

THE STATE OF PALESTINE NATIONAL EXPORT STRATEGY

FUNCTIONAL STRATEGIES

ACCESS TO FINANCE 2014-2018

رمز الشركة Symbol (05)	سعر الطلب Bid	سعر العرض Ask
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HOTEL	----	----
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MIC \$	----	----
LADAEN	0.30	0.32
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NSC	1.16	----



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ACRONYMS

AFD	French Development Agency	MSME	Micro, Small and Medium Enterprise
FPCCIA	Palestinian Federation of Chambers of Commerce, Industry and Agriculture	NES	National Export Strategy
GIZ	German International Cooperation	OPIC	United States Overseas Private Investment Corporation
ICCP	International Chamber of Commerce – Palestine	PBA	Palestinian Businessmen Association
IDB	International Development Bank	PCBS	Palestinian Central Bureau of Statistics
IFC	International Finance Corporation	PCMA	Palestine Capital Markets Authority
ITC	International Trade Centre	PEC	Palestinian Export Council
KfW	German Development Bank	PFI	Palestinian Federation of Industries
MAS	Palestine Economic Policy Research Institute	PIF	Palestine Investment Fund
MFI	Microfinance Institution	PMA	Palestine Monetary Authority
MIGA	Multilateral Investment Guarantee Agency	PoA	Plan of Action
MoF	Ministry of Finance	PSCP	Palestinian Society for Consumer Protection
MoJ	Ministry of Justice	SME	Small and Medium Enterprise
MoNE	Ministry of National Economy	TSI	Trade Support Institution
MoTIT	Ministry of Telecommunications and Information Technology	TSN	Trade Support Network
		USAID	United States Agency for International Development

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EXECUTIVE SUMMARY

The financial sector in the State of Palestine is relatively small, fragile and limited in terms of its offerings. This is the result of wars, security tensions, and political and social unrest related to the occupation regime. The Palestinian financial sector was revived following the Oslo Accord (1993) and Paris Protocol (1994), which granted the Palestine Monetary Authority (PMA) the power to regulate financial and monetary affairs, although it really only re-emerged following the second intifada.

CURRENT STATE OF THE ACCESS TO FINANCE FUNCTION IN THE STATE OF PALESTINE

The banking sector has grown steadily over the last few years. Currently credit volume is valued at US\$4 billion and resident deposits are valued at US\$7.2 billion. The financial and banking landscape is composed of 17 banks, 10 insurance companies, 350 exchange offices, 10 securities companies, seven financial leasing institutions, two mortgage lending companies, and the Palestinian Stock Exchange.

Despite the positive recent development of the financial sector, access to credit remains a significant problem in the State of Palestine, owing to an incomplete and challenging institutional and regulatory framework; the conservative lending policies and capacities of the financial institutions themselves; and the issue of creditworthiness of enterprises.

COMPETITIVENESS CONSTRAINTS

Competitiveness constraints can be divided into two categories – policy and institutional level constraints relating to legislative matters and service delivery of trade support institutions (TSIs) on the one hand, and enterprise level constraints caused by capacity gaps within enterprises related to dealing with banks and complying with credit requirements on the other.

POLICY AND INSTITUTIONAL LEVEL CONSTRAINTS

These represent the bulk of the challenges facing the access to finance function in the State of Palestine and include:

- High collateral requirements by banks that affect the ability of enterprises to apply for loans;
- The impossibility, in the current legal framework, of movable assets being used as collateral;
- Lack of export credit schemes;
- Lack of an export credit insurance option;
- Inadequate laws and regulations limiting access to trade finance;
- The absence of electronic payment gateways routed through local banks, causing delays and complications for exporting enterprises;
- The absence of deposit insurance, affecting trust in the financial system.

ENTERPRISE LEVEL CONSTRAINTS

These include:

- The perception among banks that Palestinian firms demonstrate poor capabilities to cope with political turbulence and uncertainty;
- The inability of enterprises to provide documentation required for loans to be granted;
- Deficient business management capabilities affecting the creditworthiness of enterprises, notably their inability to comply with taxation laws and regulations; their inability to present required loan documentation such as business plans or financial statements; and their lack of awareness about available financial instruments and trade rules.

CHOICES FOR FUTURE DEVELOPMENT

Improvements to the access to finance function are a critical prerequisite for unlocking the State of Palestine's export competitiveness. Keeping this in mind, the following vision has been developed for the function:

“ A developed Palestinian economy created through improved access to trade finance as a key component for development of foreign trade. ”



Source: © b1mbo. Jordanian bank.v

The following will constitute key elements of the future shape of the function, exemplified through the above vision. These elements are all addressed through the cross-sector's strategic plan of action:

- A strengthened legal and regulatory framework related to the financial sector;
- Development of new, specialized financial instruments suited to the needs of the exports sector;
- Streamlined collateral requirements for micro, small and medium enterprises (MSMEs);
- Improved human capital within the financial sector to cater to and advise MSMEs;
- Improved strategic planning and operational management practices at enterprises.

ROADMAP FOR STRATEGY IMPLEMENTATION

The vision and the key features for the function will be achieved through the implementation of the strategy's Plan of Action (PoA), which revolves around the following three following strategic objectives, each with specific sets of activities intended to address both challenges and opportunities in the access to finance function in the State of Palestine:

- Create an enabling environment for the development of trade finance in the State of Palestine;
- Increase the access to finance, especially trade finance, in the State of Palestine;
- Strengthen the capacity of MSMEs to access financial mechanisms for trade development.

The achievement of these objectives will require continuous and coordinated efforts from all relevant private and public stakeholders, as well as support from key financial and technical partners, donors and investors. Several institutions are designated to play a leading role in the implementation of the strategy's PoA and bear the overall responsibility for successful execution of the strategy. They will be assisted by a range of support institutions that are active in the trade finance function. Each institution mandated to support the development of the trade finance function is clearly identified in the strategy PoA.

Moreover, the proposed Palestinian Export Council (PEC) and its executive secretariat will play a coordinating and monitoring role in the implementation of the strategy within the overall framework of the NES. In particular, PEC will be tasked with coordinating the implementation of activities in order to optimise the allocation of both resources and efforts across the wide spectrum of stakeholders.

Box 1: Building blocks for the access to finance cross-sector strategy

The following analytical components are the building blocks for the access to finance cross-sector strategy:

Current state of Palestinian access to finance

This section discusses the relevance of access to finance for Palestinian export development and provides an overview of the national framework. This overview serves as the basis for a broader analysis of the performance and efficiency of the access to finance cross-sector function in the State of Palestine.

Competitiveness constraints

The effectiveness and efficiency of access to finance is currently restricted because of a host of constraints both at the institutional (supply-side) and enterprise (demand side) levels. These wide-ranging constraints have resulted in restricted access to international markets for Palestinian exporters. The competitiveness constraints section discusses these important challenges and their impact on current and potential exporters.

Trade Support Network (TSN) analysis

Trade support institutions (TSIs) are organizations that have a bearing on the development and delivery of access to finance services in the State of Palestine. An analysis of the effectiveness and capacity gaps affecting these TSIs is important to ascertain the efficiency of the entire access to finance framework.

The TSN analysis section assesses individual TSIs on their capacities in areas such as coordination, financial sustainability, human capital, and advocacy. Analysis is also conducted to assess the TSIs based on their level of influence versus their capacity to respond to client needs. A composite picture is developed of the strengths and weaknesses of the cross-sector's TSN.

Analysis of development activity for the Palestinian access to finance function

Gaining an understanding of the development activity in the cross-sector is relevant because it helps to identify the main thrusts of the various development actors and their initiatives, while also identifying gaps that need to be addressed. This section analyses current levels of development activity for access to finance.

How we get there

The roadmap section highlights the key elements of the strategy for the access to finance cross-sector function and discusses the way forward. This includes the vision for the cross-sector, the strategic objectives, and the implementation management framework.

The analyses and recommendations are based on national level consultations supported by external analytical research. Once endorsed by the Government of the State of Palestine, the strategy will serve as the main roadmap for private and public stakeholders to improve access to finance.



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INTRODUCTION

The access to finance strategy presented in this document is an integral part of the NES of the State of Palestine. The availability of, and easy access to, a wide variety of financial instruments for enterprises will determine, to a large extent, the performance of the key priority sectors of the NES. The ability to leverage financial services will allow enterprises to increase investment, enhance productivity, respond to new trends and market requirements, efficiently fill orders, and adhere to new and advanced quality and product standards. In other words, improved access to finance is essential to enable Palestinian enterprises to invest in the future and ultimately grow their export business.

