



Social Rating: Enhanced-Comprehensive [field data collected as part of MFI's routine operations as well as a client survey designed and implemented by the M-CRIL team and ACAD's staff, during the rating visit]

Arab Centre for Agricultural Development		Palestine
Micro Finance Company (MFC)		2010
PERFORMANCE RATING		SYNOPSIS
SOCIAL RATING CREDIT RATING	$\Sigma\beta+$ C- to C PlaNet Finance, Feb. 2006	<p>The Arab Centre for Agricultural Development (ACAD) was established in 1993. Prior to this, its credit activities were undertaken by its parent, the United Agricultural Company, with the intent of providing relief and support to farmers in Palestine. UAC provided credit to the farmers in kind (seeds, fertilizers, agricultural tools and other in-puts), through its own agricultural stores. ACAD was formed with a vision to create a self sustainable MFI with a wider scope of providing credit to the farmers as well as to other micro-entrepreneurs, and operates as a not-for-profit microfinance institution. Initially funded through grants in aid, ACAD has also raised soft loan funds since 2006, and will shortly be converting to a microfinance company, wherein raising equity will also be possible.</p> <p>ACAD follows an individual lending model, with products designed to meet the socio-cultural norms as well as economic needs of its target clients - the low income segment. ACAD has a wide reach across the West Bank, with 7 branches and 1 branch in Gaza. It is in the process of strengthening systems, through introduction of incentives, measures to improve portfolio quality and tightening of controls. However, there are risks and constraints in the operating environment which are imminent at all times. ACAD currently serves 3,067 clients with a portfolio of US\$ 3.1 mn.</p> <p>Strengths</p> <ul style="list-style-type: none"> ⇒ Well qualified Board and top management with diversified experience – banking, development and administration. ⇒ Outreach across the West Bank and Gaza ⇒ Products designed specially to suit socio-cultural norms as well as needs of clients ⇒ Some efforts are being made towards inclusion of social indicators in reporting. Client level studies being undertaken by the national microfinance network. <p>Issues</p> <ul style="list-style-type: none"> ➊ Mission is not broken down into SMART social goals. ➋ Reporting to Board includes limited aspects of social performance (gender/ rural); Board involvement has focussed on interest reduction debates and adoption of new policies. ➌ HR –Social aspects of outreach or performance on mission only partially covered in training/ not emphasised in incentive/ performance appraisal. ➍ Client data has been collected and analysed under the microfinance network, Sharakeh; internal studies have not been undertaken, although some efforts to collect data on social indicators, are underway. ➎ No code of ethics or strategic plan for implementing Client Protection Principles. <p>ACAD's transformation into a microfinance company (2010) will bring it under the purview of the Central Bank, which will improve monitoring and scrutiny. ACAD is trying to improve portfolio quality and consolidate operations to achieve sustainability during the current period of political stability.</p>
<p>Vision: By 2013, ACAD aims at fulfilling its current mission in an efficient and sustainable way by expanding its financial services closest to urban or rural poor people of the whole Palestinian territory.</p> <p>Mission Statement: ACAD is an MFI established to encourage agriculture and micro entrepreneurship through small income generating activities among the poor and low-income individuals. ACAD provides financial services concentrating on rural and/or high poverty rate Palestinian areas that are particularly affected by a difficult political situation. ACAD seeks to build economic independence and food security for poor and disadvantaged Palestinians, thereby enabling their active participation in economic, social and political spheres of life.</p>		
Social Rating dimensions	Rating	
Process/organisational systems		
Mission and Systems	$\Sigma\beta$	
Responsibility to clients	$\Sigma\beta$	
Other Social Responsibility	$\Sigma\beta$	
Results/outputs – client level information*		
Depth of outreach	$\Sigma\beta+$	
Appropriate services	$\Sigma\beta+$	
* Information collected through client survey		
“Financial services for agriculture and micro enterprise”		
Model:	Individual lending (Regular and Islamic loans)	
Services:		
Financial	<ul style="list-style-type: none"> • Credit: Individual loans (women's loans, small and micro loans, Islamic loans) 	
Non-financial	<ul style="list-style-type: none"> • Training and capacity building of cooperatives • Support to agricultural and community development activities 	
US\$ = 3.76 New Israeli Shekel (March 2010) Operational and financial data as of end December 2009		
Micro-Credit Ratings International Limited, Gurgaon, India		

M-CRIL Grading symbols described on last page

Organisational data as of end December 2009

SOCIAL PROFILE
Systems and MIS

Mission orientation: Economic independence and food security to poor and low income individuals through financial services for micro enterprise

Clients (active borrowers)	3,067
Rural (based on ACAD's classification)	~66.4%
Women - clients	82.0%
Women - staff	63.7%

Client protection: Has not formally subscribed to the charter on 6 principles of Client Protection, elements of the principles exist in ACAD's processes.

Average outstanding loan size	\$1,023
Average disbursed loan size	\$1,747
Avg. loan balance/GNI per capita	67.1%
EIR (main product – women's loans (based on client's grace period)	33-34%
Dropout rate (est. for 2009 by M-CRIL)	23.8%

Client information **In percent**
[country comparative data]

Depth of outreach (entry clients):	
Below national poverty line (2005) ^a	12.3% [18.5%] ^b
Below \$1/day at PPP (2005)	1.0% [2.5%] ^b
Below \$2/day at PPP (2005)	13.6% [20.7%] ^b

Alternative financial access (usage): ^b	
• Bank loans	9%
• Savings in bank accounts	9.2%

Client awareness (average) ^c	Moderately high
- Products and transactions	Good
- Procedures	Good

^a National poverty line data from Chen, Schreiner and Woller (2008): A simple Poverty Scorecard for Palestine

^b Taken from results of the Social Rating survey of 152 clients

^c Based on M-CRIL team's observations

Financial Performance	Dec-09
Operational Self Sufficiency	92.0%
Borrowers/field staff	146
Operating Expense Ratio	24.5%
Portfolio at Risk (30 days)	27.0%
Annualized Percentage Rate ^a	~25%
Portfolio yield	24.7%
Average cost of funds	1.5%
Return on Assets	2.2%

^a Since loan schedules are based on client's preference for grace period, APR varies slightly with each loan. The average for all products is given.

Source: ACAD's audited financial statements for the year 2009.

Rating Rationale

Governance: ACAD has a qualified and experienced Board, which is committed to achievement of its mission. However, social performance has not formed a critical part of the agenda hitherto, because of focus on attaining financial viability. Top management has shown an interest in reporting on social performance (using the template published by MIX on social indicators). The strategic focus is currently on conversion to a microfinance company, which will be under the purview of the Central Bank.

Mission and strategy: Although the mission is well formulated to include the broad scope of intent and activities, it is not broken down into SMART goals, neither are the systems well-aligned to measure achievement on social indicators. Aspects of social performance such as client protection and staff protection require more attention.

Targeting: Operational areas include all the main towns of the West Bank and one branch in Gaza. Rural and urban clients are served through the branches; there are no minimum acceptable levels of outreach to rural clients/ women. Although the mission states the target clients as lower income segments, in practise ACAD reaches across socio-economic groups, providing credit to the unbanked, irrespective of their poverty/ income levels. Exit rates have not been measured internally, and the rate calculated by M-CRIL (23.8%) may include dormant clients.

Products: A suitable range of products is available to meet different client needs. Islamic loans meet cultural norms and obviate risk to a large extent, while the women's loans aim to correct gender imbalances in financial access as well as tide over short term consumption requirements.

Information systems: The Operations department collects and compiles data on outreach to rural clients (defined as those who live outside town limits) and women, but no internal, formal client level studies have been undertaken. Sharakeh (the microfinance network in Palestine) has undertaken a client level impact assessment study; however the sample size from ACAD was just 11 clients, making the reliability of the data extremely limited. MIS has been upgraded, but inclusion of social indicators is still in process. Baseline data in application forms (demographics, income and asset details, nature and category of business, experience, hired labour, existing suppliers, and credit history with ACAD and other providers) is authenticated during field verifications, but is not entered in the MIS, collated or analysed. This data could be used to build an adequate baseline for comparison in the future. Other gaps relate to dropout definition and dropout tracking.

Client protection: The 6 principles of client protection have not been formally adopted, although they are being partially implemented in various aspects of operations. There is no internal audit function as yet.

HR: Training covers history and mission of ACAD, but there is not much emphasis on elements of client protection since these principles have not been formally adopted. Incentives and performance appraisal do not adequately emphasise social performance.

