

Support to the transformation of UNRWA MD into a microfinance bank

UNRWA MD, Occupied Palestinian Territories, Jordan

1. Development relevance

UNRWA MD operates in West Bank, Gaza, Jordan and Syria. The microfinance industry in these areas has long been a donor subsidized industry evolving in a non-regulated environment with important political risks (Israeli-Palestinian conflict that regularly affects the MD activities in Gaza and / or the West Bank, Syrian crisis). But the market is evolving, with new donor policies pushing the institutions towards commercialization and sustainability and the development of a suitable legal and regulatory framework.

UNRWA-MD is in the region the most prominent pro-poor microfinance initiative. Its transformation process will unleash its potential for more outreach that is at present hindered by its incapacity to mobilize equity and refinancing credit lines. Furthermore its transformation into a sustainable institution will impact on a microfinance sector still largely donor dependent in the region.

Population and Economic indicators (West Bank and Gaza)	
Population (year)	4 169 506 (2013)
GDP growth (average: years)	13,8% (2012)
Inflation (average: years)	2,8% (2009)
Trade balance (% of GDP) (year)	18,8% (2012)
Foreign Direct Investment (net) (% of GDP) (year)	1,8% (2012)
Net ODA & official aid received (% of GDP) (year)	19,5% (2012)
Workers' remittances (% of GDP) (year)	na
Economic Freedom Index (Rank among 185 countries)	na
Poverty indicators	
GDP per capita (current USD) (year)	2530 (2012)
Gini Index (0= equality 100= inequality) (year)	35,5 (2009)
Multidimensional Poverty Index (1=poor 0=not poor) (year)	1,4%-98,6% (2007)
International (at 1,25 USD/day), national and rural poverty headcount ratio (year)	

2. Intervention approach and additionality

The overall aim of the project was to support the preparation of the transformation of UNRWA MD into an independent financial institution operating in the OPT, Jordan and Syria.

In view of the complexity of the envisaged transformation exercise three phases were planned:

- Phase 1: Inception
- Phase 2: Conceptualization
- Phase 3: Execution

The inception phase started late in October 2013 due to the difficulty to find a period for the first mission that could fit with UNRWA MD constraints. The whole process was also delayed by a strike UNRWA (not only MD) staff from December 2013 to February 2014. This time has been used for intensive work on the underlying documents. Several versions of a strategy document as well as a work plan and a budget have been circulated between FIDES team and UNRWA MD and UNRWA Legal department. The last version has been finalized mid-December and have been presented to the UNRWA Advisory Committee in April 2014.

Activity 1: Pre-mission Arrangements

In September 2013, FIDES mobilized its team and started the preparations through a planning exercise among the team members as well as UNRWA-MD team to kick-start the project. Team discussions and conference calls took place to agree on next steps to finalize the work plan and agenda items specially the list of meetings to be conducted in West Bank and Jerusalem, in order to make the mission period as efficient and effective as possible.

Activity 2: Mission n° 1 to Jerusalem – October 2014 and follow up activities

The list of activities that took place during this first mission were:

- FIDES team joined with UNRWA-MD management for several working meetings to: (i) discuss and reach consensus and common understanding on the TOR, and the spin-off (transformation) strategy and work plan; (ii) secure the UNRWA commitment to the spin-off process.
- FIDES team worked with a team of leading UNRWA-MD staff that included the director, the operations officer, the head of West Bank's branches, the HR officer in charge of MD, and the internal auditor to:
 - o Introduce the project and to understand and to discuss staff concerns about the spin-off process, results, etc., and to decide on measures enabling informed consent of the team, that strengthen the buy-in of leading staff members for the transformation process.
 - o Review the corporate governance and management.
 - o Evaluate the requirements for institution strengthening and upgrade of internal processes, products and delivery mechanisms.
 - o Evaluate the requirements for capacity building / to identify precisely the capacity building needs/expectations of UNRWA MD (who will be trained, on what etc.).
 - o Discuss the legal, institutional and operational elements of the spin-off requirements.
 - o Discuss UNRWA priorities, preferences and also restrictions.
 - o Discuss the road map and agree on next steps
 - o Identify in an early stage potential threats to the process and measures to mitigate them.
- In order to update on new elements of the regulatory framework, and to understand the legal requirements of the spin-off (in particular the transfer of assets, liabilities and equity), FIDES team met with local lawyers to discuss these aspects of the process in-depth. The discussion also covered the different available legal alternatives and the structure of the future new company/ies. As a result of the discussions, FIDES produced the TOR defining the legal advisor's study and analysis on the feasibility of the transformation process in the different jurisdictions involved.
- The team met with Palestinian Monetary Authority to confirm their support to the project.
- The team met with Véronique Hulmann, head of SDC office in Jerusalem and briefed her on the project objectives and progress.
- Mission Wrap-Up Meeting: During this meeting both of FIDES and UNRWA MD teams agreed on a road map and on a work and time plan. Both teams agreed on the division of tasks among FIDES and UNRWA MD. The teams agreed on a list of deliverables as mentioned under the forth section of mission outputs.

