The European Union's Project for ENP South Countries
EUROPEAID/133918/C/SER/MULTI

Enhancement of the Business Environment in the Southern Mediterranean

Pre-Feasibility Study to Establish an Export Finance Facility for Palestine

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December 2017

This project is financed
by the European Union

A project implemented by
GIZ IS and Eurecna

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

ABP	Association of Banks in Palestine
CBE	Central Bank of Egypt
CBJ	Central Bank of Jordan
DBK	Duty Drawback
EBE	Export Development Bank of Egypt
EBESM	Enhancement of the Business Environment in the Southern Mediterranean
ECAs	Export Credit Agencies
ECGE	Export Credit Guarantee Company of Egypt
EGP	Egyptian Pound
EIB	European Investment Bank
EKF	Denmark’s Export Credit Agency
ENP	European Neighbourhood Policy
EPCGF	European Palestinian Credit Guarantee Fund
EU	European Union
EXIMBANK	Hungary’s Export-Import Bank
EXIMBANKA	Export-Import Bank of Slovakia
GNP	Gross National Product
JLGC	Jordan Loan Guarantee Corporation
LGF	Loan Guarantee Facility
MAS	Palestine Economic Policy Research Institute
MEHIB	Hungarian Export Credit Insurance Pte Ltd.
MEII	Middle East Investment Initiative
MIGA	Multilateral Investment Guarantee Agency
MoF	Ministry of Finance
MoNE	Ministry of National Economy
MSMEs	Micro, Small and Medium Enterprises
NES	National Export Strategy
NIS	National Industrial Strategy
OPIC	US Overseas Private Investment Corporation
PCBS	Palestinian Central Bureau of Statistics
PCMA	Palestine Capital Market Authority

PEX	Palestine Stock Exchange
PIF	Palestine Investment Fund
PMA	Palestine Monetary Authority
PNA	Palestinian National Authority
SEC	Small Enterprise Centre
SEK	Swedish Krona
SGF	SIDA Guarantee Facility
SIDA	Swedish International Development Cooperation Agency
SMEs	Small and Medium Enterprises
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TSIs	Trade Support Institutions
UN	United Nations

1. INTRODUCTION

There are significant trade facilitation challenges faced by Palestinian exporters at border crossings. These include delays at the border because of security checks, lack of adequate scanning equipment (as at the border crossings with Jordan), and lack of customs representation at the borders.

Furthermore, access to finance is a challenge faced across the board by Palestinian micro, small, and medium enterprises (MSMEs), in particular when it comes to export financing, guarantees, and other related issues. Obstacles exist both on the supply side (banks and other financial institutions) and on the demand side
(E.g. inadequate collateral, limited creditworthiness, etc.).

In 2014, the Palestinian government decided to unlock Palestine's export potential by designing a National Export Strategy (NES) and a National Industrial Strategy (NIS). The efforts exerted by both the private and public sectors are directed towards reducing Palestine's current trade deficit, expanding the domestic market share for Palestinian exporter companies as well as transforming the Palestinian economy and its producers into global exporters able to enter new export markets and actively compete and capture new market shares.

The Access to Finance for Export pillar from the NES strategy indicated that the ability of enterprises to access operating and investment capital, as well as export finance, is a key condition to increase Palestinian exports. The current situation calls for the need to develop an export funding mechanism to support Palestinian enterprises in accessing operating and investment capital.

While there are many available sources for finance in Palestine, there is a scarcity of specialised financial products and services such as export credit schemes, export credit insurance, etc. These instruments are badly needed for Palestinian MSME to support increasing exporting efforts and promote more trade relationships with other potential export markets. In addition, current laws and regulations should be enhanced as they have an adverse impact on access to trade finance.

In 2015, the Enhancement of the Business Environment in the Southern Mediterranean project (EBESM) carried out a mapping and assessment study on existing public financial policies and instruments in Palestine. The aim was to identify the range of existing public programs, mechanisms, and instruments such as guarantees, bank loans, risk capital, and microfinance services supporting MSMEs' financial needs for development. The findings of the study were presented at a national seminar, conducted in Ramallah on 13 February 2017 titled "What is needed from the financial sector to play a greater role in accompanying entrepreneurs and SME growth in Palestine?"

One of the key recommendations of the national seminar highlighted that the establishment of an export finance facility would be a key driver to help Palestinian exporters expand their operations abroad, access financing working capital, and cover political and other trade risks.

Based on this clear recommendation, which was fully endorsed by all participants in the national seminar, the EBESM has provided technical assistance to carry out a pre-feasibility study to explore the opportunities to create an export finance facility in Palestine. The main objective of this study is to investigate how to establish and manage an export finance facility in Palestine.

Objectives of the Study

The objective of the pre-feasibility study is to provide recommendations and technical support to Palestine in export financing issues, in order to contribute to unlocking access to finance that will help establish an export finance mechanism to better serve the financial needs of MSMEs exporters.

The findings of the pre-feasibility study will highlight the steps needed to establish an export finance facility which is an important mechanism to develop Palestine's economy and to help Palestinian exporters expand their operations abroad.

Methodology

The methodology adopted to reach objectives consisted of three phases, with the first phase focusing on the following:

- Conducting desk research and a mapping exercise to gather information and data related to export finance and export credit including available recent studies and information available in this domain. The desk reach activities focused on export finance services offered to MSMEs in Palestine and in selected countries from the EU and the MENA (Middle East and North Africa) regions that may suit the Palestinian case.
- Later, we looked at the Palestinian MSMEs environment that will support relevant decision-makers in formulating polices and tools for export financing.

During the second phase, the study reviewed the current policy framework based on the desk research findings.

Finally, in the third phase, we interviewed and consulted actors from the financing supply side, decision-makers, and stakeholders from the demand side to collect data and information on their opinions on, and perceptions of, needed actions to create a suitable mechanism for export finance in Palestine.

2. EXPORT TRENDS IN PALESTINE

Palestine's economy is geographically fragmented into the West Bank and Gaza economies, with the latter largely functioning as an isolated enclave due to the military and economic blockade imposed by Israel. On the other hand, the West Bank's relatively stable political and economic situation, improved trade support institutions (TSIs), and relatively more open borders (compared to Gaza) have facilitated some growth in the economic activity.

Over the last two decades, the Palestinian National Authority (PNA) with the support of donors and Palestinian private sector organizations such as the Palestine Trade Center (PalTrade), the Federation of Palestinian Chambers of Commerce, Industry and Agriculture (FPCCIA), and others has focused on supporting and improving MSMEs to enable them to increase their export capacities, where MSMEs comprise the largest share of all enterprises in Palestine, constituting 93%[1] of the total number

[1]http://www.aliqtisadi.ps/article/30051/136-2015-

of private enterprises. The importance of these enterprises comes from their dynamic role in economic development and their contribution to Palestine's GDP. In addition, MSMEs provide a vital source of employment for Palestinian work force. The PNA defines MSMEs in Palestine according to Cabinet Decision dated 4 October 2011, as follows:

Table 1: Palestine's MSMEs' Classification

Enterprise Classification	Number of Employees	Annual Turnover (USD/EURO)	Registered Capital (USD/EURO)
Micro	1-4	Up to USD 20,000 (Approx. Euro 18,305)	Up to USD 5,000 (Approx. Euro 4,580)
Small	5-9	From USD 20,001 to 200,000 (Approx. Euro 18,310-183,050)	From USD 5,001 to 50,000 (Approx. Euro 4,580-45,760)
Medium	10-19	From USD 200,001 to 500,000 (Approx. Euro 183,050-457,625)	From USD 50,001 to USD 100,000 (Approx. Euro 45,765 91,525)

Source: Palestine Monetary Authority (PMA).

