



DAMAN for SMEs

Supporting Microfinance Institutions in Palestine to provide an economic and social perspective for the most vulnerable populations as a result of the occupation

2023/2025 CPJPO/MAEE project: Towards the consolidation and autonomy of DAMAN

Interim progress report for activities carried out from 1^{er} January 2023 to 31 October 2023
Analysis of the consequences of the war in Gaza since 7 October 2023



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Glossary

ACADF: ACAD Finance

ASALA : ASALA for credit & development

CGS: Credit guarantee system

DAMAN : DAMAN for SMEs

EPCGF: European/Palestinian Credit Guarantee Fund

MEI: Middle East Initiative for a Credit Guarantee Scheme

MFI: Microfinance institution

MoNE: Ministry for the National Economy

MoU: Memorandum of Understanding

PA: Palestinian Authority

PMA: Palestinian Monetary Authority

REEF Finance : REEF for microfinance

SEPM: Social and Environmental Performance Management System

SHARAKAH: Palestinian microfinance network

SIDA : Swedish International Development Agency

SIDI : Solidarité Internationale pour le Développement et l'Investissement (International Solidarity for Development and Investment)

SPTF: Social Performance Task Force

OPT: Occupied Palestinian Territory

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1. Introduction:

The year 2023 has been one of the most catastrophic years for Palestine, mainly in the Gaza Strip since 7 October and the 60 days that followed under the brutal attacks of the Israeli army. The West Bank and East Jerusalem have also been confronted with the same military actions, particularly in Jenin, Tulkarem, Nablus and other parts of the West Bank.

The situation in the Gaza Strip after 7 October 2023 :

The recent and particularly serious events affecting Palestine today, mainly in the Gaza Strip, have led DAMAN's Board of Directors to seek emergency solutions to support the loan portfolios of DAMAN's 3 partner MFIs, after more than 60 days of brutal and continuous attacks by the Israeli army against civilians, which have had the following consequences:

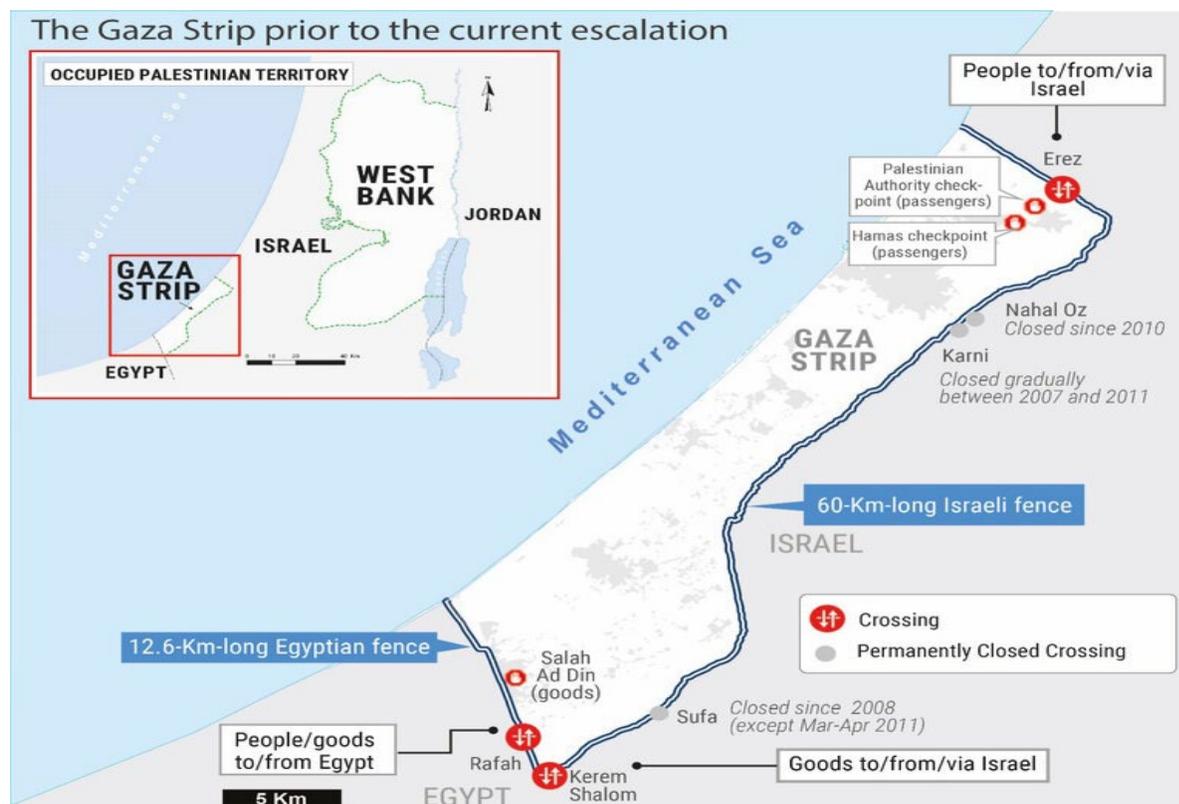
- 1- More than 16,000 Palestinians killed, more than 70% of them children and women.
- 2- More than 7,000 Palestinians under the rubble of demolished houses
- 3- More than 45,000 Palestinians injured, most of them women and children.
- 4- More than 1.4 million people forced to leave their homes in the north and south of the Gaza Strip.
- 5- Over 70% of flats and buildings have been totally or partially destroyed and are no longer habitable.
- 6- Basic services such as water, food, electricity, and medical services are scarce, and no inputs are arriving in the Gaza Strip.

