Joint Investment for Peace Initiative Annual Report

2023

NOTE: The FY2023 Annual Report for the U.S. International Development Finance Corporation's (DFC) Joint Investment for Peace Initiative is reflective of projects, engagements, investment policy, and other activities undertaken by DFC from October 1, 2022 – September 30, 2023. It does not report on any DFC actions taken in FY2024, particularly after the October 7, 2023 Hamas-led terrorist attacks on Israel and subsequent Israel-Hamas conflict. DFC continues to monitor and assess the situation in the West Bank and Gaza and is actively engaged with interagency and congressional partners on any impact on current or future projects in this jurisdiction.

Introduction

U.S. International Development Finance Corporation's (DFC) Joint Investment for Peace Initiative (the Initiative) is a program to provide investments in, and support to, entities that carry out projects that contribute to the development of the Palestinian private sector economy in the West Bank and Gaza. This initiative launched in late 2021 following the enactment of the Nita M. Lowey Middle East Partnership for Peace Act (MEPPA), which authorized both the Initiative and a separate people-to-people program administered by the U.S. Agency for International Development (USAID).

To implement the Initiative, DFC uses its products to support private investment that: promotes Palestinian economic development, increases economic cooperation between Palestinians and Israelis and between Palestinians and Americans, and contributes to greater integration of the Palestinian economy into the international rules-based business system.

During 2023, DFC increased its engagement with the Palestinian and Israeli business communities to continue building a pipeline of potential transactions that will advance the Initiative's goals. DFC also worked with Palestinian businesses as they went through DFC's application process or prepared to file applications for support. During FY2023, DFC approved two projects: 1) a $10 million loan to Ritz Leasing, supporting electric vehicle leasing and charging infrastructure in the West Bank; and 2) a $55.75 million loan portfolio guaranty to Bank of Palestine, to catalyze investment in often-overlooked medium-sized business in the West Bank. DFC also brought four projects through the screening phase and looks forward to the possibility of bringing these and additional new pipeline projects to commitment. DFC will continue to foster a network of opportunities through business development, outreach, and engagement to Palestinian, Israeli, and other companies throughout FY2024.

The nature of DFC's portfolio and pipeline are both a function of the age of the Initiative and of the business environment in the West Bank and Gaza. Many Palestinian small- and medium-sized enterprises (SMEs) face challenges meeting DFC's criteria related to business size and experience. DFC is working closely with USAID's Small and Medium Enterprise Assistance for Recovery and Transition Project (SMART) and Building Regional Economic Bridges (BREB) programs to identify and prepare Palestinian businesses for potential DFC support in the future.

DFC continued to cooperate closely with USAID and the Department of State, including U.S. Embassy Jerusalem, the Office of Palestinian Affairs, and USAID/West Bank and Gaza, to coordinate activities and identify potential projects or companies that might benefit from each agency's support.

This report has been prepared in response to annual Congressional reporting requirements in PL 116-260, Division K, Sec 8005(e).

Budget

In FY2023, DFC received from USAID $9 million in MEPPA funds through the interagency transfer process. $417,000 of these funds were committed in FY2023 to galvanize a $10 million loan to a leasing company in the West Bank for electric vehicle ecosystem expansion. DFC anticipates the remainder of the funds ($8.583 million) will be committed by Q2 of FY2024 for two additional projects that will together mobilize a further $58.75 million in investments in the West Bank. Because USAID typically receives its funds one year after they are made available, DFC received the FY2022 allocation at the end of FY2023. DFC's and USAID's agreed allocation for FY2022 funds were reported to Congress through a formal Congressional Notification by USAID.

DFC and USAID are now in the process of determining the allocation of FY2023 MEPPA funds, expected to be used to fund DFC deals in FY2024 and FY2025. That allocation will be based on DFC's pipeline and an estimate of the likelihood of project commitment during the availability of the appropriation. Appropriations allocated to the Initiative will likely be used to fund subsidy costs for direct lending, loan guaranty facilities, equity investments, or technical assistance once the projects reach commitment.

Commitments and Business Development

In FY2023, DFC made four trips to the West Bank for business development, due diligence, and relationship building. As part of this effort, DFC CEO Scott Nathan traveled to Israel and the West Bank in March 2023 where he met with Israeli and Palestinian business and government leaders. Over the course of two days, Mr. Nathan provided guidance to potential DFC clients, urging both Israeli and Palestinian companies to apply for DFC financing, and discussed opportunities for Israeli companies to work with DFC in other eligible markets in the region and beyond. The trip highlighted DFC's interest in growing its footprint in the region and provided potential clients with a roadmap to seek DFC support.

