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Resilience amid crisis: A sector assessment of microfinance in Lebanon

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Contents

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Executive summary

Lebanon has faced a prolonged economic, financial and political crisis, compounded by the COVID-19 pandemic, the 2020 Beirut Port explosion and the 2024 conflict between Israel and Hezbollah. These events have had devastating consequences for the financial sector and the broader economy. In this context, the International Labour Organization (ILO), under the PROSPECTS initiative, commissioned this assessment to examine the current state of the microfinance sector in Lebanon, its institutional resilience and its potential role in promoting inclusive recovery, livelihoods and job creation.

The assessment provides an updated overview of the sector's structure, performance and constraints. It examines the impact of the five-year multi-dimensional crises on microfinance institutions (MFIs) and identifies realistic instruments for sector recovery, stability and growth. The findings aim to inform programming under the ILO PROSPECTS initiative, which promotes inclusive livelihoods and financial inclusion as key enablers of resilience among host communities and forcibly displaced populations, as well as other ILO programmes and interventions by development partners.

The assessment focuses primarily on the supply side, analysing the operational and financial performance of MFIs, their adaptation strategies and the regulatory and policy environment. Although the report touches on client dynamics, no direct demand-side data were collected; instead, client-related insights are drawn from MFI perspectives and relevant secondary literature.

The assessment employed a mixed-methods approach, integrating qualitative and quantitative analysis through primary data collection, desk review and stakeholder validation. Data were gathered between April and June 2025 through:

- structured interviews with MFIs, regulators, donors, DFIs, impact investors and fintech actors;
- a standardized data collection tool;
- triangulation of quantitative and qualitative evidence to validate findings.

All seven active MFIs in Lebanon responded to the survey, covering 100 per cent of the sector. A validation workshop with 45 participants, including representatives from the Central Bank of Lebanon (BDL), MFIs, development partners and government institutions, helped confirm the findings.

Key findings

The assessment shows that, although liquidity constraints and currency devaluation have severely affected the sector and reshaped operations, microfinance institutions (MFIs) have demonstrated remarkable resilience and remained committed to their social mission. They have primarily adjusted the scale and structure of lending, issuing smaller, shorter-term loans to meet clients' immediate needs amid limited liquidity. The overall sector distribution has remained broadly stable, with agricultural lending increasing due to donor-supported programmes. Despite these constraints, MFIs continued to reach vulnerable and underserved groups, even as commercial banks largely withdrew from retail and SME finance.

The sector's endurance also reflects improvements in risk management and revenue diversification. Leading MFIs implemented multi-currency accounting systems, strengthened internal audit and operational processes, while diversifying their income sources through donor-supported programmes and technical assistance.

These adaptive strategies demonstrate that, even under extreme economic conditions, with modest liquidity and appropriate risk-sharing mechanisms, MFIs are well positioned to help sustain livelihoods, support economic activity and reach underserved groups, making them critical to Lebanon's economic recovery.

Macroeconomic context and sector contraction

Since 2019, Lebanon has experienced one of the most severe financial collapses in modern history. Hyperinflation, currency devaluation and capital controls wiped out deposits and eroded trust in the financial sector. Between 2019 and 2024, the combined value of MFI portfolios fell by over 90 per cent and the number of active borrowers declined by 75 per cent.

Institutional impact and adaptation

All MFIs faced liquidity shortages, capital losses and severe operational downsizing. Branch numbers fell by 57 per cent and total staff by 65 per cent between September 2019 and December 2024. Institutions such as Al Majmoua and Vitas were among the first to gradually resume limited lending in fresh US dollars, prioritizing shorter-term and lower-value loans, while other MFIs paused or drastically reduced lending or shifted towards non-financial services.

Portfolio composition and client trends

Lending has increasingly shifted towards smaller, shorter-term loans. By 2024, loans below US$1,000 accounted for more than half of the total portfolio. While the overall sectoral distribution remained broadly stable, the share of agricultural lending has more than doubled, rising from 7 per cent to 15 per cent, largely through donor-supported initiatives such as ILO PROSPECTS and AFD's BASATINE. The proportion of women borrowers declined from 54 per cent to 44 per cent, reflecting the deterioration in women's economic participation during the crisis and the COVID-19 pandemic. Similarly, the share of refugee clients fell from 11 per cent to 4 per cent, partly due to restrictive regulations and political pressure.

Liquidity constraints

Access to funding remains the sector's most critical constraint. Since the onset of the financial crisis, MFIs have faced severe liquidity shortages, which have constrained their ability to sustain operations, cover basic expenses and resume lending at scale. With US dollar deposits frozen in Lebanese commercial banks and external funding largely unavailable, most MFIs continue to rely on short-term donor support, grants and tightly managed cash reserves to maintain minimal lending activities.

Funding environment

During the crisis, international and domestic financing nearly ceased. The World Bank's B5 Fund, managed through the Lebanon Financing Facility (LFF), provided limited but critical operational support and capital injections to three MFIs: Al Majmoua, Vitas and Ibdaa. The Netherlands-supported ILO PROSPECTS pilot with Al Majmoua represented a milestone in restoring sector confidence, combining funding with training for 1,564 beneficiaries and supporting nearly 2,000 jobs. Its success encouraged renewed engagement from interested partners.

By early 2025, interest from funders had begun to recover, although most DFIs and impact investors continue to require donor-backed guarantees, typically ranging from 30 to 50 per cent to mitigate risk.

Regulatory and institutional framework

Lebanon still lacks a dedicated microfinance law. MFIs operate under a fragmented regulation framework defined by BDL circulars and institutional legal status, resulting in uneven oversight across the sector. Existing thresholds under Circular No. 505 have become obsolete following the devaluation of the Lebanese pound (LBP). While there is broad consensus among stakeholders that regulatory reform is desirable, it is not currently considered a priority compared to more pressing challenges, particularly the lack of liquidity.

Opportunities

Despite the sector's contraction, demand for microfinance remains exceptionally strong, especially among micro, small and medium-sized enterprises (MSMEs), women and rural enterprises. The cautious revival of lending in fresh US dollars, renewed donor engagement and growing interest in blended finance and guarantee mechanisms offer entry points for sector recovery.

Key recommendations

The assessment identifies a set of measures aimed at restoring the stability of Lebanon's microfinance sector, strengthening institutional resilience and enabling MFIs to contribute more effectively to inclusive economic recovery.

At the sector level, the assessment recommends the establishment of a structured sector dialogue platform bringing together MFIs, donors, DFIs and regulators to align technical and financial support, improve coordination and reduce fragmentation. In parallel, the creation of an emergency liquidity facility is proposed to provide short-term liquidity to MFIs during periods of crisis. The sector would also benefit from the mobilization of de-risking instruments, such as donor-backed guarantees, to attract private and impact investors. Strengthening the Lebanese Microfinance Association (LMFA) is essential to enhance its coordination, advocacy and data-sharing role, alongside the initiation of a regulatory dialogue to modernize the existing framework.

At the institutional level, MFIs are encouraged to diversify their product portfolios to include agriculture, green finance and larger MSE loans, once liquidity is secured, and to expand outreach to underserved segments, particularly women, youth and refugees. Institutions should enhance digitalization to reduce operating costs and improve service delivery, while reinforcing staff capacity and retention to preserve institutional knowledge and operational continuity. The integration and strengthening of non-financial services, including financial literacy and business development support, are also recommended to improve client resilience and long-term sustainability.

For the ILO and other international organizations, the priority is to act as catalysts for coordinated engagement, ensuring that support mechanisms reach smaller and regional MFIs alongside larger institutions. Engagement with lenders such as social impact investors and crowdfunding platforms should be promoted to expand available funding through guarantees and concessional mechanisms. The ILO and its partners should also provide targeted technical assistance to MFIs for capacity building, digital transition and gender-responsive product design, while supporting the institutional strengthening of the LMFA for it to function effectively as a coordination and data-sharing platform.

Despite near-collapse conditions, Lebanon's microfinance sector remains a critical vehicle for inclusive economic recovery. MFIs have demonstrated resilience by adapting operations and maintaining outreach to tens of thousands of clients within a dysfunctional banking system. Recovery will depend on restoring liquidity, improving regulatory clarity and consistency and leveraging donor-supported blended finance to enable institutions to rebuild portfolios and extend credit to the entrepreneurs and vulnerable populations underpinning Lebanon's socio-economic recovery.

▶ 1. Introduction

Lebanon has been experiencing a prolonged and compounded economic and financial crisis since the end of 2019, exacerbated by political instability, regional tensions and governance failures. The government's default on its debt triggered the collapse of the banking sector, leading to severe liquidity shortages, capital controls and a widespread loss of confidence in the financial system. This collapse has significantly constrained access to finance, particularly for micro, small and medium-sized enterprises (MSMEs) and vulnerable households.

The crisis has been further intensified by successive shocks, including the COVID-19 pandemic and the devastating Beirut Port explosion in August 2020. These events eroded household incomes, overwhelmed public services and increased the cost of doing business. By 2022, Lebanon was facing hyperinflation, with the Lebanese pound having lost more than 90 per cent of its value since 2019. Inflation peaked at over 230 per cent in 2023, drastically reducing purchasing power and pushing nearly 44 per cent of the population into poverty.

In late 2024, the escalation of the conflict between Israel and Hezbollah into a full-scale war, including the Israeli invasion of southern Lebanon, introduced an additional layer of disruption. The conflict resulted in widespread displacement, extensive infrastructure damage and significant losses in agriculture and rural livelihoods. According to the World Bank's 2024 Interim Damage and Loss Assessment, the conflict caused losses exceeding US$1.1 billion, while broader economic impacts, including disruptions to trade, transport and tourism, led to a 6.6 per cent reduction in gross domestic product (GDP) in 2024.

The cumulative impact of these crises has severely affected MSMEs, which account for approximately 95 per cent of registered enterprises and employ nearly half the national workforce. Businesses face restricted access to credit, energy shortages, supply chain breakdowns and declining consumer demand.

Within this context, microfinance institutions (MFIs), which previously served approximately 170,000 clients including informal workers, women and refugees, have experienced a sharp contraction in their operations. Active client numbers have declined by more than 70 per cent, portfolio values have fallen substantially and institutional resilience has been undermined by steep currency devaluation, deteriorating portfolio quality and extremely limited access to liquidity and external funding.

Despite these challenges, MFIs continue to play a critical role in Lebanon's financial landscape. Their potential contribution to inclusive economic recovery, particularly among underserved and vulnerable populations, remains significant, especially in the absence of a functioning commercial banking sector.

Against this backdrop, the International Labour Organization (ILO), under the PROSPECTS partnership, commissioned this assessment to evaluate the current state of the microfinance sector in Lebanon and its potential contribution to an inclusive recovery. PROSPECTS aims to strengthen the resilience of host communities and forcibly displaced populations through improved access to employment, education, protection and financial services. In Lebanon, under the economic inclusion pillar, the initiative prioritizes inclusive livelihoods and entrepreneurship, with financial inclusion serving as a key enabler.

The report presents the findings of the Microfinance Sector Assessment conducted by the ILO within the framework of the PROSPECTS programme. The objective of the assessment is to provide an updated overview of the microfinance sector, examine its recovery potential and identify realistic instruments for stabilization and growth. Specifically, the assessment:

- analyses the operational and financial status of MFIs, including portfolio trends across the sector, liquidity constraints and institutional resilience;
- examines the impact of economic, political and security crises on MFIs and their operations;

- identifies regulatory, financial and institutional constraints affecting sector stability and growth prospects;
- explores options to de-risk the sector and attract funding, including blended finance, guarantee schemes and technical assistance; and
- provides actionable recommendations to support the sector's recovery and strengthen its role in promoting inclusive livelihoods.

Scope

The assessment focuses on the supply side of the microfinance sector in Lebanon, drawing primarily on data collected through structured interviews and a standardized data collection tool administered to MFIs. Secondary literature and contextual sources were used to complement findings and provide background on broader macroeconomic trends and vulnerable groups' access to finance.

Given the sector's complex and rapidly evolving context, the assessment examines institutional dynamics, including the operational and financial status of MFIs, their adaptation strategies as well as the regulatory and policy environment in which they operate. While the report includes references to the situation of microfinance clients, no direct demand-side data was collected. Insights into client needs and behaviours are therefore based on the perspectives of MFIs and sector stakeholders as well as available secondary sources.

