

# Impact of the Gaza War on Private Sector and Pathways for Recovery

Executive Summary

October 2024

## Introduction

The Gaza Strip's economy has been profoundly hallowed by enduring blockade measures and recurrent wars and escalations of hostilities since 2007. The stringent limitations on the movement of individuals and commodities, coupled with the almost complete shutdown of commercial gateways prohibiting the influx of vital raw materials, machinery, and crucial technologies, severed the region's connection to international markets and resulted in widespread devastation across all economic domains.

In addition to the unprecedented humanitarian crisis in the Gaza Strip, the ongoing war since 7 October 2023 has led to severe and compounding socio-economic impact on all Palestinians across the whole occupied Palestinian territory (oPt). According to the Economic and Social Commission for Western Asia (ESCWA) and the United Nations Development Programme (UNDP)<sup>1</sup> socio-economic impact assessment released in May 2024, the ongoing war has had devastating impacts on the Palestinian people, their economy, and human development. Projections – based on the scenario of the war continuing extending into its ninth month - indicated that the poverty rate would surge to 60.7 percent, and GDP loss could reach 29 percent in 2024, amounting to US \$7.6 billion compared to the pre-war projected GDP for 2023 and 2024. Additionally, human development in the West Bank and in Gaza would face major setbacks of over 16 and 20 years, respectively.

The war has severely disrupted the business environment in the Gaza Strip, affecting private sector capabilities, market access, and financial services, including liquidity. Additionally, the governance systems, essential for regulating and monitoring markets and transactions, have

been critically compromised. Damage to firm assets, business-enabling infrastructure, and governance systems, combined with a near-total blockade on the Gaza Strip, has led to a collapse in business operations and market connectivity, including access to materials and services, also resulting in significant financial constraints. Moreover, the diminished capacity of private sector representative organizations complicates efforts to address these challenges. Historical patterns from previous hostilities indicate that restricted access to materials and goods, if not systematically addressed, will further worsen the humanitarian crisis and impede effective recovery and reconstruction efforts in Gaza.

To deepen the understanding of the multifaceted challenges emerging from the Gaza war's impact on the Palestinian economy, UNDP's Programme of Assistance to the Palestinian People (PAPP) has undertaken a series of consultations with local stakeholders within the private and financial sectors. These efforts sought to gather nuanced insights into the economic impact of the Gaza War and propose actionable short-term, medium-term, and long-term solutions that could facilitate a swift and sustainable recovery for the Palestinian economy. Preliminary insights on the Gaza war's impact on the private sector were presented in a workshop with the international community and relevant stakeholders in Ramallah, on 9 July 2024. This report, prepared as part of UNDP/PAPP's Gaza Insights series based on rapid assessments conducted by the Palestinian Federation of Industries (PFI) and Federation of Palestinian Chambers of Commerce, Industry, and Agriculture (FPCCIA), aims to provide a deeper evidence-based understanding of how the ongoing war is impacting the private sector in Gaza

1 UNDP-ESCWA, Gaza war: expected socioeconomic impacts on the State of Palestine Update | May 2024

and presents a responsive framework by PFI and FPCCIA to address short-term and long-term needs, incorporating the perspectives of surveyed enterprises and consulted stakeholders.

The report presents new insights gathered from three surveys that were launched since May 2024: PFI's Rolling Industrial Enterprise Return-To-Work Survey, with responses from 896 enterprises; FPCCIA's Survey of Traders specializing in importing goods from the West Bank to the Gaza Strip (15 traders) and Survey of Fuel and Gas Stations (66 stations). Additionally, two case studies were conducted through interviews with private sector entities in the industry and trade sectors to further shed light on the impact of the war at the individual level as well as the enterprises' perspectives and prospects for recovery. Support from the Emergency MSME Helpdesk established by UNDP/PAPP in Gaza as part of the National MSME Helpdesk 'Monshati', in which PFI and FPCCIA are the leading partners, facilitated communication with members and stakeholders and allowed for the timely completion of the survey and consultation work.