CONTEXT

Palestine

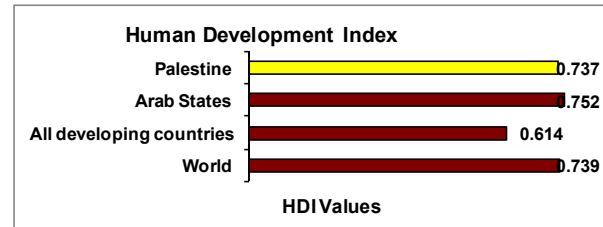
Palestine, or the “Occupied Palestinian Territories”, is constituted by the West Bank and the Gaza Strip. A territory affected by conflict since 1917, its borders and economy are now controlled almost entirely by Israeli administration. Since the creation of the state of Israel in 1948, there has been constant unrest, including major wars in 1967 and 1970. The Palestinian retaliation has been in two civil disobedience movements, called the First Intifadah (1987-93) and the Al Aqsa Intifadah (2000-2004), marked by stone throwing, suicide bombings and rocket attacks, eliciting renewed aggression from the Israeli Defence Forces. The most recent incident was Israeli airstrikes on Gaza, in January 2009. Over 5 million Palestinians have emigrated since 1917, while Israel continues to build settlements around Jerusalem, encroaching on Arab land.



The Palestinian territories are currently governed by two opposing parties - Fatah in the West Bank and the militant Islamic group, Hamas, in the Gaza Strip. Following the 2006 legislative elections, won by Hamas, The European Union and U.S.A halted aid to the Palestinian National Authority (PNA), and imposed a financial blockade on PNA's banks. Israel stopped transferring tax receipts accruing to the PNA (amounting to US\$55 million, accounting for a third of the PNA's budget and wages of 160,000 Palestinian civil servants). The outcome of the elections also led to infighting between the Hamas and Fatah groups, resulting in deaths of hundreds of civilians.

The Palestinian territories have a predominantly agrarian economy, supplemented by small businesses and manufacturing units. Although the PNA has a Central Bank to cover monetary policy and banking regulation, there is a lot of volatility because of currency fluctuations (transactions are conducted in Israeli Shekel, Jordanian Dinar and US\$). The country witnessed a moderate rate of inflation in 2008 (11.5%) and high unemployment (23%). The population below the national poverty line was measured at 46% in 2007.

Development indicators



UN Human Development Report, 2009

Palestine had a population of approximately 5 million in 2009, of whom 72% live in urban areas (mostly towns of the West Bank and Gaza city). Of 177 countries in the world, Palestine ranks 110 on the Human Development Index (which reflects life expectancy, literacy/education and per capita GDP), above the average for all developing countries.

Goal	Indicator	Value
Poverty [2007]	Population < national poverty line*	18.5%
	< \$1/day at PPP (2005)*	2.5%
	< \$2/day at PPP (2005)*	20.7%
Education	Adult literacy (15 years +)	93.8%
	Combined gross enrolment ratio	78.3%
Gender equality	Female ratio to male: – gross enrolment	1.06
	Women % tech. & professional workers	34%
Health	Women in Govt - Ministerial	19%
	Life expectancy (years)	73.3
	Popn. accessing improved water source	89%

UN Human Development Report 2009 (data ~2007),

*Chen, Schreiner and Woller (2008): A simple Poverty Scorecard for Palestine

Microfinance

There are 17 organisations engaged in microfinance in Palestine, including 11 NGOs, 5 MFIs and 1 commercial bank. Organisations providing microfinance in Palestine are shortly to be governed by a newly passed Microfinance Law; hitherto they were governed by the laws particular to their legal structure. The Palestine Central Bank is the regulatory authority and supervises the MFIs under the new law.

There are restrictions on collection of deposits, and with the exception of Al Rafah Bank, the other institutions involved in microfinance provide only credit to their clients. The new law will enable opportunities for MFIs to raise equity investments, and



will also enable closer supervision. Several cooperatives exist in the rural areas, undertaking internal saving and lending. Despite there being over 15 commercial banks in Palestine (some local, others Jordanian and Syrian), most of the commercial banks do not engage in microfinance or lend to MFIs. Bank loans are extended against collateral. Prevailing interest rates on loans are around 8-9% p.a. and interest rate on demand deposits is 1-1.5% p.a.

Leading microfinance providers (December 2008)

MFI	Active Clients	Portfolio	Av. o/s	Av o/s /p.c GNI ^a
UNRWA	17,486	16,565,033	947.3	62.4%
FATEN	4,895	10,516,002	2,148.3	141.4%
Ryada	4,774	10,986,624	2,301.3	151.5%
Al Rafah Bank	4,531	32,438,288	7,159.1	471.3%
ACAD	2,542	2,529,741	995.2	65.5%
Asala	2,219	2,440,862	1,100.0	72.4%
PARC	2,171	3,133,209	1,443.2	95.0%
Reef	421	1,118,154	2,656.0	174.9%

[The Mix Market, 2008]

^a Per capita GNI: US\$1,519 in 2007 (UN country profile for Palestine)

Particular challenges for MFIs in Palestine

MFIs operating in Palestine face unique challenges to their operations, which raise operating costs, affect portfolio quality and hamper sustainability.

Lack of mobility: In 1994, after the Oslo agreement, signed by the PLO, the Palestinian land in the West Bank was divided into 4 categories:

- Category A:** Controlled by Palestinian Administration
- Category B:** Civil affairs under Palestinian control, security under Israeli control
- Category C:** Military and civil control with Israel
- Category D:** East Jerusalem – under Israel occupation. Palestinians who aren't currently living in East Jerusalem cannot go there without permission.

Categories A & B constitute 40% and Category C constituted 60% of the West Bank. Following the second Intifadah, Israel has constructed a wall and network of fences mainly along the 1949 Armistice line, to separate Israeli and Palestinian territories. Palestinians have been cut off from access to Jerusalem, and are monitored through checkpoints throughout the West Bank. Mobility for Palestinians between the West Bank and the Gaza Strip is impossible. The wall has increased travel time between towns in the West Bank threefold, while Palestinians are often subjected to humiliating searches by Israeli soldiers at the checkpoints.

ACAD currently works in Categories A, B and C. The lack of mobility between towns in the West Bank because of the wall/ checkpoints forces staff to travel long distances between branches and the Head Office. Gaza is completely cut off from the West Bank. It has been 9-10 years since anyone from Headquarters has been able to visit Gaza, and meetings are held through teleconferencing. Staff are unable to come to Ramallah for

training, and the Compliance Officer is unable to visit the field in Gaza for monitoring.

Volatility: Constant skirmishes and violence, arrests, destruction of property have created an atmosphere of volatility.. These incidents result in mass default, and in cases where there has been loss of life or property, MFIs have no choice but to write off the loans. The average PAR₃₀ for Palestinian MFIs was 29% in December 2008, and increased further after the 2009 airstrikes.

Economic & Political: Economic activities in Palestine are highly dependent on trade links with Israel, since all exports and imports have to be done in partnership with Israeli citizens. The salary freeze in 2006 resulted in problems for 35% of households in Palestine, as they were deprived of their main source of income. Such issues bear implications on portfolio quality, liquidity and sustainability for an MFI.

Court intervention for default: Some MFIs including ACAD depend on judicial settlement for default cases. However, since all villages come under Category B areas, and Palestinian courts have no judicial powers over these areas, no legal action can be initiated. This hampers default resolution.

Environment for lending: MFIs in Palestine have evolved from grant based programmes of aid agencies. This has to some extent spoiled the environment for lending as clients are accustomed to having loans rescheduled and written off. Although a certain degree of flexibility is required to meet the above challenges, it is inevitable that some wilful default also occurs because of clients' confidence that their loans will be rescheduled or written off eventually.

INTENT & DESIGN

MISSION

Clarity and communication

ACAD reformulated its mission in 2008, emphasising its status as an MFI and its raison d'être as encouragement to micro entrepreneurship. The mission was developed during a strategy planning workshop involving Board members, top management, staff and funders of ACAD. ACAD's mission has developed over the years, from that of a "relief project" in 1987, to an MFI focussed on agriculture finance in 1999, and to a sustainable MFI, lending to all forms of micro enterprise in 2008. In the first six years since its inception, ACAD focussed on loans in kind to farmers. In 1993, it began to formalise its lending processes, and in 1999 the first strategic planning took place, where ACAD's objective was defined as microfinance, and a decision was taken to extend loans in cash. Since then,



ACAD has gradually moved towards sustainability, expanding its scope to non agricultural activities, despite retaining its core business in rural areas.

ACAD's mission specifies lending to poor and low income individuals in rural / high poverty rate areas of Palestine, as the target clients. Although details of income and asset holding are collected, there is no specific income-based screening limit or poverty assessment adopted by ACAD for ensuring outreach only to this target group. ACAD specifies its social goal as empowerment through economic independence for clients (sufficient earnings so as not to be dependent on grants from the Government or aid from NGOs), thereby facilitating food security.

