# The Lebanese Schism? Understanding Localities of Microcredit, Poverty, and Politics

By

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B.A. in Political Economy
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Submitted to the Department of Urban Studies and Planning
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## ABSTRACT

The widespread popularity of microfinance as a "win-win" solution to global poverty alleviation has significantly limited debate and dialogue around contesting viewpoints, program structures, and implementation norms. The present microcredit industry in Lebanon offers an authoritative space for practitioners to explore a differing microcredit model as implemented by a Hezbollah affiliated NGO, Al Qard Al Hassan Association. As one of the oldest and largest microcredit institutions in the Middle East, I argue that the perceived Lebanese schism allows us to explore the role in which organizational diversity has enabled a reinterpretation and an opportunity to revisit microcredit as a poverty alleviation tool in the context of the Southern Suburbs of Beirut. The country of Lebanon also offers a new locality in which development planners can explore how an NGO grassroots program, Al Majmoua, and how an institution , Hezbollah, that began as a grassroots political movement for the community and is now in many ways of the state, implement successful microcredit programs. Through the lens of Lebanese microcredit professionals and borrowers of the programs, this study explores how a hybrid narrative of microcredit has escaped industry isomorphism in Lebanon and how social capital has been created, managed, and reproduced.

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# LIST OF ACRONYMS

| | |
|---|---|
| AEP | Association d'entraide Professionelle |
| AM | Al Majmoua* |
| AMEEN | Access to Microfinance and Enhanced Enterprises Niches |
| CCSD | The Consultative Center for Studies and Documentation |
| CFC | Capital Finance Company s.a.l. |
| CGAP | Consultative Group to Assist the Poor |
| CHF | Cooperative Housing Foundation |
| CLD | Lebanese Cooperative for Development |
| ESCWA | Economic and Social Commission for Western Asia |
| ESFD | Economic and Social Development Fund |
| EU | European Union |
| GT | Grameen-Jameel Pan-Arab Microfinance Ltd |
| IFC | International Finance Corporation |
| IFC-JT | International Finance Corporation and Jameel Trust Bank** |
| MDG | Millennium Development Goals |
| MFI | Microfinance Institution |
| MIX | Microfinance Information Exchange, Inc. |
| MSME | Micro, Small, and Medium Enterprise |
| NGO | Non-governmental Organization |
| PAWL | Palestinian Arab Women League |
| QHA | Al Qard Al Hassan Association* |
| ROSCA | Rotating Savings and Credit Association |
| SME | Small and Medium Enterprise |
| SPM | Social Performance Management |
| UN | United Nations |
| UNDP | United Nations Development Programme |
| UNHCR | United Nations High Commissioner for Refugees |
| UNRWA | United Nations Relief and Works Agency for Palestine Refugees in the Near East |
| USAID | United States Agency for International Development |

*This is not an official abbreviation and has only been introduced for convenience during this study.
**This is not an official abbreviation and is in reference to a specific study.

# Chapter 1: INTRODUCTION

Over the course of the last 15 years, microfinance has increasingly been viewed as a "win-win" solution to global poverty alleviation and has finally been able to solve what has often been seen as a diverging and mutually exclusive set of interests: poverty alleviation and profit-making. By dismantling these seemingly opposed goals, the industry has managed to leverage diverse institutional actors: corporations, banks, foundations, governments, non-governmental organizations (NGOs), politicians, community planners, grassroots movements, civil society organizations, and of course international development practitioners. In recent years, the international community has seen the United Nations (UN) declare 2005 the International Year of Microcredit, witness Grameen Bank founder Mohammad Yunus win the Nobel Peace Prize in 2006, attract 76.4 million microfinance borrowers[1] and for the first time see private investments dominate the industry's financial sources more than governments (Evans 2010). Today there is increasing pressure or reference to a double bottom line in which financial and social returns can be achieved through best practices: "Maximum poverty reduction and long-term business considerations are both consistent and mutually reinforcing" (Daley-Harris 2009, 11). With such diverse players and unprecedented momentum, it seems microfinance is here, and it is here to say.

Microfinance as a "win-win" scenario carries an optimism reproduced through the global blueprinting of "best practices," often ignoring place and locality. More importantly, it has also discouraged opposing viewpoints and dialogue on how to improve, innovate, and challenge institutional norms, practices, and ideological assumptions. I argue that the case of microcredit in

[1] As reported on Microfinance Information Exchange's website (MIX), an information hub for global microfinance institutions (MFIs).

Lebanon provides an authoritative space to initiate dialogue and debate around this seemingly established development truth. Can we have programs that have very different goals and methods? Can very different types of organizations adapt relevant and quality microcredit programs? Does microcredit become a tool for other ends that may or may not be rooted in the international paradigm of poverty reduction nor in profit making but in its own rationale and particular meta-goals?

Microfinance is most commonly defined as "the provision of financial services such as savings, deposit, and credit services to the entrepreneurial poor" (Brandsma and Hart 2008). This is usually practiced as microcredit, which is simply the provision of small loans to lower-income persons usually aimed at self-employment projects that generate income for households. Microfinance was a result of what many development practitioners have believed to be the failure of top-down development approaches in the Global South and has come to symbolize the "bottom up" or grassroots initiative that has been viewed as the most successful tool at poverty alleviation. Over the last decade there has been a plethora of literature lauding the economic development and poverty reduction efforts of various microfinance programs, which push for financial sustainability and profit-making entrepreneurial development capital. However, there is also a growing amount of literature that critiques microfinance as being the ultimate expression of neoliberal anti-statist programming that places much of the burden of economic inequality and poverty on the individual. What is unusual in the literature is a more nuanced discussion of how local political economies and institutional settings influence the understanding of how microfinance is expressed in a particular place and time.

### 1.1 Research Focus

The Republic of Lebanon is characterized by a laissez-faire political economy since its independence in 1948, and is home to one of the largest and oldest microcredit programs in the region: a Hezbollah founded NGO, the Al Qard Al Hassan Association (QHA)[2]. Within a political economy that is largely market-centered and has adopted a liberal stance on economic development, one would assume that microfinance "best practices" would have taken root to the extent that it has been expected as much in neighboring countries. However, I explore the current microfinance industry in Lebanon to understand how the international microfinance movement varies in Lebanon from the perspective of several Microfinance Institutions (MFIs) and borrowers of two leading microcredit programs, Al Qard Al Hassan Association and Al Majmoua (AM). I ask through the lens of microcredit and the global consensus that has been emerging in the last decade around microfinance's "win-win" capacity, how does an NGO grassroots program and how does an institution that is neither the state nor policy-driven but of the community and simultaneously of the state implement microcredit? I use the example of Hezbollah's microcredit program not to highlight the exceptionalism of this scenario, but rather the normalcy and space in which development practitioners can understand how "bottom-up" development can take on myriad of forms and ultimately how political and even religious institutions can run a highly effective microcredit program despite established global norms of successful institutions and programs.

I argue that the country of Lebanon offers a new locality in which development planners can question the assumptions of norms embedded in microfinance itself, poverty, and even development's longstanding engagement with local politics that are religious and even sectarian in nature. This study attempts to explore the story of how global discourses of development

[2] This is my own abbreviation for ease of the reader.

though microcredit are negotiated via non-traditional actors, such as Hezbollah. How is this territorialized in Lebanon, specifically in the Southern Suburbs of Beirut? Does Lebanon offer a break in the currently polarized view of microfinance? Does QHA provide a "hybrid narrative," that both influences and is influenced and influenced by the larger international MFI industry in the country?

Below I provide a brief overview of the historical context of Lebanon particularly in Beirut. It outlines the history of Hezbollah and service provision during the civil war, and provides a brief discussion of service provision in Beirut and its suburbs. I will first begin with a brief note on the geopolitical positioning of Lebanon in order to begin to explore the difference between top-down development and bottom-up development.[3]

### 1.2. The Political Economy of Lebanon: Laissez-Faire

The state of Lebanon dates back to 1948 and was quickly established as a laissez-faire economy. Within the Arab world, Lebanon's liberal economic environment was able to attract Arab capital despite political instability and state-driven economies in the region(Gaspard 143). The years of the Lebanese civil war (1975-1990) saw incredible strain on the country in multiple ways, and during the post civil war years the government's two primary economic strategies were to ensure a stable exchange rate and implement an ambitious expenditure program. It can be noted that the way in which the laissez-faire government operated prior to the civil war was much more of a minimalist government supporting the merchant class. After the civil war, government expenditure became "a mechanism of money transfer to rentiers and to the politically privileged" (Gaspard 219). The way this unfolded was through massive financial transfers to the political elite and to banks.[4] During the post-civil war era there was considerable

[3] For an excellent account of Lebanon's modern history see (Traboulsi 2007).
[4] Commercial bank capital accounts increased from $143 million in 1992 to $3.3 billion by the end of 2002.

reconstruction and investment in services, which some have described as strongly neoliberal investment patterns (Nagel 2002). Several historians and academics argue that the period from 1990-2005 was heavily influenced by market-centered development.

Fawaz raises the point, "if neoliberalism is understood as a further entrenchment of the market mechanisms in daily activities (Dikec, 2006; Harvey, 2007) through the delegation, for example, of the social component of public administration to private actors, then it falls well within the lines of the so-called liberal approach to policy making that has been adopted in Lebanon since independence" (Fawaz 2009, 839). The historic provision of social services has been accorded to non-state actors that respond to their constituency needs and has not been an unprecedented pattern in Lebanon's history. In fact the system of representative government in Lebanon reinforces power relationship with constituency political parties, the State, and citizens (Jones 2007). In a country of diverse ethnic and religious affiliation, the Lebanese Civil War was seen as the religious discrimination adopted by the ruling classes, which resulted in highly uneven development throughout the country.

The most marginalized of these groups have been the Shi'a who only gained formal representation in 1969. Before the post-civil war era, religious authorities had greater influence on the Shiite community, but in today's era two political parties, Amal and Hezbollah, have become central to representing this community. Amal was founded one year before the civil war and was a social and political movement that aimed for justice in addition to resistance to Israeli aggression in South Lebanon. During the civil war they became a Shi'a militia, and today are a national political party that represents Shi'a. Hezbollah and Amal both have provided services to their constituencies, which has been called a " 'liberal' model of service provision." Fawaz notes that neoliberal *urban* governance has largely been framed around decentralization measures which, "effectively shift the responsibility for the provision of social goods to (often weak and poorly funded) local authorities" (Fawaz 2009, 840). This urban neoliberalism is marked by an increase push for entrepreneurialism, encouraging Beirut to become a regional financial center. Political parties have taken on theses service provision roles in the wake of a lack of capacity, funding, and understanding from local authorities, and thus the development of Hezbollah's service provisions is not surprising. They ensure the needs of their communities by working with diverse public authorities to ensure service delivery. The Civil War, which lasted from 1975 to 1990, fundamentally divided the city according to confessional groups. QH was first established in 1982 in the southern suburbs of Beirut, which are collectively known as Al- Dahiyeh , which literally is translate to "The Suburb." *Dahiyeh* and has largely been governed exclusively by Hezbollah who have provided for a majority of these communities' basic needs.

**1.3. Hezbollah, The Party of God**

Most commonly known as a "terrorist" organization in the American context with ambiguous links to Iran and Syria, Hezbollah, or the "party of God," has functioned as a "vast social welfare and development apparatus whose work on behalf of poor and displaced Shiites is recognized as 'radical planning.'" (Roy 2009, 161). This political party has come to institutionalize traditionally excluded identities and empower groups of Lebanese citizens offering an alternative "spatial governmentality" in the realm of transformative planning (Saliba 2000).

The other Shi'a political party Amal which also represents the Lebanese Shi'a population is more formally engaged with the Lebanese state and is able to channel its resources to is constituency per the model of Lebanese politics laid out above in which Harb describes is similar to "the clientalistic relations between the state and other sectarian political leaders" (Harb 2008, 215).[5] Hezbollah on the other hand has been able to set up its own (some label parallel) system of service provision, separate from the state and include a wide array of services such as education, health, agriculture, and urban development.[6] When compared to Amal, Hezbollah does not take a passive stance on religious ideology but rather encourages its Shi'a constituency to follow the concept of *wilayat al-faqih.* The relationship between Hezbollah and Amal is important to highlight in order to understand that with two quite different organizational approaches, Hezbollah today is the favored representative of the Shi'a community (Harb 2008, 215): "Clientalistic practices earned Amal a reputation for corruption and the movement progressively lost its popularity to Hezbollah as the latter own the respect of the allegiance of many Shi'a thanks to its reputation for accountability as well as to its success in resisting the Israeli occupation of South Lebanon" (Harb 2008, 215).

Hezbollah emerged in 1982 as a radical political party that over the course of three decades has become a more pragmatic party, which some scholars have deemed the lebanonization of Hezbollah. Since 1992, Hezbollah has participated actively in the parliament and has had increasing success at the local level through successful elections at the municipal level (when they were resumed in 1998). Hezbollah joined the cabinet with two ministers for the first time in July 2005. Hezbollah has been noted as a strong domestic political party that is now a part of the very system that it used to resist. (Harb 2005; Hamzeh 2004; Jones 2007).

Also Hezbollah's reputation of not being corrupt and distance form government, helped many of the constituents feel a sense of right. Some of the Lebanese population were resentful of having to ask for favors form political parties to receive basic services. However many argue that as a political party Hezbollah's engagement with the State is indirectly a part of their service

[5] Amal and the Progressive Socialist Party have used resources belonging to the government development agency (Council of the South and the Ministry of the Displaced) to provide social services to their constituencies.
[6] Harb notes "culture" and "religion" which is not further explained.

provision. Thus, Hezbollah had not misused the government bureaucracy because it was outside of it and was able to providing services in what many see as "the right way" for their constituency. In the post-war period, both Amal and Hezbollah have established themselves as "mediators between public agencies and the Shiite community." (Fawaz 2009, 845). Public authorities have increasingly relied on these parties for assistance and capacity. In her study of three informal Beirut suburbs, Fawaz shows that Hezbollah has increasingly controlled how the neighborhood relates to the rest of the city, but does not intervene where traditional family relations emerge.

Most recently, Hezbollah received considerable attention in the international humanitarian and development world by demonstrating effective support for Shi'a communities in Beirut's southern suburbs and southern Lebanon devastated by the July War of 2006 between Hezbollah and Israel. Hezbollah astounded the world with its surprising military power but more importantly for revealing a long-standing and well-run institutional capacity to surpass the Lebanese state and international donors in aid effectiveness and development programming in the aftermath of the violence. In the context of Lebanon, Hezbollah is by no means the only significant non-state actor. In fact political parties, NGOs, and religious charities all play critical roles in providing social services to the Lebanese population. While the study of non-state provision has included Hezbollah, further understanding of how different non-state actors in pluralistic societies, such as Lebanon, employ particular logics of social welfare. In the area of stratified social services, political and economic outcomes are well researched but more research is necessary to fully explore *under which conditions* these non-state actors make appeals to beneficiaries and how outreach is actually achieved.[7] Hezbollah offers a challenge to this traditional binary of state vs. non-state actor in both how its social programs are perceived and

[7] This has been largely framed with the ideas of Cammett who has pending research in this area.

not. How Hezbollah engages with the state and the community is of particular interest through the implementation of their microcredit program.

Hezbollah has several development institutions, which provide critical service provision that are rather successful, displaying the group's dynamism and ability to adapt.[8] These include the Jihad al-Binaa (Jihad for construction); Islamic Society for Health; Al Imdad (The Resource); and of course Al Qard Al Hassan (The Good Loan). Major services delivered include garbage collection, extensive and well-established health care, primary and secondary schools, and water delivery. For example, Hajj Hussein Shami, Hezbollah's director for social services, reported that since 1988, Hezbollah continues to provide the major source of drinking water for Beirut residents (Harik 2004, 85).[9]

Many have argued that Hezbollah does more than just provide a range of urban services to the Shi'a community in Lebanon but also serves as a form of government which "produce governable spaces and governable subjects...[and] serve as mediating institutions" (Roy 2009, 163). Many scholars of Hezbollah report that this is not a party of the poor; it is often argued that the worsening economic plight of the lowest sectors of society who receive material aid from Islamic organizations fuels Islamic expansion in the region. This has not been the case with Hezbollah as supporters cut across class lines as the party continues to out-perform the nation-state and international agencies (Harik 1996).

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[8] In 1992, Hezbollah announced it would participate in parliamentary elections, marking a significant shift in the party's approach from ideology to pragmatism. This allowed Hezbollah to push for greater access to political benefits many of which are usually allocated along confessional lines (Norton 101). Hezbollah has several critical junctures in which decisions were made to remain politically relevant. In addition, the organizational structure of these service-providing NGOs is more nuanced than often reported, see (Fawaz 2000).

[9] "Since 1988, Hezbollah has implemented more than 10,000 projects to promote agricultural development, build homes and businesses, and provide water, sewage, and electricity. Supporters and critics alike have long acknowledged that Hezbollah is the most effective welfare provider in Lebanon—far more effective than the state." (Cammett 2006).

While funding sources for Hezbollah will most likely not be disclosed, it has been reported that much of the funding for the social and medical infrastructure is raised domestically. Hezbollah does receive large amounts of financial support from Iran, and are estimated at $100 million a year; (this apparently varies widely according to the political climate in Iran). Most of the Iranian support is directed towards Hezbollah's militia wing (Norton 110). Today Hezbollah is an established political party with significant cabinet and parliamentary representation. The founders of Hezbollah emerged from the group Amal, in response to the Israeli invasion of Lebanon in 1982. In the same year 1000 Iranian Revolutionary Guards also arrived in effort to foment an Islamic revolution . While so much of the visibility and primary rationale of Hezbollah to exist was centered on Israel's occupation of southern Lebanon, the end of Israel's physical occupation in 2000 did not mark an end to Hezbollah. The last decade has seen Hezbollah become a powerful political party, which many say has been largely supported and enabled by its provision of critical healthcare and social services for diverse communities In Beirut, southern Lebanon, and the Bekaa Valley. This thesis will focus mainly on the important locality of Beirut.

Rural to urban migration was largely pushed by the Civil War and the long-standing struggle with Israel. The Southern suburbs of Beirut were largely agricultural land surrounding the Central Business District. However, as a result of the Israeli invasion, many southern rural migrants moved to this area and accessed affordable real estate and unregulated spaces. During the Civil War, the city was divided by strict sectarian militias who controlled various neighborhoods, and the southern suburbs quickly became home to many displaced Shiites form the south. During the civil war, the southern suburbs were bombed by Christian forces, leaving a large community in desperate need of assistance. Hezbollah was critical in providing services and support. Also in the Bekaa valley and southern Lebanon, Hezbollah's services have been critical to many of the lowest-income communities in Lebanon. They offered much needed war support for example with the 1996 Israeli attacks and the July 2006 war with Israel. Immediately after the civil war in 1993, the population of the Southern Suburbs was estimated to equal 1/6 of Lebanon's population (Flanigan 2009, 127).

It is important to note that the Government systematically supported development priorities in Beirut ignoring in particular the southern suburbs. The neoliberal urban governance was very much a norm throughout Lebanon's modern history. This means that the provision of services (such as healthcare, schooling, and other basic needs) is delegated to non-state actors that represent particular constituencies. Fawaz notes that these were mainly religious figures, however, Hezbollah and Amal have come to dominate and represent the Shi'a interest in Lebanon and continue to provide critical services.

**1.4. Methodology**

To conduct my research, I spent five weeks during the early part of the summer of 2009 and 3 weeks in January 2010 in Beirut, Lebanon. My in-country research included open-ended interviews with various microfinance experts in Lebanon. This included open-ended and semi-structured interviews with NGO practitioners or Lebanese MFIs (staff and management), microfinance borrowers, private sector banks and government officials. I also met with professors and experts on Hezbollah and informally met with several community members in Dahiyeh. I also analyzed promotional materials from Al Qard Al Hassan and other MFIs. In researching an NGO of Hezbollah and Al Majmoua, I encountered some limitations to my research. After several informal meetings and official submission of press access, I had immense difficulty gaining access to official organizational management of Al Qard Al Hassan. I also was not readily allowed access as initially hope to Al Majmoua and was limited in my organizational interviews and spending time with staff in the field and in the headquarters office. In general the atmosphere to have interviewees be candid was challenging. There was a very strong push for displaying a favorable public image to encourage donor support, possibly because of the highly competitive nature of the industry. I also am not fluent enough in Arabic to conduct interviews entirely in Arabic. I also am not Lebanese nor of Lebanese origin which may at times may have been helpful in helping me gain access to more politicized spaces and other times made me too much of an outsider despite sometimes being able to physically blend in.

