

ACADF
Annual
Activities
Report

2018

PART ONE

The political & Economical context

Year 2018 did bring a grim year of deadly violence, illegal settlement expansion and home demolitions.

At least 289 Palestinians - men, women and children were killed while thousands of others were wounded, including many who were maimed for life by Israeli gunfire. The death toll includes 56 Palestinian children - an average of more than one child every week.

At least 538 housing units and facilities were demolished in the occupied West Bank, resulting in 1,300 Palestinians losing their homes

Meanwhile, the Israeli-Egyptian blockade on Gaza is still ongoing, having a devastating effect on the strip's two million population.



On an internal level, the national reconciliation talks between rival governments of Hamas and the Palestinian government in Ramallah, failed to have even little progress. The division in Palestinian politics continued for the 11th year.

A number of jarring decisions were made by the United states, such as moving US embassy from Tel Aviv to Jerusalem. Declaring an end to the funding of the main UN refugee agency for Palestinians, putting five million refugees in the occupied territories and neighboring countries such as Jordan, Syria, Lebanon and Egypt, at risk of not receiving food aid, education, vocational training, jobs and much more. At the same time, all form of US support to Palestinians were suspend and PLO's office in Washington was shutdown.

The Palestinian economy in the Gaza Strip is collapsing under a decade-long blockade but has deteriorated exponentially in 2018 and has reached a critical point, as well as decisions by the Palestinian Authority and the U.S. government to reduce payments to the area. Unemployment is at 70 percent, and every second a person is living in poverty

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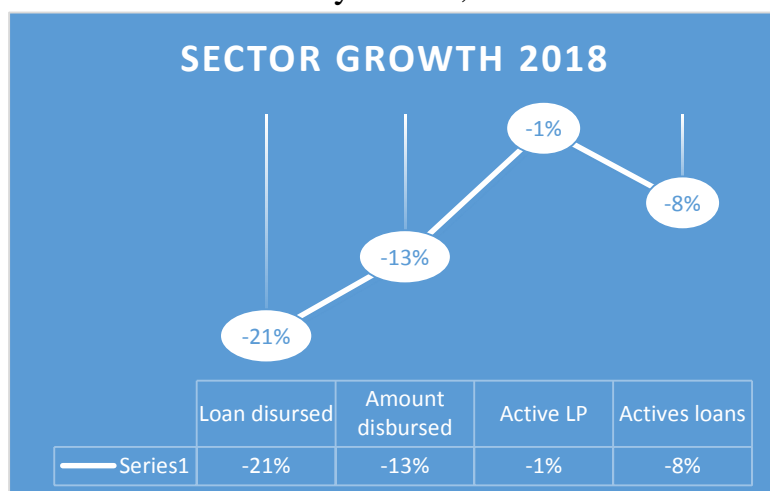
PART TWO

The sector's Development

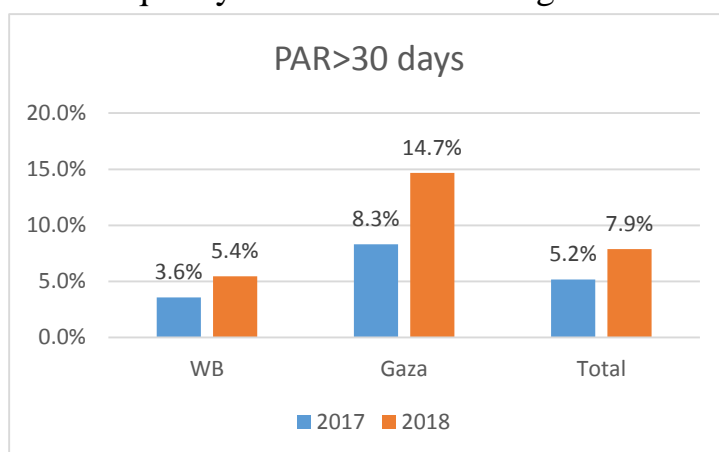
Sector's LP

The microfinance LP in 2018 was characterized by three major trends:

- 1- Slow down after few years of rapid growth, recording a negative rate of credit supply the loan disbursed compared with 2017 which decreased by 21%. The amount disbursed by -13%, -1% for LP and -8% for active loans.



