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**Concept note about DAMAN for SME’s**

**Contact information**

**Judeh Jamal / CEO**

**E-mail: jdjamal61@gmail.com**

**JAWWAL: 00970598665111**

**00972525000017**

**Tel. 022964856**

**Fax. 022964857**

**Al-Irsal Street, Faramand Building**

**2nd Floor**

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**Glossary**

**ACAD**: Arab Centre for Agricultural Development

**ASALA**: Palestinian Business women’s Association

**DfS:** DAMAN for SME’s

**MFI:** Micro Finance Institutions

**OCHA**: Office for the Coordination of Humanitarian Affairs (United Nations)

**OPT:** Occupied Palestinian Territory

**PMA**: Palestinian Monetary Authority

**SIDI**: International Solidarity for Development and Investment

**EPCGF**: European Palestinian Credit Guarantee Fund

**REEF** Finance: REEF for microfinance

**SHARAKA**: Micro finance institution network

**MEI**: Middle East Initiative

**PMA**: Palestinian Monitoring Authority

**COVID19**: Corona Virus era

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# Introduction: a context that create specific need for vulnerable population

The total population in Occupied Palestinian Territories (OPT) is estimated around 4. 8 million people: 2, 9 million in the West Bank and 1, 9 million in the Gaza Strip. Amongst this total, 47% of the population (approximately 2 million people) are less than 17 years old, which means that the Palestinian society is a "youth society".

The number of households in Palestine is estimated at 919,000 when the average family size is about 5.1 persons. Amongst this figure, Women head 10.6% of Palestinian households.

The Israeli occupation of the Palestinian territories since 1967 has had irrevocable consequences on the livelihood of the Palestinian people; most particularly on the socio-economic front. This is apparent in basic access to food, property, and freedom of movement.

According to the United Nations Office for the Coordination of Humanitarian Affairs[[1]](#footnote-1):,1.8 millions of Palestinians received humanitarian emergency aid, approximately 1.6 million Palestinians in the Occupied Palestinian Territory (OPT) and 31.5 % of households, suffer from food insecurity. This, due to high unemployment, low household incomes and rising living costs.

Beginning of the year 2020 the whole world was hit by COVID19 and still the catastrophic effects of this critical era health wise, social and economic effects still under calculation.

This era was more severe when it comes to a small country like Palestine with the longest occupation now a days and very weak economy.

With regards to the subsequent high unemployment rate, many Palestinians have turned to self-employment activities, thus boosting demand for microfinance services mainly in rural areas and area C in specific.

With only a quarter of the potential microfinance market covered and almost 50% of Palestinians in the West Bank and Gaza living below the poverty line, the demand for microfinance services remains strong.

According to estimates, between 150,000 and 190,000 households need NON BANKABLE microcredit due to absence of land registration and co-laterals and they are mostly socially marginalized ,no accesses to finance as women, youth and farmers.

Additional 96,000 households need SME credit and a further 200,000 need small-balance savings accounts and money transfer services.

There are currently only NINE providers of microfinance services for the MFI sector supervised and organized by the Palestinian Monitoring Authority (PMA).

According to the PMA, the MFIs have substantial potential growth in Palestine, despite its refinancing and operational cost and risks of the sector.

SHARAKAH “The Palestinian Micro finance Institutions Network” played a major role in the areas of technical assistance and lobbying and advocacy to facilitate the work of micro finance in Palestine.

In the West Bank, PMA was able to organize the MFIs sector and have improved its sustainability which has led to increase its portfolio up to 213 million US$ with about 90,000 borrowers with no interference in the lending activities of MFIs.

In contrast, MFIs operated in a very difficult environment in the Gaza Strip. Since the war and the political decisions toward the salary cut in Gaza have affected the performance of these MFIs, which now needs a third party to share the Risks: this is the rationale of DAMAN for SME’s?

During the year 2020 the PMA issued a declaration dated May 4th 2020 “Instructions 21 year 2020” in which the Credit Guarantee fund in Palestine is officially recognized by the PMA and the letter of credit will help the MFI’s not include all defaulted loans included on the letter of credit given by:

1. **EPCGF “European Palestinian Credit Guarantee Fund “**
2. **MEI “Middle East Initiative “**
3. **DAMAN for SME’s**

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# 1. Presentation of DAMMAN for SME’s

## **Status and partnerships**

**DAMAN for SME’s (DfS)** is a non-profit company for the Credit Guarantee Scheme registered in Ramallah in the Palestinian Territories under the Palestinian law on April 8th, 2015 under (562540039) aiming at enhancing entrepreneurship in the adverse context of occupation.