A final note on access with these two organizations. Al Qard Al Hassan was extremely difficult to contact during both trips. Also Al Majmoua was more cautious and was neither as transparent nor as responsive during my second trip as I would have liked. Nonetheless, I thank them for the time that Dr. Fawaz and his staff did give me. I conducted 4 in depth interviews with borrowers of Al Qard Al-Hassan and was provided 3 interviews with borrowers of Al Majmoua. The aim was not to evaluate outcomes or impacts of these programs but rather understand their experiences on the ground I was able to conduct one interview with an employee and was able to submit questions to my translator to get specific questions answered with a branch manager. Alissar Elias who also did all simultaneous translation conducted the Branch manager interview.10

While I did not conduct a systematic survey of all microfinance players in the country, I did meet with a majority of NGOs, banks, and private sector entities involved in this industry at

[10] I regret that I was unable to conduct one critical interview in person. It was very difficult to schedule a formal interview with a manager of the QH program or even a manager of one of their branches during both trips. I think the fact that I wanted to conduct the interview in English limited their interest in giving me time for the interview. A list of questions were prepared for the interview with the Branch Manager who was different than the one interviewed informally in July 2009. I was in regular communication with Elias for two follow up rounds of questions for clarification and further questions. I also spoke with her after all three interviews to clarify any questions I had.

least once. I conducted a total of 21 interviews with MFI practitioners and 7 in-depth interviews with borrowers.. All interviews were conducted in English and/or Arabic and if conducted in Arabic were translated simultaneously by the same person, Alissar Elias who had been briefed about the research topic and goals.

### 1.5. Thesis Structure

This thesis attempts to explore the locality of microfinance as a global paradigm in Lebanon by understanding the industry at a quasi-national scale and exploring borrower experiences in the southern suburbs of Beirut. These two scales attempt to explore my research question: How in a starkly laissez faire and increasingly neoliberal context, particularly post Civil War, have two distinct microcredit schemes managed to remain in tact? In this Chapter I offered a brief history of the Lebanese political economy and its relationship to service provision. In the second Chapter, I outline the various dynamics of the Lebanese Microcredit Industry and analyze what the implications are for current trends. In Chapter three, I explore the programs of QHA and Al Majmoua by connecting individual in-depth borrower analysis and framing these within the larger structural debates and discussions. Finally, I provide concluding remarks for the implications of the Lebanese Schism and reflect on the many questions that arose out of my research, hinting at several areas for possible further research.

# Chapter 2: The Lebanese Schism?

While NGOs have been the traditional institutions to embrace this policy in the last two decades, more recently developing world governments and the private sector have taken on this strategy as well. According to the Microcredit Summit Campaign, an information hub of self-reported industry information, in 1997 about 618 institutions reported to the organization and 10 years later in 2007, 3552 have reported to the organization (Daley-Harris 2009). The Microcredit Summit Campaign launched a phase II of its Campaign in 2005, which extends to 2015. They now have a target of 175 million of the world's poorest families to receive credit for self-employment and business services by 2015 – according to their website and other reports this doesn't include loans used for non-enterprises.[11] These goals are largely framed around the need to reduce absolute poverty through productive loans. More recently practitioners have become more skeptical about the ability to reach all levels of the poor, recognizing that microfinance cannot solve global poverty, however the fundamental belief that microfinance offers high impact results especially relative to other global development interventions to date has not been profoundly questioned despite increasing critiques and challenges to microfinance's claims over the last two decades: "The mere availability of financial services is usually insufficient to completely break the stranglehold of economic destitution…when provided effectively to the very poor, microfinance remains one of the most powerful tools available" (Daley-Harris, 6). But what exactly providing this service *effectively* entails has not been carefully researched or analyzed, despite increasing convergence in best practices and methodologies for MFIs.[12] Microfinance is also embedding itself within new technologies and has prompted mobile phone

[11] The second goal is to ensure that 100 million of the world's poorest families move from below US $1 a day. This has been adjusted for Purchasing Power Parity.
[12] Particularly important of the lack of studies is the fact that researchers and practitioners often don't compare the impacts of microfinance programs to a control group.

payments, electronic payment systems, and some are even using credit scoring as MFIs are increasingly looking to private investors, not international donors for sustained capital.

Although there have been acknowledgements of microfinance not being a panacea for the developing world, microfinance is able to maintain some authority and credibility and therefore continues to dominate development policy and norm focused on addressing the critical needs of the entrepreneurial poor. The entrepreneurial poor are those "who can increase their income by themselves." The economically active poor usually have some assets (in the form of land, gold, (Hulme and Mosely define this as having: "reliable income, freedom from pressing debt, sufficient health to avoid incapacitating illness, freedom from imminent contingencies, and sufficient resources (such as savings, non-essential convertible assets and social entitlements) to cope with problems when they arise." – by this definition we see differences in who is being reached and by whom in Lebanon (Helms 2006).

Microfinance has also been readily approached from an institutional perspective and has highlighted the role of the MFI often over the donor and the borrower, thus giving agency to be effective in reducing poverty to the efficient MFI. As Murdoch describes, "Microfinance promises both to combat poverty and to develop the institutional capacity of financial systems through-finding ways to cost-effectively lend money to households" (Murdoch 2000, 617). Microfinance is therefore the promise is played out in programs that are focused on reducing risk for the lender and minimizing transaction costs for such small loan amounts, which is generally not taken on by commercial banks because of the high cost.[13] In addition, credit available to the poor has often been subsidized, and microfinance starkly breaks form this approach in pushing

[13] Broader groups of people have been thought to be left out because gaps in the financial markets couldn't be addressed by commercial banks; transaction costs were simply too high for lending such a small amount of money to a group of people whom risk was difficult to assess because many potential borrowers are largely poor and move within the informal economy. Also, traditional loans have required a form of collateral that many poor often do not own.

for financial sustainability so that this new system of financial services is not dependent on donor or state funding. This is called sustainability or "full cost recovery or even "profit making." All of this is also most often envisioned in the ability to scale up to a large numbers of poor. Despite shifts in ideology and approach, the microfinance industry has no doubt expanded tremendously and doesn't appear to losing its multi-stakeholder and celebrity-driven momentum anytime soon.

The Lebanese microfinance industry reflects in many ways the fundamental shifts in the larger global microfinance trends of a push for commercialization and financial sustainability. However, I argue that despite the seeming pattern and trends we have seen globally, the presence of smaller NGOs and in particular Hezbollah's Al Qard Al Hassan Association requires a closer analysis of the industry. In this chapter I hope to demonstrate that at present the microfinance industry reflects the following trends: The absence of the State has fundamentally enabled and strengthened the industry's link to the market and localized this global rhetoric in an increasingly authoritative way within Lebanon despite the presence of other program(s) that locate authority of methodology outside the market and the state. While the microfinance industry is largely comprised of NGOs as key implementers, I argue that what MFI diversity there is has been facing increasing pressures to convergence for several reasons detailed below. Finally, the global paradigm of microfinance has also largely limited innovation and in particular local adaptations of microfinance because of the pressure to secure affordable capital; this has caused a split between those that follow international best practices and those that don't. I call this the Lebanese schism, and as I will argue throughout this study, this schism is self perpetuated by the need to account for its own capital sourcing uncertainty and the need to perpetually seek new borrowers and meeting organizational goals. Also there is an alienation of those that do not adhere to "best practice" norms despite increasing competition in certain localities, which will be explored further in the locality of Dahiyeh, Beirut.

### 2.1. The Global Transformation of Microcredit Programs to the Microfinance Industry

From the Grameen Bank's founding in 1976 to the current day debates of microbanking and commercialization, microfinance has gone through a series of discursive, programmatic, and ideological shifts. Microcredit has been a moving body of knowledge and practice stemming from the debates in development and has been a central practice turned-industry in the shift from state-driven to more market-driven development approaches. Microfinance particularly has been seen as an example of the "bottom-up" approach to development by linking informal credit schemes, such as local moneylenders and intra-family loans or Rotating Savings and Credit Associations (ROSCAs), to formal sources of capital and financial institutions, thus bringing the informal communities within the realm of the market.

"Bottom up" or "community-based" development planning was a part of a movement of politics that critiqued central planning by both neo-classical economists and neo-Marxists and emerged as a viable alternative to the state-centered development trajectory. "Development from below" focused on small-scale bottom-up projects that targeted small farmers and micro-businesses and were mainly income-generating projects and creating employment. A proper disconnection from these institutions also included economically disconnecting from "the bottom" in order to facilitate capital accumulation at the grassroots level while also facilitating grassroots political mobilization via solidarity groups. Both ideologies challenged the "developmentalist model," and was a direct reaction to top-down technocratic development models that were even imperialist.[14] Development was largely seen as a macroeconomic

[14] The late 1970s and early 1980s saw the neo-dependency movement, post-colonialism, and postmodern political movements in addition to intellectual expressions.

phenomenon driven by state-led development policies, which over time became linked with the "lost decade" of the 1980s which was marked by reduced living standards, widespread poverty, excessive external and public sector debts and uneven industrialization that did not follow the Western industrialized nations' more successful experiences. This shifted development policies to continue to be macroeconomic but market-driven as opposed to state-driven, which has seen a reduced role of the state and greater economic liberalization. This shift in perspective began to open up a more neoliberal ideology, which advocated for polices that encouraged market reform. The institution that was most relevant and best equipped to implement this new bottom up development was the NGO because it was clearly opposed to the State and closer to communities, particularly poorer communities, and so making it more effective in creating and maintaining autonomy form both the state and the market. The late 1980s and early 1990s, which was the height of the Washington Consensus, stressed the development of markets through strict policy reform in order to get markets working at their optimal level, often referred to as neoliberalism.[15] Here I use this term only to identify a *process* of development ideology that has its own meanings and outcomes associated with particular places but has largely been characterized by a "market fundamentalism."

In the 1990s, development practitioners adopted the bottom up participatory method of planning, and it became a central component in large development projects administered by, for example the World Bank and USAID. In the post-Washington Consensus era, more recently the slow move from more socially oriented non-profit programming, also called pro-poor polices, to commercial microfinance institutions that must adhere to strict financial standards, was solidified within the larger construct of national and global poverty alleviation strategies. Microfinance now thrives by embracing rational economic principles and abandoning any commitment or connection to the developmentalist state. The role of the state then is no longer to take a direct role in poverty alleviation but rather assume a regulatory role to ensure and maintain the best environment for the most effective microfinance sector; this entails supportive regulation and ensuring the reign of the free market.

For many the cognitive map of microcredit begins in 1976, when Muhammad Yunus, founded the Grameen Bank in Bangladesh. The university economist designed a program that provided small loans to rural female Bangladeshi poor mainly in the form of group loans that were to generate income through informal microenterprises. By 1983, the Grameen Bank through innovative lending, largely through group loans, was able to prove to the world that the poor were "bankable", and not the high-risk borrowers normally assumed by commercial and informal lenders. They were able to minimize transaction costs and risk by being closely linked to communities though decentralized lending and thus able to recognize good borrowers and minimize risk for the organization through group solidarity lending. The Grameen Bank became successful throughout Bangladesh. It is important to note that the Grameen bank has gone though a process of learning and has been known to slowly change course from Grameen Classic System or Grameen Bank-1 to Grameen Generalized System, Grameen Bank-II.[16]

Becoming one of the most well known microcredit and microfinance programs in the world has largely been due to the prolific Grameen Bank replications seen throughout the 1980s.[17] The Grameen Bank launched a replication program in 1989 and boasts 138 organizations in 37 countries. In the next decade, the beginnings of commercialization begin to

[16] Because I find this change to be highly specific to the local context and in fact not readily known or adopted by international practitioners. I have not detailed the differences here.

[17] This is supported through the Grameen Trust which is an international wholesale fund. http://www.grameentrust.org/replication.html

emerge as the industry pushed for NGOs to transition to more private financially sustainable institutions or MFIs, which was largely spearheaded by financial intermediaries. The late 1990s language around empowerment and poverty reduction was synonymous with good microfinance when the shift of institution driven rather than borrower driven programming was pursued. This is when the term microcredit shifted to microfinance and loans became financial services that also included microinsurance and savings etc. There is no coincidence that this shift in language and perspective paralleled the height of market liberalization, privatization, and the slow demise of the developmentalist state. The last decade saw a solidifying of this trend and an increased push for greater private sector involvement, the push for more efficiency, sharing of knowledge and best practices, and what has been a rapidly building consensus around what has been dubbed the post-Washington Consensus.

Microcredit also stems form rural development programs, defined by subsidized rural credit. The "best practices" model while slow to gain momentum has really skyrocketed in the last 10 years with an increased push for commercialization. In many ways this can be seen as a blueprint models of development (Tendler 1989), in which we see an increasing push of NGOs and MFIs to converge in mission and even structure by new global norms of good and proper microfinance, often involving technical financial knowledge around borrowed organizational structures (Powell and DiMaggio 1991). This has largely been lead by the Consultative Group to Assist the Poor (CGAP), a policy and research center that is housed in the World Bank. CGAP has been aggressive in advocating for a global microfinance industry that is better linked with financial markets (Roy 2010, 26). It is also important to recognize that MFIs are the implementing institutions of microfinance programs. However the individual institutions and what their differentiated categories entail have not systematically been incorporated into the *how* of best practices. Thus the term MFIs can vary tremendously based on their ownership structure, scale of operation, legal status, earnings, size of capital, and of course purpose, which is often lumped into categories of being a non-profit or a for-profit. Today with the presence of thousands of MFIs in more than 80 countries, the small-scale poverty alleviation strategy has become a national and often urban means of economic development, coinciding with the present political economic moment of globalization.

For many practitioners there is always optimism for the future and it usually involves innovation, new players, and wider impacts: in ACCION's report in 2006, a leading private nonprofit global MFI, sees microfinance's future as one that continues to hold promise: "All involved in microfinance will have to expand their minds and visions to develop the exciting possibilities before us" (Rhyne and Otero 2006). This of course includes the continuous linking to the Millennium Development Goals (MDGs). The microcredit movement has valued a set of program and operational norms that have more or less been embraced as the minimalist credit model and continues to dominate most MFI programs around the world.[18] It usually entails small-scale short-term lending, charging market interest rates, pushing for savings among the poor without any group lending or technical assistance/capacity building funding. It is the strict provision of credit. Often the perspective of this approach criticize those MFIs that stray from what is believed to be a proven practice: Many MFIs suffer from weak management structures and high overhead costs; many MFIs that operate from a social rather than just a business perspective also tend to suffer from high default rates or fail to truly target the poor.

The optimism of microfinance is embedded in the fundamental belief of its grassroots origins, which is a direct product of the dominant viewpoint that macroeconomic policy largely

[18] While some are hopeful that after building institutional capacity, MFIs will move to "credit-plus" approach, this hasn't been widely observed.

ignored and thus didn't leverage the informal economy to contribute to a country's national growth. Thus macroeconomic policy did very little to increase the productivity of the poor.[19] This then continues to be expressed as, "Any movement of this size will have its failures and its success stories, but what give the movement impetus, what inspires its advocates, and what differentiates it from earlier rural credit programs is that its success stories are numerous" (Woller and Woodworth 2001).

### *2.1.1 Microcredit in the Middle East*

While Asia has the most MFIs and the greatest outreach and Latin America is home to long-standing local MFIs, the Middle East is fast becoming a growing focus due to extensive unmet demand. Microfinance organizations began to establish themselves in the region in the late 1990s[20]; this means practitioners interested in developing microfinance have had a plethora of "best practices" to choose from and adapt to their own contexts. The majority of MFIs in the region operate as NGOs, and there is often a focus on more social mission of empowering women borrowers, possibly indicating the earlier phase of many of these MFIs: "While increasing its client base, Arab MFIs remained true to their social mission by focusing on the low-end of the market. In fact outreach to women slightly increased by 71 percent of borrowers and average loan rate…"(MIX 2008). The microfinance efforts are largely urban with "market penetration" attracting five times as many active clients from 1997 to 2002.

In summary, the region is still seen as being in its infancy stage and there is active investment in moving, maturing, and consolidating the industry by pushing for more capacity

[19] Woller states that the central question of microcredit is: "Why not reverse this policy approach and instead pursue economic growth through a policy of direct poverty alleviation by increasing the level of output per person and the total value of production for enterprises run by the poor." Evaluating microcredit's development potential is beyond the scope of this study. However, embedded in this argument is the assumption that the individual's output via one's business is best facilitated by more direct or what has been coined grassroots development approaches.

[20]Brandsma and Hart (2008) report that the region's microfinance industry nearly doubled between 1997 and 1999 (form about 90,000 active clients to almost 170,000) in the region.

building and product diversification. The region is largely characterized as offering strong credit (microcredit) as opposed to financial services (microfinance) such as savings, leasing, and insurance, which are not widely offered throughout the region.

The region, which has had donor support from mainly USAID in establishing MFIs in the late 1990s, has also seen a steady attempt to standardize practice and establish clear operational norms among diverse regulatory environments. Sanabel a regional membership network was formed in 2002 to advocate for the region's leading MFIs by emphasizing "growth, innovation, best practices and standardization of microfinance in Arab countries" (Sanabel 2008). They collect and analyze industry information for the region and offer diverse technical training. In 2008, Sanabel focused on developing the capacity of implementing Social Performance Management (SPM) among its partners. SPM is a global trend that involves the measurement of lending on the borrowers; lives, which has largely not been systematically gauged or researched.[21] In reporting the widespread characterization of the region as an emerging market, the importance of existing informal and formal lending mechanisms are generally viewed as inadequate in meeting demand for financial services, and [22] generally does not mention the existing microcredit or income generating projects that did exist in the area before this upsurge,

[21] Membership to Sanabel is divided up into three categories: Full Membership, Affiliate Member, and Friends of Sanabel. They are largely distinguished by "Institutional Criteria," which for a Full member includes a minimum of 3 years of operations as an MFI and a minimum of 5,000 active clients in countries with populations in excess of 8 million (this includes 3,000 active clients for all other countries with the exception of Lebanon and Palestine which requires a minimum of 2,000 clients. Also the MFI is to be "working to achieve full operational and financial sustainability" in addition to being "committed to building transparency, evidenced by the annual submission of financial information to external auditors, the Microbanking Bulletin (MBB) and the Microfinance Information Exchange (MIX). Affiliate Members also must adhere to working words operational and financial sustainability and building transparency (language is the same).
http://www.sanabelnetwork.org/en/membership

[22] In most histories of microfinance in Lebanon, Al Qard Al-Hassan Association established in 1983, AEP (1984), and Caritas (1985) are often ignored or entirely disconnected from the formal history of "recognizable microfinance." In Sanabel's Country Profile Report, this was noted While these are not meant to be exhaustive reports, the effects of these long-standing communities has most likely influenced the culture of borrowing and microcredit, and in many ways may have enabled or allowed for subsequent microcredit programming. This is not the focus of this study.

particularly the widely used lending practices such as the jamaiyyats.[23] Islamic financing is also being extended into the world of microcredit with many of the larger international development institutions such as the Consultative Group to Assist the Poor (CGAP), who have recently called it "an emerging market niche." Despite microfinance challenges shaped by political insecurity, Islamic fundamentalism, and less cooperative regulatory environments, there has been growing interest in the region.

