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Impact of the Conflict in Gaza on the Microfinance Institution (MFI) Sectors in Gaza and West Bank



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1 Introduction & Methodology

The events in Israel on October 7, 2023 and the associated conflict on Gaza have led to the most significant and impactful crisis in West Bank and Gaza since 1948. The purpose of this study is to assess the impact of the conflict in Gaza on the credit-only microfinance (MFI) sectors in Gaza and West Bank. An online survey was designed and conducted by the World Bank and the Palestine Monetary Authority (PMA) and reviewed by the MFI association, SHARAKA. The survey was conducted between October and November 2024.¹

In addition to the primary survey, a supplemental survey was conducted in November 2024 to understand the damages and loss to the physical assets of MFIs and their staff. Furthermore, a focus group discussion was held with 9 MFIs in November 2024 to gain qualitative insights into how MFIs and their clients have been impacted. All 9 licensed MFIs in West Bank and Gaza participated in the survey and focus group.

The survey collected data from MFIs for September 30, 2023 (before the most recent conflict) and September 30, 2024 to understand the impact of the conflict on the MFIs and their clients. Because the data is self-reported, there are small differences between what has been reported here in the survey and data from PMA. Balance sheet and loan loss provision data from PMA is used in the analysis here. This is the first and most comprehensive study to-date regarding the impact of the conflict on the MFI sector and all figures are in US dollars.

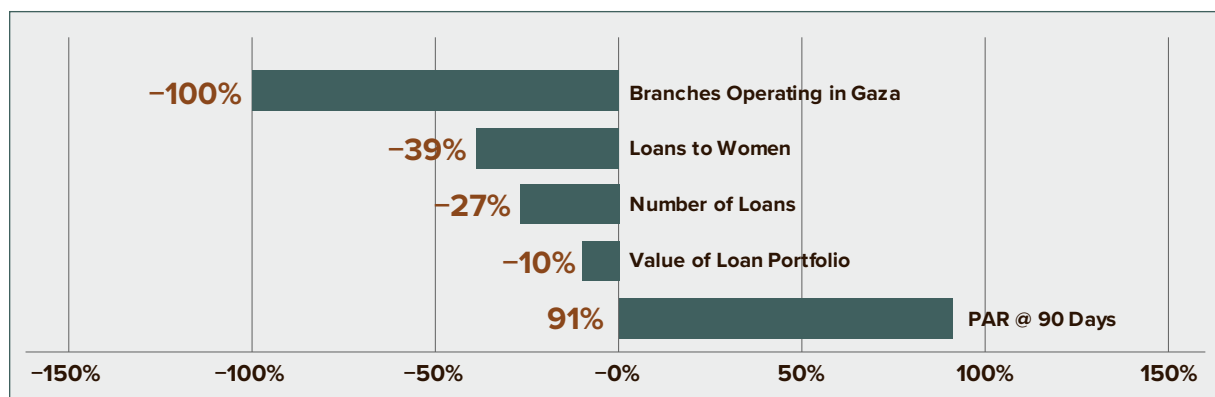
¹ Dave Grace is a World Bank consultant and was the primary author of the report with valuable insights on drafts from Shurouq Qawariq of the World Bank. The views expressed here are the author's own and do not represent the views of the World Bank, its Board or affiliates.

2 Overview of MFIs Activities in Gaza Pre-Conflict and During the Conflict

Before the conflict in Gaza (i.e., as of September 30, 2023) seven of the nine licensed MFIs in West Bank and Gaza were cumulatively operating 19 branches in Gaza, serving 21,300 clients with an average loan size of \$2,544. The highest average loan size among MFIs before the current conflict was \$6,700 and the lowest was \$840. The total loan portfolio in Gaza at the time was \$54.3 million, and the portfolio-at-risk (PAR) measured at 90 days past due was 5.7% — slightly below the PAR for MFIs in West Bank. Women in Gaza constituted 25% of the total clients of MFIs and were very active in microenterprise activities.

