

Comparative Study on the Legal System, Taxation, and Interest Rates Governing Microfinance Companies in Selected MENA Region Countries



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Executive Summary

This study analyses the regulatory and operational reality of microfinance institutions in Palestine through a comparison of the regulatory, fiscal, and pricing frameworks applied in four Arab countries: Jordan, Egypt, Tunisia, and Morocco. The focus was on understanding the impact of these frameworks on sector sustainability, pricing levels, and the ability of institutions to expand and reach target groups. The delivery method included desk research and mapping of legal and regulatory frameworks, interviews with regulators and relevant stakeholders, as well as a survey directed at microfinance institutions operating in Palestine (the survey). The findings were analyzed within a regional comparison covering regulation and supervision, tax treatment, and pricing.

The findings indicate that the microfinance sector in Palestine operates within a clear supervisory framework and under the direct oversight of Palestine Monetary Authority (PMA), with a high level of compliance with disclosure and client-protection requirements. Although Palestine does not impose interest-rate caps or direct regulatory intervention in setting interest rates, the sector nevertheless records some of the lowest pricing levels regionally, based on reviewed studies, interview data, and survey results.

At the same time, the study revealed clear structural constraints, most notably in the regulatory and fiscal domains. At the regulatory level, capital requirements, reporting obligations, and limits on permissible activities are applied in a largely uniform manner across all microfinance institutions, regardless of differences in size or business model. This approach places relatively higher fixed burdens on smaller institutions and limits their ability to expand and achieve efficiency gains, without a clear link to actual risk levels.

At the fiscal level, Palestine stands out as an exceptional case compared to the benchmarked countries, both in terms of the types of taxes imposed and the way they are applied. A value-added tax is imposed on wages paid by microfinance institutions. This measure is unique at the regional level and constitutes a fixed operational burden that applies regardless of profitability or activity levels, in a sector where operating costs are primarily driven by human resources. In addition, Palestinian tax legislation subjects the profits of microfinance institutions to value-added tax in addition to income tax, creating a form of double taxation that affects net returns and financial sustainability. This approach is not applied in the comparator countries, where profits are subject only to income tax.

The specificity of the Palestinian case is even more pronounced with respect to non-profit microfinance institutions. In all benchmarked countries, non-profit entities—whether associations or non-profit companies—benefit from a clear and stable exemption from taxes on core microfinance activities, provided that surpluses are not distributed. In Palestine, despite the existence of a legal framework recognizing the non-profit nature of these institutions, they are in practice subject to both income tax and value-added tax, making the tax treatment of non-profit microfinance institutions a regional outlier.

The Survey results indicated that these tax burdens represent one of the most significant sources of pressure on sector sustainability and have a direct impact on institutional margins and expansion capacity, to a much greater extent than factors related to pricing levels or funding costs. The following table illustrates the level and structure of taxes paid in each of the benchmarked countries.

Table 1.1 Effective Interest Rate across The Benchmarked Countries

Institutional Form	Palestine		Jordan		Tunisia		Morocco		Egypt	
	For Profit Company	Non-profit Co/Association	For Profit Company	Non-profit Co/Association	For Profit Company	Non-profit Co/Association	For Profit Company	Non-profit Co/Association	For Profit Company	Non-profit Co/Association
Corporate Income Tax	15%		24%+1%* <small>*National Contribution Tax</small>	0%	15-25%	0%	40%	0%	22.5	0%
VAT on Profits	16%		0%	0%	0%	0%	0%	0%	0%	0%
VAT on Wages	16%		0%	0%	0%	0%	0%	0%	0%	0%
Effective Interest Rate	39-42%*		%25	%0	15-25%	0%	40%	0%	22.5%	0%

*The effective tax rate for Palestine was calculated by taking the average amount of value-added tax payable (on wages and profits) for a sample of companies and expressing it as a percentage of taxable income for the same period.

Key Recommendations

Based on the findings of the study, it is evident that the challenges facing the microfinance sector in Palestine are structural, regulatory, and fiscal in nature, rather than related to interest-rate levels or weak supervision. Accordingly, **we recommend the following:**

- **Introducing proportionality in regulatory and supervisory requirements**
Adopting a graduated supervisory framework that considers differences among microfinance institutions in terms of size, operational scope, and business model, including:
 - Graduated capital requirements instead of applying a single uniform threshold to all institutions.
 - Differentiated reporting requirements and frequency, so that smaller institutions are not burdened with compliance obligations that exceed their operational capacity.
 - Linking supervisory intensity to actual risk levels rather than legal size alone, without compromising prudential requirements or client protection.

- **Reviewing the tax treatment of microfinance institutions in line with the nature of the activity. In particular:**
 - Abolishing the value-added tax imposed on wages in the microfinance sector, as it constitutes a fixed operational burden in a labor-intensive sector and has no equivalent in comparator countries.
 - Reconsidering the application of value-added tax on microfinance profits in addition to income tax, given the resulting double taxation and its negative impact on sustainability without clear economic justification.
 - Standardizing and clarifying the tax treatment of non-profit microfinance institutions to ensure consistent application of legal exemptions, in line with comparator countries, as long as surpluses are not distributed and social objectives are respected.

- **Expanding the scope of permissible activities within clear regulatory frameworks, particularly in the digital domain**

Allowing microfinance institutions to use basic digital tools—such as electronic contracting and digital collections—under defined safeguards, with the aim of:

 - Reducing operating costs, particularly labor costs.
 - Improving efficiency and outreach.
 - Enabling gradual innovation under the supervision of PMA.

- **Maintaining the current pricing framework**

Avoiding the introduction of interest-rate caps or mandatory pricing benchmarks, given the relatively low effective pricing levels compared to the region, while working to reduce pricing levels through addressing structural cost pressures arising from tax burdens and supervisory requirements.

Country	Palestine	Jordan	Egypt	Morocco	Tunisia
Effective Interest Rate	16.2%	30% – 45%	25% –35%	28% – 35%	24% – 26%

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Table of Abbreviations

Abbreviation	Full Term
PMA	Palestine Monetary Authority
MoF	Ministry of Finance – Palestine
MoNE	Ministry of National Economy – Palestine
AMAN	The Coalition for Integrity and Accountability (Palestine)
CBJ	Central Bank of Jordan
FRA	Financial Regulatory Authority (Egypt)
BAM	Bank Al-Maghrib (Morocco)
ACM	Autorité de Contrôle de la Microfinance (Microfinance Supervisory Authority – Tunisia)
BTS	Banque Tunisienne de Solidarité (Tunisian Solidarity Bank)
MFI	Microfinance Institution
IMF	Institution de Microfinance (Microfinance Institution – French)
IMF-SA	Institution de Microfinance – Société Anonyme (Microfinance Joint-Stock Company)
AMF	Association de Microfinance (Microfinance Association – Tunisia)
NGO	Non-Governmental Organization
APR	Annual Percentage Rate
EIR	Effective Interest Rate
TEG	Taux Effectif Global (Total Effective Interest Rate)
TMIC	Taux Maximum d'Intérêt Conventionnel (Statutory Usury Ceiling – Morocco)
RPI	Responsible Pricing Index (Egypt)
CIT	Corporate Income Tax
VAT	Value Added Tax
WHT	Withholding Tax
IS	Impôt sur les Sociétés (Corporate Income Tax – Morocco)
PAYE	Pay-As-You-Earn (Income Tax Withholding System)
USD	United States Dollar
JOD	Jordanian Dinar
EGP	Egyptian Pound
MAD	Moroccan Dirham
TND	Tunisian Dinar

Introduction

Microfinance institutions (MFIs) play a critical role in expanding access to finance for micro and small enterprises, particularly in contexts where formal banking services remain limited or inaccessible. Across the Middle East and North Africa (MENA) region, MFIs have become an important instrument for supporting entrepreneurship, income generation, and financial inclusion, especially among underserved and vulnerable segments of the population. As the sector has grown and matured, increasing attention has been placed on the policy frameworks that govern microfinance operations, including regulation, taxation, and pricing practices.

In Palestine, the microfinance sector has developed under a formal regulatory framework overseen by PMA and has become one of the primary sources of finance for micro and small enterprises. The sector operates within a complex economic and institutional environment, shaped by political uncertainty, market constraints, and limited fiscal incentives. Within this context, questions have emerged regarding how the regulatory, fiscal, and pricing frameworks affecting MFIs compare with those applied in neighboring countries and how these frameworks interact to shape operating conditions at the sector level.

This report presents the results of a comparative study examining the legal, regulatory, fiscal, and pricing frameworks governing MFIs in Palestine, Jordan, Egypt, Tunisia, and Morocco. The analysis focuses on how microfinance activities are regulated and supervised, how MFIs are treated for tax purposes, and how interest rates and pricing transparency are governed across the five countries. By documenting and comparing these frameworks, the report provides a structured overview of regional policy approaches and highlights key areas of alignment and variation.

The report is based on a combination of desk research, regulatory mapping, and stakeholder interviews, allowing for comparison between formal policy design and its application in practice. It presents cross-country comparative matrices and analytical discussion across three main dimensions: regulatory and supervisory arrangements, fiscal treatment, and pricing and transparency mechanisms. Particular attention is given to positioning the Palestinian microfinance sector within its regional context.

The report is structured to support policy dialogue by first setting out the comparative analytical framework, then presenting the cross-country analysis, and finally outlining policy considerations informed by regional experience. Together, these elements provide a comprehensive reference for stakeholders seeking to understand how different policy environments shape microfinance operations and how comparative insights can inform discussion on the future development of the sector in Palestine.

Overview of the Microfinance Sector in Palestine

The microfinance sector in Palestine reflects an advanced level of regulation and institutional stability relative to other sectors, with a tangible scale of operations and a clear ability to reach broad segments of beneficiaries. Available data show that the sector has gradually developed to become one of the most established components of non-bank financial intermediation in the Palestinian market.

Sector Size and Key Indicators

As of end-2025, the sector comprises nine licensed microfinance institutions, all (except UNRWA) are operating under the regulation of PMA. The total outstanding loan portfolio amounted to approximately USD 307 million, serving around 60,700 active borrowers. The average outstanding loan size is estimated at approximately USD 5,000, reflecting a concentration on small and micro-scale financing segments.

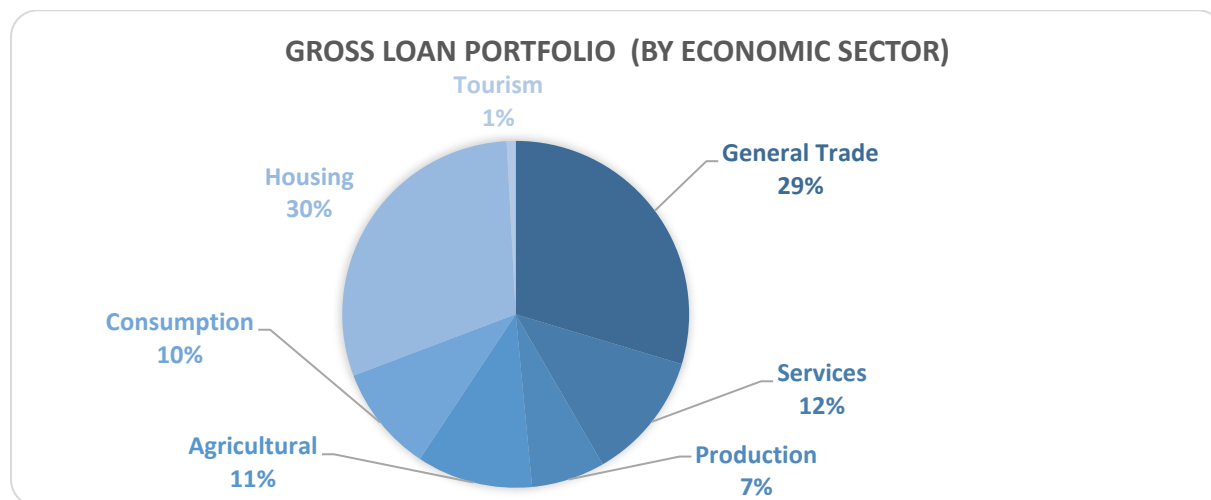
Data further indicate that the sector has maintained steady cumulative growth. By end-2025, the outstanding portfolio was nearly three times its level in 2014, the year in which the sector was formally regulated into its current structure.

