Middle East Investment Initiative

CHF International West Bank / Gaza — Building a Better World

Progress Report – 2nd Quarter 2009

In the second quarter of 2009, the Middle East Investment Initiative (MEII) has seen increased demand for business credit and loan guarantees supported by its Loan Guarantee Facility (LGF). This reflects economic improvement in the West Bank and has resulted in substantial new job creation. Over this period, the LGF has increased its geographic distribution throughout the West Bank and is supporting lending to more diverse economic sectors.

According to a July 15, 2009 statement by the International Monetary Fund, "Macroeconomic conditions in the West Bank have improved, reflecting a relaxation of Israeli restrictions on internal trade and improved security conditions." If Israel continues to ease its restrictions, overall GDP growth in the West Bank and Gaza in 2009 is expected to stand at five percent, compared with the 2.3 percent in 2008. Nevertheless, while real GDP growth in the West Bank could stand at seven percent in 2009, unemployment in the Palestinian territories remains high, with 20 percent in the West Bank and 34 percent in Gaza.

A. Loan Guarantee Facility Progress

During the second quarter of 2009, the LGF has processed sixty-seven loans totaling $16,778,350. Fifty-one loans totaling $7,320,350 were approved, and sixteen loans amounting to $9,458,000 were rejected.

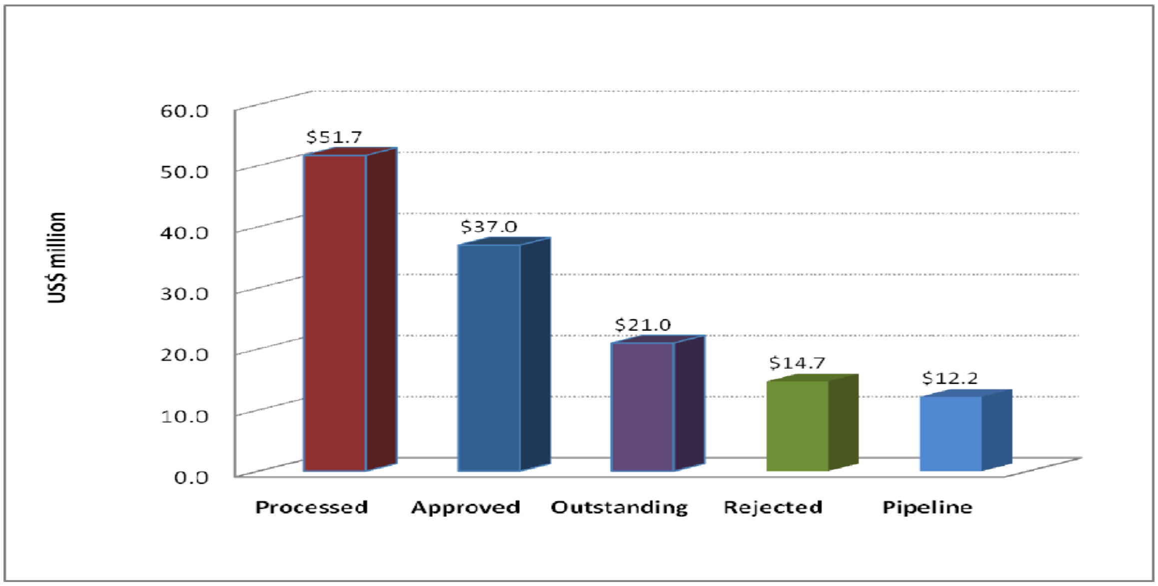
From its inception in the fourth quarter of 2007 though June 2009:

- LGF has processed 177 loan applications totaling $51,697,950, of which:
  - 137 loans in the amount of $36,989,950 were approved;
  - 40 loans totaling $14,708,000 were rejected due to eligibility issues, lack of information, or the project's non-viability;
  - Twelve of the 137 approved loans in the amount of $2,027,000 were subsequently cancelled due to borrower failure to draw on the loans.
- An additional 65 loans totaling $12,214,000 were in various stages of processing (pipeline).
- The LGF portfolio (net of cancellations) consisted of 125 loans in the amount of $34,962,950.
- Ninety-eight loans have been partially or fully disbursed for a total disbursed amount of $22,756,865. The remaining 27 loans are pending disbursement as soon as respective borrower conditions precedent have been fulfilled.

