



# ESAF & the Palestinian Investment Partners (PIP)



Photos by AED/ESAF

Employees at the Al-Hana'a Sewing Company in Qalqiliya, an ESAF/PIP grantee

USAID's strategy for the West Bank and Gaza includes a focus on the development of a more productive, innovative, free-market economy. Essential for building a prosperous and democratic Palestinian state and society, a dynamic and diverse economy is one that leverages and expands available physical and social infrastructure, such as roads and markets, as well as health and education, while providing employment to a growing population and tax resources to support the government.

Despite having an educated labor force, good communications links, a modern banking system, and a strong entrepreneurial tradition, the Palestinian market is not attracting its expected share of foreign direct investment (FDI). This can be attributed to two factors: political uncertainty and obstacles to movement and access. The combination of these two factors produces the paradox of economic stagnation despite obvious growth potential. Such stagnation, in turn, contributes to political instability as a consequence of high youth unemployment and broad public frustration with economic conditions.

As noted by the World Bank and other observers, the movement restrictions imposed on the West Bank by Israeli authorities for security reasons overshadow all other elements of the investment climate. Restrictions close off markets, raise transaction costs, prevent producers from guaranteeing delivery dates, and severely hamper exports. Faced with such risks, Palestinian businesses are reluctant to make long-term

investments in fixed assets and, as a result, rely heavily on Israeli markets, particularly for value added processes. This dependence is another brake on entrepreneurship and economic growth.

To address some of these issues, mitigate the reliance on the Israeli market, and encourage greater FDI in the Palestinian economy, ESAF is administering the **Palestinian Investment Partners (PIP) program**, an intervention designed to break the cycle of stagnation by jumpstarting private investment, even in the face of political uncertainty.

## Activity At-a-Glance

PIP is a **fixed capital financing mechanism** designed to assist Palestinian small and medium enterprises primarily through the funding of new equipment and technology transfers in order to accelerate their expansion, enhance economic activity in the West Bank, and create much-needed new employment opportunities.

To date, the nearly 50 PIP grants have:

- Supported companies to increase revenues by US\$4 million
- Created 349 permanent and 22 temporary new jobs
- Supported a range of sectors, including stone and marble, food processing, textiles, dairy, home furnishing, and other manufacturing areas
- Assisted firms in every West Bank governorate

PIP was specifically designed to make strategic grant investments in successful West Bank small businesses, giving them the necessary capital and assistance to foster broader economic growth.

In implementing PIP, AED works closely with USAID's Enterprise Development and Investment Promotion (EDIP) project to identify and support appropriate enterprises for investment. EDIP conducts the initial competition process and supports the businesses in preparing their proposals, which are then reviewed for funding by a joint committee made up of USAID and ESAF staff. The primary objectives of PIP are to:

- 1) Offset the inherent political and institutional risks to FDI in the West Bank and Gaza
- 2) Encourage technology and knowledge transfers by international firms to Palestinian firms
- 3) Locate new areas/sectors in the Palestinian economy where significant growth potential exists but have yet to be exploited (such as insurance, leasing and mortgage finance)
- 4) Demonstrate to other foreign investors that Palestine can be a profitable and business-friendly place to invest
- 5) Engage and co-invest with existing Palestinian Investment Institutions to encourage the

development of FDI investment platforms in the Palestinian business community

To be considered for selection, the recipients must be existing private sector Palestinian businesses that are seeking to expand and have:

- At least 51% ownership by Palestinian nationals
- A solid history of business operations and performance
- Appropriate management capacity and staffing
- Access to investment capital in addition to PIP funding for the remainder of the project's financing needs
- License to conduct the business' operations, if required by law or custom
- A market for its products and/or services with the potential for expansion into the broader export market
- High potential for employment generation

To ensure that all Palestinian businesses have fair and equal access to PIP assistance, the ESAF team utilizes objective standards, oversight safeguards and targeted marketing, as well as broad-based marketing through partner EDIP to shield the program from abuses based on favoritism or personal or political pressure.

### A Focus on Technology Transfer

A key objective of the PIP program is to facilitate technology transfers to upgrade business operations, improve quality, and increase efficiencies. Through in-kind grants of fixed assets, PIP grantees are acquiring and integrating modern technologies from around the world into their businesses.



Checking for flaws on pipes in Hebron



Precision cutting of stones in Jenin



Packaging snack foods in Jenin

**The Expanded and Sustained Access to Financial Services (ESAF) program** is a three-year US\$36 million program, funded by USAID, and designed to build a more inclusive financial sector in the West Bank and Gaza, for Palestinian households and enterprises. The program is implemented by AED in partnership with The William Davidson Institute at the University of Michigan, ShoreBank International, CHF International, CARE and Save the Children. ESAF is an Associate Award under USAID's FIELD-Support Leader with Associates cooperative agreement, which is managed by AED. [www.microlinks.org/field](http://www.microlinks.org/field)