Despite positive strides made by the financial sector over the recent years, access to credit remains a major challenge which adversely affects the competitiveness of export sectors. Without a clear, result-oriented, and measurable set of activities it will be difficult for the State of Palestine to realize the holistic transformation needed to stimulate a dynamic and modern financial sector that is supportive of exporting enterprises.

This document presents the expectations and strategic objectives of the private and public sectors for the improvement of access to finance in the State of Palestine. Without concerted efforts to address critical issues export sectors will remain constricted. There is significant scope and potential for alleviating current challenges through wide-ranging interventions at the institutional and enterprise levels.

WHERE WE ARE NOW

HISTORICAL PERSPECTIVE

Financial activity in the State of Palestine was severely disrupted by the war of 1967, after which most financial institutions either left the country or were closed. Banks began to filter back into the economy in the 1980s but it was not until the early 1990s that the sector developed. The formal banking sector was revived following the Oslo Accord (1993) and Paris Protocol (1994), which granted the Palestine Monetary Authority (PMA) the power to administer financial and monetary affairs.¹ PMA is the

governmental body responsible for regulating and monitoring the banking sector. It cooperates with private sector institutions and is the sole vehicle through which banking-related government strategies are developed and implemented. Its mission is to promote financial and monetary stability and ensure confidence in the Palestinian financial system, thereby promoting sustainable economic growth.²

1. World Bank (2008). *West Bank and Gaza Financial Sector Review*.

2. Eurofin Hospitality (2013). *Diagnostic Study: Export Readiness & Potential of Services Sectors*.

Although the financial sector continued to develop throughout the end of the last century, the investment climate was seriously affected by the second intifada. With movement and access restrictions imposed on people and goods and the closure and curfews of Palestinian areas, business in general was adversely affected, especially by the tremendous increase in transaction costs, which afflicted both trade and production. The conflict led to a fall in domestic investment and the loss of most foreign investment, and although the banking sector remained liquid it became further characterized by extreme risk aversion and over-collateralization.³

Following the second intifada the financial sector has begun to re-emerge. Nonetheless, access to credit remains a significant problem in the State of Palestine. With regard to accessing credit, the World Bank's *Doing Business 2013* report ranks the State of Palestine at 159, notably

3. World Bank (March 2007). *West Bank and Gaza Investment Climate Assessment: Unlocking the Potential of the Private Sector*.

worse than the regional average of 124. Specific difficulties include the lack of private credit bureau coverage and relatively weak legal rights. It should, however, be noted that the ranking did improve from 165, signalling some improvement. The report does note that the government recently 'improved access to credit information by guaranteeing borrowers' right to inspect their personal data'.⁴ Other improvements over the past decade include the removal of minimum loan values (2009) and the establishment of the public credit registry (2009), both of which have served to increase the flow of financial information and access, thereby increasing financial coverage of the population.⁵ Of utmost importance, the same report ranked the State of Palestine's protection of investors at 49 of 185 countries, significantly better than the regional average of 97. This is a positive sign for the business climate, as such protection is crucial to attracting foreign capital for investment.

4. World Bank (2013). *Doing Business Report, Gaza and West Bank*.

5. *Ibid*.

Box 2: Importance of the access to finance function to trade finance

Modern firms rely upon access to a flexible portfolio of financial services in order to both guarantee the smooth functioning of daily operations and capitalize upon opportunities for new growth. At its core, trade finance refers to the leveraging of financial products for the purpose of engaging in trade, and the ability to access capital is a key factor in determining the success of commercial ventures. When enterprises are able to respond with flexibility to market conditions by funding investments in new products, machinery and processes, they are better positioned to gain a competitive advantage and exploit new opportunities.

A healthy credit environment can stimulate productivity improvement through technology upgrades, quality standards through certification, and market diversification through the design and modification of products to meet new market requirements. Of particular importance then, is the way in which access to finance facilitates industrial improvement and growth.

The financial sector also provides key services that directly allow firms to engage in international trade. Specifically, trade finance helps facilitate transactions through payment facilitation, risk mitigation, financing, and the provision of information regarding payment and shipment status. More than 90% of transactions involve the use of trade finance tools including letters of credit, import bills for collection, import financing, shipping guarantees, letter of credit confirmation, document audit, pre-shipment export financing, invoice financing, and receivable purchase.¹

Through these tools financial intermediaries act on behalf of often relatively unknown trade partners, thereby allowing both buyers and sellers to mitigate the risks associated with information asymmetry in order to guarantee payment and delivery of goods. A healthy trade finance function therefore allows buyers to be sure that they will get what they pay for, and sellers to be confident that they will be paid for their products.

Table 1: Banks operating in the State of Palestine and their branches (Palestinian Monetary Authority, April 2013)

Local commercial banks (53)	Local Islamic banks (23)	Foreign commercial banks (84)
<ul style="list-style-type: none"> • Bank of Palestine PLC (19) • Palestine Investment Bank (7) • Palestine Commercial Bank (6) • Al Quds Bank (16) • The National Bank (5) 	<ul style="list-style-type: none"> • Arab Islamic Bank (9) • Palestine Islamic Bank (14) 	<ul style="list-style-type: none"> • Cairo Amman Bank (19) • Arab Bank (24) • Jordan Kuwait Bank (2) • Jordan Ahli Bank (5) • Bank of Jordan (12) • HSBC Bank Middle East Limited (1) • Egyptian Arab Land Bank (4) • Union Bank (1) • The Housing Bank for Trade & Finance (12) • Jordan Commercial Bank (4)

Source: Palestine Monetary Authority

CURRENT CONTEXT

The financial sector in the State of Palestine is dominated by commercial banks. At the beginning of 2011 there were 213 bank branches, offices and cash offices, representing a growth of 32% from 2008. These branches were spread across 49 locales. While 42 were in the West Bank, the remaining seven were located in the Gaza Strip.⁶ More recent data indicates that there are 17 banks, together with 10 insurance companies, 350 exchange offices, 10 securities companies, seven financial leasing institutions, two mortgage lending companies, and the Palestinian Stock Exchange.⁷ The banks in table 1 are currently operating in the State of Palestine (number of branches shown in brackets).

While the banks provide a variety of traditional services, insurance institutions offer policies for both mandatory insurance (for example car and labour) and a wide array of optional insurance.⁸ Credit access is aided, although in a limited capacity, by the presence of non-bank micro-lenders in the State of Palestine. There are ten micro-finance organizations that operate at a relatively high level of complexity and rely upon donations. These groups currently provide around US\$75 million of credit to roughly 45,000 borrowers. At the moment, however, they only offer credit services and demand for services far exceeds available capital; it is estimated that they meet only 75% of demand.⁹

Although the presence of these various institutions is geographically dispersed, access to them does vary greatly

with location. Moreover, there are towns with significant populations in the Gaza Strip that have no bank branches, including Ethna (population 19,000) and Bani Suhaila (population 31,000).¹⁰

GUARANTEE FACILITIES

A number of organizations are administering loan guarantee facilities in an effort to establish a secure financial backdrop in the face of the unstable business environment. Moreover, these programmes help direct the banking sector away from collateral-based lending towards lending based on modern risk-reward analysis. The Middle East Investment Initiative offers financial backing to banks in order to stimulate increased lending to small and medium-sized enterprises (SMEs). The facility guarantees 70% of the loan value for loans between US\$10,000 and US\$500,000, and it had facilitated about US\$85 million in loans to 446 SMEs by mid-2012.¹¹ Other groups involved in loan guarantees are the Palestine Investment Fund (PIF) (SMEs Loan Guarantee Facility) and the European Palestinian Credit Guarantee Fund. There are currently no other loan guarantee schemes in operation.

INVESTMENT GUARANTEE SCHEMES

Additional financial support is provided by investment guarantees, which help to enhance financial access by mitigating certain risks for foreign investors. The West Bank and Gaza Investment Guarantee Trust Fund is administered by the Multilateral Investment Guarantee Agency (MIGA) and supported by the Palestinian

6. Breul, P., Czarnocki, S., Grossman, J. & Stone, R. (2011). *The Future of Financial Inclusion through Electronic Banking Models in Palestine and the Resulting Regulatory Implications*. Oxford Policy Management and ShoreBank International.