The organisational goals of ACAD are as follows:

1. Enhance and develop the Palestinian agricultural and rural sectors.
2. Assist in establishing income generating rural and agricultural projects.
3. Establish a specialized fund to support small producers in the form of loans.
4. Provide supportive services for small producers in rural and urban areas in the various sectors.
5. Consolidate the participation of rural women in particular and women in general in economic life.
6. Prepare research, studies and hold conferences and seminars and provide consultative services and courses related to rural development and the development of income generating small enterprises.

While these goals are closely connected with the mission, they do not provide milestones or targets for measuring achievement.

The strategic plan for 2009-13 gives details of ACAD's seven strategic objectives for the period (diversifying sources of funds, transforming into a not-for-profit microfinance company, increasing efficiency, improving portfolio quality, reaching sustainability, increasing market share and reinforcing social and economic impacts. Operational objectives have been well defined, with time-bound targets to be achieved. However, no specific measure has been devised for internal and continuous assessment of social and economic impacts – which represents the chosen social objective of ACAD. The spirit of the mission is strongly assimilated through all levels of the organisation.

Governance and structure

ACAD's Board consists of 9 persons, having expertise in business administration, accounting, banking, finance, agriculture and development. The Board is re-elected every 2 years, by a General Assembly of 30 members. The members of the General Assembly are individuals representing the finance, development and political sectors who involve themselves in ACAD's governance on a voluntary basis. Both the Board and General Assembly

comprise persons with varied academic and work-related backgrounds, balancing both social and financial expertise.

ACAD started as a United Agriculture Company in 1987, after its application to register as an NGO was turned down. It subsequently registered as an NGO in 1993. ACAD is now preparing to transform into a not-for-profit Micro Finance Company (MFC) as per a new Microfinance Law, passed in Palestine in early 2010. This legal status will allow for equity shareholding, thereby enabling fund mobilisation from diverse sources. It is envisaged that the NGO will hold a majority stake in the new company, and members of the general assembly, funders and microfinance investors will be invited to hold the remaining equity.

The Board meets quarterly, while the General Assembly meets at least once a year. All meetings are well attended and minuted. The agenda for meetings revolves around operational and financial performance, as well as passing new policies. The current focus of discussion is around achievement of financial sustainability and transformation into a company. Discussion on ACAD's social performance has included suggestions for lowering interest rates to clients, extending outreach to women and ensuring a minimum percentage of outreach to the agricultural sector – however, these suggestions were not accepted in the interest of achieving operational and financial sustainability.

ALIGNMENT OF SYSTEMS

Model for service delivery

ACAD uses the individual lending model, and extends loans to both men and women. ACAD's staff publicise the products by holding discussions in the market areas and in villages. ACAD also relies on word-of-mouth feedback from existing clients, for client addition. Recently, pamphlets have been printed for distribution in market centres for publicity. Usually, interested applicants approach ACAD's branches and discuss the various loan options and which would be most suited to their need.

Branches are staffed with Loan Officers (who do field work), a Branch/ Office Manager, Secretary and support staff. All loans pass through multiple stages of checking and verification.

Application forms are filled out at the branch, and a visit is undertaken by the Loan Officer (and Office Manager, in the case of loans >US\$ 3,000 and Islamic loans) to verify the information therein. Application forms include client demographic details, an assessment of income, turnover of business and seasonality of cash flows. Lending is backed by bank



guarantee, and is not collateralised. The Field Officer also gathers the necessary information needed in evaluating the application, by inquiring into the loan applicant's personal and financial standing, as well as those of his/her guarantors. The officer then submits his/her recommendations to the Local Credit Committee, which includes the Branch/Office Manager and Field Officers. The Credit Committee then submits its recommendations for either approval or rejection to the Branch/Office Manager. The Credit Manager at the Head Office also approves the loan in the MIS, before the Director General (CEO) authorises disbursement (made by cheques drawn on bank branches which are in close proximity to the client's location). Clients receive their cheques at the branch, or the cheques are deposited directly in their bank accounts, if any.

Each lender has to find 1-2 guarantors (depending on the nature and loan size), who have salary income. Instead of extending a private guarantee, the bank in which the guarantor has his/ her salary account extends a guarantee on behalf of the loan applicant, with a promise to deduct the instalment amount from the relevant salary account, should the applicant default to ACAD. For each guarantor, a no-objection certificate is required from the bank in which they maintain their salary account. If the client's instalment is less than 1/3rd of the disposable income of the guarantor then the person is accepted as a guarantor, else not.

Principal and interest repayments are made on a monthly basis, directly in ACAD's account at the nearest bank branches. Usually ACAD has its accounts in 4-5 bank branches in the town, so clients can choose the most convenient one to make their repayments. At the time of drawing up the loan contract, the deposit slips are filled in by ACAD's staff so that clients don't face any problem in understanding the amount to be paid, or in filling out the deposit slips. In some cases, a grace period of one month is allowed before repayments begin.

Market strategy

Areas: Branches have been established in the main towns of the West Bank, since these also function as the main market centres, and are accessed at least weekly by the inhabitants of the surrounding villages. There is one branch in Gaza, which is currently inaccessible from the West Bank. All important towns in the West Bank have been covered. ACAD's strategy was to establish branches to enhance outreach first, and add clients later. This has resulted in high operating costs, especially since branch profitability has not been monitored. Decisions about where to establish new branches were taken at time when ACAD did not have much focus on sustainability. Currently there is a freeze on establishment of new branches to enhance sustainability.

Clients: ACAD does not target any clients based on their location, income or asset holding. While it emphasises rural outreach, it reaches clients in both rural areas and towns. There are no client-screening tools based on income or poverty levels, and all applicants with a valid Palestinian ID, who meet the creditworthiness checks are eligible for loans from ACAD. Credit is extended for consumption as well as income generating projects – constituting both new and existing businesses.

Products: ACAD offers four products – Small loans, micro loans, women's loans and Islamic loans. A pilot will be conducted in 2010 for seasonal/ festival loans, after which a new product will be launched. The product options reflect ACAD's commitment to extend outreach to women and adapt to the cultural context. Women's loans were introduced in 2006 (at the time of the salary freeze for employees of the Palestinian National Authority), to enable women to take up small income generating projects to replace salary income. Following feedback from clients, Islamic loans were introduced in 2007. Interest rates have been increased over the years, from around 6-8%p.a. in 1999 to 18% p.a. flat at present.

- (i) The main product is the “women's loan”, used by women clients for both consumption and income generating projects.
- (ii) The small and micro loans are both for micro enterprise, and vary only in the loan amounts extended.
- (iii) Islamic loans are extended in kind. The Office Manager takes a list of the material required for the income generating project, negotiates for the best rates with 2-3 suppliers, and subject to the approval of the client, buys the goods from the supplier who makes the best offer. The goods are provided to the client, the payment is made to the supplier, and the client repays ACAD the cost of the goods, plus an additional charge (similar to interest), over the agreed loan term. In this way, the client benefits from ACAD's experience in sourcing supplies (usually the best quality materials) and from bulk discounts through ACAD's links with suppliers. ACAD benefits by ensuring that the project is run with the best possible inputs, thereby reducing the risk of business failure. Pipelining of loans, phantom loans and wrong loan utilisation are kept at a minimum through this method of lending.
- (iv) ACAD plans to introduce seasonal/ festival loans, which are short term loan of 2-6 months, extended for specific seasonal use, with monthly interest repayment and bullet principal payment. These loans will be piloted in 2010 (extended only to clients who have a perfect repayment record) and based on the response, introduced subsequently.



