Middle East Investment Initiative

Access to Finance in Marginalized Communities

**Background**

Small and medium sized enterprises (SMEs) are the life blood of the Palestinian economy. They comprise 90% - 95% of the region’s businesses, are responsible for over 55% of all productive output, and employ more than 80% of private sector labor. Among the political and economic challenges that Palestinian SMEs face, access to credit is most difficult.

Under the Oslo accords, the Palestinian territories were divided into (i) Area A which is under the full jurisdiction of the Palestinian National Authority (PNA); (ii) Area B which is under PNA civil jurisdiction but Israeli security control; and (iii) Area C which is under full Israeli jurisdiction. As a result, the access to credit challenge for Palestinian SMEs outside of areas A and B is an even greater obstacle to growth and job creation. Furthermore, the Gaza Strip since 2007 has not been under PNA control and East Jerusalem is under Israeli jurisdiction. As a result, Palestinian banks have largely avoided those areas.

In 2014, the Middle East Investment Initiative (MEII) and the Swedish International Development Cooperation Agency (Sida) developed and launched a multi-million dollar, multi-year guarantee facility and technical assistance program to support and develop the economies of East Jerusalem, the Gaza Strip, and Area C of the West Bank.

**The MEII Approach**

Extremely conservative lending policies have long dominated banking in the Palestinian territories. Credit risk has been managed by minimizing exposure and imposing high collateral requirements, thereby restricting credit availability to larger, highly-capitalized businesses. In order to encourage SME lending in the marginalized areas of Gaza, Area C, and East Jerusalem, MEII had to address the distinct risks of each area and design a flexible guarantee facility that not only includes commercial risk coverage (i.e. borrower default), but also default coverage as a result of political events such as war.

MEII stimulates SME lending by providing its partner banks (representing 85% of the Palestinian credit market) with guarantees of 50% to 75% of the principal amount of loans to bankable SMEs. More importantly, MEII provides its partner banks with technical assistance 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 full repayment. Thus MEII enables lenders to substitute heavy dependency on collateral with healthy risk assessment, new management techniques, and properly structured credit products. Demonstrating success where other loan guarantee and SME credit programs have failed, MEII is encouraging and assisting banks to profitably and responsibly manage credit risk to an expanded marketplace.

**At a Glance**

**Goal** – to stimulate lending to Palestinian SMEs in the marginalized communities of East Jerusalem, Gaza, and Area C of the West Bank.

**Impact**

- Improved SME access to commercial credit and financial inclusion.
- SME growth and job creation
- Enhanced lending capacities of banks through on-the-job technical assistance & training

**Dimensions**

- $30 million guarantee facility
- Guarantee 50% to 85% of loan principal and up to 6 months’ interest, in return for a modest utilization fee
- Optional political risk coverage of 90% of loan principle
- MEII’s AAA Guarantee accepted by the Palestine Monetary Authority for lender reserve requirements
- Borrowers are not made aware of the MEII Guarantee (moral hazard)
- Technical assistance continually provided to banks
- 10-year facility with medium & long-term vs. “quick fix” strategy
- Loan size $5,000 - $500,000
- Working capital and/or fixed assets loans
- All economic sectors & regions eligible
- Any type of business, including start-ups.