بسم الله الرحمن الرحيم

UNITED NATIONS DEVELOPMENT PROGRAMME
Programme of Assistance to the Palestinian People

PROJECT DOCUMENT

Title:	Deprived families Empowerment Program	Donor:	Islamic Development Bank
Project site:	West Bank & Gaza	Duration:	30 months
Executing Agency:	UNDP/Programme of Assistance to the Palestinian People		
Estimated starting Date:	1- June-2006	**Total**	**$ 29,700,000**

On Behalf of the	**Signature**	**Date**	**Name/Title**
Palestinian National Authority		13 May 2006	Dr. Sameer Abu Eisheh Minister of Planning
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Note: This project is subject to modification according to the needs assessment findings and the finalization of deliverables and products during the inception phase.

I. Situation Analysis

I.1.Poverty Profile & the Palestinian Economic Setting

In 2006 the effect of the humanitarian crisis that has persisted since the outbreak of the Al Aqsa Intifada, continues to be reflected in worsening economic and social development indicators in the Palestinian Territory. The deterioration in socio-economic conditions has been accompanied by the lack of any significant progress on the political dimension of the peace process.

Palestinian economic and living conditions are poor, with approximately 43 % of the Palestinian population estimated in December 2005 living below the poverty line of $2.3 dollars a day and about 15% living in absolute poverty.1 The over-riding cause of spiraling poverty is the regime of external and internal closure on the movement of people and trade within Palestinian areas, with Israel and with third part markets which continues at the current time.

Poverty and unemployment have a direct relationship in the structure of the Palestinian economy. In the third quarter of 2005, the level of unemployment was 23%, with youth unemployment particularly dire at 35% (age group 20-24 years olds), the problem being most acute in refugee camps and southern Gaza.2

Poverty tends to be more acute in Gaza, while unemployment is worst in rural areas and in camp and non camp populations in Gaza. The persisting phenomenon of increased numbers of new poor, chronic poverty, deficits in access to basic services, economic collapse and deprivations in human security, could adversely effect the Middle Income Group ranking of the oPt along the HDI. A snapshot of vulnerable groups indicates that factors such as educational level, household size, area and region are significant factors directly linked to the poverty profile3 in the oPt.

With respect to the educational level, poverty incidence decreases with higher educational levels of the household head. Poverty rates according to consumption patterns among households in which the educational level of household head is less than elementary was 35.0%, four times the poverty rate among households in which the educational level of their heads is B.A. or over (8.8%). 4

With respect to household size, poverty is more prevalent among big households in comparison with medium and small households on one hand and among households of many children, on the other. In 2004 the dependency ratio measured by people economically supported by one single job grew from 5.0 to 6.2. 5.

Policy Imperatives of the Palestinian Authority & Donors Assistance

The Medium Term Development Plan of the Palestinian Authority has formulated its medium term objectives to redress the poverty incidence through the following goals.

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[1] The Palestinian Economy and the Prospects for it's Recovery, Economic Monitoring Report to the Ad Hoc Liaison Committee, Number 1, December 2005

[2] Ibid

[3] The most recent poverty profile of the WBGZ, is based on the PCBS Palestinian Expenditure and Consumption Survey 2004.

[4] Ibid

[5] Deep Palestinian Poverty in the midst of Economic Crisis, PCBS & World Bank 2004

- An Acceleration of economic growth in order to enhance the private sector's capacity to create sustainable jobs and thereby reduce unemployment, improve national income levels, and increase per capita income.
- Attainment of higher levels of social protection, equal distribution of income, compensation for the unemployed, and support for marginalized groups, with the goal of reducing poverty and unemployment.

The MTDP does not earmark specific programmes for job creation for poverty alleviation but adopts a combination strategy of mainstreaming job creation to private sector development in all sectors, while recommending a welfare employment measure called "Social Care and Protection Fund". However sizeable challenges to both these strategies remain in 2006, with the prospect of uncertainty of pledged financial assistance by international donor post Palestinian elections. Much of the public resources for these schemes depend on expenditure allocations which will be managed by the PA in 2006 subject to donor pledges actually coming through

In the meantime, the cross-sectoral imperatives linkages of job creation, as well as welfare employment schemes remain. As the MTDP observes job creation not only helps to combat poverty, but also serves as a tool for development. Higher rates of employment of existing human and capital resources raises confidence in the economic environment, and thus increases private sector investment. As such, generation of employment is the vehicle *par excellence* for realization of a successful combination of economic stability and sustainability in the medium term.[6] The need to target unemployment particularly youth unemployment as a prime goal of economic strategy given links to political and social stability is also echoed by the World Bank.

I.1.1 The Palestinian economic setting, employment, private sector and micro businesses

The structure of the economy, employment and labour market trends in the period 2000-2005 have been significantly transformed synchronizing with social and economic crises. Despite a modest recovery in the period 2003-2005 after the series of economic shocks following the Intifada, the Palestinian economy is operating below 1999 levels, with a 30% reduction in GDP per-capita. The World Bank estimates that even if a better than modest recovery were to continue, per capita incomes would rise to Pre-Intifada levels only in 2012.

