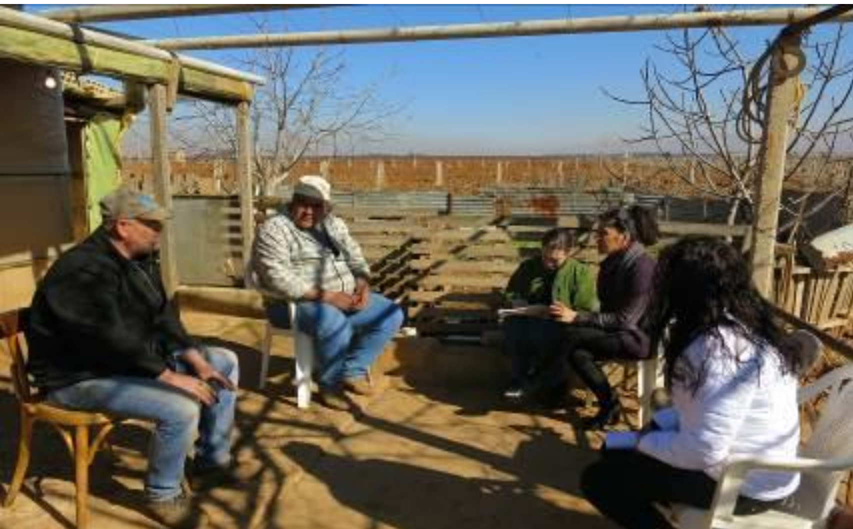


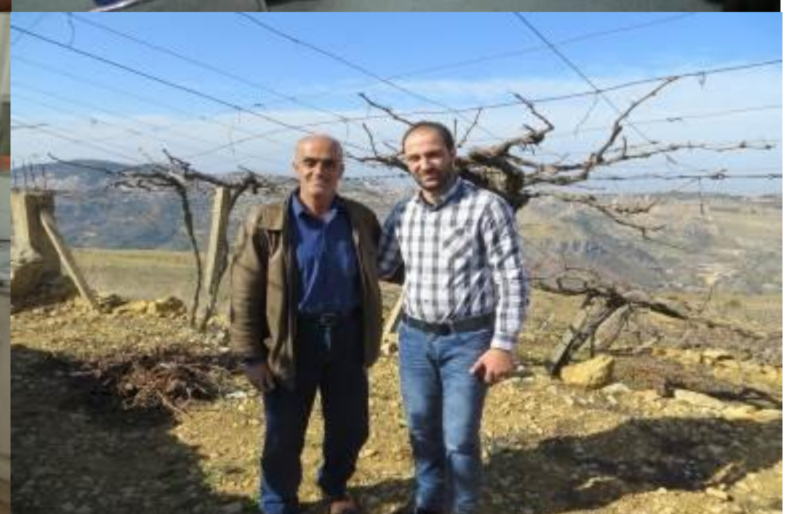

MID-TERM PERFORMANCE EVALUATION: LEBANON INVESTMENT IN MICROFINANCE (LIM) PROGRAM

March 4, 2014

This publication was produced at the request of the United States Agency for International Development. It was produced by Social Impact Inc. with Management Systems International under the PMPL program, headed by Harvey Herr, Chief of Party. Social Impact's evaluation team contributors: Kamil Wanna, Tamara Nassereddine, Joanna Khater, Najwa Andraos, Joseph Kotun

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CONTENTS

ACRONYMS

ADR	Association for the Development of Rural Capacities
AEP	Association Entraide Professionnelle
AOR	Agreement Officer's Representative
BDS	Business Development Services
CAS	Central Administration of Statistics
CDCS	Country Development Cooperation Strategy
CLD	Lebanese Cooperative for Development
DCA	(USAID) Development Credit Authority
DO	Development Objective
DHAIM	Developing Hydroponics to Access International Markets
DQA	Data Quality Assessment
EDF	Entrepreneurial Development Foundation
FAST	Finance Alliance for Sustainable Trade
FY	Fiscal Year
ICT	Information Communication Technology
IESC	International Executive Service Corps
IR	Intermediate Result
LBLI	Lebanon Business Linkage Initiative
LERC	Lebanese Emigration Research Center
LIVCD	Lebanon Investment in Value Chain Development
MED	Microenterprise Development
MFI	Microfinance Institution
MIX	Microfinance Information eXchange
MRR	Microenterprise Results Reporting
MSME	Micro, Small and Medium Enterprise
PAT	Poverty Assessment Tool
PMP	Performance Monitoring Plan
PMPL	Performance Monitoring Program-Lebanon
PPI	Progress out of Poverty Index
PPR	Project Performance Results
RFA	Request for Applications
RIG	(USAID) Regional Inspector General
SEEP	Small Enterprise Education and Promotion
SI	Social Impact, Inc.
SOW	Statement of Work
U.S.	United States
USAID	U.S. Agency for International Development
VEGA	Volunteers for Economic Growth Alliance

EXECUTIVE SUMMARY

EVALUATION PURPOSE AND EVALUATION QUESTIONS

The Volunteers for Economic Growth Alliance (VEGA) Lebanon Investment in Microfinance (LIM) Program is funded by the U.S. Agency for International Development (USAID) and implemented by the International Executive Service Corps (IESC). Since its inception up until March 2013, the LIM program has partnered with eight Microfinance Institutions (MFI), to maximize access of finance to micro-enterprises and small businesses, operating in the Agribusiness, Tourism and Information and Communication (ICT) value chains.

The Agreement Officer's Representative (AOR) for the LIM program requested a mid-term formative performance evaluation of the LIM program, to be implemented by Social Impact's PMPL team in Lebanon. Subsequently, the Office of the Inspector General (OIG) conducted an audit of the LIM program during April and May that addressed many of the issues initially raised by the AOR. Due to the audit findings, the LIM program is making mid-course corrections. This resulted in a re-framing of the evaluation so that post-LIM issues can be addressed. The AOR described the evaluation as an external technical review of the LIM program implemented by IESC aimed at determining what is needed from a follow-on post LIM program. A revised scope proposes looking beyond what LIM has achieved to the sustainability of the sector post-LIM, and to future Economic Growth programming.

The objectives of the evaluation are to:

- Examine if LIM has targeted underserved categories of borrowers including new business start-ups and businesses owned by or employing women and youth.
- Examine if loans granted under LIM have had a development economic impact such as a rise in income, an increase in employment, or both.
- Examine if LIM has built the institutional capacity of partner microfinance institutions (MFIs) in terms of human resources, management, business and financial sustainability, as well as capability and capacity to serve a larger number of communities.
- Examine capacity building of MFI to outsource loan origination.
- Identify success and/or lessons learned.

PROJECT BACKGROUND

In May 2009, USAID awarded International Executive Service Corps and Volunteers for Economic Growth Alliance (IESC/VEGA) the Lebanon Investment in Microfinance (LIM) Program, designated to assist Lebanese micro and small enterprises increase sales, create jobs, and advance economic growth through improved access to finance, and to strengthen microfinance institutes' capacity for providing access to finance/microfinance services to Lebanese micro and small enterprises. The program assists micro and small enterprises by maximizing the availability of loans for borrowers in sectors and areas that have traditionally had difficulty accessing business finance. The LIM Program is funded by the United States Agency for International Development (USAID), through Leader with Associate Cooperative Agreement number: EEM-A-00-04-00002-00 to the Volunteers for Economic Growth Alliance (VEGA), and is implemented through Associate Award number: 268-A-00-09-0003 by the International Executive Service Corps (IESC).

EVALUATION QUESTIONS, DESIGN, METHODS AND LIMITATIONS

See Annex II for a chart that maps the evaluation questions to the findings.
The Social Impact evaluation team designed the midterm formative evaluation to address the following evaluation questions:

I. How are beneficiaries in the three focal sectors (agribusiness, tourism, and information communication technology) selected by the MFI and does this respond to the objective of the program?
II. How can the MFIs be assisted to expand their outreach to the targeted beneficiaries and very poor clients?
III. Does LIM target new-business startups or businesses owned by women or youth? What are the selection criteria that qualify a business owner for a loan?
IV. Do the loans granted under LIM lead to a rise in income? How would LIM assess whether sales and income increased?
V. What evidence is there that new employment was created and/or sustained?
VI. What activities has LIM implemented to build the institutional capacity of partner microfinance institutions? What is the evidence that capacity was improved and what business development services were crucial to growing micro, small and medium enterprises?

The Social Impact team's evaluation design incorporated a variety of targeted methods to address the evaluation questions by eliciting rich information and triangulating emerging trends and themes. Methods included 1) document review; 2) interviews with LIM program staff and key informants in business and government; 3) semi-structured interviews with participating MFI directors and other staff; 4) semi-structured interviews with an array of purposively sampled MFI clients using criteria that included loan type, loan size, gender, geographic location, and the MFI in which they participated; and 5) guided focus group discussions.

The evaluation was carried out in Lebanon during two phases: December 6-20 and January 7-21. The bulk of the interviews and focus groups proceeded as planned. While security conditions, particularly during the second phase of the evaluation, impeded a few aspects of the planned work, the evaluation team concluded that the diversity and coverage of key informants were both sufficient and robust enough to allow for compiling reliable findings and formulating recommendations.

Limitations were caused by political unrest on two days during the evaluation timeframe. Several of the scheduled beneficiary interviews, one scheduled focus group and an MFI site visit had to be canceled due to security concerns for both the evaluation team and the respondents.

SUMMARY FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Finding 1: Most (six out of eight) of LIM's partner MFIs have achieved operational sustainability.

- <u>Conclusion 1:</u> The regulatory environment in Lebanon presents unique challenges and opportunities for sustainability for LIM's partners.

- Recommendation I(a): USAID could reduce LIM's overall sub-grant funding provided for capital provisioning, but target it specifically toward more challenging beneficiary categories that remain under-represented in LIM's portfolio.
- Recommendation I(b): Underwrite higher risk categories of loans through USAID's Development Credit Authority (DCA) program., or similar type of credit guarantee scheme.

Finding 2: LIM's partners highly value the institutional level training that LIM has provided for their staff.

- Conclusion 2: MFIs will need to have on-going access to training and support.
- Recommendation 2(a): It would be beneficial for the MFIs to develop their own training curricula and training capacity tailored for their policies and operations.
- Recommendation 2(b): LIM should evolve its approach to core competency training for MFIs toward fee-for-service basis.

Finding 3: Many of LIM's beneficiaries interviewed expressed need for business development services

- Conclusion 3: Many beneficiaries would benefit from access to BDS training.
- Recommendation 3(a): LIM should address clients' needs for BDS and provide training and/or Training of Trainers for MFI clients.
- Recommendation 3(b): LIM could develop a pilot initiative in micro-franchising for youth enterprises.[1]

Finding 4: Although difficult to quantify, LIM's beneficiaries report increased incomes.

- Conclusion 4. Improved understanding of LIM's effects on beneficiaries' incomes is needed.
- Recommendation 4: LIM should carefully monitor the quality of income data collected.

Finding 5: New job creation as a result of LIM's investments is largely limited to loans for start-up enterprises.

- Conclusion 5: Providing loans for start-up enterprises is the most reliable way for MFIs to support job creation for target populations.
- Recommendation 5: Establish specific targets for loans to startup businesses, coupled with incentives to MFIs to move down market.

Finding 6: LIM's current indicators (income generation and job creation) are inadequate to identify and track poor and very poor beneficiaries. The lack of appropriate tools to measure poverty reduces LIM's efficacy to reach down market.

- Conclusion 6: MFIs in Lebanon need better means of identifying and tracking whether they are reaching poor households.
- Recommendation 6: Develop a Poverty Assessment Tool or similar tool for Lebanon.

Finding 7: Relatively low risk loans to MSMEs comprise the largest portion of the portfolio while poorer, higher risk beneficiaries are under-represented in the program portfolio.

- Conclusion 7: LIM's targeted sectors and beneficiaries are very broadly defined by USAID, and no priorities have been set among categories.
- Recommendation 7(a): Structure future MFI sub-agreements to ensure the inclusion of closely defined, higher risk beneficiaries especially for MFIs that have achieved sustainability.

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[1] There are many successful examples of micro-franchising on USAID's microlinks.com portal site, CGAP's Microfinance Gateway and several NGOs describe their experience with micro-franchising.

- Recommendation 7(b): Within RFAs, provide a sub-list of higher risk categories of potential borrowers to be specifically targeted by a portion of sub-grant funds or underwritten through DCA-funded portfolio guarantees.

Finding 8: On the whole, women benefit from LIM's program.

- Conclusion 8: LIM's MFIs have in some cases attempted to address their gender gap in outreach to women.
- Recommendation 8: Conduct a gender analysis for access to finance to better understand ways to address constraints to women's participation as well as the non-financial impact on women beneficiaries' empowerment.

Finding 9: There is an unmet demand for savings among many of LIM's beneficiaries.

- Conclusion 9: Lack of access to savings deprives poor clients of an essential tool for accumulation of assets and building wealth.
- Recommendation 9: LIM should assume a leadership role to promote the value of savings to LIM's partner MFIs and promote development of a savings culture among LIM's beneficiaries taking into consideration current Central Bank restrictions.

Finding 10: Lebanon does not currently have an effective enabling environment for the microfinance sector.

- Conclusion 10: Regulations governing the sector lag behind the development and growth of MFIs.
- Recommendation 10: LIM or a post-LIM project should continue to play a strong leadership role in the continued development of the Microfinance Association including technical advising and advocating best practices that foster an effective enabling environment.

OVERALL CONCLUSIONS

LIM has enhanced the microfinance sector in Lebanon. Perhaps LIM's most significant achievement, the successful development of a professional Microfinance Association, presents a significant opportunity for Lebanon's microfinance sector to mature and grow. LIM has catalyzed growth in the key economic sectors of small and medium enterprises, especially in providing capital for MFIs to expand into rural and other underserved communities. LIM has been instrumental in developing technical capacity through professional training and mentorship with the MFIs.

