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**Challenges Facing Micro, Small and Medium-Sized Enterprises (MSMEs) When Raising Capital**

**in the West Bank of Palestine**

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Mai Al Saifi. (2020) The Impact of Digital Transformation as Crowdfunding on Performing MSMEs in Palestine; Philadelphia University in Jordan online conference, 28th–29th October 2020.

**ABSTRACT**

**Research Aim**: The aim of this thesis is to investigate the factors that impact the accessibility of funds for Micro, Small and Medium-sized Enterprises (MSMEs) in the West Bank of Palestine. The study seeks to examine the relationship between these factors and MSMEs’ accessibility to funds and their performance. Additionally, the thesis explores the impact of financial institutions’ terms and conditions on MSMEs.

**Research Gap**: There is a gap in the literature regarding the challenges faced by MSMEs accessing funding in the West Bank of Palestine. Most studies have focused on the overall economic and political situation in the region, rather than specifically addressing the barriers to funding access for MSMEs. Therefore, this study aims to fill this gap by providing practical solutions to improve MSMEs’ access to funding.

**Research methodology**: The study adopts a mixed-methods approach and employs both qualitative and quantitative research methods to achieve the research objectives. The research involved semi-structured interviews with six key officials in the ministry of government, four agencies (credit guarantors), and fourteen microfinance institutions and banks (including commercial and Islamic banks). Additionally, a survey was conducted among 207 respondents of MSMEs in the West Bank of Palestine to gather quantitative data.

**Research findings**: The study identified several factors that impact the accessibility of funds for MSMEs in the West Bank of Palestine. These factors include corruption, lack of support from the government, complicated lending procedures, financial illiteracy, lack of crowdfunding infrastructure, and funds. The study found that MSMEs face challenges in preparing financial statements and other documentation required to access funding. The study also found that the lack of professional networking, experience sharing, and skills related to financial literacy hinder MSMEs’ learning as entrepreneurs.

**Research contribution**: The main contribution of this research is its individual discussion of the elements of a context-specific model in line with its exploration of issues related to access to finance for MSMEs in the West Bank of Palestine. The study provides practical recommendations for MSMEs, financial institutions, and governments to collaborate and coordinate to improve MSME performance and accessibility of funding. The study develops a theoretical framework based on institutional theory, critically analyses and evaluates it, and makes practical recommendations based on its findings.

**Research implications**: The findings of the study have practical implications for stakeholders, such as financial institutions and governments, to improve MSMEs’ access to funding and performance. The study recommends that financial institutions organise seminars and training programmes to help MSMEs develop professional networking, experience sharing, and skills related to financial literacy. The study also recommends that the government decreases the burden of taxes and fees on newly established MSMEs, attract more international investors to establish more financial institutions, and establish a credit department in banks to help MSMEs prepare their financial documents.

**Research limitations**: The study utilised a cross-sectional time horizon approach, which limits the generalisability of the results. The study also conducted semi-structured interviews, which are subjective in nature and may have biased responses. Additionally, the study used non-probability sampling techniques and data collected from a geographically and industrially specific sample, which may limit the generalisability of the findings. Future studies can utilise quantitative data and collect data from multiple time horizons and multiple stakeholders to improve the generalisability of the results.

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**LIST OF ABBREVIATIONS**

AVE – Average Variance Extracted

CFI – Comparative Fit Index

CLF – Common Latent Factor

CR – Composite Reliability

CMV – Common Method Variance

EFA – Exploratory factor analysis

EPCGF – European-Palestinian Credit Guarantee Foundation

GFI – Goodness of Fit Index

IFC – International Finance Corporation

FIs – Financial Institutions

GDP – Gross Domestic Product

MENA – Middle East and North Africa

MFIs – Microfinance Institution

MOP – Palestinian Ministry of Planning

MSMEs – Micro, Small and Medium Enterprises

NGOs – Non-governmental organisations

OPIC – Overseas Private Investment Corporation

PCBS – Palestinian Central Bureau for Statistics

PCMA – The Palestine Capital Market Authority

PIF – Palestine Investment Fund

PLO – Palestine Liberation Organization

PMA – Palestine Monetary Authority

PNA – Palestinian National Authority

PNSMF – Palestinian Network for small and microfinance

PPMCC – Pearson product-moment correlation coefficient

RMSEA – Root-Mean Square Error of Approximation

RBV – Resource Based View

T&C – Terms and Conditions

UNRWA – United Nations Relief and Works Agency

USAID – United States Agency for International Development

VIF – Variance Inflation Factor

WBGS – West Bank and Gaza Strip

WBOP – West Bank State of Palestine

# CHAPTER 1: RESEARCH INTRODUCTION

* 1. **RESEARCH BACKGROUND**

Previous research on entrepreneurship has highlighted the challenges faced by micro, small, and medium-sized enterprises (MSMEs) in accessing financing, which is a major obstacle to their growth and operational capabilities (Moy and Luk, 2003; Hassanein and Adly, 2008; Barbu et al., 2019; Calabrese et al., 2020). The availability of funds for MSMEs is embedded in the local context, which includes economic, social, and political factors that influence the accessibility of finance (Wack, 2015; Martin and O’Connell, 2018). MSMEs are crucial for a country’s economic growth, making them a focus for political decision-makers (Wiklund and Shepherd, 2003; Ansong, 2017; Wasiuzzaman, 2019). However, financial institutions (FIs) often underserve MSMEs due to perceived risks and weaknesses, leading to a disparity between supply and demand for financing (Robu, 2013; Gros, 2018).

Crowdfunding has emerged as an innovative solution for MSME financing (Schenk, 2015; Hobbs, Grigore, and Molesworth, 2016; Matthew, 2017; Di Pietro, Prencipe, and Majchrzak, 2018; Hervé and Schwienbacher, 2018; Ibrahim, 2018; Zugrav, 2018; Cillo et al., 2019; Eldridge, Nisar, and Torchia, 2019). While studies have investigated its potential in developed countries with stable economic and legal environments (Harrison and Baldock, 2015; Ridley, 2016; Fleming and Sorenson, 2016; Ma and Liu, 2017), there is limited research on the accessibility of crowdfunding in politically and economically unstable regions like Palestine. In such contexts, inadequate legal infrastructure and unstable business environments hinder the potential of crowdfunding (Nevin et al., 2017; Borst, Moser, and Ferguson, 2018; Kaminski, Hopp, and Lukas, 2018; Datta, Sahaym, and Brooks, 2019; Laurell, Sandström, and Suseno, 2019).

Palestinian MSMEs face unique challenges due to the region’s political and economic instability. MSMEs account for 80% of the workforce in Palestine (Rajab, 2015), yet they struggle accessing and managing financing (World Bank, 2011; Baidoun et al., 2018; Julien, 2018). Factors such as low technology adoption, resistance to innovation, and complex environments further exacerbate the situation (Abualrob and Kang, 2016). Adopting advanced technology and digital marketing tools could potentially enhance the growth of Palestinian MSMEs (Qashou and Saleh, 2018), but these businesses still lack access to funding support and a conducive business environment due to ongoing conflict (Azoulay and Ophir, 2012).

This study seeks to understand the challenges MSMEs face in accessing financing within the context of developing countries, particularly Palestine (Ansong, 2017; Cowling et al., 2018; Motta, 2020). MSMEs in these countries struggle with limited financing facilities, insufficient capital, and inadequate financial management expertise (Song, Yu, and Lu, 2018).

To promote economic growth and job creation in Palestine, it is essential to provide MSMEs with stable financing and develop credit information infrastructures. However, existing policies lack clear guidelines, vision, and strategies regarding MSME financing in the region (Ramadan and Ahmad, 2018). Qubbaja (2019) recommended further research on MSME financing challenges in Palestine, including the roles of FIs, government agencies, and facilities in fostering MSME growth.

One potential solution is the implementation of credit guarantee schemes, such as the Palestine Investment Fund (PFI) and European-Palestinian Credit Guarantee Foundation (EPCGF). These schemes guarantee loans provided by FIs to MSMEs, sharing banks' loan risks and reducing information asymmetry and collateral burdens (Yoshino and Taghizadeh-Hesary, 2019).

To summarise, this study aims to investigate the challenges MSMEs face in accessing financing, particularly in developing countries like Palestine, and explore potential solutions to these challenges. By focusing on factors such as crowdfunding accessibility, credit guarantee schemes, and the roles of FIs and government agencies, this study seeks to contribute to the understanding of MSME financing and promote sustainable economic growth and development in Palestine.

* 1. **CONTEXT OF THE STUDY**

Before understanding the issues with MSMEs, it is vital to consider the pertinent historical and political context which shapes the local conditions of Palestinian territories. The state of Palestine is divided into two main parts that represent just 22% of its historical area: about 5,835 square kilometres in the West Bank (including East Jerusalem) and about 365 square kilometres in the Gaza Strip. Palestine’s population includes 5,298 million civilians (PCBS, 2021). Israel has occupied all of the Palestine territories since 1967, thereby affecting all sectors of its economy through the imposition of various economic and military measures. These measures have resulted in detrimental impacts in some cases and disequilibria of the economy in the long term. Furthermore, compared to other Middle East and North Africa (MENA) countries, Palestine is politically and economically unstable. The Oslo Accords of 1993 were supposed to build a viable and stable economic system in the Palestinian territories; unfortunately, this did not materialise; instead, the economic situation became more difficult and complex on all levels including the banking system. Morrar and Gallouj (2016) emphasised that the Palestinian economy faces many challenges: it depends heavily on the occupation economy – more than 73% of Palestinian imports of goods and services originate from the State of occupation. Furthermore, the restrictions imposed by Israel on Palestine, represented by the control of raw materials and the borders of the Palestinian territories, in addition to preventing the establishment of all industrial zones, lead to political instability and distort the investment climate, impeding the economy and limiting its development. In addition, the productive sector suffers from a significant lack of financial resources and competencies in the public and private sectors, and the Palestinian Authority mainly depends on foreign aid to support its budget.

The Palestinian Central Bureau of Statistics (PCBS) defines MSMEs in the Palestinian context as businesses with less than 250 employees and annual revenue of less than $10 million USD (PCBS, 2021). The Palestinian economy relies heavily on micro, small, and medium-sized enterprises (MSMEs), which make up 99 percent of all businesses and contribute greatly to GDP and employment (Rajab, 2015). These businesses are essential to the regional economy because of the jobs they create, the innovations they foster, and the growth they spur. However, a number of obstacles, including a lack of access to capital, cumbersome bureaucratic procedures, and political instability, limit the potential of MSMEs in Palestine. In order to improve MSMEs' access to capital and conquer these challenges, it is crucial to supply them with the appropriate support and resources.

At present, many Palestinians are protesting the illegal actions of occupation troops, which have created an environment of violent conflict that affects Palestinian businesses, living standards, and quality of life. The involvement of occupation in the business sector of Palestine creates a great disadvantage for its competitiveness as occupation tends to limit the growth of MSMEs. Because of the environment of violent conflict, International investors and FIs demand a higher guarantee or trust for countries such as Palestine, where there is uncertainty, political instability and violent conflict (Pappe, 2004). The previous literature on small businesses has highlighted that most did not grow due to a lack of access to funds (Moy and Luk, 2003; Hassanein and Adly, 2008; Barbu et al., 2019; Calabrese et al., 2020). In the Palestinian context, MSMEs are considered among the most important pillars of socioeconomic development, especially in the West Bank, through decreasing poverty and unemployment and increasing production capacity (Alfoqahaa, 2018; Morrar et al., 2019). Therefore, the current study investigates the present challenges facing MSMEs in the West Bank of Palestine (WBOP) which influence their access to financing and further impact their financial performance. Chapter 2 discusses further details of MSMEs in the WBOP.

* 1. **RESEARCH PROBLEM**

MSMEs are among the greatest drivers of financial development, creativity, and employment. In the context of the West Bank of Palestine (WBOP), focusing on the MSME sector is essential due to its significant participation in the growth and employment of the Palestinian economy (Daoudi, 2004). In the Occupied Palestinian Territories, unemployment rates are relatively high, reaching 26.9% in the WBOP and 41.7% in Gaza (ILO, 2018). However, access to finance is often described as a crucial obstacle to the expansion of MSMEs, particularly in the uncertain political and economic nature of the Palestinian territories.

According to the International Finance Corporation (IFC, 2019), in developing nations, 65 million firms, or on average 41% of formal MSMEs, have unfulfilled funding requirements by FIs. The MSME financing gap in developing nations is evaluated at approximately USD 5 trillion every year – 1.3 times the current level of the global MSME loans (SME Finance Forum, 2019). Figure 1.1 illustrates the formal MSME finance gap by region (in millions of US dollars).

Figure 1.1: MSME Finance Gap as a Proportion of Potential Demand (%) Source: IFC data and analysis

As shown above in Figure 1-1, East Asia and the Pacific account for the largest share (54%) of the total global finance gap and are followed by Latin America and the Caribbean (13%) and Europe and Central Asia (39%). The volume of the gap varies considerably from region to region. Latin America and the Caribbean and the Middle East and North Africa regions, in particular, have the highest proportion of the finance gap compared to potential demand, measured at 87% and 88%, respectively. Approximately half of the formal MSMEs do not have access to formal credit. The financing gap is even larger when MSME and informal enterprises are considered. The finance gap is defined as the deficit between the amount of financial resources demanded by MSMEs and what is provided.

According to reporting by the Palestine Monetary Authority (PMA), 2020 bank deposits and direct credits grew by 11% and 12% respectively, resulting in no significant changes to the credit-to-deposit ratio of 61%. A review of credit exposure to the private sector indicates unchanged sectoral concentration, with two-thirds of all private lending going to corporations, such as construction, trade finance, or consumer loans. The share of bank credit to MSMEs was only 11% of total credit facilities (PMA, 2020), Most of the MSMEs, approximately 80% rely on the personal or family savings of their owners for financing operational and start-up costs (Karaki, 2021), and 88% of the total credit to MSMEs has less than three years of maturity (Rajab, 2015).

The primary aim of this research, therefore, is to develop a context-specific framework for improving access to funds for MSMEs in the WBOP. MSMEs have difficulties in accessing funds. These difficulties are linked to different critical factors and root causes that constrain their development, especially in developing countries such as Palestine. Various factors, such as a lack of financial literacy, and a weak legal environment, significantly impact the accessibility of funds for MSMEs in the WBOP.

One stream of research has identified different issues related to the accessibility of funds for MSMEs. For example, government policies and financial institutional factors such as strict requirements for getting funding, in addition to short repayment periods, are commonly identified as barriers that hinder funding access (Hassanein and Adly, 2008; ;Rajab, 2015 Barbu et al., 2019; Calabrese et al., 2020). Calabrese et al. (2020) stated that lack of access to funds is related to a lack of trenchancy. Hassanein and Adly (2008) named a lack of access to funds a policy failure, but Barbu et al. (2019) indicated that policy failures are failures of political stability. Palestine is facing historic political instability, and the factors related to the accessibility of funds in Palestine are contextual and unique. Therefore, existing research cannot be indiscriminately applied to the WBOP. In the absence of access to capital for MSMEs, their growth and operational abilities are at risk. Therefore, this research investigates the accessibility of funds by considering the local context of the WBOP. Martin and O’Connell (2018) argued that a local context includes the local business environment and the economic, technological, social and political factors that impact the accessibility of funds for MSMEs in a specific area (Wack, 2015). Many authors have indicated that the amount and type of finance available to firms directly affects the potential growth of MSMEs and the economic growth of the country (Wiklund and Shepherd, 2003; Ansong, 2017; Wasiuzzaman, 2019). Therefore, this research seeks to understand the accessibility of funds for MSMEs and the role of this accessibility for MSME performance in the WBOP.

Another strand of research has explored the role of crowdfunding as a source of funds for the development and innovation of MSMEs (Schenk, 2015). However, some authors have indicated that crowdfunding is also based on local areas' legal, economic, social and technological circumstances. This is because local social systems facilitate crowdfunding networks, which also require technical and legal support to protect the investors and lenders (Hobbs et al., 2016; Matthew, 2017; Hervé and Schwienbacher, 2018; Ibrahim, 2018; Zugrav, 2018; Eldridge et al., 2019). Cillo et al. (2019) stated that MSMEs require technological and legal support from the government, which is also based on local political intention and stability. Other researchers have investigated the role of crowdfunding as a solution to the credit crunch if local legal and technological structures support these types of funding equally for all MSMEs (Harrison and Baldock, 2015; Ridley, 2016). Prior literature on crowdfunding has highlighted issues of legal infrastructure in developing countries, finding that unstable business environments and the lack of legal structures for funding can decrease access to crowdfunding in developing countries (Fleming and Sorenson, 2016; Ma and Liu, 2017). The existing literature on crowdfunding for MSMEs provides sufficient evidence that local infrastructures – such as legal, business and social environments – affect access to crowdfunding. However, there is a lack of understanding of how to increase access to funds by improving specific legal and technological factors and of why these specific factors have different effects in different regions. Answers to these questions would help develop an effective framework for improving MSME access to funds in the WBOP.

Despite the existing literature on the challenges faced by MSMEs in accessing finance and the potential role of crowdfunding, there is a lack of understanding of how to increase access to funds by improving specific legal and technological factors in the context of the West Bank of Palestine. Moreover, there is limited knowledge about why these factors have different effects in different regions, which is essential for developing an effective framework for improving MSME access to funds in the West Bank of Palestine.

This research investigates the impact of the accessibility of funds for MSMEs on performance. Wasiuzzaman et al. (2020) stated that MSMEs contribute to economic growth and innovation; therefore, they require an effective and supportive infrastructure to support their financial needs. However, access to funds is based on a country’s economic and political stability (Ruziev and Webber, 2019). As MSMEs contribute to Gross Domestic Product (GDP), employment and innovation, they are more prominent in emerging economies (Ruziev and Webber, 2019; Wasiuzzaman et al., 2020).

Focusing on the MSME sector is also important because of its significant participation in the growth and employment of the Palestinian economy (Daoudi, 2004).

Many developing and developed countries have encouraged the accessibility of funds for MSMEs by developing effective policies and programmes aimed at promoting MSME innovations and contributions to the economy (Makhool, 2003). MSMEs contribute to the main indicators of macroeconomic development, employment and GDP growth at the local level. In the Occupied Palestinian Territories, unemployment rates are relatively high, reaching 26.9% in the WBOP and 41.7% in Gaza (ILO, 2018). MSMEs and economic growth have a causal relationship, but it is evident that many obstacles impede the MSME sector, with poor access to formal financing being the most important of these (Shinozaki, 2014; Erdogan, 2019; Moulick, 2020; Sanni, Oke and Alayande, 2020). As discussed above, there are different factors linked to local contexts that affect the accessibility of funds for MSMEs in different areas. At the same time, the uncertain political and economic nature of the Palestinian territories directly impacts the WBOP, which further complicates the access to finance for MSMEs in the area.

Several studies have specifically examined the accessibility of funds for MSMEs in Palestine. Financing is a crucial input for the development of MSMEs, as all categories of business firms need adequate funds to meet the requirements of working and fixed capital (Sabri, 2008). However, the majority of Palestinian small firms rely on self-funding through personal or family savings, receiving minimal support from official agencies. This lack of financial support often results in low growth and limited innovation among MSMEs (Sabri, 2008).

Abuznaid (2014) identified inadequate legal and technological infrastructure as one of the primary challenges faced by entrepreneurs in Palestine. Additionally, political instability and an unsupportive business environment pose significant obstacles for MSMEs in obtaining financial support (Qubbaja, 2019; Hanini et al., 2021). Wang (2016) demonstrated that MSMEs consider access to finance as the most critical barrier impeding their growth and success. Yoshino and Taghizadeh-Hesary (2016) found that the slow growth of MSMEs can be attributed to multiple barriers, including limited access to finance and a lack of comprehensive databases.

In light of these findings, this research aims to develop a context-specific framework that facilitates access to funds for MSMEs in the West Bank of Palestine. By addressing the unique challenges present in the region, such as political instability and inadequate infrastructure, the framework seeks to enhance MSMEs' growth and innovation while contributing to the existing literature and offering valuable insights for policymakers and stakeholders.

* 1. **RESEARCH AIM AND QUESTION**

The current research investigates the present challenges facing MSMEs in the WBOP and their influence on MSME performance and access to finance from FIs. Understanding these specific challenges can help develop a model to improve MSMEs’ access to finance in the WBOP.

1. **OBJECTIVE 1: To investigate the key factors influencing the accessibility of funds for MSMEs in the WBOP**

To achieve this objective, this study conducted a critical review of the existing literature, which provided an in-depth understanding of the challenges in obtaining finance for MSMEs and the obstacles this causes for MSME performance. These challenges also negatively influence the productive role of MSMEs in the economy and have become major concerns for governments and policymakers, especially in developing countries, including Arab countries. The factors impacting access to finance include legal environments, bank competition, financial literacy, and demographics, as confirmed by the existing literature. This raises the following question that this study addresses: What are the most important factors that play a role in the accessibility of funds for MSMEs?

1. **OBJECTIVE 2: To examine the relationship between the identified factors and the accessibility of funds, as well as their impact on the performance of MSMEs in the WBOP.**

To achieve this objective, this study proposes 12 hypotheses based on the literature review and qualitative findings. The independent variables selected for this study are: the demographic features of MSME owners, types of funding, low financial literacy, lack of government support, FIs’ terms and conditions, banking competition, and weak legal environments. The dependent variables include the accessibility of funding and MSME performance. These variables are tested using data collected from a sample of MSME owners in the WBOP. This objective aims to determine the variables that can negatively or positively influence the accessibility of funding. This can help to identify which variables are specific barriers that can decrease the access to funding as well as MSME performance in the WBOP. This objective thus addresses the following question: What is the relationship between accessibility factors and MSME performance in the WBOP?

1. **OBJECTIVE 3: To assess the influence of FIs’ terms and conditions on the accessibility of funds for MSMEs and their performance in the WBOP**

This objective seeks to gain insight into the loan conditions and requirements of FIs in relation to MSMEs, determine the current funding terms and conditions offered by FIs, identify whether suitable financial products are currently available that meet MSMEs’ needs, and identify the factors that prevent MSMEs from obtaining financing from different FIs. This objective answers the following question: What are the significant financial factors related to FIs that impact MSMEs' access to funds and their performance in the WBOP?

1. **OBJECTIVE 4: To explore the underlying reasons contributing to the barriers faced by MSMEs in accessing funding**

To achieve this objective, this study identifies the barriers that impact the accessibility of funds for MSMEs. Because MSMEs are privately owned, owners require financial support from FIs in the initial stages. The World Bank has declared that lender rights are not secure in Palestine as the cost of debt recovery and insolvency is high due to the weak legal and economic environment. Consequently, many FIs have strict requirements for MSMEs. As a result, MSMEs face stricter requirements and restrictions when accessing funding. The terms and conditions of FIs can create challenges regarding the accessibility of funding as many MSME owners are unable to arrange collateral, credit guarantors, or credit histories. This objective answers the following question: How do various factors act as barriers or facilitators for MSMEs' funding access in the WBOP?

1. **OBJECTIVE 5: To propose a tailored solution for addressing the identified barriers, with the aim of improving the accessibility of funds for MSMEs and enhancing their overall performance in the WBOP**

For this objective, this study seeks to identify appropriate solutions to increase the accessibility of funding. For instance, if the WBOP’s government guarantees MSME borrowing, FIs may be willing to relax the stringent requirements that leadto high loan application rejection rates. The Palestinian government should alleviate the burden on newly established MSMEs, as they often have low levels of investment, profit rates, and financial support. Many national and international donors support and contribute to Palestine’s economy by offering funds through EPCGF, PIF, and the US Overseas Private Investment Corporation (OPIC). These donors could further relax their criteria for offering opportunities, especially for newly established MSMEs. Palestine has no local currency; therefore, it deals with three currencies: the Israeli Shekel, US dollar, and Jordanian dinar. The PMA should ensure that the interest rate is under control so that FIs can support the MSMEs that cannot afford high interest rates during start-up and the initial years. This objective addresses the following question: What solutions can be proposed to address identified barriers and improve fund accessibility for MSMEs in the WBOP?

* 1. **RESEARCH METHODOLOGY OVERVIEW**

This research employs a pragmatist approach to identify a suitable solution for improving the accessibility of funds for MSMEs in the WBOP. In the context of this study, pragmatism encompasses the paradigms of both social constructivism and positivism. To address the research questions, this study uses pragmatism to determine the extent to which quantitative and qualitative methods can identify issues with the accessibility of funds for MSMEs in the WBOP and to explore the root causes behind these issues. Pragmatism provides a middle ground, both philosophically and methodologically, by offering a wide range of mixed-method designs for qualitative and quantitative approaches to the research questions.

Rather than developing abstract knowledge, the main concern of this research is to develop specific knowledge; that is, to create a model or framework that improves the accessibility of funds for MSMEs in the WBOP. This means that at the beginning of the study, the researcher makes no assertions about the accessibility of funds; assertions are only made in light of the research results. Major factors have been identified through the literature review, and these factors must be tested to determine whether or not they impact MSMEs' access to funds.

This research explores the root causes behind factors impacting the accessibility of funds, using qualitative research methods aligned with social construction to interpret points of view. Therefore, the production of knowledge is practical rather than merely theoretical. Practical knowledge is produced based on existing knowledge. The final contextual framework is based on institutional theory and provides a practical solution to the question at hand. Hence, a mix of qualitative and quantitative methods were selected. The quantitative methods are important for identifying the major issues regarding the availability of funds for MSMEs, whereas qualitative methods are useful for exploring the root causes behind the identified issues. This research also investigates whether or not the accessibility of funds impacts MSME performance in the WBOP, as well as proposing solutions to issues of fund accessibility, and thus requires inductive research to develop the required contextual framework. Therefore, this study adopts an abductive research approach.

* 1. **CONTRIBUTION**

This study contributes to the body of knowledge related to the accessibility of funding for MSMEs in the WBOP by addressing the need to understand the local context and the financial and non-financial factors that influence this issue. Institutional theory is applied to answer the research question, resulting in the major theoretical contribution of this research: the application of institutional theory to develop a context-specific framework that facilitates access to funds for MSMEs in the WBOP.

In addition, this research examines the institutional context of barriers to the accessibility of funds for MSMEs in the region. Consequently, the developed framework is based on institutional theory, extending and applying this theory in the practical context of the accessibility of funds for MSMEs. As the primary goal of this study is to gain rich insights into the multiple root causes of the lack of accessibility of funds, a mixed-method approach, combining qualitative and quantitative research, is employed.

It is also noteworthy that, to date, no study has compared the perspectives of FIs and MSME managers regarding obstacles to MSME funding. The developed framework will prove valuable for policymakers and FIs in addressing issues related to the accessibility of funds for MSMEs, ultimately supporting the enhanced performance of MSMEs in the WBOP.

* 1. **STRUCTURE OF THE THESIS**

**The First Chapter** of this study provides an in-depth understanding of the importance of MSMEs and the challenges facing MSMEs when accessing funds from FIs. This chapter shows the importance of MSMEs in generating economic growth in Palestine and that it is essential for MSMEs to have access to funds. A lack of access to finance is one of the major obstacles facing MSME development and is frequently mentioned in the entrepreneurship literature. Because Palestine is politically and economically unstable, MSMEs in Palestine face challenges such as inadequate access to financial resources and credit facilities. Based on the scope and motivation of this study, the first chapter identifies the research aim, which is to investigate the current challenges faced by MSMEs, as understanding these specific challenges can help in proposing a model to improve MSME access to finance in the WBOP.

**The Second Chapter** provides detailed coverage of the economic, social, political, cultural and geographical contextual factors related to the research question, with the aim of developing a specific contextual framework to facilitate access to funds. This chapter also provides an understanding of the discrepancies in the definitions of MSMEs, as well as the major sectors of MSMEs and how they contribute to Palestine’s economic growth. Overall, this chapter provides a specific understanding of the contextual factors that influence the accessibility of funds for MSMEs in the WBOP.

**The Third Chapter** is a literature review that provides a critical understanding of the importance of the accessibility of funds for improving MSME performance. This chapter thoroughly discusses and highlights the most important factors impacting this issue. It provides a critical review of crowdfunding as an alternative source of loans for MSMEs. Finally, it reviews the impact of government on the accessibility of funds for MSMEs and discusses the importance of public guarantees.

**The Fourth Chapter** identifies the critical relationship between different factors that influence the accessibility of funds for MSMEs in Palestine. This chapter critically discusses methodological flaws and research gaps, using a contextual understanding of MSMEs in Palestine to propose hypotheses and a theoretical research framework. This chapter highlights the most important factors and their relevance to conditions in the WBOP. It provides an understanding of how and to what extent these factors impact MSME’s funding access.

**The Fifth Chapter** thoroughly discusses the relevant philosophical and methodological tools for achieving the research aim and objectives. These philosophical and methodological understandings led to the selection of the mixed method for this study, which is useful for fulfilling the research aims and objectives. It is important to select an appropriate methodology for understanding the current issues around MSME performance and their access to funds. The research findings propose a context-specific framework for improving the accessibility of funds for MSMEs in the WBOP.

**The Sixth Chapter** analyses data collected from a quantitative survey (questionnaire). A preliminary analysis was conducted to investigate the normality, validity, reliability, mean, standard deviation, common method variance and homoscedasticity of the data. After conducting various tests, this study determined that a correlation test and linear regression test can be used to address the hypotheses and meet the research objectives.

**The Seventh Chapter** is related to a qualitative study in which interviews were transcribed and a coding scheme was established to understand the specific challenges faced by MSMEs and propose a model to improve MSME access to finance. In the thematic analysis of the data, rich responses from multiple MSME stakeholders were gathered under each theme. The emergent pattern was interpreted to understand the challenges faced by MSMEs and the supporting factors. This chapter discusses the four main identified themes and describes the codes on which each theme is based. The four themes are as follows: strategic overview, credit borrowing requirements and limits for MSMEs, common challenges and solutions for MSMEs, and the roles of different institutions and authorities. Various important concepts are discussed within each major theme to help understand the specific challenges faced by MSMEs and propose a model to improve their access to finance.

**The Eighth Chapter** includes a critical discussion and comparative analysis of the findings regarding the current literature, leading to the development of the final context-specific model. Both the qualitative and quantitative findings are discussed and compared with the existing literature, which helps to establish the novelty of this study.

**The Ninth Chapter** is a concluding one in which the study's qualitative and quantitative findings are summarised. This chapter outlines the appropriate solutions for dealing with accessibility barriers, increasing the accessibility of MSME funds and improving MSME performance. This chapter also identifies the theoretical and practical contributions of this study as well as its limitations and key directions for future research.

# CHAPTER 2: THE WEST BANK OF PALESTINE CONTEXT

## 2.1 INTRODUCTION

To achieve the objective of this research – identifying the key issues facing MSMEs in accessing funds in the WBOP – it is necessary develop a specific contextual framework to understand and identify the interlinked issues involved in facilitating funding access. To this end, this chapter provides an in-depth understanding of the geographical location of the WBOP and discusses the current political, financial and economic circumstances. It also provides various figures on the number of existing MSMEs and their need to obtain financial funding compared to large-scale organisations.This chapter highlights the efforts and contribution of the FIs in financing MSMEs. It also sheds light on the role of the Palestinian government in assisting MSMEs to improve their performance and evaluates the government’s current efforts to ameliorate the MSMEs’ economic conditions and their access to funds.

## 2.2 THE STATE OF PALESTINE

The state of Palestine covers an area of 6,220 square kilometres. It consists of two main parts – the West Bank and the Gaza Strip – which share no geographical borders. The two parts are separated by occupation, with a distance of approximately 75 km between Gaza and the West Bank, as shown in the following Figure 2.1 (Akella and Eid, 2018).

The Gaza Strip is the south-western part of Palestine, located on the south-eastern coast of the Mediterranean Sea. The area of the Gaza Strip is approximately 365 km2, with an approximate length of 45 km and a width ranging between 6 and 12 km. It is situated between the Mediterranean Sea in the west, Egypt in the south and Palestine (occupied since 1948) in the east and the north. The West Bank has borders with Jordan to the east and occupation to the north, south and west.

Under the Oslo Accords signed between the Palestine Liberation Organization (PLO) and the government of occupation in Washington in 1993 (Shihadeh et al., 2019), the Palestinian Authority is responsible for the administration of the territory under its control. The Accords also stipulated the withdrawal of the occupation army from parts of the Gaza Strip and the West Bank. However, in reality, occupation has separated the Gaza strip from the West Bank by force since 1994, and the occupation authorities still refuse to allow the free movement of people between the two sides. In fact, such movement is only allowed in one direction, from the Gaza Strip to the West Bank, and under certain humanitarian conditions. Due to these circumstances, the Palestinians in the West Bank and the Gaza Strip live in two different, geographically separated areas. According to the Palestinian National Information Centre, 5.3 million people resided in the Palestinian territories in 2021; approximately 3.2 million in the West Bank and 2.1 million in the Gaza strip (PCBS, 2021).

Choosing Palestine as the focus of this research is important due to its unique political, economic, and social challenges that have a direct impact on the development and growth of MSMEs in the region. The geographic separation between the West Bank and the Gaza Strip, as well as the restrictions on the free movement of people and goods, creates a complex environment for MSMEs to operate and access funding. In addition, the political instability and ongoing conflict in the region further exacerbate the challenges faced by MSMEs in terms of accessing financial resources and credit facilities.



Figure 2.1: Map of Palestine

## 2.3 EDUCATION AND UNEMPLOYMENT IN THE WEST BANK

The decisions to focus on Palestine, specifically the West Bank, is further justified by the high unemployment rates and the challenges faced by educated individuals in the region. As the research aims to explore the accessibility of funds for MSMEs, addressing the issue of unemployment, particularly among university graduates, is of critical importance. By developing a context-specific framework to facilitate access to funds, this research could potentially contribute to the creation of new business opportunities and promote entrepreneurship among the educated population. This, in turn, may help alleviate the high unemployment rates and reduce the migration of talented youth in search of better opportunities. Furthermore, the development of a thriving MSME sector could provide a strong foundation for a more diversified and resilient economy, which would be especially crucial in the context of Palestine's unique challenges and vulnerabilities.

As a developing country, Palestine faces an acute challenge of unemployment despite the good educational level enjoyed by 97.51% of the population. According to the PCBS (2020), the number of graduates from higher educational institutions alone reached 28,668 in the West Bank in the academic year 2019/2020. However, the unemployment rate has also increased, especially among university degree holders, who have to wait months to get jobs. Some cannot get the desired jobs, whereas others cannot compete in the job market (Sulaiman, 2019). According to statistics from the PCBS (2021), the unemployment rate of people with higher education has increased dramatically, reaching 24% in the West Bank. Moreover, the mismatch between their education and the labour market has left university graduates less equipped with the necessary skills and knowledge to prepare them for a career in their field of study (Alfoqahaa, 2018). The weak infrastructure for innovation and entrepreneurship has also curtailed access to finance to support entrepreneurship (Al-Madhoun and Analoui, 2004). Palestinian and UN periodic reports indicate that the unemployment rate is remarkably high among young people who hold university degrees and is still increasing annually as educational institutions are seen as a source of unemployment. Consequently, migration is now considered one of the solutions for young people trying to escape the cycle of unemployment and poverty, and has deprived the Palestinian economy of the opportunity to maximise the benefits of the energies of the youth (Salah, Yusof, and Mohamed, 2021).

* 1. **POLITICAL AND ECONOMIC STABILITY OF PALESTINE**

The Palestinian National Authority (PNA) was formed in 1994 after the Oslo agreement between the PLO and the occupying government of occupation as part of a five-year interim agreement (Shihadeh et al., 2019). However, the continued deterioration of conditions in Palestine led to a widening political, social and economic gap between the West Bank and the Gaza strip. In addition to the internal political conflict between Palestinians, the political restrictions imposed by the military occupation have remained virtually unchanged. Freedom of movement within the West Bank and between the West Bank and the Gaza Strip is severely curtailed, if non-existent (Khoury et al., 2021). In addition, the Paris Accord gave the occupiers the right to collect taxes on Palestinian imports and exports. However, despite the obstacles faced by the Palestinian economy during the past twenty years, the economy grew by up to 10% in some years. The economy grew from USD 5.5 billion in 1996 to USD 14 billion in 2020 at fixed 2015 prices and at an average annual rate of 4.5% (PMA, 2020).

The choice to focus on Palestine as a case study for this research is further justified by the unique set of political and economic challenges that the region faces. The political restrictions imposed by the occupation, the geographical separation of the West Bank and Gaza Strip, and the internal political conflicts have created a distinct environment that warrants investigation. The conservative nature of the banking sector in Palestine, coupled with the need for improved financial infrastructure and financial inclusion, make it essential to explore the accessibility of funds for MSMEs in this context.

Because the Palestinian territories are geographically separated, this has resulted in the financial situation of these territories being weakened, ultimately affecting the economic growth of the Palestinian economy (Al-Madhoun and Analoui, 2004). Due to the instability of the political climate, banks’ credit policies are very conservative. The main problem is the reluctance of the banks to finance this sector because of the high risks (Najjar, 2009).

Herzallah, Gutiérrez–Gutiérrez, and Munoz Rosas (2014) argue, however, that when a government improves the infrastructure of a country’s financial services, it encourages small firms and businesspersons to utilise these services and reap benefits from the business-friendly government policies (Herzallah et al., 2014). Regulatory institutions such as the Palestine Capital Market Authority (PCMA) and PMA should therefore issue clear rules, regulations and instructions to facilitate the access of individuals to the institutions and financial systems. Such improvements would enable individual businesspersons to gain access to finance (Hetland, 2015). The methods and tools in financial education include FIs such as seminars, educational pamphlets, training courses, workshops, participation in training for students at college and university level, educational competitions, and employment opportunities for university graduates (Pfefferman and Devries, 2015). The focus on the MSME sector is important because of its significant participation in growth and employment in the Palestinian economy (Daoudi, 2004).

The above demonstrates that the development of infrastructure is of paramount importance for financial inclusion. Despite the improvement of the market, only 10% of businesses in Palestine utilise formal lending sources, indicating that funding sources are not being adequately utilised in the region (Al-Madhoun and Analoui, 2003). Nevertheless, an improvement has been witnessed due to the efforts of the PCMA and PMA as they have restructured the financial inclusion process. Due to such efforts, a slight growth has been observed in the economy of Palestine. However, because of the country’s political instability, economic stability cannot be ensured. It is also because of this that financial inclusion continues to be affected despite several steps taken by the PCMA and PMA (Nabulsi, McNally and Khoury 2021). Government institutions should therefore continue offering financial awareness to the masses as it promotes and encourages financial inclusion. It is also important that the government reduces internet costs and other IT infrastructure costs to promote online banking. This will encourage people to utilise electronic methods of banking (Sharabati-Shahin et al., 2013) to do business and apply for finance online from the convenience of their own homes, especially small business owners and cottage industries (Al-Douri, 2021). Moreover, some people prefer Islamic financial products and services; therefore, the government should offer Shariah-compliant financial products and services.

## 2.5 GOVERNMENT POLICY RELATED TO MSMES AND ENTREPRENEURSHIP

There is widespread debate around the extent to which small- and large-scale firms are economically different, and this issue extends to the policy makers who argue over the pros and cons of the job opportunities for skilled and unskilled labour, the varieties of locations, economies of scale, production cost, allocated investment capital and ownership structure (Saadeh et al., 2019). Sabri (1998) cites various challenges for MSMEs such as the lower level of labour productivity, lower ratio of assets turnover, and lack of inventory turnover, which effectively shrink the opportunities available for external financing (Mitter, 2021).

For the majority of Palestinians, establishing an entrepreneurial endeavour begins at an individual level or with the help of family savings, with a minimum involvement of financing agencies. The financial support and motivation of MSMEs varies from one venture to another (Salem, 2021). One study evaluating the financial support of ventures in Palestine found that 53% of ventures are commenced by individuals with their own savings. A quarter of ventures were started by entrepreneurs without any previous experience in the field (Chenoweth, 2011). The motivation of these entrepreneurs was to invest their own savings to become self-employed. The Palestinian government, however, has limited influence in establishing and supporting MSMEs because its official policy is geared towards backing large-scale firms as they are seen as most helpful to achieving their objective of creating more employment opportunities (Amit-Cohen, 2012).

However, there were several economic developments plans issued by the Palestinian Ministry of Planning between 2005 and 2008 that gave MSMEs facing challenges financial support (Magableh, 2020). Despite this, research found no evidence of such policies supporting the development and growth of MSMEs regarding business regulation and tax exemption, thus leaving them to face more challenges and financial barriers (Woldie, Laurence and Thomas, 2012).

However, exemptions whereby taxes benefit large-scale firms can be found such as the Palestinian law of investment promotion, which includes exemptions for customs and other taxes; an income tax exemption for a five-year time period for newly established firms, and furniture and electronic equipment exemption from custom fees (Abu-Eideh, 2014). These privileges are only granted to some large-scale firms and newly established ones with a minimum capital of one hundred and fifty thousand dollars, which, as clearly stated in articles 22, 23 and 35 of the law, are not designed for MSMEs (Palestinian law of investment promotion, no date).

Nevertheless, there are other groups and non-governmental organisations (NGOs) that focus their efforts on MSMEs. First, there is some support from microfinance programmes provided to MSMEs and run by the United Nations Relief and Works Agency (UNRWA). The UNRWA states that its mission focus is to improve SME growth and micro entrepreneur’s businesses, reduce the unemployment ratio, sustain jobs, empower women and offer them opportunities to generate income (Farsakh, 2016).

Second, some NGOs have also offered their assistance to those entrepreneurship projects owned by women, whereas others have provided assistance to MSMEs regardless of their owners (Shihadeh, 2019). Big NGOs have acted as microfinance institutions (MFIs), offering loans to SMEs including members of the Palestinian Network for small and microfinance (PNSMF), which include: Palestine for Credit and Development (FATEN) loan, the Palestinian Businesswomen’s Association, the Arab Centre for Agricultural Development (ACAD), Corporative Housing Foundation (CHF), the Palestinian Agriculture Relief Committee (PARC) Caritas Jerusalem, American Near East Refugees Aid (ANERA) and the Young Men’s Christian Association (YMCA) (Source, NGOs).

Third, the Palestine Development Fund offers microfinance services to SMEs. It is essentially a semi-government institution which helps both SMEs and newly established large-scale firms. All of these institutions work within the framework of the government's plan to combat unemployment and poverty while also providing financing for MSMEs.

Examining Palestine in this study offers a valuable perspective on the intricate dynamics between government policies, support systems, and the growth of MSMEs and entrepreneurship within a unique socio-economic context. In Palestine, large-scale firms are often favoured by the government, while MSMEs tend to depend on personal savings, family backing, or assistance from non-governmental organisations for financing.

The restricted role of the Palestinian government in fostering and aiding MSMEs, along with the active presence of various NGOs and other institutions supporting entrepreneurs, highlights the financial hurdles encountered by MSMEs in the area. This research seeks to explore the interconnections among these factors and their impact on the funding accessibility for MSMEs in a setting where government support is not as extensive. Consequently, the findings will provide essential insights for devising strategies to address the distinctive challenges faced by MSMEs in Palestine and comparable environments.

## 2.6 MICRO, SMALL AND MEDIUM-SIZED ENTERPRISES

### 2.6.1 Definition of the MSMEs in Palestine

Micro, Small, and Medium-sized Enterprises (MSMEs) are key drivers of economic growth and job creation, particularly in developing countries. MSMEs play an important role in many economies, as they contribute significantly to economic growth, job creation, and entrepreneurship (Baidoun et al., 2018). MSMEs are characterized by their relatively small size, limited resources, and simple organizational structure. The definition of MSMEs can vary depending on the cultural, economic, and political context in which they operate. In many European countries, the definition of MSMEs is based on factors such as the number of employees, annual turnover, and ownership structure (United Nations, 2017). However, this can differ in Palestine and other countries in the Middle East. For instance, in Palestine, MSMEs are defined by the Palestinian Central Bureau of Statistics based on the number of employees and the value of their fixed assets (Palestinian Central Bureau of Statistics, 2021). This definition is in line with the United Nations' International Standard Industrial Classification of All Economic Activities (ISIC), which is widely used in the Middle East.

Because factors such as conflict, political instability, and limited access to financing can impact the ability of small businesses to grow and succeed, a more nuanced and context-specific definition of MSMEs may be necessary in order to accurately assess the challenges and opportunities faced by these businesses in Palestine. In order to ensure consistency and a clear understanding of MSMEs in Palestine, a definition of MSMEs should be chosen that takes into account the local context and challenges faced by small businesses in the region. In this thesis, the definition of MSMEs follows the widely accepted and internationally recognized ISIC definition (United Nations, 2017): "MSMEs are defined as businesses with less than 10 employees and a fixed asset value of less than USD 50,000." This provides a clear and consistent basis for analysis and allows for meaningful comparisons to be made across countries and regions (United Nations, 2017).

### 2.6.2 MSMEs and the Palestinian Economy

MSMEs play a significant role in contributing to economic development and increasing the domestic national products, exports and the consistent growth of different sectors. They also play a similar role in reducing unemployment. Because they are small businesses entirely reliant on domestic employment and job creation, they have the advantage of being founded with little capital (Qubbaja, 2019). MSMEs contribute to fulfilling the domestic markets’ needs for goods that are difficult to meet in large industries with low demand. Small businesses are also distinguished by their geographical spread and population development, particularly in rural areas. These businesses rely heavily on raw materials in their operations and employ local people.

According to the PCBS (2017), the total number of establishments operating in Palestine in 2017 was 158,573, of which 108,471 are located in the West Bank, whereas 50,102 are located in Gaza. Compared to 2012 data, there was an increase of 9.4% in the number of establishments in Palestine, totalling 144,969 establishments, whereas there were 132,874 establishments according to the 2007 census, 88,806 in the 2004 census and 70,887 in the 1997 census. However, the total number of workers serving those projects in Palestine in 2012 did not exceed 131,730 workers: 68% (89,479) in the West Bank and 32% in the Gaza Strip (42,251). Table 2-2 below indicates that the number of workers in MSMEs establishments in the West Bank increased by a little more than 10% between 2012 and 2017.

Within the West Bank, the governorates of Ramallah, Jenin, Hebron and Nablus boast the largest number of establishments. There are 83,665 such establishments and most of them are sole entrepreneurship (Al-Douri, 2021). Of 108,471 establishments operating in the West Bank, the majority of businesses are active in wholesale, retail and repairs – 54,605 or 50.3% (PCBS, 2017). Service activities are ranked second with 37,575 establishments, representing 35%, whereas other manufacturing activities total 15,702, or 14.4%, followed by construction activities at 589, or 0.5% (PCBS, 2017).

### 2.6.3 The Development Number of Establishments in the West Bank during the Period 1997–2017

In line with international recommendations, the law of general statistics in Palestine in the year 2000 requires a census of establishments every 5 years. According to the PCBS, the total number of establishments in the West Bank for 1997 was 49,318. The number of establishments in 2017 reached 108,471, and the annual growth rate from 1997 to 2017 was approximately 4% during a period of 20 years (Table 2-1). One aspect of note is that the number of establishments has increased at varying rates during the past 20 years. The annual growth rate of increase in the number of establishments ranged at a rate 4% for the period from 1997 to 2017.

Table 2.1: Number of establishments in Palestine (1997–2017) PCBS, 2017

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Years | 1997 | 2004 | 2007 | 2012 | 2017 |
| Number of Establishments Operating in the Palestine | 70,887 | 88,806 | 132,874 | 144,969 | 158,573 |
| Number of Establishments Operating in the West Bank | 49,318 | 59,151 | 94,205 | 98,391 | 108,471 |

### 2.6.4 The Development Number of Workers in MSMEs Establishments in the West Bank during the Period (2012–2017)

The table data (2-2) indicate that the number of workers in MSME establishments in the West Bank increased by a little more than 10% between 2012 and 2017.

According to the distribution of establishments operating in the MSMEs sector in the West Bank and considering the size of employment groups, the results indicate that 90% of the total operating establishments were micro-enterprises, 7.46% were small and 2.76% were medium during 2017.

Table 2.2 Enterprise classification and number of employed persons in the West bank (2012–2017; PCBS, 2012 and 2017)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Enterprise classification** | **Number of Employees** | **Palestine**  **No. of Employed Persons** | | **The West Bank**  **No. of Employed Persons** | |
|  |  | 2012 | 2017 | 2012 | 2017 |
| Micro | 1 – 4 | 117,234 | 130,087 | 79,700 | 88,446 |
| Small | 5 – 9 | 9,977 | 10,847 | 6,561 | 7,357 |
| Medium | 10 – 19 | 2,983 | 3,839 | 2,097 | 2,729 |
| Total |  | 131,730 | 144,773 | 89,479 | 98,532 |

In studying MSMEs in Palestine, it should be noted that the existing enterprises are classified as MSMEs, which indicates that the Palestinian economy is still dependent on micro enterprises. SMEs collectively constitute a small percentage of the total number of companies operating in Palestine. The Palestinian Authority is largely based on small projects, which constitute more than two-thirds of the number of institutions operating in the country. This is a good indicator that must be considered by those responsible for the needs of these institutions in order to effectively contribute towards real and sustainable development.

This chapter has so far provided an in-depth understanding of the geographical location of the West Bank and discussed the current political, financial and economic circumstances. It has also provided the various figures on the existing number of MSMEs and their need to accumulate financial funding compared to large-scale organisations. For example, it is worth noting that one of the reasons behind selecting the West Bank as a case study for this research is that it contains a large proportion of the Palestinian population. In 2021, approximately 3.2 million people out of 5.3 million Palestinian inhabitants lived in the West Bank, where there are more professional jobs, businesses and other opportunities. The second reason is that the majority of people (97.5%) hold a good level of education in the West Bank, yet among these 28,668 or 24% are unemployed and thus some take their own business initiatives in order to survive. Other people who do not have sufficient financial resources and employment opportunities, however, prefer to migrate from the West Bank to other locations.

The political instability and the daily constraints and obstacles created by the Israeli occupation place more obstacles for people in the West Bank wanting to establish their own businesses. For instance, commercial banks require that loans must be 100% backed by the land because under registration deeds (Kushan Tabu), the document should be registered under the Palestine Registration Act, showing the chain of ownership of land and property. Unless the deeds are registered in the buyer's name in the government records, the buyer does not become the official owner of the land.

As the World Bank (2017) highlighted, the collateral of banks is excessive, often a loan of 130% to 200%. Therefore, the default risk is very high, which has further tightened access to finance for MSMEs. Due to these barriers to accessing financing from banks, it is reported that almost 53% of ventures are commenced by individuals from their own savings. Although 130,000 loans valued at 120 million dollars up to the year 2017 were offered by UNRWA to Palestinian SMEs, these are insufficient, especially given the growing population of MSMEs in West Bank.

Again, in the context of Israeli involvement, the Paris Accord allows Israel to collect taxes on Palestinian imports and impose it on their exports, which makes it extremely difficult for MSMEs to import machinery or goods from abroad, especially considering the lack of governmental financial support. It has also been found that most Palestinian government support is geared towards large-scale organisations as they can offer high rates of taxes and help meet the employment opportunities promised by government policies, and hence MSMEs fail to attract equal or similar attention from the government.

Therefore, it is important to further explore and understand the MSMEs’ financing challenges in order to develop a framework that can improve their access to funding, given their major economic contribution to the Palestinian economy.

## 2.7 EFFORTS AND CONTRIBUTIONS OF FIs TO SUPPORT THE MSME SECTOR

FIs and MSMEs are two key sectors that play an important and complementary role in enriching the economy. MSMEs contribute to economic development by creating jobs and increasing GDP, and FIs help MSMEs grow by providing long-term investment financing. FIs invest in deposits to generate profits for their investors, and MSMEs achieve their expansion and growth objectives by investing in these deposits. Consequently, both sectors play a vital role in assisting each other, a unique financing approach provided by FIs.

The PMA was established in 1994 with the aim of implementing and regulating monetary policies and supervising bank regulations. Compared to neighbouring countries, Gaza and the West Bank have a small number of private banks. Currently, there are 13 (local and foreign) banks with 379 branches throughout the country and 10 specialised lending institutions working in the occupied Palestinian territories (Salem, 2021). Palestine still does not possess its own currency and relies on using other countries’ currencies, namely the Israeli currency (New Israeli Shekel, NIS) for daily exchanges; the Jordanian Dinar (JD); the US Dollar (USD); and the Euro (€) for savings and commercial exchanges (Jaraiseh, 2013; Hamad, 2019).

Recognising the importance of MSMEs, the PMA has implemented strategic plans to encourage young people to invest in these enterprises, with the aim of diversifying sources of income and reducing unemployment. Economic reforms have been undertaken to diversify sources of income, including increased employment opportunities for Palestine citizens, expansion of investment and international trade, and general support for MSMEs (PMA, 2013).

According to the PMA, (2020), banks' total assets (at the end of 2020) increased by 11.2% to USD 19.9 billion. At the same time, deposits increased to USD 16.5 billion, up by 11.5%, and the credit portfolio increased by approximately 12 % compared with 2019, to approximately USD 10.1 billion, accounting for more than half of the total assets of the banking sector. Despite these improvements, the ability of the MSME sector to access credit has declined. Credits granted to this sector decreased since 2019 by 15.4% to USD 1.1 billion (Table 2.3).

Due to the COVID-19 pandemic and the repeated closures that Palestinians experienced during 2020, as well as the cessation of many economic activities, the small and micro enterprises sector witnessed a decline in accessing banking credit.

Table 2.3: Data of the Banking Sector 2016–2020 (USD Billion) (PMA database 2021)

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Years | Total Assets of Banks | Total Deposits | Total Credit Portfolio | Total Credit MSMEs | Percentage of MSMEs of Total Credit Facilities |
| 2016 | 14.2 | 11.7 | 6.9 | 1.0 | 14.5% |
| 2017 | 15.9 | 13.1 | 8.0 | 1.4 | 17.5% |
| 2018 | 16.1 | 13.3 | 8.4 | 1.4 | 17 % |
| 2019 | 17.9 | 14.8 | 9.0 | 1.3 | 14.4 % |
| 2020 | 19.9 | 16.5 | 10.1 | 1.1 | 11% |

Banks in Palestine provide all financial services for Palestinians, such as current accounts, overdraft accounts, money transfers, commercial loans and savings. Magableh (2020) reports growth in the number of public banks and a similar increase in the number of granted loans. FIs have always had a very conservative lending policy and, hence, have required excessive collateral, especially real estate, to protect their interests, often up to the amount of a loan, due to the unstable political climate.

Table 2.4 below shows that credits granted to MSMEs by banks and specialised lending institutions by the end of 2020 were worth USD 1,228.4 billion, down 14.4% from the previous year. The largest contribution came from the banking sector at 92.3%, equivalent to USD 1,133.7 billion, a 15.4% decrease from the previous year, whereas specialised lending institutions contributed 7.7% of this portfolio, or USD 94.7 million, and a marginal decrease of approximately 0.6% from 2019.

The data confirm that the total loan granted to MSMEs by specialised lending institutions was at its highest – 110 million dollars in all economic activities – during 2017, whereas it did not exceed 94 million dollars in 2020. In addition, banks recorded the highest value in all economic activities during 2018 (1,377 billion dollars) whereas the amount of loan did not exceed 1,133.7 billion dollars in 2020 (Table 2.5).

The relative importance of MSMEs’ credit portfolio declined during 2020 to approximately 14.5% of the total credit portfolio granted by banks to the resident private sector, compared to 18.1% in 2019. This is due to the economic conditions that prevailed in 2020 and the accompanying rise in risks, in addition to the suspension of work in many institutions due to precautionary measures against the pandemic.

Table 2.4 Outstanding loans granted to the MSME sector by economic activity, 2016–2020 (PMA database, 2021)

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Sector** | **Banks**  **(USD million)** | | | | | **Specialised lending institutions**  **(USD million)** | | | | |
| **2016** | **2017** | **2018** | **2019** | **2020** | **2016** | **2017** | **2018** | **2019** | **2020** |
| Constructions | 118.7 | 155.9 1 | 161.2 | 221.2 | 216.7 | 1.3 | 0.8 | 0.4 | 0.2 | 0.2 |
| Commerce | 463.4 | 678.7 | 716.9 | 600.9 | 532.5 | 43.1 | 46.5 | 44.3 | 44.1 | 45.1 |
| Industry | 134.0 | 196.9 | 160.9 | 164.8 | 149.5 | 9.0 | 10.8 | 11.0 | 9.7 | 8.3 |
| Agriculture | 25.3 | 29.4 | 36.8 | 41.5 | 31.2 | 21.2 | 20.2 | 18.5 | 13.2 | 13.7 |
| Tourism | 6.4 | 3.4 | 5.8 | 16.8 | 15.3 | 8.3 | 9.6 | 7.3 | 5.0 | 3.5 |
| Services | 112.2 | 114.1 | 110.9 | 168.9 | 109.4 | 19.2 | 20.9 | 22.4 | 22.5 | 23.5 |
| Others | 158.5 | 179.6 | 185.4 | 123.4 | 79.1 | 2.2 | 1.9 | 0.6 | 0.6 | 0.4 |
| Total | 1,018.5 | 1,358.0 | 1,377.9 | 1,340.5 | 1,133.7 | 104.3 | 110.7 | 104.5 | 95.3 | 94.7 |

It is important to mention that Palestine banks have the ability to generate bank deposits but most of their lending activities emphasise private sector loans that finance large organisations focused on consumer products. Consequently, those MSMEs who are small in nature and focused on production cannot equally access such financing opportunities. The banks' lending policies differ from one bank to another, whereby there is no specific uniform policy in financing MSMEs in the West Bank (Sultan, 2014). In addition, the limited access to the international market has reduced the opportunities for MSMEs in Palestine to grow their businesses. The exposure of the Palestinian business sector to the Israeli economy creates a great disadvantage for its competitiveness as Israel tends to limit the growth of MSMEs for its own benefit (Salah et al., 2021). Banks are reluctant to provide the necessary funding for these projects in order to protect the funds of depositors; consequently, these projects’ financing do not exceed 15% at best. Therefore, it is necessary to study the challenges with respect to financing MSMEs and the suitable financing options available for them.

### 2.7.1 Commercial Banks

A commercial bank is a financial institution that accepts deposits and grants credit; it is an intermediary between those with surplus funds and those who need them. Commercial banks possess almost one-third of the financial assets of all FIs in an economy. They can generate funds from public-deposit reserves and provide all credit needs to individuals, businesses and even governments. The PMA emphasises the importance of MSMEs and acknowledges their pivotal role in production, employment and income generation, and economic development. The Palestinian economy depends entirely on MSME activity as they constitute 95% of the Palestinian economy (PMA, 2020). Despite their importance, MSMEs face several problems accessing finance, such as their size, inadequate facilities, lack of financial literacy and poor management. MSMEs need to borrow to finance their projects but cannot provide guarantees, leading to them paying higher rates of interest and exposing them to higher risk. Commercial banks, however, are obligated to hold sufficient liquidity to fund depositor withdrawals. Due to the risks involved with providing finance to MSMEs and the need to protect depositor funds, commercial banks are reluctant to fund MSME projects. The primary objective of commercial banks is to maximise profit with minimal risk; they seek high returns on and guarantees for any loans they grant. The loans they grant to small projects are usually small and have sufficient asset-based guarantees – often of greater value than the loan – which achieves their profit and risk-reduction objectives.

Although 13 banks operate in Palestine, this study only examines the Bank of Palestine and The National Bank because they are well-known commercial banks, have branches countrywide and offer significant financing opportunities for MSMEs. Moreover, both of these banks have a special financing department that aims to educate and facilitate finances for MSME clients in Palestine. Both banks have established a department to support MSMEs and offer them financial opportunities with reasonable interest rates and maturity periods; this is in contrast to other banks, which consider MSME financing to be high risk. This study focuses on financial reports from The National Bank and the Bank of Palestine from 2015 to 2020 and examines their engagement with MSMEs.

This study presents information from these two major MSME-financing commercial banks. A descriptive analysis of this information determines the contribution of commercial banks to the financing of MSMEs and how that financing enables them to play their role in socioeconomic development and thus help solve the problems of poverty and unemployment.

#### 2.7.1.1 Bank of Palestine

The Bank of Palestine is a Palestinian national bank established in 1960 and has 74 branches and offices across Palestine. It has a 31.93% share of the deposits market and a 34.12% of loans; this shows that the bank is focused on improving funding accessibility across Palestine. The bank plays an active role in microfinancing and SMEs; this section focuses on the programmes the bank offers to MSMEs. It designs MSME financing programmes to support productive projects by developing existing projects and establishing new ones. The bank provides loans with a grace period and concessional terms through its own programmes. It focuses on allocating loans with a value which reflects project size and estimated revenue, such as a loan for 85% of the cost of purchasing goods or equipment. There are several credit programmes of this type, including bank loans and foreign-agreement programmes. These programmes are for specific purposes; for example, in 2021, the Bank of Palestine signed an agreement with the European Bank for Reconstruction and Development to support MSMEs and the Women in Business Programme with a loan of USD 15 million. In addition, the government, the PMA and the banks are forming an MSME financing fund of USD 300 million; this includes working with loan-guarantee programmes such as ARIZ. ARIZ targets FIs that comply with international standards for credit risk management.

To become eligible for the ARIZ guarantee, the banks have to go through an eligibility process conducted by the local Agnese Frances development office.

The Bank of Palestine focuses on sustaining its commitment to the real economy by providing MSMEs with the finance they need as this sector remains the engine of the Palestinian economy. According to financial reports, MSMEs contribute up to 98% of the country's economic activity. Table 2.6 below highlights the financing performance of the Bank of Palestine from 2015 to 2020. Notably, MSME financing has increased significantly since 2019.

Table 2.5 Summary of the Bank of Palestine's performance from 2015–2020 (Annual Report,2020)

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |
|  | Year | Total Credit  Facilities | Amount of  MSME Financing | Share of MSME from Total Credit Facilities | Percentage Change of Relative Importance | Annual  Growth  Rate of MSMEs’  Financing |
|  | 2015 | 1,388,805,441 | 263,873,033 | 19.0% | 0.00 | 0.00 |
|  | 2016 | 2,240,844,838 | 371,980,243 | 16.6% | -12.6% | 41.0% |
|  | 2017 | 2,554,216,880 | 282,385,857 | 11.1% | -33.4% | -24.1% |
|  | 2018 | 2,782,226,225 | 263,089,905 | 9.5% | -14.5% | -6.8% |
|  | 2019 | 2,983,385,227 | 448,000,000 | 15.0% | 58.8% | 70.3% |
|  | 2020 | 3,266,748,588 | 460,000,000 | 14.1% | -6.2% | 2.7% |
|  | Average | 2,536,037,866 | 348,221,506.33 | 14% | - 0.01 | 0.14 |
|  | Growth | 135% | 74% | -26% |  |  |
|  | Annual Average Growth  Rate | 17 | 14% | -0.015% | -0.85 | -0.58 |

Table 2.5 further shows that the Bank of Palestine increased its financing from USD 1.39 billion in 2015 to USD 3.27 billion in 2020. On average, it increased by USD 2.54 billion with growth of 135% and an average annual growth rate of 17%. The share of this funding going to MSMEs in this period increased from USD 264 million to USD 460 million. On average, it increased by USD 348 million with growth of 74% and an average annual growth rate of 14%; this shows that the Bank of Palestine's financing to MSMEs in this period did not increase at the same rate as its total financing. The relative importance of MSME financing in the same period ranges from 9.5% to 19%.

Regarding the percentage change of the share from total credit facilities of MSME financing, the percentage of financing to MSMEs decreased significantly between 2016 and 2017 – from 12.6% growth to 33.4% contraction – but then increased in the following years, reaching 58.8% in 2019. Furthermore, it decreased significantly in 2020, falling by 6.2% when the annual average growth rate decreased by 0.8%; this is because MSME credit costs were high as there are no special interest rates for such projects, which led to an decrease in demand.

These figures show that despite the important role of MSMEs in Palestine, commercial banks are still not contributing sufficiently or serving the financial needs of MSMEs.

#### 2.7.1.2 The National Bank

The National Bank has had several successful mergers and acquisitions in the Palestinian banking sector in its history. The National Bank acquired Bank al Etihad's operations in Palestine – a ground-breaking transaction in 2015 – and is the first Palestinian bank to acquire a Jordanian bank. The National Bank has also led consortiums, including one to acquire a major stake in the Palestine Islamic Bank, a 2018 acquisition that is the largest transaction in the history of the Palestinian Stock Exchange. Recently, The National Bank has also acquired the operations of the Jordan Commercial Bank in Palestine. The National Bank operates through 36 branches and offices throughout the West Bank and Jerusalem and offers modern digital products, including e-banking, mobile banking, a digital service centre and a well-positioned network of ATMs. The National Bank is the first to have a branch of a Palestinian bank inside Jerusalem after an absence in the city of over 50 years and is the first Palestinian bank to launch an onboarding digital service, doing so in 2021; this reaches Palestinians in rural areas and improves financial inclusion in Palestine.

The National Bank fulfils the following objectives:

* Offers a full range of microfinance solutions, including loans, savings, insurance, money transfer and investment to alleviate poverty;
* Reaches all Palestinians and MSMEs that have limited access to financing;
* Offers microfinance services directly or in partnership with companies, financial institutions, professional bodies or development organisations;
* Contributes to improving the legal and financial policies of the Palestinian microfinance industry;

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | Total credit facilities | Amount of  MSMEs Financing | Share of MSME from Total Credit Facilities | Percentage Change of Relative importance | Annual  Growth  Rate of MSMEs  financing |
| 2015 | 401,781,262 | 131,505,791 | 32.7% | 0.00 | 0.00 |
| 2016 | 519,317,318 | 197,155,102 | 38.0% | 16.0% | 49.9% |
| 2017 | 653,847,526 | 157,915,455 | 24.2% | -36.4% | -19.9% |
| 2018 | 1,327,001,463 | 217,452,754 | 16.4% | -32.2% | 37.7% |
| 2019 | 1,426,741,078 | 185,073,241 | 13.0% | -20.8% | -14.9% |
| 2020 | 1,750,545,046 | 207,348,285 | 11.8% | -8.7% | 12.0% |
| Average | 1,013,205,615.50 | 182,741,771.33 | 23% | -19.62 % | 10.80 % |
| Growth | 336% | 58% | -64% |  |  |
| Annual Average Growth  Rate | 31% | -10% | -14% | -0.72% | -1.25% |

Table 2.6 below shows that the National Bank increased its financing from USD 402 million in 2015 to USD 1.75 billion in 2020. On average, it increased by USD 1 billion with growth of 336% and an annual average growth rate of 31%. The share of MSME financing during this period increased from USD 131 million to USD 207 million. On average, this increased by USD 182 million with growth of 58%; this shows that The National Bank's financing to MSMEs in this period did not increase at the same rate as its total financing.

Table 2.6: Amount of funding granted by the National Bank for MSMEs (2015–2020) Summary of The National Bank's performance from 2015 to 2020 (Annual Reports of the Bank 2020)

The share from total credit facilities of MSME financing in the same period ranges from 11.8 % to 38%, with an average of 23 %. However, the growth rate was less than -64%, with an annual average growth rate of approximately -14%. Regarding the percentage change of relative importance, the percentage of financing to MSMEs decreases significantly between 2016 and 2017 – from 16% growth to a 36.4% contraction – and continues to decrease in the following years until 2020. This is because MSME credit costs are high as there are no special interest rates for such projects, which leads to a decrease in demand.

## 2.7.2 Islamic Banks

An Islamic bank is a financial institution compatible with Islamic Sharia and is governed by two basic principles: the sharing of profit and loss and the prohibition on collecting and paying interest by lenders and investors (Tarver and Khartit, 2021).

According to Huda (2012) and Abdul Rahman (2010), one of the most significant challenges facing MSMEs is the lack of finance, which hinders their growth and development and, consequently, reduces their competitive advantage. MSMEs do not enjoy high financial solvency at the development stage and are unable to secure the adequate guarantees required by commercial banks in traditional financing based on interest-bearing loans.

Islamic financial products can solve this problem by providing several instruments that can be adapted to the financing of MSMEs. Oseni, Hassan and Matri (2013) claimed that financing MSMEs using Islamic instruments fosters innovation and sustainability in smaller economies.

According to Haron and Ibrahim (2016), MSMEs in Palestine prefer Islamic financial instruments to conventional ones because of the fixed mark-up that provides borrowers with stable payment arrangements. This finding may be connected to the Islamic concept of investment-based finance and its valuable tenets, which are more suitable for financing start-up businesses than the processes provided by conventional debt-based banks. This type of financing constructs a long-term economic relationship of an investment nature between the financier and the project owner based on participatory designs in profit and loss.

Islamic finance has several tools and techniques to finance a business, such as Murabaha, Ijarah, Musharaka and Mudaraba.

1. **Murabaha: selling at a profit**

In Murabaha, the bank buys a product – including consumer goods and production assets – for a customer and owns it with some requirements. After the bank buys it, it sells it to the customer at a price that includes the purchase cost and a profit that reflects the bank's effort and expense; the customer then receives the product (Reille and Nassem, 2016).

Murabaha must finance the purchase of production units or raw materials and supplies essential for creating goods to fulfil its goal of developing MSMEs (Islamic Development Bank, 2021).

**2**- **Ijarah: directly financing a person**

At the customer's request, banks lease (*Ijarah)* their own or others' assets, and the customer pays instalments on an agreed date (Shoon, 2008); this process ends with an ownership transference to the lessee, which follows Islamic regulations (Jamie, 2016). At the end of the contract, if the customer does not pay the prepaid amount for the rent, the portion exceeding the lease is returned to the customer (Al-Safa Bank, 2021). Financing through leasing is useful for the owners of small and medium facilities that require production lines, such as printing and packaging, and projects that require equipment such as medical laboratories (Mohammed, 2017).

1. **Participation**

An investment contract where two or more parties agree to share money, work and profits following the terms of the agreement (Keton, 2020). The participants calculate losses at the same ratio as their share of capital investment, which the Islamic bank does by combining its funds with a third party (the project owner). All parties in the project's funding participate in the management and follow-up procedures, including the Islamic bank (Baaziz and Makhloufi, 2019). Participation diminishes and ends with ownership; the bank gradually sells its shares to the customer and collects profits from the project until the customer owns it outright. This thereby empowers the customer economically while the Islamic bank recovers its capital with a profit.

**4- Mudaraba**

Here the Islamic bank supplies the capital, whereas the client who owns the project is responsible for management, expertise and labour (Alhabashi 2015); the Islamic bank, although free to do so, does not manage the company on a daily basis. Instead it determines the conditions it considers essential to ensure the best possible use of its funds. At the end of the contract, it recovers the capital and the profits, but in the event of a loss, it suffers the entire loss (Okte, 2010). Mudaraba allows project owners to experiment – and to use and develop their talents – in production without worrying about money.

#### 2.7.2.1 The Contributions of Islamic Banks to the Financing of MSMEs

Table 2.7 below shows that the contribution of Islamic banks to MSMEs financing from the total financing of the Palestinian banking system (commercial and Islamic banks) is 2.59%, which is very low (PMA, 2020). Furthermore, the share of MSMEs provided by Islamic banks from the total financing of Islamic banks themselves is 12.61%, which may be an acceptable percentage in the context of the share of MSMEs provided by commercial and Islamic banks in the banking system as a whole. However, from a different perspective it is unacceptable given that the activity of MSMEs accounts for 95% of the Palestinian economy (PMA, 2020). That is, the diversity of Islamic financing formulas provided to owners of MSMEs is very low as the percentage of financing provided, such as participation, Mudaraba and leasing-to-own, is equivalent to 12.61%. Further studies are therefore needed to investigate the financing challenges that MSMEs face.

Table 2.7 Summary of the Islamic banks performance 2020

|  |  |  |  |
| --- | --- | --- | --- |
| Statement | Total Credit Portfolio  (USD million) | Amount of  MSMEs Financing  (USD million) | The share from total credit facilities |
| Total financing of Islamic banks themselves | 2,046.0 | 258.0 | 12.61% |
| Total financing of the Palestinian banking system (commercial and Islamic banks) | 10,078.7 | 258.0 | 2.59% |

*Source: (Annual Reports of PMA, 2020)*

It is important to note that Palestinian banks can generate bank deposits, but most of their lending activities are private sector loans that finance large organisations focusing on consumer products. Consequently, small MSMEs that emphasise production cannot access financing opportunities equally. All bank lending policies differ, and there is no specific MSME financing policy in the West Bank (Sultan, 2014). Moreover, limited access to the international market reduces growth opportunities for MSMEs in Palestine. The exposure of the Palestinian business sector to the Israeli economy significantly disadvantages its competitiveness as Israel tends to limit the growth of Palestinian MSMEs for its benefit (Salah et al., 2021). Banks are reluctant to provide the necessary funding for these projects to protect depositor funds; therefore, financing does not exceed 15%. Further studies are needed to explore the financing challenges facing MSMEs. The European Investment Bank states that MSMEs are the backbone of the Palestinian economy as they account for over 95% of all institutions operating in different economic sectors, contribute more than 55% to GDP and employ 85% of the active working population (EIB, 2021).

Despite the important contribution of MSMEs to the Palestinian economy, banks are still reluctant to provide credit facilities for such small projects, grant them special concessions in size of funding or interest rates, or even minimise guarantee obstacles; this means that banks in Palestine do not play an active role in financing MSMEs despite their important socioeconomic position. If there is a decline in the performance of MSMEs, it would be a threat to the national economy. Therefore, it is vital to create an appropriate banking system for funding small MSME projects. There is a need for coordination between MSMEs and international and local financial institutions. The government should enforce laws and develop strategies, policies and plans to meet the financial needs of MSMEs. MFIs can play their role in protecting stakeholders' interests by improving the accessibility of funds and securing investment in Palestine.

