

## **Obstacles facing SME's and potential opportunities**

As a result of the Israeli occupation and the continuous siege most businesses in Palestine were not able to import the needed raw material and equipments or export manufactured goods or agriculture produce outside Palestine. Even movement of goods and services within cities in the West Bank and Gaza was restricted. These measures resulted in keeping the private sector small and most business remained family owned businesses.

Over the years SME's have come to play an increasing role in economic development in Palestine with significant contribution to creation and recreation of job opportunities and reduction of poverty. 97% of economic firms in Palestine are Micro & Small enterprises with less than 10 workers, the main finance sources of this sector came from non banking financial institutions in Palestine with short-term and small amount of loans.

These small financial institutions do not have the capacity to lend larger loans to this sector and they focus on micro businesses only. The banks in Palestine have a huge liquidity and capacity to lend more and large amounts of loans but before and during last Intifada they lacked the interest to lend to the SME sector due to many reasons. These reasons are lack of symmetric information, small-scale lending cost which is relatively higher than that for larger companies, lack of collaterals offered by the SME's which was a main requirement according to the lending policies of banks.

After the last Intifada in Palestine lending strategies in banks changed and became more focused on SME's. Banks were playing the major role in financing the SME sector in Palestine because of certain facts and due to new developments: SME's comprise 97% of economic firms in Palestine, SME's are viable and more capable of adapting to changing economic circumstances, the role of credit guarantee institutes which encouraged banks in strengthening the credit base for SME's, PMA instructions in limiting the foreign investments amounts and finally the potential opportunities of growth, development and increase of volume of SME's.

Banks have also realized that SME financing is very profitable as borrowers are less sensitive to interest rates prices. Unlike SMEs larger companies are always in a stronger position to negotiate lower prices and always demand more from their banks.

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