

Ex-ante Evaluation

Private Sector Investment Finance Division 2 Private Sector Partnership and Finance Department Japan International Cooperation Agency

1. Name of the Project

- (1) Country : Palestine
- (2) Project: Micro, Small and Medium Enterprises Support Project (Private Sector Investment Finance)
- (3) Project Site/Target Area Name: Palestine
- (4) L/A signing date: December 14, 2022

2. Background and Necessity of the Project

- (1) Current status and issues of the micro, small and medium enterprises sector and financial sector in Palestine

In Palestine, Micro, Small and Medium Enterprises ("MSMEs") play an important role in the Palestinian economy, accounting for 97% of the number of enterprises and 87% of the number of people employed. On the other hand, due to the long history of occupation, the development of banks themselves and access to financial services has been impeded, and the creditworthiness and legal and regulatory framework of the companies is immature, access to finance in Palestine is not sufficient. The lack of access to finance has been a challenge for private sector development, particularly for the MSME. As a result, the MSMEs' share of GDP is only 24%, a low level compared to other countries, even when the number of companies and employees are taken into account. Under these circumstances, the Palestinian Authority has identified "Achieving Economic Independence" as a National Priority in its National Policy Agenda 2017-2022, which stipulates the development of the business environment, including financing for MSMEs. In addition, the "Sectoral Strategy for National Economic Development 2017-2022" (a sectoral development plan that is subordinate to the National Policy Agenda) has as a strategic goal the support of MSMEs to strengthen their competitiveness, and the policy is to enhance MSMEs' access to financial services. Due to COVID-19, the growth of Palestinian economy dropped by -11% in 2020, and recovered by about 6% in 2021 on a preliminary basis, but has not yet returned to pre-COVID levels, and

the private sector, including MSMEs, has been severely impacted. The Palestinian Authority is implementing a financial assistance program (Estidama Program) for MSMEs as one of the pillars of economic recovery.

Under the jurisdiction of the Palestine Monetary Authority ("PMA"), Basel III (the international unified standards for ensuring the financial soundness of internationally active banks established by the Basel Committee on Banking Supervision) was introduced for financial institutions of Palestine on March 31, 2020. Basel III requires banks to increase their Tier 1 capital ratio to 13.16% by 2024.

Under these circumstances, this project will facilitate the expansion of loans to MSMEs by providing loans to Bank of Palestine ("BoP"), the largest commercial bank with MSME customers, to improve access to finance for MSMEs in Palestine.

(2) Japan's and JICA's Cooperation Policies and Operations in the micro, small and medium enterprises Sector

Japan's "Assistance Policy for the Palestinian Authority" (September 2017) states that strengthening the private sector, especially MSMEs, which account for the majority of private enterprises, is an important issue and that Japan will work to strengthen the competitiveness and basic strength of MSMEs. In addition, under Japan's own initiative, the "Corridors for Peace and Prosperity", Japan is supporting the promotion of exports of Palestinian products, particularly to the Jericho Agro-Industrial Park (JAIP). JICA's "Palestinian Authority Country Analysis Paper" (March 2016) states that in order for Palestine's job creation, business environment development and promotion of international competitiveness, JICA will continue to provide support to MSMEs as players in industrial development, and has supported the creation of a mechanism to provide quality business development services to micro, small and medium enterprises through the "Industrial Promotion Project" (March 2019-present) and other programs.

This project is in line with Palestinian development issues and policies, as well as the cooperation policy and analysis of Japan and JICA, and contributes to improving MSMEs' access to finance and thereby to sustainable economic growth. Therefore, it is highly significant to support MSMEs through the Private Sector Investment Finance.

(3) Other Donors Activities

The International Finance Corporation (IFC), the European Bank for

Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Economic Cooperation Promotion and Investment Corporation (Proparco) are providing financial and technical assistance to the BoP, including for MSMEs and women entrepreneurs.

3. Project Description

(1) Project Description

① Project Objectives

This project will improve access to finance for MSMEs located in Palestine through loans to the BoP, a major Palestinian commercial bank, thereby contributing to private sector development in Palestine.

② Project Components

Supporting BoP's lending to MSMEs in Palestine through a perpetual subordinated loan with conversion to BoP.

③ Project Beneficiaries (Target Group)

Small, medium and micro enterprises in Palestine

(2) Estimated Project Cost: US\$30 million

(3) Schedule (cooperation period):

December 2022 - January 2023

(4) Project Implementation Structure

(1) Borrower: Bank of Palestine P.L.C.

(2) Guarantor: None

(5) Collaboration and Sharing of Roles with Other Donors: None in particular

(6) Environmental and social considerations

(1) Environmental and Social Considerations

① Category: C

② Reason for Categorization: The project is judged to have minimal undesirable effects on the environment under the "JICA Guidelines for Environmental and Social Considerations" (promulgated in April 2010).

③ Other: It is agreed with BoP that "only projects that are equivalent to JICA's environmental category C classification criteria will be selected as subprojects".

(7) Cross-Sectoral Issues: None in particular

(8) Gender Category: GI(S) (Gender Activity Integration)

<Details of Activities/Reason for Categorization>

Because the earmarking of the loan amount to women MSMEs is set as an

indicator. In addition, the percentage of female members on the board of directors (33%) and the percentage of employees (37%) make the project a 2X Challenge contribution.

(9) Other special notes: None in particular

4. Targetted Outcomes

(1) Quantitative Effects

(1) Outcomes (Operation and Effect Indicators)

| Indicator | Baseline (As of end of 2021) | Target (2026) 4 years after project commencement |
|---|---------------------------------|--|
| Total value of loans | US\$3,645 million | US\$4,045 million |
| Total value of loans to MSMEs | US\$540 million | US\$600 million |
| Total number of new MSMEs to which the Borrower provides loans for the first time after Closing Date under this Agreement | - | 500 companies |
| Share of Woman Owned/Running MSMEs in the value of increased loans to MSMEs after Closing Date under this Agreement | - | 30%. |

(2) Qualitative effects

Improvement of MSME's Access to Finance

5. Assumptions and External Conditions

None in particular

6. Lessons Learned from Past Projects

The lessons learned from the ex-post evaluation of the "Microenterprise Support Project" in Egypt cited as success factors the confirmation of the needs of intermediary lenders and end-borrowers for non-financial services to the extent possible during deal origination and the selection of intermediary financial institutions that make appropriate credit decisions.

The project plans to examine the possible capacity development of the end users through providing non-financial services by collaboration with ongoing technical cooperation. During the due diligence, it is confirmed the BoP's

experience in lending operations, branch structure, and screening and risk management related to financing decisions. We have also confirmed that BoP has the largest share of MSME lending in Palestine and that it is working to further strengthen its MSME lending capacity by receiving support from other development finance institutions.

7. Evaluation Results

This project is highly significant because it contributes to SDG Goals 8 (Improve access to financial services), 9 (Promote industrialization by expanding access to finance for small and micro enterprises), and 17 (Partnership), as it is consistent with the challenges of the region, development policies, and cooperation policies of Japan and JICA, and contributes to private sector development in the region through improving access to finance for small and micro enterprises..

8. Plan for Future Evaluation

(1) Indicators for future evaluation

As indicated in Sections 4.

(2) Future evaluation schedule

Ex-post Evaluation: 4 years after project commencement

END