Palestine Export Strategy – Financial Services






Prepared by Tourism Intelligence International

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Acronyms

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

TSI	Trade Support Institution
TSN	Trade Support Network
USAID	United States Agency for International Development
WTO	World Trade Organisation

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1 Executive Summary

The services sector is an important part of the Palestinian economy, accounting for over half (57%) of GDP in 2012, according to the *Palestine Central Bureau of Statistics* (PCBS). In 2012, the export of services sector contributed US $936.1 million to foreign exchange, just below the value of goods exports at US $987.7 million. Within the services sector, the financial services sector is growing significantly. Considering the banking sector alone, for example, there has been an average annual growth of total bank deposits of around 4 to 5 per cent between 2006 and 2012, according to the *Palestine Monetary Authority* (PMA). Furthermore, deposit accounts grew from 1.9 million accounts in 2008 to 2.7 million by the end of 2012. Financial Services exports are capable of overcoming physical barriers of movement compared to other sectors such as agriculture and industry that require transportation of physical goods.

With growing trade and budget deficits, an unemployment rate of 23% and even more (over 31%) for young persons in the Gaza Strip, according to the *PMA*, the financial services sector can become an important engine of economic growth and export revenue generation for the Palestine economy. The financial services sector is an export powerhouse in its own right and it can also facilitate the exports of other sectors (*National Export Strategy, Access to Finance Strategy 2013*).

Despite many challenges such as occupation and the absence of its own currency, the Palestine financial services sector has been moving ahead. With 17 banking institutions, 10 insurance companies, 8 licensed securities companies and a number of other non-monetary financial institutions, Palestine's financial services sector has been developing core strengths and competencies that puts it in a favourable competitive position for penetrating new export markets. Moreover, in spite not having a full-fledged central bank, the sector has been supported by strong regulatory bodies – the Palestine Monetary Authority (PMA) and the Palestine Capital Markets Authority (PCMA). The sector boasts stringent regulatory measures that puts it in a stable and robust position and equal in class compared with international and regional counterparts. There are also a number of other key support organisations that are indispensable to the development of the sector. These include the Association of Banks in Palestine (ABP), the Palestinian Insurance Federation (PIF) and the Palestine Micro Finance Institutions (PALMFI).

The Palestinian financial services sector has to further develop and exploit its key exports advantages and opportunities such as, favourable trade agreements, the perceived value for money offered, a stable and well-managed monetary system, as well as a largely untapped market in the Palestinian Diaspora. However, it is critical to understand that in order to strengthen the export capabilities of the financial services sector, the sector itself and its operations within Palestine need to be strengthened. In other words, the financial services sector cannot export aboard what it does not produce at home. In addition, further export development is limited by a lack of specialisation, the presence of ‘plain vanilla’ services, barriers to entry in export markets, limited brand awareness, weak positioning and lack of key skill sets in some areas, as well as the lack of technology leadership and innovation. In addition, there appears to be still unexploited opportunities in the local market for financial services such as the untapped potential of life insurance as a key long-term investment vehicle (currently at only 2% of total insurance premiums).

While the enabling environment has been relatively stable, the sector lacks any clear brand positioning. After careful analysis of the strengths and opportunities as well as the weaknesses and threats identified thorough the stakeholder consultations and sound research, it is clear that the sector’s market positioning should be focused around the following three key points – *Robust, Responsible and Rewarding*. This positioning underscores the sector’s competitive advantage, namely its resilience as evidenced by its stability, low rate of defaulting loans, stable interest rates, and its stringent regulations and standards (Robust); its care for small and medium businesses and concern for the Palestinian situation (Responsible); and the favourable returns to investors, e.g. the PEX is ranked as one of the best performing exchanges in the region, according to *www.pex.ps* (Rewarding).

With the absence of a strong positioning and export focus, export activity has been largely dormant and mainly Mode 1 types of exports (securities) are present although Mode 2 and 3 are being exploited by some banks that target the Palestinians living in Israel who bank with Palestinian Banks. The potential for further growth of exports is very strong, particularly in markets such as the Palestinian Diaspora as well as MENA territories, Europe, the UK and South America, particularly Chile. Some potential also exists in the USA as well, especially Chicago. In addition, the potential for Islamic banking and micro-finance as niche products could be exploited in the long-term. The short- to medium-term target markets are predominantly MENA and Chile. The key recommended niche products to develop for these markets in the short- to medium-term, are Islamic banking, micro-financing and financial leasing (including an insurance component as well). The key recommendation here is to not try to compete directly with the established financial services sector in the specific target markets but to target specific niches to create differentiation.

During the Export Strategy Workshop, an analysis of the key success factors of the Lebanese market were carried out. Stakeholders unanimously agreed that Lebanon was a success model that Palestine could learn from and that Palestine already possesses many of the ingredients that make Lebanon a success today. Some of the key success factors include: free cross-border movement of capital, strong regulations and standards that meet international criteria, strong resilience to external crises, conservative banking policies, a very attractive Diaspora, international openness and many others. These key success factors that Palestine enjoys bode well for future growth of the sector as well as its competitiveness in export markets.

In addition to the key success factor review, the value chain analysis identified those areas that need further development, including the need for more online/Internet tools and products, mobile banking, and a greater and more organised focus on corporate social responsibility as a key long-term marketing and promotions tool. The value chain analysis also identified the need to further strengthen PALMFI, set up an Association of Moneychangers and to create more linkages and synergies with the business-related and professional services sectors, as well as tourism and ICT.

In order to further strengthen the value added by financial services as a key export-generating sector, and to take advantage of its key success factors, seven strategies were developed through the export strategy process. These strategies are listed in order of priority as follows:

1. To Build a 'Best in Class' enabling environment that will facilitate the growth and exports of the financial services sector
2. To Build a strong and unified positioning for the Palestinian financial service sector along the principles of Corporate Social Responsibility – Palestine's Financial Services Sector needs to be positioned as Robust, Responsible and Rewarding
3. To Market and Promote the financial services sector in export markets, based on its strong CSR positioning – Robust, Responsible and Rewarding
4. To Develop State-of-the-Art Products and Services that are based on the Needs of the export Markets
5. To develop highly-skilled and highly-motivated Human Resources for the Financial Services Sector
6. To build a strong financial services cluster that will reinforce the strengths of individual actors and grow strong linkages
7. To achieve adherence to WTO and GATS Requirements

These strategies support the proposed Vision of the sector to become "*a dynamic financial services sector that facilitates and drives export growth, economic development and sustainability of the Palestinian Economy*."

In summary, to be effective at achieving the Vision and to improve competitiveness of the financial services sector, it is critical that:

1. The government's policy, regulatory and incentives regimes continue to recognise and support the development of the financial services sector's export potential.
2. That the strong regulatory environment continues to be strengthened to support the growth, confidence, transparency and stability of the sector.

3. The financial service sector continues to facilitate the export competitiveness of other sectors through, for example export guarantees, and other specialised services.
4. Synergies are developed between the financial services sector and the wider services sector, specifically IT services, travel & tourism and professional services including marketing, promotion, branding and Public Relations (PR).
5. The institutional capacities of the sector as well as the private sector organisations are supported and strengthened, particularly the micro-lending institutions and moneylenders.
6. The skill base and capacity of the sector is improved and strengthened, particularly in areas of risk management, and stronger linkages are developed between the institutions of learning and the private sector.
7. The marketing, promotion, positioning, branding and brand presence of Palestinian financial sector are enhanced and strengthened along CSR lines.
8. Donors have traditionally been strong supporters of the social sectors (housing, education, poverty reduction). Within recent times, however, there has been a larger emphasis on the private sector. The financial sector has benefited and will continue to benefit from the strengthening of its regulatory bodies (PMA and the PCMA) as well the strengthening of its representative institutions (Association of Banks and Association of Insurance companies). In addition, the focus of much of the donor funding to the financial services sector has been support to the micro, small and medium-sized enterprises (MSMEs). A major exception has been the International Financial Corporation's (IFCs) role in pump-priming the financial sector in a major way through its 5% ownership of the Bank of Palestine as well as assisting with major loan guarantees.
9. Donors have not been active in the fields of marketing, promotions and public relations in the financial services sector and banks appear to not attract direct support as they are considered to be large and well-resources. At the same time, there is need to position and promote the whole financial sector of Palestine and not just a single bank. In this regard, Paltrade has to play in major role in marketing and promoting the sector and assisting in developing export markets. PIPA also has a major role to play here.
10. With regard to market penetration, the full export potential of the financial services sector is not being developed. Only one bank in Palestine, for instance, has a Diaspora Unit. In addition, an insurance company is investigating the establishment of an office in Israel that may come on stream by 2015.
11. It is also clear that the Palestine Financial sector needs to identify and develop its unique selling proposition (USP) in order to enter export markets. It simply cannot compete with its "plain vanilla" services. Lebanese companies entered Jordan, for example, not just as another financial institution, but with a specific car loan financing product that was able to compete and win market share. For Palestinian banks and insurance companies, areas to explore could include specialised products for the diaspora market, MSME financing vehicles, Islamic financial services.

12. The Palestinian Diaspora is an important untapped market. Key actions and strategies must be immediately put in place to measure, monitor, understand their needs and target this important forgotten and far too neglected market opportunity.

2 Introduction

Palestine is a developing economy and the financial services sector is still relatively young. Financial services, alongside ICT, travel and tourism, business related services and professional services, has only gained significant attention recently through an overarching export development project on Trade in Services through the efforts of MoNE and PlaTrade in collaboration with the EU.

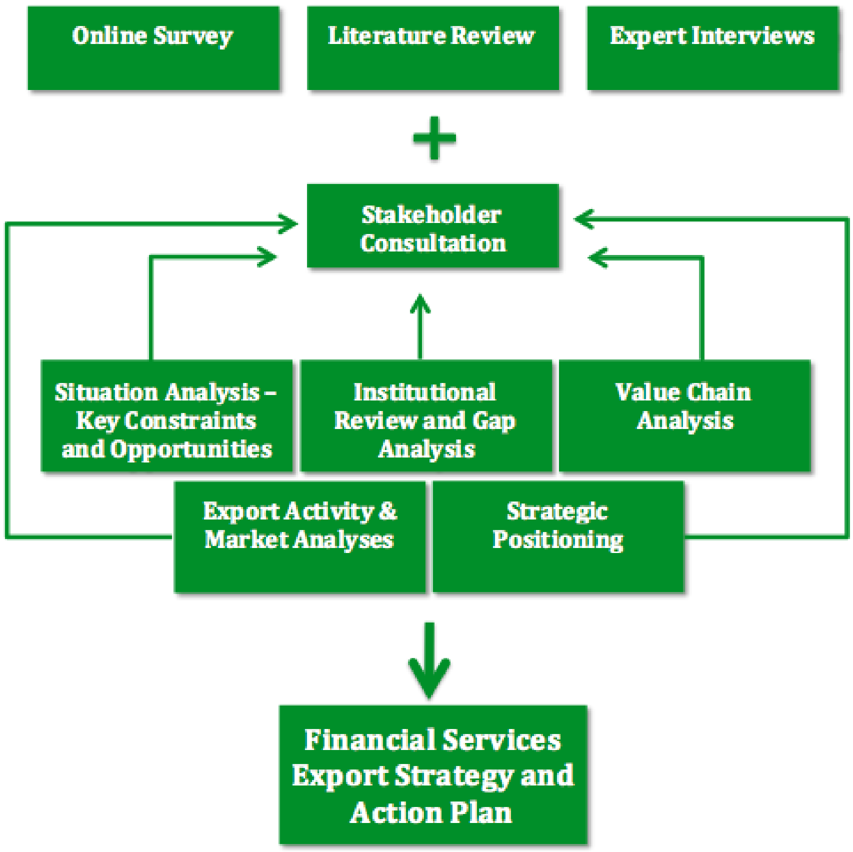
This Export Strategy for the Financial Services sector, benefits greatly from the already-developed National Export Strategy as well as three recent studies on the financial services sector: the Access to Financing Study that was carried out as part of the National Export Strategies, PalTrade's Diagnostic Study that included the financial services sector. In addition, up-to-date sector data have been readily available for PMA, PCMA and PBCS as well as a number of studies from MAS.

In order to attain the project's objectives as well as deliver its expected results, TII developed a robust methodological platform for the development of the Export Strategy – Financial Services. The project was completed using state of the art methods and innovative techniques to ensure that the foundation for the sustainable development of the Export Strategy, ensuring linkages between the various sectors and that the economic opportunities derived are sustained.

The work plan of activities was divided into three main categories – Project Set-up, Review and Analysis, and Stakeholder Consultations and Workshop. These will consist of a number of key sub-areas as follows:

- Project Set-up
    - Initiation of consultancy
- Review and Analysis
    - Literature Review and Analysis
    - Structured Scientific Interviews
    - Situational Analysis
    - Institutional Review and Gap Analysis
    - Development Activity Analysis
    - Value Chain Analysis
    - Export Activity and Trends Analysis
    - Competitiveness – Constraints Analysis
- Stakeholder Consultations and G.O.P.P. Workshop

Figure 1
Methodology – Palestine Export Strategy for the Financial Services Sector



A combination of secondary research, one-on-one expert stakeholder interviews and industry consultations were the main research tools used for this strategic process. Stakeholder consultation was one of the most important components of the export strategy development process. A number of stakeholders from the various institutions within the financial services sector were consulted using three methods. Firstly, three different online surveys were launched targeting the private sector, donor agencies and support organisations. The various completed surveys were collated and analysed and the findings were pulled together and used as key support data for the development of the export strategy.

In addition to the online surveys, a number of face-to-face expert interviews were carried out with over 40 representatives from the financial services sector, including support organisations, regulatory bodies as well as donor agencies. These interviews were carried out in a systematic and structured manner to ensure that the information obtained would be useful and consistent.

Another key tool used in the stakeholder consultation process was the Strategic G.O.P.P. Workshop, which is a strategic tool based on a German technique that allows maximum participation and outputs from participants. The workshop was adequately attended by representatives from all sectors including banks, insurance companies, the Palestine Exchange, Microfinance and Financial Leasing as well as representative organisations and the main regulatory bodies including PMA and PCMA.

Based on the evaluation forms that were completed by participants, a total of 87.5% found that the workshop achieved its objectives. All participants (100%) found that the workshop met their expectations; adequately addressed the issues relating to the export of financial services; now have a better understanding of the key issues facing the export business in Palestine’s Financial Services sector. All participants (100%) also believe that they had sufficient opportunity to express their view. All participants (100%) also found the level of participation to be excellent or very good; all participants (100%) also found the workshop facilitators to be excellent or very good; all participants (100%) also found the relevance to the Financial Services Sector to be excellent or very good; all participants (100%) also found the presentations to be excellent or very good. More than 80% of participants found the efficiency of the workshop to be excellent or very good.

Images of Participants at the Export Strategy Workshop, February 2014

3 Historical Overview of the Financial Services Sector

The Financial Services Sector has been plagued by a number of adversities. The principal drawback for the sector has been Israeli occupation. Starting with the war of 1948 and up to 1967 the function of all financial institutions in the West Bank and Gaza Strip, including all Palestinian commercial banks were terminated and bank accounts were seized. Subsequently, moneychangers became an important financial services tool for transfers and remittances to occupied Palestine by Palestinians working and living abroad. Moneychangers had developed relationships with other moneychangers within the MENA region and a well-developed sub-sector was formulated.

Traditional financial services – banking, securities, insurance, etc. – re-emerged in the years following limited Palestinian self-rule. The Paris Protocol, the economic component of the Oslo Accords, gave the Palestinian National Authority considerable autonomy over financial services, and full autonomy over export and trade in these services. The PNA has enacted banking, insurance and securities laws to replace inherited, out-dated Jordanian laws, and has created regulatory bodies in these fields. Trade groups have also formed in the banking and insurance industries, although the moneylending sector is not yet formally organised.

Notwithstanding war and Israeli occupation, the Palestine financial services sector, banking in particular, has grown tremendously. Banking services and public confidence in the banking system have improved, creating growth in the number of bank accounts and total deposits. However, there is still room for growth as the ratio of banks to Palestinians remain low at 1 bank to 264,705 Palestinians compared to 1:48,097 in Lebanon or 1:45,552 in the USA.

While the sector is developing, there continues to be challenges such as inadequate consumer protection, the lack of a national currency, difficulties with land registration and control over monetary policy. Legal instruments to facilitate Deposit Insurance to protect deposit and the Moveable Assets Law that will allow the use of moveable assets as collateral are in the pipeline.

In addition to the banking sub-sector, the insurance industry, which was extremely limited before Palestinian self-rule, has grown as well, but has yet to realize its potential for driving investment in the Palestinian economy. Compulsory automobile insurance, which has limited investment potential, remains almost two-thirds of total insurance premiums. Home, life, accident, civil liability, and professional liability insurances remain underutilized. Mandatory, worker insurance is not fully implemented by companies and the authorities do not ensure compliance. Islamic insurance is making important inroads and the potential for this sector to be further developed is great.

The securities sub-sector began its development long after Palestinian self-rule was instituted and had its beginnings in 1995 with the establishment of the Palestinian Exchange, the first fully-automated stock exchange in the Arab world. Today, the Palestine Exchange has 48 listed companies, an annual total market value of nearly US $3 billion, and is serviced by a network of licensed brokerage firms. Its success presents a key opportunity for exporting Palestinian financial services.

4 Objectives

The development of an Export Strategy for the Financial Services Sector supports the broader objectives of the more detailed Trade in Services project which includes:

- To support the Financial Services Sector to take its proper role in contributing to sustainable economic development of Palestine;
- "To increase awareness among stakeholders on the potential of trade in services, to build capacity on international services negotiations, to analyse the business environment and to strengthen the private sector's export potential in trade in services and the Palestinian research capacity on services;
- To improve export performance and competitiveness of the Palestinian services sector;
- To strengthen public-private sector dialogue and develop a framework for trade in services;
- To increase the share of the service sector in the GDP;
- To enhance the private sector understanding of the potential impact and benefits of trade in services agreements;
- To identify and exploit the comparative and competitive advantages of the Financial Services Sector in Palestine;
- To build the capacities of a team of public sector negotiators in trade in services and prepare them to engage in market-driven negotiations; and
- To enhance the capacity of Palestinian officials to define adequate policies regarding trade in services".

5 Current Structure of the Financial Services Sector

The financial services sector in Palestine can be subdivided into a number of sub-sectors: Banking, Insurance, Securities, Mortgage, Money Changers, Specialised Lending Institutions and Financial Leasing Services. Banking, Insurance and Securities are the predominant sub-sectors.

As of 2014, the financial services sector in Palestine comprised of 48 financial institutions of which there were 17 banks – 15 commercial banks and 2 Islamic banks – operating 232 bank branches and offices; 10 insurance companies (including 1 mortgage insurance company) and 229 insurance agents; 8 licensed securities companies in addition to the Palestine Exchange; 7 financial leasing companies; 1 mortgage-lending company; and an emerging microfinance industry. In addition, there were 276 moneychangers of which 173 were companies and 103 registered individual operators, according to the *Palestine Monetary Authority* and *the Palestinian Central Bureau of Statistics*.

The growth and development of the financial services sector in Palestine has been realised under the supervision and monitoring of the Palestinian Monetary Authority (PMA) and the Palestine Capital Market Authority (PCMA). There are also two private sector representative institutions that play a key role in advocating the interests of the private sector and coordinating with the regulators. These institutions are the Association of Banks in Palestine (ABP) and the Palestinian Insurance Federation (PIF).

Banks provide deposit, lending, and other banking services. The insurance companies provide a number of services including compulsory insurances such as automobile and labour insurance and optional insurance including life, health, accidents, fire, theft, and other insurance services. Moneychangers are allowed to change currencies. Lending institutions give small and medium sized loans to individuals and businesses. Over this period, the banking industry has earned the confidence of the Palestinian people – a confidence reflected in a significant increase in the number of bank accounts and total deposits. There has been an average annual growth of total bank deposits of around 4 to 5 per cent between 2006 to 2012, according to the *Palestine Monetary Authority* (PMA). Furthermore, deposit accounts grew from 1.9 million accounts in 2008 to 2.7 million by the end of 2012, an increase of 42% between 2008 and 2012. There was an estimated US $8.2 Billion in total deposits and US 7.5 Billion in customer deposits at the end of 2012. Banking services also improved significantly through the issuance of more ATM, debit and credit cards, and the introduction of E-services.

The modern banking and insurance institutions operating in Palestine provide a large variety of services throughout more than 232 bank branches and 10 working insurance companies (including one mortgage insurance institution) and a number of insurance agents in 2012 (*PCMA* and *PMA*, 2013).

5.1 Banking Services

As at March 2014, there were 17 banks operating in Palestine, seven of which were locally owned and the remaining ten were foreign banks. Over half of the bank branches in Palestine (52%) were locally run. Forty-four per cent were Jordanian owned.

Table 1
Breakdown of Banks in Palestine by Ownership, March 2014

Type of Bank	Number of Banks	Number of Branches
Locally owned	7	121
Foreign Owned:	10	111
Jordanian banks	*8*	*104*
Egyptian banks	*1*	*6*
British banks	*1*	*1*
TOTAL	17	232

Source: Palestine Monetary Authority, 2014

The commercial banks are the main section of banking business in Palestine and include Palestinian, Arab and foreign banks. Palestinian banks operate as national public corporations, while Arab and foreign banks register as foreign corporations. All commercial banks are regulated by the PMA. Banks in Palestine were subject to Jordanian law until the adoption of Banking Law No. 2 of 2002, which governs bank formation, management, and capital requirements.

