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WINTER 2010/2011

THE ASPEN INSTITUTE



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THE ECONOMICS OF HOPE

The Institute's mission is premised on "thought leading to action," but few people—including this author—would have believed that the Institute's Middle East Investment Initiative would have helped to generate almost \$70 million in business loans in the West Bank in less than three years.

The Middle East Investment Initiative is creating a better life for a troubled region.

By Berl Bernhard, chairman of MEII and chairman emeritus of the Aspen Institute

Launched by the Institute in 2007—with indispensable major support from our partners, US Overseas Private Investment Corporation, Palestine Investment Fund, and CHF International—the Middle East Investment Initiative is dedicated to stimulating economic activity and creating jobs in the Palestinian Territories and elsewhere in the Middle East through a loan-guarantee program. Loan-guarantee programs are inherently difficult to manage and have a mixed track record worldwide, yet MEII's approved loan guarantees have increased a whopping 126 percent over the last year. While these statistics are impressive, the true success of MEII is found in enriched lives, rekindled hope, job opportunities, decent housing, a cleaner environment, and improved security. With negotiations between Israel and Palestine intensifying, MEII has shown that a stable Palestine has a future and can stand on its own.





Above: The five-star Mövenpick Hotel in Ramallah

On left: MEII President Jim Pickup talks to Institute trustee and MEII board member Henry Catto, the Palestine Investment Fund's Durgham Maraee, and Bernhard outside of the Council of Ministries after meeting with Palestinian Prime Minister Salam Fayyad.

Below: Institute Chairman Robert Steel shakes hands with Palestinian President Mahmoud Abbas as Nafez Hussein, chief ICT officer of Consolidated Contractors Company, looks on.



THE PROBLEM

Two-thirds of the people living in the Middle East are under the age of 30, the youngest population in the world. The region also has the highest youth unemployment rate, the second-highest urbanization rate, and the largest gender gap in employment. The Palestinian Territories are typical of this, but they have some advantages, too. Palestinian literacy rates are among the highest in

the region, there is an innate culture of entrepreneurialism, and the banking sector is well-established and sophisticated. Nevertheless, small- and medium-sized enterprises, which make up more than 90 percent of firms in the West Bank and Gaza, are largely unable to get the credit they need to expand their operations and create jobs.

THE SOLUTION

Extremely conservative lending policies have long dominated banking in Palestine. Credit risk has historically been managed by imposing prohibitively high collateral requirements, thereby restricting credit availability to large, highly capitalized businesses, and lending has also tended to be short term. In addition to discriminating against smaller businesses, these practices isolate lenders from the enormous banking business potential offered by many thousands of viable small- and medium-sized enterprises.

By contrast, the Middle East Investment Initiative uses loan guarantees to reduce bank reliance on collateral, which can be as high as 200 percent of a loan's value. Our loan guarantees avoid such restrictive collateral practices, unlocking bank resources and making credit available to many smaller businesses. By working with banks to implement credit-management reforms and to demonstrate new ways to evaluate risk—such as analyzing cash flow—MEII transforms the way Palestinian banks support growing businesses. By MEII's planned end in 2017, we expect that most Palestinian banks will meet the ongoing credit needs of all bankable businesses on a sustainable basis and without donor intervention.

THE EFFECTS

The Middle East Investment Initiative's impact is best understood through the loans it has guaranteed—as in the olive industry. Eighty percent of Palestinian farms are olive orchards, and their harvests can account for 25 percent of the West Bank's gross agricultural income. Unfortunately, the quality of Palestinian olive oil has not always satisfied international standards, and access to global markets has been limited.

Right: A metal furniture company in Hebron offers the potential for job creation and business growth.

Below: Palestinian olive oil



As a result, companies with little collateral—like one of our key borrowers, which sells olive oil and organic foods produced by informal cooperatives of more than 1,700 small farmers—were unable to obtain traditional financing. MEII, however, guaranteed a substantial loan for the company to purchase a modern olive oil press and stainless-steel storage tanks. The farm's production capacity has dramatically advanced, and the company can now store and export quality olive oil year-round. The farm has also hired 15 new employees, and more farmers can participate in the cooperatives and receive higher prices for their harvests. Most important, the company is providing the training and technical assistance necessary to grow and harvest organic olives that consistently meet international standards.

