



**The European Union's Project for ENP South Countries  
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**Enhancement of the Business Environment in the  
Southern Mediterranean**

**Assessment of Palestinian Policies to Facilitate  
Access to Finance for MSMEs**

**Prepared by: Raed W. Rajab**

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### **Disclaimer**

This report has been prepared with financial assistance from the European Union. The opinions expressed herein are those of the authors and may not represent the position of the EU.

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## ABBREVIATIONS AND ACRONYMS

EPCGF	European Palestinian Credit Guarantee Fund
IFC	International Finance Corporation
GNP	Gross National Production
MAS	Palestine Economic Policy Research Institute
MFI	Microfinance Institution
MSMEs	Micro, Small and Medium Enterprises
PMA	Palestine Monetary Authority
SBA	Small Business Act
SIDA	Swedish International Development Cooperation

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## INTRODUCTION

### 1. Objectives and structure of the study

The overall objective of this study is to contribute unlocking the situation of Palestinian MSMEs with regards to access to finance. To do so, this study first identifies existing public policies, mechanisms and instruments supporting MSMEs financial needs for development (e.g. guarantees, bank loans, risk capital, microfinance, etc.); then, based on key findings, it issues policy recommendations to improve the situation for MSMEs and facilitate meeting their financial needs.

This report is structured in three main sections as follows:

#### ***Section1: Mapping of existing access to finance instruments***

This section presents public instruments available. For each instrument, detailed characteristics are presented and practical links are displayed for the use of MSMEs seeking more detailed and practical information.

All instruments are presented in the form of fact sheets designed to cover the required information and to provide a closer view on the situation in Palestine. The instruments fall into 5 categories: (i) Bank loans and facilities; (ii) Guarantee funds and risk-sharing mechanism; (iii) Private equity and venture capital ; (iv) Leasing, factoring and Islamic finance; and (v) Microfinance and innovative finance

#### ***Section 2: Evaluating existing access to finance instruments effectiveness***

Based on key findings, and on the work carried out by the SMEs' Committee this report issues some policy operational recommendations to unlock access to finance for newly established or existing SMEs in Palestine.

### 2. Status of Access to Finance in Palestine

The Palestinian financing sector is facing a major dilemma: on one side, the market is relatively big, with good potential demand and available resources for funding (even-over liquidity), while actual demand from and supply of credit for SMEs remain very low<sup>1</sup>. The dilemma has hindered MSMEs' ability to grow and develop due inter alia to: the lack of export orientation and capacity, limited use of modern managerial, marketing and financial concepts, and the limited government support and the absence of a national strategy to develop this sector.

#### ***Definition of SMEs***

The Palestinian National Authority has adopted the definition of SMEs in Palestine as set forth by the Ministry of National Economy pursuant to the Cabinet decision dated 4/10/2011 number (01/105/13/ف.س.و.م), Article 2, year 2011, as follows:

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<sup>1</sup> Report financing Palestinian SMEs, Palestine Economic Policy Research Institute - MAS, pp.4

Enterprise classification	Number of employees	Annual Turnover (USD/ EURO)	Registered capital (USD/ EURO)
Micro	1-4	Up to 20,000 (Euro 18,305)	Up to 5,000 (Euro 4,576)
Small	5-9	From 20,001 to 200,000 (Euro 18,306- 183,049)	From 5,001 to 50,000 (Euro 4,577 – 45,762)
Medium	10-19	200,001 to 500,000 (Euro 183,050 – 457,624)	From 50,001 to 100,000 (Euro 45,763 – 91,525)

Furthermore, the PMA circular 53 specifically addressed SMEs that are characterised by less than 25 employees, with annual sales not exceeding USD 7 Million or equivalent<sup>2</sup> (EUR 6.6 million). The PMA definition becomes after consultations with banks, Microfinance Institutions (MFIs), and guarantees funds for criteria to identify SMEs since the Cabinet definition didn't reflect the reality of SMEs in Palestine.

SMEs represent 99% of all enterprises present in Palestine, according to the PMA Research Department, and have the following characteristics:

- 97% of the SMEs employ less than 9 employees.
- 99% of the SMEs employ less than 20 employees.
- SMEs absorb 80% of the labour force in Palestine.
- 45% of the SMEs are considered informal sector and employ around 28% of labour force in the private sector.
- SMEs encompass 8% of the GNP.
- 80% of the SMEs depend on the personal savings of their owners for operational and start-ups costs.
- 88% of the total lines of credit to SMEs are less than 3 years maturity<sup>3</sup>.

Irrespective of the political and economic situation, insufficient financial resources at start-up and for growth at later stages, coupled with a difficulty in accessing the needed financing have proved to be significant obstacles for Palestinian SMEs.

In addition, most SMEs lack access to capital and financing from local finance institutions and are generally unable to satisfy lender collateral requirements, resulting in little access to funding or insufficient loan sizes that do not meet the capital needs of borrowers.

### 3. Methodology

The following presents the steps to carry out the mapping exercise. Activities were undertaken in close coordination with the National Advisor for Palestine, Mr. Ali Faroun, Consumer Relations and Market Conduct Department, from PMA:

#### 1. Compilation of information available in Palestine

The mapping started with the collection of all available information, including: 1) available recent studies, 2) information available on the internet; and 3) interviews of main financial providers; etc.

<sup>2</sup> PMA Circulars 53/2013

<sup>3</sup> Palestine Monetary Authority, Research Department. 2015

2. Preliminary findings and policy recommendations: based on the desk top study and consultations.
3. Consultations with the SMEs Technical Committee in Palestine: Consultations revolved around the effectiveness of these programmes and instruments as perceived by organisations representing MSMEs.
4. Elaboration of the report:

The report includes information compiled and the main findings, based on which policy recommendations are drawn to improve/enhance Access to Finance for MSME at country level. Best practices in the area of access to finance for MSME in Palestine, have also been identified.

## COUNTRY FACT SHEETS

### 1. Guarantee funds and risk-sharing mechanism

<b>Guarantee funds and risk-sharing mechanism</b>	
<b>Programme</b>	<b>The European Palestinian Credit Guarantee Foundation (EPCGF)</b>
<b>Characteristics</b>	EPCGF is a development programme launched on October 2005 for the Palestinian Authority financed by the European Union and the Federal Republic of Germany through KfW Entwicklungsbank to enhance SME competitiveness and, on a sustainable basis, support income generation, employment creation, and poverty reduction.
<b>Total Amount committed</b>	The Credit Guarantee Fund currently stands at EUR 31.5 million. Loan ceiling per individual business is EUR190,000.
<b>Application procedure</b>	SMEs shall qualify for a given banks' lending requirements including clearance from the Credit Information Bureau of the Palestine Monetary Authority (PMA).
<b>Eligibility</b>	Creditworthy SMEs who have been in operation for a minimum of 2 years are eligible. They must be privately-owned, viable, and employ 20 employees or less and meet prudent credit evaluation and criteria set by EPCGF. Those businesses must be able to: <ol style="list-style-type: none"> <li>1. Generate sufficient cash flow to sustain operation and repayment of the loan.</li> <li>2. Provide the bank with sufficient sectary/ collateral, in many cases SMEs are unable to provide the necessary collateral and thus the bank will not be able to lend. The program aims at substituting for the collateral which the bank asks for.</li> <li>3. Start-up operations are also eligible to the programme against specific criteria (limited to Euro 0.95 million in total).</li> </ol>
<b>Terms</b>	Loans guaranteed may finance: <ol style="list-style-type: none"> <li>1. Working capital (raw materials, inventory, receivables, etc)</li> <li>2. Working capital loans may be repaid over a period of up to three years with 6 months grace period.</li> </ol>

