

GIRAFE

Rating

A+	
A	Minimum required
A-	Procedures are functional but
B+	with certain failings. There are
B	minor risks in the medium term
B-	for operations, but these risks are
C+	being managed and monitored.
C	
C-	
D	
E	

Trend

Positive	The ongoing severe economic
Stable	crisis resulting from current
Uncertain	political stalemate and Israeli
Negative	occupation have impacted and
	will continue to impact
	negatively UNRWA's
	operational and financial
	performance in spite of internal
	improvements.

Performance indicators

(USD, unless otherwise noted)

	Dec. 2003	Dec. 2004	Dec. 2005
ACTIVITY			
Total number of staff	173	200	217
Assets	10,397,725	10,223,723	16,891,113
Loan portfolio	4,293,624	6,820,420	9,089,219
Active borrowers	8,206	11,626	14,566
APR	See note below.		
PAR 31-365	17.7%	25.4%	20.0%
PAR > 365	10.2%	0.3%	0.3%
Write-off ratio	23.2%	5.0%	8.9%
Risk coverage ratio	32.7%	58.9%	57.9%
PERFORMANCE			
ROE	(2.8%)	(12.1%)	(4.5%)
Liabilities / Equity	0.7%	12.8%	30.4%
ROA	(2.7%)	(11.3%)	(3.7%)
OSS	76.7%	57.5%	82.9%
FSS	42.8%	48.1%	71.2%
Portfolio Yield	24.5%	27.1%	29.4%
Operating expense ratio	60.5%	42.1%	34.8%
Staff productivity	47	58	67
Funding expense ratio	0.0%	0.0%	0.0%
GROWTH			
Portfolio growth	27.7%	58.8%	33.3%
Asset growth	(8.4%)	(1.7%)	65.2%

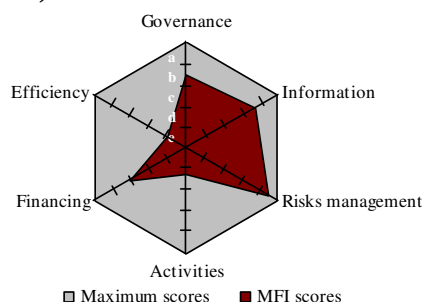
Note: Product APRs range from 16% to 31% with an estimated portfolio average of 23%. Please see "Institutional presentation" for product APRs by operating region.

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UNRWA MMP, Palestine

April 2006



Description of the institution

Started in 1991, the Microfinance and Microenterprise Program (MMP) is an East Jerusalem-based autonomous department of the United Nations Relief and Works Agency (UNRWA) for Palestine Refugees in the Near East. Initially specialized in SME lending, MMP moved into microfinance lending through the launch of the solidarity group lending product targeting women in Gaza in 1994. MMP is unique for being part of the UN and being a multinational MFI having operations with three countries namely Palestine (West Bank and Gaza), Jordan and Syria dedicated to serving poor Palestinians. As of December 31, 2005, MMP had an outstanding portfolio of over 9.1 million USD serving over 14,566 clients.

Rating summary

The MFI has been assigned / received a global rating of C.

This rating is underpinned by MMP's #1 market position in Palestine and its strong commitment to sustainability. This rating reflects MMP's deteriorating portfolio quality exacerbated by the difficulty of operating under conflict/occupation conditions compensated by strong UN backing and continued access to soft funding. This rating also reflects MMP's improved productivity/efficiency indicators and capacity to protect its margins in the highly subsidized local market context. Areas for improvement include product development, cost structure and asset management.

Support

MMP is very likely to benefit from continued strong support from UNRWA and the international donor community given its track record, its importance to the poor and marginalized population of Palestine and its perceived neutral conduit in providing services under the current partisan political climate.

Trend

This grade has been given with a **Negative** trend on the back of the ongoing economic crisis due to the current political stalemate, the intensifying violence and the Israeli occupation in spite of the positive internal trend.

Financing needs

MMP anticipates funding needs of 46 M USD over the 2005-2009 period. It is an ambitious target given current political situation. Nevertheless Planet Rating believes that MMP will be able to attract substantial donor funding given its track record, organizational stability and market positioning.

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■ Microfinance sector

Palestine

The demand for microfinance services is strong given that almost 50% of Palestinians in the West Bank and Gaza (1.7 million of 3.6 million) live below the poverty line (i.e., US\$2/day) and that 600,000 live below the subsistence level. Due to high unemployment caused in a large part by Israel's occupation and closure policies and subsequent Intifada movements, many Palestinians are forced to turn to self-employment activities boosting demand for microfinance services. According to a recent CGAP report, it is estimated that the number of Palestinian microenterprises needing loans is around 150,000 households. The authors assume that the capital required by these businesses today is close to US\$200 million. It further estimated that further 200,000 households need small-balance savings accounts and money transfer services. Despite a diversity of demand, most Palestinian MFIs offer only microloans. Only the savings and credit cooperatives offer savings products, which are available only to their members.

There are presently 11 providers of microfinance services: one bank (Al Rafah Bank) and ten MFIs having various legal structures (e.g. UN, NGO, cooperatives, company). Unless licensed as a bank, the MFIs are not regulated. MFIs serve altogether an estimated 29,600 clients with an outstanding portfolio of 39.2 million USD. These numbers represent less than 20% of CGAP's overall estimated market potential. The microfinance industry is dominated by three MFIs with strong foreign links: UNRWA, FATEN and CHF Palestine having between them 90% of clients and 80% of loan portfolio. The top tier MFIs are well-funded, often benefit from foreign technical assistance and are the strongest operationally. Other less connected and less well-funded MFIs are often weak operationally.

Most Palestinian MFIs are not operationally sustainable in part due to the extraordinary difficulty to operate under the Israeli occupation which greatly hampers productivity and efficiency. A key reason however is the fact that only a few MFIs charge market or at least cost-recovery interest rates due to the lack of exposure to international best practices and/or the strong socially-oriented mindset against charging "high interest rates to poor clients". Only a few MFIs are truly run on self-sustaining basis and many others display high aid dependency mindset. The Palestinian microfinance industry development is heavily influenced by donors and their agendas. The industry's progress is often pulled back by recurrent emergencies and crises (and by certain donors' misguided response) which dampen efforts to promote sustainable microfinance among Palestinian MFIs.

Jordan

Both market oriented and subsidized credit providers characterize the microfinance sector in Jordan. The four MFIs¹ funded by the USAID/AMIR program all began operations in the mid-to-late 1990s. Subsidized local providers include the Development and Employment Fund (DEF), funded by the Jordanian government, KfW and the EU with a vocation of providing microfinance for poverty alleviation, as well as the National Assistance Fund (NAF) and the Industrial Development Bank (IDB), a private bank in operation for several decades authorized under special laws with a mixed public/private sector Board. Funding for agriculture is served by government organizations such as the Agricultural Credit Corporation. A myriad of other smaller government and quasi-government players also exist. According to CGAP, as of December 31, 2004, the four AMIR-funded and sustainability-oriented microlenders had disbursed more than 110,000 loans totalling more than 45 million JOD (\$63.47 million USD).

The National Microfinance Bank, a government initiative funded by AGFUND³, was launched in March 2006. This institution is promoted as another "sustainable lender" targeting poor women offering loans ranging from JD200 (US \$300) to JD5,000. Many microfinance actors are however concerned about the potential impact of this institution on the supply of microcredit if it chooses to provide subsidized credit. When initially passed, the authorizing law for the bank also provided numerous tax exemptions and advantages not given to other MFIs. Since March 30, 2004 the government decided to extend tax exemption status to all MFIs, but MFIs are still facing difficulties every time they need to use such exemptions.

Syria

Syria has a large share of population (54%) living under the poverty line. Unlike Jordan, the microfinance sector is underdeveloped. The state-owned Agriculture Cooperative Bank has many short-comings and is too weak structurally to fulfill the demand. The community-based "sanadiqs" are better organized, but they lack financial and operational expertise to operate on a large scale. The Aga Khan Development Network launched its first microfinance facilities in Syria in 2003. UNDP, IFAD and others are helping the Government to boost microfinance services in the country, but as of today there is no significant MFI in Syria to speak of, except for UNRWA.

Source: Planet Rating & CGAP document entitled "Meeting the Demand for Microfinance in the West Bank and Gaza" by Mohammed Khaled, Kate Lauer and Xavier Reille, January 2006.

¹JMCC, MFW, MEMCO, Al-Ahli (owned by the Jordan National Bank).

³ Arab Gulf program For United Nations Development Organizations

Political and economical environment

Palestine

Five years after the start of the Intifada and subsequent collapse of the barely emerging economy, GDP per capita is still 30% below its 1999 level. Although Palestine emerged from recession in 2003, several factors continued to hamper economic activity including restrictions and other difficulties affecting movement, the loss of jobs in Israel, and insecurity. In that climate of uncertainty, international aid has declined. In 2005, the economy posted a better performance (particularly the construction and transport sectors) buoyed by improvement in the security situation and more accommodating fiscal policy. Furthermore, goods and services exports to Israel increased, as did transfers by workers employed in that country. Donations have also increased. Although that brighter economic trend has led to job creation, unemployment has remained high with over 40% of the population still living below the poverty line. The fiscal situation has remained tight. Despite improved collection, revenues have struggled to cover a growing payroll with international aid not meeting expectations. To cover the financing needs, authorities have thus had to assume additional debt with local banks.

Prospects for 2006 are very uncertain after the Hamas victory in the January parliamentary elections, complicating an already difficult situation. The financial and security constraints applied by Israel and the drying up of international aid could entail the collapse of an economy already on a drip-feed. However taking into account the geopolitical stakes, the Palestinian Authority should be able to continue to obtain grants from various sources. For the time being, the resumption of the peace process appears compromised. Nevertheless, it is possible that, in the longer term, pragmatism may win out. Reconstructing the economy and infrastructure will depend on normalization of relations with Israel and implementation of structural reforms to consolidate the conditions for growth and bolster investor confidence. The situation will be unsustainable, however, without a mobilization of the international aid.

