

# To What Extent Do the Investment Programs in the Small and Medium Enterprises Sector Comply with the Determinants of National Competitive Advantage?

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## Abstract

The analysis of the researcher was corroborated by the expert opinion. In the interview researcher said that, the base is small and medium enterprises, the Palestinian economy is dominated by small and medium family-owned businesses: more than 85% of all establishments are owned by a single individual. Private and public shareholder companies and partnerships constitute less than 11% of all firms. The first and most important step is to establish governance in SMS & Establishing partnerships in shape of fund of funds, we have 6 funds, 60 million fund for industry, fund for agriculture, fund for microfinance, fund for Gaza, Jerusalem, fund convertible process, is not money wise but convincing the owners to change the way of working is the most impediment. According to Porter, competitive advantage results from the presence of world-class institutions that first create specialized factors and then continually work to upgrade them. Additional steps to be undertaken according to Mustafa, SMEs widen and open new markets and further invest in local markets and sponsor high-tech industries.

**Keywords:** SMEs, National Competitive Advantage, Palestinian Economy.

## 1. Introduction

The researcher, with the data provided in the 2011 Palestine Investment Fund Annual Report analyzed the different determinants of national competitive advantage and interpreted through the use of prior concepts and expert views from key personalities.

### 1.1 SMEs Loan Guarantee Facility (LGF)

#### 1.1.1 Factor Conditions

This program has touched all the four determinants of national competitive advantage. In 2011, 3,500 direct and indirect job opportunities were realized. In the program in 2008, the aim of LGF is to help create 15,000 job opportunities by 2013. In this target projected by PIF, the researcher understands this as above expectation. Taking

the ration based on projected figures, the LGF is expected to generate at most 3,000 jobs annually from 2008. But in 2011, it has generated 3,500 which is 14% more than projected.

### **1.1.2 Demand Conditions**

SMEs are firms that cater to both buyers and sellers. In the figure given, the industry given the bulk of the loan is trading, manufacturing and services. These three industries innovate faster and achieve more competitive advantage compared to their foreign rivals.

### **1.1.3 Supporting and Related Industries**

In terms of proximity of beneficiaries, it is in 11 different locations. From Ramallah (West Bank) extending up to Jericho. Based on the data, Ramallah has the biggest share of 21% while Jericho has the least share of 1% of the total fund. It is understood that Ramallah receive the biggest share by reason that it is the capital. There are also more economic activities for SMEs in the three biggest cities which received significant shares. The biggest cities of Hebron received 14%, Nablus received 19% and Jenin and Bethlehem, each gets 11%.

### **1.1.3 Firm Strategy, Structure and Rivalry**

In terms of the culture of management in the economy, most of the firms are located in the capital as well as the large cities as elaborated in the previous determinant. As well as the industry the bulk of the loan was devoted to trading, manufacturing and services. The least share includes communication, transportation and financial services.

## ***1.2 Palestinian Growth Capital Fund (PGCF) for investment in SMEs***

### **1.2.1 Factor Conditions**

The use of basic factors to advance agriculture in Palestine was the concentration of this program. Basically, this type of factor should be given moderate investment. PIF made a bold move by putting much fund in advancing a basic resource to improve this economic area. The advance factor concentrates on education. In education for it to contribute to competitive advantage, it should delve more on the features but also quality.

### **1.2.2 Demand Conditions**

Agriculture was targeted specifically Thimar Company. Thimar is the leading producer and market of fresh herbs in Palestine. It has gained international market in the United States and in Europe. Education was targeted specifically Anoud Company. Anoud is a designer and producer of software specifically interactive educational games.

### **1.2.3 Supporting and Related Industry**

Markets targeted are both local and abroad. With the improvement of agricultural that is to improve a specific sub-industry of herb production. Since it is identified as a leading producer, this program will seek an opportunity for expansion not only in Palestine but also in the US and Europe. With the advent of interactive educational games, it is a smart choice for the fund to target a local company which can expand its market worldwide.

### **1.2.3 Firm Strategy, Structure and Rivalry**

The choice of companies to invest in two domestic companies in the field of agriculture and education only ensures a great return in their respective industries

## ***1.3 Economic Empowerment Program (EEP) for Palestinian Refugees in Lebanon***

### **1.3.1 Factor Conditions**

It aimed to provide job opportunities for Palestinians in refugee camp. Job generated was spread over different sectors such as industry, agriculture, services, technology, health and education.

