PN-AAY-601

JUL 21 1987 ISN 53019

Adain

West Bank, Gaza Cooperative Development Proj.
Contract Number ANE-0159-G-SS-6020-00
Agricultural Cooperative Development Int'l.
September 1987

WEST BANK AND GAZA STRIP COOPERATIVE NETWORK FOR ANERA REVOLVING FUND

Marshall Burkes
April 12, 1987

Assignment. The mission was to provide professional input into the analysis and development of the proposed revolving fund project for the West Bank and Gaza. Interviews were conducted with financial and cooperative leaders in the West Bank, Gaza and Amman, Jordan. Representative cooperatives and financial institutions were visited. The key points in the twenty primary interviews are presented as an attachment.

Rather than write a lengthy text about how to design and implement a practical revolving fund in the existing financial, economic and political environment, specific topics, concepts, issues and principles have been isolated for direct attention. The tone or "action feelings" from these chosen words are directed to disciplined loan making; supervised credit and a healthy, long term borrower-financier relationship. Prudent lending is accomplished by clear, meaningful terms and conditions, complete with alternative plans. It is not practical to tighten loan conditions after the loan is not performing and the net-worth of the borrower is impaired. It is wise to start with a rigorous set of standards and be prepared to relax the more burdensome ones after satisfactory performance by the individual borrower.

General Statistics. The West Bank has 260 active cooperatives and Gaza Strip has 9. The agricultural cooperatives have 28,000 members on the West Bank and 2,000 members on Gaza Strip. One-fourth of the agricultural population belongs to cooperatives but this membership base provides one-third of the production for the West Bank. Even with the continued loss of available grazing lands, livestock still represent 40% of the economy.

The ten district type cooperatives have about 5,080 members or 17% of the agricultural cooperative membership of 30,000. Yet, they represent about 40 percent of the local agricultural production. The approximate membership of these ten district cooperatives is as follows:

Tarqumia Olive Press	1400
Beit Jala Olive Press	750
Jericho Ag. Marketing	1400
Ramallah Ag. Marketing	150
Nablus Ag. Marketing	620
Tulkarem Ag. Marketing	500
Qalqilia Ag. Marketing	150
Jenin Ag. Marketing	600
Citrus Growers	150
Khan Younis Ag.	360
	5080

Revolving Fund. This lending instrument is becoming accepted as an effective control vehicle to (1) provide a block of funds to target groups for specific use and (2) allow for the repayment and a portion of the interest earned to be reloaned to additional participants in this target group. This financial tool represents a constructive challenge in long term economic and financial development. Funds should only be borrowed where the rate of return on the project is substantially higher than the cost (interest and/or service costs) of the loan funds. Both the benefits of the project being financed and the actual repayments and interest funds remain in the community as proposed! Also, a successful revolving fund over time avoids the lasting stigma from grants, donations, gifts and handouts.

Objectives. This assignment is intended to apply the revolving loan concept with specific modifications for developing areas to both the West Bank and Gaza Strip. This includes developing a network which utilizes local cooperatives and initiates local decision making. In practical terms, the cooperative can function as a "village bank" with this new seed capital that does not have to be repaid to ANERA's source. However, the funds remain "subject to the terms of projects". This network should provide a simple structure to administer the funds.

Administration must include (1) the distribution of the funds, (2) the servicing of the loan according to its objectives and (3) the orderly collection of each loan. A "top down" administration could be avoided. A network should cause both individual decisions and accountability at the lowest level in the organizational pyramid. The cooperative member and his Board are the only level that has the factual criteria and motivation to make the specific loan decision. Of course, in this existing situation, an abundance of financial training must precede the origination of these loans.

