Social Finance Brief

December 2022

Making Finance Work for Refugees
Ibdaa Microfinance SAL, Lebanon

About this publication

The ILO documented the journey of few financial services providers (FSPs). The cases describe the actual decision-making process inside the FSPs as it evolves through the various "stages" of the journey to become inclusive of refugees and host communities. In each one of the cases, we focus on one or more of the stages (identified by the sections' titles) where the FSP think it has a good "lesson learnt" for the global FSPs community with regard to the outreach strategy design and implementation.

Key points

- Since its inception, Ibda'a has served Lebanese and Palestine Refugees in Lebanon. With a strong social mission,
- By end of 2014, the portfolio of Syrian borrowers had performed at par with nationals, and few differences in the client profiles were observed. This led Ibda'a to ease risk mitigation requirements
- By end 2018, FBRs from 15 different countries made up 15% of the FSPs' loan portfolio
- Ibda'a was committed to further expand its portfolio to include Syrian refugees in Lebanon. However this has not been implemented, as market developments and risks overrode any progress starting in March 2019
- The main legal and reputational risk facing FSPs' expansion to financially include more FBRs, is the stance of the government that severely curtails the ability of refugees (especially Syrians), to make a living in Lebanon

Background

Lebanon is a multi-cultural country, where citizens are estimated to make up around 68%. Foreign-born residents (FBRs) are of diverse, but mostly Arabic-speaking nationalities, and Syrians make up a majority of all FBRs, followed by Palestinians. Since 2015, the rhetoric of an increasingly xenophobic government has ostracised foreigners and Syrian refugees in particular, barring them from working and operating businesses. Underlying structural dysfunctionalities in the dollarized economy eventually compounded into an acute financial crisis in mid-2019 after four consecutive years of negative balance of payments, with the Central Bank instituting capital controls severely limiting all banking operations.[1] A proposed tax on mobile phone services triggered mass protests in October 2019, resulting in a political crisis. In February 2020, the Coronavirus reached Lebanon, which is now in lock-down. These multi-facetted market risks have thrown FSPs into survival mode.

Ibda'a Microfinance SAL was established in Lebanon in July 2012 as an initiative of the Arab Gulf Fund for Development (AGFUND) jointly with nine socially responsible Lebanese investors to provide affordable microfinance services to poor Lebanese and legal residents of Lebanon. Ibda'a is registered as a non-banking (credit only) financial institution regulated by the Central Banking Control Commission (BCC) in Lebanon, and forms part of the network of 9 AGFUND FSPs across the Arab world, including in Syria, Jordan, Sudan and Palestine. Ibdaa has adopted a social business model whereby shareholders are not entitled to any dividends.

Ibda'as mission is "to provide low-income *people in Lebanon* particularly women, youth and micro entrepreneurs with innovative and inclusive financial services that enhance their socioeconomic conditions and help them achieve their goals." By end 2018, Ibda'a served some 18,480 active clients from eight urban branches, offering six individual credit products, targeting male, female and youth entrepreneurs and wage-earners. The largest product by outreach is a 6–24-month multi-purpose loan to women, which can be offered without guarantors. Overall, women comprise 71% of clients in 2019. All Ibda'a clients are covered by a credit-life insurance, which off-sets any outstanding loan balance in case of death of client and pays out a small funeral contribution to the next of kin. In addition, 44% of clients are covered by a hospital plan insurance product offered through Ibdaa's insurance broker, refunding in-patient hospital costs and disability (temporary or permanent) for a number of days pending the loan size, and the cost to clients varies accordingly. While data entry remains centralised at head office, loan officers can access client files and record client appraisal data on their Ibda'a mobile application, an innovative platform which also has a client interface, enabling clients to initiate the loan application process, see their loan balance, repayment due dates, etc. Ibda'a app has potential as the basis for a future mobile wallet, should payment system regulations permit. Until then, Ibda'a - like most MFIs in Lebanon - issues loan checks for customers to cash out at banks.

Since its inception, Ibda'a has served Lebanese and Palestine Refugees in Lebanon. In 2013, Ibda'a piloted a small group lending product to Syrian refugees, and in 2014, it was decided to open up the existing suite of individual loan products to Syrians (and other FBRs) that met the eligibility criteria. FBRs made up 15% of the overall client portfolio (2,730 borrowers) at end 2018. By end February 2020, the triple whammy of political, financial and health crises in the market has led to a contraction of the portfolio to around 14,000 borrowers, a spike in the Par(30), but only to 7%, as Ibda'a is lending mostly in local currency. As at March 2020, Ibda'a has been forced to stop loan disbursements, as borrowers would be unable to cash their loan checks at banks which are largely closed (ATMs remain open).

