

Micro Credit Institution Caritas Jerusalem “The Holy Land”

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Background Information

This case study describes a Micro Credit Institution located in Jerusalem – Palestine. Caritas Jerusalem (C.J) was established in 1967 in the Holy Land. Caritas Jerusalem is a Palestinian humanitarian and developmental organization that represents the Socio-pastoral Services of the Catholic Church in the Holy Land. It was founded to respond to the emergency situation in the aftermath of the six days war, where the Israel occupied the West Bank and Gaza Strip and thereby hundreds of Palestinian cities and towns. It is a **Church related Non governmental Organization.**

CJ is a member of Caritas Internationalis (CI). CI is a confederation of more than 162 separate Caritas organizations operating in more than 200 countries and territories worldwide. As a confederation member, CJ works toward the realization of the vision of CI, which is: A Civilization of Love. Caritas works without regard to creed, race, gender, or ethnicity, and is one of the world’s largest humanitarian networks.

Organization Structure

Figure 1.1 represents an organization structure for the CJ that is currently in place. The main office is in Jerusalem; in addition the premises of the different local churches within the different areas that are used as sub-offices for repayment collection and meeting with possible beneficiaries during the outreach activities. Moreover, Caritas Clinics are used as sub-offices as well.

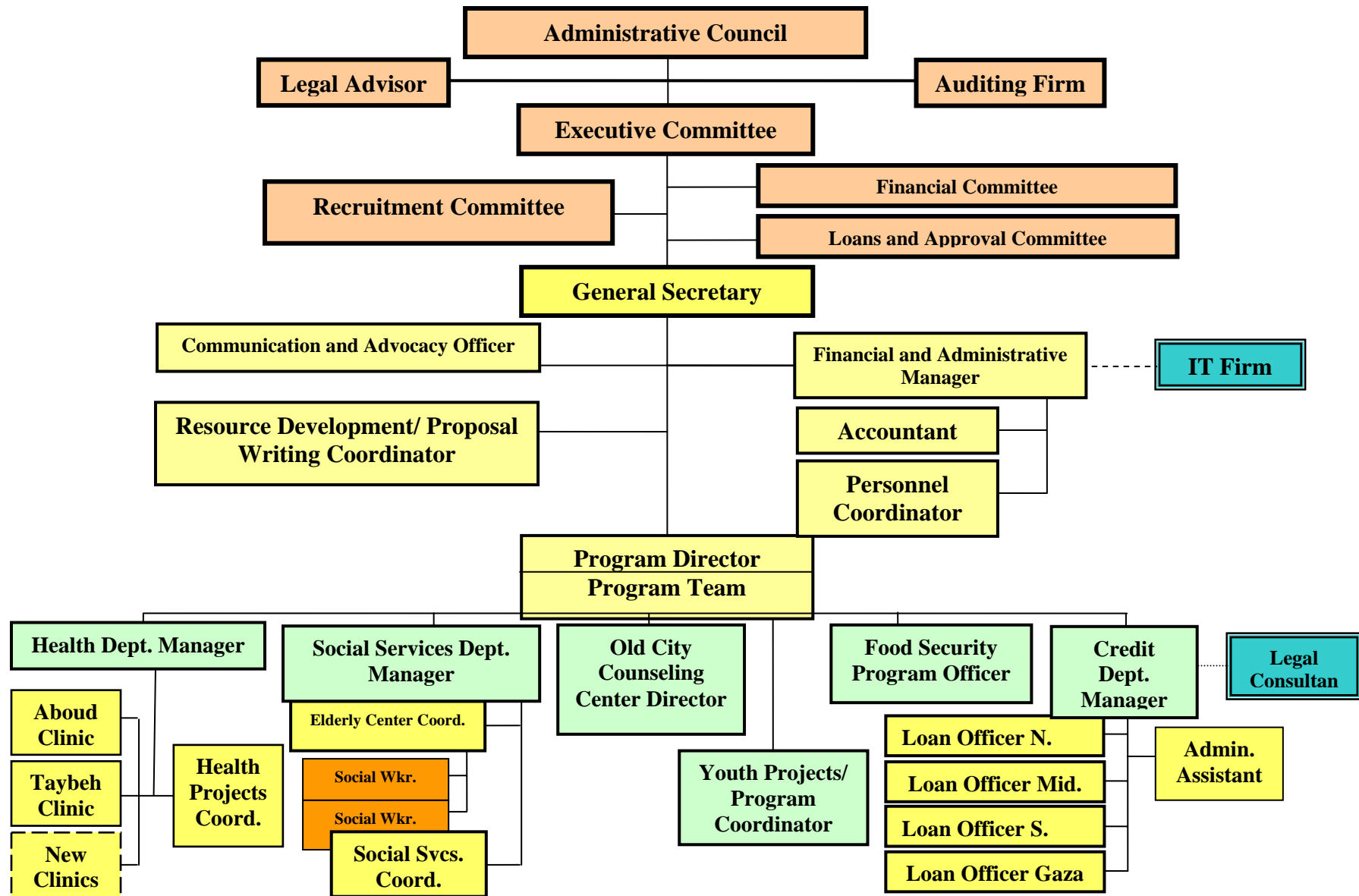


Figure 1.1 – Organization Structure

Institution's mission:

To alleviate poverty and promote human development and social justice, witnessing to the Christian faith and Gospel values.

It is a world:

1. which reflects the Reign of God, where justice, peace, truth, freedom and solidarity prevail
2. In which the dignity of the human person, made in the image of God, is paramount
3. In which exclusion, discrimination, violence, intolerance and dehumanizing poverty are no more present
4. Where the goods of the earth are shared by all.
5. Where all creation is cherished and held in trust for the common good of future generations
6. Where all people, especially the poorest, the marginalized and the oppressed, find hope and are empowered to come to the fullness of their humanity as part of a global community.

Number of staff

Two credit officers are employed in the Credit department along with a part time accountant. The credit officers are responsible for granting **individual loans**. In addition to extending individual loans, the institution provides for individual training, follow-up and accompaniment.

The **main funding sources** are the other members of the Caritas Confederation.

AVERAGE LOAN TERMS

