

# Serving Refugee Populations in Lebanon - Lessons Learned from a New Frontier

A Case Study of Al Majmoua in Lebanon



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SPTF has been partnering with the Livelihoods Unit of the United Nations High Commissioner for Refugees (UNHCR) to develop guidelines for financial services providers (FSPs) that provide microfinance products and services to refugee populations.

Many FSPs are reluctant to work with refugee populations, for fear that the risk of financial losses is too high. Others who have tried to serve refugee populations have had limited success, in part because the products and services offered were not adapted to the specific needs of the clients.

SPTF and UNHCR agreed that it would be helpful to aggregate into a single guideline document the sector's current understanding of best practices for working with refugee populations, as well as lessons learned from past experience and suggestions for addressing common obstacles.

To inform the guidelines, a literacy review has been conducted, experts and practitioners have been interviewed and a webinar was held on 10 December 2015 to solicit input and feedback on initial findings. As part of the project a 1-week field visit was made in November 2015 to Al Majmoua in Lebanon to profile the FSP that has demonstrated success working with refugees. This report presents the findings and learnings from Al Majmoua's work.

The report was written by the project lead, Consultant Lene Hansen. Throughout the assignment, the Consultant was fortunate to meet with committed professionals, who shared their insights and assessments of the current situation and constraints, and took time from a busy schedule to attend meetings and provide information and feed-back. The Consultant would like to extend her sincere appreciation for all the time and effort that was put into the assignment by all persons met.

The views and recommendations expressed in this report are those of the Consultant, and do not necessarily represent the views of Al Majmoua, SPTF or UNHCR. Photographs are courtesy of Al Majmoua and the author.

## 1. Setting the Stage: Working in Multi-cultural Volatility

Providing financial services in Lebanon requires the ability to navigate in an environment of extremely complex political, economic, social and security-related volatilities. Despite the slow progress on political and economic reforms, the formal financial sector in the upper middle income country is well developed, and the credit-led microfinance industry has grown significantly since 2007. Financial inclusion (access to formal finance) has increased to 47% of all adults (2014)<sup>1</sup>, but uncertainty, political elite capture and high unemployment in the densely populated country has historically resulted in high emigration of Lebanese and conversely a large group of foreign migrant workers in relatively lower-income jobs<sup>2</sup> (see Annex 1 for a contextual overview).

Over the years, Lebanon has generously maintained an open border policy and has, until restrictions were introduced in 2014-15 following the unprecedented influx of 1.1 million Syrian refugees, permitted refugees to temporarily but freely settle across the country (see Table 1).

Year	Total estimate					
In 2013	849,721	Palestine (529,341) (62.3%)	Iraq (148,470) (17.5%)	Egypt (102,507) (12.1%)	Syria* (21,411) (2.5%)	Sri Lanka (4,025) (0.5%)
In 2000	692,913	Palestine (467,005) (67.4%)	Egypt (130,459) (18.8%)	Syria (26,159) (3.8%)	Iraq (25,369) (3.7%)	Sri Lanka (6,876) (1.0%)

\*Excluding the 1.1 million refugees from the recent Syrian crisis

Lebanon's refugee populations are diverse. The largest refugee group is Palestinian, around half of whom live in the 12 recognized Palestine refugee camps. In the camps, issues of poverty, overcrowding, unemployment, poor housing and infrastructure abound, but United Nations Relief and Work Agency (UNRWA) is providing schooling and medical care.<sup>4</sup> From Iraq, about 50,000 refugees arrived following the 2003 invasion, many of whom were at one time middle-class professionals who have self-settled in urban areas. With a long history as migrant workers in Lebanon, Syrians have never been counted as foreign workers, and many were known to work in Lebanon before the war in Syria. But as of October 2015, 1.075 million Syrian refugees have registered with UNHCR in Lebanon.<sup>5</sup> If the latest UNOCHA figures per governorate<sup>6</sup> are added up, the total population of Lebanon in June 2015 is around 5.53 million, of whom 72.4% are Lebanese, 20.9% Syrian refugees and 6.2% Palestinian, including some 45,600 doubly displaced Palestinians from Syria.<sup>7</sup> Added to this are Lebanese returnees from Syria, who face particular difficulties.<sup>8</sup> For more details on refugee populations in Lebanon, see Annex 2.

Lebanese labor laws exclude Palestinian refugees from Syria from entry into formal employment, while new restrictions introduced over that past year allow for Syrian refugees to obtain work permits only in the

<sup>1</sup> World Bank: Findex 2014.

<sup>2</sup> <http://english.al-akhbar.com/node/23729>. The number of non-national domestic workers in the country varies between 130,000 and 500,000 with Ethiopia, the Philippines, Bangladesh and Sri Lanka mentioned as the most common countries of origin.

<sup>3</sup> IOM: Urban Migration Trends in the Middle East and North Africa Region and the Challenge of Conflict-Induced Displacement, December 2014.

<sup>4</sup> <http://www.unrwa.org/where-we-work/lebanon> and [http://www.unrwa.org/sites/default/files/unrwa\\_in\\_figures\\_2015.pdf](http://www.unrwa.org/sites/default/files/unrwa_in_figures_2015.pdf)

<sup>5</sup> UNHCR: Syria Refugee Response - Lebanon Syrian Refugees Registered as of 31 October 2015, available at: <http://www.refworld.org/docid/56557d3b4.html> [accessed 16 December 2015]

<sup>6</sup> The Governorate profiles are available on <https://data.unhcr.org/syrianrefugees/documents.php?page=1&view=grid&Org%5B%5D=161>

<sup>7</sup> Palestinian refugees who were living in Syria and are presently in Lebanon are not eligible to register with UNHCR; they fall under the mandate of UNRWA that provides assistance and protection to all Palestinian refugees in Lebanon (and Palestine, Syria and Jordan).

<sup>8</sup> Lebanese citizens who were living in Syria since 2006 or earlier and have returned to Lebanon after March 2011 as a result of the conflict are not eligible to register with UNHCR because, legally, they are not refugees. UNHCR and IOM are responsible for humanitarian assistance to Lebanese returnees from Syria. See: Lebanon Humanitarian INGO Forum: "Background Paper on Unregistered Syrian Refugees in Lebanon", 15 July 2014.

traditional migrant worker sectors of agriculture and domestic services, where almost half of the Syrian refugee workers are employed, and construction, which employs 12% (2014).<sup>9</sup> The increased competition for low-quality, low-skilled jobs has resulted in depressed wage incomes and increased job insecurity, which benefit the typically Lebanese employers,<sup>10</sup> but is a key perceived stress factor for both refugee and host communities, triggering resentment and fear especially among low-income Lebanese workers and entrepreneurs,<sup>11</sup> including the traditional core clientele of microfinance institutions (MFIs) like Al Majmoua.

Given their prevalence, the stability prospects for Lebanon will be influenced among other things by the economic and social sustainability of the Syrian refugees and the resilience of Lebanese communities to weather these stresses. The World Bank recently concluded that “a more formal integration of the refugees is important to maximize the benefit of their presence on the Lebanese economy.”<sup>12</sup> The international community has called for the promotion of greater self-reliance and economic autonomy among the refugee population through targeted livelihoods assistance and policies for their medium-term inclusion in the national economy, and for non-sectarian civil society actions to engage in the mitigation of social tensions (including those associated with the refugee influx) to support the strengthening of social cohesion and resilience.<sup>13</sup> Al Majmoua has been heeding these calls.

## 2. Al Majmoua - History and Structure

Al Majmoua (Arabic for “the Group”) was established in 1994 as a microfinance program funded by USAID and managed by Save the Children to provide group loans to low-income women entrepreneurs across disadvantaged areas of Lebanon, including in 9 Palestinian refugee camps. In 1997, it spun off into an autonomous NGO, registered as an association (The Lebanese Association for Development) with the Lebanese Ministry of Interior. As an NGO, Al Majmoua cannot offer savings, insurance payment or leasing products.

Al Majmoua’s vision is to be the leader in creating an inclusive financial system where all people in Lebanon have access to affordable services, as underpinned by its stated mission to promote sustainable development by improving the economic and social conditions of low-income individuals, especially micro-entrepreneurs and women, through the provision of financial and non-financial services (NFS), all over Lebanon. Though Al Majmoua’s core clientele are women, it does serve low-income individuals of “any nationality whether located in rural or urban regions; [it] also serve[s] refugees and reach[es] out to those living in remote areas and Palestinian camps all over Lebanon.”<sup>14</sup> Among its core values is Inclusiveness: Al Majmoua treats all clients and employees equally irrespective of their gender, nationality, ethnic group, religion and political affiliation.

Al Majmoua’s deep commitment to its social mission is evidenced by its efforts to implement strong social performance management (SPM)<sup>15</sup>, including the client protection principles.<sup>16</sup> For example, an SPM Committee meets quarterly to review Al Majmoua’s SPM action plan. Additionally, Al Majmoua commissioned a social performance rating in 2010 and received a S.T.A.R. (Socially Transparent And Responsible) Certificate from the MIX Market<sup>17</sup> in 2013. Furthermore, Al Majmoua conducted a social audit using the SPI4 tool, with assistance from Planet Finance, in September 2015.

From the beginning, Al Majmoua’s core product has been a Grameen-type solidarity group loan. In the early years, Al Majmoua offered a popular savings account product through local banks, but the banks

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<sup>9</sup> ILO: Livelihoods, Employment and Income for Vulnerable People in North Lebanon - Concept note, 2015.

<sup>10</sup> World Bank: Lebanon: Promoting Poverty reduction and Shared Prosperity – A Systematic Country Diagnostic, June 2015

<sup>11</sup> Institut des Sciences Politiques USJ: Survey on Perceptions of Syrian Refugees in Lebanon, August 2014.

<sup>12</sup> World Bank: Lebanon Economic Monitor – the Economy of New Drivers and Old Drags. Spring, 2015.

<sup>13</sup> World Bank: Lebanon: Promoting Poverty reduction and Shared Prosperity – A Systematic Country Diagnostic, June 2015.

<sup>14</sup> <http://www.almajmoua.org/visionandmission.aspx>

<sup>15</sup> <http://sptf.info/spmstandards/universal-standards>

<sup>16</sup> <http://www.smartcampaign.org/about/smart-microfinance-and-the-client-protection-principles>

<sup>17</sup> <http://www.mixmarket.org/announcements/Recognizing-socially-transparent-and-responsible-MFIs>

discontinued the service due to the high administrative costs associated with the small savings volume. Al Majmoua expanded its product range to individual business loans to men and women from 2000. In 2006, it began offering free business development services (BDS), including capacity building, community development, and socially oriented activities for women and youth. Today, Al Majmoua offers group and individual loan products for micro- and SME enterprises, ICT start-ups, and youth entrepreneurs. It also offers salary-guaranteed loans for employees without access to the national social security fund, home improvement loans, loans to pay school fees for children, and loans for the disabled through its network of 22 branches all over Lebanon. In addition, Al Majmoua has increasingly been contracted to provide technical assistance (TA) to other MFIs in the MENA region, including in Yemen, Iraq (VITAS), and Egypt (where IFC facilitated South-South cooperation with Al Tadamon).