ACAD Loan Products – Description

Product	Women's Loans: Income generation	Women's Loans: Consumption	Islamic Loans: Murabaha/ Musana'a				Micro Loans	Small Loans
Methodology	Individual							
Loan guarantee	Personal guarantee	Personal guarantee	Personal guarantee	Personal guarantee + 1 salary guarantor	2 salary guarantors	2 salary guarantors	Personal guarantee + 1 salary guarantor	2 salary guarantors
Minimum Size (US\$)	1,200	1,500	None	2,000	3,500	5,000	1,500	5,000
Interest rate (%)	1.5% p.m.	1.5% p.m.	1.5% p.m.	1% p.a.	9% p.a	8% p.a	1.5% p.m.*	7% p.a
Interest rate type	Flat							
Other fees	1% of loan amount		None				1% of loan amount	
Term (months)	3-24 mths	3-24 mths	6-15 mths	6-24 mths	6-30 mths	6-36 mths	3-24 mths	3-36 mths
Grace period (months)	1-2 mths (only after completion of first loan)	1-2 mths (only after completion of first loan)	3 mths				1-2 mths	3 mths
Repayment frequency	Monthly principal and interest payments							
Maximum size (US\$)	1,800	2,500	1,500	3,000	5,000	7,000	3,000	8,000

(1% p.a. for higher loan sizes)

ACAD Loan Products –clients access analysis December 2009

Product	Women's Loans	Islamic Loans	Micro Loans	Small Loans
Loans outstanding (no.)	2,306	395	274	81
Active clients	2,306	395	274	81
O/s portfolio /%	51.6%	31.7%	9.9%	6.8%
Av o/s loan US \$	699.5	2,510.2	1,127.3	2,626.3
Av loan (Jan-Dec) US\$	1,297	3,228	2,863	5,000

There are no minimum or maximum limits on exposure to different types of loans. Women are eligible for Islamic, small and micro loans as well. 6.2% of ACAD's portfolio constitutes loans under US\$ 1,000. While this is an indicator that ACAD is reaching a middle-higher income segment, it is also a factor of the high cost of living in the territory. The share of women's loans and Islamic loans in the portfolio has gone up to 51.6% and 31.7% of the portfolio respectively, since their introduction in 2006/ 07. This is an indicator of the high demand for these loans and their relevance for the target clientele.

Another unique feature of ACAD's lending is its strategy to lend to savings and credit cooperatives. As on 31 December 2009, it had a loan outstanding of US\$ 218,727 to 20 cooperatives. Apart from lending, ACAD also provides technical support to these institutions to help them manage their affairs. The advantage of lending to the client through these cooperative is that these cooperatives

can leverage much larger funds in the form of savings from their members and serve a large number of clients. The loans provided to these cooperative are for 2-3 years and have bullet repayment. Some of these loans have been renewed by ACAD after the end of the loan term. The product provides comfort to cooperatives in managing their liquidity; however, single bullet repayment term and renewal of loans may have masked some issues relating to portfolio quality in the books of ACAD.

ACAD eventually wants to introduce collection of deposits, subject to regulatory approval (this is still under debate in the microfinance sector in Palestine).

HR – aligned with mission?

Recruitment: ACAD recruits graduates with from all subject backgrounds for its profile of trainee Loan



Officer. Lateral recruitments have been made only for two top management posts, while almost all the middle and senior management have been with ACAD since its inception/ early stages. ACAD is open to hiring freshers for Loan Officer vacancies, while in other posts candidates with experience are preferred. ACAD's salaries are on par with the average pay in Palestine's microfinance sector.

The recruitment process does not particularly emphasise ACAD's social mission; however it aims to hire the most meritorious local candidates, based on their qualifications, experience and most important, good communication skills. While no special preference is given to women candidates, ACAD encourages women to apply by assuring them of postings in branches close to their homes. Candidates respond to newspaper advertisements and are shortlisted for an interview (written tests are conducted only for a few key positions). Selections are made by a committee consisting of the Operations Manager and Office Manager. During interviews for branch staff, candidate's temperament, communication skills and suitability for fieldwork is assessed in addition to professional competency.

Training/skills: 15 days on-the-job training is conducted for new recruits (by a senior staff, usually the one whom the new recruit is replacing) during which the policies and processes of ACAD are covered. Supplementary training is provided by the Operations Manager and the Officer Manager. After probation of nine months, the trainee is evaluated for knowledge of organisational policies as well as assimilation of organisational culture and values. No specific training is conducted to orient the staff to the mission; however, ACAD feels that organisational goals and social values are imbibed adequately through mentoring from experienced staff and supervisors. Refresher trainings are conducted for different levels of staff, (need assessment is done at the time of appraisal, and is used to plan for the subsequent years' trainings). The situation in Gaza is different, since the staff are hired by the Office Manager directly and trained there. They cannot attend trainings at the Head Office.

ACAD prefers to promote its staff rather than recruiting laterally. This has acted as a motivation for the staff, and rewards staff who have stayed with the organisation for several years. The current top management and Head Office staff consists of staff who have been promoted, with the exception of the Operations Manager who joined 2 years ago. While the top management is adequately qualified and competent for their current posts, ACAD lacks a second line of leadership.

Staff was not incentivised until the current year. A new incentive plan has been introduced for Loan Officers since January 2010, to improve portfolio quality and enhance productivity. The parameters for payment of bonus include active clients, number of loans disbursed, and total portfolio, as well as PAR and number of cases transferred

to lawyers for settlement in court. The heaviest weightage has been assigned to PAR reduction, as this is the most pressing concern for ACAD at the present time. The incentive is to be calculated quarterly; at the end of March the plan will be evaluated (and revised, if necessary). There is no incentive for Officer Managers and Head Office staff.

The annual appraisal process is performed in November-December and is based on supervisor's evaluation of subordinates, based on achievement of work-goals, professional behaviour, and personal qualities. Parameters for assessment include performance and productivity, supervisory skills and leadership, achievements and strengths, creativity, knowledge and attendance. No specific social parameters or issues have been included for assessment in the evaluation process. All evaluations are scrutinised and approved by the CEO.

Information and reporting

ACAD has a fairly robust MIS in place, with a systematic flow of data, and adequate storage, security and report-generating capabilities. However, a lot of the information regarding social indicators is collected, but not collated or analysed. Data is collected by the Loan Officers through the client's loan application, and is subsequently verified on site. Therefore, there is extensive raw data on each client, including demographic characteristics, asset holding and income. ACAD tracks outreach to women and rural areas (based on the client's residence – rural clients are those living outside town limits), but doesn't track poverty levels (based on income) or other measures of vulnerability relevant to the population (family members injured in conflict/ women headed households/). At the time of the subsequent loan application, the client credit history is checked before the new loan is approved.

	Undertaken, robust & used	Undertaken – robust, not used	Undertaken – not robust	Not undertaken
MIS:				
Client profiling at entry		✓		
Portfolio analysis (loan size by product & cycle)		✓		
Dropout rate				✓
Client level research/monitoring				
Market research*			✓	
Client satisfaction			✓	
Reasons for dropout				✓
Tracking change/ performance on social indicators*				✓

*(Sharakeh's Impact Assessment study, published in March 2010, covering 287 clients overall, 11 clients of ACAD.)



ACAD is a member of the Palestinian Network for Small and Micro Finance Institutions (“Sharakeh”) which conducts market researches for all its MFI members, as one of its several activities. Recently an impact assessment study was done, covering clients of 5 partner MFIs (287 clients in all, 11 clients of ACAD). While the analysis is detailed and well presented, the small sample size poses a problem, especially for ACAD). The advantage of Sharakeh conducting these studies is that ACAD does not have to spend on client level research until it has the finances to support such studies. However, ACAD could make better use of its baseline data from loan applications, by consolidating it to produce reports on socially relevant indicators. ACAD could also conduct low-cost customer satisfaction studies, market surveys for product demand and dropout related interviews at relatively low cost, using its existing staff and financial resources.

ACAD has not defined dropout, as its intention in the early days was to cover as many clients as possible, irrespective of whether they stayed on to take subsequent loans or not. However, in the interest of sustainability, it has become important to retain clients and graduate them to higher loan sizes. ACAD has to define dropout and track exiting clients on the basis of this definition, both through creation of related reports in the MIS, and through exit surveys which should be conducted by Loan Officers to assess why clients are leaving.

ACAD has recently begun to emphasise social performance monitoring, and is planning to compile and collate data relevant to the social performance indicators of the MIX. However, other than reporting on outreach to rural areas and women, there has not been a clear focus on what to monitor and how frequently to report on these parameters to management. While one of ACAD’s strategic goals is to reinforce social objectives, these objectives will have to be well defined, SMART goals set around them, and performance measured and monitored accordingly, after choosing acceptable benchmarks. Since ACAD is in the process of making final improvements to its new MIS, it is the ideal time to incorporate relevant social performance parameters.

SOCIAL RESPONSIBILITY

CLIENT PROTECTION

While ACAD is adhering partially to the 6 principles of client protection, this is more by default than by design. ACAD is not a signatory to the charter on client protection, neither has it formally adopted the 6 principles as part of its organisational policy. Lack of an internal audit function makes performance on client protection more difficult to assess. The Central Bank is developing a code of ethics and client protection which all the MFIs under its purview will adopt.

