CHEMONICS INTERNATIONAL INC.

BUILDING A MICROENTERPRISE INDUSTRY IN THE WEST BANK AND GAZA PROJECT

March 2001 Monthly Report

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

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April 2001

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Introduction

This monthly report represents the activities of FS IQC Task Order # 802, "The Building a Microfinance Industry in the West Bank and Gaza" project, for the month of March 2001. The report highlights significant work undertaken and accomplishments realized, outlines major challenges and opportunities encountered, offers proposed responses to those challenges, and summarize planned activities for the following month.

Through this task order, USAID is supporting a program of technical assistance and training to develop a sustainable microlending industry in the West Bank and Gaza, targeting its strategic objective *"expanded private sector economic opportunities.*" Chemonics International is 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 region[1]. Goals of the project include:

1. *To improve cooperation between microfinance practitioners* by establishing an indusrtry 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 program housed, sponsored, and accredited by a local/ regional institution.
3. *To increase the demand for microfinance services* through 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 and appropriateness of financial services* by helping microfinace programs develop new products and reorganize themselve into formal microfinace 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 political uprising, or *Intifada*, in the West Bank and Gaza continues to alter the priorities and timeframe of project activities and the affects of the microfinance industry. On March 7, Ariel Sharon was inaugurated as the new Prime Minister of Israel. Soon after the inauguration the Israeli Defense Forces reinforced its hold on Ramallah and other cities by digging tunnels around cities, destroying main roads to halt movement and placing cement blocks at each road intersection connecting Palestinian areas.

A partial list of the closures and blockages was compiled by the Palestinian Society for the Protection of Human Rights & the Environment[2] (LAW) and can be summarized as follows:

- Partial isolation and closure of 13 large towns.
- Partial isolation and closure of 214 small towns, villages and refugee camps
- 258 paved and agricultural roads and outlets have been blocked. One of the outlet streets blocked is the one leading to the project offices at Dahiet el Bareed.
- 163 barricades and cement blocks have been placed on these roads.
- 94 immovable military checkpoints have been set up.
- 69 new military outposts were positioned.

Despite the tense atmosphere, Chemonics field staff were able to commute to and from the office without any significant problems. The expatriates mobility was easier due to the ability to pass through check points without the need to go around the outlet ways. Nevertheless, there have been many delays at these checkpoints in many occasions.

This significant tightening of security and increased closures put the project's plans of a series of seminars March 14, 15, and 18 under question. However, the management team of the project, and after consulting the managers of the MFIs and Banks agreed to go ahead with the program as planned. The seminars and other major activities that occurred during this reporting period are outlined below by component.

[2] LAW society. Press release. March 21, 2001. (www.lawsociety.org).

1. Microcredit Forum

Activities have begun informally with small meetings of interested stakeholders and contacts regarding a meeting to be set in the month of April or May. The association will form the participatory mechanism for other components of the project. Based on the informal meetings that took place during his recent field visit, the COP will utilize time in the US to write a draft paper outlining the structure and goals of the forum. All of the major MFIs interviewed expressed an interest in the forum and can appreciate its relevance, especially in reference to the Intifada. It is expected that participants of the pre-forum meetings will study the draft paper and recommend certain adjustments.

2. Training

Management and Analysis of Problem Loans Seminar

Despite the closures and the constraints on the freedom of movement of people, the Chief of Party and his deputy were able to meet with numerous MFIs and banks to confirm the dates of the seminars and to reassure the continuation and commitment of the project to help build the microfinance industry in the West Bank and Gaza.

In this regard, Chemonics coordinated with subcontractor Shorebank Advisory Services to deliver a training seminar to participating microcredit institutions to introduce and incorporate new lending techniques designed to manage problem loans and to modify certain lending procedures, in keeping with recognized "best practices" in the area of problem loans.

Two seminars were held in Ramallah and one in the Gaza Strip and 104 candidates from the different MFPs attended. These are the key staff implementing, overseeing, and managing the microfinance programs in the different organizations. The project provided accommodation to those participants coming from outside Ramallah and Gaza and who were not able to return home at the end of the day due to the closures. (See Annexes 1 and 2 for a list of participating organizations and a report on the seminar.)