Of course, at DAMAN, we are already aware that the effects of this war in the Gaza Strip and the ongoing attacks in the West Bank will have short- and long-term consequences for the health, social and economic situation of the populations we serve.



The situation in the West Bank:

- 1- More than 260 Palestinians killed and over 6,000 injured.
- 2- More than 3,200 Palestinians arrested and placed under administrative detention.
- 3- All Palestinian workers in the West Bank (around 200,000) are no longer allowed to return to their place of work within the 1948 borders (all permits have been cancelled).
- 4- The Israeli government deducts from the taxes normally reimbursed to the Palestinian authorities (AL MUQASSA) the amounts paid to Gaza and other Palestinian prisoners, as well as charges for health services. The Palestinian Authority consequently refuses to take the remaining amount, with the result that the salaries of Palestinian Authority staff are now reduced to less than 50%.
- 5- The economic and social situation has deteriorated considerably since 7 October 2023.



The total population of the Occupied Palestinian Territories (OPT) is estimated at around 5.2 million, including 2.9 million in the West Bank and 2.2 million in the Gaza Strip. Of this total, 47% of the population (around 2 million people) are under the age of 17, which means that Palestinian society is a "youth society", most of whom have suffered the effects of the illegal occupation throughout their lives.

There are an estimated 919,000 households in Palestine, with an average family size of 5.1 people. Of these, women are directly responsible for around 10.6% of Palestinian households.

Over the course of 2023, far-right parties have proliferated in Israel, calling for the annexation of Area C of the West Bank to Israel, the deportation of Palestinians (from 1948 and from the West Bank),

the distribution of weapons to settlers in the West Bank and the recognition of more than 65 settlements on hills considered illegal.

The implementation of the 2^{ème} phase of the 2023/2025 project by DAMAN for SMEs with the 3 partner MFIs has been greatly affected by all the reasons mentioned above. Despite this, DAMAN has managed to implement the action plan for the year 2023 as detailed in this progress report which covers the activities carried out from 1 January 2023 to 31 October 2023:

2. Activities carried out:

Outstanding portfolio of the 3 MFIs in Gaza and the West Bank at 31 October 2023:

31 october 2023	MFI	Total portfolio USD		guaranteed portfolio under DAMAN USD	
		Total Number	Total Portfolio	Total Number	Total Portfolio
Gaza	REEF	767	1942056	328	501240
	ACAD	225	473737	38	91610
	ASALA	694	1512538	342	583372
	S/Total GAZA	1686	3928331	708	1176222
	MFI	Total portfolio		guaranteed portfolio under DAMAN	
West bank	REEF	2600	15129324	348	1762364
	ACAD	3178	14480822	1222	2790639
	ASALA	2291	13259464	494	1047223
S/Total West Bank		8069	42869610	2064	5600226
TOTAL		9755	46797941	2772	6776448

The total number of loans granted by the 3 MFIs that met the eligibility criteria for the DAMAN guarantee system on 31 October 2023 was **2,772 loans** with a total portfolio of **USD 6,776,448** for all areas of the West Bank, Gaza and East Jerusalem.

Before the date of 7 October 2023, before the massive destruction of Gaza by the Israeli army, and in accordance with the criteria of the CPJPO/MAEE project, DAMAN for SMEs issued guarantee coverage agreements with the 3 partner MFIs for a total amount of **370,000 euros (390,000 USD)** on the following resource bases:

- 1- **127,650** from its financial resources for phase 2 (tranche 1)
- 2- **242,350** from the balance of its financial resources for phase 1

DAMAN for SMEs therefore signed 3 memorandums of understanding (MOU) with the 3 MFIs for 2023, for a total of USD 130,000 for each MFI.

REMINDER: DAMAN for SMEs is legally recognised by the Palestinian Authority through the approvals it receives from the PMA (Palestinian Monetary Authority) and can therefore issue guarantee agreements within this framework.

In accordance with this legal framework set up by PMA, MFIs are authorised not to provision portfolio risks for loans in arrears (PAR >180 days) up to the amounts approved by DAMAN...

This represents very significant advantages for the microfinance business:

- This non-provision of the portfolio automatically leads to an increase in lending.
- As a result, more marginalised regions and target groups have been reached.
- Additional income has been generated, which can be reinjected into the loan portfolios of the three MFIs the following year.