7. Oxford Policy Management Expanded and Sustained Access to Financial Services (ESAF) Programme. *Financial Sector Public Awareness Campaign*. Available from <http://www.amwaly.ps/english.html>.

8. *Ibid.*

9. World Bank (2008). *West Bank and Gaza Financial Sector Review*.

10. Breul, P., Czarnocki, S., Grossman, J. & Stone, R. (2011). *The Future of Financial Inclusion through Electronic Banking Models in Palestine and the Resulting Regulatory Implications*. Oxford Policy Management and ShoreBank International.

11. The Portland Trust (2012). *Palestinian Loan Guarantees*.

National Authority, the European Investment Bank and the Government of Japan. The fund seeks to insure against political risks such as transfer restrictions (currency restrictions), expropriation, war and civil disturbance, and government breach of contract, so that foreign investors can focus their energies on commercial aspects of their business ventures despite the unstable business and political environment.

BANK LENDING

The formal banking sector is comprised of commercial banks, Islamic Banks, and investment banks. Islamic banks are relatively new and have a small share of the market, while the three investment banks are also comparatively small, having capital of less than US\$30 million.¹² Regardless, it should be noted that the investment banks do provide some stimulation, however limited, through longer-term loans. Nonetheless, and despite the presence of other institutions, commercial banks are the backbone of the financial services industry. They offer a wide array of services including loans, credit, deposits, money transfers and cheque processing. Although credit products vary, the majority are comprised of small loans with maturities of up to six years. The interest rate on these loans average from 7% to 9%, and an additional 2.5% in fees is usually requested in advance. The interest rate for overdrafts depends on the currency of denomination. In particular, between 15% and 17% is charged for accounts in New Israeli Shekels, and 9% to 12% on accounts in Jordanian Dinars.¹³ The average loan in the State of Palestine requires collateral valued at 158% of the loan amount.¹⁴

The banking sector has grown steadily over the last few years in terms of both total assets and credit facilities. By the first month of 2013, the total assets of banks in the State of Palestine had grown 24%, reaching US\$10 billion. Credit facilities for resident customers have also grown at exceptional rates; growth from 2009 was 93%, and credit is currently valued at US\$4 billion. Resident deposits have grown 21% since 2009, in line with total asset growth, and are currently valued at US\$7.2 billion. Despite the positive growth over the last four years, the growth rates of key indicators have trended downwards and have in fact been negative or flat since January 2013.¹⁵ Tables 2 and 3 exhibit both the cumulative and annual growth for the above mentioned indicators.

12. Eurofin Hospitality (2013). *Diagnostic Study: Export Readiness & Potential of Services Sectors*.

13. Palestine Economic Policy Research Institute (MAS) (2005). *Report: Financing Palestinian SMEs. Ramallah*.

14. World Bank / PCBS (2006). *World Bank Group Enterprise Survey*.

15. Palestine Monetary Authority (2013). <http://www.pma.ps/>. Accessed 3 March 2013.

VENTURE CAPITAL FUNDS

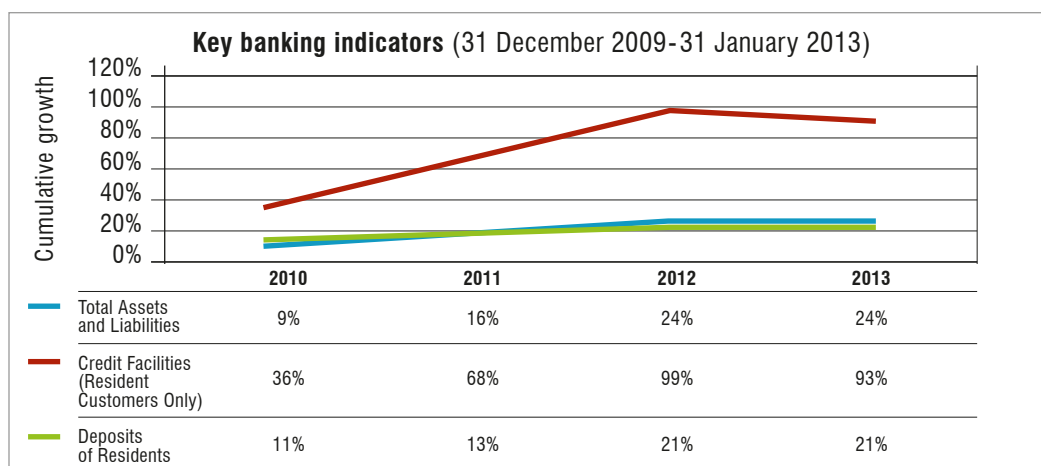
There are currently three venture capital funds operating in Palestine, (Abraaj Capital, SADARA Ventures and The Siraj Fund Management Company). These funds work to assist both existing businesses and entrepreneurs in obtaining capital and technical assistance. The following is a description of these funds:

Abraaj Capital: The Palestine Investment Fund (PIF), a publicly owned investment fund which aims to strengthen the Palestinian economy through key strategic investments, and private equity group Abraaj Capital established a \$50m private equity fund in Palestine. The fund focuses on investing in small – and medium-sized enterprises (SMEs) in Palestine across a range of sectors and stages of maturity. Abraaj is the largest private equity group in the Middle East and North Africa, with offices in six countries. Although SMEs are a critical backbone of the local economy, the sector is underserved in terms of access to capital and degree of institutionalization. The private equity fund gives access to much needed capital for growth and expansion, as well as leverage managerial, operational, strategic know-how and regional networks. It will also help strengthen corporate governance.

Sadara Ventures: Sadara is a long-term Investment fund in companies at early phases of their development, and works closely with the entrepreneurs to provide financial support throughout the investee companies' funding cycles. Sadara seeks to develop close partnerships with a small group of entrepreneurs with the aim to make only 2-3 investments every year, with an expected involvement in portfolio companies to last 4-7 years. The Fund's initial investors include: Cisco, Google (via the Google Foundation), The Soros Economic Development Fund (and affiliated individuals), The European Investment Bank (EIB), the Skoll Foundation, Steve and Jean Case, and a number of other leading individuals from the US financial community.

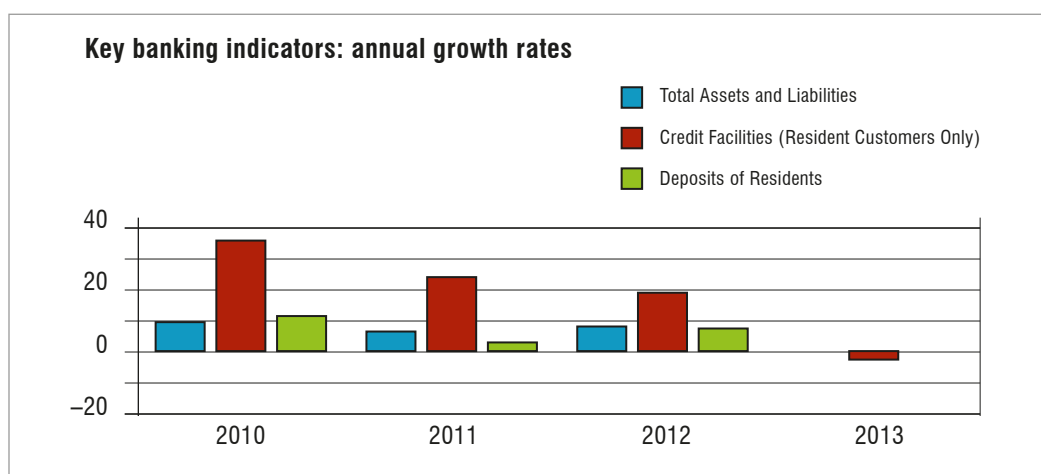
SIRAJ Fund: The Siraj Fund Management Company ("SFMC") is a specialized Palestinian company, founded by Massar International for the sole purpose of managing investment funds in Palestine. The first fund, the Siraj Palestine Fund I, a \$90 Million fund, was launched on February 3, 2011, is a private equity fund comprised of direct equity investments in viable start-up, distressed, SME and relatively large enterprises in Palestine across various economic sectors. Siraj's investments are intended to "unleash" the potential of these Palestinian businesses, while promoting technological advancements and development in the country, spurring economic growth, job creation and innovation in Palestine.