Economy rankings such as the Doing Business Ranking of the World Bank offer a useful proxy for understanding the economic conditions affecting the population currently in the Palestinian Territories in 2005. Out of a total of 155 countries, the Palestinian Territories was ranked 152 for ease of starting of business and 125 for obtaining credit to run a business. Employment has a similar dynamic, despite modest gains, unemployment levels are high, and disaggregated reaching a high of 29% in Gaza. Employment in Israel, a traditional mainstay of the Palestinian labour market is particularly affected. The number of laborers working in Israel has declined

[6] MTDP Draft, December 2005, Ministry of Planning, Palestinian Authority

by 56% from a daily average of almost 150,000 in mid 2000 to about 66,000 in September 2005.[7]

The public sector however, has grown steadily in an attempt to tackle unemployment, with an increase in the number of civil servants on the PA payroll. The World Bank suggests that apart from the immediate consequences caused by overstaffing upon the PA budget, the continuous expansion of the public sector, has resulted in a fiscal situation which is structurally unsustainable. Without redress, this will reduce private and public resources otherwise available for productive investment.[8]

Historically the private sector has a significant role in the Palestinian Economy. In terms of employment and contribution to GDP, the private sector has demonstrated high capacity to absorb workforce, absorbing 70.3% of the total employed population, while the public sector stands at 26.3%. The Palestinian economy is mainly constituted of Small and Medium Enterprises (SMEs) with more than 90 % of Palestinian enterprises categorized under the household sector. The SME sector has a significant contribution to the Palestinian economy with a value added reaching $US 316 million, which constitutes one seventh of the Palestinian GDP.

Within the financial sector, lending from commercial banks in the Palestinian Territories continues to be low vis –a vis regional averages, credit to the private sector amounts to 28% of GDP, and less than half the level of Jordan.[9] Despite this situation, currently there are around **110,745** micro businesses in the Gaza Strip and the West Bank 40% of which work in trade due to high capital turn over. These businesses employ more than **188,730** people, out of whom **139,660** are breadwinners.

1.2. Overview of the financial system in Palestine

The regulated Palestinian financial system consists of the banking sector, mortgage finance companies, insurance companies, specialized lending institutions and other finance companies, money changers and a privately-operated stock exchange. Outside of the regulated system, there are various types of microfinance institutions (MFIs), including nongovernmental organizations (NGOs), for-profit and nonprofit companies and savings and credit cooperatives.

The Palestinian banking sector consists of 22 banks with 138 branches. The 22 banks consist of 10 Palestinian banks and 12 foreign banks, including 11 Arab banks. Of these, four are Islamic banks. The size of the banking sector has increased significantly since 1993, when there were only two banks operating in the West Bank and Gaza: Bank of Palestine and Cairo-Amman Bank.

Although in the Palestinian Territories there is an extremely high ratio of bank branches to population and the branches offer savings accounts, no bank does any substantial business in small-balance deposit accounts. This is largely due to the typical barriers for the poor to access banks, both for loans and deposit accounts. The banks have an image of the poor as non-bankable or at least not a source of profitable

[7] Economic Monitoring Report, World Bank, December 2005
[8] Ibid
[9] Ibid

business. The banks in the West Bank and Gaza have been conservative in their lending practices, due to the lack of acceptable collateral to these banks access to bank loans is generally difficult for most Palestinians. In principle, banks take three types of collateral: mortgages, pledges of movable assets and guarantees, which the poor usually lack.

Currently there are only a few specialized lending institutions and mortgage finance companies. There are a handful of insurance companies offering life, property and car insurance. Some 300 money changers serving as a channel to transfer remittances from abroad, being also engaged in lending (mostly against post-dated checks).

1.2.1. The Palestinian microfinance sector

Through the Intifada, the vibrant Palestinian microfinance sector has spectacularly demonstrated its potential to contribute to the socio-economic survival if not progress of the Palestinian society, with a growing number of clients (approaching 30,000 by end 2005).

According to a study prepared by IPCRI and Harvard University (August 2005), a well-implemented microfinance framework could enable MFIs to serve as many as 100,000 micro and small enterprises within 4-6 years. To achieve the above some additional $100 million loan capital is needed whereas the available micro and small lending supply equals $30 million outstanding loans.

Most of the microfinance supply is provided by 9 MFIs and one commercial bank with more than 75 offices covering most of the towns and villages of the Palestinian Territories, these MFIs operate under a variety of institutional forms. The lending-only MFIs are the main providers of micro-loans in the West Bank and Gaza, offering a variety of loan products: individual and group loans, housing loans, Islamic loans, agricultural loans and consumer loans. For individual loans, the borrowers are required to give some form of collateral.

Legal Forms of Palestinian MFIs in 2005[10]

Legal Form	United Nations Agency	Int'l NGO	Local Program	Local NGO	Savings and Credit Cooperative	Non-profit Company	For-Profit Company
MFIs11	UNRWA	ANERA CHF	GWLF12	ACAD ASALA13 YMCA	PARC cooperatives14	FATEN	Al Amin15

[10] Meeting the Demand for Micro-Finance in the West Bank and Gaza, Confidental Draft, January 2006, Mohammad Khaled, Kate Lauer and Xavier Reille

[12] GWLF, which operates only in Gaza, was established by ANERA and a Palestinian NGO, the Culture and Free Thought Society. GWLF's activities are funded by ANERA but its loans are kept on the books of the Culture and Free Thought Society.

[13] ASALA was initially established in 1997 as the Center for Women's Economic Projects. In January 2001, it registered as an NGO under its new name.