Outcome of the Seminars

1. Due to the pent up demand for training, the number of participants in all sessions was greater than expected. The mixture of participants from the banking and NGO sector added a good flavor to the seminar. Nevertheless, some participants found that the mixture of the two groups allowed for the discussion of the issues to be too broad. However, the majority of participants felt that the seminar provided an excellent opportunity for involved players to meet for the first time and discuss and analyze a common problem, repayments and problem loans. The seminar also gave a chance for participants of different levels of microfinance expertise to discuss with their peers certain case studies and opened the door for the

participants to think collectively of solutions to common problems. This issue encourages the project to move forward in planning for training on the basics of microfinance.

2. The seminar strengthened the microfinance skills of the participants, as well as many of the participants' peers who were unable to participate in the training. Although 104 people attended the seminar, a minimum of 100 additional people will receive the information that was dissiminated in the seminars. UNRWA has already disseminated what their participants have learned to approximately 20 microlending staff from Jenin, Toulkarm, and Nablus. The Arab Bank and others in the NGO community are planning to do a similar training session using Shorebank's material in the coming week or two.

3. The seminar received substantial media coverage through newspaper articles and radio and TV interviews, giving the project and its objectives positive public exposure. It is important to note that this project is the only one with current activities, as even other projects by the IFC and the Palestine Micro and Small Enterprise Development Project (PMSED) of the Maastricht School of Management have receded due to the current political situation. The media exposure at this critical time when Palestinians are in great need of loans is expected to increase the demand for microfinance services, if not right away, in the near future. Moreover, the radio interview with the deputy chief of party has revealed the importance of the sustainability of the MFIs and the need for continuing loan repayment despite the crisis.

4. The contacts and meetings that took place with MFPs have revealed a number of linkages and relationships between the different MFPs. For example, the Culture and Free Thought Association (CFTA) has a risk-sharing lending relationship with the Bank of Palestine in Gaza. ANERA, also, has a special linkage with CFTA, and with the Arab Bank. The project will study the already present linkages, analyze the needs of future linkages, and work as a mediator towards achieving them.

Follow Up Activities

Following the seminars, the project team visited several of the participants' organizations to follow-up on issues from the seminar. It is worth mentioning that in such a critical political and economic situation, the project team has decided to stay in close contact with the MFIs and banks, to be available for their questions and ready to give the needed support to help overcome the crisis. Our presence as a foreign organization, especially at this critical time, encourages the microlenders to continue their operations, assess their needs, and take steps towards needed restructuring.

These visits have given the project team clear ideas of what other training seminars are needed. For example, several of the organizations have expressed their need for a "firing up/ salesmanship seminar" for the field staff, others have emphasized the importance of a training for the credit and branch managers of banks and MFIs in the field of financial forecasting and business plan preparations. The process of investigating needs and planning deliverables will provide clear ideas towards fulfilling the project implementation plan.

Other Training Activities

The project team has been in contact with the AMIR project staff in Amman to coordinate several training courses and to investigate the possibility of having the trainers come to the West bank and Gaza to deliver their Basic and Advanced microlending courses. In that regard, the deputy chief of party will visit the AMIR training staff in Amman between the April 1-5, 2001 to discuss training and to share information and experiences regarding the microcredit forum and credit bureau.

3. Advocacy and Public Awareness

MFI marketing programs to promote new loans have slowed or stopped due to the *intifada*. This component is not yet underway.

4. Operational Linkages

Formal linkage building should not be pursued until the microfinance forum is established and allowed to take root. However, the deputy chief of party took the initiative to liaison between the Arab Committee for Agricultural Development (ACAD) and the Jordan National Bank (JNB) and has expressed the project willingness to extend its technical support. The first meeting between the parties will take place on April 4, 2001.

5. Credit Bureau

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

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.

7. Financial Services

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.

With regard to the other goals of the project, please note the progress on the different issues as follows:

SECTION II

Administration and Procurement

Mr. Amer Khlfeh, of our subcontractor Massar Associates, continued to carry out administration and procurement activities in March. Also, he assisted in training the new accountant.

1. Office

Despite the closures and the blocking of the road near the office by the Israelis, the staff from Ramallah and from Jerusalem still were able to report to work as scheduled.

2. Transportation

The project rented another car to facilitate transportation during the seminars and to facilitate the movements of key staff members on project-related business.