As of October 2015, Al Majmoua has 54,485 active borrowers holding USD 49.3 million in loans. 15% of borrowers are non-Lebanese, including migrant workers, Palestinians and Syrian refugees, who together hold 12% of the portfolio outstanding. The average loan balance outstanding is USD 905, and the portfolio at risk (PaR <30 days) ratio is 0.57%. The average interest charged on loans is 1.5-1.65% per month flat (APR of around 30%), and loan terms are generally 6-12 months. Loan costs include a contribution to an in-house mutual insurance fund (Takaful) which covers outstanding loan balances in cases of death of clients, and women borrowers are also offered the *Bitakati* Discount card valid in over 1,000 shops, pharmacies, and supermarkets across the country.

Table 2: Al Majmoua Key Ratios <sup>18</sup>	YTD June 2015
Operational Self-Sufficiency ratio	159%
Financial Self-Sufficiency ratio	133%
Return on Assets	10%
Return on Equity	17%
Operational Expense Ratio (/GLP)	52%
Cost per borrower	\$ 162
Debt/equity ratio	64%
Capital adequacy	66%
Portfolio yield	30.7%

Despite the consistently excellent portfolio quality, Al Majmoua conservatively keeps its risk coverage ratio at around 295%. It has been operating on a fully financial sustainable basis for the past 5 years, with a current Financial Self-sufficiency (FSS) ratio of 133%. A reserve equivalent to 3-4 months of operations are set aside from retained earnings, but from the balance Al Majmoua has regularly provided 'dividends' to clients by lowering the interest rate or other costs of services, latest in 2014.

Al Majmoua is governed by a Board of six external directors, elected by the general Assembly. Under its founding CEO, the MFI has six department managers and an internal auditor who reports directly to the Board. The financial and non-financial services are segregated and do not share an MIS or client database. Al Majmoua employs 305 staff, 55 at the head office and all others working in its 22 branches. 55% of all staff are female, and as is allowable for an NGO, some 8% of employees are Palestinian. The organization is currently reviewing its structure to consolidate and clarify core functions.

## 2.1 Palestinian refugees in Al Majmoua's portfolio

From its inception, Al Majmoua has extended loans to Palestinian refugees through two branches located inside camps and from other branches via camp associations, as one of few Lebanese MFIs<sup>19</sup> that serve the Palestinian camps, where access is restricted by required permits and check-points.<sup>20</sup> Since 2013, Palestinians (both encamped and self-settled) have comprised around 8% of the portfolio, both in terms of number of loans and portfolio value outstanding - at par with the estimated 6-10% of the population in Lebanon that are Palestinian refugees. Al Majmoua extends both group and individual loans to Palestinian refugees from the camps, with individual loans dominating the portfolio segment. Around 60% of Palestinian borrowers are

<sup>18</sup> Data provided by Al Majmoua on 30 November 2015.

<sup>19</sup> Al Majmoua's competitor Ibd'aa recently did a very small pilot of 3 loans for embroidery production in a Palestinian camp.

<sup>20</sup> The Cairo Agreement of 1969 put the camps under control of the Palestine Liberation Organization (PLO). Although Lebanon withdrew from this agreement in the late 1980s theoretically reclaiming its rule over the camps, the state has refrained from exercising its authority. Politically, the camps have been ruled by popular committees, while security committees have been serving as an internal police force. Access for Palestinians, Lebanese and foreigners requires permits issued by the Mukhabarat, the Lebanese army's intelligence service.

male, as opposed to 45% overall, and 15% of the youth loans ('Yalla Shabab') that Al Majmoua disbursed in 2015 (January to October) were issued to Palestinians.

The average loan size for Palestinians is slightly higher than for the portfolio overall at USD 915, while the Portfolio at Risk ratio for this portfolio is 0.14% less than for the overall portfolio at a negligible 0.43% (2015 YTD). The drop-out rate as calculated by Al Majmoua<sup>21</sup> is at par with the overall portfolio at 38%. The portfolio segment is thus performing very well, and as several Al Majmoua staff commented "we don't really consider Palestinians to be refugees anymore – they have been here for generations."

Lack of access to borrowers outside of the camp-based branches was considered a challenge in the beginning. However, Al Majmoua now conducts loan appraisals, monitoring and follow-up in cooperation with local community organizations in the camps. Some workers (salary-guaranteed) loans are issued through the PLO embassy, which deducts repayment from Fatah employees. This may have contributed to the excellent performance of the portfolio segment. Apart from the monitoring partnerships in the Palestinian camps, loan terms and conditions are identical to those offered to Lebanese borrowers.

From 2008, Al Majmoua extended the non-financial services introduced since 2006 to Palestinians (and Lebanese) affected by the siege by the Lebanese Army of the Nahr al-Bared refugee camp in 2007.<sup>22</sup> Equipment to restart businesses ('toolkits') were distributed with funding from MAP-UK, and financial education and business management trainings were provided to clients, while staff of other NGOs were given training of trainers (TOT) to support other toolkit beneficiaries during 2008-09, funded by the EU via Premiere Urgence.

## 2.2 Including Migrant Workers

Al Majmoua has extended loans to migrant workers in Lebanon for a decade, focusing on female domestic workers, particularly from the Philippines. These loans represent a small part of the loan portfolio; the current portfolio segment of 2,500 migrant workers constitutes 4.6% of loans outstanding but only 2% of the portfolio value, reflected in a lower average loan balance of USD 340 to Filipino borrowers and USD 840 to other migrants against the USD 905 overall average. 99% of Filipino borrowers are women, and all of them have group loans, whereas the composition of the residual migrant portfolio is 45% women and 66% individual loans. Reflecting an unsurprising trend, the PaR(30) for loans to Filipino borrowers is 0.06%, while for other non-nationals it is 0.81% - 0.25% higher than for the portfolio overall, but still negligible. 20% of Filipino borrowers have dropped out in 2015, lower than the 45% among other migrants.

Staff consider migrants from the Philippines to be very reliable clients. Al Majmoua's experience has been that they stay in Lebanon for the duration of their work contract, on which the loan term is based, and that their higher education level (and possibly familiarity with microfinance from home) contribute to their excellent repayment rates, which are higher than those of other migrants, such as Ethiopians and Bangladeshi borrowers, though all client segments display PaR(30) rates below 1% in 2015 to date.

Al Majmoua is considering the option of developing a working relationship with MFIs in the countries of origin of migrant workers to enable their clients to continue borrowing when they get home, and might start with an MFI in the Philippines. This would not only be an innovative product development for Al Majmoua, but may well develop into a closer relationship, whereby migrant workers that are already clients of a partner MFIs at home could bring a 'credit history' to Lebanon to seek loans from Al Majmoua during their contract period abroad. This might also enable further linkages in terms of remittances and savings with the country of origin MFI during the contract period abroad, thus benefiting both MFIs and the client.

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<sup>21</sup> Al Majmoua tracks the number of clients having completed a loan who do not have a new loan 6 months later.

<sup>22</sup> See e.g. Samer Abboud: The siege of Nahr Al-Bared and the Palestinian Refugees in Lebanon, Arab Studies Quarterly Vol. 31, No. 1/2 (Winter/Spring 2009), pp. 31-48.

## 2.3 Piloting loans and delivering NFS to Iraqi Refugees

In response to the arrival of around 50,000 Iraqi refugees to Lebanon after 2003, of whom an estimated 10,000 remained in 2007, Al Majmoua signed a partnership agreement with UNHCR for the period of November 2007 – December 2008. Under this agreement, UNHCR would refer Iraqi refugees, primarily women, who had been in Lebanon for more than four years and had no prospects of resettlement, to Al Majmoua with a standardized letter containing biographic data, type of livelihood service requested and a social assessment and justification. Al Majmoua would meet the refugees and assess their loan applications based on its standard eligibility criteria of age, training and business experience, character and repayment capacity, reserving exclusive rights to reject or accept applications and to finance start-up businesses only in exceptional cases. For refugee borrowers, Al Majmoua insisted on a national guarantor (sponsor or co-signatory), but a USD 15,000 UNHCR grant for coverage of potential loan losses after due attempt to recover outstanding balances was meant to allow increased flexibility.<sup>23</sup>

At the time, the inclusion of Iraqi refugees in Al Majmoua's portfolio was uncontroversial. Al Majmoua's social mission is one of inclusive finance, and general public sentiment, as reflected also among staff and clients, towards Iraqis escaping Saddam Hussein's regime was favorable. Furthermore, Al Majmoua had had previous good experiences with its non-national portfolio, and expected UNHCR to refer bankable potential clients. For these reasons, the inclusion of Iraqi refugees in the loan portfolio did not generate much client segment research or product adjustment efforts, and Al Majmoua did not provide additional risk detection training to loan officers appraising Iraqi refugees' businesses.

Under the UNHCR agreement, Al Majmoua disbursed close to 50 loans in early 2008. Almost all defaulted, contributing to, but largely overshadowed by, the PaR(30) spike in Al Majmoua's overall portfolio following the 2006 war with Israel. In hindsight, staff commented that the pilot wasn't successful because the referred clients had 'relief mentality' from their contact with UNHCR and the government service centers and did not feel compelled to repay their loans. The experience made Al Majmoua more aware of the importance of client segment research before expansion and of owning the appraisal process and not relying on protection agencies that may well have a preference for referring clients more vulnerable than appropriate for credit.

During 2008-09, Al Majmoua also provided non-financial services to Iraqi refugees with funding from Catholic Relief Services and Danish Refugee Council via local NGOs Caritas and Ameel. Ameel staff and Iraqi refugee women were offered training on business management and entrepreneurship. While the financial service pilot project for Iraqi refugees was not successful, the NFS served to consolidate Al Majmoua's emerging reputation as a source of BDS expertise to vulnerable women entrepreneurs. However, institutionally, the two types of services were kept separate, almost to the point where Al Majmoua might be developing two rather than one double bottom line, a trend that has continued to the present.

## 2.4 Responding to the Syrian refugee crisis

The civil war that began in 2011 in Syria resulted in a gradual increase in refugees arriving to Lebanon. Indications are that early arrivals were the families of Syrian seasonal or contract workers, immigrants or students who were already in Lebanon, some of whom were already served by Al Majmoua as part of its migrant portfolio segment. Driven by its mission of inclusion, management's early reaction was to want to roll-out a 'refugee loan product' for these Syrian refugees.

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<sup>23</sup> Letter of Exchange between the Lebanese Association for Development - Al Majmoua and the United Nations High Commissioner for Refugees (UNHCR) of 19 November 2007.



When numbers of refugees began to swell in late 2012<sup>24</sup>, however, Al Majmoua picked up on market disturbances among its existing customers. There was a decline in loan demand, clients were uncertain about business outlook, and arrears were increasing. Particularly in regions where many and poorer refugees (mostly women and children) were settling, loan officers were reporting that clients felt threatened by Syrian refugees undercutting and competing for jobs and livelihoods. Loan officers in other areas, however, were keen to include Syrian relatives of existing

clients who had come to settle in their communities. Management decided to pause its efforts to serve these new refugees until it gained a better understanding of the fears and opinions of its own staff and clients, and thus it initiated a series of focus group discussions with existing clients.