USD millions	2002	2003	2004	2005
Economic growth (%)	-10.1	6.1	6.2	8.7
Inflation (%)	5.7	4.4	3.0	3.0
Public sector balance (%GDP) (*)	-24.4	-15	-14	-17
Exports	31	26	27	22
Imports	2.8	3	n/a	n/a
Trade balance	0.4	0.5	n/a	n/a
Current account balance (%GDP)	-2.4	-2.5	n/a	n/a
Foreign debt (%GDP)	-5.6	n/a	n/a	n/a
Debt service (%Exports)	-10.1	6.1	6.2	8.7

Foreign exchange reserves (import months)	5.7	4.4	3.0	3.0
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Jordan

Economic growth was one of the region's highest last year thanks notably to dynamic domestic consumption and sharply higher foreign investment inflows. The country has benefited from its role as rear base to Iraq and an influx of regional capital. In that context, most economic sectors (manufacturing, construction, transport, and communication) posted good performance. Surging oil prices in conjunction with the decline of grants from the international community caused a sharp deterioration of external accounts, however, accompanied by increased fuel subsidies that widened the fiscal deficit. Although greater fiscal discipline and particularly the elimination of fuel subsidies by March 2007 should allow Jordan to contain the public sector deficit, those measures will undermine private consumption, which has been the main economic driver.

External accounts continue to be vulnerable to a possible crisis of confidence that would make the JOD/USD peg unsustainable. The country should nonetheless be able to count on international aid to avert a major crisis. By virtue of its geographic position and population mix (with mostly Palestinian origins), the political and economic scene has been very sensitive to regional geopolitical tensions. Although Jordan's political stability should not be in jeopardy, the success of Islamist parties in neighbouring countries could encourage the Islamic Action Front to organise itself politically with legislative elections scheduled in 2007

Strengths:

- Expatriate transfers, although dependent on regional economic conditions, have been a source of foreign currency revenues.
- Export-processing zones and the free-trade agreement with the United States have revived exports and attracted investors.
- Paris Club rescheduling agreements have reduced Jordan's foreign debt service burden.
- The country has benefited from political and financial support by the international community, which has nonetheless been reducing the amount of aid provided.
- Jordan's situation as a rear base for Iraq has spurred economic activity.

Weaknesses:

- The country has few natural resources (phosphate and potassium).
- The growing oil bill and declining international aid have exacerbated financial imbalances and made the country more dependent on volatile capital.
- The textile sector has suffered since the end of the multi-fibre agreement.

- Social tensions have been running high in a population with mainly Palestinian roots, afflicted by poverty and unemployment
- At the centre of regional turmoil, the country has not escaped terrorism with its negative impact on tourism and investment.

USD millions	2002	2003	2004	2005
Economic growth (%)	7.7	7.2	5.0	5.0
Inflation (%)	3.4	3.5	6.9	5.8
Public sector balance (%GDP) (*)	-12.5	-10.1	-6.6	-3.7
Exports	3.9	4.3	4.6	5.0
Imports	7.3	9.2	9.8	10.4
Trade balance	-3.4	-5.0	-5.2	-5.4
Current account balance (%GDP)	-1.3	-3.1	-3.0	-2.9
Foreign debt (%GDP)	-11.7	-24.5	-20.9	-18.6
Debt service (%Exports)	72.0	65.7	61.1	59.8
Foreign exchange reserves (import months)	13.7	9.4	8.6	7.9

Syria

Since the Iraqi regime fell in 2003, the economy has been running at slow speed and struggling to get started again with the decline of oil production impeding recovery. The non-oil sector has remained the economy's only growth engine, buoyed in 2004 by a foreign investment rebound and tourism. The country's situation as a rear base for Iraq has spurred consumption. However, the escalation of regional tensions and increasing international pressure after the assassination early 2005 of the incumbent Lebanese prime minister, have affected consumer and investor confidence. In that context and considering the risks of isolation on the international scene, a robust economic recovery will be unlikely to develop in 2006.

The external financial situation has improved thanks to debt restructuring agreements concluded with creditor countries, notably Russia, which granted a substantial cancellation. Soaring barrel prices have thus far allowed the country to avoid excessive deterioration of its external accounts despite the decline of oil export volumes. It has thus become urgent to speed up reform implementation to energise the private sector and consolidate public sector accounts, which have been generating increasing domestic debt. Despite repeated commitments made by government authorities, the need to calm political turmoil could steal the priority from the reform process

Strengths:

- Syria has engaged in a process of liberalising its economy to attract investors, revitalise growth, and create jobs, but progress has been slow.
- The tourism sector continues to offer substantial development potential.

- The regularisation of payment arrears and cancellation of debt granted by Russia have considerably reduced foreign debt.
- The value of the country's holdings abroad has represented two years of imports.

Weaknesses:

- An inefficient banking system, relatively unprofitable state-owned companies, administrative red tape, and poor governance have impeded the emergence of a dynamic private sector and affected public sector finances.
- With the decline of oil production jeopardising the country's economic and financial situation, an acceleration of the reform process will be necessary to foster private investment.
- The sanctions imposed by the United States, political uncertainties, and escalating regional tensions have been affecting the business environment.

USD millions	2002	2003	2004	2005
Economic growth (%)	1.3	1.7	1.5	2
Inflation (average annual percentage rate)	5.9	4.6	6.7	5
Public sector balance (%GDP)	-2.7	-5.3	-4.8	-5.9
Exports	5.8	5.4	5.7	5.4
Imports	5.4	6.4	7.1	7.2
Trade balance	0.4	-1.0	-1.5	-1.9
Current account balance	1.3	0.5	0.0	-0.3
Current account balance (%GDP)	6.0	1.9	0.2	-1.1
Foreign debt (%GDP)	100.8	94.4	42.2	39.8
Debt service (%Exports)	33.9	34.1	8.7	7.9
Foreign exchange reserves (in months of imports)	7.4	6.9	6.2	6.0

Note: All country statistical data is provided by COFACE's Country Risks Group. COFACE is a shareholder of Planet Rating.

▪ Institutional presentation

Networks

UNRWA Microfinance and Microenterprise Program (MMP) is a member of the Palestinian Microfinance Network and the Cairo-based Sanabel – The Microfinance Network for the Arab Region.

Ownership

MMP is a department of UNWRA – a UN agency. All major decisions have to be approved within UNRWA which, in turn, follows the UN system standard rules and regulations. An Advisory Board (AB) was set up in 2000 to advise management on strategic issues. The AB is made up of 8 voting UNRWA officials, 2 independent experts and 2 MMP non-voting members. UNRWA's Deputy Commissioner-General is the AB Chairperson with the MMP Director acting as the AB Secretary. The AB meets on an annual basis and at other times "as needed".

UNRWA

Following the 1948 Arab-Israeli conflict, UNRWA was established by United Nations General Assembly resolution 302 (IV) of 8 December 1949 as a subsidiary organ of the United Nations to carry out direct relief and works programmes for Palestine refugees. Today, UNRWA is the main provider of basic services - education, health, relief and social services - to over 4.3 million registered Palestine refugees in the Middle East. Most of UNRWA funding comes from voluntary contributions of donor states. UNRWA's largest donors are the United States, European Commission, the U.K and Sweden. Other major donors include the Gulf Arab States, Scandinavian countries, Japan and Canada. UNRWA's chief officer, the Commissioner-General, is appointed by the UN Secretary-General after consultation with the Advisory Commission and is the only head of a UN body to report directly to the General Assembly. The Advisory Commission meets annually to review Agency activities.

Management team

The senior Management Team is based in the East Jerusalem Central Office headed by the MMP Director Alex Pollock - an experienced British national- since 1998. He is involved with the Middle East affairs, particularly Palestinian ones in various capacities since 1982. He is a Board member of Sanabel and National Microfinance Bank of Jordan. He is seconded by a Chief Microfinance Operations and Microfinance Finance and an Accounts Officer in the Central Office, and two Field Microfinance and Microenterprise Officers (FMMO - one for Gaza, one for the rest). It is understood that the West Bank FMMO Jane Giacaman is acting as the Credit Manager.

Organization

MMP is run as an autonomous department within UNRWA. It operates the credit programs with little interference from UNRWA. Due to movement restrictions and frequent closures, the Gaza Field Office has considerable autonomy (e.g. separate MIS, accounting systems, management structure). Consolidation coordination is done in the Central Office. Jordan and Syria-based branches are managed as part of the West Bank Field Office. Certain large branches (i.e. Nablus and Gaza/Rimal) are also considered as Regional Offices from which the Sub-Branches have direct reporting relationships. Loan officers (LOs - also known as CEA or Credit Extension Assistant) report to the Branch Manager (BM) and then the Regional Manager (RM). The RM reports to the Central Office FMMO.

Donations

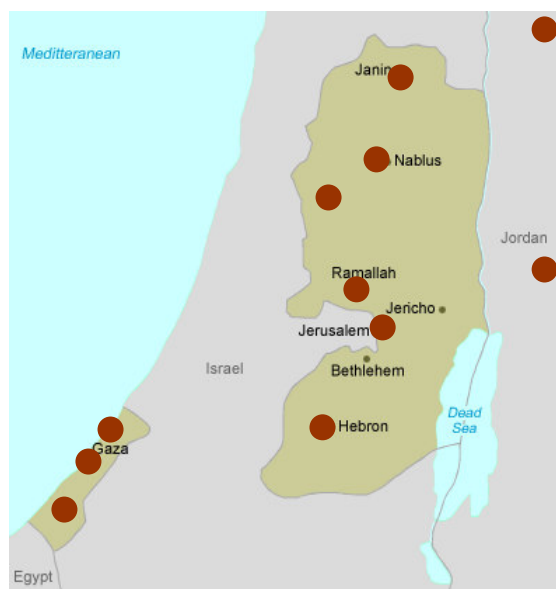
MMP received 19.9 M USD of donations since its inception. Most of these donations came from USAID, OPEC Fund, AGFUND and the Governments of Australia, Canada, Italy, Japan, Norway and Germany.

