 female heads of households** in the past three years, by providing training on the following topics: start a small business (entrepreneurial concepts); preparing a feasibility and marketing study; business environment (legal environment, taxation, registration issues, and funding mechanisms). Together with financial and post-training activities, this allows them to **develop, diversify, and reactivate a sustainable source of income**. In 2018, AAH particularly focused and enhanced the monitoring and technical coaching delivered to these micro entrepreneurs to consolidate their performance and boost long term sustainability. Nevertheless, the humanitarian situation in the Gaza Strip worsened in 2018 and has drastically deteriorated the people's wellbeing. **A general lack of funding and cash flow in the households threatens to severely disrupt the delivery of basic health care, education, food, water, shelter, and other public services.**

## OBJECTIVE

Due to the above-mentioned changes in the socioeconomic context, it is necessary to understand how the context changes are affecting the micro enterprises performance and the beneficiary female heads of household.

For that purpose, AAH's Food Security and Livelihoods (FSL) team launched a rapid survey designed to cover a statistically representative sample of micro entrepreneurs and determine the main functional risks they are currently facing in Gaza. This report aims to present the main findings of this survey with the interviewed micro entrepreneurs.

## METHODOLOGY

To conduct the survey, the FSL team developed an open questionnaire. 14% (65 micro enterprises) out of the total were selected and visited, all of which were in **three economic sectors: production** <sup>1</sup> (50%), **commercial** <sup>2</sup> (24%) and **services** <sup>3</sup> (26%); and from three areas of intervention: Rafah (62%), Deir Albalah (26%) and Khan Yunis (12%). Additional information about 35 micro enterprises established by Première Urgence Internationale (PUI) was included in the analysis as well as they received similar support. In total, **100 micro enterprises were assessed and analysed** based on a group of 5 selected socioeconomic indicators determined according to their impact on the status of the families and the economic performance of the business in Gaza.

SOCIOECONOMIC INDICATORS	MAIN ASPECTS TO ANALYSE
Purchasing power	Stable, reducing, increasing
Sales trends	Stable, reducing, increasing, in cash, on credit
City power supply schedule	Stable, reducing, increasing, hours, periodicity and trends.
Supplies availability	Stable, reducing, increasing, type and constraints
Sudden shocks	Type, periodicity

<sup>1</sup> Sheep breeding, Poultry breeding, Rabbit Breeding, Handicraft with paper, Wood handicrafts, Food Processing Unit, Sewing, Mattress store and Cleaning products (Detergents).

<sup>2</sup> Grocery store, Vegetable store, Clothing store, Frozen food, Homeware and Mobile Phone Accessories.

<sup>3</sup> Education Centre, Hairdressing, Centre for rehabilitation of people with special needs.

### MAIN FINDINGS

All of the people interviewed in the three covered areas confirmed that their communities suffer from a **lack of cash flow** which **is affecting the performance of their businesses** by hampering investment, decreasing the population's purchase power and decreasing the general consumption of products and services in Gaza. In addition, they stated that the worsening of the economic situation in 2018 has drastically deteriorated the people's wellbeing. Said deterioration is an interlinked consequence of the following changes operated in Gaza's global context:

- In 2017, **the Palestinian National Authority** (PNA - based in Ramallah) **applied a 30% cut of the Gaza civil servants' salary, which was then increased to 50% in March-April 2018**. This decision impacted approximately 45,000 employees in the Gaza Strip, with effects on both immediate and extended families<sup>4</sup>. According to the collected information, in AAH's targeted areas, the number of employees affected by this measure is as follows: 4000 in Rafah, 2000 in Deir Albalah and 6500 in Khan Yunis. This measure also puts a great deal of pressure on families who have contracted bank loans. Currently, banks are taking the loan payments directly from the salaries of the families without regulating interest payments to the change in salary. In many cases, this leaves the employees with little disposable income to provide for their families, increasingly causing them to live on credit, indebting themselves to provide for their daily basic needs.
- **The social security support provided by the Ministry of Social Development (MoSD) has also been reduced** and its payment has been delayed. Information collected during this exercise suggests that 1000 families stopped receiving support from MoSD in April 2018. In August, an additional 200 families were also removed from the benefits list. For the remaining families, the support provided was reduced by 30%. Additionally, a delay in the payment schedule was applied, with the payment for February only being received in April.
- **Reduction of UNRWA relief services and staff** due to US funding cuts to Palestine in general, and UNRWA in particular, is having a strong impact on Gaza's economic and social stability. **The lack of funding threatens to severely disrupt the delivery of basic health care, education, food and other public services**. Currently, there are approximately 850 families who have stopped receiving salaries and an additional 150 whose contracts will end in 2018. Negotiations to fill this gap with other donors are ongoing but no official announcements have been made so far.
- The fact that **city power electricity is limited to 4 hours a day since 2017 continues to impact household and business running costs**. This reduces the viability of businesses and increases household expenditure as power costs increase from 0.5 NIS per 1 KW of city power, to 3.9 NIS per 1 KW of generator power.

- Interviewed families stated that **the deterioration of the context is affecting their businesses** and that they feel that they have very little room of maneuver to mitigate it without depending on external support measures.

## DECREASING PURCHASING POWER

100% of the people interviewed in the three covered areas confirmed that their communities 100% of the people interviewed stated that there is less liquid cash circulating in their areas. This situation has **reduced families' capacity to buy products and services** where the businesses are established. If the situation does not improve quickly, families will continue to lose purchasing power, with direct negative impacts on their businesses and capacity to generate income.

100% of AAH's beneficiaries are affected by this decline, and they believe that only when conditions return to normal, will their businesses improve, and they will be able to reconsider development and business expansion.

In general, **net profit for micro entrepreneurs has decreased by 55%**. The following table provides more details on the different business sectors:

BUSINESS SECTOR	NET PROFIT (BEFORE THE CRISES = APRIL 2018)	NET PROFIT (AFTER THE CRISES)	DROP BY (PERCENTAGE)
Production Sector	1000 – 1500 NIS/Month	400 – 900 NIS/Month	55 %
Commercial Sector	1000 – 1600 NIS/Month	500 – 1000 NIS/Month	50 %
Service Sector	800 – 1200 NIS/Month	300 – 400 NIS/Month	60 %

4 Information based on the reading of the Report to the Ad Hoc Liaison Committee, UNSCO, 2018. And <http://www.alhaq.org/advocacy/topics/palestinian-violations/1238-legal-implications-of-salary-cuts-by-the-palestinian-authority-in-the-gaza-strip>



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### DOWNWARD SALES TREND

100% of the interviewed micro entrepreneurs stated that **the families in their local community buy their products and services on credit**. According to the survey this is due to the abovementioned lack of cash flow and weak purchase power.

Additionally, interviewed micro entrepreneurs stated that the unemployment rate in the Gaza Strip is increasing and **with no stable employment opportunities and no regular source of income** for the people in Gaza is promoting buying through debt. Interviewed people also mentioned that this problem increases the economic burden on their small business at different levels: provision of goods and raw materials, reducing and delaying the period of costumers0 payment and micro entreperneurs indebment and increase of expenses due to electricity cuts. The following points were highlighted by the micro entrepreneurs:

- **Cash is gradually reduced** so that they cannot supply all the required goods or raw materials for their work, and they are also forced to buy from suppliers with debt, including risk. Many suppliers refuse to do so and prefer to deal directly with cash.
- The **inability to retrieve money from customers** or not before a long period (6 months) and great efforts (visits, phone calls, etc.).
- The commercial projects suffer the most from the problem of selling in debt, particularly grocers. **Many business closures were a result of selling in debt and the lack of electricity**. Mainly because of the lack of beneficiaries' experience in how to organize the sale of debt issue.

