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STRATEGIC ANALYSIS AND PLANNING OF ESTABLISHING AN EFFICIENT BOND MARKET IN THE PALESTINIAN STOCK EXCHANGE

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Abstract

This research examined the four dimensions that could impact the potential and Viability of establishing an efficient bond market in the Palestinian Stock Exchange. These dimensions are financial, economic, strategic, legal, or legislative. Using SWOT (Strength, Weak, opportunity, Threat) analysis method can determine the variables that might positively or negatively impact establishing an efficient bond market—using the TOWS method. It can also extract the results that determine recommendations or conditions to establish an efficient bond market in the Palestinian Stock Exchange. The research methodology builds the theoretical framework for establishing the bond market Model (BMM), with four dimensions, including financial, economic, strategy, and legal or legislation dimensions. Also, this methodology depends on conducted some interviews with some academics, business people, and significant individuals in the financial institutions. The empirical results demonstrated that the bond market model can explain the relationship between financial, economic, strategy, legal variables (independent variables), and the potentiality to establish an efficient bond market in the Palestinian stock Exchange (dependent variable). The research results provided an insight into those who adopted the establishment of an efficient bond market in the Palestinian Stock Exchange. In addition, the results' essence states a set of basic requirements to establish an effective bond market in the Palestine Stock Exchange.

Keywords: Bond, Stock Exchange, Bond Market, Financial Sector

INTRODUCTION

Nowadays, the financial sector occupies an important position in most economies of the world. Thus the financial sector's indicators reflect the economic situation for any country due to the causal relationship between the development of the financial sector and economic growth. Therefore, the bond market is considered one of the essential pillars of a reliable financial infrastructure that characterizes several strong economies. It can offer the necessary liquidity for companies to finance the long-term projects and form an investment capital and finance the governments' projects, infrastructure, in the long run, or even settle the required obligations like a budget deficit.

Also, the bond market plays a strategic and vital role in stimulating economic growth in developed countries by attracting foreign investment and domestic capital to provide the necessary liquidity to mobilize savings and financial resources and direct them towards more productive assets and create balance in the financial sector. Thus, an economy that relies on the banking sector and the stock market without an efficient bond market will lack a valid criterion of the real interest rate, a free interest rate, and the inability to calculate the opportunity cost of invested capital. Also, the economy that lacks an efficient bond market is more vulnerable to crises because, in the banking crisis, the damage will be much more significant than if there was a bond market. As a result, the financial restructuring process will be more difficult. The Palestinian economy relies mainly on financing the banking system and the Palestinian economy, which depends on a soft and non-deep share market.

The Palestinian economy has been suffering since 1967 that was due to Israel's occupation policies, and restrictions which cause strike the fundamental elements for growing the Palestinian economy, and one of the great importance of these sectors is the financial sector that is the backbone for the Palestinian economy.

Nevertheless, the Palestinian economy has lightly evolved in the last three decades, particularly beyond signing the Oslo agreement. The Palestinian Authority has enacted some of the legislations and laws that encourage investment. Since the most prominent features in this stage are an abundance of investment opportunities that catalyze investors to exploit these opportunities, the opening of the stock exchange market in Palestine in 1997 was imprinting clearly in the Palestinian economy's development. However, the Palestinian market has lost several investment opportunities that some government or private sectors like infrastructure developments and effective programs with long-term establishing periods lack an efficient bond market in the Palestinian Stock Exchange.

As a result of the above, we must question whether the Palestinian financial sector, which relies on the banking sector and stocks market in the financing, can be a financial source to these projects that could be part of the growing economy. To have an objective answer, it must diagnose the fundamental factors that could have a different degree of influence on establishing a bond market. These factors are considered a keystone of establishing an efficient bond market in developing countries' financial sectors.

LITERATURE REVIEW

The study's central theme is to investigate Whether Establishing a bond market in the Palestinian Stock Exchange is potential and viable. This topic's importance raises an essential question about the feasibility of establishing an efficient bond market in the Palestinian Stock Exchange, whether government or corporate bonds. However, establishing the bond market depends on internal and external factors and how to exploit these factors effectively to conclude the possibility and effectiveness of establishing the bond market.

It appears that there is consensus among researchers and who have enjoyable in the financial and economic sectors that the bonds market has a practical impact on the financial sector and economic growth. Many studies have addressed the bond market's issue and its effects on specific aspects such as the financial sector, economic development, or legislation & laws. The first, (Richard Benzie, 1992). This study aimed to examine the relationship between the international and domestic bond markets, which has both competitive and complementary aspects. The researcher has described the differences between Euro-Bonds, foreign Bonds, and domestic Bonds. In addition, this study displays how the Euro-bond market is organized, and looks at the trading convention employed, and the functioning of the primary and secondary markets, and analyzes the relationship between borrower and investor. The main conclusion of the study the potential for a further diversion of business from the domestic to the international market exists mainly in Europe and in particular in the growth of a large European bond market. (Schinasi, M. G. J., & Smith, T. T. (1998). This study aims to identify factors contributing to the development and effectiveness of public and private debt securities markets in the developed economies. One of the most important factors is minimizing the cost of government securities through tapping the pool of global capital, granting greater independence to debt management, and reforming primary and secondary market infrastructures to appeal to institutional investors. (Herring, R. J., & Chatusripitak, N. (2000). This study intended to focus on the necessary measures to develop a broad, deep bond market. It addresses Thailand's case, which broadly represents the wide range of countries with highly-developed equity markets and large banking sectors, but only rudimentary bond markets. It would be by illustrating the dangers of growth without a well-functioning bond market. It also demonstrates how to implement policies to rebuild the financial sector with an expanded role for the bond market. This study has addressed the critical part of the bond market in the financial sector. (Fabella, R., & Madhur, S, (2003). The study's essence states that East Asian countries need the set of requirements to establish a domestic bond market so that these requirements differ from one country to another because each country needs different strategies s for the bond market establishment. " initiatives to develop bond markets in East Asia should focus on (i) sustaining a stable a macroeconomic environment with low inflation and stable interest rates, (ii) developing a healthy government bond market that would serve as a benchmark for the corporate bond market, (iii) completing the post-crisis agenda of banking sector restructuring, (iv) improving corporate governance, (v) strengthening the regulatory framework for the bond market, (vi) rationalizing tax treatment of bonds, (vii) broadening the investor base, and (viii) promoting the growth of regional bond market centers." Since there is a great difference in bond market establishment levels across countries, each country will have its mechanisms and strategies by which bond market establishment. While (Fink, G., Haiss, P. R., & Hristoforova, S. (2003), this study researches the relationship between the development of the aggregate bond markets and real GDP [(1)] in 13 highly developed economies that would be through providing empirical evidence for causality patterns supporting the supply-leading approach in the USA, U.K., Switzerland, Germany, Austria, the Netherlands, and Spain over the 1950 to 2000 period. The conclusion was that the estimated models support the supply-leading hypothesis implying that the bond market's development significantly influences real economic activity. (J Batten, P Szilagyi, 2003). This study has aimed to appear the importance of Japan's financial sector to develop its corporate bond market. The researcher has concluded the major channel to lending the borrowers is the banking system which still has dominated Japan’s financial system; consequently, the lending patterns of the past decade bearing witness to the adverse selection and moral hazard problems that may arise from a market overly reliant on banking financing. This study recommends more development of Japan's corporate by improved access and facilitates domestic and foreign capital into the Japanese bond market. (Bambang Kusmiarso, 2005). This study aims to display the current development of the bond market in selected SEACEN member countries, determines some impediments/challenges in developing the bond market, and recommends some measures to further develop the bond market. The conclusions have exposed are the common problems that hinder efforts to develop most bond markets are underdeveloped secondary markets, shallow bond markets, and a limited supply of bond issues. In countries with more advanced bond markets, they face challenges in auction schedules, hedging instruments, derivatives market, tax treatment, and the implementation of short selling

[(1)] GDP is an abbreviation for Gross Domestic Production.