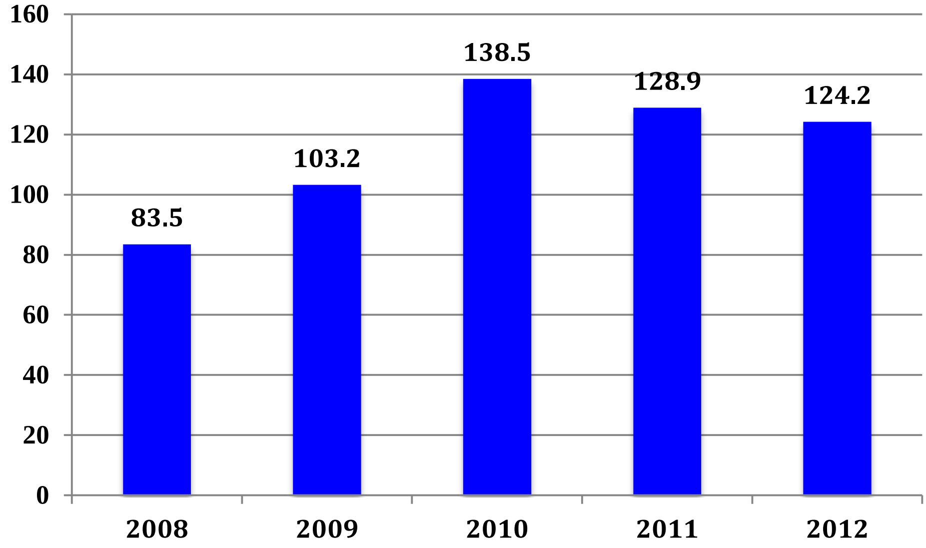
Table 2
Main Banks in Palestine

No. of Branches in Palestine	Local Commercial Banks	Year Established
48	Bank of Palestine P.L.C	1960
22	Al Quds Bank	1995
15	Palestine Islamic Bank	1995
13	Palestine Investment Bank	1995
10	Arab Islamic Bank	1995
7	The National Bank	2005
6	Palestine Commercial Bank	1994
	Foreign Commercial Banks	
33	Bank of Jordan - Jordan	1994
26	Arab Bank - Jordan	1994
21	Cairo Amman Bank - Jordan	1986
12	The Housing Bank for Trade & Finance - Jordan	1995
6	Egyptian Arab Land Bank - Egypt	1994
5	Jordan Ahli Bank - Jordan	1995
4	Jordan Commercial Bank- Jordan	1994
2	Jordan Kuwait Bank - Jordan	1995
1	HSBC Bank Middle East Limited - Hong Kong	1998
1	Union Bank - Jordan	1995

Source: Palestine Monetary Authority, 2014

Banks operating in Palestine are profitable, although these profits vary significantly between years. In 2012, banks achieved a total profit of US $124.2 million, down 3.6% from 2011. Key to note is that the Palestine Banking Sector continued to generate positive growth in profits during the heart of the global economic recession (between 2008 and 2010), indicative of a resilient industry. In fact, many Palestinians living abroad repatriated funds to Palestine banks for ‘safe keeping’.

Figure 2
Palestine Banking Sector – Net Income After Taxes (USD Millions)

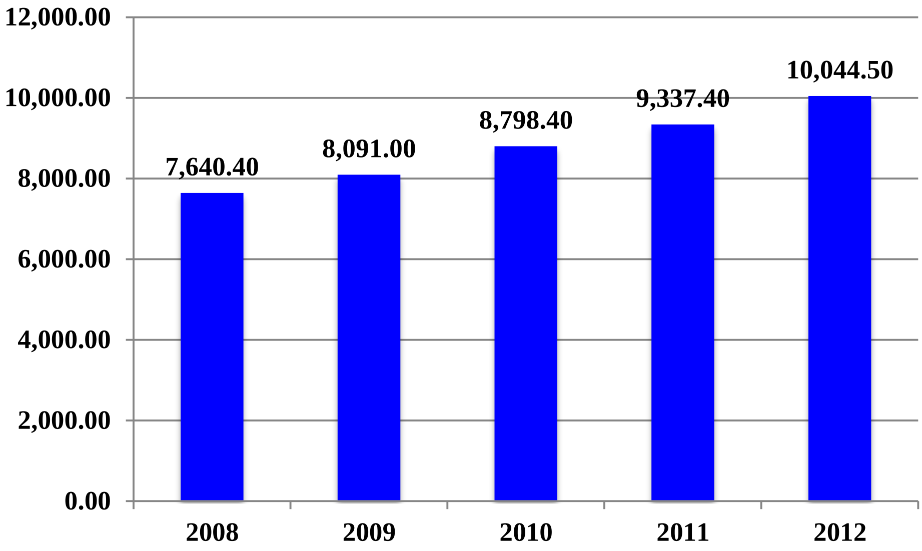


Source: Palestine Monetary Authority, 2014

The total assets of banks operating in Palestine increased by 7.6% at end of 2012 to reach US $10.04 billion compared to 2011. Moreover, growth has been consistent over the past five years, growing at an average annual rate of 7.1% between 2008 and 2012. See Figure 3 for more details. Credit facilities have also seen a remarkable increase of about US $648.4 million, thereby achieving a growth of 18.3% over 2011 to amount to US $4.2 billion by the end of 2012. It must be noted, however, that while credit facilities to the private sector increased there was also an increase in credit facilities to the public sector that resulted from a substantial decrease in donor aid and rising deficits, which could potentially lead to adverse repercussions for the Palestinian economy in the medium to long term.

In addition, customer deposits reached US $7.5 billion in 2012, increasing by 7.3% compared to 2011. Net equity of the banking system increased by 6.1%, to reach US $1,256.5 million, as a result of increasing paid-up capital, which in turn increased banks' ability to cope with expected and unexpected risks, according to the *Palestine Monetary Authority*.

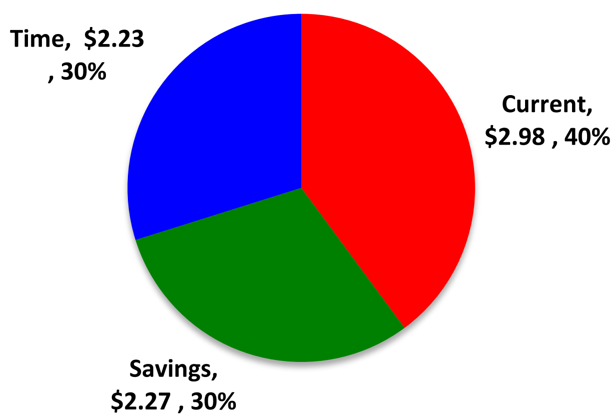
Figure 3
Palestine Banking Sector – Total Assets (USD Millions)



Source: Palestine Monetary Authority, 2014

The banking sub-sector grants loans and other credit facilities, accepts customer deposits, processes checks and transfers funds. All banks operating in Palestine must meet the minimum capital requirement of US $50 million. In 2012, the banking sector managed US $7.5 billion in banking deposits, and provided US $4.2 billion in credit facilities to the market, equalling 56% of total deposits. Of the US $7.5 billion in deposits, current deposits made up 40% while time and savings deposits accounted for roughly 30% each.

Figure 4
Palestine Banking Sector – Breakdown of Deposits by Type, 2012 (USD Billions)



Source: Palestine Monetary Authority, 2014

Palestine currently does not have its own official currency and is relegated to depend on the currencies of foreign sovereignties. The main currency used in the Palestine banking sector is the US Dollar, which accounted for 41% of all customer deposits in 2012 or US $3 billion.

The Israeli New Shekel accounted for US $2.3 billion or 31% of deposits and the Jordanian Dinar accounted for 23% or US $1.7 billion.

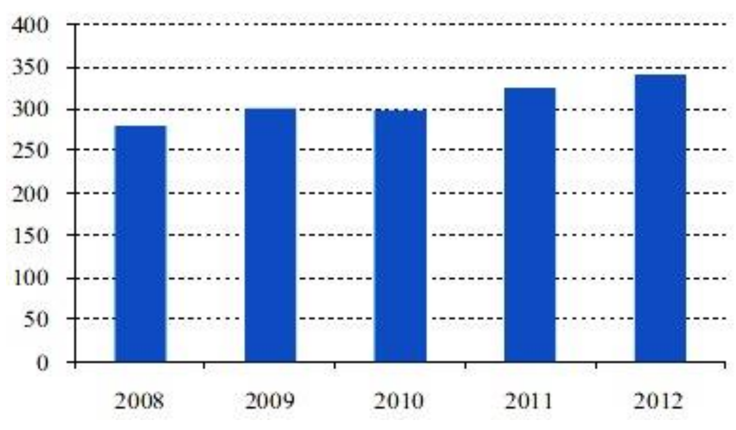
Although it does not now have its own currency, Palestine continues to apply strong policies in regulating and governing the financial services sector. According to the *World Bank 2012 Fiscal Crisis, Economic Prospects Report*, the Palestinian banking sector continues to apply conservative practices in private sector lending due to high political risks. Consequently, the sector's loan-to-deposit ratio continues to be relatively lower than in most countries at around 56%, as of June 2012.

"During the first six months of 2012, the percentage of nonperforming loans to total credit remained low at 3%. Notably, the Palestinian banking sector's return on average owners' equity amounted to 16% by June 2012 – almost 10 percentage points higher than the international average. This is mainly due to high interest rates charged by banks in West Bank and Gaza Strip." **World Bank 2012 Fiscal Crisis, Economic Prospects Report**.

5.2 Insurance Services

Insurance activities in Palestine were very limited before 1994. There was only one Palestinian insurance company, which was established in 1975 and had US $1 million in capital. However, by the end of 2012, there were 10 licensed insurance companies operating through 11 branches and offices, distributed in different areas in the West Bank and Gaza Strip. These institutions employed approximately 229 insurance agents and 1,035 employees. In addition, the assets of the insurance sub-sector reached around US $340 million in 2012, an increase of 5.1% over 2011.

Figure 5
Assets of insurance sector in Palestine, 2008-2012

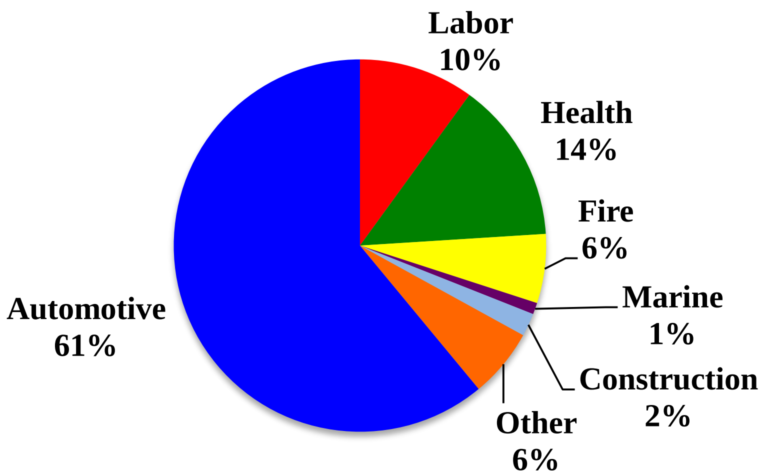


Source: Palestine Capital Markets Authority, 2012

While the insurance sector has matured significantly since 1994, the development of consumer insurance products has not kept up with the banking sub-sector. Short-term, compulsory insurance (such as automotive insurance) makes up the majority of total insurance premiums and as such Palestinian insurers have not fully realized their potential as institutional investors. Between 2010 and 2012, the insurance market grew by 20% annually. Total insurance premiums reached approximately US $145 million in 2012. (See Figure 6 for a breakdown of the types of premiums paid to insurance companies in 2012). However, less than 3.5% of the total population benefits from insurance services, compared to 60% in developed countries.

From an investment perspective, life insurance is the most valuable because of its long-term investment potential, while automotive insurance is the least profitable, because its investment potential is limited to short-term instruments such as certificates of deposit. In Palestine, automotive insurance – compulsory third-party and liability coverage and non-compulsory full coverage – still comprises over 61% of total insurance premiums, while life insurance accounts for merely 2%. Health insurance accounts for 14%, labor insurance 10%, insurance against fire 6%, maritime insurance 1%, and other types of insurance 6%. Thus, there is a great potential in the Palestinian insurance sector to expand the penetration of life, home, and civil liability insurance, and to offer new insurance products, such as medical malpractice, critical illness and other professional liability coverage. The potential for Islamic insurance products also remains largely untapped.

Figure 6
Breakdown of Insurance Premiums/Sales by Category



Source: Source: Palestine Capital Markets Authority, 2014

One of the key challenges of the insurance industry in Palestine is the lack of trained and experienced personnel in some of the areas such as risk management and actuarial scientists (although actuarial scientists are limited through out MENA). As a consequence, many of the pricing structures of insurance institutions in the sector are outdated. Any actuarial work carried out in the insurance industry, is typically done by external foreign experts. However, the PCMA, in its endeavor to improve conditions and to reduce the risks in the insurance sector, conducted an actuarial study with the help of external actuaries, which will help to correct this issue.

Another key challenge of the past was the absence of a Palestinian Insurance Law and weak regulation and standards in the insurance industry. However, with the establishment of the PCMA in 2004 these challenges were curbed. The PCMA is the authorized body to supervise, control and organize all business related to the insurance sector. In addition, through the Agreement of Transfer of Powers, signed between the PLO and Israel in 1995, the PNA became the authorized body and supervisor of the insurance sector in Palestine to grant licenses to insurers and insurance agents and supervise their activities.

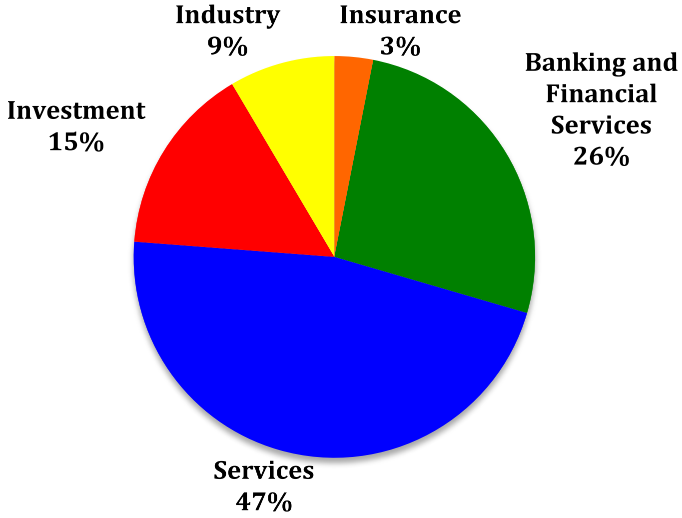
Amongst the local licensed insurance companies, there are ten companies including two branches of Jordanian companies in the West Bank and Gaza. The top three companies alone account for more than half (57%) of the market.

5.3 Securities Sub-Sector

The Palestine Stock Exchange (PEX) was incorporated as a private shareholding company in early 1995, with the Palestine Development & Investment Company (PADICO) as its major investor. PEX became a public shareholding company in February 2010 and was listed on the 4th of April 2011. PEX operates under the supervision of the PCMA. Its primary stock index is the Al Quds Index. As of March 2014 there were 49 listed companies on PEX operating in five main areas: financial services, insurance, investments, industry, and services. Most of the listed companies are profitable and trade in Jordanian Dinar, while others trade in US Dollars. Currently, only stocks are traded on the exchange; however PEX is open to including other securities in the future.

In 2013, there were 241 trading sessions with a total of 202 million shares traded, a total value of US $340.77 million, a growth of 24.6% over 2012. There was a daily trading average of US $1.4 million, and a total market value over the year of US $2.25 billion. Banking and Financial Services was the second largest traded sector, contributing US $857 Billion in market capitalisation or 26.4%, second only to the services sector which accounted for 46.7% in 2013. Figure 7 is an indicator of the percentage of market capitalization by sector for 2013.

Figure 7
Percentage of Market Capitalisation by Sector, 2013



Source: The Palestine Exchange, 2014

PEX is very appealing and is assumed to be financially sound, and well capitalized to maintain a steady business in a volatile business environment, as it passed with the minimum level of impact of the global financial crisis compared to other MENA Exchanges.

Within the past decade, PEX has had significant milestone achievements in terms of performance and appeal. In 2009, for instance PEX ranked thirty-third amongst the worldwide security markets, and regionally came in second in terms of investor protection as indicated in the *Global Economic Intersection* publication on international stock exchanges, 2009. Furthermore, PEX ranked eighth in the Arab world in terms of performance in 2012. In addition, in 2005, the Palestinian exchange ranked as the best performing market in the world, with its Al Quds 12 rising more than 300% in spite of regional instability, according to *www.pex.ps*.

The classification system of the PEX for customers does not allow for identifying the percentage of investors that are from the Diaspora, or others due to the fact that foreign investors are identified by source of funds and residency only.

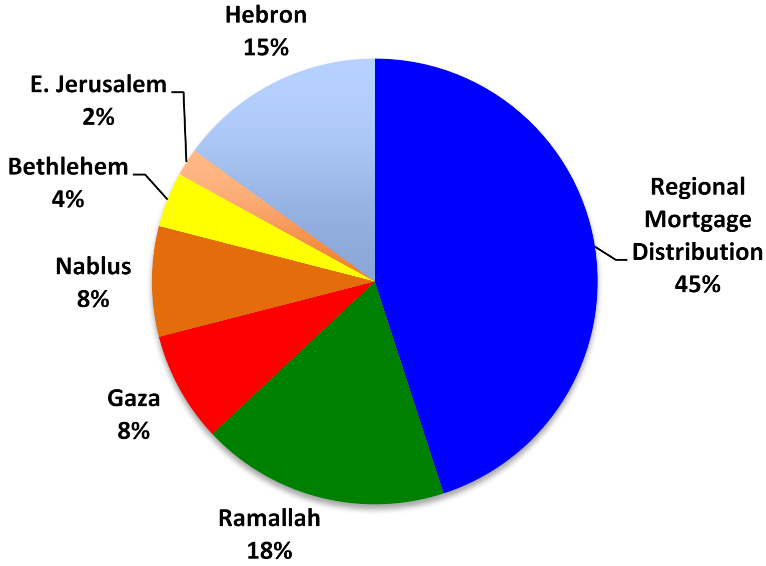
The Exchange has also been adapting to technological advancements in the industry. The Exchange launched an e-trading portal on April 24, 2007, to allow investors to buy and sell stocks over the Internet. Palestinian stocks traded within the PEX sold to foreign investors are clearly identifiable exports of financial services out of Palestine, since this trade in stocks requires that the residence of the buyer be identified in order for the transaction to take place. Within the concept of trade in financial services, the buyer’s place of residence, and the place where the funds are transferred from, are the indicator whether the transaction is a cross border transaction or not.

The cost of investing in the Palestinian securities exchange market in Palestine is higher than other markets since the new Palestinian VAT and Tax Laws require that VAT is charged on the transactions while this is not the case in most of other countries. This formulates a serious constraint on the export of investment in the stock exchange. This is coupled with the implementation of the newly enacted capital gains tax, which again reduces the viability of potential international trade in these services.

5.4 The Mortgage Sub-sector

Mortgage Lending in Palestine is a US$ 451 million business, which has witnessed a 10% growth in 2011. However, it is a relatively new sector and is not adequately regulated and organized. There are two main bodies providing long term mortgaging and mortgage insurance services to the public through existing banks and financial institutions. Mortgaging services are mostly provided to customers in Ramallah with 45% of the total mortgages.

Figure 8
Regional Distribution of Mortgages



Source: Palestinian National Authority, 2013

The mortgage sector is still new and not well regulated so far. The lack of regulation is evident by the difficulties found in liquidating real estate collaterals and the lack of specialized courts to deal with these types of issues. Another area of concern relates to land and property registration, and the variations in the registration processes in the various districts and the registration authorities of the PNA and the Israeli occupation. Thus, there's a need for a regulatory framework that aims at further developing the sector to meet regional and international standards.

Currently there is a lack of specialized mortgage financing companies within the mortgage sub-sector since dealing in the primary market is limited to banks only. There are currently 2 companies operating in the primary mortgage market:

- Palestine Mortgage and Housing Company (PMHC);
- Palestinian Finance Mortgage Company (a subsidiary of PMHC).

Some banks depend predominantly on own resources to finance mortgage-lending activities. Others refinance their loans through the secondary mortgage financing market. The secondary market funding resources are limited since refinancing companies do not proceed to issuing loan bonds or bonds consolidated by securities assets noting that these bonds require a specific law for their issuance, according to the *Palestine Capital Markets Authority*. During 2012, the final draft of the mortgage financing law was approved by the board of directors of the PCMA, which will further strengthen the sector.

5.5 Money Changers

In 2013, there were 276 moneychangers licensed by the PMA to practice the profession. Of the 276, there were 234 moneychangers in the West Bank and 42 in Gaza Strip. About 173 licensed moneychangers operate as companies, while 103 as individuals, according to the *Palestine Monetary Authority*, 2013.

According to the Regulations on the License and Control of the Exchange Profession No. (13) of 2008, individual institutions are required to convert their legal form to company institutions by the end of grace period extended by the PMA to comply to these regulations, and a set of instructions to organize the work of money changers operating in Palestine. Moneychangers are regulated by an independent division within the PMA's Supervision and Inspection Department. Currently, moneychangers are not organized and no single entity represents their interest. It will add value to have them organized, speaking with one voice and their interests represented.

5.6 Specialized Lending Institutions

Specialized lending institutions operating in Palestine are mostly non-profit organizations, contributing to economic development and alleviation of poverty and unemployment in the Palestinian society. This sector provides basic financial services to a broad segment of the society against easy credit terms and guarantees consistent with the meagre economic capabilities of those segments.

The specialized lending sector suffered from a vacant legal context as a result of its novelty and lack of organization. Each of the lending institutions used to operate within a different legal framework. As part of efforts to organize and control conditions of specialized lending institutions, the Specialized Lending Institutions Licensing and Supervision Law was issued by Presidential Decree No. 132 of 2011. This legislation corresponded with the establishment of a new department which is responsible for licensing, supervision, and linking these institutions with other components of the financial system.

