

CASE 11: PALESTINE

The role of Palestinian Small Microcredit Institutions in Rural Development

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PALESTINE AND ITS BACKGROUND

THE LOCATION:

The location of Palestine, in the middle of the Arab world and along the eastern coast of the Mediterranean Sea, made it a coveted place for colonizers and occupiers. It was occupied by British in 1917 and remained under British Administration until 1948. And Israel Administration until Oslo Accord in 1993.

THE ECONOMY:

The economic activity of West Bank and the Gaza strip became a hostage of Israeli security and political considerations after the establishment of the state of Israel in 1948, and the Palestinian economy an appendage of Israeli economy. This led to a notable deterioration in infrastructure, services, and the functioning of national institutions.

THE AREA AND POPULATION:

The total area of the West Bank and the Gaza Strip is 6.207 km², of which 5.842 are in the West Bank and 365 in the Gaza strip. The population is approximately 4.077.981, of which 2.568.149 are in the West Bank and 1.509.832 in the Gaza Strip as of 2005.

Table 1. Projected Population at the End Year by Region, 1997-2005

Years	Palestinian Territory	West Bank	Gaza Strip
1997	2.840.268	1.822.717	1.017.551
1998	2.958.578	1.895.254	1.063.324
1999	3.084.880	1.972.283	1.112.597
2000	3.224.504	2.057.145	1.167.359
2001	3.381.751	2.152.501	1.229.250
2002	3.559.999	2.260.596	1.299.403
2003	3.721.543	2.356.810	1.364.733
2004	3.897.702	2.461.637	1.436.065
2005	4.077.981	2.568.149	1.509.832

MAP OF PALESTINE:



LABOR FORCE:**Table 2. Unemployment rate by sex and years of Schooling (%), 1998-2002**

Years of Schooling and Sex	1998	1999	2000	2001	2002
Males					
0	10.0	9.3	11.9	22.4	29.2
1-6	16.3	13.4	17.6	33.8	41.3
7-9	15.0	12.4	15.9	31.1	38.9
10-12	15.0	11.7	14.7	28.9	34.9
13 ⁺	10.9	8.8	9.3	14.1	17.5
Total Females	14.4	11.6	14.4	27.3	33.5
0	2.3	1.1	0.3	0.7	2.2
1-6	4.7	3.2	3.2	5.2	7.6
7-9	10.5	6.3	7.8	8.7	12.7
10-12	16.5	11.6	8.0	7.7	18.2
13 ⁺	23.5	21.9	21.9	22.2	22.5
Total Both Sexes	15.2	13.0	12.3	14.1	17.1
0	6.9	5.4	5.7	12.2	17.4
1-6	15.2	12.2	16.0	31.1	37.9
7-9	14.7	11.9	15.3	29.8	37.3
10-12	15.1	11.7	14.0	27.4	33.6
13 ⁺	14.1	12.5	12.8	16.3	18.9
Total	14.4	11.8	14.1	25.2	31.3

Table 3. Percent Distribution of Population Aged 15 Years and Over by Labor Force status and Region, 2002.

Region	Labor Force	Out side labor force	Total	Employment	Unemployment	Total
Palestinian Territory	38.1	61.9	100	68.7	31.3	100
West Bank	40.0	60.0	100	71.8	28.2	100
Gaza Strip	34.5	65.5	100	62.0	38.0	100
Unemployed (According to the Relaxed Definition)						
Palestinian Territory	44.6	55.4	100	58.8	41.2	100
West Bank	46.3	53.7	100	61.9	38.1	100
Gaza Strip	41.2	58.8	100	51.9	48.1	100

Unemployed (According to the ILO Standards):

Unemployed persons are those individuals (15 years and over) who did not work at all during the reference week, and were not absent from a job and were available for work and actively seeking a job during the reference week. Persons who work in Israel and were absent from work due to closer are considered unemployed, and also those persons never work and not looking for work but waiting to return back to their works in Israel and settlements.

Unemployed (According to Relaxed Definition):

The number of unemployed persons was calculated under the definition by adding to unemployed persons according to the ILO standards, those persons outside labor force because they were frustrated.