Al Majmoua analyzed the results of the discussions in April-May 2013 and discovered very significant negativity. A majority of clients were in fear of being outpriced or losing jobs to Syrians willing to work more for less pay, and did not think Al Majmoua “should help the competition.” In some areas, local authorities had imposed curfews on Syrians, ostensibly to minimize crime, which affected all businesses and daily lives. Demand for rental housing was felt to be skyrocketing, affecting also rent costs for Lebanese. During 2012, the injection of relief funds in the economy was felt to inflate prices of basic commodities for all, while the increased demand for goods by refugees was seen to benefit larger businesses (e.g. refugees being provided cash or vouchers to use in select, large supermarkets) at the expense of the small stores operated by Al Majmoua’s clients. The reception to Syrians was altogether different and less compassionate than it had been toward Iraqis five year earlier. Along with the real and perceived impact at the micro-level, the reaction of clients and staff reflected the sectarian divides in the complex relationship between Lebanon and Syria. Management realized that Al Majmoua had to slow down and develop a strategy for inclusion of Syrian refugees that everyone could buy into:

- First, management defined the new potential client segment of ‘Syrian refugees’ to include “any Syrian having arrived to Lebanon after 01 January 2012,” including migrants, seasonal workers and actual refugees. This allowed for existing Syrian clients and longer-term residents to continue their relationship with Al Majmoua as per usual;
- Next, Al Majmoua designed its targeting of Syrian refugees to accommodate the key concern expressed by existing clients, i.e. the fear of competition. For financial services, it was decided to focus on women and youth, and on financing businesses and home-based income generating activities, with which Syrians were familiar, but which did not compete significantly with Lebanese microenterprises. Al Majmoua also decided to start with group loans only, and to launch these to ‘mixed groups’ of self-selected Lebanese and Syrian women, to reduce both the perceived competitive tensions and perceived flight risk among refugees;
- Finally, Al Majmoua extended its non-financial services to Syrian refugees in the areas of technical skills development, financial literacy, business development, and personal development. The NFS activities were offered for free to both Syrian and Lebanese clients in order to increase social cohesion, and facilitate job placements.

This strategy won the support of the majority of head office staff and branch managers who felt clients’ concerns, and their own, had been taken into account. A stroke of good timing further facilitated the strategy: in early 2013, UNHCR was preparing a project tender for livelihood services to refugees and had initially thought of only international humanitarian NGOs as bidders. At this time, Al Majmoua contacted UNHCR to inquire about the socio-economic profiles of Syrian refugees in their areas, and learned of UNHCR’s upcoming livelihood project. Al Majmoua was invited to bid for the project alongside humanitarian INGOs, won the tender, and signed a contract with UNHCR to deliver three Livelihoods and Employability Centers for Syrian refugees and the Lebanese host community offering technical and business development training. The

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<sup>24</sup> According to UNHCR, the number of refugees from Syria registered in Lebanon increased from 11,295 in September 2011 to 444,500 by June 2013.



project included access to microcredit through group and individual lending to trainees, with UNHCR providing a refundable revolving loan fund grant of USD 15,000 to finance loans to refugees, whereas Al Majmoua would finance loans to Lebanese clients from its own capital.

Al Majmoua came up against some of the often cited difficulties for financial service providers (FSPs) to find common ground with protection agencies:

- **Conflicting priority target groups:** Specifically, UNHCR as the funder wanted the majority (70%) if not all, of the project funds to benefit Syrian refugees.<sup>25</sup> Al Majmoua argued the need for equal access by Lebanese hosts and refugees to the services in order to impact social cohesion. In this, Al Majmoua was facilitated from an unexpected source: The Lebanese Ministry of Social Affairs (MOSA) sent guidance to the international aid community in the summer of 2013 to the effect that all international aid should benefit disadvantaged Lebanese hosts in equal measure. Al Majmoua was able to use this guidance to argue its case to UNHCR that the livelihood centers should serve Lebanese and Syrian refugees 50-50%.
- **Whether to charge interest:** UNHCR initially rejected the basic premise that refugee clients receiving loans funded by their grant should pay interest.<sup>26</sup> Al Majmoua knew that offering no-interest loans would jeopardize the entire credit component of the project. In negotiations, Al Majmoua eventually agreed with UNHCR that the interest charged on loans (identical to that charged on any group loan) would be 'refunded' to ex-trainee borrowers in the form of in-kind toolkits for their businesses, if they successfully repaid their loan.<sup>27</sup> The toolkits (e.g., equipment for chocolate making, bread baking, sewing, cameras, etc.) were presented at the livelihood 'closing ceremony' at the end of 2014 to trainees who had successfully invested a loan in their businesses and had repaid on time (as well as to young trainees who did not at the time qualify for a loan). As such, the toolkits provided 'seed assets' to the loan-financed enterprises, without being linked to loan repayment. This proved to be a good compromise to a potential deadlock for the partnership.



With the pilot project plan agreed internally, Al Majmoua set about to implement the three livelihood centers and concluded several more funding agreements to further support Syrian refugees and Palestinians from Syria with non-financial BDS and to pilot the mixed-nationality group loan product for women. Al Majmoua obtained geographic mapping of refugee populations from UNHCR as a basis for the selection of locations for the three livelihood centers, and also asked for input from field staff. In addition, Al Majmoua involved field staff in the subsequent marketing and client selection processes, and kept staff informed about progress in the internal newsletters. Finally, Al Majmoua carefully monitored the complaints hotline for concerns raised by clients.

By the end of 2015, the initial resistance from clients to the inclusion of Syrian refugees had subsided and staff sentiment had improved. While some staff, especially at head office, still consider refugees a high risk, frontline staff are largely satisfied and proud that Al Majmoua is part of the solution to a national crisis.

<sup>25</sup> UNHCR's mandate includes only refugees, but they have the role of aid coordinator in Lebanon. For a detailed discussion, see <http://cskc.daleel-madani.org/paper/challenges-aid-coordination-complex-crisis>

<sup>26</sup> This is not reflected in the subsequent Agreement on the Revolving Loan Fund of USD 15,000 signed only in November 2014, which states that "The Fund Managing Agency will operate [...] based on sound microfinance practices [...] and will charge interest."

<sup>27</sup> The cost of the toolkits were included in the project budget, funded by UNHCR, so that Al Majmoua retained the interest revenue received on the loans.

## 2.4.1 Non-financial services – design, implementation and analysis of results

The 17-month UNHCR-funded project (August 2013-December 2014) targeted a total of 10,000 beneficiaries for non-financial services at three livelihood centers. Once Al Majmoua had selected center locations, staff conducted community services mapping survey in each area to identify other NGOs, projects and service providers, their capacities and their activities to enable coordination and avoid duplication. Further, each center project was presented to local municipalities and MOSA centers, which elevated the visibility of Al Majmoua as a Lebanese implementer at a time when concerns were expressed about INGO projects not coordinating locally.

The objectives of each center were to improve the livelihoods of the Syrian refugees and to help build social cohesion with the host communities. Focusing on women and youth, each center offered multiple services (see details in Table 3):

- Social assistance and awareness (e.g. referral of refugees for UNHCR registration);
- Social and community development events;
- Life skills and personal development trainings;
- Employment orientation services, job placements and (unpaid) apprenticeships;<sup>28</sup>
- Vocational (technical skills) trainings and local product exhibitions of items produced;<sup>29</sup>
- BDS: financial education trainings, entrepreneurship and business management trainings; and
- Access to microcredit through group and individual lending.

	Indicative # activities, 2014
Community awareness raising	14
Focus group discussions	12
Community development for youth	2
Life skills and personal development trainings	101
Vocational/technical skills trainings (food processing, handicrafts, photography, AutoCAD)	26
Job placement trainings (CV writing, career planning)	23
Job placements	Continuous
Entrepreneurship trainings (ILO Get ahead, Start Your Own Business and financial education)	86
Enterprise toolkits	At closure

Prior to defining which technical skills and BDS courses to offer at each center, Al Majmoua staff joined events sponsored by UNHCR or conducted community sensitization activities aimed both at awareness raising about the center and to create socially safe spaces where Lebanese and refugee women and their youth and children could meet and interact as a precursor for loan group formation. Information notices were posted in the municipal Social Development Centers, through partner NGOs like International Rescue Committee (IRC), and at schools and medical clinics that served refugees. Al Majmoua staff followed up by door-to-door home visits and focus group discussions with potential clients to identify which skills they had and/or would like to develop, and in which course topics they were interested. In addition, staff noted un-voiced needs and requirements that were added to the curriculum. These included life skills and confidence building, family



planning, child education and household budgeting. The initial interest among both Lebanese and refugee women was high, and many clients had to be put on waiting lists for later enrolment.

Each center had around 10 staff with an Al Majmoua staff as coordinator. Trainers were identified as the curriculum was established from local NGOs found through the community services survey, among Syrian

<sup>28</sup> Apprenticeship opportunities were identified among MSMEs having loans with Al Majmoua, who signed a tri-partite code of conduct agreement ensuring minimum rights for the apprentice with Al Majmoua and the refugee. Apprenticeships were unpaid, but provided job experience. It is as yet unclear whether they will lead to sustainable jobs.

<sup>29</sup> A larger exhibition planned for November 2014 at the Al Majmoua head office had to be cancelled due to a bomb explosion.

community leaders<sup>30</sup> (e.g. for youth courses), and from among Al Majmoua staff, who were required to take leave or to train at the centers outside of working hours. Al Majmoua provided training of trainers before each course.

Along with the trainings provided at the centers or in more remote villages, social events continued throughout the project, and included educational theater, community development (e.g. park cleaning, sports) for youth, concerts, job/career fairs, and celebration of various holidays, including World Refugee Day, Fighting Illiteracy Day, and Mother's day. Al Majmoua often contracted existing clients to cater at these events, supporting client businesses. The centers became 'second homes', meeting points and social pivots for many women, breaking the isolation and home confinement and helping to break down stereotypes and barriers allowing Syrians and Lebanese to make new friends.<sup>31</sup> Each center served on average 2,940 clients over the project period.

The livelihood center project provides an example how strong research and a diversity of offerings contributed to the success of NFS. The services provided from all three livelihood centers to refugees were consistently evaluated very positively by beneficiaries, frontline staff and funders as relevant and needs-based. They also found the environment to be accommodating and a safe social space. Drop-out was estimated at a low 10%, and the trainings were well designed and competently delivered, business tool kits were delivered and job placements were done. The non-financial services to refugees thus appeared to be achieving the outcomes of both facilitating entrepreneurship and employability as well as contributing to increased social cohesion and tension-reduction in the communities served. Both field staff and clients lamented their closure at the end of 2014 (see Box 1).