for bonds. In less developed bond countries, they still face the basic problem of improving the bond market infrastructure, such as having a good database for bond market management. This study recommends developing the bond market by taking the common measures adopted that include, enhancing the legal and regulatory framework, extending benchmark and adopting auction systems, stimulating demand, improving market infrastructure, improving market liquidity, and promoting regional cooperation in developing bond markets, developing a benchmark bond, and broadening the variety of debt instruments. (Danijela Miloš Sprčić, 2007). This study has intended to examine the factors influencing the speed of development of corporate bond markets in Croatia. A survey was carried out of a sample of Chief Financial Officers from the largest companies in Croatia to investigate the barriers that inhibiting issuing of corporate bonds. The researcher concludes that a range of macro-level, industry level, market level, and firm-level factors influence the rate at which corporate bond markets develop in Croatia. (Adelegan, O. J., & Radzewicz-Bak, B. (2009).This study empirically analyzes the determinants of bond market development in a cross-section of 23 sub-Saharan African (SSA) countries between 1990 and 2008. The results from this study that the savings constraint is a key impediment to domestic bond market development and financial market deepening. Overall, the results show that a confluence of factors matters for developing domestic bond markets in SSA; these include the structure of the economy, investment profile, law and order, size of the banking sector, and economic development level. Policy implications include increased efforts to strengthen the investment environment and the need for a regional approach to bond market development in SSA. (Biswanath Bhattacharyay, 2011). This study attempts to identify the determinants of bond market development in Asian economies that include the size of an economy, the stage of economic development, the openness of an economy, the size of the banking system, the exchange rate variability, and the variability of interest rate. The researcher concluded that the size of an economy has a positive relationship with government and corporate bond market development, exchange rate variability has the expected significant negative relationship with a total (government and corporate) bond issuance, the gross domestic product has a positive relationship with a total (government and corporate) bond issuance. The banking system has the expected significant negative relationship with corporate bond issuance but has a positive relationship with government bond issuance. Interest rate spread exhibits the expected negative relationship with total (government and corporate) bonds. The openness of an economy has a significant positive influence greater on corporate bonds than a government bonds. (Sunder Raghavan and Daniel Sarwono, 2012). This study intended to analyze factors that could have influenced the development of corporate bond markets in India, suggest policy reforms to enhance its development. The researchers have reached to several factors that may have impacted the development of corporate bond markets such as the banking sector, the size of the economy, openness, size of the stock market, and institutional factors like corruption. In addition, this study suggests some policy reforms to improve the corporate bond market in India which include improving the retail investment markets, encouraging foreign participation by relaxing regulations and providing tax incentives, providing credit enhancements, and introducing new instruments such as credit default swaps and corporate repurchase agreement. (Y Mu, JG Stotsky, P Phelps, 2013). This study aims to analyze a set of data on government securities and corporate bond markets in Africa. The researcher has applied an econometric model to analyze the key determinants of the African government securities market and corporate bond market. The results have exposed that the government securities market is directly linked to better institutions and interest rate volatility, and inversely related to smaller fiscal deficits, higher interest rate spreads, exchange rate volatility, and current and capital account openness. The corporate bond market is directly linked to economic size, the level of development of the economy and financial markets, better institutions, and interest rate volatility, and inversely related to higher interest rate spreads and current account openness. (JD Burger, FE Warnock, VC Warnock, 2015). This study aimed to highlight key impediments of bond market development in developing Asia. It provides a descriptive analysis of the structure of financial systems (banking systems and stock and bond markets) in emerging Asia and (for comparison) other regions. The results have exposed that historically high inflation volatility presents a serious obstacle to the bond market development. Smaller developing Asian economies could enable bond market development by pursuing creditor-friendly policies (for example, stabilizing inflation) and protected the legal rights of borrowers. (H Smaoui, M Grandes, A Akindele, 2017). This study aims to empirically investigate the structural, financial, developmental, institutional, and macroeconomic determinants of bond market development for a sample of 22 emerging and developing countries over the period 1990–2013. The conclusions suggest that a combination of structural, financial, and institutional factors seem to exert a significant impact on bond markets. There are some factors that have positively linked to bond market development include economic size, trade openness, investment profile, GDP per Capita, bureaucratic quality, and size and concentration of the banking system. In contrast, other factors have negatively linked to bond market development such as interest rate volatility and fiscal balance. (Aman Ameenullah and Isa Mohamad Yazid and Mohamed Naim Asmadi, 2020). This study intended to investigate the macroeconomic and financial determinants that enhance the bond market development. Panel data analysis is employed to investigate the potential relationships. Results expose that the financial system and most of the macroeconomic factors are positively linked with a bond market development. However, the stage of economic development is negatively linked to bonds. Hence, policymakers need to enhance and use existing financial systems and economic variables to provide reasonable support to the development of bond markets.

The conclusion from the literature review is a consensus of most researchers on the importance of the bond market to enhance and improve the financial sector and raise the country's economic growth. In addition, some researchers have addressed some of the factors that could contribute to the development of an efficient bond market. However, a standpoint the researcher in establishing an efficient bond market depends is not only on some aspects as of the previous studies. But it must contain the whole factors that include financial, economic, political, strategic, and legal aspects. Furthermore, no study or research addressed the possibility of establishing an efficient bond market in the Palestinian Exchange Stock. Thus, this study bridges this gap by focusing on all the factors influencing potentially establishing an efficient bond market in the Palestinian Exchange Stock to include the financial, economic, strategic, political, and legal dimensions.

MODEL OF BOND MARKET

With the development and growth of some economies globally and diffused of globalization in most countries, this paid toward developing free-markets that induce the most prominent companies and governments to have intermediate or long-term investments. Thus, it is necessary to provide massive money from the capital markets to finance this investment addition. The bond market is one of the essential pillars of capital markets that provide financing to borrowers, so several emerging market countries worldwide are looking to establish local bond markets.

Indeed, establishing a bond market in emerging markets countries encounters many impediments, and it needs a long time to equip an efficient bond market. However, establishing a local bond market is influenced by numerous internal factors, external factors, and across among them. Also, these factors have an impact on establishing a local bond market with disparity degrees. Interestingly, several of these factors have no existence or inappropriate in emerging markets for establishing a bond market and thus need a great time to get in place. Furthermore, some of them can be under the control of the government or regulators, and others are out of control.

It is important to emphasize that an appropriate environment is a crucial foundation for establishing the bond market. There are several essential dimensions that contribute to shaping proper conditions to have a spark for establishing this market. The crucial dimensions that impact bond markets are macroeconomic, financial, legal, political, and strategic, where these dimensions differ in degree of impact from one environment to another.

Indeed, the infrastructure is one of the significant essential factors that impact establishing a bond market. It facilitates critical functions of the market as the trading process and size, and quality that characterized it is appealing institutional investors and critical issuers to the bond market. Furthermore, growth in the economy and privatization creates considerable investment opportunities are requiring great financing that can be filling it by issuing bonds.

Having a legal framework by laws, regulations, and internationally recognized accounting standards contribute to regulated and organized transactions in the bond market and thus facilitate and quick fulfilling the processes by reducing bureaucratic procedures in place, as well these laws are also limiting of corruption and embezzlement as well as building trusts for all key market players.

Worthwhile the existence of the government bond market helps provides the necessary infrastructure for the corporate bond market and government yield curve providing a benchmark interest rate for the pricing of corporate bonds and facilitating the conduct of monetary policy. However, holding government debt constant and not raising the deficit is generally a matter for the bond market and the local financial sector. A study was conducted in 2008 by A Silvain, stating the opposite relationship between the continued raising of deficit and the bond market's development. This study's essence is that borrowing by banking sources will create inflationary pressure without other non-banking sources that would shape a deterrent to attract institutional investors and critical issuers (Silva, 2008). On another side, when increasingly borrowing by a government, that causes crowding out for a total amount of savings. This, in turn, give rise to have an obstacle to the establishment of the bond market.

In effect, some countries have macro instability like Middle East countries, which cause sovereign risk; thus, government defaults give rise to a crisis in the banking sector on which the government relies on. As a result, the corporate bond market is considered a benefit because it was an additional choice for other financing sources. A study has been conducted by (Borensztein, E., Cowan, K., Eichengreen, B., & Panizza, U2008). The essence of the study states that financial architecture [2] could contribute to developing the economy, in the case of a corporate market that allows borrowers to choose between bond finance or bank finance. However, on the other hand, financial architecture plays a crucial role in providing the corporate bond market as a ''spare tire'' when taking place in the default of government or a crisis in the banking sector.

The main factor of establishing the corporate bond market is the firm size and market size; they are the critical determinants for establishing this market. Subsequently, if the firm value is minimal, this means the debt value would also be small. Consequently, issued bonds are a subtotal of the present value of whole debt, a subset of small total debt (Borensztein, E., Cowan, K., Eichengreen, B., & Panizza, U. 2008). The bond market is limited to large firms that can finance their investment by bonds; the small firms are not.

Also, foreign capital plays an essential role in providing the necessary financing for local corporates to implement their investments. However, the laws and regulations in place could deter foreign capital from bond markets, thus filling the gap of domestic financing. The study has been conducted by (Eichengreen, B., & Luengnaruemitchai, P. 2004). The essence of this study, stating that one of the most significant obstacles is controls on account capital, and the evidence is not to participate in foreign capital as controls hinder the foreign participation in domestic bond markets and thus hinder the establishment of a domestic bond market.

In contrast, capital account liberalization is not feasible if the domestic bond market is not deep, liquid, and efficient. Hence, the developed domestic market is attracting foreign capital, but establishing a bond market has hard in the presence of the controls on capital. Therefore, the only solution is to overcome this dilemma is to boost market regulations and laws, building bond market infrastructure, and conducting other domestic preconditions to establish the local bond markets before the liberalization of the capital account.

Moreover, from the financial side, the volatility in the exchange rate is a crucial factor that reflects the domestic economy's health, given an impression for foreign investors about the accuracy and validity of future forecasting and the extent to which the exchange rate fluctuates. This gives rise to add a risk premium caused by the future uncertainties, which in turn raising costs these the debt, which leads to discourage issuers of the bonds and adversely attract foreign investors. According to a study has been conducted by (Silva,

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[2] financial architecture is "made a variety of reforms to try to reduce the frequency and severity of international financial crises. The reforms include steps to improve transparency, strengthen financial sectors, and involve the private sector more fully in rescue packages"Frankel, J. A. (1999). ... To be achieved should have direct interactions with international institutions such as the United Nations, the International Monetary Fund (IMF) and World Bank, and the G8/G20 processes.

2008). The study's core states that the stability of the exchange rate has a significant effect on the bond market. The changes in exchange rate increase uncertainties, adversely affect polarization for foreign investors, and affect the development of the benchmark yield curve. Besides, the exchange rate volatility reduces an inflow of other foreign currency and down up or decreases of contributing the foreign capital in other financial markets like the equity market. Subsequently, this, in turn, affects liquidity in the markets.

One of the most significant difficulties in establishing the bond market is to favor the borrowers' financing by banking than to other sources; this legacy has prevailed in most lagging countries in the financial sector. The banking sector has dominant in the financial sector because it is considered an essential source for financing as well; these countries are given higher priority to the banking sector than to other financing sources. As a result, these countries will be more exposed to the financial crisis resulting from the fragility of the financial sectors depending only on the banking sectors and thus do not have other alternatives to compensate for the exacerbated financing deficit. Therefore, the reasons that are underlying a rush to banking loans are ease and expediting in obtaining a financing loan by the banking sector. In contrast, no existence for other financing sources such as the bond market, or these markets are inefficient and need a long time before getting the financing and have complex requirements.

Consequently, many studies addressed his topic one of the most important studies is for (Batten, J., & Kim, Y. H, 2001). Since the essence of the study conducted on Asian crisis countries is to state that diversification of financing sources is the better choice and thus accelerate financial sector development, in these countries, industrial financing was significantly dependent on the banking sector because financing is less expensive for abroad borrowing, resulting in significant financial risks such as bankruptcy. Short-term financing prevailed in these countries, and this financial sector was more vulnerable to financial shocks. Consequently, this study prompted the bond market's role in the financial sector as a critical financing source.