An individual requesting financial assistance through Caritas Jerusalem's Credit Department must provide all the necessary documents according to the adopted " *Loan application mechanism* " i.e. submit a written request explaining his/her social and economic situation and his need for the loan. Two qualified guarantors with steady sources of income must be presented to complete the application, in addition to a guarantee for deduction at source in case of default.

A Caritas Loan officer conducts a field investigation to confirm the purpose and need for the proposed loan and helps determine project feasibility. He also investigates the background and character of the potential borrower. The credit report and recommendations of the loan officer provide the basis for discussion of the application by the seven - member loan reviewing committee (LRC).

The loan fund committee discusses the application and a decision is normally made within four weeks of receipt of an application. The applicant is informed either by phone or in writing the decision of the Loan Reviewing Committee.

Each applicant must pay 6-7% non-refundable Administrative fee depending on the approved loan amount. This up-front administrative fee is divided into two parts:

1. Covering the operational expenses of the program.
2. One percent is capitalized in the same fund and is considered as the community contribution. As of 2003, a decision was taken by the L.R.C to add the 1% to the loan reserve fund. Moreover, in 2005, \$10 application fee will be charged only for approved loans.

Depending on approved amount of the loan (approved by the Loan Reviewing Committee), *the administrative fees, grace period, and repayment period is determined as per the following schedule:*

Loan Amount	Nominal Interest Rate (Administrative Fees – Paid upfront)	Effective Interest Rate	Grace period	Repayment Period
\$2,000 - 4,999	6%	7.9%	2 Months	20 Months
\$5,000 - 9,999	6%	6.3%	2 Months	25 Months
\$10,000 and over	7%	5.2%	3 Months	35 Months

Payments are due at the beginning of each month as indicated on the promissory notes and the Loan Agreement.

The beneficiary and guarantors must normally sign 20-35 promissory notes, each due at the beginning of a month.

Methods used to assess the poverty level of clients:

Different rapid assessment methods are used to assess the poverty level of the clients like the visual indicators of poverty (the residential quality), and simple unstructured questionnaires. The loan officers and the administration of the institution feel that such methods are simple, practical and low cost.

This assessment is used prior to considering the applicant for a loan, and five – six months after the disbursement of the loan.

In addition, a clear screening criteria set by the Loan Reviewing Committee is used in the selection of beneficiaries.

