



FATEN
Palestine for Credit & Development

A Microfinance Program Under War Situation

Annual Report

2001

March 2002

About This Report

In spite of the extremely harsh political, economical and psychosocial context under which FATEN, its staff and clients had to function over the last fifteen months as a result of the eruption of the second Palestinian Intifada against the Israeli Military Occupation, the results of year 2001, the third year of FATEN's life, show a good progress on almost all levels compared to the results of year 1999 and year 2000. However, those results would have been better had the last fifteen months' results not been severely affected by the Al-Aqsa Intifada.

This report discusses the annual results of FATEN's work during the year 2001 and the progress FATEN has made in this year in recouping its losses resulting from the Intifada. It also discusses the process of adaptation which was undertaken by FATEN and the positive results of that on FATEN operations. This process of adaptation enabled FATEN, by the end of the 3rd quarter of year 2001, to go back to the same level of operations with the high quality of portfolio¹ which marked FATEN's operations before the eruption of the events. The results, when compared to the results of the quarter before and the three quarters after the outbreak of the Intifada, demonstrate that FATEN has made significant progress and can realistically look towards full recovery to normal operations. Unfortunately, however, the severe escalation of the Israeli actions over the last quarter has reversed this positive progress again.

¹ FATEN was well known, before the Intifada, of having one of the best portfolio quality ratios in the world.

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I. BACKGROUND

This year's activities have proceeded in an extremely harsh political context. On 28 September 2000, Ariel Sharon² visited Al-Haram Al Sharif, a holy site in the Old City in Jerusalem – a visit which was labeled by the UN Security Council as provocative. This visit was followed by a series of clashes in Jerusalem, which soon spread to the Occupied Palestinian Territories in the West Bank and the Gaza Strip. For the 15 months which followed, Palestinians have been subjected to an ever escalating Israeli military and economic siege, which has had a dramatic impact on every aspect of Palestinian life. Confrontations between the Israeli military occupation forces and the Palestinians have resulted in unprecedented levels of violence and turmoil, resulting in the death of more than 1,000 Palestinians and about 200 Israelis, and injury of more than 30,000 Palestinians and 3,000 Israelis.

Every major city in the West Bank and Gaza have been repeatedly re-occupied, with periods of respite (all but the nuclei of city centres were occupied with the remaining 90% of each city under occupation) . Occupied areas have been placed under curfew and bombed, with civilians shot by gunfire, tanks, warships, helicopters and planes, while tanks patrol Palestinian neighborhoods.

In addition, Israel has implemented a consistent policy of blockades on Palestinian cities. The Israelis besieged Palestinian towns under PA control making it impossible for Palestinians to move from one city to another, or even between villages and villages and cities. Many Palestinian villages in the West Bank, in addition to 40,000 Palestinians in the occupied area of Hebron City, were under curfew for long periods since the beginning of the clashes.

The Israeli military has sealed off the whole of the Palestinian territories. The policy of the hermetic closure suddenly cut off about 130,000 day workers usually employed in Israel from their livelihoods³, and cut off Palestinians living in villages from their workplaces in city centres. Because of the loss of their wages, for over such a long period, all regular economic activity has suffered. The Palestinian economy is also plagued by cumulative damages because of the internal closure in the Gaza Strip and the West Bank.

The repercussions of ongoing internal blockades, external curfews and the embargo imposed by Israel on the West Bank and Gaza have directly contributed to the deteriorating economic situation, and to the increasing vulnerability of households dependent upon the freedom of movement to earn an income and access basic commodities. Additionally, internal blockades within the West Bank and Gaza have resulted in major economic losses for those with work outside their immediate area, namely of farmers, merchants and business people who are no longer able to access their places of employment to obtain inputs and/or sell their goods and services. Finally, the Palestinian economy has been further crippled by the delay or blockade of exports and imports of materials and goods caused by the sporadic closing of the Gaza International Airport and the border crossings at Rafah and the Allenby/Karameh Bridge during most of the period of the uprising.

² Sharon who was the head of the Israeli opposition at that time became the Israeli Prime Minister in February 2001.

³ These workers were earning roughly USD \$27.50 daily before the Intifada, and collectively, USD \$3.4 million for each normal working day.³

These factors combine to place Palestinian families in situations of serious economic insecurity. UNSCO reports that daily internal losses to the Palestinian economy amounted to \$8,000,000 for each working day during the first two months of the crisis.⁴ The closures have resulted in a jump in unemployment from 11 to over 40%, contributing to the overall drop in the GNP of 51%.⁵ According to the latest surveys conducted in the West Bank and Gaza in March 2001, poverty rates (earning less than \$2/day) have reached 64.2% (2,107,400 individuals), 55.7% in the West Bank and 81.4% of the Gaza Strip. The majority of this population is composed of children.

The siege, curfews, blockades, and the dramatically deteriorated economy has had a severe negative impact on FATEN operations. This impact was reflected in:

- Many clients had to close down their businesses either because they relied on buying cheap goods from Egypt and Jordan, because their businesses relied on raw materials from Israel, or because the demand on their products and services dropped dramatically and their businesses became unsustainable;
- The restrictions imposed on the movement of our staff to reach their offices and to visit clients, and the similar inability of our clients to get out of their villages to go to the bank to repay their loans or to receive their new loans.

It is in this extremely harsh political, economical and psychosocial context that FATEN and its staff and clients had to function over the last year.

XIII. PROGRAM GROWTH

A. Loans Disbursed: During the year 2001, FATEN issued 8,183 loans. This is equivalent to 82% of the 10,029 loans FATEN issued in year 2000 and to 87% of the 9,376 loans FATEN issued in year 1999. This raised the total number of loans issued:

- To 8,836 loans since the eruption of Al-Aqsa Intifada;
- To 26,502 loans since the program spun off from Save the Children;
- To 51,208 loans since the inception of the program in 1995.

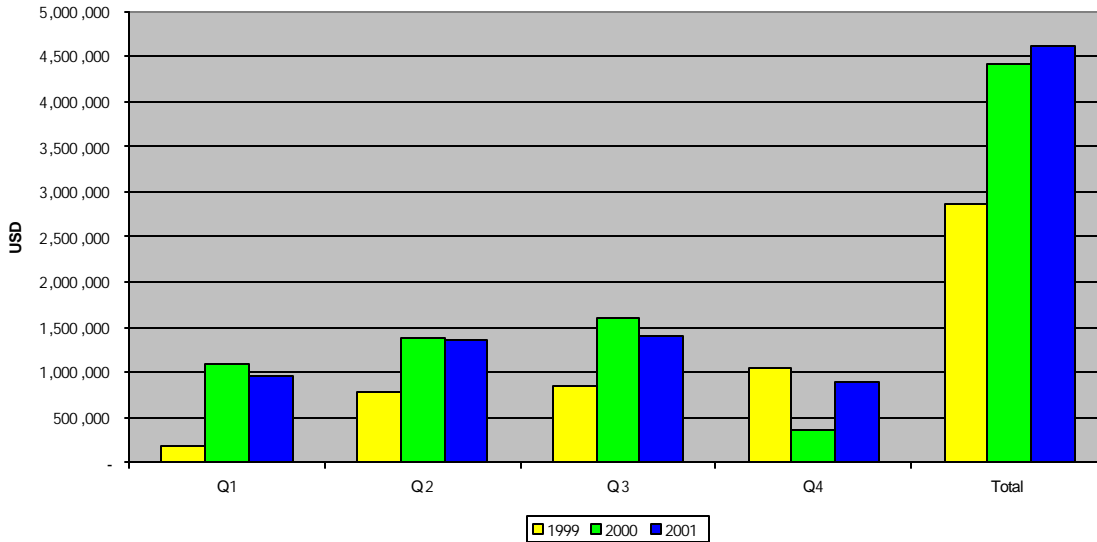
B. Amount Disbursed: The amount of loans disbursed by FATEN, during the year 2001, was USD 4,629,321. This is equivalent to 105% of the USD 4,431,888 FATEN disbursed in year 2000 and to 140 % of the USD 3,298,635 FATEN disbursed in year 1999. This raised the total amount of loans disbursed:

- To USD 4,986,659 since the eruption of Al-Aqsa Intifada;

⁴ Ibid.

⁵ UNSCO, "The Impact on the Palestinian Economy of Confrontations, Mobility Restrictions and Border Closures, 28 September-26 November, 2000," Gaza, 26 November 2000.

Amount of Loans Disbursed



- To USD 11,745,294 since the program spun off from Save the Children;
- To USD 18,948,735 since the inception of the program.

C. Active Clients⁶: The total number of active clients increased from 4,352 clients as of 31/12/2000 to 5,537 clients as of 30/9/2001 then decreased to 4,523 clients as of 31/12/2001.

D. Outstanding Portfolio⁷: The outstanding portfolio increased from USD 1,187,169 (31/12/2000) to USD 1,420,392 (31/12/2001), though it reached USD 1,902,215 by the end of September 2001. Table 1 shows the program's historical statistics.

Table 1: Program Historical Statistics (As of 31/12/2001)

	1995	1996	1997	1998	1999	2000	2001	TOTAL
# Loan Disbursed	483	1,723	10,180	10,939	9,671	10,029	8,183	51,208
Amount Disbursed	135,056	513,923	2,792,616	3,147,296	3,298,635	4,431,888	4,629,321	18,948,735
#Active Loans (EoP)	347	1,204	5,739	4,949	5,139	4,352	4,498	4,498
Portfolio (EOP)	79,015	231,111	962,834	808,594	1,107,267	1,187,169	1,422,409	1,422,409
% Female Clients	100%	100%	100%	100%	100%	100%	100%	100%

All amounts are in USD

Table 2 shows the quarterly statistics for year 2001 compared to those of year 2000 and 1999. From this table we can see that for the second year there was a significant drop in FATEN's figures in the last quarter compared to the third as a result of the eruption of the Al-Aqsa Intifada and the Israeli military blockades. FATEN managed over the first three quarters of year 2001 to go back to the levels of operations it had when the Intifada erupted. The drop FATEN witnessed again in the last quarter of 2001 was because:

- During this quarter FATEN wrote off the balance of all of those loans which were issued before the eruption of the Intifada and were not yet completely paid.

