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Evaluation of the project « Support to Microfinance Institutions  
in Palestine in order to offer an economic and social  
perspective to the most vulnerable populations in fragile areas»  
of the Luxembourg NGDO Comité Pour une Paix Juste au  
Proche Orient

**Luxembourg Aid & Development**

Final Report Executive Summary (English)

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## Executive Summary

### Daman Project overview

Political conflicts regularly disrupt the lives of the Palestinian population. Wars, daily military operations, and frequent confiscation of land affect people's ability to run businesses and repay their obligations. These risks may prevent MFIs from continuing their activities and lending to fragile populations. Credit Guarantee Funds are a powerful instrument to de-risk lending operations in areas affected by political conflicts and favours the continuity of MFIs' activities in Palestine.

In this context, the project *"Support to Microfinance Institutions in Palestine in order to offer an economic and social perspective to the most vulnerable populations in fragile areas"* ("the Daman Project") was launched in Nov-19 for an initial period of 3 years. The project aims to encourage MFIs to provide loans for vulnerable Palestinian individuals, such as women, youth, and small and micro-entrepreneurs residing in East Jerusalem, West Bank and Gaza, and to compensate MFIs in case of borrowers' default due to political measures related to the Israeli occupation through a Credit Guarantee Fund (CGF). The project is implemented by the [Comité pour une Paix Juste au Proche Orient \(CPJPO\)](#) in partnership with the local partner [Daman for SMEs \("Daman"\)](#). It is co-financed by the Ministry of Foreign and European Affairs of Luxembourg (MAEE), CPJPO, and Daman, with a total budget of EUR 1,050,000 for a period of 3 years starting from Nov-19. In 2020, Daman received the official recognition from Palestine Monetary Authority (PMA) as the 3<sup>rd</sup> credit guarantee fund in Palestine. It is also important to note that Daman CGF was the first guarantee fund for microfinance with a focus on risky areas in the country. Three local MFIs are participating in Daman's CGF: [ACAD Finance company \(ACADF\)](#), [Asala for Credit and Development company \(ASALA\)](#) and Reef Finance (Reef). The Daman Project has positively contributed to the continuity of operations of associated MFIs in Gaza and West Bank, allowing vulnerable populations in fragile areas access to finance; as of May-22, a total of 2,019 loans worth USD 5,797,293 have been disbursed under the Daman CGF, while the total number of outstanding loans is 1,716 loans worth USD 3,907,205. Nevertheless, the project faced significant challenges; a delay in implementation starting date (Jan-20 instead of Nov-19), late arrival of funding (Sep-2020 instead of Jan-20), and the suspension of the project (from Jun-21 to Oct-21) as a result of misunderstandings between the partners. After major intermediation efforts, new staff was assigned to the management of the project, and a new Convention between Daman and CPJPO clarifying conflicting points was signed in Nov-21. Since then, the Daman Project has been running without major disagreements between the partners.

## **Evaluation purpose and approach**

The evaluation was conducted in the period between 1<sup>st</sup> June 2022 to 31<sup>st</sup> October 2022 and included a one-week on-site mission to Palestine in June 2022. The Evaluation Team was composed of Mr. Aldo Moauro (Head of Mission), Mr. Thaer Atawna (Inclusive Finance Expert), and Ms. Lucia Zanardi (Quality Control and Project Management).

The objectives of the evaluation were to 1) assess the organizational performance of the local partner DAMAN with a focus on its organizational structure and operational processes, human resources, project management, and financial management, 2) evaluate the Daman project based on OECD Development Assistance Committee (DAC) evaluation criteria (relevance, effectiveness, efficiency, and sustainability), 3) provide clear recommendations for optimizing the organizational performance of Daman and the relevance, effectiveness, efficiency and sustainability of the Daman project, and 4) to advise on a possible continuation of the project and to make recommendations on its concrete objectives.

