

Enhancing Financial Stability and Growth

The Palestine Market Authority



By Barraq Al Nabulsi

Since the establishment of the Palestine Capital Market Authority (PCMA) as an autonomous agency by virtue of Law No. 13 of 2004, it has taken firm steps toward creating a suitable environment to achieve stability and growth in the capital market, based on its vision of acting as “An effective regulatory authority that aims at developing a sound capital market and protecting the interests of stakeholders.”

Moreover, the PCMA sought to consolidate its supervisory and regulatory role through successive five-year strategies and is currently implementing its strategy for the years 2021 to 2025 that aims to achieve three main objectives: (i) expand the scope of the formal financial sector and limit that of the informal financial sector by providing a supervisory and regulatory environment for the introduction of new nonbanking financial services and products; (ii) contribute to economic development by providing additional options of nonbank financing means for small, medium, and micro enterprises and entrepreneurs; and (iii) utilize financial technology in the various sectors that are subject to the supervision of the PCMA.

In the same context, the strategy seeks to provide appropriate financing options in terms of cost and requirements, increase job creation opportunities and financial sustainability for the sectors that fall under the PCMA's

supervision, and activate the factoring (i.e., financial transaction) sector among the existing nonbanking financial sectors. The strategy also aims to contribute to enhancing financial inclusion rates through the use of financial technology and the provision of new nonbanking financial products, and to develop ways to protect the rights of users of nonbanking financial services and maintain market discipline.

The PCMA is currently implementing a number of work programs that clearly contribute to creating a supportive and incubating environment for the nonbanking financial sectors. Most notably these endeavors promote the use of financial technology in these sectors and have witnessed the launching of the Ebtaker platform, the first of its kind in Palestine; it helps regulatory bodies communicate with business accelerators and innovators at an early stage as they support entrepreneurs in building and developing innovative ideas to improve the financial sector. In addition, the PCMA is completing the draft insurance law in line with developments in this vital area that represents one of the sides of the triangle of economic stability along with the banking and judicial sectors. In this context, we must be aware of the need to develop the legal environment in the insurance sector,

The Palestine Capital Market Authority (PCMA) engages continuously to enhance the financial stability and growth in the nonbanking financial sector.

which along with the banking sector and the judicial sector, is one of the most important economic sectors to achieve economic stability. By protecting the national savings and the lives and property of individuals and institutions, the insurance sector helps manage the risks that face the national economy, thereby actively contributing to economic development.

The PCMA is always striving to keep pace with international standards and best practices as it carries out its supervisory and regulatory role in the insurance sector in Palestine. This is accomplished through the issuance of needed secondary legislation in order to strengthen the legislative environment for the insurance sector and enable the PCMA to exercise its supervisory role effectively.

Table 1: The most prominent graphic indicators of the Palestinian insurance sector for the year 2021

Return on owner equity	Insurance density (in US\$)	Insurance penetration ratio	Net incurred claims (in US\$ millions)	Total written insurance premiums (in US\$ millions)
9.3%	64.55	1.89%	198.6	341.5



The PCMA has decided to regulate the dealing in foreign currencies and precious metals on foreign stock exchanges in accordance with the provisions of Presidential Decree No. 17 of 2009 regarding dealing in foreign stock exchanges, the provisions of Securities Law No. 12 of 2004, and the Law of the Capital Market Authority No. 13 for the year 2004. Therefore, the PCMA examined the regulation for dealing in foreign stock exchanges (including foreign currencies, precious metals, and others) as issued by securities companies licensed by the PCMA in order to determine to what extent they achieve the PCMA's objectives and comply with the strategic plan. The aim of such examination is to regulate the informal financial sector and protect its dealers from having to do business with unlicensed entities and persons whose activities could be in violation of Presidential Decree No. 17 of 2009. It furthermore aims to achieve financial inclusion in Palestine.

The purpose of such legislation to regulate dealing in foreign exchanges comes in response to an increased demand for such transactions by citizens who wish to deal with local authorities that are licensed to buy and sell foreign currencies,

precious metals, and other financial instruments. These citizens have so far communicated with offices and companies that are located abroad and licensed by either Arab or foreign securities authorities for dealing in foreign currencies and precious metals. This increased demand has led to a high volume of transactions in those instruments.

