

- Portable Guarantee Example

Through a combination of a credit guarantees and advisory support, Sida wishes to help residents and small business owners in the Occupied Palestinian Territories to remain in the area, and to be economically active.

The business environment in the West Bank and Gaza is difficult. Palestinian goods are 30-40% more expensive than Israeli products to export due to the Israeli restrictions. The Palestinian economy in East Jerusalem has also been isolated and restricted, but it has a different legal status than that of the rest of the West Bank and Gaza as Israeli law governs the city.

The banking sector in the region has been very reluctant to invest in the area due to high levels of instability and concerns regarding repayment. Because of the occupation a rigid framework has been imposed on the domestic banks, leading to the implementation policies that have restricted the movement and interactive capabilities of those living in the West Bank and Gaza.¹ Many Palestinian SMEs therefore continue to rely on family and friends to finance their business.

Impact Objectives

Sida's objective is to increase the number middle-income families who can afford to buy, construct or rebuild houses in the target areas to at least 277 families, and creating access to credit for SMEs, in particular female owned, so that at least 126 companies are approved for loans. The objectives are slightly lower than for other programmes, since Sida is focusing on challenging geographical areas.

The SMEs who participate in the project get support with their accounting and financial systems and receive assistance with business plans when preparing loan

applications. These activities will also improve communications between borrowers and lenders. 520 SMEs will be trained until 2016.

Sida has provided a back-stop guarantee facility to the Middle East Investment Initiative (MEII) that allows MEII to in turn guarantee the Bank of Palestine and the Cairo-Amman bank for eligible loans. A third bank may be added.

Risk profiles vary

In this project, Sida's guarantee covers risk differently depending on who and where the borrower is. The target groups of home buyers and small business owners have very different risk profiles, and risk also varies between the different geographical locations. Political risk is defined as an act committed by the State of Israel, or by Israeli citizens resident in Palestine, with physical collateral damages, verified by the United Nations.

The risk coverage for commercial risk

Housing in Gaza	50%
Housing in East Jerusalem	50%
SMEs in Gaza	60%
SMEs in East Jerusalem	85%
SMEs on the West Bank	60%

The risk coverage for political risk

Housing in Gaza	90%
Housing in East Jerusalem	0%
SMEs in Gaza	90%
SMEs in East Jerusalem	0%
SMEs on the West Bank	90%
SMEs on the West Bank	60%

Combination of different types of support

The banks were not able to pay the full amount of the premium fees of SEK 42.3 million and Sida decided to

¹ The Foreign Policy Centre, UK (2014) "Access to Finance in the occupied Palestinian Territories (oPt): Overcoming a rigid framework"

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subsidize the fees by 50%. The guarantee is further supported with a technical assistance component of SEK 12.5 million for financial advice to banks and lenders by MEII.

How Sida's key principles and conditions apply

Additionality: Two guarantee facilities exist already; the Eropean Palestinian Credit Guarantee Fund and a scheme financed by the Palestine investment Fund and OPIC. The Sida guarantee will complement these by focusing on other geographical areas and by including house loans. Sida's guarantee also provides political risk coverage and. This makes the Swedish intervention unique and complementary.

Market Distortion: The guarantee is made available through local banks. These will apply their standard credit assessment procedures, which will ensure that the guarantee will not have an adverse effect on the market.

Risk-Sharing Partnership: The political risks are very high in this project due to the occupation of the West Bank and Gaza. Sida is conscious of this risk since experiences from other loans and guarantee programme aimed at creating and expanding SMEs in the targets areas show good results, despite these risks. Commercial and political risks are shared with the local banks, and Sida's expected loss based on the risk assessment is SEK 40.3 million.

Sustainability: The guarantee is helping banks to lend to a previously underserved segment. It is expected that future guarantees should not be needed for these clients, as they build their track record.

Eligibility: Sida contributions must be supported by a country and/or sector strategy. In this case, improving bank lending is in line with the country strategy to strengthen private sector development and support viable living in Palestine.

Summary

Area:	Occupied Palestinian Territories
Purpose:	Increase lending to SMEs and housing
Guarantee recipients:	Middle East Investment Initiative and local Palestinian banks
Direct Beneficiaries:	Small business owners and residents in Gaza, East Jerusalem and the West Bank
Value of guarantee:	SEK 200 million framework to cover 50% of credit risk for lending up to a total of USD 27.7 million
Duration:	20 years from 2014 to allow for 5 years for housing and 15 years for repayment. SMES will be granted for the first ten years.