#### Box 1: Cases in point from Mt. Lebanon

**Faten\***: "When the Baysour Center closed, we - a group of Syrian clients - decided that "it mustn't stop here." We investigated needs in the community and decided to open a daycare for children of working Syrian women in a home and do educational classes. After 3 weeks, someone in the neighborhood reported the activity as illegal, and it was closed down. Since then, we have not had the courage to try something else. We miss the center so much."

**Raffiya\***: "I learned to knit and have stock of produce including new items that I made after seeing pictures from the internet on my sister in laws' computer, but I did not attend the marketing course, so I don't know how to price. Therefore I am not selling."

\*Real names not disclosed.

And therein lies also the biggest weakness: Al Majmoua's NFS are being delivered in a 'stop-go' manner – dependent on fundraising efforts for short-term projects with annual funding cycles. The needs of the beneficiaries targeted for non-financial services cannot be met by one-off interventions, but they were left at the end of projects without continued services and without alternatives – there was no sustainable exit strategy.



Recognizing this, Al Majmoua explored linkages of its NFS projects to more sustainable local value chains. As a spin-off from one livelihood center, Al Majmoua established a small *Aghabani* embroidery workshop in 2014 with funding from UNHCR and the EU, and in partnership with the social enterprise Artisans du Liban, AdL (see Annex 3 for details). Once the Syrian and Lebanese women trainees have passed their exams in sewing and embroidery, AdL will supply designs and supplies to their

homes based on orders received, and pick up products when ready, paying the producers per piece/item.

<sup>30</sup> As an NGO, Al Majmoua can employ Palestinians (who are barred from syndicated banking services), but as a financial service provider, the MFI cannot get work permits for Syrians. Syrian trainers were paid on a per day basis.

<sup>31</sup> Client focus group discussion at Aley branch, 25 November 2015.

During 2013-15, Al Majmoua financed its non-financial services for refugees and low-income Lebanese women and youth through seven short-term projects. UNHCR, GIZ and the EU funded the three livelihood centers which provided services to 9,273 women, of whom some 7,000 were Syrian refugees, and the Aghabani workshop with a total of USD 390,000. Additional USD 307,000 was raised from Save the Children, International Rescue Committee (IRC)/DFID and Action Aid for NFS (mainly training) provided to another 949 refugees and Lebanese women and youth in areas around the centers. It appears to have been possible for Al Majmoua to meet the project targets set within budget.

Financing raised for NFS for refugees/hosts (2013-15)	697,000
Total beneficiaries reached (end Oct 2015)	10,222
- Refugees	6,292
- Lebanese	3,930
% women	75%
Est. cost per beneficiary	USD 68.20
Comparative cost per borrower (Jun 15)	USD 162.12
<i>Source: Data from Al Majmoua</i>	

All NFS provided by Al Majmoua are free of cost to beneficiaries, including logistics (travel to/from courses and centers). The 'cost' (external financing received) per beneficiary for Al Majmoua's NFS to refugees and Lebanese during 2013-15 is around one third of the cost per borrower for financial services (see Table 4), which would indicate very cost-efficient service provision.

However, Al Majmoua invests a significant amount of managerial and front line staff time in its non-financial portfolio, which is not included in this rough estimate. As one head office manager remarked: "The livelihood project took a lot of Al Majmoua resources and time for something we were not meant to do. I understand the social mission, but we should focus on improving our core [financial] products before expanding into NFS."<sup>32</sup> With the exception of the embroidery workshop partnership with AdL, it remains unclear whether the results attained by the project-funded NFS activities can be sustained over time. As monitoring ceases after project closure, any longer-term impact will not be monitored. The potential benefit (portfolio growth) to Al Majmoua of its otherwise very successful NFS provision is also not fully exploited, as few NFS beneficiaries (8%) became borrowers.<sup>33</sup>

#### 2.4.2 Financial Services – design, implementation and analysis of results

Al Majmoua does not link non-financial and financial services together in a 'graduation approach' but maintains that both types of services have merit. There is not necessarily an expectation that NFS clients will become borrowers. However, the pilot credit product for mixed groups of Lebanese and Syrian women was marketed through the three livelihoods centers, where Al Majmoua staff held financial education sessions and introduced trainees to savings and credit management. Subsequent marketing of the product was done by door-to-door promotion and through word of mouth by ex-trainees to other women in their community.

Demand among trainees and other refugees for loans was much higher than the UNHCR loan funds and the percentage of capital that Al Majmoua was willing to risk on refugees. Al Majmoua estimated that about half of NFS trainees requested loans at the end of courses, but disbursement was limited to those 'most likely to succeed.' The pilot mixed group loan product was disbursed to 984 women in 304 groups during 2013-14.<sup>34</sup> Syrian female refugees were included with no adjustments to the existing group lending product, i.e., loans required a self-selected group of 3-10 women to be formed with no additional collateral. New borrowers could access loans of USD 200-900 at a 6-10 month term and a nominal interest of 1.65% per month flat. Loans to repeat borrowers could increase to USD 1,700 for a maximum 12 months term at 1.5% per month flat. As with all women borrowers, clients also received the *Bitakati* discount card for the duration of the loan term.

<sup>32</sup> Interview on 24 November 2015.

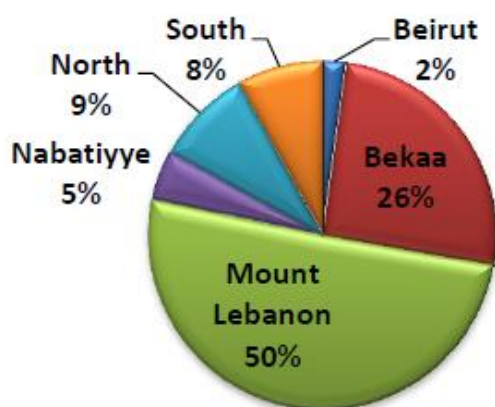
<sup>33</sup> Data provided by Al Majmoua in December 2015.

<sup>34</sup> The first 52 group loans were issued as of December 2013, 60% of which to Syrian women, but it is not clear how many borrowers also benefitted from the NFS at the livelihood centers.

In the past, Al Majmoua has presented its (individual) loans as available to “men and women of all nationalities, provided they are legal residents of Lebanon,”<sup>35</sup> but this legal requirement is no longer emphasized, and Al Majmoua accepts an ID card (Lebanese or Syrian), a residency/work permit or the UNHCR refugee registration card as identity documentation for borrowers, which significantly facilitates access by refugees to credit. This is particularly important as the residency permit issued by the Government of Lebanon to Syrians (*iqama*) upon initial entry to Lebanon is valid for six months, and renewable only once for free, whereafter the six-monthly renewal costs USD 200 for adults and requires UNHCR registration, a Lebanese sponsor (*kafil*), or a commitment not to work.<sup>36</sup> The cost is unaffordable to most, and even those who can afford the fee fear for their safety if they have to go back to Syria to renew the permit. So, most Syrian clients met for this case study were de facto illegal immigrants, with the increased vulnerability that follows from this precarious status.

Field staff had noticed a lower level of education (or exposure) among Syrian refugee women than among their Lebanese clients,<sup>37</sup> and many noted that the non-financial services were a great entry point to subsequent credit. As was the case in 2007 when Al Majmoua tried to serve Iraqi refugees, however, Al Majmoua had been challenged by inappropriate referrals of potential clients from humanitarian partners. A manager estimated that some 50-70% of refugees referred to Al Majmoua by IRC, for example, were unbankable. Al Majmoua has recently held a training for partner NGO staff on credit methodologies and products to improve their ability to refer appropriate clients. One indicator addressed in the training is the level of cash grants. If NGO beneficiaries receive very high cash grants (indicating high vulnerability) they are unlikely to be appropriate credit clients.

**Figure 2: Distribution of mixed groups**



Most mixed-nationality groups were formed in Mt. Lebanon – a relatively more affluent part of Lebanon, where relatively more refugees lived with relatives or friends in 2014, but the portfolio extended to other parts of Lebanon as well (see Figure 2). 54% of the clients in mixed groups were Lebanese, and of these women, 73% were first time clients. Among the 46% Syrians, 67% were 1<sup>st</sup> time borrowers with Al Majmoua. While loans for services (42%) and retail trade (27%) dominated, as it does for all Al Majmoua’s loans, processing and manufacture constituted a higher than usual 28% of the enterprises financed. The loan purposes did not differ significantly between Lebanese and Syrian group members, 50-56% requiring working capital, and 24-30% requiring finance for education, health or social events.

Almost all groups (96%) had 3 or 4 members, and almost 40% of loans disbursed were at a mid-range value of USD 600.<sup>38</sup>

Like all FSPs, Al Majmoua works on the assumption that refugees constitute an increased credit risk. Loan officers were generally happy to provide credit to refugees with skills, a profession and/or capacity, but were wary of newly arrived refugees who “don’t have anything to be attached to.”<sup>39</sup> Al Majmoua has sought to

<sup>35</sup> IFC and Grameen-Jameel: Lebanon: A Diagnostic Study of the Demand for Financial Services by Micro and Small Enterprises, July 2008.

<sup>36</sup> The Government of Lebanon waived the renewal fee (and regularization fine) for Syrians and Palestine refugees resident in Lebanon from August to December 2014. See <http://reliefweb.int/sites/reliefweb.int/files/resources/3RP-Report-Lebanon-final.pdf>.

<sup>37</sup> As confirmed, e.g. by the excellent study by l’Institut des Sciences Politiques USJ: Survey on Perceptions of Syrian Refugees in Lebanon, August 2014.

<sup>38</sup> Al Majmoua: Assessment of the Group Loan product Offered to both Syrians and Lebanese In 2014, November 2015 from where Figure 2 is also reproduced.

<sup>39</sup> Interview with area manager on 24 November 2015.

mitigate the perceived risk of refugees as a less stable client group by requiring mixed loan groups to have a majority of Lebanese women.

A branch manager interviewed confirmed that the mixed group loan was introduced with a 2:1 or 2:2 Lebanese majority requirement “to lower the flight risk” of new refugees that are not known. The branch had only two recorded cases of flight, and for one, the Syrian relatives of the borrower were repaying without involving the Lebanese guarantor. Overall, Al Majmoua has recorded 60 cases of flight (0.11% of the portfolio) in 2015. It is worth noting that the flight risk, even though minute, now extends to Lebanese borrowers (and staff) who have joined the ‘migrant train to Europe’ in search of better opportunities. Al Majmoua’s experience indicates that 1) flight risk mitigation measures should not be specific to refugee clients when external “pull factors” might encourage emigration, and 2) flight does not appear to be a major risk.

It is not possible to establish the extent to which the required group composition has helped ensure good repayment performance, but all refugee clients interviewed listed the requirement for Lebanese group members or guarantors (for individual loans or to start a formal business) as the biggest barrier (see Box 2). Refugees with the strongest social capital would have the best chances of finding group members or guarantors, but for most it is a struggle. Furthermore, the guarantor requirement appears to be a general problem for *all* borrowers, as job and enterprise markets as well as the microfinance industry itself in Lebanon have become increasingly competitive. In fact, one of the most common complaints received during client feedback sessions and exit surveys related to difficulties in finding guarantors. While Al Majmoua also accepts fixed assets, stock and chattel as security, it is seeking to mitigate risk by paying more attention to the profile of guarantors for all borrowers. At least one branch is also piloting an ‘incentive loan product’ for long-term guarantors of borrowers with a good repayment record.