Education:**Table 4. Higher Education Indicators, 1997/1998-2001/2002**

Indicator	Scholastic Years				
	1997/1998	1998/1999	1999/2000	2000/2001	2001/2002
University Students					
Males	29.546	33.548	35.696	40.220	43.844
Females	22.881	27.298	30.354	35.359	39.564
Both sexes	52.427	60.846	66.050	75.579	83.408
University Graduates					
Males	3.328	4.449	4.717	5.408	-
Females	2.995	3.931	3.587	5.386	-
Both sexes	6.323	8.380	8.304	10.794	-
Teaching Staff at Universities					
Males	1.489	1.579	1.666	2.045	1.817
Females	235	215	238	294	250
Both sexes	1.724	1.794	1.904	2.339	2.067
Community College Students (**)					
Males	1.949	2.533	2.388	2.129	2.399
Females	2.350	2.903	2.769	2.835	2.914
Both sexes	4.299	5.436	5.157	4.964	5.313
Community College Graduates					
Males	798	722	797	1.140	-
Females	1.167	1.058	1.207	1.204	-
Both sexes	1.965s	1.780	2.004	2.344	-
Teaching Staff at Community Colleges (*)					
Males	175	240	269	286	311
Females	80	89	113	106	128
Both sexes	255	329	382	392	439

(**) data on community college students for the scholastic year 1997/1998 does not include second year students at An-Najah community College, nor students at Kalandia Community College
 data on Universities for the Scholastic year 2001/2002, does not include palestinian Technical college Tulkarm, Al-da'awa Islamic college and Ibn Sina Nursing college data.

(*) Full Time Only.

FOREIGN NGOS IN PALESTINE:

The number of non-governmental organizations (NGOs) globally is increasing on such a scale that very few people would have imagined. Their role historically was seen filling gaps at the grassroots level. The increase in number, size and financial status is at such level where in several emergencies of the late 1980's and early 1990s, short term money available to NGOs – mostly to international NGOs- exceeded even that of the UN. It is estimated that NGOs collectively spend an estimated \$ 9-10 billion annually.

This phenomenal increase in NGOs activities worldwide has also been a subject of debate in the Occupied Palestinian Territories (OPTs). The United Nations Development Programme (UNDP) estimates that the overall flow of recorded external assistance to the OPT in 1992 was around \$ 174 million. While the World Bank argues that this figure is an under estimation since contributions from Arab. Islamic solidarity Groups and previously from PLO is not included in the calculation. NENGOOT estimates the contribution of European NGOs at approximately \$30.5 millions.

NGOs both local and foreign need to go back to their principal function of promoting development activities for the benefit of the poor and disadvantaged people within the society "not to give them fish, but to teach them how to fish".

1. PALESTINIAN BUSINESS WOMAN'S ASSOCIATION (ASALA):

INTRODUCTION:

Asala has been active providing loans to woman since 1997 when it was first established under the name of the center for woman's economic projects (CWEP). In January 2001 it was registered with the Palestinian Business woman's Association (ASALA).

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Telefax: +970-2-2400432/3	Telefax: +970-8-2827165
E-mail: asala@palnet.com	E-mail: asala-g@palnet.com

GOALS AND OBJECTIVES:

The main goal of Asala is to empower Palestinian women entrepreneurs through providing them with flexible loans and counseling services to start or expand their businesses.

ASALA PRODUCT:

Asala has two loan programs:

- 1- Micro lending program.
- 2- Small lending program.

1- Micro Lending Program (Group and Individual Loans)

a. Target Client description

Based on Asala's current clients and market study, a typical micro-business owner can be described as follows:

Micro Business Entrepreneurs

Characteristics

- Low-income (monthly family income of \$700 or less) women.
- Not in debt to any other credit institution.
- Knowledgeable about their activity.
- Business assets in the range of \$100-\$2000 and generally employ one to two people.
-

Financing

- Primarily need Working Capital financing in the range of \$125-\$1000 (Group Lending).
- For larger micro-businesses can use Asset Acquisition financing in the range of \$1000-\$5000 (Individuals).
- The large majority of micro entrepreneurs can not access bank financing due to lack of collateral guarantors and/or bank procedures and requirements.

b. Micro business group loan

The Asala Micro business group product is based on best practices for solidarity group lending.

