

**UNDP MICROFINANCE  
ASSESSMENT REPORT  
FOR  
Lebanon**

*[Prepared as a component of the MicroStart Feasibility Mission]*

**April 1997**

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### *A. Executive Summary*

In most countries there is an evident strong demand for microfinance services. In fact, most feasibility studies assume a large unmet demand. They use as a basis for this demand, observations by stakeholders, sustained growth rates of programs and small client dropout rates. Good market surveys are usually not available.

In Lebanon, the demand aspect for the microfinance products was unclear. Most stakeholders who were not involved in microfinance were negative, continually questioning the suitability of the initial loan size. Normally, one might write this off as the biased viewpoint of vested interest. However, even microfinance practitioners were only cautiously optimistic about client growth.

But the resistance to microfinance is not just based upon the size of the loan, there was an implied rejection of the higher than market interest rates required. Almost everyone we interviewed, with the exception of the current microfinance suppliers, were convinced that small business or agriculture credit needed subsidized rates.

As a result, there were few organizations that were interested in dedicating part of their services to this market niche. Microfinance is, so far, a difficult sell in Lebanon.

## ***B. Methodology***

Upon arrival in Lebanon, the consultants reviewed any available secondary information and data. This was limited to basic population data, a small study on demand factors for microfinance, and some limited information on NGOs and other programs offering small and microfinancial services. This information had been gathered by UNDP during workshops and surveys held in recent months.

With limited secondary data, we spent significant time interviewing various stakeholders in the micro and small finance industries. The best source of information for both demand and supply issues related to microfinance, were the microfinance practitioners themselves. There are two established microfinance programs and one new microfinance program. We also visited UNDP programs which had either a credit or small business component. Many of these micro and small credit programs have relationships to banks, and we assumed that these relationships indicated that certain banks had an interest in small or microfinance. Finally, we spoke with some leading government officials, business leaders, interested donors and of course small and micro enterprise clients.

While as much information was gathered as possible, information and impressions were based only on brief interviews and additional requests for data. Therefore, we cannot attest to the accuracy of the data provided and the consultants' conclusions regarding the capacity of organizations interviewed are preliminary.

## *C. Demand*

### 1. Credit

The first element of the feasibility study was to assess the demand aspect for microfinance. To do this we concentrated primarily on demand for credit. Savings services for the economically active poor are limited, and information, impressions and evidence related to the demand for savings was not considered a priority during the mission.

Demand for micro-credit was by far the most difficult and controversial aspect of the mission. Microfinance was to be defined as \$1-1000 short term, primarily working capital loans, with a preference for management under a group based methodology.

One of the major hurdles we encountered was the lack of good survey data on the demand for microfinancial services. There was a small study conducted in 1996 which touched on some aspects of demand, but it was very tiny, and thus inconclusive.<sup>1</sup> UNDP had put forward a proposal to commission a demand survey through its Partners in Development Programme (PDP) but the status of this proposal has been in limbo for some time. With the lack of any good secondary market research, and with neither the time nor the resources to perform one, we essentially needed to rely on comments and program data provided by the various stakeholders.

Most stakeholders were mildly hostile to microfinance. Most of the disagreement centred around the definition of the loan size. Arguments were usually based around the “usefulness” of the money and the lack of demand they encounter for this sum. Where this argument was most often encountered was from NGOs providing small loans, mostly fixed asset loans, for start-ups, re-start-ups and expansion of existing businesses. Their focus was on rebuilding small business and encouraging employment generation. Most of the activities financed were productive activities, (small industry), some services, but not much in the way of trade activities.

These arguments have some validity. The peculiar conditions present in Lebanon are to some extent the result of protracted civil war, through which there was destruction of both lives and fixed assets. Therefore, there may indeed be an unusual demand for “restart-ups”, usually entailing larger fixed asset loans. Demand for these types of loans naturally pushes the average loan disbursed up, as fixed asset loans (except in the case of micro-industry) are largely, longer term, higher value loans. However, most of these organizations making these loans, design their marketing, outreach, and lending criteria to attract these types of clients. Thus their sources for measuring demand have already been pre-screened.

The fact that there is a large demand for fixed asset loans does not preclude the fact that there may be a demand for small, working capital loans, particularly for trade activities. The microfinance organizations were more positive about the demand aspect for their product.

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<sup>1</sup> *The Demand for Financial and non Financial Services in the Microenterprise Sector in Lebanon*, June 17, 1996. Mayada M. Baydas, Rural Finance Program, Department of Agricultural Economics, The Ohio State University.

Although they concede that their current product does have limitations, they point to repeat clients, good growth rates in terms of number of clients and expansion opportunities.

This type of finance needs outreach, a lot more “pull through” demand, especially initially. Because there is more than just financing, and application for financing, it is also a matter of group development, mobilization etc. Thus, these programs do not encounter “smack in the face demand”. While they do believe there is a market, they know they need to get out there and, in effect, create the market for this unique type of service, particularly in areas or villages which are newly targeted for operations. In areas they are already working in, these programs do have requests to start operations in neighbouring villages, so there is evidence of “walk in” demand. Additionally all of these microfinance programs work with women, whose businesses may or may not be as evident as those of men. This lack of obvious demand may have contributed to the perceived lack of demand on the part of other financiers.

Save the Children (SCF), the only microfinance program we spoke with which has undergone a medium term planning exercise, believes that by the end of 2001, it could have between five and six thousand clients, up from the current 1546. They state that their assumptions have “squeezed” every possible client they think they can generate and hold on to. In fact, they have assumed that the CRS/Caritas program clients are absorbed into their own program. They have planned a horizontal expansion, with a special focus on urban areas where they see the most opportunity at potentially the lowest cost. Dropout rates are high especially after the first cycle of lending. Roughly 30% of the clients who are mobilized for round one of lending, do not participate in the second cycle. This experience is shared by CRS/Caritas. Reasons for this are unclear, as neither program conducts an exit interview.

From a top down approach, in a country of three million people, roughly half, are women. From that there are 800,000 women between the ages 20 and 65. If 5% or even 10% of these could be considered the “economically active poor”, there could be a potential market of 40,000-80,000 women microfinance clients. If one expanded the potential clientele to include men, this number might double (although the standardized product may require modification). Unfortunately the 5% or 10% factor applied is merely an estimate which cannot be substantiated given the absence of data. There is some data on self-employment within a recent UNDP population survey, but this indicator does not include any information regarding the size of the business, the underemployed, employed in the household or the informal micro business.

While the number of potential clients was difficult to clarify, one characteristic of the potential demand is that apart from the economically active poor found in urban areas, most of the demand is likely to be found in “pockets”. Poverty or near poverty is well established in certain pockets, those particularly affected by the war or other political/economic instabilities as well as the traditionally disenfranchised. There are also cross-cutting issues such as drug eradication, displaced population and the status of Palestinian refugees.

## 2. Savings

Information regarding the demand for savings was not available. We have no information about forms of savings for this client level.

## ***D. Supply***

### **1. Credit**

When considering the demand, one must also consider what is supplied and at what price? The following outlines the information collected on the supply side in small and micro-credit financial services in Lebanon.

