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Responsibility Initiative*



Business Partnerships for Development: The Case of the National Beverage Company in the West Bank and Gaza

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The Palestinian private sector must be the engine of sustainable economic growth. It needs to generate productive employment, produce high value added goods and services, and to enhance national prosperity. We are committed to creating an enabling environment for private sector growth. However, whilst the private sector has shown resilience in the face of harsh political and economic conditions, its full potential can only be realized by the lifting of restrictions on the movement of Palestinian goods and people, and, more generally, meaningful progress towards peace.

Palestinian Reform and Development Plan 2008-2010,
Palestinian Authority

All countries in the [Middle East and North Africa] region face a pressing employment challenge: about 40 million jobs will need to be created in the coming decade. A young and increasingly well educated labor force is looking for opportunities to use their skills and creativity. Governments will not be able to create these jobs in the public sector – nor will state-owned enterprises in a sustainable manner. The jobs will have to come from the private sector. The future prosperity and social cohesion of the MENA region rests in great part on the ability of governments to enable the private sector to respond to this job creation challenge, enabling new generations of entrepreneurs to play a bigger role in the growth of their countries.

“From Privilege to Competition: Unlocking Private-Led Growth in the Middle East and North Africa.” World Bank. MENA Development Report. Washington, DC. 2009.

EXECUTIVE SUMMARY

The benefits of expanding and strengthening an economy's private sector are well established. A healthy private sector fosters increased investment, improved productivity, job creation and growth. Creating and sustaining a productive private sector in fragile or conflict-affected areas involves particular challenges and requires concerted leadership and commitment on the part of business leaders, governments and donors. The payoff for addressing these challenges, however, can be significant in terms of expanding economic opportunity, tackling poverty and improving human security, especially where formal private sector enterprises may be few in number and small in size.

This report profiles the experience of the National Beverage Company (NBC), the local Coca-Cola bottler in the West Bank and Gaza, where the private sector underperforms relative to many of its regional neighbors, and is consequently underutilized as a driver of economic growth, job creation and social development. The challenges to private sector development in the West Bank and Gaza stem from a variety of well-known sources and include political instability, restriction on movement of goods and people, lack of access to capital, and shortages of water and other natural resources, with the situation obviously particularly difficult in Gaza.

The majority of private enterprises operate as small, family owned businesses, many of which are part of the informal economy. Large firms (more than 100 employees) are rare – and a 2009 survey noted that only 1 percent of businesses in the West Bank employ more than 20 employees, with an average firm size of 4 workers.¹

In comparison, NBC employs close to 350 people and provides a job multiplier effect of an estimated 10 indirect jobs for each direct job created. The company's ecosystem extends through more than 220 local suppliers and 80 distributors, which in turn service some 14,000 local retail outlets, of which 4,500 are 'direct distribution' outlets – small shops requiring person-to-person transactions. This larger footprint can offer considerable potential for impact on economic and social development, and provides the opportunity to examine the contributions of large firms in conflict-affected regions.

In addition to its local suppliers, distributors and retailers, the National Beverage Company is one of the few franchisees of a foreign multinational to have physical plant operations on the ground in the West Bank. Others have local sales and marketing forces, but NBC is one of a small number to support production plants in the region. The company's three West Bank factories locally produce some 22 varieties of sparkling soft drinks, juices and water, and are supported by seven local sales and distribution centers.

Beyond its production plants and distribution network, NBC's utilization and transmission of global best practices and technology to local markets, including international business processes and equipment; product safety and environmental, social and governance standards; and philanthropic activities and community investments, make the company a major local player in supporting development objectives. In terms of standards, for example, the company is one of the few in the West Bank and Gaza to have received international certification in ISO 9001, 14001, 22000 and OHSAS 18001, covering quality, environmental management, food safety, and occupational health and safety respectively.

The statistics provided in this report are drawn from a combination of site visits, local interviews, company materials, and research by local trade associations, government, donors and NGOs. The report is not an empirical Input-Output analysis of economic impact on inter-industry relations in the economy, but rather aims to profile NBC's contributions to the local economy in the following areas:²

- 1 Generating local investment and income
- 2 Creating jobs and investing in human capital
- 3 Producing safe and affordable products
- 4 Supporting local small enterprise development
- 5 Implementing international business standards and technology
- 6 Sustaining operations in a conflict-affected area.

The private sector cannot, and should not, be expected to achieve sustainable development on its own in any market. Public, private and nonprofit or non-governmental (NGO) actors each have unique but complementary roles to perform in supporting development initiatives. But ultimately, the private sector will serve as a critical source for stable employment opportunities and in building productive economies over the long term. This is particularly important in the West Bank and Gaza, where un- and under-employment are already high, where existing employment levels rely heavily on the public sector and international aid, and where some 60 percent of the population is under the age of 24.

There is considerable potential for establishing more strategic development partnerships between companies such as NBC, other local corporations, government, donors and NGOs. The West Bank and Gaza is one of the largest recipients of foreign aid per capita in the world, and international donors are often seeking effective local implementing partners. Partnering with large firms like NBC through a combination of core business operations and philanthropic programs to tackle key development challenges has the potential to increase the impact of public sector and donor aid dollars and broaden the number of recipients and communities that benefit. The following areas offer particularly high potential for greater collaboration going forward:

- **Investing in small enterprise development and entrepreneurship** – Improving the capacity of local suppliers and strengthening the distribution and retail sector through a combination of training, mentoring, convening meetings, sharing good practices, supporting efforts to improve access to credit and targeting support for both women and youth entrepreneurs.
- **Creating incentives and funds to support local innovation** – Supporting local universities, companies and social entrepreneurs that are developing innovative new products, processes and technologies and developing market-based solutions to achieve development goals.
- **Supporting vocational education and workforce development** – Building local human capital and capacity through a variety of training, youth development programs and education initiatives.
- **Improving water efficiency and management** – Improving water quality and the efficiency and reach of local water management efforts as one of the region's most critical and high-risk resources.
- **Spreading international norms and standards** – Sharing product safety and other environmental, labor and human rights standards and ethical business practices.

A final note: The situation on the ground in the West Bank and Gaza is complex and constantly changing. This report should not be interpreted as advocating for economic development in isolation to or in place of the broader efforts to pursue peace in the region. That discussion far exceeds the scope of this report. The purpose of the report is to contribute generally to the important conversation about the interdependence between private enterprise and broader economic and social development, particularly in conflict affected or fragile regions. It aims to examine and try to learn from challenges and opportunities in the West Bank and Gaza, both generally and through the lens of NBC as one of the largest companies operating there. At the time of writing NBC's operations in Gaza had been suspended although the company was still covering its employees salaries and benefits there and supporting humanitarian relief efforts.

Above all, the report aims to highlight both the existing leadership role of business and the potential for future partnership between business and other actors. In doing so, we aim to contribute to the ongoing debate on the increasingly important role of the private sector in supporting international development.

INTRODUCTION

The private sector is a key player in economic and social development. Private enterprise is critical to building local capacity, developing human capital, and decreasing un- or under-employment. Facilitating development and strengthening a local economy can mean more than financial and social progress; in some cases, it may influence physical security conditions as well. In markets impacted by conflict or operating amidst fragile institutions, private sector influence may be even greater.

But why should business care about development? Key aims of the global development agenda include building human capital and strengthening financial, legal and governmental institutions – each of which creates benefits that accrue directly to business. A 2008 *McKinsey Quarterly* article underscores the importance of human capital development to the private sector: “Companies must address the needs of talent at all levels of the organization. Unsung segments – frontline staff, technical specialists, even the indirect workforce, such as people who work for suppliers, contractors, and joint-venture partners – are often as critical to overall success as A players.”³ Working strategically to improve and expand the sophistication and skill level of consumers, workers and business partners can increase profitability and improve a company’s operating environment. More broadly, the World Economic Forum’s *Global Competitiveness Index* shows a direct and significant relationship between productivity and prosperity on the one hand, and better developed markets, a more skilled workforce and improved operating environments, on the other.

Consequently, a growing number of firms are making strategic decisions to deploy core business activities, alongside strategic philanthropy and social investment initiatives, to simultaneously generate profits and support development. By generating local investment and income, creating jobs, investing in human capital, supporting local enterprise development, facilitating technology transfer, implementing global business standards, and sometimes by simply sustaining operations in conflict affected areas, firms can shape their operating environments while benefitting local communities.

The West Bank and Gaza offers an interesting – and instructive – setting in which to study one example on the enterprise level. Despite a business climate shaped in part by political instability, fragile institutions, security concerns, and challenging access to water, capital and other essential resources, a number of private companies are achieving financial success while facilitating local development outcomes. And as in other Middle Eastern countries trying to broadly shift the burden of job creation and economic growth from the public sector to the public and private sectors, these contributions to expand and strengthen the private sector are particularly important.

Development experts have repeatedly observed the interconnected nature of economic and social development, and the potential for their impact on the state of physical security. The United Nations, the World Bank, the Quartet on the Middle East, the U.K.’s Department for International Development, the U.S. Agency for International Development (USAID) and a variety of other international donors have identified strengthening the economy of the West Bank and Gaza as a crucial means to help achieve regional development and security goals. Supporting the creation and growth of enterprises that bolster employment, build local capacity and develop human capital can be one of the most direct ways to develop the private sector and strengthen a local economy.

That said, we wish to make clear that this report does not argue that economic development in the West Bank is a panacea or should be pursued in place, or at the expense of, other roads to peace in the region. It should go without saying that such an analysis vastly exceeds the scope of this paper. Private sector contributions to development are but one piece of a highly complex and constantly evolving environment.

This report examines the conditions facing the private sector in the West Bank (see Box 1 for information on Gaza), and uses a case profile to illustrate how private enterprises are thriving financially in part by facilitating development. Researchers traveled to the West Bank in May to June 2009 to investigate how the National Beverage Company (NBC) supports local development through core business activities, strategic philanthropy and social investment initiatives. Our assessment is based on a study visit to the West Bank, analysis of publicly available local data, NBC and Coca-Cola Company data, and interviews with company executives, employees, and selected business and community partners, as well as international development agencies based in the region.

It is not a macroeconomic multiplier report. Rather, by exploring the West Bank's business climate and one firm's quest to realize profits and support its local community, we hope to contribute to broader discussions about private sector impact on local communities, particularly when operating under unusual or challenging conditions.

I The Context

A business's operating environment impacts its performance. Political instability, fragile institutions, restriction on the movement of goods and people and difficulty accessing capital, water and other resources are among the myriad conditions that shape the West Bank and Gaza operating environment. Due to the lack of a stable tax base, public employment is funded largely by donations from outside the region, creating an inherently unsustainable arrangement. These challenges affect the sourcing, production and delivery of goods and services. Each will be explored in greater detail in the next section, but the pervasive nature of such conditions provides the context for the innovative business strategies, as well as challenging day-to-day operating environment, that coexist in the West Bank.