Table 5. *Group loan*

Group Loan	
Loan Sizes	\$125-\$1.000 in Gaza, \$200-\$1.200 in WB
Purpose	Working capital or small asset acquisition
Loan Terms	4-12 Months (group choice depending on loan sizes and purposes)
Guarantee	Group guarantee provided by groups of 5-15 clients (average 8 clients)
Repayment frequency	Monthly (whole group pays together at monthly meeting)
Service Charges and Fees	2% monthly service charge and 1% fee at disbursement.
Savings	Required savings of 10% of the loan amount.
Special Features	Open to start-ups; low initial loan size has been chosen in particular to encourage start-ups.

This type of product has been successfully introduced by the Grameen Bank in Bangladesh, Uganda Microfinance Union in Uganda and Card Bank in the Philippines. As long as repayment is successfully completed by the group, another loan will be disbursed. The size of the loan increases gradually.

c. Micro-business Individual leading

Clients who demonstrate superior credit- worthiness are eligible for individual products. Two separate individual loans are available- Opportunity and asset Acquisition loans.

Table 6. Loan products

MICRO-BUSINESS INDIVIDUAL LOANS	OPPORTUNITY LOANS	ASSET ACQUISITION LOANS
Eligibility	<ul style="list-style-type: none"> • After 2 cycles of on-time repayment, no arrears& high attendance in the group. • Can be taken in addition to group[loan. 	<ul style="list-style-type: none"> • After four cycles of on-time repayment, no arrears, and high attendance. • Client must have finishes group loan before this loan is taken.
purpose	working capital for seasonal demands or other opportunities	Asset Acquisition
Loan Sizes	\$250- \$500	\$ 1.000- \$ 5.000
Loan Terms	1-6 months	1-2 years
Guarantee	Contract witnessed by lawyer; 1 guarantor	Notary Deed; Contract witnessed by lawyer; 1-2 Guarantors
Repayment Frequency	Monthly	Monthly
Service Charges	1.5% monthly service charge and 2% fee on disbursement.	1-1.5 % service charge per month and 2% fees on disbursement.
savings	No extra savings requirements	No extra savings requirements.
special Features	Available within two weeks of request	Short Business Plan (developed with Asala). Available within 3- 4 weeks

- In the West Bank, Clients with a demonstrated credit history and large potential can access the asset Acquisition loan passing through the group product if they bring two guarantors.

2. Small Lending Program (Individual Loans).

a. Product description.

The individual loan product is designed for women entrepreneurs who want to be or expand a small enterprise in sectors such as manufacturing, trade, services, and agriculture. Loans are for productive purposes such as working capital, the purchase of fixed assets or improvements in the business site. Loan terms are as follows:

- Loan amounts from \$5.500- 20.000 in USD.
- 12- 36 month loan term with monthly payments.
- Grace period of one to six months depending on type and status of business.
- Two guarantors are required to sign notary deeds in order to guarantee repayments.
- Flat interest rate of 6.15% per annum and 2% of loan amount commission upon loan disbursal.

b. Small Business Entrepreneur Characteristics

Small business entrepreneurs range from low (monthly family income of NIS 2000) to middle income (monthly family income of NIS 3.000-6.000) women. They have a secondary school or university education, are married, and have small families (up to four children). They generally have some business or professional experience prior to applying for loan financing. In many cases, the business serves as (has the potential to serve as) the primary source of income for the family. Their businesses focus on the trade, production and service sectors and need financing to improve their business site, buy fixed assets or in some cases as working capital. Financing for the majority of these businesses is in the range \$5.000-\$10.000, while some, mostly professionals can use loans from \$10.000-\$20.000. These entrepreneurs can sometimes access bank financing (25%) since they may already have capital assets or can find guarantors, but do not due to mistrust of banks or lack of confidence in the profitability of their businesses (due to a lack of business planning skills).

