Strengthening Lebanon's Economy by Supporting Women Entrepreneurs

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

USAID | LEBANON FROM THE AMERICAN PEOPLE

IESC Prosperity & Stability through Private Enterprise

Lebanon VEGA Investment in Microfinance Volunteers for Economic Growth Alliance

By: James Dailey
April 2015

ACKNOWLEDGEMENTS

A special thanks to Mr. Hassan Istaytiyyah, who gathered survey data that was instrumental in developing this case study; USAID for their generous funding of the Lebanon Investment in Microfinance Program; and IESC and VEGA staff who contributed their effort to this report.

A very special thank you to our nine microfinance institution partners, who have shown real commitment to financial inclusion and sustainable development in Lebanon.

Association for the Development of Rural Capacities (ADR)

Association D'entraide Professionnelle (AEP)

Al Majmoua

Cooperative Libanaise Pour le Developpement (CLD)

Entrepreneurial Development Foundation (EDF)

Emkan

Ibda'a

Makhzoumi Foundation

Vitas

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

- Samir Kassir, prominent Lebanese professor and journalist

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

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

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

THE ROLE OF WOMEN IN A STRUGGLING ECONOMY

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

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

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

"Empowering women is not only the right thing to do - it makes economic sense."

- *Christine Lagarde, managing director of the International Monetary Fund*

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

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

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

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

ACCESS TO FINANCE

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

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

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

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

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

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

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

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

THE PROGRAM

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

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

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

APPROACH: RISK CAPITAL AND TECHNICAL ASSISTANCE

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

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

- MFI Field Officer

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

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

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

- MFI Loan Officer

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

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

- MFI General Manager

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

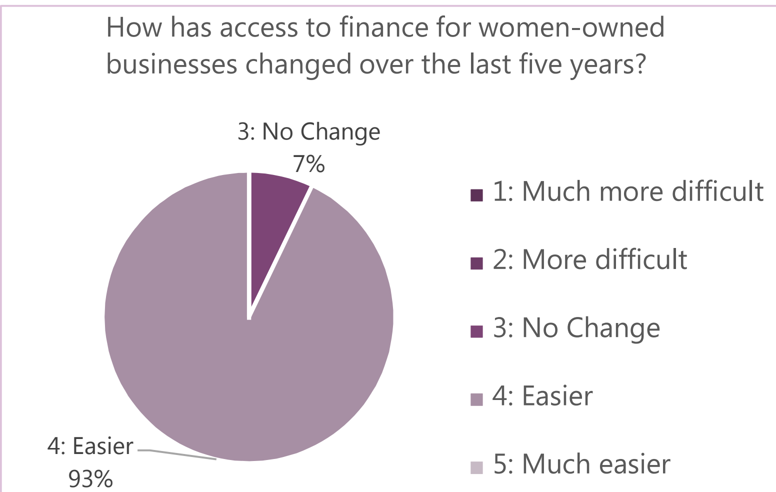
Capacity building and financial incentives fostered a creative environment in which MFIs could develop innovative products for women. "Trainings by LIM brought the loan officers from all the MFIs together, and this helped us to share experiences, learn from each other, and better serve our clients,"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

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

THE MFI RESPONSE

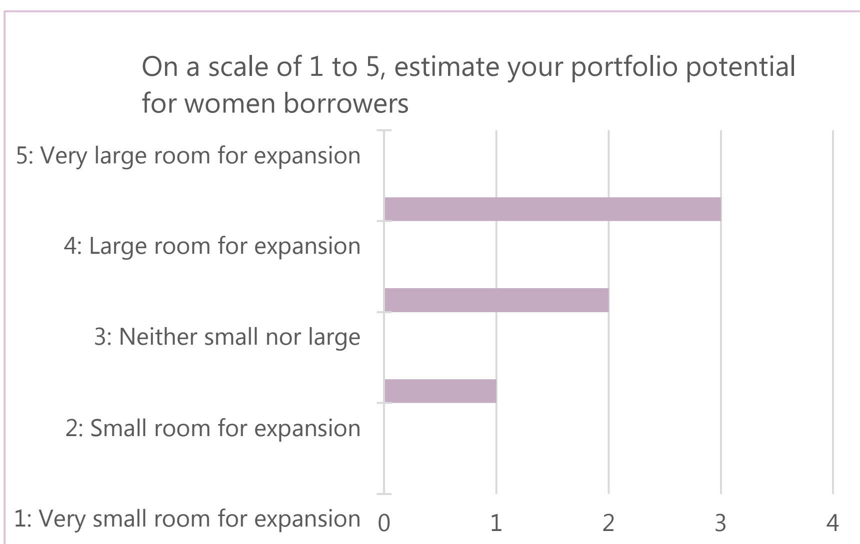
The LIM Program strengthened the Lebanese microfinance industry and reduced financial constraints that impede women's entrepreneurship. LIM left behind more robust lending institutions with more women borrowers from diverse regions in their portfolios, a national microfinance association, and tangibly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

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



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

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



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

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

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

- *IFC Report*[xii]

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

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

The Power of Confidence

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

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

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

- Women Borrowers in the LIM Program

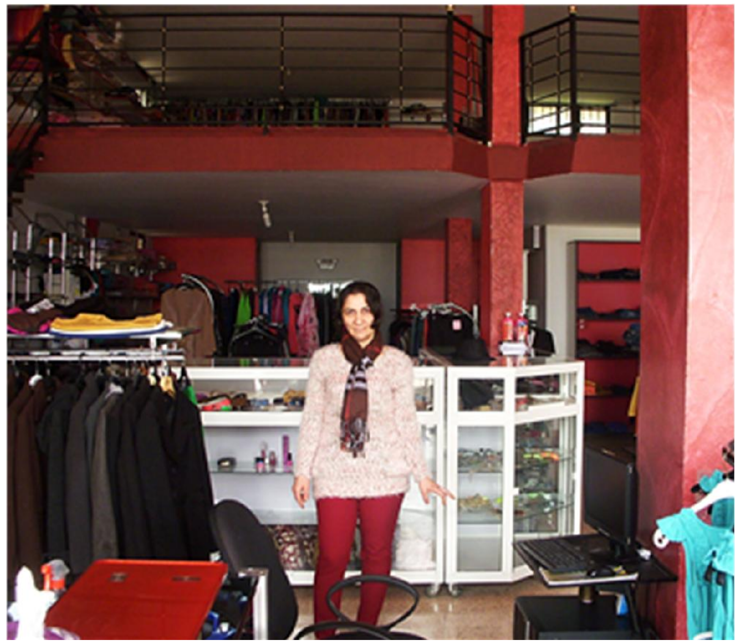
Confident and successful women are inspiring role models for their children and for other women in the community, particularly youth. By removing the finance constraint, our MFI partners also helped to remove the confidence constraint. More women will see that they too can participate in the economy.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

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

OMAYA

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

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



Omaya received a loan from Vitas to open a store

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

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

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

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

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

ZAHRA

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

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

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

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

LOOKING FORWARD

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

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

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

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

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

A SUMMARY OF LESSONS LEARNED

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

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

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