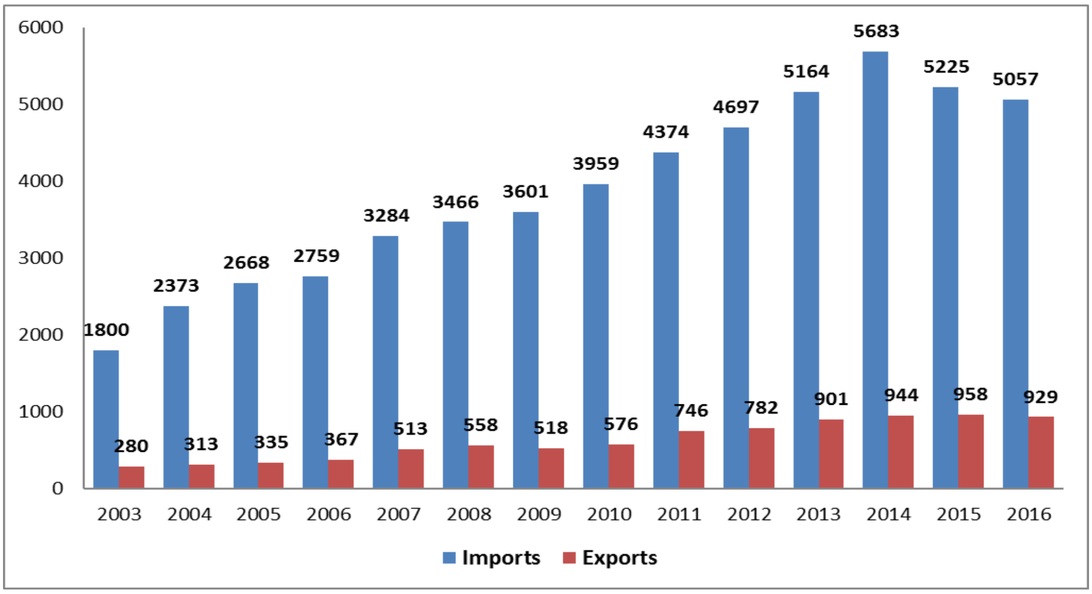
Palestinian MSMEs can be described as firstly being mostly family owned businesses. Secondly, they are more flexible than large enterprises, so they can respond more quickly to market changes. Finally, and perhaps most importantly, they are facing several challenges, which include limited access to finance, limited access to markets both locally and internationally, and high transaction costs which affect severely their competitiveness.

Challenges facing Palestinian MSMEs are usually doubled or tripled when it comes to exports. With high transaction costs, sometimes reaching 30-40% higher compared to other countries from the MED region, competitiveness in international markets is lowered by nearly the same percentage. Together with political uncertainty and high risk when trading internationally, the Palestinian MSMEs' limited financial capacity and access to export finance lead to keeping export figures below one billion US dollars, mainly depending on one market, with very limited exports to very few countries.

According to the Palestinian Central Bureau of Statistics (PCBS), the total value of registered Palestinian exports in 2016 decreased by 4% reaching USD 929 million in goods, whereas Palestinian imports continued to increase slowly from year to year, though slightly decreased in 2016 as shown in Figure 1 below.

Palestine's economy is still small, without control of its borders, and characterized by a small and unsophisticated manufacturing base. Figures show that Palestine is largely dependent on imports. With limited capacity to develop exports and with reliance on imports, the negative trade balance has continued to grow.

Figure 1: Volume of Exports and Imports, 2004-2016 (million USD)



Source: Palestinian Central Bureau of Statistics 2017. Foreign Trade Statistics. Ramallah - Palestine.

If we look at the diversity of markets for Palestinian products, Israel remains the main trading partner. On average, between 2009 and 2011, 63% of all exports were destined to Israel whereas in 2016, Palestinian exports with Israel accounted for 83.1% of the total Palestinian exports as Table 2 below shows. This emphasises the importance of the Israeli market but also the need to explore other opportunities for market diversification[2]. The dependency on the Israeli market reflects the difficulty in diversifying export destinations faced by Palestinian exporters, which requires the need to explore solutions and ways to enable Palestinian companies to find other markets.

Table 2: Total Value of Registered Palestinian Exports to Israel, 2015 and 2016 (million USD)

Indicators	2015	2016
Total Palestinian Exports	**957.8**	**926.5**
Total Palestinian Exports to Israel	**803.6**	**770.8**

Source: Palestinian Central Bureau of Statistics 2017. Foreign Trade Statistics. Ramallah - Palestine.

At the regional level, as Table 3 below shows, Palestinian exports are concentrated in Asian countries, including Israel and the Arab countries in Asia, with the proportion of exports to these countries close to 96% in the last three years.

Table 3: Total Value of Registered Palestinian* Exports by Group of Countries, 2010–2016 (thousand USD)

Group of Countries	Exports						
	2016	2015	2014	2013	2012	2011**	2010
Asian Arab Countries	117,020	117,836	111,138	81,472	100,142	66,504	54,323
Other Asian Countries	776,761	808,737	796,032	790,978	640,644	645,775	489,623
African Arab Countries	2,013	3,269	1,472	2,873	8,695	7,498	11,575

[2] Source: Palestine National Export Strategy.

Other African Countries	63	-	337	221	402	35	20
North American Countries	11,336	11,281	12,501	11,202	16,836	10,491	9,302
Central American Countries	28	-	108	-	-	14	1
South American Countries	157	-	506	2	217	65	205
European Union Countries	18,058	15,041	20,005	13,153	14,392	14,463	9,875
Other European Countries	719	1,431	1,248	547	1,022	778	511
Australian Countries	345	215	369	170	17	36	80
Total	**926,499**	**957,811**	**943,717**	**900,618**	**782,369**	**745,661**	**575,513**

Source: Palestinian Central Bureau of Statistics 2017. Foreign Trade Statistics. Ramallah - Palestine.
(*): The data excludes that part of Jerusalem, which was annexed by Israel following its occupation of the West Bank in 1967.
(**): Revised Figures.
(-): No value.

With such frustrating export figures, Palestine's economy is still a dynamic economy characterised by an entrepreneurial private sector. However, there are several political and economic constraints preventing the private sector potential to grow and expand. These constraints either restrict market expansion for exporters, or prevent aspiring exporters from accessing financial resources/credit along the export value chain altogether. Consequently, the Palestinian private sector is primarily oriented to the needs of the domestic market although it faces strong competition from imported products.

For a small economy and market, developing exports, diversifying trade, and helping new exporters are key issues towards creating sustainable economic development in Palestine. Taking into consideration the matrix of challenges facing MSMEs in developing their export capacity and penetrating international markets, establishing an export finance mechanism will play a key role in creating an enabling export environment in Palestine.

The study revealed that Palestine has no practices in export financing as compared to some neighbouring countries such as Jordan, Egypt, Saudi Arabia, and Turkey. More accurately, export finance as an element of the investigation is not studied enough in Palestine and causes many practical issues. This happens for various reasons, including the lack of clear understanding of the functioning of forms and mechanisms for attracting and providing trade finance, lack of information on sources of funding, lack of experience in structuring trade transactions involving export finance, and, as a consequence, lack of understanding of the effectiveness of the tools associated with financing among companies, financial institutions, and banks.

Nevertheless, a clear understanding of the problem exists. Thus, Palestinian officials believe that they cannot delay solving this issue any longer. They have begun calling for the creation of export mechanisms that will support industries and overcome the trade deficit. In addition, the NES explored the financial needs and requirements of exporters' and called for the establishment of a standing public-private committee to discuss and implement an export finance development agenda. Recent improvements in the financial market infrastructure include the establishment of the credit registry and the adoption of the new Finance Leasing Act, which will help advance the development of export finance and export credit mechanisms in Palestine.

3. Access to Finance in the Current Palestinian Context

The expansion of trade depends on reliable, adequate, and cost-effective sources of financing, both in the long term (for capital investment needed to produce tradeable goods and services) and in the short term (in particular, trade finance). The trade finance market has several segments according to maturity: from short term (usually 0 to 180 days, but possibly up to 360 days) through medium to long term. The medium to long -term end is generally considered to be over two years, and is subject to the OECD Arrangement on Guidelines for Officially Supported Exported Credits (the Arrangement) when insured or guaranteed by a participant to the Arrangement.

The term 'export finance' refers to credit facilities and techniques of payments at the pre-shipment and post-shipment stages.

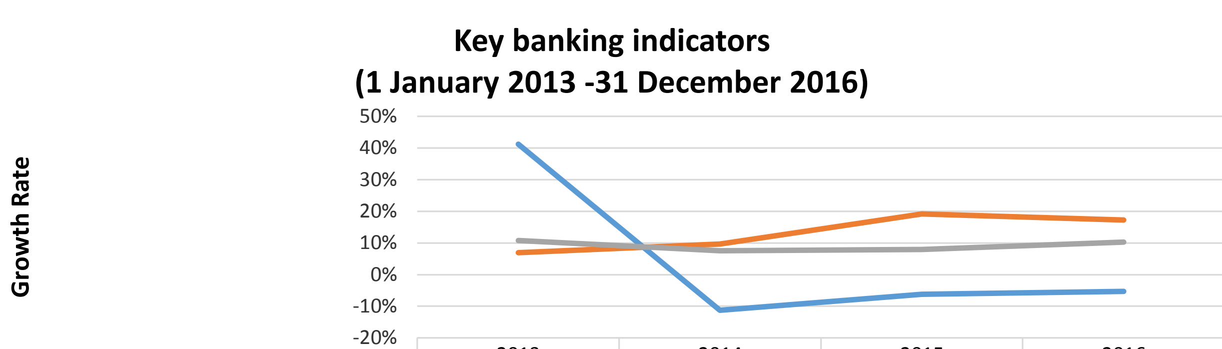
The availability of trade finance, particularly in developing and transition countries, plays a crucial role in facilitating international trade. Exporters with limited access to working capital often require financing to process or manufacture products before receiving payments. Conversely, importers often need credit to buy raw materials, goods, and equipment from overseas. The pre-feasibility study will study and explore services offered to MSMEs under the pre-shipment and post-shipment category.