1. Ideation phase (screening product and market ideas)

With a strong social mission, Ibda'a was committed to further expand its portfolio to include Syrian refugees and other FBRs in Lebanon, if the perceived risks could be contained and mitigated. Ibda'a wished to support the ability of refugees to improve their socio-economic situation while in exile in Lebanon and strengthen their capacity to prepare for a return home, when conditions in Syria allow. The Board was overall supportive of growth, inclusion, and innovation, and Ibda'a also acknowledged the potential that serving refugees in exile (and other FBRs) could develop into opportunities for strengthening linkages with Ibda'a Syria, and the overall AGFUND FSP network. The Executive management, led by the CEO and the COO, drafted a concept note to the Board in July 2013, suggesting that the market be tested with a specific solidarity-group product, as the existing range of individual loans were deemed too risky and possibly not suitable for the perceived poor segment of refugees.

[1] The Lebanese Lira has been officially pegged to the dollar since 1999, but it has plummeted 40% on the black market as local banks ration dollars, preventing depositors to access their USD savings.

Table 1: Ibda'as FBR portfolio as at end 2018

Loan Product	% of FBR borrowers (n = 2,730)
Multi-purpose loan for women	45%
Micro-enterprise loan	21%
Salary-guaranteed consumption loan	17%
Youth enterprise loan	16%

The Board approved a limited amount of capital for product development and lending to Syrian refugees. At the time, no external funding or TA was sought, and the pilot was conducted by the Operations department, that met with NGOs working with refugees and trained pilot branches in the group methodology.

Early in 2014, Ibda'as executive manager met with UNHCR and three other humanitarian agencies to seek a collaborative MoU or agreement with the aim to access more data on the registered refugee population, and to drive referrals. At the time, however, UNHCR appeared reluctant to enter into agreements with "non-humanitarian" FSPs, or at least FSPs incorporated as "commercial" NBFIs, and/or feared alienating the Government. Ibda'a decided to expand under its own steam, but in hindsight, an agreement with an international agency might have lowered Ibda'as operational risk in the difficult environment.

2. Product strategy

During a 6-month pilot project in the second half of 2013, Ibda'a designed a group loan product and tested it with a few groups of Syrian women and one mixed group of Lebanese and Syrian women. These groups performed similarly, and not differently from the portfolio of nationals, but the demand from refugees was for individual loans. Realising that the refugee segment was more diverse than initially thought, and very similar to nationals, Ibda'a revised its target segment to include economically active (employed or self-employed), urban, peri-urban and camp/gathering-residing refugees and FBR business owners with municipal or other licenses, having been in Lebanon not less than 24 months, and decided to open up the suite of standard individual loans to Syrian refugees from the start of 2014.

By end 2018, FBRs from 15 different countries made up 15% of the FSPs' loan portfolio, although the majority (68%) were Palestinians, and a majority of the rest were married to Lebanese. 812 Syrians (30% of the FBR portfolio) had loans outstanding, of whom 37% were women (see Table 1).

As part of the ongoing business planning process, Ibda'a was committed to further expand its portfolio to include Syrian refugees in Lebanon, if the perceived risks can be contained and mitigated. Ibda'a might have preferred operational funding for an in-house process but could not identify sources of funding. Instead, Ibda'a sought TA funding from AGFUND and the Swiss Capacity Building Facility in 2018 to help define a more systematic strategic plan for Ibda'a to become fully inclusive of all the FBR segments resident in Lebanon.

The explicit aims of the expansion were initially formulated to accelerate growth in the fiercely competitive market; contribute to increased financial inclusion in Lebanon; and to facilitate the eventual return home of Syrian refugees with a savings-product linked to insurance that Syrian refugees could access upon their return via the sister organisation Ibda'a Microfinance Bank Syria. This latter strategy reflected government policy and was likely to be well received by authorities but was challenging due to limited demand among Syrian refugees, capacity limitations in Ibda'a Syria, and the regulatory restriction on Ibda'a Lebanon to mobilise voluntary deposits. Following a feasibility study, Ibda'a undertook action planning to determine the steps ahead, and set targets for the expansion. The Action Plan has not been implemented, as market developments and risks overrode any progress starting in March 2019.

