

WEST BANK/GAZA LOAN GUARANTEE FACILITY

MONTHLY REPORT October 2008 (Approved For Distribution)

Loan Guarantee Facility (LGF) Portfolio Status

The pace of LGF activity during October picked up nicely following the month of Ramadan. Eight new loan guarantees were approved, increasing the cumulative number of loans approved by LGF to 49 totaling \$8,961,000. The average loan size of the eight new projects was \$178,375; slightly lower than the average loan size of the entire portfolio. One project was rejected and the month ended with a pipeline of 21 projects (totaling more than \$5.8 million) under analysis.

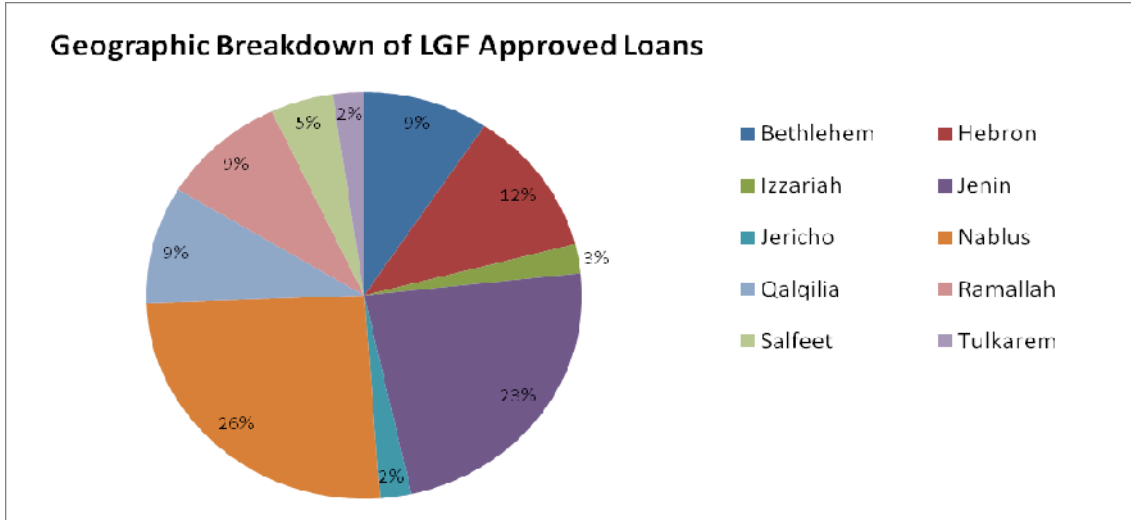
Of the 49 approved loans, 30 loans totaling \$5.4 million were disbursed, 13 loans totaling \$2.9 million are pending disbursement, and six loans totaling \$728,000 were cancelled due to lack of draw-down by the borrowers. Therefore, as of October 31, 2008 the outstanding approved portfolio (i.e. net of cancellations) consisted of 43 loans in the amount of \$8,233,000 resulting in an average loan size of \$191,465.

All disbursed loans are fully performing; there have been no arrears or defaults. The average loan tenor for the 30 disbursed loans is four years. Loan repayments during October totaled \$109,949 (principal: \$95,096 and interest: \$14,853). Cumulative repayments totaled \$302,499 (principal: \$247,449 and interest: \$55,050).

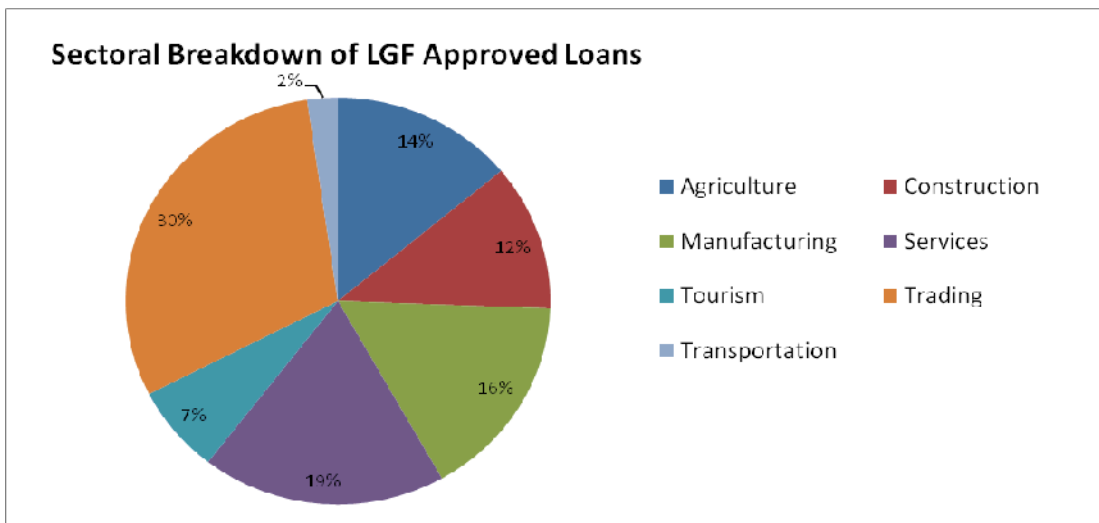
Loan Guarantee Facility (LGF) Portfolio Characteristics