The investor base is also considered one of the most significant factors that could significantly affect establishing the bond market. "The aim of expanding the investor base is to encourage the development of investors that have different investment objectives and employ a range of investment strategies. This will enhance market liquidity by creating trading opportunities and will reduce market fluctuations by allowing bonds exhibiting different investment risks to be held by those most capable of accepting them" (Andrews, A. M., Hannah, R., & Sutton, B., 2013).

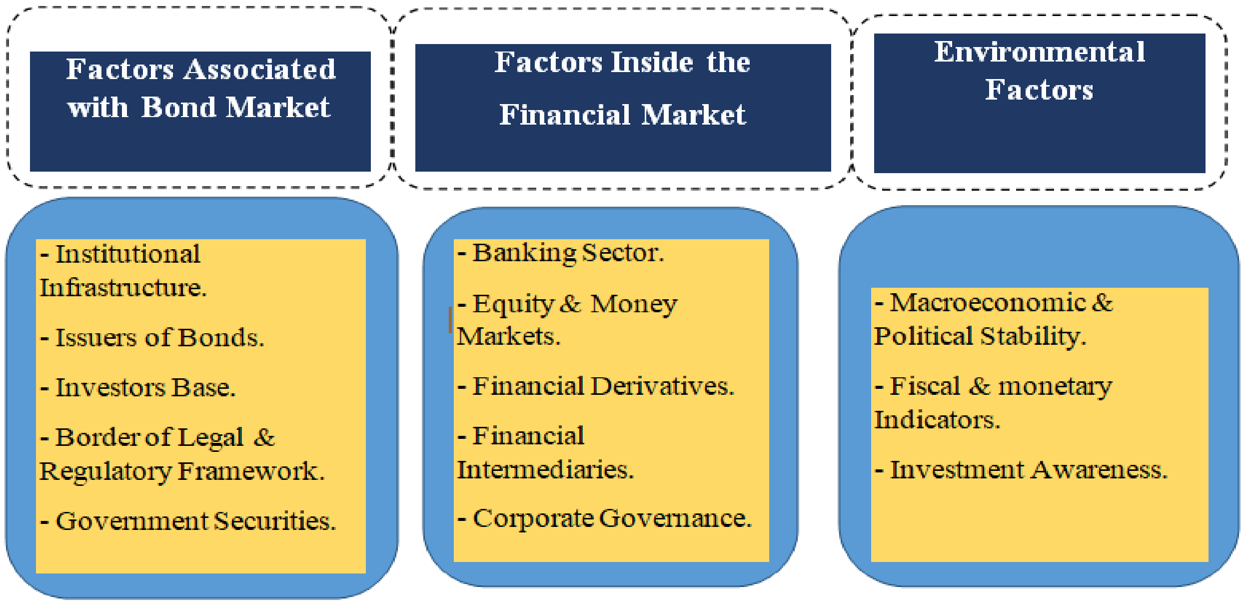
While the investor base's diversity is evidence of a mature bond market that reflects the investor's willingness to accept risk trade-offs with a return, some investors accept high risks in exchange for high returns, and others might be not. This indicates that there is a discrepancy in an investor's desire to accept risks. Consequently, the investor base's diversity needs the existence of different types of bonds rated between high and low credit quality to meet investors' desires. Furthermore, the presence of financial derivatives in the bonds market immensely contributes to increasing the liquidity and trading activity and the ability of an investor in management to his investments. Therefore, according to the diversity of investors' base, they find themselves simultaneously a buyer and seller for bonds. Most often, some financial institutes like banks, mutual funds, pension funds, and insurance companies make up the base investors. Besides, if these institutions have evolved, this results in boosting and diversity of the investors' base.

In this frame, many studies address the importance of an investor base, and one of the most important studies conducted by Andrews, Hannah, & Sutton, in 2013. This study's essence is that there are important reasons other than promoting and awareness of the importance of the local currency bond markets. The one most critical reason to expanding the investor base is building and evolving provident, and pension funds immensely contribute to expanding the participation. Providing new pension plans and individual retirement savings plan is essential to provide income security for aging populations. Furthermore, the development of new pools of funds plays a role in creating essential investors in the local currency bond markets. Also, there have been many initiatives that could give rise to expanding the base of foreign and domestic investors. Some of these initiatives are "the legal and regulatory framework for non-bank financial institutions, particularly insurance companies and pension plans, Adopting the prudent-person investment rule for insurance companies and pension plans. Also, a movement to complete (or at least partial) funding of pension plans rather than relying on the pay-as-you-go approach creates additional domestic capital pools. The legal and regulatory framework for mutual funds should also be put in place, reduce or eliminate withholding taxes, reduce or eliminate foreign exchange restrictions, streamline or eliminate foreign exchange administration requirements, and enable bond transactions to be settled through Euroclear. "In addition to that, there are also other initiatives in this study that might be doing expanding the investors' base (Andrews, A. M., Hannah, R., & Sutton, B., 2013).

Eventually, the researcher has concluded that numerous crucial factors and determinants play an essential role in establishing a domestic bond market. These factors could be classified into four dimensions: macroeconomic, financial, legal, and strategic.

Furthermore, it could divide these factors into internal and external and others. Thus, the model building for all factors that influence establishing an efficient domestic bond market would be as follows in the figure 1.

Figure 1. A Model for Establishing an Efficient Bond Market



RESEARCH METHODOLOGY

This study uses two data collection methods: the first one depends on the primary data collection method that conducts thorough interviews with a group of experts in the financial institutions, business people, and academics, as shown in table figure (1), who have knowledge and analysis about the four dimensions (finance, economy, strategy, and laws) related to establishing Palestinian bond market. Consequently, a questionnaire with open-ended questions could be used with those concerned with establishing an efficient bond market, as shown in table figure (2). These questions can provide an in-depth understanding of correlations between establishing the bond market and independent variables and demonstrating the relationship among variables with each other.

In addition, the interviews concluded that most of the opinions and expectations of those interviewed set preconditions to the ability to establish an efficient bond market in the Palestinian Stock Exchange. Therefore, the relevant fundamental conditions are as follow:

- Provide a safe environment for investment, including appropriate economic and political conditions.
- Cooperate and have partnerships in the financial and economic aspects with foreign markets.

- Provide transparency, responsibility, and accountability in public and private institutions through implementing the governance rules.
- Disengage from the Israeli occupation financially, economically, and on the monetary level.
- Support by crucial participants such as the monetary Authority, Capital Market Authority, Palestine Stock Exchange, banks, government parties, and large-capital Palestinian companies who have the length-arm to establish an efficient bond market.

The second method uses previous studies, reports & and articles published in books, newspapers, magazines, journals, statistical data, and online portals. It can use the data available in these sources about our research area. In addition, it might benefit from interviews with experts, also preparing open-ended questions to collect data that would be necessary to extract the results and conclusions about the research problem.

Table 1. The interviewees' names who were interviewed by the researcher.

	Name of Interviewee	**Title of Interviewee**
Academic Group		
Dr. Fawaz Hammad	Dr. Fawaz Hammad	Academic staff member in Arab American University, and General Director of Al-Razi Hospital
Dr. Monther Nejem	Dr. Monther Nejem	Academic staff member in Birzeit University-Department of Banking and Financial Sciences
Businessmen Group		
Palestine Development and Investment	Mr. Amjad Hassoun	Head of Financial Department
Global Insurance Company	Mr. Mahmoud Sehweil	Assistant Chief Executive Officer for Financial and Administrative Affairs
Birzeit Pharmaceutical Company	Mr. Abdul Qader Badawi	Head of Financial Department
Istishari Arab Hospital	Mr. Ahmed Kawamleh	Head of Financial Department
Financial Institutions Group		
Palestine Stock Exchange	Mr. Mohammed Obaid. Mr. Ahmed Al Zahra	Director of Systems, Technology and Development Department. Deputy Director of Operations
Palestine Capital Market Authority	Mr. Murad Jadbah	General Manager of the General Administration of Securities.
Palestinian Monetary Authority	Mr. Ahmed Yousef	Controller of banking remittances
Sahem Trading &Investment Company	Mr. Firas Salama	Financial & Administrative Director, and Deputy General Manager
Al Quds Bank	Mr. Mahmoud Barakat	Manger of Portfolio

Evaluation for Establishing an Efficient Bond Market in the Palestinian Exchange

Factors Associated with Bond Market:

Institutional Infrastructure:

Since its establishment, the Palestinian exchange has exerted great efforts to pursue developments and significant infrastructure changes for regional and global securities markets as it was always seeking to follow and catch modern systems of technology. The most important sides that characterized the Palestinian securities market in the region are the following:

- PEX [(3)] presents an Initial Public Offering (IPO) System that being conducted by IPO electronic application.
- PEX provision electronic services that including balance user inquiry, add new user, update user information.
- PEX offers several trading services and sources of much information such as reports and statistics in which investors could be able to make the best decision.
- PEX has signed an agreement with the Palestinian Monetary Authority on 13/02/2013 under which the cash settlement the clearing and settlement process that is resulting from trading for securities firms for conducted in PEX, through the system (BURAQ) at the PMA.

PEX has signed several strategic partnership agreements that include memorandums and memberships with financial market institutions internationally and regionally, such as the Union of Arab Stock Exchanges, Federation of Euro-Asian Stock Exchanges- FEAS, Arab Monetary Fund.... etc. That would be a guide to attaining prosperity and growth for the PEX by pursuing the developments and changes in technology systems in regional and global exchanges.

Based on the conviction that adherence to good governance rules and standards contributes mainly to creating sustainable value and preserving the interests of others. PEX has good governance, which provides; an institutional structure, a proper legal environment to practice market activities according to global financial market criteria. As well as providing administrative and financial regularly reports characterized integrity and transparency for stakeholders. Further, organizational Structure is one of the most requirements of good governance that contributes to establishing effective administration to manage and control activities of the market.

Further, the Palestine exchange has organizational Structure is one of the most requirements of good governance that contribute to establishing effective administration able to

(3) PEX: Palestine exchange.

manage and control activities of the market, where this Structure including three central departments are; information technology department, which is primarily responsible for providing websites and e-application for users in the PEX such as E-trade and E-IPO...etc.

