

United Nations Relief Works Agency

Topic A: Microfinance and Microenterprise in the Gaza Strip and West Bank

Introduction

The United Nations Relief Works Agency (UNRWA) is the largest UN operation in the Middle East, with over 28,000 staff working directly to benefit Palestinian communities as teachers, doctors, nurses, or social workers. UNRWA was established under UN General Assembly Resolution 301(IV) on December 8, 1949. Its mandate is to carry out direct relief and works programmes in collaboration with local governments, to consult with the Near Eastern governments concerning measures to be taken preparatory to the time when international assistance for relief and works projects are no longer available, and to plan for the time when relief is no longer needed for the Palestinian refugees. UNRWA's mandate has been renewed every three years since 1949 and is expected to continue being renewed pending a settlement of the Palestinian refugee problem. The Advisory Commission meets annually to review UNRWA activities. Its membership consists of Australia, Belgium, Canada, Denmark, EC, Egypt, France, Germany, Italy, Japan, Jordan, Lebanon, Netherlands, Norway, Saudi Arabia, Spain, Sweden, Switzerland, the Syrian Arab Republic, Turkey, the United Kingdom and the United States. The EC, League of Arab States and Palestine Liberation Organization attend as an observer.

UNRWA is funded primarily by voluntary contributions of donor states, with the largest donors being the United States, the European Commission, the United Kingdom, and Sweden. Other major donors include the Gulf Arab States, Scandinavian countries, Japan, and Canada. UNRWA spends more than half of its budget on its education programme (~\$277.2 mill), while the health programme is next in line (~\$95.9 mill) and the relief and social services gets around \$43 million. UNRWA's beneficiaries are registered Palestinian refugees residing in occupied Palestinian territory (oPt = West Bank and Gaza), Lebanon, Jordan, and Syria, who number 4.4 million in 2007. UNRWA works closely with the World Health Organization (WHO) and the UN Educational, Scientific, and Cultural Organization (UNESCO) in the areas of education and health and with the UN Special Coordinator for the Middle East Peace Process. UNRWA also collaborates with some non-governmental organizations (NGOs), particularly those focusing on medical-humanitarian, human rights and development.

Background

Sometimes called "banking for the poor," microfinance is an amazingly simple approach that has been proven to empower very poor people around the world to pull themselves out of poverty. Relying on their traditional skills and entrepreneurial instincts, the poor use small loans (usually less than US\$200), other financial services, and support from local organizations called microfinance institutions (MFIs) to start, establish, sustain, or expand very small, self-supporting businesses. A key to microfinance is the recycling of loan dollars. As each loan is repaid—usually within six months to a year—the money is recycled as another loan, thus multiplying the value of each dollar in defeating global poverty, and changing lives and communities. Micro credit refers specifically to loans and the credit needs of clients, while microfinance covers a broader range of financial services that create a wider range of opportunities for success.

Examples of these additional financial services include savings, insurance, housing loans and remittance transfers. The local MFI might also offer microfinance plus activities such as entrepreneurial and life skills training, and advice on topics such as health and nutrition, sanitation, improving living conditions, and the importance of educating children.

Supporters of microfinance say that by reducing vulnerability and increasing earnings and savings, microfinance services allow poor households to make the transformation from "every-day survival" to "planning for the future." Critics say that microfinance does not work for all poor, especially those in rural areas, those afflicted with disease, or those otherwise incapable of paying back the hefty interest rates that MFI's charge.

Today there are ten MFIs and one commercial bank engaged in microfinance in the West Bank and Gaza. Aside from UNRWA, PARC and FATEN, the MFIs are very small. The average number of active borrowers (excluding Al Amin) is 2,690, which is a small fraction of both the global average of 47,688 and the average for Arab MFIs (25,511) based on December 2003 data of the Microfinance Information eXchange. The sector has shifted over the past several years from making only micro enterprise loans to making a variety of types of loans. For instance, as of the end of September 2005, one third of loans made by Palestinian MFIs were consumption, housing and small loans. Several MFIs now are engaged in a mixture of traditional micro lending and higher principal balance SME lending. In addition, the clientele of the sector is now less than 50% women, less than the regional average and less than what it was before the Al Aqsa Intifada (approximately 55–60%). Although the Palestinian poor require financial services in addition to the provision of credit, no Palestinian MFI today offers savings or transfer services to the public though some do offer limited business development services.