Although efforts are being made to ensure distribution of LGF impact throughout Palestine, the bulk of activity continues to be concentrated in the northern and southern regions of the West Bank, where most lending activity seems to occur.

Kindly note that the charts in October are based on the number of loans rather than the dollar amount of the loans as presented in previous months, so that the larger denominated loans do not skew the portfolio breakdown.

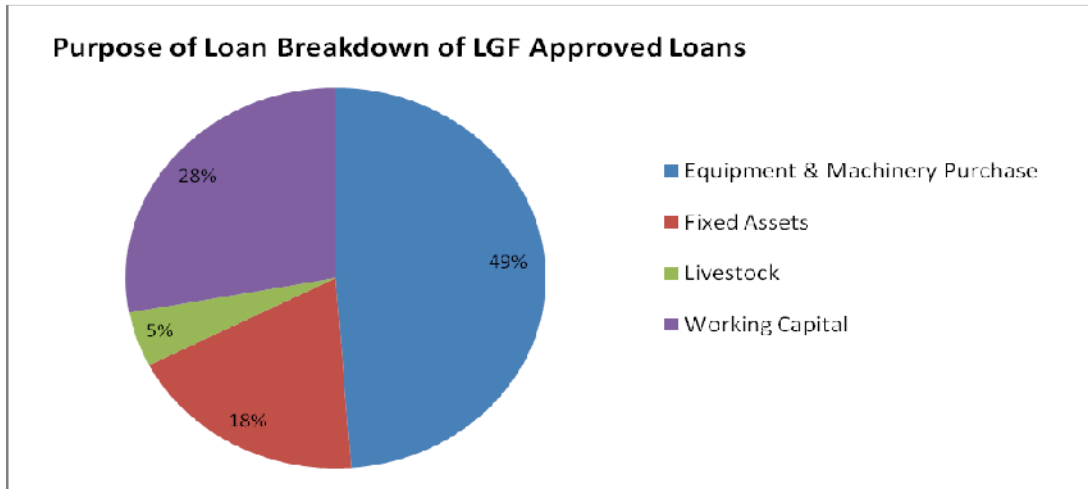


The distribution of LGF activity among the country’s productive sectors indicates continued concentration in general trade, manufacturing, services, and agriculture. LGF activity in the agriculture sector is encouraging, since considerable effort has been invested in encouraging lending in this labor intensive and traditionally under-banked sector.



LGF can guarantee loans for working capital, capital expenditures, start-ups, etc that support a business/economic activity. LGF cannot guarantee personal consumer loans. To date, nearly half of the guaranteed loans were to finance the procurement of