	<p>3. Capital investments (fixed assets, equipment and machinery, refurbishments, etc)</p> <p>4. Capital Investment loans may be repaid over a period of 5 years with 12 months grace period.</p>
<b>Contact</b>	<p>EPCGF          Al-Jamil Center – Irsal Street          Third Floor Suite 2, Al Bireh          P. O. Box 4079, Al Bireh, Palestine.          Phone: + 970 2 240-0327          Fax: + 970 2 240-082</p>
<b>Link</b>	<p><a href="http://www.cgf-palestine.com/">http://www.cgf-palestine.com/</a></p>

<b>Guarantee funds and risk-sharing mechanism</b>	
<b>Programme</b>	<b>Loan Guarantee Facility (LGF)</b> managed by Middle East Investment Initiative (MEII).
<b>Characteristics</b>	MEII launched the ten-year LGF in 2007, in the West Bank and Gaza to stimulate SME lending by providing its nine partner banks (representing 85% of the Palestinian credit market) with guarantees for 70% of the principal amount of loans to bankable SMEs. MEII also provides its partner banks with technical assistance, enabling them to assess the viability of SME borrowers and structure loans to meet working capital and longer-term needs, maximizing potential for full repayment. MEII guarantees the SME loan on behalf of OPIC and PIF. MEII's guarantee is backed by letters of guarantee from OPIC and PIF (back to back guarantee).
<b>Total Amount committed</b>	Operational collateral funding is provided by Norway and other public and private donors. It has been leveraged by Euro151.2 million in loan guarantee provided by the US Overseas Private Investment Corporation (OPIC) and the Palestine Investment Fund (PIF). As of 30 Sept. 2015, MEII approved to guarantee 963 loans totalling Euro139 million.
<b>Application procedure</b>	<ol style="list-style-type: none"> <li>1. Lenders submit to MEII a request to guarantee on a loan by loan basis.</li> <li>2. MEII assesses the borrowers' debt service ability based on cash flow analysis and approves/rejects the request.</li> <li>3. MEII conducts due diligence and nominates interested lenders to be approved by OPIC and PIF.</li> <li>4. Approved lenders sign a guarantee facility agreement.</li> <li>5. MEII staffs provide hands-on training and technical assistance to lender loan officers to develop their SME lending experience and capabilities.</li> </ol>
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• LGF will not guarantee Overdraft facilities or refinanced debt.</li> <li>• SMEs must be 51% privately owned.</li> <li>• Certain environmentally unfriendly industries are excluded.</li> </ul>
<b>Terms</b>	<ul style="list-style-type: none"> <li>• 10-year facility.</li> <li>• 70% coverage on outstanding loan principal.</li> <li>• Lender may make a demand for payment on guarantee after 6 months of borrower default.</li> <li>• Lenders only charge a utilization fee for the guarantee, no upfront fees</li> </ul>



	<p>or commitment fees.</p> <ul style="list-style-type: none"> <li>• The applicant should have thorough knowledge of the sector.</li> <li>• Short term working capital loans (up to 18 months) and long term fixed asset loans.</li> <li>• Loans amount range from Euro 9.45K to Euro 472.6K with case by case approval for larger loan amounts.</li> </ul>
<b>Contact</b>	<p>Middle East Investment Initiative  500 Eighth St., NW Washington DC, 20004, United States  Tel: +1 202.799.4345 - Fax: +1 202.799.5000</p>
Link	<p><a href="http://www.meiinitiative.org/?TemplateId=projects&amp;catId=1&amp;MenuId=3&amp;id=3&amp;full=1&amp;Lang=1">http://www.meiinitiative.org/?TemplateId=projects&amp;catId=1&amp;MenuId=3&amp;id=3&amp;full=1&amp;Lang=1</a></p>

<b>Guarantee funds and risk-sharing mechanism</b>	
<b>Programme</b>	<b>SIDA Guarantee Facility (SGF)</b> designed and managed by Middle East Investment Initiative (MEII).
<b>Characteristics</b>	<p>SGF is a Euro 18.9 million facility for SMEs and housing loans in East Jerusalem, Gaza Strip and Area C of West Bank. It includes a commercial risk guarantee and a political risk guarantee.</p> <p>MEII launched the ten-year SGF in 2014, to stimulate SME lending in the marginalised areas of East Jerusalem, Area C of West Bank and Gaza Strip by providing its five partner banks with commercial and political risk guarantees on the principal amount of loans to bankable SMEs. MEII coverage also includes housing loans for families wishing to buy their primary residence in the marginalised areas. MEII provides the guarantee that is backed by a back to back guarantee from SIDA. In addition, MEII provides technical assistance directly to SMEs to develop financial transparency and disclosure.</p>
<b>Total Amount committed</b>	As of 30 Sept. 2015, MEII approved to guarantee 126 loans totalling Euro 6.14 million.
<b>Application procedure</b>	<ol style="list-style-type: none"> <li>1. MEII conducts due diligence and nominates interested lenders for approval by SIDA.</li> <li>2. Approved lenders sign a guarantee facility agreement.</li> <li>3. Lenders submit to MEII a request to guarantee on a loan by loan basis.</li> <li>4. MEII assesses the borrowers' debt service ability based on cash flow analysis and approves/rejects the request.</li> <li>5. MEII staff provide hands on training and technical assistance to lender loan officers to develop their SME lending experience and capabilities.</li> </ol>
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• LGF will not guarantee Overdraft facilities or refinanced debt.</li> <li>• SMEs must be 51% privately owned.</li> <li>• Certain environmentally unfriendly industries are excluded.</li> <li>• SMEs must be located in marginalised areas. No businesses in Area A &amp; B of West Bank are eligible.</li> </ul>
<b>Terms</b>	<ul style="list-style-type: none"> <li>• 10 year facility for SMEs and 20 year facility for housing loans.</li> <li>• Loans amount range from Euro 9.45K to Euro 472.6K with case by case</li> </ul>

	<p>approval for larger loan amounts.</p> <ul style="list-style-type: none"> <li>• Depending on geographic area commercial risk coverage can go up to 60%, or up to 85% in case of East Jerusalem. Optional political risk coverage is 90% of outstanding principal amount.</li> <li>• Housing loans coverage is 50% of loan amount.</li> <li>• Lender may make a demand for payment on guarantee after 6 months of borrower default. Lenders only charged a utilization fee for the guarantee, no upfront fees or commitment fees.</li> <li>• Loan by loan approval and sector agnostic.</li> <li>• Short term working capital loans (up to 18 months) and long term fixed asset loans.</li> </ul>
<b>Contact</b>	<p>Middle East Investment Initiative  500 Eighth St., NW Washington DC, 20004, United States  Tel: +1 202.799.4345 Fax: +1 202.799.5000</p>
Link	<p><a href="http://www.meinitiative.org">http://www.meinitiative.org</a></p>

<b>Guarantee funds and risk-sharing mechanism</b>	
<b>Programme</b>	<b>West Bank and Gaza Investment Guarantee Trust Fund (MIGA)</b>
<b>Characteristics</b>	<p>Insures against political risks (transfer restrictions, expropriation, war and civil disturbance, and government breach of contract) with a maximum of Euro4.73m coverage per SME investment projects that have a high employment-generating capacity. Projects supported by the Fund must be financially and economically viable, environmentally sound, and consistent with the labour standards and development objectives of the West Bank and Gaza.</p>
<b>Total Amount committed</b>	<p>The Trust Fund had committed around Euro 22.68 million as of October 30, 2015.</p>
<b>Application procedure</b>	<p>Applicant follow two steps:</p> <ol style="list-style-type: none"> <li>(1) A preliminary general application to submit with no application fee encountered. Afterwards,</li> <li>(2) A definitive application that details the investment and financing plans along with any relevant project documentation and a processing fee through MIGA's website, via email, or by post.</li> </ol>
<b>Restrictions</b>	<p>Insures investments from any MIGA member countries for West Bank and Gaza. Locally-sourced investments in convertible currency are also eligible. Eligible forms of investment include equity, (non) shareholder loans, non-shareholder loans, and shareholder loan guaranties issued by equity holders (three-year maturity minimum).</p> <p>Supports primarily new investments but movable assets, technical assistance, management contracts, and franchising and licensing agreements and new investments (expansion, modernization, or financial restructuring) are also eligible, as well as privatization of state enterprises and existing investments in association with new investments (not exceeding</p>

