LEBANON INVESTMENT IN MICROFINANCE PROGRAM

Final Report

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VOLUNTEERS FOR ECONOMIC GROWTH ALLIANCE, 1726 M ST NW, SUITE 800, WASHINGTON, DC 20036

Table of Contents

I. Acronyms

ADR	Association for the Development of Rural Capacities
AEP	Association d’Entraide Professionnelle
AO	Agreement Officer (USAID)
BDL	Banque de Liban
BIC	(South) Business Innovation Center Saida
CA	Cooperative Agreement
CDCS	Country Development Cooperation Strategy (USAID)
CLD	Lebanese Cooperative for Development
COP	Chief of Party
DCA	(USAID) Development Credit Authority
DHAIM	Developing Hydroponics to Access International Markets
DO	Development Objective
EDF	Entrepreneurial Development Foundation
FAST	Finance Alliance for Sustainable Trade (Canada)
FSVC	Financial Services Volunteer Corps
FTF	Feed the Future
FY	Fiscal Year
HR	Human Resources
ICT	Information and Communication Technology
IESC	International Executive Service Corps
IFC	International Finance Corporation (World Bank)
IG	Inspector General
IMF	International Monetary Fund
IP	Implementing Partner (USAID)
IR	Intermediate Results (USAID)
LERC	Lebanese Emigrant Research Center
LIM	Lebanon Investment in Microfinance Program
LIVCD	Lebanon Industry Value Chain Development Program
LOST	Lebanese Organization of Studies and Training
MENA	Middle East and North Africa
M&E	Monitoring and Evaluation
MF	Microfinance
MFI	Microfinance Institution
MFC	Microfinance Centre Poland
MIX	Marketing Information Exchange
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
OFAC	Office of Foreign Assets Control
PAR	Portfolio at Risk
PMP	Performance Management Plan
PPR	Program Performance Results

Q	Quarter (of the year)
RIG	Regional Inspector General
RFA	Request for Applications
SME	Small and Medium Sized Enterprise
SND	Specially Designated Nationals
SOP	Standard Operating Procedures
TOT	Training of Trainers
USAID	United States Agency for International Development
UNHCR	United Nations High Commission for Refugees
USG	United States Government
VEGA	Volunteers for Economic Growth Alliance
WEIA	Women's Empowerment Index in Agriculture
WWB	Women's World Banking

II. Introduction

In accordance with the deliverable requirements of United States Agency for International Development (USAID) contract EEM-A-00-04-000002-00, Volunteers for Economic Growth Alliance (VEGA) is pleased to submit this final report for the USAID-funded Lebanon Investment in Microfinance (LIM) Program as drafted by the lead implementer, the International Executive Service Corps (IESC). This report covers the entire contract period of May 9, 2009, through May 31, 2015.

The USAID Lebanon Investment in Microfinance Program was funded through a Leader with Associate Award to the Volunteers for Economic Growth Alliance (VEGA). The VEGA LWA is the only USAID mechanism with a competitive internal procurement process among consortium organizations; in this case, IESC was selected as the direct and lead implementer for LIM. VEGA served as both the award recipient and a single point of contact, and representative of the implementing organizations with respect to contract actions and formal communications to the USAID/Lebanon Mission for the LIM Program. Over the life of the program VEGA had a program monitoring and oversight role, but did not attempt to duplicate the services of IESC. That is, it remained responsive to USAID/Lebanon in regularized communications as it oversaw compliance with the scope of work, submission of deliverables, execution of modifications, and financial management.

IESC was the lead implementing organization in the field, responsible for all technical and managerial activities and inputs in Lebanon.

"I have been viewing just a small sample of the kinds of things that, through U.S. assistance, we have built through our partnership with the people of Lebanon. These projects are the perfect kinds of things where the United States can connect with local Lebanese communities so they can fulfill their ambitions and meet their economic needs."
[Remarks while visiting a borrower's business]

-U.S. Ambassador to Lebanon David Hale

The objective of the six-year program was to assist Lebanese micro and small enterprises to access credit and create jobs and to advance economic growth in Lebanon through improved access to finance. The specific goals were to increase access to loans for micro- and small-sized businesses; support business owners and entrepreneurs by increasing their productivity and sales income; generate more jobs in the agribusiness, information and communication technology (ICT), and tourism sectors in rural and peri-urban areas; and provide technical support to microfinance institutions (MFIs) through collaboration of program partners and volunteer experts.

The program began in May 2009 as an eighteen-month, $1.6 million dollar program. It was extended in both scope and funding two times and concluded in May 2015, with final funding levels to VEGA as prime grantee at $15,182,636. An additional cost share requirement of $3,176,559 brought the total program size to $18,359,195.

In September 2010, the program received a 4.5-year extension worth nearly $9 million and was instructed to add new activities, including an infusion of grant monies to partners, new product development, and additional technical assistance and lender capacity-building initiatives.

In September 2013, USAID awarded LIM an additional US$3,000,000 million of Feed the Future (FTF) grant funds to further increase the capacity of MFIs to lend to Lebanese agribusinesses affected by the influx of Syrian refugees. Amplified activities were added to the contract in the form of several modifications; details are provided in Section V: Background and Implementation.

In total, the program disbursed nearly 15,000 micro loans with a total value of over $35 million dollars to micro and small enterprises. The average loan value was between $2,200 and $2,900. Nearly 50 percent of LIM-funded loans (excluding FTF funds) went to women borrowers and more than 40 percent went to youth borrowers (ages 18 – 35). Additionally, IESC showed marked success in job facilitation. The program had a net positive effect on more than 23,000 existing jobs, of which over 40 percent were held by women. The program also contributed to the creation of more than 3,000 new jobs, more than 60 percent of which went to women.

LIM made $9.5 million in competitive grants to nine MFIs. MFIs made almost 15,000 micro loans totaling over $35 million. Seven hundred (unique) staff were trained, ranging from loan officers to executive staff.

The MFI partner institutions provided a total of $9,908,923 in cost share contributions to the program through microloans.

The program team, staff, and international volunteers provided institutional capacity building and human capacity training and technical assistance to more than 700 MFI management staff, loan officers, and staff. It also sponsored one-on-one mentoring sessions tailored to the needs of partner MFI organizations (e.g., delinquency management, risk management, strategic planning, SME strategies). These events and sessions are summarized in a timeline which begins in Section V: Implementation.

To implement the program, the LIM team worked to engage local partners: a total of nine microfinance institutions throughout the North, South, Nabatieh, Bekaa, and Mount Lebanon areas of the country, added incrementally over the life of the program. This brought together a critical mass of leaders and managers to further the program's objectives. LIM sought to actively cultivate linkages and relationships between and among the program's MFI partners to ensure sustainability and productivity. LIM also engaged other projects, organizations, and companies in the country and in the region.

Over the final two years, LIM facilitated the establishment of the first Microfinance Association in Lebanon, one of the program's major achievements. The new association is made up of eight, soon to be nine, MFIs whose charter is to strengthen the microfinance sector and increase access to finance for micro- and small-business owners throughout the country.

After providing program background and review (Section III), this report summarizes the key achievements (Section IV) and implementation of activities (Section V) in three phases:

- Pilot Phase (May 2009 to September 2010)
- ScalingUp Phase (October 2010 to October 2013)
- Alignment with Feed the Future (FTF) Phase (October 2013 to May 2015)

Within those phases, the report provides a summary of all major technical assistance (TA) training and mentoring sessions, and other notable programmatic events, as well as a summary of the grant activity during the period covered.

Section VII summarizes the monitoring and evaluation (M&E) work of program activities within the context of the LIM Performance Management Plan (PMP). In Section VII, the authors provide a discussion of LIM's challenges and solutions, with lessons learned during the six-year program. Finally, the report provides a conclusion and discussion of overall program performance and recommendations for future programs.

Three annexes are included in this report; they include performance indicators, an MFI sector assessment, and a LIM case study that focuses on improving access to finance among women. The final financial report, which covers information on the cooperative agreement's financial status, will be sent under separate cover.

III. Background and Project Overview

Project Context

While Lebanon is considered a middle-income country and enjoys some of the better economic indicators in the region, many Lebanese citizens live in poverty and do not have access to basic financial services. According to the United Nations International Fund for Agricultural Development, many Lebanese citizens living in rural governorates and working as farmers, herders, or fishermen are impoverished. They do not have ready access to banks or financial institutions, and therefore they have difficulty accessing capital to invest in and improve their businesses. Fishermen cannot buy more efficient boats, and farmers cannot afford to irrigate their land.

Complicating matters even more, assessments show that the banking sector in Lebanon is very conservative, requiring high collateral relative to loan value. Loan services are therefore out of reach for Lebanon's poor citizens. In general, Lebanese commercial banks have developed good deposit bases, and their lending has mainly targeted medium to large corporate customers. Although this market has more than enough competition, in recent years the banks have been reluctant to go to the downstream market for smaller loans, stating the risk and extra work involved as reasons not to expand their product line into this area. Some Lebanese banks are moving towards retail and smaller loans, but at a very slow pace, and most of the smaller loans are being made only under the Kafalat (a Lebanese financial institution regulated by the Central Bank) or other guarantee/interest subsidy programs. These government programs have terms that are too good for banks to turn down, and although they work well and provide a service to smaller customers, they are artificial and possibly short-lived.

As a result, medium to large customers—especially those with strong connections—have been fairly well cared for over the years by the banks, but the very small or micro loan customers are unserviceable in the banks' view, and these clients have nowhere else to go other than the microfinance institutions, or MFIs.

"LIM is important in Lebanon because it helps people renew their businesses and provides sustain-ability by improving their economic and social status. . . .Thank you for your support."

- *Anonymous Borrower, Al Majmoua*

At the time LIM was developed, in 2008 and 2009, there were a number of constraints on the microfinance environment in Lebanon. Some banks were delving into the micro and small loan business, albeit carefully. At the same time, the MFIs were growing fairly quickly, and demand was much greater than their limited lendable funds could serve. In response, some banks cultivated partnerships with the MFIs, matching the banks' available funds with the MFIs' knowledge and experience in the micro-lending field. The MFIs had additional problems with their internal administration, including a lack of in-depth management, weak management information systems, and problems related to human resources. Ultimately, however, the MFIs' biggest problem was simply a dearth of lendable funds. They needed assistance in becoming profit-making entities, and in developing ongoing lending arrangements with banks or other international lenders.

Development Hypothesis and Critical Assumptions

Development Hypothesis: People from poor households who cannot access bank services and loans, but who need capital in order to support their businesses, are assumed to take three steps: 1) tap microfinance services (primarily as loans or savings); 2) invest this money in microenterprises; and 3) manage these enterprises to yield enough return on the investment to increase their household income and consumption, leading to poverty reduction.

Critical Assumptions: Microfinance services are targeted to people operating in specific sectors, including agribusinesses, tourism, and ICT, outside greater Beirut and across rural areas of Lebanon. The microfinance loans delivered by the program's MFI partners are challenged by local political and security issues that have resulted in instability for the past several years in the North, South, and Bekaa regions of Lebanon.

Program Results Framework and Implementation Strategy

In January 2010, seven months into LIM Pilot Phase, USAID/Lebanon updated its performance management plan (PMP). VEGA/IESC worked with the mission to identify specific categories under this revised plan where the LIM Program was contributing impact, and as a result, LIM expanded its monitoring and evaluation criteria to support USAID's assistance objectives and results, including increased revenue in selected value chains (Assistance Objective 2), reducing constraints to lending (Sub-Intermediate Result 2.3.1), and increased microfinance lending activity (Sub-Intermediate Result 2.3.2).

Program Objectives and Key Activities

The LIM Program was initiated to help existing microfinance institutions reduce poverty by improving access to credit to small and medium businesses in order to increase sales, create jobs, and advance economic growth. As indicated above, it began as a modest, 18-month program. At the beginning, three MFIs were chosen to partner with the program. They served various markets and specialties. For example, one was a cooperative that borrowers joined when they qualified for a loan. Other MFIs were affiliated with commercial banks or served specific populations (i.e., women's groups) or geographic regions.

A seamstress beneficiary showcasing her creations

As designed, the program supported MFIs in two ways: 1) LIM provided capital through grants of $150,000 to $500,000 to competitively-selected institutions, and 2) LIM provided value-added technical support through expert volunteers and consultants to partner MFIs serving three sectors: agribusiness, ICT, and tourism.

The program's overall stated objectives were the following:

- To build the capacity of MFIs to increase access to finance for micro and small businesses;
- To increase business sales to create jobs; and
- To promote economic growth throughout Lebanon through improved access to finance.

TA and Training: The training and capacity building component was designed to build the capacity of the MFIs by providing inclusive and cross-cutting training programs on topics such as risk management, proposal writing and fundraising, and social media outreach. All of these trainings had high participation by women entrepreneurs, averaging a third of all trainees, or about 35 percent in some years.

Mentoring focused on industry best practices, coaching of MFI loan officers, new product development, and the improvement and development of services for borrowers and potential borrowers in the three targeted sectors. IESC drew on its robust database of talented expert volunteers, in addition to volunteers from VEGA member Financial Services Volunteer Corps (FSVC) and other experienced Lebanese and international consultants, to implement its training and mentoring plan.

To maximize the impact of the technical assistance component, the LIM Program prioritized relationship-building among the partner MFIs to improve their collaboration and facilitate sharing of best practices among themselves.

Grants: IESC provided sub-grants annually, on a competitive basis, to MFIs to "on-lend" to microenterprises in the agribusiness, ICT, and tourism sectors, primarily in rural and peri-urban areas of Lebanon, with an emphasis on assisting women and youth borrowers.

Project Management

In addition to the USAID/Lebanon Office of Economic Growth, the LIM Program was managed by a consortium of one principal contractor, a lead implementer, and two international sub-grantees:

International Prime and Subcontractors
VEGA: The Volunteers for Economic Growth Alliance was the prime grantee of the LIM Program, holder of the Leader with Associates Award from USAID and oversaw the work of IESC, the principal implementer. IESC issued and monitored sub-awards with VEGA member Financial Services Volunteer Corps (FSVC), which provided volunteer consultants, and Finance Alliance for Sustainable Trade (FAST), a Canadian technical service firm.

Key Staff
Chief of Party: Mahmoud Elzein[1] (2009 – 2015) and Mohammed Bensouda (2015)
Financial Services Manager: Carla Azar Chamoun, 2011-2014

Local Grants and Subcontract Management: Key Partnerships

[1] Mr. Elzein led the program since inception, for a total of six years, providing continuity and stability throughout the life of the project. COPs who serve six years are rare in such challenging environments.

The LIM Program began with three MFI partners in 2009. Through an additional four rounds of a competitive solicitation and selection process, the number of partners increased to eight. In 2014, the ninth and final partner was added.

In addition to these key formal partnerships, LIM staff worked throughout the program to cultivate national and international linkages for and among clients. Wider stakeholder relationships and networks were forged through occasional conferences, events, and collaborative discussions, roundtables, and meetings with various organizations, companies, and projects, among them Berytech, IJMA3, Bader, Frem Foundation, CRTDA, Planet Finance, American Lebanese Chamber of Commerce, Byblos Bank SME and Commercial, ACDI VOCA, Corporate Social Responsibility at Audi Bank, Injaz, Marketing Information Exchange (The Mix), Lebanon Industry Value Chain Development Program , Lebanese Organization of Studies and Training, CGAP, and Sanabel, among others.

Table 1 below outlines the program management and implementation team and partners and their roles.

Table 1: Implementing Partners and Grant Recipients

Organization	Expertise/Profile	Contribution
VEGA Volunteers for Economic Growth Alliance	The Volunteers for Economic Growth Alliance (VEGA) is the world's largest consortium of economic growth volunteer organizations, which, collectively, have assisted over 140 developing and transitional countries by sending out more than 67,000 volunteer experts to help promote economic growth.	VEGA served as the award recipient and as a single point of contact to USAID. VEGA monitored program implementation.
IESC Prosperity & Stability through Private Enterprise	IESC—International Executive Service Corps—is a nonprofit that is focused on private sector solutions to economic development. IESC supports and catalyzes the development of private enterprises, business support organizations, financial institutions, and public institutions. Since 1964, IESC has implemented more than 25,000 short-term projects and over 200 programs in 130 countries.	IESC was responsible for direct in-country program management and implementation.
FSVC	Financial Services Volunteer Corps (FSVC) is a not-for-profit, public-private partnership whose mission is to help build the sound financial systems needed to support robust market economies in transitional and developing countries.	FSVC provided 6 individual volunteers to serve as consultants on the LIM Program.
Finance Alliance for Sustainable Trade	Finance Alliance for Sustainable Trade (FAST) is an international non-profit association that represents financial institutions and producers dedicated to sustainable trade. FAST brings together a diverse group of stakeholders, working collectively to bridge the financing gap in the sustainable SME finance sector.	

Lebanese Microfinance Institution (MFI) Partners		
ADR	ADR activities empower marginalized or disadvantaged individuals, groups, or communities and help them improve their living conditions. ADR has no political or religious affiliations and works in the south of Lebanon. Interventions encourage partnership and decentralized cooperation as well as solidarity spirit. Loan officers are stationed in 8 branches through rural Lebanon.	ADR is one of the three original MFIs in the LIM program, joining in 2009. ADR disbursed 1,983 loans at a total value of $5,382,229
aep ASSOCIATION D'ENTRAIDE PROFESSIONNELLE	AEP is a non-profit organization, working for Lebanon's socio-economic development in the microfinance field. AEP is neither a charity nor a for profit finance company; rather, the organization promotes economic functions for progressive empowerment. 35 staff total in 8 locations throughout Lebanon.	AEP joined the LIM program in 2011. AEP disbursed 486 loans at a total value of $2,427,467.
Al Majmoua Together we grow	Al Majmoua's aim is to create a financial intermediary that will serve Lebanese micro entrepreneurs and will create social change and increase welfare. Sixteen offices nationwide with 100 staff including 70 loan officers, growing to 100.	Al Majmoua is one of the three original MFIs in the LIM program, joining in 2009. Al Majmoua disbursed 4,271 loans at a total value of $5,966,567.
CLD الجمعية التعاونية اللبنانية للإنماء م.م. Coopérative Libanaise pour le Développement	The Lebanese Cooperative for Development (CLD), was founded in 1992 at Antelias, Lebanon. It is a cooperative working to assist micro-lending, limit rural migration and emigration, fight against poverty, and encourage the return of the displaced.	CLD joined the LIM program in 2011. CLD disbursed 150 loans at a total value of $2,417,330.
ENTREPRENEURIAL DEVELOPMENT FOUNDATION مؤسسة تنمية الرواد	The Entrepreneurial Development Foundation is a not-for-profit organization that promotes entrepreneurship among the less privileged in Lebanon's rural areas and needy neighborhoods of big cities. The EDF's objective is to assist in the improvement of the county's overall socio-economic well-being by providing its beneficiaries with business training, and business loan programs.	EDF joined the LIM program in 2012. EDF disbursed 123 loans at a total value of $503,849.
Emkan إمكان Emkan Finance S.A.L. شركة إمكان المالية ش.م.ل.	Emkan was established as a response to the unmet demand for financial services and limited economic stimulants in local communities. Emkan has been growing steadily since its inception in early 2009 with continued expansion plans over the coming years. Lending operations commenced in July 2009 and the outreach has extended to a few thousand clients. Forty loan officers plus 6 branch managers and regional coordinators.	Emkan joined the LIM program in 2011. Emkan disbursed 1,967 loans at a total value of $6,808,902.

	Ibdaa Finance, Lebanon, launched in 2012, is a pioneer initiative of the Arab Gulf Fund for Development (AGFUND) jointly with socially responsible Lebanese investors. The institution aims at providing affordable microfinance services to the poor Lebanese and legal residents of Lebanon, to help them improve their quality of life and to increase their overall family income. Ibdaa operates as a non-banking financial institution whose shareholders do not seek return on their invested capital. It joined the LIM Program in 2014.	Ibdaa joined the LIM program in 2013. Ibdaa disbursed 253 loans at a total value of $349,378.
	Makhzoumi Foundation's mission is to empower Lebanese citizens – through improving their socioeconomic status, healthcare provisions, and environmental awareness and by encouraging their quest for education – enabling them to independently develop and progress their local communities to subsequently enhance the country's civil society on a national scale. Five staff including 3 loan officers in greater Beirut.	Makhzoumi Foundation joined the LIM program in 2011. They disbursed 764 loans at a total value of $1,337,763.
	Ameen SAL, now VITAS, has been a major player in the microfinance sector since 1999. In 2007, Ameen SAL registered with the Central Bank of Lebanon to become the first Lebanese financial institution specialized in microfinance. Vitas is registered as a for profit, and overseen by the Central Bank. Vitas serves 16,500 active clients with 90 staff including 60 credit officers based out of 66 branches nationwide.	Vitas (then Ameen), was one of the three original MFIs in the program, joining in 2009. Vitas disbursed 4,928 loans at a total value of $10,647,258.

IV. Summary of Key Achievements

The LIM Program had many successes and significant achievements during its six-year course. Among these were the quantity and value of its large sub-grants distributed; the numbers, variety, and quality of its TA and training offerings; the institutional strengthening of MFI partners; the establishment of the new Microfinance Association; the rates of participation in the program by women at all strata (project managers and leaders, borrowers); the program's impact on job creation; its impressive geographic reach and coverage of the country; cost share contributions; and finally, several interesting deliverables and tools developed during implementation. An overview of these accomplishments is provided below.

Cumulative Total Award Sub-Grants Disbursed

Beginning in 2009 and over the course of five rounds, the LIM Program awarded $9.5 million in grants to Lebanese microfinance institutions. They in turn disbursed a total of $35.8 million across nearly 15,000 micro loans. Table 2 below presents a summary of these disbursements by MFI over the five rounds.

Table 2: MFI Grant and Loan Disbursements

Phase, Date, Funds	ADR	AEP	Al Majmoua	CLD	EDF	Emkan	Ibdaa	Makhzoumi Foundation	Vitas
Phase I, Jun '09, $1,050,000	$250,000		$400,000						$400,000
Phase II, Jun '11, $2,250,000	$300,000	$250,000	$500,000	$250,000		$300,000		$150,000	$500,000
Phase III, Jun '12, $1,250,000	$200,000	$200,000	$225,000	$200,000	$25,000	$175,000		$50,000	$175,000
Phase IV, Jun '13, $1,249,833	$160,714	$43,021	$270,118	$151,786	$42,292	$243,106	$45,208	$44,479	$249,109
FTF, $2,499,668	$321,429	$86,042	$540,236	$303,571	$84,583	$486,213	$90,417	$88,959	$498,218
Phase V, Jun '14, $1,250,000	$138,375	$126,250	$167,625	$131,875	$117,375	$151,500	$131,375	$126,125	$159,500
Cumulative Total, $9,549,501	$1,370,518	$705,313	$2,102,979	$1,037,232	$269,250	$1,355,819	$267,000	$459,563	$1,981,827
Cumulative %	14.4%	7.4%	22.0%	10.9%	2.8%	14.2%	2.8%	4.8%	20.8%
# of Loans Disbursed	1,983	486	4,271	150	123	1,967	253	764	4,928
Value of Loans	$5,382,229	$2,427,467	$5,966,567	$2,417,330	$503,849	$6,808,902	$349,378	$1,337,763	$10,647,258

The significant success and impact of LIM was due in no small part to the “multiplier” effect of the program: the initial funds distributed to the participating MFIs ($9,549,501) grew to a total loan value of four times that amount ($35,840,744) through loan disbursements, cost share contributions, and the recycling of program funds back into additional loans.

> The field visit of (LIM consultant) Mr. Istaytiyyah was of high importance for both credit officers and our beneficiaries since he provided us with some technical agricultural advice and discussed a feasibility study adapted to each category in the agribusiness sector with our team. . . .He allowed us to be a part of [the] “Feed the Future” Program. Thank you for your continuous support.”
>
> - *General Manager Helene Sayyad, MFI partner AEP, March 2014*

Technical Assistance and Training

The aim of technical assistance and training throughout the program was to equip loan officers and other MFI staff with the essential tools and knowledge to better deal with borrowers representing all facets of the value chains in ICT, tourism, and agribusiness. TA and training, as well as mentoring, also targeted the MFIs themselves, through institutional strengthening measures. IESC drew on volunteers and paid consultants to implement a robust plan of institutional strengthening efforts across all MFIs and all sectors. The graphic and Table 3 below illustrates the breadth and types of trainings offered over the life of the LIM Program. Details of these offerings are found in the narrative and timelines of Section V, Background and Implementation.

Volunteer Profile: Lynda Swenson

“A volunteer needs to be flexible about the living conditions and while talking to the client. Most importantly at all times be polite, understanding and respectful towards clients.”

Lynda Swenson is an executive coach with 45 years of finance experience and a strong training background. She served as a volunteer for the LIM program conducting a workshop for MFIs on credit risk, asset-liability management and credit scoring.

Lebanon Investment in Microfinance

CAPACITY BUILDING & TRAINING

A stronger microfinance sector to better serve entrepreneurs

45 Training Courses Conducted

IESC

Entrepreneurs in rural Lebanon have trouble getting loans from traditional banks. LIM provided a robust training program to microfinance institutions to help them serve these clients. The result is a more professional, responsive, and sustainable sector that can adapt to a challenging and changing environment.

2799 MFI Staff Trained

The training program was both comprehensive and tailored to the specific needs of MFI partners.

Management & Soft Skills
Effective management of people and resources to get results

Microfinance Skills
Meeting client needs while mitigating risk

Organizational Capacity Building
Strategic planning for individual MFIs and the sector as a whole

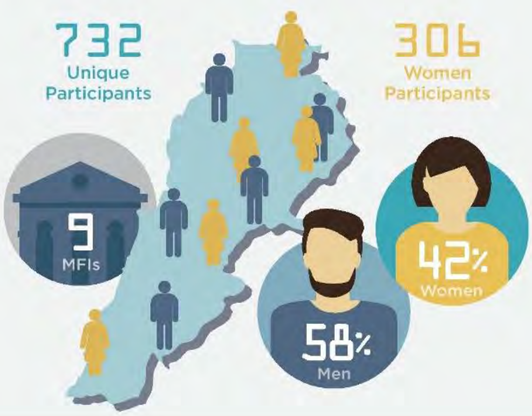
Volunteer-Led Training

Training Participation

MFI staff, from loans officers to chief executives, participated in an average of 3.8 courses per person.

732 Unique Participants

306 Women Participants



MFI Knowledge Base

Trainings brought together staff from different MFIs, fostering a rich and collaborative learning environment.

- Team Building
- Customer Care
- Executive Leadership Training
- Marketing Orientation for Sales
- Product Development for SME Lending
- Microfinance Basic Skills
- Agricultural Lending
- Product Development
- Risk Management & Credit Scoring
- Client Protection & Social Performance
- Negotiation & Communication Skills
- Finance for Non Financials
- Services for the Microfinance Sector
- Marketing Strategies for Microfinance
- Association Management

Table 3: Summary of Training Themes, LIM Program, 2009-2015

Training Category	Type of Training/Theme
ICT/Sector Specific Skills	MS Excel for SME
Management & Soft Skills (Customer Care)	Conflict Resolution and Team Building
	Customer Care
	Effective People Management
	Emotional Intelligence
	Executive Leadership Training
	Finance for Non-Financial Professionals
	Habits of Excellence
	HR Advanced Competency Based Recruitment & Interviewing
	HR for Non-HR Professionals
	Marketing Orientation for Sales Force
	Negotiation and Communication Skills
	Sales and Customer Care Training
	Social Media
	Time Management, Life Coaching, for Loan Officers
	Supervisory Skills and Effective People Management
	Take the Wheel (Women's Empowerment)
	Time Management and Life Coaching for Loan officers
	Time Management and Supervisory Skills for Supervisors
	Youth Leadership Program-TOT
Microfinance/Technical Skills	Agriculture and Agribusiness Training, Tourism-related training
	Credit Committee
	Delinquency Management
	Group Loan for Women -- Mentoring
	Microfinance Basic Skills -- Training
	Microfinance Basics -- Mentoring
	Strategic Planning
	MSME Strategies
	Product Development and Setting Interest Rate
	Risk Management & Credit Scoring for MFIs
	Services for the Microfinance Sector
	"Bad Client" and "Credit Challenges"
	Youth Mentoring
Organizational Capacity Building	Marketing Strategies for Microfinance Businesses
	Proposal Writing for Fundraising
	Risk Management

MFI Institutional Strengthening

Throughout its six years of implementation, LIM developed partnerships with nine MFIs and continuously provided institutional building events, advice, consultants, and trainings to help strengthen their portfolios and geographic expansion throughout Lebanon, reaching even to the most vulnerable and rural areas despite, at times, the worsening security situation. The four smallest (small-scale) MFIs were singled out as particularly worthy of LIM assistance: AEP, CLD, EDF, and Makhzoumi Foundation. Results showed significant development in their strategies, outreach to beneficiaries, and creation of new job opportunities.

- AEP was charging below market interest rates. After recommendations and mentoring by LIM experts, AEP's management approved an increase in interest rates to enhance the organization's sustainability.
- CLD, a cooperative, nearly doubled its staff from four to seven. It also expanded its outreach to improve incomes and livelihoods of more than 330 households in all zones of the country. It grew its loan portfolio from 56 loans in 2010 to 122 loans in 2014 (118 percent growth).
- EDF suffered from a lack of capital due to incompatibilities with the commercial banks; LIM provided an additional $270,000. As a result of LIM training, EDF has been able to better control problems with loan delinquency.
- Makhzoumi Foundation, an NGO, expanded its reach from simply the capital, Beirut, before the LIM Program, to an additional $750,000 in loans (or 50 percent of its total portfolio) to regions of North Lebanon and the Bekaa Valley.

Establishment of Lebanon's First National Microfinance Association

"The launch of the [microfinance association] takes microfinance to another level. It will increase linkages between microfinance institutions and commercial banks, which in turn will create more lending opportunities for borrowers."

- *USAID/Lebanon*

One of the highlights of entire LIM Program, coming near its conclusion, was the creation and institutionalization of the nation's very first Microfinance Association. Its establishment was the culmination of nearly a half dozen planning and strategy meetings. In late 2014, the MFIs in Lebanon, largely through the support of USAID's LIM Program, agreed to establish a self-regulatory umbrella with the role of representing the microfinance industry, promoting best practices, and improving cooperation between the MFIs. On January 12, 2015, Lebanon's Ministry of Interior and Municipalities officially approved the creation of the nation's first Microfinance Association. Its core values were set as follows: transparency, equity and equality in the treatment of members; adherence to microfinance good practices; and promoting a healthy and supportive environment.

From right to left, leaders of ADR (also MF Assoc. Pres.), AEP, Vitas, Emkan and a Central Bank of Lebanon Rep.

Members wrote a 2015-2020 Business Plan describing the Association's legal framework, governance structure, membership structure and categories, and organizational structure, with accompanying sustainability plan, budget, and multi-year action and implementation plans. In February 2015, members of the Board came together for the Association's first Board Meeting. LIM organized a two-day workshop held March 31-April 1, 2015, and brought regional and international consultants to share their experiences in developing sustainable and thriving microfinance associations. Lebanon's Ministry of Interior and Municipalities approved its statutes on January 12, 2015.

Women's Participation in LIM

Impressively, 45 percent of all disbursed loans (LIM and FTF) went to women borrowers, and 40 percent went to youth (age 18-35) borrowers. The percentage might have been even higher for women if the two difficulties Lebanese women entrepreneurs face – hardships finding loan guarantors, and dealing primarily with male loan officers – could have been substantially mitigated.

"My business makes me feel more independent and not just a burden on my family and I can spend a little of my money on myself."

- *Woman Borrower, Makhzoumi Foundation*

The program also had a net positive effect on more than 23,000 existing jobs, of which 9,500 (40 percent) were held by women. Of the more than 3,000 new jobs created with LIM contribution, more than 1,930 (64 percent) went to women. MFI partner Al Majmoua stood out in terms of impact on women's jobs in rural areas primarily because of their unique Group Loan product specifically designed for women entrepreneurs. The product helped women contribute to family expenses at home and in some cases, singlehandedly use their income to support their families. The total number of MFI professional women trained from program inception till completion date was just over 300. Graphic 1 illustrates participation by women in the LIM program over the life of period.

A woman beneficiary

More detailed information on women's access to finance in Lebanon and LIM's work with women can be found in Annex B's Case Study.