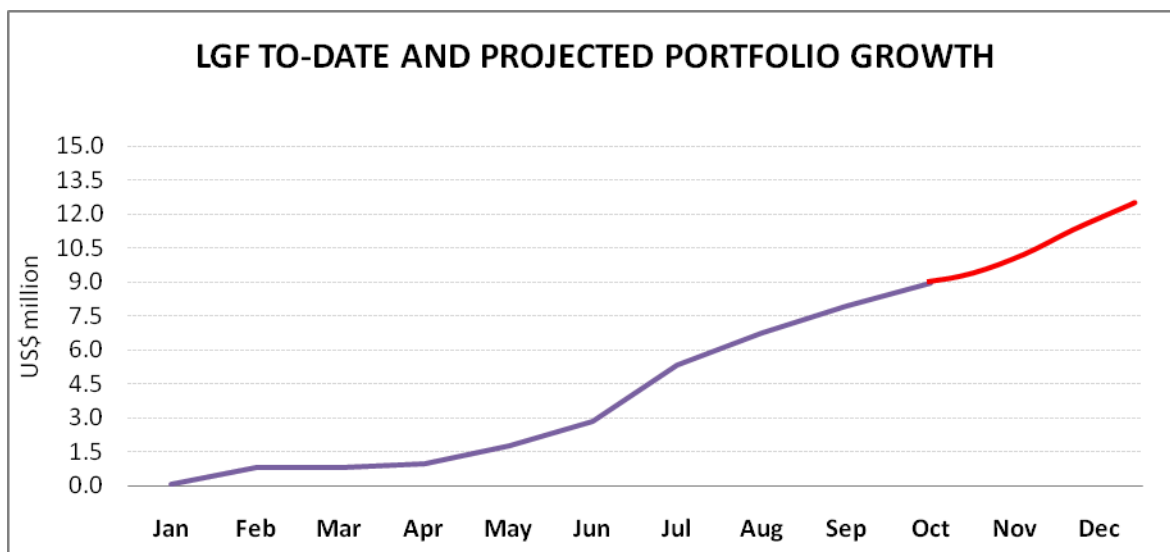
equipment and machinery, and a third were for working capital, mainly procurement of inventory.



Nearly 70% of the approved loans are between \$10,000 and \$200,000 indicating that the main beneficiaries of LGF so far are Small- and Medium-sized businesses. Although LGF is permitted to guarantee much larger loans, demand so far has not been high.

Loan Amount Range	Number of loans	As a % of Total Loans	Sum of Loan amounts
\$10,000 – \$50,000	8	18.6%	\$330,000
\$50,001 – \$100,000	14	32.6%	\$1,167,000
\$100,001 – \$200,000	8	18.6%	\$1,274,000
\$200,001 – \$300,000	6	14.0%	\$1,792,000
\$300,001 – \$400,000	0	0%	-
\$400,001 – \$500,000	6	14%	\$2,950,000
>\$500,000	1	2.3%	\$720,000
Total	43	100%	\$8,233,000

Projections for continued LGF portfolio growth remain on course. The following chart displays monthly LGF activity through October, and projects LGF management expectations for the balance of 2008, based on historic growth, current pipeline and incremental bank activity.



LGF Bank Partnerships

LGF relationships with its seven partner banks are developing satisfactorily. All partner banks have now become active and are submitting loan applications to LGF. LGF staff continues to work closely with its partner banks to increase and improve the quality and pace of their participation. To that end, LGF staff has been actively visiting partner bank branches throughout the West Bank. Particular attention is being focused on improved communications between partner bank central offices and branch office credit managers regarding LGF programming and procedures.

An ambitious program of technical assistance to LGF partner banks was scheduled for full implementation by the end of the 2008 fiscal year. Delays and interruptions in USAID funding have impeded technical assistance programming. LGF management is working with USAID contractors to reestablish funding continuity. LGF and MEII managers are also exploring potential for supplemental funding from other sources. Technical assistance to LGF partner banks is essential to successful LGF utilization.

The LGF Decisional Committee approved the nomination of an eighth bank in October. LGF management expects to finalize negotiations and sign a participation agreement with the eighth bank in November. Negotiations with two additional banks are ongoing, and LGF management expects to nominate at least one additional bank for LGF participation before the end of the year.

LGF Case Study

Tourism is an important economic sector and a source of hard currency earnings for Palestine. Following several years of turmoil, the industry is witnessing a strong recovery with the return of foreign visitors; mainly Christian pilgrims. Yet, despite this resurgence, local banks shy away from extending credit to tourism's projects in light of their previous experience as a result of the second Intifada.

LGF supported a local entrepreneur with a guaranteed loan of \$300,000 to finance the construction and finishing costs of a 40 room hotel in the northern West Bank. The family owned hotel is expected to compliment an existing swimming pool resort, owned by the same family, which has attracted a respectable number of local tourists. Once completed, the hotel will employ 25 people. In addition to temporary employment for construction workers, the hotel should help boost the tourism infrastructure in the northern parts of the West Bank.

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