[14] A very large and well-established Palestinian NGO, PARC, has helped form and oversees twelve savings and credit cooperatives (which, given that they operate under the PARC umbrella, are treated as one for the purpose of counting the number of MFIs).

[15] A group of individuals established Al Amin. It operates only in Gaza.

The sector has shifted over the past several years from making only micro enterprise loans to making a variety of types of loans. (As of the end of September 2005, one third of loans made by Palestinian MFIs were consumption, housing and small loans.) Several MFIs now are engaged in a mixture of traditional micro lending and higher principal balance SME lending. In addition, the clientele of the sector is now less than 50% women, less than the regional average and less than what it was before the Al Aqsa Intifada (approximately 55-60%).

Although the Palestinian poor require financial services in addition to the provision of credit, no Palestinian MFI today offers savings to the public nor does any offer transfer services. (Some offer limited business development services.) This is in part due to legal restrictions.

1.2.2. Challenges facing the microfinance sector

The Micro Finance sector faces four major challenges that need to be addressed to support the evolution of this sector:

1- The challenge of cultural change: From NGO mindset to financial autonomy.
2- The challenge of limited capacities, and the necessity for capacity building of the various actors in the sector.
3- The challenge of governance, institutional and regulatory framework.
4- The challenge of appropriate increase of lending capital.

The governance of the microfinance sector, is of particular importance and can be analysed at three dimensions:

- Governance of each MFI;
- Governance of the MFI community by itself;
- Governance of the MFI community by external partners.

It is evident that the three levels of governance are quite weak when analyzing the governance of most MFIs. In most cases the findings evolve around an inactive Board of Directors, weak leadership capacities among the executive Boards members and weak internal audit reporting.

When looking at the second level, the Palestinian microfinance network needs activation and capacity building to play a wider advocacy role and exchange of best practice.

The four interrelated challenges have to be addressed by a combination of strategies – both technical and institutional solutions with targeted capacity building efforts. This approach avoids the paradox of an exclusive focus on financial sustainability versus social profitability.

1.2.3 Prior Assistance to the microfinance sector

The Palestinian microfinance sector, as well as the banks who have in the past run microfinance programs, have benefited over the past ten years from significant donor funding, which, by some very rough estimates, has exceeded US$50 million for technical assistance and loan funds. USAID, roughly estimated to have provided more than US$30 million, has thus far been the primary donor supporting the development of microfinance in the West Bank and Gaza. UNRWA is the other large provider of micro-finance to Palestinian refuges in the Palestinian Territories and in other sites such as Jordan and Syria.

All the MFIs (aside from Al Amin, which is entirely funded by private individuals) have relied and continue to rely on grants to finance both loan capital and operational costs. None of the MFIs has obtained commercial financing outside of donor-sponsored programs.

With respect to donor funding for microfinance for the period 2004-2006, the Palestinian Territories are estimated to be the third largest recipient in absolute terms in the Middle East North Africa region. An estimated $39 million has thus far been allocated by donors for microfinance development during this three-year period. However, there has never been any explicit effort at donor coordination on microfinance.

II. Project Objectives

II.1. Development Objective

The objective of the project is to improve the living conditions of depressed and deprived Palestinian families and so to contribute to a revitalized Palestinian economy through supporting self-employment and micro-enterprise development as means to reduce unemployed, achieve higher economic growth and reduce poverty.

II.2. Project Immediate Objective

The immediate objective of the project is to expand opportunities for members of deprived Palestinian families to become entrepreneurs through providing them with financial and business development services. This will enable the potential entrepreneurs within these families to start up micro enterprise and ensure sustainable source of income.
Families non eligible to own and manage a self-employment activity in the short run, and particularly those raising youth who may be prepared for entrepreneurship in the medium term run, will be targeted with special innovative assistance, ensuring their short term and long term empowerment.

III. Expected Results

1) Awareness among targeted beneficiaries raised and built, expanding commitment and accountability for transition from humanitarian assistance recipient to producers and providers of income to their households through trade, productive activities, and investment for the poor whereas at least 4000 individuals acquired technical and or vocational training.
2) Expanded capacities of implementing agencies to upgrade and develop their skills, competencies, cost efficiency and effectiveness through targeted and

comprehensive technical assistance addressing the needs of the implementing agencies, whereas at least 9 MFIs and BDSIs received technical Assistance package.

3) Improved knowledge in MFIs, BDSIs of the needs of micro-businesses and developed more responsive programs.
4) 70% of targeted beneficiaries Initiated micro businesses and self employment opportunities, through accessing appropriate packages of financial and non financial services.
5) At least 30% of target beneficiaries witness an improvement in the living standards without engaging in Business activities through access to educational and consumption loans and shelter improvement grants.
6) A conducive environment created for a higher success ration among newly established micro and small businesses through the provision of a wide array of operational and strategic Business development services targeting the newly established businesses.

IV. Project Beneficiaries

Immediate beneficiaries:

The project will target at least 4000 families categorized under the following categories:

1. Chronic poor: as identified by the Palestinian MOSA, the families within this group comprise :
   - a- Households lacking assets and income-earning potential,
   - b- Households reliant on humanitarian assistance.
   - c- Households experiencing a 40% drop in average predicted consumption due to economic decline.
   - d- Households without an able-bodied male breadwinner including female headed households and those with a member chronically ill or disabled, as well as orphans and the elderly. During the first phase of the pilot project more than 1500 families will benefit from financial relief, these households will be given the priority during the first phase of the project.