Structure of the report

The report is structured based on a logical sequence of analysis, from macroeconomic context to sector and institutional assessment and policy recommendations:

- Section 2 – Methodology: outlines the approach, data sources, stakeholder engagement and limitations.
- Section 3 – Country and Economic Context: describes the economic, financial and social factors shaping the microfinance sector in Lebanon.
- Section 4 – Regulatory, Policy and Ecosystem Framework: reviews the legal and supervisory framework of the microfinance sector.
- Section 5 – Impact of the Crisis and Institutional Responses: examines how the crises affected sector performance, portfolio quality, operations, liquidity, funding and client outreach and highlights the adaptive measures implemented by MFIs.
- Section 6 – Current Challenges and Opportunities: identifies the sector's key structural and operational constraints and outlines emerging opportunities for recovery, innovation and investment.
- Section 7 – Recommendations: presents proposals for policy, institutional and programmatic support.

The report aims to provide a comprehensive overview of the microfinance sector in Lebanon, grounded in collected evidence and designed to inform programme development, dialogue and collaboration among stakeholders and financing strategies that support inclusive economic recovery.

2. Methodology

The assessment adopts a supply-side and primary data-driven approach to evaluate the status and prospects of the microfinance sector in Lebanon. In the absence of comprehensive sectoral studies or reliable quantitative data published since the onset of the crisis in 2019, the analysis relies primarily on first-hand information from MFIs and other sector stakeholders.

The methodology was designed to ensure that insights and recommendations reflect current operational realities and experiences of MFIs working in a highly challenging environment. Key elements included:

- primary data collection through structured interviews and a standardized data collection tool developed specifically for the assessment;
- stakeholder engagement with MFIs, support organizations, regulators, donors, impact and commercial investors and digital finance actors;
- desk review limited to regulatory documents, studies and reports on the country's economic situation, the impact of the crises and the recent war, along with the limited literature available on the effects of the crises on MFIs and microfinance clients, used to complement findings where relevant;
- triangulation of qualitative and quantitative inputs to validate institutional perspectives and support cross-cutting analysis.

All data collection tools, including the interview guides and the Excel-based MFI reporting tool, were designed in collaboration with the ILO technical team.

Consultations and data collection were carried out between March and May 2025, following a kick-off meeting with the ILO to validate the scope, priorities and stakeholder engagement strategy.

Stakeholder mapping and consultations

Stakeholder engagement was central to the assessment. A mapping exercise was conducted during the Inception Phase to identify relevant institutions across the microfinance and financial inclusion landscape. Stakeholders were selected to ensure representation across different legal forms, operational models and levels of engagement in MSME and vulnerable groups finance.

Consultations included:

- regulated and non-regulated MFIs, including non-bank financial institutions (NBFIs), national NGOs and a cooperative;
- sector associations, notably the Lebanese Microfinance Association (LMFA);
- public sector actors, including Banque du Liban (BDL) and the Ministry of Economy and Trade;
- international organizations and donors, including UN agencies, DFIs and multilateral and bilateral development organizations;
- impact investors, including entities that had previously provided funding to MFIs in Lebanon.
- private sector and fintech actors involved in digital payments and financial services innovation.

Semi-structured interviews were conducted either in person or remotely. In parallel, MFIs were invited to complete a data collection tool covering portfolio size and quality, number and distribution of clients, number of branches and employees, as well as balance sheet and income statement data.

Responses were received from seven institutions, covering 100 per cent of the sector's estimated client base. Where data were incomplete or unavailable, findings were complemented through qualitative follow-up and triangulation.

Follow-up meetings and consultations were subsequently held with MFIs and the LMFA to validate the collected data and confirm each MFI's willingness to have its data publicly shared. After data collection and preliminary analysis, a validation workshop was organized with approximately 45 representatives from key stakeholders, including BDL, MFIs, DFIs, donors, relevant ministries and other interested actors. The workshop reviewed and discussed the main findings of the assessment, gathered feedback and refined conclusions based on stakeholder input.

The full list of stakeholders consulted is available in **Annex I.**

Limitations of the methodology

Despite the design, several limitations affected the scope and depth of the analysis:

- lack of secondary data and prior studies: no comprehensive assessments or centralized sector data are available for the microfinance sector in Lebanon post-2019. Consequently, baseline comparisons and historical trends are reconstructed exclusively using data provided by MFIs, covering the period from September 2019, i.e. prior to the onset of the crisis, through December 2024 in the shared Excel-based data template and qualitative data gathered during interviews;

- reliability and comparability of financial data: beyond relying on institutional perspectives, the assessment faced significant challenges in ensuring the consistency and comparability of data reported by MFIs. The highly volatile exchange rate environment between 2020 and 2023 further complicated data collection and validation, as institutions applied different conversion methods and reference rates for portfolio and financial data reporting. To address this, harmonization assumptions, such as applying common year-end exchange rates, were required. These adjustments, however, inevitably introduced margins of error, especially for remaining local US dollar-denominated portfolios. Furthermore, the absence of standardized reporting frameworks and practices across institutions led to variations in definitions and disclosure practices for key indicators such as portfolio, portfolio at risk, loan restructuring and rescheduling and write-offs. For example, NBFIs followed BDL reporting standards, while NGOs applied internal practices generally aligned with microfinance best practices. Although triangulation and follow-up consultations mitigated some discrepancies, the absence of a unified sector-wide data collection standard limited institutional comparability. These limitations should therefore be considered when interpreting aggregate results and sector-level findings;

- inconsistent data reporting and currency conversion: most participating MFIs engaged actively in the data collection process, yet a major challenge was the lack of a standardized approach to converting portfolio and financial data values from Lebanese pounds (LBP) to US dollars and from lollars (local dollars, or US dollar balances trapped in the Lebanese banking system) to fresh US dollars. MFIs used different conversion rates and accounting treatments, thus complicating cross-institution comparisons. To harmonize data, the conversion rates were standardized using the market rates published on the Lira Rate website;

▶ Table 1: Conversion rates applied (based on market rate, lira rate website)

		Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Dec-24
LBP/US dollar	Official rate	1,508	1,508	1,508	1,508	15,000	89,500
LBP/FUS dollar	Market rate	1,508	8,400	27,650	42,000	90,000	89,500
Local US dollar FUS dollar		1	5.57	18.34	27.86	6	1

The conversion from local US dollar to fresh US dollar is calculated using the following formula:

Fresh US dollar = Local US dollar amount / (Market LBP-US dollar rate / Official LBP-US dollar rate),

which is equivalent to Local US dollar amount * (Official LBP-US dollar rate / Market LBP-US dollar rate)

▶ Table 2: Example conversion from local us dollar to fresh us dollar

Sep 2019	Local US dollar	Market rate	Official rate	Formula	
	1,000,000	1,508	1,508	=1,000,000 / (1,507.5 / 1,507.5) =1	1,000,000
				=1,000,000 *(1,507.5 / 1,507.5) =1	1,000,000
Dec 2023	**Local US dollar**	**Market rate**	**Official rate**	**Formula**	
	1,000,000	90,000	15,000	=1,000,000 / (90,000 / 15,000)	166,667
				=1,000,000 *(15,000 / 90,000)	166,667

- absence of demand-side research: the assessment did not involve direct engagement with microfinance clients. Client perspectives are reflected indirectly through interviews and available secondary references;
- confidentiality constraints: given the sensitivity of financial data, some institutions shared only partial information or requested anonymity. All data are presented in aggregate or anonymized form unless explicit consent for disclosure was granted.

Despite these constraints, the methodology enabled the collection of robust and contextually relevant information, sufficient to identify core institutional vulnerabilities, regulatory barriers and opportunities for targeted intervention and investment.

Findings and proposed recommendations were consolidated and presented to key stakeholders through a validation roundtable. The objective was to review the main results of the assessment, gather feedback and refine the final recommendations based on stakeholder input and priorities.

The roundtable was designed as an interactive session, encouraging open discussion on critical areas such as sector recovery strategies, de-risking mechanisms, funding opportunities and policy enablers. Stakeholder perspectives from the roundtable are incorporated into the final report to ensure that proposed recommendations are practical, relevant and grounded in sector realities and needs.

▶ 3. Country and economic context

Lebanon has been experiencing a prolonged and compounded economic and financial crisis since 2019, driven by political instability, regional tensions and governance failures. The crisis followed the government's debt default and the subsequent collapse of the banking sector, which triggered severe liquidity shortages, capital controls and a profound loss of confidence in financial institutions, particularly commercial banks. As a result, access to finance, particularly for micro, small and medium-sized enterprises (MSMEs) and vulnerable population groups, has become severely restricted.

The situation worsened with the COVID-19 pandemic and the Beirut Port explosion in August 2020, both of which had devastating human and economic consequences and further eroded public trust in state institutions. By 2022, Lebanon was experiencing hyperinflation, with the Lebanese pound losing over 90 per cent of its value since 2019. Hyperinflation peaked at 230.4 per cent in 2023, drastically reducing household purchasing power, intensifying poverty and causing widespread job losses and the erosion of the middle class. By mid-2023, parallel market exchange rates began to stabilize, reducing volatility and accelerating the dollarization of the economy.

By late 2024, the conflict between Israel and Hezbollah escalated into full-scale war, including the Israeli invasion in September, adding a new layer of disruption. The war caused extensive damage to infrastructure and displaced large portions of the population, particularly in the southern Beirut suburbs, South Lebanon and the Bekaa Valley, regions critical for agriculture and rural livelihoods. Key agricultural activities, including olive farming, grape harvesting and livestock farming, were disrupted by Israeli bombings. According to the World Bank's 2024 Interim Damage and Loss Assessment (DaLA), crop destruction and displacement of agricultural workers alone caused losses exceeding US$1.1 billion.

The Lebanon at War: Scenarios and Impact report by the Lebanon Crisis Analytics Team (LCAT) highlights that the economic impact of the war in the affected regions could result in a GDP contraction of 12.81 per cent, further exacerbating the ongoing crisis. The report underscores that the war has led to a collapse in trade routes, disruptions to tourism and damage to transport infrastructure, each vital to the country's recovery efforts.

In parallel, Lebanon has faced a prolonged energy crisis, with daily power outages caused by chronic electricity shortages. Businesses and households have been forced to rely on expensive private generators, further increasing operational costs.

Impact on MSMEs

MSMEs constitute approximately 95 per cent of Lebanon's registered enterprises and employ nearly half of the national workforce. However, they have been among the hardest hit by the protracted crisis, facing rising input costs, supply chain breakdowns and a collapse in domestic demand. Liquidity constraints, emigration of skilled workers and currency volatility have further weakened business continuity and resilience.

The broader operating environment for MSMEs has deteriorated dramatically due to compounded systemic shocks:

- **liquidity constraints** exacerbated by banking restrictions, cutting firms off from both their own deposits and access to new credit. The ILO's Rapid assessment on the impact of war on enterprises conducted in January 2025 indicates that 80 per cent of SMEs cite access to finance as a severe barrier to recovery and growth;

- rising operational costs linked to the **energy crisis,** with most enterprises relying on costly private generators due to the collapse of the public electricity grid and the cessation of energy subsidies;
- **demand contraction** resulting from reduced consumer purchasing power, shrinking domestic markets and suppressed revenues;
- **supply chain breakdowns** driven by foreign currency shortages and logistical disruptions, further constraining MSME operations;
- **skilled labour shortages** caused by widespread emigration, undermining business continuity, especially among SMEs requiring technical expertise.

The overall governance vacuum has contributed to policy paralysis and delayed reforms. Persistent corruption and political gridlock have left the country without a comprehensive strategy to address its economic collapse. As a result, recovery prospects for Lebanon's private sector remain uncertainand MSMEs continue to operate in a highly constrained and unpredictable environment.

Consequences for the microfinance sector

The microfinance sector, which has traditionally played a key role in promoting financial inclusion among low-income populations and micro-entrepreneurs, has also been severely affected. Prior to the crisis, the sector served more than 170,000 clients, according to the Impact of Economic and COVID-19 Crises on Microcredit Borrowers Final Report [2].

MFIs provided credit to population segments largely excluded from the formal banking system, including informal workers, women entrepreneurs, rural microenterprises and refugees. The sector was led by Al Majmoua, the largest MFI in Lebanon since the 1990s, followed by Vitas Lebanon and Emkan Finance in the early 2000s and later by Ibdaa Lebanon in 2012. These institutions were complemented by several national NGOs that integrated microfinance into broader development objectives. At the same time, the three regulated institutions (Vitas, Emkan Finance and Ibdaa Lebanon) created expectations of a more dynamic and competitive sector.