**In addition, DfS’s** is a partnership between the Arab Centre for Agricultural Development (ACAD), the Palestinian Business women’s Association (ASALA) International Solidarity for Development and Investment (SIDI) – France , (REEF) micro finance and New Vision Private Consultancy company which acts as the management wing for DAMAN for SME’s.

DAMAN for SME’s acts as a financial compensation instrument for vulnerable persons and groups such as women, youth, farmers, and cooperatives small and micro entrepreneurs directly affected by policies and practices imposed and implemented by the illegal Israeli occupation.

## **Vision and mission**

**DAMAN for SME’s** believes in the socio- economic empowerment of Palestinians as a development instrument. Focusing on certain community segments which encounter high unemployment and poverty rates, such as women, new graduates, small farmers, cooperatives, people with special needs and other vulnerable person(s), is necessary to provide business perspectives to potential entrepreneurs and thus economic and social development of vulnerable communities in Palestine.

In order to encourage investment in these areas, DfS provides with greater guarantees to individuals, which serve to protect them from the political related-risks and support them in providing themselves and their families with a sustainable source of income to meet their basic needs. In addition, DfS acts as contextual guarantee scheme for the social lenders such as ASALA for Credit and Development, ACAD Finance and REEF Finance.

## **Objectives and expected results**

DfS’s global objective is to contribute to sustainable access to the financial services provided by the MFIs that directed towards vulnerable, Non Bankable micro and small entrepreneurs in high political risk areas. In addition, DfS’s encompasses occurrences of damages endured by borrowers because of the Israeli occupation of the Palestinian territories, expands its outreach in the West Bank, Gaza Strip and includes coverage of entrepreneurs residing in East Jerusalem. Aiming a continuous operation of the MFIs in the Gaza Strip, East Jerusalem and Rural areas including area C and strengthen poverty alleviation and reduction of violence in the region through Loan Guarantee Mechanism.

In that perspective, DfS is pursuing the following specific objectives:

* Enabling the MFIs to sustain their financial services to the small and micro entrepreneurs who are vulnerable to the external political shocks caused by the illegal Israeli occupation policies and measures;
* Assisting the clients of ACAD F , REEF Finance and ASALA in the Occupied Palestinian Territories;
* Encouraging investment in areas affected highly by the occupation (small and micro income generating projects);
* Improving living conditions of the poor families;
* Creating jobs, through self-employment especially in rural and remote areas ;( **x-workers in Israel and mainly settlements after COVID19 era.**
* Guaranteeing some of the specific risks that vulnerable clients face.

Out of these objectives, the expected results are:

* Result 1: Access of the vulnerable people to financial resources is sustained through generating funds and mobilizing resources;
* Result 2: MFIs members of DfS are enabled to provide financial services to vulnerable entrepreneurs who exposed to the Israeli illegal occupation policies and measures;
* Result 3: A supportive national policies and structures that respond to the external political shocks is formalized through the support of DfS.

## **Direct & indirect beneficiaries**

Considering this vision and mission, beneficiaries of DfS are:

* Micro entrepreneurs, women & Youth (including farmers & cooperatives);
* Producers in all fields of productions as individual borrowers in all areas of Gaza Strip, East Jerusalem and West Bank;
* Micro-enterprises, small businesses, crafts, trades, services which have potential of generating enough profit for the end-user as not to limit his/ her ability to repay the loan;

Vulnerable persons and groups directly affected by policies imposed by the illegal Israeli occupation.

# 2. Challenges and perspectives

As unique Guarantee scheme fund for non-banking social enterprises, DAMAN for SME’s has to face different challenges. The first one is to formalize the specific conditions for eligibility to DfS insurance.

## **2.1 Definition of claim eligibility criteria**

DAMAN for SME’s will encourage ACADF, REEF Finance and ASALA by providing insurance to highly vulnerable borrowers as a form of re-financing. This coverage leads to pay the loan outstanding balance to ACADF, REEF Finance and ASALA on behalf of the borrower without compensating the interest or fees on loans. In that perspective, the following specific conditions[[2]](#footnote-2) has been highlighted for eligibility:

* Borrowers who are impacted due to restrictions on trade to the local market or exports to Israel or abroad;
* Borrower and /or first degree relative which contribute to the family income or working in the financed project killed by Israeli army causing a direct impact on borrower’s repayment capacity;
* Project initiated by the entrepreneur destroyed totally or partially by Israeli occupation;
* Entrepreneurs jailed for political reasons (6) months or more;
* Long term curfew (occurring after loan extension) affecting production process for period longer than (1) month or affected the sale of the product(s);
* Confiscation of land related to the project.