The challenges of credit risk:

Microfinance institutions face many risks that threaten their financial viability and long-term sustainability. One of the most serious risks is credit risk, i.e. the likelihood of financial loss resulting from late payment or default on the part of the borrower.

Credit risk management is essential to maintaining the financial stability of MFIs and ensuring responsible lending to borrowers. It involves a combination of risk assessment and mitigation, as well as ongoing monitoring to make informed lending decisions.

The challenges associated with credit risk in Palestine are influenced by various economic, political, and social factors. The main credit risk challenges in Palestine include:

- 1- Political instability: the ongoing Israeli-Palestinian conflict and political instability in the region can have a significant impact on the Palestinian economy and on MFI borrowers. Frequent conflicts and political tensions can disrupt businesses, affect commercial decisions and lead to economic uncertainty, making it difficult to accurately assess credit risk.
- 2- Currency fluctuations: The use of different currencies may entail a foreign exchange risk. Fluctuations in exchange rates can affect borrowers' ability to repay their debts.
- 3- Limited diversification of activities: Limited diversification of activities can affect the stability of companies and their solvency. MFIs should try to have diversification policies (avoid concentration in a particular sector or field),
- 4- Very high unemployment and poverty rates: High unemployment and poverty rates in Palestine can lead to increased credit risk, as individuals and businesses may find it difficult to repay their loans due to limited income and economic opportunities.

In this context, the three microfinance institutions - ACAD, REEF and ASALA - have developed an effective approach to managing and mitigating credit risk:

- MFIs have policies and procedures that begin with the loan underwriting and decision-making phase, the evaluation of different forms of guarantees, the assessment of guarantees to ensure their reliability over time, and end with the disbursement and repayment monitoring phase.

- MFIs divide their loan portfolios between various sectors of activity.
- The MFIs have put in place an effective management system (Delta portfolio management software used in the 3 MFIs) to monitor the financial stability of borrowers throughout the term of the loan.
- MFIs systematically evaluate and adjust credit risk management strategies through regular reviews, ensuring continuous monitoring of the portfolio.

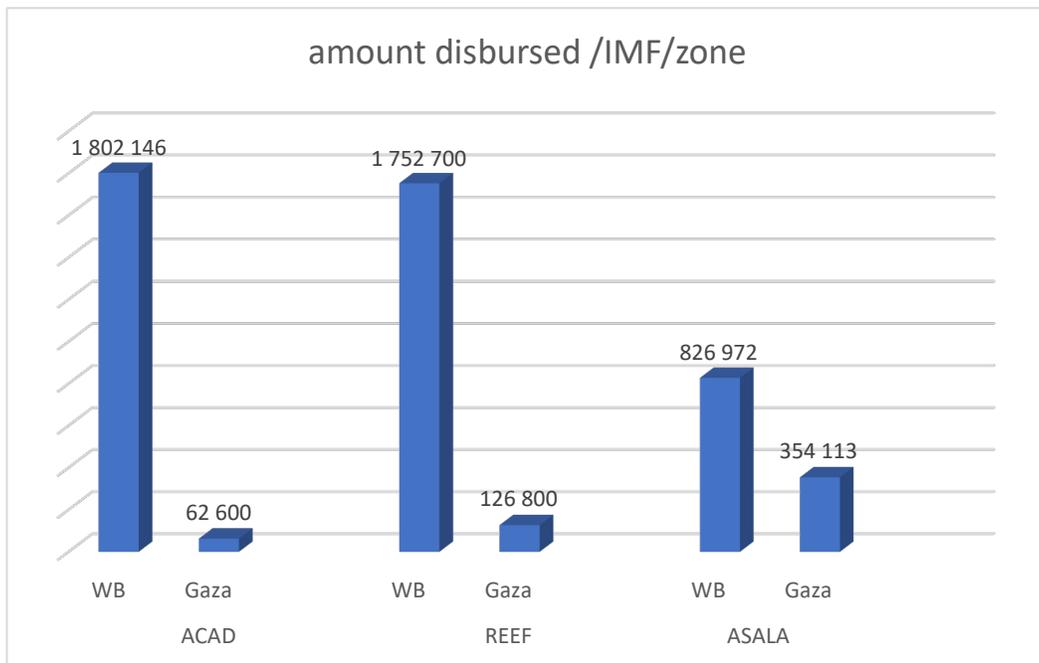
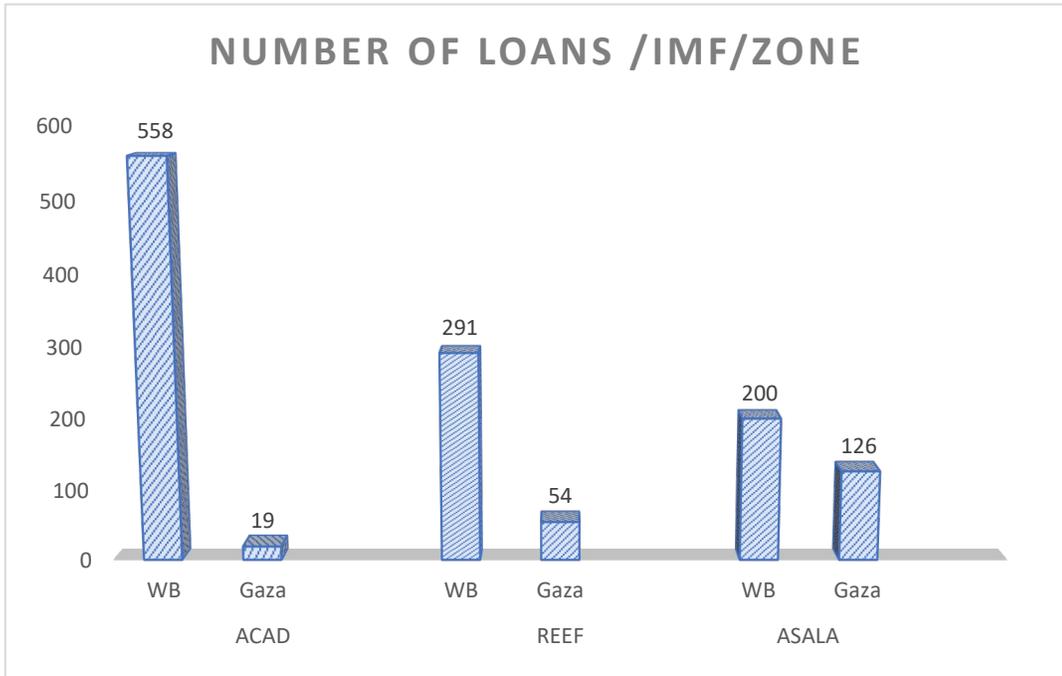
This progress report, which covers the period from January 2023 to the end of October 2023, focuses on the performance of the three MFIs, considering the portfolio risk coverage criteria agreed with them for loans with a maximum ceiling of USD 10,000 and a maximum loan repayment period of 48 months, for the whole of the Palestinian Territories.

