

*Proposal for the Creation of a Palestinian Private Sector Grant Facility (PSGF)*

***Executive Summary***

**The Portland Trust recommends that a consortium of donors establish a Palestinian Private Sector Grant Facility (PSGF), specifically for substantial private sector projects that generate significant development benefits, including investment in Palestinian Industrial Zones.**

In light of pressure on aid budgets at a time of contraction in credit markets, and given the urgent need for sustainable growth and job creation in the Palestinian economy, we believe this is a crucial new role for donors to play.

The private sector has a vital role to play in helping to raise the Palestinian standard of living but the Palestinian private sector needs encouragement and support in order to overcome obstacles inherent to the nature of large Palestinian investments.

The PSGF will boost the private sector's ability to attract finance, by making available at the outset of a project a grant equivalent to 15% of the total investment. \$100 million of aid used in this way would attract close to \$700 million of investment from the private sector, with very significant impact on the Palestinian economy. It is estimated that a \$1 billion investment in residential housing, for example, would result in GNP growth of 1.5% a year for each of five years and touch the lives of 200,000 people.

A minimum grant of \$1 million from the facility would need to be leveraged with equity and/or debt of about 7 times the amount.

The PSGF's unique features are:

- Focus on significant private sector projects (e.g. construction, manufacturing, energy, logistics, etc.). The Facility targets projects that generate economic growth, create jobs, improve living standards and generate tax revenues for the Palestinian Authority.
- Efficient and market-friendly governance structure, where roles and responsibilities are well defined in order to ensure maximum effectiveness. An independent private sector manager will implement the facility.
- The PSGF will help to create a strong pipeline of viable projects.
- The PSGF will work closely with IFIs and providers of risk mitigation services.
- The PSGF will initially be available for projects starting within two years of the PSGF's inception.

**Structure, decision-making and governance:**

The structure of the PSGF aims to avoid bureaucracy, leverage stakeholders' value-added and avoid conflicts of interest. Private sector businesses, entrepreneurs and private equity investors, and advisers have a strategic role to play and the operation of the PSGF must be efficient and ensure compliance with effective development, governance and due diligence standards.