**Box 2: Finding Lebanese partners/guarantors**

**Manal:**\* “The most difficult is finding a Lebanese guarantor. I was able to get my neighbor to sign, but for others it is hard. It was also difficult to find Lebanese for the group – as Lebanese have to be majority. I understand the reason, but it feels unfair. The Lebanese feel superior, don’t trust Syrians and they are afraid we will leave, even if we explain we have made provisions for repayments”.

**Salwa:**\* “Totally agree - I applied for an [Al Majmoua] loan but I could not find a Lebanese guarantor, so I am stuck.”

\*Real names not disclosed.

All loan officer interviewed agreed that they saw no difference in entrepreneurship potential, nor in the performance, group collapse rate, or repayment rate, of the mixed groups compared to Lebanese women’s groups. Most of the refugee businesses that failed were start-ups that lacked marketing skills and/or knowledge of the value chain in Lebanon, which is not unlike failure among Lebanese start-ups. The similarity is largely confirmed by the performance data for of the pilot mixed group credit portfolio, as compared to Al Majmoua’s client segment of all Syrians and the portfolio as a whole (see Table 5).

<b>Table 5: Portfolio performance</b>	AM total portfolio	Segment of all non-Lebanese	Segment of all Syrians	In % of (value for) total portf.	Mixed group product	In % of (value for) total portf
# active clients:						
End 2013	44,229	6,895	1,380	3.1%	2,183	
End 2014	48,618	7,740	1,559	3.2%	984	2%
End October 2015	54,485	8,347	1,518	2.8%	2,443	
% women, end 2014, USD	55%	57%	56%		100%	
Portfolio value, end 2014	41,087,201	5,390,211	1,057,419	2.6%	1,014,570	
% group loans, end 2014	29%	55%	44%		100%	
Loans disbursed, 2014	61,551,995	9,135,611	1,715,361	2.8%	592,300	0.97%
Avg. loan size:						
- Disbursed during 2014	1,280	975	1,058	83%	602	47%
- Outstanding, end 2014	845	696	678	80%	424	
PaR(30), end 2014	0.72%	0.78%	0.85%	118%	0.66%	
Drop-out rate	38%	33%	48%	126%	not available	

Sources: Al Majmoua Annual report 2014 and data from R&D Department received November 2015.

The overall PaR(30) for the product as at 31 December 2014 was 1.13%, which is satisfactory for a portfolio of primarily first time clients. As at end October 2015, the ratio for all loans to Syrians (0.85%) was only insignificantly higher (by 0.3%) than the PaR(30) for the overall portfolio of 0.57%. In analyzing the arrears pattern for the mixed group product Al Majmoua faced challenges, as repayments are only recorded at group level, so they cannot know who in the groups delays or defaults on repayments. However, as for Al Majmoua's groups in general, it did appear that groups of or with a majority of entrepreneurs (as opposed to employees or home-makers) performed better, as they generated daily revenue which could be put aside for loan repayments. Rather than requiring a majority of Lebanese in a mixed group, it may therefore be more relevant to require a majority of experienced entrepreneurs to minimize credit risk.

Drop-out rates for borrowers of the mixed group product has not been analyzed in detail, but branches report it to be at par with the general portfolio. Overall, the drop-out rate for all Syrian borrowers is 10% higher than for the portfolio overall, indicating that almost half of Syrian borrowers do not renew a loan within 6 months of completing the last loan. This could be related to business performance, or a need for clients to rest in between loans.<sup>40</sup> It might also be related to the risk mitigation procedure put in place, whereby loan sizes are lowered for refugees and mixed groups 'to match the risk appetite of Al Majmoua.' In the relatively high-cost Lebanese environment, there may well be a floor for loan amounts, below which the benefit of a loan is outweighed by the cost and effort of repayment. Given that too small loan amounts is the second most common general client complaint, it may be pertinent for Al Majmoua to investigate if loan amounts offered are considered sufficient to grow a micro-enterprise – and whether this risk mitigation measure can be replaced by measures that better guard against actual risk without causing unnecessary client loss.

### **3. Serving refugees – what have we learned?**

The overall experience of Al Majmoua in including refugees in its portfolio of financial and non-financial products has been largely positive, and the overwhelming message to other FSPs is not to be afraid: Appropriately segmented and appraised, refugees can be as good clients as any national low-income entrepreneur – and sometimes better. Al Majmoua shares the following lessons learned:

#### **3.1 Expect initial resistance, but this can be overcome by visionary leadership**

Understand that inclusion of refugees essentially means challenging stereotypes and preconceived ideas about 'the other,' which exist in all societies and among all stakeholders, including clients, staff, local communities, national media, authorities and funders. The decision to engage can be founded in a strong social mission of inclusion of all, as in the case of Al Majmoua, but it requires determined drive from the top (Board and senior management).

As Al Majmoua learned, the initial desire by top management to roll-out lending to refugees had to be tempered by a slower, more careful approach to alleviate fears and resistance among clients and staff, even despite incentives from potential funders. The process of uncovering and confronting unspoken stereotypes within and around the organization can in itself be an eventful journey towards 'walking the talk' of inclusive and responsible finance, and help clarify how an SPM framework is implemented in practice. Start with an open-ended Board discussion on why refugee (or IDPs or migrant) populations in your country are – or are not – served by your FSP. Also consider a discussion on 'why not refugees?' in your national MFI association, and meet with relevant external stakeholders, such as protection NGOs, UNDP or UNHCR's livelihood sector, to get more information on refugee populations.

Once the reasons for 'why not' are put on paper, a strategy session with management to convert obstacles and constraints into opportunities and strengths is a great second step. Determine if any interest in engaging

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<sup>40</sup> As Al Majmoua cannot mobilize savings, the MFI does not have an easy way to accommodate resting clients, and all clients not renewing their loans within a maximum of 6 months are considered drop-outs.

is based on a separate social responsibility response to a refugee problem, as was the case for Al Majmoua,<sup>41</sup> and/or whether you see an opportunity for growth based on a business case.

### 3.2. Develop and share the business case/strategy to secure buy-in

Developing the business case based on hard data can be difficult to do upfront, due to a big information gap, but make it a point to compile all the questions and concerns for which you do not have an upfront answer and incorporate these into the ‘feasibility study’ to eventually build a business case that works for all stakeholders.

- Ask frontline staff and existing clients what they think. The focus group discussions with clients that Al Majmoua did early on provided very important insights into which fears and constraints (whether real or perceived) had to be addressed in the strategy and pilot project design;
- Research and communicate to secure buy-in – and expect increased visibility:
  - As the strategy or business case is developed, make sure to keep all stakeholders fully informed – including staff and existing clients. For Al Majmoua, a key turning point came when clients and staff felt their concerns were being heard and addressed in the pilot project. Use newsletters, staff meetings, client forums and feedback from external stakeholders, including funders and protection agencies to get buy-in;
  - There can be benefits (visibility, reputation and funding) in being ‘first mover’ in the market, especially if refugees are primarily served by international humanitarian NGOs in your country,<sup>42</sup> but there can also be comfort in partnerships. Al Majmoua benefited from its membership of national social and humanitarian forums,<sup>43</sup> which not all FSPs would typically participate in, and its visibility has substantially increased, resulting in interest from policy makers and funders.<sup>44</sup>



Today, Al Majmoua has documented evidence for a business case to integrate refugee populations fully in its financial services. The business case revolves around the following aspects:

- Emerging evidence that the refugee crisis in Lebanon will be protracted, that productive refugee populations can benefit the local economy and that Al Majmoua as an FSP can further strengthen its social mission of financial inclusion to be part of the solution;
- Evidence that Al Majmoua as an FSP is better equipped to analyze market access and economic opportunities and livelihood strategies of refugees than protection agencies;
- Evidence that when informed by market research and careful segmentation, including refugees can augment portfolio and can contribute to social cohesion in communities;
- Evidence that adjustments to internal policies and procedures is minimal (at least when refugee populations are from neighboring countries), as no specific products are necessary, but appropriately selected refugee clients can be included as additional segment in existing portfolio;
- Evidence that successful inclusion of refugees can serve as staff motivation for the FSP;

<sup>41</sup> Al Majmoua did not initially develop a business case for financial services to refugees, but saw an opportunity to use their non-financial services as a de-linked social response to a national crisis. There was, however, pressure from some branches to provide credit to refugees living with relatives in Lebanon, who could act as guarantors and references for the new clients.

<sup>42</sup> The UNHCR evaluation of Al Majmoua’s livelihood centers noted that local actors and Lebanese authorities were more positive towards the services as they were provided by a local (rather than an international) NGO. Due to early involvement, Al Majmoua is the local NGO representative in the livelihood cluster core group, and was the only local NGO from Lebanon to be invited and sponsored in full to attend the UN Resilience Development Forum in Jordan in November 2015.

<sup>43</sup>E.g. the Livelihood and Social Stability Cluster Core group chaired by UNDP and MOSA, and the Local NGO Forum.

<sup>44</sup> Al Majmoua has been received expressions of interest from the EIB, Credit Suisse, KfW and AFD, based on its engagement in financing refugees.



- Significant benefits generated of increased visibility and reputation – especially if the FSP is among ‘first movers’ in the market – which can attract funding;
- Indications that including refugees can spur new product development, both for non-financial services and for transferable/transnational financial services. Al Majmoua is considering contacts to FSPs in refugee and migrant clients’ countries of origin (Philippines and Syria) to develop such linkages, which could have huge potential both for increased and continuous client services, but also for the identification of new potential risk mitigation mechanisms (e.g. security in country of origin).

### 3.3 Market research is indispensable

Even in Al Majmoua's case, in which hosts and Syrian refugees share the Arab language and many cultural traits and centuries of interaction have created a level of familiarity, nonetheless stereotypes, generalizations and misconceptions existed that market research helped to disperse. Where culture, language and traditions among the targeted refugee population differ significantly from the host community (and thus also from FSP staff), market research will be that much more critical, as adaptation, adjustments and redesign to products, procedures and/or processes may be necessary.

Market research can help make refugee populations become more visible to the FSP. A recommended starting point is consultation with UNHCR and other protection agencies and local authorities, as they can usually assist with numbers, location maps and basic socio-economic profiles of refugee populations. Share your plans to solicit support from protection agencies – and approval if needed – from relevant local (or national) authorities.

Information from other agencies is helpful, but it does not replace the need for a thorough, internally managed market and client segment study to be able to identify clients with the best chance of successfully using financial services. Al Majmoua suggests that FSPs focus their market research in the value chains where refugees have an advantage (a captive market, inherent demand), such as in ethnic foods and handicrafts. Further, arrange or participate in social events organized by refugee associations, municipalities, protection agencies, and NGOs in your areas of operation and place marketing materials at municipal offices, schools, social service centers, medical clinics to make your FSP known to the refugee community/ies.