	50 percent of the total value of the new investment amount).
<b>Terms</b>	<p><u>Pricing</u>: Premium rates on a project per project basis and vary by sector, transaction and the type of risk insured (paid upfront).</p> <p><u>Duration of guarantee</u>: Coverage is available for up to 15 years. Once issued and effective, MIGA cannot terminate the contract unless the insured defaults on contractual obligations, but the guarantee holder may reduce or cancel coverage on any anniversary date of the contract starting with the third or as may be determined by MIGA on a case by case basis</p> <p><u>Amount of coverage</u>: For equity investments, up to 90 percent of the investment. For loans and loan guaranties, up to 95 percent of the principal, plus interest over the term of the loan. For contractual agreements: up to 90 percent of the total value of payments due under the insured agreement. Where necessary, MIGA will assist in obtaining co- or reinsurance in order to increase available capacity.</p>
<b>Contact</b>	<p>MIGA office mail stop U12-1205 1818 H St., NW Washington, DC 20433, USA - Tel. 00 1.202.458.4798 - Fax. 00 1.202.522.0316</p> <p>World Bank Country Office Jerusalem, West Bank and Gaza PO Box 54842 - Tel. +970 2 2366571</p> <p>Contact person: Layali Abdeen</p>
<b>Link</b>	<a href="https://www.miga.org/documents/westbankgazaTF.pdf">https://www.miga.org/documents/westbankgazaTF.pdf</a>

<b>Guarantee funds and risk-sharing mechanism</b>	
<b>Programme</b>	AFD ARIZ's Risk-Sharing Mechanism (support for the risk of financing private investment in AFD's areas of operation)
<b>Characteristics</b>	<p>ARIZ is a risk-sharing mechanism designed to give micro, small and medium-sized enterprises and microfinance institutions easier access to financing. ARIZ was established by AFD (Agence française de développement) in 2008 with an initial endowment of Euro 250 million. In 2015, ARIZ provided Euro 121 million worth of guarantees to commercial banks to facilitate SME access to finance. The guaranteed outstanding amount of ARIZ was of Euro 730 million in 2015. The program provides both Single Deal and Portfolio guarantees for risk sharing allocated for loan portfolios as an instrument for banks seeking to develop their mesofinance activity and loan portfolio for micro-enterprise and SMEs.</p> <p>Main characteristics of the portfolio guarantee are:</p> <ol style="list-style-type: none"> <li>1) Coverage of the credit risk on a loan portfolio of up to 50%.</li> <li>2) Eligible loan amounts ranging between Euro 10,000 and Euro 300,000 or their counter value in local currency</li> <li>3) Maturity of 1 to 7 years</li> </ol> <p>Main characteristics of the Single deal guarantee are:</p> <ol style="list-style-type: none"> <li>1) Coverage of the credit risk on a loan portfolio of up to 50% (75% for loans to MFIs).</li> <li>2) Upper limit for AFD's risk exposure of Euro 2 million (for example 50% of</li> </ol>

	<p>a Euro 4 million loan).</p> <p>3) Maturity of 2 to 12 years</p>
<b>Total Amount committed</b>	Since its launching in Palestine, The program provided guarantees of Euro 22.5 million for loan sizes amounted to Euro 45 million.
<b>Application procedure</b>	ARIZ targets financial institutions that comply with international standards for credit risk management. To become eligible to the ARIZ guarantee, the banks have to go through an eligibility process conducted by the local AFD office. To initiate the process, a bank has to send an interest letter along with its financial reports and portfolio information.
<b>Restrictions</b>	<p>The guarantee mechanism targets banks seeking to develop their lending activity to SMEs and micro-enterprises with risk sharing for an entire business segment. The portfolio guarantee agreement allows 50% of the loans allocated by bank to be systemically guaranteed. These loan are required to meet the eligibility criteria defined in the agreement. The bank informs AFD of the situation of its portfolio of guaranteed loans every six months. The eligibility criteria for the programs as follows:</p> <ul style="list-style-type: none"> <li>• The program follows the Palestine Monetary Authority definition or any other definition adopted by the bank.</li> <li>• ARIZ can guarantee an entire pre-defined loan portfolio to support SME start-ups, development and transfers.</li> <li>• No minimum age of the company, ARIZ can cover loans to start-ups.</li> <li>• No minimum required turnover.</li> <li>• Could cover up to 50% of the loan amount.</li> <li>• type of innovation to be funded: nothing particular.</li> </ul>
<b>Terms</b>	<ul style="list-style-type: none"> <li>• The lending institution must submit an interest letter and go through an eligibility process to AFD's local agency to guarantees the initiative.</li> <li>• The maximum loan value (Amount of eligible loans) up to Euro 2 million for Single Deal guarantees and for Portfolio guarantee: Euro 10,000 to Euro 300,000 or their counter value in local currency.</li> <li>• Required collaterals according to the bank's lending procedures.</li> <li>• length of the loan guaranteed from 2 to 12 years for Single Deal guarantees and 1 to 7 years for portfolio guarantees</li> </ul>
<b>Contact</b>	<p><u>Local Agency:</u> Mr. Bruno JUET Director E-mail : juetb@afd.fr</p> <p>Mr. Hani Tahan Head of Banking and Private Sectors : E-mail: tahhanh@afd.fr</p> <p>Consulat Général de France 3 rue Baibars Street - Sheikh Jarrah P.O. Box 66717 - 91190 Jérusalem <i>via</i> Israël TERRITOIRES PALESTINIENS</p>

	<p>Tél. (972) 2 540 04 23  Fax (972) 2 540 02 27  E-mail : <a href="mailto:afdjerusalem@afd.fr">afdjerusalem@afd.fr</a></p> <p><u>Headquarters:</u>  Agence Francaise De Developpment (AFD)  5 rue Roland Barthes  75598 Paris Cedex 12 – France  Tel: +33 1 53 44 31 31  Fax: +33 1 44 87 99 39</p>
<b>Link</b>	<p><a href="http://www.afd.fr">www.afd.fr</a></p> <p><a href="http://territoirespalestiniens.afd.fr">territoirespalestiniens.afd.fr</a></p>

#### 4. Private equity and venture capital

<b>Private equity and venture capital</b>	
<b>Programme</b>	<b>Arabreneur</b> - Launched in June, 2013
<b>Characteristics</b>	<u>Aim:</u> Engaging young entrepreneurs in their development and provide them with facilities to use their creativity and time to develop technology start-up companies that will provide them economic and social growth. The entrepreneurs will find facilities, mentors and working spaces in various locations where they get support in the setup and growth of their own company. type of funding required: we provide an angel money. The range of the required is Euro 47.26 – 236.29 K.
<b>Total Amount committed</b>	Invested over Euro 0.95 million in 14 technology start-ups since mid 2013.
<b>Application procedure</b>	Applicants shall submit an online application on the Arabreneur website: <a href="https://www.f6s.com">https://www.f6s.com</a>
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• A start-up is a company that is in its growth stage and needs acceleration to enter new markets and acquire new clients (no minimum anteriority, but minimum one client).</li> <li>• Acceleration program, soft-landing, door-opening services, MBAN program (MENA Business Angel Network).</li> <li>• Don't guarantee loans, invest in return of equity</li> </ul>
<b>Terms</b>	<ul style="list-style-type: none"> <li>• Expenditures financed: new markets, acquiring clients, improving the business, growing the team.</li> <li>• No collaterals (shareholders agreement)</li> <li>• Targeted return: 30%.</li> </ul>
<b>Contact</b>	Arabreneur - 5 <sup>th</sup> floor, Kharaz Building, Jafa Street, Ramallah, Palestine
<b>Link</b>	<a href="http://www.arabreneur.com">www.arabreneur.com</a>