Important follow up activities included an exchange process with UNRWA legal department on a number of concerns that had been expressed by the lawyers of UNRWA.

Activity 3: Mission n° 2 to Jerusalem – December 2013 and follow up activities

The mission met with UNRWA MD to review all the comments of the UNRWA legal department (commented version by Legal Department is available).

The mission had a one day meeting with UNRWA legal department to review all comments provided and to come to a common understanding on the expected document.

Following the mission, FIDES team has drafted the ToR of a Palestinian lawyer to be hired by UNRWA to review the proposal and to investigate remaining legal issues.

Activity 4: Mission n° 3 to Jerusalem – April 2014

The objective of the mission was continue the planning of the transformation process with the UNRWA MD team and to present the strategy document to the Microfinance Advisory Board meeting planned on the 30.04.2014.

Fides team and the Palestinian lawyer prepared respective PowerPoint presentations.

Activity 5: Mission n° 4 to Amman – June 2014

During this important seminar FIDES and UNRWA MD presented the approach and the proposed action plan to key UNRWA decision makers. The team could achieve broad adhesion to the proposal.

Activity 6: May to September 2014

FIDES continued to sustain internal processes in UNRWA and helped UNRWA MD to mobilize interest for the transformation from donors and investors.

3. Results achieved

Result / Activity 1 → See



Oct 22-26-Mission
plan proposal.docx

Result / Activity 2

FIDES team has prepared a first draft of the Spin-Off Strategy Note and submitted it to UNRWA as agreed during the mission as well as a first version of the work plan.

UNRWA legal advisor reviewed the Strategy Note and provided her feedback.

FIDES initiated a phone call with UNRWA legal advisor to clarify the strategy and the reasons behind.

FIDES team conducted a conference call to discuss the legal advisor comments, the implication of these comments on the implementation plan and timeframe. The team agreed on next steps, which were conveyed to UNRWA MD within one week from the legal advisor's comments

Result / Activity 3

The recommendations to the Commissioner General elaborated by the MD-Advisory Board meeting held on the 21.11.2013 have been formally endorsed on the 26.03.2014.



MD Advisory Board
Recommendations of 2

A new version of the strategy document has been prepared. It included the results of the discussions with the UNRWA MD department. The work plan has also been revised.



Workplan UNRWA
MD Spin-Off-v8.xlsx

In addition, it was clearly identified that the transformation project would require much more funds and human resources than initially planned. This was the reason why exchanges between UNRWA MD, FIDES AG and SDC have taken place. They have led to an expression of interest of SDC to provide support to the transformation process and to the creation of a foundation/holding structure in Switzerland. Based on these discussions, Fides AG has drafted a concept note and a budget that have been submitted to SDC. Funding by SDC via a new UNCDF project is at present considered.

Result / Activity 4

The new Commissioner General confirmed the approval of the final version of the Strategy document. This document is now considered as the reference to guide the transformation process. See:



Spin-off Strategy
Paper FIDES 181213

The lawyer has issued its report:



UNRWA MD
Transformation Legal

A budget for the Spin-Off project has been set up and submitted to the SDC that has showed a great interest to support the transformation process of UNRWA MD. See:



Budget UNRWA
MD Spin-Off May 20

In addition, the BoD has decided to set several committees (legal issues, human resources, etc.) to take care of particular aspects of the transformation process.

4. Lessons learnt and further challenges

The two first phases of the project (Inception and conceptualization) have been successfully achieved even if the whole process has been much more complex and than initially envisaged. Key challenges linked to the institutional structure of UNRWA have been overcome.

The highest level of management of UNRWA MD has now endorsed the spin-off and has defined the strategy document prepared under this SCBF funding as the baseline for the process.

Apart from unforeseen events (strike), it has also appeared that decision making processes inside UNRWA were complex and involved a lot of parties that did not always share the same vision. For instance, if the transformation itself was clearly an objective of the UNRWA MD team, this was less clear for some other UNRWA stakeholders who did not see any interest to allow one of the most successful projects to become independent.

The third phase (implementation) could not be started in the form initially planned for several reasons:

- The workplan that has been set up reveals that the whole transformation phase will take much more time than initially planned (probably up to end of 2015).
- The implementation will also require considerably more important financial means than available in an SCBF project. The need to get donor support has been identified and addressed.

A project proposal including a budget has been submitted to SDC. If this project is approved and financed, the implementation phase can start and open up a new chapter for microfinance in Palestine, Jordan and Syria.

SCBF FS-04

18.09.2014

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On behalf of FIDES AG I/we hereby affirm that all information provided in this final report is correct and that **resources have been spent according to and within the budget and time approved by the SCBF.**

Name: Konrad Ellsässer



Organisation: FIDES AG

Date: 15.09.2014

Signature:

In my role as the SCBF Monitor for this support, I hereby affirm that this final report has been formally approved according to SCBF policies & procedures and that final payment can be issued accordingly:

Name: Hans Ramm

Organisation: SDC

15/10/2014

Signature:

