



CHEMONICS INTERNATIONAL INC.



**BUILDING A MICROENTERPRISE INDUSTRY IN THE
WEST BANK AND GAZA PROJECT**

January 2001 Monthly Report

Contract No. OUT-PCE-I-802-99-00007-00

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February 26, 2001



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Introduction

The Building a Microenterprise Industry in the West Bank and Gaza Project was delayed from September 2000 until January 2001 as a result of the political uprising, or *intifada*. The effects of the conflict on the microfinance industry are significant and are expected to alter the priorities and time frame of the project, though all components are expected to go ahead.

Project focus over the first month has been on identifying project counterparts and assessing needs posed by the *intifada*. In addition, a survey was conducted with 12 microfinance institutions (MFIs) to: (1) gain an overview of their organizations, (2) assess the impact of *intifada* and (3) get an idea of their institutional needs and expected participation in the project. Respondents of the survey include four commercial banks and eight non-governmental organizations (NGO) that implement microfinance programs in WB/G.

Chemonics International, MASSER Associates and Shorebank Advisory Services are implementing the project to enhance the potential for rapid growth of micro lending and to make the availability of this product and other related financial services a permanent and sustainable feature in the region¹. Goals of the project include:

1. *To improve cooperation between microfinance practitioners* by establishing an industry association that promotes best practice principles and entry into the market by commercial banks.
2. *To strengthen microfinance skills* in the region through the establishment of a viable training institution and the training of at least 30 professional trainers capable of meeting the needs of the industry.
3. *To increase the demand for microfinance services* to expand public awareness of the benefits and values of microfinance and to advocate for public policy and banking reforms.
4. *To create operational linkages between microfinance programs* through the merger of NGO programs and their cooperation with commercial banks.
5. *To develop credit advisory services* through a sustainable privately-owned credit bureau that maintains accurate credit backgrounds of existing and potential clients.
6. *To improve the understanding of microfinance programs in WB/G* through studies, seminars and applied research.
7. *To improve the efficiency and appropriateness of financial services* by helping microfinance programs develop new products and reorganize themselves into formal microfinance institutions (MFIs) capable of mobilizing local capital.

¹ . The project fits within USAID Strategic Objective “expanded private sector economic opportunities” and will directly contribute to Intermediate Result 1.1 “increased access to financial services by the private sector”.

SECTION I

Activities

The short-term implementation of the project has been reassessed in reference to the *intifada*. The effect on the seven activity components is outlined below. Since the project started only last month, most program activities are not yet underway. The narrative will therefore focus more on future plans and the affect of the *intifada* than achievements in the period.

1. Microcredit Forum

Effect of the *intifada*: need for a forum increased

Activities will begin informally with small meetings of interested stakeholders. After sufficient credibility has been established, the project will sponsor seminars, research, and training activities on issues related to best practices, policy and effects of the *intifada*. The association will form the participatory mechanism for other components of the project. All of the major MFIs interviewed expressed an interest the forum and can appreciate its relevance, especially in reference to the *intifada*.

2. Training

Effect of the *intifada*: speed up implementation

Training program implementation will be sped up because the *intifada* has created an opportunity to train microfinance program staff as their work has slowed down significantly. This will provide them with the necessary time to participate in training and capacity building activities. A regional needs assessment will be conducted shortly to establish a clear focus on the curricula and assess the impact of the *intifada*. Program delivery will rely heavily on the resources and facilities of the AMIR project in Jordan until permanent facilities and staff can be identified.

3. Advocacy and Public Awareness

Effect of the *intifada*: priority lowered

MFI marketing programs have slowed or stopped from the *intifada*. MFIs find it risky to implement loan-marketing programs in danger zones and do not want to develop new loans until the direction of the conflict can be better assessed. At this stage the component has been put on hold.

4. Operational Linkages

Effect of the *intifada*: priority unchanged but on hold

Formal linkage building should not be pursued until the microfinance forum has a chance to take off. Building consensus with social rather than physical capital at this stage will enable a more appropriate allocation of resources for this component. Assessments have to be undertaken on the feasibility of merging programs to attain economies of scale. While this is a promising direction, issues of autonomy and managerial control are likely to hamper the initiative.

5. Credit Bureau

Effect of the *intifada*: priority unchanged but on hold

The credit bureau may be stalled because the Palestinian Monetary Authority (PMA) objects to the formation of a privately owned organization, which would contradict the terms of the project contract. MFIs remain interested in the initiative.

6. Studies, Seminars, and Analyses

Effect of the *intifada*: need *intifada*-related analysis

The project will place a priority on assessing the effects of the *intifada*. A needs assessment workshop is being developed that will enable stakeholders to clearly identify the problems with their programs and to develop a strategy to address them. Follows are some subjects being considered.

1. Feasibility of NGO programs to convert to formal microfinance institutions.
2. Market survey of loan products on specific regional markets (i.e. Nablus and Gaza), economic sectors (i.e. agriculture and tourism) and clientele (i.e. established businesses, business start-ups, women, young people and farmers), with special reference to the *intifada*
3. Feasibility of using the MIS of FATEN as a model for other MFIs.
4. Study on policy, laws and regulation of the microfinance industry in the WB/G.