In addition to revolutionizing farming in the West Bank, MEII has loaned \$400,000 to a door manufacturer, allowing the company to hire 53 new workers



and compete globally; \$150,000 to a female-owned rural sewing cooperative to purchase new machinery, create 70 new jobs, and provide extra employee training; and \$18,000 to a Palestinian doctor to purchase medical equipment for a new clinic in a residential neighborhood cut off from urban areas by Israel's security barrier. Other types of lending have extended from greenhouses in the Jordan Valley and dairy farms to the first metal-waste and paper-and-plastic recycling plants in the region.

While our focus has been almost exclusively on small- and medium-sized businesses, the MEII loan-guarantee program is a necessarily flexible economic-development tool. Occasionally, we have made larger loan guarantees in order to create significant numbers of jobs. For example, in 2009, MEII supported the Wataniya Palestine communications project—the largest economic investment in the Palestinian Territories in more than ten years. So far, the money has created the first competitive cell-phone company in

the West Bank. The project will generate close to 800 direct jobs, more than 2,000 indirect jobs, and more than 60 new small businesses in the West Bank to support the venture. Similarly, MEII has backed the completion of a new, five-star Mövenpick Hotel in Ramallah, which will create approximately 275 new direct jobs and be a magnet for West Bank tourism.

THE FUTURE

Robert Mosbacher, former president of the Overseas Private Investment Corporation and one of our earliest partners in the West Bank, said the Middle East Investment Initiative reminded him of the adage: "Give a man a fish and you have fed him for a day. Teach a man to fish and you have fed him for a lifetime." Secretary of State Hillary Clinton, who has teamed with the Institute on Partners for a New Beginning, offered a modification: "Teach a woman to fish and you feed a whole village for a lifetime."

With this in mind, MEII's next step is to find ways for both men and women to have the chance to invest in the "fishing industry"—to be owners. MEII recently supported the first commercial loan of \$1 million to a leading Palestinian microfinance institution and then guaranteed a \$500,000 loan to a microfinance institution owned entirely by women. MEII does not have the resources to review hundreds of small loans to individual entrepreneurs, but it can facilitate such



MEII board members Elizabeth Liechty, Nafez Hussein, George Salem, William Mayer (also an Institute trustee), and Institute Chairman Robert Steel have lunch with OPIC officials following their meeting with Palestinian President Mahmoud Abbas.

lending by guaranteeing loans through larger institutions expressly dedicated to microfinance. Since March, MEII-supported microfinance institutions have made 391 loans worth more than \$1 million. Of those 391 borrowers, 331 were women and close to 400 permanent jobs—primarily for women—have been created.

Building on this success, MEII has been working with a coalition of organizations to develop the first affordable home-mortgage finance company in the Palestinian Territories. In June, Palestinian President Mahmoud Abbas formally launched the landmark AMAL (“hope” in Arabic), a \$500 million mortgage-finance facility that will double the number of Palestinian families able to purchase homes by offering long-term mortgages. MEII President Jim Pickup will serve as vice chairman of AMAL.



Bernhard, Albright and Fayyad

Vicky Pombo

Finally, MEII is actively participating in a program to create the first political-risk insurance program to help Palestinian exporters and investors reduce risks resulting from political violence or trade disruption.

“FROM A CYCLE OF VIOLENCE TO ONE OF HOPE”

It is doubtful that any economic program could realize its potential without a secure civil society. There is

unquestionably more security in the West Bank today than there has been for years. Palestinian Prime Minister Salam Fayyad’s capable security program is working and it is reinforced by increasing cooperation with Israel—marked by a significant reduction in manned checkpoints. Basic services have improved and the Palestinian economy is now moderately successful, enjoying a growth rate of close to 8.5 percent—but the Palestinian Authority is still largely dependent on donor assistance, and institutional and political stability remain elusive despite far reaching reforms in education and health. By working with the Institute and the State Department’s Partners for a New Beginning, which is chaired by former Secretary of State Madeleine Albright, who continues as a director of MEII, we together hope to further advance the Palestinian economy. Still, absent a final peace agreement, the Palestinian Territories will continue to be limited by uncertainty.



Bernhard, Mosbacher, and Abbas

“AMAL will enable families to enjoy the benefits of home-ownership without excessively burdening their monthly incomes,” says Pickup.

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MEII Board members gather at a café in Nablus.

Tom Korologos

The Middle East Investment Initiative has made incredible impact in the region, but the future will demand even greater effort. Ephraim Sneh, former Israeli deputy defense minister, has summarized the impact of our program well: “MEII has helped 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. This program contributes to changing the regional dynamic from a cycle of violence to one of hope.”