LGF progress during the last year has been strong and we are seeing increased business demand for credit. One year ago, as of June 30, 2008 LGF had approved a total of 20 loans in the amount of $2,897,000. During the last year 117 loans totaling a little over $34 million were approved by LGF. Demand for LGF continues to increase. Just in the month of June 2009 alone, LGF processed 32 loans and approved 25 in the amount of $4,074,750. As a result of increasing demand and volume, LGF is in the process of recruiting additional portfolio officers/analysts.

The following graph illustrates the cumulative outcome of loans processed under LGF from inception up to June 30, 2009.

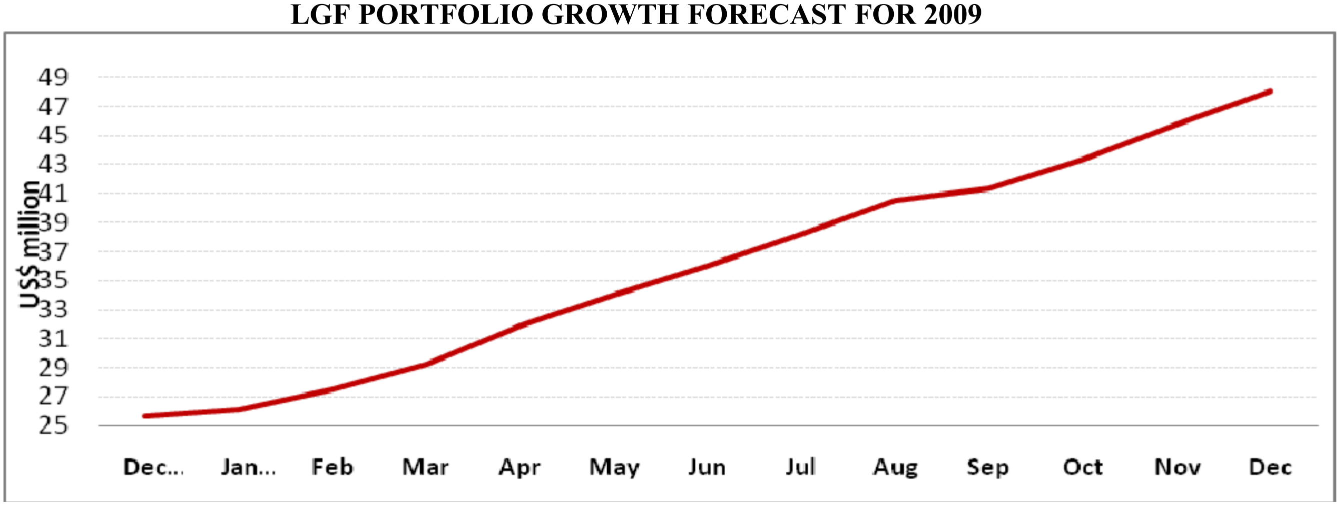
LGF PORTFOLIO STATUS AS OF END OF JUNE 2009



LGF Portfolio Growth:

LGF portfolio growth estimate for the year 2009 is calculated based on historic growth activity, existing pipeline and discussions with the eight partner banks. LGF expects lower activity during the month of Ramadan in August/September.

LGF PORTFOLIO GROWTH FORECAST FOR 2009



B. LGF Portfolio Characteristics

Of the 125 approved loans, 98 loans have been partially or fully disbursed for a total disbursed amount of $22,756,865. The remaining 27 loans are pending disbursement as soon as respective borrower conditions precedent have been fulfilled. The average loan tenor for the 98 disbursed loans is around 3.5 years. The outstanding amount stands at around $21 million, and to date there have been no demands for payment on any guarantee. The portfolio at risk (PAR), calculated for loans in arrears of more than 30 days as of the date of this report, stands at 3.25%. LGF is closely following up with the banks regarding the loans in arrears to ensure that satisfactory collection efforts are being implemented by the banks.