It is under these circumstances that a number of West Bank firms demonstrate that financial success is not only possible, but that the very core business activities and strategies responsible for success themselves contribute to development. By carrying out these activities in a profitable, productive, ethical and responsible manner companies are leveraging their resources and influence to develop local human capital and improve the local business climate. To better understand both the financial successes and development contributions, it is important to examine their context.

The World Bank notes that the West Bank "retains the hallmarks of a less developed economy," with agriculture declining in recent years, industry rising from less than 10 percent contribution to GDP traditionally to only 12-13 percent today, and services accounting for nearly 80 percent of GDP (this encompasses public sector employment, shaped largely by foreign donations).⁴ It remains natural

resource poor. In fact, in many respects, the contours of the West Bank and Gaza economy have remained largely unchanged in the past half century. The UK's Foreign Commonwealth Office noted in a 2007 study, "Forty years later, the economic fundamentals [of the West Bank and Gaza economy] are unchanged."⁵ For a breakdown of the types of businesses in the West Bank and Gaza by industry, and their contributions to GDP, see Table 1 and Chart 1.⁶

The private sector remains predominantly comprised of small, medium and micro enterprises (SMEs). Firms that employ more than 50 people are rare, and more than 95 percent of the nearly 110,000 local enterprises have 10 or less employees – many of these enterprises are informally organized or family-run retail, wholesale or trade businesses.⁷ The World Bank reports the average industrial enterprise size is four workers, "no larger than it was in 1927."⁸ In comparison, NBC employs nearly 350 people, giving it a footprint that considerably magnifies its community impact.

Bolstered by innovations and new efficiencies in technology and production, a number of the world's economies have witnessed noticeable growth in the past 20 years. The West Bank and Gaza, however, continues to underperform in comparison with some of its neighbors. By comparison: Israel's GDP grew from approximately \$56.9 billion in 1990 to \$199 billion in 2008. Jordan's GDP rose from \$4 billion in 1990 to about \$21 billion in 2008. GDP in the West Bank and Gaza, meanwhile, only rose from \$1.94 billion in 1990 to \$6.641 billion in 2008.⁹

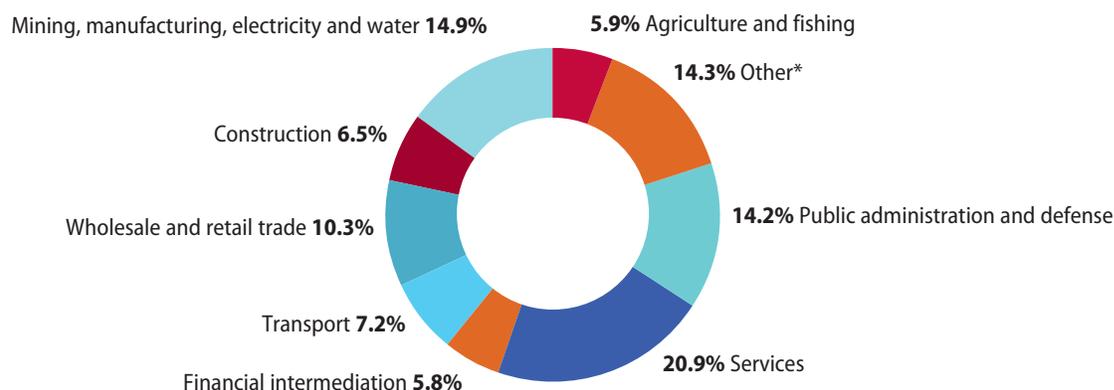
Table 1 Number of establishments in operation in the private sector, non governmental organization sector and government companies by selected economic activity , 2005–2009

Economic Activity	2005	2006	2007	2008	2009
Industry	13,344	12,909	15,340	15,229	15,274
Financial Intermediation	468	727	844	844	846
Construction	644	570	627	590	521
Transport, storage & communications	869	823	1,215	1,175	1,116
Services activities (profit and non-profit)	20,099	19,967	24,655	24,603	24,420
Wholesale, retail trade & repairs	55,024	54,862	59,253	59,299	59,171

Source: Palestinian Central Bureau of Statistics

Chart 1 Percentage contribution to GDP by economic activity for the year 2008 at constant prices

(2004 is the Base Year)



* Other includes: Public owned enterprises plus Households with employed persons minus FISIM (Financial Intermediation Services Indirectly Measured) plus VAT on imports, net plus Customs duties.

Source: Palestinian Central Bureau of Statistics

Unemployment currently stands at about 40 percent in Gaza and 19 percent in the West Bank, up from 37 percent and 18 percent in 2007, respectively.¹⁰ This does not include the underemployed or those employed informally.¹¹ Employment has largely been shaped by access, or the lack thereof, to other markets – particularly for people under 30 years of age. The chapter on Palestinian youth in *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East* notes: “Three main components of demand for Palestinian workers affect the economic outcomes of youth today: migration to the Gulf, work in Israel and work in the public sector.”¹²

During the 1990s, nearly a third of all Palestinian workers were employed in Israel (reaching 130,000 in 2000).¹³ While this bolstered private employment, it also resulted in increased prices in the West Bank and Gaza market, and left the local economy vulnerable to shifts in access to employment in Israel. The economic conditions in the West Bank remain heavily influenced by conditions in Israel. Navtej Dhillon, former Director of the Brookings Institution’s Middle East Youth Initiative, reflected on the impact of this interconnectedness in a 2009 interview, “The Palestinian economy has gone through two major changes: first, a partial integration with the Israeli economy post 1967, leading to increased job opportunities for Palestinians to work in Israel, but a fundamentally fragile structure generating very limited investment and weak private sector job creation. Second, and more recently, a significant disengagement from Israel which has severed the main lifelines of the Gazan economy and subsequently any opportunities for the Gazan population to seek employment outside of Gaza.”¹⁴

Public sector employment in the region is not out of line with Western public sector employment rates, nor is a high rate of public sector employment negative *per se*, but such employment is complicated in the West Bank and Gaza by the reliance on the donors that largely fund salaries and

benefits. Because this stream of income can be unstable, the Palestinian Authority (PA) has declared its desire to strengthen the private sector in coming years to mitigate dependency on foreign donations. The Palestinian Reform Development Plan, developed by the PA in conjunction with the World Bank, envisions “a dynamic private sector as the engine of economic growth in the West Bank and Gaza. Private sector growth is necessary to provide jobs for the rapidly expanding population and tax revenues to support the government’s programs.”¹⁵ Political, institutional, and other social reforms are also necessary, but improvements in those areas alone will be insufficient if the economy is left behind, and vice versa.

The United Nations Conference on Trade and Development (UNCTAD) underscored this in a 2006 report, “There is no question that in the immediate future, humanitarian relief and budget support must continue to account for a major part of aid delivery. But vital as they may be, such instruments have to be recognized as inadequate for making a lasting dent in Palestinian poverty and economic vulnerability.”¹⁶

This is not solely an issue for the West Bank and Gaza. Countries across the Middle East have recognized the need to share the responsibility for job development across the public and private sectors. In their foreword to *Generation in Waiting: The Unfulfilled Promise of Young People in the Middle East*, H.E. Dr. Anwar Mohammed Gargash and former World Bank President James Wolfensohn underscore this point, “It is critical that [Middle Eastern] countries double their efforts to create a skilled and entrepreneurial workforce and to expand the role of the private sector while reducing the appeal of public employment.”¹⁷

Accordingly, the economic outlook for the West Bank and Gaza remains complicated, with reason for both optimism and concern. The World Bank reported growth in the West Bank in 2009, but warned that similar growth in Gaza remains a challenge. “The West Bank economy is showing signs of new growth, so that it is possible that for the first time in years, the West Bank and Gaza may have positive per capita GDP growth in 2009. However, given the current conditions in Gaza, most of the growth will probably be restricted to the West Bank.”¹⁸ The report also underscored that much of the current GDP and its recent growth is sustained by a combination of borrowing, remittances and foreign assistance – an inherently unsustainable long-term solution.

Other positive indicators include low rates of petty corruption, a relatively efficient bureaucracy and reasonably developed financial markets.¹⁹ The young population is highly literate and well educated, making it demographically well suited to facilitate economic growth. Though population growth rate is high – 4 percent annually, it is accompanied by some of the strongest education indicators in the Middle East and North Africa.²⁰ The adult literacy rate is 92.4 percent, and is higher than 99 percent for those aged 19-24, among the highest in the Arab States for both men and women. More than 40 percent of young adults between the ages of 18-24 are enrolled in tertiary education. Questions remain about the quality of education and its success in imparting skills to match market demands, but on the whole, the growing population of educated young people offers one positive condition for economic growth.

But these demographic conditions will also require solid job opportunities and an effective matching of skills to occupational responsibilities, which is unlikely to occur without significant and sustained private sector expansion and participation. One estimate made by analysts at the UK Foreign Commonwealth Office predicts the West Bank and Gaza economy would need to generate over 500,000 new jobs by 2015 to maintain unemployment at the pre-2000 level.²¹ Because of reliance on remittances and foreign aid, long term prospects for sustainably creating these jobs in the public sector are dim. They can only be provided through private sector development.

Box 1 Gaza

The West Bank and Gaza are two noncontiguous regions bordering Jordan, Israel and Egypt. Due to political circumstances, there are considerable economic differences between the two. Gaza exists under even stricter conditions regulating movement and access than the West Bank.

John Ging, the head of the U.N. Relief and Works Agency in the Gaza Strip says, “There is only one economy – there’s a tunnel economy. You have zero exports and zero commercial imports through the [Israeli-controlled] crossing points. All that is allowed in is humanitarian aid and supplies ... In

terms of economic activity, there is no economic activity other than the tunnel economy.”²²

Other international organizations underscore the divergent realities. The World Bank’s country note for the West Bank and Gaza says, “Recent estimates by local business associations believe only about 2 percent of industrial establishments are still functioning.”²³

But it is difficult (and many would argue unwise) to decouple the economies of the two because they are constantly cited together as the foundation for an independent Palestinian state economy. The World

Bank wrote in *The Preconditions for Palestinian Economic Recovery*, “All serious options for a private-sector led and export-oriented Palestinian economy must include Gaza.”²⁴ But it remains that current conditions have “devastated the Gaza private sector and driven almost all industrial producers out of business.”²⁵

Report authors did not travel to Gaza for security concerns and because of the inability to move in and out of the region freely. Consequently, this report includes Gaza in the context setting and when referenced in interviews, but was not included in site visits.

II Challenges to the Private Sector and Economic Development

Private firms’ growth and success in the West Bank and Gaza occurs amidst a variety of complex and thorny conditions. Some businesses are thriving, but as one UN official stated in an interview, the markets and the private sector are “distorted.” Political instability, and a lack of access to capital, water and other resources have led to high transaction costs, lack of raw materials, restricted movement of labor and goods, and an inability to easily export products, all of which impede the creation and expansion of private enterprise.