c. Delivery

Asala provides its individual lending product through project development officers (PDO) based in branch offices in the West Bank and Gaza. PDOs meet potential clients through field visits, client visits to their office, and during information sessions about the individual loan product held in local associations or community centers.

d. Methodology

To obtain an individual loan, the applicant must fill out an initial loan application with the loan officer. If the client meets basic criteria, the PDO visits the business and completes a primary loan application that includes a profit and loss statement for the applicant. Afterwards, the loan officer conducts a credit and market analysis for the project to ensure that client can effectively use the loan and complete repayments once the application and analysis are completed, the PDO forwards the file to the loan application committee (LAC). The LAC reviews applications every 15-30 days. If accepted, the applicant opens a bank account (for the loan transfer) and with the guarantors signs the loan contract. Repayments are made into the bank account of Asala on a monthly basis.

Results out put

(Individual and Group- Lending) in West Bank and Gaza Strip.

The results of the program:

- The value of loans disbursed by end of December 2002: \$ 847,358 (cumulative since Jan 2001).
- The number of active loans by the end of December 2002: 1233 Women Loan.
- The value of active loans at the end of December 2002: \$ 223.764.
- Number of Solidarity groups at the end of December 2002: 174 Group.

(Individual Lending) in the west Bank and Gaza Strip.

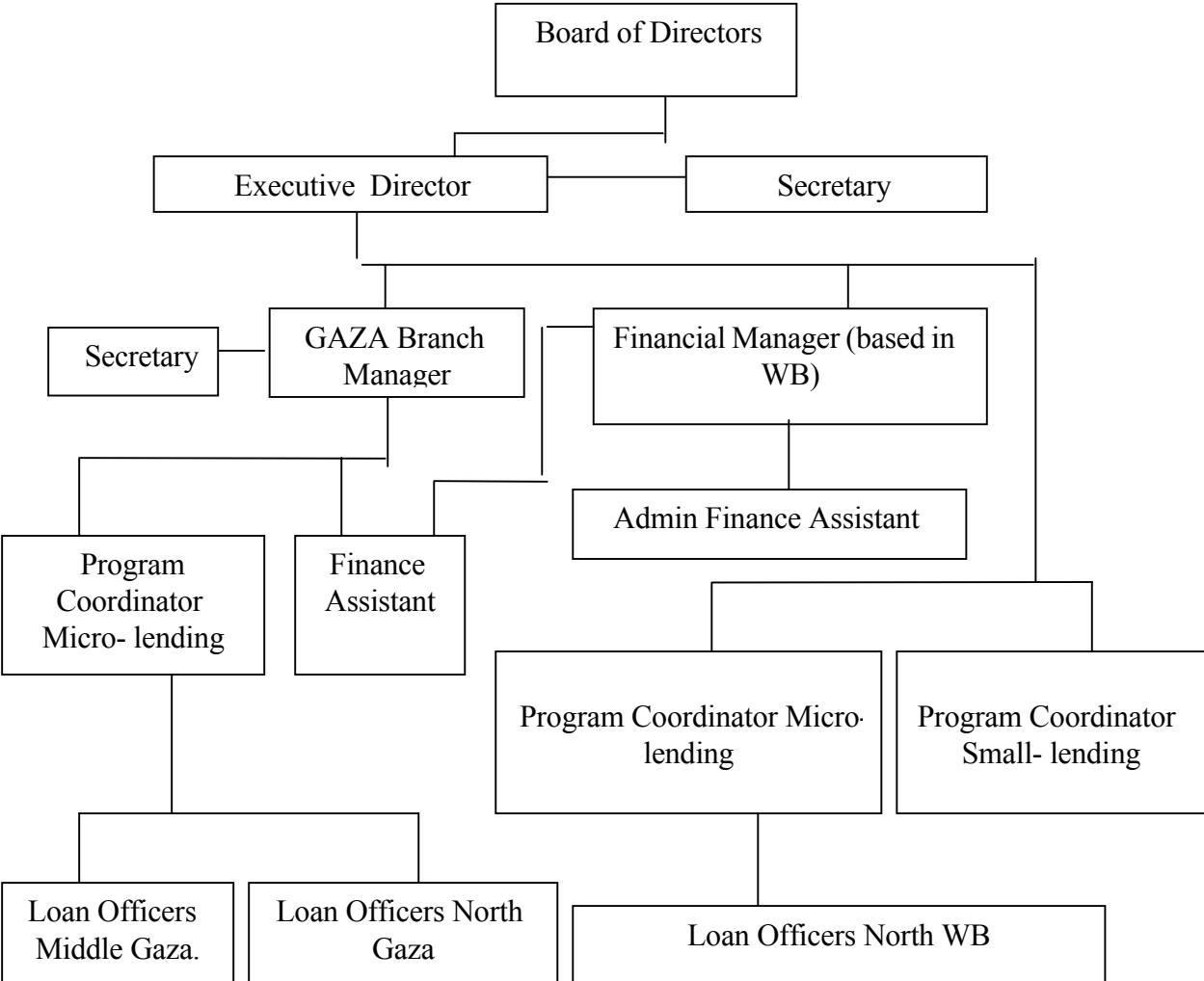
The results of the program:

- The value of loans disbursed by end of December 2002: \$2.389,012 (cumulative since 1997).
- The number of active loans at the end December 2002: 202.
- The value of active loans at the end of December 2002: \$739,074.

Sources of Fund:

- 1- 2001 Oxfam-Quebec” Funded by Netherlands Government” (For small and Micro Lending).
- 2- 2001 CEA (Doe Micro Lending).
- 3- 2001 Welfare (For Small Lending).
- 4- 2002 Australian Aid (For Micro Lending)
- 5- 2003 Codespa/ Spain” Funded by EU” (Program Running Costs).

ORGANIZATIONAL CHART:



2. ARAB CENTER FOR AGRICULTURAL DEVELOPMENT (ACAD)

INTRODUCTION

ACAD, the Arab Center for Agricultural Development is a Palestinian non- profit non-governmental organization that has been officially registered in Jerusalem since 1993, and also registered by Palestinian National Authority since 2001 according to Palestinian Law. ACAD is specialized in Micro-Credit and offers Business Support Services to the poor and low-income Palestinian Producers.

ACAD WESTBANK OFFICE	ACAD GAZA STEP OFFICE
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Branches & Offices:

ACAD provide services for small & poor producers through 4 field branches & offices (Gaza, Nebulas, Jericho, and Ramallah) in addition to its headquarter in Ramallah.

MISSION, GOALS AND OBJECTIVE:

ACAD MISSION:

ACAD is a development institution established to encourage micro entrepreneurship through small income generating activities among the poor and low-income individuals. ACAD provides financial and business support service concentrating on rural and /or high poverty rate in Palestinian areas that are particularly affected by the difficult political situation. Economic independence and consequently food security for the poor and disadvantaged, is an effective tools toward empowerment and active participation in the economic, social and political spheres of life on Palestine.

ACAD GOALS AND OBJECTIVE

- Promotion of Self- sustaining employment- and income- generating projects in the Palestinian poor and low- income rural and urban communities.
- Expanding geographical access of financial resources.
- Graduating poor and small- scale producers into capital lending Markets, by shifting the balance of power towards those needing credit.
- Mobilizing Saving.
- Empowering poor communities.

Target Group:

ACAD's target group includes low-income Palestinian in rural & urban areas who are willing to develop their small projects in order to improve their standard of living and income. Our target group also includes the poor who are willing to get out from the poverty cycle, through integrating in economic investment activities.

ACAD PRODUCTS

ACAD provides financial credit services to small- scale and poor Palestinian producers in the Palestinian Territories through three kinds of credit products:

- **Working Capital Loans:** This program aims to provide existing projects with the required liquid money to cover the running expenses and costs in order to continue the production cycle of the project. These expenses consist of workers salaries, rents,

fodder and seeds, medicines and fertilizers, transportation and fuel, packaging, marketing, etc.