Small businesses have been the primary beneficiaries of LGF guarantees. Nearly 79% of LGF approved loans are between $10,000 and $200,000. The average loan size, excluding the 3 large loans above $500,000 is around $150,000. The following chart provides a profile of LGF guaranteed loan sizes.

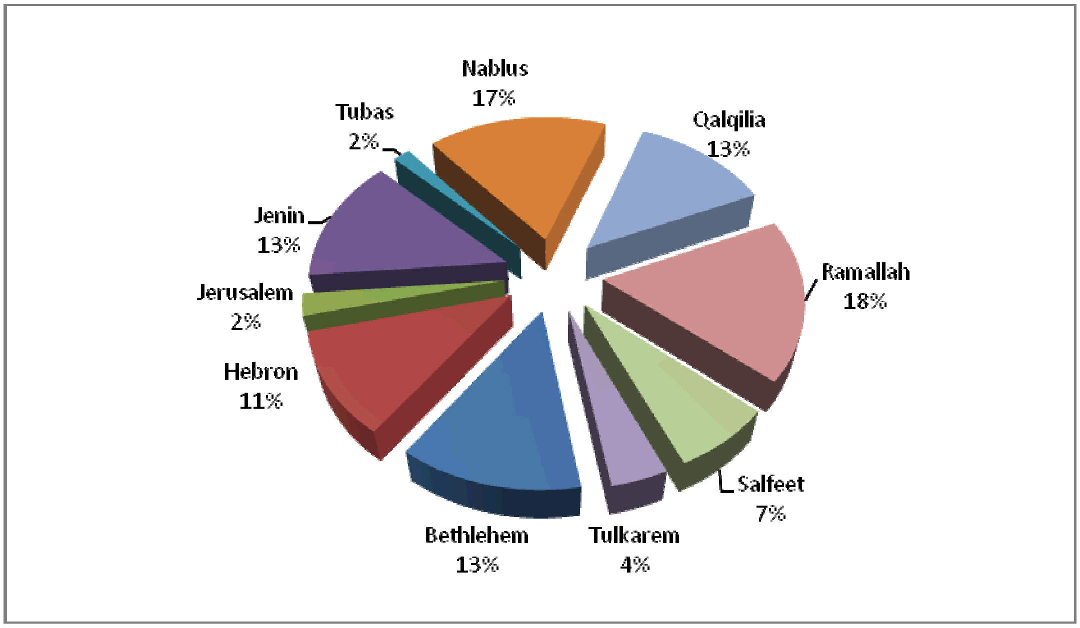
LOAN SIZE PROFILE OF LGF PORTFOLIO

Loan Amount Range	Number of loans	As a %	Sum of Loan Amounts
$10,000 – $50,000	25	20.0%	$773,000
$50,001 – $100,000	42	33.6%	$3,351,350
$100,001 – $200,000	29	23.2%	$4,508,600
$200,001 – $300,000	11	8.8%	$3,175,000
$300,001 – $400,000	6	4.8%	$2,135,000
$400,001 – $500,000	9	7.2%	$4,300,000
>$500,000	3	2.4%	$16,720,000
Total	**125**	**100.00%**	**$34,962,950**

The LGF portfolio is becoming more evenly distributed throughout the West Bank governorates, with 6 of the 11 cities having a share between 11% and 18% of the total portfolio. A year ago, 50% of the portfolio was located in Nablus and Jenin. For the first time, the Ramallah governorate has the largest number of loans (18%) with Nablus coming in second at 17%. It should be noted that the 2% of loans in Jerusalem are located behind the barrier wall in Abu Deis, Izzariah and Al-Ram. Nearly 61% of the LGF portfolio is located in urban areas of the West Bank and 39% in rural areas.

