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Small Businesses Hold the Key to the Palestinian Economic Future

By Youssef Habesch

While we're only six months into 2015, the year is already shaping up to be another sluggish one for the Palestinian economy. Growth is likely to top out at a mediocre 4 percent, according to projections from the World Bank. That is a far cry from the bullish days of 2011 when it reached 12 percent and there was hope that the economy had turned a corner.

The malaise, of course, has deep implications for an enclave already struggling with poverty and unemployment. It also means that policy makers and the business community need to find ways to turn the tide and create economic opportunities for the Palestinian people. The question everyone is grappling with though is, how?

At least part of the answer lies in supporting the roughly 240,000 Palestinian small businesses, including those run and owned by women, which constitute almost 25 percent of all small and medium enterprises (SMEs).) These firms form the backbone of the local economy, employing more than 85 percent of all Palestinian private sector workers, and contributing more than 55 percent of the Palestinian GDP. With hard-working, innovative owners, they are a potentially bountiful source of new jobs that could power economic growth.

But many firms struggle to reach their potential, held back by a host of challenges, including red tape and a lack of credit. The financing issues faced by Palestinian businesses, to a large extent, mirror those in the wider Middle East and North Africa, where SMEs form the vast majority of all firms, but receive just 8 percent of all bank lending. The problem is especially acute among Palestinian female-owned small businesses, which, on average, need an estimated $42,000 more in credit than they get right now.

Thankfully, there are ways policy makers, international organizations, and the business community can reverse the tide. One of the most important is supporting Palestinian banks and microfinance institutions, which are on the front lines of the credit battle. By investing capital in these lenders, we can increase the pool of money available to SMEs. It's also important to help lenders improve their internal procedures, especially when it comes to risk management and staff training. That will help them refine their business practices and reach out to greater numbers of businesses.

Product development is also key. Not all businesses are created equal; smaller firms have different borrowing needs than big conglomerates. Lenders need to develop products that are tailored to SMEs and supplement those with what are known in the industry as non-financial services. These services,

which run the gamut from training sessions to networking opportunities, help strengthen the skills of entrepreneurs and managers, improving their financial and business literacy.

Tailor-made services are especially important for female entrepreneurs, who often face the unique challenge of growing their businesses while carrying a full load at home. Several banks in the region have started to address this important segment, including the Bank of Palestine through its Falastinieh program, and the National Bank, through its Haiaty program.

Meanwhile, the Palestinian Authority has an important role to play in fostering entrepreneurship. It must continue efforts to enable SMEs, making it easier for them to register their businesses, get licenses, and secure loans.

The Palestine Capital Market Authority, with the support of the International Finance Corporation (IFC), took an important step towards supporting small businesses when it developed the leasing law that came into effect in June 2014. This doubled the number of Palestinian leasing companies and, within almost twelve months, the gross value of leasing contracts reached more than $37 million, greater than the combined total of the past four years.

The Palestinian Ministry of the Economy is also in the process of developing a secured transaction law, which will allow SMEs to use what are known as movable assets, like equipment, as collateral to secure a loan. The law will lessen banks' dependence on fixed assets like land. This is key because many small business owners don't have fixed assets to use as collateral.

The Palestine Monetary Authority has also begun to provide financial incentives to banks that lend to smaller businesses. It has reduced the amount of money lenders must keep in reserve on loans issued to SMEs and begun work on a financial inclusion strategy that will extend financial services to the poorest Palestinians.

Despite this progress, more needs to be done to improve the business climate. The Palestinian economy placed 143rd in the World Bank's 2015 Doing Business rankings, which look at the ease of running an enterprise in 189 countries and territories. Starting a business, obtaining construction permits, and resolving insolvencies all remain major challenges here. While the government has made strides in recent years, it's vital that officials continue to cut back on red tape and push for reforms that will allow entrepreneurship to flourish.

Despite the movement and access challenges Palestinians face, business owners here have proven to be innovative and resilient. By helping them reach their potential, we can propel economic growth and make life better for the hundreds of thousands of Palestinians clamoring for more opportunity.

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