In addition, during 2012, and with the aim of preserving financial stability and the efficient performance of specialized lending institutions, the PMA issued several instructions to regulate this sector and lay grounds for licensing mechanisms and detailing permitted and prohibited operations for these institutions.

In 2013, there were 8 specialized lending institutions in the Palestinian Network for Small and Microfinance (Sharakeh), operating through 62 branches and offices distributed in the West Bank and Gaza Strip. Their net credit portfolio amounted to US $84.2 million at the end of 2012.

5.7 Financial Leasing

This sub-sector is nascent in Palestine, with the leasing law being adopted by the Council of Minister in September 2011. There are currently 8 licensed companies in Financial Leasing. Very little data is available on this sector, to the point that it only started to be considered under financial services by the PCBS no earlier than 2011. The financial leasing sector is regulated by the PCMA.

It is expected that the sub-sector will contribute tremendously to the growth of the economy in the future, pending finalization of regulations. This sub-sector provides the means of increasing local investment in the economy without requiring heavy collateral requirements or long-term credits. Since financial leasing is built on the basis that profit comes from the use of assets not their acquisition, as well as the ability to achieve cash flows resulting from the asset`s operation, leasing becomes of particular importance in small and medium-sized industrial enterprises.

Financial Leasing is an important and emerging subsector that will add great value to the Palestinian financial services landscape. The Financial Leasing Sector should also be able to access to guarantee funds from donor organizations.

6 Institutional Perspective – Landscape of Trade Support Network

6.1 Palestinian Monetary Authority (PMA)

While Palestine does not currently have a full-fledged central bank, the PMA is the main legislative body regulating banking and other monetary services in Palestine in cooperation with private sector institutions such as the Palestinian Banking Association. The PMA is being restructured to be become the central bank of Palestine in the near future. Consequently the PMA's vision is:

> *To be a full-fledged and a modern central bank for an independent and sovereign Palestinian state, capable of achieving monetary stability and keeping inflation under control, and maintaining financial stability. Thereby, contributing to further development in the Palestinian financial sector, promoting integration into the regional and global economy, and ultimately, fostering high rates of sustainable economic growth in Palestine.*

Building on existing functions, the PMA's Strategic Plan to become an operational central bank focuses on the development of needed institutional capabilities and incorporates governance features in line with best international standards. In the new structure, the Board of Directors remains the primary decision-making body while the Governor will continue to serve as the Chairperson. The Board will decide on broad strategies and policy issues and oversee the work of the PMA.

Notwithstanding its somewhat limited powers until central bank status, the PMA's development of the financial services sector has been focused on management, monitoring and supervisory as well as legislative areas within the sector. The PMA's aim is raise the level of the sector to meet international standards and best practice making the sector more credible to the international publics. The PMA also monitors and supervises the function of banking institutions to ensure financial soundness and stability. At the legislative level, the PMA has introduced new rules and regulations that guarantee a more transparent system.

The PMA most recently established the Palestinian Deposit Insurance Corporation, which is aimed at insuring individual deposits against any potential losses in the banking system. This initiative again increases trust in the banking system and substantially reduces the risks.

Assessment: According to the *World Bank 2012 Fiscal Crisis, Economic Prospects Report*, the Palestinian banking sector continues to perform well under the supervision of the Palestinian Monetary Authority (PMA). The PMA continues to enhance its institutional capacity and is steadily building the capabilities of a central bank. It provides rigorous supervision and regulation of the banking sector, consistent with international best practice. An Anti-Money Laundering law that was prepared in line with international standards with technical assistance from the IMF and USAID has been in force since October 2007. The PMA is also finalizing a draft law that solidifies its independence and provides the legislative framework for it to become a full-fledged central bank. The PMA has continues to carry out improvements in the banking sector's infrastructure. A Deposit Insurance Law was recently prepared and approved by the PMA's Board of Directors and the President in 2014. Work has also been initiated to establish a national switch that will interconnect domestic ATMs and points of sale, facilitating personal banking operations.

The professionally organised, confidence-inspiring and "too tough" stance has gone a long way in raising the image and confidence of Palestinian Banks. But can it go further and step just "outside of the box". Already, a number of establishments dedicate 2 per cent of their net revenues to corporate social responsibility (CSR) initiatives. But the sector, as a whole, needs to be positioned as a sector that is not just about "making money", but also "making a difference". In this regard, it may be possible for the PMA and/or the PCMA to establish a CSR Unit that would monitor the developments in this sector and provide a CSR sector report. It is important that the Palestinian Financial Services sector takes CSR seriously and positions itself as a "caring sector". This is one strategy that will start building goodwill and may take a long time to reach international markets. However, the local "international" markets (such as large donor agencies) that still rely mainly on "international banks" can now choose to do business in Palestine because of its caring and CSR stance.

6.2 Palestine Capital Market Authority (PCMA)

Established on the basis of Article No. (2) of the Capital Market Authority No. (13) for the year 2004, the Palestine Capital Market Authority is a body corporate enjoying financial and administrative autonomy as well as the legal capacity to undertake all businesses and actions that ensure the fulfilment of its objectives.

The Palestine Capital Market Authority, within a few years since its establishment, has been able to make concrete achievements in the sectors it oversees. It currently supervises, monitors and gives authorization to all operations relating to the Securities sector, such as initial or secondary public offering, insertion, capital increase and so on. The Authority has also achieved remarkable progress in the management and reform of the insurance industry, which suffered a lot during the past years. At present, the Authority is working on the completion of the legal and administrative environment that regulates mortgage, financial leasing and non-banking financial activity sub-sectors. It has also embarked on efforts in communicating and coordinating its missions, programs and future steps with all concerned parties, both at home and abroad, taking advantage of the experiences of successful nations in these areas.

In addition, the PCMA enjoys closely-knit partnerships with all related regulatory and support organisations in the financial services sector such as the Palestinian Monetary Authority, the Companies' Controller and the Insurance Companies' Federation.

The PCMA, in its current form, is governed by a Board of Directors composed of seven members, with a jurisdiction that encompasses securities, insurance, financial mortgage and financial leasing sectors, along with any other non-banking financial institutions. In the past years, the PCMA chaired the National Committee for Corporate Governance in Palestine.

The vision of the PCMA is to become 'an effective regulatory authority that aims at developing a sound capital market and protect the interests of stakeholders'. And its mission is to 'regulate supervise and oversee the securities, insurance, financial leasing and mortgage finance sectors in Palestine and ensure that their workings comply with the principles of transparency, fairness and integrity in line with international best practices'.

Within its strategic vision, the PCMA aims at 8 general objectives:

1. Revision and completion of the secondary bylaws within the; securities, insurance, financial leasing and mortgage finance sectors in accordance with IOSCO, IAIS and Basel standards, and follow up on mortgage finance and financial leasing laws issuance.

2. Insure compliance of targeted sectors with capital markets related laws, regulations and instructions.

3. Provide information and data on Capital market sectors through developing databases and review and develop the quality of disclosures.

4. Completion of infrastructure needed to enhance corporate governance through developing corporate governance abiding measurement tools, and increase corporate governance education and awareness.

5. Improve the efficiency of the technical and operational processes through developing staff capabilities and internal work environment.

6. Create joint frameworks with the local stakeholders in order to remove conflicts in common work environment.

7. Implement financial awareness programs targeting specific groups and the general public, and participate in developing the national strategy for financial education.

8. Enhance PCMA presence and exchange of experience with local, regional and international bodies through participating in regular meetings held by these bodies and contribute to the work of their technical committees.

6.3 Private Sector Representative Organizations

Currently there are 2 private sector representative institutions that are functioning within the financial services sector, the Association of Banks in Palestine (ABP) and the Palestinian Insurance Federation (PIF). The institutions work towards building the capacity of their members and representing them in advocacy of their interests in dealing with the government in general and the Palestinian Monetary Authority and the Palestinian Capital Markets Authority in particular. **It is worth mentioning that there are currently no organizations representing the moneychangers. There exists a Microfinance Network, the Palestine Microfinance Institutions (PALMFI).**

6.3.1 Association of Banks of Palestine (ABP)

The ABP was established in 1998 as a not-for-profit institution registered under the NGO law at the Ministry of Interior. The ABP has a membership of 7 local and 10 international banks. It is recognized as the legal representative of the Private Sector Banking sub-sector in Palestine. The ABP represents its members in dealing with other private sector organizations, as well as the government, including the Palestinian Monetary Authority, responsible for the regulation of the banking industry.

It is currently headed by seven board members (and one observer member – the PMA) who are representatives from the banking sector, representing all of the key sub-sectors within banking including commercial banks, foreign banks, Islamic banks and investment banks.

The ABP has several goals, which it aims to work on within its operations in as declared in its annual report for 2012 (translated from Arabic). These goals are:

1. Strengthen cooperation with the PMA, especially for the implementation of schemes of monetary policy and banking, and to give input and private sector perspective about these schemes, when necessary, through full coordination and consultation with the PMA.

2. Work to settle disputes between members or between members and others upon the request of parties to the dispute.

3. Consolidate the concepts of banking, customary practices, and follow through towards standardization of systems and procedures for this purpose.

The work of the ABP is focused on three main themes, and achievements can be summarized as follows:

1. Advocacy activities representing the banking industry took place on 10 specific regulatory and representational issues affecting the banking sub-sector in Palestine.

2. Conferences and workshops held during the year focused on 54 diverse topics related to industry practices both locally and internationally.

3. Performed 7 studies on specific issues affecting the banking sector, and held discussions of these studies with stakeholders.

In addition to partnerships with local entities such as the PMA, the ABP also has memoranda of understanding with the Association of Banks in Jordan with the objective of sharing experiences and best practice for the benefit of the banking sector in Palestine.

6.3.2 Palestinian Insurance Federation (PIF)

Palestinian Insurance Federation (PIF) is a non-profit organization and an independent legal entity that aims to promote trust in the Palestinian insurance industry while cooperating with relevant official bodies and those associated with the insurance sector locally and internationally. PIF was founded and has been operating since the late 1990s. It acquired its legitimacy in the insurance law No. (20) issued in 2005 where, in chapter 15, it is decreed that a federation is to be founded and named “Palestinian Insurance Federation” and is to be an independent legal entity and that it is mandatory that all insurance companies join this federation.

The PIF aims to represent its 10 members and to reinforce the trust in the insurance industry and to increase cooperation with all official and regulatory bodies and all stakeholders in the Insurance sector both locally and internationally. It is headed by nine board members, representing various companies within the insurance industry. The board oversees five committees that include a Disciplinary Council, a legal committee, a social committee, technical committee and a claims settlement committee.

The PIF has adopted the following core objectives:

1. Adopting the best practices and rules, increasing compliance of members with these practices, and monitoring their commitment to work ethics.
2. Spread awareness of insurance and raise the perceived value of the working in the insurance industry.
3. Consolidate and develop the professional basis of standard insurance contracts, and specify minimum price indicators for all the optional insurance services, taking into consideration the risk degree and the technical prices.
4. Settle the recoveries and compensation cases and develop mechanisms for settling accounts between members.

5. Create insurance technical pools, according to the needs of the Palestinian market, after the approval of the PCMA.
6. Coordinate between the insurance companies in the market, and resolve disputes that may arise between them, and put controls and regulations necessary to achieve this.
7. Form committees of inquiry, arbitration and follow-up, and adopt the principles of its practices and its procedures.
8. Reinforce the trust in the insurance industry and increase cooperation with all official related bodies and all who have a relation with insurance sector locally and internationally.
9. Arrange trainings, workshops and professional conferences, and conduct scientific researches and prepared statistics and issuing periodic bulletins containing data and information about the Palestinian insurance market and that would serve the insurance sector.
10. Cooperate with the official authorities in preparation the insurance legislations to help issuing laws, regulations and decisions that ensure the stability, ascent and development of the insurance market.
11. Participating in the Arab and regional and international insurance associations, as well as other related bodies, and work on organizing administrative, technical, legal and financial meetings in Palestine.
12. Subscribe and cooperate with the Directorate General of Insurance in the (PCMA) and other related institutions to establish a specialized insurance institution according to the provisions of law.

Insurance companies that are members of the PIF are quite satisfied with the functions and services of the PIF and believe it represents their sector well.

6.3.3 Palestine Micro Finance Institutions (PALMFI)

The Palestinian Network for Small & Microfinance was established in 2002 and officially registered in 2004 as a Non-Profit Association at the Palestinian Ministry of Interior. The Network has an independent legal entity and is entitled to implement programs and projects in the field, within the forum of member institutions.

The Mission of the Palestinian Network for Small and Microfinance is to serve all employees of microfinance providers and microfinance practitioners to enable them to improve access to financial services to Palestinian micro-entrepreneurs, small businesses, and low-income persons. To advance the practice of small and microfinance development among its members, their international partners and other practitioners.

The Palestinian network for Small and Microfinance is a local Palestinian association that represents a forum of small and Microfinance Institutions (MFIs) in Palestine. It is functioning as a voluntary coordinating body that speaks for Microfinance Non-profit Palestinian institutions that aim at providing financial services and loans to small business. The network supports growth of the industry in the West Bank and Gaza Strip; especially that Microfinance is considered the efficient tool of economic development that answers the needs of Palestinian Economic life. It is important that this organization is strengthened.

7 Development Activity Analysis

Donors in Palestine have traditionally focused on social and humanitarian issues such as housing, health and education, and to some extent, infrastructure. It is only within recent times that a major focus is being placed on private sector development. Within the financial services sector, much of the attention has been on guarantees to support the micro finance sector, as well as risk mitigation, mainly from the World Bank and its related organisations MIGA and IFC. In the last 3-5 years, there has also been a greater emphasis on export development and trade in services, both spearheaded by MoNE, PalTrade and funded by the EU.

Some of the areas for which support has been delivered to the financial services sector include:

a. Strengthening of the Regulatory Framework (USAID)
b. Support to micro-financing institutions (FATEN and Riyada) (USAID)
c. Providing training courses for key personnel in the sector (World Bank)
d. Institutional support in restructuring and strengthening of financial institutions (World Bank)
e. SME Regulatory Framework (World Bank)
f. Institutional support in restructuring and strengthening of financial institutions (IFC)
g. Private sector strategy support (IFC)
h. Support in the development of Public-Private Sector Partnerships (PPP) in the financial services sector (IFC)
i. Support in the development of management structure and corporate governance in the financial services sector (IFC)
j. Trade finance (MSME banking focusing on women) (IFC)
k. US $3 million to improve access to financing in micro-finance institutions (IFC)

Some of the future development plans for the sector include but are not limited to the following:

a. Strengthening regulatory framework (USAID)

b. MSME's and a fund of funds to support early stage businesses (USAID)

c. Institutional support in restructuring and strengthening of financial institutions (World Bank)

d. Angel finance funding MSME's partial guarantees (World Bank)

e. Brand development and promotion of possible export services and export organizations (IFC)

f. Strengthening regulatory framework by building the capacity of judges and others (in the legal domain) and create awareness about leasing after the law has been passed (IFC)

While a number of initiatives have passed or are planned, there are still a few gaps in the sector that need further support and development for which donor programmes could play a key role. Some of the gaps include:

a. Need to focus on the SMME's, especially to improve their capacity to produce good loan applications for their projects.

b. Need to activate the legislative council to speed up the implementation of regulations and laws in the sector, e.g. the new corporate law.

c. Need to focus more on product development, specifically in terms of the Islamic finance sector. There is a 25% demand for Islamic products and only 8% is being supplied.

d. Need to support and strengthen the insurance sector, which depends largely on automobile insurance so there is a need for diversification and greater focus on long-term options such as life insurance and critical illness.

e. Need to review and further develop the pricing structure in the insurance sector. Need for proper actuaries within the sector.

f. Need to create an awareness program to promote the importance of the financial services sector and increase local market penetration

g. Need to create an awareness program to promote the importance of financing to small and family-owned businesses in the sector

h. Need to strengthen the capacity of the human resources of the sector. There is need to strengthen risk management capabilities within the sector, for example.

i. Need to improve facilities that support cross-border transactions

j. Need to create a CSR awareness drive in a manner that makes sense and makes money.

8 Trade Policy Perspective

It is critically important that the financial services sector is recognised as a key contributor to the growth, development, diversification and sustainability of the Palestinian economy, both as a FACILITATOR of other sectors and a DRIVER of exports in its own right. This recognition needs to be reflected in government growth policies and strategy for the economy.

Trade in services policymaking in the State of Palestine is in its infancy. However, with the EU-funded Trade in Services at PalTrade and MoNE, the government and major stakeholders have begun to engage the issues and build capacities in preparation for negotiations.

In all relevant negotiations on trade in services agreements, which include GAFTA, the EuroMed context and (in the future) the WTO/General Agreement on Trade in Services (GATS), specific commitments on market access and regulatory disciplines can and should be obtained from trading partners to ensure maximum predictability and protection for Palestinian financial services exporters.

Even more critical is the need to build the competitiveness of local companies and make them ready to both defend market share AND exploit new market opportunities.

GATS are critical for export of financial services, as they require the removal of all discriminatory barriers that affect services and services providers. Different from trade in goods, the export of financial services is subject mainly to non-tariff barriers. These non-tariff restrictions are often more onerous to track and measure and considerably less transparent than tariff barriers as they are drawn from a complicated relationship between legitimate policy objectives and protectionist aims of export markets.

Indeed, trade in financial services can be impeded by a variety of regulatory barriers, particularly regarding foreign direct investment (FDI) and Mode 3 export. These barriers may span from certifications and licenses to even quotas in some cases. The most common barriers to trade in financial services that stem from the absence or inadequate enforcement of national competition standards are as follows:

- Quantitative restrictions or prohibitions on the provision of services by foreign residents;
- Price-based measures applied through differential taxes on the transactions of foreign financial services providers, or through additional charges on the regulatory processes that they engage in;
- Additional licensing or certification requirements; and
- Lack of access to distribution and communication networks.

Service liberalization through the implementation and accession of GATS has significant positive implications for Palestine. These includes:

a) Allowing the private sector to participate in the provision and export of services;
b) Allowing foreign providers of services to compete on a non-discriminatory basis with state-owned companies and with the domestic private sector; and
c) Eliminating restrictions that create incentives for an inefficient and non-optimal provision of services.

Lehmann, A. & Tamirisa, N. T. & Wieczorek, J. 'International Trade in Services: Implications for the IMF', IMF Policy Discussion Paper, Policy Development and Review Department, Washington: IMF, December 2003

One of the challenges in attaining full GATS accession is that Palestine currently does not have sovereign status and consequently is not represented in Geneva. Moreover, Palestine currently lacks the ability to significantly and meaningfully engage in these negotiations because of the limited scope of its human, financial and administrative resources. This is further supported by the World Bank's view on the limitations faced by many developing economies - *Trade in Services Negotiations: A Guide for Developing Countries, World Bank*, 2010.

The GATS agreement is based on the assumption that many barriers to trade in services and limitations on the operation of foreign services' firms come from government regulations, measures and administrative decisions. The GATS agreement has a set of rules and obligations that governments have to implement to allow foreign service providers to operate more freely. It includes the following disciplines, which also apply to financial services:

(1.) <u>General obligations</u> that a country has to implement even if it has not liberalized any (financial) services under GATS:

- treating all foreign (financial) services equal (Most Favoured Nation / MFN) (Art. II);
- transparency: openness and notification of all measures and new laws on (financial) services to other WTO members (Art. III);
- facilitate the increasing participation of developing countries in world trade in services through negotiating specific commitments and establishment of contact points by developed countries (Art. IV).

(2.) <u>Specific obligations</u> applying to (financial) services that have been liberalized, i.e. committed in the GATS schedule of each WTO member:

- due treatment of foreign services suppliers when taking administrative measures or giving authorization to supply a (financial) service (Art. VI.1.,2.,3.);

- ensure that standards, licensing and qualification requirements do not constitute a barrier to trade (Art. VI.4.,5.): more disciplines need to be negotiated;
- no restrictions on international payments for current transactions related to committed (financial) services (Art. XI), except in case of balance of payment problems (Art. XII);
- no measures that limit the operation or ownership of (financial) services e.g. limitation on the number of branches (market access obligations in Art. XVI);
- equal treatment of foreign and national financial service providers (national treatment according to Art. XVII);
- a GATS commitment to liberalize can only be reversed by a country after three years and the WTO trading partners can request compensation that needs to be negotiated (XXI).

(3.) <u>Continuous liberalization negotiations</u>
Under Art. XIX, the WTO members agreed to periodically start new negotiations to further liberalize the service sectors of each country, while respecting national policies. The first such negotiations started in 2000 and have been included in the Doha Round of negotiations (start November 2001). However, the negotiations started without duly implementing Art. XIX.3. that calls for carrying out an assessment of the experience in trade in services.

During the current GATS negotiations, leaked "requests" from the EU make clear that market opening mostly means eliminating national laws and regulations that are seen as barriers to trade or in fact just a barrier to make maximum profit by the foreign (financial) services firms.

Regarding GATS rules, difficult negotiations are still underway on domestic regulation (Art. VI.4.), emergency safeguard measures (Art. X), subsidies that can be allowed or not (Art. XV), and procurement of services by and for governments (Art. XIII). Developed and developing countries have opposing interests, which constantly delays the negotiations and agreed deadlines.

8.1 A Model for Quick Liberalization

Financial services have received a special separate text belonging to the GATS agreement to promote their quick and full liberalization through several means: *The Understanding on Commitments in Financial Services*. If a WTO member agrees to open up its financial services according to the *'Understanding'*, then it has to make the commitments as described below, with a right to schedule exemptions. All industrialized countries have accepted the Understanding as the basis of their commitments and see it as **a minimum** for others, but only very few developing and emerging market countries have joined in.