In 2014, the Financial Services Export Strategy was published, and it is placing extra emphasis on the development of Palestinian economy through improving access to trade finance as a key component for the development of foreign trade. In addition, the Strategy highlighted the need for PalTrade and the Ministry of Finance (MoF) to build their capacity to respond to the sector's needs, as both organisations are important for the development of export finance. The Strategy showed that Palestine's financial sector is dominated by commercial banks; there are 15 banks, eight insurance companies, ten securities companies, seven financial leasing institutions, two mortgage lending companies, and the Palestinian Stock Exchange (PEX).

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. Credit access is aided, although in a limited capacity, by the presence of non-bank micro-lenders. There are six microfinance organisations that operate at a relatively high level of complexity and rely on donations. These organisations currently provide around USD 199.4 millions of credit to roughly 68,912 borrowers.

The banking sector has grown steadily over the last few years in terms of both total assets and credit facilities. In 2016, however, the total assets of banks in Palestine decreased by 5%, reaching USD11.1 billion. Credit facilities for resident customers have also grown at exceptional rates, with growth of 7% in 2013, reaching 17% in 2016, with credit being currently valued at USD 6.8 billion. Resident deposits fluctuate between 10% and 11%, reaching USD 10.2 billion in 2016.

Figure 2: Growth Rate of Key Banking Indicators, 2013-2016



	2013	2014	2015	2016
Total assets and liabilities	41%	-11%	-6%	-5%
Credit facilities (resident customers only) **	7%	10%	19%	17%
Deposits of residents	11%	8%	8%	10%

Source: Palestine Monetary Authority (PMA).

4. Existing Financial Instruments Which Support Export Financing in Palestine

A number of international organisations administer loan guarantee facilities in an effort to establish a secure financial backdrop to overcome an unstable business environment. These programs help direct the banking sector away from collateral based lending towards lending based on modern risk reward analysis. For instance, the Middle East Investment Initiative (MEII) offers financial backing to banks in order to stimulate increased lending to MSMEs.[3]

4.1 Investment Guarantee Schemes

Additional financial support is provided by investment guarantees which help 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 PNA, the European Investment Bank (EIB), 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 energy on the commercial aspects of their business ventures despite the unstable business and political environment.[4] The Loan Guarantee Facility (LGF) is a partnership between the Palestine Investment Fund (PIF), the US Overseas Private Investment Corporation (OPIC), local banks, and the MEII, which is the manager of the Facility. The LGF's size is USD 228 million and is solely dedicated to MSMEs in Palestine.[5]

Furthermore, the Swedish International Development Cooperation Agency (Sida)'s guarantee covers risk differently, depending on who and where the borrower is. The target groups of home buyers and small business owners have very different risk profiles, in addition to risk varying across different geographical locations. Political risk

[3] http://www.meiinitiative.org/?TemplateId=staff&catId=4&MenuId=26&Lang=1
[4] https://www.miga.org/who-we-are
5 http://www.sharakat.ps/wordpress/loan-guarantee-facility/

is defined as an act committed by the State of Israel or by Israeli citizens in Palestine, with physical collateral damages, verified by the United Nations (UN). Sida subsidises the fees by 50%. The guarantee is further supported with a technical assistance component of SEK 12.5 million for financial advice to banks and lenders by the MEII.

Table 4: SIDA's Guarantee Risk Coverage for Commercial and Political Risk

Risk Coverage for Commercial Risk	
Housing in Gaza	50%
Housing in East Jerusalem	50%
SMEs in Gaza	60%
SMEs in East Jerusalem	85%
SMEs in the West Bank	60%
Risk Coverage for Political Risk	
Housing in Gaza	50%
Housing in East Jerusalem	50%
SMEs in Gaza	60%
SMEs in East Jerusalem	85%
SMEs in the West Bank	60%

Source: Portable Guarantee Example (http://www.sida.se/contentassets/12f5e79b917249b7afac6dedcc0cba15/bf9fe2e8-a7d1-4cbf-a6ae-b15b474a6f1b.pdf)

4.2 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 investment banks are also comparatively small. Regardless, it should be noted that investment banks provide some stimulation, however limited, through longer-term loans. Nonetheless, despite the presence of other institutions, commercial banks are the backbone of the financial services sector. They offer a wide array of services, but there are no specialised services for exporters offered by these banks. Current services are limited to 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 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 collateral. It is estimated that only a quarter of loans are able to finance more than 75% of MSMEs' needs.[6] Of particular significance is the fact that enterprises do not seem deterred by the interest rate levels. Instead, most are hindered by the collateral requirements and, to a lesser extent, by religious factors. Not only collateral requirements are not adequate to the loan's values, but most of the land outside of city centres is unregistered and therefore unavailable to use as collateral. Although personal loans are easily collateralised with payroll, enterprises find it difficult to meet bank lending requirements.

All banks operating in Palestine and are financing international business transactions work exclusively with documentary credits: UCP 500 or regulated UCP 600, while the

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

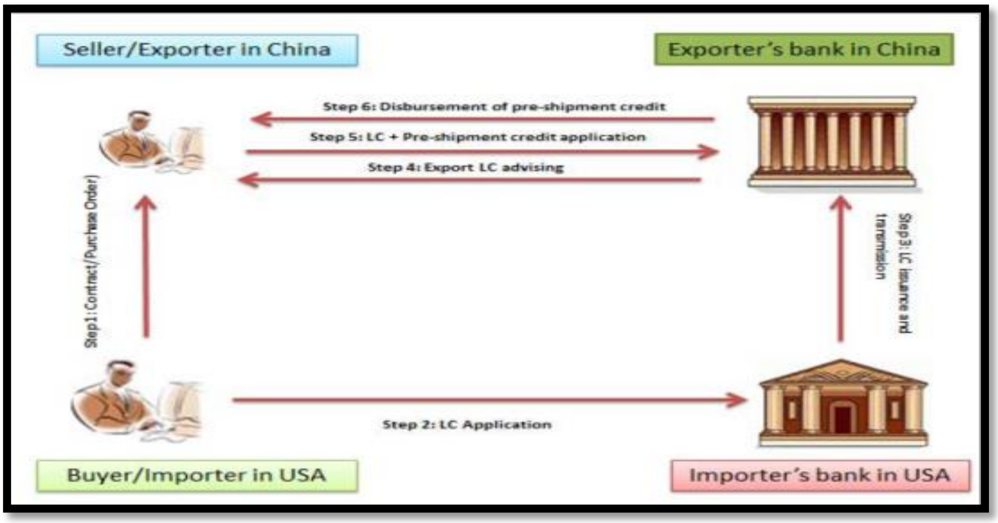
most popular financing tool used by all banks is a letter of credit facility, where company X exporting to company Y wants to know that the payment will be received for the goods. The buyer's and seller's banks set up a letter of credit facility. On the basis of the conditions specified in the letters, both parties have comfort knowing that the other will release goods and payment when the product is shipped or the documents are received. This allows comfort within international trades and structures that promote trust between new counterparties. In most cases, this tool is used by Palestinian buyers for import transactions. With the increasing competition in international markets, Palestine's financial sector needs to introduce and diversify financing tools such as pre-shipment and post-shipment finance as these tools support exports growth.

A) PRE-SHIPMENT FINANCE

Pre-shipment finance refers to the financial assistance provided to exporters before the actual shipment of goods. Pre-shipment finance is provided to exporters for such purposes as purchase of raw materials, their processing and converting into finished goods, and packaging. There are many pre-shipment instruments available worldwide (for more information about pre-shipment services see Annex 1).

Pre-shipment finance is self-liquidating in nature. It is liquidated against export proceeds or can be converted into post-shipment after the shipment has taken place. The self-liquidating nature is beneficial to the borrowers which are small-sized with undercapitalised businesses.