On this basis, activity during this period was fairly intense and many new loans were disbursed between 1^{er} January 2023 and 31 October 2023:

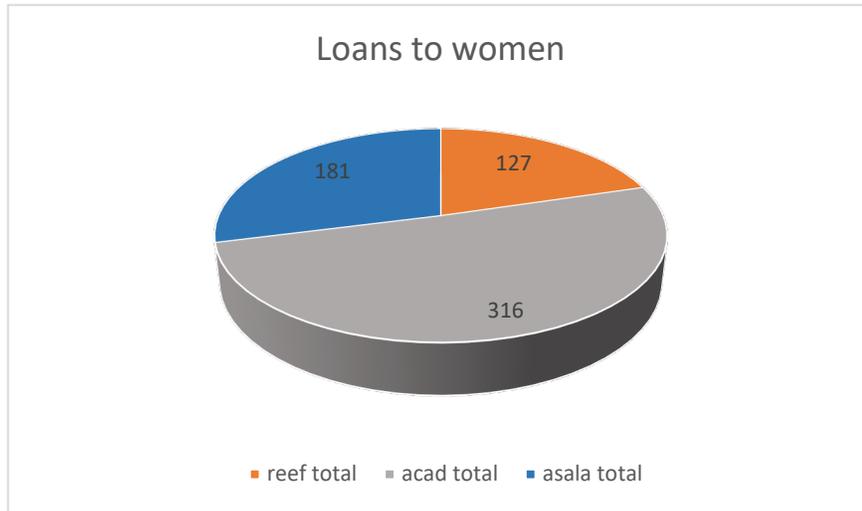
Table 1: Total number of loans disbursed by the 3 MFIs from 1 January 2023 to 31 October 2023:

	ACAD			REEF			ASALA		
January-October	WB	Gaza	Total	WB	Gaza	total	WB	Gaza	Total
January	32	1	33	31	19	50	13	11	24
February	48	6	54	32	9	41	26	12	38
March	55	3	58	25	22	47	32	19	51
April	57	2	59	23	0	23	18	7	25
May	57	0	57	34	0	34	22	9	31
June	63	3	66	27	0	27	26	20	46
July	57	1	58	28	0	28	16	13	29
August	91	2	93	36	0	36	24	9	33
September	67	1	68	44	0	44	23	13	36
October	31	0	31	11	4	15	0	13	13
total #	558	19	577	291	54	345	200	126	326
total in	2,104,846	71,100	2,175,946	1,816,900	198,700	1,768,800	897,853	433,199	1,331,052

In total: 1,248 loans disbursed over the period for a total of US\$ 5,275,798.

