

The Nita M. Lowey Partnership for Peace Act Fiscal Year 2021 Report to Congress

The United States International Development Finance Corporation and the United States Agency for International Development submit this report pursuant to Title VIII of Division K of Public Law 116-260, the Consolidated Appropriations Act, 2021:

(d) REPORT.—

(1) IN GENERAL.—Not later than 90 days after the end of the first fiscal year in which both the People-to-People Partnership for Peace Fund and the Joint Investment for Peace Initiative are in effect, and annually thereafter, the Administrator of the United States Agency for International Development and the Chief Executive Officer of the United States International Development Finance Corporation shall, in coordination with the Secretary of State, jointly submit to the appropriate congressional committees a report in writing that describes—

(A)(i) lessons learned and best practices developed from funding for projects under the People-to-People Partnership for Peace Fund during the prior fiscal year; and (ii) the extent to which such projects have contributed to the purposes of the People-to-People Partnership for Peace Fund;

(B)(i) lessons learned and best practices developed from investments provided under the Joint Investment for Peace Initiative during the prior fiscal year; and (ii) the extent to which such investments have contributed to the purposes of the Joint Investment for Peace Initiative; and

(C) how the United States International Development Finance Corporation and the United States Agency for International Development coordinate and share information with respect to the People-to-People Partnership for Peace Fund and the Joint Investment for Peace Initiative.

Introduction

Congress enacted the Nita M. Lowey Middle East Partnership for Peace Act (MEPPA) in 2020 to help develop the Palestinian economy and advance peaceful co-existence between Israelis and Palestinians to help enable a sustainable two-state solution. MEPPA authorizes the establishment of the People-to-People Partnership for Peace Fund (PPF), the Joint Investment for Peace Initiative (“The Initiative”), and up to \$250 million over five years, starting with \$50 million in Fiscal Year (FY) 2021.

Implemented through the United States Agency for International Development (USAID), the PPF promotes economic cooperation, people-to-people peacebuilding programs; and advances shared community building, peaceful coexistence, dialogue and reconciliation between Israelis and Palestinians. The Initiative is managed by the U.S. International Development Finance Corporation (DFC), and uses DFC products to catalyze private investment that: promotes Palestinian economic development, increases economic cooperation between Palestinians and Israelis and between Palestinians and Americans, and contributes to greater integration of the Palestinian economy into the international rules-based business system. During the first fiscal year of implementation, USAID programmed \$46.5 million of FY 2021 Economic Support Funds (ESF) and the DFC programmed \$3.5 million ESF for MEPPA.

USAID and the DFC prepared this report in response to annual Congressional reporting requirements. See Section 8006(d) of the “Nita M. Lowey Middle East Partnership for Peace Act of 2020” (Division K, Title VII of Public Law 116-260, December 27, 2020).

(A)(i) lessons learned and best practices developed from funding for projects under the People-to-People Partnership for Peace Fund during the prior fiscal year; and (ii) the extent to which such projects have contributed to the purposes of the People-to-People Partnership for Peace Fund.

USAID’s Mission for the West Bank and Gaza published the first solicitation for the People-to-People Partnership for Peace Fund (PPF) on September 2, 2021, the “Partnership for Peace Grants Activity.”¹ The Mission accepted applications on a rolling basis for one year, until September 2, 2022. During this time, USAID received 166 applications, from 31 U.S.-based organizations, 111 Israeli organizations, 21 Palestinian organizations and three international organizations. The funding requests ranged from \$40,000 to \$5 million and focused on a broad array of sectors and topics, including agriculture, virtual reality, sports, and many more.

After a thorough review process, USAID selected the proposals with the strongest technical merit and responsiveness to the legislation and made nine awards. Five of these nine awards were made to new USAID partners. Through management of their first direct USAID grants, these new partners will build their capacity and be better positioned to attract and leverage funds from other donors.

The primary lesson learned throughout this process is that Palestinian organizations are not applying for funding at the same rate as Israeli organizations in spite of significant outreach efforts. Out of 166 applicants for FY 2021 funding, only 21 Palestinian organizations applied as prime implementers, which accounts for less than 13 percent of the total. In engaging with potential partners, USAID learned that many Palestinian stakeholders were concerned about the reliability of USAID as a partner following the Mission's 2018 pause in programming that lasted for three years. Additionally, some organizations expressed skepticism regarding MEPPA's ability to build equal partnerships between Israelis and Palestinians. It is imperative that USAID improve awareness about MEPPA among Palestinian organizations

¹Solicitations began in September 2021, and MEPPA funds became available for programming in early 2022, after the requisite Operational Plan was approved and congressional notification fulfilled.

and build trust with them, including by publicizing the results of the grants already underway.