**95% percent of the beneficiaries suffer from the increased debt percentage** (selling and buying: customers defaulting on payments). The ratios vary from one business sector to another, but it is increasing in the commercial sector, such as, grocery stores which provide basic foodstuffs.

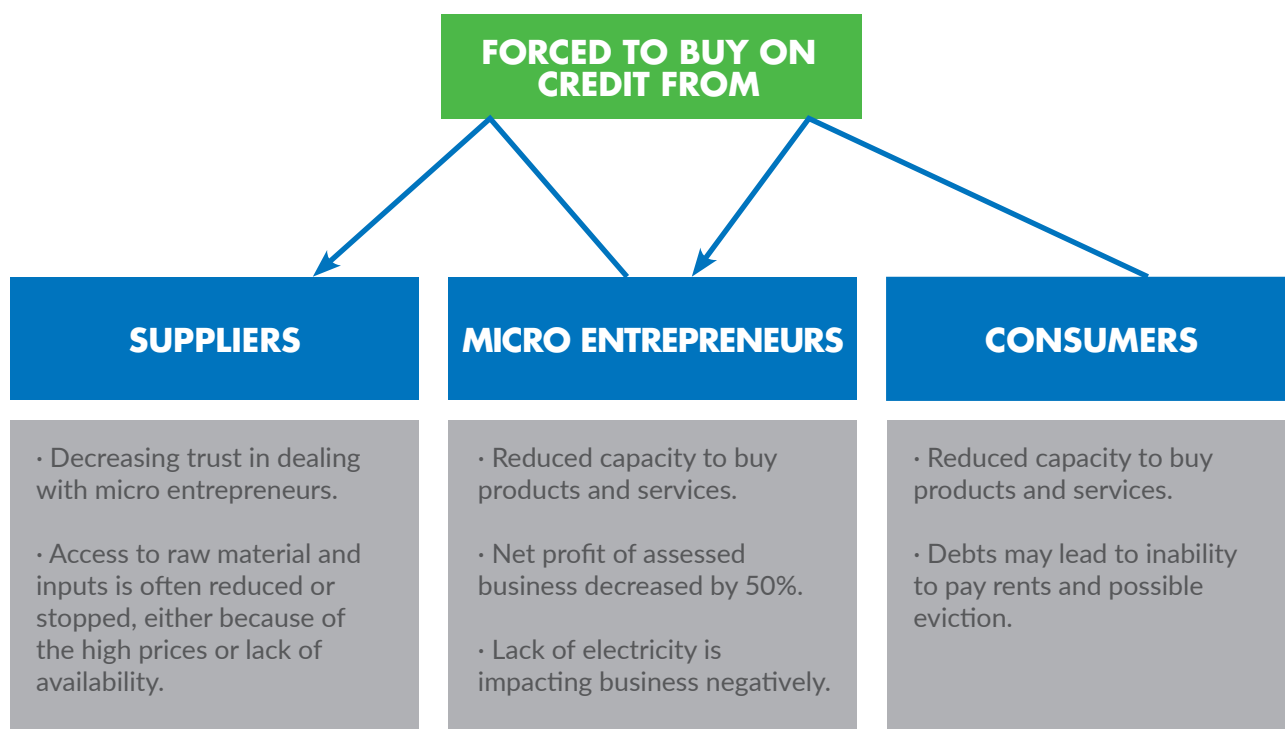
The continued increase in volume of debt sales and the inability to control it effectively increases the financial burden on the projects' owners, prevents them from paying obligations to suppliers on time and makes them waste efforts and time recovering their money. This is one of the most important dilemmas faced by small business owners in the current difficult economic conditions.