Separately from Mr. Nathan's trip, the agency's Chief Climate Officer attended a climate finance conference hosted by Bank of Palestine, and DFC transaction teams conducted both due diligence and business development throughout the West Bank. This is consistent with DFC's approach to building its pipeline in other priority areas, where individual projects can take over a year (and often multiple years) to reach commitment and financial close. These efforts included outreach to Palestinian and Israeli businesses, potential joint ventures, as well as non-governmental organizations and think tanks interested in MEPPA. The engagement focused on increasing awareness and understanding of MEPPA, the Initiative, DFC's various financial products, the criteria used to review projects, and the application process. DFC also worked closely with colleagues in USAID and the State Department to coordinate and cooperate with their private sector development efforts in the West Bank and Gaza, including engagement with USAID's technical assistance providers that are working directly with the private sector.

Investing and Supporting the Palestinian Private Sector and its Integration into the International Rules-Based Business System

Given the relatively small size of the Palestinian private-sector economy, many of the SMEs interested in DFC support have struggled to meet DFC's basic criteria for sound investments (e.g., sufficiently detailed business plans, shareholder information, audited financial statements, breakdown of funding sources and uses, and revenue projections). Where possible, DFC has worked with potential clients to guide them through the steps necessary to prepare an application and navigate the due diligence process. As part of this process, clients have commented that working with DFC on an application and due diligence helped them strengthen their business plans, processes, and policies – which have lasting, positive impacts on a business even if the transaction does not reach commitment or financial close.

DFC has also referred potential smaller investment requests (i.e., under $1 million) to an on-lending program managed by the Middle East Investment Initiative (MEII), which is better positioned to meet their needs through local financial institutions and in local currency. In addition, this year DFC further deepened its engagement with BREB as that program developed, communicating regularly about pipeline opportunities, providing feedback to BREB on potential leads, and engaging BREB where appropriate in support of DFC clients that are actively moving transactions through DFC's process. This close coordination between USAID and DFC, as well as the medium- and long-term approach to developing the Palestinian private sector, is important to lay a strong foundation able to meet MEPPA's goals and objectives.

Over the course of 2023, DFC's support to the existing MEII Loan Guaranty Facility 3 project (LGF 3) continued to enable private sector lending to SMEs in the Palestinian territories – a critical element to develop the Palestinian private sector – through MEII's guaranties of loans made by privately-owned commercial banks and local microfinance institutions (the Lenders).

The allocation of $3.5 million in MEPPA funds in FY2021 enabled DFC to provide much-needed technical assistance funding for MEII's continued Coordinating Agent services, critical to facilitating access to finance for SMEs in the West Bank. This transaction facilitated increased lending to SMEs across the West Bank with monitoring support for existing loans through 2027.

Since its inception in 2006, loan guaranty facilities with MEII in the West Bank have proven sustainable and successful in supporting thousands of local SMEs. Through LGF 3 alone, MEII has processed 1,626 loans across nine private commercial lenders in the West Bank, amounting to almost $203 million disbursed to SMEs since 2016. Approximately 21 percent of SMEs LGF 3 has supported have been new borrowers, and MEII estimates that its lending has provided or sustained 9,376 jobs since LGF 3's inception. DFC is working with MEII to consider follow-on opportunities.

Vetting and Oversight Process

All of DFC's transactions undergo DFC's established due diligence, credit, environmental and social assessment, know-your-customer (KYC) vetting and monitoring processes. To ensure that DFC supports reputable investors and projects, KYC policies and procedures are used to assess the character and reputation of parties and beneficial owners in DFC supported projects. DFC uses a wide array of resources to conduct KYC due diligence. These resources include general background checks, checks against international sanctions lists, and checks against U.S. lists managed by U.S. government agencies such as the Departments of State, Treasury, and Justice. DFC also utilizes certifications, covenants, and representations in its legal agreements to combat money laundering, sanctions, terrorist financing, and other matters.

During the life of a project, DFC conducts ongoing KYC due diligence on any new significant participants in or beneficial owners of such project. In addition, DFC monitors projects’ financial performance, environmental and social performance, and development impacts through on-site visits, review, and analysis of the financial and policy reporting due under legal agreements, and compilation of annual loan reviews. All transactions supported by DFC through the Initiative will undergo these vetting and oversight processes.

Transparency and Sustainability

All DFC transactions must adhere to its established transparency and its Environmental and Social Policies and Procedure (ESPP). The ESPP includes DFC's commitments regarding the environmental and social dimensions of sustainable development. These policies and procedures require DFC to share a Public Information Summary on dfc.gov, submit Congressional Notifications as required, and meet internationally recognized environmental and social standards including the International Finance Corporation’s (IFC) Performance Standards on Social and Environmental Sustainability and the World Bank Group Environmental, Health, and Safety Guidelines. DFC expects any future transactions supported by the Initiative to adhere to all of DFC’s transparency and ESPP commitments.