### 2.7.3 Microfinance Institutions

MFIs are specialised non-banking financial agencies which offer financial services to low-income populations (Karsh and Deek, 2019). Currently, there are ten MFI specialised microcredit companies under various legal structures, such as NFOs, donor programmes, and non-profit companies in the West Bank and Gaza. Aside from UNRWA, PARC and FATEN, the MFIs are very small (Khaled, Lauer and Reille, 2006). All Palestinian MFIs are members of the PNSMF, a coordinating body that helps bring the work of its member institutions together and establishes a framework to regulate and manage competition (IFC, 2007).

#### 2.7.3.1 The Contribution of MFIs to the Financing of MSMEs

Table 2.8 below shows that the contribution of MFI to MSMEs financing from the total financing of the MFIs is equal to (38%), which may be an acceptable percentage in the context of the share of MSMEs when compared with that provided by commercial and Islamic banks in the banking system, as mentioned in section 2.7.

Table 2.8 Summary of the Microfinance Institutions performance 2020

|  |  |  |  |
| --- | --- | --- | --- |
| Statement | Total Credit portfolio  (USD million) | Amount of  MSMEs Financing  (USD million) | The relative importance of financing both conventional and Islamic banks |
| Total financing of non-banking financial | 249.8 | 94.7 | 38% |

*Source: (Annual Reports of PMA, 2020)*

The active outstanding loan portfolio is USD 249.8 million (84% in the West Bank and 16% in the Gaza Strip; PMA, 2020). As their main target groups are the disadvantaged or low-income groups and non-profit organisations, the guarantees required are less important and more flexible than the banking sector. NGOs still dominate the microfinance sector in Palestine, which is funded through donations, and a few commercial banks provide microfinance services (MAS, 2010).

MFIs in Palestine provide their customers with only small loans and do not offer other financial services such as savings, transfers, ATM cards and chequebooks. It is still necessary for the commercial banks to extend their role in terms of financing because these services are only provided through banks in Palestine and cannot be provided through MFIs. MFIs in Palestine are the main lenders for Palestinians, especially those who cannot provide the collateral on demand. Banks in Palestine do not target low income-level people or those with no collateral; by contrast, commercial banks focus on marketing banking services for middle income and high income-level people. Compared to MFIs, banks are distributed all over Palestine through their branches and offices and can thus contact more MSMEs. Therefore, there is a need to involve banks in offering benefits to a larger population of MSMEs across Palestine.

## 2.8 GOVERNMENTAL INSTITUTIONS SUPPORTING PALESTINIAN MSMEs

Palestinian MSMEs receive support from various governmental and non-governmental organisations, agencies and firms. Therefore, this section sheds light on the role of these different bodies in financing MSMEs in Palestine. The following section presents a summary of these organisations and their main roles in this regard:

### 2.8.1 The Palestinian Ministry of National Economy

The Ministry of National Economy shapes the economic environment to encourage the private sector to grow. To this end, it synchronises policies and national economic plans with other ministries. For MSMEs in particular, on 14 October 2021, the Ministry of National Economy signed two agreements worth EUR 5 million with the German Corporation for International Cooperation. These agreements offer alternative approaches to the financial inclusion of SMES, therefore enhancing this economic sector.

The Italian Ministry of Foreign Affairs and the PLO launched a ‘Private Sector Development Program’ to support SMEs through the Palestinian banking system, with a soft loan of EUR 25 million. The aim of the programme was to provide soft loans to Palestinian SMEs to finance the purchase of Italian-made equipment and services to expand their current production lines (Bayyoud and Sayyad, 2016). The Development Cooperatives, under the full authorisation of the Ministry of Finance of the Italian Republic, is authorised to manage the above financial agreement, and on 3 June 2010 it concluded a major loan agreement with four eligible Palestinian private banks. The credit was managed under an agreement with the Italian government, which signed a loan agreement between the Ministry of Finance and the Bank in 2010 after resolving all the relevant administrative and legal issues (mainly approval by the Palestinian Council of Ministers). This provided loans to Palestinian MSMEs to finance their current credit line for the Palestinian Authority's financial management or in the industrial and food sectors (Bayyoud and Sayyad, 2016), introducing new lines of production and relevant services offered by their departments to the processing and agricultural industries.

### 2.8.2 Credit Guarantee in Supporting MSMEs in the West Bank

MSMEs have consistently suffered from major hurdles in accessing sources of finance mainly due to the lack of collateral, its insufficiency or unacceptability. Not only can these factors discourage the creation of new enterprises but they also directly affect the continued viability and sustainability of existing enterprises (Shihadeh et al., 2019). However, FIs are extremely reluctant to provide loans to MSMEs because of their elevated levels of uncertainty and high rates of mortality. Furthermore, there has been an absence of public and private institutions offering insurance against these risks so the FIs have been extremely conservative and risk-averse in their lending to MSMEs, even though these firms are particularly important to the economy of Palestine (Shihadeh, 2021).

The Palestinian regions lack a national institution that grants a credit guarantee for MSMEs, but the EPCGF and PIF are establishments of the Loan Guarantee Scheme that attempt to overcome these problems. The purpose of the scheme is to reduce the risk of lending to MSMEs, encouraging banks to lend to these firms (Khoury et al., 2021) and enhancing MSMEs’ access to financial resources.

The mission of EPCGF is to stimulate banks’ lending in Palestine for viable MSMEs by means of providing credit guarantees on a risk-sharing basis in addition to providing access to finance to MFIs by providing guarantees to cover their commercial borrowing (Oney, 2018). EPCGF supports banks in Palestine to downscale their operations by providing portfolio guarantees on a risk-sharing basis to cover their microfinance lending. It is a revolving guarantee fund and operates on a sustainable basis with a view to grow (Raed and Iriqat 2019).

Table 2-9 below shows that the year 2015 was the best compared to the years 2015 to 2020 for the following reasons: More than 1,000 loan guarantees were approved for a total amount of USD 51 million through their 10 partner banks. Lending was distributed among various economic sectors and geographic regions, including Gaza. During 2015, EPCGF was incorporated as a foundation in the Netherlands. The foundation structure ensures its long-term sustainability so that it can continue to deliver on the mission. Except for the new legal structure, the institution remained unchanged.

Towards the end of 2015, EPCGF concluded an agreement with Silatech to launch a new loan guarantee for a youth start-up programme for ages 18–35 worth USD 1 million. In 2020, the trade sector accounted for 73% of the portfolio, and industry sectors made up approximately 11% followed by the services sector at approximately 6% (EPCGF,2020). This suggests that the Fund did not interfere with the definition of bank and MFIs’ credit policies. These ratios are common in the structure of financial institution facilities.

Table 2.9 European Palestinian Credit Guarantee Fund – EPCGF REPORT from 2015-2020

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| USD | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Total Amount | 187,256,854 | 39,058,890 | 31,926,338 | 28,171,129 | 24,202,933 | 16,662,258 |
| West Bank | 179,005,366 | 37,289,470 | 30,957,712 | 26,869,015 | 22,876,588 | 15,231,503 |
| The Number of Applications Approved by Loan Guarantees in the West Bank | 4,380 | 596 | 467 | 368 | 298 | 247 |
| The Nonperforming Loan Average in the West Bank | 1.34 | 2.64% | 5.45% | 5.99% | 9% | 4.2% |

As shown in Table 2-9 above, during the last six years, EPCGF has managed to become the leading guarantee programme in the West Bank regarding the number of MSME loans guaranteed. The number of approved loan guarantees reached 6,356, for a total of approximately USD 312 million.

In 2020, EPCGF issued 247 MSME loan guarantees in the West Bank for a total loan amount of USD 15.2 million. This represents a decline equivalent to 33% regarding number and volume compared to the same reporting period of the previous year. However, non-performing loans have improved by less than 4% compared to 2019. This shows the good management and efficiency of this fund. Regarding the number of enterprises and the number of employees in the West Bank, 52% of the facilities which granted loans within the programme employ 5 workers or fewer and 30% of them only employ between 6–10 workers, meaning that 82% of these establishments have 10 workers or fewer, conforming to the practical reality in Palestine as shown in Figure 2-2.

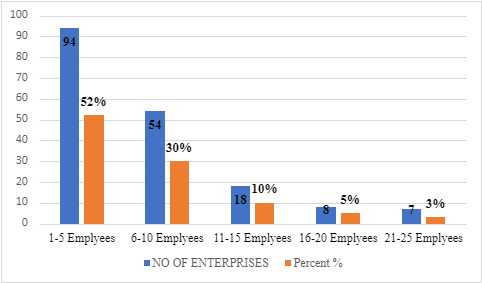


Figure 2.2: Enterprises by No. of Employees EPCGF REPORT 2020

This study’s results show that the Fund has an active role in increasing the volume of facilities granted to the small projects sector at the level of the banks participating in its loan guarantee programme. The European-Palestinian Loan Guarantee Fund or any loan guarantee institution wishing to operate in Palestine must expand the base of the guaranteed programmes to expand the scope and extent of their utilisation. For example, new Enterprise Loan Guarantee Programmes, in particular, ‘Industrial and Craft Enterprises’, aim to provide financing opportunities for new enterprises based on good economic studies and the consequent benefits.

### 2.8.3 Palestine Investment Fund

Given the important role of MSMEs in enhancing economic development in Palestine, the PIF runs several projects to support MSMEs under the SHARAKAT fund, which include all PIF activities related to MSMEs by financing new and existing projects and loans guarantee. Together with its investment partners, they have supported 4,404 Palestinian SMEs since 2006. Moreover, during the last ten years, they have generated over 75,000 jobs in Palestine.

The PNSMF, ‘referred to as Sharakeh’, which represents MFIs in the West Bank and Gaza Strip, was established in 2002. PNSMF is a non-governmental non-profit organisation which, with the assistance of the United States Agency for International Development (USAID), creates linkages among the NGOs engaged in microfinance and MSME lending by coordinating the actions and communications of its members to identify the needs of the microfinance sector and provide services to active MFIs (PIPA, 2017). Currently, the network encompasses approximately 95% of the small and micro-lending institutions in Palestine.

MFIs affiliated with the PNSMF include ASALA, VITAS, REEF, UNRWA, PDF, ACAD, FATEN and Al-IBDAA. The MFIs operate under various legal structures, such as NGO co-operatives, non-profit companies and donor programmes. According to data from Sharakeh, Palestine’s microcredit market has increased substantially over the past decade. Notably, the total loan portfolio of the Sharakeh members and MFIs increased by USD 212 million to USD 280 million between 2007 and 2020. Active loans in the West Bank and Gaza increased from USD 43,000 to USD 110,000, an equivalent of a 110% rise over the same duration (PIF-Annual Reports, 2007 - 2020). These statistics clearly indicate rising confidence in the microfinance sector.

## 2.9 Facilitating the growth of Micro-, Small and Medium-sized Enterprises and solo entrepreneurs

MSME policy, regulatory reform, and simplification in Palestine are still in their early stages (Chandra and Pareek, 2014). A manual for primary and secondary legislation was prepared by the Palestinian Authority (PA), with a Core Technical Team comprised of public and private organisations working on administrative simplification in areas covered by Doing Business (2014). The Ministry of National Economy acted as the team's coordinator. According to the MSME Policy Index 2014, the procedure for forming a company in Palestine is time-consuming and complicated, which negatively affects the business climate (Baporikar, 2021).

The choice of Palestine as the focus of this study is crucial because of the challenges faced by the MSME sector in the region. By examining these challenges, the study aims to provide insights and recommendations that can help improve the entrepreneurial landscape and support economic growth in the area (Al-Madhoun, 2017).

Reforms have made things easier and cheaper, but there is still much room for improvement. The lack of suitable infrastructure has slowed the growth of e-register services, even as The Palestinian Industrial and Free Zone Authority was nearing full implementation of a one-stop shop, and projects were underway to streamline registration processes and boost decentralisation (Baporikar, 2021). The abolition of the paid-in minimum capital requirement is the only change that has been made to the process of founding a business in recent years, as reported by Doing Business (2014).

Private sector and incubator representatives participating in discussions for this interim review provided varied responses, highlighting the fact that considerable work remains to be done to enhance the registration procedures (Blackburn, 2016). It is believed, for instance, that one still needs the services of a lawyer to get a business registered, even though the minimum capital requirement has been removed. Many people view this expense as excessive. The consultations suggest this requirement has been dropped from the most recent version of the Companies Law (Baporikar, 2021; Blackburn, 2016).

There was no consensus during the consultations about the efficiency of the one-stop shops; however, some participants stated that The Palestinian Industrial and Free Zone Authority One Stop Shop is particularly concerned with the approval of investment projects and the marketing of investments (Matt et al., 2021). Several commentators pointed out that one of the services offered is helping clients overcome hurdles in registering a firm (Matt et al., 2021).

The SME Policy Index 2014 observed that the bankruptcy framework was based on two laws: the British Mandate Bankruptcy Ordinance No. 3 of 1936, which was in effect in the Gaza Strip, and the Jordanian Commercial Law No. 12 of 1966, which was in effect in the West Bank (Analoui and Al-Madhoun, 2017; Sultan and Sultan, 2020). During this time, a proposed bill addressing debts (bankruptcy) was being reviewed. While a Companies Law is being discussed in the cabinet, there has been no tangible movement in this area.

Palestine still has significant room to improve the business climate for MSMEs (Al-Madhoun, 2017). There are currently no active efforts to develop any of the policy areas examined by this interim evaluation (i.e., introduction of regulatory impact analysis and SME test; single identification numbers; online registration; and one-stop shops for enterprise creation) (Al-Madhoun, 2017). In addition, bankruptcy is not an option in Palestine, as stated by the Doing Business guide. In this view, Palestine may prioritise and sequence essential tasks, such as enacting the Companies Law, reducing burdensome regulations, and streamlining the business start-up process (Baporikar, 2021; Blackburn, 2016). Public and private actors could determine the importance and feasibility of such actions based on the current economic, social, and political climate. For instance, the establishment of efficient one-stop shops may have a more significant impact than the introduction of online registration, but it may be more costly and challenging to implement (Baporikar, 2021; Blackburn, 2016).

This study's focus on Palestine is essential as it seeks to understand the factors affecting MSME growth and solo entrepreneurship in a region facing unique challenges. By identifying the barriers and limitations faced by MSMEs in Palestine, this research can contribute to the development of targeted policies and interventions that support the growth of the MSME sector and foster economic stability in the area. Furthermore, analysng the existing policies and frameworks in Palestine can provide valuable lessons and best practices for other countries and regions facing similar challenges in promoting MSME growth and entrepreneurship.

## 2.10 Improving access to finance for MSMEs in Palestine

The Ministry of Economy also introduced a web-based collateral registry for movable assets in June 2017, which represents a significant step forward (Al-Madhoun, 2017). The Doing Business portal states that the collateral registry is "live," "unified geographically," "searchable by a debtor's unique identification," "up to date," and "notice-based." The consultations for this interim assessment suggest that the challenges of land registration, and the lack of an operating cadastre or register of immovable assets, were a driving factor in the development of the collateral registry for movable assets (Al-Madhoun, 2017).

The bankruptcy system's flaws are indirectly addressed by the new law, as secured creditors would be given priority outside of insolvency procedures and out-of-court enforcement will be permitted (Analoui et al., 2017), making it the highest-ranked MED economy and the highest-ranked OECD economy overall (Bharati et al., 2010; Matt et al., 2021). In addition, it gave PA a distance to frontier of 80, which is significantly higher than the regional and OECD averages (Matt et al., 2021).

MSME Policy Index 2014 noted the existence of two credit guarantee schemes, the European-Palestinian Credit Guarantee Fund (EPCGF, supported by the European Union and KfW), and the Loan Guarantee Facility (supported by the Overseas Private Investment Corporation), which together guaranteed between sixty percent and seventy percent of loans (Blackburn, 2016). Several active equity/venture capital funds catering to Micro-, Small and Medium-sized Enterprises MSMEs and new ventures were also included (Matt et al., 2021).

Based on this preliminary evaluation, we know that the EPCGF and the Loan Guarantee Facility are still active, and that two new vehicles—the Swedish International Development Cooperation Agency (SIDA) Guarantee Scheme Facility, launched in 2015 and managed by the Loan Guarantee Facility; and the Middle East Investment Initiative, focusing on MSME and housing loan financing—have entered the market. Since 2014, many new venture capital funds have been launched. But there are no hard numbers to show how far these policies have reached or how well they have worked.

The legal and regulatory environment for access to finance in PA has seen significant improvements, and new funding options have been made available. The exact effect on MSME and start-up funding is, nevertheless, unknown. To better understand where policy needs improvement and where it has succeeded, it is important to examine the current state of financing and the results of current actions. It could be helpful to learn about the availability and terms of financing for various SME and business owner profiles.

The goal of some of the assistance programmes is to help women and young people become more economically active, while others are geared at certain industries or fields of study, such as export or IT. Because of the government's limited role in regulating international trade, 22 incubators have sprung up to provide start-up assistance, with the IT sector benefiting the most. However, there is a lack of centralised access to data about available company development services. Establishing a MSMEs unit or agency under the Ministry of National Economy will improve MSMEs' ability to learn about the many options for professional business growth support. The MSMEs Policy Index 2014 found that there were policies in place to help MSMEs participate in public procurement. Some of these efforts included the option to submit bids in batches and the distribution of publicly available procurement notices through various media. Despite the fact that the law acknowledged and penalised late payments, neither e-procurement nor its use were possible.According to the MSME Policy Index 2014, a number of initiatives have been taken to aid in the internationalisation of MSMEs, including the creation of an export strategy to maximise the benefits of economic cooperation agreements (such as those with the European Union, the United States, Canada, Turkey, the Greater Arab Free Trade Agreement, Russia, and Mercosur), the formation of a specialised council to carry out the strategy, and the implementation of specific support measures for enterprises (Chandra and Pareek, 2014; Elasrag, 2016). Concerning the latter, a key player was the private sector organisation serving as secretariat for the specified council. This was a joint public-private effort to promote international trade (Elasrag, 2016).

The National Export Strategy has been adopted, and the Export Council has been established, with 26 representatives from the public and private sectors, as well as academia, reporting to the minister of National Economy (Blackburn, 2016). While these measures have the potential to increase the number of MSMEs that are able to participate in international trade, as with other policy areas, there is currently little evidence to support this claim (Stevenson, 2010).

In theory, PA has made strides toward fostering new business development and expanding MSMEs (Chandra and Pareek, 2014). A number of important steps have been taken, including the formation of the Export Council, the introduction of new business development services, and the passage of the new Procurement Law (Chandra and Pareek, 2014), however, data on the actual benefits to MSMEs is lacking.

## 2.11 Selection of the context of Palistine

The goal of this research is to examine what influences the availability of external financing for micro, small, and medium-sized enterprises (MSMEs) in the West Bank of Palestine (WBOP). In this section, we explain why Palestine was chosen as the setting for this study. Given its current political and economic climate, Palestine provides a rare setting to study micro, small, and medium-sized enterprises (MSMEs) in a unique context.

The economy of Palestine has suffered greatly because of the country’s protracted history of conflict and instability. The Israeli occupation of the West Bank of Palestine since 1967 has caused severe economic and political difficulties for the area. This has contributed to the West Bank’s high poverty rate and lacklustre economic growth.

Despite these obstacles, MSMEs continue to play a significant role in the Palestinian economy. The Palestinian Central Bureau of Statistics (PCBS) reported that 99% of all Palestinian businesses are classified as MSMEs and that 80% of the Palestinian labour force was employed by MSMEs in 2018. These numbers show how crucial it is to understand what factors affect the availability of financing for micro, small, and medium-sized businesses in the Palestinian economy.

Insufficient access to capital is a key problem for MSMEs, and Palestinian companies have difficulty gaining access to external financing, limiting their growth and competitiveness. One reason for this is the scarcity of specialised financial institutions in Palestine that lend to MSMEs. Furthermore, Palestinian MSMEs frequently do not have the collateral or credit history necessary to obtain loans from conventional lenders. As a result, these MSMEs have been left with an estimated $1.5 billion financing shortfall (Hulme and Armitage, 2011).

High regulatory barriers and low levels of financial knowledge are only two of the many obstacles Palestinian MSMEs must overcome in order to gain access to financing. These difficulties have been outlined in previous literature examining Palestinian MSMEs. Access to capital was listed as one of the many difficulties faced by Palestinian businesses by Abuznaid (2014). Similarly, Alhabashi (2015) revealed that a lack of collateral is a significant barrier to financing for MSMEs in Kuwait. It can be argued that the unique difficulties faced by MSMEs in the region justify the selection of Palestine as the context for this study.

## 2.12 SUMMARY

Palestine is an emerging economy with a medium level of human development and a high level of advancement regarding education. As already illustrated above, 97% of economic units in Palestine are associated with MSMEs, constituting less than or equal to 10 employees. MSMEs in Palestine are mainly family-owned businesses; they operate in the retail business or in the service sector, mainly financed and owned by individuals and family savings. The main problem confronting MSMEs in Palestine is inadequate access to financial resources and credit facilities, and a lack of policies that provide a clear guideline for facilitating their activities, in addition to the lack of political vision and strategies. One aspect worth noting is that banks in Palestine focus most of their lending activities on personal loans rather than business ones. Their lending policies differ from one bank to another. There is no specific unified policy that can be examined to comprehend banks’ roles in financing MSMEs in the WBOP. In addition, the limited access to the international market has reduced the opportunities of MSMEs in Palestine to grow their businesses.

The exposure of the Palestinian business sector to the Israeli economy has significantly disadvantaged its competitiveness as Israel tends to limit the growth of MSMEs for its own benefit. ​Despite the support shown through the economic plans of the PNA, no measures have been taken to grow support towards the sector. In addition, there is no single regulation or custom or tax exemption provided to the sector regarding micro-financing, which is operated by the UNRWA agency and ten other NGOs that offer reasonable support for this sector via short-term loans and collateral instruments. Therefore, this research is an effort to develop a context-specific framework to help to understand the issues of accessibility of funds for MSMEs in the WBOP. This chapter completes the theoretical foundation of the thesis. The next chapter critically reviews the issue of accessibility of funds for MSMEs, aiming to improve the understanding of the topic and investigate the root cause behind the different access to funds barriers for MSMEs in the WBOP. In chapter 4, the methodology applied in this study is explained and the findings and analysis of the first phase of data collection – semi-structured interviews – are explained to understand the phenomenon and answer part of the research questions and hypotheses.

# CHAPTER 3: LITERATURE REVIEW

## 3.1 INTRODUCTION

Before we can examine the specifics of this study, it is important to provide a critical overview of the current understanding of the accessibility of funds for MSMEs in the West Bank. This chapter examines the current understanding of the accessibility of funds for MSMEs in the West Bank. The literature review is divided into four major sections, each addressing a different aspect of the topic. The first section examines the importance of accessible funds for improving MSME performance. The second section explores crowdfunding as an alternative means for loans for MSMEs. The third section reviews the impact of the government on the accessibility of funds for MSMEs, including the importance of public guarantees. Finally, the fourth section addresses common factors affecting MSME access to finance, including demographic factors, financial literacy, social factors, relations between MSME managers and bank employees, and the role of banks. By critically analysing the literature, this chapter provides valuable insights into the challenges faced by MSMEs in accessing funds and the various factors that impact their ability to do so. These insights will be used to develop a context-specific framework to improve the accessibility of funds for MSMEs in the West Bank, which is the main aim of this research.

## 3.2 MSME FUNDING RELIANCE

Medium enterprises have more resources available to them than micro and small enterprises. Resources can be utilised to raise funds for a company or as collateral for a loan. The use of bank loans and inter-company loans by MSMEs associated with group corporations is also on the rise (Prihastiwi et al., 2021). MSMEs owned by individuals, however, rely less on bank loans. The type of business activity impacts the kind of financing that is selected. MSMEs in manufacturing and construction require significantly more capital than service MSMEs. As a result, they conduct more business with financial institutions. Similarly, MSMEs in the development and expansion stages require significant cash to achieve their growth objectives (Bello and Mustapha, 2021).

There are three main reasons why the accessibility of external finance is important for MSMEs. Firstly, MSMEs rely heavily on external financing, and much of this comes from banks and other financial institutions (Atout, 2015). Secondly, there is information asymmetry regarding the lender–borrower relationship for MSMEs (Audretsch and Elston, 2002). Thirdly, MSMEs represent 99.8% of the active enterprises in the non-financial business economy of the Eurozone and, as such, two out of every three people are employed by MSMEs. This gives MSMEs a 66.7% share of employment. In addition, MSMEs comprise up to 58.6% of value in the non-financial sector (Eurostat Pocketbooks, 2011). In Palestine, MSMEs represent 99% of all active enterprises, and 80% of Palestinian labour works for MSMEs (Rajab, 2015). Given the contribution of these companies to a country’s gross domestic product, their prosperity and stability reflects either positively or negatively on local economies (Bayyoud and Sayyad, 2016).

There are various reasons why MSMEs in developing countries remain smaller than those in developed countries. One principal reason is the limited availability of financing from banks (Confapi, 2001; Federconfidi, 2004; Schich, 2018). This keeps the equity base of businesses small and consequently they remain small over time.

According to (Sabri, 2008) there are three financing sources available for the private sector in Palestine. The primary source is internal funds, which include paid-in capital, retained earnings and reserves. This is followed by credit payments. The last source is bank loans, which account for only 8% of financing sources. This is low compared to elsewhere and, in many cases, the lack of financing leads to business liquidations (Sabri, 2008).

Access to credit financing has been identified as a prerequisite for MSME success in generating productive capacity, competitiveness, job creation and poverty reduction. Without access to credit financing, companies cannot acquire or use new technologies, nor can they develop and assert themselves in the region. In addition, affordability, availability of other financial services and support for development services are essential to reduce growing risks for WBGS MSMEs (Sabella and Anaouli, 2015).

The establishment and growth of small businesses depend largely on imperfections in the credit markets. Due to the information asymmetry in the markets concerning the relationship between lenders and borrowers, lenders ask for high collateral, require certain necessary information such as accounting documents (Duarte et al., 2018). Sometimes banks raising interest rates can scare away honest borrowers by leaving the riskiest borrowers in the credit market to protect their interests. Multiple studies have discussed the importance of funding accessibility for MSMEs. Abuznaid (2014) identified the major issues, challenges and obstacles facing entrepreneurs in Palestine. In addition, Alhabashi (2015) found that access to finance remains a principal challenge for SMEs in Kuwait, where collateral is a major problem.

Yoshino and Taghizadeh-Hesary (2016) found that SMEs face several barriers, such as restricted access to finance and a lack of databases. These are some of the reasons behind the slow growth of MSMEs in Palestine. In this region, women own approximately to 62,000 MSMEs from 108,471 of all enterprises (World Bank, 2018). However, despite the large number of MSMEs led by women, over 55% of them suffer from restricted access to finance or from a total lack of funding. Qubbaja (2019) highlighted that most of these enterprises are informal. Moreover, one outcome of the inability of female entrepreneurs to step into the business ecosystem during later phases of an organisation’s lifecycle is a lack of collateral, low financial literacy, the sociocultural environment, entrepreneurship skills, and lack of customized banking products. Women in developing nations are confronted with larger barriers to formal finance as they are typically less educated and financially knowledgeable (Lutz and Lutz, 2017). One primary reason for business failure is the lack of private equity and venture capital deployed in this specific area.

Resources that generate a sustainable competitive edge for firms include capabilities, assets, organisational processes, knowledge and information (Slater et al., 2006; Song et al., 2007; Teece, 2012; Wanjira et al., 2015; Mwila and Ngoyi, 2019). Financial growth can be achieved only when a firm’s internal capabilities are strong as these capabilities are strongly linked with financial growth. However, most firms have an unequal distribution of resources as each entrepreneur starts from a different resource foundation (Teece, 2012; Mavimbela and Dube, 2016). By building on the basis of internal as well as external resources, a firm can achieve growth over time (Sabir et al., 2019). Moreover, the current research argues that financial literacy and access to capital are also critical resources, enabling entrepreneurs to generate a competitive edge for a firm (Song et al., 2007). Existing studies have highlighted that firms are able to gain a competitive edge and achieve growth when they efficiently utilise these two critical resources (Siyanbola, 2018).

Multiple studies highlight the challenges facing MSMEs related to access to capital, the capacity to repay loans, sanctioned loans, and the impact these challenges have on MSME performance. These studies are included in the literature review (Bongominet et al., 2020; Moulick, 2020). Cherkos et al. (2018) highlighted multiple factors regarding the performance of MSMEs. They selected two factors, credit and finances, and studied their effects on MSMEs. The research argued that access to finance is one of the most critical elements faced by MSMEs and that it directly influences their performance. These factors that affect MSME performance include several other elements, such as high interest rates, limited access to capital, bureaucratic hurdles to obtaining financial support, and low skills of managing finances; all of these affect the productivity and performance of the organisation (Cherkos et al, 2018; Moulick, 2020). Nevertheless, the absence of access to finance for MSMEs is considered to be the cause of their lack of expansion, low sales and slow development, and often results in businesses collapsing during the initial two years of their launch. Furthermore, MSMEs cannot compete in international markets as their number of customers is limited, and they also face issues of slow growth (Asare, 2014; ITC, 2016). Earlier, research attributed such challenges to the lack of managerial skills and business strategies, low R & D capacity in technological fields, and difficulty accessing finance (Bowen et al., 2009; Asare, 2014; Haselip et al., 2015; Mackenzie et al., 2015; Song et al., 2018; Al Maskari et al., 2019; Hewa et al., 2020). The primary focus of such research was on accessing financial and managerial competencies, but it has not investigated financial literacy in depth.

There are many studies covering the growth aspects of MSMEs regarding funding accessibility (Rauch et al., 2009; Shava, 2018). The relationship between the growth of a company and financial access is another significant research area (Martí et al., 2018; Pop et al., 2018; Ruziev and Webber, 2019). The findings show that financing is a significant operational aspect of a company because the availability of funding is like fuel for a business. In the case of inadequate finance availability, a company has poor financial health, and its growth potential is at risk (Nistor and Popescu, 2013). On the basis of these traditional concepts, researchers have concluded that a company’s growth is positively related to its access to finance (Rahaman, 2011; Clegg, 2018; Cowling et al., 2018).

Anwar (2014) considered the impact of credit disbursement on MSME performance. His research showed that credit disbursement has a significant positive effect on MSMEs. Biswas (2014) observed that access to finance is not free from challenges for MSMEs. As stated above, MSMEs face different constraints, particularly with reference to the banking sector and other financial institutions. A high cost of credit, a lack of availability of debt financing and hard collateral requirements are the chief financial constraints MSMEs face in financing their businesses, particularly when they borrow money from FIs such as banks. Another factor is the lack of adequate legal infrastructure, which discourages institutions and banks from providing funds for MSMEs. This legal infrastructure is not universal, and this research is focused only on WBOP. Consequently, this research explores and identifies factors that impact the accessibility of funds for MSMEs in the West Bank. Crowdfunding is an alternative way to access loans and is commonly used in developing and developed countries. Because it is considered as an alternative to loans for MSMEs, this chapter also discusses the possibility of using crowdfunding for MSMEs. The next section discusses crowdfunding as a source of funds, starting with its growth into a prominent form of finance around the world.

## 3.3 Crowdfunding concept and history

Crowdfunding has quickly become a go-to strategy for many businesses seeking capital in the alternative finance sector, which dates back to the 1700s (Bretschneider et al., 2014; Thurridl and Kamleitner, 2016). When first developed, crowdsourcing was a means for a central company to enlist the aid of an external group in order to address a specific challenge or gain access to specialised expertise (Boudreau and Lakhani, 2013; Jeppesen and Lakhani, 2010). Crowdfunding has been defined by Schwienbacher and Larralde (2010, p. 5) as “an open call, primarily over the Internet, for the availability of financial resources by means of donations or in exchange for some sort of reward and/or voting rights in order to support initiatives for specified reasons”. A more comprehensive definition of MSMEs is provided by Mollick (2014, p. 1), who defined crowdfunding as the efforts by entrepreneurial people and organisations (cultural, social, and for-profit) to fund their enterprises by drawing on relatively small contributions from a comparatively large number of people using the Internet, without conventional financial intermediaries. The below-given figure 3.1 demonstrates the History of Crowdfunding

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Sources: Chen, 2016; Freedman and Nutting, 2015; Fundable, 2017; Nesta, 2013

Figure 3.1 demonstrates how crowdsourcing may be traced back to the 1800s. Then in 2000, a website called ArtistShare was founded in the United States, allowing musicians to solicit funding from their fans in order to create digital recordings. In later years, it morphed into a place to raise money for creative endeavours including albums, documentaries, and photo books. Freedman and Nutting (2015) stated that Maria Schneider’s jazz CD was the first to be funded through a crowdfunding campaign. For a $9.95 pledge, backers could be among the first to download the album; for $250 or more, their names could be featured in the album booklet as those who contributed to making the recording possible; and for $10,000, one supporter was given the title of executive producer (Freedman and Nutting, 2015). Reward-based crowdfunding (RBC) sites, such as the two most popular at the moment (Indiegogo and Kickstarter), still retain the original tiered structure of prizes. With the advent of JustGiving, donation-based crowdfunding (DBC) communities were officially born, where donors contribute money willingly and without compensation. MSMEs (Burtch et al., 2013a; Smith et al., 2015). Free riding, in which one person’s efforts are outshined by those of another, becomes a concern when studying these DBCs, which draws on the vast literature on philanthropy and public goods (Andreoni, 2006; Vesterlund, 2006; Bergstrom et al., 1986). According to the qualitative research conducted by Gerber et al. (2012), incentives are a major promotion point for engaging in crowdfunding communications (Steinberg, 2012), which explains the rapid rise of RBC platforms such as Indiegogo and Kickstarter between 2008 and 2009. Prior to its inception in 2016, ZOPA, a peer-to-peer lending platform for MSMEs, gave its members the freedom to build their financial identities by choosing among a variety of complex financing options (Ortega and Bell, 2008). AngelList, created in 2010 by Naval Ravikant, is an online equity-based angel investing platform that aims to enhance the matching between start-ups and investors by decreasing search frictions and facilitating easier discovery of MSMEs (Bernstein et al., 2016) According to proponents, the firm might revolutionise the start-up funding and venture capital industries (Kolodny, 2013; Ramsinghani, 2013; Stone, 2014; The Economist, 2014).

GoFundMe, the first crowdfunding platform dedicated to charitable causes, was founded in the same year as AngelList in 2010. Existing research suggests that both “warm fuzzies” and “pure altruism” play a significant role for donors in the growing field of online charitable crowdfunding (Burtch et al., 2013a, 2013b; Gleasure and Feller, 2016; Wash, 2013). Crowdfunder and Circle Up, two new platforms for equity-based crowdfunding (EBC) (Fleming and Sorenson, 2016), have helped 106 businesses raise over $125 million (Mollick and Robb, 2016). Circle Up, in particular, has focused on consumer products and retail (Freedman and Nutting, 2015). With the Jumpstart Our Business Startups Act (JOBS Act’s) passage in 2012 in the United States of America, the selling of securities through crowdfunding was made legally permissible by removing a number of regulatory barriers (Agrawal, Catalini and Goldfarb, 2013). In the past, it was illegal for issuers of private securities to publicly promote their offerings or actively seek investors (Freedman and Nutting, 2015).

Regular citizens in the United States will soon be able to use the Internet to support local businesses and start-ups they believe in. At the time he signed the JOBS Act, President Obama argued that crowdfunding’s ability to pool resources is a major factor in the world’s financial system (Assenova et al., 2016). MSMEs are clearly moving the industry forward in terms of market growth, business models, public awareness, corporate collaborations, institutional investment, product innovation, international expansion, SMEs, and further legislative assistance. In addition, the crowdfunding market for MSMEs is becoming more intricate, variable, and dynamic (Zhang, et al., 2016). To apply crowdfunding in the context of MSMEs in Palestine, it is important to understand the following:

* Legal and regulatory framework: Understanding the legal and regulatory environment in Palestine is crucial for the successful implementation of crowdfunding. This includes laws and regulations related to crowdfunding, fundraising, and investment activities.
* Market and industry trends: Knowledge of the local market and industry trends can help to assess the potential of crowdfunding in Palestine and its impact on MSMEs.
* Characteristics of MSMEs: Understanding the needs, challenges and potential of MSMEs in Palestine is critical to the design of effective crowdfunding strategies. This includes knowledge of the size, sector, financing needs and risks of MSMEs.
* Crowdfunding platforms: Familiarity with the various crowdfunding platforms available in Palestine and their suitability for MSMEs is essential. This includes the type of crowdfunding platforms, fees and terms, and payment systems.
* Marketing and outreach: Understanding how to effectively market and outreach to potential investors and MSMEs is crucial to the success of crowdfunding initiatives. This includes communication strategies, social media and online marketing, and building a strong online community.

It is important to also consider cultural and social factors specific to Palestine and its impact on the acceptance and success of crowdfunding initiatives.

## 3.4 Crowdfunding importance

There is still a strong emphasis on group-lending as the foundation of the microfinance business (Yunus, 1999). Microfinance was able to overcome the lack of collateral and credit histories typical of low lending conditions by employing a novel group-based lending mechanism. The model showed that the poor may be financially intermediated through group-lending by capitalising on their social capital within their organisations to mitigate the risks associated with having less information. To this day, it is still hailed as a social innovation that was essential in bringing economically marginalised people into the mainstream of society and the economy (Yunus and Weber, 2007). The economically active poor are one of the most important groups that the microfinance programme has helped. People at the bottom of the economic pyramid who are trying to make ends meet through some kind of work but are having trouble doing so are part of the Economic Activity Pool. MSMEs make up the bulk of Economic Activity Pool users. As a means of escaping poverty, these business owners establish micro-enterprises, which are informal, small-scale businesses (Schreiner and León, 2002; Schreine and Woller, 2003).

People living in poverty have hope that they may break free if they take part in entrepreneurial activities. Despite this, the poor typically face “competitive handicaps” when going up against other larger enterprises, making it difficult for them to engage in profitable endeavours. The larger corporations’ monopolistic advantages over smaller ones are only one of the many disadvantages they face. Size, expertise, accomplishments, creditworthiness, and collateral all play a role. Given all their problems, the knowledge asymmetry surrounding these small businesses are enormous. Collectively, these factors have always made it difficult, if not impossible, for them to obtain financing from banks and other conventional sources.

Consequently, it has been discovered that a significant challenge confronting these micro-enterprises worldwide is a deficiency of access to capital. Due to a lack of sufficient finance for MSMEs, the World Bank has approved $500 Million, which is the purpose to fulfil the financing needs of MSMEs (World Bank, 2015). “With eight million people entering the labor force every year, MSMEs have the potential to create many new, innovative jobs. However, for these ideas to take shape, MSMEs will need easier access to finance. This project will develop innovative products that address such constraints and help them achieve their true potential,” said Onno Ruhl, World Bank directory (World Bank, 2015).

Commonly, banks provide loans to those who do not participate in the microfinance industry. Banks use marketing initiatives, which vary in philosophy and methodology depending on the jurisdiction, to address competition challenges. Microfinance and crowdfunding are shifting the lines. Both the North and the South use modern forms of communication to reach out to new audiences, such as online storytelling on a vast scale. MFIs, with their novel group-lending approaches, emerged against this backdrop as a possible solution to the funding gap faced by micro-enterprises. This was due to the fact that through group-lending mechanisms, the microfinance model offered a potential solution to the problem of knowledge asymmetry among MSMEs, which plagued traditional banking systems. The financial firm provides loans to groups of micro-business owners who have come together because they have similar cultural or economic experiences. Through the pooling of resources and the deployment of social capital, group members can bear responsibility for one another’s debts and keep one another accountable, reducing the risks associated with the lender being on the receiving end of inaccurate or incomplete information (Ghatak and Guinnane, 1999; Ghatak, 2000). Since this concept has been so effective, a global microfinance industry has been developed to support small business owners. Around the world, the market expanded at a yearly rate of 30%. (Ashta and Assadi, 2010). In contrast to this median figure, however, growth rates in emerging countries were significantly higher than those in developed markets. Increases have been especially rapid in Palestine, which boasts the largest microfinance sector among developing countries.

Crowdfunding has expanded in scope from non-profit ventures to small enterprises to revolutionary novel projects by using platform-mediated techniques. In particular, new entrepreneurs who cannot reach the conventional capital market to obtain funds can find support through crowdfunding. The predominant forms of entrepreneurial funding are equity, lending and reward-based crowdfunding, as described by Cholakova and Clarysse (2015). Though donation-type crowdfunding is also prevalent, it largely provides funds to non-profit and charitable institutions in the form of donations (Belleflamme et al., 2013).

Recently, there has been a growth in the number of studies examining signalling in crowdfunding and information asymmetries. This is particularly relevant for MSMEs concerning lending crowdfunding and crowdfunding in general. Crowdfunding can be seen as an alternative form of funding for those firms in developed countries where the legal and technological infrastructure already supports networking and transactions (Burtch et al., 2013; Ahlers et al., 2015; Courtney et al., 2017). It is, however, difficult to verify information in lending crowdfunding due to crowd funders’ lower levels of sophistication compared to traditional investors and due to a weaker institutional framework. This results in an increase in information asymmetry between senders or investors and entrepreneurs, as opposed to financing forms that are tradition-based. Signals are critical for investors (Burtch et al., 2013), whereby senders (proponent) and receivers (potential investors) come together on a platform of crowdfunding and receive the signals. When contractual instruments, debt or equity are issued by firms via the internet (though not on a regular basis), it represents a type of crowdfunding based on investment (EC, 2016; Courtney et al., 2017).

Block et al. (2017) studied the ways in which finances can be provided by investment-based crowdfunding as well as the position that crowdfunding enjoys in the market relative to other available funding models. They analysed four aspects of crowdfunding: investment targets, goals, debts and equity. Investment-based crowdfunding is significantly different from other types of crowdfunding. For example, a company can launch projects that are based on donation and reward (Krupa and Żołądkiewicz, 2017; Eldridge et al., 2019). Whereas reward-based crowdfunding tries to raise the maximum level of funds, investment-based crowdfunding deals with a substantial number of shares and results in a reduction of justice. Non-financial motives do not play an important role in the success of campaigns that are related to the probability of the success of crowdfunding equity (Cholakova and Clarysse, 2015; Ibrahim, 2018). Vismara (2016) confirmed this result by using quantitative research to show that offering a reward does not increase the likelihood of success.

A taxonomy of signals matched with senders (investors, backers, receivers, private organisations and firms) has also been proposed (Blace and Grubisic, 2017; Sahaym et al., 2019; Block et al., 2020; Mittal and Raman, 2021). Perceived information asymmetries and uncertainties are reduced by social capital and early contributions because they play an important role in the decision-making of crowd funders (Herzenstein et al., 2011; Lin et al., 2013). Early financial contributions and social capital are symbols of trustworthiness and reliability and initiate herding behaviour (Zhang and Liu, 2012; Skirnevskiy et al., 2017). In the starting phase of a particular project, potential funders are often discouraged by uncertainty; without any past ties to the project, the network or founder provides a signalling function to participants. Hence, the investors gain knowledge about the purposes of early funding and can use it when they are willing to support a project (Burtch et al., 2013).

The crowdfunding process starts with a pitch that signals the willingness of the entrepreneurs and highlights their availability to prospective investors (Chin et al., 2018). Crowdfunding platforms host pitches; they organise the entire process and serve the function of the market by allowing fund-seekers to interact with crowds (Bruton et al., 2015). Pitches may take the shape of soft facts such as the promises, ambitions or backgrounds of the entrepreneurs, or they may contain hard claims, such as monthly income figures or revenue values. However, crowdfunding platforms only validate some of the facts mentioned above (Krupa and Żołądkiewicz, 2017). For example, a few platforms check basic information about bids, such as business plans, personal income or credit scores (Lyer et al., 2015; Mollick and Robb, 2016).

Despite the valuable work on signalling and information asymmetries in crowdfunding, it is unclear how other factors enhance trust in crowdfunding projects. Recently, one study highlighted the importance of trust in reward-based schemes, suggesting that trust management significantly promoted fundraising performance (Zheng et al., 2016; Baumgardner et al., 2017). In a financial setting, trust is of the utmost importance because it is a mechanism for enabling action as the complexity of economic transactions results in perceived risks (Harriet, Abdoune and Bentebbaaet, 2017). In general, financial transactions are entirely trust-based (Guiso et al., 2008). Online project descriptions are used as a due diligence mechanism to judge the opportunities for investment, which is not appropriate in traditional financial settings. Furthermore, one study revealed that only limited power comes under crowdfunding with a gatekeeping function, which leads to difficulties such as recognising legitimate fund-seekers and opportunistic behaviours (Van et al., 2018).

Some research projects have examined the regulation of crowdfunding. Cumming, Leboeuf and Schwienbacher (2020) discussed campaign mechanisms and revealed that ‘keep-it-all’ systems increase the chances for small ventures to access funds, whereas ‘all-or-nothing’ schemes enhance the prospects of big ventures. Hornuf and Schwienbacher (2017) investigated regulatory reforms in different states and found that a scarcity of substitutive early-stage financing (such as project capital and angel financing) is more advantageous for the protection of weaker financiers. Regulatory frameworks related to investment-based crowdfunding were examined in different countries, the findings showing that it becomes difficult to trace fund-seekers in cases of fraud. In many countries, lawmakers are still developing regulations and institutions for crowdfunding, and there is a need to understand the effects of recent changes (Lee, 2018).

As discussed above, MSMEs can adopt substitute options for raising funds for new projects when funds are not easily accessible through predominant means due to constraints in accessing bank credits and stringent loan terms and conditions. Crowdfunding has been identified as a financial alternative, opening up a range of concerns regarding performance that need to be explored. Crowdfunding bridges the distance between fund-seekers and funds, removes obstacles entrepreneurs face in accessing loans, and prompts entrepreneurs to use Web 2.0 applications for fund-seeking.

In the West Bank, MSMEs and lenders lack the skills and knowledge to facilitate crowdfunding, which is why MSMEs cannot gain an advantage when using them as an alternative.

The success of well-known crowdfunding platforms, which have raised hundreds or even millions of dollars in a single year, may appear to be straightforward. While Kickstarter is a well-known crowdfunding tool, more than half of the submitted projects did not achieve their financing goals (Kickstarter-Stats, 2019). As of December 2nd 2019, data from Kickstarter shows that 37.34% of projects were successfully funded using the platform, while 62.56% were not. This resulted in successful projects receiving $4.7 billion in funding (Szmigiera, 2019). When did this start taking place, and why? The question of “what are the determinants of success and failure in crowdfunding and how do they inter-relate?” (Mollick, 2014) is an important one when considering this method of raising funds, and “The Dynamics of Crowdfunding: An Exploratory Study" (2014) by Ethan Mollick provides a solution to this problem. According to an estimate by Mollick, half of the 46,000 projects listed in the Kickstarter database were successful while the other half were not (Mollick, 2014). Alternatives to traditional sources of cash, like venture capital and angel investors, are becoming increasingly popular, and crowdsourcing is one of the most popular methods being used today. The type of factors that influence crowdfunding campaigns to be successful has been studied for some time. Crowdfunding campaigns can succeed or fail depending on a variety of factors, some of which were examined by Ahlers et al. (2015). These factors include the number of backers, investors, and project owners, as well as the quality and quantity of comments on the campaign’s page. In 2016, Koch researched the link between a project’s business model and its success in raising funds through crowdfunding. Those studies did not seek to identify overarching factors that contribute to successful crowdfunding campaigns. This prompted us to investigate the factors that contribute to crowdfunding success on the limited number of platforms available in the WBOP, where the majority of users are entrepreneurs running small and medium-sized enterprises.

The success of a project on a crowdfunding site can be affected by factors such as the target audience’s likes and dislikes, as well as by the quality of the product’s branding. Most of the existing literature on crowdfunding success determinants has concentrated on the endeavours of singular crowdfunding platforms. Such research, being limited to a single crowdfunding platform, does not provide sufficient evidence to draw any firm conclusions. We think every platform has its own set of difficulties, and that the characteristics that contribute to successful fund-raising may vary depending on the platform. To help remedy this knowledge gap, this study examines the impact several proposed criteria can have on the success of a crowdfunding campaign among stakeholders using the limited number of Palestinian crowdfunding platforms. In Palestine, the success rate of crowdfunding campaigns is being analysed to see if it can be impacted by the suggested structures. The conclusion of this proposition may provide a useful foundation for future participants in Palestine’s crowdfunding platforms and a government programme for MSMEs looking to raise money. The unique contribution of this study is that it is the first of its kind to consult stakeholders of Palestine’s limited crowdfunding platforms to identify the factors that have led to their success, and to offer recommendations for a set of universal factors that have led to the success of crowdfunding campaigns across multiple platforms. For this study, we chose WBOP rather than Palestine due to the latter’s dismal record of crowdfunding success and stability of the region. This will improve the crowdfunding success rate in WBOP and have a favourable effect on MSMEs.

## 3.5 Crowed funding and MSMEs

“Crowdsourcing takes place when a profit-oriented firm outsources specific tasks essential for the making or sale of its product to the general public (the crowd) in the form of an open call over the Internet, with the intention of animating individuals to make a [voluntary] contribution to the firm's production process for free or for significantly less than that contribution is worth to the firm.” (Schwienbacher and Larralde 2010, P.5). Numerous studies have added nuance to this definition, such as “The outsourcing of a specified task to a broad group of people in the form of an open call” (Howe, 2008). Since crowdfunding has been around for a while, the only difference between the aforementioned definitions is the inclusion or exclusion of the pooling of labour resources (Poetz and Schreier, 2012; Short et al., 2017). Without the involvement of traditional banking systems, crowdfunding allows a large number of people to pool their resources to fund a certain project, idea, or venture (Mollick and Kuppuswamy, 2014). Many MSMEs credit crowdfunding as being a key part of their success. The below given figure 3.2 highlighted some key explanation of how crowdfunding works.

Diagram, waterfall chart

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Figure 3.2. An explanation of how crowdfunding works

WBOP is no exception to the trend of MSMEs being the backbone of economies. However, there are a lot of obstacles that confront MSMEs in developing nations when trying to secure a loan. Across all areas of MSMEs finance entrepreneurs are building crowdfunding platforms which enable private individuals (the crowd) to use their three and fourpence to invest and lend directly to MSMEs (Edem et al., 2021). Companies seeking equity financing can sign up with Crowd cube and Seeders to begin selling shares to investors for as little as £10 each. Over the past year, these platforms have generated tens of thousands, if not millions, for MSMEs in batches ranging from twenty thousand to one million pounds. The tale becomes a lot more intriguing if we only focus on lending. To date, Funding Circle has granted over £70 million to MSMEs, while Thin Cats, a relative newcomer, has secured crowd loans totalling £14.5 million to roughly 90 companies in just 18 months (Mazzarol and Reboud, 2017). This funding demonstrates how successfully crowdfunding is competing with conventional methods of borrowing for SMEs (Attar and Faleel, 2021). It is an important to know the reasons why crowdfunding is expected to continue growing in popularity. First, it is hard for people to make money off their assets. Donations made through Thin Cats return an average of 10.97% net. Second, businesses can get paid quickly (Mazzarol and Reboud, 2017). Within 48-72 hours of a successful auction ending, money will appear in your Market Invoice account. Instead of the standard 6-12 months, obtaining capital using a crowdfunder will only take 30-60 days (Mazzarol and Reboud, 2017). Third, the availability of credit for SMEs is phenomenal online, with billions of investors literally at the tip of their fingers. Finally, the crowd can get to work because there are little restrictions on crowdfunding at the moment. For all intents and purposes, the crowd is its own regulator. Nothing attracts investors like a bad first impression, and those who have previously raised funds only to let their backers down should think twice before trying again (McKeever, 2018). A public verdict will be based on what people recall.

Crowdfunding is known as a widely used way to finance newly established businesses across the world (Brüntje and Gajda, 2016; Lasrado and Lugmayr, 2013). The study of Schwienbacher and Larralde (2010) stated that crowdfunding is a direct demand for funding, in which project owners look for financial aid from the general public instead of indirectly through financial intermediaries. Over the past several years, numerous studies have made significant attempts to investigate crowdfunding from a variety of perspectives (Brüntje and Gajda, 2016; Lasrado and Lugmayr, 2013). Belleflamme et al (2010) argued that the emergency of technologies has created new ways for crowd funding that has become now creative funding. The one of the reasons is that now the online communities are engaged for funding contribution that increase the size of participation as well as the access to finance that is required for venture's future success (Belleflamme et al., 2010). The study of Porlezza and Splendore (2016) explained the procedure to launch the crowdfunding through website such as when entrepreneur intend to start the project then he/she can send invitation to people contributing their money for the completion of project as that they can mutually take benefits from that project. Following the completion of the first stage, the selection process described by the platform owners, projects that have been chosen will be announced on the crowdfunding platform, and contributions will be received from the crowd funders. If a project raises its complete funding goal before the conclusion of the financing period, its creators will obtain all of the money they requested that can ensure the success and trust of people in that project (Vassallo, 2016).

This lends credence to the argument that MSMEs in Palestine need substantial education on crowdfunding platforms inside the WBOP region. Palestine is home to the world’s first crowdfunding platform, which was launched there. Crowd fundraising aimed to offer seed money for Palestinian entrepreneurs through micro-investment. This platform only catered for a subset of Palestinian SMEs by providing start-up funding, ignoring the needs of established businesses for expansion. Because its primary focus is on assisting MSMEs, this funding source can also consider providing capital to MSMEs that are open to growth and expansion.

Another issue discussed above relates to difficulties in verifying the information in lending crowdfunding due to the lower levels of sophistication of crowd funders compared to traditional investors and due to the weaker development of institutional frameworks compared to other financing forms, especially in developing countries such as Palestine. This results in an increase in information asymmetry among investors and entrepreneurs compared to traditional financing forms. Information provided in crowdfunding is unlikely to be fully verified or verifiable, so supporters have to believe entrepreneurs’ signals and best intentions, which requires a legal infrastructure. Logically, it should be assumed that the role of belief may vary, because each type of crowdfunding platform differs concerning involvement and contribution procedures. Equity crowdfunding is considered the most composite type of crowdfunding, so informational asymmetry needs to be addressed by showing a higher level of reputation for entrepreneurs and linking them to the transparency of the firms in the country. One of the newest techniques to address asymmetric information issues in web-based social networks is the reputation mechanism. Equity crowdfunding is considered the most composite type of crowdfunding, so informational asymmetry needs to be resolved for entrepreneurs. Therefore, the next section of this thesis explores the role of government in regulating and facilitating crowdfunding and in providing wider accessibility of funds for MSMEs in the WBOP.

## 3.6 ROLE OF GOVERNMENT

Government support is critical to the performance of MSMEs, regardless of a country’s economic conditions. Countries with an adequate organisational structure that prioritises MSMEs have achieved higher performance levels (Esubalew and Raghurama, 2021).

One study revealed that many businesses suffer from monopolies and government policies, which are usually more favourable for large organisations (Voskanyan, 2000). Corruption encourages firms to attain external financing in the form of bank loans (Khwaja and Mian, 2005) by overcoming unclear and complex bureaucratic practices (Agrawal and Knoeber, 2001). Weill (2011) employed data from banks worldwide to demonstrate corruption and its ability to hinder the financial practices of a firm. In addition, Wellalage et al. (2019) examined a positive association between bribes and access to credit for firms in South Asia. According to Svensson (2003), a bargaining model promotes corruption because firms with a high capacity for paying bribes can access the level of credit that they require. This increases the role of the government in controlling corruption in the country by taking strict action against those firms.

MSMEs have remained in focus in policymaking and scientific studies for more than 20 years. It is generally acknowledged that, in addition to the creation of employment opportunities, entrepreneurship also supports economic growth and technological advancement (Wong, Ho and Autio, 2005; Coetzee and Buys, 2017). Entrepreneurship has resulted in many regional and governmental policies focusing on enhancing small businesses and facilitating the development and survival of novel enterprises (Collett, Pandit and Saarikko, 2014; Duarte et al., 2018). Nevertheless, some scholars have raised questions about the relevance of the government backing of new companies, government programmes for entrepreneurship promotion, and steps aiming to grow the economy (Rotger, Gørtz and Storey, 2012; Baumgartner et al., 2013; Hennecke, Neuberger and Ulbricht, 2019). Though the issue is very important, in practice, there is no consensus on the effectiveness of government policies to support MSMEs or on the steps required from the government to encourage a conducive environment for the development and growth of novel companies (Spencer and Go’mez, 2004; Caselli et al., 2019).

Palestinian MSMEs receive support from various governmental and non-governmental organisations, agencies and firms. For instance, the Italian Ministry of Foreign Affairs, the Palestinian Liberal Organization and the Ministry of Finance have signed an agreement to support SMEs through the Palestinian Banking System in the form of EUR 25 million of soft loans (Palestine Authority, 2005). The percentage quota for the supply (or construction) of local goods or services not linked to the supply of Italian origin should be included in the contract with the Italian supplier (Bayyoud and Sayyad, 2016). This means that different types of issues that might exist in the WBOP should be explored in the local context to understand the role of government support in improving the accessibility of funds for MSMEs. However, despite this, the Palestinian government puts many obstacles in the way of MSMEs through laws that only stimulate and encourage larger projects (Mansour and Abdel Jawad, 2018). The Palestine Economic Policy Research Institute (MAS, 2010) found that the Palestinian legal environment does not grant incentives to MSMEs as the exemptions and incentives in investment promotion laws do not apply to them and they have no significant advantage in tax legislation. This shows the government’s weak role in promoting MSMEs (Abdullah and Hattawy, 2014). Furthermore, Hanini et al. (2021) highlighted the lack of government support with respect to financing and training for MSMEs. This means that there is a need for more attention on this issue because the Palestinian economy depends entirely on the activity of MSMEs, which constitute 95% of it.

Despite all the different aspects covered by such government policies, their execution is still problematic due to improbable and vague requirements (Le, 2010). MSMEs must invest ample time and effort to receive the offered assistance. Moreover, discrimination against non-governmental MSMEs still exists despite the exclusion of the government’s leading role.

Furthermore, corruption continues to exist across the board in developing countries (Nguyen and Lim, 2018). MSMEs in Vietnam make informal payments to receive government support. Thus, it is difficult to determine whether the cost paid by MSMEs for government assistance is worth the advantages received from this support. This research assesses whether government support is advantageous for the financial performance of MSMEs and, if so, how that works in the WBOP.

Some studies have explored the effects of government support on MSME performance in developing states, with varied results. For example, Fajnzylber, Maloney and Montes–Rojas (2009) considered different kinds of Mexican government support for the enhancement of MSMEs. The researchers also observed that the productivity of MSMEs may have intra-country variations in developing countries due to failures of governments and markets, which restrain micro-organisations from achieving their optimum size. They also found that access to funds for MSMEs in developing countries cannot be improved without government intervention. Furthermore, Wei and Liu (2015) conducted experiential studies to research the impact of Chinese government support on innovation. Innovation by enterprises was affected by direct subsidies for research and development (vertical support) and innovation policies at the regional level (horizontal support) (Wei and Liu, 2015).

Several studies describe the relationship between the performance of an organisation and government assistance (Cowling, 2010; Rotger et al., 2012; Hennecke et al., 2019). Nevertheless, little empirical evidence exists for how MSME performance and government support are interlinked through access to market funds. At the same time, some studies have revealed that government assistance has little impact on the financial performance of MSMEs. For instance, using an SME-related dataset from the manufacturing industry of Japan, Honjo and Harada (2006) explored the inconsequential role played by the government through its policies related to revenues, hiring and sales of SMEs. Meanwhile, the impact of South Korean government initiatives in strategic industries and SME innovation was explored by Doh and Kim (2014), using funds related to technological advancement support as a proxy. Experiential studies reveal that SME financial performance and technological advancement are positively linked with the accessibility of funds through government support.

The performance of the MSME sector is inadequate despite its massive growth potential and significant involvement in the sustainability of economic growth in most developing states (Okonkwo and Obidike, 2016). It has been suggested that the failure rate of MSMEs is continuously high despite the availability of support programmes to assist them (Ihua, 2009; Kehinde et al., 2016). Questions have been raised about whether or not appropriate financial support is provided to MSMEs by the government to help them perform in a manner that increases sustainability and progress in the WBOP. Although the provision of monetary support in Palestine has been recognised, the effect on MSME performance has not been examined. As most of the existing research has used analysis techniques (whether quantitative or qualitative), this research adopts a mixed-methods approach. It evaluates the effects of financial support on MSME performance and also explores why the required objectives have not been completely achieved through the financial assistance provided to MSMEs by the government to enhance performance.

It is difficult to study MSMEs as primary tools for economic value generation and examine the highly important environmental and social impacts caused by MSMEs in the WBOP. The key mechanism for the aggressive stimulation of MSME growth is government-supported programmes for projects, but these projects only possess limited government capacity to support MSMEs. Therefore, this research focuses more on the sufficiency and fair accessibility of funds for MSMEs in the WBOP rather than the impact of government support programmes. Deficiency of infrastructure and economic environmental volatility in the WBOP have negatively influenced MSMEs in the country. Most developed countries consider it their principal strategic obligation to drive programmes for the development of MSMEs, which are highly prominent because of their contributions to national wealth through employment opportunities, technological advancement, new industries and increased production capacity. These outcomes subsequently improve the public’s living standards and provide equitable income distribution. Therefore, this research focuses on understanding how the accessibility of funds for MSMEs in the WBOP can improve their performance.

The studies discussed above reveal that MSME financial performance and technological support are positively linked with access to government funds. In addition to creating employment opportunities, entrepreneurship supports economic growth and technological advancement, which justifies government support to MSMEs. Nevertheless, some scholars have raised questions about the relevance of the government emphasis on the creation of novel companies aiming at regional growth. The same question can be raised in the case of the WBOP.

Corruption exists across the board in developing countries and is linked with government policies. Therefore, this research also explores how corruption hurts access to funds for MSMEs in WBOP. It attempts to identify whether MSMEs in the West Bank make any informal payments to receive government support and the impact of this support.

It is difficult to determine whether the cost paid by MSMEs for government assistance is more or less equivalent to the advantages received from this assistance. Therefore, this research focuses only on government policies’ impact on the accessibility of funds in the West Bank rather than on the impact of government support on MSME financial performance. This research assesses whether government support is advantageous for MSMEs in improving their access to funds in the WBOP and, if so, how this works in the area.

It is imperative to increase collaboration between governments and institutions so that MSME-friendly government policies are developed to improve access to funds in the West Bank. By providing SME-friendly policies, the government can encourage lending institutions to provide soft loans to MSMEs that improve MSME performance rather than providing financial support directly. This will enable entrepreneurs to develop MSMEs through fair and sufficient access to funds in the West Bank.

## THE ROLE OF PUBLIC GUARANTEES

Credit guarantee schemes are defined as any formal scheme in which an independent third party provides a guarantee to the lender(s). There are three key parties involved: a borrower who can be an MSME, a lender who usually represents FIs and a guarantor in the capacity of an independent company. A survey of credit guarantees schemes worldwide conducted by Gozzi and Schmukler (2016) showed that over 30% of these schemes have state ownership. Public credit guarantee schemes are important in developing countries in that they represent the main guaranteed scheme.

Governments also participate in these schemes by funding private guarantee schemes or running their schemes directly. There is some indication that these mechanisms boost lending and strengthen selected firms’ funding conditions. Nevertheless, poorer creditworthiness and higher losses have also been found to be correlated with them. Banks will simply move from unguaranteed to guaranteed loans, resulting in no or restricted new loans. Although companies receiving guaranteed loans in some countries have increased their performance in other countries, the performance of SMEs has remained unchanged or even worsened (Gozzi et al., 2015).

MSMEs are perceived to face difficulties in accessing finance and numerous public support programmes have been set up to facilitate their access to finance. Lenders use different strategies to secure their interests. For example, high-interest risky loans and lack of public guarantees are major strategies for lenders. Interest rates cannot always be used to screen the creditworthiness of the MSMEs as adverse selection can take place due to misinformation in the market concerning MSMEs and their relationships with the lenders (Waniak–Michalak and Michalak, 2019). Furthermore, there are also additional costs involved in monitoring the performance of MSMEs to determine their potential to pay back the borrowed amount (Hennecke et al., 2019). Apart from such market failures, access may also be denied by the lender to the borrower due to the fixed costs involved with the principal amount, which could be higher than the perceived ability of the MSME to pay back the loan (Tsuruta, 2020).

These credit guarantee programmes aim to help overcome market failures and the lack of collateral that some SMEs may encounter when attempting to finance their activities. To assess whether credit guarantee programmes achieve their scope effectively, periodical evaluations are important, especially as they can help policymakers improve the design of elements of these programmes to facilitate access to finance. The potential benefits of support programmes need to be weighed against their potential costs (OECD, 2017). As the revenues of banks, sustainable use of loan facility, interest expenses of borrowers and loan repayment schedules are affected by the loan term, and the government plays a vital role in developing fair, friendly and accessible loan terms and conditions to facilitate the funds for the MSMEs in a country.

The aim of this section is to provide visible econometric evidence, in light of the Palestinian economy, that the credit availability can be enhanced for MSMEs if a credit guarantee policy and support can be properly designed in the West Bank. This will also reduce the cost of borrowing and can improve MSMEs’ access to loans in the West Bank. A new econometric approach was developed by the researcher to explore the effectiveness of the Palestinian West Bank State-funded Guarantee Scheme at providing access to credit for MSMEs at a low cost of borrowing through public guarantees. First, there is a need to understand the role of public guarantees.

The term of a loan appears to be a significant factor as far as lending is concerned, as inferred from Brownbridge (2002). Revenues of banks, sustainable use of loan facilities, interest expenses of borrowers and loan repayment schedules are affected by the loan term. Moreover, the loan term and size puts constraints on accessing loans from banks in most cases, whereas interest rates on loans restrict access to loans in very few cases (Rogo, Shariff, and Hafeez, 2017; Hussain, Salia and Karim, 2018; Shava, 2018; Brown and Lee, 2019). High-interest rates on financing and inefficient banking services are the key factors in accessing loans from banks for small entrepreneurs in the context of developing states. Justification for those loans is provided by economic reasons as revealed in most of the studies, including World Bank (2003), USAID, (2005), USAID, (2007), Kaufman and Wilhelm, (2006), and so interest rates are high in developing countries. Moreover, variation in interest rates differences depends on currencies, and interest rates on financing in the local currency (Abubakar et al., 2019; Amornkitvikai and Harvie, 2018). However, the question then arises as to whether the intervention of the state in the credit system as a guarantor is an effective means of promoting lending. This is because both empirical and theoretical studies give opposing views. One of the arguments is that credit guarantee schemes are costly, thereby giving rise to various financial issues in the long term (Wasiuzzaman, 2019; Manzoor, Wei and Sahito et al., 2021). These problems mainly arise because there is a high default rate on loans in various countries, and such a default rate is inconsistent with projected financial outcomes. Consequently, such schemes then run out of money over time. Therefore, there is a need to understand the issues attached to the use of a public guarantee to facilitate the funding for MSMEs.

In addition, the disadvantage of guaranteed schemes still needs to be proven, in the absence of concrete evidence about their benefits to MSMEs in accessing loans easily. Schich (2018) argued that guarantee schemes should not be regarded as providing credit rationing or as a measure of rectifying the failures of legal systems. Nevertheless, guarantee schemes do provide new avenues of financing the businesses; after all, they are a source of funding for the businesses. However, they are available only under certain terms and conditions, which can be quite constraining for the MSMEs (Beltrame et al., 2019). It is important to note that the existing research does not provide enough understanding about the terms and conditions of the public loan guarantees. Therefore, there is a need to investigate whether this type of intervention can improve the accessibility of funds in the WBOP or not. In addition, also being explored through the primary data is the question of how a public guarantee can improve the accessibility of funds for MSMEs in the West Bank

The lenders also require a well-established infrastructure to provide funds to credible lenders, but they require in-depth credit information about the firms and individuals, something which does not exist in the West Bank. Banks generally attempt to overcome such problems by obtaining information through contracting, screening and monitoring activities (Arif et al., 2020; Hewa et al., 2020; Berger, Klapper and Udell, 2001). Banks offer loans that are multidimensional and are under particular terms and conditions (hereinafter T&C). These T&C are aimed at mitigating the risk factors associated with lending amounts to borrowers and monitoring their performance and payback (Watanabe, 2005). There are two categories related to T&C: Price T&C (financing cost, interest rate, fees, charges and commissions) and Non-Price T&C (size of the loan, covenants related to loans, collateral requirements, etc.). The monitoring is facilitated under Non-Price T&C such as debt covenants and maturity (Courrent, Chassé and Omri, 2018). There are also attempts to minimise credit losses through non-price T&C such as collateral and loan size (Zhu et al., 2017). By restricting the size of the loan, the potential exposure of the bank is limited, whereas the loss is minimised through high collateralisation because the potential recovery rates are enhanced. Similarly, when the maturity of loans is shortened, the risk factor becomes limited as the creditor is exposed to risk for a short period (Agnese et al., 2018). However, non-price T&C are not the only factor responsible for limiting the risks pertinent to lenders. Therefore, the remaining risk factor is dealt with under interest rates and through fees and commissions (Agnese, Rizzo and Vento, 2019).

### 3.7.1 Common Characteristics of Loan Guarantees

Cowling and Mitchell (2003) observed that schemes related to loan guarantees play a pivotal role in the development of MSME in both developing and developed countries; however there is a dearth of literature exploring the effectiveness of such programmes. There are three parties involved in such loan programmes: lender, borrower and guarantor (Agnese et al., 2019).

The three participants have different motives. MSMEs are the borrowers who are seeking financing to further their business through business loans. The lender is usually a private firm or a bank which is looking to make a profit in the long term by charging interest on loans (Agnese et al., 2018). As there is information asymmetry, the creditworthiness of the borrowers is therefore of prime importance to the lenders. For small or new businesses, the high cost of loans may be problematic for them given their creditworthiness (Schich, 2018). Therefore, the borrower seeks to get the loan on the basis of a guarantee from the third person that the borrower will pay back (Schich, 2018). The guarantor is usually a trade association or a government looking to facilitate the debt capital for small firms to enable businesses to grow and provide employment to more people. There are various benefits of debt capital such as:

1. Increasing the growth of the business (Duarte et al., 2018).

2. Increasing the tax revenues and employment, thereby increasing the economic output of the business (Waniak et al., 2019).

3. Increasing the exports, which expands the overall economic activity of the country (Hennecke et al., 2019).

4. Banks also derive benefit from financing small businesses as they make profit on the basis of the interest rates attached to the principal amount (Tsuruta, 2020). Because of this, the banks resort to guaranteed loans so that the amount lent remains safe when the borrower defaults; the bank is then entitled to recover the amount from the guarantor (Martín-García and Morán Santor, 2021).

This generic arrangement considers the relationship of agency between the lender and the guarantor in addition to that between a borrower and the lender (Ma et al., 2019). The role played by the lender here is that of the delivery agent (Agnese et al., 2018; Mdoe, Kinyanjui, and McMillan 2018). The guarantor must act in a way that is in line with the objective of the lender.

**The following are the parameters managed by the guarantors in relation to the agency relationship**:

1. Discretion available to a lender regarding a credit decision: The creditworthiness of the borrower is of prime significance as it highlights the potential ability to pay back the loan (Martí et al., 2018). Some jurisdictions give lenders the discretion to decide on their own about giving a loan regardless of the creditworthiness of the borrower (Caselli et al., 2019; Tsuruta, 2020). However, in other jurisdictions, the guarantors (when it is a government) review the application of the borrower (Cecere, Corrocher and Mancusi, 2020; Daskalakis, Balios and Dalla, 2018).

2. Extent of guarantee: This level differs from one jurisdiction to another (Andrieu et al., 2018; Duarte et al., 2018).

3. The guarantors typically set the fee for recovering the cost of meeting the default situation or maintaining the pool of finances (Briozzo and Cardone-Riportella, 2016; Sani, Mohd-Khan and Zamzuri Noor, 2018).

4. Criteria of eligibility: In many situations, the guarantees are not allowed to borrow. For example, Canada does not permit guarantees regarding loans for supporting working capital (Corsi and Prencipe, 2017; Hennecke et al., 2019).

The term of a loan appears to be a significant factor as far as lending is concerned, which creates barriers for the MSMEs to access the loans. Revenues of banks, sustainable use of a loan facility, interest expenses of borrowers and loan repayment schedules are affected by the loan term. Moreover, the loan term and size put constraints on accessing loans from banks in most cases, whereas interest rates on loans restrict access to funds in very few cases. High-interest rates on financing and inefficient banking services are the key issues for MSMEs in accessing loans from banks in developing countries. Therefore, interest rates are high in those developing countries because they require government intervention to facilitate the loan facilities for the MSMEs. However, the question then arises of whether the intervention of the state in the credit system as a guarantor is an effective means of promoting lending or not. Therefore, this research also uses government support as an integral factor to understand whether the government support impacts the accessibility of funds for MSMEs in the WBOP and how government support can facilitate the funds for MSMEs in that region.

