
Request to replenish the IFAD Fund for Gaza and the West Bank from regular grant resources for a strategic initiative: Rural Financial Inclusion Project in Palestine

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Useful references: Proposal for the provision of “seed money” for two strategic initiatives: (i) the scaling up of the Participatory Natural Resource Management Programme through the IFAD Fund for Gaza and the West Bank; and (ii) the Rural Economic Growth and Employment Project in Jordan through the IFAD Facility for Refugees, Migrants, Forced Displacement and Rural Stability ([EB 2016/119/R.33](#))

Action: The Executive Board is invited to approve the resolution contained in paragraph 19.

Technical questions:

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Request to replenish the IFAD Fund for Gaza and the West Bank from regular grant resources for a strategic initiative: Rural Financial Inclusion Project in Palestine

I. Introduction

1. Governing Council resolution 107/XXI, adopted on 12 February 1998, established an IFAD Fund for Gaza and the West Bank (FGWB). Paragraph 7 of the resolution states that "IFAD shall use the resources of the FGWB to provide financial assistance for projects and programmes in the form of loans and grants for Gaza and for such areas, sectors and activities in the West Bank which are or will be under the jurisdiction of the Palestinian Authority (PA) pursuant to the relevant Israeli-Palestinian agreements consistent with the purposes of IFAD".
2. Paragraph 3 of the resolution stipulates that "the FGWB shall be authorized to receive the following resources for the general purposes of the FGWB or for specific projects or programmes supported by the FGWB":
 - (a) Contributions made in a freely-convertible currency directly by Member States of IFAD;
 - (b) Contributions made in a freely-convertible currency by non-Member States of IFAD, other entities and private individuals, subject to the approval of the President of IFAD;
 - (c) Funds, in such amounts as the Executive Board may, from time to time, decide to transfer from the regular resources of IFAD that are or may be available under the IFAD programme of work and budget approved for each year; and
 - (d) Funds from other resources, subject to the approval of the Executive Board.
3. Management proposes the allocation of US\$2 million from the IFAD grant envelope to the FGWB as seed money for a strategic initiative in the pipeline with the objective of attracting additional funding from interested donors. EUR 11 million in grant financing from the European Union is envisaged, contingent on IFAD allocating a financial contribution of at least US\$2 million.
4. The requested US\$2 million will enable IFAD to leverage better impact on the ground through the improvement of in-country capacity for greater sustainability of benefits; and foster a more conducive policy and investment environment for smallholder agriculture and rural development. These two goals are in line with the strategic objectives of IFAD's new Regular Grants Policy.
5. Palestine has long been affected by high institutional and social fragility. In accordance with priority commitment area 2 for the regular grants programme during the Twelfth Replenishment of IFAD's Resources (strategic focus on fragility, conflict and building resilience), the grant resources will be used to achieve more effective operations, leverage resources and strengthen collaboration in fragile, emergency and conflict-affected situations.
6. In line with the provision on the establishment of the FGWB, the loans and grants provided by the FGWB shall follow normal IFAD processes ("be in accordance with the terms, conditions, rules, regulations, guidelines and procedures applicable to loans and grants provided by IFAD from its regular resources").

II. IFAD's investment

A. Background

7. The FGWB is currently the only IFAD vehicle for financing operations in Palestine, given its observer status. So far, the FGWB has received IFAD resources of about

US\$15 million for the Participatory Natural Resource Management Programme (PNRMP) (2000-2015, West Bank only) and US\$4.56 million for the ongoing Resilient Land and Resource Management Project (RELAP) (West Bank). RELAP completion is expected by 30 June 2024.

8. Given the successful completion of PNRMP and the achievements under the ongoing RELAP, IFAD's leading role in rural development is acknowledged by development actors. There is heavy demand to increase IFAD's engagement to address increasing fragility due to climate change, the COVID-19 pandemic and now the war in Ukraine.
9. The agriculture sector in Palestine has long been affected by political uncertainty and instability, which directly affect food security. These challenges have been further exacerbated by the current global food crisis. An important area identified for IFAD engagement is the rural finance sector. A strong, vibrant financial sector in rural areas allows poor people to better cope with challenges by managing their household cash flows and engaging in new agricultural activities that will boost rural economies.
10. In this regard, IFAD prepared a concept note for a project to increase the financial inclusion of small-scale farmers in rural areas of Gaza and the West Bank. Based on the positive remarks from the European Union delegation in Palestine, the concept note was further developed into a draft design report for the Rural Financial Inclusion Project in Palestine (RUFIPP), which will be reviewed and adjusted during the design process based on the amount of financing mobilized and will be subject to IFAD's internal clearance procedures.