This momentum was abruptly halted by the 2019 financial and economic collapse. Since then, the number of active clients has fallen by nearly 75 per cent, while the value of outstanding loan portfolios has declined by approximately 90 per cent. Two MFIs (Emkan for Sustainable Microfinance and Community Development – Emkan and the Entrepreneurial Development Foundation – EDF) exited the market. The Lebanese pound's devaluation, combined with capital controls and inflation, eroded the real value of loans and weakened borrowers' repayment capacity, resulting in a significant increase in portfolio at risk (PAR). Currency mismatches and multiple exchange rates further complicated operations, including accounting distortions and foreign exchange losses.

In response, some MFIs suspended lending activities entirely, while others shifted their focus towards non-financial services or cautiously resumed lending in fresh US dollars. Access to international funding remains almost absent and liquidity constraints continue to hinder operations and recovery.

The 2024 conflict has exacerbated these challenges, particularly in southern Beirut suburbs, the South and the Bekaa Valley, where many MFI clients are concentrated. Infrastructure damage, population displacement and the collapse of agricultural livelihoods have further undermined loan recovery and institutional stability.

[2] https://www.findevgateway.org/slide-deck/2020/11/impact-economic-and-covid-19-crises-microcredit-borrowers–LMFA and CGAP

4. Regulatory, policy and ecosystem framework

Legal and regulatory environment

Lebanon currently lacks a dedicated microfinance law. Instead, the regulatory framework governing the sector is based on a combination of Banque du Liban (BDL) financial circulars, the legal status of the provider and a defined threshold that triggers regulatory transformation. As a result, microfinance providers operate under diverse legal forms and are subject to varying degrees of oversight and supervision depending on their institutional status, most commonly as non-governmental organizations (NGOs) and non-bank financial institutions (NBFIs) and, to a lesser degree, as cooperatives. This fragmented framework contributes to regulatory uncertainty, limited supervision and uneven access to funding sources.

Regulatory definition of microcredit under BDL circulars

Despite the absence of a single comprehensive microfinance law, BDL has issued a series of circulars since 2004 that provide a basic regulatory framework for microcredit operations. Circulars constitute a central regulatory instrument within Lebanon's financial ecosystem and are issued by BDL to guide the activities of institutions under its supervision.

The main reference for microfinance is Basic Circular No. 93 (Decision No. 8779), issued in 2004 and amended by Intermediate Circulars Nos 505 and 506 in 2018. These circulars define the scope of microfinance activities, the characteristics of microloans and the eligibility criteria for institutions that provide them.

According to Intermediate Circular No. 505, a microloan is defined as:

"Any loan granted by financial institutions to individuals or small institutions (composed of up to four persons), to assist them in creating and developing productive (industrial, agricultural, craft), service-oriented, touristic or commercial projects owned by them or for housing improvement."

The circular sets a maximum loan amount of LBP 30 million (or its equivalent in foreign currency) and a maximum repayment period of seven years. Article 1 of the same circular defines eligible providers as civic or non-governmental organizations (NGOs) approved by BDL to work with banks in granting microloans, directly and under their responsibility, as well as any other entities that the BDL Central Council deems to operate like NGOs.

Circular No. 505 also allows NGOs to provide microloans from their own funds but caps the total portfolio value of any one institution at LBP 15 billion, equivalent to US$10 M prior to the crisis. Once this threshold is reached, the institution is required to transition into a regulated financial entity under BDL oversight.

These thresholds, originally meaningful under the fixed LBP peg to the US dollar, have become functionally obsolete following the dramatic devaluation of the Lebanese pound. In 2018, LBP 30 million was equivalent to approximately US$19,900. By mid-2025, it represented only US$335. Similarly, the LBP 15 billion ceiling on institutional exposure declined from US$9.95 million to US$167,000. While MFIs and donors generally operate on the assumption that the 2018 US dollar-equivalent thresholds still apply, the regulations themselves remain unadjusted, highlighting the disconnect between the legal framework and current economic realities. Nevertheless, BDL indicated during consultations that the circulars are currently being updated.

Microfinance providers in Lebanon

Lebanon's microfinance sector comprises a limited but diverse group of active providers operating under different legal and regulatory arrangements, including:

- **non-governmental organizations (NGOs),** which constitute most active microfinance providers. Operating under the Lebanese Law on Associations, these institutions focus primarily on financial inclusion for underserved groups, including women, informal workers and refugees, often within broader development or social protection objectives;
- **non-bank financial institutions (NBFIs),** currently limited to two institutions, Vitas Lebanon and Ibdaa Lebanon, which operate under licences issued by Banque du Liban. In principle, these entities benefit from more structured access to commercial funding and greater regulatory recognition, although they remain unable to mobilize public deposits[3];
- **one cooperative,** the Lebanese Cooperative for Development (CoopCLD), which operates under the oversight of the Ministry of Agriculture and serves rural populations through targeted credit schemes. Although modest in scale, it represents a unique model rooted in cooperative governance.

NGOs as microfinance providers

Under the current framework, most microfinance providers in Lebanon operate as non-governmental organizations (NGOs). These entities are governed by the Lebanese Law on Associations, which provides the legal basis for the establishment of non-profit groups. The law defines associations as "a group of several persons permanently unifying their knowledge or efforts for nonprofit objectives" and requires them to notify authorities upon formation. It sets basic requirements regarding internal structure, financial recordkeeping and compliance with Lebanese law.

NGOs providing microfinance must register with the Ministry of Interior. Although they are not classified as financial institutions, they may operate in the financial space if they obtain BDL approval under Circular No. 505. In addition, Circulars Nos 505 and 506 require NGOs to work in partnership with banks. Under this arrangement, banks are expected to handle disbursements, conduct know-your-customer (KYC) checks and report data to the credit bureau (Centrale des risques, CDR). In practice, however, as noted in a report by the ReSt@rts programme [4], these obligations are n ot consistently fulfilled. Banks are often unwilling or unable to support microfinance operations, leaving NGOs with significant constraints, particularly within the current context and in the absence of a functioning banking system.

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[3] Banque du Liban (n.d.). List of Financial Institutions. https://www.bdl.gov.lb/CB%20Com/Laws%20And%20Regulations/Institutions%20supervised%20by%20BDL/Financial_Institutions_en%C2%A73_16.pdf

The ReSt@rts programme (Reinforcing Med Microfinance Network System for Start-ups) is a European Union-funded initiative designed to improve access to finance for "non-bankable" young people and women entrepreneurs across the Mediterranean region.

Non-bank financial institutions (NBFIs)

For NGOs that exceed the LBP 15 billion lending threshold or seek to operate on a more commercial basis, transformation into a non-bank financial institution (NBFI) is required. NBFIs fall under the broader legal and supervisory framework governing financial institutions licensed by BDL.

However, BDL has not issued regulations specifically tailored to NBFIs operating in the microfinance sector. As a result, these institutions are subject to general financial regulations that are not always well aligned with their risk profile or operational model.

Currently, only two operational MFIs, Vitas Lebanon and Ibdaa Lebanon, are licensed as non-bank financial institutions (NBFIs).

Digital wallets and financial innovation

In the aftermath of the financial crisis, digital financial services, particularly e-wallets, expanded rapidly in Lebanon as an alternative to the collapsing banking infrastructure. These services are regulated under a distinct framework governed by BDL Circular No. 69, originally issued in 2000 and amended most recently by Intermediate Circular No. 735 in May 2025.

Unlike microfinance institutions operating under Circulars Nos 505 and 506, digital wallet providers are not formally part of the microfinance or credit ecosystem. They are regulated as payment service providers, required to maintain full liquidity coverage, comply with operational and cyber-risk safeguards and report transaction volumes to BDL. Individual wallet holders are currently subject to a US$3,000 transaction and balance limit, while business wallets may hold up to US$30,000 and transact up to US$50,000 per month.

As of mid-2025,19 companies had been licensed to operate e-wallets, reflecting both market demand and BDL's efforts to reduce Lebanon's cash economy. This expansion, however, has occurred largely outside the existing credit infrastructure, as wallet providers do not have access to the CDR and cannot report client credit behaviour and history[5].

Comptoirs de crédit

Comptoirs de crédit represent another institutional form providing micro and small loans in Lebanon. These entities are classified by BDL as "specialized lending institutions" but are not regulated under the same supervisory framework as banks or non-bank financial institutions[6]. Comptoirs typically offer collateral-backed loans to individuals excluded from formal credit channels. While their outreach remains limited, their legal status and partial regulatory framework raise concerns related to interest rate practices and transparency.

[5] An exception is Monty Finance, which, as a wallet service provider, is registered as a NBFI.

[6] Banque du Liban (BDL), Institutions supervised by BDL – Specialized Lending Entities, official website.

5. Impact of the crisis and institutional responses

Microfinance institutions in Lebanon have faced unprecedented challenges since the onset of the compounded crises in 2019. The collapse of the banking system, extreme currency devaluation, political instability and regional displacement forced MFIs to make rapid and often difficult operational adjustments. While all institutions were affected, the nature and scale of the impact varied according to their size, legal status, geographic focus, institutional readiness and ability to implement mitigation strategies.

Drawing on institutional consultations conducted for this assessment, several common patterns and adaptive responses emerged, as MFIs sought to safeguard operations, continue serving clients and remain viable amid prolonged instability. This section provides a multidimensional overview of how the crisis has shaped the sector, structured around key thematic areas.

Institutional landscape

As of early 2025, Lebanon's microfinance sector remains small and fragile. Since the beginning of the crisis, one regulated financial institution (Emkan) and one NGO (EDF) have exited the market, leaving seven institutions, of which only five continue to maintain active lending operations (Table 3)[7]. At the same time, two new organizations, Hope Centre and Microfinance Lebanon, have emerged since 2023 and identify themselves as microfinance providers. However, they do not appear in the official list published by BDL and publicly available information on their operations remains scarce. As a result, they are not included in the assessment.

Table 3: MFI activity status (2019 v. 2025)

Name	Legal Status	Active in 2019	Active in 2025
Emkan	NBFI	✓	✗
Ibdaa - Microsoft S.A.L	Registered under the Central Bank of Lebanon as a regulated non-bank finance institution (NBFI)	✓	~
Vitas S.A.L	Registered under the Central Bank of Lebanon as a regulated non-bank finance institution (NBFI)	✓	✓
Makhzoumi Foundation	Non-governmental organization (NGO)	✓	✓
Al Majmoua	Non-governmental organization (NGO)	✓	✓
Association for the Development of Rural Capacities (ADR)	Non-governmental organization (NGO)	✓	✓

Association d'entraide professionelle (AEP)	Non-governmental organization (NGO)	✓	✓
Coopérative libanaise pour le développement (CoopCLD)	Cooperative	✓	~
Entrepreneurial Development Foundation (EDF)	Non-governmental organization (NGO)	✓	✗
Makhzoumi Foundation	Non-governmental organization (NGO)	✓	✓

✗ : existed ✓ : active ~ : lending temporary paused

The Lebanese microfinance landscape comprises a small number of institutions with diverse legal statuses, geographic coverage and service models. The key actors currently operating in the market include:

- Ibdaa Microfinance S.A.L., a non-banking financial institution regulated by BDL, launched in Beirut in 2012 with support from the Arab Gulf Programme for Development (AGFUND) and Lebanese socially responsible investors. Ibdaa aims to contribute to poverty and unemployment reduction in Lebanon by providing sustainable financial services to underserved, talented individuals, with a focus on small entrepreneurs, women and youth. Ibdaa's model is distinctive in that its founders do not seek dividends, with profits reinvested to expand the institution's lending portfolio;
- Vitas S.A.L., the second largest MFI in the country, which evolved from the Ameen programme originally launched by CHF International (now Global Communities). Vitas was the first Lebanese microfinance institution to register with BDL as NBFI following its establishment in 2000. Its mission is to empower individuals, families, small businesses and communities through tailored financial products that support sustainable development, with a focus on youth, women and rural populations in Lebanon;
- The Makhzoumi Foundation, an NGO established in 1997 under the vision of its founder, H.E. Deputy Fouad Makhzoumi. It focuses on mobilizing resources, building partnerships and strengthening the capacities of Lebanese communities, while promoting targeted education, affordable healthcare, viable start-ups, sustainable development and secure livelihoods. Microcredit services are integrated within a broader portfolio of social programmes, including technical and vocational education, healthcare provision and emergency assistance;
- Al Majmoua (AM), the largest and leading MFI in the country. Initially established by Save the Children in 1994, it became an independent and non-confessional NGO in 1998. AM focuses on empowering low-income individuals, particularly women, through access to financial services and business support. In addition to tailored lending products, it provides non-financial services, including technical support, coaching and life-skills training;

[7] Al-Qard Al-Hasan Association (AQAH) is another lending institution registered as cooperative and operating in Lebanon that provides interest-free, collateral-backed loans to a large client base. However, as AQAH does not publish detailed portfolio or performance data, it has not been included in the assessment. While reports indicate that several of its branches were affected during the 2024 conflict, no publicly verifiable information is available regarding the impact on its lending activities.

