

ECONOMIC AND SOCIAL COMMISSION FOR WESTERN ASIA

**THE ROLE OF MICROCREDIT IN POVERTY ALLEVIATION:
PROFILE OF THE MICROCREDIT
SECTOR IN LEBANON**

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Foreword

Microfinance has become an increasingly popular option in many developing countries and is thought to be an effective tool for improving the living standards of the poor. Several local non-governmental organizations, international finance institutions, donor countries, banks and others have shown an interest in developing microenterprises through the provision of loans.

In the ESCWA region,* several microenterprise finance programmes have been initiated by active development organizations that have felt the need to create independent bodies that can facilitate economic development in a purely economic manner. These financial institutions have adopted an approach different from that utilized by charity lending groups that run subsidized credit programmes.

Some of the more prominent programmes in the region include the small and microenterprise credit programme of the National Bank for Development in Cairo; the microlending programme of FATEN, funded by the United States Agency for International Development in the West Bank and Gaza Strip; and the Small and Micro Enterprise Development Department of the Social Fund for Development in Yemen. In Lebanon, many institutions lend to the microenterprise sector; the number of such institutions is currently growing to meet market demand.

The present study provides detailed information on the microfinance sector in Lebanon and may be of use to researchers, non-governmental and governmental organizations, donors, policy makers, and prospective borrowers. The study includes a description of the microlending market and its major players in Lebanon, an analysis of the strengths and weaknesses of these players, and information on the microenterprises that constitute the potential target of lending institutions.

The first chapter introduces some of the major microlending schemes implemented around the world and includes a detailed explanation of Islamic banking, an option that is largely ignored in many parts of the world in spite of the great potential demand. The chapter also examines the criteria used by many evaluators to determine the extent of a programme's success. The second chapter reflects the estimated demand for microcredit based on revisions of earlier studies and on actual calculations from the interviewed organizations. Recipes for the success of microfinance programmes are provided. The different microlending programmes being applied in Lebanon are reviewed in both chapters II and III, and information on organizational structures, methodologies for lending, and the strengths, weaknesses and opportunities linked to such programmes is provided. Some general observations

* ESCWA members include Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Oman, Palestine (West Bank and Gaza Strip), Qatar, Saudi Arabia, the Syrian Arab Republic, the United Arab Emirates and Yemen.

and several recommendations for enhancing the effectiveness of microlending institutions are presented in the last chapter.

The text incorporates several case studies of sample borrowers to provide an indication of how recipients have benefited from certain loan schemes. It is the intention of ESCWA to conduct additional studies in the future to evaluate the impact of these programmes from the beneficiaries' point of view and to provide quantification of the impact of the loans on areas such as labour, income, health and education.

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ABBREVIATIONS AND EXPLANATORY NOTES

The following symbols have been used in the tables throughout the publication:

Two dots (..) indicate that data are not available or are not separately reported.

A dash (—) indicates that the amount is nil or negligible.

A hyphen (-) indicates that the item is not applicable.

Parentheses () indicate a deficit of decrease, except as otherwise stated.

A slash (/) indicates a school year or a financial year (e.g., 1981/82).

Use of a hyphen (-) between dates representing years, for example 1981-1983, signifies the full period involved, including the beginning and end years.

Details and percentages do not necessarily add up to totals, because of rounding.

In both the text and tables of the study, references to “dollars” (\$) indicate United States dollars, unless otherwise stated.

Bibliographical and other references have, wherever possible, been verified.

The following abbreviations have been used:

| | |
|-----------|--|
| AADR | Association d’Aide au Développement Rural |
| AEP | Association d’Entraide Professionnelle |
| CHF/AMEEN | Cooperative Housing Foundation/Access to Microfinance and Enhanced Enterprise Niches |
| CLD | Coopérative Libanaise pour le Développement |
| CNEWA | Catholic Near East Welfare Association |
| CRS | Catholic Relief Services |
| EC | European Commission |
| ESCWA | Economic and Social Commission for Western Asia |
| EU | European Union |
| FAO | Food and Agriculture Organization of the United Nations |
| FINCA | Foundation for International Community Assistance |
| GDP | gross domestic product |
| ha | hectare |
| ICU | Institute for University Cooperation (Rome) |
| IFAD | International Fund for Agricultural Development |
| IFC | International Finance Corporation |
| LIBOR | London interbank offered rate |
| LL | Lebanese pounds |

ABBREVIATIONS AND EXPLANATORY NOTES (*continued*)

| | |
|--------|---|
| MIS | management information system |
| NGO | non-governmental organization |
| SMEs | small and medium-sized enterprises |
| UNDP | United Nations Development Programme |
| UNICEF | United Nations Children's Fund |
| UNIRDP | United Nations Integrated Rural Development Programme |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| USAID | United States Agency for International Development |
| WOCCU | World Council of Credit Unions |

Introduction

Roadside vendors, small groceries and lingerie shops, craftsmen, household poultry raising, greenhouses, traditional alcohol distillers, electricians, and artisans equipped with simple tools producing basic consumer goods, pushing carts of merchandise, are all familiar sights in Lebanon. Such business ventures are commonly referred to as informal sector enterprises. These, as well as small, formal ventures in the fields of industry, services and agriculture that have fewer than five employees, are targeted in the present study.

In order to survive, grow and succeed, these ventures need both know-how and sufficient capital from savings or from loans from family members, banks, non-profit organizations or other sources. The present study addresses this need for capital, describing the microlending market and its major players in Lebanon, identifying their strengths and weaknesses, and offering a qualitative and quantitative analysis of the potential target of lending institutions.

The impact of the loans on the borrowers is perhaps the most important consideration in analysing the performance of lending institutions from the community perspective. Research that assesses the impact of every loan programme on its clientele will be conducted in the future.¹ The present publication includes some case studies that provide a preliminary look at how various borrowers have benefited.

The importance of microcredit programmes and their role in community development is the driving force behind this study. Microcredit can mobilize the economy, decrease unemployment, alleviate poverty, empower women, help in the resettlement of the displaced, and help farmers introduce appropriate crops. In other words, it is believed that a well-organized, properly managed microcredit programme can help those marginalized groups in society start their own businesses, and allow established microenterprises to expand to become small-scale formal production units.

Methodology

In order to develop a better understanding of the microfinance market in Lebanon, meetings were held with several public- and private-sector stakeholders knowledgeable about the sector. These stakeholders mainly comprise non-governmental organizations (NGOs), private banks, credit institutions and ministries. In addition, field visits were made to project sites and some borrowers were interviewed.

¹ Under the worldwide programme for Assessing the Impact of Microenterprise Services (AIMS), funded by the United States Agency for International Development (USAID), a comprehensive methodology for assessing impact at the beneficiary level was developed. The World Bank's World Development Report team adopted this methodology.

Earlier studies on the same subject were consulted; the primary source of information was a recent study on the informal financial market in Lebanon prepared for the International Finance Corporation (IFC) (Melzer and Chetelat, 1998). The conclusions drawn from the above-mentioned meetings and the information gleaned from the consulted materials constitute an important part of this study.

The interview process varied according to the nature of the interviewee. All meetings began with an introduction to explain the purpose of the study; specific technical questions were then asked of NGO and bank representatives (see annex I) which differed from those asked of borrowers and public officials. The nature of the questions and answers are reflected in the organizational profiles provided in annex II.

The interviews with public officials concentrated on policies directed at increasing the supply of microloans, inquiries about ministry programmes that supported the lending market, and central bank decisions regarding the creation of a secure atmosphere to promote activities such as microlending.

Interviews with borrowers were more informal. Direct and indirect questions were asked, and the interviewer recorded on-site observations and neighbours' and family members' comments. Body language, tone of voice and facial expressions revealed a great deal about the respondents' concerns or reservations and provided valuable clues for interpreting their answers. The interview setting, the site, the geographical region, the type of project, the lending scheme used, the borrowers' social status, and many other variables helped determine the nature and outcome of the different interviews.

I. MICROENTERPRISES IN LEBANON: A GENERAL OUTLOOK

Statistics and information on microenterprises in Lebanon, their distribution by sector, location and share in the economy, and their access to credit are relatively new. Some studies by specialized entities are available. This chapter is based on a study prepared by Alexander Melzer and Philippe Chetelat for the IFC in 1998, on the researchers' meetings with concerned individuals, and on observations regarding microlending in Lebanon.

A. BASIC DATA ON THE MICROENTERPRISE SECTOR IN LEBANON

The Report on Industrial Census, issued by the Directorate of Industry of Lebanon in December 1994 and cited in the Melzer and Chetelat study, indicates that there are 23,518 industrial establishments, defined as "economic units producing specific goods and enjoying autonomous management and independent accounting" (p. 1). The main industrial categories are listed in table 1 (services of all kinds are excluded).

TABLE 1. DISTRIBUTION OF NON-AGRICULTURAL INDUSTRIAL ESTABLISHMENTS IN LEBANON, BY CATEGORY

| Industry | Share of total |
|----------------------|----------------|
| Mining and quarrying | 1.1% |
| Manufacturing | 96.4% |
| Construction | 2.3% |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

The report also includes the distribution of industries in Lebanon by size (see table 2). A total of 15,935 units have fewer than five employees and are thus categorized as micro.

TABLE 2. DISTRIBUTION OF INDUSTRIAL FIRMS IN LEBANON, BY SIZE

| Total No. of employees | Total No. of units | Units with fewer than 5 employees | Units with 5-10 employees | Units with 10-20 employees | Units with 20-50 employees | Units with 50-100 employees | Units with more than 100 employees | No answer given |
|------------------------|--------------------|-----------------------------------|---------------------------|----------------------------|----------------------------|-----------------------------|------------------------------------|-----------------|
| 139 713 | 23 517 | 15 935 | 3 770 | 1 544 | 699 | 161 | 96 | 1 312 |
| | 100% | 68.0% | 16.0% | 6.6% | 3.0% | 0.7% | 0.4% | 5.6% |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

The central findings of the census report are as follows:

- (a) The majority of Lebanese industrial firms are small (68 per cent employ fewer than five wage-earners);
- (b) There is a concentration of industrial units in Mount Lebanon (45 per cent);
- (c) Only 56 of the 23,517 units have foreign capital;
- (d) Some 86 per cent of the units are, in a legal sense, personal enterprises.

Table 3 shows the distribution of the four largest microenterprise sectors among the 21 sectors assessed.

TABLE 3. DISTRIBUTION OF THE FOUR LARGEST MICROENTERPRISE SECTORS IN LEBANON

| Sector | No. of units with < 5 employees |
|---|---------------------------------|
| Food products and beverages | 3 300 |
| Wearing apparel | 2 284 |
| Fabricated metal products | 2 541 |
| Furniture | 2 797 |
| Total no. of units in the four sectors listed | 10 922 |
| Percentage of all units with < 5 employees | 70.1% of 15 575 |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

B. ACCESS TO CREDIT

Mention is made in the Melzer and Chetelat study of another study on the microenterprise sector in Lebanon, done by the World Bank in 1995, which lists some important features shared by the various groups, as follows:

(a) Almost half (46 per cent) of the studied sample had never received any credit (10 per cent applied but were refused, and 36 per cent never applied); 25 per cent had short-term loans; and 13 per cent had long-term loans; and 10 per cent had overdrafts (loan terms were not explained in the study);

(b) Prohibitive collateral requirements, high interest rates,² and the unwillingness of banks to extend long-term credit were the most serious problems;

² Several stakeholders feel that the market interest rate is not affordable for microenterprises involved in agriculture, industry or services. It is believed that these sectors need subsidized loans to survive. Such observations have emerged from interviews with several NGOs, development institutions and the United Nations Development Programme.

(c) Of the loans provided, 61 per cent were used for trade, 36 per cent for manufacturing and 23 per cent for services;

(d) Entrepreneurs participating in the survey expressed a lively interest in obtaining more credit, mainly for business expansion.

Section C of this chapter shows that most microenterprises obtain loans from suppliers and wholesalers. Such loans are generally very short-term (15-30 days), and a high rate of interest is charged; the repayment period and interest rate varies according to the nature of the relationship between the parties and the credit history of the borrower. Profiles of the various regions in Lebanon show that formal loan disbursement to the microenterprise sector is weak across the board, though the reasons vary. Repayment rate is often considered an indicator of credibility, and it is notable that borrowers in the Chouf region have a reputation for repaying, while borrowers in other regions, such as Baalbek, do not. However, it is understood that there are many different reasons for low repayment rates, and that this does not necessarily reflect a lack of credibility. It is the history of the loan programmes, including their performance and management, as well as the overall socio-economic situation in each region that will affect decisions regarding any future credit programmes.

A third publication cited in the Melzer and Chetelat study, the Recensement des Immeubles et des Etablissements issued by the Central Administration for Statistics in 1996, indicates that there are 673,000 individuals working with 200,000 enterprise units in Lebanon, 88.1 per cent of which have fewer than five employees (see table 4).

TABLE 4. DISTRIBUTION OF ENTERPRISES IN LEBANON,
BY NUMBER OF EMPLOYEES

| Total No. of employees | Total No. of units | Units with fewer than 5 employees | Units with 5-10 employees | Units with 10-20 employees | Units with 20-50 employees | Units with 50-100 employees | Units with more than 100 employees | No answer given |
|------------------------------|--------------------------|---|---------------------------------|----------------------------------|----------------------------------|-----------------------------------|---|-----------------------|
| 672 915 | 198 436 | 174 789 | 10 687 | 3 525 | 1 755 | 485 | 376 | 6 819 |
| | 100% | 88% | 5.4% | 1.8% | 0.9% | 0.2% | 0.2% | 3.4% |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

The authors of this third study surveyed various sectors to determine the overall distribution of enterprises and employees (see table 5).

TABLE 5. DISTRIBUTION OF ESTABLISHMENTS, BY SECTOR

| Sector | Share of units | Share of employees |
|---------------|----------------|--------------------|
| Agriculture | 8% | 5% |
| Manufacturing | 15% | 19% |
| Construction | 1% | 2% |
| Services | 76% | 74% |
| Total | 100% | 100% |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

The study notes the large number of new entrants in the geographic areas most affected by the war. The main advantage of the census, according to the Melzer and Chetelat report, is its comprehensive coverage. It reports on 33 different categories of activities that can be grouped into five main segments (see table 6).

TABLE 6. DISTRIBUTION OF MICROENTERPRISE UNITS AMONG THE MAIN SEGMENTS OF THE LEBANESE ECONOMY

| Sector | No. of units with fewer than five employees | Percentage of total |
|------------------------|---|---------------------|
| Agriculture | 13 897 | 8.0 |
| Manufacturing | 24 001 | 13.7 |
| Construction | 1 556 | 0.9 |
| Trade (including cars) | 100 038 | 57.2 |
| Services | 35 257 | 20.2 |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

Within the microenterprise sector, a very large proportion of units (42%) are involved in retail trade. The distribution of these units among the different regions is explained later.

The findings of the Melzer and Chetelat report regarding the number of units and their sectoral distribution are summarized in table 7. The table is believed to represent 92 per cent of all microenterprises in Lebanon, indicating an overall total of around 200,000 units with fewer than five employees. Most of these enterprises make their purchases through contract systems that incorporate exorbitant interest rates. The report notes that a "procurement credit (along with institutional changes in the procurement system) could help the more vigorous small enterprises [and farmers] organize their own supply at lower cost, possibly jointly with other enterprises. Investment credit (along with improved standardization) could help them to consolidate and expand" some enterprises, exploit natural resources, and modernize agricultural projects (Melzer and Chetelat, 1998, p. 23). Increased access to such financial products could mobilize the production sectors, boost the Lebanese economy, and consequently ensure a more just and democratic society in the future.

TABLE 7. ECONOMIC AREAS AND SECTORS OF MICROENTERPRISE CONCENTRATION

| Economic area (and sectors of enterprise concentration) | No. of enterprises with fewer than five employees |
|---|---|
| Agriculture ^{a/} (includes fishing) | 14 000 |
| Manufacturing (food processing, textiles, wood working) | 20 000 |
| Vehicles (trade and maintenance) | 22 000 |
| Trade (wholesale and retail) | 78 000 |
| Tourism (hotels and restaurants) | 9 000 |
| Services (health, private and other services) | 17 000 |
| Subtotal (14 sectors of concentration) | 160 000 |
| Total (all 33 sectors covered in 1996 census) | 175 000 |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

a/ According to recent studies by the United Nations Integrated Rural Development Programme and field surveys supported by the Food and Agriculture Organization of the United Nations, the Baalbek-Hermel region alone has around 25,000 units with fewer than five employees. Therefore, the 14,000 units shown in the table are an underestimation. If the other agricultural areas (the Western Beqa'a, Zahle, south Lebanon, Akkar and the north, Mount Lebanon, Batroun and Kesrouan) are taken into account, a more realistic estimate would probably be around 100,000 units.

According to the Cooperative Housing Foundation's Access to Microfinance and Enhanced Enterprise Niches (CHF/AMEEN), there are well over 200,000 home-based micro businesses. Once these are factored in, the total number of microenterprise units is probably closer to 460,000.

C. REGIONAL DISTRIBUTION AND ANALYSIS OF MICROENTERPRISES IN LEBANON

The regional distribution of microenterprises in Lebanon and a brief profile of each region are presented in tables 8 and 9. The information in the tables derives from volume II of the Melzer and Chetelat study on informal markets in Lebanon.

TABLE 8. REGIONAL ANALYSIS OF MICROENTERPRISES IN LEBANON
(MOUNT LEBANON AND THE NORTH)

| | Mount Lebanon | | North Lebanon ^{a/} | |
|-----------------|--|--|---|--|
| | Southern suburbs of Beirut (Baabda) | Chouf | Tripoli | Akkar |
| General outlook | Residential area with many illegal economic units run by refugees from (formerly occupied) south Lebanon ^{b/} | Self-sustaining during the war. Most Christians are displaced, and the Government of Lebanon considers their return a priority | Totally urbanized; second largest city after Beirut. Covers the city itself, its suburbs and the Mina area. Very dynamic during the war owing to the closure of Beirut port | The poorest region in Lebanon, according to a report issued by the United Nations Development Programme (UNDP) |

TABLE 8 (continued)

| | Mount Lebanon | | North Lebanon ^{a/} | |
|---|---|--|---|--|
| | Southern suburbs of Beirut (Baabda) | Chouf | Tripoli | Akkar |
| Geographic location | Outskirts of Beirut | Mountain close to the capital; summer resort | Main city in the north; 60 km from Beirut | Main city is Halba. Marginalized region with the highest illiteracy rate and highest proportion of child labour (32.5% between the ages of 10 and 19 work) |
| Population | 400,000 | 150,000 | 300,000 (25,000 are Palestinian refugees) | 196,000 |
| No. of economic units | 20,000 | 6,200 (46% in construction) | 17,200 (1996 statistics) | 12,300 |
| No. of microenterprises (fewer than five employees) | 18,065 | 5,682 | 15,419 | 11,698 |
| Types of activities | Retail sales and car repair (more than 50% of the units), used merchandise, industrial retail, furniture and other activities | Retail shops (44% of total); more than 45% newly established between 1990 and 1997 | Retail shops (40%), mainly furniture artisans, fishing businesses (3.4%) and food industries (traditional sweets) | Retail shops (37%), agriculture (28%) and car repair (8%) |
| Mode of financing | \$1,000-\$3,000 from wholesaler for 15-30 days | \$4,000-\$10,000 credit through big wholesalers; in Beirut for 15-30 days | \$4,000-\$8,000 loans through wholesalers; must be paid upon second delivery or within 15-30 days. Post-dated cheques are widely used | \$4,000-\$8,000 loans for 15-30 days through distributors. No direct relations with Beirut wholesalers; business is done through sub-agents, who guarantee the loans |

TABLE 8 (continued)

| | Mount Lebanon | | North Lebanon ^{a/} | |
|-----------------------|--|-----------------------------------|---|---|
| | Southern suburbs of Beirut (Baabda) | Chouf | Tripoli | Akkar |
| Banks for microcredit | Not many loans owing to the illegality of many enterprises | 13 branches; good repayment rates | 50 branches with 5% of the country's deposits and 2.7% of all loans (provided for big entrepreneurs only) | 3 banks in Halba providing personal loans only (no agricultural loans). Future target for NGO lending |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon" (on behalf of the International Finance Corporation, Washington), vol. II (Caslano, Switzerland, Tulum Ltd., October 1998).

a/ Other districts in the north are not mentioned in the study.

b/ Israeli withdrawal from the occupied south occurred in May 2000.