These problems mainly arise because there is a high default rate on loans in developing countries, and such a default rate is inconsistent with projected financial outcomes, which requires government intervention to facilitate the funds for MSMEs. Hence, there is a need to understand the issues attached to the public guarantee when facilitating the funding for MSMEs in the WBOP. In addition, the disadvantage of guaranteed schemes still needs to be proven in the absence of concrete evidence about their favorability to MSMEs that want to access loans easily. Nevertheless, guarantee schemes provide new avenues for financing the businesses. After all, they are a source of funding for the businesses which require government intervention to develop policies to protect the stakeholders' interests in facilitating the funds for MSMEs in the WBOP. However, they are available only under certain terms and conditions, which can be quite constraining for the MSMEs in the area. Therefore, this research investigates the current barriers to the accessibility of funds for MSMEs.

The lenders also require a well-established infrastructure to provide funds to credible lenders, but they require in-depth credit information about the firms and individuals which do not exist in West Bank. Banks generally attempt to overcome such informational problems by contracting, screening, and monitoring MSMEs’ activities to secure the lender’s money and motivate the MSMEs to return the money through generating business activities in the West Bank. This is why this research examines government support in the context of direct funding, legal and business infrastructure for the lender and businesses, which can facilitate the funding environment for banks to lend and make it possible for the borrower to borrow money from the lender in the WBOP. Government intervention and government support is not the only factor that impacts the accessibility of funds. There are other factors that have a similar impact; the next section critically reviews the role of these different factors that affect the accessibility of funds for MSMEs.

### 3.7.2 The Role of Credit Guarantor on the Banks and other FIs Willing to Provide Loans to MSMEs

A clear description is required to make the argument on the value and essence of loan guarantees – the most detailed concept explains that a guaranteed credit facility is used as a security for a credit line, in which the guarantor irrevocably undertakes to pay any amount to the lender on the first request, up to the maximum of the lender's requests.

Although (partial) loan guarantees differ, according to Maina (2014) nature of ownership and funding, credit guarantees per se are widely used as a financial product to be obtained as a partial substitute for collateral by a small businessman. It is important to note, however, that a credit guarantee does not endanger the borrower with default in comparison with collateral. If the borrower defaults, the guarantor promises to pay all or part of the loan. Adomako, Danso and Damoah (2016) describe the guarantor as an independent entity between the lending bank and the borrower operating as a third party.

The organisation that offers the loan guarantee, however, is eligible for state funding and can therefore provide a basis for government intervention for the credit guarantee programme (Douette et al. 2014). A credit guarantees programme is in this case a policy instrument designed to alleviate funding restrictions for small and medium-sized companies (Holton et al., 2013). A loan guarantee of this sort also provides borrowers with the goal of increasing access to credit for MSMEs. This reduction of the risk occurs by absorbing part of the loans made to MSMEs for default, typically in exchange for a fee (World Bank, 2015).

Credit guarantees are a commitment to fulfil the duty of somebody else in the event of default. Credit guarantee schemes guarantee lenders' loans by covering a portion of the loan's default risk. If the borrower defaults, the lender retrieves part of its interest (Honohan, 2010). Guarantees are generally provided for payments paid by the lender, the creditor or both, and are largely funded by government initiatives. In the event of a default, the creditor is usually obliged to take the loan and share the proceeds with the borrower. Credit guarantees allow the credit risk from a loan or a loan portfolio to be partially transferred. We see a similarity in this respect with credit insurance products and credit default swaps.

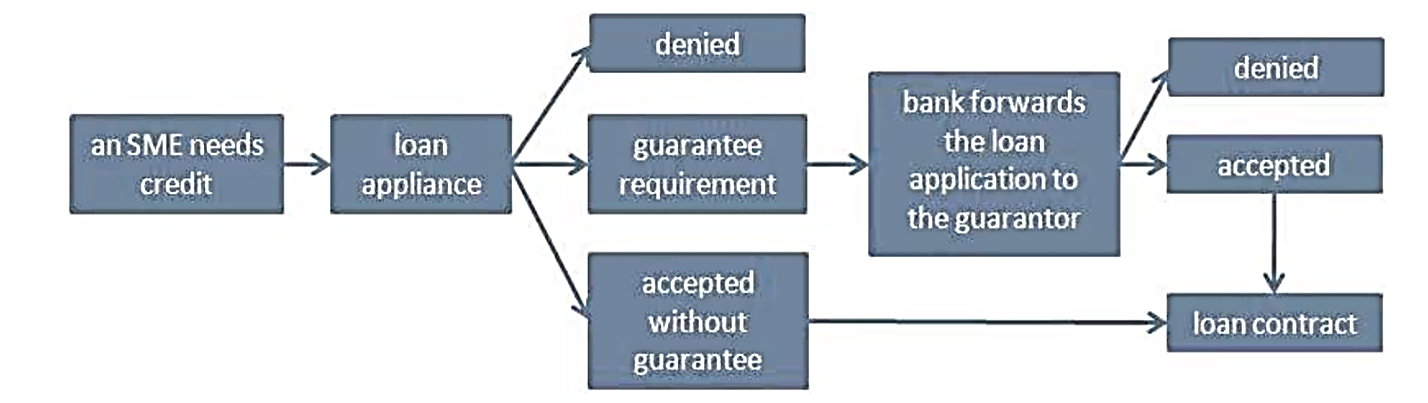


Figure 3.3: The process of loan application with credit guarantee backing Source: own from OECD, 2008

The credit guarantee from the lender's perspective is a type of security linked to the lender's creditworthiness. The cycle of MSMEs loan system is illustrated in Figure 3-3. The MSMEs decide first, and generally through the bank, to apply for loans from a financial institution. The client will never contact the guarantee company directly. In the event that the Bank wants to provide a guarantee to issue a loan, the details of the lending equipment and the small businesses are handled. The process is automated with respect to the portfolio-based guarantee scheme.

The public credit guarantees schemes for small and/or medium-sized enterprises (World Bank, 2015), include compliance with prudential credit risk mitigation strategies, such as Basel requirements as applicable to the lender, under conditions between the borrowers and the suppliers of the credit guarantees.

Another principle concerns risk pricing. This states that the rates for the guarantees provided should be calculated in accordance with the risk of the underlying credit. The risk is stated in the combination of the warranty ratio, default exposure and default loss.

## 3.8 COMMON FACTORS AFFECTING MSME ACCESS TO FINANCE

Banks and other FIs find it difficult to make risk assessments and thus grant loans to MSMEs. The research has found that there is still a huge gap between the demand and supply of loans, largely affecting MSMEs (Yamori, 2015). Thus, it is important that the Palestinian government devise policies that cater to MSMEs’ financial needs. Shweta (2014) considered MSMEs with respect to debt financing in India and found that many industries were based on the sole proprietorship model and were based in rural areas. The provincial government did occasionally frame industrial policy, but there was a clear need for more social and economic benefits. In addition, Fred and Timothy (2013) studied the impact of credit financing on MSME performance in Kitale Town. They considered the value of assets regarding the availability of credit financing and found that credit financing does not necessarily increase the assets of start-ups. They also examined whether the availability of credit financing increased market share and found that an increase in market share was not guaranteed following an increased availability of credit financing. They finally concluded that factors such as the size of the firm, size of the business operations, and cost of credit assessment must also be considered. Thereafter, the performance of credit guarantee policies or schemes are critically reviewed by the pattern of allocation, the cost of allocations, and the role of promoting schemes that are locally embedded because they are based on the local business, economic and political environment of the country. Therefore, this research explores the role of credit guarantee schemes for MSMEs in the West Bank. The conclusions are not specific to any one country as the specifications of the models are in line with the existing literature. However, the findings cannot be blindly applied to other countries without considering local contexts.

### 3.8.1 Demographic Factors that Impact the Accessibility of Funds

Kwak (2021) observed that credit rationing takes place when only one of two or more identical loan applicants obtain approval for loan, while others are rejected. Some groups can be identified who obtain loans with a lower supply of credit and a higher price of loans (Courrent et al., 2018; Jackowicz and Kozłowski, 2019; Namara et al., 2020). According to this theory, if more funds are made available to MSMEs, they are better able to become productive, but they are often unable to obtain approval for loans. Constantinidis, Cornet, and Asandei (2006) observed that there are also differences between loan approvals for start-ups managed by men compared to those managed by women. The difference is highly visible as men are three times more likely to receive approval than women (Galli, Mascia, and Rossi, 2020). This shows that there are gender differences at play with respect to loan approvals. In addition, it was observed that women are credit constrained due to receiving fewer approvals for bank loans, overdrafts, and supplier credit. Thus, start-ups created by women face more financial constraints than those created by males (Masiak et al., 2019; Brush et al., 2002; Brei et al., 2020; Sun et al., 2020).

Ekambaram and Sivasankar (2013) discussed the effect of socioeconomic elements on the development of entrepreneurship. They found that social status was highly influential in the beginning, but gender was not that influential. Their research also showed that the majority of entrepreneurs were in the age bracket of 21 to 40 years old and held graduate qualification levels. In addition, entrepreneurial development was also influenced by the family background of the entrepreneur. Thus, this research argues that socioeconomic elements have significant influence on entrepreneurs. Das and Kandarpa (2013) observed that MSMEs are powerful tools to realise two main objectives: accelerating the growth of industry and creating the productive potential of employment, particularly in rural areas. However, the most pressing issue faced by MSMEs is capital availability; that is, easy access to debt financing. Nagayya (2013) evaluated the flow of credit to MSMEs between 2004 and 201, finding that non-financial parameters need to be considered in relation to screening methodologies and that the financial management competencies of MSMEs are of prime importance in evaluating loan proposals.

Norhaziah and Shariff (2011) argued that microfinancing is at the core of the development of SMEs. Their research evaluated different microfinancing programmes available to MSMEs and found that these organisations experience difficulty relating to the availability of credit. Thus, it is a daunting task for both small and medium-sized enterprises to access micro-financing and increase the growth of their businesses. Micro credits are imperative for helping SMEs grow, as they can face financial limitations. The credit enables MSMEs to start businesses, acquire assets, and expand business operations. Previous research has proved that credit helps micro-enterprises increase their businesses.

Features or traits of business owners that may have both negative and positive impacts on business outcomes are called entrepreneurial characteristics. The impact of gender on such characteristics can affect business performance, for example, through education and networking (trade association membership). Education improves managerial skills (Blumberg and Letterie, 2008). Higher educational levels of entrepreneurs positively influence small business performance. Highly qualified entrepreneurs likely have more highly developed skills for starting and sustaining businesses (Wasiuzzaman, 2019). The number of credit applications increases if entrepreneurs are well-educated, while rejections decrease. Banks perceive creditworthiness by assessing the potential earning capacity of entrepreneurs in the event of the failure of the business. The earning capacity of highly qualified entrepreneurs after a business failure is higher compared to the earning capacity of less qualified individuals (Sani et al., 2018).

Differences in behavioural characteristics have also been found across genders in recent studies (Treichel and Scott, 2006). Almost a decade ago, an addition of the gender dimension was introduced into two classic papers presented by Dollar, Fisman and Gattiet (2001) and Swamy et al. (2001), both of which focused on the idea that women act differently than men in different economic and financial situations. The findings of both papers demonstrated that women are less likely to indulge in corruption than men. Alatas et al. (2009) argued that an individual’s social role significantly impacts their exposure to corruption. This also means that exposure to corruption in an individual’s daily life encourages tolerance and acceptance of corruption. McCabe, Ingram, and Dato–On (2006) found that gender does not differentiate the ethical perceptions present in the form of bribery. According to the researchers, any individual could be exposed to bribery when few options are available to them, regardless of gender.

Due to information asymmetry, businesses owned by women face a weak institutional environment and information becomes even more difficult to manage (Bellucci, Borisov and Zazzaro, 2010). Entrepreneurial businesses owned by women have less access to external financing due to the lack of information about accessing funds (Berger and Frame, 2007; Moro et al., 2014). This often results in bribery in order to access such sources of financing. As far as FIs are concerned, it is more comfortable for them to let a woman not worthy of credit bend the rules to obtain access to credit, compared to a man who owns the same size of business and is worthy of credit. From a global perspective, women face greater restrictions in obtaining access to credit compared to men. MSMEs owned by women are more likely to be asked to pledge collateral and pay higher interest rates compared to MSMEs owned by men (Coleman, 2000). Internationally, the evidence illustrates that MSMEs owned by women are less likely to receive external financing, and even if they do access financing, the interest rates are higher (Muravyev, Talavera and Schäfer, 2009). In addition, research on MSMEs in Italy suggests that female-owned SMEs pay higher interest rates than male-owned MSMEs. Bellucci et al. (2010) explained that such differences are potentially grounded in the cultural beliefs and preferences of genders. To reduce this type of discrimination, bribery often occurs. Thus, the influence of bribery is significant for obtaining access to finances and is even higher for MSMEs owned by women.

Women are unconsciously discriminated against in loan processing systems whereby loans granted to them appear to have higher mark-up rates than those granted to men. This is explained by the theory of human capital described by Smith-Hunter T(2006), which suggests that more experienced and well-educated women business owners are more likely to obtain financial capital. At the same time, the theory of social capital suggests that the unavailability of social networks may impede credit access for women (Carter and Shaw, 2006). Brindley (2005) stressed the role of risk as an obstacle for women-owned businesses as perceptions about risk levels are inaccurate, meaning higher levels are deliberately accepted (Simon, Houghton and Aquino, 2000). This reflects gender disparities in terms of perceived risk.

The above research discussing the role of ethnicity and gender (which inevitably intersects with social class and education) for accessing bank loans is very complicated and disputed. Processes are influenced not only by gender, race and class but also by risk perceptions (including from lenders and borrowers) and social capital (for example, Bagwell, 2008). For instance, Kon and Storey (2003) observed cases of potential borrowers who did not even submit loan applications to banks due to the perception that their applications would be rejected. Moreover, Marlow and Carter (2006) provided evidence that women are reluctant to submit applications for financing due to their fear of rejection.

Irvin and Scott (2006) stated that entrepreneurs from ethnic minority backgrounds face the greatest hurdle. Those entrepreneurs rely on bootstrapping as a strategy to obtain finance. Treichel and Scott (2006) maintained that, although it is generally assumed that female entrepreneurs experience discrimination in loan approvals, such discrimination does not persist over time, particularly when a firm grows in size and profitability. Specific agents introduce resources (such as capital and information) in certain societal fields by using network mechanisms (Schirato and Webb, 2003). These mechanisms are crucial for entrepreneurship as they facilitate movement between wide-ranging society and entrepreneurs. Verheul and Thurik (2001) described assumptions whereby the constraints in obtaining bank loans are lowered by network activities. This was explored by Kepler and Share (2007), who found that, despite the similar qualification of men and women, men have more business experiences prior to starting their businesses than women. Networks of women are mostly limited to friends and family, whereas networks of male business owners are broader and include external parties (such as chambers of commerce).

In retrospect, then, most of the available literature has failed to explore how access to finance is affected by personal characteristics, but some evidence has explained how the demographics of business owners, organisations and management can impact the accessibility of funds for MSMEs.

Ethnic minorities face some issues accessing finance, in addition to some serious impacts on their businesses. It was also highlighted that problems experienced by companies in intensely competitive environments, particularly during the initial stages, create barriers for funding because lenders perceive a high risk of losing their money. Some studies have found differences in behavioural characteristics across genders, as discussed above, but these differences cannot be considered universal, and there is a need to understand the local context of the WBOP.

It was also discussed above that the entrepreneurial businesses owned by women have less access to external financing because of a lack of information about accessing funds. Such differences are potentially grounded in cultural beliefs and preferences regarding gender. This research explores gender’s impact on access to funds for business in the WBOP. In addition, larger and older firms have more access to funds than smaller or younger firms. Therefore, the demographic factors of the age of the firms and owners are assessed to test their impact on the accessibility of funds.

### 3.8.2 The Role of Financial Literacy

The definition of financial literacy covers the bulk of cognitive skills and knowledge required to make and manage efficient decisions regarding finance handling; for example, the acquisition and repayment of loans, payment of utility expenses, accounting, and budgeting, as described by Reich and Berman (2015) and Adomako et al. (2016). Xiao (2008) defined financial literacy as referring to behavioural knowledge germane to the management of money, which includes knowledge related to credit, spending, investment and income.

Experiential research (Fatoki, 2014; Lusardi and Mitchell, 2007; Cole, Sampson and Zia, 2009; Lusardi and Tufano, 2009; Adomako and Danso, 2014; Arif, 2017; Mashizha and Sibanda, 2017) has found that levels of financial literacy are low in both developing and advanced countries, which means that most individuals are largely unaware of fundamental financial concepts. In the US, financial literacy emerges as a general issue faced by entrepreneurs in the beginning and developing phases of their businesses (Atkinson, 2014). The financial literacy concept was explored by Arif (2017), who found that most small business owners were unable to make effective financial decisions due to a lack of knowledge of fundamental financial concepts. He also suggested that a lack of financial illiteracy among small business owners may result in poor financial management, decreasing the creation rate of novel projects and creating a potential rise in the rates of business failures associated with entrepreneurs. Adomako and Danso (2014) explained that the business activities of entrepreneurs are risked by their lack of financial illiteracy regarding effective business management. Similarly, Vacher (2014) argued that business cultures make the uptake of financial literacy mandatory.

Debt providers that cannot conduct proper risk assessments due to the unavailability of or limited access to financial information make poor financing decisions (Mashizha, Sibanda and Maumbe, 2018). To mitigate information asymmetry, loan providers place heavy charges on finances and ask borrowers to provide collateral (Viana and Maicher, 2015; Cowling et al., 2016; Imronudin and Hussain, 2016). It is therefore clear that financial literacy needs to be enhanced to improve financial information, which would help make better lending decisions. Improved financial literacy would also help managers and owners of SMEs prepare suitable financial information in a timely manner, enabling loan providers to assess this information and make appropriate lending decisions (Delić, Kurtović, and Oberman Peterka, 2016).

Regulators and technology restructure the financial environment, decreasing relational financing (Mabula and Ping, 2018). Moreover, the relocation of banks’ main offices negatively impacts the financial access of SMEs because the distance between the banks head office and place of business matters (Lee and Brown, 2016). Another factor that restricts the financial access of SMEs is insufficient collateral, which may cause an increase in the rate of business collapse (Love Pería and Singh, 2016).

Financially literate MSMEs can make strategic decisions about tapping new markets. This is a dynamic capability that requires a combination of different personal, operational and financial expertise to make the right choices to shape strategic decisions (Whiting, Hansen and Sen, 2017). Therefore, entrepreneurs can also adapt to and create a resource base to support the activities of their firms, thereby developing new products and introducing them to international markets (John et al., 2020). Such dynamic capabilities are critical to the strategic development of SMEs. In line with Cole et al. (2009) and Lusardi and Tufano (2009), the current research argues that financial literacy is imperative for the growth of firms, for which access to capital must be available to SMEs.

Coad and Tamvada (2012) argued that in developing countries, SME access to capital is limited, which affects growth opportunities. The situation is further complicated by these entrepreneurs’ lack of financial literacy, leading to a lack of innovation and ultimately resulting in poor business performance. Although entrepreneurs in developing countries seek access to informal sources of funds, such as borrowing from friends and private lending institutions (Bygrave, 2003), the existing literature shows that most SMEs in developing countries find it difficult to obtain loans on commercial terms (Forbes Insight, 2010). Other critical earning sources include credit from suppliers and retained earnings. However, these both arise during the course of business operations and are dependent on financial management skills. Paul and Boden (2012) argued that trade credit generates twice as much liquidity for SMEs than banks. Forbes Insight (2011) suggests that internal budgets usually limit firms’ financial performance, forcing them to seek external sources of finance for growth.

Financial literacy also enables entrepreneurs to use creativity in debt and credit management, acquire raw materials in a timely fashion, monitor budgets, and manage stock and inventory (Adomako et al., 2016). A combination of external and internal literacy is highly correlated with business performance (Bruhn and Zia, 2011); this finding is also supported by Sucuahi (2013) and Agbemava et al. (2016). Wise (2013) observed that financially literate SMEs empower entrepreneurs to develop sound financial systems for recording, analysing and monitoring financial information and enable them to make decisions accordingly. Financial literacy also provides better cash flow management and access to finance and reduces the probability that a firm will default on its payments (Kotze and Smit, 2008). This subsequently enables owners to focus on business operations that improve firm performance (Bruhn and Zia, 2011).

To address this research gap, this study examines argument that the impact of financial literacy on company performance depends on financing availability. Mitchell (2007) argued that by using available basic resources, industrialists make good decisions with the help of financial literacy. The enterprise of an industrialist with financial knowledge is not successful in the absence of financial capital (Adomako and Danso, 2014). Therefore, this study aims to evaluate the impact of financial literacy on the performance of companies and examine the moderating impact of funding availability on the relationship between performance and financial literacy. The aim is to conceptualise the significance of the relationship between access to finance and the growth of a firm to highlight the need to make it easier for SMEs to borrow from lending institutions (Makadok, 2001). Access to finance is critical for obtaining inimitable, rare and valuable resources which enhance a firm’s competitive advantage. Financial literacy is a resource that enables the entrepreneur to harness other strategically valuable resources (Mwila and Ngoyi, 2019). The principal question of the research in this regard is as follows: How does financial literacy influence the relationship between access to capital and the growth of a firm? The current study contributes to the literature on the impact of owners’ and managers’ financial literacy on the accessibility of funds in the WBOP.

### 3.8.3 Financial Literacy and Financial Performance

An SME’s success depends largely on the efficient use of resources and management of funds. This means that the manager of an SME should possess sound financial literacy related to financial management (Mazzarol, 2014). Remund (2010) observed that financial literacy represents the extent to which a person can understand key financial concepts and make critical financial decisions. A lack of skills, knowledge, awareness and attitude for coping with finances is a prominent hurdle to achieving growth in business and maintaining sustainable performance (Mavimbela and Dube, 2016). Grable and Joo (2000) observed that a lack of financial literacy affects the overall financial management of a business and results in poor decision-making.

MSME owners are faced with difficult financial decisions, and thus their financial literacy levels are of paramount importance (Adomako and Danso, 2014). Empirical studies conducted in this area show that even in advanced economies, there are still managers and owners of SMEs who can understand only basic concepts of financial management (Cole et al., 2009; Sabir et al., 2019; Lusardi and Tufano, 2009). This issue is critical because a lack of financial management affects not just the business but also those related to it, such as creditors and suppliers, who are affected in any instance of default on payment. Thus, financial literacy is important for business owners who wish to improve and maintain business performance and keep payment and repayment schedules (Lusardi and Mitchell, 2007a). Existing studies have focused on managerial competence, availability of resources, and the major elements affecting SME performance ( Haselip et al., 2015; Siyanbola, 2018; Al-Maskari et al., 2019).

An MSME owner’s sound financial knowledge is the key to achieving business success and growth in the market. In addition, financial literacy influences access to capital and the timely return of credit payments. The WBOP’s market faces hurdles related to MSME access to capital because of entrepreneurs’ poor financial knowledge and the resulting poor financial management. Osinde et al. (2013) found that those business owners who do not possess sound financial literacy but seek expert financial advice experience growth and increased market shares. They also concluded that business owners who regularly attend financial and business training sessions achieve success in business growth and profit. Wise (2013) observed that an increase in financial literacy results in the improvement of businesses' financial statements, a higher likelihood of enhanced credit ratings and scores, and a higher probability of repaying loans.

Thus, financial literacy is critical for making key financial decisions (Adomako and Danso, 2014). Recent evidence shows that low financial literacy levels among SME managers are harmful to emerging economies. Furthermore, few business managers understand the basic concepts of financial management (Steyn, 2018; Cole et al., 2009; Lusardi and Tufano, 2009). This is of paramount importance because a lack of financial literacy affects the business owner’s ability to make key financial decisions. Poor financial decisions stemming from a lack of financial literacy subsequently affect business performance. Lusardi and Mitchell (2007a) observed that crediting institutions consider the financial literacy levels of business owners and prefer to deal with those who possess sound financial knowledge. Within this context, therefore, the current research assesses the relationship between financial literacy and financial accessibility for improving financial performance in the WBOP.

Financial literacy, as discussed above, impacts the accessibility of funds and firm performance. Financial decisions related to retirement planning, investment, and savings, for instance, are made by managers who influence an organisation’s performance. Sometimes, companies undertake actions to obtain resources that are subsequently developed by the companies themselves. To possess the capacity to carry out such actions effectively, organisations may rely on dynamic competencies (e.g. financial knowledge), which may allow organisations to use resources for various purposes such as the modification, extension and creation of further resources. Therefore, financial literacy is considered an important factor and is tested here regarding the accessibility of funds in the WBOP.

Capital funding for MSMEs usually comes from family members, commercial banks, networks of friends, or equity financing schemes offered by external sources. Thus, an MSME entrepreneur relies on both internal and external sources of funding due to their limited knowledge of the financial options for their business. In developing countries, MSMEs usually rely on informal sources of funds, for instance, private money lenders, family and friends, because of their lack of financial literacy. However, as these sources do not meet their full financial needs, businesses usually look to external funding sources. Within this context, this research tests the relationship between financial literacy and the accessibility of funds in the WBOP and explores how it impacts MSMEs.

Given the current harsh economic situation in the WBOP, the ever-increasing complexity of financial regulations and the uncertain financial situation, firm growth may be thwarted by limited access to external financing. This necessitates, in turn, that Palestinian entrepreneurs should be equipped with the financial literacy needed to enhance access to the available funds. Moreover, the risks related to the negative results of debt crisis and bankruptcy further highlight the significance of this issue. A high level of financial literacy is beneficial for entrepreneurs who can use financial information to their advantage by exploring cheap and appropriate financing options. This enables them to explore different sources of finance and use them efficiently. A high level of financial literacy also helps entrepreneurs seize more financial opportunities and correctly evaluate their financial resources, enabling them to identify financial opportunities for their businesses and explore and exploit low-cost opportunities. Financial literacy also provides firms with better cash flow management and reduces the risk of defaults on payments, enabling owners to focus on running the business. Within these parameters, this research considers financial literacy an important factor and tests its relationship with the accessibility of funds in the WBOP.

### 3.8.4 The Impact of Social Factors on Accessibility

As discussed above, the accessibility of funds for men and women is also based on their social networks and the country’s social setting. Therefore, the next factor this study examines is the role of social factors regarding the accessibility of funds for MSMEs. Another area of literature considers the empirical evidence and theoretical analyses regarding how corruption hinders growth (Mauro, 1995; Reinikka and Svensson, 2005). A theoretical argument regarding the supply-side supports the negative association of corruption to lending. This is explained by the ability of high levels of corruption to create uncertainty about judicial outcomes for banks (Akhtar and Liu, 2018). Thus, if there is any kind of default, banks will be unable to control the risks associated with borrowers. Moreover, high levels of corruption discourage banks from engaging in such economic activities. Consequently, banks become more reserved when lending ex ante, thus reducing the risk factor from credit. On the demand side, corruption in lending leads to a reduction in the amount of debt an MSME can take on as it increases the costs of loans for the borrower (Kumaran, 2019). Consequently, bribes are essentially a tax on borrowers and thereby constitute obstacles to credit (Fungacova et al., 2015). There are no established MSME lobbying groups, so MSMEs are vulnerable to bribes and expropriations. Furthermore, unlike large businesses, MSME investment and long-term survival are impacted by bribes. Corruption reduces the opportunities for SMEs to obtain credit from banks and external financing sources (Mo, 2001).

Civelek (2021) claimed that corruption has a detrimental impact on external financing. Lending decisions and credit level constraints are all dependent on the certainty of the protection of rights, laws and the level of law enforcement (Beck et al., 2004; Steyn, 2018). Corruption has a highly negative influence on credit accessibility in countries that are either low or mid- income level (Detragiache, Tressel and Gupta, 2008). According to Beck, Demirgüç‐Kunt and Maksimovic (2005), corruption mainly decreases SME access to loans, which prevents them from fully accessing profitable opportunities. Regarding SME lending, soft information is vital for MSMEs compared to large organisations (Berger and Udell, 2002, 2006). This creates opportunities for lending corruption. In the presence of loans, soft information and hard information can both be falsified to extract rents that are basically bribes (Zheng et al., 2013). In addition, asymmetric information establishes adverse issues in selection (Kwak, 2021). When borrowers are filtered via interest rates, only those capable of paying higher rates are approved. This leads to a moral hazard, with a lack of a well-planned and well-organised risk assessment. Furthermore, this results in bribes being offered to obtain loans (Schebesch et al. 2018).

In lending, corruption decreases firms’ access to credit, either from the supply or demand side. The supply-side argument states that corruption decreases the ability of a financial institution to enforce its claims against defaulting borrowers (Weill, 2011). This can also lead to a decline in a bank’s ability to lend to firms. In addition, Civelek (2021) and Djankov, McLiesh and Shleifer (2007) argued that corruption at the higher levels of an economy and inadequate legal condition can increase risk aversion in lenders, ultimately leading to an increase in credit restrictions. Hellman and Schankerman (2000) claimed that small firms are more likely to pay higher proportions of revenues in bribes than larger firms because of the difference in their reach. Thus, due to the reduced profit margins for MSMEs, their loan acceptance rates are low.

Regarding demand-side arguments, corruption hinders external financing as bribery acts as an additional tax imposed on the borrower. This leads to additional external financing costs for MSMEs (Atiase, Wang and Mahmood, 2019). Consequently, MSMEs are forced to operate informally (Dabla-Norris and Koeda, 2008), reducing the demand for formal external financing. This may discourage borrowers from acquiring funds formally and encourage them to operate informally. Even though recent studies have found micro-data that focuses on the links between corruption and financial access, the outcomes are still inconclusive (Fungacova et al., 2015). This may be due to the causal relationship between corruption and MSME financial access.

Theoretically, both banks and MSMEs benefit from social ties. Firstly, similar to relationship lending, social ties facilitate information exchanges between the involved parties and provide soft information that reduces opacity (Cohen et al., 2008; Khatami, Marchica and Mura, 2016). Secondly, social ties employ a supplementary medium of reputation verification, thus reducing moral-hazard behaviour (Ferris, Javakhadze and Rajkovic 2017a; Fogel et al., 2018). Thirdly, social ties improve trust and promote similar behaviours among parties. Consequently, they reduce transaction costs and adverse selections (Moro and Fink, 2013). Studies show that social ties benefit firms by improving debt access; if the cost of debt is low, then loans will diminish the covenants that restrict it. According to Skousen, Song and Sun (2018), who assessed US firms, extremely well-connected CEOs are normally prone to high debt costs.

Moreover, Engelberg, Gao and Parsons (2012) demonstrated that US lenders and firms experience increased lending costs with a reduced number of lent and limited covenants in the presence of personal relationships. Fogel et al. (2018) also concluded that CEOs with high social capital usually take loans with low spreads and few restrictions. Martin-Garcia et al. (2021) claimed that firms that embed their transactions with lenders usually benefit from low interest rates. In China, Du, Guariglia and Newman (2015) observed that social ties related to investments through gifts are linked to higher total and short-term debt levels, whereas Cucculelli et al. (2018) noted that for European firms, a reduction in credit shortages results from close relationships between banks and firms. Javakhadze, Ferris and French (2016) reported that, with reference to the financial restrictions of firms, managerial social capital reduces firms’ dependence on cash generated internally. Furthermore, Liu et al. (2016) claimed that connections with managerial professions attained via executive memberships help firms obtain trade credit. Finally, from the perspective of banks, Moro and Fink (2013) concluded that SMEs that enjoy high levels of trust from managers are likely to obtain more credit and less likely to face financial constraints.

### 3.8.5 Relations between MSME Managers and Bank Employees

Even though the literature review led us towards a positive verification of H1a, H1b and H1c, the auxiliary strands of this research, there are implications of negative verifications of hypotheses as well. The literature on the relationships between banks and firms showed that soft information gathering over time benefits the relationship lender through potential capital providers. Consequently, an information monopoly is created (Prilmeier, 2017; Mol-Gómez et al., 2019). In such circumstances, firms pay more than the usual market prices for the relationships that they have created (Bot, 2000; Ongena and Smith, 2001). A large body of research supports these claims with empirical evidence showing a lock-in effect and describing the associated costs (Farinha and Santos, 2002; Hale and Santos, 2009; Agarwal and Hauswald, 2010). In other words, literature on the economic role of political connections demonstrates an improvement of access to bank financing (Faccio, 2006; Faccio, 2010; Boubakri et al., 2012). In contrast, Jackowicz and Kozłowski (2019) showed that social ties improve SME access to bank financing and affect their investments. This positive impact, however, occurs only when bank decision-makers have social ties.

According to Houston et al. (2014) and Infante and Plazza (2014), political connections decrease the credit spreads associated with lending rates. However, several researchers have provided outcomes that are insufficiently conclusive to substantiate these claims (Faccio, 2010; Bandeira-de-Mello and Marcon, 2011). Furthermore, these outcomes suggest that such firms usually pay higher interest rates (Bliss and Gul, 2012). If social relations and connections impact MSME access to lending, investments and interest, then they should also impact MSME performance and growth. Due to the inconclusive outcomes regarding the impact of social ties on SME growth and performance, the direction of the impact is uncertain. Theoretically, there are at least three mediums through which social links positively affect MSMEs’ growth and performance.

First, Liu, Uchida and Gao (2012) observed that social ties among managers have a positive impact on capturing the opportunity of new ventures. Second, the high probability of risk taking is induced by access to the funding. Ferris et al. (2017b) observed the influence of a CEO’s social capital on corporate risk taking, and this type of behaviour enhances the firm’s value. Moreover, Kim (2007) and Qiao, Fung and Ju (2013) claimed that social links positively influence the value of firms in China and Korea. The third medium is linked to the improvement of social ties regarding market access (Gu et al., 2008). Furthermore, it is also related to supply chain cooperation (Chen et al., 2018). Only the first two mediums are appropriate regarding social ties among firms and banks. Social ties can also have a negative impact on the firm’s growth and performance. Firstly, the evidence supports the conclusion that social ties are known to impair the mechanisms of corporate governance and, consequently, a firm’s long-term performance is jeopardised. Francassi and Tate (2012) found that if the CEO is well-connected and powerful, it will lead to the hiring of directors associated with that CEO. In the words of Kim and Lee (2018), ties from high school can harm board supervision. According to Hwang and Kim (2009), boards that are socially independent from CEOs are known to demonstrate strong performance and reflect turnover-performance sensitivity. In addition, Brandes, Brechot and Franck (2015) illustrated that the external ties of managers mainly have a negative impact on the performance of firms if the managers are deliberately trading off firm performance for benefits related to their ties. Secondly, the literature on the relationships of firms and banks states that there are two reasons for closing ties between firms and banks that can distort incentives for firm owners, especially for preventing bad economic outcomes. In contrast, managers of SMEs identify the renegotiation of the loan agreements with their personal ties associated with banks (Boot, 2000).

Social links are not homogeneous as they include people from different levels of organisational hierarchies. Therefore, there are all sorts of decision-making powers involved at different levels. The question that arises is whether each type of social link impacts MSME access to financing and performance in the same manner. The literature related to social links substantiates these claims by showing that such links impact an MSME’s ability to associate with a bank or a firm. This study examines the method by which social links impact mergers and acquisitions and how the different degrees of social ties are differentiated. First-degree social ties occur when two individuals share a persona or educational, professional or military experience. According to Cai and Sevilir (2012) and Guo et al. (2019), first- and second-degree social links are differentiated by analysing announcement returns and acquisition premiums. Furthermore, Ishii and Xuan (2014) observed that merger outcomes depend on the level of social links between the two parties. Similarly, Alexy et al. (2012) found that social connections positively impact MSME managers and bank workers; thus, they are equally beneficial for SMEs. These claims are further supported by the literature on the political connections of firms. Bank financing enables the auxiliary strands of literature to document the connections or links that are essential on different levels (Malesky and Taussig, 2009; Liu et al., 2012) or the links capable of influencing politicians (Khwaja and Mian, 2005; Claessens, Feijen and Laeven, 2008; Lazzarini et al., 2012). In the same manner, studies that evaluate the market value of political connections demonstrate that investors mainly enjoy such connections (Faccio, 2006; Claessens et al., 2008; Faccio and Parsley, 2009; Akey, 2015).

The nature of social links is not homogenous regarding economic reality. Every person is involved in this in a different level of an organisation’s hierarchy; therefore, there are decisions involved at every level. Moreover, the question arises as to whether the social ties and their types are impactful on SMES’ access to financing, growth, performance and investment. There is also evidence related to social ties that suggests MSMEs’ dependence on the traits of social association among firm and bank members. There is a factor of differentiation of first and second level degree of connections and how the social links impact the accessibility of finance. First-degree social links occurs when a director or executive level is employed by the firm, whereas the second degree occurs when two individuals share their previous experiences of education, profession or military. This type of differentiation matters for the evaluation of announcement returns and acquisition premiums, as found by Guo et al (2019) and Cai and Sevilir (2012). In addition, Ishii and Xuan (2014) reported that the intensity of social links between two parties at a firm level defines its outcomes. Similarly, Alexy et al. (2012) identified the positive impact of the number of links on venture capitalists’ investments in start-ups. The assumption that not every social tie has a positive impact on the SME is further backed up by the literature relating to the political connections of firms. Regarding bank financing, the auxiliary strand of literature documents links that are valuable and are capable of establishing connections on different levels (Malesky and Taussig, 2009; Liu et al., 2012) or those that might influence politicians (Khwaja and Mian, 2005; Claessens et al., 2008; Lazzarini et al., 2012). In the same manner, this study explores the role of social links of managers or owners of MSMEs in helping them access finance for their firms.

### 3.8.6 The Role of Banks

There are many differences between the two approaches discussed above and their theoretical claims. Cetorelli and Peretto (2002) noted that the financial capital available to entrepreneurs is low compared to the number of banks operating in the industry. However, research has found that banks are more likely to provide loans or funds to firms that perform exceptionally well and provide high-quality products or services. Allocation is conducted through the banks’ screening processes, which shortlist firms according to bank criteria. If banking rivalries are tough and competition is fierce, then the loan interest rates imposed are lower. However, this also restricts the strategic investment factor (Schammo, 2019) and results in less efficiency in allocating credit as banks are prone to errors when lending funds (Hauswald and Marquez, 2006).

The empirical data also show varying economic effects of increased banking competition. There has been a huge decline in the average price of loans in Malaysia, as noted by Wasiuzzaman et al. (2020). In addition, a cross-industry study by Black and Strahan (2002) observed a negative relationship between new business incorporations and banking market concentration. This supports the normal banking situation, in which banks limit loan supply to entrepreneurial businesses. Cetorelli (2003) and Cetorelli and Strahan (2006) argued that the power of the bank market negatively affects the survival and expansion of younger establishments. Both developed and developing countries are included in the dataset, which demonstrates that in the latter situation, the concentration of banks increases the hurdles of financing, with an intense impact on small-scale organisations. Corvoisier and Gropp (2002) noted that in some European countries, there are higher rates for small businesses in industries with saturated banking markets.

In competitive credit markets, banks have fewer incentives to bear the initial expense of offering credit to riskier borrowers at lower rates; consequently, the latter finds low credit at poorer rates. A negative impact on the allocative proficiency of the funds is also observed due to intense competition among banks (Duarte et al., 2018). According to Block et al. (2018), banks follow imperfect screening models and fail to distinguish between new borrowers and defaulters of other banks. In such a situation, the defaulter applicants apply to other banks, and there is a high possibility that low-quality applicants will receive credit (winner’s curse) due to the increasing number of banks in the market. Cao and Shi (2000) proposed that, in markets where many banks operate, loan rates are higher and quantities of credit are smaller. This is because the winner’s curse is intensified by an increasing number of competitors in a market, resulting in a reduction in the number of banks competing and screening the credit supply. Specific information about borrowers becomes dispersed due to the higher number of competing banks.

As discussed above, different factors impact the accessibility of funds for MSMEs in the WBOP. A major goal of this research is to investigate the most important of these. The main intention is to improve MSME access to funds and financial performance in the WBOP. Therefore, the next section discusses the literature on the availability of funds and the financial performance of MSMEs.

## 3.9 FINANCIAL CAPITAL AVAILABILITY AND THE IMPACT ON FINANCIAL PERFORMANCE

The literature review shows the significance of access to financing for businesses to operate and grow successfully (Bek et al., 2008; Smith and Fatoki, 2011; Backman, 2013). Empirical evidence indicates the positive impact of access to external financing on improving business performance (Clarke et al., 2010). Access to finance is critical for realising business objectives, enabling a business to invest in innovative activities and develop innovative products and services (Adomako and Danso, 2014). Thus, businesses seek capital from external lending institutions for growth and development. Furthermore, businesses also seek funding from lending institutions to finance and restructure their strategic resources or to increase the scope of their business in line with their objectives (Adegboye and Iweriebor, 2018). Barney (1991) argued that a business can achieve internal and external growth only when it has access to capital. This also helps businesses gain a competitive edge as they expand their operations. Kapitsinis (2019) contended that financial capital represents a generic resource type that can be converted easily into other resources. Thus, a financial policy complemented by financial lending from lending institutions is critical for small-scale businesses to achieve success (Boadi et al., 2017).

As discussed above, different factors affect the accessibility of funds for MSMEs in different countries. These factors are not universally applied because local factors play a role. For example, governments play varying roles in facilitating access to funds for businesses, and each country has its own context-specific business environment. Crowdfunding is an alternative source of financial loans for businesses, but it must be facilitated by the government’s legal infrastructure. As Palestine is a developing country, political instability affects the legal infrastructure for crowdfunding and small businesses. Therefore, we cannot blindly apply the results of previous studies not conducted in Palestine, specifically in the West Bank. In addition, the literature review identifies other factors that play a role, including demographic factors, financial literacy, financial institutions, a weak legal environment, government support and banking competition. As discussed above, the legal environment plays a vital role in crowdfunding and loan funding; for example, through public guarantees. Therefore, the legal environment also impacts the accessibility of funds for MSMEs in the WBOP.

## 3.10 LITERATURE TO CONTEXTUALISE PALESTINE’S UNIQUE SITUATION

Economically independent MSMEs thrive when they have backing from the government. Scholars have however questioned the usefulness of government initiatives which are meant to stimulate economic growth, such as those that provide funding to start-ups or support entrepreneurial initiatives. The Italian Ministry of Foreign Affairs, the Palestinian Liberal Organization, and the Palestinian Ministry of Finance, for instance, have inked an agreement to provide EUR 25 million in lenient loans to MSMEs through the Palestinian Banking System (Palestine Authority, 2005). According to a study conducted by the Palestine Economic Policy Research Institute (MAS, 2010), the exemptions and incentives under investment promotion regulations do not apply to MSMEs, meaning that the Palestinian legal environment does not provide them incentives. In emerging nations, corruption persists at every level of society. It is hard to tell if the benefits of government aid are worth the price of receiving them. It is found that eighty percent of Palestinian workers are employed by MSMEs, which account for 99 percent of all businesses in Palestine (Rajab, 2015). This is one of the reasons why MSMEs in Palestine are expanding so slowly. A company’s bottom line can only expand if its internal operations are robust. Due to their small client base and slow rate of expansion, MSMEs have no chance of competing in global marketplaces. When a firm cannot get the funding it needs, it struggles to grow, makes fewer sales, and develops more slowly than it could otherwise. This generally leads to bankruptcy within the first two years. Specifically, WBOP investigates and identifies the factors that affect the availability of finance for MSMEs in the West Bank. The literature shows that there is a high cost of credit, a dearth of debt financing options, and strict collateral requirements. In both developing and established nations, crowdfunding has emerged as a viable alternative to traditional loaning. Crowdsourcing originally emerged as a method for a central firm to solicit assistance from an external group in order to solve a particular problem or obtain access to a particular type of knowledge.

Even today, the microfinance industry relies heavily on its original mode – group-lending. MSMEs are increasingly competing in a crowdfunding market that is complex, highly changeable, and rapidly evolving. MSMEs suffer from a lack of access to capital due to a disparity in their level of expertise; microfinance helps bridge this gap. In Palestine, which has the largest microfinance sector among developing countries, growth has been extremely rapid. Thanks to platform-mediated strategies, crowdfunding has widened its application to for-profit as well as non-profit endeavours.

Crowdfunding and small enterprises rely on a stable legal framework, which is threatened by political unrest. To be successful, crowdfunding as a means for businesses to raise capital needs to be supported by the necessary legal framework. Palestine is a developing nation, and this means that the legislative framework supporting crowdfunding and small enterprises is vulnerable to political upheaval. The health of Palestine’s economy rests largely on the shoulders of its independent merchants. The gap between the need for and availability of financing for small and medium-sized enterprises in the Gaza Strip and West Bank is enormous. It is becoming increasingly difficult for them to secure funding from banks due to political uncertainty and lack of favourable economic environment. The West Bank is a special case that makes it difficult to extrapolate from the results of previous studies. The following chapters analyse the correlation between access to capital and company success. This research will identify crowd funding issues and try to answer questions which include how crowdfunding is helpful, what the common issues of crowdfunding in Palestine are, and how these issues can be solved.

Research into the impact of government aid on MSME success in developing countries is growing. In addition, researchers have argued that government assistance is necessary to increase MSMEs’ access to funds in developing nations. Access to market money is thought to be a key factor in the positive relationship between MSME performance and government support. Some have questioned whether or not MSMEs receive sufficient government funding to ensure they are able to contribute to the WBOP in a way that is both sustainable and progressive. The impact of financial aid on Palestinian MSMEs has not been studied, despite widespread acknowledgement of its existence. The availability of capital for MSMEs in the WBOP is studied rather than the effectiveness of government support programmes. As discussed in the literature review, the government can play a vital role in fulfilling the demand of micro finance in the market and crowdfunding can be improved through the intervention of the government. Thus, this research is an attempt to identify the role of the government in fulfilling the demand of MSMEs in Palestine. It aims to answer questions around the role the government can play to improve the accessibility of micro finance, its role in the demand and supply side of microfinancing, the current issues in policies and how these policies can solve the problem in Palestine.

Some research has found a positive correlation between government funding and the financial success and technological support of MSMEs. Research has looked into whether or not MSMEs in the West Bank pay any kind of bribe to the government in order to get aid and, in doing so, it evaluates the results of this aid. The West Bank’s MSME community would benefit from government measures that ease the acquisition of capital. Instead of giving direct financial support, the government can boost the performance of MSMEs by encouraging lending institutions to give soft loans to MSMEs. In low- and middle-income nations, public credit guarantee programmes are often the only kind of insurance available. According to Palestinian experts, improving MSMEs’ access to finance in the West Bank is possible with the right kind of credit guarantee policies and support. The government of any country plays a crucial role in establishing reasonable, accommodating, and easily accessible loan terms and conditions for MSMEs in that nation. The researcher created a novel econometric strategy to investigate the efficacy of the Palestinian West Bank State-funded Guarantee Scheme (Harrigan and El-Said, 2009). Economic arguments are presented to justify the loans, as shown in most of the research. Issues related to public guarantee use to assist M&S finance must be understood. The current body of literature does not provide sufficient comprehension of the parameters of the public loan guarantees. There is a lack of in-depth credit information about businesses and individuals in the West Bank, which is a prerequisite for lenders to grant funds to reputable lenders. Banks provide a variety of loan options, each with their own set of terms and conditions (T&C). The purpose of these terms and conditions is to control the costs of lending money to borrowers and to track how well those loans are being repaid. Financial institutions typically seek solutions to this sort of issue by engaging in contracting, screening, and monitoring operations to get relevant data. Therefore, this research tries to identify how networking can be created at an institutional level to improve the accessibility of the microfinancing for MSMES in WBOP.

Little research has been done into how well loan guarantees have worked for MSMEs in both developing and industrialised nations. Such lending programmes include the lender, borrower, and guarantor. Lenders are typically for-profit businesses or banks that expect to generate money through interest payments during the life of the loan. It might be difficult for start-ups and small enterprises with less established credit to afford the high interest rates on loans. As a result, the borrower hopes to secure the loan by having a third-party guaranteed repayment (Schich, 2018). In order to help small businesses gain access to debt finance and expand, governments and industry groups will sometimes act as guarantors. When trying to make it easier for MSMEs in the WBOP to get access to capital, it is crucial that one has a firm grasp of the complications that come with offering a public guarantee. The availability of cash is affected by a number of factors, not the least of which is government intervention and support. Lenders need a solid foundation on which to build their trust before they commit to lending money to reputable businesses or individuals, but this information is lacking in the WBOP.

The socioeconomic determinants of MSMEs’ access to capital is investigated in this research. The literature also considers theoretical and empirical evaluations of how corruption stunts development. Since the costs of borrowing are raised due to corruption in lending, the quantity of debt an MSME can take on is inevitably decreased. Bribes act as a tax on debtors and prevent access to credit (Fungacova et al., 2015). The investment decisions and long-term viability of MSMEs are more susceptible to bribery than those of larger companies. Only borrowers who can afford the increased interest rates are given the loan. This results in a lack of a well-organised risk assessment, leading to moral hazard. Moreover, this leads to the payment of bribes in exchange for loan approval. Business credit availability is hampered by corruption on both the supply and demand sides of the loan market. As a result, there is less need for official external finance and more informal operations among MSMEs.

As discussed above, a business that includes their lending activities in their overall business model gets lower interest rates. Some academics hypothesise that MSME performance and growth are influenced by their access to lending, investments, and interest. However, this benefit is conditional on social links among the bank’s decision-makers. The direction of the impact is ambiguous because of conflicting findings on the effect of social relationships on the development and efficiency of small and medium-sized enterprises. When MSMEs have easier access to bank loans and other forms of financial support, it might distort the incentives for company owners, especially with regard to avoiding negative economic effects. There is evidence in the literature that an MSME’s social network influences its potential to form partnerships with larger organisations like banks and businesses. This research delves into the various degrees of social ties and how they affect mergers and acquisitions. The purpose of this research is to examine how MSMEs leaders may facilitate their companies’ access to capital. Literature focusing on the political connections of businesses provides more support for the idea that not all social ties have a good effect on an MSME. As already raised before, the availability of capital for MSMEs in the WBOP is affected by a number of distinct factors. The mission of the WBOP is to increase MSMEs’ access to capital and boost their financial performance.

## 3.11 RESEARCH GAP

As Chowdhury and Alam (2017) pointed out, a lack of capital is a fundamental obstacle for developing MSMEs of any size. Despite the fact that MSMEs need access to microfinance to overcome the lack of funding resources barrier, empirical research shows that well-functioning capital markets that may promote this accessibility are inadequate across the world (Chowdhury and Alam, 2017; Woldie, Mwita and Saidimu, 2012). According to Chege and Wang (2020), MSMEs play a crucial role in the development of new jobs because of their capacity to innovate products and knowledge in response to market changes. Financial constraints, such as the lack of access to credit, are major obstacles highlighted by Bakhtiari et al. (2020); Nkwabi and Mboya (2019) as the primary cause of MSMEs failure. Aničić et al. (2017) state that entrepreneurs face significant challenges due to the lack of suitable capital, whereas other researchers claim that growth oriented MSMEs rely on long-term investment from financial institutions (Harash et al., 2014; Kachlami and Yazdanfar, 2016). These studies agree that a lack of available capital is a serious problem for many MSMEs (Bakhtiari et al., 2020; Nkwabi and Mboya, 2019) but they did not reveal how MSMEs and financial institutions can collaboratively work together to resolve the accessibility of financial issues. Other barriers include the lack of availability to capital markets, an increased awareness of risk, information asymmetry, and increased expenses associated with intermediation. So, they cannot secure equity funding over the long haul (Kumar and Rao, 2015; Obokoh et al., 2016). Kumar and Rao (2015) and the OECD report (2006) show that an additional fact corroborates the positive correlation between firm size and the harshness of the credit constraint is the difficulty of access to bank credit reported by larger firms. This is in addition to the fact that access to microfinance, lack of project managerial skills, and appropriate governance systems are frequently cited as the most serious obstacles, with little variations among regions of the developing world. According to data from the World Business Environment Survey (WBES), MSMEs consistently receive a smaller percentage of their funding through bank lending. Not many MSMEs make use of the services provided by traditional banks (Obokoh et al., 2016). Most of the time, MSMEs owners will not borrow money from financial establishments like banks as they are unable to bear the interest and other costs of this borrowing (Mutezo, 2013; Rahman et al., 2017). This is due to a number of factors, not the least of which are the rigorous requirements imposed by these formal financial institutions on MSMEs who wish to utilize their services (Mutezo, 2013; Rahman et al., 2017). Most MSMEs operate informally, which is one of the main reasons they have trouble getting traditional banking services. In the eyes of the law and the economy, the assets of informal MSMEs are completely untraceable and thus useless as collateral for a loan (Elasrag, 2016; Ekpu, 2015). Certain studies claim that MSMEs turn to their own networks of friends and family for cash rather than to banks and other regulated lending institutions (Boccaletti et al., 2022; Vandenberg et al., 2016). The sums of money available to MSMEs from these sources are relatively modest, and their existence is poorly documented. Newly established MSMEs can be affected by agency difficulties such as asymmetric information and moral hazards in two ways: the availability of financing (credit rationing) and the debt-to-equity ratio (D/E ratio) (Boccaletti et al., 2022). Graña-Alvarez et al. (2022) were unable to identify problems central to our inquiry and gaps in the existing literature due to the lack of an appropriate conceptual framework and pertinent prior research, especially in the context of financial literacy that can create more awareness among MSMEs for accessibility of funding options. Therefore, the focus of this research is on the factors affecting the ability of MSMEs to obtain credit facilities, including the reasons why certain banks do not help MSMEs, the reasons for MSMEs' loan defaults, and the banks' opinion of MSMEs.

The demand for loans from MSME owners is higher than the supply from financial institutions because of information and collateral asymmetry (Mittal and Raman, 2021). As a result of the market's lack of transparency with regard to the nature of the lender-borrower relationship, interest rates are higher for the former (Mittal and Raman, 2021). Palestine's political and economic stability is precarious (Rabie, 2021). Despite hopes that the 1993 Oslo Accords would pave the way for a more prosperous and secure Palestinian economy, the economy and organizations are still struggling due to political instability and violent conflict (Ekpu, 2015; Rabie, 2021). The banking system and the economy as a whole have both become more difficult and complex as a result of the accords (Ekpu, 2015; Rabie, 2021). This research was developed around the idea that MSMEs have trouble getting enough money to operate effectively. There are four main causes of insufficient financing: (1) a lack of knowledge about the approachability towards potential sources of finance (knowledge gap), (2) a lack of availability of finance for MSMEs (supply gap), (3) a lack of availability of finance (demand gap), and (4) a lack of benevolence on the part of financial institutions to provide funds to MSMEs (benevolence gap) (Kumar and Rao, 2015). Quantitative and qualitative factors both play a role in deciding the capital structure of a company (Kumar and Rao, 2015; Matthias et al., 2019). Capital structure determinants, however, are insufficient to account for the difficulty in gaining access to capital and therefore context-specific capital structure and optimal capital structure must be evaluated for MSMEs (Kumar and Rao, 2015; Matthias et al., 2019). Here, the context specific means of government support, international donors and other organisations' support, the country major bank policies, and the legal and other factors that vary among countries potentially generating unique results with respect to the accessibility of funding for MSMEs in Palestine.

To better understand what factors, affect MSMEs access to capital in the WBOP, this study will adopt the intuitionist perspective of DiMaggio and Powell (1983). External cultural and legal environment expectations and political influence on institutions are the sources of institutional theory concepts like coercive isomorphism (Anlesinya et al., 2022). One could argue that large corporations and small ones have distinct economic, political, financial, and other characteristics. For example, the government institutions such as the finance ministry also discuss the merits of other factors, such as the allocation of investment capital and ownership structure, the cost of production, the availability of skilled versus unskilled labor, and the scale of operations. Kereta (2007) argues that the demand-supply gap is not due to a shortage of capital within MFIs, but to the high transaction costs, risks associated with information asymmetries, and moral hazards that characterize the microfinance sector. According to Gobezie-Vega, there is a significant challenge for microfinance institutions (MFIs), governments, funders, and nongovernmental organisations (NGOs) to meet the demand and supply gap. As a result, the microfinance business requires a long-term view that may help it identify inefficiencies, insufficiencies, gaps in feasibility and the market, and the assistance necessary to develop the appropriate roles and responsibilities for stakeholders and significant actors. Having an end goal in mind can help you make better use of the resources at your disposal. The greater the number of eager investors, the better-prepared MFIs will be to meet the rising demands of their customers, requiring government-level efforts by introducing new rules and policies to satisfy the growing need for MFIs in a given region. As a result, looking at supply and demand via a coercive forces lens can shed light on the causes of existing problems and how new policies can bring MFIs supply and demand into harmony.

Lending availability to MSMEs was speculated to be adversely affected by differences in the practices and policies of financial institutions. It has been argued that banks in one country may have quite a different relationship with entrepreneurs than banks in another. Based on what we know from the existing literature, it is clear that a company requires external capital in order to function, develop, and expand. As a result, the availability of readily available financing is crucial to the viability of any substantial source of financing. MSMEs benefit from easy access to financing, which allows them to expand and maintain profitability. However, there is a dearth of studies examining the availability of crowd funding in countries with precarious economic and social capital, such as the West Bank of Palestine. Crowd funding faces challenges in developing countries due to the lack of legal infrastructure and unstable business environment and legal structure of funding. Additionally, the availability of capital plays a crucial role in improving the MSMEs' financial capacity and opening up growth prospects. Morrar and Gallouj (2016) emphasized the difficulties confronted by the Palestinian economy, noting that a large portion of its goods and services are imported from the State of Occupation. Palestinian economic competitiveness is severely hampered by the ongoing occupation, which has a chilling effect on the expansion of MSMEs. As a result of the political instability, violence, and unpredictability in a country such as Palestine, international investors and financial institutions require a higher level of guarantee or trust. So, this research looks into the issues that MSMEs in the WBOP are currently facing, and how those issues affect their ability to obtain financing and thus their overall financial performance.

## 3.12 SUMMARY

The literature review chapter of this study has been divided into four major sections. The first section highlighted the significance of accessible funding for MSMEs to improve their performance. The second section focused on crowdfunding as an alternative financing source for MSMEs. The third section discussed the role of the government and public guarantees in increasing the accessibility of funds for MSMEs. Finally, the fourth section covered the common factors that affect the accessibility of funds for MSMEs, including demographic factors, financial literacy, social factors, and the role of banks and MSME managers. This literature review is helpful to achieve the research aim of creating a context-specific framework to improve the accessibility of funds for MSMEs in the West Bank. It provides a critical overview of the current understanding of the topic and identifies gaps in the existing literature. This review of previous studies will help the researcher to design an appropriate methodology for data collection and analysis.

The research gap identified in the literature review is the lack of focus on the impact of institutional factors, such as legal infrastructure, corruption, and political influence, on the accessibility of funds for MSMEs in the West Bank. The existing literature primarily focuses on individual and organisational factors, such as financial literacy and social factors, but fails to consider the broader institutional context in which MSMEs operate. Therefore, this research aims to bridge this gap by developing a context-specific framework that considers both individual and institutional factors to enhance the accessibility of funds for MSMEs in the West Bank. In the next chapter, the theoretical framework will be presented, which will provide an in-depth discussion of the justification of the selected theory for this research.

# CHAPTER 4: THEORETICAL FARMWORK

## 4.1 INTRODUCTION

The previous chapter (Chapter 3) critically reviewed the current literature on the accessibility of funds for MSMEs. It also discussed the types of funds and the factors that have impacted this issue in different countries. Furthermore, the chapter examined how these factors have been highlighted by numerous researchers and scholars within the context of the various societies under study. The methods and forms researchers have used for their studies remain, to a large extent, intrinsically tied to the areas researched and the specific circumstances that have influenced the accessibility of funds for MSMEs.

Chapter 4 of this study focuses on the development of a theoretical framework to support the research objectives previously outlined. Building on the literature review from Chapter 3, this chapter examines the factors that affect the accessibility of funds for MSMEs in the West Bank and their relevance to the Palestinian context. It also discusses the methods and approach used in developing a holistic framework for this research. The chapter starts by discussing the factors that influence MSMEs’ access to funds, followed by an examination of the conceptual framework underlying this study. Finally, the chapter identifies the key factors associated with MSME performance and accessibility of funding.

Through this chapter, the study aims to identify relevant theoretical perspectives to provide a comprehensive understanding of the accessibility of funds for MSMEs in the West Bank. By examining the various factors affecting MSMEs and their access to funding, this chapter intends to develop a theoretical framework that can support the study's research objectives. This framework will help in identifying the gaps in the existing literature and contribute to the development of a more contextualised approach to understanding the challenges and opportunities facing MSMEs in the West Bank. The study's research gap is the need to develop a theoretical framework to support the development of appropriate policies and strategies for enhancing the accessibility of funds for MSMEs in the West Bank. Although previous studies have highlighted various factors that impact MSMEs' access to funding, a comprehensive framework that considers the unique context of the West Bank is lacking. This chapter aims to fill this gap by identifying the relevant theories and concepts that can be used to develop such a framework.

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**4.2 FACTORS AFFECTING THE ACCESSIBILITY OF FUNDS**

As discussed in the literature review, many factors can impact the accessibility of funds for MSMEs in different countries, the most important of which are demographic factors, types of funding, financial literacy, government support, FIs and banking competition. Figure 4.1 illustrates the main factors affecting the accessibility of funds, which in turn impact and have a significant influence on the performance of MSMEs. The details of these factors and their relationships to outcome variables are discussed below.

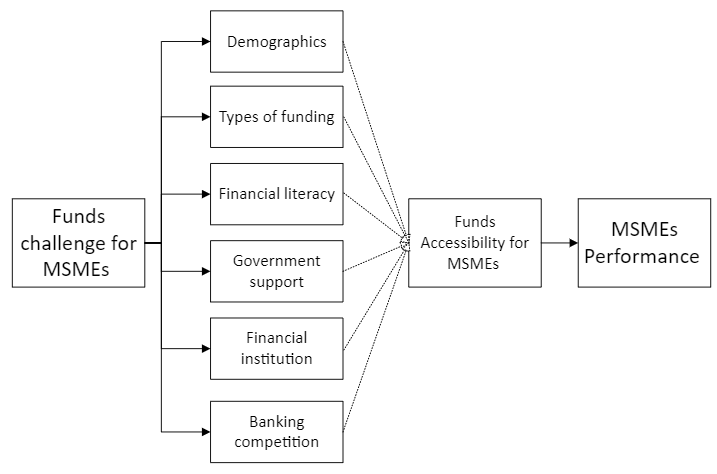


Figure 4.1: Factors affecting the accessibility of funds to MSMEs

These factors are considered in the framework of this research, examined in this chapter, then subsequently reflected on again and embedded within the theoretical framework. Chapter 8 discusses funding accessibility, MSME performance and outcome variables in more detail.

### 4.2.1 Demographics

Irvin and Scott (2006) observed that the greatest hurdle faced by entrepreneurs from ethnic minority backgrounds is their reliance on bootstrapping – the overwhelming reliance on building a business without attracting investment or minimal external capital – as a financing strategy. Treichel and Scott (2006) asserted that although it is generally assumed that female entrepreneurs experience discrimination and financial literacy in the loan approval process, such discrimination does not persist over time, particularly when the firm grows in size and profitability.

Schirato and Webb (2003) argued that specific agents have introduced resources such as capital and information in certain societal fields by using network mechanisms. These mechanisms are crucial for entrepreneurship because they facilitate movement between entrepreneurs and a wide-ranging society. Furthermore, Verheul and Thurik (2001) noted that constraints to securing bank finance are lowered by network activities.

Karsh and Deek (2019) observed that only a few decades ago, women were not regarded as independent contributors to socioeconomic development in Palestine. However, women are now afforded more socioeconomic and welfare opportunities. The banking industry also plays a significant role in providing microfinancing opportunities to both men and women, resulting in direct and indirect economic development.

In contrast, Coleman and Cohn (1999) found that the main determinants of creditworthiness are a firm’s size, age and potential for profitability. The authors detected no gender bias in loan approval and gender was not observed as grounds for financial leverage. Therefore, according to the authors, both men and women have equal access to loans, and applications are not accepted or rejected based on gender. Moreover, the authors contended that women are not as risk-averse as men and do not experience discrimination because they have the same access to loans.

Becker-Blease and Sohl (2010) noted that angel financing is sought less by women than by men, but the probability of attracting approval is equal for male and female applicants. Conversely, Cole and Mehran (2008) argued that female-owned firms are likely to experience credit constraints.

Martinez et al. (2020) highlighted that the financial literacy of the MSME directly impacts access to the financing required for the business. Moreover, Okello et al. (2017) stated that the financial literacy of MSMEs is locally embedded, in the sense that a difference in the literacy rate between males and females exists in different countries. This explains how financial literacy is inextricably linked to gender.

Stiglitz and Weiss (1981) observed that credit rationing occurs when only one of two or more identical loan applicants receives approval for a loan while the others are left out; some groups are identified by the manner in which they secure loans later than others at a higher price (Courrent et al., 2018; Jackowitz and Kozłowski, 2019; Namara et al., 2020).

Constantinides et al. (2006) further identified differences in loan approvals for start-ups run by males versus those run by females. The differences are striking given that men are three times more likely to receive approval compared to women (Galli et al., 2020) and support the assertion that gender also affects loan approval. In addition, women were observed to be credit-constrained because they received fewer bank loan approvals and overdrafts and less supplier credit. Thus, when a business start-up is led by women, the business is likely to face more financial constraints compared to male-led start-ups (Masiak et al., 2019; Brei et al., 2020; Brush et al. 2002; Sun Calabrese and Girardone, 2020).

Kepler and Share (2007) observed that despite holding similar educational qualifications, men and women appear to acquire business skills and experiences differently. Men display more experience and skills compared to women even before starting a business. Female networks are mostly limited to friends and family members, whereas men’s networks are broad and extend to business owners and other external parties including, for instance, members of commercial bodies such as chambers of commerce.

Hussain et al. (2018) asserted that although the way in which male and female networking is embedded in local cultural values, the local context in which MSMEs operate must also be understood. MSMEs receive substantial support from microfinancing programmes run by the UNRWA for Palestine Refugees in the Near East in the West Bank.

As articulated in the organisation’s statement, the UNRWA’s mission in the West Bank is to improve MSMEs, decrease the unemployment rate, sustain jobs and empower women by offering them opportunities to generate income (UNRWA, 2005).

The UNRWA has offered roughly 130,000 loans to SMEs since its inception. These loans reached USD 120 million by 2007, and one-third of such loans were directed to SMEs owned by women (UNRWA, 2008).

Moreover, NGOs offered assistance to entrepreneurship projects owned by women, whereas others supported SMEs regardless of ownership. As of 2005, NGOs have partnered with local and international firms to offer approximately 26,900 loans, with an outstanding balance valued at USD 45 million (Khaled et al., 2006).

Research has highlighted the role of demographic features of MSME owners and the characteristics of their enterprises in influencing their access to funding and overall performance (Storey, 1994). Factors such as the owner's age, gender, education, and experience can affect the likelihood of securing funding and achieving better performance (Korosteleva and Mickiewicz, 2011; Robb and Watson, 2012). For example, older, more experienced, and highly educated entrepreneurs may be more likely to access funding and have better-performing MSMEs (Orser et al., 2006; Fairlie and Robb, 2009). Moreover, firm size, age, and sector can also play a role in determining funding accessibility and performance (Beck et al., 2005; Aterido et al., 2011). Based on this evidence, we propose the following hypotheses:

H0A: The demographic features of MSME owners and the characteristics of MSMEs can positively impact the accessibility of funding.

H0B: The demographic features of MSME owners and the characteristics of MSMEs can positively impact MSMEs’ performance.

### 4.2.2 Financial Institutions' Terms and Conditions

When discussing the role of FIs in providing countries with needed infrastructure, the literature highlights how these institutions can play a wider role in facilitating the task of lenders. FIs can also create obstacles or contribute considerably in alleviating hardship and tackling similar consequences through financial guarantees, loan terms and conditions.

In the context of the West Bank, the financial institution of the country is perceived to play an important role in attaching legal infrastructures and parameters to business lenders. FIs are therefore worth considering as a financial factor when investigating Palestinian economic enterprises.

Cowling and Mitchell (2003) observed that schemes related to loan guarantees play a pivotal role in the growth of SMEs in developing and developed countries; however, the literature exploring the effectiveness of such programmes is lacking. Three parties are involved in such loan programmes – lenders, borrowers and guarantors – and all participants have differing motives. The MSME is the borrower because it seeks financing through business loans to further its business. The lender is usually a private firm or a bank seeking to make a long-term profit based on the interest earned by lending out funds (Agnese et al., 2019).

Given information asymmetry, the creditworthiness of borrowers is of prime importance to lenders. For small or new businesses, the high cost of the loan may be problematic given the low creditworthiness of the businesses. As such, the borrower seeks to obtain the loan based on a guarantee from a third person/party whom the borrower pays back (Schich, 2018).

Palestine’s economy is linked to those of emerging economies. However, the economy has slightly different characteristics. First, the PNA does not have a currency of its own. Three currencies are used for wealth measurement, exchange transactions and savings respectively. Multicurrency circulation reduces the efficiency of the Palestinian economy, thus preventing the benefits from revenues linked to the use of a national currency.

Second, the public sector’s growing role in Palestine is manifested by the increase in its share in investment, total consumption, GDP, recruitment and external cash. As illustrated by Sabri (2003), public sector shares ranged between 22% and 65% as compared to the private sector.

The three major groups offering public services in Palestine include the UNRWA, which provides goods and services without cost to refugees in Palestine; the PNA, which offers central budget allocations; and NGOs, which play a vital role in supplying subsidised health, social and educational services.

The terms and conditions set by financial institutions can significantly impact MSMEs' access to funding and their overall performance (Beck and Demirguc-Kunt, 2006). Strict requirements, high collateral demands, and prohibitive interest rates can make it difficult for MSMEs to obtain funding (Chittenden et al., 1996; Ayyagari et al., 2007). Additionally, unfavourable terms and conditions can constrain the growth and performance of MSMEs, as they may be burdened with excessive debt or struggle to meet repayment obligations (Levenson and Willard, 2000; Ardic et al., 2011). Based on this evidence, we propose the following hypotheses:

H0A: Financial institutions' terms and conditions are negatively associated with the accessibility of funding.

H0B: Financial institutions' terms and conditions are negatively associated with MSME performance.

### 4.2.3 Banking Competition

Petersen and Rajan (1995) consistently dispute the fact that competition among banks is negatively associated to their lending power. The authors witnessed US start-ups becoming less inclined towards credit and highlighted lower lending rates in concentrated markets. According to Shaffer (1998), bank lending rates are higher in metropolitan statistical areas because of the concentration of the banking market. Bonaccorsi di Patti and Gobbi (2001) found that the entry of banks highly negatively influenced small-scale businesses in Italian industries.

In addition, Bonaccorsi di Patti and Gobbi (2001) examined the entrance of banks in an industry that positively influenced the birth rate of firms and found that the industry opaqueness was inconsistent with findings in the conventional competitive paradigm.

Ample empirical evidence from several studies supports that in real terms, the banking market structure impacts the economy both negatively and positively on multiple levels, which makes it quite difficult to establish which one ultimately dominate (Cetorelli, 2001).

Shihadeh et al. (2019) stated that due to the lack of a legal structure, banks are unable to attract more clients rapidly and that they consequently contribute less towards the documented economy, hurting economic growth. Although the Palestine Capital Market Authority (PMA) and the Ministry of Higher Education have made considerable progress in developing an infrastructure supporting financial inclusion in Palestine, the economic stability of the country continues to be impeded by the country’s current political instability. As such, MSMEs are not sufficiently motivated to use formal funding sources because of a lack of choice. However, financial inclusion can still be achieved through technological innovation such as online payment systems, online borrowing facilities, and affordable services for MSMEs. Nevertheless, a competitive environment for banks has not been established in Palestine.

This means that access must be enhanced for local people (Shihadeh et al., 2019) to ensure sustainable economic growth in Palestine through improvement in the competitiveness of banking services. These findings also highlight the need for further research to understand the preference not to use formal borrowing sources. Importantly, this research will assist in understanding the social reasons for this preference and how to best address them.

A competitive banking sector can promote access to funding and improve the performance of MSMEs by encouraging financial institutions to offer more favorable terms, lower interest rates, and innovative financial products (Cetorelli and Strahan, 2006; Beck et al., 2014). As was further discussed in Chapter 2, studies have found that increased banking competition is associated with better access to funding for MSMEs and higher firm growth (Berger et al., 2005; Love and Peria, 2015). Consequently, we propose the following hypotheses:

H0A: Banking competition is positively associated with the accessibility of funding.

H0B: Banking competition is positively associated with MSME performance.

### 4.2.4 Types of Funding

Many factors have been considered to explain the dearth of credit accessibility for MSMEs. Anzoategui and Roca (2010) suggested that competition is critical for the financial sector but that MSMEs still face financing accessibility issues because of a lack of choices in the types of funding.

The interest costs of funding increase when competition and choice in the type of funding are lacking, directly affecting the development of MSMEs (Courrent et al., 2018). Furthermore, Coetzee et al. (2017) observed that the sustainability of the banking industry is affected when competition is limited. However, contextual factors hinder accessibility to financing for MSMEs in developing countries, which have a limited choice of specific types of loan available to them (Coetzee et al., 2017; Martínez et al., 2017; Motta and Sharma, 2020). Banks normally offer such loans – which are multidimensional and subject to specific T&Cs – as competitive elements, with different types of loans to attract clients and to minimise risk.

These types of loans have different T&Cs aimed at mitigating the risk associated with lending money and monitoring loan performance and payback (Watanabe, 2005). Two categories of T&Cs exist: price T&C (financing costs, interest rate, fees, charges and commissions) and non-price T&C (loan size, covenants related to loans and collateral requirements). The terms and conditions associated with the different types of funding allow MSMEs to obtain the right type of loan (Courrent et al., 2018). Therefore, this research considers the availability of types of funds as a factor that can impact the accessibility of funds for MSMEs in the WBOP.