2. New poor: The new poor include farmers, unemployed daily wage earners. These groups show high levels of food insecurity due to low incomes or lack of access to productive resources and markets.

3. Intermediary organizations - at least 5 BDSIs, 4 MFIs - will benefit immediately from this project implementation as they will be targeted with a technical assistance package and financial support increasing their outreach and impact.

Ultimate beneficiaries:

The ultimate beneficiary of this project is the Palestinian society as whole, graduating a big number of families from Poverty , in the meantime this project will contribute to revitalizing the private sector through Micro enterprise development which is the main contributor to the GDP, while helping to decrease the unemployment in the West Bank and Gaza strip.

V. Project Strategy

The pilot project strategy evolves around the development of a comprehensive package of financial and non-financial services to meet the needs of the target beneficiaries transforming them from being recipients of humanitarian assistance to providers of income for their own families, thus enabling them to sustain their livelihood.

During the inception phase comprehensive assessments of the target beneficiaries needs and the institutional capacities of the main implementing institutions will be completed and accordingly the package of financial and non Financial services will be finalized The project will capitalize where applicable on best practices and experiences of the various stakeholders as well as the stakeholders identified by IsDB as a result of the comprehensive and participatory consultation process.
Initially the following service lines with the respective products will be made available for the beneficiaries:

Service line 1: Financial services: (a diversified portfolio of financial products will be introduced and provided to meet the needs of the target beneficiaries).

A. Micro-loans through a revolving fund, the credit fund will be established to provide resources to selected Micro Finance Institutions (MFIs), based on their potential capacity to a higher outreach, The MFIs in turn will extend financing to urban and rural target beneficiaries for income generating activities. The average loan per family amounts to US$7500 and will address the following costs:

- Start-up costs (initial investments).
- Working capital.

B. Loan Guarantee fund for MFIs to increase the program pool capital for micro-financing and effectively linking small and micro-businesses with other local financial institutions. The average complement loan will be specified upon completion of the market study which will be conducted during the inception phase the appropriate Guarantee Fund.
The previous Guarantee fund schemes in Palestine were only done with commercial banks to encourage them provide credit to smaller businesses, therefore they were done with market interest rates loans. In this program the design of the gurantee fund shall be conceptualize and tailored to the MFIs.
C. Social Security Package Fund will support MFIs to complete the above mentioned array of financial services to better satisfy the target families needs (US$1200 Average loan per family) particularly for access to Micro- credit Insurance, Micro-Pension schemes, deposit services, transfer payments. Although Intifada creates an uncertain framework for micro Insurance the sector should gradually provide simple products for example micro insurance for the reimbursement of the loans and micro insurance on risks independently from loan (pension fund, health…etc). A feasibility study will be conducted during the inception phase to verify the feasibility of the social security Package fund and the appropriate products to the Palestinian market, The MFI will also receive a grant to support the design, testing, and taking to scale of a new micro-insurance product.

D. Consumption and Educational Fund an average of $1000 education/consumption loans will be made available among the other financial products, these products are made available to families for education and consumption purposes to better meet their needs.

Service line 2: Non Financial Services and business development services

The project will be promoting an entrepreneurial culture where potential entrepreneurs become aware of the responsibilities, risks and possibilities of a self-owned business;

It is essential to point out the challenging transformation process required to target poor and deprived families who have been for a long period subject for humanitarian assistance. The creation of potential entrepreneurs within these families, able to run a successful self-employment scheme requires a carefully planned and comprehensive targeted business development services.
During the Inception phase: The packages will be developed according to International best practices as per the following phases:

- Establishing the target beneficiaries' profiles including both business backgrounds and socio economic characteristics.
- Determining the likelihood of training homogeneous and heterogeneous among the target beneficiaries.
- Tailoring the design of the core training and TA package in function of the characteristics of the target Market.

Under this component operational and Strategic Business Development Services will be provided, including training, consultancy, mentoring and advisory services providing marketing assistance, information, technology development and business linkage promotion.

- Vocational Training – stepping on the approach, experience and lessons learned by the TVET in Palestine; delivering training programmes to meet the needs of the labor market.
- Business skills – stepping on the international best practices for example (ILO Create Your Business Idea, SYB and IYB specialized training packages, UNDP/UNCDF Micro Start or CEFE - Competency of Economy through the Formulation of Enterprises (GTZ).
- Delivery of locally-based match making between the labour force and the labour market through maintaining a data base with profiles of jobs seekers and employers; enabling BDSIs to act as a broker between the unemployed and the employers
- Delivery of a wide range of information services
- Consulting services provided by international and local consultants, including business plan development, business to business links, legal and accounting consultations. While providing the platform for exchange of experience and guidance in legal or any entrepreneurial related issues.
- Mentoring; the business mentors are probably a very important contributor to the success of micro business initiatives. BDSIs shall match qualified business mentors with new entrepreneurs to allow knowledge sharing and ensure a

higher business success rate. Usually training is provided to both entrepreneur and mentor to establish the relationship. Stepping on international experiences for example the Prince's Youth Business Trust in the UK. Preparation of learning resources and manuals from developing a business plan to accessing finance.