Distribution by Beneficiary Segments

Available data indicate that microfinance in Palestine is primarily directed toward specific beneficiary segments, reflecting patterns of demand and the structure of the local economy.

As of end-2025:

- Women accounted for 31% of beneficiaries.
- Youth represented 46% of beneficiaries across the West Bank and Gaza Strip, rising to 76% when considering the West Bank alone.



Losses Incurred as a Result of the War on Gaza

The Palestinian microfinance sector has incurred substantial losses as a result of the war on Gaza, concentrated mainly in credit portfolios and fixed assets. According to a report “Impact of the Conflict in Gaza on the Microfinance Institution (MFI) Sectors in Gaza and West Bank” issued by the World Bank Group and PMA in January 2025, direct losses suffered by microfinance institutions operating in Gaza were estimated to range between USD 47.8 million and USD 55.3 million.

These losses reflect a near-complete collapse of the loan portfolio in Gaza, with an estimated USD 43.7–48 million in loans becoming uncollectible. They also include damage to fixed assets with a book value of approximately USD 2.2 million (with a higher estimated replacement cost), in addition to around USD 1.4 million in salary payments and medical expenses incurred during the period of operational suspension until September 30, 2024.

Methodology

To conduct the comparative study, a mixed-methods approach was applied, combining desk research, regulatory mapping, and targeted stakeholder interviews. This approach enabled a structured comparison of regulatory, fiscal, and pricing frameworks governing MFIs across Palestine, Jordan, Egypt, Tunisia, and Morocco, while capturing both formal policy design and its application in practice. Desk research and regulatory mapping were used to establish a cross-country evidence base, identify common patterns and key differences, and frame the comparative analysis. Stakeholder interviews were then conducted to validate desk-based findings, clarify implementation practices, and assess the operational implications of regulatory and fiscal frameworks. The sections below provide detailed information on each methodological component.

Desk Research and Regulatory Mapping

Desk research and regulatory mapping were conducted to establish a structured cross-country evidence base for comparison. This component focused on documenting and analyzing how MFIs are regulated, supervised, taxed, and priced in each of the benchmarked countries. The desk research covered four primary areas:

- Regulatory and supervisory frameworks, including licensing regimes, governance requirements, permitted activities, deposit-taking restrictions, and supervision cycles;
- Taxation policy, with emphasis on corporate income tax treatment, VAT/TVA treatment of financial services, payroll-related charges, donor-funded VAT arrangements, and differentiation between non-profit and for-profit MFIs;
- Pricing and transparency regimes, distinguishing between capped systems, benchmark-based approaches, and disclosure-driven frameworks; and
- Identification of implementation gaps, where formal rules diverge from applied practice and require validation through primary data collection.

Primary and official sources were prioritized to ensure accuracy and comparability, including laws and regulations published in official gazettes, circulars and guidance issued by central banks and financial regulators, and publications from ministries of finance. Desk research was complemented by national financial inclusion strategies, sectoral data from national microfinance networks, and relevant analytical work by international and regional institutions to ensure alignment with international standards and regional practice.

Findings were organized using a standardized comparative framework structured around three analytical dimensions:

- Regulatory and supervisory framework;
- Taxation policy; and
- Pricing and transparency.

This process resulted in detailed comparative matrices and an initial synthesis of patterns, key differences, and structural constraints affecting the microfinance sector across the five countries.

Field Work and Stakeholder Interviews

To validate the findings of the desk research and regulatory mapping, field-level engagement was undertaken through a combination of targeted stakeholder interviews and a structured survey of Palestinian MFIs.

Interviews were conducted with regulatory authorities in Palestine and selected regional stakeholders. These discussions supported validation of the comparative findings and provided contextual insight into regional regulatory and policy trends relevant to the Palestinian microfinance sector.

Table 1: List of Stakeholder Interviews

Country	Institution	Interviewee	Position	Interview Date
Palestine	Palestine Monetary Authority	Rami Tukhman	Head of Section- Specialized Lending Institutions Supervision	12/11/2025
	Ministry of Finance	Ammar Abu Alteen	Large Tax Payer Unit	20/11/2025
	Ministry of National Economy	Tareq Almasry	Companies Controller	11/11/2025
Jordan	Central Bank of Jordan	Mutaz M. AbuZnad	Head of Microfinance Supervision Division	18/11/2025
	Tanmeyeh	Basem Khanfar,	Chairman of BoD	12/11/2025
	Tamweelcom,	Basem Khanfar,	Chief Executive Officer	12/11/2025
Egypt	Egyptian Federation for Financing MSMEs - MSMEF	Ali Saad	Chief Executive Officer	11/12/2025
Tunisia	Autorité de Contrôle de la Microfinance	Mahmoud Mansour	General Director	26/11/2025
		Fraj Habaieb	Head of Supervision Department	
Morocco	Bank Al-Maghrib	Saber Ahmed	Head of Microfinance Institutions	19/11/2025
	Al Amana Microfinance	Youssef Bencheqroun,	Director General	19/11/2025
	Sanabel	Basem Khanfar, Chairman	Chairman of BoD	12/11/2025

In parallel, a structured survey (Annex 1) was developed and administered to all Palestinian MFIs to collect consistent and comparable data at the sector level. The survey captured information on applied taxation, operational cost structures, and loan pricing practices, as well as institutional perspectives on regulatory proportionality and compliance requirements. The survey was

distributed electronically using a standardized Google Forms template, and responses were analyzed in aggregate.

Comparative Analysis and Synthesis

Evidence generated through desk research and stakeholder interviews was consolidated into a structured comparative analysis across the benchmarked countries. The analysis was diagnostic, focusing on how differences in regulatory design, fiscal treatment, and pricing oversight affect institutional sustainability, outreach, and affordability of credit.

Using the three analytical dimensions established during regulatory mapping, the study examined:

- Areas of convergence in prudential regulation and consumer protection;
- Key divergences in fiscal treatment and permissible activities; and
- The relationship between policy frameworks, cost structures, and observed pricing outcomes.

This comparative synthesis enabled the identification of structural constraints specific to the Palestinian context, as well as regional practices that offer relevant reference points for policy dialogue and potential reform.

Findings

This section presents the analytical outputs of the study, organized to provide a clear and structured examination of the policy environments governing microfinance institutions across the benchmarked countries. It first sets out the findings derived from the review of regulatory, fiscal, and pricing frameworks, before moving to a comparative analysis that synthesizes cross-country patterns and key areas of difference. The findings are presented in a way that allows readers to follow the progression from documented policy arrangements to comparative insights, forming the basis for the recommendations that follow.

Desk research Findings

This subsection presents the consolidated outputs of the desk research conducted for the study. It summarizes the key regulatory, fiscal, and pricing parameters across the benchmarked countries using standardized comparative tables. These tables serve as the factual reference point for the subsequent comparative analysis and Palestine positioning sections.

Detailed legal references, source documents, and country-level notes underpinning the tables are provided in full in Annex 2 to this report.

Table 2 – Regulatory and Supervisory Framework

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Legal Basis	<p>Presidential Decree No. (132) of 2011 on Licensing and Supervision of Specialized Lending Institutions, issued under the authority of the Banking Law No. 9 of 2010, which empowers PMA to license and supervise non-bank microfinance companies. The 2011 decree and subsequent PMA instructions (2012–2015) operationalize this framework.</p>	<p>Microfinance Companies By-law No. (5) of 2015 (effective June 2015), issued under the Central Bank Law (amended 2016), grants the Central Bank of Jordan (CBJ) full authority to license, regulate, and supervise non-bank microfinance institutions (MFIs). The framework was later consolidated under the Finance Companies Regulation No. (107) of 2021, which unified all non-bank financing entities—including MFIs, leasing, factoring, and digital lenders—under CBJ oversight. Regulation No. (107) of 2021 was later amended in December 2024.</p>	<p>Law No. 141 of 2014 on the Regulation of Microfinance Activities, effective November 2014, established a comprehensive legal regime for non-bank microlending. The law designates the Financial Regulatory Authority (FRA)—formerly EFSA—as the sole licensing and supervisory authority for non-bank microfinance providers. It was later complemented by Law No. 201 of 2020 (raising loan ceilings and allowing SME financing) and Fintech Law No. 5 of 2022, which regulates digital non-bank financial services.</p>	<p>Law No. 50-20 (2021) on Microfinance, which repealed Law 18-97 (1999) on micro-credit and integrated microfinance into the national banking framework. MFIs are now governed jointly by Law 50-20 and Banking Law No. 103-12, designating them as similar organizations to credit institutions. The implementation of Decree No. 2-25-450 (July 2025) operationalizes Law 50-20, defining loan and deposit limits and prudential requirements.</p>	<p>Decree-law No. 2011-117 (5 November 2011) established the dedicated regime for <i>Institutions de Microfinance (IMF)</i>, later refined by Law No. 2014-46 (24 July 2014). The law explicitly excludes MFIs from the banking law and defines their supervision and prudential framework. Law No. 2020-30 on the Social and Solidarity Economy further recognized MFIs as social-economy actors, encouraging policy support.</p>
Regulator	<p>PMA — sole licensing and supervisory body for non-bank microfinance companies. PMA established a dedicated supervision department in 2011 and issues prudential and operational regulations for MFIs.</p>	<p>Central Bank of Jordan (CBJ) — sole regulator and supervisor of all microfinance companies and other non-bank financial institutions. Supervision is conducted by the Microfinance Supervision Unit within CBJ’s Non-Bank Financial Institutions Department, established in 2016.</p>	<p>Financial Regulatory Authority (FRA) — oversees all non-bank financial institutions, including microfinance, leasing, insurance, and capital markets. FRA licenses both company and NGO-based MFIs, sets prudential ratios, enforces governance standards, and monitors client protection. The Ministry of Social Solidarity remains responsible for NGO registration, while FRA supervises their financial and operational compliance.</p>	<p>Bank Al-Maghrib (BAM) — Morocco’s central bank — serves as the sole supervisory and licensing authority for all microfinance institutions, acting in coordination with the Ministry of Economy and Finance. BAM oversees licensing, prudential ratios, governance, and portfolio quality, with the Wali (Governor) empowered to authorize and sanction MFIs.</p>	<p>Microfinance Regulatory Authority (ACM) — an independent public authority with legal personality and financial autonomy. Operates under the supervision of the Ministry of Finance, which issues licenses based on ACM recommendations. ACM conducts off-site and on-site supervision, imposes administrative sanctions, and can recommend license withdrawal.</p>

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Permitted Forms	Only companies may obtain PMA licenses — either for-profit companies or non-profit companies (under the Companies Law, amended by Law No. 6 of 2008). NGOs and charitable associations are prohibited from direct lending. Non-profit companies retain an NGO-like mission but hold corporate legal personality.	MFIs must be registered as private or public shareholding companies under Jordanian corporate law and licensed by CBJ. Both for-profit and non-profit companies are permitted, subject to shareholder vetting and governance standards. NGO microcredit programs were required to incorporate as companies after 2015. Foreign and bank ownership is allowed with CBJ approval (e.g., Ahli Microfinance, FINCA Jordan).	Two categories of licensed entities: (1) Microfinance Companies – joint-stock companies (S.A.E.) with exclusive microfinance purpose; (2) Associations/NGOs – registered with the Ministry of Social Solidarity and licensed by FRA. Both categories are non-deposit-taking institutions, though companies operate commercially and NGOs remain non-profit.	Two legal forms are recognized: (1) Non-profit associations governed by the 1958 Associations Law, and (2) Joint-stock companies (IMF-SAs) established under the Companies Law 17-95.	Two institutional forms are authorized: (1) Non-profit associations, governed by Decree-law 2011-88, and (2) Joint-stock companies (IMF-SAs) under the Commercial Companies Law. Existing microcredit NGOs were automatically recognized in 2011 and later required to meet updated standards. NGOs may transform into IMF-SAs to attract investment (e.g., Enda Tamweel, 2015). As of 2024, Tunisia hosts 7 microfinance companies and ~289 associations under ACM oversight.
Permissible Activities	Credit-only institutions. MFIs may provide loans for business, agricultural, and consumption purposes but are prohibited from taking deposits or offering savings/checking accounts. They also cannot underwrite insurance, leasing, or remittance services. They may, however, facilitate micro-insurance or financial literacy services through partner institutions (regulated separately by PCMA or PMA).	MFIs may extend microloans for productive, commercial, or service purposes but cannot mobilize public deposits. Ancillary activities—such as micro-insurance facilitation, digital payments, or Islamic microfinance—are permitted subject to CBJ approval. MFIs may also partner with licensed payment service providers for e-wallet or remittance operations.	Provision of microcredit and related services to individuals and small enterprises for productive, commercial, or service purposes. MFIs are prohibited from accepting deposits. FRA authorizations allow expansion into micro-leasing, micro-insurance facilitation, and digital nano-finance (mobile or e-contract-based microloans). Some MFIs may also lend to start-up SMEs under Law No. 152 of 2020.	MFIs may provide micro-credit and broader microfinance services financing income-generating and essential household activities. MFIs may also take and mobilize deposits from individuals and institutions but under stricter prudential requirements. Law 50-20 expands activities to include micro-insurance facilitation, payment services, and non-financial support (training, advisory). Lending ceilings: up to MAD 150K (~USD 15K) per borrower for associations and MAD 1.2M (~USD 120K) for IMF-SAs.	MFIs may extend microcredit for income generation, employment creation, and improvement of living standards, and may provide training or non-financial services. They are prohibited from collecting deposits or issuing payment instruments. MFIs may act as agents for insurance companies to distribute micro-insurance products but cannot underwrite risk. Leasing, forex, and other financial services require separate licenses.

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Capital Requirements	Minimum paid-up capital: USD 5M (PMA Instruction No. 6/2015). MFIs must maintain prudential reserves and comply with solvency, liquidity, and provisioning ratios. Capital adequacy focuses on portfolio sustainability rather than deposit protection.	Minimum paid-up capital: JOD 2M (~USD 2.8M) (per By-law No. 5/2015). MFIs must maintain a 12% capital adequacy ratio and comply with risk-concentration and liquidity thresholds. Applicants must submit a business plan, audited accounts, and evidence of governance and management capacity.	Minimum paid-up capital: EGP 5M (~USD 100K) for microfinance companies (Law 141/2014). NGO MFIs are tiered by portfolio size—A (\geq EGP 50M, = ~USD 1M), B (10–50M = ~USD 210K-1M), and C ($<$ EGP 10M = ~USD 210K)—each with differentiated reporting and governance requirements. All MFIs must maintain solvency ratios and comply with debt-to-equity limits defined by FRA circulars.	Minimum capital: MAD 150M (~USD 15M) for IMF-SAs classified as deposit taking - credit institutions (per BAM 2023 circulars). Lower thresholds apply to smaller non-deposit taking MFIs (~USD 5M). Capital and provisioning requirements align with BAM’s solvency and liquidity standards under the banking law.	Minimum capital: TND 3M (~USD 1M) for IMF-SAs and TND 50K (~USD 17K) for associations (reduced from TND 200K = ~USD 67K in 2014). All MFIs must meet ACM-set prudential ratios on liquidity, portfolio-at-risk, and capital adequacy. Larger MFIs (above asset thresholds defined by a 2019 bylaw) must establish Board Audit Committees for internal control and risk management.
Deposit-Taking	Prohibited. MFIs cannot accept deposits or public savings. PMA’s strategic plan envisions possible creation of a future “microfinance bank” category that may permit limited deposit-taking, but this remains under study.	Prohibited. Microfinance companies may not accept deposits or public savings. All client funds must come from equity, debt, or donor financing. CBJ has not announced plans for a deposit-taking microfinance tier.	Prohibited. MFIs may not mobilize deposits; they fund operations through equity, debt, and donor capital. FRA is studying a new “microbank” license to permit limited deposit-taking by high-performing MFIs, pending amendments to the banking law.	Permitted only for IMF-SAs. IMF-SAs may collect deposits within capped limits (up to MAD 400K (~USD 40K) per individual and MAD 10M (~USD 1M) per institutional depositor). Associations remain prohibited from deposit-taking. Deposit products require prior BAM authorization and adherence to prudential ratios.	Strictly prohibited. MFIs cannot mobilize public deposits or savings and must fund operations through equity, debt, or grants. This rule applies to both associations and companies.

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Consumer Protection	<p>Covered under PMA’s “Protecting Customers’ Rights” Instructions, which apply to all lending institutions. MFIs must disclose loan terms, avoid abusive interest practices (e.g., compounding), maintain complaints channels, and ensure fair treatment. MFIs are also subject to AML/CFT obligations under the Money Laundering Law.</p>	<p>Covered under Financial Consumer Protection Instructions No. (15/2018) and the broader Financial Consumer Protection Law (2022). MFIs must disclose effective interest rates, fees, and repayment terms through standardized Key Facts Statements, maintain grievance-handling systems, and prevent over-indebtedness. Corporate Governance Instructions (2020) and AML/CFT standards (2020) apply to all MFIs.</p>	<p>Governed by FRA’s Microfinance Client Protection Guidelines (2018), aligned with global Smart Campaign standards. MFIs must disclose all credit costs on a declining-balance basis, provide standardized loan disclosure forms, maintain internal grievance channels, and report unresolved complaints to FRA. Decision No. 177/2024 strengthens governance, mandating 25% independent and 25% female board representation.</p>	<p>Strengthened under Law 50-20 and BAM’s earlier Circular 19/G/2006 and 2013 amendment on usury and transparency. All loan contracts must disclose the Annual Percentage Rate (TEG), including interest, commissions, and insurance. Clients have access to BAM’s Financial Mediation Service for complaint resolution. MFIs must publish audited accounts and annual social-performance reports (gender, outreach, rural coverage).</p>	<p>MFIs fall under the general Competition and Pricing Law No. 91-64 (1991) and AML legislation, complemented by ACM’s transparency and disclosure regulations. MFIs must disclose the Tax Effective Global (TEG), provide written contracts, repayment schedules, and maintain complaint mechanisms. ACM’s Consumer Protection Unit handles client grievances, while the industry association (APTIFM) enforces a professional code of ethics promoting fair treatment, confidentiality, and prevention of over-indebtedness.</p>
Digital Integration	<p>MFIs are integrated into PMA’s Credit Registry for borrower reporting and risk tracking. PMA’s financial inclusion strategy promotes gradual integration with digital payments and fintech, but MFIs are not yet licensed for digital lending or e-wallet services. Digital enablement remains limited to data-sharing and back-office systems.</p>	<p>The 2021 unified framework allows digital and fintech lenders to operate under CBJ licensing and supervision. MFIs participate in the national credit bureau, enabling borrower data sharing and risk monitoring. Digital microfinance pilots operate through CBJ’s Regulatory Sandbox, integrating e-wallets and digital disbursements.</p>	<p>Advanced regulatory framework under the Fintech Law No. 5 of 2022. FRA authorizes digital and “smart” contracts, blockchain-based loan registration, and automated repayments. MFIs must connect to I-Score, the national credit bureau, for borrower verification and reporting. The framework enables fully digital lending (“nano-finance”) and mobile-based onboarding.</p>	<p>Promoted under the National Financial Inclusion Strategy (2021–2030). BAM encourages MFIs to partner with fintech and payment providers for digital disbursement and collection. Together with ACAPS, BAM developed a regulatory framework for inclusive micro-insurance and supports pilot projects in digital channels and interoperable payment systems.</p>	<p>Since 2019, ACM has promoted digital microfinance through partnerships with fintech and postal operators, enabling loan disbursement and repayment via mobile wallets. ACM and the Central Bank of Tunisia (BCT) are studying frameworks for nano-loans, data-sharing with credit bureaus, and potential regulatory sandboxes. Although not yet codified, digital modernization is a growing supervisory priority.</p>

Table 3 – Fiscal & Taxation Environment

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
CIT Rate	15% flat CIT under Income Tax Law No. 8 of 2011. Company-based MFIs are taxable. Non-profit entities are exempt under Tax Law No. 8 of 2011 Law when operating within their statutory mission, though exemptions are applied inconsistently in practice.	For profit companies: 24% corporate income tax on financial companies (Article 11(b), Income Tax Law No. 38/2018) + 1% National Contribution Tax, bringing the effective rate to ~25%. MFIs are classified as financial institutions, taxed like leasing and insurance companies. No preferential rates or microfinance exemptions. Non-profit companies get full income tax exemption.	For profit: 22.5% flat corporate income tax (Income Tax Law No. 91/2005, amended by Law 30/2023). Applies to all microfinance companies without preferential rates or exemptions. Deductible items include loan-loss provisions, salaries, and administrative expenses. Smaller MFIs (≤ EGP 20M turnover = ~USD 421K) may opt into a presumptive 0.5–1% turnover tax under Law 6/2025, but most large MFIs remain under the standard rate. Non-profit are fully exempt	40% standard corporate income tax (IS) for IMF-SA (Micro-finance public limited companies) (Finance Law 2023, LF 50-22). Non-profit microfinance associations are exempt on income from statutory activities but taxed at 20% withholding on passive investment income.	Associations (AMF): fully exempt from corporate income tax under Law 2011-88 and Fiscal Circular 2012, as long as activities remain non-profit and within statutory objectives. Donations and grants are non-taxable. IMF-SA: treated as financial institutions; standard CIT rate 35% (Finance Law 2023), though in practice rates range 15–25% depending on classification and annual revisions.
VAT Treatment	The standard value-added tax rate is 16%. Lending activities and interest-based transactions are classified as exempt financial services under Decree-Law No. (16) of 2015, in line with the Israeli VAT system. Accordingly, microfinance institutions do not charge VAT on loan interest or related fees. However, this exemption prevents the recovery of input VAT. Instead, institutions are subject to a 16% institutional levy applied to wages and profits (“VAT on wages and profits”).	General Sales Tax (GST): Interest on microloans is subject to a reduced 3% GST(special financial-services rate), rather than the standard 16%, and no input tax recovery mechanism. Loan-related service fees and commissions (application, administrative, late fees) remain subject to the standard 16% PTX.	Standard VAT rate: 14% (Law 67/2016). Financial and financing services—including micro-lending—are explicitly exempt from VAT. Interest, administrative, and processing fees directly tied to loans are non-taxable. MFIs therefore do not charge VAT to clients but cannot reclaim input VAT on purchases. VAT registration applies only if they engage in taxable non-financial activities or exceed EGP 500K turnover (USD 10.5K).	Financial services exempt from VAT under Law 30-85 (amended)—interest and administrative fees on microloans are non-taxable. MFIs do not charge VAT but cannot reclaim input VAT, which raises operating costs. Certain ancillary income (e.g., interest from investments) attracts 7% VAT, while micro-insurance is outside VAT scope, instead subject to insurance-contract tax under ACAPS. Donor grants	Standard VAT: 19%. Financial intermediation services—interest on credit—exempt from VAT. Since Finance Law 2023, loan-related commissions, and processing fees by IMF-SAs are subject to 19% VAT, while interest remains exempt. MFIs cannot reclaim VAT on exempt outputs, so input VAT (on rent, supplies, etc.) is a cost. AMFs: fully VAT-exempt on micro-lending and donor-funded purchases; enjoy VAT suspension on goods/services financed by international aid (Laws 2012 & 2014). Clients of AMFs never pay VAT on loans.