⁶ The total number of active clients decreased from 5,139 clients as of 31/12/1999 to 4,352 clients as of 31/12/2000, though it reached 6,222 clients by the end of September 2000.

⁷ The outstanding portfolio increased from USD 1,107,267 (31/12/1999) to USD 1,187,169 (31/12/2000), though it reached USD 1,789,824 by the end of September 2000. Table1 shows the program's historical statistics.

- The Israelis severely tightened the siege on the Gaza Strip, demolished hundreds of houses and made thousands of people homeless, including tens of our clients there. This recreated a repayment problem. Though it is not as severe as the one FATEN witnessed when the Intifada was erupted, FATEN decided to slow down its disbursements in the Gaza Strip branches.

Table 2: Quarterly Statistics

	Period	# of Loans Disbursed	Amount Disbursed	# of Active Loans EoP	Outstanding Portfolio EoP
Q U A R T E R	Q1 1999	1,679	614,548	3,980	646,113
	Q2 1999	2,376	791,761	4,022	818,275
	Q3 1999	2,514	848,030	4,787	898,196
	Q4 1999	2,807	1,044,296	5,079	1,107,269
	Q1 2000	2,805	1,081,972	5,421	1,206,454
	Q2 2000	3,332	1,392,092	6,105	1,479,129
	Q3 2000	3,239	1,600,486	6,243	1,789,824
	Q4 2000 Start of 2nd Intifada	653	357,338	4,352	1,187,169
	Q1 2001	1,661	961,901	3,921	1,343,992
	Q2 2001	2,378	1,351,713	4,911	1,759,325
	Q3 2001	2,556	1,422,886	5,537	1,902,215
	Q4 2001	1,588	892,821	4,498	1,422,409
	ANNUAL	1999	9,376	3,298,635	5,079
	2000	10,029	4,431,888	4,352	1,187,169
	2001	8,183	4,629,321	4,498	1,422,409

E. Growth vs Products: One of the main strategies FATEN identified in its first business plan was Product Diversification. The aim is to increase client retention and to maintain a competitive edge in the market by providing high quality credit services. Those products are:

1. Group Guaranteed Lending and Savings (GGLS): This was the first and currently is the main product of FATEN. The methodology of the GGLS is based on the principles of successful micro-finance and group-based lending programs around the world. FATEN offers the GGLS product in two phases. Phase I consists of groups of at least five women who are given small (200 Jordanian Dinar), individual, 24-week loans of working capital to expand their businesses. Each group guarantees the repayment of the individual members, so no collateral is required. The groups repay their loans and interest in installments every two weeks at a local bank and simultaneously deposit savings into a group savings account. Upon repayment of their loans, the groups become eligible for new cycles of loans at gradually increasing amounts (300 JD). Clients who complete this phase can choose in Phase II between a 24-week loan (400, 500, 600 JD) with compulsory savings; or a 40-week loan (600, 800, 1000 JD) without savings. GGLS loans support a wide variety of existing businesses including selling clothes, small grocery stores, selling vegetables, raising animals, knitting, sewing and hairdressing.

Table 3.1: The GGLS Loan Product : Achievements as of 31/12/01:

	y/e 1995	y/e 1996	y/e 1997	y/e 1998	y/e 1999	y/e 2000	y/e 2001	Total
Number of Loans Disbursed	483	1,723	10,180	10,939	9,671	9,724	7,534	40,530
Amount Disbursed (USD)	135,056	513,923	2,792,616	3,147,296	3,298,635	4,267,394	4,100,000	18,254,920
Average Loan Size (USD)	280	298	274	288	341	439	544	450
Number of Active Clients (EOP)	347	1,204	5,739	4,949	5,139	4,295	4,291	
Amount of O/S Portfolio (USD)	79,015	231,111	962,834	808,594	1,107,267	1,136,883	1,211,365	
Average Loan Balance (USD)	228	192	168	163	215	265	282	
Percentage of Women	100%	100%	100%	100%	100%	100%	100%	100%

2. Fast Loan: Based on the demand of its clients, FATEN introduced this product early in the year 2000. It is offered to groups of at least three active clients who have been with FATEN for more than one year or for individuals who are active in Phase-I of the individual loan product. The loan duration is one month, the application and service fees are paid in advance, and the entire amount of the loan has to be repaid in one payment.⁸ The maximum size of the seasonal loan is 50% of the client's current active loan. Initially it was called the **seasonal loan** as it was given to those active clients whose projects required more money during a certain season like the Ramadan Feast, Al-Adha Feast, and the beginning of the school year. Recently, FATEN changed the name of the product to the **FAST Loan** and began to give it to its clients at any time during the year.

Table 3.2: Fast Loan Product: Achievements Update (As of 31/12/01):

	CY-2000	CY-2001	Total
Number of Loans Disbursed	272	479	751
Amount of Loans Disbursed (USD)	95,493	185,282	280,775
Average Loan Size (USD)	351	387	374
# of active clients (EOP)	24	45	
Amount of outstanding portfolio (USD)	7,535	23,592	
Average Loan Balance (USD)	314	524	
Percentage of Women	100%	100%	100%

3. Individual Loan: This product was designed for FATEN clients who have finished at least Phase I of the GGLS product and whose projects have developed and grown to the level that their needs exceed what the GGLS product can offer in its Phase II. The first loan is USD 1,000 - 3,000 to be paid back in monthly installments over a period of not more than 10 months. Repeated loans can grow gradually to USD 10,000 over a period of two years.

Table 3.3: Individual Loan Product, Phase I: Achievements Update (As of 31/12/01)

	CY-2000	CY-2001	Total
Number of Loans Disbursed	33	177	210
Amount of Loans Disbursed (USD)	69,000	323,950	392,950
Average Loan Size (USD)	2,091	1,830	1,871
Number of Active Clients (EOP)	33	162	
Amount of Outstanding Portfolio (USD)	42,750	187,288	
Average Loan Balance (USD)	1,295	1,156	
Percentage of Women	100%	100%	100%

⁸ The application fees for this loan are 6 JDs, and the interest rate is 4% flat.

FATEN is ready now to expand this phase of the product and to begin designing, piloting and expanding the second phase of the product to serve clients coming from outside FATEN's GGSL clients (see proposed interventions).

4. Staff Loans: To solve particular problems faced by staff, and specifically the need of staff to buy cars to use them in work, FATEN began a staff loan product. Loans up to USD 10,000 or the annual salary of the staff (whichever is less) are given for a maximum period of three years. The source of funding, for this product, is the staff severance and pension fund. Staff that apply for this loan must sign a form giving FATEN the right to deduct the monthly payment from her/his salary every month before the salary is transferred to their bank accounts. They also have to sign a form in front of witnesses stating that if they leave their job before they pay back the whole loan, FATEN has the authority to deduct the balance of their loans from their severance and pension. When applying for the loan, if the balance of the severance and pension of the applicant staff is less than the amount of the loan, the applicant must get other staff to guarantee her/him with their severance and pension. FATEN charges the same interest rate on these loans that is received on time-deposit bank accounts for severance and pension (not less than 5% per year declining), in addition to a 1% flat/year as a commission to cover the cost of following up on these loans. Interest and commission is deducted upfront from the amount of the loan.

Table 3.4: FATEN Staff Loan Product: Achievements Update (As of 31/12/01)

	CY-2000	CY-2001	Total
Number of Loans Disbursed	12	5	17
Amount of Loans Disbursed (USD)	62,760	12,720	75,480
Average Loan Size (USD)	5,230	2,544	4,440
Number of Active Clients (EOP)	12	13	
Amount of Outstanding Portfolio (USD)	48,961	31,070	
Average Loan Balance (USD)	4,080	2,390	
Percentage of Women	83 %	80 %	82 %

Benefiting from this experience, FATEN began designing a similar product for the staff of other NGOs, which have pension and severance plans. The implementation of this product will begin in early 2002.

5. Consultancies/Technical Assistance and MIS Sales⁹: Using the accumulated experience of its key staff, the training materials it developed in Arabic and the financial and administrative systems it has developed, FATEN provided a total of 81 consultancy-days to other MFIs during the year 2001 compared to only 18 days in year 2000. FATEN also sold its AI-FATEN Loan Tracking System to 3 Microfinance Institutions/programs during this year.

