



PALESTINIAN ECONOMIC OPPORTUNITY PROGRAM for LENDING and ECONOMIC DEVELOPMENT (PEOPLED)

Award No. 294-A-00-02-00201-00

Final Report

December 02, 2001 to September 30, 2006



PEOPLED Home
Improvement Loan
Beneficiary - BEFORE



PEOPLED Home
Improvement Loan
Beneficiary - AFTER

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Two birds with one stone: creating jobs and building homes through the PEOPLED program. The 'before' and 'after' pictures on the front cover show the dramatic effects of CHF's PEOPLED program on private housing for a low-income Palestinian family in the West Bank city of Hebron.

1 Executive Summary

1.1 Overview

On December 4, 2001, CHF signed Cooperative Agreement #294-A-00-02-00201-00 with USAID for a two-year program titled Palestinian Economic Opportunity Program for Lending and Economic Development (PEOPLED). USAID granted CHF \$2,600,000 during the period December 4, 2001 to December 3, 2003. The total amount of \$1.2 million of the grant was to defray program operating costs, and \$1.4 million was additional lending capital. The purpose of PEOPLED was to expand the services provided by CHF under the Gaza Home Improvement Loan Program (HILP). This expansion was to be both in the form of capital for the program and geographic coverage (i.e., expanding from solely working in the Gaza Strip to working in three governorates of the West Bank). The primary goal of the program was to improve quality of life and stimulate private sector activity in the Palestinian Territories by increasing the range of financial services available to Palestinians.

On August 8, 2003, USAID approved a two-year extension of the PEOPLED agreement to enhance the services presented in the Gaza Strip. According to this extension, USAID granted CHF an additional \$2,000,000 – approximately \$1.6 million for lending capital and the remaining amount for defraying program operating cost. As such, the first PEOPLED expansion:

- Offered home improvement loans to low- and moderate-income clients residing in the damaged areas of the northern and southern governorates of Gaza Strip at the lowest possible cost;
- Modified the structure and eligibility requirements of PEOPLED's home improvement loan to include low-income Palestinians, increased the maximum loan amount, and offered the lowest available interest rate;
- Augmented the paid-back loan with a subsidy (not to exceed 30% of the loan amount) for Beit Hanoun City borrowers whose required improvements are proven to cost more than they can afford.

Due to the great success of CHF's PEOPLED program a second expansion was approved by USAID on April 26, 2005. The overall objective of the program's second expansion was to increase services to northern and southern governorates of the West Bank, while also enhancing its services to the citizens of the governorates in which PEOPLED already operated, who were in greatest need of financial services for home improvements. As such, the second PEOPLED expansion of April 2005:

- Offered home improvement loans to low- and moderate-income clients residing in the damaged areas of the Jenin, Bethlehem, and Tulkarem governorates at the lowest possible cost;
- Enhanced PEOPLED's services to the low- and moderate-income clients residing in the Gaza strip in addition to the Ramallah, Nablus, and Hebron Governorates; and
- Modified the structure and eligibility requirements of PEOPLED's home improvement loan to include low-income Palestinians, increased the maximum loan amount, and offered the lowest available interest rate.

In September 2005, after the Israeli withdrawal from the Gaza Strip that revived the hope for political and economic stability, USAID approved a third expansion of PEOPLED granting an additional \$1 million to be disbursed only in the Gaza Strip.

PEOPLED was an expansion of the Home Improvement Loan Program (HILP) that provided micro-loans for home improvement to low- and moderate-income Palestinians. PEOPLED offered one- to three-year loans with monthly payments for the repair, expansion, and improvement of homes.

Building on the success of HILP, PEOPLED utilized the same approach of working with private sector banks to deliver sustainable credit services. As in HILP, the program's partner banks provided a portion of the loan capital, bore the full risk on that share, and participated in servicing the loans.

PEOPLED targeted low-income individuals (men and women), both in Gaza and the West Bank, who do not have access to home improvement credit from other sources. It sought to provide Palestinians with housing solutions that are technically appropriate and meet adequate standards of habitability and safety.