#### **a) Informal credit**

This was based on anecdotal evidence, primarily obtained through interviews with credit suppliers and borrowers. Family and friends are sources of capital, although the charging of interest varies. These lending arrangements are constrained by the limitations of familial or social ties and limited in size to the availability of savings within this social network.

Agriculture input credit is also available, usually at a 100-120% annualized interest rate. Many clients receive informal supplier credit, particularly for working capital needs, but the implied interest rate is probably lower than that of agriculture input credit. Without further study it is impossible to say whether these high rates are necessary to cover defaults and other costs. However, it is possible to say that the lack of access to lower cost loans can exacerbate poverty for those who require these loans.

#### **b) Formal credit**

Formal lending to the agriculture sector, which makes up 10-14% of the GDP, comprises only .5% of the total consolidated balance sheets. Lending to the industrial sector is also proportionately lower than that of its relationship to the GDP. The central bank has recently developed an initiative which reduces the reserve requirements on the part of the banking sector and establishes a subsidization for lending to the agriculture, industry and tourism sectors. However the loans which qualify for this subsidized rate need to be over \$33,000 US.

Directed lending by the banks to the less than \$5,000 US category is limited. As at the end September 1996, banks had 5,168 clients on the books for loans whose outstanding balance was less than \$5,000 US.<sup>2</sup> There was no available information as to disbursement size or average term. Most of these were probably consumer loans. Some banks, such as the Audi Bank and the Byblos Bank have started to focus on the small borrower, and have incorporated this into their strategic planning. However, most of Byblos Bank's focus in the less than \$10,000 range is for retail loans, mostly personal loans or housing loans. Personal loans start at \$2,000 US, and are extended with the consideration of 3<sup>rd</sup> party cosigner or a negative pledge, or mortgage. They also lend for housing loans, on average \$6-7,000 US, up to a value of 70% of the total value of the property.

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<sup>2</sup> Information provided by Lebanese Banker's Association

Most banks believe that the costs of small loans are very high. Formal banks insist on collateral and the necessary paperwork to legally back the collateral and they do not have the system to overcome the costs. While they are interested in the subsidization of interest rates to certain sectors, they have requested that the government speed up the time and cost necessary to obtain official papers from the government to complete their files on borrowers. Regardless of the loan size, there are high costs involved in pursuing legal action.

A handful of banks<sup>3</sup> participate at various levels in the NGO or UNDP programs which deliver credit. This participation ranges from providing simple services ranging from opening bank accounts and transferring money free of charge, to simple administration of disbursement, to loan monitoring, to risk sharing. Most of these services are initiated and negotiated on a personal basis, and agreed to for charitable or public relations purposes. There is little interest in pursuing these initiative in an expanded scale, or independently. Banks argue that the costs are too high, although they believe that their presence limits the cost of loan losses.

### **c) Government affiliated credit**

Both the agriculture and displaced ministries are associated with small lending. The Ministry of Agriculture is involved in the UNDP's Baalbeck Hermel Program in the Bekaa valley. This agriculture lending program is a component of an integrated drug eradication effort. The average seasonal credit disbursed is \$1000 US, with a term of 7 months to one year, the average long term credit is \$1500 US with a term of 8-12 years. All loans are subsidized. The operations involve a local bank which provides some administrative services for 5% of the interest rate as compensation. The decision making process is multilayered and overall repayment performance is poor.

The Ministry of the Displaced is working with an Italian NGO, ICU to offer agriculture credit to returnees in the Chouf region. The program is being financed by the EU and a portion of the credit component is expected to be underwritten by a bank. No loan has been disbursed to date, but the credit will be subsidized and the loan sizes will range from \$1,500 to \$20,000 US for individual loans. One interesting segue of this project and associated with the UNDP's work with the same ministry in the same area, is a credit bureau that has been initiated to avoid duplication of clients. There are several other NGOs implementing credit programs in the same region.

Please see Appendix 2 for a brief description of Government affiliated small credit.

### **d) Semiformal credit**

#### Suppliers of Small Finance

There is a segmentation of the market in the provision of small and microfinancial services.

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<sup>3</sup> Please see attached Appendix 1 for a list of banks providing some elements of small and microfinance services.

Most small finance programs maintain an average loan size disbursed above \$1,000, although from time to time they do make loans for less than \$1,000. These small financiers usually lend in the form of primarily individual, fixed asset loans, mostly for micro-industry. All take a form of collateral or personal guarantee: cosigners, mortgages, guarantors. In one program, operated by UNRWA, staff members act as guarantors of the loans. This restricts the lending to only those people who can provide a guarantee. All interest rates appear to be subsidized, and in fact, well below the commercial bank rate. Not all of these organization are secular in their operations.

Repayment varies, but is not as good, nor as well-defined as the microfinance programs. Staffing is a combination of volunteers and paid part-time and full time. Access to loan capital is stated as the biggest constraint for expansion, but it is also likely that human resources would also come under pressure. Many provide technical assistance such as business advice, referrals, vocational training etc. True understanding of costs is uncommon and little attention is paid towards internally generated growth or future sustainability. These NGOs typically have a multitude of objectives. Many are interventionist in their approach to small business, and are not just financiers. They want to provide business related services, marketing, bookkeeping, vocational training and often even business ideas and management assistance.

The leading suppliers of small credit in Lebanon are Association d'Entraide Professionnelle (AEP). They have been operating since 1984. They currently have 189 individual client loans outstanding. Loans are for artisan, agriculture, small service/commerce and small industry activities. Recovery rate is 91%, although it is not clear how this rate is defined. They have a strong relationship with Bank Mediterannee, although the services provided by the bank are limited to administration. They have had some success in referring three clients to Bank Audi, for larger sums. AEP has an admirable social outlook, and tries to involve the community in its operations, through the use of volunteers, sales of certificates of deposits ("subscriptions") to interested parties, soliciting bank involvement, and through contributions of goods in kind for operations. They are not geared towards institutional self-sufficiency, although they believe that if they were to double their portfolio, they could cover their operating costs.

Another interesting supplier of small credit is Cooperation for Development (CD). This is a smaller NGO, originally a branch agency of a UK NGO. It has gone through some changes over the last several years and has tried to restructure its operations. Its focus is on women, handicapped, and refugees. It has an average loan size of \$4,000 US, with 68 outstanding loans in their indirect lending program. It has 10 loans in arrears, all to one "sector" of the population. Recently it initiated a direct lending program through a local bank which finances larger loans, CD takes the complete risk and management of the loan although the bank participates in some of the administration activities. CD finances mostly services or small industry. There are very few loans for trading. CD has developed a loan tracking system which seems flexible and can be adapted to incorporate accounting functions. They have had some success in selling this loan tracking system to other local as well as foreign NGOs.

Please see Appendix 2 for a brief description of small finance NGOs.

### Suppliers of Microfinance

The microfinance programs in Lebanon currently restrict themselves to small working capital loans supplied to women. The amount lent climbs slowly and at a predetermined rate. The methodology used is the group guarantee, self selecting groups which guarantee each others' loans. Understanding of costs varies but on the whole is better than the small finance NGOs. All have staff which are paid. Repayment rate or portfolio at risk indicators show excellent results to date.

There are three organizations who provide microfinance services: Catholic Relief Services (CRS)/Caritas, Save the Children (SCF) and Association Najdeh.

