

## WEST BANK/GAZA LOAN GUARANTEE FACILITY

### MONTHLY REPORT SEPTEMBER 2008 (Approved For Distribution)

#### Loan Guarantee Facility (LGF) Portfolio Status

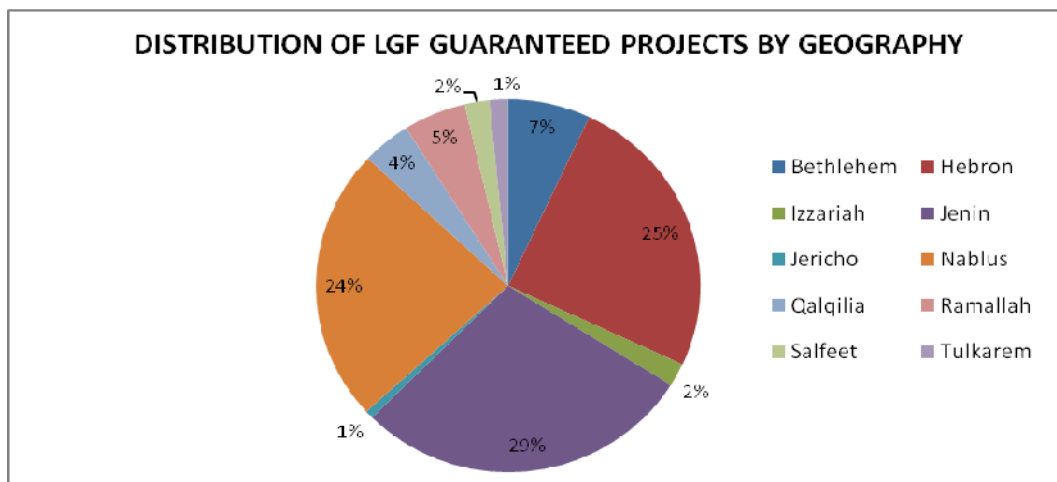
The pace of LGF activity during September was less affected by Ramadan than anticipated. Six new loan guarantees were approved, increasing the LFG portfolio to thirty-six projects totaling \$7,206,000. The average loan size of the six new projects was \$107,000: less than one-half of the average loan size of the entire portfolio. The month ended with a pipeline of eighteen projects (totaling more than \$5 million) under analysis. One project was rejected in September and two previously approved projects (totaling \$170,000) were cancelled due to lack of draw-down by the borrowers during the required 90-day disbursement period.

Twenty-five of the thirty-six guaranteed loans had been disbursed by the end of September, totaling nearly \$4.8 million. All disbursed loans are fully performing; there have been no arrears or defaults.

Guaranteed loan repayments during September totaled \$70,963 (principal: \$58,625 and interest: \$12,338). Cumulative repayments totaled \$184,096 (principal: \$147,683 and interest: \$36,413).