- Association d'entraide professionnelle (AEP), one of Lebanon's earliest and smallest microcredit providers, founded in 1984 by Emmaüs Lebanon. Emmaüs International is a non-governmental organization (NGO) that brings together the "Communities" adhering to the principles set out in its "Universal Manifesto". AEP embraces the values of secularism and democracy and promotes small-scale entrepreneurship through a developmental vision, helping micro-entrepreneurs become agents of local growth and social cohesion;
- The Association for the Development of Rural Capacities (ADR), a non-confessional NGO operating in South Lebanon and Nabatieh. Founded in 1998, ADR combines microcredit provision with programmes in sustainable agriculture, vocational training and social services. Its interventions target fishermen, farmers, small entrepreneurs, refugees, local community groups and cooperatives, as well as women and youth in some of the most impoverished areas of Lebanon;
- The Coopérative libanaise pour le développement (CoopCLD), established in 1992 as a cooperative with a strong rural focus. It aims to address rural-urban migration and economic displacement by promoting entrepreneurship and productive land use in Lebanon's rural areas.

Supporting institution: the Lebanese microfinance association (LMFA)

In addition to these providers, the sector is represented by the Lebanese Microfinance Association (LMFA), which plays a coordinating and advocacy role on behalf of MFIs in Lebanon.

Established in 2015, the LMFA serves as a sector platform bringing together microfinance institutions operating in the country. Its mission is to strengthen the capacity of its member institutions and promote improved access to financial services for underserved and financially excluded populations. It aims to facilitate coordination among MFIs, represent sector interests in policy dialogue and contribute to the development of a more enabling legal and regulatory environment.

The LMFA convenes regular meetings for its members and acts as a focal point for engagement with regulatory authorities, particularly BDL. It provides a space for information exchange, strategic discussion and identification of sector-wide priorities. The Association's current activities include analysis of sector trends and informal outreach to public and private stakeholders.

Portfolio contraction

The contraction in microfinance portfolios has been both deep and systemic, driven not only by the halt or slowdown in lending but, more critically, by the severe devaluation of the Lebanese pound (LBP). Institutions that continued to disburse loans in LBP during the early years of the crisis saw the real value of their portfolios collapse, in some cases by over 90 per cent, as the exchange rate deteriorated from the official LBP 1,507/US dollar to over LBP 90,000/US dollar by 2023.

Even portfolios that remained nominally active were effectively wiped out in value. The two largest institutions, Al Majmoua and Vitas Lebanon, saw their combined portfolios shrink from approximately US$150 million in September 2019 to about US$16 million in December 2024. The entire portfolio of the Makhzoumi Foundation fell to less than 2 per cent of its original value, as repayments were made in LBP at outdated official rates. ADR also reported that only a very small portion of its original portfolio was salvageable after it ceased operations between 2019 and 2023 (Table 4).

At the same time, actual lending activity was significantly reduced. NGO MFIs adopted different strategies. ADR took a conservative stance, suspending lending from 2019 to 2023. During this period, it progressively wrote off a large portion of its outstanding portfolio, acknowledging the limited prospects for recovery. By 2024, the balance sheet had been restructured to reflect a cleaner asset position, allowing a cautious resumption of new lending. AEP paused disbursements in 2020 and 2021, later restarting operations on a reduced scale with tighter lending policies. CoopCLD, by contrast, has not resumed lending at all and continues to operate in recovery mode. The Makhzoumi Foundation temporarily halted its activities between December 2019 and February 2020 but resumed soon after and has remained active.

The crisis also triggered a reorientation of lending strategies. To limit exposure to inflation and further volatility, several MFIs shifted to short-term loans, reduced average loan sizes and focused on sectors considered more resilient, such as agriculture, manufacturing and small-scale trade. Institutions also suspended niche products, including gender-specific loan programmes and non-essential consumer lending.

Lending generally resumed only cautiously from late 2022, primarily in fresh US dollars, with tighter underwriting standards and significantly lower loan volumes and amounts. Al Majmoua, for instance, resumed lending in US dollars at the end of 2022 from its own funds and with the support of the ILO's PROSPECTS Programme. Both AEP and the Makhzoumi Foundation reported credit operations as of 2023.

Table 4: Portfolio evolution 2019-2024 in us dollars

MFI	SEP 19	DEC 20	DEC 21	DEC 22	DEC 23	DEC 24
Al Majmoua	96,900,778	9,340,928	2,869,075	3,381,250	6,166,853	8,950,466
Vitas Lebanon	46,932,417	5,471,824	1,601,972	1,258,139	2,842,152	7,380,124[8]
Ibdaa Lebanon	25,931,682	2,740,156	541,352	123,379	54,969	44,283
CoopCLD	7,451,470	907,753	180,681	56,439	30,430	75,991
AEP	4,250,200	363,033	133,001	98,748	294,120	393,476
ADR	2,440,167	217,235	31,912	9,998	1,405	130,476
Makhzoumi Foundation	1,345,969	70,331	34,160	34,759	118,044	114,270
Total	185,252,683[9]	19,111,260	5,392,153	4,962,712	9,507,972	17,088,850

[8] The increase between 2023 and 2024 reflects both the disbursement of new loans in US dollars and the exchange rate used for the local US dollar-denominated portfolio (the official rate rose from 15,000 in 2023 to 89,500 in 2024).

[9] Portfolio data for Emkan and EDF were not collected and the total portfolio as of September 2019 is underestimated.

Box 1. Portfolio contraction – absolute and percentage change

Six of the seven MFIs saw their portfolios shrink by more than 90 per cent between September 2019 and December 2024. Vitas Lebanon experienced a portfolio contraction of 84 per cent, while Ibdaa and CoopCLD were the most severely affected, losing 99 per cent of their portfolios by the end of 2024 and having not resumed lending since the onset of the crisis. In absolute terms, when all MFIs are combined, the total portfolio declined by US$168,163,833, representing a reduction of 91 per cent.

Chart 1: Absolute change in portfolio size (september 2019 v. December 2024)

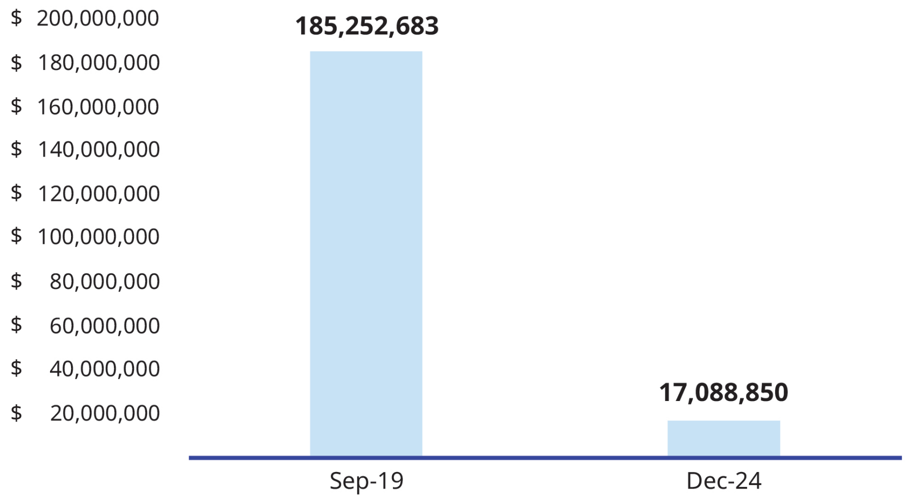
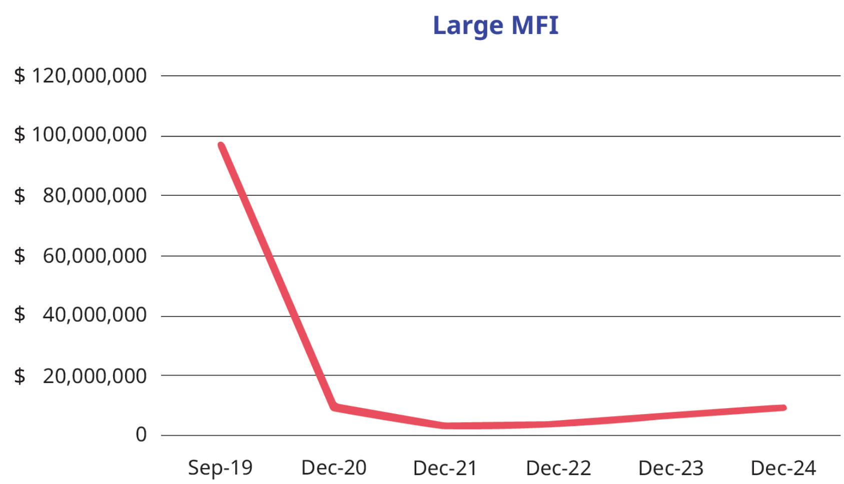


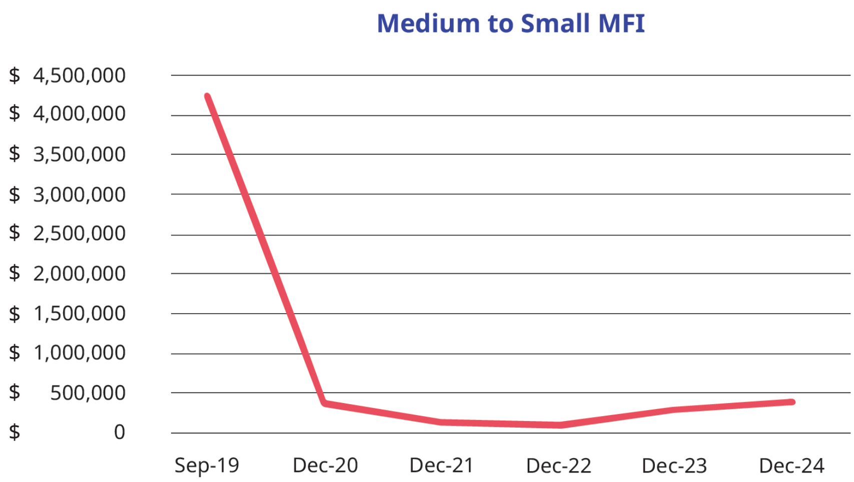
Table 5: Absolute and percentage change in portfolio size per MFI

MFI	Change (US dollars)	Change (%)
Al Majmoua	-87,950,312	**-91%**
Vitas Lebanon	-39,552,293	**-84%**
Ibdaa Lebanon	-25,801,206	**-99%**
CoopCLD	-7,375,479	**-99%**
AEP	-3,856,960	**-91%**
ADR	-2,325,897	**-95%**
Makhzoumi Foundation	-1,301,686	**-97%**
Total	-168,163,833	**-91%**

In terms of institutional trends, all MFIs, both large and medium to small, experienced a similarly steep contraction in their portfolios between September 2019 and December 2020, followed by very modest signs of recovery from December 2022 to December 2024.

▶ Chart 2: Portfolio contraction – institutional trend (September 2019 v. December 2024)

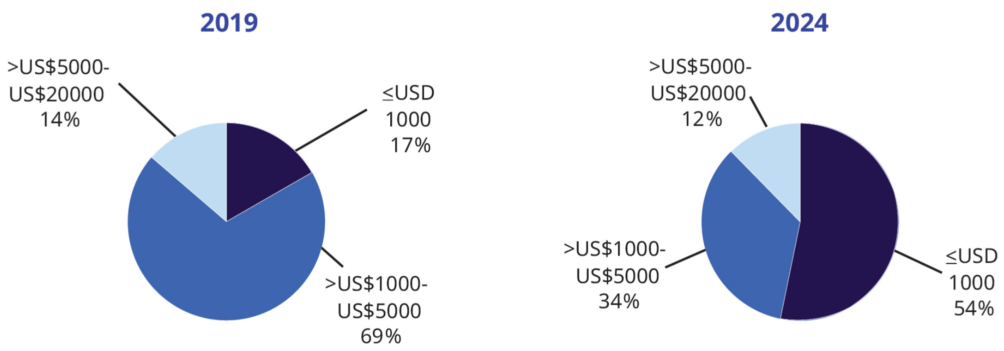




Portfolio distribution

The portfolio distribution by loan amount has shifted markedly since 2019. Before the crisis, most of the portfolio (69 per cent) consisted of loans in the US$1,000–5,000 range. By 2024, this pattern had reversed: more than half of all loans (54 per cent) are for amounts of US$1,000 or less. This shift a substantial downscaling of loan sizes and a move towards smaller, shorter-term lending, likely driven by liquidity shortages, stricter underwriting standards and reduced borrower capacity.