TABLE 9. REGIONAL ANALYSIS OF MICROENTERPRISES IN LEBANON (BEQA'A AND THE SOUTH)

| | Beqa'a (western Beqa'a excluded) | | South (Nabatieh and other districts excluded) | |
|---------------------|---|---|---|---|
| | Zahle | Baalbek | Sidon | Tyre |
| General outlook | Major city in the Beqa'a. Home of the ex-president of Lebanon. Government spent a lot on infrastructure. Mainly agricultural. Benefits from proximity to Damascus | Mainly rural with one important city, Baalbek. Important illicit crop production centre during the war. Historic site and a stronghold for the military resistance against Israeli occupation | Includes the city and its outskirts. The third largest city in Lebanon. Urbanized. Has a small port | Includes the city (40% of the district's population) and 66 villages, many of which were occupied by Israel until May 2000. Very active port during war, especially for car trade |
| Geographic location | Located on the Bardawni river. Chtoura and Zahle are major trade centres in the Beqa'a | Major problems after the abolishment of illicit crop production. Cattle project initiated as a replacement was a failure | 30 km from Beirut. Played an important role as the main city in south Lebanon during the war | Borders Palestine. Inhabitants depend mainly on remittances from abroad |

TABLE 9 (continued)

| | Beqa'a (western Beqa'a excluded) | | South (Nabatieh and other districts excluded) | |
|---|--|--|--|--|
| | Zahle | Baalbek | Sidon | Tyre |
| Population | 175,000 | 225,000 (20,000 Palestinians) | 222,540 | 175,000 (25,000 Palestinian refugees) |
| No. of economic units | 10,262 | 11,360 | 10,589 | 8,000 |
| No. of microenterprises (fewer than five employees) | 9,294 | 10,762 ^u | 9,304 | 6,945 |
| Types of activities | Retail shops (37%), car repair and spare parts (16%), agriculture and agricultural services (11.1%), health services and other activities | 65% of the economically active population work in agriculture. Agriculture, mining and food industries (35%), retail trade (32%), car servicing (11.5%) | Retail trade (41%), car trade and repair (14%), agriculture (5%), furniture and metal industries (3.5%) more than 50% of units created between 1990 and 1996 | Retail trade (44%), car repair (13%), agriculture (6.4%). Car trade, trade in construction materials, agro-industry, fishing and other activities |
| Mode of financing | \$4,000-\$8,000 loans through wholesalers; must be paid upon second delivery or within 15-30 days. Post-dated cheques are widely used between supplier and buyer. Details vary according to personal relations | \$1,000-\$6,000 loans from wholesaler after several years of gauging credibility of micro-entrepreneur. Region has a bad reputation with respect to loan repayment, mainly owing to socio-political situations. Government of Lebanon failed to abide by its aid commitments to the region | \$4,000-\$8,000 loans through wholesalers; must be paid upon second delivery or within 15-30 days. Agricultural wholesalers such as Debanne, Comptoir Agricole and Robinson Crusoe provide seasonal loans (in-kind) to farmers at high interest rates (up to 100%) | \$4,000-\$8,000 loans through wholesalers; must be paid upon second delivery or within 15-30 days. Agricultural wholesalers such as Debanne, the Comptoir Agricole and Robinson Crusoe provide seasonal loans (in-kind) to farmers at high interest rates (up to 100%) |

TABLE 9 (continued)

| | Beqa'a (western Beqa'a excluded) | | South (Nabatieh and other districts excluded) | |
|-----------------------|--|---|---|---|
| | Zahle | Baalbek | Sidon | Tyre |
| Banks for microcredit | More than 30 very active banks. Loans are modest | 4 branches with the lowest rate of lending and fewest services in Lebanon | 25 bank branches with 3% of all deposits and 2.5% of all loans for Lebanon. Fewer than 36% of units deal with banks | 15 branches. Mainly personal loans. Fewer than 30% of units deal with banks |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon" (on behalf of the International Finance Corporation, Washington), vol. II (Caslano, Switzerland, Tulum Ltd., October 1998).

a/ Other districts in the north are not mentioned in the study.

The tables show that the highest concentration of microenterprises is found in the highly populated suburbs of Beirut. The disbursement of loans in this area has proved problematic. During an interview the manager of Cooperation for Development, Mr. Ayman Abdallah, talked about the failure of his organization to recover sums lent in this area. Banks also have a problem servicing this region owing to legal issues. Nevertheless, some organizations such as CHF/AMEEN, Al Majmoua and the Mu'assasat Bayt Al-Amal are able to work successfully in the area.

The Chouf region is expected to witness substantial growth as the displaced return to the area. More than 45 per cent of the microenterprises frequently operating there were established between 1990 and 1997, and the number is certain to increase if real reconciliation takes place. In addition, the region has a reputation for timely loan repayment that should place it in a favourable position vis-à-vis any future credit programme targeting policies.

Government policies and efforts by the international community are urgently needed to boost the economies of Akkar, the south and Baalbek and to facilitate the creation of an environment that will allow loan programmes to have a positive impact. Note should be taken of the intensive efforts exerted by the United Nations Integrated Rural Development Programme for Baalbek-Hermel to promote economic and agricultural development. Its various programmes, carried out in coordination with civil organizations, deserve appropriate recognition from stakeholders working in the field. It would benefit the Baalbek-Hermel communities to have other organizations visit the Programme in Beqa'a, discuss issues of concern with the Programme management, and plan additional projects for the region. The Programme has a lot of information, experience and potential; proper support would make a great difference.

According to the Melzer and Chetelat report, the Baabda and Chouf districts in Mount Lebanon have experienced the highest increase in the number of units, possibly

owing to the return of the displaced. The percentages in table 10, which show the rates of increase in the number of units within specific geographical areas, could serve as a reference in planning a future credit programme that could accompany and support this growth, where feasible.

TABLE 10. INCREASE IN THE NUMBER OF MICROENTERPRISE UNITS
BETWEEN 1994 AND 1996

| District | Baabda | Chouf | Tripoli | Akkar | Zahle | Baalbek | Sidon | Tyre |
|--------------------------------------|--------|-------|---------|-------|-------|---------|-------|-------|
| Rate of increase in the No. of units | 23.4% | 21.5% | 11.3% | 11.9% | 13.1% | 13.4% | 18.0% | 19.2% |

Source: A. Melzer and P. Chetelat, "Study of the informal financial markets in Lebanon", prepared for the International Finance Corporation (Caslano, Switzerland, Tulum Ltd., October 1998).

II. MAJOR MICROFINANCE PROGRAMMES AND THE RECIPE FOR SUCCESS

A workshop on Bank Financing of Small and Micro Businesses, organized by the Association of Banks in Lebanon and the World Bank and supported by the Government of Lebanon, the IFC and USAID, was held in October 1997. During the workshop, several pertinent documents were distributed to the participants, mainly credit managers of the member banks. One of the documents (Arabic) was an overview of microlending schemes around the world (Association of Banks in Lebanon, 1997).

This chapter explains the recipe for success as seen by some multilateral organizations, many private banks and a number of globally active funding bodies. An overview is then provided of the above-mentioned lending schemes around the world, with particular attention given to Islamic lending. Annex III provides a more comprehensive description of these schemes. Such information is important, as it allows comparisons to be made with regard to the position of microlending institutions working in Lebanon vis-à-vis other lending institutions in the world.

It is believed that the managers of these lending programmes in various parts of the world have learned a few lessons from the sad failure of unsustainable, subsidized, and centrally directed programmes that were not able to reach the poorest of the poor. These managers now realize that it is possible to cover a large proportion of their expenses and have therefore started to show greater concern for the financial performance of their institutions.

The definition of “success” as applied to these programmes is not based as much on the impact of their loans on borrowers as on their outreach, sustainability, and possible profitability. Such criteria are undoubtedly important, but it is essential for ESCWA to clarify that the real success of microlending programmes lies in their impact on borrowers’ socio-economic status.

In categorizing the various schemes within the context of the present overview, consideration was given to methodology and to answers to the following questions:

- (a) Does the organization oblige the beneficiary to save?
- (b) Does the organization provide financing to individuals or to groups?
- (c) Is the organization owned and run privately or by its members?

All the models have proved successful in an appropriate environment. According to the Association of Banks in Lebanon, two components have been critical in realizing this success: (a) outreach (the capacity of the programme to deliver high-quality financial services to a large number of clients); and (b) the potential for financial growth (the ability to reach a sustainable financial stage, with the continued delivery of services not dependent on donors).

A. RECIPES FOR SUCCESS

1. *The impact of microenterprise lending on beneficiaries*

Whether managed by commercial banks or non-profit organizations, microenterprise lending programmes aim at initiating a positive change in people's lives. It is this opportunity that drives the beneficiaries to support such lending programmes, applying for more loans and thus creating more business for the lending institutions.

As mentioned, the ultimate success of microlending programmes derives from their impact on the economic and social well-being of borrowers. However, the desired goals can only be achieved if microlending schemes are implemented by financial institutions that have outreach and operational efficiency and are fully self-sufficient.

The extent of commitment to ensuring the well-being of the borrower varies from one lending organization to another. The economic and social impact the loan eventually has on the borrower, his or her family, and society is the most vital sign of the effectiveness of a microlending programme. Therefore, in evaluating a lending programme, consideration should be given to the role the loans may have played in the creation of new jobs, extra profits made and raises in employee salaries, and in facilitating more quality time with the family, increased educational opportunities for borrowers' and their children, and positive changes in the quality of food, clothing, housing and so forth. To achieve these objectives on a wide scale and for the long term, microlending programmes should be able to finance themselves and reach those in need.

In sum, the components vital to the success of microlending programmes are outreach, sustainability and profitability. Many microlending organizations focus exclusively on these criteria—especially commercial banks, which completely ignore the importance of the impact a loan may have on the life of a borrower and his or her environment.

2. *Outreach*

Microenterprise lending organizations may enhance their performance by focusing on the following three dimensions:

(a) *Depth*. Several lending organizations have been able to reach the “unbankable” micro-entrepreneurs, but numerous groups of potential borrowers remain untapped. One huge market that could be investigated is the entrepreneurs running non-formal income-generating projects. Women, the disabled, former prisoners (especially prisoners of war), and other marginalized members of society should also be given special attention.

Moreover, policies that exclude the agricultural sector from participating in many of the programmes implemented in Lebanon should be revised;

(b) *Extent*. Lending organizations have kept loans within the reach of most of the country's target population in the different regions. Loan officers in the field are also mobilized within the regions, promoting the different programmes. In many cases the loan officers use their houses as meeting places to promote and explain their programmes;

(c) *Quality of service*. The approach used by all of the microenterprise lending organizations, whereby loan officers go out to the clients in the different regions, has proved fruitful for all of the parties involved. Even though interest rates are relatively high, rates of default among borrowers are low because they are well-served by the programmes: loan application approval procedures are efficient, the lending agents are pleasant, and the wide variety of programme schemes help to fill an important gap in the lives of the micro-entrepreneurs.

3. *Operational efficiency*

Many of the lending organizations mentioned in this study have yet to achieve operational self-sufficiency. They need to be able to cover administrative expenses out of interest income from clients. The prerequisites to operational efficiency appear to include the adaptation of an effective service delivery methodology and significant institutional competence in such areas as rapid loan disbursement (a maximum of five days from the submission of the completed application), the provision of incentives (financial and moral incentives linked to the number and quality of loans), administrative and logistical support for loan officers in the field (transportation allowances and encouragement), and staff development (training, workshops and so on).

4. *Profitability*

The following are suggestions that might help lending institutions achieve or improve profitability:

(a) *Selection of the right staff*. The choice of loan officers for work in the field is especially important, as they need to have strong leadership and interpersonal skills, a goal orientation, marketing creativity, wisdom, enthusiasm, and technical know-how in the area of microcredit;

(b) *Efficient approval procedures*. A maximum of one week for loan approval and disbursement is considered a reasonable time frame. Extended writing periods could mean the loss of a moral (and perhaps financial) incentive for the loan officer and a subsequent loss of faith in the programme on the part of both the officer and the potential borrower. The direct result would be a decrease in the number of loans disbursed;

(c) *Efficient use of time.* Loan officers need to spend most of their time in the field contacting potential borrowers and following up on projects. The presence of administrative assistants to perform office paperwork, support the programme supervisor and follow up with borrowers in the absence of the loan officer has proved to be of great help in increasing the number of borrowers;

(d) *Provision of transportation allowances.* If loan officers are not reimbursed for their transportation expenses, they could lose interest in visiting borrowers as often as is necessary, thus increasing the risk of default and decreasing the potential number of borrowers;

(e) *Ensuring effective communication.* Direct communication between borrower and loan officer is necessary at all stages (from loan application through repayment), and personal visits must be made every week. In cases where the loan officer must handle a large number of borrowers and the geographical coverage is extensive, the Microfinance institution should consider providing the officer with a mobile phone. This would make it easier for loan officers to contact prospective new clients and current borrowers and would allow them to remind borrowers in advance about instalment due dates. Communication between staff members working in the same organization is also important. Weekly meetings between loan officers and their supervisors should be held to discuss plans of action, problems, training updates and policy developments. Daily meetings (preferably in the morning) should also be set up for control purposes and to follow up on office paper work.

B. MICROENTERPRISE LENDING SCHEMES AROUND THE WORLD AND THEIR APPLICATION IN LEBANON

Numerous microenterprise lending schemes have been implemented around the world; the great majority fit into one of the following 10 categories:³

- (a) Mobile banks (collectors and lenders);
- (b) Savings and lending associations;
- (c) Group lending;
- (d) Group solidarity lending;
- (e) Village or community banks;
- (f) Self-financing village banks;
- (g) Credit unions;
- (h) Transformation loans;
- (i) Commercial and development banks;
- (j) Islamic financing arrangements (including *murabaha*, *musharaka*, *mudaraba* and *Al-Hasan* loans).

³ Details relating to these models are provided in annex III.

1. *Mobile banks (collectors and lenders)*

Merchants, money exchangers, wholesalers, landlords, and other financially advantaged people lend money to those in great need, charging interest rates of 100 to 200 per cent. These moneylenders are not viewed favourably, they are engaged in usury (*riba*), and their transactions are the subject of both religious and secular condemnation.

Other moneylenders help small entrepreneurs ensure their daily income by financing operating costs for a short duration. These moneylenders visit borrowers at their workplace on a regular basis to facilitate lending and savings transactions. This outreach approach to financial services provision decreases the costs to the beneficiary.

In Lebanon, both kinds of moneylenders are popular. Some are wholesalers and monopoly suppliers of agricultural and other inputs, and they charge high interest rates (up to 100 per cent on postponed payments). Others have money exchange businesses in several popular marketplaces such as Bourj al-Barajneh, Barbir and Bourj Hammoud. They charge a monthly rate of 15 per cent, and the calculation includes four extra days of interest (the time needed to cash the post-dated cheque received as collateral). This rate is standard and is charged by moneylenders all over Lebanon.

2. *Savings and lending associations*

These are organizations whose members contribute a specific sum of money during meetings that may take place weekly, biweekly or monthly. The members then take turns collecting the combined contributions. The size and the organizational structure of such associations varies from one country to another, but the principle remains the same.

In Lebanon, it is believed that this lending scheme is commonly used by Egyptian labourers who come from the same area in Egypt and form a cooperative (*jam'iyya*). Others involved in this type of arrangement are the Freemasons and employees of large institutions such as banks.

3. *Group lending*

It is believed that the Grameen Bank developed this lending scheme and has applied it in rural Bangladesh to serve landless women who want to finance income-generating projects. Loans are given to individuals within groups made up of five women. These groups exercise peer pressure and are the basic guarantee for the repayment of the loan. Group lending is popular in Asia and is replicated in several other parts of the world.

In Lebanon there are some schemes that follow the Grameen model, serving women borrowers in solidarity groups. Al Majmoua uses this approach to provide micro-loans to women all over the country.

4. Group Solidarity lending

This approach is similar to the one above, but loans are disbursed to the group itself, which may comprise several members, rather than to individuals. The members stand surety for each other to avoid the traditional collateral requirements. This credit scheme was developed by ACCION International in Latin America.

In Lebanon there are no group solidarity lending programmes; however, some credit institutions are willing, on an exceptional basis, to disburse group loans to finance projects shared by two or more borrowers.

5. Rural community banks

These are savings and lending institutions run by local community committees. Their objectives are to secure financial services for rural people, build group solidarity, empower people to help themselves, and facilitate savings activities for members.

This scheme was developed by the Foundation for International Community Assistance (FINCA). The number of members of a rural bank varies between 30 and 50, the majority of whom are women.

6. Self-financing village banks

The rural community manages the village bank. The difference between a village bank and a community bank is that the former serves the whole village, and not only the members. This scheme was developed by the International Centre for Research and Development, a French NGO, in the mid-1980s.

Catholic Relief Services (CRS) in Lebanon is implementing a similar programme, with some modifications. The village banks are run by their members; however, CRS continues to administer the lending programme, providing advisory services. In later stages, the village banks should be self-sustaining and can depend completely on savings for re-lending.

At the moment, village banks are limited to CRS, but this scheme could be expanded and perfected as the country acquires more experience in microlending. Such changes are unlikely to occur until the funding institution wants to pull out, thus obliging the villages bank to establish a direct relationship with commercial banks. Credit institutions are currently working to ensure that their schemes can eventually sustain themselves.

7. Credit unions/lending and savings cooperatives

Credit unions are cooperative financial institutions that began operating in developing countries in the 1950s. They applied the methodologies and lending schemes developed in Europe at the end of the nineteenth century.

These institutions provide savings and loan facilities for individuals. They act as intermediaries in money transfers between urban and rural areas and between savers and lenders. Credit unions also guarantee the circulation of funds in the administered communities.

At present, Lebanon does not have such lending schemes.

8. Transformation lending

Transformation lending targets microenterprises with the objective of increasing their sales and revenues and the number of people they employ—or in other words, transforming these microenterprises into small businesses.

In Lebanon, CHF is implementing such a scheme in cooperation with the Jammal Trust Bank. CHF does not offer technical support, but it does prepare borrowers for bank loans 75 per cent guaranteed by the Foundation.

Another Lebanese NGO, the Association d'Entraide Professionnelle (AEP) relies heavily on banks. However, it cannot be considered a transformation lending organization. It does not provide technical assistance and it requires collateral from borrowers; the bank assumes no risk.

9. Commercial and development banks (downscaling)

Development banks are publicly owned institutions established to provide financial services to specific strategic sectors such as agriculture and industry, sometimes at subsidized interest rates. Commercial banks are private institutions that provide services to high-income clients that run service-oriented businesses.

Recently, some commercial and development banks have shifted their focus to meet demand from lower-income groups, providing them with appropriate products on a large scale. This approach, referred to as downscaling, has been successfully applied by a number of institutions.

In Lebanon several banks are downscaling to serve the microenterprise sector either directly or through intermediaries. These banks work through the Ministry for the Displaced in an effort to help people return to their land. The loans offered by these banks are still beyond the reach of the poor owing to the collateral requirements.

For example, Byblos Bank has downscaled its operations, but not to levels that would serve those seeking microcredit; loans of between \$5,000 and \$20,000 are offered, and borrowers still need to go to the Bank and meet regular bank collateral requirements. Other banks such as Jammal Trust Bank have initiated true downscaling operations and are lending to the microenterprise sector (see the material relating to Jammal Trust Bank in section B of this chapter).

10. *Islamic financing arrangements**

Any of the lending schemes described above can apply the Islamic models identified in this section.

(a) *Definition*

An English translation of the Holy Qur'an (Irving, 1992) indicates that "those who live off the interest on loans will never stand up, except in the way those whom Satan knocks down with a fit rise up again. That is because they say: 'Trading is just like taking interest'. Yet God has permitted trading and forbidden taking interest." ... "God wipes out usury and nourishes acts of charity; God does not love every vicious disbeliever." (Chapter III, The cow, verses 275 and 276). Observant Muslims refuse to pay interest on small loans, regardless of the name it is given or the rate to be charged.

Islam has an alternative financial system that avoids usury and incorporates four different types of arrangements, as follows:

(a) With *murabaha* (based on the Arabic word for profit), the borrower receives the goods or animals purchased with the loan instead of money. Two or three people (the borrower, a committee member, a loan officer and/or a veterinarian) make the purchase. The borrower then repays the purchase price of the goods plus a service charge equal to a certain percentage of that price instead of interest. Payments are made monthly or quarterly. Charging a percentage for technical assistance, transport and other services is acceptable in Islam. The nearest to traditional banking, *murabaha* is used when the committee does not want to assume a high level of risk. Regardless of the outcome, the borrower must pay back the loan, including the added service charge. Some charge fixed loan application fees;

(b) With *musharaka* (joint venture or equity participation), a partnership is established between the borrower and lender. The borrower provides part of the capital needed (the share varies from one programme to another) and is responsible for managing the project. The financing programme provides the remaining capital, along

* Rahul Dhumale and Amela Sapcanin have written a comprehensive study on Islamic financing, entitled "An application of Islamic banking principles to microfinance", published by UNDP and the World Bank.

with supervision and technical assistance. At the end of the project, usually two thirds of the profit goes to the borrower for his efforts. The remaining third is split between the borrower and the fund, according to the amount of capital each contributed. The exact profit shares are agreed upon by the parties ahead of time, at the signing of the *musharaka* agreement. With this arrangement, it is the feasibility of the project rather than the creditworthiness of the borrower that determines whether the project will be approved or not;

(c) With *mudaraba* (partnership), the loan fund finances the entire cost of the project. The borrower contributes only the management and must keep careful records of all expenses and income throughout the project. In the end, the net profit is shared between the loan fund and the borrower, according to the percentages previously agreed upon. Two types of *mudaraba* arrangements described by Dhumale and Sapcanin are:

- (i) *Musaqat*: applies specifically to orchards, whereby the harvest is shared among all equity partners according to their contributions;
- (ii) *Muzar'ah*: also an agricultural arrangement, whereby the funding party provides land or money in return for a share of the harvest;

(d) *Al-Hasan* (benevolent) loans are disbursed to borrowers at no interest. A fixed application or service fee may be charged, in which case the loan involves the payment of *jo'alah* (a fee or service charge).

Other types of Islamic lending arrangements include the following:

(a) *Bai'mu'ajjal and bai'salam* (sales contracts). Both loans bring no returns. *Bai'mu'ajjal* involves deferred payments (in instalments or a lump sum); the lender is not allowed to accept any payments for service charges or interest. *Bai'salam* is similar to forward contracts, where the money is paid up front and a promise is made to deliver the product at a later date;

(b) *Ijara wa iqtina'* (leasing). A specific product is leased for a specific sum of money, part of which is applied towards the purchase of the product. Ownership is transferred after the final payment is made.