CRS works with Caritas, a local NGO, using a village banking methodology. It is a relatively new program, established in September 1996, and has 410 clients in 17 village banks and 371 outstanding loans outstanding. CRS's policy is to limit the maximum loan size extended from the project fund to \$500 US. However, because of the nature of the village banking and the operation of the bank's internal savings account, at the very least an additional \$350 US per member will be available for onlending. CRS/Caritas's program will "top out" at 500 clients. CRS/Caritas sees no barriers to referring their senior clients, for whom they are unable to provide any additional funds or loan products, to other NGOs such as SCF. CRS intends to pull out of Lebanon in a couple of years and will leave the client base and staff to Caritas. It is unclear how Caritas will manage the program, and no expansion plans have been prepared as yet.

Save the Children's GGLS program has been in operation since July of 1994. It operates in most regions of the country and among most communities. They have 1546 clients (March 1996) with an average loan size of \$298. The repayment rate is 99% and it has a portfolio at risk of less than 1%. The current outstanding portfolio is \$282,516 US. It is the most sophisticated of all the small and microfinance organizations in this country, in terms of financial operations. It has a good MIS and a tight accounting and planning system. It is in the process of splitting its microfinance operations from SCF's other programs, and will create a separate local NGO. Board members have been recruited from the business community. Its planning is geared towards covering all of its costs, although it has considerable pre (free) funding. In addition SCF have begun to consider new products.

Najdeh Association has a microfinance program among its other lending programs. It deals strictly with Palestinians, both registered and unregistered. They started their microfinance program in September, 1996, with the assistance and funding of a French NGO, Accion Nord Sud. It has 16 active groups in two camps, with a total of 80 clients. They have plans to cover 40 groups by the end of the 3 years, for a total of 200 clients. It is a slow growing, meagerly financed program. They have no perception of the total demand among their clientele. They state their intention to be self sustaining but it is questionable whether they understand what that entails. Najdeh Association appears organizationally weak.

Overall, the microfinance community has 2,036 active clients.

All of the above microfinance providers start with loans sizes of \$200. SCF had started with an initial loan size of \$500 dollars but did not find it successful in terms of utilization. The average loan balance of SCF, as a percentage of GNP per capita, is 12%. Similar ratios from other institutions in the microfinance industry worldwide range from 6 to 136%<sup>4</sup>, (using 1993 data). The ratio depends on the age of the institution and the average term of lending. The two organizations which have a similar lending term as SCF are BKD, in Indonesia with a 6% ratio and BancoSol in Bolivia, with an 82% ratio. Thus, this ratio does not appear to give conclusive indicator for what might be a successful starting or average loan size.

The \$1-\$5000 US finance market appears to be segmented because the characteristics of microfinance as applied via the group guarantee system is a relatively disciplined approach that requires a combination of skills, including outreach and mobilization along with some limited finance and business skills. Small finance as practiced here, requires more traditional lending analysis skills and less outreach. Thus the human resources component and the system necessary for each lending practice varies depending on the methodology and objectives. This segmentation is likely to be challenged by SCF as they begin to develop new products for senior clients.

Some NGOs limited themselves, by their confessional nature, or their restriction to certain areas or clientele. Their market, defined in that way, will always be restricted, and institutional sustainability more difficult.

Regardless of the size of the loans extended, most borrowers we interviewed did not appear to be highly price sensitive; timely access to credit was the main issue. Borrowers in the CRS/Caritas program onlend their own funds up to 36% annualized flat rate (12% more than that charged by the program), which indicates an ability to absorb even higher interest rates than those charged by the NGO (and potentially extra demand).

Although most of the microfinance programs provide only financial services, clients have stated that the programs offer them additional benefits, including a social outlet, exchange of business services, networking and internal supplies of additional financing. Some organizations mentioned that part of the appeal of group financing lays in the fact that it builds a group cooperation ethic which they believe is in short supply here in Lebanon.

## 2. Savings

Only the CRS/Caritas and SCF programs require savings. They do not retain the savings themselves, but instead work with a bank to provide group savings accounts for their members. These are usually provided at no charge. Normally, deposit accounts are quite expensive for these clients. AEP takes a form of deposits or “subscriptions” but not usually from the clients. These deposits are in a form of CD and do not appear to be considered by regulatory officials, as deposits, thus necessitating regulation or supervision. Taking retail savings would likely require a bank license. We did not investigate these options however SCF has done considerable investigation into the options for legal structure.

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<sup>4</sup> *Maximizing the Outreach of Microenterprise Finance*, by Christen, Rhyne and Vogel, July 1995. USAID Program and Operations Assessment Report No. 10.

### *E. Extenuating Circumstances*

While there are areas which are more remote than others, Lebanon is a small 10,452 km<sup>2</sup> country, and most areas are accessible, with the exception of the Israeli occupied areas in the south. Population density varies but there are no “desert” areas. The areas which might be more vulnerable to unrest, would be the southern areas which are traditionally susceptible to periodic Israeli Defense Force bombardment. However, these areas are already being serviced by several NGOs both local and international. Other areas which may restrict the development of microfinance as financed by the UNDP is the jurisdiction over the Palestinian Camps.

## *F. Donor Plans*

### 1. Bilateral Donors

Of the donors we interviewed, CIDA, EU and the USAID, only USAID has any direct involvement in financing microfinance programs, as they are the key funders of Save the Children and Catholic Relief Services/Caritas programs. USAID is restricted to funding only US based NGOs in any size. They have actively encouraged US based NGOs in Lebanon to develop microfinance programs. Even with the possibility of sufficient funds, the NGOs resist. USAID have a small grants program which is used to finance local NGOs but funds are capped at \$60,000. USAID would probably be an interested cofinancer of microfinance organizations, within its guidelines.

EU does not fund any microfinance programs but has in the past funded some credit through cooperatives, and currently funds two credit programs related to the displaced issue in Southern Lebanon.

CIDA manages a Canada Fund from Damascus, Syria. This fund provides small, time-limited grants and tends to avoid financing programs with longer term assets such as loan funds.

### 2. Multilateral Donors

Consultative Group to Assist the Poorest (CGAP) has committed to funding a technical assistance program for Save the Children programs in Lebanon, the West Bank, and possibly Jordan.

The UNDP has not funded any microfinance programs to date. So far the UNDP has been most active in microfinance by organizing workshops where small and micro finance participants exchange information and share experiences. The UNDP had proposed through their PDP to take a much more active role in microfinance for the coming year. Included in the proposal were the following activities:

- networking among NGOs, Government and Private Sector;
- a survey of the demand for microfinance services in Lebanon;
- training and dissemination of best practices for NGOs interest in implementing micro and small credit programmes

Unfortunately the PDP for the upcoming year has been put on hold.

### 3. Government

The political-economic environment in Lebanon is complex. Special interest politics and clientelism permeates the public, and to some degree, private sectors. However, the economy is vibrant (although growth has been slowing the past two years), and there is a good understanding

of trade and traditional finance. Inflation of the Lebanese pound has remained stable for the last few years at roughly 10%. As the economy is dollarized, most institutions, in order to limit their risk, lend in US dollars. The pound has been more widely accepted over the last few years and is interchangeable with the dollar.