These conditions translate to a more challenging operating environment for businesses in the West Bank and Gaza compared to some of its neighbors. The World Bank’s 2010 *Ease of Doing Business* Report ranks the West Bank and Gaza number 139 of 183 economies – Israel is 29 and Jordan is 100. The West Bank and Gaza is number 176 in ease of starting a business, and 167 for accessing credit to start or support a business. Israel is ranked number 34 for ease in starting a business and 4 for access to credit, while Jordan ranks 125 and 127 in the same categories.²⁶

The specific challenges for private sector development have been extensively documented elsewhere and are summarized in the following pages.

1. Political instability

The ongoing political instability that has plagued the region plainly affects its economic and social development. Analyzing the history and contours of the complex and ever changing political situation of the region is far beyond the scope of this paper. It should be sufficient to recognize that long term discord and strife have created complicated and lasting political instability, which have in turn resulted in a weak legal framework, fragile governing institutions, low domestic savings and low foreign investment, among other outcomes.²⁷

Political instability stems from a variety of sources from the ongoing Israeli-Palestinian conflict and discord between Hamas and Fateh. As the U.S. State Department noted in its 2008 *West Bank and Gaza Investment Climate* note, “Internal Palestinian political issues and the Israeli-Palestinian conflict continue to impact negatively the development of the Palestinian economy. Economic and political instability resulting from the continued Israeli-Palestinian conflict, inter-factional fighting within Palestinian areas, and ongoing Israeli military operations have had a significant impact on the operations of the private sector.”²⁸

The number of the checkpoints created by Israel in an attempt to decrease violence towards Israelis has increased on balance over the years, creating a fragmented infrastructure for the transport of people and products and the delivery of services. As of March 2009, there were nearly 580 checkpoints in the West Bank.²⁹

The World Bank writes of these restrictions:

“The fact that the West Bank economy is dramatically failing to fulfill its potential, even in periods of relative stability in the security situation, only underlines the extent to which economic restrictions are still preventing any real upturn in economic activity...Very few economies have faced such a comprehensive array of obstacles to investment – not just of physical impediments to movement, but also comprehensive institutional and administrative barriers to economies of scale and natural resources, along with an unclear political horizon and the inability to predictably plan movement of people and goods.”³⁰

This inability to freely transport goods and people results in dramatically raised costs, which not only raises prices for Palestinian consumers, but also effectively excludes most Palestinian producers from much of the world economy and limits economies of scale.³⁰ Limited production volume can translate to higher fixed costs, and some producers are unable to count on guaranteed, on time delivery of goods. This translates to significant loss of revenue for the economy, and limits firm expansion and success. The UN Conference on Trade and Development reported 2006 imports as percentage of GDP increased to 86 percent from 75 percent in 2005, translating to a \$500 million loss for the economy.”³¹

This system impacts the incidence of food and product spoilage, as well as logistics' costs, as it requires many firms to use two sets of delivery trucks in order to facilitate the back-to-back manual transfer of goods across the West Bank border. Much of the heavy machinery that could be used to facilitate transfer is prohibited at checkpoints, requiring that the transfer of products be done by hand. The National Beverage Company's logistics' costs, for example, are three times that of other bottlers in the Middle East because of the challenges created by the checkpoints.³² In July 2009, the International Monetary Fund (IMF) observed an improvement of macroeconomic conditions in the West Bank for the first half of 2009, but stressed that "If the relaxation of Israeli restrictions does not continue in the remainder of the year, real GDP per capita would decline further in 2009, along the same trend started in 2006."³³ The World Bank and the UN Trade and Development Conference assess that these conditions cost the Palestinian economy \$8.4 billion from 2000-2006.³⁴

The 2009 *Arab Human Development Report* notes that in the West Bank and Gaza, "Production costs rise sharply [due to] closures forcing goods to move via long detours, or when they block commerce altogether...between 2000 and 2005, transportation costs from Ramallah to Bethlehem soared by 348 per cent; from Ramallah to Nablus by 105 per cent; and from Ramallah to Jenin by 167 per cent", and "From 2001 to 2005, the total employment-related loss is estimated at \$2.4 billion and the total closure related loss is estimated at \$928 million which comes to a total estimated loss of \$3.3 billion for that period, or the equivalent of 58 percent of the total foreign aid provided to the Palestinian Authority."³⁵

As one of the businessmen interviewed for this report stated, "We don't want to rely on donations and handouts from others. All we need is the free movement of our goods and people. We don't want to have to take taxpayers' money from the United States – with free movement our own private sector and economy could carry our society...Peace will not come without real economic opportunity."³⁶

2. Lack of access to capital

Despite recent actions from the Palestinian Authority and some donor governments to increase capital flows, accessing capital remains a considerable challenge for private enterprises of all sizes. As already noted, the *Doing Business Index* ranks the West Bank and Gaza as one of the most difficult places to obtain capital for private investment (167 of 181 countries surveyed).³⁷ The World Bank's 2008 *Financial Sector Review of the West Bank and Gaza* reported, "37 percent of surveyed firms stated that access to finance is a 'major or severe problem,' which is more than in many other countries...Consistent with the general complaint, the percentage of firms having access to credit to finance their investments and their working capital is the lowest of the Middle East and North Africa region."³⁸ In a 2006 survey the number one condition cited by Palestinian graduates as a barrier to finding employment or creating their own enterprises was lack of access to capital (63 per cent).³⁹

Many investors in the region are expatriate Palestinians who have witnessed the challenges and constraints on movement, lack of resources and shifting political and economic stability firsthand. They are often willing to carry the financial risks associated with business investment in the region as much for personal commitment to the region's development as for the potential for financial gain. But these investors are quite rare. As shown in this report, however, there are a number of such

individuals whose leadership is steering some enterprises to financial success and who are contributing to economic and social development.

The UK's Foreign Commonwealth Office identified political instability as one of the conditions begetting a lack of confidence in the market and decreased interest in local investment, "Almost all investment in the West Bank and Gaza is either domestic or comes from the Palestinian diaspora. Political and security stability is a clear precondition for attracting foreign investment."⁴⁰ Until investors see evidence of improved political stability, physical security and opportunity for solid returns more broadly, lack of accessible capital will remain a challenge.

The *Palestinian Investment Conference* held in Bethlehem in May 2008 resulted in more than \$1 billion pledged to projects in the region, a significant tranche of which is directed to large capital projects. A second *Palestinian Investment Conference* is scheduled for summer 2010.

To combat reluctance to invest in an unstable region, some aid agencies and private investors have created products to decrease financial risk and uncertainty. For example, the Overseas Private Investment Corporation (OPIC), in partnership with the nonprofit Middle East Investment Initiative (MEII), has established three initiatives to leverage public and private funding: a political risk insurance project to provide affordable insurance for Palestinian businesses covering losses from trade disruption and political violence; a loan guarantee program working to generate nearly \$230 million in lending to small and medium businesses; and a lending facility for increasing access to affordable home mortgages.⁴¹ In January 2010, Abraaj Capital, in conjunction with the Palestine Investment Fund (PIF), launched a \$50 million private equity fund to invest in small and medium sized enterprises in the West Bank. Abraaj and PIF will complement the capital provision with a mentoring component to help develop entrepreneurs. The World Bank has also created a \$20 million fund to be administered by its Multilateral Investment Guarantee Agency (MIGA) to provide both foreign and local investors with insurance against political risks including: risks such as war and civil disturbance, expropriation, or restrictions on repatriating profits.⁴²

Precise data on foreign direct investment and local investment remain elusive. Two of the largest investors in the West Bank and Gaza are the Palestine Development and Investment Company (PADICO), which as of mid-2009 had invested over USD \$500 million in the region, and the Arab Palestinian Investment Company (APIC), which has invested USD \$100 million.⁴³ But small enterprises, which comprise the majority of the private sector, continue to experience difficulty raising capital. The World Bank's report on the 2008 *Financial Sector Review of the West Bank and Gaza* investment climate notes, "Small Palestinian firms, which constitute the bulk of the firm population, appear to be among the most deprived of credit in the world."⁴⁴

3. Lack of access to water and other resources

Access to water and other natural resources is an important factor in running successful, sustainable businesses in many industry sectors. In the West Bank and Gaza, accessing some of these resources can be particularly complicated, and has a negative impact on both private enterprise and other development goals. Population growth only increasing these pressures. The 2009 *Arab Human*

Development Report reports the West Bank and Gaza is facing “serious water stress,” and states that the region has entered a stage of water scarcity that is among the worst in the world.⁴⁵ Palestinians use an average of slightly less than 100 litres of water per capita per day for all uses, lower than the minimum recommended by the World Health Organization – which is 150 litres per day.⁴⁶

The 2006 *Arab Human Development Report* notes for the West Bank and Gaza, “Physical availability and political governance of shared water both contribute to scarcity” and “The underdevelopment of water resources means that many Palestinians depend on water deliveries from Israeli companies; a source of vulnerability and uncertainty because supplies can be interrupted during periods of tension.”⁴⁷ Likewise The World Bank reports, “The operation of the Joint Water Committee, Civil Administration rules, and movement and access restrictions are so constraining the development of the Palestinian water sector as to stifle economic and social development.”⁴⁸

III Why the Private Sector is Crucial for Development

There is growing recognition among both the development and business community of the important role that the private sector plays in tackling poverty and creating wealth in all developing countries. The World Bank concluded in its seminal *World Development Report 2005: A Better Investment Climate for Everyone*:

“Private firms are at the heart of the development process. Driven by the quest for profits, firms of all types – from farmers and micro-entrepreneurs to local manufacturing companies and multinational enterprises – invest in new ideas and new facilities that strengthen the foundation of economic growth and prosperity. They provide more than 90 percent of jobs – creating opportunities for people to apply their talents and improve their situations. They provide the goods and services needed to sustain life and improve living standards. They are also the main source of tax revenues, contributing to public funding for health, education and other services. Firms are thus central actors in the quest for growth and poverty reduction.”⁴⁹

The strength of the private sector in the West Bank and Gaza is particularly relevant to economic growth and social development because of the importance of offsetting the need for official donor assistance as the primary driver of economic development over the long-term. The Palestinian Authority has identified expanding and strengthening the private sector among its main priorities for supporting economic development. “The Palestinian private sector must be the engine of sustainable economic growth. It needs to generate productive employment, produce high value-added goods and services, and to enhance national prosperity...The ability of the private sector to resume its place as a driver for growth will have a major bearing on the sustained health of the Palestinian economy.”⁵⁰

The potential impact of the private sector on human development was laid out in the 2009 *Arab Human Development Report* (AHDR). The report outlined a role for the private sector to contribute to building, “an environment in which people can develop their full potential and lead productive, creative lives in accord with their needs and interests. It is about understanding that people are the

real wealth of nations, and that investing in their human development is the surest way to achieve sustainable, stable economic growth.”⁵¹ The AHDR maintains that human development and economic growth are intricately connected, and both are at least partially contingent on the health of a country’s private sector.