(b) *Methodologies*

The local community committee meets with the loan officer and identifies potential borrowers (if no committee is available, borrowers meet with the officer in charge). Applications are studied by the loan officer, approved and sent to the credit manager. The local community committee, when one exists, participates in the management of the loans.

(c) *Services*

Borrowers receive help with financing (securing loans), savings and investment. The funding institutions also provide technical assistance, carry out feasibility studies and follow up on projects.

(d) *Success criteria*

The following are crucial for the success of the schemes outlined above:

- (a) The system must be in keeping with the beliefs of the participants;
- (b) Community representatives must participate in decision-making;
- (c) A simple managerial and credit system should be put in place;
- (d) The programmes require experienced staff, preferably those familiar with the community;
- (e) Payments should be collected by a member of the community going house to house;
- (f) Payments should be scheduled on a monthly or seasonal basis or on a combination of both, according to the project cash flow.

The major advantages of this type of programme are that loan funds will be spent on the purposes for which they are intended and, with *murabaha*, borrowers are able to access the best quality products at the lowest prices.

(e) *Weaknesses*

For the *musharaka* and *mudaraba* approaches, the feasibility study must be very accurate, or the project may incur losses that will have to be absorbed by the fund; further, there is a definite need for technical assistance with these two financing methods. The level of risk-sharing by the fund is high, and *Al-Hasan* loans, without any profits or interest, might deplete the fund. In many cases the funds are available through donors that have a strong belief in the lending institution and its mission.

(f) *Examples*

An article by Malcolm Harper in *Small Enterprise Development* (vol. 5, No. 4, December 1994, p. 29) relates that the Prophet “Muhammad was a successful trader for many years before he became a Prophet, and capital for his ventures was provided on a profit or loss sharing basis by a wealthy widow, Khadijah, who later became his wife. She shared not only in the financing but also in the management of the business, and she might even be considered the first documented woman entrepreneur”.

The Jordan field office of Save the Children implemented a successful rug-weaving and handicrafts project with the Bani Hamida community, as well as small agricultural projects. However, the project has been terminated.

The Sudanese Islamic Bank that started with *murabaha* at an initial stage then ventured in to *musharaka* projects. For example, the Bank provided in-kind loans, covering the use of tractors and pumps and the cost of land clearance and inputs, while the farmers provided part of the investment (Harper, 1994).

Examples from Lebanon include the Zakat Fund and the Mu'assasat Bayt Al-Mal. The Zakat Fund is a somewhat limited programme that benefits some borrowers, whereas the Mu'assasat Bayt Al-Mal has served more than 40,000 borrowers to date and is considered the largest microcredit institution in the country.

(g) *Target groups*

In Lebanon, as in many other places around the world, whole communities refuse to participate in any financing programme if it is not based on shariah (Islamic law). Members of these communities refuse to place their savings in banks, and when they do so, they refuse to accept interest. Many end up keeping their money in their homes, thereby depriving others of the chance to make use of this money for investment in projects that could improve the community through increased production and job creation. Islam has provided these people and others tools that would allow them to use the money productively. Such groups are the targets of Islamic financing programmes.

The next chapter provides a profile of microfinance programmes in Lebanon, focusing on their methodologies, capacities, successes and failures. Many have come a long way towards financial sustainability and outreach, others are just beginning, and some are going in the wrong direction.

III. OVERVIEW OF MICROFINANCE PROVIDERS IN LEBANON

A. MICROCREDIT ACTIVITIES OF NGOS IN LEBANON

The spectre and scope of NGOs active in credit provision in Lebanon is quite limited in comparison with other countries. There are around a dozen NGOs with sizeable credit programmes. Table 11 provides an overview of the major credit programmes in Lebanon, listing the numbers of active borrowers and outstanding loans. There are some socially oriented NGOs and funds (such as the Mouvement Social Libanais, the Pontifical Mission and the Zakat Fund) that are extending credit for economic activities but cannot be considered credit institutions, and the limited number of loans they provide do not alter the overall picture.

TABLE 11. MICROFINANCE INSTITUTIONS IN LEBANON: ACTIVE BORROWERS AND OUTSTANDING PORTFOLIO, DECEMBER 1999

| Microfinance institution | No. of active clients | Outstanding portfolio (US dollars) |
|---|-----------------------|------------------------------------|
| <i>Non-governmental organizations</i> | | |
| Al Majmoua | 2 800 | 1 200 000 |
| Association d'Entraide Professionnelle | 250 | 700 000 |
| Association d'Aide au Développement Rural | 70 | 100 000 |
| Caritas | 900 | 340 000 |
| Catholic Relief Services/Caritas | 700 | 200 000 |
| Cooperative Housing Foundation (CHF/AMEEN) | 300 | 350 000 |
| Coopérative Libanaise pour le Développement | 100 | 800 000 |
| Institut Libanais de Développement Economique et Social ^{a/} | .. | .. |
| Makhzoumi Foundation | 370 | 110 000 |
| Mu'assasat Bayt Al-Mal | 5 000 | 12 200 000 |
| Mouvement Social Libanais | 40 | 90 000 |
| Pontifical Mission | | |
| <i>United Nations microfinance programmes</i> | | |
| UNDP rural credit component for the Baalbek-Hermel region | 391 ^{b/} | 1 117 000 ^{b/} |
| UNRWA microfinancing programme in Lebanon | 185 | 500 000 |
| UNDP credit programme for the displaced | 23 | 258 000 |
| UNICEF microcredit programme in the Palestinian refugee camps ^{c/} | .. | .. |

TABLE 11 (*continued*)

| Microfinance institution | No. of active clients | Outstanding portfolio (US dollars) |
|--------------------------|--|------------------------------------|
| <i>Private banks</i> | | |
| Jammal Trust Bank | Refer to CHF | |
| Banca di Roma | Refer to UNDP credit programme for the displaced | |

Note: Two dots (..) indicate that the figures are not available.

a/ The institute is in the process of restructuring and is expected to start lending soon.

b/ Estimate.

c/ UNICEF had a fund for a microfinance project, but the subsidized interest rate and the problems with repayment in some regions have depleted the fund.

During the research for this study, time constraints prevented the author from investigating other NGOs with microcredit components. The Middle East Council of Churches, the Mouawad Foundation and the Hariri Foundation are said to have microcredit programmes. Prince Walid Bin Talal of Saudi Arabia is thought to be interested in venturing into this arena, and his representative met several stakeholders to study the market for possible intervention in Lebanon. Recently, Prince Talal Bin Abdul Aziz, also of Saudi Arabia, visited Lebanon and announced his intention of starting a microfinance bank that caters for the poor, following the Grameen Bank model.

Twelve programmes managed by NGOs are presented in this section (a tabular summary of the programme profiles of these NGOs can be found in annex II). These programmes have a combined total of about \$18 million available for microenterprise financing. There are around 15,000 active beneficiaries, and loans average less than \$1,000. With the roughly 460,000 microenterprises active in the country (including fishing and agricultural projects) and an average loan size of \$1,000 per borrower, the potential demand is enormous. Therefore, NGO and other lending institutions should exert more effort to make their programmes more accessible to potential borrowers.

Many of the credit programmes are directed at specific socio-economic groups and are charitable in nature. Their offering of subsidized interest rates threatens their sustainability when donations are not secured on a consistent or continuous basis. Four of them work to ensure the active participation of banks. Another three extend loans to small numbers of borrowers based on personal relationships established through vocational training, a history of cooperation in development activities, or in-depth personal interviews such as those conducted by the Makhzoumi Foundation in Beirut.

A complete profile of individual NGOs involved in microfinance activities in Lebanon is provided in the sections below.

1. *Association d'Aide au Développement Rural*

The Association d'Aide au Développement Rural (AADR) was established in 1996 on the initiative of Youssef El-Khalil in the Tyre district in south Lebanon. AADR is a non-profit organization with a permit to operate from the Ministry of the Interior. The Association works in the social, environmental, economic and educational domains, in cooperation with specialized institutions and the targeted groups. The aim is to mobilize local capacities in rural areas to secure equal opportunities for the poor and overcome any familial, religious or ethnic discrimination.

The details of the AADR microcredit programme are provided below.

(a) *Methodology*

The programme is explained to prospective borrowers. If they wish to proceed, they fill out detailed applications, which are sent to the credit coordinator for review and the preparation of feasibility studies. The field officer collects data concerning expected costs and income for the projects. The credit committee meets biweekly to vote on the applications. If an application is approved, a cheque is made out to the borrower and cashed at Banque Audi in Tyre. A life insurance policy is bought by the borrower for \$25 per year as a guarantee in case of death. In addition, two working people must co-sign for the loan.

One objective of the programme is to acquaint borrowers with the banking system so that they can get used to the process of contacting bank agents, using cheques and so on.

Field officers originally worked in the city of Tyre but have gradually spread the word about the programme to neighbouring areas; meetings have been held with the local people in the villages of Qana and Bazouriyeh.

(b) *Organizational structure*

There are two loan officers in the field, a credit coordinator and a credit committee.

(c) *Programme profile*

Objectives: provide help in the Tyre region; extend loans to marginalized people at market interest rates; acquaint borrowers with the banking system

Capacity: Bank and AADR have computerized management information systems (MIS); professional staff; comprehensive knowledge of market

Strengths: cooperates with private bank; assumes 50 per cent of risk; great credibility

Weakness: regional (Tyre area only)

Problems: none

Target groups: fishermen, refugees and various types of microenterprises in Tyre

No. of clients served: target more than 200 borrowers/year

Outreach: office in Tyre to serve the region

Type of projects: primarily fishing

Average loan amount: \$2,500

Loan range: \$2,500-\$4,500

Loan duration: 2.5 years

Portfolio for 1999/2000: around \$700,000

Share of risk: 50 per cent AADR and 50 per cent Banque Audi

Interest rate: 12 per cent (add-on)

Repayment rate: 98 per cent

Cost per loan: estimated at 17 per cent for the first year; 12 per cent in future

Collateral: two salaries pledged (salaries transferred to Bank)

New or existing projects: not specified

2. L'Association d'Entraide Professionnelle

AEP was established in 1984 at the initiative of businessmen, bankers and social workers concerned about the economic malaise caused by 10 years of civil war. By the mid-1980s, war had brought intense misery to Lebanon, including entrepreneurs and their families; small artisans' shops had been destroyed, agricultural harvests had been burned and markets had been devastated. Small-scale entrepreneurs found AEP a source of credit to restart their projects when banks were shying away.

(a) *Organizational structure*

The programme includes a director, staff that serve as a liaison with banks, and an administrative committee that meets three times a year.

(b) *Methodology*

AEP acts as an intermediary between banks and borrowers. A borrower must visit the Association's office in Badaro, fill out the application and prepare the required collateral. The borrower is then sent to the bank to collect his or her cheque. AEP disburses the needed resources from a loan fund at the bank and provides a 100 per cent guarantee for the loan.

There is heavy reliance on the banks' administrative and organizational assets (files, accounting, interest calculations and instalment amounts); AEP follows up on borrowers when payments are late. The Association lends to groups as well as individuals. Group loan guarantees are signed at a notary office, where each member of the group declares his share of responsibility for the repayment of the loan.

(c) *Services*

AEP provides lending services only; clients are referred to other NGOs such as Caritas for technical assistance.

(d) *Programme profile*

Objectives: finance micro-entrepreneurs; rehabilitate businesses affected by war

Capacity: computerized; professional staff at banks; \$1 million in funds

Strengths: reaches 100 clients per year

Weaknesses: subsidized interest rate (interest covers 85 per cent of cost); not able to collect savings; small staff; no branches or employees in areas outside Beirut

Problems: not able to use full loan fund; trouble finding new clients; fragmented market; no specific needs addressed; legality in question; working through banks, so not geared towards institutional self-sufficiency

Target group: mainly Christian entrepreneurs and families affected by war

No. of clients served: 900

Outreach: clients come to the AEP office in Beirut

Type of projects: informal commercial and agricultural enterprises (0-1 employees)

Average loan amount: \$3,000

Loan range: \$1,000-\$5,000

Loan duration: 24 months

Portfolio for 1999/2000: \$1 million

Share of risk: 100 per cent

Interest rate: 6-9 per cent

Repayment rate: higher than 80 per cent

Cost per loan: 7-11 per cent (no visits to borrower)

Collateral: jewellery, pledged capital assets, pledged salary

New or existing projects: new and existing (several for taxi drivers)

3. *Al Majmoua*

Al Majmoua (The Group) is an independent Lebanese non-profit organization. It was founded in 1997 to help owners of small businesses, or micro-entrepreneurs, expand their activities through the provision of sustainable financial services. Al Majmoua started as a project of the Save the Children Foundation in 1994 and became an independent institution in 1997. Al Majmoua is still funded by Save the Children but is free to solicit funds directly.

(a) *Organizational structure*

Al Majmoua has an executive director, an area supervisor from the local community, an operations coordinator and a field coordinator.

(b) *Methodology*

Al Majmoua enters new communities in two ways: through cooperation with other organizations such as Secours Populaire or the United Nations Relief and Work Agency for Palestine Refugees in the Near East (UNRWA); or alone, making regular contacts with local leaders to explain the programme. They help the community form homogeneous solidarity groups that can apply for loans. Loan applications are given to the area supervisor then passed to the field coordinator. The operations coordinator approves the loans.

(c) *Services*

Al Majmoua provides savings and lending services for groups of borrowers.

(d) *Programme profile*

Objectives: finance micro-entrepreneurs; institutionalize

Capacity: computerized; professional staff; \$5 million in available funds, some from repayments from an old Save the Children Federation small and medium-sized enterprise credit programme that goes back to 1980

Strengths: reaches 400 clients per year

Weaknesses: very high interest rate (used to cover investment costs and the purchase of new fixed assets); legality in question; no follow up to check the social impact of the loan; not able to collect savings, though savings are collected by the groups

Problems: finding new clients; fragmented market; no specific need addressed; legality in question

Target group: women

No. of clients served: 3,800

Outreach: poverty clusters

Type of projects: informal commercial and agricultural enterprises (0-1 employees)

Average loan amount: \$500

Loan range: \$250-\$1,500

Loan duration: 4 months

Portfolio for 1999/2000: \$1 million

Share of risk: 100 per cent (the group guarantees the loan)

Interest rate: 2 per cent per month

Repayment rate: higher than 80 per cent

Cost per loan: no information available

Collateral: group guarantee

New or existing projects: existing

Box 1. Case study: Samira

Samira is 35 years old and has a baby girl. She has been a hairdresser for over 12 years and has been with the programme for five cycles. At present, she is entitled to \$500, but prefers to borrow \$325 instead to ensure repayment, since her business slows down in the winter.

Samira's initial loan was \$200, to which she added \$100 to buy a wedding dress for rent at her shop in the village of Al-Ain in Hermel. Her second loan, amounting to \$250, was used to buy make-up kits and hairdressing products. As she approached her fourth cycle (\$400), Samira decided that she would move from the shop she had been renting on the main road of Al-Ain for 40,000 Lebanese pounds (LL) per month owing to problems with the landlord. She opened a shop in her own house, using a small room.

Samira believes she has benefited greatly from the programme, since it has strengthened her financial capital and productivity and has allowed her to have a larger collection of merchandise.

Samira's savings with her group are used at the end of each cycle to pay all of her personal debts (grocery bills, dental care and necessity for her and her child). She plans to expand her shop in her house, where she does not have to pay rent. She would like to take her \$500 loan in the summer season to increase her stock of merchandise, as her business is usually active during that time of year.

4. Caritas Lebanon

Caritas Lebanon is a Christian organization funded by the Catholic Church. Its primary aim is to help people in the area regain their economic, cultural and spiritual dignity, lost during the war. Caritas has several programmes; professional rehabilitation and rural banks are two that provide loans for income-generating projects. The former is a microcredit programme initiated in 1985, and the latter was established in 1996 in cooperation with CRS, with support from USAID. The credit programme is described below; the rural banking programme is profiled in the next subsection.

(a) Organizational structure

Caritas provides field staff (volunteers from local communities), a credit coordinator and a credit assistant; the organization's accounting department works part-time on credit provision and follow up.

(b) Methodology

Caritas has several development and charity programmes around the country. Their daily interaction and contact with the public and their image as a prominent Christian charitable organization has made outreach easy. Community volunteers help

Caritas manage the programme in the field. The Caritas credit coordinator visits areas where people express an interest in the programme. They explain the services available, and applications are filled out individually. Feasibility studies are carried out, and the approval process takes place at the office. There are generally no complications. Peer pressure is relied upon to ensure repayment.

(c) *Services*

Loan services are provided; technical assistance is offered when appropriate.

(d) *Programme profile*

Objectives: provide loans to entrepreneurs affected by the war; provide credit services in the field directly to the borrower; provide loans to handicapped people at subsidized interest rates

Capacity: professional staff; 3,500 volunteers including the volunteers for the loan programme; good outreach, especially in areas dominated by Christians

Strengths: reached more than 6,400 borrowers; reinforces the charitable image of the Church; costs are kept low because of volunteers; an index is used to rank the profitability of most of the projects carried out in Lebanon, which helps fieldworkers in project feasibility assessment

Weakness: does not conduct business as a financial institution owing to its long history of charitable work

Problems: funds depleted owing to devaluation of Lebanese pound after 1985, and owing to delinquency in loan repayment by many borrowers

Target group: income-generating projects (many loans given to taxi drivers)

No. of clients served: 6,400 (around 600 per year)

Outreach: 40 offices all around the country

Type of projects: any

Average loan amount: \$2,000

Loan range: \$500-\$3,000

Loan duration: 12-48 months

Portfolio for 1999/2000: \$1.5 million

Share of risk: 100 per cent

Interest rate: 12 per cent compounded (on Lebanese pounds) and 4 per cent for handicapped

Repayment rate: 90 per cent in 1990, but dropped to 63 per cent in 1999

Cost per loan: 12 per cent for Lebanese pounds

Collateral: fixed assets, bank account, pledged salary

New or existing projects: new and existing

5. *Catholic Relief Services/Caritas*

The village banking programme, a poverty alleviation initiative in the Baalbek and Akkar areas, was established in 1996 by CRS, with funding from USAID. It targets mixed religious communities.

(a) *Organizational structure*

A programme manager, a field coordinator, four field officers and an accountant work with the scheme.

(b) *Methodology*

People learn about the programme and contact CRS. A meeting is arranged in the village, where a field officer explains programme criteria and principles to the prospective borrowers. This initiative targets women. Those who are interested in the programme meet together, and if they are interested in participating, they form what is called a village bank; groups usually range from 15 to 60 women. No loan applications are required, but contracts are signed for loan disbursement to the members. No collateral is required; peer pressure is the guarantee. Cash is disbursed individually to each borrower through the group leader. No promissory notes are needed. CRS meets with the village banks biweekly.

(c) *Services*

Loans are provided to individual women; 5 per cent of the loan amount must be kept in a savings account at a local commercial bank for the community to use for lending. No physical collateral is required; the guarantee is provided by the village bank members.

(d) *Programme profile*

Objectives: provide loans for poor women; form sustainable village banks

Capacity: professional staff; experience and cooperation from CRS outside Lebanon; funded by USAID; an advanced computer programme called CALYX will be used for MIS purposes

Strengths: around 1,000 women reached; around 26 village banks set up; programme has promoted reconciliation and solidarity by starting banks comprising mixed-faith groups; impact evaluation every six months; village banks run by a local management committee and advised by CRS

Weakness: does not serve men

Problems: high volume needed to cover costs

Target group: poor women in Akkar and Baalbek (initial stage)

No. of clients served: 1,000 women

Outreach: 40 offices all around the country

Type of projects: any (food processing, commerce, services, restaurants, agriculture)

Average loan amount: \$400

Loan range: \$200-\$800

Loan duration: 4-6 months

Portfolio for 1999/2000: \$350,000

Share of risk: 100 per cent

Interest rate: 24 per cent (2 per cent per month declining balance)

Repayment rate: 100 per cent

Instalments: bullet payments at the end of the four month loan period; plans to make payments due monthly

Cost per loan: around 24 per cent (needs investigation)

Collateral: group guarantee

New or existing projects: new and existing

Box 2. Case study: Soumaya

Soumaya is a 27-year-old woman living with her mother. She lost her father at a very young age and there was little or no household income. She received a loan from Caritas and bought a mobile kiosk and a traditional Lebanese *saj* (a wok-like bread-maker, but bigger and used upside down), as well as other materials needed to sell *manakish* (Lebanese pizza) at the Deir al-Ahmar public school.

Soumaya joined the local village bank and bought some supplies for her business. She initially bought tables and chairs and moved the kiosk to a garden, where she set up a coffee shop that sells *manakish*, coffee and other refreshments, and offers *nargileh* (a traditional water pipe for smoking).

Soumaya currently has a loan of \$800. She has rented out her caravan and is running a small restaurant in Deir al-Ahmar. The small restaurant offers hamburgers, Italian pizzas, cigarettes, ice cream and various other refreshments.

The loan programmes of Caritas and CRS have helped Soumaya change her life in a very positive way. She is generating a good income and is able to meet her needs.

6. Cooperative Housing Foundation

CHF strives to improve the housing situation, income and living conditions of families throughout the world. The Foundation started a microcredit programme in Lebanon in January 1999 in collaboration with the Jammal Trust Bank.

(a) *Organizational structure*

There are five loan officers (the number is expected to grow to 10), three credit coordinators (supervisors), a finance manager, a programme assistant and a programme director.