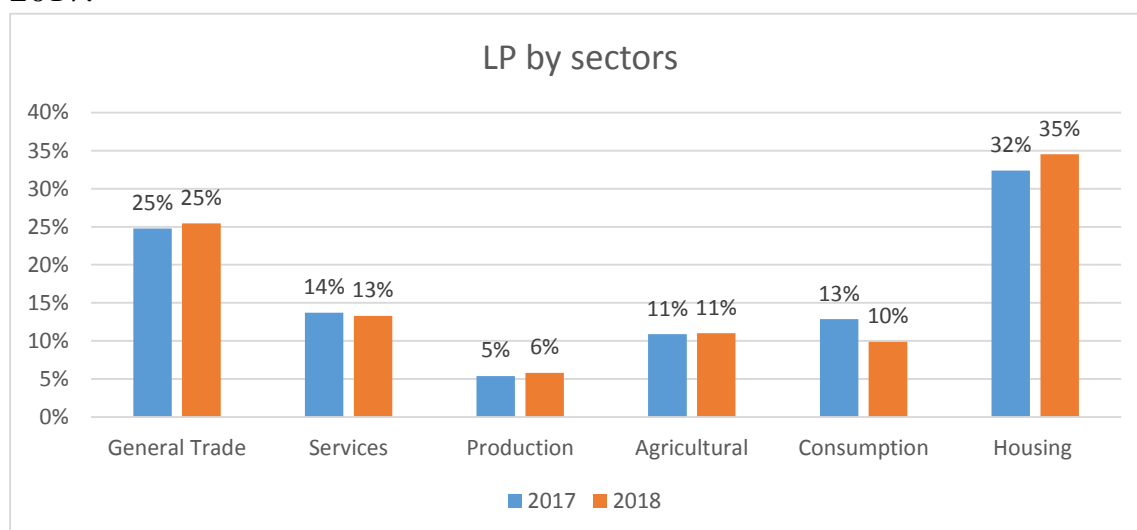
- 2- The LP quality was deteriorated in general and in Gaza in particular.



The PAR over 30 days jumped from 5.2% to almost 8% in total, The main cause standing behind this is Gaza strip were the PAR increased from 8.3% to 14.7% (the real PAR in Gaza is much higher which could reach 70%. The figures shown is after the

loans shifting and rescheduling) even in WB the LP's quality witnessed significant deteriorations, with a PAR increasing by 1.8% to reach 5.4%.

3- The distribution of LP over sectors remains unbalanced in 2018 as that in 2017.



The nonproductive sector (consuming and housing) still have a very significant portion 45% for both years meanwhile the Agricultural sector, where the majority marginalized groups and women are working, is only 11%

PMA

The Palestinian Monetary Authority issued new regulations and restrictions in 2018 in order to go further with regulating the sector. Regulations concerning restructuring, rescheduling and written off of loans were issued, the same with regulations related to Technology environment and implementation of IFRS 09.

A negotiation between MFIs and PMA on the Gaza situation resulted in issuing special regulations allowing MFIs to reschedule defaulted loans in Gaza without making provisions up to the end of 2018.

PMA worked out a new sector strategy for the coming five years where the strategy identified 5 main strategic objectives:

- 1- Emphasizing the sector's social mission
- 2- Promoting product diversification
- 3- Improving the sector's efficiency
- 4- Introducing tiered regulations
- 5- Ensuring sector stability

Regarding the relation with ACADF, PMA conducted a field inception mission from June to September with having the draft report discussed by the senior team with the chairperson of the audit and risk committee where responses have been

made and discussed with the PMA. The final version will be issued by March of 2019.

The relation went smoothly except some cases where the PMA imposed a penalty on ACADF due to receiving a loan from an international investor without prior approval and appointing the internal auditor without approval (Actually there was not a new appointment of the internal auditor, however the internal auditor withdrew his resignation).

Tax issues

In despite of joint efforts between the PMA and Sharkeh, the Prime Minister refused to exempt MFIs from VAT tax on salaries, which is putting heavy burden on operational expenses, at the same time the Ministry of Finance still not recognizing the allowances cost according to PMA provisioning regulations, insisted to implement banks law based on default for more than 90 days.

PART THREE

Governance, Audit & control

A- Board of Directors:

The board held six meetings in 2018, half of them were physical meetings and the other half were done on skype. There were three meetings which lasted



two days for each. All meetings except one were held at ACADF's office in Ramallah. One meeting was hosted by Bancaetica in Padova in Italy whom granted ACADF with a credit facility at an amount of 500 hundred thousand euros.

The board member Jurgen Hammer resigned and replaced by Mr. Webanck from GCAF who attended the November meeting as an observer. The board honored Mr. Jurgen for his efforts in the creation of the company, being an active board member for 4 years and in his direct involvement in developing Social Performance Management in ACADF.