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Non-Profit vs For-Profit Rules	Both non-profit and for-profit MFIs pay 15% CIT and are subject to the same VAT and payroll levies. The former non-profit entities that did not convert to companies cannot engage in lending under PMA supervision. No current MFI enjoys income-tax exemption.	Non-Profit MFIs experience full tax relief provided operating within their social mission and no-profit distribution.	Non-profit MFIs (associations) are fully exempt from CIT under Article 50 of Law 91/2005 and NGO Laws 84/2002 & 149/2019**, provided lending surpluses are reinvested in their mission. For-profit companies pay 22.5% CIT. The difference creates a dual regime: NGOs enjoy exemption but cannot distribute profits; companies gain flexibility but bear full taxation.	Associations: full exemption on micro-lending surpluses if reinvested in their social mission; 20% WHT on unrelated financial income. IMF-SAs: subject to 20–35% IS depending on profit size. Finance Law 2022 introduced a tax-neutral conversion regime allowing associations to transfer portfolios to IMF-SAs without immediate capital-gains taxation, provided assets are held for a defined period. No ongoing tax holidays or reduced IS rates thereafter.	Clear dual system: AMFs remain non-taxable social entities; IMF-SAs are fully commercial and taxed under standard CIT. Associations lose exemption if they conduct commercial activity or distribute profits. Conversion from AMF to IMF-SA triggers full CIT liability.

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Donor VAT Relief	Zero-rating and refund mechanisms apply for registered donor-funded projects under MoF administration. VAT-exemption vouchers allow suppliers to invoice donor projects net of VAT, with refunds processed through the MoF. Applies to international aid programs (e.g., EU, USAID, World Bank).	Donor-funded projects can receive zero-rating or VAT refunds under Article 21 of the GST Law, often implemented through Cabinet approvals for international programs (e.g., USAID, EU). Outside those frameworks, MFIs bear full input GST costs.	Donor-funded projects benefit from VAT exemption or refund mechanisms for approved programs. Purchases made with international grants (e.g., World Bank, EU, USAID) are zero-rated through MoF-issued exemption certificates. Donor grants themselves are outside VAT scope.	No general VAT exemption for donor funds. Relief may be granted case-by-case through donor agreements or project-specific waivers approved by the Ministry of Economy and Finance. Standard purchases for donor-funded projects can qualify for import/VAT exemption certificates, but there is no sector-wide zero-rating mechanism.	AMFs: broad VAT suspension and exemption for all donor-funded operations (Finance Laws 2012 & 2014). IMF-SAs: no general relief; donor projects may obtain ad-hoc exemptions via Finance Ministry approval.
VAT on Payroll Charges	16% VAT-on-salaries levy applies institutionally.	None	None	None	None

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Withholding Taxes	10% WHT on payments to non-residents (Article 23, Income Tax Law 8/2011), including interest on foreign loans and imported service fees. Exemptions apply only to multilateral lenders under immunity or gross-up clauses.	10% WHT on interest paid to non-residents (Income Tax Law 2015 amendment). 5% WHT on domestic service payments (professional/technical fees). Donor or concessional loans are usually exempt by agreement. Dividends are exempt from WHT for both residents and foreigners.	20% WHT on interest paid to non-residents, reducible by treaty; reinstated under Law 30/2023. 1% WHT on goods and 3% WHT on services to local suppliers. NGOs must also apply WHT to maintain compliance. Dividends to residents/non-residents taxed per general rules; no special microfinance exemption.	10% WHT on interest paid to non-residents (treaty-reducible). Dividend WHT being gradually reduced: 13.75% (2023) → 12.5% (2024) → 10% (2026). Associations cannot distribute profits, so WHT applies only to IMF-SAs.	Interest to non-residents: 20% standard, 5% for recognized foreign financial institutions; reduced further under treaties (0–10%). Dividends: 10% WHT on distributions by IMF-SAs (none for AMFs). Domestic service payments subject to standard WHT rates.
Local Taxes	MFIs pay standard municipal property tax (~17% of rental value) and other local levies. No specific local-tax exemptions or microfinance incentives. Customs and import duties apply normally unless donor-funded exemptions are granted.	0.3% stamp duty on loan contracts under Stamp Duty Law No. 20/2001 (banks exempt, MFIs not). Paid directly to the ISTD and typically embedded in loan fees. Minor notarization fees on collateral documents. MFIs also pay municipal levies on premises at standard commercial rates.	MFIs not subject to 0.1% portfolio duty applied to banks (Law 111/1980). Fixed document stamp duty (EGP 1–2 per page) applies to loan contracts. NGO MFIs are exempt from stamp duties (Law 149/2019). Small MFIs under Law 6/2025 are also exempt from stamp and development fees.	Standard stamp duties and registration fees apply—e.g., fixed MAD 20 per microloan contract under the Timbre Code. No special exemptions for MFIs. IMF-SAs also pay municipal and business license taxes at regular commercial rates.	Loan contracts pay only nominal stamp duty (≈ 0.5 TND/page or 10 TND/contract). Reduced-duty regime applies specifically to microcredit contracts. IMF-SAs subject to local business tax (TCL) = 0.2% of turnover. AMFs exempt when classified as public-interest entities.

Table 4 – Pricing & Transparency

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Pricing Model	Market-based pricing with no statutory cap. PMA allows MFIs to set rates freely based on cost of funds, portfolio risk, and sustainability. Competition among nine MFIs and select banks offering microloans provides soft price discipline.	Market-based system—no statutory cap. MFIs set interest rates based on operational costs, risk, and funding structure, subject to CBJ oversight. Each institution must define internal pricing limits in its credit policy, reviewed by the CBJ.	Market-driven with regulatory benchmarking. The FRA allows MFIs to set rates freely but introduced a Responsible Pricing Reference Index (RPI) in 2022 to benchmark and monitor lending rates across the market. Institutions exceeding reference levels without justification face supervisory review.	Legally capped model under BAM supervision. Morocco applies a statutory usury ceiling (TMIC – Taux Maximum d’Intérêt Conventionnel) that limits the total cost of credit (TEG). MFIs must comply with BAM’s annual TMIC circulars but benefit from tolerance pending introduction of a microfinance-specific ceiling.	Dual-tier system. Publicly funded microloans (via the Banque Tunisienne de Solidarité – BTS) are capped at 5% declining interest + 2.5% fee, while privately funded loans issued by microfinance companies or self-funded associations follow cost-based, market pricing. The framework balances affordability for vulnerable borrowers with sustainability for MFIs.
Interest Cap / Index	No legal ceiling. Neither Presidential Decree 132/2011 nor PMA instructions set numeric caps. PMA and SHARAKA reject interest ceilings, emphasizing access over artificial limits. A de facto soft oversight exists through reporting requirements.	No formal cap, but a de facto ceiling around 25% nominal has emerged from supervisory and public pressure. Financial Consumer Protection Instructions (2018) require MFIs to maintain internal maximums. Fees & Commissions Instructions (1/2023) further restrict compounding and arbitrary charges. Typical nominal rates 18–30%, depending on loan risk and size.	No statutory cap. The RPI serves as a soft ceiling, reflecting sector-wide averages by loan size and term. It aims to balance sustainability with borrower protection. MFIs charging above reference levels must provide written justification to FRA.	TMIC currently ~13–14%, based on consumer loan averages + 200 bps. The cap applies to total annual loan cost (TEG). However, Law 51-20 (2021) amended the banking law to allow differentiated TMIC ceilings for specific loan types—including microcredit. Implementation is pending (expected 2025). Meanwhile, BAM tolerates microloan rates above the general TMIC	Public loans: Fixed 5% declining rate + 2.5% file fee, set by ministerial decree (2012, reaffirmed 2018). Equivalent to roughly 11% TEG. Private loans: No numerical cap; rates must reflect actual cost of funds and operations (“cost-plus principle”) as per the 2018 decree. The general usury law (Law 91-64) does not apply effectively since

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia	
Disclosure (TEG / APR)	Mandatory full cost disclosure. Under PMA Circular 15/2018 (Consumer Protection Regulation), MFIs must present written loan terms including nominal and effective interest rate, fees, insurance, and total payable amount. PMA introduced an APR calculator for standardization across institutions.	Mandatory EIR disclosure based on a standardized CBJ formula (declining-balance basis). MFIs must provide written schedules separating principal, interest, and fees, publish pricing online, and clearly display penalties or insurance costs.	Full APR disclosure is mandatory. FRA regulations require MFIs to compute and display both nominal and effective (APR) rates using standardized declining-balance formulas. Borrowers must receive Truth-in-Lending statements showing total loan cost, fees, and insurance. Clients may prepay with partial interest refund.	(typically 28–35% APR) given their cost structure.	Mandatory disclosure of TEG (Total Effective Rate). All credit contracts must display the TEG and itemized costs (interest, fees, insurance). MFIs must use BAM's standardized formula under Circular 19/G/2006 and its amendments. Credit-life insurance, fees, and commissions must be included in the TEG.	microfinance is treated as a distinct market.
Effective Market Rate	15–24% annual (declining balance), translating to ~18–20% APR (2015–2020 data). Rates vary by loan type and borrower less-risky microenterprise loans typically 12–15%; unsecured or consumption loans 20%+. Origination fees (1%).	EIR typically 30–45%, depending on tenor and loan amount. Nominal rates average 18–30%, with smaller loans and higher-risk borrowers at the upper range. Larger, lower-risk clients benefit from rates closer to 20%.	Typical 25–35% effective APR (declining basis), depending on institution and product. NGO MFIs charge at the lower end (27–35%) due to subsidized funds; for-profit companies average 35–42%. Rates rose in recent years due to inflation and higher funding costs.	Typical APRs: 28–35% on a declining basis. Large MFIs like Attawfiq and Al Amana average 25–30%, while smaller associations can reach up to 35%. By comparison, commercial bank loans average 8–10%. High rates are justified as the “coût d’inclusion” for small, high-risk borrowers.	Mandatory TEG disclosure for all MFIs. Each loan contract must state the total effective annual rate, including all fees and insurance. The Autorité de Contrôle de la Microfinance (ACM) monitors disclosure compliance and requires annual submission of rate schedules. Borrowers must receive written contracts and repayment schedules before signing.	