(b) *Methodology*

Loan officers go door to door, to small shops and residences, to provide information about the programme in the target areas. Applications are filled out and sent with the appropriate documents to the CHF office for review. The loan committee meets once a week to review the applications. The names of those approved are sent to the nearest Jammal Trust Bank branch for loan disbursement and the signing of contracts and promissory notes.

(c) *Services*

CHF guarantees 75 per cent of the loan and acts as an intermediary between borrowers and the bank.

(d) *Programme profile*

Objectives: provide loans to entrepreneurs through a private bank; lend again to borrowers after loan repayment; encourage bank savings (small accounts amounting to around \$50); enhance the capability and will of private banks to lend to small entrepreneurs

Capacity: Bank and CHF have computerized MIS systems and professional staff; Bank is already in the business of serving lower-income groups

Strengths: cooperation with a private bank; 75 per cent of risk assumed by CHF; low cost

Weakness: Legality in question (NGO working as a financial institution)

Problems: to be assessed

Target group: men or women at least 21 years of age, owners of an existing enterprise (for a minimum of one year)

No. of clients served: targeted more than 1,000 the first year

Outreach: 16 bank branches covering all regions, especially low-income areas

Type of projects: industry, service and trade

Average loan amount: \$1,250

Loan range: \$500-\$2,000

Loan duration: 6-12 months, monthly instalments

Portfolio for 1999/2000: \$1.25 million

Share of risk: CHF = 5 per cent and Jammal Trust Bank = 25 per cent

Interest rate: 28 per cent on declining balance (16 per cent flat) plus 3 per cent commission up front (overall annual interest is around 34 per cent)

Repayment rate: 100 per cent

Cost per loan: not available

Collateral: fixed assets, bank account, pledged salary

New or existing projects: projects at least one year old

Box 3. Case study: Ali Harissa

Ali Harissa owned 50 per cent of a shop selling electronic games and cellular phones. Ali, also the manager of the shop, felt that his income would increase if he became a sole proprietor. He talked his partner into selling him his shares for an agreed sum; Ali was short \$1,500, which he was able to borrow from CHF.

Ali now owns the shop outright, his income has doubled and he seems happy. His inventory is worth more than \$10,000.

7. Coopérative Libanaise pour le Développement

Coopérative Libanaise pour le Développement (CLD) was established in Antelias in 1992 on the initiative of Father Youakim Moubarak and several laic Maronite Christians with the objective of disbursing loans for income-generating activities.

(a) *Organizational structure*

The programme includes field officers, a credit director, a control (or credit) committee and an administrative board.

(b) *Methodology*

Field officers and the credit director visit the targeted regions, which are generally rural villages of those displaced by war. The programme is explained to the leaders and some members of the community. Another visit is made to allow potential borrowers to fill out applications. The credit director studies the applications and sends them to the credit committee; if the loans are approved, cheques are issued for a portion of the loan. Photos are taken before project implementation. When projects are initiated, the remainder of the approved loan is disbursed.

Regular visits are made by CLD staff to follow up on project implementation and to maintain close relations with the beneficiary communities.

Loans are disbursed to individuals once they have pledged \$50 in capital assets. Loans are mainly provided for the agricultural sector and sometimes reach \$10,000. However, most borrowers receive loans of around \$2,000.

(c) *Services*

CLD provides lending services for clients.

(d) *Programme profile*

Objectives: help the displaced resettle in their villages by making it possible for them to start microenterprises; help rural people in general and Maronite Christians in particular

Capacity: professional staff; outreach; good reputation owing to its affiliation with the Maronite Church; MIS system being set up

Strengths: ability to reach borrowers; ability to run a programme with larger loan amounts and a low interest rate that covers costs

Weaknesses: limited outreach; sectarian

Problems: none to date

Target group: rural population

No. of clients served: 335

Outreach: rural areas, mainly in regions with a high proportion of displaced

Type of projects: agricultural and other projects

Average loan amount: \$2,000

Loan range: \$1,000-\$8,000

Loan duration: 1-3 years

Portfolio for 1999/2000: \$800,000

Share of risk: none

Interest rate: 8 per cent (may be reduced)

Repayment rate: 99 per cent

Cost per loan: not yet calculated, but estimated at around 8 per cent

Collateral: pledged capital assets

New or existing projects: new and existing

Box 4. Case study: Abu Kassem

Mr. Abu Kassem, who lives in the village of Beisour to the east of Sidon in south Lebanon, received a \$10,000 loan from CLD for his grocery store. He bought two refrigerators and redecorated the grocery, which is now called Mini-Market Abu Kassem. The shop offers sandwiches, cold cuts, various refreshments, nargileh, and a place for the villagers to gather, meet, play cards, watch television and relax. Moreover, Abu Kassem has a telephone system that provides telecommunications services for the village for a membership fee of \$10 per month.

Mr. Abu Kassem's wife runs the business, and her two children help her. She was able to employ two workers on a part-time basis to serve clients in the evenings, when it gets busy. It is clear that Mr. Abu Kassem took the loan for his wife to help her expand her business.

8. Pontifical Mission/Catholic Near East Welfare Association (CNEWA)

This association was originally the Pontifical Mission for Palestine. It was established in 1949 following the Israeli occupation of Palestine and the Palestinian diaspora, receiving administrative and financial support from the Catholic Near East Welfare Association (CNEWA). The Mission has projects financed by the American office of the Pontifical Mission and USAID; several development projects have been implemented all over Lebanon. The scope of work encompasses activities relating to physical infrastructure (housing, water networks, transportation networks, electricity and village sanitation), agricultural development, manufacturing, and social infrastructure (education, health and religion).

(a) Organizational structure

There is a programme manager, and a credit consultant works part-time, on a project-by-project basis.

(b) Methodology

The Pontifical Mission has a programme whereby loans are provided to support income-generating projects of people who have previously established a personal relationship with the organization. The Mission guarantees 100 per cent of the loan. The credit consultant studies the loan application and determines the feasibility of the project; the application is then approved or rejected.

(c) Services

The Mission offers a very limited loan programme.

(d) *Programme profile*

Objective: provide loans through a private bank to entrepreneurs with a solid reputation

Capacity: Mission has a sum of money in a savings account earning a fixed interest rate of 8 per cent; Mission does not have the capacity to run a credit programme

Strengths: cooperates with a private bank; high repayment rate

Weaknesses: subsidized loan programme; small number of borrowers; no loan officers at the NGO

Problems: no real problems seen by administration

Target group: entrepreneurs known by the NGO following a history of successful cooperation

No. of clients served: 45

Outreach: very limited

Type of projects: any feasible productive project

Average loan amount: \$3,500

Loan range: \$1,000-\$5,000

Loan duration: 12-30 months

Portfolio for 1999/2000: not specified

Share of risk: 100 per cent (Pontifical Mission)

Interest rate: 7 per cent

Repayment rate: 99 per cent

Cost per loan: 17 per cent (estimated)

Collateral: creditworthiness

New or existing projects: new and existing

9. *Makhzoumi Foundation*

The Makhzoumi Foundation is a private Lebanese non-profit organization providing educational and cultural services to people throughout the country. Founded in 1997, the Foundation concentrates its efforts on microcredit provision, vocational training and awareness-raising. It also encourages innovation through the presentation of annual awards. The microcredit unit was established in 1998 and has served more than 270 borrowers to date.

(a) *Organizational structure*

The unit comprises a microcredit programme manager, a credit committee, an accountant and three credit “promoters”.

(b) *Methodology*

The Foundation informs various NGOs about its programme and asks for names of families that might wish to secure income-generating loans. Phone numbers are left with local NGOs working in the poor neighbourhoods of Beirut and its suburbs; and interested parties contact the Foundation for more information. Promoters meet with prospective borrowers to help them fill out a detailed application. The promoters submit the applications and offer their opinions and recommendations to the programme manager. The manager checks the applications and makes sure they are in order, then sends them to the credit committee for approval. The committee, made up of consultants from the fields of banking, sociology and economics, meets every two weeks. If an application is approved, the borrower comes to the Foundation’s head office to pick up his or her cheque. Loan payments are made at the Banque du Liban et d’Outre-Mer. The Foundation makes regular visits to borrowers and prepares monthly and quarterly reports, as well as an impact evaluation at the end of the loan period.

(c) *Services*

The Foundation provides loans and technical assistance and maintains a close relationship with the beneficiary.

(d) *Programme profile*

Objective: provide loans, mainly to Lebanese women, for microenterprise start-up

Capacity: loan fund estimated at \$500,000 but has great potential for increasing with demand; Foundation has a professional and enthusiastic programme manager; good MIS program

Strengths: cooperates with other NGOs; high repayment rate; close to borrowers; humanitarian aspect is important to the Foundation

Weakness: exclusively for Lebanese

Problems: no real problems seen by administration

Target group: mainly Lebanese women above 18 years of age living in Beirut and its suburbs

No. of clients served: more than 270

Outreach: Beirut and surrounding areas

Type of projects: any feasible productive project

Average loan amount: \$420

Loan range: \$100-\$500

Loan duration: 6 months

Portfolio for 1999/2000: \$500,000

Share of risk: 100 per cent (Foundation)

Interest rate: 1.84 per cent per month (add-on)

Repayment rate: 100 per cent

Cost per loan: not calculated

Collateral: creditworthiness

New or existing projects: new and existing

Box 5. Case study: Huwayda

For the past 10 years Huwayda has been working discontinuously as a dressmaker at her home in the Tareq al-Jadidah district. She and her husband, who is a private chauffeur, have three children. Huwayda has suffered unbearable financial difficulties, and her troubles and obstacles have prevented her from achieving a level of productivity that would give her enough “liquidity” to purchase the tools and equipment needed for her profession.

One day, representatives from the Makhzoumi Foundation’s microcredit programme called on Huwayda to brief her on its services. Huwayda decided to participate in the programme and benefit from its provisions. She received a loan of \$300. After three months, Huwayda’s situation improved tremendously and her customers base increased.

10. *Mu'assasat Bayt Al-Mal*

The Hasan Loan Institution (Al-Qard Al-Hasan) was established in 1983, following the Israeli invasion of Lebanon, the initiative of a number of citizens interested in social and economic development and rehabilitation and with the blessing of Imam Khomeini.

In 1990, this Institution created a sister organization called Al-Yusor for Finance and Investment (Yusor lil-Istismar wal Tamweel) to serve entrepreneurs with microenterprises or investment ideas. These two organizations, along with a research and consultation centre and a centre for auditing and accounting, form a group collectively referred to as Mu'assasat Bayt Al-Mal.

(a) *Organizational structure*

There are around 35 employees working at four main branches (Nabatiyeh, Tyre, Beirut/Bir al-Abed and Baalbek). A new branch will be opened soon in the eastern sector of Beirut. A management board and credit committees administer the programme. The Institution (Mu'assasat Bayt Al-Mal) has maintained a very close relationship with the people and is seen as a very creditable organization with many volunteers. Volunteers are active in 40 villages where the Institution has branches and a community base.

(b) *Methodology*

Potential borrowers contact volunteers at the village branches. Applications are filled out and sent to the main branch for approval; disbursement is through the volunteers.

Under the Yusor programme, borrowers' applications and feasibility studies are sent to the research and consultation centre for direction, guidance and a more precise determination of project feasibility. Applications are then submitted to the management board for final approval. Volunteers in the field disburse funds and collect payments; those volunteers who work very closely with the Institution also follow up on late payments.

The first 10 days of every month are for receiving applications, the second 10 days for study and approval, and the last 10 days for loan disbursement.

(c) *Services*

The Institution provides loan, savings and investment services, as well as consultation and guidance.

(d) *Programme profile**

Objective: provide loans to people in need regardless of race, nationality or religion

Capacity: loan fund estimated at \$5 million; most successful outreach (more than 30,000 borrowers); four main branches and forty branches in the villages; professional and enthusiastic management and a good MIS program; affiliated with sister organizations that do research and auditing; strong and wide popular base that feeds the corps of volunteers

Strengths: network of donors with complete confidence in the activities of the Institution; high repayment rate; close to borrowers; humanitarian foundation

Weakness: though an independent institution with a permit from the Ministry of Interior, might be seen (wrongly) by some as affiliated with a certain political party

Problems: many stakeholders lack information about the programme; may be intentionally marginalized by international organizations and researchers

Target group: any person with a particular need and the necessary collateral

No. of clients served: more than 30,000

Outreach: 4 main branches and 40 village branches

Type of projects: (a) production or consumption projects; (b) income-generating projects

Average loan amount: (a) around \$400; (b) around \$5,000

Loan range: (a) \$200-\$500; (b) \$300-\$10,000

Loan duration: (a) 1 year; (b) 3 years extendable

Portfolio for 1999/2000: \$5 million

Share of risk: 100 per cent with collateral

Interest rate: none; or profit-sharing according to terms of contract

Repayment rate: 95 per cent

Cost per loan: not calculated

Collateral: capital assets, land, gold, guarantor, bank guarantee

New or existing projects: new and existing

* For most categories the information provided applies to both the Hasan and Yusor programmes; specific references to one or the other are preceded by (a) and (b) respectively.

B. PRIVATE BANKS AND MICROFINANCE IN LEBANON

The previous section focused on the supply of microcredit through NGOs; this section will concentrate on private banks and the role they play in microcredit provision.

The Government of Lebanon has proposed the establishment of a small enterprise credit insurance institute through which banks, for a fee, can protect themselves against losses in this area. Information regarding this initiative and other credit activities of the Government and various United Nations agencies is provided in the present section.

The Lebanese banking environment is characterized as moderately regulated, and dollarized. The distribution of credit services among sectors is uneven, as will be explained below.

Two institutions have direct responsibility for banking system oversight: (a) the Banking Control Commission establishes capital adequacy ratios, guidelines for credit risk management and general banking policies and monitors banks' adherence to the relevant requirements; and (b) the Banque du Liban, which is the country's central bank, determines reserve requirements for all banks and sets other national monetary policies.

The following applies to banking in Lebanon:

- (a) Interest rates are market-driven; Banque du Liban has no formal policy with regard to interest rates;
- (b) There are no specific regulations on commissions on fees that banks can charge;
- (c) There are no reserves on dollar deposits.

In common financial transactions, the United States dollar is just as, if not more, prevalent than the Lebanese pound. In August 1998, 65.66 per cent of bank deposits were in United States dollars, and a staggering 88.29 per cent of bank credits had been extended in that currency (Banque du Liban, August 1998).

With more than 80 locally registered banks, the Lebanese banking sector is extremely competitive and dynamic. However, it may also be characterized as inadequate, as it has failed to satisfy the demand in many sectors of the local market. Table 12 shows the distribution of credit by sector in July 1998.

TABLE 12. LOAN DISTRIBUTION, BY SECTOR OR CATEGORY

| Sector | Share of total loans |
|-------------------|----------------------|
| Trade | 44.97% |
| Construction | 21.11% |
| Industry | 12.81% |
| Personal | 11.96% |
| Finance and other | 7.53% |
| Agriculture | 1.61% |

Source: Information provided by Mr. Youssef El-Khalil of Banque du Liban.

The table indicates that the agricultural sector received the lowest share of bank loans even though it represented around 20 per cent of gross domestic product (GDP), and the manufacturing sector, which accounted for 30 per cent of GDP, received only 12.8 per cent of all credits.

According to Mr. Youssef Al-Khalil of Banque du Liban, farmers and agribusiness companies obtain most of their financing through three large suppliers, and because of the concentration of lending power, it is not uncommon to see extremely high effective interest rates (more than 100 per cent) in this sector.

The lack of bank credit for small manufacturing and agricultural enterprises is not entirely the result of Lebanon's historical specialization in services. Other factors contributing to the problem may be summarized as follows:

- (a) The high cost of administering bank programmes for such sectors;
- (b) The high market risks, especially in the agricultural sector;
- (c) Difficulty in extending medium- and long-term credit; among Lebanese commercial banks, the average maturity of deposits, is 42 days, according to Banque du Liban.

Moreover, bankers require some sort of security before they will extend credit; this constitutes a major obstacle for most micro-entrepreneurs, even if the collateral requirements are determined on a pro rata basis. The problem is especially serious for farmers who do not have title deeds for their land. The end result is that, despite the recent expansion in microfinance activities by some Lebanese banks, the microenterprise sector is still receiving a negligible share of credit in terms of the total volume.

One of the leading banks in microlending in Lebanon is Jammal Trust Bank. Other banks extend loans to microenterprises, but Jammal Trust is considered particularly important in microcredit provision; its joint programme with

CHF/AMEEN is especially noteworthy. An interview with Mr. Anwar Jammal, the Bank's Executive Director, produced the profile offered below.

Another important player is Banca di Roma, which works with various governmental, non-governmental and United Nations organizations to provide loans to the displaced (see subsection 2 below).

1. *Jammal Trust Bank*

Jammal Trust Bank was established in 1963 as a joint stock company initially called the Investment Bank. In 1978 its name was changed to Jammal Trust Bank. Today the Bank has 18 branches in Lebanon and is in the process of opening a new branch in the south. It also has five branches in Egypt and a representative office in the United Kingdom of Great Britain and Northern Ireland.

The types of credit offered by Jammal Trust Bank can be broken down as follows: commercial loans (32 per cent); trade financing (21 per cent); consumer loans (19 per cent); agricultural loans (8 per cent); construction loans (11 per cent); and industrial loans (9 per cent).

Programme profile

Credit objectives: increase lending to small-scale enterprises; lend more to low-risk agricultural projects (such as tobacco-growing); encourage bank savings (even small amounts such as \$50); increase outreach; increase awareness of social implications

Capacity: computerized MIS program (note that system requires thorough evaluation); professional staff; Bank is already in the business of serving lower-income groups

Strengths: cooperates with an NGO (CHF), so share of risk is only 25 per cent; low cost

Weakness: follow-up (the Bank recently reorganized its follow-up operations, so the situation has improved somewhat)

Problems: political loans (with UNDP in Baalbek-Hermel; certain dominant parties in the area have exercised undue control over lending and borrowing decisions; many local residents are not aware of programme possibilities); no risk-sharing involved

Target group: all sectors, but mainly commercial enterprises; more attention given to agriculture (loans for tobacco growers) if appropriate guarantees provided

No. of clients served: 12,000 enterprises (less than \$10,000) without the AMEEN programme

Outreach: 18 bank branches that cover all regions, especially low-income areas

Type of projects: any feasible project, as long as guarantee provided

Average loan amount: 82 per cent of loans less than \$10,000 and 58 per cent less than \$5,000

Microenterprise loan to deposit ratio: 10 per cent (around \$10 million)

Loan range: \$750 - \$10,000

Loan duration: depends on the capacity of borrowers (mainly for merchants); 6-12 months in monthly instalments (microcredit with CHF/AMEEN)

Portfolio for 1999/2000: no ceiling

Share of risk: 100 per cent (except for projects managed and guaranteed by UNDP, and the one with CHF)

Interest rate: 13.33 and 25 per cent on United States dollar and Lebanese pound loans respectively

Repayment rate: 100 per cent in some regions, and only late payments in others (Bank is encouraged to write off loans that are more than 360 days past due)

Cost per loan: 3-5 per cent (according to sector and amount)

Collateral: fixed assets, bank account, pledged salary, life insurance

New or existing projects: new and existing

Savings facilities: offered for as little as \$50 (the trend in big banks is to refuse to open a savings account for less than \$3,000)

2. Banca di Roma

The civil war in Lebanon and the Israeli invasion caused the displacement of many citizens from various regions, one of which was Mount Lebanon. It is believed that the return of these displaced people to their communities is a prerequisite for sustainable peace in the country.

As part of its efforts to rebuild the country and facilitate civil reconciliation, the Government of Lebanon is committed to helping the displaced return to their land. A lending programme that targets this group and later the entire population of the regions in question was set up at the Ministry for the Displaced. (Section C of the

present chapter provides more detailed information on this programme, referred to as United Nations Reintegration and Socio-Economic Rehabilitation for the Displaced.)

Banca di Roma is participating in the implementation of this programme in coordination with two partners: international donors (the Europe Union [EU] and the United Nations); and the Government of Lebanon.

(a) *Organizational structure*

Two expatriates and two Lebanese nationals run the programme from an office at the Ministry for the Displaced in the Damour area.

(b) *Programme profile*

Credit objectives: lend to displaced and returnees to Mount Lebanon/Chouf

Capacity: computerized MIS program; professional staff; bank works with the EU, Ministry for the Displaced and UNDP

Strengths: information not available

Weakness: information not available

Problems: difficulty faced in getting the displaced back to their homes

Target groups: refugees and the displaced

No. of clients served: 86 out of 200 applicants

Outreach: Chouf and Mount Lebanon

Type of projects: agricultural and agro-industrial

Average loan: less than \$12,000

Loan range: information not available

Loan duration: 3 years (6-month grace period)

Portfolio for 1999/2000: 2 million

Share of risk: 30 per cent

Interest rate: LIBOR plus 3 per cent declining

Repayment rate: estimated at 90 per cent

Collateral: pledged capital assets (land valued at 2.5 times loan amount) for loans of less than \$12,000; for loans of more than \$12,000, money and asset guarantee equivalent to 120 per cent of loan value

New or existing projects: new and existing

Savings facilities: yes

C. UNITED NATIONS MICROCREDIT PROGRAMMES IN LEBANON

The shortage of financial credit, especially for the agricultural sector, prompted the Government in the past to establish various institutions specializing in the provision of medium-term and long-term loans. The Bank of Agricultural, Industrial and Real Estate Credit was set up but never began operating, and a special unit was established in connection with the Ministry of Agriculture's Green Plan. According to Mr. Al-Khalil of Banque du Liban, specialized credit institutions in Lebanon have been crippled by the failure to attract private capital, by the politicized nature of staffing within these institutions (which translates into inflated overhead costs), and by the lending of Lebanese pounds at real negative interest rates.