Table 2: Key banking indicators (cumulative growth) 2010-2013



Source: Palestine Monetary Authority

Table 3: Key banking indicators (annual growth) 2010-2013



Source: Palestine Monetary Authority

The banking sector has adopted a conservative approach to credit disbursement, due largely to political uncertainties and an inadequate legal framework that makes it difficult to collect on collateral. It is estimated that only a quarter of loans were able to finance more than 75% of SME needs.¹⁶ Of particular significance is that enterprises do not seem deterred by interest rate levels. Instead, most are hindered by collateral requirements and, to a lesser extent, religious objections. Not only are collateral requirements not proportionate to loan values, but much land outside of city centres is

unregistered and therefore unavailable to use as collateral. Although personal loans are easily collateralized with payroll, enterprises have found it difficult to meet bank requirements. It is estimated that roughly 72% of loan rejections are due to insufficient collateral.¹⁷ The World Bank Enterprise Survey of 2006 noted that around 37% of enterprises claimed that access to finance was a major or severe problem.¹⁸

16. Palestine Economic Policy Research Institute (MAS) (2005). Report: Financing Palestinian SMEs. Ramallah.

17. *Ibid.*

18. World Bank / PCBS (2006). *World Bank Group Enterprise Survey*.



Source: © PalTrade

THE INSTITUTIONAL PERSPECTIVE

Trade support institutions (TSIs) are institutions that have an interest in, and bearing on, the cross-sector's export development. Broadly, the trade services institutions providing important services to the Palestinian access to finance cross-sector function can be categorized in the following support areas:

- Policy support network
- Trade services network
- Business services network
- Civil society network.

Tables 4 to 7 identify the main TSIs whose service delivery affects the access to finance framework in the State of Palestine. An assessment of the TSIs along four key dimensions – coordination, human capital, financial sustainability, and advocacy – is provided. The ranking (high/medium/low) for each TSI was selected in the context of the service delivery of the TSI relative to the access to finance cross-sector function. In other words, the assessment was conducted based on the evaluation of access to finance stakeholders' of TSIs from the perspective of how well the TSIs serve them.

POLICY SUPPORT NETWORK

These institutions represent ministries and competent authorities responsible for influencing or implementing policies related to access to finance at the national level.

Table 4: *Palestinian access to finance policy support network*

Policy support network					
Name	Function/role	Coordination*	Human capital**	Financial sustainability***	Advocacy****
Ministry of National Economy (MoNE)	MoNE is responsible in the State of Palestine for: <ul style="list-style-type: none"> Standards and regulation enforcement; Duty draw back payments; Release of financial guarantees; Industrial licences; Renewal of industrial operating licences; Verification of names; Certification of a Certificate of Origin; Re-exporting transactions; Certified Exporter certificates. MoNE is responsible within the access to finance function for: <ul style="list-style-type: none"> Releasing of financial guarantees. 	H	M	M	M
Palestine Monetary Authority (PMA)	PMA is the authority responsible for the regulation of all banking activities, including microfinance.	H	H	M	M
Palestine Capital Markets Authority (PCMA)	PCMA is the authority responsible for the regulation of non-banking financial services, including some parts of microfinance.	H	H	M	H
Ministry of Finance (MoF)	MoF is responsible for the collection and administration of customs duties, following up on customs revenues from Israel to the Palestinian treasury, and dealing with daily problems facing importers and exporters. In terms of the access to finance function, MoF: <ul style="list-style-type: none"> Defines agreements with various donors for access to finance through banks, via the provision of commodity loans and grants from specific countries such as Italy or France; Defines agreements with international donors to provide loan guarantee schemes to business through banks. 	M	M	M	M

* Coordination with other TSIs: measures the strength of this institution's linkages with other institutions as well as the beneficiaries of their services (in particular, the private sector) in terms of collaboration and information sharing.

** Human capital assessment: assesses the general level of capability of this institution's staff in terms of their training and responsiveness to the sector stakeholders.

*** Financial resources assessment: assesses the financial resources/capacity available to the institution to provide service delivery in an efficient manner.

**** Advocacy: the efficacy of this institution's advocacy mechanisms, and how well/frequently this institution disseminates important information to the sector.

TRADE SERVICES NETWORK

These institutions or agencies provide a wide range of trade-related services to both government and enterprises. These institutions support and promote sectors and are concerned with the delivery of trade and export solutions within a developing country.

Table 5: *Palestinian access to finance trade services network*

Trade services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestine Trade Centre (PalTrade)	PalTrade is the trade promotion organization of the State of Palestine with the mandate to develop exports. PalTrade's mission in access to finance is to advocate for a competitive, business-enabling environment; improve trade competitiveness through trade promotion and capacity-building; foster international business practices and standards among professionals, firms and business organizations; and provide trade-enabling knowledge. With respect to the access to finance function, PalTrade is setting strategies and implementing projects aimed at improving access to finance for exporting enterprises.	H	M	L	M
Palestine Investment Fund (PIF)	PIF is the national sovereign investment fund, which is semi-governmental and provides for loan and mortgage guarantee funds in cooperation with other donors.	H	H	M	M
Palestinian Federation of Industries (PFI)	PFI facilitates industrial development as the basis for economic performance. PFI's representational role is to educate, advocate, and communicate the value of a developed, socially responsible and globally competitive industry. With respect to the access to finance function, PFI is relevant in the following areas: <ul style="list-style-type: none"> • It plays a role in facilitating industrial development for export; • Technical training to enhance Palestinian product performance and exportability; • Technical assistance to industry in improving management systems, including financial management. 	M	L	L	L
Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA)	The Federation's main task is to help local chambers of commerce meet the requirements of the global business environment. It aims to ensure that the private sector operates freely and has a voice in policy formulation at the national level. The Federation also strives to create strong regional and international links to global markets, and works with SMEs to improve their performance, focusing on market access, quality, costing and financial management. FPCCIA is a lobbying and advocacy institution for the private sector.	M	L	L	M

Trade services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
International Chamber of Commerce – Palestine (ICCP)	In areas relevant to access to finance ICCP fulfils the following functions: <ul style="list-style-type: none"> • Provides information on international trade regulation (World Trade Organization agreements, etc.); • Provides international market linkages through the ICC – Paris database; • Provides information for access to trade finance through the international and local banking and trade finance commission. 	M	M	H	H

BUSINESS SERVICES NETWORK

These are associations, or major representatives, of commercial services providers used by exporters to effect international trade transactions.

Table 6: *Palestinian access to finance business services network*

Business services network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestinian Businessmen Association (PBA)	PBA is developing quality management tools (such as balanced scorecards), which help businesses assess their efficiency.	L	L	L	L
Palestinian Network for Small and Micro-finance (Sharakeh)	Sharakeh provides technical assistance to microfinance institutions and microfinance beneficiaries in the State of Palestine.	M	M	M	M
Palestinian Insurance Federation	The Palestinian Insurance Federation aims to promote trust in the Palestinian insurance industry, while cooperating with relevant official bodies and those associated with the insurance sector locally and internationally.	H	M	H	M

CIVIL SOCIETY NETWORK

These institutions are not explicitly engaged in trade-related activities. They are often opinion leaders representing interests that have a bearing on the country's export potential and socioeconomic development.

Table 7: *Palestinian access to finance civil society network*

Civil society network					
Name	Function/role	Coordination	Human capital	Financial sustainability	Advocacy
Palestinian Society for Consumer Protection (PSCP)	PSCP was established to promote consumer rights. For the access to finance function it investigates customer complaints.	L	L	L	L

There is a strong case for investing the effort to improve advocacy capacities among TSIs in order to increase the role of these institutions as representatives of the export community in the policymaking process. Building the capacity to disseminate important information and conducting awareness-raising campaigns on access to finance for the private sector are both necessary.

All TSIs have potentially had some impact in advocating for access to finance as well as providing information on how to access finance. There are two problems facing these organizations: one is the lack of communication between institutions and the other is their financial capacities. Financial sustainability has proven to be an ongoing problem for all private sector institutions. Hence, in order to ensure increased capacity within TSIs to advocate for, and support, increased access to finance for exporters, long-term sustainability measures should be established.

There are opportunities to enhance coordination within the TSN to create a better platform for cooperation to implement the necessary actions for more access to finance for exports. This coordination is also important to ensure that enterprises are aware of existing programmes that would increase access to export finance.

PERCEPTION OF PALESTINIAN TRADE SUPPORT INSTITUTIONS IN THE ACCESS TO FINANCE FUNCTION – INFLUENCE VS. CAPABILITY

The classification below reflects the stakeholders' perception of the institutions level of influence and capacity pertaining to the access to finance function.