<b>Private equity and venture capital</b>	
<b>Programme</b>	<b>Ibtikar Fund</b>
<b>Characteristics</b>	Launched February 2015 - Invests in tech start-ups at the earliest stages, seed stage in partnership with accelerators - Take equity investments, can offer convertible notes
<b>Total Amount committed</b>	Euro 9.45 million, 5 year investment period, 10 year fund
<b>Application procedure</b>	An interested entrepreneur shall submit an Executive Summary and Company Presentation (downloadable) from the following website: <a href="http://ibtikarfund.com/for-entrepreneurs/">http://ibtikarfund.com/for-entrepreneurs/</a>
<b>Restrictions</b>	Not applicable
<b>Terms</b>	Ibtikar invest in highly-skilled and complementary management teams that are willing to take risks and go out of their comfort zones. Ibtikar look for ideas that are innovative, primarily, but not only in the tech fields. They invest in ideas that have a regional or global market and that answer real market needs. Ibtikar invest in portfolio companies that satisfy the following conditions: <ol style="list-style-type: none"> <li>1. It is owned (meaning, a holding of at least 51% of the means of control of the Company) by Palestinians.</li> <li>2. Its principal factory is situated in Palestine or a substantial amount of the proceeds of the investment will be spent in Palestine.</li> </ol>
<b>Contact</b>	Ambar Amleh COO, Ibtikar Fund <a href="mailto:ambar@ibtikarfund.com">ambar@ibtikarfund.com</a>
<b>Link</b>	<a href="http://www.ibtikarfund.com">www.ibtikarfund.com</a>

<b>Private equity and venture capital</b>	
<b>Programme</b>	<b>FastForward Accelerator / Leaders Organization</b>
<b>Characteristics</b>	Founded in 2002, FastForward is Palestine's first start-up accelerator, providing aspiring Palestinian entrepreneurs with the resources they need to succeed in the global market. Selected start-ups are given a seed investment of Euro 18,900 through Ibtikar Fund, project-based mentorship from a seasoned pool of knowledgeable entrepreneurs, prime office space

	and office resources, a network of expert business advisors, and a library of educational materials. Through its 120-day program, FastForward helps entrepreneurs transform fledgling tech ideas into viable, competitive businesses. FastForward was established in 2013 by Leaders Organisation as Palestine's first start-up accelerator.
<b>Total Amount committed</b>	Euro 18,900 Cash Investment – Euro 28,355 in-kind
<b>Application procedure</b>	To apply, applications are sent out two months before the start of the acceleration program, where FastForward ask for detailed information about the following: Team, Product, Competition and History & Financials (Basic). For details shall visit: <a href="http://www.leaders.ps/the-fastforward-accelerator-program/">http://www.leaders.ps/the-fastforward-accelerator-program/</a>
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• Team level investment – Minimum 2 founders.</li> <li>• Founders should commit a full time commitment at accelerator</li> <li>• At least one team member must be of Palestinian origin</li> <li>• English proficiency</li> </ul>
<b>Terms</b>	Euro 18,900 Cash Investment – Euro 28,355 in-kind (120 Days of Incubation that includes the following: Coaching, Mentoring, Office Space, Office Resources, Testing Lab, Trainings, and expansion opportunity to the USA and to Europe). Valuation is Standard at FastForward, all companies are provided with Euro 18.9K Cash investment, in exchange of a 10% equity (valuation at Euro 189K).
<b>Contact</b>	Leaders Organization 2nd Floor, Adel Masri Bldg – Al-masyoun, Ramallah
Link	<a href="http://leaders.ps/">http://leaders.ps/</a>

<b>Private equity and venture capital</b>	
<b>Programme</b>	<b>Palestine Information and Communications Technology Incubator (PICTI)</b>
<b>Characteristics</b>	First independent Palestinian organization based in Ramallah with a branch in Gaza. PICTI launched its incubation programs on 2004 and aims to assist technology entrepreneurs to commercialize their ideas by designing, developing, implementing and promoting those initiatives.
<b>Total Amount committed</b>	2012: Euro146,500 2013: Euro 70,415 2014: Euro 89,792 2015: Euro 47,259 (as on end of November 2015)

<b>Application procedure</b>	PICTI announces a competition for entrepreneurs in IT targeting innovative business ideas, and then evaluate the received the application by a jury panel. For more information about the application process about pre-incubation and incubation programs, visit PICTI website: <a href="http://www.picti.ps">www.picti.ps</a>
<b>Restrictions</b>	For a company to be eligible to enter the PICTI incubator, it must be an Information and Communications Technology (ICT) start-up business that develops or provides (or will develop or provide) equipment, software services or content that supports the communication and processing of digitalised information and/or has ICT as a key business driver.
<b>Terms</b>	The seed fund is provided during the incubation period of six months. And for the in-kind services during the pre-incubation and incubation period as well as he seed fund allocated by PICTI to the project, entrepreneurs agree to give back to PICTI an equity share of an amount of 10% of the company.
<b>Contact</b>	CEO – Bayan Aabed – <a href="mailto:Bayan.aabed@picti.ps">Bayan.aabed@picti.ps</a> Adress: Ougarit Bldg. – 3 <sup>rd</sup> Fl., Al-Irsal   <b>T:</b> +970 2 297 1990   <b>F:</b> +970 2 297 1991
Link	<a href="http://www.picti.ps">www.picti.ps</a>

<b>Private equity and venture capital</b>	
<b>Programme</b>	Sharakat
<b>Characteristics</b>	Sharakat was established in 2013, and is responsible for structuring, managing and monitoring the various Palestine Investment Fund (PIF) dedicated investment funds in the MSME space, in addition to monitoring a number of existing and new MSME financing and guarantee facilities and investment vehicles that are managed by partners.
<b>Total Amount committed</b>	PIF has committed Euro 47.26 million to the Sharakat Fund, while the projected target size of the Fund is Euro 141.76 million which will be reached through local and international partners.
<b>Application procedure</b>	Interested applicant shall submit a business plan proposal following the link below: <a href="http://www.sharakat.ps/wordpress/submit-a-business-plan/">http://www.sharakat.ps/wordpress/submit-a-business-plan/</a>
<b>Restrictions</b>	Sharakat consists of a number of MSME investment funds and financing programs targeting different economic sectors and geographic areas.  1. Sharakat Investment Fund: targets a number of vital economic sectors that are crucial to the development of the Palestinian economy, such as Jerusalem, Microfinance, Agriculture, Industry, IT, Health, Education, and Renewable Energy.