While these are important achievements, the evaluation also includes some findings that are cause for significant concern. The most important of these is LIM's limited success in reaching poor and higher risk beneficiaries. Despite the conclusions that discuss LIM's problematic scope of work and USAID's lack of specific performance targets for these groups, in the end it is LIM's responsibility to substantively reach all the intended categories of beneficiaries, including women, youth and start-up businesses. These categories of higher risk beneficiaries are severely under-represented in LIM's overall loan portfolio. Two primary challenges that LIM now faces are its potentially divergent focus and its reliance on indicators that do not sufficiently facilitate helping MFIs to reach the higher risk and poorer categories of beneficiaries who remain under-represented in the MFI portfolios. While LIM's statement of work does reference these under-represented potential beneficiaries, some of LIM's key indicators for reporting refer to supporting economic growth for key sectors and categories of beneficiaries who, while (mostly) marginally poor, are economically viable and are already being served by the MFIs without LIM's sub-grant funding. If USAID's interest also includes working down-market, with poor and vulnerable beneficiaries, particularly in poor rural communities that are facing increased pressure from the influx of refugees from the Syrian conflict, then USAID could consider enabling/authorizing LIM to make course changes and restate program objectives and targets to accommodate more traditional microfinance clients (i.e. the poor, represented by women, youth, and the rural unemployed) whose options for financial stability where there are few jobs are limited to starting a new business.

EVALUATION PURPOSE & EVALUATION QUESTIONS

EVALUATION PURPOSE

The Volunteers for Economic Growth Alliance (VEGA) Lebanon Investment in Microfinance (LIM) Program is funded by the U.S. Agency for International Development (USAID) and implemented by the International Executive Service Corps (IESC). Since its inception up until March 2013, the LIM program has partnered with eight Microfinance Institutions (MFI) to maximize access of finance to micro-enterprises and small businesses operating in the Agribusiness, Tourism and Information and Communication (ICT) value chains.

The Agreement Officer's Representative (AOR) for the LIM Program requested a mid-term formative performance evaluation of the LIM Program early in 2013. Subsequently, the Office of the Inspector General (OIG) conducted an audit of the LIM Program during April and May that addressed many of the issues initially raised by the AOR. Due to the audit findings the LIM Program began making mid-course corrections. This resulted in a re-framing of the evaluation so that post-LIM issues can be addressed. The AOR described the evaluation as an external technical review of the LIM Program implemented by IESC aimed at determining what is needed from a follow-on, post LIM Program.

The objectives of the evaluation are to:

- Examine if LIM has targeted underserved categories of borrowers including new business start-ups and businesses owned by or employing women and youth.
- Examine if loans granted under LIM have had a development economic impact such as a rise in income, an increase in employment, or both.
- Examine if LIM has built the institutional capacity of partner microfinance institutions (MFIs) in terms of human resources, management, business and financial sustainability, as well as capability and capacity to serve a larger number of communities.
- Examine MFI sustainability assuming grants to MFI are not continued.
- Identify success and/or lessons learned.
- Examine if LIM assisted the Partners in increasing number of SME loans.
- Identify business development service needs as identified by the beneficiaries, and by the MFIs.
- Examine potential advantages of an association of microfinance institutions.

EVALUATION QUESTIONS

See Annex II for a chart that maps the evaluation questions to the findings.
The evaluation of the LIM Program focused on the following evaluation questions:

- How are “agribusiness,” “tourism” and “Information Communication Technology (ICT)” beneficiaries selected by the MFI? Does this respond to the objective of the program?
- How can the MFIs be assisted to expand their outreach to the targeted beneficiaries and the very poor clients?
- Does LIM target “new-business startups”, “businesses owned by women,” and/or “businesses owned by youth”? What are the selection criteria that qualify a business owner for a loan (eligibility criteria)?
- Do the loans granted under LIM lead to a rise in income? How would LIM assess whether sales and income of micro-credit loan recipients have increased or not?
- What evidence is there that new employment was created? What evidence is there that employment was sustained?
- What are the activities that LIM had implemented or is implementing in order to build the institutional capacity of partner microfinance institutions? And what evidence is there that capacity was improved? What business development services were crucial to growing micro, small and medium enterprises (MSMEs)?

The evaluation team was asked to provide recommendations for the following:

- Better targeting of MFI loan beneficiaries.
- Sustainable MFI in a post-grant, loan guarantee environment.
- How LIM can better target the poorest segments of Lebanese society to insure alignment to the CDCS DO.
- How LIM can become more proactive towards female empowerment (not loans given on behalf of male relative).
- Other loan products needed by the market, not currently addressed.
- Business development services to be provided to loan beneficiaries.
- Establishing an Association of MFIs.

PROJECT BACKGROUND

PROJECT CONTEXT

In May 2009, USAID awarded International Executive Service Corps and Volunteers for Economic Growth Alliance (IESC/VEGA) the Lebanon Investment in Microfinance (LIM) Program, designed to 1) assist Lebanese micro and small enterprises increase sales, create jobs, and advance economic growth through improved access to finance and 2) to strengthen microfinance institutes' capacity for providing access to finance/microfinance services to Lebanese micro and small enterprises. The program assists micro and small enterprises by maximizing the availability of loans for borrowers in sectors and areas that have traditionally had difficulty accessing business finance. The program is designed to reach and answer the needs of micro and small enterprises operating in the target sectors that are located across rural and peri-urban areas in Lebanon.

PROJECT IDENTIFICATION

The LIM Program is funded by the United States Agency for International Development (USAID), through Leader with Associate Cooperative Agreement number: EEM-A-00-04-00002-00 to the Volunteers for Economic Growth Alliance (VEGA), and is implemented through Associate Award number: 268-A-00-09-0003 by the International Executive Service Corps (IESC).

SCOPE OF THE PROJECT

The Lebanon Investment in Microfinance Program start date was May 8, 2009, and its original end date was November 7, 2010. On September 15, 2010, the program received a funded extension through April 30, 2015 and was granted additional funding for a total program value of $12,182,636.

The program was designed to support selected subgrantee microfinance institutions and their borrowers to provide targeted loans with these grant funds beginning in the first quarter following program award. The IESC team focused in the first phase upon five key microfinance institutions that conduct microlending on a large scale, but granted program funds to only three MFIs. At the time of this mid-term evaluation, eight organizations in total had received a sub-grant. These were Association Entraide Professionnelle (AEP), Association for the Development of Rural Capacities (ADR), Al Majmoua, Ameen, Makhzoumi Foundation, Lebanese Cooperative for Development (CLD), Emkan, and the Entrepreneurial Development Foundation (EDF).

The subgrantees issue loans to individuals, microenterprises, farmers, or cooperative members. IESC should closely monitor the increase in incomes, and creation and maintenance of jobs that resulted from the targeted lending of the grant funds to borrowers, disaggregated by males and females, within the ICT, tourism and agribusiness value chains. The program provides value added technical assistance to the microfinance institution subgrantees. Key topics covered included 1) microfinance industry best practices and 2) training of MFI loan officers in the improvement and development of ICT, tourism and agribusiness business development services for their borrowers and potential borrowers.

Originally, the IESC team and its MFI subgrantees worked with the USAID ICT, tourism and agribusiness value chain program, the Lebanon Business Linkage Initiative (LBLI), and other donor-funded programs working in these value chains in order to identify and reach potential borrowers, leverage technical assistance and training, and maximize program results. The DHAIM and LIVCD projects also promote access to finance aimed at enhancing value chain development; LIM works to coordinate its financial activities with these two projects.

CONTRACT AND CONTRACT MODIFICATION

Baseline Cooperative Agreement
The baseline contract (total federal share amount $1,609,755 over 18 months starting May 8, 2009), makes reference to the needs of the microfinance institutions in Lebanon and the context of three sectors (tourism, ICT and agribusiness) to which microloans should be delivered.

The program consisted of the three main components:

- Grants Management (MFIs)
- Microfinance Subgrantee Lending
- Technical Assistance and Training

In this first phase of the program, IESC received five applications from leading MFIs in response to the (Request for Applications (RFA) issued by IESC. After the evaluation of the five applications, three leading MFI organizations were chosen by the LIM Grant Committee to receive program funding and were allocated a total grant funding of $1,050,000: Al Majmoua ($400,000), Ameen ($400,000), and ADR ($250,000).

Contract Modification
The modification to the agreement (total federal share amount to $12,182,636 over 6 years starting May 2009) made reference to the results achieved since the rapid start-up of the program in May 2009 and aimed at magnifying the results achieved by substantially deepening and broadening the impact of the program. This modification broadened LIM's reach by incentivizing access to finance for businesses in three sectors (agribusiness, tourism, ICT), as well as for underserved categories of borrowers including: 1) micro and small businesses across all rural, remote and peri urban areas of Lebanon; 2) new business start-ups; and 3) businesses owned by or employing women and youth. This modification and extension was expected to enable LIM to have a much deeper impact by increasing the value of funds available for small and micro-enterprises in underserved segments. The project intended to do this in six ways:

1. Provide qualified MFIs a new infusion of capital for targeted categories of borrowers and expand the benefits of the program's access to finance to a larger number of micro/small businesses.
2. Increase the number of partner MFIs that the program works with, thus covering areas and communities not reached in the current program.
3. Require funds already dispersed under the LIM Program to be recycled as payments are received and put back into loan products oriented toward the same loan categories. Recycled disbursements were meant to be subject to the same monitoring and evaluation process and supervision by the LIM team.
4. Open up opportunities for a larger number of small and medium business investments by increasing the maximum loan value an MFI may disburse under the program.

5. Develop tailored loan products for targeted sectors and categories of borrowers - especially to fit the needs of agribusinesses and tourism micro and small businesses.
6. Use USAID resources to leverage much larger sources of debt finance and direct those loans toward priority areas.

INSTITUTIONAL CONTEXT

The LIM Program was designed to work closely with USAID/Lebanon and local partners on program activities, specifically in the selection of new subgrantees for the program and to focus on providing linkages and coordination with the Central Bank of Lebanon. The VEGA implementing organization and the IESC work closely with the Financial Services Volunteer Corps (FSVC) and with local organizations in Lebanon including the local municipalities, the chambers of commerce, and other local business support organizations.

LIM has been reaching out and is planning to coordinate activities and/or projects with a number of international organizations that can provide assistance in helping the MFIs develop processes to meet international reporting standards. These institutions are the Lebanese Emigration Research Center (LERC), Sanabel, the Small Enterprise Education and Promotion (SEEP) Network, Microfinance Information eXchange (MIX), Kiva, and the Finance Alliance for Sustainable Trade (FAST).

PROJECT INTENDED RESULTS

As stated in the Program Goals and Objectives section (p.5) of Mod 2 of VEGA's grant, within the $12.182.636 budget over six years the LIM project is expected to:

- Conduct financial sector assessment
- Complete an infusion of capital for qualified MFIs
- Provide technical assistance to MFIs to develop new products and provide larger loans to banks to develop new products and reach the missing middle (loan amounts ranging from $7000 - $25,000) through smaller bank loans
- Select a loan guarantee scheme, develop the implementation plan, and implement the selected loan guarantee scheme
- Establish linkage with other programs
- Provide technical assistance and build the capacity of the lender through
    - Attendance at the Boulder microfinance training program
    - Training and capacity building in microfinance lending and operations
    - Training and capacity building in agricultural lending risk calculation
    - Capacity building for banks to outsource the loan origination part of the business to organizations or entities (like farmer cooperatives) that are closer to the end user
    - Fostering partnerships between banks and MFIs to share the risks and reduce costs
    - Capacity building of Lebanese business development service providers and lenders on business development service offerings
    - Lender capacity building regarding their outreach efforts

RESULTS FRAMEWORK/PMP

The following is the LIM Program results framework submitted in the Performance Management Plan (PMP) on June 25, 2013:

DO2: Enhanced economic opportunity for the poorest segments of Lebanese society, particularly in areas outside metro Beirut

Custom Indicator: Percentage increase of direct beneficiaries that report increases in average daily income as a result of USG assisted sources

IR 2.3 Increase Access to Finance for Micro, Small & Medium Enterprises

PPR 1: Increased number of financial sector professionals trained on international standards with USG assistance.

- **F Indicator 4.7.1-16: Number of days of USG funded technical training provided to management and/or staff of financial intermediaries.**
- **Custom Indicator: Tracks the number of Trainees per reporting year.**
- **Custom indicator: Number of management and/or staff of financial intermediaries showing increase in knowledge from before to after the USG-funded training experience.**
- **Custom indicator: Number of financial intermediaries showing improved performance as a result of USG-funded training to their managers and/or staff**

Activity:

1. **Provide Technical Assistance / Capacity Building to Selected Lending Providers**

PPR2: Increased number of clients at USG assisted microfinance institutions

- **F Indicator 4.3.2-7: Number of financial institutions receiving USG assistance in extending services to micro & small businesses.**
- **F Indicator 4.7.1-12: Total number of clients benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions or actors.**
    - **Tracks number of clients that access MFI Loans**
    - **Tracks number of clients that access MFI SME Loans above $5000**
    - **Tracks number of repeated clients per program duration**

- **Custom Indicator: based on F indicator 4.5-2: Number of jobs attributed to FTF implementation**
    - **Custom Indicator: Tracks Number of new job positions in USG assisted enterprises**
    - **Number of impacted jobs in USG assisted enterprises**

1. **F Indicator 4.5.2-29: Tracks value of agricultural and rural loans (by gender and youth)**

Activity:

1. **Provide new Infusion of Capital to MFIs**
2. **Increase number of MFIs receiving USG assistance**
3. **Increase the number of clients at USG assisted Firms**
4. **Develop New MFI loans for selected sectors**
5. **Develop new MFI Loan products (above $5000) for SMEs**
6. **Increase access to finance for targeted MSMEs through improved MFI/Bank Linkages**

DEVELOPMENT HYPOTHESIS

No development hypothesis was stated in the project work plan or performance management plan.