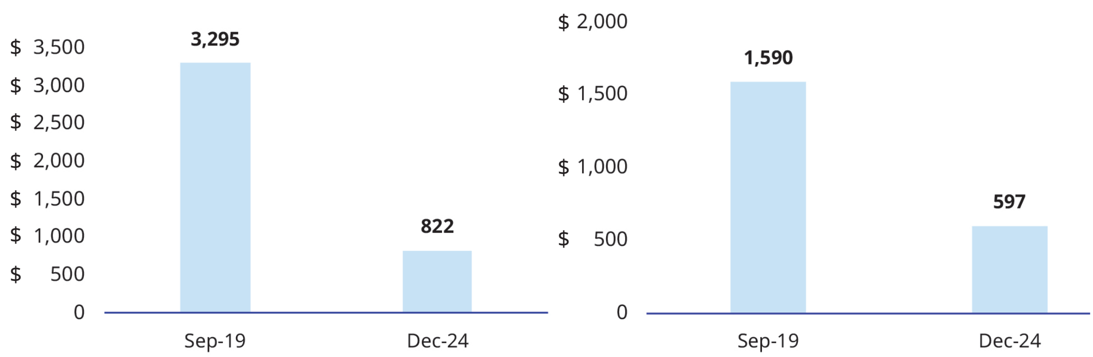
▶ Chart 3: Portfolio breakdown by loan amount (2019 v. 2024)



Total 2019 = 174,643,789 – excludes three MFIs due to lack of data.

The figure is corroborated by a sharp decline in the average loan size between September 2019 and December 2024. Over this period, the average loan per borrower dropped by 75 per cent when including data from all MFIs (Chart 4). A notable exception is Vitas Lebanon, which pursued a different strategy and increased its average loan size to US$2,900 on the newly disbursed fresh US dollar portfolio in 2024.

▶ Chart 4: Average loan per borrower (September 2019 v. December 2024)

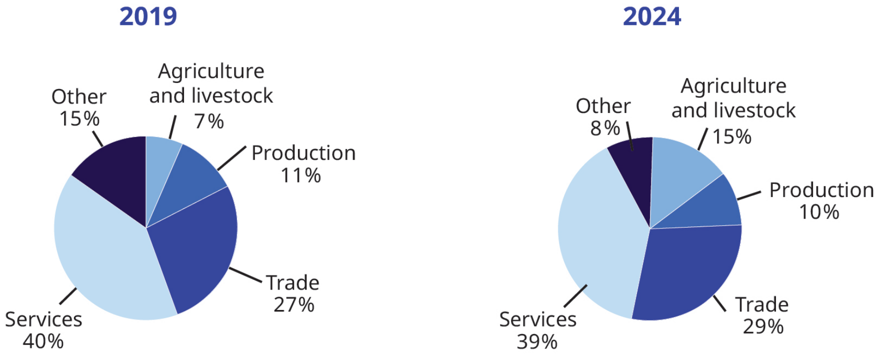


Including all MFIs

Excluding CoopCLD, as it had an average loan size of US$13,524

The composition of the portfolio by economic activity has remained relatively stable overall, with the services sector maintaining the largest share at around 40 per cent. However, the share allocated to agriculture more than doubled, rising from 7 per cent in 2019 to 15 per cent in 2024. This suggests a combination of growing demand for agricultural finance, institutional strategies and donor-supported programmes promoting agricultural lending, such as the ILO's PROSPECTS Programme and AFD's BASATINE Project with Al Majmoua.

Chart 5: Portfolio breakdown by economic sector (2019 v. 2024)



Total 2019 = **US$** 174,643,789 – excludes three MFIs due to lack of data.

As a result of the crisis, the sector has shifted almost entirely towards individual lending. While group lending already accounted for a small share of the total portfolio (4 per cent) in 2019, its share declined further to just 1 per cent by 2024.

Chart 6: Portfolio breakdown, individual v. Group lending (2019 v. 2024)

Total 2019 = **US$** 174,643,789 – excludes three MFIs due to lack of data.

Number of active borrowers

Between 2019 and 2024, the number of active borrowers in Lebanon declined sharply by approximately 75 per cent, from 140,939 in September 2019 to just 35,669 by December 2024 (Table 6). This reflects the combined effects of widespread operational disruptions, prolonged lending suspensions, liquidity constraints and the overall economic deterioration.

The largest MFI, Al Majmoua, saw its client base shrink significantly, from nearly 90,000 borrowers in 2019 to just over 23,000 by the end of 2024. Despite this reduction, Al Majmoua still accounts for more than 60 per cent of the total active clients in the sector.

Other institutions experienced similar drastic losses:

- Vitas Lebanon's portfolio fell from 27,967 to 11,459 clients, a decline of 59 per cent.
- Ibdaa saw the number of active borrowers drop from 18,264 to just 79, effectively suspending all lending activity for several years.
- Smaller MFIs such as ADR, CoopCLD and the Makhzoumi Foundation also recorded client declines of 70 to 90 per cent, driven by branch closures, halted disbursements and deteriorating borrower conditions.
- The yearly trend in active borrowers shows persistent negative growth, in contrast with the outstanding portfolio value.

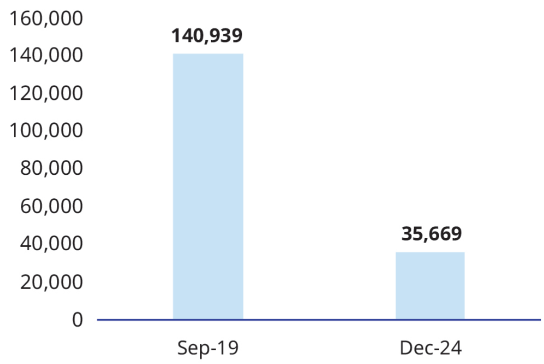
Table 6: Number of active borrowers per MFI (September 2019 through December 2024)

MFI	SEP 19	DEC 20	DEC 21	DEC 22	DEC 23	DEC 24
Al Majmoua	89,597	47,976	37,401	30,140	26,090	23,013
Vitas Lebanon	27,967	16,213	12,533	13,155	11,759	11,459
Ibdaa Lebanon	18,264	10,050	5,854	1,221	312	79
ADR	2,003	1,317	912	737	8	144
AEP	1,453	906	795	695	577	633
Makhzoumi Foundation	1,104	356	260	308	311	306
CoopCLD	551	425	294	154	62	35
Total	**140,939**	**77,243**	**58,049**	**46,410**	**39,119**	**35,669**

Table 7: Number of active borrowers per MFI (September 2019 v. December 2024)

MFI	Sep 2019	Dec 2024	Absolute Change	Change (%)
Al Majmoua	89,597	23,013	-66,584	-74%
Vitas Lebanon	27,967	11,459	-16,508	-59%
Ibdaa Lebanon	18,264	79	-18,185	-99.9%
ADR	2,003	144	-1,859	-93%
AEP	1,453	633	-820	-56%
Makhzoumi Foundation	1,104	306	-798	-72%
CoopCLD	551	35	-516	-94%
Total	**140,939**	**35,669**	**-105,270**	**-75%**

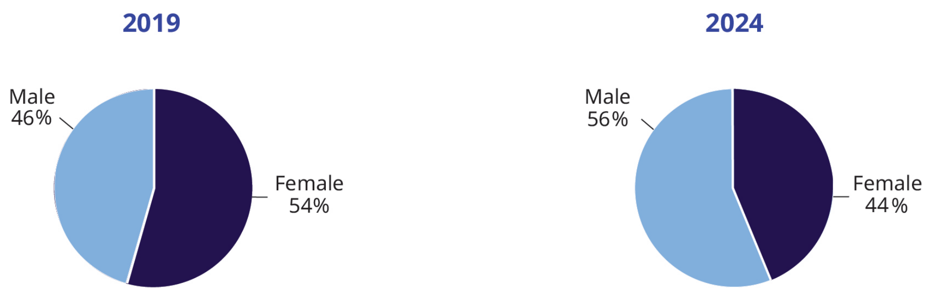
▶ Chart 7: Total number of active borrowers (September 2019 v. December 2024)



Borrowers profile

The gender composition of microfinance clients decreased by 11 per cent between 2019 and 2024. Women, who made up the majority of clients in 2019 (54 per cent), saw their share decline to 44 percent by 2024, indicating a disproportionate reduction in outreach to women during the crisis.

▶ Chart 8: Client gender distribution (2019 v. 2024)



Total 2019 = 140,945

At the institutional level, changes in gender balance varied across all MFIs (Table 8):

- Al Majmoua, historically strong in serving women, saw female clients drop from 56 per cent to 48 per cent, but still retained a relatively balanced portfolio.
- Vitas Lebanon experienced a sharper decline, with women's share falling from 45 per cent to 36 per cent.
- Ibdaa faced one of the steepest drops, from 65 per cent to 47 per cent female clients.
- Only the Makhzoumi Foundation and ADR increased the share of female borrowers, although the overall number of clients declined.

The shift highlights the need to assess and address gender-specific barriers to financial inclusion in the post-crisis environment.

▶ Table 8: Client gender distribution per MFI (September 2019 v. December 2024)

	Sep-19		Dec-24	
MFI	**Male (%)**	**Female (%)**	**Male (%)**	**Female (%)**
Al Majmoua	44 %	56 %	52 %	48 %
Vitas Lebanon	55 %	45 %	64 %	36 %
Ibdaa Lebanon	35 %	65 %	53 %	47 %
CoopCLD	79 %	21 %	83 %	17 %
AEP	67 %	33 %	64 %	36 %
ADR	68 %	32 %	39 %	61 %
Makhzoumi Foundation	49 %	51 %	41 %	59 %
Total	**46 %**	**54 %**	**56 %**	**44 %**

The age profile of clients remained broadly stable over the period, with adults continuing to represent the vast majority of borrowers. The share of adults increased slightly, from 86 per cent to 88 per cent (Chart 9).

Youth (defined as individuals under 25 years) declined marginally from 13 per cent to 12 per cent, while elderly clients (65+ years), who already made up a negligible portion, disappeared entirely from the portfolio by 2024. Although youth-focused lending programmes exist, their uptake has remained limited, likely deprioritized during the crisis as MFIs focused on core operational survival.

▶ Chart 9: Client age distribution (2019 v. 2024)

Youth = < 25 years – Elderly = > 65 years / Total 2019 = 140,945

Institutional-level trends mirror the aggregate data (Table 9):

- AEP saw youth clients decline from 27 per cent to 18 per cent.
- Ibdaa’s youth segment dropped from 12 per cent to 4 per cent.
- Vitas maintained a steady 18 per cent youth share.

These figures likely reflect a cautious approach to youth lending, which may be linked to higher risk perceptions in an unstable market, as well as the lack of liquidity for on-lending.