Service Line 3: Grants for start-ups

There are two main factors discouraging potential entrepreneurs in Palestine from starting up businesses; the political uncertainty and the absence of the support mechanisms and services supporting the success of the new businesses. The lack of adequate motivation and well built skill sets for self-employment and micro business development is paired with lack of financial resources for starting independent micro firms. The international best practices in the area of financial support to the start-ups show that the highest success rates of survivals among the start-ups are achieved when the micro-loans are complemented with start-up grants. This reduces the financial burden over the entrepreneur and lowers the risk of going into default and bankruptcy.
The grants for start-ups will enable people with viable and promising business ideas to have a high rate of successful start of an independent businesses through self-employment, establishment of family businesses or small firms.

The grants will cover costs for:

- Refurbishment or adjustment of privately owned premises/buildings to be converted into business premises (for shops, for service delivery, for manufacturing, to be rented, etc.)

- Purchase of machinery and equipment as well as software and other intangible assets.

The applicant must provide financial contribution of at least 20 per cent of the requested grant financing. The financial contribution of the beneficiary can be from his/her own savings or from the micro-loan funds.

Service Line 4: Special Business Initiatives Fund

Special Business Initiatives Fund will serve as an additional resource available to the communities where the project will be implemented. The purpose of the Special Business Initiatives Fund is to support initiatives that will create as much as possible value added to the micro entrepreneurs' and agricultural producers' products thus enhancing the income generation potential for the local communities.

The Fund can be accessed by groups of agricultural producers, micro-businesses or self-employed. The target groups can submit proposals targeting the development of niche markets and value added services (such as purchase of packaging machine, other processing machineries, agricultural tools such as tractors, sorting machinery, etc.) to be utilized and accessed mutually by the applying group members.

The Special Business Initiatives Fund will serve as the first step towards establishing production and marketing cooperatives.

Service line 5: Capacity building of BDSIs and MFIs

The Project will target the organizational and institutional capacities of all intermediaries in this project to ensure effectiveness and efficiency of implementation. Tapping on international best practices and expertise in the fields of micro-Enterprise and self-employment financing services, taking into consideration that the upgrading of MFIs will be subject to planet rating findings.

The experts will be assigned to execute the following assignments targeted towards MFIs and BDSIs:-

- Organizational capacity: through training of staff, technical assistance and study visits.
- Improvement of the physical capacity necessary for the implementation of the programme, including the provision of equipments.
- Expanding the human resources capacity: supporting the BDSIs and MFIs when necessary through covering the cost of a project coordinator in the institution.
- Development of Product- Packages adapted to Target Beneficiaries Needs.
- Upgrading the planning, monitoring and reporting capacities of the MFIs and BDSIs through training of their staff.
- Conducting series of workshops tackling the introduction of new products, and as necessary for the implementation of the project and identified packages.

VI. Implementation phases

1- Inception Phase / Duration: Six Months.

This phase starts at the signing of the project agreement, during this phase a leading implementation approach and mechanism will be established creating a firm baseline for the project, allowing rational resource utilization and generation of measurable results and outputs.

Scope of activities:

- PMO established and operational in close collaboration with the MOSA and MOL.
- Needs assessment survey targeting the potential beneficiaries completed.
- Management information system and a data base for the targeted beneficiaries' profiles designed and updated.
- Capacity assessment of the implementing partners "MFIs and BDSIs" conducted taking into consideration the findings of Planet Rating mission and intended products to be delivered.
- Overall review and assessment of the existing legislation in the area of crediting, depositing, financial leasing, non-governmental organizations, etc.

- The intervention model developed detailing intended products and services to be delivered, including the finalization of the Project overall plan.
- Manual for provision of financial services developed, including operational procedures for management and monitoring of the MFIs , and loan terms (financial parameters, repayment period, interest rate, grace period)
- Manuals for provision of non-financial services developed including operational procedures for the grant scheme;

See Annex for detailed inception phase plan.

2 - Full Scale Implementation Phase/Duration: 18 months

The objective of this process is to ensure that planned outputs and products are actually being produced by implementing partners (MFIs, BDSIs). Whereas, the implementing partners are required to report progress to the PMO, according to the unified reporting requirements and format which will be requested from counterparts.

Scope of activities:

- Official launch of the project, comprehensive information awareness campaign and media campaign.
- Implementation roll out phase: during this phase selected MFIs and BDSIs will start implementation under the supervision of the PMO, and the grants scheme will be directly executed by the PMO, this phase will be the actual workshop of the project where all the outputs and products are produced.
- Develop a full scale roll out plan for institutionalizing the project based on international best practices in this field
- Finalize and agree upon the modus operandi of the institutional structures/funds to be rolled out of the project and the ToRs on the basis of broad consensus among key stakeholders: PA and the relevant line ministries, UNDP, IDB, other relevant multi-stakeholders.

3 - Institutional and Capacity Building Phase/Duration: 6 months

This project phase aims at ensuring continuation of the impact on a local and national level by ensuring the long-term sustainability of interventions. Whereas experience and know-how will be smoothly transferred from the project to institutional structures/funds (e. g. for entrepreneurship and employment promotion and/or for social security services) that will be identified, established and strengthened during this phase. The strategic, technical and financial support provided by the project to the institutions/funds will gradually build up their capacity for applying diversified range of support mechanisms, and will demonstrate trustworthy and reliable institutional and organizational capacities thus ensuring necessary background for future independent operation. The project institutional structures/funds will further facilitate the exchange of best practices on a larger scale, while preserving the accumulated pool of practical experience and human capital within the project.

