Background Information
Financial Performance

- UNRWA’s microfinance programme is run on a financially and operationally self-sufficient basis.
- It receives no subsidy from UNRWA’s GF or other funds.
- UNRWA follows best practice microfinance and meets its operating costs from the interest it earns on loans.
- Over the past four years the programme has earned an average profit of USD 1 million per year.
- Profits are reinvested in financing new loans, establishing new branch offices and financing other infrastructure and operating requirements.
- It produces its own independent and externally audited financial statements, which are prepared annually in accordance with IFRS;

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Income</td>
<td>4,970,396</td>
<td>7,099,792</td>
<td>8,178,212</td>
<td>9,385,794</td>
</tr>
<tr>
<td>Loan loss impairment</td>
<td>433,839</td>
<td>(328,555)</td>
<td>(358,797)</td>
<td>(231,468)</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>(4,811,599)</td>
<td>(5,271,206)</td>
<td>(6,672,026)</td>
<td>(8,170,875)</td>
</tr>
<tr>
<td>FX difference</td>
<td>(8,487)</td>
<td>(8,599)</td>
<td>(37,036)</td>
<td>(203,577)</td>
</tr>
<tr>
<td>Net income/profit</td>
<td>584,189</td>
<td>1,490,950</td>
<td>1,110,303</td>
<td>779,874</td>
</tr>
</tbody>
</table>
Social Performance

- UNRWA provides loans to both refugees and non-refugees.
- It has a double bottom line of delivering profitable and inclusive microfinance services to those at the bottom of the social pyramid.
- The programme is a pioneer and recognized as a lead institution on social performance management within the Arab region.
- This was achieved through its social performance management (SPM) framework, which ensures that its services and credit products are designed to provide financial services to poor, low-income and marginal clients.
- This is monitored and evaluated through its social indicators and measured through the use of MFI industry standard simple poverty scorecards (SPS).
- Its social performance is assessed annually by independent social performance audits and impact assessment reports.
- Both its financial and social performance is benchmarked annually against another 2,000 MFIs institutions that provide their financial statements and social performance data to the Microfinance Information Exchange (MIX).
- In 2012, the programme received the highest level platinum award from CGAP, the Susan and Michael Susan Dell Foundation and the Ford Foundation for its social performance reporting. UNRWA was one of just 22 MFIs from 15 countries reaching this level of achievement, and one of only two MFIs in the MENA region to do so.
Social Performance Indicators

Outreach by social indicator - 2011

- Youth (18-30 Years): 31%
- Youth (18-24 Years): 11%
- Women: 37%
- Refugee: 34%
- Microenterprise: 74%
- Informal: 77%
Field Social Performance Indicators

Social Indicators in Gaza - 2011
- Low-income: 77%
- Poor: 26%
- Youth (18-30 years): 34%
- Women: 26%
- Refugees: 34%
- Microenterprise: 63%
- Informal: 98%

Social Indicators in the West Bank - 2011
- Youth (18-30 years): 36%
- Youth (18-24 years): 15%
- Women: 32%
- Refugees: 26%
- Microenterprise: 67%
- Informal: 51%

Social Indicators in Jordan - 2011
- Youth (18-30): 29%
- Youth (18-24): 11%
- Women: 30%
- Refugees: 78%
- Microenterprise: 71%
- Informal: 78%

Social Indicators in Syria - 2011
- Youth (18-30 years): 29%
- Youth (18-24 years): 9%
- Women: 45%
- Refugees: 9%
- Microenterprise: 82%
- Informal: 88%
Growth and development

• UNRWA runs the most extensive microfinance operation in the eastern Mediterranean region, with 21 branches and 430 staff. This is expected to grow to over 30 branch offices and 600 staff by 2015.

• During the past 20 years it has financed 275,000 loans valued at USD 311 million. And in 2011, it financed 40,000 loans worth USD 44.40 million. Its business plan projects the financing of 100,000 loans worth over USD 100 million each year by the end of 2015.

• UNRWA is facing serious capital gap that cannot be bridged by its current capital fund of USD 23.42 million and its trust fund of almost USD 10 million.

• A further USD 40 million is required over the next few years if it is to meet its targeted outreach. Moreover, if it was to effectively scale-up its housing microfinance from 100 loans to a modest 3,000 loans each year it would require an additional USD 50 million.

• The programme has almost reached the limits of development through grant-financing. The increasing scarcity of donor-funded grants means that the most rational way to address its future capital and growth requirements is to transform the programme.
Growth and development
Growth and development by Region

Gaza

Year

No of loans

Year

No of Loans

USD

West Bank

Year

No of Loans

USD

Jordan

Year

No of loans

USD

Syria

Year

No of loans

USD
Transformation
Why Transformation?

- The two key reasons for transformation are:
  - To gain access to capital; and
  - To provide new financial services.
- Transformation will enable UNRWA to maximise outreach and develop to reach tens of thousands new refugee, poor and low-income clients than it can now.
- It will enable it to raise its capital needs from commercial banks and microfinance investment vehicles, but also from investor equity, to refinance an expanding portfolio.
- Transformation will also enable it to develop saving services, which it cannot now provide due to regulatory restrictions. Micro-saving services are more important than microcredit for the poorest and the addition of savers may exceed borrowers in the future.
- Only transformation will allow UNRWA to reach its of goal providing broad-based financial inclusion to the unbanked and marginalized, since only as a fully regulated MFI will it be able to raise new capital and provide financial services beyond microcredit.
What is transformation?

- Process by which an NGO microfinance institution or project transforms into a for-profit or not-for-profit company to become a regulated finance service business or microfinance bank.
- Transfer of loan portfolio, assets and liabilities and employees to a new shareholding company.
- New entity will be licensed and comply with all laws and regulations, including company, taxation and labour laws.
- According to the licensing requirements in each jurisdiction, it will be regulated by the Central Bank in Syria, the Palestinian Monetary Authority in the oPt, while the regulatory authority for the microfinance sector is still under review in Jordan this is likely to be the Central Bank.
How much will it cost?

- The direct cost of financing the transfer is estimated at USD 2 million;
- This includes:
  - Contracting of a senior asset management and consulting firm to prepare documentation; due diligence; legal restructuring; valuation of assets and liabilities; licensing and establishment of new companies;
  - Contracting/hiring an experienced Transformation Advisor to support UNRWA in the transformation process;
  - Technical assistance and capacity building from key donors and potential equity investors who wish to support the process;
  - Information management and administrative costs to incorporate separate HR systems, payroll, audit, treasury, risk management and training functions.
What is required now?

- The technical and financial pathway has been developed through a number of contracted studies financed through USAID/AED.
- Complete the stakeholder dialogue and build support both inside and outside UNRWA’s Advisory Commission.
- Enable UNRWA to commit to transformation.
- Incorporate transformation in the preparatory cycle of the Report of the Commissioner-General to UNGA.
- Set a timeline of 18-24 months to complete key transformation activities.