The private sector cannot, and should not, be expected to achieve sustainable development on its own in any market. Public, private and nonprofit or non-governmental (NGO) actors each have unique but complementary roles to perform in supporting development initiatives. But ultimately, the private sector will serve as a critical source for stable employment opportunities and in building productive economies over the long term. This is particularly important in the West Bank and Gaza, where un- and under-employment are already high, where existing employment levels rely heavily on the public sector and international aid, and where some 60 percent of the population is under the age of 24.⁵²

Large firms in the West Bank and Gaza (100 or more employees) are of particular importance because of their potential for strengthening the economy, expanding employment opportunities and supporting social development more broadly. A 2004 survey reported only 21 businesses in the West Bank employed more than 100 employees, and average firm size is 4 employees.⁵³ Due to their small number these businesses play a particularly pivotal role through the economic multipliers of their own value chain and by acting as a hub for the development of other local enterprises. Among the largest companies are the National Beverage Company, Paltel (telecommunications), the Palestinian Development & Investment Company (PADICO, a holding company), and the Bank of Palestine (banking).

Box 2 Arab Human Development Reports

<p>The United Nations Development Programme Regional Bureau for Arab States produces the <i>Arab Human Development Report</i> to examine development challenges and opportunities in the region. The first was released in 2002 and focused on the “shortcomings in the Arab institutional structure that serve as obstacles to supporting human development.”</p> <p>Subsequent reports, all crafted by Arab scholars, have focused on <i>Building a Knowledge Society</i> (2003), <i>Towards Freedom in the Arab World</i></p>	<p>(2004), <i>Towards the Rise of Women in the Arab World</i> (2005), and most recently on human security (2009). The related Palestinian Human Development Report 2009-2010, <i>Investing in Human Security for a Future State</i> explores different facets of human security – economic, food, health, environment, political, personal, community – from the perspective of establishing freedom from want, freedom from fear, and freedom to live in dignity.</p> <p>The most recent ADHR report is particularly relevant in understanding</p>	<p>private sector impact in the West Bank and Gaza. The report identifies the private sector’s opportunity to play a “reformist” role in Arab societies, saying, “The rise of the Arab private sector and its growing political influence will very likely stimulate the democratic transformation of social and political environments.”</p> <p>The Arab Human Development Reports serve as a useful platform for further discussion and debate on the development issues that face Arab countries most prominently.</p>
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All quotations taken from the 2002 and 2009 Arab Human Development Reports and Palestinian Human Development Report 2009-2010

IV Donor Initiatives and Partnerships to Support Private Sector Development

Motivated by the understanding that a healthy and growing private sector can lead to job growth, develop human capital and offset the need for international remittances and donor aid over the long term, a number of donor organizations and new public-private partnerships are focusing on expanding access to capital and promoting private enterprise development.

U.S. President Barack Obama singled out the role of entrepreneurship in regional development in his June 2009 speech in Cairo: “On economic development, we will create a new corps of business volunteers to partner with counterparts in Muslim-majority countries. And I will host a Summit on Entrepreneurship this year to identify how we can deepen ties between business leaders, foundations and social entrepreneurs in the United States and Muslim communities around the world.”⁵⁴ The Presidential Summit on Entrepreneurship was convened in Washington, DC in April 2010, focusing on efforts to promote entrepreneurship in communities across the globe.⁵⁵

At the Summit, the U.S. State Department announced a new collaboration, *Partners for a New Beginning*. This collaboration will be chaired by former U.S. Secretary of State Madeleine Albright and vice-chaired by Muhtar Kent, Chairman and CEO of The Coca-Cola Company and Walter Isaacson, President and CEO of the Aspen Institute. *Partners for a New Beginning* will work to leverage private sector resources to improve collaboration and build ties across the U.S. and in Muslim majority communities. It will focus on:

- **economic opportunity** – advancing entrepreneurship, business support services and increasing access to capital
- **science and technology** – supporting local laboratories, universities and other institutions to advance innovation
- **education** – increasing access to educational tools and building human capacity to equip people for employment
- **exchange** – promoting mutual understanding and people-to-people ties.⁵⁶

Other donor-led initiatives include the *Palestinian Facility for New Market Development* (FNMD) funded by the UK Department for International Development with backing from the World Bank, the United States Agency for International Development (USAID)’s *Palestinian Investment Partners Program*, the International Finance Corporation’s investments in West Bank and Gaza businesses, the European Investment Bank’s Middle East Venture Capital Fund and the United Nations Development Programme’s (UNDP) private sector development in the region.

The *Palestinian Facility for New Market Development* (FNMD), is a grant-making facility that provides funding to Palestinian businesses to: explore new markets – locally, regionally and internationally, develop new products, and improve existing goods and services. It is a three year, 3.6 million UK pound project providing both grants and technical assistance in areas such as technical and managerial know-how, product design and innovation, certification and standards, market information and research, business linkages, upgraded technology and branding. Since its beginning in 2008, the project has supported over 120 companies.⁵⁷

Likewise USAID's *Palestinian Investment Partners Program* provides a combination of grants and technical support to small and medium sized businesses in the region.

The International Finance Corporation (IFC, the private sector arm of the World Bank) has invested \$130 million in 16 companies in the West Bank and Gaza, with six current or recently ended projects that support businesses from olive oil producers to leasing. The IFC works to: support local entrepreneurs who can become role models of development; increase the private sector's role as a key engine for growth and job creation; and finance precedent-setting transactions that can serve as a model for others.⁵⁸ In 2008, it piloted a partnership with the Bank of Palestine and the Palestine Education Fund in providing student loans for more than 8,000 college students annually at a cost of approximately \$10 million.

In December 2009, the European Investment Bank made a EUR 5 million 'anchor' investment in the *Middle East Venture Capital Fund*, the first venture capital fund to target investments in export-oriented information technology companies being launched in the Palestinian territories. This fund will support the development of local high growth IT and communication companies through equity investment. Previous investments in the West Bank and Gaza by the European Investment Bank have included financial and technical support for small and medium enterprises and investments to improve the electricity supply network.⁵⁹

The United Nations Development Programme (UNDP) has had a considerable long term presence in the West Bank and Gaza, with a history of initiatives with private sector focus. UNDP focuses on environmental issues, governance issues and economic development/poverty reduction issues; in support of this third issue, among its private sector programs are microfinance initiatives for small producers or vendors, and enfranchising the poor as participants of the private sector through entrepreneurship. In one such program, families who receive funding to start a venture are paired with members of the Palestinian private sector and the Palestinian Ministry of Social Affairs to support their entrepreneurial ventures.

Because of the Palestinian Authority's reliance on foreign aid, donor organizations play a significant role in the local economy. They are largely responsible for the funds that pay the salaries and benefits of public sector employees. But the organizations listed here and other donors are looking beyond the public sector to strengthen the economy and improve people's lives in the region. And they are increasingly looking to utilize the resources and reach of the private sector as a way to effectively and efficiently translate aid dollars into economic or social progress in local communities.

Box 3 Building public-private partnerships: The U.S.-Palestinian Partnership

The U.S.-Palestinian Partnership (UPP) is managed by the Aspen Institute's Middle East Programs and was established in 2007, following an announcement by the President of the United States, the U.S. Secretary of State and business leaders. It currently focuses on the West Bank and aims to foster partnerships between American and Palestinian leaders in the public, private and non-profit sectors with the central aims of:

- **Creating economic opportunity for the Palestinian people** – through the implementation of income-generating jobs, investment and entrepreneurship, and
- **Helping to prepare Palestinian youth for employment and citizenship** – through the establishment of Youth Development and Resource Centers (YDRCs).

UPP operates through a variety of activities ranging from the design and implementation of projects and active support for the creation of investment and risk management vehicles to convening key stakeholders and hosting leadership exchanges and dialogues between Palestinians and Americans. In almost all cases, UPP works with a combination of corporate, nonprofit and public sector partners. Key U.S.-based working partners have included Cisco Systems, Intel, Microsoft, Google, the Case Foundation, the Kairos Project, Booz Allen and Hamilton, the U.S. State Department, and USAID among others. The Aspen Network of Development Entrepreneurs (ANDE) created to support small and growing businesses in emerging markets is also a partner.

Focusing on key economic sectors

In coordination with the Palestinian Authority and United States Government, the UPP focuses its efforts on the development of three primary economic sectors that are deemed to be crucial to economic growth, job creation and the achievement of broader development goals: information and communications technology (ICT); hotels and tourism; and agribusiness. Examples of projects underway include the following:

- **Information and Communications Technology:** Working with Cisco Systems and building on Cisco's outsourcing model, UPP is supporting an effort to promote the outsourcing of research and development and engineering projects to Palestinian software companies by identifying Palestinian companies able to work as contractors with Cisco and other American companies. It is also planning the launch of an ICT Incubation Project that will combine training, mentorship and exchanges between Palestinian ICT leaders and entrepreneurs and their American counterparts.
- **Hotels and Tourism:** UPP is working with the Kairos Project to help facilitate a university partnership between the Conrad Hilton College at the University of Houston and the Bethlehem University School of Hospitality, which will support an integrated program of curriculum development, online training and job placement in the hospitality sector. It is also exploring a variety of investment opportunities to increase

the diversity, quality and number of hospitality facilities in the West Bank.

- **Agribusiness:** The partnership is working with agribusiness, technology companies, hotel chains, investors and donors to look at a variety of technologies and business models aimed at increasing the export of Palestinian produce and products to the United States and building more sustained business linkages between hotel operations in the Middle East and Palestinian agribusiness companies.

Promoting innovative investment vehicles

From the outset, the UPP has recognized the challenge of access to capital and risk management services for Palestinian businesses and entrepreneurs. It has been one of the organizations active in securing investment for the **Middle East Venture Capital Fund (MEVCF)**. Launched with initial anchor investments in 2009, MEVCF is a planned US\$50 million fund that will invest in early stage Palestinian ICT companies with a focus on those with high-potential for local job creation and economic growth in the Internet, mobile and software sectors.

Palestinian ICT and software exports have shown steady growth over the past decade, one of the few sectors to do so. In part, this is due to the fact they are not as challenged by the restrictions on physical movement of goods and people that hinder so many other industries in the region, and in part it is a result of the educated Palestinian population and growth in

Box 3 Building public-private partnerships: The U.S.-Palestinian Partnership continued

local ICT skills, qualified engineers and IT infrastructure over the past decade.

The MEVCF aims to build on this foundation by increasing access to venture funding, international markets and business partnerships for high-potential enterprises in this sector.

As of March 2010, investors in the MEVCF have included the European Investment Bank, the Soros Economic Development Fund, Cisco and the Skoll Foundation. This group in itself is a good example of innovative new partnerships between investment banks, companies and philanthropic foundations, and between the public and private sectors.

UPP has also worked with the **Middle East Investment Initiative**, which is itself a partnership between organizations such as the Overseas Private Investment Corporation and the Palestinian Investment Fund. MEII has developed a loan guarantee program to generate increased lending to small and medium-sized Palestinian enterprises, a risk insurance product to protect Palestinian companies against losses from trade disruptions and political unrest, and the provision of affordable mortgages for home ownership in parts of the West Bank.