Legal form, supervision and audit

MMP does not have a separate legal personality and its credit activity is not regulated. It is supervised internally by UNRWA and audited yearly by UNRWA Audit and Inspection Department. Local Palestinian auditing firm El Yousef & Co. (formerly a correspondent firm to KPMG) has been MMP's external auditors since 2000. In 2005, it formally yielded this role to the UN Board of Auditors (BOA) who hired a South African firm to audit UNRWA, including MMP. El Yousef & Co. is still doing essentially the same work, but is now officially "MMP internal auditors" with the UN BOA having the sole right to sign off on financial statements. Audits of financial statements are done in accordance with international accounting standards. Both firms have provided unqualified opinions on MMP financials.

Market penetration

MMP credit operations operate from two field offices: West Bank and Gaza. The Field Office West Bank regroups 5 branches: 3 in the West Bank itself (Ramallah, Nablus and Hebron), 1 Jordanian branch (Widhat/Amman) and 1 Syrian branch (Yarmouk/Damascus). Under the Nablus branch, there are two sub-branches located at Jenin and Tulkarm. The Field Office Gaz runs 3 branches (Khan Younis, Rimal/Gaza and Nuseirat). MMP plans to expand inside and outside Palestine by adding a new branch in Bethlehem and one branch each in Jordan and Syria in 2006.



Products and services

MMP offers four loan products namely: 1) Small-Scale Enterprise Credit Program (SSE since 1991); 2) Micro-credit Enterprise Program (MEC since 1996); 3) Solidarity Group Lending Program (SGL since 1994); and Consumer Lending Program (CLP since 2002). Minimum loan size starts as low as 100 USD for SGL and reaches as much as 70,000 USD for the SSE. Average loan outstanding is only 624 USD as

of December end 2005. Average portfolio term is 8 months. Product APRs range from 16% to 31% in Gaza, from 22% to 27% in Syria (in Syrian pounds), from 12% to 31% in Jordan (in Jordanian dinars) and from 15% to 31% in the West Bank. Average portfolio APR is 23%. All loan disbursements are made by checks whereas loan repayments are made in cash through MMP cashiers in its branches and offices. The MEC product is available at all branches. The SGL and CLP products are presently offered in Gaza only. The SSE is available in the West Bank and Gaza with plans to introduce this product to Jordan and Syria in 2006.

■ Governance

Governance and Decision Making is rated « b »

Support

In the event of financial difficulties, MMP would turn to UNRWA for support. UNRWA exerts a strong, but generally appropriate influence on MMP's decision-making process. UNRWA's capacity and propensity to support MMP financially is considered high as MMP is an integral and highly visible part of UNRWA's activities and it represents a big credit provider in Palestine for the target clientele.

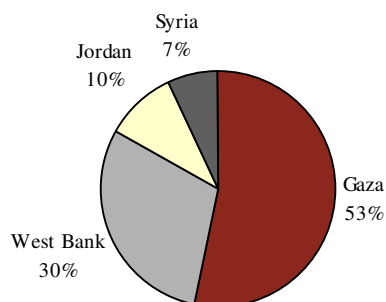
Decision-making

MMP mission is clear in targeting poor and marginalized Palestinian refugees wherever they are by providing "sustainable credit in a cost-effective manner". MMP largely fulfills this mission by working in or near Palestinian refugee camps in Palestine and surrounding countries (Jordan and Syria) where there are high densities of Palestinian refugees. Despite working in a highly aid dependent environment, MMP clearly states its goal to achieve sustainability and such mindset is permeable throughout the organization. This is laudable given the fact that only a few Palestinian MFIs have stated, believed and actually practiced such self-sufficiency goal.

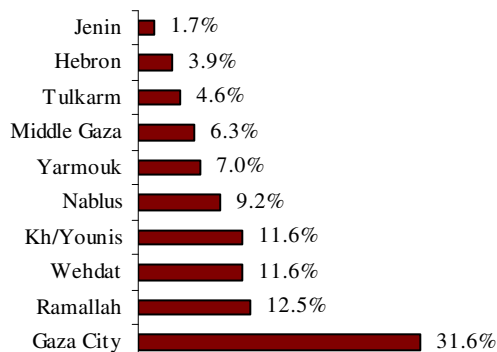
Being part of UNRWA and the UN system, MMP follows UN rules and regulations which, despite having the merits of being standardized and consistent, are often cumbersome and bureaucratic. On the good side, MMP operates within a predictable internal environment where compliance to established authority and clear rules do not provide much for improvisation. On the negative side, it also precludes MMP from being very dynamic from a governance and decision-making standpoint. Necessary decisions that lie outside of established practices can take a long time and efforts to get cleared. While MMP has thankfully established the AB, its capacity to fully and effectively play the normal Board roles (i.e. oversight and guidance) is limited as the AB only meets once or maximum twice a year.

UNRWA substitutes and plays effectively the BOD roles on a regular basis through numerous formal meetings and informal coordination between personnel of the two entities. Nevertheless MMP has a lot of autonomy to manage its own daily activities. UNRWA is very supportive of MMP autonomy and it is expected that proposed UNWRA organizational reforms will help to accelerate the decision-making process overall and at MMP in particular. Overall the decision-making process is of good quality, democratic, participative and transparent even if somewhat "heavy" due to required consultations. Finally MMP has not suffered, as originally feared, from UNRWA's humanitarian and relief image providing services and products for free and its own

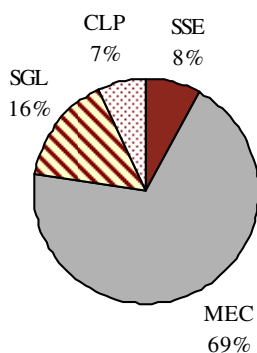
Portfolio by region - Feb 2006



Portfolio by branch - Feb 2006



Portfolio by product - Feb 2006



“credit-must-pay-back” cost-effective loan programs. MMP management contemplates a potential spin-off over next 3-4 years, but it is not yet a priority.

Planning

MMP, in part due to its UN roots and its requirements, has a formalized, systematic and detailed planning process and capability by Field Office and by Branch. UNRWA’s very ambitious 5-year 2005-2009 Medium Term Plan (MTP) aims for a 57.5 M USD portfolio by 2009 (from 8.9 M USD at the end of 2004) under optimal conditions where security restrictions in the West Bank and Gaza are lessened and Syrian/Jordanian operations grow fast to fulfill UNRWA’s ambition to raise MMP from “the foremost microfinance institution in the occupied Palestinian Territories to that of the leading institution in the region”.

The MPT (written before the current crisis) is articulated around 6 goals which can be grouped in the 3 following big goals: 1) expand the branch network; 2) expand existing products to other branches where one or more products are not yet being offered; and 3) introduce new housing product. The MTP addresses key issues (e.g. market overviews and internal reforms) and challenges (political and market constraints) critical to MMP development. While the portfolio volume and branch projections are very detailed, there is not the same level of details and qualitative discussion about the challenges of implementation and financing of such ambitious targets.

A year and a half into the MTP and given the current “anything can happen” political situation, the MTP looks overly ambitious even if the Jordanian & Syrian operations are going well. This is not to say that the potential for growth in its three-nation markets is not present, it is only to state that political risks (in Palestine) and executions risks (elsewhere) are key success determinants. Having operations in three different countries have not thus far added much complexity into the activity and budget planning process, but this situation can change when non-Palestine operations grow much larger and in certain cases, like in Jordan, where strong local competition would require a more nimble and flexible organization that would strain the existing set-up.

Each branch has its own annual business plan. There is as well a good budgeting process at each branch and at HQ. Relevant financial projections are made based on reasonable assumptions. MMP staff performs regular tracking and updating of activity and budgets by branch. Finally all branch expansions are planned in advance together with appropriate projections.

Management team

MMP counts on a solid, committed and involved management team. They are knowledgeable about the

business and associated risks. Many managers came up from the lower ranks and have been with the institution for many years. All have received microfinance and other specialized trainings in their respective fields. Team morale and cohesion are good given the external-induced difficulty that they operate under. Due to the decentralized nature of the operations (to Gaza) and movement restrictions, only the Director and the FMMO have the global view of the organization. Limited key-person risks exist at their levels.

Branch-level management is good in general. Thanks to modern communication tools and availability of timely reports, adequate coordination and monitoring are done between the Central Office and various branches. Key relative strengths are in microcredit lending, internal control, risk management and financial management. Key improvement areas are in product development, portfolio management and human resource management. More specialized training and exposure trips would be useful for BMs and RMs.

Human resource management

All relevant HR policies and procedures are present and documented in manuals. While MMP is autonomously run, it must follow UNRWA HR procedures and policies. UNRWA HR Department runs all HR-related matters for MMP. Some of these policies are old, rigid, and not adapted to a microfinance institution/program. An example is its inability to adopt its own compensation and incentive policies. At the present, UNRWA HR Department does not do more than pure HR administrative and recruitment work. All strategic HR matters such as skills and career development and training are not handled. MMP does have one dedicated staff to handle LO training (based in Gaza). It is noted however that MMP is allowed to fire staff (and has done so in the past) for performance-related reasons.

MMP salaries tend to be lower than those found in the private sector. There is a risk of losing staff, especially experienced management staff as other microfinance providers (like the new Al Rafah Bank) have been recruiting aggressively. Staff turnover is nevertheless low due to the fact that staff enjoys the perceived job security and the freer movement (through Israeli checkpoints and access to Jerusalem) because they work for UNRWA. Regular performance reviews (annually for all, monthly for LOs) are done using UNRWA standard procedures, but there is not yet an incentive/bonus policy which would help a lot to align LOs’ performance with objectives. Looking forward, it would be useful for MMP to consider if, how and to what extent it should/could take charge of some HR elements from UNRWA HR Department in order to have a more customized and adapted MFI HR policies central to its staff motivation and retention.