7. Financial Services

Effect of the *intifada*: priority unchanged

Contacts have been made with the Arab Bank and the Bank of Jordan to plan for new financial services. The project may assist the Arab Bank to establish a formal microfinance subsidiary capable of mobilizing savings. There is also interest in developing new products and services. Investigations may include the use of SmartCard technology, because it is a cost-effective way to improve program outreach while maintaining a complete and verifiable audit trail.

SECTION II

Administration and Procurement

Mr. Guy Henggeler, Assistant Project Administrator and Mr. Amr Khilfeh, of our subcontractor MASSER Associates, carried out administration and procurement activities in January.

1. Office

The project office will be located in Jerusalem and will move to Ramallah once the political situation calms down. Four offices were visited before signing a lease for an office in Dahiet el-Barid, a secure Palestinian neighborhood within a short drive to Jerusalem. It is competitively priced and offers a monthly lease agreement. The office is also convenient to Ramallah, though two Israeli checkpoints cause traffic delays.

2. Equipment, supplies, Transportation and communication

After signing the lease, phone lines were installed by the Palestinian Telecommunications Company. The office computer network was wired to facilitate the installation when computers arrive from the United States. Office furniture, supplies, equipment and kitchenware were also bought following three price quotes. The project rented a car for temporary use as it assesses the advantage of renting a sports utility vehicle.

3. Bank account

The project accounts were established at the Standard Chartered Bank, including a USD and NIS account. The bank was chosen because it is convenient and has branches in Ramallah and Jerusalem.

SECTION III

Personnel

1. Level of Effort

Long term	Period	Days Worked
Mr. Imad Hamze, Deputy Chief of Party	Jan. 8 -	18
Mr. Amr Khilfeh, Financial Analyst	Jan. 8 -	20
Short term		
Mr. Charles Taylor, Chief of Party	Jan. 16 - 27	18
Mr. Peter Bittner, Project Supervisor	Jan. 18 - 25	7
Mr. Mazen Asa'd, Senior Financial Specialist	Jan. 7 - 15	7
Mr. Jorge Daly, Economist (home office)	Jan. 4 - 12	7
Mr. Guy Henggeler, Assistant Project Administrator	Jan. 11 - 27	18

2. Recruitment

Office Manager

While the office manager is hired through the subcontractor, MASSER Associates, Mr. Henggeler will be involved in training the person in some of the basic administrative and reporting duties required by USAID and Chemonics International. Prior to departure, Mr. Henggeler created a master file index for the project office's main files to be set up and maintained by the office manager.

Accountant

A project accountant was hired. Mr. Khilfeh, who had been the accountant for the previous West Bank/Gaza microlending project, provided guidance and will be responsible for much of the training. After examining several resumes, five were chosen for initial screening interviews. After the screening, two were selected for formal interviews and tested on their accounting knowledge. This process resulted in a single candidate who possessed the accounting and multi-tasking skills required in the project.

SECTION IV

Coordination

The first month has witnessed extensive coordination of activities with participating microfinance institutions and industry stakeholders. Meetings were held to gain an overview of their organizations, assess the impact of *intifada* and get an idea of their institutional needs and expected participation in the project. The summary of findings of these meetings is presented in the *intifada* assessment included in this report. Overall, the results of the meetings were positive and the willingness toward continued coordination for the benefit of the microfinance industry is good

MEETINGS IN JANUARY	
BANKS	
<i>Arab Bank</i>	Joseph Nesnas, Vice President & General Manager
<i>Bank of Jordan</i>	Susan Khoury, Manager
<i>Commercial Bank of Palestine</i>	Samer Abdallah, Credit Manager
<i>Jordan National Bank</i>	Mousa Kumkam, Assistant Regional Credit Manager
<i>Palestine Development Fund</i>	Chris August, General Manager
<i>Standard Chartered Bank</i>	Ian Rutherford, Manager
NGOs	
<i>American Near East Refugee Aid</i>	Mazen Dabbagh, IFAD Program Manager Thomas Neu, Middle East Representative
<i>ASALA</i>	Reem H. Abboushi, Executive Director
<i>Communities-Habitat-Finance</i>	Matthew D. Lovick, Country Representative
<i>FATEN</i>	Mohammed Ali Khaled, Executive Director
<i>United Nations Relief and Working Agency for Palestinian Refugees</i>	Alex Pollack, Chief Of Party, Microfinance Program Jane Giacaman, Field Microfinance Officer
<i>East Jerusalem YMCA</i>	Haytham Hammouri, SED Head of Department Basil S. Jarrar, Financial Deputy Loan Program
OTHERS	
<i>International Finance Corporation</i>	Youssef Habesch, Investment Officer Rami Khoury, Investment Officer
<i>Market Access Program (MAP)</i>	Jim Winkler, Chief of Party Denis Gallagher, Institutional/Policy Advisor Sani Daher, Technical Advisor
<i>MASSER Associates</i>	Bashar Masri, General Manager Mazen Asa'd, Senior Financial Specialist
<i>USAID</i>	Numerous Officials