

## Boosting SMEs Financing through special schemes

### Ladies and Gentlemen

**It is a pleasure to be with you in this meeting and have the chance to highlight the SMEs sector in Palestine, and the supporting procedures that were taken to encourage their financing.**

As known, the covid-19 pandemic has caused numerous disruptions that affected many sides. For instance, the SMEs were the center of these disruptions at the start of the pandemic, and one year later, they stand in an even more precarious position. This is because of the forcible lockdowns, the shortage of demand, and the worsening lack of finance. However, we are here to minimize the negative impact caused by these instabilities. According to the World Bank 68% of formal SMEs are even underserved or unserved by financial institutions. Therefore, we need to offer new approaches for financing SMEs, and increase the load of guarantees towards SMEs in order to foster and enhance them to recover and survive.

For instance, the **Credit Guarantee Schemes** (CGSs) is an efficient approach to support the SMEs. Therefore, it provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to SMEs in case of default, typically in return for a fee. CGSs can mitigate the information asymmetries between banks and SMEs, improving their access to funds and/or reducing their costs. This approach can be used with the riskier businesses.

However for the less risky SMEs, another approach can be implemented which is **Selectivity and structuring**. This SMEs financing approach is designed to select borrowers for attributes with high development impact, for example, inclusive business models, and female-owned projects. They may be structured to incentivize banks to increase lending to SMEs through stepdown or step-up interest rates and loan covenants. This approach is structured so that the financial institution takes some or all of the credit risk. This ensures that the financial institution has incentives to use market intelligence to select creditworthy SMEs.

SMEs are the backbone of the Palestinian economy. They make up 95% of the operating entities in Palestine and are the largest employer of the Palestinian workforce. For this fact, the Palestinian government and the PMA are striving greatly to support and develop this important sector, by creating the appropriate environment for the sustainability of its businesses and activities, and overcoming obstacles to its growth and

expansion, in addition to encouraging banks and micro-finance institutions to provide more financial support to these entities.

The SMEs sector faces several challenges that affect the development and expansion of its activities. The most important challenges are the lack of funding due to its high risk and the lack of guarantees to obtain funding from banks. In addition, entrepreneurship and innovative projects face similar obstacles, which produce unwillingness of banks to finance this sector. Therefore, the PMA has already implemented a project with the appropriate studies to build a credit guarantee scheme. Where experience shows that the existence of a Credit Guarantee Scheme has a significant positive impact on the process of stimulating bank financing for these facilities as this scheme participates in the credit risk by providing a guarantee limit to cover the risk of default.

Regulators and supervisors play a key role in the design and implementation of an enabling environment for SME finance, which includes providing the legal and regulatory framework in support of SME access to finance, interventions promoting SME finance, and the process of collection and analysis of data on financial inclusion. While data collection can support the prudent development of SME finance through enabling effective supervision of expanding provision of financial services, and through providing critically needed market data to financial institutions.

On the other hand, an enabling regulatory framework and a supportive financial infrastructure are essential in the medium term to encourage sustainable, viable, and significant improvements in access to SME finance. While designing and enforcing an enabling environment and intervention mechanisms in support of SME access to finance, the PMA tends to ensure the stability of the financial system, promote financial literacy, enhance consumer protection, prevent Anti-Money Laundering (AML), and Combat the Financing of Terrorism (CFT) regulations. The pursuit of these objectives can involve measures aimed at widening access to finance.

The PMA also collects and evaluates data on SME access to finance, depending on credit registry and other reporting data that they do or collect. Financial inclusion data is critical in supporting evidence-based policymaking, which helps to inform the prioritization of efforts, and tracking progress of the proposed targets. Without standardized, comparable, and regularly updated data, progress tracking and target setting lack the right direction and become suboptimal. As a new digitalized and alternative way to access the finance, The PMA in partnership with the International Finance Corporation (IFC), held a training program for a number of employees on modern technologies

used to facilitate the access of finance for the SMEs by using “Supply chain finance” It is now developing a study on the feasibility and importance of adopting the Supply Chain finance and its benefits for the Palestinian economy.

As a response to the COVID 19 Pandemic, The PMA has launched and developed the “Estidama Program” with a value of 435 USD millions as part of its efforts to face the repercussions of the economic crisis of COVID 19, especially the one that affected the small, medium and micro enterprises. The program aims to provide the necessary funding to support these projects

Last month, the PMA announced the restructuring of the Fund to become a permanent fund aimed at providing financing (loans) to various economic sectors through commercial and Islamic banks. This is to enable economic projects to recover, increase the production cycle and provide job opportunities in line with the economic government directives.

as the government provided \$4 million in support to mitigate credit risks, especially for microenterprises, banks were asked to give priority to providing fund to the economic sectors according to six important programs, namely, health sector, educational sector, digital transformation, Microfinance Program, Recovery and Economic Growth Program, and the Specialized Lending Institutions program,

The targeted projects include the development of tourism, agriculture, industry, services, information technology, renewable energy, retail sales and other projects that contribute to enhancing the production cycle, offering new job opportunities, developing new projects, especially those led by youth, women, entrepreneurs and experts, in addition to encouraging the establishment of new partnerships and establishing production chains.

In the near future, the PMA will announce for a new credit guarantee scheme as a way of risk mitigation and enable access to finance for the SMEs with a technical and financial support from supporting and partner agencies.

**In conclusion, we hope this crisis ends shortly so we can provide more support to SMEs and proceed to minimize the effects of the pandemic in the economic sector.**