Table 8: Perception of Palestinian trade support institutions in the access to finance function – influence vs. capability

		Capacity of institution to respond to sector's needs	
		Low	High
Level of influence on the sector	High	<ul style="list-style-type: none"> • PalTrade • MoF 	<ul style="list-style-type: none"> • MoNE • PMA • PCMA
	Low	<ul style="list-style-type: none"> • FPCCIA • PFI • Sharakeh • PBA • PSCP 	<ul style="list-style-type: none"> • ICCP • PIF

These key institutions are perceived as having capacity in, or influence on, the access to finance function. Few key institutions have both capacity and influence but those that do are some of the most important for this function. It should be noted that PalTrade and MoF should aim to build their capacity to respond to the sector's needs as both organizations are important for the development of export finance. PIF should make efforts to increase its ability to influence.

Various institutions are perceived to have low influence combined with low capacity, including key private institutions such as FPCCIA and PBA, as well as others. The low/low combination for these institutions is a serious problem, since the exporting private sector depends on these institutions for advocacy as well as information on both trade and access to finance.

Numerous institutions show a low level of capacity to respond to the sector's needs. This can be translated into a need to conduct capacity-building within these institutions to increase their ability to provide assistance and information to the private sector on access to finance.

ANALYSIS OF DEVELOPMENT ACTIVITY

The analysis of ongoing development activity in the access to finance function is relevant insofar as it serves to identify the main thrusts of the various development actors and their initiatives, while also identifying gaps and areas of neglect. The latter is especially important as identified gaps will be further analysed and then addressed through specific interventions in the cross-sector's strategic plan of action (PoA).

The main international donor agencies active in the Palestinian access to finance function are the United States Overseas Private Investment Corporation (OPIC), the United States Agency for International Development (USAID), Italian Development Cooperation, the German development bank KfW, and the French Development Agency (AFD). PIF and Palestinian banks also play major roles in the process of developing access to finance, as well as microfinance.

Table 9: Existing projects for enhancing access to finance in the State of Palestine

Project	Status	Funding agency / lead implementer	Expected areas of intervention
Loan Guarantee Fund	Ongoing	OPIC, USAID, PIF and CHF, implemented by CHF and banks	Reducing risk in providing finance by banks to SMEs
KfW Loan Guarantee Fund	Ongoing	European Investment Bank, KfW, implemented by KfW and selected banks	Reducing risk in providing finance by banks to SMEs
Italian Commodity Loan	Ongoing	The Italian Government, implemented by selected local banks and MoF	Provide loans to SMEs for purchasing Italian commodities and equipment
French Commodity Loan and Matching Grant Scheme	Ongoing	AFD, French Government, implemented by MoF, AFD and banks	Provide loans for the purchase of French equipment to SMEs, involving a grant component

Most interventions in the access to finance function are at the policy level. They include encouragement from PMA for banks to provide loans to clients, including a requirement for a deposit to loan percentage ratio. Other examples are the introduction of regulation to the microfinance industry, as well as the licensing of a microfinance bank.

Donor interventions mostly fall within three areas. The first area is reducing the risk for banks providing loans to SMEs through the implementation of two loan guarantee schemes that assure repayment of up to 80% of the amount of the loan. This aims to encourage banks to give SMEs loans for business development and export by reducing risk. The second area of intervention is providing soft loans to SMEs in order to assist them in

obtaining new production technologies and equipment at lower costs. The third area of intervention is the provision of technical assistance to PMA and PCMA in developing a modern and flexible regulatory system while still maintaining stability of the monetary and financial system.

These programmes neglect some areas which need to be addressed, such as the creation of export credit schemes that meet the needs of SMEs. There is also a need for the creation of export credit insurance, which needs to be established in order to reduce the risk of exporting for SMEs. Further information needs to be provided to consumers so that they are able to benefit from existing finance mechanisms.

COMPETITIVENESS CONSTRAINTS

Box 3: Overview of institutional issues affecting access to finance in the State of Palestine

- Enterprises face significant challenges in meeting the collateral demands of lending institutions because of land control arrangements.
- High collateral requirements by banks affect the ability of enterprises to apply for loans.
- The legal framework does not allow movable assets to be used as collateral.
- There are human capital challenges in the financial sector which affect its ability to cater to the needs of MSMEs.
- There is a dearth of specialized financial products for MSMEs.
- The microfinance sector lacks a regulatory framework.
- The absence of electronic payment gateways routed through local banks increases delays and complications for exporting enterprises.
- The low level of equity investments in the MSME sector has hindered the flow of investments.
- There is a lack of export credit schemes.
- There is no export credit insurance option in the State of Palestine.
- Inadequate laws and regulations have an adverse impact on access to trade finance.
- The absence of deposit insurance is affecting trust in the financial system.

ENTERPRISES FACE SIGNIFICANT CHALLENGES IN MEETING THE COLLATERAL DEMANDS OF LENDING INSTITUTIONS BECAUSE OF LAND CONTROL ARRANGEMENTS

Exporting enterprises face major challenges in using land as collateral for securing loans. There is no land registry in Area C, which is under Israeli military control. This has significant implications for enterprises that own land in the area but are unable to access it. For this reason, land owned in Area C cannot be used as collateral.

For Area B, use of land as collateral is also not possible in cases where there is a security issue. According to the Oslo agreement, civilian affairs in Area B are the responsibility of the Palestinian National Authority, while security affairs are the responsibility of the Israeli side. This arrangement has led to a complete lack of development of land registration facilitation. There is an urgent need to extend the effectiveness of the land registry to Areas B and C.

In Area A the land registry functions quite well but there are some issues with contracted land, especially in Bethlehem, and Hebron to a lesser extent. Most of the land in these areas is owned by either the government or the church and land is contracted out by these entities. Such land cannot be used as collateral.

HIGH COLLATERAL REQUIREMENTS BY BANKS AFFECT THE ABILITY OF ENTERPRISES TO APPLY FOR LOANS

Lending institutions reduce the risk of default on loans by asking for high collateral. There are a number of reasons for the perceived high risk of default. First, the existing political risk in the State of Palestine adds to the perception among lenders of potential default. The political risk translates into business inefficiencies which, in turn, adversely affect important aspects of export relationships such as delivery times.

The perception of risk at banks is also high due to inefficiencies within the judicial systems. The turnaround time for a liquidation process initiated because of loan default is very long and adds to transaction costs for banks. This increases the overall cost to banks of providing loans. A related critical gap is the absence of specialized courts that can deal with business-related challenges in a swift and efficient manner.

THE LEGAL FRAMEWORK DOES NOT ALLOW MOVABLE ASSETS TO BE USED AS COLLATERAL

There is currently no adopted legal framework for the use of movable assets as collateral for bank loans, and there is no existing registry for movable assets in Palestine, which would guarantee that these assets are duly and legally registered to ensure that they are not sold, and that they formulate true collaterals. The legal framework for such a registry does not exist. Given the challenges that companies face in utilizing land as collateral, movable assets collateralization could offer alternate options. However, the legal framework in Palestine does not currently allow for this.

THERE ARE HUMAN CAPITAL CHALLENGES IN THE FINANCIAL SECTOR WHICH AFFECT ITS ABILITY TO CATER TO THE NEEDS OF MSMES

There is a dearth of skilled lending officers trained to respond to the specific needs of MSMEs seeking loans. Officers are not adequately trained or informed to respond to the queries of MSMEs. Also, financial institutions do not offer financial advice to enterprises, as is best practice in other countries. Advisory services can be aimed at helping firms practice good financial management practices and maintain the minimum documentation required by lending institutions.

THERE IS A DEARTH OF SPECIALIZED FINANCIAL PRODUCTS FOR MSMES

The Palestinian lending sector does not currently have specialized financial products for the micro and small scale sectors, with the exception of micro-finance institutions, which provide for very small and relatively high cost and short term loans. The Banking Sector has identified that they need to supplement the traditional focus on the corporate and retail banking with specific products for MSMEs, since the current practice has led to a lack of development of financial products that cater to the MSME sector. Products and services, including providing counselling services and technical assistance, and specialized packages to cater to the needs of MSMEs have been identified by both the banking sector and the potential beneficiaries as requirements that are needed to help MSMEs aiming to export their products to access the required finance to do so.