1.2 Planned Achievements:

It was planned that PEOPLED and its expansions would result in the following:

- Expansion of the geographic scope of CHF's HILP program into six governorates of the West Bank and enhancement of its services in Gaza Strip;
- Disbursal of more than \$21.25 million in loan capital, with local banks sharing a significant portion of the capital investment and risk;
- Increased access to credit for home improvements to low- and moderate-income families in the West Bank and Gaza Strip;
- Improved living conditions for up to 4,700 families; and
- Stimulation of the construction industry through increased demand for construction materials and employment. CHF expects to create approximately 595,200 person days of construction employment in the Palestinian Territories through loans disbursed.

1.3 Effect of Current Situation on the Activities of CHF PEOPLED

The events that followed the Parliamentary Elections in January 2006, including the formation of the Hamas-led government, substantially affected the economic situation in the Palestinian Territories. For over seven months more than 150,000 government employees did not receive their full salaries thus affecting the lending activities of banks and microfinance Institutions and programs. The prevailing economic and humanitarian crisis pushed the Palestinian Monetary Authority to request all banks and microfinance institutions to postpone collection from borrowers for three months. With the increasing rates of the portfolio at risk over 30 days, CHF decided to halt all lending and focus on collection. Fortunately by the time the situation got to a crisis level, the CHF PEOPLED program had expended all its USAID available capital, met its set objectives and was getting ready for closeout activities. The last few remaining months in the life of the project were to be used for second cycle lending utilizing CHF and bank capital, with a particular focus on collection and future sustainability preparations.

2 CHF Partners

2.1 Banking Partners

According to the agreement signed with the Arab Bank in May 2002, the bank's contribution to the loan fund increased from 10% under HILP to 35% under PEOPLED. The interest rate of the loans disbursed by CHF in cooperation with the Arab Bank is 6.5% per year, flat.

In July 2003, a revised agreement between CHF and the Cairo-Amman Bank raised the bank's contribution to the loan fund from 15% under HILP to 30% PEOPLED. The new agreement also reduced the interest rate from 6.5% to 5.5% per year, flat, and increased the loan term from 36 to 42 months to reduce the burden on borrowers and increase the affordable loan amount.

In May 2003, CHF partnered with a third bank, the Egyptian Arab Land Bank (EALB). CHF's agreement with the EALB is based on the cooperation concept in which the bank does not share in the loan capital. With this type of agreement CHF tries to reach out to employees whose salaries are transferred to the bank. The interest rate of the loans disbursed by CHF through this bank is 5.5% per year, flat. In these types of agreements the bank is only used as a source of transferred salaries, in addition to providing CHF with credit information about the borrowers and guarantors but it does not provide any type of loan maintenance.

In June 2005, CHF signed a new agreement with the Bank of Palestine based on the cooperation concept, in which the bank does not share in the loan capital as described above. CHF originally had a partnership agreement with Bank of Palestine in which the bank shares in the loan capital, but this agreement was terminated in March 2003 upon the bank's request. Under the new agreement, CHF benefited from a network of the bank's 22 branches in the West Bank and Gaza.

In its quest to increase its outreach, CHF signed an agreement with the Housing Bank in June 2005. This collaboration makes the bank a source of guarantors that are responsible for delinquent repayments. The interest rate of the loans disbursed by CHF through the bank is 5.5% per year, flat.

2.2 Other Partners

In April 2003, CHF signed an agreement with the Municipality of Gaza to make credit available to municipal employees who meet CHF's lending criteria. This agreement makes home improvement loans available to lower- and medium-income individuals to improve living conditions and stimulate local economic activity. The interest rate on these loans is 5.5% per year, flat.

2.3 PEOPLED Achievements by Partner

The following chart shows PEOPLED achievements by partner:

Bank-Partner	Life of Project Results	
	Number of Loans	Value of Loans
Arab Bank	1,705	\$ 8,043,470
Cairo-Amman Bank	2,102	\$ 9,807,640
Bank of Palestine	368	\$ 1,559,100
Egyptian Arab Land Bank	71	\$ 369,700
Housing Bank	37	\$ 203,600
Cairo-Amman Bank (New Agreement)	35	\$ 182,700
Bank of Palestine (New Agreement)	247	\$ 1,212,850
Municipality of Gaza	102	\$ 344,590
TOTAL	4,667	\$21,723,650

3 PEOPLED Goals vs. Achievements

PEOPLED's goal was to enable low-income families to attain immediate and tangible improvements in their living conditions. Since December 2001, CHF PEOPLED has disbursed more than \$21.7 million dollars in loans, improving the living conditions of 4,667 low- and moderate-income clients in the West Bank and Gaza.