Lebanon Investment in Microfinance

LOANS TO WOMEN

Supporting women entrepreneurs is vital to a thriving economy

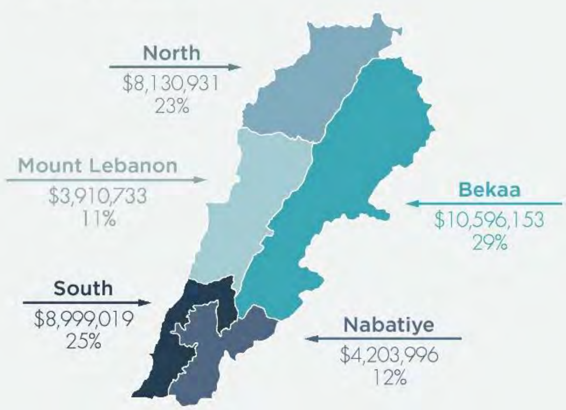
Because of economic instability in Lebanon, more women are seeking ways to contribute to household income. Without a formal job history, many are turning to entrepreneurship to create their own opportunities. By making loans to women a priority, LIM helped them access the resources they need.

Loans to Women

Half of all loans to women went to youth borrowers, who face higher levels of unemployment. A third of all loans were in the agricultural sector, which is a key driver of the rural economy.

Loan Geographic Distribution

Loans to women were well-distributed throughout all regions of Lebanon.



Impact of Program On Women

Increasing women's financial independence reaps both direct and indirect benefits.

1. Improved access to finance
2. Increased family income
3. Greater self-confidence
4. More control of household financial decisions

Impact on Job Facilitation

International Monetary Fund (IMF) reports show that in 2011, the unemployment rate in Lebanon was 11 percent. Shortly thereafter, the rate increased rapidly to 20 percent due to growing pressure on the Lebanese economy related to the impact of the Syrian crisis arising four years ago. Most refugees were finding work primarily in the low-skilled sectors[2] (agriculture, construction), "displacing Lebanese workers."[3] According to the World Bank, "by the end of 2014 an additional 220,000 to 320,000 Lebanese citizens were expected to become unemployed, most of them unskilled youth[4]".

As stated above, one of LIM's primary objectives was to facilitate job creation. Through the loans disbursed since its inception in 2009, the numbers show that the LIM Program significantly and positively contributed to the employment market in Lebanon.

The LIM Program managed to impact small entrepreneurs, particularly youth and women, by helping to maintain 23,377 existing jobs in agriculture, tourism value chains, and ICT businesses. Moreover, LIM helped to create 3,037 new jobs around the country, creating opportunities for new employees to become productive and serve as income generators for their families.

A fisherman and loan recipient

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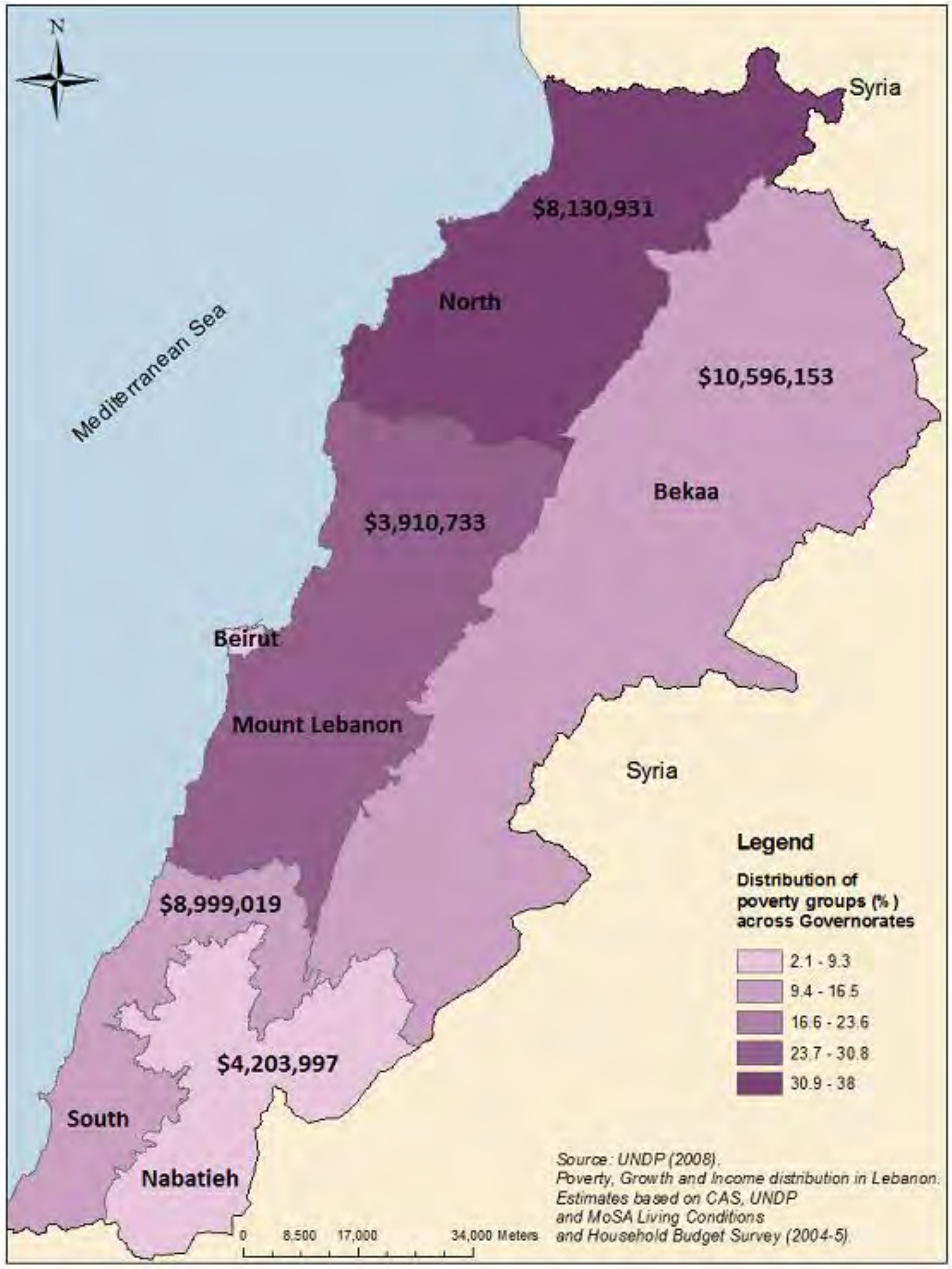
[2] http://www.banqueaudi.com/GroupWebsite/openAudiFile.aspx?id=2418; page 12

[3] Ibid

[4] http://www.worldbank.org/en/country/lebanon/overview

Geographic Reach and Coverage

LIM, more than many other development projects in Lebanon, was able to expand its reach over the entire country with its microfinance initiatives. This may be due thanks in large part to the close partnership it established over time with the nine MFI sub-grantees. They capably served as intermediaries in reaching typically underserved populations outside of greater Beirut since they already had infrastructure and communications based in these areas. This means that project activity was active from the North to the South, within the Bekaa Valley, around Mount Lebanon and Nabatieh, and other zones – in short, everything outside of Greater Beirut.



Cost Share Contributions

The LIM Program was able to expand its coverage and to increase the number of its beneficiaries through two-pronged cost-share mechanism it devised. First, the implementer grantees (IESC and FSVC) fielded almost a dozen volunteers between 2009 and 2014 to carry out technical and advisory assignments – this amounted to almost $500,000 in cost share contributions.

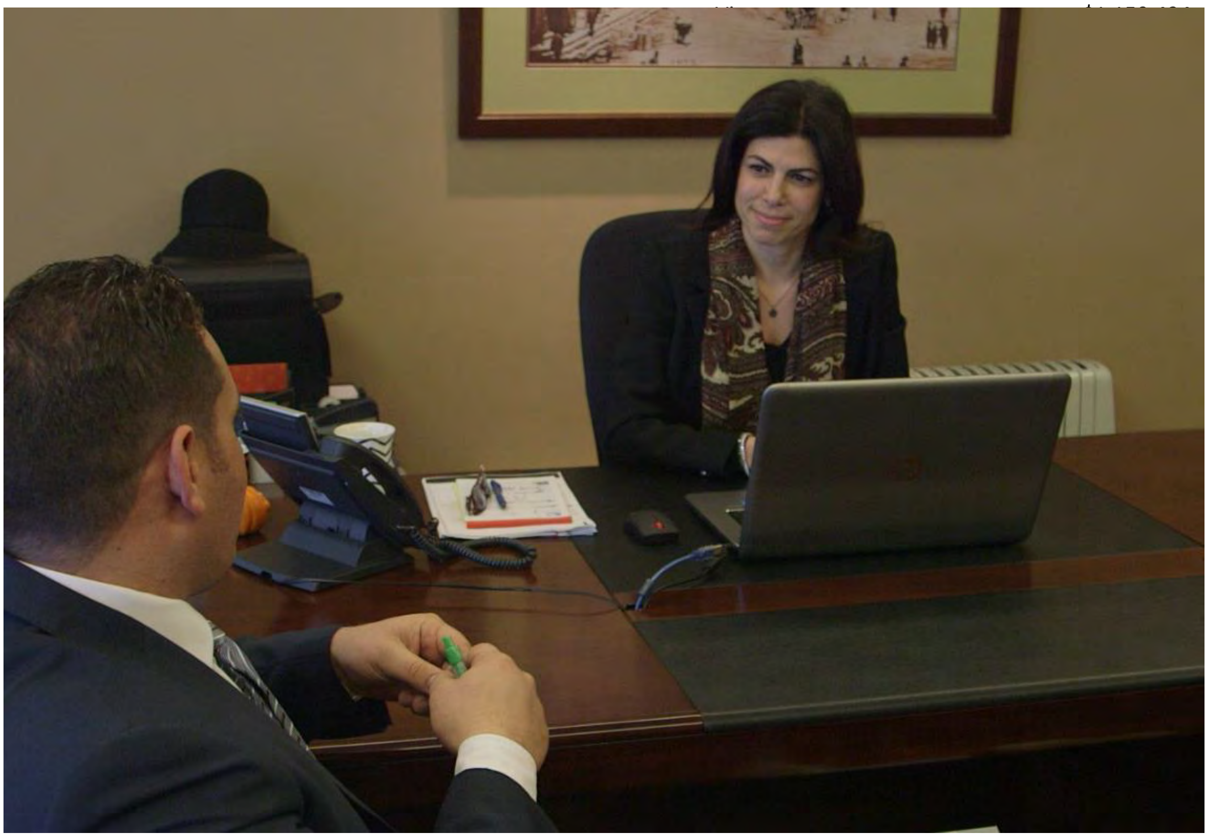
IESC's NICRA offset the first year of the project (over $200,000) also was significant. Secondly, the MFIs themselves were required to contribute cost share to the program by co-financing their loans to LIM-targeted borrowers (for example, a $1,000 loan may be funded with $500 from LIM grants and $500 from the MFI's existing capital). In one quarter alone, for example (Quarter 1, FY2014), LIM partners contributed an estimated total of $1,079,801 in cost share to the program in the form of capital for loan disbursement. By the program's end in May 2015, almost $10,000,000 was raised and rolled back into the program, well beyond the $3.1 million committed to in the cooperative agreement between IESC and VEGA. Table 4 and Table 5 below summarize cost share contributions.

Table 4: Cost share contribution by source

Source	Value
IESC NICRA Offset (2009-2010)	$203,933
IESC Volunteers (2009-2014)	$46,244
FSVC Volunteers (2009-2014)	$438,800
MFIs	$9,219,966
Total	$9,908,923

Table 5: Cost Share contribution by MFI

By MFI	Value
ADR	$2,275,741
AEP	$809,619
Al Majmoua	$1,784,499
CLD	$1,056,330
EDF	$231,131
Emkan	$1,873,566
Ibdaa	$63,846
Makhzoumi Foundation	$241,372
[illegible]	[illegible]



Dr. Mayada Badas, Executive General Manager of Emkan; ranked as one of the Arab world's top 100 most powerful women

Lebanon Investment in Microfinance

LEVERAGING USAID RESOURCES

Getting more out of every dollar

$15.2m

USAID's INVESTMENT - 36%
The total amount of the award under the cooperative agreement.

Through cost share and reinvestment, IESC and its partners brought an additional $27 million to the program, which ultimately reached 15,000 small businesses in Lebanon.

$9.9m

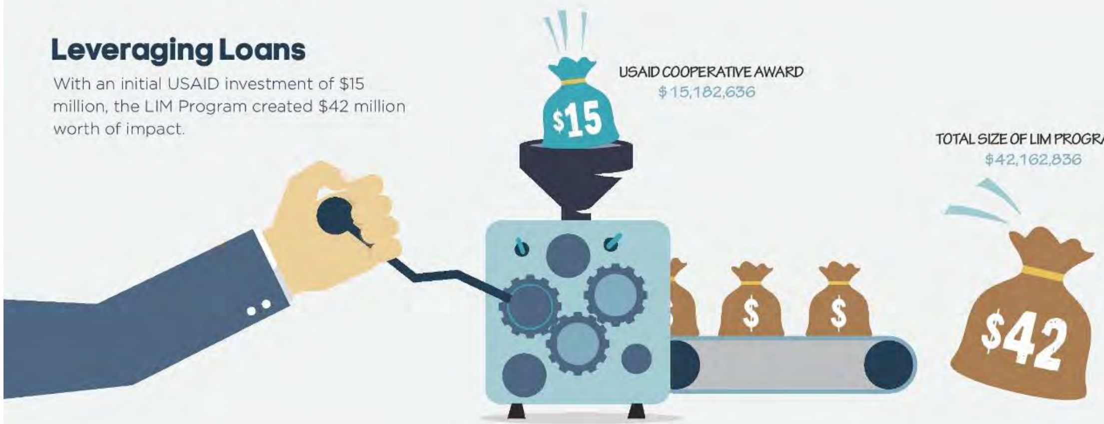
CUMULATIVE COST SHARE - 24%
The amount contributed to the program in cost share from IESC and its partners.

$17m

ADDITIONAL IMPACT - 40%
Amount of new loans that were issued after previous loans were repaid.

Leveraging Loans

With an initial USAID investment of $15 million, the LIM Program created $42 million worth of impact.



Maximizing Cost Share

IESC exceeded its cost share commitment, bringing in more than three times the target amount.

Collaborating For Success

IESC drew cost share from a number of sources, including volunteer experts.

V. Implementation

The LIM Program was designed around a key financial institution type: the microfinance institution (MFI), often considered the most feasible and affordable intermediaries to expand access for micro and small-scale borrowers, especially women, to credit in Lebanese rural market regions.

At project completion in 2015, the LIM Program looked significantly different than it did in its first design of 2009—what we now refer to here as the 'Pilot Phase.' During that 18-month period, the priorities with the original $1,609,755 in USAID funding were to set up in Beirut with staff and systems, select the first MFI partners and disburse initial funds to them, and begin site visits to evaluate impact.

Almost immediately, the need was clear to see the project expanded and its impacts broadened. In September of 2010, the program received the funded extension through April 2015. The priorities during this lengthy and very active phase were to add more MFI partners through competitive RFAs in order to cover areas and communities not yet reached, infuse capital to the partners for lending and particularly for women and youth entrepreneurs as well as SMEs in underserved segments, develop new products especially to fit the needs of agribusinesses and tourism business, develop larger MFI loans, emphasize lender capacity building, address debt finance, and carry out various assessments, evaluations, and surveys. Table 6 below presents a summary of program funding and time extensions.

Table 6: LIM Program Funding and Time Extensions

Phase	Funding	Key Activities
Pilot Phase, May 2009 – September 2010	$1,609,755 over 18 months	Grants management, microfinance subgrantee lending to 3 MFIs, technical assistance, mentoring, and training
Scaling Up Phase, October 2010 – October 2013	$12,182,636 over six years	Grants management, lending to 8 MFIs, TA and MSME and youth training, microfinance sector assessment, USAID Program audit, linkages building
FTF Alignment Phase, October 2013 – May 2015	$14,311,289 over six years	Grants management, lending to 9 MFIs, TA and training, survey of program borrowers, Women's World Banking conference, new sector assessment, establishment of Microfinance Association

The second major iterative modification to the LIM Program occurred in September 2013. At this stage of a mature and successful project, and with the increasing numbers of Syrian refugees at the border, stakeholders recognized weaknesses among the agricultural value chain actors in the country – business owners being constrained by a lack of working capital to finance production costs; investment capital for mechanization; finance to help get transport and containers to destinations; and finance due to risk factors associated with agribusiness. USAID decided to add $3,000,000 to the program to align it with the USAID Feed the Future objective (FTF IR 3.3) of promoting inclusive agricultural sector growth.

Each of the three Phases featured increasing numbers of events, training, mentoring, technical assistance activities, and grant activity. The three Phases all shared similar management activities in monitoring and evaluating the current sub-grantees; these responsibilities increased as new MFIs were added. Partner MFIs collected baseline information from their borrowers; they then updated LIM tracking sheets to include data collected for the existing indicators and new indicators as a result of the program extensions (see Section VII, Monitoring and Evaluation). The below section reports on each Phase's technical assistance and other programmatic activities, with timelines to depict trainings and other significant events, as well as on each Phase's sub-grant and loan activities.

Pilot Phase (May 2009-September 2010)

Project activities began as early as one month into the program. To begin with, in May 2009, IESC advertised for and received five proposals from leading Micro-Finance Institutions (MFIs). A Grant Committee meeting scored the proposals and chose three initial MFI partner organizations: Al Majmoua, Ameen, and ADR. The Committee distributed a total initial $1,050,000 in grants to the three groups to enable them to effectively and quickly disburse micro loans to micro- and small- sized businesses covering rural and peri-urban areas. Kick-off and initial TA and training began shortly thereafter.

This quick start-up can be attributed to a dual nationality COP who had worked previously as a DCOP with IESC in Lebanon, a lean staff -- all Lebanese nationals, and quick relationship building with all stakeholders. Highlights of the phase are detailed below.

Technical Assistance and Other Programmatic Highlights

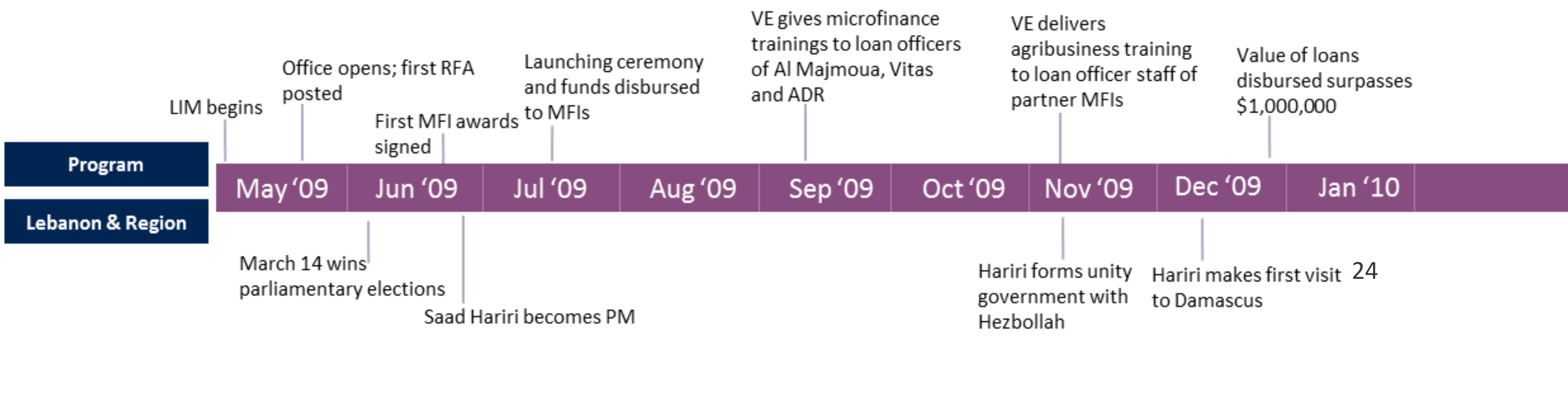
Trainings and TA consultations in late 2009 and early 2010 featured several IESC volunteer experts who provided a series of training workshops in finance, agriculture and tourism for 85 participants (22 women participants). Three workshops in particular are noteworthy:

As early as September 2009, IESC, in partnership with the Financial Services Volunteer Corps (FSVC) provided a series of training workshops and one-on-one consultations to provide capacity building to MFI loan officers, supervisors and key management representatives. The six training and TA activities were held in Beirut (2), Sour, Tyre, Hazmieh (2), and Nabatieh.

FSVC Volunteer Jan Buresh provided advice to each organization on agribusiness equipment, start-up, seasonal loans, sales timing, branding and marketing, farmer success factors, and value chains. Volunteer

IESC Volunteer Harold Handley covered such topics as dairy product lending risk factors, coops, milk and livestock value chains, components of an agribusiness plan, seasonal price charts. The total number of participants in the trainings was 85; 22 of them (or 26 percent) were women.

In addition, a specific tourism training was held in 2010 during this phase. FSVC Volunteer Dexter Koehl designed expert tailored consultation and training for three MFIs at their headquarters. The TOT and assistance was highly interactive and covered trends and opportunities with bed & breakfasts, restaurants, cafés, gift shops, and home tourism businesses, complete with enterprise business plan outlines and templates.



Sub-Grant and Loan Activity

Loans: At the end of this phase, September 2010, the total aggregate activity since program inception in 2009 resulted in a total program grant disbursement of 1,615 micro loans with a total value of $2,533,932. These were made to a total of 1,615 micro and small enterprises operating in rural and peri-urban areas spread over all regions of Lebanon. The average loan value of the loans was US$1,569 per loan. The loans are documented as having assisted businesses to sustain operations, expand their services, increase their stock, and improve sales income.

Jobs: The number of jobs sustained and created as a direct impact of the loans was 2,155 full-time jobs, with 694 of those jobs held by women (32 percent). Jobs in the South region were sustained at the highest level (945) followed by 515 in Bekaa, 483 in Mount Lebanon, and 212 in the North. Additionally, the LIM Program helped create 777 new part-time jobs during the Pilot Phase.

Gender Activity: Of the 1,615 loans made, 632 were granted to women business owners, accounting for an impressive 39 percent of the total number of borrowers. To date, jobs held by women that were sustained, maintained, or created by the program total 694, while 1,461 jobs held by men were impacted in the targeted sectors.

Sector Activity: By sector, the loans were distributed among agriculture businesses (48 percent), 44 percent to tourism sector enterprises, and 7.75 percent to ICT companies.

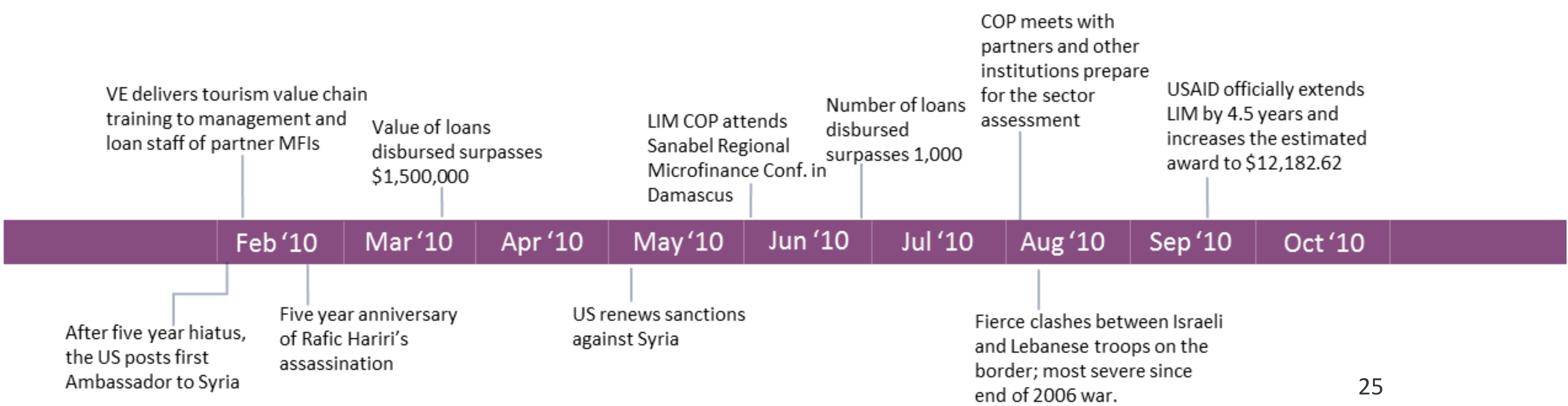
Geographic Activity: All program beneficiaries were operating in the rural areas of Lebanon. Geographically, the largest share of loans was disbursed to beneficiaries in the South region of Lebanon (total of $1,250,132), with Bekaa following in second place ($673,900), and Mount Lebanon with $357,600.

Scaling Up Phase (October 2010-October 2013)

This lengthy (3-year) Phase was characterized by an increasing intensity in numbers of MFI partners, and in amounts distributed in grants, as well as in numbers of trainings and technical consultations, and other general events.

Technical Assistance and Other Programmatic Highlights

One particular highlight during this phase was organized early on, in October and November 2010: The first microfinance sector assessment. The exercise was led by two senior international financial consultants, Mr. Dan Berkshire and Mr. Martin Slough in collaboration with the LIM Chief of Party, Mr. Mahmoud Elzein. The Final Report was a full assessment of the microfinance sector and small and micro enterprise banking, the market, the needs of MFIs and their clients, the business development service



offerings provided by the financial institutions and other entities, competition, and relations with banks to gain a full understanding of the financial services landscape for micro and small enterprises in Lebanon. The methodology included focus groups. The exercise culminated in a final presentation event on November 9, 2010 with 47 stakeholders participating.

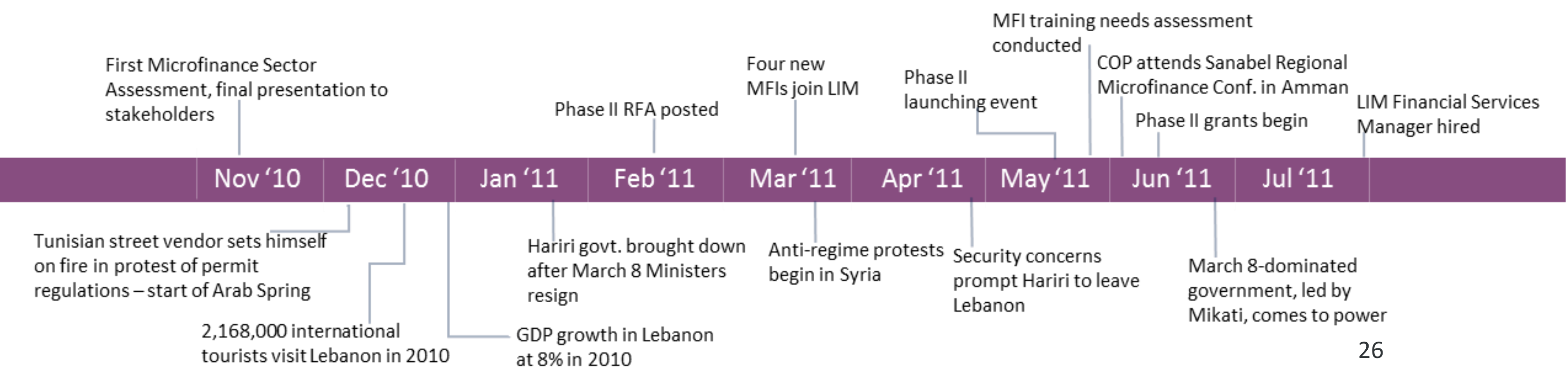
Shortly thereafter, in February 2011, a Request for Applications was conducted through a public ad posting, soliciting Lebanese microfinance/credit organizations to apply for a sub-grant award. US$2,250,000 were to be made available in grants. Seven institutions submitted, and all seven were chosen for award in March 2011. EDF was added to the roster of eligible partners. A few months later, the program held its Launching Event, (in May 2011) with US Ambassador and USAID Lebanon Mission Director in attendance – initiating the second phase of the project, now capitalized at US$12m, hosting 68 professionals from banks, financial organizations, microfinance institutes, and local NGOs. The project began ramping up its disbursements (see Grant Activity below). Yet another round of RFAs and awards for funding for MFIs in Lebanon was conducted later in the phase, April 2013.

A Risk Management workshop for micro, small and medium enterprises (MSME) was one of the first notable activities of this Phase, in October, 2011, with 33 participants (23 women), implemented by Mr. Martin Slough. Four MSME training workshops in October/November 2011 followed, with 115 participants (37 women), by Mr. Slough and Ms. Carla Azar. The workshops were to assist MSME borrowers by assessing and preparing such reports as balance sheets, and income and cash flow statements. Participants also learned ratio analyses, and types of risks that financial institutions and banks face.

> "The training sessions motivated and empowered AEP personnel, of various levels, and helped them implement learned skills in their daily work."
>
> *-AEP Feedback*

Dozens of other training workshops and one-on-one mentoring consultations were designed and delivered during this robust Phase 2 of LIM. In May/June 2011, a Training Needs Assessment for MFI partners was completed – this exercise identified the capacity building and training needs of the seven MFIs awarded sub-grants to date. The categories of the assessment were basic microfinance training, microfinance loan products, customer service, risk management, management training, strategic planning and budgeting, and accounting/auditing. Beginning in late 2011, the LIM Program began mobilizing experts to provide both training and one-on-one TA through mentoring sessions with the partner MGIs.

To recognize the results of the intensive training work, LIM held a Training Certificates Ceremony, in November 2011, to award training certificates to more than 180 microfinance loan officers and managers from the nine local MFIs, and from two banks for completing technical training under LIM. USAID's Acting Mission Director Mr. Timothy Alexander and IESC President/CEO Mr. Thomas Miller were



both in attendance.

In addition to the formal training, five discussion roundtable meetings were held, in November 2010, October 2011, March 2012, June 2012 and November 2013 (see details in Section VI). Field visits continued throughout, using a tool called the Field Visit Survey. In December of 2012, the program took steps to initiate the first-ever Lebanese Microfinance Association in a very important Roundtable Session, the first of several. Jordanian Alaa Abbassi, a microfinance policy lawyer, shared the Jordanian model and interactively provided guidance on the establishment of such an entity. The drafting of a Letter of Conduct as the framework and foundation was the next step. More information about this key national institution is provided in the description of the proceeding phase.

At the outset of 2013, LIM organized a special training workshop, "Initiating Lebanese Youth on Entrepreneurship and Leadership Skills," for 15 participants (10 women), educating students on the importance of leadership and the vital characteristics of a leader. Ms. Dima Khoury, Executive Director of Injaz Lebanon, who co-sponsored the event, led the sessions.

Trainer Profile: Samir Zehil

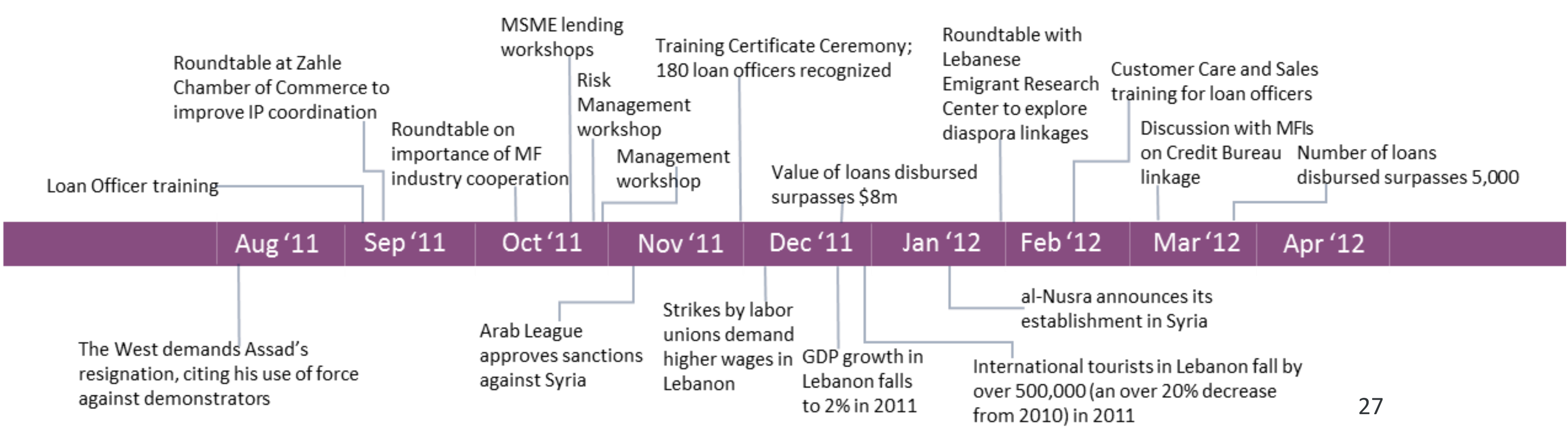
"The LIM participants among loan officers… really succeed in their job and with their target clients"

Samir Zehil is the owner of Wydner Coaches & Associates, which is the first coaching company in the region. To date, he has delivered training to 38,500 people in 27 countries. He was voted as Lebanese "Coach of the Year" in 2012 by Focus magazine. Samir led trainings on customer care etiquette and time management for LIM.