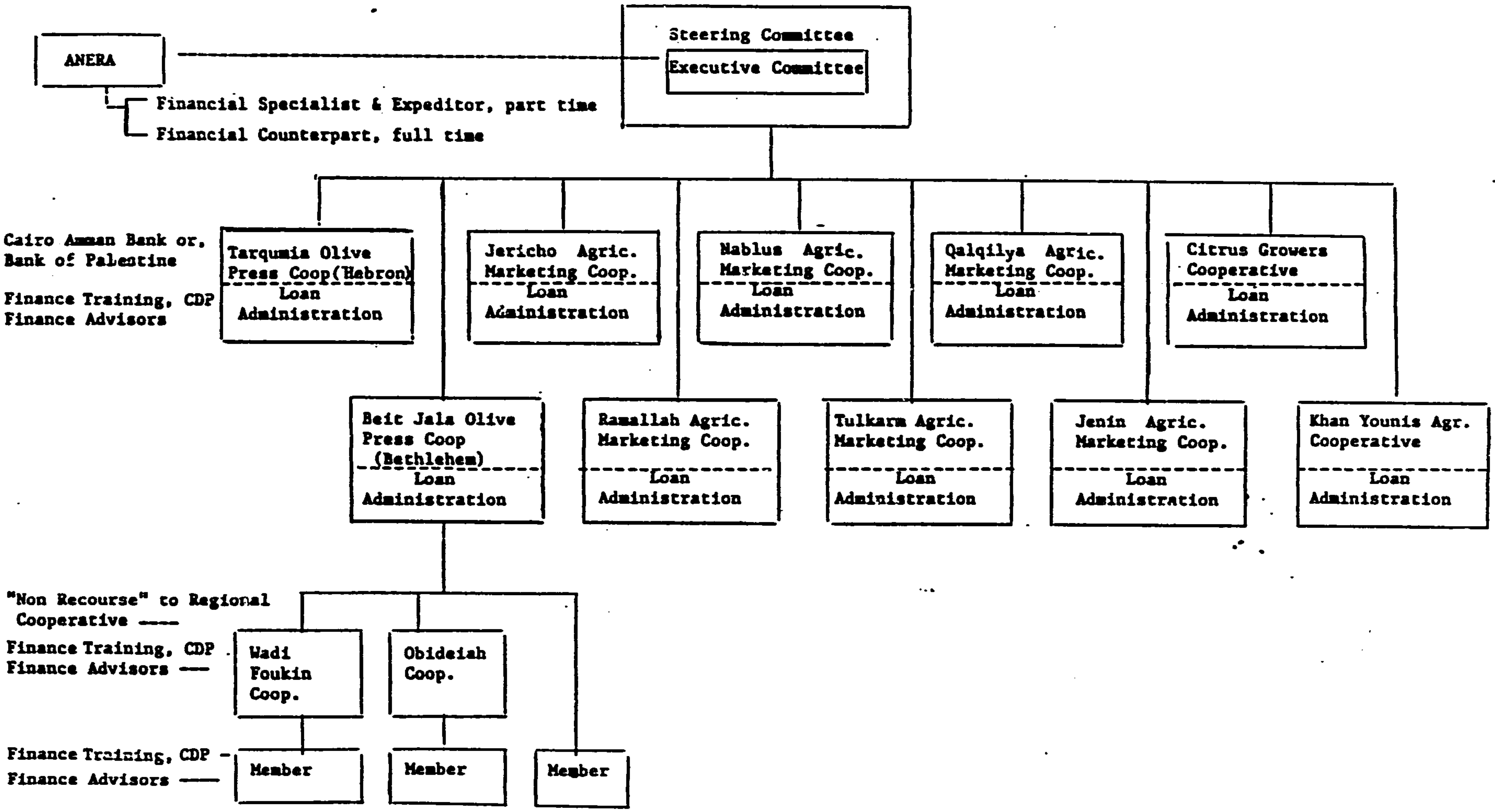
Purpose. The loans are to be used for documented productive activities such as land improvement, water improvement, livestock improvement, tree improvement, and equipment improvement. The initial step in this comprehensive exercise will be presented in a later paragraph.