B. Rural Financial Inclusion Project in Palestine

11. Most small-scale farmers in Palestine lack access to adequate financial products and services, a situation even more common among rural women, youth and landless poor households. As a result, they have limited opportunities to invest in new ventures and expand their businesses, increase their resilience and improve their livelihoods. What is constraining current outreach is the mismatch between the supply of financial products and services and the demand and needs, due to the low level of financial literacy among the poorer segments of the rural population.
12. **Project goal and components.** The overall goal of RUFIPP is to increase communities' resilience to economic and environmental shocks and improve the livelihoods of poor, excluded people. RUFIPP has three components:
 - Component 1 – Inclusive rural financial literacy and awareness-raising.
 - Component 2 – Provision of inclusive rural financial products and services.
 - Component 3 – Capacity-building and strengthening of rural financial institutions.
13. **Rationale for IFAD engagement.** IFAD has a significant opportunity to help Palestinians address some of the key constraints of their very difficult environment. IFAD assists in developing access to financial services as a means of increasing the resilience, adaptability and productivity of rural poor people at a time of economic and political instability, coupled with the ongoing stress of climate change and the setbacks resulting from the pandemic and the war in Ukraine, which have also impacted the financial sector.
14. IFAD is viewed as a long-term partner with expertise in rural transformation generally and inclusive rural finance specifically. In the Palestinian context, IFAD's comparative advantage lies in its experience working with rural financial institutions, especially community-based institutions, and associated apex institutions to improve rural livelihoods by providing inclusive financial services to

meet the needs of target beneficiaries and strengthening the inclusive rural financial sector.

15. IFAD can bring that experience to Palestine by helping to implement its models for improving financial literacy, business management, building the ecosystem for rural finance, promoting digital financial inclusion and providing support to a range of fledgling sector institutions in need of strategic direction for growth and development. IFAD's focus on rural smallholders, enterprises, women and youth give it a comparative advantage in providing access to finance for the diversification and growth of their income sources.
16. **Project duration and target areas.** The project will be implemented over six years and will work in rural areas of the West Bank (Area B and C) and Gaza. Special focus will be on areas with the highest prevalence of poverty and food insecurity and those that are underserved in terms of financial inclusion. The project's main target groups are: (i) smallholder farmers; (ii) micro, small and medium-sized rural enterprises; (iii) rural women; and (iv) rural youth.
17. **Impact.** Overall, RUFIPP is expected to reach 24,000 people directly, including 10,000 women and 8,000 youth. Through access to financial products and services, the project is expected to create job opportunities for 13,000 men and women along the agricultural value chains and in micro, small and medium-sized enterprises through their expansion. The project will also have an indirect impact on a range of users of financial services and products through its work on a supportive rural finance policy for enhanced access for women and youth and benefits for people who send or receive remittances, use digital financial services, etc.
18. **Financial envelope and potential donors.** IFAD is seeking to raise about EUR 20 million (US\$2 million of it from IFAD) in the form of grants. Efforts are being made to mobilize financing from development partners. The discussions with the European Union for an amount of EUR 11 million, contingent on IFAD cofinancing, are at an advanced stage. In addition, the Italian Agency for Development Cooperation and the Spanish Agency for International Development Cooperation have expressed strong interest in cofinancing the project. Finally, bilateral talks with the Islamic Development Bank on a potential partnership are heading in a positive direction. The requested amount of US\$2 million from IFAD resources will make it possible to mobilize around US\$18 million in cofinancing.

III. Recommendation

19. I recommend that the Executive Board approve the following resolution:

RESOLVED: that an amount of US\$2 million from regular grant resources be transferred to the IFAD Fund for Gaza and the West Bank to provide seed money for the Rural Financial Inclusion Project in Palestine.

Gilbert F. Hougbo
President