A USAID program audit was conducted in April of 2013, led by Mr. Tim Hart, Foreign Service Program Analyst, representing the USAID/Regional Inspector General in Cairo.

A Farmer's Day event was held in South and North Lebanon (in August 2013) to support the development of agricultural initiatives in these areas; LIM provided a link connecting two MFIs with Lebanese farmers coordinated through the DHAIM (Developing Hydroponics to Access International Markets) Project, a USAID-funded project.

LIM facilitated collaboration between local NGOs and other international development programs, with LOST (Lebanese Organization of Studies and Training) and the Lebanon Industry Value Chain



Development Program (LIVCD), a USAID-funded program.

Finally, a revised PMP was approved by USAID near the end of this phase, in June, 2013.

Sub-Grant and Loan Activity
By the end of the phase, eight MFIs were active in the program. A new Request for Applications was issued in April, 2013; a ninth MFI would be selected early in the next phase (Feed the Future Alignment).

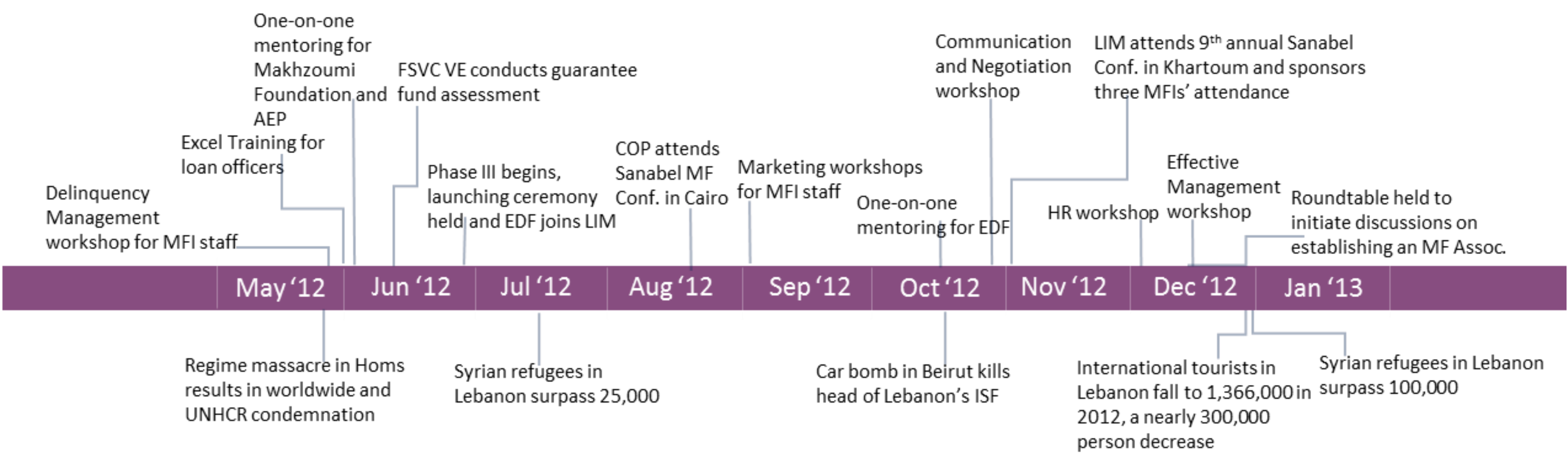
> Round I: May 2009, total disbursements to three MFI partners, $1,050,000
> Round II: June 2011, total disbursements to three plus four new (seven) MFI partners, $2,250,000
> Round III: June 2012, total disbursements to seven plus one new (eight) MFI partners, $1,250,000

Loans: The IESC Grant Committee met regularly to evaluate and grade the applications. At the end of this Phase, September 2013, the total aggregate activity since program inception in 2009 resulted in a disbursement to MFI partners of 9,684 microloans amounting to $20,985,728 benefitting 4,277 women business borrowers (44 percent), the rest men.[5] At this point in the program, the average loan amount of SME loans was approximately $7,272 per loan.

Jobs: LIM impacted rural communities and families by impacting 15,229 jobs out of which 2,619 new jobs were created, the largest number in the South. Of this total number of jobs, 6,534 were for women, and 8,695 were for men.

Sector Activity: Loans were distributed to three sectors: Tourism (50 percent, or 4,863 loans), Agribusiness (42 percent or 4,062 loans), and ICT businesses (8 percent or 759 loans).

Geographic Activity: Geographically, the largest share of loans was disbursed to beneficiaries in the South region of Lebanon ($6,459,620) followed by $5,820,330 in the Bekaa; $3,756,986 in the North region; $2,683,168 in Mount Lebanon; and $2,265,625 in Nabatieh.



[5] From LIM FY13 Quarterly Report, July – September 2013.

Alignment with Feed the Future Phase (October 2013-May 2015)

The final Phase of the LIM Program, coinciding with the infusion of a new tranche of funds from USAID ($3,000,000), featured the ongoing activities of TA and programmatic activity, as well as sub-grant and loans activity, described below.

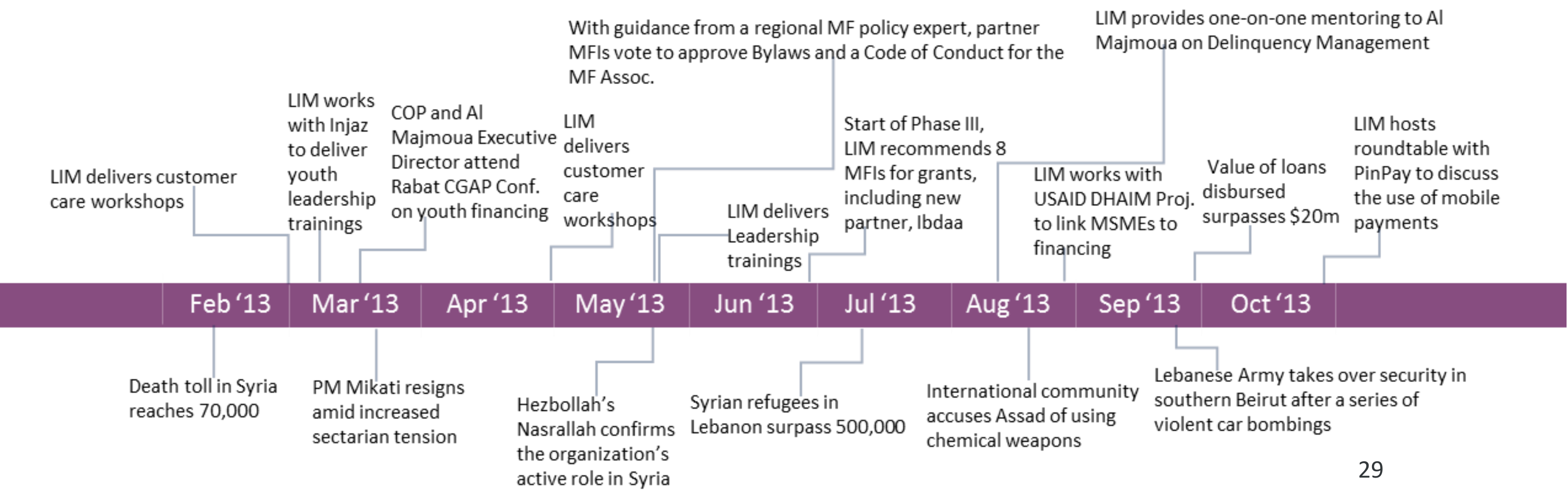
Technical Assistance and Other Programmatic Highlights

A word about the increase in scope and financing of September 2013. USAID/Lebanon Investment in Microfinance was operating in host communities residing near the Syrian border including the rural areas in the North, South, and Bekaa (but excluding Mount Lebanon). In 2013, the South was particularly affected by a surge of Syrian refugees into the territory. Many of the refugees in the rural areas were seen to be a burden on the local community and the economy as a whole. Discussions with LIM counterparts and stakeholders in the most affected project areas indicated that the presence of these refugees (up to a million, according to GOL and UNHRC estimates at the time), was adversely affecting Lebanese business sub-borrowers of LIM MFIs, due to the Syrian refugees' willingness to work illegally for below market wages, or to set up temporary unregistered MSME businesses that were in direct competition with Lebanese MSME businesses.

As a result of these discussions, USAID/Lebanon modified the LIM Program budget to enable the project to explore innovative ways to ameliorate the negative impact of hosting large number of Syrian refugees in Lebanon, and perhaps to restructure MFI loans, if needed, to accommodate hard-hit agricultural sector borrowers. The additional funds were to target Lebanese MFIs and borrower beneficiaries only, and exclude any non-Lebanese entities.

The VEGA-IESC technical approach to the modified project in support of Feed the Future goals achievement was based on a multi-pronged strategy:

1) Leveraging USAID investment by strengthening MFIs to better attract private sector investment;
2) Connecting MFIs to agricultural value chain borrowers and geographies where agricultural market activity is present and still viable, mitigating adverse impact of conflict on these areas;
3) Capitalizing MFIs to meet the challenges and opportunities presented by an inclusive agricultural growth-driven agenda and market segment in Lebanon; and
4) Increasing access to finance and related services to the rural Lebanese businesses operating in the targeted host communities and agricultural value chains.



LIM also revised its PMP to incorporate FTF indicators, to target-set and disaggregate by gender in appropriate activities and data points, and to align LIM results measurement and reporting with USAID's Country Development Strategy (CDS) for Lebanon and considerations under the Women's Empowerment Index in Agriculture (WEIA). The project added local workforce capacity for M&E support, increased the number of site visits and frequency of data collection and reporting, enhanced its M&E data systems, and increased home office support from IESC to LIM.

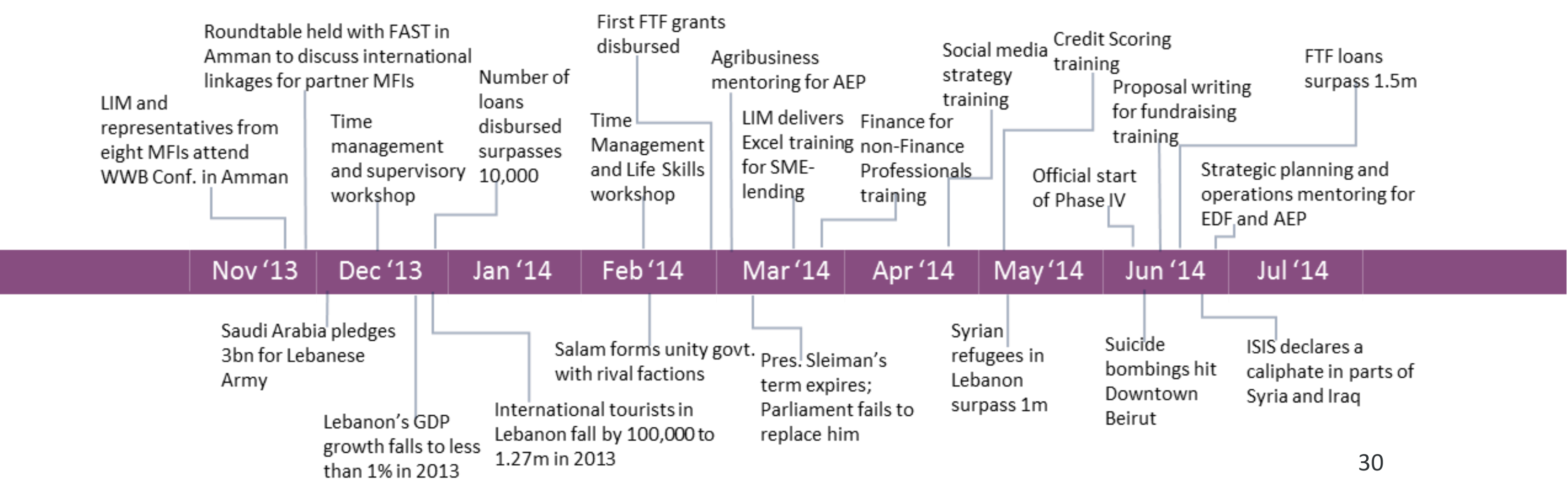
The program was increasingly active in its training and TA program as well as its grant activity, as illustrated in the timeline below. In addition, other capacity building events and general programmatic exercises took place during this 19-month phase, including a survey of program borrowers operating in the agribusiness, tourism, and ICT sectors; an exhibition for borrowers; four roundtable discussions, a Focus Group activity; and a public event on improving access to finance for rural and underserved communities across Lebanon.

Other highlights of this Phase included another capacity building activity, held in Jordan in November 2013, for LIM Partners. The format was a roundtable discussion on international resources and linkages, featuring representatives from the Finance Alliance for Sustainable Trade (FAST), the MIX Market, and KIVA. Each group gave overviews of their products, services, and efforts to reach out to other microfinance partners and stakeholders around the globe.

The program team also participated in the 2013 Women's World Banking (WWB) Conference, "Building Women-Focused Finance: Middle East & North Africa Conference" in Jordan. Participants explored innovative products and services that serve and increase women's entrepreneurship in the Middle East and North Africa (MENA) region. Some 39 financial institutions from 28 countries were present.

In collaboration with international subcontractor FAST (Montreal), LIM organized a two-day roundtable on agricultural finance in June of 2014. More than 30 microfinance professionals created links with key international finance institutions. The presentations concentrated on best practices in agricultural SME finance, and the main challenges and opportunities in agribusiness. Lebanon's Central Bank Executive Director was in attendance. The roundtable motivated many MFIs to start negotiations for further collaboration with FAST's worldwide partners, and it stimulated international financial investment companies to more seriously consider investing in agribusiness in Lebanon.

Also in mid-2014, under the FTF fund, five MFI partners benefitted from excellent agribusiness-related

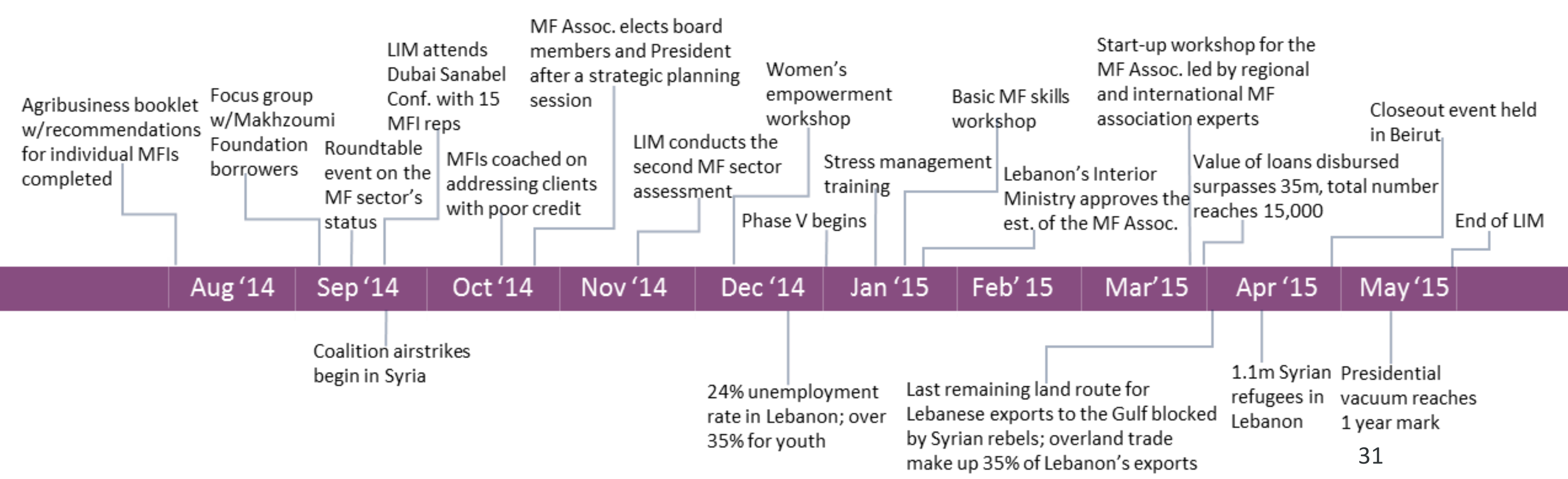


technical assistance to expand their outreach, knowing that agribusiness loans usually require higher loan amounts, season payments, risk mitigation techniques, market intelligence expertise, and solid knowledge of agricultural operations. Consultant Mr. Hassan Istaytiyyah conducted field visits in early and mid-2014 to agribusiness borrowers and was then able to provide field-based TA and coaching in roundtable settings, as well as a tool called the Agricultural Risk Production Calculator developed for specific agriculture value chains to show the risks and payments schedule.

Upon a request from USAID in November 2014, LIM conducted a second microfinance sector assessment to evaluate challenges encountered by sector beneficiaries and stakeholders. Led by microfinance and M&E expert Mr. Joseph Kotun, the assessment was to inform the design of a follow-on USAID program. At the same time, Mr. Kotun identified the training needs of borrowers that would assist in business development, and also the MFIs' capacities in human resources, management, financial sustainability, and abilities to reach diverse communities and geographies. Compared with the LIM Program when it was launched in 2009, the 2014 assessment reflected a much larger and more diverse, and largely sustainable microfinance sector.

> "We recognized how important it is to work together, coordinate our efforts, learn from each other and speak with a unified voice and promote good policies and smart regulations for the Microfinance Sector in Lebanon. We tried to come together and we failed. We tried again and we failed. Now, through LIM's leadership, we finally succeeded in forming a Microfinance Association, and we have a stake in the future of microfinance in Lebanon."
>
> \- *MFI Director*

Most importantly in this Phase, LIM helped create a brand-new institution in Lebanon: "The Association of Microfinance Institutions in Lebanon." The new Association is the result of five years of training and other microfinance events organized by the LIM Program, and more than two years of work focused specifically on creating the association. After the initial Roundtable in 2013, in late 2014, LIM gathered together Lebanon's Central Bank and MFI partners. Two guests gave presentations to the audience: Legal and Microfinance Expert Alaa Abbacy, gave presentations on the importance of such a national association in Lebanon, the benefits Lebanese MFIs could gain from becoming members, and the need to develop a "one voice and one message" sector stance. Saleem Nammari, Executive Director of the Jordanian Association for Microfinance stressed the importance of establishing strong information sharing systems within the Association, and fostering an environment of transparency among members and other government institutions. The Association's Board and President was elected, as was the Board.



The Association's mandate is to promote communication and coordination among the member institutions, conduct market research, provide training and other services to microfinance professionals, and raise public awareness about microfinance in Lebanon. The Association effectively serves as the new unified voice of the sector, where previously there had been none. The establishment of the first Microfinance Association in Lebanon aims to enhance the sustainability of the microfinance organizations, and to advance the financial tools and business services of the microfinance sector in the country for many years to come.

Ewa Bankowska, from MFC Poland, offers MF Assoc. members tips on accessing EU Funding during the Start-up Workshop for the Assoc.

The eight founding members of the Association, all of whom were LIM partners and received TA through the LIM Program, are represented by the elected President, Dr. Youssef Khalil, and include the following eight members: Association for the Development of Rural Capacities (ADR), Association d'Entraide Professionnelle (AEP), Al Majmoua Foundation, Entrepreneurial Development Foundation (EDF), Emkan, Ibdaa, Makhzoumi Foundation, Vitas.

Sub-Grant and Loan Activity
Loans: At the end of this phase, the first quarter of 2015 and nearing project close-down, the total aggregate activity since program inception in 2009 resulted in the disbursement of a total of 13,238 microloans amounting to 30,635,657 across five regions and the three sectors[6]

Jobs: LIM impacted rural communities and families by impacting 20,587 jobs out of which 2,952 new jobs were created, the largest number in the South. Of this total number of jobs, 1,919 were for women, and 1,033 were for men.

Gender Activity: LIM loans benefitted 6,178 women borrowers (46 percent), the rest men.

Sector Activity: LIM loans were distributed to three sectors: Tourism (7,287 loans, about $15,092,953), Agribusiness (4,885 loans, about $12,669,677), and ICT businesses (1,066 loans, about $2,873,127).

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[6] Data taken from the LIM FY2015 Quarter 2 Quarterly Report.

Geographic Activity: Geographically, the largest share of LIM loans was disbursed to beneficiaries in the South region of Lebanon ($6,459,620) followed by $5,820,330 in the Bekaa; $3,756,986 in the North region; $2,683,168 in Mount Lebanon; and $2,265,625 in Nabatieh.

FTF FUNDS:

- The newly infused FTF funds went to fund 1,687agricultural loans at a total value of $5,205,087, mostly in the Bekaa region, followed by the North, South, Nabatieh, then Mount Lebanon.
- FTF funds for women numbered 616 loans worth $1,384,032.
- FTF funds created 85 jobs (of which 19 percent for women) and maintained 2,705 jobs (25 percent women).

Trainer Profile: Johnny El Ghoul

"I had a wonderful time delivering the 'Emotional Intelligence' course to LIM participants. The majority of the attendees were very engaged, focused and showed eagerness to improve and use the learned skills."

Johnny El Ghoul has over 23 years of experience in the sales and sales management field. He founded Crossroad Coaches in 2009 and is a personal life and executive coach for individuals and executives from different industries. Mr. El Ghoul conducted six sessions of training on emotional Intelligence, stress management and women's empowerment.

Summary of Grants, from Project Inception (including FTF funded-loans)

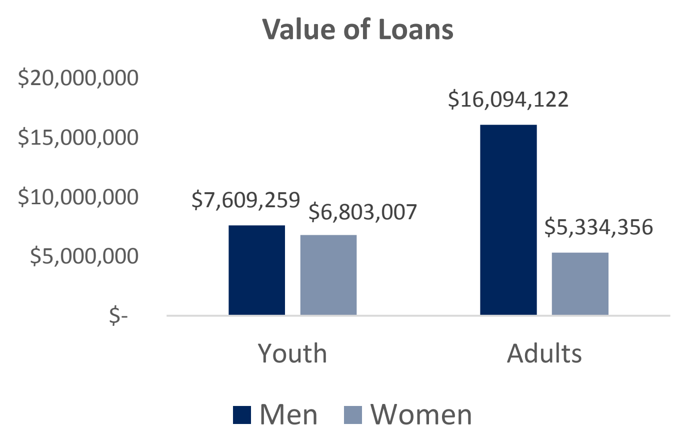

Figure 1: Loans to men were valued twice as much as those to women. Average loans to men were $2,900 while those to women were $1,800.

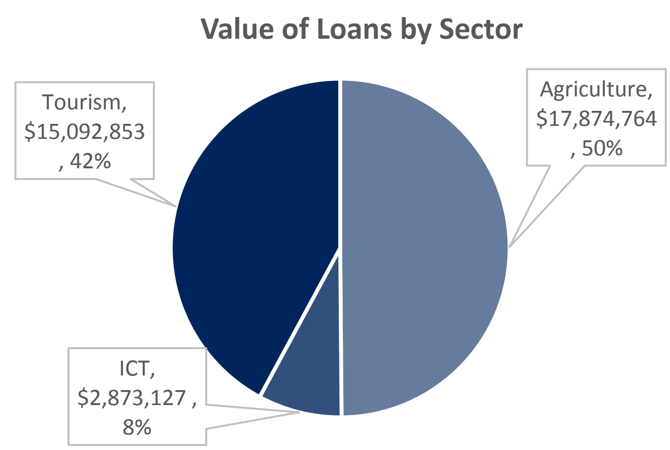

Figure 1: Loans to businesses within the agricultural sector accounted for half of all loans issued under the LIM program.

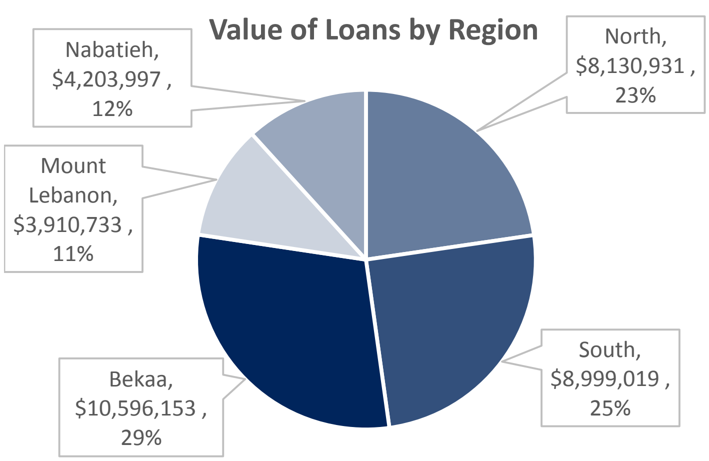

Figure 2: LIM loans reached all areas of Lebanon outside of greater Beirut.

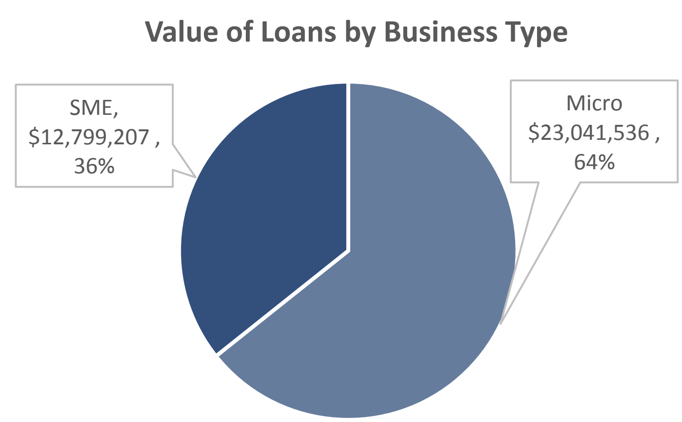

Figure 4: The majority of LIM loans went to microbusinesses (less than five employees).

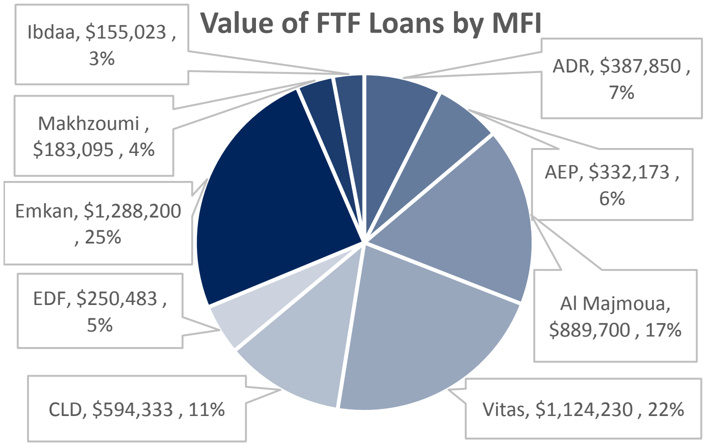

Figure 5: The distribution of loans borrowers were made in rough proportion to the overall size and reach of each MFI.

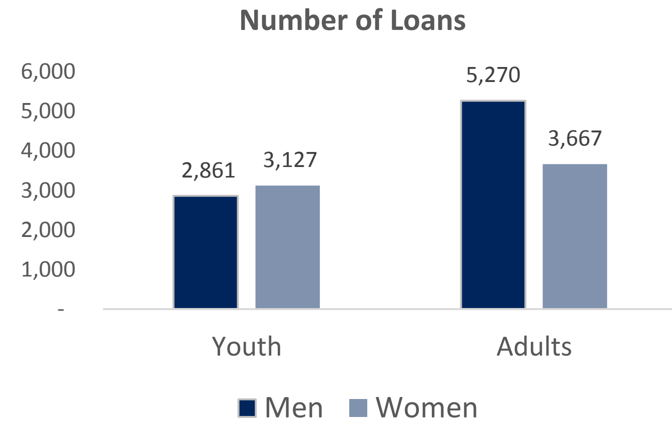

Figure 3: The proportion of loans to young men and young women (age 35 or less) was roughly equivalent.

A farmer and partner MFI client walks with his livestock.

VI. MFI Progress towards Achieving Sustainability

Introduction

As mentioned above, during the six-year implementation period of LIM, nine microfinance institutions participated in the program. Three were large institutions (Al Majmoua, Emkan Finance and Vitas Lebanon), one was medium-sized (Ibdaa), and five were smaller MFIs (CLD, ADR, AEP, Makhzoumi Foundation and EDF). As with most financial institutions, both new and established MFIs – whether cooperatives, not-for-profits, NGOs, or banks – necessarily have a goal of becoming operationally self-sustainable over time.[7]

This section discusses LIM partner MFIs' progress and performance during the six-year (2009-2015) run of the USAID/Lebanon Investment in Microfinance Program, and provides an analysis of financial data with the optic of determining each institution's operational and financial sustainability. It compares progress across and between MFIs as appropriate; Annex D provides more in-depth financial analysis of each financial institution partner.

In discussing the sustainability of LIM's MFI partners, an analysis of our LIM partners based on key Balance Sheet and Income Statement ratios is crucial, since MFIs need to generate annual surpluses to grow organically and strengthen their balance sheets and thereby become self-sustainable. If MFIs record constant deficits, their net assets become eroded, unless they receive constant donations to top up their capital resources. That is not a sustainable business model in the long term, since donors are likely to reduce or stop their support of an MFI if they see that it is not self-sustainable. "Not-for-Profit" is not synonymous with "loss-making". On the contrary, the coverage of costs by revenues is simply good practice for a successful MFI.

Key to the success of LIM MFIs is a delicate combination of high growth and outreach to new clients while balancing the need to become more financially viable and sustainable during the LIM period of 2009-2014, including not growing too fast and letting loan quality suffer:

- **Loan Growth**: total loans outstanding grew from $39.5 million to $115.2 million, or 2.9x greater and a compound annual growth rate of 23.9%.
- **Client Growth**: total clients grew from 39,000 to almost 91,000, or 2.3x greater and a compound annual growth rate of 18.3%.
- **Loan Quality**: Loan quality for a majority of LIM partners improved markedly or remained stable and within industry norms over the period. Defined by Portfolio at Risk of 30 days (PAR30 i.e. loans overdue by more than 30 days), PAR30 generally should not exceed 5%; it is also important to note PAR30 of 0% is near impossible due to the nature of lending. As of 2014, six of the nine MFI partners had PAR30 levels less than 5%. Makhzoumi was just over the maximum desired limit at 5.8% but improved from a high of 13.1% in 2009. AEP had PAR30 of 10% but from a much improved 26% in 2009. IBDAA, the newest MFI, was high at 21% in 2014 but improved from 24% in its first year of operation in 2012.

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[7] Operational Sustainability is defined as the following ratio: Operative Revenue ÷ (Financial Expenses + Operating Costs + Loan Loss Provision). The Mid-Term Evaluation performed in late 2013/early 2014 found that six out of eight partner MFIs had achieved operational sustainability at that time.

- **Profitability/Sustainability:** Profitability and an ability to cover costs is a bit more mixed for the LIM partners. The most common way of measuring this aspect for both for-profit and not-for-profit financial institutions is Operating Self Sufficiency (OSS), calculated by dividing operating revenue by the sum of financial expenses, loan loss provisioning expenses and operating expenses (i.e. revenues divided by costs – and the higher the ratio the better). Three LIM MFIs exceed or meet the industry minimum standard of 110% OSS, Al Majmoua, Vitas, and Emkan. Makhzoumi and ADR both exceed the minimum OSS threshold for microfinance operations but do not cover all other charitable activities undertaken by the foundation. Makhzoumi and ADR still show a net gain after additional donations. CLD does consistently exceed 100% OSS, at 106% in 2014, but just enough to break even each year.

  For the three remaining MFIs, they are still well below 100% OSS – thus experiencing losses. AEP earned an OSS of 89% in 2013, which might have been lower if they had properly written off more realistic loan losses. Since 2012, it has been able to generate net gains but only due to donor contributions. AEP has taken LIM's advice to heart and is considering raising interest rates (adopted by the board in late 2014) to a more sustainable level and hire more full-time staff. IBDAA is still only generating enough revenue to cover only 56% of costs, given it is still in start-up mode from 2012 but with losses reducing each subsequent year. EDF is a bit more problematic of all nine MFIs and is not able to meet a progressive improvement in covering costs over time, mainly due to its nature of being a quasi-loan broker without a large loan portfolio itself. EDF has taken LIM's advice to heart and raised its own funds in recent years and intends to raise more.