### 2.2. The Lebanese Schism?

Given the global paradigm of microfinance, the way in which these ideas and practices are localized in the absence of a state has been unique to Lebanon. With its largest microcredit program operated by an NGO largely run and managed by the political party Hezbollah, the question of standardizing microcredit practice in Lebanon becomes more complicated. Similarly, I argue here that while the social mission seems to not be readily spoken of, the goals of microfinance have largely been shifting from poverty reduction to economic development goals. This shift in orientation has become evident in the IFC and State of Lebanon's interest in developing more small and medium enterprises (SMEs) and targeting low-income communities as opposed to the poor. The Lebanese microcredit industry is marked by key patterns, which include a strong perceptions of aligning oneself with the primary source of capital, which has largely been shifting away from traditional donors such as the European Union (EU) and the United States Agency for International Development (USAID) to more private investors. Currently, the funding sources come from bank loans at market interest rates or from donors who generally offer lower interest rates or even no interest rate at all. The paradigm of post-conflict/conflict that often frames Lebanon has heightened this organizational sense of insecurity and MFIs have resorted to limiting innovation and converging towards best practices that limit

[23]Jamaiyyats are informal rotating credit associations practiced throughout the Middle East.

this source of uncertainty. Also, many microfinance experts have advocated for more competition, but there has been some discrepancy over whether this means increasing the number of MFIs or improve the capacity of existing MFIs. And finally in a society that is highly consumer society where personal loans are common, what does microcredit mean when the banking sector has been able to introduce smaller loans? And finally, in a country that is highly territorialized with authoritative political spaces that are deeply embedded in differentiated social networks, is microcredit affected by such local power dynamics? How has the industry been affected by these global norms? What patterns are emerging and why do we observe such a divide with the largest program not conforming to this industry? While this study cannot answer all of these questions, I raise them in order to expose several unique dynamics that are occurring in this small industry that can help understand how the top-down or global architecture of microfinance as described in the earlier part of the chapter affect the implementation of these programs at the bottom.

When compared to the Arab-speaking world, microfinance in Lebanon has not flourished to the extent it has in other countries such as Egypt and Jordan. With a population of 4.1 million, Lebanon is considered to be a smaller market in the Middle East, with development of the industry, despite the presence of some microcredit programs established for more than 25 years. There are about 23 MFIs operating in Lebanon, which according to many do not all adhere to "best practices."[24] The lending industry (micro) on Lebanon mainly consists of NGOs or civil associations, 1 financial institution, 1 cooperative, a handful of banks, and the UNRWA program. The top three MFIs (as noted by Sanabel and CGAP) were all once registered as NGOs but have very different institutional origins: Ameen s.a.l., Al Majmoua, and Al Qard AL Hassan.

[24] For a list of all MFIs in Lebanon, please see Appendix 5. Abbassi reports 20 MFIs are operating in Lebanon as of Dec 2009.

CGAP has reported that of these three MFIs, Ameen s.a.l. and Al Majmoua consistently follow international best practices (Abbassi, Khaled, and Lauer 4).

**TABLE 1: THREE LARGEST MFIS IN LEBANON**

| Name of Institution | Al Qard Al Hassan Association | Al Majmoua | Ameen s.a.l. |
|---|---|---|---|
| **2004** | | | |
| Active Borrowers | 34,559 | 6,027 | |
| Loan Portfolio (USD) | $16,264,114 | $5,150,089 | |
| **2005** | | | |
| Active Borrowers | 42,678 | 6,089 | 7,829 |
| Loan Portfolio | $22,368,862 | $5,586,641 | $6,152,830 |
| **2006** | | | |
| Active Borrowers | 61,205 | 6,275 | 7,867 |
| Loan Portfolio | $24,858,048 | $5,308,259 | $5,979,571 |
| **2007** | | | |
| Active Borrowers | 61,363 | 9,069 | 7,227 |
| Loan Portfolio | $76,518,174 | $7,782,535 | $7,302,681 |
| **2008** | | | |
| Active Borrowers | 81,188 | 12,017 | 11,238 |
| Loan Portfolio | $89,430,121 | $9,320,446 | $10,639,444 |

*The MIX for Al Majmoua and Ameen s.a.l. as reported by Abbassi, Khaled, and Lauer (MIX is self reported); 2009 data was not yet available at MIX
*Al Qard Al Hassan are self reported on their website. They use the term "participants." http://www.qardhasan.org/english/material/statistics.htm; Accessed March 1, 2010.

In the late 1990s, external international donor agencies like USAID and Save the Children, provided large grants to jumpstart microcredit programming and were not activities taken on by existing NGOs but rather were new organization created to take on this program. There were smaller NGOs that did form to address the humanitarian crisis stemming from the Lebanese Civil War and these included, QHA and AEP (Association d'entraide Professionelle). Caritas and Al Makhzoumi were also founded for humanitarian reasons. All other MFIs that specialize in microcredit, were founded in the late 1990s well after the turmoil of the civil war. Also the MFIs in Lebanon are usually specialized in microcredit. Ameen is currently a financial institution but has its origins as a program funded by CHF International (by USAID). AL Majmoua was also a program of Save the Children (also funded by USAID) and four years later became its own NGO.[25] Al Qard Al Hassan stemmed form the origins of the Civil War in which Hezbollah provided credit services as part of a larger social service network created in order to serve a mainly Shiite constituency that was in need. As of June 2009, Emkaan, launched by the Hariri Group, with an undisclosed amount of subsidy is planning to become a financial institution but currently is operating as an NGO. There was much concern that the presence of Emkan would fundamentally shift the present day microcredit industry, but it has been too early to see the effects of this. It is important to note that Emkan practices many for the same organizational implementation as Ameen does.[26] The Hariri Foundation has been advised my microfinance experts including Mohammad Yunus.[27]

[25] Save the Children also had spin-offs in Jordan (JWDS) and the West Bank and Gaza (FALEN) (Dhumale 2002, 6).
[26] The Executive Director of Emkan used to also direct Ameen and was central in making Ameen financially self sustainable. She also has extensive experience in training, particularly the Boulder School and is well versed and educated in the global microfinance industry (Interview July 2009).
[27] The Hariri Foundation was founded in 1979 as a non-profit that provided loans to youth for higher education.

## TABLE 2: LEADING MFIS HISTORY IN LEBANON

| Name of Institution | Type of Institution When Founded | Year Microcredit Activities Began | Reason for Founding | Founder | Initial Source of Funding | Funding Status Today |
|---|---|---|---|---|---|---|
| Al Qard Al Hassan | Informal NGO; registered as an NGO in 1987 | 1983 | Provided much needed services during the Lebanese Civil War | Hezbollah | Not specified, many say in the early years it was subsidized by various sources | Reported as largely self sustaining with savings |
| AEP | NGO | 1984 | To support entrepreneurs to establish businesses and create jobs during the Lebanese Civil War | Businessmen, bankers, and social workers | First funds were provided by businessman, EU, Italian and Spanish NGOs, and banks[28] | Function as a revolving Loan Fund[29] |
| Caritas | NGO | 1985 | | | | Largely donor driven |
| CLD | NGO | 1992 | | | | |
| Al Majmoua | Registered as an NGO in 1998 | 1994 | Social Development | Administered by Save the Children | USAID | Sustainable (last time received funding was in 2004); currently participates in the ESFD program* |
| Al Makhzoumi | NGO | 1997 | Humanitarian | | | |
| Ameen s.a.l. | Registered non-profit in 1999, became a commercial services institution in 2003 | 1998 | Program administered by CHF International (International NGO funded by USAID) | CHF | USAID (capital provided by CHF-USAID); | Funding of loans with Jameel Trust Bank, Lebanese Canadian Bank; past CHF refinancing, USAID grant (2007) OPEC guarantee |
| ADR | NGO founded in 1998 | 1999 | Targets small enterprises that don't have formal access to bank loans (among | Microcredit program started by initiative of Bank Audi[30] | | Sustainable; looking to become a non-bank financial institution |

[28] These were not named in reports or my interview.
[29] Per Interview with Layna (AEP July 2009).
[30] Bank Audi is a commercial Lebanese bank.

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | other programs) | | | |
| Emkan | NGO | June 2009 | Social Development | Hariri Foundation | Hariri Foundation; undisclosed amount | Continues to be subsidized by founding funder/donor |

*Funded by the EU this provides more affordable capital for SME development.

Microcredit is the industry norm rather than microfinance that calls for more advanced financial services beyond microlending. Savings and more advanced financial services offered to traditionally excluded lower-income communities is seen as an emerging field, with the majority of MFIs offering basic microcredit services. Many of the organizations I interviewed recognized that the industry was not developed and somewhat limited, implying a larger future that may follow the path of other Middle Easter countries, such as Jordan and Egypt: "Here it is microcredit and not really microfinance! We offer micro loans of all kinds but don't provide much choice for other services!" (ESDF employee). A representative from Al Makhzoumi also noted that the "loans aren't even 'micro' anymore. With the cost of living going up particularly in Beirut we need to look at the cost of these loans and see how far they are actually going." (Al Makhzoumi, Interview July 09). If microcredit is simply about providing greater access to credit, the question arises of what the actual benefits are for lower-income communities to have access to more loans.

Group loans were not readily offered and many felt that they "didn't work in Lebanon because people don't want to share their personal finances with anyone." (Interview with Capital Finance Company (CFC)). Housing or home improvement loans were offered, and of course consumer loans or personal loans continue to be very popular. Some MFIs also do offer seasonal loans, which are largely used for agricultural, tourism, or Eid (Islamic) holidays. Some MFIs have expressed burgeoning interest in microinsurance after the 2006 war and offering remittances products to clients.[31] Also, technical assistance or non-financial services, such as Business Development Trainings, are not widely offered by MFIs largely due to an inability to sustain these offerings and are often mainly supported by donors. However, a few were committed to these services but often viewed them as separate from their microcredit services and did not integrate these services with credit provision.

In my interviews with several MFIs, I asked about the success of Hezbollah's Al Qard Al Hassan Association. Many acknowledged that the program was quite large, while some were more dismissive of others citing an overtly political methodology, Islamic financing techniques, or saw it as a black box of financial sustainability implying that Iran or wealthier Shiite Lebanese subsidized the program in a way that couldn't possibly be relevant to the rest of the best practice MFIs. When I asked Al Qard Al Hassan's branch manager about participating in international and regional microcredit networks, she said that they did participate in Sanabel, and were classified as the first microcredit program in the Middle East. She noted that they don't publish on MIX because they have their own website: "We do participate in all of the conferences related to microcredit, but it does depend on the subject of the conference. I participated in a human resources training." She noted that it really did depend on the invitation and the time of these conferences.

The lending culture in Lebanon has also changed with many consumer lenders slowly entering the microcredit market. Consumer finance companies and even big box retailers are becoming more ubiquitous (Ryhne & Otero 2006). In an interview with CFC, a lender specializing in credit card and durable good lending, particularly automobiles, management

[31] In 2007, remittances accounted for approximately 27% of Lebanon's current account (Sanabel 12). Because remittances have such a positive effect on the national economy and leads to an increase in savings and greater investment, linking remittances to microcredit would encourage more productive use of these funds. To date no Lebanese MFI has yet rolled out such products.

noted that, "In some ways you could say that what we do is microcredit. We are providing competitive loans to people who need liquidity. We have good outreach and also have credit scoring, which is highly unusual in Lebanon" (Interview, January 2010).[32]

### *2.2.1. The Geography of Market Demand: Locating the Entrepreneurial Poor*

The UNDP 2008 Report on Poverty, Growth, and Income Distribution in Lebanon states that the "the most important finding of the report is that regional disparities are striking...whereas poverty rates are insignificant in the capitol, Beirut, they are very high in the Northern City of Akkar." The majority of the poverty is captured in Tripoli City and the Akkar/ Minieh-Dennieh, Jezzine/ Saida and Hermel/ Baalbek. Please see Appendix 2 for a map of the Republic of Lebanon. Two thirds of the extremely poor population in Lebanon reside in these sites, which also makes up half of the entire poor population. Approximately 28.5 percent of the Lebanese population is considered poor and 8 per cent are considered extremely poor. The extreme poor are part of the 'lower' poverty line which is the equivalent of US $2.40 per capita per day, and the 'upper; poverty line is defined as basket of goods and services is actually consumed by households whose food and energy intake is equal to the minimum requirement of 2200 calories per person per day, which is about US $4.00 per capita per day (UNDP 2008). The UNDP study did not have prior data to compare poverty dynamics with, but concluded that when considering overall poverty, many of the poor are clustered far below the upper poverty line with consumption being relatively unequal among the entire poor population. This is relatively high when compared to other Arab countries. The International Finance Corporation (IFC) and the Jameel Trusr Bank (JT) put together a joint study (IFC-JT's) which, reports that the potential microfinance market "is relatively small: $286.1 million (190,699 eligible potential borrowers

[32] The interest rate for a personal loan is 12-13%, which is competitive with many personal loan products on the market. See Appendix 5 for comparative interest rates of major MFIs in the country.

multiplied by an average loan size of $1,500).[33] Only 11.5 percent of this potential demand is, however, currently being met by existing financing sources" (IFC-JT 2008, xiv). This has been the largest and most extensive demand reported to date. This report received considerable press and was widely discussed among the professionals I spoke with because it was a long overdue demand study. It is important to note that the UNCDF reported microcredit demand to be as low as 76,131 (Sanabel 8). Despite the differences in potential borrowers estimated by the two institutions, what the MFI Industry has notes is that at present microentrepeuners are being underserved.

Approximately 82% of all lending within the formal credit market is disbursed in Beirut and its suburbs, which largely goes to the trade and service sectors (IFC-JT 2008, xii). Also the use of formal banking services among small entrepreneurs is high (ESCWA 10). The EFSD representative noted that "most microcredit loans were not rural in Lebanon because they weren't targeting the poorest of the poor. Lenders want a business to generate income which requires a critical mass." The microfinance industry generally does assume that *access* to direct financing leads to income-generation, however this is not always the case. While microcredit is seen as critical to developing small enterprises, there hasn't been extensive research on exploring how these enterprises have increased jobs, sustained wealth creation, or explored potential for social mobility. In my interviews with various MFIs, the question of the 'lower' poverty level was acknowledged as a challenge to microcredit, and for many demand for credit services is what drove branch locations and centers of operation. However, in discussing the UNDP identified geographic disparities in types of poverty, largely with larger disparity within particular governorates, many acknowledged that the programs seek good borrowers. Most

[33] The ESCW report notes that this IFC study is a part of their overall strategy to create commercially viable microfinance in the region, which is part of an agreement signed with Grameen-Jameel and CGAP in May 2007 to assist the Lebanese government to "scale up microfinance and microenterprise development" (ESCW 10).

national MFIs like Ameen, Al Majmoua, and Emkan have offices in similar locations. Al Qard Al Hassan however, does not have an office in the north. Please see Appendix 3. Hezbollah's geographic governance does not extend to some of the poorest regions in the country, often where there was not historic movement of displaced Shiite citizens and Israeli aggression. In an interview in April 2010 with the QHA branch manager, she noted that there "was no specific reason that QHA was not in the North." She noted that they were looking into this prospect of opening a branch in the is region. I discuss the implications of this in the next Chapter.

### *2.2.2. The Commercial Banking Sector*

After a 15-year civil war, the 1990s witnessed rapid reconstruction mainly through large urban redevelopment projects and high national growth. While the war severely crippled the economy, Lebanon has one of the most vibrant commercial banking sectors in the Middle East and has been able to remain so despite several conflicts in recent years.[34] Gaspard (2004) notes that in the post-war era, banks have become the main beneficiaries of the government's economic policy, and I argue have maintained a strong link to the market. The Association of Banks in Lebanon prides itself in the fact that "throughout half a century, its capacity to assimilate the shocks, of any level of strictness whatsoever, and to face the challenges, thus becoming an example of resistance and immunity."[35] These conflicts and crisis include the 2008 global financial crisis, the 2006 Israeli aggression on Lebanon, and the 2005 assassination of Prime Minister Rafiq Hariri. As of September 2009, there are currently 53 banks registered with the Central Bank of Lebanon, which include 876 branches throughout the country. Most branches are concentrated in Beirut and its Suburbs with 55% of all of the country's banks

[34] 72 percent of the country's Gross National Product is from the banking and services Lebanon has also has one of the highest bank-deposits-to-gross domestic product rations (300%) in the world (Abbasi 2).
[35] (http://www.abl.org.lb/subPage.aspx?pageid=19).

(Banque de Liban).[36] The IFC-JT study reported that at the end of 2006, Lebanese commercial banks "had total assets of $71 billion (three times the size of the national economy)" (IFC-JT, xi).

In general Lebanon has greater access to credit than its neighboring countries. Approximately 24 percent of total bank assets are loans to the private sector; this comes out to the private sector representing 77 percent of GDP (IFC-JT 2008, 7).[37] However, what many market demand studies have discovered (IFC-JT 2008) the "nonbankable" still have difficulty accessing commercial financial services. Also important to note, there is a strong reputation for Lebanese commercial banks to equate microlending with consumer lending.[38] The commercial banking sector has not ignored the world of microfinance, and recently a few commercial banks have recognized microfinance as a profitable market and have developed microfinance products, often in cooperation with local MFIs. In general this synergy results in banks being able to reach a larger market and MFIs benefiting from a banks' infrastructure, reputation, and liquidity. Some banks also have developed their own microfinance products. These include Credit Libanais, Jammal Trust Bank, and the Lebanese Canadian Bank. They also offer loans to small enterprises with partial guarantees.

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[36] Mount Lebanon has about 18% of all banking branches; North Lebanon 10%, South Lebanon 11%, and Bekaa 7%.

[37] By comparison, the report also notes that access to credit in Morocco is about 49 percent and Egypt is about 57 percent of national GDP (IFC 2008, 7)

[38] One example of a marketed loan that may contribute to this understanding of microlending by commercial banks, was the plastic surgery loan first marketed by the First National Bank in 2007 with an aggressive advertising campaign. Lebanon, known as the plastic surgery capital of the Middle East had no shortage of demand for such loans. The Los Angeles Times reports that Credit Lebanais and BBAC followed with rival loan programs, marketed as a "beauty loan." Loans are usually $3,000 to $5,000 at an annual interest rate of up to 9 percent to be paid over the course of 2-3 years, which is similar for the terms of car loans in Lebanon. It is reported that because a majority of the borrowers are women, most loans are paid back due to the perceived value of the final result as building personal assets and value, similar to a car. (Daragahi 2008)

An employee at the Economic and Social Fund for Development (ESFD)[39] noted that the future of microcredit is with the banks, particularly if they are given the right incentives and aim to be more pro-SME. My interview with the BLC Bank Microcredit Department noted that "Most of Lebanon is comprised of SMEs, and our current President is interested in this. However, I don't know how this is going to effect our microcredit branch" (Interview, July 2009). The employee of ESFD stated that the commercial banks needed to stop seeing SMEs as risky. At present there are very few small loans for start-ups because many MFIs do not readily offer loans for start-ups: "Banks need to be looking for new clientele. And banks can reach an economy of scale by reducing costs and increasing profit." She noted that this coupled with legal reinforcement could make a difference in pushing forward a more pro-SME agenda."[40]

### *2.2.3. The Legal and Regulatory Framework*

Lebanon's economy is largely characterized by a liberal economy that is market-driven with extensive private ownership, and has historically adopted a laissez-faire attitude towards microfinance. In 2004, the Central Bank issued a "circular permitting commercial banks to use up to five percent of their mandatory reserve requirement for extending 'small loans' to or through 'small loan institutions' " (Abbassi, Khaled, and Lauer 10).[41] The Central Bank has issued a directive allowing local banks to use five percent of their required reserves for microfinance initiatives. It has been unresponsive to these requests, but does signify a change in

[39] This fund was established by the European Union (EU) in 2002. It includes $35 million from the EU and $6 million from the Government of Lebanon. This fund was created for community development and job creation, with microfinance as a large art of job creation (Roy 2010, 170).
[40] In 2004, the Lebanese government with EU funding launched the 10 year "Integrated SME Support Program" (administered by the Ministry of Economy and Trade and the Ministry of Finance). The IFC Report notes that these types of initiatives support and SMEs and less microenterprises.
[41] The CGAP report goes on to say that this circular has generated very little investment in the microfinance industry and that as of June 2009 this percentage was only 3.5%. In addition, they suggest that this is because many of the MFIs lack capacity and that most of the MFI loans are in US dollars (not local currency) (CGAP 10).

the government's engagement with microcredit. Currently there is only the *Kafalat* program[42] and the ESFD, funded by the EU, viewed as inadequate by many leading microfinance think tanks that advocate for greater involvement in providing for a supportive environment for microcredit to flourish in the country. The Ministry of Interior and Municipalities rather than the ministry of Finance or the Central Bank of Lebanon currently supervises NGOs (ESCWA 12). The Ministry overseas all NGOs and must keep their financial and administrative books available for audit but does not require a specific accounting system and has no microfinance-trained supervisor.