Figure 3 :Pre-Shipment Export Financing Process



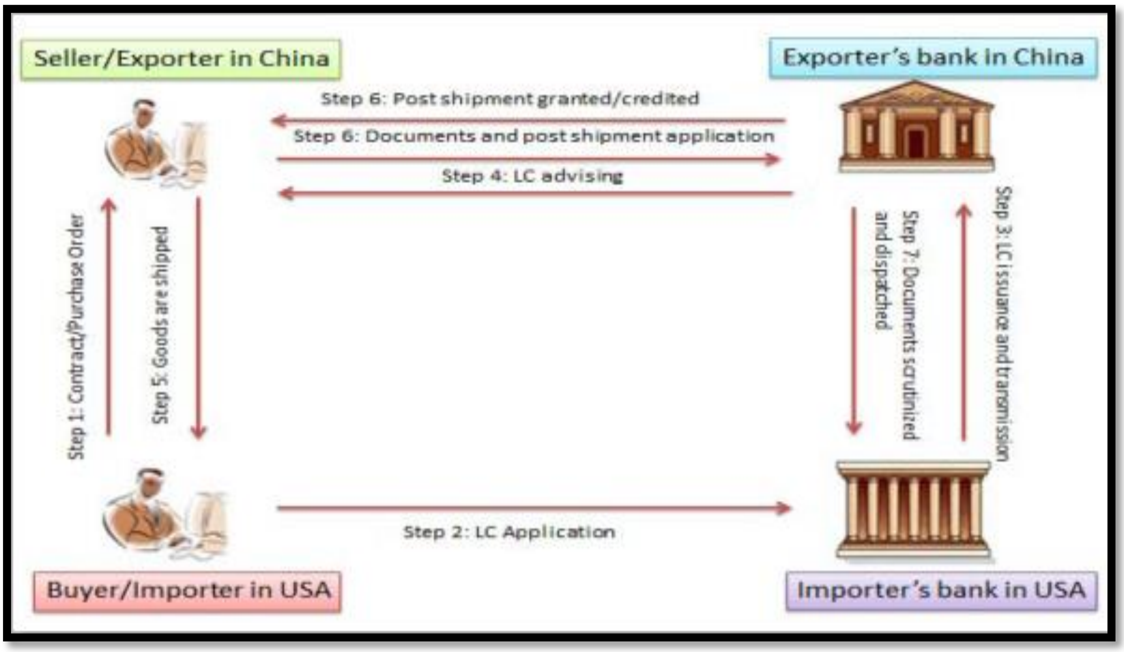
Source: http://tradesamaritan.com/world-trade/products/pre-shipment-finance-or-packing-credit

B) POST-SHIPMENT FINANCE

Post-shipment finance refers to providing short-term financing to exporting manufacturers, distributors, and service providers. Businesses receive financing in the form of a loan for between 85-95% of the invoice value of export sales, which must be repaid from the assigned proceeds of payments from approved buyers (for more information about post-shipment services see Annex 1).

Today most suppliers choose post-shipment finance facility from their bank or financial institution as it enables them to extend better payment terms to their existing buyers and attract new buyers[7].

Figure 4: Post-Shipment Export Financing Process



Source: http://tradesamaritan.com/world-trade/products/pre-shipment-finance-or-packing-credit.

The financial sector in Palestine, as mentioned above, is relatively small compared to neighbouring countries in addition to being fragile and limited in terms of its offerings. This is the result of an ongoing conflict, security tensions, and political and social unrest related to the occupation regime. The Palestinian financial sector, however, was revived following the Oslo Accords (1993) and the Paris Protocol (1994), which granted the PMA the power to regulate all financial and monetary affairs.

4.3 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 established businesses and entrepreneurs to obtain capital and technical assistance.

5. Current Financial Sector Policy Institutional Framework

In the framework of this study, some members of the SMEs Technical Committee were interviewed, such as representatives of the Ministry of National Economy (MoNE), the PMA, the Association of Banks in Palestine (ABP), and other institutions representing authorities responsible for developing or implementing policies related to access to finance at the national level. Table 5 summarises the financial policy institutional framework, which comprises some members of the SMEs Technical Committee. This institutional framework developed measures based on four main key factors:

[7] http://tradesamaritan.com/world-trade/products/post-shipment-finance

- 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 capacity of this institution's staff in terms of their training and responsiveness to the sector's stakeholders;
- Financial resources assessment: Assesses the financial resources/capacity available at the institution to provide service delivery in an efficient manner;
- Advocacy: Measures the efficacy of this institution's advocacy mechanisms and how well/frequently this institution disseminates important information to the sector.

Table 5: Palestine's Access to Finance Policy Support Network

Policy support network					
Name	**Function/Role**	**Coordination**	**Human Capital**	**Financial Resources**	**Advocacy**
Ministry of National Economy (MoNE)	MoNE is responsible for: • Standards and regulations enforcement; • Duty draw back payments; • Release of financial guarantees; • Industrial licenses; • Renewal of industrial operating licenses; • Verification of names; • Certificates of origin; • Re-exporting transactions; • Certified exporter certificates. MoNE is responsible within the access to finance function for: • Releasing of financial guarantees.	H	M	M	M
Palestine Monetary Authority (PMA)	PMA is responsible for the regulation of all banking activities, including microfinance.	H	H	M	M
Palestine Capital Market Authority (PCMA)	PCMA is responsible for the regulation of non-banking financial services, including some segments 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 access to finance, MoF: • 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 and France;	M	M	M	M

	• Defines agreements with international donors to provide loan guarantee schemes to businesses through banks.				

H: High
M: Medium
L: Low

The desk research and the information collected show that there are no dedicated programs or institutions specialised in export financing offering services such as pre-shipment or post-shipment finance in Palestine, and that there are no export credit programs to stimulate national exports by overcoming country specific risks, especially political risks, as the main obstacles to the provision of credit. In most countries, governments developed special state institutions called Export Credit Agencies (ECAs), to take this role. The primary role of such agencies is taking risks off exporters, conducting due diligence of foreign partners, and providing guarantees or insurance coverage from the part of the exporter's to domestic enterprises or financial institutions[8].

The key specialisation of ECAs throughout the history of their existence has been the supply of equipment and technology to the countries going through accelerated industrialisation. From their onset, despite some differences, the aim of the activities of all ECAs is to issue guarantees or insurances to funding banks and to take on a number of specific commercial and political risks. Without ECAs, with those risks, export lending is very difficult and in some cases is not even possible[9].

ECAs may be managed either by the government or by private insurance companies with support from the government. Some of these agencies confine themselves to issuing guarantees (equivalent to insurance), whilst others also offer export finance facilities. The financing can take the form of credits (financial support) or credit insurance and guarantees (pure cover) or both, depending on the mandate that the ECA has been given by the government. ECAs can also offer credit or cover on their own account. This does not differ from normal banking activities. Some agencies are government-sponsored, others are private, and still others are a combination of the two.

The importance of export credit guarantee can be summarized as follows:

- Protecting the exporter from the risk of payment in export transactions. Selling abroad requires more risky terms of sale than in the domestic market due to the difficulty of obtaining accurate information about foreign buyers and suppliers and their financial ability, as well as other uncertainties;

- Financing export operation, when the supplier is not in a position to finance his/her own transactions, which is an important source of external financing to developing countries;

- The insurance policy increases the quality of the bill of lading and increases the creditworthiness of the issuer to obtain credit, thereby supporting capital transfer that could not otherwise be made available;

[8]Krauss, R. M. (2011). The Role and Importance of Export Credit Agencies. Hämtat från www.gwu.edu.
[9] Broek, M. (2003). Paper on Export Credit Agencies and arms trade.

- Providing better conditions for companies to compete with similar products in the international markets by providing easy payment terms to the buyer;

- Activating negotiable instruments that cover export operations as long as traders are satisfied and assured that they will get their financial value when due and are confident in that the insurance will protect them from any risk;

- Export promotion: Because economic development allows for the disposal of surplus production in the event of saturation of the domestic market by guaranteeing the source debt, it pays to export despite the risk of non-payment that may adversely affect the issuer;

- Providing better conditions in terms of competition with similar products in the international markets by providing easy payment terms to the buyer. The insured companies do not face the risk of bankruptcy because the compensation for losses in case of disasters protects them by transferring the losses to the insurance company;

- Managing the security bodies for disputes that may occur between the exporter and the foreign client, where the laws and provisions as well as their uses are unknown, which makes the role of these bodies important to remove many difficulties for the insured company, by taking care of this aspect;

- Stimulating the banking sector to provide the necessary credit facilities to finance foreign trade without the need for central banks to grant the necessary guarantees and without requiring confirmed official documents as an acceptable means of payment.

In general, Palestinian exporters finance their operation through self-financing or through corporate profits, and often do not approach banks or other lending institutions due to high interest rate. This is why a large number of Palestinian exporters tend to limit their exports and focus on the Israeli market. However, there are also other obstacles that prevent companies from borrowing which should be considered and handled correctly before offering export financing services including the following:

- 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 lack of export credit schemes;
- There is no export credit insurance option;
- Inadequate laws and regulations have an adverse impact on access to trade finance;
- The absence of deposit insurance affects trust in the financial system;
- 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 enterprises' candidacy for loans.