⁹ More details about these consultancies are in Annex I

Table 3.5-A: FATEN Consultancies(# of days)

	CY-1999	CY-2000	CY-2001	Total
ENDA/Tunis	7	10	42	52
SC/ West Bank/Gaza FO		8		8
SC/Egypt			25	25
SC/Mozambique			14	14
Total	7	18	81	99

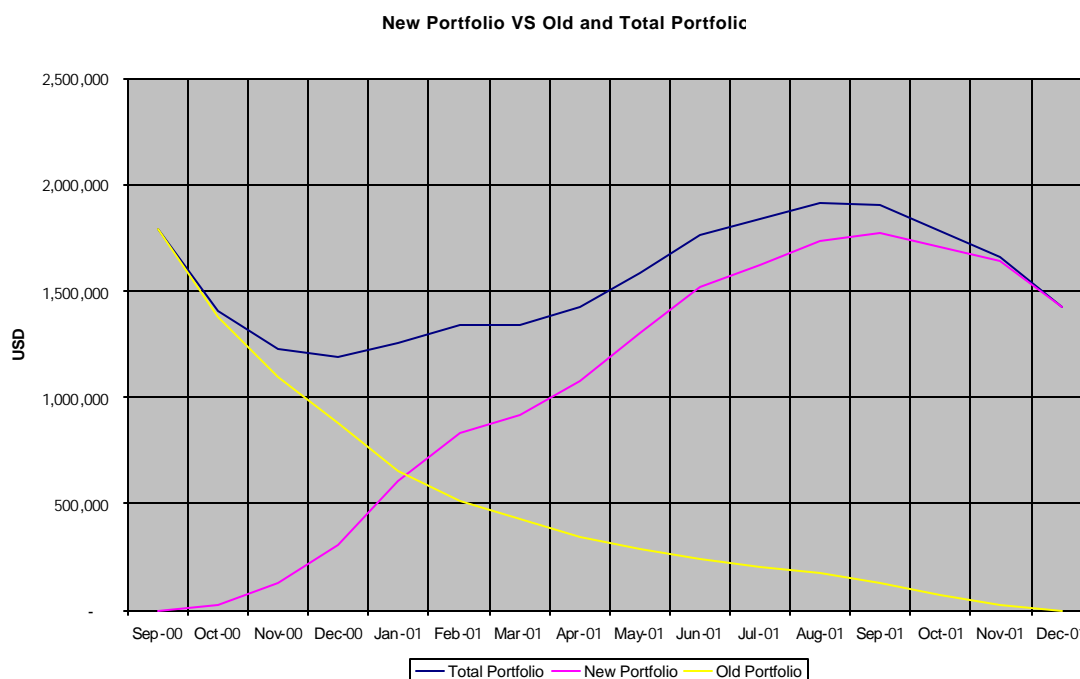
Table 3.5-B: The Distribution of 2001 Consultancies Days by MFI and Subject

	ENDA Tunis	Attadamon/SC- Egypt	SC Mozambique	Total
Program	14	11	-	25
Financial Management	14	-	-	14
MIS	14	14	14	42
Total	42	25	14	81

By doing this, FATEN aims to exchange its knowledge in the field of microfinance, which is still a young industry in the Arab world, with its partners and sister organizations on cost recovery basis. FATEN expects to raise the number of consultancy-days to at least 150 days over the year 2002.

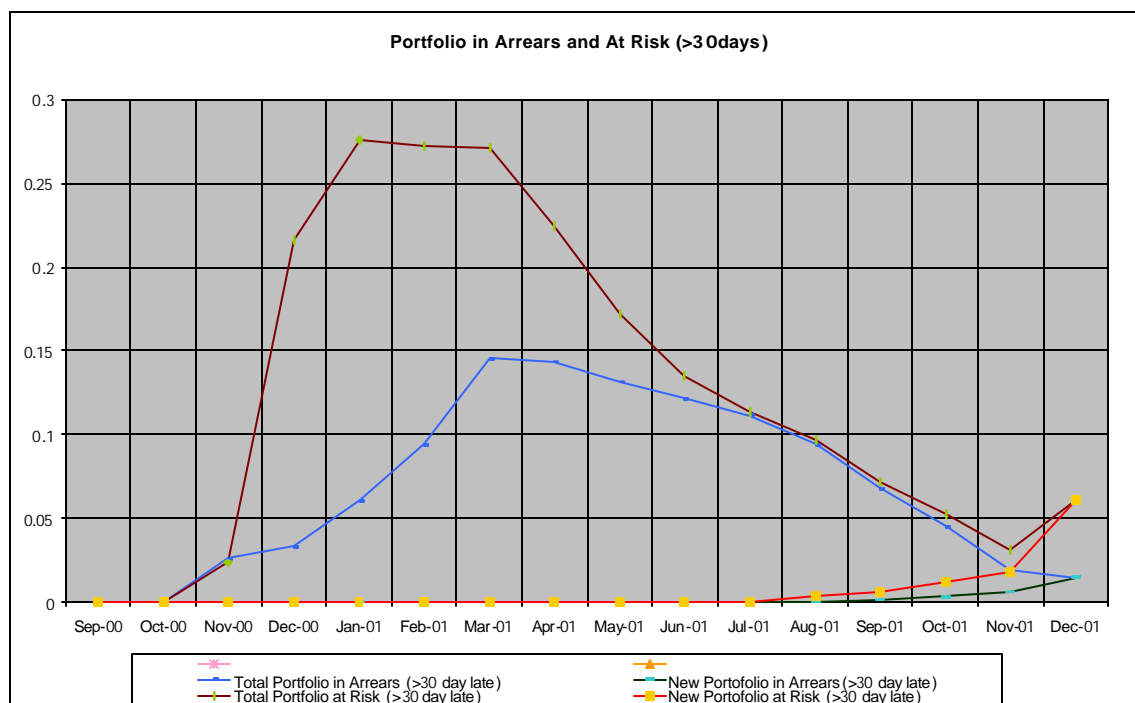
III. PORTFOLIO QUALITY

A. The Evolution of the New Portfolio (Portfolio of Loans Disbursed During the Intifada)



The chart above shows how the new portfolio (that for loans disbursed after the eruption of the Intifada) evolved in comparison with the total portfolio and the old portfolio (that for loans which were active when the Intifada erupted)

B. Portfolio in Arrears and Portfolio at Risk



The chart above shows that although the portfolio in arrears and portfolio at risk (> 30 days late) increased dramatically since the eruption of the Intifada, from almost zero by the end of September 2000¹⁰ to more than 15% and 25% respectively, FATEN managed to keep these ratios very close to zero for the new portfolio till the end of September 2001, when the percentage from the total portfolio was above 93%. Unfortunately, with the dramatic escalation of the Israeli attacks on Palestinian cities, towns, villages and refugee camps, particularly since early December, and with the very tightened seige/blockade which converted every city, town, village and a camp into a prison, we began to notice again some repayment problems, especially in the Gaza Region. FATEN reacted by slowing down the amount of disbursements in Gaza, which has resulted in a shrinkage of the portfolio from more than USD 1.9 million at the end of September to less than USD 1.5 million by the end of December. This contributed in the increase of portfolio in arrears and at risk. By the end of December these ratios reached 1.5% and 6.15% respectively.

More details about these ratios for the total and old portfolio can be read from table 4

¹⁰ this was always the case since the spun off of FATEN in March 1999.

Table 4: Portfolio in Arrears and Portfolio at Risk for Total and New Portfolio

	Total Portfolio				New Portfolio			
	Portfolio in Arrears		Portfolio at Risk		Portfolio in Arrears		Portfolio at Risk	
	1day late	>30days late	1day late	>30days late	1day late	>30days late	1day late	>30days late
30/9/00	0.23%	0.00%	0.84%	0.00%	0.00%	0.00%	0.00%	0.00%
31/10/00	5.74 %	0.02 %	39.58%	0.04%	0.00%	0.00%	0.00%	0.00%
30/11/00	11.02 %	2.59 %	62.34%	2.34%	0.13%	0.00%	1.34%	0.00%
31/12/00	16.33%	3.30%	58.81%	21.58%	0.09%	0.00%	1.64%	0.00%
31/1/01	19.37 %	6.06%	45.42%	27.63%	0.00%	0.00%	0.00%	0.00%
28/2/01	19.41%	9.39%	34.86%	27.23%	0.00%	0.00%	0.00%	0.00%
31/3/01	19.94 %	14.54%	30.20%	27.16%	0.08%	0.00%	0.49%	0.00%
30/4/01	18.51%	14.34%	23.65%	22.49%	0.03%	0.00%	0.18%	0.00%
31/5/01	15.98%	13.16%	17.83%	17.20%	0.04%	0.00%	0.30%	0.00%
30/6/01	13.40%	12.17%	13.70%	13.47%	0.05%	0.00%	0.17%	0.00%
31/7/01	11.66%	11.14%	13.54%	11.33%	0.37%	0.00%	2.49%	0.00%
31/8/01	10.26%	9.41%	15.22%	9.71%	0.99%	0.06%	6.46%	0.39%
30/9/01	7.30%	6.77%	9.38%	7.16%	0.71%	0.14%	2.94%	0.56%
31/10/01	6.68%	4.5%	18.63%	5.31%	2.60%	0.33%	15.07%	1.17%
30/11/01	4.69%	1.91%	19.27%	3.09%	3.44%	0.62%	18.21%	1.82%
31/12/01	5.24%	1.50%	17.78%	6.15%	5.24%	1.50%	17.78%	6.15%

This table reflects the following:

- The percentage of portfolio in arrears (one day late) for the total portfolio increased from 0.23% by the end of September 2000 to its peak by the end of March 2001 (19.94%). It then began to decrease over the months until it reached its lowest level the end of October 2001(2.65%), and then increased over the last two months of the year 2001 to reach 4.51% by the end of December 2001. On the other hand, this same ratio for the portfolio of the loans which which were disbursed after the eruption of the Intifada continued to be zero or very close to zero until the end of June 2001, then it began to increase to reach its highest level by the end of Dcecmber 2001(4.51%).
- The percentage of portfolio in arrears (> 30 days late) increased from 0% by the end of September 2000 to its peak by the end of March 2001 (14.54%). It then began to decrease until it reached its lowest level since the beginning of the Intifada, at the end of December 2001 (1.50 %). On the other hand, this same ratio for the portfolio of the loans which which were disbursed after the eruption of the Intifada continued to be zero or very close to zero until the end of August 2001, then it began to increase to reach its highest level by the end of Dcecmber 2001 (1.50%).
- The percentage of portfolio at risk (one day late) increased from 0.9% by the end of September 2000 to its peak by the end of November 2000 (66.64%). It then began to decrease until it reached its lowest point since the beginning of the Intifada (9.38 %) by the end of September 2001. It then began to increase again to reach 19.27% by the end of November, and then went down again to 17.78% by the end of December 2001. On the other hand, this same ratio for the portfolio of the loans which which were disbursed after the eruption of the Intifada continued to be zero or very close to zero until the end of June

2001, when it began to increase. It reached its highest level by the end of November (8.21%) and then dropped down a little bit by the end December 2001 (17.78%)¹¹.