Transparency

ACAD is fairly transparent in its dealings with clients. The loan contract does not declare the EIR to clients, but includes the total amount of interest (and interest equivalent on Islamic loans) so that clients know how much they are being charged for the financial services availed. Branch staff and appointed lawyers (who notarise the guarantor’s and client’s documents at the time of loan sanction) reiterate loan terms and conditions before the contracts are signed. For those clients who cannot read, the entire contract is read out aloud to them by the lawyer. Clients have a copy of the loan contract and repayment schedule. They receive receipts from the bank for their repayments.

Avoiding over-indebtedness

Loan Officers estimate income, business turnover, cash flows and assets of the applicant, to verify the information in the loan application. Documentary and physical verifications are done by the Compliance Officer and sometimes even Officer Managers (on a sample basis, giving preference to the larger size loans for more stringent checking). ACAD does not lend to clients who already have a running loan with another MFI or bank. Currently there is no means of identifying whether the client has existing borrowings, except through triangulation during field visits. In May 2010, ACAD will join the credit bureau (which is already catering to banks, and is being expanded to include MFIs). The credit bureau will have the data of 7 subscribing MFIs and will be under Central Bank supervision. Once this takes place, it will be easy for ACAD and other MFIs to restrict loans to those applicants who have a history of default, or who already have accessed credit elsewhere.

ACAD’s clients can take only one loan at a time, and only one borrower is permitted per household. Also, ACAD only funds 80% of the capital requirement of the borrower’s business, so that only borrowers who have existing capital of their own are eligible for loans. Furthermore, guarantors are also checked for financial solvency – the loan instalment should be not more than 1/3rd of the guarantor’s disposable income, and the guarantor should have held the same job for at least 4 years. This limits the indebtedness of the guarantor as well, should the client default.

Loans are rescheduled in cases where clients have been unable to repay because of unavoidable crisis (such as the salary freeze in 2006, and airstrikes on Gaza in January 2008). This is done on a case by case basis by the CEO on the recommendation of the Office Manager and Operations Manager, and clients have to pay at least 10% of the outstanding as well as the loan charges and processing fees once again, at the time of



rescheduling. In 2009, loans with outstanding of US\$ 325,700 were rescheduled by ACAD, 10.4% of the portfolio outstanding. The loans are usually rescheduled for not longer than 12 months.

Appropriate Collection Practices

ACAD follows up on overdue clients with home visits, after which a formal letter is issued from the branch seeking repayment within 30 days. If the client does not pay, a legal notice is issued and a month later, the case is handed over to appointed lawyers to be settled in court. The guarantees are usually enforced through a court order, by which the bank is directed to deduct the due amount from the salary of the guarantor and credit it to ACAD. However, in some cases, since the courts themselves are dysfunctional (Category C areas), this proves difficult. A penalty amounting to 100% of the daily interest for the number of days overdue is usually imposed, but this is not always collected from the clients. Care is taken to ensure that no forceful behaviour is ever used against clients.

Customer complaint redressal

Clients could approach the Loan Officers or the Office Manager to make a complaint. However, there is no formalised mechanism for receiving confidential feedback from clients. In the new marketing brochure, the names and contact details of all Office Managers are given, so that client queries/ complaints can be referred to them.

Compliance with business ethics norms

While ACAD has not breached any ethical code in dealing with its clients and other stakeholders, it does not have a stated policy or code of ethics to which it subscribes. However, it is committed to compliance with the Palestinian National Authority (PNA) Anti-Money Laundering Decree 2007 and is duty bound to exercise all necessary ethical, professional and legal actions to comply with the law to prevent money laundering or funding of any terrorist activity through stringent documentary and physical verification by a Compliance Officer specially appointed for this purpose, and through physical loan utilisation checks.

Privacy of client information

ACAD assures its clients of privacy regarding their loan information. However, in keeping with its agreement with the newly established credit bureau it is bound to submit client loan and repayment information on a regular basis, in order to protect clients from indebtedness and to prevent fraudulent transactions which may increase its risk and that of other lenders in the industry. This is done with the knowledge of clients (authorisation and signature of clients is included as part of the loan contract).

Cost to clients

The annual Effective Interest Rate (EIR) for women’s and micro loans ranges from 33-34%. Since the grace period is chosen by clients, the EIR varies a little between loans. The EIR includes an upfront fee of 1% of the loan amount as administration fee, charged by the partner banks. EIR on Islamic and small loans is much lower at 14.5% and 14.6% p.a. respectively. ACAD charges a flat rate of interest on most of its loans, except higher amounts under Islamic loans and small loans. Interest calculation and generation of the repayment schedule are automated in the new MIS to avoid human errors.

ACAD would like to further reduce cost to clients, in keeping with their feedback (see page 16). However, its charges in comparison with the other financial institutions in Palestine are almost the same. ACAD faces competition from banks which are able to lend at lower rates of interest (9-12% p.a.).

Cost structure as % of average portfolio (Dec 09- ACAD, Dec 08 for OPT and MENA)	ACAD	Palestine	Middle East North Africa
Av outstanding loan \$	1,023	2,512	606
Clients/field staff	146	136	153
Operating expense ratio	24.5%	17.1%	15.1%
Financial expense ratio	1.3%	0.0%	6.2%
Loan provisioning	1.1%	1.0%	1.0%
Total costs	26.9%	18.1%	22.4%
Yield	24.7%	16.4%	31.8%
Surplus	-2.2%	-1.7%	9.4%
PAR (30 days)	27.0%	29.0%	2.4%
Write-off	1.8%	0.0%	0.2%

^a MIX Market, 2008 for ACAD, 7 NGO-MFIs for Palestine with average gross portfolio of US\$ 10.9 million and 24 “large MFIs” for Middle East and North Africa, with average gross portfolio of US\$29.9 million.

Available data for NGO-MFIs in Palestine (the banks providing microfinance are outliers as small loans form a very small percentage of their business) shows lower operational costs and similar provisioning costs, with similar grant dependency as ACAD. Real yield for ACAD is much higher than the country average, and below that of the MENA countries. Surplus is negative both for ACAD and other Palestinian MFIs, as operating costs are in both cases are higher than yield. ACAD’s portfolio quality is slightly higher than that of its Palestinian counterparts. Loan sizes are low for ACAD compared to other MFIs, while productivity per field staff is slightly higher for ACAD, but still lower than the MENA average. Portfolio quality is understandably far better in the MENA countries than in Palestine.



Client interactions

ACAD’s first interaction with clients takes place when the clients visit the branch to find out details about the programme, or when promotion campaigns are conducted in the market-places. Loan Officers explain terms and conditions of the appropriate loan, after which they visit the client’s home for a detailed assessment. Follow up visits are conducted by Office Manager and sometimes Compliance Officer (for large loans). Clients receive their disbursements from the partner Bank’s branch. After producing the necessary documents the loan is sanctioned. After loan disbursement, the clients are visited once a month (though this is not very regular) by the Loan Officers, or are reminded telephonically about their due repayments 1-2 days in advance. Loan Officers visit clients in the event of a default.

Non-financial services and linkages

ACAD has several programmes for provision of non financial services to its clients. These are funded independently (not from ACAD’s resources) and some of the programmes are open to clients as well as other beneficiaries, based on need assessed by ACAD/ community level participatory decisions. The qualifying criteria for selection of beneficiaries vary from one programme to the other. ACAD provides non-financial services through different types of activities:

Extension: ACAD’s field workers make regular visits to farmers who receive loans, providing them with free information about market, prices, and advice related to the management of their farms.

Training to farmers: Topics include recycling and plant diseases, disease discovery and usage of insecticides and fertilizers.

Capacity building for cooperatives: ACAD encourages small farmers, producers and women in the poorest rural areas in the West Bank to establish specialized cooperative societies and cooperative credit and saving funds. ACAD promotes the idea and provides legal assistance to register the cooperatives, and provides assistance in fund management in addition to soft loans to be used as seed capital.

Development activities: ACAD carries out different development projects which focus on service delivery to marginalized community such as land rehabilitation, public awareness, organizing and advocacy and lobbying on national policies.

Details of the programmes conducted in 2009 are given in the table below:

Project Title	Target Area	Bene ficiari es	Fund (US\$)	Funded by
Greenhouse Reconstruction	Tulkarem	115	92,213	NDC- Islamic Bank

Land Reclamation	Ramallah /Hebron	102	246,000	UNDP
Rehabilitation of destroyed agri. land	Gaza	30	237,500	UNDP
Towards better farming	Gaza	150	49,925	CARE
Kitchen gardening	Gaza	52	47,700	Welfare
Land reclamation	Gaza	60	230,000	NDC
Citrus &Olive rehabilitation	Gaza	100	93,877	UNDP
Support of Electricity & Agriculture	Gaza	400	813,219	UNDP

ACAD’s non financial services have revolved mainly around support to agriculture/ restoration of land and capacity building of cooperatives. No training has been provided for micro enterprise management till now, and ACAD may find it useful to assess the level of demand for such trainings in the future.