Government policy directly relating to microfinance programs has been hands off. There appears to be no involvement in setting interest rates or dictating loan sizes as we have seen in other countries. Nor have they made any move to regulate these institutions except in requiring an NGO license.

In addition there appears to be an interest in the ideas of micro and small finance in the government. The Central Bank attached a staff member to the mission for the duration.

However there are policies and programs that the government advocates which have an indirect effect on microfinance and more precisely, small finance.

The government is encouraging the creation of a credit insurance program which would mutually insure loans among credit institutions. There has been considerable debate as to the ideal mechanism for this project and which credits it would seek to insure. It would be interesting and perhaps useful to consider the integration of micro and small credit into the operation of such an insurance program. It would need to be a simplified procedure so that the institutions need not incur significant administrative costs to include loans.

In addition to the policy environment, the government is involved in the implementation of small credit projects as described in Section V. The small credit projects we encountered which had a significant operating relationship with governments offered subsidized credit. This is a complicated issue, well beyond the scope of this report, but chronic subsidization negatively affects the eventual viability of any credit program; the program will always need inflows of funds to operate. If the interest rate is also below that of inflation, the program will always need inflows of funds to recapitalize the purchasing power of the loan fund. Additionally, as noted in Section II, it is not clear there is a sustained value to the client in receiving interest at a subsidized rate.

## ***G. Appendix 2 - Description of NGOs and UN Credit Programmes***

### **1. Professional Mutual Help Association - Association d'Entraide Professionnelle (AEP)**

The AEP is a local non-profit organisation, set in 1984 in order to support the war impoverished population. It is primarily a credit institution with the objective to give disadvantaged group access to financial services to support a productive activity. The program operates in all regions across Lebanon

#### ***a) Funding***

The program received funds from a Canadian bilateral donor in the past (CIDA). It is now financed through grants and private contributions from local and European donors.

#### ***b) Loan Product***

Three types of loans are provided to support an existing productive economic activity. Each loan is disbursed half in US dollars and the other half in Lebanese pounds.

-individual loans to support a family: between USD 1000 and 5000 ceiling;

-loans for a collective project: maximum USD 20,000;

-loans for a cooperative: can be above 20,000

-loan terms: up to 30 months;

-grace period: 1-6 months;

-the client is entitled to subsequent loans (up to three usually);

-interest rate: 10% on USD and 15% on LL, it is calculated on a declining balance;

-other fees: 1.5 per thousand stamping fee and LL 35,000 (USD 22.5) when guarantee is signed;

-no savings.

#### ***(1) Lending criteria***

Priority is given to individuals lacking access to a commercial bank, in charge of a family, and presenting a feasible and productive project with a previous experience in the field. Men and women are eligible.

-a guarantee required: as notary for land and/or the third of the salary of the co-signatory;

-a proof of purchase of the fixed asset should be provided.

#### ***c) Structure of the program***

The program is managed by AEP staff and a team of volunteers across the regions (Beirut, North of Bekaa, Jbeil and Tripoli, Batroun, Kesrouan, Saïda and the Shouf). The credit funds are mainly pulled from the project's proper loan funds, however a subscription fund, "saving and solidarity", has been set up since 1995.

*(1) AEP*

- general assembly of 50 persons which elects 9 members of the administrative committee;
- the administrative committee approves loans;
- the executive committee at the Beyrouth headquarters is in charge of the supervision and administration of the program.

***Regional teams***

Four to five part-time volunteers living in each region of operation are responsible of the following: receiving the clients once a week, feasibility study of the project, recommendations to the committee and follow-up of the client's project and repayment,

*(2) The bank*

- six branches deal with AEP clients: Tripoli, Zahlé, Saïda, Zouk, Khaldé, Ashrafieh
- transactions are done free of charge: loan disbursement, establishment of repayment schedule, reception of client repayments;
- reports to AEP on clients repayments each end of month;
- guarantee fund deposited at the bank for which AEP receives 8% on unused balances;
- three clients graduated after three cycles with AEP, they each took a loan (USD 8.000-12.000) from the Banque Audi branch in Hazmieh.

*(3) Saving and Solidarity Fund (1995):*

It is a credit deposit fund with/without interest for private local donors over a 12, 18 or 24 months period which serves as an additional loan fund for the AEP. An agreement has been signed with Banque Saradar, Société Générale and Banque Libano-Française, in which funds can be deposited.

- minimum deposited: USD 500;
- forecast: Saving and Solidarity should by 1999 constitute 30% of the total loan fund of the AEP

***d) Loan portfolio***

**• Cumulative**

- clients: 754
- individual loans: 733; average loan USD 2068
- collective project loans: 33; average loan USD 5300;
- cooperative loans: 4; average USD 27.500

**•Active (end of March 1997)**

- outstanding clients: 195
- individual family loans 189;
- collective loans: 4;
- loans for a cooperatives: 2
- minimum disbursed: USD 1200
- recovery rate: 91%

**•Type of purchase**

The majority of loans are used for fixed assets to finance small industries agriculture and some services.

## 2. Caritas

The credit program started in 1985 and operates in Beyrouth, the Aakar and the Bekaa.

### *a) Program funding*

Grants through local campaigns and from Caritas International

### *b) Loan product*

Loans are disbursed on an individual basis in Lebanese pounds. The program targets 25-30% of women against 75 % men. It favors start-ups or project rehabilitation and expansion of existing projects.

-amount: minimum of USD 300-400 up to USD 3000;

-average loan size: USD 1200;

-terms: up to 36 months

-payments: equal instalments every three months; from July 1997, equal instalments on a monthly basis;

-interest rate: has recently increased from 8% to 12 % on the Lebanese pound;

-no savings;

-guarantee: co-signatory and, in some cases, mortgage required.

#### *Handicapped:*

-interest rate: 4%;

-terms: up to 48 months

### *c) Program structure*

The program operates through Caritas' regional branches, 36 in total located across Lebanon.

#### *Regional offices*

-a part-time credit promoter is in charge of filling loan applications and making the feasibility study of the client's project;

-payments are made at the regional branch;

-the client does not deal with the bank;

-a person has recently been hired to follow-up late payers;

#### *Central office:*

-loan application and feasibility study submitted to the commission "Plan and Project";

-the commission meets every two weeks;

-the majority of the staffs are part-timer or volunteers.

#### *New activity*

A survey of productive activities is being carried to develop a technical assistance component to the credit program.

-investment index for different types of projects;

-technical files on different types of activities across the regions (equipment, performance..).

*d) Loan portfolio*

•**Active portfolio (end March 1997)**

-2700 clients

-credit portfolio: USD 2,9 million

-type of activity: agriculture: 38.5%

    small industry and artisan: 39.5%

    small trade and services: 22%

-type of clients: 25% women; 75 % men;

    6% handicapped

    4% collective; 96% individual

•**Cumulative**

-4452 credits;

-budget: USD 3,9 millions

Performance: 60% on time repayment;

    25% payments in arrears (less than 6 months)

    15% payment problems

### 3. CRS- Catholic Relief Service/ Caritas Village Banking Programme

The objective of the programme is to improve the living conditions of disadvantaged families in the Aakar and Baalbeck regions through the provision of credit to poor rural women. The program promotes the village banking (VB) model as a credit delivery mechanism and builds up the institutional capacity of Caritas headquarters and sectors in the implementation of this methodology. The programme has started in April 1996 with the first three village banks being inaugurated in September 1996.