As of September 30, 2024² all MFIs branches are operating in Gaza were closed and all new loans and collections have stopped in Gaza. Early into the conflict, PMA issued a circular putting a moratorium on the collection of loans in Gaza. Given that loans did not need to repaid (and no new loans were issued) the loan portfolio reduced by only 10% to \$48 million. The PAR for MFIs in Gaza has technically stayed suspended at the pre-conflict level (i.e., 5.7%). However, MFIs estimated that as of September 30, 2024 PAR at 90 days would be approximately 91%, if the moratorium on collections were not in place. Given the magnitude of destruction in Gaza, this suggests that \$43.7–\$48 million in loans will need to eventually be written off in Gaza despite the moratorium continuing for Gaza. As of September 30, 2024 women constituted 21% of clients, with 3,250 loans in Gaza. Figure 1 below shows the summary impact of the conflict in Gaza on MFIs.

FIGURE 1: Changes in Key Figures for Gaza MFI Activities from Sept 2023 to Sept 2024



Source: World Bank Survey of MFIs, October 2024

2 Given the dynamic situation of the conflict, the situation of MFIs has continued to deteriorate over the past 4 months.

In addition to these large losses in the loan portfolios of MFIs operating in Gaza, many MFIs have incurred losses to their fixed assets and incurred personnel expenses while the staff have been unable to complete their normal activities. The total book-value of MFIs' fixed assets that have been destroyed in Gaza as of September 30, 2024 are \$2.2 million with an estimated replacement cost of \$2.7 million³ and personnel expenses were \$1.43 million. A breakdown of these losses in Figure 2 below.

FIGURE 2: Book-Value of Fixed Asset Damages to MFIs & Personnel Expenses in Gaza

Book-Value Fixed Asset Damages		Personnel & Medical Paid but Unable to Work	
Land and building	\$1.558M	Personnel Expense	\$1.412M
Vehicles	\$150K	Medical	\$22K
Office Equipment	\$172K	Total	\$1.43M
Software/systems	\$189K		
Other fixed assets	\$132K		
Total	\$2.203M		

Source: World Bank Supplemental Survey of MFIs, November 2024

As such, we estimate the total direct financial cost of the conflict for MFI operations in Gaza is between \$47.8 million to \$55.3 million.⁴ In addition to these direct financial costs, MFIs operating in Gaza had three staff members killed, two staff members have been injured and nearly all their 21,300 clients displaced and impacted by the conflict. There will also be significant long-term costs on the Gaza economy and its institutions, including MFIs.

³ Given the very limited availability of building materials and equipment in Gaza, it is likely that the replacement costs would be much higher than \$2.7 million.

⁴ The higher estimate of \$55.3 million assume full write off from the loan portfolio in Gaza (\$48M), replacement costs of fixed asset losses to be twice the value of book-value (\$5.4M) and personnel expenses of \$1.9 million through the start of the ceasefire on January 19, 2025.

3 Overview of MFIs Activities in West Bank Pre-Conflict and During the Conflict

While the physical impact of the conflict in Gaza has been significantly less in the West Bank, there have been significant psychological and economic impacts such as the loss of income for the 110,000 Palestinians with work permits for Israel that used to pass the checkpoints daily for employment and trade revenues between West Bank and Gaza and Israel have ground to a halt. As disruptive as the conflict has been on the MFI sector, like for the banking sector in West Bank and Gaza, the business in Gaza for Palestinian MFIs represented only 15% of the total collective loan portfolio – this figure has stayed constant pre-conflict and during the conflict.⁵ However, it ranges from 3% to 30% depending on the MFI which was operating in Gaza before the conflict. Again, the sector averages are driven by the two largest MFIs which make up 55% of the sector.

As of September 30, 2023 the nine MFIs were operating 76 branches in the West Bank serving 54,400 clients with an average loan size of \$5,714. The highest average loan size among MFIs pre-conflict was \$6,700 and the lowest was \$840. The total loan portfolio in West Bank was \$311 million and PAR measured at 90 days past due was 5.9%. In September 2023 women represented were 31% of the clients (16,880) in West Bank compared to 25% in Gaza.