The detailed analysis below is based on audited financial statements for the year ending 12/31/2013. These statistics are presented below in Table 7 (Balance Sheet numbers and ratios) and in Table 8 (Income Statement numbers and ratios).

Table 7 below shows the Net Loan Portfolio and Net Asset Value of each of the partners as of end-2013, the debt/equity ratio which measures leverage, and measures of loan portfolio quality and loan loss coverage. It is notable that seven of the nine partners have relatively low debt equity ratios below 2, ranging from 0.32 (AEP) to 1.99 (EDF) while two have higher ratios. Ibdaa has a debt/equity ratio of 2.45 reflecting its losses since start-up in 2011 and its rapid initial growth in assets. However, its debt/equity ratio is likely to decline as it starts making surpluses from 2016 onwards. The outlier is Emkan Finance (6.09) which is 100 percent owned by BankMed. Emkan's structure is that of a leveraged finance company, but we expect its leverage to decline gradually as it generates larger surpluses.

Table 7: Net income in 2013 of MFIs

#	MFI Names	Net Loan Portfolio ($000s)	Net Assets (Assets minus Liabilities)	Debt / Equity Ratio	PAR-30 (%)	Loan Loss Reserve (%)	Loan Loss Coverage Ratio (%)
1	Al-Majmoua	$ 35,418	$ 22,255	0.86	0.8%	2.3%	274.0%
2	Emkan Finance SRL	$ 21,687	$ 3,600	6.09	3.0%	3.1%	101.0%
3	Vitas Lebanon	$ 21,137	$ 5,989	1.29	2.9%	1.9%	51.9%
4	IBDAA	$ 2,570	$ 2,749	2.45	1.2%	2.0%	161.2%
5	CLD	$ 3,726	$ 1,746	1.32	3.2%	0.0%	0.0%
6	ADR	$ 3,154	$ 2,983	0.45	not known	1.5%	not known
7	AEP	$ 3,102	$ 2,790	0.32	12.0%	0.0%	0.0%
8	EDF	$ 1,749	$ 36	1.99	19.0%	0.0%	0.0%
9	Makhzoumi Foundation	$ 1,032	$ 2,009	0.19	5.3%	3.7%	69.2%
	Totals	**$ 93,575**	**$ 44,157**				

The loan portfolio quality measures, which we will examine in further detail later in this report, show an interesting pattern. The regulated MFIs (Emkan and Vitas) and self-regulated MFIs (Al Majmoua, Ibdaa, ADR and Makhzoumi) have established loan loss reserves to cover all or at least a reasonable percentage of their PAR-30. We do not have PAR-30 numbers for ADR, but we believe them to be in the range 2-3 percent of their gross loan portfolio, so their Loan Loss Reserve of 1.5 percent provides adequate coverage, as befits an institution whose President is a senior official of Banque du Liban. However, there are three unregulated MFIs in the program that have not created any loan loss reserves at all. Of these, CLD has a PAR-30 of 3.2 percent but in practice its losses have been negligible because its loans are secured by mortgages on real estate. AEP has a rather high PAR-30 of 12 percent, but it has not created any loan loss reserves, and it has been slow to recognize the impairment in its loan portfolio by making write-offs. EDF is a special case because its loans have been booked with its agent bank, which was absorbing 100 percent of the credit risk until October 2014. Therefore, any provisions were on the books of the agent bank, not those of EDF.

With the exception of EDF, which has a very small balance sheet, all the LIM partners show a solid Net Asset Value[8] in relation to their overall size and their Net Loan Portfolio. This reflects their relatively conservative approach to lending, and the willingness of donors and/or shareholders to provide ongoing support to these institutions over the years.

Table 8 below shows the net income in 2013 of our nine LIM partners and a number of measures of profitability and self-sufficiency. There is a wide variation among our partners. The first three (Al Majmoua, Emkan and Vitas) are not-for-profit institutions, but they run their businesses on commercial lines. All three have positive returns of assets (ROAs) and returns on equity (ROEs) and they all have operational self-sufficiency ratios that are either above or close to the normal MFI minimum benchmark, which is 110 percent. The operational self-sufficiency (OSS) ratio is calculated by dividing operating revenue by the sum of financial expenses, loan loss provisioning expenses and operating expenses.

[8] Net Asset Value, which equals Total Assets minus Total Liabilities is the parameter used to measure the capital position of not-for-profit institutions. It corresponds to the Tangible Net Worth (TNW) parameter used to measure the shareholders' funds of commercial companies.

Ibdaa shows losses and its OSS ratio is only 56 percent reflecting the fact that as of end-2013 it was still in a start-up situation, having begun operating in 2012. CLD has an OSS ratio of 106 percent, but its ROA and ROE are both very low, reflecting its policy of simply breaking even each year, without generating any significant surplus.

Table 8: Net income of MFI's

#	MFI Names	Net Income ($000s)	Net Income / Operating Revenue (%)	ROA (%)	ROE (%)	Expense Ratio (Expenses / Portfolio) (%)
1	Al-Majmoua	$ 4,057	36.1%	10.8%	20.1%	26.7%
2	Emkan Finance SRL	$ 311	5.1%	1.2%	8.7%	23.2%
3	Vitas Lebanon	$ 407	10.1%	3.0%	7.0%	16.9%
4	IBDAA	$ (850)	-78.0%	-14.0%	-32.8%	57.0%
5	CLD	$ 15	5.9%	0.4%	0.1%	6.4%
6	ADR	$ (12)	-1.3%	-0.3%	-0.9%	31.0%
7	AEP	$ 55	-12.6%	1.6%	2.1%	9.1%
8	EDF	$ (33)	-33%	-31.0%	-56.9%	N/C
9	Makhzoumi Foundation	$ 344	5.6%	14.3%	17.1%	N/C
	Totals					

Makhzoumi Foundation shows a positive OSS and satisfactory ROA and ROE, but these figures are distorted by the substantial annual donation made by Mr. Makhzoumi, a prominent philanthropist in Lebanon. However, the microfinance unit of Makhzoumi covers its costs and generates a small surplus, which contributes to the substantial costs of providing vocational training and technical assistance to poorer people, notably to women, the residual deficit being covered by Mr. Makhzoumi. In 2013 and 2014, the microfinance (MF) activities of Makhzoumi Foundation were adversely affected by restructuring costs, but the MF unit confidently expects to earn satisfactory surpluses once again in 2015 and 2016.

The remaining three partners in the program merit some specific comments. First of all, ADR generates an operating surplus from its microfinance activities, but the institution as a whole shows a loss, owing to the cost of its charitable activities which include training and technical assistance. These losses are covered by additional donations each year. AEP's audited statements for 2013 show a net surplus after donations received. However, on an operational basis, AEP is running a deficit each year as demonstrated by the OSS ratio, which was only 89 percent in 2013. The OSS ratio would have been even lower if AEP had made sufficient loan loss provisions to cover its impaired loan portfolio. Finally, EDF made a loss in 2013. This partner has a very small balance sheet, reflecting its main role as a money broker. Its small microfinance portfolio comprises loans on the books of its partner bank. We understand that AEP, CLD and EDF consider themselves to be charitable entities, but they would benefit from bolstering their operational and financial self-sufficiency, a challenge that had already been met by the MF unit of Makhzoumi Foundation as explained in the previous paragraph. We will explore the issue of self-sufficiency in more detail in our case-by-case analyses of these MFIs that are provided in the Annexes to this report.

We now provide year-by-year data on the profitability of the LIM partners and the growth in their Net Asset Value during the six-year life of the LIM Program. These statistics are shown in Table 9 and Table 10 below, which show some differences between the larger partners and the smaller partners in the program. These differences arise from fundamentally divergent operational strategies. Table 9 below reveals that Al Majmoua is the most profitable partner in the program in absolute terms, followed by Vitas Lebanon, ADR and Emkan Finance. The figures for ADR are inflated by donations; nevertheless ADR has also consistently run a self-sustaining microfinance program. Compound annual growth rates (CAGRs) have been calculated for the four MFIs in the program that have consistently achieved a surplus each year. Ibdaa will eventually join this first group of institutions, but it only commenced business in 2012 and is still operating at a loss, owing to its large start-up costs. Undoubtedly, Al Majmoua, Vitas Lebanon, Emkan Finance and Ibdaa are being run on a commercial basis, despite being not-for-profit institutions. The surplus figures for Emkan for the years 2011 to 2014 apply to the finance company, which are not strictly comparable with those for the NGO (2009 and 2010), so growth rates for Emkan were not calculated. Three others (AEP, EDF and Ibdaa) had losses some years, which rendered a CAGR calculation impossible, while the Makhzoumi MF unit was undergoing restructuring in 2013 and 2014.

Table 9: LIM Partners - Ranked by Net Surplus for the year ended 12/31/2014

#	Annual Net Surplus ($ 000s)	2009	2010	2011	2012	2013	2014	CAGR % p.a.
1	Al Majmoua	1,516	1,570	2,464	2,298	4,057	4,971	26.8%
2	Vitas Lebanon	500	514	1,351	577	407	942	13.5%
3	ADR	324	150	200	200	275	646	14.8%
4	Emkan Finance SRL	946	64	0	37	207	206	Not comparable
5	AEP	-14	-1	293	67	55	48	Not calculated
6	CLD	3	26	13	10	15	19	44.6%
7	Makhzoumi Foundation (MF)	61	69	45	128	6	8	Not comparable
8	EDF	-43	-23	27	-5	-33	-59	Not calculated
9	Ibdaa	0	0	0	-365	-850	-721	Not calculated
	Totals	3,293	2,369	4,393	2,947	4,139	6,060	

Table 10: LIM Partners - Ranked by Size of Net Asset Values as of 12/31/2014

#	Net Asset Values ($ 000s)	2009	2010	2011	2012	2013	2014	CAGR % p.a.
1	Al Majmoua	11,854	13,425	15,899	18,197	22,255	27,226	18.1%
2	Vitas Lebanon	2,424	3,684	5,035	5,582	5,989	6,930	23.4%
3	Ibdaa	0	0	0	2,435	2,749	5,248	46.8%
4	ADR	2,478	2,471	2,800	2,998	2,983	3,629	7.9%
5	Emkan Finance (since 2011)	4,036	4,878	1,300	1,365	3,600	3,561	39.5%
6	AEP	2,356	2,048	2,798	2,459	2,790	2,940	4.5%
7	Makhzoumi Foundation	908	1,097	1,200	1,664	2,009	2,200	19.4%
8	CLD	1,162	1,191	1,497	1,730	1,746	1,766	8.7%

9	EDF	71	47	75	80	36	-23	N/C
	Totals	25,289	28,841	30,604	36,510	44,157	53,477	16.2%

Table 10 above reveals the Net Asset Values of each of our LIM partners. Al Majmoua and Vitas have registered double-digit growth rates by re-investing their annual surpluses. Ibdaa, which started operations in 2012, has a strong main shareholder, which has paid up additional capital each year to offset its operational losses. Ibdaa expects to achieve its breakeven point in 2016. ADR shows a steady pattern, having enhanced its Net Asset Value gradually but steadily over the years. Emkan is a special case because the figures for 2009 and 2010 refer to the Emkan NGO, whereas those for 2011 to 2014 reflect the numbers for Emkan Finance SRL, the new finance company of the Emkan group, to which the Emkan NGO loan portfolio was transferred in 2012. Emkan Finance is presently in a process of consolidation, but we do not doubt that its capital position will grow steadily from 2015 onwards from the proceeds of operating surpluses. Among the remaining partners, AEP is in survival mode only. AEP is still not generating enough interest income and commission revenue to cover its operational costs and the small surplus each year results only from new donations that cover its fundamental operating deficit. CLD is run in such a way that it generates a tiny surplus each year, so its Net Asset Value is still small, having grown from $1.2 million in 2009 to $1.7 million in 2012, but having remained steady at $1.7 million in 2013 and 2014. Makhzoumi Foundation is a charitable institution whose microfinance activities are self-sustaining but the operating deficits from its charitable activities are covered each year by transfers from Mr. Makhzoumi who is the President of a successful group of industrial companies. Finally, EDF is a marginal operation that essentially operates as a money broker with its lending portfolio booked with one partner bank. However, from 2015 onwards EDF intends to change its business model by raising additional capital to bolster its small balance sheet and turn itself into a traditional MFI.

These observations are demonstrated by Table 11 below, which shows the Return on Net Assets for all the partners in the LIM Program. The first five partners listed include four not-for-profit institutions run on a commercial basis, of which Al Majmoua and Vitas are achieving good returns on equity, Emkan Finance is still below the expectations of its management, and Ibdaa, as stated earlier has not yet reached the breakeven point, but expects to do so by 2016. In the first group, we also find ADR, which is achieving solid results, albeit enhanced by some donations.

The second group comprises two stand-alone MFIs (AEP and CLD) which in most years are earning very low returns on equity that are below the rate of inflation and are therefore insufficient to enable them to grow without constant additional donations and other injections of new capital. The MF department of Makhzoumi obtained satisfactory returns in 2009 to 2012, but in 2013 and 2014 its results were adversely affected by restructuring costs. EDF is a money broker that is reviewing its structure with a view to obtaining enough capital to convert itself into a stand-alone MFI.

Table 11: Return on Net Assets Ranked by size of Net Assets as of 12/31/2014

#	$ 000s (end-year)	2009	2010	2011	2012	2013	2014
1	Al Majmoua	12.8%	12.4%	16.8%	13.5%	20.1%	20.1%
2	Vitas Lebanon	20.6%	16.8%	31.0%	10.9%	7.0%	14.6%
3	Ibdaa	N/A	N/A	N/A	-30.0%	-32.8%	-18.0%
4	ADR	13.1%	6.1%	7.6%	6.9%	9.2%	19.3%
5	Emkan Finance SRL	23.4%	1.4%	0.0%	2.8%	8.3%	5.8%

6	AEP	-0.6%	0.0%	12.1%	2.5%	2.1%	1.7%
7	Makhzoumi Foundation (MF)	6.7%	6.9%	3.9%	8.9%	0.3%	0.4%
8	CLD	0.3%	2.2%	1.0%	0.6%	0.9%	1.1%
9	EDF	-60.6%	-39.0%	44.3%	-6.5%	-56.9%	N/C
	Totals	13.0%	8.8%	14.8%	8.8%	10.3%	12.4%

We have been able to obtain some valuable information from all of our LIM Partners except ADR about the progress of their Loan Portfolio Quality during the six years of the LIM Program, which are displayed in Table 12below. In the case of ADR, we know that they have established a Loan Loss Reserve that is 1.5 percent of their gross loan portfolio, which we believe to be sufficient. What we can see from Table 12 is that the larger MFIs in our program, which are either regulated (Vitas and Emkan), or self-regulated (Al Majmoua, Ibdaa and Makhzoumi Foundation), not only have relatively low Portfolios at Risk over 30 days (less than 6 percent), but also that they have created Loan Loss Reserves (LLR) that cover at least 60 percent of their PAR-30. This is prudent and is in line with the loan loss provisioning policy established by the Banque du Liban. CLD has a relatively low PAR-30 (less than 5 percent since 2010), but it has NOT established Loan Loss Reserves because its loans are all secured by mortgages over real estate, and it has never suffered an outright loss. CLD almost never forecloses on its mortgages, preferring to use that possibility as a means of persuading overdue borrowers to repay.

Finally, we have two partners that have very high PAR-30 statistics, namely AEP and EDF. In the case of EDF, the loans are on the books of its partner bank, which has absorbed the credit risk until recently (October 2014) when it told EDF that thereafter the credit risk will be shared 50/50. In the case of AEP, their PAR-30 figures have been very high (over 20 percent from 2009 to 2011), but they have been declining to 10 percent as of end-2014. AEP has been reluctant to establish any loan losses reserves, as they would be required to do if they were regulated, but belatedly they have begun to make some modest write-offs to recognize partially some old uncollectible debts. In future, AEP should fully recognize its old bad debts by writing them off completely and they should also establish a formal Loan Loss Reserve by making annual loan loss provisions that are deducted as costs in its income statement, based on the quality of its loan portfolio as measured by its Portfolio at Risk (PAR). In short, they should become self-regulated.

Table 12: Loan Portfolio Quality Data as of year-end

NAMES	PAR-30 and LLP as % of Gross Loan Portfolio Loan Loss coverage = (LLP/PAR-30) as %	2009	2010	2011	2012	2013	2014
AL-MAJMOUA	PAR-30	1.26%	1.11%	0.64%	0.57%	0.83%	0.72%
	Loan Loss Reserve	1.08%	1.11%	1.59%	1.98%	2.28%	2.13%
	Loan Loss Coverage	**85%**	**100%**	**249%**	**348%**	**274%**	**294%**
AEP	PAR-30	26%	24%	22%	17%	12%	10%
	Loan Loss Reserve	0%	0%	0.20%	0%	0%	0%
	Loan Loss Coverage	**0%**	**0%**	**1%**	**0%**	**0%**	**0%**
CLD	PAR-30	5.55%	3.92%	4.18%	3.49%	3.18%	3.99%
	Loan Loss Reserve	0%	0%	0%	0%	0%	0%
	Loan Loss Coverage	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**
EDF	PAR-30				24%	19%	21%
	Loan Loss Reserve				0%	0%	0%
	Loan Loss Coverage				**0%**	**0%**	**0%**
EMKAN	PAR-30	0.10%	1.14%	0.57%	1.37%	3.02%	3.06%
	Loan Loss Reserve	0.05%	1.20%	0.59%	1.46%	3.05%	3.07%
	Loan Loss Coverage	**50%**	**105%**	**104%**	**107%**	**101%**	**100%**
IBDAA	PAR-30				0%	1.24%	1.32%
	Loan Loss Reserve				2%	2.00%	2.00%
	Loan Loss Coverage				**N/A**	**161.29%**	**151.52%**
MAKHZOUMI	PAR-30	13.1%	6.5%	5.8%	7.3%	5.3%	5.8%
	Loan Loss Reserve	8.0%	3.8%	3.5%	4.2%	3.7%	4.7%
	Loan Loss Coverage	**61.1%**	**58.9%**	**60.2%**	**58.2%**	**69.2%**	**82.3%**
VITAS	PAR-30	2.51%	3.00%	2.86%	3.68%	2.85%	2.49%
	Loan Loss Reserve	1.96%	5.03%	3.51%	4.08%	1.87%	1.72%
	Loan Loss Coverage	**45.4%**	**100.8%**	**62.8%**	**57.9%**	**51.9%**	**60.8%**

As far as we have been able to ascertain, the nine LIM partners are the principal microfinance institutions in Lebanon with the exception of Al-Qard Al-Hassan, a very large MFI that was founded in 1982 shortly after the Israeli occupation of South Lebanon. It is said to be run by Hezbollah. Al-Qard Al-Hassan is run on Islamic banking principles and therefore does not charge any interest, but is reported to charge an administration fee of around 12 percent on its loans. It claims to lend without discrimination based on sects or religions, but most of its borrowers are said to be Shia Muslims. Al-Qard Al-Hassan operates mainly in South Lebanon and the Bekaa valley, but it also has operations in Greater Beirut where it provides competition to our LIM partners. According to its website, it has granted 835,363 loans totaling $1,426 million since its inception in 1982 until the end of 2014. Its annual disbursements of new loans are shown in Table 13 below with the total outstanding loans of the LIM partners for comparison. While Al-Qard Al-Hassan is still the largest MFI in Lebanon, its predominance is declining in relative terms year by years compared to our 9 MFI partners whose overall net portfolio growth has been faster. For example, the aggregate net loan portfolio value of our nine LIM partners has grown on average by 23.9 percent per year during the years 2009 to 2014 compared with Al-Qard Al-Hassan, which has grown by an average of 18.7 percent per year during the same period. Furthermore, the number of borrowers reached by our LIM partners has grown by an average of 18.3 percent per year while Al-Qard Al-Hassan has grown by 11.3 percent per year by the same measure. Overall, the MFI market in Lebanon seems to have grown by around 20 percent per year from 2009 to 2014 in terms of loan value and around 15 percent per year in terms of borrowers, an impressive result that demonstrates a deepening of financial support for the poorest in Lebanese society.

Table 13: Outstanding Loan Portfolios of LIM compared with annual disbursements by Al-Qard Al-Hassan

Loan amounts ($ 000s)	2009	2010	2011	2012	2013	2014	CAGR % p.a.
LIM partners - total net loan portfolio (end-year)	39,544	46,563	62,207	77,972	93,566	115,228	23.9%
Al-Qard Al-Hassan disbursements (per year)	117,300	132,866	163,388	208,436	245,132	276,533	18.7%
Numbers of borrowers							
LIM partner borrowers (end-year)	39,293	46,209	55,666	72,125	81,715	90,881	18.3%
Al-Qard Al-Hassan new loans (per year)	72,412	75,476	87,596	100,346	110,677	123,696	11.3%
Average loan amounts							
LIM partners' average loan amounts (end-year)	$ 1,006	$ 1,008	$ 1,118	$ 1,081	$ 1,145	$ 1,268	Not calculated
Al-Qard Al-Hassan average loans (new loans)	$ 1,619	$ 1,760	$ 1,865	$ 2,077	$ 2,255	$ 2,236	Not calculated

Undoubtedly, there are some other MFIs in Lebanon, apart from our nine LIM partners and Al-Qard Al-Hassan, but it is our impression that they are mostly rather small. In addition, several of the Lebanese banks have substantial microfinance and SME loan portfolios, most of which are managed by their retail banking departments. The LIM team undertook a review of the whole microfinance and small business lending market in fall 2010 (the report was issued in November 2010), but the additional research that would be required to update that survey to include the present activities of commercial banks, finance companies and other MFIs was beyond the scope of this report.

VII. Monitoring and Evaluation

This section of the LIM Final Report will discuss various aspects of the LIM Program's robust Monitoring and Evaluation (M&E) activity over the past six years. First, a comparative look at the program's indicators as they evolved and were refined over time is presented. Then, we discuss several other features of the program: two data collection and analysis tools, followed by a presentation of the three surveys carried out over LIM's lifespan, the external mid-term evaluation of late 2013/early 2014, an analysis of pre- and post-testing surveys of LIM's many trainees, and finally a discussion of the space LIM successfully created for knowledge management and learning among MFIs.

PMPs/Indicators

The LIM Program submitted three iterations of the Performance Monitoring Plan (PMP) during the six-year implementation phase. As a management tool, the PMP integrated the activities of each year's Workplan and the costs of the budget by measuring their collective impact, and ensuring that USAID project funds were optimally utilized in order to satisfy the Mission's objectives.

As USAID/Lebanon Mission redefined its priorities over time, updating its Results Frameworks and drafting a Country Development Cooperation Strategy (CDCS) in May 2012 to cover the period FY2013 through FY2017, IESC worked with the Mission to similarly refine and redefine the LIM Program's monitoring and evaluation priorities. The first program indicators in 2009 were selected in order to demonstrate the impact that the program funding had on increasing microloans to disadvantaged groups. Additionally, the indicators provided direct measurement of the financial benefits that the loan recipient received as an impact of the loan, and to gauge the improved job creation and sustainability in rural communities by regions and sectors of industry. Over time, they were reworked to measure those variables plus the substantial training efforts LIM put forth, and the new FTF emphasis in later years on agriculture value chains.

Table 14 shows how the agreement indicators for LIM evolved over the six years.

The first program indicators in 2009 were selected in order to demonstrate the impact that the program funding had on increasing microloans to disadvantaged groups. Additionally, the indicators provided direct measurement of the financial benefits that the loan recipient received as an impact of the loan, and to gauge the improved job creation and sustainability in rural communities by regions and sectors of industry. Over time, they were reworked to measure those variables plus the substantial training efforts LIM put forth, and the new FTF emphasis in later years on agriculture value chains.

Table 14: Summary of Changes, Program Indicators

Year	Indicators
PMP November 2010	# financial sector professionals trained
	# loans that MFIs provide as SME loans
	% increase in income of loan recipients
	% increase in income of loan recipients
	% increase in sales revenue of recipients
	Value of loans and # of loans, disbursed using recycled funds
	# of jobs created and maintained
	# of microloans to borrowers in the USAID value chain program
Modification of September 2011	# financial sector professionals trained
	# loans that MFIs provide as SME loans
	% increase in income of loan recipients
	# of jobs created and maintained
	# of clients of MFIs
	# of clients of MFIs using USAID grants
Modification of June 2012	F: # days technical training provided to financial intermediaries
	C: # trainees per reporting year
	F: # MFIs extending services to micro and small businesses
	F: # clients (households or microenterprises) benefitting from financial services through MFIs
	C: Value of total MFI loans to clients
	C: # jobs attributed to FTF implementation (job creation)
Modification of June 2013	F: # days technical training provided to financial intermediaries
	C: # trainees per reporting year
	C: # trainees showing increase in knowledge from before to after training
	F: # MFIs extending services to micro and small businesses
	F: # clients (households or microenterprises) benefitting from financial services through MFIs
	C: # loans disbursed to producers, input suppliers, transporters, processors and loans to MSMEs in targeted ag value chain/rural areas
Modification of October 2014	F: # days technical training provided to financial intermediaries
	C: # trainees per reporting year
	C: # trainees showing increase in knowledge from before to after training
	C: # trainees showing improved performance as a result of training
	F: # MFIs extending services to micro and small businesses
	F: # clients (households or microenterprises) benefitting from financial services through MFIs
	C: # of clients that access MFI SME loans above $5,000
	C: # of new job positions created, attributed to FTF implementation
	C:# of impacted jobs (maintained)
	F: Value of agricultural and/or rural loans, disaggregated (all sectors)

An analysis of the Table shows that adjustments and refinements in the indicators over time were made because of a clearer interest in impacts of *training* provided by LIM, and of *jobs and loans active because of FTF implementation* in the last two years.

Surveys

Over the life of program, LIM staff and consultants conducted several surveys: 1) a survey of borrowers, 2) two client (USAID Mission) surveys, and 3) a beneficiary survey of the MFI CEOs and staff.

Borrower Survey:

From September 2014 to January 2015, LIM conducted a fairly broad survey of 290 loan borrowers in order to gauge impact of the program in assisting Lebanese micro and small entrepreneurs increase their sales, create new jobs or maintain existing ones, and advance economic growth in their rural areas of the country. It also was designed to evaluate the soft skills training needs for the clients' borrowers in order to expand their businesses and improve their livelihoods. The survey was led by consultant Hassan Istaytiyyah. It was important for the program, then in its fifth year, to put a finger on the pulse of the numerous interventions carried out since 2009.

The results of this survey revealed the following achievements realized by the six years of LIM implementation:

- Sixty-seven percent of the borrowers surveyed took loans to expand their business, and as a result 96 percent of those said they increased their sales, production and revenues;
- Their incomes increased at a range between 10and 55 percent;
- Seventy-two percent of respondents said that the loans had helped improve their livelihood, that they had more cash that enabled them to expand their business to new parallel businesses;
- Sixty percent of the borrowers affirmed they had created jobs for their family members (for family businesses) and about eight percent had added more employees for their business;
- Seventy-six percent of the borrowers surveyed needed another loan to further expand their business;
- Twenty-nine percent of the borrowers asked for trainings on soft skills, 18 percent asked for technical trainings on agriculture production and processing; and
- Fifty-eight percent of the agricultural borrowers preferred to have seasonal or agriculture loan products.

Client Survey:

IESC is committed to delivering results and meeting client needs in a timely and cost-effective manner. In order to do this IESC conducts an annual client feedback survey with the first cycle administered on August 2014. Ms. Rana Helou, Economic Growth Specialist at USAID/Lebanon, provided feedback on IESC's seven priority areas (technical quality, ability to meet schedules, results and impact, cost effectiveness, program management, compliance and ethics, and customer service). Five of Ms. Helou's responses fell within the "EXCELLENT" category, two in the "EXCEPTIONAL" category, and one in the "GOOD" category.

The subsequent and final client feedback survey was conducted in April of 2015. Of the same seven priority areas, Ms. Helou's ratings for LIM averaged a 4 out of 5 or in the "excellent" category. In terms of compliance with requirements and regulations, she praised IESC in being "always in compliance."

Beneficiary Survey:
To measure direct beneficiary satisfaction of LIM services, LIM conducted an end-of-program beneficiary survey from February to May of 2015. The online questionnaire was administered to 67 direct and recent (last two years) beneficiaries of LIM assistance, 10 of whom were senior managers within the partner MFIs. Nearly 75 percent of respondents received technical training in a group setting on topics such as SME lending, agribusiness, and microcredit for field officers. About eighty percent received training on customer service, women's leadership, computer skills, emotional intelligence, marketing, HR, and proposal writing. In addition to training, nearly a quarter had received one-on-one assistance. The survey asked about specific noticeable benefits resulting from LIM assistance, the likelihood that those benefits would outlive the program, what other types of assistance would be needed if a similar program is funded, and how LIM could have improved its service delivery. All nine MFI partners were represented in the sample of respondents. A little more than half of respondents were women.

An overwhelming majority, or 100 percent of MFI senior managers and 72 percent of MFI staff respondents, rated LIM assistance as "very useful" and they were "very satisfied" with the service delivery. MFI senior management cited institutional capacity building and staff development as top benefits resulting from the project. In terms of what could have been improved, responses included lengthening training time, region-specific software updates, larger loans for the bigger beneficiaries, removing the limit of five trainees per session, distributing materials in Arabic instead of in English, and providing supplementary courses. The fast expansion into new markets (including reaching more borrowers, benefitting more low-income borrowers) and the development of new microcredit products and loan types were repeatedly cited as successes. The most common additional LIM-supported benefits mentioned were the establishment of the Microfinance Association, the exchange of experience between MFIs, and the noticeable increase in field staff awareness and understanding of their mission of serving their communities. The majority (or 84 percent) of total respondents believe that the benefits experienced from the LIM Program will "likely" continue after the program ends.

If a similar program were to be funded in the future, LIM's MFI partners suggested 1) More MFI staff training, 2) More technical assistance and training for entrepreneur borrowers along with mentorship and coaching, 3) BDS-related assistance, and 4) Sharing of client credit information between MFIs.

USAID/Lebanon's Economic Growth Specialist provided her feedback, writing: "The program has achieved its targets in terms of lending activity and technical assistance. The program has gone the extra mile in creating linkages among MFIs that have resulted in the ongoing process of forming an MFI Association." For results and targets, she stated, "(IESC) Always meets and sometimes exceeds the targets set forth in the PMP, (they) have continuously been exceeded…" As for USAID investments, Ms. Helou said, "Results of the program have in certain cases exceeded expectation in terms of cost incurred. For example, lending activity has been much higher than what was anticipated … as a result of increased cost share from the MFIs." She concluded, "Overall I see IESC as a strong, capable organization with responsive staff that has been able to meet the demands of USAID."

Mid-Term Evaluation (2013/2014)
At the request of USAID's AOR (Agreement Officer's Representative), Social Impact conducted a Mid-Term External Formative Technical Review in late 2013/early 2014

The Evaluation provided ten valuable Findings and Recommendations, as follows.

1. <u>Six out of eight MFIs have achieved operational sustainability.</u>

Recommendations:

- Reduce LIM's overall subgrant funding, but target it more to under-represented beneficiaries.
- Underwrite higher risk categories of loans through USAID's Development Credit Authority (DCA).

2. <u>LIM's partners highly value the institutional level training LIM has provided their staff.</u>

Recommendations:

- MFIs could develop their own curricula and tailored training capacities
- LIM should evolve its approach to core competency trainings, toward fee-for-service basis.

3. <u>Many beneficiaries expressed the need for business development services (BDS).</u>

Recommendations:

- LIM should provide training and/or Training of Trainers (TOT) in BDS.
- LIM could develop a pilot initiative in micro franchising for youth entrepreneurs.

4. <u>LIM's beneficiaries report increased incomes, though these are hard to quantify</u>.

Recommendation:

- LIM should carefully monitor the quality of income data collected.

5. <u>New job creation as a result of LIM's investments in largely limited to loans for start-up enterprises</u>.

Recommendation:

- Establish specific targets for loans to start-ups, coupled with incentives for MFIs to move down market.

6. <u>LIM's current indicators (income generation and job creation) are inadequate to identify and track poor beneficiaries, and a lack of appropriate poverty measuring tools reduces LIM's efficacy to reach down market.</u>

Recommendation:

- Develop a Poverty Assessment Tool for Lebanon.

