



Middle East Investment Initiative

Fall 2010



“Through this program, MEII and institutions like it can help create an economic framework for pragmatic stakeholders in the region who share in the work and vision of an end to the Arab-Israeli conflict.”

— *Brigadier General (Ret.) Ephraim Sneh, former Israeli Deputy Defense Minister*

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Developments

Since our last newsletter, MEII has made remarkable progress.

Developments include the launch of a \$500 million affordable home mortgage facility and the expansion of our \$228 million loan guarantee program, which recently surpassed the \$63 million mark in approved loans. By helping businesses grow and create jobs, and making it possible for Palestinian families to purchase homes, MEII is improving the long-term growth, strength and stability of the Palestinian economy. With a solid economic base and a more positive outlook on the future, we are hopeful that the region's ever-present threat of violence can be replaced by an expectation of stability and prosperity.

— *Berl Bernhard, Chairman and Jim Pickup, President*



MEII and Its Partners Launch Landmark \$500 Million Mortgage Facility

In June, President Abbas formally launched the Affordable Mortgage and Loan Corporation (“AMAL”, meaning “hope” in Arabic). The landmark \$500 million program will double the number of Palestinian families who are able to purchase homes by offering long-term mortgages that will enable them to enjoy benefits of home ownership without excessively burdening monthly incomes.

MEII and CHF International are the U.S. equity investors in AMAL, which is currently operating out of MEII's office in Ramallah. Project partners include the U.S. Overseas Private Investment Corporation (OPIC); the Palestine Investment Fund (PIF); Bank of Palestine; Cairo Amman Bank; the International Finance Corporation (IFC); the Palestine Affordable Housing Association (SAKAN); the U.K. Department for International Development (DFID); and the United Nations Human Settlements Program (UN HABITAT).

AMAL will offer mortgage loans of up to 25 years for the first time in the Palestinian territories. By rejuvenating the Palestinian housing sector and its related industries, which together generate thousands of jobs, AMAL will spur significant economic growth. The mortgage finance program will also support the development of the Palestinian financial services sector through World Bank, IFC and U.S. Agency for International Development-sponsored training programs. In addition, homebuyers will be exposed to financial education so that they fully understand the impact of the monthly payment on their family's finances.



LGF Businesses Make Lasting Impact on Palestinian Economy

MEI's Loan Guarantee Facility (LGF) continues to make a lasting impact on the Palestinian economy. Since its inception in 2007, LGF has approved more than 320 loans totaling more than \$63 million, primarily to small- and medium-sized Palestinian companies. This has created more than 1,500 jobs and supports an additional 2,000 indirect jobs.

Examples of MEI loan beneficiaries include:

Recycling

MEI supported a local entrepreneur with a guaranteed loan of \$39,500 to expand his newly established recycling businesses. The loan will allow this green business to add two branches in the West Bank equipped with new machinery to recycle paper and plastic. The new facilities will reduce the time required to transport waste paper and plastic collected from villages across the West Bank, thereby improving efficiency. The business will also hire additional employees and decrease the burden on overloaded landfills. The recycled goods will be resold locally and to neighboring countries.

Dairy Farming

Raw milk used in dairy production in the Palestinian territories is either imported from Israel or sourced from local suppliers. Given the inadequate supply of raw milk, MEI supported a local dairy farm to expand its existing facility and establish a new location. The expansion project includes gradually increasing the number of cattle from 500 to 700, and allowing the purchase of new milking machinery, storage tanks and equipment using internationally accepted GMP ("Good Manufacturing Practices") industrial standards. Technical assistance provided will contribute to improving the quality and quantity of milk, and the loan will enable the creation of new jobs, including those in administration, accounting, veterinary care and nutrition.



Understanding MEI's Loan Guarantee Facility

Small businesses are the life blood of the Palestinian economy. They comprise 90% of the region's business units, are responsible for over 55% of all productive output, and employ more than 84% of the workforce. In spite of their overall importance, however, these businesses are seriously handicapped by their limited access to commercial credit. Estimates of unmet small business credit demand range as high as 90%. Among the many severe political and economic circumstances that Palestinian small businesses face, lack of access to credit is most challenging.