8.2 A model for extensive market access

The Understanding (Part B.) provides a set of market openings to be applied by WTO members that implement the Understanding. Such market opening relates to:

a) cross-border trade (mode 1) for a few insurance services and for services in support of banking and investment (e.g. advice),
b) the right of consumers to purchase abroad (mode 2) financial services mentioned for mode 1 as well as all other banking or financial services,
c) the right of establishment and expansion by all foreign service financial providers (mode 3), including through acquisitions, and the right of governments to impose some conditions,
d) the temporary presence of managers and specialists in financial services (mode 4).

Moreover, any new conditions to the above market opening may not be more restrictive than those already existing (standstill in restrictions – Part A.).

Members can include this set of market opening in their schedule or still choose to make up their own GATS schedule in which they open up some (financial) services to foreign suppliers.

8.3 Erosion of the exemption from GATS rules

The Understanding (Part. B.1.- 2.) asks WTO members not to apply exemptions allowed by the GATS agreement to financial services! This means that regulations about procurement of financial services by public entities should be in conformity with the principles of national treatment and most favoured nation while this is not necessary according to Art. XIII. The Understanding also requires each WTO member to list in its schedule monopoly rights provided to financial services and strive to eliminate them (while they are allowed under GATS Art. VIII) as well as list and eliminate financial activities conducted by a public entity for the account of the government (allowed in the Annex on Financial Services Art. 1.(b).(iii)).

8.4 Eliminating all barriers to trade in financial services

The Understanding (Part B.10.) also requires members to remove any obstacle to foreign financial services that remains even if all the provisions of the GATS agreement have been respected. Following on, the Understanding provides guarantees that
foreign financial service suppliers:

a) are permitted to introduce any new financial service (Part B.7.),
b) are not hindered in the transfer of information (Part B.8.),

c) have access to payment and clearing systems operated by public entities (except lender of last resort facilities) (Part C.).

Foreign financial companies see the lack of such guarantees as (non-tariff) barriers to their trade.

8.5 The Potential Risks and Opportunities for Palestine's Financial Services Sector

The GATS negotiations do not only provide the financial industry with access to more markets and improved chances of full ownership of financial institutions worldwide through mergers and acquisitions. The GATS agreement also guarantees that this liberalization is difficult to reverse (Art. XXI) and that national measures that hamper profit making and consolidation are being restricted (e.g. Art. VI, XVI and XVII). The 'Understanding on Commitments in Financial Services' clearly underpins the interest of financial conglomerates that are engaged in cross-border and cross-sector consolidation. The EU requests many developing countries to open up according to this 'Understanding'.

Some sub-sectors of financial services have a high level of concentration with a few companies dominating worldwide, such as in investment banking, derivative services and rating agencies. Financial firms from emerging markets and developing countries have no capacity to compete in those concentrated sectors at the national or international level, according to *Yung Chul Park, Kee Hong Bea, and Ed J.J. Teunissen & M. Teunissen, The Hague, 2003, p. 160-204*: *even the Japanese banks had to retreat from their top positions*.

Further liberalization under GATS could likely lead to increased consolidation and concentration. This is a potential risk for Palestinian companies operating abroad especially under Mode 3 as they could likely get absorbed by larger institutions in the export markets. The GATS, however does not discuss up to what level consolidation will be allowed at the international level.

At the same time the financial services sector in Palestine is strongly regulated and open to foreign investors and investment. The environment in which financial institutions operate is fairly open. Companies also have the experience of competing with international and regional organisations that operate in Palestine already.

With a clear focus on the Diaspora and clearly defined market opportunities, Palestine will be able to gain access to many export markets. Financial services institutions seeking to conduct business outside of Palestine will be able to count on equal treatment provided for by GATS and not be penalised because they are foreign institutions.

9 Value Chain Analysis

Overleaf is a diagrammatic representation of Palestine's Financial Services Sector value chain. The value chain represents the various sector-wide processes and activities involved in delivering financial services of the main sub-sectors to the various export markets. The value chain consists of five key components: inputs (both direct and indirect); activities (product development, front and back office operations and risk management processes); outputs from the main sub-sectors of banking, insurance, mortgages, financial leasing and securities; marketing and distribution; and the domestic and export markets.

Analysis revealed that Palestine's financial services value chain is robust and may be comparable to other established sectors within the region, such as Lebanon and Jordan. This puts Palestine in an excellent competitive position for export of financial services.

The value chain further analyses the activities of the principal players in the industry (the top tier of the diagram) and the support organisations that are not directly involved in the day to day affairs of the sector, but which provide an indispensable enabling environment for the development of the sector's export competitiveness.

It can be seen that the financial services sector has a very strong support base both from regulatory agencies as well as private sector organisations. It will add tremendous value to the Palestinian financial services sector if:

1. The MSME organisation, PALMFI is strengthened
2. The Money changers are organised
3. Stronger linkages are established between the financial services sector and other services such as IT, Business and professional services and even travel and tourism.
4. Diagonal Integration is key to realising the full potential of the value chain as well as targeting export markets such as the diaspora.

Further development and penetration of the financial services sector of the local market is needed. In this regard, it is key that both the civil society and donor agencies are targeted for further growth. In addition, further development and penetration of the MSME sector and consumers on the whole, as well as export facilitation for local companies (letters of credit, export guarantees, etc.) are required. Insurance deposits and the penetration of life and other insurance products need to be expanded as well as Islamic insurance products. In addition to general consumer awareness, blue chip companies in Palestine could be encouraged to offer life insurance as an employee benefit, for example. This will create an important boost for life insurance (also along Islamic principles), as the mandatory vehicle and labour insurance has done for the sector. Labour insurance needs to be monitored for compliance as too many companies are not implementing labour insurance.

With regard to regional and international market development, a great deal of work needs to be done as the development of export markets is still in its infancy. In the following sections we identify and detail the markets and the market opportunities.

For the value chain, it is key to consider the bundling of services that can be provided to a unique and well-defined target market. Here, the Palestinian Diaspora offers unique opportunities for the export of financial and other linked services (see section on Diagonal Integration).

Information Technology is a vital platform and a source of key competitiveness. This needs to be reinforced and stronger linkages developed with the local IT sector. Support services are also provided by the professional services sector where linkages need to be reinforced and also the travel and tourism sector where valuable linkages can be created in the context of diagonal integration.

In the Value Chain for the Palestinian financial services sector overleaf, the items in green indicate the areas where future value needs to be developed, while the orange text indicate areas that currently exist within the value chain but which are in need of support, namely the microfinance support organisation.

Palestine Financial Services Future Value Chain

Inputs

Indirect	Direct
Education, Training, labour laws, etc.	Human Resources
Land availability, land cost, real estate regulations	Head Quarters and branches
Labour laws, mandatory vehicle insurance, life insurance benefits	Insurance Premiums
Deposit Insurance	Deposits
Guarantee Funds	Grant Funding
Pension Funds, Life Insurance and Other Benefits	Management
ICT Services	Computers and equipment & Software

Activities

Product Development Process	Front and Back Office Operations	Risk Management
Research and Development	Data Input / Client Processing	Deposit Insurance
Consumer and Market Analysis	Receipt of Deposits / Premiums	Re-insurance
Niche Market Identification and Development	Customer Relation Marketing	Policies, Systems and Controls
Location analysis (HQ and Branch)	Data processing	Legal and Regulatory compliances
Identification of services to be offered	Transaction settlement	Staff confidentiality / Non-disclosure
Set loan size for outreach (MSMEs)	Accounting procedures and bookkeeping activities	Data Protection
	Clearing of depsoits	Guaranteed Funds
	Statement processing and dispatching	Self-risk assessment
	Client Relations Management - queries and complaints	
	Reporting	
	Compliance	
	Corporate Social Responsibility	

Outputs / Products

Banking:	Insurance:	Mortgages:	Financial Leasing	Securities:
Islamic Banking Services (based on Sharia Principles)	Automobile Insurance	Appraisals	Financial lease	Asset Management / Portfolio Management
Microfinance Services / SME Financing	Life Insurance (including keyman services)	Mortgage Lending	Operating lease	Stock Brokerage
Guarantees and Structured Debt services for overseas businesses	Health / Medical Insurance (including critical illness)	Mortgage Financing / Mortgage-backed securities	Sale-lease-back	Corporate Bonds Trade
Online / Virtual Commercial Banking services e.g. PayPal	Property Insurance	Collateralised Mortgage Obligation	Joint Lease	Private Equity / Venture Capital Services
Traditional banking services	Labour Insurance		Financial Market Products:	Investment Advisory Services
Private Banking	Fire Insurance		- Asset Backed Securities, - Receivables Factoring	Hedging, Options and Derivatives
Foreign Exchange Services	Marine		- Leverage lease - Cash Flow Management	Securitisation
Development Banking (a source of long term finance)	Islamic Insurance Services following Sharia law			Investment Funds
Export / Import Bank (Trade facilitation / letters of credit, etc.)	Business Risk Insurance			Venture Capital
Card Services (including co-branded products)	Travel Insurance			
Pension Fund Management				
Financial Leasing				
Arbitration				
Tightly integrated services specifically / diagonally directed to a targeted clientele, e.g. Diaspora				

Marketing and Distribution

Marketing and Promotion	Distribution
Public Relations	Online / Internet / e-Banking
Corporate Social Responsibility	Local, regional and international Branches and representative offices
Marketing and Promotions	Mobile banking
Online marketing	Third party offices
Co-branded products	Point of Sales devices
Joint Marketing Agreements	Automated Teller/Banking Machines
Market Know-how, e.g. research on Diaspora Market	Prepaid services
Trade Show participation	
Traditional and Digital Advertising	
Giving a face to the organisation (Profiling key personnel)	

Markets

Domestic Market	Export Markets
Government	Diaspora:
Businesses	- Chile - North America - Europe
Consumers	MENA Markets:
Civil Society	- Jordan - UAE - Other MENA
Donors	Europe
	North America
	South East Asia
	Other Africa
	Rest of World

Primary Supporting Services

Palestine National Authority (PNA)
Palestinian Monetary Authority (PMA)
Palestinian Capital Markets Authority (PCMA)

Ministry of the National Economy

Ministry of Labour
Ministry of Finance

PalTrade

Association of Banks in Palestine (ABP)
Palestinian Insurance Federation (PIF)
Palestine Micro Finance Institutions (PALMFI)
Palestine Association of Money Changers

Professional Business Related Services, Travel and Tourism

Information Technology (IT)

10 Current Export Activity and Trends

It is worth noting the Palestinian financial services sector did not grow up in a closed protective environment, unlike many establishments that attempt to export from a protected home base. Palestinian financial service providers have had to grow up and run very quickly when they were established, since many regional banks had already set up a presence in Palestine (e.g. Arab Bank). This openness and a competitive environment, augurs well for the future competitiveness and export market penetration of the Palestinian financial services sector.

A financial service is exported if the service provided by the banks, insurance companies, investment, securities, financial leasing and other providers, is purchased by persons or organisations NOT RESIDENT IN PALESTINE.

The idea of trade in financial services is still in its infancy in Palestine. Most companies do not believe that they are in fact exporting, when in fact they are. Exporting, in the minds of many operators, is still linked to the physical movement of goods and the physical establishment of offices. But, in fact, many Palestine financial services companies are exporting without knowing it, as the various MODES of exporting services makes clear.

10.1 Mode of Exports

The General Agreement on Trade and Tariffs (GATT), developed by the World Trade Organisation (WTO), identified 4 ways (or modes) in which a non-resident can purchase your financial services. These are identified in Table 3.

Table 3
Mode of Exports

Gatt 4 Modes of Export	How Are Services Exported?	Palestine Examples
Mode 1 Trade without establishment or movement of persons i.e. "Cross- Border Supply"	The right to provide financial services from Palestine to another country, without the establishment of a branch, or the movement of natural persons to deliver the service	Purchase of securities via international telephone calls or over the Internet Internet Banking (cross-border)
Mode 2 Persons travel to Palestine to consume the service, i.e. "Consumption Abroad"	Right to provide services in Palestine, to non-resident persons or organisations (e.g. donor agencies, travellers and diaspora)	A Palestinian living in East Jerusalem opens a bank account in Palestine Internet banking (local access)
Mode 3	The right to ESTABLISH	A Palestinian bank

Gatt 4 Modes of Export	How Are Services Exported?	Palestine Examples
Establishment of branch offices, i.e. "Commercial Presence"	companies in foreign countries (e.g. Israel and Jordan	establishes a branch office in Jordan, Israel or USA
Mode 4 Movement of Talent, i.e. "Movement of Natural Persons"	Right of MOVEMENT OF PERSONS and technical expertise to deliver services in third countries under non-discriminatory conditions	An employee of a Palestinian bank visits Jordan to deliver technical knowledge/supervise the branch operations in Jordan

10.2 Current Export Activity

With regard to the penetration of export markets, it is evident that the full export potential of the financial services sector is not being realised. This is partially due to measurement issues, but also the fact that the export of financial services is not actively targeted.

With regard to export market development, it is mainly the banking sector that is active in this field. One bank in Palestine, for example, has a Diaspora Unit that targets its financial services to Palestinians who live abroad and is also targeting the establishment of Representative Offices in Chile, Dubai and Jordan. Another insurance company is investigating the establishment of an office in Israel that may come on stream by 2015. And a Financial Leasing company is actively seeking to establish a presence in Jerusalem.

Reviewing the modes of service export, the most important mode of service export delivery are modes 1 and 2. Mode 1, for example, is the predominant mode used by the Palestine Exchange in their securities trading operations.

The current exports are mostly related to the PEX and the Private Bonds being sold by PADICO Holding and others. On February 22, 2012, the New York Times published an article entitled "Palestine Securities Exchange a Bright Spot in Equities" which stated that in 2008, as the financial crisis unfolded, the Al Quds index of 12 leading shares of Palestinian companies dropped only 16 per cent, compared to 55 per cent losses in the Morgan Stanley index of Arab markets and 54 per cent losses in the Morgan Stanley index of emerging markets, according to data from the Portland Trust, a British organization that promotes peace and stability between Palestinians and Israelis through economic development. The article continued by adding that in 2005 the Palestinian exchange ranked as the best performing market in the world, with its Al Quds 12 rising more than 300 per cent in spite of regional instability. According to data available from the PSE, the overall trading in Palestinian securities by international companies in 2011 is the equivalent of US$300 million.

There is need to grow the stock exchange by preparing particularly family companies to raise capital for expansion through share capital.

Online banking services are another example of mode 1 form of trade. However, much of these commercial banking services are provided to the local market.

Since most financial institutions particularly in the banking sector do not collect data on the PLACE OF RESIDENCE of their client, it is difficult to estimate the “export content” of the electronic trade in financial services (Mode 1) that banks currently operate. Mode 2 financial services export is also in operation from travellers who engage services from financial institutions in Palestine (cash withdrawal, credit card payment services, foreign exchange services, insurance services, etc.). In addition, mode 2 services are provided to foreign agencies and donor agencies operating in Palestine. East Jerusalem is also an important Mode 2 form of “export” as those who live there can come to the West Bank to carry out financial transactions. The value of this market is not to be under-estimated. Consider that persons of Palestinian origin, although earning three times less than their Jewish counterparts, earn four times as much as their West Bank counterparts. Consider also that there are a significant number of Palestinians in East Jerusalem. One of the issues regarding the East Jerusalem and Israel on the whole, is the issue of disclosure and the Israeli tax implications. At the same time, it appears that East Jerusalem residents prefer the level and quality of services offered by Palestinian financial institutions. In addition, as land ownership is a key issue, East Jerusalem residents may prefer to take a mortgage from a Palestinian institution, because in the event of foreclosure, the land will not revert to Israel. At the same time, the Palestinian financial institutions have limited authority over lands that are in another country’s jurisdiction. This is why physical presence (Mode 3 – Establishment of Commercial Presence) is key to the continued exploitation of this important market.

There is at present no evidence of Mode 4 exports. However, this could be developed with the export of specialised consulting services to financial institutions abroad that wish to learn from the Palestinian experiences in targeting the MSME market. There is also potential in the monitoring and regulatory aspects, as MOUs have already been signed between the PMA and other partner organisations.

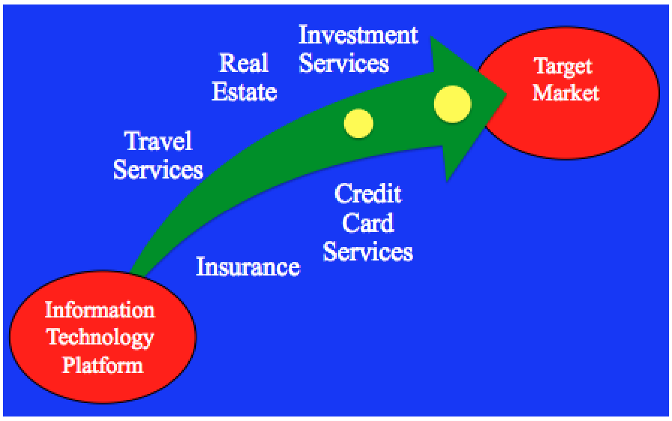
10.3 Diagonal Integration and the Diaspora

One of the financial institutions in Palestine had the idea of targeting the Palestinian Diaspora in 2009 and launched its dedicated Diaspora unit in Bethlehem in 2011. Although still in its infancy, this initiative taken is an important step ‘outside of the box’ and in innovation. This is an example of the best practice known as Diagonal Integration (Poon, 2003).

For centuries, companies have horizontally and vertically integrated, and even diversified their operations, to optimise their production processes and to grow their profits. Today, the new best practice is Diagonal Integration.

Diagonal Integration is a term coined by Poon in *Tourism, Technology and Competitive Strategies* to explain the process whereby firms use their information technology platforms to get close to their customers and to systematically combine a range of services required by their carefully identified target market. For example, American Express produces a range of services – travel, insurance, real estate, financial services, and investment services – which is delivered through intensive use of information technology to their carefully targeted client base.

Figure 9
Diagonal Integration – The American Express Example



Source: Tourism Intelligence International, 2014

Firms diagonally integrate for best productivity and most profits. As they move into new activities, there are tremendous systems gains, synergies and scope economies to be had from integration. Diagonal Integration is a key tool for controlling the process of value creation and will continue to blur the boundaries among industry players.

The purpose of Diagonal Integration is not to produce a single "all vanilla"-type service and market it to a supermarket of clients. Rather, the objective is to produce and sell a range of services to a well-defined target group of consumers. The consumers targeted are expected to simultaneously consume these services at regular intervals over their lifetime (for example, travel + insurance + credit + holiday + investments+ personal banking + entertainment + Internet + Radio + TV + Music).

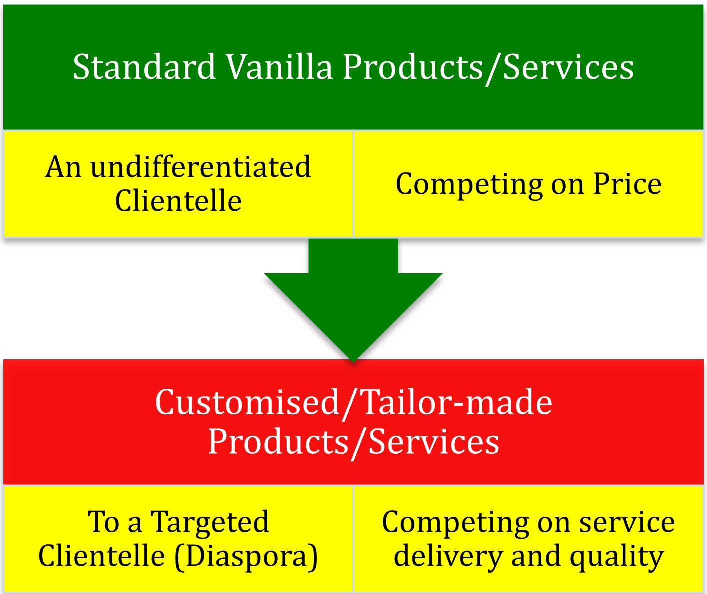
The essence of diagonal integration is that: *2 + 2 = 5.*

In other words, the benefits of integrating activities are greater than providing each activity separately.

The main objective of Diagonal Integration is the get close to a target customer base (such as the Diaspora or a specific age group or a specific psychographic type of customer) by offering tailor-made or customised product/services and to lower costs through synergies.

The competitive focus becomes the customer in terms of service quality and meeting and exceeding their expectations and not merely competing on price.

Figure 10
Transition to Diagonal Integration



10.4 Linkages to other Sectors of the Economy

As major repositories of cash and important consumers of IT, business and other professional services, financial institutions have a critical role to play in igniting the growth and competitiveness of related sectors of the economy. In this regard, ITC, professional services as well as travel and tourism services are important to explore.

Indeed, financial services providers can be a growing market for the IT providers as this segment not only has the need for such services but in many cases has the means to acquire these services. Financial institutions often invest in IT both as a source of productivity and competitiveness as well as to achieve compliance with on-going regulatory requirements.

Banking and Financial Services Industry Sector is one of the biggest consumers of the ICT worldwide, according to the *PITA ICT Market Penetration Study, 2013*. The sector spends almost 40% of the total global ICT spending worldwide, amounting to 1.9 trillion USD.

It is worthy to note that the biggest challenges faced by Palestinian ICT companies are market-related and not structural or environmental, as some may perceive. ‘Difficulty in Finding Local Partners’ and ‘Lack of Market Info’, are challenges which can be overcome through various market penetration measures, according to the *PITA ICT Market Penetration Study, 2013*. Poor ICT Infrastructure, lack of regulations, lack of funds, and restrictions on movement of people and goods severely constrain the sector, according to the study.

In the case of professional services, they have an important role to play in creating the image of financial institutions and in marketing and promoting their services. In this regard, it is important to improve the image of financial institutions through professional photographs, profiling and publishing (on their websites). Services such as studio photography, profile development, branding, marketing, public relations, website development, updating and enhancement, social media and other messaging services will be of great value. At the moment, most financial institutions have these services in-house. But there may be a case for outsourcing some of these activities, not only to keep them fresh, but also to provide opportunities for young and upcoming talent and businesses.