To learn more about the new potential clients – and support social interaction with hosts - create opportunities for repeated informal meetings between refugees and existing clients and staff to begin the process of needs assessment and appraisals. The following tools worked well for Al Majmoua:

- Create an access questionnaire with a list of skills, experience and areas of interest (demand) that participants can tick by interest. Appraise carefully and validate information received;
- Conduct focus group discussion to listen to the voiced demands for services – but engage experienced staff to also observe the unspoken needs;
- Develop relationships – follow up on contacts by SMS, meeting, invitations to visit the branch, etc.

### 3.4 Do not outsource client selection

Protection agencies tend to select or refer the most vulnerable, as they prioritize needs, while FSPs can best serve the working or entrepreneurial poor – whether they are refugees or nationals. So do not outsource or rely on referrals from other agencies for your client selection or appraisals. After completing your in-depth market research organize the findings into what Al Majmoua calls a “segmentation matrix”<sup>45</sup> to get a better idea of how many clients with similar characteristics and demand (segment size) there are in your areas. Extend the segmentation matrix to existing clients/nationals by area to identify common-interest segments to bring together.

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<sup>45</sup> See example of a segmentation matrix in <http://www.cgap.org/blog/using-demand-side-surveys-segment-client-groups-brazil>

Analyze the segmentation matrix to determine whom you can serve best.

- Al Majmoua decided to focus on Syrian women (married or widowed) with home economics skills (sewing, cooking, food production, small livestock raising, etc.) which they hadn't considered could be commercially exploited, and 18-24 year old unemployed youth with college or less education. They deliberately excluded a) resourceful refugees who could start/continue their own businesses, even if they might find it difficult to find national partners; b) Refugees with work permits;<sup>46</sup> c) Syrian adult men who could find informal work (day labor) but may be seen to undercut low-income Lebanese workers); and d) university-educated Syrian youth and students.
- It is ok to deselect sub-segments that may not match your product profile, expertise or risk appetite.

### 3.5 Non-financial services are relevant to refugees – and a good entry point

Offering non-financial services can be a great entry point for refugees who are often socially isolated. Al Majmoua project-fundraised for all its non-financial services, which could be delivered free of cost to all participants. This model may not be possible or even desirable for all FSPs, but it may be worthwhile to ask funders if they could support a pilot project, or to explore a partnership with an NGO providing training.

In designing NFS for refugees, consider the following:

- Ensure equitable access by refugees and low-income nationals alike, but maintain flexibility (e.g. resist funder-pressure for strict nationality-percentages in all activities). Social activities are great for promoting interaction and cohesion. Soft skills training (household budgeting, financial education, personal development, entrepreneurship) can also be done in joint sessions (barring any language barriers);
- Disaggregate client groups by interest. As Al Majmoua experienced, differences in demand, outlook, and initial capacity for more specialized (technical, vocational, skills) training among hosts and refugees may make it preferable to conduct some trainings or BDS activities separately;<sup>47</sup>
- Make sure services are based on actual, specific demand – involve participants in the design of curriculum and activities, and design services around common needs, challenges and interests;
- Cast a wide net for trainers. The right trainers can make or break a course. Make efforts to identify master craftsmen/skilled professionals from among refugee populations who can work as trainers;
- Include cost covering of transport to and from activities if possible, as transportation can be an access barrier to poor refugees;
- Expect tension and be patient. Al Majmoua found that it took an average of two sessions among youth and four sessions among women for NFS participants to start feeling comfortable dealing with each other.<sup>48</sup> The more interaction, the sooner social cohesion starts to be built;
- If NFS are funded by short-term project funds, make sure to have an exit/referral plan for (the majority of) participants either to financial services or to other BDS providers. Al Majmoua did not and, as a consequence, has lost some of the accumulated benefits of its investment in NFS for refugees.

### 3.6 Expand inclusive financial products to refugees

For financial services, refugees can perform as well as any other clients, when well segmented and appropriately appraised. There is no need to develop specific 'refugee products' and in fact, segregated product access can be counter-productive to access by nationals and cause tension with existing clients.

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<sup>46</sup> Syrians can only get work permits for agriculture, construction, and cleaning in Lebanon. Lately, formally trained Syrian female teachers have also been given work permits to operate the 'afternoon schools' for Syrian children. Once people get a work permit, their refugee status and entitlements fall away.

<sup>47</sup> Al Majmoua: Implementing Partner Performance Monitoring Report to UNHCR for 2014 for livelihood center in Mt. Lebanon, 15 February, 2015.

<sup>48</sup> Ibid.

- The standard 5C appraisal method<sup>49</sup> can be used, but do a review of eligibility and appraisal/approval procedures to ensure refugees are not inadvertently excluded or disadvantaged, e.g. by the type of identification or residency documents required;
- If your FSP can offer more than credit, consider including refugees in payment, savings and insurance products first to enable them to build up a relationship and a history before accessing credit;
- Based on risk appetite, select a product or design a pilot with several products in one geographic area to test demand, specific preferences of clients, reactions from national clients and emerging challenges, and conduct an assessment of the pilot to adjust products or procedures before roll-out.

### 3.7 Integrate financial and NFS data into a single MIS

Al Majmoua has efficiently tracked and reported disaggregated data on its non-national portfolio segments, and has tracked and reported detailed data on its non-financial services. However, these two sources of data have not yet been integrated in a common MIS system and thus, more refined data analysis of NFS client potential, characteristics and longer-term impact monitoring of the combined effect of the two separate types of services provided is not (yet) possible. With the planned upgrade of the current (open source) MIS Mifos to Mifos X in 2016, Al Majmoua is planning to integrate all its client data into one database to be able better to mine it for trends, patterns and potential drivers of success or risk.

### 3.8 Review and update the risk management regime

During the pilot test period, review the risk management system and risk mitigation measures in place to check that these accurately define actual and emerging risks and mitigate appropriately.

- The most common risk associated with refugees is ‘flight risk’ based on lack of stability or roots in the community. While Al Majmoua’s risk regime also defined flight risk as high, this is not to date supported by performance data, and is not confined to the refugee portfolio (if this risk is significant, it should be reflected in elevated PaR ratios for refugees, but is not). Perhaps ‘flight risk’ is not the most important risk;
- The key concern (perceived risk) among Lebanese clients was unfair competition for jobs and business sales. If such outpricing is happening in your market (i.e. if the perception is correct – which may not always be the case), this could be a credit risk factor: increasing loans to refugees could ‘cannibalize’ loans to low-income national entrepreneurs or workers, and eventually reflect in increased arrears in the national portfolio segment. Al Majmoua’s portfolio quality data does not suggest this notion (PaR(30) remains lower for the overall portfolio than for refugee segments), but it may be a relevant ‘early warning trigger’ to carefully monitor;
- High levels of multiple cross-borrowing in the market which could lead to over-indebtedness among clients in general (cross-borrowing in Lebanon is undocumented but assumed to be high), and among refugee clients in particular, if loan sizes on offer are too small to sustain a business, or if refugees’ existing debt is not carefully assessed;
- Restricting loan amounts is a typical risk mitigation mechanism, but reducing loan size may negatively affect drop-out of refugees. If loans become too small to sustain a business in markets with high inflation and price increases, it may not be worth it for clients to renew a loan;
- Finding national guarantors is harder for refugees – consider alternatives including more diligent background checks, social vetting by (refugee) associations, places of worship, or relatives (in host country, country of origin and/or in third countries), evidence of ‘stability’ like long-term rental contracts, children in school, spouse in formal job, and evidence of repayment capacity like remittance receipts, credit history in country of origin.

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<sup>49</sup> The 5C’s are: character, capacity, capital, collateral, and conditions. In appraisals, check for any unintended ‘killer assumptions’ for including refugees, e.g. requirements for documents or collateral that were designed for a national clientele but could be adjusted to enable access for non-nationals as well.

## 4. Conclusion

Based on a deeply rooted social mission and strong values of inclusiveness, Al Majmoua has built experience in serving migrants and transitory refugees over a decade, and responded to the current Syrian refugee crisis in Lebanon primarily with a social responsibility perspective to ‘do something’ and be part of the solution.

Addressing initial concerns expressed by existing clients and staff, this response was largely de-linked from the core credit business and led by the non-financial services department. While extremely well designed and successfully implemented, the non-financial services provided to refugees were funded mainly by humanitarian funders based on a series of short-term project proposals that largely lacked exit or sustainability strategies. A limited amount of capital was sanctioned for a pilot project of mixed-nationality group loans. To date, the performance of this product and the Syrian portfolio segment as a whole has not diverged markedly from the overall excellently performing portfolio of Al Majmoua.

An incremental strategy development process has allowed Al Majmoua to learn valuable lessons from inclusion of refugee populations without significant risk to its own capital. It has, however, also resulted in inefficiencies, both operationally (the many reports required by various funders) and in terms of impact, as ‘stop-go’ NFS projects came to an end and longer-term relationships with potential clients were ruptured. With current data, Al Majmoua has the evidence needed to build a strong business case for an inclusive finance portfolio integrating NFS and financial services, backed by an integrated MIS system.

Funders have already expressed interest in (co-)funding such a business strategy. The strategy will include a new pilot project to develop an individual loan product for Syrian refugees, funded in part by a new, short term (19 months) grant from DFID via the humanitarian INGO International Rescue Committee (IRC), with whom Al Majmoua has worked closely in the past. It will also address the position of non-financial service provision within Al Majmoua as either a core product, potentially cross-subsidized by financial revenue, or as a spin-off into a separate, increasingly sustainable entity focused exclusively on training, BDS and TA services – to clients, but potentially also to other FSPs. And finally, it may include linkages to FSPs in the countries of origin of Al Majmoua’s current refugee (and migrant) clients, opening up exciting prospects of transnational services and transfer of credit history for refugees and migrants returning from Lebanon in the future.

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## Annex 1: A Contextual Snapshot of Lebanon and Its Financial Sector

The small, multi-cultural and open economy of Lebanon is no stranger to conflicts resulting in movements of peoples seeking refuge, but has proved resilient through the many and frequent shocks it has faced.

The Lebanese Civil War (1975-90) was itself triggered by political polarization following the displacement of some 100,000 Palestinian refugees to Lebanon after the 1967 exodus and PLO's expulsion from Jordan to Lebanon. Other foreign powers, mainly Israel and Syria, fought alongside different factions. The civil war was replaced by the Syrian occupation (1976-2005), while a series of military clashes between Israel and the Iran-backed Hezbollah in Lebanon continued, the latest of which devastated Lebanese infrastructure in 2006 and displaced about 1 million people. Since 2011 when the civil war in Syria broke out, another 1.1 million Syrian refugees have fled to the country, and now one in every four person in Lebanon is a Syrian refugee.