#### Loan Guarantee Facility (LGF) Portfolio Characteristics

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



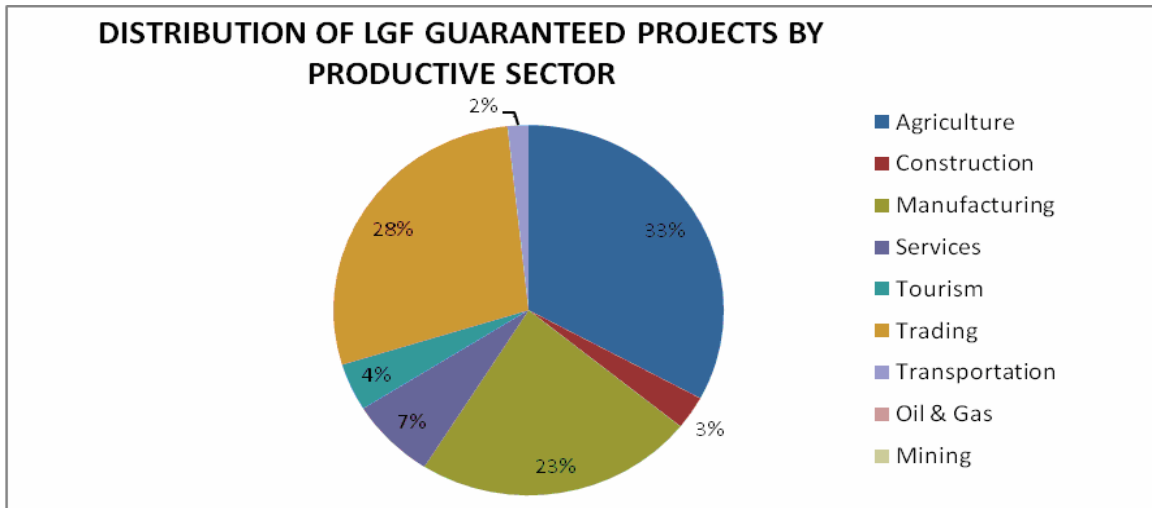
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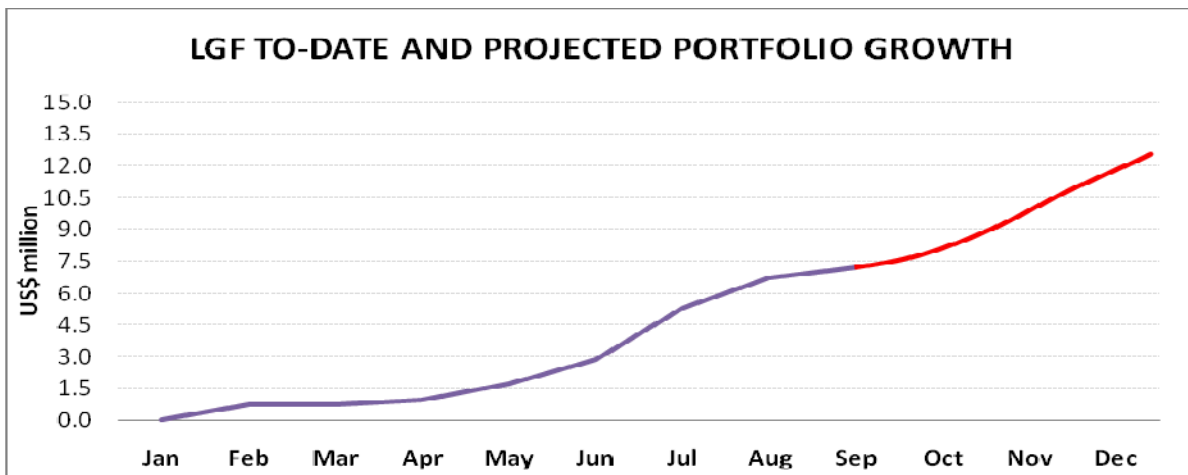
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The distribution of LGF activity among the country’s productive sectors indicates continued concentration in general trade, manufacturing and agriculture. Heavy LGF activity in the agriculture sector is encouraging, since considerable effort has been invested in encouraging lending in this labor intensive and traditionally under-banked sector. LGF management is making every effort to diversify the portfolio, ensuring that programming impact is adequately distributed among productive sectors.



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



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### **LGF Bank Partnerships**

Two of the seven LGF partner banks are responsible for more than 80% of all LGF activity to date. LGF staff is working closely with all partner banks to increase and improve the quality and pace of their participation. Particular attention is being focused on improved communications between partner bank central offices and branch office credit managers regarding LGF programming and procedures. Efforts are particularly intense with two of the LGF earliest bank partners that have consistently under performed. Two recently approved bank partners are enthusiastically developing a pipeline of potential projects and are expected to become active participants in coming months.

LGF management culminated negotiations with an eighth bank during September and will present a nomination for its participation to the LGF Decisional Committee in October. Active negotiations with two additional banks are ongoing, and continued dialogue will be maintained during coming months with additional potential bank partners.

