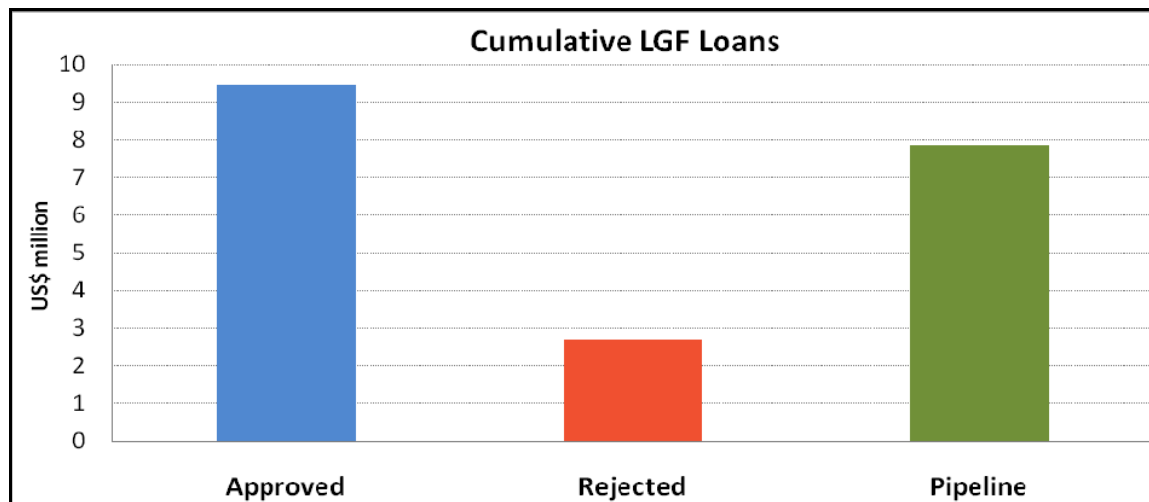


**WEST BANK/GAZA LOAN GUARANTEE FACILITY
MONTHLY PROGRESS REPORT NOVEMBER 2008**

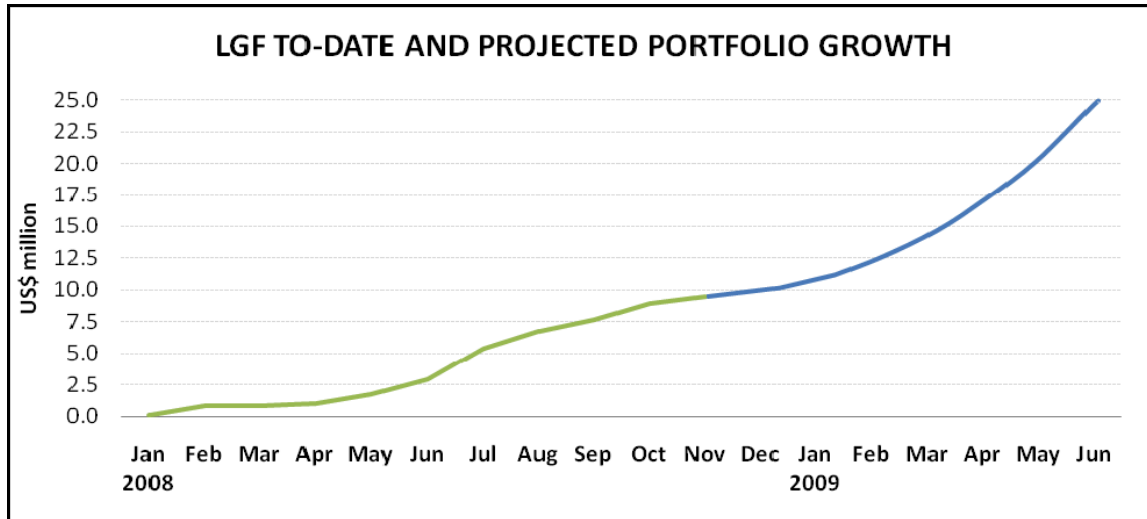
Despite slower growth than expected in November, underlying LGF progress continues at a rapid pace. All seven partner banks are active, and LGF staff working with local bank branches is yielding positive impact on the LGF pipeline (28 loans estimated at nearly \$8 million). In addition to projects that are formally in the LGF pipeline, an estimated 60 additional projects with strong LGF guarantee potential are under development.

As of November 30, 2008 the outstanding approved portfolio (i.e. net of cancellations) consisted of 46 loans in the amount of \$7,646,000 resulting in an average loan size of \$166,217.

The following graph illustrates the cumulative outcome of all loans processed under LGF as of November 30, 2008.



Projected growth by year-end has been adjusted downward to reflect anticipated low productivity due to the Muslim and Christian holidays which reduces the number of working days in December. However, based on recent discussions with all partner banks, combined with the growth in the LGF pipeline, LGF management anticipates volume will pick up again after the holidays. There is reason to believe that USAID is prepared to provide financial support for increased technical advice and training (TAT) to both banks and borrowers. Should this occur as we anticipate, MEII and CHF will be enabled to accelerate significantly the processing of requests for guarantees. The green line in the following graph represents cumulative approved loans to date. Projected activity, indicated by the blue line, is based on management projections which, in turn, is based on historic growth activity, current pipeline and feedback from partner banks.



Loan Guarantee Facility (LGF) Portfolio Status

Although the rate of overall LGF activity continued to increase during November, the growth of the guaranteed loan portfolio was slower than projected.

- Six loans totaling \$505,000 were approved, compared to eight loans totaling \$1,427,000 during the month of October.
- One loan for \$70,000 was rejected by LGF as unworkable.
- Three guarantee approvals that had been previously issued (totaling \$1,092,000) were cancelled during November because the borrowers did not draw down on their respective loans.
- Twenty-eight loans totaling \$7,875,000 were in the pipeline on November 30, compared to 20 loans totaling \$5,820,000 at the end of October.