The following table provides more details on the different business sectors:

BUSINESS SECTOR	SALES IN DEBT RATIO%
Production Sector	30 %
Commercial Sector	50 % - 60 %
Services Sector	25 % - 35 %

When a business contracts elevated levels of debt, it is referred to as being over leveraged. If its core business suffers and revenue declines, servicing its debt becomes increasingly difficult, pushing the company closer to insolvency. Finance experts consider that business **debts compared with total assets should be less than 30%**. For every dollar of assets, you should have 30 cents or less of total debt payments. In this sense, it is clear that new micro enterprises in services, commercial, an especially production sector are over leveraged in the Gaza Strip.

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## LIMITED CITY POWER

100% of the interviewed micro entrepreneurs stated that the biggest challenge they face, regardless of their business' type and sector, is the electricity shortage. To date, and according to the interviewed families, only **17% of their daily energy needs are covered**. This large-scale shortage of city power is affecting the performance of the micro enterprises. Commercial business holders, such as grocery shopkeepers, stated that they struggle to keep refrigerators running with the daily power available. A similar concern was expressed by the handicraft, hairdresser and educational centers project owners. They struggle to keep their work equipment running.

Additionally, **productive project holders mentioned that the shortage of energy is even a life-threatening concern for their animals** (which is the base of their business), especially in winter when animals need to be provided with an adequate and well-heated shelter. The main concerns were raised by livestock and poultry breeding micro entrepreneurs.

100% of the interviewed micro entrepreneurs also mentioned that their **electricity expenditures have largely increased (800%), which is affecting the profitability of their business**. A large part of the profits of small enterprises are used to pay the expenses of providing alternative electricity. At the same time, alternatives sources of energy (private generator, small generators) are not always easy to access and very expensive (500 NIS to 1200 NIS price of generator and they need 3 litter/day 200 NIS/monthly).



70% of the beneficiaries participate in the electricity distribution service from a large electrical generator in the area which is individually owned (investment project). This service also does not provide electricity 24 hours a day, and is 8 times more expensive than the normal electricity price.

10 beneficiaries bought small generators to overcome the electricity shortage. However, the price of these items increased from 500 NIS to 1200 NIS; in addition to often breaking down and being unsafe.

**100% percent of the beneficiaries suffer from the problem of electricity and their profits are greatly reduced (55%) because of this problem.**

In this regard, the electricity shortage influences both the micro enterprises type of economic activity -disadvantaging those most dependent on electricity power- as well as the profitability of start-up businesses and their potential expansion.



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## LIMITED SUPPLIES AVAILABILITY

Micro entrepreneurs face issues in terms of availability and access of supplies and spare parts for their business in the Gazan markets. 100% of the interviewed micro entrepreneurs mentioned that the fact that **the entry of goods and supplies to Gaza is completely controlled by the Israeli authorities is a major issue.** Additionally, each Kerem Shalom (goods border crossing) closure negatively impacts the stability of their provision plan as they are forced to look for alternatives but often not of the same quality and price required.

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Furthermore, 100% of the interviewed micro entrepreneurs stated that, **during the closure periods, significant and rapid changes operate in the Gaza Strip's markets.** During those periods, the biggest traders in different business sectors monopolize the market through the availability of goods and inputs in their warehouses. This allows traders to increase prices (20%) in the different products, which make them unavailable for small business owners.

75% of the interviewed micro entrepreneurs in the production sector mentioned the following issues related to the supplies availability:

- **Israel prevents the entry of high-quality livestock breeds to the Gaza Strip, which affects the productivity of the livestock sector,** because the lower-quality breeds produce less meat or milk per animal. The livestock business struggles to increase the amount of milk produced. Additionally, **they struggle to maintain a stable veterinary and medicine supplies channel, especially in cases of epidemics.** Israel imposes a prohibition on medicine entering Gaza as when the Hand, foot, and mouth disease (HFMD) occurred in 2016 and the treatment took 3 months to enter Gaza. The price of fodder increased by 20% due to the sudden closure of Kerem Shalom as well.