THE MICROFINANCE SECTOR LACKS A REGULATORY FRAMEWORK

The microfinance model has seen significant success in many parts of the development world; however its potential has not been fully explored in the State of Palestine. An important contributing factor for the slow development of the sector is that there is no regulatory framework relating to microfinance institutions in the State of Palestine (although it is currently being developed by PMA).

In the absence of a framework, microfinance institutions are led through donor support and are registered as charities. To an extent, this has affected the efficiency and infusion of best practices that the commercial lending sector is usually associated with. Given the limited regulations related to the establishment and operations of microfinance institutions they do not operate under strict commercial rules, leading to low levels of transparency and efficiency.

THE ABSENCE OF ELECTRONIC PAYMENT GATEWAYS ROUTED THROUGH LOCAL BANKS INCREASES DELAYS AND COMPLICATIONS FOR EXPORTING ENTERPRISES

In the absence of an electronic payment gateway available through local banks, payments have to be routed through payment gateways in Jordan or Israel resulting in inconvenience and increased costs for enterprises. The lack of legal framework contributes to the absence of such a gateway, whereby a law and regulations need to be developed to allow local financial institutions to provide for e-payments, thereby encouraging MSMEs to sell their products through the internet. Laws such as protection of personal data, and e-contracting are not currently active in Palestine, and they are needed to ensure that e-payment systems can function properly.

THE LOW LEVEL OF EQUITY INVESTMENTS IN THE MSME SECTOR HAS HINDERED THE FLOW OF INVESTMENTS

Equity financing has not yet gained a foothold in the Palestinian financial sector, partially because 98% of enterprises are SMEs. Equity funds typically require large investments in order to be profitable, and the small average size of enterprises has hindered this so far. The aforementioned VC funds are working on providing VC to MSMEs, but again the requirements for guarantees and operational adjustments are high and can only be achieved by a small percentage of the companies.

THERE IS A LACK OF EXPORT CREDIT SCHEMES

There is currently a lack of export credit schemes in Palestine, primarily due to the small size of the exports sector as well as the high prevalence of MSMEs versus medium-large sized firms. Currently existing schemes only exist for deals that exceed USD 5 million, such as the export credit scheme provided for by the Islamic Development Bank. Most exporting MSMEs do not even have the productive capacity to meet the aforementioned ceiling, and hence cannot benefit from this scheme.

THERE IS NO EXPORT CREDIT INSURANCE OPTION IN THE STATE OF PALESTINE

The prevailing political risk and supply consistency issues affecting the exporting sector have prevented the growth of an export credit insurance option in Palestine. Most insurance companies in Palestine are part of re-insurance schemes with international re-insurance service providers, but this insurance is limited to simple non-export related insurance programmes. Re-insurance services for exporters are not available, with the exception of maritime and shipping insurance.

INADEQUATE LAWS AND REGULATIONS HAVE AN ADVERSE IMPACT ON ACCESS TO TRADE FINANCE

The Palestinian Companies Law is outdated and limits access to finance for enterprises. The law does not contain any legal basis for mergers and acquisitions. The law has an impact on capitalization as relevant to corporate and shareholding requirements for capital formation, and thereby has an impact on the legal framework for equity shareholding and venture capital investments. The concept of venture capital investment is a timed investment with expected growth of the company and an exit strategy for the investor. With the legal framework of the Companies Law full re-registration of the shares, as well as the distribution of profits based on shares only, is a limitation on venture capital agreements. There is thus a vital need to review the current law and draft a new version based on identified weaknesses.

THE ABSENCE OF DEPOSIT INSURANCE IS AFFECTING TRUST IN THE FINANCIAL SYSTEM

There is a requirement for establishing a deposits insurance system in Palestine. The lack of this insurance has impacted the level of deposits in banks, and in turn impacts the lending ability of banks. Ultimately MSME loan

seekers are adversely affected. Processes at the legal and regulatory level must be reviewed in this regard. A positive step in this regard relates to the new deposit insurance scheme signed in May, 2013 by the president, through which a deposit insurance corporation is being established to ensure deposits.

BANKS BELIEVE PALESTINIAN FIRMS HAVE POOR COPING CAPABILITIES WITH RESPECT TO POLITICAL TURBULENCE

MSMEs are perceived by banks as being less able to cope with political turbulence that adversely affects market conditions. Given the fragile political and security situation in the State of Palestine, MSME sector firms find it difficult to apply for loans successfully.

THE INABILITY OF ENTERPRISES TO PROVIDE DOCUMENTATION AFFECTS LOAN GRANTING DECISIONS

Well-run firms are able to provide documentation and paperwork that exhibits their ability to repay loans. Palestinian MSMEs are unable to demonstrate creditworthiness in the form of documentation to banks. There is a credit rating system run by PMA that is relatively new (implemented less than a year ago) and untested.

STRATEGIC AND BUSINESS MANAGEMENT CAPABILITIES NEED TO BE STRENGTHENED IN ORDER TO IMPROVE THEIR CANDIDACY FOR LOANS

As discussed earlier, there are a number of deficiencies at the enterprise level which prevent them from demonstrating good creditworthiness to lending institutions.

- **Improvements are needed in the quality management framework at enterprises.** Quality levels at the enterprise level must be brought in accordance with Palestinian, as well as target market, requirements. This will lead to more sustainable growth in terms of export relationships, and in turn give lending institutions more confidence. Specifically, there is a need to ensure that standard quality certifications such as ISO 9001 etc. are implemented at the enterprise level.
- **Compliance with Palestinian taxation laws and rules is needed.** Demonstrable compliance through requisite paperwork is an important aspect of assuring lending institutions that the enterprise seeking financing is indeed a responsible one.
- **Improved strategic planning is needed, reflected in documentation such as business plans.** Among the documentation required by banks in order to issue loans, evidence of solid strategic and operational planning is greatly desired. Technical assistance and training is required to improve skills within enterprises related to management and planning. Efficient management of production processes throughout the value chain is likely to increase lending potential. This planning extends to marketing and business development (market penetration) plans for new markets.
- **There is a need to improve the awareness of MSMEs of available financial instruments and rules of trade such as letters of credit, Incoterms, etc.** The high dependence on Israeli customers has partially led to low awareness levels of these rules of trade.

There is also a need to strengthen the linkages between academia and businesses to develop a steady talent pipeline of professionals who can provide this expertise. Formalized internship programmes will allow current staff to get more first-hand experience.

Box 4: Overview of enterprise level issues

- Banks believe Palestinian firms have poor coping capabilities with respect to political turbulence.
- The inability of enterprises to provide documentation affects loan granting decisions.
- Strategic and business management capabilities need to be strengthened in order to improve their candidacy for loans.
 - Improvements are needed in the quality management framework at enterprises.
 - Compliance with Palestinian taxation laws and rules is needed.
 - Improved strategic planning is needed, reflected in documentation such as business plans.
 - There is a need to improve the awareness of MSMEs of available financial instruments and rules of trade such as letters of credit, Incoterms, etc.

WHERE WE WANT TO GO

THE FUTURE PERSPECTIVE: THE WAY FORWARD

Palestinian enterprises, especially in the MSME sector, have low levels of operational and investment capital available. The lending sector is an important actor in this regard in terms of supporting the growth of the exports sector. The analyses conducted as part of the access

to finance cross-sector function strategy development reveal that the trade finance function is constrained by uncertainty and risks of instability on the one hand, and by significant institutional and enterprise level challenges on the other. Important improvements are urgently required.

With the above in mind, the following vision has been developed for the access to finance cross-sector function:

“ A developed Palestinian economy created through improved access to trade finance as a key component for development of foreign trade. ”

The following will be key elements of the future shape of the function, exemplified through the above vision. These elements are all addressed through the cross-sector's strategic plan of action:

- Strengthened legal and regulatory framework related to the financial sector;
- Development of new, specialized financial instruments suited to the needs of the exports sector;
- Streamlined collateral requirements for MSMEs;
- Improved human capital within the financial sector to cater to and advise MSMEs;
- Improved strategic planning and operational management practices at enterprises.



Source: © PalTrade

HOW WE GET THERE

STRATEGIC PLAN OF ACTION: THE TOOL TO REALIZE THE VISION

As discussed below, three strategic objectives have been identified in order to realize the overall vision for the cross-sector.