6. Export Risks

Export risks are those risks to which the exporter is exposed during the export process, which may be due to commercial factors, non-commercial/political factors, or other factors. Here we address the most important risks of the export process.

6.1 Commercial Risks

Commercial risks originate from the importer or due to his/her financial situation and lead to not receiving exporter financial dues as agreed, including the following:

- The bankruptcy, insolvency, or liquidation of the importer;
- The importer refrains from paying what he/she owes to the exporter;
- The buyer refuses to receive the goods shipped.

6.2 Non-Commercial (Political) Risks

Political risks are beyond the importer's control and originate from the importing country authorities.

6.3 Other Risks

The insurance of exhibitions is an important tool to encourage exports. Companies which want to show their products in international exhibitions have to pay considerable expenses, without being sure about the sale of their products or even the refund of participation fees. This risk has forced many companies to hesitate whether to participate in international exhibitions. Thus, the export insurance provider has to play a role here to reduce this risk by compensating the exhibiting company for its expenses in accordance with the agreement with the insurance company which mostly covers between 50% and 70% of the exhibiting expenses, while the exporter has to pay a premium of between 2% and 3% of the total exhibiting expenses of the offer.

6.4 The Risk of Price Volatility

When a contract is signed, prices are either fixed or changeable. In the first case, when prices are fixed, the loan insurer does not intervene to cover the excess value of the fixed price resulting from fluctuations in the cost of raw materials and wages. In the second case, in case of price changes, the insurer undertakes to extend the warranty to the supplementary amount.

7. Identified Good Practices

The following section illustrates the best practices and the experiences of various countries in the area of export finance. In particular, the pre-feasibility study has selected European countries with a long history of export finance. Countries from the former Soviet Union, which have recently joined the EU, have a modern experience in drafting legislation and establishing services related to export finance, while Islamic and Arab counties close to the Palestinian business environment have the same common characteristics. This section aims to give an overview of the export finance models of Turkey, Egypt, Jordan, Denmark, Hungary and Slovakia in terms of institutional arrangements, regulations, and impact.

7.1 TURKEY'S EXPORT FINANCE MODEL

Turkey's Export and Import Bank is a state-owned bank, which provides loans, insurance, and guarantees directly to Turkish commercial banks to encourage them to finance export transactions. Thus, the Bank uses the funds of some commercial banks to finance export operations. This is partially an indirect result of the fact that part of the Bank's money was originally borrowed from commercial banks. Since entering into the Customs Union with the EU in 1996, Turkey has made arrangements to amend its legislation in line with EU legislation in related areas, including export credit officially subsidized by the government.

This Bank has been established to support foreign trade and Turkish contractors/investors globally through multiple credit, insurance, and guarantee schemes. The Bank is currently granting short-term capital finance to SMEs, and furthermore plans to ensure long-term plans (especially non-financing facilities such as insurance and guarantees), while leaving short-term financing to commercial banks. The Bank is seeking opportunities to cooperate with foreign institutions to finance joint ventures involving Turkish and foreign partners. In addition, the Bank offers several financial instruments, with its major program being the granting of pre-shipment export credit which is implemented through intermediate commercial banks. Examples of special credit programs include: the Chain Shop Investment Credit Program, the Tourist Marketing Credit Program, and the International Transport Marketing Credit Program. The Bank also acts as an intermediary for the Islamic banks' export finance plans, as well as for credit information reports on Turkish companies to foreign export credit institutions as the most reliable source of credit information.

7.2 EXPORT DEVELOPMENT BANK OF EGYPT (EBE)

The Export Development Bank of Egypt (EBE) is an Egyptian joint-stock company established under Law 95 of 1983. It is subject to the regulations of the Central Bank of Egypt (CBE) and the law of the financial and banking system, with the purpose of boosting Egyptian exports and supporting establishments in the agricultural, industrial, commercial, and services sectors. Soon after its establishment, the Bank became the main funding source of exports operations in Egypt. Through its outstanding performance and policy based on diversified investments, the Bank was able to grow more and more, and achieve efficiency and a strong financial position. This has helped the Bank attain the confidence of exporters, owners of MSMEs, and individuals, in addition to the trust of local and international financial institutions[10].

The authorized capital of the Bank is EGP 2 billion, and the issued and paid-up capital amounts to EGP 1.440 billion. All the Bank shares are of nominal value and indivisible, equalling EGP 10 per share. The Bank is fully owned by Egyptians, as foreign ownership is prohibited. According to the provisions of Article No. 6 of the Law of the Bank, Law 95 of 1983 public shareholding should contribute no less than 75% of the

[10] http://www.edbebank.com/EN/AboutUs/Pages/default.aspx

paid-up capital. Facilities and loans portfolio increased from EGP 9.1 billion as of June 2014 to EGP 10 billion as of June 2015, by EGP 0.9 billion at a rate of 10.2%.

The Export Credit Guarantee Company of Egypt (ECGE), the Bank's credit arm, covers both commercial and political risks. The capital is EGP 50 million, and the outstanding guarantees are for USD 51 million. According to data provided by their representative, only 25% of the applications are rejected, due to the commercial risk on the importer or to the political risk on the targeted country, i.e., mostly post-shipment aspects (thus no restrictions regarding the exporter's size or experience). The exporter assigns to the bank the right to ECGE's indemnity in case of non-payment by the foreign importer.

Table 6:ECGE Capital Structure

Shareholder	Percentage of Shares
National Investment Bank	40.75%
National Bank of Egypt	11.43%
Banque Misr	23.13%
Private Sector and other	24.69%

Source:www.edbebank.com/EN/AboutUs/Pages/Shareholders.aspx

7.3 Jordan's Export Finance Model

The Jordan Loan Guarantee Corporation (JLGC) was established as a public shareholding company in 1994. The JLGC aims to provide the necessary guarantees to facilitate financing of MSMEs and national export and to contribute to the process of economic growth, job creation, and national export encouragement. The guarantees are designed to benefit MSMEs in Jordan by affecting the banking and financial sector in Jordan under the Loan Guarantee Program.

The JLGC is managed by a Board of Directors, composed of seven members. According to the JLGC Memorandum of Association, the Central Bank of Jordan (CBJ) appoints two of the members, one of whom is the Chairman as long as CBJ's participation in JLGC's capital remains above 45%. The rest of the shareholders are selected from among the remaining members. Membership in the Board of Directors is for a period of four years that ends with the election of a new Board.

Table 7: Export and Domestic Credit Guarantee Programs

Credit Guarantee Program	Maximum Shipment Amount (USD)	Maximum Payment Period (Months)	Guarantee Percentage (%)
Export Credit Guarantees	4,000,000	6	90%
Domestic Credit Guarantees	4,000,000	4	90%

Table 8: JLGC's Largest Shareholders, 2016

Shareholder	Number of Shares	Percentage of Shares
Central Bank of Jordan	14,322,250	49.25%
Cairo Amman Bank	1,734,424	5.96%
Arab Bank PLC	1,469,439	5.05%
Cities and Villages Development Bank	525,000	1.81%
Social Security Corporation	524,000	1.80%

7.4 Denmark's export credit agency

Denmark's Export Credit Agency (EKF) is an independent public company owned by the Danish State which operates as a modern financial enterprise. A guarantee from EKF makes it possible and attractive for customers abroad to purchase Danish products by helping raise financing and by insuring companies and banks against the potential financial and political risks of trading with other countries. They assist both large and small companies and are capable of providing financing solutions tailored to every company's specific needs.

7.5 Hungary's Export Finance Model

Hungary's experience reveals that Export-Import Bank (EXIMBANK) and the Hungarian Export Credit Insurance Pte Ltd. (MEHIB) are the main pillars of the Government's export finance policy, particularly, to countries with high commercial and political risks. Exports that normally cannot be supported by commercial banks and insurance companies are promoted through these two institutions. Hungary had over 540,000 enterprises in 2007, 94.3% of which were micro enterprises, 5.6 % were SMEs, and only 0.1% (that is, only 800 companies) had more than 250 employees.

MEHIB was established in 1994. The owner's rights are fully exercised on behalf of the Hungarian State, indirectly by the Hungarian Development Bank Ltd. as a main shareholder. The paid-in capital of the Company is HUF 4.25 billion, or EUR 14 million. The main aims of MEHIB's business activities are: to enable the entry of Hungarian companies into foreign markets; to promote Hungarian export activities; and to further the competitiveness of Hungarian exporters. In order to make these possible, MEHIB provides credit insurance for the risks that are usually not covered, or only partially covered, by private insurers in the market**.**

MEHIB's objectives are: to share the financial risks of export transactions; to encourage and promote external economic relations with special emphasis on the exports of Hungarian goods and services; and to strengthen the external competitiveness of exporters.