	2. Sharakat Financing Facilities: support a wide section of MSMEs, cover a wide geographic area, and includes direct lending facilities (both conventional and microfinance), and loan guarantee facilities. Sharakat's Financing Facilities, which are managed by partners, include: Loan Guarantee Facility, Ijara Company, and Jerusalem SME Lending Facility.
<b>Terms</b>	<p>Sharakat's Key Investment Terms:</p> <ul style="list-style-type: none"> <li>• Sharakat invests in established and start-up MSME's with high potential for growth and expansion.</li> <li>• Sharakat's investment ticket size ranges from Euro 0.19 million to Euro 2.84 million for a stake between 15% and 40%.</li> <li>• Sharakat plans to exit investments within 5-7 years after companies become able to survive on their own.</li> <li>• Exit strategies include: IPO, management buyout, and sale to strategic investors.</li> </ul>
<b>Contact</b>	<p>Ramallah, Palestine  Tel: (+970) or (+972) 2 296 9600  Fax: (+970) or (+972) 2 296 9615  P.O. Box 413,  Email: <a href="mailto:info@sharakat.ps">info@sharakat.ps</a></p>
<b>Link</b>	<a href="http://www.sharakat.ps">http://www.sharakat.ps</a>

<b>Private equity and venture capital</b>	
<b>Programme</b>	Siraj Fund Management Company
<b>Characteristics</b>	<p>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.</p> <p>The first fund, the Siraj Palestine 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. Siraj has plans to launch future funds focused on the Palestinian market thereby contributing to the sustainable development of the country.</p>
<b>Total Amount committed</b>	Euro 85.06 Million (since 2011) - 83% of Fund size committed
<b>Application procedure</b>	For applicant with investment proposal, shall apply through the following website:

	<a href="http://www.siraj.ps/index.php?TemplateId=2&amp;PageId=4&amp;ParentId=4&amp;Lang=en">http://www.siraj.ps/index.php?TemplateId=2&amp;PageId=4&amp;ParentId=4&amp;Lang=en</a>
<b>Restrictions</b>	In reviewing prospective Portfolio Companies and selecting investments for the Fund, the Fund Manager will take into account factors such as: Company's overall growth prospect, competitive advantage due to technological edge and/or strategic positioning, financial strength and depth and high-quality management team who adhere to the highest standards of transparency and accountability.
<b>Terms</b>	In order to protect its interests, the Fund shall seek membership on the boards of directors of each of its Portfolio Companies. The Fund will also use other appropriate means for verifying that a company is committed to improving its business tactics, such as working closely with the donor community that is currently implementing projects to support business development initiatives in Palestine – specifically those organizations that have imposed requirements on targeted companies to adopt their programs and participate in all business development services provided by the donor organization.
<b>Contact</b>	Address and Telephone: P.O. Box 2137 Ramallah, Palestine Tel: + 970 (2) 240-9108 Fax: + 970 (2) 240-9110 Email: <a href="mailto:info@siraj.ps">info@siraj.ps</a>
<b>Link</b>	<a href="http://www.siraj.ps/index.php">http://www.siraj.ps/index.php</a>

### 3. Others (e.g. grant schemes, honour loans, innovative finance )

<b>Grant Schemes</b>	
<b>Programme</b>	Palestinian Market Development Programme (PMDP)
<b>Characteristics</b>	The Palestinian Market Development Programme (PMDP), is funded by UK Department for International Development (DFID) and European Union (EU) in-cooperation with the Ministry of National Economy and implemented by DAI Europe over a period of five years in the OPT, with offices both in Ramallah and Gaza. The programme has been designed to improve market systems and improve the competitiveness of the Palestinian private sector. PMDP aims to improve private sector competitiveness through technical assistance and matching grants. Additionally, PMDP will work on strengthening trade and investment linkages as well as linkages with the Palestinian Diaspora to play an active role in economic development in the OPTs.

<b>Total Amount committed</b>	Euro 27 million over 5 years																			
<b>Application procedure</b>	PMDP provides grants for Individual firms and Groups of firms (at least three firms) that may join together to form a consortium. To learn more about the application procedure applicants shall visit the link: <a href="http://www.pmdp.ps/page.php?id=edcy3804Yedc">http://www.pmdp.ps/page.php?id=edcy3804Yedc</a>																			
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• Palestinian companies in West Bank, Gaza, East Jerusalem or area C.</li> <li>• The project supports PMDP objectives.</li> <li>• The Applicant is aware of PMDP share percentages.</li> <li>• Project expenses do not include capital items or recurrent expenses.</li> <li>• Start-ups eligible as long as proponent has a business track record.</li> <li>• The project is not in trading [wholesale/retail], a restaurant or in illicit areas such as gambling, alcohol...etc.</li> <li>• The project does not adversely affect the environment.</li> </ul>																			
<b>Terms</b>	<p>Per the (<a href="http://www.pmdp.ps/page.php?id=edcy3804Yedc#limits">http://www.pmdp.ps/page.php?id=edcy3804Yedc#limits</a>)</p> <ul style="list-style-type: none"> <li>- Euro 35,000 for individual</li> <li>- Euro 70,000 for group</li> <li>- Euro 50,000 maximum combined per company</li> <li>- PMDP share % of individuals:</li> </ul> <table border="1"> <tr> <td rowspan="2">Product / Process</td> <td>New</td> <td>50%</td> <td>50%</td> <td>75%</td> </tr> <tr> <td>Existing</td> <td>25%</td> <td>50%</td> <td>50%</td> </tr> <tr> <td colspan="2"></td> <td>Existing</td> <td>New Local</td> <td>New Export</td> </tr> <tr> <td colspan="5" style="text-align: center;">Market</td> </tr> </table> <ul style="list-style-type: none"> <li>- PMDP share for Groups 70%</li> </ul>	Product / Process	New	50%	50%	75%	Existing	25%	50%	50%			Existing	New Local	New Export	Market				
Product / Process	New		50%	50%	75%															
	Existing	25%	50%	50%																
		Existing	New Local	New Export																
Market																				
<b>Contact</b>	<p>Palestinian Market Development Programme (PMDP)  Ramallah Office: 4th floor, Millennium Bldg., Kamal Naser St., Al Masayef  Tel: +970 2 2986340, Fax: +970 2 2959220  Gaza Office: 6th floor, Al-Thafer 9 Bldg, Qanal St., Al Remal  Tel: +970 8 2825888, Fax: +970 8 2825889</p> <p>For more information: <a href="mailto:info@pmdp.ps">info@pmdp.ps</a></p>																			
<b>Link</b>	<a href="http://www.pmdp.ps">www.pmdp.ps</a>																			

<b>Grant Scheme</b>	
<b>Programme</b>	Private Sector Development Cluster Project (PSDCP)
<b>Characteristics</b>	The PSDCP launched on March 2013 and aims to provide a foundation for a

	<p>sustainable economic development by taking a Cluster Approach. The project is funded by the French Agency for Development (AFD) and scheduled to run for 41 months. PSDCP is being implemented by The Ministry of National Economy in partnership with Federation of Palestinian Chambers of Commerce, Industry and Agriculture. The main objective of the project is to strengthen the competitiveness of local companies, and especially MSME, in order to increase their market share on local market and/or explore new markets for export through:</p> <ol style="list-style-type: none"> <li>1) A support to the structure of productive sectors/sub-sectors with high potential, by the creation of linkages between the stakeholders of the same value chain on a defined territory through the cluster approach, and</li> <li>2) An improvement of public-private dialogue.</li> </ol> <p>The project is working under the following three components: (1) Animation of clusters, (2) Support for collective projects, (3) Capitalization, dialogue and policy making. Under the second component, the Project have introduce a Matching Grant Fund (MGF) for Business Development Services (BDS) in supporting collective projects to provide the clusters with financial assistance so they can implement their collective strategic and R&amp;D projects. Moreover, the project will work on establishing the partnerships and links with the financial institutions to combine the MGF with access to finance and promoting specific SME finance products.</p>
<p><b>Total Amount committed</b></p>	<p>PSDCP is a Euro 5 million committed to project components as follows:</p> <ol style="list-style-type: none"> <li>1) Animation of clusters: Euro 940,000.</li> <li>2) Support of cluster's collective projects (MGF): Euro 1,892,000</li> <li>3) Capitalization, dialogue and policy making: Euro 401,000</li> <li>4) Technical assistant and project operations: Euro 1,397,000</li> <li>5) 5- Contingencies: Euro 370,000</li> </ol>
<p><b>Application procedure</b></p>	<p>Back in May 2012, the Ministry of National Economy launched an awareness campaign to introduce the concept of cluster to the MSMEs. Accordingly a call for applications was launched which opened the door for a conglomerates of Palestinian MSMES to submit their applications. As such five clusters were selected to benefit from the PSDCP support:</p> <ol style="list-style-type: none"> <li>1) Gaza Date Palm Trees Cluster.</li> <li>2) Hebron Leather &amp; Shoe cluster.</li> <li>3) Stone &amp; Marble Cluster in Bethlehem and Hebron.</li> <li>4) Jerusalem Tourism and Creative Arts Cluster.</li> <li>5) Salfit Furniture cluster.</li> </ol> <p>Each of the five clusters have developed their strategic directions along with the action plans which was submitted to the PSDCP executive committee for approval. The clusters' strategies and action plans are regularly revised to adapt for the market conditions.</p>
<p><b>Restrictions</b></p>	<p>The following eligibility criteria applies:</p> <ul style="list-style-type: none"> <li>• PSDCP is providing support to the clusters through collective projects but not to individual MSMEs.</li> <li>• Each cluster member should be registered with the related authorities in</li> </ul>