## Key Insights

### Industrial Sector

Findings from the survey conducted by PFI reveal that around **%84 of surveyed industrial enterprises sustained total (%54) or severe damage (%30)**. Initial estimates show that enterprises have suffered approximately **US \$786,459,644 in direct damage**. Around **%85** of enterprises have **halted their production**. While this rate is consistent across most subsectors, the food and paper industries show a higher operational rate, with **%30** operating at the time of the survey. Most of the enterprises that are currently operating are: construction, textile, food, and wood, followed by the metal and paper industries, with the sector's production capacity extremely low. Close to **%63 of active enterprises operate at capacities below %30**, while some enterprises in the food, clothing, and construction sectors operate at **%50** or above. The **%90 decline in employment** reported by the active industrial establishments, from 21,529 to 2,182 workers, poses a significant threat to workforce stability and economic recovery. However, **%51.4** of industrial enterprises reported their ability to operate once a ceasefire is achieved, with **%57.5** still having reliable equipment or machines and **%30** being able to resume operations at their original sites.

### Trade and Market Dynamics

The importation of essential goods into the Gaza Strip is heavily restricted. After the Rafah crossing closed in May, **only about 100 private-sector traders were allowed to import specific food items from the West Bank through the Karm Abu Salem crossing**. However, only a handful of traders are responsible for about **%80** of the goods entering the Gaza Strip. At the time of preparing this report, interviewed traders reported that importing essential fast-moving consumer goods (such as cleaning and health protection products), as well as resources needed for economic activities, is completely prohibited.

While Israel solely manages the coordination for the entry of goods to the Gaza Strip through a WhatsApp mechanism, traders report challenges in coordinating the entry of goods. Around **%80 of traders experienced damage to their goods**, and **%53 experienced long holds** by Israel in the past two months. "Unofficial" coordination costs range from NIS 10,000 to NIS 15,000 per truckload and reaching a staggering NIS 60,000 in some cases. These challenges have fostered an environment conducive to extortion and coercion, as reported by **%53** of traders. Moreover, **challenges in coordinating the timely entry of goods compel traders to source products from Israel rather than the West Bank**, to help reduce coordination complexities. **Transportation costs from the West Bank to the Gaza Strip have increased significantly, from NIS 1,800 to NIS 19,200**. Traders in the Gaza Strip now pay **NIS 8,000 per truckload for additional protection measures**, due to the absence of security personnel and the breakdown of law and order, bringing the total expenses to about NIS 27,000 per truckload.

Damage to essential electricity infrastructure, coupled with stringent limitations imposed by Israel on the importation of fuel and gas, resulted in an energy crisis. According to the FPCCIA survey, around **%80 of surveyed fuel and gas stations reported severe damage**, leading to a significant decrease in fuel storage capacity. The damage to nearly **%90** of the stations' fleets makes it challenging to reach affected communities and meet the needs of the private sector. Initial estimates show that surveyed stations have suffered approximately **US \$42 million in direct damages**. The war caused severe damage to logistical functions, including warehousing and distribution, affecting the availability of products in the market and price fluctuations. The severe damage to facilities and fleets is exacerbated by insufficient energy supply and elevated protection expenses. Warehouse costs, which encompass rental fees and security expenses, now range between NIS 5,000 and NIS 10,000 per month.

The war has also led to a **severe shortage of cash and a rise in informal "cash selling"**, with some individuals charging a fee of **%10** to **%20** for providing cash. In response, banks have increased the use of e-payment solutions, particularly after the Palestine Monetary Authority (PMA) introduced in May 2024 new measures facilitating e-payments, including cost-free instant payments, offline U.S. dollar transaction capabilities, and electronic Know Your Customer (e-KYC) procedures. Despite these measures, the private sector reports that these solutions are not enough to meet the needs of the market. Additionally, online payment methods are severely lacking in Gaza and North Gaza governorates, and street vendors only deal with decayed old cash in circulation.