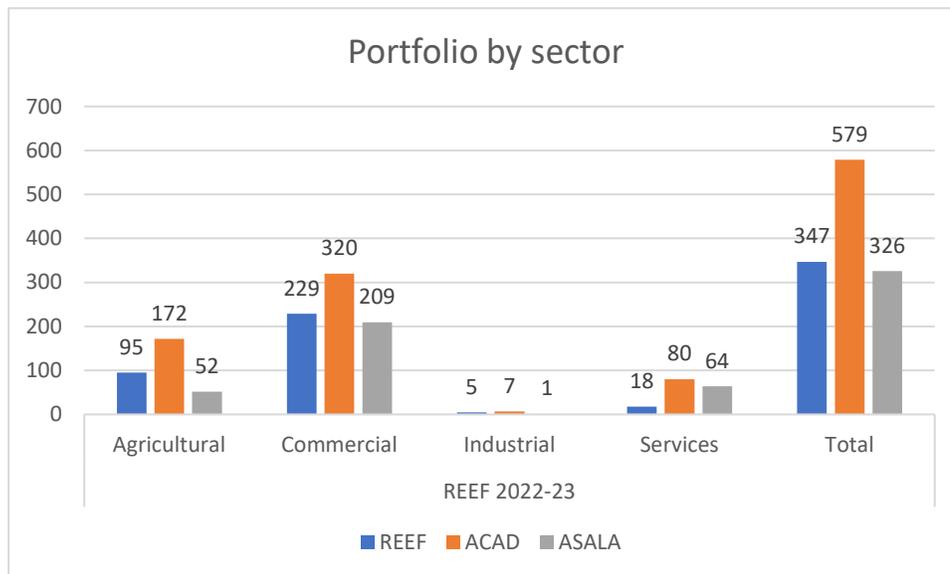


- **The percentage of women represents an average of 55.35%.**



- **The main sectors of activity covered:**

	Agriculture	Commercial	Industry	Services	Total
REEF	95	227	5	18	345
ACAD	171	319	7	80	577
ASALA	52	209	1	64	326



3. Summary of the situation of the DAMAN guarantee fund at 31 October 2023:

- Reminder of the amount granted for the guarantee fund by the CPJPO/MAEE project during Phase 1 (2020/2022): €729,000 (**US\$834,512**)
- Cumulative financial compensation disbursed to MFIs over the years 2020/2021/2022: **US\$ 10,343.**
- Reminder of the amount granted for the guarantee fund by the CPJPO/MAEE project in the first year of phase 2 (2023): **€127,650.**
- Current guarantee coverage agreements (MOUs) signed in 2023 with the 3 MFIs (NB: MOUs signed before 7 October 2023): **USD 390,000**
- **Following the events of 7 October: almost total destruction of the outstanding portfolio in GAZA:**

Given the war situation in Gaza, which has led to the almost total destruction of the work/production tools of small entrepreneurs who have benefited from loans from the 3 MFIs: proposal by the DAMAN Board of Directors to **urgently compensate part of the significant losses on the portfolios of the 3 MFIs in GAZA** (NB: overall losses estimated at nearly US\$4 million, of which US\$1.2 million is eligible under the criteria of the MOUs signed with the MFIs): **proposal made to the MFIs to grant them USD 750,000 in compensation, i.e. US\$250.000US\$ for each MFI** (these amounts are available from the DAMAN guarantee fund).

These amounts will be disbursed in instalments to the MFIs based on monitoring reports on the amounts due but not paid by the various due dates (NB: the DELTA portfolio information and management system installed in each MFI enables this information to be monitored in "real time").

NB: It should be noted that PMA (Palestinian Monetary Authority), given the situation in Gaza, has authorised the MFIs to postpone the October, November, December 2023, and January 2024 maturities of loans outstanding in Gaza to February, March, April and May 2024. Although the MFIs have shifted maturities at PMA's request, this in no way means that the portfolios are active.

There are many uncertainties about the actual situation on the ground and about obtaining data, and there are also many uncertainties about possible recoveries even after this time lag. For MFIs, it is therefore more prudent to record losses (some of which may already have been incurred) or provisions in 2023 so as not to shift the expected defaults from 2023 to 2024.

At this stage, most MFIs have decided to record provisions for Gaza in the 2023 financial year on the assumption of 100% default. Indeed, even after four months, none of them can see how certain repayments would be collected in the near future based on the current situation.

In fact, it will be very difficult to forecast the amounts that will be paid out after these shifts in due dates because, for several MFIs, there is currently no information on the borrowers in Gaza, or even not enough information on the field staff (where are they located, what is their personal situation, etc.) (see testimony from ACAD Finance).

It is very likely that no outstanding loan to Gaza will ever be repaid.