In-Kind. Efforts will be made to continue the ANERA practice of the cooperative providing goods and services to the member rather than cash. This practice encourages purchase discounts and avoids the temptations to divert funds for more immediate uses.

Term. Three to five years is considered a medium or intermediate term loan with amortization related to cash flow from the project and any other designated sources, at least one payment should be made each year. A one year grace period should only be considered when the project was not finished on time for the current growing season.

Diagram. The purpose of the attached diagram is to illustrate the model network and provide a quick sense of how the decision-making process would function. Specific topics will be mentioned below.

WEST BANK AND GAZA STRIP COOPERATIVE NETWORK FOR ANERA REVOLVING FUND



Delegation. ANERA should continue its successful policy of enhancing local organizations and to delegate the bulk of the Revolving Fund administration to the local cooperative leadership. During the start-up period, ANERA should utilize one financial specialist with an abundance of experience to "set the examples". This "expeditor" could probably be an expatriate on a part-time basis. A financial coordinator (counterpart with local leadership experience) is essential with employment probably on a full-time basis. This financial coordinator should monitor disbursements and facilitate the proper use of liquid funds at all times.

Steering Committee. The objective of the Steering Committee is to review policy, monitor guidelines, strengthen operations, facilitate loan collection, handle allocation of funds and arbitrate disputes.

If and when this body develops and matures into an effective and continuous function, it is reasonable to recognize this new local role. This formal institution could be a cooperative credit Bank capitalized as a wholly owned subsidiary of the Regional cooperatives. That would represent a major goal with both short and long term benefits to all involved.

Representation. Two representatives from each participating regional cooperative: (1) The Chairman of the Board or, an alternative Board Member with strong financial skills and, (2) the manager. Ex officio members include: (1) one representative of the JCO Follow-up Committee and, (2) one ANERA appointment, probably the financial specialist, for the first year. The ANERA local financial counterpart could serve as the alternate.

Executive Committee. This smaller team from within the group should be available to make prompt decisions of an operational nature. The representative should be the manager of each participating regional cooperative. The members of the Executive Committee should elect a "rapporteur" who should also serve the Steering Committee. Representatives to this Steering Committee should be elected annually.

Regional Cooperatives. Cooperatives with a substantial membership base should be selected to represent the eight primary districts of the West Bank and the two areas of the Gaza Strip. This attached chart identifies the candidates. The loan functions should be placed in a separate operating department in each of these ten cooperatives.

Handling Funds. Ideally, a commercial bank should have the major role of lending. At the present time, the banks that are acceptable to these cooperative members are not adequately staffed to service intermediate term loans to production agriculture. However, arrangements can be made to delegate the transfer of incoming loan funds and the investment of liquid funds in one of the two recently reopened local banks.

Save the Children is utilizing Bank of Palestine in both Gaza and West Bank. This includes credit checks, transfer of funds and early stages of supervised credit. The bank is responding well to this outside leadership and the team is attracting local borrowers to date.

Financial Training. The Cooperative Development Project (CDP) was established as a PVO to train cooperative members with finance as one of the four primary areas. Substantial courses are needed promptly in Financial Management and Credit Administration.

Finance Advisors. Local financial trained individuals should be employed and provided with additional credit training. When fully operational, each regional cooperative could justify one financial advisor. Possibly two adjoining regions could share one financial advisor before the volume becomes substantial (several hundred loans to service). The payment to the Finance Advisor should be from the regional cooperative. Since the interest income from the loans need not be returned to ANERA after collection, it is reasonable to use a portion of the interest proceeds to pay for loan administration such as a financial advisor, accounting and auto transportation for the Financial Advisor. The cost for a financial advisor is estimated at $5,000 per year. Each financial advisor should be assigned a modest, durable four-door sedan for quarterly farm visits.

Attempts should not be made to transform an existing agriculture engineer with a technical specialty into a newly created Finance Advisor position. If the balance between technical agriculture and effective financial experience is not available locally, it is better to take a motivated and experienced finance type and provide him with enough technical agriculture rather than the other direction.