As of September 30, 2024 West Bank loan portfolio reduced 9% to \$283 million and PAR measured past due at 90 days would be approximately 9.6% if no moratorium on collections was in place. The total number of loans was reduced 6% to 51,000 clients, but loans to women decreased further by 9% (15,343). The average loan size decreased only 3% to \$5,560. Only one branch has been closed by MFIs in West Bank and MFIs continue to make new loans, albeit at a slower pace. Anecdotally, It is believed that MFIs are comparatively making more new loans than banks and have an easier credit process than banks.

⁵ The moratorium on loan collections in West Bank was lifted in January 2025.

4 Findings and Analysis of the Financial Positions of MFIs in West Bank and Gaza

Despite the devastating conditions of the conflict in Gaza, the MFI sector has been performing reasonably well. For example, the return on assets for MFIs in September 2023 was 2.8% compared to -1.1% in September 2024. Because none of the MFIs in West Bank and Gaza have the authority to accept deposits or require cash collateral for loans, their on-going ability to make new loans requires strong repayment of existing loans by clients and an on-going ability to borrow from local or foreign lenders. Five of the nine MFIs (including the two largest) have been able to access \$50 million in new loans from local banks and to a lesser extent from international lenders since the conflict began. No MFIs have defaulted on their loans to lenders, but some have shifted (i.e., re-schedule) payments on loans they owe indicating some degree of liquidity and repayment stress.

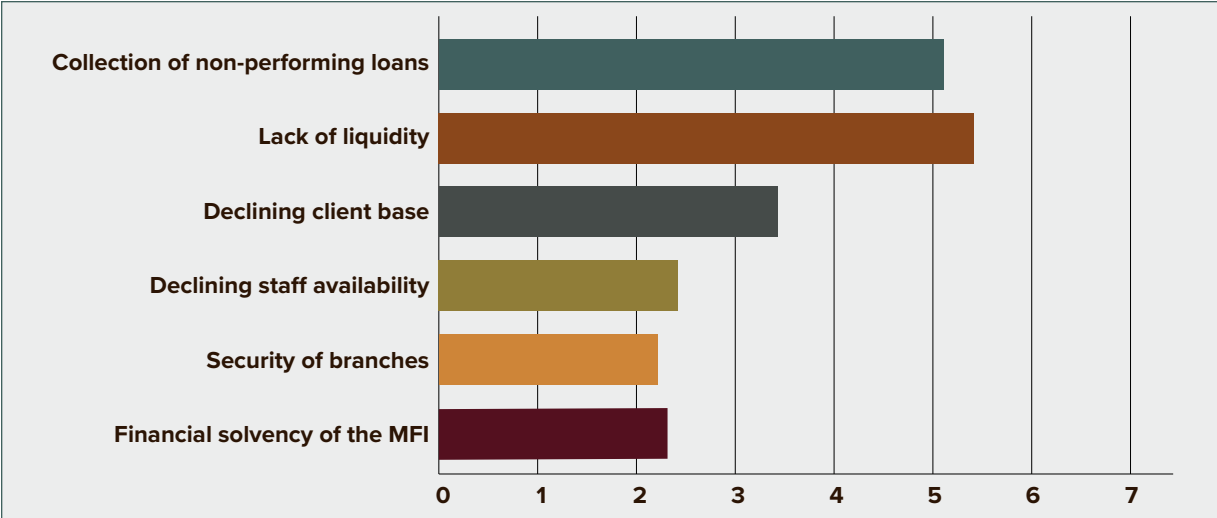
The capital adequacy (i.e., non-risk-weighted leverage) ratio of the sector was 35% in September 2023 and stayed the same at 35% in September 2024 as asset values decreased the ratio stayed the same. As the conflict has continued and economic growth has stagnated in Gaza and West Bank, MFIs will need to try and make provisions for loans that need to be written off while also funding their existing loan portfolio thus putting significant strain on their capital base.

The most troubling financial indicator for the sector as of September 30, 2024 was the growth of operating costs relative to gross income from 38% in September 2023 to 53% in September 24.⁶ However, when analyzing the data by MFI it reveals that while all of MFIs had ratios below 100% in September 2023, there were three MFIs in September 2024 with cost to income ratios of 102%, 120% and 123% which is not sustainable in the long-term. Likewise, two other MFIs had ratios increase to 76% and 81%.