It may be mentioned here that the Lebanese central bank, in circular No. 1512 of 10 April 1997, set aside a budget of LL 24 billion in investment credits for industrial, agricultural, and tourism projects, to be offered at a subsidized interest rate of 5 per cent. This fund has not yet been depleted; interested parties can still benefit from the programme by applying directly to the office of the director of Banque du Liban.

In February 1999, the Lebanese Parliament approved a proposal submitted by the Minister of Economy and Trade to form a credit guarantee fund monitored by the Lebanese central bank. This fund, run by a joint public-private company, will insure between 65 and 75 per cent of the loan amounts disbursed. According to Ms. Talyne Auramilian, a consultant to the Minister of Economy and Trade, this fund will be available to private banks, insurance companies and other financial institutions with at least 15 employees and a board of directors comprising at least five people. The fund will insure loans with a value of between \$6,000 and \$60,000. The Ministry of Economy and Trade will invest \$10 million initially and expects other investors to raise the fund to \$50 million. The loan period will be two to five years, with a grace period of six months.

The Government is also working with agricultural credit schemes in the Beqa'a valley. One of the schemes involves efforts to shift away from the cultivation of illicit crops and is being promoted and implemented with the help of international organizations such as the International Fund for Agricultural Development (IFAD)

and UNDP. Another credit-related government scheme in the agriculture sector is for the displaced people of Aley, Chouf and Baabda. This credit programme is funded by the EU and run by the Italian Institute for University Cooperation (ICU) and the Ministry for the Displaced and is reviewed below.

The UNDP credit programme has faced some difficulties. An analysis of the UNDP project profile provides some insight, especially in the light of the fact that this body, which is not a financial institution, has facilitated credit delivery in one of the most deprived areas in Lebanon.

It is important to understand that the Baalbek-Hermel area, viewed by many as the reservoir of Lebanese resistance fighters against Israeli occupation became dependent on the farming of illicit crops before the end of the French mandate in the early 1940s. The destruction of these crops in the early 1990s and the Government's failure to provide the promised compensation sparked civil disobedience that climaxed with an armed confrontation between local residents and the Lebanese Army a few years ago.

The unfortunate situation in Baalbek-Hermel has led to the migration of many of its youth to urban areas. However, a real vision and a plan for the development of the region, backed by a strong political will, sufficient initiative and appropriate budget allocations, would allow the creation of an environment in which microcredit programmes could have a positive impact.

1. UNDP rural credit component for the Baalbek-Hermel region

According to UNDP, Baalbek-Hermel is the most neglected and marginalized region in Lebanon. It has been deprived of an important source of revenue (the cultivation of illicit crops) and therefore should not be dealt with on the basis of development indicators for the country as a whole. Per capita GDP in the region is less than \$500, compared with national per capita GDP of \$2,074. Areas with figures as low as this are classified by United Nations agencies as least developed and therefore entitled to immediate development assistance.

Forty-two per cent of farmers in the area own farms of less than 2 hectares (ha), and 36 per cent own farms of between 2 and 4 ha. The small sizes of the farms, the arid climate, the under-exploitation of water resources and the high cost of agricultural inputs have rendered a rural credit system a priority.

According to Mr. Mohammed Ferjani, director of the UNDP Integrated Rural Development Programme for the region, Baalbek-Hermel has around 137,500 people depending on agriculture for their living. Families in that area have an average of six members, so there are around 25,000 farms in the region. (The registered population in Baalbek-Hermel is around 500,000, but only half of those registered actually reside there.)

(a) *Objective*

The primary objectives of the programme are to help farmers reorient their production systems away from illicit crop cultivation and enable them to better exploit their natural soil and water resources through the provision of loans.

(b) *Capacity*

UNDP has invested resources to form local development and credit committees in the villages, has experience in providing loans through private banks, and has the support of the appropriate ministries.

The UNDP programme in Baalbek has a credit specialist, three loan officers, and offices that cover the whole area.

(c) *Strengths and successes*

The UNDP credit programme has reached 2,083 borrowers belonging to 22 local development credit committees in 22 villages; all of the allocated funds have been used. (When the programme began, UNDP was able to obtain the approval of the former Minister of Finance, Mr. Fouad Sanyoura, for a government allocation of \$10 million to fund initiative.)

UNDP convinced at least two banks to overcome their reluctance to lend to farmers; set up the local development credit committees to act as a social guarantee, exerting peer pressure on borrowers to repay their loans on time; and mobilized the community to participate in the management of the credit programme—a vital element in ensuring the sustainability of the credit system.

During a demonstration organized by the tobacco growers' union in Beqa'a, the head of the union called on the Government of Lebanon to legalize the cultivation of cannabis (*hashish*) and made other demands concerning tobacco growing quotas and prices (Assafir, 9 June 1999). Although many farmers support this view, and although the Government has not yet developed a workable plan for replacing illicit crops with other profitable crops, the United Nations has remained steadfast in its commitment to improving the standard of living in the area. UNDP is currently helping with other projects that complement its efforts to develop a more productive agricultural sector, mainly by assisting exporters and researchers and by providing a network for various stakeholders.

In the Baalbek-Hermel area, UNDP has shown initiative and enthusiasm and has prepared several studies on possible projects that, if well-financed and implemented, would help the region overcome many of its problems.

(d) *Weaknesses*

Collateral requirements are limited to the signatures of two people and peer pressure. The bank and borrower do not assume any of the risk; UNDP takes full responsibility, even though the bank allocation constitutes 50 per cent of the loan fund. The interest rate of 12 per cent for Lebanese pounds is lower than the market rate and could therefore undermine the sustainability of the programme if money is not pumped in regularly. Operating costs, risks, and the cost of the money lent are not covered by the interest rate.

(e) *Opportunities*

UNDP could develop its credit services and facilitate the future sustainability of the programme by encouraging banks and borrowers to share in the risks. UNDP should take the opportunity to train bank staff in small credit management and link the banks directly to the local development credit committees.

Banks could charge the market interest rate, which would target potential borrowers who are capable and have the required collateral. If banks deal directly with borrowers, favouritism can be eliminated, and emphasis can be placed purely on the business aspects of the credit programme. UNDP could then concentrate on social development and vocational training.

(f) *Programme profile*

Objectives: provide loans to people in the Baalbek-Hermel area to facilitate the replacement of illicit crops with other profitable crops and thus help raise the standard of living

Capacity: programme manager, credit specialist, accountant, computer specialists, loan officers in the field, credit approval committees, local community committees

Strengths: good outreach; has started lending in-kind; involved in other complementary activities and programmes targeting agricultural development in the region

Weaknesses: needs additional funding; region experienced civil disobedience that reflected negatively on the area and on the programme as well; might be seen by some as a charity rather than a credit provider owing to the low interest rate charged and to the name of the organization and its perceived role as an international donor

Problems: low repayment rate owing to above-mentioned problems; lack of funds

Target group: farmers in the region

No. of clients served: 2,083

Outreach: 22 communities in the Baalbek-Hermel region

Type of projects: agricultural (fertilizers, pesticides)

Average loan amount: \$850

Loan range: \$700-\$1,500

Loan duration: less than 1 year to 15 years

Portfolio for 1999/2000: \$1.4 million

Share of risk: 60 per cent

Cost per loan: information not available

Collateral: co-signers as guarantors; moral guarantee provided by local committee

New or existing projects: new and existing

2. *United Nations Relief and Works Agency for Palestine Refugees in the Near East: Poverty Alleviation Programme: Microfinancing in Lebanon*

The first Arab-Israeli war, in 1948, resulted in the displacement of hundreds of thousands of Palestinians; most fled to Jordan, Lebanon, the Syrian Arab Republic and other Arab countries. The gravity of the situation led to the formation of UNRWA to help the refugees manage their new lives in the refugee camps. In 1984, UNRWA started a soft loan financing scheme and later introduced three other schemes to support microenterprises run by Palestinian refugees. The microfinance programmes of UNRWA are summarized below.

(a) *Organizational structure*

The mini-loan programme comprises a project development officer, an income-generation officer (project manager), and a team of social workers. The loan approval committee is that for the overall Poverty Alleviation Programme.

The small-scale enterprise programme has its own project development officer, income-generation officer and loan approval committee, but no social workers.

The group guarantee lending programme has loan approval committees within the women's programme centres.

The soft loan programme has an income-generation officer and a project development officer.

(b) *Profile of credit schemes*

Table 13 provides a profile of all four credit programmes run by UNRWA.

TABLE 13. CREDIT SCHEMES OF UNRWA/LEBANON FIELD OFFICE

| Credit institution | Small-scale enterprise programme | Mini-loan programme | Soft loan programme | Group guarantee lending programme |
|----------------------------------|--|--|---|---|
| Programme profile/ background | Launched by UNRWA in 1992 | Launched by UNRWA in 1994 | Launched in 1984 | Started in July 1998 |
| Methodology | The prospective borrower submits an application to the area office; the application is then sent by the area officer to the main office for review. A visit is made to the site to determine project feasibility (a study is prepared). The complete file is then sent to the loan approval committee for a final decision | The prospective borrower submits an application to the area office. The social worker and area relief and social services officer add their comments and recommendations. The application is sent to the main office for review, then to the Palestinian assistance programme social worker for review further and the preparation of a feasibility study. A joint visit is made with the project development officer, after which the file is sent to the loan approval committee | The prospective borrower submits an application to the area office, from which it is sent to the field relief services officer and the concerned social worker. A joint visit is made to the applicant with the project development officer, after which a feasibility study is prepared. The completed file is sent to the loan approval committee | Five members meet together, form a group and submit a loan application. The application is studied by a committee at the women's programme centre. Decisions are made by the loan approval committee at each centre |
| Objectives | Provide capital investment and working capital loans, as well as technical assistance | Assist disadvantaged refugees in establishing microenterprises; promote sustainable income-generating activities | Some Palestinians are enrolled in the special hardship programme. Soft loans help them to rise above the poverty line and depend on themselves (rather than UNRWA) for their basic needs | Enable Palestinian women to participate in the local economy through microenterprises or various non-income-generating activities |
| Capacity | UNRWA has the staff and the institutional setting to implement this type of programme | UNRWA has the staff and the institutional setting to implement this type of programme | UNRWA has the staff and the institutional setting to implement this type of programme | Women's committees are responsible for the programme |

TABLE 13 (continued)

| Credit institution | Small-scale enterprise programme | Mini-loan programme | Soft loan programme | Group guarantee lending programme |
|---|---|---|--|--|
| Management capacity | Capable management with MIS and accounting department; needs restructuring to be able to function effectively | Capable management with MIS and accounting department; needs restructuring to function as a credit institution and provide more loans | Capable management with MIS and accounting department; needs restructuring to function as a credit institution | Capable management with MIS and accounting department; needs restructuring to function as a credit institution |
| Strengths | | | | Simple procedures and clear guidelines |
| Weaknesses | Limited capital; interest is below market rate | Limited capital; interest is below market rate | Limited capital; interest is below market rate | Very limited capital; no savings component |
| Opportunities | Increase interest rate and restructure | Restructure | Restructure | Expand for greater outreach |
| Target group | Palestinians who are skilled and are interested in starting or expanding a business but have no access to banks | Palestinians who are skilled and are interested in starting or expanding a business but have no access to banks | Poor Palestinians who have special hardships; are skilled and are trying to become self-reliant; and/or have access to banks | Women's groups |
| Sectors covered | Services, small industry, animal husbandry and medical technology | Services, small industry, animal husbandry and medical technology | Services, small industry, animal husbandry and medical technology | Services and private consumption |
| Loan funds available | \$350,000 | \$275,000 | \$100,000 | \$20,000 |
| Total No. of loans disbursed per year | 45 | 60 | 22 | 70 |
| No. of clients | 200 | 183 | 87 | 70 in two camps only |
| Total No. of active loans | 65 | 80 | 28 | 70 |
| Other activities | Feasibility studies, follow-up | Feasibility studies, follow-up | Feasibility studies, follow-up | Feasibility studies, follow-up |
| Contribution of applicant to total project cost | 10-30 per cent | 10-25 per cent | At least 5 per cent | None |

TABLE 13 (continued)

| Credit institution | Small-scale enterprise programme | Mini-loan programme | Soft loan programme | Group guarantee lending programme |
|--|--|-------------------------------------|-------------------------------------|-----------------------------------|
| Loan range: | \$4,000-\$15,000 | \$500-\$3,000 | Less than \$5,500 | \$500 |
| Maximum loan amount (varies according to project) | \$15,000 | \$3,000 | \$5,500 | \$500 |
| Maximum loan period (varies according to project type and feasibility) | 36 months | 24 months | 18 months | 11 months |
| Grace period | 1-3 months | 1-2 months | 1-2 months | None |
| Interest rate and method of calculation | 7 per cent (simple interest) | 5 per cent (flat) | 5 per cent (flat) | 10 per cent (flat) |
| Cost per loan | \$1,000 (according to UNRWA programme manager) | \$200 | \$100 | \$5 |
| Repayment rate | 97 per cent | 98 per cent | 98 per cent | 100 per cent |
| Type of guarantee/collateral | Two UNRWA staff members as guarantors | One UNRWA staff member as guarantor | One UNRWA staff member as guarantor | Group guarantee |

3. United Nations Reintegration and Socio-Economic Rehabilitation for the Displaced*

The programme is based at the Ministry for the Displaced and includes three partners: international donors (the EU and the United Nations); the private sector (Banca di Roma); and the Government of Lebanon. Banca di Roma is the loan provider, and the others are involved in the preliminary screening of beneficiaries and the control of equity.

A special department was created at the Ministry, and office space was provided. Four staff members (two expatriates and two Lebanese) were hired for the programme. Efforts were focused primarily on Mount Lebanon and Chouf (about 450,000 people). Returnees constituted the original target group, and the displaced

* Implemented in cooperation with Banca di Roma.

were added later, but the programme ended up targeting the entire population in these areas.

Objectives

The programme provides loans to revitalize the agricultural sector. Maximum loan amounts were originally \$20,000, but the ceiling was reduced to between \$10,000 and 12,000. Repayment is over three years, with a six-month grace period. The loan is tied to training in agriculture (the growing of olive or fruit trees, for example). Interest is a flat rate of 3 per cent per year. Out of 200 applications, 86 loans were approved; four or five of these loans have been fully repaid, and seven have problems. Some \$600,000 is outstanding. Collateral includes personal guarantees, salary pledges and in some cases land deeds (title deeds are not available for all land). The loan fund still had \$1.2 million on 31 April 2000.

A second programme objective is to establish a financial plan that will allow returnees to start small and medium-sized enterprises (SMEs) in the fields of agriculture and agro-industry. The programme has faced some difficulty in resettling people. In Chouf only 35 per cent have returned; in Baalbek and Baabda the figures are 37 and 60 per cent respectively. These people are back but not yet resettled.

4. UNICEF microcredit programme in the Palestinian refugee camps

The United Nations Children's Fund (UNICEF) is also implementing a small-scale microfinance programme, directed at Palestinians in all the refugee camps of Lebanon. This programme is at a nascent stage but is in the process of developing into a more sustainable scheme managed with the participation of the local communities.

A total of 202 borrowers benefited from the \$300,000 loan fund during 1997 and 1998. Loans were disbursed to both men and women through local community committees at an interest rate of 3 per cent. Around \$105,000 (one third of the loan fund) was entrusted to the General Union of Palestinian women. It is important to note that several borrowers refused to pay the interest on their loans, as they considered it *riba* (usury), which is against Islamic law.

A team of experts evaluated the UNICEF programme and made several recommendations, which will be implemented in the coming stages. In general, the evaluation team said that "the revolving loan project... achieved a high output of income generation in the Palestinian camps and that the loan scheme [had]... successfully met its objectives" (UNICEF, 1999).

IV. GENERAL OBSERVATIONS AND RECOMMENDATIONS

A. GENERAL OBSERVATIONS

The interviews with various stakeholders in the field of microcredit and the literature reviewed produced the following general observations:

(a) Lebanon's main raw material for industry is agricultural produce. Both the agriculture sector and the agri-business sector (which provides added value) would benefit greatly from increased access to finance. The potential exists for the creation of hundreds of new employment opportunities. Examples of areas of production with great development potential are dairy products, veal, juice, leather and oil seeds;

(b) There are five major target populations and areas: south Lebanon, the displaced returning to Mount Lebanon, farmers and others in Baalbek-Hermel, Akkar (the poorest region in Lebanon), and the outskirts of Beirut;

(c) The supply of credit to the agricultural sector has not been formalized. Outwardly, the buyer appears to be responsible for nothing more than delayed payment without charge; however, the cost is included in the delivery price. According to Mr. Al-Khalil and an early assessment by the Food and Agriculture Organization of the United Nations (FAO), the use of agricultural contract systems with exorbitant implicit interest rates is widespread (suppliers of agricultural inputs charge 100 per cent interest on delayed payments);

(d) Entrepreneurs frequently extend credit to their customers, and 50 per cent of the units surveyed have to wait for a month or more for repayment of a sizeable share of their sales. Amounts outstanding can easily reach 10 per cent of turnover;

(e) Around 30 per cent of microenterprise units have regular links to banking services through bank accounts. Units receiving credit do not necessarily have an account and are rarely obliged to by their credit scheme. CHF encourages borrowers to open savings accounts at Jammal Trust Bank and have convinced the Bank to accept initial savings deposits of as low as \$50;

(f) When microcredits is not available, borrowers rely on family members and moneylenders for funds;

(g) According to UNDP in Baalbek, most entrepreneurs have no particular plans for their future that would require credit for investment. Half of those interviewed by UNDP would like to obtain credit for investment purposes; the other half would prefer to focus on business expansion or equipment improvements. (The proceeds from illicit crops, estimated at \$3 billion per year, were used mainly for consumption and house construction; very little was invested in income-generating projects.);

(h) Many borrowers are not aware of the real cost of the money they are borrowing. Some NGOs charge annual interest rates as high as 43 per cent but call the related charges “loan expenses” rather than interest;

(i) The commercial bank rate for a three-year loan is around 15 per cent per year (decreasing). However, borrowers have to purchase a life insurance policy and pay credit fees, application fees, taxes, stamp costs, and notary fees when they pledge assets as collateral. These charges increase the real cost of the loan to the borrower and comprise what is referred to as the true interest cost;

(j) It is clear that many credit institutions try to hide the fact that they are charging interest, especially when dealing with devout Muslim borrowers. For example, instead of using the word “interest”, they refer to “loan fees” or “charges to cover programme operations”.

An assessment of the strengths, weaknesses, opportunities and threats (typically referred to as a SWOT analysis) of the microfinance sector in Lebanon produced the following conclusions:

(a) Strengths:

- (i) Some banks have already started in this business;
- (ii) Organizations and beneficiaries are aware of the importance and appropriateness of charging the market rate;
- (iii) The market is diversified and includes fishermen, women, farmers, entrepreneurs, rural and suburban concerns, industrial and service enterprises and others;
- (iv) The Government is aware of the problem and is working to develop a solution through the credit guarantee fund and other credit schemes;
- (v) The IFC, the United Nations, USAID and other donors are interested in microenterprise development through credit provision in Lebanon;
- (vi) Money is available in the banks (savings) to finance such projects. (The credit-to-deposit ratio is 14.74 per cent in Lebanese pounds and 54.74 per cent in United States dollars.)

(b) Weaknesses:

- (i) Many private banks have no experience in the domain of microcredit;
- (ii) No real needs assessment (ranking of target groups) has been carried out;

- (iii) The risk of default can be high owing to low productivity, bad management skills or political/security problems;
- (iv) The level of demand fluctuates;
- (v) The required collateral is beyond the reach of most potential borrowers;
- (vi) Many loans are expensive and do not reflect the market rate owing to monopoly- and oligopoly-like situations;
- (vii) Loan subsidization renders sustainability difficult;
- (viii) At present there are insufficient microfinance opportunities to cover market needs;
- (ix) The Government has no clear policies with respect to microcredit institutions and related legalities;
- (x) Some institutions are interested only in repayment, not in the impact of the loan;
- (xi) Most NGOs are working for their own sustainability and not for the establishment of sustainable revolving fund in the target areas.

(c) Opportunities:

- (i) Market demand is greater than the supply of microcredit;
- (ii) A manual of best practice could be prepared based on the impact of the loans in cooperation with bodies such as ESCWA;
- (iii) Fishermen, active cooperatives and other groups that have a good history of cooperation with donors should be targeted;
- (iv) Rural areas should be targeted and local community committees should be encouraged to participate in programmes;
- (v) Efforts should be made to work with government officials in developing an overall vision, identifying target areas, and formulating policies and laws;
- (vi) Advantage should be taken of opportunities to cooperate with the IFC, the United nations, the World Bank and others;
- (vii) Providers should learn from experiences that have proved successful around the world;
- (viii) Microcredit institutions should meet regularly to share the names of borrowers, ideas and other resources.