- The percentage of portfolio at risk (> 30 days late) increased from 0% at the end of September 2000 to its peak by the end of January 2001 (27.63%). It then began to decrease until it reached its lowest level by the end of November (3.09%), only to increase again to 6.15% by the end of December 2001. On the other hand, this same ratio for the portfolio of the loans which were disbursed after the eruption of the Intifada continued to be zero or very close to zero until the end of September 2001, when it began to increase to reach its highest level by the end of December 2001 (6.15%)¹².

C. Loan Loss Provision:

Table 5: Amount of Provisions:

	Period	Amount Provisioned During Period	Amount Written Off During Period	Loan Loss Reserve (LLR)	% LLR/ Portfolio	% PAR >30 Days Late
Q U A R T E R	As of 28/2/98 Spinning off SC			21,124	3.00%	???
	Mar 1999	0	0	21,124	3.27%	0.04%
	Q2 1999	2,726	0	23,850	2.91%	0.00%
	Q3 1999	4,000	0	27,851	3.10%	0.15%
	Q4 1999	6,895	0	34,745	3.14%	0.05%
	Q1 2000	2,654	0	37,399	3.10%	0.02%
	Q2 2000	6,982	162	44,219	2.99%	0.00%
	Q3 2000	9,321	0	53,540	2.99%	0.00%
	Q4 2000 Start of 2 nd Intifada	77,562	256	130,846	11.02%	21.58%
	Q1 2001	106,676	0	237,521	17.67%	27.16%
	Q2 2001	16,004	318	253,207	14.39%	13.47%
	Q3 2001	-36,638	41,152	175,418	9.22%	7.16%
	Q4 2001	38,351	100,848	112,921	7.94%	6.15%
ANNUAL	1999	13,621	0	34,745	3.14%	0.05%
	2000	96,518	418	130,846	11.02%	21.58%
	2001	124,393	142,318	112,921	7.94%	6.15%

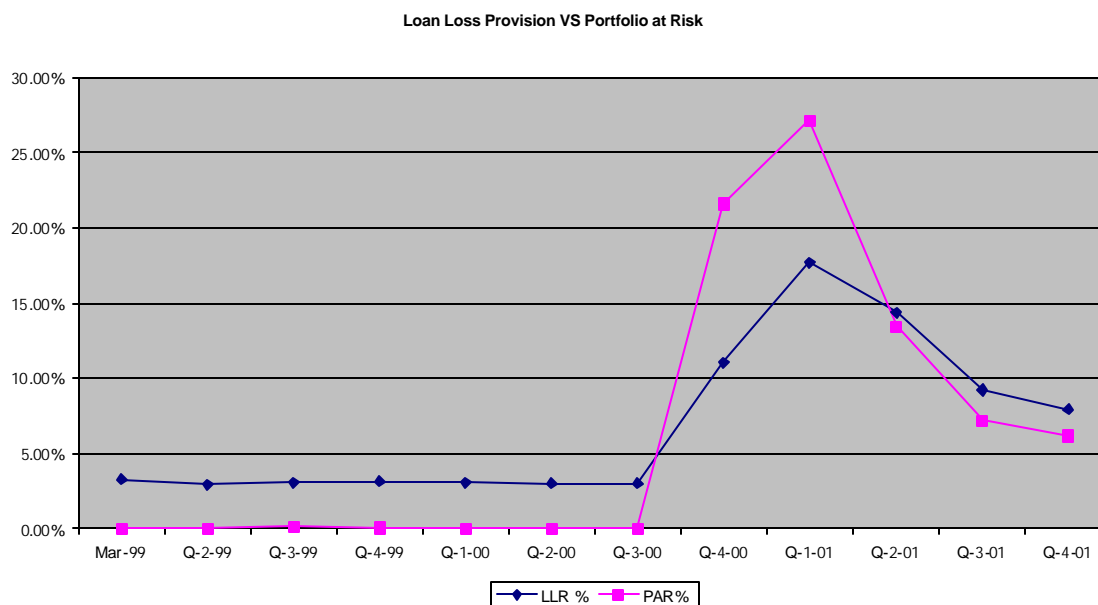
From the table above we can see that the Loan Loss Reserve Ratio was always about 3% before the Intifada as the Portfolio at Risk was very minimum (close to zero). Since the eruption of the Intifada and as FATEN began to face arrears problems, FATEN began to use the aging report approach in provisioning for loan loss¹³. We can see that FATEN's Loan Loss Reserve increased with the increasing of the Portfolio at Risk. This raised dramatically the cost of FATEN operations

¹¹ It is important to notice here that this ratio was the same by the end of December 2001 for both total portfolio and portfolio of loans disbursed since the eruption of the Intifada as the two portfolios became one.

¹² The same as above.

¹³ For more details about FATEN's Provisioning and Write off Policies see Annex II

and reflected itself negatively on the levels of operational sustainability of FATEN (detailed later in this report).



D. Collection of the Outstanding Balance of 30/9/2000 and Written Off Loans¹⁴:

From Chart of New Portfolio VS total portfolio, we can see that the new portfolio and the total portfolio became the same as of end of December 2001. By the end of September 2000, when the Intifada was erupted, FATEN's portfolio was equivalent to USD 1,789,824. Over the 15 month of the Intifada, FATEN managed to collect USD 1,647,506 (92%) from this principal and all the due interest on these amounts. The difference between the the portfolio on 30/9/00 and the amount collected was written off mainly over the last 3 months of year 2001. This amount was USD 142,318¹⁵.

IV. OPERATING EFFICIENCY :

Table 6 (below) reflects the following:

- In the quarters before the start of the second Intifada, FATEN's efficiency ratios were improving. One can see a remarkable drop in the cost per unit lent ratio from about 26% in the second quarter of 1999 to 15% just before the start of the al Aqsa Intifada in October 2000. The same can be said about the cost per loan made which decreased from 88 USD to about 70

¹⁴The whole written off amount was deducted from the loan loss reserve. In other words, it was considered as part of FATEN expenses during year 2001.

¹⁵ By the end of February 2002, more than USD 12,000 from the written off amounts was already collected. FATEN is optimistic that it will be able to collect a good portion of these amounts when the political and accordingly the economic stability is back.

USD. During the same period, both the number of active loans/promoter and the portfolio/promoter increased from 86 to 133 and from USD 17,410 to USD 38,081 respectively.

Table 6: Quarterly and Annual Efficiency Ratios

	Period	Cost Per Unit Lent	Cost Per Loan Made	Active Loans/Promoter	Portfolio/Promoter
Q U A R T E R	Q2 1999	0.26	88	86	17,410
	Q3 1999	0.25	83	104	19,525
	Q4 1999	0.20	74	128	27,682
	Q1 2000	0.21	80	117	25,669
	Q2 2000	0.17	70	131	31,139
	Q3 2000	0.15	75	133	38,081
	Q4 2000 Start of 2nd Intifada	0.49	268	104	28,266
	Q1 2001	0.23	134	98	33,600
	Q2 2001	0.16	93	123	43,983
	Q3 2001	0.17	94	138	47,555
	Q4 2001	0.23	127	112	35,211
ANNUAL	1999	0.24	81	106	21,539
	2000	0.20	87	121	30,789
	2001	0.19	108	116	39,570

- As a result of the second Intifada, these ratios initially underwent dramatic changes. For example the cost per unit lent rose from 15% to 49% in the first quarter of the Intifada. The same with the cost per loan disbursed which rose from 70-75 USD to 268 USD. On the other hand, the number of active clients/promoter decreased from 133 to 104 to 98 and the portfolio per promoter decreased from just over USD 38,000 to 28,000 USD.
- Over the 2nd and 3rd Quarters of year 2001, FATEN managed to return to those ratios in place before the Intifada and even improved some of them. For example, the cost per unit lent decreased again to 16% and 17% over those quarters and the cost per loan made decreased to 94 USD. Also, the number of active clients/promoter increased to 138 and the portfolio/promoter increased to USD 47,555.
- Unfortunately, these improvements could not continue due to the severe escalation of Israeli military attacks and the tightening of the seige almost on every Palestinian city, town, village and refugee camp over the last quarter, particularly during the month of December. These ratios began to drop again, although fortunately not as fast and as dramatically as when the Intifada began.
- When we look at the annual ratios, we read that two of these ratios improved over 2001 compared to 2000. The cost of unit lent decreased from 20% to 19% and the portfolio per promoter increased from just over 30,000 USD to almost 40,000 USD. On the other hand, the cost per loan disbursed increased from 86 USD to 116 USD and the number of active clients/promoter decreased from 121 to 116.

In addition to the Intifada, which made the cost of doing business higher and operations less efficient, there are other reasons why the cost per unit lent went down slightly, why the portfolio per

promoter increased in year 2001, why the cost per loan made increased significantly, and why the number of active clients/promoter decreased significantly:

- a) The introduction of the individual loan. In 2001, FATEN disbursed 177 individual loans, which consists only 2% of the loans disbursed during the year but amounted USD 323,950, which is about 7% of the amount disbursed.
- b) The average loan size of the GGLS product increased from USD 439 in year 2000 to USD 544 in year 2001. Accordingly, the average loan balance increased from USD 265 in 2000 to USD 282 in 2001.

As a result of these two points, though FATEN disbursed only 8,183 loans during year 2001 (which is only 82% of the number of loans disbursed in year 2000), it disbursed USD 4,629,321. This is 105% of the amount disbursed in year 2000 and the highest amount disbursed per year since the inception of the program in 1995.