### **1.3.2 Demand Conditions**

Loan repayments of this program will be reinvested to increase the number of projects for the program.

### **1.3.3 Firm Strategy, Structure and Rivalry**

This project is social in nature. It seeks to provide empowerment among Palestinian in Lebanon.

#### ***1.4 National Program for Developing the Jordan Valley and the Dead Sea.***

##### ***1.4.1 Factor Conditions***

Creation of job opportunities while boosting the agricultural and tourism sectors.

##### ***1.4.2 Supporting and Related Industry***

In support of agricultural products and polystyrene manufacturing plant by developing cold storage facilities. These facilities will be used to preserve and store agricultural products for export. The facilities will be able to store 5, 000 tons of vegetables and fruits throughout the year. Polystyrene will specialize in the production of multiple use insulation materials which represent a better alternative to plastic to store and provide longer life span of products. It supports the agricultural and manufacturing as well. Its market is for the local industry.

##### ***1.4.3 Firm Strategy, Structure and Rivalry***

Partnership with other companies to pursue this program for storage facility then it snowballs to both agriculture and manufacturing.

#### ***2. To what extent do the Investment Programs for Small and Medium Enterprise Sector comply with the determinants of national competitive advantage specifically:***

##### ***2.1 Factor Condition***

There is a significant increase in job opportunities for the people of Palestine. This can be translated not only as income but also productivity.

##### ***2.2 Demand Condition***

SMEs have helped both demand and supply side of the goods and services for the Palestinian people. Private firms as mentioned by Porter are the key elements to gain competitive advantage.

##### ***2.3 Supporting and Related Industries***

The manufacturing sector has eventually helped other industries like agriculture and industry, but such contribution to the economy is not that evident to augment the GDP because it has been previously accounted for in the manufacturing.

##### ***2.4 Firm Strategy, Structure and Rivalry***

The limitations of grants lie heavily on manufacturing, trading and services. This management structure has not given that much interest on tourism which according to an expert is the industry that has contributed significantly in the Palestine economy.

#### ***3. Conclusion***

In the Small and Medium Enterprise Sector, among the four other sectors, this one is more promising. This is because it penetrates smaller businesses. As mentioned by Porter, to derive a competitive advantage of a nation, the strategy to target private enterprises. In terms of factor conditions, the SMEs Sector has tapped the ready available labor resources. In economics, the basic resource labor shall have a domino effect in the economy if used inside the country. Through labor, it augments income on the part of industries. Through productivity, it also augments output which adds up to GDP. In the macroeconomic level, the contribution of SMEs is significant to advance the competitive advantage in terms of Factor Conditions. In the SMEs LGF Program, job creation has already exceeded the projection by 500 jobs more. The PGCF for Investment in SMEs Program tapped labor to work for agriculture and education. The education side is more of information technology for education. The PIF through the EEP has also tapped Palestinian in refugee camps to have jobs in industries, agriculture, services, technology, health and education. The National Program for Developing the Jordan Valley and the Dead Sea has also created job in the field of agriculture and tourism.

For demand condition, through labor income and productivity, SMEs contributed significantly an aggregate consumption and private investment. It does not only cater to domestic market but also overseas. The SMEs LGF caters to domestic firms for loan grants. From its capital and large cities to the smaller and outskirt areas. The PGCF for Investment in SMEs Program tapped two major companies, Thimar who leads the market of fresh herbs and Anoud who designs and produces interactive educational games. The EEP as explained earlier is more of a social project than investment. It seeks to provide empowerment. The repayments will still be reinvested to increase projects and eventually cover more subjects. The National Program since it concentrates on cold storage facilities, the micro essence of shelf life in marketing of products shall prolong products which caters to demand of consumers.

In the supporting and related industries, among the different programs the SMEs LGF has the widest domestic coverage. The SMEs who received loan grants concentrated more on the center and the large cities for easier access to bigger markets. PGCF covers both domestic and markets abroad. This is because of the two main companies, Thimar and Anoud. The National Program supports the agricultural sector and manufacturing as well. The market concentrates domestically.

For firm strategy, structure, and rivalry, the SMEs LGF devoted loans to manufacturing, trading and services. A small share was also devoted for communication, transportation and finance services. The PGCF chose the top companies to invest in because they already have a captured market. The National Program has a good firm strategy that is to invest in cold storage facilities to help alleviate the plight of the agricultural sector type of goods and increase manufacturing.

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