(d) Threats:

- (i) Many institutions and lending groups are not sustainable;
- (ii) Interest rates that are below the market rate cause confusion and undermine programme stability;
- (iii) Social problems occur when certain target groups are excluded;
- (iv) An emergency and welfare mentality exists vis-à-vis economic development;
- (v) Public sector monitoring of loan disbursement is not carried out in a professional manner;
- (vi) Mismanagement that causes the failure of a microcredit programme could affect the whole country;
- (vii) Microcredit lending institutions are sometimes used as a cover for profit-making;
- (viii) Borrowers sometimes benefit from more than one financial institution;
- (ix) Some politicized microcredit funding programmes have objectives that go beyond economic development;
- (x) There is no real public vision or support.

B. RECOMMENDATIONS

A number of opportunities are mentioned in the SWOT analysis, but there are several other important recommendations that could promote the development of a good credit delivery mechanism that targeted the appropriate market in a transparent and equitable manner.

1. *Microenterprise potential and loan products needed*

(a) *Agriculture and agro-industry*

Cottage industries based on agricultural input crops (including the production of traditional soaps, jams, labneh [yogurt cheese] in olive oil, wine, orange blossom water and rosewater), as well as animal production (cows, goats, sheep and pigs), should be developed to take the place of illicit crop cultivation in the Beqa'a region.

Policies encouraging the formation of agricultural cooperatives are greatly needed. NGO activities could benefit the country if directed towards vocational training in the fields of marketing, product quality, and the application of international standards in the use of fertilizers, pesticides and herbicides.

It is also very important to encourage the introduction of new varieties that could substitute for imports and for which demand is high. These crops could include kiwi fruit, avocado, blueberries, broccoli, and red and yellow sweet peppers, among others. Introducing such crops and using appropriate farm equipment and machinery for planting and cultivation could give the agricultural sector in Lebanon a different dimension and increase profitability.

The competition from agricultural produce imported from Egypt, Jordan, the Syrian Arab Republic and Turkey has made agricultural research to secure different crops and employ different practices a priority.

Farmers should have easy access to loans. However, it is assumed that only half of the farmers meet the criteria for lending, the target demand group amounts to 7,000 farm units, according to Melzer and Chetelat (1998, table 6). However, the UNDP project in Baalbek-Hermel supplied around 1,900 loans in 22 communities, and this represented only 32 per cent of the applications. Demand in the Baalbek-Hermel area would therefore have been around 6,000 loans. If demand in the south and in western Beqa'a were the same as in eastern Beqa'a (6,000) and somewhat less in Akkar (3,000) and Mount Lebanon, Metn, and Kesrouan combined (also 3,000), then real expected demand would be around 18,000 loans. Experience has shown that most farmers would take loans for investment (the purchase of seedlings, machines and water pumps, the rehabilitation of an artesian wells and so on) if the interest charges and loan duration were manageable.

(b) *Manufacturing*

The manufacturing sector includes textile, leather, metal product, carpentry, furniture, cement block and other industries. If only one fifth of the units were eligible, the target group for microlending in this sector would amount to 5,000 units (Melzer and Chetelat, 1998).

(c) *Trade*

In wholesale and retail trade, the target is 78,000 units (Melzer and Chetelat, 1998). Providing loans to those who have no access to bank credit, especially in the priority regions, would boost this sector. If 20 per cent of the merchants required loans, the target would be around 14,000 borrowers in this sector.

(d) *Services*

According to Melzer and Chetelat, there are 39,000 units involved in the provision of services, including car service businesses. If a credit scheme were to target the most promising candidates, around 8,000 new borrowers could be served. All of the data presented above are summarized in table 14.

TABLE 14. POTENTIAL DEMAND FOR MICROENTERPRISE LOANS IN LEBANON

| Sector | No. of establishments with fewer than five employees | Potential No. of clients for credit |
|-----------------------------------|--|-------------------------------------|
| Agriculture | More than 20,000 (estimate) | 18,000 |
| Manufacturing | 20,000 | 5,000 (investment) |
| Trade | 78,000 | 14,000 (working capital) |
| Services (including car services) | 39,000 | 8,000 (investment) |
| Tourism | 9,000 | 3,000 (investment) |
| Total | More than 166,000 | 48,000 |

It is believed that priority should be given to facilitating innovation in the agricultural and agro-industrial sectors, which have been long deprived of credit facilities. Other small industries are a priority as well and should be developed and provided with access to finance.

CHF/AMEEN has estimated that 200,000 home-based businesses exist, 20 per cent of which might need credit. This would boost demand to over 80,000.

2. Recommendations

Recommendations are as follows:

(a) In the absence of protection from produce imported from neighbouring countries, it is advisable to invest in crops in which Lebanon has a comparative advantage; a scientific assessment of agricultural microenterprises at the regional level (needs, capabilities, market, types of produce and so on) is crucial for forecasting what projects would be feasible;

(b) A well-prepared assessment of the impact of loan programmes on the social and economic situation of beneficiaries should be prepared;

(c) Microcredit institutions in Lebanon should coordinate efforts to establish a "common risk" centre through which information could be shared and a lobbying group could be formed to secure increased international and governmental financial and technical support (suggested mainly by AEP);

(d) Legal issues should be clarified with the appropriate ministries;

(e) Some NGOs and/or banks should merge to form strong financial institutions that could provide better service (cheaper and more diversified products);

(f) Efforts should be made to ensure sustainability by encouraging the formation of village banks run and managed by the communities themselves;

(g) Private commercial banks should venture into microenterprise lending, which would include lending to the agricultural sector. These banks should try new marketing methods, employ salesmen (loan officers in the field), and provide financial incentives linked to portfolio performance.

3. *Financial institutions' best practices*

There is no single set of practices that can be implemented with equal success in all regions; however, there are some practices that have proved effective across the board. Ideally, a financial institution should possess the following:

- (a) Strategic leadership, vision, and the commitment of top management;
- (b) Loan officers with enthusiasm and initiative (experience shows that loan officers from the communities served are more successful than others);
- (c) Credible systems with transparent criteria for borrower selection;
- (d) Simple cash-flow procedures (transactions can be conducted with the borrower on site);
- (e) Appropriate means of targeting beneficiaries and areas with particular needs (selection should not be based on ethnicity, family connections and favouritism, political affiliation, gender or religion);
- (f) Good outreach, with offices and/or staff in different target regions;
- (g) Sound accounting, auditing and reporting procedures;
- (h) Short loan approval periods (a maximum of one week between application and decision);
- (i) Sufficient staff to meet needs and deliver products on time;
- (j) A clear objective, target group, and plan of action;
- (k) Appropriate sources of funds to cover costs (for new institutions);
- (l) A sufficient number of clients and client potential to ensure viability;
- (m) A mechanism for following up and evaluating the impact of loans on the status of borrowers;
- (n) An efficient delivery mechanism which would allow the effective use of economies of scale (for group guarantee loans);

- (o) Linkages with private banks in some cases;
- (p) Access to legal aid;
- (q) Excellent lines of communication between staff members, between staff and beneficiaries, and between staff and stakeholders (this requires meetings, memorandums, field visits, and an appropriate attitude towards and knowledge of the culture, norms, values, habits and rituals of the target groups);
- (r) Short-term loans (the borrower should be able to benefit from an upscaled loan after full repayment);
- (s) A programme for group guarantee lending at an appropriate interest rate, with opportunities to transform several groups into sustainable informal banks linked to a private bank; if funds were available, establishing independent rural banks run by the community would be ideal;
- (t) A system for periodically reminding borrowers to pay instalments before loan maturity (this has been shown to increase repayment rates);
- (u) A system for following up project implementation (this has proved to ensure the appropriate investment of money, decreasing the risk of default).

4. *Expected impact of the present research*

The aims of this research have included the following:

- (a) To help stakeholders better understand the microcredit market in Lebanon;
- (b) To encourage the adoption of a more scientific approach to evaluating the impact of the loans;
- (c) To involve ESCWA, in cooperation with the concerned NGOs and communities, in establishing policies and strategies to assist the target population in a more effective manner;
- (d) To provide a database for any future research or intervention in this sector; if ESCWA conducted this study every year, it could become a repository for the industry and donors;
- (e) To help donor institutions better direct their funds;
- (f) To encourage the holding of a workshop coordinated by ESCWA, as this research would be of more help if shared with other institutions and stakeholders involved in the field of microcredit provision, in a context in which dialogue and cooperation could be facilitated.

Annex I

LIST OF THOSE INTERVIEWED FOR THE STUDY

Embassy of Spain

Mr. Sergio Blanco

United States Agency for International Development

Mr. James Stephenson, Mission Director

Ms. Sana Saliba

Mr. Ghassan Jamous

World Bank

Mr. Bassam Ramadan

United Nations Development Programme

Ms. Zena Ali Ahmad, Programme Officer

Mr. Bachir Osmat, Programme Manager (Reintegration and Socio-Economic Rehabilitation for the Displaced)

Mr. Mohammed El-Ferjani, Programme Manager/UNOPS (Integrated Rural Development Programme for Baalbek-Hermel)

Ms. Batoul Yahfoufi, head of Social, Health and Environmental Services, Rural Development (Integrated Rural Development Programme for Baalbek-Hermel)

Al Majmoua

Mr. Reda Maamari, Executive Director

Ms. May Nasr, public relations

Secours Populaire Libanais

Mr. Ziad Abdel Samad, Executive Vice-President

Banque du Liban (central bank)

Mr. Youssef El-Khalil

Association d'Aide au Développement Rural

Ms. Dalphine Campagne, Manager of credit programme

Ministry of Economy and Trade

Ms. Talyne Auremilian, consultant to the Minister

Young Men's Christian Association

Mr. Ghassan Sayyah, Chief Executive Officer

Pontifical Mission

Mr. Issam Bishara, Regional Director

Mu'assasat Bayt Al-Mal

Mr. Hussein A.M. Al-Shami

Association d'Entraide Professionnelle

Ms. Christiane Sahyoun, Director

Cooperative Housing Foundation (CHF/AMEEN)

Mr. Ayman Abdallah, Chief of Party

Mr. Talal Hajj Dib, Project Manager

Ms. Mayada Baydas, microfinance specialist

Ms. Nisrine Mansour, loan supervisor

Mr. Mohammad Al-Asa'ad, field coordinator (Akkar)

Consultation and Research Institute

Mr. Kamal Hamdan, head of Economic Division

Rabitat Al-Shabiba Al-Ijtimaia (RASHA)

Mr. Ali Nassar

Mr. Hisham Hisham

United Nations Relief and Works Agency for Palestine Refugees in the Near East

Ms. Zein Seikali, Chief, Field Relief and Social Services Programme

Mr. Hussein Balshe

Caritas

Mr. Issam Akiki

Ms. May Asaad

Catholic Relief Services

Mr. Charles Khater

Maronite Fund/Coopérative Libanaise pour le Développement

Mrs. Afaf Nehmé, Director

Makhzoumi Foundation

Ms. Lina Makhzoumi Ouaidat, Deputy General Manager
Ms. Dalia Ouaida, Microcredit Programme Manager

Institute for University Cooperation (Rome)

Mr. Francesco Violani, agro-economist

Ministry for the Displaced

Mr. Khaled Abdul Samad, Director General
Mr. Hassan El Haj, loan officer
Mr. Fares Karamah, loan officer

Jammal Trust Bank

Mr. Anwar Jammal, Executive Director
Mr. Shahwan, Programme coordinator
Mr. Mike Jammal, Board member

Annex II

DESCRIPTIVE PROFILE OF NON-GOVERNMENTAL ORGANIZATIONS WITH CREDIT PROGRAMMES

ANNEX TABLE 1. PROFILE OF CREDIT INSTITUTIONS, AUGUST 1999
(FIRST LISTING)

| Credit institution | Association d'Entraide Professionnelle | Caritas | Cooperative Housing Foundation (CHF/AMEEN) | Al Majmoua |
|----------------------------------|---|---|--|--|
| Programme profile/ background | AEP was initiated by business people in 1984 to help small entrepreneurs become self-reliant and gain access commercial loans (credit only) | Caritas is a Christian organization funded by the Church to help people regain their economic, cultural and spiritual dignity; credit programme started in 1985 (development activities, charity, orphanage, credit) | CHF strives to improve the housing, income and living conditions of families throughout the world (AMEEN stands for Access to Microfinance and Enhanced Enterprise Niches) | Al Majmoua started as a project of Save the Children in 1994 but became an independent institution in 1997 (credit only) |
| Management capacity | Board of directors comprises bankers and businessmen | Outreach and experience | Advanced MIS program; microfinance specialist (Ph.D.) with experience | Advanced MIS program; specialists in the field |
| Target groups | Heads of household; those who have no access to commercial loans are involved in a productive activity, have project expertise, and have completed their legal papers | Those who need professional rehabilitation credit (loans first offered in 1985 to professionals affected by the war); low household income; women's groups (programme started in 1996 and is run by Catholic Relief Services) | Men or women at least 21 years old; owners of an existing enterprise (operating for a minimum of one year) | Poor women in groups |
| Sectors covered | Various sectors (projects exclusively trade-centred are excluded) | All sectors | Services, trade and industry | Informal commerce or agriculture |

ANNEX TABLE 1 (continued)

| Credit institution | Association d'Entraide Professionnelle | Caritas | Cooperative Housing Foundation (CHF/AMEEN) | Al Majmoua |
|--|--|---|--|---|
| Loan funds available | \$1.75 million (estimate) | \$2 million (estimate) | \$1.25 million (estimate) | \$4 million (estimate) |
| Loan granted (cash and/or fixed assets) | 50 per cent cash in US dollars and 50 per cent cash in Lebanese pounds | Cash | Cash | Cash |
| Total No. of loans disbursed per year | Open (generally between 80 and 100) | Open (generally around 60) | Expected to be around 1,000 at end of first year of lending (loan activities started 1 March 1999) | Around 1,500 per year |
| Total No. of active loans | More than 900 loans | Around 3,500 loans (estimation) | See above | 3,800 |
| Other activities and information | Types of loans include familial, cooperative and group; over \$3 million in loans disbursed over 13 years for more than 980 projects; follow-up through local community committees | Rural bank programme introduced in 1996 as an initiative with CRS, funded by USAID; implemented in the cluster areas of Akkar and Baalbek | Project in cooperation with a private bank (Jammal Trust Bank), funded by USAID | Project funded by USAID via Save the Children; has benefited from the revolving fund of an old small-scale-enterprise loan programme run by Save the Children from 1983 to 1997 |
| Contribution of applicant to total project cost | 20 per cent (may vary, case by case, depending on project cost) | 20 per cent minimum | Loans for existing businesses only | Up to 50 per cent (a loan of \$250 is a very small portion of the cost of any income-generating project) |
| Maximum loan amount (varies according to project) | \$5,000 per family/partner | \$3,000 | \$500-\$2,000 (phase one) | \$250-\$1,000 (could reach \$3000 if several smaller loans repaid appropriately) |
| Maximum loan period (varies according to project type and feasibility) | 24 months | 36 months for professional rehabilitation programme; 42 months for disabled | 6-12 months | 4 months |

ANNEX TABLE 1 (continued)

| Credit institution | Association d'Entraide Professionnelle | Caritas | Cooperative Housing Foundation (CHF/AMEEN) | Al Majmoua |
|---|---|---|---|----------------------|
| Grace period | Less than one year (depends on feasibility study) | 0-6 months depending on the project | None | 2 weeks |
| Interest rate and method of calculation | 6 per cent on US dollars and 9 per cent on Lebanese pounds (compounded) | Professional rehabilitation programme: 12 per cent on Lebanese pounds (compounded) and 4 per cent on Lebanese pounds for disabled Rural bank programme: 2 per cent per month | 16 per cent flat annual rate + 3 per cent commission up front | 2 per cent per month |
| Cost per loan | 7 per cent (US dollars) and 11 per cent (Lebanese pounds) | 12 per cent per loan (rehabilitation programme) | Not available | Not available |
| Repayment rate | Around 94 per cent | 63 per cent | Expected to be high owing to collateral requirements, and indicators for first two months showed a repayment rate of 100 per cent | 99 per cent |
| Type of guarantee/collateral | Jewellery; property title/bonds; lien on salary/wages | Financial co-signer | Salary guarantee; life insurance; mortgage of fixed assets | Group guarantee |

ANNEX TABLE 2. PROFILE OF CREDIT INSTITUTIONS, AUGUST 1999
(SECOND LISTING)

| Credit institution | Association d'Aide au Développement Rural (AADR) | Pontifical Mission | Mouvement Social Libanais | Institut Libanais de Développement Economique et Social (ILDES) |
|---|---|--|--|--|
| Programme profile/ background | Initiated by Youssef al-Khalil in Tyre, south Lebanon, in 1996 (credit, vocational training, accounting courses, and assistance in the establishment of development cooperatives) | Originally the Pontifical Mission for Palestine; established in 1949 following the Palestinian catastrophe and overseen by Catholic Near East Welfare Association (community development and credit) | Information not available | Funded by the ex-president of the Council for Development and Reconstruction (credit, development, and residential reconstruction) |
| Management capacity | Professional staff; computerized MIS program at bank and AADR | Specialist contracted to study feasibility of projects; no loan officers | Good management of vocational training; unable to run credit institution under present structure | Inadequate (part-time work on credit); no progress reports submitted to funding party |
| Target groups | Inhabitants of Tyre, neighbouring villages, and refugee camps during the first stage; all of south Lebanon during an intermediate stage; all of rural Lebanon at a later stage | Entrepreneurs known by the NGO following a history of successful cooperation | Those who follow have been involved in vocational training with the association and have worked in their chosen fields for a specific period of time; those belonging to families known by the institution | People affected by war in Chouf, south Lebanon, and Beqa'a |
| Sectors covered | Productive activities (fishing, then agriculture, industry and services) | Special attention to family loans; productive activities in any sector | All projects related to the vocational training offered by the association | One third agriculture, one third industry, one third services |
| Loan funds available | \$1 million (estimate) | \$0.2 million (estimate) | \$0.1 million (estimate) | None |
| Loan granted (cash and/or fixed assets) | Cash | Cash through bank | Cash or direct purchase of machines/instruments from merchant | Cash |

ANNEX TABLE 2 (continued)

| Credit institution | Association d'Aide au Développement Rural (AADR) | Pontifical Mission | Mouvement Social Libanais | Institut Libanais de Développement Economique et Social (ILDES) |
|---|--|---|--|---|
| Total No. of loans disbursed per year | Expected to reach 200 loans per year | 20 borrowers per year | 15 loans per year | Target was 150; but only 80 borrowers served, according to funding agency |
| Total No. of active loans | 85 | 45 borrowers | 43 loans | Programme stopped by European Commission (EC) in September 1998 |
| Other activities and information | Provides vocational training and basic accounting courses; cooperates with Banque Audi (risk is shared 50-50); bank and AADR follow up on delinquent loans | Beneficiaries from villages where Mission has projects; must have established personal relationship with Mission or have good credibility, according to local community committee | President and accountant manage loans; not a credit institution, but credit services provided to complement the vocational training scheme (loans given to fewer than 10 per cent of training graduates) | \$700,000 fund from EC for the loan programme; reporting was not adequate; so EC stopped support (follow-up by Spanish delegation in Lebanon) |
| Contribution of applicant to total project cost | Case by case | According to feasibility study | Case by case | Information not available |
| Maximum loan amount | \$4,500 | \$5,000 | \$5,000 | \$3,000 |
| Maximum loan period | 30 months | 30 months | 24 months | 24 months |
| Grace period | 3 months | 2-6 months | Depends on project feasibility (less than 12 months) | According to project |
| Interest rate and method of calculation | 12 per cent (compounded) | 8 per cent (decreasing) | 6 per cent (flat) on US dollars; 9 per cent (flat) on Lebanese pounds | 5 and 6 per cent (flat) |
| Cost per loan | 12 per cent (estimate) | More than 17 per cent (estimate) | 9 per cent (estimate) for US dollar loans (no operational cost, just cost of fund and risk); and 20 per cent on Lebanese pound loans | Not available |

ANNEX TABLE 2 (continued)

| | | | | |
|------------------------------|--|--|---------------------------------------|---|
| Credit institution | Association d'Aide au Développement Rural (AADR) | Pontifical Mission | Mouvement Social Libanais | Institut Libanais de Développement Economique et Social (ILDES) |
| Repayment rate | 98 per cent | 99 per cent | 99 per cent | 97.5 per cent (78 of 80) |
| Type of guarantee/collateral | Two wage-earning guarantors outside the family or equipment pledge if purpose of loan is to purchase machinery | Good reputation; no real collateral demanded | Mortgage on the machinery/instruments | Land title pledge; cash deposit as collateral |

ANNEX TABLE 3. PROFILE OF CREDIT INSTITUTIONS, AUGUST 1999
(THIRD LISTING)

| | | | | |
|------------------------------|---|---|---|--|
| Credit institution | Catholic Relief Services/Caritas | Coopérative Libanaise pour le Développement | Makhzoumi Foundation | Mu'assasat Bayt Al-Mal (a) Al-Hasan and (b) Yusor programmes |
| Programme profile/background | CRS/Caritas village bank programme initiated in 1996 (loans and savings services) | CLD established in Antelias in 1992 on the initiative of Father Youakim Moubarak and several laic Maronite Christians with the objective of disbursing loans for income-generating activities | Established in 1997 in Beirut at the initiative of Fouad Makhzoumi; microcredit unit established in 1998 | Al-Hasan was established in 1983 to help the poorest in society; (b) Yusor, established in 1990, targets larger microenterprises |
| Management capacity | Young, professional manager; advanced MIS program | Board of directors comprising bankers and businessmen | MIS and accounting programs; professional staff (sociologists, degree holders in business administration) | Computerized MIS and accounting programmes; centralized information; capable and professional management; respected, transparent and community-based programme |