Table 7 Efficiency

Efficiency	y/e 1999	y/e 2000	y/e 2001
1. Administrative Efficiency	104%	72%	63%
2. Operational Efficiency	107%	83%	71%
3a. Administrative costs per active loan	152	158	188
3b. Administrative costs per loan made	82	87	108
4. Personnel costs % of total administrative costs	70%	71%	73%
5. Number of line staff % of total staff	54%	52%	51%
6. Number of active loan clients per staff member	76	54	55
7. Number of active loan clients per loan officer	141	104	107
8. Outstanding portfolio per loan officer	30757	28266	33867
9. Number of clients per branch office	635	484	500
10 Cost per Unit Lent	24%	20%	19%
Memory			
Active Loans end of period	5,079	4,352	4,498
Number of loans made	8,290	10,029	8,183
Loan Officers end of period	36	42	42
Staff end of Period	67	81	83
Outstanding balance end of period	1,107,268	1,187,169	1,422,408
Number of branch offices	8	9	9

As FATEN does not incur interest expenses, the difference between the administrative efficiency ratio and the operational efficiency ratio is solely due to the loan loss provisioning expense.

The OPT is a low-income area with a high cost of living. GDP per capita in 1999 was USD 1,500 and was expected to decrease to about USD 900 in 2001. However, prices in the OPT are those of

an upper income country – given the Palestinian economic integration with the Israeli economy. For instance, the price level in Israel is only 10 percent less than in the USA. By contrast the price level of other middle-income MENA countries is 50 percent less than USA.

As a consequence, FATEN has high operational costs but lower average loan balances, due to its targeting of poor clients. The two consecutive surveys on microfinance in the Middle East and North Africa conducted by the World Bank show that FATEN's depth of targeting is among the best in the region. FATEN does not use its high operational costs and low average loan balance as an excuse to justify its high operational efficiency ratio i.e., the operating expenses as a percentage of the average net outstanding portfolio. It considers this a fact of life in the OPT and hence another reason to increase outreach and efficiency.

The impact of the second Intifada on operational efficiency was twofold: (i) an initial increase of portfolio at risk, requiring a high amount of staff time to collect repayments; and (ii) an initial decrease in number of active clients, as many clients who were dependant on Israel for inputs and/or outputs either stopped their businesses and dropped out¹⁶. Hence, the number of active clients and outstanding loan portfolios per loan officer cases decreased while the costs remained the same. As a result, the operating costs per active loan actually increased. The analysis of quarterly operational efficiency ratios is illuminating:

Table 8: Operating Cost Ratio

Period	Operating cost ratio quarterly	Operating costs ratio annualized
Q2 1999	28.91 %	115.64 %
Q3 1999	24.63 %	98.52 %
Q4 1999	21.09 %	84.36 %
Q1 2000	19.55 %	78.20 %
Q2 2000	17.90 %	71.60 %
Q3 2000	15.34 %	61.36 %
Q4 2000 Start of Second Intifada	16.99 %	67.96 %
Q1 2001	26.04 %	104.16 %
Q2 2001	15.25 %	61.00 %
Q3 2001	11.18 %	44.72 %
Q4 2001	14.44 %	57.76 %

In the quarters before the start of the second Intifada, FATEN's loan portfolio was growing, its efficiency increasing and its sustainability improving. One can see a remarkable drop in the annual operating cost ratio from about 115 percent in the second quarter of 1999 to 61 percent just before the start of the second Intifada in October 2000. However, by the end of the 1st quarter 2001, when the full effects of the Intifada began to appear, operational efficiency had increased dramatically to over 100 percent. Many MFIs would not have survived such a shock. Instead, FATEN slowly recovered while the circumstances – closures and curfews – remained the same, until it had surpassed its pre-Intifada levels of operational efficiency. By the 3rd quarter of 2001 FATEN had an

¹⁶ Some of them returned to FATEN after re-orienting their businesses towards the local economy.

operating cost ratio of 44%, which is in line with its peer group in the region operating at 38.7%. This however began to increase again in the last quarter of 2001 as increased violence and even more stringent closures once again slowed down portfolio growth.

Operational efficiency will improve with an increased number of clients. While the average active number of clients per loan officer today is about 120, in normal times this should be between 200 and 250 per loan officer. A well performing branch can have up to 1,200 to 1,400 active clients. For instance, Rafah in Gaza before the Intifada had 1,200 active clients and 6 loan officers. Hebron in the West Bank had 1,300 active clients and also 6 loan officers. The ratio of personnel costs to total administrative costs is in line with best practices at 73%.

V. OPERATIONAL AND FINANCIAL SUSTAINABILITY¹⁷

FATEN was well on its way to financial sustainability at the outbreak of the second Intifada in September 2000. FATEN's operational and financial self-sufficiency ratios were increasing steadily and it was expected that FATEN was going to achieve full operational self-sufficiency by the end of June 2001 and full financial self-sufficiency by the end of June 2002. FATEN's outreach and other indicators were as follows:

Indicator		
Number of Active Clients	6,234	(As of 30/9/2000)
Outstanding Loan Portfolio	USD 1.8 million	(As of 30/9/2000)
Operational Self-sufficiency	83 %	(Jul-Sep:2000)
Financial Self-sufficiency	69 %	(Jul-Sep:2000)
Portfolio at Risk (PAR) one day late	0.9 %	(As of 30/9/2000)
Portfolio at Risk (PAR) > 30 day late	0.0%	(As of 30/9/2000)

The immediate impact of the closures and the violence that followed was a virtual cessation of FATEN's operations. FATEN staff, especially those living in villages, could not get to their offices or clients to make new loans and clients could not get to the banks to repay their loans. As a result, FATEN experienced a dramatic drop in number of active clients and outstanding portfolio. Within three months, the number of active clients decreased by almost 2,000 from 6,243 to 4,352 and the outstanding portfolio decreased by over \$600,000 from USD 1.8 million to less than USD 1.2 million. Before the start of the Intifada, FATEN disbursed almost 1,100 loans per month. This number, however, dropped to 79 in October 2000.

The initial decrease in outstanding loan portfolio also resulted in lower revenues and higher costs which adversely affected FATEN's operational and financial self-sufficiency ratios. In the first quarter of 2001, OSS and FSS bottomed out at 41 and 37 percent respectively. However, after the initial shock, FATEN was able to get back on a path of recovery. As of December 2001, FATEN had reached an OSS of 81 percent and FSS of 65 percent, bringing it almost back to pre Intifada rates (83 and 69 percent) and in line with its peers operating in the region at 86.6 and 75.5

¹⁷ Though FATEN's loan capital is from grants, to calculate the financial sustainability, it assumes an annual cost of fund of 12% on the average outstanding portfolio.

percent.¹⁸ While these ratios are still below the industry average (101.6 and 89.6) for its market and level of institutional development, FATEN is performing well.

Table 9: Operational and Financial Sustainability

	Period	Operational Sustainability	Financial Sustainability
Q U A R T E R	Q2 1999	44%	40%
	Q3 1999	50%	45%
	Q4 1999	59%	52%
	Q1 2000	64%	56%
	Q2 2000	71%	60%
	Q3 2000	83%	69%
	Q4 2000 Start of Second Intifada	58%	50%
	Q1 2001	41%	37%
	Q2 2001	75%	63%
	Q3 2001	105% ¹⁹	82%
	Q4 2001	95%	79%
ANNUAL	1999	52%	46%
	2000	69%	59%
	2001	75%	63%

If we look the annual ratios we would find that in spite of the Intifada, FATEN OSS and FSS for year 2001 were higher than those for year 2000.

Table 10: Operational Sustainability with and without Loan Loss Provision

	1999	2000	2001
Total Operating Revenues	355,434.70	667,164.09	755,206.31
Total Operating Expenses	677,114.08	873,582.07	886,756.13
Deficit w/out LLP	-321,679.38	-206,417.98	-131,549.82
(Provision for Loan Losses)	-13,621.07	-96,518.31	-124,393.30
Deficit with LLP	-335,300.45	-302,936.29	-255,943.12
OSS (without LLP)	53%	76%	85%
OSS (with LLP)	52%	69%	75%

¹⁸ The MicroBanking Bulletin, Issue No, 7, November 2001.

¹⁹ This dramatic jump in the operational and financial sustainability is partially as a result of good collection from the loans in arrears, some of the loan loss provision was reversed during that quarter which increased the revenues. If the effect of that is neglected those two ratios will go down to 89% and 72% respectively.

From this table we can see that FATEN Operational Sustainability would be even better without the effect of the loan loss provision cost, which increased dramatically during the Intifada because of the increase of the arrears. The difference between the OSS without LLP and with LLP in 1999 was very minor (only 1%). This difference increased to 7% in 2000 and to 10% in 2001.

VI. STAFFING

A. Staff Growth²⁰: By the end of this year there were 85 people²¹ working for FATEN (filling 82.5 positions)²² compared to 83 people by the end of 2000 (filling 80.5 positions). Table 11-B shows the distribution of these staff by post and shows the growth over the last 3 years. From this table we can see that in spite of the current crisis, the number of FATEN staff slightly increased over year 2001.

Annex 3 shows the distribution of all FATEN staff by branch, region, main office and position. From this annex we can see the effect of the geopolitical situation and accordingly the regional office on FATEN's expensive organigram. More than 16 positions are located in those regional offices. Should FATEN operate under a different geopolitical situation, that number can be replaced with only 4-5 positions without affecting FATEN's work. However, whenever the conditions will go back to normal, FATEN will benefit from this structure by not only having a better outreach, but also a better and fast customer service through its decentralised operations.

FATEN still believes that it can weather the current crisis in the country while keeping all of its staff and without losing its long-term investment in the training of its staff. Moreover, over the coming year FATEN expects to employ another 15-20 staff members as 1) FATEN will begin the implementation of phase II of its decentralization plan to delegate more responsibilities and authorities from the regional offices to the branches; 2) FATEN will begin expanding its individual loan product- phase I and piloting other new products; and 3) FATEN will open a new branch in Ramallah.