- **Capital Investment Loans:** Encourage small private investment in Palestine, and convert savings to productive investment ACAD provides loans covering 75% of total investment required by the new project, or developing existing projects, in order to invest it as fixed assets, such as purchasing green houses, tunnels irrigation systems, machinery, equipment, building facilities, etc.
- **Enhancing Productive Cooperatives & Creating Credit and saving Funds:**
This project was launched in 2002 in order to encourage small and poor farmers in the poorest rural areas to establish specialized agricultural productive cooperatives and creating cooperative saving and credit funds (CCSF). The main objectives of these CCSF, s could be summarized by:
 - Consolidate principle of saving by poor and small farmers.
 - Establish permanent funding sources for agricultural income generation projects based on the saving of the farmers themselves.
 - Raise the level of farmer's participation in the development process through the management of saving and credit funds.
 - Consolidate farmers' productive communities and raise the spirit of cooperation among them.
- **ACAD Business Support Services:**
 - Training Activities: ACAD provides well- experienced producers with theoretical and practical training courses, on different agricultural topics such as: the rationalization of chemical use in agriculture, projects management, promotion strategy, pricing strategy, and marketing. Professional experts and organizations conduct these training sessions.

Organizing & Capacity Building:

- Encouraging beneficiaries to establish institution to defend their rights.
- Technical assistant to productive cooperatives, and to cooperative credit and saving funds.
 - Policy Dialogue: ACAD conducts face- to- face dialogue and discussion sessions between the poor and low-income producers and decision makers regarding economical national policies and strategies. The aim of these activities is empowering the poor towards influencing national policies.

ACAD Networking & Membership:

- ACAD is an active member of the Palestinian Non-Governmental Organization Network (PNGO), which includes the most active NGO's in Palestine.
- ACAD is chairing the steering committee of the Palestinian small and Micro-finance Network, which includes financial institutions and banks.
- ACAD is a member of the Palestinian Higher Agricultural Coordination Body, which is a joint body consisting of non-governmental organizations functioning in the field of agriculture and the Palestinian Ministry of Agriculture.
- ACAD is a member of the Micro-finance African Institution Network(MAIN), which includes 40 financial organizations in Africa and the Middle East.
- ACAD is a member of the Micro-credit Summit Campaign Council of Non-Governmental Organizations, which is working to ensure that 100 million of the

world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services by the year 2005.

ACAD Future Plans:

- ACAD's main goal is to render financial services to the largest possible number of poor and limited income individuals in various economical sectors, in all Palestinian regions, in towns and the countryside, and to men and women alike.
- ACAD is working to implement sectoral and product diversification policy. Diversification is a very important element seen by ACAD's management to reach operational and financial sustainability as a necessary step to create a permanent financial institution targeting the poor and low income in rural and urban areas, with the two main financial services of credit and saving.
- ACAD is seeking to encourage poor and low-income individuals to save as a permanent financial source for microfinance.

3. UNITED NATIONS RELIEF AND WORKS AGENCY (UNRWA)

INTRODUCTION

The Microfinance and Micro enterprise program (MMP) has come a long way since it started credit operations in 1991, which began in response to the first intifada and Gulf War. Its early mission was to create employment through capital investment loans in existing businesses and start-ups. This resulted in specializing in small and medium-scale enterprise (SME) lending that restricted the scope, scale and outreach of the programmer, which was only able to provide a few hundred loans each year due to the limited market for such loans in an economy dominated by micro enterprise.

The programmer changed its vision from SME development to microfinance intermediation in 1994 when it introduced informal sector lending in Gaza through the establishment of a new solidarity group- lending (SGL) product which targeted women micro entrepreneurs. With this development the programmer was able to expand its outreach and deepen its ability to reach to the poorest micro enterprises. The success of this new working capital product encouraged the programmer to develop a further micro enterprise credit (MEC) product to serve the needs of men- owned micro enterprises operating in both the formal and informal sectors of the economy. This was first launched in Gaza in 1996, the West Bank in 1998 and in Jordan and Syria in 2003. It now forms the core business activity of the programmer.