With the lack of regulation in the relatively small microcredit industry, there were smaller NGOs that didn't necessarily follow best practices. "The Government isn't doing much, and banks don't really have a say in the regulation. The Industry hasn't grown much because there is a lack of competition, but this is starting to change. There is also a lot of donor fatigue," (July 2009). On example is that CHF International used to leverage funds with banks and risk shared. The example of Al Majmoua was given which used banks as backstopping but still carries all the risk. [43]

The active MFIs are not licensed to accept deposit and much of the microcredit industry recommendations are focused on the government to create a more enabling environment in which they "minimize market distortions" and have advocated for MFIs to fall under the supervision of the Central Bank as opposed to the Ministry of Interior, again highlighting the commercial supervision and connection to the country's financial services as opposed to their social services. At present there is very little protection for the lender if they default on their

[42] The Kafalat program is a current government credit guarantee institution established in 1999. It offers subsidized guaranteed bank loans (interest rate 7%) for SMEs through the Central Bank of Lebanon. The SME must have 40 employees or less and are largely concentrated in agricultural and industrial sectors.
[43] Banks setting up microfinance units including Credit Libanese and Byblos Bank.

loan?[44] And also at this time microsavings don't exist on a wide scale because as Sanabel reports there is a "lack of interest on behalf of downscaling banks to provide tailored savings products to microentrepreneurs." In short, while the state is not a barrier but perhaps is not assisting the present microcredit industry, why haven't MFIs been able to adopt to this local norms and find ways to push forward their own agendas in innovative ways?

### 2.3. Institutionalized Organizations and Myths

As is often seen once a field is established, organizations belonging to this field often become more homogenous than diverse particularly in the long run this is a phenomenon. This process of homogenization is referred to as isomorphism (Walter and DiMaggio 1991). I argue that this has been steadily the norm as global practices of microfinance are localized in Lebanon. Because of the absence of a strong legal and regulatory environment along with the culture of a very laissez faire state in the microcredit sector, norms around microfinance have been even more embedded to the market, particularly the global market.

Convergence towards and organizational form is usually explained by the combined forces of the use of ideas, societal pressures toward conformity or one norm and motivations based on financial needs and interests (Gauri and Galef 7061). The example used in this article highlights that the Grameen Bank inspired a number of other Bangladeshi NGOs, including BRAC and ASA to expand their micro-finance programs, and in the 1990s microfinance expanded rapidly in Bangladesh on the basis of 'franchising approach' in which new branches replicated the procedures and norms that prevailed preexisting branches." (Gauri and Galef 2061). The authors note that by the 1990s, the microfinance idea "had by then become an organizational form that made sense to donors, including bilaterals, multilaterals, northern NGOs, and quasi-governmental bodies...who poured hundreds of millions of dollars into the

[44] Currently there is an informal group of MFIs that meet and have shared blacklisted borrowers.

idea and the institutions that supported it." (Guari and Galef 2061). In Bangladesh for example, many NGOs using the franchise method, were able to convince donors that they were moving in the direction of financial feasibility. Because of the strength of the international discourse of microfinance, the Lebanese industry has largely been a product of a schism of financial source motivations: international donor driven institutions and reactions to humanitarian and community needs erupting due to civil war. The institutional climate of the Lebanese microcredit industry has created institutionalized products, services, techniques, policies and programs that I argue serve as powerful myths for a burgeoning industry. I use Myer and Rowan's definition of institutionalization to show that the microcredit industry in Lebanon "involves the process by which social progresses, obligations, or actualities come to take on a rule like status in social thought and action" (Myer and Rowan 1991).

Ledgerwood (1999) stated that virtually all MFI innovations had come from subsidized MFIs. Two of the significant innovations in the MFI industry are "group-based lending" (joint borrowing and joint liability without collateral) and "village banking" (provision of financial services to the world's poorest families so they can create their own jobs, raise household incomes, and improve their standard of living). Each of these innovations relies on donor funding at the time of innovation since each begins as a micro enterprise in most instances (Woller and Woodworth, 1999)." How is it that QHA is able to bypass this rule like status? I argue because they have managed to avoid institutionalization? Perhaps a sustained subsidy will ensure a well-run microcredit with real outcomes. The tension and pressure to conform to these institutionalized rules has not come to fruition because of the keen awareness of self defined goals and measures of efficiency. The rules that Hezbollah has been following are not derived form an institutionalized setting but from its ideology that has been institutionalized in its implementation of diverse programs. The conventional understanding of how successful organizations proceed is adhering to their formal blueprints. However much of the empirical data shows that this is loosely coupled or rather there is a delicate balance between the formal and the informal organization in which rules are often violated. I argue that Al Qard Al Hassan has been able to resist the pressures of industry isomorphism because of its fundamental perspective on how the program defines itself as a grassroots organization and leverages its social network or its social capital which stems from its institutional relationship with the State and its resources. As a primary player and one that is not dependent on external funding, QHA does not requiring legitimacy, and thus does not need to formalize specific programs and organizational structures in the same way as other organizations may have to. While Institutional isomorphism encourages the success and survival of the organization, in this case the success of QHA is very much rooted in its ability to withstand this convergence and offer a counter to the institutionalized norm of microfinance, particularly because of the social trust embedded in this particular model to communities.

### *2.3.1. The Threat of Uncertainty and Instability*

While many practitioners of microcredit are hopeful about the future, especially in developing "more ideas, innovations, cost saving devices, and players" to reinforce the microfinance movement, the historic trajectory of innovation has largely been stifled as we see more and more institutions converging rather than diverging in practices and presumable innovations. Yet the question persists, who is addressing these challenges in ways that may lead us to reopen the debate around how best to implement microcredit programs in Lebanon?

Lebanon is identified as post-conflict country, which places tremendous pressure on MFI operations because of the higher risk and increased uncertainty. In addition, Lebanon falls under the conflict and post-conflict paradigm in which political instability has significantly impacted the microcredit industry. In addition, Lebanon has a unique set of state and non-state actors who are engaged in microcredit services, and within the non-state sector there are unique political challenges, conflict paradigm, and unique set of non-state actors. It is interesting to note that the IFC-JT Report which to date is the most recent comprehensive report of the microfinance industry, in particular the demand side of this market, calls for three main recommendations in pushing this market forward and having better supply and demand coordination: The IFC frames the recommendations mainly around institutional building rather than setting up more MFIs, those in existence should be developed further; and the sector broadly needs greater human resource capacity, which includes the "downscaling approach of commercial banks." Also included is that "advisory services and training with a focus on best practices in credit methodology and marketing" and finally Additional funding for existing MFIs so that they can expand their outreach and loan products (includes geographical breadth and financial products spanning greater sectors) (IFC-JT 2008, xiv). In the context of post-conflict MFIs, the ESCWA notes that "The key to success is not the MFIs willingness to work in high-risk and high-cost environments, but their institutional commitment to sound principles and practice of microfinance."

Claims of microfinance benefits and optimism extend to the world of peace building and reconciliation and move past economics but also enhance social capital and empowerment. Post-conflict environments are seen as negative and detrimental to the proper functioning of markets characterized by eroding trust…the Post-conflict MFI is faced with major human resource limitations as opposed to non-conflict situations.[45]

### *2.3.2. The Experience of the 2006 War*

"Extreme poverty is conservatively estimated to have increased by nearly five per cent since 2004, mainly due to the contractionary effect of the July 2006 War on per capita household consumption, which is assumed to have declined in line with the country's sluggish growth performance" (UNDP, 17). Many MFI players see greater financial risk (in case a borrower defaults) because of the lack of regulation. Microlending is not regulated "at an authoritative legal text." Reports outline the limited growth potential of the Lebanese and therefore call for *more government* involvement, but how is not always clear and many have been vying for greater regulation. The economic crisis has also limited available donor funding and international investors, this has had many NGOs looking to local banks. Also, the recent ESCWA cites that because many organizations "in the market have a political slant, for instance, the Hariri Foundation, and AL-Qard Al-Hassan, which is funded by Hezbollah, MFIs supported by political parties and/or subsidized by international institutions have lower interest rates than other MFIs, and may push the latter out of the market." (ESCW 12) Strangely enough, the presence of Emkaan in particular was seen as providing competition, which some saw as healthy and necessary for the sector, despite its political leanings. When asked about the political source of support, the answer was clear: "How we determine whom we lend to and where we will be is not determined by finding sources. We do not discriminate according to religion, ethnicity, sect, gender, class etc." Similarly Al Qard Al Hassan on its website notes that, they have adopted that "Giving loans without any discrimination based on sect, religion, origin or any other pretexts."

[45] Microfinance is framed even in this context as "by providing access to financial services, it can restart and boost local economic development….Beyond these economic benefits, microfinance can be highly effective as to social mobilization, empowerment, stabilization and enhancing solidarity, through social capital enhancement." (ESCW 3)

(QHA website). Also in my interview with Tamkeen, the director noted that while Waleed Jumblatt, a prominent politician and leader of the Progressive Socialist Party (PSP), a powerful Druze leader, provided some funding for the organization and is a member of the Board, once aging the programming of providing loans for microenterprises was seen as an apolitical venture when asked about this. The IFC study recommends no new entrants whereas the CGAP study recommended that more MFIs should enter into the market. While the audiences and the time horizon may be different to compare these views, nonetheless the upsurge in MFIs over the last decade has been unprecedented.

The usual understanding is that the poor are the most vulnerable in conflict situations and organizations are weakened --- this was the not the case in many ways after the July 2006 conflict as Hezbollah was strengthened and their loans continued to grow immediately after the war. The general losses reported were extensive, however trends in lending continued to rise.[46] The ESCWA report goes on to say that "various donors and multilateral development organizations provided emergency loans and other funding to Lebanese banks and small businesses following the conflict...MFIs provided loans to finance reconstruction efforts and showed that they can be resilient and function properly under conflict: they were able to remain in the market, provide needed services, modify their produce to meet the needs of their clients and sustain themselves" (ESCWA 11).

"Microfinance should not be mixed with relief or charity work because it functions very differently from other development tools...Especially in a post-conflict environment, humanitarian concerns and microfinance work should not compete. The two should be integrated in public policies in order to capitalize on microfinance practice to maximize humanitarian aid"

[46] The IFC study shows that the July 2006 war lead to 5 percent of business borrowers to experience direct losses and 50 percent of all borrowers (ESCW 11).

(ESCWA 20). I argue that central to Hezbollah's success was its ability to combine its humanitarian and microfinance programming by allowing lending to continue but being more flexible in the schedule of repayment. Many other MFIs really had a difficult time with recovery. EDF noted that "it was a very high risk portfolio and many did not pay back!" Al Majmoua and Ameen grew after the war, despite claims of political end economic instability being a considerable barrier to growth of the sector.

On the other hand, despite the uncertainty and Hezbollah's own unique engagement with the war, QHA was able to continue its services and opened eight additional branches after the war. Many noted a surge in trust for the organization. One woman declared, "We were certain Israel was going to bomb the banks, and we were going to lose all of our gold." The gold deposits were actually safe, and helped to reinforce and strengthen existing social capital among the community of borrowers.

### *2.3.3. Competition for Scarce Resources*

A central concern echoed from MFIs was affordable sources of capital and continued donor funding for non-financial services. Because NGOs are not allowed deposits, savings is not a viable option for funding. I wondered is Lebanon a saturated market? A saturated market would include many MFIs in one geographic zone, competition between MFIs for new clients, and clients committing to multiple MFIs, which one could say occurs particularly in and around Beirut. Thus Lebanon is a difficult work place for an MFI but does offers advantages for the microentrepreneur because of lower interest rates, access to more diverse products and the proximity of microfinance agencies. However, common concerns for the microentrepreneur include over indebtedness and a decrease in support services because of the competitive interest rates. (Duquet 6). At present, there are no credit bureaus and credit scoring is very minimal in

Lebanon outside of commercial lending firms. "Lebanon wasn't really affected by the credit crunch. In fact it is no easier for an individual than a business to get a loan. There is consistent flooding of the market with cheap credit!" (Interview, Jan. 2010). There is an abundance of credit available for the average Lebanese, but the dilemma still exists for the poor. Private banks are seen as more efficient and effective for microfinance in the following ways: they offer efficient administrative support (manage savings and lending opportunities) and high capacity staff. However, because banks are not seen as fundamentally being able to offer grassroots benefits, for example their branches are often not located in communities with the greatest need. Given the Lebanese microcredit industry, how does such a competitive environment reconcile profit making and reduction of poverty?

Central to the understanding of competition is the belief that it will spur innovation and therefore further improve the industry: "The existing [MFIs] need to improve their internal capacities and develop more innovative approaches to actively promote their products and services." (CGAP 8) "Notably missing from the industry is active leadership, which has resulted in limited coordination among the [MFIs] to jointly build capacity and grow." While CGAP report notes that other countries in the region such as Jordan and Morocco have been able to grow the microfinance sector through competition, Lebanon's microfinance program has not grown because there aren't many "significant players, resulting in lackluster performance and an agreed division of the market among the existing [MFIs]."

The literature of microfinance reveals that competition is critical to sustaining and more importantly growing an industry. CGAP notes that growth in the sector has been stagnant for the last 5 years (report written in December 2009) particularly around minimal service innovation and diversification. They seem hopeful with the funding from the members of the Al Hariri family will "ignite competition." Also it seems that MFIs have not been able to attract strong investment because of the limited track record many NGOs have. "We want to expand but we cannot increase the interest rate." one staff person of AEP, thus as part of their niche AEP has been very clear in expressing this difference. "Here it is the family of AEP. We have another approach in which the client is a member of the NGO unlike the bank approach."

In addition many MFIs claimed that they had the lowest interest rate – and this was a defining characteristic when selling to me the high quality of their program. This paradigm creates even more pressures for *financial feasibility:* this includes interest that should be set to cover the cost of capital (at the opportunity cost including inflation, administration, loan losses, and minimum return on equity), another is loan portfolio quality (low arrears), self sufficiency, and it is simply believed that sustainable MFIs will be better during times of crisis: "The institution will not succeed if it is confused with post-war humanitarian aid." (ESCWA 22) In short efficiency and productivity is measured by how efficiently the MFI uses its resources.[47] "We are an overbanked economy" noted Dr. Youssef Fawaz, director of Al Majmoua (May 2006)" "Lebanon is overflowing in cash but its banks and capital markets are risk averse." (Rou 2010 169). In short the availability of bank capital has not necessarily translated well to lucrative and highly successful partnerships with existing MFIs. However, as the experience of the 2006 War with Israel shows and the nature of the market, organizations do not just compete for resources and borrowers but also for political power and institutional legitimacy.

## 2.4. Institutional Isomorphism[48]

As formal organizations become more elaborate and necessary, myths are central in making these organizations easier to create ad even more necessary. These myths fundamentally

[47] These are most commonly measured by average gross loan portfolio, average total assets, and average performing assets, including loans, investments and other assets expected to produce income. Also Cost per borrower is used

need to be incorporated by organization in order to avoid illegitimacy. In my interviews with MFIs I was curious to understand how NGOs interacted with one another and responded to one another. I also specifically asked about the presence of Al Qard Al Hassan and also the new large player on the field, Emkaan._Sources of revenue for these firms was largely based on donor funding, with the industry being jumpstarted with USAID funds. USAID has not provided any funds for a few years and has enforced in a way a strict disciplining of having NGOs become financially sustainable. How are new borrowers located? Many of the MFIs I interviewed had built in Loan Officer incentive structures, which encouraged loan officers to find borrower by tying overall loan portfolio quality and the number of borrowers to monthly bonuses. Al Majmoua actually had branches compete against tone another to improve performance of their branches, and regularly offered promotions and distributed extensive marketing material. Also, a majority of the firms hired loan officers from the community, did not conduct regular surveys for the community but did have a sense of economic needs and what microenterprises generally thrive and are needed. A majority of the firms were not concerned with technical assistance as a central core tenant and if building the capacity of the borrower to generate more wealth from a working capita loan for example. Many of the management was highly educated and had strong international links to other best practice models and regional experience, in Egypt or Jordan for example. Loan officers were usually lower middle class men who did not readily speak English and seemed to be chosen based on their knowledge of the communities in which the MFI worked in. Many of the operational rules, are set by private sector pressure.

The emphasis on commercialization of microfinance as a global industry has reinforced one of the largest predictors of isomorphism of an institutional setting and that is the reliance on a few donor sources. Lebanon is facing  a shift in the majority of its vital resources._The different ways in which the Lebanese context engages with organizational uncertainty has created a post-conflict paradigm of the microcredit industry and has reinforced the blueprinting necessary for organizations to survive. Similarly, the fierce competition of resources has revealed that larger institutions are more likely to converge and smaller NGOs who are creating niche markets for Lebanon also represents the greater emphasis that microfinance gives the MFI; in my interview with ESFD she noted that, "In Lebanon it began with the client and people saw that microcredit was making a difference in the lives of people. But now it is really all about the NGO or the organization" (Interview, July 2009).

# Chapter 3: What is the Bottom Telling the Top?

In order to understand how the Lebanese Schism is localized in the context of Beirut and through specific NGO run programs on the ground, it is critical to explore how microcredit is conceived of, implemented, and creates meaning in borrowers' lives. Within the context of a largely laissez-faire state and a growing push for self-sustaining MFIs, does microcredit programming offer a social net and stability to its borrowers by leveraging social capital[49]? Is Hezbollah's Al Qard Al Hassan's program successful in truly being connected to its communities and being embedded in social networks that enable it to leverage these resources for more innovative programming? Or is the program largely grounded in achieving more political and less altruistic goals as it continues to expand branch locations and borrower outreach? Social capital largely stems from the similar bottom-up trend of NGOs and civil society as being the most appropriate mechanism for achieving development. Roy notes that "microfinance serves as the social safety net for devastating programs of structural adjustment," and the very mechanism of microfinance has been its ability to leverage the resource of social capital to foster development from the bottom up (Roy 2010 29).

Before this discussion is continued, this Chapter explores the present day debates within the microfinance literature by exploring two microcredit programs currently operating in Lebanon with large branch offices in Dahiyeh, Beirut: Al Qard Al Hassan Association and Al Majmoua. Al Majmoua is not studied against QHA but rather acts as a control as one of the larger MFIs within the Lebanese microcredit industry. My interviews with borrowers of both

[49] I am mainly using the development discourse's definition of social capital: "the institutions, relationships, and norms that shape the quality and quantity of a society's interactions." (World Bank).

programs do not represent an adequate sample size nor were randomly selected,[50] however my interviews, while not numerous enough to make substantive conclusions about the implications of how these microcredit programs work across all programs and products, provide insight into understanding how these programs function, are perceived, and are negotiated by the users. What is most interesting is the *local* expression of these global norms in Lebanon. This Chapter explores how fluid these expressions are of international microfinance practice and explores the mechanism in which the NGOs engage with the users of their programs. Has Hezbollah's Al Qard Al Hassan Association been able to maintain its authority of providing access to credit as it had established more than 25 years ago in the southern suburbs of Beirut?

I hope to problematize the reading of Hezbollah as an urban expression of neoliberalism and therefore an eager adaptor of neoliberal microcredit schemes, but rather by understanding the mechanisms of the program through a more anthropological experience of the program (when compared to the control program of Al-Majmoua). I argue that a clear hybrid narrative of Hezbollah expressed in its long-standing microcredit program has not necessarily been influenced by the international industry but has been shaped by borrower needs, political and religious motivations, and represents the local political definitions and expression of poverty and empowerment (Harb 2008). This Chapter includes a brief outline and description of the mechanisms of the two microcredit programs followed by a discussion of the debates within microcredit. I then compare the implications of these two programs for understanding why the mechanism used are successful.