However, in Lebanon, and particularly in rural areas, micro and small enterprises in sectors such as agribusiness, tourism and ICT have traditionally experienced difficulties accessing business finance, which hinders their economic growth, the creation of jobs, and the increase of sales. Through its activities, LIM Program works to provide organizational and human resources capacity building, infuse capital and sustain/grow the number of partner MFIs, increase loan value to attract SME borrowers, assist in developing SME loans, link to international resources and to other local USAID programs (such as DHAIM and LIVCD) and develop assessment/awareness regarding the establishment of a Microfinance Association. Therefore, a proxy hypothesis is that as a result of the LIM Program, more loans will be available for borrowers in sectors and areas of agribusiness, tourism and ICT and thus micro and small enterprises will have easier access to business finance, resulting in higher revenues generated and more jobs created.

CRITICAL ASSUMPTIONS

- The demand for MFIs loans remains high where no other implemented program by USAID or other donor would be offering grants to beneficiaries.
- Flexibility to adjust course when needed to adapt to beneficiaries' needs as observed on the ground.
- No terrorism threats specifically directed at USAID or U.S. government-funded programs or organizations and freedom of movement for program staff and partners across Lebanese territory.
- Sufficient level of political stability to enable program operations and no eruption of major, wide-scale conflict during the life of LIM Program.

AUDIT FINDINGS

The Regional Inspector General/Cairo conducted an audit to determine whether LIM Program was achieving its goal to increase sales, create jobs, and advance economic growth. The audit found that the program contributed to positive outcomes as it has generally improved access to credit by providing loans to more than 6,300 borrowers and has contributed to the creation of some jobs.

Some problems were also identified by the audit. The main problems identified were that the program indicators did not measure progress toward goals, the Mission did not obtain sufficient sustainability commitment from two of the eight MFIs, and the Mission did not measure training results.

The recommendation that came out of this audit pointed to the need to 1) collect and document data on the number of jobs created separately from data on number of jobs maintained; 2) develop a tool to measure income proxies of borrowers; and 3) establish a definition of a "job created" for microfinance reporting purposes. To address these problems, the auditors recommended that the LIM Program develop monitoring procedures to track microfinance partner progress toward sustainability. Finally, the auditors recommended amending LIM Program monitoring and evaluation plan to include an indicator measuring training results and that the LIM Program collect and evaluate training outcome data already available from the implementing partner.

EVALUATION METHODS & LIMITATIONS

The Social Impact team's evaluation design incorporated a variety of targeted methods to address the evaluation questions by eliciting rich information and triangulating emerging trends and themes. Methods included:

1) Review of key documents. These are listed in Annex IV: Sources of Information.

2) Interviews with LIM program staff and the Executive Director and Deputy Governor of Lebanon's Central Bank. Four evaluation team members collaborated in these interviews and compared notes. Interviews were conducted in English.

3) Semi-structured interviews with participating MFI directors and other staff including Loan Officers, Branch Managers and/or area Supervisors. At least two, and usually more of Social Impact's evaluators collaborated in these interviews. Nearly all interviews were conducted in English, with several loan officers interviewed in a mix of English and Arabic, with one evaluator providing interpretation where necessary. Interviews were recorded with permission and recordings were later used to improve quality of notes. Where relevant, interview findings were compared with corresponding documents detailing MFI performance, financials etc.

4) 15 individual, semi-structured interviews with an array of purposively sampled MFI clients using criteria that included loan type, loan size, gender, geographic location, and the MFI in which they participated. To avoid the risk of MFI's "cherry picking" their most successful clients for interviews, the evaluation team selected a purposeful sampling of individual clients to be interviewed in order to capture a representative cross section of LIM beneficiaries using criteria including loan type and size, gender, geographic location, and lender MFI. Details of interview subjects can be found in Annex IV: Sources of Information. Most individual client interviews were conducted in Arabic, with at least two evaluators; one serving as interpreter when necessary.

5) Two guided focus group discussions; one focused on 10 women beneficiaries identified as low income, the other was a group of 15 (mostly) male agricultural producers. Discussions were facilitated in Arabic; three evaluators participated with one guiding discussion, one providing interpretation, and one prompting questions and taking notes. Focus group discussions were recorded and notes were compared and corrected with details added later from the recordings.

The evaluation was carried out in Lebanon during two phases: December 6-20, 2013 and January 7-21, 2014. The bulk of the interviews and focus groups proceeded as planned. While security conditions, particularly during the second phase of the evaluation, impeded a few aspects of the planned work, the evaluation team concluded that the diversity and coverage of key informants were both sufficient and robust enough to allow for compiling findings and formulating recommendations.

Limitations were caused by political unrest on two days during the evaluation timeframe. Several of the scheduled beneficiary interviews, one scheduled focus group, and an MFI site visit in the South part of Lebanon had to be canceled due to security concerns for both the evaluation team and the respondents.

FINDINGS, CONCLUSIONS & RECOMMENDATIONS

This evaluation resulted in ten central findings with corresponding conclusions and recommendations. See Annex 2.

Finding 1: Most (six out of eight) of LIM's partner MFIs have achieved operational sustainability.

Vetted financial data is available for five of LIM's eight partners as reported by the Mix Market,[2] a widely recognized reporting and rating agency for MFIs. The remaining three partners provide LIM with financial statements. The MFI partners all show strong financial performance with respect to portfolio quality (as measured by 30 day Portfolio at Risk (PAR 30) profitability).

Six partners have achieved operational sustainability.[3] The remaining two have signed commitment statements with LIM and discussed preparing a business plan with milestone targets for growth that will enable operational sustainability within an acceptable window. One of the latter two MFIs is a social services NGO that offers a diversity of non-financial services including business training and has only recently begun lending operations with a very small current portfolio. The other MFI reported challenges that include very modest growth projections because of capital constraints, a Board of Directors reluctant to raise interest rates to sustainable levels, and lack of capacity in financial management and projections.

The Central Bank in Lebanon classifies financial institutions, including MFIs, in three broad categories; as commercial banks, non-bank financial institutions, or as NGOs. Only banks are allowed to collect deposits. LIM's partners, all classified by Lebanon's Central Bank as either non-bank institutions or NGOs, are prohibited from collect and mobilize deposits, so this inexpensive source of capital for on-lending is not available to MFIs in Lebanon.

An additional sustainability constraint raised by several of LIM's partners with strong poverty alleviation-related missions is the difficult internal and external politics involved in getting approval by their Boards of Directors to set interest rates to sustainable levels.

LIM's partners that are bank subsidiaries have faced challenges in accurately measuring sustainability due to the fact that they have only recently begun to track their microfinance loans separately from the rest of the bank's larger portfolio. Because the accounting for operational costs is not strictly delineated (e.g. for the subsidiary as a cost center) it is difficult to calculate the overall sustainability of the microfinance operations. This is particularly an issue when sustainability of the subsidiary is not a key concern of the bank partner.

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[2] See http://www.mixmarket.org/ for report details on five of LIM's eight partner MFIs.
[3] For clarity, Operational Sustainability is defined here by the following ratio:
Operational Sustainability = Operating revenue ÷ (Financial Expenses + Operating Costs + Loan Loss Provision).

The larger MFIs with bank partnerships do not report being constrained by lack of capital, given their current growth projections. However, several of the smaller MFIs do face this constraint, and these MFIs are of particular interest to LIM because of their focus on (or at least willingness to try to serve) higher risk categories of borrowers such as new start-ups and agricultural producers.

Conclusion 1: The regulatory environment in Lebanon presents unique challenges and opportunities for sustainability for LIM's partners.

A critical challenge faced by the MFIs is their inability to utilize deposits for on-lending capital. Deposits are a critical source of inexpensive capital available to MFIs in other countries, and growth of an MFI's savings portfolio is a key strategy used for a financially sustainable trajectory. Revenues generated by interest income for LIM's partners do not allow for more than very modest growth projections; interest rates charged to their borrowers would have to be much higher in order to be able to generate growth capital in addition to covering operational costs. As a result, LIM's partners' potential for growth is limited to the availability of donor funds and/or more expensive alternative sources of capital to grow their loan portfolios and increase their outreach.

While the inability to mobilize deposits is an important limitation, Lebanon's banking sector has a large proportion of excess liquidity: more capital than investment opportunities. As a result, the Central Bank allows the commercial banks to reduce their excess reserves by providing a regulatory mechanism that allows them to provide inexpensive institutional loans through a Loan Reserve Fund to the MFIs for loan capital. Most of LIM's partners have taken advantage of this opportunity and have established relationships or formal partnerships with one or more of the commercial banks that provide them with capital. Interest rates for such loans vary between 2.5% and 4.5%. As a result, access to capital is not a key constraint for most of LIM's partners who have only modest growth aspirations.

However, there are exceptions. The smaller MFIs have not established bank partnerships, and they report limited capital as a constraint to growth. In addition, one MFI that was accustomed to receiving inexpensive institutional loans discussed a recent experience where their bank partner's available loan reserve funds had been exhausted. While the Central Bank's Executive Director expressed confidence in the availability of Loan Reserve funds as a reliable source of capital for the foreseeable future, the potential loss or scaling back of available reserve funds (which, as noted above, has already been experienced) could present a critical threat to Lebanon's MFI sector.

The smaller MFIs, the ones that face the most significant limitations to access to capital, are among those with the best potential for reaching higher risk categories of borrowers and are among the most important to achieving USAID's objectives through LIM. Their access to adequate and appropriately priced capital is an important factor in sustainability and ability to serve USAID's priority target borrowers.

Recommendation 1(a): USAID could reduce LIM's overall sub-grant funding provided for capital provisioning, but target it specifically toward more challenging beneficiary categories that remain under-represented in LIM's portfolio.

Some of the smaller MFIs, the ones that both have the best potential to serve the higher risk categories of borrowers of interest to USAID (such as new start-ups and agricultural producers) face the most significant challenges in access to capital. These MFIs represent the best opportunities for innovation; they view LIM's more challenging categories of beneficiaries as potential market niches. While remaining sub-grant funds in the current LIM performance period (ending in April 2015) are already earmarked, any future sub-grant funds in a LIM follow-on project should be very carefully targeted toward reaching underserved categories of beneficiaries with RFAs designed to promote innovation and increased risk.

Recommendation 1(b): Underwrite higher risk categories of loans through USAID's Development Credit Authority (DCA) program, or similar loan guarantee programs.

As an alternative or in addition to sub-grant funding, LIM could also mitigate the risk that MFIs face with more challenging categories of borrowers by providing a loan guarantee to partially underwrite the higher risk portions of their portfolio. USAID could utilize loan guarantees provided through the Development Credit Authority (DCA) for this purpose through risk-sharing agreements with LIM and/or their MFI partners to encourage lending for new business start-ups, for higher risk borrowers, and for agricultural lending.[4] The DCA has been used, for example in Indonesia, to enter into a loan portfolio guarantee agreement with a large commercial bank to address MSE demand for microfinance.[5] Similarly, in Kenya, DCA guarantees to the participating bank "was also to expand financial services to underserved clientele especially women, which it did under the Grace loan scheme.[6]" Thus, the concept is viable and proven. In Lebanon loan guarantees might be considered for local commercial banks that have associated MFI operations to target specific loan portfolios to the specified underserved down-market clientele.

Finding 2: LIM's partners highly value the institutional level training that LIM has provided for their staff.

In addition to providing specialized Loan Officer training on a regular basis for the MFIs, LIM has offered a variety of training, conference, and mentoring activities since program inception (Annex VI provides a list of these). According to evidence from interviews with the MFIs, LIM's training for their Directors, Managers and Loan Officers has been very effective in building institutional and professional capacity. In addition, LIM solicits and collects post-training feedback from participants; these reports provide further evidence of LIM's value and success with its training activities. During interviews, the MFIs credited LIM's training with improved performance in client outreach and customer relations, reduced delinquency, better loan application assessments, and product development, among other MFI outcomes.

> *"LIM's training filled in the gaps with corrective measures and solutions and sometimes validating strengths already existing. The most important was to strengthen [competencies in] staff, capacity building, investments, and operations."*
>
> *"LIM's trainings match in general the needs of [MFI] staff, and they ensure enhancement of our employees' performance."*
>
> -MFI Directors and LIM Training participants

IESC's initial strategy was to provide LIM with volunteer trainers from its network of business executives and experts in response to training needs in specific subject areas. Unfortunately, the deteriorating security environment in Lebanon has caused IESC to put its volunteer program on temporary hiatus until the situation improves.

[4] For more information on USAID's Development Credit Authority program (DCA) see http://www.usaid.gov/what-we-do/economic-growth-and-trade/development-credit-authority-putting-local-wealth-work

[5] INDONESIA BANK DANAMON DCA GUARANTEE EVALUATION, September 2009; from the website cited above.

[6] KENYA DCA 2006 AND 2010 GUARANTEES EVALUATION, FINAL REPORT – JUNE 2013; from the website cited above.

However, LIM has responded by recruiting Lebanon-based experts, who have provided excellent quality training, in some cases in Arabic, with the advantage of local experience and knowledge.

While the MFIs reported satisfaction with LIM's Loan Officer Training, this training has had a one-size-fits-all approach; Loan Officers from multiple MFIs have been trained together, despite their institutions' differences in lending policies and procedures. While effective overall, this has had some limitations.

Conclusion 2: MFIs will need to have sustainable, on-going access to training and support.

While LIM's partners have expressed satisfaction and placed high value on the Loan Officer training, the cost has been highly subsidized by USAID. LIM's larger MFI partners have achieved a sufficient level of sustainability/profitability that they can and should assume a greater cost share for training their staff. The definition of operational sustainability includes covering staff training costs. The MFIs should begin to move toward bearing some, if not all, of the costs if they continue to outsource their training, especially Loan Officer training, to LIM as part of LIM's eventual exit strategy.

Recommendation 2(a): It would be beneficial for the MFIs to develop their own training curricula and training capacity tailored for their policies and operations.

LIM's Loan Officer and management training should evolve toward a Training of Trainers (TOT) approach within the MFIs where appropriate, especially for core competency areas that are central to MFI daily operations and management.

Recommendation 2(b): LIM should evolve its approach to core competency training for MFIs toward fee-for-service basis.