Uniquely, the programmer evolved and grew with no external financing of institutional development or capacity building. This was accomplished in-house through studying the work and experience of the world's leading microfinance institutions. But enhanced by training key staff in the world's foremost microfinance training programmer in Boulder, USA.

By studying and learning from the experiences of others the programmer was able to transform its institutional procedures in conformity with the new standards and best practices of the emerging microfinance industry that were being formalized by institutions such as the Consultative Group for Assistance to the Poor (CGAP) and USAID.

UNRWA MISSION STATEMENT:

The Microfinance and Microenterprise Programmer (MMP) endeavours to improve the quality of life of small business owners and microentrepreneur, sustain jobs, decreases

unemployment, reduce poverty, empower women and provide income-generating opportunities to Palestinian refugees, and other proximate poor and marginal groups through the provision of credit. As the programmer strives to provide sustainable credit in a cost-effective manner, it concentrates its financial services in poorer urban areas, which are centers of commercial and industrial activity with a highly localized density of Palestinian refugees.

These microenterprise owners and their employees earn their living from a diverse range of economic activities in trade, services and industry. Many of the businesses are informal and unregistered with government, municipal, trade or tax authority offices. Many of the owners are sole- proprietors who work alone or run their business with the assistance of family-workers. Those that do employ workers most often recruit them from the poorest sectors of the community, which many informal microenterprise owners are themselves poor, eking out a living from themselves and their families on the margins of the economy.

UNRWA LOAN PRODUCTS

As the microfinance and microenterprise programmer evolved, it has used Gaza as its product testing ground. This highly urbanized community, where poverty is ever endemic, is an ideal environment for designing and developing various financial products to serve the needs of the poorest, especially the Palestinian refugees that form the majority of the population of 1.3 million.

An early lesson from this region was that building sustainable, self- sufficient microfinance on a single-product basis was quite restrictive and did not cater sufficiently to the needs of clients. Thus, diversification of products soon became a key objective to maximize outreach, serve a wide variety of clients and ensure self-sufficiency.

The programmer now offers three business and a consumer loan product:

- Microenterprise credit- short- term working capital loans to microenterprises.
- Solidarity group lending- group- guaranteed working capital loans for women.
- Small- scale enterprise loans- longer- term investment capital loans to formal small-scale businesses.
- Consumer lending- short- term loans to working class families for household assets, services and emergency needs. Future development will include the development of housing microfinance for refugees.

INTIFADA IMPACT

During 2001 and 2002 the outreach of the programmer was arrested following the outbreak of the intifada. The subsequent economic repression that accompanied increased security measures had a devastating effect on the local business community as most private sector businesses laid off workers, many went bankrupt and most reduced capacity in the face of falling sales. This led to a plunge in demand for credit as businesses contracted and tried to mitigate further risk. It was also accompanied by increasing portfolio arrears as a large number of clients found it difficult to honour their debts and were unable to collect debts from customers. As a result, disbursements fell to less than 9,000 loans valued at just US\$7.10 million in 2001.

The economic breakdown reached a critical dimension in 2002. following the regime of reinvasion, closure and curfew that followed military operation "Defensive Shield". This resulted in an almost total collapse of lending in the West Bank, when the programmer was able to product just a few hundred loans while employees were regularly unable to reach their workplaces and clients businesses were often under curfew and siege. During this period, Gaza

was the main source of loans. Outreach at this point, fell to a 5- year low, when disbursements fell to fewer than 7,500 loans worth just US\$5.16 million.

A series of significant operational adjustments were made to avert these ever- increasing risks. Thus, the programmer halted small-scale enterprise lending in the west bank and reduced the portfolio of this product in Gaza. It restricted lending of its consumer loan product to a few hundred loans each year, while it improved lending to the expanding informal sector that had sprung up in street markets and urban conurbations as the poor struggled to cope with losses work and income. To improve its income recovery, the programmer created a specialize collection office where credit extension agents were redeployed to recover debt from loans that were written off during this period.