Supporting Palestinian Youth Development and Resource Centers

The Partnership has worked in cooperation with the Palestinian Authority's Ministry of Youth and Sports, USAID to expand and enhance four youth centers in Nablus, Hebron and Ramallah. These are part of a network of some 60 community-based youth centers, which are undergoing a coordinated effort to revise standards, improve the quality and relevance of services, and increase Internet connectivity and employability training.

Corporate and NGO partners are also playing an active role. Microsoft, for example, has donated software and provided digital literacy curriculum in Arabic and support for training of teachers. Cisco Systems and Intel have supported the program through the provision of training resources, product donations and curriculum development. Likewise, the International Youth Foundation has worked with USAID and other NGO partners to support vocational training and workforce development activities for Palestinian youth through these and other community-based IT centers.

The U.S.-Palestinian Partnership and other related initiatives such as the Middle-East Investment Initiative, will provide valuable lessons and input into the development of the **Partnership for a New Beginning**, launched in April 2010 with a focus on expanding economic opportunity, science and technology, education and exchanges.

Sources: Websites of Aspen Institute, U.S.-Palestinian Partnership, Middle East Investment Initiative, Microsoft, Cisco, Case Foundation, USAID, U.S. State Department and International Youth Foundation.

THE NATIONAL BEVERAGE COMPANY

I Background

The National Beverage Company (NBC) is a bottling partner of The Coca-Cola Company (TCCC) that manufactures, bottles and distributes Coca-Cola products in the West Bank and Gaza. Demonstrating the importance of individual leadership, NBC was founded in 1998 by Zahi Khouri, a Palestinian businessman (see Box 3) who was living in the U.S., but desired to do something to support the Palestinian economy locally. With a powerful belief that strong brands can bring both economic and social success, he approached The Coca-Cola Company to secure a license to manufacture and distribute their products in the Palestinian territories.

The Coca-Cola Company has operated in some of the Arab states since the end of World War II, beginning with Egypt in 1945 and Morocco in 1947.⁶⁰ The company and its 30 bottling partners in the region today operate 58 factories in the 22 member states of the Arab League. The system employs some 40,000 people in the region, serving an estimated one million outlets and providing livelihoods for an estimated 500,000 people through direct and indirect job generation.

NBC is the market leader in the West Bank and Gaza, where it is the third largest employer and fifth largest investor. The company is based in Ramallah, incorporated in the Palestinian Authority Areas, and is privately-held, with The Coca-Cola Company owning a 15 percent stake. NBC is also one of the few locally-owned, locally-run franchisees of a multinational corporation in the West Bank. It is also one of the few with production facilities located there. Other multinational enterprises serve the West Bank and Gaza, but most base their operations in Israel or elsewhere, and may not employ a majority Palestinian workforce.

NBC currently operates three production facilities in the West Bank located in Ramallah, Tulkarem and Jericho. The Ramallah plant produces the company's sparkling beverage products, accounting for approximately 66 percent market share. The Tulkarem plant produces Cappy juice products which account for 18 percent market share, and the Jericho plant produces water that accounts for 78 percent market share.⁶¹ NBC also has seven sales and distribution centers in Ramallah, Hebron, Bethlehem, Tulkarem, Jericho, Nablus and Gaza. Gaza operations, which previously constituted nearly 30 percent of NBC's business, have currently been suspended due to an inability to provide local customers with products as a result of the Israeli blockade and current political situation.

NBC currently manufactures and distributes brands such as Coca-Cola, Coke Zero, Diet Coca-Cola, Fanta, Sprite, Diet Sprite, Cappy juices, Arwa and Jericho waters. These products are distributed by one of the 47 trucks in the company's delivery fleet to 8 large wholesalers/distributors, or one of 80 smaller distributors, which in turn service over 14,000 outlets. Of these, 4500 outlets are "direct distribution," where products are sold in shops requiring person-to-person transactions. The majority of retail stores in the Palestinian territories are small "mom and pop" shop operations.

Box 4 The importance of individual leadership – profile of Zahi Khouri

National Beverage Company CEO Zahi Khouri knows the power of the brand. A Palestinian businessman based in the U.S., Mr. Khouri was searching for a way to support the growing Palestinian economy in the 1990s. Having witnessed the impact of the McDonald's brand in drawing positive attention to Moscow when the first franchise opened there in 1990, Mr. Khouri envisioned doing something similar in the West Bank and Gaza. At the time, Coca-Cola products in West Bank and Gaza were supplied from the Israeli bottler. Khouri's vision was to bring Coca-Cola to the West Bank and Gaza using Palestinian employees and distributors. More than ten years after NBC was founded in 1998, this vision has been realized. Strategic leadership like Mr. Khouri's is a critical component to businesses achieving success in challenging or conflict

affected areas.

In selecting Coca-Cola, Mr. Khouri wanted an internationally recognized brand "that could lend credibility to the idea that a multinational can, in fact, operate successfully, and in a transparent way, in the West Bank and Gaza." His focus, and subsequently those of his employees, has been on improving not only NBC's productivity, but those of other businesses in the local supply chain. This has paid off, making NBC one of the most profitable Coca-Cola bottlers in the Middle East, even amidst challenging conditions.

Mr. Khouri has worked to support the development of the West Bank and Gaza not only through NBC, but in a variety of advocacy positions – within both the public and private sectors. He helped to found, and is now a board member of PADICO, the

Palestinian Development and Investment Authority. Mr. Khouri also serves on the board of the Palestinian Tourism and Investment Company (PITC), the Palestinian NGO Development Centre, and the Yabous Cultural Association in Jerusalem. He is an Advisory Board member of Abraaj Capital, which joined the Palestine Investment Fund in founding a \$50 million private equity fund for the West Bank and Gaza in 2010.

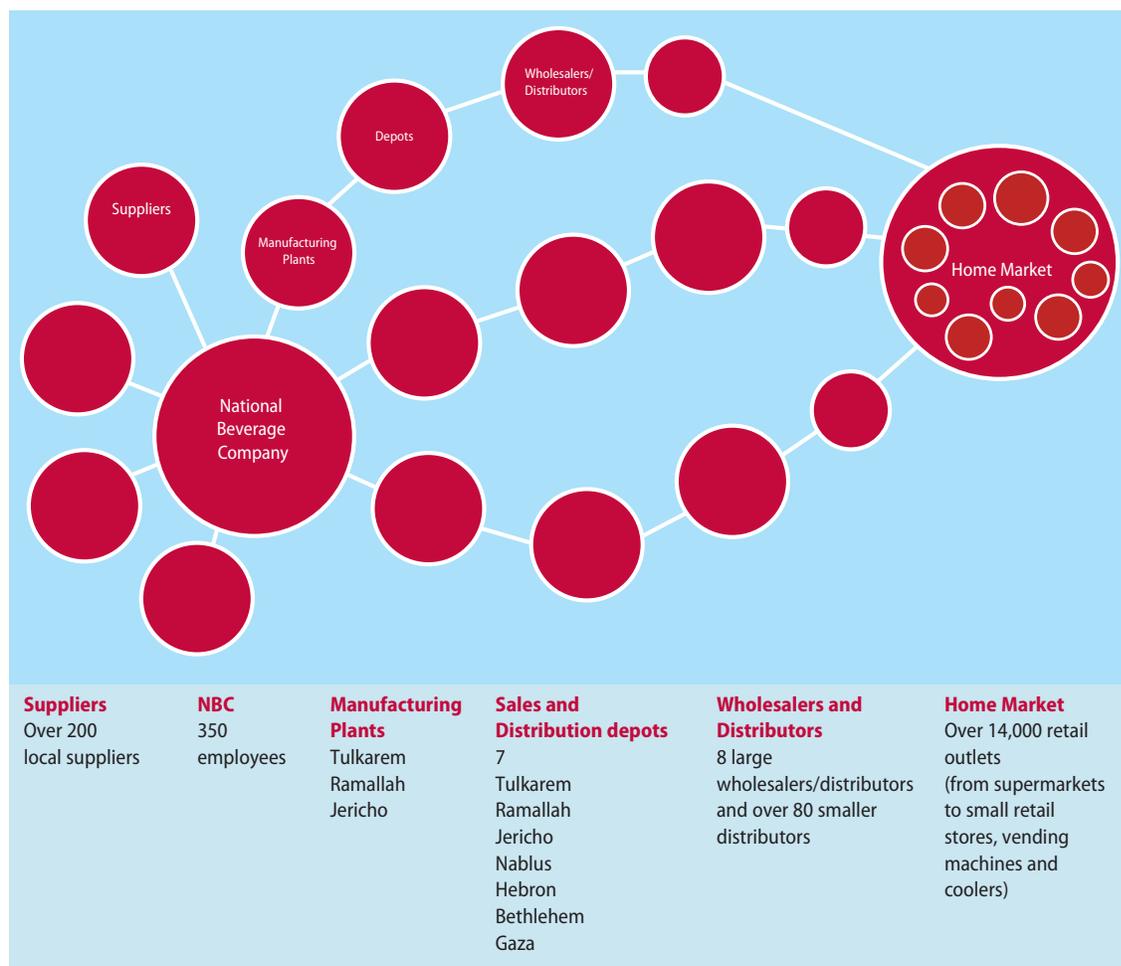
With so few large firms in the West Bank and Gaza, additional pressure is placed on these business leaders to work for and advocate for social development. Mr. Khouri has demonstrated that the dedication of one person can lead to both financial success and positive community impact.

As a bottler in the Coca-Cola system, NBC purchases juice concentrate or sparkling beverage syrup from The Coca-Cola Company to combine with other ingredients to manufacture Coca-Cola products. Regardless of size or location, bottlers in the Coca-Cola system are responsible for implementing global standards of The Coca-Cola Company when manufacturing these products and are held accountable through a process of internal auditing and continuous improvement of processes and procedures. This required consistency has meant technology and knowledge transfer of global good practices to local markets not only in the West Bank and Gaza, but in challenging environments across the globe from Africa to Asia.

In recent years, NBC has decreased production costs per case by an average of 25 percent due to efficient manufacturing practices and innovations in manufacturing, logistics and fleet updating. To streamline production and delivery, NBC has worked to: maximize ingredient utilization, such as sugar and beverage concentrate, with minimal waste; increase height of warehouse stockpiles, resulting in better utilization of storage unit space; and renovate the delivery fleet, leading to reduction of cost on product delivery because of newer, larger vehicles that consume less gas.

At the same time, challenges to distribution and access have required the company to innovate along the supply chain, fostering maximum flexibility and adaptability in production and delivery. NBC employs satellite depots outside main cities that can respond to changes in roadblocks and delivery routes, and encourages driver autonomy, allowing them to make *ad hoc* decisions in their delivery process. NBC also continuously redesigns sales routes based on the needs of customers and changing constraints on delivery. These practices that emphasize employee autonomy, system flexibility and adaptability, and responsiveness to customer demand have translated directly to improving the company's bottom line while also enabling it to serve consumers and sustain employment in challenging circumstances. Though NBC is one of the smallest Coca-Cola bottlers in the Middle East based on volume, it has also managed to become one of the most profitable. According to local managers, NBC has not raised consumer prices since 2001, in an attempt to continue offering affordable products to its consumers, a significant accomplishment given the logistical challenges and higher operating costs of the region.