Regional Coop. Members. Farmer members should apply for loans based on individual productivity and individual merit. The prior practice, which allocated a fixed amount of funds to each cooperative member, should be avoided. Furthermore, members need credit training before receipt of loan funds. The basic financial tools should be enterprise analysis, cost/benefit analysis, bookkeeping, budgeting, and financial planning.

Finance Training. The local cooperative should benefit from the same CDP training as the regional cooperative since the loan serving is identical.

Finance Advisors. The local cooperatives have the same needs as the regional cooperatives. The finance advisor employed in the region should serve the local cooperative on an equal basis.

Local Cooperatives. Members of local cooperatives have the same needs for loan funds as members of the larger regional cooperatives. ANERA wants to continue servicing these members of smaller cooperatives. Also, this network could even include certain charitable societies that have programs to finance medium and small size private entrepreneurs. The Boards of Directors take the same responsibility for loans to their members as do the regional members. Therefore, there is no reason for the Regional Board to guarantee the loans of the local cooperative members. Thus, the funds pass through the regional cooperative to the local cooperatives without "recourse" to the regional cooperatives. This means that the member/borrower must repay the loan based on his individual capacity to repay. Guarantee of credit worthiness would be only from the two co-signers of the member's cooperative.

Loan funds are not anticipated for the purchase of land. Therefore, land as collateral is not needed. Also, the use of land as collateral in an area without a representative government is not workable.

Size of Revolving Fund. The structure presented in the diagram which includes both the West Bank and the Gaza Strip could handle a very large revolving loan program as it can involve each member in the cooperatives. Even with a loan maximum of $5,000 per farmer, this economy could demand and this structure could service a twenty-five to fifty million dollar revolving fund. At twenty-five million, this amount would reach 5,000 farmers over the first three years or about one-fifth of total of farmer cooperative members. If a cooperative prefers to set the highest priority on a common project like drip irrigation, then a lesser amount of funds per involved member would be used. Of course, the project would not be applicable to all members.

Identification of Revolving Funds. It is doubtful that a revolving fund could be totally disbursed in one year even if that was the objective. Also, the year of disbursement should be tracked. With changes in the purpose of the loan funds, the identification of the Revolving Fund should be different. For example, the proposed Revolving Fund with initial disbursement could be ANERA, A-1987.

Phase-In on Volume. An orderly process of loan preparation and disbursement is needed. So, Revolving Fund A would be disbursed probably by increasing amounts in 1988, 1989 and 1990. The amount of the individual cooperative member's loan should not be increased from the original Revolving Fund.

Phase-In Structure. If the initial allocation of funds to ANERA is less than $1,000,000 per year, no more than two of the

Districts could be activated (one in West Bank and one in the Gaza Strip). This could be regarded as a pilot approach to develop a regional structure. The contrasting alternative could be to develop the full delivery structure early and target the loan guidelines to select about 200 cooperative farmers who could become local "role models". At this date, I recommend the first alternative in year one with the special attention to local role or demonstration models as borrowers. This would place attention on the individual needs of the specific borrower/lenders rather than concentration on two or three types of loan activity.

Allocation of Funds. The Steering Committee would be involved in refining loan criteria and guidelines and the priority considerations for the allocation of funds. However, ANERA must reserve the final decision on the annual allocation based on priority of loan purpose with a maximum amount for each district cooperative by number of loans for district cooperative members and local cooperative members. ANERA must reserve the authority to reallocate unused funds promptly between regional cooperatives. The reallocation decision should not be so hasty as to cauśe loan disbursement just to keep the funds but measured by days of delay, not months. Along with the professional loan criteria and specific loan guidelines with set priorities by region, the only realistic and fair way to ration scarce funds is the careful selection of role models. This objective would reward the best farmer with the best plan without regard to wealth or age. This would complement the development and demonstration objectives. This model farmer role is consistent with the college scholarship, study abroad or Champion Farmer award.