	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Total number of staff	173	200	217	213
% Credit officers	43%	46%	45%	43%
Turnover	1%	4%	3%	5%

■ Information

Information and equipment is rated « b »

Description of the MIS

Equipment	<ul style="list-style-type: none"> ▪ Modern equipment (hardware and software) ▪ Sun servers, SQL database ▪ LAN, Internet connection in all branches to HQ
Accounting	<ul style="list-style-type: none"> ▪ RAMCO local software being used by UNRWA departments ▪ Decentralized accounting, consolidation at HQ ▪ Weekly reconciliation of portfolio information ▪ Monthly financial statements detailed by branch, with allocation of the HQ expenses.
Portfolio information	<ul style="list-style-type: none"> ▪ Internally developed “Loan Management Information System” or LMIS ▪ LMIS Report Centre Document dated March 2006 listed numerous and detailed portfolio reports (by branch, by product type, by sector) available on demand, contain all relevant ratios

Management Information System (MIS) and equipment

MMP existing internally-designed and non-integrated MIS systems are functioning reasonably well, if cumbersome, with regard to answering MMP system needs. Its Access-based loan tracking system LMIS has many limitations (e.g. speed, flexibility and scalability). MMP maintains 2 separate databases: one for West Bank/Jordan/Syria operations and one for Gaza. Client data and portfolio entry is centralized at the HQ for all branches except for Gaza branches done in the Gaza Regional Office. Data consolidation is done in the East Jerusalem Central Office. Adequate data safeguards (e.g. regular back-ups, system access control using passwords, audit trail capacity...etc) are in place. Data manipulation is limited as data entry is done by data clerks not associated in anyway with the lending staff. Data loss risks are also limited as data is stored on UNRWA powerful servers protected by standard security procedures.

Its RAMCO financial and accounting system also works reasonably well, but it doesn't have consolidation modules making the consolidation of four separate ledger books tedious and time-consuming. As a result of separate databases and system inefficiencies, MMP employs over 10 accounting staff to ensure that MIS produces reliable and timely data. MMP relies on competent IT personnel (and to a lesser extent on UNRWA IT resource) to manage the MIS. A comprehensive Users Requirements Document has been drafted to identify, list and assess MIS needs in order to help management decide whether and how to build or buy new

robust MIS systems capable of supporting its forecasted growth. MMP is aware of key IT issues and risks. A new integrated MIS system would save time in addition to reducing risks of errors and boosting efficiency.

Information on activities

Standards of “timely, detailed and reliable portfolio information” are essentially met. MMP systems and staff are able to generate key reports (portfolio & delinquency) on a monthly basis. Some portfolio reports (like delinquency) should be available more frequently than monthly despite the fact that BMs and LOs have good knowledge of their portfolios and clients to conduct effective monitoring. Data quality is good thanks to frequent reconciliation and numerous checks and cross-checks by many back office staff. MMP produces activity reports for local UNRWA offices in each of its three countries of operations in addition to global reports for stakeholders.

Financial and accounting information

Despite cumbersome accounting systems (partially explained by the difficulty operating in three different countries), MMP produces quality and timely financial and accounting data necessary for regular tracking and reporting. Reporting capability is excellent as MMP systems produce numerous very detailed and analytical reports for internal and external users. The reports are well distributed internally and are being used by managers for monitoring and decision-making.

■ Risk

Risk Management is rated « a »

Procedures and Internal Controls

This is an area of MMP strength. There is a good understanding and application of basic operational and financial risk controls throughout the organization. Relevant and highly formalized policies and procedures are documented in updated manuals. Because of it being part of the UN system, MMP displays a high control and compliance culture with adequate segregation of duties, many layers of management and clear control and responsibility allocation structures. Control functions are also facilitated by the availability of portfolio information.

Internal Audit

MMP internal audit and control activities are both comprehensive, systematic and effective. MMP recently recruited an experienced and knowledgeable Internal Auditor (called internally a Verification Officer) to supervise this area. He has drafted a sensible and relevant Audit Plan and Verification Check List on how to ensure that non-compliance and fraud risks are quickly identified. It would be useful to expand his scope or work to cover

financial and accounting audits as well. He only reports however to MMP Director. It could be useful to have some reporting to the Advisory Board and possibly to some UNRWA senior managers. As the new Verification Officer cannot go to Gaza due to movement restrictions, it is delegated to Gaza-staff to conduct regular audits. For non-Gaza Palestinian operations, he can access branches and clients using UN-facilitated cars and permits.

Beside from MMP own internal audit work, UNRWA Audit and Inspection Department and El Yousef & Co. (a local auditing firm) conduct operational (including field visits) and financial audits. UN BOA relies on El Yousef & Co. for the field portion of its annual audits. Given the number of audit parties, it would be useful for the new Verification Officer to coordinate with non-MMP auditors to avoid work duplication.

The vast majority of MMP loan transactions (disbursements and repayments) are handled in cash through its cashier counters established at all branches. MMP has an effective cash control system to minimize cash handling risks. When staff accepts cash outside of branches, they issue temporary receipts with permanent receipts issued only by the cashiers when cash is handled in and counted/reconciled with loan ledgers.

■ Activities

Activities: products and services is rated « d »

IMPORTANT NOTICE: This report has been written before the current Israeli military actions in Gaza and Lebanon. These actions are bringing additional uncertainty on the existing volatile political situation on UNRWA countries of operations. It is difficult to reasonably predict what will happen and the ultimate scale of the negative impact on UNRWA operations.

Marketing and competition

Palestine

The Palestine microfinance sector is undeveloped given the large unmet demand as detailed in the “Microfinance Sector” section of this report. Large Palestinian cities like Ramallah, Hebron, Nablus and Gaza City are well served by all major MFIs. Smaller towns and rural areas are largely untapped in part because of movement restrictions. Thus far, the major microfinance players are non-bank MFIs with UNRWA, CHF and FATEN being the clear market leaders. These three leading institutions have the common characteristics of having foreign ownership or link, receiving generous (often foreign) technical assistance and funding and displaying a strong commitment to sustainability.

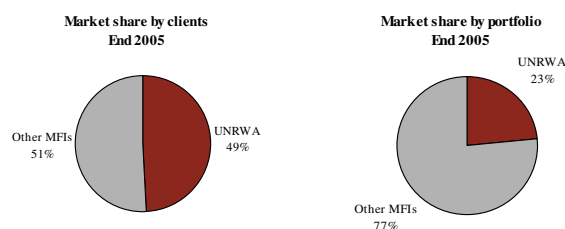
Other MFIs are serving niche markets, are often structurally and/or operationally weak and are not likely to seriously challenge the top 3 MFIs in the medium term. Even between the top three MFIs, they do not compete directly since CHF is mostly focused on housing loans, UNRWA on the low-end clients and FATEN covering the full spectrum of clients. A new well-funded microfinance player called Al Rafah Bank recently launched their operations and has the potential to rapidly become an important provider within a 18-month period. By the end of December 2005, the 8 largest non-bank MFIs were serving over 29,000 clients with a portfolio outstanding is estimated around 39.2 M USD.

MFI	Active borrowers	%	Outstanding portfolio (M USD)	%
UNRWA	14,566	49.2%	9.1	23.2%
FATEN	4,777	16.1%	8.9	22.7%
CHF	3,665	12.4%	10.1	25.8%
ASALA	2,075	7.0%	1.6	4.1%
PARC	2,019	6.8%	2.1	5.4%
ACAD	1,295	4.4%	3.4	8.7%
YMCA	904	3.1%	3.2	8.2%
ANERA	302	1.0%	0.8	2.0%
Total	29,603	100%	39.2	100%

Source: CGAP, Planet Rating, individual MFIs, PDF is not included because it is primarily a SME lender.

The major ongoing trends are:

- MFIs stopping new lending or at least not growing aggressively their portfolio given current crisis conditions;
- MFIs renewing loans to their existing clients;
- MFIs focusing on portfolio quality and internal capacity building;
- MFIs forced to reschedule or refinance defaulted loans or late loans;
- MFIs under pressure from certain donors to disburse fast (to respond to current emergencies) which might destroy the existing fragile credit discipline;



MMP is the largest MFI by number of active clients and second by portfolio as of end December 2005. With variations in application, all Palestine MFIs adopt very similar market, product and customer service strategies. MMP's products do not differ much from those of the competition and they are not as broad as those available at FATEN – the local MFI leader at product innovation. Two areas of key differences between MMP and other MFIs are:

pricing strategy and collateral requirements. MMP is clear in charging at least cost-recovery pricing unlike many (though not all) other MFIs that persist in charging below market rates. Its higher pricing does not however hamper much its competitive position as clients appreciate, in general, its more relaxed collateral requirements. Indeed, UNRWA does not required salary transfers or financial guarantees as a general rule. While MFIs know reasonably well their competitors' strategies, no MFI has really conducted market research and systematically collected market intelligence to gain competitive advantages. Marketing and promotion strategies of Palestinian MFIs are still very simple essentially relying on word of mouth and personal referrals.

Jordan & Syria

Competition in Jordan is quite intense in the urban areas with the presence of established MFIs such as Microfund for Women, JMCC, government-affiliated DEF and the new National Microfinance Bank. Competition in rural areas is weaker. Nevertheless the 6 top MFIs together serve only about 45,000 clients as of December 2005. Competition in Syria is almost non-existent.

Market positioning and strategy

UNRWA market positioning is clear in targeting low-end clients (primarily Palestinian refugees) as its average disbursed loan size (624 USD in 2005) is among the lowest in Palestine. It has the same positioning in Syria and Jordan. At this level, the market demand is plentiful in all markets, especially in Syria. Thanks to the UN image association and good understanding of client needs, MMP enjoys a good recognition and reputation in Palestine and a growing awareness in the Jordanian and Syrian markets. MMP strategy is staying as the dominant MFI in Palestine and becoming a large and sustainable regional player. Given its multinational experience and relatively more developed organizational capacity, MMP has the capacity to achieve its ambitions under "optimal" conditions.