[50] QH borrowers were found using the snowball effect and AM borrowers were provided by the organization.

## 3.1 The Microcredit Programs

### *3.1.1 Al-Qard Al Hassan Association: "The Good Loan"*[51]

Munira enthusiastically pointed to two metal tin boxes that may have been bought from a larger department store in Hamra, Beirut: "This is where all of the family puts their extra money. This is how we're able to do it!" Munira smiled and rattled the tin boxes. Her mother chimes in, "We save like this as a family." And Munira in perfect English looks directly at me and says "All for one, and for all." After 11 years of borrowing with Al-Qard Al Hassan, Munira's mother described her 8th loan's purpose: "This is to pay for my husband's hospital bills and medication." In fact all of the loans that she has taken out with Al-Qard Al-Hassan have been used for her husband's complicated and quite expensive medical bills. When asked if there were any political or religious reasons for deciding to take the loan out with Al Qard Al Hassan, Munira very seriously said that they weren't with the party nor did they need an Islamic loan. However, during the course of my two hours with the family in their living room, the TV station never budged from Hezbollah's Al Manar station. How does the social network that Munira and her family are embedded in influence their engagement and decision-making around credit provision and with QHA?

QHA was founded in 1982[52] and licensed by the Lebanese Ministry of Interior in 1987 under decree no. 217/A.D. (Al Qard Al Hassan Association). The organization was first known as Beit Tamwil El Mouslimine. Al Qard Al Hassan "appears to have the largest market share of all [MFIs] in Lebanon" (Abbassi, Khaled, and Lauer 2009). Al-Qard al-Hassan (some times referred to as an Association) began making loans in 1983 and today offers a multitude of small loans, which are offered primarily in Shi'a areas but some serve anyone requesting help (Norton

[51] The Good Loan is a translation from Arabic; it has also been translated as the Benevolent Loan.
[52] It was an unregistered initiative of Hussein Al Shami and it was renamed Bayt Al Mal in 1985 and was registered with the Interior Ministry as Al Qard al Hassan in 1987 (Abbassi, Khaled, and Lauer 2009).

109). In a speech delivered to the Brookings Institute by Hezbollah scholar, Judith Palmer Harik, notes, "the micro credit department by itself is with no support from either any country or any outside group and through meticulous planning and the intervention of the most sophisticated financial techniques of actuarial science has accumulated a loan fund in excess of a billion US dollars that is available for micro credit purposes." As of 2006, there were 57,000 participants and contributors. Harik goes on to note that this trustworthy performance has been central to the support Hezbollah receives. The Branch Manager, Rukeyya, of one of the larger branches, believes that QHA may be the biggest association or NGO related to Hezbollah.[53] Their self reported funding sources include grants, donations, religious rights, administrative fees, affiliation fees, subscription fees, and contributions and is largely claimed as a financially feasible organization.

The "Good Loan" follows Islamic finance principals, which stipulates no interest be charged per Islamic Sharia. The microcredit program has three main loan products that they offer in 18 different branch locations in Beirut, southern Lebanon, and the Bekaa Valley. Please see Appendix 3 for a map of QHA offices. There are generally four kinds of participation mechanisms in QH programs that go beyond the traditional borrower and their distant guarantor: Guarantor, Borrower, Participant, and Contributor. While detailed above, the program does not only conceptualize the borrower and the loan officer, but rather offers different ways for people to participate in the banking system in order to build a community. Through several different lending programs, the bank draws not only those seeking a loan but those willing to act through a minimum deposit as an indirect guarantor to another community member and as a way to contribute to the baking system by providing savings and therefore capital sources for future participants. A closer look at their promotional materials reveals a strong focus on solidarity and

[53] The branch manager's name has been changed but has been with the organization for at least seven years.

"strengthening the binds between the association and those who request the loans." This is a central tenet and drives much of how the program perceives itself.

In general the use of the microloan is not carefully tracked and the type of loan is not tailored to the use. This is starkly different from other MFIs operating in Lebanon who have tailored various loan products around the use of it, for example many MFIs have housing loans or banks carry a wedding loan. CGAP claims that they make small loans to enable clients mainly Shi'a Muslims to set up small businesses or pay school fees. On QHA's website the say that their policy is "granting loans to meet all needs, whether social or productive."[54]

**TABLE 3: AL QARD AL HASSAN ASSOCIATION LOAN PRODUCTS AND PROGRAMS**

| Program/Products[55] | Brief Description |
|---|---|
| Gold Loan | Most popular program; Gold is used as a collateral; borrowers report the loan value that can be borrowed against the value of the gold (up to 75%) maximum loan limit is $5000 USD and the maximum duration is 30 months (to be paid back during monthly installments; there is an administrative fee of $3 for each payment installment; there is a 1.5 cents fee for every gram of gold deposited monthly. The gold is held by the association; defining feature of QHA |
| Group Loan | Family Fund[56] or Employees' Fund – each pays 10,000 LBP – 20,000 LBP per month; each month one person takes a loan; 7-12 people; QHA supports them by adding 500 – 1000 USD; $3 administrative fee per payment<br><br>Village Fund – several people from the same village open a fund; They elect a representative of the village who manages the loan (e.g. brings payments and receipts etc.) |
| Participation Projects | Borrower pays 10,000 LBP[57] per month to receive the loan; this is obligatory but allows for |

[54] English has already been translated by QHA. I will specify if translation was from Arabic into English. Information here also combines translation by Alissar Elias.

[55]The above information was summarized from a brochure in English not yet released. However, much of the information can be found on their website.

[56] In Arabic the word "sunduk" is used and translates to "fund."

[57] 1500 LBP = $1 USD as of April 2010.

| | |
|---|---|
| | an opening of an account; the participant can then also sponsor other borrowers through his "participation amount or his fee" |
| Contribution Project | The Goal is to encourage wealthier community members to contribute deposits or donations in order to assist the less wealthy; minimum requirement is $500 USD and can sponsor loan seekers |
| Loans given by guarantee of participants | A guarantee is sponsored by a participant; pay back period is 60 months |
| Loans given by guarantee of contributors | A guarantee is sponsored by a participant |
| In-Kind Loan | Sponsorship provided by QHA to a "service and trade institution;" the loan seeker must secure a financial or in-kind guarantee; max. amount is $3000 USD and the payback period is 3 years |

*In my research, I came across the Gold Loan program most readily. Further research will be needed to understand the breadth of the other QHA programs mentioned here.

From their inception, QHA has strictly relied on gold loans, and over time expanded to include a wider range of guarantees that are acceptable beyond gold. In the Gold Loan program, gold is largely a collateral that determines the amount of a microloan, and borrowers deposit their gold with the bank after its value is assessed by bank staff. The bag in which the gold was stored in is returned unscathed upon the repayment of the loan.

The branch manager notes that they have maintained the same implementation procedure throughout their history.[58] In 1987, QHA began the subscription participation project, and over time their social solidarity and group loans have increased. Administrative Fees, which many outside the organization would equate with a type of interest (although interest is strictly forbidden in Islamic finance schemes), are largely calculated around the cost of the loan, which includes supplies, employee salaries, and equipment or general overhead.[59] Also, included in this

[58]Before, QHA used to accept property, such as a mortgage, as a guarantee, but now they don't do this because the loan size is so small that this large guarantee is seen as exploitative according to the branch manager.
[59] Approximately ten years ago, in an interview with the director of QHA in 2000, Mona Harb notes that they had "sharply discounted interest rates" (Harb and Leenders 187).

is the gold storage fees fixed by the insurance company.[60] The Guarantor is one who supplies capital and generally comes into the branch with his money, an identity card, fills out an application, and deposits money. The guarantor then opens up a contribution account. If a borrower is late for an extended period of time, QHA will call the guarantor.

One of the defining characteristics of the program is the "Gold Loan;" the QHA branch manager noted that it was the most important loan program and Al Qard Al Hassan is the only organization that uses this kind of loan. The branch manager is aware of understanding the demand for credit and notes that, "we are every successful because of the country's economic conditions, the large need for money, and especially because of the very easy way to get the loan. We can give the loan money the same day, which is an important incentive for borrowers who come for a Qard Al Hassan Loan" (Interview, April 2010). There is a restriction on the Gold Loan; one borrower cannot take more than two gold loans out at once. The branch manager explained that "we prefer to serve the largest number of people and not have one person be served many times in sequence."[61] According to one interview, while QHA doesn't publish reports openly, they do have a website. A member of ESFD noted that "they have an excellent tracking system and manage the gold very well, but it hard to assess their model." Cost of the loan to the borrower is reported to be about 10%-12% flat/year. Please see Appendix 5 for comparative functional interest rates with other MFIs.

QHA's own understanding of success is rooted in understanding their strong personnel and commitment to their mission. The branch manager noted that "...our staff and personnel are very good. They are cooperative and understanding too. They deal with the customer in a very

[60] For example for 1000 grams of gold, the fees for the borrower would be $50 (every 10 months).
[61] Harik 2004: 117-119 – claims that they disburse 7,500 microloans annually!

positive way. They show patience, because they have enough guarantees to have the money back. They treat the borrowers in a humanitarian way even when they are late on their payment. They do not sell the gold unless they try all the means possible to reach the borrower to avoid selling the gold." She noted that according to the rules of QHA, they are permitted to sell the gold after three payments have been past due, or three months, but they often don't do this until seven months have passed. QHA is not be confused with a charity however but is seen as a social development institution; the branch manager was very clear that every month there is gold selling, and that each branch has its own set of borrowers that do not repay loans. This was estimated to be about 7-9% default rate per month.

The Good Loan is rooted in Islamic finance principals in which the loan is expected to be used to ease hardships and creditors who are providing this service are rewarded by God. Rather than charity, the loan is seen as providing greater benefit for both the borrower and the lender in God's eyes. QHA follows key Islamic finance principals that include no interest or *riba,* and the borrower is seen as a contributor to the community. They do differentiate themselves from other Islamic banks in particular details: they don't participate in investments, they don't' take or give interest, and they also study each new project from an Islamic perspective in order to determine if it is permitted or not according to Islamic Law. The branch manager implied that capital resources were most often supplied by contributors or those that saved and provided the association with deposits. The history of many of Hezbollah's NGOs reveals that they were mainly dependent on Iranian funding either directly from their mother organization or indirectly early on, but today many of these NGOs are operating by religious contributions from a variety of sources as mentioned above and are not reliant on subsidized funding (Fawaz 2000, 12).

Supporters of Al Qard Al Hassan Association

Described as a "network of organizations that provide a comprehensive set of policies framing diverse components of daily life," Hezbollah been able to mobilize a large base of supporters and service users (Harb 2008, 220). While exact numbers are not known, the estimate for direct allegiance is between 30,000 – 40,000 members.[62] In addition to those who benefit from their services and for those who decide to vote for them.[63] In 2009, QHA reported that they had 72,463 borrowers! (Interview, April 2010).

During the Lebanese Civil War, the Lebanese government was conspicuously absent from service provision. There were no municipal elections for 35 years and the capacity for municipal authorities to implement such projects simply did not suffice. In the absence of a strong and functional nation-state, Hezbollah was able to build community support through its vast and effective social network programming._Hezbollah's constituency is the Shi'a community, however their vast and effective social network do not only benefit the Shi'a. Due to the nature of the services in addition to the fact that some communities are ethnically and religiously mixed, Christians and Sunnis also benefit from these services, particularly those that have been affected by conflicts with Israel. Also, because of the sectarian discourse of Lebanese politics, it also isn't readily accepted for one sect to encroach on another sect's territory to provide these services that are very much physically rooted in spaces and communal and ethnic enclaves throughout the country (Flanigan 2009, 128). Scholars have cited these effective social services provided by Hezbollah as one means that they have been able to build a strong constituency and expand their political support throughout the years (Hamzeh 2004).

[62] This is based on Harb's calculation that if the average family size is5 that this could be 200,000 members (Harb 2008).

[63] One estimate is about 25,500 students use Hezbollah network schools and about 409.281 users of medical.

### *3.1.2. Al Majmoua*

Al Majmoua became a registered NGO in 1998 after it operated as a program of Save the Children for four years, which was funded by USAID. They have been operationally sustainable since 2004 and are a partner of the Grameen Foundation. AM is one of the few best practice NGOs that began its microcredit services by offering group loans in 2001, which only target women; they also do offer individual loans ranging between $500 - $7,500, which are meant to serve less poor clients (Roy 2010, 172) but now dominate AM's loan portfolio. Also, the NGO offered a popular savings account product through local banks but due to the high administrative costs discontinued this service because of the small volume. In an interview with Executive Director, Youssef Fawaz, he highlights what seems to increasingly be articulated as the NGO's niche: maintaining their social mission while also implementing good microfinance: "We target more low-income persons and try to seek the most disenfranchised." He noted that other MFIs were dealing with "mission drift," but that Al Majmoua maintains a strong commitment to work with borrowers who have the greatest need and is adamant about not being perceived as a bank. One structural difference that was readily pointed out is that Ameen s.a.l., the other large Lebanese MFI, cannot unlike AM decide on its own business plan internally and in fact must be aligned or be in formal cooperation with the bank's interests. Because the organization houses loan officers in several bank branches throughout the country, decisions to disperse loans are decided in a joint loan committee in which Ameen does engage with program decision-making with the bank on a regular basis.[64]

Al Majmoua is also one of the remaining NGOs and MFIs who while having their largest program be microcredit also continues to provide technical assistance in the form of business development training which about 30-35% of the borrowers have used. They have also been

[64] Interestingly enough Ameen currently has a separate Information System they use, but is planning on merging with the bank branches they currently work with.

involved in Post Conflict Recovery and have distributed emergency kits during the Nahr El Bared conflict, among other diverse services. In recent years they have taken on more non-financial services and have not strictly been committed to microcredit.

**TABLE 4: AL MAJMOUA LOAN PRODUCTS AND PROGRAMS**

| **Program/Products*** | |
|---|---|
| Individual Loan: General (working capital and fixed assets) | All individual loans range from $500 - $5,000 |
| Individual: Business Development Loans | Loans range from $5,000 - $10,000; for clients with good loan performance |
| Individual or Group: Worker Loans | Max. Loan amount is $300-$1,000; directed towards those who work but below minimum wage |
| SME Loan | Loan for existing client; maximum loan amount is $10,000 |
| Poverty Group Loan (working capital group loan) | Began in 2000; first loans dispersed; group solidarity is a guarantee; Loans range between $100 - $300 (with $600 average); loan term is 6 months; women do not need pre-existing business; are required to attend training sessions for new skills an d basic financial education |
| ICT Loan | Loans ranged from $500 – 10,000 for up to 2 4months |
| Kiva | Signed up with person-to person website |

Adapted from Al Majmoua Annual Report 2007.

Borrowers of Al Majmoua

The NGO is very committed in attracting borrowers who live in the "poverty pockets" of Lebanon, however this has been challenging given that the majority of loans currently dispersed are individual rather than the poverty group loans administered to women in more rural areas. Please see Appendix 3 for the national coverage of AM's offices and outreach.

### 3.2 Discourses of Microfinance

The enthusiasm and optimism of microfinance perhaps needs to be reconsidered in light of what has significantly changed in the lives of borrowers. There is absolutely no doubt that the microcredit programs helped to extend credit to those who had been historically excluded from formal banking programs. In a society where banks advertise extensively and have offered popular plastic surgery loans, credit is a widely understood norm, one that is becoming more and more accepted. The vibrant commercial banking sector in many ways has reinforced the microfinance movement in Lebanon in addition to the high number of SMEs that make up Lebanon's informal economy. Centered around the notion of the entrepreneurial poor, *the global discourse assumes* that the poor require access to credit to unlock an inherent productivity potential that had not yet been empowered to be used; this largely implies that the poor simply require a set of tools. How does this group of people enter the purview of good borrowers for these institutions? Microfinance has often assumed that the poor can pay higher interests rates largely based on the fact that moneylenders tend to charge even higher interest rates. Microfinance goals have been focused on targeting the poor; however an in depth study by CGAP studied the client base of seven MFIs in Africa and Asia and found that a majority of microfinance clients were moderately poor (the top 50 percent of households below the poverty line) and none were destitute or in the bottom 10 per cent (Helmes 2006, 20). Difficult to address through programming, the industry has differentiated the base of poor by targeting the entrepreneurial poor. However, it seems that perhaps there are different groups among the poor who would benefit from various programs accordingly and tailoring these programs better would result in more high impact and targeted results, particularly in a place like Lebanon in which poverty pockets exist throughout the country despite it being considered a middle income country.

The 1990s saw a proliferation of microfinancing programs, however the enthusiasm was not coupled with high quality impact results. A few key historical studies empowered many of the international institutions to adopt microfinance as a mainstream mechanism for poverty reduction. These studies include a 1991-92 World Bank study of three major microfinance projects in Bangladesh (which did include the Grameen Bank). One study showed a positive correlation between microfinance participation and household income increase. Economists from the World Bank and those known as the "Ohio School Economists" have also studied how the grassroots nature corrects imperfect information, particularly of the high cost of lending, which has also shifted to more market-centered approaches. (Daley-Harris, 2002). There are also studies that link this to positive gains in poverty reduction, however these limited studies and findings are overemphasizing the characterization of microcredit as a win-win solution, which has been deemed a "bottom up" miracle. The microfinance literature however does also take a critical stand on microcredit, particular beginning in the late 1990s. These include calling into question the methodologies used, for example Murdoch re-examined how some of these original studies were conducted. Often criticize is the increasing pressure to scale up and to achieve financial sustainability as the primary concern of MFIs, which then systematically excludes borrowers from poorer households and favors the upper poor and even the middle class. This has been referred to as the "outreach vs. sustainability trade-off or the breadth vs. depth trade-off.

Besides QHA, the larger MFIs in Lebanon are being pushed or have readily adopted the "minimalist approach to credit" which has also been successful at disregarding larger macro-economic issues or systemic concerns such as chronic poverty. Thus, central to the microfinance debate is how poverty is framed: poverty is less connected to institutions but gets connected to macroeconomic policy that is about cash flow and enabling employment and income. The literature has also explored discipline (Brigg 2001) and gender concerns (Goetz 2001), citing that microfinance can even have a negative effect on the lives of the poor. Many programs targeting women for example, can actually exacerbate the workload and can burden the women by placing all of the household economic duties on her.

And finally there has been ample critique of microfinance as being the performance of neoliberalism (Rankin 2000; Roy 2010). It is seen as the embodiment of an anti-state bottom up movement that ignores structural systems and historic trajectories of development. But before we assign a framework or side to the QHA and AM programs, it is important to understand how they work and we can then use this to question the assumptions that not only these critiques have made about microfinance complicity with neoliberalism at the local level, but also that microcredit has been a tool that has been manipulated and is also complicit to existing institutionalized and local politics.

## 3.3. The Consensus of Poverty

### *3.3.1. The Institutionalist vs. Welfarist Approach*

Reaching the absolute poor has been difficult for microcredit particularly with the emphasis of institutions maintaining cost-effective strategies. Leakage is often used to describe this phenomenon in which wealthier clients dominate poorer clients. A decade ago, the microfinance community was truly at a fork in the road and was debating what Murdoch (2000) describes as the microfinance schism in which the approaches of the institutionalist approach and the welfarist approach were at odds. The tension between valuing MFI's financial feasibility, sustainability, and breadth of outreach contrasts sharply in the literature and ideology with the Welfarist approach which prioritizes depth of outreach and emphasizes impact on clients, particularly through the lens of empowerment rather than just institutions.

If this is indeed the tension and a dichotomy that distinguishes how credit services are delivered to poorer communities, this "schism's" implications need to be better understood. Wooler states that the schism would also imply differences in institutional design and as well as in the populations served. Whether this is a true trade-off depends on whether you are of the institutionalist perspective or a welfarist, or not. I argue that the Qard Al Hassan microcredit program perhaps shed light onto this schism as being one that is a false dichotomy. Al Qard Al Hassan within its locality of Lebanon and of what I observed in Dahiyeh, has bee able to push for sustainability while also having a completely different approach to program implementation that might be relevant to both institutionalists and welfarists.