Table 11-A: Staff Growth

No	Position	As of 12/31/99		As of 12/31/00		As of 12/31/2001	
		Person	Position	Person	Position	Person	Position
1-	Managing Director	1	1	1	1	1	1
2-	Fin./Admin. Manager	1	1	1	1	1	1
3-	Human Resource Manager	1	1				
4-	Product Development Specialist			1	1	1	1
5-	Human Resources Officer	1	1	1	1	1	1
6-	MIS Specialist	1	1	1	1	1	1
7-	Regional Manager	3	3	3	3	3	3
8-	Branch Managers	8	8	7	7	8	8
9-	Internal Control Officer	1	1	1	1	1	1
10-	Finance & Admin. Officer	4	4	4	4	4	4

²⁰Annex III shows the distribution of all FATEN staff by branch, region, main office and position.

²¹ Only 10 staff members were men and all the others are women.

²² There are five cleaners in the branches working as part-time. Also, the cleaners in the 3 regional offices working full time and covering the work of the 3 branches adjacent to the regional offices

11-	Accountant	1	1	3	3	3	3
12-	Receptionist /Data Entry	2	2	5	5	6	6
13-	Promoters	36	36	42	42	42	42
14-	Driver	2	2	3	3	3	3
15-	Cleaners	8	4.75	9	6.5	9	6.5
16-	Internal Auditor			1	1		
17-	MIS Assistant					1	1
	GRAND TOTAL	70	66.75	83	80.5	85	82.5

B. Staff Turnover: During the year 2001, 14 people left FATEN and 16 new employees joined the organization. Though the turnover seems high (about 20%), it is still better than the year before when staff turnover was about 30%²³. Table 11-B shows the distribution of those who left and those who joined FATEN vs their positions. From this table we see that the turnover of the staff did not affect FATEN senior and core staff.

Table 11-B: Staff Growth and Turnover

No	Position	Person As of 12/31/99	During 2000		Person As of 12/31/00	During 2001		Person As of 12/31/01
			In	Out		In	Out	
1-	Managing Director	1	-	-	1	-	-	1
2-	Fin./Admin. Manager	1	-	-	1	-	-	1
3-	Human Resource Manager	1	-	1		-	-	
4-	Product Development Specialist		1	-	1	-	-	1
5-	Human Resources Officer	1	-	-	1	-	-	1
6-	MIS Specialist	1	-	-	1	-	-	1
7-	Regional Manager	3	-	-	3	-	-	3
8-	Branch Managers	8	1	2	7	2	1	8
9-	Internal Control Officer	1	-	-	1	-	-	1
10-	Finance & Admin. Officer	4	-	-	4	1	1	4
11-	Accountant	1	2	-	3	2	2	3
12-	Receptionist /Data Entry	2	4	1	5	2	1	6
13-	Promoters	36	18	12	42	7	7	42
14-	Driver	2	2	1	3	1	1	3
15-	Cleaners	8	5	4	9			9
16-	Internal Auditor				1	-	1	
17-	MIS Assistant					1	-	1
	GRAND TOTAL	70	34	21	83	16	14	85

VII. STAFF TRAINING AND DEVELOPMENT

Staff training and development has always been one of FATEN's priorities. The current situation, however, has imposed restrictions and limitations on how much FATEN can do in this regard. Annex # IV shows all the training activities that took place within and outside FATEN, and the positions and numbers of staff who attended those activities. The impact of the situation becomes clear when the results are compared to the amount of training FATEN staff attended in the previous years.

²³ In year 2000, 21 people left FATEN and 34 new employees joined the organization.

VIII. PUBLIC RELATIONS AND NETWORKING:

- FATEN participated very actively in all meetings held by Chemonics, to establish a forum for microfinance institutions and programs in Palestine.
- A representative from Ireland Aid visited FATEN's regional office and branch in Bethlehem.
- The Managing Director participated in the Arab Conference on Women and Poverty in Casablanca in Morocco and presented a paper about FATEN and elements which should be taken into consideration when designing a microfinance program to reach poor women microentrepreneurs. The conference was organized by: the Arab League, UNDP and the Center of Arab Women for Training and Research (Cawtar).
- FATEN continued its active participation in the meetings about Women and Poverty, which are organized by the department for women's participation in MOPIC. FATEN participated in the conference on Women and Poverty, which was organized by the same department in MOPIC. A paper about FATEN's experience in this regard was presented.
- Represented by its Director, FATEN participated among the Palestinian Delegation in the Regional Forum organized in Brussels on 13th and 14th July on "The role of women in economic development: dimension equal opportunities between women and men within the Euro-Mediterranean Partnership".
- To begin exploring the possibility of commercialization and to meet some of those who might become among FATEN's bank equity holders, FATEN's director participated in the Micro Banking Forum: Access to Capital Markets which was held in Frankfurt, 30-31 of August 2001.
- Gaza Regional manager participated as a trainer in the training, which was organized by ISAMI in Gaza for the credit officers during 4-6 September 2001.
- FATEN worked with other MFIs in the region to prepare for a regional meeting for the main Arab microfinance practitioners to be held in April 2002. It is expected that this meeting will launch the first Microfinance Network in the Arab World.
- FATEN became a member of the Palestinian NGO Network.
- FATEN worked closely over this year with the Ministry of Social Affairs on issues related to poverty alleviation. FATEN's Managing Director is on the Advisory Board of the Center to Alleviate Poverty which was established by the Ministry.
- FATEN's Managing Director was invited to become an establishing member of the Rockdale Foundation Microfinance Advisory committee.
- The MIS Specialist and the Managing Director presented AI-FATEN, the new loan tracking system, to four of the Jordanian MFIs in addition to representatives from AMIR and Talal Abu Ghazaleh Company. The last two are responsible to help the Jordanian MFIs to select the appropriate MIS.

IX. Fixed Assets Purchased:

Table 12 shows the fixed assets which were purchased during this year, their cost, and the grants to which they were charged. A more detailed list showing all the assets which were purchased, the location of each asset, its cost and the grant to which it was charged is available in Annex # V.

Table 12: Assets Purchased During Year 2001

Items	USAID Grant	Ireland Aid Grant	Others (RLF)	Total
Furniture	85.24	987.9		1,073.14
Computers		6,163.53		6,163.53
Printers	453.15		881.81	1,334.97
Tel & Faxes		82.30		82.30
Office Equipments		5,949.78	263.69	6,213.47
Software		631.8		631.8
Total	535.40	13,815.30	1,145.50	15,499.20

X. FINANCING AND TRANSFER OF FUNDS:**Table 13: Amount of funds transferred to FATEN during the period (1/1/01-12/31/01)**

Grant	Quarter	Loan Capital	MFI Development	Operating Cost	Total US \$
USAID	Q-1	0.00	19,349.17	0.00	19,349.17
	Q-2	0.00	42,489.30	0.00	42,489.30
	Q-3	0.00	0.00	0.00	0.00
	Q-4	0.00	0.00	0.00	0.00
	Sub Total	0.00	61,838.47	0.00	61,838.47
RLF	Q-1	223,176.05	7,411.37	75,426.55	306,013.97
	Q-2	378,697.18	4,898.00	87,229.56	470,824.74
	Q-3	194,584.51	5,016.75	0.00	199,601.26
	Q-4	300,788.74	654.86	3,412.50	304,856.10
	Sub Total				
IRISH	Q-1	0.00	0.00	0.00	0.00
	Q-2	135,633.81	351.00	7,325.17	143,309.98
	Q-3	0.00	5,179.47	11,949.79	17,129.26
	Q-4	0.00	7,419.97	29,699.79	37,119.76
	Sub Total				
ROCKDALE²⁴	Q-1	0.00	0.00	0.00	0.00
	Q-2	0.00	0.00	0.00	0.00
	Q-3	0.00	0.00	0.00	0.00
	Q-4	0.00	0.00	0.00	0.00
	Sub Total	0.00	0.00	0.00	0.00
GRAND TOTAL	Q-1	223,176.05	26,760.54	75,426.55	325,363.14
	Q-2	514,330.99	47,738.30	94,554.73	656,624.02
	Q-3	194,584.51	10,196.22	11,949.79	216,730.52
	Q-4				
	Total				,693.54

During the year 2001, and on FATEN's request, Save the Children/US transferred a total of USD 1,540,693.54 to FATEN. USD 1,232,880.29 was for Loan Capital; USD 215,043.36 was for Operating Cost Deficit and USD 92,769.89 were for MFI Development. This was mainly from the Ireland Aid, USAID and RLF sub-Grants.

²⁴ 50,000 USD was transferred under this grant during the last quarter of this year for Loan Capital. As no loans were charged to that yet, it stayed as a liability and did not appear in the above table.

XI. Financial Statements:

Income Statement and Balance Sheet

Table 14. Income Statement

<u>Financial Income</u>	y/e 1999 ²⁵	y/e 2000	y/e 2001
OPERATING FINANCIAL INCOME			
Interest on current and past due loans	312,375.33	591,428.31	609,294.22
Interest on individual loans	0	4,742.96	32,265.30
Individual loans fees	0	1,120.00	4,000.00
GGLS Loan fees	36,428.19	42,130.99	36,519.72
GGLS Late Payment fees	6,631.18	7,848.74	8,598.86
Fast Loans (interest and fees upfront)	0.00	6,688.73	13,242.25
Consulting Revenues	0.00	11,362.50	18,787.50
MIS Software sales revenues	0.00	0.00	25,500.00
Employees loans fees	0.00	1,631.40	354.00
Other operating revenues	0.00	210.46	6,644.46
Total Operating Financial Income	355,434.70	667,164.09	755,206.31
NON-OPERATING FINANCIAL INCOME			
Interest on time deposits	11,179.60	41,125.52	63,888.54
Interest on employees loans	0	4,176.39	921.97
Other non-operating revenues	2,077.79	79.26	3.2
Total non-operating financial income	13,257.39	45,381.17	64,813.71
<u>TOTAL FINANCIAL INCOME</u>	368,692.09	712,545.26	820,020.02
FINANCIAL COSTS OF LENDING			
Interest on debt	0	0	0
Interest paid on deposits	0	0	0
Total financial costs	0	0	0
GROSS FINANCIAL MARGIN	368,692.09	712,545.26	820,020.02
(Provision for Loan Losses)	<u>-13,621.07</u>	<u>-96,518.31</u>	<u>-124,393.30</u>
NET FINANCIAL MARGIN	355,071.02	616,026.95	695,626.72
<u>Operating Expenses</u>			
Salaries and benefits	474,625.88	619,607.83	645,659.40
Occupancy Expenses	202,488.20	60,221.06	61,857.04
Telecommunications	0	34,778.99	36,972.23
Transportation and auto operations	0	51,513.72	48,534.02
Program development and training	0	17,868.25	1,865.64
Audit fees	0	9,140.12	8,775.01
Legal fees	0	2,761.52	5,625.52
Other administrative expenses	0	77,690.58	77,467.27
Total Operating Expenses	677,114.08	873,582.07	886,756.13
NET INCOME/(LOSS) FROM OPERATIONS	-322,043.06	-257,555.12	-191,129.41

²⁵ As FATEN was spun off on the the 1st of March, the year 1999 covers ten months only.