- Partial destruction of the outstanding portfolio in the West Bank (currently being verified):

	Under Daman		NOT Under Daman	
	# of loans	outstanding balance	# of loans	outstanding balance
ACAD	21	27,587	12	\$94,841
REEF	5	11,159	17	\$85,316
ASALA	37	35,120	9	\$48,258
total	63	73,866	38	\$228,415

- The total number of loans outstanding for ASALA, ACADF and REEF includes the whole of the West Bank, including the Jenin refugee camps, which were severely affected by Israeli army attacks in July 2023.
- The claims verification process by River (an independent external consultant contracted by DAMAN) is underway. The final report should be available by the end of December 2023.
- As a reminder, the costs of verifying the outstanding subprime loans presented by the MFIs had not been included in the project budget and will be covered by DAMAN's own budget (USD 100 incl. VAT per file).

4. Reminder of the vision of DAMAN for SMEs, evolution of its governance and activities in 2023:

DAMAN for SMEs is a not-for-profit company set up to provide a credit guarantee system aimed at strengthening the spirit of enterprise in Palestine in the very difficult context of the Israeli occupation.

DAMAN for SMEs was registered in Ramallah on 8 April 2015 in accordance with Palestinian law under the number 562540039. DAMAN is licensed by PMA: Palestinian Monetary Authority.

DAMAN for SMEs is the result of a partnership between ACAD Finance, ASALA for credit & development and the French social investor "Solidarité internationale pour le développement et l'investissement" (SIDI).

DAMAN's current partners also include the French company "ON - Capital", a new shareholder, as well as 3 independent professional members and "New Vision", a private consultancy firm providing DAMAN's hosting and acting as a management advisory body. The MFI REEF Microfinance has also joined the programme in 2021 as a beneficiary but not as a shareholder.

DAMAN for SMEs acts as a financial compensation instrument for vulnerable individuals and groups served by the three MFIs (ASALA, ACADF and REEF) in the West Bank, Gaza and East Jerusalem. The DAMAN for SMEs credit insurance programme covers risks directly linked to the policies and practices imposed by the illegal Israeli occupation.

4.1 Governance and structure:

In 2023, a new Palestinian law concerning not-for-profit companies was approved by the President of the Palestinian Authority. DAMAN for SMEs therefore had to adapt its governance in 2023 to comply with the new legal rules.

It was therefore decided to increase the number of members of the General Meeting to a minimum of 7 and the number of members of the Board of Directors to a minimum of 5. An Extraordinary General Meeting was held in July 2023 to make these changes.

DAMAN's General Meeting is now composed as follows following the approval of a capital increase from 15,000 US dollars (divided into 15,000 shares) to 21,000 US dollars (divided into 21,000 shares).

The new breakdown of capital is as follows:

	Name of shareholder	Identification or registration number	Number of shares
1	On - Capital RCS	R.C.S (900-053-455)	5,000 shares
2	ACADF		5,000 shares
3	ASALA		5,000 shares
4	SIDI		5,000 shares
5	Maher Muhammad Sobeih Derbas	901116210	300 shares
6	Woroud Mousa Muhammad Abu Sobeih	851580548	300 shares
7	Nizar Nafez Muhammad Judeh	911535482	400 shares
	Total		21,000 shares

The Board of Directors is now made up of the following five members:

- 1) Dominique Lesaffre, representing On-Capital, as **Chairman of the Board of Directors**
- 2) Mr Samir Barghouthi, representative of ACADF Private Shareholding company Ltd as **Vice-Chairman**
- 3) Ms Rasha Qawasmi, representative of ASALA Company for Development and Private Lending Ltd as Treasurer
- 4) Mr Jean-Baptiste Cousin, representative of SIDI (Solidarité Internationale pour le Développement et l'Investissement), **Member**.
- 5) Mr Nizar Nafez Mohammad Judeh is appointed as an **independent member**.

4.2. - Vision and mission

DAMAN for SMEs believes in the socio-economic empowerment of Palestinians as a tool for development and focuses on certain segments of the population that suffer from high unemployment and poverty rates, such as women, young graduates, small farmers, cooperatives, and other vulnerable people, for whom it is necessary to provide and facilitate business opportunities for potential entrepreneurs and thus the economic and social development of vulnerable communities in Palestine.

To encourage investment in these areas, DAMAN provides institutional guarantees to MFIs to protect them from the effects of political risks on their client portfolio.

4.3. -Objectives and expected results

The objective of **DAMAN for SMEs** is to contribute to sustainable access to financial services provided by MFIs to vulnerable micro and small entrepreneurs in high political risk areas. In addition, DAMAN considers the damage suffered by borrowers as a result of the Israeli occupation of the Palestinian territories, both in the West Bank and Gaza Strip, and also entrepreneurs residing in East Jerusalem.

Daman for SMEs also aims to guarantee the continuation of MFI activities in all these territories (Gaza, East Jerusalem, and areas C), and to strengthen the fight against poverty, environmental protection and the reduction of unemployment throughout the Occupied Palestinian Territories.