As well the operations department is responsible for following and surveillance the trading process under criteria and regulations in place of PEX (4).Notably, this department's primary goal is to ensure investors' rights, listing firms, and relevant others in the PEX.

The ultimate department is support services that contain two Departments: Financial & Administrative affairs and Public Relations & investor education. The last department is responsible for communicating with investors on all issues of concern to them. An investor communication policy is adopted to ensure that all investors obtain information about the performance of the PEX in a consistent way and also inform the current and potential investors with their rights and duties towards dealing with securities as well as financial & administrative affairs are responsible for the technical and administrative supervision of the various departments and follow-up of their work and activities. Participation in setting plans and policies and joint work and coordination with departments regarding activities, events, programs, and projects related to the exchange. Implement approved financial and administrative policies, systems, and procedures in order to reach overall goals for the PEX (5).

The PEX is one of the most developed Arab stock exchanges. It was the first fully automated exchange and pursued modern systems and advanced technology to provide more rapid and accurate electronic services to market participants and provide data and reports characterized by transparency and integrity to help investors make decisions. Consequently, the PEX has an adequate foundation for modern technology systems and good governance at regional and global levels that spur regulators to establish an efficient bond market.

Concerning credit rating agencies have no existence in the PEX, which is, in turn, creates ambiguity around the creditworthiness of issuers of a bond. Therefore, the lack of rating credit risk for bonds hinders an investor's ability to make the proper investment decision. Thus this would result in reducing the likelihood of establishing an efficient bond market in the Palestine exchange.

The Palestinian Capital Market Authority provided licenses for specialized financial certificates to professionals working in the Palestinian Stock Exchange in cooperation with the Institute for Investment Securities, shown in table 2. Other laws and regulations conditions for granting a license to the Palestinian exchange professionals, such as a financial broker, a financial advisor, and an investment advisor. The financial certificates program related to the

(4) PEX: Palestine exchange.
(5) Interview with the vice of the operations Manager in Palestine Exchange.

exchange is an essential ingredient in raising the capabilities of stock market professionals, which is by providing advice on issuing securities, preparing and issuing reports, conducting research and feasibility related to issuing securities, and several other essential tasks. This would aim to develop and improve the efficiency of securities and financial intermediation services.

Table 2. Certificates for Professionals the Palestinian Exchange.

Mandatory Certificate	Optional Certificate
International Introduction for Securities and Investments	Islamic Finance Qualification
Palestine Securities Sector – Rules and Regulations	Operational Risk
Securities	Risk in Financial Services
International Certificate in Wealth and Investment Management	Global Financial Compliance

Source: Palestinian Capital Market Authority

Issuers of Bonds

The Palestinian economy is considered underdeveloped like other third-world economies, as it suffers from many economic and financial troubles and a decrease in the gross national product. Accordingly, the Palestinian investment environment lacks large, long-term projects such as infrastructure projects that include a network of roads, airports, industrial cities and a lack of productive projects that include productive and agricultural projects that need considerable financing. Consequently, it can say, the Palestinian economy is a consumption economy that significantly relies on imports, which are reached approximately 5,776 million dollars in comparison with exports of 1,068 million dollars in 2019 (6). This variance is especially prominent due to the impairment of productive projects that could support Palestinian exports. That resulted from a deficiency in the government's catalytic role through a lack of good governance. It does not provide necessary investment prerequisites, thus providing an appropriate environment for investment and the absence of economic and fiscal stability due to complicated political conditions resulting from Israeli occupation. Therefore, this leads to reduced investment opportunities for investors in the Palestinian economic environment that lacks productive projects. Thus, the expected slowdown or stalled Palestinian economy growth discourages investors from investing in long-term projects that need long-term finance through debt bonds.

(6) Palestinian Central Bureau of Statistics.

The number of companies listed on the Palestinian Exchange is 48 companies, and these companies represent the largest segment in the public shareholding companies' value, as their value is approximately$ 3.1 billion[7]. These listed companies are divided into five sectors: the banking sector, Industrial sector, insurance sector, investment sector, and service sector. On the other hand, the degree of risk to default on the debt for these Palestinian companies owes and the size of their debt financing the company's assets is explained by important financial ratios: the debts to assets ratio and financial leverage to a company. As is illustrated in table 3, these ratios vary from one sector to another. As is notable, the average debt to assets ratio and financial leverage for both the banking and insurance sectors are 90%, 10.54, and 71%, 3.6 respectively, higher than in other sectors. This is natural in the banking sector because the essential product that banks sell is debt, so it is logical that they have more of that debt in hand than usual in other segments, in addition to having more liquidity in the bank sector more than in other segments. Consequently, issuing bonds by banks would raise the liquidity and thus may increase the cost resulting from the mismanagement for investing these funds, whether due to a lack of an effective strategic plan to manage an investment portfolio, absence of some of the financial markets like the derivatives market, as well as imposed restrictions by Palestine Monetary Authority to investing abroad. Therefore, the bank might play another essential role as an investor or financial intermediary in the bond market [8].

The insurance sector has a high leverage ratio and low liquidity ratio to cover current liabilities; this indicates a high risk of default. Consequently, this creates fear and averse for both investors and lenders toward the insurance sector's creditworthiness. On the contrary, the Industrial, services, and investment sectors have lower debt to assets ratio and financial leverage than the banking and insurance sectors. Therefore, they can act as issuers of the bonds in the primary market because mostly, they have high liquidity ratios and lower debt ratios, which indicate a lower risk of default on the debt. Thus the less fixed interest costs the company will be required to pay. As well as both investors and lenders would have a spur to invest in these sectors.

In reality, it could be said, the financial Structure for most of the listed Palestinian companies is to reflect somewhat the low degree of risks of default. This, in turn, allows for these Palestinian listed companies to issue debt bonds for financing purposes.

It is very natural; the entrance to the stock exchange in general and the Palestinian stock exchange require specific procedures and conditions and costs such as listing and membership fees and others. Accordingly, when the procedures and conditions are more flexible, and

[7]Palestinian Central Bureau of Statistics.
[8] Interview with Portfolio manager of al Quds Bank.

rapidly, membership, trading fees, and other subscriptions are less expensive, more companies are listed on the stock exchange. The Palestinian Stock Exchange provides multiple services to market participants at affordable prices compared to Arab stock exchanges such as the Jordan Stock Exchange and Dubai. Simple examples include membership fees for financial companies and fees for providing real-time data on the Palestinian Stock Exchange, which are $ 3,000 and $ 1,800 respectively, as illustrated in table 4, which are less expensive than on the Jordan Stock Exchange and Dubai. The company's listing fees are $ 23,000, which is less than the Jordan Stock Exchange that reached $ 44,250. Also, the taken period for responding to the request to list the company on the Palestinian Stock Exchange is up to 15 days, while it takes 30 days on the Dubai Stock Exchange. Moreover, the Palestinian Stock Exchange provides a large base of more advanced services to the participants; it could be more competitive with some advanced Arab stock exchanges such as the Dubai Stock Exchange. Therefore, the Palestine Exchange has an attractive environment that spurs Palestinian companies to issue debt bonds [(9)].

Interestingly, during the last decade, some Palestinian listed companies issued the debt bonds, as shown in table 5, and therefore the volume of financing by bonds constituted 1.2% of the listed companies' total debt. However, this experiment was random by the companies and did not organize and supported a comprehensive strategic plan that could create an efficient bond market.

Table 3 Statement of Financial Ratios for Palestinian Business Sectors in 2019

Ratio	Bank	Industry	Insurance	Investment	Services
Average of Debt/Assets[(10)]	*90%*	*31%*	*71%*	*38%*	*53%*
Average of Financial Leverage[(11)]	*10.54*	*1.54*	*3.60*	*1.76*	*2.45*
Average of liquidity Ratio[(12)]	*N/A*	*2.92*	*0.8*	*1.21*	*2.23*

Source: Palestine Stock Exchange.

Table 4. Comparison of the duration and cost of entering the Palestinian Stock Exchange with other regional stock exchanges

Exchange Name	Listing Fees for Capitalization (100,000,000)	Intermediary Fees	Approval period by exchange (days)	Real-Time Data	Family Transfer for Securities
Exchange Palestine	$ 23,000.00	$ 3,000.00	15	$1,800.00	$ 1.50

(9) The Palestine Exchange, The Jordan Exchange, The Dubai Exchange.
(10) Average of Debt/Assets is means total liabilities divided by total assets.
(11) Average of Financial Leverage is meant to total assets divided by the total equity.
(12) Average liquidity Ratio is meant to divide the company's current assets by its current liabilities.

Exchange Jordan	$ 44,250.00	$ 285,000.00	N/A	$ 8,570.00	N/A
Exchange United Arab Emirates	$ 8,707.00	$ 40,816.33	30	$ 27,000.00	$ 6.80

Source: Palestine, Jordan, and Dubai Stock Exchange.

Table 5. Issuance Bonds By Palestinian Companies

Company Name	**# of Bonds**	**Bond Price**	**Total Value**	**Issuance Date**	**Repayment Date**
Palestine Development and Investment (PADICO)	8500	$10,000.00	$ 85,000,000.00	2011	2016
Arab Palestinian Investment (APIC)	2000	$10,000.00	$ 20,000,000.00	2012	2017
Palestine Mortgage & Housing	250	$100,000.00	$ 25,000,000.00	2014	2015
Palestine Commercial Bank	10000	$1,000.00	$ 10,000,000.00	2014	2019
Palestine Development and Investment (PADICO)	240	$500,000.00	$ 120,000,000.00	2016	2020
Arab Palestinian Investment (APIC)	3500	$10,000.00	$ 35,000,000.00	2017	2022
Palestine Development and Investment (PADICO)	7500	$ 9,900.00	$ 74,250,000.00	2020	2025

Source: Interview with General Manager of Palestine Capital Market Authority.

