



The financial obligations and debts of Palestinian-Israeli trade

2023

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Introduction

- The Israeli – Palestinian Interim Agreement of 1995, and especially annex V (Paris Protocol) of the agreement formulates the basis for the trade and economic relationship between the Israeli and the Palestinian economies
 - *The agreement established the basis for Palestinian and Israeli trade and financial and banking relations*
- Palestinian and Israeli traders are facing problems in securing their financial rights due to the many overlaps, unclear lines of authority, the unbalanced relations between the Palestinian and Israeli banks, and lack of coordination among the business support organizations on both sides
- Mitigating the credit and financial risks of trading between the Palestinian and Israeli businesses, would increase their competitiveness and open more export opportunities in the Israeli market

Palestine GDP and Trade in goods, 2021

GDP (ranked 121/195)	\$18B
Total Exports in Goods	\$1.4B
Total Imports in Goods	\$6.42B
Net Trade Balance in Goods	-\$5.02B

Trade with Israel, 2021

■ Total Imports from Israel-Goods	\$4,157m
■ Total Imports from Israel- Services	\$204.8m
■ Total Exports to Israel-Goods	\$1,168.7m
■ Total Exports to Israel- Services	\$235.7m

In **2022**, payment activity between Israel and the West Bank and Gaza has an estimated yearly value of more than **NIS 50 billion**

المؤشر	2020	2021
إجمالي الصادرات السلعية	1054.6	1357.6
إجمالي الواردات السلعية	6063.4	7829.7
صافي الميزان التجاري السلعي	-5008.8	-6472.1
مجموع الصادرات السلعية من الضفة الغربية*	1040.5	1344.5
مجموع الصادرات السلعية من قطاع غزة	14.1	13.1
مجموع الواردات السلعية من إسرائيل	3342.7	4157
مجموع الصادرات السلعية إلى إسرائيل	886.1	1168.7
مجموع الصادرات الخدمية إلى إسرائيل	205.1	235.7
مجموع الواردات الخدمية من إسرائيل	180	204.8
صافي الميزان التجاري الخدمي	25.1	30.9

Main Financial issues related to trade in the Israeli market

Payment issues

- In 2007, Israeli correspondent banks stopped accepting the Endorsed Israeli cheques from the Palestinian banks
- In 2008, the Israeli banks stopped dealing with payments from Gaza branches, including cheques

- Checks endorsement according to the new Israeli law:
 - All checks will need the name of the Payee written on the cheque
 - It can be sold to another person, company, or financial institution by endorsing the check a second time
 - No further endorsements are allowed on a check after the second endorsement unless the check is being cashed with a Money Changer, who is licensed to cash checks
- Cash use restrictions; the Use of Cash Law:
 - The Law is effective as of January 1st, 2019
 - The application of restrictions on the use of cash will be postponed for **three years** in respect of the West Banks and Gaza
 - The current maximum cash use limit is NIS 6,000 (from August 2022). It's expected to be enforced on the Palestinian side in March or April 2023
- According to the PNA policy, the Palestinian banks could not accept Israeli checks drawn on banks and/or banks' branches located in Israeli settlements

Main Financial issues related to trade in the Israeli market...Cont'd

Financial obligations issues

❖ Bounced Checks

This is a major concern for the Palestinian traders selling in the Israeli market:

- In 2022, the number of Palestinian cheques was 237,000, where 11,942 bounced
- In 2022, the number of Israeli cheques was 730,000, where 154,321 bounced
- Negatively affects their financial positions and cash inflow
- Increasing the cost of collection due to the banks' fees on the bounced checks

The value of exchanged and bounced cheques between Palestinian and Israeli banks during the period 2018 – 2022, source: PMA

(In Million NIS)						
Year	Palestinian Checks			Israeli Checks		
	Value	Bounced Checks	%	Value	Bounced Checks	%
2018	9,034	342	4%	6,966	751	11%
2019	8,420	364	4%	6,561	850	13%
2020	7,802	384	5%	5,444	768	14%
2021	8,997	245	3%	6,616	717	11%
2022	10,168	271	2.66%	7,882	1,276	16.1%

Main Financial issues related to trade in the Israeli market... Cont'd

The bankruptcy of Israeli companies or traders

- The main issues in this case are:
 - In the case of having a business contract and documented balances between the Palestinian trader and the Israeli customer, the likelihood to collect the money is very much higher than not having proper documentation and business contracts
 - This issue needs to higher a specialized lawyer to handle the case; the cost of hiring an Israeli lawyer is relatively high compared with the fees and rates in Palestine; it could be unaffordable and/or infeasible for small traders
 - The time needed to win the case and receive the money could be an issue for the Palestinian traders as it affects their financial liquidity
 - The process goes through the creditors' hierarchy in their rights to be paid by the debtor; it's not guaranteed to receive all the due amount of money