▶ Table 9: Client age distribution per MFI (2019 v. 2024)

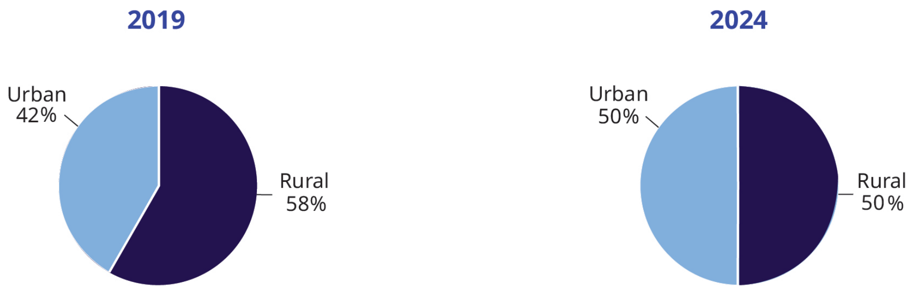
	Sep-19			Dec-24		
MFI	**Youth**	**Adults**	**Elderly**	**Youth**	**Adults**	**Elderly**
Al Majmoua	12%	87%	1%	9%	91%	0%
Vitas Lebanon	18%	82%	0%	18%	82%	0%
Ibdaa Lebanon	12%	88%	0%	4%	96%	0%
CoopCLD	6%	92%	2%	0%	97%	3%
AEP	27%	73%	0%	18%	82%	0%
ADR	0%	94%	6%	7%	92%	1%
Makhzoumi Foundation	0%	100%	0%	0%	100%	0%
Total	**13%**	**86%**	**0%**	**12%**	**88%**	**0%**

Total 2019 = 140,945

In 2019, MFIs served a predominantly rural client base (58 per cent). By 2024, the proportion had shifted to a more balanced 50–50 split between urban and rural areas. This likely reflects the closure of rural and more remote branches, as well as increased use of centralized service delivery models and a greater emphasis on cost-efficiency and proximity in an increasingly resource-constrained environment.

While rural outreach remains a strategic priority for MFIs, the ability to maintain presence in remote areas has been constrained by operational downsizing and lack of funding.

▶ Chart 10: Client urban-rural population distribution (2019 v. 2024)



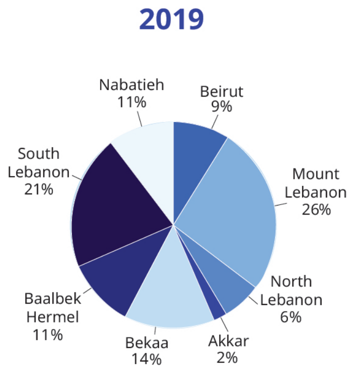
Total 2019 = 139,835

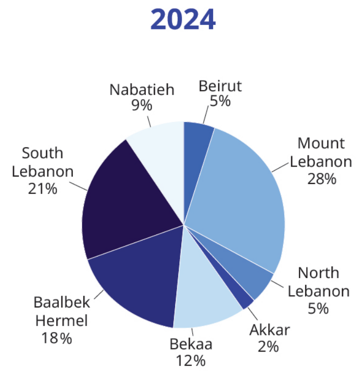
The regional distribution of clients remained relatively consistent, with Mount Lebanon and South Lebanon continuing to account for the largest shares (Chart 11). However, several regional shifts are noteworthy:

- Baalbek-Hermel increased its client share from 13 per cent to 18 per cent;
- Beirut and North Lebanon recorded a modest decline in client representation;
- Bekaa and Akkar maintained relatively stable shares, indicating continued demand despite institutional contraction.

Overall, the regional profile highlights persistent geographic diversity in client demand, with some areas proving more resilient or better served than others throughout the crisis.

▶ Chart 11: Client regional distribution (2019 v. 2024)



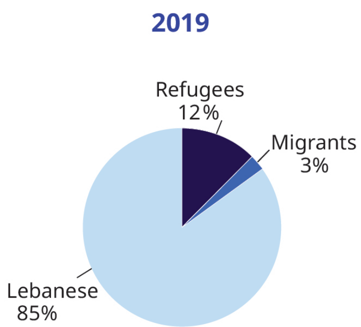


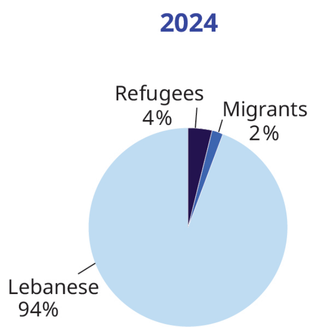
Total 2019 = 140,945

The share of Lebanese clients increased from 85 per cent in 2019 to 94 per cent in 2024. By contrast, the share of non-Lebanese (refugee) clients declined sharply from 12 per cent to 4 per cent, while a minor reduction was also observed in migrant client outreach.

The shift reflects the combined effects of operational downsizing, more conservative lending practices and a more cautious approach towards refugee clients. These changes were driven by political instability and an increasingly restrictive legal framework targeting refugees, introduced through government efforts to encourage their return to Syria, particularly following the fall of the Syrian regime. Some MFIs reported that their branches were closed and staff summoned by legal authorities for investigation after being accused of serving refugee clients. The decline also underscores the need for tailored financial services for refugee and migrant populations, particularly as many remain in the country while being excluded from formal financial channels.

▶ Chart 12: Client nationality distribution: Lebanese, migrants and refugees (2019 v. 2024)





Total 2019 = 140,945

Portfolio at risk and recovery

The deterioration in portfolio quality across the Lebanese microfinance sector was rapid and severe. MFIs that had historically maintained PAR levels below 1 per cent faced an unprecedented wave of repayment issues triggered by the financial collapse, currency devaluation and erosion of borrower income.

Legal enforcement mechanisms remained largely ineffective across the sector. MFIs reported that enforcement was practically non-existent during the crisis. Many clients repaid loans in LBP at the official exchange rate of LBP 1,507 per US dollar, in line with BDL Circular No. 568. This practice disincentivized repayments and resulted in substantial value losses for US dollar-denominated portfolios.

Institutional responses also varied by regulatory status and risk exposure. Al Majmoua, like all MFIs, experienced a sharp increase in arrears early in the crisis, with PAR reaching as high as 40 per cent. In response, the institution established a dedicated collections department to manage follow-up, assess repayment capacity and pursue restructurings where viable. Monthly recovery planning cycles were introduced, allowing operations to be adjusted based on the latest currency fluctuations, liquidity levels and client repayment behaviours. They also experimented with the use of an internal exchange rate (LBP 28,000/US dollar) to incentivize repayment. However, this strategy became quickly obsolete as market devaluation accelerated and currency volatility outpaced adjustments.

▶ Chart 12: Client nationality distribution: Lebanese, migrants and refugees (2019 v. 2024)

MFI	SEP 19	DEC 20	DEC 21	DEC 22	DEC 23	DEC 24
Al Majmoua	0%	7%	2%	0%	1%	1%
Vitas Lebanon	n/a	n/a	n/a	n/a	n/a	n/a
Ibdaa Lebanon	1%	1%	1%	0.1%	0.0%	0.01%
CoopCLD	1%	2%	1%	1%	0.4%	0.1%
AEP	5%	10%	61%	55%	0%	1%
ADR	14%	22%	5%	1%	0%	n/a
Makhzoumi Foundation	2%	11%	0%	0%	1%	14%

n/a: data not shared or not available

Vitas and Ibdaa, both regulated NBFIs, operated under tighter compliance frameworks, specifically regarding loan restructuring and write-offs. Ibdaa reported using internal mechanisms to address rising delinquency, including contract reviews and adjustments to loan terms to reflect prevailing market conditions, while some loan restructuring was undertaken. However, facing a near-total collapse in lending capacity, Ibdaa ultimately wrote off substantial portions of its portfolio. This trend was observed across the sector, with all MFIs eventually writing off most of their old US dollar portfolios, with few exceptions. Vitas gradually transitioned its lending operations to a fully digital system, improving monitoring and operational efficiency.

Signs of recovery emerged only in 2023–2024. Institutions that resumed lending, typically in fresh US dollars, reported improved repayment performance and stronger client discipline, attributed mainly toclearer loan terms and shorter tenors.

However, the conflict in September 2024 dealt another severe blow to the sector, particularly for institutions operating in South Lebanon and the Bekaa. To mitigate post-war loan delinquency risks, Al Majmoua introduced restructuring measures in December 2024, namely payment postponements covering approximately one-third of its portfolio to support clients affected by the war. Following the implementation of these measures, the institution reported improved PAR levels by December 2024, seven months later, demonstrating an effective post-conflict risk mitigation practice. It is worth noting, however, that regulated MFIs subject to BDL requirements are not permitted to apply similar measures without adequate provisioning. Similar measures were implemented earlier in the crisis, specifically in early 2020, when the central bank issued a circular allowing all financial institutions to postpone three payments in response to nationwide COVID-19 closures.

Nonetheless, the effects of the crisis persist and the overall pace of recovery remains slow. Institutions continue to operate cautiously, particularly following the September 2024 conflict. Portfolio volumes remain well below pre-crisis levels and PAR remains elevated in specific regions and among vulnerable client segments, especially those affected by the 2024 conflict or still repaying legacy loans disbursed in Lebanese pounds, as observed in the case of Vitas.

Impact on operations and adaptation strategies

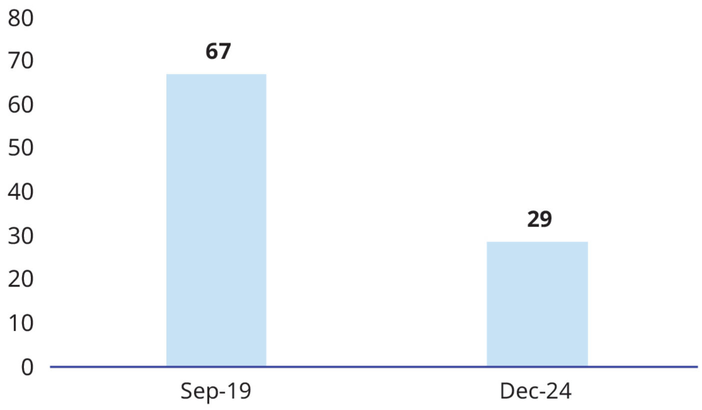
The compounded crises since 2019 forced all MFIs in Lebanon to undertake significant operational restructuring. Institutions faced severe liquidity shortages, currency devaluation and rising uncertainty, requiring a recalibration of operational strategies, resource management and crisis response mechanisms.

One of the most visible impacts was the downsizing of branch networks and human resources. Across all MFIs, the total number of branches declined from 67 to 29 between 2019 and 2024, representing a 57 per cent reduction (Chart 13).

Al Majmoua, the largest MFI in the country, closed 18 branches, reducing its physical presence by 62 per cent, from 29 to 11 locations. These closures formed part of a broader cost-containment strategy in response to severe liquidity shortages and portfolio contraction. However, the reduced physical presence also had significant implications for client proximity, particularly in rural and underserved areas where access to financial services was already limited.

Similar trends were observed among other institutions: AEP reduced its branch network from twelve locations to two. Vitas Lebanon retained its eight-branch network but significantly reduced staffing levels. CoopCLD did not resume lending at all after 2019, although it maintained limited client engagement for collections and recovery planning. ADR was further affected by conflict-related displacement, with staff relocated away from their usual places of residence and work, further constraining its ability to resume operations.

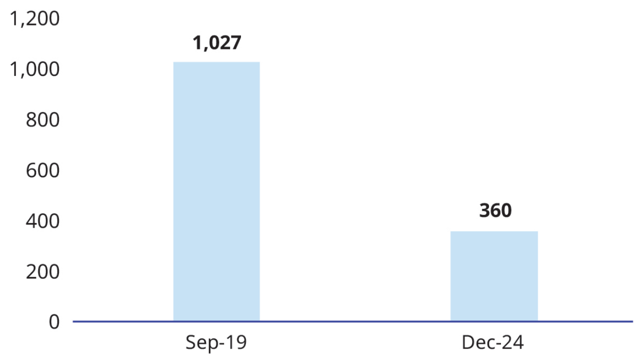
▶ Chart 13: Number of branches (September 2019 v. December 2024)



The contraction of physical infrastructure was paralleled by a sharp reduction in human resources. Between 2019 and 2024, total sector employment declined by 65 per cent, from 1,027 employees to 360 (Chart 14).

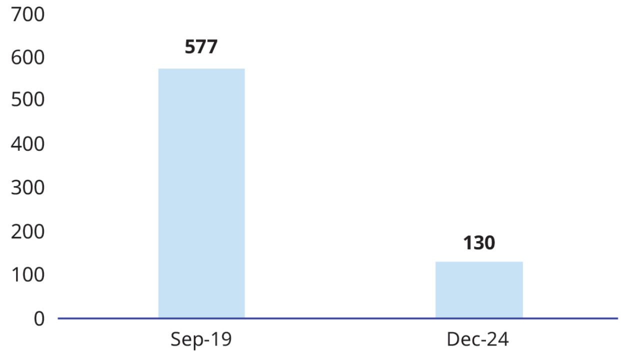
Al Majmoua and Vitas, which together accounted for more than 75 per cent of the total workforce, reduced their combined staff from 792 to 281 employees. Ibdaa experienced one of the most significant cuts, with staff numbers falling from 163 to just 25. These reductions affected all operational levels, with institutions implementing salary cuts, halting recruitment and redeploying field staff to administrative or support functions, including the delivery of non-financial services.