Investors Base

The bond market's investment base in the Palestine Exchange mainly consists of institutional investors as other global bond markets. This is due to several reasons, the most important of which is their takeover of most of the national savings, the lack of a law regulating the issuance of bonds to the public, in addition to the high cost of public issuance. Consequently, institutional investors are considered an essential component to establishing an efficient bond market (13).

The investment base in companies listed on the exchange, as shown in diagram No. (9), shows the total long and short-term investment assets in the banking sector in Palestine is estimated at $ 17 billion, which is greater than the total investment assets of other sectors. In addition to the nature of the banking assets characterized by high liquidity makes them the

(13) Interview With Director of Financial Department in the Palestine and Development Investment company.

enormous potential investor in the bond market. Thus, the banks play a crucial role in establishing an efficient bond market.

Also, that non-bank financial institutions can play an additional role in investing in the bond market, mainly since these institutions have seen remarkable evolving, that is by increasing their assets up to 50.6%, compared to 2018, to reach $ 326.2 million, as well that the percentage of lending take over 70% of its assets. This means that most of its investment is concentrated in financing activities, which raises the probability of investing these institutions in the bond market.

For several reasons, the investment in the bond market could be attractive for the banking sector and non-bank financial institutions, and among these most important reasons are:

- They are contracting with one party thus saving time and possibly cost.
- Raise the rate of funds turnover (lending) and thus earned more profits.
- They are reducing the cost of funds (deposits) for banks.
- The ability to manage the investment portfolio by meeting long-term obligations.

On the other side, some of the Monetary Authority's laws and regulations on banks and non-bank financial institutions to meet credit risks, such as reserves, specific financial ratios, make them more restrictive in the financing activities. Thus, this probably creates an impediment to investing in the bond market. Also, the high risk of investment of the bond market resulting from limited lending parties rather than lending to a large number of borrowers and the depreciation of profits resulting from interest low might discourage the banks from buying debt bonds.

Moreover, the insurance sector is considered one of the most critical sectors in the Palestinian market that can fundamentally establish an affective bond market as the nature of insurance companies' work enables them to insure on debt bonds, in particular, if these bonds are secured by a specific asset owned by the issuer. Consequently, this stimulates insurance companies to insure those bonds and make more profits. On the other hand, it aims to raise people's confidence in investing in asset-backed bonds [(14)].

The Palestine Telecommunications Company and the Palestine Investment Fund are two of the largest companies with investment assets in the Palestinian market. It also achieved growth in these investment assets (2015-2019) by 18% and 25% [(15)], respectively. This investment expansion indicates the profits attained for these companies and the desire to re-invest to earn more profits. As a result, the profits generated by these companies' investment

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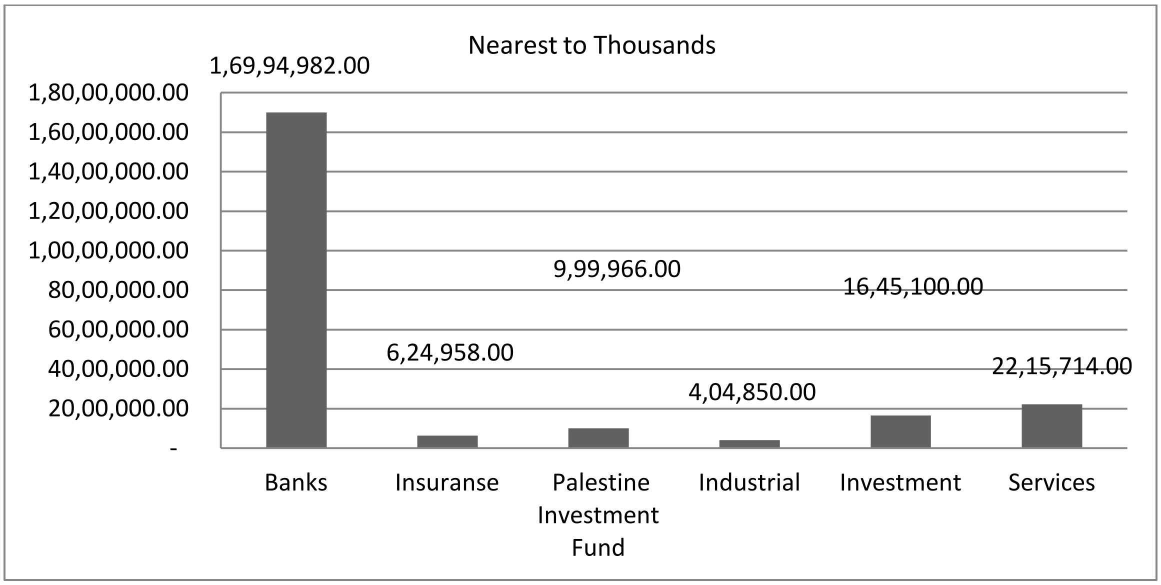
(14) Interview with the vice of financial & managerial affairs for insurance Global Company's executive manager.
(15) These percentages were calculated by the financial statements published on the website of these companies.

assets have conferred it the financial ability to re-invest. For example; The Palestinian Investment Fund has invested in securities with a value of 123,385 million dollars in 2017, and also, the Palestine Telecommunications Company has invested in intangible assets amounting to $209,104 million in 2016. Subsequently [16], this is an indication that these companies have the financial strength and the ability to be potential fundamental investors in the bond market.
In the end, other listed and unlisted companies and individuals and foreign investors could constitute a considerable investment base alongside the institutional companies. Thus this is raising the probability of establishing an efficient bond market.

Figure 2. Total assets of companies listed on the Palestinian Exchange for the year 2019



Legal & Regulatory Framework

According to securities fundamental law No. (12) of 2004, which the Palestinian Authority has adopted and rules and systems related to the Palestine exchange, that activities and relationships between participation parties in the Palestine exchange are governed and organized under these regulations and laws. Further, the Palestine stock exchange regulations and laws have seen changes and developed according to developments at the regional and global levels during subsequent years, enhancing transparency and governance principles and protecting participants' rights in the Palestine exchange. Therefore, Palestine exchange criteria become more keeping up with regional and global stock exchanges, which classify the Palestine stock exchanges in the most critical global financial indicators such as "Frontier Market."

[16] financial statements published on the website of these companies.

Moreover, it might make it an attractive environment for investors as a stand-alone country with both MSCI and S&P indices. Consequently, the most critical systems that organize the Palestine stock exchange are the following:

- **Listing System.**

A listing system is considered a contract between public shareholding companies and the Palestine exchange to organize and arrange issuance and trading the securities for investors. The system defines the conditions for the listed process and transfers between the primary and secondary markets and clarifies conditions for listing the foreign companies that require other additional conditions. Also, it imposes on listed companies to follow the laws and rules of the Palestine exchange and the instructions of the Capital Market Authority, which include disclosing all data before and during the listing process and paying fees related to the listing. Ultimately, the listed system indicates the cases in which the Palestine exchange can impose penalties on the source, such as suspending or even canceling the listing or imposing a fine.

- **Trading System.**

The trading system handles and organizes the buying and selling operations and the transfer of securities either individually by websites or financial intermediation firms. Also, it provides all the data for all trading, deposit, and transfer operations of the dealers in the Palestinian Stock Exchange, which allows the investor to make the appropriate investment decision. Moreover, the trading system provides oversight over deposits and transfers and monitoring trading in terms of prices, volumes, and times of trading operations to ensure that dealers adhere to the laws and regulations in place in the Palestinian exchange.

- **Membership System.**

This system handles company membership applicants in two stages, the first stage includes the conditions for initial membership approval, and the second stage includes the requirements after the initial approval of the membership.

The first stage requires that the company the applicant for membership has approval from the Capital Market Authority, and the company is to be established and registered in Palestine. The company also defines the significant activities in its internal system and its memorandum of association, which will form its significant activity on the Palestinian exchange. On the other side, the company's minimum capital is $ 2 million in buying and selling securities listed on the Palestine exchange and $ 4 million in the case of engaging in other activities such as under-writing and selling new securities and managing investment portfolios. The membership system has the right at any time to amend the initial conditions for obtaining membership.

After the initial approval of membership, the second stage requires obtaining a license from the Capital Market Authority and opening an account in the settlement bank. Also, the membership system requires a company in the case of the desire to practice buying and selling securities listed on the Palestinian exchange. It must have been deposited for insurance that could be established by the exchange with an approximate value of $ 2.14 million or a guarantee letter by a specific bank to guarantee the clearance of its daily trading transactions. Also, it requires a company to deposit for settlement operations guarantee funds when such funds are set up or in the form of a guarantee letter with a sum of $ 4.28 million in order to cover any liabilities of the member company towards exchange other member companies or clients [(17)].

In actuality, the financial requirements for membership trading on the Palestinian Exchange are high compared to other stock exchanges. Where the minimum capital of the company in both the Dubai Stock Exchange and Singapore is 816 and 752 thousand U.S. dollars, while in Palestine, the exchange is 2 million USD dollars [(18)], and the amount of insurance on trading and to ensure the company's financial obligations in the Palestinian Stock exchange are higher than in the Dubai Stock Exchange and Singapore. This forms a financial impediment to issuers of debt securities.

- **Governance System.**

Interestingly, during the last ten years, there has been a growing interest in Governance in Palestine, especially after the Code of Corporate Governance Rules in Palestine in 2009. This is due to its importance in raising the degree of competitiveness among companies, enhancing the investment environment, and reducing the risks. Thus, this increases transparency and integrity and promoting the best business practices. As a result, the Palestine exchange prepared its corporate governance guide to be the best reference for the listed companies to follow.

The governance guide aims to define criteria for appointing a member and chairman of the board of directors of the exchange and contribute to identifying the rights and responsibilities of the board of directors. The governance guide also contributes to improving the administrative and financial oversight over the exchange's operations through committees authorized by the Board of Directors. The governance guide also guarantees the shareholders' rights in non-discrimination of treatment and provides all data without concealing sensitive information that could have influenced investing decisions for shareholders. Finally, the governance guide also

[(17)] The Palestine Exchange.
[(18)] The Palestine Exchange, The Singapore Exchange, The Dubai Exchange.

secures effective communication with shareholders and facilitates connection channels with shareholders about all issues that are gripping them.