7.6 SLOVAKIA'S EXPORT FINANCE MODEL

Export-Imp Slovakia's experience reveals that Export-Import Bank of Slovakia (EXIMBANKA) is the main pillar of the Government's export finance policy. The ownership is 100% sovereign, with the supervisory body being the Ministry of Finance). Exports that normally cannot be supported by commercial banks and insurance companies are realized by EXIMBANKA. Slovakia has over 57,800 enterprises, 73.1% of which are micro enterprises with at least one employee, 25.9% are SMEs, and only 0.9% (that is, only 519 companies) have more than 250 employees.

Corporate Description

- EXIMBANKA is the official export credit agency. Its main goal is to increase the competitiveness of Slovak exporters in the international market by providing a wide range of export credit and investment insurance.

8. INTERVIEWS ANALYSIS

The following section analyses the discussions with each stakeholder who was interviewed by the consultant in the area of export finance, including officials from the government, the supply side (the financial sector), and the demand side (MSMEs).

8.1 INSTITUTIONS INTERVIEWS

a) Ms. Manal Farhan, Deputy of Ministry of National Economy, 29 August 2017, at the MoNE. The meeting aimed to discuss the perceptions of the MoNE on how the government can support the establishment of export finance mechanisms in Palestine. First, the Deputy Minister explained that currently there is no law or system in Palestine responsible for supporting export finance. The only recently enacted trade support law was the Financial Leasing Law, which is supervised and regulated by the PCMA in cooperation with the MoNE. The new law allows companies to allocate liquidity through using their own movable assets in exchange for cash.

On the other hand, with regards to any existing initiatives for the creation of mechanisms for export finance, the Deputy Minister mentioned that there are no initiatives currently, which gives great importance to the current pre-feasibility study to be considered as a cornerstone that could direct efforts to support the establishment of export finance services in Palestine. She also stressed that the NES mentioned export finance as a key driving force for the economy's prosperity. Since the NES was approved by the Ministerial Cabinet, it is directly supported by the government. The Deputy Minister believes that the government should have an export finance program to enable Palestinian MSMEs to obtain loans that facilitate the export of goods and services by providing the liquidity needed to accept new business, grow international sales, and compete more effectively in the international marketplace. This has to happen in the short term at least, and the best way to do it is through cooperation among the government, the private sector, and donors' guarantee funds, allocating an export guarantee fund that provides services through the private sector.

b) Mr. Murad Sawafta, Legal Advisor to the PMA. Mr. Sawafta gave the consultant an overview of the role of the PMA and the legal framework of the Palestinian financial sector system. Mr. Sawafta pointed out that export finance is an important factor in increasing exports and allowing MSMEs to be more involved in export activities, especially since Palestinian exports have not reached high levels compared to countries in the region such as Jordan.

   Nevertheless, exports are improving steadily as a result of the relative calm currently prevailing in the Palestinian territories. Mr. Sawafta recommended that Palestinian enterprises, through private sector institutions, lobby and push the government to start considering creating a mechanism if there are real opportunities for exporting which need financial support. This will create an effective dialogue among MSMEs, the financial sector, and the government on establishing export finance mechanisms.

c) Ms. Lina Gbeish, Director General of the General Department of Mortgage Finance and Leasing at the PCMA. Ms. Ghbeish explained the role of the General Department and its benefits. It is widely recognized that MSMEs in emerging markets generally lack access to finance, as commercial banks typically tend to focus on top-tier commercial and retail clients, leaving a wide-open "SMEs Finance Gap". Most banks have little appetite and incentive to outreach to MSMEs, which they consider riskier and more costly to serve due to the small transaction sizes.

   In 2014, the Financial Leasing Sector underwent fundamental advancements at the legal and regulatory level which culminated in the endorsement of the Financial Leasing Law by Decree No. (6). The year 2016 witnessed a remarkable growth in the performance of financial leasing companies in the Palestinian market. This was translated into an increase in the financial leasing portfolio in terms of the number and value of contracts registered in the PCMA.

   Ms. Gbeish pointed out that leasing finance contributes to the development of industries and reduces investment burdens. The problem of export finance remains in dire need of a solution by the concerned authorities, including insurance companies, which may be a key partner in creating a guarantee framework for banking and other lending institutions to finance exports activities, specifically for MSMEs.

Therefore, it is imperative to examine the risks related to the financing of exports in all respects in this study, especially in relation to the risks related to the possibility of the Palestinian defaulted export loan due to the instability of the local political conditions. She also recommends to investigate the ability of insurance companies or donor guarantee funds to create insurance credit guarantee mechanisms that cloud cover losses due to local political conditions.

Ms. Gbeish was cautiously optimistic about export finance because Palestine cannot control its borders, which maintains a high risk level, impeding the establishment of a clear mechanism taking into account all the risks surrounding the current Palestinian situation.

d) Mr. Ahmed Abu Bakr, Director General of the SEC, 18 October 2017. SEC is a non-profit organization which provides an integrated package of innovative business development services consisting of, but not limited to, institutional capability building and strengthening, human resource training, development SME banking, grant management, research and development, and lending and microfinance advisory services to MSMEs. In addition, SEC is a member of the SMEs Technical Committee.

Mr. Abu Bakr said that MSMEs face many difficulties with regards to obtaining loans due to several factors including commercial banks' procedures being onerous, high level of collaterals, approved financial history, and others. Therefore, many MSMEs seek financial loans from non-profit lending institutions, although they are non-profit financial institutions and aim to contribute to the process of economic development and reducing poverty and unemployment in society. In fact, there are also other difficulties in the repayment value of loans. The interest rates on loans granted by many lending institutions vary between 10% and 24%, which is high compared to loans granted by banks operating in Palestine.

These high interest rates are the main obstacle which many MSMEs seeking financing loans face. Mr. Abu Bakr gave an example from MSMEs in the agricultural sector, where annual profit rates reach 15% on average, while the annual interest rate for any loan obtained by MSMEs varies between 10% and 24%. He pointed out that these numbers give an indication of the need to study the current financing services offered by lending institutions, the government, private institutions, and other stakeholders concerned with economic development, which have failed to provide a practical solution that supports MSMEs to get the needed financing.

Mr. Abu Bakr pointed out that the creation of export finance mechanisms is an urgent necessity for the Palestinian economy due to competition faced by Palestinian companies, especially from Israeli, Turkish, and Chinese products, and the inability of many Palestinian MSMEs to compete in prices. Therefore, many MSMEs have been encouraged to search for export opportunities in foreign markets, which has become a requirement for development and job creation in the youth sector. Mr. Abu Bakr commented that the form of the proposal for export finance mechanisms must depend firstly on the type of services that will be provided by the financial entities, especially for MSMEs. For example, the interest rate on export finance should be between 2% and 3% to encourage borrowing with a suitable export guarantee scheme. The loan process should be smooth and flexible. In addition, the SMEs Technical Committee should have a clear role in forming these mechanisms due to its experience in and excellent knowledge of the Palestinian financial sector and MSMEs.

8.2 SUPPLY SIDE INTERVIEWS

a) Mr. Bahaa Al-Sartawi, Assistant Director General for Commercial Facilities, and Mr. Loay Al Taweel, Director of SMEs, the National Bank, November 2017, at the National Bank Headquarters. The National Bank is Palestine's fastest growing bank and one of the country's most trusted providers of comprehensive, integrated financial services for the corporate, retail, investment, and microfinance projects.

The consultant asked Mr. Al-Sartawi about his views and opinions regarding the development of new mechanisms or scenarios that support export finance in Palestine. He said that the Bank has made great strides in financing MSMEs and has signed many agreements with guarantee funds to support MSMEs' access to finance with less requirements, including for those enterprises which face high risks, even those located in Area C[11]. He explained that services offered by the Bank to different clients including MSMEs are more attractive than those offered by lending institutions, which impose high interest rate because they borrow from banks and then lend the money to MSMEs, which adds operating expenses.

From the Bank's point of view, the problem is that MSMEs are still not demanding loans from lending institutions because MSMEs do not have sufficient information about the loans process, requirements, Area C coverage, and others. He considers this problem a major obstacle facing the supply side.

Mr. Sartawi pointed out that the issue of export finance is a new idea and has not been discussed in previous financial or economic studies. Statistics indicate an improvement of and growth in Palestinian exports, particularly in the marble and stone sector and the agricultural sector. He concluded that there should be a national plan adopted by all parties, including the government, aimed at developing export finance services which meet the needs of companies, especially MSMEs. If this national plan is approved and implemented, it will lead to the development of export finance mechanisms that include commercial banks, which will be considered as a new market for banks and the financial sector to compete and offer the best services to exporting MSMEs.