In the field of travel and tourism, there are important links to be developed once the financial services sector begins to build diagonal linkages across sectors. Tourism creates an excellent opportunity for Palestinian financial institutions to deliver financial services (banking, credit card services, travel insurance, money transfers, currency exchanges, etc.) to visitors as tourism creates a ready export market. In addition, financial institutions have a key role to play in the tourism industry in assisting investors to acquire real estate through mortgages; tourism suppliers are provided with insurance services, banking services, investment services, etc. which are indispensable in the day-to-day operations of their establishments.

It is key that these linkages are further explored among the services sector operators – financial services, travel and tourism, professional services and ICT, through joint programs and activities. This could be coordinated through the exchange of membership in the respective associations, shared mailing lists and networking opportunities or formally through CSR programs.

PalTrade and PIPA can play important roles in this coordination, synergy-generation and trade production.

10.5 Key Export Markets

Based on the surveys launched in the sector, and the responses received, the main export markets have been identified as follows:

1. Palestine Diaspora
2. Africa
3. Gulf
4. Jordan
5. Egypt
6. Lebanon
7. Chile
8. Europe
9. North America

Further analysis shows that most sales of financial services outside of Palestine appear to be come from the Diaspora market. While not a specific geographic market, the Diaspora is a critical market for future export development and success. It is therefore fitting that marketing and sales activities should pay close attention to the geographic areas where the Diaspora is in the highest concentrations, such as Jordan and Lebanon in the regional markets and Chile and Honduras in the international markets, especially the USA where the diaspora is well organised and concentrated, e.g. Chicago. Key to note however, that the Diaspora in Lebanon is predominantly refugees living in camps. However, there are many who have gained residency and citizenship status and there are others who are doing well, which creates a small Diaspora niche that could be targeted. There will also be a great need to overcome some of the barriers to entry in some of these markets such as strong international and domestic brands.

In order to further determine the competitive advantages and market opportunities that Palestine can take advantage of in developing export of financial services, it is key to analyse and evaluate each of the main markets, its structural attributes, market characteristics, barriers to entry or factors facilitating easy entry and the areas of competitive opportunities for Palestine. Table 4 highlights each of the main markets based on size, relevance to Palestine and possible opportunities. These markets include: Europe, USA, MENA (with special focus on Lebanon and Jordan) as well as a brief overview of the Palestine Diaspora.

The data shows that in terms of sheer size, Europe and USA are attractive targets. However, the competitive environment, and the strong brands that already exist in these markets, pose a challenge for Palestine. Pockets of opportunities, however, do exist in these markets. These include the Palestine Diaspora based in Europe and USA as well as the presence of a thriving and educated Islamic population that could bode well for Palestine exports. Nevertheless, USA and Europe are very large in terms of land mass and the demographic markets (Diaspora and Islamic populations) are spread out over thousands of miles. Reaching these potential customers therefore must be carried out via the Internet and other forms of digital media that possess the potential to pool these individuals into one ‘cyber space’.

On the supply side, the lucrativeness of the identified markets can be determined by the distribution density of financial institutions spread over the population base. Using banks as an example, one sees that Chile is an attractive market from a supply perspective, since there are over half a million persons per banking institution compared to 45,552 persons to every bank in the US. See Table 4 for further information.

Table 4
List of Countries by Number of Banks to the Number of Persons in the Export Market

Country	Number of Banks	Population (Million)	Number of Banks to Number of Residents in the Export Market
Chile	33	17.46	1:529,090
Palestine	17	4.5	1:264,705
Jordan	26	6.3	1:243,000
Europe	6,825	739.2	1:108,308
Lebanon	92	4.4	1:48,097
USA	6,891	313.9	1:45,552

Source: www.PMA.ps, 2014
World Bank Population Estimates, 2014
PCBS Population Projections, 2014
http://www.relbanks.com, 2014
European Banking Federation, 2013
US Federal Deposit Insurance Corporation, 2013

On the demand side, lucrative markets can be identified by the sheer size of the Palestinian Diaspora as well as Islamic populations; and the demand for niche products, such as micro-financing, is relatively substantial and still remains largely unmet. Another key factor for determining the lucrativeness of an export market is the enabling environment provided by the regulatory bodies and support organizations within that market. These three ingredients – supply quantity, strong demand (including the presence of niches) and a stable enabling environment – provide the perfect environment for Palestine financial institutions to thrive in the targeted export markets provided that they are able to deliver specialized niche services that meet with the needs and standards of these markets. Such niche services include micro-finance, Islamic banking, mortgaging and insurance services and specialized financial services to the Diaspora.

Table 5
Palestine's Financial Services Sector Main Export Markets in Summary

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
Europe (excluding UK) Source: European Central Bank, 2013	• Assets in circulation – €29.5 Trillion as at beginning of 2013 • Number of monetary financial institutions (MFI) in the EU area was 6,016 – Banking as at beginning of 2013 • There were approx. 171,500 locally owned branches in the EU area in 2012 • A total of 592 institutions were driven out of the financial services market between 2008 and 2012 mainly because of the recession, strong competition and acquisitions (particularly in Spain, Portugal and Greece) • Germany, Austria, Italy and France account for 65% of all MFIs in Europe. • Germany and France account for nearly half (49%) of all	• Highly saturated market with large multinational institutions • Strong perception of stability particularly in the larger EU markets such as Germany. • Presence of large and strong banks • Potential market size is ~740 million in 2013 based on population size • Population per MFI – 55,504 as at 2012 • The Islamic population of Europe stands at approx. 6% of the total population (44 million) and is expected to grow to 8% by the year 2030, according to *Pew Research.* • France and Germany account for the largest Islamic populations in Europe (4.7 and	• Strong brand image of larger MFIs • Intense competition • Stringent regulations and standards, e.g. the stipulation of a high indemnity bond to set up in the export market could be prohibitive to some financial institutions • Strong restrictions in Mode 1 & 2 exports • Prohibitive operating costs compared to Palestine, e.g. cost of labour, utilities, real estate • Language barriers	• Niche areas such as Islamic / Sharia banking • Low tax rates in Palestine • Micro-financing and Financial Leasing as many small businesses cannot meet the high requirements set by EU banks. • Europe has the same time zone as Palestine • Little or no exchange rate risk as many Palestinian banks deal in Euros

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
	assets in circulation €14.4 Trillion in 2012 • The Netherlands, Spain, Germany, France and Italy are all characterized by over 80% domestic ownership of MFIs. • Luxemburg, Malta, Cyprus and Belgium are dominated by foreign MFIs. • The largest EU MFIs were Deutsche Bank, HSBC, BNP Paribas, Crédit Agricole, Barclays, RBS, Santander, SocGen, Lloyds, Groupe BCPE and ING. • The Largest non-EU banks include: JPMorgan Chase, Bank of America, CitiGroup, Wells Fargo, Goldman Sachs, Morgan Stanley, Bank of NY, Capital One and BB&T Corp.	4 million respectively), according to *Pew Research* • Germany has the largest EU Palestinian Diaspora population – 80,000, followed by Netherlands (9,000) and Sweden (7,000)		
USA Source: The Federal	• Approx US $33.4 Trillion in assets as at 2012	• Presence of large multinational corporations	• Strong legal and regulatory requirements and standards at	• Niche areas such as Islamic / Sharia banking

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
Deposit Insurance Corporation	• Financial services account for 8% of GDP • There are 6,895 MFIs in the US as at 2013. • The largest banks in the US in 2013 based on assets (US Billion) were: ○ JPMorgan Chase - $2,389 ○ Bank of America - $2,174 ○ Citigroup - $1,861 ○ Wells Fargo - $1,436 ○ Goldman Sachs - $959 ○ Morgan Stanley - $801 ○ US Bancorp - $$355	• Americans do not perceive the US financial services sector is any more secure since the financial crisis (63% according to Pew Research, 2013) • Potential market size of 310 million in 2013 based on population size • The Islamic population in the US is 2.6 million • There are an estimated 255,000 Palestinians living in the US • Many Palestinians reside in the metropolitan areas of New York City, Paterson in Northern New Jersey, San Francisco, Los Angeles, San Diego, Phoenix, Miami, Chicago, Detroit, and Cleveland • Many Muslims in the US currently do not bank at conventional banks since doing so violates Sharia principles • A wide variety of products and	both the state and Federal levels derived from the Commerce Clause of the US Constitution*: - Licensing and approval - Regular on-site examinations to ensure compliance and financial soundness of operations - Geographic restrictions at the State level (some states only). Cannot set up in small towns or where community banks are already established - The International Banking Act of 1978 - The Foreign Bank Supervision Enhancement Act of 1991 - The Federal Reserve's capital rule stipulating that banks hold as much capital in the US as their local rivals • High levels of cost of	• Low tax rates in Palestine • Micro-financing and Financial Leasing as many small businesses cannot meet the high requirements set by US banks. • Little or no exchange rate risk as many Palestinian banks deal in US currency

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
		services catering to varied market segmentation	operations (labour, utilities, real estate) compared to Palestine • A high number of strong branded MFIs • Most Americans prefer to support local companies rather than foreign ones	
Middle East and Northern Africa (MENA)		• Financial openness • Strong legal and regulatory environment • Underdeveloped non-bank financial sub-sector Level of Financial Development High: Bahrain, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, U.A.E. Medium: Algeria, Djibouti, Egypt, Mauritania, Morocco, Pakistan Low: Iran, I.R. of, Libya, Sudan, Syria, Yemen • High quality and reasonably priced human resources • With the exception of Egypt and Morocco (which account for two-thirds of market share),	• Banking sector regulations in the MENA region have evolved in recent years, further integrating the region into the global financial market • Lebanon and Jordan are considered the least restrictive within the MENA financial services sector •	• With the proliferation of small and medium companies in MENA, Palestine has the opportunity to offer micro-financing services which is still a young and growing sector within MENA.

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
		micro-finance is a relatively young sub-sector		
Jordan	• Number of financial institutions – 26 banks, 28 insurance companies • One third of the banking sector is made up for foreign banks • There are 2 Islamic banks in Jordan • The Jordanian banking sector had US $53.1 billion in assets in 2011	• Population size – 6.2 Million • There are 3.2 million Palestinians living in Jordan • Market concentration is high in the life insurance sector (the largest 3 companies have 71% of market share).	• Through its accession to the WTO and GAFTA, Jordan has lowered its barriers to trade significantly • Insurance costs are high in Jordan • Jordan's GATS commitments in banking services are very ambitious • There are no restrictions on the flow of foreign currency for commercial and capital transactions • The number of foreign banks are growing since the liberalization of trade in Jordan	• Jordan is an emerging market economy with growth potential • Close proximity to Palestine • Large Palestinian population • An easy, natural market • The exchange rate peg provides financial stability • Only 8.2% of financial services are granted to SMEs • There are only two Islamic banks in Jordan
Lebanon	• Number of financial institutions are: ○ 92 banks ○ 61 Insurance companies ○ 17 Investment banks	• There are no restrictions on the movement of capital in or out of Lebanon • Flexible tax policies on deposits – no tax on deposits, low tax	• Stringent regulations and laws • Strong Lebanese brands, e.g. Bank of Beirut • There are no restrictions on the flow of foreign currency for	• Close proximity to Palestine • A small Islamic banking sub-sector with potential to grow • A growing micro-finance market

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
	• The are only 4 Islamic banks capturing only 1% of market share. • There is only 1 dedicated Micro-finance MFI in Lebanon • The top banks in Lebanon are: ○ Byblos Bank ○ Audi Saradar Bank ○ Bank of Beirut ○ Banque du Liban et d'Outre-Mer S.A.L. ○ Banque de la Méditerranée ○ Crédit Libanais ○ Federal Bank of Lebanon ○ Fransabank ○ Banque Libano Francaise	(5%) on interest earnings/dividends • A resilient market • The population size is 4.4 million • Palestinian Diaspora accounts for 10% of the Lebanese population (402,582). • Muslims account for an estimated 60% of the total population. • Lebanon is classified as an upper-middle income economy by the World Bank with a per capita income of US $5,800 • Lebanon is the 5th largest micro-finance market in the Arab region with 3% market share and a load portfolio of US $50 million and 54,000 clients. • Only one-quarter of the market has been penetrated. Potential market size for micro-finance is over 190,000 (according to the	commercial and capital transactions • Lebanon is considered the least restrictive market for financial services within MENA	

Export Market	Structural Attributes	Market Characteristics	Barriers to Entry	Areas of Competitive Opportunities for Palestine
		International Finance Corporation)		
The Palestine Diaspora	• *See details in the proceeding section 10.5.1*	• There are an estimated 7.3 million Palestinians living outside of Palestine according to the PCBS, 2013. • Arab Region – 5.2 million • Israel – 1.4 • Rest of World – 665,000	• Barriers differs for each geographic location • See Jordan and Lebanon above	• Palestinians are confident in the Palestine banking system (e.g. many Palestinians living outside of Palestine repatriated funds during the Global Economic Crisis). • Banks are already tapping into this market – Bank of Palestine setting up business in Dubai • The Palestinian Diaspora is a huge market waiting to be tapped • Palestine can learn from other countries such as Israel and Lebanon that have experienced tremendous growth through their Diaspora Communities.

* *Source*: A Regulatory Guide for Foreign Banks in the United States, *PWC*, 2008.

10.5.1 The Palestine Diaspora

Because of its peculiar history, Palestine is a country that has perhaps more Palestinians living abroad than in the country. While it is estimated that about 70% of the Palestinian diaspora are refugees, there are a number of educated, successful and well-placed Palestinians all over the world, from Jordan, Dubai, Australia and Europe to Chile and the USA. The diaspora market can make an important contribution to the growth, development and wellbeing of the Palestinian economy and society as a whole.

In the absence of consistent statistical data, figures about Palestinian diaspora communities are indicative rather than conclusive, and derived from a variety of sources. The projected number of Palestinians in the world is 11.8 million, of whom almost two-thirds (61.8%) live abroad, according to the *PCBS* December 2013 data. A total of 4.5 million live in Palestine; 1.4 million in Israel; 5.2 million in Arab countries and around 665 thousand in foreign countries. The number of Palestinians living in Israel is 1.4 million, of which just over one-third (36.1%) are aged below 15 years, compared to 4.1% aged 65 years and above.

Of the 4.5 million living in Palestine, more than one-third of population are in the Gaza Strip. Around 2.8 million reside in the West Bank and 1.7 million in Gaza Strip. Palestinian refugees make up 44.2% of the Palestinian population in Palestine: 41.2% of them in the West Bank and 58.8% in Gaza Strip.

There are currently close to 1.4 million Palestinian refugees registered in Jordan (http://www.kinghussein.gov.jo/people1.html)

According to *webez.org*, as many as a quarter of all Palestinians living in the U.S. live in the counties surrounding Chicago — more than live any other American city. And, Palestinians make up the single largest Arab ethnic group in the Chicago region — as much as 40% of the area's total Arab population (http://www.wbez.org/news/culture/forget-poles-palestinians-find-home-suburban-chicago-105416).

And according to *This Week in Palestine* feature on Palestinians Living in the Diaspora (March 2008), only one-third of the total UNRWA registered refugee population (1948 refugees) and approximately 20% of the total Palestinian refugee population live in camps.

The majority of the Palestinians in the European Union (EU) are in the United Kingdom, France, Germany, Greece, Italy, the Netherlands, Spain and Sweden. Outside the EU is Norway and Switzerland. Germany's capital Berlin has one of the largest Palestinian communities outside of the Middle East with about 30,000-40,000 people of Palestinian origin residing in the city (~1% of the total population).

Further exploration shows that most sales of financial services, with the exception of the UK appear to be investments by the Diaspora. This, therefore, appears to be a significantly important market to target and work on expanding sales to, thereby potentially focusing the road show on a selection of these markets, where the Diaspora is residing.

10.6 The Top Three Sub-sectors

Based on the average ranking of the survey respondents, the following three sub-sectors have been identified as the main sub-sectors for export purposes.

Table 6
Ranking of the Top Three Sub-Sectors

Financial Sub-sector with Greatest Export Potential	Rank
Banking	1
Securities	2
Insurance	3

The Banking sector is well established and resilient; has benefitted tremendously from the experience of other regional and international banks located in Palestine (about half of the banking sector is foreign-owned); and has operated in a competitive environment from the beginning (Palestinian banks have not been protected). The securities sector is making a name for itself in the financial services sector and has great potential as investors can invest without having to visit Palestine. The sector is limited by the small number of companies that are listed on its still-young stock exchange. Insurance is a strong sector although in need of further development and diversification (close to two-thirds of all policies are for short-term automobile insurance). But there are positive signs and opportunities and insurance products can be linked uniquely to MSME financing. Financial leasing also has some growth opportunities that need to be explored and supported.

10.7 The Most Important Financial Products for Export

Table 7 represents respondents' view on what they considered to be the most important financial services/products for future exports.

Islamic banking services s a Number 1 opportunity as there is further room fro growth even in the local market. Double-digit growth is expected for tis sector in 2014-2015. Stock

Brokerage is also important as it offers investors a flexible form of trade and investment in Palestine's financial services sector.

Microfinance investment services appear to be a unique product that cold help to grow Palestine's export position. Because of necessity, Palestinian financial institutions have developed a capability to fund micro and small businesses with a variety and flexibility of services and collateral. This experience can certainly exported even through mode 4, in terms of the provision of consultancy services to other financial institutions abroad to establish similar competences. Guarantees and Structured Debt services for overseas businesses (a sub-set of commercial banking) is also a key export opportunity. A full list and the ranking are provided in Table 7.

Table 7
Financial Products / Services in Palestine – Current and Future Rank

Financial Products / Services	**Rank Current**	**Rank Future**
• Islamic Banking Services (based on Sharia Principles)	1	1
• Stock Brokerage	1	5
• Microfinance Services / SME Financing (for small businesses or customers who cannot access credit from traditional institutions)	3	2
• Guarantees and Structured Debt services for overseas businesses (a sub-set of commercial banking)	4	3
• Traditional banking services (deposits and loans)	5	6
• Online / Virtual Commercial Banking services for the Middle East and North Africa (MENA) using the PayPal model to facilitate e-commerce within the MENA region	6	4
• Private Banking	7	8
• Asset Management	8	7
• Private Equity / Venture Capital Services	9	8
• Foreign Exchange Services	10	9

Source: Industry Survey, Expert Interviews and Stakeholder Consultation, February 2014.

11 Competitiveness-Constraints Analysis

According to the World Bank Sustainability Report, "to overcome the perceptions of risk resulting from years of conflict and attract the necessary high level of investment, the PA should strive to **build a business environment that is among the best in the world and not merely on par with its neighbours**. One of the most important steps the PA can take is to rapidly expand land registration in the West Bank" (emphasis added).

Palestine is a special case as more than half of its banks are foreign banks. The presence of foreign banks in Palestine adds tremendous value to the growth and competitiveness of its financial services sector. Many of these banks, such as the Arab Bank, with wide experience in Palestine and the region, provide an important platform to grow the competitive edge of Palestinian businesses. Recall that Palestinian banks did not come into the word with the heavy hand of protection, but within a highly competitive market with already-entrenched competition from regional banks. In this regard, Palestinian borders may be closed, but because competing banks are allowed to establish in Palestine, the Palestinian banks do not have the luxury of a secure local market. The environment is, and remains, as competitive as ever, and this is definitely good for business, for growth, for competitiveness, and for export market penetration.

In assessing the current competitive situation of the financial services sector, it is important to assess the sector's strengths, weaknesses opportunities and threats, the sector's unique selling proposition (USP) as well as its competitive position *vis á vis* a main competitive sectors.

11.1 SWOT Analysis

Below is a brief summary of the main strengths, weaknesses, opportunities and threats of the Financial Services Sector in Palestine drawn from the Survey of the February 2014 Financial Services Sector and from the stakeholder consultations.

Table 8A
Overall Strengths, Weaknesses, Opportunities and Threats of the Financial Services Sector

Strengths	Weaknesses
• Good regulation in accordance with international best practice • Open market • No capital limitation • No FX risk • Talent for Survival • Stability of financial institutions (Banks) • Management under the time of crisis	• Political instability • Lack of a clear vision for the sector • Lack of financial services specializations • Low capital base (small size) • Lack of own currency • Lack of individual competencies • Some companies conduct price competition rather than compete on

• Strong regulatory framework of the PMA and PCMA • Good relations within the sector / partnerships • Well regulated sector that provides stability • Expansion potentials are high • Small pool of highly talented people (highest% of PhDs in the world) • The presence of established and recognised sub-sectors – banking, insurance, securities, leasing, mortgage, etc. • The existence of financially, legally and politically independent regulatory bodies for the various sub-sectors	quality of services (mainly insurance sector) • Highly concentrated portfolio of services (insurance) • Low consumer protection (in some areas) • Limited access to finance (SMMEs) • Low penetration ratios • High production costs (e.g. Insurance and securities sector) • Only 56% of deposits loaned • Weak in capturing external markets • Over-regulated and restricted which creates lack of flexibility to adapt to market trends • Low brand and market perception • Partial commitment and adherence to regulations and instructions from regulatory organisations • Lack of proper definition of the comparative advantage of the financial services sector in Palestine • Limited human resource and talent development in the sector • Lack of an EXIM Bank to provide Export Credit Guarantees • Limited knowledge of export markets
Opportunities	**Threats**
• Huge growth potential, low local market penetration • Banks are building their own capital which will help offer better financial services and deal with financial crisis • Ability to open branches abroad • The potential to cater to the Islamic market segment • Some sectors are still emerging sectors (mortgage finance and financial leasing) • Few key players in some sectors • Capacity of to absorb new products • Segmentation from international financial markets, thus less crisis contagion effect – niche/segments are usually more resilient and geographic diversification helps to smoothen out risk • Very low illiteracy rate in Palestine • Talented Palestinian Diaspora that can be drawn upon	• Financial crisis; regional/global • Israeli occupation • Erratic Israeli policies • Inconsistency in the legal framework (mainly on the cross-sectorial level) • Weak fiscal influence and control • The operating currency is the Israeli Shekel with limited control • Failure and closure of institutions • Competition in the specific markets, e.g. from already well-established institutions in the markets • Operational threats as a consequence of the territorial divisions (WB and Gaza).