Dimension	Palestine	Jordan	Egypt	Morocco	Tunisia
Regulatory Oversight	PMA requires quarterly reporting of pricing and yield data. Changes in tariffs or fees must be pre-reported for review. While no cap exists, PMA uses data monitoring as a soft control mechanism against excessive pricing.	CBJ supervises pricing indirectly through its Consumer Protection and Microfinance Units. Rates and fees are periodically reviewed via mandatory reporting. CBJ may intervene in cases of predatory or unjustified pricing.	FRA supervises pricing through the RPI and periodic data collection. Outliers are subject to investigation. FRA monitors adherence to disclosure standards and fairness obligations under Law 141/2014 and its executive decrees.	BAM enforces pricing and transparency under Law 50-20 and the Banking Law 103-12. The TEG must not exceed the TMIC once segmented ceilings are in force. BAM conducts on-site inspections, reviews product terms, and manages client-complaint channels via the Bank Mediation Center.	ACM supervises pricing and transparency but only enforces a hard cap for publicly funded microloans. It monitors reported TEGs, investigates excessive rates, and may sanction MFIs that violate responsible-pricing principles. The ACM's public reporting of sector averages exerts reputational discipline.
Client Protection Rules	MFIs must: calculate interest on a declining-balance basis, disclose full repayment schedules, and allow grace periods before penalties. Late fees are fixed and disclosed. Misleading advertising or hidden charges are prohibited. Complaints on unfair pricing are handled under the PMA's "Protecting Customers' Rights" framework.	Under Instructions (2018, 2023), MFIs must ensure transparent disclosure, avoid interest compounding, limit up-front fees, and maintain complaint-handling systems. CBJ monitors consumer grievances and enforces corrective measures when necessary.	Comprehensive borrower safeguards: prohibition of compounding interest, limits on penalty use (1–2%), and mandatory inclusion of all fees in APR. FRA bans misleading advertising and enforces a Code of Conduct on fair treatment and transparency. Borrowers can file complaints with FRA's Consumer Protection Department.	Lenders must: provide amortization schedules, disclose total repayment amounts, include all fees in the TEG, allow early repayment without penalty, and assess borrower affordability. Law 50-20 also mandates annual social performance reporting and sector-wide financial literacy initiatives.	Borrowers must be informed of full costs, schedules, and fees. Hidden charges, compounding interest, and misleading advertising are prohibited. Borrowers can complain to ACM or the Ministry of Consumer Protection. The sector Code of Ethics enforces fairness and transparency, while ACM promotes digitalization and cost reduction to mitigate high rates.

Comparative Analysis

Across the benchmarked countries, differences in regulatory scope, fiscal treatment, and pricing controls reveal how each system balances stability, outreach, and cost recovery. Despite shared objectives of formalization and consumer protection, institutional pathways diverge according to each country’s legal tradition and financial-sector maturity. The following analysis distills the main structural contrasts that shape how microfinance markets operate—and the policy choices that determine their sustainability and depth of inclusion.

Analytical Logic

The analysis proceeds in two layers:

- **Comparative matrices** summarize the main provisions and institutional arrangements under each pillar across the benchmarked countries, allowing direct cross-reference.
- **Qualitative Interpretation** highlighting the functional implications of these differences, and how regulatory, fiscal, or pricing frameworks affect institutional sustainability, outreach, and client protection.

Rather than a ranking exercise, the analysis is diagnostic: it identifies the regulatory and fiscal conditions under which microfinance systems evolve, and how these conditions affect the sector’s balance between commercial viability and social mission.

Regulatory and Supervisory Frameworks

Across the benchmarked countries, microfinance is now fully embedded within formal financial-sector regulation, following a decade of legal consolidation between 2011 and 2021. All benchmarked countries operate under dedicated legal instruments that define licensing, supervision, and prudential obligations for microfinance institutions, marking a clear departure from earlier periods of informal or NGO-based lending.

Institutional Anchoring and Supervisory Models

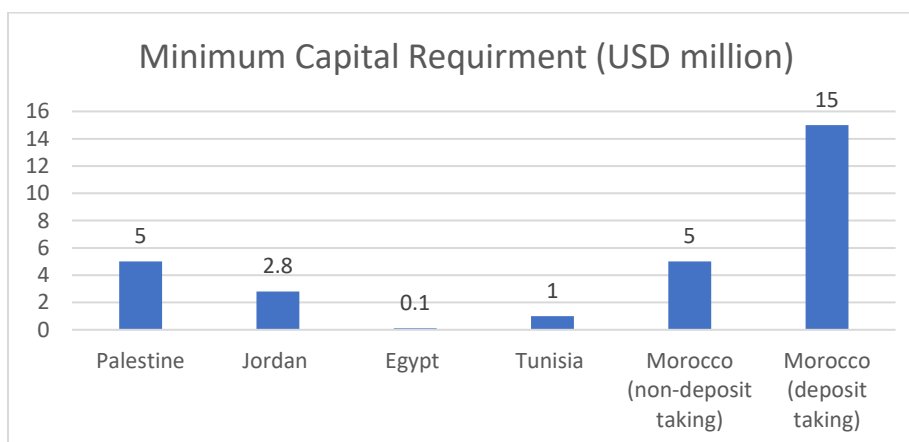
While regulatory objectives are broadly aligned, institutional arrangements differ. Palestine, Jordan, and Morocco place microfinance institutions directly under their central banks—PMA, the Central Bank of Jordan (CBJ), and Bank of Morocco—treating MFIs as part of the wider financial system. Egypt and Tunisia rely on specialized non-bank regulators—the Financial Regulatory Authority (FRA) and the Autorité de Contrôle de la Microfinance (ACM).

These differences are institutional rather than functional. In all five cases, regulators apply licensing requirements, prudential ratios, reporting obligations, and market-conduct rules. However, Egypt and Morocco operate under broader regulatory umbrellas that facilitate product diversification, while Palestine and Jordan retain a more contained supervisory perimeter.

Capital Requirements and Prudential Entry Thresholds

Capitalization requirements reveal one clear divergence point. Palestine imposes one of the highest minimum capital thresholds in the benchmarked countries, with licensed MFIs required to maintain paid-up capital significantly above that of peers—particularly when compared to Tunisia and Egypt’s association-based regimes. As a result, Palestinian MFIs operate under comparatively high entry and capital-maintenance requirements despite being restricted to non-deposit-taking activities.

By contrast, Tunisia and Egypt apply graduated or tiered capital frameworks that allow smaller association-based MFIs to operate under lower entry thresholds, while Morocco differentiates requirements sharply by legal form, with IMF-SAs subject to very high capital standards once classified as credit institutions. Jordan falls between these models, applying moderate but uniform capital requirements across all licensed MFIs.



Despite differences in entry thresholds, ongoing prudential indicators—such as capital adequacy, liquidity ratios, provisioning rules, and portfolio-at-risk monitoring—are broadly comparable across all benchmarked countries and aligned with international microfinance supervision practices.

Legal Forms and Market Structure

A consistent regional trend is the formalization of microfinance providers. Palestine and Jordan have fully transitioned to company-based licensing, eliminating direct NGO lending. Egypt, Morocco, and Tunisia retain dual structures, allowing both companies and associations to operate under differentiated regimes. Tunisia remains the most dualized market, with a large number of associations alongside a limited number of licensed microfinance companies.

These structural choices affect regulatory intensity and compliance burden but do not materially alter the core prudential framework applied to licensed lenders.

Permitted Activities and Service Boundaries

Across all five frameworks, MFIs are fundamentally credit institutions. Deposit-taking is prohibited in all countries except Morocco, which permits limited deposit mobilization for licensed IMF-SAs within capped thresholds.

Micro-insurance follows a uniform regional pattern: MFIs are prohibited from underwriting insurance risk but may act as intermediaries or agents for licensed insurance providers, subject to regulators' approval. This applies consistently across Palestine, Jordan, Egypt, Morocco, and Tunisia, positioning micro-insurance as an ancillary distribution activity rather than a core financial service.

Beyond lending, Egypt and Morocco have explicitly authorized expansion into micro-leasing, digital lending, and payment-related services under regulatory oversight. Palestine, Jordan, and Tunisia maintain narrower mandates, largely confining MFIs to credit provision and mediated ancillary services.

Consumer Protection and Market Conduct

Consumer-protection frameworks show strong convergence. All regulators require standardized disclosure of loan terms, transparent pricing, grievance-handling mechanisms, and AML/CFT compliance. While institutional arrangements differ—central-bank-led in Palestine, Morocco, and Jordan, authority-led in Egypt, and Tunisia—the underlying consumer-protection instruments are substantively similar and aligned with global good practice.

Differences lie mainly in enforcement channels rather than standards: Egypt and Morocco provide centralized mediation or complaint-resolution mechanisms at the regulator level, while Tunisia supplements regulatory oversight with an industry code of ethics. Palestine and Jordan apply consumer-protection rules through broader financial-sector instructions.

Digital Integration

Digital integration is progressing unevenly. Egypt and Morocco have codified frameworks for digital micro-lending and electronic contracting. Jordan and Tunisia rely more heavily on pilot initiatives and regulatory sandboxes. In Palestine, digital integration remains largely limited to credit-registry participation and supervisory reporting, with no dedicated framework yet for front-end digital microfinance delivery.

Fiscal and Taxation Environment

Corporate Income Tax (CIT)

Fiscal treatment of microfinance across the benchmarked countries is less uniform than regulatory oversight and is shaped primarily by institutional form and fiscal classification, rather than by microfinance activity per se. While all benchmarked countries recognize microfinance as part of the formal financial system, approaches diverge on whether MFIs are fiscally aligned with banks, other non-bank financial institutions, or treated as a distinct category within the tax system.

A clear point of divergence concerns the treatment of for-profit microfinance companies. In several jurisdictions, MFIs are taxed under general financial-sector rules, but not always at the same rates applied to banks:

- Palestine applies a flat 15% corporate income tax to company-based MFIs under Income Tax Law No. 8 of 2011. In practice, for-profit MFIs are taxed in the same manner as other licensed financial companies, with no reduced rate or sector-specific differentiation.
- Egypt taxes microfinance companies at the standard 22.5% corporate rate under Income Tax Law No. 91 of 2005 (as amended), treating them as non-bank financial institutions without preferential treatment, but also without bank-specific surcharges.
- Morocco applies the highest burden among the benchmarked countries: once microfinance is conducted through an IMF-SA, it is taxed at the same 40% corporate income tax rate as banks and insurance companies, reflecting full fiscal alignment with the banking sector.

By contrast, Jordan and Tunisia explicitly differentiate microfinance from banking in their corporate tax treatment:

- Jordan taxes for-profit MFIs at 24% plus a 1% national contribution tax ($\approx 25\%$), classifying them as financial companies but applying rates that remain below those imposed on banks.
- Tunisia taxes microfinance companies under financial-sector rules, but effective corporate income tax rates applied to IMF-SAs have in recent years ranged between approximately 15% and 25%, following periodic fiscal revisions—again materially lower than bank taxation.

Across all five countries, there are no microfinance-specific tax holidays or blanket incentives for for-profit MFIs. However, the evidence does not support the conclusion that MFIs are uniformly taxed “like banks.” Instead, the regional picture is mixed: some jurisdictions fully align microfinance with banking for tax purposes (Morocco; de facto Palestine), while others explicitly apply lower corporate tax burdens to MFIs than to banks, recognizing their non-deposit-taking nature and distinct risk profile.

This distinction becomes even clearer when contrasted with the treatment of non-profit microfinance entities, which—across all benchmarked countries—benefit from clear statutory exemption from corporate income tax on income derived from core microfinance activities, provided surpluses are reinvested and not distributed.

Palestine diverges from this pattern. While the legal framework governing non-profit organizations formally exempts non-distributed surpluses from corporate income tax, application in practice is inconsistent. With the exception of UNRWA, the Ministry of Finance has generally required non-profit MFIs to meet full corporate tax obligations, citing competition with the banking sector as justification. This has created a fragmented and uncertain tax environment in which non-profit MFIs face de facto taxation despite formal exemptions remaining on the books. No comparable ambiguity exists in the peer countries reviewed. As a result, none of the non-profit MFIs currently operating in Palestine hold an up-to-date tax settlement with the Ministry of Finance.

