

Savings products' pilot testing by the UNRWA Microfinance Department in the Occupied Palestinian Territories

1. DEVELOPMENT RELEVANCE

Country context²: The situation of the Occupied Palestinian Territories (OPT) is the result of an unsolved conflict lasting since 60 years. Large segments of the Palestinian population living under Israeli occupation are denied basic human rights, suffer from an erosion of livelihoods, and endure a forced dependence on international assistance. Israeli control over the occupied Palestinian territory confines the large majority of the 4.3 million Palestinians living in Gaza and the West Bank, including East Jerusalem, to fragmented entities. The OPT count about 1.9 million registered Palestinian refugees, including an estimated three-quarters of the entire population of Gaza. Palestinians living in the OPT lack access to institutions and their services, resources, land, markets, (international) justice and education facilities.

Population and Economic indicators	
Population (2015).	4,682,467
GDP growth (2014)	- 1.4%
Inflation (2014).	2,7%
Economic Freedom Index (Rank among 185 countries).	not available ¹
Poverty indicators	
GDP per capita (current USD) (2014).	3060 (GNI/capita)
Gini Index (0= equality 100= inequality) (year).	not available
International (at 1,25 USD/day), national and rural poverty headcount ratio (year).	not available

Political risk is changeable. However, it is not in the interest of the conflict parties to undermine the current status quo. Economic risk is increasing due to unemployment, poverty and low growth, but it is not at a level threatening microfinance activities. Palestine suffers from high unemployment, officially estimated at 27%, but likely much higher and marked poverty with 57% of its population below the USD 2 a day poverty line, of which 45.7% in the West Bank and 79.4% in Gaza Strip. The population is very young, the median age being 20.9 years in West Bank and 17.5 years in Gaza, and nearly 45% of the population is below 14 years old.

Financial sector context: The Middle East is one of the regions in which financial services for low-income people are the least developed. It is a fragile region characterized by political conflicts and a high number of refugees. Access to savings, credit, insurance and money transfer is crucial for self-employment and economic and social stabilization. Various surveys estimate that microfinance demand in OPT extends to 800'000 households. Of this demand, about 8% is being met by the 8 microfinance institutions (MFIs) serving OPT at present. Credit risk in the West Bank remains stable and the Palestine Monetary Authority (PMA) is supervising the financial sector.

A Microfinance Law was issued in late 2011 which set the stage for the PMA to be the regulator of all lending institutions in the Palestinian Territories. In the first decrees issued in 2012, the Palestine Monetary Authority laid the first cornerstones for a significant reform of the microfinance sector in OPT. It requested the UNRWA's Microfinance Department (MD) to transform into a regulated microfinance bank. This SCBF project intended to strengthen UNRWA MD's ability to become a deposit-taking financial institution as part of its transformation process into a regulated microfinance bank.

Partner Financial Institution: UNRWA MD is a local microfinance initiative being part of a United Nations Agency. It endeavours to improve the quality of life of small business owners and micro-entrepreneurs, sustain jobs, decrease unemployment, reduce poverty, empower women and provide income-generating opportunities to Palestine refugees, and other proximate poor and marginal groups through the provision of credit. It is among the largest microfinance operator in the region, and - in the case of OPT - accounted for 10 to 13% of all new credit facilities recorded in the Palestine credit bureau each month (in terms of number of clients) for the past four years (among 18 commercial banks and two microfinance institutions). It is focusing on low-income refugees and other low-income people. It began in Gaza in 1991 and has grown into a 'best practice' microfinance operation with USD 8,6 million annual expenditures. Over the past 20 years, it has disbursed 360'000 loans in an amount of more than USD 300 million. Headquartered in Jerusalem, with over 400 staff working in 22 branches and four regional offices located in the West Bank, Gaza, Jordan and

¹ Certain data are not available for OPT since it is not a country.

² UNRWA MD is working in the OPT, in Jordan and in Syria, but the savings pilot was limited to the Westbank.

Syria, it is run on a cost covering basis. In 2014, it financed 35'000 loans valued at USD 34,4 million from its USD 23,3 million loan capital and USD 10 million trust fund broken down as of 31.12.2014:

Portfolio indicators \ operating area	West Bank	Gaza	Syria	Jordan	total
Loan portfolio (USD)	9'743'663	4'274'165	1'249'745	7'627'655	22'895'228
No. of borrowers	11'510	3'077	7'550	12'576	34'713
Portfolio-At-Risk 30 days	8,38%	27,17%	1,20%	7,19%	11,10%
Market share (number of clients)	28%	16%	24%	4%	

2. INTERVENTION APPROACH

UNRWA MD is the microfinance provider that is targeting the poorer and more vulnerable clients whereas other Palestinian microfinance institutions have shifted to a large extent to consumer lending. On a growing scale, the clients of the UNRWA MD were demanding deposit products. Savings are particularly important for low-income people and notably in a crisis-affected area like the OPT. UNRWA MD sought a special arrangement with the Palestinian Monetary Authority to collect savings by safeguarding them in a dedicated bank account when it started to develop deposit products with support by the SCBF.

The SCBF project was designed to give a first level of operational experience and capacity for savings collection to UNWRA MD management and staff, as one of the qualifications that were needed to become a microfinance bank. Capitalizing on the existing branch network and capacity to manage cash developed by the institution, the project planned to develop a pilot operation to start savings collection with the following main activity areas since late 2011:

- A demand assessment in the Westbank (Gaza not being accessible for the consultants).
- Development of three deposits products: Savings Passbook, Savings Plan, Term Deposit.
- Development of savings mobilization procedures.
- Staff capacity building.
- Support to pilot roll out of the deposit products.