The diversity and the increasing number of potential borrowers as well as the fragile economic and social context lead to a global capacity building process.

## **2.2 Build capacities for DfS and partners to achieve operational excellence**

This global enhancement process can be highlighted in three complementary phases:

**First phase: Urgent phase (2018 -2019):**

In order to communicate about DfS current challenges, several studies has been done such as:

* Study for the emergency situation concerning Micro Finance in Gaza strip (annexe 1);
* Study about the strategic plan for DAMAN for SME’s (Annexe 2);

**Second phase: Medium phase (2019-2020):**

In a medium term perspective, DAMAN for SME’s will work in the following:

* Internal re-structuring and capacity building of DAMAN for SME’s to ensure solid management structure and active governance body (DAMAN for SME’s sustainability);
* Capacity building for ASALA ,REEF Finance and ACADF, encourage development of joint portfolios with Private banks and International developmental and financial agencies such as for instance AFD;EBI,EBRD.
* Generate funds for capacity building for ASALA, ACADF, REEF Finance and other potential MFI’s staff (credit officers) encouraging new target groups to become well prepared to get credit from ASALA , ACADF , REEF Finance and other potential MFI’s in close cooperation with SHARAKAH, .
* Generate funds to do studies about MFI’s, MSME and social entrepreneurs;
* Support lobbying and advocacy for the SME’s, MFI’s in Palestine concerning policy issues as Taxes and laws and PA and PMA regulations.

**Third phase: long term (2019- 2023):**

During the next four year, DAMAN for SME’s aim to achieve the following activities:

* PROPARCO (ARIZ) / AFD financial Risk Sharing Guarantee scheme;
* French Platform for Palestine technical assistance AFD fund;
* EIP / EFSD / EU technical assistant (KFW, AFD as the EPCGF);
* Luxembourg MoFA and EIB in partnership with DAMAN for SME’s to establish a social, technical and endowment guarantee fund for MFI’s and SME’s in Palestine;
* Luxembourg NGO’s consortium / MoFA technical assistant Fund.(CPJPO , ADA,SOS F)

For the time being, DAMAN for SME’s is raising $6.8 Million USD to support ASALA, ACADF, REEF and other potential MFI cover a portion of claimed amounts. Achieving its current capacity building process, DfS’s target to become the unique highly reliable guarantee scheme fund for non-banking social small enterprise in OPT.

Last but not least and in parallel of the operational change management process, DfS has formalized a unique funding strategy that can be adapted to different potential partners.

## **2.3 Presentation of the DAMAN for SME’s funding strategy**

Different financial supports or actions can contribute to sustain DAMAN for SME’S:

* Guarantee scheme funds (endowments)& Grants from the EU and its member states including through their development agencies (i.e. PROPARCO /AFD, KFW, MAEE LUX, EIB, Italian cooperation, Arab funds OPEC fund (MEII), and CSR);
* Grants from NGO’s and Solidarity movements which aim to support marginalized people (Women, Youth, Farmers and Cooperatives);
* Counter-guarantees from international and national financial institutions,
* An endorsement Letter of Credibility will be given by the Palestinian Authority PMA and Ministry of Finance;
* Providing technical assistance for DAMAN for SME’s members and MFI’s Network;
* Lobbying and Advocacy in the interest of MFI’s in Palestine (i.e. reduction of taxes, legislations of support);
* Local MFIs will pay 1.5% of their portfolio for the services provided by Daman for SME’s.

**The Ministry of Foreign Affairs Luxembourg in partnership with CPJPO (Paix Juste NGO) based in Luxembourg with NGO ACTES from France financed DAMAN for SME’s with 3 year project (80%-20%) with a total budget 1,050,000 Euros started January 2020 –December 2022.**

**SIDI is presently contributing (100,000€, one hundred thousand Euros) as seed money as guarantee collaterals to make DAMAN for SME’s a reality and Foundation ACTES, created by SIDI, supports DAMAN for SME’s with 14.000 € internal capacity building.**

**In order to facilitate the increase of capital, DAMAN will develop a promotion strategy.**

1. OCHA Humanitarian needs overview – Occupied Palestinian Territory. nov 2017 [↑](#footnote-ref-1)
2. Supporting documents must be provided to meet specific conditions for eligibility [↑](#footnote-ref-2)