Value Added Tax (VAT)

Across all benchmarked countries, value-added tax treatment shows partial convergence and material divergence. In line with international norms, interest income from lending is exempt from VAT in all jurisdictions except for Jordan, where a 3% sales tax is imposed on interest generated from loans issued by MFIs, in line with international norms. Differences arise in how governments treat loan-related fees and how they compensate for foregone VAT revenue. Jordan and Tunisia explicitly subject administrative fees and commissions to VAT, while Palestine, Egypt, and Morocco generally exempt fees that are integral to the lending transaction. In all merge, MFIs cannot reclaim input VAT on exempt outputs, meaning VAT paid on rent, utilities, equipment, and services becomes a structural cost regardless of legal form.

Palestine's VAT on wages and profits

Palestine again stands out as an outlier due to the imposition of a levy equivalent to value-added tax on wages, applied to financial institutions, including microfinance institutions. This levy is calculated on the basis of wages and profits at a rate of 16% and is applied as a substitute for VAT on outputs. No comparable mechanism exists in any of the other benchmarked countries. Given that staff costs typically represent the largest share of operating expenses in the microfinance sector, this levy inflates the cost structure in Palestine in a way that is not observed elsewhere.

Donor-Funded VAT Relief

Donor-funded VAT relief exists in all benchmarked countries, but its predictability varies. Tunisia provides the most systematic model, with VAT suspension mechanisms embedded in law for donor-funded operations conducted by associations. Palestine, Jordan, and Egypt rely on project-specific zero-rating or refund procedures administered through Ministries of Finance, often tied to donor agreements rather than standing legal provisions. Morocco offers the least formalized approach, with relief granted on a case-by-case basis. In all cases, these mechanisms primarily benefit non-profit MFIs; for-profit institutions typically continue to bear VAT on inputs even when implementing donor-funded programs.

Payroll and Social Contributions

Payroll taxation and social contributions are broadly aligned with general labor-market rules across the region. Jordan, Egypt, Morocco, and Tunisia apply standard social-insurance systems with employer contribution rates clustered around 20–22% of wages. No jurisdiction offers payroll tax reductions or social-security incentives specific to microfinance. Palestine again differs structurally: the suspension of the social-security law removes one cost line, but the VAT-on-wages levy more than offsets this, resulting in one of the highest effective labor-cost burdens in the comparison.

Withholding and Local Taxes

Withholding taxes and local levies follow general tax codes in all benchmarked countries. Interest paid to non-resident lenders is typically subject to 10–20% withholding, subject to treaty relief or donor immunity. Local taxes—such as stamp duties, municipal property taxes, or turnover-based levies—apply uniformly, with only minor microfinance-specific deviations. Tunisia’s reduced stamp duties for microcredit contracts and Jordan’s stamp duty on loan contracts (from which banks are exempt) are the only clear instances of targeted local tax treatment.

Pricing and Transparency

Across the benchmarked countries, microfinance pricing is formally market-based and remains so in practice. No jurisdiction applies a binding interest-rate ceiling to commercially funded microfinance portfolios, and none enforces affordability thresholds through law or regulation. What differs across systems is not whether rates are controlled, but how pricing behavior is observed, disclosed, and challenged ex post through supervisory and consumer-protection mechanisms.

In Palestine and Jordan, rate-setting is entirely left to institutions. Regulators do not define benchmarks, reference bands, or maximum effective rates. Oversight operates through reporting and supervisory dialogue: MFIs submit pricing data, yield information, and tariff schedules, and regulators retain the ability to question outliers through inspections or consumer-protection channels. The constraint on pricing is therefore institutional and reputational rather than numerical. Neither framework contains an explicit reference point against which pricing is formally assessed.

Egypt adopts a more data-intensive approach, but without introducing a ceiling. The Responsible Pricing Index (RPI), introduced by the Financial Regulatory Authority in 2022, aggregates observed effective rates by loan size and maturity and is used as a monitoring and diagnostic tool. The RPI does not prohibit rates above a given level and does not create a binding reference band. Instead, it strengthens supervisory visibility and provides a basis for engagement where pricing deviates materially from market patterns. Rate-setting remains legally unrestricted.

Morocco is the only jurisdiction with a statutory usury framework applicable to the total cost of credit (TMIC). However, this framework is not currently operative for microfinance. The general TMIC—calculated based on consumer lending averages—sits far below prevailing microfinance rates, and enforcement against MFIs has been effectively suspended pending the introduction of differentiated TMIC bands for microcredit. Until such segmentation is enacted, microfinance

pricing continues to operate on a de facto market basis, despite the existence of a formal ceiling in law.

Tunisia applies a dual structure, but again without a ceiling on commercial microfinance. Publicly funded loans distributed through state mechanisms are subject to a fixed pricing formula, reflecting explicit subsidy objectives. Privately funded microfinance portfolios, whether held by companies or associations using their own resources, are priced freely under a cost-based principle. No numerical limits apply, and the regulator's role is confined to reviewing disclosure and consistency with reported cost structures.

Despite these different governance tools, effective pricing outcomes converge across countries for non-subsidized portfolios. Commercial MFIs in all five markets price within a broadly similar range, typically between the mid-20s and mid-30s in effective annual terms. This convergence indicates that formal pricing instruments—whether indices, caps, or formulas—have not materially reshaped commercial pricing levels. Differences in rates track funding costs, operational models, and portfolio composition rather than regulatory posture.

By contrast, the five frameworks show strong alignment. All jurisdictions require disclosure of an effective cost metric—APR, EIR, or TEG—calculated using a regulated formula and inclusive of interest, fees, commissions, and mandatory insurance. Loan contracts must present repayment schedules prior to signature, and borrowers must be informed of the total cost of credit. Egypt, Jordan, and Morocco go further by requiring publication of pricing information through websites or regulator-linked channels, extending transparency beyond individual contracts. Tunisia and Morocco additionally link pricing disclosure to social or outreach reporting, situating cost discussion within a broader inclusion narrative.

Client-protection rules reinforce this transparency architecture. Across all benchmarked countries, compounding interest and hidden charges are prohibited, complaint-handling mechanisms are mandatory, and regulators retain authority to intervene in cases of misleading conduct. Enforcement, however, remains primarily administrative and reputational. No system applies systematic affordability tests or debt-service caps at the regulatory level; over-indebtedness is addressed indirectly through credit-bureau checks and prudent-lending guidelines rather than through pricing controls.

Palestine Positioning within the Regional Microfinance Landscape

Palestine's microfinance sector exhibits a distinctive configuration when viewed against the regional comparison presented in Sections 4.1–4.3. This positioning is shaped by the interaction of high regulatory entry thresholds, a narrow product mandate, and a cost structure dominated by fixed operating expenses, alongside effective lending rates that are materially lower than those observed in comparable Arab markets. Evidence from desk research, comparative analysis, sector pricing data, and preliminary survey responses converges on this assessment.

Regulatory Structure and Entry Conditions

As established in the comparative regulatory framework, Palestine aligns with Jordan and Morocco in placing microfinance institutions under “central-bank” supervision, with the PMA exercising full licensing and prudential oversight. This anchoring ensures regulatory consistency with the broader financial system but is paired with a strictly credit-only institutional mandate, with no allowance for deposit-taking and limited scope for ancillary services.

Within this model, Palestine stands out for the relative height of its regulatory entry threshold. Minimum capital requirements (either paid in capital in the case of for-profit companies or in owner's equity for non-profit MFIs) for licensed MFIs are materially higher than those applied in Egypt and Tunisia, where association-based MFIs operate under tiered or graduated regimes, and remain higher than Jordan's requirements (roughly two times the amount) despite comparable activity scope and structure.

MFI-targeted Survey responses reinforce this reading. A consistent theme across respondent MFIs is that capital requirements are perceived as binding rather than merely prudential, particularly for smaller institutions, acting as solvency buffers and limiting portfolio expansion even in periods where demand conditions were favorable. While qualitative, this perception aligns with the comparative finding that Palestine applies one of the highest uniform capital thresholds in the sample without tiering by institutional size, differentiated scope of activities, or risk profile.

Cost Structure and Operating Pressures

Quantitative and field evidence indicates that operating costs are the primary factor exerting pressure on microfinance pricing and sustainability in Palestine, alongside funding costs, which are relatively high given the nature and structure of the activity.

Available data show that the average cost of funds for Palestinian microfinance institutions stands at around 4.9%, a relatively elevated level for non-deposit-taking institutions and in light of the developmental role they are expected to play. At the same time, a national study on interest rates and returns in the specialized lending sector (2022) shows that the largest share of the effective lending rate was driven by operating and risk-related costs, estimated at approximately 18.7%. This component includes administrative expenses, staff costs, branch operations, compliance requirements, risk management, and portfolio monitoring. This confirms that microfinance pricing in Palestine reflects the combination of inherently high operating costs in a labor-intensive sector and funding costs that are not low.

Survey results reinforce this conclusion. All participating institutions identified salaries and staff-related expenses as the single largest cost component, exceeding funding costs, provisions, and other operating expenses. Respondents described human-resource intensity—particularly field staff, credit committees, compliance functions, and reporting requirements—as a core feature of the business model that cannot be easily reduced without affecting portfolio quality or regulatory compliance, given the nature of microfinance and the supervisory framework governing it.

The impact of this cost structure is further amplified in the Palestinian tax context. As demonstrated in the comparative analysis, Palestine is the only country in the sample that imposes a levy equivalent to value-added tax on wages, in addition to a VAT applied to profits. This levy is imposed regardless of profitability and continues to apply even during periods of declining activity or heightened risk. Several institutions participating in the survey explicitly identified this levy as a fixed cost unrelated to the scale of operations. In practice, this means that labor-intensive operating models—which are a defining characteristic of microfinance—carry an additional structural burden that is not faced by comparable institutions in other markets.

Pricing Outcomes in Context

When assessed against benchmarked countries, Palestine’s microfinance pricing outcomes remain distinctive. Despite operating under relatively high fixed costs and stringent regulatory entry conditions, Palestinian MFIs continue to charge materially lower effective lending rates than most comparable markets.

The national pricing and returns study (2022) estimate the average effective microfinance lending rate in Palestine at approximately 19–20% on a declining-balance basis. This desk-research finding is further reinforced—and in fact moderated downward—by the survey. Based on responses from licensed Palestinian MFIs on current outstanding portfolio, the weighted average effective interest rate (EIR) reported across respondents is approximately 16.2%, reflecting actual portfolio-level pricing rather than headline product rates.

This combined evidence places Palestine at the lower end of the regional pricing spectrum, well below rates observed in peer markets reviewed in Table 4.3.

Based on the consolidated desk research:

- Jordan typically records effective interest rates in the 30–45% range, with market averages clustering in the low-to-mid 30% band.
- Egypt’s microfinance market prices higher still, with NGO MFIs generally in the 25–35% EIR range and commercial MFIs frequently exceeding 35%, producing sector averages close to 30%.
- Morocco exhibits effective rates of approximately 28–35%, notwithstanding the formal TMIC ceiling, which is not currently binding on microfinance operations.
- Tunisia’s private microfinance segment averages around 24–26%, clearly differentiated from the publicly funded portfolio capped at 11% EIR.