Average Loan Balance per Borrower

As indicated by the mission of the institution, the Caritas loan office extends individual loans without carrying any savings from the population. The funds used are collected from various sources mainly the members of the confederation in the world. Therefore, no savings accounts are carried by the institution.

The Caritas Jerusalem credit office extends credit for a variety of reasons including income generating projects, housing, emergency and educational oriented. A distribution showing the average of these loans is shown in table 1.1, which shows the average loan balance per borrower in each of the last six years:

Table 1.1 – Average Loan Balance for each of the last six years

Year	Income Generating	Housing	Emergency	Educational	Average for all Loans
1999	\$2,322.2	\$1,683.9	\$2,012.1	\$1,629.8	\$1,912.0
2000	\$2,092.5	\$1,672.2	\$1,698.4	\$1,588.6	\$1,763.0
2001	\$2,073.4	\$1,701.4	\$1,830.7	\$1,382.8	\$1,747.1
2002	\$2,261.9	\$1,902.3	\$1,929.0	\$1,513.9	\$1,901.8
2003	\$2,305.8	\$1,745.7	\$2,099.0	\$1,075.1	\$1,806.4
2004	\$2,332.4	\$1,846.2	\$1,706.8	\$1,523.3	\$1,852.2
Average for all years	\$2,231.37	\$1,758.62	\$1,879.36	\$1,452.26	\$1,830.40

Borrower Distribution

Although the records of the institution does not provide enough information that helps the determine the poverty line of the borrowers and the beneficiaries, it still consists some detailed information about the groups targeted by the loans. It is noticeable that there no illiterate borrower among the beneficiaries of the institution. Table 1.2 below, shows the distribution of beneficiaries by sex, while table 1.3 shows the distribution of beneficiaries by place of residence; that is Rural or Urban.

Table 1.2 – Distribution of Beneficiaries by sex (F = Female; M = Male)

Loan Type		1999				2000				2001			
		#		%		#		%		#		%	
		F	M	F	M	F	M	F	M	F	M	F	M
INCOME GENERATING	CURRENT	16	84	16%	84%	9	37	20%	80%	0	9	0%	100%
	CUMULATIVE	45	231	16%	84%	48	223	18%	82%	30	221	12%	88%
HOUSING LOANS	CURRENT	21	62	25%	75%	14	36	28%	72%	6	20	23%	77%
	CUMULATIVE	31	170	15%	85%	39	156	20%	80%	37	140	21%	79%
EMERGENCY LOANS	CURRENT	5	22	19%	81%	4	7	36%	64%	2	10	17%	83%
	CUMULATIVE	15	63	19%	81%	15	59	20%	80%	13	63	17%	83%
EDUCATIONAL LOANS	CURRENT	5	10	33%	67%	3	6	33%	67%	1	5	17%	83%
	CUMULATIVE	10	22	31%	69%	11	22	33%	67%	9	23	28%	72%
Loan Type		2002				2003				2004			
		#		%		#		%		#		%	
		F	M	F	M	F	M	F	M	F	M	F	M
INCOME GENERATING	CURRENT	3	23	12%	88%	2	20	9%	91%	1	19	5%	95%
	CUMULATIVE	35	225	13%	87%	36	231	13%	87%	34	220	13%	87%
HOUSING LOANS	CURRENT	4	26	13%	87%	10	28	26%	74%	11	38	22%	78%
	CUMULATIVE	32	145	18%	82%	32	161	17%	83%	35	165	18%	83%
EMERGENCY LOANS	CURRENT	2	7	22%	78%	0	8	0%	100%	2	3	40%	60%
	CUMULATIVE	16	66	20%	80%	12	60	17%	83%	14	64	18%	82%
EDUCATIONAL LOANS	CURRENT	2	4	33%	67%	1	1	50%	50%	3	1	75%	25%
	CUMULATIVE	11	24	31%	69%	10	31	24%	76%	11	18	38%	62%

Table 1.3 – Distribution of Beneficiaries by Area (R = Rural, U = Urban)