Since 2005, when then Prime Minister Rafik Al Hariri was assassinated, the confessional system of national political governance<sup>50</sup> intended to balance the power between the many Lebanese confessions has become increasingly dysfunctional through elite capture (the parliament extended its own mandate in 2013, abrogating the only national vote), and political paralysis. All three branches of government remain largely vacant (including the presidency since May 2014) or ineffective, the management of public resources is opaque (the national budget has not been adopted by parliament since 2005), public service delivery is close to breakdown in the near-complete absence of economic policy and reforms, and corruption is widespread.<sup>51</sup>

However, the service-oriented and highly urbanized economy founded in laissez-faire commercialism, where real estate, construction, finance and tourism have been the traditional drivers, was not dramatically impacted by the war in Syria until mid-2012<sup>52</sup>, when annual economic growth slumped by about 2%. While sluggish, the economy has remained relatively stable with a very low inflation rate of around 1% since, thanks in part to the lower oil prices and reviving domestic consumption, and in part to the fixed exchange rate regime to the US dollar and the expansionary monetary policies of the central Banque du Liban (BdL), including high interest rates to attract foreign deposits for financing government debt (currently at a high 132% of GDP), and a significant stimulus package.<sup>53</sup>

**Table 6: Economic Indicators, Lebanon**

Population	4.55m
GNI per Capita (Atlas method, 2014)	USD 9,800
GDP	USD 45.7bn
Urban population (%)	88
Poverty (% population below national poverty line)	29
Life Expectancy (2013)	80
School completion rate (primary) (2013)	89.3%
Structure of GDP (%) (2014)	
Agriculture	5.5
Industry and manufacture	24.8
Services	69.7

Source: World Bank: World Databank Indicators

Formal job creation has trailed the growth of the labor force for decades and unemployment is now estimated at 20%, higher for youth at around 35%.<sup>54</sup> The lack of higher-quality jobs for the many well-educated Lebanese nationals has fueled emigration,<sup>55</sup> creating a large diaspora which supports relatives in Lebanon through large and stable remittances constituting 6.8% of GDP in 2013.<sup>56</sup> Meanwhile, a large

<sup>50</sup> A consociational system of government based on an equitable distribution of political and institutional power among religious communities. 18 such communities are officially recognized, but their relative sizes have not been established since the last census was conducted in 1932.

<sup>51</sup> For details, see e.g. World Bank: Lebanon: Promoting Poverty Reduction and shared Prosperity – a Systematic Country Diagnostic, June 2015.

Lebanon Economic Monitor, Fall 2015.

<sup>52</sup> World Bank: Report No. 81098-LB Lebanon Economic and Social Impact Assessment of the Syrian Conflict, September, 2013.

<sup>53</sup> See IMF: <https://www.imf.org/external/np/ms/2015/051415.htm>

<sup>54</sup> <https://www.imf.org/external/np/ms/2014/050914.htm>

<sup>55</sup> <http://www.lb.undp.org/content/lebanon/en/home/countryinfo/>. It is estimated that 12-15 million Lebanese live outside of Lebanon compared to 4.5 million in Lebanon. See also: Bank Information Center: The World Bank Group and Lebanon - A Country Study, September 2012.

<sup>56</sup> UNESCWA: Remittances to Lebanon: Economic Impact and the Role of Banks, 2012 <http://www.escwa.org.lb/sites/SCUWRD/L1-1.pdf>

permanent or seasonal foreign labor force (including but not exclusively from Syria) has dominated the unskilled labor market since well before the current Syrian crisis.

Half of the labor force in Lebanon is working in the informal sector: 20% in informal wage employment with little or no social and legal protection, and 30% as self-employed entrepreneurs. Two-thirds of informal firms are engaged in the selling of food, clothes, household items, electronics and other goods, whereas a third provide services, like cleaning, personal care or vehicle maintenance. As of 2010, the majority of informal firms (87%) were managed by Lebanese, followed by Syrians (8%) and Palestinians (4%), and micro-start-ups (firms with less than 4 workers and up to 4 years old) generated about 66,000 jobs in Lebanon between 2005 and 2010.<sup>57</sup>

Since the end of the Lebanese civil war in 1990, extreme poverty has been estimated to around 10% (with 28% living below the USD 4/day national poverty line in 2004). Poverty levels are highest in the north and south of the country, and in small, dense pockets in the suburbs of large towns, including Palestinian refugee camps, which reflect the unevenness of economic growth and development.<sup>58</sup>

## A snapshot of the financial sector in Lebanon

The Lebanese banking sector is very large and well regulated by Banque du Liban (BdL), which stands out as an effective and respected institution, because its considerable powers are legally ring-fenced, and it is financially independent of the government. BdL has granted licenses for a total of 141 domestic and regional commercial and Islamic banks, 73 (non-bank) financial institutions, including one leasing company and four microfinance institutions, and 377 money exchangers,<sup>59</sup> which are supervised in coordination with the independent Banking Control Commission. Relying on significant deposits and remittances from the large Lebanese diaspora and Gulf funds, the domestic commercial banks are liquid and profitable, but have a large exposure to the sovereign. Banks issue debit, credit and payment cards and have extended the use of ATMs. Total credit provided by the banking sector has increased by 10% from 2008-12, and credit to the private sector increased by 20%. At 92.2% of GDP (as of 2012), the penetration of credit is one of the highest in the MENA region.<sup>60</sup>

Lebanon's Centrale de Risque (credit registry) is managed by the BdL. All banks, financial institutions, and leasing companies provide data to the registry, but only banks and financial institutions (including the regulated MFIs) are allowed to retrieve data from the registry. Microfinance institutions that are not regulated by the Central Bank, can neither provide data nor inquire from the registry unless they have credit facilities from banks, which can access the registry on their behalf. The registry only collects data on loans of more than USD 3,000, however, well in excess of the average loan balance of most MFIs.<sup>61</sup>

The insurance industry is small compared to the large banking industry, but Lebanon has a higher insurance penetration than its regional peers, with non-life insurance dominating life insurance products, as is the case also in the rest of MENA. Insurances are regulated by the Insurance Control Commission (ICC) and have close relationships with banks.<sup>62</sup>

The financial sector has remained resilient throughout the crisis despite some loss of profitability of the Syrian affiliates of the seven major Lebanese banks which had expanded in Syria since the mid-2000s. In August 2014, BdL launched an incentive program (Circular 331) encouraging banks to invest in early stage Lebanese joint ventures by guaranteeing 75% of bank investments in 'the knowledge economy' to reduce brain drain

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<sup>57</sup> World Bank: Jobs or Privilege: Unleashing the Employment Potential of the Middle East and North Africa, 2014.

<sup>58</sup> World Bank: Lebanon: Promoting Poverty Reduction and Shared Prosperity - A Systematic Country Diagnostic, June 2015.

<sup>59</sup> <http://www.bdl.gov.lb/pages/index/4/25/Main-Characteristics.html>

<sup>60</sup> IFC and Arab Monetary Fund: Arab Credit Reporting Guide, 2015.

<sup>61</sup> Ibid.

<sup>62</sup> IMF Country Report No. 14/238: Lebanon – Selected Issues, July 2014.

and support new start-ups. However, take up has been slow, and gaps persist in longer term financing facilities for infrastructure and PPP projects, as well as for micro and SME financing needs.

Despite the efforts initiated by BdL and e.g. the *Kafalat*<sup>63</sup> to promote SMEs and improve their access to finance, entrepreneurs and small businesses cite access to credit as a constraint due to a limited track record, large collateral requirements, and lack of an established relationship with the financial intermediary. Almost 42% of firms and MSMEs in particular identified access to finance as a major constraint in 2014, above the regional and global average.<sup>64</sup>

The around 20 Microfinance institutions in Lebanon are registered as non-governmental organizations, financial institutions, or commercial companies. Lebanon has no microfinance or inclusive finance policies, or any regulations specifically addressing microfinance. While several former NGO-MFIs have transformed into (or started as) Financial Institutions (NBFIs) since 2007, the regulatory framework for NBFIs is not tailored to microfinance, and the incentive for NGO-MFIs like Al Majmoua to transform is therefore limited. Only banks are permitted to mobilize savings, but Lebanese law does not require an institution to obtain permission to engage in lending. For this reason, microfinance provision in Lebanon is almost exclusively credit-led, while several MFIs also offer free or low-cost non-financial services.<sup>65</sup> MFIs cannot offer savings, leasing or payment products, and micro insurance is very limited (see Table 7).

Commercial bank branches per 100,000 adults	30
ATMs per 100,000 adults	43.7
Mobile cellular subscriptions	4,387,275
% of adult population with account at fin. institution	46.9
% of adult population with a mobile account	0.7
% of population covered by micro insurance	0.1
% of adults who have borrowed from a financial institution	15.6
% of adults who borrowed any money in the past year	34.8
% of adult population who saved at a financial institution	17.5
% of adult account holders with dormant accounts (no deposit or withdrawal in past year)	6.4
<i>Sources: World Bank Development Indicators, 2014, Findex 2014, IMF Financial Access Survey 2013/14 and microinsurance network, compiled by EIU: Global Microscope 2015.</i>	

Obviously, credit-led microfinance requires financing. In 2004, the BdL issued a circular<sup>66</sup> intended to encourage banks to partner with microfinance providers (MFPs) by exempting 5% of a bank's reserve requirement if used for making "small loans" (max. 6,666 USD equivalent) in local currency to or through "small loan institutions".<sup>67</sup> As most MFPs issue loans in dollars, there have been few such partnerships to date, but the regulated FSP Vitas (formerly Ameen) has continued its agent partnership with commercial banks.

The USAID-funded Lebanon Investment in Microfinance Program (LIM) has provided loan capital and TA to a number of microfinance institutions since 2009, initially disbursing USD 9.5 million.<sup>68</sup> Al Majmoua has received a total of USD 2.1 million from LIM in grants and loans since 2009.

<sup>63</sup> The Kafalat is a credit guarantee institution established by the government in 1999 and owned 75% by the National Institute for the Guarantee of Deposits and 25% by 50 Lebanese banks. It guarantees up to 90% of bank loans to start-up SMEs offering an interest rate subsidy of up to 7% through the BdL.

<sup>64</sup> The Economist Intelligence Unit (EIU): Global Microscope 2015: The enabling environment for financial inclusion. Sponsored by MIF/IDB, CAF, Accion and the Metlife Foundation. EIU, New York, USA, from where Table 2 is also reproduced.

<sup>65</sup> CGAP: Diagnostic Report on the Legal and Regulatory Environment for Microfinance in Lebanon, December 2009.

<sup>66</sup> BDL Basic Decision No. 8779 dated July 13, 2004. To date, the circular is the sole regulation relating specifically to microcredit activities in Lebanon.

<sup>67</sup> Defined as civil associations or NGOs that upon the approval of the Central Bank, can enter into a partnership agreement with banks to directly or indirectly disburse small loans.

<sup>68</sup> IESC and VEGA: Lebanon Investment In Microfinance Program - Final Report, June 2015.

In October 2014, the largest 8 MFIs in Lebanon, including Al Majmoua, founded the Lebanon MFI Association act as a self-regulatory umbrella with the role of representing the microfinance industry, promoting best practices, and improving cooperation between the MFIs.

The key players in the microfinance industry in Lebanon has increased the supply of micro credit substantially in the past 6 years, growing and an annual rate of 24%, compounded. Total number of active clients has increased from 39,000 in 2009 to almost 91,000 and total loans outstanding in 2014 is around USD 115.2 million. Loan quality is generally good for the largest MFIs (see Table 8).