7. <u>Relatively low risk loans to MSMEs comprise the largest portion of the portfolio while poorer, higher risk beneficiaries are under-represented in the program portfolio.</u>

Recommendation:

- Structure future MFI sub-agreements to ensure the inclusion of closely defined, higher risk beneficiaries especially for MFIs that have achieved sustainability.
- Provide a sub-list of higher risk potential borrower categories within RFAs.

8. <u>On the whole, women benefit from LIM's program.</u>

Recommendation:

- Conduct a gender analysis for access to finance to better address constraints to women's participation as well as the non-financial impact on women.

9. <u>There is an unmet demand for savings among many of LIM's beneficiaries.</u>

Recommendation:

- LIM should promote the value of savings to MFIs and promote development of a savings culture among beneficiaries.

10. <u>Lebanon does not currently have an effective enabling environment for the microfinance sector.</u>

Recommendation:

- LIM or a post-LIM project should continue to play a leadership role in the continued development of the Microfinance Association (technical advice, advocacy).

The Mid-Term Evaluation Report was published in March 2014. The evaluation provided valuable information which was synthesized into several issues of concern including the program's Scope of Work, its reach, and its performance indicators. USAID and LIM used to this valuable feedback to make various course corrections.

The evaluation also found many areas of success during their interviews. The evaluators seemed most impressed by the successful development of the new professional Microfinance Association, saying that it "presents a significant opportunity for Lebanon's microfinance sector to mature and grow." They praised the LIM Program for catalyzing growth in the key economic sectors of small and medium enterprises, especially in providing capital for MFIs to expand into rural and other underserved communities. Another significant finding by the team concerned the staff's efforts in developing technical capacity through professional training and mentorship with the MFIs.

"LIM has enhanced the microfinance sector in Lebanon. Perhaps LIM's most significant achievement, the successful development of a professional Microfinance Association presents a significant opportunity for Lebanon's microfinance sector to mature and grow. LIM has catalyzed growth in the key economic sectors of small and medium enterprises, especially in providing capital for MFIs to expand into rural and other underserved communities. LIM has been instrumental in developing technical capacity through professional training and mentorship with the MFIs."

- *2014 Midterm Evaluation, Social Impact*

Analysis of Pre- and Post-Test Training Surveys

Throughout the program, the LIM team made a concerted effort to conduct pre- and post-training knowledge assessments to verify and quantify the degree of improvement among training participants. In total, 18 trainings incorporated pre- and post-training assessments. All of the events measured demonstrated increases in knowledge, with the average score being slightly over 95 percent. Especially notable are trainings on Marketing for MFIs and Negotiation and Communication skills, which both posted increases in average scores of over 200 percent and trainings for Basic Microfinance Skills and Delinquency Management, which posted increases above 300 percent.

Knowledge Management and Learning among MFIs

LIM made significant efforts to bring together the community of microfinance institutions in Lebanon – those partnered with the program, as well as others, and larger governmental entities such as banks. Whereas at first, some fractiousness and turf pride was noted in the relationships between MFIs, by the end of the program, eight MFIs had joined together to form the country's first Microfinance Association, sometimes termed Network.

LIM's leadership carefully organized and hosted important 1- or 2-day discussion fora as a way to facilitate and encourage MFIs to share their methodologies for loan-granting, their products and services, lessons learned, and challenges inherent in working in such a country as Lebanon with its particular security, gender, political, and logistic concerns.

Illustrative of this kind of coming-together for knowledge management and learning were at least a dozen Roundtables – both national and international – hosted under LIM auspices and aimed at fostering enhanced understandings, sharing experiences, and offering solutions to common problems among the MFI project "family". The topics included such diverse themes as:

- New technologies leveraging mobile payment systems (PinPay's "Mobile Payment Gateway")
- Creating international linkages and resources with FAST, MIX Market, and KIVA with its model crowd-sourcing interest-free loans
- Discussing microenterprise challenges and opportunities, with USAID officials and representatives of Lebanon's Central Bank
- Creating a Lebanese Microfinance Association – at least three Roundtable Discussions on this topic, leading eventually to its establishment
- Sharing a cross-lending study
- Discussing the Syrian crisis and its refugees in Lebanon – the challenges that MFIs face
- Exploring possible linkages between the Lebanese diaspora (emigrants) and local communities through the Lebanese Emigrant Research Council, LERC.
- Exploring linkages as well with the South Business Innovation Center (South BIC) in Saida
- Delving into marketing strategies
- Listening to a consultant's presentation on agribusiness value chains – challenges, crops, risk calculators
- Reviewing best practices in micro and agricultural SME finance.
- First meeting of the Board of the new Association of Microfinance Institutions, February 5, 2015, to discuss the Strategic Plan.

Many of the Roundtables had invited guests from other countries to bring an international comparative perspective (Egypt, Jordan, Poland, Canada), and from such financial institutions as the Bank of Lebanon and the World Bank. USAID's officers attended many of the discussions as did all nine MFI partners, with LIM staff as hosts.

VIII. Challenges and Solutions

As with most international development projects, and particularly those implemented in conflict or post-conflict settings, the USAID/Lebanon Investment in Microfinance Program had its challenges over the course of its six-year implementation period, 2009-2015. The key challenges are highlighted below, along with a description of how they were mitigated or overcome by the implementation team.

Challenge 1: Encouraging Cooperation among MFIs
At the start of the program, relationships among participating Lebanese MFIs were often contentious. This was due in part to some MFIs regarding each other as competitors; the differences were exacerbated by differences in size and mission of the various organizations. In the early months of the program, simply getting the leadership of the MFIs together for a training event was challenging.

Solution: Over time, and through the consistent leadership of the LIM Chief of Party, the MFIs came to regard LIM as a neutral third party that worked for their collective benefit. By slowly building trust among the MFI partners, the program was able to create an environment that not only favored sharing of information and experience, but also facilitated planning discussions about the formation of the country's first microfinance association. These initial discussions began in December 2012, when Jordanian Alaa Abbasi, a microfinance policy lawyer, explained the Jordanian model and worked interactively to provide guidance on the establishment of such an entity. The collegial discussions continued among all MFIs and LIM Program leaders right up to the official launch of the association just over two years later (January 2015).

Challenge 2: Increasing Lending to Women Borrowers
USAID consistently targeted support for women borrowers under the LIM Program. The need for increasing women's access to finance grew as the economy continued to be negatively impacted by the war in neighboring Syria, and as greater numbers of families began seeking ways to supplement their household incomes.

Solution: To increase the proportion of women clients, LIM provided specific training to MFIs to better understand and market their services to women entrepreneurs. Because these trainings involved representatives from several MFIs at the same time, loan officers were able to benefit from lessons learned by their colleagues. Several partner MFIs decided to increase the number of women loan officers to better reach potential women clients. This assistance was supplemented with ambitious, but achievable, lending requirements for loans funded by LIM grants.

Challenge 3: Adapting to the Effects of the War in Syria
When the LIM Program began in 2009, it was hard to predict the degree of volatility that would unfold across the border in Syria. The effects of the neighboring civil war impacted the LIM Program in several ways. First, field visits became difficult, particularly in 2013. At program outset, the team had planned to carry out between 15 and 20 visits per quarter (60-80 per year). In 2011, only 22 field visits were carried out and in 2012, some 47 visits were made. Then in 2013, just 16 field site visits were possible due to ongoing strife. The program rebounded in 2014, when 180 visits were accomplished despite the unrest.

Second, the program was designed to make significant use of expert international volunteers, from both IESC and sub-partner FSVC. But recruiting and mobilizing specialists proved difficult, as many international experts understandably showed reluctance in working in Lebanon during this uncertain period.

Solutions: Field visits were carried out as best as security conditions allowed. During Q2 FY15, as part of the final field visit strategy for LIM and FTF, Mr. Hassan Istaytiyyah conducted **91** field visits and collected surveys across the five regions in coordination with the LIM M&E Manager.
Second, the program relied more heavily on local and regional expert consultants, over international volunteers, to deliver targeted training and mentoring assistance to the MFI partners. Using local trainers proved to be an effective approach. The LIM team was able to source trainers with a range of Lebanese or regional expertise in response to the MFIs' identified needs. Post-training surveys showed consistent increases in participant knowledge and satisfaction. Some participants also appreciated having some sessions delivered in Arabic.

Challenge 4: Reducing Incidents of Cross-Lending
LIM began noticing a common issue among its partners: Clients were taking loans from multiple MFIs at the same time. Since most of the MFIs are NGOs registered through the Lebanese Ministry of Interior – as opposed to having a legal status as a financial institution regulated by the Central Bank -- they do not have access to the credit bureau. As a result, there was an increased risk to both MFIs and their clients of over-indebtedness and bad loans and credit among borrowers who take out loans from two or more MFIs at the same time, without the lending institution's knowledge.

Solution: LIM recognized this challenge early on. To respond, project staff organized a number of roundtable events (March 2012, and September and October of 2014) among MFI leaders and with representatives from USAID and the BDL to confront this issue in a pointed manner, and to explore possible ways of mitigating it.

One of the primary ideas explored was the feasibility of linking the MFIs to the BDL's credit registry. It is interesting that MFI leaders recognized the need for a unified voice when discussing the issue with the BDL; the issue ended up being one of the primary rallying points for the establishment of the new MFI Association. In addition, LIM advised its partners to carry out stepped-up awareness building; MFI loan officers needed to educate borrowers on the dangers of multiple loans.

IX. Conclusion and Overall Performance

The report has discussed the LIM Program's start-up in 2009 and its trajectory through two substantive phases from 2010 until project close-out in May of 2015.

The Lebanon of 2009 presents a different picture from the country in 2015. It is true that the country had had a history of foreign interventions, assassinations, and political, military, and social turmoil with weak governance for years. However, starting in 2011, less than half way through the program, a flood of more than 1.5 million political refugees from the tragic civil war in neighboring Syria began spilling over into Lebanon, causing substantial socio-economic disruption that created challenges for the microfinance program. Regional instability, including the ongoing Palestinian/Israeli conflicts (which erupted once again in 2014), the emergence and very real threats of ISIS and other hostile groups, and other geopolitical repercussions in a region so frequently caught in the cross-hairs of turmoil, not only taxed Lebanon's internal resources—water, housing, employment, health, education, and public and social services—but also threatened basic civil order. Any hard-won measures of peace and good governance are still rare and often erased by sudden retrograde events.

LIM managed to maintain a constant presence—even to grow and make impressive gains—throughout this turbulent half-decade. The program, with its local staff and consultants, support of USAID/Lebanon, committed MFI partners, and growing linkages with other national and regional entities, was able to listen carefully to its grantees and their sub-grantees. This helped it to determine changing needs and to design possible course corrections, including more directly focusing on the Lebanese poor. Responding to feedback, LIM began to offer a wider selection of training topics over time, adding management skills and other "soft" skills to the previous menu, and reducing the number of international volunteer advisors and trainers, favoring Lebanese consultants. The on-lending process began branching out from the original economic sector categories (agriculture, tourism, ICT) to add more higher-risk sector loans. Increasing numbers and frequency of dialogues and conversations, usually in the format of carefully designed roundtable discussions, focus groups, surveys, and other outreach mechanisms, promoted the growth of professional networks and synergies among financial institutions and their clientele.

"LIM provided us with funding and training. The training sessions offered us a scientific method for success. Trainings placed emphasis at the strategy and planning level to improve overall performance and productivity. As for the funding, LIM gave us the ability to expand our goals."

-Operations Coordinator, Makhzoumi Foundation

As this report demonstrates, the number of people and organizations directly touched by LIM are significant. More than 700 MFI management staff, loan officers, and staff were trained. Nearly 15,000 loans were funded. Up to 23,000 jobs were impacted, with another 3,000 newly created within families and communities of entrepreneurs.

"Through microcredit, I became an entrepreneur instead of an employee."

-ADR Client from Tyre, Southern Lebanon

These numbers suggest that the LIM Program's legacy will be felt for some time to come, despite the country's struggles with instability. The MFI sector as a whole has been significantly strengthened and professionalized. Partner MFIs have made real progress toward achieving financial sustainability, as shown in Section VI. The new MFI Association discussed in Section V will continue to serve as a forum where MFIs can share knowledge and advocate together on common interests.

LIM's legacy was built and strengthened through sustained effort from hundreds of individuals, working across dozens of organizations, all sharing ideas and leveraging resources. Their tenacity, professionalism, and ingenuity made this program as successful as it was. Although Lebanon in 2015 may look different from Lebanon in 2009, there is little doubt that the country's microfinance sector is significantly improved.

Figure 4: Word cloud of words and phrases most used in responses by MFI partners in an end-of-program survey.

X. Recommendations for Future Programs

Based on IESC's experience supporting the Lebanese MFI sector since 2009, on lessons learned from the six years of direct implementation, as well as on input received from the program's late 2013/early 2014 Mid-Term Evaluation, IESC recommends five areas of focus for future USAID support. Other recommendations were made previously in the LIM midterm evaluation; details can be found in section VII: Monitoring and Evaluation.

Recommendation 1: More Direct Support to Borrowers
Throughout Lebanon, micro and small enterprises are in need of business development services (BDS). The 2013/2014 Mid-Term Evaluation of the LIM Program cited bookkeeping and basic accounting as the areas that businesses identified as their greatest need.

However, only a few LIM partner MFIs included this service as part of their model. MFIs registered as financial institutions (such as Emkan and VITAS) are prohibited by law from doing so. As a result, Lebanese micro entrepreneurs have received additional access to credit but are not getting the training they need.

IESC recommends USAID consider expanding any future training mandate to include these and other BD services, especially to low-income and youth borrowers.

Recommendation 2: Increased Capital to New Businesses
Similarly to #1 above, most MFIs and banks do not offer loans to new businesses due to the increased risk for default posed by such clients. For many potential entrepreneurs, this lack of capital is preventing them from starting up new businesses that both provide valuable goods and services to their community and create desperately needed jobs. This is a particularly relevant in rural areas where entrepreneurship is an important tool for creating new economic opportunities where few currently exist.

IESC recommends that any future initiative put emphasis on facilitating new and increased capital offerings to new businesses.

Recommendation 3: Continued Support to the New Lebanese MFI Association
While the creation of the new MFI Association is a significant milestone that represents a serious investment of resources over time (2012-2015), the organization is still in its nascent stages. Many other assertive steps are yet to be taken towards consolidation and sustainability.

The Association will need substantial support in developing its capacity to effectively advocate on behalf of its members. The Association will also need dedicated staff, access to a full suite of administrative resources, and a financial model that can ensure its self-sufficiency.

IESC recommends robust continued institutional strengthening support and human capacity development for the new Association, to capitalize on gains already made.

Recommendation 4: Linking MFIs to Affordable, Long-Term Capital[9]

The conservative banking sector in Lebanon is awash in capital. However, commercial banks are reluctant to lend to MFIs. Without the ability to accept deposits, Lebanese MFIs are dependent on their ability to access loans and grants to grow their portfolios. Whatever rate an MFI is able to borrow from a bank, they must then lend at an even higher rate to their clients in order to cover their costs and manage their risk.

IESC recommends that future programs place an emphasis on linking MFIs to sources of affordable, long-term capital.

Recommendation 5: Youth-Oriented Entrepreneurship Training and Grants/Micro-franchising

Given a lack of business and banking experience among youth, young people face additional challenges securing traditional employment. Moreover, youth are less likely to possess their own financial resources to start up a new business. Micro-franchising provides an aspiring entrepreneur with a successful business model—often with name recognition—and an existing supplier network. Coupled with proper business development and customer service training, there is potential to create a number of sustainable livelihoods for younger individuals.

IESC seconds the recommendation made in the Mid-Term Evaluation that any future Program offer youth-oriented entrepreneurship training coupled with grants and possibilities for micro-franchising for Lebanon's youth sector.

[9] For example, DCA, and social investment funds.

Annex A: Performance Indicators

Program Indicators	LOP Target	LOP* Actual
F Indicator 4.7.1-16: Number of days of USG-funded training provided to management & staff of financial intermediaries	2,412	2,970
Custom Indicator: Number of trainees per reporting year	1,184	1,399
Custom Indicator: Number of Management and/or staff of financial intermediaries showing increase in knowledge from before to after the USG-funded training experience	713	1,003
Custom Indicator: Number of financial intermediaries showing improved performance as a result of USG-funded training to their managers and/or staff	9	9
F Indicator 4.3.2-7: Number of financial institutions receiving USG assistance in extending services to micro & small businesses	9	9
F Indicator 4.7.1-12: Total number of clients (households and/or microenterprises) benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions	12,278	14,835
Custom Indicator: Number of clients that access MFI SME loans above $5000	1,170	1,692
Custom Indicator: based on F indicator 4.5-2: Tracks number of new job positions created as it measures creation of employment in USG-assisted enterprises	2,900	3,037
Custom Indicator: Tracks number of impacted jobs (Maintained) as it measures creation of employment in USG-assisted enterprises	18,876	20,340
F Indicator 4.5.2-29: Value of agricultural and/or rural loans. Disaggregated by region, sex, sector, and age/start-up. (all sector)	$27,455,528	$35,840,744

* Trainees counted once per fiscal year, even if they attended more than one training.

Annex B: 2014 Microfinance Sector Assessment

Lebanon Investment in Microfinance

LIM Program

Lebanon Microfinance Sector Assessment 2014

Joseph Kotun

December 23, 2014

Contents

List of Acronyms

ADR	Association d'Aide au Developpement Rural (Association for the Development of Rural Capacities)
AECID	Agencia Española de Cooperación Internacional Para el Desarrollo
AEP	Association d'Entrade Professionnelle
AGFUND	Arab Gulf Programme for Development
BDL	Banque de Liban
CGAP	Consultative Group to Assist the Poor
CLD	Cooperative Libanaise pour le Developpement
DCA	(USAID) Development Credit Authority
EDF	Entrepreneurial Development Foundation
IESC	International Executive Service Corps
ICT	Information Communication Technology
IGP	(USAID) Implementation Grants Program
LIM	Lebanon Investment in Microfinance
MENA	(USAID) Middle East North Africa Bureau
MIX	Microfinance Information eXchange
MFI	Microfinance Institution
NGO	Non-Governmental Organization
PAR	Portfolio at Risk
RFA	Request for Applications
USAID	U.S. Agency for International Development
WWB	Women's World Banking

I. Executive Summary

USAID/Lebanon requested that the International Executive Service Corps (IESC) prepare a microfinance sector assessment at the end of the Lebanon Investment in Microfinance (LIM) program. The purpose of the assessment is to provide an overview of the state of the sector and inform USAID in its planning process for potential follow-on programming.

This sector assessment report focuses on the five topic areas that are specified in the scope of work document: microfinance institute (MFI) institutional capacity; 2) finance and sustainability; 3) MFI services and support; 4) client entrepreneurship needs; and 5) the Lebanon Microfinance Association. Information relevant to each topic was captured from the relevant project documents, other reports, and on-site interviews with LIM and MFI staff. The assessment report includes a section for each of the five topics with topic-based recommendations and caveats at the end of each section. In addition, the report provides a summary discussion of recommendations listed in approximate order of impact potential.

Compared with the LIM program in when it was first launched, the 2014 assessment reflects a microfinance sector that is much larger, more diverse, and largely sustainable. In addition, Lebanon's Microfinance Association has been launched as a valuable resource that will be instrumental in the future growth and maturity of the sector. USAID has been invaluable to sector development through LIM. There are clear opportunities for the Mission to make high impact investments in microfinance in any or all of the topic areas.

MFI Institutional Capacity: This section discusses technical and management competencies at both the executive/senior level and loan officer/mid-level staff levels. In general, the MFI executives have a high-level knowledge of formal finance. However, their experience and knowledge is more limited with respect to microfinance-specific technical expertise including risk management, or sector specific knowledge such as finance for agriculture. In addition, senior staff could benefit from soft skills and human resources-related training in order to better address staff-management challenges and the critical problem of recruiting and retaining mid-level staff. The LIM program has provided valuable training to loan officers in a number of core technical areas. Mid-level training such as leadership development and core management skills would be useful as well, targeted to loan officers moving into managerial positions. Continued USAID support for MFI training would have a significant impact on institutional capacity.

Finance and Sustainability: With one exception, all the MFIs have achieved operational sustainability. LIM's sub-grant funding has enabled several of them to reduce the time to reach a sustainable scale, as well as incentivizing them to focus on target groups and economic sectors. In general, access to donor capital is no longer a key constraint to continued growth. Nearly all the MFIs are experiencing consolidation and slower growth due to a combination of having achieved a sustainable scale along with Lebanon's stagnating economy and increased security concerns.

MFI Services and Support: This section includes discussion of current MFI priorities for support and possible USAID support for the sector, including a loan guarantee fund through the DCA mechanism in order to mitigate risk for increased lending to target groups. This would be useful to some of the NGO-based MFIs who are able to meet the required financial conditions. The bank-based licensed MFIs would not likely participate in the DCA as they already have access to the government-based Kafalat program that offers guarantees at more favorable terms than the DCA.

This section also includes discussion of support for introducing tablets into the field in order to improve efficiency and loan officer access to client data. Several MFIs have initiated this on their own, and all MFIs are interested, but most do not have the investment funds for implementation. Finally, the section discusses the integration of MFIs into the existing bank-based credit bureau. A countrywide study by CGAP and the Microfinance Centre is currently underway to document cross-lending and client debt, sponsored with Sanad and Sanabel. As the study is not yet completed, it is unclear whether it is a significant problem at this time. However, the credit bureau will eventually be necessary as market penetration increases, and USAID could provide technical assistance and influence to make the needed regulatory changes to enable credit information sharing by the NGO-based MFIs.

Client Entrepreneurship Needs: Given the wide diversity of MFI clients, it is difficult to generalize the needs for support in developing entrepreneurship skills. Many clients either think training would not be valuable for them or would be significantly inconvenient to participate in. However, some clients expressed a need for entrepreneurship training in topics such as accounting, marketing, and client satisfaction. Sector specific training would benefit new entrepreneurs, as well. USAID's support for client training would best be channeled through the Microfinance Association in order to help position the Association as an on-going support and to develop sector sustainability and institutional knowledge that benefits the entire sector. Client preferences and challenges should be taken into account when designing entrepreneurship training; classroom-based training is not always accessible or appropriate for all clients, especially women with household responsibilities and transportation limitations.

Lebanon Microfinance Association: The Association has become the keystone of the microfinance sector and can continue to serve as a resource for training, advocacy, research, regulatory reform, and credit information sharing. The sector would best be served if support in all areas were to be channeled through the Association as much as is appropriate. Sustainability is a key challenge for the Association, which can only be partially supported through MFI fees. Direct donor support will be required in order to retain a Director and small staff as outlined in the draft Association Business Plan. Indirect support for the Association could include funding for a training center that could be used to generate some revenue and serve as a venue for MFI training events.

Key Recommendations: The assessment report concludes with a list of potential USAID investments. High priority areas include support for the Microfinance Association, professional training for loan officers in core skills areas and for MFI executives in soft skills, and support for tablet deployment for loan officers. Support in other areas such as the DCA loan guarantee fund, client vocational and entrepreneurship training may be quite beneficial for some, but not all, MFIs.

Background

LIM Program Background: In May 2009, United States Agency for International Development (USAID), awarded Volunteers for Economic Growth Alliance (VEGA) and IESC the LIM Program. LIM was designed to assist Lebanese micro and small enterprises increase sales, create jobs, and advance economic growth through improved access to finance and to strengthen microfinance institutions' capacity for providing access to finance/microfinance services to Lebanese micro and small enterprises. The program assists micro and small enterprises by maximizing the availability of loans for borrowers in sectors and areas that have traditionally had difficulty accessing business finance. The LIM Program is funded by USAID the through Leader with Associate Cooperative Agreement number: EEM-A-00-04-00002-00 to the Volunteers for Economic Growth Alliance (VEGA), and is implemented through Associate Award number: 268-A-00-09-0003 by the International Executive Service Corps (IESC).

Assessment Methodology: The assessment is based on a desk review of relevant program documents, eight days of interviews and focus groups with LIM and MFIs, and meetings with USAID/Lebanon staff.

The following documents were included in the desk review:

- 2014 IESC MFI sub-grant application documents, financial statements and analysis
- 4th Quarter 2014 LIM Report
- 2014 MFI Client Survey (as much as is available, the survey is still in progress)
- Lebanon Microfinance Association Draft Business Plan
- 2014 LIM Mid-Term Program Evaluation (conducted by Social Impact)
- MixMarket report for Lebanon, including self-reported MFI financials
- 2010 Microfinance Sector Assessment report prepared by IESC
- 2014 Microfinance Sector Assessment Scope of Work

Information from the above documents was supplemented by on-site semi-structured interviews and focus group discussions with the following sets of interview subjects:

- CEOs/Executive Directors of all LIM partner MFIs (9)
- Client Focus groups (Makhzoumi Foundation, AEP, Al Majmoua,)
- Loan Officers, Vocational Trainers, Area Supervisors (several MFIs)
- President of the Lebanon Microfinance Association
- Technical Advisor for PlaNet Finance/Lebanon
- Technical team from CGAP engaged in a sector-wide case study of cross-lending
- USAID/Lebanon staff

II. MFI Institutional Capacity

This section discusses several aspects of institutional capacity including competencies at the senior and mid-staff levels, and building staff capacity through training.

Executive and senior-level capacity: Several themes regarding institutional capacity emerged from interviews with the MFI executives. Discussions were framed around competencies at the executive/senior management level, as well as middle management/loan officer levels. At the senior level, nearly all the MFIs self-assessed a high level of technical competence in finance and operations, mostly gained through educational and professional backgrounds in the formal financial sector. However, based on information gathered for this report, even at the senior staff level, additional exposure to and training on *micro*-finance specific skills and competencies would be useful. This would be beneficial to the sector as a whole to better pursue their stated poverty-oriented missions. Examples of useful topics include development of better pro-poor financial products, better-informed and nuanced approaches to poor loan applicants, and tracking social performance. In addition, training in sector-specific products such as agriculture would be beneficial, as well as developing better market research capabilities.

MFI executives all cited management "soft skills" as a potential area to focus on for their own professional development. The executives also discussed the challenges of recruiting, training, and retaining good quality staff at the middle management and field level as key constraints to their growth. The LIM program has provided some opportunities for training senior staff in areas such as leadership development, staff recruitment and interviewing, effective communication, and other human resources-related competencies. Nearly all the executives interviewed expressed a recognition that additional training in staff management and soft skills would be quite valuable to address critical human resources challenges as the MFI sector matures and continues to expand. Training in risk assessment and management would also be beneficial.

Loan officer and mid-level staff capacity: Capacity development at the middle management and loan officer/field staff level is a key constraint that was discussed in interviews with the MFI executives as well as with the loan officers themselves. All the MFIs have depended heavily on the loan officer training provided by the LIM program; this contribution will be missed as the program ends. Developing capacity at the middle management and loan officer level will continue to be one of the most significant challenges to the future growth and maturity of Lebanon's microfinance sector. Specific loan officer competencies that were discussed at the operational level include managing delinquencies, client relations, and, in some MFIs, basic computer skills such as Excel. Another important mid-level competency that was discussed was training-of-trainers skills development to enable field staff to better coach their clients on financial literacy and other entrepreneurship skills. In addition, while microfinance-specific technical capacity at the senior management level is generally good, improved sector knowledge is lacking at the mid-level for several of the MFIs. Specific examples include the need for better understanding of key financial indicators and ratios, improved risk assessment, and portfolio analysis.

Capacity development of mid-level and field staff will be especially critical to those MFIs that have adopted or will eventually adopt a decentralized business model to expand, better serve their clients, and improve operational efficiencies. Despite the universal recognition that mid-level training is of the highest priority, the MFIs are challenged by the considerable investment in cost and time needed to develop a high caliber cadre of loan officers and other key mid-level professional staff. USAID's support for training was discussed in nearly every MFI interview as having been a critical investment for the sector as a whole.

Training modes: Approaches to training for new loan officers vary among the MFIs. They include a mix of internal training plus supervisor or peer shadowing and classroom training provided by LIM for basic competencies such as loan applications and tracking. Several MFIs, including Al Majmoua and IBDAA have well-developed internal training programs for their loan officers, while others have relied almost entirely upon LIM for staff training. Several MFIs stated a preference for their own internal training and orientation for new loan officers, which sometimes includes a performance probation period. However, they also found it valuable to supplement their internal training and also sent loan officers to participate with LIM's training.

When asked in interviews, MFI staff generally indicated a preference for training outside their MFIs as they found value in the opportunity for sharing their ideas and experiences among peers from other institutions. This was particularly true for some loan officers who work in relatively isolated communities and do not have much opportunity for engaging with peers. There was also a general consensus among the MFI executives that they would like to see Lebanon's Microfinance Association play a facilitator role in providing training opportunities for sector capacity development

Training at the executive/senior level for most topic areas (e.g., such as soft skills and human resources training) offers the most value when done in a setting where ideas can be discussed among peers and counterparts at other MFIs. However, several MFI executives discussed the possibility of using consultant technical advisors or mentors to address challenges unique to their institutions such as development of tailored loan products, troubleshooting portfolio quality issues, developing staff incentive schemes, or developing technical capacity among their boards of directors.

MFI network resources: Sanabel[10] is a network of Arab country MFIs that has provided high quality, Arab-language trainers through LIM that have been well received. Sanabel's curriculum is best suited for mid-level staff and management. Topics include financial, institutional, strategic, and fundamental support topics; a list of courses is available on Sanabel's website.[11] Sanabel has relationships with all the MFIs, and the Microfinance Association is developing a long-term relationship with Sanabel for training and networking within the region. The SEEP network also offers technical assistance and networking opportunities, including assistance to help nascent microfinance associations.

Some individual MFIs also have additional partnerships with a number of international non-governmental organizations (NGOs) and networks. The following list of key partners includes those reported to the MixMarket and those mentioned in interviews with the MFI executives; it is not meant to be exhaustive. These relationships may include donor funding, technical assistance, training, and/or social marketing.

- **Al Majmoua:** AECID,[12] Grameen Foundation,[13] Kiva,[14] MFN,[15] PlaNIS,[16] Save the Children,[17] WWB[18]

[10] www.sanabelnetwork.org , Arab region microfinance network

[12] Agencia Española de Cooperación Internacional Para el Desarrollo (AECID; The Spanish Agency for International Development Cooperation): www.aecid.es/EN/aedid

[13] Grameen Foundation (USA NGO): www.grameenfoundation.org USA NGO

- **IBDAA:** AGFUND,[19] Arab Open University[20]
- **VITAS SAL:** Global Communities,[21] Kiva

Key Recommendations to Support Capacity Building

Based on a review of LIM's mid-term performance evaluation, IESC's 2014 sub-grant application analysis and MFI interview notes, several key areas were identified as having potential for high impact from future USAID investment. As discussed above, support for executive and senior staff training in high-level personnel management, human resources and other soft skills would improve the MFIs capacities to recruit and retain loan officers and critical mid-level staff. MFIs in Lebanon face a striking disadvantage in the labor market for mid-level professionals who are also qualified for more lucrative positions in the banks or other businesses, often in safer and more secure communities than those where MFI clients live. As a result, MFIs need to be equal or superior in HR-related capacity in order to compete for qualified loan officers and other mid-level staff. USAID could provide support for seminars and classroom training, exposure trips to other MFIs outside Lebanon, or consultants with specialist skills in key management areas. In addition, specialized training in certain sector-specific financial products such as agriculture finance would be useful to encourage lending in those areas. Most MFIs involved in agricultural lending have only one or two general agriculture products such as production or cattle. Training in market research for specific value chains would enable MFIs to tailor products to key agriculture sectors. Other important training areas include measuring and managing social performance, and developing better products and pro-poor policies.