Type of Loan		1999				2000				2001			
		#		%		#		%		#		%	
		R	U	R	U	R	U	R	U	R	U	R	U
INCOME GENERATING	CURRENT	22	78	22%	78%	16	30	35%	65%	7	14	33%	67%
	CUMULATIVE	56	220	20%	80%	40	231	15%	85%	45	206	18%	82%
HOUSING LOANS	CURRENT	24	59	29%	71%	19	31	38%	62%	5	21	19%	81%
	CUMULATIVE	76	125	38%	62%	85	110	44%	56%	79	98	45%	55%
EMERGENCY LOANS	CURRENT	18	9	67%	33%	2	9	18%	82%	0	12	0%	100%
	CUMULATIVE	4	74	5%	95%	6	68	8%	92%	4	72	5%	95%
EDUCATIONAL LOANS	CURRENT	2	13	13%	87%	0	9	0%	100%	0	6	0%	100%
	CUMULATIVE	3	29	9%	91%	3	30	9%	91%	2	30	6%	94%
		2002				2003				2004			
		#		%		#		%		#		%	
		R	U	R	U	R	U	R	U	R	U	R	U
INCOME GENERATING	CURRENT	9	17	35%	65%	5	17	23%	77%	4	16	20%	80%
	CUMULATIVE	42	218	16%	84%	44	223	16%	84%	45	209	18%	82%
HOUSING LOANS	CURRENT	9	21	30%	70%	8	30	21%	79%	16	33	33%	67%
	CUMULATIVE	69	108	39%	61%	71	122	37%	63%	74	126	37%	63%
EMERGENCY LOANS	CURRENT	0	9	0%	100%	2	6	25%	75%	0	5	0%	100%
	CUMULATIVE	4	78	5%	95%	5	67	7%	93%	5	73	6%	94%
EDUCATIONAL LOANS	CURRENT	2	3	40%	60%	1	1	50%	50%	1	3	25%	75%
	CUMULATIVE	3	32	9%	91%	2	39	5%	95%	3	26	10%	90%

Out of the income generating loans, a high percentage was dedicated in the past for the formation of new small businesses. Table 1.4 summarizes the percentage of those starting their enterprises for the first time as a result of receiving the loan.

Table 1.4 – Clients starting micro enterprises for the first time

<i>Year in which the loan is granted</i>	<i>Percentage of Income Generating Loans used for starting a new business</i>
1999	86.96%
2000	88.56%
2001	87.65%
2002	94.23%
2003	74.91%
2004	82.68%

As previously mentioned, and as described in the appendix of this case study, the political environment is a major factor that affects the collection of the loans. In the years after 2000, it is noticed that there is a decline in both the operational and financial self-sufficiency due to a decline in revenues. This is true although the number of active loans remained in the same range as it used to be before the year 2000. Table 1.5 shows the number of active loans in the last six years followed by Tables 1.6 and 1.7 that summarize both the operational self-sufficiency and financial self-sufficiency respectively.

Table 1.5 – Number of active loans

<i>Year</i>	<i>Number of total Active loans</i>
1999	587
2000	573
2001	536
2002	554
2003	573
2004	561
Average	564

Table 1.6 – Operational Self-sufficiency

<i>Year</i>	<i>Revenue</i>	<i>Interest Revenue BANK</i>	<i>1%</i>	<i>Subsides</i>	<i>Operational Costs</i>	<i>Total Provisions</i>	<i>Operational Self-Sufficiency</i>
1999	\$40,348	\$10,722	\$8,050	\$0	\$36,495	\$0	139.94%
2000	\$23,995	\$23,806	\$4,772	\$2,721	\$33,695	\$0	133.79%
2001	\$13,522	\$7,595	\$2,604	\$0	\$38,425	\$0	54.96%
2002	\$16,343	\$5,124	\$3,219	\$0	\$39,351	\$0	54.55%
2003	\$15,105	\$4,942	\$0	\$0	\$39,074	\$2,941	47.71%
2004	\$16,250	\$3,917	\$0	\$0	\$39,173	\$3,250	47.54%

Table 1.7 – Financial Self-sufficiency

	<i>Revenue</i>	<i>Interest Revenue BANK</i>	<i>1%</i>	<i>Subsides</i>	<i>Operational Costs</i>	<i>Total Provisions</i>	<i>Financial Costs *</i>	<i>Financial Self-Sufficiency</i>
1999	\$40,348	\$10,722	\$8,050	\$0	\$36,495	\$0	\$100	139.55%
2000	\$23,995	\$23,806	\$4,772	\$2,721	\$33,695	\$0	\$100	133.39%
2001	\$13,522	\$7,595	\$2,604	\$0	\$38,425	\$0	\$100	54.82%
2002	\$16,343	\$5,124	\$3,219	\$0	\$39,351	\$0	\$100	54.41%
2003	\$15,105	\$4,942	\$0	\$0	\$39,074	\$2,941	\$100	47.60%
2004	\$16,250	\$3,917	\$0	\$0	\$39,173	\$3,250	\$100	47.43%