The survey asked MFIs a series of qualitative questions regarding challenges they face and that their clients face. Given the need for MFIs to keep lending to generate profits (unlike banks that can invest deposits in assets to generate returns), Figure 3 shows the need for liquidity is the top near-term concern for MFIs followed by loan collections once the moratorium expires. This is also borne out when asked about the largest challenge over the next year, MFIs indicated loan collection and accessing liquidity as their top concerns.

⁶ This indicator is referred to as a cost-to-income ratio or efficiency ratio as it reveals how many cents an MFI must spend to earn \$1. A global benchmark for a cost-efficient MFI is below 65%.

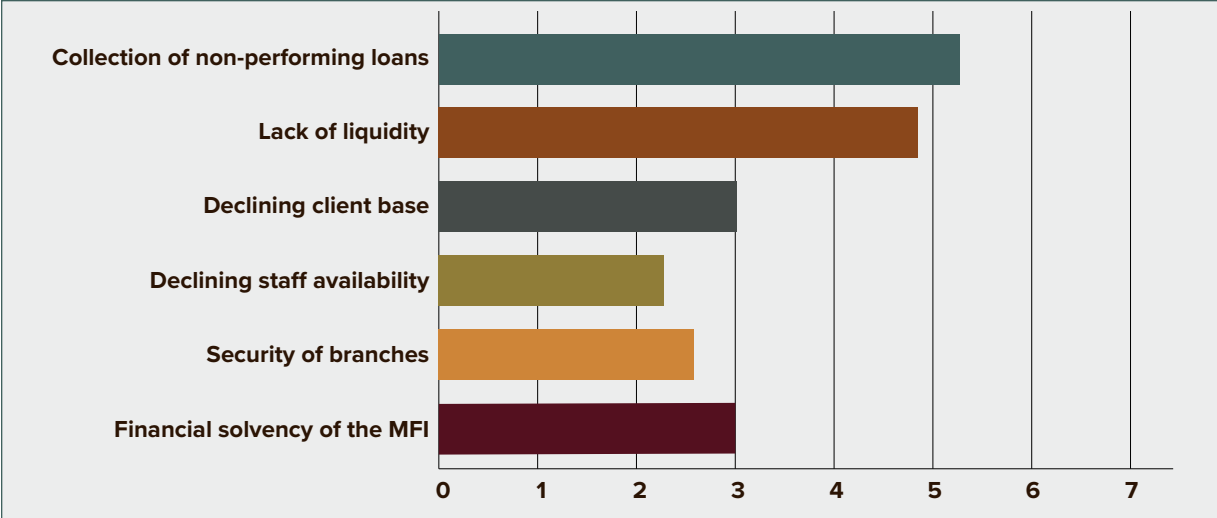
FIGURE 3: Biggest Financial Challenge Facing MFIs



Source: World Bank Survey of MFIs, October 2024

MFIs’ clients are also focused on the near-term needs to meet their daily needs and to keep employment to generate income as seen Figure 4.