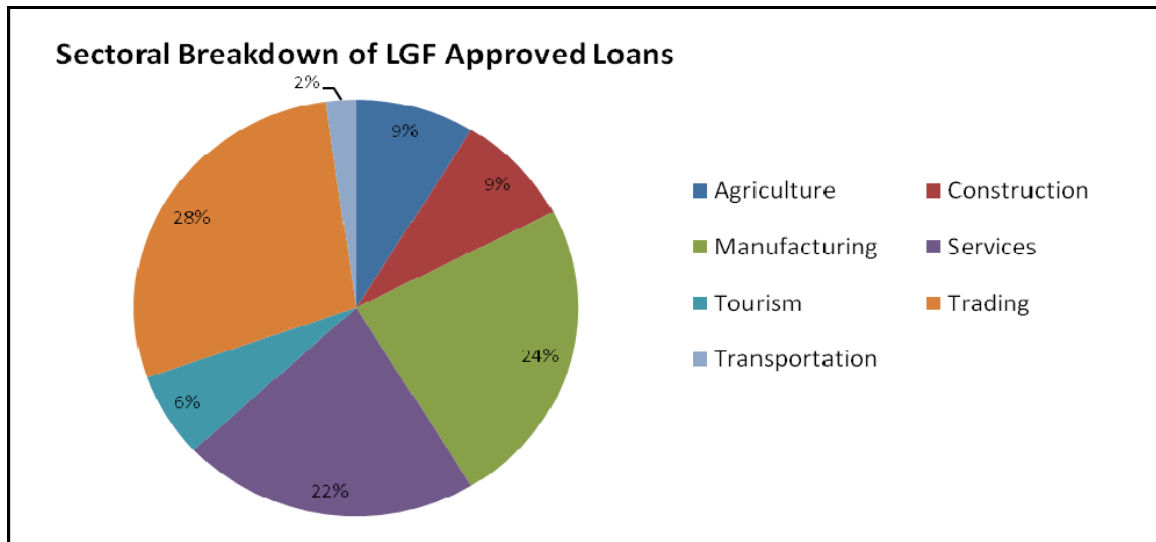
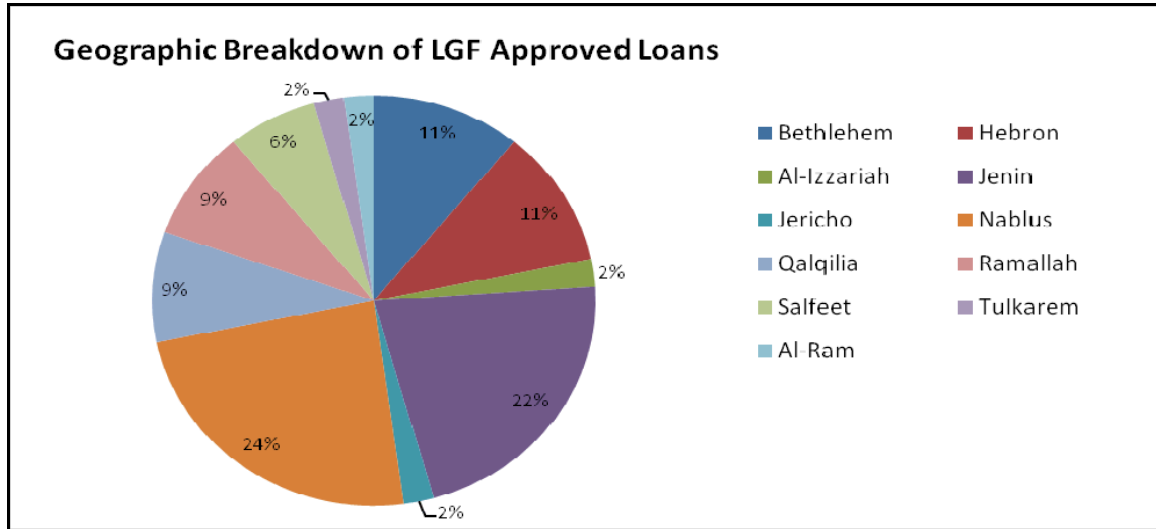
As of the end of November:

- LGF had processed 72 loan applications totaling \$12,186,000.
- Fifty-five loans in the amount of \$9,466,000 had been approved.
- Of the 55 approved loans, 38 loans totaling \$6,391,000 were disbursed, 8 loans totaling \$1,255,000 were pending disbursement, and 9 approved loans in the amount of \$1,820,000 were cancelled due to borrower failure to draw on the loans.

LGF Portfolio Characteristics

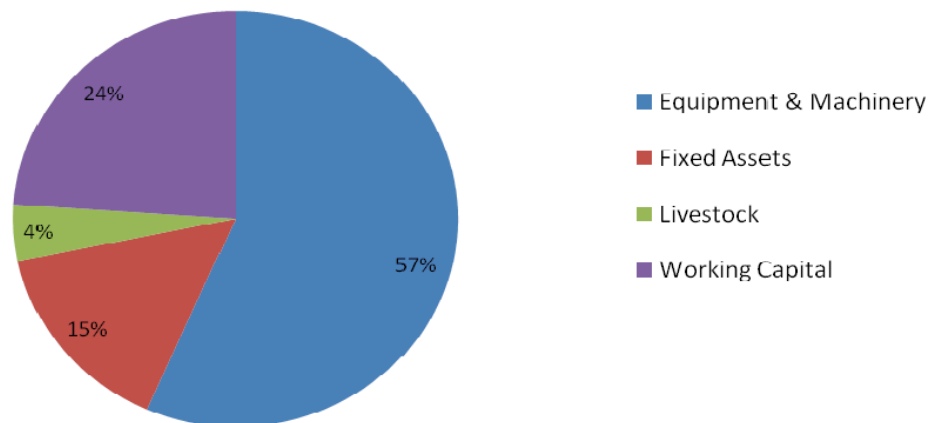
The approved LGF portfolio (net of cancellations) as of November 30, 2008 consisted of 46 loans in the amount of \$7,646,000. The charts that follow display the distribution of these 46 approved loans by location, economic sector, and loan usage. LGF activity in the central regions of the West Bank continues to be low compared to the Northern and Southern regions. Nablus and Hebron have