OTHER SOCIAL RESPONSIBILITY

GENDER APPROACH

Context: In Palestine, women are becoming more active professionally (34% of professional and technical jobs are held by them), while an increasing proportion of those who are less educated have begun to play an active role in the market economy. With female literacy rates at 90.3%, it is not surprising that an increasing number of women run businesses quite successfully, albeit with the cooperation and support of (male) family members.

Clients: ACAD actively monitors its outreach to women, especially after the introduction of women’s loans after the 2006 salary crisis. ACAD feels that gender outreach is an important part of its overall mission, however, it has not set any minimum acceptable level of outreach to women overall, or for women’s loans. The management feels that such targets are unnecessary, and the fact that loans to women constitute 75.2% of total loans (December 2009) reveals the extent of its commitment towards financial inclusion for women.

The women’s loans have been introduced specifically to ensure inclusion of women in ACAD’s programme. To further encourage women’s participation, ACAD hired several women staff over the past 2 years, so that they would interact with women clients, in keeping with the cultural norms. Women are not restricted to the women’s loan product; they can also borrow under the small/ micro/ Islamic loans if they meet the guarantee requirements.



Although women have land and asset ownership rights in Palestine, this does not affect outreach to women as ACAD does not require collateral for its loans. Husband's signature is only required if the husband is one of the salary guarantors to the loan, else it is not compulsory.

While some women borrow on behalf of their husbands, or for a family-run business, there is no information on who owns/ who manages the business.

It would be interesting to include this aspect of gender dynamics in the impact studies conducted internally or by Sharakeh in the future.

Staff: Three of the nine Board members are women. In terms of gender break up of staff, it is noteworthy that 86% of the field staff and 8 out of 10 office staff are women, many of whom have been recruited for promotion and handling of women's loans. Overall, women constitute 63.7% of all staff, and 10% of the top and middle management.

Women staff – December 2009

Staff level	Number	No. of women
Management (HO/branches)	10	1
Field staff	21	18
Office/technical staff	10	8
Support staff	1	0
Total	42	27 (63.7%)

ACAD offers reasonable employment conditions to women and the same terms of pay as their male counterparts. Since ACAD posts the women in their home areas, they do not face any inconvenience. Maternity leave is as per Palestine's Labour law (70 days paid leave). ACAD does not have a sexual harassment policy and feels that it is not necessary given the conservative culture prevailing in the region. However, in the event of any harassment, the women staff could approach any of the top management (the Compliance Officer is a woman) to air their grievances. There have been no complaints regarding sexual harassment till date. Women staff mentioned that they were given adequate support and cooperation by their male colleagues and superiors.

RESPONSIBILITY TO STAFF

ACAD does not have a formal HR department. The head of Accounts and Finance looks after administration and HR issues as well, along with the CEO and Operations Manager. There is a detailed list of job descriptions with accompanying qualifications and basis of selection, as well as a handbook of employee rules, covering code of conduct, leave, training, and various benefits.

Training: Staff of ACAD are provided both internal and external trainings. From Office Manager level upwards, the staff are eligible to attend external trainings, while the field staff are provided in-house trainings organised by the

Operations Manager and sometimes by external consultants. Trainings needs assessment is done at the time of staff appraisal, and the training plan is drawn up accordingly. The CEO approves the training schedule for all employees.

Salary and benefits: ACAD's salary package is at par with the remuneration offered by other MFIs. Staff are also covered by health insurance (50% paid by ACAD) for themselves and their immediate family members. A new incentive system has been introduced since January 2010.

No staff satisfaction survey has been done till date, however staff state their concerns and grievances to their supervisors at the weekly branch meeting every Thursday afternoon. In case they have a grievance or complaint to make, they can also approach the Operations Manager or the Compliance Officer.

All provisions for leave and working hours are in accordance with the prevailing labour laws. Leave not availed in one year can be carried on until the end of the following year. Aspects of disciplinary action and dismissal are covered in the employee rules. There has been no case of financial misappropriation till date. In case of insubordination or unsatisfactory performance, a warning letter is issued to staff.

Staff turnover in the year ending December 2009 was just 2 employees, both of whom left to get married. Most of the staff at Office Manager and top management levels have been with ACAD for over a decade. ACAD does not have a formal practise of conducting exit interviews because till now only the women staff have left, in order to get married.

RESPONSIBILITY TO COMMUNITY

ACAD undertakes several non financial services in addition to its regular lending activities, revolving around agriculture and land reclamation. However, there are also some programmes which are mainly for supporting the community rather than increasing the income-generation/ capacity of ACAD's clients. Some of these projects are described in the table below:

Project Title	Target Area	No. of Beneficiaries	Fund (US\$)	Funded by
Food security	Jenin	100	5,600	Welfare Assn.
Establishment of Public Parks /offices	Ramallah	Direct 82, Indirect 10,000	234,270	AFD, NDC
Empowering Women in Food Security	Ramallah	100	70,000	French Consulate
Hygiene Inputs	Gaza	2,977	86,809	Welfare Assn.



ACAD has followed a practise of hiring its staff from the local areas, and adhering to cultural norms (hiring women to deal with women clients, not posting women at branches other than their hometowns). ACAD also honours the cultural and religious norms of the community, by not financing businesses which are frowned upon by Islam, such as alcohol.

RESPONSIBILITY TO ENVIRONMENT

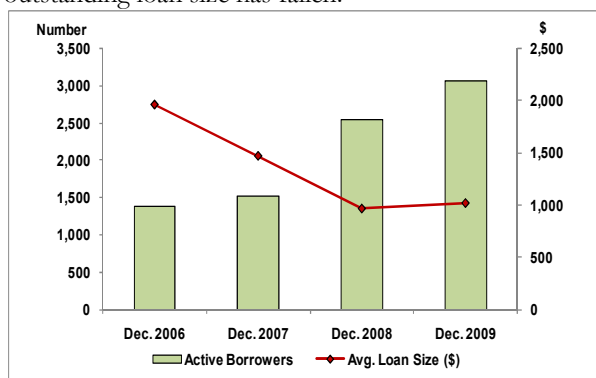
ACAD does not have an ecological policy, nor does it evaluate projects for ecological risks, since most of the projects are for small manufacturing and trading and are unlikely to have any damaging consequences on the environment. ACAD's does not have policies related to use of paper, electricity and water within the office.

ACAD, in cooperation with specialized local training institutions, organizes regular visits by specialized agronomists to provide the farmers with free extension about advanced methods of farming, irrigation systems, and ways to minimize the consumption of chemicals, explaining to them the negative impact of using chemicals on soil, water and environment in general.

RESULTS - OUTPUTS

OUTREACH

ACAD's outreach has shown year on year positive growth, but not in a consistent trend – 8.5% in 2007, 40.4% in 2008 and 17.2% in 2009. ACAD has also faced some client exit, which has not been measured over the years. In 2007, ACAD's low growth rate was because of consolidation of operations following the salary freeze in 2006. In 2008 efforts were made to extend outreach, while in 2009, more attention was paid to consolidation and improving systems. By December 31, 2009 there were 3,067 borrowers with an outstanding of US\$ 3.1 million. It can be seen from the graph that as ACAD's outreach (especially to women clients) has increased, the average outstanding loan size has fallen.



94.2% of clients to whom loans were disbursed in 2009, were in their third loan cycle. This indicates that ACAD

does not have very high client exit, but also reveals that client addition has been very low in the previous year.

ACAD outreach - provinces by level of development

	Province	Poverty rate*	Poverty Rank*	% ACAD borrowers
1	Tulkarem + Qalqelia	11.7%	3	19.0%
2	Nablus+Tubas	11.7%	3	16.8%
3	Ramalla	3.7%	4	11.4%
4	Jenin	11.7%	3	15.6%
5	Bethlehem	20.6%	2	11.5%
6	Hebron	20.6%	2	17.0%
7	Gaza	26.0%	1	5.1%
8	Jericho	3.7%	4	3.6%
	TOTAL	Avg.16.4%		100%

*Source: Palestinian Central Bureau of Statistics report on Poverty, 2004.

As can be seen from the previous table, ACAD does not exactly match its outreach with the districts with highest poverty rates. ACAD has hitherto extended outreach to all the provinces, and has covered clients based on the potential in the area rather than level of poverty. However, its outreach in Hebron and Bethlehem (regions with high poverty) is commendable. ACAD may need to better plan its outreach in keeping with its mission to reach poor and low income groups.