#### *a) Funding*

The program is financed by U.S.A.I.D.

#### *b) Loan Product:*

Small and short terms loans starting at 200 over a 4 month period. The client has the possibility to apply, from the project funds, for bigger loans up to US\$ 500 within 7 cycles (i.e. 28 months). When the client reaches its 2nd cycle he can in addition start borrowing from the VB's internal account.

- loans disbursed in US dollars;
- flat interest rate: 2% monthly (24% yearly)
- mandatory savings: minimum 5% monthly on the loan amount, it is deposited on the group's account;
- no other fee is charged on the client;
- subsequent loan size equals the previous loan amount plus the value of the saving accumulated;
- payments are made every two weeks and include the principal and the interest;
- no collateral is required, the guarantee operates at the group level.
- the group can lend to external clients from the VB account.

#### *c) Structure of the programme:*

Decentralised and participatory structure which operates through a village banking and solidarity group system.

#### *The village bank (VB) and Solidarity Groups*

VB are credit and saving associations established in order to facilitate access to women to financial services. They count 5-15 auto-selected members who administered and managed the bank and form solidarity groups of 4-6 members.

Potential VB members go through a 1-2 month training before the bank opens officially.

- each group opens a commercial account at the village bank where loans are distributed to group members and saving deposits are kept;
- principal and interests are paid at the VB and transferred to the central branch.
- members receive some profits from their VB
- all VB members sign the loan application and form solidarity groups
- keeping savings within the village bank is a necessary condition for staying within the VB

***Project Staff:***

- the external CRS advisor and three credit promoters;
- each credit promoter operates in one region with an average of 140 clients;
- given the auto-selection process of VB members the ratio of applications vs. those met is 100%

***d) Current Portfolio (end March 1997)***

- active clients: 410
- number of outstanding loans: 317;
- portfolio outstanding: USD 82,054;
- number of outstanding loans: 371;
- average loan size: USD 217
- loan cycle of active clients: 4 months;
- savings mobilised by portfolio: USD 11.919
- percentage borrowing on the internal account cycle two 28%;

***Performance:***

- repayment rate: 100 %
- currently cover 17% of their operating costs

At the end of Mars 1997 the programme counts 17 banks, 5 in Aakar, 2 in Deir El Ahmar and 10 in Nabi Chit, with a total of 410 clients. It plans to reach within the current budget a total of 525 clients by the end of 1997.

***Type of activities:***

- trading and productive activities (clothes, food, baking bread, flower arrangements; knitting...)
- small businesses, no start-ups

#### 4. Cooperation for Development (CD)

Cooperation for Development is registered as a branch of a British NGO. The programme was established in 1993 to promote the development of the small-scale enterprise sector in Lebanon through the provision of credit finance to individual and community based development project and technical assistance to local organisations. It operates in all regions across Lebanon and is in the process of becoming an indigenous NGO.

##### *a) Funding*

The program is financed through grants from European and international institutions (mainly the European Union, ODA, together with Refugee International, the Alchemy Foundation...).

##### *b) Loan product*

- size: USD 15,000 maximum; lending in USD;
- average loan size: USD 4000-4500;
- term: up to 30 months, 1.5 year on average; depends on the cash flow of the project;
- grace period: 0-6 months and sometime up to 8 months for both principal and interest instalments;
- interest rate: 10.5% on a declining balance;
- other fees: 2% service charge;
- no savings;

##### *Lending criteria*

- priority to women handicapped and refugees;
- micro and small projects, start-up or existing;
- priority to projects favouring job creation and start-ups that avoid duplication;
- guarantee: a promissory note signed by the client with two co-signatory (at least one non-family member, both should be employed).

##### *c) Structure of programme*

It operates through six local Community Based Organisations (CBO) established across Lebanon and a team of 60 volunteers living in the areas of operations. Credit is mainly delivered directly to the client through CD or a CBO also in a few cases it has been delivered through the bank.

##### *CBOs:*

- select clients and do the project pre-feasibility study;
- CD training to CBO in 1995 on quick PRA, quick sector surveys and prefeasibility study
- loan monitoring.

##### *Cooperation for Development:*

- three full-time staff: administer and manage the program;

- the feasibility study is done by CD permanent staff;
- the loan approval committee: four members who study the client's file and decide on loan approval -loans are approved three times a year.

***The Bank:***

Agreement with one bank, Banque de Beyrouth pour le Commerce:

- CD guarantee fund deposited on which gets 8% flat;
- three cases of credit delivery through the bank: (twice USD 12,000; once 6,500);
- bank money guaranteed by CD seed capital
- interest rate on a declining balance: 10.5%; the bank gets around 2.5% profit;
- reminding letter sent to client over 15 days delay, over 30 days take CD's;
- aim of guaranteed fund: access to client, educate bank.

***Technical Assistance component***

- credit management information system (MIS) for small loans management (SLM): technical assistance and training package for local groups and organisations;
- two softwares for agriculture and field crop;
- feasibility study software in process;
- package for donors for tracing capital and monitoring performance

***d) Loan portfolio***

- outstanding loans: 68;
- average loan size: USD 4000-4500;
- minimum loan disbursed in 1995: USD 2000; in 1996: USD 450;
- loans distribution:  $x > \text{USD } 1000$ : 71%;  
 $1000 > x > 5000$ : 37%
- repayment rate 85%;
- cumulative number of applications met/ total number: 78/ 326
- type of activity: 54% small industry; 21% services; 13% animal husbandry; 8% horticulture and bee keeping;
- groups: women: 69%; handicapped; 8%; refugees: 23%

5. I.C.U / Ministry of the Displaced - Project for the Economic Recovery of the Displaced in the Agricultural and Agro-Industrial Sectors- The credit fund-

The program has been elaborated by the I.C.U. (Institute for University Co-operation of Rome, Italy) and the Lebanese Ministry of the Displaced (MOD) in order to help resettle war displaced persons in their home villages across the region of Mount Lebanon.

The project has the following three components: the rehabilitation and equipment of a technical agricultural school in Deir El Qamar, a pilot farm for educational and demonstrative purposes and a credit fund to support the re-establishment or expansion of agricultural and agro-industrial activities.

It is a three years program, financed by the European Community, with a portion of bank funds. The proposals made by three potential bank partners are currently being reviewed.

***a) The Loan product***

- individual loan amount: USD 3000- 20,000;
- loans for cooperatives: up to USD 125,000;
- interest rate: 3% yearly;
- terms: up to 3-3.5 years;
- grace period: up to 6 months

***Eligibility:***

- a certificate issued by the MOD should be presented proving the statute of displaced of the individual or of the co-operative's members;
- written commitment to live in the project area once loan disbursed;
- written commitment of the client to follow-up training courses at the educational centre of the project if necessary;
- previous experience in agriculture;
- priority to job generating projects;
- guarantee: personal or on properties, and/ or a guarantor;

***b) Structure of the program***

***The Credit Unit***

A team of experts and technicians from ICU and the MOD.

The unit is within the MOD and is in charge of selecting the villages, the borrowers, studying the project and approving the loans through a credit committee.

