

# Joint Investment for Peace Initiative Annual Report

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Fiscal Year 2021

## Introduction

The U.S. International Development Finance Corporation (DFC) established the Joint Investment for Peace Initiative (the “Initiative”) on June 28, 2021 and has begun to build a pipeline of transactions that advance the Initiative’s goals of promoting private sector development in the Palestinian Territories. This report has been prepared in response to annual Congressional reporting requirements [PL 116-260, Division K, Sec 8005(e)].

In the first six months since its inception, DFC appointed a manager and a standing working group of experts representing each of its product lines and functional offices to evaluate potential projects for funding. DFC’s Initiative team also participated in a standing USAID-led interagency working group to coordinate activities related to the Nita M. Lowey Middle East Partnership for Peace Act of 2020 (MEPPA) with counterparts from the U.S. Agency for International Development (USAID) and the Department of State and participated in the 2021 U.S.-Palestinian Economic Dialogue.

In the first six months of the Initiative, DFC has committed one transaction – \$3.5 million to a loan guaranty facility that provides small and medium enterprises with access to capital. In addition, the Initiative evaluated more than a dozen leads referred to DFC for initial contact in 2021. Though many did not meet criteria for formal screening, several other projects remain in various stages of pre-screening. Those applicants determined not to be eligible for funding generally did not meet DFC requirements related to business or sectoral experience. Recognizing the challenge many Palestinian-owned small- and medium-sized enterprises (SMEs) face in meeting those requirements, DFC is committed to working with potential clients to improve eligibility for investment, to include the provision of technical assistance.

DFC is planning several steps to expand the Initiative’s impact in 2022 and beyond. To educate the market about DFC products, requirements, and priorities, DFC will host virtual Town Hall meetings for interested Palestinian and Israeli businesspeople, financial institutions, and international partners commencing in early 2022. The Town Hall meetings will coincide with the promulgation of information about the Initiative in English, Arabic, and Hebrew on DFC’s website, which will link to USAID’s MEPPA website with information regarding the People-to-People Partnership for Peace Fund. DFC’s Initiative team is also communicating with U.S. Embassy Jerusalem and civil society stakeholders to help identify, inform, and connect with potential participants.

## Legislative Language

PL 116-260, Sec 8005(e): Annual Report.<sup>1</sup>

"(1) In general.-Not later than December 31, 2021, and each December 31 thereafter until December 31, 2031, the Chief Executive Officer shall submit to the appropriate congressional committees a report that describes the following:

"(A) The extent to which the Initiative has contributed to promoting and supporting Palestinian economic development.

"(B) The extent to which the Initiative has contributed to greater integration of the Palestinian economy into the international rules-based business system.

"(C) The extent to which projects that increase economic cooperation between Palestinians and Israelis and between Palestinians and Americans have been prioritized, including through support to the private sector to enter into joint ventures.

"(D) Information on the following:

"(i) Investments received and provided through the Initiative.

"(ii) The mechanisms established for transparency and accountability of investments provided through the Initiative.

"(E) The extent to which entities supported by the Initiative have impacted the efficacy of people-to-people programs.

"(F) To the extent practicable, an assessment of the sustainability of commercial endeavors that receive support from the Initiative.

"(G) A description of the process for vetting and oversight of entities eligible for support from the Initiative to ensure compliance with the requirements of section 8006(b) of this Act [probably means "this title"].

"(2) Form.-The reports required under this subsection shall be submitted in unclassified form, without the designation 'For Official Use Only' or any related or successor designation, but may be accompanied by a classified annex.

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<sup>1</sup> There is not yet information to report in response to (A), (B), (C), and (E). Moving forward, each potential project identified will be evaluated against its contribution toward these goals and results of deployed projects will be gathered for the purposes of reporting on these intended impacts.

## Investments Received and Provided Through the Initiative

With the \$50 million appropriated for MEPPA in FY 2021, DFC and USAID agreed to direct \$46.5 million for programming under the People-to-People Partnership for Peace Fund and \$3.5 million towards the Initiative. This allocation was determined based on DFC's pipeline and likelihood of project commitment in FY 2021. The allocation of MEPPA-related funds between DFC and USAID will be re-evaluated each year based on the availability of newly appropriated funding and programmatic needs.

