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.

The MEII Loan Guarantee Facility (LGF), launched in 2008, and subsequent LGF3 launched in 2016, seek to address this imbalance by opening the doors of commercial banks to Palestinian SMEs, allowing much needed access to credit. MEII can stimulate properly structured credit to bankable Palestinian SMEs. More importantly, MEII is preparing Palestinian banks to meet the ongoing credit needs of all bankable SMEs on a sustainable basis and without donor financed interventions.

The MEII Approach
Extremely conservative lending policies have long dominated banking in the West Bank and Gaza. Credit risk has been managed by minimizing exposure and imposing excessively high collateral requirements, thereby restricting credit availability to larger, highly-capitalized businesses. Lending also has tended to be short-term, ignoring the fixed capital requirements of borrowers. In addition to discriminating against SMEs, these practices isolate lenders from the enormous potential offered by this important market segment.

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.

Technical Assistance and Training
Working “behind the scenes” with managers and credit officers of partner banks, MEII professionals provide “hands-on” technical assistance and on-the-job training to loan officers with all aspects of SME lending and credit management. Major emphasis is placed on financial analysis and credit structuring to ensure that the bankability of SME loan applicants is efficiently assessed, and that loans are structured to properly match the capital needs and cash flows of SME borrowers. 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 MEII approach is designed to maximize potential for a successful and profitable borrower-lender experience.

At a Glance
Goal – to stimulate lending to Palestinian SMEs and help transform the Palestinian lending culture.

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
• $100 million guarantee facility
• Guarantee 50% to 75% of loan principal and up to 6 months’ interest, in return for a modest utilization fee
• 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
• 12-year facility with medium & long-term vs. “quick fix” strategy
• Loan by loan approval and/or portfolio guarantee
• Loan size $5,000 - $1,500,000
• Working capital and/or fixed assets loans
• All economic sectors & regions eligible
• Any type of business, including start-ups