The poverty lines (2005), and rates for surveyed clients as well as national levels (as of 2005) are given below. As can be seen from the table, ACAD does not have as much outreach to the poor or low income groups as their share in the population (except in the \$1 poverty line bracket). Therefore, there is actually less outreach to the poor and low income groups, than there ought to be, given the prevailing poverty rates.

% of clients below	Poverty line (USD)	Surveyed clients of ACAD (2010)	National level poverty rate
National poverty line *	1.9	12.3%	18.5%
\$1 per day	1.0	1.0%	2.5%
\$2 per day	2.0	13.6%	20.7%
\$3 per day	3.0	35.4%	43.9%

Data from client survey conducted as a part of the social rating process.

* Poverty line and national level poverty rate data from Chen, Schreiner and Woller (2008): A simple Poverty Scorecard for Palestine. The lines and rates mentioned apply to 2005. Since then it is estimated that the poverty rates have increased.

Areas of operation

ACAD began its operations in Jericho – since it was focussed on agriculture and 40% of the vegetable production takes place in the Jericho Jordan valley.



ACAD then moved to the northern part of the West Bank, and then to the North West, where again, agricultural activity was the primary source of income. Branches were started in Nablus, Jenin, Tulkarem and Tubas during this phase. In 2004, ACAD started lending to non agriculture related activities and expanded to Hebron and Bethlehem, to cover the market for micro enterprise funding there. There are now eight branches, including one in Ramallah, which is at a separate location from the Head Office.

ACAD deliberately chose to set up branches first and then add clients, in line with its strategy of spreading outreach to as many areas as possible in an effort to cover the entire Palestinian territory. However, this strategy has contributed to high operating overheads, which has hampered sustainability to some extent.

Outreach extends to both urban and rural areas; ACAD's branches are situated in the towns, but the Loan Officers visit the surrounding 12-15 villages and garner additional clients there. Since most people in the rural areas come to the towns at least once a month for their needs, they access the bank branches at this time for their transactions. ACAD treats all those clients who live outside the town demarcations are rural clients.

	Province	Rural Outreach
1	Tulkarem +Qalqelia	54.5%
2	Nablus+Tubas	95.9%
3	Ramalla	68.4%
4	Jenin	75.8%
5	Bethlehem	30.3%
6	Hebron	95.8%
7	Gaza	3.2%
8	Jericho	8.3%
	TOTAL	66.4%

ACAD has also extended outreach through loans to 20 cooperatives, which on-lend to their members. These loans constitute 7% of ACAD's portfolio as on 31 December 2009. While these loans serve to extend outreach, ACAD has to exercise increased monitoring and supervision to ensure portfolio quality, since it does not directly undertake client assessment and recovery activities.

Financial inclusion

Much of the following sections are drawn from a household survey of 152 client households done by the rating team for the purpose of this social rating. The survey was conducted with the help of 18 staff from 7 branches of ACAD, and covered 15% male clients and 85% women clients.

A high proportion of clients were in their 1st or 2nd loan cycle so as to represent their status at entry level.

- the unbanked

85% of ACAD's clients use no other formal financial intermediation other than their existing loan, indicating that ACAD has to a large extent reached out to an unbanked segment. 9% of the surveyed clients already had access to bank loans, while 9.2% had savings accounts in formal banks. Money-lending virtually doesn't exist in Palestine, but informal financial accommodation takes place through credit from the local grocery stores/ suppliers. Though such borrowing was not captured in the survey, it is likely that a few clients have accessed such informal credit.

Employment generation

ACAD's loans have helped create employment, especially those loans extended to existing businesses for expansion. The break-up of loan utilisation for clients for 2009 is given in the following table:

Purpose	No. of loans disbursed	% of loans
Services	618	20.1%
Housing	812	26.5%
Trade	531	17.3%
Agriculture	336	11.0%
Livestock	306	10.0%
Consumption	330	10.8%
Industrial	134	4.4%
TOTAL	3,067	100%

From ACAD's operational data, December 2009

Surprisingly, more loans have been utilised for services and housing (construction, repair and improvement), than for agriculture and micro enterprise put together. This may be an indicator to ACAD that its mission may need to be expanded from its current focus on agriculture and micro enterprise, in order to reflect the needs of its clients. Since a large chunk of ACAD's credit (total 41.7%) goes to agriculture/ animal husbandry, trade and production, jobs of both permanent and seasonal nature are created. However, most of these jobs are unpaid since they are performed by family members. Out of 152 households covered in the survey, 146 households had created 214 jobs, both paid and unpaid. Of these, 17 households had hired labour, ranging from 1-4 persons full time, with daily wages ranging from US\$ 9-30 per day.

Work creation by surveyed clients of ACAD	
Number of workers per client	Total
0	88.8%
1-2	8.6%
3 or more	2.6%
Total	100%

(Social Rating survey of 152 households, March 2010)

- Out of all workers 85.3% is family labour. None of the family workers are paid.



- Of the employment generated (equivalent of 214 full time jobs), 14.7% are wage workers.
- There was only one incidence of paid/ unpaid child labour in the entire sample.
- There is not much difference between the gender based management of enterprises. 30.2% of enterprises are managed jointly (by husband and wife), while 35.7% are managed by solely by women and 34.1% solely by men.
- Client profile 31.6% of surveyed households had over 5 years experience in the current enterprise/ income generating activity. The average experience of these families was 7 years.

Client profile

ACAD’s clients range from small farmers to business people. Since ACAD does not compile its client data at entry level, it is not possible to quote figures on average asset holding/ income levels at entry, although the raw data is available from client assessment forms.

The Social Rating client survey conducted for 152 households revealed the following demographic and asset ownership patterns:

- Most of the households surveyed (56%) have self employment as the main source of income, while 41.4% depend mainly on salaries from the public sector. Cash remittances from abroad account for just 3% households as the main source of income.
- 61.2% of surveyed clients are in the age bracket of 18-35 years.
- 78% of surveyed clients have spent less than a year with ACAD.
- Only 9.2% of surveyed households are women-headed (with and without male earners).
- Average family size is 5.5 members, of which earning persons average 1.7 members, resulting in an average dependency ratio of 3.5 mouths to feed for every earning member.
- Only 10 of the surveyed households have income from remittances abroad.
- 7.8% households have an injured or maimed member of the family, while 4.1% households have a member of the family imprisoned by Israeli authorities. These constitute the categories considered vulnerable under the prevailing conditions in Palestine.
- 10.5% of families live in refugee camps
- 69% of households have only a cesspit, and no connection to public sewerage systems.

APPROPRIATE SERVICES

In this section, some observations are quoted from interviews with clients by the M-CRIL team. Participants included both new clients and long-standing clients.

Quantitative results are quoted from the Social Rating client survey.

Client awareness

Client awareness was assessed on the basis of brief meetings with individual clients, and from the results of the client survey:

- Clients were mostly aware of the product terms and conditions, with 58.8% surveyed clients fully aware of product terms, 16.7% partially aware and the rest unable to answer correctly.
- 60% clients knew the process for grievance redressal. Clients mentioned that they would approach the Office Manager if they had a complaint, but did not know the formal process of complaint redressal, since they never had a complaint.
- All clients were aware that they had to get a receipt for every payment made.
- All clients have a copy of the loan contract, (those who cannot read or understand it have it read or explained to them by the lawyer appointed by ACAD for notarising the documents relating to loan sanction).
- Only 48% clients had full knowledge about the range of products available at ACAD, since they would be given information only for the type of loan suitable to their business.
- Clients mentioned that the average time for loan processing was 14 days. The range mentioned varied from 3-30 days.

Access to other financial services

- Out of 152 clients, 16 reported use of financial services from other MFIs and only 20 and 14 reported use of banks for credit and savings respectively.
- Credit from moneylenders was negligible, as this form of lending is practically non-existent in Palestine. However the survey failed to capture details of financial accommodation from suppliers of household needs/ business inputs, which may form a significant part of informal credit.

Client feedback

- Clients said that they prefer ACAD to banks and other MFIs because of the ease in access, good treatment by staff, good product terms and conditions and quick loan processing. ACAD’s Islamic loans, and women’s loans exclusively handled by women staff have made its products popular and helped it to compete with banks and other MFIs.



Positive feedback

Clients value amongst ACAD’s services, the following aspects:

Positive feedback	No. of clients
Staff treat us well	32
Loans are easy to access	26
Procedures are good	24
Loans are given to poor people	17
Product terms are suitable	14
ACAD is a credible and trustworthy institution	10
Quick processing of loans	9

(Social rating survey, total clients = 152)

Other responses included that ACAD supports women (5), interest is lower than other providers (3), guarantor requirements are fewer than other providers (3), Islamic loans are in keeping with religious norms (1) and ACAD’s repayment schedule is suitable (1).