***Loan Committee***

It is part of the credit unit, it studies applications of potential client and approves loans

- a representative of each of the following institutions in the loan committee: the MOD, the Ministry of Agriculture, I.C.U and the bank partner;

-the bank has a veto power

## 6. Lebanese Institute for Economic and Social Development L.I.E.S.D / I.L.D.E.S

The L.I.E.S.D is a local non-governmental organisation established in 1986. Its activities have been centred on the provision of health, educational and vocational training services to the displaced population during the war. In 1992, the onset of the return process of the displaced brought the institution to establish a Credit Fund, for the socio-economic rehabilitation of war displaced persons returning to their original localities. The fund is operational since May 1993 across Mount Lebanon and the South of Lebanon.

### **a) Funding**

- co-financing with the European Union through a French, German and Spanish NGO;
- local contributions made by Lebanese donors.

### **b) Loan Product**

- individual loans and in a few cases loans for a collective project;
- loan amount: USD 2,000 - 3,000;
- average loan size: USD 2,700;
- terms: 24-30 months;
- monthly repayments;
- grace period: 1-3 months, for small industry, trade and services; 1-6 months for agriculture, and irrigation projects;
- interest rate: 7%; calculated for the first year over the whole loan amount and for the second year over the value of the repayment left;
- no subsequent loan;
- no savings.

### **Eligibility**

- displaced returning to the locality of origin;
- income generation project implemented in the region of return;
- when start up project: previous experience in the field is required;
- personal guarantee: salary of a civil servant (friend or family).

### **c) Structure of the program**

#### ***The project***

- five persons are working for the credit fund on a part-time basis: a secretary, a financial analyst, an accountant and two persons responsible for borrower selection, follow-up and advice.
- loan application are filled at the central office in Beirut or at the health clinic in Hadath;
- follow-up is done by field visit to the borrower's activity;

-restructuring and hiring of additional personnel is underway as a parallel to program expansion;

***The bank***

-the Banque Libanaise pour le Commerce carries loan transaction free of charge.

-loan disbursement and repayment are done by the client himself at the bank;

***Measure of program performance:***

-economic: implementation of the client's project;

-financial: reimbursement rate (ratio of amount repaid/ amount due over year);

**d) *Loan portfolio***

-repayment rate for 1996: over 90%

-May 1993- July 1996: 342 beneficiaries

-type of activities: 17 persons: credit for housing rehabilitation; agriculture, small industry, trading, services, construction (fixed assets)

-nature of purchase: fixed assets; shop repair

-cooperation with the Middle East Council of Churches (M.E.C.C): provision of 19 credits for housing rehabilitation at the beginning of 1996.

## 7. Middle East Council of Churches (MECC)

More an enabling organisation at the financial and training level than operational. Its Rehabilitation Program for Lebanon is organised around four axes: agriculture, education, socio-economic and health. The credit component operates around the agricultural and socio-economic axes. It is currently very small with only 12 to 20 loans being disbursed yearly against 60 to 80 applications.

### **a) Funding**

Programs are financed through grants from church related agencies.

### **b) Loan product**

#### ***Agricultural loans***

- loans to cooperatives (average 100 members);
- few loans to individual clients;
- maximum loan size: USD 7,000;
- terms vary between 2 and 5 years.
- constitute 65% of outstanding portfolio

#### ***Loans for socio-economic rehabilitation:***

- target: groups, individuals and institutions;
- location: six regions across Mount Lebanon and the South;
- size: up to USD 2000 per individual; disbursed in US dollars
- terms: 1-2 years with a 0-6 months grace period;
- interest rate: 3-4% on a yearly basis

#### ***Lending criteria:***

- focus on “returnees” re-establishing a small business;
- a promissory note should be signed with a guarantor;
- few cases of underprivileged clients where depend on the community leader to facilitate the process;
- loan for a shop: paper proving that client owns the shop is requested;
- quotation and offers of what, where and at what cost the client want to buy

### **c) Structure of the program**

#### ***Regional centres***

- local regional staff fill loan application and make recommendations from a social point of view;
- follow up repayment and monitor impact on the business.

#### ***Head Office***

- one agricultural engineer and one social worker at the central office will make technical recommendations before submitting loan to Central Committee;
- Central Committee: screens and approves loan application;
- repayment delays are studied case by case.

## 8. Mouvement Social Libanais (MSL)

Mouvement Social is a local secular organisation that was set in 1961. Its activities have increasingly targeted women and youth through vocational training and youth clubs. The credit program was launched in November 1995 as a complement to the above activities and is still at an embryonic stage with at the end of March 1997 a total of 24 clients.

### *a) Funding*

The programs are financed through local private donors

### *b) Loan product*

Loans are disbursed in US dollars

#### *Individual credit program for women and youth:*

- loan size: USD 60-3000;
- average amount: USD 2000-3000
- terms: 12-36 months, with 0-3 grace period;

#### *Collective loans to women enterprise:*

- size: USD 2000-5000;
- 1 collective loan (USD 2000) to a group of 9 women, has been repaid.

- interest rate: 8% yearly, calculated on a declining balance;
- other fees: 1.5 per thousand stamping fee at loan disbursement;
- 1 co-signator for individual loans, more for group loans
- no savings are required;
- monthly equal instalments;

#### *Precondition for youth loans:*

- vocational training with MSL during 6 months on average, the training can carry on after disbursement if necessary;
- youth training program targets the poorest without access to a local school;
- training courses: technical, small business together with environmental and health awareness;
- possible to attend a literacy course over a year.

### *c) Structure of the program*

The program operates across Lebanon.

- borrowers are identified at MSL regional centres;
- loan applications are checked at the central office with the client
- loan committee: three members including one economist and a regional social worker;
- eight social workers across the regional centre follow up of the client's business;
- no relation with the bank, disbursement and repayments are made by the client at MSL Beirut.

**d) *Loan portfolio***

- cumulative and outstanding clients: 15 individual credits and 9 credits for one collective project
- type of activity: priority to productive, few services; no trading  
ex: sawing and embroidery, small industry (jams, artisan, electricity)
- performance: no delays in repayments.

## 9. Najdeh Association

Najdeh is a local organisation established in 1978 working with Palestinian women. Its programs include vocational training, pre-school education, social affairs, literacy and income generation. It is active in all camps across Lebanon.

### **a) Funding**

- grant funding from European donors;
- Action Nord Sud funding, training and technical assistance for the first year of the Micro-Enterprise Development Program (1996). A proposal for a further two years funding by the donor has been submitted.

### **b) Loan product**

#### ***Small loan program (1993)***

Program linked to the beneficiaries of the vocational training activities. In practice the majority of the clients were not previous trainees

- individual loans: USD 1000-3000;
- group loans for a collective project: maximum USD 5000;
- terms: 24-30 months with 3-6 months grace period; repayments are made on equal instalments;
- interest rate: 8% yearly, flat calculation;
- subsequent loan conditional upon successful project and its expansion;
- no savings;
- guarantee: signature of close people;
- no bank intermediary

#### ***Micro loans ( Sept. 1996)***

The first stage of the Micro-Enterprise Development provides small short-term successive loans based on the group guarantee methodology. The program operates in two camps in Tyre, Burj Chamali and Rashidié, it should expand to El-Bass camp during the second year.