### Middle East Investment Initiative (MEII) Loan Guaranty Facility 3

DFC successfully disbursed \$3.5 million<sup>2</sup> in technical assistance to support the continued operations of the existing Middle East Investment Initiative (MEII) Loan Guaranty Facility 3 project (LGF 3). LGF 3 enables private sector lending to SMEs in the Palestinian territories – a critical element to develop the Palestinian private sector – by guaranteeing loans made by privately-owned commercial banks and local microfinance institutions (the “Lenders”).

Since the inception of LGF 3 in 2016, MEII has processed 1,186 loans and approved 940 loans, across eight private commercial lenders in the West Bank, amounting to nearly \$148.8 million disbursed to SMEs. Approximately 24 percent of SMEs LGF 3 has supported have been new borrowers, and MEII estimates that more than 7,293 jobs have been created or sustained by project SMEs as a result.

Under LGF 3, up to 75 percent of the principal balance of qualified loans made by the Lenders is guaranteed by MEII, a non-profit organization. In addition to functioning as primary guarantor, MEII serves as DFC's coordinating agent (the “Coordinating Agent”) for LGF 3. As Coordinating Agent, MEII's team on the ground in the West Bank provides vital oversight services, including:

- monitoring loan origination to ensure compliance with origination standards;
- regularly vetting Lenders and downstream borrowers in accordance with DFC's vetting procedures;
- providing technical assistance to Lenders;
- monitoring loan recovery, problem loans, and distressed loans;
- reporting to DFC on the management of work-outs and recovery procedures and implementation; and
- facilitating, monitoring, and documenting the payment of all guaranty fees to DFC and the payment by DFC of any guaranty payments that may be required.

The allocation of \$3.5 million in MEPPA funds 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 first Joint Investment for Peace Initiative transaction will facilitate increased lending to SMEs across the West Bank through 2023, with monitoring support for existing loans through 2027.

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<sup>2</sup> Though MEPPA funds have not yet been formally transferred to DFC, DFC obligated its own funds for this transaction and will be reimbursed with MEPPA funds.

## **Business Development**

In addition to the FY 2021 investment provided under the Initiative, investment and business development officers across DFC's internal MEPPA Working Group have spent significant time and effort educating interested parties on DFC's eligibility criteria and discussing the need for additional information to demonstrate commercial viability (e.g., more detailed business plans, shareholder information, audited financial statements, and breakdown of funding sources). While a few applicants show readiness for investment, most lack the sufficient track record, information, and project viability to meet DFC's eligibility criteria. Rather than rejecting these proposals outright, DFC is committed to working with potential clients to ensure a strong understanding of steps that could be taken to improve eligibility.

## **Transparency and Sustainability**

All MEPPA transactions adhere to DFC's established transparency and sustainability policies and procedures. These policies and procedures require DFC to share a Public Information Summary on [dfc.gov](http://dfc.gov), submit Congressional Notifications as required, and apply thorough environmental and social impact assessment procedures applied by organizations such as the World Bank Group, the European Bank for Reconstruction and Development, the Inter-American Development Bank, and the U.S. Export Import Bank, among others.

While the MEPPA-funded grant support to LGF 3 is new, loan guaranty facilities with MEII in the West Bank have proven sustainable and successful in supporting thousands of local SMEs since 2006.

## **Vetting and Oversight Process**

All MEPPA transactions undergo DFC's established due diligence, credit, environment and social clearance, 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 USG agencies such as State, Treasury, and Justice. DFC also utilizes certifications, covenants, and representations in its legal agreements, where appropriate, 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 and E&S 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. Furthermore, DFC works in close collaboration with USAID and State representatives to adhere to the USAID mission directives and vetting

practices for assistance for the West Bank and Gaza will be followed as part of this KYC process.

## **Conclusion**

In 2021, DFC took the Initiative from a concept to a fully operational program that evaluated over a dozen leads and approved one deal for \$3.5 million in funding. DFC remains engaged in developing several other leads for potential funding. Providing Palestinian SMEs with access to capital is critical to developing the Palestinian private sector, and DFC support for loan portfolio guaranties is one of the most effective tools to reach those in need of SME financing. DFC will strongly consider using technical assistance as a tool, given the challenges associated with the Palestinian private sector. DFC's initial contacts with the targeted market are informing several steps planned for 2022 to increase the volume and developmental impact of our MEPPA pipeline. Those steps include external outreach to the Palestinian and Israeli business communities and engagement with NGOs and other stakeholders to identify, inform, and connect with potential partners.