	<p>the cluster locality.</p> <ul style="list-style-type: none"> <li>• Any MSME who belongs to the value chain of the cluster is considered as a cluster member.</li> <li>• The support provided by PSDCP is limited to the five clusters.</li> <li>• Cluster members could be start-ups or established firms despite of age.</li> <li>• Eligible collective projects that can benefit from PSDCP support are: <ul style="list-style-type: none"> <li>- Business development services.</li> <li>- Research &amp; Development.</li> <li>- Knowledge based activities.</li> <li>- Process development and improvement.</li> <li>- Technical expertise.</li> <li>- Common use equipment's like testing and design Centers.</li> </ul> </li> </ul>
<b>Terms</b>	<p>The following terms/conditions applies to this instrument:</p> <ul style="list-style-type: none"> <li>• Only collective projects to the five clusters are supported.</li> <li>• PSDCP is providing grant to support Cluster's collective projects.</li> <li>• Clusters should contribute 20% for the soft services and 50% for common use equipment's.</li> <li>• PSDCP is not providing loans.</li> <li>• Maximum budget for collective projects is limited to 60,000 euros per project.</li> <li>• Common use equipment's is supported to provide services to all cluster members.</li> </ul>
<b>Contact</b>	<p>Mr. Mahmoud Abu-Amireh  Team Leader  Private Sector Development Cluster Project  Ramallah,  Palestine  Cell: +970 (0) 599 272609  Office: +970 (0) 229 55565  Skype: Mahmoud.Daqqah  E-mail: <a href="mailto:Mahmoud.Abuamireh@pal-cluster.ps">Mahmoud.Abuamireh@pal-cluster.ps</a> or <a href="mailto:Mdaqqah@yahoo.com">Mdaqqah@yahoo.com</a></p>
<b>Link</b>	<p><a href="http://www.pal-cluster.ps/index.php">http://www.pal-cluster.ps/index.php</a></p>

<b>Grant Schemes</b>	
<b>Programme</b>	French Grant for Supporting Palestinian Private Sector
<b>Characteristics</b>	The French Grant is designed to provide finance for Palestinian SMEs to procure French equipment and/or services. The programme aims to develop the Palestinian private sector and seeks to create new partnerships with French companies. The grant was launched in 2010 and covers all economic sectors including environment, IT, tourism, health and agriculture. The Grant, depending on the project's location, covers 35 or 50% of the bank loan for SMEs to develop, expand, and modernize various industrial or services production capacity. The bank will cover the remaining percentage as a loan.

<b>Total Amount committed</b>	Euro 10 million between 2010 and 2015.
<b>Application procedure</b>	Interested applicants shall visit any of the following 8 banks including the Arab Bank, Cairo Amman Bank, Bank of Palestine, Al Quds Bank, Arab Islamic Bank, The National Bank, Palestine Commercial Bank and The Housing Bank for Trade and Finance, to learn more about the bank loan procedures. Following the bank's approval to finance a project, the bank transfers the project to the French and Palestinian authorities. Approval to the grant is acquired after the joint French Palestinian Committee evaluation. The amount of the grant is determined after analyzing the amount of the French origin component from the procurement.
<b>Restrictions</b>	<ul style="list-style-type: none"> <li>• The grant shall be related to investment to develop, expand, and modernize the industrial or service production capacity. The priority is given to projects that create new local job opportunities, increase the development of the Palestinian exports, and adhere to high level of environmental conditions.</li> <li>• The grant does not cover the basic infrastructure or building materials construction, these could be covered by the bank loan.</li> <li>• Working capital finance is not covered by the grant but could be covered by the bank loan.</li> </ul>
<b>Terms</b>	<ul style="list-style-type: none"> <li>• The Grant covers 35% (maximum) of the bank loan for SMEs (50% for projects established at Bethlehem Industrial zone and in the Gaza Strip).</li> <li>• The grant only finances the French share and amount shall not exceed Euro 500,000 (Euro 1 million for projects established at Bethlehem Industrial zone and in the Gaza Strip).</li> <li>• For Loan conditions, refer to partner banks.</li> </ul>
<b>Contact</b>	<p>Consulat général de France à Jérusalem  Economic Department  3, rue Bibers  Sheikh Jarrah, Jerusalem  Tel.: 02 582 89 95; Fax: 02 581 62 66  E-mail: <a href="mailto:jerusalem@dgtresor.gouv.fr">jerusalem@dgtresor.gouv.fr</a></p>
<b>Link</b>	N/A

<b>Innovative Finance</b>	
<b>Programme</b>	AFD Sustainable Palestinian Energy Efficiency Development Program "SPEED" for Interest Subsidy for Energy Efficiency Investment in Private Sector.
<b>Characteristics</b>	SPEED Program first phase started in 2009 and was financed by the French Global Environmental Facility (FFEM). Euro 1 million was granted to the PNA and ceded to the Palestinian Energy Authority (PEA) to put together an Energy Efficiency Unit (EEU) team within PEA and to train it for conducting energy audits in public and private buildings and industries. The funds were

	<p>then used to assess the energy efficiency needs of the Palestinian economy and set up an economic model. The project aims at improving Energy Efficiency (EE) in buildings in Palestine. It contributes to the Palestinian National Energy Efficiency Action Plan. The main objective is to introduce EE measures in four key sectors of the Palestinian economy: the Industrial, the service, the residential and the agricultural sectors.</p> <p>The second phase in Interest Subsidy for Energy Efficiency Investment for Private Sector was launched on October 2014 in partnership with Energy Efficiency Unit at Palestine Energy Authority (PEA). The main goal is to incentivize the private sector to invest in energy efficiency. Further more, the overall objectives are:</p> <ol style="list-style-type: none"> <li>1) To save energy in Palestine as a whole through rationalizing the energy efficiency.</li> <li>2) Reduce green house consumption.</li> </ol>
<b>Total Amount committed</b>	Euro 200,000 between October 2014 and May 2017 in interest rate, a total investment of Euro 1.8 million.
<b>Application procedure</b>	<p>A company interested in obtaining the above incentive applies for a loan from an eligible bank to purchase the related equipment of the energy efficiency system. The first installment will be paid after:</p> <ul style="list-style-type: none"> <li>• The signing of a Memorandum of Understanding between PEA and the Company;</li> <li>• Positive outcome of the verification by PEA of the equipment installation.</li> </ul> <p>The second installment will be paid:</p> <ul style="list-style-type: none"> <li>• One year after the first instalment;</li> <li>• Provided i/ the Company is in compliance with the commitments taken through the Memorandum of Understanding and ii/ is not in a significant breach of its agreement with the private bank providing the loan, in particular due to delays in repayment.</li> </ul>
<b>Restrictions</b>	<p>The eligibility criteria covers:</p> <ul style="list-style-type: none"> <li>• Eligible beneficiaries: the eligible beneficiaries will include industries and service providers from the private sector, having been operating for at least three years and having already undergone an energy efficiency audit.</li> <li>• Financial support: the subsidy provided will cover up to 5% of the loan's interest rate for a maximum 5 year duration. If the loan interest rate is above 5% or if the loan duration exceeds 5 years, the company will incur the difference.</li> </ul>

<b>Terms</b>	All loans provided by local banks, Islamic banks or banks working in Palestine, licensed by the Palestinian Authority, in the field of energy efficiency. The company should work directly with the bank; the bank should be willing to work with PEA and the Energy Efficiency Unit (EEU).
<b>Contact</b>	Mr. Mohammed Mobaid Director of Energy Efficiency Unit Palestine Energy Authority  Mobile: +972 (0) 599777711
<b>Link</b>	<a href="http://www.penra.gov.ps">www.penra.gov.ps</a>



## **KEY FINDINGS OF THE SMEs TECHNICAL COMMITTEE**

PMA and the Association of Banks in Palestine organized the 'Palestine International Banking Conference', 2013 in the West Bank city of Jericho.