As a result, USAID put into place a MEPPA Communications Strategy, focused on the following:

- Building awareness of MEPPA among residents in Israel and the Palestinian territories as a resource to foster people-to-people engagement between Israelis and Palestinians to lay the foundation and grassroots support for a two-state solution; and,
- Encouraging new partnerships with local organizations, with strategic outreach to Palestinian organizations, to increase diversity among applicants for MEPPA funds.

In addition to the nine grants under the Partnership for Peace Grants Activity, the USAID Mission for the West Bank and Gaza also awarded the Building Regional Economic Bridges activity (BREB) to Chemonics International and obligated an initial \$20 million into the contract in September 2022. Startup activities are underway and partnerships are in development. USAID expects to see activities launch in mid-2023. USAID expects more lessons learned once BREB has been implemented for a full year. This year, USAID will focus on launching programmatic activities and collecting baseline data in furtherance of BREB objectives.

BREB's objective is to overcome barriers between the Palestinian and Israeli private sectors and promote joint economic and applied research opportunities at the individual and institutional level. BREB will build trust between buyers and sellers in the region through information-sharing and will expand market reach, including regionally.

Through the BREB contract, the implementing partner will do the following:

- Identify and support cross-border partnerships and trade opportunities for Palestinian firms;
- Support collaboration in research and development between Palestinian and Israeli educational institutions; and,
- Increase the competitiveness of Palestinian companies.

Over the course of five years, USAID expects BREB to provide strategic sub-grants that will strengthen local industry organizations to promote trade, support technology transfer to local firms, and establish mentorship and internship programs. At the conclusion of BREB, USAID expects to have accomplished the following:

- Facilitated at least 75 economic and research partnership agreements between Palestinians, Israelis, and the wider region;
- Increased Palestinian exports by about \$350 million;
- Established at least 25 educational exchange programs and placed 1,500 Palestinian graduates in internships, including in Israel; and,
- Developed a \$50 million pipeline of projects for the DFC or other international investment.

To ensure small, local organizations are able to compete for and implement MEPPA funding, USAID is committed to building the institutional capacity of local organizations. In September 2022, USAID’s Mission for the West Bank and Gaza conducted a capacity-building landscape analysis. The primary feedback received from potential partners is that they want to know how to work with USAID and are not aware of the resources available to them. In response, the Mission is promoting existing resources such as “Working with USAID” – a free global service hub dedicated to engaging potential partners and demystifying the process of collaborating with the Agency. Based on feedback and USAID’s experience with early MEPPA awards, the mission expanded capacity building services available to MEPPA partners, primarily focused on Monitoring, Evaluation, and Learning and Outreach and Communications.

USAID is actively exploring how to generate greater interest and ease the application process. For example, to encourage local organizations to apply in the first year, USAID only required a seven-page concept note for the solicitation for the Partnership for Peace Grants Activity, instead of a full traditional application. USAID also utilized a hands-on co-creation process with applicants who made it through the first review stage. USAID will continue to utilize best practices to encourage new and local organizations to apply.

Because peacebuilding is a long-term process, it is premature to report extensively on the potential political contributions of USAID's efforts at the end of the first year of MEPPA implementation². However, USAID is positioning itself and its partners to build upon the program's successes and lessons learned in real time. USAID created a "MEPPA Community of Practice" to convene the Agency's MEPPA implementers so they can share progress with one another on a regular basis, discuss and troubleshoot challenges, and learn from one another. USAID is also leveraging MEPPA to improve coordination and collaboration among international donors on peacebuilding and people-to-people programs.

USAID will apply standard Monitoring, Evaluation, and Learning practices to MEPPA programs, which will allow USAID to report on achievements and results once activities have had sufficient time to implement. This will include evaluating progress toward accomplishment of the stated goal of MEPPA, which is "To help build the foundation for peaceful co-existence between Israelis and Palestinians and for a sustainable two-state solution." Within this, USAID may look at how MEPPA activities strengthened grassroots efforts to address common challenges and foster peaceful coexistence; enhanced peacebuilding efforts to affect institutional and policy change; and improved economic cooperation ties between Israeli and Palestinian firms and institutions to realize opportunities for cross-border exchanges of knowledge, technology, and commerce.

(B)(i) lessons learned and best practices developed from investments provided under the Joint Investment for Peace Initiative during the prior fiscal year; and (ii) the extent to which such investments have contributed to the purposes of the Joint Investment for Peace Initiative.