The PCMA also outlined special criteria to list the shares of public shareholding companies on the Palestine Exchange, highlighting companies that are compatible with the provisions of Islamic shari'a law by providing a special index named after the eternal capital of Palestine, the Al-Quds Islamic Index. This comes as a consolidation of the objectives related to developing the ecosystem for Islamic financial services in Palestine that the Capital Market Authority seeks to achieve within its Strategic Plan 2021–2025. The standards include issuing regulatory controls to create an Islamic index based on Standard No. 21 associated with financial transactions in securities, including shares and *sukuk* (shari'a-compliant bond-like instruments) issued by the Islamic Accounting and Auditing Organization.

Table 2: The most prominent graphic indicators of the Palestinian securities sector for the year 2021

Market capitalization as percent of GDP (current prices)	Average daily trading value (in US\$ millions)	Market capitalization (in US\$ millions)	Trading value (in US\$ millions)
24.4%	1.7	4,407.1	418.7

The financial leasing sector is a promising path among the offerings of the Palestinian financial sector. Financial leasing is one of the most important medium-term financing methods. It is defined as asset-based financing, which means that it is used to finance movable and immovable assets through financial leasing companies that purchase assets chosen by a lessee from suppliers and then grant the lessee the authority to

use, possess, and benefit from these assets for a specified period of time in exchange for lease payments, while the legal ownership remains for the lessor. At the end of the lease term, the ownership of the asset is either transferred to the lessee, in the event that the lessee decides to exercise such an option. Alternatively, the possession of the asset is returned to the lessor, in the event that the lessee decides not to exercise such option.

Table 3: The most prominent statistics of the Palestinian financial leasing sector for the year 2021

Total value of financial leasing contracts (US\$ millions)	Total number of financial leasing contracts	Number of licensed companies
35.14	680	8

Mortgage financing is the process of securing financing in exchange for mortgaging the property, so that the beneficiary can buy and own the property. The origin of this activity dates back hundreds of years. The issue of mortgage of immovable properties in Palestine is governed by a law from the Jordanian era, namely the Law of Mortgaging of Real (Immovable) Property No. 46 for the year 1953.

Efforts to enhance digital finance and innovation aim to meet the ongoing development in fintech. Rapid technological changes are providing many opportunities to improve services in various sectors in general and the financial sector in particular. Thus, during the year 2019, the PCMA drew up its policy on financial technology and intervention mechanisms to enhance this field in the sectors it supervises. This was

In efforts to improve the performance of and trust in the securities sector, the PCMA is outlining steps and procedures to enhance confidence and growth.



also reflected in its five-year strategy for the years 2021 to 2025. An integrated program was included in the strategy, aiming to enhance the use of fintech in the nonbank financial sector and provide the enabling environment for such use. This resulted in the creation of the Digital Financial Technology Services and Innovation Directorate within the PCMA's organizational structure that launched its work at the beginning of 2021.

Furthermore, the PCMA contributes to achieving financial inclusion and employing governance and financial technology in the nonbanking financial sector through the Ebtaker platform. Ebtaker is a tool that aims to facilitate and encourage innovation in the areas of capital market sectors in order to enhance their competitiveness. To this end, it provides a platform that facilitates orderly communication between innovators and the PCMA and provides advice and guidance to entrepreneurs and innovators regarding regulatory aspects related to the development of technological financial services. It also helps develop innovations related to services in digital finance and enables the PCMA to learn about the latest innovations related to the nonbanking financial sector and its trends. The Ebtaker platform can be accessed through the link www.ebtaker.ps.

PCMA also manages the Regulatory Sandbox, a test environment where developers of innovative nonbanking fintech services can test innovative

fintech applications in real life and on real clients. It aims to facilitate the development of products that fintech service developers cannot currently offer in the Palestinian market due either to the presence of regulatory obstacles or to the absence of regulatory rules governing them.

The year 2021 witnessed a set of achievements in the field of corporate governance, most of which focused on the development of sectoral governance, and continued its strategic cooperation with the International Finance Corporation (IFC) in efforts to strengthen corporate governance in Palestine. Among the most important developments in this field during 2021 is the development of the Code of Environmental, Social and Corporate Governance in Palestine. Palestine is also proud to have secured the continuity of the program that integrates the corporate governance course in Palestinian universities through the signing of a cooperation agreement between the PCMA and the IFC. Today, five Palestinian universities have included the corporate governance course in their teaching plans. The PCMA is working with two more Palestinian universities to integrate the corporate governance course into their teaching plans.

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