Minimalist credit has become the dominant microfinance program and has really overtaken the integrative program approach. The minimalist credit program seeks to offer liquidity, while the integrative program approaches credit access as only one of the many concerns that the poor face. The cost of integrative programs tend to be higher and therefore become more difficult to break away from donor support.

While I wasn't able to link any clear program implementation mechanisms to the rest of the wider Hezbollah network, in my questions about connecting borrowers to other organizations, it was very clear that from an institutional perspective, Hezbollah's Al Qard Al Hassan is part of a larger network of social services. The question is as this becomes one of their larger organizations, are they expanding beyond the mission or not as more NGOs are looking to provide similar services.[65]

In comparing both of these programs it is important that we take the time to briefly understand how Hezbollah has been characterized in the institutional literature.

Harb uses Clarke's definition of Hezbollah to assert that it is a "faith-based socio-political organization' that interprets and deploys faith as a political construct, organizing and mobilizing social groups on the basis of faith identities but in pursuit of broader political objectives." (Harb 2008, 219).

[65] This question was not answered during the course of this study but would be an interesting question to further research.

Harb also characterizes Hezbollah as a policy institution based in Muller and Suller's framework of 1) norms guiding actions 2)policy agenda related to public authorities and 3)have own distinct audiences. She notes that the strong norms around the mission of resistance and the religious model of *wilayat al-faqih* is central to the institutions. Also, with the Lebanese government, they are also actively part of developing a policy agenda in accordance with the state. Harb states that "the party's institutions have a particular propensity to learning and an impressive ability to adjust to new norms of action." Harb says it is that "faith enhances the feelings of self-worth, dignity and belonging amongst Hezbollah's constituency; promotes values, mechanism for mobilization and public participation; Faith is persuasive." Is it possible to observe this a credit program that follows a hybrid Islamic microfinance model.

Hezbollah has also been seen as an important political party that holds significant national and local power through several Parliament and municipal positions. It also controls a significant parliamentary bloc and has two ministers in the current government.
It holds 60% of municipalities in southern Lebanon and has a stronghold in Beirut's southern suburb. (Flanigan 2009, 123). Some of the more conservative literatures have labeled Hezbollah and their social networks as a Iranian Political Party, a Shi'a religious movement. In addition, they have also been labeled a terrorist group. The United States and Israel have considered Hezbollah a terrorist group most known for its military actions against Israel upon its invasion of Lebanon in 1982. However, the European Union has not included Hezbollah on its terrorist list, differentiating between Hezbollah's military and its political and charitable identity.[66]

It seems that in many ways Hezbollah is a Lebanese Political Party/International Development and a Faith Based Organization. For many academics, Hezbollah should be

[66] A large part of the discourse around Hezbollah is polarized as labeling Hezbollah a terrorist organization, which I have decided to not explore because it ha snot been a useful label in exploring the QHA program.

considered a legitimate political party acting in the larger Lebanese political system. Hezbollah's organizational structure, has been framed as a "holistic policy framework" (Harb 218). Headed by a Decision Making Council (the Shura Council), which includes 7 members. Members are elected by the Executive Council (also known as the General Convention) and the Executive Council holds the key decisions on policies. This council is described as an umbrella for 'satellite organizations' or the Islamic sphere (*al-hala al islamiya*). There are ten organizations that are all officially NGOs registered with the Ministry of Interior, It is important to note that there is great variety in how these organizations or managed administratively and financially (e.g. some may be directly connected with Iran as local branches of an Iranian organization); not all directly report to the party. Harb distinguishes theses NGOs by separating serves that directly or indirectly are involved in the military resistance and those NGOs that manage other services "oriented for a larger audience" (Harb 2008, 218). How do these different characterizations affect how we can understand their aims in implementing a program. In general, the literature has been sparse in including Islamic NGOs as part of the poverty alleviation agenda and as viable international development actors (Fawaz 2000).

What can the borrowers of these two programs reveal? Because the decisions individuals make around financial concerns are very much a product of various socio-economic, cultural, political and even religious factors, understanding what the borrower experiences were like within a context of the quasi-national field is critical in order to understand how "the bottom" is actually responding to this ideological bottom driven development policy. These decisions by no means occur in a vacuum in which rational and predictable choices are measured according to utility or economic benefits gained by the borrower. While understanding the exact logic of the borrower around service provision is beyond the scope of this research, it is important to note that borrower interviews from both Al Qard Al Hassan and Al Majmoua reveal key insights into these institutions' norms and meanings they generate to the extent that users help us to better understand the mechanisms of microcredit in the Lebanese context: "This location-specific diversity should be taken into account, because it is a crucial determinant for the success or failure of development interventions" (Lonte and Otto 63).

## 3.4. Program Mechanisms: Comparing and Contrasting Al Qard Al Hassan and Al Majmoua

### *3.4.1. Loan Uses: Consumption vs. Productive Loans*

Interviewing the borrowers revealed a wide range of loan uses that were surprisingly not all traditional "productive" loans. The chart below highlights that for this group of borrowers, the loan use for the first loan most often dictated future loan use, specifically with the QHA borrowers, the loan use did not significantly change but seemed to be enabled or institutionalized within the home through repeat borrowing. Rutherford divided cash outflows into three useful categories: Lifecycle needs, emergencies, and opportunities[67] (Lonte and Otto 72). These purposes are then tied these to risk and diversified source of income and what social relations are negotiated:

> "Long-term risks often lead to high level of unsustainable indebtedness. This will decrease the levels of livelihood resources, especially as productive assets will have to be sold off to repay debts. This may be in terms of business assets or taking children out of school (human capital assets), for example. This may occur when expenditures are incrementally higher than incomes, investment opportunities fail or shocks become long-term or are very severe. The ability to cope with this depends on the variety of assets available to livelihoods." (Lonte and Otto 74).

In short the poor have been seen as a new asset class in which clever financial services are able to smooth short-term low-level shocks but any long-term shocks that are more high-level will

[67] Life cycle needs refer to known expenditures that can be planned for (e.g. marriage, school fees, holidays). Emergencies refer to unexpected events, which often require a moderate amount of cash quickly (theft, health emergencies, war). Opportunities are usually start-up capital for new businesses, etc.

cause a fundamental depletion of assets. Because it isn't about how effective money is managed and utilized, prevention of these situations from occurring is impossible, but there is widespread understanding that the nature of risks and expenditure can help households better manage their assets. This is why unproductive financial needs, such as emergencies and lifecycles are not seen as the most favorable for the Poor's productivity. Other authors have shown that many of the microfinance loans in programs they studied were actually used for consumption needs as opposed to loans for their businesses. In one well-known study of five Grameen Bank borrower groups, the author found that 78 per cent of microfinance loans were used for a reason not initially stated in the loan application.

This was also evident in Beirut; an Al Majmoua loan officer was aware of the fact that one of his borrowers was using part of their loan for consumption as opposed to her using it for her business. While the borrower says her first loan was for her business, the second would be mainly used for her wedding. The borrower had not yet calculated what percentage of it would be dedicated to which use, this was a liquidity need that the microloan served her purpose well. She also stated that she did not indicate on her loan application that the loan use would be for her wedding. While this study was not covering the bookkeeping methods of the NGOs, it is curious to note whether this loan was actually documented as a consumption/personal loan or a small business loan. Because the loan officer was aware of the consumption component perhaps this was the case that it was a second loan recorded as a personal loan although this seems unlikely given the borrower's secrecy around the loan application and later openness around the loan officer after having been approved for the loan.

QHA on the other hand does not specify the loan use and often doesn't require the borrower to specify the purpose of the loan on the application. All borrowers of QHA that I interviewed in addition to a handful of NGO practitioners, recognized that the loans of QHA were not tied to any particular purpose. This was widely perceived as being quiet useful and relevant for the borrowers, as stated by all borrowers who used the loans for consumption purposes. However, other professionals in the field felt that "this isn't development. Taking a loan out to buy a laptop or paying school fees, well where is new income generated?" stated a loan officer of an MFI. However, while not verified, I was informed by three of the four QHA borrowers, that they had heard of women using the loans to invest in gold jewelry. Thus the popular and most widely used "Gold Loan" was in fact a means for some women to build assets over time.

In my interviews, one QHA borrower was highly sophisticated in understanding his sources of loans. Ali was loan swapping and conducted careful analysis of interest rates to gauge which source of working capital for his two businesses would be the best fit. Having received a loan from an NGO and from QHA, he was quickly able to summarize why he favored one over the other. Sitting in his large home with his wife and two children playing nearby, I recognized that perhaps he didn't fit the traditional microfinance borrower profile, clearly being from a middle class background and using the loan for working capital for two stores he had in the Southern part of Lebanon. When asked which he preferred he was very clear: "The Qard Al Hassan loan is quick and easy, but rather than putting gold I like the guarantor system. Since my father is a well known man in the community, I rather use a guarantor than gold as a collateral for my loan."

The traditional microfinance practitioners would agree with the desperation and destitute nature of these families who in short have not been able to put to good use the capital provided to them. However, perhaps a better understanding of the needs of the poor need to be more closely examined. When income cycles are irregular or shocks occur, rather than disposable income but loans can be more effective at income cushioning. This may not necessarily be higher risk for the low-income family. In addition, the ease with which the money was accessed was faster with QHA, which often only took a matter of days. AM tended to take longer despite having loan officers in the field.

**TABLE 5: BORROWERS' LOAN USES: CONSUMPTION/PERSONAL VS. PRODUCTIVE LOANS**

| **Loan Uses*** | **Consumption/Personal vs. Productive Loan** | **Al Qard Al Hassan Association** | **Al Majmoua** |
|---|---|---|---|
| Non-Borrower Family Medical Bills (includes operations, medicine, and doctors' visits) | Consumption/Personal | X | |
| University Fees | Consumption/Personal | X | |
| Secondary Education School Fees (private) | Consumption/Personal | X | |
| Wedding Expenses | Consumption/Personal | X | X |
| "Safety Net", Just in Case | Consumption/Personal | X | |
| General Household Expenses | Consumption/Personal | X | |
| *Refurbishing Materials for Business Location* | *Productive* | | *X* |
| *Inventory/Merchandise for Business (Working Capital Loan)* | *Productive* | *X* | *X* |

*These are summarized from borrowers I had interviewed during my fieldwork and indicate primary use of loans as reported.

### *3.4.2. Operational Goals: Financial Feasibility: Donor Funding*

Al Qard Al Hassan's branch manager also commented that the other microcredit programs are interested in attracting more borrowers. She was very clear that this was something that her association did not prioritize in the same way. "We are not forced to spend all the capital we have. When we have money left from the previous years, we add it to the budget of the new one. This is what makes the capital bigger year after year." Because they aren't concerned about returning the capital, if it isn't spent the same year, and with any extra money they have they try to invest it into the organization such as in expanding by opening a new branch. She also reports that they receive contributions from association members. Theses contributors also can open a guarantor account in order to help guarantee other people willing to take a loan, whom they may not even know but rather are part of an extended and created social network through the association. They claim no interest but take fees on the applications.

The 2006 war resulted in the Haret Hreik office being completely bombed and significantly challenging how QHA works. After the war QHA opened eight more branches and increased the number of borrowers substantially. The war had the effect of building even greater trust than was present before because of their ability to continue to operate and minimize damage. One borrower noted that none of the gold was lost and that even after the war, no one knew where Hezbollah kept the gold. I could not confirm this borrower observation, but it was interesting to note that the borrower felt very safe in Hezbollah's handling of her only physical asset besides her apartment. QHA reports that there were delays in payments, but that they did not lose a significant amount of money.

### *3.4.3. Marketing, Recruitment, and Staff*

Central to the QHA program is the strong sense of community that the loan is meant to provide with opportunities for multiple ways of contribution. When interviewing the borrowers, all of them first initially heard about the loan program from someone rather then from somewhere. Often afterwards, an advertisement would be remembered as reinforcing the information. For the specific program, the Al Qard Al Hassan branch manager, noted that advertising doesn't actually provide more borrowers than they already have. It was their reputation not the actual advertisements that help to spread the word. She noted that "for those that know of us and need a loan, they will come to us without any publicity."

The branch manager noted that the fact that QHA is seen as supported by Hezbollah it drives people to trust it more. In fact, she noted that "the best publicity is word of mouth especially because most of the borrowers are women. They talk about it during their morning or *subhia* coffee and tea gatherings." While the program was never intended for women, the branch manager noted that approximately 90% of all borrowers are women. The branch manager noted that for recruitment of borrowers "We advertise for contributors and participants more than they advertise for borrowers." Participants are those that borrow, provide guarantees for and/or provide deposits as a form of capital. Word of mouth is particularly more effective in urban areas where communities are more concentrated. This was readily noted by the QHA branch manager, who said that when opening a new branch, they engage in publicity to inform the community. It seems like once the initial connections are made, publicity becomes more embedded and less institutionalized for branches.

Staff recruitment and the role of loan officers was a significant difference between the structures of these two types of programs. QHA has no loan officers that recruit in the field and positions within the branch are not readily advertised because it is perceived as not needed. In fact, because they have a large number of borrowers and many employees, "we can just mention it in front of them when a job is vacant." Thus even staff hiring is often by word of mouth relying on existing networks among present employees and borrowers; utilizing existing social networks is a central recruitment tool. Also, there are no field officers that go into the communities and recruit borrowers as is the norm for many loan officers working with leading MFIs in the country. The branch manager reported that in the beginning, there were field officers that collected loan payments, but soon the loan officers were housed in the bank branches. Flanigan reports that many of the social-service employees have a strong belief in their work being driven by a sense of morality. Also QHA employees have excellent knowledge of communities they work with, and like Al Majmoua, many of the other MFIs I spoke with hired loan officers from the communities the branches were serving. Also, Al Majmoua's loan officers do direct field promotion and offered ease of filling out applications in potential borrower homes. May of the other MFIs I interviewed also adopted an "active field officer/loan officer" model often with incentive structures to encourage loan officers to recruit as many good borrowers. In fact this active recruitment proved relevant for one of the borrowers: "They got to me first!" said an AM borrower. "It was so much easier!" For those who may not be actively seeking out a loan, the suggestion of taking a loan out for an unforeseen need or for business development ideas, seems easier when the loan officer facilitates this process in person. However, the depth and richness of the social capital Hezbollah has produced and continues to reproduce is also quite effective. Some of the borrowers residing in Dahiyeh often were not aware of non-QHA and non-bank options for microcredit loans. However, in the cases where some borrowers had only heard of QHA, they were not inspired nor motivated in receiving a loan often it seemed because details of the loan process were not well known.

### *3.4.4. Responsiveness, Professionalism, and Effectiveness*

Hezbollah provides a holistic policy network that can be best understood in its "(1) responsiveness and accountability, (2) professionalism and leadership and (3) effectiveness and performance" (Harb 2008 216). This coupled with the fact that Hezbollah simultaneously has been creating its own social and cultural environment, the Islamic sphere or the Resistance society, the holistic policy network conveys faith-based meanings and values to its beneficiaries and in many ways managed and reproduced through its services. This has created a particular culture and functioning of governance at the local level, particularly in more dominant Shi'a neighborhoods: "Since 1998, these organizations have partnered with local governments led by Hezbollah-backed councils who rely on their social work expertise for implementing local development strategies" (Harb 2008, 219). The number of people receiving services from Hezbollah's NGO network is more than 200,000 (other claim 10% of Lebanese population or 350,000) (Flanigan 2009).

Around the framework above, scholars note that Hezbollah's NGOs provide services that largely respond to local needs (Fawaz 1998, Harb 2008). Thus while in many ways the NGO network id highly centralized, there is a strong operationalized decentralized workings. Harb notes that this system operates on a spatial and functional level: 'geographic leaders" divide areas in to zones and 'service representatives' manage sectors . Both of these positions require the supervision of a large network of volunteers who are largely women and tend to recruit beneficiaries for the diverse service programs, "This dual system maximizes the outreach of Hezbollah's networks and ensures its responsiveness to local needs while disseminating participatory values. Moreover it ensures regular feedback to the service providers, enabling them to adapt their services. This 'embeddedness' also helps in developing trust between service users and Hezbollah's institutions, enhancing their accountability" (Harb 2008). Thus, QHA acts on a host of historical and wide-reaching resources and is not strictly housed to its own bank resources; this sharing of the holistic policy network is a critical advantage that they have over any free-standing institution such as an international NGO or even a more national tailored NGO.

Hezbollah also adheres to a high degree of professionalism (especially when compared to other public services, where their institutions' directors rotate regularly and build critical capacity across the different NGOs. The institution also is highly committed to effectiveness and performance: Hezbollah seeks scientific knowledge, rational thinking, and technical expertise (quantitative studies and statistics); they trust learning from experience and have a high propensity to learn from their work through evaluation. Success of institutions are also accorded to the religions ideals: "responsiveness is grounded in the idea of social justice and participation" (Harb 2008, 222). "Resistance is thus promoted as a liberation journey, freeing the individual form a life of oppression and humiliation equivalent to death" (Harb 2008, 223). Carrying out this resistance is part of one's duty and this is manifested in daily practices. Harb brings light to "hybrid national narratives," one I find highly useful for Al Qard Al Hassan within the larger international development literature: "how Hezbollah is negotiating its place in an imagined nation by developing hybrid narratives, combining its pious representations with depictions of a 'Lebanon' associated with other sectarian groups and national discourse." Through several mediums, including space, Hezbollah is excellent at promoting this (e.g. via Al Manar), commemoration, celebrations in the street etc.

Volunteer sisters "inform the families of available services, maintain a regular relationship with the family, and make sure the service has been provided to a high standard, evaluating its impact and reporting back to the organization concerned." (Harb 2008, 225). "Hezbollah's holistic policy networks not only provide material resources to their beneficiaries, they also define a world of social meanings." In short, Hezbollah gave meaning to Shi'a lives attracting even the less pious and some secularists with some positions of Hezbollah not being overtly faith based.

Harb describes the success of Hezbollah's social network as being rooted in "the holistic package supplies its beneficiaries with all their material needs, efficiently and with a relatively good quality of service. Thus it presents an attractive alternative to the unreliable public services, and to the high cost and uncertainty of private services" (Harb and Leenders 188). They are also creating a 'Resistance society' (*mujtama' al-muqawama*). "The resistance society is the product that Hizbullah's holistic network aims to achieve. This society serves to disseminate the concept of spiritual jihad, which is complimentary to military jihad." When this is centralized around the historical treatment of Hezbollah's constituency, it becomes even more acute: "Therefore, the resistance society modifies the perception of the Shi'a individuals as 'disinherited' (*mahrumin*) to one of being 'disempowered' (*mustada'afin*)....Through its holistic approach Hizbullah transforms the typical Shi'a victimization complex into meaningful values of justice, solidarity, community, sacrifice, progress etc. – which, in turn, instigates high self –esteem and a solid sense of pride" (Harb and Leeders 189). Does this translate on the ground empirically to QHA?[68] Is microcredit attracting normally people who are just looking for loans and are using them as a service? Or is it echoing Hezbollah norms and values?

### *3.4.5. Mission Statement*

When asked the branch manager what the purpose or goal for the microcredit was, she stated that the association had the double objective of poverty reduction and for economic development after initially responding to it being about "facilitating daily life." While some loans do go towards business development, the branch manager highlighted that the aim of the program is to serve people's needs by assisting in their day to day management of their income constraints and in need.

While these are Islamic Loans, or the Good Loan, when asked if someone wasn't able to repay the loan or were very poor and approached the association for a loan, she noted that they would be sent to one for the charity associations such as Imdad where she noted Hezbollah is a

[68] The borrower's perspective reveals that perhaps they are and are NOT participating in this resistance society in a way that dictates their behaviors and norms consciously, but must be further studied.

contributor. One of their goals is summarized accordingly: "Helping the needy people by giving them limited-term loans as the association seeks for solving their social problems" (Website/brochure). The written language stresses social support as opposed to broader productivity and even economic development. The branch manager was quite positive that Al Qard Al Hassan was seen as an Islamic Bank. However in my interviews with borrowers of this program, being an Islamic bank was not of primary concern, however they did all note that the program was a bank and not an NGO or a charity organization.