On the one hand, Mr. Al Taweel said that in the past it was difficult for companies to obtain financing because of MSMEs' inability to show accurate financial data and history, many of which are not even officially registered and many of which are located in Area C under Israeli occupation control. In

[11]. Area C : covers 60% of the West Bank (about 330,000 hectares); Israel has retained almost complete control of this area.

general, these companies have misinformation about banks with regards to high interest rates and cumbersome procedures. He believes that the Bank should design wide awareness programs that disseminate information about the ability of the National Bank to provide loans that fit MSMEs' needs, especially those located in Area C.

b) Mr. Kosta Rantisi, Head of Small and Medium Enterprises at Bank of Palestine, where Bank of Palestine is one of the largest national banks operating in Palestine with a broad range of branches. The Bank employs a crew of qualified personnel providing services to more than 750,000 customers including individuals, firms, and organizations.

   Mr. Rantisi gave a brief about Bank of Palestine's operations, including that the volume of loans provided by Bank of Palestine is about USD 2.2 billion, with USD 330 million allocated to MSMEs.

   Mr. Rantisi pointed out his views on establishing export finance mechanisms or facilities that will support the financing of different export activities. He believes that there is no need to develop new mechanisms of export finance in the current period for a number of reasons, including:
   1) The volume of the export finance requests is very small due to lack of awareness among Palestinian exporters;
   2) The volume of funds in banks and through export credit funds covers the existing demand sufficiently, so what is needed is developing more financial services that support export activities;
   3) The government's inability to intervene, because of its financial situation, prevents the government from guaranteeing any funds related to export even in the long run, because of the complexities of the political situation, so it is better not to put more burden on the government.

8.3 DEMAND SIDE INTERVIEWS

A set of questions was prepared by the consultant to investigate the opinions and perceptions of Palestinian companies on the export finance demand side. In order to study the real situation of demand on loans that support export activities in the Palestinian territories, the questions were sent to a group of companies.

The companies were asked to answer the questions via email, while face-to-face interviews were conducted with three companies including Rommana Company from Jenin, Nasser Investment Company from Bethlehem, and Jood Mnel Mawjood Company from Ramallah. In addition, the consultant contacted six companies over the phone to verify the answers received before analysing the data.

Table 9: Number and Type of Surveyed Companies

Type of Company	Number of Companies
Micro (1-4)	3
Small (5-9)	1
Medium (10-19)	4
Large (20 or more)	1

The analysis found out that 70% of the companies raise finance for their export activities through their own savings. This is considered as evidence that export finance for MSMEs is still limited and depends on family and personal savings. The study also found that 60% of the companies have a general idea of the concept of export finance or financing pre-shipment or post-shipment operations, due to personal and business experience in international business and exporting. Some companies indicated that they had done research on funding from donor institutions and commercial banks in Palestine but had not found any specific program that supports export finance. Similarly, 40% of the companies have heard about export credit guarantees or credit in the experiences of other countries from personal experience, by reading studies, and from other businesspeople.

While discussing the results with Nablus Soap Company, they mentioned applying for loans financing export activities in the past and that they obtained a loan from a local bank.

Importantly, 90% of the companies find export finance guarantee or credit to be important and beneficial to their business activity. According to them, the establishment of independent bodies for such purposes will support and encourage exports activities, maintain a level of market competition among Palestinian exporters, and enable them to penetrate international markets because they will be able to bear certain business risks through an export guarantee system, which will inevitably minimize possible risks to increase competitiveness.

Around 90% of the companies provided the consultant with their view on the steps that can be taken to support exporters' and MSMEs' to access to finance to support pre-shipment and post-shipment operations. Some companies stress on the vital need to establish a local entity or a specialized institution to undertake, manage, and provide appropriate financing for exporters at a very low cost, as such an institution or organization must seek to support MSMEs rather than make profits. Other companies want specific services to facilitate access to pre-shipment services in accordance with Islamic law including services that secure land and sea freight for exporters as part of the support.

Companies emphasized the need to increase the knowledge of MSMEs about such subjects as export finance. Other companies mentioned that the government should support MSMEs to apply for export finance by covering a certain amount of the loans or by establishing a financing and export credit fund by the government and donors to provide loans to Palestinian MSMEs at a lower interest rate.

For example, Rommana Company from Jenin has export opportunities in Oman and Saudi Arabia, so the Company sought getting a loan to finance export operations, but they face difficulties because the Company is located in Area C, which is under the control of the Israeli occupation and is considered as a high risk investment by the financial institutions and banks, thus requiring high guarantees and a high interest rate, which the Company cannot bear.

Ms. Amira, who opened a small craft company named Jood Mnel Mawjood in Ramallah, has difficulty finding the necessary finance support for her export operations. She has opportunities in Brazil, but she does not know where to go to secure cash to start export operations. She hopes that there will be a solution to this problem through certain mechanisms that serve particularly small exporters.

8.4 SWOT Analysis

The interviewed stakeholders helped designing the following SWOT analysis of the current policies and available instruments:

Table 10: SWOT Analysis

Strength	Weakness
1. Availability of excess liquidity at banks leading to strong capital base for lending in Palestine. 2. Availability of highly qualified and experienced staff on all banks operating in Palestine 3. Highly growing need among Palestinian MSMEs to finance different operations. 4. Available different types of guarantee programs that are linked directly to commercial banks in Palestine.	1. Unavailability of specialized expert credit programs, funds, and services in Palestine. 2. Inability of the Palestinian government to support financially any credit fund programs. 3. Most Palestinian enterprises self-finance their export operations and, in most cases, they have shortage in cash to support working capital. 4. Many companies do not wish to get loans from banks due to religious reasons or due to high interest rate and loan collaterals. 5. Lack of experience to offer export finance services to MSMEs such as pre-shipment export finance and post-shipment export finance.

Opportunities	Threats
1. PMA circulars (53/2013) and (123/2013) encourage banks to extend facilities to MSMEs. 2. Availability of several donors in Palestine which could support the establishment of an export credit fund to finance exports. 3. The Palestinian government's strategic interest in developing exports as a major tool contributing to economic development in Palestine: a. Approval of the NES; b. The establishment of the Palestinian Export Council; c. NES highlighted the need for an export finance mechanism/instrument. 4. Around 97% of Palestinian companies are MSMEs.	1. There is a communication gap between MSMEs and banks in Palestine regarding existing guarantees and risk-sharing programs. 2. The current political situation and the high uncertainty which directly affect economic activities dramatically. 3. High risk coming from the political situation in Palestine and in the region.

8.5 Concluding Remarks

Common mechanisms in export finance were reviewed as indicated above, including examples from Turkey, Egypt, Jordan, Hungary, Denmark, and Slovakia. The analysis found that exporting companies in these countries suffer from many problems, such as access to international markets and competing in those markets to maintain continuous export transactions. These problems are identical to the problems that Palestinian exporting companies face, but the severity of the problems varies from one country to another, depending on the prevailing developmental context as well as according to the companies' experience in export, available financing, the nature of support, and the size of this support.

Although some governments use similar export support programs such as export finance programs, export insurance programs, and input support programs for export-oriented production, they differ in the mechanisms of implementation.

Even though a comparison in the field of exports between Palestinian exporting companies and exporting companies from the studied countries may be inaccurate or unrealistic, because of the specificity of the political situation in Palestine and the arbitrary procedures companies faces by the occupation that directly and indirectly affect foreign trade, there are many points of convergence between companies in those countries, especially developing ones, and Palestinian companies, regarding the nature of the problems they face.

Palestinian companies face difficulties in accessing export markets, high transaction costs in general, high transport and shipping costs in specific, problems in financing and insurance, lack of knowledge and information about many targeted markets and financing modalities, and non-conformity of goods to international standards, which are the same as the problems that companies face in other developing countries. However, the governments of these countries have a role in solving these problems through their actions, programs, and plans to support import and export operations, and, as mentioned above, the importance of this role and its effectiveness varies from one country to another, depending on the role of the state in the economic cycle, which determines the extent of its involvement in the activities of the private sector – positively or negatively – and the direct links between the public and private sectors, especially for exporting companies, which helps to identify the specific problems. Thus, governments place a lot of importance on their role in export development through focusing more on programs of government support, financing, and guarantee programs.

In the Palestinian case, it can be said that the government's role in this area is still marginal and does not relate to government's support programs and procedures to facilitate trade and develop exports in specific despite the fact that exports is a key factor for Palestinian economic development. Developing an export finance mechanism in Palestine, and the shape, structure, services of it, should take into consideration the importance of exports to Palestinian economic development, which is obviously larger than in any country in the region and potentially in the world.