In preparation for a sustainable post-LIM future, LIM could work within the Microfinance Association, once it's established, to develop training capacity for core competencies, such as Loan Officer training, to be offered as a fee-based service for its members. Another possibility for a post-LIM (or post USAID-funded) sustainable future may be for the program to eventually spin off a fee-based consulting and training resource for the MFI sector in Lebanon, possibly even offering services to MFIs in the Middle East region. A model of this kind of subsidized fee-for-service consulting organization is Grameen Foundation's Dubai-based Grameen Jameel, which provides technical assistance, applied research, and training to Grameen-model MFIs in the Middle East region.[7]

It should be noted that, at this time, recommendations for fee-based training may not be appropriate for LIM's smaller/newer MFI partners who are still on a steep learning curve and will clearly benefit from LIM's high quality training and who may not be prepared to pay more than a token fee for Loan Officer training.

[7] More information on Grameen Jameel can be found at http://grameen-jameel.com/

Finding 3: Many of LIM's beneficiaries interviewed expressed need for business development training.

In general, LIM's training activities are one step removed from the level of the beneficiaries. Under LIM's current SOW, training activities are limited to the institutional (MFI) level and as a result only impact beneficiaries indirectly. At the beneficiary level, several of LIM's partner MFIs provide some business development service (BDS) or vocational training for their clients. LIM staff has indicated that their MFI partners have expressed interest in receiving LIM's support in developing or expanding BDS training for their clients. This finding is further supported by interviews with a number of clients involved in start-up businesses as well as others with more established enterprises. Topics requested by interview participants included marketing, book keeping, money management, and business planning. Book keeping and basic accounting were the most commonly requested topics. However, some MFI business owner clients are quite experienced and expressed that LIM and the MFIs would have little to offer them in the way of BDS training.

Conclusion 3: Many beneficiaries would benefit from access to BDS training.

BDS is too expensive for most of the MFIs to provide without subsidies or outside support. Unlike the environment in some developing countries, Lebanon's economic environment is too complex for new or inexperienced micro-entrepreneurs to easily establish successful businesses without technical assistance or training. This is a significant constraint to MFIs offering loans for start-up businesses or to youth or unemployed women who represent the greatest risk categories for lending.

Recommendation 3(a): LIM should address clients' needs for BDS and provide training and/or Training of Trainers for MFI clients.

It would be useful to begin with an analysis of client needs in a few key business sectors and then develop training modules that address the most common gaps in client's competencies, focused on start-ups and youth businesses.

Recommendation 3(b): LIM could develop a pilot initiative in micro-franchising for youth enterprises.

As a lower-risk option for youth and other new entrepreneurs interested in start-up businesses, LIM could explore micro-franchising. Broadly described, micro-franchises are simple concepts of "business in a box" based on sales of a commonly found commodity or service, where training is minimized and where start-up costs are minimized through pre-made business marketing plans, book keeping templates, etc. One or more micro-franchise enterprise modules could be developed as a template for youth start-up businesses.[8]

Finding 4: Although difficult to quantify, LIM's beneficiaries report increased incomes.

LIM's partner MFIs collect household income data as part of the loan application process. However, the MFIs have not subsequently collected income data at the end of the loan cycle or as part of second cycle loan applications. This is corroborated as an earlier key finding from USAID's Regional Inspector

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[8] More information about microfranchising can be found on USAD's Microlinks website: http://www.microlinks.org/lessons-learned-innovations-youth-microfranchising.

General's (RIG) audit conducted in July of 2013[9]. LIM has responded to this with a revised Monitoring and Evaluation Plan that includes collection of household income data beginning in FY2013. One of the audit recommendations is to *"implement a method or formula to measure income proxies of borrowers."* While IESC/LIM accepted the recommendation, alternative methods of measuring borrower income remain elusive; LIM has resumed collecting income data based on borrowers' own reported estimates. There were very few who did not report increased income as a result of their loans. Many of those reporting increased income provided corroborating evidence, such as financial records or plans to pay off their loans early.

Conclusion 4. Improved understanding of LIM's effects on beneficiaries' incomes is needed.

Given the short time that remains in LIM's current period of performance, quantitative data that strongly supports increased income may not be conclusive at the end of the project. In addition, a Data Quality Assessment (DQA) of LIM's indicator data conducted by Social Impact's PMPL project discussed the issue of using unreliable income data to define the poor. Significant gaps and inconsistencies in the income data were also discussed in the RIG audit.

During interviews, several MFIs discussed the difficulties in collecting income data. They cited problems with precision (e.g., transactions in informal economies are often not cash-based), problems with reliability (e.g., clients often conflate sales with profit), and problems with integrity (e.g., clients are understandably reluctant to report accurate income because of privacy concerns).

Recommendation 4: LIM should carefully monitor the quality of income data collected.

Despite the significant challenges to collecting reliable income data, there are no better indicator alternatives available to LIM at this time. LIM should therefore monitor income data reported by the MFIs very closely. Measures to ensure high quality data include providing written guidelines to the partner MFIs, providing training to the Loan Officers who collect the data, and spot-checking reported data through site visits with beneficiaries. Social Impact's PMPL team can also provide technical assistance and guidance to improve income data collection procedures, and help with USAID's Data Quality Assessment (DQA) guidelines.

Note: A potential alternative to the income indicator is discussed below as Recommendation 5: Develop a Poverty Assessment Tool for Lebanon.

Finding 5: New job creation as a result of LIM's investments is largely limited to loans for start-up enterprises.

The number of new jobs reported is relatively modest as these are largely limited to new business start-ups. Very few of the beneficiaries interviewed who had established enterprises reported hiring additional employees as a result of business expansion from LIM-funded loans. The few new jobs that were reported tended to be created by beneficiaries with well-established medium-sized enterprises, where larger loan sizes resulted in significant business expansion. Examples of this include an established farmer

[99] Office of Inspector General Audit of USAID/Lebanon's Investment in Microfinance Program, Audit Report No. 6-268-13-015-P July 17, 2013

who used his loan to leverage a larger bank loan to purchase additional land, and a camera shop owner who used a larger loan to purchase a photo development lab and hired an employee with dark room experience. However, these examples are atypical; the majority of beneficiaries with established enterprises reported no additional employees or short term seasonal help during peak times such as harvest or holiday shopping times. Often this seasonal help was provided by family members or friends who were informally compensated, if at all.

Conclusion 5: Providing loans for start-up enterprises is the most reliable way for MFIs to support job creation for target populations.

Like increased income, job creation and job support is difficult to quantify. LIM's reporting on the jobs created and jobs supported indicators resulted in another RIG audit finding that has since been addressed, and "jobs created" is now being counted as a separate indicator from "jobs supported." LIM's experience in job creation is consistent with microfinance sectors outside Lebanon; loans provided to micro and small enterprises do not tend to lead to new jobs beyond the entrepreneurs themselves.

However, start-up businesses are counted as new jobs, and these are opportunities for women, youth and other poor and vulnerable people who have particular challenges in finding sustained employment due to lack of experience, connections to business owners, family obligations or other barriers. Start-ups are also the most reliable category of loans that contribute to the job creation indicator. LIM's challenge remains that most MFIs reported as being too risk-averse to lend to startups. This may change as market competition increases. "Cherry picking" clients will become more difficult, particularly if/when the MFIs' cost of funds increases and they are forced to grow in order to remain sustainable.

Recommendation 5: Establish specific targets for loans to start-up businesses, coupled with incentives for MFIs to move downmarket. A post-LIM project can catalyze more start up loans by setting aside some future sub-grant funds specifically designated for MFIs who are willing and able to develop new innovative loan products and to develop the competencies to mitigate the risk through experience. This new category of sub-grant funds should be accompanied by specific targets for actual loans to small start-up businesses. The targets should be disaggregated by sex. In addition, as described above, USAID Development Credit Authority agreements could be used to partially underwrite loans for start-up businesses to mitigate the risk to the MFIs while they develop experience in lending to new entrepreneurs.

Finding 6: LIM's current indicators (income generation and job creation) are inadequate to identify and track poor and very poor beneficiaries. The lack of appropriate tools to measure poverty reduces LIM's efficacy to reach down market.

As described in USAID/Lebanon's overall results framework, the LIM program is intended to address Development Objective 2 (DO2): *"Enhanced economic opportunity for the poorest of Lebanese society in areas outside metro Beirut."*[10] The income and job indicators were chosen to measure performance against USAID's poverty-related development objective. However, these indicators do not measure poverty, and do not provide a means for LIM to measure the poverty of its beneficiaries. As a result, there are no valid or reliable indicators for LIM to measure program performance against USAID's

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[10] Lebanon Investment in Microfinance Program, Cooperative Agreement No. EEM-A-00-04-00002-00, Modification No. 2 No. 268-A-00-09-0003, Performance Management Plan, June 25, 2013. p. 11.

CDCS development objective to reach the poorest segment of Lebanese society. LIM's partner MFIs all articulated poverty-related mission objectives during interviews. When questioned about how they identify and target the poor, the MFIs reported primarily using proxy indicators, such as identifying poor communities or relying on imprecise, informal means to identify poor borrowers including income and household data collected during loan applications. These proxy indicators are inadequate. Given the limitations of LIM's indicators, it is not possible to identify how many of LIM's beneficiaries are among the "poorest of Lebanese society.

Conclusion 6: MFIs in Lebanon need better means of identifying and tracking whether they are reaching poor households.

Income is a poor, incomplete proxy to assess a family's relative poverty. Other critical data that is needed to present an accurate picture (including non-monetized transactions, fixed assets, expenses and other liabilities, and vulnerability to income fluctuations) is missing. Measuring increased income as a result of a client's business activity may be a commonly used indicator to measure economic growth, but microfinance programs have broader objectives not focused on just increasing income. Rather, USAID's microfinance programs also seek to improve overall livelihoods of poor families as well as their resilience to income fluctuations and economic shocks.[11] As a result, indicators that measure LIM's efficacy against USAID's poverty-related objective should establish and track microfinance clients' relative overall poverty, as well as enable LIM's MFIs to target poor and economically vulnerable clients. This is a particular challenge for the MFI partners who are attempting to target the poor who are living in less poor communities such as parts of Mount Lebanon. Without an objective means to identify the relative poverty of their clients compared with their communities or absolute measures of poverty in Lebanon, LIM's MFIs are left to assume that they are reaching the poor by virtue of those beneficiaries' presence in the communities where the MFIs are working. As a result, the very poor within those communities may be inadvertently excluded because they are invisible (for various economic and cultural reasons) to Loan Officers who have no effective means to identify them. The lack of robust and cost effective tools to measure relative poverty is a major constraint for the microfinance sector in Lebanon.

This represents a constraint to USAID in meeting its obligations under ADS 219 for Microenterprise Results Reporting (MRR) that requires that "*USAID develop and certify 'low-cost methods' to measure the share of beneficiaries of USAID-funded programs who are 'very poor' as defined in the law.*"[12] The MRR language further states that "*…at least 50 percent of USAID assistance for MED [microenterprise development] be directed towards the support of MED among the world's very poor, defined as the poorest 50 percent of people living at or below the relevant national poverty line.*"

As discussed above, household income is not an adequate indicator to identify and enumerate the very poor who could benefit from LIM. Likewise, loan size has long been discredited as a proxy indicator for client poverty among microfinance practitioners because it depends on many factors and because it does not take into account a client's other economic activities, aversion to risk, type of business, or access to other sources of finance (among other factors).

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[11] This conforms to growing microfinance community consensus, e.g., David Roodman, 2012, "*Due Diligence: An impertinent inquiry into microfinance*" pp.15-36, Center for Global Development, Brookings Institution Press.
[12] ADS 219 section 3.6.2. See http://www.mrreporting.org/ for additional information on MRR reporting requirements.

Recommendation 6: Develop a Poverty Assessment Tool or Similar Poverty Measurement Tool for Lebanon.

To address similar needs in 37 other countries, USAID has developed country-specific Poverty Assessment Tools (PATs) that provide a cost and time-efficient means to assess the relative poverty of beneficiaries of microenterprise programs, as well as of programs in an array of other development sectors. A PAT was used to define a beneficiary's absolute poverty, with those identified below the national poverty line as "poor" and additional lines used to identify those who are "very poor." [13] The PAT survey tool consists of approximately 15 easy to collect indicators including simple questions regarding household assets, housing, access to basic utilities, etc. The PAT indicators are statistically correlated to a national-scale data set such as a recent national household survey or census. The PAT survey, while easy to implement without trained enumerators (typically 15-20 minutes per beneficiary), yields reliable and robust poverty data that can be used to target poor beneficiaries and measure their progress over time.[14] Conducting a PAT is currently suspended from Washington, but the need remains for the development of a reliable poverty measurement tool for use by the MFIs in Lebanon to assess their social performance. Such a tool can be developed using household expenditure survey data such as that cited below[15]. This could be done through a sub-contract agreement with one of Lebanon's academic institutions, the Central Administration of Statistics, or the Lebanese Economic Association.

Alternatively, there are other similar poverty measurement tools that are well developed and tested that could be considered as alternatives to USAID's PAT.[16] An example is Grameen Foundation's Progress out of Poverty Index (PPI) that has been developed and implemented in more than 50 countries.[17] While still requiring a national-level data set to build from, the PPI may be less expensive to develop and has been generally accepted as the gold standard tool by much of the global microfinance community. It is more efficient to administer by untrained field staff and arguably more statistically robust than the PAT.

In any case, development of either of these poverty measurement tools for Lebanon would be an enormous benefit to LIM and to the microfinance sector, as well as many other social and development programs that target Lebanon's poor. In addition, development of either of these tools would enable USAID/Lebanon to comply with the ADS directives for MRR reporting. This would also be useful for several of our ongoing and future programs.