Chart 2 National Beverage Company business ecosystem



NBC's profitability and financial success demonstrates that it is possible to not only be financially successful when operating under challenging circumstances, but also that in doing so the business can support local economic and social development. General Manager Imad Hindi states, "We want to demonstrate through our business that wherever you offer good employment opportunities, good products and good customer service, profits will flow, even in these difficult conditions. And we want to show the different face of Palestine – a place that is not only checkpoints but is also supporting a young generation of managers with skills and hope."⁶²

The following sections provide a descriptive overview of some of the development contributions the company makes to the West Bank and Gaza through its:

- Core business activities and value chain
- Strategic philanthropy and social investment.

II Core Business Activities and Value Chain

The most important contribution that any company can make to the development of the countries and communities in which it operates is to carry out its core business activities in a profitable, responsible and inclusive manner. If managed in a way that minimizes negative impacts and maximizes positive returns for stakeholders, the following business multipliers can make an important contribution to building more prosperous and equitable societies:⁶³

- 1** Generating local investment and income
- 2** Creating jobs and investing in human capital
- 3** Producing safe and affordable products
- 4** Supporting local small enterprise development
- 5** Implementing international business standards and technology
- 6** Sustaining operations in a conflict-affected area

These business and development multipliers are arguably even more important – and obviously more difficult to achieve – for companies operating in fragile and conflict-affected areas. In 2009, Foreign Policy magazine ranked Israel/the West Bank number 58 in its Failed States Index, after appearing on the list for the first time in 2008 in the group of 60 most vulnerable states.⁶⁴ Foreign Policy highlighted the "network of road blocks and checkpoints [that] has stifled the West Bank's economy."⁶⁵ But as NBC demonstrates, sustaining operations in a conflict-affected area is difficult but certainly not impossible, especially with commitment from the company's local owners.

The overall job multiplier for NBC's operations in the West Bank and Gaza is approximately 3000 indirect employment opportunities, and 350 direct employees. Indirect employment opportunities include the jobs in related companies that either supply goods and services to the Coca-Cola system (local suppliers) or distribute and sell the company's products (local distributors and retailers).

The following sections offer a descriptive overview of some of these business and development multipliers in practice.

1. Generating local investment and income

This contribution covers activities ranging from investments in local plant, machinery, transportation facilities and other infrastructure, to paying employees' wages, government taxes, timely payments to suppliers, credit to distributors and retailers, interest to local banks and dividends to local investors, or reinvesting profits back into the business for research, development and future growth.

According to company interviews, since 1998 NBC has invested about \$20 million, with a further \$9.2 million reinvested from profits. Such reinvestment is significant, because doing so through locally incorporated enterprises is rare. As the World Bank notes, "Palestinian enterprises show little inclination to invest to increase their capabilities... the average age of machinery in manufacturing was eleven years in the West Bank and about nine years in Gaza. Despite this, only 50 percent of the West Bank and 25 percent of the Gaza manufacturing sample invested any amount in 2005. Nor did Palestinian enterprises invest in human resources. Only 26 percent of enterprises did any employee training in the last year [2007]."⁶⁶ The market value of NBC has grown from \$20 million to \$70 million, with net profit growing from negative \$0.3 million in 1998 to \$8 million in 2008.⁶⁷

In 2008, NBC spent over \$5.0 million on wages and benefits, up from \$1.8 million in 1999 and \$3.3 million in 2004.⁶⁸ These investments stimulate subsequent consumer purchases with other local businesses and services. More broadly, according to Fuad Akra, Executive Director of the Palestinian Food Industries Association, the food industry in Palestine accounts for 23 percent of value added from industry in total, 4.5 percent of national GDP and 13 percent of total formal sector employees in industry. Within the industry, he estimates that NBC represents 6.8 percent of value added in the food processing sector and 3.5 percent of total employees.⁶⁹

NBC also generates substantial financial inputs to the local economy by way of relationships with its local suppliers. In 2008, NBC spent approximately \$10 million doing business with 220 local suppliers. It sources approximately 65 percent of inputs locally, with the remainder imported. The company also helps finance some of its key distributors, which allows the distributors to enlarge their businesses and expand their activities. Such linkages with other local businesses in the financial and enterprise ecosystem are critical in an economy with only a handful of large firms. The business generated from one or two large firms can sometimes sustain a supplier's or distributor's entire enterprise – which, in turn, facilitates their business with other smaller enterprises.

2. Creating jobs and investing in human capital

NBC is one of the West Bank and Gaza's largest employers, employing approximately 350 people in an environment where most enterprises are 10 employees or less. Currently, all employees are local Palestinians. The company started with 60 employees, almost half of whom (29) are still with the company. NBC has been able to retain nearly half of its original workforce at least in part because of its emphasis on continuous training and internal promotion. A three-pronged approach of training, incentives and regular evaluation is used to support and reward employee development at all levels of the company.

Training needs are identified on an annual basis for each plant individually, the business units and the company writ large. Internal trainings are held regularly so that each plant employee may perform a variety of functions or duties across the production line. External training is also supported and funded. Employees who participate in external trainings are expected to share information gained with colleagues upon return. In the Tulkarem bottling plant, for example, employees created a “technical library” where materials obtained during offsite trainings are brought back, duplicated and made available centrally for any employee to access.

As part of a multinational business system, NBC employees travel across the Middle East and Europe for training and to exchange good practices with other Coca-Cola employees. The company’s training budget has steadily risen since its founding. NBC spent \$13,000 on training in 1999, \$51,000 in 2004, and over \$135,000 in 2008.⁷⁰ According to management interviews these expenditures account for nearly 1.5 percent of revenues. This is uncommon, as according to a World Bank study only one quarter of enterprises in the West Bank and Gaza support any form of training.⁷¹

In a region where female participation in the workforce is low, NBC is working to support and increase female employment. NBC employs women in nearly all units of its business, and a number of its longest serving employees are female. The company also draws employees from different communities across the West Bank. Employees in the Tulkarem plant employees, for example, come from 7 local towns, and the plant provides a bus to transport them to and from work daily. It would be easier for the company to hire (and transport) employees from one town, but NBC’s Manhal Malki says broader employment has improved community engagement. The Tulkarem plant employs 34 people (with plans to further expand to 40 people), up from 19 when NBC took the plant over in 2004.

Systematic efforts are made to encourage accountability and transparency in employee evaluation. The Tulkarem and Jericho plants use 66 key performance indicators to track employee performance and production processes. These targets are evaluated on a weekly basis with results posted monthly for all employees to review. Each employee sets his or her own targets in conjunction with the plant manager, and an average of the monthly reviews determines annual bonuses.

Training and human capital development is not limited to internal employees. NBC also trains its business partners and supports other education and skill building initiatives for the community through its philanthropic activities as outlined in the following sections.

Business management and vocational skills building is important and will remain critical in the coming years, because although the West Bank and Gaza continue to report strong education indicators, there is a mismatch between the skills taught to high school and university students, and those needed by local employers. Because of difficulty traveling abroad and between the West Bank and Gaza, enterprise learning and skill development outside of traditional educational institutions can be difficult to obtain. The World Bank noted in a West Bank and Gaza investment climate assessment report:

“Many Palestinian entrepreneurs obtained their initial experience working in Israeli companies inside Israel and most skilled workers developed their skills in the same way. However, with the decline of Palestinians working in Israel, this last remaining source of enterprise learning is being cut off. The lack of effective learning mechanisms is getting worse, just at the time when Palestinian firms are under intense pressure to increase their capabilities to survive.”⁷²

Box 5 Building local management capacity – profile of Manhal Malki

Supporting internal employee development and promotion is a priority at NBC. Nearly half of employees that were with the company when it was founded still work there (29 of 60).

Manhal Malki is a 10 year employee of the company who has risen through the ranks – from a production supervisor in the Ramallah plant to plant manager of the Tulkarem and Jericho plants, to current marketing director. With an engineering degree from India, Manhal began as a production supervisor and a year later, was promoted to maintenance

supervisor, while retaining his other duties. He worked in this capacity for 3 years before NBC began expanding, and Manhal was promoted to engineer. He was promoted to Plant Manager with the purchase of the Tulkarem plant in 2005. Manhal oversaw the process of purchasing modern equipment internationally and getting the plant’s codes and processes in line with Coca-Cola’s global standards. It took nearly a year to bring the plant in line with Coca-Cola requirements, and production began in Tulkarem in 2005. By 2008, the plant had received ISO 9001 and

ISO 22000 certification. In 2009, Manhal’s responsibilities were broadened further, as he was promoted to plant manager of both the Tulkarem and Jericho plants. He continues to pursue education and training in a variety of topics, from packaging to human resources. Manhal was appointed Marketing Director in early 2010.

Today, the products of the Tulkarem and Jericho plants account for 25 percent of NBC’s total production, a testament to Manhal and the plant employees’ success.

3. Producing safe and affordable products

As a Coca-Cola bottler, NBC is required to employ the company’s global standards and processes, and in some cases has exceeded them by seeking international certification as outlined in Box 8. NBC currently executes more than 30 monitoring or control programs along its production lines – and estimates that several hundred physical, chemical and microbiological tests are made each day in its plants, constituting the transfer of significant technical knowledge to local managers and community members.

The company also invests in local consumer research to adapt products to local tastes and economic circumstances. Consumer surveys are undertaken through retail outlets by nearly 500 surveyors. The surveyors are mostly university students trained and incentivized to do the work – thereby fulfilling a business need for NBC while simultaneously helping to build local human capital. In response to these surveys, the company introduced new “B” brand carbonated products under the “Club” brand name, that are more affordable, along with new types of water and juices, and gallonated water. Distributors interviewed report that the introduction of these more affordable products led to the development of new relationships with vendors and added points of sale, which translated into increased sales of brand name products and higher revenues for both the company and its local distributors and retail partners.⁷³ It is this type of innovation that has allowed the company to expand and increase profits despite not raising consumer prices in nearly 10 years.

4. Supporting local small enterprise development

Supporting local small enterprise development, particularly in places like the West Bank and Gaza where small and micro enterprises make up the majority of firms, is important for building a stronger, more sustainable business ecosystem. The Harvard CSR Initiative and the International Finance Corporation noted in a 2009 report, “the opportunity to participate as suppliers, distributors, or retailers in commercial value chains can help increase local job and wealth creation, enhance skills and capacity, add purchasing power, and generally stimulate economic activity and development – contributing, in the process, to quality of life.”⁷⁴ Box 6 outlines different types of business linkages between large and small enterprises that facilitate development.