Table 15 Balance Sheet

<u>ASSETS</u>	1/3/1999	Y/e 1999	Y/e 2000	Y/e 2001
Cash and Bank Current Accounts	0	124,375.80	208,059.13	336,168.09
Interest Bearing Deposits	0	635,903.22	1,759,651.09	2,955,250.39
Total Cash and Bank Accounts	0	760,279.02	1,967,710.22	3,291,418.48
<i>Current GGLS Loans</i>	704,142.51	1,107,267.53	1,144,418.75	1,234,421.08
<i>Current Individual Loans</i>	0	0	42,749.96	187,988.06
<i>Non-Performing GGLS</i>	171,797.20	149,532.37	0	0
<i>Rescheduled GGLS</i>	65,293.36	60,268.88	0	0
<i>FATEN Employees Loans</i>	0	0.00	48,961.00	31,070.00
Total Loans Outstanding	941,233.07	1,317,068.78	1,236,129.71	1,453,479.14
<i>(Loan Loss Reserve)</i>	<i>-225,568.15</i>	<i>-216,924.39</i>	<i>-130,846.36</i>	<i>-112,921.31</i>
Net Loans Outstanding	715,664.92	1,100,144.39	1,105,283.35	1,340,557.83
Other Current Assets	50,596.87	37,713.21	38,321.29	33,003.74
Due from Save the Children	0	75,326.07	24,588.84	70,002.01
TOTAL CURRENT ASSETS	766,261.79	1,973,462.69	3,135,903.70	4,734,982.06
<i>Property at Cost</i>	200,000.00	219,846.14	219,846.14	219,846.14
<i>Equipment at Cost</i>	152,245.08	264,475.79	296,216.33	312,744.81
Total Property and Equipment	352,245.08	484,321.93	516,062.47	532,590.95
<i>(Accumulated depreciation)</i>	0	-33,466.38	-82,024.62	-133,918.58
Net Property and Equipment	352,245.08	450,855.55	434,037.85	398,672.37
TOTAL LONG TERM ASSETS	352,245.08	450,855.55	434,037.85	398,672.37
<u>TOTAL ASSETS</u>	1,118,506.87	2,424,318.24	3,569,941.55	5,133,654.43
<u>LIABILITIES AND NET WORTH</u>				
CURRENT LIABILITIES				
Short-term accounts payable	28,124.00	129,140.79	278,872.28	414,426.68
1. Employees pension fund	0	53,514.96	128,787.83	213,151.48
2. Employees severance	0	25,899.48	60,448.47	102,822.72
3. Savings Payable	0	18,066.62	78,647.57	70,227.02
4. Others	0	31,659.73	10,988.41	28,225.47
Due to Save the Children	0	23,378.23	42,260.98	49,396.30
TOTAL CURRENT LIABILITIES	28,124.00	152,519.02	321,133.26	463,822.98
Long term liability (building)	120,000.00	80,000.00	20,000.00	0.00
TOTAL LIABILITIES	148,124.00	232,519.02	341,133.26	463,822.98
NET WORTH				
Paid-in Capital	0	3,636.00	4,080.00	4,080.00
Donated Initial Loan Fund Capital	715,664.91	715,664.91	683,018.22	683,018.22
Collection for Non-Performing	0	22,264.83	36,943.02	41,573.46
Collection from rescheduled	0	0.00	7,060.62	7,060.62
Donated Initial Operating Costs (prepaid)	24,982.87	24,982.87	24,982.87	24,982.87
Donated Capital Assets	229,735.10	247,628.35	247,701.84	248,900.85
Grants: Loan Fund Capital	0.00	1,063,380.31	2,079,070.46	3,420,415.55
Grants: MFI Development	0.00	131,686.26	184,353.59	213,307.47
Grants: Operating Costs	0.00	304,598.77	541,195.85	797,220.00
Retained Net Surplus/(Deficit) prior year	0.00	0.00	-322,043.06	-579,598.20
Current Year Net Surplus/(Deficit)	0.00	<i>-322,043.06</i>	<i>-257,555.14</i>	<i>-191,129.36</i>
TOTAL NET WORTH	970,382.88	2,191,799.24	3,228,808.27	4,669,831.48
<u>TOTAL LIABILITIES AND NET WORTH</u>	1,118,506.88	2,424,318.26	3,569,941.53	5,133,654.46

Annex I

FATEN CONSULTANCIES AND LOAN TRACKING SYSTEM SALES

I) ENDA/Tunis:

- The relationship with Enda began in June 1996, when the Managing Director participated as a resource person in a meeting about poverty alleviation organized by the World Bank and the Tunisian Government for the Maghreb countries (Tunis, Algeria, Morocco and Mauritania). At that time, they were not following best practices, having fewer than one hundred active loans, and using only the individual loan methodology. By 2001 they covered more than 91% of their operational cost, and had about 5,000 active clients in both group and individual loan products.
- ENDA was the first MFI to buy AI-FATEN Loan Tracking System in May 2001.
- The table below shows the main consultancies FATEN implemented with them.

Date	Who?	# of Days	What/Why?
1999	Mar Managing Director	7	<ul style="list-style-type: none"> • To introduce Group Lending methodology • To help strategizing
2000	Jul Gaza Regional Manager	5	<ul style="list-style-type: none"> • To train the field staff on group lending
	Oct Managing Director	5	<ul style="list-style-type: none"> • To help doing projections for 3 years • To help in developing the budget for ICCO Proposal
2001	Feb Finance/Admin Manager	14	<ul style="list-style-type: none"> • To help them to set up and develop their financial system.
	May MIS Specialist	14	<ul style="list-style-type: none"> • To install the MIS, set it up and train them on how to use it.
	July South Regional Manager	14	<ul style="list-style-type: none"> • To train the field staff on how to deal with problematic loans.
2002	Feb Managing Director	12	<ul style="list-style-type: none"> • To facilitate the strategic planning session. • To conduct team building exercise • To train staff on how to read calculate and read ratios • To help with other strategic issues like organigram, etc.
	MIS Specialist	20	<ul style="list-style-type: none"> • To transfer the old data from Excel to the new system. • To solve problems and • To train a new MIS administrator.

II) Attadamon (Save the Children/Egypt Field Office Microfinance Program)

- The relationship with Save the Children/US Egypt program began back in 1994, when Save the Children began to introduce microfinance systems and the group lending concepts to the region. Staff from the two field offices in Egypt and Palestine participated in Amman/Jordan Training Workshop in April 1994 and in Cairo/Egypt workshop in December 1995 and in other meetings. For several reasons, including the inability of the program to attract major funding in its early days and not including that program in the CGAP Technical Assistance Grant for Save's other 3 programs in the region, Egypt's program was left behind and did not have the opportunities the others had.
- Attadamon was the second MFI to buy AI-FATEN Loan Tracking System in June 2001.
- The table below shows the main consultancies FATEN implemented with them.

Date		Who?	# of Days	What/Why?
2001	Mar	Managing Director	11	<ul style="list-style-type: none"> • To facilitate the strategic planning session • To develop a capacity building proposal for Rockdale Foundation.
	Jun	MIS Specialist	14	<ul style="list-style-type: none"> • To install the MIS, set it up and train them on how to use it.
2002	Jan	MIS Specialist	8	<ul style="list-style-type: none"> • To help transferring the old data. • To solve problems and • Train more the MIS administrator

III) Save the Children/Mozambique Field Office Microfinance Program

- The relationship with Save the Children/US Mozambique program began in September 2000 when the Managing Director of FATEN met with SC/Technical Advisor in SC/US PLG (Program Learning Group) meeting in Morocco.
- The program was the Third MFI to buy AI-FATEN Loan Tracking System in June 2001.
- The table below shows the main consultancies FATEN implemented with them.

Date		Who?	# of Days	What/Why?
2001	Jul	MIS Specialist	14	<ul style="list-style-type: none"> • To install the MIS, set it up and train them on how to use it.

Annex II

Loan Provisioning and Write Off Policies

Provisioning policy: FATEN uses a conservative and strict provisioning policy. It provisions the *higher* of: (a) three percent of the highest outstanding loan portfolio in a period; or (b) provisions based on the aging of arrears table below. In practice this means that in “good” periods the three-percent rule is used while in not so good periods the aging table is used.

Number of days past due	Provisioning percentage
01-30 days	10 percent
31-60-days	50 percent
61-90 days	100 percent
91 days +	100 percent

Since the start of the second Intifada, FATEN has been provisioning even more conservatively. Currently, for each branch it provisions the highest of: (a) three percent of the highest outstanding loan portfolio in a period; or (b) five percent of current portfolio end of period; or (c) provisions based on the aging of arrears table.