Crowdfunding has emerged as an innovative source of funding for MSMEs, enabling them to access finance from a large number of investors, often with fewer barriers and lower costs compared to traditional sources of funding (Mollick, 2014; Belleflamme et al., 2014). Studies have shown that crowdfunding can increase the accessibility of funding for MSMEs (Ahlers et al., 2015) and lead to better performance by providing capital for growth and innovation (Hornuf and Schwienbacher, 2018). Based on these findings, we propose the following hypotheses:

H0A: Crowdfunding is positively linked to access to funding.

H0B: Crowdfunding is positively associated with MSME performance.

### 4.2.5 Financial Literacy

Several researchers have placed considerable emphasis on the importance of financial literacy in the management of business finances and the enhancement of corporate performance (Drexler, Fischer and Schoar, 2010; Bruhn and Zia, 2011; Galstian Monte, and Evseeva, 2017; Bautista et al., 2019). Arguably, MSMEs possessing financial literacy can make robust strategic decisions about tapping new markets, a dynamic capability requiring a combination of personal, operational and financial expertise (Whiting et al., 2017).

Thus, entrepreneurs are able to adapt to and create the resource base to support their firms’ activities, and can develop new products and introduce them to international markets (John et al., 2020). A high level of financial literacy allows entrepreneurs to utilise financial information to their advantage (Forbes Insight, 2010). This enables entrepreneurs to explore and efficiently utilise various sources of finance to aid the business (Barney, 1991).

A high level of financial literacy also provides entrepreneurs with several financial opportunities and the ability to correctly evaluate their financial resources. Literacy further enables the identification of financial opportunities for the business and the selection of low-cost opportunities to exploit (Shinkafi, Yahaya and Sani, 2019).

Limited efforts have recently been made in Palestine, but regulatory institutions such as the PCMA and the PMA must issue clear regulations, assurances and instructions to facilitate individuals’ access to institutions and financial systems, thus improving individual businesspersons’ access to finance.

The methods and tools for financial education include seminars by financial institutions, educational pamphlets, training courses, workshops, the participation of student trainees at the college and university levels, the facilitation of educational competitions and employment opportunities to university graduates.

Financial literacy, or the ability to understand and effectively use various financial skills, is a critical factor influencing the accessibility of funding and performance of MSMEs (Lusardi and Mitchell, 2014). Studies have found that low financial literacy among MSME owners can negatively impact their ability to access funding, as they may be less likely to understand and meet the requirements of financial institutions (Cole et al., 2009; Klapper et al., 2013). Additionally, a lack of financial literacy can lead to suboptimal financial decision-making, ultimately affecting the performance of the MSME (Fatoki, 2014; Atandi and Wabwoba, 2016). Based on this evidence, we propose the following hypotheses:

H0A: MSME owners’ lack of financial literacy is negatively linked to access to funding.

H0B: MSME owners’ lack of financial literacy is negatively associated with MSME performance.

### 4.2.6 Government Support

As discussed in the literature review Chapter 3 in section 3.4, government support is one of the major factors impacting the accessibility of funds for MSMEs. The phenomenon of MSMEs has remained the focus of policymaking and scientific studies for more than the last two decades. It is generally acknowledged that, together with the creation of employment opportunities, entrepreneurship supports economic growth and technological advancement (Wong et al., 2005; Coetzee et al., 2017).

Consequently, several regional and governmental policies focusing on the enhancement of small businesses and facilitating the development and survival of novel enterprises have been developed (Huggins and Williams, 2011; Murdock, 2012; Niska and Vesala, 2013; Collett et al., 2014; Duarte et al., 2018; Schich, 2018). Nevertheless, some scholars question the emphasis on government assistance for novel companies to support regional growth (Hennecke et al., 2019). Policymakers believe new businesses bring about employment opportunities and innovation; however, Shane (2009) described this belief as a dangerous myth.

Despite this, Wang and Shihadeh (2015) observed an improvement in financial inclusion from the Palestinian government’s efforts to restructure the financial inclusion process to facilitate funding for MSMEs in the West Bank; modest growth has been observed in Palestine’s economy consequent to such efforts.

However, economic stability cannot be assured given the country’s political instability, highlighting the uncertainty of government policies supporting MSMEs. This instability also explains why financial inclusion continues to be affected despite several steps taken by the government of Palestine to achieve and improve financial inclusion through PMCA and PMA laws and policies. Government institutions must continue to increase the public’s financial awareness as it promotes and encourages financial inclusion in Palestine. It is also important that the government reduces the cost of the internet and other IT infrastructure to promote online banking. This will encourage people to utilise electronic methods of banking in Palestine. Therefore, this research further considers government support as a variable when assessing the impact on the accessibility of funds for MSMEs in the WBOP.

Government support, in the form of policies, programms, and financial incentives, can play a crucial role in facilitating the accessibility of funding and improving the performance of MSMEs (Bruton et al., 2010; Ayyagari et al., 2011). However, low government support can hinder MSMEs' access to funding, limit their growth potential, and negatively affect their performance (Mijid, 2015; Han et al., 2018). Based on these findings, we propose the following hypotheses:

H0A: Low government support has a negative relationship with access to funding.

H0B: Low government support has a negative relationship with MSME performance.

**4.3 ROLE OF INSTITUTIONs IN MICROFINANCE DEMAND AND SUPPLY**

Globally, millions of individuals credit microfinance with helping them escape poverty, secure employment, and improve their standard of living. The demand for and supply of microloans have both increased significantly. According to recent estimates, approximately 200 million people are served by more than 10,000 MFIs worldwide (Azzam et al., 2012; Lutzenkirchen and Weistroffer, 2012). However, other estimates suggest that two or three billion individuals remain unreached, and over 310 million MSMEs require financing but lack access to formal credit markets (Karlan and Morduch, 2010; Stein et al., 2010). With numerous variables affecting the demand and supply of microfinance services, there is a clear need for improvement.

**4.3.1 Demand Factors**

Various external factors can influence the demand for MFIs. Interest rates on microcredit services offered by microfinance institutions can have both positive and negative impacts on the industry as a whole. Dehejia et al. (2005) found through empirical research that microcredit has a demand elasticity of virtually zero, indicating that the majority of MFIs' clients do not decrease demand even with increased interest rates.

There is an ongoing debate on whether high interest rates are justified, as they help businesses cover their considerable operating expenses and counter the inherent risk associated with smaller loans. Waterfield (2011) highlighted the challenge faced by microfinance institutions in striking a balance between making a profit and serving their clients ethically. Rosenberg et al. (2009) proposed that the interest rates applied to microcredit services should equal the sum of the business's operational expenses and a reasonable profit margin.

Honohan (2004), based on empirical research, concluded that high population density, high GDP per capita, and weak institutions are all associated with high MFI penetration rates. This indicates that strong institutions and a large potential clientele can facilitate MFIs' growth and expansion into other regions. As a result, there is no correlation between MF penetration levels and the number of people living in poverty.

Chaudhuri (2011) analyzed data on Self Help Group (SHG) Bank connectivity at the district level to address the varying program reach across regions and identify the necessary steps to close the supply-and-demand gap in India. He observed a relationship between the number of potential microcredit borrowers and the clients' level of experience working with MFIs. Other factors influencing MF demand include household income, level of education, health, employment, and wealth. Sriram and Kumar (2005) identified population density, poverty rate, and the number of potential clients from MIFs as key determinants of MF demand.

Using simple ordinary least squares (OLS) regressions and cross-country data from the Consultative Group to Assist the Poor's worldwide survey and other rating agencies, Vanroose (2008) identified the main factors affecting the development of the microfinance industry in developing countries. One of these factors was the higher demand for MFIs services in low-income areas with high population densities. Consequently, MFIs in low-income countries have been growing at a faster pace than those in high-income countries, with population density playing a significant role. Other influential factors include the level of industrialization and human capital.

Anggraeni (2009) found that the demand for Self-Help Group (SHG) microcredit in Indonesia is determined by both group and individual factors. Individual factors include "being older, working as a government employee, having higher education, steady income, health, and transitory expenses," while group characteristics encompass "differing kinships, gender, and vocational backgrounds." Most personal attributes are relatively insignificant, except for health andoccasional expenses. Pollin (2007), however, raised an important issue, arguing that providing microenterprises with easier access to credit is unlikely to make them more successful on its own. These businesses also need adequate transportation options and well-maintained roads to bring their products to market. Additionally, they require marketing support to promote their products and a robust, well-functioning domestic market with enough consumers who have the financial means to purchase these businesses' goods.

Chowdhury (2009) contends that microfinance is not a panacea for poverty alleviation, implying that supply and demand factors should be balanced. The government's capacity to promote the expansion of marketing channels and implement macroeconomic policies is crucial to the success of micro-enterprises, necessitating a solid foundation of infrastructure and skilled labor. Rhyne and Otero (2006) projected social and economic indicators, such as the growth of the informal economic sector, the number of individuals employed in the sector, and the income of the poor, to determine the future demand for microfinance. Consequently, millions of people worldwide will continue to rely on MSMEs and self-employment, with women constituting the majority of these workers. Hence, MSMEs require access to capital to initiate and expand their operations.

**4.3.2 Supply Factors**

Fouillet and Augsburg (2007) analyzed data on SHG-Bank linkage at the district level in India to address the varying program reach across regions and propose strategies to close the supply-and-demand gap. They concluded that interest rates are a significant determinant of microloan availability. Likewise, Swain (2002) observed that "credit markets are characterized by high lending costs and high demand for credit as a result of high interest rates being paid to borrowers." Allathia (2008) suggested in his paper titled "Cost of credit, and its impact on the behavior of microfinance institutions" that the supply of MFIs is influenced by transaction costs such as the information cost (the time and money MFIs spend learning about and evaluating potential clients), the supervision and monitoring cost, and the risk cost. Furthermore, these costs are interrelated, sequential, and overlapping.

Massar Associates (2002) identified a supply gap between microcredit demand and supply in their report on the demand and supply of small and microcredit in the West Bank and Gaza. This supply gap is not due to a lack of financing, but rather stems from MFIs' prudential policy, penetration rate, poor performance, and the political and security situation in the region. Honohan (2005) categorized the barriers to accessing microfinance into three main groups: high interest rates, lack of information, and MFIs' difficulty in tailoring services to the needs of the poor. He added that the lack of market regulations and technology is partly responsible for these obstacles. Ledgerwood (1999) argued that oversight and regulation are the two most significant challenges facing the microfinance industry. Although some developing countries have microfinance market oversight and regulation, many do not, and those that do often exclude less formal MFIs.

**4.3.3 MFIs Demand and Supply**

Recent estimates indicate that over 10,000 MFIs serve more than 200 million people globally (Lutzenkirchen and Weistroffer, 2012). A key issue is predicting future interest and availability of microloans. According to Robinson (2001), macro and microeconomic factors, including population, poverty, household, and business formation rates, all affect the global demand for microfinance services. He asserts that despite comprising 720 million households, 80% of the world's population lacks access to the formal financial sector. Based on his calculations, over half of these households are not being served byMFIs, and the demand for MFI services is highest among households in the developing world and the informal enterprise sector.

MFIs include banks, programs, NGOs, and cooperatives, and their activities are encompassed in supply-side estimates. The SEON foundation (2008) uses several variables to estimate the demand for MFIs in the Netherlands, most of which relate to the annual number of new businesses, the number of new businesses requiring microcredit, the number of existing businesses needing microcredit, the number of people considering starting businesses, and the actual number of microcredits approved by non-MFIs and banks. George et al. (2009) employed variables such as population, poverty indicators, average loan sizes for potential clients, economically active and low-income small landholders, landless agricultural laborers, MSMEs, and existing formal MFIs to project India's annual demand for microfinance services and identify potential clients.

**4.3.4 MFIs Demand and Supply Gap Assessment**

In theory, the gap between the demand and supply sides of the market represents the size of the market gap. Practical considerations, such as understanding the existing microfinance service providers, the extent to which the market's needs are met, and the size of the gap between the two, must be made to pinpoint the source of the problem.

Although the microfinance market has experienced rapid growth over the past 30 years, with demand and supply increasing in both developing and developed countries, recent estimates suggest that two or three billion people still lack access to microfinance services, indicating that the market still faces a significant supply gap (Karlan and Morduch, 2010, pp. 8). Various explanations have been proposed for the market divide, but they have limitations. Kereta (2007) argued that the demand-supply gap is not due to a lack of funds; rather, high transaction costs, risks associated with information asymmetries, and moral hazards characterize the microfinance sector.

MFIs, governments, funders, and non-governmental organizations (NGOs) face a considerable challenge in closing the demand-supply gap, as stated by Gobezie-Vega (2003). They require a long-term perspective that can help identify inefficiencies, insufficiencies, gaps in feasibility and the market, and the necessary support to establish appropriate roles and responsibilities for stakeholders and key actors in the microfinance industry. Having a clear objective is also important for better management of available resources (ACCESS, 2011). The more investors are willing to fill this void, the better prepared MFIs will be to meet the growing demands of their customers (Kraemer and Conforti, 2009, pp. 28).

Gonzalez-Vega (2003) suggested that rural financial institutions need to close efficiency, sufficiency, and feasibility gaps to be effective and increase the penetration of MFI services in rural areas. The current MFI service providers, including institutional infrastructure and technology, are inefficient, contributing to the efficiency gap on the supply side. To close this gap, changes in current policies and the introduction of more competitive incentives are necessary; thus, institutional involvement is required to facilitate supply in the market in WBOP. In contrast, the demand side is the source of the insufficiency gap due to factors such as incomplete and asymmetric information, competitive incentives, and a lack of contract enforcement mechanisms. MFIs can close this gap by increasing their investments in technology and strengthening their human and physical resources. However, a "feasibility gap" hampers the promotion of microfinance services due to divergent views of what is and is not possible. Effective institutions should, therefore, establish new MFIs and strengthen existing ones so that programs can be designed and implemented effectively in WBOP.

## 4.4 THEORETICAL UNDERSTANDING

To unravel the findings of empirical studies on MSMEs, the focus should not be solely on the profits and revenues of new enterprises as primary performance measures. Instead, government support measures that concentrate on developing unique resources and skills, which drive the competitive advantage of enterprises, should be considered. Government support programs can enhance companies' financial performance by fostering the development of competitive advantage and improving the accessibility of funds for MSMEs. Studies by Lambrecht and Pirnay (2015) and others have proposed this indirect influence, which is grounded in a firm's resource-based view (RBV; Barney, 1991; Amit and Schoemaker, 1993). The gap between the demand and supply sides of the market is, in theory, the size of the market gap. Understanding the existing microfinance service providers, the extent to which the market's needs are met, and the size of the gap between the two are practical considerations that must be made to identify the source of the problem that could be addressed by taking an institutional approach to improve the supply of microfinance in WBOP.

The RBV asserts that although possessing resources such as financial assets is crucial, it is the uniqueness and inimitability of an enterprise's assets and skills that are likely to drive sustainable competitive advantage. Teece et al. (1997) proposed that companies could enhance their competencies through the acquisition, coordination, and integration of resources from other companies, resulting in improved financial performance. Similarly, Lu et al. (2010) examined the intermediary role of competencies in the performance of internationalization and government support.

In support of the indirect impact approach, Lambrecht and Pirnay (2005) identified enterprises' motives for utilizing external, government-supported guidelines. Motives were related to the enterprise's growth and aimed for qualitative effects, such as management's competencies in understanding requirements and solving issues. However, entrepreneurial studies have scarcely discussed quantitative reasons—such as enhanced liquidity and profitability—and have revealed how external consultancies have had no significant effect on the financial indicators described by Lambrecht and Pirnay (2005).

Bennett and Robson (2003) used an RBV to suggest that the competitive capacity of small businesses is developed through government assistance, which may come in the form of advice. Therefore, a theoretical framework based on RBV principles was developed in this study (Amit and Schoemaker, 1993; Barney, 1991), supplemented with institutional theory, and theoretical arguments were provided that the specific resources and competencies of an organization result in higher sales volume and profitability, which in turn develop a competitive advantage. Arguments are derived from the RBV of the effects of hard resources, such as access to financing via governmental assistance, on the performance outcomes of new organizations.

Initial input is provided to new projects by this type of hard resources, as stipulated by an RBV. However, the focus is on firms' development and utilization of these resources to build capabilities and distinctive resources that result in better performance due to competitive advantage. Institutional theory demonstrates the impact of financial support on the flow of initial resources from government to new companies. This flow of resources is achieved either by a legitimacy-enhancing method, such as loan guarantees, or through the direct provision of financing, such as loans, which facilitates access to resources, e.g., bank financing.

Second, a considerable body of literature has examined the firm-level influence of a specific policy or program on the performance of participating firms compared to non-participating companies. Mole et al. (2009) studied the effects on employee growth and sales from participation in programs. Government support in the form of financial resources, such as government equity, guarantees, and loans, is provided to new firms throughout their lifetimes. This means that the accessibility of loans for MSMEs is directly linked to government policy, which is under the political structure of the WBOP. Because the RBV only covers the organization's internal factors, government policies, uncertainty, and social factors of the institution are ignored by this type of theory.

According to Barney (1991), Teece et al. (1997), and Newbert (2007), the RBV holds that combining the direct resources available to firms creates the capabilities and firm-specific resources that form the basis of competitive advantage. Particular government financial support programs and other financial sources, such as family equity and venture capital, used by new firms are beneficial to a firm's success. For initial funding, the entrepreneur relies on government assistance embedded within the local political and institutional structure of the WBOP.

Palestine is an emerging economy with a medium level of human development and a high level of advancement in women's education. Ninety-seven percent of economic units in Palestine are SMEs with ten or fewer employees (Karsh et al., 2019). MSMEs in Palestine are primarily family-owned, operate in the retail or service sectors, are financed and owned by individuals, and are supported by family savings and resources. Despite support from the economic plans provided by the PNA, measures to enable the materialization of such plans are lacking in the sector.

In addition, no regulations or custom or tax exemptions are provided in the West Bank for microfinancing to the sector, which is supported by the UNRWA and ten other NGOs that offer reasonable assistance to the sector via short-term loans and collateral instruments. Therefore, businesses struggle with a lack of resources, impacting their performance and requiring some level of government intervention to improve the accessibility of funds for MSMEs.

Many examples of government support that provide certainty and political support to MSMEs exist, such as a competitive advantage which primarily bridges government support programs to the improvement in financial performance by providing access to sufficient funds for MSMEs (Lambrecht and Prinay, 2005).

Lambrecht and Prinay (2005) suggested an indirect impact supported by the firm's RBV (Amit and Schoemaker, 1993; Barney, 1991). The RBV states that even though the financial aspect is essential, the development of unique and inimitable assets and abilities that can provide companies with a competitive edge must exist. Duarte et al. (2017) stated that if a company can obtain, coordinate, and integrate resources as funds available from external organizations known as the FIs of the country, then it can enhance its capabilities to ultimately drive better financial performance. In this context, Lu et al. (2010) observed the role of abilities as a mediator of performance, internationalization, and government support programs for institutional support of MSMEs.

Consistent with the RBV and the understanding of the significance of financial literacy and access to capital, this research develops a theoretical argument for the relationship between financial literacy and the accessibility of funds for MSMEs in the West Bank. It builds on this point to address the question of whether financial literacy influences the probability of growth of a firm in the context of a developing country.

Researchers have examined the relationship between financial literacy and the ability of the entrepreneur to make sound financial decisions (Banks et al., 2010; Christelis et al., 2010; Smith et al., 2010; Lusardi and Mitchell, 2011; Van Rooij, Lusardi, and Alessie, 2011). The majority of these researchers' findings support the same conclusion: financial results can only be achieved through strong financial literacy. Empirical evidence suggests that a firm's financial growth is strongly dictated by the financial literacy of its decision-makers (Fatoki, 2014; Olawale and Garwe, 2010; Ullah et al., 2017). Financial literacy enables entrepreneurs to understand financial statements, manage cash flow, make informed investment decisions, and access various funding sources (Remund, 2010; Lusardi and Mitchell, 2014). Consequently, financial literacy plays a crucial role in a firm's growth and sustainability.

Furthermore, financial literacy has been shown to have a positive impact on the accessibility of external funding for MSMEs (Aterido et al., 2011; Beck and Demirguc-Kunt, 2006). Entrepreneurs with a higher level of financial literacy are more likely to obtain loans from formal financial institutions, as they can better articulate their business plans and financial requirements, increasing the likelihood of approval (Olawale and Garwe, 2010; Fatoki, 2014). In the context of the West Bank, where MSMEs face multiple challenges in obtaining financing, financial literacy becomes even more critical.

Given the importance of financial literacy in accessing funds and growing a firm, policymakers and organizations supporting MSMEs in the West Bank should focus on enhancing financial literacy among entrepreneurs. This can be achieved through targeted financial education programs, workshops, and other capacity-building initiatives aimed at improving the financial skills and knowledge of entrepreneurs in the region.

Moreover, the government and supporting institutions should also work on creating a favorable environment for MSMEs to thrive. This includes implementing policies that encourage access to financing, such as credit guarantee schemes, tax incentives, and streamlined regulations for accessing loans. Collaboration between the government, financial institutions, and other stakeholders is essential to improve the overall ecosystem for MSMEs in the West Bank.

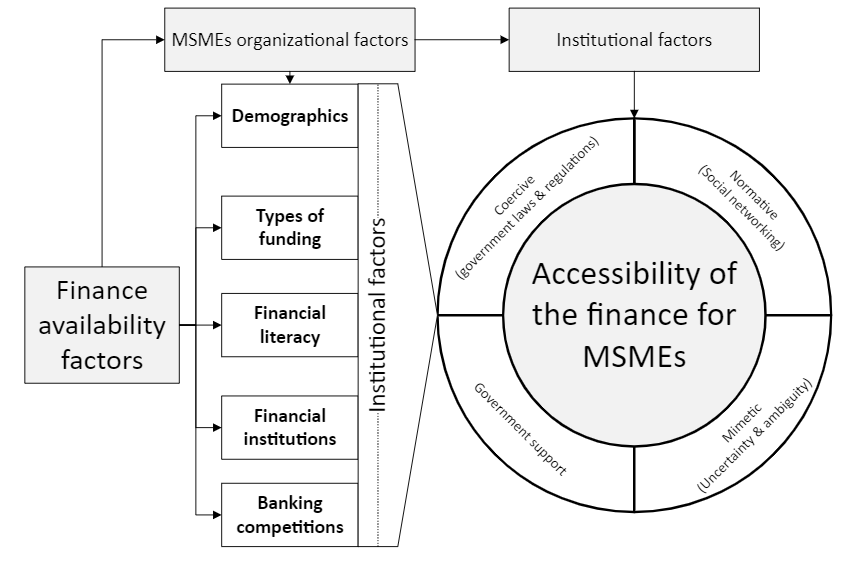


Figure 4.2: Institutional isomorphism and accessibility of financing for MSMEs

In instances where organisational changes are necessary to enhance a firm's performance, additional financing becomes a crucial component. This need for financial support is intrinsically connected to the overall institutional context of a given country. As previously discussed, government backing and a robust financial infrastructure are critical factors in ensuring the availability of funds for MSMEs.

In the case of the West Bank, the institutional setting plays a pivotal role in shaping the financial landscape for MSMEs, leading to the adoption of institutional theory as the foundation for this study's theoretical framework. By drawing upon DiMaggio and Powell's (1983) groundbreaking work on institutional isomorphism, this research underscores the significance of understanding the interplay among legal frameworks, policy uncertainty, and professional roles in determining the accessibility of funds for MSMEs in the West Bank and its surrounding regions.

Isomorphism, as defined by DiMaggio and Powell (1983, p. 147), is a "constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions." This concept encompasses two distinct types: competitive and institutional isomorphism. As organisations vie not only for resources and clientele but also for political influence and institutional legitimacy, they strive for both social and economic fitness (DiMaggio and Powell, 1983, p. 147).

## 4.5 INSTITUTIONAL ISOMORPHISM

DiMaggio and Powell's concept of isomorphism is employed in this study to examine the role of financial institutions in improving the accessibility of funds for MSMEs in the West Bank and Gaza Strip (WBOP). Institutional isomorphism is seen as a 'theoretical approach that describes how systems of organizations become more and more alike' (Rhoades and Sporn, 2002, p. 356). DiMaggio and Powell contended that 'organizational change is less and less inspired by competition or by the need for efficiency' (1983, p.147), identifying three primary mechanisms – normative isomorphism, mimetic isomorphism, and coercive isomorphism – that result in institutional convergence (DiMaggio and Powell, 1983).

### There are Three Types of Isomorphism in Institutional Theory, Discussed Below:

### 4.5.1 Coercive Isomorphism:

Coercive isomorphism arises from external organisations' cultural, legal, and environmental expectations and political influence on institutions (DiMaggio and Powell, 1983). Small- and large-scale firms exhibit distinct economic characteristics, prompting policymakers to debate the merits and drawbacks of skilled versus unskilled labor, location, economies of scale, production costs, capital investment and ownership structure. Numerous explanations have been offered for the market divide, but they have limitations.

Kereta (2007) attributed the demand-supply gap in the microfinance sector to high transaction costs, dangers associated with information asymmetries, and moral hazards, rather than a lack of funds within microfinance institutions (MFIs). Gobezie-Vega (2003) noted that MFIs, governments, funders, and non-governmental organisations (NGOs) face significant challenges in closing the demand-supply gap. Consequently, they require a long-term perspective that enables them to identify inefficiencies, insufficiencies, feasibility gaps, and market gaps, as well as the necessary support to establish appropriate roles and responsibilities for stakeholders and key actors in the microfinance industry. Having a clear objective is also crucial for managing available resources effectively (ACCESS, 2011).

The more investors are willing to bridge this gap, the better prepared MFIs will be to meet their customers' growing demands, necessitating government-level efforts to introduce new rules and policies that cater to MFIs' needs in a region (Kraemer and Conforti, 2009). A coercive forces lens, therefore, can be used to investigate how current supply and demand issues are linked to government policies and how new policies can align the supply of microfinance with market demand.

Sabri (1998) conducted a survey to determine whether policymakers in Palestine should prioritise MSMEs or large-scale firms to best support the country's economy. Sabri found that despite better external financing opportunities for large-scale firms, SME benefits such as higher labor productivity and a higher ratio of asset and inventory turnover were not as pronounced. This finding prompted government policy to bolster the financial performance of MSMEs.

Government support, political policies, and the legal environment influence lenders and borrowers, directly impacting MSMEs' accessibility in a country. Government skill development programms and small business funding also play a role. In this context, government policies can enhance MSMEs' financial performance and contribute to the strengthening of the country's economy. Coercive isomorphism is useful for exploring the role of political and government policies concerning MSMEs' access to funds in the WBOP.

Conversely, coercive forces exerted by government institutions through regulations and laws help explore and understand the role of external factors such as government support, legal infrastructure, and guarantees on financing accessibility in the WBOP.

Furthermore, the 1998 Palestinian Investment Law and its 2014 amendments have not fully encouraged investment in MSMEs due to a lack of incentives, funding opportunities, and proper investment channels (UNCTAD, 2016). This highlights the importance of evaluating coercive isomorphism's role in influencing the financial accessibility of MSMEs in the WBOP and identifying the shortcomings in the existing legal framework.

### 4.5.2 Mimetic Isomorphism

Mimetic isomorphism occurs when organisations in a sector face uncertainty, leading them to imitate practices and structures of other successful organisations (DiMaggio and Powell, 1983). Uncertainty might arise due to various reasons, such as lack of information, ambiguity in processes or outcomes, or the need to adopt a "proven" practice to reduce risks.

In the context of MSME financing in the WBOP, mimetic isomorphism can be applied to understand how financial institutions might imitate successful practices from other institutions or regions to enhance their MSME lending portfolio. For example, financial institutions may adopt innovative lending technologies or risk assessment methods employed by successful institutions in other countries to reduce the risks associated with MSME lending.

Additionally, partnerships between local financial institutions and international organisations, such as the International Finance Corporation (IFC) and the European Investment Bank (EIB), can result in the transfer of knowledge and best practices. These partnerships might lead to the adoption of innovative financing methods, such as supply chain financing, factoring, or leasing, which can improve financial accessibility for MSMEs in the WBOP.

### 4.5.3 Normative Isomorphism

Normative isomorphism originates from the values associated with professionalism and from emerging legal professional practices, which lead to the creation of normative pressure. In this regard, it is important to grow and expand networks that provide new ideas, narratives and models (DiMaggio and Powell, 1983). Literature addressing the relationship between banks and firms have observed that soft information-gathering through potential capital providers benefits the lender over time. Consequently, an information monopoly is created (Prilmeier, 2017). In such circumstances, firms are observed to pay more than the usual market prices given the relationships that they have created (Bot, 2000; Ongena and Smith, 2001). Many researchers have backed this claim with empirical evidence of the lock-in effect and its associated costs (Farinha and Santos, 2002; Hale and Santos, 2009; Agarwal and Hauswald, 2010). The field of microfinance has exploded in recent years as its usefulness in addressing the issue of poor people's lack of access to formal financial services becomes more widely acknowledged. Unlike grant or transfer-based programmes in poverty reduction, microfinance recycles financial resources generated in the local economy, making it a potentially attractive strategy for alleviating poverty through creating networking among suppliers, government institutes and MSMEs. It is also rapid, massive, has verifiable effects, is measurable, and can be scaled up quickly through creating strong networking at institutional level. Microfinance, above all else, gives people agency; through normative forces, it would encourage them to get organised, and it treats the impoverished as though they are mature, capable adults who can and should make decisions for themselves.

Although it is common knowledge that microfinance could help the self-employed and small businesses in the informal economy maintain a steady income, far less is known about how microfinance facilitates the transition out of the informal market. Because formal economy aspects can be found in loan, deposit, and other service contracts, a significant connection is likely; therefore, this element would help to explore the networking between them. However, these services are not as sophisticated as those offered by traditional banks in WBOP. Therefore, this element would help to explore how normative forces can align the demand and supply of microfinance for MSMEs. Also, microfinance organisations push their clientele to expand their own businesses from side gigs to (MSMEs) as a means of expansion.

Arguably, normative isomorphism has a direct and strong association with organisational members. For example, bank staff with relationships with MSME managers or owners may exploit the situation to their advantage and look after their own interests when supplying professional services. MSMEs’ professional or educational backgrounds or social connections may hinder some from obtaining funds or may encourage others to obtain the necessary funds in the West Bank. Consequently, understanding the role of the organisation’s normative forces is helpful when exploring the role of networking and social connections in securing access to financing in the WBOP.

When financing for MSMEs materialises in the West Bank, it may create the perception of an ineffective financing system given environmental pressures or the suspicion of government action to gain legitimacy and public support through the political structure. Furthermore, the accessibility of financing for MSMEs may cause implementation problems for government institutions.

Institutional theory has received a lot of attention in the field of organisational studies over the past few decades since it explains why and how businesses change in response to their surroundings. Organisational practices such their structure, management, and operations are studied using institutional theory to learn how social, economic, and political influences affect them. To investigate how financial institutions might help make money more easily accessible in the West Bank, the institutional theory offers a useful framework. According to institutional theory, institutions within the same environment undergo a process of increasing similarity through time called institutional isomorphism. Normative, mimetic, and coercive methods of isomorphism all play a role in this process. These strategies all contribute to institutional convergence by putting pressure on institutions to adopt comparable practices, processes, or structures.

The first mechanism influencing institutional convergence is coercive isomorphism. This is the product of things such as societal norms, laws, and political pressures. Skilled vs unskilled labour, location, economies of scale, manufacturing costs, allocated investment capital, and ownership structures are all points of contention among West Bank officials. The demand-supply gap is not due to a shortage of money inside Microfinance institutions (MFIs), but rather to the high transaction costs, knowledge asymmetries, and moral hazards that are typical of microfinance businesses. For this reason, it would be beneficial to learn how the current supply and demand problems are linked to government policies and how new policies can align the supply of finance with the demand in the market.

Institutional uncertainty and the unpredictability of organisational policies inside Palestine over access to funds are both consequences of Palestine’s limited impact on the formation and support of MSMEs. Therefore, the effect of institutional uncertainty on the availability of funds can be investigated through the lens of mimetic isomorphism (the second mechanism). In order to be efficient and enhance the penetration of MFI services in rural areas, rural financial institutions must close efficiency, sufficiency, and feasibility gaps. Consistent strategic policies can assist in increasing the number of MFIs available to micro, small, and medium-sized enterprises. Therefore, it would be beneficial to examine the effect of institutional uncertainty and the uncertainty of organisational policies within the country on the availability of funds for MSMEs.

The third mechanism that influences institutional convergence is normative isomorphism. Normative pressure is born out of the values connected with professionalism and new trends in the legal profession. Increasing the availability of capital for MSMEs in the West Bank of Palestine may be facilitated through the development and expansion of networks that supply novel ideas, narratives, and models. Microfinance’s ability to facilitate connections between MSMEs, government agencies, and other businesses has made it a viable tool in the fight against poverty. Therefore, it would be useful to investigate how normative forces can bring together the demand and supply of microfinance for MSMEs.

Institutional theory is well-suited to this investigation because it takes into account the influence of contextual variables such as the political and legal climate on organisational behaviour. Funding for nonprofits is severely hampered by the uncertain political climate in the West Bank of Palestine. Corruption in the banking industry also makes it difficult for MSMEs to secure adequate financing. Therefore, it would be beneficial to understand the role bankers play in facilitating MSMEs' access to capital.

Institutional theory is also applicable here because it accounts for the fact that businesses operating in the same setting tend to converge on common practises over time. This may shed light on the ways in which Palestinian micro, small, and medium-sized enterprises (MSMEs) might influence their institutional surroundings from within, especially through institutional entrepreneurship, in the Palestinian setting. Because of their ability to use resources effectively, institutional entrepreneurs can create new institutions or significantly alter existing ones.

Institutional theory can be used to evaluate hypotheses on the availability of funding for MSMEs and their performance, as it provides a lens through which to analyse the impact of external factors on organisations. Convergence in the microfinance industry can be better comprehended by looking at the mechanisms that bring about this change through the lens of institutional isomorphism (DiMaggio and Powell, 1983). Before examining why institutional theory can be used to underpin this study, it may be useful to recap the hypotheses developed for this thesis:

H0A: The demographic features of MSME owners and the characteristics of MSMEs can positively impact the accessibility of funding.

H0B: The demographic features of MSME owners and the characteristics of MSMEs can positively impact MSMEs’ performance.

H1A: Crowdfunding is positively linked to access to funding.

H1B: Crowdfunding is positively associated with MSME performance.

H2A: MSME owners’ lack of financial literacy is negatively linked to access to funding.

H2B: MSME owners’ lack of financial literacy is negatively associated with MSME performance.

H3A: Low government support has a negative relationship with access to funding.

H3B: Low government support has a negative relationship with MSME performance.

H4A: Financial institutions’ terms and conditions are negatively associated with the accessibility of funding.

H4B: Financial institutions’ terms and conditions are negatively associated with MSME performance.

H5A: Banking competition is positively associated with the accessibility of funding.

H5B: Banking competition is positively associated with MSME performance.

H6A: A weak legal environment for MSME owners is negatively associated with the accessibility of funding.

H6B: A weak legal environment for MSME owners is negatively associated with MSME performance.

For H0A and H0B, the characteristics of MSMEs and the demographic aspects of the owners of MSMEs can have a favourable effect on the availability of funding and the performance of MSMEs. One of the three types of isomorphism mentioned above, normative isomorphism, can shed light on how professionalism and new developments in the legal profession contribute to the development of normative pressures. By investigating how MSME owners and their firms fare when exposed to professional norms and values, we may put H0A and H0B to the normative isomorphism test. It has been found, for instance, that managers and business owners in developing nations who have close relationships with banking professionals are more likely to be successful in securing financial backing. However, it is difficult for MSMEs to acquire sufficient funds due to corruption in the banking profession in developing countries (Farrell and Knight, 2003). Testing H0A and H0B, we can learn if the demographic features of MSME owners and the characteristics of MSMEs can positively impact access to funding and MSME performance by analysing the role of banking industry professionals regarding the accessibility of funds.

It can be argued that crowdfunding improves the financial resources available to MSMEs (H1A and H1B). According to H1A and H1B, crowdsourcing can increase both the availability of funds and the efficiency with which MSMEs use those funds. Because crowdfunding is a new phenomenon that is gaining popularity quickly in many countries, testing these hypotheses can benefit from the insights of institutional theory. Crowdfunding is a relatively new approach for raising capital, and the concept of institutional isomorphism helps shed light on its emergence and rapid rise in popularity. Crowdfunding websites such as Kickstarter and Indiegogo offer a new way for startups and small businesses to raise money online. This alternative funding method poses a serious threat to the established financial system. Institutional theory can shed light on the connections between crowdfunding and the success of MSMEs by examining the forces that are fuelling the industry's expansion.

The effects of institutional ambiguity and uncertainty on MSMEs’ access to capital can be better understood with the aid of mimetic isomorphism. Although crowdfunding has emerged as a viable financing option in recent years, it has yet to gain widespread acceptance in the West Bank. We can test H1A and H1B to see how crowdfunding affects MSMEs by looking at the ambiguity around the availability of financing for MSMEs and learning how crowdfunding has affected the availability of funding and MSME performance in other countries.

The lack of financial knowledge among MSME owners (H2A and H2B) is correlated with lower funding and lower performance. To better comprehend the cultural, legal, and political pressures exerted on institutions from without, coercive isomorphism can be useful. In many third world nations, business owners of MSMEs struggle with a lack of financial literacy that hinders their access to capital and their capacity to efficiently manage their money. Government laws and regulations can be used to encourage MSME owners to increase their financial literacy and gain access to capital by understanding the concept of coercive isomorphism. Testing hypotheses H2A and H2B on the connection between financial literacy, access to capital, and MSME performance requires an understanding of the role that government support and the impact of laws and regulations play in the financial literacy of MSME owners.

Low government assistance is hypothesised to negatively correlate with both finance availability and MSME performance (H3A and H3B). These hypotheses can be tested with the aid of institutional theory since the institutional context in which MSMEs function is shaped by government policies and regulations. Low government support can be a significant barrier to the development of MSMEs. Understanding the elements that influence government policies and regulations and how these factors affect MSMEs' access to capital and ability to enhance performance can be aided by institutional theory.

Both H4A and H4B hypothesise that the terms and conditions set by financial institutions have a negative impact on the availability of funding and the performance of MSMEs. Since the policies and procedures of financial institutions are themselves institutionalised concepts, institutional theory can be helpful in evaluating these hypotheses. Financial institutions’ rules and regulations, which in turn affect funding accessibility and MSME performance, are shaped by the institutional context in which they operate.

Both H5A and H5B hypothesise a favourable relationship between banking competitiveness and finance availability and MSME performance. These hypotheses can be tested with the help of institutional theory because competitiveness in the banking industry is itself an institutionalised idea. Competition among banks, which affects both access to funding and MSME performance, is shaped by the institutional structure in which banks operate. Institutional theory can provide light on the elements that define banking competitiveness and how these factors affect the ability of MSMEs to get capital and enhance their performance by analysing the institutional context in which banks operate.

Both H6A and H6B hypothesise that a poor legal framework for MSME owners has a negative impact on the availability of capital and performance. Because law is itself an institutionalised concept, testing these hypotheses can benefit from the application of institutional theory. In addition, institutional theory can shed light on how values and norms play a part in influencing individual and group actions.

In summary, institutional theory is a helpful paradigm for comprehending the intertwined nature of the characteristics, funding availability, and performance of MSMEs. Researchers can examine the impact of numerous institutional elements on the behaviour and performance of MSMEs through the theory’s multiple lenses, such as normative, coercive, and mimetic isomorphism. Researchers can learn more about the factors that affect MSMEs’ access to funding and their performance by putting the hypotheses presented here to the test utilising this theory. Using this data, policymakers and MSME owners can better understand the challenges faced by MSMEs in the WBOP and create solutions to those problems.

## 4.6 SUMMARY

By examining the literature within the context and realities of Palestinian MSMEs in the West Bank, this chapter identified six major factors whose impact on the accessibility of funds for such MSMEs can be tested. These factors are demographics, financial institutions, banking competition, government support, types of funding and the financial literacy of the MSME managers and business owners. Each factor has been examined closely in relation to the social, political and economic surroundings of MSMEs in the WBOP.

This chapter also illustrated the pros and cons of RBVs inherent in organisational theory. Although this theory comes somewhat close to understanding and addressing the funding context of MSMEs, it fails to go beyond the narrow RBVs of organisations. The theory is reduced to simply aiding the exploration of the impact of organisational resources on company performance and on access to funding.

Organisational theory ignores the roles of government policy, uncertainty and social networking among social actors within the organisations. For this reason, institutional theory has been selected in this study as a conducive approach to investigating government policy, the role of professionals and the uncertain environment within the realm of FIs. The next chapter discusses and justifies the methodology used to achieve the research objectives.

# CHAPTER 5: RESEARCH METHODOLOGY

## 5.1 INTRODUCTION

Chapter 5 introduces the conceptual and meaningful framework for the research methods. It identifies the paradigm this research uses to examine and interpret the assumptions articulated in the previous chapters. The collective process seeks to magnify the extent and field of inquiry to better understand current issues of performance and accessibility of funds for MSMEs. Hence, this research proposes a context-specific framework for improving the accessibility of funds for MSMEs in the WBOP, which requires a useful methodology. This chapter aims to justify the methodological elements and their appropriateness for the research objectives. It also discusses the relevant philosophical and methodological tools used to achieve its aim and objectives.

This chapter on research methodology is divided into four sections. It begins by examining the choice of research paradigm and philosophy. The following sections discuss the research method, research approach, and study design; subsequently, the chapter discusses the primary exploratory study, involving semi-structured interviews with FIs, authorities, and associated issues. The results were used to develop a second data collection tool, namely, a quantitative questionnaire for MSMEs. How this second-phase survey method was developed and undertaken is explained, detailing how constructs were measured, how the sample was chosen, and how data were gathered and analysed.

The subsequent sections describe the activities related to the quantitative and qualitative phases of the study concerning survey development and design, data collection, and the analysis results. To this end, the study first defines the research instrument, beginning with an overview of the survey and interviews. This includes the suitability and the rationale of its use, design, questions, and inspections, while highlighting the ethical issues related to empirical data collection. Subsequently, the chapter discusses the experiential data collection by delimiting and justifying the sampling technique chosen and represented by a wide range of entrepreneurs, the pilot study before starting the principal survey, and the process of using the data collection instruments (questionnaire and interview). Next, the chapter conducts the practical data analysis. It reports the details of the process, in addition to the software, regressions, and thematic used to examine the collected data and its significance for testing the hypotheses. Lastly, the chapter summarises the methodological process used in this study.

## 5.2 RESEARCH PARADIGM

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To support their claim that a research paradigm is a shared collection of assumptions, beliefs, and values about how to conduct research, Greenfield and Greener (2016) cite Kuhn (1962). It establishes the conceptual boundaries of the researcher's investigation within the context of the research's procedures. The two main theories that Guba and Lincoln (1994) identified were interpretivism and positivism. O'Gorman and MacIntosh (2015) noted that pragmatism has become a prevalent paradigm in today's world.

With the goal of producing concrete and general conclusions that may be applied to similar situations to produce similar results, positivism is based on scientific methods of doing the investigation. Since this paradigm also makes use of statistical and numerical processing of data to arrive at definitive results, it is a natural fit with the quantitative approach (Donley, 2012). In addition, the positivist paradigm employs deductive reasoning to verify the correctness of its underlying assumptions. In positivism, researchers use an objective framework to identify the relationships between factors (VanderStoep and Johnson, 2008).

The pragmatist tradition can be traced back to the writings of thinkers in the late 19th and early 20th centuries, such as Pierce (1878, 1905), Dewey (1938), and James (1907). Rescher (2000) continued these investigations. Those scholars, as noted by Johnson and Grey (2010), emphasised various pragmatist perspectives. But Johnson and Onwuegbuzie (2004) incorporated mixed methods into the pragmatism approach. The literature on mixed methods, as Tashakkori and Teddlie (2009) noted, sees it as the best way to implement the pragmatism paradigm. In contrast to the critical realist approach, pragmatism places less emphasis on the philosophical foundations of mixed methods, which allows it to be distinguished from it. The study objectives can be approached from a variety of angles, making mixed-methods research an attractive option.

Additionally, pragmatism takes into account the means by which the research question is answered based on 'what works' (Johnson and Onwuegbuzie, 2004; Onwuegbuzie and Johnson, 2006). Also distinct from positivism and postpositivism is this method. This does not, however, entail the random use of everything that fits with the mixed technique (Denscombe, 2008). Selecting and combining methodologies according to their outcomes in light of the research questions is a more prudent approach (Newby, 2014). In addition, when paradigms are viewed as shared views, it demonstrates that the focus is not on the epistemological and ontological perspectives, but rather on the creation of consensus among members of special areas over the selection of technique for the specialised field. This study took a pragmatic approach since its authors wanted to find a practical way to increase MSMEs' access to capital in the WBOP.

According to Kuhn (1996), researchers should use a standardised language when talking about their pragmatic assumptions. As a result, individuals of various paradigms may comprehend one another's arguments when paradigms are viewed as shared beliefs. Furthermore, Morgan (2007) noted that those who take a literal view of the approaches have promoted incompatibility, which hinders communication on methodological and epistemological issues. Because even social constructionists are open to combining qualitative and quantitative approaches, it is clear that this is the case. In order to increase the availability of financing for MSMEs in WBOP, the chosen mixed methodology can aid in the identification, exploration, and proposal of better alternatives. Pragmatism, according to Johnson, Onwuegbuzie, and Turner (2007), does not conflict with the pluralistic approach, in which both qualitative and quantitative methods are valued, despite their apparent incompatibility. For this reason, it's important for researchers to consider the possibility that seemingly opposing ideas are actually complementary (Shannon-Baker, 2016).

Using institutional theory as a theoretical framework, this research aims to determine which institutional factors—including coercive, mimetic, and normative isomorphism—influence the availability of capital to MSMEs in the WBOP. The study's overarching goal is to illuminate the complex institutional setting in Palestine that determines the availability of capital for micro, small, and medium-sized enterprises (MSMEs). The research questions may be answered and the underlying causes of the issues can be investigated since this study employs a mixed method approach, drawing on both qualitative and quantitative data.

As a philosophical and methodological compromise, pragmatism offers a variety of mixed-method designs that can use either a qualitative or quantitative approach to the research topics at hand. In the pragmatism paradigm, where mixed method designs are applied, the researcher develops the research question and then selects the most appropriate method to answer that question (Denscombe, 2008). Therefore, this study's primary goal is not to increase generalised knowledge but rather to acquire the specific information needed to build a model or framework for making financial resources more available to micro, small, and medium-sized enterprises (MSMEs) in the Western Balkans and Central Asia. As such, it's best to hold off on making any claims concerning the availability of funding until after the research is complete. For instance, the literature review has uncovered several key elements that may affect the availability of funds in the WBOP; these aspects should be examined to confirm or refute this hypothesis.

The pragmatic method also provides researchers with more leeway to respond to study questions in a way that makes the most sense in the real world. To answer research issues, pragmatism permits the researcher to draw on common assumptions, accept the value of both objectivism and subjectivism, and employ both qualitative and quantitative approaches. According to Morgan (2007), such intersubjectivity exemplifies pragmatism's approach to the problem of incommensurability. The researcher's subjective finding supports the pragmatist view that reality is unique and that different people have different ways of constructing it.

Pragmatism is not excessively concerned with this, despite the fact that values play a key role in doing the research. According to Mayer and Beyrer (2016), pragmatic researchers conduct their studies in a way that reflects their own personal values. The generalizability of the inferences drawn from the quantitative data is tested, while the transferability of the results gathered from the qualitative study is tested. According to Morgan (2007), pragmatist research places a premium on the conclusions' applicability to other contexts. Guba and Lincoln (2005) defined dependability as the capacity for the research to be employed in another yet similar environment; Morgan (2007) borrowed this definition to develop the idea of verifying the reliability of research based on transferability.

Morgan (2007) suggested that this fact meant research methodologies shouldn't be used as a basis for extrapolating findings. To understand how and why knowledge grows, he argued, one must first pinpoint the driving forces. In addition, the institutional theory applied here provides a framework for comprehending the extraneous elements that mould the actions of MSMEs and financial institutions in Palestine. Organisational conformity to the standards, norms, and values of their institutional setting is a central theme in institutional theory. The political, legal, and regulatory framework that governs the activities of MSMEs and financial institutions in the West Bank of Palestine constitutes the institutional setting for this research. The study employs the idea of isomorphism, which describes the ways in which an organisation's behaviour becomes more or less similar in response to external stimuli.

To better understand how the institutional setting influences MSMEs' access to funding, this study examines the three categories of isomorphism (coercive, mimetic, and normative). The impact of political and government policies on the availability of finance for MSMEs is analysed using coercive isomorphism. The effects of government policies, legal infrastructure and guarantees, and regulations and laws on the availability of funding in the WBOP are examined. Applying the concept of mimetic isomorphism, we analyse how institutional uncertainty and ambiguity affect the availability of funds for micro, small, and medium-sized enterprises (MSMEs), with a particular focus on how similar organisations tackle obstacles to increase MSMEs' access to financing in the region. Focusing on the importance of banking professionalism and the effect of corruption on the availability of funds for MSMEs in the WBOP, we utilise normative isomorphism to discover the processes via which MSMEs might influence their institutional environment.

Therefore, this study provides a thorough and detailed understanding of the institutional environment affecting MSMEs' access to funding in the West Bank of Palestine by employing institutional theory and the concept of isomorphism. Institutional theory is used to effectively frame the study objectives and hypotheses and provide support for them. The notion of coercive isomorphism, for instance, investigates the influence of political and government policies in the availability of finances for micro, small, and medium-sized enterprises (MSMEs). Similarly, "the level of professionalism in banking positively impacts the accessibility of funding for MSMEs" is a hypothesis grounded in normative isomorphism, which investigates the means by which SMEs might influence the institutions that affect them. Institutional theory provides a useful lens through which to examine the extra-organizational influences on Palestinian micro, small, and medium-sized enterprises (MSMEs) and financial institutions. The research questions and hypotheses are effectively theorised and argued within the framework of isomorphism, which is used to provide a thorough knowledge of the institutional environment affecting MSMEs' access to funding.

Most of the studies on MSMEs either adopted the qualitative and quantitative methods, which have several limitations, especially when used alone as quantitative methods limitations are (self-reported bias, unable to understand the specific context of the problem, limited richness in findings and repetition of results) (Erlangga et al., 2022; Pradhan et al., 2018; Vidalakis et al., 2019; Wijaya and Suasih, 2020). . Whereas qualitative studies have issues such as limited generalisability, more research involvement and bias, issues regarding trustworthiness, and limited sample size in MSMEs studies (Erlangga et al., 2022; Pradhan et al., 2018; Vidalakis et al., 2019; Wijaya and Suasih, 2020). Therefore, this thesis is focused on a mixed method as it allows flexibility of the researcher's position, enabling them to utilise the practical approach to understanding the context of the problem for MSMEs in Palestine.

Thus, on this basis, the researcher can derive both singular and multiple realities using mixed methods (Archibald, 2016). In addition, the mixed method approach enables the researcher to utilise shared beliefs and rely on both objectivism and subjectivism, thereby applying both qualitative and quantitative methods to address the research questions. Morgan (2007) observed that such intersubjectivity shows the response of pragmatism to the issue of incommensurability. Thus, the researcher can reach a subjective conclusion even by using mixed methods, indicating that reality is singular in nature and individuals construct reality in their own separate ways. Thus, incommensurability is not seen as a barrier to conducting research, and pragmatists regard intersubjectivity as the chief element of social life (Morgan, 2007).

The strength of interpretivism with the qualitative approach is found in its realisation that the aim is not to draw a single meaning but to draw patterns in the respondents’ responses to derive meanings therefrom. This method helps to understand the root causes behind the issues regarding accessibility of funds in the WBOP. Such meanings can then help to identify a better understanding of the situation to develop the contextual framework of the accessibility of funds for MSMEs. As such, interviews do not involve limitations of space and do not involve choosing from relevant answers only. The researcher and the respondent can openly interact with each other to discuss different issues and their solutions at length.

The interpretivism paradigm supports the focus on small sample sizes because its aim is not to is not to depend on law-like generalisations but to develop a rich insight to better understand the situation and make decisions on the basis of such understanding in proposing a solution and addressing the issues. Furthermore, Merriam and Grenier (2019) observed that interpretivism involves developing a detailed description of the investigated phenomenon.

This study intends to follow positivists’ position as it enabled the researcher to identify, based on quantifiable metrics, the problems that impact the accessibility of funds and how it affects the performance of the MSMEs in the WBOP. On the other hand, interpretivism cannot comprehend the complication of human experience and the resulting change therefrom. Therefore, interpretivism proved helpful in gathering major stakeholders’ views, which will help to improve MSMEs’ access to finance in the region.

Both paradigms of social constructivism and positivism have been employed in this research as they help to apply flexible data collection and analysis methods that can provide an in-depth understanding of the specific context about the problem (Creswell and Clark, 2017) such as to identify the specific factors that impact MSMEs’ access to finance in the WBOP. Creswell and Clark’s study (2017) argued that the flexibility availed by the researcher consequently of utilising mixed-method research design and that they are able to answer a variety of research questions due to both qualitative and quantitative approaches. These approaches can help to fully understand why the problem exists and what factors have limited the accessibility of finances in the WBOP. This approach involves both empirical and experimental investigation in addition to developing insight into the phenomenon to identify the specific factors that impact MSMEs’ access to finance in the WBOP.

The main advantage of the mixed-method approach in this research is the multivariate analysis, thereby enabling the researcher to predict on the basis of statistics with sufficient certainty to identify the major obstacles that restrict the accessibility of funds for MSMEs in WBOP.

Moulin and Daniel (2019) observed that the selection of social constructionism provides the subjective experience of the individuals; therefore, this experience will help explore the issues related to MSMEs’ access to finance in the WBOP. Interpretivist epistemology dictates that the cause and effect cannot entirely be differentiated from one another. Furthermore, the insights gained by the researcher cannot be isolated from reality as they help make sense of it (Alford et al., 2018).

Moreover, Merriam and Grenier (2019) observed that interpretivism enables the researcher to comprehend the world through the effective discussion of different perspectives. For example, for the current study, online data (Zoom and WhatsApp) were collected from respondents by conducting semi-structured interviews to ask why and how the identified factors impact MSMEs’ funding access in the WBOP.

This research explores the root causes behind the limited access MSMEs have to funding using qualitative research methods aligned with social construction in interpreting different points of view. Therefore, the production of knowledge is practical instead of merely theoretical. It is produced on the basis of the existing knowledge because the final contextual framework is based on institutional theory. Additionally, it explains why the problem exists and why these MSMEs are continuously struggling to perform better in the Palestine context. Here, pragmatism is regarded as aligned with the idea that the paradigm represents the shared beliefs of social actors affected by the issues regarding accessibility of funds and the ideas of the members of a speciality area involved in providing sufficient funds. Accordingly, the mixed method was selected to deal with the research problem instead of justifying the approach on ontological and epistemological grounds.

## 5.2.1 The Philosophical Stance of the Study Design

The current study, grounded on institutional theory, seeks to identify the barriers to finance accessibility for MSMEs in the WBOP and to provide concrete ways to address those barriers. To reconcile positivist and interpretivist perspectives and derive a pattern of meaning from the difficulties faced by MSMEs, the pragmatic position is chosen. When studying funding barriers and their solutions, the ontology of the pragmatism paradigm forces the researcher to define the truth and reality of the phenomenon under study. Pragmatism is an epistemological approach that places an emphasis on dealing with real-world problems and employing several approaches to investigate situations that are both complicated and ever-changing. This is crucial for appreciating the institutional procedures and actions essential to enhancing WBOP fund accessibility.

Both objectivity and subjectivity can be investigated in turn thanks to the pragmatic approach's emphasis on the inquiry process from a practical perspective. This is crucial for understanding the ever-changing dynamics of capital availability for MSMEs in the WBOP. The current study improves MSMEs' access to financing and, by extension, their financial performance, by applying the key principles of pragmatism. These include information that is helpful, knowledge that links experience and action, and inquiry into the process of institutional decision-making. Particularly important is the notion of correlating experience with behaviour, which calls for research into people's words and deeds to establish a connection between the two. The third tenet states that real-world, implementable solutions should be developed while also making theoretical contributions to issues surrounding the availability of funding. As a result, this study use institutional theory to comprehend the problems with funding accessibility, but it also takes a pragmatic stance in order to create workable solutions and make theoretical contributions.

Because of its importance in illuminating the formation and functioning of organisations and institutions, institutional theory was chosen as the theoretical framework for this investigation. Institutional theory examines the ways in which the social and cultural norms of an organisation affect its operations and the choices its members make. This study seeks to improve our understanding of the institutional dynamics that affect the accessibility of funds for MSMEs in the WBOP by bringing institutional theory into the research process. There is also a lack of research into this topic because previous studies have paid more emphasis to the financial and economic aspects that influence the availability of financing for MSMEs. This research intends to fill that knowledge gap by illuminating the institutional determinants that affect MSMEs' access to capital in the WBOP.

Taking a pragmatic philosophical stance in this study is also important because it promotes an applied strategy for dealing with real-world issues. Rather than focusing on a particular method or paradigm, the emphasis is on using a wide range of methodologies and tools to fulfil the study aims. When it comes to solving difficult real-world challenges like the lack of funding for MSMEs, pragmatism places a premium on bridging the gap between theory and practice. In short, pragmatism provides a philosophical position that emphasises the importance of practical solutions and the link between theory and practice, and institutional theory provides a theoretical framework for understanding the institutional dynamics that influence the accessibility of funds for MSMEs. Research from multiple angles allows for a more complete knowledge of the institutional elements that determine the availability of funding for MSMEs in the WBOP and the development of actionable recommendations to remedy the situation.

## 5.3 RESEARCH METHODS

For the current research, personal perceptions of MSME stakeholders (e.g., MSME owners and representatives of FIs) were gathered to identify the primary issues affecting their access to funding in the WBOP. This objective required selecting a methodology capable of eliciting detailed information from participants and allowing MSME stakeholders (e.g., MSME owners, government ministries, and representatives of FIs) to thoroughly describe their experiences.

Consequently, a combination of qualitative and quantitative methods was chosen. Quantitative studies play a crucial role in identifying the main issues surrounding funding availability for MSMEs, while qualitative methods are valuable for exploring the underlying causes of these issues. Morgan (1998) noted that integrating qualitative and quantitative approaches can effectively inform public policy. Moreover, Guthrie (2010) observed that historically, these approaches have been deemed mutually exclusive and fundamentally opposed to each other.

Qualitative research aligns with interpretive perspectives, where the researcher seeks to comprehend social phenomena by focusing on the interpretations of social actors and deriving meaning from their responses to make sense of the situation (Gore et al., 2021). The research process is inductive in nature, centering on theory building. In contrast, quantitative research is more closely associated with the positivist paradigm, adopting a position of testing a theory. It concentrates on establishing causality between dependent and independent variables (Walliman, 2018).

Quantitative approaches employ deductive logic, while qualitative approaches utilize inductive logic. Furthermore, quantitative methods focus on testing, whereas qualitative methods center on identifying patterns from which ideas or meanings can be derived (Sloan and Quan-Haase, 2017). In contrast to the inductive approach, the deductive approach does not allow the researcher to delve deeply into a situation. Lastly, the quantitative approach aims to derive general principles, while the qualitative approach seeks to enhance understanding of a specific situation (Teater et al., 2017).

### 5.3.1 Application of Mixed Methodology in Research

Kiessling and Harvey (2005) noted that researchers are increasingly turning to mixed-method approaches because of the complexity of the phenomena being studied. It is through the lens of institutional theory that the function and influence of institutions may be comprehended (Scott, 2013). This study uses institutional theory as a theoretical framework to investigate the effect of institutional elements on the availability of capital for MSMEs in the WBOP. To find answers to difficult questions in management and social research and to address pressing problems, the mixed-methods approach is invaluable (Doria et al., 2018). Consequently, the mixed-methods approach was chosen for this study to develop an appropriate solution to deal with the accessibility barriers and issues associated with enhancing the performance of MSMEs.

According to Quinlan et al. (2019), researchers have the option of using either a quantitative or qualitative methodology, depending on the nature of the subject at hand. Researchers can use a mixed-methods approach, which combines qualitative and quantitative methods, when their goals include both gaining a better understanding of the phenomenon and testing hypotheses about it, as pointed out by Arthur and Bode (2014). These issues would go unanswered if only one method were used, but with the combined strategy, the researcher is able to gain deeper, broader, and more important insights (Saunders, Lewis and Thornhill, 2016).

According to institutional theory (DiMaggio and Powell, 1983), institutions shape organisations by instilling in them its norms, values, and beliefs. Thus, a mixed-methods research strategy is useful for determining the institutional factors influencing MSMEs' access to funds in the WBOP. It was suggested by Coolican (2018) that a 'toolkit approach' be taken, wherein the researcher can choose the most suited method to the research issues at hand, even if that means employing both approaches. Instead of relying on naive philosophical and methodological assumptions, as Hammond and Wellington (2012) advised, researchers should make use of the appropriate instruments. Since pragmatism in this sense is a research paradigm that endorses the use of mixed methods to achieve research objectives and provide a practical and theoretical contribution to the research, it is adopted as a research paradigm in the present study.

Data triangulation also aids in discussions with government authorities and financial professionals to propose improved solutions to complex problems. In light of this, the mixed-methods approach was useful in this study in identifying the problems and their causes (Doria et al., 2018), and comments from the participants have been documented in order to present a better contextual framework to address these problems. In addition, this mixed-methods approach was extremely helpful in elucidating the intricate phenomena behind the availability of financing for MSMEs in the WBOP.

Combining the two methods, which will be discussed further in this chapter, helped to lessen the likelihood of bias and increase confidence in the study's findings. Institutional theory highlights the significance of setting and how it affects organisational behaviour (Scott, 2013). Only the qualitative data proved useful in comprehending the perspectives of FIs and government officials to discuss the solutions to the problems of funding accessibility for MSMEs in the WBOP, despite the fact that the quantitative data proved extremely useful in considering the statistics to predict certain procedures. Patton (2014) added that the qualitative method helps researchers gain a deeper understanding of the topic by drawing on participants' own personal experiences and perspectives. Therefore, the mixed-methods approach helped us gain a more complete picture of the institutional factors that determine whether or not MSMEs in the WBOP have access to funding.

Table 5-1 below justifies how mixed methods help to achieve these research objectives

Table 5.1: Methods used to Achieve Research Objectives

|  |  |  |
| --- | --- | --- |
| **No.** | **Research Objectives** | **Required/Selected Method** |
| 1 | To investigate the most important factors that play a role in the accessibility of funds for MSMEs in the WBOP. | This objective was achieved on the basis of the critical literature review, which is a quantitative method. The objective of the literature review was to identify the most important factors that have further been tested through primary data collection, which is quantitative in nature. |
| 2 | To test the relationship of the identified factors on the accessibility of funds for MSMEs in the WBOP. | The qualitative insights gathered from the semi-structured interviews help to propose the 12 research hypotheses related to the identified factors on the accessibility of funds for MSMEs in the WBOP. These identified factors such as government support and lack of financial literacy can help determine their impact on the accessibility of funds for MSMEs in the WBOP. |
| 3 | To identify the impact of the FIs T&Cs on MSMEs' accessibility to funds and their performance. | This objective was also achieved through a quantitative method to answer the question of whether accessibility of funds impact the MSMEs’ performance from FIs in WBOP. |
| 4 | To explore the various reasons behind the barriers to funding access for MSMEs in the WBOP. | This study used a semi-structured interview as it allows the researcher to understand the subjective realties of barriers of facilitators that can influence the accessibility of funding for MSMEs in the WBOP. For example, this study identified that strict FI T&Cs occur because of the challenges of high default and credit losses for FIs. Consequently, MSMEs are facing more requirements and restrictions to accessing funding. These T&Cs of FIs can create challenges with respect to accessibility of funding as many MSMEs owners are unable to arrange collateral, credit guarantor and credit history. |
| 5 | To develop an appropriate solution to address accessibility barriers to improve the accessibility of MSME funds and MSME performance. | This objective was achieved on the basis of the research findings of both quantitative and qualitative results that led to developing the context-specific framework to improve the accessibility of funds for MSMEs in the WBOP. |

The above table shows how the mixed method approach was helpful to achieve the research objectives.

It has been justified above how a mix of qualitative and quantitative methods led to developing the context-specific framework to improve the accessibility of funds of MSMEs in the WBOP. Moreover, the mixed-method approach enabled these complex issues to be approached from multiple perspectives and a comprehensive framework to resolve these issues. In addition, the mixed-method approach enabled the development of extensive findings to propose a comprehensive solution for the various stakeholders of MSMEs (e.g. MSME owners, government ministries, and representatives of FIs) to improve the accessibility of funds for MSMEs.

## 5.4 RESEARCH APPROACH

This study employs institutional theory as a theoretical framework in its pursuit of understanding the determinants influencing MSMEs' access to capital and their performance in the WBOP. This study aims to fill a knowledge gap by using an abductive research strategy, which combines inductive and deductive methods to produce a comprehensive contextual framework for addressing the challenges that MSMEs have while trying to gain access to financial capital.

An inductive technique is more exploratory and open-ended than a deductive one, allowing the researcher to study and interpret observations and reactions to identify patterns and construct meanings, as opposed to establishing a hypothesis and testing it to evaluate its validity. In order to answer the research issue, the abductive strategy is applied (Morgan, 2007), which combines the inductive and deductive methods.

By permitting the researcher to employ either qualitative or quantitative methods, depending on the nature of the research issue at hand, pragmatism poses a challenge to the two dominant schools of thought in the field of academic study. To accomplish its goals, this study takes a pragmatic strategy, which employs abduction—more specifically, critical realism—to switch between inductive and deductive methods. The quantitative method is used to examine the factors influencing access to finances and the performance of MSMEs and to determine the influence of relevant elements, while the inductive method is used to build the final contextual framework.

The purpose of this study is to provide both practical and theoretical contributions to the area by gaining a better knowledge of the complex difficulties surrounding MSMEs' access to funding in the WBOP through the use of an abductive research approach. By taking this tack, the researcher can fill in the knowledge vacuum and propose a contextual framework that may help with the problems at hand.

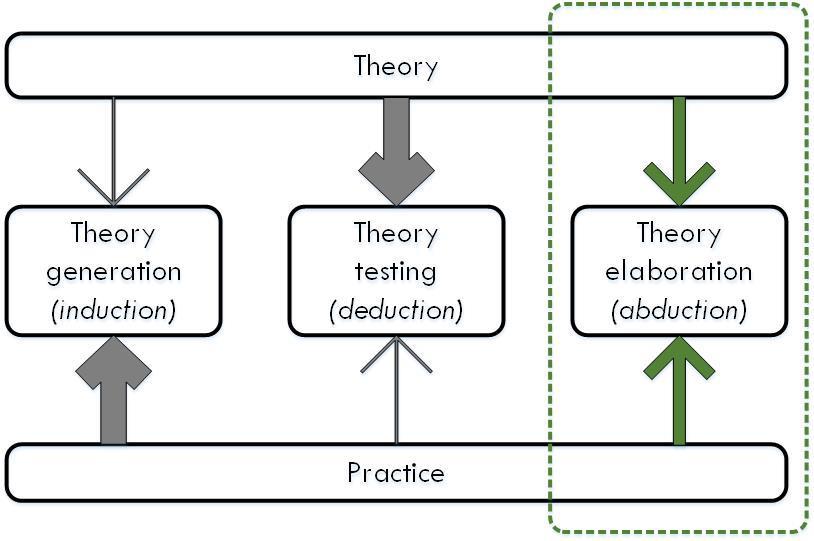


Figure 5.1: Difference between induction, deduction and abduction (Ketokivi and Choi, (2014) pp. 232–240)

Further justification for the use of an abductive research approach is required, in addition to accommodating institutional theory and attemptingto fill the research gap. When a research issue is complex and ambiguous, and when current theories do not provide a sufficient explanation for the phenomenon under study, an abductive research approach is appropriate (Charmaz, 2006). According to this research, there is no simple explanation for or solution to the problem of finance inaccessibility for MSMEs in the world's poorest countries (such as the WBOP). Since an abductive approach combines the best features of both the deductive and inductive methods, it is the most suitable for coming up with novel insights and ideas.

In addition, institutional theory provides a theoretical framework for analysing the impact of institutions, regulations, and norms on financing opportunities. According to institutional theory, institutions have a lasting impact on people's actions and the choices they're able to make as individuals and as businesses (Scott, 2014). Therefore, this theory provides a lens through which to examine the effect of institutional factors on MSMEs' access to funding, and it also helps to explain the complexity of the phenomenon under investigation. Together, the abductive research strategy and institutional theory form a solid methodological framework for answering the study's central question and coming up with fresh ideas on how to help MSMEs in the WBOP.

## 5.5 THE STUDY DESIGN

Figure 5.2 below describes the complete process of this research, which started from the problem of research to the development of the context-specific framework to improve the accessibly of funds for MSMEs.

Diagram

Description automatically generated

Figure 5.2: Research design (developed by the author of this research

As it has been justified at an epistemological level, the intention was to conduct an in-depth analysis of the issue to generate acceptable knowledge in the selected field.

The aim was to find the truth and investigate the reality of those who play a role in the issue of fund accessibility, which is linked back to multiple realities as root causes behind these issues.

Therefore, the first stage was defining the problem, which was the lack of fund accessibility for MSMEs. This subsequently led to the critical literature review, which was helpful in shaping the study design through the identification of the different factors that play a role in the above problem. The literature review also highlighted the challenges which can constrain or affect the accessibility of funds (see Figure 5-2).

The prominent issues include the lack of knowledge to identify the challenges and the inability to propose practical solutions to improve the accessibility of funds for MSMEs in the WBOP. By identifying such challenges, they can be understood in detail and worked on to encourage the FIs to effectively improve fund accessibility for MSMEs. Subsequently, this may improve the future financial performance of MSMEs. This stresses the need to explore the experiences and views of the professionals involved in these issues. Creswell and Plano Clark (2007) observed that the exploratory mixed method involves two phases operating in a sequential manner, i.e. the researcher commences on quantitative study after completing qualitative exploration.

This subsequently provided the basis to conduct quantitative testing, for which a large sample was collected. An exploratory design is helpful for generalising and testing qualitative results to determine whether they can be generalised.

It became clear that the qualitative study alone was not sufficient to understand incident reporting. Although qualitative methods are helpful in gaining in-depth knowledge and understanding of the social phenomenon, their ability to generalise is not on par with quantitative studies (Corbin and Strauss, 2014).

The qualitative approaches would have only given an understanding of the situation, whereas the aim of this study was to reach results that could be generalised. This was only possible by combining it with a quantitative approach because it involves a larger sample size, and the data are statistically or empirically verified for reliability and generalisability. This aids in identifying those factors that have an impact on fund accessibility and the financial performance of MSMEs in the WBOP. A quantitative method was required to conduct this study in the WBOP because results from Western countries could not be applied in the West Bank context. Thus, the dearth of related literature necessitated conducting research whose results could be generalised and that would to the exploration of the root causes behind these factors and the proposal of solutions to these issues through qualitative data collection tools.

Diagram

Description automatically generated

Figure 5.3: Study development process (developed by the author of this study)

Semi-structured interviews were helpful as they enabled rich information to be drawn from the respondents, and the questions were developed on the basis of the results of quantitative findings, literature and the theoretical understanding of the research. The semi-structured interviews also helped to gain an in-depth understanding of the perspectives of the professionals involved, thus making sense of the problem and allowing a better solution to address the accessibility of funds issues in the WBOP. Blaxter et al. (2011) observed that one of the main difficulties faced by researchers in mixed-method study is conducting the qualitative and quantitative parts simultaneously. A sequential approach helps with this as it enables the researcher to devise different stages of the research in a sequence. Similarly, the sequential approach in the current semi-structured interviews was helpful as it enabled rich information to be drawn from the respondents. The questions were developed on the basis of the results of quantitative findings, literature and the theoretical understanding of the research.

Table 5.2: Study development process (developed by the author of this study)

|  |  |  |  |
| --- | --- | --- | --- |
| Steps of research | Name of the step | Detail | Relation to the research-specific research objective |
| 1 | Literature Review | Identification of the common accessibility of funds issues for MSMEs around the world. | RO1: To investigate the most relevant financial factors that could affect the accessibility of funds and MSMEs’ performance.  RO2: To identify the impact of important financial factors on MSMEs' accessibility to funds and their performance from different FIs.  RO3: To test the relationship of the identified factors to the accessibility of funds and MSMEs' performance in the WBOP |
| 2 | Theoretical Understanding | Selection of the theory to support the mixed method discussion. |
| 3 | Quantitative Research Method (Survey) | Identification of the issues of the accessibility of funds in the WBOP. |
| 4 | Qualitative Research Method (interviews) | Exploration of the root causes behind the accessibility issues and proposing a practical solution to solve these issues. | RO4: To explore the various reasons behind the barriers of funding access for MSMEs. |
| 5 | Mixed Methods Result Discussion | Developing the institutional understanding to propose a structured framework to solve the funds accessibility issues for MSMEs in the WBOP. | RO5: To develop an appropriate solution to address accessibility barriers to improve the accessibility of MSME funds and MSMEs’ performance. |

Creswell et al. (2011) observed that the mixed method approach involves three possible combinations. Firstly, the researcher can conduct research in which both qualitative and quantitative approaches have similar weightage. Secondly, the researcher can prioritise the qualitative approach in collecting and analysing the data. Thirdly, the research can prioritise the quantitative approach in the collection and analysis of data. In another approach, Saunders et al. (2016) argued that qualitative data can be quantified and vice versa. The current research gives equal priority to both approaches as the qualitative approach enabled a better understanding to be developed, whereas the quantitative approach enabled the qualitative findings to be evaluated.