Reallocation of Repayments. The annual installments of repayments will be too small for each cooperative to operate as an independent revolving fund. Also, the Steering Committee should reset the loan guidelines each year based on past results and any ANERA program modification. Therefore, the repayments with service fee (primarily interest) should be returned to the Regional Cooperative/ANERA joint bank account. ANERA must reserve the authority to reallocate the collected loan installment and service fee.

There is no difference in a loan made from repayment proceeds or a new allocation of funds. However, a cooperative should not receive the next allocation of funds until 95% of existing loans are current and no loan is more than 90 days past due!

This writer is not a trained attorney to determine who owns the funds in this type of Revolving Fund at a particular time. Regardless of the specifics of this or another network for administration, ANERA should retain full ownership of the funds. It is premature to think about final distribution before 2 or 3 successful revolvements to borrowers.

Interest Rate. Although the interest rate is the rate of return indicator in international financial centers, the term is misleading in developmental type lending. The direct cost of operating lending programs is considerably higher than any interest rate charge even at market levels. When the structure employs addition resources as a financial advisor with transportation costs, the payment of market interest rates does not recover the full cost. To avoid further confusion, all documents between ANERA and the cooperatives should mention service fee only. This will be consistent with ANERA's objective to recover a fixed portion of the administration cost of the Revolving Fund.

This deliberate avoidance of the continuous interest rate issue does not prevent the clear statements of what the funds supplied to ANERA cost USAID in terms of the U.S. Treasury Bill rate. The cost of loan administration should be a discussed subject with the borrower, particularly in terms of efficiency.

Share Capital. Cooperative financial institutions deduct an amount from loan proceeds for the purchase of share capital. The purpose is to protect the cooperative for a portion of the default risk and to further commit the members to the cooperatives. The standard five percent of the loan as a share purchase is appropriate for these cooperatives as they have a modest capital base. The membership capital, which is a fixed amount for each member, without regard to the use of the cooperatives, should be paid in full before disbursing the loan to the borrowing member. The member should be allowed to cash in the shares related to the loan when the loan is paid in full.

Savings. As the cooperative will be operating as a village bank for its members, the borrowing member may elect to leave the shares with the cooperative and borrow against the shares if cash is needed for short time periods. The cooperatives could initiate a cooperatives savings program with competitive rates for members' consideration. Thus, the share capital could be transferred to a savings account in the cooperative as the loan is repaid. These savings, along with others, could be invested or reloaned.

Loan Documents. Professional loan instruments should be adopted by the cooperatives. This includes: (1) a formal loan application prepared by the borrower, (2) a written form plan and annual budget prepared by the farmer with the assistance of the assigned financial advisor, (3) a brief financial statement, (4) promissory notes and related protection, (5) two co-signers, (6) contract between the cooperative and borrower and (7) a quarterly checklist for loan supervision.

Standard Forms. Each cooperative should use standard forms adopted by ANERA. Since Save the Children has initiated a direct lending program to farmers, its forms should provide the base documents (attached). Before final adoption, the package will be compared with the fully tested forms used by the Agriculture Credit Corporation with the Jordan farmers (attached in Arabic). The standard forms should be clear enough to serve as a training and analysis tool for the farmer.

10% repayment in JDs

Save the Children asked for cooperation on uniform terms and conditions as the recent "credit understanding memorandum" was vague.