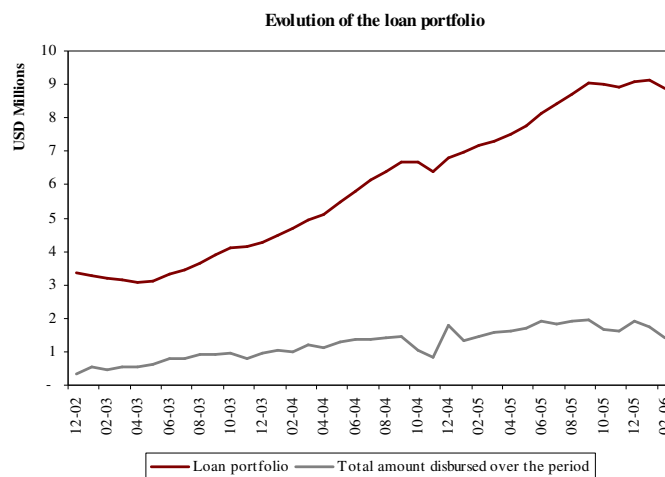
Credit methodology

MMP employs appropriate and flexible loan methodologies. Its portfolio management is tight thanks to established procedures, better enforcement of lending policies and regular visits together with adequate delinquency management procedures. Despite fast expansion in the last few years, MMP has managed to keep a good handle on its lending activities in all three countries despite encountering some problems when going into new markets such as Syria. Loan approval process is decentralized, but it does not hinder effective control as there are many layers of management (e.g. Loan Area Supervisor, BM, RM, COM) to ensure consistent application of lending policies. MMP counts on a team of well-trained and experienced LOs, BMs and RMs many of whom have been with MMP for years. Recognizing some past weaknesses in its LO training

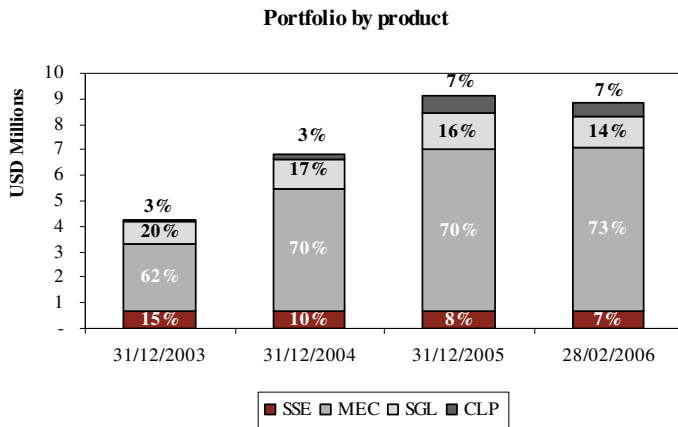
process, MMP now ensures that its LOs go through a formal and systematic training program. BMs and RMs receive periodic trainings on various portfolio management subjects. Documentation and record keeping of client data meet required standards.

On April 8th 2006, MMP held a workshop to discuss the effects of the current crisis on the economical situation in general and its effects on the MMP credit operations in particular. MMP tried to figure out how this crisis can be managed to ensure continuity of the Program's credit operations and consequently keep serving its target groups and whether it should amend certain procedures in order to achieve good performance indicators and to minimize risk at the same time. As of May 2006, it is understood that MMP has reduced lending in Gaza and northern West Bank (in the Jenin sub-office), and is concentrating on renewing (smaller) loans, tightening lending procedures to new clients and housing loans.

Portfolio evolution



MMP portfolio more than doubled from 4.3 M USD in 2003 to 9.1 M USD at the end of 2005 thanks to the fast growth in the West Bank (excluding Jenin) and non-Palestine operations (Jordan and Syria) aided by funding availability. Staying true to its low-income clientele, MMP portfolio continues to be dominated by micro-enterprise and solidarity group loans (86.2% of total portfolio). The small scale enterprise product share should increase if MMP goes ahead to introduce it in Jordan and Syria.



current crisis overwhelmed all efforts made (e.g. tighten loan analysis and client follow up). The bad portfolio quality will not improve without stable political conditions in Palestine. As expected, portfolio quality is markedly better in Syria (PAR>31 of 3.6% in Feb. 2006) and Jordan (8.3%). It is noted however that the 8.3% PAR level is very high compared to those of other Jordanian MFIs. This level can partially be explained by the fact that UNRWA serves primarily Palestinian refugees which have a narrower economic base than regular Jordanians'. While these statistics are more encouraging, the combined Syria and Jordan share of the total portfolio (17%) is still too small to make a big difference to reduce overall PAR.

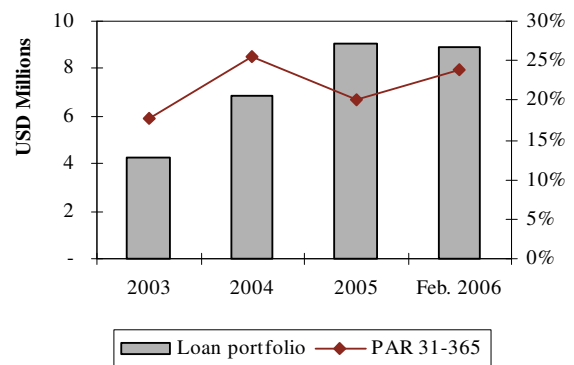
Portfolio quality

USD, unless otherwise stated	Dec. 2003	Dec. 2004	Dec. 2005
Loan portfolio	4,293,624	6,820,420	9,089,219
Evolution	27.7%	58.8%	33.3%
Average outstanding loan	3,541,012	5,685,836	8,068,196
Number of active borrowers	8,206	11,626	14,566
Evolution	35.6%	41.7%	25.3%
Average outstanding loan per client	523	587	624
% of GDP per capita	48.1%	49.7%	47.3%
Average amount disbursed	730	846	933
% of GDP per capita	67.1%	71.6%	70.8%
PAR 31-365	17.7%	25.4%	20.0%
PAR > 365	10.2%	0.3%	0.3%
Write off ratio	23.2%	5.0%	8.9%

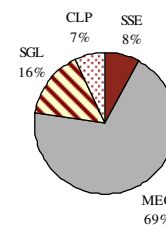
Despite making a lot of efforts, MMP PAR>31 days ratios remain stubbornly high above 20% over the review period with Gaza having the worst PAR estimated at 51% in May 2006. This weak performance can be explained by external and internal factors. As mentioned throughout this report, the bad political and economic climate makes lending very hard for all MFIs. This is an external factor outside of UNRWA control. Internal factors are more complex and less clear cut to ascertain. Some key justifying reasons include: 1) UNRWA clients' businesses are highly vulnerable to closures, movement restrictions and customers' purchasing power fluctuations due to non-payment of government salaries; 2) its loan products are essentially non-secured or at least not as strongly as other MFIs; 3) some uneven loan cashflow analysis resulted in higher loan sizes issued to non-deserving clients; and 4) its decision to not reschedule/refinance loans which are common in some other Palestinian MFIs. It is recognized that MMP's PAR data reflects its true risk level unlike those of several MFIs who do either formal or informal loan rescheduling which normally understates the true risk of their portfolios.

UNRWA recognizes that the current PAR needs to be reduced and has been taking measures accordingly, but the

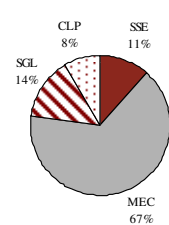
Trends in portfolio & PAR



Portfolio by product - Feb 2006



PAR by product - Feb 2006

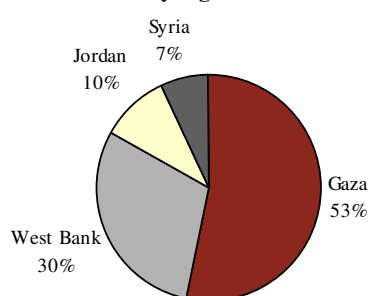


Looking deeper into MMP's portfolio, loan risks are more or less evenly spread out among the loan products as shown on the above pie charts. Nevertheless, 78% of total PAR is concentrated in Gaza and northern West Bank where the effects of closures and movement restrictions are most felt.

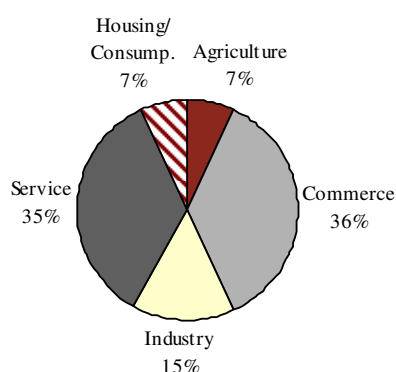
Portfolio diversification

MMP does not have diversification goals or concentration limits. Its portfolio is actually quite diversified due to its three-nation operations. UNRWA today is still heavily exposed to Gaza (53% of total portfolio) where the operating situation is hardest. As it opens additional branches outside Palestine, the Palestine-based portfolio will diminish in percentages even if the Palestine share will likely remain above 50% for the foreseeable future. This geographic diversification option does not exist for other MFIs. Its portfolio is also well diversified by products as shown in the graph below.

Portfolio by region - Feb 2006



Portfolio by sector - Dec 2005



Credit risk coverage

	Dec. 2003	Dec. 2004	Dec. 2005
Risk coverage ratio	32.7%	58.9%	57.9%
PAR 31 net of loan loss provision / Equity	7.8%	7.9%	6.0%

Despite having a more conservative provisioning policy than many Palestinian MFIs, MMP's credit risk coverage is still not enough for calculated PAR which is mainly caused by repeated and heavy write-offs fast depleting the reserves. As the portfolio quality continues to deteriorate rapidly, it would be useful for MMP to look again at its loan loss provisioning policy to see whether it is still adapted to the current economic crisis. Beside from accounting provisioning, all MMP loans (except for solidarity group loans) are backed by simple guarantees (e.g. UNRWA and government employee guarantee, post-dated checks, notarial deeds). These guarantees are however not as strong as administrative salary transfers or promissory notes typically taken by other Palestinian MFIs.

Write off

	Dec. 2003	Dec. 2004	Dec. 2005
Write-off ratio	23.2%	5.0%	8.9%

MMP write-offs defaulted loans over 365 days which is conformed to international best practices. This is contrasted to the majority of Palestinians MFIs who do not have write-off policies or simply do not apply existing write-off

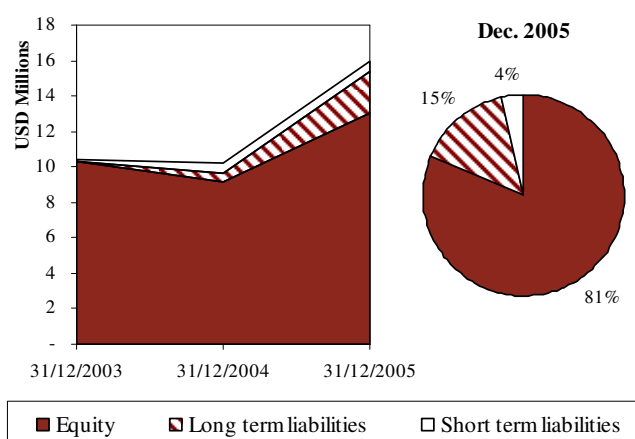
policies. MMP write-off ratios are high, but quite understandable given its targeted clientele, its non-collateralized product offering and mostly the bad economic conditions. This write-off ratio is expected to worsen further unless the political stalemate is resolved. It is noted however that MMP follows up diligently on written-off loans and managed to recover an average of 680,000 USD per year over the past three years – corresponding essentially to amounts of written-off loans.