- group size: 5 persons;
- loan amount increases over the three cycles: USD 200- 250- 300; disbursed in US dollars;
- interest rate: flat 8% monthly (24% early)
- terms: 4 months;
- repayments: interest is paid monthly, capital is paid in equal instalments the last two months;
- definition of past due: 10 days after each instalment;
- default provision: USD 0.5 for each past due day; joint group liability; no loan progression in case of late repayment;
- no savings;

-monthly group meetings and regular visit to the client's activity.

***Investment loans (non-operational yet)***

Individual loans to graduates from the microcredit program.

- loan amount: USD 300- 2000;
- loan term: 5-18 months;
- interest rate: 11% per year on a declining balance
- default provision: as above.
- 10% contribution to the total cost of the project;
- material guarantees

***Eligibility***

- although NA works mostly with women, men are also eligible to all loan programs;
- the client should have a viable economic project and adequate experience or training in the field;
- be between 18 and 60 years old;
- priority to existing businesses in the micro-loan program.

***Other services to the client***

- course on micro-enterprise management since 1996 in each centre, 1-3 months modules;
- open to clients of the small-loan program; evaluation underway to assess the likelihood of extending the course to micro-credit clients;
- participants contribution to part of the expenses;
- business counselling unit scheduled for the third year of the project

***c) Structure of the program***

Program implementation is decentralised. Each area of operation has a centre through which all programs are managed and implemented

- one social worker in each centre is responsible for the feasibility study of the project for the small loan program;
- two credit officers for the microcredit program: each is responsible for a site and manages 8 groups of 5 clients, an additional credit officer will be hired for the third site;
- Credit Committee: 2-3 credit officers, the program's accountant and a site representative usually in charge of the income generating activities; the committee meets once a month to review and approve loans;
- supervision and assistance from Najdeh Beirut and Action Nord Sud

***d) Loan portfolio:***

***Small loans***

- outstanding (March 1997): 20 loans, average size USD 1500;
- cumulative repayment rate: 75%
- cumulative until end 1996: 50 loans (include 5 second time loans).

***Micro-credit***

- active clients: 80 (16 groups in 2 camps in Tyre)
- 12 groups want to continue to the second cycle
- projection: total of 40 groups ( 200 clients) by third year
- recovery rate: 99%
- trade and services

## 10. Rural Skills Development Association

Rural Skills Development Association is a local organisation operating in Tyre since 1991. Its activities revolve around a housing project for Tyre's fishermen and since 1996 a fund for small-scale credit.

### ***The housing cooperative project***

The program targets Tyre's fishermen, which are amongst the most marginalised group of the region. Eighty-two families should benefit from the project, while contributing USD 25 monthly. It has not yet been implemented, the land for the construction of the compound still being negotiated.

#### ***a) The loan product (1996)***

The small scale credit fund started from a personal loan given to a an individual wanting to start a coffee shop. It evolved into a revolving fund for further loans for productive activities. The program is still limited in terms of outreach but seems promising as to further expansion and evolution in terms of both operational approach and loan product.

- the fund started with USD 3000 it now totals USD 40,000;
- average loan size: USD 2000;
- max: USD 4000;
- interest rate: 13-14%; probable increase of the interest rate in the future;
- terms 18-36 months;
- grace period: 0-2 months during which interest is paid;
- payments are made on equal instalments;
- guarantee: two co-signatories;
- provides consecutive loans;

#### ***b) Structure of the program***

The program is based and operates in Tyre through an informal office.

- a part-time credit officer has been trained through Cooperation for Development and is responsible for loan application and project feasibility study;
- as the program expands, an office will be provided and the credit officer will become a full-time employee matched by another officer
- at present there are no delinquency and administrative costs.

#### ***c) Loan portfolio***

- outstanding clients: 18-19;
- arrears: 4 clients.

## 11. Save the Children (US) Lebanon - Group Guaranteed Lending and Saving Programme

The objective of the program is to improve the living condition of the most disadvantaged families and make a difference in the lives of the Lebanese children. The program delivers financial services to working women through a group guarantee lending and saving methodology. The first loan was disbursed in June 1994, the program operates in all regions across Lebanon.

### *a) Funding*

Grant funding through U.S.A.I.D.

### *b) Loan product:*

The program offers a number of small short-term successive loans without collateral to disadvantaged women entrepreneur. These must form a group with a minimum of 8-10 members willing to guarantee each others' loans

- loans start at USD 200; disbursed in US dollars;
- loan terms: 4 months;
- loan size increases by 25% up to the fifth cycle and USD 100 per cycle thereafter up to a maximum of USD 800 (8th cycle, i.e. 32 months);
- mandatory savings: USD 2 minimum every two weeks; one dollar increase per cycle;
- interest rate: 8% per cycle (24% yearly); flat calculation
- equal repayments are made every two weeks, these include: principals, mandatory savings and the interest (total of 9 repayments)

### *c) Structure of the programme:*

Tight programme structure and discipline at the project and group level are the backbone of the GGLS methodology.

#### ***The group***

- group self-selection of members;
- group members should operate their business within the geographical boundaries assigned to the credit promoter;
- the group selects/elects a president, a treasurer and a secretary, each have specific duties and responsibilities;
- the treasurer deposits the group saving at the local bank branch;
- attendance at bi-weekly meetings is compulsory; fees set by the group are charged on absentees and delayed arrival at the meeting.

***The project***

- four training meetings to the group before loan disbursement, attending two meetings is mandatory;
- the credit promoter attends group meetings on a bi-weekly basis and follows up repayments
- the Credit Committee approves loans.

***The bank***

Fransabank administers the project fund and keeps each group savings in a separate account.

***d) Outstanding portfolio (30.03.1997)***

- number of clients: 1546
- number of groups: 148
- active borrowers per promoters: 155;
- average loan size (28.02.97): US\$ 309.51
- repayment rate: 99%
- cumulative clients: 7033

## 12. United Nations Integrated Rural Development Programme for Baalbeck-Hermel Region - Credit System-

The sudden eradication of illicit crops has undermined the agricultural economy of the region: production costs of legal crops are much higher and small farmer lack access to institutionalised credit. A supervised agricultural credit scheme has been installed by the Programme in order to provide loan capital and technical assistance and support small farmers.

The system has been operating since November-December 1994, with loans being disbursed until the summer of 1996. It is now in the process of entering a second phase.

### *a) Funding*

- 1st phase: \$1.5 millions for the loan fund
  - 2nd phase: due to begin in Dec. 1996, postponed to Feb. 1997;  
\$5 millions from the MoA are being discussed.
- Funding: by the Ministry of Agriculture and UNDP;  
Technical Assistance: UNDP

### *b) The Loan Product:*

#### *Seasonal loans*

- max: USD 2000; average USD 1000
- term: 7-12 months;
- 12% interest rate charged at disbursement;
- repayment of principal at end of loan term; two due dates for repayment per year;

#### *Long-term loans:*

- average: USD1500;
- term: 8-12 years;
- 1-3 years grace period;
- yearly reimbursement;
- 7% interest rate paid yearly including grace period
- use: trees and buildings.