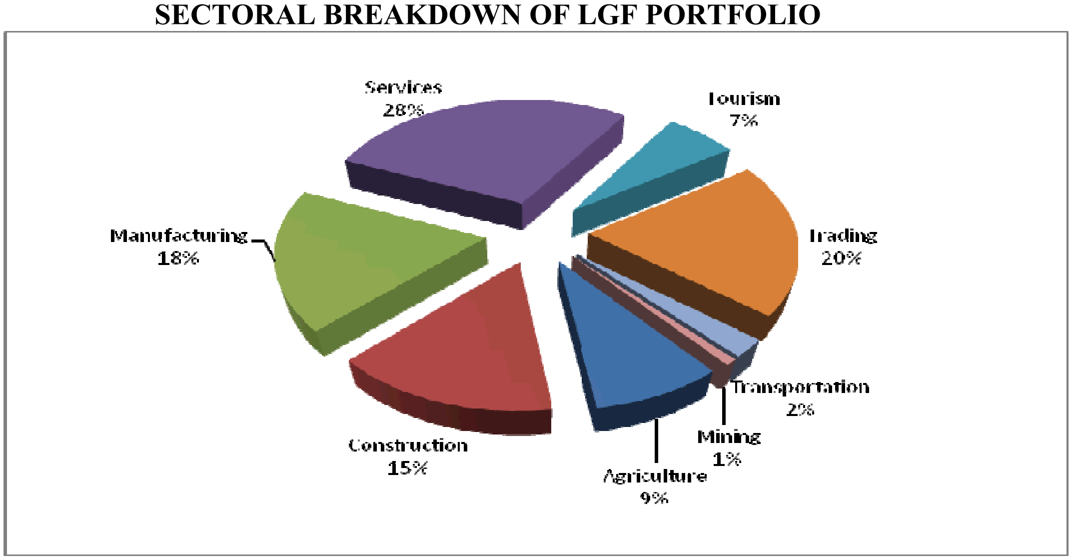
The following charts display the distribution of the LGF portfolio by number, not amount, of loans in terms of location, economic sector, and loan usage.

GEOGRAPHIC BREAKDOWN OF LGF PORTFOLIO



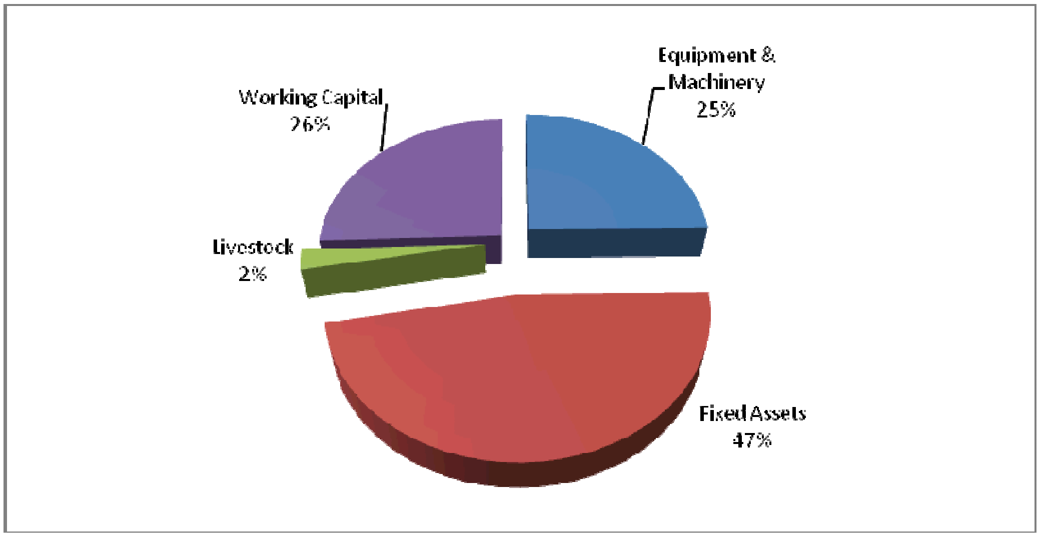
LGF activity is also becoming more diversified among several economic sectors, with general trade, services and manufacturing sectors having the largest shares of the portfolio. A year ago, 65% of the portfolio was in the manufacturing sector alone.