Continued USAID support for loan officer and mid-level staff training would also have high impact on improved capacity. Limited numbers of potential qualified mid-level personnel, as well as limitations in skills and experience are among the most critical limiting factors to the future expansion and maturity of Lebanon's microfinance sector. Staff training is expensive, and donor funding would help build a cadre of microfinance professionals that can meet the current and future staffing needs. LIM's training events for new and existing loan officers have been very successful in building this capacity. Support for continued mid-level technical training could be facilitated by the Microfinance Association using the Sanabel network's curriculum and trainers, as well as local and international consultants where appropriate. The Arab Open University is another potential local training resource. It is a current partner with IBDAA that offers management courses and could provide trainers or specialized curriculum development. Other potential training resources include Grameen Jameel,[22] CGAP,[23] and the Higher Institute for Banking Studies (ISEB).[24]

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[14] Kiva (international NGO): www.kiva.org

[15] Microfinance Centre (international NGO in Poland): www.mfc.org.pl/

[16] Investment advisory business unit of PlaNet Finance: www.planetfinancegroup.org

[17] Save the Children (USA-based international NGO): www.savethechildren.org

[18] Women's World Banking (WWB – international NGO): www.womensworldbanking.org

[19] Arab Gulf Programme for Development (AGFUND - Arab states international NGO): www.agfund.org

[20] Arab Open University- Lebanon branch: www.aou.edu.lb

[21] Global Communities (international NGO, formerly CHF): www.globalcommunities.org

[22] Grameen Jameel (Research, consulting, and training resource in the MENA region associated with the Grameen network of MFIs): www.grameen-jameel.com

III. Financial Performance and Sustainability

The diversity among the institutions in size, institution type, and market niche is illustrated in Table 1. The table is intended to be illustrative of the overall sector. Please note that the data have been taken from several sources including the MFIs' self-reported data for LIM's 2014 RFA, MIX Market[25], and LIM's 2013 final quarterly report to USAID. Some data may not be precisely reconciled between sources. The majority of the MFI partners are operationally sustainable; they are able to cover all their operating costs and actual costs of funds through interest revenue. Of the MFIs below 100 per cent operational sustainability, only Association d'Entrade Professionelle (AEP) is of concern and is further discussed below.

[23] Consultative Group to Assist the Poor (CGAP): http://www.cgap.org/

[24] ISEB is a training program of the Association of Banks in Lebanon. http://www.abl.org.lb

[25] MixMarket: www.mixmarket.org/mfi/country/Lebanon

Table 1. Sector Overview of Finance and Sustainability

	ADR (Association d'Aide au Developpement Rural)	**AEP** (Association d'Entrade Professionelle)	**Al Majmoua**	**CLD** (Cooperative Libanaise pour le Developpement)	**EDF** (Entrepreneurial Development Foundation)	**EMKAN**	**IBDAA**	**Makhzoumi Foundation**	**VITAS SAL**
Total number clients	1,854	353	47,206	96	530	14,000	3,110	400	15,592 (2012)
Total Loan Volume $USD	$3,279,647	$2,566,632	$34,785,675	$2,713,281	$1,535,914	$22,239,376	$5,199,000	$1,049,098	$20,115,593
Operational Sustainability	99%	91% (2nd quarter 2013 estimate)	94%	106%	n/a	114%	46%	130% (2011)	118% (2012)
PAR> 30 days (by volume)	0%	17% (no write-off policy)	0.50%	13%	12%	3.30%	0.60%	7.2% (2011)	5.1% (2012)
Institution Type/oversight	NGO (Ministry of Interior)	NGO (Ministry of Interior)	NGO (Ministry of Interior)	Cooperative (Ministry of Agriculture)	Licensed Financial Institution (Banque du Liban [BDL])	Licensed Financial Institution (BDL)	NGO (Ministry of Interior)	NGO (Ministry of Interior)	Licensed Financial Institution (BDL)
Agricultural Lending	yes	yes	yes	yes	no	yes	yes	no	yes
Access to reserve fund finance	**no**	no	no	no	yes	yes	no	no	yes
Access to capital cited as "major constraint"	no	yes	no	yes	no	no	no	no	no

* n/a not available

In addition to USAID's sub-grant funding through the LIM program, sources of capital include local charities and international NGO donors and commercial bank loans at market or near-market rates. In addition, BDL permits commercial banks to loan up to five percent of their mandatory reserves for small loans or as institutional loans to MFIs, most often at concessional interest rates varying between two to four percent. With some exceptions, most MFIs did not consider access to capital as being one of their major constraints to growth or offering additional services. While USAID's sub-grants under LIM have been instrumental to reaching targeted people and business sectors, the microfinance sector has significantly matured, and most MFIs have diversified their sources of capital funding. In addition, Lebanon's economy has stagnated and security is also a great concern, and these realities are causing MFIs to scale back plans for expansion into new communities and take a more risk-adverse approach to lending.

Portfolio quality across the sector is mixed. The 30-day Portfolio at Risk (PAR) is a concern with several MFIs. Contributing factors may include issues at the loan officer level such as lack of oversight, need for additional training, or misplaced performance incentives. Other potential causes may include client over-indebtedness. Many MFI clients actively participated in Lebanon's large consumer credit market through banks, credit cards and vendors. In addition, MFI loan products are in some cases passed along to family members for purposes other than the business that was stated in the loan agreement. The paragraphs below summarize the financial situations of the MFIs based on information from interviews with senior executives and LIM's notes from the 2014 RFA and MixMarket data.

ADR (Association d'Aide au Developpement Rural) has been growing slowly for the past several years and will continue to exercise caution in their plans for the future. They have adequate sources of capital for their anticipated growth plans for next year. ADR's PAR>30 is excellent at less than one percent, with an efficient turnover of on-lending capital. ADR is interested in exploring some loan products for agriculture and fishermen if the risk could be mitigated through continued USAID support, including a possible loan guarantee fund.

AEP (Association d'Entrade Professionelle) depends on volunteers for much of its field staff and has remained small and dependent on USAID and other donor sources for working capital. However, it has recently demonstrated its commitment to achieving sustainability through agreeing to increase the low interest rates charged to clients. AEP's 17% PAR>30 is largely a result of a past policy to not write off long-delinquent loans. However, AEP's Board of Directors has recently agreed to implement a write-off policy for the first time. These measures will greatly improve the financial picture. AEP is Lebanon's oldest MFI, and it occupies a critical and unique market niche in exclusively serving the very poor, with much to offer the sector in its commitment to social performance.

Al Majmoua is Lebanon's largest MFI by far. It maintains its operational sustainability at or near 100 percent in order to minimize interest rates while allowing for modest growth. Al Majmoua does not currently have access to concessional loan reserve funds through a bank partnership, and most of its capital is raised through commercial loans at six to eight percent interest. Portfolio quality is reflected in a PAR>30 of less than one percent. While access to capital is not a major constraint to growth, Al Majmoua indicated that they would benefit from financial support in the form of mitigated risk for outreach to clients of particular interest to USAID. These clients include start-up entrepreneurs, vulnerable clients or communities in insecure areas, including a possible loan loss guarantee fund that assumes fifty percent or more of these higher risk loans.

CLD (Cooperative Libanaise pour le Developpement) is Lebanon's smallest MFI. CLD provides larger (typically $20,000), mostly agricultural loans to a few of the cooperative's members. CLD's capital comes from equity and commercial loans. While their PAR>30 is reported at 13 percent, the repayment rate is more than 97 percent on their portfolio, which is entirely backed by mortgages. CLD will require additional sources of capital and leverage in order to grow significantly.

EDF (Entrepreneurial Development Foundation) is an MFI that acts as an agent for two commercial banks, Credit Libanais, and FNB. Until recently, these two commercial banks have accepted all the credit risk for EDF's clients and provided all the capital, while sharing interest revenue with EDF. The unusual financial arrangement between EDF and the banks make for opaque financial analyses of the microfinance portfolio. Owing to the ample reserve funds available from EDF's partner banks, working capital is not a constraint. A loan guarantee agreement between EDF and USAID to encourage targeted expansion could be difficult to put together as it would also require approval from the banks.

EMKAN SAL was first founded as an NGO and was purchased by BankMed in 2012 to become a regulated financial institution that is a subsidiary of BankMed, which is in turn part of Lebanon's Hariri Group of companies. As a result of the merger, some current financial ratios, including the operational sustainability ratio, are not straightforward to determine; however Emkan reported a profit at the end of 2012. Emkan's PAR>30 reflects high portfolio quality. Given the size of Emkan's $22 million portfolio, USAID's $1.2 million has been critical for working capital. Emkan's CEO expressed concerns over market distortions that may result from a possible USAID guarantee fund used to encourage higher risk in their portfolio, pointing to Kafalat as a poor example, a Lebanese state-owned financial company that is providing a seventy-five percent risk share to encourage banks to move down-market to SME lending.

IBDAA was established in 2012 by AGFUND, Saudi Prince Talal's Arab Gulf Fund for Development, which has since provided more than $9 million in start-up capital, enabling rapid growth and market prominence. The forty-six percent Operational Sustainability figure reported for IBDAA reflects the high startup costs. Conservative projections show that IBDAA is likely to become operationally sustainable in 2014 as marginal costs decrease and its portfolio continues to expand. PAR>30 below one percent reflects excellent portfolio quality despite the rapid growth. Now that IBDAA is firmly established, growth is expected to slow, especially given Lebanon's recent economic downturn. However, IBDAA has expressed interest in leveraging a loan guarantee scheme for higher risk youth and start-up loans, going as far as making inquiries to USAID's MENA Regional Bureau as to the possibility.

Makhzoumi Foundation has a small portfolio of just 400 clients. Mahkzoumi co-mingles its accounting between its microfinance operations and non-financial charitable activities. As a result, it is difficult to ascertain key financial ratios including operational sustainability, self-reported at 130 percent, due in part to its lack of debt, as the founder heavily subsidizes operations through personal contributions. Portfolio quality is of some concern, with PAR>30 at more than seven percent. Makhzoumi's primary activities include vocational training, with loans offered to some program graduates.

VITAS SAL is a licensed financial institution with an outstanding portfolio of more than $20 million, with strong financials and portfolio quality, and no need for further USAID support for on-lending capital.

Key Recommendations to Support MFI Sustainability

With the exception of AEP, all LIM partner MFIs have achieved operational sustainability, or are on track to achieve operational sustainability soon. In general, USAID could provide support to encourage the MFIs to reach down-market and increase lending to key target groups. Support could come in the form of competitive innovation grants for new pro-poor product development.

AEP's poverty focus results in greater challenges given that they focus on smaller loan amounts and longer terms and have lower revenues as compared with other MFIs in Lebanon. A case can be made that additional USAID grant funding for AEP would be a sound investment in order to support the commitment that they have already made to USAID to achieve operational sustainability. This could be contingent upon a well-documented business plan that includes a combination of key elements such as increased interest rates, more effective collections, and modest growth to a sustainable scale. Ample evidence that supports the provision of additional grant funding beyond the $700,000 investment that USAID has already made (including $150,000 in recent proposed Feed the Future funding) can be found in numerous success stories from USAID's Implementation Grants Program (IGP),[26] providing the additional critical mass in capital that is often needed to grow poverty-focused MFIs to a sustainable scale.

IV. MFI Services and Support

Interviews with MFI staff included discussions of several key tools and strategies to increase client outreach and improve services. These include the use of a guarantee fund to mitigate the risk of moving down market, technology tools to improve efficiency and reduce costs, and development of a credit information bureau to improve portfolio quality and prevent client over-indebtedness.

Credit Guarantee Fund: Section IV above includes some details of how receptive the MFIs may be to the idea of USAID providing a way to limit risk for moving down market, including additional loans for start-up businesses through the provision of a credit guarantee fund. In general, most MFI executives expressed cautious optimism for the idea, with some potential caveats, including possible compliance issues with lending guidelines established with their boards of directors. In particular, concerns were raised regarding the possibility of increased exposure resulting from additional start-up loans or moving into certain communities with high security risk, even when the portfolio risk were to be mitigated by the guarantee fund. However, there are clear differences between the MFIs on this issue, with several expressing agreement that a guarantee fund would enable them to share the risk in providing additional loans to, for instance, youth and start-up entrepreneurs.

The 2010 Microfinance Sector Assessment and Mid-term Evaluation both include a brief explanation of the USAID Development Credit Authority (DCA). USAID's DCA is a tool to encourage the expansion of financial services to underserved markets through sharing the risk of loan loss by up to fifty percent. This allows MFIs to leverage private capital, move down-market or

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[26] https://www.microlinks.org/studying-past-looking-future-let-thousand-flowers-bloom-implementation-grant-program

demonstrate the viability of innovative financial products. Several financial instruments may be used under the DCA including:

- Loan guarantees for larger, single institutional loans to MFIs.
- Loan portfolio guarantees that provide partial coverage to an MFI's portfolio, or part of a portfolio.
- Portable guarantee that provides a commitment through which the borrower may use to secure more advantageous terms from a lender.

The potential of using the DCA mechanism for the MFI sector in Lebanon was discussed in the 2010 Sector Assessment. The MFIs that are regulated by the Central Bank, including EDF, EMKAN and VITAS, expressed little interest in the DCA because they have access to Kafalat, a Lebanese government program that already provides loan guarantees under terms likely to be more favorable than the DCA. One executive expressed concerns about "market distortion" resulting from a DCA-type intervention. On the other hand, however, the NGO-based MFIs that are not under bank supervision cannot accept loans or guarantees from Kafalat, and they expressed interest in DCA support, assuming they are able to meet the conditions commonly required. The DCA criteria include conditions of profitability, liquidity, audited financials, and assessments. Some of the smaller MFIs may be unable to meet these conditions. However, for the others the DCA may be a particularly useful tool to promote agricultural lending and outreach to higher risk communities. It should be noted that several MFI executives indicated that a loan guarantee such as the DCA may not, by itself, be enough incentive for significantly increasing loans for start-up businesses without additional interventions such as providing for entrepreneurship training.

Technology Tools: There is a consensus that the current technology infrastructure in Lebanon is insufficient to support mobile banking for MFIs in the way that mobile banking is implemented in other countries. In addition, there are regulatory constraints in Lebanon that prevent mobile banking even for Lebanon's commercial banks. While the situation is improving, the MFI executives all indicated that any mobile banking initiatives are not a current possibility, although this may be a possibility in the future. The IFC produced a feasibility assessment for Lebanon in 2012 that describes the current situation[27]. The MFIs are monitoring any changes in Lebanon's technology environment and some are beginning to use Cash United, a limited cash payment system, for loan payments.

However, there is great interest in adopting the use of tablet computers such as I-Pads for use in the field in order to increase efficiencies in loan applications, track payment histories and access client data. Al Majmoua has already implemented a cell phone application that, while it does not allow uploading data from the field, does allow field staff to access payment histories and client information. The application has been developed as a feature of Al Majmoua's Mifos management information system, open-sourced through the Grameen Foundation. Their experience with mobile data access is a good indication of the potential value of other similar tools for other MFIs. Al

27 http://www.ifc.org/wps/wcm/connect/12ea758043efb70295dabd869243d457/Lebanon+Scoping+Report+Public.pdf?MOD=AJPERES

Majmoua's loan officers find it invaluable and universally use it on a voluntary basis, accessing it through their own personal phones.

The use of tablet-based tools that are capable of both uploading and downloading data does face some challenges, however. Electronic signatures do not have legal acceptance in Lebanon, so loan applications still need to be signed on paper. Some areas in rural or mountainous areas also have limited phone connectivity, although this is a technical issue that can be worked around if the loan officer is able to connect and update data from the office on a regular basis. IBDAA has already deployed I-Pad technology in the field on a pilot basis and is planning for expansion. Other MFIs have also begun planning for tablet technology. The key constraint is available funding necessary for the initial investment in equipment, application development and support, and training.

Credit Information Bureau: Some MFIs have concerns about clients accessing multiple loans from different providers (including other MFIs, banks and moneylenders) leading to repayment problems for the MFI and over-indebtedness by the clients. At this time, these concerns are based on anecdotal information from field-based staff. NGO-based MFIs (see the list in Table 1 above) do not have access to the client database that is maintained and shared by the banks and regulated MFIs. The Microfinance Centre, in partnership with CGAP and the Sanabel network, has recently initiated a research study of cross-lending and client debt in Lebanon. During a presentation of the research plan, they estimated an approximate ten percent market penetration for microfinance in Lebanon. Based on similar studies in other countries, they estimate that the microfinance sector in Lebanon has reached a point where cross-lending may start to become an issue. The case study is estimated to be complete in the first quarter of 2015. Results will include estimates of the scope of cross-lending, including granular data on specific communities, and some insights as to the issues behind the problem.

As the microfinance sector continues to grow, this is sure to become an issue at some point in the future. Solutions will need to include a means of credit information sharing between all the MFIs and between the MFIs, banks and other lenders. This is a key focus area for the Microfinance Association to lead efforts to develop a credit sharing system (or to be integrated into the existing system) and promote regulatory reforms needed to allow the microfinance sector to responsibly share client information. Results from the research study will provide insight as to necessary next steps.

Key Recommendations for USAID Support to Enhance MFI Services

Post-LIM, the individual MFIs face diverse challenges to funding for on-lending capital; most do not consider access to capital to be a major constraint at all. However, most are also reluctant to accept the increased portfolio risk of significant increases in loans for start-ups, youth, and the very poor. Support through a loan guarantee fund such as the DCA mechanism that shares risk may be enough of an incentive to increase lending to these client groups for some MFIs, possibly including ADR, AEP, Al Majmoua, IBDAA, and Makhzoumi Foundation, who indicated cautious optimism. Other MFIs either would not be interested or could not accept the terms because of constraints of their commercial bank partners. As noted above, some MFIs would be unable or unwilling to increase their exposure from start-up loans even with DCA risk mitigation. Indeed, a key finding of the mid-term LIM evaluation was that USAID sub-grants intended to increase the number of start-up loans had only modest results, with some MFIs simply shifting their existing start-ups over to

LIM funding in order to meet grant targets. On the other hand, the DCA could be used in order to catalyze the growth of some MFIs' overall portfolio at a time when expansion is slowing for the sector as a whole. The value of USAID's credit guarantee support would vary widely on a case by case basis depending on the MFI.

USAID's support for field deployment of tablet technology or the wider use and integration of mobile banking applications would be well received by most of the MFIs, and would result in improved efficiencies for field staff who work long hours, as well as faster loan process times and improved client data quality. Lack of investment funding is the key constraint for most MFIs looking to use tablets in the field.

USAID could also provide support to further the eventual development of a credit-sharing bureau for MFIs. Initial opportunities for investment could include targeted follow-on studies based on the initial results by the ongoing cross-lending case study. Other opportunities for later investment could include legal and regulatory research to enable regulatory changes that allow for credit sharing, study tour exchanges to countries that have developed MFI credit bureaus, and high level technical assistance in planning an information system for the Microfinance Association.

V. Entrepreneurship Needs of MFI Clients

Information and recommendations for this section are based primarily on a limited number of client interviews and focus groups from AEP, Mahkzoumi Foundation and Al Moujmoua. A more in-depth survey is currently in progress that includes several questions regarding clients' self-reported needs for entrepreneurship skills development. However, at this time (December, 2014) approximately half the data from four MFIs has been collected, and there has not been analysis of that data beyond a basic frequency compilation. However, the survey only includes current clients, most of whom already have well-established businesses. The scope of the survey does not include questions regarding sector-specific needs for training and technical assistance. Underserved groups such as women and youth are constrained by the lack of business knowledge or experience, although the specific needs are not fully understood without further investigation.

Given the diversity of Lebanon's MFI business clients in different economic sectors and levels of business expertise and income, it is difficult to generalize the needs for support in developing entrepreneurship competencies. Information from the mid-term evaluation for the LIM program and interviews with MFI senior and field staff makes it clear that MFIs face significant challenges both real and perceived in supporting start-up businesses. While MFIs would like to increase the number of loans for start-ups in principal, in practice most limit themselves to providing start-up loans only under mitigating conditions. These conditions include clients with significant experience and employment history with a given type of enterprise, who have family working with her with the necessary experience, or have received significant training outside the MFI that provides evidence of a likelihood to succeed. Indeed, these issues are not unique to Lebanon; providing loans to start-up businesses is risky everywhere. Most MFIs do not have the resources to offer technical or vocational training, at least enough to enable a potential inexperienced entrepreneur to have a reasonable chance of starting a viable business. MFIs that do offer training services are heavily subsidized through donor funds, including Mahkzoumi Foundation, which provides comprehensive vocational training and certification for ICT, salon services, and dental hygiene technicians. Some successful graduates of these courses are eligible to receive loans to start their own businesses. ADR also provides some vocational training and start-up loans in agriculture and fishing. However, these are exceptions.

In addition to the high cost of training potential entrepreneurs to start businesses, field staff and vocational trainers from several MFIs discussed the challenge they often faced - a perceived lack of motivation by potential or new entrepreneurs to participate in training. Clients report difficulty in attending training events because of such issues as time conflicts or transportation constraints. In addition, some clients do not perceive value in entrepreneurship training, either because they already have established successful businesses or their lack of experience does not allow for recognition of the importance of certain key business skills. Based on anecdotal responses from client focus groups, it appears that clients from MFIs with well-established vocational programs such as Makhzoumi Foundation generally were more receptive to the idea of entrepreneurship training than other MFIs without such a strong training component. However, there is insufficient data to support or refute this hypothesis. In fact, the limited data from the (currently incomplete) client survey, including clients from both Makhzoumi Foundation and ADR, representing the agribusiness, ICT and tourism sectors shows a nearly unanimous negative response to a perceived need for entrepreneurial training. This observation may reflect what is to be expected from the entire data set once complete, or may be due to an issue with how the survey subjects interpreted the questions. In any case, it is clear that access to entrepreneurship training is not a universally perceived need by the MFI clients. However, it is difficult to say much more than that with the available data.

Based on interviews and focus groups with clients and MFI field staff, it is clear that there are some who would welcome, and benefit from, access to entrepreneurship training. Skill areas that were discussed include business promotion and marketing, use of social media, accounting, making business plans, and ensuring customer satisfaction. In addition, targeted skills training may be useful for particular sectors.

Key Recommendations to Support Client Capacity Development in Entrepreneurship

Several MFIs indicated that providing vocational or entrepreneurship training is outside the scope of their mission or interest. In addition, there is a broad diversity in clients' knowledge and business experience. For this reason, any support for client training in entrepreneurship would need to be designed for the unique needs of a given MFI's clientele. When designing training events or programs, careful attention will need to be made to ensure that training meets client needs and limitations, including specifically taking into account training topics, learning styles (e.g., classroom vs. experiential), culture and gender concerns, and timing and logistics needs of different target clients. Additional needs assessments will need to be made in order to ensure that training addresses the most important skills gaps faced by the different types of entrepreneurs. The Microfinance Association could serve to facilitate or sponsor entrepreneurship training, through developing its own roster of trainers or providing a venue and coordinating logistics for another training partner.

Potential entrepreneurship training and training-of-trainer resources could include the Sanabel network and local business people. Potential resources for vocational training could be Mahkzoumi Foundation, the Open Arab University, and other local vocational training centers. USAID could support partnership development between these resources and the MFIs. Other non-traditional partners could include the private sector technology players such as Microsoft and Cisco who offer technical training in Lebanon. The Chamber of Commerce may also be a resource partner for the Microfinance Association in providing experienced business people as trainers and establishing mentor relationships with MFI entrepreneurs. USAID could also provide support in the form of subsidized scholarships for vocational training for eligible people from poor communities or vulnerable groups.

VI. Lebanon Microfinance Association

The formation, development and soon-expected legal registration of Lebanon's Microfinance Association has been a key achievement of USAID's LIM program. The Association will be the keystone entity that supports the growth and maturation of Lebanon's microfinance sector by addressing the set of challenges described below.

Access to on-lending capital: The banking sector in Lebanon is advanced and has a high level of liquidity but still not providing sufficient financing to the microfinance sector. While Banque du Liban, Lebanon's central bank, now allows commercial banks to extend up to five percent of their mandatory reserve requirements for extending "small loans" to or through "small loan institutions," these resources are not available to MFIs without commercial bank partners. These funds are still inadequate for some MFIs even with bank partnerships.

Legal and regulatory framework for non-bank MFIs: The absence of a comprehensive strategy for financial inclusion and the lack of an appropriate regulatory framework for the microfinance industry create an uneven playing field between service providers with different legal forms. These factors can create market distortion and limits non-bank MFIs to offer only credit-based financial services, as a responsible legal framework does not exist for oversight of deposits or insurance. The Association will play a leadership role in promoting microfinance policy in Lebanon by advocating for an enabling legal and regulatory environment for microfinance.

Credit Information Sharing: Not all MFIs are allowed to participate in the credit information sharing managed by BDL. This can increase both the credit risk for MFIs and the risk of clients' over-indebtedness.

Reliable market data for microfinance services: With the exception of the limited market data gathered by the LIM program, there is no reliable source of market data and credit information.

Limited competition opportunity between Microfinance Institutions: Competition between MFIs in Lebanon is very limited. As a result, operations are geographically concentrated, and product diversity and innovation are inadequate and limited.

Institutional capacity development: The Association can provide MFIs with opportunities for staff training, cross-learning and professional development through pooled resources.

Social Mission: Lebanon's microfinance sector is unique in its diversity of approaches and mission focus. The Association can serve to support policies and initiatives that promote financial inclusion for the "unbankable" poor.

Key Recommendations to Support Microfinance Association Development

The Association is at a critical stage, having completed its early development and is now positioned to further grow and evolve to advocate for the sector and serve as a valuable resource for its members. The key constraint for the Microfinance Association is funding for an Executive Director and small staff as described in the draft Business Plan. Fees paid by the MFIs can provide partial, but not total support. These fees are more affordable by the large MFIs resulting in a potential imbalance in representation. USAID's support will be critical to activating the Association during its first year of activities.

VII. Conclusions and Summary of Recommendations

The mid-term evaluation of the LIM program includes a summary of achievements resulting from USAID's investment in Lebanon's microfinance sector since 2009. In general, outreach has expanded, key groups have been targeted, including women and youth, as well as the agriculture, ICT and tourism sectors. LIM has supported capacity building in the form of training loan officers in core skills as well as senior managers in soft skills. LIM has also been instrumental in the formation and development of Lebanon's Microfinance Association, which is poised to assume a critical leadership role in the continued growth of the sector. LIM's general approach to technical assistance and sub-grant funding has been more or less even-handed without discriminating between the diversity of partner MFIs. Training events have included all the MFIs, and sub-grant funding has been largely proportional to MFI size and plans for reaching targeted groups and sectors, with regard for past performance as a secondary consideration. This equanimity has contributed to the LIM program's relationship-building with the partner MFIs, as well as to the success in overcoming the sometimes difficult institutional politics that have existed among the MFIs in order to establish the Microfinance Association.

While the direction of future USAID support needs to reflect these realities, Lebanon's microfinance sector has grown and matured. Future USAID investment will have the greatest impact if microfinance program designs take a more targeted approach, taking into account the diversity of strengths and challenges among the individual MFIs. Although the missions of the MFIs are broadly similar, they vary widely when examined in closer detail. Some are focused on serving the poor, while others focus on certain communities or on economic sectors such as agriculture. The most important factors that limit growth and development of one MFI are different from those faced by another. Future USAID microfinance programming should take into account this diversity and seek to address the key constraints faced by individual MFIs to the degree possible, through targeted support mechanisms. The recommendations that are discussed at the end of each section above include both positive and negative considerations that reflect the differences between the MFIs. A well-designed program would take the sector's diversity into account with different "packages" of support based on need and potential for impact, while at the same time each MFI would benefit from USAID's continued support for the nascent Microfinance Association and its crucial role in maintaining cohesiveness necessary for continued sector development.

Due to these diversity considerations, prioritizing overall recommendations for the development of the overall sector rather than the individual MFIs is a challenge. However, the following recommendations are in approximate order reflecting common constraints and opportunities.

1. **Support for the Microfinance Association:** In general, support for training and technical assistance that could benefit multiple MFIs should be channeled through the Microfinance Association as much as possible in order to develop an institutional memory and build a sustainable resource. In order to be a viable resource, the Association will require direct

donor funding. This should include an Executive Director and small staff as detailed in the Association's draft Business Plan. Although the MFIs can partially support the Association through fees, they are insufficient for sustainable funding. There may be some opportunities for revenue generation, but similar national microfinance associations in other countries also depend on donor subsidies, particularly in the early years. USAID funding in the critical first years of operation would be invaluable and would serve to consolidate the LIM program's achievements.

2. **Microfinance Association training center:** Support for a training center associated with the Microfinance Association would help to develop the Association and would provide a means of revenue generation through training events for the MFIs as well as through facility rental for outside groups. The center could include a training classroom(s), computer facilities that could serve multiple purposes and a kitchen/small conference amenities.
3. **Support for continued loan officer and mid-level staff training:** Loan officer training addresses one of the most important constraints faced by the MFIs. Training through LIM is recognized as high quality, and continued support for training loan officers and mid-level staff would be instrumental in sector growth as well as developing a professional cadre of microfinance professionals in Lebanon.
4. **Executive and senior-level staff professional development:** In order to address the common and critical challenge of recruiting and retaining high quality staff, USAID could continue to support soft skills training at the executive and senior levels in human resource-related topic areas including risk management and market research. The training events that LIM facilitated were well received. Future support would be best implemented through the development of an overall training plan based on key MFI needs.
5. **Support for client entrepreneurship training:** Client demand for entrepreneurship training is unclear, with mixed responses in LIM's 2014 client survey that do not support the anecdotal information from client interviews and focus groups. The apparent discrepancy may be due to client perception of training as limited to classroom events that are inconvenient to many clients, especially women with household responsibilities in addition to their businesses. MFI loan officers and field staff strongly support the value of entrepreneurship training for their clients. Despite the mixed opinions, USAID's support for targeted client training would be beneficial to those clients who chose and are able to participate. Lebanon's economy is well developed, and the markets where MFI clients work are relatively complex: MFI clients cannot be reasonably expected to learn business skills entirely through trial and error alone. It would be useful to re-think entrepreneurship training design outside the traditional classroom methods, which are not always appropriate. Alternative methods could include community-based opportunities with shorter sessions that require only minimal transportation and other logistic on the household front and do not require closing the business, which many small entrepreneurs need to do to attend a longer session. MFI loan officers would be excellent sources of advice for planning alternative training events.
6. **Client vocational training:** While costly, USAID could provide support for vocational training for MFI clients or potential clients in targeted groups. Makhzoumi Foundation's vocational program is an impressive example of the potential for unemployed youth and women. Support could include providing scholarships for clients from other MFIs as a

means of supporting start-up businesses for well-qualified training participants. Other potential partners for vocational training include the Arab Open University, other existing trade schools, and the Chamber of Commerce. ADR and IBDAA offer limited vocational training as well, based on limited funding, and they and their clients would benefit from USAID support.

7. **Support for technology tools:** All the MFIs have expressed a strong interest in the use of electronic tablets or broader mobile banking initiatives to improve efficiencies and access to client data in the field. Support for pilot initiatives and/or scale up would provide the investment funds necessary and would result in measurable impact.
8. **Loan Guarantee Fund through the DCA mechanism:** As discussed above in Section V, participation in a DCA agreement would be beneficial to some but not all MFIs. Those likely to participate would include the NGO-based MFIs who are able to meet the financial criteria. These MFIs would be able to leverage their capital for faster expansion of their overall portfolio. What is less certain is whether a loan guarantee would provide adequate incentive to move down-market or encourage lending for start-up entrepreneurs and other target groups.
9. **Continued grant funding for AEP:** AEP is unique in Lebanon's microfinance community in its focus on poverty, and it demonstrates strong social performance. For this reason, it plays an important role in the sector, acting as an ethical compass to maintain a focus on poverty more than most MFIs. Unfortunately, AEP's financial performance has been mediocre at best when compared with other LIM partners. USAID has indicated a reluctance to continued grants for targeted on-lending, while AEP has a clear need for continued grant support in order to reach a sustainable scale. They have recently implemented some critical changes including adoption of a coherent write-off policy and increased interest rates that are more in line with other MFIs. These, as well as other changes, should result in a rapid improvement of AED's financial picture. Given their important position in the sector, a case can be made for continued support on a limited basis, contingent on reaching financial targets including portfolio quality and sustainability.
10. **Support for MFI credit information sharing:** The NGO-based MFIs will eventually need to be able to share client credit information. The Microfinance Centre's ongoing research in cross-lending will provide valuable details of the scope of the issue, along with insights for addressing it. USAID could provide valuable technical support and influence necessary for regulatory changes that need to be made in order to allow non-bank MFIs to access the banks' data or develop an alternative system.

Annex C: LIM Case Study

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Strengthening Lebanon's Economy by Supporting Women Entrepreneurs

Funded by the United States Agency for International Development and implemented by the International Executive Service Corps, under a Leader with Associate Award from the Volunteers for Economic Growth Alliance

USAID | LEBANON FROM THE AMERICAN PEOPLE

IESC Prosperity & Stability through Private Enterprise

Lebanon VEGA Investment in Microfinance Volunteers for Economic Growth Alliance

By: James Dailey
April 2015

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Association for the Development of Rural Capacities (ADR)

Association D'entraide Professionnelle (AEP)

Al Majmoua

Cooperative Libanaise Pour le Developpement (CLD)

Entrepreneurial Development Foundation (EDF)

Emkan

Ibda'a

Makhzoumi Foundation

Vitas

"As a university seat and medical center, as the capital of Arab publishing and journalism, as a transit port and airline hub, and as a market and clearinghouse for every kind of commercial and banking transaction, from the most ordinary to the most dubious, Beirut fulfilled a great many functions that went beyond the frontiers of the Republic of Lebanon. In exchange for these services it was paid in the form of currency—every currency in the world."