Main Financial issues related to trade in the Israeli market... Cont'd

Bad debts (unpaid for more than one year)

- According to the study, 35% of the Palestinian traders and companies have bad debts on the Israel side (receivables that are unlikely to be paid by their Israeli clients)
- In general, this occurs due to the following:
 - Absence of business contracts
 - Absence of proper account reconciliation
 - Unclear payment terms
 - And/or undocumented bills or invoices

Lack of awareness about the Israeli market and business environment

The importance of organizing the trade and business relationships with Israel business clients on **the financial and legal aspects through business contracts:**

- A better understanding of the legal and financial aspects of the deal and the trade relationship
- Secure the financial and legal rights
- A reference for solving disputes between the two parties
- Identify the governing laws and authorities

Lack of awareness about the Israeli market and business environment ... cont'd

The financial and credit risks associated with trade in the Israeli market

- To be aware of the existing and new Israeli laws and instructions that affect the trade and business environment
- To comply with and understand the requirements of the existing laws and instruction
- To be ready to deal with future amendments on the related trade and financial laws and regulations such as *The Reduction of Use of Cash Law, The Payment Systems Law, and the New Check Cashing Law*

Lack of awareness about the Israeli market and business environment ... Cont'd

- ❖ The importance of collecting information about their business clients and conducting **market research and due diligence**

Many financial obligation cases resulted due to the omission in the investigation of the client's financial position and credibility

- ❖ *The roles of the business support institutions from the Palestinian and Israeli sides*
 - Currently, there are no roles for the BSOs on helping the traders to solve financial obligation problems they have
 - One of the roles that BSOs could work on is providing business and trade-related services such as:
 - Due diligence for companies and traders
 - Identify credible legal and accounting service providers
 - Provide market and business studies

Lack of awareness about the Israeli market and business environment ... Cont'd

The legal rights of Palestinian traders who sell in the Israeli market

- The legal rights of the Palestinian traders should be secured by business contracts
- Negotiating the contract could be an issue if the bargaining power is in the hand of the Israeli party; Palestinian traders are more flexible to accept the terms as they fear losing the deal
- The Israeli client is usually the party who provides the contract draft; focuses more on securing the rights of the Israeli party and reflects their interests.
- Most often, Israeli companies (clients) have ready contract forms for trading with Palestinian traders/suppliers
- The ready contract forms could include many detailed terms that should be revised and interpreted by specialized lawyers or legal advisors to make sure that fully understand all the business relationships, the contract conditions, and the stated requirements

The banks roles and services related to trade with Israel

❖ The correspondent services: bank transfers, check payments, and cash payments

- The two central correspondent banks from the Israeli side are Discount Bank and Hapoalim Bank
- The contractual agreements between the Israeli and Palestinian banks are governed by Israeli laws and the privacy terms of the contracts themselves
- The agreements were done before the Oslo agreement and the establishment of the Palestinian Monetary Authority (PMA)
- In 2016 Israeli correspondent banks showed its desire to stop the relations with Palestinian banks as part of a general de-risking strategy

The banks roles and services related to trade with Israel

- ❖ The PMA and BoI are working on creating an alternative mechanism to eliminate the risk of stopping the corresponding services by the two correspondent banks
- ❖ The consequences of **ineffective correspondent services** on the trade are:
 - The time required to perform the transactions, in some cases reach to two weeks
 - The high cost and fees imposed by the correspondent banks
 - Higher fraud risk due to the no access to the banking and credit data of Israeli clients
- ❖ Banks in the West Bank and Gaza are having to manage large amounts of **excess cash** due to limits on the amount of cash that can be shipped to Israel.
 - This has an indirect negative effect on Palestinian traders who have a large volume of cash transactions

Recommendations

Recommendation	Related organizations	Expected impact if implemented	Suggested implementation activities
<p>1- Raise awareness about trading in the Israeli market: Raise awareness among exporting companies and traders who sell in the Israeli market about the importance of organizing the trade relationship through official business contracts to secure their financial and legal rights.</p>	<p>PalTrade as the lead organization, PFI, Chambers of Commerce</p>	<p>Mitigate financial and credit risks for companies by being aware of the legal, accounting, financial environment in the Israeli market.</p> <p>The main issues and problems to be dealt with and mitigated under this recommendation are:</p> <ul style="list-style-type: none">• The bankruptcy issue• The bad debt• The bounced checks• The returned goods	<p>Awareness campaign targeting the Palestinian traders targeting the Israeli market.</p> <p>This could be done through conducting workshops and group meetings in coordination with the BSOs</p>