ANNEX TABLE 3 (continued)

| Credit institution | Catholic Relief Services/Caritas | Coopérative Libanaise pour le Développement | Makhzoumi Foundation | Mu'assasat Bayt Al-Mal (a) Al-Hasan and (b) Yusor programmes |
|---|--|---|--|--|
| Target groups | Poor productive rural women (now active in two clusters: Akkar and Beqa'a) | Rural inhabitants; displaced; mainly Maronite Christians; Lebanese immigrants who want to return to their country | Lebanese citizens only; mainly women; residents of the city of Beirut as a first stage, then residents of Beirut district; other regions in later stages | (a) Any human being regardless of religion, race or nationality; (b) those with an enterprise or investment idea |
| Sectors covered | Mainly commerce and services; some agricultural projects | Agriculture, commerce, services, industry and handicrafts | Services and trade | Services, trade, handicrafts (artisan work), agriculture |
| Loan funds available | \$350,000 | \$800,000 | \$500,000 (estimate) | \$5 million overall |
| Loan granted (cash and/or fixed assets) | Cash | 50 per cent at beginning of project; 50 per cent halfway through project | Cheque | One payment |
| Total No. of loans disbursed per year | Around 250 per year | Around 50 loans per year | 100 during the first stage and 170 in the next stage; expected to grow | (a) Around 8,000 per year (total is around 30,000); (b) 2,000-2,500 per year |
| Total No. of active loans | 780 | 323 to date | More than 270 | (a) 2,250 (estimate); (b) 2,250 (estimate) |
| Other activities and information | None | None | Vocational training centre programme; awareness and guidance programme; Lebanon's Award for Innovation programme | (a) savings in the form of investment at a decided profit or according to contract; (b) research and consulting centre to provide guidance and carry out feasibility studies |
| Contribution of applicant to total project cost | Information not available | Varies from case to case depending on project cost | None | Varies according to project: (a) none; (b) according to investment contract |
| Maximum loan amount (varies according to project) | \$800 | \$2,000-\$10,000 | \$500 | (a) \$500; (b) \$3,000-\$10,000 |

ANNEX TABLE 3 (continued)

| Credit institution | Catholic Relief Services/Caritas | Coopérative Libanaise pour le Développement | Makhzoumi Foundation | Mu'assasat Bayt Al-Mal (a) Al-Hasan and (b) Yusor programmes |
|--|--|--|---|--|
| Maximum loan period (varies according to project type and feasibility) | 6 months | 1 to 3 years | 6 months | (a) 1 year; (b) 3 years with the possibility of extension on a yearly basis depending on new contract |
| Grace period | None | 1-6 months | None | (a) none; (b) according to project |
| Interest rate and method of calculation | 2 per cent per month (flat); group lends to itself at 2.5 per cent per month (flat) to members and 3.5 per cent to non-members | 8.8 per cent (decreasing); in the process of lowering rate to 7 per cent on US dollars | 1.85 per cent per month (flat) | (a) no interest (\$10-\$20 application fee); (b) according to decision and feasibility (<i>murabaha</i> , <i>mudaraba</i> or <i>musharaka</i>) |
| Cost per loan | Not available | Less than 8.8 per cent | Not yet calculated | Not available |
| Repayment rate | 100 per cent | 99 per cent | 100 per cent | 95 per cent |
| Type of guarantee/collateral | Group guarantee | Capital asset pledge (\$50 each); promissory notes | Expected cash flow of prospective project; credibility and capacity of borrower | (a) gold, guarantors who are investors with Yusor, or bank guarantee; (b) capital asset pledge, land |

Annex III

TYPES OF MICROENTERPRISE LENDING SCHEMES*

A. MOBILE BANKS (COLLECTORS AND LENDERS)

| | |
|--------------------|--|
| Savings | |
| Individual lending | |
| Private management | |

1. *Definition*

Moneylenders (in particular those charging usurious interest rates) are typically the richest in the community; they may be merchants, money exchange business owners, wholesalers, landlords or farmers, and they provide loans in cash or in kind at a high rate of interest (100 to 200 per cent) for short periods. Microlending institutions are considered a threat to these “users” when they provide better services and cheaper loans.

Some moneylenders help small entrepreneurs meet their daily income needs by financing operating costs for short periods. They visit borrowers at their workplace on a regular basis to facilitate lending and savings transactions. Such on-site financial services decrease the cost to the beneficiary. In many countries, especially those in West Africa, mobile banks are very popular and go back several centuries.

2. *Methodology*

Entrepreneurs meet in the market and decide to save a specified amount of money every day. They designate a collector who passes by their shops to hold the savings. At the end of every month, the savings are returned to each entrepreneur. After several months of financial transactions, the collector and client have developed a relationship and their confidence in one another has grown. At this point, the entrepreneur is able to ask for a loan equivalent to his monthly savings.

Each collector has between 50 and 80 clients, on average, and works independently. In recent years these collectors have begun to organize themselves and form cooperative arrangements that have allowed them to provide more advanced services, including more guarantees to clients.

* The information in this annex, with the exception of that on Islamic lending, was taken exclusively from a draft version of “Microfinance: a practical guide”, prepared by a World Bank initiative referred to as Sustainable Banking with the Poor. The small text tables at the beginning of each subsection provide a quick reference showing whether the programme in question has a savings component, individual or group lending, or private or community administration/management.

3. *Services*

Daily savings are held and returned at the end of the month; the service charge equals one day's savings. Monthly loans are provided at the same rate (3.3 per cent per month). Loans are taken from the accrued savings and sometimes from other sources such as private money, loans, or overdraft facilities. The newer services include long-term deposits, weekly and monthly deposits, and larger loans for longer periods.

4. *Strengths*

Money is available and accessible to beneficiaries. The services provided correspond with needs and are provided on site; borrowers have fast access to loans, and no collateral is required.

5. *Weaknesses*

A dependent relationship is created between beneficiary and lender, especially since the services provided are monopolized by an individual. Interest rates are considered high (more than 39.6 per cent annually), and there is a risk of the collector fleeing with the deposits. Loan amounts are limited because they are tied to savings ability and the availability of money with the collector.

6. *Examples*

Moneylenders exist all over the world, and it is easy to find them. Moneylenders charging very high interest rates of up to 100 per cent on delayed payments (usurers) are popular in Lebanon; they are usually wholesalers and monopoly suppliers of agricultural and other inputs. Other moneylenders that can do harm through exorbitant rates include certain money exchange businesses in popular markets such as Burj al-Barajne, Barbir and Bourj Hammoud. They charge 15 per cent per month and the calculation includes four extra days of interest (the time needed to cash the postponed cheque received as collateral). This rate is charged by all the moneylenders all over Lebanon. Prominent moneylenders outside Lebanon include the Association for Cooperative Savings in the capital of Benin, with around 2,000 beneficiaries, and the Association for Reciprocal Savings in the capital of Togo; other countries where collectors are popular are Cameroon, Gabon and Nigeria.

7. *Target groups for which the model is most appropriate*

Typical target groups include merchants in cities with dynamic markets, low- and medium-income entrepreneurs, and communities with good solidarity and confidence in one another.

B. SAVINGS AND LENDING ASSOCIATIONS

| | |
|--------------------|--------------------|
| Savings | |
| Individual lending | |
| | Managed by members |

1. *Definition*

Savings and lending institutions operate in most countries around the world, from China to the islands of Mali to Guatemala. The size and organizational structure of these associations vary from one country to another, but the principle remains the same. The members contribute a specific sum of money every week or every month, with each member receiving the accumulated total on a consecutive or revolving basis.

2. *Methodology*

One member takes the initiative and may, for example, organize a group of 15 people. They decide to meet every week and save \$10 each. At the end of every meeting, the \$150 saved is given to a member of the group. After 15 weeks (which corresponds with the number of members), the group might decide to renew the activity with the same or new members, or might decide to stop the activity altogether.

The size of the savings group, the amount saved, the frequency of meetings and the method and order of loan distribution all vary. In general, the head of the group is the first to benefit from the scheme; recipient order is then determined through the creation of a list of the prospective beneficiaries, which includes the dates of lending agreed upon at the meetings or by ballot.

In Latin America, this lending scheme is used for the purchase of expensive consumer goods such as cars and machinery. Members are allowed to join more than one savings and lending association.

3. *Services*

Savings are obligatory, fixed and synchronized. The amounts saved and the loans disbursed are equal. No interest is charged, so those members who receive the earlier loans have an advantage over those who collect their loans at a later stage. These associations play a vital role in society, and the order of beneficiaries is flexible so that those in need can collect earlier than the others. Moreover, many of these associations have special funds for aid provision.

4. Strengths

Friends and neighbours can organize these associations quite easily, and through this process, social interaction is increased and organizational skills are developed. The guarantee system for participants is effective.

5. Weaknesses

The loan may not be available when the member needs it. Although members are not supposed to withdraw their participation before the end of a complete cycle, there is a risk that some will after they receive their loans. Typically, the lifespan of these associations is short.

6. Examples

Savings and lending associations have different names in different parts of the world. In West Africa such an arrangement is called *susu*, *pari* or *tontine*. In South Africa it is referred to as *stokvel*; in Egypt, *gamiyya* (association); in Guatemala, *cuchubale*; and in Mexico, *tanda* (as an example, lower-level employees at the J.P. Morgan Bank in Mexico have organized a *tanda* to purchase their first suits). In Lebanon, it is believed that this type of lending scheme is often practised by Egyptian labourers who come from the same area in their country.

7. Target groups for which the model is most appropriate

Rural and urban residents both participate in these schemes; women and men may be together in the same groups or in separate groups. Low- to mid-level employees are most likely to join such associations. There is a high level of cooperation and confidence between members; the group establishes a type of social union with an identity.

C. GROUP LENDING

| | |
|--|--|
| Savings obligatory | |
| Individual lending (group shares risk) | |
| Private administration | |

1. Definition

The Grameen Bank developed this scheme in rural Bangladesh to serve landless women who want to finance income-generating projects. Loans are given to individuals within groups of five women. These groups exercise peer pressure and are the basic guarantee for the repayment of the loan. Group lending is popular in Asia and several other parts of the world.

2. Methodology

Under the Grameen Bank scheme, groups of five are formed in a village. Selection is based on attendance at the Bank's weekly community meetings and on the required weekly savings. Loans to group members are disbursed through the local Grameen Bank branch. Only two members of the group have access to loans at the same time. Orientation sessions on the benefits of order in society, self-empowerment and respect are organized. No technical assistance is provided through this scheme.

3. Services

Saving is mandatory. Short-term loans of six months to one year are offered, payable in weekly instalments. Orientation and training are provided.

4. Strengths

This scheme is most appropriate when traditional solidarity is present. It is beneficiary-oriented and provides a number of social benefits. Borrowers have strong motivation to repay the loan. The programme can be expanded to service more borrowers or to increase loan amounts with minimal expense, and is easy to replicate.

5. Weakness

The programmes is not very successful in countries where solidarity is weak (African countries are an example). External sources of funding (from outside the community) are required, and the scheme is not sustainable if there are only a limited number of borrowers. Finally, there is no voluntary savings services.

6. Examples

The best-known programme is carried out by Grameen Bank and the Bangladesh Rural Advancement Committee. There is a rural programme known as K-REP in Kenya and Sahel Action in Burkina Faso. In Lebanon there are some schemes that follow the Grameen model, serving women borrowers in solidarity groups. Those of Al Majmoua and Catholic Relief Services are noteworthy. Others, such as the Makhzoumi Foundation's credit unit, target women and provide micro-loans, but do not demand group solidarity or savings.

7. Target groups for which the model is most appropriate

The programme is ideal for low-income groups in both urban and rural areas. Women tend to be targeted, but men may participate as well. The scheme is particularly beneficial in areas where solidarity is low.

D. GROUP SOLIDARITY LENDING

| | |
|------------------------|---------------|
| | No savings |
| | Group lending |
| Private administration | |

1. *Definition*

Loans are disbursed to groups of 6-10 members rather than to individuals. The members guarantee each other to avoid providing the traditional collateral. This type of credit scheme was developed by ACCION International in Latin America.

2. *Methodology*

The micro-entrepreneurs that are to benefit from the programme together guarantee the repayment of the loan. The opportunity to secure other group loans depends on the full repayment of the current loan. Payments are made weekly at the offices of the lending party. The lending institution provides some training but minimal technical assistance.

3. *Services*

Prospective borrowers decide, as a group, the amount of the loan they need. The lending party approves the loan and disburses the funds to the group. Loans start small and short-term, which allows the beneficiaries to start building their projects step by step. The loan amount and duration vary according to the type of project.

Associations generally encourage the formation of a savings fund to be used in emergencies. However, only limited number of associations provide this service themselves. Training and on-site technical assistance do not constitute part of the solidarity group strategy.

4. *Strengths*

Loan applications are easy to fill out and review. Programmes such as this strengthen community solidarity and have a number of other social benefits.

5. *Examples*

ACCION International in a number of countries, PRODEEM in Bolivia, Asociacion Grupos Solidaros in Colombia, and GENESIS Empresarial and PROSEM in Guatemala are some of the best-known schemes. In Lebanon there are no group lending programmes; however, some credit institutions disburse group loans on an exceptional basis to finance projects shared by two or more borrowers.

6. Target groups for which the model is most appropriate

Micro-entrepreneurs in urban areas tend to benefit most from this type of programme, in particular where community solidity levels are low.

E. RURAL COMMUNITY BANKS

| | |
|--------------------------------------|-------------------------|
| Savings | |
| Individual lending (group guarantee) | |
| | Administered by members |

1. Definition

These are savings and lending institutions run by local community committees. Their objectives are to secure financial services for rural people, to build and empower groups to promote reliance and to facilitate savings activities among members. This scheme was developed by the Foundation for International Community Assistance. Rural bank membership ranges between 30 and 50; the majority are women.

2. Methodology

The rural bank comprises members and an administrative board; the board usually receives training from the implementing body. The lending institution provides a portion of the loan funds to the bank, which in turn disburses varying amounts to members.

All the members sign the loan contract, collectively guaranteeing the loan. The first cycle is generally short (four to six months) and the amounts are small (\$50). Payments are usually made once a week. In the second cycle, loan amounts depend on the weekly savings accumulated during the first cycle. Under this rural banking programme, each member is expected to save around 20 per cent of the total loan amount received in the first cycle. Members work to secure the largest possible loan (\$300) after about three years, after which they “graduate” from the bank, to allow others in need to benefit from the loan fund capital. The idea here is that \$300 can benefit six borrowers instead of one.

3. Services

Members' savings stay in the village and are used for the disbursement of new loans and new collective income-generating activities. No interest is paid on savings; however, profit accrues from investing the savings in new loans or other successful ventures. The income earned by each saver is proportionate to the amount saved. On loans, village banks charge interest rates of between 1 and 3 per cent per month.

The Village bank is an institution that does not require extensive training to build capacities. Some banks have taken advantage of their institutional structure to increase awareness in fields such as health and nutrition and to introduce new innovations in agriculture.

4. Strengths

The risk of default is low owing to the collective responsibility for repayment. Group formation and activity is based on already established social webs. A simple methodology is used for lending, and only a small amount of capital is needed. Loan amounts may increase after borrowers have built up their saving and established a credit history.

This scheme has non-centralized management and limited administrative costs, and provides quick and easy access to information.

5. Weaknesses

Loan amounts are proportional to savings, so there is a risk of excluding the poor. It is unlikely that such a programme will evolve into a formal lending institution, as achieving financial self-sustainability is difficult. This type of scheme is dependent on external funding, and suffers from the absence of an intermediary institution to secure the needed capital or to supervise the work.

6. Examples

FINCA is active in Mexico and Costa Rica (the programme manager and treasurer are from among the members). Other organizations involved in this type of lending scheme are Care in Guatemala; Save the Children in El Salvador; Freedom from Hunger in Burkina Faso, Ghana, Mali and Thailand (this organization cooperates with credit unions to increase the number of women borrowers); and CRS in Benin and Thailand (work is carried out through local NGOs). CRS in Lebanon is also participating in a rural bank programme, with some modification. The CRS administers the whole programme; the community bank is run by its members and advised by CRS. In later stages, the community bank should be sustainable and should be able to depend completely on savings for further lending.

7. Target groups for which the model is most appropriate

Rural inhabitants are believed to benefit most. The programme typically targets women but is appropriate for men or mixed groups as well. The impact is greatest with lower-income groups that are able to save, and in communities with low to medium group solidarity levels.

F. SELF-FINANCING VILLAGE BANKS

| | |
|--------------------|-------------------------|
| Savings | |
| Individual lending | |
| | Administered by members |

1. *Definition*

Village banks are managed by the rural community. The difference between a village bank and a community bank is that the former serves the whole village, not only its members. This scheme was developed by the International Centre for Research and Development, a French NGO, in the mid-1980s.

2. *Methodology*

The supporting programme enters a village that has strong social solidarity and a clear willingness to start a village bank. The residents define the rules and regulations for running their bank and elect the administrators, the lending committee, and two or three managers. It is the bank and not the supporting institution that collects savings and, based on the accumulated deposits, disburses short-term loans to individual villagers.

After a period of one to two years, the village bank or banks in the area set up an institution to address current issues and problems. This new institution serves as an intermediary between the village banks and the local commercial and development banks, working to secure lending facilities. In this way, village banks are connected with the formal monetary system. The institution also provides centralized services such as internal auditing, special training and village bank representation. The fees are paid by the village banks to help ensure the financial sustainability of the institution.

3. *Services*

Local residents have two savings options: running accounts and long-term (time) deposits. Short-term loans are provided for working capital; there is no direct correlation between savings and loan amounts. Every village decides on its own interest rate based on its experiences with traditional savings and lending institutions. The rate of interest is positively correlated with the remoteness of the village; the more remote the village is, the more expensive it is to obtain funds. Loans are repaid as a bullet sum at the end of the loan period. Collateral is obligatory; however, social pressure and solidarity are the factors that ensure high repayment rates.

Village bank members, managers and administrators are all provided with training. Some banks also offer technical assistance to borrowers, especially, in the launching of a new microenterprise project.

4. *Strengths*

Rural men and women are able to participate effectively in decision-making, administration, and the organization of various activities at the village level. Repayment rates are high owing to peer pressure from the borrowers' counterparts. Deposit totals are high and the programme is linked with formal monetary institutions, so the village bank is not dependent on any funding party.

5. *Weaknesses*

Achieving financial sustainability is difficult in remote areas owing to the weak banking service infrastructure (telephones, faxes and so on).

6. *Examples*

The International Centre for Research and Development has set up a number of village banks in Burkina Faso, Cameroon, Gambia, Madagascar, Mali, and Sao Tome and Principe. Other organizations have endeavoured to duplicate the village banking concept in Benin and Gambia. In Lebanon there are no self-reliant village banks at present, but this scheme could become more popular as local residents gain more microlending experience. CRS is administrating a village-bank type of programme, but it is unlikely that self-sufficiency will be achieved until the funding institution pulls out, at which time the village bank will have to forge direct linkages with a commercial bank. Credit institutions are currently in the process of working to ensure their eventual independence and sustainability.

7. *Target groups for which the model is most appropriate*

This type of programme is especially beneficial for men and women in rural areas, in particular those in the low- to middle-income range who are able to save. This scheme works best in communities where solidarity levels are high.

G. CREDIT UNIONS (LENDING AND SAVINGS COOPERATIVES)

| | |
|--------------------|--------------------|
| Savings | |
| Individual lending | |
| | Managed by members |

1. *Definition*

Credit unions are cooperative financial institutions that were first established in developing countries in the 1950s. They applied the methodologies and lending schemes developed in Europe at the end of the nineteenth century. These institutions provide savings and loan facilities for individuals. They act as intermediaries in

money transfers between urban and rural areas and between savers and lenders. Credit unions also guarantee the circulation of funds in the administered communities.

2. Methodology

Administration and management are based on the general rules applied to cooperatives. There are no investors from outside the group, and the members are the main owners of the institution (each member has one vote). A lending cooperative usually comprises community members that have established relationships with one another; they may work at the same company or live in the same neighbourhood. The board of directors is made up of a group of members that have volunteered to accept responsibility for overseeing the programme. Lending cooperatives are usually legal financial institutions functioning in accordance with relevant national legislation.

Credit unions offer only monetary services using capital generated by the members, most of whom are in the low- to medium-income range. Running and administrative costs are not high for such schemes.

Individual credit unions usually prefer to organize themselves under a national umbrella that can play the role of a centre for lending and savings and can represent the cooperatives at the national level; they may also provide training and technical assistance to the member institutions. Sometimes the unions accept donations from external funding agencies and transfer these resources to the national credit cooperatives. Within the context, credit union membership involves buying shares of the capital and paying annual fees to the national credit union. Under this type of arrangement, credit unions cooperate with one another both vertically and horizontally, allowing the credit union system to become quite large and extensive in some countries.

3. Services

Saving is the key to increasing capital, and savings levels usually play a role in loan approval. Loans are provided based on personal reciprocal guarantees between the members of the cooperative.

4. Strengths

Credit unions have legal status and are organized; they are typically part of a strong network covering a large area. Their democratic structure promotes active participation and allows the elective congregation of savings.

5. Weaknesses

Control of capital is often weak, and many credit unions experience problems with liquidity. Foreign capital is not used very efficiently. As a result of these factors, loans are often rationed.

Credit union typically lack a real development philosophy. Among other things, their efforts to reach micro-entrepreneurs are weak and women usually do not benefit from such schemes.