SECTION III

Personnel

1- Level of Effort

Long term	**Period**	**Days Worked**
Mr. Imad Hamze, Deputy Chief of Party	March 2001	21
Mr. Amer Khlfeh, Financial Analyst	March 2001	21
Ms. Ruba El-Ghoul, Accountant	March 2001	11
Short term		
Mr. Charles Taylor, Chief of Party	March 2001	22
Mr. Peter Bittner, Project Supervisor	March 2001	0
Mr. Jorge Daly, Economist (home office)	March 2001	0
Mr. Guy Henggeler, Assistant Project Administrator	March 2001	0

2- Recruitment

Accountant

The accountant, Ms. Ruba El Ghoul, assumed responsibility on the 16th of March.

Office Manager

The office manager will assume responsibility on the April 4, 2001. Ms. Sarah Nelson, home office project administrator, will be involved in training her in the basic administrative and reporting duties required by USAID and Chemonics International. Moreover, it is expected that the technical assistant will sit with the office manager to explain to her the filing system created, and to let the new office manager have the time needed to learn and understand the nature of the project, and its requirements.

Technical Assistant

A project technical assistant was contracted to fill the gap until the office manager assumes full responsibility. On an ad hoc basis, the project might need the technical assistant to fill the gap when employees from Ramallah are unable report to the office or whenever the office manager feels that assistance is required. It is recommended that the temporary assistant be an expatriate to be able to travel with the team to Gaza and to the different regions of the West Bank, when needed without any hindrances.

Driver

A driver was also contracted on daily basis to help in transporting the project team and consultants, as well as conducting project errands. Mr. Rami Nassif, worked for the microfinance project this month and is expected to continue working as long as his services are needed.

SECTION IV

Coordination

In the month of March, the Chief of Party, and the Deputy Resident Advisor visited Gaza to assess the environment for holding the training seminar and included meetings with different organizations and banks.

The visits to Gaza are planned to continue on a biweekly basis and according to how the project development takes place. The project management has established relations with some MFPs that work exclusively in Gaza, and has met with the management of the Bank of Palestine, who has started a microfiance project in the beginning of May 2000.

ANNEX 1

List of Organizations Involved in Training	
#	***BANKS***
1	***Arab Bank***
2	***Bank of Jordan***
3	***Commercial Bank of Palestine***
4	***Jordan National Bank***
5	***Palestine Development Fund***
6	***Bank of Palestine***
7	***Arab Land Bank***
8	***Arab Islamic Bank***
	NGOs
1	***American Near East Refugee Aid (ANERA)***
2	***ASALA***
3	***Cooperative Housing Foundation (CHF)***
4	***FATEN***
5	***United Nations Relief and Working Agency for Palestinian Refugees (UNRWA)***
6	***YMCA***
7	***Culture and Free thought Association (CFTA)***
8	***Palestine Agricultural Relief Committee (PARC)***
9	***Arab Committee for Agricultural Development (ACAD)***
	Governmental Organizations
1	***Ministry of the Detainees/ Microlending Project***

Annex 2
Report on the Seminar

I. Introduction

A training seminar entitled 'Managing Problem Loans', delivered by Shorebank Advisory Services, implemented by Chemonics International, and funded by USAID was held at the Grand Park Hotel in Ramallah on March 14 and 15, 2001, and at the Commodore Hotel in Gaza on March 18, 2001. The workshop was held for members of lending institutions in the West Bank and Gaza. The seminar comes within the activities of Building a Microfinance Industry in the West Bank/Gaza Project, consistent with the following objectives: (i) harnessing human capital; (ii) developing a microcredit forum and association; (iii) raising public awareness; (iv) creating linkages within the microcredit sector; (v) building a credit bureau; (vi) sponsoring studies, seminars, and analyses; and (vii) enabling commercially viable financial services.

The two main speakers were Ms. Fran Toomey, Regional Director, Shorebank, and Ms. Connie Max, Managing Director, Shorebank. Both Ms. Toomey and Ms. Max are experienced in dealing with problem loans in politically/ economically unstable countries; they worked on a project in the former Soviet Republic of Georgia after its breakaway, as well as in Bangladesh after heavy floods swept the country. Mr. Chuck Taylor, Chief of Party, and Imad Hamze, Deputy Chief of Party represented Chemonics Inc., the project leaders. Massar was contracted to help in the logistics of the seminar.