3. Risk management and mitigation

Credit Risk

With its history of serving Palestinians in Lebanon and a strong social mission, Ibda'a is a relatively inclusive FSP. Nevertheless, staff met the new segment of refugees – especially Syrians, with whom Lebanon shares a complex and intertwined history - with some credit risk concerns at first (see Box 1). The positive experiences during the initial pilot at a few branches, and the increasing realisation of the diverse and unserved refugee market helped build buy-in, but risk was still considered high. When Ibda'a opened up its individual loan products to refugees (in addition to continuing the solidarity-guaranteed group loans) in 2014, risk management measures for the new segment included:

- Initial loan amounts were lowered for Syrians;
- All individual Syrian borrowers had to have a Lebanese (preferably public sector) employee as guarantor.

Some loan officers worried that refugees in their portfolios would increase arrears and hence reduce their incentives, but this did not come to pass. By end of 2014, the portfolio of Syrian borrowers had performed at par with nationals, and few differences in the client profiles were observed. This led Ibda'a to ease the risk mitigation requirements:

- If cash flow/income level warranted, Syrian women could take multi-purpose loans without a guarantor, like Lebanese women;
- Guarantors of enterprise loan customers did not need to be public sector employees; and
- The 'special' group loan product was phased out, and the FBR portfolio segment integrated in all the standard individual Ibda'a loan products, managed by the Operations department.

▶ **Box 1: Initial perceptions of risks**

- ▶ Transiency/mobility/flight – refugees may return en masse to Syria at any time or just escape with the money
- ▶ Fraud – they could be criminals
- ▶ Aren't they unbankable? They are too poor!
- ▶ We don't know these people...we need a citizen to guarantee them!
- ▶ Stereotypes: Syrians are excellent business and sales people – they may out-compete national clients.

A few larger SME loans were provided to refugee clients in 2014. Three of these loans defaulted in 2015 as the Government began tightening policies on refugee-owned enterprises. This resulted in a higher average PaR(30) across the refugee portfolio of 2.3% for 2015, but overall the FBR portfolio segment retained a PaR close to the total Ibda'a portfolio.

Reputational risk

Lebanon, which, at first, welcomed refugees, has changed its stance in the past 5 years. Syrian refugees in particular are blamed for a variety of problems that have, in fact, characterised Lebanon for many years. Real or imagined, this public and media discourse has led to increased fear, xenophobia, and exclusion of Syrians in Lebanon, especially low-income refugees. Refugees from Palestine (but not Palestinian refugees from Syria) have generally become an integral part of Lebanese society, and are not nearly as ostracized, and Syrian investors and proprietors of long-standing businesses have been less impacted. Refugees from elsewhere (Iraq, Sudan, and other MENA and African countries) are fewer in number, relatively invisible in the communities, and hence less affected by the inflamed rhetoric, but also less supported by humanitarian agencies. The large segments of female migrant domestic workers and 'traditional,' typically male migrant workers from Egypt, Southeast Asia and Africa, and their families, have not been as targeted in the public discourse.

Paradoxically, the main legal and reputational risk facing FSPs' expansion to financially include more FBRs, is therefore the stance of the government, including municipalities, that severely curtails the ability of refugees (especially Syrians), to be legally resident and to make a living in Lebanon. Residence permits are very difficult and expensive to obtain, refugees have limited access to decent (formal/legal) work (work permits), Syrians are restricted to work in three low-pay sectors only, and the Ministry of Labour has instituted a 'ban' on Syrian refugees opening and running businesses. As a consequence, refugees and other FBRs in Lebanon are now relying more on humanitarian aid, precarious jobs in the informal sector, and dwindling remittances for their livelihood.

Ibda'a mitigated the significant reputational risk by operating "under the radar." While refugee customers were served by branches, Ibda'a did not conduct any marketing campaigns, advertisement nor branding of its expansion. Refugee clients were recruited by existing clients through 'word of mouth,' which also helped minimize friction within the segment of national clients. Similarly, Ibda'a provided no public information or communication about its expansion. This "low profile" enabled Ibda'a to navigate an extremely difficult national policy environment, but also meant that the more sympathetic international microfinance community was largely unaware of Ibda'as progress, and Ibda'a therefore did not benefit as much as other FSPs from the reputational gains and access to additional finance to "first mover" FSPs.