If they find that the applicant is requesting a larger loan than what is standard for QHA, they deny the loan and don't actually direct the borrower to another bank because they don't want to be responsible for this in the case that it doesn't work. I found this to be an interesting point, because of how the branch manager perceives other banks. Other banks or even NGOs seem to be of the network of this group and rather than meeting the needs of the borrower, it seems that if the social network cannot meet the needs of the borrower rather than trying to support this effort, the network becomes absolved of providing for this borrower.

## 3.5. The Bottom Up: The Borrowers

### *3.5.1. Who are the Borrowers?*

While my sample is not large enough to generalize about the types of borrowers that both programs regularly serve. The common assumption made my many microfinance practitioners is the fact that the poor, particularly the entrepreneurial poor and the "unbankable" poor is a homogeneous body that has inherent entrepreneurial skills that will finally be realized when matched with access to credit. The differentiation of the poor involves dividing up this group according to magnitude of income-level: destitute, middle poor, and upper poor etc. However, my interaction with borrowers of both QHA and AM programs, proved to reveal a heterogeneous group of borrowers with diverse and vast social networks and rationales for borrowing from these respective programs. These borrowers while not the norm, in addition to Lebanese also includes: foreign migrants (QHA reports that Sri Lankans workers usually hear about the loans from their employers, and most of these women take the Gold Loans); Iraqi migrants and refugees, and largely Dahiyeh Residents.

Dahiyeh is home to approximately half a million Beirut residents and elicits strong reactions from many Lebanese as a site of illegal urbanization commonly referred to as a "Hezbollah's suburb", and referred to as a Shi'a ghetto by some politicians. (Harb 2001, 113).[69] This area constitutes a mix of legal and illegal settlements, low-and high-density development, and a mix of old and new buildings. Al Dahiyeh is a present day product of the Lebanese civil war and today is mainly comprised of Shi'a communities displaced by the civil war.

The governance of this area has not been met without contestation and has been the site of Amal and Hezbollah battles of power.[70] The State while absent has in the post-War era shown some interest in the area and has attempted to integrate parts of the region into larger urban development projects.[71] When compared to Amal, Hezbollah has utilized the grassroots scale in a much more effective way, (as has been studied in their involvement in the Elyssar project). In the context of Elyssar, Harb notes that "For Hezbollah, social and political control was based on a detailed, grassroots understanding of the localities, not only based on political activity but also through research conducted by CCSD." (Harb 2001, 124). The Consultative Center for Studies and Documentation (CCSD) is the is the Hezbollah research center that regularly produces critical local knowledge, statistics, and broader studies for its NGO network and political party.

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[69] In fact whenever I didn't take a bus into the part of town and took a service and sometimes a taxi, more so than any other part of the city I was usually met with irritation, not only because of the high traffic which plagues much of Beirut but also because of the high density and what was not as welcoming to all types of outsiders as other Beirut communities.

[70] There was a conflict between Amal and Hezbollah in Al Dahiyeh and peace was brokered by Syria in 1989-1990. This is how Hezbollah began to control most of suburb. Amal was given control of Bourj Barajneh and Ghobeyri in addition to small parts of the southwestern suburbs.

[71] One well-known example of this is the Elyssar project that did not come to fruition.

### *3.5.2. Dahiyeh and Resistance Society: Redefining Social and Economic Benefits*

When discussing the Lebanese microcredit industry, and asked in general about the prominence of Al-Qard Al Hassan, I often received a range of answers that left me wondering what the Director of Al-Qard Al-Hassan would say.[72] Some seemed professionally dismissive of the organization citing that they don't follow best practice models and have a completely different model of microcredit while others found it to be doing good work and highly relevant to the industry. Al Majmoua's newest office is about a two-minute walk from one of the many Dahiyeh branches of Al-Qard Al Hassan. The physical proximity of the two offices prompted me to ask whether in this neighborhood, the competition was fierce given its high density.

An Al Majmoua area supervisor explained to me how they were able to negotiate working in the neighborhood by cooperating with Hezbollah representatives affiliated with competing QHA: "We have to meet with them. It seems like it is every few months, and usually it is a set of different party members. They ask us what we're doing, who we are, you know...," the area supervisor noted. He had personally met with them before. And how did this affect their day-to day work? The Loan Agent commented, "We don't use maps in the Dahiyeh office."

In Beirut and throughout the country, numerical addresses are  not common and, most addresses, particularly residences, are not formal and largely determined by main roads and a combination of key landmarks, businesses, shopping centers, and intersections. Often many Al-Majmoua Loan Agents use physical hand drawn maps to locate borrower homes and businesses, as part of routine practice in conducting field visits, particularly in such a high-density area. In this specific neighborhood this is currently not permitted by Hezbollah and the Loan Agents in this office no longer use maps on their loan applications. The space in which these two

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[72] While my many attempts in July 2009 and January 2010 to meet with the director or central staff were not appeased, I was able to informally talk to a worker at the head branch office.

organizations reside has been under heavy surveillance; and many of the spies that had recently emerged were working for NGOs.[73]

The space of Dahiyeh offers an interesting case for the politics of space that is conducted within international development programs and within a specific locality. The AM Dahiyeh office was formally a part of the AM Bourj Barajneh office, which was their largest branch. Due to the high volume of loans dispersed, about less than a year ago the Bourj office was split into two, the Dahiyeh office and the Tayouneh Office. The Bourj Barajneh office, which the loan agent explained "was in an excellent location and the clients use to come!" Al Dahiyeh is an area that has historically been governed closely by Hezbollah and has been the center area in which a majority of social services have been delivered. The social practices that are engaged here continue to reproduce Hezbollah's power. While previously when the presence of one social service or a monopoly over the service often made it easier for them to dominate a community, now that there are a few MFIs operating in the region, the question then becomes what does Hezbollah need to do to maintain its hegemony of this space. The tight knit social solidarity that comes with a small isolated population requires a more rigid definition of space. What happens as more and more MFIs move into this space? What I found to be the most surprising was that the borrowers often took a loan out form the MFI that they felt most comfortable with, whether it be that they knew someone personally in the organization, they had heard about the institution from a friend or someone they trusted, the loan officer physically came to their residence and/or business, or they just told the person first about the program. As mentioned, in Chapter 2, from the borrower's perspective you really do unearth a competitive lending market.

[73] There are usual several stories regarding Israeli spies in Hezbollah territory every week. Not all can be verified, but the point being that even after Israeli troops withdrew in 2000, there is still considerable consciousness about their presence and the geopolitics in this place.

### *3.5.3. Political Perspectives: Localities of Power*

While Al Qard Al-Hassan is a separate NGO, it is critical to see that Al Qard Al Hassan, while may be perceived by borrowers as a bank, is one of many social services that have been provided in a network of social services. The bank manager notes the unique relationship the NGO has with Hezbollah: "We are not separated from Hezbollah in terms of environment and contributors. People see it as a social institution supported by Hezbollah. But effectively, it is separated, they have independent administration, way of work, decision-making, and locations." Thus the social network in which this program is embedded in cannot be ignored. However, functionally, it is a bank for many of the borrowers who perceived the network in which they made decisions as fundamental to their life. When asked if political or religious factors affected how a decision was made, I usually received an adamant no. "This is a normal bank that happens to be helping people. It would be better if they weren't affiliated with Hezbollah, I would appreciate it more!" Mai said as she explained how many of the political parties were corrupt. Yet Hezbollah was not typecast as a political party for her. They were providers of much needed services in a way that gave her a source of dignity she had not felt when engaging with other political parties. She began to get teary-eyed. "In 1990, I was desperate and I needed money for my daughter's operation. I went to charities, Caritas[74], Doctors without Borders, political parties, but they said to leave because they couldn't help me!" When asked about Hezbollah, she noted that she went to Imdad, but was told that they weren't targeting people like her. She also only heard of QHA in 2006. Mai has been repeatedly rebuked and she felt consistently forced to demand rights and dignity from these political parties in order to simply live. She noted that all that these political parties wanted was one's vote and had no interest in her well-being. Mai said she only had God in that moment and no one else. But when asked why she had gone to Al Qard

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[74]Caritas is an International Catholic NGO.

Al Hassan rather than a bank, family members, or other NGOs (she wasn't aware of any other microcredit NGOs), she said that she had gold. And she made her feel like she was valuable and didn't have to beg for the money. "Al Qard Al Hassan isn't political. I most likely wouldn't have joined if it was political. I feel comfortable here." She acknowledged that Hezbollah founded the bank but now she felt it wasn't as closely related to the political party. For Mai, it was a social institution that was not a charity but invested in her development *without* being overtly political. For her as a borrower, she felt she wasn't engaging in the political party resource swap that has characterized so much of lower-income communities to their representative political parties.

### *3.5.4. Social Capital and Clientalism*

Given the history of Hezbollah's social services and the debates around what meaning and motivations underlie these social services, it is also central that the social capital embedded in the borrowers of these programs are understood against the broader literature. In the mainstream literature, social capital is also considered a "win-win" scenario like microfinance because investors mobilize social capital, which enhances the financial vitality of the poor, which is usually women, and at the same time allows them to get access and ultimately help themselves be empowered. Similarly social capital as defined by the World Bank comes from families, communities, ethnicity, and gender, and I would also add space and territory here, and usually Putnam who is most often cited, as highlighting that social networks enhance social opportunities. Rankin points out that this idea has become a prescription for international development and economic growth, and in many ways, social capital is what is seen as that which can correct state and market failures. Rankin makes a critical point in that the primary unit of analysis is the individual as opposed to the institution.

Radcliffe also reminds us that the controversy around social capital has not been steadily appeased, while many development practitioners consistently use the social capital argument in framing most microfinance programs' benefits as a means of leveraging good borrowers and connecting microfinance institutions with the more bankable poor, there are various camps of theories regarding social capital, which include social capital as another way of labeling activities as anti-state or neoliberalism (Rankin 2002). Rankin raises the point that networks are not always beneficial to actors involved as is normally assumed. Hence, the definition of social capital is often framed by what it is not or what it extends beyond; it is more than social networks and it is more than just norms. The theory of social capital is not well defined because it has little regard for the kinds of people who actually create and reproduce these connections. Like microfinance, social capital is largely linked to development outcomes driven by civil society actors, the NGO or the grassroots movement. In the case of microfinance, NGOs are already considered to be the "bottom" and they are connected to individuals. Radcliffe points out that there is little concern about the ethnic and political angle of social capital, but social capital is beginning to address the multiethnic societies, however projects are largely not designed to incorporate this. The important point is that most microfinance programs are not designed to develop social capital but rather to react to it and sometimes even may dismantle it.

Al Qard Al Hassan's program gives us the opportunity to rethink how social capital relates to microcredit ideologies. Central to the strength as has been demonstrated above is Hezbollah's ability to produce, manage, and reproduce social capital. The rigidity to which so many development practitioners ascribe to social capital, does not explain how Hezbollah's QHA has been able to attract so many borrowers; in fact it is because of its ability to embrace power and politics within a realm that has normally been apolitical, that over the course of 25 years we see the embedded relationships we see today. How shall we understand its context around this microcredit program in order to understand its mechanisms and daily operations that make it the most widely used micro-credit program in Lebanon? Central to this bottom up debate is the use of social networks as resources for fueling development from the bottom given that the transitional "safety net" as provided by the welfarist state is not relevant to the microfinance model, "This theoretical orientation conflates development with economic growth and embraces the rational, utility-maximizing individual as the locus of progressive change" (Rankin 2). Rankin also argues that without a *structural* analysis of social capital, social capital can exacerbate rather than challenge existing hierarchies, and thus microfinance practitioners should understand that there is a downside to social capital and larger macroeconomic and political processes also structure social capital.

In particular, Rankin raises the point of *who* is encouraging the continuance and development of social capital itself? Rather than microcredit leveraging social capital and essentialzing its own grassroots strengths, Rankin highlights that existing social networks, which in Lebanon I argue are complicated and not always obviously or easily traversed, microcredit may in fact be further entrenching these powerful social hierarchies. I find this highly relevant in beginning to shed light on how microcredit rather then being a development tool can also be a tool to reinstate the status quo. We know social capital is lauded as a means of enhancing the state and the market, but we don't know how the state and market enhance social capital. Hezbollah's Al Qard Al Hassan's Association is successful because it is able to continue both sides of these processes and thus engages with the top and the bottom in unique and innovative ways. Social capital is not a black box for Hezbollah but is largely structured in its network of social services and its political and religious resistance ideology. Hezbollah defines social capital for itself, spends resources developing it, a and has been able to look beyond the unit of the individual as the primary unit of action.

### 3.6 Self Perpetuating Knowledge and Norms: The Grassroots Culture

What is very clear from the above program descriptions is the way in which QHA absorbs and leverages Hezbollah's obvious community networks. While social capital theory may be relevant here, I have chosen to not describe QHA's programs in this manner because I see it as fundamentally different in the following ways: Al Qard Al Hassan's branch manager noted that they conduct statistical studies to try to understand why loans are taken and to assess what the impact of these loans have been in the lives of the borrowers, particularly if their situation changed. The branch manager describes their process in opening up a new branch for the association: they first look at the capital they have and see how they can expand. They look at the number of applications to analyze what the program participation has been and what contributions they are receiving. Learning is done in several ways. One way QH engages with its users is through the usual institutional mechanisms which include complaints in boxes installed in all of the branches, access to a special number and an email address. They also as mentioned earlier have a deep tradition of learning and adapting across the board among all social services and have their own think tank.

#### *3.6.1. The Language of Discipline and Empowerment*

What also makes QHA unique is their ability to maintain their redefinition of social and economic benefits, within the microcredit context. Central to benefits of their borrowers is the Hezbollah framing of poverty: "It is not poverty per se that determines whether one is oppressed, but deprivation and exploitation. It is only when poverty is the result of state discrimination, negligence and abuse that it becomes synonymous with oppression. Otherwise poverty is merely a social description" (Saad-Ghorayeb 19). What has been often been excluded as both an economic development tool that also reduces poverty is that microcredit programs provide the poor with economic benefits and social benefits. Economic benefits are of course measured in increase in wealth due to the investment in a microenterprise or a productive loan resulting also increased asters. Social benefits have been embedded in the structure of microcredit as sources of women's' empowerment, causing many programs to be skewed toward female borrowers and strengthening the community's social capital.

In many was by redefining what the social and economic benefits are, Hezbollah is politicizing poverty as a construction within its microcredit program. QHA is one of many social networks that gives voice to Shi'a frustrations: "Hezbollah's NGOs perceive their mission as complimentary and essential to Hezbollah's military resistance and display martyrs and leaders of the party on their walls." The literature puts these social services as an example of affront in which members of the NGOs are recruited into the military wing, and as commonly believed that the poor Shi'a communities are readily recruited into fundamentalist organizations because of their alienation, but we see Hezbollah has a diverse class following and isn't just poor Shi'a. Several scholars acknowledge that the community building and service provision that Hezbollah run-NGOs are contributing to the political support of the party, is neither surprising nor unpredictable. And while it was originally a point of interest for this study, but quickly abandoned because sources were difficult to access, that those that do NOT want to abide by the religious commitment of the organization would be turned off from the social services. Harik says that the social services do alienate some people if services are linked publicly with Hezbollah. However, for those that don't have a choice, either because Hezbollah is the sole provider because it has been performing so well) – but what happens when you are actually co-existing in the same neighborhood per Al Majmoua and Al Qard Al Hassan. (How they conceptualize the borrower as a part of the community??? And also how they see the bank as a community as well)???

Borrowers and staff of both programs were asked what a good borrower was. QH branch manager noted that a good borrower was one that pays back on time and has no payments due at all (loan and participation fees). The QH program offers an incentive where if the borrower is able to repay all of the money by the midterm point, they can return a part of the fees to them.

The Economic and Social Commission for Western Asia writes "Semi-formal institutions, primarily NGOs have resource to provide grants and credit and are often trusted by the community, but they have problems with the mentality of the staff. These organizations usually provide humanitarian relief services, and their clients will not expect them to be tough with loan recovery" (ESCWA 16). This is has been described as a "Meso condition" in the hindrance of microfinance, clearly there are cultural and institutional norms that must have transformed all aspects of the NGO to engage in "best practice." Because one of the most pressing types of risks for MFIs is default risk, much of most financial institutions and MFIs target coping with this risk. This has also fundamentally created more careful lending practices in which taking chances on non-payments, late payments, complete default or other risks is used to carefully trained staff. What has been interesting to many researchers about the Grameen 1 model is that it (groups) can form their own groups and so it overcomes the "adverse selection" problem; through this method the problems of not knowing whether a borrower is safe or not is solved through community knowledge!!! Thus, in many ways the NGO is empowered and enabled to provide local information for the outside lender such as the urban bank or the international investor. The group process makes account for "joint liability" – so the safe borrowers will be attracted it its own. This is one example of how social sanctions in vclose-knit societies can be an enforcement mechanism that potentially circumvents the limited liability issue. In many ways the social capital that enables this to happen in the Grameen model is not different from that which happens on a daily level with QHA. Belonging to similar communities and villages also can correct for the information problem and encourage solidarity and safer borrowing practices by groups. In this case, QHA is fundamentally more active at facilitating these groups and finds group lending and connecting different aspects of the lending process (e.g. the guarantor to the borrower or to the contributor) central to its core ethos.

The organizational discipline of QHA is also impressive, given that it acts as a savings association in which people trust to deposit their gold with them. Trust is critical in creating these bonds. When discussing the prospect of saving with the borrowers many only adopted the provision of the loan and didn't readily deposit their funds in to the bank account they opened.

### *3.6.2. Challenging Development Consensus: The Role of Agency*

The question was asked if this improved their lives, and it is clear that the access to additional funding to either put money into their business or assisting hospital bill payments was helpful. However, it is important to note that these borrowers and their families often made considerable adjustments in order to account for the shock or the change. The loan may have facilitated this shock so that life could more or less go on somewhat interrupted but it was perhaps not the main facet of their contingency plan to manage economic hardships:

> Mai's oldest daughter, Lana, dropped out of law school and took on a full-time job as a sales representative in a large retail store. Her family had decided together that she would earn money until her younger sister, who had a chronic and serious medical condition, would finish her university studies. At that time the younger sister would support her

older sister's school fees. Lana excelled at her job and had been promoted over the years to a manager. She said she was reconsidering going back to law school, and now is thinking about where she wants to continue her education.

The branch manager was very clear that the first and foremost purpose of these loans is to "facilitate the daily loves of the poor." Thus these loans do serve as a way to manage their own resilience or ease it.

One of the borrowers noted, "If I pay back this loan on time, I can get more money for the next loan." When asked what the borrower would do with that loan, she replied, "I don't know, but I'll sure I'll make some use of it! Maybe fixing up the store…I don't know," she chuckled and noted that she was a responsible borrower and that that was the NGO's concern and right. If she is able to appeal to that interest, she then could also exercise her own. She was very matter-of-fact, and also noted that the amount of the second loan, $2000 was not the original amount that she had requested. She added, "I think I could get $4000 for my next loan."

While this practice is not new and many borrowers have learned how to make the program work for their varied interests, the development goal of this particular loan was not as readily visible. Empowerment is often framed around women and gendered roles, and yet we see even in the case of Munira's mother, she has received 8 loans all for the same person and reason over the course of 11 years. How has her position in her family and society changed fundamentally because of the loan. Now instead of one year she has 11 years of the same income earning actions and her economic productivity may have been wanting.