■ Financing and liquidity

Financing and liquidity is rated « b »

Financing strategy

Funding structure



Capital structure & Leverage

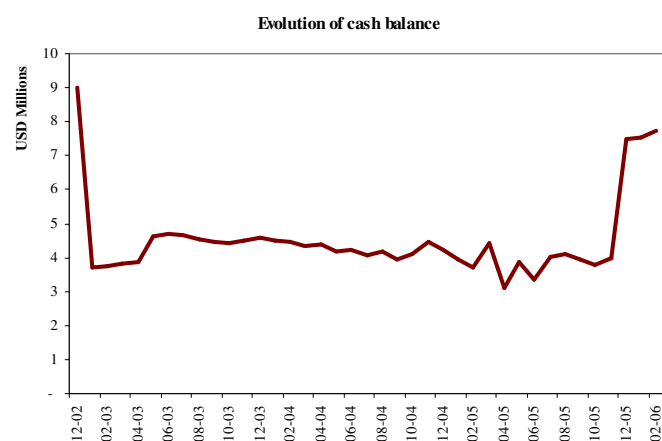
	Dec. 2003	Dec. 2004	Dec. 2005
Liabilities / Equity	0.7%	12.8%	30.4%

MMP is essentially funded by donations and grants. Any liability is actually part of restricted grants not yet capitalized. Strictly speaking, MMP has no leverage and it has an all donated equity capital structure. This situation is not expected to change in a foreseeable future. Technically MMP has considerable debt capacity, but it is restricted to do so because it does not have a separate legal status to borrow under its own name. Also MMP, via UNWRA, continues to be able to attract donations and grants from donors which do not justify the need to raise commercial funds. The current issue is that the loan repayment rate has plunged significantly. UNWRA expects to have to issue an emergency call for additional funds in 6 months time if clients do not resume payments. As of May 31, 2006, MMP has 7.6 M USD in cash representing 42% of its total assets.

ALM risks

With its all donation funding in USD matching with USD lending on short-term basis (portfolio tenor is less than one year), MMP is not exposed to any ALM risks.

Liquidity management



Cash levels have always been very high at MMP reaching around 40% to 45% of total assets during the past 3 years. It is growing again due to the current situation. These unreasonable high levels translate into very low asset utilization rates (see more details in the next section). The MMP liquidity management is centralized in its HQ. A formal and more dynamic strategy is needed to reduce the excess cash levels. Liquidity projections are updated regularly.

Given the unstable conditions, it is difficult however to optimize liquidity management as MMP often disburses less than it wishes for prudent reasons. Most MFIs now have higher liquidity levels than planned. For similar reasons, most banks have excess liquidity which makes deposits or short term placements at banks not that attractive for an income standpoint. The growth of Syrian and Jordanian operations will help to address this problem.

■ Efficiency and Profitability

Efficiency and Profitability is rated « d »

Profitability analysis	Dec. 2003	Dec. 2004	Dec. 2005
ROE	(2.8%)	(12.1%)	(4.5%)
Liabilities / Equity	0.7%	12.8%	30.4%
ROA	(2.7%)	(11.3%)	(3.7%)
Profit generation			
Operational self-sufficiency	76.7%	57.5%	82.9%
Portfolio Yield	24.5%	27.1%	29.4%
Operating expense ratio	60.5%	42.1%	34.8%
Staff productivity	47	58	67
Loan officer productivity	111	128	149
Average outstanding loan per client (EUR)	523	587	624
Funding expense ratio	0.0%	0.0%	0.0%
Cost of liabilities	N/A	N/A	N/A
Loan Loss Provision expense ratio	(25.2%)	6.3%	1.2%
PAR 31-365	17.7%	25.4%	20.0%
Write-off ratio	23.2%	5.0%	8.9%
Asset management			
Outstanding Loan Portfolio / Assets	37.5%	56.6%	47.5%
Non-portfolio income as a % of financial revenues	9.6%	2.5%	1.6%

Overview of the profitability

MMP is a not profitable institution as measured by OSS, ROA and ROE indicators. Profitability indicators have decreased further in 2006 due to the current crisis. Discounting the current draw back, MMP was trending up toward the break-even mark by achieving 83% OSS in 2005 mostly on the back of higher portfolio yield, but also on better cost control. It is understood that Syrian and Jordanian operations already cover their costs. MMP is pulled down by bad performance in Gaza and to a lesser extent in the West Bank.

Portfolio yield

MMP portfolio yield has gone up from 24.5% in 2003 to 29.4% in 2005 based on increased interest rates and slightly better portfolio quality (before the current war). At the 29.4% level, MMP portfolio yield is considerably higher than the next highest MFI level of 20%. Some Palestinian MFIs have portfolio yield as low as 5%. Generally speaking, there is not a trend among MFIs (except one or two) to adjust upwards their interests even if the risks have gone up considerably.

Operating expense ratio

MMP's operating expense ratio is still very high at 34.8% in 2005 even after taking into account its low average loan size cost implications. This weak performance can be attributed to low staff productivity (in part due to effective 4 separate geographic operations) and heavy ratio of back office staff (in part due to IT and administrative inefficiencies). If MMP can rationalize its back office operations and implement efficient MIS, the 25% operating expense ratio range is within its reach.

Loan loss provision expense ratio

The loan loss provision expense fell to 1.2% in 2005 from 6.3% in 2004 consistent with a relative improvement in the portfolio quality. Loan loss provisioning expenses are however still large in absolute numbers (totaling 1.8 M USD in the 2004-2005 period) necessary to provide for the heavy write-offs done in the past 2 years. Unfortunately due to the worsening political and portfolio conditions, this ratio is expected to rise significantly in 2006.

Funding expense ratio

Zero due to all-donation funding structure. This situation is not expected to change in a foreseeable future.

Asset management

MMP asset utilization ratios (income-earning portfolio as a % of total assets) are and have been very weak reaching around 47.5% in 2005. While a weak ratio is understandable given the unstable political situation, but at the 50% level, it is simply too low. If MMP manages to raise this ratio to 70% (still lower than the 80-85% international observed range) and substantially raise productivity, it would have a

good chance to reach break-even with everything else being the same.

Adjusted performance

Details concerning the specific adjustments are included in the annexes.

MMP is not yet financially self-sufficient despite continued improvements reaching 71.2% in 2005 compared to 42.8% in 2003. Planet Rating applies the standard adjustment methodology and made three specific adjustments: inflation, loan loss provisioning and special adjustments related to assumed benefits being part of the UNRWA structure. There is no adjustment made for cost of funds as MMP is all-donation funded.

	%Dec. 03	Dec. 04	Dec. 05
Adjustment expense ratio	28.0%	9.5%	6.0%
AROE	(12.2%)	(17.6%)	(8.9%)
AROA	(11.8%)	(16.6%)	(7.2%)
Financial self-sufficiency	42.8%	48.1%	71.2%

Profitability outlook

As mentioned, it is expected that MMP losses will widen in 2006. It is difficult to predict the future in a country where the political situation is so volatile. Nevertheless, it is safe to say that the path to profitability will necessary go through better portfolio quality (thus reducing loan loss expenses), higher productivity, tight cost control, continued portfolio growth and better (higher) asset utilization rates.

The opinions expressed within this report are valid for one year after the rating mission. Beyond one year, or in case of a major change during this period affecting the institution's performance, that change due to the institution itself or its operating environment, Planet Rating does not guarantee the validity of the opinions contained herein, and recommends that a new rating evaluation be undertaken. Planet Rating cannot be held responsible for investments/financings that are made based on this report.

Benchmarking

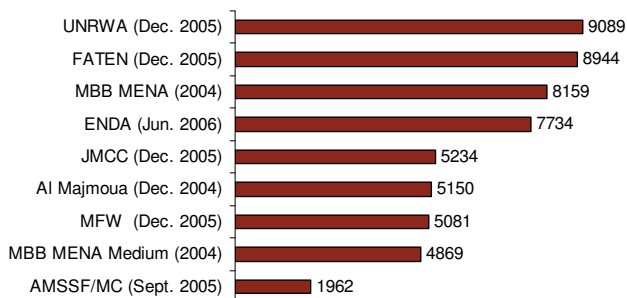
Classification based on MBB criteria

Area	Middle East and North Africa (MENA)
MBB peer group	MENA Medium: ABA, Al Majmoua, AMEEN, DBACD, ENDA, JMCC, MFW, UNRWA
Maturity	Mature
Scale of operations	GLP >= 2 M USD < 8 M USD
Target population	Broad - Avg. Balance per Borrower/GNI per Capita >= 20% and <=150%

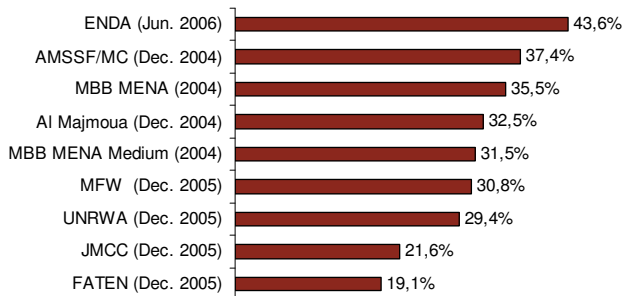
Source: MBB August 2005, MIX

Note: Portfolio yield data is calculated using on average portfolio for all MFIs, except for MFW, AMSSF/MC and JMCC where financial revenue ratio is used based on average total assets. Portfolio yield and financial revenue ratios are not comparable, but they do give a broad indication of income derived from productive assets.