Source: Industry Survey, Expert Interviews and Stakeholder Consultation, February 2014.

Table 8B

Strengths, Weaknesses, Opportunities and Threats of the Banking Sub-Sector

Strengths	**Weaknesses**
• Good regulation in accordance with international best practice • Open market • No capital limitation • No FX risk • Stability of financial institutions (Banks) • Management under the time of crisis • Good relations within the sector / partnerships • Well regulated sector • High deposit insurance level results in a relatively stable sub-sector	• Political instability • Lack of financial services specializations • Low capital base (small size) • Lack of own currency • Lack of an independent monetary policy • Limited access to finance (SMMEs) • Low penetration ratios • Only 42% of deposits loaned • Weak in capturing external markets • Over-regulated and restricted • Low brand and market perception • A relatively risk-averse sub-sector as evidenced by conservative banking policies and regulations
Opportunities	**Threats**
• Banks are building their own capital which will help offer better financial services and deal with financial crisis • Ability to open branches abroad • The potential to cater to the Islamic market segment through Islamic banking services • Segmentation from international financial markets, thus less crisis contagion effect	• Financial crisis; regional/global • Israeli occupation • Erratic Israeli policies • Inconsistency in the legal framework (mainly on the cross-sectorial level) • Weak fiscal influence and control • The operating currency is the Israeli Shekel with limited control • Exposure to online fraud and data protection issues

Source: Industry Survey, Expert Interviews and Stakeholder Consultation, February 2014.

Table 8C

Strengths, Weaknesses, Opportunities and Threats of the Insurance Sub-Sector

Strengths	**Weaknesses**
• Good regulation in accordance with international best practice • Open market • No capital limitation • Stability of financial institutions (Insurance Companies) • Strong regulatory framework of the PCMA	• Political instability • Lack of financial services specializations • Lack of local experts (e.g. actuaries) • Some companies conduct price competition rather than compete on quality of services (mainly insurance sector) • Highly concentrated portfolio of services (insurance) • High production costs • Weak in capturing external markets

	• Low brand and market perception • Slow payment of obligations to insurance companies, e.g. Traffic Accident Fund • Delay/slowness of some insurance companies in fulfilling their obligations to clients • Lack of experience in life insurance • Lack of capital to support long-term policies such as life insurance • An inward-looking sub-sector / focus on local demand • Heavy concentration on automotive insurance and other short-term policies. Need for more diversification into longer-term policies such as life insurance • Negative culture / perception of life insurance • Limited talent in terms of risk management. Need for more training in this area.
Opportunities	**Threats**
• Huge growth potential particularly in life insurance because of low local market penetration • Ability to open branches abroad • The potential to cater to the Islamic market segment • Talented Palestinian Diaspora that can be drawn upon	• Financial crisis; regional/global • Israeli occupation • Erratic Israeli policies • Inconsistency in the legal framework (mainly on the cross-sectorial level)

Source: Industry Survey, Expert Interviews and Stakeholder Consultation, February 2014.

Table 8D

Strengths, Weaknesses, Opportunities and Threats of the Securities Sub-Sector

Strengths	Weaknesses
• Good regulation in accordance with international best practice • Open market • No capital limitation • No FX risk • Strong regulatory framework of the PCMA • Good relations within the sector / partnerships • Well regulated sector	• Political instability • Low capital base (small size) • High production costs • Weak in capturing external markets • Low brand and market perception; • Lack of awareness of Palestine products and performance • The issue of taxes, especially that the capital gains tax is not yet implemented as there is no clear procedure for its

• High performance of the securities sub-sector within the MENA region • A sophisticated PEX automated system that is comparable to international standards •	implementation yet. • Lack of incentives for business owners to publically list companies • Lack of incentives to attract investors to the Palestinian market • Only stocks are traded on the PEX. There are no derivatives, bonds, etc. • VAT on trading
Opportunities	**Threats**
• Few key players in some sectors • Capacity of to absorb new products • Segmentation from international financial markets, thus less crisis contagion effect	• Financial crisis; regional/global • Israeli occupation • Erratic Israeli policies • Weak fiscal influence and control • The operating currency is the Israeli Shekel with limited control

Source: Industry Survey, Expert Interviews and Stakeholder Consultation, February 2014.

Table 8E

Strengths, Weaknesses, Opportunities and Threats of the Mortgage Sub-Sector

Strengths	**Weaknesses**
• Good regulation in accordance with international best practice • Open market • No capital limitation • No FX risk • Talent for Survival • Stability of financial institutions (Banks) • Management under the time of crisis • Strong regulatory framework of the PMA and PCMA • Good relations within the sector / partnerships • Well regulated sector • Expansion potentials are high • Small pool of highly talented people (highest% of PhDs in the world)	• Political instability • Lack of financial services specializations • Low capital base (small size) • Lack of own currency • Lack of individual competencies • Some companies conduct price competition rather than compete on quality of services (mainly insurance sector) • Highly concentrated portfolio of services (insurance) • Low consumer protection (in some areas) • Limited access to finance (SMMEs) • Low penetration ratios • High production costs (e.g. Insurance and securities sector) • Only 42% of deposits loaned • Weak in capturing external markets

	• Over-regulated and restricted • Low brand and market perception
Opportunities	**Threats**
• Huge growth potential, low local market penetration • Banks are building their own capital which will help offer better financial services and deal with financial crisis • Ability to open branches abroad • The potential to cater to the Islamic market segment • Some sectors are still emerging sectors (mortgage finance and financial leasing) • Few key players in some sectors • Capacity of to absorb new products • Segmentation from international financial markets, thus less crisis contagion effect • Very low illiteracy rate in Palestine • Talented Palestinian Diaspora that can be drawn upon	• Financial crisis; regional/global • Israeli occupation • Erratic Israeli policies • Inconsistency in the legal framework (mainly on the cross-sectorial level) • Weak fiscal influence and control • The operating currency is the Israeli Shekel with limited control

Source: Industry Survey, Expert Interviews and Stakeholder Consultation, February 2014.

11.2 Competitive Assessment

More than one stakeholder identified Lebanon as an example of success in the financial services sector. This study assessed the Lebanese case and asked the pertinent question: Can Palestine Compete?

11.2.1 The Lebanon Example

A total of nineteen factors were identified as being responsible for Lebanon's success. These are identified below:

1. Free Account Opening
2. Multiple Currencies to choose from
3. Strong currency:
    a. Lebanon has its own currency (the Lebanese Pound), which is fully convertible to all major world currencies such as USD, EURO, GBP, Yen, etc.
    b. The Lebanese Pound is backed by a strong gold reserve 287 tons of gold, the 19th largest reserve in the world.
4. There are no restrictions on the movement of capital in or out of Lebanon, anyone from any

country can open an account

5. Banking secrecy law preventing divulgence of client information to anyone (not even to the police, military or judiciary)
6. Flexible tax policies on deposits – no tax on deposits, low tax (5%) on interest earnings/dividends
7. Strong resilience to external crises, e.g. 9/11, Global Recession (Lebanon deposits grew by 22% to reach US $85 billion between 2008 and 2009 – the heart of the recession)
8. Strong local banking sector with 92 banks
9. Strong International Presence (more than 80 Lebanese branches in 25 countries worldwide)
10. Very stringent regulatory system and robust monetary policies (e.g. Privacy Law, Money Laundering and Transparency Regulations)
11. Conservative banking policies (e.g. very high banking reserve ratio -> 30%)
12. A very active Diaspora - There is a vibrant Gulf, African and Latin American Diaspora. North America, Europe and Australia are also significant. These expats inject almost US $7 billion dollars back into Lebanon's economy annually.
13. International openness – e.g. no foreign exchange restrictions, no capital controls
14. Adherence to international standards and sanctions, e.g. discontinuing banking with Iran
15. Strategic location – proximity to Arab Markets
16. Strong liquidity -> low interest rates -> High investments and borrowing (US $78 billion in loans in 2012)
17. Excellent monetary management by the Central Bank, e.g. bad debts were 3.5% in 2012 down from 12% in 2006.
18. Modern and updated services, e.g. internet banking, growing e-commerce platforms
19. The strong are getting stronger and absorbing the weak, e.g. Bank of Beirut has bought a smaller bank called "Bank of Beirut and Riyadh"

11.2.2 Can Palestine Compete?

In the February 2014 workshop, stakeholders were asked to indicate which of the Lebanese "success factors" or competitive conditions can be met by the Palestinian financial services sector. In other words, can Palestine copy or compete on the same terms as Lebanon?

The exercise, as well as the results, proved to be very useful and revealing. It clearly demonstrates that Palestine can compete, meeting almost all of the conditions necessary for success, with the exception of the ones over which it has no control (Israeli Occupation as well as its own currency).

In addition, in cases where Palestine did not meet the conditions, stakeholders believe that these items could be addressed in the short to medium term (see tables overleaf). For example, modern and updated services are at an early stage of development, but Palestine could catch up quickly. The Capital Gains Tax could also be removed in a short period of time

Lebanon's Financial Services / Banking Sector Key Success Factors – Can Palestine Compete/Copy?

Table 9
Key Success Factors of the Lebanese Banking Sector – Can Palestine Compete?

Key Success Factors	Can Palestine Follow? (Yes/No)	Short-Term	Medium-Term	Long-Term
1. Free Account Opening	yes			
2. Multiple Currencies to choose from	yes			
3. Strong currency **a.** Lebanon has its **own currency** (the Lebanese Pound), which is fully convertible to all major world currencies such as USD, EURO, GBP, Yen, etc.	no		√	
b. The Lebanese Pound is **backed by a strong gold reserve** 287 tons of gold, the 19th largest reserve in the world.	No but meets IMF regulations			√
4. There are **no restrictions on the movement of capital** in or out of Lebanon, anyone from any country can open an account	yes			
5. **Banking secrecy law** preventing divulgence of client information to anyone (not even to the police, military or judiciary)	√			

Key Success Factors	Can Palestine Follow? (Yes/No)	Short-Term	Medium-Term	Long-Term
6. **Flexible tax policies** on deposits – no tax on deposits, low tax (5%) on interest earnings/dividends	Capital Gains Tax to remove	√		
7. **Strong resilience to external crises**, e.g. 9/11, Global Recession (Lebanon deposits grew by 22% to reach US $85 billion between 2008 and 2009 – the heart of the recession)	√			
8. Strong local banking sector with 92 banks	√ presence of int'l banks help			
9. **Strong International Presence** (more than 80 Lebanese branches in 25 countries worldwide)	no	√		
10. **Very stringent regulatory system** and robust monetary policies (e.g. Privacy Law, Money Laundering and Transparency Regulations)	√			
11. **Conservative banking policies** (e.g. very high banking reserve ratio -> 30%)	√			
12. **A very active Diaspora** - There is a vibrant Gulf, African and Latin American Diaspora. North America, Europe and Australia are also significant. These expats inject almost US $7 billion dollars back into Lebanon's economy annually.	√ needs to develop further			
13. **International openness** – e.g. no foreign exchange restrictions, no capital controls	√			

Key Success Factors	**Can Palestine Follow? (Yes/No)**	**Short-Term**	**Medium-Term**	**Long-Term**
14. **Adherence to international standards** and sanctions, e.g. discontinuing banking with Iran	√			
15. **Strategic location** – proximity to Arab Countries	√			
16. **Strong liquidity** -> low interest rates -> High investments and borrowing (US $78 billion in loans in 2012)	No Not strong in Gaza		√	
17. **Excellent monetary management** by the Central Bank, e.g. bad debts were 3.5% in 2012 down from 12% in 2006.	√			
18. **Modern and updated services**, e.g. internet banking, growing e-commerce platforms	√ early stages			
19. **The strong are getting stronger** and absorbing the weak, e.g. Bank of Beirut has bought a smaller bank called "Bank of Beirut and Riyadh"	√			

11.2.3 Palestine's Unique Selling Proposition

For Palestine's Financial services sector to penetrate export markets, it needs to have a clear value proposition. Why should a resident abroad purchase Financial Services from Palestinian companies?

In this regard, Palestine needs to identify and develop its unique selling proposition (USP). Palestine's Financial services sector cannot compete with services that are "plain vanilla", according to one stakeholder. Lebanese companies entered Jordan, for example, not just as another bank, but with a specific car loan financing product that was able to compete and win market share, according to one stakeholder.

For Palestine's Financial services sector to succeed in export markets, two important things are necessary:

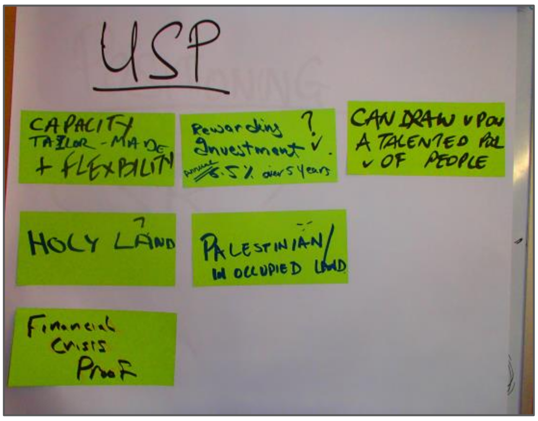
1. A clear positioning in the market – robust, responsible, rewarding.

2. A clear value proposition based on the new and innovative services/niche products offered

With regard to a clear value proposition based on the new and innovative services/products offered, it is clear that innovation is key. Specific areas to explore could include specialised products targeting the diaspora market, MSME financing vehicles, Islamic insurance and even financial leasing. Stakeholders also suggested that the local market opportunities need to be continuously and rigorously exploited as the penetration is still low. While residents may have bank accounts as their salaries go into the account, for example, the accounts are not used for savings or anything else, the money being simply withdrawn for other "under the mattress" prospects. The perception and value proposition of the financial services sector therefore needs to be changed in the minds of customers.

With regard to the unique selling proposition (USP) of Palestine Financial Services, stakeholders at a consultation held on February 4, 2014, identified a number of areas in which the sector is unique. These included:

1. The capacity to provide tailor-made and flexible services
2. Can draw upon a talented pool of people (especially Palestinians living abroad who have a wide experience in different areas)
3. Rewarding investments (PEX consistently offering higher returns on investment)
4. Stability even under time of the Financial crisis
5. Expertise in certain areas as they are working under occupation



However, none of these are compelling enough to position Palestine's financial services sector and to generate a competitive advantage over other destinations. Palestine does not appear to have natural comparative advantages in the financial services sector as its services are "plain vanilla" and not sufficiently differentiable in the minds of customers.
It is therefore suggested that Palestine develops a man-made competitive advantage by uniquely positioning the financial services sector as the most caring in the world, with an

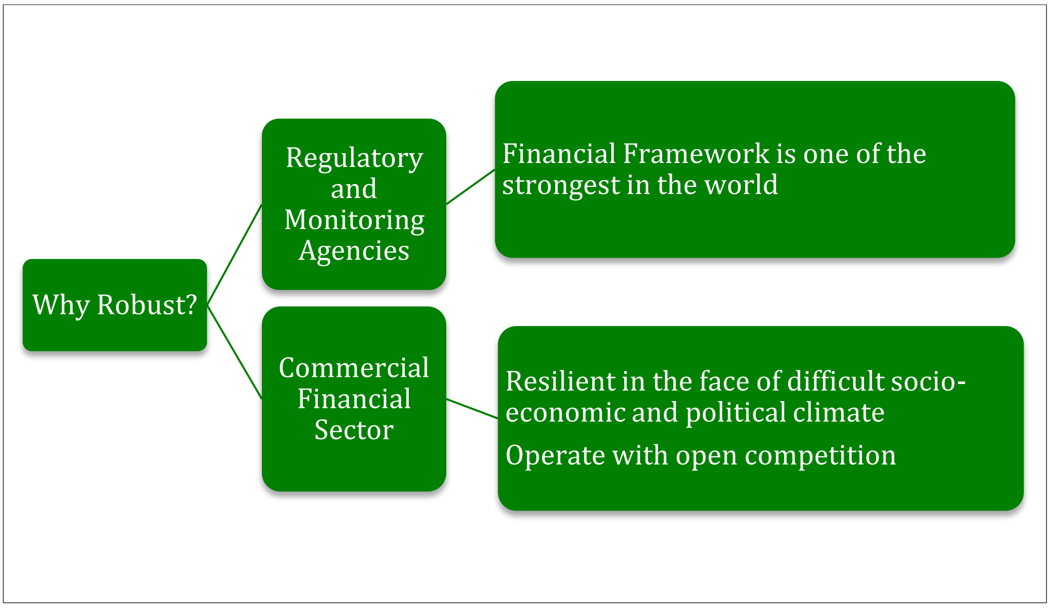
uber-strong positioning in the field of Corporate Social Responsibility (CSR). The idea is to position Palestine's Financial services Sector (PFSS) as:

ROBUST **RESPONSIBLE** **REWARDING**

The PFSS is robust and resilient as it has, and continues to, weathered many storms, continuing to operate in an open, competitive environment. The regulatory bodies are also robust and are doing an excellent job. But this is not the international perception. The sector is also rewarding, offering similar rates of guaranteed interest on US $fixed deposits and the PEX consistently offering higher returns on investment. Still, not everyone knows this and this robustness and rewarding features of the PFFS are not uniquely associated with Palestine. The idea, therefore, is to use the uber-strong positioning in the field of Corporate Social Responsibility (CSR) to drive home the two other messages of Robustness and Rewarding financial services sector and together create a unique positioning. The fact is that CSR and responsible measures receive far more media that business initiatives (a new branch opening or great PEX returns). Once CSR has the media attention, the robustness and rewarding features of the PFSS can be driven home.

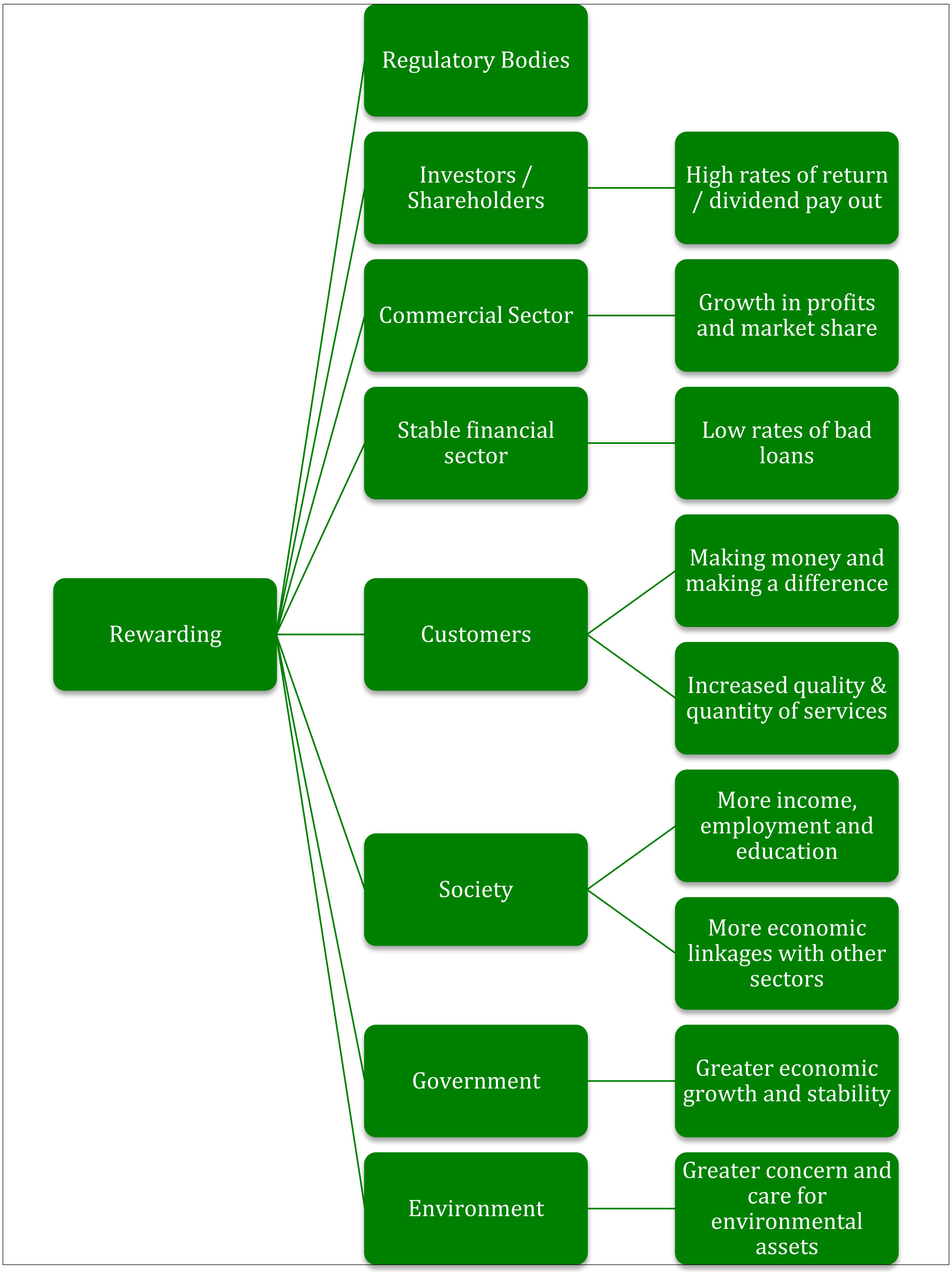
As can be seen below, the Palestine financial services sector is robust – both from the commercial and regulatory standpoints.