Box 6 Linkages between large and small enterprises		
CORE BUSINESS ACTIVITY	SOCIAL INVESTMENT AND PHILANTHROPY	PUBLIC POLICY ADVOCACY for small enterprises
Procurement	Offering basic business training	Business associations directly advocating for SME-related policies
Agricultural outgrowers schemes	Technical and vocational training	Business engagement in national development plans
Manufacturing subcontracting	Volunteering management time	Individual business leaders advocating for SME development
Outsourcing non-core functions and services	Donating premises, equipment, discards, cut-offs	
Distribution and retail	Innovative community financing	
Franchising and leasing	Funding research and development	
Financial services provision	Enterprise education in schools and universities	
Utilities services provision – energy, water, technology		

Source: Adapted from Nelson, J. *Business as Partners in Development*. International Business Leaders Forum, UNDP and the World Bank, 1996.

As already outlined, NBC benefits from, builds the capacity of, and creates opportunity for over 200 local suppliers, over 80 distributors, and 14,000 retail outlets in its value chain. Approximately 65 percent of inputs are sourced locally. In the West Bank and Gaza, the challenge of developing efficient, high quality suppliers leads many firms to source from Israel or other countries. NBC collaborates with their suppliers to develop local capacity to satisfy large firms’ needs in the local market.

Walid Wahdan is one such example. The founder and general manager of Misk, a local printer, Walid said his business has grown from a shop with one machine and one employee in 2000 to 15 machines and 8 employees today, largely as a result of his work from large firms like NBC.⁷⁵ He originally solely printed small shop signs, but realized no West Bank printers were serving the area’s larger companies, so he worked to build relationships with them through their advertising agencies. Large companies now make up over 80 percent of his business.

Misk has served as NBC’s main printing supplier (including billboards, truck siding, and large banners) since 2004 – NBC is Misk’s third largest customer. NBC marketing specialist Malek Atshan

says that NBC always requests their advertising agency coordinate with Misk because of the high quality of their products and NBC's desire to support local enterprise. Misk estimates the business it generates, in turn, creates business for 10 other suppliers in the West Bank, including carpenters, tailors, and sewers. Misk also recently expanded to begin importing printing machines to sell to other printers in the West Bank.

NBC also works to improve the quality of local designers and advertisers. In conjunction with The Coca-Cola Company's Middle East Business Unit, NBC has hosted 5-6 trainings for West Bank and Gaza firms to build capacity and help develop local advertisers.

In addition to helping build capacity of smaller suppliers, NBC also collaborates with its distributors across the West Bank. One of the company's 8 large distributors, located in the more rural southern region of the West Bank, is the Mohammad Suliman Ayesh Company (MSA). MSA has been the exclusive distributor of Coca-Cola products for the Hebron area since 1969. MSA originally purchased Coke products from the Coca-Cola bottler in Israel, but began sourcing from NBC when it was founded in 1998.

A family business now employing more than 18 men, the company grew gradually. According to the owners over the past 10 years, volume has increased by a factor of five, profits are now approximately eight times that in 1998, and the company now not only distributes Coca-Cola products, but has expanded to own and operate two grocery stores and a cosmetic store.⁷⁶ In 2002, in the wake of the first student survey of consumers, MSA worked with NBC to develop a less expensive sparkling beverage product. MSA employees say the new product, launched under the "Club" brand name, has actually increased sales for the higher priced Coca-Cola-branded carbonated sodas through improving vendor relationships and increasing the points of sale.

5. Implementing international business standards and technology

In locations that lack efficient exchange of information and innovation, the introduction and implementation of international business standards and processes can help improve performance and streamline production and management processes.

These standards and processes have become particularly important in the West Bank and Gaza where greater flexibility, adaptability and efficiency are required to survive as a business. A 2007 World Bank study reports, "Few Palestinian firms export directly, conduct training, hire technical experts or have technology licenses."⁷⁷ But as a Coca-Cola bottler, NBC must utilize The Coca-Cola Management System (TCCMS), a product safety and management process. "Each business within the Coca-Cola system must establish, implement, document and maintain a safety and quality system in accordance with TCCMS requirements."⁷⁸

One of NBC's primary assets is its brand and reputation. The risks associated with low quality or unsafe products are a leading concern for the NBC management team. Coca-Cola's highly functional, dedicated quality control program helps to effectively mitigate that risk. Adhering to this system helps to ensure:

- Product and process safety and quality
- Occupational health, safety and environmental performance
- Process efficiency through utilizing the latest technologies

The emphasis on global best practice has paid off not only in product safety and quality and operational efficiency, but also in NBC's water consumption efficiency. NBC has decreased water usage in product production from 2 liters of water used to produce 1 liter of beverage product in 2000 to 1.6 liters of water used for liter of beverage produced in 2004. The 2009 target is to use 1.5 liters of water for each liter of beverage produced. This makes NBC one of the most efficient Coca-Cola bottlers in the Middle East in this regard, and is a particular benefit because of the difficulty in procuring and managing water.⁷⁹ Box 7 illustrates how the factory-level focus on better water efficiency also extends to the management of local water resources in the broader community.

Box 7 Jointly managing water resources in the Kafriat community

As reported in the 2006 *Arab Human Development Report*, private firms in the West Bank face an uphill battle in their quest for easily accessible, dependable water sources. Water is particularly crucial for the production of Coca-Cola products, as an input to the product itself, as part of the production process through sanitation, and to clean the plant and production facilities. To meet the challenge of dependability of water access at the Tulkarem plant, NBC is collaborating with local villagers to make water provision more reliable for business and community use.

Currently, the NBC Tulkarem plant uses its well to extract water, then it must pipe the water out to be treated, and finally returned to the area. NBC is working to establish an independent waste water treatment plant that would allow the Tulkarem plant and local villages to source and process their own water, and will provide local farmers with expanded access to water for irrigation needs.

NBC is working in partnership with the International Centre for Agriculture and Water Governance in Dry Areas (ICARDA) to build this new waste water management facility.

It is also working in conjunction with Kafriat Village Council to convert 7 individual local villages into one larger municipality to be served by this new waste water treatment plant.

Abu Mousa, a local community leader and Council member, says the involvement of a large company such as NBC has been important in gaining government approval and international donor support, creating mutual benefit for both the company and community.

In addition to setting targets to meet and improve performance against Coca-Cola's own management system, NBC has sought and received international certification in a number of areas. As outlined in Box 8 it has received certification in ISO 9001, 14001, 22000 and OHSAS 18001 covering quality, environmental management, food safety and occupational health and safety respectively.

The company has also made a strategic decision to import and implement top quality production and information technology. Its use of hot-fill technology is one such example. It was the first company in the West Bank or Gaza and one of the few plants in the Middle East to use this in manufacturing. NBC was motivated to use hot-fill technology despite its higher cost because, as Tulkarem plant manager Manhal Malki says, "We wanted to have the safest, highest quality product for the consumer."⁸⁰

Box 8 International Standards – Timeline of Tulkarem Cappy Plant International Standards

- **2004** NBC purchases Tulkarem plant
- **2005** Begins systems upgrade planning with Coca-Cola International
- **2006** Implementation of Coca-Cola global standards
- **2007** Review and recalibration of new processes
Plant receives ISO 14001
- **2008** Plant receives ISO 9001 and OHSAS 18000 certification
- **2009** Plant receives ISO 22000 certification

ISO 9001 is a series of standards regulated by the International Standards Organization (ISO) to certify that formalized business processes are being applied to the production of quality products and services.

ISO 22000 is a standard that measures food safety. It is procedure oriented and coordinated with ISO 9000, and is predicated upon the existence of a food safety management system. It touches the entire sequence of stages and operations involved in the creation and consumption of food products.

ISO 14001 is a standard for environmental management systems that is applicable to any business, regardless of size, location or income. The aim of the standard is to reduce the environmental footprint of a business and to decrease the pollution and waste a business produces.

OHSAS 18000 is an international occupational health and safety management system specification. It is intended to help an organizations to control occupational health and safety risks. It was developed in response to widespread demand for a recognized standard against which to be certified and assessed.

In addition to internal auditing, ISO standards require third party auditing.

In summary, NBC General Manager Imad Hindi says, “First, our focus has been on implementing high quality production facilities that have completed all facets of the Coca-Cola Company Management Systems – quality, environmental, health and safety. Then we have looked at ISO certifications. Now we are working to develop a fully computerized information management system – for human resources, finance, fleet management, and warehouses to cover our entire beverage portfolio.”⁸¹ NBC expects that this integrated management system will lead to additional efficiencies and cost-saving measures to increase profitability further, while also improving product quality and safety and occupational health, safety and environmental performance.

6. Sustaining operations in a conflict-affected area

NBC Gaza opened in 1998 following NBC’s establishment in the West Bank. Prior to that, Coca-Cola products were sold only in small amounts in Gaza, and those were distributed by the Coca-Cola bottler based in Israel. Following a “tough introduction to the local market” (as described by one NBC employee), by building relationships with local vendors, NBC grew to account for 40 percent of local market share in Gaza for beverages sold in 2000.⁸²

Not surprisingly, in recent years, business in Gaza has been challenging. After the start of the Second Intifada, supply to Gaza became irregular, with significant disruptions to business, beginning in 2005. Following Israeli military operations in Gaza in 2006, NBC operations in Gaza ceased (with the exception of July 2008), and no Coca-Cola products were sold by NBC in Gaza in 2009, due to the blockade. NBC continues to pay all 24 Gaza employees’ salaries and benefits. While this may sound like a small number, each of these people in turn support an estimated 10-15 family members

and relatives in a situation where unemployment is estimated to approach 50 per cent. In 2001, Gaza represented 32 percent of NBC business. In 2009, it represented almost zero.

The Coca-Cola products available in Gaza today are smuggled via the tunnels between Gaza and Egypt. No Coca-Cola products are currently produced, distributed or sold in Gaza by NBC. This shortage has caused average prices of products to triple. When NBC was able to get some product into Gaza, as it was able to during July 2008, or as limited supplies of bottled water in early 2010, NBC retained “normal” prices and did not permit local retailers to raise prices. If the vendor raised prices, NBC terminated their relationship with the vendor.

Over the long-term, NBC hopes to support local employment in Gaza by building a glass bottling plant for its products once conditions improve – an investment that would be about \$8 to 9 million. The manager of NBC Gaza echoes a common view held by many of the people interviewed during the study visit, “Gazans don’t want to rely on aid, they need an actual free market to support their own people like in Jordan or Israel.”⁸³ As it has done in the West Bank NBC hopes to lead by example in Gaza, showing that successful business models can succeed even in difficult circumstances.

III Strategic Philanthropy and Social Investment

NBC, like many large companies in the Middle East, supports a variety of traditional philanthropic activities meeting local humanitarian needs. In recent years it has also started to leverage its core areas of competence and interest to mobilize its people, products and money in supporting and strengthening the local community and local non-profit organizations. This more strategic alignment facilitates community development, as well as the company’s own long-term success by supporting initiatives that build brand strength and recognition, and develop local human capital. The company focuses on the following three areas:

- 1** Education for employability and entrepreneurship
- 2** Using sport as a tool for development
- 3** Humanitarian assistance

1. Education for employability and entrepreneurship

Educating the next generation’s workforce is vital not only for national development goals, but also to the organizations that need to attract, promote and retain future workers. Students benefit not only from strong education provided within the walls of traditional institutional schools, but from practical skill development programs as well. NBC supports school-level education programs, university scholarships, mentoring initiatives and workforce development programs.