MEI's Loan Guarantee Facility (LGF) seeks to address this imbalance by opening the doors of commercial banks to Palestinian small businesses, allowing much needed access to credit and other financial

services. Over the life of the program, LGF will stimulate more than \$228 million in properly structured credit to struggling Palestinian businesses. More importantly, LGF is preparing the Palestinian banking system to meet the on-going credit needs of all bankable small businesses on a sustainable basis and without donor financed intervention.

LGF Bank Partnerships

Essential to LGF's short and longer-term success are its partnerships with regional and local banks. Since the earliest phases of project development, LGF managers have given highest priority to negotiating agreements with the major banks, through which LGF stimulates SME lending and assists banks in structuring and managing SME loans for maximum success. To date, nine major bank partnerships gives LGF access to roughly 85% of the Palestinian credit market.

The LGF Approach

Extremely conservative lending policies have long dominated banking in the Palestinian territories. Credit risk has been managed by minimizing



exposure and imposing extremely high collateral requirements, thereby restricting credit availability to large, highly-capitalized businesses. Lending also has tended to be short-term, ignoring the fixed capital requirements of borrowers. In addition to discriminating against smaller businesses, these practices isolate lenders from the enormous potential offered by many thousands of viable SMEs.

LGF stimulates SME lending by providing its partner banks with guarantees for 70% of the principal amount of loans to bankable small businesses. More importantly, LGF assists its partner banks to assess the viability of its SME borrowers and structure loans to effectively meet working capital and longer-term needs of borrowers, maximizing potential for successful loan repayment. Demonstrating success where other loan guarantee and SME credit programs have failed, LGF is encouraging and assisting banks to profitably and responsibly manage credit risk to an expanded marketplace,

which includes the Palestinian SME community.

LGF Inner Workings

Working “behind the scenes” with managers and credit officers of partner banks, LGF professionals provide hands-on technical assistance and training with all aspects of lending policy development and credit management. Major emphasis is placed on financial analysis and credit structuring to ensure that the viability of SME loan applicants is efficiently assessed, and that loans are structured to properly match the capital needs and cash flows of borrowers.

The use of LGF loan guarantees is approved only after thorough due diligence has been performed. Training also focuses on loan portfolio management to ensure that each loan is properly monitored, and that effective, on-going due diligence protects the interests of both the lender and the borrower. The LGF approach is designed to maximize potential for a successful and profitable borrower-lender experience.

MEII In The News



“I have been involved in a project ... where we have been giving, with the help of the Overseas Private Investment Corporation, money to small- and medium-sized businesses, so people create jobs, and they then see that violence undercuts them.”

— *Former Secretary of State Madeleine Albright, Board Member, Middle East Investment Initiative, PBS NEWSHOUR, September 2, 2010*



“MEII has been fueling ventures in the West Bank with a loan-guarantee program in excess of \$200 million. ... In the past 2 1/2 years, MEII has approved more than 322 loan applications totaling more than \$63 million in guarantees.”

— *Stacy Perman, “A National Economy – Without the Nation,” TIME Magazine, October 1, 2010*



A Preview of Upcoming Developments

Be alert for exciting new developments from MEII in the final quarter of the year. We expect to begin processing home mortgage applications for AMAL during this time, which will coincide with the completion of the first homes in the new large-scale housing projects in the West Bank. In

addition, we will continue to expand our \$228 million Loan Guarantee Facility, including outreach to businesses without previous banking relationships, particularly small, women-owned businesses. Lastly, our political risk insurance tool for Palestinian exporters has made great progress, which we plan to outline in our next newsletter.

About MEII

Regional instability and political turmoil have hampered economies and societies throughout the Middle East, particularly in the Palestinian territories, for many years. These problems have led to a restrictive business climate that has hurt companies' growth potential and families' abilities to purchase a home.

MEII, an independent 501(c)(3) non-profit organization, partners with public and private organizations to develop financial tools, make credit more available and build local businesses in the Palestinian territories and elsewhere in the region to stimulate economic activity and create jobs. MEII is satisfied that a sound economic base is one clear path to social and political stability. MEII has led efforts to establish a loan guarantee program in the West Bank and Gaza. MEII is also working to create an effective and sustainable risk insurance tool to address movement of products for Palestinian businesses; and MEII and its partners have developing the first affordable home mortgage facility for Palestinian working class families. MEII encourages and welcomes all forms of support, including but not limited to financial, technical and strategic assistance.

For more information or to contribute, please visit: www.MEIIinitiative.org

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