Some issues

Clients interviewed during the survey conveyed the following feedback and suggestions for improvement. 85 respondents (56%) said that they did not have any negative feedback about the programme.

Issues mentioned	No. of clients
High rate of interest	30
Guarantor requirements are difficult	10
Loan amounts are low	6
Disbursement is delayed	5

(Social rating survey, total clients = 152)

Other feedback included that depositing of cheques and cashing cheques in the bank is difficult (4), documentation is excessive (3), clients should not have to bear currency risk (2), and collection of interest is not permitted under Islam (1). High rate of interest and low loan amounts seemed to be the main concerns for clients, many of whom reiterated in their suggestions for improvement that ACAD should lower interest rates and/or raise loan amounts.

Suggestions for improvement	No. of clients
Bigger loans	58
Decrease interest	33
Reduce guarantor requirements	11
Housing loan	5
Grace period should be extended	5

(Social rating survey, total clients = 152)

Other suggestions included increasing the loan term (4), allowing payment at ACAD’s branches instead of bank branches (3), extension of training and non financial services to more clients (3), education loans, repayments in Israeli Shekel instead of US\$, introduction of marriage loans, provision of grants to women, encouragement of community income generating projects, reduction of documentation for getting a loan, introduction of savings services, reduction of loan processing time, reducing

frequency of repayments, and extending more than one loan at a time.

Client exit

ACAD has not yet decided on the definition of client exit, as the management was keen to reach as many clients as possible, without emphasis on client retention. With the focus on sustainability, ACAD has realised that client retention is an important indicator and is in the process of defining dropout, before taking measures to incorporate it in the MIS and include reasons for exit in reporting.

Calculating the exit rate

Members:		Dec 2007	Dec 2008	Dec 2009
a	Total at end of year (period)	1,514	2,539	3,071
b	New during year/period	533	1,499	1,489
c	At beginning of year	1,381	1,514	2,539
	Rate of exit [c+b-a/c+b]*	20.9%	15.7%	23.8%
	Number leaving in the yr (reported by ACAD)	117	125	2

* M-CRIL formula

Applying the M-CRIL formula, the exit rate is 23.8% (for the year 2009), up from the previous year’s exit rate of 15.7%. This is high as it reflects a large number of dormant clients or clients who have borrowed from other sources. Since exit has not been tracked up till now, ACAD has not tracked the reasons for exit either. Numbers of dropout clients measured by ACAD for the purpose of the rating (those clients who finished loans and did not borrow subsequently for at least 6 months, during a each year) does not match the rates indicated by the dropout formula.

ACAD will need to define dropouts based on a suitable period of inactivity, as it has some clients who do not renew their credit line immediately as they are engaged in agriculture, animal husbandry or other seasonal businesses.

OUTCOMES

ACAD has participated in an impact assessment study conducted by the microfinance network, Sharakeh. However, only 11 of its clients were included in the survey for the study, reducing the scope for generalising the results. Furthermore, in most of the questions, only 8-9 clients have responded. However, in terms of positive impact, 6-7 clients have consistently cited positive impacts on their businesses as well as their quality of life (access to better education, improved health facilities, etc). In the future, it is advisable for ACAD to use the data in its application forms to build a baseline for comparison. It can then undertake low-cost internal studies with proper sampling techniques, in order to compare changes and results over time. 48.5% of ACAD’s



clients are new (joined in 2009) and it would be advisable to build a baseline using their data as it is easily accessible.

PERSPECTIVE - CONCLUSION

Given the constraints in its operating environment, ACAD has shown progress in various aspects of social performance, including good outreach to rural clients and women, product design in keeping with the needs of its target clientele, gender focus in staffing, and provision of a variety of non financial services. ACAD is in the process of building systems for transformation to a microfinance company. Increased regulation and supervision will help to formalise processes (all MFIs will have to report to the Central Bank, and sign a code of ethics). The new organisational form will enable ACAD to raise equity for its future expansion. Another priority during the current period of political stability is improvement of portfolio quality, for which incentives have been designed and efforts are underway. ACAD is in the process of consolidating its operations so as to achieve financial stability.

ACAD has qualified management and motivated staff. It needs to better utilise its human resources to increase productivity and lower costs of operations. Tighter monitoring systems are required. ACAD plans to recruit an internal auditor in June 2010, as it has completely lacked an internal audit function hitherto.

Social goals need to be well defined so that ACAD can put systems into place for social performance management. Currently there is an initiative to report on the MIX social indicators, but ACAD needs to prioritise what social indicators are most relevant to its mission for tracking and evaluation. ACAD has recently migrated to a new MIS and this is the right time to identify social indicators and integrate these into organisational systems. ACAD will need to formally integrate principles of client protection into its policies and operations; as well as undertake monitoring of their implementation.

Field level data shows a good achievement on outreach to both women and rural areas. The rate of client exit is high – which may adversely affect sustainability. ACAD may need to consider interest rate reduction in the future, if competition from banks becomes a challenge (currently this is not the case, because of flexibility and good product design).

ACAD has adequate competence to successfully introduce social performance management, but this will require time and attention from both the Board and management. It is possible that financial sustainability concerns will result in social performance being pushed to a lower priority level in the year 2010. However, with appropriate planning and effort, ACAD is in a favourable position to achieve on both aspects.

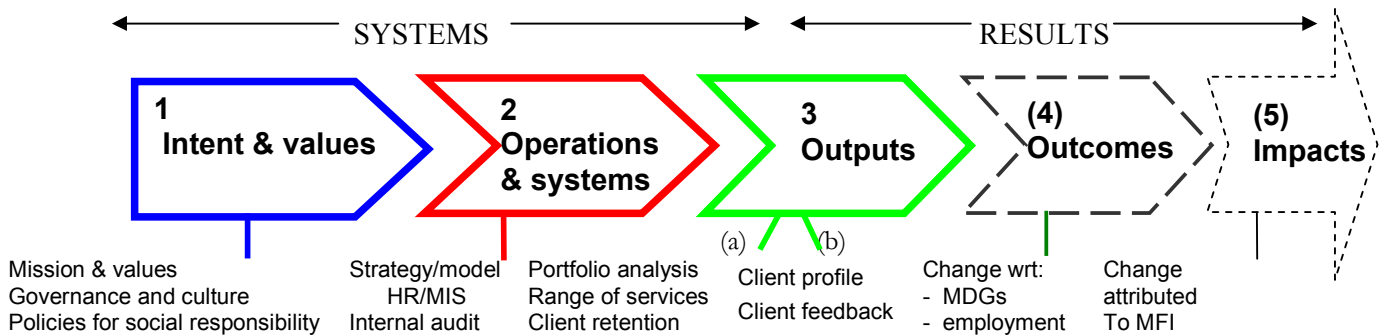
M-CRIL's Microfinance Rating Symbols

Grade	Credit Rating description	Social Rating description	Grade
$\alpha++$	Excellent systems, highest safety ➤ most highly recommended	Excellent systems and evidence for very strong adherence to social mission and values	$\Sigma\alpha++$
$\alpha+$ α	Very good systems, high safety ➤ (very) highly recommended	Very good systems and evidence for strong adherence to social mission and values	$\Sigma\alpha+$ $\Sigma\alpha$
$\alpha-$ $\beta+$	Good/satisfactory systems and safety ➤ recommended, needs monitoring and improvement to handle large volumes	Good /satisfactory systems and evidence for adherence to social mission and values	$\Sigma\alpha-$ $\Sigma\beta+$
β $\beta-$	Borderline to weak systems, significant risk ➤ acceptable after improvement	Weak systems, with evidence of limited adherence to social mission and values	$\Sigma\beta$ $\Sigma\beta-$
$\gamma+$ γ	Weak systems, very high risk ➤ not ready for investment	No systems, no evidence reflecting social mission or values	$\Sigma\gamma+$ $\Sigma\gamma$

Σ The capital sigma, represents the 'S' for Social Rating

- Mission and values relate primarily to: financial inclusion, client protection and quality services
- The social rating covers organisational systems alignment and field level evidence for outputs (who are the clients at entry, are the services appropriate). Field level information may be collected as part of the social rating exercise, if not already available as part of the MFI's own reporting system.
- If the MFI has robust evidence for change (outcomes/impact), this will be documented as part of the social rating report.
- Otherwise a first social rating does not directly collect information on outcomes, and it is not included. A subsequent social rating, however, can include direct follow up of the initial client survey to profile change at the client level.

Social rating thus usually covers the first three steps of the *social performance pathway* as shown.



This is the framework for social performance reporting.
The findings of the social rating may be applied directly for social reporting.