Loan Security. For a new lending program, the conditions should be clear, explainable and enforceable. Save the Children has set a precedent by using the notary deed which includes the promissory rates and a predetermined judgement. At the present time, the promissory rates are unrecorded and remain in the cooperative file. The notary deed causes the borrower to sign a judgement document for the amount of the unpaid loan and is to be effective without further court action. The lender can collect from either the assets financed by the loan or other specified assets. Save the Children has stated that land is never collateral for its loan. The appropriate cost of obtaining the notary from the court is about $100. Lance Matteson asked about the constitutionality of the legal document because of forfeiture of due process which will be checked in the U.S. court system. The instrument was adopted based on the strong recommendation of counsel (Raja Shehadeh) after acknowledging that actual legal remedies in the West Bank and the Gaza Strip are nil. This legal consideration includes the Cooperative Register in Jordan which has arbitration as one alternative, however, recent results are unclear. Full protection to lender is standard international procedure. The understandable "fear" of abuse of land title documents is nullified when the lender declares no interest in land as collateral or protection. Remember specific loan conditions can be removed after satisfactory performance.

Bank Accounts. The Cairo-Amman branch in Nablus has little interest in agricultural lending now or in the past. Senior management may do some studies in this area. The management of the Bank of Palestine is aware of the major importance of agriculture in the local economy. The Bank of Palestine was selected by Save the Children to: (1) handle the bank account; (2) do a local credit check on the borrower; (3) distribute the check to the borrower; (4) collection of funds; (5) post the account daily (computerized) disbursement and 1/2% at loan maturity. The Bank of Palestine is serving these functions in both the West Bank and the Gaza Strip. The Bank of Palestine can convert $US to Shekels only, but at the market rate. It can operate accounts for West Bank cooperatives. The bank can pay interest on savings or liquidity investments from these accounts. The Cairo-Amman branch keeps accounts in JDs and has limited interest in savings. Either bank can keep deposits in nearby countries.

Loan Purpose and Priority. With a wide assortment of both loans and experience with cooperatives by ANERA, it seemed appropriate to focus on this subject before considering further loan objectives and policy. The attached chart was prepared in a couple of meetings with Lance Matteson, Ibrahim Matar and Adnan Obeidat. Lance led the meetings in a catalytic spirit. After a minimum amount of discussions on major topics, it was surprising to observe the closeness of the final opinions of Ibrahim and Adnan. This was particularly noticeable on the local priority for the five major development purposes. Early in this analysis, it appeared that ANERA's priority would be the same as the local one. With scarce loan resources, ANERA may be able to only honor a portion of the first priorities and must ignore the rest regardless of cost-benefit. With proper respect to the value of cost-benefit analysis, these territories do not have sufficient verified accounting data to make meaningful determinations. Any existing aggregate members could be misleading. The question is not "will the loan be cost effective?" but "what is the higher priority projects to select and honor?"

Summary. The residents of West Bank and Gaza continue without traditional banking institutions for twenty years. One branch of a respected bank in Gaza City serves nearly 600,000 people in Gaza Strip while one branch of an Amman, Jordan bank recently reopened for over 3/4 of a million people on the West Bank. The money changers continue to function well but only serve short term needs. There are no formal savings institution, therefore, there are no formal sources of local funds for loans to meet either the short or longer term credit needs.

For a 1 1/2 million population, the PVOs provide $7 or 8 million per year and only a small percentage of that is alloted to loans both short and intermediate term. The funds from the Joint Committee and JCO have been reduced seriously by the donor countries due to lower oil prices. Save the Children was the major player this past year. They approved about 75 loans totalling about $300,000 on a professional loan basis directly to farmers and entrepreneurs. After expectation of at least $1/2 million per year for three years, the program has stopped (after the military authorities insisted on the names of pending borrowers). //

Being without financial institutions that the residence trust does not mean that local families do not know how to use credit effectively. Just the opposite! The financial acumen is excellent as the family structure causes repayment in this local village society. In recent years, most of the foreign funds, small in amount on a comparative basis, has been regarded as a gift even when loan documents were completed. New lending should be proceeded with a clear understanding on terms and conditions, but more important, formal training is needed on how to properly use credit beyond the family discipline.

Cooperatives provide the only existing group of entities within which a network can be created for loan administration. The illustrated network, relying on ten regionally located cooperatives, can service a large number of loans for millions of dollars with a modest amount additional human resources. Most of the financial skills are available locally with only a few months of specialized financial and credit training.