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[13] It is estimated that nearly 27 percent of the Lebanese population, or 1 million people, were poor, living on less than USD $4 per day, and 8 percent, or 300,000 people, were extremely poor, living on less than USD $2.40 per day (UNDP, 2008, "Poverty, Growth and Income Distribution in Lebanon," joint with Central Administration of Statistics, Beirut).
[14] See details of USAID's PAT tool at http://www.povertytools.org/
[15] According to sources at the World Bank in Lebanon, the Central Administration of Statistics, supported by UNDP, is currently analyzing data from a 2011 household expenditure survey.
[16] The Ministry of Social Affairs National Poverty Targeting Program (NPTP), launched in October 2011, is based on a proxy-means testing (PMT) targeting mechanism. This could be investigated.
[17] See details of Grameen's PPI tool at http://www.progressoutofpoverty.org/

Finding 7: Relatively low risk loans to MSMEs comprise the largest portion of the portfolio while poorer, higher risk beneficiaries are under-represented in the program portfolio.

A review of LIM's recent Quarterly Reports corroborates anecdotal evidence from MFI interviews; most MFIs remain reluctant to provide loans for higher risk beneficiaries such as start-up entrepreneurs, women and youth. The table below illustrates how these beneficiaries are represented in LIM's portfolio. The numbers were reported in LIM's FY2013 Quarter Four Report,[18] or calculated based on reported numbers. It should be noted that the figures for "Loans to Start-ups" are estimated using "New Jobs Created" as a proxy indicator. Although LIM's report includes data for a number of start-ups, these figures appear to be under-reported because they are so much smaller than the numbers reported for New Jobs Created. New Jobs Created is a key indicator that LIM reports on per the terms of the Cooperative Agreement; for this reason, the evaluation team assumes that this data is more reliable than Number of Loans for Start-ups, which is not required as a key indicator for reporting.

Loans to start-up business (as represented by the number of new jobs created) make up 27 percent of LIM's portfolio since inception. However, disaggregated data per MFI shows that a disproportionate number of start-up loans have been provided by a single LIM partner. If the numbers are recalculated to exclude Al Majmoua, then only 6 percent of LIM's total loan portfolio has been for start-up loans. Similarly, LIM reports 44 percent of its loans have been provided to women beneficiaries. Again, Al Majmoua has provided a disproportionate number of LIM's loans for women; discounting this outlier MFI, only 22 percent of LIM's portfolio of loans have been provided to women. Forty-two percent of LIM's total number of loans has been provided to youth; this is reduced to 31 percent if Al Majmoua is discounted.

LIM's largest partner, Al Majmoua, is also by far the greatest contributor to LIM's reported numbers for higher risk and generally poorer categories of beneficiaries. Although the figures in the table below are cumulative, the relative proportions do not significantly change when looking just at the most recent quarterly figures for FY2013.

Cumulative Results: LIM's Loans to Higher Risk, Poorer Categories of Beneficiaries

Total LIM portfolio = 9,684 loans (since inception to Sept. 30, 2013)	Total number LIM-funded loans in this category	Percent of total number of LIM funded loans	Number of LIM-funded loans to Al Majmoua MFI	Percent of total number of LIM-funded loans, excluding Al Majmoua portfolio
Loans to start-ups*	2,619	27%	2,022	6%
Loans to women	4,278	44%	2,145	22%
Loans to youth	4,027	42%	1,020	31%

[18] IESC/LIM Fiscal Year 2013 Quarter Four Report, July 1-Sept 30 2013, see p. 13 cumulative results, p. 27 youth results, and p. 29 Al Majmoua performance results.

*note: New Jobs Created indicator used as a proxy for Loans to start-ups

Conclusion 7: LIM's targeted sectors and beneficiaries are very broadly defined by USAID, and no priorities have been set among categories.

A review of relevant documents including LIM's Cooperative Agreement Modification 02 (September 2010), LIM's PMP (version resubmitted June 2013), and the RIG Audit (July 2013) reveal that each describes LIM's intended targets somewhat inconsistently and to somewhat divergent purposes. Initially, in 2009, LIM took an economic growth approach, seeking to expand the reach of three MFIs, targeting MSMEs in rural and underserved areas. LIM's objectives and scope expanded in 2010 to include specific categories of intended sectors and beneficiaries. The program's objectives are described in the most recent scope of work (found in Modification 02, p. 5, dated September 2010) as intended to target *"finance for three sectors (agribusiness, tourism, ICT), as well as underserved categories of borrowers including: micro and small businesses across all rural, remote and peri-urban areas of Lebanon, new business start-ups, and businesses owned by or employing women and youth."*

This broad definition lists three economic sectors that are already well represented by at least some of LIM's MFI partners in the non-LIM-funded portions of their loan portfolios. On the other hand, very poor and underserved beneficiaries represented by start-up (particularly micro-scale) businesses, women, and youth are much less represented in LIM's portfolio, and little of USAID's sub-grant funding has found its way to these challenging borrowers. This discrepancy is contrary to the spirit of USAID/Lebanon's Results Framework which states its Development Objective (DO) #2 as "Enhanced economic opportunity for the poorest segments of Lebanese society, particularly in areas outside metro Beirut." In order for the LIM Program to directly address USAID's DO #2, a greater effort needs to be made to ensure that women, youth and other poor segments of Lebanese society are deliberately and specifically targeted for loans by the MFIs.

Of course the very poor, represented by women, youth and start-up micro-entrepreneurs, are a difficult challenge for Lebanon's MFIs. While nearly all of LIM's partners expressed a strong sense of mission to serve the poor, most expressed reluctance to attempt to reach deeper down-market than their current client demographic: the economically viable poor who typically have established small enterprises, access to guarantors and/or collateral, and are established and well known in their respective communities. For the relatively few loans for start-up businesses, potential borrowers at least need to have some kind of relevant experience and knowledge in order to be accepted. These clients present an acceptably safe level of risk to the MFI Loan Officers who make the lending decisions, and the criteria are strictly enforced by the MFIs lending policies. These policies mitigate the risk of the unknown, whether perceived or real, to the MFIs. However, the poor (represented by women, youth and micro-scale start-up businesses) remain underserved by LIM's partners.

LIM's sub-grant funding provides an opportunity to reduce this risk and provide incentives to the MFIs for down-market lending and for offering loans for higher risk clients such as women, youth, and inexperienced clients looking to start up new enterprises. While LIM's sub-grant agreements include cost-share requirements, the MFIs' risk of lending to these underserved groups is minimized through access to LIM's donor funds. While some of the MFIs are making efforts to reach further down to the underserved, the terms of LIM's sub-grant agreements do not provide sufficiently strong incentives for the MFIs to find ways to reach deeper beyond their currently comfortable client demographics. The relevant conditions included in the sub-agreements' scopes of work are stated as follows:

"Loan recipients/borrowers should be individual, farmers, businesses, cooperatives, and cooperative members operating in rural and peri-urban areas (all areas in Lebanon excluding Greater Beirut) for establishing new businesses and/or enhancing existing businesses that might be included in the value chain approach for the targeted sectors Agribusiness, Tourism, and ICT, in order to create jobs and increase income levels."

IESC's sub-agreements (through LIM) further instruct the MFIs regarding specific quantified targets. However, in most cases these do not provide strong incentives for innovation with new loan products or client demographics. Rather than accept additional risk by attempting something new, the MFIs have tended to use the sub-grants to further expand their existing portfolio in accordance with LIM's targets specified in the sub-Agreement. As a result, LIM has been quite successful in extending its geographic outreach to underserved lower-density communities, has significantly increased the number of loans to SMEs, and has successfully encouraged increased maximum loan sizes in some MFIs to meet the needs of less-poor borrowers with successful expanding businesses. However, the RFAs and subsequent sub-grant agreements have provided MFIs with a list of target options with varying levels of risk. LIM did not set targets for higher risk categories of borrowers, and the MFIs have chosen the safer options. The agreements have allowed the MFIs to continue their current, risk-averse lending and avoid using LIM's funding to expand beyond current practices. The result is that they are not reaching out to new businesses, very poor women, and youth to the degree anticipated by USAID.

Recommendation 7(a): Structure future MFI sub-agreements to ensure the inclusion of closely defined, higher risk beneficiaries especially for MFIs that have achieved operational sustainability.

The current LIM Program is obligated to continue to serve somewhat divergent targeted sectors and beneficiaries. However, it is recommended that a portion of remaining sub-grant funding be specifically targeted toward higher risk categories of borrowers that the MFIs are not currently reaching in significant numbers. This can be accomplished through revised language and policies in the RFAs and sub-agreements to define and target clients who are poor [19] in order to ensure their inclusion through target numbers in LIM's program. (Also see Recommendation 6 above: Develop a Poverty Assessment Tool for Lebanon.)

Recommendation 7(b): Within RFAs, provide a sub-list of higher risk categories of potential borrowers to be specifically targeted by a portion of sub-grant funds or underwritten through DCA-funded portfolio guarantees.

USAID should add modest and specific target numbers for very poor women, youth and new business start-ups as a part of future rounds of sub-grant funding. LIM's target numbers would in turn need to be reflected through targets established in the sub-grant agreements for higher risk categories of borrowers to be reached. As part of the application process, MFIs who receive this

> *"My business makes me feel more independent and not just a burden on my family - and I can spend a little of my money on myself."*
>
> *"My business makes me tired. I still have all the housework that I used to do, and now I have even more work and less time."*
>
> \- Sample Women's Focus Group responses

[19] In LIM's Scope of Work, the poor are defined as those with incomes of less than $20 per day.

funding would need to document the development of new products including a business/marketing plan for the pilot phase of the new loan types. These funds could be described as "innovation funds," to be used to develop and pilot test new loan products tailored for higher risk beneficiaries as well as to develop the MFIs' experience in down-market lending.

Finding 8: On the whole, women benefit from LIM's program.

While LIM's data on increased income is problematic (see Finding 3 above), women beneficiaries interviewed invariably reported that their income has increased as a result of their business loans. During a focus group of eight women clients from Makhzoumi Foundation's program, the women discussed their experience with taking loans and starting businesses. Several of the women had participated in Makhzoumi Foundation's vocational training for hair dressing and had received start-up business loans to establish salons. Others borrowed to expand various types of shops or for agriculture (greenhouse materials). All reported success in terms of net increased income, and all expressed appreciation for the opportunity to contribute to their family's finances. While several recalled occasional difficulty in making loan payments, they resolved these difficulties by using funds from other sources, including employment income, husband's salaries or borrowing from family or friends. These problems were presented as occasional and minor. However, there was a general consensus that the maximum loan sizes offered by the MFI (loans are officially capped at $5,000, but most were offered much less) were too small for their businesses, particularly for the start-ups. Several focus group participants openly discussed receiving additional business loans from other MFIs and other sources despite this being against Makhzoumi's official policy.

The women also discussed the non-financial impact that taking loans and running business activities had on their lives. Positive aspects include improved social lives as their business activities took them outside their home into the community on a regular basis. Several also described an enhanced sense of status in their families and communities as proud business owners as well as the ability to spend a small amount of their incomes on themselves.

However, while most of the focus group participants' experiences were positive, some also described negative aspects, including being overwhelmed in some cases with increased business-related workload on top of their already long days of household responsibilities and children, particularly where they were not receiving additional help from husbands or older children. One participant went as far as saying that she would stop her business activities if her family didn't so badly need her income.

Conclusion 8: LIM's MFIs have in some cases attempted to address their gender gap in outreach to women.

Several of the MFIs discussed their hiring preference for women Loan Officers to enable them to more easily reach potential women beneficiaries and arranging for women-only program introductory sessions. The LIM staff have provided for, and participated in, gender sensitivity training events for the MFIs; these were well received by managers of both sexes. While there is support for increased women's participation among the MFIs, there are few established policies or activities beyond marketing and initial outreach to potential women beneficiaries in the communities. MFIs need to go beyond an equal participation opportunity approach and find innovative ways to specifically address the challenges of women's participation, including identifying and addressing secondary impacts of their business activities as well as negative effects of additional work burdens.

Recommendation 8: Conduct a gender analysis for access to finance to better understand ways to address constraints to women's participation as well as the non-financial impact on women beneficiaries' empowerment.

USAID could support a gender analysis for access to finance, as described in ADS 205.[20] This could then be used as a basis for LIM and the MFIs to identify and address the gender-related issues that limit the MFIs' progress toward gender mainstreaming. Based on gender analysis findings, LIM may also seek outside technical assistance to develop ideas and implement pilot activities that go beyond higher loan targets and quotas for women's inclusion and empowerment. Alternatively, LIM could facilitate or subsidize gender analyses for their MFI partners where there is interest in expanding their outreach to women. For example, traditional women businesses in LIM's portfolio tend to yield smaller incomes than other traditionally male-dominated businesses. This could be addressed by LIM establishing a portion of sub-grant funding for new start-up loans for women in non-traditional, higher income business activities in combination with carefully monitored business training as a LIM-subsidized pilot activity for one or more MFIs that already offer business development training services.

Finding 9: There is an unmet demand for savings among many of LIM's beneficiaries.

The subject of savings was raised at every interview with the MFIs and with clients and in each client focus group. While beneficiaries' initial responses to savings questions were often "I'm too poor to save" or "My MFI doesn't offer savings," asking further questions about how they manage their money in response to income fluctuations from week to week or month to month revealed that they use a variety of mechanisms that are, in effect, attempts to save. These included hiding money in their house or on their person for extended periods, taking advantage of a bank account where someone in the family had a salary or pension, or in the case of several established business owners, opening up a savings account at a bank. A few beneficiaries even reported that they maintain small savings accounts at another non-traditional MFI outside LIM's network that is somehow able to accept deposits in very small amounts.

When the evaluation team asked a series of hypothetical questions, such as would a secure place to save small amounts of money be useful to you, or do you think you could save some money if you didn't always keep it in the house, or even (particularly hypothetically) would you open up a savings account at your MFI if you could? Many beneficiaries were enthusiastic about the idea of access to secure savings. They were especially enthusiastic about the utility of being able to securely set aside small amounts of money for loan payments or other larger (non-monthly) expenses.

However, the beneficiaries also reported barriers to opening a bank savings account that were insurmountable to many of them. These included high fees, minimum balance requirements and limited numbers or amounts of withdrawals. Although many banks no longer officially have minimum deposit sizes, these were still reported as obstacles by many of the beneficiaries. In addition, several women beneficiaries described a culture at the banks that felt hostile to them, where they were ignored or

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[20] ADS 205, Integrating Gender Equality and Female Empowerment in USAID's Program Cycle, p. 12, http://www.usaid.gov/sites/default/files/documents/1870/205.pdf.

greeted with indifference or class- or gender-based attitudes of superiority. Further, some reported distrust of banks, recalling incidents in Lebanon's recent past where banks collapsed, and clients suffered complete losses of their deposits.