A high interest from the staff and the clients enabled substantial progress. Fieldwork with focus groups, mainly led by MD staff and supported by the consultants, indicated strong demand for savings, mainly motivated by the high vulnerability to political tensions. The products were defined in several seminars and then tested again in focus groups. Procedures have been developed and finalized with the staff and representatives of the Palestine Monetary Authority.

About 20 key staff of the UNWRA MD were exposed to all processes of savings mobilization from demand assessment, deposit product design and testing, preparation of deposit product procedures and the introduction of a new management information system, staff training up to regulatory issues.

Since mid of 2012, the Palestine Monetary Authority requested all microfinance operators to transform into licensed financial institutions under the new legal and regulatory framework. This put a stop to any pilot roll-out of the newly designed deposit products prior to the transformation of UNWRA MD. Partly building on the discussion on savings, the Palestine Monetary Authority recommended to UNRWA to spin off its microfinance operations and to create a licensed microfinance bank under the new banking regulations that include microfinance. UNRWA-MD was thus targeting the spin-off from its United Nations project status and the transformation into a microfinance bank that would meet the growing demand for financial products and services for the low-income and vulnerable people and notably to Palestinian refugees. This institutionalization choice was driven by:

- The need to find a suitable legal status allowing it to offer broad financial products to low income clients. It will also help the institution to consolidate its governance.
- The possibility to collect savings offered up to now only by commercial banks that are not interested in low income clients: studies and surveys implemented in the context of UNRWA MD had shown that flexible and long term savings services would be important tools for efficient poverty alleviation, probably more important than access to loans. The bank status would have allowed UNRWA MD to collect deposits in an appropriate form.
- Efficient internal control mechanisms and supervision are a must for an institution that collects savings and raises important financial resources from investors.

The savings project had been suspended, to be restarted once the legal basis of a licensed institution would be created. The SCBF had supported UNRWA from late 2013 and throughout 2014 in developing an in-depth strategy for the spin-off and transformation of its MD into a microfinance bank. All levels of UNWRA, including the outgoing and incoming Directors Generals, had approved the spin-off and transformation

strategy. SDC had mobilized a larger grant of CHF 4,5 million to support the transformation process and the staff capacity building required for a microfinance bank in April 2015.

However, UNRWA informed SDC in January 2016 that it had cancelled the spin-off and transformation. As a consequence, the SDC grant and this SCBF savings mobilization support were stopped for good.

3. RESULTS ACHIEVED AND NOT ACHIEVED

3.1. Client level

Since the projected pilot roll out with clients did not take place, the intended results on client level could not be achieved.



A microfinance client of UNRWA-MD that has established a small sewing workshop at home, where she makes clothes to sell at the open market.

A computer and smartphone repair shop that is client of UNRWA MD

3.2. Partner financial institution level

The deposit products were designed based on clients' individual interviews, focus group discussions and interaction with the MFI staff. First product cards were amended to take into account the clients' feedbacks, the comments from the pilot savings committee, and the features of the new management information system. All methodologies and approaches were subject to training sessions and introduced a good level of competence to the participating staff. The design of the procedures took a considerable amount of time with a lot of backs and forth between the consultant and the committee to ensure common understanding and compliance with the MFI's organization and capacities. Therefore, this substantial staff capacity-building on savings was important as a first practical step towards the transformation of UNWRA MD into a microfinance bank.

3.2. Financial sector level

The savings mobilization from low-income people would have had an important demonstration effect on the microfinance and banking sector, if implemented by UNWRA MD as leading microfinance provider in Palestine upon transformation into a microfinance bank. Nevertheless, the implementation of the savings pilot included several meetings with staff from the Palestinian Monetary Authority who learnt about the importance of savings for low-income people. This led to additional awareness on deposit collection and related security questions in microfinance institutions.

4. LESSONS LEARNED

The implementation of the savings pilot based on a participatory approach, leaving the lead and the decisions to UNWRA MD managers, was good and led to broad adherence. A pilot committee planned the pilot and steered its execution. It was chaired by the COO and made up of the chief officer for Microfinance in the West Bank, the four branch managers who were directly involved, and other officers coming from different head office departments. Its role had been defined as follows: "the committee, with the consultants, will be responsible for developing the products starting from defining the product design, business

processes, operational manuals, forms, contracts, financial procedures as well as the related internal control functions". All committee members and other involved MD staff members were highly motivated by the possibility to deliver savings products to their clients. This was clearly a positive element of the savings pilot.

The objective to transform UNRWA MD into a microfinance bank was shared by all the stakeholders during the design of the savings pilot. It appeared that the consensus broke away just before the final signature for the large technical assistance project of SDC to support the transformation into a microfinance bank due to pressure of some influential staff. This was difficult to predict, even if all stakeholders were aware of the risks involved in the initiative. UNRWA MD had been assessed prior to the initiative in the framework of a sector wide study and had been considered as the best possible partner for inclusive finance in Palestine.

Seen with today's perspective and experience, the savings pilot might have been premature. At its origin it was understood as a measure that sustained the process of evolution to a microfinance bank. There was a strong demand to expose the organization to deposit collection, an essential element to be prepared for the transformation process. The main recommendation for similar interventions would be to evaluate to what extent a clause of reimbursement could be integrated in the contract with the partner financial institution, that would come into force if agreed institutional transformation targets are not implemented.