- The interviewees stated that **their scheduled work plan is also impacted when the access to raw materials and inputs is reduced or prevented, either because of the high prices or lack of availability.** Interruptions of the production plan can take up to two weeks. In some cases, the interviewed micro entrepreneurs in the production sector mentioned that they decided to stop the production because the projected profitability was negative.

Micro entrepreneurs capacity building is also negatively affected by movement restrictions: 70% of the interviewed micro entrepreneurs in the services sector mentioned the issues caused by their inability to travel and participate in learning opportunities or experience exchanges events, especially in businesses such as hairdressers, educational centers, centers for people with special needs (children with problems to speech). Micro enterprises in the service sector are also facing problems to obtain inputs and spare parts.

## SUDDEN SHOCKS

Micro enterprises fragility to shocks is high in Gaza. 100% of the Interviewed micro entrepreneurs mentioned that the resilience of their business is low. All of them mentioned that, in the current situation, sudden shocks affect their micro enterprises' performances. This statement was common to all interviewed micro entrepreneurs regardless of the business type. During the survey, the most common existing and potential sudden shocks for micro enterprises identified in Gaza are the following:

- **Family health issues.** Dealing with unexpected health problems can impact every micro entrepreneurs at any time. The most direct impact felt by families with serious health issues is a financial one. The problem may make it impossible for one member of the family to work,

cutting their earned income by half.

- Approximately 80% of the existing micro enterprises are related to the agricultural and livestock sectors. The interviewed IGA production owners mentioned they could be affected by sudden shocks related to **animal health** (sheep disease and don't have access to medicine due to the Israeli restrictions), **weather uncertainty** (heat waves or cold waves) or reduction of investment. Additionally, they mentioned that they have dealt with **fodder shortage**.
- An **escalation in the hostilities** can directly affect the performance of the micro enterprises. The respondents' main concerns came from those who are running production business and live close to the borders.
- **Social expenses** unplanned. The respondents mentioned that the business can be affected by some seasonality expenses that the families need to cover. Asked for clarification, they mentioned the following examples: expenses related to the Eid and Ramadan celebrations and schools starting.
- As mentioned above, due to the **recent liquidity squeeze** that has led to a rapid collapse in the local economy, the respondents mentioned that some people decided to leave Gaza. For them, this can be classified as a sudden shock for those families who lost a family member.





### RECOMMENDATIONS

According to the main findings exposed in this report, there are several recommendations that need to be followed in order to improve the micro enterprises' performance in the Gaza Strip

- During the first year, the established micro enterprises should be supported through an emergency **budget support** to cope with unexpected situations. The suggested amount cannot exceed 40% of the original delivered grant.
- In addition, a **proper and tailored coaching** support need to be insured for, at least, 2 years after the establishment.
- Conduct **advocacy campaign and awareness sessions on the restrictions** enforced by Israel regarding the importation of some necessary items and raw materials for the established businesses.
- **Legal counselling** to better understand Israel's restrictions and coping mechanisms for all micro enterprises, but especially for those who have the potentiality to export.
- Organise exchange visits among the micro enterprises to **promote knowledge exchanges, comparative solutions, the establishment of micro enterprise's networks, and the promotion of internal cohesion.**
- **Support IGA owners to participate in the local markets** by providing transportation, contacts and marketing consuelling. In addition, the most advanced micro enterprises need support to improve their online presence, and conduct show-room actions in the selected marketplaces.
- Promote linkages of the micro enterprises with the sectoral legal bodies like federations, unions and second layer organizations.

## CONCLUSIONS

- The current economic crisis has increased the financial burden on the beneficiary who needs to pay suppliers and provide goods, adding to the risks borne by the low purchasing power and unstable market.
- 100% of the people interviewed in the three target areas have confirmed that their communities suffer from a **lack of cash flow** which is affecting the performance of their businesses at different levels.
- 84% of the interviewed micro entrepreneurs, when asked about their desire to develop and expand their small project, replied that this is a dream, but they are afraid to do so because of the rapidly changing situation in the Gaza Strip and the **fear that the money they invest may be lost**. In the current critical situation, the microenterprises survival rate is an indicator of the program's success.