Revenue, as it appears in both of tables 1.6 and 1.7, refers to the 5% charged to loan balances outstanding. While interest revenue refers to the interest credited to the accounts of Caritas on deposits of excess funds in local banks. In year 2003, the administration decided to start using 1% of the amounts collected to cover bad debts. Before that date, the 1% used to be capitalized and paid out in new loans as a revolving fund.

As for the operational costs, table 1.8 summarizes the costs of running this operation at Caritas offices in Jerusalem.

Table 1.8 – Operational costs

	<i>Salaries</i>	<i>Other expenses</i>	<i>Vehicle Expenses</i>	TOTAL
1999	31,395.00	4,300.00	800.00	36,495.00
2000	31,395.00	1,300.00	1,000.00	33,695.00
2001	34,125.00	1,000.00	3,300.00	38,425.00
2002	37,537.50	800.00	1,013.00	39,350.50
2003	37,537.50	800.00	736.00	39,073.50
2004	37,537.50	800.00	835.00	39,172.50

The current political situation, and the deteriorating economic environment in the country, is adding to the burden which is reflected in the higher rate of portfolio at risk in the years of the second uprising, and an increase in the rate of arrears and past due debts at the same time. This is shown in the following two tables (tables 1.9 and 1.10)

Table 1.9 – Portfolio at risk

	<i>Income Generating</i>	<i>Housing</i>	<i>Emergency</i>	<i>Educational</i>	<i>Average</i>
1999	6.97%	6.06%	7.22%	5.00%	6.31%
2000	12.90%	10.03%	12.01%	7.85%	10.70%
2001	20.72%	15.90%	17.35%	15.54%	17.38%
2002	21.57%	17.42%	19.84%	18.93%	19.44%
2003	21.63%	17.74%	22.90%	22.51%	21.19%
2004	22.50%	16.03%	25.63%	20.42%	21.15%

Table 1.10 – Arrears Rate

	<i>Income Generating</i>	<i>Housing</i>	<i>Emergency</i>	<i>Educational</i>	<i>Average</i>
1999	8.72%	6.74%	9.16%	0.00%	6.16%
2000	13.40%	9.59%	10.14%	0.00%	8.28%
2001	18.83%	12.72%	17.07%	3.20%	12.96%
2002	23.20%	15.96%	24.49%	14.38%	19.51%
2003	22.65%	14.64%	24.39%	13.31%	18.75%
2004	20.95%	12.91%	22.77%	11.61%	17.06%

In order to give the reader some insight into the activities of the Caritas, following is a description of three different beneficiaries. It is noticed from the visits to the various case sites that the political situation and the instability and uncertainty in the surrounding environment are major factor that deprive small businesses from growth and expansion. The three loans briefly described below were given in different political stages. Some insight about the effect of the political situation on the activities of the Caritas is given to the reader after the end of the case studies.

Case study # 1

Olive wood handicraft:

The Palestinian Handicraft industry has been in existence for many generations. While most of the production was distributed in souvenir stores in the local market to be sold to tourists and pilgrims, very little attention was given to the export potential of the sector.

BENEFICIARY PROFILE	
Location	Beit Sahour.
Martial status	Married.
Age / Gender	34 years / Male.
Education	High School.
Dependent Family members	Four children and the spouse.
Other dependents	Elderly mother.
Main source of Income	The olive wood and mother of Pearl Handicrafts workshop.
Other sources of Income	Waiter at the Greek Catholic Patriarchate earning \$ 400 a month
Standard of Living	Good. Owned House.

PROJECT INFORMATION / PRIOR TO LOAN	
Location	Beit Sahour
Project / Production	Olive wood and mother of Pearl handicrafts.
Capital	\$ 3,500
Type of project	On Going / Support / Production..

The objective of the loan was to purchase 50 kilograms of pure mother of pearl to be used in producing handicrafts. This investment was done in preparation for the expected Jubilee.