With this in mind, **DAMAN** is pursuing the following specific objectives:

- To enable MFIs to maintain their financial services to small and micro-entrepreneurs who are vulnerable to external political shocks caused by the illegal policies and measures of the Israeli occupation.
- Encourage investment in areas heavily affected by the occupation (small and micro income-generating projects);
- Promoting green energy and environmental protection.
- Improving living conditions for poor families.
- Create jobs through self-employment, particularly in rural and isolated areas.
- Cover some of the specific risks faced by vulnerable customers.
- Build the capacity of MFIs in microcredit, social performance and related issues.
- Work with SHARAKAH (Palestinian Microfinance Platform) and other MFIs on issues of advocacy and lobbying for MFIs.

Among these objectives, the expected results are as follows:

- Result 1: Access to financial resources for vulnerable people is promoted through the creation of the guarantee fund and the mobilisation of resources.
- Result 2: DAMAN member MFIs have been able to provide financial services to vulnerable entrepreneurs who are exposed to Israeli policies and illegal occupation measures.

- Outcome 3: National support policies and structures that respond to internal policies and external political shocks have been formalised thanks to support from DAMAN.

4.3. Adjustments made in the first year of phase 2 (2023) to DAMAN's cooperation with its CPJPO and MAEE partners.

DAMAN has agreed to implement the recommendations made following the evaluation of its performance carried out by Micro Finanza Rating (MFR), a specialist Italian rating organisation selected by the MAEE. DAMAN was involved in the revision of the terms of reference used and agreed with the MAEE and CPJPO for this selection to carry out this evaluation over a period of 4 months in 2022 (including a visit to Palestine) which enabled DAMAN to meet all its stakeholders.

The development of a Social and Environmental Performance Management System (SEPMS) was also initiated using a participatory approach in close collaboration with SIDI, New Vision, the three MFIs and an external international consultant. The SEPMS is currently being integrated into the DELTA Management Information System (MIS) set up with DAMAN's 3 partner MFIs.

In preparation for phase 2 of the project and in line with the recommendations of the MFR evaluation, DAMAN has signed an agreement with a Palestinian consultant to develop and prepare a three-year strategic and financial plan (2023-2025) focusing on the sustainability of DAMAN.

In addition, DAMAN has contracted with two Palestinian consultancy firms (River Company for Fair Development in the West Bank and Pioneers Consulting Company in Gaza) to carry out analyses of the unpaid debts submitted by the three MFIs to DAMAN's risk coverage system.

Finally, in accordance with the recommendations of the MFR evaluation, DAMAN has selected the audit firm Ernst & Young to audit the project's accounts.

DAMAN received and benefited from several missions during 2023:

- 1- Evaluation mission by the Palestinian Court of Audit (Palestinian Authority) between March and September 2023
- 2- Assessment mission carried out by Mr Dominique Lesaffre (Chairman of DAMAN's Board of Directors) in June 2023 (including working meetings with DAMAN's management, New Vision, the 3 MFIs and a meeting of the Board of Directors).
- 3- Technical mission carried out in July 2023 by Mr Christian Schmitz, the project's technical advisor (meetings with the 3 directors of the MFIs and New Vision, meeting of the DAMAN technical committee, field visits).

Capacity building and activity monitoring

1. As a result of the current situation and given that the transfer of funding for the first year of the second phase has been delayed, it has not been possible to implement the programmes in full in 2023.
2. The training planned to develop the capacity of the staff of the 3 MFIs in risk management, financial management and human resources has nevertheless been developed in close collaboration with SHARAKAH and will be carried out as soon as possible.

3. In collaboration with SIDI and CPJPO and in close collaboration with the 3 DAMAN beneficiary MFIs (ASALA, ACADF and REEF), continue to implement the social and environmental performance management system (SEPMS) in order to assess the extent to which DAMAN, ASALA, ACADF and REEF are fulfilling their social and environmental missions.
4. **The new Credit Risk and Portfolio Manager was recruited in October 2023 and will begin the diagnostic and capacity building analysis for the 3 MFIs as soon as possible.**

Internal structure of DAMAN for SMEs :

1. The project **management team** consists of:
 - Ms Mostaham Salameh (project supervisor) on behalf of CPJPO.
 - Mr Michel LEGRAND and Monique Langevin representing the CPJPO Board of Directors.
 - Christian Schmitz, microfinance adviser for CPJPO (SIDI expert)
 - Mr Judeh Jamal, Managing Director of DAMAN
2. Day-to-day management is the responsibility of DAMAN's Managing Director, with support from the consultancy firm New Vision for logistical hosting and certain management aspects.