9. RECOMMENDATIONS TO DEVELOP AN EXPORT FINANCING MECHANISM IN PALESTINE

At present, there are no export finance mechanisms or services available to exporters in Palestine. Palestinian exporters require specific financial instruments to cover the costs and to ensure that exporters continue to have working capital until the cargo has been sent and payment from the buyer has been received. Taking into consideration the factors within the Palestinian context and the SWOT analysis, the introduction of an export finance mechanism should be deeply studied in the short, medium, and long term.

Based on the analysis made within this study, it is recommended to create an export credit and guarantee fund from the existing guarantee funds, through cooperation among donors and the government. The proposed solution is to establish an export loan credit and guarantee fund under the supervision of the PMA and donors as short-to-medium-term solution. The main objective of the fund is to strengthen the competitiveness of Palestinian exporters to penetrate regional and international markets. The fund will provide MSMEs with access to finance for foreign trade and Palestinian exporters through various credit, guarantee, and insurance programs, providing financial instruments for Palestinian exporters under the same terms and conditions enjoyed by their competitors abroad. For Palestinian MSMEs, this has become vital not only for creating new markets for Palestinian exporters but also for sustaining their shares in traditional markets.

The Palestinian government in cooperation with the donor community could design a new export loan guarantee fund/program, or it could be part of an existing loan guarantee fund/program. Examples of such a program could include the European Palestinian Credit Guarantee Foundation (EPCGF), the LGF managed by MEII, or SIDA Guarantee Facility (SGF) designed and managed by MEII.

The design of services provided by such funds or programs should facilitate export financing, while taking into consideration Palestinian MSMEs' capacity and interests in order to contribute to the process of economic growth, job creation, and national export encouragement. The options of direct lending or through banks should be carefully studied to address MSMEs' interests and encourage banks to provide export financing services to MSMEs and take advantage of these new business opportunities. Moreover, the fund will allow banks operating in Palestine to offer low interest rates to MSMEs. The interest rate should be encouraging and aimed at lending to small companies looking for financing for their business activities.

During this short-to-medium-term phase, the services will be limited to two types of services:

1- Pre-shipment export financing:

Short-term pre-Shipment export financing facilities covering all sectors and providing financial support to exporters starting from the early stages of production.

The main objectives behind pre-shipment finance services are to enable exporters to:

- Procure raw materials;
- Carry out the manufacturing process;
- Provide a secure warehouse for goods and raw materials;
- Process and package the goods;

- Ship the goods to the buyers;
- Meet other financial cost of the business.

2- **Post-shipment export financing:** The fund should offer post-shipment facility to provide short-term financing to Palestinian exporters or even distributors and service providers. Businesses receive financing in the form of a loan for 90% of the invoice value of export sales, which must be repaid from the assigned proceeds of payments from buyers. The post-shipment facility aims to bridge the gap between the settlement of production costs and export sales receipts, allowing businesses to accelerate cash flow and shorten operating cycles.
3- **Provide loan guarantees for banks that could minimize the risk and minimize the interest rates accordingly:** This could extend the loan payback period and maximize the percentage of coverage of the loan of that of the full invoice of the export sales value.

Longer-Term Solution

Any longer-term solution should be considered based on:

1) The importance of export development for economic development in Palestine;
2) The lessons learnt from the short-to-medium-term solution which will clearly show the demand, the challenges, and the services needed.

Based on the importance of exports in Palestinian export development, it is clearly shown that an export finance body is needed in Palestine. The main objective of such a body is to formulate the needed policies to develop exports and designing specialized export finance mechanisms and services.

The shape and structure of such a body will also benefit from the short-to-medium term solution and will also make use of international good practices. Some good practices such as those in Jordan and Egypt show that it is good to turn the funds into public shareholding corporations and invite investors who are interested to take part in the capital share. It is very difficult to make the export financing facility totally owned by the government. The government needs investors to bear the risks with them.

Regarding the way forward, it is recommended that such options could be discussed within the Palestinian Export Council, which was established to facilitate the implementation of the NES, to formulate the needed policies to develop Palestinian exports. The ToR for the detailed feasibility study should be discussed and advised by the PEC.

Annex 1- Pre-Shipment and Post-Shipment Services

List of Export Finance Services and Instruments for Pre-Shipment

Type of Services	Services Definition
Extended Packing Credit Loan	It is extended to those exporters rated as first-class exporters by commercial banks on the basis of their creditworthiness. It is granted for making advance payment to suppliers for acquiring goods to be exported. Such advance is generally clean, i.e., granted without any documentary evidence for a very short period of time.
Packing Credit Loan (Hypothecation)	It is extended for the acquisition of raw materials, work-in-process, or finished goods meant for exports. The goods so acquired are treated as security for the sanctioning of a loan. Under this facility, the exporter is required to execute a hypothecation deed in favor of the bank, while the possession of goods remains with the exporter.
Packing Credit Loan (Pledge)	It is extended for the acquisition of seasonal raw materials or raw materials in odd or bunched lots. Export takes place in due course after processing as per the shipping and delivery schedule agreed upon by the overseas buyer. The documents relating to raw materials are pledged with the bank, while the possession remains with the exporter.
Secured Shipping Loan	It can be obtained once the goods are handed over to the transport operator or the clearing and forwarding agent for shipment. It is released against lorry receipt or railway receipt. It is extended for a very short duration considering the time needed to dispatch the goods to the port and the completion of shipping and customs formalities.
Advances against Red Clause L/C	If the exporter desires to obtain packing credit, he/she should request the importer to open red clause L/C. Red clause L/C authorizes local banks to grant advances to exporters to meet their working capital requirement for the processing of the export order. Such advances are guaranteed by the issuing bank.
Advance against Cheque or Draft	If the exporter has received direct payments from abroad by means of cheques or drafts, the bank may grant expo credit at a concessional rate to exporters having a good track record, until the time of realization of the proceeds of draft. The banks, however, must satisfy themselves that the proceeds are against an export order.
Packing Credit Facilities for Consultancy Services	In case of consultancy services, exports do not involve the physical movement of goods out of customs territory. In such cases, pre-shipment finance can be provided by the bank to allow the exporter to mobilize resources like technical personnel and train them.
Racking Credit Facilities to Deemed Exports	Deemed exports made to multilateral funds-aided projects and programs, under orders secured through global tenders for which payments will be made in the foreign exchange, are also eligible for a concessional rate of interest facility both at the pre- and post-supply stages.

List of Export Finance Services and Instruments for Post-Shipment

Type of Services	Services Definition
Export Bills Negotiated under L/C	If the exporter has obtained documentary letter of credit and has submitted the required documents, as mentioned in the letter, to the bank, the bank negotiates and extends the equivalent amount of post-shipment finance to the exporter. Post-shipment finance is released after liquidating the pre-shipment finance availed by the exporter.
Purchase/Discount of Export Bills	If export bills are not covered under the letter of credit, the bank may extend post-shipment finance by either purchasing or discounting export bills. Before extending such finance, the bank ensures that the exporter has complied with the terms of the export contract. Such advances are generally insured by an appropriate policy of the ECGC.
Advance against Bills Sent for Collection	Post-shipment finance can also be granted: When the assistance available under foreign bills purchased is exhausted; Or when some export bills drawn under L/C have discrepancies; Or where it is a customary practice in the particular line of trade.
Advance against Goods Sent on Consignment Basis	When goods are exported on consignment basis, export proceeds are received after sale of goods. In such cases, the overseas branch of the exporter's bank delivers documents against trust receipt, and the post-shipment advance is adjusted against export proceeds realized later.
Advance against Duty Drawback	The Government of India extends certain incentives to exporters such as the Duty Drawback (DBK). Such incentives are realized only after the shipment of goods and receipt of expects proceeds. Banks offer pre-shipment as well as post-shipment finance under these incentives.
Advance against Undrawn Balances	In certain lines of exports, exporters do riot draw bills for the full invoice value of goods but leave a small part undrawn for adjustments on account of differences in rates, weight quality, etc. Such differences can be adjusted only upon the approval of the goods. Banks offer post-shipment finance against such balances.
Advance against Retention Money	In the case of exports of capital goods contracts, the importer retains a part of the contract price towards guarantee of performance or completion of the project. This unpaid part is known as retention money. Banks offer post-shipment finance against such money for a period of 90 days.
Advance against Deferred Payments	In case of exports of capital goods or construction contracts, exporters receive a certain portion of the contract advance or down payment, while the balance is received in instilments over a period of time. Banks together with the EXIM Bank offer post-shipment finance against such deferred payment.