#### *Medium-term loans:*

- average: USD 6,057
- term: 2-5 years
- max. USD 6000;
- i.r: 8% yearly
- use: equipment for cooperatives and trees

#### *Short-term loans*

- 1-2 years

-to cooperatives

***In Kind***

-up to USD2000;  
-average: USD1500

Target of the loan portfolio: 65% in kind; 35% cash;  
Portfolio at the end of February 1997: 65% seasonal; 31.9% long-term; 0.8% short-term; 0.1% medium-term; 1.7% in kind:

***Selection criterias***

- small-scale farmer settled in the area of the LDCC;
- ready to follow programme staff advice and recommendations on agricultural policies cropping pattern and farm techniques;
- allow staff to visit his farm;
- husband and wife cannot get each a loan;
- priority to clients out of LDCC and HC;
- budget allocated to each area according to the number of farmers and the agricultural activity.

***Guarantee***

- two guarantor should sign at the bank and be government employees (new policy since the end of phase I because of restricted budget, cannot afford any risk, bad experience during previous year);
- L.L 28.000-30.000 (USD 18-20) charged on borrowers;
- collective/ mutual guarantee and follow-up and pressure at the LDCC level;
- collateral required.

**c) Structure of the program**

Responsibilities and management of the programme operate at three levels: the community, the project and the two banks.

The Baalbeck-Hermel region has been divided into 22 areas according to criterias ranging from demographic factors to agricultural land, cropping patterns, availability of water sources, target group priorities...

***Local Development and Credit Committee (LDCC):***

The 22 units are each represented by an LDCC, with an average number of 8 members. Each LDCC contains freely selected/ elected members, including the mukhtar of the unit and one employee of the programme acting as secretary of the LDCC. The secretary is an agricultural engineer employed by the Ministry of Agriculture and checking through a field visit the information provided by the borrower.

- the secretary is responsible with filling the credit application with the borrower

***The Programme Development and Credit Committee (PDCC, or High Committee).***

The HC includes an elected representative from each LDCC, a representative from the MoA and a member of the local administration

It studies loans application approved by the LDCC taking into account CO recommendations and takes the final decision.

***The project level:***

- past: two credit officers and an agricultural specialist from the F.A.O (supervise processing of applications, presentation to the HC; member of HC).
- present: two credit officers based in Baalbeck and an accountant. The credit officers study and check loan applications and the profile of borrowers with the LDCC secretary; make recommendations to the HC. Warns LDCC on disbursement calendar of all clients
- accountant: checks that mortgage (collateral) promissory notes have been deposited by the clients; sends to the bank the list of approved credit and establishes with the bank a disbursement calendar for each LDCC
- the secretary of each LDCC is trained by the UNDP.

***The Banks***

Two cooperation agreements have been signed with the following banks.

**Fransabank:**

- no loan fund contribution or risk sharing;
- project loan fund deposited;
- three accounts in Lebanese pounds (L.L): “loan”, “collection” and “interest”
- administrative fees charged: 3% of loans disbursed and 2% on repayments.
- the bank gives 10% credit interest on the current balances of the three accounts of the credit operation in LL and credit interest equal to LIBOR on the Revolving fund opened in USD

**Jammal Trust Bank:**

- project loan fund
- contribute 50% of the loan capital (total loan fund: USD 576,000) and risk sharing;
- perceives an interest of 20% per year on its fund (includes its rights and administrative fees);
- the MoA perceives a 4% interest per year on its funds
- programme gets the same credit interests on the current balances of its 4 accounts (LL and USD) as mentioned for Fransabank

Statements of the different accounts (credit, repayment) are regularly provided by each bank to the project.

Loan disbursement and repayments are made at the bank by each client.

- a disbursement calendar is provided by the Credit Agent to each bank.
- for each repayment, the bank provides a receipt to the client and informs the project subsequently.
- reminder letter sent before payment is due with the bank heading (by who?)
- legal action is taken through the bank is the last step in case of client default.

N.B:

-delayed repayments are made to the project accountant who calculates the delayed interest rate and deposits than the money at the bank

***Decision-Making***

The decision making process operates at several levels.

- credit demands are presented by the local secretary to the LDCC who does the first selection.
- when the demand for credit is above project loan funds, the credit unit at the project level will distribute allocated amounts to each LDCC depending on the number of farmers for each unit;
- priority is given by LDCC through a negotiation process between members along the stated objective to give priority to those most in need.
- the HC takes the final decision

***Monitoring and repayment***

- secretary of the LDCC should pay at least 2 visits to the borrower after credit disbursement and provide T.A when necessary
- the credit officer visits the borrower to check the use of the loan funds and track repayments.

**d) The loan portfolio**

***Number of cumulative loans (1994-1997): 1915***

- seasonal:1252;
- long-term: 611;
- short-term: 16;
- medium-term: 2;
- in kind seasonal: 34

***Loans not due (28.02.97): 178***

- seasonal: 127;
- medium-term:1;
- short-term: 16;
- in kind seasonal: 34

***Reimbursement rate***

- loans due between 31.08.95-31.08.96: 1737
- seasonal: 61%;
- medium-term: 100%;
- long term: 45.8%

### 13. UNRWA- United Nations Relief and Work Agency for The Palestinian Refugees in the Near East

The UNRWA was established in 1949 to provide relief and social services to Palestinian refugees in Jordan, the West Bank, Gaza, Lebanon and Syria. Its mandate is primarily humanitarian and its activities are restricted to the refugees registered with the agency.

#### *a) Funding*

International and bilateral donors

#### *b) Loan product*

##### ***Soft Loan (1994)***

The program started in 1985 as individual grants to support the establishment of small enterprises. It evolved since 1994 into a soft loan program which includes both a loan and grant components.

- loan amount: USD 3000-5000; loan ratio: 30-40%, will be increasing
- terms: 8-18 months;
- grace:period: 0-1 month
- interest rate: 5% yearly
- no savings;
- no bank intermediary
- repayment rate: 99%
- finance mostly start-up

##### ***Mini loan (1994)***

- loan amount: USD 1000-4000
- terms: up to 24 months;
- grace period: 0-1 month;
- interest rate: 5% yearly;
- no savings;
- bank issue loans without any charge;
- decision: field deputy of relief;
- skill and experience are required;
- repayment: 99%
- target: families on poverty line (monthly income< USD 300); start up and expansion; employment generation; potential entrepreneurial skills

##### ***Income Generation (1992)***

- loan amount: up to USD 20,000;
- average: USD 5,000
- terms: 12-36 months;
- grace period: 0-2 months;

- interest rate: 7% yearly;
- decision: field deputy of relief service;
- skill and experience required;
- repayment: 97%

### ***Bank***

- agreement with Banque de Beyrouth pour le Commerce for the Mini loan and Income Generation programs;
- money deposited in collateral, get 2-3% on their money;
- bank lends its money and charges 7%;
- the beneficiary goes to the bank;
- guarantee: salary of UNRWA staff member

### **c) Structure of the program**

#### ***Soft Loan and Mini loan program***

- a social worker in each area does the application, feasibility study and monitoring of the client's project;
- two HQ staff (financial department and income generation office) get application, study it;
- mini loan committee approves loans;
- soft loans and income generation loans are approved by the UNRWA Deputy
  
- coordination with other NGO for transfer of clients (as non-registered Palestinian refugees);
- business advice currently being developed;
  
- active: 65 clients in income generation program (no data on other programs)