Recommendations

Recommendation	Related organizations	Expected impact if implemented	Suggested implementation activities
<p>2- Establish a commercial and legal advisory unit at Paltrade:</p> <ul style="list-style-type: none"> • Provide updated information about the legal environment in the Israeli market, update the Palestinian traders and companies about the new Israeli laws and procedures related to trade and financial aspects • Provide due diligence on the buyers or sellers on both sides to help them understand the nature of a deal, the risks involved, and whether it fits their criteria. • Build a professional network with business and trade supporting organizations, legal firms, and accounting and business consulting firms working in the Israeli market 	<p>PalTrade, Arab Economic Forum</p>	<ul style="list-style-type: none"> • Help in solving the existing financial issue for Palestinian traders and secure their financial and legal rights • Help the SMEs who might not have access to reliable and trustworthy bodies in the Israeli market • Reduce the cost of hiring Israeli legal firms to secure and protect their financial and legal rights • Mitigate the market risk for the Palestinian traders and understand the roles of the business and trade in the Israeli market <p>The main issues to be dealt with under this recommendation are:</p> <ul style="list-style-type: none"> • Access to market information and due diligence • Access to reliable business and legal services 	<ul style="list-style-type: none"> • Hiring a specialized legal advisor who has solid experience in the Israeli trade and financial laws • Reaching agreements with business support organizations working in the Israeli market which is capable to help and support in providing related services

Recommendations

Recommendation	Related organizations	Expected impact if implemented	Suggested implementation activities
<p>3- Provide commercial Alternative Dispute Resolution (ADR) services for small businesses:</p> <ol style="list-style-type: none"> 1. Negotiation: the parties voluntarily seek a mutually acceptable agreement to resolve their common dispute. It allows the disputants themselves to control the process and the solution 2. Conciliation: A process in which a third party meets with the disputants separately in an effort to establish mutual understanding of the underlying causes of the dispute and thereby promote settlement in a friendly manner 3. Mediation: A voluntary and informal process in which the disputing parties select a neutral third party (one or more individuals) to assist them in reaching a mutually-acceptable settlement. Unlike a judge or arbitrator, the mediator has no power to impose a solution on the disputants; instead, the mediator assists them in shaping solutions to meet their interests 4. An adjudicatory dispute resolution process: one or more arbitrators issues a judgment on the merits (which may be binding or non-binding) after an expedited, adversarial hearing, in which each party has the opportunity to present proofs and arguments 	<p>Federation of Palestinian Chambers of Commerce, and Federation of Israeli Chambers of Commerce</p>	<p>Properly designed ADR programs, undertaken under appropriate conditions, will improve access to justice, increase disputant satisfaction with outcomes, reduce delay, and reduce the cost of resolving disputes.</p> <p>The main issues to be dealt with under this recommendation are:</p> <ul style="list-style-type: none"> • Trade and financial disputes • High cost of legal services • Delay of the judicial decision process 	<p>Advocacy by the private sector business support organizations to initiate, plan, and implement an ADR program. This requires adequate political support, supportive institutional and cultural norms, adequate human resources, adequate financial resources, and rough parity in the power of disputants</p>

Recommendations

Recommendation	Related organizations	Expected impact if implemented	Suggested implementation activities
<p>4- Conduct a feasibility study on establishing a marketing and distribution company for Palestinian suppliers in Israel.</p> <ul style="list-style-type: none"> ○To provide marketing services, including but not limited to the following: <ul style="list-style-type: none"> ▪ Market studies and research ▪ Identify potential customers ▪ Business matchmaking ▪ Organize marketing and promotion events ▪ Promote and sell Palestinian products ○To secure financial rights in more reliable and effective ways ○To provide logistic services based on the needs of both buyers and suppliers 	<p>PalTrade and the Arab Economic Forum are suggested to conduct the study and, if feasible, present it to potential investors</p>	<p>Establishing a trustworthy and specialized marketing and distributing company for Palestinian products in the Israeli market.</p> <ul style="list-style-type: none"> • Promoting the Palestinian products • Building sustainable trade relationships with targeted clients • Securing financial and legal rights in a more efficient and solid status • Presenting the interests of the Palestinian traders in the relevant business organizations on both sides <p>This would help in mitigating the financial and credit risks by better securing the rights under the Israeli directly in order to deal with the fraud and scam problems, bounced cheques, returned goods, and the bankruptcy cases</p>	<p>Initial talks with Palestinian investors including Palestinian investors living in Israel who could be interested in establishing such a company</p>

Recommendations

Recommendation	Related organizations	Expected impact if implemented	Suggested implementation activities
5- Advocate on the Door-to-Door movement of goods; Until the Door to Door becomes effective, improve the existing infrastructure and logistic facilities on the crossing borders	PalTrade as the lead organization, PFI, Chambers of Commerce	Mitigate the possibility of product damage during the shipping and movement process	<ul style="list-style-type: none">• Develop a position paper reflecting the interest private sector in this regard on both sides, and to be presented to the Palestinian and Israeli governments, and the donors' agencies like the USIAD, World Bank, etc.• Coordinate with the donors' organizations to achieve this request

Thank You