### 5.5.1 Ethical Considerations

The research ethics criteria are the most important aspect of the research as they ensure that all the ethical considerations are applied to conduct a transparent study. This study followed the regulation and standards of the university by focusing on the research ethics form, participant information sheet and consent form. These ethics forms cover some useful information:

1. The data were only collected to complete the thesis, publish the study or present useful ideas at conferences. Other than this, there is no use of data, and data will be discarded within ten years of the study’s completion.
2. The confidentiality and privacy of the data was not compromised as data are only stored so as to limit access to authorised persons such as the researcher and supervisor. Furthermore, the personal information of interviewees and participants was not revealed to anyone and was collected only for the purpose of allowing more information to be gathered at later stages of the study.
3. Demographic information was given with pseudonyms so that no one could trace the original identities of the participants. This ensured the confidentiality of the participants of this study.
4. All the participants contributed as volunteers and their participation was not associated with any rewards. Participants were free to skip any questions or decline the entire questionnaire or interview.
5. All the information was explained to the participants, including the dual role of researcher and data collector.

## 5.6 DATA COLLECTION METHODS

There are two types of data, primary and secondary data. Primary data are the data collected for the first time and is original. On the other hand, secondary data are those that have passed through the statistical process (Yang, Tokita and Ishiguchi, 2018). As this study is based on a mixed methodology, two different types of data collection methods were used. The first is a quantitative data collection method. There are several data collection methods for quantitative data, one is the questionnaire survey, which is highly reliable and a commonly used technique.

The current study developed a self-administered questionnaire. The main benefit of a questionnaire is that it allows the study to gather a large amount of data in relatively less time compared to other methods (Bryman and Bell, 2011). Furthermore, conducting a survey is relatively convenient due to the use of modern ICT tools and techniques such as word processors and the internet. The cost of a questionnaire is virtually zero (Creswell, 2013). The questions were developed as closed-ended questions using a Likert five-point scale. The purpose of the questionnaire was to identify challenges faced by managers/ owners in MSMEs while obtaining finance from banks and other FIs and how these could affect MSMEs’ growth and development.

The second type of data collection method is qualitative. One of the most popular qualitative data analysis techniques is thematic analysis. Thematic analysis was used to analyse qualitative data in this study because it is a useful research tool and a flexible method for describing the data in rich detail by focusing more on identifying and describing both implicit and explicit ideas within the data analysis (Braun and Clarke 2006). The aim of semi-structured interviews is to display the challenges faced by banks and other FIs to provide finance to MSMEs in the West Bank.

For this purpose, this study conducted semi-structured interviews with the bank and other FIs managers in Palestine. The most important benefit of individual interviews is that they provide a high level of confidentiality compared to other methods such as focus groups (Opdenakker, 2006). Semi-structured interviews are based on pre-determined themes whereby the interviewer develops questions for discussion during the interview.

The interviewee has sufficient flexibility to answer a question in detail while the interviewer is able to make follow-up questions during the interview. Interviews were conducted using face to face, Zoom meetings and WhatsApp calls scheduled with financing staff in banks and other FIs in the West Bank. This was because countries worldwide took drastic measures, including border closures, in an attempt to curb COVID-19.

### 5.6.1 The Sample

Arp, Smith and Spear (2015) stated that the population of the study is the totality of all units from which the sample is drawn. The sample was chosen based on their representation and likely influence as they can provide the best information about the challenges facing MSMEs in the West Bank. Participants in the questionnaire were selected from the owners of MSMEs in various service activities, agricultural and industrial. According to the last official census available figures, this population was 68,604 (PCBS, 2017).

To increase the response rates, when participants are contacted for the first time, they were provided with information about the study, why they were selected, and how the results will be used. Each participant was given a period of time to provide their responses. To avoid sampling errors or biases, a random sample needs to be of adequate size. In the current study, the sample was taken from the total number of 68,604 institutions, which represents the total population.

It is worth mentioning that no sample can be guaranteed to reflect the complete population. Sanders et al. (2013) defined a sample as a ‘finite part of a statistical population whose properties are studied to retrieve information about the whole population’. However, to guarantee that the sample was as representative as possible, some considerations were made.

This included the following: only firms that fit the official definition of MSMEs in Palestine were targeted. This included firms operating in all five main business sectors, namely trade, manufacturing, construction, craft and services, and the suitable sample size was thus determined. Based on the recommendations of Krejcie and Morgan (1970) in this research, for a population of 68,604, a sample size of 382 was required. The sample was also geographically representative as it included enterprises from all around the research area rather than just one or two districts.

Table 5.3: Enterprise classification and both number of employees and number of operating establishments in Palestine

|  |  |  |
| --- | --- | --- |
| Enterprise Classification | Number of Employees | Number of Operating Establishments |
| Micro | 1 – 4 | 62,889 |
| Small | 5 – 9 | 4,367 |
| Medium | 10 – 19 | 1,348 |
| Total |  | 68,604 |

Source: (PCBS.2017)

The sample includes 308 ( MSMEs), 44 (small entrepreneurs) and 30 (medium entrepreneurs); this was determined using Table 5-3 above. The second sample used for the interviews consisted of 14 FIs (two commercial and two Islamic banks, and ten MFIs) and the chosen number of Ministries in the Government to participate consist of two individuals from each of three different ministries: the Finance Ministry, the PMA and the Economics Ministry. The four participating agencies consist of two individuals from the PIF and two individuals from EPCGF.

Table 5.4: The number of questionnaire and interview study sample which includes MSMEs, small entrepreneurs and medium entrepreneurs.

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Data Collection | MSMEs  382 | | | Ministries in Government  6 | | | Agencies  4 | | Financial Institutions  14 | |
| Micro | Small | Medium | Economy | Financial | Monetary Authority | Palestine investment fund | European Palestinian credit Guarantee Fund | Banks | Micro finance Institutions |
| Questionnaire | 308 | 44 | 30 |  |  |  |  |  |  |  |
| Interview |  |  |  | 2 | 2 | 2 | 2 | 2 | 4 | 10 |

### 5.6.2 Pre-testing the questionnaire

Pre-testing refers to checking the questionnaire against a small sample of respondents to identify and remove any possible problems, as advised by Saunders et al. (2009). Creswell (2003) and Bell and Bryman (2007) argued that a pilot study is ideal for ensuring the quality of the questions and reliability of the instruments selected for a study. Hence, before using a survey to collect data, they recommend that the survey be pilot-tested, enhancing its reliability and validity (Saunders et al., 2009). Pre-testing is initiated by discussing the first draft of the questionnaire with the supervisor to ensure that it is designed to suit the study objectives. Some modifications were implemented following the recommendations of this study’s supervisor.

The questionnaire in this study was initially constructed in English. However, as all the targeted participants were native speakers of Arabic, the questionnaire had to be translated into Arabic. It was first translated by the researcher. The translated version was discussed with colleagues, and a content validity test was conducted with four expert workers in FIs and MSME financing, as suggested by Bryman and Bell (2007) and Sekaran (2003). To refine the questionnaire, confirm that respondents would not have problems answering the questions, and determine the right data, a pilot questionnaire was conducted with 150 MSMEs that receive loans from banks and other financial institutions or rejected.

For the questionnaire, firms in different business sectors (manufacturing, service, retail, and agriculture) and different regions of the West Bank (Hebron, Nablus, Ramallah, Jenin, and Bethlehem) were recruited by inviting them to attend an MSME workshop sponsored by the Middle East Investment Initiative from 21 to 25 December 2019. This opportunity was used to test the questionnaire as a tool for data collection. The questionnaires were hand-delivered and yielded responses from 135 participants, a response rate of 90%. The main purpose of conducting a pilot study was to determine whether

• The respondents understood the questions;

• The questions were relevant to the research questions of the current study; and

• The respondents were willing to answer the questions.

The results of the pilot study revealed that the respondents understood the questions and were willing to answer them.

### 5.6.3 Administrating the Questionnaire

Once the final draft of the questionnaire is produced and the pilot is tested, it is ready to be used for data collection by distributing it amongst the target sample (Saunders et al., 2007). This stage is called ‘questionnaire administration’, the main purpose of which is to guarantee the greatest number of respondents. The main data collection period is the beginning of January to the end of February 2020. The questionnaires were divided according to the population of MSMEs per region, as indicated by the PCBS (2017). According to the PCBS, over one-third of MSMEs are located in the Hebron region (31%) and under a quarter (22%) in the Nablus region; fewer than one in five (17%) of the businesses are located in the Jenin region and only 10% in the Bethlehem region. Therefore, the distribution of questionnaires was guided by the population of MSMEs located in the regions, as shown in Table 5.5 below.

Table 5.5: Questionnaire administration by region

|  |  |  |
| --- | --- | --- |
| Region | Population of MSMEs (%) | Questionnaires administered per region |
| Hebron | 31 | 118 |
| Nablus | 22 | 84 |
| Ramallah | 20 | 77 |
| Jenin | 17 | 65 |
| Bethlehem | 10 | 38 |
| Total | 100 | 382 |

A number of procedures were undertaken to ensure an acceptable response rate to the questionnaires:

* The questionnaires were distributed in cooperation with the FIs, academic members of staff at the university, friends, and the Chamber of Commerce and Industry.
* Structured questionnaires were administered on random sample population owners of these MSMEs and/ or representatives (in cases where the owner was not available as at the time of issuing the questionnaire) in Hebron and Bethlehem, Ramallah, Nablus and Jenin in the West Bank.
* The choice of the five cities was guided by the fact that they have large groups of MSMEs in the West Bank. Questionnaires were administered on the owners of these MSMEs and/ or representatives.
* 210 questionnaires were distributed to a sample of intended entrepreneurs in the West Bank, who have already succeeded in obtaining a loan from banks and MFIs operating in the West Bank; 70 questionnaires were distributed to a sample of the owners of MSMEs that had accounts with banks.
* The rest of the questionnaire was distributed to MSME owners via email.

In addition, some procedures accompanied the distribution of the questionnaire.

* A cover letter signed by the researcher was attached to the questionnaire, which was accompanied by a consent form explaining the purpose of the study, to be signed by participants before they answered the questions.
* The online survey was created using the website and appeared in two language versions: English and Arabic. Respondents were asked to complete the questionnaire in their preferred language and submit it through the website.
* A reminder to non-respondents was achieved via the use of follow-up emails and phone calls, within two weeks of sending both the online and paper-based surveys.

## 5.7 TRUSTWORTHINESS IN QUALITATIVE RESEARCH

Qualitative studies focus on confirmability, creditability, dependability and transferability to maintain rigour and trustworthiness, whereas quantitative studies focus on reliability, objectivity and validity to ensure these (Guba, 1981; Schwandt, Lincoln and Guba, 2007). Lincoln and Guba (1982) suggested replacing internal validity with creditability, objectivity with confirmability, reliability with dependability, and validity with transferability. Qualitative research is based on the assumption that reality is not singular but multiple, which makes it difficult for qualitative findings to be generalised (Anney, 2014). Confirmability, creditability, dependability and transferability are ways to ensure rigour and validity in qualitative research (Anney, 2014). In qualitative research, transferability can be increased with thick descriptions of the research process (Bitsch and Vera, 2005). For example, the current study increases transferability by providing detailed justifications for every qualitative data collection method.

In qualitative research, dependability can be achieved by clearly documenting the research process and ensuring that it is traceable and logical (Tobin and Begley, 2004). The current study first critically analysed previous studies on MSMEs to identify a gap in the existing research, especially within the context of developing countries and the Arab culture. It then logically justified the use of institutional theory, which not only made it possible to address the research gap identified but also provided the conceptual and theoretical model for the current study. Anney, (2014) suggested that different qualitative methods should be used with different participants to increase the overall credibility of qualitative findings. For example, in this study, questionaries and semi-structured interviews were used with different groups of participants to ensure the findings’ credibility. Moreover, a semi-structured questionnaire can play an important role in ensuring the confirmability of qualitative research findings.

Typically, confirmability can be ensured only when dependability, credibility and transferability have been established (Lincoln and Guba, 1982). Thus confirmability can be achieved by presenting the findings and the interpretations of qualitative research fairly, usually after extracting them from the data collected. According to Bitsch (2005), it is possible to evaluate the interpretations and recommendations of the findings of a qualitative study. For example, this study evaluated the qualitative data collected multiple times to ensure the overall trustworthiness of the interpretations. Moreover, by using interview quotations in the findings section, the study makes it easy for readers to determine whether the interpretations of the qualitative results align with the interviewee quotations.

Balnaves and Caputi (2001) pointed out that researchers should differentiate between coding and analysis and should not treat them as the same, given that coding forms only one part of the analysis. Patton (2015) echoed this recommendation. The aim of coding is to establish links between different pieces of information. Doria et al. (2018) advised qualitative researchers to use a systematic approach during analysis. For this reason, this study employed NVivo-12 software for qualitative data analysis. Coding and other concepts were used appropriately while using the NVivo-12 software and different means of exploring the data were utilised, such as work frequency and data charts. The links obtained using the software were helpful in understanding the participants’ intended meanings in their responses. However, it is also important to note that the computer does not yield a conceptual understanding of the subject matter. In other words, it cannot think about the themes according to the research aims and objectives. Therefore, participation in data analysis is critically important in thematic analysis, even when NVivo-12 software is used. Thus, it is imperative that the researcher continues to regard themselves as directing the data analysis process, given that the computer, unlike the researcher, cannot draw conceptual links. Moreover, the computer does not provide context-oriented links, and thus the researcher must identify contextual links themselves.

## 5.8 QUANTITATIVE DATA COLLECTION

As MSMEs have limited financial and human capital, their owners predominantly operate as managers and are responsible for taking major decisions. The 382 owners or managers of MSME were contacted in person for data collection using a questionnaire method. After several in-person visits and telephone/email reminders, 330 questionnaires were collected from MSMEs. However, there were 11 questionaries that had a missing value rate of more than 10%. Therefore, according to the recommendation of Hair, Ortinau and Harrison, 2010), these questionaries were discarded from the final analysis. There were 319 questionaries remaining, which means that the present study response rate is 75.95%. This study therefore conducted data analysis based on 319 valid questionnaires. It gathered the important descriptive characteristics of MSMEs owners regarding their gender, age categories and level of education.

These demographic features are presented in Table 5.6

Table 5.6: Descriptive statistics of MSMEs’ owners

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Variable** | **Categories** | | **Frequency** | | **Percentage%** | |
| **Gender** | Male | | 224 | | 70.2% | |
| Female | | 95 | | 29.8% | |
| Total | | 319 | | 100.0% | |
| **Age** | Less than 24 years | | 20 | 6.3% | |
| 24 – 29 years | | 73 | 22.9% | |
| 30 – 39 years | | 138 | 43.3% | |
| 40 – 50 years | | 66 | 20.7% | |
| Above 50 years | | 22 | 6.9% | |
| Total | | 319 | 100.0% | |
| **Level of Education** | | Secondary School | 20 | 6.3% | |
| Diploma | 37 | 11.6% | |
| Bachelor’s degree | 202 | 63.3% | |
| Master’s degree | 53 | 16.6% | |
| PhD/DBA | 7 | 2.2% | |
| Total | 319 | 100.0% | |

## 5.9 QUALITATIVE DATA COLLECTION

For the purpose of the qualitative data of this study, participants for semi-structured interviews were selected and interviews were conducted with representatives of fourteen FIs (two commercial and two Islamic banks, and MFIs) and the chosen number of Ministries in the Government to participate consists of two key officials from each of three different ministries: the Finance Ministry, the PMA and the Economics Ministry. The four managing directors from agencies (credit guarantors) consist of two participants from the PIF and two participants from EPCGF.

The aim of this is to explore the reasons behind the barriers of funding access for MSMEs in the WBOP. Furthermore, senior officials of different ministries were also selected to collectively develop an appropriate solution to deal with accessibility barriers and issues in order to improve the accessibility of funds for MSMEs. Twenty-four participants were selected given that qualitative research usually involves a lower numbers of participants, and instead relies on developing frank social relationships with the purpose of gaining rich analytical insight.

Table 5.7 provides the details of the demographics of the participants who participated in the semi-structured interviews.

Table 5.7: Descriptive demographic details of participants targeted for interviews

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Interviewee No.** | **Age** | **Organisation/Department** | **Qualification** | **Experience** |
| Interviewee 1 | 32 | Commercial bank | Master’s degree | Two years |
| Interviewee 2 | 38 | Micro finance | Master’s degree | Five years |
| Interviewee 3 | 43 | Islamic bank | Master’s degree | Seven years |
| Interviewee 4 | 30 | Islamic bank | Bachelor's degree | Three years |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Interviewee 5 | 35 | Commercial bank | Bachelor's degree | Six years |
| Interviewee 6 | 45 | Micro finance | Bachelor's degree | Eight years |
| Interviewee 7 | 41 | Micro finance | Bachelor's degree | Four years |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Interviewee 8 | 43 | Monetary authority | Master’s degree | Nine years |
| Interviewee 9 | 50 | Ministry of economics | Bachelor's degree | Twelve years |
| Interviewee 10 | 48 | Monetary authority | Bachelor's degree | Ten years |
| Interviewee 11 | 40 | Micro finance | Master’s degree | Nine years |
| Interviewee 12 | 31 | Ministry of economics | Master’s degree | Two years |
| Interviewee 13 | 33 | Micro finance | Master’s degree | Four years |
| Interviewee 14 | 37 | Micro finance | Master’s degree | Five years |
| Interviewee 15 | 53 | Micro finance | Bachelor's degree | Fifteen years |
| Interviewee 16 | 44 | Ministry of finance | Bachelor's degree | Eight years |
| Interviewee 17 | 39 | Ministry of finance | Master’s degree | Four years |
| Interviewee 18 | 36 | Micro finance | Bachelor's degree | Three years |
| Interviewee 19 | 51 | Micro finance | Bachelor's degree | Nine years |
| Interviewee 20 | 46 | EPCGF | Master’s degree | Six years |
| Interviewee 21 | 32 | EPCGF | Master’s degree | Two years |
| Interviewee 22 | 38 | Micro finance | Bachelor's degree | Five years |
| Interviewee 23 | 43 | PIF | Master’s degree | Eight years |
| Interviewee 24 | 46 | PIF | Master’s degree | Ten years |

The demographic data shown in Table 5.7 above indicate that interviewees were aged between 30 and 53 years. Moreover, eleven participants held a bachelor's degree, while the other thirteen held a master's degree. All participants held administrative positions in their institutions and worked in different private and public governmental FIs including the Monetary Authority, Ministry of National Economy, PIF, EPCGF, Banks and MFIs, with a minimum of six years of experience and a maximum of 19 years of experience. This indicates a high level of experience among those interviewees as they belong to various private and public governmental financial institutions. This guarantees diversity and the high quality of responses to achieve the study’s goals and objectives.

In this study, initial interviews were transcribed fully and a coding scheme was subsequently established to understand how the specific challenges could help propose a model to improve MSMEs’ access to finance. The relevant participant responses were gathered under each theme and the emergent pattern was interpreted. The focus of the coding was to understand the challenges and supporting factors experienced by MSMEs by using semi-structured interviews and thematic analysis. Moreover, an additional aim of the interviews was to help identify potential barriers relating to incident reporting and to further explore the possible solutions and recommendations to overcome the challenges of the accessibility of funds for MSMEs in the WBOP.

The quantitative data were helpful in defining the variables, which were the factors of the accessibility of funds in the WBOP. The collection of both qualitative and quantitative data on the subject enabled the researcher to identify points of tension and of convergence between the data collected from both approaches.

Qualitative interviewing is employed by researchers as a means of primary data collection in a variety of methodological approaches. This type of data collection tool is useful for addressing a range of research questions. The researcher uses this primary data collection technique when their aim is to understand the root cause behind a situation from the perspective of the social actors who themselves make sense of the situation. Moreover, this type of technique is also helpful when the aim of the researcher is to consider the personal views of the respondents regarding a personal tragedy, situation or event. The qualitative interview technique is also helpful for giving a platform to marginalised groups of society whose voices are generally not heard (King and Sturrock, 2020). The ethical considerations were considered in conducting the qualitative interviews, including making appointments with the respondents and asking for consent to interview them; explaining the aim and objectives of the research; and the overall purpose of the interview. Although the questionnaire has provided a background overview for the study, it does not have the flexibility required for developing a rich understanding of the respondents’ perspective of the social phenomenon under study.

A probing stance was adopted towards responses from respondents in order to produce a conceptual understanding and meaningful account of the accessibility of funds for MSMEs. This could only be gained through semi-structured interviews given that they are a flexible means of conversing with the respondents over a particular issue. They are also a key means of gaining information because respondents are at ease when giving answers and are not limited by the space (as in a written questionnaire). They can even ask the researcher questions for clarification (Noffke and Somekh, 2009).

In this manner, complete freedom of response was provided to the respondents so that they could feel at ease and reply with full confidence. The researcher did not influence the interview process and did not ask for any particular type of response. The respondents were at liberty to give the response they desired. Merriam (2009) highlights the benefits of this type of interviewing technique given that it enables the researcher to consider the worldview of the respondents and generate new insights into the subject of study. Semi-structured interviews are flexible in nature and do not involve any limitation of word count or space, and thus provide the respondents with freedom of response.

The openness of this type of interview also enables the researcher to build a rapport with the respondents. Semi-structured interviews are a face-to-face interviewing technique which enable the researcher to develop trust with the respondents as they can also ask questions of the interviewer. The researcher can also seek more information from respondents to explain a particular thought or experience in detail. This is helpful in generating rich insights about the social phenomenon under study.

The purpose of interviewing representatives of banks, FIs, Government Ministries and financial agencies is:

1 – To gain an understanding of the constraints of financing MSMEs in the West Bank.

2 – To identify factors affecting MSMEs’ ease of access to current financial services provided by FIs and other government FIs and Credit Guarantees, which in turn affects MSMEs’ growth and development.

3 – To gain insights into the loan conditions and requirements of banks and FIs regarding MSMEs.

4 – To determine the current T&Cs of funding offered by banks and to determine whether adequate financial products are currently available that meet the business needs of MSMEs.

5 – To identify factors which prevent MSMEs from obtaining funding from FIs.

### 5.9.1 Process of Conducting Interviews

Brinkmann (2014) recommends that the researcher prepares themselves for both the conceptual and practical aspects of conducting the interview. For an interview to be successful, it must be carefully planned by the researcher by considering its scope according to the aims and objectives of the research and its focus to collect only the relevant data, for example by asking only the relevant questions. The background reading carried out during preliminary research, including the literature review, is highly useful in preparing for the interviews as it equips the researcher with background knowledge on the subject. The literature review, theoretical framework and results of quantitative research also help the researcher to design relevant questions for the interviews.

### 5.9.2 Construct an Interview Guide and Test Questions

Leavy (2014) recommends devising an interview guide beforehand to keep the interview in line with the aim and objectives of the research. Bryman (2015) also suggests conducting at least one pilot interview to test the relevance of the interview questions according to the research objectives. This was helpful for the researcher to develop their interviewing skills before undertaking the data collection. The pilot interviews were conducted with volunteers and peers. This was helpful to determine the clarity and language of the questions and whether they promoted open dialogue and were conducive to collecting rich data from the respondents in a manner convenient for them.

Squires et al. (2014) warned against developing interview guides without considering the methodological choices made by the researcher. This is because an interview guide which does not correspond to the methodological choices undermines the entire interview process. Thus, the researcher has the option of conducting either a structured interview, a semi-structured interview or an unstructured one. Qualitative interviews tend to be either semi-structured or unstructured. This research utilises semi-structured interviews, which are helpful in staying within the framework of the questions devised beforehand whilst allowing for ancillary questions conducive to the existing framework to be asked to seek clarification or gain additional information.

Academics and practitioners alike recommend that the researcher ask easy questions from the respondents first to provide the interview with momentum and to make respondents feel comfortable with the researcher and the overall interview process. In the case of this study, this involved asking basic questions about the issue at hand and then gradually probing deeper into the issue whilst ensuring that the respondents’ comfort level was maintained so that they felt at ease when providing their responses.

### 5.9.3 Co-Creator of the Data

Unlike quantitative research, where data analysis does not involve any kind of subjectivity, in qualitative research, the researcher is involved in data collection and interpretation and therefore is conscious, reflexive and aware of the impact of their role in data collection and analysis. Walliman (2011) stated that the role of the researcher in qualitative research is that of co-creator, but some proponents of quantitative research dispute this understanding on the basis that it can give rise to biased collection and analysis of data. Nevertheless, the researcher is not a passive player in the interview and instead utilises their experience, consciousness and abilities to collect relevant data and analyse it (Guthrie, 2010).

In this study the researcher utilised their prior knowledge and experience regarding the accessibility issues discussed in the literature review and also explored the theoretical context, including an institutional theory that incorporates political, legal, professional and uncertainty related factors (Sloan and Quan-Haase, 2017). This enabled more and better information to be drawn from the respondents, given that the researcher was aware of various aspects of the topic’s background and context. Thus, they were able to ask supportive questions from the respondents to collect more responses from them and thereby gain an in-depth understanding of the situation.

If the interviewer is a novice in the subject on which they are conducting the interview, it can affect the quality of interview and the input received from the respondents (Walliman, 2018). This can give rise to significant gaps in data collection and thereby result in the researcher’s undue attempts to fill those gaps by themselves. Moreover, inexperience can also result in driving the interview away from the aim and objectives of the research (Sloan and Quan-Haase, 2017). In the case of this study, the researcher actively listened to the respondents and avoided interrupting them while they were responding to the questions. Sometimes the respondents took a long pause whilst reflecting on their experience regarding a particular issue. The researcher did not rush them for their response and instead respected their silence. The researcher did not interrupt the respondents, even when they took a moment to respond. Instead, the researcher attempted to support them through connecting sentences such as ‘yes’ and ‘you are right’ (Carapeto and Holt, 2003).

## 5.10 DATA ANALYSIS

### 5.10.1 Quantitative Data Analysis

Following the completion of the questionnaire and its collection in February 2020, the candidate made some steps in the processing of the data. The first step was to check the usability of those questionnaires for the analysis and remove invalid ones. The second step was to seek advice from an expert about the use of IBM SPSS Statistics 24 and exchange ideas about the ideal way of codifying and analysing the data. The next step included entering the variables from the questionnaire forms separately. Thereafter, chosen descriptive and inferential statistical analysis techniques were used to analyse the data and interpret the findings that will be discussed in the next chapter (6).

### 5.10.2 Qualitative Data Analysis

One of the most popular qualitative data analysis techniques is thematic analysis. Qualitative researchers widely employ this technique to understand the social phenomenon under study, by considering the view of social actors about the phenomenon and identifying patterns in their response to draw out conceptual meanings (Braun and Clarke, 2006). As stated earlier, the major objective of this research is to develop the contact specific framework to improve the accessibility of funds for this elected organisation; therefore, there is a need to explore the perspective of the professionals and the management and business owners that can help understand the issues behind the lack of accessibility of funds for them. Thus, structured interviews were conducted to explore this issue. A thematic analysis must also be conducted to analyse the perspective of the participants that will lead to developing the context-specific model as this analysis is also helpful for creating the link between variables through a consideration of the theoretical and participation perspectives.

Interview transcripts are generally easier to analyse than audio recordings, and analysis was carried out using NVivo software. However, the transcripts of the interviews and the field notes accumulate to form a significant body of data, which Cassell et al. (2009) regarded as a complex reality which cannot be entirely digested. Thus, there is a need to classify and organise data to understand and make sense of them. This led Quinlan et al. (2019) to identify two main activities of data analysis in qualitative research, dividing the data into different themes and the creation of a link between codes. It is easier to manage and process this data with the help of computer software to deal with the amount of existing data in an efficient manner.

There exists efficient computer software for data management which enables the researcher to store the data, insert codes over it and retrieve data when required (Quinlan et al., 2019). The experience of conducting the pilot study suggested that a robust software was needed for data management which had additional functionality to Microsoft Office. Therefore, and also considering suggestions from previous researchers, the researcher employed NVivo-12 software, which is renowned for managing qualitative data. The researcher was already trained to use this software, which increased the relevance and importance of the software for data management in the current research. The software enabled textual data to be stored in its entire form and provided an index for the data as well as enabling the parts of the data which required further scrutiny to be identified. Bode and Arthur (2014) also suggested using software to support qualitative analysis. At present, NVivo-12 software has made it easier for researchers to conduct qualitative analysis. This is because it has increased the pace of data processing, thereby affording the researcher more time to complete other tasks related to data analysis. NVivo-12 software also enables the researcher to keep an audit trail and maintain the thread of data analysis as it progresses.

There are also certain limitations involved in using NVivo software. Coolican (2018) observes that the software consumes a considerable amount of time even when the researcher is highly experienced because it takes time to process data in the software, identify the relevant software package for the research and the analytical strategy required for the research. Moreover, the level of technical sophistication increases as the software processes the data, and thus the qualitative analysis produced can attract questions. One of the concerns in this regard is distancing the data from the researcher (Hammond and Wellington, 2013). However, in the current research, the interview transcripts were prepared and processed through the software, thereby saving time during data analysis as all transcripts were processed through the software simultaneously.

Balnaves and Caputi (2001) pointed out that researchers should differentiate between coding and analysis and should not treat them as the same thing, given that coding forms only one part of analysis. This was also indicated by Patton (2015). The aim of coding is to establish links between different pieces of information. Doria et al. (2018) advised the qualitative researcher to utilise a systematic approach during analysis. For this reason, NVivo-12 software was utilised in this study to adopt a systematic approach in the qualitative data analysis. Care was taken to use coding and other concepts appropriately while using the NVivo-12 software. Different means of exploring the data were utilised, such as work frequency and data charts. The links obtained using the software were helpful in understanding the meanings intended by the participants in their responses. However, it is also important to note that the computer does not yield a conceptual understanding of the subject matter. In other words, it cannot think about the themes according to the research aims and objectives. Therefore, the participation of the researcher in data analysis is critically important in thematic analysis even when NVivo-12 software is used. Thus, it is imperative that the researcher continues to regard themselves as in charge of the data analysis process given that the computer does not draw conceptual links itself and, as such, the researcher has to establish these links. Moreover, the computer does not provide context-oriented links and it is thus the researcher who has to identify the contextual links themselves.

### 5.10.3 Interpretation Process

Thematic analysis is used in qualitative research to conduct analysis of textual data. It is followed by a systematic interpretation process. The interpretation process involves coding the data and identifying similar themes in the units of data to draw conceptual meanings therefrom. The overall process has different stages, which start from interview transcripts (Cassell et al., 2009). In this study, the transcripts were processed through NVivo-12 software, even though this involved additional empirical data to the qualitative data in the transcripts from the interviews. The transcripts were also cross-checked with the field notes and the notes taken during the interviews in order to maintain the boundaries of the research around its aims and objectives. Moreover, cross-checking enabled the researcher to identify the areas missed during the interview and transcription processes.

This study adopted a cooperative research process as proposed by Crowther and Lancaster (2012). This comprised of involving participants in different stages of the research, such as preparing the interview transcript, interpreting the empirical data, and discussing the final framework. This was helpful in determining whether the transcription prepared by the researcher was accurate. Interaction with the participants of the research was highly useful in testing the concepts and generating the ideas. It also enabled the researcher to receive suggestions and feedback to further enhance the research findings. Cooperative research processes were also advocated by Greenfield and Greener (2016) as part of their brand co-creation model. When coding the transcripts, the researcher drew concepts therefrom, and on the basis of these categories were established which were then triangulated with the interview interpretations, along with field notes.

The PESI approach was also employed to interpret the empirical data. PESI stands for preparing, exploring, specifying and integrating. This approach enabled a systematic and organised interpretation of the empirical data. Moreover, other coding techniques highlighted by other researchers were utilised to aid the coding process (D O'Gorman and MacIntosh, 2015). As part of the PESI approach, the researcher familiarised themself with the empirical data, organised it methodically, and developed a framework of interpretation. The researcher then read and re-read the entire interview transcripts and compared them with the field notes and literature review. At the same time, three frames of interpretation were developed: open coding, axial coding and selective coding (Ruane, 2016). These three interpretive frames were used to divide and allocate the transcripts once they were processed through NVivo-12 software. The detail of these three frames is discussed as follows:

### 5.10.4 Coding for Patterns

A pattern is a repetition of a concept or meaning in the data which appears more than twice. A pattern shows that a meaning or concept recurs in data collected by the researcher which may involve a multiplicity of factors (Donley, 2012). Qualitative researchers look for patterns in respondents’ responses to identify the recurring meaning or concepts in their responses in order to make sense of the situation being studied. Similar patterns in different responses which convey a similar meaning enable the researcher to make sense of the social situation and to understand it in depth in light of the responses (Newby, 2014). Such patterns are helpful in identifying the reasons underlying the social phenomenon in question and underlying the actions of the social actors as to why they acted in the manner that they did in a particular situation (Saldana, 2003). This is why thematic analysis involves coding for themes to identify patterns in the responses of the respondents (Ruane, 2016).

It is important to understand the difference between coding and themes. Coding leads to themes but is not in itself equivalent to themes (McNeill and Chapman, 2005). The researcher attaches codes to the data to identify patterns or themes in the data and from there identify similar patterns or themes. These are then interpreted to make sense of the situation under study (Davies and Hughes, 2014).

The purpose of coding is to label the units of data according to meaning. When different units of data attract the same code, it signifies a similar meaning. Saunders et al. (2012) observe that categories represent an explicit meaning, whereas themes represent implicit meaning. Categories can be a word, whereas themes can be a sentence. As far as the issue of choosing the appropriate coding method is concerned, some researchers argue for coding not just by reading but re-reading the data. In this process, the conscious mind is used to code accurately, and accurate coding generates insights (Quinlan et al., 2015). Some researchers believe that two different coding methods should be utilised as this generates in-depth insights and is also helpful as a means of cross-checking the analysis (Weis and Fine, 2004). This approach also enhances the accountability and reliability of the research. Therefore, this research employed a three-cycle coding process as follows:

* **Open coding**: During the first cycle of open coding, the concrete data were abstracted into a theoretical form to constitute the concepts. In the current study, each line was read thoroughly, while noting down the concepts in a separate column. At this stage, an attempt was made to divide the data into different categories on the bases of similar patterns in the data. Corbin and Strauss (2014) stated that during the conceptualising stage, the researcher is not required to reduce themselves to the level of description, and in addition should not feel obliged to forcibly link the text with the background contact by creating abstract theories.
* **Axial coding**: Numerous methods are involved in this coding method, in which the researcher creates links between categories and assembles the data in new ways, which the researcher has established with the help of open coding (Corbin and Strauss, 2014). This cycle of coding involved developing existing categories by linking them to subcategories. This was mainly done by applying a coding paradigm, which comprised of context, causal conditions, action and interaction, intervening conditions and results. The application of this coding paradigm was helpful in specifying the dimensions and properties of the category which were previously not available using only open coding. The subcategories which were determined with the help of the coding paradigm constitute categories in their own right.

They were reclassified as subcategories due to their causal nature, the context or their proximity to the larger category.

* **Selective coding**: The final stage of coding, after data collection and analysis, involved integrating the emerging categories in the form of a theory. Selective coding involved a descriptive representation of the core phenomenon of the study. This final integration process was complex but was assisted by insights from institutional theory. Thereafter, it led to identifying the four central themes of the narrative to propose a direct solution to the root causes behind MSMEs’ lack of access to funds. These four central following themes represent the core phenomenon of access to funds, and the root causes behind it. This developed what was identified in the previous stages of coding and led to developing the contextual framework to improve access to funds for MSMEs in the WBOP.
* Theme 1: Strategic overview
* Theme 2: Credit borrowing requirements and limits for MSMEs
* Theme 3: Common challenges and solutions for MSMEs
* Theme 4: Role of different institutions and authorities

## 5.11 ELEMENTS OF A THEORY/ CONTEXT-SPECIFIC FRAMEWORK

This study adhered to the proposition of Morse, (2007) that there are three main characteristics of social science theory: it utilises if-then logic to predict and control action; it provides an explanation about the occurrence of a particular event along with its causes; and it generates guidance and detailed insight to improve the social life. Sometimes the researcher may come across a cluster of coded data mandating further refinement. This requires the researcher to devolve them into subcategories. The researcher is able to understand the reality of the phenomenon when they compare prominent categories with each other. At the basic level, codifying is helpful in following the streamlined and ideal scheme, as shown in Figure 5-4 below. Academics and practitioners highlight the complexities involved in deriving a theory therefrom (Richards and Morse, 2007). Nevertheless, categorising enables the researcher to derive theory from the data.

Diagram

Description automatically generated

Figure 5.4: A streamlined codes-to-theory model for qualitative inquiry (Richards and Morse, 2007)

The methodological choices of the researcher related to both the ontological and epistemological assumptions under pragmatism also aligned for the development of the final context-specific framework. It shaped the manner in which the research was conducted. The philosophical and methodological choices set the standard practice for conducting the research (Lapan, Quartaroli and Riemer, 2011). The aim was to utilise such an approach, which enables maximum information to be drawn from the respondents regarding the accessibility of funds for the MSMEs in the WBOP as well as enabling a framework to be developed to overcome the challenges of fund accessibility for MSMEs. That is why a combined approach was utilised as the qualitative aspect was helpful in deeper understanding, whereas the quantitative aspect was helpful in devising the framework. Within the qualitative aspect, an exploratory design was pursued which corresponded with interpretivism as the aim was to consider the past experiences, views and thoughts of the respondents on the subject (Creswell, 2014). Subsequently, a positivist approach was then persuaded to identify variables and measure them statistically. Consequently, the pragmatism approach helped to develop the context-specific framework of the accessibility of the funds.

## 5.12 ESTABLISHING TRUSTWORTHINESS AND VALIDITY OF RESEARCH

The aim of the researcher is not just to generate a context-specific framework, but also to put knowledge into practice. This requires that the current research is regarded as legitimate by academics and practitioners. This is only achievable when the researcher has met the criteria of trustworthiness of the research. Trustworthiness represents the manner in which the quality of the qualitative research is maintained, making it reliable for academics and practitioners to refer to it as a legitimate piece of information which can be used and referred to Lapan et al. (2011). Different researchers have highlighted different dimensions of trustworthiness to enhance the legitimacy of the research. In the current work, the dimensions introduced by Lincoln and Guba (1985) were followed, comprising: credibility, dependability, transferability and confirmability. These criteria are regarded as having the same impact on the quality of research in the qualitative domain which validity and reliability have on research in the quantitative domain. Moreover, the dimensions introduced by Lincoln and Guba (1985) are pragmatic in nature, whereby they can enhance the quality of the research and make it acceptable to academics and practitioners. These dimensions are briefly discussed in chapter 6 (section 6.7).

## **5.13 SUMMARY**

Pragmatism was selected for this research because it can be differentiated from the critical realist approach as the former is less intense on the philosophical underpinnings of mixed methods compared to the latter. This gave flexibility regarding the manner of conducting this research by choosing mixed methods to achieve the research objectives. Consequently, the main concern of this research is that instead of developing abstract knowledge, the focus is on developing specific knowledge to create a model/framework to improve the accessibility of funds for MSMEs in the WBOP. This means that no assertions are made in the beginning about the accessibility of funds as the assertions are only made in light of the research results. For example, major factors were identified through the literature review and these factors were tested to establish whether they have an impact on the accessibility of funds in the WBOP.

Furthermore, this research explored the root causes behind these factors using qualitative research methods aligned with social construction or interpreting point of views. Therefore, the production of knowledge is practical instead of theoretical. Furthermore, the knowledge is produced on the basis of existing knowledge because the final contextual framework is based on institutional theory but also provides a practical solution to the improvement of the accessibility of funds for MSMEs in the WBOP. Here, pragmatism is regarded as aligned with the idea that the paradigm represents the shared beliefs of social actors who are affected by the issues of the accessibility of funds and the ideas of the members of a speciality area who are involved in providing sufficient funds. This is because a research method was selected to deal with the research problem instead of merely having to justify the approach on ontological and epistemological grounds.

The current research conducted the literature review and additionally utilised the core three principles of pragmatism: useful knowledge, linking experience and action, and inquiry as to the process of institutional decision-making to improve the accessibility of funds for MSMEs, which could in turn improve their financial performance. The contextual framework as useful knowledge enabled different experiences to be engaged in concerning the same phenomenon while maintaining the problem-solving and practical nature of the research topic.

# CHAPTER 6: QUANTITATIVE DATA FINDINGS

## 6.1 INTRODUCTION

Following the discussion and explanation of the mixed approach selected for this study, this chapter seeks to examine the collected data from the quantitative survey (questionnaire) conducted in cooperation with FIs and the Chamber of Commerce and Industry. It presents the results gathered from face-to-face questionnaires with 382 employees and managers working for MSMEs in the West Bank.

As mentioned in Chapter 1, this thesis aims to investigate the present challenges facing MSMEs in the WBOP and their influence on MSME performance and access to finance from FIs. This chapter analyses the quantitative questionnaire and presents the results of data analysis tests conducted using SPSS. Before testing the questionnaire, it is important to describe its validity and reliability. The chapter refers to several types of analysis – descriptive analysis, correlation analysis and, finally, linear regressions – to test the relationships between dependent and independent variables.

The chapter begins by revealing the study’s quantitative results. The quantitative statistical results show the following: the characteristics of the MSMEs represented by the participants, the significant constraints and obstacles to the growth of MSMEs in the West Bank, the factors contributing to their constraints and obstacles, their current situation, the economic and social development roles they play, the challenges they face in accessing FIs, and the potential solution for accessing finance from the perspectives of employees and managers.

The major aim of this research is to identify issues related to the accessibility of funds for selected organisations (MSMEs) in the West Bank. This chapter reports on the results of the questionnaire responses from the targeted MSMEs. Based on the literature review, seven factors impacting the accessibility of funds for MSMEs were identified. Those factors also impact the performance of MSMEs. Therefore, a quantitative analysis was conducted to test for relationships between these variables including the accessibility of funding, and MSME performance through a correlation analysis approach, as shown in Figure 6-1. Finally, this chapter summarises the scope of this discussion.

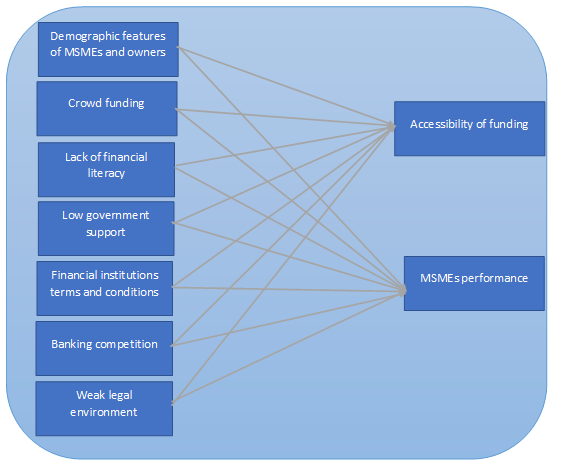


Figure 6.1: Hypothesised Model

**Hypotheses:**

H0A: The demographic features of MSME owners and the characteristics of MSMEs can positively impact the accessibility of funding.

H0B: The demographic features of MSME owners and the characteristics of MSMEs can positively impact MSMEs’ performance.

H1A: Crowdfunding is positively linked to access to funding.

H1B: Crowdfunding is positively associated with MSME performance.

H2A: MSME owners’ lack of financial literacy is negatively linked to access to funding.

H2B: MSME owners’ lack of financial literacy is negatively associated with MSME performance.

H3A: Low government support has a negative relationship with access to funding.

H3B: Low government support has a negative relationship with MSME performance.

H4A: Financial institutions’ terms and conditions are negatively associated with the accessibility of funding.

H4B: Financial institutions’ terms and conditions are negatively associated with MSME performance.

H5A: Banking competition is positively associated with the accessibility of funding.

H5B: Banking competition is positively associated with MSME performance.

H6A: A weak legal environment for MSME owners is negatively associated with the accessibility of funding.

H6B: A weak legal environment for MSME owners is negatively associated with MSME performance.

## 6.2 DESCRIPTIVE STATISTICS

Descriptive statistics provide a detailed description of the study sample and enable the reader to understand the value and nature of the sample’s characteristics. Hence, before performing a more detailed analysis, it is recommended to conduct a descriptive statistical analysis of the business leaders in the sample (Sekaran and Bougie, 2016). The purpose of descriptive research is to present a picture of a phenomenon that occurs naturally (Gray, 2019).

This study conducted a data analysis based on 319 valid questionnaires. The data analysis aims to describe and understand a range of characteristics of the different participants in the study, such as MSME owners and organisations (MSMEs). For example, this descriptive analysis briefly explains the gender, age and education of MSME owners in addition to the characteristics of MSMEs (age of the organisation, number of employees, ownership type, sector, legal status, invested capital, feasibility work, and annual turnover).

### 6.2.1 Demographic Features of MSME Owners

The study has gathered important descriptive characteristics of MSME owners, including gender, age and level of education. These demographic features are shown in Table 6.1.

Table 6.1: Descriptive statistics of MSME owners

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Variable** | **Categories** | | **Frequency** | | **Percentage %** | |
| **Gender** | Male | | 224 | | 70.2% | |
| Female | | 95 | | 29.8% | |
| Total | | 319 | | 100.0% | |
| **Age** | Less than 24 years | | 20 | 6.3% | |
| 24–29 years | | 73 | 22.9% | |
| 30–39 years | | 138 | 43.3% | |
| 40–50 years | | 66 | 20.7% | |
| Above 50 years | | 22 | 6.9% | |
| Total | | 319 | 100.0% | |
| **Level of education** | | Secondary School | 20 | 6.3% | |
| Diploma | 37 | 11.6% | |
| Bachelor’s degree | 202 | 63.3% | |
| Master’s degree | 53 | 16.6% | |
| PhD/DBA | 7 | 2.2% | |
| Total | 319 | 100.0% | |

#### 6.2.1.1 Gender of MSME Owners

The data on gender reveal that 224 participants are men, whereas the remaining 95 participants are women (see Table 6.1). These statistics indicate that men are more involved in starting and managing MSMEs, and the number of women owners is lower than the number of men owners. These results are aligned with previous data from the World Bank, which reports that, although 65% of Palestinian women expressed a desire to start an MSME, only 15% were able to put that desire into practice (World Bank, 2018). The sample included men and women as people of both genders are interested in the business and economy sector. Considering the viewpoint of both genders helped provide more comprehensive and realistic information.

#### 6.2.1.2 Age of MSME Owners

The data about age are categorised into five age ranges: younger than 24 years, 24–29 years, 30–39 years, 40–50 years, and older than 50 years. The age range of 30–39 years includes 138 participants; the majority of MSME owners fall within this age bracket. The age range of 24–29 years includes 73 participants, while 66 participants are between 40 and 50 years of age. Finally, 20 participants are younger than 24, and 22 are older than 50, meaning that these age brackets have the fewest participants, as shown in Table 6.1. This means that the majority of MSME owners surveyed were young, and this might be an indication that most Palestinian MSME owner-managers tend to have prior work experience before they establish MSMEs. According to Bruhn and Zia (2011), the number of young entrepreneurs is increasing due to their higher levels of education, skills, and motivation to explore new business ideas.

#### 6.2.1.3 Education of MSME Owners

Participants were asked about their level of education and divided into five educational categories: secondary school, diploma holders, bachelor’s degree, master’s degree and PhD/DBA. Table 6.1 shows that the most prominent educational category is bachelor’s degree, with 202 participants. However, only seven participants hold PhD/DBA degrees. According to Salama (2017), Palestine is facing increasing levels of unemployment, which has become one of the most challenging issues facing the country. The unemployment rate in the Occupied Palestinian Territory is high, reaching up to 26.9% in the West Bank and 41.7% in Gaza (ILO, 2018). This explains why most educated people prefer to start MSMEs. Consequently, there are many MSMEs in this country.

### 6.2.2 Characteristics of MSMEs

There are many MSMEs in the West Bank that play major roles in supporting the local economy, and their presence represents a vital indicator of economic growth and development. There are some important characteristics of MSMEs, categorised according to the age of the MSME, the number of employees, ownership type, sector, legal status, invested capital, feasibility work, and estimates of annual turnover. These characteristics of MSMEs are presented in Table 6.2 below. The MSMEs in this study operate in a country without a national currency. They therefore deal in three different currencies: the Jordanian dinar, Israeli new shekel and United States dollar*.* Data about invested capital and annual turnover are therefore collected in these different currencies*.*

Table 6.2: Characteristics of MSMEs

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Categories** | **Frequency** | **Percentage %** |
| **Age of MSMEs** | Below 6 years | 108 | 33.9% |
| 6–10 years | 79 | 24.8% |
| 11–15 years | 43 | 13.5% |
| 16–20 years | 85 | 26.6% |
| Above 20 years | 4 | 1.3% |
| Total | 319 | 100.0% |
| **Number of Employees** | Micro (1–4 employees) | 246 | 77% |
| Small (5–9 employees) | 45 | 14% |
| Medium (10–19 employees) | 30 | 9% |
| Total | 319 | 100.0% |
| **Ownership** | Individual | 230 | 72.1% |
| Family business | 85 | 26.6% |
| Private joint company | 4 | 1.3% |
| Total | 319 | 100.0% |
| **Sector** | Wholesale trade | 73 | 22.88% |
| Retail business | 85 | 26.65% |
| Services | 92 | 28.8% |
| Manufacturing | 21 | 6.6% |
| Contracting | 13 | 4.0% |
| Craft | 35 | 10.97 |
| Total | 319 | 100.0% |
| **Legal Status** | Not registered | 219 | 68.7% |
| Registered | 100 | 31.3% |
| Total | 319 | 100.0% |
| **Invested Capital (Jordanian Dinar)** | Above a million | 29 | 9.1% |
| 250 thousand to less than 1 million | 61 | 19.1% |
| 100 thousand to less than 250 thousand | 150 | 47.0% |
| 40 thousand to less than 100 thousand | 54 | 16.9% |
| 5 thousand to less than 40 thousand | 16 | 5.0% |
| less than 5 thousand | 9 | 2.8% |
| Total | 319 | 100% |
| **Feasibility/pre-planning Work** | Yes | 187 | 59% |
| No | 132 | 41% |
| Total | 319 | 100.0% |
| **Estimated Annual Turnover (USD)** | Up to 20,000 | 59 | 18.6% |
| 20,001 to 50,000 | 63 | 19.9% |
| 50,001 to 100,000 | 81 | 25.3% |
| 100,001 to 400,000 | 62 | 19.6% |
| Above 400,000 | 54 | 17.0% |
| Total | 319 | 100.0% |

#### 6.**2.2.1 MSME Age and Number of Employees**

The data regarding MSME age are categorised into five ranges: less than six years, 6 to 10 years, 11 to 15 years, 16 to 20 years, and more than 20 years. The findings reveal that most MSMEs 108 are newly established and are less than six years old. This means that the recent five years saw considerable interest in MSME investments. The second-largest category is 16 to 20 years, with 85 MSMEs. Only four MSMEs fall into the highest age category of above 20 years, as shown in Table 6.2. These data indicate that the life spans of these projects and firms in the country are short and do not exceed 20 years. This indicates that MSMEs in the West Bank are usually start-ups and emerging companies that require support, financing and assistance to continue and support the national economy. This finding is necessary for the support system as a credit guarantee scheme for MSMEs such as EPCGF, to increase the availability of financing for MSMEs to afford such a lack of enhancing risks MSMEs’ resistance ability. MSMEs are the basis for employment and productive activity in all productive sectors in the WBOP. In all regions of the country, MSMEs are key providers of inputs and services for larger industries (Rajab, 2014).

MSMEs are categorised according to the total number of employees. They are categorised as micro (4 or fewer employees), small (5 to 9 employees) or medium (10 to 19 employees), according to the definition of MSMEs in Palestine (see Chapter 2, Table 2.3). There are 246 MSMEs with four or fewer employees. The second most prominent category is 5 to 9 employees, with 45 MSMEs falling into this range. Finally, the least numerous category is 10 to 15 employees, with 35 MSMEs. These results reflect the true image of MSMEs: they are small in size but have great ambitions. They require support from different FIs to maintain their economic impact in the country in terms of economic growth and employment.

#### 6.2.2.2 Ownership of MSMEs and the MSME Sector

The ownership types of MSMEs are individual ownership, family businesses and private joint companies. There are 230 MSME owners who hold individual ownership. There are 85 MSMEs classified as family businesses, and, finally, there are only four MSMEs operating as private joint companies. These findings are consistent with Sabri (2008), who found that the majority of Palestinian MSMEs are established based on individual or family savings, with little support from official agencies. This, in turn, reflects the importance of supporting these companies as they lack solid income sources beyond the private funds of individual owners or families.

Data were also collected on MSME sectors. The sectors include wholesale trade, retail businesses, services, manufacturing and craft. The findings show that 92 MSMEs operate in the service sector, the most numerous category. Furthermore, 85 MSMEs are in the retail sector, 73 operate in wholesale trade, 35 are in the craft sector, 21 are in the manufacturing sector and the remaining 13 are in the contracting sector. The contracting category has the fewest MSMEs, as shown in Table 6.2. This indicates the importance of these MSMEs: they cover different sectors of the state's economy and meet different purposes and services, which highlights their significance in the state's economy and the need to support them and enable their continuity.

* + - 1. **Legal Status and Invested Capital**

The study collected data about MSMEs’ legal status to determine how legal status helps or hinders their operating processes. The results reveal that the majority of MSMEs (219) are not registered, as shown in Table 6.2. This means that these MSMEs have no legal status. The remaining 100 MSMEs have valid legal status. It is worth noting here that possessing a legal status is helpful, especially when borrowing, as it helps in providing loan collateral and applying for credit guarantees. The statistics show that this study includes significantly fewer MSMEs (100) with valid legal status. This is consistent with Lee (2018), who argued that lawmakers are still developing regulations and institutions to cover crowdfunding and other credit guarantees.

Data about invested capital were also collected and categorised into different ranges of Jordanian dinars: above one million; 250,000 to less than one million; 100,000 to less than 250,000; 40,000 to less than 100,000; 5,000 to less than 40,000; and less than 5000. The majority of MSMEs (150) have invested capital in the range of 100,000 to less than 250,000 dinars. There are only 29 MSMEs that have the maximum range of invested capital (above one million). Most tax exemptions are granted based on high invested capital (above one million), which favours the 29 MSMEs that fall into this category as well as large organisations. This indicates the weak financial capabilities of these MSMEs and their increasing need to obtain financing and support from banks and economic institutions to help with continuity and development.

**6.2.2.4 A Business Plan or Feasibility Study and Estimated Annual Turnover**

MSME owners usually prepare a feasibility study before starting their business to fully understand the legal, technical, financial and administration aspects (Fullen, 2005). It particularly provides MSME owners with an in-depth understanding of the estimated capital required, the source of capital and the successful ratio of the project (Fullen, 2005). In this study, financial planning provides an overview of the chances of obtaining capital from banks as it is the most important requirement that MSME owners or managers must demonstrate in loan applications. Hence, respondents were asked whether they had completed feasibility work before starting the MSME. The results showed that 187 MSME owners started their businesses after completing feasibility work, whereas 132 did not conduct a feasibility report before starting the business. These figures indicate feasibility reporting as a weakening element at the management level that may negatively influence MSME performance. Business plans are an essential eligibility criterion for FIs to finance MSMEs in Palestine. Consequently, it can be expected that one reason FIs and banks may refrain from providing financial support for these MSMEs is the failure of these companies to conduct economic feasibility studies or plan their businesses, which exposes them and those who support them to financial risks.

## 6.3 OBSTACLES FACED BY MSMEs IN ACCESSING FIs

To identify the obstacles faced by MSMEs in accessing funding from FIs, it is necessary first to identify the distribution of the MSMEs participating in the study according to the type of financing resources they relied upon for their establishment. Table 6.3 shows this distribution.

Table 6.3: Distribution of MSMEs according to financing resources (n = 319)

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Categories** | **Frequency** | **Percentage %** |
| **Resource Financing** | Personal savings | 112 | 35.1% |
| Funds from family/friends | 98 | 30.7% |
| Loan from a government fund | 8 | 2.5% |
| Commercial bank | 12 | 3.8% |
| Islamic bank | 8 | 2.5% |
| Microfinance Institutions | 58 | 18.2% |
| Crowdfunding | 11 | 3.4% |
| Trade credit | 12 | 3.8% |
| Total | 319 | 100.0% |

It is clear from Table 6.3 that the highest percentage of the sample (35.1%) finance their enterprises independently (personal savings), whereas 30.7% depend on family or friends to finance their projects, 18.2% depend on MFIs, 3.8% depend on commercial banks, 3.8% depend on trade credit and 3.4% depend on crowdfunding. The final options for funding MSMEs are with Islamic banks and government loans, which each represent 2.5% of the sample. Hence, it is clear that more than half of the sample (65.8%) depends on personal accounts, whether personal savings or family assistance, to finance projects, indicating a lack of other financing options such as loans from the government or private lending institutions. This result is in line with Sabri (2008), who indicated that in the Palestinian economy, the majority of MSMEs are established with individual or family savings, with little support from financial and official institutions.

Moreover, to investigate the obstacles MSMEs face in obtaining financing and the reasons that prevent them from applying for support or loans, which companies applied for loans and which did not was examined. The results are shown in Table 6.4 below.

Table 6.4: Distribution of MSMEs according to their requests for loans from banks and other FIs (n = 319)

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Categories** | **Frequency** | **Percentage %** |
| **Requesting Loans from Banks and other Financial Institutions** | Yes | 257 | 80.6% |
| No | 62 | 19.4% |
| Total | 319 | 100.0% |

The vast majority of MSMEs (81%) requested loans from banks or other FIs, indicating that these institutions truly need financial assistance and support to grow and develop. Only about 19% of the sample did not request loans from FIs or banks. Table 6.5 illustrates the characteristics of the loans MSMEs obtained to more clearly visualise the obstacles they face when requesting financing.

Table 6.5: Distribution of MSMEs according to the characteristics of their provided bank financing or loans (n = 257)

|  |  |  |  |
| --- | --- | --- | --- |
| **Variables** | **Categories** | **Frequency** | **Percentage %** |
| **Purpose of Bank Financing or Loan applications** | Working capital | 62 | 24% |
| Purchasing fixed assets | 74 | 29% |
| Expansion | 68 | 26% |
| Entering new markets | 53 | 21% |
| **Type of Collateral Provided to Banks** | Real estate | 37 | 14% |
| Securities | 70 | 27% |
| Machinery and equipment | 53 | 21% |
| Personal guarantees | 38 | 15% |
| Regular checks | 59 | 23% |
| **Value of Guarantees Provided** | Greater than the financing amount | 118 | 46% |
| Less than the financing amount | 75 | 29% |
| Equal to the financing amount | 64 | 25% |
| **Percentage Granted of the Total Loan Required** |  | | |
| 50%–60% | 53 | 21% |
| 61%–70% | 27 | 10% |
| 71%–80% | 48 | 19% |
| More than 80% | 129 | 50% |

Table 6.5 shows the different characteristics of bank financing and loans provided to MSMEs. The companies that requested loans and financial support indicated that they were for several purposes. Of the 257 companies sampled, 24% requested loans for working capital, 29% for the purchase of fixed assets, 26% for expansion, and the remaining 21% requested loans to enter new markets. This indicates that all loans were requested for important purposes that ensure the continuity of these companies.

However, the type of collateral and the value of guarantees provided to banks by MSMEs show the difficulties and obstacles companies face in obtaining funds: 21% of the sample were forced to provide their machines and equipment as collateral, and 27% placed securities as collateral. The remaining companies offered other types of collateral such as real estate, personal guarantees and checks. In addition, approximately half of the sample (46%) provided guarantees that exceeded the value of the financing they requested and received, indicating the difficult conditions and cumbersome requirements banks impose on MSMEs, which inevitably impede development and growth.

Table 6.5 also indicates that it is not necessary for MSMEs submitting loan applications to obtain the full requested amount. The percentage granted from the total required loans ranged from 50% to 100%, and only 50% of companies were granted 80% or more of the total required loans; 21 % of the sample companies were granted 50%–60% of the total they required, 10% of companies were granted 61%–70% of the total required loans, 19% of companies were granted 71%–80% of the total required loans. Accordingly, it is evident that these companies face real problems obtaining loans and financial aid from banks and FIs. These findings align with those of Atout (2015), who indicated that banks required excessive collateral, often a loan of 130% to 200%, due to the unstable political climate.

## 6.4 DETERMINANTS OF ACCESS TO FINANCE

Participants in this study were asked to identify the important obstacles that face MSMEs in accessing credit facilities. According to previous studies and the researchers’ experience, four different obstacles that MSMEs may face in accessing credit facilities are suggested in Table 6.6.

The data in Table 6.6 indicate that the responses to this question regarding the four proposed obstacles were largely consistent. Responses that strongly agreed or agreed upon the existence of the proposed obstacles ranged from slightly less than 60% to slightly less than 74% of the total participants (‘agree’ responses ranged from 18.8% to 30.7%, and ‘strongly agree’ responses ranged from 36.1% to 56.7%). These results confirm that the proposed obstacles exist and are faced by MSMEs in accessing credit facilities.

According to the interpretation of the Likert scale, the mean value ranged between 3.41 and 4.38, meaning that agreement with this statement ranged from high to very high. The agreement rated for high interest rate, high collateral, high services fees and repayment conditions. Accordingly, these obstacles are the main obstacles facing MSMEs in accessing credit facilities. This result is consistent Wang (2016), who showed that MSMEs perceive access to finance as the most significant obstacle that hinders the growth and success of SMEs worldwide. This was also confirmed by Abuznaid (2014), who found that access to finance remains a principal challenge for MSMEs in Palestine, where guarantee requirements and high interest rates remain some of the most important problems and challenges facing MSMEs in obtaining financing from banks. This clearly reflects negatively on the companies’ capabilities and ability to continue

Table 6.6: Frequencies, averages and standard deviations of obstacles to MSME access to credit facilities

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Obstacles to accessing credit facilities for MSMEs | Frequencies by percentages % | | | | | Average | Standard deviation |
| Strongly Disagree | Disagree | Neither | Agree | Strongly Agree |
| * High interest rate | 10.7 | 7.5 | 22.9 | 18.8 | 40.1 | 3.41 | 0.945 |
| * High collateral | 11.6 | 7.5 | 14.1 | 30.7 | 36.1 | 3.59 | 0.899 |
| * High services fees | 7.8 | 0.9 | 17.2 | 17.2 | 56.7 | 4.38 | 1.113 |
| * Repayment conditions | 5.6 | 2.5 | 21.0 | 21.9 | 48.9 | 4.18 | 1.298 |

To identify the reasons that banks or FIs give MSME owners for refusing their loan requests and financial applications, respondents were asked about the most prominent of these reasons. The results are shown in Table 6.7.

Table 6.7: Descriptive results of the reasons banks refuse to finance MSMEs, from the respondents’ perspective (n = 319)

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Categories** | **Frequency** | **Percentage%** |
| **Major Financial Risks Faced by MSMEs** | Lack of collateral | 126 | 39.5% |
| Lack of financial information | 89 | 27.9% |
| Lack of credit record history | 70 | 21.9% |
| Cash flows do not meet the bank requirements | 45 | 14.1% |
| New business start-up | 55 | 17.2% |
| Inadequate sources of repayment | 60 | 18.8% |
| High risk associated with the project | 46 | 14.4% |
| Lack of accurate and comprehensive financial information | 45 | 14.1% |

From Table 6.7, it can be noted that ‘lack of collateral’, ‘lack of financial information’ and ‘lack of credit record history’ represent the most common reasons given for the refusal of banks to finance MSMEs, at 39.5%, 27.9% and 21.9%, respectively. The least common of the given reasons are ‘cash flows do not meet the bank requirements’ and a ‘lack of accurate and comprehensive financial information’, with 14.1% for each. These results are consistent with Abdulsaleh and Worthington (2013), who indicated that although MSMEs show high potential for growth and contribute significantly to developing and developed economies, one common problem they face is that they cannot obtain large amounts of financing for growth and investment projects due to an overall shortage of information and a lack of ability to provide guarantees to banks. Hence, without strong data, a bank or FI cannot evaluate MSMEs objectively. It is very difficult to predict an MSME’s future ability to make profits, which prevents them from obtaining financing.

## 6.5 GOVERNMENT FUNDS

The government and related entities such as PIF and EPCGF comprise the second main category of external sources from which most MSMEs seek financing. The questionnaire asked several questions related to government funds and programmes to identify the current trends in MSME financing from the government and other related entities.

Table 6.8 shows that slightly more than three-quarters of respondents – 243 of 319 – confirmed they had not applied for any government funds. The remaining 76 of 319 respondents (23.8%) stated they had applied for government funds.

Table 6.8: Applied for Government Funds

|  |  |  |
| --- | --- | --- |
| Category | Number | Percentage |
| Yes | 76 | 23.8% |
| No | 243 | 76.2% |

Of those who had not applied for government funds, the study asked why. Table 6.9 shows that less than 20% (60 of 319) of participants had not applied for government funds because they ‘did not meet the acceptance criteria’. Of the 319 total survey participants, 55 (17.3%) had not applied for government funds because they ‘did not need these programmes’.

Of the 319 total survey participants, 43 did not apply for government funds because they were not aware of the offered programmes, whereas 40 did not apply because the procedure was too complicated. For 26 of the 319 participants, the main reason for not applying was that the acceptance took too long.

Table 6.9: Frequencies of the reasons for not applying for government funds

|  |  |  |
| --- | --- | --- |
| No. | Reasons | Frequencies |
| 1 | Do not need these programmes | 55 |
| 2 | Acceptance takes too long | 26 |
| 3 | Do not meet the acceptance criteria | 60 |
| 4 | Not aware of programmes offered | 43 |
| 5 | Procedures too complicated | 40 |

## 6.6 VARIOUS FACETS OF MSME ACCESS TO FINANCE AND POTENTIAL SOLUTIONS

To overcome the previously mentioned obstacles to MSME access to finance, there are different facets and potential solutions. To identify those solutions, the participants in this study were asked about four proposed possibilities: government facilitation, increasing the volume of loans provided, the flexibility of grace periods, and providing alternative sources of funding (see Table 6.10).

The average level of agreement with the statement that ‘government facilitation is useful’ as a potential solution was relatively high: 3.49 (based on the Likert scale), with the highest standard deviation of 1.266. Of the participants who responded to the questionnaire, 45% responded to this statement with either ‘strongly agree’ or ‘agree’ (Table 6.10). The average level of agreement with the potential solution of ‘increasing the volume of loans provided’ was relatively high: 3.51 (based on the Likert scale), with a low standard deviation of 1.069. The percentage of the participants who responded to this with either ‘strongly agree’ or ‘agree’ was 66 % of the total.

Table 6.10: Frequency, average and standard deviations of responses to potential financial solutions

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Potential financial solutions | Strongly disagree | Disagree | Neither | Agree | Strongly agree | Average | Standard Deviation |  |
|  |  | % |  |  |
| Government facilitation | 16.9 | 12.9 | 25.1 | 16.9 | 28.2 | 3.49 | 1.266 |  |
| Increasing the volume of loans provided | 5.3 | 3.4 | 25.7 | 18.2 | 47.3 | 3.51 | 1.069 |  |
| Flexibility of grace periods | 3.8 | 5 | 26 | 18.5 | 46.7 | 3.70 | 1.041 |  |
| Providing alternative sources of funding | 1.3 | 1.3 | 3.8 | 66.5 | 27.3 | 3.76 | 1.207 |  |

The average level of agreement with the solution of ‘flexibility of grace periods’ was relatively high: 3.70 (based on the Likert scale), with the lowest standard deviation of 1.041. The percentage of total questionnaire participants who responded to this statement with ‘strongly agree’ or ‘agree’ was 65 % (Table 6.10). The average level of agreement with the solution of ‘providing alternative sources of funding’ was the highest of all potential solutions: 3.76 (based on the Likert scale), with a high standard deviation of 1.207. The percentage of the participants who responded to this statement ‘strongly agree’ or ‘agree’ was slightly over than 90% of the total (Table 6.10).

According to the Likert scale, the mean values ranged between 3.40 and 4.19, meaning agreement with this statement was high. Therefore, the importance of potential financial solutions for MSMEs to overcome challenges with FIs is generally high.

This result is consistent with Gozzi and Schmukler (2016), who showed the importance of seeking solutions and alternatives for financing MSMEs. This is especially vital because they are the main engine of the country's economy, and their continuity allows for the recovery and growth of the local economy. This was also confirmed by Abuznaid (2014), who indicated that it is imperative to launch initiatives for increasing financing for MSMEs in the West Bank, such as public credit guarantees, crowdfunding, government lending, and so forth.

One of the potential alternative financing solutions for MSMEs may lie in borrowing from Islamic banks and institutions given that these banks adopt policies that deal with lending differently than those implemented by commercial banks. Therefore, respondents were asked whether they were willing to use Islamic financing and which Islamic financing systems they prefer. The results are shown in Table 6.11 below.

Table 6.11: Descriptive results of MSMEs’ willingness to use Islamic financing and the Islamic financing systems they prefer (n = 319)

|  |  |  |  |
| --- | --- | --- | --- |
| **Variable** | **Categories** | **Frequency** | **Percentage %** |
| **MSME's Willingness to Use Islamic Financing and Preferred Islamic Financing Systems** | Not willing | 47 | 14.7% |
| Musharakah – Equity & profit–loss sharing | 30 | 9.4% |
| Mudharabah – Profit-sharing finance | 86 | 27.0% |
| Murabaha – Cost-plus sale or trade with mark-up | 133 | 41.7% |
| Ijarah – Lease financing | 23 | 7.2% |
| Total | 319 | 100.0% |

From Table 6.11, it is clear most members of the sample (85%) were willing to use the Islamic system to obtain funding, and only 15% were unwilling to do so. This indicates the effectiveness of the Islamic lending system as a financing solution for MSMEs. Moreover, approximately half of the participating MSMEs preferred the Murabaha system (41.7%), followed by the Mudharabah, preferred by 27%; Musharakah, preferred by 9.4%; and finally, Ijarah, preferred by 7.2%.

These results are consistent with Sabri (2008), who indicated that MSMEs in the West Bank require several initiatives to increase financing, including Islamic finance and crowdfunding, which are discussed above. Islamic finance has proven its effectiveness by financing many companies.

## 6.7 RESEARCH HYPOTHESES RELATED TO THE ACCESSIBILITY OF FUNDING AND MSME PERFORMANCE

### 6.7.1 Preliminary Analysis

A preliminary analysis was conducted to assess the validity of the results and conclusions (Mardia, 1970; Cain et al., 2017). According to Hair et al. (2010), a kurtosis and skewness test is the best statistical method for measuring data normality. This test demonstrates that data are normal when the statistical value falls between −1 and +1. The values plotted for this study show a bell-shaped curve, which means that the data are normal and can be used for further preliminary analyses. It is also essential to measure heteroscedasticity. Heteroscedasticity can demonstrate different values for the standard deviation of independent variables, which can negatively influence the results of regression analysis (Cook and Weisberg, 1983; Carapeto et al., 2003). Heteroscedasticity is measured using a variance inflation factor (VIF) and tolerance, as recommended by Kline (2015). The statistical values of the VIF and tolerance in this study are 2.01 and 0.31, which fall within the acceptable ranges defined by Kline (2015). Furthermore, the standardised residual centrality value of this study is near zero, which means that there is no heteroscedasticity and that the results of the linear regression analysis will be free from errors.

Overall, the statistical test of heteroscedasticity was normal. This confirmed there was no risk of multi-collinearity, which can exaggerate the value of the independent variable and negatively influence the results of linear regression analysis. The final preliminary analysis measured autocorrelation, examining the features of the data to assess the degree of similarity that exists in the same variables during different time intervals (Yee-Loong Chong et al., 2014). The Durbin–Watson test was used, as recommended by Yee-Loong Chong et al. (2014). The results of this test revealed a value of 2.01, which means there is no sign of either positive or negative autocorrelation in the study data. Based on these primary analyses, this study was able to proceed to further analyses that address the proposed hypotheses.

### 6.7.2 Common Method Variance

Richardson et al. (2009) defined common method variance (CMV) as the systematic error variance shared among variables measured with the same source or method. CMV is a concern, especially when a researcher collects data from a single source and uses a cross-sectional time horizon (Richardson et al., 2009). To alleviate concerns about CMV, the researcher employed the measures suggested by Podsakoff and colleagues (2003, 2012). According to Podsakoff et al. (2012), exploratory factor analysis (EFA) and common latent factor (CLF) can be applied to prevent issues with CMV. EFA investigates the variance explained by a single factor by comparing it with the variance highlighted by other major factors of a study. This study’s EFA results reveal that the percentage of cumulative variance of the major factor is 81.89%, whereas the variance highlighted by a single factor is only 29%, meeting the acceptability standards (< 50% for single factor) set out by Podsakoff et al. (2012). A CLF test was applied through confirmatory factor analysis. The CLF is attached with indicators of latent factors. In the CLF test, standardised regression estimates were calculated with and without CLF. These values were below 0.20, indicating that the data are of an acceptable standard and confirming that the data are free from CMV.