The Palestine Financial Services Sector is Robust



The Palestine financial services sector is also rewarding. The regulators are rewarded with a stable sector with a low rate of bad loans; the commercial sector is rewarded with growth in profits and market share and penetration; customers are rewarded because they have increased quantity and quality of services and they can make a return on their investments and also make a difference to society; the society benefits from increased national income, jobs, more education and social services for women and youth as well as greater linkages with other sectors of the economy; the government is rewarded by greater economic growth, stability and tax base; and the environment also benefits from greater population consciousness and conservation of key natural and built environmental assets, culture, heritage and the arts.

The Palestine Financial Services Sector is Rewarding

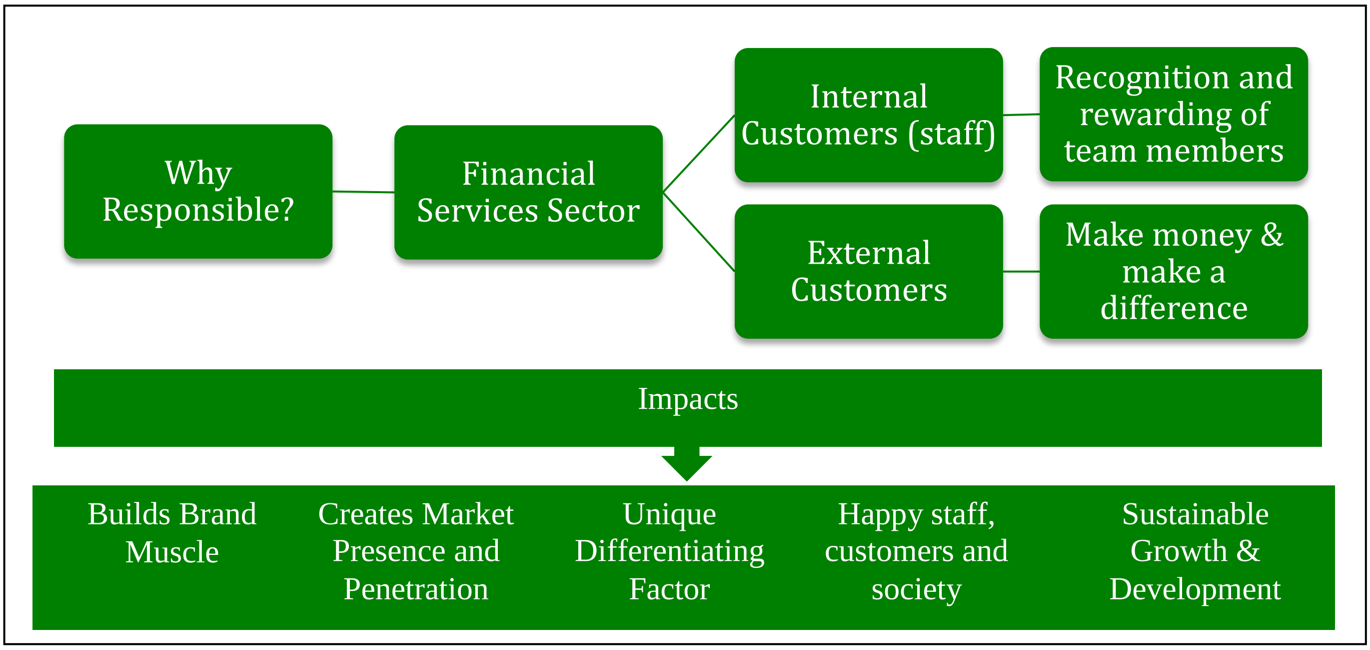


However, to truly maximise the benefits from a robust and rewarding financial services sector, it is important that far greater emphasis and attention is placed on the aspect of RESPONSIBILITY.

This responsibility can be targeted to internal customers (staff and team members) that are rewarded and recognised. External customers – the customers of financial institutions locally, regionally and internationally will also have the opportunity to make money and also make a difference. This simple calculation can have wide-reaching impacts in terms of building a unique Palestinian brand and positioning for the sector s a whole; create market presence and export market penetration; create a happy staff and a happy society; and ultimately lead to stable growth and development.

In what follows, we explore the concept of Corporate Social Responsibility (CSR) and examine how and why this can make good sense for the Palestinian financial services sector.

The Palestine Financial Services Sector can be More Responsible



11.2.4 The Drive toward Corporate Social Responsibility (CSR)

Corporate Social Responsibility

To develop a clear and strong positioning using Corporate Social Responsibility (CSR), the Palestinian financial services sector needs to demonstrate that the sector not only makes money, but also makes a difference.

Social and environmental concern about the impact of business is probably as old as trade itself. Discussions about the social responsibilities of business, as early as the 1920s, have evolved today into what is now recognised as the Corporate Social Responsibility (CSR) movement.

Historically, the notion of CSR has been associated with corporate philanthropy. Academic discussion in the 70s and 80s regarding CSR continued but no formal reporting occurred until 1989 with Ben & Jerry, then with the first large corporation (Shell) following in 1998, according to *Corporate Watch*. During the late eighties and early nineties, public opinion, social movements and activities by non-governmental organizations (NGOs) led businesses to develop a more 'sophisticated' approach to CSR, known as 'enlightened self-interest'.

The Changing Face of CSR

There has been a fundamental shift in the way responsibility is seen and adopted by corporations. In the past, the focus was exclusively on shareholders. Now there is an attempt to address the needs of stakeholders – NGOs, government, locals, the environment, etc.

Drawing on the Lufthansa example, we see that there is a vibrant stakeholder dialogue policy between the corporation and stakeholders. This dialogue, which is done in a holistic way and is seen as a necessity, seeks to balance the interests of the company with the interests of the various stakeholders:

- Customers
- Employees
- Neighbours and local community
- Shareholders and Analysts
- Politicians and Authorities
- Suppliers and Contractual Partners
- NGOs

The face of Corporate Social Responsibility has indeed been changing. Businesses are not just about satisfying shareholders, but looking after their stakeholders (including employees, customers, shareholders, government, suppliers, NGOs and society at large). CSR is not a mere compulsion that companies are forced to do, but they feel a responsibility to do. CSR is also not just about philanthropy, but enlightened self-interest, and it is not just a nice thing to do, but a necessity for profitability and sustainability. (See Figure 11 for more information).

Figure 11
The Changing Face of Corporate Social Responsibility

Old CSR		New CSR
Shareholders	➡	Stakeholders
Lone Rangers	➡	Movement
Compliance	➡	Obligation
Compulsion	➡	Responsibility
Philanthropy	➡	Enlightened self-interest
One-off	➡	Holistic
Internal	➡	External
Company	➡	Society
Nice thing to do	➡	Necessity

Source, Tourism Intelligence International, 2010

Why CSR?

Some stakeholders have been sceptical about this CSR approach, as they believe that investors and clients will not be influenced to do business purely because of these 'tear jerking' and sympathy policies of banks and other financial institutions. But nothing can be further from the truth.

CSR extends beyond giving donations or creating nice public relations (PR) opportunities. It is a commitment – a commitment that is increasingly shared with customers, buyers and shareholders. It is also true that buyers make business decisions based on optimising financial returns. However, other things being equal (stability, quality products, competitive prices, reasonable rates of return), CSR could make the difference as to where investors and customers decide to spend or invest their money.

CSR is not an alternative to great management, excellent customer service, new and innovative products or effective marketing. **CSR is aimed at "tilting the balance" in favour of the Palestine Financial Services sector**. In other words, the aim is that if a customer can make a term deposit in US $in Lebanon and make a guaranteed 5% rate of return for 5 years; pay zero taxes on their dividends; can call on the money at any time; that the deposit is guaranteed safe, and the Palestine banks offer the exact same conditions, the customer will chose the Palestinian service. CSR, therefore, is not an alternative to carrying out the activities and services that would make the financial services competitive, but is an important complementary activity, intended to give the Palestinian financial services the edge.

Indeed, the focus on CSR follows international trends and "best practice". Many companies, particularly in developed economies, are now paying close attention to triple bottom-line accountability. Many international companies such as Ben and Jerry's, Lufthansa, HSBC and TD Financial Group, have realised that real competitiveness relies not only on the financial health of an organisation, but also on its social and environmental impacts of conducting business. British Petroleum (BP) for example, has learnt the significant and adverse effects that negligence to the environment can have on profitability, brand image and corporate goodwill. Companies in the former Apartheid South Africa have also experienced the ill effects of social irresponsibility and have since incorporated people and planet, and not just profits, to the definition of success as reflected in national policies across many sectors. It is not surprising that 'Fair Trade' is a brand that was born in South Africa, out of necessity. Indeed they have adopted TII's Responsible Tourism Practices since 2006 in order to reinvent their tourism industry in a more inclusive manner.

The general message is that CSR is increasingly becoming a key element of competitiveness, brand image and goodwill, that in turn impacts on the profitability and equitability of an organisation. Companies such as British Airways, that possess strong CSR practices, are finding favour with not only customers but with their shareholders as well.

Furthermore, the recent financial crisis revealed considerable new information about financial institutions. There has been a general focus on the role that financial institutions played in the financial crisis and ensuing global economic recession. Many have attempted to determine what financial institutions should have done differently leading up to the crisis, in terms of quality of investment, corporate governance, executive compensation and risk-taking. But virtually no one has considered the role that CSR at these institutions played within the financial crisis. If bad investments, weak corporate governance, misaligned executive compensation and excessive risk-taking at financial institutions were the immediate causes of the crisis, it may have been because the institutions' CSR environments were sufficiently weak or misguided to allow these issues to be so problematic.

In fact, banks with stronger CSR environments have better financial performance and higher stock valuation, according to data from *KLD Research & Analytics* (KLD). *KLD Research* analysed approximately 3,100 institutions over the 12-year period 1998-2010. The study was based on more than 80 different qualitative indicators in 7 major categories: Community issues, Governance issues, Diversity issues, Employee Relations, Environmental issues, Human Rights and Product issues.

In addition, a study carried out by the Scholtens (2009) survey at more than 30 financial institutions revealed that CSR is becoming more important for financial institutions, as they take on new CSR-focused perspectives, such as becoming involved in micro-lending, financing sustainable development and performing environmental risk analyses before lending. This suggests that not only are financial institutions engaged in diverse CSR activities, but that CSR issues are becoming more ingrained into their corporate cultures.

Reasons CSR makes sense for Palestine Financial Institutions

In Palestine, CSR is not arbitrary. Many companies already actively support CSR initiatives. However, much of this takes place in an uncoordinated, unstructured fashion and does not deliver the benefits that it could deliver, if it were a core focus of the entire sector. Micro-finance is a very experienced sector in Palestine and many of the institutions have great potential for exporting these services to other MENA countries where such services are critically in need.

Table 10
Reasons CRS makes sense for Palestine Financial Institutions

Reasons	
1. With its unique operating environment, CSR is not a luxury, but a basic necessity for Palestinian financial institutions	✔
2. CSR is not a new idea. It is being done by many PFIs and is already part of their corporate DNA. The Bank of Palestine is a leader in the field and has 3 yearly CSR reports. However, there is an untold story that still needs to be told.	✔
3. Micro finance is a key aspect of CSR. Palestinian banks have a wealth of history and experience in micro finance and needs further support	✔
4. A true positioning in CSR allows organisations to go beyond cheap PR and add real value to their communities	✔
5. Financial institutions have a strong record on CSR but the activities are not coordinated and the story is not properly told	✔
6. CSR provides a unique window and opens doors to tell the true Palestinian story – stable, well-managed, rewarding, financial sector.	✔

Reasons	
7. CSR provides a *raison d'etre* for donors to make more and better use of financial institutions in Palestine	✔
8. CSR can tilt the balance in favour of PFIs	✔
9. CSR will also allow PFIs to play a dynamic and leading role in the growth, transformation and sustainability in the Palestinian economy.	✔
10. Creates a perfect mechanism for PFIs to work more closely together	✔
11. CSR can provide the Palestine financial services sector with a single, unique, and united front in face of regional and international competition	✔
12. CSR does not only return Dollars, it also makes sense	✔

What is to be done?

In pursuing the positioning and path towards CSR, a number of key actions are necessary:

1. Obtaining consensus from the sector that this is a profitable avenue to explore and that CSR means money.
2. Train and build awareness among stakeholders about the nature, content, practices and context of CSR.
3. Encourage the development of Palestine's unique brand of CSR.
4. Engaging and promoting more and different types of CSR activities than anywhere in the world, as a sector. For example all financial services providers dedicating a stipulated percentage of net revenues to CSR initiatives. For example in India, firms of a certain size and profitability are mandated by law (Section 135 of the Companies Act of 2013) to contribute 2% of net profits towards CSR activities.
5. Producing a CSR Sector Report yearly, combining the initiatives of all stakeholders and telling/selling and promoting the story.
6. Each company will be in charge of its own initiatives and budgets, but will provide information to develop the CSR Sector Report.
7. CSR activities can be combined to create greater impact and image for the sector.
8. A comprehensive CSR industry guide is produced.
9. CSR Units are established by banks and financial institutions
10. Tax incentive to ensure that the 10% net profit dedicated to CSR budget is not taxed.
11. Ensuring compliance from all companies in the sector
12. Using the hard data to strategically position the Palestinian Financial Services Sector

13. The financial sector leads the way for other sectors
14. A strong coordinating body (e.g. PMA, Paltrade) coordinates the efforts, issue the releases and create the connections and tells the stories.

Refer to action plans in Section 13 for more details.

12 Future Perspective

12.1 Vision

The vision for the financial services sector that was derived from the February 4th workshop is presented below.

A dynamic financial services sector that facilitates and drives export growth, economic development and sustainability of the Palestinian Economy.

12.2 Strategic Objectives

A number of strategic objectives and of intervention that would help to drive the sector's export growth and competitiveness were identified and discussed in the workshop. These are listed in order of priority as follows:

1. Product development based on market needs
2. Marketing and promotion
3. Branding and positioning of the sector (consider CSR positioning)
4. Create a 'State of the Art' enabling environment that will support and enable the sector to grow Lobbying the government and donor agencies for state of the art enabling business environment (legal, regulatory, tax incentives, trade regulations and negotiations)
5. Build a strong financial and wider services cluster so that each sector reinforces the others' competitiveness
6. Build the capacities and capabilities of the human resources and make them more relevant to the needs of the sector
7. Enhance the research, development and market intelligence on the sector.
8. Strengthen support institutions to better service the needs of the sector.

13 Strategic Plan of Action

In the following tables, the objectives relating to each strategy are identified together with the activities, level of priority, the target organisations and beneficiaries, the objectively verifiable indicators the lead and support implementing institutions, the existing programmes and potential support and the budget required are detailed.

Strategic objective 1: To Build a 'Best in Class' enabling environment that will facilitate the growth and exports of the financial services sector.									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
1. To remove barriers and disincentives to trade in financial services and align existing environment with 'best practices' in the world	Remove the capital gains tax that acts as a disincentive to investment and creates additional 'hassles' in conducting trade.	3	PFSS	PEX, Investment Companies	Tax is removed by decree of the Legislative Council	PMA, PCMA, PA	ABP, PIF, PIPA, Paltrade,Chanber of Commerce	World Bank IFC	--
	Review the tax Incentive structure for investment facilitation environment and ensure that it is "best in class". Include the financial services sector as a beneficiary of investment incentives and tax holidays	3	PFSS	PEX, Investment Companies	Tax Laws and Incentive Regime is "best in class"	PMA, PCMA, PA	ABP, PIF, PIPA, Paltrade,Chanber of Commerce	World Bank IFC	
2. Expand the registration of Lands in the West Bank	Land registration is necessary to provide the legal title and ownership instruments to secure investment projects. Investments are hampered without proper deeds and title to lands as there is no basis for collateral.	3	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	% lands registered	PMA, PCMA, PA	PIPA, Paltrade, Chamber of Commerce	World Bank IFC	
3. To expand investment opportunities by creating a framework for investment in areas "B" and "C"	Develop Policies for investments in areas "B" and area "C"	2	Banking, Financial Leasing, Insurance, Money	Banking, Financial Leasing, Insurance, Money changers,	Framework for Investment developed	PMA, PCMA, PA	ABP, PIF, PIPA, Paltrade,Chanber of Commerce	World Bank IFC	

			changers, Mortgage, Investment Companies and investors, Consumers, Investors	Mortgage, Investment Companies and investors, Consumers, Investors					
4. Ensure that appropriate legal framework is in place to facilitate growth	a) Implement data protection and privacy laws in line with international best practices b) Implement required laws for e-commerce trade c) Pass new corporate law by Legislature, through the legislative council	3	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors , Consumers, Investors	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors, PA	Laws in effect	PMA, PCMA, PA	ABP, PIF, PIPA, Paltrade,Chanber of Commerce	World Bank IFC	
5. Build strategic Alliances and Partnerships to grow trade in services and export business	a) Establish MOU with appropriate institutions such as central banks in the MENA countries	3	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	MOUs signed	PFSS	PMA, PCMA, PIPA, Paltrade	USAID/DAI Trade Missions abroad	
6. Become party to favourable Regional and International Trade	a) Increase awareness of the financial services sectors about the obligations,	2	Banking, Financial	PA	Training Seminars held,	PA	PMA, PCMA,	Paltrade/EU	

Agreements	responsibilities, costs and benefits of the GATS b) Increase capabilities for negotiating trade in services c) Sign regional and international trade agreement.		Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors		awareness increased and trade agreements signed.		ABP, PIF		
7. Identify the services sector, and financial services sector, in particular as a key sector to drive economic growth and transformation of the Palestine economy	a. Include trade in services as a key component of the National economic development strategy b. Need to create an awareness programme to promote the importance of the financial services sector and increase local market penetration	3	Financial Institutions in Palestine	PA	Lobbying of Government	ABP, PIF, PFSS	PMA, PCMA	Own activities	
8. Carry out market research for the specific target markets – Chile, MENA, Europe and USA	To provide the necessary research, data and background information for the key target markets to facilitate decision-making particularly for Mode 3 exporting. Data required: - Legal framework for setting up business - The necessary applications forms and documents required for setting up business - Market characteristics and competitive environment information	3	-All Financial institutions in Palestine; -Support organisations; -Key decision-makers for the sector	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors	Reports / profiles on the key export markets printed and completed	Paltrade	PCBS, PMA, PCMA, PIF, ABP		

	- Contact details of key institutions/organisations linked to setting up business in the specific markets (government agencies, real estate developers, investors, etc.)								
9. Develop a network of regional and international B2B market place forums to target the specific markets	1. Identify and shortlist opportunities for trade show participation in the specific markets 2. Identify opportunities for international and regional speaking engagements to create greater visibility for the financial services sector in Palestine 3. Encourage private sector participation at trade shows and speaking engagements	2	-All Financial institutions in Palestine	-All Financial institutions in Palestine	-Short list of trade shows and speaking engagements completed -Trade shows organised and private sector participated	Paltrade	PCBS, PMA, PCMA, PIF, ABP		

Strategic objective 2: To Build a strong and unified positioning for the Palestinian financial service sector along the principles of Corporate Social Responsibility – Palestine's Financial Services Sector is Robust, Responsible and Rewarding									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
Determine the current state of CSR practices in the sector; determine what it will take to become 'best in class' in this field; how the positioning can be effected; identify the costs and benefits of such a positioning and the level of interest in participation from the sector	1. Research and Analysis to determine current levels of CSR activity by the financial services sector. 2. Benchmark Palestine companies with the best in the world and identify opportunities for a unique positioning 3. Determine the costs and benefits of a CSR positioning. 4. Determine the level of interest in participation in the CSR initiative by individual companies and organisations 5. Share study results with stakeholders through consultations and delivery of the results	1	Palestine financial services sector (PFSS) Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Palestine financial services sector - Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Study completed Workshop held, commitment achieved	Banks and private sector, NGOs	PMA, Paltrade and government	IFC, World Bank/USAID/NGOs?	50,000
Develop CSR guidelines that is unique to Palestine and "ahead of the game" for the financial services sector globally.	1. Based on the above research, develop guidelines for CSR implementation in Palestine financial services companies. 2. Develop a phased implementation plan and guidelines for this	1	Palestine financial services sector (PFSS), customers, society	Palestine financial services sector - Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and	Guidelines developed and published widely distributed also as fro training materials	Banks and private sector	PMA, PCMA, Paltrade, government, NGOs	IFC, World Bank/USAID/NGOs?	20,000

				investors, Consumers, Investors					
Optimise tax benefits from CSR initiatives	1. Review the tax incentive structure for CSR and identify opportunities for tax breaks on CSR spending by financial institutions 2. Make concrete recommendations to PA for adjustment of tax regime	1	Palestine financial services sector (PFSS), customers	Palestine financial services sector - Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Study/Cost Benefit analysis prepared and submitted to government for approval. Recommendations submitted and approved by PA	Banks and private sector	PMA, Paltrade and government	PA	20,000
Monitoring and Compliance	Establish a CSR Unit that will monitor compliance (no green washing) in financial services sector. This could be a new and separate unit within PMA, for example.	2	Palestine financial services sector (PFSS), customers	Palestine financial services sector	Organisation to ensure compliance identified, terms of reference developed and unit established	Banks and private sector, PMA, PCMA	PMA, PCMA, Paltrade and government	PMA, NGO?	N/A
Develop a brand positioning for the financial services sector based on CSR principles	1.Carry out a branding and positioning exercise to market and promote the sector. 2.Develop a logo that participating companies can use for marketing purposes	2	Palestine financial services sector (PFSS), all customers	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Brand developed	Banks and private sector	PMA, Paltrade and government	PIF, ABP	50,000