UNRWA OUTREACH:

While the previous two years were marked by portfolio decline and economic crisis, 2003 was marked by and auspicious reversal of fortune. Despite the ongoing strife and continuing repression of markets and business activity on the West Bank and Gaza, the programmer recovered its outreach capacity and surpassed its previous outreach highpoint when it disbursed 12,324 loans valued at US\$8.74 million. Moreover, it began to implement a regionalization plan to expand its operations into Jordan and the Syrian Arab Republic.

The recovery of outreach was driven by the growing retail of its two microenterprise products (SGL and MEC loans) in Gaza, but it was also accompanied by a rapid extension of the microenterprise product in the West Bank as the programmer began to recover from the contraction of previous years. However, despite this reconsolidation of the portfolio, its value reached only 64 percent of its previous highpoint. More positively, the programmer has maintained its place as the leading microfinance practitioner in the West Bank and Gaza as it continued to outperform its market competitors.

The new stream of lending from credit operations in Jordan and the Syrian Arab Republic helped this situation, but it was too little to have a major affect.

SUSTAINABLE MICROFINANCE:

As microenterprise lending became central to its financial intermediation in the mid-1990s. UNRWA's microfinance and microenterprise programmer has been at the forefront of developing sustainable microfinance in the occupied Palestinian territories. It has adopted its operations to the standards being set by the microfinance industry through CGAP, USAID and others. Despite working with the poorest in the business community, between 1997 and 2000 the programmer was operationally self- sufficient, covering the costs of its credit operations from the fees and interest it charged on loans.

However, the outbreak of the intifada damaged this record as the programmer faced an extraordinary financial crisis created by the war-torn condition facing the Palestinian business community. As its client's were buffeted by economic breakdown and a market contraction that was unprecedented since the war of 1948, the programmer incurred an enormous provisioning requirement of US\$ 1.35 million in 2001 and US\$ 1.14 million in 2002. These funds had to be set aside due to increased risks in the programmer. At the same time, the outstanding portfolio withered and revenues shrank accordingly, while operational expenses remained constant. Through this 2- year period, operational sustainability fell to just 11 percent in 2001 and sinking to a mere eight percent in 2002. at this time the programmer needed to make up its revenue shortfall through short- term de-capitalisations of its loan funds to meet its operating expenses.

No business can survive for long under such inimical conditions. So in 2003, the programmer galvanized its resources to combat this fatal state of affairs even as strife continued. Most successfully the new collection office recovered US\$ 0.84 million from written

off loans. By the end of the year the programmer realized a significant recovery when it posted an operational sustainability ration of 87 percent. Once adjustments are made against the start-up and investments to the launch of the regionalization in Syria and Jordan, operational sustainability in the West Bank and Gaza arrives at 92 percent 95 percent in Gaza and 86 percent in the West Bank.

Although the programmer was still unable to accomplish full operational sustainability during the year. It was able to surmount the more significant obstacles to its financial performance.

FUTURE PROSPECTS:

Few microfinance institutions have experienced the daunting task of preserving self-sufficient microfinance under the regime of economic repression and prolonged political violence which afflicted the programmer over the first 39 months of the intifada. While working under re-invasion, curfew and siege, staff showed a remarkable resilience which allowed the programmer to finish this period with its operational capacity enhanced, although financially bruised. While its assets have been squeezed, the programmer has gone into 2004 in much better health than it entered 2003. if the current performance continues the programmer will once again realize full operational sustainability at the end of 2004.

However, ad long as the conflict in the West Bank and Gaza continues and agreement eludes the peacemakers, the future of the programmer remains marked by political uncertainty and economic risks. While and escalation of the conflict could drive the programmer in West Bank and Gaza bank to the poor performance levels of 2002, and significant return to peace building will energize the programmes's recovery.

There is no such uncertainty in Jordan and the Syrian Arab Republic where both the political and economic environment is conducive to success. This year solid foundations for the future growth of the programmer were laid in Jordan and the Syrian Arab Republic. If the programmer can secure the loan capital it needs to meet its market potential, then it will grow quite rapidly over the next half decade.