### ACTION AGAINST HUNGER IN THE OCCUPIED PALESTINIAN TERRITORY (OPT)

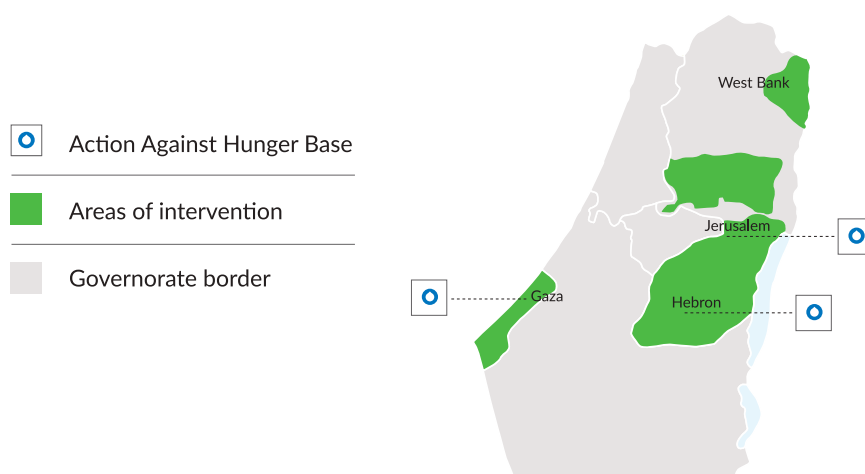
Action Against Hunger has been working in the occupied Palestinian territory (oPt) since 2002, aiming to reduce vulnerabilities and respond to humanitarian needs; in addition to protecting and strengthening the resilience of Palestinian communities.

The situation for the population in the **Gaza Strip** has increasingly deteriorated after the most recent war in August 2014 and ten years of blockade which has resulted in a lack of access to natural resources, basic services and income opportunities.

In the **West Bank**, severe restrictions and limited access of the Palestinian population to water, adequate housing, land and livelihoods severely hampers the socioeconomic growth of Palestinian communities. There are also alarming protection concerns that need to be addressed.

As part of our global approach on nutrition security, we intervene in a number of thematic sectors. We believe it is essential to integrate protection into all our interventions to ensure provision of basic services to vulnerable populations, aiming also to achieve gender equality. Among other sectors, we implement WASH (Water Sanitation and Hygiene) projects in cooperation with local partners and communities. We focus on improving water access and water quality, and responding to water scarcity in times of drought and conflict. In the FSL (Food Security and Livelihoods) sector, our projects aim to provide viable and sustainable sources of income and livelihoods opportunities.

Action Against Hunger is also actively advocating for the respect of International Humanitarian Law (IHL) and International Human Rights Law (IHRL).





## OUR FSL PROGRAMMING IN THE GAZA STRIP



### FOOD SECURITY AND LIVELIHOODS

Our FSL programming in Gaza aims at improving the socio-economic status of vulnerable Gazans through increasing access to sustainable livelihood opportunities.



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Support to the agricultural sector: rehabilitation of greenhouses and irrigation systems, distribution of agricultural inputs, provision of training and cash for work.



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Women economic empowerment: enhance access to income opportunities and greater involvement in decision making processes at community level through women cooperatives and the establishment of small businesses. Particular focus on female single-headed households.



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The photographs used in this report were part of the 2017 Action Against Hunger's awareness raising campaign entitled 'Ten Readings of a Blocked Decade', which offered a privileged insight into the lives and livelihoods of female breadwinners in Gaza. Their stories are accessible on <https://www.accioncontraelhambre.org/en/gaza-ten-readings-blocked-decade>



Funded by  
European Union  
Civil Protection and  
Humanitarian Aid

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