Create continuous media presence nationally, regionally and internationally	1. Produce an Annual CSR or Sustainability Report for the sector as a whole 2. Continuously feed the press with new and exciting impact information in many languages. 3. Target local, regional, international media – voice, video, print, electronic and digital.	2	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors all customers	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Continuous and regular media presence in all markets	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	PMA, Paltrade and government	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	30,000
Build a strong CSR presence nationally, regionally and internationally. Market and promote the brand positioning	1. Develop dedicated CSR units within the financial organisations 2. Retain the services of a CSR expert, a social, cultural or environment ambassador to assist in driving these programmes	2	Palestine financial services sector (PFSS), all customers	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	Continuous and regular media presence in all markets	Banks and private sector	PMA, Paltrade and government	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	30,000
Ensure that the CSR brand is maximised in all media, trade shows, promotional materials	Place media, attend trade shows, conferences, market, promote, advertise, social media and other e-opportunities	2	Palestine financial services sector (PFSS), all customers	Banking, Financial Leasing, Insurance, Moneychangers, Mortgage, Investment Companies and investors, Consumers	Continuous and regular media presence in all markets	Banks and private sector	PMA, Paltrade and government	Banking, Financial Leasing, Insurance, Moneychangers, Mortgage, Investment Companies and investors, Consumers	30,000

Strategic objective 3: To Market and Promote the financial services sector in export markets, based on its strong CSR positioning – Robust, Responsible and Rewarding.									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
1. Develop a detailed marketing and promotion Plan that will coordinate and unite the efforts of all businesses within the sector	1. Consult with stakeholders, review past, current and planned activities; develop priority activities and markets including frequency and timing of the actions; budget, evaluation of effectiveness measures; determine the marketing mix etc..	3	Businesses in the financial services sector and other businesses, diaspora	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors	An integrated export marketing plan developed for the sector	Paltrade, PIPA	Industry Associations, businesses	USAID/DAI, EU	Marketing and promotion missions abroad
2. Strengthen the on-line representation and presence of all financial institutions – regulatory and commercial	**a.** All financial institutions to review and update their websites in line with the best in the world in terms of accuracy, accessibility, completeness, navigability, etc. **b.** Update websites to include professional photography and profiles of chairmen, board of directors and senior staff. **c.** Optimise websites for search engines by using appropriate text as well as pay-per-click advertising if and where applicable. **d.** Develop partnerships with local services providers (IT, business services, etc.) **e.** Include information and key activities regarding CSR.	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Web sites are state of the art with current and up-to-date information; key team members profiled and promoted; CSR positioning very real and visible	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies, etc	Industry Associations, Paltrade, PIPA	All Individual companies and regulatory agencies	100,000 (companies' own budget)

	f. Market and promote websites in important media.								
3. Increase the visibility and value of Palestinian financial services sector	a. Develop an on-line campaign to drive business to Palestinian financial institutions, PEX and investment companies b. Promote CSR	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Web sites are state of the art with current and up-to-date information; key team members profiled and promoted; CSR positioning very real and visible	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies, etc	Industry Associations, Paltrade, PIPA	USAID/DAI, EU	50,000 (as a sector)
3. Promote the strength of Brand Palestine – Robust, Responsible and Rewarding	a) use every media opportunity to send the message b) all financial institutions to have a consistent and unified message c) draft and distribute regular press releases in all major languages d) press interviews	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Image and awareness increased measured by number of articles carried in international press	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies, etc	Industry Associations, Paltrade, PIPA	All Individual companies and regulatory agencies	100,000
4. Participate in Road Shows and key global financial conferences and gatherings (as speakers) to meet investors, promote and sell financial products and services and build capacity	a) Meet potential clients on a one-on-one basis and build confidence in the country and its financial institutions. b) Follow up interested partners, deals and information requests and continue to build long term relationships c) Collaborate and coordinate with agencies such as PIPA and Platrade and others	2	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Web sites are state of the art with current information; key team members profiled and promoted; CSR positioning very real and visible	Number of road shows implemented/conferences and events participated in	Industry Associations, Paltrade, PIPA	USAID/DAI, EU	500,000 (50% from private sector)

5. Establish a leading financial services sector conference in Palestine to encourage 'hands on' visits by potential clients, partners and the media	a) Evaluate the success and challenges of past finance/investment conferences and learn important lessons. b) working closely with stakeholders, partners and clients, determine the best form, frequency, focus and location for a high level 'state of the art' assembly of top investors and partners for Palestine.	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Web sites are state of the art with current information; key team members profiled and promoted; CSR positioning very real and visible	Conference established and on the agenda for the future.	Industry Associations, Paltrade, PIPA	USAID/DAI, EU	250,000 (50% from private sector)

Strategic objective 4: To Develop State-of-the-Art Products and Services that are based on the Needs of the export Markets									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
To develop a sound understanding of the markets.	1. Determine the priority markets (completed) 2. Carry out market research on key priority markets e.g. Palestine Diaspora 3. Carry out a needs assessment on the prioritised markets 4. Develop a mechanism to capture key trends data from the targeted markets 5. Capture key trends data from the targeted markets (market characteristics, structure of the sector, key segments, competitive environment, etc.) 6. Review and analyse key trends data from the targeted markets 7. Continuously update the research and analysis	3	Businesses in the financial services sector and other businesses, diaspora	Palestine financial services sector	At least 3 prioritised markets identified, analysed and needs assessed	Paltrade, PIPA	Industry Associations, businesses	USAID/DAI	Market Research and missions abroad
To determine what are the core organisation strengths and competencies and the feasibility of targeting the market needs identified	1. Determine the key competencies (internal capacity and competitiveness audit) of the organisation based on data collected from various sources – customer feedback, employee feedback, financial statements and other key	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment	Internal Capacity audits carried out. Feasibility studies produced	Interested businesses in the financial services	Industry Associations, Paltrade	USAID/DAI	

	organisation reports 2. Determine whether these competencies can adequately meet the needs of the markets identified 3. Match competencies with products already in existence. 4. Develop a product and capacity needs analysis 5. Determine the feasibility of targeting the export markets and the best vehicles/modes of satisfying market demand			companies.					
To create products and services that meet market needs	1. Once the market needs have been ascertained determine what type of services/products need to be developed 2. Develop and implement a product development plan 3. Determine whether the quantity and quality of internal resources will be able to carry out the product development plan 4. Develop the new product/service 5. Train staff on the product/service 6. Market, promote and launch the new product/service	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Internal Capacity audits carried out. Feasibility studies produced	Interested businesses in the financial services	Industry Associations, Paltrade	USAID/DAI	
- Securities Sector Product Development	1. Explore the possibility of offering bonds and derivatives either directly or through partnerships with other well-established institutions outside of Palestine: - Identify and shortlist possible partners - Determine the mode of co-operation or	2	Securities sector organisations Customers Investors	Securities sector organisations	Products assessed and developed	PCMA	Paltrade		

	strategic alliance / partnership - Determine the which bonds and derivatives are best suited for distribution through third party partnerships and for which markets 2. Encourage more private run companies to list on the stock market that will both diversify the product base as well as have new products to sell to a wider market base: - Shortlist the companies that are eligible to be listed - Sell the benefits of being listed on the stock market and the value to be had from growth through increased capitalisation 3. Develop structured Shariah Investment products such as Islamic Equity Funds 4. Create partnerships with the financial leasing sector to develop Islamic investments funds such as Ijara funds (based on the owning and leasing of assets)								
- Banking Sector Product Development	- Develop Export Credit Guarantees for both local and foreign-based corporations exporting outside of their home base - Develop strategic partnerships in order to offer creative packages (e.g. banks partnering with insurance companies to offer insurance services to customers who open bank accounts of a certain type or over a certain threshold or banks offering financial leasing services	3	Organisations in the banking sector Local and Export Customers Investors	Organisations in the banking sector	Products assessed and developed	PMA and ABP	Paltrade		

	through a Palestinian partner financial leasing company - Explore the opportunity and potential for the diagonal integration of services (combining services such as insurance, financial leasing, investments, etc. to a clearly targeted market, e.g. the Diaspora)								
- Micro-financing sector	- Assess the experience and capabilities of the micro-financing institutions to carry out export activities - Assess the needs and requirements of the micro-financing institutions in the MENA region - Examine the capacity of banks to engage in micro-financing - Lobby for the micro-financing sector to be able to accept deposits - Need to create an awareness programme to promote the importance of financing to small and family-owned businesses	3	Organisations in the Micro-financing sector Customers Investors	Organisations in the Micro-financing sector	Products assessed and developed	PCMA	Paltrade		
- Mortgage Lending product development	- Partner with other financial sectors to offer packaged products such as mortgage lending	3	Customers Financial institutions in the mortgage lending market	Financial institutions in the mortgage lending market	Products assessed and developed	PCMA	Paltrade		
- Mortgage financing	- To continue lobbying for the passing of the Mortgage financing law - Once the law has been passed promote and encourage the development of consolidated bonds and loan bonds and	3	Customers Financial institutions in the mortgage	Financial institutions in the mortgage financing sector	Products assessed and developed	PCMA	Paltrade, PMA, HJC		

	other mortgage-backed securities		financing sector						
- Insurance Sector Product Development	- Create awareness of the importance of long-term products such as life and critical illness insurance - Launch long-term products such as life and critical illness insurance products geared specifically towards corporate clients (both locally and abroad) to offer as incentives to management and senior members of staff. This will also help create inroads in improving the cultural perception towards life insurance - Expand Takaful-specific products to target the Islamic market both home and abroad - Partner with other financial institutions to offer a mixed range of diagonally integrated services (e.g. insurance, mortgage lending, financial leasing and baking) - Create packages with other sectors e.g. travel and tourism by offering an insurance option such as travel insurance, personal risk insurance, as part of the holiday/room price - Review, strengthen and update the pricing structure of the insurance sector	3	Customers Insurance companies	Insurance companies	Awareness programme developed Products, partnerships and packages developed	PCMA	Paltrade, PMA, PIF		
- Financial Leasing Product Development	1. Promote the benefit of financial leasing to potential clients and partners 2. Develop strategic partnerships with other financial institutions to offer	2	Customers Financial Leasing	Financial Leasing Companies	Awareness programme developed	PCMA	Paltrade		

	packaged services for entrepreneurs and businesses wanting to expand 3. Develop specific linkages with the micro-finance institutions to facilitate quick business start ups through the provision of financial leasing 4. Identify and research the financial leasing marketing opportunities based on the existing and potential demand 5. Target specific niches within the business sector that may have supernormal growth opportunities such as IT and Professional Services that target export markets both locally and in export markets		Companies		Products, partnerships and packages developed Linkages developed				
To ascertain the success of the new product/service launch	1. Monitor and evaluate the results of the new product/service launch (representative offices, full offices, mobile applications, SMME products, for example)	3	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Internal Capacity audits carried out. Feasibility studies produced	Interested businesses in the financial services	Industry Associations, Paltrade	USAID/DAI	
To monitor the competition and competitors	1. Continuously monitor the competition in main export markets to ensure that companies are always 'ahead of the game'	2	All businesses in the financial services sector	Commercial Banks, Financial Leasing, Islamic Banking, securities, mortgage finance and investment companies.	Internal Capacity audits carried out. Feasibility studies produced	Interested businesses in the financial services	Industry Associations, regulatory and monitoring bodies, Paltrade	USAID/DAI	

Strategic objective 5: To develop highly-skilled and highly-motivated Human Resources for the Financial Services Sector									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
To determine the Human Resource needs of the sector / organisation	1. Review the vision for the sector / organisation to determine strategic direction 2. Carry out a Human Resources situation baseline analysis to determine the existing quantity, quality and qualifications of human resources 3. Determine the needs of the sector / organisation 4. Identify the Human Resources gaps that need to be filled - types of areas, cost implications, skills needed, quantities needed	3	Human resources within the sector	All businesses in the financial services sector	HR baseline study completed	Industry Associations	PMA; PCMA, Education Ministry	USAID, EU?	50,000
To improve the skills level of the sector	1. Provide training to existing human resources within the sector / organisation to fill the gaps 2. Provide training opportunities for persons to grow or develop new skills in key areas 3. Develop a scholarship programme to encourage skill development in key areas such as actuarial sciences which is much needed in the insurance sub-sector 4. Develop / strengthen the training institutions responsible for delivering programmes to the sector	3	Human resources within the sector	All businesses in the financial services sector	Increased numbers of persons trained locally and abroad	Industry Associations	PMA; PCMA, Education Ministry	USAID, EU?	250,000

To develop / attract and retain the right kind of human resources needed for the sector	1. To increase awareness of the importance of the financial services sector to become the first choice for employment 2. To provide the right remuneration packages to attract and retain persons with the requisite skills	3	Human resources within the sector	All businesses in the financial services sector	Increased productivity of human resources, improved service quality, new and innovative services invented	All businesses in the financial services sector	PMA; PCMA, Education Ministry, Industry Associations	In company policies and packages	

Strategic objective 6: To build a strong financial services cluster that will reinforce the strengths of individual actors and grow strong linkages									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
Better integration and coordination between and among market players	Identify the needs and the common problems of the various sub-sectors Identify opportunities and quantify benefits to be had from working together Develop joint training, marketing, promotion programmes for mutual benefit	1	Financial services sector, IT, Business services and travel and tourism	Financial firms	To be one voice and fill the gaps	Associations of firms working in the financial sector, such as the insurance federation and the banking association	Members	PMA, PCMA, PIF, APB	No additional budgets is envisaged as activities considered pat of the associations' and companies' normal activities. Terms of reference of support organisations amended to include these coordination and networking with other sectors
Develop a mechanism for regular contact and coordination among the sub-sectors	Institute an exchange of membership between and among trade associations.	2	Financial services sector, IT, Business services and travel and	Banking, Financial Leasing, Insurance, Money changers, Mortgage,	Regular meetings held at specific times, exchange of board members, exchange of	Firms in inancial services sector, IT, Business services and travel and		PMA, PCMA, PIF, APB	

			tourism	Investment Companies and investors, Consumers, Investors	contacts and invitations at networking events	tourism			
	Identify the legal and regulatory requirements from the regulators, as needed	1	Financial services sector, IT, Business services and travel and tourism	Banking, Financial Leasing, Insurance, Money changers, Mortgage, Investment Companies and investors, Consumers, Investors, other firms in services sector	Sector development strategy agreed upon by consensus	Associations of firms working in the financial sector	Regulators, PMA, PCMA	World Bank	
Joint lobbying with other stakeholders, mainly the government, to achieve mutual benefits for financial services and related sectors	Lobbying with the Ministry of Finance and the Ministry of National Economy, especially regarding income taxes and the investment promotion law	1	Financial services sector, IT, Business services and travel and tourism	Government	Legal framework updated	Government and private sector	Associations PMA, PCMA, PIF, APB		
Increase awareness of the nature and scope of related services Developing cross-sectoral linkages	Identify the related sectors such as ICT, Tourism and professional services Identify and quantify the exact linkages and opportunities among sector players Work towards building and strengthening linkages	1	Financial services sector, IT, Business services and travel and tourism, public	All related sectors, governmnet and the public	Business relationships created	All related sectors	Businesses	PMA, PCMA, PIF, APB	
Meet, communicate regularly and exploit networking opportunities	Building continuous and structured business relations through exchange of	2	All related sectors and	Related sectors	Business relationships	All related sectors	Businesses	PMA, PCMA, PIF,	

	memberships and mailing lists, invitations to participate in events and networking opportunities		the public		created			APB	
Grow businesses and profitability through partnerships and strategic alliances	Building a common platform for driving business	2	All related sectors and the public	Related sectors	Business relationships created	All related sectors	Businesses	Businesses	
Identify the benefits (synergies, scope and scale economies) from cooperation and collaboration	Carry out Study to assess and quantify benefits and provide recommendation for interventions to increase value addition, improve linkages and increase local participation in the value chain. Identify bottlenecks to increased local value addition and participation	2	Financial services sector, IT, Business services and travel and tourism	Related sectors	Business relationships created	All related sectors	Businesses	PMA, PCMA, PIF, APB	
To strengthen the SMME's as key components of the financial services sector	a. To strengthen SMME's through capacity building and training, particularly in the area of negotiation skills, proposal development, loan applications for projects. b. Develop an incentive mechanism for larger private sector entities to support and partner with smaller, newly developing SMMEs.	2							

Strategic objective 7: To achieve adherence to WTO and GATS Requirements									
Operational objective	**Activities**	**Priority 1=low 2=med 3=high**	**Beneficiaries**	**Target**	**Objectively Verifiable Indicators**	**Leading Implementing Partners**	**Supporting implementing Partners**	**Existing programmes or potential support**	**Budget (US$)**
Prepare for negotiations	Develop inputs into financial services strategy	3	Financial services sector	Private sector	Defined private sector position	Private sector	Private sector institutions	PalTrade – EU project	
	Develop private sector position	3	Financial services sector	Private sector	Develop a consensus on negotiating strategy	Private sector	Private sector institutions	PalTrade – EU project	
	National dialogue between private sector and government	3	All sectors	Negotiating team and government	Develop a consensus on negotiating strategy	Private sector and government	Private sector institutions and government		
Updating Palestinian legal and regulatory framework to meet WTO requirements	Review current laws and make amendments where needed to meet WTO benchmarks	3	The society as a whole	Government	Laws serve business purposes	Government and private sector (PPP)	Private sector institutions and donors	Many programs, including those by :	
	Develop regulations	3	The society as a whole	Government	Regulations are in place to serve business purposes	Government and private sector (PPP)	Private sector institutions and donors	IFC, World Bank, USAID, EU...	
Prepare the Palestine Financial Services Sector for trade liberalisation	Prepare private sector for the impacts of services liberalisation using examples of other states. Identify the impact of liberalization of the financial services sector on the existing Palestinian service providers, and how to provide the necessary tools for them to deal with liberalization	3	Financial services sector	Private sector and Government	Government	Government and private sector (PPP)	Private sector institutions and donors	IFC, World Bank, USAID, EU...	

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15 Annex I – List of Stakeholders Participating in February 4, 2014 Consultation

EXPORTS
Trade Diversification Competitiveness Enhancement Program
برنامج تعزيز القدرة التنافسية وتنويع التجارة للمنتجات الفلسطينية

PALTRADE
مركز التجارة الفلسطيني - بال تريد
PALESTINE TRADE CENTER

وزارة الاقتصاد الوطني الفلسطينية
Palestinian National Authority Ministry of National Economy

Financial Services Export Strategy Consultation Workshop
Attendance Sheet

Trade in Services Project
Tuesday – February 4th, 2014 9:00-15:00

Movenpick Hotel – Ramallah

No.	Name	Organization	Title	Phone/Mob	Mail	Signature
1	Rabab Sabah	Palestine capital market authority	Head of International relations department	02-2973334	rabab@pcma.ps	
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8	Reem Abboushi	ASALA	Director	0599678557	reem@asala-pal.org	
9	Ibrahim Hosani	ASALA	Dep. Director	0592-407777	Ibrahim@asala-pal.org	
10	BUSHRA HUSSEIN	NIC	DEPUTY GENERAL MANAGER	0595100093	bhussein@nic-pal.com	
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14	Mohammad Abu Dalo	Reef Finance co.	G.M	+970 2951071/84	mabudalo@reef.ps	
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No.	Name	Organization	Title	Phone/Mob	Mail	Signature
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22						
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16 Annex II – List of Stakeholders Consulted at Expert Interviews

Name	Position	Organization/ Company
Asem Asmar	Statistician/ Government &Finance Dep.	PCBS
Faed Rayyan	Director/ Finance and Government Statistics Dep.	PCBS
Issam Sbaih	Head of Division of Finance &Insurance	PCBS
Hani Al Ahmed	Director/ Service Statistics Dep.	PCBS
Husam Khalifa	Director/ Foreign Trade Statistics Dep.	PCBS
Rania Abughaboush	Head of annual national accounts division	PCBS
Nawal Abu Hadid	Library Office	MAS
Saad Khatib	Trade and Economic Policy Specialist	Core Associates
Dalia Qumsieh	Legal Advisor - Trade in Services Unit	MoNE
Ramadan Badaha	Policy Advisor - Trade in Services Project	MoNE-PALTRADE
Suha Awadallah		MoNE
Fida Musleh - Azar	Manager of Public Relations and Investor Education	PEX
Caroline Asfour	Diaspora Department	BoP
Salim Hodali	Diaspora Department	BoP
Rahul Bhatnagar	Private Sector and Trade Policy Development Specialist	
Dr. Bashar Abu Zarour	General Manager - Research and Development Directorate	PCMA
Ahmad Haj Hassan	General Manager	The National Bank
Amjad Jaddou'	Secretary General	Palestine Insurance Federation
Susan Khoury	Assistant General Manager (Credit)	BoP
Tareq Shaka'a	General Manager	Lotus Financial Investment
Mohammad Atallah	Director - Research and Monetary Policies Dept.	PMA
Laith Kassis	Founder - Managing Partner	EnterVentures
Issa Kassis	CEO	PMHC
Hasan Omar	Executive Director	PICTI
Samir Hulileh	CEO	PADICO Holding
Hussein Habbab		Al Quds Bank
Ahmad	General Manager	National Insurance Co.

Name	Position	Organization/ Company
Mushasha		
Samer Othman	Financial Manager	Al Takaful Insurance
Anwar Jayousi	Managing Director	FATEN
Hind Jarrar	Public Relations	FATEN
Fadi Abdel Latif	Senior Program Manager & Adviser	USAID - WBG
Peter Mousley	Lead Specialist - Financial Private Sector Development	World Bank
Abdel Wahab Khatib	Specialist - Financial Private Sector Development	World Bank
Youssef Habesch	Resident Reprentative	IFC
Haitham Al Wahidi	Acting General Manager	PIPA
Huda El Jack	General Manager	Pal Lease
Bashar Al Azzeh	Chief Marketing Officer	Wassel Group