traditionally been strong commercial/productive centers. 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 and tourism sectors is encouraging, since considerable effort has been invested in encouraging lending to these labor intensive and traditionally important economic sectors.



To date, more than half of LGF guaranteed loans have financed procurement of equipment and machinery. Approximately one-quarter of LGF activity has supported lending for working capital. The balance of the guarantee portfolio has facilitated investment in fixed assets and livestock.

Purpose of Loan Breakdown of LGF Approved Loans



Small businesses have been the primary beneficiaries of LGF guarantees. Nearly 80% of LGF approved loans are between \$10,000 and \$200,000. However, LGF management detects growing indication of potential demand for larger transactions. The LGF Decisional Committee is considering several proposals for much larger than average loan guarantees for projects that offer promise of significant employment generation. The following chart provides a profile of LGF guaranteed loan sizes.

Loan Amount Range	Number of loans	As a % of Total Loans	Sum of Loan Amounts
\$10,000 – \$50,000	11	23.9%	\$425,000
\$50,001 – \$100,000	15	32.6%	\$1,252,000
\$100,001 – \$200,000	10	21.7%	\$1,599,000
\$200,001 – \$300,000	4	8.7%	\$1,200,000
\$300,001 – \$400,000	0	0.0%	-
\$400,001 – \$500,000	5	10.9%	\$2,450,000
>\$500,000	1	2.2%	\$720,000
Total	46	100%	\$7,646,000

The quality of the LGF guaranteed loan portfolio is excellent. Of the 46 outstanding approved loans, 38 loans in the amount of \$ 6,391,000 had been disbursed as of November 30. All 38 loans are performing; there have been no arrears or defaults. The average loan tenor for the 38 disbursed loans is 4 years. Loan repayments during the month of November totaled \$111,904 (principal: \$96,333 and interest: \$15,571). Cumulative repayments to date have totaled \$415,063 (principal: \$343,782 and interest: \$71,281).

LGF Bank Partnerships

Activity levels for all participating banks increased during November, resulting in significant project pipeline growth and project development activity. More importantly, LGF has facilitated lending that

would not have occurred without its guarantees. Each LGF supported loan would not have satisfied normal bank collateral requirements. Although three of the seven partner banks are responsible for more than 80% of all LGF activity, increasing levels of activity are evident among the remaining bank partners. An eighth bank was approved for participation in October, although negotiations of a participation agreement had not concluded by the end of November. A ninth potential participating lender is expected to be proposed to the Decisional Committee in early 2009.

LGF management is currently working with all participating banks to prepare estimates for activity during 2009.

LGF Case Study – Waste Management

Recycling and appropriate waste management is uncommon in Palestine. Nonetheless, LGF supported a local entrepreneur with a guaranteed loan of \$182,000 to finance the purchase of scrap metal shredding equipment.

Set in a rural area in the northern West Bank, this environment-friendly project is considered a first of its kind in Palestine. The borrower collects waste scrap metal left by manufacturers in junk yards and has established collecting bins for metal scraps in various areas in the West Bank. Since there are no metal smelting facilities in Palestine, the entrepreneur will shred the scraps and export the resulting product to nearby Jordan and Turkey. This innovative project will help recycle waste metal in the area, generate much needed hard currency earnings and employ two technicians to manage the equipment. The project marks an important milestone for a Palestinian recycling industry.

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