## 6.8 MEAN AND STANDARD DEVIATION

Hair et al. (2010) argue that the data’s mean can help identify the average value and standard deviation, which can then be used to determine the coefficient of variation. Furthermore, Hair et al. (2010) state that a high standard deviation value (> 1) indicates high variation in the data. Hair et al. (2010) also found that there is no inherently good or bad standard deviation, but the method indicates the degree of variation in the data. For example, the current results have standard deviation values ranging from 2.18 to 8.88, and the highest variations exist within the demographic variables (Table 6.12).

Table 6.12: Mean and standard deviation results

|  |  |  |
| --- | --- | --- |
| **Variables** | **Mean** | **Standard deviation** |
| MSME owner age | 41.09 | 8.88 |
| MSME owner gender | 31.09 | 6.11 |
| MSME owner qualification | 34.89 | 6.22 |
| Age of MSME | 21.56 | 2.18 |
| MSMEs’ number of employees | 36.45 | 5.88 |
| Ownership of MSME | 28.13 | 4.44 |
| MSME sector | 32.04 | 5.12 |
| Legal status (LS) | 33.09 | 5.66 |
| Invested capital | 29.91 | 4.99 |
| Feasibility | 37.10 | 5.94 |
| Annual turnover | 36.33 | 5.91 |

Table 6.13 shows the maximum scale values, which range from strongly disagree (1) to strongly agree (5) based on the Likert scale. The mean value of crowdfunding is 3.15, meaning that most responses fall between neutral and agree. This shows that they are getting little crowdfunding support. Furthermore, the mean values of a lack of financial literacy (1.77), low government support (1.21), FIs’ T&Cs (1.58), and a weak legal environment (1.44) indicate that most of the participants’ responses fall between ‘strongly disagree’ and ‘disagree’. This also shows that these are the major barriers that hinder access to funding for MSMEs. The mean values of the accessibility of funding and MSME performance fall between ‘agree’ and ‘strongly agree’.

Table 6.13: Descriptive results

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Variables** | **Minimum value** | **Maximum value** | **Mean** | **Standard deviation** |
| Crowdfunding | 1 | 5 | 3.15 | 0.88 |
| Lack of financial literacy | 1 | 5 | 1.77 | 0.77 |
| Low government support | 1 | 5 | 1.21 | 0.56 |
| Financial institutions’ terms and conditions | 1 | 5 | 1.58 | 1.11 |
| Banking competition | 1 | 5 | 3.76 | 0.99 |
| Weak legal environment | 1 | 5 | 1.44 | 0.67 |
| Accessibility of funding | 1 | 5 | 4.01 | 0.58 |
| MSME performance | 1 | 5 | 4.09 | 0.64 |

## 6.9 CONFIRMATORY FACTOR ANALYSIS

CFA is one of the most common tests for measuring the factor structure within a set of observed variables (Brown, 2015). The basic objective of CFA is to highlight whether the proposed model is statistically valid for further analysis or needs to be amended (Kline and Santor, 1999; Brown, 2015). Researchers have stated that CFA can help measure the construct validity, which can ensure internal consistency among the items used in a questionnaire (Kline and Santor, 1999; Brown, 2015). Following the recommendations of Byrne (2013), this study used different thresholds for measuring CFA, such as the Root-Mean Square Error of Approximation (RMSEA) standard for acceptability, the Goodness of Fit Index (GFI), and the Comparative Fit Index (CFI). The GFI is usually used to evaluate the fit between an observed covariance matrix and a hypothesised model, whereas CFI is used to analyse the model fit by measuring the hypothesised model and the discrepancy of the data. Byrne (2013) and Brown (2015) provided threshold values that can be used to check validity, such as the following values: χ2/df < 3.0, CFI-GFI-IFI-BBNNFI > 0.90, RMSEA < 0.08. In addition, following the recommendation of Byrne (2013), composite reliability (CR) was measured to determine the scale of internal consistency. The average variance extracted (AVE) was applied to check whether the reliability position of the scales was appropriate. Byrne (2013) identified the threshold of acceptable values for AVE at > 0.5 and the threshold for CR at > 0.6.

Table 6.14: CFA and scale reliability results

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **χ2/df** | **RMSEA** | **CFI** | **GFI** | **IFI** | **BBNNFI** | **CR** | **AVE** |
| Threshold of acceptable indices | 2.17 | 0.67 | 0.91 | 0.96 | 0.94 | 0.95 |  | |
| Crowdfunding |  |  |  |  |  |  | 0.71 | 0.62 |
| Lack of financial literacy |  |  |  |  |  |  | 0.77 | 0.59 |
| Low government support |  |  |  |  |  |  | 0.70 | 0.64 |
| Financial institutions’ terms and conditions |  |  |  |  |  |  | 0.65 | 0.53 |
| Banking competition |  |  |  |  |  |  | 0.82 | 0.55 |
| Weak legal environment |  |  |  |  |  |  | 0.78 | 0.58 |
| Accessibility of funding |  |  |  |  |  |  | 0.84 | 0.60 |
| MSME performance |  |  |  |  |  |  | 0.85 | 0.67 |

The results of the CFA indicate the following statistical values: χ2/df = 2.17; RMSEA = 0.67; CFI = 0.91; GFI = 0.96; IFI = 0.94; BBNNFI = 0.95. These CFA values meet the standards set out by Byrne (2013) and Brown (2015) and are therefore regarded as valid for the proposed model. Based on these values, this study used this model for finding the relationships between the proposed factors. The CR values are also acceptable, ranging between 0.65 and 0.85, above the acceptable standards set out by Byrne (2013). Finally, the AVE values range between 0.53 and 0.67, in accordance with the acceptable standards (Byrne, 2013). Overall, the internal consistency of the scales, the reliability position of the scales, and the appropriateness of the proposed models all meet the necessary standards and could therefore be used for further analysis.

## 6.10 CORRELATION ANALYSIS

The coefficient of correlation is usually applied to evaluate the strength of association using the relative movements of independent and dependent variables (Hair et al., 2012). The coefficient of correlation was applied in this study using the Pearson correlation coefficient, also known as the Pearson product-moment correlation coefficient (PPMCC). For ease of understanding, three tables were constructed to examine the demographic variables of MSME owners and the characteristics of MSMEs in relation to predictors and dependent variables. In Table 6.15, the correlations between demographic variables (i.e. gender, age and education of MSME owners), independent variables (i.e. crowdfunding, lack of financial literacy, low government support, FIs’ T&Cs, banking competition and the weak legal environment), and dependent variables (i.e. accessibility of funding and MSME performance) are investigated.

Table 6.15: Correlation results

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **G** | **A** | **E** | **CF** | **LOFI** | **LGS** | **FITAC** | **BC** | **WLE** | **MP** | **AOF** |
| Gender (G) | 1 |  |  |  |  |  |  |  |  |  |  |
| Age (A) | 0.86 | 1 |  |  |  |  |  |  |  |  |  |
| Education (E) | –0.33 | 0.19 | 1 |  |  |  |  |  |  |  |  |
| Crowdfunding (CF) | 0.11 | 0.87 | –0.73 | 1 |  |  |  |  |  |  |  |
| Lack of financial literacy (LOFI) | 0.53 | 0.29 | 0.73 | 0.51 | 1 |  |  |  |  |  |  |
| Low government support (LGS) | 0.76 | 0.47 | 0.18 | 0.98 | 0.30 | 1 |  |  |  |  |  |
| Financial institutions’ terms and conditions (FITAC) | 0.43 | –0.29 | 0.43 | –0.49 | 0.09 | 0.39 | 1 |  |  |  |  |
| Banking competition (BC) | 0.16 | 0.27 | 0.13 | 0.27 | –0.61 | 0.17 | 0.21 | 1 |  |  |  |
| Weak legal environment (WLE) | 0.23 | 0.38 | 0.53 | 0.11 | –0.22 | –0.15 | 0.43 | 0.39 | 1 |  |  |
| MSME performance (MP) | 0.15 | 0.18 | –0.13 | 0.18\* | –0.33\* | –0.63\* | 0.13\* | 0.16\* | –0.47\*\* | 1 |  |
| Accessibility of funding (AOF) | 0.15 | 0.19 | 0.16 | 0.16\* | –0.39\* | –0.55\*\* | 0.11\* | 0.13\* | 0.61\*\* | 0.43 | 1 |

Significance: \*p < .05, \*\*p < .01.

In Table 6.15, the correlation results show that the relationships between the demographic characteristics of MSME owners (i.e. gender, age and education), predictors, and dependent variables are not statistically significant. Therefore, the demographic characteristics of MSME owners cannot be used to further explore their relationship to the accessibility of funding and MSME performance*.* There is a statistically significant weak positive link between crowdfunding and banking competition and the dependent variables (MSME performance and the accessibility of funding). Conversely, a statistically significant strong negative association was found between the lack of management skills, low government support, FIs’ T&Cs, and the weak legal environment and the dependent variables of MSME performance and the accessibility of funding. These independent and dependent variables can therefore be used for further statistical analysis.

Table 6.16: Correlation results

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **A** | **ME** | **E** | **MS** | **CF** | **LOFI** | **LGS** | **FITAC** | **BC** | **WLE** | **MP** | **AOF** |
| Age of MSMEs (A) | 1 |  |  |  |  |  |  |  |  |  |  |  |
| MSME number of employees (ME) | 0.16 | 1 |  |  |  |  |  |  |  |  |  |  |
| Ownership of MSMEs (OM) | 0.23 | –0.19 | 1 |  |  |  |  |  |  |  |  |  |
| MSME sector (MS) | 0.12 | 0.15 | 0.17 | 1 |  |  |  |  |  |  |  |  |
| Crowdfunding (CF) | 0.12 | 0.13 | 0.11 | 0.19 | 1 |  |  |  |  |  |  |  |
| Lack of financial literacy (LOFI) | 0.33 | 0.19 | 0.33 | 0.24 | 0.51 | 1 |  |  |  |  |  |  |
| Low government support (LGS) | 0.26 | 0.27 | 0.28 | 0.12 | 0.98 | 0.30 | 1 |  |  |  |  |  |
| Financial institutions’ terms and conditions (FITAC) | 0.31 | 0.21 | 0.31 | 0.25 | –0.49 | 0.09 | 0.39 | 1 |  |  |  |  |
| Banking competition (BC) | 0.06 | 0.09 | 0.31 | 0.12 | 0.27 | –0.61 | 0.17 | 0.21 | 1 |  |  |  |
| Weak legal environment (WLE) | 0.13 | 0.18 | 0.25 | 0.15 | 0.11 | –0.22 | –0.15 | 0.43 | 0.39 | 1 |  |  |
| MSME performance (MP) | 0.16 | 0.11 | 0.04 | 0.17 | 0.18\* | –0.33\* | –0.63\* | 0.13\* | 0.16\* | –0.47\*\* | 1 |  |
| Accessibility of funding (AOF) | 0.19 | 0.13 | 0.09 | 0.24 | 0.16\* | –0.39\* | –0.55\*\* | 0.11\* | 0.13\* | 0.61\*\* | 0.43 | 1 |

Significance: \*p < 0.05, \*\*p < 0.01.

Table 6.16 shows that the links between the characteristics of MSMEs (i.e. an MSME’s age, number of employees, ownership and sector) and the independent and dependent variables are not statistically significant. Therefore, we cannot further analyse the characteristics of MSMEs in relation to MSME performance and the accessibility of funding. A statistically significant weak positive link was found between the independent variables of crowdfunding and banking competition and the dependent variables of MSME performance and access to funding. Conversely, a statistically significant strong negative association was found between the independent variables of a lack of management skills, low government support, FIs’ T&Cs, a weak legal environment and the dependent variables of MSME performance and access to funding. These independent and dependent variables can therefore be used for further statistical analysis.

Table 6.17: Correlation results

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Variables** | **LS** | **IC** | **F** | **AT** | **CF** | **LOFI** | **LGS** | **FITAC** | **BC** | **WLE** | **MP** | **AOF** |
| Legal status (LS) | 1 |  |  |  |  |  |  |  |  |  |  |  |
| Invested capital (IC) | 0.09 | 1 |  |  |  |  |  |  |  |  |  |  |
| Feasibility (F) | 0.11 | 0.13 | 1 |  |  |  |  |  |  |  |  |  |
| Annual turnover (AT) | 0.09 | 0.14 | 0.21 | 1 |  |  |  |  |  |  |  |  |
| Crowdfunding (CF) | 0.19 | 0.22 | 0.19 | 0.29 | 1 |  |  |  |  |  |  |  |
| Lack of financial literacy (LOFI) | 0.23 | 0.12 | 0.17 | 0.19 | 0.51 | 1 |  |  |  |  |  |  |
| Low government support (LGS) | 0.22 | 0.23 | 0.21 | 0.22 | 0.98 | 0.23 | 1 |  |  |  |  |  |
| Financial institutions’ terms and conditions (FITAC) | 0.31 | 0.21 | 0.31 | 0.25 | –0.49 | 0.09 | 0.39 | 1 |  |  |  |  |
| Banking competition (BC) | 0.06 | 0.09 | 0.31 | 0.12 | 0.27 | –0.61 | 0.17 | 0.21 | 1 |  |  |  |
| Weak legal environment (WLE) | 0.18 | 0.22 | 0.29 | 0.31 | 0.11 | –0.22 | –0.15 | 0.43 | 0.39 | 1 |  |  |
| MSME performance (MP) | 0.14 | 0.13 | 0.24 | 0.19 | 0.18\* | –0.33\* | –0.63\* | 0.13\* | 0.16\* | –0.47  \*\* | 1 |  |
| Accessibility of funding (AOF) | 0.09 | 0.16 | 0.19 | 0.14 | 0.16\* | –0.39\* | –0.55  \*\* | 0.11\* | 0.13\* | 0.61\*\* | 0.43 | 1 |

Significance: \*p < 0.05, \*\*p < 0.01.

In Table 6.17, the correlation test results reveal no statistically significant relationship between the characteristics of MSMEs (i.e. legal status, invested capital, feasibility and annual turnover), predictors and outcome variables. Finally, the proposed hypotheses, such as the hypothesis that demographic featuresof MSME owners and characteristics of MSMEs can positively or negatively impact MSME performance and access to funding, cannot be further tested as no statistically significant relationship was found between the demographic variables and outcome variables*.* Therefore, the relationship between the demographic characteristics of MSME owners and MSME performance and the accessibility of funding cannot be further analysed*.*

## 6.11 REGRESSION ANALYSIS

Linear regression attempts to model the relationship between two variables by fitting a linear equation to observed data. One variable is considered an explanatory variable and the other a dependent variable. Linear regression is a basic and commonly used type of predictive analysis. The overall idea of regression is to examine (1) whether a set of predictor variables reliably predicts an outcome (dependent) variable and (2) which variables, in particular, are significant predictors of the outcome variable and in what ways do they impact the outcome variable, as indicated by the magnitude and sign of the beta estimates. These regression estimates explain the relationship between one dependent variable and one or more independent variables.

Three major uses for regression analysis are (1) determining the strength of predictors, (2) forecasting an effect, and (3) trend forecasting.

Table 6.18: Regression results for access to funding

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **DV:** Accessibility of funding | | |
| **B** | **SE** | **T-value** |
| **IV:** Crowdfunding | 0.14\* | 0.05 | 2.71 |
| **IV:** Lack of financial literacy | –0.25\* | 0.03 | –3.22 |
| **IV:** Low government support | –0.41\*\* | 0.02 | –4.96 |
| **IV:** Financial institutions’ terms and conditions | –0.17\* | 0.05 | –2.88 |
| **IV:** Banking competition | 0.23\* | 0.05 | 3.01 |
| **IV:** Weak legal environment | –0.21\*\* | 0.04 | –3.19 |

Notes: N = 319; \*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001; IV = independent variable; DV = dependent variable; B = unstandardised coefficients; SE = standard error.

To test the proposed hypotheses based on the literature review, linear regression was used. Crowdfunding is one way to increase the options for MSME access to funding. The crowdfunding questionnaire asks some important questions, such as whether crowdfunding is suitable for financing start-up businesses; whether crowdfunding costs are low; and whether crowdfunding helps with marketing, developing products and promoting entrepreneurship. The results indicate that crowdfunding is a statistically significant weak positive influence on access to funding (H1A: B = 0.14\*, SE = 0.05, t = 2.71).

Several questions measure financial literacy, such as whether it is difficult to gather the documents for credit guarantees; whether it is difficult to address the requirements of banks; whether it is difficult to provide adequate guarantees; and whether there is a lack of accurate and comprehensive financial information. The second hypothesis is also accepted (H2A: B = –0.25\*, SE = 0.03, t = –3.22) as a negative relationship was found between a lack of financial literacy and the accessibility of funding. To measure the government’s support for MSMEs, several questions were asked, concerning topics such as government support of MSME access to funding sources, government tax exemptions for MSMEs, and government grants and accessibility for MSMEs. The results reveal that low government support and a weak legal environment have a statistically significant negative association with access to funding (H3A: B = –0.41\*\*, SE = 0.02, t = –4.96; H6A: B = –0.21\*\*, SE = 0.04, t = –3.19). Low government support in the form of corruption in MSME funding and a lack of tax exemptions increased the challenges of accessing options and resources for funding.

Another important factor is FIs’ T&Cs. The questionnaire asked several important questions related to the interest rate, the flexibility of loan repayment terms, the inadequacy of traditional bank financing formats, inadequate sources of repayment, lack of credit record history, and lack of collateral. There is a statistically significant negative relationship between FIs’ T&Cs and the accessibility of funding (H4A: B = –0.17\*, SE = 0.05, t = 2.88). Because banking competition is healthy and can increase service quality and accessibility of funding for MSMEs, it is evaluated through banks’ support for access to credit facilities, banks providing low interest rates compared to other competitors, and MSME lending policies differing from bank to bank. There is a statistically significant positive association (H5A: B = 0.23\*, SE = 0.05, t = –3.01) between banking competition and the accessibility of funding (Table 6.19).

Table 6.19: Regression results for MSME performance

|  |  |  |  |
| --- | --- | --- | --- |
| **Description** | **DV:** MSME Performance | | |
| **B** | **SE** | **t-value** |
| **IV:** Crowdfunding | 0.10\* | 0.04 | 2.58 |
| **IV:** Lack of financial literacy | –0.21\* | 0.05 | –3.11 |
| **IV:** Low government support | –0.43\*\*\* | 0.03 | –5.13 |
| **IV:** Financial institutions’ terms and conditions | –0.15\* | 0.05 | 2.93 |
| **IV:** Banking competition | 0.17\* | 0.05 | 3.38 |
| **IV:** Weak legal environment | –0.35\*\* | 0.04 | –4.69 |

Notes: N = 319; \*p < 0.05; \*\*p < 0.01; \*\*\*p < 0.001; IV = independent variable; DV = dependent variable; B = unstandardised coefficients; SE = standard error.

As expected, the findings reveal that crowd funding has a statistically significant weak positive association with MSME performance (H1A: B = .10\*, SE = .04, t = 2.58) as some MSME owners benefit from crowdfunding and investing money, thus improving overall performance. The second hypothesis is also confirmed as statistically significant (H2A: B = –0.21\*, SE = 0.05, t = –3.11), given that there is a negative relationship between the lack of financial literacy and MSME performance. MSME owners believe that they lack financial literacy skills and that there are therefore fewer funding options, which negatively influences MSME performance. Similarly, low government support and a weak legal environment are statistically significant negative influences on MSME performance (H3A: B = –0.43\*\*\*, SE = 0.03, t = –5.13; H6A: B = –0.35\*\*, SE = 0.04, t = –4.69). Low government support in the form of corruption in MSME funding and a lack of tax exemptions increased the challenges for MSME performance. There is a statistically significant weak negative relationship (H4A: B = –0.15\*, SE = 0.05, t = –.2.93) between FIs’ T&Cs and MSME performance. However, there is a statistically significant positive relationship (H5A: B = 0.17\*, SE = 0.05, t = –3.38) between banking competition and MSME performance (see Table 6.20).

Table 6.20: Results of hypotheses

|  |  |
| --- | --- |
| **Summary of hypotheses** | **Accepted/Rejected** |
| H0A: The demographic features of MSME owners and the characteristics of MSMEs can positively or negatively impact the accessibility of funding. | **Rejected** |
| H0B: The demographic features of MSME owners and the characteristics of MSMEs can positively or negatively impact MSME performance. | **Rejected** |
| H1A: Crowdfunding is positively associated with the accessibility of funding. | **Accepted** |
| H1B: Crowdfunding is positively associated with MSME performance. | **Accepted** |
| H2A: MSME owners’ lack of financial literacy is negatively associated with MSME access to funding. | **Accepted** |
| H2B: MSME owners’ lack of financial literacy is negatively associated with MSME performance. | **Accepted** |
| H3A: Low government support has a negative relationship with MSME access to funding. | **Accepted** |
| H3B: Low government support has a negative relationship with MSME performance. | **Accepted** |
| H4A: Financial institutions’ terms and conditions are negatively associated with MSME access to funding. | **Accepted** |
| H4B: Financial institutions’ terms and conditions are negatively associated with MSME performance. | **Accepted** |
| H5A: Banking competition is positively associated with the accessibility of funding. | **Accepted** |
| H5B: Banking competition is positively associated with MSME performance. | **Accepted** |
| H6A: A weak legal environment for MSME owners is negatively associated with the accessibility of funding. | **Accepted** |
| H6B: A weak legal environment for MSME owners is negatively associated with MSME performance. | **Accepted** |

For a quick overview, a summary of the hypotheses is provided in Table 6.20. Twelve hypotheses are approved based on the statistical analysis, whereas two hypotheses are rejected because the relationships are not statistically significant (according to the p-values).

**6.12 SUMMARY**

This chapter focused on evaluating the characteristics of MSME owners and of MSMEs; the current MSME financing system; the obstacles faced by MSMEs and the impact of these obstacles on MSME growth and development; and various aspects of MSME access to finance. The descriptive findings for MSME owners reveal that the majority of participants (224) were men, a majority fell within the age range of 30–39 years, and a majority (202) had bachelor’s degrees. Regarding MSME characteristics, the majority (108) were relatively young (less than six years old). The descriptive findings reveal that the majority of MSMEs (246) have four or fewer employees. Other prominent findings showed that 230 participants were individual owners of MSMEs; 73 MSMEs operated in wholesale trade; the majority of MSMEs (219) were not registered, which means they have no legal status; the majority of MSMEs (150) have from USD 100,000 to less than USD 250,000 invested capital; and 187 MSMEs started their businesses after completing feasibility work.

A preliminary analysis was conducted to measure the normality, CMV, and heteroscedasticity of the data. When measuring the normality of the data, it was found that most of the values plotted for this study show a bell-shaped curve, meaning that the data are normal and can be used for further preliminary analysis. The results also revealed that the standardised residual centrality value is near zero, which means that there is no heteroscedasticity and that the results of the linear regression analysis will be free from error. In summary, the statistical values of heteroscedasticity were normal, indicating that there was no risk of multi-collinearity, which can exaggerate the value of the independent variable and negatively influence the results of linear regression analysis.

This study also evaluated the CMV as it is a major concern, especially when a researcher collects data from a single source and uses a cross-sectional time horizon. The CLF was used to measure the CMV, and it was found that these values were below 0.20. This means the data are of an acceptable standard and free from CMV. The reliability and validity were measured through CR and CFA. The results of the reliability test reveal that the CR values are also acceptable, ranging between 0.65 and 0.85. Furthermore, the CFA indicator reveals that there is a good model fit and that this model is valid for further analysis.

In a descriptive analysis, the mean, standard deviation, and correlation results are very important for the final conclusions of regression analysis. The correlation analysis found that demographic variables had no relationship with the independent and dependent variables (the proposed hypotheses). A regression analysis was also conducted to test the proposed hypotheses. The results reveal that crowdfunding is positively linked to the accessibility of funding and MSME performance. The findings from the linear regression analysis showed that a lack of financial literacy of MSME owners is negatively associated with MSME access to funding and performance.

The results reveal that government support negatively affects MSME access to funding and performance. FIs’ T&Cs are negatively associated with MSME access to funding and performance. Banking competition is positively associated with the accessibility to funding and MSME performance. Finally, a weak legal environment for MSME owners is negatively associated with their ability to access funding. This chapter discussed the results of the quantitative research, whereas the next chapter discusses the results of the qualitative research.

The findings show that MSMEs are adopting substitute options to raise funds for their projects. This is because funds are not easily accessible from predominant sources such as FIs due to constraints on access to bank credits and stringent loan terms and conditions. One major reason why affordable funding options are necessary is that FIs charge exceedingly high interest rates; therefore, MSMEs face challenges obtaining support from these institutions. This study found issues related to financial literacy, showing that MSME owners do not understand complicated collateral and credit guarantor requirements, which has reduced their accessible funding options. The results reveal a weak legal infrastructure that creates barriers to MSME access to funds.

Furthermore, the results show that a lack of government support and political stability prevents MSMEs from getting sufficient support from international investors. The findings also provide insights into how the lack of financial literacy on the part of MSME owners and managers in Palestine is directly associated with a lack of innovation, which ultimately results in the poor performance of MSMEs.

# CHAPTER 7: QUALITIVE DATA ANALYSES

## 7.1 INTRODUCTION

Chapter 6 presented the quantitative analyses of challenges facing MSMEs from the perspective of MSEMs’ owners and managers. It described how these challenges can affect MSME performance and access to financing from FIs using information obtained via a survey questionnaire. The findings described earlier in subsection 6.3 show the difficulties and obstacles MSMEs face obtaining funds from FIs. Despite these difficulties, the study results are limited in context as they present only the personal views of MSME owners and managers. To overcome this limitation, the study also incorporated a qualitative approach, using interviews to explore why banks and other FIs are reluctant to finance this sector. As one of the major objectives of this research is to identify the issues and barriers impacting the accessibility of funds for selected organisations in Palestine, it adapted the qualitative data collection process of semi-structured interviews. This chapter provides the qualitative findings and analysis obtained from 24 interviews with government representatives, agencies (credit guarantors) and FIs. Relevant responses from multiple MSME stakeholders were gathered under the specific themes described below.

As outlined in Chapter 5, the thematic analysis describes the contextual parameters within which the qualitative data is examined. In this study, the initial interviews were thoroughly transcribed, and a coding scheme was established for understanding the specific challenges faced by MSMEs in order to propose a model to improve their access to financing from banks and FIs. Using thematic analysis to analyse the data from the semi-structured interviews, the relevant responses from multiple MSME stakeholders were gathered under specific themes. The emergent pattern was subsequently interpreted to better understand the challenges faced by MSMEs and make sense of the supporting factors.

Four major themes were developed through thematic analysis of the qualitative data: strategic overview, borrowing requirements and limits for MSMEs, common challenges and solutions for MSMEs, and the roles of different institutions and authorities. The following section discusses each of the four main themes in turn and explains the details of the codes upon which the themes are based.

## 7.2 MAIN THEME 1: STRATEGIC OVERVIEW

The first theme under discussion here is the ‘strategic overview.’ In other words, this is the theme that addresses the common defining criteria adopted by different FIs for Palestinian MSMEs. The defining criteria include the number of employees; ownership; percentages of shares; and annual sales.

The obstacles faced by banks and MFIs whilst offering financial support to MSMEs are also discussed here. According to Kawasmi and White (2010), MSMEs can be defined as privately owned, not owned by the Palestinian Government, and are therefore able to vary their numbers of employees.

In the Palestinian context, microenterprises tend to employ between one and four full-time equivalent workers, small enterprises employ between five and nine full-time equivalent workers, and medium enterprises employ between 10 and 19 full-time equivalent workers. It is argued that MSMEs can be defined with respect to the number of employees, ownership, shares and annual sales (Kawasmi and White, 2010). The following discussion centres on the obstacles faced by the banks and MFIs whilst offering financial support to MSMEs. The obstacles are discussed with respect to legalities, economic concerns, accounting, financing, and the overall costs involved when banks and MFIs deal with MSMEs in Palestine.

**Code 1:** Defining Criteria for MSMEs

Interviewees were asked what specific criteria had been used by the banks/MFIs for allocating funding to MSMEs. Most participants agreed with the defining criteria that the number of employees of the MSMEs should be fewer than twenty and they should be privately managed by an individual or group of people. For example, Interviewee 1 asserted that *‘we consider MSMEs are those which are privately managed by an individual or group of family members. The other criteria to consider for the MSMEs, it should be less than 20 employees otherwise it can be considered as a large enterprise for our institution.’* Similarly, another participant expressed a similar perspective, despite acknowledging that no specific/standard criteria for identifying MSMEs generally exist. Interviewee 3 stated that *‘there are no standard criteria to determine MSMEs in our microfinance institutions, so we only see that if a business is privately owned by a person/group of family members and the number of working employees are less than 20 then it is an MSMEs for our institute’.* It was found that although there is a maximum employee limit of between 20 and 25, no minimum limit exists, and therefore even those MSMEs which have four employees are contacted for a loan from FIs. For example, Interviewee 2 explained that *‘I have seen in my working life that many MSMEs are contacted by us which have four employees, as there is no minimum employee limit for an MSME.’*

Some FIs have determined the defining criteria for MSMEs based on the number of specific shares and annual sales. For example, Interviewee 14 highlighted that *‘we take an MSME when 51 percent of shares are owned by an individual private owner or family members and working employees should be less than 20 employees, then we can issue a loan up to a maximum of $25000.’* The interviewees revealed that they have established defining criteria for lending purposes and that the loan amount varies from USD 5000 USD to USD 25,000 for MSMEs. Furthermore, some FIs demand 51% shares in the name of an individual or group of family members, and some asked for more than USD seven million in annual sales. For instance, Interviewee 7 stated that *‘we usually consider a company an MSMEs when the number of employees should not exceed 25 and annual sales should not go beyond USD 7 million. It is not applicable for all institutions, but we follow this when we grant a loan of a minimum of USD 5000.’*

**Code 2:** Obstacles to Banks’ Microfinance Institutions

The interviewees targeted were asked what factors are considered as important obstacles to the banks and MFIs’ involvement with MSMEs. Here, obstacles to the banks/MFIs refer to factors that can negatively influence access to financial support for MSMEs. There is evidence in the literature that positive economic effects and an increase in funding accessibility come from increasing banking competition in the industry. However, Interviewee 19 noted*, ‘Unfortunately we have limited banks that are offering loans compared to the number of MSMEs which need funds at a low-interest rate.’* The challenges of MSMEs’ access to funding have increased due to the small number of banks offering loans compared to the number of MSMEs which require funding. Furthermore, this situation also indicates that there is low banking competition and, consequently, there are more complicated procedures and requirements for MSMEs to access funding.

Interviewee 21 explained that *‘some MSME owners could not understand the complicated collateral and credit guarantor requirements which are very high because of the low number of banks and weak legal infrastructure.’* The results reveal that a lack of financial literacy reduced the MSMEs managers’ abilities to fulfil necessary requirements such as providing documentation relating to collateral and credit guarantors, which culminated in challenges in accessing funds. It has also been found that because of the low number of banks (i.e. low banking competition) there are more complicated lending procedures as banks believe that a weak legal infrastructure can cost more in terms of default and credit loss risks. Interviewee 21 also stated that *‘there is no banking competition in financial service quality and delivery and that’s why we are facing difficulties to access suitable funding options.’* The results reveal that MSMEs are suffering due to the lack of banking competition given that banks set more T&Cs but are unable to provide the high standard of services that can make it easy for MSMEs to access funding.

The findings also indicate that the legal and economic environment of Palestine is suboptimal and FIs are therefore facing high probabilities of default and credit losses. For example, MSMEs based on land with fraudulent or inexistent land registry documentation cause major barriers given that they are unable to provide legal documents for collateral purposes. Due to high uncertainty in the legal and economic environment, MFIs require both collateral and credit generators as a requirement for providing financial support to MSMEs. For instance, Interviewee 11 explained that *‘our legal and economic environment is very weak, so sometimes we ask for both collateral and a credit guarantor for reducing the chances of default and credit risk. So, some MSMEs cannot provide both and consequently they are not getting support from us.’* MSME owners either have no knowledge of how to address the collateral and credit guarantor requirements or they do not have the required documentation to access a credit guarantor (i.e. legal land registry, six months’ positive profit statements, and a credit history report). These credit guarantor T&Cs make it difficult for MSME owners to access funding.

Real estate registration documents (title deeds) mean that it is a legal document issued by the Competent Land Registration Department (Tabou Department) which affirms a person's right to own a property, and the term ‘clean’ means that the property is not mortgaged to any authority.

Another participant shared that many MSMEs are privately owned and, therefore, the owners require support from FIs during the initial stages. However, credit history is one of the main obstacles that prevent loans from being granted as FIs cannot take risks, especially when considering failure rates and the probability of high risks for MSMEs. For example, Interviewee 19 observedthat *‘some MSME owners who visited us are unable to provide their credit history as they are newly established MSMEs and consequently, our institution cannot take risks especially when failure rates of MSMEs are high in our area.’* These FIs’ T&Cs (i.e. credit history, financial statements, experience, business addresses, ID copies, guarantees, investment details, sales records, profit details, the start-up period, salary details etc.) have created complications for funding accessibility at the initial stages of business, and, consequently, MSMEs face more challenges that can influence their level of performance.

Some participants have explained that due to high default risks and credit losses rates, FIs are granting loans at higher interest rates and lower maturity periods which are not suitable for MSMEs. MSMEs’ focus is on small markets with small numbers of annual sales. Consequently, MSMEs are not in a position to pay higher interest loans. Therefore, the management of MSMEs sometimes prefer not to borrow from FIs, which ultimately reduces the funding options for MSMEs. For example, Interviewee 21 highlighted that *‘many MSMEs do not require loans from institutions as these institutions usually give higher interest rates at lower maturity periods so people are more comfortable to use personal sources where they are not bound to pay fixed interest and payback in a short period.’*

Although competition increases MSMEs’ products and services quality, it also negatively impacts profit statements, especially for newly established MSMEs. These cannot show a significant profit for taking loans following FIs’ T&Cs. For example, Interviewee 3 explained that *‘competition among MSMEs helps to improve MSMEs’ performance, but it also minimises the chance to show good profits for six months and consequently MSMEs have limited borrowing options.’* The World Bank has declared Palestine as a place where lender rights are not secured given that costs of debt recovery and insolvency are high due to the weak legal and economic environment. Consequently, many FIs have strict requirements for MSMEs. For example, Interviewee 23 noted *that ‘you can see that the World Bank considered our country as weak in the context of an economy and legal law implementation. As we have no secure lender rights, consequently, our lending is extremely low for MSMEs because costs of debt recovery and insolvency is very high, so we are very careful when lending to MSMEs.’*

There is evidence that limited pre-planning and low financial literacy negatively influence the owner’s abilities to identify which funding options are available and how they can use them effectively for establishing their businesses. For instance, Interviewee 11 reported that *‘I saw many MSMEs have low knowledge about financial borrowing options and limited planning before the start of the business, and consequently, they do not know what the best funding options for them are’*. Availability of capital is a major challenge which prevents MSMEs’ owners from being able to pre-plan and attend the valuable training programmes and seminars which may be helpful in increasing their financial literacy, access to funding and MSMEs’ performance. *For example,* Interviewee 3 explained how *‘the management and lower-level employees of MSMEs cannot get opportunities for training programs and other valuable seminars due to the limited availability of capital. Consequently, many MSMEs have failed at the initial stages as their employees have limited knowledge and experience.’* These participants described how the risk to MSMEs’ survival is high especially during the initial stages as the limited training options, lack of experience and low capital can negatively influence their profit rate, and consequently of this, they have very low borrowing options. For example, Interviewee 19 shared the following: *‘I saw many owners of MSMEs suffer as their MSMEs are not legal, so their chances of getting funding from* FIs *were really limited as they have strict terms and conditions.’* Meanwhile, Interviewee 21 explained, *‘Believe me, many MSMEs owners cannot arrange funding from external sources because of low knowledge and profit.’*

Therefore, this strategic overview theme has highlighted the defining criteria details for MSMEs, and the obstacles facing the banks/MFIs in Palestine. It has covered and explained the defining criteria for MSMEs, which is set by FIs for recognition by local MSMEs. It has discussed the definition of MSMEs, as well as the number of employees they usually have working for them. MSMEs are considered as privately owned, not owned by the government, and are able to vary their employee numbers in Palestine. The findings within this theme confirm that most of the FIs agreed that the number of employees working in MSMEs must be fewer than 20, but they did not dictate any minimum limit and they even have considered an MSME that has only four employees. The other prominent finding is that these FIs consider funding USD 25,000 for MSMEs which have 51 percent of shares owned by the individual private owner and have a minimum of 20 employees working for it. Some FIs consider USD 5000 funding for MSMEs that have below seven million sales and fewer than twenty-five working employees. Hence, it can be argued that there is no single criterion for defining MSMEs, and different FIs set their own criteria for granting loans.

The most important part of this theme are the obstacles to the banks/MFIs that are linked to the MSME owners’ abilities and knowledge, the role of the government, the legal environment, and the FIs’ T&Cs. For example, some participants shared that the total number of banks and the amount of loans are low in comparison to the numbers of MSMEs. Accordingly, the existing banking institutions cannot fulfil the funding needs of MSMEs. There is a weak legal environment, and some MSMEs have fraudulent or no land registry documentation. In addition, the debt recovery, insolvency, and failure rate of MSMEs are quite high. Consequently, these FIs have set a range of T&Cs (including credit history, guarantees, investment details, financial statements, experience, business addresses, ID copies, sales record, profit detail, start-up period, salary details, collateral, and guarantors) for evaluating the businesses’ creditworthiness. Most MSME owners have lower levels of financial literacy which, in turn, decrease their options for finding feasible funding solutions for the growth of their MSMEs.

The section explores the criteria used by banks/MFIs for allocating funding to MSMEs and the obstacles faced by them. The data were collected through semi-structured interviews. The findings reveal that the number of employees in an MSME is a significant defining criterion for banks/MFIs. Most of the FIs consider MSMEs to be privately owned, not owned by the government, and having fewer than 20 employees. However, there is no minimum employee limit, and even MSMEs with four employees are contacted for a loan. Moreover, the loan amount varies from USD 5000 to USD 25,000 for MSMEs based on different criteria, such as 51% shares owned by the individual private owner, annual sales, and the number of working employees.

The study also highlights various obstacles faced by MSMEs in accessing funds from banks/MFIs. One of the significant issues is the low availability of banks that offer loans compared to the number of MSMEs that require funds. The situation also indicates low banking competition, leading to complicated procedures and requirements for MSMEs to access funding. Additionally, a lack of financial literacy among MSME owners decreases their abilities to fulfil necessary requirements, such as providing documentation relating to collateral and credit guarantors, culminating in challenges in accessing funds. The legal and economic environment of Palestine is suboptimal, and FIs face high probabilities of default and credit losses. As a result, FIs require both collateral and credit generators as a requirement for providing financial support to MSMEs. This section provides insight into the defining criteria for MSMEs and the obstacles they face in accessing funds from banks/MFIs. The data collected through semi-structured interviews highlights the different criteria used by FIs to determine MSMEs, and also identifiy the challenges faced by MSMEs, such as low banking competition, lack of financial literacy, and suboptimal legal and economic environments.

The next main theme of "Credit Borrowing Requirements and Limits for MSMEs" is an essential aspect of the research as it aligns with the research aim and objectives of exploring the challenges and opportunities for MSMEs' financial accessibility in Palestine. This theme covers the defining criteria for MSMEs and the obstacles facing banks and MFIs in providing credit facilities to these enterprises. It sheds light on the criteria set by FIs for MSMEs to be recognised and the loan amount limits offered to them. Moreover, it explores the challenges faced by MSME owners in meeting the FIs' terms and conditions, such as credit history, guarantees, investment details, and financial statements. Overall, this theme is crucial in understanding the credit borrowing requirements and limits for MSMEs and the challenges they face in accessing financial support.

## 7.3 MAIN THEME: CREDIT BORROWING REQUIREMENTS AND LIMITS FOR MSMEs

Under this theme, interviewees shared information about the borrowing requirements and limits for MSMEs. For example, credit borrowing requirements include a credit guarantor and collateral, interest rates and maturing periods after calculating the probability of default and other risks. Furthermore, creditworthiness is evaluated by all FIs and they judge it by credit history, financial statements, experience, business addresses, ID copies, guarantees, investment details, sales record, profit details, start-up periods, and salary details. Credit limits relate to borrowing with respect to debt equity ratios, in addition to how many loans are given to trading, light industry, services, construction, agriculture, and health sector MSMEs. Finally, this theme also includes the role of the credit department – their working employees, skills, duties, training, and support from other institutions.

**Code 1:** Collateral as a Major Requirement of Loans

Collateral is an asset pledged by the borrower to the lender, which the lender has the right to seize and sell should the borrower default on the loan repayments. Collateral is used to protect the lender against credit risk. Collateral is an important feature of the banks' lending decision, and the banks usually extend loans to the borrowers who have the capacity, ability and commitment to repay the loan.

Pledging collateral means that the borrower could lose part of his property if they do not repay the money on time, so the borrower has an interest in repaying.

The interviewees were asked about whether the banks and other FIs require collateral for loans to MSMEs, as well as how this influences the accessibility of funding and MSMEs’ performance. Collateral refers to real estate, securities or any other assets acceptable by the lender as a guarantee of MSMEs' ability to return the borrowed money as well as the interest amount to the lenders or banks. Generally, the collateral is equal to the principal plus the interest rate, as well as the cost of debt recovery and insolvency. MSME owners complained of insufficient support from government officials. They shared that MSMEs are managed by individual owners who may not have assets which they can use for collateral and, therefore, a credit guarantor is one of the options which can be used by the FI as an alternate to collateral. For example, Interviewee 24 stated that *‘due to lack of support from the government and the low number of assets, the majority of MSME owners are not in a position to provide collateral to my bank, but a credit guarantor which should cover credit portfolio and default risk is a good option which acts as an alternative option when there is no collateral for borrowing.’*

The interviewees highlighted how sometimes, the owners of MSMEs are not fully aware of how to arrange collateral and guarantor for accessing financial funding from banks, and consequently they have low borrowing options. For example, Interviewee 22 explained, *‘As per my experience, I found that most of the owners of MSMEs applied for loans when they started their business. But they don’t have information or provide either collateral or a credit guarantor and as a result our bank hesitates to give the loan due to the risk of high credit losses.’* It was found that FIs may not want to decline MSMEs for loans as they do not have many options for lending, and therefore sometimes relax their conditions and only ask for a credit guarantor. However, they charge a high-interest rate when owners are unable to provide collateral. For example, Interviewee 19 recounted how *‘trade finance, overdrafts, and credit lines are famous options which we offer to retail trading. Our institution has not got many options for lending so we cannot decline all MSMEs. So, we usually relax our loan conditions and accept only a credit guarantor, but we give loans at high-interest rates if there is no collateral.’*

Furthermore, interviewees were asked about banks adopting stringent T&Cs (e.g. mortgaging tangible assets or verifying the lender's financial position and the adequacy of cash flows from operations) when credit is granted to production sectors due to their high risk prior to focusing on repayment guarantees. Regarding this issue, Interviewee 24 highlighted that *‘most of our banks have a loan officer who got training from the head office of the bank and the European Palestinian Credit Guarantee Fund (EPCGF) so that they can calculate cash inflows and financial positions for determining the eligibility for repayments.’* Interviewee 22 stated that *‘our bank has the option when a loan is given to the production sector, then we can take collateral such as rights to seize buildings. By mortgaging the building, we are in a better position to give the maximum amount of loan to MSMEs in the production sector.’* These interviewees revealed that MSMEs in the production sector can be offered specific T&Cs, such as the option of mortgaging a building, so that the bank has the option to seize the property or sell it to recover the total borrowed money.

The interviewees were asked about whether the participation of EPCGF as a credit guarantor changed the FIs’ behaviour and whether or not it provided more accessibility of funding options for MSMEs. The interviewees replied that EPCGF changed the motivation and behaviour of FIs’, as previously these were not in a position to issue high-risk loans, especially when MSMEs could not provide acceptable collateral for high-risk coverage. For example, Interviewee 19 maintained that *‘as many MSMEs are unable to meet bookkeeping and collateral requirements, so there are more chances to decline the loans, but EPCGF changed this as they provide free training to calculate cash inflows, on how to access the credit history and collateral support.’* The initiatives of EPCGF have given more support to FIs when there is a high risk for FIs, in order to manage the cost of debt, insolvency and repayments of borrowed money on time. Therefore, FIs have issued strict T&Cs. The risk coverage guaranteed by EPCGF has made it easier for MSMEs and banks to increase the accessibility of funding.

Based on the information provided in the semi-structured interviews, it can be inferred that collateral is a major requirement for loans, especially for MSMEs, and it affects the accessibility of funding and MSMEs’ performance. The interviewees revealed that the lack of assets and support from government officials makes it challenging for MSME owners to provide collateral, which can limit their borrowing options. As a result, some banks may relax their loan conditions and only ask for a credit guarantor, but they charge high-interest rates when owners are unable to provide collateral.

Moreover, the interviewees indicated that FIs may want to decline MSMEs for loans due to their high risk, but they do not have many options for lending, so they sometimes adopt stringent terms and conditions, such as mortgaging tangible assets or verifying the lender's financial position and the adequacy of cash flows from operations, when credit is granted to production sectors. The risk coverage guaranteed by the EPCGF has made it easier for MSMEs and banks to increase the accessibility of funding. EPCGF has also provided free training to FIs on how to calculate cash inflows, access credit history, and collateral support, which has changed the behavior and motivation of FIs and made them more willing to issue high-risk loans to MSMEs. Overall, the interpretation of this section of data suggests that collateral is an important factor for accessing funding for MSMEs, and lack of support from government officials can limit the borrowing options of MSME owners. However, initiatives such as credit guarantors and free training provided by organisations like EPCGF can improve the accessibility of funding for MSMEs and change the behavior and motivation of FIs. This information is relevant to the research aim of understanding the credit borrowing requirements and limits for MSMEs and can help in developing strategies to improve their access to finance.

**Code 2:** Credit Limits for MSMEs Based on Sector

The interviewees were asked whether the bank's T&Cs (i.e. credit policy which sets the credit limits grant) are set differently for MSMEs in different economic sectors, and what the highest percentage of credit limits was for productive MSME sectors. Although participants shared that they do not have different credit policies for various sectors of MSMEs, they also gave various valuable statistics. Interviewee 7 stated that *‘until now we have not set any specific limit for MSMEs as the main bank in Palestine. We have a* *minimum of USD 5000 and there is no maximum limit, but we ensure that the debt-to-equity ratio should not exceed 40% for new MSMEs and 60% for those MSMEs who have good credit history and reputation.’* The findings reveal that there are no specific credit limits with respect to various sectors of MSMEs but that most banks usually ensure that a debt-to-equity ratio is followed for those MSMEs which are newly established, as well as those which have positive cash inflows and credit history. These 40:60 debt to equity ratios help the banks to avoid risks of default and credit losses.

Interviewee 2 highlighted that *‘although we have no specific credit limit, we have* *EPCGF statistics which tell us how much credit we assign in different MSME sectors. Out of USD 4,812,807, 68% are given in trading, 17.76% in light industry, 7.22% in services, 6.30% in construction, and the remaining 0.12% and 0.53% to agriculture and health, respectively.’* These percentages indicate that EPCGF is playing a key role in supporting the MSMEs, especially when government officials and local FIs cannot create supportive policies for developing and maintaining MSMEs. Furthermore, these statistics highlight that most EPCGF support as a credit guarantor is given to MSMEs in the trading sector. Consequently, those MSMEs involved in trading are able to access more funding. These funding options increase the investment opportunities as well as stabilise sales and cash inflows which improve financial performance for MSMEs in the trading sector. This section of the semi-structured interviews provides valuable insights into credit limits for MSMEs in different economic sectors. The findings suggest that while there are no specific credit limits for different sectors of MSMEs, banks usually ensure that a debt-to-equity ratio is followed for newly established MSMEs, as well as those with positive cash inflows and credit history. This helps the banks to avoid the risks of default and credit losses.

Moreover, the statistics provided by EPCGF show that most of their support as a credit guarantor is given to MSMEs in the trading sector, with 68% of the total credit assigned to this sector. This highlights the crucial role played by EPCGF in supporting MSMEs, especially when local FIs and government officials fail to create supportive policies for their development and maintenance. This support provides more funding options and investment opportunities for MSMEs in the trading sector, leading to improved financial performance, sales, and cash inflows. These findings have important implications for policymakers and financial institutions in developing and implementing credit policies for MSMEs in different economic sectors, particularly in ensuring accessibility of funding and fostering the growth and development of these businesses.

**Code 3:** Creditworthiness of MSMEs

The interviewees were asked about the banks’ T&Cs regarding judging the creditworthiness of MSMEs. MSMEs’ creditworthiness means whether the owner(s) is/are suitable for lending purposes and whether they are able to pay the principal amount plus the interest rate within a specific period. There are different types of proof required by banks as part of the strict T&Cs for checking the creditworthiness of MSMEs. For example, Interviewee 2 explained that *‘when* *MSME owners apply for the loan in our bank, we ask for good credit history, recent financial statements, proof of experience and valid business address, 51% of shares must be held by family or the owner, collateral, and a credit guarantor,**which are part of the requirements for checking creditworthiness.’* Credit history and financial statements are the most important things which are usually required by the majority of banks, given that they are the best way to analyse the creditworthiness of MSMEs. However, it is difficult for newly established MSMEs to provide all of this evidence given that the management may have a lack of financial literacy, as well as an inability to show a positive cash inflow at the start of the business. Therefore, these newly established MSMEs have low access to funding, which can also negatively influence their level of performance.

Other participants stated that they are required to check the legal identifications (IDs) of both the owner and the guarantor, a non-objection document of fair credit history from a credible institution, and the investment and sales record, so that they can ensure that the owner of the MSME can return the borrowed finances in a timely manner. For example, Interviewee 6 shared that *‘we usually require ID copies, the salary record of employees, documents of guarantee, credit history, non-objection document from credible institutions, investment and sales record which help us to judge the creditworthiness and then we can talk about possible loan options, maturity periods, and interest rates’.* Furthermore,Interviewee 6 described how *‘some of my friends (MSMEs owners) have enough financial knowledge and skills, but they cannot pay the banks high interest.’* It was found that loans are offered only to those MSMEs which have completed one year in business and show a positive profit statement from the last six months. Furthermore, MSMEs should have collateral or a credit guarantor as a security on returning the loan, otherwise the banks have no grounds for offering funding to MSMEs. For example,Interviewee 5 reported that*‘we require profit statements of the last six months, evidence of completion of one year for business start-ups, regular checks, converted salaries, salary checks, collateral and credit guarantor information for analysing the**creditworthiness of MSMEs.’* These strict T&Cs can bring about significant improvements in the performance of MSMEs but require financial literacy and experience which cannot be fulfilled by all MSME owners. The section of data sheds light on the banks' requirements for judging the creditworthiness of MSMEs. The findings show that the banks require various types of proof, such as credit history, financial statements, proof of experience, valid business address, collateral, and a credit guarantor. However, it was found that newly established MSMEs face difficulties in providing all of this evidence, which can limit their access to funding and negatively impact their performance. The strict T&Cs for checking creditworthiness can improve the performance of MSMEs, but they require financial literacy and experience that not all MSME owners possess. Therefore, it is important for the banks to develop policies and programmes that provide support and training to MSME owners in financial management to help them meet the requirements for accessing funding.

**Code 4:** Department Specialising in MSMEs

The interviewees were asked about whether the banks have a special department to deal with MSMEs, and how this department functions to support the accessibility of funding.

The findings show that banks have a special credit department that is responsible for loans at individual, MSMEs and enterprise levels. Credit departments usually have a loan officer who is responsible for evaluating the MSMEs’ creditworthiness by gathering financial statements and other important documentation required for lending. MSMEs usually have limited employees, especially in terms of financial experts, and the EPCGF has therefore trained lending officers so that they can prepare MSMEs’ financial statements for supporting easier borrowing. For example, Interviewee 20 shared that *‘the EPCGF is acting as a credit guarantor with the help of different banks partners in Palestine. Recently, they have started the initiative to train lending officers so they can help the MSMEs to prepare financial statements and other documentation.’* The purpose of this EPCGF training is organised so that the bank credit department does not stipulate onerous requirements for funding access. In addition, it assists the management of MSMEs to prepare the documentation, particularly when they have a lack of financial experts and financial literacy, which limits opportunities to access timely funding.

Another interviewee revealed that some banks have a specialised credit department where a group of three people work to provide credit support to MSMEs. For example, Interviewee 2 noted that *‘due to increasing banking competition, now we developed a credit department which is specially assigned for lending to individuals, enterprises, and small businesses. One officer is responsible for all creditworthiness requirements being fulfilled. We have a marketing relationship officer who provides information and evidence for borrowing. We have a special credit collection agent who ensures that the borrower returns the money on time.’* The results reveal that the loan/lending officer, marketing relationship officer and credit collection agent are some of the employees who directly deal with the management of MSMEs. Their role is therefore extremely important as they can educate and help the management of MSMEs to fulfil the T&Cs for accessing funding. The credit department is responsible for evaluating the creditworthiness of MSMEs and requires a loan officer to gather financial statements and other necessary documentation. The EPCGF has provided training to lending officers to assist MSMEs in preparing financial statements and documentation, which helps them in fulfilling the requirements for accessing funding. Some banks also have a specialised credit department, which consists of a group of employees who are responsible for providing credit support to MSMEs. These employees include a loan officer, marketing relationship officer and credit collection agent. The loan officer evaluates creditworthiness, the marketing relationship officer provides information and evidence for borrowing, and the credit collection agent ensures that the borrower returns the money on time. Overall, the role of these employees is significant in educating and supporting MSMEs in fulfilling the T&Cs for accessing funding.

**Code 5:** Islamic Financing and Conditions

Palestine is an Arab countrywith a mainly Muslim population, and so Islamic ideology also applies to economic activities. Followers of Islam are forbidden from getting involved in interest-based borrowing or lending, or other businesses such as alcohol and gambling. In this manner, those MSMEs owners who follow a strict Islamic creed/ideology also minimise their chances of having easy access to funding options because these types of options may only be available with interest. Consequently, the concept of Islamic financing is introduced, whereby Islamic ideology is followed by FIs offering borrowing options that avoid fixed interest rate practices. The interviewees were asked about Islamic FIs and their instruments that can help the MSMEs to access funding and improve their levels of performance. The interviewees shared the names of famous institutions which offer various seminars and training programmes to increase financial literacy regarding Islamic instruments for MSMEs. For example, Interviewee 16 shared that *‘the Arab Center for Agricultural Development, Palestine for Credit and Development, Palestinian Development Fund, and Reef Finance Company are famous FIs which are conducting seminars to give education about Islamic financing options to MSMEs.’*

There are three famous Islamic financial instruments: Ijara, Musharaka and Mudaraba. Ijara means ‘Ijarah with a vow of ownership.’ For example, Interviewee 1 shared that *‘I took Ijarah as it is as per Islamic ideology and issued ways of purchasing machinery for MSMEs on lease and MSMEs can also rent the machine, but it remains the property of FIs which provides money to purchase it.’* It can be argued that Ijara helps the MSMEs to access funding following Islamic ideology and supports advancing technologies that can help the MSMEs to improve their level of performance. Musharaka means joint venture, whereby profits and losses are equally shared between Islamic FIs and MSMEs. For example, Interviewee 3 explained that *‘as we are living in country where people usually follow Islamic ideology that pushes us to accept a profit and loss sharing model as well as restricts us to taking borrowing on interest.’* Finally, there is Mudaraba which refers to when MSMEs start a business after receiving financial support and they share profit with the investor.

Mudaraba promotes Islamic financing and MSME owners may feel satisfied that they are accessing funding following Islamic ideology. This evidence comes from Interviewee 4, who stated*, ‘Ijara (leasing), Musharaka (partnership/ joint venture), and Mudaraba (profit sharing) are famous instruments that are purchased by many of my friends (MSMEs owners) who are looking for Islamic financing options.’* Under a private investment fund, Ijara has become the first Palestinian Islamic leasing option which supports MSMEs in buying machinery for starting up their business.

The second theme regards the detail of credit borrowing requirements and limits for MSMEs. In this theme, there is discussion of collateral as a major requirement of loans, and how this impacts the accessibility of funding and MSMEs’ performance. For example, the collateral requirement is linked back to financial T&Cs in addition to the grievances of MSME owners regarding low government support as some of them do not have assets that can be used for collateral. In this manner, they are unable to access funding from FIs. In the absence of collateral, a credit guarantor (which covers the credit portfolio and default risk) is a good option which acts as an alternative when there is no collateral for borrowing. However, the findings show that the absence of collateral usually increased the interest rate of borrowing, which may be not suitable for those newly established MSMEs. Furthermore, the credit guarantor documentation is also complicated for MSME owners, especially when they have a low level of financial literacy. It is evident from the interviews carried out with the employees of FIs that most MSME owners cannot provide either collateral or a credit guarantor and, therefore, these FIs are reluctant to provide loans due to the risk of high credit losses.

The findings within this theme also reveal that there is no specific limit for MSMEs based on their sector, but some FIs have a minimum USD 5000, and there is no maximum limit. These FIs also offer loans based on a debt-to-equity ratio. This ratio must not be above 40% for new MSMEs, and 60% for those MSMEs who have good profit and credit histories. Before accepting or rejecting any application, many documents have to be analysed by the FIs to authorise MSMEs’ creditworthiness and eligibility.

For example, MSMEs are required to show good credit history, recent financial statements, proof of experience and a valid business address, collateral, and credit guarantor. However, the lack of human capital, low number of financial resources, and lack of financial literacy created challenges in meeting the requirements of FIs, and consequently most MSME owners cannot meet the requirements of a loan. The findings also revealthatthe external competition pressure of FIs also forced banks to hire marketing experts to educate and train MSMEs owners with the purpose of increasing their financial literacy skills and opportunities for accessing funding.

The findings suggest that Islamic FIs offer various seminars and training programmes to increase financial literacy regarding Islamic instruments for MSMEs, such as Ijara, Musharaka, and Mudaraba, which follow Islamic ideology and promote access to funding for MSMEs. However, the data also reveals challenges in accessing funding for MSMEs due to strict T&Cs for checking creditworthiness and collateral requirements, which limit opportunities for those MSMEs who have a lack of financial literacy and resources. The absence of collateral usually increases the interest rate of borrowing, which may not be suitable for newly established MSMEs, while the documentation for credit guarantors is often complicated for MSME owners, further limiting opportunities for accessing funding.

Furthermore, the findings show that there are no specific credit limits for MSMEs based on their sector, but most FIs usually ensure that a debt-to-equity ratio is followed, helping them to avoid risks of default and credit losses. The external competition pressure of FIs has also forced banks to hire marketing experts to educate and train MSMEs owners, aiming to increase their financial literacy skills and opportunities for accessing funding. Overall, these findings suggest that while some initiatives are being taken to support MSMEs in accessing funding, more needs to be done to address the challenges they face in meeting the strict T&Cs for creditworthiness and collateral requirements. Collateral is a major requirement for loans, but MSME owners often lack the assets needed for this, and credit guarantors are not always available. There are no specific credit limits for MSMEs based on sector, but FIs use a debt-to-equity ratio to ensure creditworthiness. Lack of financial literacy, human capital, and resources make it challenging for MSME owners to meet these requirements. However, there are solutions to these challenges, including the provision of training and seminars by FIs to increase financial literacy skills, and the introduction of Islamic financing options that align with the Islamic ideology followed by many MSME owners in Palestine. The next theme, Common Challenges and Solutions for MSMEs, will focus on the challenges faced by MSMEs and potential solutions to overcome them.

## 7.4 MAIN THEME: COMMON CHALLENGES AND SOLUTIONS FOR MSMEs

This theme is crucial as it involves a discussion of the common challenges faced by MSMEs when they are dealing with FIs and the Government of Palestine. In the discussion of borrowing options and rejections, there are details on the common factors that enhanced the challenges for MSMEs to easily access funding from various FIs. In the government policies and challenges for MSMEs code, detailed information is included about income and sales tax, customs duties on both imports and exports, license and legal fees, low cash inflows and increased chance of failure. These taxes, custom duties and license fees can increase the financial burden on MSMEs. Consequently, their chances of showing positive financial statements for accessing funding may be reduced. In this manner, it can also negatively influence the performance of the MSMEs. Finally, in the support and solutions for MSMEs code, interviewees recommended how government and FIs could create more supportive rules, regulations, policies and T&Cs to support MSMEs owners.

**Code 1:** Borrowing Options and Rejections

The interviewees were asked about the most common factors that cause the rejection of MSMEs’ finance applications. They shared that it is challenging for MSME owners to arrange collateral and credit guarantors. FIs usually require both collateral and a credit guarantor because of the weak legal environment and the high failure rates of MSMEs. Consequently, many loan applications are rejected because MSME owners are unable to arrange both of these. For example, Interviewee 5 explained that *‘sometimes we require both collateral and a credit guarantor but MSME owners can arrange either one or nothing and consequently we have no options except rejection as credit losses rates are high in our area.’* It was also found that many rich Arab countries (i.e. Saudi Arabia and the UAE) offer more support for MSMEs (e.g. easy, and accessible borrowing options) because of low financial and human capital, but that there is a lack of support for MSMEs in Palestine. The Palestinian Government may not have enough financial resources because of war and high uncertainty, which limits the MSMEs’ ability to generate sales and pay taxes. Consequently, more people are living under the poverty line and may not have sufficient purchasing power to help promote local MSMEs products and services.

Some of these MSMEs are unable to generate a profit statement and fair credit history, especially when they have low government support and thus, their loan application rejection rate is high. For example, Interviewee 2 explained that *‘in many countries, governments have backed partial or full credit loan’s amount for facilitation of MSMEs but we have very low official support, so we have hard criteria such as profit statements of the last six months and credit history which increased the rejection rate especially among new MSMEs.’* Sometimes the FIs deal with MSME owners who have lower financial literacy, and because they are unable to fulfil the list of requirements, their loan applications get rejected due to the high probability of risk. For instance, Interviewee 6 described how *‘sometimes MSME owners are not very educated and have low business experience so when we hand over a list of requirements, they may not be able to fulfil those requirements, therefore lack of financial education can minimise their chances of credit loans, and that’s why most of the applications are rejected.’* The interviewee explained that many MSME owners are reluctant to apply for a loan because they have financial awareness (comparing the most suitable borrowing option for them) about FIs offering high-interest rates and low maturity periods and, consequently, may prefer to borrow money from family sources. For example, Interviewee 7 noted that *‘because of the high risk of MSMEs’ failure, banks and other FIs offer high-interest rates and short maturity periods. So, they demand many legal documents from MSMEs management. These complicated T&Cs relate to interest-paying and maturity periods, MSMEs owners prefer to borrow from family members as it is relatively easy and involves low financial burden.’* Due to the high rate of failure among small businesses in Palestine and the considerable financial risk involved, banks charge high amount of interest which, in turn, increases the risk of survival for the business.

Some participants shared that crowd funding is somewhat a useful option for funding, but due to the weak legal infrastructure and the lack of financial literacy, there are more challenges to gaining both the trust and attention of the public. For instance, Interviewee 6 reported that *‘I heard about crowd funding, but it is a difficult option to collect funding as there is weak legal infrastructure, so most [of the] public believe that we will not return their money/profit on the fixed time.’* The lack of financial literacy therefore increases difficulties in managing crowdfunding.For example, Interviewee 2 concluded that *‘actually we haven’t got enough experience about how to give an attractive presentation of funding (i.e. advertising and attracting the public).’* This shows that both MSMEs owners and their management suffer from a lack of financial literacy and, therefore, they are facing more challenges to either increase crowd funding or enhance the chances of better access to funding for MSMEs. The lack of financial literacy on the part of MSMEs’ management can lead to a lack of innovation, which ultimately results in poor MSME performance. For example, Interviewee 6 shared that *‘I have met with many of my friends (MSMs owners/management) and most of them haven’t got the knowledge about crowdfunding- that’s why we cannot bring advanced technologies.’* This shows that due to the lack of financial literacy, they are facing difficulties in increasing fund accessibility, and hence they are unable to purchase modern technologies that can bring innovation and improvement to the MSMEs’ performance.

The interviewees were also asked about the benefits of the loan guarantee, and whether it encourages institutions to make more loans FIs to MSME firms. They stated that although there is a guarantee by EPCGF for MSMEs loans, FIs still require significant efforts which increase borrowing costs. For example, Interviewee 5 reported that *‘the cost of debt recovery and insolvency is sometimes very high for us, as a lot of legal, operational, and administration procedures are involved even after a guarantee from EPCGF*’. It was found that FIs are more willing to give loans to large organisations compared to MSMEs because MSMEs can suffer from mismanagement, lack of experience, and bad bookkeeping, which increases the efforts involved in and the cost of borrowing, as well as delays the process of easy access to funding for MSMEs. For example, Interviewee 7 explained that *‘I have experienced many cases where MSMEs’ bad bookkeeping and mismanagement is high, so our credit department requires more effort and work for giving the loans, which increased our costs. While large organisations have human capital and good bookkeeping, it is easier for us to give them loans compared to MSMEs.’* If we compare the MSMEs with big organisations, then it is clear that the banks and lenders are more inclined to grant finance to big organisations because they are well organised in filing reports about their financial circumstances and it easier for the lenders to figure out their financial position and calculate the risk before lending the appropriate amount of money.

The most common factors causing the rejection of MSMEs' finance applications are the challenges in arranging collateral and credit guarantors, due to the weak legal environment and the high failure rates of MSMEs. Lack of government support, low financial literacy, and difficulties in fulfilling the requirements of FIs are also highlighted as reasons for loan application rejection. Additionally, the high-interest rates and short maturity periods offered by banks and FIs make MSME owners reluctant to apply for loans, with many preferring to borrow money from family sources instead. The lack of financial literacy also poses a challenge for MSMEs in managing crowdfunding, with weak legal infrastructure and a lack of experience in giving an attractive presentation of funding making it difficult to gain the trust and attention of the public. The lack of financial literacy on the part of MSMEs' management can also lead to a lack of innovation, ultimately resulting in poor MSME performance. Furthermore, the findings suggest that FIs are more willing to give loans to large organisations compared to MSMEs due to the latter's mismanagement, lack of experience, and bad bookkeeping, which increases the cost of borrowing and delays the process of easy access to funding for MSMEs. Overall, the primary data highlights the challenges faced by MSMEs in accessing finance and the need for improved financial literacy, government support, and a favorable legal environment to enhance the accessibility of funding for MSMEs. The findings align with the research aim of identifying the challenges and solutions for MSMEs in Palestine.

**Code 2:** Government Policies and Challenges for MSMEs

The interviewees were asked about the type of factors that minimise the government’s role in supporting MSMEs, and what their recommendations are for improving the accessibility of funding and MSMEs’ level of performance. According to a Transparency International report (2019), 62% of Palestinian people believe that the corruption rate has increased in the last 12 months. Many interviewees also shared that corruption is a major factor, given that they have the support of the World Bank, PIF, EPCGF and many other sources. In addition, these financial resources are not fairly allocated or accessed by MSMEs, besides the high competition among MSMEs. Therefore, MSMEs owners are not satisfied with the performance of the current government as they have low financial and other support, which influences MSMEs’ performance. For example, Interviewee 1 stated that *‘although there is a lot of support from EPCGF, PIF, and World Bank* *for MSMEs, corruption is a major issue of our country, and consequently there is a lack of easy funding options for MSMEs. Due to high competition, there are normal profits so MSMEs require support from government for survival.’* The interviewee explained that the Palestinian Government imposed many direct and indirect taxes, duties, fees and customs, and, consequently, some MSMEs have poor financial statements which decreased their access to funding from FIs. Interviewee 2 explained that the *‘government role is very important compared to the banking sector, as various taxes such as personal, corporate, property, direct and indirect duties, customs, and license fees increased the financial burden on MSMEs, so from the beginning these MSMEs are unable to produce profit statements which minimise their borrowing options.’*

There is considerable evidence from the research data that the majority of MSMEs in Palestine are working with four employees. The findings show, though, that government policies and regulations are more supportive for large organisations as they believe that such organisations can produce more employment opportunities, which is a major indicator of good government performance. For example, Interviewee 13 reported that *‘although the number of MSMEs in Palestine is very large, still the government policies are more supportive towards large organisations as they can produce more job opportunities and strengthen to economy compared to MSMEs. There is a large number of MSMEs which are working with fewer than four employees so there are less chances for new employment.’* Another interviewee explained that most tax emptions are granted on the basis of higher invested capital, which is more favourable to large organisations. For example, Interviewee 15 shared that *‘many MSMEs owners have complained that most of the tax exemptions are given based on invested capital which is favourable to large organisations that’s why government tax policies are not very encouraging for MSMEs growth and development.* The section of the primary data focuses on the government policies and challenges for MSMEs in Palestine. The research aims to explore the challenges and opportunities that MSMEs face in Palestine and understand the role of different stakeholders in the development of the sector. The findings of this section suggest that government policies, corruption, and taxation are the major factors that hinder the growth and development of MSMEs in Palestine.

One of the major issues highlighted in the data is corruption. MSME owners have reported that despite having financial support from various sources such as EPCGF, PIF, and the World Bank, corruption is a major issue that affects the accessibility of funding for MSMEs. The lack of easy funding options due to corruption and high competition in the market has led to lower profits for MSMEs. The data also suggests that the government imposes a lot of direct and indirect taxes, duties, fees, and customs which affect the financial statements of MSMEs, making it difficult for them to access funding from financial institutions (FIs). This finding is in line with the research aim of understanding the challenges that MSMEs face in Palestine.

Another major issue highlighted in the data is the lack of government support for MSMEs. Government policies and regulations are more supportive towards large organisations as they believe that such organisations can create more employment opportunities. This approach is not very encouraging for the growth and development of MSMEs. The data suggests that most tax exemptions are granted on the basis of higher invested capital, which is more favorable to large organisations. MSMEs, on the other hand, are working with fewer employees, making it difficult for them to create new employment opportunities. This finding is in line with the research aim of understanding the role of different stakeholders in the development of the sector.

The data also suggests that MSMEs in Palestine are facing challenges in accessing funding from FIs. The weak legal environment and the high failure rates of MSMEs have led FIs to require collateral and credit guarantors. Many MSME owners are unable to arrange both of these, which leads to the rejection of their loan applications. This finding is in line with the research aim of exploring the opportunities that MSMEs have in terms of funding.

The lack of financial literacy among MSME owners and their management is another issue highlighted in the data. Many MSME owners are not very educated and have low business experience, which makes it difficult for them to fulfill the requirements of FIs. This lack of financial literacy can minimise their chances of accessing credit loans, which is a major reason why most loan applications are rejected. This finding is in line with the research aim of understanding the challenges that MSMEs face in Palestine.

The data also suggest that crowdfunding is a difficult option for MSMEs in Palestine due to the weak legal infrastructure and the lack of financial literacy. Many MSME owners are reluctant to apply for loans from FIs because they have financial awareness about high-interest rates and short maturity periods. The lack of financial literacy on the part of MSMEs’ management can lead to a lack of innovation, which ultimately results in poor MSME performance. This finding is in line with the research aim of exploring the opportunities that MSMEs have in terms of funding and the role of different stakeholders in the development of the sector.

The data suggest that government policies, corruption, and taxation are the major factors that hinder the growth and development of MSMEs in Palestine. MSMEs in Palestine face challenges in accessing funding from FIs due to the weak legal environment and the high failure rates of MSMEs. The lack of financial literacy among MSME owners and their management is another issue that affects the accessibility of funding. The findings of this section of the primary data are in line with the research aim of exploring the challenges. Furthermore, the interviewees mentioned that the legal and regulatory environment in Palestine is not conducive to the growth and development of MSMEs. They pointed out that the lack of clarity in laws and regulations, as well as their inconsistent implementation, can cause confusion and uncertainty among MSME owners. For example, Interviewee 3 stated that ‘the legal environment is not very clear and there is a lack of awareness among MSMEs owners regarding legal formalities which results in delays and sometimes unexpected expenditures.’ In addition, some interviewees highlighted the need for simplification of regulations and procedures for MSMEs. For instance, Interviewee 10 reported that ‘MSMEs require a simple regulatory environment because they are not much aware of complex regulations which cause delays in the growth and development of the business.’

The interviewees also identified some measures that could be taken by the government to improve the situation for MSMEs in Palestine. One of the most frequently mentioned measures was the need for the government to provide more financial support, such as grants and loans, to MSMEs. Interviewee 9 stated that ‘the government should provide grants or low-interest loans for MSMEs to support their growth and development, which will ultimately lead to the creation of more employment opportunities and economic growth.’ Another measure suggested by some interviewees was the need for the government to simplify regulations and procedures for MSMEs. For example, Interviewee 8 suggested that ‘the government should make regulations and procedures simpler and more transparent for MSMEs so that they can easily access funding and other resources for their growth and development.’ Additionally, some interviewees emphasised the need for the government to improve its efforts to combat corruption and improve the business environment. Interviewee 12 stated that ‘the government should take serious actions to combat corruption and improve the business environment by providing equal opportunities for all businesses, regardless of their size.’