ANERA needs to further define the purposes of the loans that are to be financed. The first step was taken with priority chart by general purpose and regional area. A substantial decision is needed on whether ANERA will seek out role models for both performance and demonstration reasons or loan criteria be developed to target and attract selected projects which would probably involve small groups of farmers. Once the desired objective of the loan and the type of borrower is determined, the implementation of the network can be planned. Size of the annual program and rate of growth will be the second and third factor for accessing the network for administration. Cautions must be exercised not to build false expectations among the local population.

Interfacing with the primary objective USAID and preparing the set of documents would be the next step. Near the completion of the process clear loan procedures, model loan forms, loan criterion and related documents should be formalized and adopted. Any lead time on selecting and training local financial advisors would be beneficial.

This is one of the few places in the world that a sizeable cooperative lending program can be commenced on a "fresh" basis without considerable debt restructuring and with the strong support of the local population. Also, the local cadre is in place for ANERA.

ANERA - COOP LOAN PURPOSE & PRIORITY

districts	COOPS	land improvement*	local priority**	area-wide priority	trees improvement*	local priority**	area-wide priority	water improvement*	local priority**	area-wide priority	equipment*	local priority**	area-wide priority	livestock & poultry*	local priority**	area-wide priority	other
Hebron	Tarqumia Olive Press Coop (15%)***	x	1	dozering	x	2	trellising, grape rootstalks	x	5		x	4	grapes processing, fruit drying	x	3		handicrafts, bees
Jordan Valley	Jericho Agric. Marketing Coop (7.5%)***	x	5	salt-leaching	x	2	bananas, oranges/citrus, dates, avocados, alfalfa, garlic, early grapes, non-perishable onions & potatoes (new varieties)	x	1	irrigation, infrastructure drippers, hothouses	x	3	pickling, canning (portable grading & sorting equip.)	x	4	bees	
	Nablus Agric. Marketing Coop (7.5%)***	x	2	dozering, other equipment	x	1	almonds, olives, (seedlings)	x	5		x	4	olive canning	x	3		
	Qalqilia Agric. Marketing Coop (7.5%)***	x	2	dozering (for irrigation)	x	3	citrus, guava	x	1	irrigation, infrastructure drippers, hothouses, well digging equipment?	x	4	grading & sorting	x	5		
	Jenin Agric. Marketing (7.5%)***	x	5		x	4		x	3		x	2	grain, onions, potatoes, melons, tomatoes & sorting & equip.	x	1	sheep fattening & other livestock	
Bethlehem	Beit Jala Olive Press Coop (10%)***	x	1	dozering	x	2	trellising grape rootstalks	x	5		x	4	fruit drying	x	3		olive wood mother of pearl
	Ramallah Agric. Marketing Coop (22.5%)***	x	1	dozering	x	4	olives, trellising	x	5		x	3	fruit drying	x	2	poultry improvement, silos(?)	handicrafts
	Tulkarem Agric. Marketing Coop (7.5%)***	x	5		x	1	citrus, almonds, olives, (seedlings)	x	2	irrigation infrastructure drippers, hothouses	x	4	grading & sorting	x	3		
North Gaza Strip	Gaza Citrus Growers Coop (15%)***	x	5	salt-leaching	x	2	citrus	x	1	strawberry hothouses irrigation infrastructure, drippers	x	4		x	3	fish, strawberries, livestock	rugs? baskets?
S. Gaza Strip	Khan Younis Agric. Coop (10%)***	x	2	sand?, small equipment	x	5		x	1	hothouses, nursery, seedlings (veg.)	x	3		x	4	strawberries, fish	

* applicable
** Priority scale: 1=highest 2=above average 3=average 4=below average 5=lowest
Possible allocation guidelines: 1=30% 2=25% 3=20% 4=15% 5=10% (including all COOPS in each district)
*** Possible allocation percentages between district cooperatives