- Samir Kassir, prominent Lebanese professor and journalist

In the 1950s and 1960s, German photographer F.C. Gundlach captured the wealth and optimism of Beirut—and the unprecedented freedom of Lebanese women—in his fashion photography featuring women dressed in thoroughly modern styles.

Lebanon's economy was a regional powerhouse, growing at an average annual rate of 7 percent from the 1940s to the 1970s. The country had laissez-faire economic policies and foreign investors, particularly those of the newly wealthy, oil-rich gulf states, flooded the country with capital.

War cut this "golden age" short. Beginning in the late 1970s and for 20 years thereafter, a bloody civil war devastated the country. While reconstruction restored many areas, Lebanon never fully regained its prewar status or its powerhouse regional economy.

THE ROLE OF WOMEN IN A STRUGGLING ECONOMY

This case study focuses on the experiences of nine Lebanese microfinance institutions (MFIs) who partnered with the Lebanon Investment in Microfinance (LIM) Program to improve women's access to finance in Lebanon.

Lebanon has been hit hard by recent security and population challenges brought on by the global economic crisis of 2008 and the ongoing conflict in neighboring Syria. Starting in 2011, the economy slowed noticeably; in 2013, GDP grew at approximately 0.9 percent, the lowest since 1999.[1]

The impact of Syria's civil war is enormous; one in four people in Lebanon is a Syrian refugee.[2] The refugee crisis has particularly affected rural workers, and many agribusiness owners prefer to hire Syrian laborers, who work for half the price of their Lebanese counterparts.[3] Economists expect an additional 170,000 Lebanese nationals to fall into poverty, adding to the one million already impoverished.[4]

> "Empowering women is not only the right thing to do - it makes economic sense."
> - *Christine Lagarde, managing director of the International Monetary Fund*

In the face of such economic instability, Lebanese families are seeking ways to cope and adapt to changing circumstances. For many Lebanese women, who have traditionally focused on home and family, this means seeking ways to supplement their husbands' or families' incomes. Women make up less than 25 percent of the Lebanese labor force, and entrepreneurship rates among women are even lower. Still, for women without a formal work history seeking employment for the first time, entrepreneurship is often their best option.[5]

A borrower in the LIM Program stocks the shelves of her shop.

Supporting women in entrepreneurship can have a big impact on poverty and help to stabilize a struggling economy. Christine Lagarde, head of the International Monetary Fund, said, "The benefits of greater inclusion are clear—not just for women but for all of us. We know that eliminating gender gaps in labor force participation can lead to big increases in income per capita."[6]

While the nationwide gender gap in employment is substantial, women's participation in the economy can vary significantly across Lebanon's 18 officially recognized religious sects, given different degrees of freedoms afforded to women within those traditions. Ultimately, the vast majority of women in Lebanon, regardless of sect, do not have the same rights as men and have limited freedom in a patriarchal society.[7]

ACCESS TO FINANCE

The challenges that impede women entrepreneurs are numerous and complex. The USAID-funded Lebanon Investment in Microfinance (LIM) Program worked with microfinance institutions (MFIs) and, by extension, their borrowers. This case study focuses on the issue of women's access to finance in Lebanon.

Loan collateral is a principle hurdle. Although women have the legal right to own property, many do not due to social pressure. In rural areas in particular, women typically live with their parents until marriage. When a married couple purchases a home, the property is commonly listed in the husband's name. Consequently, even if the wife contributed financially to the purchase of the home, she cannot leverage the house as collateral if the husband is not supportive of the loan.[8]

A woman received a loan from a LIM-supported microfinance institution and turned her embroidery skills into a business.

Another hurdle is finding a guarantor. LIM partners and clients frequently identified this as a constraint: many women are unable to find someone willing to guarantee loans. Particularly in rural areas, women are expected to assume the role of homemaker, and families and spouses are often reluctant to support women who aspire to something different. Furthermore, women are dissuaded from leaving unsupportive marriages, and the conservative religious tribunals that are responsible for divorce proceedings commonly favor husbands. A study by Human Rights Watch revealed that 85 percent of Lebanese women avoided divorce for fear of its financial impact on their lives.[9]

Our own survey of MFIs and women borrowers found that women entrepreneurs are also hindered by a lack of confidence. The result of an upbringing in which family and community downplay capabilities and abilities not related to the domestic sphere and discourages risk-taking, women entrepreneurs doubt their ability to achieve their business and professional goals.

Women who rise above these constraints and persist in launching a business face continuing challenges. In regions where men are considered head of household, husbands take the profits from their wives' businesses, thwarting reinvestment and stunting business growth. In addition, societal norms that assign household duties disproportionately to women means that there is little time left for business endeavors. Woman-owned businesses may also face problems with supply, as some vendors are hesitant or refuse to do business with women.

This salon is owned and operated by a woman who received a loan from a LIM Program partner MFI.

But the current economic situation in Lebanon is pushing more women into the workforce and into entrepreneurial roles. "As a result of the [struggling] economy, women are starting businesses to support their families. This has added [an income generation] responsibility on women in addition to their family responsibilities," said a loan officer at one of the LIM Program's partner MFIs.

THE PROGRAM

From 2009 to 2015, the LIM Program worked directly with MFIs in Lebanon. LIM competitively selected MFI partners based on a number of criteria, including commitment to financial sustainability and ability to lend to multiple regions, sectors and demographic profiles. The grant funds were used for loans that target specific borrower groups, particularly women and youth. Loans payments were "recycled" to fund new loans, thus leveraging and increasing the impact of the original grant. MFI partners were required to use LIM funds in rural areas and had to meet targets for women borrowers. The program combined the grants with targeted technical assistance to MFIs, promoting microfinance best practices, industry cohesion and networking, and new product development.

One of the many LIM training events for MFI staff focused on time management, supervisory skills, and life coaching.

During the six-year program, $9.5 million dollars in grants were recycled to facilitate 14,000 loans with a total value of $32.5 million. These loans helped create 3,000 new jobs and sustained 20,000 more. Among these, 6,000 loans, or 42.9 percent, went to women-owned businesses. These loans to women totaled $11 million, or 33.8 percent. Women assumed 1,900 (63.3 percent) of the new jobs and held 9,000 (45 percent) of the sustained jobs.

APPROACH: RISK CAPITAL AND TECHNICAL ASSISTANCE

Financial capital assistance to partner MFIs was tied to strict performance targets and reporting requirements. Based on an MFI's existing rate of lending to women borrowers, LIM assigned reasonable, yet ambitious target requirements, ranging from 15 percent to 40 percent women beneficiaries, depending on existing capabilities and the experience of the MFI. In our survey of partner MFI managers and staff, these ambitious, yet attainable targets were cited as key to growing their MFI's portfolio of women borrowers

"[LIM] targeted women and linked it to funding and this pushed us as MFIs to work with women and look for women borrowers."
- MFI Field Officer

This strategy had a compound effect in growing the number of women borrowers. Because capital grants helped MFIs move outside their comfort zones and market loans to women, MFIs developed better strategies for reaching women. To address the difficulty of finding women clients—many women operate solely out of their homes—loan officers worked to find potential clients through existing women clients. "[We] network and ask our women borrowers to introduce us to more women with businesses and ask them to speak to other women about their experience with microfinance." Consequently, the more women clients in an MFI's portfolio, the easier it became to find new ones.

MFIs generally prefer to operate in large urban areas such as Beirut—denser populations provide access to larger markets with short travel times between clients. However, the LIM Program required that MFIs disburse loans to rural and peri-urban areas. With support provided by the risk capital, the MFIs felt they could do so. Over several years, this push helped LIM-assisted MFIs gain collective coverage over all regions of the country, including rural areas. As the Syrian conflict escalated and the flood of refugees increased, the need to support rural regions became more important.

"[We] were able to open an office in the Baalbeck area, the capital of the rural and agricultural area, and this was a result of LIM." Baalbeck is located in the Beqaa region of Lebanon, a border area that alone holds over 400,000 Syrian refugees.[1]
- MFI Loan Officer

The second element of the LIM Program's approach was capacity building—bolstering the skills of microfinance professionals and institutions to improve service quality and delivery. During the assistance period, LIM trained MFIs and their loan officers on how best to reach and serve women and encouraged them to hire more women, including loan officers, who can make potential women borrowers more comfortable discussing their financial and business needs. LIM conducted trainings on developing loan products for women's groups and on women's empowerment and confidence building. LIM also sponsored MFI management attendance at global learning events, such as the Women's World Banking Conference.

"[LIM] helped women access loans by protecting them, by building awareness and support for the sector, and by supporting collaboration among MFIs. This resulted in better performance. We spoke openly with [other MFIs] and discussed difficulties and problems and this allows us to provide better services for our clients."

- MFI General Manager

Some institutions already had successful loan products for women. MFI partner Al Majmoua has a group loan product where three or more women take out one loan and divide payments among them. This loan requires no collateral or guarantor, but relies on the social cohesion and accountability of the borrowers to "guarantee" the loan.

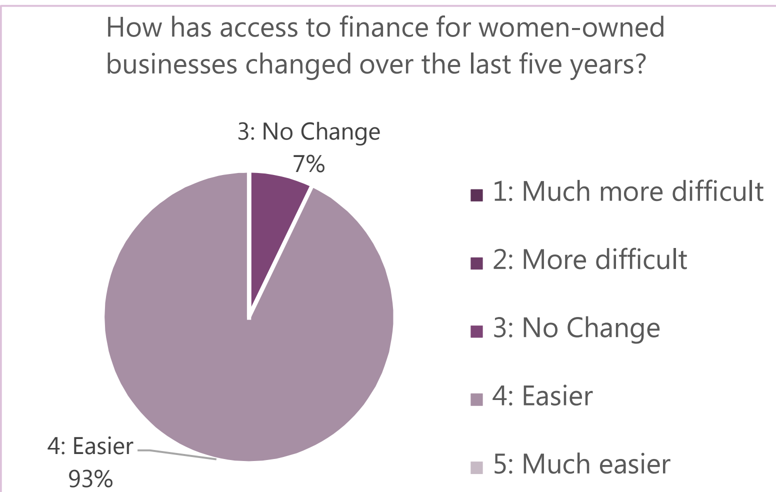
Capacity building and financial incentives fostered a creative environment in which MFIs could develop innovative products for women. "Trainings by LIM brought the loan officers from all the MFIs together, and this helped us to share experiences, learn from each other, and better serve our clients," said one loan officer who attended trainings.

The LIM Program held a total of 35 different training events for MFI staff.

THE MFI RESPONSE

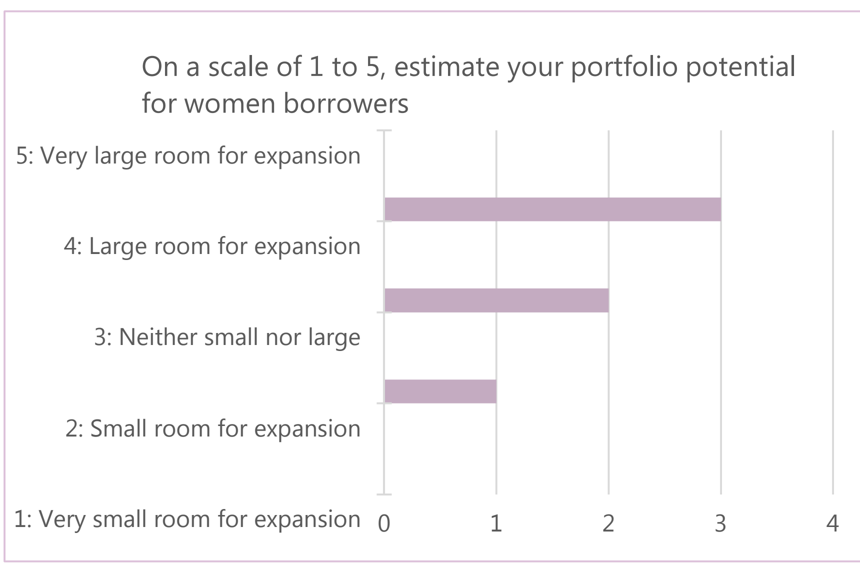
The LIM Program strengthened the Lebanese microfinance industry and reduced financial constraints that impede women's entrepreneurship. LIM left behind more robust lending institutions with more women borrowers from diverse regions in their portfolios, a national microfinance association, and tangibly improved livelihoods for women borrowers. These efforts make it easier for women to access finance, grow their businesses, and participate in the economy. If the assisted partners continue on this path, the influx of successful women-owned businesses will strengthen Lebanon's economy at the macro level.

"The MFIs in Lebanon cover only 17 percent of [potential] women clients. There is still a big market…"
– Operations Officer



Our survey revealed that 93 percent of MFI staff believe that it has become *easier* for women to access finance over the past five years. Targeted marketing campaigns and increased capacity to finance women-owned businesses helped make this possible. A telling result is that many MFIs, particularly the smaller ones, now see women as a key component of a healthy portfolio and have incorporated this into their business strategy, citing women clients as vital to growing their portfolio today and in the future.

Looking beyond the LIM Program, many MFIs are now setting their own, higher growth targets for women lending. One institution reported that they are aiming for 60 percent women borrowers in their portfolio, a 15 percent increase. Another



MFI stated that increasing the number of women borrowers "is not an opportunity, but an objective." When LIM began, their clients were 23 percent women; now they are 32 percent, with 50 percent as a potential goal. Still another MFI hopes to increase the institution's portfolio from 54 to 60 percent women. Finally, another institution said that over the course of 15 years, they have gone from 5 percent women borrowers to more than 30 percent. It is clear from MFI staff that lending to women is a priority.

Three MFI executives and managers also agreed that the potential for growing their portfolio of women borrowers was "large." The one executive who chose "small" stated that the overall economic conditions in the country inhibit the ability to incorporate more women into their portfolio.

"Economically empowered women are major catalysts for development, as they usually re-invest money in their children's health, nutrition, and education. Reducing gender inequality in resources and improving the status of women is thus "smart economics."

- IFC Report[xii]

As part of the survey of borrowers, the program had in-depth conversations with some of the women about their experiences with microcredit and their businesses. All of the women started their businesses out of necessity. The MFIs enabled them to start or grow their businesses, increase income and sales, and provide for their families, whether by supplementing their husbands' income, as the sole source of income for their families, or by contributing additional income for their parents and siblings. Interestingly, each borrower with children specifically mentioned paying for their children's education as an essential goal of business ownership. This is in line with what we know about economically-empowered women: they are more likely than men to invest in their children, their education, and their future.[10] Helping women generate additional income creates a compound effect, improving livelihoods and opportunities for the next generation.

Finally, a critically important result of our survey of women borrowers is the change in how women feel about themselves when owning a business. All of the women stated that owning a business made them feel more confident in their daily lives and more empowered in family and community dynamics.

The Power of Confidence

"[I have] a more positive attitude... [allowing me to] raise my family in a better manner and prepare them for a better life..."

"I have more cash and feel independent...In my community [I] am more productive and this gives me more power."

"Confidence gains the respect of [my] family and community..."

- Women Borrowers in the LIM Program

Confident and successful women are inspiring role models for their children and for other women in the community, particularly youth. By removing the finance constraint, our MFI partners also helped to remove the confidence constraint. More women will see that they too can participate in the economy. The more entrepreneurial and financially successful women in Lebanon there are, the better the national economy.

Below we present the stories of two MFI loan recipients. Their stories show, first-hand, the complex issues women face in earning a living and supporting their families. MFI loans were instrumental to their success as business owners.

OMAYA

23 years ago, I had my first daughter. She was very sick, so I took her to all the doctors in my area, but they were unable to diagnose her. When I took her to a medical center in Beirut, I learned she had a chronic blood disease, Thalassemia. At the time, I was living with my husband in a small, basic house, with only building blocks for walls and no pavement or paint. We were very poor, and my husband was not supportive.

Omaya received a loan from Vitas to open a store

I began borrowing money from others and purchased a weaving machine. I sewed clothes and received my first loan from an informal vendor at 10 percent interest per month.

I still was not making the money needed to treat my daughter or support my family, so I began selling bread as well from my home. After a year, I took out my first loan from Vitas. I expanded my business, bought a dough machine, an oven and wholesale flour at wholesale prices.

All along, my goal was to afford proper treatment for my daughter. I spent nights treating her via syringe every hour, because I could not afford the medical equipment. My daughter also needed weekly blood transfusions and although my income was increasing, I still could not afford the expensive treatments.

After five years, I took a $5,000 loan and rented five shops – three for clothing and two for baking. My income increased and I was able to build a new house for my family.

My last loan was for $15,000 and I used it to help finance a bone marrow transplant for my daughter. This treatment gave my daughter a normal life. I was able to educate my children—both daughters are now university graduates and my son is in school.

For those who have no support, especially women, MFIs are a reliable source of financing to create and improve businesses and improve livelihoods.

ZAHRA

My husband is a schoolteacher and his income was not sufficient to sustain our family of eight children. I needed to work as well, so I started my own business selling flowers and making flower arrangements. For capital, I took a $1,500 loan from ADR, which allowed me to open my shop. After paying my first loan back, I took another loan from ADR to expand my business.

Later on, I took a larger $6,000 loan and opened up an additional shop for Egyptian artwork. After three years, I was able to stop renting store space and built my own facilities using profits from my businesses. When I moved to the new facilities, I requested an additional $5,000 loan from ADR. I used it to open two more stores—one for clothing and another for glassware.

Zahra, a former ADR client, in her Egyptian arts store

I now have five shops in total, all of which stemmed from my first $1,500 loan from ADR. I am completely financially independent, and I never needed to ask for money from my family, even my husband. With the revenue from my five businesses, I increased my family's income, improved our livelihood, and provided my children with the opportunity to succeed. My three daughters are all university graduates, and my five sons are all gainfully employed, one even owns his own business.

LOOKING FORWARD

The LIM Program's MFI partners have advanced considerably since 2009. Many have developed new products, all have worked to increase lending to women, and most recently, all have agreed to share best practices and unite under an umbrella organization. In 2015 the Association of Microfinance Institutions in Lebanon was formally established.

Looking ahead, the MFIs indicated that a business development services initiative for women could increase women's entrepreneurship significantly and should be a key component of any follow-on assistance. With business development services, women borrowers could receive assistance with the development of business plans as well as marketing and technical training, all of which would make them not only more bankable, but also more effective in business.

Several MFIs indicated a desire for additional grant funding and wholesale lending through guarantees that are tied to reaching even more challenging lending targets. Most MFIs have a desire to increase women lending to even higher levels, but still want a bit of a push to get there.

Another future intervention could be to improve access to start-up loans by developing a specific product for first-time business owners or reducing the requirements for prior experience. This would particularly encourage and benefit youth entrepreneurs.

The newly formed Association of Microfinance Institution in Lebanon would be a great sponsor to bring together organizations and regional MFIs to share best practices in women-owned business lending and business development services. The association will ideally serve as a

A SUMMARY OF LESSONS LEARNED

- Risk capital allows MFIs to take more of a risk on women and expand their portfolios, particularly to rural women;
- Staff training on how to market and listen to the needs of women borrowers is key;
- MFI staff must understand women's roles in the household and business and design products around those needs, e.g. education loans or emergency loans;
- Create policies and operational models that fit the situation of women, e.g. lack of collateral;
- Hire, nurture, and promote more women staff, particularly loan officers;
- From a strategic perspective, see women as a true business opportunity, good for growth, and good for the portfolio quality;
- Increase accessibility to start-up loans, which often go to youth entrepreneurs;
- Set targets for women borrowers as for anything else—communicate those targets, measure them, report on them, and reward for targets met;
- Next steps:
    - More industry sharing and best practices
    - More business development services for the clients
    - More capital to help grow women's portfolio, but maybe more focused on commercial capital, not grants.

rallying point for MFIs to protect and cultivate the industry, which will reduce lending risk. LIM was successful in assisting MFIs to target more women because the MFI partners gave considerable buy-in, which was fostered by a program that responded to their needs while encouraging better performance.

[1] http://www.worldbank.org/content/dam/Worldbank/document/MNA/Mashreq/LEM_Spring_2014.pdf
[2] http://data.unhcr.org/syrianrefugees/country.php?id=122
[3] http://www.worldbank.org/en/news/feature/2013/09/24/lebanon-bears-the-brunt-of-the-economic-and-social-spillovers-of-the-syrian-conflict
[4] http://www.worldbank.org/en/news/feature/2013/09/24/lebanon-bears-the-brunt-of-the-economic-and-social-spillovers-of-the-syrian-conflict
[5] Constraints and opportunities facing women entrepreneurs in developing countries: A relational perspective
[6] http://www.emergingmarkets.org/Article/3389107/CHRISTINE-LAGARDE-Empowering-women-is-not-only-the-right-thing-to-doit-makes-economic-sense.html
[7] http://www.mediterraneas.org/article.php3?id_article=84
[8] https://freedomhouse.org/sites/default/files/inline_images/Lebanon.pdf
[9] http://www.hrw.org/news/2015/01/19/lebanon-laws-discriminate-against-women
[10]http://www.ifc.org/wps/wcm/connect/a4774a004a3f66539f0f9f8969adcc27/G20_Women_Report.pdf?MOD=AJPERES

Annex D: Further Financial Analysis of LIM Partner MFIs

The LIM Program commenced in 2009 and closed in May 2015. During that six year period, nine microfinance institutions participated in the program, of which three large institutions (Al Majmoua, Emkan Finance and Vitas Lebanon), one medium-sized institution (Ibdaa) and five smaller MFIs (CLD, ADR, AEP, Makhzoumi Foundation and EDF). The LIM partners participated in five successive rounds of LIM funding, of which Round IV also included a Feed the Future (FTF) component.

Table 1 below provides a summary of the main aggregates for all of the LIM partners during the life of the LIM Program. Lending under the LIM Program is measured by the numbers of loans and aggregate values of loans disbursed during the life of the program. In the early years, the impact of the LIM Program was modest, but in 2014 the number of LIM borrowers was 5.5 percent of the total number of active borrowers of our LIM partners.

Table 1: Aggregates of all LIM partners

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	$ 34,055	$ 44,623	$ 55,296	$ 81,885	$100,847	$125,002
Total net loan portfolio	$ 39,544	$ 46,563	$ 62,207	$ 77,972	$ 93,566	$115,228
Net Assets (Assets minus Liabilities)	$ 25,289	$ 28,841	$ 30,604	$ 36,510	$ 44,157	$ 53,477
Net income	$ 3,293	$ 2,369	$ 4,393	$ 2,947	$ 4,139	$ 6,060
Other aggregates	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Total active borrowers (number)	39,293	46,209	55,666	72,125	81,715	90,881
LIM annual disbursements (value $000s)	$ 1,091	$ 1,897	$ 5,179	$ 6,682	$ 9,120	$13,367
LIM disbursements (numbers of loans)	666	740	2,420	2,876	3,631	4,686
LIM borrowers / total borrowers (%)	1.7%	1.6%	4.4%	4.0%	4.4%	5.5%

These statistics show a steady growth in total assets, total net loan portfolio and net assets, but in 2009 and 2010 there were only three LIM partners [Al Majmoua, Vitas (then known as Ameen) and ADR]. Subsequently six additional partners joined the LIM Program as it expanded in scope gradually during the years 2011 and 2012. In 2013, 2014 and 2015 all nine partners participated actively in the LIM Program.

Table 2 below provides basic information about our LIM partners. All are not-for-profit institutions, but four are NGOs, two are finance companies and the others are a cooperative, a company and a foundation.

Table 2: LIM Partners - Basic information - Ranked by net loan portfolio size (end-2014)

#		Type	Year founded	Size	Regulated?	Entry to LIM
1	Al Majmoua	NGO	1998	Large	Self-regulated	2009
2	Emkan Finance SRL	Finance company	2008	Large	Regulated	2010
3	Vitas Lebanon	Finance company	1999	Large	Regulated	2009
4	Ibdaa	Joint-stock company	2012	Medium	Self-regulated	2014
5	CLD	Cooperative	1992	Small	Unregulated	2011
6	ADR	NGO	1998	Small	Self-regulated	2009
7	AEP	NGO	1984	Small	Unregulated	2011
8	EDF	NGO	1999	Small	Unregulated	2012
9	Makhzoumi Foundation	Foundation	1997	Small	Self-regulated	2011

Our LIM partners work actively with commercial banks to increase their outreach, but they do this in different ways as described below.

Al Majmoua conducts its MFI lending operations through its extensive network of 22 own branches and its 180 Loan Officers. However it has arrangements with several commercial banks through which its customers can receive disbursements and make their monthly repayments.

Emkan Finance SRL is the regulated finance company that took over the microfinance activities of the Emkan NGO. Emkan Finance is 100% owned by Bank Med which is the commercial bank of the Hariri Group. So far Emkan Finance has funded its microfinance portfolio entirely from its capital funds and by way of credit lines from Bank Med. However we have encouraged Emkan to diversify its sources of funding to other banks in the years ahead.

Vitas SAL is a regulated finance company that operates actively with two partner banks, namely Jammal Trust Bank and Credit Libanais, under a guarantee arrangement with OPIC. Vitas has discontinued its former arrangement with Fransabank. As of end-2014 Vitas had around $10 million of its loans on the books of its two partner banks, on which it assumes the credit risk, and $14 million on its own books, managed by Loan Officers in its own two branches.

Ibdaa is one of several MFIs and banks in the Middle East that is managed by AGFUND. Ibdaa has opened 6 branches so far in Lebanon, employing 48 Loan Officers, but it also works closely with several Lebanese banks.

CLD is a cooperative with a very small staff complement. However it has negotiated lines of credit with three local banks, namely Byblos Bank, Banque de l'Industrie at Travail (BIT) and Banque Libanaise Française. Although CLD only has one office, the cooperative relies on voluntary assistance from senior staff of its three funding banks who conduct the credit reviews.

ADR is an NGO whose President is a Senior Director at Banque du Liban. ADR only has six offices, but it has a close relationship with BLC Bank and Bank Audi which have provided lines of credit to ADR under a Banque du Liban subsidized loan program for MSMEs.

AEP works with five banks, namely Bank Med, Banque Libanaise Française, Fransbank, Bank of Beirut and the Arab Countries and New Bank of Syria and Lebanon. The outlets of AEP are hosted free of charge by these banks and by other NGOs where AEP operates (10 offices in all). However AEP does not borrow from these banks except for a small loan from BLF under a Banque du Liban soft loan program (similar to ADR's arrangement).

Makhzoumi Foundation does not borrow from banks, but operates through 7 customer service counters in the offices of Blom Bank and OMT (On-line Money Transfer).

EDF is a small not-for-profit NGO that has an arrangement with Credit Libanais under a subsidized loan program with the Banque du Liban. Under that arrangement Credit Libanais lends to MSMEs identified by EDF using its compulsory reserves with the Banque du Liban. Until October 2014 the bank took the entire credit risk but from November 2014 onwards it has been sharing the credit risk 50/50 on new loans contracted with EDF.

An objective of the LIM Program has been to encourage our partners to work as much as possible with women, so as to increase their gender outreach. The following figures for the year 2014 indicate that several of our partners have had more success than others. Notably Ibdaa has specifically focused on lending to women (77 percent) while Al Majmoua (55 percent) and Makhzoumi (50 percent) have also done well. CLD is low because it focuses primarily on lending for agriculture and livestock, where women are less prominent. Emkan, Vitas and AEP are all committed to increasing their proportion of lending to women. Table 3 presents proportion of loans to women.

Table 3: Proportion of loans to women as of the end of 2014

MFI	ADR	AEP	Al Majmoua	CLD	EDF	Emkan	Ibdaa	Makhzoumi	Vitas
%	30%	38%	55%	15%	44%	18%	77%	50%	35%

Of our nine partners, two are formally regulated by the Lebanese Central Bank (Banque du Liban), namely Emkan Finance SRL and Vitas Lebanon, both of which chose to convert themselves into finance companies. As regulated institutions, they are obliged to comply with all the norms, procedures and relations of the Banque du Liban as they apply to finance companies. A further four institutions among our partners may be regarded as "self-regulated", in that they run their affairs as though they were regulated, by adopting internal norms and procedures which are broadly compliant with Banque du Liban norms and procedures, especially with regard to loan loss provisioning. These are AlMajmoua, Ibdaa, ADR and the microfinance unit of Makhzoumi Foundation. Finally there are another three institutions that we have classified as un-regulated in the sense that they do not necessarily establish loan loss provisions and create the level of loan loss reserves that would be required by the authorities to reflect the degree of impairment in their loan portfolios. This issue will be explained more fully later in this report.

Table 4 below shows the ranking of our LIM partners by the size of their net loan portfolios. Here it is important to mention that Vitas Lebanon has some of its loans on its own books (presently around 60 percent) and the rest on the books of its two bank partners. Several of the smaller MFIs in the program also collaborate with partner banks, notably ADR, AEP, CLD and EDF. However, overall these figures show the ability of the MFIs in our program to reach out to their micro-enterprise and SME borrowers, either by using their own balance sheets or by taking the credit risk on loans booked with their partner banks.

During the six years of the LIM Program our largest partner Al Majmoua has almost tripled its loan portfolio from USD 13.8 million to USD 40.2 million, a compound annual growth rate (CAGR[28]) of 23.8 percent per annum. Vitas Lebanon has grown more slowly (from USD 14.9 million to USD 23.7 million), of which around 40 percent on the books of its partner banks, but its growth rate is likely to increase from 2015 onwards as it opens more of its own branches. Emkan has also grown fast, by creating its own finance company with six branches, to which the legacy portfolio of the Emkan NGO was transferred in 2011. So the CAGR for Emkan Finance is calculated for the period 2011 to 2014 only. Ibdaa, as mentioned earlier, has grown rapidly from its inception in 2012. Some of the smaller MFIs in the program have grown their loan portfolios more slowly, with the exception of the microfinance department of Makhzoumi Foundation, which has almost tripled its loan portfolio from a small base, and CLD, which has also tripled the size of its loan portfolio, assisted by the medium term profile of its SME loans.

Table 4: LIM Partners - Ranked by Size of Net Loan Portfolios as of 12/31/2014

#	$ 000s (end-year)	2009	2010	2011	2012	2013	2014	CAGR % p.a.
1	Al Majmoua	13,826	17,547	24,539	30,462	35,418	40,215	23.8%
2	Emkan Finance SRL	2,339	4,481	8,900	17,368	21,687	23,675	58.9%
3	Vitas Lebanon	14,931	14,328	17,146	18,112	21,137	24,251	10.2%
4	Ibdaa	0	0	0	779	2,570	11,996	292%
5	CLD	1,461	1,671	2,156	2,831	3,726	4,735	26.5%
6	ADR	1,965	2,000	2,900	3,064	3,145	3,369	11.4%
7	AEP	1,879	2,019	2,800	2,287	3,102	3,369	12.4%
8	EDF	2,752	3,893	2,991	2,173	1,749	2,470	-2.1%
9	Makhzoumi Foundation	391	624	775	896	1,032	1,148	24.0%
	Totals	**39,544**	**46,563**	**62,207**	**77,972**	**93,566**	**115,228**	**23.9%**

The development of the partners' respective loan portfolios can also be measured by the growth of the numbers of borrowers which is shown in Table 5 below. This shows that the number of borrowers of Al Majmoua has increased by 165 percent, which is less than the growth of the loan portfolio value (+190 percent), owing to an increase in the average value of its loans from $768 in 2009 to $843 as of end-2014. In the case of Vitas Lebanon, its number of borrowers has increased by only 23 percent while its loan portfolio value has risen by 62 percent, because its average loan value has increased from $1,088 to $1,437. Similar trends apply to the other partners in the program, all but one of which had an average

[28] In this report, the Compound Annual Growth Rate (CAGR) is calculated for the five year period from end-2009 to end-2014 by taking the fifth root of the growth for the whole 5 year period. For example, in the case of Al Majmoua, its net loan portfolio grew by 190.87 percent from $13,826,000 as of end-2009 to $40,215,000 as of end-2014. So we have 2.9087 to the power of 0.2 which equals 1.238 i.e. 23.8 percent p.a. compounded annually.

loan size of between $1,000 and $2,000 in 2014. The outlier is CLD whose loan portfolio comprises only larger loans to SMEs. Its average loan size was $14,343 in 2009 which had declined to $9,908 in 2014.