The board committees held their meetings close to the number of meetings required by requested regulations except for the Social Committee. The social committee held two meetings out of two as requested. The audit and risk held five out of six requested, governance held one out of two and Alco held three out of six requested.

B- Internal Audit & Risk

According to PMA instructions, the board decided to merge the risk committee with the audit committee with a new committee nominated as the Audit & Risk Committee.

The Committee held five meetings during the year 2018.

In the Internal Audit perspective, the topics that have been reported and discussed are as follows:

- The 2018 internal audit plan based on risk exposures were discussed and approved.
- The reports issued for 2018 covered the annual 2017 internal audit report, follow ups with branch attorneys and courts on legal matters and issues with borrowers in default, the revision of PAR management from 1-30 days and from 31 day and above, cash management and handling for certain branches, Human Resource unit, IT and Operation/Credit Department.

In Risk perspective, the topics reported and discussed are as follows:

- Credit risk report for 2017.
- Issues related to portfolio activity and performance of ACAD Finance portfolio and the down turn in ACAD Finance portfolio.
- The raise of the actual allowance expenses and operational costs in addition to the yield comparison with budget.

In 2018, the internal auditor was part of the team working on the 5-year strategic plan of ACAD Finance from 2019 until the end of 2023. The internal auditor gave certain comments and notes when building this plan and carried out certain analysis with the team that was working on the plan whom were ACAD Finance management, board members and an outside consultant who gave ACAD Finance the path of the strategic plan.

In addition to the internal audit operations, the Internal Auditor is responsible for carrying out the review of the suggestion and complaint procedures at ACAD Finance branches and offices in the West Bank and Gaza Strip. The auditor contacts the writer of each note and solves any disputes or comments. At a quarterly basis, a report was sent to the PMA regarding any notes, suggestions or complaints placed in those boxes.

C- Credit control unit:

The Credit Control Unit is one of the main pillars of the financial institution to maintain the assets of the company, especially the portfolio, and to establish the firm rules of financial stability in the company.

Before the end of 2017, the board accepted the Executive Management recommendations about restructuring the Operation Department, and moving the control unit from the operations department to the Financial and Administrative Department.

By 2018, the Credit Control Unit started functioning effectively in the company in order to maintain the quality of the facilities granted and reduce the potential risks involved in granting credit facilities.

During 2018, The Credit Control Unit was able, within a short period of time, to achieve a range of objectives, including:

1. Monitoring the granting facilities with the operational manual and related policies.
2. Monitoring compliance with PMA regulations.
3. Anti-money laundry monitoring.

4. Monitoring written off, rescheduling, loan restructuring, early closing in compliance with internal and PMA regulation.

The Unit is producing a quarterly report which includes all type of violations per branch.

D- Strategic planning



Based on the board decision at the end of 2017, ACADF signed a contract with a French based consultancy company (HORUS DEVELOPMENT FINANCE) with a contract to work on a new business plan for the years between 2019 and 2023. Our partner COPMED provided the financial support with a well-experienced expert in microfinance planning. The consultant started his work with the company's management in the med of September through field visits, physical and skype meetings. Meetings with branch managers, field staff and HQ staff were carried on, focus groups with clients from different areas were done; sectors and sex were also organized. The process was finalized with members of the Board of Directors and the top Management team during a workshop in November 2018). In this strategic plan there were *three strategic objectives* defined for the coming 5 years period (2019-2023):

- I. To achieve a moderate growth (number and value of loan portfolio) focusing on the agriculture sector and ensuring the business's sustainability;
- II. To strengthen organizational and managerial capacity;
- III. To upgrade social accountability, including reporting.

PART Four

Credit operation

Loan portfolio development

ACADF loan portfolio reached \$12,433,865 USD, with 94% for production purpose and 6% for consumption. 25% of the LP was for micro loans, 49 % for small loan and 13% for women productive loans. Meanwhile the Islamic LP contributes up to 6% of total LP.

The LP drop reached -5% in comparison with 2017 and -7% by number of loans. The disbursement in terms of amount and numbers is lower than that of 2017.

<i>Classification</i>	2017	2018
<i>Amount of Disbursed loans</i>	\$8,639,533	\$7,300,625
<i># of Disbursed loans</i>	1977	1508
<i>Outstanding loans (\$)</i>	\$ 13,062,953	\$12,433,865
<i># of outstanding loans</i>	4861	4538

Regarding the borrowers, 51% of total active borrowers were women, 11% are living in refugee camps, 56% in urban areas and 33% in rural area, the active loans percentage to youths under the age of 35 reached 53% and 35% under the age of 30 years old.