The limited services offered by Palestinian MFIs is partly due to legal restrictions because only PMA licensed deposit-taking institutions (i.e., banks) are permitted to take deposits from the public and only banks participate in the payment system. Palestinian savings and credit cooperatives are permitted to take members' savings, but not from the general public. Although MFIs could, in theory, collaborate with banks to provide clients with access to deposit accounts and transfer services (as money changers have done), this has not happened to date. Such bank partnerships would depend on building the capacity of the MFIs and, of course on the interest of banks (which is lacking at present due in part to their low familiarity with microfinance generally and their attitudes towards existing MFIs).

Also, for several reasons, no Palestinian MFI is operating on a sustainable basis (although FATEN is close to achieving operational sustainability). The situation is due in part to the closure policy and the occupation. The MFIs that had been operating on a sustainable or close to sustainable basis prior to the Al Aqsa Intifada have since either shifted their focus (i.e., to bigger loans) or, as with all of the MFIs, experienced a decline in portfolio quality. Other MFIs have never charged high enough interest to cover their costs for various reasons: a lack of exposure to international best practices, a philosophical conviction against the charging of high interest rates, or lack of transparency, thus preventing the MFI from properly assessing its costs. In addition, only a few of the MFIs operate based on a business plan (or at least a recently prepared, comprehensive and ambitious business plan). Furthermore, most MFIs do not have adequate

(nor parallel) management information systems and many of the MFIs cannot provide on-time and accurate data about their loan programs.

UNRWA launched its microfinance and microenterprise programme (MMP) in the West Bank and Gaza Strip in June 1991. This initiative was taken in response to rapidly deteriorating economic conditions marked by high unemployment and spreading poverty following the outbreak of the first *intifadah* in 1987 and the Gulf War. After 1993 the programme intensified its activities in support of the peace process through UNRWA's Peace Implementation Programme. The MMP is now organized around four revolving loan funds in Gaza and two in the West Bank. These make loans to small-scale enterprises in Gaza and the West Bank (the Small-Scale Enterprise product), to women organized in groups in Gaza only (the Solidarity Group Lending product), to micro enterprises in Gaza and the West Bank (the Microenterprise Credit product), and to workers and low-paid professionals (Consumer Lending product).

The Small-Scale Enterprise (SSE) product was established in Gaza and the West Bank in 1991 with a capital fund of US\$407,000. This fund has now reached almost US\$10 million, to which the Government of the United States of America has contributed 35 percent. In 1994, the MMP launched its first microcredit initiative by establishing in Gaza a new Solidarity Group Lending (SGL) product with a small fund of US\$42,270. This was followed by the establishment of the Microenterprise Credit (MEC) product in Gaza in 1996, and another in the West Bank early in 1998. The donor-based capital fund for these three microenterprise initiatives now stands at US\$3 million, almost 30 percent of which has been donated by the United States. In February 2002, a new Consumer Lending product was piloted in one of the poorest areas in Jabalia refugee camp in Gaza with a small fund of US\$50,000 from the 1999 AGFUND prize. As of May 31, 2002, the combined portfolios of all of these initiatives totaled just over US\$60.99 million and supported 50,282 loans to businesses in the industrial, service, trade and commercial sectors.

These small-scale and microenterprise credit products promote small business development opportunities, create new jobs and safeguard old ones, and help the poorest in the society. The businesses supported range in size from micro-vendors and microenterprises employing just one or two individuals to small industries employing up to 30 workers. The funds' clients represent distinct groups of borrowers, so that the Microfinance and Microenterprise Programme meets a variety of needs, providing working capital and investment funds to industries and service firms and also alleviating poverty and generating incomes among owners of the smallest enterprises.

Current Situation

In the West Bank, the closure regime, house demolitions, settlement expansion, the separation barrier and the unending armed conflict are making normal life impossible for Palestinians. A new regime to limit freedom of movement is threatening to further stifle economic activity and smother social interaction between West Bank villages and towns. The UNRWA will also be affected by these measures, which will be applied to vehicles carrying humanitarian supplies which require unloading, inspection, and reloading to another truck on the other side of the checkpoint. These measures will result in loss of time and an increase of cost in humanitarian aid in West Bank for UNRWA. UNRWA staff is also not immune from these new measures as

they will have their access to East Jerusalem curtailed, which may cause delays in responding to refugee needs, inefficiency, declining productivity, and huge increases in operational costs.