LOAN TERMS	
Approved	US \$ 3,000
Repayment Period	20 Months.
Grace period	2 months.
Administrative fees	6%
Date of loan disbursement	October 1999 (prior to the eruption of the second intifada)

IMPACT OF THE LOAN / COMMENTS	
✓	During the first half of the year 2000, the monthly net income of the workshop has increased from 3,000 NIS (approximately \$730) to over \$920.
✓	The marketing possibilities expanded and distribution channels crossed the borders of the Bethlehem area to cover Nazareth and Jerusalem.
✓	The workshop offered a part time employment opportunity.
✓	The loan was settled in full despite the outbreak of the Intifada (second uprising). Nevertheless, after a follow-up visit to the applicant during 2002 the workshop was found closed as the applicant used up his capital. The applicant is now working on daily bases at another big olivewood workshop in Bethlehem.
✓	Today, and according to estimates from the Palestinian Federation of Chambers of Commerce, nearly 70% of olive wood production goes to the local market, while the remaining 30% is exported internationally through Israeli Agents, directly by some of the large producers, and through personal selling in churches and malls in various countries.

Case study # 2

Plastic Jewelry boxes Workshop.

BENEFICIARY PROFILE	
Location	Ramallah / West Bank.
Martial status	Married.
Age / Gender	39 Years / Male.
Education	Primary School.
Dependent Family members	Five children and the spouse.
Other dependents	Elderly mother.
Main source of Income	Plastic Jewelry boxes Workshop.
Other sources of Income	None
Standard of Living	Good.
	House owned.

PROJECT INFORMATION / PRIOR TO LOAN

Location	Al-Bireh / Ramallah Industrial Area.
Project	Plastic workshop.
Capital	US \$ 32,000
Type of project	On Going / Support / Production..

Objectives of the loan:

- ✓ The loan was intended to be used to purchase three plastic moulds in order to increase the diversity of plastic boxes produced (*to meet the increased market demand*).
- ✓ To compete with the imported jewelry plastic boxes.

LOAN TERMS

Approved	\$ 4,000
Repayment Period	20 Months
Grace period	2 Months.
Administrative fees	6 %.
Date of loan disbursement	November 1999 (prior to the eruption of the second intifada)

IMPACT OF THE LOAN / COMMENTS

- ✓ The loan is still being paid – Arrears 20% - the loan was rescheduled twice.
- ✓ Fierce competition is faced from the imported Plastic Jewelry boxes from China.
- ✓ The applicant is still working to satisfy customer specific orders.
- ✓ No growth in the quantities produced.
- ✓ Approximately 50% of the capacity is utilized.
- ✓ The businesses experienced direct and indirect loss of inventory, raw material and finished products as a result of direct Israeli gun fire during the Israeli military incursions to the city.

Case study # 3**Furniture Store and Exhibition:****BENEFICIARY PROFILE**

Location	Bethlehem.
Martial status	Single.
Age / Gender:	23 years / Male
Education	University degree in Business.
Dependent Family members	None
Other dependents	Brother and elderly parents.
Main source of Income	The business.
Other sources of Income	None
Standard of Living	Medium.

PROJECT INFORMATION / PRIOR TO LOAN

Location	Bethlehem.
Project	Selling furniture.
Capital	US \$15,000
Type of project	On Going / Support / commercial..
Date of loan disbursement	14/5/2003

Objectives of the loan:

1. Finishing the redecoration of the exhibition premises.
2. Purchase of furniture stock.

LOAN TERMS	
Approved	US \$10,000
Repayment Period	35 months.
Grace period	3 months.
Administrative fees	7%
Date of loan disbursement	14/5/2003

IMPACT OF THE LOAN / COMMENTS
<ul style="list-style-type: none"> ✓ Loan repayments are on schedule. ✓ The applicant expanded the area of the exhibition to include another 100 Square meters to the already existing 150 square meters. ✓ Two employment opportunities –salespersons- were created after the loan was disbursed, while earlier the applicant was doing everything by himself. ✓ The applicant enrolled in two management-skills courses at a training institution in Bethlehem focusing on marketing ✓ The project is improving the financial situation of the applicant. ✓ The beneficiary was also successful in getting quantities of the furniture stock at cheaper prices from different sources, and reinvesting the profits in project expansion. ✓ In many instances the applicant faced difficulties in cash liquidity due to problems in collection. This situation is mainly attributed to the legal and regulatory environment in the area.

Appendix

To understand the previous discussion:

I would like to put forward some of the challenges/difficulties that the Credit Program at Caritas Jerusalem faces on a daily basis during its operations in the West Bank:

OPERATIONAL ENVIRONMENT:

- ◆ Increased pauperization of the Palestinian population due to political-socio-economic situation.
- ◆ Economic decline has affected all social strata in Palestine. New emerging strata called “ *The new poor* ”.
- ◆ The unemployment rate has reached approximately 22.3% in the West Bank, and 36.8% in Gaza Strip in the 3 quarter of 2004)
- ◆ The poverty rate has reached 37% in the West Bank and Gaza Strip 64%.

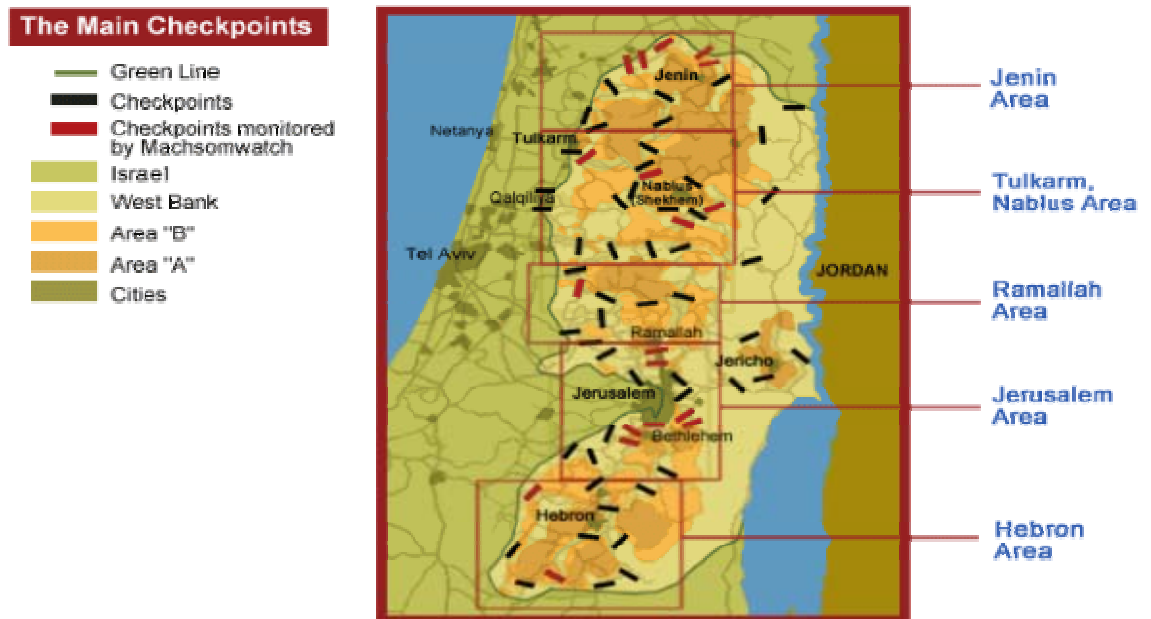
Source of the information: Palestinian Central Bureau of Statistics, Press Release on Labor Force Survey Results (July – September 2004) Disengagement, the Palestinian Economy and the Settlements- The World Bank, June 23, 2004

Caritas Jerusalem operations were affected severely due to:

MOBILITY AND CHECKPOINTS:

- ◆ Closing off Palestinian areas from one another where getting in or out became quite difficult and sometimes impossible.
- ◆ **The time lost to reach our destination by waiting at the Checkpoints or even using the long Pass by roads made especially to facilitate the movement of Israeli settlers.**

*Bethlehem is only 10 Km from Jerusalem and in normal circumstances it used to take us maximum 15 minutes. Today it takes us **if we are lucky** between 30-45 minutes and in the way back it takes between 1-2 hours as the car is checked thoroughly by the soldiers at the checkpoint because we are entering Jerusalem – Israel.*



NORTHER PARTS OF THE WEST BANK

To enter the northern parts of the West Bank for instance the town of *Zababdeh- Jenin*) we need always to get a permit from the Israeli Army - *of course after giving them all the tiny details about the number of the car's plate, who is the driver and who are the passengers ... etc.* They issue the permission. In many cases after a long drive, we reach the checkpoint at the entrance of Jenin and we already have the permission, the soldiers would not permit us in without specifying any reason but **Security**.

