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Investment opportunities in Palestine

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Invest in Palestine, which has no State, no central bank and no currency?

In Palestine, the barriers are not necessarily where they are expected to be. Investors do not encounter any real obstacles in reaching the occupied territories, with Ramallah appearing to be a peaceful and welcoming city far from the tumult of the *intifadas*, far from the clichés. However, investors are not exactly rushing in. It is true that the Palestinian Authority has neither a State nor a central bank; it does not have its own currency and maintains at the very least a complicated relationship with Israel. That being said, Palestine is surprising.

Over the years, Palestine's private sector, 90% composed of small and medium enterprises (SMEs), has demonstrated its adaptability and its relative robustness, and this despite the modest size of its economy and the fact that its development is hampered by the constraints of the Israeli occupation. Although still highly dependent on international aid, the Palestinian Authority seeks to attract foreign direct investment (FDI) through various mechanisms: tax incentives, the establishment of a stock exchange, support from the World Bank's Multilateral Investment Guarantee Agency (MIGA), or the signing of the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Note that while foreign direct investment has increased since 2009, equity holdings remain limited and are 80% of Jordanian origin, particularly in the financial sector. The latter has a certain stability and true liquidity.

Despite the geopolitical complexities and especially its dependence on Israeli banks, Palestine has a well-established and regulated financial sector. More than half of the banks operating in Palestine are of regional origin (Jordan, Kuwait, etc.). Some initiatives, such as the European Palestinian Credit Guarantee Fund established by the European Commission and the Federal Government of Germany through KfW Development Bank, aim to facilitate the financing of micro-enterprises and SMEs. Banks, however, remain little involved in financing these enterprises, especially those operating in the informal sector. This is in a market where the informal sector accounts for 40% of the economy and employs one third of the working population in the private sector. It is also in an environment marked by an unemployment rate nearing 30%.

Thus it is that microfinance is at the forefront of financing the Palestinian economy. At its inception in the 1990s, the sector was supported by donors (Oxfam and Save the Children in particular), which still gives it a strong social footprint. It has grown considerably over the last ten years and now has nine dedicated institutions and three programs. Six of these entities are regulated by the Palestinian Monetary Authority, which acts as a central bank for the West Bank and Gaza. Visitors are surprised by the sector's professionalization and its relatively solid performance despite the complex operating environment. While infrastructure is adequate in some parts of the West Bank, institutions have to overcome logistical difficulties daily. Among others, Palestinians find it difficult to access most of the areas under Israeli control, meaning some 60% of the West Bank; and Gaza, which accounts for 35% of the sector's portfolio, is even more difficult to access. However, despite recent external shocks (the 2008 financial crisis, the Arab Spring in 2010) and internal conflicts (the last armed conflict in Gaza in 2014), the sector's financial performance is positive.

As with the Palestinian Authority, the microfinance sector has so far been largely supported by subsidized investments, particularly from Gulf countries. Be that as it may, it is beginning to attract foreign investors: a positive paradigm shift in an environment that remains difficult.