# Chapter 4: Conclusion

Al Qard Al Hassan Association's microcredit program but rather to demonstrate that most salient about this narrative of the perceived Lebanese schism is a surprising hybrid narrative which falls between the literature's polarized portrayals of development norms around microfinance and Hezbollah as an Islamist clientalistic political party. These dichotomies I have argued are largely false as both Al Majmoua and Al Qard Al Hassan Association reveal a more nuanced approach to microcredit despite distinctly different ideologies. I have tried to argue that Lebanon and the case of Al Qard Al-Hassan offers a more nuanced understanding of how the paradigm of global microcredit interacts within a specific local context

What kind of institution is the best fit for microcredit in this context? What mechanism makes QHA attract a greater number of borrowers and maintain its success and its program identity? It is important to note that despite the common evolution of the sector, no clear consensus has emerged that determines the ideal structure to deliver microfinance services, despite the trend of commercialization pushing the industry in this direction. In the case of Lebanon, three MFIs which may be deemed as the most successful are in fact "incorporated under different status," all have different political origins but began as NGOs and have evolved in to their own presence in the industry today: Ameen s.a.l., Al Majmoua, and Al Qard Al Hassan.

I have also discussed here how Hezbollah has been able to resist the trends of institutional convergence particularly in the Lebanese microcredit industry for several surprising reasons. First, they have been able through an active ideological stance which many Hezbollah scholars have argued fundamentally defines and therefore determines the pursuit of social and economic benefits as different than the proponents of microfinance. However, it is important to remember that while consumer loans via QHA's Gold Loan program seem to be the most popular, economic development and poverty alleviation is a primary goal of the program. Rather than institutionalizing norms, Hezbollah has been able to maintain a flexible stance in its programming by closely addressing local needs and not being dominated by strict capital restrictions or borrower recruitment needs. In addition, despite a more nuanced and structural stance of what poverty entails and therefore how it should be engaged with, unfortunately we see that the borrowers of QHA with whom I spoke with are longer-term borrowers who often take out loans for the same use purpose. In many ways, the loans facilitate a management of the status quo of their lives given the shock to their consumption curves. However, the association while it enables the borrower to meet his income needs, perhaps doesn't fundamentally challenge how these families are managing their assets or addressing shocks such as unforeseen expenses. What has actually changed in the lives of all of the borrowers besides increased access to liquidity and credit that we can measure?

The borrower's perspective reveals that perhaps they are or are *not* participating in this resistance society. Is microcredit attracting borrowers who are just looking for loans and are using them as a service because of how institutionalized the program has been able to become over the course of almost three decades? Or is Hezbollah disseminating codes and norms that produce a specific types of social and cultural environment, which means participating in these programs echo Hezbollah norms and values? My understanding is that both types of engagement are very plausible and probably happening. In addition, Hezbollah's Al Qard AL Hassan's most prominent feature of their microcredit program requires a higher level of discipline and community trust than most operating MFIs in Lebanon require. Because borrowers deposit gold, the association acts as a savings and loans organization.

The two programs when compared had key differences and similarities, which I argue largely pivot around Hezbollah's ability to create rather than react to social capital in the communities of Al Dahiyeh. Dense spaces of historically controlled areas governed by Hezbollah facilitate the mechanism of effective social network leverage and reproduction. I argue that these are conscious and deliberate political acts created and largely a product and a source of the success of their holistic social service network. Social capital as a political project has very well enabled microcredit to become a widely successful service. While these webs can be seen as clientalistic webs of patronage, it is important to note that the perception of how Al Qard Al Hassan is perceived is not predictable. Perhaps it is easier to perform neutrality and apolitical engagement with the development tool of microcredit that with other services?

In many ways QHA has been able to depoliticize its services by performing as a bank while also significantly leveraging its social network that it has historically established on the ground over the course of the last 25 years. QHA is a highly flexible and context specific, program. Organizational rules don't dictate norms of practice but rather local context, the client's needs, and the staff persons seem to.

As more competition arises in these communities, perhaps word of mouth is no longer enough. Al Majmoua staff have viewed QHA as competition, and in my interviews with borrowers while there was an embedded understanding of the value of the social network, the decision made by QHA borrowers often excluded the overt political affiliation with Hezbollah and was because they were more familiar with and recognized QHA. The real test will be when QHA is not the sole provider in this area. As the sole provider for a host of other services, Hezbollah has held a monopoly in this service, but we see that this is changing. The question is will borrowers be persuaded to choose among other service providers for credit? Or has the reputation of QHA as a reliable Hezbollah party been so well established that matching borrower need to program is no longer an issue because of the greater flexibility QHA has shown to exercise over other MFIs.

Finally, as Hezbollah may lose its monopoly of providing easy access to relatively low-interest credit, and as more MFIs move in to high-density areas, the competition may require QHA to better leverage its social network in order to compete with other MFIs. In my borrower interviews, I saw very real competition, and often borrowers did not seem to have a strong preference over one institution over the other but rather enjoyed the comfort, trust, and the familiarity they had with the selected institution, including knowing a loan officer. This could be a matter of time or a result of active recruitment. Practitioners also need to engage with the structural and political make up of social capital to leverage their microfinance programs better.

For further research, can we consider access to credit in the form of microcredit a social service in the traditional sense? This is how the literature approaches QHA based on the historic development of the program, but moving forward does this program perform and leverage social capital in a way that is different? Is it less political and more apt to competition and market forces than other social services?

What I found most surprising was the lack of overt political decision making that many of the borrowers engaged in. Choices around which lender and why they chose them were often not at all based on just politics or rational choice, but were often more bound by their immediate social networks and not necessarily larger political ties. For example, they knew someone working in the branch or their sister got a loan from the organization. Perhaps we are over ascribing politics and discourses of patronage onto the service of microcredit. Perhaps microcredit is about credit. For further research, a more representative sample of borrowers across social services would perhaps lead to further understanding of what competing social networks borrowers face particularly when a service can be provided by a host of institutions.

And finally, both programs did not readily address the poorest of the poor largely because the target population didn't seem to be this group. However discourse about poverty and empowerment often contradict this reality. What then is the function of Hezbollah's control of this social capital? Does it have the ability to challenge the paradigm of patronage/control over a specific place within a specific type of development ideal?

The Al Qard Al Hassan hybrid narrative is a successful "bottom up" microfinance program that actually engages with deliberate top-down productions of social capital that is centrally managed and locally produced. The program is able to maintain neutrality and dignity around providing a service that is largely seen as a means to manage rather than fundamentally alter borrowers lives. What is altered and perpetuated however is the community created around the association, the discipline and trust built in the success of the long-standing institution, and the connections made across groups of borrowers, guarantors, contributors, and participants. Perhaps then even for Al Qard Al Hassan, the program goal seems more inclined in favor of deliberate externalities of building healthy and robust institutions and communities of solidarity rather than dramatically improving an individual borrower's life.

# APPENDICES

**Appendix 1: Map of Beirut and Map of Al Dahiyeh, Beirut**

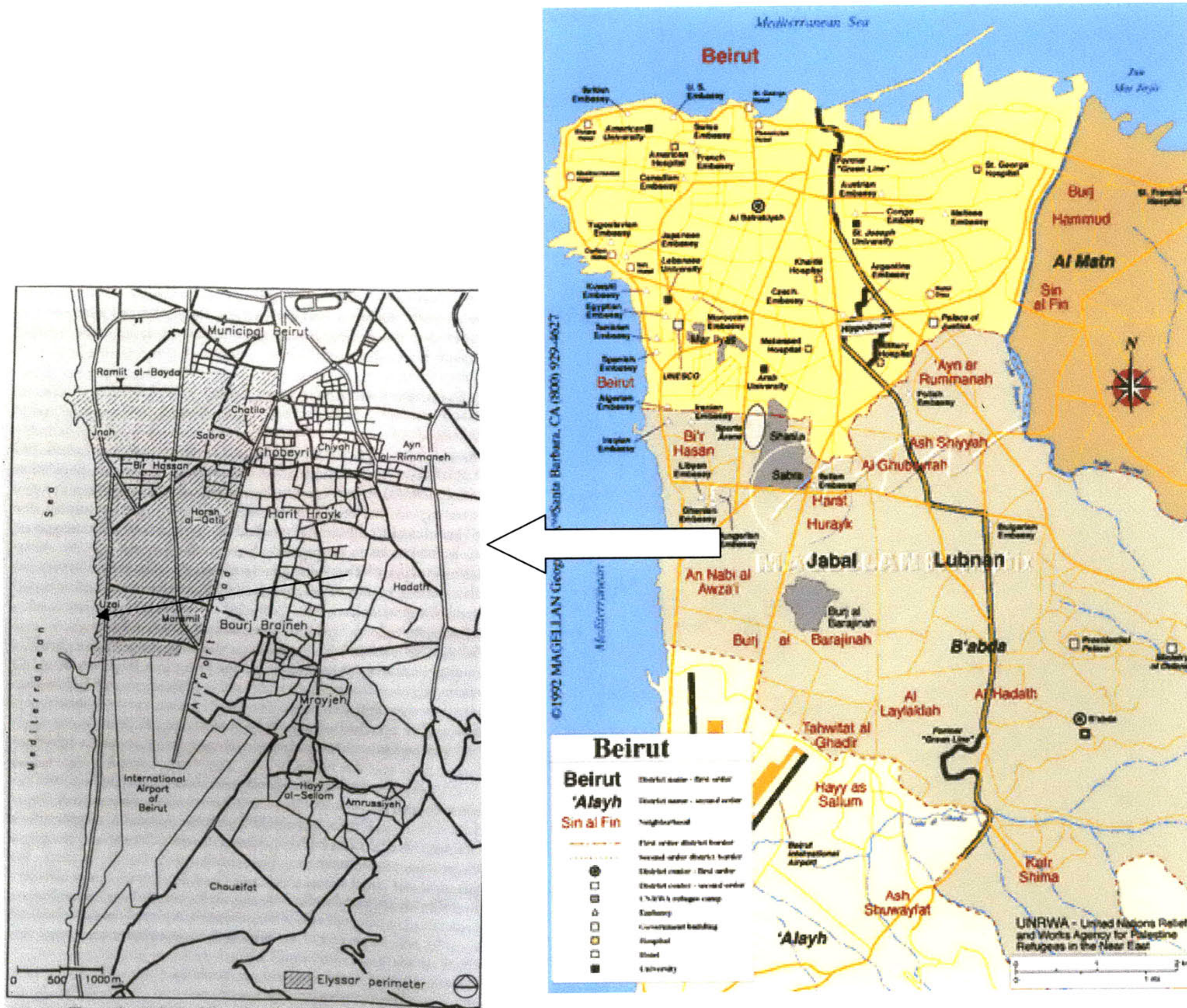


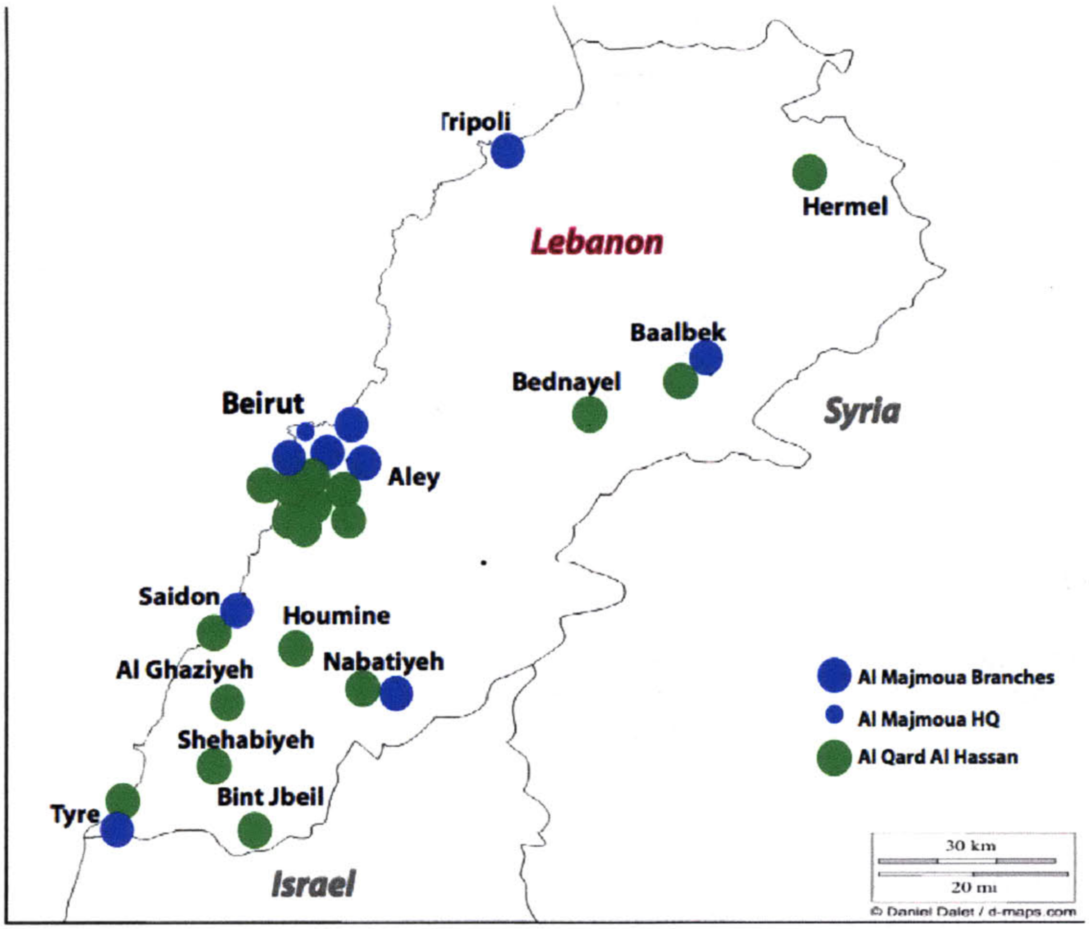

FIGURE 3.2 The southern suburb of Beirut and the Elyssar project perimeter. (SOURCE: Adapted from Harb el-Kak, 1997).

Source: http://www.liban-voyage.com
Source: Harb El Kak, Mona. Post-War Beirut: Resources, Negotiations, and Contestations in the Elyssar Project. In Capital Cities: Ethnographies of Urban Governance in the Middle East by Seteny Shami

**Appendix 2: Map of Lebanon**


Source: http://www.liban-voyage.com of Lebanon

**Appendix 3: MFI Geographic Spread: Al Qard Al Hassan Association and Al Majmoua**



## Appendix 4: Al Qard Al Hassan Association and AL Majmoua Loan Program Characteristics

| Program Characteristics | Al Qard Al Hassan Association | Al Majmoua* |
|---|---|---|
| Interest Rate | N/A | 1.4-1.5% flat/month+1.65% flat/month |
| Administrative Fee/Interest Rate | Cost of Loan + Cost of Gold Storage Fee; 10-12% flat/year | N/A |
| Outreach/Marketing | Word of Mouth, Brochures, Advertisement | Brochures, Loan Officers. Advertisement |
| Staff Persons | 160 | 80 |
| Number of Branches | 18 | 9 |
| Capital Sources | Revolving Loan, Participants/Contributors | ESFD loan capital, investors, grants, bank partners |
| Number of Borrowers in 2008 | 60,262 | 12,017 |
| Total Loan Portfolio (USD) 2008 | $89,430,121 | $9,320,446 |
| Location of Headquarter/Main Branch | Haret Hreik and Hay El Salloum | Hamra, Beirut |
| Most Successful Branch | Haret Hreik and then Hay El Salloum (Beirut branches) | Two best performing Bourj Barajneh and Saida |
| Employee Incentive Structures | None | Yes |
| Technical Assistance/Non-Financial Services | Not from QHA, but may be directed to other services | Yes; Business Development Services |
| Loan Size | Individual: Minimum: 100 USD<br>Maximum: 5,000 USD (usually reserved for long time borrowers of 6-7 years)<br>Group:<br>Minimum: 500 USD<br>Maximum: No Limit (depends on the number of people in the group who can pay back; e.g. one group has a loan of 11,000 USD | Individual: (Fixed assets and working capital:<br>Minimum: $500<br>Maximum: $5000<br><br>Group Loan: (Working capital):<br>Minimum: $100<br>Maximum: $1300<br>No collateral or guarantor required<br>Please see Table 4 |
| Loan Default Rate | 10%* | less than 1% |

*per interview with branch manager: repayment rate of 90%

# Appendix 5: Organizational Characteristics of Main MFIs in Lebanon

| Name Of Institution | | Al Qard Al Hassan Association | AEP | Caritas | CLD | Al Majmoua | Al Tamkeen | Makzoumi | Ameen s.a.l. | ADR | FAWL | UNRWA | Emkan |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Began Microcredit Activities** | | 1983 | 1984 | 1985 | 1992 | 1994 | 1996 | 1997 | 1998 | 1999 | 2001 | | 2009 |
| **Insitution Type** | | NGO | NGO | NGO (Catholic) | Co-op | NGO | NGO | NGO | S.A.L. | NGO | NGO | Donor | |
| **Funding Source** | | | | | | | | | | | | | |
| **Founders** | | Hezbollah | | | | Save the Children via USAID grant | | | CHF International via USAID grant | | | | Hariri Foundation in 2007 |
| **Methodology** | Individual | x | x | x | x | x | x | x | X | x | x | x | x |
| | Group | x | x | x | x | x | | | | | x | x | |
| | Village Banks | | | x | | | | | | | | | |
| | Coop | | x | | | | | | | | | | |
| **Products** | Start Up | x | x | | | x | | | | x | x | | x |
| | Enterprise Businesses | x | x | x | x | x | x | x | x | x | x | x | x |
| | Housing | x | | x | x | x | | | x | | | x | x |
| | Consumer Personal | x | | | | | | | x | | | | x |
| | Agriculture | | | | x | x | x | | | x | | | x |
| **Most Popular Program** | | Gold Loan, deposit gold to receive loan based on value of gold | | | | | | | | | | | |
| **Demographic** | Rural | x | x | x | x | x | x | | x | x | | | x |
| | Urban | x | x | x | x | x | | x | x | x | | | x |
| | Concentration | Dahayeh, the South | South | | | National | Mt. Lebanon | Beirut | National | | | Refugee sites | National |
| | Refugee Camps | | | | | x | | | | | x | x | |
| | Foreign Laborers | x | ?? | ?? | | | | | | | | | |
| **Interest Rate*** | General | 10-12% flat* year | 10% flat yr | | 7.5-8.5% flat depending on currency and maturity | 1.4-1.5% flat month - 1.65 % flat month | 5.5% agricultural, 9% commercial Flat yr | 18% flat yr | 16.4% - 35.8% flat yr | 12% flat + 3% insurance | 7% yr (Individual Loan), 20% flat yr (Group Loan) | 7% flat yr | |
| | Avg monthly flat | 0.70% | 0.63% | NA | | 1.50% | 0.75% | 1.50% | 1.37% | 1.00% | 0.29-.83% | 0.58% | |
| | Up-front fee insurance | NA | NA | | | 2% (Individual Loan) | NA | NA | NA | 3% | | NA | |
| | Effective Monthly rate | | 1.49% | | | 2.98% | 1.35% | 2.64% | 2.42% | 1.54% | 0.58-1.65% | 1.05% | |
| **Maximum Loan Amount (USD)** | | 5000 | 5000 | | 20000 | 10000 | 5000 | 5000 | 5000 | 4000 | 500-3000 (Group Loan) and 2000-40000 (Individual Loan) | 5000 | |
| **Average MFI Loan Maturity (months)** | | | 24 | | Up to 36 | 24 | 36 | 18 | 18 | 24 | 12 (Group Loan), 36 (Individual Loan) | 36.00% | |
| **Loan Portfolio Size (USD)** | | | $2 million* | 1,600,000 | 900,000 | 9,320,446 | 1,300,000 | 426,447 | 11,619,066 (2008) | 1,683,481 | 1,115,335 | 1,714,471 | |
| **Aprroximate umber of Borrowers (active)** | | | 700 (2000 total)* | 1,500 | 265 (July 2007) | 12017 (2008) | 635 | 423 | 11,851 | 1,127 | 882 | 1,290 | |

*Many MFIs requested that I not report interest rates. The rates here are all from the CGAP: Diagnostic Report on the Legal and Regulatory Environmnet for Microfinance in Lebanon, Dec. 2009.

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