This problem of course makes it continuously difficult for us to visit our beneficiaries to evaluate and collect the repayment. Also it makes it even impossible for our clients to leave their villages to repay and receive new loans.



The separation wall causes even more difficulties for our beneficiaries and the Palestinians as a whole to trade with other cities and villages. **Long periods of curfew** and the continuous attacks caused many of the beneficiaries to lose their businesses in the process and in some cases the loss of family members during the Incursions. Of course the human cost of suffering from conflicts is immeasurable and the economic costs extremely high.

This meant that Caritas Jerusalem had to intensify its outreach activities and that in turn increased the security risks to the staff from both the Israeli and the Palestinian side. Accordingly we had to develop a kind of security measures specifically during the field visits to collect the repayments - *i.e. when anyone in the community is able to know, when and where the repayments will take place* -. This might create the threat of robbery, injury, or even murder to the employees. Bearing in mind that we are operating in a conflict area where weapons are available, guns, and grenades. in addition to demobilized police force and militias who have been trained to use arms and are not getting their salaries, and if they get it can barely buy them food.

Thus; the staff is encouraged to be continuously aware, and not to fall into patterns of behavior. *Use of churches or offices near Police stations, for instance in Bethlehem we go to the Parish Priest Office inside the Nativity Square, in Ramallah near the Bank where we directly deposit the collected repayments, and setting varying days of the week for both loan disbursement and repayment collections*

To overcome the loss sense of purpose experienced by the beneficiaries who lost their businesses, we try our best to support them in order to maintain a sense of control and purpose. We even try to give them the feeling that the current conditions will eventually improve; and that failure to honor loan obligations will hinder the beneficiary ability to secure new loans in the future.

The repayments of many beneficiaries who could not repay because either their businesses had stopped operating or had been literally destroyed were rescheduled and / or splitting the amount of the promissory note to be paid in two halves. This meant extra burden on the staff that had to carefully follow-up on the repayments for each of beneficiary.

It is worth mentioning that when asking some of the beneficiaries why they are not paying back. The answer was the desire of borrowers to save cash for future economic uncertainty or simply because the Intifada is a good excuse to skip payments.

Nevertheless, Caritas emphasized re-payment and collection and were very tough on clients who had the money to repay. *Despite the fact that recovering old and new loans will become increasingly difficult if the violence in the West Bank and Gaza increases in intensity.*

Today as a result of the situation, we at Caritas have created a write offs subsidy fund for loans that can never be collected because of death or destruction of business due to the situation.

ANGRY POPULATION

In our daily work we had to deal with angry applicants who's applications were refused because at Caritas we tend to move away from potential beneficiaries dependent on Israel for their businesses to those more geared towards the local economy. We are also tougher in our selection and screening procedures.

Unfortunately, we are trying nowadays and are preparing ourselves to cope in the future to deal with a Palestinian generation that is growing up in a culture of armed warfare and violence.

Another issue we are facing with our beneficiaries is the mixing they have between the grant and credit concept. This is due to the humanitarian programs operating in the West bank and Gaza.

ASSESSING THE IMPACT OF LOANS:

"Hey, mister, what are you looking for under that light?"

"My keys."

"Why, did you lose them there?"

"No, I lost them across the street."

"Then why don't you look for them across the street?"

"Because the light's better over here."

It's an old joke, but it exactly tells the story of the current state of the practice related to impact measurement of loans to the beneficiaries in Palestine. The micro credit movements exist to alleviate poverty. However, due to the current situation it is extremely difficult to measure that, accordingly we cannot tell whether our clients become less poor due to the services we provide.

NO LAW ENFORCEMENT:

No effective regulatory or judicial system also hinders our work.

SUSTAINABILITY

The *Intifada* has impacted the financial standing of the program in the period, though the extent of the damage and the time it will take to recover are still unclear. Our belief is that portfolio will recover if political calm is maintained, though they could experience long-term effects if the conflict continues into 2005.