With regards to managing the entry of goods into the Gaza Strip, consultations carried out by FCPPIA with private sector stakeholders reveal that there is no coordination between Israeli authorities and Palestinian entities. This leads to the unavailability of priority food and non-food items, price distortions, and lack of enforcement mechanisms for quality control over commodities being introduced into the Gaza Strip. The **dysfunctional market** has exacerbated power imbalances, allowing for practices such as market dominance and stockpiling, which have led

to **fluctuations and sharp increases in prices**. In addition, the destruction of central markets further hinders any efforts to introduce measures to help regulate the market. In June and July, price monitoring by FPCCIA showed **price hikes ranging from %20 to a staggering %500 in some essential food products**. The war has also significantly impacted private sector organizations like FPCCIA and PFI, reducing their capacity to meet businesses' changing needs, as well as affecting their role in coordinating proper functioning of the market.

## Recommendations

The critical situation in Gaza demands urgent action. The foremost priority is for an **immediate ceasefire** to save lives, address the dire humanitarian crisis, mitigate the war's economic and environmental impact, and start at-scale recovery efforts. Urgent interventions are needed to support the recovery and revitalization of businesses, particularly micro, small and medium-sized enterprises (MSMEs).

The FPCCIA and PFI have independently developed recovery and development frameworks following consultations with stakeholders, including their member unions and sector stakeholders. Plans at the sub-sectoral levels are also available for further reference. The collaborative framework below reflects key recommended interventions to support MSME recovery and revitalization.

### Immediate Response and Early Recovery Interventions

1. Facilitating the resumption of economic operations in vital industrial, service, and agriculture sectors that are also labour-intensive. Priority industrial sectors include food industries, textile and clothing, wood, construction, and aluminium, as well as plastic and chemical industries, amongst others. Urgent support is also needed for farmers, fishermen, and animal breeders to restore their livelihoods and enhance their resilience, while contributing to address the food security crisis. Support to the rapid resumption of economic activities entails the rehabilitation of partially damaged enterprises, farms, and finishing boats, establishing temporary economic hubs, and providing support in production resources, including fuel and alternative energy sources, raw materials, machinery, agricultural inputs, and others.
2. Alleviating the impacts of market malfunctioning, and improving access to essential goods through establishing safe zones for trading, rehabilitating central markets, supporting the private sector in the West Bank in increasing production and derisking their trade with Gaza, supporting and rehabilitating the commercial transport sector, and rehabilitating fuel stations and fuel transport trucks.
3. Stabilizing and restoring the enabling environment for economic recovery. Notable interventions include supporting MSMEs access to cash liquidity and operational working capital through grants, relief funds, and other cash liquidity support programmes, reviving private sector organizations through

supporting (PFI and FPCCIA) in restoring their capacities and expanding the support provided through the Emergency MSMEs Helpdesks under Monshati for comprehensive, coherent, and coordinated support and recovery packages.

4. Supporting decent employment opportunities to restore the productive capacities of the private sector to address the dire and emerging domestic needs. Needed interventions include wage subsidies and cash-for-work programmes, restoring technical and vocational training institutes, capacity building for workers and technicians in the private sector, especially in the construction and boat manufacturing and maintenance sectors, and skilled labor employment programmes in enterprises capable of resuming their operations.

### Strategic Longer-Term Interventions

Longer-term interventions aim to contribute to economic recovery, private sector growth, and employment generation in the Gaza Strip, while emphasizing industry resilience, market organization, and skill development. Interventions focus on revitalizing vital sectors by rehabilitating industrial zones and establishing trading zones, stabilizing markets by reconstructing infrastructure and refining financial solutions for MSMEs, fostering an enabling business environment by addressing financial constraints and enhancing private sector capacity, and promoting decent employment opportunities through skills assessment, curriculum alignment, inclusive skilling access, digital learning platforms, entrepreneurship support, and job placement services amongst others.

### Advocacy

Key advocacy actions are also needed to improve MSMEs' access to crucial and commercial goods within Gaza. These include broadening the importer and distributor base, expanding the range of essential commodities to encompass items like medicines, spare parts, and solar panels, importing agricultural and animal production resources, as well as ensuring widespread geographic coverage for goods movement, supporting access to crossing points like Karm Abu Salem and Karni, assisting in transferring containers/goods stored in the West Bank, and safeguarding against settler attacks during transportation. Additionally crucial are efforts toward establishing safe trading zones and streamlining import procedures for raw materials and essential production resources.