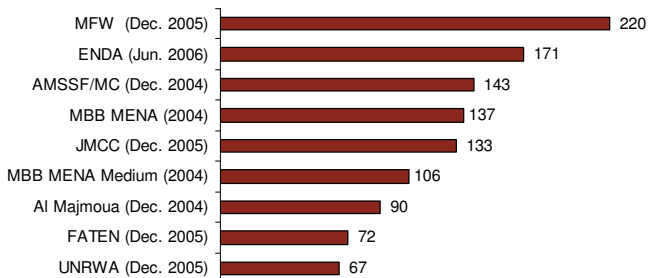
Portfolio (K USD)



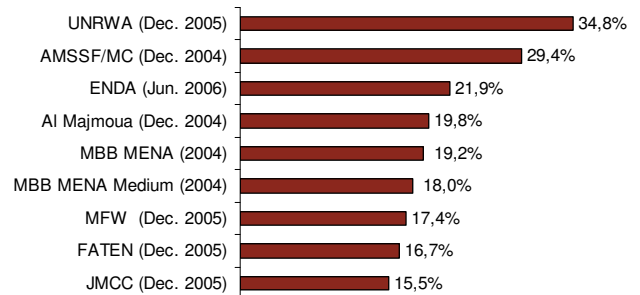
Portfolio yield



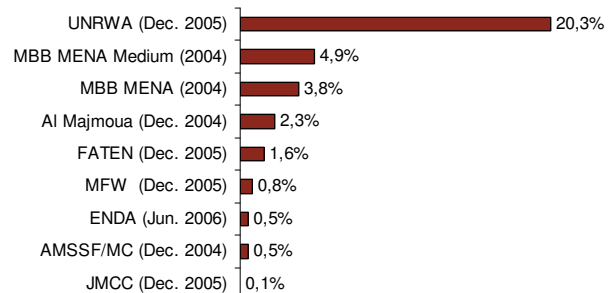
Staff Productivity



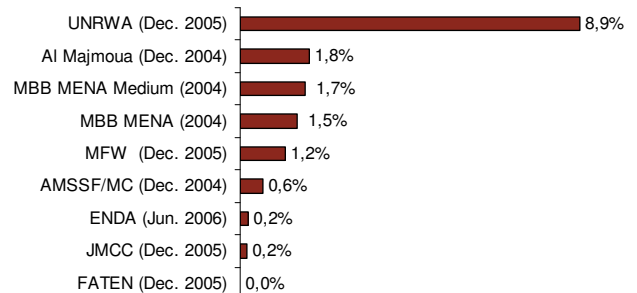
Operating expense ratio



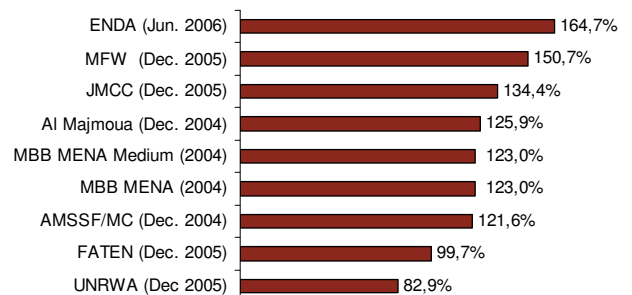
PAR >30



Write-off ratio



Operational Self-Sufficiency



Annexes

Acronyms

ALM	Asset/Liability Management
BOD	Board of Directors
CIDA	Canadian International Development Agency
CEO	Chief Executive Officer
EUR	Euro
FI	Financial intermediary
FY	Fiscal Year (Jan. 1st to Dec. 31st)
HQ	Headquarters
HR	Human Resources
GNP	Gross National Product
GDP	Gross Domestic Product
IAS	International Accounting Standards
IT	Information technology
LO	Loan officer
LTS	Loan Tracking Specialist
MBB	MicroBanking Bulletin
MIS	Management Information System
MFI	Microfinance institution
NA	Not Applicable
NGO	Non Governmental Organization
PAR	Portfolio at risk
PMN	Palestinian Microfinance Network
ROA	Return on assets
ROE	Return on equity
SIDA	Swedish International Development Agency
SME	Small and medium enterprise
USAID	United States Agency for International Development
UNDP	United Nations Development Program
UNRWA	United Nations Relief & Works Agency for Palestinian Refugees in the Near East
USD	United States Dollar
USAID	United States International Development Agency

Formulas and ratios

- Personnel productivity: Active borrowers / Total personnel (end of period)
- Loan officer productivity: Active borrowers / Total Loan Officers (end of period)
- Return on assets (ROA): Net operating income before donations / Average assets
- Adjusted return on assets: AROA: Adjusted net operating income before donations / Average assets
- Return on equity: ROE: Net operating income before donations / Average equity
- Adjusted return on equity: AROE: Adjusted net operating income before donations / Average equity
- Leverage: Debt (savings + debts) / equity (end of period)
- Portfolio yield: Portfolio revenue / 13-month average gross outstanding portfolio
- Operating expense ratio: Operating expense / 13-month average gross outstanding portfolio
- Funding expense ratio: Interest and fees paid on funding liabilities / 13-month average gross outstanding portfolio
- Cost of funds ratio: Interest and fees paid on funding liabilities / Average funding liabilities (deposits + borrowings)
- Loan loss expense ratio: Net loan loss expense / 13-month average gross outstanding portfolio
- Adjustment expense ratio: Total adjustments / 13-month average gross outstanding portfolio
- Net portfolio as a % of assets: Net outstanding portfolio / total assets (end of period)
- Operational self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense)

- Financial self-sufficiency: Revenue from operations / (Financial expense + Loan loss expense + Operating expense + Adjustments)
- Risk coverage ratio: Loan loss reserves / Portfolio at risk (31-365 days)
- Write-off ratio: Loans written off / 13-month average gross outstanding portfolio

Notes to the financial statements

General notes to financial statements per CGAP Disclosure Guidelines

- The MFI follows partially the CGAP disclosure guidelines.
- The Financial Statements presented include a balance sheet, income statement, and accompanying notes.
- The financial statements provided include 4 years of data.
- Segment Reporting for Multiservice Microfinance Institutions: if the MFI offers both financial and nonfinancial services, say whether the non-financial services are included in this statement.
- Portfolio reporting
 - Loan loss provision expense: expenses related to actual or anticipated loan losses are shown separately from other expenses in the income statement ("loan loss expense").
 - The loan loss reserve is shown as a negative asset in the balance sheet. It is calculated each December by the finance manager according to the methodology described in the table.

Provisioning methodology	Rate
Healthy portfolio	0.0%
Rescheduled	N/A
less than 30 days	5.0%
31 - 60	10.0%
61 - 90	25.0%
91 - 120	50.0%
more than 120 days	75.0%
Over 365 days	100.0%
Write off amount	0.0%

- Loans are written off every December from the loan loss reserve and the loans outstanding.

- The following table reconciles these movements:

USD	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2005
Loan loss reserve, January 1st	1 276 514	392 143	1 036 073	1 276 514
+ Loan loss provision expense	(55 009)	933 830	752 385	(55 009)
- Provision reversal	19 918	935 090	754 638	19 918
- Loans written off during the year	74 927	1 260	2 253	74 927
Loan loss reserve, year end	829 360	289 903	718 559	829 360

- Accrual vs. Cash accounting: the MFI recognizes interest on a cash basis and therefore does not accrue interest.

- Portfolio quality

5.1 Indicators: Portfolio quality and the calculations of such are displayed in the tables in Section A and the calculations are based on standard portfolio at risk calculation of: (outstanding loan principal for loans in arrears over X days)/(total portfolio outstanding).

5.2 Renegotiation of loans: the MFI does refinance/reschedule loans. Such loans are not tracked separately in the loan software.

5.3 Insider loans: the MFI does allow employees to borrow funds. In 2005, there are no staff loans outstanding. Loans to employees are formalized in a contract between the MFI and the employee that state the amount granted and repayment schedule. Loans repayments are automatically withdrawn from salary. Employee loans are non-interest bearing. This amount is not a material percent of the outstanding portfolio.

- Donations

6.1 Revenue from donations is shown separately from income generated by operations in the income statement.

6.2 2005 donations:

MMP received 19.9 M USD of donations since its inception. Most of these donations came from USAID, OPEC, AGFUND and the Governments of Australia, Canada, Italy, Japan, Norway and Germany.

6.3 Donations accounting methodology: Grants for operations to be used in the current operating period are recorded in the income statement. Grants for fixed assets were recorded directly in the balance sheet with amortization of such assets passing through the income statement. Grants for loan funds are recorded directly in the balance sheet. Please note that the financial statements disclosed in this report have been modified for presentation to better reflect donations.

6.4 In-kind donations: Please refer to the Appendix on Adjustments for details on in-kind donations that Planet Rating has identified.

6.5 Cumulative amount of all prior period donations: 19.9 M USD since inception.

7 Details of liabilities

7.1 Loans that account for more than 10% of total liabilities are listed in a table at the end of the report

7.2 Deposits: None, not a deposit-taking MFI.

8 Other significant Accounting Policies

8.1 Accrual or deferral income/expense accounting: none.

8.2 Depreciation of fixed assets: The depreciation of fixed assets on a flat basis using the following schedule:

8.3 Inflation accounting: none

8.4 Currency mismatch: please refer to the F area for more information on potential mismatch.

Accounting treatment of unrealized gains or losses due to foreign currency fluctuations: none.