The conference's theme was 'Empowering Small and Medium Enterprises (SMEs) in Palestine through Enhancing Access to Finance', where the main goals were to:

- Raise interest and supporting awareness on the significance of this sector, being a substantial source for sustainable economic and social development.
- Empower SMEs in Palestine and build-up their capacity to access sources of borrowing and financing from financial/banking institutions.

The conference was also aimed at supporting dialogue and partnership between public and private sector institutions, overcoming drawbacks and reducing banking conditions in order to facilitate lending to SMEs.<sup>4</sup>

Following the Palestine International Banking Conference in 2013, the PMA has established a SMEs Technical Committee representing the public and private sectors and the civil society as per the Conference recommendations. The committee meets regularly to revise strategies for SMEs and formulate necessary recommendations for stakeholders for the development of the sector. Subsequently, the PMA established a technical committee consisting of:

- 1- PMA
- 2- Loan Guarantee Funds/Institutions
- 3- Association of Banks in Palestine, ABP
- 4- The academic sector
- 5- The private sector
- 6- Small Enterprises Centre
- 7- Microfinance Institutions (MFIs)
- 8- Ministry of National Economy

The tasks assigned to this committee included the facilitation of access to financing sources, the qualification of SMEs technically and administratively, activation of the role of entrepreneurial enterprises through the creation of a specific system and entity to serve as an SME consultancy body, activation of the roles of chambers of commerce and civil society organizations, and of the financial and banking institutions as the financing sources for SMEs.<sup>5</sup>

## **IMPEDIMENTS AND CHALLENGES FACING THE SMEs SECTOR IN PALESTINE**

Many challenges and difficulties face the establishment of local enterprises, impeding their launch or stifling their sustainability, especially for small or micro-sized ones. As an introductory measure to support and empower this sector, the PMA first determined the main

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<sup>4</sup> <http://www.pma.ps/Default.aspx?tabid=206&ArtMID=1054&ArticleID=22&language=en-US>

<sup>5</sup> Status of Small and Medium Enterprises in Palestine, pp.6

impediments that face the SMEs sector from both supply and demand perspectives, summarized as follows:

Demand side (excerpt)	Supply side (excerpt)
<ol style="list-style-type: none"> <li>1. Inability to prove / estimate sales and assess performance due to poor or absence of bank account movements</li> <li>2. Stagnation of revenues and lack of growth opportunities</li> <li>3. Lack of registration certificates for SMEs in many jurisdictions and in rural areas</li> <li>4. Deficiency in SME administration, marketing, strategic and other skills</li> <li>5. Lack of banking awareness of many individuals and SMEs</li> <li>6. Lack of feasibility study</li> <li>7. Reluctance to establish new projects due to lack of expertise</li> <li>8. Lack of academic interest in SMEs</li> <li>9. Lack of training and qualification centres that prepare individuals manage such enterprises</li> <li>10. Culture favouring employment security, instead of taking risks associated with the project/enterprise</li> <li>11. Lack of media interest / promotion of SME</li> </ol>	<ol style="list-style-type: none"> <li>1. Collateral occasionally valued at multiple-times the value of the loan</li> <li>2. Absence of a unified list of the basic bank requirements that elaborate borrower document requirements, which exhausts the borrower</li> <li>3. Poor SME financing contributions by banks due to the absence of specialized relevant administrative divisions</li> <li>4. Lack of qualified SME-credit officers at banks to meet the needs and requirements of SMEs</li> <li>5. Absence of Movable Assets Registry<sup>6</sup>.</li> </ol>

**SWOT ANALYSIS**

The following Summarizes the instruments’ Strengths, Weaknesses, Opportunities and Threats (SWOT):

**1. Bank loans and facilities**

Strength	Weakness
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<sup>6</sup> Status of Small and Medium Enterprises in Palestine, pp.4

<ol style="list-style-type: none"> <li>1. Highly qualified and experienced staff.</li> <li>2. Strong capital base and lending from banks' own funds (CDs and savings)</li> <li>3. Banks are governed and monitored by PMA's regulations.</li> <li>4. PMA circulars (53/2013) and (123/2013) encourages banks to extend facilities to SMEs.</li> </ol>	<ol style="list-style-type: none"> <li>1. Banks are demanding higher collaterals and guarantees.</li> <li>2. Banks can't cover Not all jurisdictions. Area C and Jerusalem are not fully controlled by Palestinian Authority.</li> <li>3. Religion is influencing borrowing attitude.</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>1. Increase the lending to deposit ratio based on the high liquidity situation of the banks.</li> <li>2. Address the needs of the informal sectors.</li> <li>3. Enacting the Moveable Assets Registry Law.</li> </ol>	<ol style="list-style-type: none"> <li>1. Absence of modern law that supports SMEs in case of bankruptcy and from troubled debts.</li> <li>2. The persisting political and economic risks.</li> </ol>

## 2. Guarantee funds and risk-sharing mechanism

<b>Strength</b>	<b>Weakness</b>
<ol style="list-style-type: none"> <li>1. Provide (partial) coverage for the banks to lend.</li> <li>2. Reduce barriers to entry for large number of enterprises in Palestine.</li> <li>3. Qualified staff that provide support to the PMA and banks.</li> </ol>	<ol style="list-style-type: none"> <li>1. Dependent on donors' funds.</li> <li>2. Limited cooperation with other guarantee funds in the market.</li> <li>3. Higher cost structure for the banks.</li> <li>4. Does not cover all the economic sectors in Palestine.</li> </ol>
<b>Opportunities</b>	<b>Threats</b>
<ol style="list-style-type: none"> <li>4. Expand the coverage to Venture Capital in Palestine.</li> <li>5. Growing demand from Microfinance Institutions and banks to address the needs of a larger number of MSMEs.</li> <li>6. Design Technical Assistant (TA) programs.</li> </ol>	<ol style="list-style-type: none"> <li>1. The terms might not be applicable to Islamic Banks.</li> <li>2. Changes in Banks' regulations.</li> </ol>

## 3. Private equity and venture capital

Strength	Weakness
<ol style="list-style-type: none"> <li>1. Provide new financing instruments at the market level for SMEs through equity financing, away from banks' interest lending restrictions and the demand for higher collateral.</li> </ol>	<ol style="list-style-type: none"> <li>1. Mainly depends on the donor funding to sustain their activities and to secure seed funds.</li> <li>2. Some requires several years of experience before funding start-ups (which limits large number of fresh universities/colleges graduates to obtain the required finance).</li> <li>3. The effort towards Information Technology ideas.</li> </ol>
Opportunities	Threats
<ol style="list-style-type: none"> <li>1. Introduce new innovative financing instruments into the market such as crowdfunding.</li> <li>2. Outreach programs to Palestinian Diaspora to encourage investments in Palestine.</li> <li>3. Rising entrepreneurial culture for new start-ups.</li> </ol>	<ol style="list-style-type: none"> <li>1. Absence of SMEs' national policy framework to fund SMEs' initiatives and programs.</li> <li>2. The political situation</li> <li>3. The investment environment is not encouraging to attract new investors.</li> </ol>