II. Objectives of the Seminar

The Al-Aqsa Uprising has taken a toll on repayment of loans to lending institutions. Because of the continued closure and other obstacles placed on the Israeli-dependent Palestinian economy, and the scarcity of cash thereof, lenders are finding a difficult time collecting on their loans. Many borrowers are honest merchants, who want to keep their good credit status, but cannot repay because of the dwindling political situation and must now reach a mutual agreement with their lending institutions in regards to their loan.

The seminar was not intended to give answers to specific questions, or solutions to particular situations when dealing with problem loans; it was intended to give an overview of possible scenarios and techniques, while at the same time allowing each lending institution to use its discretion in dealing with problem loans, applying the guidelines, tools, examples, and steps discussed in the workshop. The trainees, from different lending institutions, brought with them different points of views, experiences, and techniques in their management of problem loans, and the aim of the seminar was to interpret those views and techniques, find their weaknesses and strengths, and help the trainees sharpen their methods and find new solutions in dealing with these loans, while at the same time, learning from others' experiences.

The aim of the seminar was to expose the trainees to:

- How to modify and incorporate new credit management techniques to minimize problem loans;

- Illustrate the principles and steps in monitoring loans;
- How to classify loans with a credit risk rating;
- How to evaluate and manage problem loans and the best approach to collecting on problem loans;
- Guidelines in work-out, restructuring, and refinancing for problem loans

Results

- The one-day training seminar on March 14 and 15, 2001, was held at the Grand Park Hotel in Ramallah, while the seminar in Gaza was held on March 18, 2001, at the Commodore Hotel. A personalized invitation letter was faxed to all participants indicating the time and place of Seminar.
- Despite the closure and hardship to move between cities, in Ramallah, there were 39 attendees on March 14, 31 attendees on March 15, and there were 34 attendees on March 18 in Gaza.
- The Shorebank trainers for the three days consisted of Ms Fran Toomey and Ms. Connie Max. Both trainers have worked in the field of micro finance in unstable areas of the world for over 8 years.
- The seminar commenced at 8:30 a.m. through 6:30 p.m., during which there was a pause for two 30-minute coffee breaks and a one-hour lunch. Each participant received a manual at the beginning of the seminar that contained the training content, as well as all examples, workbook problems and Power Point slides.
- At the end of the seminar the trainees were handed a take-home test that will allow participants assess their comprehension of the new training content. Each participant was awarded a Certificate of Achievement.
- At the end of the seminar, the attendees filled out an evaluation form of the seminar and the trainers. These forms helped the trainers adapt and restructure the training according to participants' needs.
- Press releases of the event were prepared by Massar and faxed to all main newspapers at the end of both days of the seminar in Ramallah, both in Arabic as well as English.

- There appeared 6 newspaper articles, one TV story, and one radio interview in coverage of the event. Al-Hayat newspaper article on March 16 and 19, 2001; Al-Ayyam newspaper article on March 15 and 19, 2001, Al-Quds newspaper had an article published on March 19, 2001, and The Jerusalem Times had an article published on March 23, 2001. Al Watan TV covered the first day of the seminar. One Radio station in Ramallah, Ajyal, 103.4 FM, conducted an on-air interview with Imad Hamze, Deputy Chief of Party, Chemonics, on March 20, 2001.

III. Methodology & Approach

1. Approach

The trainers chose a participatory style delivery, involving the trainees with questions, group discussion workbook problems, as well as a take-home exam at the end of the seminar. Every participant was allowed to offer his or her point of view, and was called upon to answer questions asked by the trainers. Each trainee was also called upon to participate in groups, and offer input in solving case studies and examples. The rules set at the beginning of the seminar included respecting one another during the seminar, as well as accepting others' points of view. Trainees were asked to turn off their mobile phones in order not to disturb each other or the trainers.

2. Methodology

The training methodology was based on applying participatory techniques:

- The trainees, in groups and individuals, were called upon randomly to explain their point of view, solve or answer a question. At the beginning of every major point discussed, the trainers would ask questions, and randomly call upon participants to answer. At the end of each session, the participants would be broken off into random groups, and given a case study or a workable example to solve. After each group offers its opinion, a general discussion is initiated.

- The trainees were seated at a U shaped table, with four fixed microphones, and two mobile, used exclusively by the trainers in moving around. The trainers would pass the microphone around to allow each participant a chance to offer his or her point of view.

- Each trainee had a paper-made nameplate displaying first names in front of him or her on the table, creating a relaxed casual atmosphere amongst the participants and the trainers, and allowing the trainers to pick a random participant every time, giving everyone an equal chance to participate.