One of the essential principles of corporate governance is the disclosure of its financial statements under international financial reporting standards and the annual managerial report, in addition to the disclosure of the social responsibility policy. Moreover, preserving information confidential except when disclosure is authorized or legally required and refrains from using confidential information for unethical or illegal advantage.

- **The System of Violations, Investigation, and Punishment.**

This system is a complementary tool to the previous systems that is meaning this system would be encountered violations by any one of the participants in the Palestine Exchange, such as deceiving or concealing information, disclosing confidential information, or having some practices or activities that would affect the regular activity of the exchange. For compliance with the law by market participants, the exchange has the authority to conduct an investigation when any violation occurs. Then the perpetrator is referred to the Capital Market Authority with a report by Palestine exchange recommend the necessary disciplinary or punishments be taken. Consequently, the Capital Market Authority forms an investigation committee from the Authority's Director-General, the Director of Legal Affairs, and the Director of Complaints, who are entitled to investigate with the perpetrator of the violation, and it also has the authority of the judicial police if the perpetrator abstains from any legal action or requirement.

Further, among the most essential penalties that are punishable by law in a case occurring the violating the law, regulations, or systems are a fine not exceeding one hundred thousand (100,000) Jordanian dinars or its equivalent, or imprisonment for a period not exceeding one year or with both of these penalties. Also, one of the forms of punishment is compensation for losses incurred by others.

Further, the Palestine exchange has recognized appropriate procedures to Issuing and Offering Securities (stocks and debt bonds) for Public Subscription that as following (19):

1- An underwriter or a management agent submits the licensing application along with the prospectus to the Capital Market Authority. The prospectus includes full disclosure of the data and information required to enable the investor to make the appropriate investment decision.
2- The issuer must inform the Authority of any changes occurring related to its information as stated in the prospectus without delay before or after the prospectus has been approved.

(19) Interview with General Manager of the General Administration of Securities.

3- The prospectus would be valid thirty days after the date of its submission to the Authority unless the Authority decides during that period that the prospectus is approved, rejected, or suspended.

4- After the Authority approves the application for licensing and the prospectus, and before completion of the subscription the securities. The Authority has the right to request an amendment for licensing or the prospectus from the issuer to change the submitted data, and also the need for investors to be informed of this change.

5- Final approval of the license application. However, the Authority has the right to suspend the subscription process, if any incorrect data or deception in the submitted materials is discovered that could harm the investor. Subsequently, if the issuer's outstanding problems are not resolved, then the authority has the right to cancel the license granted.

- **Government Securities.**

There are no government bonds in Palestine, which reduces the probability of building an efficient bond market. However, the importance of government bonds stems from the state's ability to finance its budget deficit and contribute to public debt's well-management. Also, governments bonds help manage liquidity in case of inflation or economic recession, and it provides a benchmark for pricing other financial instruments, thus reducing the financial risks of the Palestinian exchange.

Factors Inside the Financial Sector.

Banking Sector.

During the past decades, the banking sector in Palestine played an essential role in both financial and economic sides. This role is appeared in providing credit facilities "liquidity" to both Palestinian public and private sectors. The Palestinian government sector always resorted to banks to finance the fiscal deficit, and this is clear through the financial crises that the government has seen in the last years, especially in 2019, 2020. Where reached a total value of banking loans for the Palestinian government until mid-2020, approximately $ 1.74 billion formed almost half of the public debt. Also, credit facilities' value to the private sector reached approximately 7,850 billion U.S. dollars for the same period. In addition, the total value for the clients' deposits and equity of the banking sector in December 2019 amounted to approximately $ 16.4 billion, while debt capital and equity for the companies listed on the Palestine exchange for the same period amounted nearly to about $ 2.6 billion [(20)]. As a result of the above, this implies that the banking sector constitutes the primary fuel in the financial sector for financing the Palestinian economy. Consequently, the banking sector owns a sizeable financial legacy that makes it a key participant in financial and economic decisions, and thus it plays a crucial role in the decision to establish an efficient bond market.

In fact, during the last years, the Palestinian banking sector has made significant profits due to the banking sector's monopoly in general for financing services in the Palestine financial sector. Therefore, the banks operating in Palestine are usually like other banks are seeking to attain growth or even constancy in profits. Thus, the interesting question is, what if the banking sector desires to establish an efficient bond market by acting as an investor, financial intermediary, or issuer of debt bonds. Consequently, the results of each role that the Palestinian banking sector may play can be reviewed as a following:

- *The Issuer of bonds:* In this case, the bank will pay interest on the issued bonds, which are usually less than the bank interest; this is because bonds are more secure to be repayment than banking deposits. Notwithstanding that would attain more earnings for issuer's bank result of reducing the cost of bond interest. However, in exchange, that is going against the investors' desire to earn more profits quickly, which does not attain by buying the bonds. Also, the purchased debt bonds would not find a secondary market for trading. This will push the investors to go toward banking deposits rather than purchasing the debt bonds. On the other hand, the issuance of the bonds by banks will be raising the liquidity and thus might increase costs due to an inability to properly re-investing the bonds' funds.
- *Investors:* Because the bank is a significant player in the Palestinian financial sector, it is assumed that they are the most likely investors to buy bonds. However, buying bonds at low interest would lose potential profits for the bank, deposited or lending by high interest, thus earning more profits. Conversely, Palestinian banks may see the bonds as loan substitutes to buy and hold, not portfolio products. This prevents the bond market from growing.
- *Financial Intermediary*: If the Palestinian banks have the desire to play an intermediary financial role in order to have earned more profits by issuance commissions of the bonds, in exchange, they will lose the profits the funds for buyers of debt bonds, which could be using it with lending. This could prompt these banks to create impediments to establish an efficient bond market.

Ultimately, the Palestinian banking sector has a competitive advantage in the financial sector. Hence, they always seek to achieve more profits in the short term, in line with

[(20)] Palestine Aliqtisadi Magazine, Issue December 2020.
Palestinian Central Bureau of Statistics.

executives' goals in the banking sector to reach the required bonus without considering the strategy of long-term investment that includes buying debt bonds, which can attain significant yields. Notwithstanding, some countries like India have new regulations requiring banks to meet new asset-liability management guidelines that will encourage banks to manage their portfolios to contribute to market activity. Consequently, it is difficult for the Palestinian banking sector to be a participant or even support establishing an efficient bond market (21).

Equity & Money Markets.

The evolution of the Palestinian Exchange infrastructure in terms of modern applications and systems and the electronic services provided, in addition to the updated regulations and laws according to international standards, all significantly contribute to facilitating and rapidly establishing the bond market and with the cost low.

Furthermore, the existence of an equity market in Palestine is an essential matter for bond market development. It implies that the government has a "capital markets culture" with supporting institutions, issuers with disclosure experience, and investors with some understanding of what it means to invest in debt bonds. Equity markets can provide short-term pricing benchmarks and offer dealers a less risky trading experience. Moreover, companies listed on the Palestinian exchange may significantly establish an efficient bond market as an investor, issuer of bonds, or financial intermediary. Especially that the market value of these companies is greater than 3 billion U.S. dollars (22), this may be an indication of the possibility of investing in the bond market.

Financial Derivatives.

The Palestinian exchange does not have any financial derivatives, which could establish an effective secondary bond market in which the bonds and other financial instruments are traded. In addition to that, financial derivatives allow investors to manage the risks of their investment portfolios and provide the necessary liquidity. Thus, the absence of financial derivatives raises the risks of investing in financial securities in general, resulting in more averse for Palestinian investors to buy the debt bonds in particular.

Financial Intermediaries.

Palestinian financial intermediation companies began their financial activities since the establishment of the exchange in 1997. According to last years, the Intermediary firms achieved

(21) Interview with vice Portfolio Manager for Palestine Islamic Bank
(22) The Palestine Exchange.

significant profits in 2006 and 2007, and the profits reached approximately 4 and 8 million U.S. dollars respectively. Beyond 2007, that industry was exposed to turmoil in their profits. In 2019, the Intermediary firms made profits of approximately 839 thousand U.S. dollars while the trading value for the same year was approximately 274 million U.S. dollars (23).

The Palestine Exchange Compared to other Arab exchanges, it can be observable that the trading value for each of the Jordan and Dubai exchanges are 1,585 and 11,266 million U.S. dollars in 2019 (24), respectively. These values are multiplier the value of trading in Palestine exchange, which amounted to the same year 274 million dollars as shown in the table figure (19). This considerable trading value, especially on the Dubai exchange, reflects a significant stock exchange financial activity that intermediary firms are carried out. This is an indication for these companies to have the ability and experience in managing securities in terms of rapidly obtaining sensitive information, monitoring and evaluating companies' financial performance, and skilled in managing securities risks. On the other side, the small value of trading size in the Palestinian exchange has resulted in the brokerage firms' small financial activity size, which is somewhat indicative of less experience and skills required in managing securities.

The market share of intermediary firms on the Dubai Exchange is higher than those in Jordan and Palestine, as shown in the table 6. This indicates that these companies have an excellent opportunity to present quality financial services, make economies of scale, and earn more profits. Also, the rationale volume of intermediary firms and the considerable market share in Dubai exchange creates a stable competitive environment between intermediary firms and thus achieves progress and quality in managing securities. On the contrary, intermediary firms in Palestine have a small market share that could expose them to losses or even prevent growth and progress in the securities management process.

Table 6. Statistics for Financial Intermediary Firms in 2019

Exchange Name	**Number of Intermediary Firms**	**Value of Trading (Million Dollar)**	**market share for each firm from the trading value. (Million Dollar)**
Exchange Palestine	8	$ 274.00	$ 34.25
Exchange Jordan	54	$ 1,585.00	$ 29.35
Exchange United Arab Emirates	32	$ 1,266.00	$ 352.06

Source : The Dubai and Jordanian Exchange, and Palestine Exchange

(23) The Palestine Exchange.
(24) The Dubai and Jordanian Exchange, and Palestine Exchange.

Corporate Governance.