Survey responses provide important qualitative context to these quantitative findings. Palestinian MFIs consistently described pricing strategies as deliberately conservative and affordability-oriented. Respondents emphasized that interest-rate setting is shaped by borrower sensitivity, reputational considerations, and competitive dynamics within a relatively small but highly visible market. Several MFIs noted that pricing decisions are closely scrutinized internally, given the limited capacity to pass cost increases on to clients without affecting demand or portfolio quality.

Crucially, survey feedback confirms that this pricing outcome is not driven by regulatory caps or informal ceilings. Respondents uniformly indicated that no statutory interest-rate limits, reference indices, or benchmark bands apply in Palestine. Pricing decisions are made internally, based on cost structures and risk assessments, and are subject primarily to supervisory reporting, disclosure obligations, and ex-post review by the PMA. This aligns directly with the comparative pricing analysis, which shows that—unlike Egypt (RPI), Morocco (TMIC), or Tunisia (public-loan caps)—Palestine operates without formal or soft pricing controls.

The persistence of relatively low effective rates in Palestine therefore reflects institutional behavior and market discipline rather than regulatory intervention. Low funding costs, conservative portfolio composition, and strong sensitivity to borrower affordability have collectively offset higher operating and compliance costs—albeit at the expense of thinner margins.

Taxation, Institutional Form, and Ambiguity

Fiscal treatment constitutes a further defining element of Palestine’s microfinance operating environment, namely through the interaction between institutional form, enforcement practice, and compliance uncertainty. As documented in the comparative taxation framework, Palestine formally applies standard corporate and payroll-related taxes to licensed MFIs, with limited to no sector-specific relief.

Under the Income Tax Law, non-profit organizations are formally exempt from corporate income tax provided they do not distribute profits. However, both desk research and survey feedback indicate that this exemption is applied inconsistently in the microfinance sector. Survey respondents reported that tax authorities often assess MFIs—particularly non-profit institutions—on the basis of the economic nature of their activity rather than legal form, citing competition with commercial banks as a rationale for imposing standard tax obligations. With the exception of UNRWA-linked operations, respondents did not report stable or predictable application of income-tax exemptions to licensed non-profit MFIs.

This gap between statutory provisions and enforcement practice has material implications. Surveyed MFIs—particularly those operating under non-profit legal forms—described uncertainty around tax obligations as an ongoing compliance risk rather than a settled regulatory parameter. Respondents noted that fiscal treatment is often determined through case-by-case interpretation rather than clear, sector-specific guidance, increasing administrative burden and limiting long-term planning certainty. In this sense, institutional form does not translate into a reliably differentiated fiscal outcome for microfinance providers in Palestine.

Comparatively, this ambiguity sets Palestine apart from several peer markets. In Jordan, Egypt, Tunisia, and Morocco, desk research and interviews confirm that NGO-based MFIs either in the form of incorporated non-for profit MFIs (as in the case of Jordan) or associations benefit from clearly articulated and consistently applied income-tax exemptions, provided lending surpluses are reinvested in their social mission. While for-profit MFIs in those jurisdictions are subject to standard or financial-sector tax rates, the boundary between taxable and exempt entities is more clearly defined, reducing compliance friction and fiscal uncertainty.

Beyond corporate income tax, Palestine is also regionally distinctive in its application of a VAT-equivalent levy on wages, which applies to MFIs regardless of profitability. Survey respondents consistently identified this levy as a fixed and unavoidable cost, constituting a little over 11% of their total operational expenses and applied even during periods of portfolio contraction or financial stress. This finding aligns directly with the fiscal analysis presented earlier, which shows Palestine as the only jurisdiction in the comparison imposing a payroll-based VAT substitute rather than taxing outputs or fees. In addition, profits generated by microfinance institutions are subject to a 16% value-added tax on top of corporate income tax, creating a compounded tax burden that has no parallel in the comparator countries.

Ambiguity extends beyond payroll taxation to the broader VAT treatment of non-profit MFIs. While Decree-Law No. (26) of 2024 formally exempts non-profit organizations from VAT, its application introduces significant legal uncertainty. As highlighted by The Coalition for Integrity and Accountability (AMAN)¹, Article 4 of the Decree-Law allows taxation of non-profit organizations on activities deemed to “compete with the private sector,” without defining objective criteria for what constitutes such competition. AMAN explicitly warns that “*the failure to specify the criteria for competition gives the director wide discretion to determine which activities are taxable,*” potentially undermining the developmental role of NGOs and exposing them to discretionary fiscal treatment.

In the microfinance context, this provision has direct implications. Lending activities carried out by non-profit MFIs—despite being core to their statutory mission—may be interpreted as competing with private financial institutions, reinforcing uncertainty around VAT obligations even where income tax exemptions formally exist.

Together with elevated operating costs, this fiscal ambiguity further constrains the sector’s ability to absorb shocks, plan expansion, or diversify activities, reinforcing the broader structural profile identified in the comparative analysis.

¹ Position on Decree-Law No. (26) of 2024 Regarding VAT, 2025

Recommendations

The comparative assessment and Palestine-specific analysis point to a sector that is prudentially sound, transparent in pricing, and conservative in risk-taking, but structurally constrained in ways that are not fully aligned with its mandate or risk profile. These constraints are not the result of weak regulation or supervisory gaps. They stem from the cumulative effect of high entry thresholds, limited permissible activities, elevated fixed operating costs, and fiscal treatment that is both heavy in specific areas and ambiguous in application.

Accordingly, the recommendations focus on targeted adjustments rather than systemic reform. The objective is to reduce structural frictions that affect sustainability and outreach, while maintaining the regulatory discipline, consumer protection, and pricing transparency already embedded in the framework. The proposals below are grounded in comparative evidence, survey findings, and documented market outcomes, and are sequenced to support incremental, implementable changes.

First: Proportionality in Regulatory Requirements and Supervisory Design

The comparative assessment and Palestine-specific analysis point to a sector that is prudentially sound, transparent in pricing, and conservative in risk-taking, but structurally constrained in ways that are not fully aligned with its mandate or risk profile. These constraints are not the result of weak regulation or supervisory gaps. They stem from the cumulative effect of high entry thresholds, limited permissible activities, elevated fixed operating costs, and fiscal treatment that is both heavy in specific areas and ambiguous in application.

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Proportionality in Regulatory Requirements and Supervisory Design

The analysis demonstrates that Palestine applies a uniform supervisory model to a sector that is structurally heterogeneous. Capital requirements, reporting obligations, and activity restrictions are largely identical across MFIs, regardless of size, complexity, or delivery model. While this approach simplifies supervision, it also imposes disproportionate fixed costs on smaller institutions and limits innovation, particularly in lower-cost digital delivery channels.

Proportionality in Capital and Reporting

As established in the comparative framework, Palestine combines relatively high capital expectations with a single-tier supervisory regime. Unlike Egypt and Tunisia, which apply graduated requirements based on institutional form or portfolio size, or Morocco, where higher capital thresholds are explicitly linked to expanded balance-sheet activities, Palestinian MFIs face similar prudential and reporting burdens despite wide variation in scale.

Survey data confirms that this uniformity translates into materially different cost impacts:

- Smaller MFIs reported compliance, audit, and supervisory costs reaching up to 10% of total operating expenses.
- Larger MFIs reported the same costs at below 3%, reflecting economies of scale rather than lighter supervision.

These findings indicate that reporting and compliance obligations behave as fixed costs, constraining outreach, and scalability for smaller MFIs without clear evidence of higher risk. This is reinforced by the fact that prudential indicators and consumer-protection requirements are broadly aligned across all five comparator countries, suggesting that supervisory quality does not depend on uniform intensity.

❖ Recommendation:

Introduce a tiered supervisory structure for MFIs, based on transparent criteria such as portfolio size, number of borrowers, and product complexity. This should include:

- A common minimum capital floor, supplemented by graduated capital buffers as institutions scale.
- Differentiated reporting frequency and depth, with simplified templates for lower tiers.
- Automatic escalation of requirements as MFIs cross predefined thresholds.

Rationalizing reporting and audit requirements would:

- Reduce fixed compliance costs for smaller MFIs without weakening oversight.
- Improve supervisory focus on material risks rather than formal completeness.
- Lower structural barriers to scale, outreach, and innovation.

Linking Proportionality to Permissible Activities and Digital Delivery

Proportionality should not be limited to capital and reporting. The comparative analysis shows that Palestine also applies one of the narrowest permissible-activity frameworks in the benchmarked country. MFIs remain strictly credit-only institutions, with no dedicated regulatory pathway for deposit-taking, digital onboarding, digital disbursement, or automated credit processes.

This contrasts with:

- Egypt, with codified digital micro-lending, e-KYC, and electronic contracting within FRA regulations, allowing MFIs to deploy digital nano-finance products under defined consumer-protection and disclosure rules.
- Morocco, permits digital credit origination and servicing under BAM oversight, supported by national digital-ID and payment infrastructure, and the existence of deposit taking “micro-banks” MFI tier.
- Jordan and Tunisia, where regulatory sandboxes and pilot arrangements allow limited digital experimentation under supervisory oversight.

Survey responses indicate that Palestinian MFIs perceive digitalization primarily as a cost-reduction and efficiency tool, not as a product-expansion strategy. Several respondents noted that the inability to deploy digital channels meaningfully limits their capacity to reduce operating costs, particularly payroll, which remains the dominant expense line.

❖ Recommendation:

Embed permissible activities within the proportional framework, allowing:

- Lower-tier MFIs to adopt basic digital processes (e.g., digital client onboarding, electronic contracts, digital repayments) under simplified approval procedures.
- Higher-tier MFIs to take and mobilize deposits, and access broader digital lending or automated credit tools, subject to enhanced reporting, risk-management requirements.
- A clear supervisory pathway for digital pilots.

Taken together, the evidence points to a proportionality gap rather than a regulatory failure. Capital requirements, reporting obligations, and activity restrictions are individually defensible, but in combination they place greater relative pressure on smaller MFIs and constrain scalability and efficiency gains.

The comparative experience suggests that introducing **graduation mechanisms** in capital thresholds, reporting intensity, and permissible activities, would align supervisory expectations more closely with institutional size and risk, without weakening prudential oversight.

Second: Revising the Fiscal Treatment of Microfinance to Remove Structural Distortions

The comparative analysis demonstrated that fiscal policy is one of the least aligned elements of Palestine’s microfinance framework when assessed against regional peers. While regulatory and

supervisory arrangements broadly converge with those observed in Jordan, Egypt, Tunisia, and Morocco, taxation introduces cost structures and legal ambiguities that are not replicated elsewhere and that materially affect sustainability, pricing behavior, and institutional growth.

Two issues stand out in particular: the treatment of non-profit microfinance institutions and the absence of fiscal differentiation between microfinance and banking activities for for-profit MFIs.

Non-Profit Microfinance Institutions: Restoring Legal Certainty and Regional Consistency

Across all benchmarked countries, non-profit microfinance institutions benefit from clear and predictable exemption from corporate income tax on income derived from core microfinance activities, provided that surpluses are reinvested and not distributed to shareholders. This principle holds in Egypt, Tunisia, Morocco, and Jordan, regardless of the degree to which non-profit MFIs operate in the same credit markets as commercial banks.

The comparative evidence is consistent: competition with banks is not used as a fiscal criterion to deny tax exemption to non-profit MFIs. Instead, exemption is determined by institutional form and the non-distributive nature of operations. Even in markets where microfinance is well integrated into the broader financial system, non-profit MFIs retain income-tax exemption as long as they operate within their statutory social mandate.

In Palestine, by contrast, the application of this principle is inconsistent. Although income tax legislation provides exemptions for non-profit entities, non-profit MFIs are in practice often subject to full corporate income tax and payroll-related levies, on the rationale that their lending activities compete with the banking sector. This approach has no clear analogue in benchmarked countries and introduces legal uncertainty into tax planning, provisioning, and long-term sustainability.