5. Lessons learned, outlook and emergency strategy

- The 3 MFIs were severely affected by illegal Israeli practices in 2023 in the Gaza Strip, the West Bank and East Jerusalem.
- In October in Gaza, the offices of the 3 MFIs were totally damaged, and the Gaza staff emigrated from the north of Gaza to the south of Gaza. The portfolio of the 3 MFIs was 100% damaged.
- The project nevertheless went ahead despite several obstacles:
 - Constraints imposed by the Israeli occupation to prevent free movement between different parts of Palestinian territory.
 - Numerous bureaucratic problems on the part of the Palestinian authorities
- Support from the DAMAN for SMEs guarantee scheme has helped to avoid adding a significant number of unemployed people to the labour market in Palestine despite:
 - 100% of income-generating activities have been destroyed in the Gaza Strip
 - That the West Bank workforce has lost its jobs in the 1948 areas
 - That humanitarian aid has become increasingly necessary.

Proposed emergency strategy:

Today, in response to the serious challenges facing the Palestinians, and to help DAMAN and the three partner MFIs ensure that the population remains viable, self-sufficient and full of hope, an emergency plan needs to be implemented.

The following stages are planned:

- 1- **DAMAN's Board of Directors is proposing to the 3 MFIs that they receive USD 750,000 in compensation for part of the portfolios lost in Gaza, as emergency aid: i.e. USD 250,000 for each MFI (these amounts are available from DAMAN's guarantee fund). In accordance with the recommendations set out in point 3, these amounts will be disbursed in tranches to the MFIs on the basis of monitoring reports on the amounts due but not paid by the various due dates (NB: the DELTA portfolio management and information system installed in each MFI enables this information to be monitored in "real time"). These provisions will be implemented in accordance with the legal provisions of the PMA (Palestinian Monetary Authority).**
- 2- **DAMAN is working on an emergency proposal totalling US\$15 million:**
 - a. A budget of \$15 million would be sufficient to deal with the emergency in Gaza,
 - b. After the war, try to recover (in part) the Gaza loan portfolio that has disappeared for the 3 MFIs.
 - c. **Restarting a new cycle of income-generating activities with old and new potential borrowers in Gaza,**
 - d. It is also important to have appropriate responses to deal with the increasingly risky political situation in the West Bank and East Jerusalem, and the rising number of victims.
- 3- ***This emergency proposal will help the three MFIs with partial financial compensation following the destruction of 100% of their portfolio in the Gaza Strip (NB: each new loan granted in Gaza should generate employment opportunities for 1.5 people, reducing the unemployment rate by gradually maintaining more than 3,000 jobs).***
- 4- ***The 3 MFIs will gradually recover 50% of their portfolios in the West Bank (NB: compensation of the order of 50% should make it possible to maintain employment for around 12,000 people in governorates heavily influenced by Israeli measures, such as Jenin, Tulkarem, Nablus and Jericho).***
- 5- ***Marginalised target groups, mainly women, farmers and young people, will continue to develop income-generating activities without depending on humanitarian aid.***
- 6- ***Help the 3 MFIs to continue working in high-risk areas to fulfil their social and environmental mission.***
- 7- ***Thanks to new guarantees, it will be possible to reduce the "provisions" required by PMA and ensure that MFIs do not take legal action against borrowers, which means less social pressure and fewer difficulties, especially for farmers and women.***

The DAMAN tool remains the most relevant in this situation: the "raison d'être" of DAMAN is total in this unpredictable political situation in Palestine, under illegal occupation, and with today, since 7 October 2023, the destruction of the Gaza Strip.

This is the function of the Guarantee Funds. Given the exceptional nature of the defaults observed, the guarantee fund balances available today for the 3 MFIs and built up over the 4 years of the project (November 2019/September 2023) will not be sufficient to cover at least the losses incurred.

It is essential to reconstitute the portfolios and make exceptional replenishments to the resources of the MFIs, which also need exceptional reinforcement of their management capacities.

Against this backdrop, DAMAN is asking all its partners, and in particular the Luxembourg Ministry of Foreign Affairs, to suggest ways of dealing with this exceptional situation, and if possible to provide initial URGENT financial solidarity support before considering more substantial and long-term solutions.

All these perspectives will be able to make full use of the DAMAN system, which has the distinctive feature of not considering beneficiaries as mere recipients of "food packets or jerry cans of water", but as capable and active players who take control of their lives and living conditions by creating small businesses or small production units.

In response to the dire situation in Palestine, DAMAN has adopted a proactive strategy to stabilise the unemployment rate at pre-7 October levels, despite the severe impact of Israel's brutal attacks on the Palestinian economy. DAMAN for SMEs remains as committed as ever to employment and will continue to create job opportunities for unemployed Palestinian women, farmers and young people through microfinance activities. This effort is being undertaken in cooperation with all partners, in particular the three partner MFIs.

It is essential to increase the guarantee fund on the following basis (based on portfolio data at 31 October 2023):

Object (for the 3 MFIs)	Number loans outstanding	Total portfolio outstanding US	Number of loans guaranteed by DAMAN	Total portfolio guaranteed by DAMAN US
Total portfolio At 31 October 2023	9 755	46 797 941	2 772	6 776 448
Emergency proposal for consolidate the guarantee fund of DAMAN				USD 15 million