With the rising global interest in the concept of governance, the private sector in Palestine had commenced considering the importance of the Code of Governance Rules for Public Shareholding Companies and Financial Institutions in terms of organizing the relationship between shareholders and stakeholders and creating a status of balance between the Board of Directors and the Executive Management. As a result, in 2009, a group of representatives for legal and financial supervisory bodies, institutions, and others, drafted a code of corporate governance rules that are consistent with the principles of governance at the regional and international levels and also in line with the laws, legislation, and conditions in Palestine, as well as taking into account the Palestinian corporate law.

The Corporate Governance Code also applies to public shareholding companies and local and foreign financial institutions and is under the Capital Market Authority and the Palestinian Monetary Authority's supervision and control. However, the commitment to implement governance rules in Palestinian companies and institutions faces several barriers, including financial and administrative corruption, favoritism, the agency problem, and conflicts of interest. All of this contributes significantly to undermining the exerting of governance rules seeking to guarantees investors' rights, enhancing transparency ad disclosures on information, and attaining justice without discrimination between Individuals, firms, and government bodies.

In reality, there several of the essential features of violating the rules of Governance in Palestine that are the domination of the family or personality relationships in management the companies and institutions, also increasing financial disputes between the parties, most notably returned checks, which constituted approximately 10.16% of the total clearing checks in 2019, which were in the State of Jordan for the same year, approximately 3.9%. Besides, the lack of a Palestinian market to a healthy competitive environment, and consequently the market's monopoly by some dominant companies, duplication or plurality of jobs title for the same individual, or non-rotation of the job title for a long time. As well as falsification or concealment of sensitive information might negatively influence decision-makers. Furthermore, violating the rules of governance making a big gap between senior management and other departments in individual decisions and also in preparing plans and goals for the department or company [(25)].

Ultimately, all these indicators are evidence that the governance rules in Palestine are mainly non-applicability, and it is a written material in the publications of companies and institutions. Hence, this creates uncertainties between the public and companies, and

[(25)] Interview with an academic at Birzeit University.

institutions. As a result, the investors would aversion to investing in debt securities' purchases due to less confidence in those companies.

Environmental Factors.

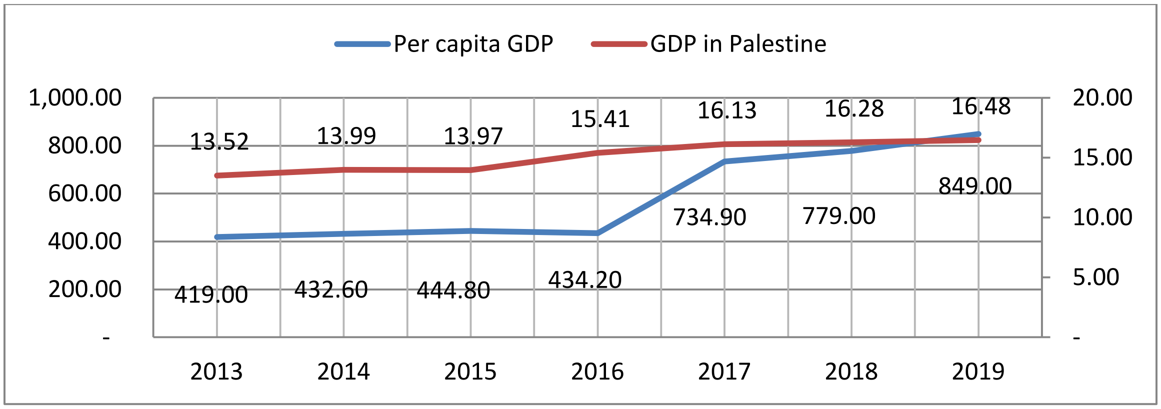
Macroeconomic & Political Stability.

The tyrannical military policies and measures by the Israeli colonial of the Palestinian territories over the past decades have created a state of political and economic instability in Palestine. These Israeli measures include invading and blockading Palestinian areas; also, military barriers between cities make movement difficult for people and goods and confiscate the Palestinian resources such as water wells and agricultural land. In addition to controlling border crossings with neighboring states and controlling clearance funds and other Israeli measures. As a result, the United Nations Trade and Development report revealed that the Palestinian economy's losses due to the Israeli occupation between (2000 -2017) are estimated at 47.7 billion dollars. Also, the Israeli economic policy has always hindered the Palestinian's endeavors from developing the productive Structure of the Palestinian economy and also has fought the Palestinian products by preventing exports, competitive prices, and confiscating goods, in addition to facilitating the access of Israeli products to the Palestinian market without restrictions. All this aim of making the Palestinian economy subordinated to the Israeli economy thus became the Israeli economy is the largest exporter for Palestinian markets, with an estimated more than $ 3 billion in 2019 [(26)].

In reality, some Palestinian economy indicators have been improved in recent years, as shown in figure 3. Where the gross domestic product during the previous four years has been growing even reached 16.48 billion dollars in 2019, and the per capita Gross Domestic Production for the same year also raising to 849 dollars[(27)]. Despite the improvement in Palestinian per capita income, there remains a fear of the consequences of the arbitrary policies and measures by Israel that adversely affect the Palestinian economy. Consequently, the Palestinian environment for investment is insecure for local or foreign investors. Hence, it can be said that the state of political and economic instability in Palestine creates uncertainty and raises the level of investment risks. Thus, it would be difficult to establish an efficient bond market in the Palestine Exchange [(28)].

[(26)] The Palestinian Ministry of Economy.
[(27)] Palestinian Central Bureau of Statistics.
[(28)] Interview with financial manager for PADICO

Figure 3. Some of the economic indexes for Palestine's economy.



Source: World Bank, and Palestinian Central Bureau of Statistics.

Fiscal & monetary indicators.

- High Inflation & Volatility. In the last years, the inflation rate in Palestine has seen a good improvement compared with other regional countries. This is due to several reasons; the most important is the low volatility in the trading currency exchange rate (shekel) and the severity of competition in the small Palestinian market. As shown in table 7, it is noticeable that the inflation rate in Palestine in 2018 was (0.20), lower than in Jordan, Saudi Arabia, and Singapore, and also the average rate of inflation in Palestine is 1, lower than both Jordan and Saudi Arabia. Also, the level of fluctuation (standard deviation) for inflation in Palestine is .96, and it is lower than that of Jordan, Saudi Arabia, and Singapore. Consequently, the indexes of both the average and the fluctuation of the inflation rate in Palestine infer the ability of ascertained expectations to long-term future rates, which causes a higher preference in investing in long-term debt bonds.

Table 7. Inflation Indexes for Some Regional Countries

Country	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**Average**	**Standard Deviation (2012-2019)**
Palestine	2.78	1.72	1.73	1.43	(0.22)	0.20	(0.20)	1.60	1.00	0.96
Jordan	4.61	6.14	3.45	2.17	1.36	1.68	1.71	1.67	2.53	1.56
Singapore	4.58	2.36	1.03	(0.52)	(0.53)	0.58	0.44	0.57	0.95	1.49
Saudi Arabia	2.87	3.53	2.24	1.20	2.07	(0.84)	2.46	(2.09)	1.27	1.71

Source: The World Bank.

- It is continuing large fiscal deficits. Since the Oslo agreements in 1994, successive Palestinian governments have used foreign grants and tax levies to cover public expenditures throughout many years. However, in recent years, the Palestinian government has fundamentally relied on tax revenues that have a higher percentage, as it reached 86.5% of the total revenues in 2019. As notable in table 8. In general, the government public revenues in most years are sufficient to cover the public expenditures, and also the public debt is roughly constant and did not rise significantly, except for the fiscal deficit that occurred in 2019, as a result of piracy by the Israeli occupation for the Palestine government funds, and thus forcing them borrowing from banks and raising the public debt to $ 2,795 million. Besides, it observable in table 9 that the debt-to-GDP ratio in Palestine is the lowest compared to other countries such as Jordan, Malaysia, and Saudi Arabia. Consequently, it can be said that there is some stability in the financial situation of the Palestinian government, therefore, low risks from increased borrowing as a result of a continuing budget deficit. This gives a preliminary indication for foreign and local investors of the low level of default, increasing the probability issue government debt bonds.

Table 8. Financial Position for Palestinian Authority (2012-2019) (Million Dollar)

Description	**2012 (Million Dollar)**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Total net public revenue and grants.	3,172.20	3,678.00	4,021.60	3,685.19	4,316.09	4,374.21	4,127.94	3,759.50
Total public expenditures	3,258.10	3,419.10	3,606.90	3,597.22	3,874.04	4,044.82	3,944.26	3,840.14
Balance Net	**(85.90)**	**258.90**	**414.70**	**87.97**	**442.05**	**329.39**	**183.68**	**(80.64)**
Total public debt	**2,482.60**	**2,376.20**	**2,216.80**	**2,537.20**	**2,483.80**	**2,543.10**	**2,369.60**	**2,795.00**

Source: Palestinian Monetary Authority

Table 9. Debt to Gross Domestic Product Ratio

Countries	**2018**	**2019**
Palestine	15%	18%
Jordan	76%	79%
Saudi Arabia	19%	23%
United Arab Emirates	21%	27%
Malaysia	56%	57%

Source : Statista

- Taxation & Local Currency. According to article no (7) Of the Palestinian Income Tax Law no (17) of 2004. Capital gains of selling securities, but this not being regularly made, are exempt from income tax. However, this means that the profits of regular securities trading by financial companies or investors and the periodic interest of debt bonds are income taxable. Therefore, this will lead to lower bond returns and thus discourage the investors from purchasing debt securities.

Ultimately, over decades, the virtual trading currency for Palestinian people is the Israeli shekel; therefore, the Palestinian government does not have a national currency that can implement specific monetary policies to achieve economic development goals. Consequently, the Palestinian monetary policies are dependent on the monetary and economic goals of the Israeli occupation, which will inevitably be against the Palestinian economy's agenda. Other currencies, such as the Jordanian dinar and the U.S. dollar, could be dealt with. Thus the absence of a national currency prevents the Palestinian government from making the necessary monetary measures to handle some essential monetary and economic issues such as a limit of a high rate of inflation, pumping cash liquidity in the case of an economic depression, financing the public budget deficit and other economic and financial problems. Moreover, one of the most essential financial tools to implement monetary policies is long and short-term debt securities, which control the amount of money offered through purchasing or repurchasing debt bonds. Consequently, this implies the importance of the independent national currency to establish an efficient bond market.