In contrast with the beneficiaries, savings-related questions with the MFIs got little traction. Because MFIs are not able to collect deposits, they have not considered the possibility, nor have they entertained ideas of alternative means to offer savings services.

In addition, while client interviews clearly showed an unmet demand for secure savings, there was little evidence of a savings culture, such as recognition of the value of longer term savings for education, big ticket consumer purchases, or larger emergency funds.

Conclusion 9: Lack of access to savings deprives poor clients of an essential tool for accumulation of assets and building wealth.

Lack of access to savings represents a critical gap for the microfinance sector in Lebanon. Without savings, there can be no accumulation of assets or building wealth for Lebanon's poor. The economic stability of poor families is also severely compromised without savings. Financial inclusion for the poor is simply incomplete without savings. Savings also represents an entire class of critical tools for money management. Alarmingly, a few clients reported getting additional loans from different sources (besides the MFIs in the LIM program) in response to monthly fluctuations in income or relatively small unexpected expenses. In other countries where MFI clients are able to open accounts, savings instruments are often used for the same purposes.

Unfortunately, secure savings are not available to most of LIM's clients, and this critical gap, while recognized by LIM's staff, is not being addressed by LIM or its partner MFIs. None of LIM's partners meet the stringent regulations (which would effectively require them to become a full commercial bank) to be allowed to collect deposits. Based on the evaluation team's discussions with the Central Bank's Executive Director and Deputy Governor, it appears that the regulatory constraints on MFIs for offering savings is unlikely to change anytime soon; both expressed strong opinions against the idea under any circumstances.

Recommendation 9: LIM should assume a leadership role to promote the value of savings to LIM's partner MFIS and promote development of a savings culture among LIM's beneficiaries taking into consideration current Central Bank restrictions.

LIM is the only player in Lebanon's financial/microfinance sector that is willing and able to assume a leadership role to research possible savings solutions, develop policy proposals and advocate for outside-the-box solutions within the current regulatory restrictions, or advocate for responsible regulatory reform. Developing a savings culture in Lebanon requires small steps in several areas:

1) Facilitate a voluntary Microfinance Association working group on savings.

2) Conduct a beneficiary needs assessment focused on savings that can also be used to demonstrate to the MFIs and regulators that there is, indeed, a critical unmet demand for savings among LIM's clients.

3) Conduct policy research to find models for responsible and secure savings solutions used by MFIs outside Lebanon that have addressed similar challenges of savings in a restrictive regulatory environment. Possible solutions and/or next steps may include:

- Partnerships with banks to reduce the barriers to beneficiaries use of formal savings accounts, including reduction or elimination of deposit fees.
- Explore the potential future use of mobile money solutions where merchants with point-of-sale devices could accept deposits and loan payments.
- Develop a modified model of the Village Savings and Loan Associations promoted by CARE, where groups of savers assume responsibility for collecting and managing savings for themselves, using a collective bank account that requires three signatures to access.
- Produce a white paper that explores these and other ideas.

4) Provide opportunities for exposure to MFIs outside Lebanon through seminars by visiting MFI luminaries or through site visits by LIM's partners to established savings-centric MFIs in countries with relatively developed economies (e.g., Eastern Europe, the Caucasus, or some countries in the Latin America and Caribbean region).

Finding 10: Lebanon does not currently have an effective enabling environment for the microfinance sector.

The regulatory environment in Lebanon categorizes MFIs as either Non-Bank financial institutions (including cooperatives) supervised by the Central Bank or as NGOs, officially supervised by the Ministry of Internal Affairs. As discussed in Finding 9 above, MFIs are not able to provide savings products to their clients. They are also unable to utilize deposits for on-lending capital (see Finding 1). During interviews, staff from several of the MFIs discussed the difficulty of getting established and licensed under the Central Bank and the need for an effective regulatory environment in order for the sector to develop. In the case of the NGO-based MFIs, they also expressed the need for protective supervision beyond the small amount of oversight they receive from the Ministry of Internal Affairs.

All the MFIs discussed the importance of establishing a professional Microfinance Association in order to work together with the Banque du Liban to develop an enabling environment for the microfinance sector. These views were supported in discussion with the Executive Director and Deputy Governor of the Central Bank. All of LIM's partner MFIs are currently waiting for the Governor's decision on legal recognition and registration.

Conclusion 10: Regulations governing the sector lag behind the development and growth of MFIs.

The regulatory environment limits MFIs' potential to offer additional loan products (such as certain types of consumer loans) or other important financial services (such as savings) discussed in Finding 8. In addition, LIM's NGO partners are placed in a precarious legal position where on one hand there is minimal supervision or regulatory oversight and on the other hand they are allowed to operate subject to the changeable dispositions of the Interior Ministry which is not set up to provide financial oversight.

> *"We recognized how important it is to work together, coordinate our efforts, learn from each other and speak with a unified voice and promote good policies and smart regulations for the Microfinance Sector in Lebanon. We tried to come together and we failed. We tried again and we failed. Now, through LIM's leadership, we finally succeeded in forming a Microfinance Association, and we have a stake in the future of microfinance in Lebanon."*
>
> \- MFI Director

Although support for the development of a Microfinance Association was not originally a key activity included in LIM's 2010 SOW, this has turned into one of LIM's major achievements. Every MFI staff person interviewed expressed satisfaction about the agreements between MFIs brokered by LIM among LIM partners and including non-partners. According to unprompted interview comments by several MFI leaders, LIM's Director and staff are recognized as non-aligned industry leaders by the MFIs, and LIM has provided excellent legal and technical assistance, developed strong professional and personal relationships with all the partner MFIs, and successfully navigated through difficult diplomatic challenges.

The nascent Microfinance Association has drafted bylaws and submitted a request to Lebanon's Central Bank for formal legal recognition. All the MFIs interviewed discussed the great potential that the Association offers for the future of Lebanon's microfinance sector. In addition, the Central Bank's Executive Director and Deputy Governor both expressed strong support and cautious optimism for legal recognition by the Central Bank Governor.

Recommendation 10: LIM or a post-LIM project should continue to play a strong leadership role in the continued development of the Microfinance Association including technical advising and advocating the adoption of best practices that foster an effective enabling environment.

Without LIM's continued diplomacy and support, the Microfinance Association may fall apart in the early stages after legal recognition as the MFIs continue to learn how to work together and compromise. This is an important milestone for the microfinance sector in Lebanon, an exciting time to witness, and an important achievement of USAID. It will be important to the future of microfinance and poor clients for the Association to continue to have the support to be strong and effective until it is established enough to be sustainable on its own. The Association's potential future role could include:

1) Advocate for an enabling regulatory environment for MFI's, including
   - Access to and sharing of client credit information to reduce lending risk to MFIs and poor borrowers
   - Integration of best practices (including operations, reporting, reserves, and new products) into regulatory guidelines
   - Increased supervision and transparency in lending practices to the poor

2) Promote cooperation and cross learning potential between MFIs in an increasingly competitive environment

3) Enable coordination between MFIs to encourage moving downscale to more vulnerable people and conducting outreach to new rural markets

Other LIM Initiatives for Future Activities

The following recommendations are all initiatives that LIM is already considering, but are not specified as objectives in the current scope of work, but represent significant opportunities for advancing the sector.

1) Develop a training center for MFIs and include business development services training for clients, Loan Officer training, financial product development, branch operations, etc.

2) Continue partnership development for mobile banking pilot project to reduce transaction costs and improve transaction security.

3) Continue networking and partnership development with insurance provider(s) for micro-insurance products including loan loss and health.

4) Continue work to increase diaspora support through existing non-governmental organizations (e.g., Kiva) and social investment funds.

OVERALL CONCLUSIONS

LIM has enhanced the microfinance sector in Lebanon. The evaluation team found LIM's staff to be knowledgeable, highly motivated and professional, based on direct observation and discussions as well as overwhelming positive feedback from the MFI partners. In addition, many of the beneficiaries themselves expressed high regard for LIM staff that have made regular site visits for program monitoring. Although Lebanon is a geographically small country, the economic, cultural and security environments are very diverse; this is reflected in the diversity of LIM's MFI partners. Each MFI occupies a unique niche in terms of their target communities, religious/political affiliations, banking partnerships, charitable non-financial services, and economic sectors. A significant LIM achievement is the successful convening and facilitation of a professional Microfinance Association that includes the entire diverse range of MFI partners. This evaluation sees this as an important milestone in Lebanon's financial services sector; recognition of the Association will enable the "Switzerland of the Middle East" to be accompanied by, and in some cases partnered with, a dynamic microfinance sector for "everybody else" that will enable MFIs to develop new products and services beyond the current basic micro-lending for MSMEs.

LIM has catalyzed growth in the key economic sectors of SMEs, especially in providing capital for MFIs to expand into rural and other underserved communities, as well as modest success in the development and promotion of agricultural lending, a highly challenging and risky sector. In addition, LIM has built technical capacity through professional training and mentorship with the MFIs. Partner MFIs have greatly benefited from LIM's training and have come to depend on LIM for technical assistance.

While these are important achievements, the evaluation also includes some findings that are cause for significant concern. The most important of these is LIM's limited success in reaching poor and higher risk beneficiaries. Despite the conclusions that discuss LIM's problematic scope of work and USAID's lack of specific performance targets for these groups, in the end it is LIM's responsibility to substantively reach all the intended categories of beneficiaries, including women, youth and start-up businesses. While IESC and LIM followed the terms of the SOW, USAID's intentions to provide microcredit loans to poor and higher risk beneficiaries were not sufficiently achieved through the program's implementation. To underline this point, the majority of the priority beneficiaries reached by the participating MFIs come from Al Majmoua's group lending program for women. LIM should make more of an effort to provide incentives for the other eight MFI partners to include higher risk beneficiaries.

Unfortunately, LIM's SOW does not provide strong incentives for LIM to include these groups. For example, *LIM does not report against target indicators that represent the higher risk groups, and perhaps as a result, they remain secondary objectives, largely left behind.* On the other hand, although these groups are included in Modification 2's SOW, IESC and LIM have not initiated ways to address this gap either through sub-grant funding or other means to stream resources to these higher risk categories of beneficiaries.

LIM has grown and developed from its early economic growth approach, expanding to include traditional microfinance objectives of reaching the poor, represented in the SOW as women, youth, start-up entrepreneurs, and underserved communities. This organic evolution from where LIM started with three MFIs targeting SMEs to (soon to be) nine MFIs with a broader reach has resulted in the current situation where LIM's objectives are very broadly and imprecisely defined, with somewhat divergent focus. LIM's targets of broad economic sectors such as SMEs, tourism and agriculture are divergent interests with the other program objectives targeting women, youth, and start-ups. While the two categories of objectives are not mutually exclusive, they are not completely complementary either. Some of LIM's key indicators for reporting (including total SME loans, loans above $5000, and total portfolio volume) support economic growth for key sectors and support beneficiaries who, while (mostly) marginally poor, are economically viable and are already being served by the MFIs without LIM's sub-grant funding.

LIM's staff acknowledges this divergence in program objectives and is willing and capable of successfully serving both categories of program objectives. However, their performance objectives are constrained by the terms and language of their SOW. If USAID's interest also includes working down-market, with poor and vulnerable beneficiaries, particularly in poor rural communities that are facing increased pressure from the influx of refugees from the Syrian conflict, then USAID should consider enabling/authorizing LIM to make course changes and restate program objectives and targets to accommodate more traditional microfinance clients, i.e., the poor, represented by women, youth, and the rural unemployed whose options for financial stability where there are few jobs are limited to starting a new business.

ANNEXES

ANNEX I: EVALUATION STATEMENT OF WORK

EXECUTIVE SUMMARY

The Volunteers for Economic Growth Alliance (VEGA) Lebanon Investment in Microfinance (LIM) Program is funded by the U.S. Agency for International Development (USAID) and implemented by the International Executive Service Corps (IESC). Since its inception up until March 2013, the LIM program has partnered with eight Microfinance Institutions (MFI) to maximize access of finance to micro enterprises and small businesses operating in the Agribusiness, Tourism and Information and Communication (ICT) value chains.

The Agreement Officer's Representative (AOR) for the LIM program requested a midterm formative performance evaluation of the LIM program early in 2013. Subsequently, the Office of the Inspector General (OIG) conducted an audit of the LIM program during April and May that addressed many of the issues initially raised by the AOR. Due to the audit findings the LIM program is making mid-course corrections. This resulted in a reframing of the evaluation so that post-LIM issues can be addressed. The AOR described the evaluation as an external technical review of the LIM program implemented by IESC aimed at determining what is needed from a follow-on post LIM program. A revised scope proposes looking beyond what LIM has achieved to the sustainability of the sector post-LIM, and to future Economic Growth programming.

The proposed suggested objectives of the evaluation are:

- Examine if LIM has targeted underserved categories of borrowers including new business start-ups and businesses owned by or employing women and youth.
- Examine if loans granted under LIM have had a development economic impact such as a rise in income or an increase in employment or both.
- Examine if LIM has built the institutional capacity of partner microfinance institutions (MFIs) in terms of human resources, management, business and financial sustainability, as well as capability and capacity to serve a larger number of communities.
- Examine MFI sustainability assuming grants to MFI are not continued.
- Examine if cooperatives and CCIA are viable institutions for out-sourcing loans and reducing risk.
- Examine capacity building of MFI to outsource loan origination.
- Identify success and/or lessons learned.

The Performance Management Program for Lebanon (PMPL) was requested to develop the scope of work (SOW) for the mid-term evaluation of the project. This report is the result of that request. In the development of this Evaluation SOW, PMPL has followed recommendations found in the July 2011 publication "Evaluation Statements of Work: Good Practice Examples" prepared for United States Agency for International Development by Micah Frumkin and Emily Kearney with Molly Hageboeck (editor/advisor), from Management Systems International (MSI).