▶ Chart 14: Number of employees (September 2019 v. December 2024)



Field-level operations were particularly affected. The number of loan officers across the sector declined by 77 per cent, from 577 in 2019 to just 130 by 2024 (Chart 15). Al Majmoua alone reduced its loan officer workforce by 81 per cent, from 391 to 76, while Vitas experienced a sharp decrease from 143 to 33 loan officers. The contraction in frontline staff significantly constrained client outreach and slowed portfolio recovery.

▶ Chart 15: Number of loan officers (September 2019 v. December 2024)



Despite these cuts, most institutions sought to retain core technical teams, especially in credit, management information systems (MIS) and collections, to preserve institutional memory and maintain operational continuity, especially in anticipation of potential scale-ups.

Adapting to the crisis also required the restructuring of products and services. Several MFIs streamlined their product offerings, reducing non-core services and eliminating higher-risk or more costly activities. For instance:

- Ibdaa narrowed its focus to agriculture and manufacturing and discontinued gender-focused financial products;
- AEP resumed non-financial services (NFS), including psychosocial support and training following a temporary suspension;
- Al Majmoua redeployed some credit officers into NFS roles to support awareness-raising, training and recovery-focused client engagement.

To cope with banking system disruptions, several MFIs expanded the use of third-party agents and digitized elements of their service delivery. Notably:

- Vitas Lebanon transitioned to fully digital operations for disbursements and collections, eliminating paper-based processes except for legal documents. They also invested in staff training and the digitization of loan approval processes, improving operational efficiency and control;
- Other MFIs, including Al Majmoua and AEP, expanded partnerships with payment service providers such as LibanPost, OMT and Cash United to manage disbursement and repayment flows through cash-based channels, reducing, or in some cases eliminating, reliance on traditional banks.

Even during periods when core lending activities were suspended, several MFIs maintained a field presence and continued engaging with clients:

- CoopCLD stopped lending entirely but retained active borrower lists and continued collections;
- ADR engaged with clients through post-crisis planning and prioritized the resumption of operations in South Lebanon, despite conflict-related displacement.

Liquidity constraints and cash at banks

Liquidity constraints emerged as one of the most severe and persistent challenges facing the sector. Most MFIs entered the crisis holding dollar-denominated deposits in Lebanese commercial banks. However, banking restrictions introduced from late 2019 onwards effectively immobilized these funds. Institutions were typically denied full access to their accounts, with some permitted to withdraw only small amounts for salary payments and only at the official exchange rate, resulting in substantial real-term losses.

One MFI reported holding approximately US$2 million at the onset of the crisis but, by 2023, had been able to convert only US$100,000 into usable fresh US dollars. Another MFI, with US$1.4 million in deposits, estimated that it had recovered the equivalent of just 15 per cent of its original balance. Attempts to liquidate assets through intermediary arrangements resulted in further devaluation. In some cases, MFIs refrained from selling frozen funds on the parallel market due to donor guidance or internal governance considerations.

The resulting liquidity squeeze had far-reaching implications. MFIs were unable to draw on their own capital to cover salaries, sustain operations or resume lending. Delays in fund transfers and restricted access to US dollars accounts created severe cash flow disruptions. For MFIs without strong relationships with the banking sector, high transaction costs further exacerbated the situation. Some institutions reported incurring fees of up to US$150 per loan disbursed through partner banks, rendering operations financially unsustainable.

In response, several MFIs pursued alternative disbursement and repayment channels. Expanded partnerships with money transfer operators such as OMT, LibanPost and Cash United enabled some institutions to bypass formal banking systems, improving liquidity management and supporting limited operational continuity.

As of early 2025, liquidity remains a critical constraint. Although most institutions have resumed modest lending activity, primarily through donor-funded programmes, there is still no sector-wide mechanism to recover immobilized capital or provide fresh liquidity. Most MFIs continue to rely on tightly managed cash flow, external grants and makeshift workarounds to sustain even minimal operations.

Lending and market demand

Lending activity across the Lebanese microfinance sector was severely disrupted following the onset of the crisis in 2019. Widespread liquidity shortages and banking restrictions forced most MFIs to suspend loan disbursements between late 2019 and 2021. Institutions such as Ibdaa and CLD halted all lending operations for extended periods, with portfolios effectively frozen. During this phase, institutions focused on survival, client engagement and preserving existing portfolios rather than expanding outreach.

A small number of MFIs continued limited lending operations during the early stages of the crisis, primarily in Lebanese pounds (LBP). However, rapid currency depreciation rendered this practice unsustainable. As the economy shifted towards a cash-based structure and clients increasingly demanded access to hard currency, some institutions gradually transitioned to fresh US dollars. This transition occurred unevenly across the sector. Institutions such as Al Majmoua, Vitas Lebanon, AEP and the Makhzoumi Foundation began disbursing in fresh US dollars between late 2022 and early 2023, while others remained unable to resume lending due to liquidity constraints and limited donor support.

Despite lending suspensions, demand for microfinance remained strong throughout the crisis. MFIs consistently reported receiving loan applications and inquiries from both existing and new clients, even during periods when lending activities were paused. ADR and Ibdaa, for example, cited sustained demand from clients, particularly those seeking working capital or recovery financing. Similarly, CoopCLD similarly reported continued interest from former clients, especially for loans supporting agriculture, livestock and renewable energy solutions such as solar installations.

Since 2023, several MFIs have cautiously resumed lending, albeit at a much smaller scale. Lending is now predominantly conducted in fresh US dollars and focuses on short-term working capital loans and sectors considered less volatile, including food production, agriculture and retail trade. Institutions have tightened their underwriting standards and reduced average loan sizes to manage risk and cope with limited liquidity.

Nevertheless, lending volumes remain well below pre-crisis levels. The mismatch between available capital and persistent demand continues to define the sector's challenges. MFIs such as Ibdaa, ADR and CoopCLD reported an inability to serve eligible clients, including returning borrowers, due to liquidity constraints. Others, including the Makhzoumi Foundation, expressed readiness to expand lending, contingent on access to external funding.

Across institutions, unmet demand was particularly pronounced in underserved regions, among women and youth-led businesses, and in sectors requiring investment in productive assets, such as renewable energy systems and agricultural inputs. The sustained demand for microcredit, despite economic instability, underscores the sector's role as a critical livelihood support mechanism and highlights the need for liquidity solutions to enable MFIs to meet market demand.

Financial sustainability

The financial sustainability of MFIs was significantly compromised during the crisis, as lending revenues collapsed while operating costs remained difficult to cover. Overall, the operational sustainability of most MFIs remains well below 50 per cent as of December 2024.

NGOs that had previously achieved operational self-sufficiency or maintained sustainable cost recovery, such as AEP and ADR, became fully reliant on donor support to continue operations. AEP reported that it had been financially sustainable since 2017 but was forced to return to donor dependency after the crisis led to a sharp decline in lending and revenue. ADR similarly covered 100 per cent of its operational costs prior to 2019 but was compelled to suspend all lending for more than three years, eliminating its ability to generate internal income.

Larger institutions were also severely affected. Al Majmoua and Vitas Lebanon, despite their scale and diversified funding structures, incurred significant real-term losses as their US dollar deposits became trapped in the banking system. These funds could be accessed only for payroll purposes and at the official exchange rate, leading to rapid equity erosion. Both institutions refrained from engaging with the parallel market in order to protect relationships with donors and investors, despite having to absorb the full effects of the currency devaluation.

To sustain operations, Ibdaa, Vitas Lebanon and Al Majmoua received support under the World Bank-managed B5 Fund, which covered core operational costs for a limited period. While these grants were essential in covering basic costs and maintaining operations, they were limited in scope and duration and insufficient to restore institutional sustainability without lending resuming at scale.

Although lending partially resumed in 2023, interest income remains far below pre-crisis levels. Most institutions continue to operate under financial strain, relying, where available, on donor grants to cover costs. Long-term recovery remains dependent on access to concessional funding, recapitalization and improved market conditions to support a gradual return to financial viability.

Funding and donor engagement

Access to funding, particularly long-term, concessional or patient capital, has remained a critical challenge for nearly all MFIs since the onset of the crisis. Interviews with MFIs consistently highlighted a sharp decline in both domestic and international funding, particularly from former partners that had previously supported the sector through loans or grants.

During the crisis, donor organizations, IFIs and DFIs engagement with MFIs was extremely limited and highly selective. Notably, the World Bank has supported the sector through the US$25 million B5 Fund, financed by the Lebanese Financing Facility (LFF), a multi-donor trust fund established in December 2020. The LFF is supported by contributions from the European Union, as well as the governments of Canada, Denmark, France, Germany and Norway. Through an independent assessment process, the B5 Fund selected three MFIs (Vitas Lebanon, Al Majmoua and Ibdaa) that had demonstrated pre-crisis financial sustainability and provided them with operational expenditure support. In the first two tranches of the project, AEP also participated. Under a later programme component, three MFIs received limited capital injections, up to US$3 million in total, to support on-lending to clients.

▶ Box 2. ILO PROSPECTS initiative

Another notable initiative has been the Netherlands-supported ILO PROSPECTS initiative, which has contributed to recovery in the agriculture sector in partnership with Al Majmoua. In 2023, the MFI, acting as the implementing partner, disbursed 419 loans with a total value of US$1.33 million, financed through a capital injection of US$1 million from PROSPECTS and Al Majmoua's own contribution of US$330,000. In parallel, the institution delivered the ILO's Improve Your Agri-Business and Financial Education (FE) training programmes to 1,564 Lebanese and Syrian participants.

The initiative supported the maintenance or creation of **nearly 2,000 jobs,** approximately 70 per cent of which were held by Syrian workers, and contributed to improved productivity and reduced operational costs, particularly in water and energy efficiency. The **pilot loan product** introduced in early 2023 as a proof of concept played an important role in rebuilding trust in Lebanon's microfinance sector following the crisis. Its strong portfolio performance strengthened confidence among international partners—including **AFD, Kiva, IFC, the EU and Proparco**—and generated renewed interest and commitments for further investment, demonstrating how successful small-scale pilots can catalyse sector-wide recovery and attract additional stakeholders.

Hybrid approaches, such as lending packages combining small-scale loans with grants, were piloted by several MFIs, particularly during the emergency response to COVID-19 and the port explosion. For instance, one institution partnered under the USAID LIFE project to restructure loans and assist micro and small entrepreneurs through business grants and in-kind equipment support. Similarly, under the B5 Fund, MFIs accessed matching grants of up to US$10,000 for micro and small enterprises to cover equipment, working capital or repair costs alongside small loans disbursed through the same channel. While these pilots provided an important crisis response by supporting business rehabilitation and combining capital with technical assistance, they remained marginal, constrained by limited donor funding and scale.

The crisis also disrupted relationships with existing international funders and private impact investors. **Al Majmoua** had outstanding debt with 14 international lenders at the beginning of the crisis, many of whom initially reacted with rigidity and extreme caution. As it became clear that conditions were unlikely to stabilize, lenders approved a standstill agreement and, over time, several socially driven investors voluntarily forgave their loans. The rest followed under a collective approach.

Vitas Lebanon underwent a similar restructuring process, negotiating directly with a smaller group of lenders, including its shareholder, and reaching an agreement that resulted in significant debt reduction. Although shareholders refrained from injecting new capital during the crisis, they expressed interest in supporting recapitalization once operational stability is restored.

The experience of Al Majmoua and Vitas highlights the fragility of international funding in crisis contexts, especially where deep structural reforms are required to stabilize the financial sector and currency risk remains high. It also underscores the role of international donors, IFIs and DFIs in supporting sector recovery through patient capital.

As of early 2025, interest from international funders has begun to regain momentum, with broad consensus that the primary constraint facing MFIs is lack of liquidity. However, most potential investors are currently willing to engage with the sector only if donor-backed guarantees are secured for risk mitigation, often covering 30 to 50 per cent, according to many stakeholders who participated in the study. Similarly, Proparco indicated that DFIs are not currently prepared to provide direct financial support through debt or equity to MFIs in Lebanon on their own balance sheet due to high country risk.

Despite these challenges, a few notable initiatives are under way. The first, supported by the European Union in partnership with Proparco, will be implemented in two phases: the initial phase will combine an EU grant to cover operational expenses for Al Majmoua and Vitas Lebanon with a loan facility targeting war-affected businesses; the second phase will introduce a 90 per cent EU-backed guarantee for a Proparco loan to the same institutions. The second initiative involves the International Finance Corporation (IFC), which is finalizing a blended loan for Al Majmoua and Vitas Lebanon.