SECTORAL BREAKDOWN OF LGF PORTFOLIO



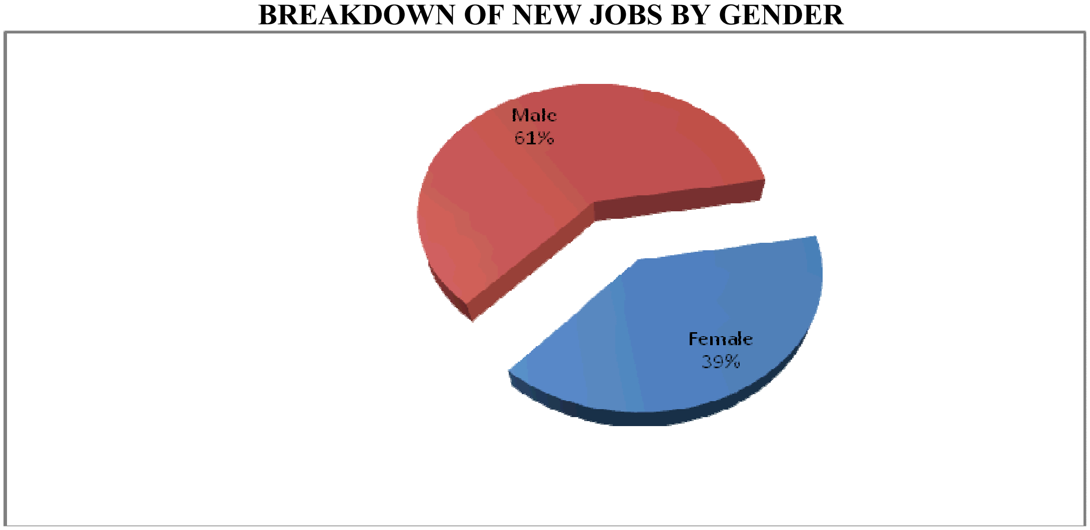
The graph below shows that much of the LGF portfolio went to finance fixed assets and machinery and equipment. However, there appears to be increasing demand for working capital loans, mainly for procurement of inventory. In addition, several banks have asked if LGF could support new working capital credit facilities.

LOAN USAGE OF LGF PORTFOLIO



It is estimated that the 125 guaranteed loans will generate approximately 3,000 new jobs distributed per the following graph.

BREAKDOWN OF NEW JOBS BY GENDER



C. Case Study

Successfully competing with imports on quality and price in the manufacturing sector is a big challenge in the Palestinian territories. Yet one family owned business that manufactures doors and door frames managed to accomplish this feat in a very short period. Established in 2004, the manufacturer's revenues grew to nearly $2 million by 2007. The company successfully competes against imports from Israel and Turkey by selling its quality products, used in the construction and building sector, at 15-20% below the competition. In just two years, its products were available throughout the West Bank, and visible on many billboards in all the major West Bank cities.

LGF supported the company with a guaranteed loan of $400,000 to procure additional equipment to increase productive capacity as part of the strategy to expand into new markets in Jordan, Egypt and the United Arab Emirates. The manufacturer anticipates increasing the number of employees to reach 53 workers as part of its expansion strategy.

MEII is an independent, non-profit organization founded by the Aspen Institute's Middle East Strategy Group to offer specialized financial products in the Palestinian territories and elsewhere in the region to stimulate economic activity and create jobs. MEII was formed to help revitalize economies in the Middle East, recognizing that a strong economic base is critical for social and political stability.

Working with the Overseas Private Investment Corporation (OPIC), the Palestinian Investment Fund (PIF) and CHF International, MEII established the LGF to address the critical issue of access to credit for Palestinian businesses. While many businesses in the West Bank and Gaza would like to expand, they cannot obtain loans because of high collateral requirements – a major impediment to economic growth. By creating a loan guarantee program to reduce the need for excessive collateralization, MEII and its partners are helping to generate $228 million in lending to small- and medium-sized Palestinian businesses.

MEII Board of Directors

Tax–deductible contributions to MEII in the form of a check can be sent to:

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