The estimated duration for completion of the evaluation is 6 weeks, commencing by the end of August. A six-day work week is assumed. A team of an evaluation specialist and an expert in Microfinance are proposed for the evaluation. It is estimated that the evaluation team leader/technical expert has 27 days LOE and is supported by the SI home office and PMPL local staff.

INTRODUCTION

A mid-term evaluation was requested for the Lebanon Investment in Microfinance (LIM) Program by the project Agreement Officer's Representative (AOR). Originally conceived as a project mid-term managerial and program implementation evaluation as described in the USAID Evaluation Policy, this objective changed following a Regional Inspector General audit of the project in April and May. "A performance evaluation focuses on descriptive and normative questions: what a particular project or program has achieved (either at an intermediate point in execution or at the conclusion of an implementation period); how it is being implemented; how it is perceived and valued; whether expected results are occurring; and to answer other questions that are pertinent to future program design, management and operational decision making" (USAID Evaluation Policy, 2011). This evaluation gives most weight to answering "other questions that are pertinent to future program design, management and operational decision making."

The development of this evaluation scope of work (SOW) follows recommendations laid down in ADS 203.3.1.5, and draws materials from Social Impact's "Evaluation for Evaluation Specialists (EES)" Course. Amongst those course material is "Evaluation Statements of Work: Good Practice Examples" prepared for United States Agency for International Development (USAID) by Micah Frumkin and Emily Kearney with Molly Hageboeck (editor/advisor), from Management Systems International (July, 2011) that provided a useful guide for preparing this SOW.

LIM program supports USAID's Development Objective 2 (DO2) for Lebanon: "Enhanced Economic Opportunity for People Living in the Lebanon's Poorest Region" and more specifically under Intermediate Result (IR) 2.3: "Improved Access to Finance for Micro, Small and Medium Enterprises." The context and details of the project are described below.

Project Context

In May 2009, USAID awarded IESC/VEGA the Lebanon Investment in Microfinance (LIM) Program, designated to assist Lebanese micro and small enterprises increase sales, create jobs, and advance economic growth through improved access to finance, and to strengthen microfinance institutes capacity for providing access to finance/microfinance services to Lebanese micro and small enterprises. The program assists micro and small enterprises by maximizing the availability of loans for borrowers in sectors and areas that have traditionally had difficulty accessing business finance.

The program is designed to reach and answer the needs of micro and small enterprises operating in the target sectors that are located across rural and peri-urban areas in Lebanon.

Project Identification

LIM program is funded by the United States Agency for International Development (USAID), through Leader with Associate Cooperative Agreement number: EEM-A-00-04-00002-00 to the Volunteers for Economic Growth Alliance (VEGA), and is implemented through Associate Award number: 268-A-00-09-0003 by the International Executive Service Corps (IESC).

Scope of the Project

Lebanon Investment in Microfinance program start date was May 8, 2009 and original end date was November 7, 2010. On September 15, 2010, the program received a funded extension through April 30, 2015 and was granted additional funding for a total program value of $12,182,636.

The program supports selected subgrantee microfinance institutions and their borrowers to provide targeted loans with these grant funds beginning in the first quarter following program award. The IESC team focused in the first phase upon five key microfinance institutions that conduct microlending on a large scale, but granted program funds to only three MFIs, and at the time of this mid-term evaluation, eight organizations in total received a sub-grant, these were: Association Entraide Professionnelle (AEP), Association for the Development of Rural Capacities (ADR), Al Majmoua, Ameen, Makhzoumi Foundation. CLD, Emkan, and the Entrepreneurial Development Foundation (EDF).

The subgrantees issue loans per individual male or female, microenterprise, farmer, cooperative, or cooperative member. IESC should closely monitor the increase in incomes, and creation and maintenance of jobs that resulted from the targeted lending of the grant funds to borrowers, disaggregated by males and females, within the ICT, tourism and agribusiness value chains.

The program provides value added technical assistance to the microfinance institution subgrantees. Key topics covered included: microfinance industry best practices and training of MFI loan officers in the improvement and development of ICT, tourism and agribusiness business development services for their borrowers and potential borrowers. Originally, the IESC team and its MFI subgrantees worked with the USAID ICT, tourism and agribusiness value chain program, the Lebanon Business Linkage Initiative (LBLI), and other donor funded programs working in these value chains in order to identify and reach potential borrowers, leverage technical assistance and training, and maximize program results. The DHAIM and LIVCD projects also promote access to finance aimed at enhancing value chain development; LIM works to coordinate its financial activities with these two projects.

Contract and Contract Modification

Baseline Cooperative Agreement

The baseline contract (Total federal share amount $1,609,755 over 18 months starting May 8, 2009), makes reference to the needs of the microfinance institutions in Lebanon and the context of three sectors (tourism, ICT and agribusiness), to which microloans should be delivered.

The program consisted of the three main components:

- Grants Management (MFIs)
- Microfinance Subgrantee Lending
- Technical Assistance and Training

In this first phase of the programme, IESC received five applications from leading MFIs in response to the RFA issued by IESC. After the evaluation of the five applications, three leading MFI organizations were chosen by the program Grant Committee to receive program funding and were allocated a total grant funding of $1,050,000: AlMajmoua ($400,000), Ameen ($400,000), and ADR ($250,000).

Contract Modification

The modification to the agreement (total federal share amount to $ 12.182.636 over 6 year starting May 2009), making reference to the results achieved since the rapid start-up of the program in May 2009, aimed at magnifying the results achieved by substantially deepening and broadening the impact of the program. This modification broadens LIM's reach by incentivizing access to finance for the three sectors (agribusiness, tourism, ICT), as well as for underserved categories of borrowers including: micro and small businesses across all rural, remote and peri urban areas of Lebanon, new business start-ups, and businesses owned by or employing women and youth. This modification and extension was expected to enable LIM to have a much deeper impact by increasing the value of
funds available for small and micro-enterprises in underserved segments.

The project is to do this in six ways:

1. Provide qualified MFIs a new infusion of capital for targeted categories of borrowers and expand the benefits of the program's access to finance to a larger number of micro/small businesses.
2. Increase the number of partner MFIs that the program works with, thus covering areas and communities not reached in the current program.
3. Require funds already dispersed under the LIM program to be recycled as payments are received and put back into loan products oriented toward the same loan categories. Recycled disbursements will be subject to the same monitoring and evaluation process and supervision by the LIM team.
4. Open up opportunities for a larger number of small and medium business investments by increasing the maximum loan value an MFI may disburse under the program.
5. Develop tailored loan products for targeted sectors and categories of borrowers especially to fit the needs of agribusinesses and tourism micro and small businesses.
6. Use USAID resources to leverage much larger sources of debt finance and direct those loans toward priority areas.

Institutional Context

LIM program works closely with USAID/Lebanon and local partners on program activities, specifically in the selection of new subgrantees for the program, and has focused on providing linkages and coordination with the Central Bank of Lebanon. The VEGA Implementing Organization, and the International Executive Service Corps (IESC) work closely with the Financial Services Volunteer Corps (FSVC) and with local organizations in Lebanon including the local municipalities, the chambers of commerce, and other local business support organizations.

Currently, LIM works with eight MFI sub-grant awardees, which include AEP, ADR, AlMajmoua, Ameen, CLD, Emkan, Makhzoumi Foundation and the Entrepreneurial Development Foundation (EDF). LIM has been reaching out and is planning to coordinate activities and/or projects with a number of international organizations that can provide assistance in helping the MFIs develop processes to meet international reporting standards. These institutions are: Lebanese Emigration Research Center (LERC); Sanabel; SEEP Network; Microfinance Information eXchange (MIX); Kiva; and The Finance Alliance for Sustainable Trade (FAST).

Project Intended Results

As stated in the program design of the program extension proposal, within the $12.182.636 budget over six years the project is expected to:

- Conduct financial sector assessment
- Complete an infusion of capital for qualified MFIs
- Provide technical assistance to MFIs to develop new products and provide larger loans and to banks to develop new products and reach the missing middle (loan amounts ranging from $7000 - $25000) through smaller bank loans.
- Select a guarantee scheme and develop the implementation plan and implement the selected loan guarantee scheme

- Establish linkage with other programs
- Provide technical assistance and build the capacity of the lender through :
    - The attendance at the Boulder Microfinance training program
    - Training and capacity building in Microfinance lending and operations
    - Training and capacity building in agricultural lending risk calculation
    - Capacity building for banks to outsource the loan origination part of the
    - business to organizations or entities (like farmer cooperatives) that are closer to the end user
    - Fostering partnerships between banks and MFIs to share the risks and reduce costs
    - Capacity building of Lebanese Business Development Service providers and lenders on business development service offerings
    - Lender capacity building regarding their outreach efforts

LIM Program Results Framework -

DO2: Enhanced economic opportunity for the poorest segments of Lebanese society, particularly in areas outside metro Beirut

Custom Indicator: Percentage increase of direct beneficiaries that report increases in average daily income as a result of USG assisted sources

IR 2.3 Increase Access to Finance for Micro, Small & Medium Enterprises

PPR 1: Increased number of financial sector professionals trained on international standards with USG assistance.

- **F Indicator 4.7.1-16: Number of days of USG funded technical training provided to management and/or staff of financial intermediaries.**
- **Custom Indicator: Tracks the number of Trainees per reporting year.**
- **Custom indicator: Number of management and/or staff of financial intermediaries showing increase in knowledge from before to after the USG- funded training experience.**
- **Custom indicator: New Activity: financial intermediaries showing improved performance as a result of USG-funded training to their managers and/or staff**

1. **Provide Technical Assistance / Capacity Building to Selected Lending Providers**

PPR2: Increased number of clients at USG assisted microfinance institutions

- **F Indicator 4.3.2-7: Number of financial institutions receiving USG assistance in extending services to micro & small businesses.**
- **F Indicator 4.7.1-12: Total number of clients benefiting from financial services provided through USG-assisted financial intermediaries, including non-financial institutions or actors.**
  - **Tracks number of clients that access MFI Loans**
  - **Tracks number of clients that access MFI SME Loans above $5000**
  - **Tracks number of repeated clients per program**
- **Custom Indicator: based on F indicator 4.5-2: Number of jobs attributed to FTF implementation**
  - **Custom Indicator: Tracks Number of new job positions in USG assisted enterprises**
  - **Number of impacted jobs in USG assisted enterprises**

1. **F Indicator 4.5.2-29: Tracks value of agricultural and rural loans (by gender and youth)**

Activity:

1. **Provide new Infusion of Capital to MFIs**
2. **Increase number of MFIs receiving USG assistance**
3. **Increase the number of clients at USG assisted Firms**
4. **Develop New MFI loans for selected sectors**
5. **Develop new MFI Loan products (above $5000) for SMEs**
6. **Increase access to finance for targeted MSMEs through improved MFI/Bank Linkages**

DEVELOPMENT HYPOTHESIS

No development hypothesis was stated in the project work plan or performance management plan (PMP).

However, in Lebanon, and particularly in rural areas, micro and small enterprises in sectors such as agribusiness, tourism and ICT have traditionally experienced difficulties accessing business finance, that hinders their economic growth, the creation of jobs and the increase of sales. Through its activities, LIM program will provide organizational and human resources capacity building, infuse capital and sustain/grow the number of partner MFIs, increase loan value to attract SME borrowers, and assist in developing SME loans, link to international resources and to other local USAID programs (such as DHAIM and LIVCD) and develop assessment/awareness on the establishment of a Microfinance Association.

A proxy hypothesis is that as a result of LIM Program, more loans will be available for borrowers in sectors and areas of agribusiness, tourism and ICT and thus micro and small enterprises will have easy access to business finance resulting in higher revenues generated and jobs created.

CRITICAL ASSUMPTIONS

- The demand for MFIs loans remains high where no other implemented program by USAID or other donor would be offering grants to beneficiaries.
- Flexibility to adjust course when needed to adapt to beneficiaries needs as observed on the ground.
- No terrorism threats specifically directed at USAID or U.S. government-funded programs or organizations and freedom of movement for program staff and partners across Lebanese territory.
- Sufficient level of political stability to enable program operations and no eruption of major, wide-scale conflict during the life of LIM Program

AUDIT FINDINGS

Regional Inspector General/Cairo conducted an audit to determine whether LIM Program was achieving its goal to increase sales, create jobs, and advance economic growth. The audit found that the program contributed to positive outcomes as it has generally improved access to credit by providing loans to more than 6300 borrowers and has contributed to the creation of some jobs.

Some problems were also identified by the audit mainly that the program indicators did not measure progress toward goals, the mission did not obtain sustainability commitment from two of eight MFIs, and the mission did not measure training results.

Recommendation that came out from this audit pointed out to the need to collect and document data on the number of jobs created separately from data on number of jobs maintained; to develop a tool to measure income proxies of borrowers and to establish a definition of a “job created” for microfinance reporting purposes. And also to address these problems, the auditors recommended that the LIM program develop monitoring procedures to track microfinance partner progress toward sustainability, and finally, amend the Lebanon Investment in Microfinance program monitoring and evaluation plan to include an indicator measuring training results, and collect and evaluate training outcome data already available at the implementing partner.

EXISTING PROJECT INFORMATION

- LWA Cooperative Agreement
- Proposal for LIM Modification and Extension
- Modification of Assistance Agreement
- Approved work Plans
- Results Framework and Performance Management Plan
- Project Quarterly Reports
- Project Site visit Reports
- MFIs database
- Country Development Cooperation Strategy (CDCS)

PURPOSE OF THE EVALUATION

The Agreement Officer's Representative (AOR) for the LIM program has requested a mid-term formative performance evaluation of the LIM program early in 2013. Subsequently, the Office of the Inspector General (OIG) conducted an audit of the LIM program during April and May that addressed many of the issues initially raised by the AOR. Due to the audit findings the LIM program is making mid-course corrections. This resulted in a re-framing of the evaluation so that post-LIM issues can be addressed. The AOR described the evaluation as an external technical review of the LIM program implemented by IESC aimed at determining what is needed from a follow-on post LIM program.