❖ Recommendation:

Palestine should restore clarity and predictability by applying existing non-profit income tax exemptions to microfinance institutions in line with the law, without conditioning exemption on market competition arguments. Income derived from core microfinance activities should be treated as exempt where surpluses are not distributed, while unrelated commercial or investment income may remain taxable. This would align Palestine with regional practice and reduce unnecessary compliance risk without introducing new fiscal privileges.

For-Profit MFIs: Introducing Proportional Fiscal Differentiation from Banks

Even where microfinance institutions operate as for-profit companies, peer jurisdictions do not treat them as fiscally equivalent to banks.

Jordan and Tunisia apply lower income tax rates to MFIs than to banks, reflecting differences in systemic importance, funding models, and balance-sheet risk. Egypt regulates MFIs under a non-bank financial framework without imposing bank-specific fiscal surcharges. Morocco, while currently applying bank-level tax rates to IMF-SAs, is actively considering reforms to distinguish microfinance from banking following the sector's reintegration under Law 50-20.

In all cases, the fiscal logic is consistent: non-deposit-taking microfinance institutions are recognized as a distinct financial activity, even when commercially oriented. Palestine is an outlier in this respect. For-profit MFIs are subject to uniform corporate income tax treatment comparable to other financial institutions, without adjustment for their limited product scope, labor-intensive cost structure, or financial-inclusion role.

❖ Recommendation:

Introduce explicit fiscal differentiation between for-profit MFIs and banks. This may take the form of a lower corporate income tax rate for licensed MFIs or recognition of microfinance as a distinct category for tax purposes. Such differentiation would reflect regional practice and better align fiscal treatment with the economic and risk profile of the sector.

Addressing the Payroll-Based VAT Levy as a Structural Cost Distortion

The fiscal analysis further confirms that Palestine is unique in applying a VAT-equivalent levy on wages to VAT-exempt financial institutions. This payroll-based levy materially increases operating costs in microfinance, a sector where staffing represents the dominant expense and where cost flexibility is limited.

No comparable mechanism exists in Jordan, Egypt, Morocco, or Tunisia. In those jurisdictions, MFIs may bear unrecoverable input VAT, but they are not subject to a sector-specific payroll tax that applies independently of profitability or portfolio performance. The result in Palestine is a structurally higher fixed-cost base that is ultimately reflected in margins, outreach capacity, and operational resilience.

❖ Recommendation:

Remove the payroll-based VAT levy applied to microfinance institutions. This levy is unique to Palestine, creates a structural cost distortion not observed in peer jurisdictions, and materially inflates operating costs in a labor-intensive sector. Its removal would correct an anomaly rather than introduce preferential treatment, align fiscal practice with regional norms, and strengthen the sustainability of microfinance without undermining tax neutrality.

Addressing VAT on Profits as a Statutory Case of Double Taxation

The fiscal analysis In addition to the operational burden associated with VAT on wages, Palestinian tax legislation subjects the profits of financial institutions—including microfinance institutions—to VAT imposed by law alongside corporate income tax. The imposition of VAT on profits, in addition to income tax, constitutes double taxation on the same tax base. This approach is not applied in any of the comparator countries. In Jordan, Egypt, Morocco, and Tunisia, profits generated by microfinance institutions are subject to corporate income tax under the applicable rules, without the application of an additional VAT on profits. This double taxation has a direct impact on net returns and financial sustainability, and influences institutions' decisions regarding expansion and the reinvestment of surpluses within the sector.

❖ Recommendation:

Abolish the application of value-added tax on the profits of microfinance institutions and limit taxation to corporate income tax (for for-profit institutions), in line with regional practices.

Third: Pricing: Preserving Affordability While Addressing Structural Cost Drivers

The comparative and empirical analysis does not indicate a pricing failure in the Palestinian microfinance sector. On the contrary, Palestine consistently records some of the lowest effective microfinance lending rates among comparable Arab markets, despite operating without statutory caps, reference indices, or subsidized pricing mechanisms.

Desk research places average effective rates in Egypt, Morocco, and Tunisia's private microfinance segments in the mid-20s to low-30s % range, while survey-based weighted data for Palestine indicate an average effective interest rate of approximately **16.2%**, with the national pricing study reporting an average closer to **19.5%**. This positions Palestine at the lower end of the regional spectrum, alongside jurisdictions that apply either explicit public subsidies (Tunisia) or benchmark-based pricing oversight (Egypt).

Importantly, sector evidence confirms that this outcome is not the result of regulatory price controls. Palestinian MFIs report that pricing decisions are internally determined, cost-based, and shaped primarily by client affordability, reputational considerations, and competitive dynamics. There is no formal or informal ceiling influencing pricing behavior. This aligns with the comparative finding that Palestine already operates under a market-based pricing regime similar to Jordan, but with materially lower observed rates.

❖ Recommendation:

Given this context, introducing pricing interventions—whether caps, benchmarks, or formal reference indices—would offer limited incremental benefit and could risk undermining sustainability in a sector already operating with compressed margins and elevated fixed costs.

The evidence instead points to a clear conclusion: pricing outcomes in Palestine are already disciplined, and further improvements in affordability are more likely to come from cost-side and structural reforms than from direct pricing measures. Reductions in operating costs, greater regulatory proportionality, fiscal alignment, and efficiency gains through digitalization are more credible levers for sustaining low interest rates over time than additional pricing oversight.

Accordingly, no direct pricing reform is recommended. Policy focus should remain on preserving the existing market-based pricing framework while addressing the structural and fiscal constraints identified in Sections 5.1 and 5.2. These measures offer the most reliable pathway to maintaining affordability without compromising institutional viability or access to finance.

Annexes

Annex 1; MFIs Survey

Impact of the Current Microfinance Regulatory and Fiscal Framework on MFI Operations in Palestine

MFI Information/ Profile

1. Name of Institution (Required)
2. Legal Form (Required)
 - For-profit company
 - Non-profit company
 - Other: _____
3. Year of Establishment
4. PMA License Year
5. Registered Capital (USD)
6. Total Loan Portfolio (USD, outstanding balance)
7. Number of Active Clients
8. Average Loan Size (USD)
9. Portfolio at Risk > 30 Days (PAR30)
10. Portfolio at Risk >90 (PAR90)
11. Number of employees
12. Number of Loan Officers
13. Target Market Segments
 - Microenterprises
 - SMEs
 - Agriculture
 - Women Entrepreneurs
 - Youth
 - Low-income Households
 - Refugee Camps
 - Other -----
14. % Of consumption Loans out of total portfolio
15. % Of productive Loans out of total portfolio

16. Primary funding sources (approximate %)

- Donors grants
- Shareholder equity
- Commercial Loans
- Credit lines from banks
- Other -----

17. Respondent's Position

18. Contact Information

Section 1. Regulatory and Supervisory Framework

1. How would you rate the clarity of PMA licensing and supervision requirements?
1 = Unclear 5 = Very Clear
 1 2 3 4 5
2. To what extent does PMA's supervision contribute positively to your institution's governance and stability?
1 = Not at all 5 = Significantly
 1 2 3 4 5
3. What are the most significant operational challenges linked to PMA regulations? (Select all that apply)
 - Capital adequacy requirements
 - Reporting frequency and templates
 - Restrictions on permissible activities (e.g., deposits, payments)
 - Licensing delays or renewals
 - Other: _____
4. How suitable are the current PMA prudential indicators (e.g., portfolio-at-risk, provisioning, liquidity ratios) to your institution's operational model and size?
 - Very suitable — accurately reflect our risk and performance
 - Moderately suitable — some indicators fit, others don't
 - Poorly suitable — they don't reflect our business model
5. Has PMA's supervision approach changed in recent years (e.g., stricter, more risk-based, more supportive)? Please explain.
(Open text field)

Section 2. Taxation and Fiscal Policy (CIT, VAT, and Payroll)

1. How is your institution currently treated for corporate income tax purposes?
 - Fully taxable (standard CIT rate)
 - Exempt as a non-profit company
 - Partial exemption (please explain below)
 - Other: _____
2. If taxable, do you consider the current 15% CIT rate appropriate for your institution's scale and social purpose?
(Open text field.)
3. Has your institution faced any audits, disputes, or ambiguities with the Ministry of Finance regarding your income tax status?
 - Yes
 - No(If yes, please explain.)
4. Is your institution registered for VAT?
 - Yes
 - No
5. Which of the following components of your operations currently incur VAT? (Select all that apply)
 - Payroll (VAT on wages)
 - Local service providers (IT, maintenance, consultants)
 - Specific financial services
 - None
 - Other: _____
6. How has VAT (on wages, services, and inputs) affected your operational costs?
Estimate the share of total operating costs attributable to VAT-related expenses.
 - Above 20% of total costs
 - 10–20%
 - 5–10%
 - Less than 5%
 - Not applicable / not registered for VAT(Open text: specify main cost drivers)
7. What percentage of your total operational costs are attributed to payroll and benefits?
____ %
8. What percentage of your total operational costs are attributed to PMA compliance or audit requirements?
____ %

9. Does your institution coordinate with the PMA, MoF, or donors to address VAT issues?
- Yes
- No
- Other: _____
10. Have regulatory or tax-related costs (VAT on wages, reporting compliance, etc.) forced you to adjust your loan pricing?
- Yes, significantly
- Yes, but slightly
- No change
- if yes, Please describe the change?

Section 4. Pricing, Interest Rates, and Client Costs

1. From your perspective, what regulatory reforms would most improve MFI performance?
- Broader service permissions (e.g., digital payments, savings products)
- Simplified reporting / lower compliance cost
- Revised capital requirements
- Clearer rules for non-profit MFIs
- Other: _____
2. How are lending rates determined within your institution? (Select all that apply)
- Based on cost of funds and operational expenses
- Benchmarked to PMA/Peer MFIs reference rates
- Fixed internally by management
- Other: _____
3. What is your average nominal interest rate (annualized) on microloans?
Open text field
4. What is your average effective interest rate (EIR/APR) including all fees?
Open text field
5. What is your average administrative / processing fee per loan (% of loan amount)?
Open text field
6. Has your institution adjusted interest rates in the past two years?
- Increased Decreased Remained unchanged
- If yes, by approximately: ____ %
7. Are there any internal or external caps that limit your ability to price loans freely? (e.g., board policy, donor agreements, PMA guidance)
Open text field

8. What share of total loan cost to clients (EIR) is attributable to taxes, fees, and compliance costs?
Open text field
9. How would you rate the impact of current regulatory and fiscal obligations on your ability to offer affordable loans?
- Strongly negative
 Moderately negative
 Minimal impact
 No impact

Section 5. Strategic and Institutional Outlook

1. Have tax or regulatory costs (VAT on wages, PMA reporting, etc.) forced you to adjust your pricing or outreach strategy?
 Yes, significantly Yes, slightly No change
2. To what extent do fiscal and regulatory costs limit your ability to expand outreach to poorer or rural clients?
 Significantly Moderately Slightly Other: ----
3. What future regulatory or fiscal changes do you believe are most necessary for the Palestinian microfinance sector?
 VAT relief or exemption on wages
 Clearer legal framework for non-profit MFIs
 Ability to offer digital payments or savings products
 Unified reporting framework between PMA and MoF
 Other: _____
4. Would your institution support the creation of a new “microfinance bank” tier (able to mobilize deposits under PMA regulation)?
 Yes
 No
 Uncertain
5. Any additional comments or recommendations for policymakers:
(Open text field)