Overall, the primary data on government policies and challenges for MSMEs in Palestine highlight the various factors that limit the government’s role in supporting MSMEs and hinder their growth and development. Corruption, high taxes and duties, unclear and inconsistent regulations and procedures, and lack of financial and other support are some of the major challenges facing MSMEs in Palestine. To improve the situation for MSMEs, the government should take measures such as providing more financial support, simplifying regulations and procedures, and improving efforts to combat corruption and improve the business environment. The findings of this section of the primary data are closely linked to the research aim of identifying the challenges and opportunities for MSMEs in Palestine. By analysing the various factors that limit the government’s role in supporting MSMEs, this section provides valuable insights into the challenges facing MSMEs in Palestine and the measures that could be taken to improve their situation.

**Code 3:** Support and Solutions for MSMEs

The interviewees were asked about how and whether the lack of government support, financial literacy, and FIs’ T&Cs can become more favourable to help increase access to funding options and improve the MSMEs’ performance. Four interviewees suggested valuable initiatives from the Palestinian Government. For example, if the Palestinian government guarantees MSMEs’ borrowing, then FIs will relax the complicated T&Cs, which have so far increased the loans applications rejection rate. Interviewee 8 explained that *‘I believe the government should back up the loans as a guarantor as most MSMEs cannot provide collateral, so the government should give a full guarantee of return of the borrowings.’* The results reveal that the FIs must relax the collateral condition if the government assumes the role of loans guarantor as most MSME owners do not have real estate for collateral purposes. This means that, without collateral, they face fewer borrowing options, high interest rates and low maturity periods.

Many interviewees shared how MSMEs suffer from the high financial burden of income taxes, custom duties, licenses and legal fees. Consequently, the majority of the newly established MSMEs are struggling to survive. Therefore, they recommend that Government should reduce the burden of taxes and fees on newly established MSMEs as they have low investments, profit rates and financial support. Interviewee 2, for instance, explained that *‘I believe the government should make a maximum exemption in taxes percentage, customs and license fees for the newly established MSMEs as these are unable to show positive cash inflows and profit statements, so they have fewer borrowing options’.* They also recommend that it is more fruitful to start a national currency for exchange, saving, international remittances and investments which would be ultimately beneficial for the Palestinian economy and MSME businesses. For example, Interviewee 15 stated that *‘there is a need to start a national currency of Palestine, because dealing with three currencies can reduce the efficiency and benefits for MSMEs. So, the Palestinian Government must take the initiative of a national currency for achieving higher revenues.’*

Not all MSME owners are highly skilled and aware of financial opportunities (i.e. financial literacy), and this can be a major barrier thwarting the enhancement of MSMEs’ performance. Therefore, the interviewees suggested that both government and FIs should conduct training and seminars respectively so that MSMEs can access more funding and improve their financial performance. For example, Interviewee 13 explained that *‘I think there is a need to conduct finance-related training and information sessions which must be sponsored by Government officials and financial institutions, so that MSME owners can improve their management skills as well as get information for best funding options.’* Many interviewees stated that it would be beneficial for FIs to set borrowing requirements according to each sector. For instance, if service and trading MSMEs have low default risks and greater contribution to GDP,then the newly established ones within this sector should be given more borrowing opportunities and low taxes so that they can access funding options more easily. Interviewee 7 highlighted that *‘FIs should start lower interest and higher maturity period loans as per revenue incomes of each sector. If services and trading MSMEs are giving a higher contribution in GDP and low default risk then there must be different and easy requirements for these sectors to easily access funding.’*

The third theme relates to common challenges and solutions for MSMEs. Participants shared knowledge regarding the causes of loan application rejections and how they can enhance the opportunities for MSMEs’ access to funding and level of performance. The lack of government support is directly linked to the MSMEs’ inability to show positive profit statements when applying for funding, as high rates of income and sales taxes, both import and export customs duties, license and legal fees, and low cash inflows increase chances either of no profit or of failure. Furthermore, the Palestinian economy is destabilised because of war conflicts and high uncertainty for international investors and buyers to deal with local MSMEs. The uncertainty and ambiguity, together with the increasing rate of corruption and inflation, limits the opportunities for MSMEs to grow quickly. Although there is the option available for crowd funding, the findings show that poor economic conditions, high failure rate of MSMEs, a situation of war and terror, and the weak legal infrastructure has created uncertainty for the public, who do not believe that MSMEs are able to return their original amount plus the fixed interest payments. The results reveal that a low level of financial literacy and experience (i.e. mismanagement, lack of experience and bad bookkeeping) decreased the opportunities for funding access and, therefore, many MSMEs were unable to purchase sophisticated technologies to introduce innovation and improve the MSMEs’ performance.

To address these challenges, although there is some support from the credit guarantor (EPCGF) to increase MSMEs’ funding access, there are still significant legal, operational and administrative procedures involved, even after a guarantee is warranted by EPCGF, which makes the situation challenging. The research shows that existing government policies and regulations are more suitable for large organisations as these organisations have significant amounts of capital and business opportunities. Therefore, they can create more job opportunities and pay taxes, which is ultimately beneficial for the Government. MSME owners suggested that there is a need for the Palestinian Government to provide guarantees for MSMEs’ borrowing. This would encourage FIs to relax the complicated T&Cs that cause a high rate of loan rejections. It was also suggested that the government should increase transparency and accountability, which can reduce corruption, and that it must also increase checks on fraudulent registry, which causes challenges for FIs to approve funding. There is a need to conduct seminars and educational programmes for MSME owners that can enhance their knowledge and financial literacy skills, as these skills are directly related to the improvement of funding accessibility opportunities for MSMEs.

The section of primary data on government policies and challenges for MSMEs provides insight into the factors that limit government support for MSMEs in Palestine and offers recommendations. The main finding is that corruption is a significant issue, which limits the availability of funding for MSMEs, despite support from various sources such as the World Bank, PIF, and EPCGF. Financial resources are not allocated or accessed fairly by MSMEs, and there is high competition among MSMEs. Therefore, MSMEs require more support from the government for survival.

The high financial burden of income taxes, custom duties, licenses, and legal fees is a major challenge faced by MSMEs. Most newly established MSMEs are struggling to survive, and the majority of the tax exemptions are granted based on higher levels of invested capital, which is more favorable to large organisations. To address these challenges, the interviewees recommend reducing the burden of taxes and fees on newly established MSMEs, making maximum exemptions in tax percentages, customs and license fees, and starting a national currency for exchange, saving, international remittances, and investments.

Financial literacy was identified as a significant barrier to improving MSMEs' performance, and the interviewees suggested that the government and FIs should provide training sessions and seminars to improve MSME owners' management skills and knowledge of the best funding options. Moreover, FIs should set borrowing requirements according to each sector, and if service and trading MSMEs have low default risks and greater contributions to GDP, then the newly established ones within this sector should be given more borrowing opportunities and lower taxes so that they can access funding options more easily.

## 7.5 MAIN THEME: ROLE OF DIFFERENT INSTITUTIONS AND AUTHORITIES

This theme discusses the role of the EPCG and PIF in offering credit guarantee and support to make funding options accessible. How many credit guarantees are provided and how much money has been invested by the EPCGF and PIF into supporting MSME businesses was discussed by participants. This theme also relates to the manner in which partner banks of EPCGF/ PIF use management information system that supports the monitoring and control of credit guarantees. This system can help lessen the difficulties thwarting access to credit guarantors, as well as reduce the MSMEs’ funding options. The management information system (MIS) supports the transparency, accountability and collaboration between partner banks and the EPCGF/ PIF, with the purpose of supporting MSMEs. This theme also discusses the role of the PMA, which is the body overseeing money lenders, inflation, currency and the decline in private business due to the global pandemic. Finally, this theme includes the role of Government and how different authorities under government control support private businesses.

**Code 1:** Role of the EPCGF and PIF

The interviewees were asked about the role of EPCGF and PIF in making funding accessible, as well as improving the growth of MSMEs in Palestine. They were also asked how the existence of a credit guarantor such as EPCGF encourages FIs to make loans accessible for MSMEs. Most MSMEs face challenges regarding insufficient investment and limited financial resources; therefore, both EPCGF and PIF have begun initiatives aimed at overcoming these challenges. They both operate with the purpose of enhancing income generation, poverty reduction and improving employment opportunities by providing financial support and guarantees for MSMEs. Most importantly, EPCGF is working to financially support those MSMEs which are facing issues of unacceptable or insufficient collateral for borrowing money. EPCGF operates with the mission of covering risks factors so that FIs and MSMEs can be supportive in boosting the Palestinian economy.

Interviewee 2 highlighted useful statistics which indicate how the EPCGF has contributed to improving MSMEs’ performances: ‘*During the period of 2012 to 2020, EPCGF has given guarantees of 3000 loans for MSMEs, which have the total amount of USD 104 million for improving MSMEs’ funding possibilities. These credit guarantees benefit both MSMEs owners and bankers because they minimise the default risk and credit losses, as well as provide the option to those MSMEs which have not collateral but are able to provide the credit guarantee of EPCGF.’*

EPCGF ensures that MSMEs can access maximum loans from local banks and also provides investments for innovative MSME projects. Furthermore, it helps with technical support for MSMEs. EPCGF provides guarantees for loans applied for by new clients who have fair credit history. The guarantee must be issued for those loans which have a minimum of one year and a maximum of five years. The maximum loan guarantee amount is USD 100,000 for MSMEs which have been in business for at least two years and can prove fair cash inflows. These guarantees are available for MSMEs which spend money either on working capital (i.e. inventory, raw materials, and receivables) or capital investments such as refurbishments, machinery, equipment and fixed assets. Interviewee 20 highlighted how EPCGF involved national and international donors in securing grants and soft loans for MSMEs with easy conditions of access: *‘Microfinance lending has increased over the last eight years. EPCGF also arranged national and international donors which have contributed EUR 29 million for soft loan as well as grants which are given through the platforms of local banks. Senior officials of the Palestinian government, financial institutions, and European commission officials have recently signed the documents for EUR 29 million distribution to MSMEs.’* These results indicate that EPCGF managed to create more opportunities for FIs and MSMEs as FIs found the guarantee of a strong legal entity, whereas MSMEs found support in arranging a credit guarantor when sufficient collateral was not available to them for borrowing purposes.

PIF was established in 2003 with the purpose of supporting businesses operating in hospitality, agriculture, renewable energy, agribusiness, and as an entrepreneur. PIF operates to support economic and social development in terms of supporting MSMEs, creating new jobs, contributing capital as a partner, and encouraging business in the private sector. These investments are increased by focusing on the principles of good governance, accountability and transparency that enhance fairness/easiness of access to funding. PIF also empowers Palestinian women by providing them with more funding options, given that the lack of funding is a major barrier that limits the success of educated Palestinian women. For example, Interviewee 17 shared that *‘under PIF, Ijara has become the first Palestine Islamic leasing option which support MSMEs for buying the machinery when starting up a business. Approximately 11.35M loans are distributed to 1200 small businesses for creating jobs for a minimum of 2500 young entrepreneurs. PIF is successful in engaging women as well because 45% of the total funding (11.35M) is granted to women for their business start-ups.’* These statistics indicate that PIF supports both Islamic instruments (i.e. Ijara) and banks with the purpose of supporting MSMEs which operate in the trading, manufacturing and services sector. Interviewee 17, for instance highlighted that *‘USD 12 million is given to leasing institutions for supporting the MSMEs across the country. Under the Jerusalem Financing Program, USD 1.72 million is granted, whereas 110 new jobs are created between the periods of 2014 to 2017 for small businesses. Finally, USD 2.5 million is given to MSMEs which are working in trading, services and manufacturing until the end of 2018.’* The data collected from the interviews shed light on the role of the EPCGF and PIF in facilitating the growth and development of MSMEs in Palestine. These two organisations have been providing financial support and guarantees to MSMEs in order to overcome their challenges related to insufficient investment and limited financial resources. The EPCGF, in particular, has been instrumental in providing guarantees for loans applied for by new clients who have fair credit history. It has also provided technical support for MSMEs and helped them access maximum loans from local banks. The credit guarantees provided by EPCGF are beneficial for both MSME owners and bankers as they minimise the default risk and credit losses. EPCGF also arranges national and international donors that provide soft loans and grants with easy conditions of access. This shows that EPCGF has been successful in creating more opportunities for FIs and MSMEs by providing the guarantee of a strong legal entity and support in arranging a credit guarantor when sufficient collateral was not available for borrowing purposes.

PIF, on the other hand, has been supporting businesses in different sectors such as hospitality, agriculture, renewable energy, and agribusiness. It operates with the objective of contributing capital as a partner, creating new jobs, and supporting economic and social development. PIF also focuses on the principles of good governance, accountability, and transparency that enhance fairness and the ease of access to funding. Additionally, PIF empowers Palestinian women by providing them with more funding options, given that the lack of funding is a major barrier that limits the success of educated Palestinian women. PIF supports both Islamic instruments and banks with the purpose of supporting MSMEs that operate in the trading, manufacturing, and services sector. PIF has successfully engaged women as well, as 45% of the total funding is granted to women for their business start-ups.

The data suggest that both EPCGF and PIF have been making significant efforts to support the growth and development of MSMEs in Palestine. Their initiatives have contributed to improving the performance of MSMEs and increasing their access to funding options. EPCGF has been providing credit guarantees to MSMEs that lack sufficient collateral, while PIF has been supporting businesses across various sectors and empowering Palestinian women. Both organisations have been successful in engaging FIs and MSMEs by providing financial support and guarantees with easy conditions of access.

The findings reveal the positive impact of the EPCGF and PIF on improving MSMEs' funding possibilities and performance. Overall, the research provides valuable insights into the challenges and opportunities faced by MSMEs in Palestine and highlights the importance of government support and initiatives such as those provided by the EPCGF and PIF in improving their funding accessibility and performance. The findings can be used by policymakers, financial institutions, and MSME owners to develop effective strategies and initiatives to support the growth and development of MSMEs in Palestine.

**Code 2:** The EPCGF/ PIF Monitoring and Control System

The interviewees were asked about the EPCGF/ PIF monitoring and control system through the help of FIs as this system can help diminish the difficulties in accessing credit guarantors as well as reduce MSMEs funding options. In addition, the interviewees were asked about how EPCGF/PIF monitoring and control systems enhance the interest and involvement of national and international donors which increase funding options for MSMEs. The EPCGF/PIF has some requirements before issuing credit guarantees to their partner banks for MSMEs. These requirements include: fair credit history; positive cash inflows; a two-year minimum of operating business; a verified business address; a clear picture of financial statements; a loan of more than one year; and a maximum limit for loans. These requirements need collaboration between the EPCGF/PIF and partner banks and, therefore, partner banks have established MIS which enhance the accountability, transparency and collaboration for credit guarantors and donors who have offered money for the development and growth of MSMEs. For example, Interviewee 20 explained that *‘the management information system (MIS) is a way to enhance, control and monitor the transparency, accountability, and collaboration with partner banks of EPCGF. The banks are continuously updating records about the nature of loans, personal and business information of MSMEs in MIS.’* The findings also indicate that the US Overseas Private Investment Corporation(OPIC) and PIF collaborate to ensure that partner banks can improve access to funding. These organisations cover up to 70% of the risk involved in bank lending. The evidence is taken from Interviewee 2, who stated that *‘US (OPIC) and PIF also provide second loan guarantees for facilitating the loan accessibility for MSMEs. They cover up to 70% of the loan, but they ensure that credit history and cash inflows of MSMEs must be transparent and easily accountable’.*

There are many national and international donors who support and contribute to the growth and development of MSMEs by offering money to EPCGF, PIF and OPIC*.* These organisations are therefore able to support MSMEs which operate in hospitality, agriculture, renewable energy, agribusiness, entrepreneurs, health, trade, services and the manufacturing sector. It is important for these national and international donors to see where their money is invested and how it contributes to helping businesses. Therefore, the MIS system and audit reports of FIs ensure transparency and accountability during lending, either with the help of government or other FIs. Interviewee 20 observed, for instance, that *‘MIS and audit reports of partner banks of EPCGF/PIF ensure the control and monitoring of credit loan guarantees. These systems and information sources are useful in attracting national and international donors for further help in development and growth of MSMEs, especially when corruption is high in Palestine.’* Interviewee 20 also stated that *‘there is a strong need for a digital open government system for transparency, controlling corruption, and attracting more international investors.’* The interviewees provided insights into the requirements of credit guarantees issued by EPCGF/PIF to partner banks for MSMEs, and how the monitoring and control system helps reduce the difficulties in accessing credit guarantors, increase funding options for MSMEs, and enhance the involvement of national and international donors.

The interviewees highlighted the requirements set by EPCGF/PIF before issuing credit guarantees to partner banks for MSMEs, such as fair credit history, positive cash inflows, a minimum of two years of operating business, a verified business address, clear financial statements, and a loan of more than one year. Partner banks have established MIS to ensure transparency, accountability, and collaboration with credit guarantors and donors who offer money for the development and growth of MSMEs.

Furthermore, the findings suggest that national and international donors are crucial in contributing to the growth and development of MSMEs. The MIS system and audit reports of FIs ensure transparency and accountability during lending, which helps attract more national and international donors. Additionally, the US Overseas Private Investment Corporation (OPIC) and PIF collaborate to improve access to funding for MSMEs, covering up to 70% of the risk involved in bank lending.

The interviewees also highlighted the need for a digital open government system for transparency, controlling corruption, and attracting more international investors. These findings suggest that transparency, accountability, and collaboration among credit guarantors, partner banks, and national and international donors are essential in providing MSMEs with funding options, improving their financial performance, and contributing to the growth and development of the Palestinian economy.

In conclusion, this section of the primary data provides valuable insights into the role of EPCGF and PIF in making funding accessible and improving the growth of MSMEs in Palestine. The findings highlight the importance of transparency, accountability, and collaboration among credit guarantors, partner banks, and national and international donors in providing MSMEs with funding options, improving their financial performance, and contributing to the growth and development of the Palestinian economy. The section also provides recommendations for a digital open government system to enhance transparency, controlling corruption, and attracting more international investors. These findings are relevant to the research aim of exploring the challenges and opportunities for MSMEs in Palestine and can be used to inform policies and strategies to support the growth and development of MSMEs in Palestine.

**Code 3:** The Role of Palestine’s Monetary Authority for MSMEs

The PMA operates as an emerging central bank of Palestine; its basic objective is to formulate and execute banking and monetary policies. It aims to control money lenders and create an environment of suitable competition. The PMA also controls FIs so that inflation remains under control and supports new businesses which can produce new jobs and contribute to the national economy. The interviewees were asked about the main role of the PMA in supporting MSMEs and how the PMA supported the MSMEs to access the funding options during the crucial time when business development and growth was in decline due to the global pandemic. For example, Interviewee 20 explained that *‘MSMEs of services and other sectors have faced decline in their businesses, therefore PMA has launched USD 300 million to support local MSMEs. This amount is distributed through lending institutions and banks that are operating in the Palestinian territory. This amount is available at a very low-cost interest rate (i.e. 3% and a 36-month maturity period) so that MSMEs can survive during this global pandemic.’*

Palestine has no local currency, and therefore deals with three currencies: Israeli Shekel, US dollar, and Jordanian dinar. The PMA therefore ensures that the interest rate is under control so that FIs can support the MSMEs which cannot afford high interest rates during the business start-up period as well as during the global pandemic. Interviewee 4 reported that *‘78% of businesses are MSMEs in Palestine, so their recovery and support are prime objectives of PMA. So, PMA has postponed the payments of premiums from March 2020 to June 2020 so that Palestinian people should not be disturbed due to the decline in their income because of global disease.’*  The findings reveal that the Palestinian economy is strongly dependent on the growth of MSMEs, therefore PMA has delayed payments of borrowed money in order to offer businesses relief during the global pandemic. The primary data discusses the role of EPCGF, PIF, and PMA in supporting MSMEs in Palestine. The aim of this research is to examine the factors affecting the growth of MSMEs in Palestine and to identify the role of different stakeholders, such as EPCGF, PIF, and PMA, in supporting the growth and development of these businesses.

The data suggest that EPCGF and PIF have taken initiatives to overcome the challenges that most MSMEs face regarding insufficient investment and limited financial resources. Both organisations provide financial support and guarantees for MSMEs with the purpose of enhancing income generation, poverty reduction, and improving employment opportunities. EPCGF specifically aims to financially support MSMEs that face issues with collateral and, as a result, offers credit guarantees that benefit both MSME owners and bankers. The data show that EPCGF has given guarantees for 3,000 loans for MSMEs worth a total of USD 104 million, which has helped to improve the funding possibilities for MSMEs. The maximum loan guarantee amount for MSMEs is USD 100,000, which is available for those MSMEs that have been in business for at least two years and can prove fair cash inflows.

PIF, on the other hand, aims to support economic and social development by creating new jobs and contributing capital as a partner. PIF empowers Palestinian women by providing them with more funding options, given that the lack of funding is a major barrier that limits the success of educated Palestinian women. The data show that PIF supports both Islamic instruments and banks to support MSMEs that operate in the trading, manufacturing, and services sector.

The data also suggest that EPCGF/PIF has some requirements before issuing credit guarantees to their partner banks for MSMEs. These requirements need collaboration between the EPCGF/PIF and partner banks, and therefore partner banks have established MIS, which enhance the accountability, transparency, and collaboration for credit guarantors and donors who have offered money for the development and growth of MSMEs. The US Overseas Private Investment Corporation (OPIC) and PIF collaborate to ensure that partner banks can improve access to funding, and these organisations cover up to 70% of the risk involved in bank lending.

In addition to EPCGF/PIF, PMA also plays a crucial role in supporting MSMEs in Palestine. The PMA formulates and executes banking and monetary policies and aims to control money lenders and create an environment of suitable competition. The data shows that PMA has launched USD 300 million to support local MSMEs during the global pandemic. The amount is distributed through lending institutions and banks that are operating in the Palestinian territory and is available at a very low-cost interest rate of 3% with a 36-month maturity period so that MSMEs can survive during this difficult time.

Overall, the data suggest that the growth of MSMEs in Palestine is strongly dependent on the support of different stakeholders, including EPCGF, PIF, and PMA. These organisations provide financial support, credit guarantees, and low-interest loans to MSMEs, and collaborate with partner banks to ensure transparency, accountability, and collaboration. The findings also suggest that the PMA postpones payments of borrowed money to offer businesses relief during the global pandemic. The role of these stakeholders is crucial in improving the funding possibilities and growth of MSMEs in Palestine, and their support is necessary for the development of the national economy.

**Code 4:** Palestinian Government Initiatives and Strategies for MSMEs

The interviewees were asked about common strategies and initiatives undertaken by the government to support MSMEs in Palestine. Many interviewees and previous studies have highlighted that Palestinian government support is insufficient and corruption is also a major issue which decreases the support for MSMEs. It is important to mention some famous institutions which operate under the government control and are supporting MSMEs. The findings reveal that the Palestinian Ministry of National Economy has convinced the Italian Government to provide financial support to MSMEs. In this context, Interviewee 20 explained that *‘the Palestinian Ministry of National Economy has attracted international governments and donors for supporting MSMEs. They signed agreements with the Palestinian industrial sector and the Italian Government for offering loans to MSMEs at minimum interest.’*

The results reveal that there are various established authorities with the purpose of enhancing support, quality, competitiveness, and access to international markets so that MSMEs can achieve greater profit and improve their levels of performance. The findings reveal that custom tax exemptions on fixed assets can assist MSMEs in managing start-up expenses. For example, Interviewee 1 shared that ‘*Palestinian Investment Promotion Institution is working under government control to give custom tax exemptions on electronics and furniture.’* The results indicate that the role of the Palestinian Standards and Measurement Institution is extremely important in assisting MSMEs to meet those standards, which can increase their exports as well as establish more positive cash inflows which make funding options more accessible. Interviewee 1 also stated that *‘the Palestinian Standards and Measurement Institution is operating to increase the quality of products and competitiveness of MSMEs so that they can operate according to international market standards and attract increased profits.’*

The fourth theme is related to the role of different institutions and authorities that can influence the accessibility of funding opportunities and the level of MSMEs’ performance. The findings reveal that the existence of EPCGF and PIF have increased opportunities for income generation, poverty reduction and more employment. These organisations act as credit guarantors as well as distributing loans through FIs. The core objectives of both institutions (EPCGF and PIF) are to cover the risk of debt costs, insolvency and repayments of borrowed money on time, so that FIs are better positioned to provide financial support for MSMEs and thus boost the Palestinian economy. Another initiative of EPCGFis to train loan officers in different FIs in Palestine so that they can help MSMEs to prepare their financial statements and other documentation to facilitate access to funding. EPCGF understands that MSMEs have limited financial and human resources, and, therefore they are unable to prepare the required documentation to access funding. Thus, they train the loan department personnel to help educate the MSME owners. These training programmes are beneficial for MSMEs because they subsequently create a considerable number of trained people who can educate, guide and explain the complicated T&Cs for accessing funding opportunities.

The section of the primary data discussed above focuses on the initiatives and strategies undertaken by different institutions and authorities to support MSMEs in Palestine. The findings suggest that the Palestinian government has taken various steps to support MSMEs, including attracting international governments and donors for financial support, providing custom tax exemptions on fixed assets, and establishing authorities such as the Palestinian Standards and Measurement Institution to increase the quality of products and competitiveness of MSMEs.

One of the critical institutions that has played a vital role in supporting MSMEs in Palestine is the EPCGF. The findings suggest that EPCGF provides credit guarantees to MSMEs, covering risks such as debt costs, insolvency, and timely repayments, which encourages FIs to provide financial support to MSMEs. Additionally, EPCGF provides technical support to MSMEs and has trained loan officers in different FIs to educate MSME owners about preparing necessary documentation to access funding. The existence of the EPCGF has increased opportunities for income generation, poverty reduction, and more employment, contributing to the growth of the Palestinian economy.

Similarly, the PIF has also played a crucial role in supporting MSMEs in Palestine. The findings suggest that PIF provides financial support to MSMEs, supports economic and social development, and contributes capital as a partner. It has also focused on the principles of good governance, accountability, and transparency to enhance the fairness and ease of access to funding.

The Palestinian government's initiatives and strategies to support MSMEs also include various authorities and institutions that aim to enhance support, quality, competitiveness, and access to international markets. The Palestinian Standards and Measurement Institution is one such authority that has played an important role in assisting MSMEs in meeting international market standards, which can increase their exports and establish positive cash inflows, making funding options more accessible.

Despite the initiatives and strategies undertaken by the government and other institutions, the findings suggest that corruption remains a significant issue that decreases the level of support available for MSMEs. The Palestinian government's support for MSMEs is also reported to be insufficient, highlighting the need for further initiatives to support MSMEs.

## 7.6 SUMMARY OF FINDINGS

The findings show that the most important parts of this theme are the obstacles to the banks/MFIs that are linked to the MSME owners’ abilities and knowledge, the role of the government, the legal environment and the FIs’ T&Cs. As the participants in this study have stated, the total number of banks and the amount of loans granted are quite low compared to the number of MSMEs. The available banking institutions cannot fulfil the MSMEs’ funding needs. There is a weak legal environment, and some MSMEs possess fraudulent or no land registry documentation. The debt recovery, insolvency and MSMEs rate failure is remarkably high. Consequently, these FIs have set a range of T&Cs (including credit history, guarantees, investment details, financial statements, experience, business addresses, ID copies, sales record, profit detail, start-up period, salary details, collateral, and guarantors) for evaluating the businesses’ creditworthiness. Most MSME owners have low levels of financial literacy, which reduces the number of options for finding feasible funding solutions for the growth of their MSMEs.

The EPCGF initiatives have given more support to FIs in case of considerable risk in order to manage debt costs, insolvency and repayments of borrowed money on time and, therefore, FIs have issued strict T&Cs. The risk coverage guaranteed by EPCGF has made it easier for MSMEs and banks to increase the accessibility of funding. Credit history and financial statements are the most important requirements usually insisted upon by the majority of banks as they are the most useful elements for analysing MSMEs’ creditworthiness. However, it is very difficult for newly established MSMEs to meet all the conditions given that the management may lack financial literacy and produce evidence of a positive cash inflow at the start of the business. Therefore, these newly established MSMEs have low access to funding that can also negatively influence their level of performance.

The results found that banks have a special credit department responsible for loans at individual, MSME and enterprise levels. Credit departments usually have a loan officer who is responsible for evaluating the MSMEs’ creditworthiness by gathering financial statements and other important documentation required for lending. MSMEs have usually a limited number of employees, especially financial experts. Therefore, EPCGF has trained lending officers to deal with MSMEs’ financial statements to be able to soften and support their borrowing matters.

Palestine is an Arab country mostly populated with followers of Islamic religion, and so the ideology of Islam applies to economic activities. Followers of Islam are not allowed to deal in interest-based borrowing or lending, or businesses such as alcohol and gambling. Accordingly, those MSMEs owners who strictly follow the Islamic creed/ideology minimise their chances of having easy access to funding options as these options may only be available with paying interest. Alternatively, the concept of Islamic financing has been introduced, whereby Islamic ideology is followed by FIs offering borrowing options which avoid fixed interest rate practices.

The findings show that the collateral requirement is linked back to financial T&Cs as well as the grievances of MSME owners regarding low government support, as some of them do not have assets that can be used for collateral. In this manner, they are unable to access funding from FIs. In the absence of collateral, a credit guarantor (which covers the credit portfolio and default risk) is a good option which acts as an alternative when there is no collateral for borrowing. However, the absence of collateral usually increases the interest rate of borrowing, which may be not suitable for the newly established MSMEs. Furthermore, the credit guarantor documentation is also complicated for MSME owners, especially when their level of financial literacy is low. It is quite evident from the interviews carried out with FIs employees that most MSME owners cannot provide collateral or a credit guarantor and, therefore, the FIs are reluctant to provide loans due to the risk of high credit losses.

The findings also reveal that there is no specific limit for MSMEs based on their sector, but some FIs have a minimum of USD 5000 USD, and there is no maximum limit. These FIs also offer loans based on a debt-to-equity ratio. This ratio must not be above 40% for new MSMEs, and 60% for those MSMEs which have good profit and credit histories. Before accepting or rejecting any application, there are many documents which the FIs require to analyse MSMEs’ creditworthiness and eligibility. For example, MSMEs are required to show good credit history, recent financial statements, proof of experience and a valid business address, collateral and credit guarantor. However, the lack of human capital, small number of financial resources, and lack of financial literacy have created challenges in meeting the requirements of FIs, and consequently most MSME owners cannot meet the requirements of a loan. The findings also revealthatthe external competition pressure of FIs forced banks to hire marketing experts to educate and train MSMEs owners with the purpose of increasing their financial literacy skills and opportunities for accessing funding.

Participants shared knowledge regarding the causes of loan application rejections and how they can enhance the opportunities for MSMEs’ access to funding and level of performance. The lack of government support is directly linked with the MSMEs’ inability to show positive profit statements when applying for funding, as high rates of income and sales taxes, both import and export customs duties, license and legal fees, and low cash inflows increase chances of no profit or failure. Furthermore, the Palestinian economy is destabilised because of war and conflicts and high uncertainty for international investors and buyers to deal with local MSMEs. The uncertainty and ambiguity, coupled with the increasing rate of corruption and inflation, limit the opportunities for MSMEs to grow quickly. Although there is an option available for crowd funding, the results indicate that poor economic conditions, high failure rate of MSMEs, a conflicting situation of war and terror, and the weak legal infrastructure have all created uncertainty for the public, who subsequently do not believe that MSMEs are able to return their original amount of money plus fixed interest payments. The results reveal that a low level of financial literacy and experience (i.e. mismanagement, lack of experience, and bad bookkeeping) decrease the opportunities for funding access, Therefore, many MSMEs are unable to purchase sophisticated technologies to introduce innovation and improve the MSMEs’ performance.

To address these challenges, although there is support from the credit guarantor (EPCGF) for increasing MSMEs’ funding access, there are significant legal, operational and administration procedures involved, even after a guarantee from EPCGF, that make the situation challenging for MSMEs to access funding. The findings show that existing government policies and regulations are more suitable for large organisations as these organisations have significant amounts of capital and business opportunities. Therefore, they can create more job opportunities and pay taxes that are ultimately beneficial for the Government. The MSME owners have suggested that there is a need for the Palestinian Government to provide guarantees for MSMEs’ borrowing. This would allow FIs to relax the complicated T&Cs which have increased the loans rejection rate. It has been also suggested that the government should increase transparency and accountability, which in turn can reduce corruption. There is a need to conduct seminars and educational programmes for MSME owners that can enhance their knowledge and financial literacy skills as these skills are related to improving the accessibility of funding opportunities for MSMEs.

The interviewees were asked about the role of the EPCGF and PIF in making funding accessible, as well as improving the growth of MSMEs in Palestine. They were also asked how the existence of a credit guarantor such as EPCGF encourages FIs to make loans accessible for MSMEs. Most MSMEs face challenges regarding insufficient investment and limited financial resources. Therefore, both the EPCGF and PIF have begun initiatives aimed at overcoming these challenges and operate with the purpose of enhancing income generation, poverty reduction, and improving employment opportunities by providing financial support and guarantees for MSMEs. EPCGF ensures that MSMEs can access maximum loans from local banks and also provides investments for innovative MSME projects. Furthermore, it helps with technical support for MSMEs. EPCGF provides guarantees for loans which are applied for by new clients who have a fair credit history. The guarantee must be issued for those loans which have a minimum of one year and a maximum of five years. The maximum guarantee of a loan amount is USD 100,000 for MSMEs which have been in business for at least two years and can show fair cash inflows.

PIF was established in 2003 with the purpose of supporting businesses operating in hospitality, agriculture, renewable energy, agribusiness, and as an entrepreneur. PIF operates to support economic and social development in terms of assisting MSMEs, creating new jobs, contributing capital as a partner, and encouraging business in the private sector. These investments are increased by focusing on the principles of good governance, accountability and transparency that can increase fairness/ease of access to funding. PIF also empowers Palestinian women by providing more funding options as the lack of funding is a major barrier that limits the success of educated Palestinian women. The interviewees were asked about the EPCGF/ PIF monitoring and control system through the help of FIs as this system can help diminish the difficulties in accessing credit guarantors as well as reduce MSMEs’ funding options. Furthermore, they were asked how EPCGF/PIF monitoring and control systems enhance the interest and involvement of national and international donors, which increases funding options for MSMEs. EPCGF/PIF request the fulfilment of certain requirements before issuing credit guarantees to their partner banks for MSMEs.

There are many national and international donors who support and contribute to the growth and development of MSMEs by offering money to EPCGF, PIF and OPIC*.* These organisations are therefore able to support MSMEs which operate in hospitality, agriculture, renewable energy, agribusiness, entrepreneurs, health, trade, services and the manufacturing sector. The findings reveal that the Palestinian economy is strongly dependent on the growth of MSMEs. Therefore PMA has delayed payments of borrowed money in order to offer businesses relief during the global pandemic.

The last theme of this chapter is related to the role of different institutions and authorities that can influence the accessibility of funding opportunities and the level of MSMEs’ performance. The findings demonstrate that the existence of EPCGF and PIF increased opportunities for income generation, poverty reduction, and more employment. These organisations act as credit guarantors as well as distributing loans through financial institutions. The core objectives of both institutions (EPCGF and PIF) are to cover the risk of debt costs, insolvency and repayments of borrowed money on scheduled time so that FIs are better positioned to provide financial support for MSMEs and thus boost the Palestinian economy. Another EPCGF initiative is to train loan/lending officers in different FIs to help MSMEs accomplish financial statements and other documentation to make access to funding relatively easier.

# CHAPTER 8: DISCUSSION

## 8.1 INTRODUCTION

The previous two chapters of this thesis (Chapters 6 and 7) presented the primary data collected from the quantitative questionnaire and semi-structured interviews, followed by the analysis and findings. While the quantitative analysis tested the relationships between different variables and the access to funds and performance of MSMEs, the qualitative data were analysed to explore the various causes of issues related to the accessibility of funds and performance of MSMEs in the WBOP.

This chapter serves to integrate the results of both the qualitative and quantitative analyses, drawing out the overall findings. The findings are then compared and contrasted with the literature to determine the contribution of this study, which is the development of a context-specific framework to facilitate and improve funding for MSMEs in the WBOP.

The chapter is organised into the following sections: Section 8.2 discusses the accessibility of funds; Section 8.3 examines crowdfunding; Section 8.4 explores specific issues related to the accessibility of funding for MSMEs; and Section 8.5 presents the development of the context-specific model. Finally, Section 8.7 provides a summary and conclusion for the chapter. This chapter aims to provide a comprehensive discussion and interpretation of the findings, relating them to the relevant literature and drawing out the implications for policymakers and practitioners seeking to support the growth and development of MSMEs in the WBOP.

## 8.2 ACCESSIBILITY OF FUNDS

Existing literature on small businesses underscores the hindrance to growth due to limited fund accessibility (Moy and Luk, 2003; Hassanein and Adly, 2008; Barbu et al., 2019; Calabrese et al., 2020). However, these studies overlook unique political, cultural, financial, and individual challenges and the diversity in government rules and regulations between developed and developing countries. This study discovered that MSMEs in the West Bank and Gaza Strip (WBOP) confront various obstacles in acquiring funds, affecting their financial performance.

Researchers have identified numerous contextual factors impacting fund accessibility for MSMEs in the WBOP. Though not universal, this research focuses on this particular region. Firms lacking networking, relations, or political influence over lending organisations often pay higher market prices or interest rates (Farinha and Santos, 2002; Hale and Santos, 2009; Agarwal and Hauswald, 2010). Enhanced social networking and relationships with lending organisations can improve accessibility and financial literacy for MSME owners and managers in the WBOP.

Fajnzylber et al. (2009) posited that without government intervention, funding accessibility for MSMEs in developing countries cannot improve. Wei and Liu (2015) discovered that both vertical and horizontal government support influences enterprises' innovation performance in China. However, corruption remains a significant concern, with a Transparency International Report (2019) indicating that 62% of people believed corruption rose in 2019.

Organisations such as EPCGF, PIF, and the World Bank support MSMEs in Palestine, but government intervention results in unfair fund distribution. Corruption within the government can serve as a substantial barrier to MSMEs' access to finance. Furthermore, MSMEs frequently face challenges and discrimination when attempting to access governmental assistance, leading to informal payments for support (Nguyen et al., 2012; Nguyen and Lim, 2018).

Developing countries' lack of legal infrastructure creates accessibility issues, as unstable business environments and inadequate legal structures hinder crowdfunding accessibility (Fleming and Sorenson, 2016; Ma and Liu, 2017). Researchers contend that crowdfunding can only flourish in economically and legally stable developed countries due to insufficient investor protection in developing countries (Nevin et al., 2017; Borst et al., 2018; Kaminski et al., 2018; Datta et al., 2019; Laurell et al., 2019; Sahaym et al., 2019).

This research identifies various factors influencing fund accessibility for MSMEs in the WBOP and examines crowdfunding as a credible alternative to conventional loans. In both developing and developed countries, MSMEs are increasingly considering crowdfunding as a viable financing source, prompting this chapter to explore crowdfunding as an alternative for MSMEs in the WBOP.

## 8.3 CROWDFUNDING

Numerous funding methods exist for companies, but as the external environment evolves, there is a growing need for innovative financing. Although many studies have explored crowdfunding as a viable option for small businesses to fulfill their financial needs and objectives (Baumgardner et al., 2017; Blace and Grubisic, 2017; Hornuf and Neuenkirch, 2017; Ghezzi et al., 2018; Cappa et al., 2019; Paoloni et al., 2019; Piazza et al., 2019; Sahaym et al., 2019; Segev, 2019; Block et al., 2020), the current study identifies various unique challenges – economic hurdles, political barriers, and a lack of financial literacy, among others – and contributes to a better comprehension of funding accessibility challenges in the WBOP.

Palestine, unsurprisingly, is a politically and economically unstable country due to harsh socioeconomic conditions resulting from Israel's occupation and the continuous destabilisation of its infrastructure over several decades. Multiple factors, including a weak legal infrastructure leading to public distrust in MSMEs and their management, render crowdfunding in the WBOP inaccessible. In Palestine, a lack of financial literacy presents another challenge that can create obstacles for MSMEs in accessing funding.

Political and economic uncertainty in Palestine is evident and significantly contributes to the ambiguity of crowdfunding policies in the WBOP. Consequently, Figure 8-1 positions uncertainty at the initial stages of new projects. While numerous challenges surrounding crowdfunding, the figure highlights the specific factors influencing crowdfunding accessibility for MSMEs in the WBOP.

Crowdfunding processes are, intentionally or unintentionally, hindered from being useful tools for MSMEs in the West Bank's socioeconomic milieu. Some research suggests that crowdfunding accessibility for MSMEs does not possess a single reality but varies across different situations. This study investigates the local context of crowdfunding processes in the WBOP, aiming to provide an in-depth understanding of crowdfunding outcomes concerning the proposed objectives outlined in Chapter 1. It addresses each research objective by comparing existing literature with the purpose, offering valuable insights for developing a final research framework.

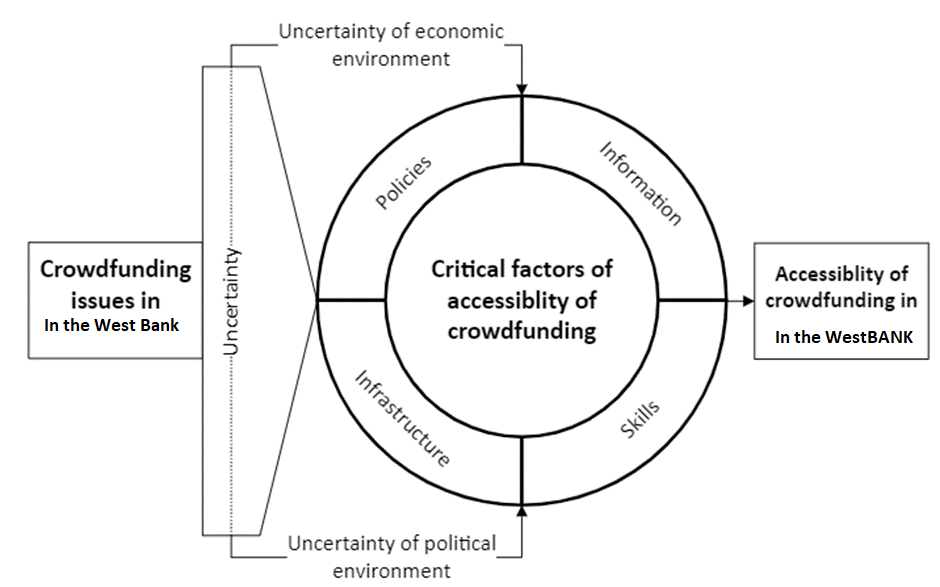


Figure 8.1: Graphic developed on the basis of the research findings

Crowdfunding serves as an alternative that can broaden funding accessibility for MSMEs. Meinshausen et al. (2012) argued that crowdfunding is a means to minimise the funding gap in new projects' early stages. Rossi and Vismara (2018) asserted that crowdfunding emerged as an alternative for MSMEs denied funding by commercial banks and FIs. Stanko and Henard (2016) traced the idea's origin to the UK economy, describing crowdfunding as a blend of finances from a network of individuals online. As mentioned in Chapter 3.3, verifying complex information in crowdfunding presents a challenge. Crowdfunding investors, particularly in developing countries like the WBOP, tend to be less sophisticated compared to traditional investors.

This results in increased asymmetry between investors and entrepreneurs, which is critical for investors in the WBOP. Supporters must trust entrepreneurs' signals, necessitating a legal infrastructure to safeguard crowdfunding investors. Crowdfunding processes involve MSMEs' knowledge and skills, government T&Cs, and the presence of investors to enable this funding type.

This study's findings on crowdfunding come from both quantitative and qualitative methods. Quantitative research demonstrates a weak but positive link between crowdfunding and MSME performance and funding access. However, it does not explain the reasons for this weak connection or the awareness level of crowdfunding options among Palestinian MSME owners.

Qualitative findings indicate that low crowdfunding usage results from the difficulty of raising money from the Palestinian public, as explained by FI managers. This is due to the weak legal structure and public distrust, as people are sceptical about recovering their investments. The lack of a robust legal infrastructure and suitable business environment, combined with high unemployment, poverty, and the consequences of violent conflict, makes public fundraising extremely challenging.

Financial literacy also negatively impacts funding access in the West Bank. This research reveals that approximately 57% of MSME owners lack experience and information on pitching presentations to attract funders. In the absence of financial literacy, there is a pressing need for training programmes that facilitate interactions and knowledge transfer to enhance funding access.

The high risk of default and low profitability of MSMEs result in high debt recovery and insolvency costs for FIs, leading them to charge high interest rates and impose stringent T&Cs. Consequently, crowdfunding becomes an attractive option for MSMEs.

Existing literature suggests that MSME managers and owners with social ties and networking knowledge can play crucial roles in accessing finance for MSMEs. However, MSME owners in the West Bank report that their peers in similar business sectors lack sophisticated knowledge or experience of crowdfunding, preventing them from guiding their social circles towards crowdfunding options.

There is a clear need for training sessions and seminars that empower MSME owners, managers, and the public with the necessary skills and information to promote local MSMEs as significant contributors to the Palestinian economy. Training can educate people that their contributions as crowd funders can help MSMEs grow, create jobs, pay taxes, and stabilise the local business environment. MSMEs primarily seek alternative funding sources for new projects because obtaining funds from FIs and banks is difficult due to unfavourable T&Cs for MSMEs.

Crowdfunding is becoming increasingly popular as an alternative source of funding for MSMEs. This is particularly relevant for MSMEs in the WBOP who face challenges in accessing traditional forms of finance due to various reasons such as lack of collateral, high risk perception, and limited financial resources. Crowdfunding platforms allow MSMEs to pitch their business ideas to a wider audience, thereby increasing their chances of securing funding. Additionally, crowdfunding can help to create a network of supporters who are invested in the success of the MSME, potentially leading to increased visibility and customer loyalty.

However, there are several issues that need to be addressed to improve the accessibility of crowdfunding for MSMEs in the WBOP. One key issue is the lack of awareness and understanding of crowdfunding among MSMEs. Many MSMEs are not familiar with the concept of crowdfunding and do not know how to effectively use it to secure funding. Additionally, there is a lack of trust in crowdfunding platforms due to concerns about fraudulent activity and the safety of personal and financial information.

Invest Bank of Palestine can play a crucial role in addressing these issues. The bank can provide training and education to MSMEs on how to use crowdfunding platforms effectively and safely. They can also establish partnerships with reputable crowdfunding platforms to increase trust and confidence in these platforms among MSMEs. Additionally, the bank can establish its own crowdfunding platform tailored specifically for MSMEs in the WBOP, providing a more accessible and trustworthy platform for MSMEs to secure funding. Crowdfunding has the potential to provide an important alternative source of funding for MSMEs in the WBOP. However, there are several issues that need to be addressed to improve its accessibility and effectiveness. By taking proactive measures to address these issues, Invest Bank of Palestine can help to create a more supportive environment for MSMEs to access the funding they need to grow and succeed.

Crowdfunding is a relatively new concept in Palestine, and it has the potential to address some of the major issues related to the accessibility of funding for MSMEs. As discussed in Chapter 2, crowdfunding is an alternative method of financing that enables businesses to raise funds from a large number of investors, typically via an online platform. Crowdfunding has gained popularity in recent years due to the rise of online platforms such as Kickstarter, GoFundMe and Indiegogo. In Palestine, there are some crowdfunding platforms available such as Liwwa and TabOona, which have helped to raise funds for some MSMEs. However, there is still a need for greater awareness and understanding of crowdfunding among MSMEs in Palestine.

Crowdfunding has the potential to provide MSMEs with an alternative source of funding that is more accessible and less reliant on traditional financial institutions. Crowdfunding can also help address the issue of collateral, which is often a major barrier for MSMEs seeking funding. By using crowdfunding platforms, MSMEs can access funding from a large number of investors who are willing to contribute small amounts of money. This can help to spread the risk among a larger number of investors.

In addition, crowdfunding can also help to promote transparency and accountability in the funding process. Crowdfunding platforms typically provide detailed information about the businesses seeking funding, including their business plans, financial projections, and past performance. This information can help to build trust and confidence among investors, making it more likely that they will be willing to contribute to the funding process. However, there are also some challenges and issues related to crowdfunding in Palestine. One of the main challenges is the lack of awareness and understanding of crowdfunding. Many MSMEs may not be aware of the potential benefits of crowdfunding or may not understand how to use crowdfunding platforms effectively. In addition, there may also be cultural and social barriers to crowdfunding, as some investors may be hesitant to invest in businesses that are not well established or are seen as risky. Another issue is the lack of a regulatory framework for crowdfunding in Palestine. While there are some crowdfunding platforms available, there is currently no legal framework to govern the use of crowdfunding for MSMEs. This lack of regulation can make it difficult for MSMEs to navigate the crowdfunding process and can also make it harder to attract investors.

To address these issues and improve the accessibility of funding for MSMEs, the Invest Bank of Palestine could take several steps. First, the bank could work to raise awareness and understanding of crowdfunding among MSMEs. This could include providing training and education programmes to help MSMEs understand how to use crowdfunding platforms effectively. Second, the bank could work with crowdfunding platforms to develop a regulatory framework for crowdfunding in Palestine. This could help to provide greater transparency and accountability in the crowdfunding process, as well as provide more guidance and support for MSMEs seeking funding.

Third, the bank could develop its own crowdfunding platform to provide an alternative source of funding for MSMEs. This could help address some of the barriers to accessing traditional forms of funding and could also help to promote greater transparency and accountability in the funding process.

## 8.4 SPECIFIC ISSUES RELATED TO THE ACCESSIBILITY OF FUNDING FOR MSMEs

This section provides an understanding of specific issues related to the accessibility of funding that require the immediate attention of stakeholders, including the government and FIs. A quantitative analysis was conducted to identify the most important factors that impact the accessibility of funds for MSMEs in the WBOP. Qualitative semi-structured interviews were also been conducted to answer the questions of how and why these identified factors are important for resolving this issue. Considering the nature of this research, institutional theory was used to explore this context. Consequently, the final conceptual framework is also based on institutional theory.

### 8.4.1 Influencing Factors for the Accessibility of Funds

Several factors, including FIs' T&Cs, banking competition, a weak legal environment, crowdfunding, and a lack of financial literacy substantially affect the accessibility of funds for MSMEs in the WBOP. This study examines these factors using a regression model. The results for the first hypothesis indicate that crowdfunding has a significant but weak positive association with MSME performance. The results for the second hypothesis reveal a negative relationship between a lack of financial literacy and MSME performance. MSME owners perceive a deficiency in financial literacy skills and limited funding options, which negatively impacts MSME performance. In the same vein, low government support and a weak legal environment significantly and negatively influence MSME performance. Diminished government support and heightened corruption adversely affect fund accessibility. Additionally, the absence of government support in the form of tax exemptions exacerbates challenges for MSME performance. There is a weak negative impact of FIs' T&Cs on MSME performance, while banking competition positively influences MSME performance. Table 8.1 demonstrates that FIs' T&Cs, banking competition, a weak legal environment, and a lack of financial literacy affect the accessibility of funds, and these factors influence the financial performance of MSMEs in the WBOP. The primary aim of this discussion is to identify the underlying causes of these factors that impact fund accessibility and the performance of MSMEs in the WBOP.

Table 8‑1: Summary of hypotheses

|  |  |
| --- | --- |
| Summary of hypotheses | Accepted/Rejected |
| H1A: Crowdfunding is positively linked with the accessibility of funding. | Accepted |
| H1B: Crowdfunding is positively associated with MSME performance. | Accepted |
| H2A: A lack of financial literacy of MSME owners is negatively associated with MSME access to funding. | Accepted |
| H2B: A lack of financial literacy of MSME owners is negatively linked with MSME performance. | Accepted |
| H3A: Low government support has a negative relationship with MSME access to funding. | Accepted |
| H3B: Low government support has a negative relationship with MSME performance. | Accepted |
| H4A: Financial institutions’ terms and conditions are negatively associated with MSME access to funding. | Accepted |
| H4B: Financial institutions’ terms and conditions are negatively associated with MSME performance. | Accepted |
| H5A: Banking competition is positively associated with MSME access to funding. | Accepted |
| H5B: Banking competition is positively associated with MSME performance. | Accepted |
| H6A: A weak legal environment for MSME owners has a negative relationship with MSME access to funding. | Accepted |
| H6B: A weak legal environment for MSME owners is negatively linked with MSME performance. | Accepted |

There is a need to understand the root causes behind these factors and the role of institutions such as governments, FIs and agencies (PIF and EPCGF) with respect to improving the accessibility of funds for MSMEs in the WBOP. Thus, the next section discusses institutional theory and a context-specific framework that can help improve the accessibility of funds for MSMEs in the WBOP. The findings of this study indicate that various factors significantly impact the accessibility of funds for MSMEs in the WBOP, including crowdfunding, financial literacy, government support, legal environment, FIs' terms and conditions, and banking competition. The study's hypotheses argue that these issues have a positive or negative relationship with MSME performance and access to funding. The study concludes that there is a need to understand the root causes behind these factors and the role of institutions in improving the accessibility of funds for MSMEs in the WBOP. Therefore, the study proposes a context-specific framework that can help improve the accessibility of funds for MSMEs in the WBOP. The proposed framework considers the unique challenges faced by MSMEs in the region and provides recommendations for improving the accessibility of funds and enhancing the performance of MSMEs. Overall, this study contributes to the development of strategies and policies that can facilitate and improve funding for MSMEs in the WBOP, which is essential for the growth and development of the local economy.

In summary, the analysis presented in this section highlights several factors that significantly impact the accessibility of funds for MSMEs in the WBOP. These factors include FIs’ T&Cs, banking competition, a weak legal environment, crowdsourcing, and a lack of financial literacy among MSME owners. The regression model conducted in this study confirms the negative influence of these factors on MSME performance. The results also show a positive association between crowdfunding and both the accessibility of funding and MSME performance. This analysis supports the research aim of developing a context-specific framework to facilitate and improve funding for MSMEs in the WBOP.

The findings reveal that there is a need for a more comprehensive approach to address the root causes of the issues surrounding the accessibility of funds for MSMEs in the WBOP. The role of various institutions such as governments, FIs, and agencies such as PIF and EPCGF is crucial in improving the accessibility of funds for MSMEs. A context-specific framework is needed to ensure that the initiatives and strategies implemented by these institutions are tailored to the unique challenges faced by MSMEs in the WBOP. The next section of the chapter discusses institutional theory and proposes a context-specific framework to improve the accessibility of funds for MSMEs in the WBOP.

* 1. **Achievement of Research Objectives**

**OBJECTIVE 1:** **To investigate the most important factors that play a role in the accessibility of funds for MSMEs in the WBOP**

The first research objective was to identify and analyse the most important factors that impact the accessibility of funds for MSMEs in the WBOP. Through the use of a regression model, various factors were examined, including FIs’ T&Cs, banking competition, a weak legal environment, crowdsourcing, and a lack of financial literacy. The analysis revealed that low government support and a weak legal environment have significant negative influence on MSME performance and the accessibility of funds. In addition, a lack of financial literacy among MSME owners and the limited availability of funding options were identified as significant factors that negatively impact MSME performance. Conversely, the study found that crowdfunding and banking competition positively affect MSME performance and the accessibility of funds.

The research objective was achieved by identifying and examining the key factors that play a role in the accessibility of funds for MSMEs in the WBOP. The findings contribute to the literature on MSME financing and provide insights for policymakers and financial institutions on how to improve the accessibility of funds for MSMEs in the region.

Primary data were collected through a quantitative survey and semi-structured interviews to investigate the factors impacting the accessibility of funds for MSMEs in the WBOP. The quantitative analysis involved the use of a regression model to test the relationships between different variables and the accessibility of funds and performance of MSMEs. The qualitative data were analysed to explore the causes of the issues of accessibility of funds and performance of MSMEs in the WBOP.

Crowdfunding was found to have a positive association with MSME performance, while a lack of financial literacy was negatively associated with MSME performance. Low government support and a weak legal environment were found to have a significant negative influence on MSME performance and the accessibility of funds. Financial institutions' terms and conditions were also found to have a negative impact on MSME performance, while banking competition positively impacted MSME performance. The findings of the study highlight the need for institutional support and policy interventions to address these factors and improve the accessibility of funds for MSMEs in the WBOP.

**OBJECTIVE 2: To test the relationship of the identified factors to the accessibility of funds and MSMEs' performance in the WBOP**

The second research objective aimed to test the relationship between the identified factors and the accessibility of funds and MSMEs' performance in the WBOP. To achieve this objective, the study proposed 12 hypotheses based on the literature review and qualitative findings. The independent variables included in the study were the demographic features of MSME owners, types of funding, low financial literacy, lack of government support, FIs’ terms and conditions, banking competition, and weak legal environments. The dependent variables were the accessibility of funding and MSME performance.

To achieve this objective, the study used both quantitative and qualitative data. The quantitative data were collected through a survey of 319 MSME owners, while the qualitative data were collected through semi-structured interviews. The quantitative data were analysed using regression analysis to test the hypotheses and determine the variables that could negatively or positively influence the accessibility of funding and MSME performance in the WBOP.

The second research objective successfully tested the relationship between the identified factors listed above and the accessibility of funds and MSMEs' performance in the WBOP. The findings can help identify specific barriers that hinder access to funding and decrease MSME performance, providing insights for policymakers and MSME owners to address these challenges.

**OBJECTIVE 3: To identify the impact of the FIs T&Cs on MSMEs' accessibility to funds and their performance.**

The literature review highlighted the importance of financial institutions (FIs) in providing funding for MSMEs, but also identified that the terms and conditions (T&Cs) of loans can create barriers for MSMEs. To achieve this objective, the study conducted a quantitative analysis to test the relationship between FIs’ T&Cs and MSME performance, as well as the accessibility of funds. The findings indicated that FIs’ T&Cs have a weak negative impact on MSME performance, and a negative association with the accessibility of funds.

The data collection process and analysis also helped to identify the impact of FIs’ T&Cs on MSMEs' accessibility to funds and their performance. MSME owners reported difficulties in obtaining loans due to high interest rates, collateral requirements, and lengthy approval processes. These findings suggest that FIs need to revise their loan T&Cs to facilitate MSMEs’ access to funds and improve their performance. The research suggests that FIs play a crucial role in providing funding for MSMEs, but the terms and conditions of their loans can act as a barrier to MSMEs’ access to funds and negatively impact their performance. To improve the accessibility of funds for MSMEs in the WBOP, it is important to address the issues with FIs’ T&Cs and provide financial products that meet the needs of MSMEs.

**OBJECTIVE 4: To explore the various reasons behind the barriers to funding access for MSMEs.**

To achieve the objective of exploring the reasons behind the barriers to funding access for MSMEs, this study relied on both literature review and primary data collected through quantitative and qualitative research methods. Through the literature review, the study identified the weak legal and economic environment, a lack of financial literacy, low government support, FIs’ terms and conditions, and banking competition as some of the factors that contribute to the challenges faced by MSMEs in accessing funding.

The primary data collected through the questionnaire and interviews allowed for a deeper exploration of these factors and their impact on MSMEs. The findings showed that MSME owners face challenges in accessing funding due to the strict requirements of FIs, a lack of collateral, credit guarantors, and credit history. The weak legal environment and corruption were also identified as significant barriers to funding access for MSMEs.

In addition, the study found that low government support and poor financial literacy skills negatively impact MSMEs' funding access and performance. The study also found that banking competition positively affects MSMEs' funding access and performance.

Overall, the objective of exploring the reasons behind the barriers to funding access for MSMEs was achieved through a comprehensive analysis of both literature and primary data. The findings of this objective provide insights into the factors that hinder the accessibility of funds for MSMEs in the WBOP and can guide policymakers and FIs in developing strategies to improve funding access for MSMEs.

The previous sections of this chapter discussed the various factors that impact the accessibility of funds for MSMEs in the WBOP, as well as the relationships between these factors and MSMEs' performance. The literature review, primary data collected through quantitative and qualitative methods, and regression analysis have helped achieve the first and second research objectives, which were to investigate the most important factors that impact the accessibility of funds and MSMEs' performance, and to test the relationship of these factors to the accessibility of funds and MSMEs' performance. The third research objective aimed to identify the impact of FIs' T&Cs on MSMEs' accessibility to funds and their performance, and this was also achieved through the analysis of primary data. The fourth research objective sought to explore the various reasons behind the barriers to funding access for MSMEs, and this was accomplished by identifying and discussing the different factors that act as barriers to or facilitators of funding access for MSMEs in the WBOP. Now, the focus is on the fifth and final research objective, which is to develop an appropriate solution to address accessibility barriers and improve the accessibility of MSME funds and MSMEs' performance. This section will discuss the potential solutions that could be implemented to improve the accessibility of funding for MSMEs in the WBOP.

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## 8.5 INSTITUTIONAL THEORY AND FINAL FRAMEWORK

Diagram, engineering drawing

Description automatically generated

Figure 8.2: Institutional issues related to the accessibility of funds for MSMEs

This research is grounded in institutional theory, as outlined in Chapter 4. Consequently, the conceptual framework derived from these findings is critically evaluated and analysed based on institutional theory. This study presents a context-specific model from the beginning, with the intent to discuss each of its elements individually. The primary objective of this research is to explore issues related to funding accessibility for MSMEs in the WBOP. As such, Figure 8.2 illustrates a number of factors, such as a lack of government support, social networking and corruption, a lack of financial literacy, ambiguity in requirements, an absence of infrastructure for private funding and crowdfunding, a deficiency in infrastructure for bank funding, and limited banking competition all discourage banks from lending to MSMEs. Furthermore, there is a scarcity of seminars and networking for MSMEs, which negatively impacts owners and management, hindering their ability to learn about accessing funds.

In considering the isomorphism of the institution, which clarifies the accessibility issue of funds for MSMEs in WBOP (DiMaggio and Powell, 1983; pp. 147), defined it as a constraining process of the financial institution that forces one unit in a population to resemble other units of banks and overall legal and business infrastructure that face the same set of environmental conditions to provide sufficient access to the funds for MSMEs.

As a theoretical approach, institutional isomorphism describes and explores how systems of FIs in Palestine can become alike, providing sufficient access to the funds for MSME in the WBOP. As DiMaggio and Powell (1983, pp. 147) state, “organizational change is less and less inspired by competition or by the need for efficiency.”

**This research breaks down each of the institutional isomorphic forces to justify their influence on the issue of funding accessibility for MSMEs:**

1. **Mimetic Isomorphism**

Accessibility issues arise from the mimetic factors of FIs. Mimetic isomorphism originates from organisational ambiguity and uncertainty (DiMaggio and Powell, 1983). In the West Bank, the findings indicate that the Palestinian government has limited influence in establishing and supporting MSMEs, and that official policy is largely developed within the context of large-scale firms.

It is understandable that a sense of uncertainty permeates many aspects of life in the WBOP. Moreover, there is uncertainty concerning government policies aimed at promoting MSMEs, which could create additional challenges. As mentioned earlier, government policies, support, and the legal environment all affect lenders and borrowers, directly influencing MSMEs' access to finance. Consequently, the results reveal that the combined coercive and normative forces of FIs in Palestine can somewhat enhance access to funds for MSMEs.

1. **Normative Isomorphism**

Normative isomorphism provides an understanding of values related to professionalism and emerging legal professional practices in FIs and banks. For instance, bank staff who have relationships with MSME managers or owners may exploit situations to their advantage regarding professional norms and services. Their professional or educational backgrounds or social links may hinder some people from obtaining funds or may encourage others to get needed funds, leading to the creation of normative factors of institutions. In this regard, it is quite important to grow and expand networks and provide new ideas, narratives, and models to lenders, governments, and businesses. This increases the level of competition, knowledge, skills, and learning processes. Normative isomorphism brings this change to the institutional level in the WBOP.

As already identified, the relationship between banks and firms indicates that soft information gathered over time benefits the relationship with the lender through potential capital providers. Consequently, information monopolies are created for MSMEs that build strong networking ties with banks and exert political influence on institutions, resulting in discrimination within the institutions.

1. **Coercive Isomorphism**

According to DiMaggio and Powell (1983), coercive isomorphism originates from external organisations’ cultural and legal environmental expectations and from political influence on the institutions.

This research shows that the legal infrastructure and environment are too weak to provide sufficient funds for MSMEs. Such an environment does not work independently but is deeply rooted in local social and cultural values. Considering these social and cultural values, we find that the managers and owners of organisations with close relations to the banking industry have more opportunities to bypass legal requirements to guarantee the required funds for their organisations. We also find that the owners and managers who have closer relationships with the banking industry have a greater understanding of the legal requirements for funding, increasing their chances of getting access to the required funds. Therefore, we can say that this additional mimesis and coercion, normative isomorphism are linked with each other, so the legal environment is also embedded with the country's local social-cultural and political values. Some organisations possess a certain degree of political influence in the country, which enables them to access the required funds.

There is also a lack of political involvement of MSMEs and a lack of support for these businesses because the government focuses more on larger organisations. Hence, improving funding accessibility for MSMEs in the WPOB requires political attention to provide businesses with the necessary infrastructure and legal requirements. It is widely debated whether small- and large-scale firms are economically different, and this issue is further extended to policymakers. These policymakers argue over the pros and cons of job opportunities for skilled and unskilled labourers by virtue of location, economies of scale, production cost, allocated investment capital, and ownership structure.

The findings also indicate that MSMEs play a vital role in the economy of the West Bank. The government should therefore act to improve the legal and business infrastructures that improve their accessibility to funds.

Concerning the Palestinian economy, a survey was conducted to compare two alternatives and investigate whether policymakers in Palestine focus on MSMEs or large-scale firms. Sabri (1998) found that MSMEs have higher levels of labour productivity and higher ratios of assets turnover and inventory turnover than large-scale firms, even though large-scale firms have better opportunities for external financing. Thus, government policy is required to lift MSME financial performance. For example, there is a lack of a history of the track records of businesses, which creates ambiguity for lenders. Thus, government involvement could enhance the legal and credibility infrastructures for businesses, improve the information available to lenders and allow them to select the best T&Cs and conditions that are not backed up with measures securing lender funds in cases of business liquidation.

There are two types of isomorphism: competitive and institutional. Hence, the competition is also a part of a coercive environment that considers the competition of banks and lenders as providing funds for businesses and individuals. Competition within the market is considered a further form of competition among businesses within the country, triggering their understanding of how to access funds for their businesses. As DiMaggio and Powell (1983) stated, “Organizations compete not just for resources and customers, but for political power and institutional legitimacy, for social as well as economic fitness” (pp. 147). One of the findings shows that businesses with strong networking ties with the banking sector and that maintain relationships with the political status quo have advantages when accessing funds. Thus, it is imperative that the government improves social networking by arranging seminars, online networks, and platforms for businesses with the aim of creating fair business policies. These policies will boost MSME confidence and give them more political power to access the required information and resources. Seminars, training, and organisational networking can also promote an organisational level of collaboration and raise MSME voices, increasing government awareness of their pressing issues and thereby achieving a form of collective (but also competitive) political power.

This research shows that there is a weak legal infrastructure, which creates barriers that prevent MSMEs from accessing funds. At the same time, it identifies that the local social and political environment is important to provide organisations with equal opportunity in accessing funds. There is also a lack of clear and understandable legal requirements for funding, which also plays a vital role in the accessibility of funds for MSMEs. The ambiguous legal requirements for funds are linked further to low levels of education of MSMEs owners and managers in the WBOP. The political environment uncertainty also hinders the development of the required legal infrastructure for businesses in the WBOP.

This research, therefore, intends to improve the overall policy of the institution, leading towards MSMEs having direct access to funds in the WBOP. The above framework shows that normative factors directly enhance institutional capacity to improve the accessibility of funds for MSMEs. This is because, through training, seminars, and organisational networking, joint, and collaborative learning environments can be established for all sides, thus improving the accessibility of funds for MSMEs.

The following sections offer a detailed explanation of the model elements used in this study.

## 8.6 Social Networks and Corruption

The existing literature tends to discuss social networks only in the context of the accessibility of funding options. However, this study discusses social networks as sources of cheap borrowing options as well as the transfer of financial literacy skills, which can help MSME owners arrange suitable funding options.Within the context of the above framework, this study identifies a pressing need for the creation of social networks along with seminars and organisational training for lenders and MSMEs. This would trigger a form of functional literacy at an institutional level that could improve the institutional capability to address issues regarding the funding of MSMEs in the WBOP. The results reveal that many MSME owners are unable to provide collateral, but their social networks, such as friends and family members, offer them these funds, and thus serve as cheap borrowing options compared to financial markets.

Low government support, in terms of corruption in MSME funding and lack of tax exemptions, increases the challenges of accessing funding. The qualitative results reveal that corruption is a major factor that hinders access to funding options for MSMEs. There is sufficient financial support available from the World Bank, PIF and EPCGF, but there are no fair funding distributions or accountability mechanisms. Consequently, the financial resources offered by various international organisations are not fairly allocated to or accessed by MSMEs, which negatively influences their performance. There is consensus among MSMEs owners that political uncertainty, increasing rates of inflation and corruption all restrict their financial accessibility options.

**8.7 Financial Literacy**

As mentioned earlier, financial literacy affects both access to funds and firm performance. Managers make financial decisions impacting an organisation's performance, such as retirement planning, investment, and savings. Companies often take steps to acquire resources for development. Organisations may rely on dynamic competencies (e.g., financial knowledge) to execute these actions effectively and to utilise resources. Hence, this study examines financial literacy as a crucial factor determining fund access in the West Bank.

The quantitative results reveal a negative relationship between a lack of financial literacy and MSME performance and access to funding. They highlight the impact of financial literacy in general terms and show MSME owners' understanding of factors related to financial literacy, such as T&Cs, procedures for accessing credit guarantors, methods for finding and accessing suitable lenders, and legal requirements.

Understanding these factors can help MSMEs navigate T&Cs, improve funding access, and elevate their business performance. The research indicates that MSME owners struggle with complex collateral and credit guarantor requirements, leading to reduced funding options. These requirements help FIs assess creditworthiness and determine potential funding options, maturity periods, and interest rates for MSMEs.

However, few MSME owners possess experience, knowledge, and financial skills. Due to high debt recovery and insolvency costs, FIs charge them excessive interest rates, creating challenges in obtaining affordable funding options.

Previous studies, as seen in Chapter 3, demonstrate that financial literacy-related skills can improve understanding of risks associated with debt crises and bankruptcy, enabling MSME owners to avoid funding options leading to insolvency or bankruptcy.

This research's results show that MSME owners with high financial literacy arrange funds from family sources as a low-cost borrowing option, facing lower financial burdens compared to FI funding. Some MSMEs are newly established with financially literate management, but FIs' complicated T&Cs make it difficult for them to complete requirements, particularly when they cannot demonstrate significant profit from the loan.

These findings reveal that limited pre-planning and low financial literacy negatively influence MSME owners' abilities to identify optimal borrowing options and complete documentation for fund access.

MSME management and employees stated that limited budgets restrict their opportunities to attend training programmes and valuable seminars related to financial education. Consequently, many MSMEs fail at the initial stages because owners cannot manage business expenses, particularly when faced with challenges such as finding a suitable lender and understanding legal requirements. Thus, a lack of financial literacy among MSME owners and management in Palestine results in a lack of innovation and poor business performance.

The findings suggest that MSME owners, being less skilled and unaware of funding opportunities, are unable to enhance their business environment and performance. Interviewees recommended that both government and FIs should conduct training sessions and seminars, enabling employees and MSME management to learn about suitable funding options and necessary requirements and documentation.

The findings reveal that several local Islamic FIs, such as the Arab Center for Agricultural Development, Palestine for Credit and Development, Palestinian Development Fund, and Reef Finance Company, conduct seminars and training sessions. These organisations target MSME owners adhering to Islamic ideology and teachings that restrict access to funding options involving usury and fixed interest-based practices. In this monetary context, Islamic ideology means that borrowing money should be based on a profit- and loss-sharing model. Some MSME owners possess the financial literacy to compare interest-based funding options with those within Islamic ideology. They obtain funds through Ijara (leasing), Musharaka (partnership/joint venture), or Mudaraba (profit-sharing), providing Islamic financing options for MSME owners. Thus, these MSME owners can purchase advanced technology by accessing funding through Ijara, thereby improving MSME performance.

Capital investment for MSMEs is typically obtained through family members, commercial banks, friends' networks, or equity financing plans from external sources. However, due to a lack of financial literacy, MSMEs in developing nations often rely on informal finance sources such as private money lenders, friends, and family members. This limits the growth of MSMEs in the WBOP. Consequently, MSMEs frequently turn to external funding sources, which are often hampered by a lack of finances. Given the region's current economic conditions and the increasing complexity of financial rules, coupled with the WBOP's uncertain financial position, business expansion may be hindered by a lack of external financing options. Therefore, it is crucial for entrepreneurs to acquire a sufficient degree of financial literacy to expand their access to funds.

Entrepreneurs with high levels of financial literacy can leverage financial data to obtain more affordable and appropriate financing for their businesses. A high level of financial literacy also provides entrepreneurs with numerous financial opportunities, enabling them to accurately estimate their financial resources. Financial literacy improves a company's cash flow management and access to capital.

It is from this perspective that this study prioritises financial literacy and investigates its relationship with fund accessibility in the West Bank. In doing so, it establishes that managers' and owners' financial literacy has dual effects on businesses in the West Bank, affecting both fund accessibility and business performance. Although these elements are not universally influenced in the same manner as local circumstances also play a role in capital availability, they are nevertheless influenced in some way or another. For example, as this study's participants revealed, all governments play a role in facilitating fund accessibility for businesses in their respective countries; however, the government's role in Palestine is different, as is the business environment.