FIGURE 4: Biggest Financial Challenge Facing MFI Clients

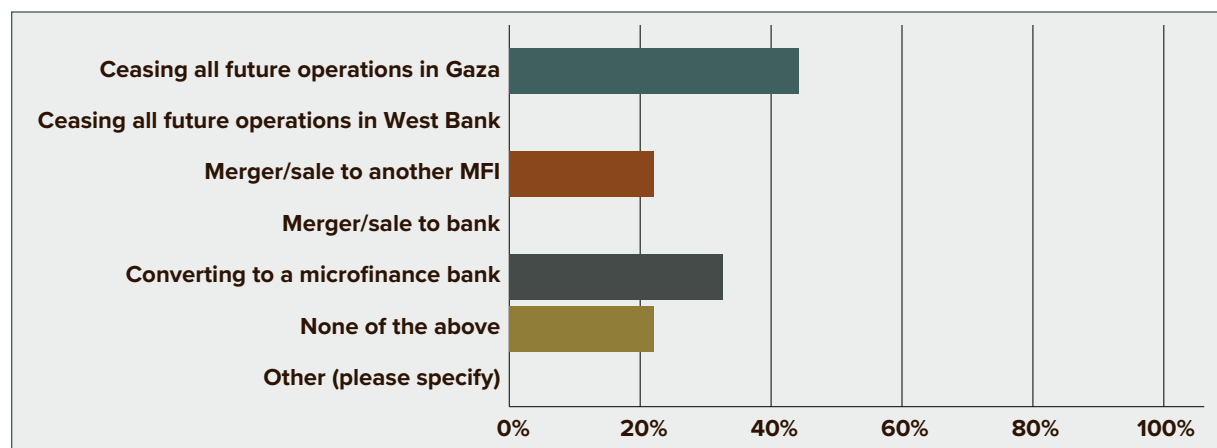


Source: World Bank Survey of MFIs, October 2024

MFIs have been able to weather the storm given their strong capital ratios before the conflict and the small portion that Gaza makes up in their portfolios. Nonetheless, as shown in Figure 5 below, this crisis will have a lasting impact on the structure of the MFI sector, how it is funded and who it serves. Some of the changes can be facilitated by the newly provided for microfinance bank license that PMA issued instructions for in December 2024.

However, moving towards a deposit-taking license for MFIs with elevated operating expenses will resolve their problems.

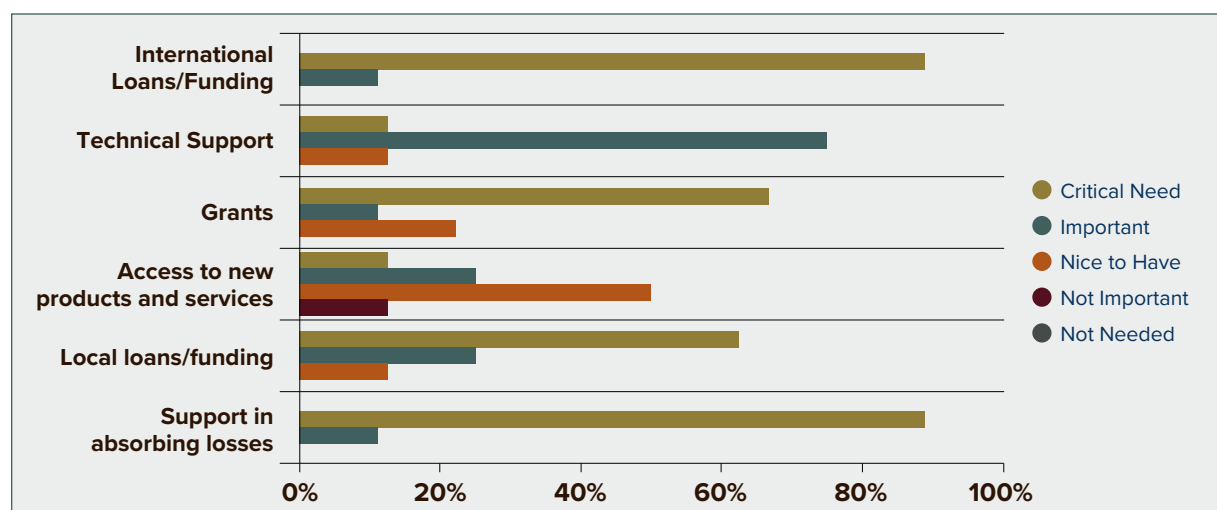
FIGURE 5: Structural Changes MFIs are Considering in the Next Year



Source: World Bank Survey of MFIs, October 2024

In the next year MFIs are looking to PMA, development partners and local banks to help fill their critical needs for funding new loans and absorbing losses in unrecoverable loans as shown in Figure 6 below.