In Gaza, a new dimension of sanctions was introduced in June 2007 that sealed all borders with a few exceptions being made for humanitarian and some food and medical items. The result is a 70% reduction in the supplies reaching Gaza. Gazans now live under constant threat of further restrictions in essential supplies, which would seriously affect water availability, sanitation, and health services. Poverty and unemployment are rife as over 80,000 more Gazans have lost their jobs over the summer of 2007 and are now dependent on humanitarian aid to support their families. UNRWA's MMP has had to drastically scale down its activities due to unprecedented difficulties in securing repayment of loans. UNRWA has been forced to reduce its MMP staff by 40% in Gaza due to this downturn.

Due to the humanitarian crisis in occupied Palestinian territory caused by the conflict and closures, UNRWA has launched repeated emergency appeals for emergency food, employment, shelter-rebuilding, and cash assistance. As of November 19, 2007, The UNRWA is having difficulties coping with the increased need for humanitarian aid in Gaza and the West Bank, because its Emergency appeal for funds for 2007 has only been funded at 51% of the request. Though donors have continued to contribute and fund UNRWA at their regular levels, there has not been enough increase to keep pace with inflation and a rising refugee population, causing UNRWA to decrease spending per refugee and require the doubling up of jobs on current staff. Some fear that UNRWA will be unable to provide its services much longer on its current budget regardless of its undiminished commitment to the Palestinian refugees.

Furthermore, there has been more fighting between Palestinians in the West Bank and Palestinians in Gaza, contributing to the danger and burdens already on the Palestinian people in those areas. Such actions widen the gulf between the West Bank and Gaza and make the prospect for an integrated, viable Palestinian State even slimmer.

The Annapolis Conference was recently held on November 27, 2007 to discuss a peaceful resolution to the Israeli-Palestinian conflict through the creation of a Palestinian state. While there are many critics, the Joint Declaration stated that government of the state of Israel and the Palestinian Liberation Organization, represented respectively by Prime Minister Ehud Olmert and President Mahmoud Abbas, have "agreed to engage in vigorous, ongoing and continuous negotiations and shall make every effort to conclude an agreement before the end of 2008."

Future Outlook

The longer the situation in the Near East remains unresolved, the longer UNRWA will have to struggle to meet the educational, health, and economic needs of an increasing number of Palestinian refugees. The impingement of movement in the West Bank and the increasingly heavy sanctions on Gaza Strip have further deteriorated the already fragile economy in those areas. While the UN and the international community as a whole needs to address the political source of these problems, the UNRWA partnered with other humanitarian agencies are trying to keep these areas from collapsing into disease, violence, and chaos by providing food, shelter, education, healthcare, and microfinance services.

One of the best ways to ease the burden on UNRWA may be through microfinance and microenterprise. However, even microfinance may be difficult in places where loan repayment is nearly impossible, such as in Gaza where MMP is currently scaling down its activities. UNRWA is in need of a solution that increases economic development inside these isolated and cutoff communities that does not require collateral on the part of the Palestinian refugees but that is also sustainable and fulfills its mission to the Palestinian refugees. Microfinance and microenterprise show promise, but need a better legal structure and more organization to be able to offer the right services to the Palestinian refugees.

Focus Questions

1. Does your country support UNRWA? Why or why not?
2. What are the current statistics in your country as to employment, household income, and poverty level?
3. Is the plight of the poor a topic of concern in your country at the domestic level? The international level? Both?
4. Do the poor in your country save for the future? If so, how? If not, why?
5. How do the poor and/or small business owners in your country obtain loans? At what percent interest?
6. What policies/viewpoints does your country have on the Palestinian-Israeli issue?
7. Does the banking industry in your country provide microlending or microfinance services? If so, what kinds of services do they provide? Who qualifies and what sort of terms do they have? If not, can you brainstorm a way to encourage the banking industry to do so?
8. Does your country have any special micro lending or microfinance programs in place? If so, who can qualify and what are the terms of the loans? Also, what other services besides micro loans are available? If not, would such a program be welcomed in your country?
9. What kind of legal infrastructure would be best to coordinate the microfinance and micro lending? If your country has laws in place to regulate the microfinance industry, know the basics about what agency is in control and how well the structure is working. If not, what kind of model might work?
10. How can UNRWA make MMP self-sufficient without failing its mission to the Palestinian refugees?

11. How can UNRWA reach out to Palestinian refugee youth with microfinance to create economic stability in the region?
12. How can the microfinance and micro lending industry accommodate different religious views on lending?
13. Upon researching the support and criticisms of microfinance/micro lending, do you think that it is the best method of lifting people out of poverty? If not, what do you think is better?

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