## 8.8 Government Support

There are limited findings in the current literature regarding the Palestinian government’s support for MSMEs, and further initiatives are required to improve funding accessibility and performance. The qualitative results of this study reveal that approximately 78% of businesses are operated through MSMEs in Palestine, which inevitably requires major attention and support from the Palestinian government due to MSMEs’ significant contributions to income generation, taxes, customs fees, license fees, exports, employment opportunities and decreasing poverty levels in Palestinian society. These results are consistent with the findings of Bayyoud and Sayyad (2016). Given the size of the contribution these companies make to the domestic product, their prosperity and stability reflect positively or negatively on local economies.

The quantitative results show that 76.2% did not apply for loans from government funds, and the main reasons for not applying were that 24% failed to meet the acceptance criteria and 32% did not know about the related aspects of the programmes offered, such as PIF and EPCGF. This finding reflects the inadequate and ineffective marketing communication adopted by these financial providers. This weakness could be improved by arranging seminars and providing training to increase awareness of these programmes among entrepreneurs.

However, certain questions arise about whether the financial support provided to MSMEs by the government is appropriate and effectively maintains sustainability and progress in the West Bank, as mentioned in Chapter 3. Even though there is monetary support from the government, the level of MSME performance was not observed in any of the exploratory studies. Thus far, most of the research has adopted analytical techniques (either qualitative or quantitative). However, the current research adopted a mixed-method approach. Therefore, it evaluates the influences on MSME performance due to financial support, as well as the objectives that have not yet been completed because of the financial assistance provided to MSMEs by the government for enhancing their performance.

As mentioned in the literature review (Chapter 3), financial support is more likely to positively influence developing countries that are mainly suffering from monopolies and government practices (Voskanyan, 2000). Corruption primarily influences firms to attain external finance in the form of bank loans (Khwaja and Mian, 2005) to overcome bureaucratic practices that are complex and unclear (Agrawal and Knoeber, 2001). Weill (2011) employed data from worldwide banks to demonstrate the concept of corruption and its ability to hinder a firm’s financing practices.

According to Svensson (2003), a bargaining model in which firms may pay bribes to gain access to credit promotes corruption. This study found a negative relationship between a lack of financial literacy and funding accessibility. Furthermore, low government support and a weak legal environment each show a significant negative association with funding accessibility. In addition, there is a significant negative relationship between FIs’ T&Cs and funding accessibility; however, banking competition has a statistically significant positive impact on funding accessibility.

MSMEs are a primary tool for recognising economic value and are essential for social and environmental impacts in the WBOP. Government projects are a fundamental mechanism for aggressively stimulating MSME growth. However, such projects are restricted by the capacity of the government and its support for MSMEs. Therefore, this research focuses more on funding accessibility for MSMEs in the West Bank rather than on testing the influence of government support programmes. Nonetheless, infrastructure deficiency and economic environmental volatility in the West Bank negatively influenced MSMEs in the country.

In developed countries, it is considered a strategic duty to stimulate programmes for the development of MSMEs. These programmes achieve prominent outcomes due to their contributions towards creating wealth, employment opportunities, new industries, technological advancements and increased production capabilities, ultimately improving living standards and offering greater opportunities. In Palestine, it is also important to understand how funds can become accessible to MSMEs and help them enhance their income distribution. Thus, this research focuses on understanding the accessibility of funds and the issues that can help MSMEs in the West Bank enhance their performance, thereby creating the prominent outcomes described above.

This indicates that there is significant agreement among respondents that MSMEs in the West Bank face many different problems and challenges that limit their role in the economic and social development of the state. These challenges may be internal, such as corruption or the lack of management skills or work experience, or external to the project and its management, such as competition between small projects or with other large projects. Competition with large projects is unequal as long as large projects benefit from investment incentives and facilities that are not provided to small projects.

There is agreement among respondents that the challenges and obstacles facing the growth and progress of MSMEs in Palestine can be attributed to a wide range of factors, such as the absence of government facilitation, the absence of uniform inter-bank lending policies for MSMEs and high interest rates, high required collateral, and difficult conditions for loans. These factors can be considered the main causes of the challenges that hinder these MSMSEs’ growth.

Similarly, Van Stel and Storey (2004) noted that there is no clear indication that job opportunities increase cost-effectiveness in the medium term through the creation of MSMEs with the help of government policies. Public policy interference that interrupts the ‘survival of the fittest’ should be avoided (Tsuruta, 2020). Questionable ethics, inefficiencies and complications are related to the motivation of companies in unfavourable conditions and in areas considered less supportive of MSMEs (Mole and Storey, 2004; Martín and Morán, 2019). Discussions related to the government have resulted in a body of research on the relationships between government policies and programmes promoting entrepreneurship and the steps toward economic growth (Morris and Stevens, 2010; Rotger et al., 2012; Baumgartner et al., 2013). Although this issue is particularly important, no consensus has been reached on the effectiveness of the government policies supporting MSMEs and the steps required from governments to encourage conducive environments for the development and growth of novel companies (Spencer and Go’mez, 2004; Caselli et al., 2019).

The existing literature has little understanding of how to cope with the obstacles to improving MSME performance and funding access, particularly concerning the support that ought to be provided by the Palestinian government. According to the quantitative results of this study, approximately 77% of businesses in Palestine are micro-scale businesses, and there is a great need for them to be supported by the government because they contribute significantly to generating growth in the local economy. The specificity of this type of enterprise regarding size, capital and flexibility helps them to realise many economic, social and environmental objectives. Despite their importance, these types of companies face limitations compared to large firms, thus they require financial support from different FIs to maintain their impact on the country in terms of economic growth.

The government development of programmes for the stimulation and facilitation of MSME success is called government support (Awojide, 2015; Shamsuddoha and Ali, 2006). Different states around the globe facilitate success at various levels through initiatives and venture support programmes (Fatoki, 2014). For instance, the Korean government facilitated the development of industries and the MSME sector through its programmes. Furthermore, China’s 1979 economic reforms resulted in the alleviation of poverty for almost 200 million residents living in extremely poor economic conditions (World Bank Group). The contribution of the MSME sector to total employment and economic output in Singapore was 70% and more than 50%, respectively (Government Enhances Support). The MSME sector suffers from poor development, which includes a shortage of resources of financing and knowledge; thus, the importance of government support programmes for overcoming such impediments has increased (Fatoki, 2014). In the case of Palestine, different types of support might exist in the West Bank, and this must be explored in the local context to understand the government’s role in improving MSMEs’ funding accessibility.

Some studies have explored the effects of government support on MSME performance in developing states, with diverse results. For example, Fajnzylber et al. (2009) considered various kinds of Mexican government support for enhancing

There is a hint of government support from the Palestinian Ministry of National Economy, which has persuaded donors and international governments to finance MSMEs. Consequently, a written agreement was established between the Italian government and the Palestinian industrial sector, which provides financial funding at lower interest rates than Palestinian FIs.

In addition, when the dual research aspect is examined, potential discrepancies between the perceptions of managers and the impact of social ties on firms are assessed in terms of the results. Furthermore, when social ties among MSME managers and bank employees are focused on, the issue of whether there is an improvement in bank financing to firms is discussed. MSMEs do not usually make proper financial statements. They often prepare low-quality statements and possess only reserved amounts of collateral. Therefore, MSMEs are largely dependent on soft information, which is non-quantifiable information (Stein, 2002; Udell, 2008). Soft information emerges when there is a strong and durable relationship among banks and firms as borrowers are likelier to disclose sensitive and important information that lenders benefit from investing in (Boot, 2000; Bartoli et al., 2013).

The Palestinian government imposes fees, customs duties and taxes that add financial burdens to MSMEs, particularly newly established ones that cannot show an attractive profit statement meeting the FIs’ requirements. This creates challenges for MSMEs in terms of coping with expenses and showing improvement to lenders. The taxes imposed on newly established MSMEs increase their burden as instead of buying technologies to improve their businesses, most of their money is spent on paying taxes, which negatively influences their performance.

According to a recent report by Transparency International (2019), 62% of Palestinian people believe that the rate of corruption, which is directly linked with government support, has increased over the years. The quantitative results of this study show that low government support is negatively related to MSME access to funding and performance. The study highlights the reasons for the lack of governmental support in this regard. One of the major impediments blocking access to funds is corruption, which reduces government support for MSMEs. Consequently, MSMEs are unable to achieve growth and enhance their performance. The lack of government support is directly linked with bureaucratic hurdles for accessing funds available to MSMEs through the World Bank, EPCGF and PIF. These bureaucratic hurdles are also gateways to corruption. The lack of transparency and corruption not only affects MSME access to funds but also opportunities for growth in the WBOP. In such instances, there is a need for the government to adopt a digital, open government system that can increase accountability and transparency regarding the financial resources that can help MSMEs grow.

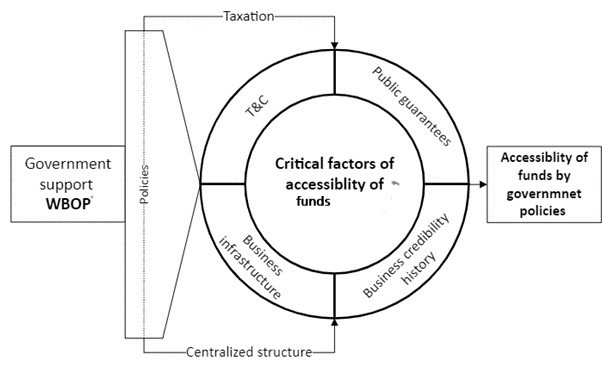


Figure 8.3: Government support to facilitate the accessibility of funds for MSMEs in the WBOP

There is also evidence to suggest that the Palestinian government, through the Ministry of National Economy, has convinced some international donors to lend capital to MSMEs in the country. One example is the written agreement between the Palestinian industrial sector and the Italian government to provide funding at low interest rates to MSMEs in Palestine. However, the positive effects have been diluted due to the government imposing exorbitant taxation and fees. This has increased the financial burden on new MSMEs which are thus unable to show significant progress, making it difficult for them to offer collateral or find someone to act as a guarantor. Increasing corporate, personal and property taxes have given rise to numerous challenges for MSME owners in managing business expenses while simultaneously showing their performance to lenders. Government duties and taxes have also increased the burden on MSMEs by preventing them from investing in new technologies. Therefore, governmental support must be provided to MSMEs so that they can grow in skills, resources and size. This support will also encourage a competitive environment that provides a foundation for innovation.

Although the government provides credit guarantees for MSMEs that fulfil certain criteria, the requirements are strict, and many MSMEs are unable to access funds. Hence, there is a pressing need for collaboration between the government and FIs to provide knowledge, financial resources and skill development for MSME owners. Collaboration between various MSME stakeholders could enhance financial literacy and the availability of funding options. The government should provide financial support to MSMEs in the form of loans, guarantees and equity (see Figure 8-3). Without governmental support, EPCGFs (external credit guarantors) play a key role in providing guarantees. Thus far, EPCGFs have provided guarantees for 3,000 MSMEs, equivalent to the value of USD 104 million. EPCGFs have also been encouraged to provide credit guarantees for innovative MSMEs; however, this is available only to those MSMEs operating with a two-year backdate and showing a fair inflow of cash. This puts newly established MSMEs in a disadvantaged position and affects market competition. For this reason, newly established MSMEs find it difficult to access funds, improve their performance and grow in size.

Regarding lending, loan terms appear to be significant factors that create difficulties for MSMEs obtaining loans in the WBOP. Loan terms impact bank revenues, the long-term use of lending facilities, borrowers’ interest expenses and loan repayment schedules. Furthermore, in most circumstances, loan terms and loan size restrict access to bank loan facilities, although interest rates limit access in a few circumstances. The main challenges to obtaining credit facilities from banks for MSMEs in the West Bank are high interest rates and ineffective banking services. This makes it necessary for the government to be involved and makes lending facilities for MSMEs more accessible. However, the question arises of whether government engagement as a guarantor in the credit system is an effective means of encouraging lending. Consequently, this study considers government support an important component in determining whether government assistance affects the availability of finances for MSMEs in the West Bank and how it can help them. These issues emerge primarily because developing countries have high default rates on loans, which is inconsistent with predicted financial outcomes and necessitates government action to facilitate MSME financing.

There is a high need for government support focused on the growth of unique resources, skills and low taxes for MSMEs that result in increased competitive advantage (Shamsuddoha and Ali, 2006; Awojide, 2015). MSME owners are dissatisfied with the insufficient support from the Palestinian government, given that it can provide credit guarantors for accessing funding from FIs. MSME owners face challenges in completing the requirements of external credit guarantors. There is a need for government support (such as government equity, guarantees and loans) to improve financial resources as these options can enhance MSMEs’ financial performance. EPCGFs are also encouraged to become credit guarantors for innovative MSMEs that can bring advanced technologies and businesses to Palestine.

However, the results of this research reveal that most newly established MSMEs are looking for accessible funds, and given EPCGF T&Cs, there is little chance that these MSMEs will be able to improve their financial performance.

To facilitate financing for MSMEs in the West Bank, it is necessary to understand the concerns surrounding public guarantees. Furthermore, given the absence of actual data on guarantee programme favourability for MSMEs regarding obtaining loans, the disadvantages of such schemes must be explained. Guarantee schemes provide new avenues for businesses to obtain funding. They necessitate the government’s intention to develop a policy to protect stakeholders’ interests and facilitate funds for MSMEs. However, they are only available under certain T&Cs, which can be quite restrictive; thus, this research investigates the current barriers to MSME access to funds.

To supply funds to trustworthy recipients, banks need well-established infrastructures; however, they also need detailed credit information about enterprises and individuals, and this does not exist in the West Bank. Banks usually try to solve such informational challenges by contracting, screening and monitoring MSMEs to secure lenders’ money and inspire MSMEs to return it by producing economic activities in the West Bank region. However, there is no existing infrastructure that can provide lenders with the required information about business solvency, business information or business history. Therefore, the participants in this research indicated that the government should provide infrastructure to businesses and lenders that facilitates funding for West Bank MSMEs (see Figure 8-3). Consequently, this study proposes government support in the form of direct funding and legal and commercial infrastructure for lenders and businesses in the West Bank, all of which can make it easier for banks to lend and businesses to borrow.

Policymakers believe that new businesses bring employment opportunities and innovation. Shane (2009) called this belief regarding employment a dangerous myth.

When government support is unavailable, the PIF acts independently to support economic development by providing guarantees for MSMEs so that they can access funds, grow and stabilise their businesses. For example, the PIF has granted loans worth USD 11.35 million to 1,200 MSMEs, involving 2,500 entrepreneurs who were financially constrained. Furthermore, the PIF has supported Palestinian women, providing 45% of its total funding to empower them and support their business ideas. The findings show that the regulations and policies of the Palestinian government are more supportive of larger organisations than of MSMEs.

For instance, an increase in employment opportunities indicates government performance; however, the results of this study show that most MSMEs employ a staff of four. The government provides tax breaks to larger organisations rather than to MSMEs, and capital is also usually provided to larger organisations.

Therefore, the Palestinian government mainly targets large organisations as most tax exemptions are linked to higher invested capital, favouring large organisations, and are somewhat less supportive of local MSMEs, who suffer detrimental consequences in financial performance. However, despite this, the Palestinian government places many obstacles in the way of these projects, through its laws that only stimulate and encourage large projects (Mansour and Abdel Jawad, 2018). The Palestine Economic Policy Research Institute (MAS, 2010) added that the Palestinian legal environment does not grant incentives to MSMEs as the exemptions and incentives in the investment promotion law do not apply to them and there is no significant advantage for them in tax legislation, thus emphasising the government’s weak role in promoting MSMEs (Abdullah et al., 2014). However, Hanini et al. (2021) pointed out that the government places little importance on providing support, financing and training for MSMEs. This means that more attention is needed in this regard because the Palestinian economy depends entirely on the activity of MSMEs as they constitute 95% of the Palestinian economy.

## 8.9 Financial Institutions’ Terms and Conditions

Banks and other FIs evaluate the creditworthiness of the MSMEs (including capacity, capital, character, collateral and conditions) and decide whether an applicant is eligible for credit or not, and then they consequently determine the interest rates and credit amount for borrowers.

The bank's T&Cs regarding judging the creditworthiness of MSMEs include criteria for MSMEs, required documentation to check eligibility for funding, credit guarantors, total loan amounts, repayment periods, interest rates, default risks and credit losses.

The quantitative results of this study show a significant weak negative impact of these T&Cs on MSME performance. The clear indication is that FIs’ T&Cs are difficult for MSME owners to meet, which then reduces their chances of accessing funding. However, the quantitative results give insufficient information about the challenges faced by MSME owners regarding the fulfilment of FIs’ T&Cs or the recommendations needed to address those challenges.

The study reveals that FIs’ T&Cs (i.e. credit histories, guarantees, investment details, financial statements, and profit details) create complications for the accessibility of funding. Consequently, MSMEs face challenges that affect their performance. It is not easy for new MSMEs to prepare and present the required documents as their management may lack financial literacy and be unable to prove their cash inflow at the start of their business. The outcome, then, is that these newly established MSMEs have low access to funding, which may negatively influence their performance.

#### 8.9.1 Reasons for Rejecting Loan Applications

The qualitative findings show that bogus land registries or a lack of land registry constitute additional major barriers for MSMEs, making it hard for the owners to provide legal documents for collateral. Registration deeds (Kushan Tabu) the document issued by the Competent Land Registration Department, should be registered under the Palestine Registration Act, showing the chain of ownership of land and property. Unless the deeds are registered in the buyer's name in the government records, the buyer does not become the official owner of the land, and the term ‘clean’ means that the property is not mortgaged to any authority.

A second major challenge is related to credit history as most MSMEs that require credit may not have credit histories, which makes FIs refrain from granting those loans. FIs cannot take risks, especially when failure rates and risk probability for MSMEs are very high.

The third major challenge is linked to high default risks and credit loss rates, so FIs grant loans to MSMEs at higher interest rates and shorter maturity periods. This is unsuitable for MSMEs as they need time to stabilise earnings and increase growth. MSMEs focus on small markets, and their annual sales numbers are low. Thus, they are in no position to pay higher interest rates for loans.

The fourth major challenge involves the conditions attached to the funding usually offered to MSMEs, which requires a completion of one year business showing positive profit statements for the last six months of their business. However, most of the time, newly established MSMEs show poor profit statements, though they still require loans for growth and strong performance.

**There are several reasons behind the reluctance of banks and other FIs to lend to MSMEs**

This study extends our understanding of how institutions should focus on loan T&Cs as these are linked to low financial literacy. Most MSME owners have little knowledge of how to fulfil the T&Cs and the procedures to access credit guarantors, find appropriate lenders, access lenders, and understand legal requirements. The results reveal that the difficulty of fulfilling financial T&Cs is linked to the lack of government support. For example, MSMEs face higher financial burdens from income taxes, customs duties, license fees and legal fees, making it difficult to show positive profit statements for newly established businesses. Hence, the government should lift the burden of taxes and fees from MSMEs.

The difficulty of fulfilling financial T&Cs is associated with the weak legal environment. The World Bank has declared that lender rights are not secure in Palestine and that the costs of debt recovery and insolvency are high. Therefore, the Palestinian government should take immediate measures to improve the legal environment, such as imposing penalties on bogus land registries and taking other steps to protect lenders’ money. This, in turn, can reduce the costs of debt recovery and insolvency. This might encourage FIs to reduce interest rates and other strict terms and conditions, ultimately enhancing the accessibility of funding.

#### 8.9.2 The European Palestinian Credit Guarantee Fund

MSMEs constantly suffered from various obstacles to accessing funding sources due to the lack of or insufficient collateral. The EPCGF provides a better chance to applicants by making access to the required finance easier through a risk-sharing formula as shown in the figure 8.4

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|  | |  | MSMEs | |  |  | |
|  | |  |  |  | |
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|  | |  |  |  |  |  | |
|  | |  | Bank  Risk assessment  5 Cs | |  |  | |
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|  |  |  |  |  |  |  |  |
|  |  | Credit Guarantor  The European Palestinian Credit Guarantee Fund (EPCGF) | | | |  |  |
|  |  |  |  |
|  |  |  |  |  |  |  |  |
|  |  | Full |  |  | Partial |  |  |
|  | |  | |  | |
|  | |  |  | |  |  | |

Figure 8.4: The process of loan application with EPCGF

This research finds that EPCGF changed the motivations and behaviours of FIs as they were not previously in a position to issue loans at high risk, especially for MSMEs that could not provide acceptable collateral for high-risk coverage. The EPCGF took the initiative to become a guarantor for newly established MSMEs as there is a high risk for FIs to manage the cost of debt, insolvency and timely repayments of borrowed money. Therefore, these FIs have imposed strict T&Cs for loans. However, the risk coverage guaranteed by the EPCGF has made it easier for MSMEs and banks to increase the accessibility of funding.

There is a second credit guarantee mechanism in place to promote MSMEs loans in Palestine financed by the Palestine Investment Fund (PIF). In comparison to the EPCGF, this credit guarantees a higher volume of loans (up to 500,000 USD) and offers 70% coverage.

## 8.10 Banking Competition

The quantitative results of this study show that banking competition has a statistically significant positive impact on the MSME performance and access to funding. However, these results reveal little about how increasing competition can enhance MSME access to funding and level of performance.

The qualitative findings show that competition among banks helps educate, guide and ease banking T&Cs and thus attracts more MSME clients for loans. Institutional uncertainty leads to a mimetic isomorphism, as witnessed in subsection (8.3), that can affect employees’ motivation factors through consistent training and other rewards in the organisation.

The qualitative results reveal, for instance, that the EPCGF began an initiative to train officers from different banks in Palestine to specialise in loans so that they can help MSMEs prepare financial statements and other documentation that enables them to access funding. This initiative is substantiated by institutional theory, as illustrated in Chapter 4.2. This emphasises competition as a major factor in inspiring organisational changes, such as banks’ increasing focus on specialised departments for educating MSME owners and increasing funding accessibility.

The awareness that MSMEs have insufficient competent human capital and financial resources and are unable to prepare the required documentation to access funding has led the EPCGF to train loan department staff to educate MSME owners. The engagement of MSME owners in training and educating staff as how to access funds can enhance their skills and empower them with experience to further explore funding opportunities.

The increasing competition among banks has also forced them to establish specialised credit departments that guide, motivate and educate for purposes of lending to individuals, enterprises and small businesses. In this specialised department, a marketing relationship officer is assigned to provide information and convince MSME owners to borrow money.

The PMA works as an emerging central bank of Palestine. Its basic objective is to formulate and execute banking and monetary policies. The PMA’s role is particularly important in enabling the banking sector to implement more and easier funding options. The qualitative findings reveal that the COVID-19 outbreak brought a decline in growth and performance for MSMEs. Therefore, PMA launched a sustainability programme worth USD 420 million dollars. This programme targets the projects sector to grant them facilities from traditional financing, or from Islamic financing through the Tawarruq product. This amount was made available at a very low-interest rate (3%, with a 36-month maturity period) so that MSMEs could survive during the global pandemic, especially after the COVID-19 pandemic. Also, within the national strategy for financial inclusion, it focused on an important aspect, which is strengthening the enterprise sector and enabling them to access traditional and Islamic financing.

Because Palestine has no local currency, MSMEs are compelled to trade in other countries’ currencies, such as the Israeli Shekel, the US dollar or the Jordanian dinar. The PMA must ensure that interest rates are under control, thereby enabling FIs to support MSMEs that cannot afford high interest rates during their start-up and during the global pandemic.

The findings indicate that approximately 78% of businesses in the WBOP are MSMEs, and their recovery and support constitute a prime objective for PMA. Having established the goal of decreasing financial burdens during the COVID-19 outbreak, the PMA temporarily postponed interest payments from March 2020 to June 2020 so that MSMEs owners would not be disturbed by the decline of income stemming from the pandemic. The research confirms that the economy of Palestine is strongly dependent on the growth of MSMEs; therefore, the PMA delayed payments of borrowed money to guarantee financial relief during the global pandemic.

Although most respondents in our research agreed that the level of banking competition is increasing, relatively few (17%) shared the view that obstacles to banking and MFIs remain.

Positive economic effects stemming from increased banking competition can improve the accessibility of funding. However, if we look at the share of MSMEs of the total financing in the Palestinian banking system as a whole, we find it is 14%, as illustrated in Chapter 2.5, which is small in view of the fact that the activity of MSMEs constitutes 95% of the Palestinian economy (PMA, 2020)

The results of this study highlight that there is still a limited number of banks that offer loans for the increasing number of MSMEs that require funds at low interest rates. Consequently, the challenges of MSME access to funding have increased due to the low number of banks offering loans, especially compared to the increasing number of MSMEs that require funding at the set-up. Hence, the Palestinian government and PMA should play a role in attracting private investors and international donors to invest in the banking sector and increase funding opportunities for MSMEs in Palestine.

## 8.11 Weak Legal Environment

The quantitative findings show that a weak legal environment has a significant negative association with the accessibility of funding and MSME performance. These findings further provide the logical reasoning for how a weak legal environment decreases the accessibility of funding and levels of performance. They show that there are more complicated lending procedures as banks believe that weak legal infrastructures can cost more in terms of default risks and credit loss risks (the risk that a lender may not receive the owed principal and interest), resulting in an interruption of cash flow and increased cost of collection.

The study found that FIs impose many requirements and conditions related to legal compliance, such as legal identifications (IDs) of both owners and guarantors, non-objection documents of fair credit histories from credible institutions, and investments and sales records to ensure that MSMEs owners can provide timely repayment. Therefore, the Palestinian government should take responsibility for ameliorating and ensuring the implementation of legal rules and regulations for MSMEs so that they can have more opportunities of funding at lower interest rates.

Institutional coercive isomorphism includes the legislative influence, which can be strengthened through government involvement in bolstering trust and confidence in banks and other funding stakeholders.

The weak legal environment is strongly linked to the lack of transparency and accountability in Palestine. The research reveals that this weak legal environment led to an increase in corruption due to the lack of advanced digital technology and open government systems. Thus, it is very difficult for a developing country to ensure transparency and accountability in government financial support programmes. The interviewees also suggested that there is a pressing need to control and monitor PIF, EPCGF and World Bank funding with MIS systems and audit reports as this is also an effective method of enhancing transparency and accountability during the distribution of funding to MSMEs in Palestine.

Furthermore, corruption at government levels also increases the financial burden on MSMEs (i.e. through higher taxes and duties, low government support and low opportunities to invest in advanced technologies). Consequently, MSMEs are unable to improve their level of growth and performance. This legislative influence is linked to MSMEs’ efficiency and effectiveness as it can ensure that they comply with legal requirements for obtaining public and private funding. Government involvement in legislative influence may act and exert isomorphic pressures and thus help institutionalise MSMEs’ performance management.

Because of the challenges related to the weak legal environment in Palestine, MFIs have established tough conditions for both collateral and credit generators for providing financial support to MSMEs. These MFIs’ T&Cs for credit guarantors have made it more difficult for MSME owners to access funding. The weak legal environment is also linked to MSMEs owners’ inabilities. The qualitative findings indicate that MSME owners do not know how to address the requirements of collateral and credit guarantors (i.e. legal land registries, six months of positive profit statements and credit history reports).

The employees of banks and MFIs also share the view of the World Bank, which ranked Palestine as weak in the context of the economy and legal implementation. They stated that one of the major reasons for this is that Palestine does not secure lenders' rights, which results in exceptionally low lending opportunities for MSMEs due to the high cost of debt recovery and insolvency. Thus, FIs are now incredibly careful when considering lending to MSMEs.

The lack of financial literacy, the lack of public and crowd trust, the unstable business environment and the weak legal infrastructure are some of the most prominent challenges that hurt MSME funding accessibility. They also prevent MSME owners from making quick decisions to purchase new technologies that could bring innovation and improve their business performance. There are few FIs to meet MSMEs’ need for funding in this weak legal infrastructure. Hence, it has become particularly important for FIs to set T&Cs that ensure MSMEs’ creditworthiness. However, as highlighted above in the analysis of crowdfunding, the lack of financial literacy (lack of financial expertise, low human capital, lack of bookkeeping and lack of adequate records of maintenance practices) makes it extremely difficult for MSME owners to increase their access to funding.

**8.12 SUMMARY**

Chapter 8 of this thesis presented the discussion and analysis of the findings of the research. The chapter compared the research findings with the relevant literature, which helped establish the uniqueness of this study. The chapter addressed the research objectives of investigating the important factors impacting the accessibility of funds, testing the relationship of identified factors to the accessibility of funds and MSMEs' performance, identifying the impact of FIs' T&Cs on MSMEs' accessibility to funds and their performance, and exploring the reasons behind the barriers to funding access for MSMEs. The chapter contributed to the literature by proposing a context-specific model that explains how different institutional factors influence the accessibility of funding for MSMEs in the WBOP. The chapter concluded that policymakers and stakeholders need to work together to address these challenges and help MSMEs gain more access to funding. In the next chapter, the research findings and limitations will be summarized, and future research directions will be proposed in this field. The recommendations based on the research findings will be presented to help policymakers, FIs, and MSME owners address the accessibility of funding challenges faced by MSMEs in the WBOP.

# CHAPTER 9: CONCLUSION AND RECOMMENDATIONS

## 9.1 INTRODUCTION

This study developed a framework to facilitate and improve access to funding for MSMEs in the WBOP. Both the quantitative and qualitative analyses provided an in-depth understanding of the most relevant factors that affect the accessibility of funds and MSMEs performance. This chapter summarises the results regarding appropriate solutions to deal with accessibility barriers and issues to improve the accessibility of MSME funds and MSME performance. It also provides the theoretical and practical contributions as well as future key directions.

## 9.2 RESEARCH OBJECTIVES AND MAJOR FINDINGS

**The first research objective of this study was to** investigate the key factors influencing the accessibility of funds for MSMEs in the WBOP.

This research objective was achieved by collecting data from MSME owners and applying the statistical data analysis method by SPSS. The findings show that several important factors influence the accessibility of funds and MSME performance. Such factors include the lack of financial literacy, low government support, FIs’ stringent T&Cs regarding the creditworthiness of MSMEs, complex application procedures, unfavourable interest rates, hefty collateral requirements, inadequate loan amount and maturities, a weak legal environment, and banking competition.

The results of this study reveal a weak positive link between crowdfunding, MSME performance, and accessibility of funding. This is due to a weak legal structure and public distrust, as people doubt they will recoup their hard-earned money over a fixed term. On the other hand, the results highlight the strong negative association between the challenges faced by MSMEs and their accessibility to funding. Furthermore, the findings reveal that the lack of financial literacy, low government support, unfavourable T&Cs at FIs, and a weak legal environment can negatively impact the accessibility of funding.

Results reveal that gender characteristics can affect business performance, for example through education and networking (trade association membership), as education improves managerial skills (Blumberg and Letterie, 2008; Sun et al., 2020). The extent of the literature highlighted that women might face more challenges with respect to credit constraints due to receiving fewer approvals for bank loans, overdrafts, and supplier credit. Thus, start-ups created by women face more financial constraints than those created by men (Masiak et al., 2019; Brei et al., 2020; Sun et al., 2020). Previous studies have highlighted that differences are visible, as men are three times more likely to receive approval than women (Galli et al., 2020). This indicates that gender disparities may exist in the loan approval process. The results of this thesis reveal that 224 MSME owners are men, whereas the remaining 95 are women. Therefore, it can be argued that Palestinian men are more involved in starting and managing MSMEs, and the number of women owners is lower than the number of men owners. A report from the World Bank indicated that although 65% of Palestinian women expressed a desire to start an MSME, only 15% were able to put that desire into practice (World Bank, 2018).

The current literature on small businesses states that the lack of readily available funds is the primary reason why most small businesses do not expand. Research like this ignores the fact that developed and developing nations face different political, cultural, financial, and individual challenges, as well as different governmental norms and policies. The findings of this study highlight the challenges that MSMEs face when trying to raise capital which, in turn, threatens their financial viability.

In the context of crowdfunding, as stated by Meinshausen et al. (2012), it is viewed as a means to lessen the funding gap in the beginning stages of new ventures. Rossi and Vismara (2018) stated that the original inspiration for this idea came from MSMEs, which were turned down for loans by traditional financial institutions (FIs). However, crowdfunding presents a number of challenges, one of which is the difficulty in validating the received information. Crowdfunding investors, particularly in the WBOP and other developing countries, are less sophisticated than investors who use more traditional methods. It would be helpful to mention any specific challenges or barriers to crowdfunding that are unique to the WBOP to provide a clearer understanding of the reasons behind the weak positive link between crowdfunding, MSME performance, and accessibility of funding in the region.

Financial institutions are less likely to provide loans to MSMEs because of the government’s lack of interest in preventing corruption in MSME funding and the absence of tax exemptions. Findings also show that bank executives said their institutions could not finance MSMEs without help from the government. Access to funding is also negatively correlated with low levels of government support and a weak legal framework. These findings are consistent with the study by Sudibyo and Anwar (2017), who found that the government’s support process and support policy positively affect the performance of MSMEs by increasing financing and facilitating commercial activities. However, the Palestinian government imposes numerous restrictions on these endeavours via laws that serve only to promote and encourage massive construction projects.

The exemptions and incentives in the investment promotion law do not apply to MSMEs, so the Palestine Economic Policy Research Institute (MAS) said that the legal environment in Palestine does not grant incentives to them (MAS, 2010). There is also little support from the government for promoting MSMEs, as these companies have no special advantages under tax law. There are fundamental actions that must be taken to demonstrate the efficacy of government support; foremost among these is the dissemination of data on regulations, standards, customs fees, taxes, and project marketing. It is important to cite the work of Alfaadhel (2010), who researched this topic and concluded that the main challenges constraining the growth of Saudi MSMEs are marketing, the availability of capital, competition, and government support and regulations.

With the intent of delving into each component of this model, this research has presented a model tailored to the current setting right from the start. The primary focus of this study is to investigate barriers to funding for micro, small, and medium-sized enterprises MSMEs in the WBOP. Thus, the context-specific framework demonstrates that banks are hesitant to lend to MSMEs due to a lack of government support, social networking, corruption, financial literacy, clarity in requirements, private funding and crowdfunding infrastructure, bank funding infrastructure, and banking competition.

Unfortunately, MSMEs are not given enough opportunities to learn about available funding due to a lack of seminars and networking events. Political attention is needed to provide the necessary infrastructure and the legal requirements for the businesses to improve MSMEs accessibility of funds in the WBOP.

It has also been identified that the lack of political involvement of the MSMEs and the lack of support for such businesses is because the government focuses more on larger organisations. The extent to which small and large businesses differ economically is hotly contested. This debate extends to policymakers debating the merits of different factors, such as geographic proximity, economies of scale, production costs, allocations of investment capital, and types of ownership.

The findings further reveal that crowdfunding is one of the best options for the accessibility of funding for MSMEs. Still, there is a need for the government to enforce the legal infrastructure, giving a positive perception to investors that they have legal options to protect and secure their invested capital. The results show that some MSME owners benefit from crowdsourcing and investing money through social networking, which plays a vital role in accessing finance for MSMEs. Therefore, the MSME performance level is improved.

In the context of financial literacy, the results indicate a lack of financial literacy as MSME owners believe that they do not have financial literacy skills. They do not understand factors related to financial literacy, such as T&Cs, procedures for accessing credit guarantors, and legal requirements. Consequently, they have limited options for finding suitable funding. Hence, they cannot improve the levels of the MSMEs’ performance.

Low governmental support regarding countering corruption in MSME funding and the lack of tax exemptions increased challenges for MSME performance that decrease their access to funding from financial institutions. The results also reveal that the bank managers claimed that, without government support, the banks would not be able to finance MSMEs. In addition, low governmental support and a weak legal environment, respectively, have a significant negative association with the accessibility of funding. In addition, these results are in line with the result of Sudibyo and Anwar's (2017) study, which stated that the government’s support process and support policy have a positive impact on the performance of small and medium enterprises by increasing financing and facilitating commercial activities that can help small and medium enterprises keep their businesses running. Despite this, the Palestinian government puts many obstacles in the way of these projects through laws that only stimulate and encourage large projects (Mansour and Abdel Jawad, 2018). The Palestine Economic Policy Research Institute (MAS) added that the Palestinian legal environment does not grant incentives to MSMEs as the exemptions and incentives in the investment promotion law do not apply to them. In addition, they have no significant advantage in tax legislation, thus emphasising the government’s weak role in promoting MSMEs (Abdullah et al., 2014). To better show the effectiveness of government support, basic steps must be taken; the most important of which is providing information on regulations, standards, customs fees, taxes and how to market projects. To support the findings of research on this issue, it is important to mention Alfaadhel (2010), who found that marketing, availability of capital, competition, and government support and regulations are the main challenges constraining the growth of Saudi SMEs, ultimately affecting their performance.

The findings show that many requirements related to FIs’ T&Cs, such as profitability statements, guarantee documents and credit history, have increased the hindrance for MSMEs’ owners to access funding. Therefore, there is a need to relax these T&Cs so that most MSMEs can access funding options. In this context, banking competition can also play a role, as when the number of banks is increased, they can provide high-quality services and a lower interest rate to attract the MSMEs owners.

**The second research objective of this study** was to examine the relationship between the identified factors and the accessibility of funds, as well as their impact on the performance of MSMEs in the WBOP.

The ability of MSMEs to access financing significantly impacts their ability to survive, grow and expand. Access to financing is crucial for MSMEs as it significantly affects their survival, growth, and expansion. The lack of funding often hinders MSMEs' development, as they face difficulties in covering their operating costs.

Acquiring financial services, such as insurance, payments, credit, deposits, and risk management, is essential for businesses. Finance serves as the lifeblood of organisations, and timely access to capital enables growth. In contrast, inadequate capital can lead to failure in a short period. MSMEs are heavily influenced by their ability to secure financing throughout their lifecycle. Access to capital allows small firms to make profitable investments which, in turn, fosters economic growth and helps alleviate poverty in developing countries. Financial constraints result in limited investment opportunities and a stagnant economy. Access to financing is often viewed as a crucial factor in MSMEs' success, facilitating their day-to-day operations, enabling long-term investments, and promoting the achievement of their goals and objectives.

The study’s findings confirm the presence of several factors in Palestine that negatively impact the accessibility of funds, such as FIs’ terms and conditions, banking competition, a weak legal environment, and the lack of financial literacy. These challenges adversely affect the performance of MSMEs in the WBOP. As the Palestinian economy heavily relies on the success of its MSMEs, policymakers should focus on addressing these challenges. Drawing from institutional theory, this study emphasises that both coercive forces (e.g., by reducing uncertainty in government policies) and normative forces (e.g., through enforcing legal professional practices) by Palestinian FIs could enhance the accessibility of funds for MSMEs in the WBOP.

The findings also demonstrate that social networking can aid in transferring skills and knowledge about lending institutions, ultimately improving accessibility and financial literacy. By fostering connections and information sharing, social networks can empower MSMEs to navigate the complexities of funding and overcome barriers to growth. As such, policymakers should consider supporting initiatives that encourage networking and knowledge sharing among MSMEs, enabling them to better access funds and improve their performance in the WBOP.

**The third research objective of this study** was to assess the influence of FIs’ terms and conditions on the accessibility of funds for MSMEs and their performance in the WBOP.

Concerning FIs' terms and conditions, the results highlight the existence of stringent requirements that demand financial literacy and experience, which many MSME owners cannot fulfil. As a result, there is a need for seminars and programmes to increase awareness of how to meet banking institutions’ requirements. For instance, most newly established MSMEs in need of financial funding cannot provide the profit details and sales records demanded by FIs. This study aligns with the findings of Steijvers et al. (2010), Cowling et al. (2012), and Han et al. (2012), who argued that pledging collateral to secure loans is a common practice, and banks may address information asymmetries and moral hazard issues through collateral. FIs also impose high interest rates on MSMEs unable to offer collateral. Additionally, the need for a business plan, financial statements, and credit histories affects MSMEs’ performance. Identifying assets for collateral, creating a compelling business plan, and providing financial statements and credit histories entail significant effort and cost.

Thus, it can be concluded that the requirement for a well-developed business plan, financial statements, and credit histories creates financial, physical, and emotional pressure on business owner-managers who typically lack prior work experience and may establish an MSME hastily without assessing risks and other factors. This pressure can impact MSME owner-managers’ performance. This supports Sefiani’s (2013) study, which found that apart from collateral, the commitment to presenting a business plan was often a constraint for MSMEs’ finance. Consequently, MSME owners prefer to rely on their social circles (friends and family) for financial support. This finding aligns with Sabri (2008), who noted that in the Palestinian economy, most MSMEs are founded with individual or family savings, with minimal assistance from financial and official institutions.

The lack of financial literacy presents a significant barrier to accessing funding for MSMEs. Therefore, there is a need to promote social networking to enhance financial literacy skills among MSME owners. Many of them are unaware of the viable financial funding options available to them. The results indicate that limited social and professional networking among MSME owners creates challenges in acquiring information and skills that could improve funding accessibility options. By fostering social and professional connections, MSME owners can better understand the funding landscape and navigate the complex requirements of FIs, ultimately enhancing their performance in the WBOP.

**The fourth research objective of this study** was to explore the underlying reasons contributing to the barriers faced by MSMEs in accessing funding.

The qualitative findings reveal that challenges regarding MSME accessibility to funding have been exacerbated by the low number of banks offering loans, particularly in comparison to the rising number of MSMEs requiring funding during the setup phase. This study aligns with the findings of Shihadeh et al. (2019), who noted that due to the lack of a legal structure, banks cannot quickly attract more clients and subsequently contribute less to the documented economy, hindering economic growth.

FIs have complex lending procedures owing to a weak legal infrastructure, as banks confront challenges related to high costs resulting from defaults and credit losses. The results show that MSME owners experience low banking competition for financial service quality. Consequently, they encounter increased challenges related to a lack of financial literacy and support in meeting the requirements of FIs’ terms and conditions. The findings also suggest that MSMEs struggle with the lack of banking competition, as banks impose more terms and conditions but fail to offer lower interest rates and quality financial services to facilitate MSMEs' access to funding.

A weak legal infrastructure contributes to the majority of land, a fixed asset of MSMEs, being unregistered. As a result, these MSMEs cannot use their land as collateral to secure loans from banks. Banks require MSMEs to provide collateral to mitigate moral hazards. This requirement creates a disincentive for MSMEs to seek bank financing, and they face discrimination from banks due to the high risks associated with lending to them. Therefore, MSMEs struggle to fulfil the legal documentation requirements for collateral purposes. Political instability and conflict make it difficult to attract local investors to financially support MSMEs, further limiting funding accessibility options. The government should enforce fair implementation of laws to increase local investors’ trust and demonstrate that legal recourse is available in case of abnormal conditions. The lack of government support is another significant barrier, as the government offers more tax incentives and other benefits to large organisations compared to MSMEs. Consequently, both newly established and some older MSMEs may have poor financial statements, which reduce their access to funding from FIs. The results reveal that MSME owners are dissatisfied with tax policies, as most tax exemptions are based on invested capital, favouring large organisations. This situation explains why government tax policies discourage MSME growth and development.

The findings suggest that high levels of uncertainty, ambiguity, and an increasing rate of corruption have limited opportunities for MSMEs to grow rapidly. Although crowdfunding is an available option, poor economic conditions, high MSME failure rates, ongoing conflict and terrorism, and weak legal infrastructure have created uncertainty for the public. As a result, the public has lower confidence in investing their savings in a risky business environment.

**The fifth research objective of this study** was to propose a tailored solution for addressing the identified barriers, with the aim of improving the accessibility of funds for MSMEs and enhancing their overall performance in the WBOP.

There is a pressing need for a transparent online system, such as an open government digital platform that can monitor transparency and accountability for the financial support of EPCGF/PIF and other international investors. This system can foster collaboration between public and private institutions and reduce the obstacles that hinder MSME growth. Furthermore, this open digital government platform would be invaluable for publishing MSME statistics that could attract international investors, especially when they observe the profitability and progress of MSMEs.

The Palestinian government should take immediate initiatives to improve the legal environment, such as implementing measures to penalise fraudulent land registries. In addition, the government must take steps to protect lenders’ money, reduce insolvency rates, and decrease the cost of debt recovery. The PMA should further regulate FIs’ strict terms and requirements for supporting new MSMEs, which can lead to the creation of new jobs and contribute to national GDP growth. The Palestinian Standards and Measurement Institution should also educate and train MSME owners and employees to meet relevant standards, thereby increasing their exports and generating positive cash inflows, ultimately ensuring more accessible funding options.

It is crucial for FIs and international organisations, such as EPCGF, to employ and train more loan officers in Palestine’s financial institutions. This would enable them to assist MSME management in preparing financial statements and other documentation required for accessing funding. These financial and international organisations should organise seminars and training programmes to help develop professional networking, experience sharing, and financial literacy skills. Such training programmes are highly beneficial for MSMEs, as a larger number of trained individuals can educate, guide, and simplify the process of addressing complicated terms and conditions for accessing funding opportunities.

There is also a pressing need for various MSME stakeholders to attract more international investors to expand financing options. Institutional theory emphasises that competition is a key factor driving high-quality services, such as banks’ increased focus on creating specialised departments to raise MSME owners’ awareness of different aspects of access to funds. The specific practical recommendations are discussed in detail in the following section.

**9.3 CONTRIBUTION**

**9.3.1 Theoretical Contribution**

The primary contribution of this research lies in its in-depth discussion of the components of a context-specific model, which aligns with the exploration of issues related to access to finance for MSMEs in WBOP. The model was constructed based on institutional theory and data gathered through mixed methods, which further bolstered the model's validity and generalisability. This research offers guidance for MSMEs, FIs, and governments on collaboration and coordination to enhance MSME performance and funding accessibility. Institutional theory posits that collaboration, skill transfer, effective resource utilisation, and MSME growth are impacted by political instability, widespread corruption, and uncertainty due to weak legal infrastructure and limited professional networking among MSME owners. The findings suggest that MSME employees and owners insufficiently engage in networking activities and seminars, which hinders their entrepreneurial learning. Consequently, MSME management styles may affect their access to public and private funding options.

The results reveal that corruption, inadequate government support, ambiguous requirements, financial illiteracy, and the lack of crowdfunding, infrastructure, and funds pose significant challenges to providing lending opportunities to MSMEs. Since institutional theory served as the foundation for this research, a theoretical framework was developed, critically analysed, and evaluated.

Normative isomorphism emerges from developing professional practices and values, such as those adopted by financial and banking institutions, which generate normative factors. It is essential to expand networks that create models, narratives, and ideas to enhance competition, skills, and knowledge levels. This expansion promotes change at the institutional level in the WBOP. Mimetic factors reveal issues concerning funding accessibility among FIs. The Palestinian government also offers limited support to MSMEs, as evidenced by the lack of comprehensive official policies in this area. The government predominantly focuses on large-scale firms and contends with security issues that contribute to policy uncertainty and an overall sense of insecurity in the country. A context-specific model is therefore useful in understanding how the normative and coercive forces of Palestinian FIs can improve funding accessibility for MSMEs in the WBOP.

Organisations that have access to funds often benefit from political networking, which provides them financial support. Large-scale firms wield political influence in the country, which eases their access to funds. In contrast, MSMEs lack political involvement and support, which is why they face barriers in obtaining necessary funds for business development. This situation highlights the need for political attention to favour MSMEs, which involves developing infrastructure and legal frameworks to enhance access to WBOP funds. Moreover, a substantial economic disparity between large- and small-scale companies is evident in funding accessibility.

This research discovered how the West Bank's economy is bolstered by MSMEs. It is therefore advisable for the Palestinian government to improve business and legal frameworks and infrastructure to enhance funding accessibility for MSMEs in the WBOP. Concerning Palestine's overall economy, a survey was conducted to compare two alternatives and develop a response to the question of whether policymakers should focus on MSMEs or large organisations. Insufficient data on businesses' financial track records prevent them from obtaining bank funding due to the absence of financial portfolios to present to banks. The government should intervene by improving the legal framework for businesses and offering soft loans to those without documented business performance. Additionally, the results indicate that stakeholder interest is insecure due to the lack of governmental policy.

The relationship between firms and banks' soft information gathering over time helps establish trust between lenders and borrowers. However, organisations with strong networks with banks monopolise such information exchange, which is further reinforced by their political connections. MSMEs, lacking these features, struggle to access funds and, when successful, face higher interest rates. Access to funds improves when social networking occurs at the individual level, such as establishing a relationship with a bank manager. MSMEs can seek networking opportunities with FIs through seminars, social networks, and training programmes. These initiatives enhance their financial literacy, allowing them to develop their businesses' financial track records and eventually leverage them when networking with banking institutions.

Isomorphism also contributes to a coercive environment, as competition in this context increases lenders' competition to provide funds to individuals and businesses. Market competition necessitates learning for businesses, such as organising financial records to better access funds from banks and other lending institutions. Since businesses with political connections are more successful in securing funds, the government should organise seminars for businesses, promoting networking between governmental organisations and enterprises while advancing the creation of fair policies for businesses of all sizes. These activities enable MSMEs to access funds without involving themselves in politics.

In conclusion, this research highlights the importance of a context-specific model in understanding and addressing the barriers faced by MSMEs in accessing funds in the WBOP. It emphasises the need for collaboration among MSMEs, FIs, and governments, as well as the improvement of legal frameworks and infrastructure to support MSME growth. Furthermore, it demonstrates the crucial role of networking, both at the individual and institutional levels, in enhancing MSMEs' financial literacy and ability to access funding opportunities.

By focusing on these key areas, policymakers and stakeholders can work together to create a more supportive and equitable environment for MSMEs, ultimately contributing to the overall growth and stability of the Palestinian economy. This research's theoretical contributions underscore the significance of institutional theory and the development of a context-specific model for understanding and addressing the unique challenges faced by MSMEs in the WBOP, providing valuable insights and practical recommendations for fostering their growth and success.

### 9.3.2 Practical Contribution

There are a number of practical contributions from this work, which are summarised below:

* MSMEs face a high financial burden due to income taxes, custom duties, licensing, and legal fees, as discussed in Chapter 7. To help MSMEs survive, the government should reduce taxes and fees for newly established MSMEs with low investment, financial support, and profit rates. Additionally, introducing a national currency for exchange, savings, international remittances, and investments could benefit Palestine's economy and MSME businesses.
* Most MSME owners lack the skills and awareness of financial opportunities, which hinders their performance improvement. The government and FIs should collaborate to provide shared resources, develop funding policies for MSMEs, and offer training and seminars to enhance their access to funding opportunities and financial performance.
* The government and banks should ease borrowing requirements and provide more support to specific MSME sectors with low default risks and significant GDP contributions. This would enable these MSMEs to access funding opportunities more easily.
* The challenges of MSME accessibility to funding are exacerbated by the limited number of banks offering loans compared to the number of MSMEs. The government and stakeholders should attract international investors to establish more FIs.
* FIs should consider relaxing collateral requirements if the government guarantees loans, as many MSME owners cannot provide real estate for collateral purposes. This change would increase borrowing options, reduce interest rates, and extend the loan maturity period for MSMEs.
* The government should strengthen the legal infrastructure to ensure international investors and FIs feel secure in offering more funding options to MSMEs, as weak legal infrastructure increases default and credit loss risks.
* The government should waive income taxes, custom duties, licensing, and legal fees for MSMEs and provide subsidies to newly established MSMEs to help them access funding opportunities.
* MSMEs often lack employees with financial expertise, making it difficult to prepare essential financial documents. Banks' credit departments should offer paid services to help MSMEs prepare these documents and increase their access to funding opportunities.
* Corruption is a major factor affecting MSMEs' funding accessibility, despite support from the World Bank, PIF, EPCGF, and other international funders. The government should introduce an accountable and centralised system (digital open government) to ensure fair money distribution for MSMEs and reduce corruption levels.
* FIs, the government, and MSMEs should collaborate to develop policies and support that minimise legal, operational, and administrative procedures involved in accessing funding, even when guarantees from EPCGF are in place.
* The government and FIs should work together to create a comprehensive support system tailored to the needs of MSMEs in various industries. This support system should include mentorship programmes, technical assistance, and access to market information to help MSMEs grow and compete effectively.
* The government should encourage the development of alternative funding sources, such as crowdfunding platforms, venture capital funds, and angel investors, to increase financing options for MSMEs.
* The public and private sectors should work together to promote financial literacy among MSME owners and employees. This can be achieved through educational programmes, workshops, and online resources designed to enhance financial management skills and understanding of funding opportunities.
* To foster a culture of innovation and entrepreneurship, the government should establish incubators, accelerators, and innovation hubs that provide resources, networking opportunities, and support to MSMEs and start-ups.
* The government should regularly assess and revise regulations that impact MSMEs, ensuring that they are not overly restrictive and do not hinder business growth. Engaging in regular dialogue with MSME stakeholders can help identify areas for regulatory improvement.
* The government should invest in infrastructure development, such as reliable internet access, transportation networks, and utilities, to facilitate MSME growth and access to funding opportunities.
* Lastly, the government should promote transparency and accountability in its dealings with MSMEs and FIs. This includes making information on funding opportunities and requirements readily available and accessible to MSME owners and ensuring that government support is distributed fairly and without bias. This approach will help build trust and confidence among MSMEs, FIs, and other stakeholders in the business ecosystem.

The practical contributions of this research are extensive and encompass a range of key recommendations for improving the accessibility of funding for MSMEs in the West Bank and Gaza Strip. One of the most significant challenges facing MSMEs is the burden of income taxes, custom duties, licensing, and legal fees, which can significantly impact their ability to survive and grow. As such, the research recommends that the government take steps to reduce this burden for newly established MSMEs, which typically have lower investment, financial support, and profit rates. In addition, the creation of a national currency for exchange, savings, international remittances, and investments could be a fruitful way to support Palestine's economy and MSME businesses. These recommendations are discussed in more detail in Chapter 7 of the research, under the main theme of decreasing the financial burden on MSMEs.

Another critical finding of the research is the lack of financial literacy and awareness among MSME owners, which can hinder their ability to access funding opportunities and improve their financial performance. The research recommends that both the government and financial institutions collaborate and coordinate to develop policies and conduct training and seminars to help MSMEs understand the best funding options available to them. Such training could include educating MSME owners on the preparation of financial statements such as profit and loss statements, balance sheets, and cash inflow statements, which are often difficult for MSMEs with limited financial expertise to prepare. The development of policies that support specific sectors within MSMEs, such as service and trading MSMEs with low default risks and a greater contribution to GDP, could also be beneficial. Such policies would include lower taxes and easier access to funding opportunities for newly established MSMEs in these sectors.

Furthermore, the low number of banks offering loans compared to the number of MSMEs represents a significant challenge for the accessibility of funding. To address this issue, the research recommends that the government and other stakeholders work to attract international investors to establish more financial institutions. Similarly, the research recommends that FIs relax their collateral requirements if the government can provide guarantees for loans. Many MSME owners cannot offer real estate for collateral purposes, limiting their borrowing options and resulting in higher interest rates and shorter maturity periods.

The research also highlights the complicated lending procedures faced by banks due to the weak legal infrastructure and the associated risks of default and credit losses. The government must ensure the execution of a strong legal infrastructure that can provide a secure environment for international investors and FIs to offer more funding options to MSMEs. This will help address issues related to funding accessibility and boost economic growth.

Corruption is another significant factor that explains why MSMEs face challenges, even when they have support from international funders such as the World Bank, PIF, and EPCGF. As discussed in Chapter 7 of the research, the introduction of an accountable and centralized system (digital open government) that can ensure the fair distribution of funds to MSMEs can help reduce the level of corruption and increase funding accessibility.

Finally, the research recommends that FIs, the government, and MSMEs collaborate to develop policies and support that can minimize the legal, operational, and administrative procedures involved in accessing funding opportunities. Such collaboration could involve the creation of specialized credit departments in banks that can offer paid services to MSMEs to prepare their financial documents, increasing the accessibility of funding opportunities. These recommendations are critical for enhancing the accessibility of funding for MSMEs, boosting economic growth, and promoting the development of Palestine's economy.

## 9.4 LIMITATIONS AND FUTURE DIRECTION

In this research, the barriers faced by MSMEs when accessing funds were identified. Subsequently, the current research also provided recommendations, which are practical in nature, so that MSMEs can gain access to funds in the WBOP. At the same time, it is important to highlight the limitations of the current research that can provide further research opportunities for other researchers. For example, the current research utilised a cross-sectional time horizon approach. The limitation of this approach is that data can only be collected once. Thus, replicating the results of the current research in another context may give rise to issues related to causality. Therefore, future researchers can collect data from multiple time horizons involving multiple stakeholders to ensure the results’ generalisability. Because this study conducted semi-structured interviews, in which responses are subjective in nature, the potential for biased responses cannot be ruled out. Furthermore, because qualitative research involves experiences of multiple human beings, which are then analysed by the researcher in light of his or her experience, the element of bias cannot be said to be non-existent. However, this research did adhere to the standard criteria for maintaining the credibility of qualitative research. Future studies can utilise the quantitative data and analyse them using statistical models to draw objective results.

Researchers have also highlighted the challenges created by the non-probability sampling technique, the single technique for data collection, and the cross-sectional nature of the research (Muqadas et al., 2017; Aslam, Gao and Smith, 2018). Moreover, the CMV always provides enhanced results due to factors that cannot be removed. Therefore, this study suggests that more than one tool of data collection can be utilised in future research involving different periods and different geographical locations for data collection. This will be helpful in improving the acceptability of the results. In the future, testing the proposed research framework of this study can be done in other Arab countries to further generalise the findings as well as better understand the accessibility of funding challenges faced by MSMEs and the solutions to address these. The existing research showed that regional, cultural, financial, technological, educational, organisational and social elements vary from one nation to another, and the variance is intense between developing and developed nations (Muqadas et al., 2017; Aslam et al., 2018). Thus, such results cannot be applied in both developed and developing nations. Moreover, the data are collected from a geographically and industrially specific sample. Therefore, the results obtained cannot be applied to other industries or geographical locations. Future studies can collect data from different industries and geographical locations to improve the results’ generalisability.

## 9.5 SUMMARY

This chapter concluded the results of this investigation, intending to provide a comprehensive summary of the research implications. It reviewed the most important relevant results by offering scientific contributions and highlighting research constraints. It made valuable recommendations and suggested links across the main themes of this study to address in the future. It also provided a brief meditation focused on the essential findings of the primary purposes that advanced the research contributions to highlight the available support for this study. After highlighting the impact of the research implications on the field, it reviewed the limitations of this investigation. Recommendations were developed to account for the possibilities of reform. Finally, it concluded with the salient points of the project.

# REFERENCES

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# APPENDIX

**APPENDIX 1. INTERVIEW GUIDE IN ENGLISH**

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**Interview request letter**

Dear Sir/Madam,

I am a PhD student at Staffordshire University Business School. I am conducting a study to explore the challenges facing micro, small and medium-sized enterprises (MSMEs) when accessing funds from financial institutions in the West Bank.

Because documenting the role of financial institutions in this process is central to my study, I am very keen to hear about individual experiences of the financial problems faced by MSMEs. Please find below some questions I would like participants to consider:

* How do financial institutions meet the needs of MSMEs?
* How can funding institutions provide more support to MSMEs, particularly in the West Bank?
* Why are financial institutions reluctant to finance this sector?

I am seeking individuals willing to share their own business-related personal experiences, answering questions like those presented above, and would be very grateful if you took part in an interview about this pivotal issue.

The interview is expected to take between 45 and 60 minutes. Participation is voluntary, and you retain the right to refuse to answer a question and/or to completely withdraw from the study. Additionally, while the interview will be recorded, the video recordings of the interview will be used only for analysis and, by explicit consent, illustration purposes in conferences, presentations and lectures. All data collected will be handled in complete confidentiality and anonymity will be maintained, with knowledge of the identity of participants limited to myself and my supervisors Dr Ahmad Mlouk and Dr Syed Zaidi.

Due to the nature of this research, other researchers may find the data collected to be useful in answering future research questions. We will ask for your explicit consent for your data to be shared in this way and if you agree, we will ensure that the data collected about you is untraceable before allowing others to use it.

Thank you for your cooperation.

**Challenges Facing Micro, Small and Medium-Sized Enterprise (MSMEs) When Raising Capital in the West Bank of Palestine**

**Structured interview questions for financial institutions (commercial banks, Islamic banks and microfinance institutions) regarding MSME finance**

1. Strategic overview
   1. How does your bank/financial institution define MSMEs?
   2. In your opinion, what are the important obstacles to the bank’s/institution’s involvement with MSMEs?
2. Loans to MSMEs
   1. What types of collateral are commonly required for loans to MSMEs?
   2. In the process of judging the creditworthiness of MSMEs, does the bank collect any other information? If yes, what information?
   3. Does the bank have a special department specializing in MSMEs?
3. Credit policy
   1. Does the bank's credit policy set the credit limits granted by the bank to MSMEs in different economic sectors?
   2. Does the bank adopt stringent measures (e.g. Mortgaging tangible assets or verifying the lender's financial position and sufficient cash flows from operations) when granting credit to high-risk businesses in the production sector? Are these measures implemented before consideration of any loan guarantee?
   3. Based on your experience, what are the most common reasons for rejecting finance applications from MSMEs?
   4. Do you consider the government or banking sector to have a more important role in the support of MSMEs?
4. Loan guarantees
   1. Do you think the existence of the loan guarantee encourages you to make more loans to MSMEs firms? Why or why not?
5. For Islamic banks only
   1. Do you consider the Islamic finance instruments applicable to MSMEs? If so, can you indicate what Islamic finance products your institution offers to MSMEs?

**Structured interview questions for European Palestinian Credit Guarantee Fund (EPCGF) and Palestine Investment Fund (PIF)**

1. What are the roles of the EPCGF and PIF in developing MSMEs in Palestine?
2. Do donors and national governments specify eligibility criteria for the participation of financial institutions?
3. Do you think the existence of a credit guarantor encourages financial institutions to make more loans to MSMEs?
4. How do the EPCGF and PIF monitoring and control systems work with financial institutions?
5. Do you consider the government or the banking sector to play a more important role in the support of MSMEs?
6. In what ways has participation in the credit guarantee changed the financial institution's behavior in its lending to MSMEs?

**Structured interview questions for government ministries**

1. What is the main role of Palestine’s Monetary Authority in supporting MSMEs?
2. Do governments, financial institutions and the credit guarantor adopt a common strategy for the development of MSMEs?
3. Are there any specific challenges you face when targeting support for MSMEs? How have you attempted to address these challenges?
4. Have governments been stepping up efforts to foster alternative project financing options alongside the Credit Guarantee Fund and financial institutions?

End of interview questions

**Appendix 2: Questionnaire**



**Challenges Facing Micro, Small and Medium-Sized Enterprise (MSMEs) When Raising Capital in the West Bank of Palestine**

Dear participant,

This questionnaire is part of a PhD study of the role of financial institutions in financing MSMEs in the West Bank/Palestine; the questionnaire should take just a few minutes to complete.

While MSMEs have specific strengths, they also have many weaknesses that require special policy responses in terms of management skills, legal frameworks and access to finance. The study aims to formulate recommended policies in order to prepare the ground for conducting further research into the development of MSMEs in Palestine.

In this study, the researcher will comply with university regulations and undergo ethical procedures after gaining approval, and an overview of the research and its objectives will be given to each participant. As a participant, you will be given a code to replace your identity to maintain anonymity. Participants are advised that participation is strictly voluntary and they can stop the interview at any time.

I would like to thank you very much for dedicating some of your precious time to this questionnaire.

Mai Al Saifi

**Section I: Background information**

This section records background information about the firm and its owner.

1. What is the gender of the owner?

|  |  |  |
| --- | --- | --- |
| a | Male |  |
| b | Female |  |

2. Age Group the owner

|  |  |  |
| --- | --- | --- |
| a | Under 24 years |  |
| b | 24–29 years |  |
| c | 30–39 years |  |
| d | 40–50 years |  |
| e | Above 50 years |  |

3. What is your level of education?

|  |  |  |
| --- | --- | --- |
| a | High school or less |  |
| b | Diploma |  |
| c | Bachelor degree |  |
| d | Master degree |  |
| e | PhD |  |

4. How many years since you started this business?

|  |  |  |
| --- | --- | --- |
| a | Below 6 years |  |
| b | 6–10 years |  |
| c | 11–15 years |  |
| d | 16-20 years |  |
| e | Above 20 years |  |

5. How many people does your firm currently employ (including yourself)?

|  |  |  |
| --- | --- | --- |
| a | 1–4 employees |  |
| b | 5–9 employees |  |
| c | 10–19 employees |  |

6. Which form best describes the ownership of your firm?

|  |  |  |
| --- | --- | --- |
| a | Family business |  |
| b | Individual |  |
| c | Private joint company |  |

7. What is your business type?

|  |  |  |
| --- | --- | --- |
| a | Wholesale trade |  |
| b | Retail business |  |
| c | Services |  |
| d | Manufacturing |  |
| e | Construction |  |
| f | Craft |  |

8. What is the legal status of your firm?

|  |  |  |
| --- | --- | --- |
| a | Registered |  |
| b | Not Registered |  |

If you are registered, how is your firm classified by the Chamber of Commerce and Industry?

9. What is the capital grade of your firm in Jordanian Dinar?

|  |  |  |
| --- | --- | --- |
| a | Special – more than a million |  |
| b | Excellent – 250 thousand to less than 1 million |  |
| c | First – 100 thousand to less than 250 thousand |  |
| d | Second – 40 thousand to less than 100 thousand |  |
| e | Third – 5 thousand to less than 40 thousand |  |
| f | Fourth – less than 5 thousand |  |

10. Did you prepare a business plan or feasibility study for your business before it started?

|  |  |  |
| --- | --- | --- |
| a | Yes |  |
| b | No |  |

11. What is the estimated annual turnover of your firm?

|  |  |  |  |
| --- | --- | --- | --- |
|  | USD | JD |  |
| a | Up to 20,000 | Up to 14180 |  |
| b | From 20,001 to 50,000 | From 14181 to 141800 |  |
| c | From 50,001 to 100,000 | From 35,451 to 70,900 |  |
| d | From 100,001 to 400,000 | From 70,901 to 283,600 |  |
| e | Above 400,001 | Above 283,601 |  |

**Section II: Obstacles faced by MSMEs in Accessing the Financial Institutions** Please state your opinion on the following statements by ticking the most appropriate response as follows: Strongly Disagree, Disagree, Neither, Agree, Strongly Agree.

12. Which of the following resources of finance did you use when you started your business?

|  |  |  |
| --- | --- | --- |
| a | Personal savings |  |
| b | Family/friends |  |
| c | Loan from a government fund |  |
| d | Commercial bank |  |
| e | Islamic bank |  |
| f | Microfinance institutions |  |
| g | Crowdfunding |  |
| h | Trade credit |  |

13. Have you applied for loans from banks or other financial institutions?

|  |  |  |
| --- | --- | --- |
| a | Yes |  |
| b | No |  |

**If No, go to Section III.**

14. What was the main purpose of your application for bank finance?

|  |  |  |
| --- | --- | --- |
| a | Working capital |  |
| b | Purchasing fixed asset |  |
| c | Expansion |  |
| d | Entering new markets |  |

15. What type of collateral did you provide to secure access to bank finance?

|  |  |  |
| --- | --- | --- |
| a | Real estate |  |
| b | Securities |  |
| c | Machinery and equipment |  |
| d | Personal guarantees |  |
| e | Regular cheques |  |

16. The value of the guarantees provided

|  |  |  |
| --- | --- | --- |
| a | Greater than the financing amount |  |
| b | Less than the financing amount |  |
| c | Equal to the financing amount |  |

17. What percentage of the total required loan was granted?

|  |  |  |
| --- | --- | --- |
| a  2 | 50 – 60% |  |
| b | 61 – 70% |  |
| c | 71 – 80% |  |
| d | More than 80% |  |

**Section III: Determinants of access to finance**

Please state your opinion on the following statements by ticking the most appropriate response.

18. The following obstacles are serious challenges to MSMEs seeking credit facilities.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | High interest rate |  |  |  |  |  |
| 2 | High collateral requirements |  |  |  |  |  |
| 3 | High services fees |  |  |  |  |  |
| 4 | Repayment conditions |  |  |  |  |  |

19. If you failed to access finance or your financing application was rejected, what were the reasons given by the bank or other financial institution you applied to?

|  |  |  |
| --- | --- | --- |
| 1 | Lack of collateral |  |
| 2 | Lack of financial information |  |
| 3 | Lack of credit record/history |  |
| 4 | Cash flows do not meet the bank’s requirements |  |
| 5 | New business start-up |  |
| 6 | Inadequate sources of repayment |  |
| 7 | High risk associated with the project |  |
| 8 | Lack of accurate and/or comprehensive financial information |  |

20. Have you applied for any government funds to obtain capital?

|  |  |  |
| --- | --- | --- |
| a | Yes |  |
| b | No |  |

21. If ‘No’, why not?

|  |  |  |
| --- | --- | --- |
| a | Do not need these programmes |  |
| b | Acceptance takes too long |  |
| c | Don’t meet the acceptance criteria |  |
| d | Not aware of programmes offered |  |
| e | Procedure too complicated |  |

22. Do you agree that the following solutions to challenges presented by financial institutions are helpful to MSMEs?

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  |  | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | I believe that government facilitation is useful in supporting MSME access to funding sources. |  |  |  |  |  |
| 2 | Increase the volume of loans provided |  |  |  |  |  |
| 3 | The flexibility - in relation to the grace period |  |  |  |  |  |
| 4 | Alternative sources of funding such as crowdfunding |  |  |  |  |  |

**Section IV: Islamic finance for MSMEs**

23. Would you be willing to use Islamic finance methods if they were available?

|  |  |  |
| --- | --- | --- |
| a | Yes |  |
| b | No |  |

24. Which mode of Islamic finance modes would you prioritize in financing your business?

|  |  |  |
| --- | --- | --- |
| a | Musharakah – Equity & profit/loss sharing |  |
| b | Mudharabah – Profit-sharing finance |  |
| c | Murabaha – Cost-plus sale or trade with mark-up |  |
| d | Ijarah – Lease financing |  |

**Section V: How strongly do you agree/disagree with each of the following statements? (Please indicate with a tick)**

25. Crowdfunding

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Statement** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | Crowdfunding is suitable for financing start-up businesses. |  |  |  |  |  |
| 2 | Crowdfunding costs are low. |  |  |  |  |  |
| 3 | Crowdfunding helps in marketing, developing products and promoting entrepreneurship. |  |  |  |  |  |
| 4 | I would advise business owners to access funding through crowdfunding platforms to increase their capital or cash flow. |  |  |  |  |  |

26. Financial Literacy

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | It is difficult to gather the documents for credit guarantees. |  |  |  |  |  |
| 2 | It is difficult to provide adequate guarantees. |  |  |  |  |  |
| 3 | There is a lack of accurate and comprehensive financial information. |  |  |  |  |  |
| 4 | There is a lack of information about government programs for accessing the funding. |  |  |  |  |  |

27. Government support for MSMEs

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | Government support for MSMEs to gain access to funding |  |  |  |  |  |
| 2 | Government tax exemptions for MSMEs |  |  |  |  |  |
| 3 | Government grants and their accessibility to all MSMEs |  |  |  |  |  |
| 4 | The government helped to achieve flexible terms in relation to the grace period. |  |  |  |  |  |
| 5 | Low government support in terms of high corruption decreases the availability of fair funding opportunities for MSMEs. |  |  |  |  |  |

28. Financial institutions terms and conditions

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | High interest rate |  |  |  |  |  |
| 2 | High collateral requirements |  |  |  |  |  |
| 3 | High service fees |  |  |  |  |  |
| 4 | Repayment conditions |  |  |  |  |  |
| 5 | Inadequacy of traditional bank financing formats for MSMEs |  |  |  |  |  |
| 6 | Inadequate sources of repayment |  |  |  |  |  |
| 7 | Challenges of credit record history |  |  |  |  |  |
| 8 | Lack of collateral |  |  |  |  |  |

29. Banking Competition

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | Banks support access to credit facilities. |  |  |  |  |  |
| 2 | Banks offer competitive interest rates. |  |  |  |  |  |
| 3 | MSME lending policies differ from bank to bank. |  |  |  |  |  |
| 4 | There is a lack of information about government programs to assist access to funding. |  |  |  |  |  |
| 5 | Increase the volume of loans provided |  |  |  |  |  |

30. Weak legal infrastructure

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | Weak legal infrastructure can cost those more in terms of default and credit loss risks. |  |  |  |  |  |
| 2 | Costs of debt recovery are high. |  |  |  |  |  |
| 3 | Costs of insolvency are high. |  |  |  |  |  |
| 4 | There is a lack of government support in the execution of the law. |  |  |  |  |  |
| 5 | MSMEs work with no land registry documentation. |  |  |  |  |  |

**31. Accessibility of funding**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | Corruption has a negative influence on funding accessibility. |  |  |  |  |  |
| 2 | A lack of financial skills influences funding accessibility. |  |  |  |  |  |
| 3 | Strict banking terms and conditions negatively influence access to funding. |  |  |  |  |  |
| 4 | Crowdsourcing is easily accessible. |  |  |  |  |  |
| 5 | There is sufficient information about the available sources of funding. |  |  |  |  |  |

**32. MSME performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Particulars** | Strongly Disagree | Disagree | Neither | Agree | Strongly  Agree |
| 1 | Lack of innovation and use of advance technologies |  |  |  |  |  |
| 2 | High competition and normal profits |  |  |  |  |  |
| 3 | I am able to meet my MSME’s goals. |  |  |  |  |  |
| 4 | I find enough government support for developing ideal working conditions. |  |  |  |  |  |
| 5 | I have enough funding to buy necessary resources. |  |  |  |  |  |