4 Objectives vs. Achievements:

1. Increase the level of private sector involvement by raising its partner banks' capital share in the value of loans disbursed.

CHF's agreements with the Arab Bank and Cairo-Amman Bank raised the level of their capital contribution under the HILP program to the loan fund from 10% to 35% under the PEOPLED program and from 15% to 30%, respectively.

2. Expand HILP into the West Bank:

PEOPLED and its expansions, opened six offices in the West Bank: Ramallah, Nablus, Hebron, Jenin, Bethlehem, and Tulkarem, thus covering the northern, central, middle, and southern areas of the West Bank. It also opened a new office in Khan Younis thus covering all of the Gaza Strip.

Since December 2001, PEOPLED disbursed 2,153 loans totaling \$10,550,180 in the West Bank and 2,514 loans totaling \$11,173,470 in the Gaza Strip.

3. Achieve program sustainability by the end of Year Four, the end of USAID funding.

To ensure that the program would reach self-sufficiency, the interest rate was made a flat 5.5-6.5% annually plus a 1% annual originating fee.¹ The maximum loan size was made \$15,000 for the West Bank and Gaza. Because all loans are extended at market rates under strict repayment conditions to families that have a demonstrated ability to repay, CHF's repayment rate exceeded 98% during its 10 years of operations in the Palestinian territories. All funds repaid by program beneficiaries revert to a revolving loan fund that CHF maintains at the banks.

It was planned for CHF PEOPLED to achieve sustainability by the end of year four of the program but the economic crisis that struck the Palestinian territories hindered CHF from achieving this goal. The most serious factor of the crisis is the non-payment of public sector salaries affecting more than 150,000 employees. Due to the humanitarian and economic crisis, all MFIs in Palestine, including CHF, face serious risk. All Palestinian MFIs are harshly affected by sharply declining repayment rates. Furthermore, MFIs relied, almost exclusively, on transferable salaries to local banks to secure loans.

Immediate support (technical assistance, capital and funding for operational costs) is needed to sustain the program through this difficult time, and position CHF's ACP to grow and become a sustainable, self-sufficient operation when the situation improves. It is CHF vision to transform this lending program into a sustainable financial institution able to provide healthy and suitable home to every family in Palestine, especially to the low and median income households and to reduce the number of families living under the poverty line. The establishment of ACP as a locally registered and managed microfinance institution will mark a significant milestone in for CHF and USAID support to economic development in Palestine, and will put in place an organizational structure that can continue its social mission on a sustainable basis.

¹ The effective annual percentage rates, if charged on the declining balance, would be between 10.0% and 11.8%.

4. Create over 440,000 person days of employment for Palestinian construction workers.

In spite of the political and security situation, PEOPLED has been able to create more than 648,903 person days of employment in the West Bank and Gaza. The following table presents a comparison between the achievements versus targets of PEOPLED, which ended on September 30, 2006.

Indicator	Planned	Achieved	Percentage
Number of Loans Disbursed	4,700	4,667	99%
Value of loans	\$21,250,000	\$21,723,650	102%
Person Days of Employment	595,200	648,903	109%

5 PEOPLED Outreach

5.1 Outreach Summary

Since program inception, PEOPLED has disbursed 4,667 loans, of which 14% were disbursed to female borrowers. To date, the \$21,723,650 in disbursed loans helped to improve the living conditions of more than 23,335 beneficiaries and to create 648,903 person days of employment.