Given the relatively short time the Initiative has been active and a challenging business environment in the region, DFC has undertaken significant business development efforts to build a pipeline of potential, viable transactions that can advance MEPPA's goals in the coming years. For FY 2022, these efforts included engagement with Palestinian and Israeli

² Results from MEPPA activities will be reported in the annual Performance Plan and Report, in accordance with standard USAID reporting processes.

businesses, exploration of potential joint ventures, as well as engagement with non-government organizations and think tanks interested in MEPPA. The efforts focused on increasing awareness and understanding of MEPPA, the Initiative, DFC's various products, the criteria used to review projects, and the application process. DFC also worked closely with State Department and USAID colleagues to coordinate and cooperate with their private sector development efforts in the West Bank and Gaza. This included DFC working closely with USAID as it developed the BREB activity to ensure it will not only increase the competitiveness of Palestinian companies, but also their ability to meet DFC criteria.

DFC representatives traveled to Jerusalem and the West Bank three times in calendar year 2022 to meet with potential clients. DFC also worked with the U.S. Embassy in Jerusalem, the Office of Palestinian Affairs, and the USAID Mission to the West Bank and Gaza to hold a virtual town hall in February 2022 to help develop leads and build DFC's MEPPA-related pipeline.

An important lesson from the Initiative's initial engagement has been that many small and medium enterprises (SMEs) interested in DFC support that DFC would like to support have struggled to meet the agency's basic criteria for investments (e.g., sufficiently detailed business plans, shareholder information, audited financial statements, breakdown of funding sources and uses, revenue projections, etc.). This is in part due to the relatively small size of the Palestinian private sector economy. Where possible, DFC has worked with potential clients to guide them through the steps necessary to prepare an application and navigate DFC's due diligence process. As part of this process, clients have commented that working with DFC on an application and due diligence helped them strengthen their business plans, processes, and policies – which have lasting, positive impacts on a business even if the transaction does not reach commitment or financial close.

In cases where DFC support may not be the suitable for a company, DFC has referred potential smaller requests for financing (i.e., under \$1 million) to an on-lending program managed by the Middle East Investment Initiative (MEII), which DFC supports through the

Loan Guarantee Facility 3. MEII is better positioned to meet the needs of smaller companies through local financial institutions and in local currency. In addition, DFC is working with USAID's Small and Medium Enterprise Assistance for Recovery and Transition (SMART) and BREB activities to identify projects that could benefit from their support to build and develop the companies, some of which may be able to apply for DFC support at a later date. DFC's own technical assistance program may also be applicable to potential MEPPA projects in need of additional support. For example, the allocation of \$3.5 million in MEPPA funds in FY 2021 allowed DFC to provide much-needed technical assistance funding for MEII's continued Coordinating Agent services. The transaction facilitated increased lending to SMEs across the West Bank with monitoring support for existing loans through 2027. This increased engagement with the Palestinian private sector will play an important role in building trust and familiarization with DFC and meeting the goals of MEPPA and the Joint Investment for Peace Initiative, laying the foundation for successful implementation of the Initiative.

Despite these engagements, no projects were committed under MEPPA in FY 2022. However, each interaction allowed DFC to better understand the working environment and how its resources might be able to be deployed in a meaningful manner. It is not uncommon for it to take some time for there to be a viable pipeline of partners to work with, which DFC has actively been working towards. It looks forward to continued work in the region with the private sector in 2023.

For more information on DFC's implementation of the Joint Investment for Peace Initiative, see its latest annual report prepared in response to Congressional reporting requirements in PL 116-260, Division K, Sec 8005(e).

(C) how the United States International Development Finance Corporation and the United States Agency for International Development coordinate and share information with respect to the People-to-People Partnership for Peace Fund and the Joint Investment for Peace Initiative.

USAID and the DFC meet twice a month to discuss implementation plans and lessons learned with respect to the People-to-People Partnership for Peace Fund and the Joint Investment for Peace Initiative. Program leaders at each agency also meet more frequently when necessary, and DFC officials coordinate regularly with USAID and State Department officers in Jerusalem with responsibility for the West Bank and Gaza. Additionally, USAID hosts a monthly interagency call with the DFC and the State Department to coordinate on MEPPA. DFC staff on official travel to Israel and the West Bank routinely meet with USAID staff and jointly meet with external stakeholders. As previously noted, DFC officers traveled to Jerusalem to meet with USAID and State Department staff to coordinate their activities.

USAID and DFC also have increased cooperation and coordination with the start of the BREB program, as it begins to identify beneficiaries, some of whom may become eligible for DFC financing following support from USAID.