6. *Examples*

According to the World Council of Credit Unions (WOCCU), there are around 17,000 credit unions with a total of 87 million members in 67 developing countries. Most of these institutions receive aid and support from foreign unions. Successful credit union schemes have been set up in Benin, Malawi and Mali, and in Guatemala and Peru. In Lebanon, there is one institution called the Coopérative Libanaise pour le Développement. Although this NGO is called a cooperative, its members are not the ones who benefit from the loans. The CLD acts as a lending institution that disburses funds to individuals in different parts of the country.

7. *Target groups that benefit most from such schemes*

Urban and rural residents may both benefit; men have traditionally been targeted, but women’s membership is increasing. Members in the medium- and high-income brackets can save larger amounts, strengthening loan capacity. Local unions that are affiliated with foreign unions have a philosophy of international unity.

H. TRANSFORMATION LENDING

| | |
|------------------------|------------|
| | No savings |
| Individual loans | |
| Private administration | |

1. *Definition*

Transformation lending targets microenterprises with the objective of increasing their sales and revenues and the number of people they employ, or in other words, transforming microenterprises into small businesses.

2. *Methodology*

These programmes are exceptional because, in addition to lending, they provide microenterprise projects with the technical assistance they need to overcome the difficulties accompanying their transformation into bigger businesses. Under this scheme, the lending institution provides the bank with the collateral needed to secure a loan; the borrower pays a small amount to the institution for serving as guarantor and for making the necessary preparations for receipt of the loan. The collateral situation, the character and credibility of the borrower, his capacity to run and expand a business, and the cash flow of the project are all correlated with the bank’s decision regarding the amount to be disbursed.

3. *Services*

These schemes furnish the money needed as collateral. Technical assistance is provided in the areas of financial management, personnel management, marketing and new production technologies.

4. *Strengths*

Microenterprise transformation programmes can depend on banks for loans and other services, and for the strengthening of its capital base.

5. *Weaknesses*

The programme has to cover the expenses incurred in preparing borrowers for bank loans and must bear the risk of guaranteeing these loans. The transformation lending institution takes only a very small share of the interest charged by the bank and does not have any control over lending decisions or future relations with the borrower.

6. *Examples*

There are some successful programmes in Honduras, Jamaica and Senegal. In Lebanon, CHF is implementing such a scheme with the Jammal Trust Bank. Technical support is not offered, but borrowers are prepared for bank loans 75 per cent guaranteed by CHF. AEP, another NGO in Lebanon, relies heavily on banks. However, it cannot be considered a transformation lending organization, as it collects collateral from the borrower and does not provide technical assistance; the bank assumes none of the risk.

7. *Target groups that benefit most from such programmes*

The likeliest candidates are entrepreneurs (men and women) with medium to high incomes in urban areas. This type of programme works well in communities with low solidarity levels.

I. COMMERCIAL AND DEVELOPMENT BANKS (DOWNSCALING)

| | |
|-----------------------------------|---------------|
| Savings | |
| Individual lending | Group lending |
| Public and private administration | |

1. *Definition*

Development banks are publicly owned institutions created to provide financial services to specific strategic sectors such as agriculture and industry. In general, the services are greatly affected by traditional interventions, which focus more on low and

subsidized interest rates than on the quality of the loans. Commercial banks are private institutions that provide services for high-income clients that run service-oriented businesses.

Recently, some commercial and development banks have shifted their focus to meet demand from lower-income groups, providing them with appropriate products on a large scale. This approach, called downscaling, has been applied successfully by several institutions.

2. Methodology

There are 12 main principles that banks try to follow when targeting lower-income groups:

- (a) Ensure proper monitoring;
- (b) Define programme objectives and strategies;
- (c) Make use of the competition in the non-formal sector;
- (d) Know exactly what kind of services are needed by the beneficiaries;
- (e) Formulate appropriate methodologies to provide these services;
- (f) Contain the costs of commercial operations;
- (g) Cover the costs of lending by charging appropriate interest rates;
- (h) Develop lending criteria to meet the needs of target groups;
- (i) Monitor and preserve the quality of the assets;
- (j) Manage risks and diversify;
- (k) Ensure the congregation of savings from the market;
- (l) Offer incentives to employees and invest in them (provide training and so on).

3. Services

Banks could provide direct services to the microenterprise sector in both rural and in urban areas, but branches would have to be set up in several areas around the country; having small branches in certain strategic villages and poor urban areas is important for the success of the programme. Some banks could depend on intermediaries for their work.

4. Strengths

Commercial banks have a new mission, and that is to expand their services to reach the poor. They need to diversify their portfolios and invest in a lower-risk product. The bank branches in poor areas represent extensions of the already established infrastructure of the main bank, which wants to intensify its management and widen its coverage.

5. Weaknesses

Many of these banks are not trained or prepared to undertake microenterprise lending. Thus, their efforts to reach and serve the target groups is very costly, especially since they also need to overcome the financial and the social barriers between banking institutions and the poor.

6. Examples

The Bank for Agriculture and Agricultural Cooperatives in Thailand is involved in direct lending. This is a public development bank established in 1966 to finance farming, and agricultural activities. With the financial reforms in 1989, the bank started targeting lower-income groups. In the beginning the bank provided loans through agricultural cooperatives; however, problems with repayment led to direct lending.

The experience of the National Bank for Agricultural Development in Mali has been different. This bank stopped offering direct lending owing to repayment problems in the 1990s, and now provides loans only of cooperatives with diversified produce. The bank recently started lending in connection with the self-financing village banks. This linkage has been successful in terms of cost recovery and repayment, and the National Bank is working to expand the works of the village banks to create a channel for delivering financial services to help rural economies. This strategy may constitute a dangerous precedent, as it promotes a public bank's control over village banks. The strength of village banks derives from the fact that they are controlled by local rural residents; this assumption of control by the public sector may endanger the whole village bank structure.

In Lebanon several banks are downscaling to serve the microenterprise sector through intermediaries. These banks work through the Ministry for the Displaced to help people return to their land. Collateral requirements place their loans beyond the reach of the poor. Jammal Trust Bank, however, has initiated true downscaling operations and is lending to the microenterprise sector (refer to the earlier subsection on this Bank).

7. Target groups for which this model is most appropriate

Both rural and urban residents may benefit, though perhaps women more than men. Medium- and high-income groups are generally targeted, and this type of programme works in areas with all levels of solidarity.

Annex IV

CASE STUDIES

A. AL MAJMOUA

1. *Al Majmoua women's groups in Bebnine, Akkar District, north Lebanon**

It is three in the afternoon when the area coordinator of Al Majmoua leads the researcher through the narrow alleys of Bebnine, a village in Akkar in the north of Lebanon. A group of 12 women borrowers are having a meeting. They read the minutes of the previous meeting and the agenda of the present meeting. All seem excited and proud, and a little shy in our presence. They collect savings and note the amount of each "deposit" in the savings record book; the total comes to LL 345,000. Each member then pays the weekly instalment (\$10, \$5, \$30, \$10, \$20, \$4, and so on).

The women talk about their projects, which are typical informal microenterprises. Because Bebnine is a fishing community, several women are in the business of manufacturing fishing nets. This type of business seems profitable; one beneficiary withdrew her nine-years-old daughter from school so that she could help with the family enterprise. The young girl spends more than eight hours a day working the plastic threads to form small pieces of net. Her mother looks proud, though a little unsure, as she says, "We took her out of school to help us; she was a brilliant student, though!" One full net cost \$2,000, and the women are able to repair torn portions of it. An ordinary net is made up of 35 sections, and each takes four hours to restore. Fixing an entire net can take around 20 days.

Other beneficiaries remark that the loan amounts are not sufficient. One woman, the owner of a small grocery, says that she has the capacity to handle a loan as big as \$5,000. Her business is flourishing, and she joined the group hoping that would be able to secure the loan she needed in a short time. The \$250 loan that she actually received is not bad, but she sees her membership in the group as a source of support and a public relations activity. Another borrower, an old woman, also joined the group for the support she could provide to and obtain from other women. She owns around 60 sheep, and her loan was used to buy feed. She also says that her loan was not sufficient, but that she considers her membership an expression of group solidarity. One borrower has used the loan to plant squash; her funds went to buy seeds, fertilizers and pesticides and to hire labour for the harvest.

* The first part of this subsection is based on field visits and meetings with borrowers. The subsequent case studies of Jawhara and Zeinab were taken from Al Majmoua reports.

Another woman borrower joins the meeting a little late. The group excuses her, knowing that she has to feed her husband, who always arrives home from work at the time the group meeting is held.

In this village, Al Majmoua has 27 groups of borrowers. The loan programme here began in the late 1980s, when it was introduced under the “credit for the poor” programme implemented by Save the Children; at the time, more than 50 women from Bebnine benefited from this microcredit project in Lebanon.

Another meeting takes place with a group called Al-Iman. This group includes 24 women. They have not been meeting lately owing to the absence of the local credit officer employed by Al Majmoua to follow up with the women. They talk about one borrower who was not able to pay because her sister became ill; the group helped her pay the instalments due. Another was admitted to the hospital, and the group made the necessary loan payments until she was cured. It should be mentioned that the groups are generally made up of family members and close relatives, and that some of the women might have joined the group to secure a loan for a third party; however, this information was provided second-hand and therefore requires further investigation.

Before the loans are disbursed, four preliminary meetings take place between the women in the groups. During the fourth meeting, forms are filled out. Cheques are disbursed on Mondays. The penalty on late payments is \$0.25 per late borrower per day, multiplied by the number of borrowers.

2. Jawhara

Jawhara lives in the Nahr al-Bared camp and is in her seventh loan cycle. During the first cycle, she bought gas bottles for \$125, along with one pouch of sesame and 25 kilograms (kg) of thyme. In the second cycle, she bought 10 pouches of flour, 100 kg of oil, and thyme, sesame and cheese. She paid \$25 from her own savings. In the third cycle, she renovated her bakery (\$150) and redesigned her shop (\$250). In the fifth and sixth cycles, she bought large quantities of materials for her bakery and started to make pizzas. She now makes deliveries to schools, homes and UNRWA.

3. Zeinab

Zeinab is in her 50s and she lives with her sick husband and four children. She has a grocery store in Ain al-Helweh camp. She is in her eighth cycle and is very reliable in making her payments. Her husband is a carpenter and works for only a month or two per year.

Zeinab’s current loan is \$800; she has used \$400 to settle her invoices and the rest to fill her small grocery with new products. Zeinab says that she used the initial \$200, \$250 and \$325 loans to buy things for her shop but that these loans were too

small to do her much good. She was satisfied when she was able to take loans of \$400 or more. She used her \$400, \$500, \$600 and \$700 loans to fill her shop with new products.

A remarkable thing about this borrower is that she is a very good saver. Her savings reached \$450 in the seventh cycle and \$350 in the middle of the current cycle. Zeinab uses her savings to make home improvements and to help her children.

B. MAKHZOUMI FOUNDATION*

The Foundation's credit manager felt that it would not be appropriate for the researcher to meet the women borrowers owing to social norms, or with borrowers (male or female) to the fact that many of the beneficiaries in Beirut wished to keep their cases confidential.

1. *Saadeddine*

Saadeddine has been a carpenter for the last 30 years, working in his shop in the quarter of Bourj Abi Haydar and supporting four families. During this period. Saadeddine was unable to achieve sufficient liquidity to purchase the furniture and equipment he needed to raise both the quantity and quality of his production. After his own efforts proved futile, he decided to participate in the Makhzoumi Foundation's microcredit programme.

With his first loan (\$500), Saadeddine was able to purchase the equipment, tools and instruments he needed for his work. The loan was used to make improvements and relieve financial pressures but also had the indirect effect of increasing the number of customers and facilitating the process of production. In the light of this fact, and as one of its consequences, Saadeddine obtained a second loan of \$500 after repaying the first loan.

2. *Sana*

Sana has been working as a dressmaker at her home in the neighbourhood of Basta al-Fawqa for the past 15 years and has been the primary breadwinner for her family. Her husband is a retailer, selling fish in various districts inside Greater Beirut. Several times, Sana tried to improve her family's standard of living but failed to overcome her financial difficulties in spite of her many efforts to do so. Eventually, Sana borrowed \$500 from the microcredit programme to purchase the cloth and materials needed to make suits, coats and dresses. As a result, she was able to increase the number of customers and triple her income, and consequently improved her economic and social situation in society. Sana is saving her net profits, and once

* Case studies were extracted from the Foundation's web page.

she has accumulated a considerable sum of money, she and one of her relatives will rent a commercial shop, where they will display their products for sale.

C. CATHOLIC RELIEF SERVICES/CARITAS

*Kawthar**

Kawthar is a member of the Kana'a rural bank in the village of Ali al-Nahri. She lives with her husband, an employee of the Hezbollah health organization, and her two daughters, one of whom is mentally disabled.

Kawthar is in her fifth loan cycle. Her present loan amounts to \$616, and her savings in this cycle are \$248. Kawthar sells clothing, fabric and accessories, specializing in bridal wear (including undergarments, lingerie and dresses). She buys her merchandise from Lebanese manufacturers and wholesalers; and she travels to the Syrian Arab Republic once a month or upon request. Kawthar orders her merchandise one month ahead of time. She says that her profit margin on brides' lingerie is 100 per cent, as she now buys in gross and is getting a bigger discount.

Kawthar says that she has become more aware of the importance of her capital and has therefore changed her strategies. Before she joined the programme, three quarters of her sales were on the basis of delayed payment; now, she gives only one month for late payments. Kawthar has purchased a small parcel of land to build her family home and is helping her husband, whose salary is LL 200,000 per month, pay the children's school tuition fees.

D. COOPERATIVE HOUSING FOUNDATION/AMEEN**

Hussein Ali Nasser is the main street leading from the airport road to the centre of Bourj al-Barajneh and is known to be one of the busiest streets in Beirut, crowded with both cars and people. Small shops on both sides of the street offer a wide variety of consumer goods.

1. *Ali Hashem*

Ali has a small grocery that used to be very sparsely stocked. He had no capital to buy merchandise and no access to bank loans. He is thankful that he met Mohammad Jradi, the CHF loan officer. Ali secured a loan of \$1,000, which he used to fill his shop and to continue selling fresh dairy products arriving daily from the country. Ali says that he can now pursue his passion for poetry, since his business is flourishing.

* The case study was provided by the CRS field officer at the researcher's request.

** The case studies presented here are based on interviews with the borrowers.

2. *Mr. Bazane*

Mr. Bazane has a tiny shop where he makes and fixes shoes. He also rents out two stands (0.5 m² each) along the sidewalk on both sides of his shop's entrance. One stand is filled with cleaned chicken pieces and the other with sheep's heads (*ras nifa*) and front and back legs (*karain*); these items are sold for restaurant and home use.

While Mr. Bazane was explaining how he had spent the \$1,000 loan to buy plastic shoes and diversify his product line, the police came and ordered him to take the stands into the shop. He told the two traders renting the stands to take their merchandise. Afterwards, he said that he could easily rent the stands out to merchants selling clothes, gadgets or other items.

Mr. Bazane said that before his association with CHF, he had had to borrow from a moneylender called Ibrahim al-Sibai, nicknamed Allouta. Allouta owns a money exchange business and lends at an annual rate of more than 100 per cent. Mr. Bazane said that for every \$1,000, \$100 per month in interest would be charged.

3. *Fatima*

Fatima is an older single woman who owns a small grocery. Her shelves are stocked with some canned foods, detergent, refreshments and vegetables, but the store seems relatively empty. Fatima was vague in her responses about the impact of the loan on her business, but kept insisting that she cared a lot about her reputation and always paid on time. When asked about the \$1,000 loan, she said that she had bought some merchandise and had used the rest for another purpose, which she did not clarify.

It appears that Fatima did not use the loan for the purpose for which it was provided. Fatima's shop is still very weak; her business needs capital and good management to be successful. When the loan officers were asked about this borrower, they stressed that she was a good borrower and never late in her payments. They added that she could not afford a bigger loan.

This case typifies the situation of borrowers who divert their loans towards other purposes. Fatima's business needs a lot of help to continue operating, and as the borrower herself says, the market is very weak, and people are not buying. Clients are not attracted to Fatima's grocery, as there is very little to be found there.

4. *Muhammad Z.*

Muhammad took a loan of \$1,500 to strengthen his business. He sells pickles, olive oil, soybean oil, detergents and refreshments. He also owns a bakery for *manakish* facing the pickle store. During the interview, a generator was providing electricity to the refrigerators in both shops, and Muhammad was running back and

forth between the two businesses. He said he was planning to hire an employee to take care of the pickle and oil business, as hiring someone to work alongside his two sons would boost his sales and allow him to devote more time to management. Muhammad is also looking into renting a shop on the airport road so that he can start a more profitable pickle business.

E. COOPÉRATIVE LIBANAISE POUR LE DÉVELOPPEMENT

The following case studies are the result of a field trip to the borrowers' project sites in Rmeileh and eastern Sidon. All of the borrowers were displaced between 1985 and 1987; some left for a few months and others for a couple years owing to the political and security situation.

1. *Edmond, Simon and Yousef K.*

A father and his two sons took loans of \$5,000 each and were able to finish setting up the 30 greenhouses they own. The land they are using is rented from the Maronite Archbishopric for \$70 per dunum per year. Although the land may be used free of charge for the first four years, tenants must reclaim and work the land; in this case it had to be prepared for the installation of greenhouses. This took a substantial amount of time and money, as the land was mountainous and rocky.

Edmond and his family planted cucumbers and tomatoes, believing their selling price to be fair. However, prices were low this year; they blame the Government, which allows imports of these crops from neighbouring countries such as Jordan and the Syrian Arab Republic. This family and others in the region with similar projects have complained about the amount of rent the Archbishopric is charging. They say that the land in Rmeileh is difficult to farm and the water is very califerous; making the land productive cost three times what it would further to the south, where it is cooler and the water is sweeter.

The \$15,000 invested in this business represents only one third of the actual cost of the 30 greenhouses. The loan carries an interest rate of around 8 per cent, which is considered fair and attractive to borrowers, needy or not.

It is important to mention that the Dabbane Company provided and installed the greenhouses for a total of \$44,000 (\$20,000 cash up front and a postponed payment of \$24,000 six months later with interest of \$1,600).

2. *Hamid H.*

Hamid is a young, energetic businessman who works in construction and who started a unique project in the village of Aitneet, a few kilometres east of Sidon in south Lebanon. Hamid wanted to widen some terraces planted with olive trees but faced resistance owing to social norms that hold olive trees sacred. Eventually, he was

able to reclaim a vast expanse of additional land and cut down the olive trees on his original land, replacing the narrow terraces with wider ones. The new land, covered with black soil taken from Hamid's land, is the site of a potentially very profitable project involving the plantation of "flora", which produces a kiwi-like fruit that is sold LL 750 apiece. The project is being implemented with the help of the Dabbane Company, which imports the seedlings and provides technical support for an agreed price. Hamid has also installed two greenhouses, which he uses for floriculture. The loan Hamid received amounted to \$10,000.

3. *Michel H.*

Michel, the former mayor of Kfartlal, applied for a \$5,000 loan to buy a tractor. He intends to rent it out on an hourly basis to farmers in the region. Kfartlal is a small, nearly deserted village in the eastern mountains of Sidon, an area that suffered constant air raids and shelling until the recent Israeli withdrawal.

Michel has pledged land as collateral, and the director of the CLD credit programme has taken the opportunity to visit and take pictures of the land.

Michel has promised to identify other potential borrowers from the same village in order to increase the outreach of the organization and allow more people to be helped.

4. *Deeb*

Deeb took a \$10,000 loan after repaying an old loan of \$5,000. Deeb owns a printing press in the village of 'Ain al-Dilb. He is having problems making his payments since business is stagnant and his clients are not paying him on time.

It is not clear what Deeb did with the \$10,000, but there is a possibility that he may have used it to cover a bank loan. Deeb received the loan from the ex-director of CLD without having followed the proper procedures. The new director asked Deeb to come to the CLD office with the documents he needed to pledge certain assets as collateral, in line with CLD regulations.

This is a typical example of mismanagement and of lending without the benefit of a feasibility study. The area in which Deeb lives is remote, and it is surprising that anyone would go there for printing services. There are some that may be abusing this subsidized programme by, for example, using the cheap loan to buy government Treasury bills in Lebanese pounds at an interest of 16 per cent or more.

It is worth mentioning that some of the CLD borrowers really need the money to make a change in their lives. There are many in the agriculture sector that have the necessary credentials to approach banks for loans if these banks ever start offering low-cost microenterprise services. In the meantime, these borrowers will make good

use of this development-oriented programme and avoid bank loans, which charge a minimum interest rate of 12 per cent.

F. MONEYLENDERS*

Nasser owns a shop for motorcycle repair and spare parts near the Barbir Hospital in a populated area of Beirut. Most of his work involves fixing the many small mopeds that are used to navigate the narrow alleys of the capital. This is one of very few such businesses in Beirut.

Nasser resorts to the money exchange shop on the main street of Barbir for loans only when he is in urgent need of cash. He gives the moneylender a post dated-cheque for the amount to be repaid as collateral. Interest of around 15 per cent per month is charge, plus four extra days' interest to allow time for the collection of fund once the cheque is cashed.

Nasser said that these moneylenders are found in abundance in every busy market in the country. They have a loan fund built up from money borrowed at much lower interest rates. Nasser added that loans from moneylenders are usually taken for several days, not weeks or months, because of the high interest.

Nasser thinks that the loans offered at 2 per cent per months are "heaven" in comparison with the moneylenders' loans.

* The information provided is based on an interview with Nasser al-Rakha at his shop in Beirut.

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