Private impact investors and crowdfunding platforms remain cautious when considering potential engagement with the Lebanese microfinance sector due to the broader macroeconomic context. For example, LendWithCare, a UK-based crowdfunding platform that has not previously operated in Lebanon, noted reputational risk exposure for their lenders as a key concern in the event of major losses.

While these initiatives represent an essential step towards renewed international engagement, they remain limited in scale and cover only a fraction of estimated sector needs. Although no public research currently provides an evidence-based estimate of funding needs, the assessment indicates that the sector will require over US$50 million in liquidity over a 24-month period to achieve meaningful recovery and stabilization.

Non-financial services and client support

The provision of non-financial services experienced both disruption and adaptation during the crisis. Several MFIs suspended training, financial literacy and other client-facing services in the early stages of the crisis due to financial constraints, human resources reductions and shifting operational priorities. For example, some MFIs stopped all non-financial services as part of an overall survival strategy, citing lack of external funding as the primary constraint.

Despite these challenges, some institutions made deliberate efforts to preserve or even expand non-financial support to maintain client relationships and reinforce their social mission. The shift was supported by increased donor funding directed mainly towards non-financial services. Al Majmoua, for instance, adopted a strategic decision to expand client engagement through non-financial services, increasing its provision of business development services (BDS) training, and awareness-raising activities. These services were viewed both as a client support mechanism during reduced lending and a channel for accessing donor funding, which had shifted towards non-financial services.

Other MFIs showed interest in resuming such services but highlighted the need to revise outdated training curricula and rebuild internal capacity. Vitas Lebanon, for instance, identified the development of non-financial services as its institutional priority moving forward, subject to securing the necessary technical and financial resources to update offerings and train staff accordingly.

Overall, the crisis revealed divergent institutional strategies: some MFIs streamlined services to focus exclusively on financial operations, while others expanded non-financial support as a longer-term investment in client trust and institutional relevance, recognizing that NFS can play a critical role in recovery and resilience.

6. Current challenges and opportunities

Key Challenges	Identified Opportunities
Liquidity shortage and funding gap	**Strong and growing demand**
All MFIs, regardless of legal status, consistently underscore the severity of the sector's liquidity crisis. International organizations interested in supporting the Lebanese microfinance sector broadly agree that the main constraint facing MFIs is the lack of funding and the absence of adequate risk-mitigation mechanisms, most notably donor-backed guarantees. This persistent constraint has significant implications for sector recovery. The scarcity of funding restricts the ability of MFIs to access patient capital, blended finance solutions or equity injections that are particularly critical for institutional resilience and long-term sustainability.	MFIs consistently report overwhelming demand for productive loans and regularly turn away eligible clients due to persistent liquidity constraints. Limited or absent bank engagement further widens the financing gap, leaving a significant portion of the population, particularly micro and small enterprise owners, without access to formal financial services. Demand for micro and small business financing remains particularly strong in sectors such as agriculture, rural development, women-led enterprises and post-conflict areas, including the southern suburbs of Beirut, South Lebanon and the Bekaa Valley. Consultations indicate that most potential partners are interested and willing to engage with the sector, provided that adequate risk-mitigation mechanisms, especially donor-backed guarantees, can be secured. Signs of renewed, albeit cautious, interest from IFIs and international organizations are beginning to emerge. The European Union is considering an initial liquidity injection and a guarantee to back Proparco's debt funding to MFIs, while IFC is finalizing concessional debt financing for the two leading MFIs. Although this support remains modest relative to the sector's needs, it would arrive at a critical juncture and could play a catalytic role in stabilizing microfinance operations and attracting additional funders.

Legal and regulatory environment

Although the main domestic stakeholders, notably MFIs and regulatory authorities, do not currently view the issue as an immediate priority, the existing legal and institutional framework governing MFIs in Lebanon remains highly fragmented and insufficiently aligned with the sector's operational realities.

Regulated institutions are obliged to comply with rigid requirements and supervisory rules designed for conventional financial actors, which are not well suited to the specific characteristics of microfinance. At the same time, NGOs engaged in microfinance activities lack a clear pathway to transition into NBFI status, limiting institutional development prospects.

By comparison, most countries across the region, including Morocco, Egypt, Jordan, Palestine and Syria, have established dedicated microfinance regulatory frameworks.

The current context presents an opportunity for structured and concerted policy dialogue to define a regulatory vision for the sector and agree on a feasible reform roadmap.

Collective action and dialogue will be needed to identify an optimal regulatory framework, draw on international experience while adapting it to the Lebanese context and determine the timing and strategies for lobbying efforts.

Aligning the interests of different stakeholders will be a critical part of this process.

Although regulatory reform is not an immediate priority, it should nonetheless be placed on the agenda for future consideration.

Although this support remains modest relative to the sector's needs, it would arrive at a critical juncture and could play a catalytic role in stabilizing microfinance operations and attracting additional funders.

Sector coordination and engagement

Several institutions emphasized the importance of strengthening sector-wide coordination mechanisms and developing a more unified approach for collective advocacy.

While the Lebanese Microfinance Association (LMFA) provides a formal platform, its effectiveness has been limited by several structural and operational challenges. These include limited alignment on strategic priorities among the different categories of MFIs, resource constraints that restrict the scope of its activities and a generally cautious positioning in its engagement with both regulators and international stakeholders.

These factors have reduced its ability to advance shared priorities and act as a credible sector representative.

Growing interest from donors, DFIs and MFIs in strengthening collective engagement creates an opportunity to redefine sector organization.

Potential opportunities include:

- identifying shared priorities;
- establishing technical working groups to support LMFA reform and strengthening;
- mobilizing donor support for sector-wide coordination and advocacy.

In the aftermath of the crisis, this is an opportunity to reset expectations and build a collective sector voice grounded in practical collaboration.

Digitalization and delivery channels

Although the potential of digital tools to improve outreach and efficiency of microfinance is broadly acknowledged, digital adoption within the Lebanese microfinance sector remains limited.

Most MFIs cite several persistent barriers to widespread digitalization, including low levels of digital literacy among clients, weak internal systems and technical capacity within institutions, as well as regulatory uncertainty, particularly regarding the use of digital wallets.

There is, however, an opportunity to explore hybrid service delivery models that combine traditional field engagement with digital tools, such as SMS reminders and digital loan applications. Such approaches can help reduce operational costs while remaining accessible to clients with low levels of digital literacy.

In addition, clearer regulation of digital wallet partnerships could unlock further potential for MFIs to operate effectively in a context where banking infrastructure remains limited.

7. Recommendations

Recommendations at sector level

Rationale:

Strengthening sector resilience will require more structured coordination and collective mechanisms. Funders are generally willing to intervene only when guarantee mechanisms are in place. The sector currently lacks alignment across financing, technical support and operational efforts, resulting in duplication and inefficiencies. Over the medium term, the absence of an appropriate regulatory framework may undermine the sector's long-term stability.

Actions include:

- establishing a sector dialogue platform that brings together stakeholders (including donors and IFIs/DFIs) to align financing, technical support and operational efforts;
- creating an emergency liquidity facility to intervene in times of crisis;
- attracting new resources from impact investors through blended finance and de-risking mechanisms;
- providing technical assistance to build MFIs' capacity to address emerging market needs;
- supporting the evolution of LMFA in terms of funding, capacity and mandate;
- considering advancing a regulatory framework to support long-term sector stability (medium-term priority)

Actors:

- Donors
- IFIs/DFIs
- Impact investors
- MFIs
- LMFA

Recommendations at MFI level

Rationale:

MFIs need to strengthen resilience, expand outreach and adapt to evolving market needs. Current key gaps include limited product diversification, insufficient access for underserved groups, low levels of digitalization, weak integration of non-financial services and challenges related to staff capacity and retention. Business development approaches may not fully align with market demands or donor and investor objectives.

Actions include:

- diversifying product offerings, including green finance, larger MSE loans (above US$5,000) and support for agriculture and agri-processing;
- expanding outreach to underserved groups, including youth, women and refugees, to increase social impact and portfolio growth;
- accelerating digitalization to improve efficiency, reduce costs and broaden client access;
- integrating non-financial services to strengthen financial and digital literacy and promote sustainable business practices among enterprises;
- rebuilding staff capacity and implementing retention strategies to preserve institutional knowledge;
- reconsidering business development approaches to remain responsive to market demand and aligned with donor and investor objectives.

Actors:

- Microfinance institutions (MFIs)
- Donors and investors

Recommendations for ILO and international organizations engagement

Rationale:

The microfinance sector requires stronger coordination and broader support to ensure that interventions reach not only the largest MFIs but also smaller institutions. Vulnerable populations, including people living in poverty, refugees and youth, face limited access to financial services. Existent funding and technical assistance mechanisms are not always sufficiently aligned or inclusive.

Actions include:

- encouraging international organizations, including the ILO, to engage actively in the sector and participate in sector dialogue platforms;expanding outreach to underserved groups, including youth, women and refugees, to increase social impact and portfolio growth;
- improving alignment among stakeholder initiatives to avoid duplication and ensure support reaches both large and small MFIs;
- engaging lenders, including social impact investors and crowdfunding platforms, to provide funding through guarantees or blended finance mechanisms;
- providing direct support to LMFA to strengthen its capacity for sector-wide coordination and technical assistance;
- linking ongoing programmes with microfinance through blended finance approaches (for example, incentive schemes and livelihood initiatives) to strengthen financial inclusion and support outcomes such as economic graduation and labour market integration.

Actors:

- International organizations
- Donors and social impact investors
- Crowdfunding platforms
- LMFA
- MFIs

8. Annexes

A. List of stakeholders consulted

Skateholders	Organization Type	Name	Position	
Lebanese Microfinance Association	Association	Ola Hariri & Youssef El Khalil	Coordinator	✓
Al Majmoua	NGO MFI	Youssef Fawaz	CEO	✓
Vitas Lebanon	NBFI MFI	Ziad Halaby	CEO	✓
Ibdaa Microfinance	NBFI MFI	Bahaa Dana	CEO	✓
Association for the Development of Rural Capacities (ADR)	NGO MFI	Youssef El Khalil & Mona Barakat	CEO	✓
Association d›entraide professionnelle (AEP)	NGO MFI	Lara Hassoun	Executive Director	✓
Lebanese Development Cooperative	NGO MFI	Jacques Nacouzi	CEO	✓
Makhzoumi Foundation	NGO MFI	Vaco Keutelian	Operations Manager	✓
Monty Finance	NBFI	Anthony Lorfing	CEO	✓

Neo Bank – Audi	NBFI	Gebran Gebran	CEO, Neo Bank	✓
Banque du Liban (BDL)	Regulator	Khaled El Bahsali	Executive Director, Foreign Affairs Department	✓
Ministry of Economy and Trade	Government	Mohammad Abou Haidar	Director General	✓
World Bank & CGAP	Int'l Organization	Nadine Chehade	Senior Financial Sector Specialist	✓
UNDP	Int'l Organization	Kawthar Dara	Economist	✗
UNHCR	Int'l Organization	Carol El Sayed	Livelihood Officer	✓
EU	NGO MFI	Abdel Bitat, Jimmy Elbssousi	CEO	✓
IFC	IFI/DFI	Amilios Chatzinklaou	Senior Operations Officer, Prospects Programme Manager for the Middle East	✓
EBRD	IFI/DFI	Katya Lehair	Focal point – Middle East	✓
FMO	IFI/DFI	Claire Nyambori	Focal point – Middle East	✓
Proparco	IFI/DFI	Sebastian Fleury & Emilie Edde	Head and Investment OfficerEdde	✓
AFD	Int'l Organization	Anne Isambert	Deputy director, AFD Lebanon	✓

KfW/SANAD/ Finance in Motion	IFI/DFI	Dragan Spirovski	Senior Manager	✓
responsAbility	Impact Investor	Martin Heimes	Head of Private Debt	✓
SIDI	Impact Investor	Jean-Baptiste Cousin	Partnership Officer, Lebanon	✓
Kiva	Crowdfunding	Lev Plave	Director of Investment, Middle East	✗
Lendwithcare	Crowdfunding	Nancy Thomas	Investment Officer	✓

ilo.org

International Labour Organization
Regional Office for the Arab States
Aresco Centre - Justinien Street - Kantari
Beirut - Lebanon