To this end, the Evaluation Team has developed specific data collection and analysis. Findings are based on the analysis of relevant documents as well as on information collected through one-to-one interviews carried out with relevant stakeholders both offsite and during the onsite mission to Palestine. It is worth noting that a participatory approach was adopted throughout the evaluation; a Steering Committee composed of MAEE, CPJPO, Daman, and MFR was established. The Steering Committee met regularly during the evaluation process; first, at the beginning of the project to ensure the alignment of objectives and expectations between participants, second, before the on-site mission to ensure the evaluation methodology was approved by all members, and finally, after sharing the Draft Report, to gather the feedback of all participants. Furthermore, debriefing sessions with MAEE, CPJPO and Daman were carried out after the field mission.

## **Organizational performance assessment**

### **a. Organizational structure and operational processes**

Daman ownership structure is equally shared among its shareholders SIDI, ASALA and ACADF. All board members are qualified, experienced, and well-seconded by non-board members. However, the governance is improvable as it lacks structure, and no governance manual nor standard reporting packages are in place. Furthermore, some important functions including the performance evaluation of Daman's CEO are still to be included among BoD's responsibilities. The Evaluation Team confirms the existence of a previous conflict of interest that affected one member. This conflict has formally ceased since Jun-2020.

The project has already been in place for 2.5 years, but its operational structure remains insufficient. Hosting as well as operational, and administrative services are outsourced to New Vision, a private consultancy firm participating in the development of Daman before its formal establishment in 2015. The level of exposure to operational risks is high. The Evaluation Team confirms the existence of a conflict of interest that affected the guarantee granting process. This conflict has been recently addressed.

#### **b. Human Resources**

Daman has only one part-time employee (the CEO, 24h/week) and depends on New Vision staff to carry out operations. The institution lacks staff with expertise in portfolio and risk management to safely run its operations. Daman also lacks staff and budget availability to deliver capacity-building training to MFIs. Furthermore, efficiency and productivity of both Daman and New Vision staff remain unmonitored.

#### **c. Project Management**

Daman's management has adequate capacity for project management planning; however, the absence of a formal Business Plan limits management's capacity to effectively plan activities. Moreover, the heavy reliance on external providers impacts the effectiveness and efficiency of the project implementation and limits Daman's ability to extend its services to other MFIs. In terms of monitoring, Daman's capacity to monitor Daman project's data is not adequate. The monitoring of the portfolio is mainly focusing on borrowers' specifics rather than risks. Besides, reporting remains a manual process and the information reported lacks details. With the aim of helping Daman with project implementation, in the Q1 of 2022, the BoD of Daman set up an informal technical committee composed of MFIs' operational managers, Daman's CEO, New Vision's Managing Director, and CPJPO's supervisor. The committee meets on a need-basis to discuss different topics related to the project (e.g., logistics for entrepreneurs training, social performance indicators).

#### **d. Financial Management**

Daman has no formal internal processes for developing a budget and financial projections. Nevertheless, in cooperation with CPJPO, the institution prepares an annual budget for the Daman Project and performs basic annual comparisons between the actual figures and the project budget. Accounting services are provided by NV based on basic accounting procedures in place and financial statements are audited annually by a local external auditor. On another hand, Daman has seven active bank accounts at the Bank of Palestine. Daman earns interest on the three deposit accounts, which are used to cover expenses not included in the budget of the project. In the first

Convention signed between CPJPO and Daman, the use of interest in case of investing the fund in fixed deposits was not foreseen, which led to misunderstandings between the project partners. This situation was addressed in the new Convention by including a statement clarifying the possible use of the earned interest to pay for additional expenses.

Internal controls in place require that all disbursements must be approved by the BoD and money transfers require at least two signatures. Nonetheless, the Evaluation Team observes that the level of accountability and transparency can be enhanced as no second-level control over the transactions registered by NV is conducted and no independent control of the fee charged by NV is performed. Furthermore, the quality of external audits also shows room for improvement.