Scope of activities:

- Establish the national institutional structures/funds, according to the agreed upon modus operandi in the previous phase.
- Support the development of a long-term strategy for the created structure including the managerial and operational frameworks of the structure.
- Provide technical assistance and training to the established structures.

VII. Oversight, management and partnership arrangements

The Deprived Families Empowerment program shall be implemented utilizing a highly flexible mechanism that doesn't contradict with the high level of control required, mobilizing highly ranked experiences in the field of micro-enterprise and self-employment business development and financing services.

The structure is designed around an oversight mechanism comprised of a Executive Board and a Advisory Committee and a management structure provided by the executing agency.

Oversight mechanism:

The Executive Board will be constituted by the leading stakeholders in the programme: the Palestinian Authority (PA) represented by the **Ministry of Social Affairs the chair of the Executive Board, Ministry of Labor, Ministry of Planning, Al-Aqsa Fund of the Islamic Development Bank and UNDP**. The Board will convene every quarter based on a pre-determined calendar. The Executive Board will be the final decision maker, its' main responsibilities will consist of providing strategic directions for project implementation and the development of the pilot initiative into a full-scale programme, selection of the PMO staff as per liaising and communicating with the donor community and international and local partners, monitoring overall performance and ensuring the results of the project and mobilizing results for the full scale implementation of the programme.

Strongly engaged stakeholders will be eligible to nominate a member to the Advisory Committee which provides advice and critical feedback on a wide range of issues, including governance, management, programme development, overcoming bottlenecks and sector specific regulations and systems.

The Executive Board shall take into consideration the expectations and observations raised by the Advisory Committee.

Management structure:

As per the request from IDB, the UNDP will be responsible for the overall management of the project, achievement of the project objectives, results and outputs, day–to-day management and financial management according to UNDP rules, regulations, and procedures.

Project assurance will be a joint responsibility of the **Ministry of Labour, Ministry of Social Affairs** and UNDP, and therefore will be responsible for reporting on the implementation of the project to the Executive Board which comprises the highest authority of the programme.

A Programme Management Office (PMO) will be established to carry out the day-to-day operational management of the project. The PMO will be established for the entire duration of the project implementation until the establishment of an appropriate institutional structure for implementation of the full scale intervention. The PMO will be responsible for all projects management activities in and supervise the work of and coordination with implementing agencies (BDSIs and MFIs) and for an ongoing monitoring of performance. As required, experts (NGOs, local stakeholders, and regional/international organizations) will be engaged to support the PMO and the implementing partners in the execution of project tasks.

The PMO will comprise of the following staff members who will be selected jointly by the PA and UNDP and approved by the Executive Board; a Director, a Chief Technical Advisor, a monitoring and evaluation officer, a MIS Specialist, 2 microfinance Coordinators (one for West Bank and one for Gaza), two business development Coordinators, grant Scheme /SBIF Coordinator, one Financial Officer, 2 Administration Assistants (one for the West Bank and one for Gaza), Two drivers (one for WB, one for Gaza) .

In addition, the PMO will engage a technical assistance team, providing short terms consultants and experts to work mainly on formation of policy guidelines, programme operations manuals, and to provide technical assistance in the field of MF and BDS. The technical assistance will comprise of services geared towards developing appropriate and ready-to-implement support mechanisms.

The technical assistance experts will also contribute to:

- Proposing the managerial framework and implementation mechanisms needed to implement efficiently and effectively the components of the programme.
- Identifying the best mechanisms to organize and implement the proposed support programme.
- Provide top quality services and technical assistance to the various components (Micro finance, BDS and SBIF).
- Capacity building of the partner and implementing institutions and technical teams involved in the implementation.
- Preparation of necessary surveys, research and impact assessments.

Partnerships:

The Islamic Development Bank conducted a comprehensive consultation process with key stakeholders in the field of microfinance and business development services and the Palestinian Ministry of Labor and Social Affairs[16], whereas the Bank tackled on successful experiences and identified the potential of cooperation with the following agencies for specific areas of intervention in this project:

[16] At the time the two ministries were combined in one Ministry.

- SYB/IYB--ILO(Start & Improve Your Business Program--International Labor Organization
- KOSGEB(Turkish SMEs Development Organization)
- UN Habitat ; Housing program

The Bank has also identified preliminary qualified implementing partners "Micro-Finance Institutions (MFIs) and Business Support Service Institutions (BDSIs)" for cooperation with the program and implementation of the relevant components, these are presented hereunder:-

(a) Preliminary Qualified MFIs

(i) The Palestinian Institution for Credit and Development (FATEN).
(ii) Saving and Lending Cooperative for Development Program in Gaza strip (SLCDP/Gaza) which is related to the Palestinian Agricultural Relief Committee (PARC).
(iii) The Palestinian Businesswomen Association (ASALA).
(iv) Arab Center for Agricultural Development (ACAD).

(b) Preliminary Qualified BDSIs:

(i) Small Enterprise Center (SEC)
(ii) Islamic Relief. -Gaza.(IR)
(iii) Development Work Center (DWC/Ma'an).
(iv) Continuing Education Center (Beir Zeit University)
(v) Center for Research and Development (RamAllah and Nablus -Bisan)
(vi) Islamic University
(vii) Society of Ina'sh El Usra

It is planned that the final selection of the implementing partners will be done through a capacity assessment process which takes into consideration the results of the rating conducted by Planet Rating for the Palestinian MFIs.