Adjustments

USD	Dec. 2003	Dec. 2004	Dec. 2005
Adjustment for the cost of funds = (a*b)-c	-	-	-
Average amount of borrowings (a)	-	-	-
Shadow price of borrowings (b)	9.0%	9.0%	9.0%
Interest expense on borrowings (c)	-	-	-
Adjustment for inflation = (d-e)*f	586,567	418,460	320,796
Avg. Equity (d)	10,469,893	9,697,408	11,009,449
Average fixed assets (e)	179,251	186,959	316,238
Inflation rate (f)	5.7%	4.4%	3.0%
Adjustment for in-kind donations	107,151	119,592	140,551
Staff and technical assistance	-	-	-
Other	107,151	119,592	140,551
Adjustments for provisions	297,114	-	20,744
Loan losses	297,114	-	20,744
Other risks	-	-	-
Other adjustments	-	-	-
Total adjustments	990,832	538,052	482,092
Net income before donations	(291,592)	(1,169,148)	(495,951)
Adjusted net income before donations	(1,282,424)	(1,707,200)	(978,043)
Adjusted net income before donations	(1,282,424)	(1,707,200)	(978,043)

UNRWA Balance sheet	Notes	USD				Evolution		Asset composition		
		31/12/2002	31/12/2003	31/12/2004	31/12/2005	2003/2004	2004/2005	31/12/2003	31/12/2004	31/12/2005
ASSETS		11,351,128	10,397,725	10,223,723	16,891,113	(1.7%)	65.2%	100.0%	100.0%	100.0%
Short Term Assets		10,226,416	10,021,416	10,021,115	15,517,849	(2.0%)	54.9%	98.4%	98.0%	91.9%
Cash and Due from Banks			4,574,527	4,236,066	7,494,612	(7.4%)	76.9%	44.0%	41.4%	44.4%
Short Term Investments			1,750,074	-	-	(100.0%)	-	16.8%	0.0%	0.0%
Short Term Net Loan Portfolio		2,085,746	3,901,481	5,784,347	8,019,321	48.3%	38.6%	37.5%	56.6%	47.5%
Short Term Gross Loan Portfolio (Loan Loss Reserve)	1	3,362,260	4,293,624	6,820,420	9,089,219	58.8%	33.3%	41.3%	66.7%	53.8%
Interest Receivable		1,276,514	392,143	1,036,073	1,069,898	164.2%	3.3%	3.8%	10.1%	6.3%
On loan portfolio		-	-	-	-	-	-	0.0%	0.0%	0.0%
On investments		-	-	-	-	-	-	0.0%	0.0%	0.0%
Accounts receivable and other assets		-	334	702	3,916	110.2%	457.8%	0.0%	0.0%	0.0%
Long term assets			171,309	202,608	1,373,264	18.3%	577.8%	1.6%	2.0%	8.1%
Long Term Net Investments			-	-	-	-	-	0.0%	0.0%	0.0%
Long Term Gross Loan Portfolio			-	-	-	-	-	0.0%	0.0%	0.0%
Net Fixed Assets		187,193	171,309	202,608	429,868	18.3%	112.2%	1.6%	2.0%	2.5%
Other Long Term Assets	2	-	-	-	943,396	-	-	0.0%	0.0%	5.6%
LIABILITIES AND EQUITY			10,397,725	10,223,723	16,891,113	(1.7%)	65.2%	100.0%	100.0%	100.0%
Liabilities			70,479	1,156,154	3,939,784	1,540.4%	240.8%	0.7%	11.3%	23.3%
Short term liabilities			70,479	1,090,939	3,866,134	1,447.9%	254.4%	0.7%	10.7%	22.9%
Demand Deposits			-	-	-	-	-	0.0%	0.0%	0.0%
Compulsory Deposits			-	-	-	-	-	0.0%	0.0%	0.0%
Short Term Time Deposits			-	-	-	-	-	0.0%	0.0%	0.0%
Short Term Borrowings			-	-	-	-	-	0.0%	0.0%	0.0%
Interest payable			-	-	-	-	-	0.0%	0.0%	0.0%
Accounts Payable and Other Short Term Liabilities	3		70,479	1,090,939	3,866,134	1,447.9%	254.4%	0.7%	10.7%	22.9%
Long term liabilities			-	65,215	73,650	-	12.9%	0.0%	0.6%	0.4%
Long Term Time Deposits			-	-	-	-	-	0.0%	0.0%	0.0%
Long Term Borrowings			-	-	-	-	-	0.0%	0.0%	0.0%
Other Long Term Liabilities			-	65,215	73,650	-	12.9%	0.0%	0.6%	0.4%
Equity		10,612,539	10,327,246	9,067,569	12,951,329	(12.2%)	42.8%	99.3%	88.7%	76.7%
Paid-In Capital			-	-	-	-	-	0.0%	0.0%	0.0%
Donated equity		10,612,539	10,327,246	9,067,569	12,951,329	(12.2%)	42.8%	99.3%	88.7%	76.7%
Retained earnings without donations and reserves			-	-	-	-	-	0.0%	0.0%	0.0%
Current year			(286,357)	(1,163,076)	(512,200)	306.2%	(56.0%)	(2.8%)	(11.4%)	(3.0%)
Other equity accounts			-	-	-	-	-	0.0%	0.0%	0.0%

Notes:

- 1) For 2004 and 2005, MMP reclassified some loans into LT loans, but they are not material (2% in 2005, 4% in 2004). PR therefore keeps all loans in this account for ease of comparison.
- 2) In 2005, an amount of \$934,396 representing the net value of a Canadian grant pledge to MMP which is to be loaned out in 2006 only.
- 3) Payables, accruals, bills payable to UNRWA, liability to OPEC Pal Trust Fund

UNRWA		USD					
Income Statement		Notes	31/12/2003	31/12/2004	31/12/2005	2003/2004	2004/2005
Financial Revenue (a)			960,103	1,582,237	2,412,079	64.8%	52.4%
Financial Revenue from Loan Portfolio			868,354	1,542,704	2,372,630	77.7%	53.8%
Interest on Loan Portfolio			868,354	1,542,704	2,372,630	77.7%	53.8%
Fees and Commissions on Loan Portfolio			-	-	-	-	-
Penalty Revenue on Loan Portfolio			-	-	-	-	-
Financial Revenue from Investments			91,749	39,533	39,449	(56.9%)	(0.2%)
Other Operating Revenue		1	-	-	-	-	-
Financial Expense (b)			-	-	-	-	-
Interest paid on borrowings			-	-	-	-	-
Interest paid on deposits			-	-	-	-	-
Net Inflation Adjustment Expense			-	-	-	-	-
Other Financial Expenses			-	-	-	-	-
Financial income [c=a-b]			960,103	1,582,237	2,412,079	64.8%	52.4%
Net Loan Loss provision expense (d)			(891,317)	359,543	97,001	(140.3%)	(73.0%)
Loan loss provision expense and write-off			(55,009)	933,830	752,385	(1,797.6%)	(19.4%)
Recovery from Loans written off			836,308	574,287	655,384	(31.3%)	14.1%
Operating expense (e)			2,143,012	2,391,842	2,811,029	11.6%	17.5%
Personnel Expense (includes fringe)			1,575,331	1,800,672	1,818,088	14.3%	1.0%
Administrative Expense (non-staff operating expenses)			567,681	591,170	992,941	4.1%	68.0%
Depreciation and amortization			60,117	59,546	82,195	(0.9%)	38.0%
Consulting fees			-	-	-	-	-
Special service contracts			90,550	86,396	96,795	(4.6%)	12.0%
Audit fees			43,500	43,500	43,500	0.0%	0.0%
Rent			136,213	144,729	149,475	6.3%	3.3%
Communication			61,839	69,420	55,957	12.3%	(19.4%)
Stationary & supplies			7,831	57,996	52,938	640.6%	(8.7%)
Minor equipment & maintenance			31,846	16,840	16,201	(47.1%)	(3.8%)
Travel & transportation			70,143	61,907	86,201	(11.7%)	39.2%
Others		1	65,642	50,836	409,679	(22.6%)	705.9%
Net Operating Income Before Taxes and Donations [f=c-d-e]			(291,592)	(1,169,148)	(495,951)	301.0%	(57.6%)
Income Taxes (g)			-	-	-	-	-
Net Operating Income Before Donations [h=f-g]			(291,592)	(1,169,148)	(495,951)	301.0%	(57.6%)
Non Operating Revenue (i)		2	5,235	6,072	(16,249)	16.0%	(367.6%)
Non Operating Expense (including related taxes) (j)			-	-	-	-	-
Net Income Before Donations [k=h+i-j]			(286,357)	(1,163,076)	(512,200)	306.2%	(56.0%)
Donations (l)			-	-	-	-	-
Net Income (after Taxes and Donations) [m=k+l]			(286,357)	(1,163,076)	(512,200)	306.2%	(56.0%)

Notes:

- 1) Training income
- 2) Program support costs, training, others and central office costs
- 3) FX gains or losses

Loan Product Description

	Product 1	Product 2	Product 3	Product 4
Name of the product	Small-Scale Enterprise Credit Program (SSE)	Micro-credit Enterprise Program (MEC)	Solidarity Group Lending Program (SGL)	Consumer Lending Program (CLP)
Creation Date	1991	1996	1994	2000
Client type (rural, urban, etc.)	Urban	Urban, Rural (the Majority in urban)	Rural, Urban, (the majority of our lending is to urban clients)	Consumer Loans
Authorized loan size (minimum and maximum)	from \$3,000 to \$ 70,000	\$200 - \$10,000	\$100 to \$8,000	150% of the salary since the introduction of this product the minimum loan amount disbursed is \$100 and the maximum loan amount disbursed is \$3,000.
Average disbursed loan size	15,000	\$986 in Gaza, \$ 1,032 in W.B, \$ 554 in Syria and \$1,088 in Jordan	613	547
Authorized loan length (minimum and maximum)	12-36 months	4 - 11 months	4 - 11 months	4 - 9 months
Average loan length	18 months		6 months	6 months
Grace period	2 - 4 months	N/A	Not applicable	Not Applicable
Collateral requirements and other conditions	Loan Agreement, UNRWA Guarantors, Posted Cheques	Post dated cheques, Loan Agreement		Loan Agreement, Post dated checks
Repayment Schedule (ex. weekly, monthly)	Monthly	Monthly		Monthly
Nominal annualized interest rate	11% (7% declining, 4% administrative fees)	24% in W.B on the JD, 19.2% in Gaza on the DOLLARS, 24% in Jordan on Jd and 26.4% in Syria on the Syrian pound		21.6%
Flat or declining ?	Declining	Flat	Flat	Flat
Fees and penalties	1% penalty fees on the outstanding balance	1% penalty fees on the outstanding balance	1% penalty fees on the outstanding balance	1% penalty fees on the outstanding balance
Major changes since creation (rate, size, term)	Due to the current political situation in operation we decreased the loan size and the loan terms to reach 28 months	In West Bank the loan size was reduced form 800 as starting point to 300 and loan period increased to reach to 11 months		

Organizational chart of MMP and HQ