Finally, regarding anti-money laundering and financing of terrorism, it is worth mentioning that Daman does not have direct exposure to borrowers, but participating MFIs do. The Evaluation team noted that MFIs apply Anti-money laundering and financing terrorism procedures appropriately.

## **Project Evaluation**

### **a. Relevance**

The initial diagnosis adequately identified the need for guarantee funds in Palestine. Guarantee facilities are a powerful instrument to cover the high risks to which MFIs are exposed in certain areas of Palestine given the ongoing conflicts that may prevent financial institutions from continuing their lending activities. However, the preliminary diagnosis did not reflect the actual capacities of CPJPO and Daman. Moreover, the main risk identified in the initial diagnosis was relevant but did not include risks inherent to credit guarantee funds or other regulatory risks that could have affected the implementation of the project.

Overall, the objectives set in the first agreement were realistic except for foreseen lending activities in East Jerusalem, as MFIs face regulatory constraints to lend in this area. The activities carried out and the results observed are overall consistent with the objectives and results outlined in the Convention. The expected results and activities adequately correspond to the needs and priorities of the direct beneficiaries, with some exceptions. It is important to note that the Covid-19 crisis did not alter the overall or specific objective but affected the design of activities to some extent. In terms of monitoring, the current project indicators are relevant but not sufficient for assessing impact among beneficiaries. Finally, with regards to the exit strategy, it is worth noting that the outlined exit strategy did not include critical definitions for the Credit Guarantee Scheme.

### **b. Effectiveness**

Based on the analysis of the objectively verifiable indicators defined in the project proposal, the Evaluation Team observes that the overall objective, the specific objective, and the specific results were partially achieved. Main accomplishments include benefiting populations belonging to the poorest strata of society and disbursing loans in West Bank and Gaza, including 59% destined for women, and 28% for the agricultural sector.

Main reasons explaining the partial achievement are regulation constraints in East Jerusalem, the lack of capacity building activities for Daman and its associated MFIs, and the partial monitoring of indicators due to the lack of an adequate MIS and staff with expertise in microfinance. The quality of the activities is assessed as acceptable; however, it shows room for improvement as a result of the limited internal resources available.

### **c. Efficiency**

The efficiency of the implementation, management, and coordination mechanisms, including loan selection and validation mechanism(s), as well as the monitoring and evaluation system is improvable. The efficiency of the loan selection mechanism decreases as the number of loans covered by the CGF grows. This is due to the fact that processes are not automatized, and all tasks are carried out manually by NV staff. This is also the case for the monitoring and evaluation system, as it is also performed manually. Moreover, despite that there is no planned timeframe outlined in the Conventions to achieve the project objectives, the activities have been overall achieved within the expected timeframe defined in the budget, with some exceptions. Project resources were overall used effectively and efficiently. The COVID-19 pandemic slightly affected the efficiency of the project's activities mainly due to the extra time devoted to coordination between Daman's stakeholders.

### **d. Sustainability**

Daman is highly dependent on the support of its donors and the current exit strategy is not well-defined. As per the project proposal, Daman was expected to be financially autonomous within a timeframe of 3 to 6 six years through additional funding from donors, capacity-building initiatives, and by gaining additional fees on guaranteed portfolios of new MFIs. It is worth noting that the project proposal did not specify clear steps for achieving this autonomy and the project budget did not reflect these priorities.

Despite having actively carry-out fundraising activities, Daman was unable to secure new funding from donors. Moreover, no activities destined for the capacity building of the local partner and its associated MFIs were carried out during the project implementation. No additional MFIs were included in the guarantee scheme either. Nevertheless, it is important to mention that Daman was able to secure two sources of income: 1) quarterly fees charged to MFIs participating in the CGF,

and 2) interest generated on the three deposit accounts. These financial resources are not sufficient to cover CGF’s expenses and the autonomy of the partner is not likely to be achieved in the short term.