Write Off Policy: Loans over 180 days late are written off monthly, but repayment is still actively pursued. Staff are paid bonuses for collection on write-offs and credit agent are not eligible for staff loans until she has collected all of her written off loans. In addition, staff who leave FATEN with outstanding write off balances are not eligible for their pension and severance until the loans have been collected. During the Intifada and upon the request of the branches and the regions, this policy was changed and loans were written off on monthly basis only when they are over 240 days late. However, by the end of December 2001, FATEN returned back to its original policy and wrote off all the loans which were over 180 days late.

**Annex III
FATEN Staffing as of
31/12/2001**

No.	Position	Gaza Strip						North Bank				South Bank				FATEN			Gender		
		Khan-Yunis	Gaza City	Rafah	Jabalia	Dier El-Balah	Gaza Region	Total Gaza	Nablus	Jenin	North Region	Total North	Hebron	Bethlehem	South Region	Total South	Main Office	Positions Total	Persons Total	F	M
1-	Managing Director							-				-				-	1	1	1	-	1
2-	Fin/Admin Mgr							-				-				-	1	1	1	-	1
3-	Product Dvlpmnt Spclst							-				-				-	1	1	1	1	-
4-	Human Resource Ofcr							-				-				-	1	1	1	1	-
5-	MIS Specialist							-				-				-	1	1	1	-	1
6-	Regional Manager						1	1		1	1			1	1	-	3	3	3	-	
7-	Branch Managers	1	1	1	1	1	-	5		1	1	1	1	1	-	2	-	8	8	8	-
8-	Internal Control Officer						1	1				-				-	1	1	1	-	
9-	Finance & Admin. Ofcrs						1	1		1	1			1	1	1	4	4	4	1	3
10-	Assistant Accountant						1	1				-	1		1	1	3	3	3	-	
11-	Recep./ Data Entry						2	2		1	1	1	1	1	2	1	6	6	6	-	
12-	Promotors	4	3	5	5	3	1	21	4	5	-	9	8	4	-	12	-	42	42	42	-
13-	Drivers						1	1				-			1	1	3	3	-	3	
14-	Cleaners	0.5	0.5	0.5	0.5	0.5	0.5	3	0.5		0.5	1	0.5	0.5	0.5	1.5	1	6.5	9	9	-
15-	MIS Assistant							-				-				-	1	1	1	-	1
	Grand Total	5.5	4.5	6.5	6.5	4.5	8.5	36	4.5	6.0	3.5	14	11.5	5.5	4.5	21.5	11	82.5	85	75	10
	%							44%				17%				26%	13%	100%			

Annex IV A- Training Activities within FATEN

Month	Activity	Dates	Attendants	# of Attendance	Facilitator	Location
Jan.	▪ Methodology & Crisis Management	13	▪ Hebron Promoters	7	▪ South RM& Hebron BM	▪ Hebron Branch
	▪ Methodology & Arrears	16	▪ Bethlehem Promoters	4	▪ South RM	
Mar	▪ Credit Management	18	▪ Bethlehem Promoters	4	▪ South RM	▪ Bethlehem Branch
Apr	▪ “Methodology & Dealing w/ Crisis” Workshop	12	▪ Hebron Promoters	7	▪ South RM & Hebron BM	▪ Hebron Branch
	▪ “The Methodology v/ Arrears” Workshop	17	▪ Bethlehem Promoters	4	▪ South RM	▪ Bethlehem Branch
	▪ “Promoting for Individual Loans ” Workshop	18	▪ Nablus Promoters	4	▪ North RM	▪ North Region
May	▪ “Credit Managing” Workshop	6	▪ Gaza Branch Managers	5	▪ Gaza Regional Manager	▪ Gaza Region
Jun	▪ “Credit Managing” Workshop	5	▪ Bethlehem Promoters	4	▪ South RM	▪ Bethlehem Branch
	▪ “Start Your Own Business”	12	▪ Bethlehem Borrowers	20	▪ South RM	▪ Bethlehem Branch
	▪ “Methodology & Dealing w/ Crisis” Workshop	4	▪ Deir Al -Balah Promoters	4	▪ Deir Al -Balah BM	▪ Deir Balah Branch
Nov	▪ Group Lending Product -Policies and Procedures/Review	10 hours	▪ Hebron Promoters+BM	7	▪ South RM	▪ Hebron Branch
	▪ Group Lending Product -Policies and Procedures/Review	10 hours	▪ Bethlehem Prmtrs+BM+ FAO+Secretary	7	▪ South RM	▪ Bethlehem Branch
	▪ Individual and Fast Loan Procedures	20th	▪ Promoters +BMs	12	▪ South RM	▪ Bethlehem Branch
Dec	▪ Individual Loan Product	11	▪ Bethlehem and Hebron BMs + CA	3	▪ South RM	▪ Bethlehem Branch
	▪ Group Lending Methodology	12 days	▪ New Promoters	8	▪ Gaza RM	▪ Gaza Region

B- Training Activities Outside FATEN

Month	Activity	Dates	Attendants	Organizer	Location
Feb	▪ “Credit Management during Crisis” Training Course	35 hrs ²⁶	▪ Hebron BM	▪ Italian -Palestinian Center for Training	▪ Hebron
	▪ “ Visibility Studies” Training Course	4-13	▪ Gaza Accountant+ BM	▪ SMET/ UNRWA	▪ Gaza
Mar	▪ Problematic Loans	14	▪ North &South RMs	▪ Masar/ Chemonics	▪ Ramallah
	▪ Problematic Loans	18	▪ Gaza RM	▪ Masar /Chemonics	▪ Gaza
	▪ Grant Management	15-17	▪ HQ-FAO	▪ Save the Children	▪ Amman
Jun	▪ “Training of Trainers” Training Course	25 hrs ²⁷	▪ Training Officer	▪ Society Development Center - Panorama	▪ Ramallah
Jul	▪ “Managing People” workshop	15-17	▪ Gaza RM and FAO	▪ ISAMI-Chemonics	▪ Gaza
Sep	▪ Micro & Small Credit Officers Training	4-6	▪ 6 credit agents	▪ ISAMI-Chemonics	▪ Gaza
	▪ Business Planning Training	11-12	▪ New Products Specialist	▪ ISAMI-Chemonics	▪ Ramallah
	▪ Training of Trainers	17-30	▪ Gaza BM	▪ UNRWA	▪ Gaza

Acronyms:

RM	Regional Manager	BM	Branch Manager	FAO	Finance Admin. Officer	CA	Credit Agent
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²⁶ During the period 10/2/2001-10/3/2001.

²⁷ During the period 10/2/2001-10/3/2001.

Annex V
List of Fixed Assets Purchased
For the Period January 1, 2001 -- December 31, 2001

Item	Description	Quantity	Cost Amount In JD's	Cost Amount In US \$	Funding Source	Location
1- Furniture	Magnetic Board	1	60.522	85.24	USAID Crant	Head Office
	Computer Table	1	20.270	28.55	IRISH AID Grant	Head Office
	Chairs S Black	4	53.512	75.37	IRISH AID Grant	Head Office
	Wooden Table 150*80	1	25.083	35.33	IRISH AID Grant	Head Office
	Filing Cabinets	3	148.760	209.52	IRISH AID Grant	South Region
	Secretary Desk 150*70	2	224.598	316.34	IRISH AID Grant	Hebron Branch
	TV & video Table	1	100.841	142.03	IRISH AID Grant	Head Office
	Secretary Chair	2	128.343	180.76	IRISH AID Grant	Hebron Branch
			761.929	1,073.139		
2- Computers	HP Vectra v1400	2	1,785.998	2,515.49	IRISH AID Grant	Head Office
	HP Vectra v1400	1	893.003	1,257.75	IRISH AID Grant	Gaza Region
	HP Vectra v1400	1	893.003	1,257.75	IRISH AID Grant	North Region
	Upgrade IBM CPU's	2	804.103	1,132.54	IRISH AID Grant	Gaza Region
			4,376.106	6,163.529		
3- Tel. & Faxes	Panasonic Extension	1	45.608	64.24	IRISH AID Grant	Head Office
	HT2838 Extension Tel.	2	12.822	18.06	IRISH AID Grant	Gaza Region
			58.430	82.296		
4- Office Equipments	Kitchen Microwave	1	142.000	200.00	RLF/SCF Grant	Head Office
	Electrical Heaters	2	45.217	63.69	RLF/SCF Grant	Gaza Region
	Cisco Router 805	1	695.800	980.00	IRISH AID Grant	Head Office
	HP CD Writer	1	249.210	351.00	IRISH AID Grant	Head Office
	Refrigerator Miller	1	170.940	240.76	IRISH AID Grant	North Region
	Water Filter Rok 2000	1	334.448	471.05	IRISH AID Grant	Head Office
	PhotoCopier Nashuatec	1	816.500	1,150.00	IRISH AID Grant	Jenin Branch
	Copier Table	1	49.587	69.84	IRISH AID Grant	Jenin Branch
	Fans Magnum	3	37.605	52.96	IRISH AID Grant	North Region
	Water Filter ROK 2000	1	319.328	449.76	IRISH AID Grant	North Region
	Water Filter ROK 2001	1	319.328	449.76	IRISH AID Grant	South Region
	Water Filter ROK 2002	1	319.327	449.76	IRISH AID Grant	Hebron Branch
	TV & Vedio LG	1	565.166	796.01	IRISH AID Grant	Head Office
Electric transformer	1	347.107	488.88	IRISH AID Grant	Gaza Region	
			4,411.563	6,213.468		
5- Printers	HP DeskJet 1100	2	626.087	881.81	RLF/SCF Grant	Gaza Region
	HP DeskJet 1100	1	321.739	453.15	USAID Grant	Hebron Branch
			947.826	1,334.966		
6- Software	Antivirus Inoculate IT Ver.6.00 25 Clients	1	448.578	631.80	IRISH AID Grant	Head Office
			448.578	631.800		
Total			11,004.432	15,499.199		
Grant			US\$			
USAID Grant			538.396			
Ireland Aid Grant			13,815.305			
RLF/SCF Grant			1,145.499			
Total			15,499.199			