Investment Awareness.

Since the establishment of the Palestinian Exchange, it has worked continuously to deploy and deepen awareness and familiarity with the concept, methods, and mechanisms of investing in securities and the nature of the Palestinian exchange and its fundamental functions.

Due to the evolving in the securities markets on regional and international levels and the emergence of the significant role of investment awareness, the Palestinian Exchange has established the Department of Public Relations and Investment Awareness, of which emerged the investment awareness program that aims to enhance and improve the perception of the Palestine Exchange at the local and international levels. It is also seeking to inform the current and potential investors of their rights and duties towards dealing with securities in addition to providing the necessary knowledge and information about securities to enhance the skills for investors and specialists for evaluating investment opportunities and thus the ability to make the proper investment decision. The awareness program also aims to cooperate and communicate with financial firms and the Capital Market Authority to boost investment awareness and enhance continuous communication with investors abroad, whether they are Palestinians or foreign investors.

In the same context, the Palestinian Exchange has always sought to achieve investment awareness through specific tools. For example, but not limited to; Issuing booklets and brochures to raise awareness about investing in securities, reading financial statements for listed companies, holding seminars, workshops, and training courses to introduce the market mechanisms. Furthermore, on the role of the financial intermediary in the market, risk management, and internal control, in addition to visits to universities and companies to introduce the Palestinian Exchange, as well as strengthening the relationship with academic bodies through various activities such as the Investor Research Competition or provide scholarship to researchers. Also, media tools channels, such as radio and television, in addition to the website of the Palestine Exchange, provide all the information and knowledge needed by investors, researchers, and others. Consequently, all of these tools may create or increase awareness of investment in securities for the Palestinian community.

On the other hand, there is a decrease in the number of investors in securities, as shown in table 10. The percentage of investors' number to the population is about 0.07% in 2019, which is considered a tiny percentage compared to other countries, such as Saudi Arabia and the UAE, whose percentage reaches 13.91% and 9.91%, respectively. This due to several factors, the most important of which is the level of per capita income and companies, the degree of education for company owners or decision-makers, the presence of investment opportunities, the profitability of companies listed on the stock exchange, the financial awareness of individuals and companies, also the spread of some rumors and stories about failed experiences for investing in securities, in addition to religious beliefs that classify investment in securities as invalid from a religious point of view. Consequently, all these factors contribute significantly to the formation of investment awareness in society [29].

Table 10. Percentage investors number to the population in 2019

Country	Palestine	Egypt	Saudi Arabia	Emirates
Percentage investors number to the population[30]	0.07%	0.03%	13.91%	9.91%

Source: Data Common, Saudi Arabia, Egypt, and the Arab Emirates markets

[29] Interview with the vice of the operations Manager in Palestine Exchange.
[30] The calculation is the number of investors divide by population.

Results of Research

According to the SWOT analysis, the researcher arrives at the analysis results that affect the feasibility of establishing an efficient bond market in the Palestinian Stock Exchange. Therefore, the results of the study are as follows:

Strengths.

- The study revealed that the Palestinian Stock Exchange infrastructure is one of the most evolving regional stock exchanges. It has modern electronic services and systems and is committed to acceptable governance standards consistent with global standards. In addition to flexibility and ease in the procedures and conditions for membership and listing. Moreover, the exchange has a legal and regulatory framework that governs and regulates its functioning and enhances transparency and integrity.
- The formation of some companies' financial structures in the industrial, service, and investment sectors are characterized by a low degree of debt financing, which gives these companies the advantage to issue debt bonds.
- The initial availability of institutional investors, such as banks with significant savings and high liquidity, confer the financial ability to invest in the bond market.
- The Palestinian public debt to Gross Domestic Product ratio is very low compared with other countries, which means a low degree of default risk would increase investors' trust toward the bond market.

Weaknesses.

- The lack of legal specialists and courts specialized in resolving violations, financial disputes related to the Palestine exchange transactions, particularly in the bond market.
- The absence of government bonds and financial derivatives prevents providing a benchmark for fair pricing, managing risks, and providing liquidity to the bond market.
- The absence of credit agencies that could classify each of the debt bonds creditworthiness and the bond's issuer to support the diversified investors to make the appropriate investment decision.
- The impairment of the activity for financial intermediation companies resulting from the decrease in trading volume in the exchange leads to a weakness in the expertise and skills in managing securities, which would reduce confidence in investors. Also, requirements for membership trading on the Palestinian Exchange are high.

Opportunities.

- The distorted Palestinian economy lacks long-term productive projects and infrastructure that require long-term financing. If there is the appropriate environment to undertake these projects, there would be the need to establish an efficient bond market to bridge the long-term financing gap.
- In general, the financial stability resulting from the absence of a deficit in the budget and the stability of both public debt and the inflation rate over the recent years, exception corona periods, leads to a lower level of financial risk. This, in turn, creates somewhat of investor confidence in the Palestinian market and may increase the likelihood of establishing an efficient bond market.
- The stock market participant's experience will have a significant role in overcoming obstacles and reducing the risks, thus shortening the way to establish an efficient bond market.

Threats.

- Competition and severe reluctance from the banks operating in Palestine whose stakeholders will exert political and financial pressure could impede establishing an efficient bond market.
- Political and economic instability raises the degree of the risk, which creates an aversion to investing in the bond market and thus reduces the probability of establishing an efficient bond market.
- Lack of necessary financial and monetary tools, such as the national currency, and the ability to reduce taxes outside the Paris economic agreement. These tools have an essential role in providing the appropriate economic and financial environment to establish an efficient bond market.
- The small size of companies and the monopoly of the market by some companies, thus the unfair distribution of income, reduce the possibility of establishing an efficient bond market.
- Distortion and lack of financial awareness for companies and individuals of what the Palestinian Exchange is and its objectives, results, and the mechanism of investing in securities. This would create fears to investing in the bond market.
- Despite adopting the charter of governance rules for Palestinian companies and institutions, there are some deficiencies and an inability to implement the governance rules. This is due to financial and administrative corruption, bribery, and the personality relationships and family-style is dominating the decisions for officials.

CONCLUSION

This research analyzes empirically the dynamic factors for the feasibility of establishing an efficient bond market in Palestine exchange. As a result, the researcher revealed that there are a few favorable factors that could contribute to establishing an efficient bond market in the Palestinian Exchange. On the other hand, the Palestinian environment is unsafe and fraught with significant risks which contribute strongly to restricting the establishment of an efficient bond market.

Overall, the research results show that a set of conditions should be achieved to raise the probability of establishing an efficient bond market in the Palestinian Exchange.

Research findings are important to conduct further investigation and deepen studies by all Regulators and key participants in an efficient bond market, among of them government bodies, financial institutions, investors, issuers. In addition, the research findings aim to enhance a law authority through drafting further rules and regulations to protect the financial market's participators and also contribute to the academicians to further extend the research in this area.

RECOMMENDATIONS

Based on the results of the data analysis, the researcher extraction with several recommendations using the TOWS analysis tool that could support the likelihood of establishing an efficient bond market in the Palestine Exchange:

- Serious endeavors to reformulate or modify all or part of the Paris economic agreement with the Israeli occupation must be looked at in cooperation with international parties in order to restore some of the Palestinian rights such as guaranteeing the right to export Palestinian goods, international monitoring of commercial crossings, collection of clearance funds by international parties, and compensation for financial losses caused by the Israeli occupation, etc. This is to ensure a safe economic environment in Palestine.

- Enhancing the role of governance to management structures in public and private institutions by adding and amending some of the legislation and regulations in economic, financial, and administrative issues, reforming the judiciary, and strengthening executive bodies' role for the law. All this contributes to enhancing the governance rules for bond market participants such as bond issuers and financial intermediaries' firms.

- The commitment of the responsible authorities to promote the securities markets and the bond market in particular by completing some crucial matters, as follows:

    - Establishing the courts specialized in financial disputes in the securities market.
    - Add some legislations and laws related to the securities market and the bond market in particular, such as laws related to offering debt bonds for purchasing by the public, laws on trading financial derivatives.
    - Establishing local credit agencies and attracting international credit rating agencies attract investment in the bond market.

- Pursuing appropriate economic and financial policies aimed for achieving economic development; for example, promoting and supporting investment in productive projects, finding external markets to Palestinian products, reducing public sector expenditures, exempting or reducing income tax on debt bonds, and issuing debt bonds in currencies other than the shekel, such as the dollar and dinar.

- The commitment by the Palestinian government to support the establishment of an efficient bond market through several aspects, including:

    - Government guarantees a certain percentage of the issued debt bonds.
    - Issuing government bonds for pricing and liquidity purposes.
    - Committing some large-capital financial and non-financial institutions to purchase debt bonds as a compulsory reserve.
    - Amending the investment and corporate laws to stimulate investment in the bond market.
    - Mitigation of some conditions for entering the bond market, such as listing fees as well as membership requirements related to capital and guarantee deposit.

- Changing and deepening the financial awareness of Palestinian individuals and companies about the securities markets, especially the bond market, which is through media such as television, radio, and social media, as well as by holding workshops and seminars that contribute to forming the appropriate awareness in order to stimulate investment in the bond market.

- Attracting foreign investors to the bond market, particularly Palestinian businesspeople abroad. That is by conferring them some of the Palestinian government's privileges, which includes ensuring do not default of debt bonds, treating them as a local investor, and legal and financial commitment toward them.

- Enhancing financial intermediation companies' role by developing expertise and risk management and investment portfolios through holding workshops and conferences in cooperation with the Capital Market Authority and the Palestinian Exchange. In addition to making partnerships and cooperation with international financial intermediation companies that contribute to raising the capabilities and capabilities for local financial intermediation companies, raising the quality level for the financial services in the Palestinian Exchange and the bond market in particular.

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