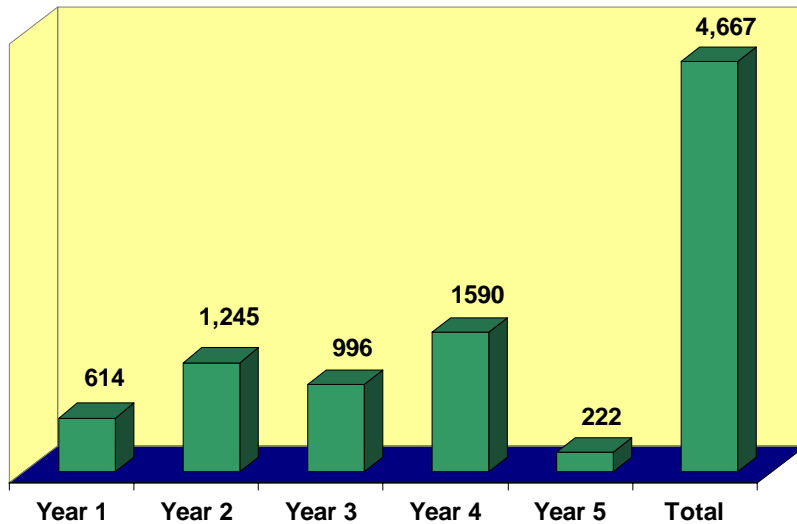
	Item	PEOPLED	Expansion I	Expansion II	Expansion III	Total
1.	No. of Loans Disbursed	2,666	550	1231	220	4,667
2.	Value of Loans Disbursed	\$12,474,600	\$2,358,800	\$5,822,170	\$1,068,080	\$21,723,650
3.	No. of Beneficiaries	13,330	2,750	6,155	1,100	23,335
4.	Work Creation (work days)	375,064	75,798	166,018	32,023	648,903
5.	No. of Women Borrowers	343	65	213	36	657

5.2 Outreach Details

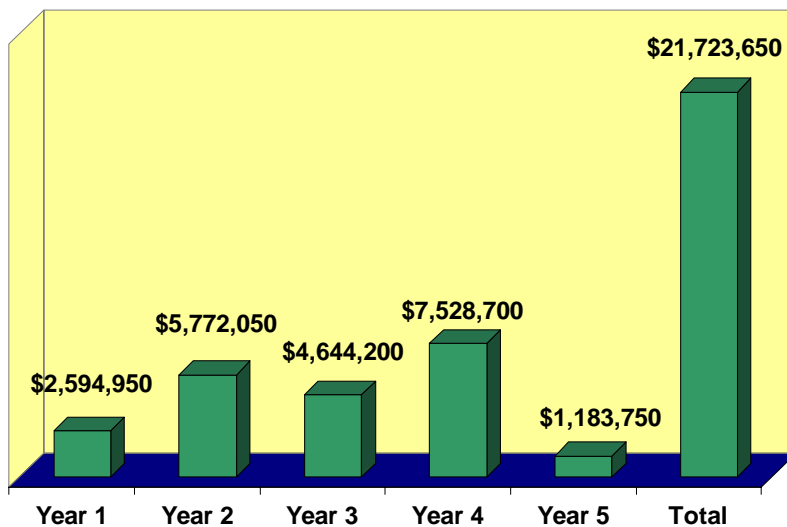
5.2.1 Loans

Since program inception, the program has disbursed 4,667 home improvement loans totaling \$21,723,650. The following tables show the number and value of loans disbursed by CHF since program inception.

Number of Loans Disbursed to Date



Value of Loans Disbursed to Date



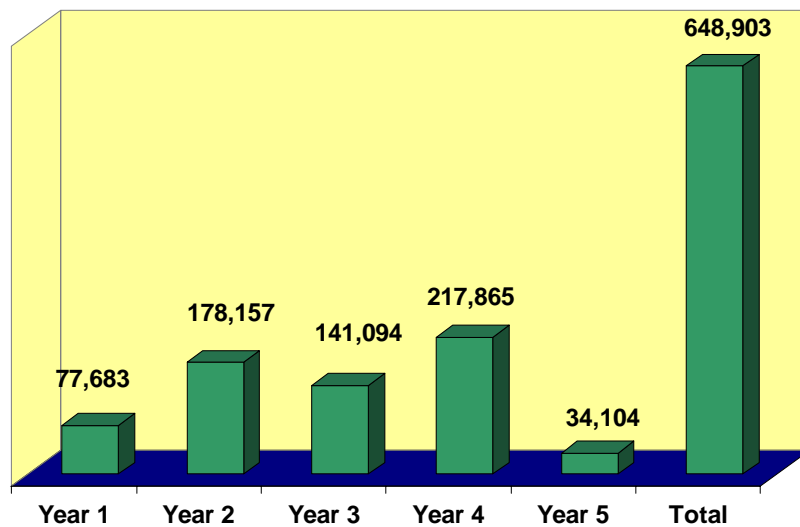
In response to the Palestinian crisis in the beginning of 2006, CHF decided to freeze its operations to minimize risks to its portfolio and program. During the crisis, public sector employees did not receive their salaries, therefore collateral for loans already disbursed is no longer available. Furthermore, private sector employees have reduced repayment capacity.