Economic Sector Segmentation

Economical Sector	Disbursed Amount 2018	Outstanding LP As on 31/12/2018
<i>Trade</i>	\$ 3,596,644	\$ 6,010,010
<i>Agriculture</i>	\$ 2,504,,272	\$ 4,155,759
<i>Industry</i>	\$ 676,586	\$ 1,298,532
<i>Service</i>	\$ 123,543	\$ 209,719
<i>Personnel loan</i>	\$ 399,580	\$ 759,845
Total	\$ 7,300,625	\$ 12,433,865

PART Five

Capacity Building

Human resources:

During 2018 new six employees joined ACADF's team, one credit officer in Hebron Branch, one credit officer in Tubas Unit, one data entry in Ramallah Branch, one credit officer in Nablus Branch, one credit officer in Tulkarim Branch and HR data entry officer at HQ.

Meanwhile three loan officers resigned, one data entry in the HQ, HR data entry officer in HQ, data entry in Ramallah Branch, and executive secretary in HQ. The staff turnover in 2018 was 12.34% in total.

By the end of 2018 the total staff at ACADF payroll was recorded at 57, among them there were five staff whom are working for ACADF in Gaza within ACAD NGO payroll.

The female employee accounted 56% of total employees. ACADF has field operational staff in branches at an 86% and the remaining 14% at HQ. The portion of credit officers were 51% of total percentage of staff.

Trainings and upgrading:

In order to scale up the capabilities of our team and to meet the goals of our plans, we encouraged and motivated our colleagues to attend specialized training courses and workshops during 2018 as listed below:-

Courses	Attended by	Located
Implementation of IFRS 9	Finance & Admin Manager , Head of Section Portfolio Management , Acting Head Of Accounting Section	ErnstYoung
Social Business Education Workshop	Executive secretary & PR	Italian cooperation
Course of Credit Operations	8 loan officers	Internal trainer
social performance and employee rights	8 loan officers , 1 Data Entry	Internal trainer
Client Protection Principles Training	internal Auditor	Smart campaign

New MIS:

- The new software (Delta Informatics) was tested and went live at the end of 2018. Its main features are:

- Four integrated modules: HR, loan tracking, accounting, fixed assets management;
- Access for unlimited users, points of sales and branches.

Reconciliation between the previous system and Delta. The tracking of the differences was finalized in September of 2018 and the conversion process from the former system to Delta was finalized at the end of September of 2018. Full use of Delta was achieved in November of 2018.

New Office in Jenin

The executive management, based on a board decision started the process of opening a new office in Jenin district (Town of Jabaa). An office with a good location in the town has been rented for operations. Correspondents with the PMA were initiated and the documents were provided. It is expected to open the office officially in the second quarter of 2019

PART SIX

Social performance management

-The board SP committee held two meetings chaired by the board member Jurgen Hammer, where the action plan was revised and specific tasks have been identified.

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Special social intervention

- ACADF signed a contract with 4 NGOs including ACAD NGO and Italian NGO (AVSI) to initiate a 3 year project funded by the Italian cooperation. The project will focus on increasing the employment opportunities for the vulnerable population of the areas of Jericho, Bethlehem, Hebron, Nablus, Jenin, Tubas and Qalqilya through the support of inclusive business initiatives implemented by youth with disabilities, women and low income artisans.

This contract establishes the terms and conditions for the implementation of the project and especially for the activities connected with the delivery of loans and services to 110 People With Disabilities (PWDs) to enable them to start a business, the loans will be a zero interest loan with a suitable grace period in order to fit the capabilities of PWDs.

-ACADF continues working with people with disabilities in corporation with Bethlehem Arab Society for Rehabilitation (BASR). The outstanding loans at the end of 2018 were 65 loans with zero interest.

-ACAD Finance disbursed 21 loans after signing an agreement with Talfeet Society to finance projects for its members with special conditions.

-Based on a cooperation agreement signed with Al-Najah University in Nablus, ACADF's branch hosted 15 students from the economic and commercial faculty for several weeks for training and coaching.

-ACADF's staff actively participate for the banking week awareness for students and youths. The branch managers and credit officers lectured more than 10 schools and the branches were opened especially to receive visits from students and their families and simple gifts have been given to the students.