Supporting schools with education tools:

In the West Bank and Gaza, primary and secondary schools often lack proper funding to carry out their basic mission. Consequently, businesses are looked to provide financial support or other “bricks and mortar” resources to help Palestinian children receive a solid education. NBC’s Back-to-School Campaign “schools.com” project is one example. Each September, the company fills backpacks with school supplies to donate to the Ministry of Education to provide to students. This strengthens

NBC's relationship with governmental agencies and NGOs that operate in the education sector while also providing several thousand students with school supplies and stationary. Through the schools.com program, NBC has also provided 15 primary schools with computers and software to open computer labs. Only about half of Palestinian schools currently have computer labs, making these basic donations critical to teaching the information and communications skills (ICT) so important to employers.

Raising awareness of enterprise and building entrepreneurship skills:

NBC opens its doors to hundreds of school children annually, offering plant tours and providing mentoring around job skills and career paths. The company is also a strong supporter of Injaz, a local NGO affiliate of Junior Achievement dedicated to educating students about workforce readiness, entrepreneurship and financial literacy. NBC General Manager Imad Hindi sits on its board, a number of employees serve as Injaz volunteers, the company hosts participating student visits, and perhaps most importantly, NBC's participation lent legitimacy and facilitated growing the ranks of private sector supporters early in the organizations history (see Box 9).

Providing university scholarships:

At the tertiary level, with support from the Coca-Cola Foundation, the "We Are All Able" MBA scholarship program has provided nine students with scholarships to pursue university or graduate level schooling abroad. Thus far, all recipients have been women.

Box 9 Collaborating in the community for youth entrepreneurship – Injaz

Two years after arising as part of a pilot program in conjunction with Save the Children, Injaz Palestine sent a team of high school students to compete in the first annual Student Company Competition in Amman, Jordan. And they won. The competition requires teams from around the Middle East to demonstrate entrepreneurial and leadership skills acquired as part of a mentoring program in conjunction with local companies. The winning team, led by Waad Al Taweel, exhibited their mastery of tasks including: business planning, human resource development, pricing, supply chain management, marketing and sales.

This early success at the Student Company Competition only served to underscore the important work being

done through Injaz Palestine. An independent NGO operating in the West Bank and Gaza that focuses on expanding economic opportunity for Palestinian youths, Injaz Palestine was originally a program of Save the Children. It became an independent organization in 2007, and is part of the Junior Achievement worldwide network. Injaz Palestine partners with schools and private businesses to equip students in grades 8-11 with job skills to help them succeed in business or in their own entrepreneurial venture. It also recently expanded to the university-level, and is working in conjunction with four universities to support workforce development.

The organization currently reaches more than 26,000 students in over 50 schools, and is strongly supported by the Palestinian private sector, who

recognize the important value of developing the next generation's workforce.

Randa Salemeleh, General Manager of Injaz Palestine, and a former corporate relations executive at Jawal-Paltel, the Palestinian telecom company, says, "We believe Injaz is valuable to Palestine because not only are we preparing qualified employees for the future, but we are also serving as successful role models for our students in the present."

2. Using sport as a tool for development

A growing number of companies and development organizations are beginning to leverage sport as a platform for cultivating development goals. In 2008, the International Business Leaders Forum (IBLF) published a report entitled *Shared Goals Through Sport: Getting a Sustainable Return for Companies and Countries* that outlines opportunities to harness sport to achieve development goals through cross-sector partnerships. The report added to the growing body of literature singling out sport as a unique mechanism for furthering social development.

The IBLF report defined sport in development as, “The use of sport or physical activity – often community based team sports – as a means to meet development objectives, particularly youth development, health promotion, gender equity, social inclusion, and conflict prevention. Sport in this context is a vehicle or a catalyst for the wider development objective.”⁸⁴

One need only spend a brief amount of time in the West Bank to understand how important sport – particularly football – is to the community. The Director of Sports Activities for the Ministry of Education, Mohammad Sabbah, notes, “Sports are one main aspect of supporting human development in this challenging environment. It touches mind, body and spirit.”⁸⁵ The International Olympic Committee says of sport and development, “Beyond physical well-being, sport can play an important role for a safer, more prosperous and more peaceful society, through its educational values and worldwide network.”⁸⁶ In 2004, the International Working Group on Sport for Development and Peace was founded to articulate and promote the adoption of policy recommendations to governments for the integration of sport into their national and international development strategies and programs.⁸⁷

In the West Bank and Gaza, the benefits of sport for children and youth are myriad. Sport is seen as a means to assist learning, keep young people away from violence, illustrate how to play as part of a team while building confidence in one’s own abilities, and facilitate healing from the trauma of growing up in a conflict affected area. NBC supports a number of sports related initiatives to the benefit of both company and community – sponsoring a club basketball team, providing beverages to after-school sports programs, and supporting the PACES and Palsports initiatives (see Box 10). Such involvement is not merely philanthropic – doing so works to build local brand awareness and loyalty for the company. Ministry of Education Sports Director Sabbah says, “Coke is associated with sport and sports all over the world. Palestinians are proud to wear a shirt with the Coca-Cola label.”⁸⁸

Box 10 Harnessing sport for development – PACES

NBC supports the Palestine Association for Children's Encouragement of Sports (PACES), an afterschool program founded in 2006 as a means of supporting youth development. PACES support football (soccer) and basketball club organizations for children aged 8-14, and has grown significantly since its creation. What started as a program for about 400 children has grown to include more than 3,000 young people in towns across the West Bank.

In 2009, four teams of PACES soccer players, 2 boys' teams and 2 girls' teams, traveled to Norway to participate in the Norway Cup – one of the world's largest soccer

tournaments, with teams from more than 50 nations participating. Ahmad Bukhari, PACES Director of Sports Programs, says such travel is important. "Not only do Palestinian children get to travel to meet students from other countries, but people from other countries meet Palestinian children and see they are all the same."

PACES recently expanded beyond West Bank borders to include Palestinian children in Lebanon refugee camps. Participation is open to anyone – half of all participants are girls, and in a particular demonstration of the program's contribution, half of the Palestinian women's national

soccer team are PACES graduates. In providing the PACES program with water and juices, NBC joins Nike and MercyCorps in providing in-kind donations to one of the fastest growing sports nonprofit organizations in the West Bank and Gaza.

As FIFA President Joseph Blatter stated in May 2009, "In addition to serving as a platform for promoting fair play, equality, health and education for everyone, football has the power to play a central role in concrete social development programmes worldwide and so to contribute to building a better future."⁸⁹

3. Humanitarian assistance

In addition to activities such as building libraries in hospitals, NBC has provided significant philanthropic support in Gaza. As previously outlined the company continues to pay the salaries and benefits of NBC employees located in Gaza (which, because of high unemployment, often support large numbers of extended family members). Where possible, it also implements its citizenship programs on the ground there – including the school backpack program and supporting Injaz's afterschool programming. In addition, The Coca-Cola System was one of the largest local corporate contributors to the humanitarian relief efforts after the events in Gaza in December 2008- January 2009. This contribution included:

- a donation of \$100,000 cash to the Palestinian Red Crescent Society to purchase an ambulance and medical supplies
- a donation of some one million bottles of drinking water from the Coca-Cola business in Egypt.

CONCLUSION

As outlined throughout this report private sector development in the West Bank and Gaza, while not sufficient alone, will make a crucial contribution to the overall economic and social development of the area in the long-term. The benefits of economic and social progress have the potential to extend beyond the West Bank and Gaza borders – as *Foreign Policy* magazine notes in conjunction with their 2009 *Fragile States Index*, “The fates of neighbors can be just as critical to the fortunes of otherwise stable states.”⁹⁰

The experience of the National Beverage Company is instructive in providing one example of a firm finding financial success and supporting local economic and social development, while operating in a challenging business climate. The company’s profitability demonstrates that contributions to social development need not be made at the expense of financial returns. Indeed, it is evident that a number of NBC’s core business activities have served to bolster the company’s bottom line while developing local human capital and expanding economic opportunity along the company’s value chain and local communities.

To maximize financial and social value creation, businesses in the West Bank should increase collaboration among themselves, and with local non-governmental organizations, donors and the public sector. Such networks and cooperation could lead to scaling successful individual programs, or piloting new mechanisms of engagement and business innovation. The pressure on large firms especially, is considerable, because of their relative rarity in the region. By working together and sharing knowledge and resources, large firms can maximize impact and long term benefits of supporting initiatives that facilitate social development.

Table 2 Growth in contributions of the national beverage company between 1998 and 2008

	1998	2008
Employees	60	349
Wage bill	\$1.8 million	\$5.0 million
Number of factories	1	3
Number of distributors	< 12	> 80
Water usage	2 litres of water per liter of product (2000)	1.6 liters of water per litre of product (2004)
Investments in employee training	\$13,000	\$135,000
Market value	\$20 million	\$70 million
Net profit	- \$.3 million	\$ 8 million

Businesses like NBC can achieve both financial success and community impact under difficult circumstances, but such contributions are significantly driven by the company's dedicated team and leadership. Of course, private sector initiatives will not realize development goals in the West Bank and Gaza (or anywhere, for that matter) alone – the dedicated participation of government, nonprofit organizations and the donor community is necessary. But NBC's experience indicates what is possible. Many of their initiatives hold potential for scale and replication – particularly if they partner with other large firms or nonprofit organizations. By collaborating with other enterprises and sharing the global good practices of their own business, NBC could make an even more substantial contribution to the region's long-term development. The following areas offer particularly high potential for greater collaboration going forward:

- **Investing in small enterprise development and entrepreneurship** – Improving the capacity of local suppliers and strengthening the distribution and retail sector through a combination of training, mentoring, convening meetings, sharing good practices, supporting efforts to improve access to credit and targeting support for both women and youth entrepreneurs.
- **Creating incentives and funds to support local innovation** – Supporting local universities, companies and social entrepreneurs that are developing innovative new products, processes and technologies and developing market-based solutions to achieve development goals.
- **Supporting vocational education and workforce development** – Building local human capital and capacity through a variety of training, youth development programs and education initiatives.
- **Improving water efficiency and management** – Improving water quality and the efficiency and reach of local water management efforts as one of the region's most critical and high-risk resources.
- **Spreading international norms and standards** – Sharing product safety and other environmental, labor and human rights standards and ethical business practices.

Conditions shaping the business climate in the West Bank and Gaza are constantly changing. This report is meant to contribute to the broad and evolving conversation about the considerable interdependence between private enterprise and broader economic and social development in this part of the world. By examining the current challenges and opportunities in the West Bank and Gaza, both generally and through the lens of NBC as one of the largest companies operating there, we highlight both the existing leadership role of business and the potential for future partnership between business and other actors. In doing so, we aim to contribute to the ongoing debate of the increasingly important role of the private sector in supporting international development.

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