The effect of the crisis on PEOPLEd operations for the FY06 is clearly shown on the figures related to its outreach.

5.3 Job Creation

Job creation was a key component of PEOPLED. Approximately 45% of each home improvement loan dollar went directly to the generation of employment. Since program inception, the program has generated 648,903 person days of employment, almost exclusively in the construction sector, far exceeding the 595,200 days projected by PEOPLED's completion.

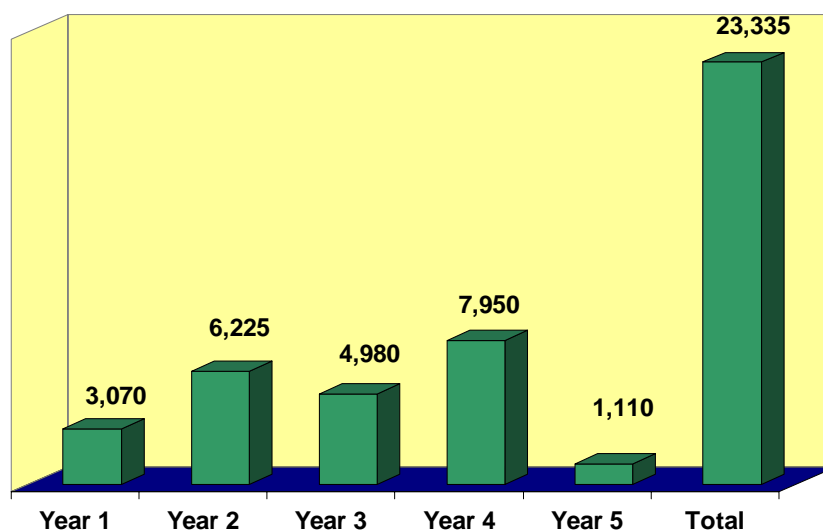
Person Days of Employment to Date



5.4 Number of Beneficiaries

The following charts reflect the total number of persons who benefited from PEOPLED activities since program inception. The number of beneficiaries is calculated by multiplying the number of loans by the average CHF borrower's family size of five. These figures do not reflect the number of construction employees who benefited from the loans.

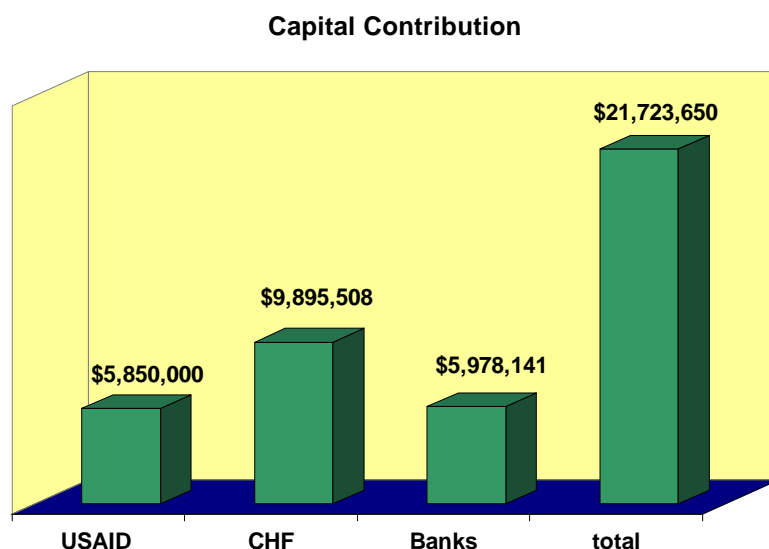
Number of Beneficiaries to Date



6 PEOPLED Leveraged Funding

In addition to the \$5,850,000 provided by USAID, \$15,873,650 has been provided by CHF and its partner banks to the loan portfolio since program inception.