The project will be executed in close coordination with the Palestinian MOL/SA, thus avoiding duplication of assistance to the target families who are direct beneficiaries of the MOSA assistance programs, while ensuring their graduation from the humanitarian assistance schemes.

VIII. MONITORING AND EVALUATION

Monitoring:

The project will be monitored and evaluated according to valid UNDP procedures for monitoring and evaluation.

External Monitoring System

An external monitoring system will provide reliable and timely assessments of activities implemented by MFIs and BDSIs according to their submitted business plans and achieved results, through collection and analysis of information.

The external Monitoring system will assure whether the planned activities have taken place producing the expected outputs and deliverables within the time frame and allocated budget.

Monitoring Tools

A variety of monitoring tools will be available for use to collect and analyze information about BDSIs and MFIs activities and the quality of their performance in order to enhance the effectiveness of the project. The monitoring tools include:

- Quarterly and Annual BDSIs and MFIs Work plans – serve the purpose of a monthly and yearly timeframe for BDSIs and MFIs activities these plans will serve the purpose of monitoring progress against planned deliverables within the agreed upon time frame and budget.
- Quarterly BDSIs and MFIs progress reports – used to monitor the progress of BDSIs and MFIs activities and the degree of achievement of the planned targets during each calendar quarter. The reports reflect both the BDSIs and MFIs results for the quarter and the cumulative achievements since the beginning of the year. They also analyze the lessons learned, challenges and opportunities facing the BDSIs and MFIs during the quarter, and proposes the ways to address them.
- **Monitoring visits** - the main purpose of on-site monitoring visits is to collect information about the quality of implementation of activities and the direct results of MFIs and BDSIs operations. The main sources of information during the on-site visits are review of documentation and interviews with the MFIs and BDSIs teams, beneficiaries and local stakeholders.

Internal Monitoring System

An internal monitoring system will provide reliable and timely assessment of activities implemented towards achieving the planned results; documenting results; and improving the quality of MFIs and BDSIs operations.

A MFI or BDSI internal monitoring system of activities and results for regular review and analysis of information concerning *progress in achieving objectives*, realization of *financial forecasts*, and ensuring high quality of the *planned results*.

The project's uniform system for internal planning and reporting of activities for the MFIs and BDSIs, which includes the following tools:

- Business Plan (annual by quarters)
- Work plan (annual by quarters)
- Narrative report (quarterly)
- Financial reporting

Evaluation:

The project will be subject to ongoing evaluation and review to ensure validation of the various phases of implementation the Project Executive Board, the foreseen evaluation will be as follows:

Month 6: Validation of the overall implementation plan for the full scale roll out phase done by a group of external experts and agreed upon by the Project Executive Board

Month 12: Interim review conducted by external consultants and recommendations agreed upon with the Project Executive Board

Month 18: Interim review conducted by external consultants and recommendations agreed upon with the Project Executive Board

Month 24: Validation of the roll out plan for institutionalizing the project by a group of external experts on the basis of international best practices and agreed upon by the Project Advisory Board

Month 30: Validation of the institutional structure/funds, according to the agreed upon modus operandi.

IX. BUDGET

Project components	Budget allocation in USD
Service line 1: Financial products 1. Micro business financing fund 2. Loan guarantee fund 3. Social security package fund 4. Consumption and educational fund	16,000,000
Service line 2: Non-financial products: 1. Business development services package 2. Grants for start-ups scheme 3. Special business initiatives fund	7,000,000
Service line 3: Capacity building: 1. Surveys and assessments 2. Training 3. Technical assistance 4. Equipment 5. Study tours	2,00,000
Project management and oversight 1. Project management office 2. TA as per project components 3. Supervision (audits, management reviews, etc.)	1,700,000
Monitoring and evaluation 1. MIS 2. Field visits 3. Validation checks 4. Interim reviews	300,000
Contingencies (10%)	2,700,000
TOTAL	**29,700,000**

Annex 1:

PMO Staff:

Program Director: Reports to the project executive board, responsible for strategic positioning, project direction and liaison with all program partners, is also responsible for the day to day driving of the program, the integration and coordination of all cross-track efforts, issue tracking and Directions to the remaining Team.

Administrative and Financial Officer: Reports directly to the Program Manager and is responsible for all administrative and financial aspects of the program as well as central PMO communication with stakeholder organizations.

Micro Finance Coordinator: Reports to the program manager and is responsible for driving all activities associated with the microfinance component. This component accounts for the lion's share of all work associated with the project and as such is a key position in moving forward for a second phase of the project, the MF Coordinator will be directly responsible of monitoring the performance of the MFIs and translating their capacity building needs into TA to be provided through the PMO.