The Banque du Liban (BdL) has not issued any prohibitions against serving FBRs, as long as FSPs comply with the KYC and AML/CTF regulations. Despite many Lebanese banks citing BdL regulations as a reason for not serving refugees, and many refugees understanding they are not allowed to open a bank account, this appears to be an internal de-risking strategy by banks rather than an actual legal constraint. Ibda'a did not find it a problem to perform regular KYC verification of new FBR clients as most have passports or national IDs from home. At least the Syrian national ID is officially recognised in Lebanon as valid personal ID. UNHCR was instructed by the government to stop refugee registration in May 2015, but many Syrians are biometrically recorded in UNHCR's Refugee Assistance Information System (RAIS) database, and have been issued with a registration letter. With a Data Sharing Agreement between an FSP and UNHCR, such registration letters could be verified against the RAIS, if required. However, the UNHCR letter is not formally recognised by the government as a legal alternative to residency permits, and the Lebanese Ministry of Interior has access to the RAIS, which could raise personal data protection issues.

As a regulated NBFI, Ibda'a is required to report financial data to the Banking Control Commission, and demonstrate compliance with AML/CTF regulations and Customer Due Diligence (CDD) and KYC requirements in reports to the Banque du Liban (BdL)'s main AML supervisory authority, the Special Investigation Commission (SIC). BdL takes a risk-based approach to supervision and requires FSPs to classify and report customers by risk grade. By the nature of refugee clients (except refugees from Palestine) being non-citizens, they are automatically classified with higher risk, which requires higher general provisioning. As Syrians still represent only a small proportion of Ibda'as portfolio, however, the higher provision expense was manageable. There is no direct information sharing between the BdL and the rest of government, so FSP reporting on AML compliance has not to date jeopardized the reputational risk mitigation strategy of keeping a "low profile." However, by mid-2019, the Ibda'a risk department recommended to stop issuing loans to refugees due to the increasing reputational and credit risk.

Market and liquidity risk

From around March 2019, the indicators of market health and stability started to deteriorate, as lay-offs, enterprise closures and prices increased, and access to dollars constricted. At first, this showed up in less demand for new loans, and in increasing arrears of less than 30 days. Ibda'as PaR(30) remained under 2% as it had been from the start, and it is likely that Ibda'a would not have picked up on the early warnings if PaR(1) and PaR(20) had not been monitored.

By mid-2019, when the Risk department warned against continuing refugee finance, as reputational risk was increasing, Ibda'a staff also saw an increase in Lebanese borrowers requesting rescheduling or refinance as they had lost their jobs or businesses. Ibda'a decided to continue disbursements (in local currency) albeit at reduced rates for as long as possible to demonstrate reliability and solidarity with customers, while emphasizing to customers that they must repay at least some of their dues. During the last quarter of 2019, the active portfolio dropped by 25% to 2016-levels.

When banks closed in December 2019, and customers would thus be unable to cash out their loan checks, Ibda'a stopped disbursements at a PaR(30) of 3.7%. By February 2020, staff were instructed to work from home due to the spread of the Corona virus, collection activities necessarily reduced, and PaR(30) increased to 7.3%. While high for Ibda'a, it is lower than for other FSPs that have issued the majority of loans in US dollars and are suffering losses from the devaluation of the lira against the dollar.

Ibda'as Asset and Liability Committee (ALCO) continues to meet online to monitor and manage the liquidity of the FSP. Customer loan repayments for the period of March – May have been frozen, in a proactive act on an expected announcement by BdL for banks to do the same, while borrowers are being encouraged to repay on outstanding loans. Ibda'a still have local currency liquidity to pay salaries and most fixed costs and is negotiating with BdL to get access to its frozen dollar deposits in commercial banks to enable the FSP to service its loans from international investors despite the informal capital control measures, but understandably perhaps, this is not a priority for the BdL in the midst of an unprecedented, multi-facetted crisis.

About "Making Finance Work for refugees and host communities"

This case and the others from the same series have been developed in the framework of the management course "Making finance work for refugees and host communities". It targets managers of FSPs that currently serve or consider serving refugees and host communities with financial services. Click here for more info.

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