1. Create an enabling environment for the development of trade finance in the State of Palestine. This objective will be realized through initiatives implemented along the following dimensions (or operational objectives):

- Strengthen coordination between institutions active in the cross-sector function to deliver targeted financial services to exporters;
- Enhance the regulatory framework in order to increase sustainability of the microfinance function;
- Realize the potential for e-commerce in the State of Palestine through development of a related legal and regulatory framework;
- Develop political risk insurance schemes to protect investments of Palestinian exporters;
- Enhance the capabilities of commercial and other types of specialized courts to resolve disputes in an expeditious and impartial manner.

2. Increase access to finance, especially trade finance, in the State of Palestine. This objective will be realized through initiatives implemented along the following dimensions:

- Streamline and reduce collateral requirements for MSMEs;
- Increase benefits from loan guarantee funds by reducing requirements on consumers that are currently onerous and burdensome;
- Establish an export credit scheme which would include provisions for funding ranging from production to the export process;
- Increase the responsiveness of financial institutions to the needs of MSMEs through training, incentives and development of new financial products suited to the needs of enterprises in the exports sector;
- Adapt equity finance and venture capital funds to meet small clients' needs;
- Introduce the concept of financial leasing.

3. Strengthen the capacity of MSMEs to access financial mechanisms for trade development. This

objective will be realized through initiatives implemented along the following dimensions:

- Provide ongoing information and technical assistance to MSMEs on trade finance;
- Enhance knowledge levels within enterprises on exporting and trade finance and management.

IMPORTANCE OF COORDINATED IMPLEMENTATION

The broad range of activities, together with the complex nature of integrated intervention, requires careful implementation involving efficient allocation of resources and monitoring of results at both the micro and macro levels.

To this end the Palestinian Export Council (PEC) will be established in order to facilitate the public-private partnership in elaborating, coordinating, and implementing the NES. In particular, PEC will be tasked with coordinating the implementation of activities in order to optimize the allocation of both resources and efforts across the wide spectrum of stakeholders. Within this framework, the implementation of the access to finance strategy will fall within the purview of PEC.

Specific efforts will be made to direct donor, private, and public sector organizations towards the various NES priorities in order to avoid duplication and guarantee maximum impact. Responsibilities will also include monitoring the results of activities and outputs, while at the same time recommending policies that could serve to enhance the realization of the strategic objectives. With a 360 degree view of progress, PEC will be best placed to manage funding and provide regular reports to donors and stakeholders.

Moreover, PEC will play a key role in recommending revisions and updates to the strategy so that it continues to evolve in alignment with the State of Palestine's changing needs.

THE STATE OF PALESTINE CROSS-SECTOR
EXPORT STRATEGIES

PLAN OF ACTION



Strategic objective 1: Create an enabling environment for the development of trade finance in the State of Palestine.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.1 Strengthen coordination between institutions active in the cross-sector function to deliver targeted financial services to exporters.	1.1.1 Establish a standing public-private committee to ensure constant communication and coordination of efforts to improve access to finance for export development by discussing and updating the issues list and access to finance development agenda, and present solutions.	3	Private sector	Form a public-private committee on access to finance.	Committee formed and meeting regularly to update access to finance issues and make recommendations to the higher dialogue committee.	MoNE	Banking Association, PMA, PalTrade	GIZ + Canadian International Development Agency Public-Private Dialogue Programme through the Private Sector Development Programme*	30 000
	1.1.2 Validate an access to finance development agenda to build synergies between the various private and public stakeholders.	3	Private sector	Develop agenda through stakeholder participation.	Agenda developed and agreed to by stakeholders.	MoNE	Banking Association, PMA, PalTrade		
	1.1.3 Liaise on an annual basis with sector, technical and financial partners to discuss the access to finance development agenda.	2	Private sector	Hold regular review of the agenda and update through a bi-annual 'access to trade finance' workshop.	Agenda updated on a bi-annual basis.	MoNE	Banking Association, PMA, PalTrade		
1.2 Enhance the regulatory framework in order to increase sustainability of the microfinance function.	1.2.1 Change registration requirements for not-for-profit companies so registrations are executed by the MoNE company registrar, as indicated in the PMA microfinance institution (MF) regulation work plan. This should be done through regulations to be issued by PMA in order to ensure that MFIs operate on a commercial basis.	3	MSMEs	Issue regulations for registration of MFIs by PMA.	Regulations issued and implemented.	PMA	Sharakeh, PalTrade, FPCCIA	MFI regulation programme implemented by PMA	50 000
	1.2.2 Commercialize microfinance (change from charity) and allow MFIs to take deposits if they meet certain sustainability and transparency criteria.	3	MSMEs	PMA issues regulations and criteria for taking deposits from clients and implement these regulations.	Regulations issued and implemented and criteria used for changes in MFI operations.	PMA	Sharakeh, private sector institutions	MFI regulation programme implemented by PMA	100 000
1.3 Realize the potential for e-commerce in the State of Palestine through development of a related legal and regulatory framework.	1.3.1 Create a legal and regulatory framework for electronic payment gateways in order to facilitate electronic trade and electronic payment procedures for potential export of products.	1	Private sector, banks, financial services institutions	Draft and adopt e-transactions law and regulations	Law and regulations adopted and implemented.	Ministry of Telecommunications and Information Technology (MoTIT)	PMA, banks, MoNE	Programme on e-transactions being implemented by MoTIT, which has already developed a draft law to be implemented	100 000
	1.3.2 Create the legal and regulatory framework for e-commerce, including e-contracts, data protection and e-payment regulations in order to allow for electronic commerce.	2	Private sector	Draft and adopt laws and implementing regulations for e-commerce.	Laws and regulations adopted and implemented.	MoTIT	MoNE, PMA, PCMA, Ministry of Justice (MoJ), Ministry of Interior, banks		200 000

Strategic objective 1: Create an enabling environment for the development of trade finance in the State of Palestine.

Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
1.4 Develop political risk insurance schemes that will provide insurance on delays in delivery resulting from political risks such as closures, curfews, delays at checkpoints etc. This type of insurance will be available to Palestinian exporters and will protect them from these types of risks, which affect delivery times. This programme will have to be part of the MIGA programme, and will include any type of force majeure resulting from political uncertainty. This type of insurance will be provided by local insurance companies.	1.4.1 Create political risk insurance schemes that will provide insurance on delays in delivery resulting from political risks such as closures, curfews, delays at checkpoints etc. This type of insurance will be available to Palestinian exporters and will protect them from these types of risks, which affect delivery times. This programme will have to be part of the MIGA programme, and will include any type of force majeure resulting from political uncertainty. This type of insurance will be provided by local insurance companies.	1	Private sector exporters	Discuss and reach agreement on the creation of political risk insurance through MIGA, in partnership with other donor agencies.	Agreement reached and funding available for the creation of insurance schemes to be implemented by local insurance companies.	MoNE	PCWA, PIF, World Bank, PalTrade, chambers of commerce, insurance companies, MoF		10 000 000
1.5 Enhance the capabilities of commercial and other types of specialized courts to resolve disputes in an expeditious and impartial manner.	1.5.1 Expedite the collateral liquidation process through ensuring that mechanisms are in place for the enforcement of court decisions. This would increase the trust of financial institutions in the system, and thereby facilitate exporting businesses accessing credit by providing collateral. 1.5.2 Create specialized commercial/ financial courts to expedite the process of dispute resolution through specialized venues for dispute resolution. 1.5.3 Adopt alternative dispute resolution mechanisms for international trade disputes to be implemented by MoJ and the International Chamber of Commerce's Arbitration Centre.	1	Banks and financial institutions	Create implementing regulations and train law enforcement officials on enforcement of court decisions. Create the legal framework for specialized courts and train judges and arbitrators. Update arbitration laws and regulations to meet international arbitration standards, including implementation of arbitration awards by Palestinian courts.	Regulations in place and law enforcement officials knowledgeable on the regulations and how to enforce court decisions. Legal framework created, adopted and in force, and judges and arbitrators trained. Legal framework updated and judges trained on implementation of arbitration awards.	Land Authority MoJ	PMA, MoNE, PCWA, MoJ MoNE, MoF, PalTrade, chambers of commerce		250 000 1 500 000 300 000
	1.5.4 Create and operationalize a deposit insurance scheme to be funded by the PMA and participating banks, to ensure that a minimum amount of deposits is guaranteed against banks failing to meet their financial commitments.**	1	Banks, depositors	Deposit insurance scheme already adopted by PMA but needs follow up, including the establishment of the institutional structure for the scheme.	Insurance scheme implemented and in force, and institutional structure activated.	PMA	MoF, PIF, banks	PMA deposit insurance programme currently being implemented	30 000 000
	1.5.5 Introduce consumer protection in financial services within consumer protection law, which would include transparency provisions, risk provisions, information provisions and consumer education programmes. The amendments must be introduced following a public-private dialogue in which the issues are discussed by the two parties and then presented to the legislature for adoption.	3	Consumers	Draft and adopt amendments to the consumer protection laws and regulations to insure inclusion of financial services.	Consumer protection law and regulations amended.	MoNE	PMA, PCMA		200 000
	1.5.6 Review and adopt a modern company registration law which would include mergers and acquisitions, share distribution, venture capital provisions, and the types of companies needed for enhancing responsibility and access to finance. These additions to the Companies Law would facilitate access to finance such as venture capital and equity financing by modernizing the structure and mandates of companies.	3	Private sector	Create amendments to Companies Law based on international standards, adopt and enforce.	Companies Law amended and adopted.	MoNE, MoJ	Council of Ministers, President's Office, trade support institutions		160 000

* GIZ Private Sector Development Programme is working on the enhancement of public-private dialogue through the creation of an institutional basis for this dialogue in both the public and private sectors.