<b>Table 8: Key performance indicators for MFIs in Lebanon, 2013</b>			
<b>Indicator</b>	<b>Overall average for 9 MFIs</b>	<b>Al Majmoua, 2013</b>	<b>Al Majmoua, June 2015</b>
# active clients	9,238	47,206	54,485 (Oct 15)
Net loan portfolio	10,397,220	35,418,000	44,730,629
Debt/equity ratio	1.66	0.86	0.64
PaR(30)	5.93%	0.8%	0.57% (Oct 15)
Loan Loss Reserve ratio (%)	1.61%	2.3%	2.0%
Risk Coverage Ratio (%)	82.2%	274%	344%
Oper. Expense ratio/GLP (%)	24.3%	26.7%	52%
RoA	-1.6%	10.8%	10%
RoE	-3.9%	20.1%	17%
OSS	99.75%	94%	159%
FSS			133%

Source: Calculated from data in IESC and VEGA: Lebanon Investment in Microfinance Program - Final Report, June 2015.

The data above excludes Al-Qard Al-Hassan (AQAH), a very large NGO-MFI that was founded in 1982 and said to be run by Hezbollah. AQAH operates on Shariya-compliant banking principles and operates mainly in South Lebanon, the Bekaa valley, and Beirut.

Al Majmoua continues to be the largest and generally best performing MFI in the country – and also one of the most conservative in terms of risk coverage, and perhaps more cautious in its product developments than its excellent performance suggests it would have to be.



## Annex 2: The Refugee Populations of Lebanon

Lebanon has historically been a country of net out-migration, but has also seen in-migration of refugees, migrants and displaced persons from other Middle Eastern countries, Asia and sub-Saharan Africa, all of whom have either fled situations of conflict or have come to seek employment opportunities and better living conditions than at home. Lebanon has not signed the 1951 Convention Relating to the Status of Refugees but has allowed refugees to settle across the country – at least until recently.<sup>69</sup>

Palestinians are recognized as foreigners in Lebanon, but as state-less refugees they have limited political, social, or civil rights; they cannot own land, cannot access the public education or health systems, and despite amendments to the labor law in 2010, they remain barred from around 20 syndicated professions. Estimates of their numbers vary between 270,000- 453,000 – or at most around 10% of the population. Most have been in Lebanon for generations and have been through multiple displacements among camps due to outbreaks of conflict since the Lebanese civil war (1975-90). Around half live in the 12 recognized Palestine refugee camps, which are poorly serviced and often flashpoints for conflicts. Self-settled Palestinian refugees earn a living mainly through employment via the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA), remittances, work with Palestinian organizations, by running shops and small enterprises, and/or by working as casual laborers in construction sites, orchards and embroidery workshops, or as cleaners. After war broke out in Syria, some 53,000 Palestinian refugees (April 2014) from Syria fled to Lebanon.<sup>70</sup> UNRWA's microfinance program lent to Palestinian refugees in Syria, but is not currently operational in Lebanon.<sup>71</sup>

Around one million Iraqis fled war-related violence in the first three years following the 2003 invasion, many of whom were at one time middle-class professionals: doctors, engineers, teachers, artists, filmmakers, administrators, etc. Some 50,000 took refuge in Lebanon, where it was estimated that 10,000 remained in 2007. UNHCR has registered only some 7,400 Iraqi asylum seekers as at Dec 2014.<sup>72</sup>

Finally, the latest arrivals comprise the population of Syrian refugees, of whom 1.075 million are registered with UNHCR in Lebanon (Oct 2015).<sup>73</sup>

Most refugees (around 70% in 2014) are renting accommodation or have sought refuge in over 1,400 informal settlements, with a minority remaining hosted by Lebanese families. Refugee populations are concentrated in the regions that were already poorer and under-served by public services before the crisis, the Bekaa (35%) and North Lebanon (35%). The early arrivals settled in the border areas in the north and north east of the country, traditional destinations for Syrian migrant workers in agriculture. Pre-existing cross-border economic, commercial, and social ties between Lebanese and Syrian communities eased their initial reception, but the continuing surge in population has put an additional strain on services and scarce resources, such as housing, jobs, access to health and education, solid waste management, clean water and sanitation.<sup>74</sup>

There can be no doubt that the increase by 25% of the population within the past 3 years has put severe strains on Lebanese public sector finances and services, which were already weak, and has heightened competition for scarce resources, employment, and access to limited social services, in particular in the

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<sup>69</sup> At the Lebanese government's request, UNHCR halted new registrations of refugees in May 2015.

<sup>70</sup> <http://www.unrwa.org/prs-lebanon>

<sup>71</sup> <http://www.unrwa.org/activity/microfinance-syria>

<sup>72</sup> <http://english.al-akhbar.com/node/23729>

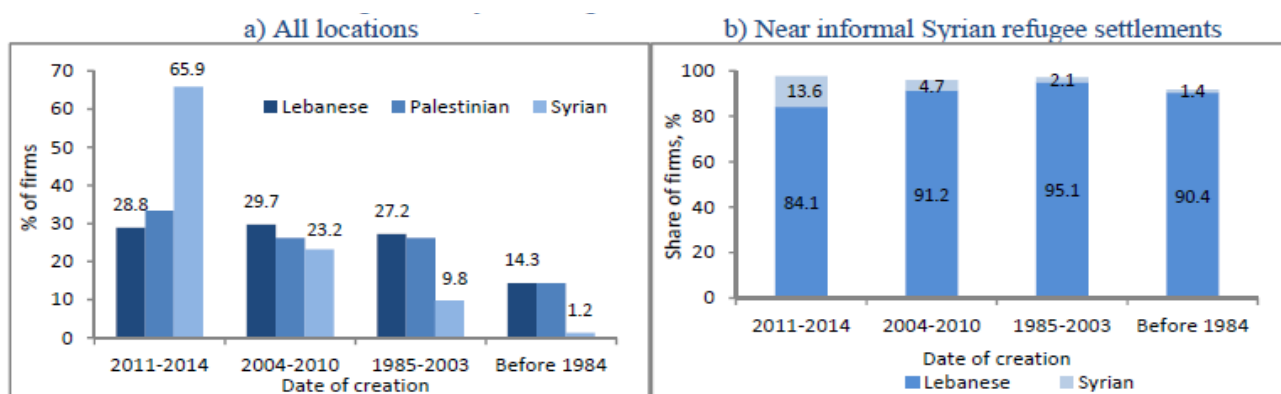
<sup>73</sup> UNHCR: Syria Refugee Response - Lebanon Syrian Refugees Registered as of 31 October 2015, available at: <http://www.refworld.org/docid/56557d3b4.html> [accessed 16 December 2015]

<sup>74</sup> IOM: Urban Migration Trends in the Middle East and North Africa Region and the Challenge of Conflict-Induced Displacement, December, 2014. Background Paper to World Migration Report 2015.

poorer regions, triggering increased levels of social tensions. However, in 2015 a more nuanced analysis of the economic impact of the large refugee population in Lebanon has begun to emerge:<sup>75</sup>

- Overland trade (both imports and exports) has been severely disrupted, and imports from Syria has declined dramatically as Syrian production has collapsed, but this has increased trade via e.g. the port of Beirut. While some exports (to Syria) have been hurt, opportunities for other Lebanese exporters to replace/substitute production in Syria has meant that the overall trend in Lebanese exports to both Syria and other affected countries has remained largely the same as in the pre-war period;
- The refugees and the demand for food aid, often provided as cash assistance, have created increased domestic demand for domestically produced food items. This, combined with the sharp decline in imported Syrian agricultural products, and the increase in cheap labor supply, has created benefits for the Lebanese farmers who produce for the domestic market. However, some increases in prices of food, goods (and even services) have been noted;
- After an initial decline in 2011-13, tourism revenue has picked up in 2015 and other services sector exports in Lebanon (finance, business, ICT) have grown unabatedly during the Syrian war. Business services including legal, accounting, engineering, architecture, advertising and media services, have shown resilience despite the challenging economic environment. Even the real estate sector that contracted in 2010-12, rebounded in 2013. In fact, the World Bank has found that a 1% increase in registered refugees boosts exports of services by 1.5% after two months;<sup>76</sup> and
- The inflow of Syrian refugees has led to an increase in Syrian-owned informal firms, but there is little evidence of displacement of Lebanese firms. In locations close to informal Syrian refugee settlements, informal businesses managed by Syrians represented 13.6% of businesses opened between 2011 and 2014 compared to 4.7% for businesses opened between 2004 and 2010, but Lebanese businesses still account for over 84% of the new businesses near these Syrian settlements (see Figure 1).

**Figure 1: Ownership by nationality of informal firms created in Lebanon and near refugee camps over time**



Source: WB staff calculations from Lebanon Enterprise Survey – Informal Sector 2013/14.

<sup>75</sup> World Bank: Lebanon: Promoting Poverty reduction and Shared Prosperity – A Systematic Country Diagnostic, June 2015.

<sup>76</sup> World Bank MENA Region: the Impact of the Syrian Conflict on Lebanese Trade, April 2015. This positive impact has also been observed in other refugee situations, e.g. in Tanzania.

### Annex 3: Linking NFS to Commercial Value Chains – the Example of Artisans du Liban



Handicraft has been identified as an area with great potential for Syrian women's livelihoods considering existing skills and cultural barriers to participate in the traditional labor market.<sup>77</sup>

As a spin-off from the livelihood center in the North, Al Majmoua established a small handicraft workshop in Tikrit in Akkar district in late 2014 with UNHCR and EU funding.

A total of 90 women (44% Syrian refugees) registered for training in sewing, block printing and the special Syrian embroidery technique *Aghabani*, after which the workshop was named.

The workshop conducted its first 3-month training course in May 2015 with 35 participants selected from 80 candidates, and the second in September with 26 participants, around half of whom are Syrian refugees. The trainers include local handicraft producers and a Syrian embroidery specialist. Al Majmoua has subcontracted the management of the workshop to the social enterprise Artisans du Liban (AdL).

AdL was established as a non-profit company in 1979 to sustainable trade Lebanese handicrafts domestically and for export, and currently has retail outlets in Beirut, Tripoli and Paris in addition to 4 workshops (including Aghabani) to train and produce working space for handicraft producers.<sup>78</sup> Some 250 home-based producers have been trained.

AdL supplies the designs and supplies to producers based on orders received, and picks up produce when ready, paying producers per piece/item. Producers are thus spared the difficulties of marketing and bringing items to market, and are ensured a fixed price per order, but not a fixed quantity of work.

This value chain linkage enable successful trainees to earn income from home (or come to the workshop to work) with a more sustainable market access than trading in the local market might generate. In addition, AdL is negotiating with another company to help select trainees for kilim rug production at a workshop in the area, which could become an additional income generating opportunity.

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<sup>77</sup> 2014 Syria Regional Response Plan – Livelihoods.

<sup>78</sup> See [http://www.alyad.com/philosophie\\_en.php](http://www.alyad.com/philosophie_en.php) for more details.