#### **PMA POLICES FOR THE BANKING SECTOR TO GRANT FACILITIES FOR SMEs**

- **Adoption of a unified definition for SMEs** by the PMA, ABP and the banking system to facilitate the collection and exchange of data among stakeholders, taking into account that the definition set forth by the Ministry of National Economy relating to micro, small and medium enterprises pursuant to the Cabinet decision dated 4/10/2011 does not reflect the reality of SMEs in Palestine. Accordingly, for the purpose of helping stakeholders analyse data, assess risks, monitor development and put forward strategic plans for the development of SMEs, and following the recommendation of the conference and consultations with banks and loan guarantee schemes, the PMA has formulated a unified definition for such enterprises as follows: *Small and Medium Enterprises are enterprises which employ a maximum of 25 people and has an annual turnover not exceeding USD 7 million.* This definition was circulated to all banks and micro finance institutions (MFIs) on 16/4/2013 to be adopted and put into force from that date onwards.
- **Motivation and creation of the proper environment for the banking sector to grant facilities to SMEs**

- a) During 2013, the PMA issued several circulars regulating banks' new procedures and routines. Among these was Circular No. (53/2013), encouraging banks to extend facilities to SMEs on stimulating terms. These included waiving the requirement of an advance 10 percent cash payment on SME's outstanding loan balance, when rescheduling debt, under certain conditions. Another PMA measure exempted banks from holding a risk reserve on facilities extended to SMEs. In addition, the PMA issued Circular (123/2013) approving the Palestinian Capital Market Authority's (PCMA's) instruction permitting banks, upon prior PMA authorization, to engage in insurance business as insurance companies' brokers or agents, in accordance with pertinent terms and provisions.<sup>7</sup>
- b) Motivating banking institutions to grant facilities to SMEs by offering an exemption from allocating 2% to general risk reserves, provided that these facilities are guaranteed by a loan guarantee institution to promote competition amongst various lending sources, thereby reducing interest rates for the benefit of SMEs.

- **Creation of a database for facilities extended to SMEs**

For the purpose of monitoring different risks to the various economic sectors and enhancing the abilities and capacities of the SMEs sector by means of facilitating access to lending sources, the PMA has proceeded at the beginning of 2013 to the creation of a comprehensive database of all loans granted to SMEs. The database will offer financial and demographic data, which will contribute to the development of the SMEs sector and to maintaining its stability and sustainability.

This initiative came as a recommendation presented by the PMA at the Fourth Palestine Banking Conference 2013, which discussed with various competent local and international parties the data requirements of the new financial and demographic file for loan granting, to ensure that it fulfils the vision and preconditions guiding the creation of such a database and realizes its full potential.

Furthermore, the file was also discussed during the meetings of the technical committee for the development for SMEs sector, which undertook all necessary pre-arrangements, prepared a document of necessary actions and initiated coordination with banks and lending institutions in order to launch the database by December 2013.

By developing the database, the PMA aimed at the following:

- a. Empowering SMEs by fostering their capabilities to access lending sources with banking institutions
- b. Building development of managerial and entrepreneurial capacities of SMEs owners.
- c. Promoting financial inclusion principles and the provision of banking services through facilitating access to such services across a wide segment of enterprises
- d. Empowering SMEs in Palestine and enhancing their readiness by providing them with the appropriate means to access new markets
- e. Achieving optimal benefits from loan guarantee institutions operating in Palestine by activating their beneficial role in expanding lending to the SMEs sector

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<sup>7</sup> PMA Financial Stability Report, pp. 13

- f. Promoting workforce operational competence, thereby reducing unemployment and poverty in the Palestinian society
- g. Managing credit risks to the sector and thereby limiting the extent of default
- h. Enhancing opportunities to access financing from banking institutions by means of legislation that fulfils conditions and guarantees and ensures the rights of the different parties, whilst complying with the best practices of financial risk management, in addition to activating the role of the Credit Information Bureau to help eliminate impediments that face the sector
- i. Bringing together as many enterprises as possible within the financial system that, given their current situation, will raise the financial competence and productivity of SMEs management

- **Ratification of the Movable Assets Registry Law**

Work is currently focused on securing the Presidential ratification of the Law on a Movable Assets Registry, in order to start application of the registration system of pledges on movable property, which has been put in place and is ready both technically and technologically. The Registry will be located in the Ministry of National Economy, which shall be officially responsible for the Registry.

The Law has been prepared to enhance opportunities for SMEs to acquire financing by employing their assets as collaterals and to enable SMEs to better engage with new sources of lending<sup>8</sup>.

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<sup>8</sup> Status of Small and Medium Enterprises in Palestine, pp.6-9

## IDENTIFIED GOOD PRACTICES

The following section covers what are considered the good practices in Palestine for creating an environment facilitating Access to Finance.

<b>Regulatory</b>	<b>Objectives</b>	<b>Efficiency</b>
PMA adoption of a unified definition for SMEs	Helping stakeholders analyse data, assess risks, monitor development and put forward strategic plans for the development of SMEs	Increased efficiency as the definition set forth by MONE pursuant to the Cabinet decision dated 4/10/2011 didn't reflect the reality of SMEs in Palestine.
PMA adoption of the Financial Inclusion Strategy	Facilitating access to such services across a wide segment of enterprises	Enhancing the SMEs financial capabilities through conducting consumer awareness.
<b>Demand</b>	<b>Objectives</b>	<b>Efficiency</b>
Creation of a database for facilities extended to SMEs	Monitoring different risks to the various economic sectors and enhancing the abilities and capacities of the SMEs sector	To properly manage unforeseen credit risk and therefore increase the lending capacity by reducing error margins.
<b>Supply</b>	<b>Objectives</b>	<b>Efficiency</b>
The PMA established the SMEs Technical Committee.	Revise strategies for SMEs and formulate necessary recommendations for stakeholders for the development of the sector	Increased coordination and access to financing sources.
Motivation and creation of the proper environment for the banking sector to grant facilities to SMEs	The PMA issued circular (53/2013) to motivate banking institutions and create the proper environment for them to expand facilities for SMEs and promote investment in that sector	Increase the liquidity for SMEs from banks and MFIs.

	Motivating banking institutions to grant facilities to SMEs by offering an exemption from allocating 2% to general risk reserves	Promote competition amongst various lending sources, thereby reducing interest rates for the benefit of SMEs.
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## POLICY RECOMMENDATIONS

Based on the mapping results summarized above, the following recommendations are made to improve SMEs Access to Finance for 2016:

### Demand

1. **Publish toolkits** in the market.
2. Ease the **registrations process** for SMEs.

### Supply

3. Facilitates banks and Microfinance Institutions (MFIs) **access data on SMEs from the Ministry of National Economy**.
4. Expedite the banks' **ability to inquire about customers' receivables** deposited in their SMEs customer's account (modify Article 32 of the PMA Banking Law (3) of 2010).<sup>9</sup>
5. Expedite the work for the **Blended Score Card for SMEs**.
6. **Promote a Unified Financial Records** for a bank to assess business viability, risk and proper loan product/structure.
7. Organize a SMEs workshop in Palestine on March 8, 2016 to present the SMEs Technical Committee accomplishments, strategic plan development in consultations with relevant stakeholders, within the supply and demand dimensions.

### Intermediation

8. **Enacting Moveable Assets Registry Law** that gives banks more comfort and flexibility to finance fixed assets.

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<sup>9</sup> Many SMEs require receivables financing but due to bank's inability to inquire about cheques deposited in their customer's account, they are unable to discount the cheques or give the customer financing against these cheques.



## **ANNEX A - BIBLIOGRAPHY**

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