FIGURE 6: Support MFIs Need in the Next Year

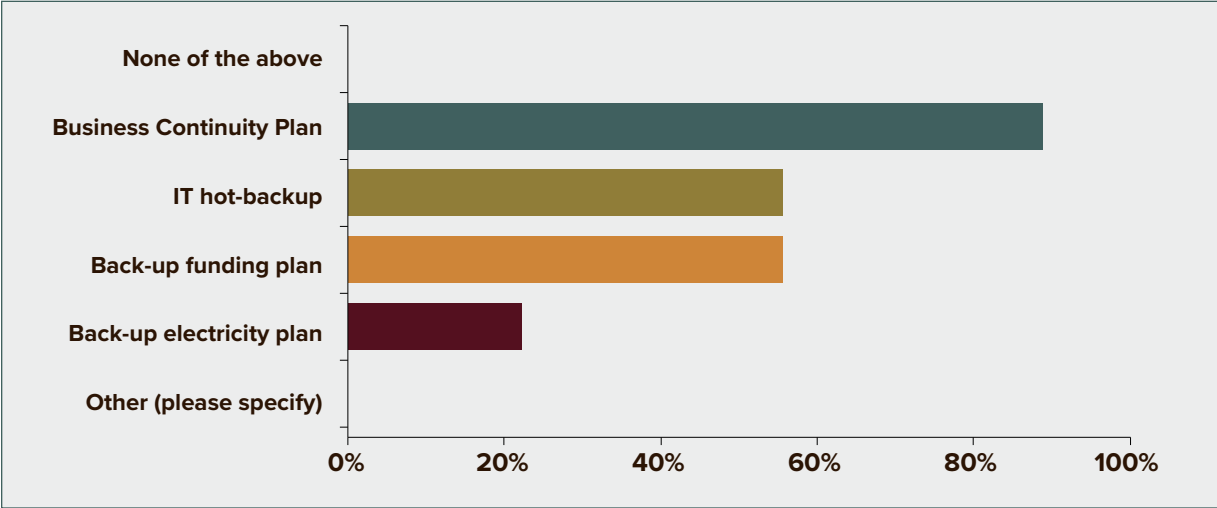


Source: World Bank Survey of MFIs, October 2024

Given the continued fragile and uncertain operating environment for MFIs under the current ceasefire and the political economy, it's critical that MFIs be well-prepared for uncertain events. As shown in Figure 7 below, there are multiple aspects of contingency planning

where not all the MFIs are sufficiently prepared related to IT operations, electricity and funding.

FIGURE 7: Contingency Plans that MFIs have in Place



Source: World Bank Supplemental Survey of MFIs, November 2024

5 Summary Conclusions

Relative to MFI sectors in Haiti, Ukraine and Myanmar which are also experiencing conflicts or civil unrest, the MFI sector in West Bank and Gaza is performing fairly-well and is an asset that can be leveraged as part of the recovery and reconstruction of Gaza. While MFIs and financial cooperatives in these other markets experienced PAR of 30-50% on average during their conflicts and all their sources of liquidity were cut off, in West Bank and Gaza there is still some lending from local banks to MFIs. In addition, in West Bank and Gaza there are strong capital buffers in these non-deposit-taking institutions and it is likely that the international community could respond to help rebuild West Bank and Gaza once the conflict stabilizes or ends. MFIs will need to draw down on their capital buffers to sustain higher operating costs in the near-term. The looming question is the duration of the conflict and its impact on West Bank where MFIs have greater exposure. If the conflict continues and the economy in the West Bank worsens, some of the MFIs which have higher operating costs will need to make significant adjustments to remain viable. When and where to make these adjustments will take careful monitoring.

The key summary conclusions from this study are:

- The impact of the conflict in Gaza is devastating for MFIs' activities in Gaza with **near complete losses** to the loan portfolio and fixed assets totaling **between \$47.8 million – \$55.3 million**.
- MFI operations in West Bank have been much less affected than in Gaza. MFIs have kept lending in West Bank, and possibly more so than banks. For **MFIs to absorb losses from the conflict and help rebuild Gaza and the West Bank, assistance will be needed from the international development community to write off losses and provide liquidity to enable new lending**.
- Like the post-conflict situations in other countries (e.g., Myanmar, Rwanda), **the well-organized MFI network in West Bank and Gaza can be leveraged to rebuild** micro-enterprises and women-owned businesses. Support should be structured to not diminish the culture of repayment in MFIs.
- **Access to liquidity is the top challenge** facing MFIs so they can keep lending, followed by collections of loans.
- **Women have been disproportionately affected** by the conflict and are receiving fewer loans. MFI clients are focused on meeting day-to-day expenses and maintaining incomes.
- We anticipate the conflict to bring **structural changes to the MFI sector** going forward as self-reported by the sector and the willingness of PMA to allow for more institutional diversity within the financial sector.



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