Overall the nine partners in the LIM Program had a total of over 90,000 borrowers as of end-2014, a notable achievement. Of these, the three largest partners accounted for 86 percent by number, but 76 percent by value. The difference reflects mainly the larger average loans granted by CLD as mentioned above.

Table 5: LIM Partners - Ranked by Number of Active Borrowers as of 12/31/2014

#	$ 000s (end-year)	2009	2010	2011	2012	2013	2014	CAGR % p.a.
1	Al Majmoua	18,001	23,391	28,725	36,664	44,217	47,704	21.5%
2	Vitas Lebanon	13,723	13,487	14,376	15,014	15,700	16,880	14.4%
3	Emkan Finance SRL	1,972	5,059	7,772	14,069	13,627	13,648	47.2%
4	Ibdaa	0	0	0	640	3,110	7,350	239%
5	ADR (2009 to 2012 est.)	1,600	1,700	1,800	2,000	2,141	2,196	6.5%
6	Makhzoumi Foundation	399	443	587	764	939	1,026	20.8%
7	AEP	550	600	730	779	904	988	12.4%
8	EDF	881	1,364	1,485	1,976	804	749	-3.2%
9	CLD	137	165	191	219	273	340	19.9%
	Totals	**37,263**	**46,209**	**55,666**	**72,125**	**81,715**	**90,881**	**19.5%**

The success of our partners in leveraging their sub-grants under the LIM Program is shown very clearly in the tables below which demonstrate the aggregate value of LIM loans disbursed during each year of the program and the numbers of borrowers reached by the program. Cumulative LIM sub-grants of $9.5 million during the 6-year program have enabled aggregate LIM lending of $35 million. This four-fold leverage has arisen from a combination of partner contributions to the funding of the loans, and the revolving nature of the facility, since many of the loans were for periods of 12 to 18 months and therefore they revolved twice or three times during the life of the LIM Program. In the individual summaries of the partners we will show the effective leverage achieved by each of them, based on the amounts of sub-grants that each received and the period during which each of them participated in the program. In percentage terms, Vitas, Emkan, Al Majmoua and ADR placed the largest amounts under the program.

Over 15,000 loans were granted to LIM borrowers by our nine partners. For most of the partners, the typical loan size was between $800 and $1,200, but in the case of CLD the average loan was between $8,000 and $12,000 since CLD only grants 5 year loans to SMEs against mortgages. That accounts for the relatively small number of LIM loans granted by CLD. In percentage terms, Vitas, Al Majmoua, ADR and Emkan reached the greatest numbers of end-borrowers under the LIM Program.

Over the life of the LIM Program the number of LIM loans and the value of the partners' LIM portfolios have grown steadily in line with the availability of LIM sub-grants to fund those portfolios. These statistics are summarized in table 6 below. Loan numbers and amounts grew rapidly from 2011 onwards.

Table 6: LIM Partners -Summary of LIM loans and LIM funding as of 12/31/2014

$ 000s (end-year)	2009	2010	2011	2012	2013	2014	CAGR % p.a.
LIM loans outstanding in partners' Balance Sheets	825	1,187	3,162	4,878	6,524	8,525	59.5%
LIM sub-grants in Balance Sheets (cumulative)	1,050	1,050	3,300	4,550	8,296	9,545	55.5%
Number of loans / average size	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	
Numbers of LIM loans outstanding at end-year	421	1,204	2,206	3,097	3,838	4,230	58.6%
Average loan size ($)	$1,960	$986	$1,433	$1,575	$1,700	$2,015	

It will be noted that the aggregate value of LIM loans outstanding at the end of each calendar year is roughly equivalent to the cumulative amount of LIM sub-grants provided to the partners. This method of presentation understates the true impact of the LIM Program as measured by the total aggregate value of LIM disbursements. That is because the LIM sub-grants accumulate and do not decrease, whereas LIM loans are disbursed, but are then repaid over time depending on the loan period (6 months, 12 months, 24 months etc.) and then new loans are made under the revolving feature of the facility. From 2009 to 2010 the average loan amount declined, owing to the relatively large impact of some larger loans granted by ADR during the first year of the program (2009). However, from 2010 to 2014 the average loan size increased each year owing to inflation and the conscious decision by various partners to increase gradually their average loan size under the LIM Program.

Al Majmoua

Started by the Save the Children Fund in 1994, Al Majmoua began operating as a private not-for-profit NGO in January 1998. It is now one of the two largest MFIs in Lebanon[29]. From 1998 to 2015 Al Majmoua has disbursed over 240,000 loans for an aggregate amount of more than USD 260 million, a notable achievement. The rapid turnover of its loan portfolio indicates that its loans are being repaid promptly, constantly opening up headroom for new loans. Loans overdue more than 30 days are less than 1 percent of its portfolio which reveals excellent loan administration. All the financial data and other key aggregates are impressive as shown in Table 7 below. Although officially a "not-for-profit" NGO, its management has always striven to achieve a high net return on equity which has enabled it to grow fast organically during the 6 years of the LIM program. Al Majmoua has grown steadily since end-2007 when its loan portfolio was only USD 7.7 million. Its net income after tax was USD 5 million in 2014, up 22 percent from 2013 (USD 4.1 million), enabling Al Majmoua to increase its equity from USD 22.3 million as of end-2013 to USD 27.2 million as of end-2014. Its Return on Average Equity (ROE) was 20.1 percent in both 2013 and 2014. The balance sheet is solid with a high equity ratio (equity/total assets) of 56 percent.

As of end-2014, Al Majmoua had a marketing team of 180 Loan Officers and around 20 Supervisors among its total staff of around 280 people. Its strategic plan for the period 2014-2018 envisions that by end-2018 the institution will have 31 branch offices, 463 staff and 309 Loan Officers to manage a loan portfolio of around USD 77 million. Based on its progress during the last few years, these targets seem to be realistic. One of the major strengths of Al Majmoua is its ability to cover the whole territory of

[29] Only Al-Qard Al-Hassan is larger, as explained in the Executive Summary of this report.

Lebanon, even remote rural areas such as Akkar in the North, Qasar, Qua' and Ain in the Bekaa, and Nabi Chit, Anjar, Rachayya, Hlata and Naquoora in South Lebanon. Al Majmoua also has a network of other organizations with which it collaborates, exemplified by its cooperation with the Women's Association for Social Development in the town of Sohmor in order to reach women's groups in that region.

Al Majmoua has been an effective participant in the LIM Program since round I in 2009 and it has been awarded the largest cumulative grant ($2.1 million). Its LIM disbursements since joining the program in 2009 have reached $6.3 million overall showing effective leverage of LIM funding. Table 7 presents finances for Al Majmoua.

Table 7: Al Majmoua – Key financial aggregates and other data

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	15,896	22,940	27,502	33,429	41,407	48,838
Total net loan portfolio	13,286	17,547	24,539	30,462	35,418	40,215
Annual LIM disbursements	465	349	784	1,184	1,224	2,291
LIM sub-grants (cumulative)	400	400	900	1,125	1,935	2,103
Net Assets (Assets – Liabilities)	11,854	13,425	15,899	18,197	22,255	27,226
Net surplus for the period	1,516	1,570	2,414	2,298	4,057	4,971
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Return on Average Equity (%)	12.8%	12.4%	16.8%	13.5%	20.1%	20.1%
Active borrowers (number)	18,001	23,391	28,725	36,664	44,217	47,704
Active LIM borrowers (number)	215	294	471	729	904	1,108
Female borrowers (%)	41%	41%	44%	48%	52%	55%
Branches / outlets (number)	11	15	16	19	22	22
Loan Officers (number)	71	103	140	157	172	180

Emkan Finance SAL

Emkan started in 2008 as an NGO founded by the Hariri Group. In June 2011 Emkan Finance SAL was created as a new regulated financial institution, fully owned by BankMed (also owned by the Hariri Group). In 2012 the remaining loan portfolio of Emkan NGO was purchased by Emkan Finance SAL which makes all new microfinance loans. The brisk turnover of Emkan Finance's loan portfolio demonstrates that loans are being repaid promptly, thereby opening up headroom for new loans under its lines of credit from BankMed. From its foundation in 2008 until December 2014, the Emkan group had disbursed a cumulative total of around USD 110 million to about 55,000 clients of which USD 15 million by the NGO (10,000 clients) and USD 95 million by Emkan Finance (45,000 clients), an impressive record. In June 2014 Emkan Finance signed a partnership agreement with the Khalifeh bin Zaid Foundation which will work together with BankMed to expand the microcredit program. The figures of Emkan Finance are shown in Table 8 below.

Table 8: Emkan Finance SAL (2011 to 2014) / Microfinance activities of Emkan NGO (2009 and 2010)

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	2,714	5,935	9,400	21,758	24,900	25,274
Total net loan portfolio	2,339	4,481	8,900	17,368	21,687	23,675
Annual LIM disbursements	0	1,326	780	769	1,399	3,588
LIM sub-grants (cumulative)	0	300	300	475	1,204	1,355
Net Assets (Assets – Liabilities)	4,036	4,878	1,300	1,365	3,600	3,561
Net profit / surplus	946	64	0	37	207	206
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Return on Average Equity (%)	23.4%	1.4%	0.0%	2.8%	8.3%	5.8%
Active borrowers (number)	1,972	4,930	7,771	14,049	13,627	13,048
Active LIM borrowers number)	0	0	456	352	405	770
Female borrowers (%)	18%	17%	18%	18%	18%	18%
Branches / outlets (number)	3	6	6	6	6	6
Loan Officers (number)	20	32	63	56	68	69

Emkan has six operational branches located in Beirut, Chtaura, Tripoli, Halba, Saida and Tyre. A seventh branch is due to be opened in Metn during 2015. The total staff complement is around 130, of whom 18 in Head Office and 112 in the branches. As of end-2014 Emkan Finance had 69 Loan Officers in its network distributed as follows: Beirut 9, Bekaa 16, North 21, Nabatieh 5 and South 18. By end-2016 Emkan Finance expects to have 22,500 active borrowers and a loan portfolio of USD 36 million. This ambitious target seems to be achievable, based on progress to date.

The unaudited 2014 financial statements of Emkan Finance show total assets of USD 25.3 million, net loan receivables of USD 23.7 million and net worth of USD 3.6 million. In 2014, Emkan Finance made a relatively small profit of USD 206,000, but expects to make better profits from 2015 onwards. As of end-2014, loans overdue more than 30 days were about 2 percent by value. Loans written off were negligible (less than 0.5 percent of the portfolio). Although wholly owned by a bank, Emkan Finance should diversify its sources of funding in order to grow faster and reduce its reliance on BankMed.

Emkan has been an active participant in the LIM Program since Round II in 2010. It has successfully used a total of $1,355,000 in sub-grants from LIM to leverage outstanding loans totaling $2,459,000 as of end-2014, but aggregate disbursements to LIM borrowers have reached $6.5 million during the last 5 years.

Vitas SAL

Vitas SAL, previously known as Ameen, is an MFI that was founded by CHF in 1999. The MFI was converted into a licensed financial institution regulated by the Banque du Liban in 2007. Vitas SAL is 99.99 percent owned by Vitas, a holding company based in Silver Spring, Maryland, the remaining few shares being owned by several Board members. Vitas US is owned 80 percent by Global Communities (ex-CHF) and 20 percent by the Blue Orchard Private Equity Fund. Its impressive figures are summarized in Table 9 below.

Table 9: Vitas Lebanon – Key financial aggregates and other data.

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	4,661	6,334	7,263	9,316	13,720	22,011
Total net loan portfolio	14,931	14,328	17,146	18,112	21,137	24,251
Annual LIM disbursements	378	1,320	1,371	2,228	3,764	3,552
LIM sub-grants (cumulative)	400	400	900	1,075	1,822	1,982
Net Assets (Assets – Liabilities)	2,424	3,684	5,035	5,582	5,989	6,930
Net profit / surplus	500	514	1,351	577	407	942
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Return on Average Equity (%)	20.6%	16.8%	31.0%	10.9%	7.0%	14.6%
Active borrowers (number	13,723	13,487	14,376	15,014	15,700	16,880
Active LIM borrowers (number)	206	760	730	1,103	1,313	907
Female borrowers (%)	25%	26%	27%	28%	32%	35%
Branches / bank outlets (number)	1 and 70+	1 and 70+	1 and 73	2 and 74	2 and 70	2 and 70
Loan Officers (number)	63	63	77	86	85	96

Vitas SAL is one of the leading MFIs in Lebanon with a good track record, an extensive network and solid portfolio growth during the last five years. In addition to its own outstanding loan portfolio of around USD 14 million as of end-2014, Vitas manages a further USD 10 million on the books of its two partner banks (Jammal Trust Bank and Credit Libanais) under a guarantee arrangement with OPIC. Its prior arrangement with Fransabank has ended. In future, Vitas will grow the portfolio on its own balance sheet by expanding its own network from 2 to 4 or 5 branches by end-2016. They await permission from Banque du Liban to upgrade several representative offices to full branches. By end-2018, Vitas expects to have a managed portfolio of $36 million of which 80 percent on its own books and 20 percent on its partners' books.

Vitas SAL employed around 190 staff as of end-2014. Vitas has an excellent outreach through a network of around 70 branches of its 2 partner banks throughout Lebanon. The company has loan clients in all 26 of Lebanon's administrative districts (Kazas). As of end-2014, Vitas SAL had a total of 96 Loan Officers distributed throughout Lebanon, but concentrated mainly in the South, Bekaa, Beirut and Mount Lebanon.

Vitas SAL achieved reasonable results in 2012 and 2013, but its net profit jumped in 2014 to USD 942,000, an ROE of 14.6 percent. Its net worth is now around USD 7 million. The Portfolio at Risk (PAR) over 90 days declined from 1.6 percent in 2012 to 1.5 percent in 2013 and around 1.3 percent in 2014. Write offs were 2.8 percent in 2013 and 1.2 percent in 2014, which is relatively low. Vitas SAL demonstrates financial solidity, competent management, a low risk loan portfolio, an excellent track record and good growth prospects.

The company has always presented well-articulated applications for sub-grants under the LIM Program in which it has been an active participant since Round I in 2009. By end-2014 it was leveraging $1.9

million in LIM sub-grants and it had disbursed more than $12.6 million in LIM loans since program inception.

Ibdaa

Ibdaa was **e**stablished in 2012 as a joint-stock not-for-profit company. In Arabic its name means "creation" or "creativity". Ibdaa Lebanon is a pioneer initiative of The Arab Gulf Fund for Development (AGFUND) (42.5 percent) jointly with several Lebanese investors. The MFI is being run under a Management Agreement with AGFUND. Ibdaa is part of a regional network of MFIs and banks in Syria, Jordan, Bahrain, Yemen, and Sierra Leone. Ibdaa has been operating for three years, and it has succeeded in reaching more than 7,500 beneficiaries. In 2014 they disbursed around 5,000 loans totaling around USD 6 million. Table 10 below summarizes the progress of Ibdaa since its creation in 2012.

Table 10: Ibdaa (Started operations in July 2012) – Key financial aggregates and other data

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets				4,429	6,435	11,996
Total net loan portfolio				779	2,570	6,210
Annual LIM disbursements				0	0	272
LIM sub-grants (cumulative)				0	134	265
Net Assets (Assets – Liabilities)				2,435	2,749	5,248
Net profit / surplus				-365	-850	-721
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Return on Average Equity (%)	N/A	N/A	N/A	-30.2%	-32.8%	-18.0%
Active borrowers (number)				640	3110	7350
Active LIM borrowers number)				0	0	169
Female borrowers (%)				65%	70%	77%
Branches / outlets (number)				1	5	6
Loan Officers (number)				9	32	48

Ibdaa has yet to break even, but its shareholders have ambitious expansion plans. Their earlier forecast of reaching total assets of USD 8.7 million by end-2014 was easily exceeded (USD 12 million) and their projections are to reach total assets of USD 15.3 million by end-2015 and USD 21.7 million by end-2016. They expect to have 50,000 borrowers and a loan portfolio of USD 22 million by end-2019. Undoubtedly their shareholders have the capital resources to fund such an expansion. Our concern is whether such rapid asset growth can be successfully combined with a reduction in losses and achievement of the breakeven point in 2016. As of end-2014, Ibdaa had around 75 staff, of whom 48 are Loan Officers in the branches. The head office is in Beirut and there are now 6 branches, located in Kaskas, Khaldeh, Burj Hammoud, Tripoli, Chouf and Saida. Further branches will be opened in the years ahead as Ibdaa grows in size. Ibdaa has consciously focused on lending to women. Around 77 percent by number and 70 percent by value of its overall portfolio comprise loans to women, especially in Chouf and rural mountain areas.

The financial statements of IBDA as of end-2014 showed total assets of USD 12 million, of which customer loans of USD 6.2 million, and a net worth of around USD 5.2 million. This balance sheet structure is typical of a new financial institution, showing high liquidity which is available to fund the company's expansion. Start-up costs have been high, resulting in recurring losses so far.

Despite its short track record Ibdaa seems to be a promising new entrant to the MFI sector in Lebanon. Ibdaa received its first LIM sub-grant in late 2013, but did not start its LIM lending program until 2014.

Coopérative Libanaise pour le Devéloppement (CLD)

CLD is a cooperative founded in 1992 by the late Father Yoakim Moubarak and a group of businessmen in response to the population displacement caused by the Lebanese civil war. CLD uses its equity and bank borrowing to fund its loan portfolio. CLD is a niche player which provides SME loans (over USD 5,000 each) at medium term (up to 5 years), principally to isolated Christian communities in the mountains. The cooperative structure is a limiting factor, but it is also a strength, as all its borrowers are required to become members of the cooperative. CLD's outstanding loan portfolio has grown steadily, reaching USD 4.7 million as of end-2014. The portfolio has continued to grow quite fast, because new disbursements have exceeded repayments, owing to the medium term tenor of its loans to beneficiaries. Table 11 presents finances for CLD.

Table 11: CLD – Key financial aggregates and other data

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	1,856	2,031	2,539	3,335	4,047	5,402
Total net loan portfolio	1,461	1,671	2,156	2,831	3,726	4,735
Annual LIM disbursements	0	0	358	437	501	1,034
LIM sub-grants (cumulative)	0	0	250	450	905	1,037
Net Assets (Assets – Laibilities0	1,162	1,198	1,497	1,730	1,746	1,766
Net profit / surplus	3	26	13	10	15	19
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Return on Average Equity	0.3%	2.2%	1.0%	0.6%	0.9%	1.1%
Active borrowers (number)	138	165	191	219	273	340
Active LIM borrowers number)	0	0	22	47	74	121
Female borrowers (%)	12%	12%	13%	9%	10%	15%
Branches / outlets (number)	1	1	1	1	1	1
Loan Officers (number)	0	2	4	5	6	6

CLD only has one office (in Beirut). However, CLD has strengthened its staffing structure and increased its geographical outreach, especially in North Lebanon. As of end-2014, CLD had 6 full-time Loan Officers and 6 staff in its Head Office. CLD is hoping to hire a further 2-3 Loan Officers, but its efforts to expand its marketing team have been hampered by disruption from the civil war in Syria. The financial statements of CLD as of end-2014 show total assets of USD 5.4 million, funded by shareholders' equity of USD 1.8 million, outstanding bank loans of USD 1.3 million and other liabilities of USD 1.0 million. Net worth has not increased much, because CLD's annual net surpluses are small. CLD has negotiated lines of credit with three banks, namely Byblos Bank (USD 1 million), Banque de l'Industrie et du Travail (USD 0.66 million) and Banque Libanaise Française (USD 0.5 million) to provide headroom. In the longer term, additional equity and greater leverage would be required to enable CLD to grow. Its credit experience has been excellent so far, attributable to the real estate mortgages securing its lending. These mortgages are a powerful incentive to ensure repayment, although in practice CLD almost never forecloses on its borrowers. CLD is a well-established MFI with a track record of over twenty years.

Although CLD only has one office, the cooperative relies heavily on voluntary assistance from several senior staff of the three banks that provide funding for CLD.

CLD has been an active participant in the LIM Program since 2011, having disbursed a total of $2.3 million, all in large medium term loans to SMEs. One concern is that CLD seems to be relying rather heavily on the LIM sub-grants (around 20 percent of its portfolio) to fund its expansion. CLD should now seek alternative sources of grant funding to complement LIM support and its borrowing from banks.

Association d'Aide au Developpement Rural (ADR)

ADR is an NGO that was established in 1998, focusing on MFI activity but also working on vocational education, agricultural development, and general social support to the population. The President of ADR is a Senior Director of the Banque du Liban. ADR had a loan portfolio of USD 3.4 million and equity of around USD 3.6 million as of end-2014. Loans overdue more than 30 days are less than 3 percent of the portfolio which indicates that loan administration is good. Key data is shown in Table 12 below.

Table 12: Key financial aggregates and other data (*some figures for 2009-2012 were estimated)

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	3,435	3,371	4,000	4,304	4,315	4,957
Total net loan portfolio	1,965	2,000	2,900	3,064	3,145	3,369
Annual LIM disbursements	248	227	1.399	1,210	1,108	1.326
LIM sub-grants (cumulative)	250	250	550	750	1,232	1,370
Net Assets (Assets – Liabilities)	2,478	2,471	2,800	2,998	2,983	3,629
Net profit / surplus	324	150	200	200	275	646
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Active borrowers (number)*	1,600	1,700	1,800	2,000	2,141	2,196
Active LIM borrowers (number)*	100	150	350	500	627	527
Female borrowers (%)	26%	27%	28%	29%	30%	30%
Branches / outlets (number)	6	6	6	6	6	6
Field staff (number)	10	10	11	9	11	11

Earlier ADR operated almost exclusively in South Lebanon, but has now expanded its outreach somewhat in Mount Lebanon and the Middle North. However the branch network of ADR is still limited (6 outlets, including the Head Office in Beirut). ADR's proposed expansion plans remain conservative. ADR had previously intended to open a new office for Nabatieh and Zahrani with 4 additional Loan Officers in mid-2014, but this did not occur. In their 2014 LIM application ADR indicated that they would increase the number of microcredit field staff from the present level of 11 to 16 by the end of 2015, but we are skeptical that this will happen. During the past few years ADR has grown slowly. The loan portfolio needs to grow more rapidly to generate greater interest revenue. One option would be to seek more subsidized financing from local banks under the Banque du Liban programs, similar to the two credit lines already in place from BLC Bank (LBP 1.5 billion) and Bank Audi (LBP 1.5 billion).

The Balance Sheet is solid, with total footings of USD 5 million and equity of USD 3.6 million as of end-2014. The Income Statement for 2014 showed a net surplus of USD 0.6 million. The ROE has been consistently above 6 percent every year. Previously the management of ADR provided us with a separate income statement for the microfinance activity which demonstrates that the microfinance unit is not only self-sufficient, but essentially subsidizes the non-financial charitable activities and training courses provided by ADR. Loan losses have been relatively small and those that have been incurred have been written off at the end of each accounting period without undue damage to its financial solidity. Given the problems arising from the Syrian civil war its conservative management style is understandable.

ADR has participated actively in the LIM Program since its inception in 2009 and it has demonstrated that it is able to provide its cost share contribution. ADR has disbursed a total of $5.5 million to LIM borrowers during the six year life of the LIM Program.

Association d'Entrade Professionelle (AEP)

Founded in 1984, AEP was one of the first MFIs established in Lebanon. AEP works with 5 banks (Bank Med, Banque Libanaise-Française – BLF, Fransabank, Bank of Beirut and the Arab Countries, and New Bank of Syria and Lebanon). The outlets of AEP are hosted free of charge by the banks and by other NGOs in the areas where AEP operates (10 offices). This entity remains relatively small, owing to its business model which depends upon volunteers and donor funding, and its reluctance to borrow from banks to fund its activities, with the exception of a loan of USD 250,000 from BLF under a Banque du Liban soft loan program contracted in 2011. In the regions outside Beirut, AEP works with teams of volunteers (60 people in all) who assist the loan officers in handling accounting, credit files and collections. However its own staff complement remains small, among which one Supervisor in Beirut and ten Credit Officers located in the North, Mount Lebanon, South and Bekaa valley respectively. Finances are shown in Table 13.

Table 13: AEP - Key financial aggregates and other data

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	2,390	2,735	2,960	3,181	3,516	3,820
Total net loan portfolio	1,879	2,019	2,800	2,287	3,102	3,369
Annual LIM disbursements			382	550	751	678
LIM sub-grants (cumulative)	0	0	250	450	579	705
Net Assets (Assets – Liabilities)	2,356	2,048	2,798	2,459	2,790	2,940
Net profit / surplus	-14	-1	293	67	55	48
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Active borrowers (number)	550	600	730	779	904	988
Active LIM borrowers number)	0	0	77	183	278	299
Female borrowers (%)	25-30%	25-30%	26%	32%	35%	38%
Loan Officers (number)	5	5	6	7	7	10

In providing advice to AEP we have consistently recommended that they combine an expansion in their loan portfolio with a second increase in AEP's lending rates in order to cover their operating deficits and sustain the expansion in their staff structure. We are told that the Board reluctantly agreed in October 2014 to raise lending rates from 10 percent to 12 percent p.a. (still the lowest in the market), but as of end-March 2015 this increase had not been implemented. Over half of AEP's Board members are women, as well as its Director, its Coordinator and two Credit Officers. In the target areas of North Lebanon, Bekaa valley and South Lebanon, the proportion of loans to women in its portfolio has risen steadily from 31 percent in 2011 to around 50 percent in 2014, underlining AEP's commitment to provide support to women-owned businesses.

The outstanding loan portfolio of AEP as of end-2014 was USD 3.4 million which was 9 percent higher than as of end-2013. The shareholders' equity of AEP has risen to around USD 2.9 million. However it seems that AEP still suffered an operating loss in 2014 which was covered by other revenues, new donations and grants. Another matter of concern has been the high level of overdue loans, although we note that PAR-30 has declined from over 20 percent in the 2009 to 2011 period to around 10 percent as of end-2014. Nevertheless AEP is still not creating a Loan Loss Reserve and has only recently started writing off old irrecoverable loans. Eventually loan losses from the past will have to be fully recognized and the necessary write-offs made. Fundamentally, AEP is still not fully self-sustainable as presently managed, despite its honorable track record going back 30 years. However we recognize that AEP has managed well its LIM sub-grants totaling $705,000 to leverage disbursements to LIM borrowers which have reached $2.4 million since joining our program in 2011. This was a notable achievement.

Makhzoumi Foundation

Makhzoumi Foundation was started in 1997 by the Makhzoumi family to support poor and underserved people in Lebanon. The microcredit program started in 1998 as a department of the foundation. All its loan funds come from the Makhzoumi family and various donors such as the EU, UNDP and the LIM Program. The Foundation does not borrow from banks. The Foundation provides social services in addition to its microcredit program. These include health and dental clinics and many vocational training courses, especially for women (hairdressing, beauty care etc.). Mobile health clinics were added in 2012.

The microcredit loan portfolio of Makhzoumi Foundation has increased from a small base of around USD 250,000 as of end-2007 to USD 1.15 million as of end-2014. Table 14 below charts their progress.

Table 14: Makhzoumi Foundation (Microfinance activities) – Key financial aggregates and other data

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets (*2014 is estimated)	997	1,232	1,541	1.984	2,399	2,500*
Total net loan portfolio	391	624	775	896	1,032	1.148
Annual LIM disbursements	0	0	105	268	332	311
LIM sub-grants (cumulative)	0	0	150	200	333	459
Net Assets (Assets – Liabilities)	908	1,097	1,317	1,664	2,009	2,200*
Net surplus (MF activities only)	61	69	45	128	6	8
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Active borrowers (number)	399	443	587	764	939	1,026
Active LIM borrowers number)	0	0	100*	178	230	294
Female borrowers (%)	50%	53%	51%	49%	45%	50%
Branches / outlets (number)	7	7	7	7	7	7
Loan Officers (number)	3	3	7	7	6	7

The Foundation operates through 7 customer service counters located in the branches of Blom Bank and OMT (On-Line Money Transfer), of which 3 are counters in Beirut. Makhzoumi employs 7 loan officers and another 5 staff, including the general manger and 2 middle managers. Following recommendations from the LIM team they restructured their microfinance department, hired some new Loan Officers and promoted several staff to key administrative and management positions. The whole microcredit department has been revamped to improve its organization and physical infrastructure, which now occupies a whole head office floor. Internal profit center accounting was introduced to measure better the revenues and costs of the MF unit. Makhzoumi already covers Tripoli, Minieh and Koura in the North, various locations in the Bekaa valley and the south of Mount Lebanon, and the whole of greater Beirut. In 2015 they intend to hire additional Loan Officers to extend their coverage to Akkar on the northern coast, Zgharta in the North, the middle Bekaa valley, Saida (in the South) and northern Mount Lebanon. This expansion in its geographical coverage will be housed in the branches of Blom Bank and OMT as before.

The Balance Sheet of the Foundation is well-capitalized (USD 2.2 million) but remains small (total assets USD 2.4 million as of end-2013). A large annual contribution from the founder sustains the Foundation, but the Microfinance department itself is self-sufficient and covers its costs. Makhzoumi Foundation has been an active and enthusiastic participant in the LIM Program, using its cumulative sub-grants totaling $459,000 to leverage disbursements to LIM borrowers totaling around $1million since joining the LIM Program in Round II (funds allocated in 2011). This has been a notable success for a small MFI.

Entrepreneurial Development Foundation (EDF)

The Entrepreneurial Development Foundation (EDF) was founded in 1999. EDF is a not-for-profit organization that promotes entrepreneurship among the less privileged in Lebanon’s rural areas and the neighborhoods of the larger cities. EDF provides beneficiaries with a training program to develop practical business skills to budding entrepreneurs who wish to start or develop new businesses, accompanied by small business loans to assist in funding their ventures. This is by far the smallest MFI in the LIM Program. As of end-2014, its outstanding managed loan portfolio was USD 2.5 million. In the first eight months of 2014, the portfolio grew by 44 percent because new disbursements exceeded principal repayments as shown by the detailed figures below as of end-August 2014 (December figures awaited). Table 15 presents EDF’s portfolio.

Table 15: EDF portfolio

All figures in US dollars	**LIM portfolio**	**Credit Libanais**	**Whole portfolio**
Outstanding principal as of 31/12/2013	**20,363**	**1,728,550**	**1,748,913**
Principal repayments January to August 2014	(99,950)	(661,050)	(731,000)
New loans granted January to August 2014	214,387	1,288,753	1,503,140
Outstanding loan portfolio as of 31/08/2014	**134,800**	**2,386,253**	**2,521,053**

Most of these loans do **not** appear on EDF’s small balance sheet because they are simply agents for a bank which takes the credit risk, namely Credit Libanais (maximum LBP 5 billion = USD 3.3 million). Credit Libanais is lending under a Banque du Liban subsidized loan program using its compulsory reserves with the central bank. EDF employs 7 full time staff and 39 part time Loan Officers who work in the branches of Credit Libanais. However from October 2014 they are sharing the credit risk 50/50 for any new loans with the bank. If there were substantial losses as from October 2014 arising from the new 50/50 credit risk sharing arrangement, EDF would be unable to cover the losses, given their very small balance sheet. Most of their equity reflects the LIM grants totaling USD 119,000 extended to EDF. Table 16 shows the finances.

Table 16: EDF – Key financial aggregates and other data

$ 000s (end-year)	2009	2010	2011	2012	2013	2014
Total assets	106	72	92	149	108	204
Total managed net loan portfolio	2,752	3,893	2,991	2,173	1,749	2,470
Annual LIM disbursements	0	0	0	36	41	316
LIM sub-grants (cumulative)	0	0	0	25	152	269
Net Assets (Assets – Liabilities)	71	47	75	80	36	-23
Net profit / surplus	-43	-23	27	-5	-33	-59
Other data (end-year)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**
Active borrowers (number)	881	1364	1485	1976	804	749
Active LIM borrowers number)	0	0	0	5	7	35
Female borrowers (%)	37%	37%	29%	30%	50%	44%
Branches / outlets (number)	1	1	1	1	1	1
Loan Officers (number)	24	31	36	36	39	27

As we have commented in our previous reviews, the EDF balance sheet is far too small to support this level of risk. Their management has belatedly recognized that they cannot continue with their present business model. They intend to apply to KIVA for some seed capital to set up their own fund and cease relying on the present agency agreement with Credit Libanais, They are grateful for support from the LIM Program which has enabled them to start operating their own fund, even though it is presently very small.