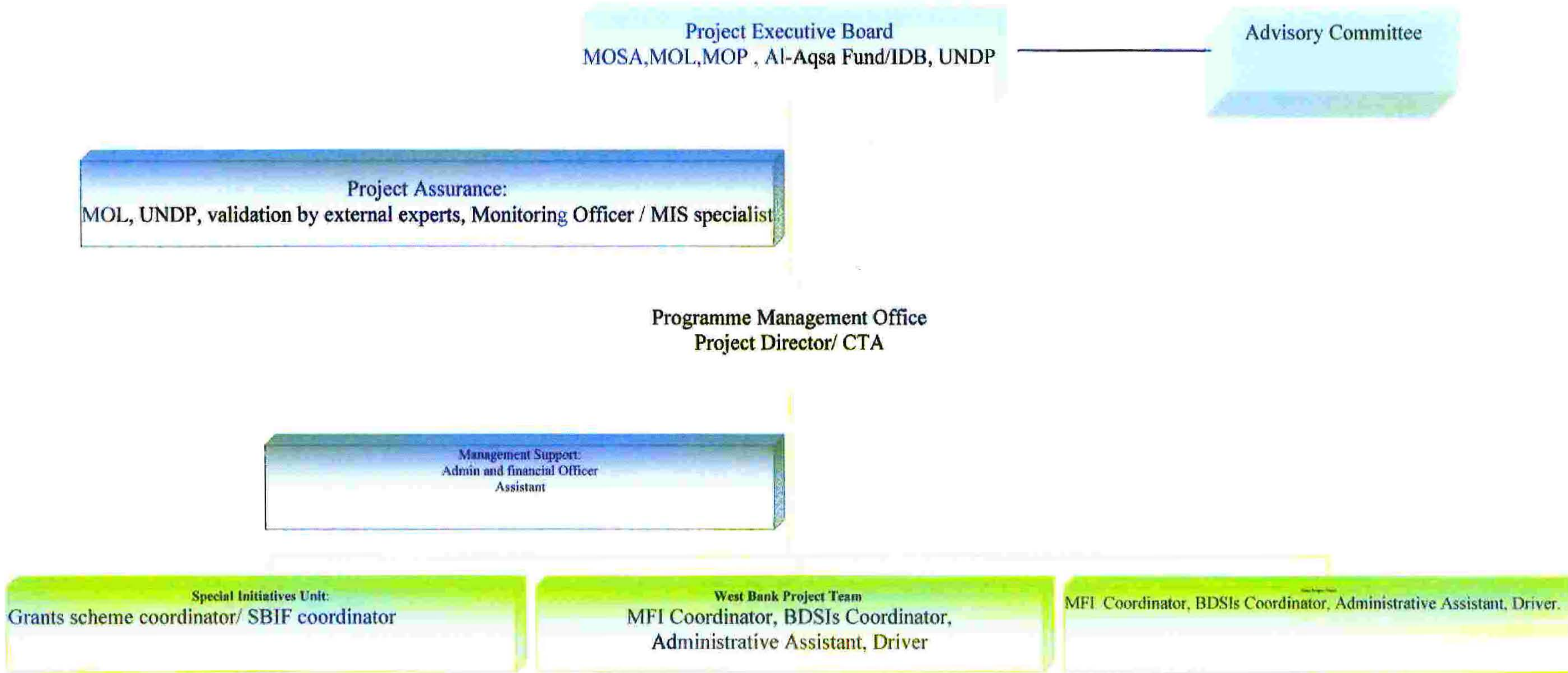
Business Development Coordinator: Reports to the program manager and is responsible for driving all activities associated with the business development services component, monitoring output delivery and performance of the BDSIs, while leading the capacity building component for the BDSIs.

Grant scheme/SBIF Coordinator: Reports to the project manager and is directly responsible for the Grant schemes, SBIF and all activities within that scope, monitoring output delivery and quality.

Monitoring and Evaluation Officer: reports to the UNDP Programme Management Officer, and is responsible for taking on the M&E responsibilities of the project, the position will involve close interaction with the other component coordinators regarding the development and implementation of components in their areas.

MIS Specialist : Reports to the monitoring officer and responsible for developing a data Base for beneficiaries profiles and a management information system for the project, that enables monitoring of project delivery and impact on target beneficiaries.

ANNEX 2 ORGANIZATION



Annex 3:

INCEPTION PHASE WORK PLAN

ACTIVITIES	MONTHS					
	1	2	3	4	5	6
The PMO established and operational • Project staff recruited • Project central and regional offices equipped • Project staff trained	X	X				
Needs assessment of project beneficiaries conducted • Hire external sociological company • Conduct survey through interviews and focus groups • Analyze the results and provide recommendations			X	X		
Capacity assessment of the MFIs and BDSIs conducted • Hire external sociological company • Conduct survey through interviews and focus groups • Analyze the results pf Planet rating and survey and provide recommendations. • Final selection of MFIs.			X	X		
Manuals for provision of financial services developed • Develop manuals based on the recommendations of the needs assessment					X	
Manuals for provision of non-financial services developed • Develop manuals based on the recommendations of the needs assessment					X	
Capacity building programme developed • Develop programme based on the recommendations of the capacity assessment					X	

Overall review and assessment of the relevant existing legislation • Hire a team of legal experts • Conduct review and overall assessment of the relevant legislation • Provide recommendations for legislation changes, if necessary			X	X		
Management Information System designed and established • MIS designed based on the developed manuals • Software company hired to develop the MIS • MIS installed and initial training on MIS conducted						X
Monitoring and Evaluation • Conduct quarterly meetings of the Project Executive Board to monitor the progress of the project against the approved quarterly work plans • Conduct meeting of the Project Executive Board to approve the overall implementation plan for the Phase 2 of the project			X			X