- A sound booth was set up in the lecture hall, with three translators offering continuous instant English-Arabic and Arabic-English translation. Interested participants carried a small device placed over the ear. This luxury enabled participants to get the most out of the training, and allowed them to express their views freely in their native tongue, what could easily have been lost in translation.

- Delivery tools included an LCD display monitor and equipment for a Power Point presentation, as well as flip charts, with main toppings and workbook examples written in both Arabic and English. Mr. Imad Hamze, Deputy Chief of Party, participated in explaining headings and direction for group discussions for the benefit of the participants.

- Several coffee breaks were given to allow participants to mingle and get to know one another. Also, participants were randomly placed in groups to distribute the knowledge and experiences, and allow different views. At lunch, participants and speakers sat at different tables and opened the door for more participation.

- Each participant was handed a manual to keep at the beginning of the seminar that included all the examples and case studies.

IV. Training Content

The training seminar put forth a number of topics and issues of interest to the trainees:

- It provided the trainees with a broader view on the definition of portfolio analysis, and problem loans, as well as credit methodology and culture;

- Increased the participants' awareness of monitoring and monitoring techniques, including how and why to monitor, monitoring scheduling and visits, and what to look for during the monitoring visits;

- Provided detailed information on methods and techniques in dealing with problem loans, such as rescheduling, restructuring, working out or writing off.

The following are the modules tackled during the training:

Module I: Credit Management Techniques

Topics Covered:

Elements to Managing Credit Risk

Creating a strong credit methodology to:

- Screen unsuitable borrowers;
- Match the size of the loan with repayment abilities;
- Monitor the borrower's cash flow to ensure repayment;
- Structure the loan payments appropriately;
- Offer incentives and disincentives to ensure repayment on time.

Program image and credit culture:

Addressing the problem loans quickly. When a problem loan arises, the loan officer should investigate quickly. Procrastination could lead to unwanted and avoidable situations.

Personal responsibility and individual accountability are keys. Loan officers should become personally involved in the lending process with the borrower, creating a personal relation, and should maintain it with scheduled follow-up visits. The relationship becomes part of the credit culture for the lending institution.

Creating an effective loan monitoring and management information system, despite the political situation. The loan officer should schedule monitoring visits regularly to check up on the borrower, and make sure the money is being used as agreed upon.

Discussion:

A discussion took place and a number of participants had the chance to state their thoughts and comments on the content of Module I. The main issues that surfaced were:

- Creating a strong culture for the lending institution, which would guarantee a high quality loan portfolio, with minimum costs and maximum income.
- The different criteria to be used, developed, and sharpened to guarantee repayment, including examining the borrower's cash flow, and monitoring the distribution of the loan.
- What incentives the loan officer would give to guarantee a repayment on the loan? Some of the suggestions included creating a more personal relationship with the borrower by scheduling monitoring visits, and offering advice where and when necessary. Other suggestions included approving higher amount loans for those who prove to be good risks.

Module II: Monitoring & Monitoring Visits

Topics Covered:

A. Purposes of Monitoring & Monitoring Visits:

1. The financial institution is interested in the success of the customer, and the monitoring visits keep them updated on their progress.
2. It is in the best interest of the financial institution to catch any possible problems before they occur or at an early stage. With regular monitoring visits, the loan officer can determine if the money is used properly, and whether the borrower is using it properly and is prospering according to the projections in the business plan.
3. One purpose of monitoring is to document the information gained to update the credit file, so that it could be represented and shared correctly with other loan officers and/or committees.

4. Monitoring can be used as a marketing tool, to sell other loans or services to the client as seen needed.

5. Monitoring builds the relationship with the client; the client feels important and secure, knowing that the financial institution is checking up on his or her progress, and offering advice or help when needed.

B. Purpose of Monitoring Schedule:

1. To keep tabs on the borrower for progress report, to make sure the loan is disbursed and used properly;

2. The documentation of the day and date helps in measurement of periodic assessment;

3. The monitoring schedule documents the visits in writing, for future reference;

4. A monitoring schedule allows for comments from loan officers on problem loans, and gives information for future decisions regarding changing the rating for the borrower.