** Initial step: Palestinian president signs a decree law "Palestinian Deposit Insurance Corporation"; <http://www.pma.ps/index.php?view=article&catid=108%3Anews&id=389%3A-president-mahmoud-abbas-signs-a-decree-law-to-establish-the-palestinian-deposit-insurance-corporation>

Strategic objective 2: Increase access to finance, especially trade finance, in the State of Palestine.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.1 Streamline and reduce collateral requirements for MSMEs.	2.1.1 Enact a movable assets registry to ensure the possibility of using movable assets as collateral.	3	Private sector	Adopt a movable assets law and create a registry.	Law adopted and registry created.	MoNE	PMA/PCMA	Programme by the World Bank International Finance Corporation (IFC) for drafting of the movable assets law and regulations, and creation of a registry	250 000
2.2 Increase benefits from loan guarantee funds by reducing requirements on consumers that are currently onerous and burdensome.	2.2.1 Reduce requirements on consumers through ensuring that the guarantee translates to lower collateral demands on loans covered by the scheme.	3	Private sector	Discussions to be held with loan guarantee funds and banks to ensure that benefits are targeting MSMEs.	Database created and being used, registration of Area B started.	Land Registration Authority	MoF, Ministry of Local Government	European Union land registration assistance programme to Land Registry	1 000 000
2.3 Establish an export credit scheme which would include provisions for funding ranging from production to the export process.	2.3.1 Create export credit schemes through banks or credit institutions which would include a buyer credit facility backed by export contracts and payment instruments, and supplier credit financing facilities and loans, also based on export contracts and payment instruments. The scheme would also include project financing if the project was aimed for export; the provision of export insurance policies, bond insurance policies and overseas investment insurance; a letter of credit guarantee scheme; and a foreign exchange credit support providing credit for all aspects of the export process.	2	Private sector, exporters	Create export credit programmes/schemes in cooperation with banks and international export credit programmes such as International Development Bank (IDB), downsized to ensure inclusion of MSMEs.	Export credit schemes created and implemented.	PMA	PMA, loan guarantee funds, banks	IDB export credit programme	100 000 in technical assistance and 5 000 000 for export credits
2.4 Increase the responsiveness of financial institutions to the needs of MSMEs through training, incentives and development of new financial products suited to the needs of enterprises in the export sector.	2.4.1 Train loan officers, through the Academy of Banking and Financial Services in cooperation with PalTrade and chambers of commerce, on how to deal with the needs of MSMEs, including providing information and coaching.	2	MSMEs	Hold training of bank officers on how to deal with the specific needs of MSMEs.	Training held and MSME programmes created in banks.	MoNE	Banks, MFIs, chambers of commerce		150 000

Strategic objective 2: Increase access to finance, especially trade finance, in the State of Palestine.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
2.4 Increase the responsiveness of financial institutions to the needs of MSMEs through training, incentives and development of new financial products suited to the needs of enterprises in the export sector.	2.4.2 Provide information and training to MFIs through the Trade and Investment Commission of ICCP, as well as chambers of commerce, on rules of trade and how to trade internationally, including Incoterms etc.	3	MSMEs	Provide training to MSMEs on international trade rules and contracts.	MSMEs trained and capable of dealing with international trade contracts.	ICCP	Banking Association, MoNE, Sharakeh, chambers of commerce	International Chambers of Commerce, PalTrade programme for trade and investment commission	300 000
	2.4.3 Create new bank and MFI financial products to meet the needs of MSMEs through PMA providing incentives such as tax cuts and other support functions.	2	MSMEs, banks, MFIs	Provide incentives for banks to provide new services to MSMEs.	Incentives in place to encourage banks to create new financial products for MSMEs.	PMA	MFIs, consulting companies, PCMA		400 000
	2.4.4 Provide incentives to lending and financial institutions to better support MSMEs, such as tax reduction incentives, training programmes, and reduction in cash reserve requirements by PMA.	3	MSMEs	Provide incentives to banks to cater to MSME needs.	Incentives in place and banks catering to MSMEs through specialized programmes.	PMA	MoF		260 000
2.5 Adapt equity finance and venture capital funds to meet small clients' needs.	2.5.1 Create specialized equity finance packages by creating an investment portfolio for SMEs with potential for export, which would deal with small return values and provide for technical upgrading of the SMEs.	3	SMEs with export potential	Provide incentives to equity and venture capital funds to deal with MSME financing needs.	Incentives in place.	Equity finance and venture capital funds	PCMA, MoNE		100 000
	2.6 Introduce the concept of financial leasing, in order to provide for leasing of production equipment.	2	SMEs with export potential	Create legal and regulatory framework.	Legal and regulatory framework created and in force.	PCMA	Financial leasing companies, PCMA	PCMA programme on financial leasing supported by IFC	400 000

Strategic objective 3 : Strengthen the capacity of MSMEs to access financial mechanisms for trade development.									
Operational objective	Activities	Priority 1=low 2=med 3=high	Beneficiaries	Target measures	Means of verification	Leading implementing partner	Supporting implementing partners	Existing programmes or potential support	Estimated costs (US\$)
3.1 Provide ongoing information and technical assistance to MSMEs on trade finance.	3.1.1 Survey available financial instruments (regular, micro, insurance, etc.) to MSMEs and exporters in order to write a 'Palestinian guide to export finance' (pre-shipment and post-shipment). This guide to be available online through trade information websites.	3	Exporters/MSMEs	Conduct a survey and publish a guide.	Survey conducted and guide published.	PalTrade	PMA, PCMA, Banking Association, MoNE		100 000
		3	Private sector	Conduct information campaign.	Campaign conducted.	Banking Association	PMA, PCMA, PalTrade, FFCCIA, Sharakeh		200 000
		2	MSMEs	Provide training to MSMEs on financial planning, sales and marketing.	Training provided and MSME knowledge increased.	PalTrade	MfIs, Banking Association		500 000
3.2 Enhance knowledge levels within enterprises on exporting and trade finance and management.	3.1.4 Provide ongoing technical assistance to MSMEs in preparing due diligence for getting loans through training specialized loan officers on how to do one-on-one training for each applicant.	3	MSMEs	Provide technical assistance to MSMEs on how to prepare due diligence.	Technical assistance provided.	Banking Association	MfIs, PalTrade, chambers of commerce		1 000 000
		1	Private sector	Create a dialogue between the private sector and academia to introduce access to finance issues.	Dialogue started and issues to be introduced to academia agreed on.	Ministry of Higher Education	MoNE, Private Sector Coordination Council, Education for Employment, Banking Association, Injaz		1 400 000
		1	Private sector	Prepare a training programme for fresh university graduates.	Programme being implemented.	PalTrade	Private sector companies, donors		2 500 000

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رمز الشركة	سعر الطلب	سعر العرض	آخر صفقة
Symbol (07)	Bid	Ask	Last
PMHC \$	0.80	----	0.83
AQARIYA	----	0.75	0.75
TIC \$	1.09	1.16	1.11
ELECTRODE	2.00	----	2.08
NAPCO	----	0.84	0.80
PALAQAR	----	0.63	0.66
PSE \$	----	5.00	4.99

Source: © PalTrade

APPENDIX 1: LIST OF STAKEHOLDERS

Name	Organization	E-mail
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