### **Levels of Effort and Expenditures**

With exception of newly contracted staff to work under the USAID financed Training and Technical Assistance Project, LGF activity continued at an unmodified level of effort during September. LGF expenditures continued during September at under 80% of budget.

### **Management and Systems**

A unique system for management of LGF information flow was fully implemented prior to approval of the first LGF guarantees. The system has been performing well, and all LGF data is reliably processed and stored. Some of the reporting functions of the system are still not fully acceptable, requiring parallel use of Excel-based reporting tools. CHF software experts are working to make the necessary adjustments as soon as possible. Meanwhile, the Excel-based reporting will continue to meet all requirements.

### **Technical Assistance and Training (TAT) Program Progress**

Although handicapped by USAID fiscal year end constraints and the effects of Ramadan, efforts to continue with implementation of the USAID supported TAT program were significant during September.

- Two TAT employees were hired in early September. Their efforts will complement those of LGF personnel that have been working to launch TAT activity during the past three months. Additional TAT staff will be recruited as required by increasing levels of activity.
- A technical assistance and training needs assessment of five partner banks was completed and a draft assessment report is expected in early October. The report will form the basis of strategic discussions with the partner banks on training and technical assistance programming over the next 3 years.



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- LGF staff stepped up visits to bank branches in Nablus, Hebron, and Bethlehem during the month of September to provide on-the-job assistance to branch loan officers. Continued branch visits are scheduled for October.
- TAT and the Association of Banks agreed on the terms of TAT support for the development of the Association web site as part of its knowledge management strategy. TAT and the Association also signed a Memorandum of Understanding to support Association plans to develop internal financial and administrative policies and procedures that will culminate in a written procedures manual to assist the Association to improve management of daily activities.
- The first phase of the TAT funding cycle ended on September 30, 2008. However, delays in funding, initial staffing difficulties, and the month of Ramadan resulted in lower levels of activity, reduced expenditures and less progress than anticipated. As a result, CHF signed a modification to the TAT agreement to reduce the original budget for the last months of the fiscal cycle (ending September 30) from \$321,485 to \$197,604. Discussions with the USAID prime contractor for funding for the next phase of TAT activities are underway.

### LGF Case Study

Olive oil is deeply rooted in Palestinian culture and history; and its importance to the Palestinian economy is significant. Nearly 80% of farmed land in Palestine is dedicated to olive orchards, and the olive harvest accounts for up to 25% of the gross agricultural income. On average, the Palestinian olive harvest produces 25,000 tons of olive oil annually, which exceeds local demand by around 10,000 tons. Unfortunately, the quality of the Palestinian oil has not consistently satisfied international standards for organic and extra virgin olive oil.

LGF supported a local olive oil producer with a guaranteed loan of \$720,000 to procure a modern Italian-made olive oil press and stainless steel storage tanks. The borrower applies the fair trade concept, which promotes paying farmers sustainable prices for their agricultural products to ensure fair wages for labor along the supply chain. The borrower also provides training and technical assistance to farmers to grow and harvest organic olives that meet quality standards for export. As a result, the borrower sells olive oil and organic foods produced by over 1,700 small farmers organized in informal cooperatives and represented by the Palestine Fair Trade Association. The project is expected to contribute significantly to organized efforts to improve and sustain the quality of Palestinian olive oil.

The new olive oil press has facilitated modernization of the borrower's operations and significantly increased the productive capacity of the company. Furthermore, the stainless steel tanks will allow the borrower to store and export quality olive oil year-round, greatly reducing the impact of seasonality on the cash flow of the business. In addition to hiring 15 new employees, the increased productive capacity will allow additional farmers to participate in the Fair Trade Association and reap the benefits of better prices for their olive harvests that meet international quality and organic standards. The indirect employment impact of this LGF guaranteed loan is expected to be felt throughout the economy, particularly in rural areas.



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