C. Important Information to Monitor during visits:

1. The reaction of the borrower when they see the loan officer;

2. The financial books to monitor and check how sales have progressed, and the major sums of money in and out of the account;

3. Probe and gather information on the borrower’s future plans to keep themselves in business;

4. Compare original information versus the current situation;

5. Watch for warning signs.

Discussion:

The discussion was opened and a number of people stated their views and questions. The discussion covered:

- The purposes of monitoring and monitoring visits to the borrowers.
- What the monitoring schedule should look like, what information it should cover, how to best use the monitoring schedule, and what to look for during these visits.
- The trainers gave the participants a ‘monitoring visit’ exercise, where the loan officer has 10 questions to ask the borrower, and should conclude from it whether the borrower is doing well, whether the business is in need of help, and whether the lending institution should have his or her credit rating changed.

Module III: Delinquency and the Costs of Problem Loans

Topics Covered:

A. The definition of a delinquent loan is any loan more than one day late.

B. The definition, and an exercise concerning the calculation of, portfolio or principal at risk (PAR).

C. The financial institution's reaction to delinquent loans, and the measures taken to resolve the situation, included visits, and a schedule of repayment.

D. A loan officer should watch his or her portfolio regularly, and closely monitor changes in loan disbursements and write-offs.

E. Problem loans cost money by taking up time from the loan officer for follow-up, time that could be used in developing new business. Those loans also take up time at the regional and branch manager level. The cost of problem loans also comes in the form of a decrease in motivation of other borrows to pay on time, and the loss of reputation for the loan program.

F. The external factors for delinquency include increased competition, regulatory factors, and introduction of newer more efficient technology, political, criminal, or environmental factors.

G. External problems could be solved by introducing options such as placing loans into non-accruals, restructuring, financing, working-out the situation, or writing off the loan.

H. The portfolio affected by the external factors could be categorized as follows:

1. Portfolio risk before the event, paying and non-paying;

2. Portfolio risk affected by the event, but are still paying;

3. Portfolio risk not affected by the event, but are paying;

4. Portfolio risk not affected by the event, but not paying.

I. Internal factors of delinquency include bad management, such as poor financial controls, poor marketing analysis, poor pricing policies, and over-optimistic plans amongst others.

Discussion:

- The participants from different lending institutions identified delinquents differently, classifying them as one-day, fifteen-days, and 30-day delinquents, depending on the portfolio and the sector group.

- While everyone felt empathy concerning most businesses and the inability to pay, the participants were split on the fact that not all businesses were truly affected, and were using the Uprising as an excuse not to pay. The discussion covered bullet points on how to separate truly affected businesses, versus those who can pay.

- The discussion also covered the costs of a delinquent loan, and the participants were given a workbook exercise to figure out how many new loans it would take to cover one bad loan.

- The participants were also given a workbook problem to calculate the PAR on a delinquent loan.

- The participants agreed that in order to decrease the possibility of a bad portfolio, the portfolio itself should be diversified and not covering too many businesses in the same sector. In order to keep from shutting down due to delinquent loans during troubled times, the portfolio should focus on the best sectors, and on the businesses doing well.

- The participants also agreed that the political situation might have affected the credit rating of borrowers from good to bad, after the recent uprising and political closure of the West Bank.

- The participants agreed that there should be more training for lenders to help them handle different external situations as they arise. Other methods suggested by the participants to address problem loans include staying on top of loans, and looking at the borrowers as individuals, while lending as institutions. Moreover, informing your boss as soon as you detect warning signs, meeting the client and working with them to set new and more realistic goals, and find out what their future plans are to solve the problem.

Module IV: Restructuring the Loans

Topics Covered:

A. The restructuring of a loan should not be offered to clients who were up-to-date on payments on the date of the loss. If the clients weren't up to date, the loan should go through the workout stage.

B. The goal of restructuring is to put the client back on track.

C. Restructuring should only take place when the client has lost all his or her working capital, and severe damage occurred due to a force majeure, but not if the borrower has investments in other businesses, if there is a low flexibility to the changing market demand, or if the borrower misrepresents his sales projections.

D. In order to restructure a loan, the borrower must be trustworthy, and the business itself must have good potential.

Discussion:

- The discussion centered on the reasons for restructuring, which included: changing the points of the contract, decreasing the interest rate on the loan, or changing the repayment schedule. It is possible to restructure good loans as well as problem loans.

- A restructuring decision should only be taken when necessary, and a follow-up should take place to make sure the borrower is committed to the repayment schedule.

- Restructuring should only be offered to clients that are trustworthy and proved to be good risks.