## Main conclusions and recommendations

The Evaluation Team recommends the continuation of the Daman project. Credit Guarantee Funds play a crucial role in avoiding the disruption of financial institutions’ operations due to conflicted political environments, and Daman was the first guarantee fund supporting the microfinance sector in Palestine. Despite the limited internal resources, the Daman Project has positively contributed to the continuity of operations of associated MFIs in Gaza and West Bank, allowing vulnerable populations in fragile areas access to finance. The official recognition from the PMA received by Daman to operate as a CGF is also considered a significant achievement that should be harnessed. Nevertheless, the institution is a start-up, with limited resources to operate adequately. This is reflected in the lack of staff with specific experience in portfolio and risk management as well as the lack of formal procedures and manuals. On another hand, due to the absence of a well-defined exit strategy, and the absence of efforts for the capacity-building of Daman, the sustainability of the project is not likely to be achieved in the short term. For this reason and considering that achieving the sustainability of an institution is a gradual process, the Evaluation Team advises applying an institutional building approach instead of a project approach. To this end, the priority of a potential next phase should be the organizational consolidation of Daman, so it can progressively operate with stronger capacities and independently from external stakeholders. A set of recommendations for optimizing the organizational performance of Daman and the relevance, effectiveness, efficiency, and sustainability of the Daman project is presented below.

Finding #	Area	Title	Criticality
1	Governance	Creation of a Governance Manual	High
2	Governance	Design of a Business and Strategic Plan	High
3	Governance	Appointment of an independent Board member	High
4	Governance	Creation of a standardized reporting package for the BoD	Medium
5	Governance	Conducting performance evaluations	Medium
6	Governance	Defining long term ownership structure	Low
7	Operational Structure	Creation of an operational manual	High

8	Operational Structure	Insufficient operational structure	High
9	Operational structure	Implementation of second-level controls	High
10	Operational Structure	Improvement of the guarantee enforcement process	High
11	Problem Solving	Appointment of a senior manager for portfolio and risk management	High
12	Decision Making	Development of a decision-making matrix	Medium
13	Communication	Improvement of Daman's Communications flow	Medium
14	Communication	Improving archiving procedures	Medium
15	Communication	Review of IT maintenance and back-ups	Low
16	Communication	Implementation of a new MIS	High
17	HR	Development of Recruitment and Succession plan	High
18	HR	Hiring staff with expertise in finance/ microfinance	High
19	HR	Conduct capacity-building activities for MFIs	High
20	Project Management	Development of an Operational Plan	High
21	Project Management	Formalization of Daman Project's Technical Committee	Medium
22	Project Management	Improvement of Monitoring and Reporting Resources	High
23	Financial Planning	Improvement of Financial Planning tools	High
24	Financial Planning	Improvement of Accounting Procedures	High
25	Financial Planning	Review dedicated budget for claim verification expenses	High
26	Financial Planning	Change of External Auditor	High
27	Relevance	Revision of the logical framework	High
28	Relevance	Review zones of intervention	High



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29	Relevance	Stop Capacity-building activities for end-borrowers	<b>High</b>
30	Relevance	Improvement of project indicators	<b>High</b>
31	Effectiveness	Monitor Youth population indicator	<b>High</b>
32	Effectiveness	Carry-out capacity-building for direct beneficiaries	<b>High</b>
33	Effectiveness	Improvement of Monitoring and Reporting Resources	<b>High</b>
34	Effectiveness	Work on Portfolio diversification	<b>Medium</b>
35	Effectiveness	Assessment of the quality of trainings	<b>Medium</b>
36	Efficiency	Switch focus from the single borrower to the overall portfolio	<b>High</b>
37	Efficiency	Implementation of a Loan tracking system / Interface with MFIs	<b>High</b>
38	Sustainability	Organizational consolidation of Daman	<b>High</b>
39	Sustainability	Define a clear exit strategy	<b>High</b>
40	Sustainability	Redesign Daman Project Criteria	<b>Medium</b>