As part of its matching contribution under the PEOPLED expansions, CHF augmented 153 loans of Beit Hanoun borrowers with subsidies totaling \$148,450 since these clients' required home improvements proved to cost more than the loan amount they received from CHF.



7 Gender Equity

The following table provides data on female involvement in PEOPLED since program inception.

Indicator	# of Borrowers	# of Female Borrowers	Women as Percentage of Beneficiaries
No. of Loans Disbursed	4,667	657	14%
Value of Loans Disbursed	\$21,723,650	\$ 3,024,570	14%

8 Loan Portfolio and Arrears Analysis

8.1 Loans

The following table represents loan activity to date.

Loan Activity to Date	
Number of Approved Loans	4,744
Value of Loans Approved	\$ 22,170,150
Number of Active Loans at End of Period	3,442
Number of Loans Disbursed	4,667
Value of Loans Disbursed	\$ 21,723,650
Value of Principal Repaid	\$ 13,007,167
Value of Commission and Fee Income	\$ 347,392
Outstanding Loans Portfolio at Beginning of Period	0
Unpaid Balance on Outstanding Loans at End of Period	\$ 8,697,133
Value of Loans Written Off	\$ 19,350
Total Loan Loss Reserve at End of Period	\$ 2,805,205

8.1.1 Arrears Analysis

The following table represents an arrears analysis of the PEOPLED loan portfolio. Given the current economic circumstances, the fact that 90-day and 180-day arrears are low is one indicator of the overall success of the loan program.

Days in Arrears	No. of Loans in Arrears	Value of Principal in Arrears	Outstanding Principal at Risk	Loan Loss %	Loan Loss Value	Percentage of Outstanding Loan Portfolio
31-60 days	290	\$ 83,316	\$ 878,367	30%	\$ 263,510	10.10
61-90 days	562	\$ 228,783	\$ 753,853	30%	\$ 226,156	8.67
91-120 days	208	\$ 137,311	\$ 629,842	60%	\$ 377,905	7.24
121-180 days	948	\$ 366,818	\$ 2,678,845	60%	\$ 1,607,307	30.80
181 days or more	115	\$ 87,386	\$ 330,327	100%	\$ 330,327	3.80
Total	2,123	\$ 903,614	\$ 5,271,234		\$ 2,805,205	60.61

8.1.2 Definitions/Ratio

Portfolio at risk ratio: Measures the value of the portfolio that may be lost; should not exceed 15%.

$$\frac{\text{Outstanding Balance for Delinquent Loans}}{\text{Value of Loans Outstanding}} = 60.61 \%$$

The high percentage of the Portfolio at Risk (PAR) is a situation that all MFIs are facing in the Palestinian Territories due to the prevailing political crisis that has resulted in a serious deterioration of the economic situation. The normalization of the situation, particularly the resumption of the public sector salary payments, would have an immediate positive effect on the microfinance sector in terms of an expected up surge of

demand for loans to help in economic recovery and in terms of a gradual increase in the repayment levels. Prior to the recent political and economic crisis, the PAR was only 1.88%.

Portfolio in arrears ratio: Measures the portfolio in arrears; a smaller ratio indicates a healthier portfolio.

$$\frac{\text{Value of Principal in Arrears}}{\text{Value of Loans Outstanding}} = 10.4\%$$

Reserve ratio: Measures the percentage of the portfolio that is expected to be unrecoverable; a smaller ratio indicates a healthier portfolio.

$$\frac{\text{Loan Loss Reserve}}{\text{Value of Loans Outstanding}} = 32.3\%$$

8.1.3 Other Indicators

- Average initial loan size = \$4,655
- Average loan term = 36 months
- Total number of loan officers = 7
- Number of active loans per loan officer = 492
- Loan portfolio per loan officer = \$1,242,448.