The suggested objectives of the evaluation are:

- Examine if LIM has targeted underserved categories of borrowers including new business start-ups and businesses owned by or employing women and youth.
- Examine if loans granted under LIM have had a development economic impact such as a rise in income or an increase in employment or both.
- Examine if LIM has built the institutional capacity of partner microfinance institutions (MFIs) in terms of human resources, management, business and financial sustainability, as well as capability and capacity to serve a larger number of communities.
- Examine MFI sustainability assuming grants to MFI are not continued.
- Examine if cooperatives and CCIA are viable institutions for out-sourcing loans and reducing risk.
- Examine capacity building of MFI to outsource loan origination.
- Identify success and/or lessons learned.
- Examine if LIM assisted the Partners in increasing number of SME loans.
- Identify business development service needs of identified by the beneficiaries, and by the MFIs.

The questions to be answered are:

- How are "agribusiness", "tourism" and "ICT" beneficiaries selected by the MFI? Does this respond to the objective of the program?
- How can the MFIs be assisted to expand their outreach to the targeted beneficiaries and the very poor clients?
- Does LIM target "new-business startups", "business owned by women", "business owned by youth"? What are the selection criteria that qualify a business owner for a loan (eligibility criteria)?

- Do the loans granted under LIM lead to a rise in income? (use proxy measure/creating a measurement scale) How would LIM assess whether sales and income of micro-credit loan recipient have increased or not?
- What evidence is there that new employment was created? What evidence is there that employment was sustained?
- What are the activities that LIM had implemented or is implementing in order to build the institutional capacity of partner microfinance institution? And what evidence is there that capacity was improved? For instance, are pre and post-training assessments sessions being used to measure training results? What business development services were crucial to growing MSMEs?

The evaluation will provide recommendations for:

- Better targeting of MFI loan beneficiaries
- Sustainable MFI in a post-grant, loan guarantee environment.
- Linking LIM with other USAID projects specifically LIVCD
- How can LIM better target the poorest segments of Lebanese society to insure alignment to the CDCS DO.
- How can LIM become more proactive towards female empowerment (not loan given on behalf of male relative).
- Other loan products needed by the market, not currently addressed.
- Business development services to be provided to loan beneficiaries.
- Establishing an Association of MFIs

AUDIENCE AND INTENDED USES

This mid-term evaluation is intended to be used by USAID/Lebanon, LIM and others at the discretion of the Mission. In the spirit of USAID Evaluation Policy the evaluation should provide USAID/Lebanon with concise actionable recommendations based on evidence that will inform future MFI programming.

EVALUATION DESIGN AND METHOD

The evaluation will rely on primary and secondary data from desk reviews; monitoring and evaluation data and MFI Tracking Sheet data; key informant interviews (KII) and Focus Groups discussions with LIM program COP and staff; personnel of the MFIs; and beneficiaries of the project loans. Field visits to the sites of the MFI and the loan beneficiary establishments will also be conducted.

Illustrative Data Collection Methods and Tools

Performance evaluation, data collection method

This evaluation will gauge the performance of LIM based on work plans, project sites reports and progress reports. The evaluation methodology shall include Desk review of the program documents, MFIs databases analysis, a random sample to interview loan beneficiaries and KII of MFI officials and LIM project officials, case studies of successful beneficiaries.

Tools to be used in the process

Primary data sources are the analysis of MFIs databases for LIM beneficiaries and the Key informant interviews with questionnaire followed up with confirmatory interviews with MFIs officials and loans beneficiaries.

Three different questionnaires are to be elaborated:

- The first questionnaire is addressed to beneficiaries of LIM. This tool will be based on a questionnaire developed by VEGA and adapted to the objective of this evaluation.
- The second questionnaire is designed to identify the characteristics of the partner MFIs and to describe the process of the loan lending from their point of view.
- The third questionnaire is developed to guide the KII interview with the LIM Program COP, staff and responsible officials at the level of USAID mission (i.e. Program officer and AOR).

Data Analysis Methods

The data evaluation will cover the effectiveness and efficiency of the program implementation focusing on program managerial, administrative, operational and technical aspects aiming to identify strength and weaknesses in the implementation process.

The evaluation team will prepare an outline of the work plan that will include the evaluation questions, evaluation methods, data sources and analysis plan. This outline will ensure that a multitude of data sources are considered, and it will be used once the data collection is completed.

All the data collected from different sources will be reviewed for reliability and validity and findings are to be compared based on multiple methods, form of data, sources of data and levels of data or respondents. Data should be disaggregated by sex and age to show any differences between males and females and youth. Data will be organized to answer evaluation questions.

MID-TERM EVALUATION DELIVERABLES

- Scope of Work with Outline of the Work Plan: The PMPL Team will prepare an outline of the work plan that will include the methodologies to be used in the evaluation. The work plan outline will be submitted to the AOR at USAID/Lebanon for approval with the SOW by July 15.
- Mid-point briefing to USAID: Statement of progress, preliminary findings, problems encountered and resolutions.
- Outline of the final report
- Draft final report: A draft report of the findings and recommendations is to be submitted to the USAID AOR, clearly describing findings, conclusions, and recommendations, by end of June. USAID will provide comment on the draft report within one week of submission.
- Final presentation
- Outbrief with USAID: Major findings of the evaluation will be presented to USAID/Lebanon using a PowerPoint presentation. The debriefing will include a discussion of achievements and issues as well as any recommendations the PMPL Team has for course corrections to the LIM project. The PMPL Team will consider USAID comments and revise the draft report accordingly, as appropriate.
- Final Report: The PMPL Team will submit a final report of not more than 25pages excluding annexes that incorporate the responses to Mission comments and suggestions no later than seven days after USAID/Lebanon provides written comments on the draft evaluation report. The format will include an executive summary, table of contents, methodology, findings related to the evaluation questions and specific areas of interest (above), and recommendations. The report will be submitted in English, electronically in MS Word format and compliant with USAID Graphic Standards.

REPORTING GUIDELINES

USAID's evaluation policy requires that all evaluation SOWs include USAID's Criteria to Ensure the Quality of the Evaluation Report, shown in the text box below. The LIM mid-term evaluation team is advised to incorporate these guidelines in their report where relevant and applicable to the evaluated cooperative agreement.

Structure of the Evaluation Report

The findings from the evaluation will be presented in a draft report at a full briefing with USAID/Lebanon and possibly at a follow-up meeting with key stakeholders. The format for the evaluation report is as follows:

1. Executive Summary: concisely states the most salient findings and recommendations with respect to the evaluation questions (2 pp.);
2. Table of Contents (1 pp.);
3. Introduction: purpose, audience, and synopsis of task (1 pp.);
4. Background: overview of LIM project context, USAID/Lebanon program strategy and activities implemented in response to the development problem, a brief description of LIM, and purpose of the evaluation (2 pp.);
5. Methodology: describes evaluation methods, including constraints and gaps (1 pp.);
6. Findings/Conclusions for each evaluation question; including a reference to the data quality of the evidence provided; (10 pp.);
7. Issues: provide a list of key technical and/or administrative issues, if any (1 pp.);
8. Recommendations to USAID/Lebanon on future programming in the MFI sector (1-2 pp.);
9. The final version of the evaluation report will be submitted to USAID/Lebanon in hard copy as well as electronically. The report should not exceed 25 pages, excluding references and annexes. The report is to be prepared and submitted in MS Word.

TEAM COMPOSITION

USAID's ADS requires that at least one member of every evaluation team be an evaluation specialist. An evaluation specialist is a person with significant experience designing evaluations and a strong understanding of data collection and analysis methodologies.

Since this project seeks to: 1) Assist Lebanese micro and small enterprises increase sales, create jobs, and advance economic growth through improved access to finance, and 2) Develop the capacity of MFI to ensure their sustainability and outreach to targeted groups, a Microfinance Expert is also required to be on the team. Thus the evaluation team will consist of a team leader/technical expert that is supported by PMPL local staff who are evaluation specialists. The evaluation expertise includes contributions/backup from the SI head office.

PMPL proposes to recruit a Microfinance Expert to collaborate in this evaluation. The microfinance expert should possess a Master's degree in financial studies and have at least 10 years professional experience in microfinance services. The microfinance expert is to be recruited through MSI, the SI sub-contractor for PMPL, or from the SI.

PMPL is prepared to start this evaluation during Quarter 4.

EVALUATION MANAGEMENT

1. Pre Field-Work: Identify and recruit a microfinance expert and a team leader. Obtain key documents, make key contacts and plan for interviews and discussions in LIM beneficiaries and stakeholders, liaising with LIM field staff to set up necessary interviews with project staff, MFIs officers and other USAID project representatives as needed. The pre field work should be accomplished one week prior to the evaluation starting date.
2. Evaluation kick-off: Week one: The microfinance expert (and team leader) arrive in country, and the PMPL evaluation team meets with the COP to assign roles and responsibilities, the outline of the mid-term evaluation report is prepared, the team meets with USAID for an in-country briefing during which the evaluation methodology is confirmed and the report outline agreed. Additional documentation may be requested at this time. Logistics for the field visits are made final.

3. Field Work - Week two: The focus at the beginning of this period interviewing USAID key staff who are responsible for LIM, the staff of LIM, the Central Bank officials, other donors who do microfinance in Lebanon. In the latter part of this week the evaluation team will begin the interview process with beneficiaries and others.

4. Field Work - Weeks three and four: The focus of this entire week will be on interviews and discussions with beneficiaries, MFI subgrantees and others who work with or have been impacted by the activities under evaluation. As time allows, the team will begin preparing the first few sections of the draft report on the background, setting and institutional context related to the project.

5. Field Work - Week five: Any remaining interviews are to be completed. Follow-up meetings to discuss questions arising from the interviews and to clarify and remaining issues can be held at this time. Data analysis is substantially completed and to the extent possible the draft report substantially completed as well. An outbrief is conducted at USAID. The microfinance expert departs Lebanon.

6. Post Field-Work : Submission and presentation of the completed draft final report by mid-December. The final report will be submitted no later than two weeks following receipt of final comments from USAID/Lebanon.

ANNEX II: EVALUATION QUESTIONS MAPPED TO FINDINGS

Evaluation Questions Mapped to Evaluation Findings

Evaluation Questions / Findings	QI. How are "agribusiness," "tourism" and "Information Communication Technology (ICT)" beneficiaries selected by the MFI? Does this respond to the objective of the program?	QII. How can the MFIs be assisted to expand their outreach to the targeted beneficiaries and the very poor clients?	QIII. Does LIM target "new-business startups", "businesses owned by women," and/or "businesses owned by youth"? What are the selection criteria that qualify a business owner for a loan (eligibility criteria)?	QIV. Do the loans granted under LIM lead to a rise in income? How would LIM assess whether sales and income of micro-credit loan recipient have increased or not?	QV. What evidence is there that new employment was created? What evidence is there that employment was sustained?	QVI. What are the activities that LIM had implemented or is implementing in order to build the institutional capacity of partner microfinance institution? And what evidence is there that capacity was improved? What business development services were crucial to growing micro, small and medium enterprises (MSMEs)?
Finding 1: Most (six out of eight) of LIM's partner MFIs have achieved operational sustainability.	√					√
Finding 2: LIM's partners highly value the institutional level training that LIM has provided for their staff.						√
Finding 3: Many of LIM's beneficiaries interviewed expressed need for business development training.		√	√			√
Finding 4: Although difficult to quantify, LIM's beneficiaries report increased incomes.				√		
Finding 5: New job creation as a result of LIM's investments is largely limited to loans for start-up enterprises.		√	√		√	
Finding 6: LIM's current indicators (income generation and job creation) are inadequate to identify and track poor and very poor beneficiaries. The lack of appropriate tools to measure poverty reduces LIM's efficacy to reach down-market.				√	√	

Evaluation Questions **Findings**	QI. How are "agribusiness," "tourism" and "Information Communication Technology (ICT)" beneficiaries selected by the MFI? Does this respond to the objective of the program?	QII. How can the MFIs be assisted to expand their outreach to the targeted beneficiaries and the very poor clients?	QIII. Does LIM target "new-business startups", "businesses owned by women," and/or "businesses owned by youth"? What are the selection criteria that qualify a business owner for a loan (eligibility criteria)?	QIV. Do the loans granted under LIM lead to a rise in income? How would LIM assess whether sales and income of micro-credit loan recipient have increased or not?	QV. What evidence is there that new employment was created? What evidence is there that employment was sustained?	QVI. What are the activities that LIM had implemented or is implementing in order to build the institutional capacity of partner microfinance institution? And what evidence is there that capacity was improved? What business development services were crucial to growing micro, small and medium enterprises (MSMEs)?
Finding 7: Relatively low risk loans to MSMEs comprise the largest portion of the portfolio while poorer, higher risk beneficiaries are under-represented in the program portfolio.	√	√	√			
Finding 8: On the whole, women benefit from the LIM program	√		√			
Finding 9: There is an unmet beneficiary demand for savings among many of LIM's beneficiaries		√				
Finding 10: Lebanon does not currently have an effective enabling environment for the microfinance sector		√				

ANNEX III: DATA COLLECTION INSTRUMENTS

Interview Questions- MFI Managers

Big picture of the microfinance sector in Lebanon

- Who needs financial services
- Why are those needs not being met by banks
- Describe your market niche
- Level of competition
- Who is not being served
- Role of savings, would you introduce savings if you could
- Role of microfinance association
- What regulatory reforms would be helpful

History of MFI and Mission

- Tell me how your MFI was started, who started it and why?
- What is the mission of the MFI
- What are your goals?
- What do you hope to achieve in the next year? Next three years?

Who is targeted and how

- What kind of businesses are your borrowers involved in?
- How do borrowers know about your program?
- How does your MFI do outreach?
- How do you select borrowers? What are the criteria for a client to be eligible for a loan?
- Do you decline some potential clients? Why?
- Can declined clients come back and apply again?
- Do you collect information from potential clients? What questions do you ask, and what information do you collect?
- Are there potential clients that you would like to serve but cannot?

Development impact on income or employment

- Do you think that your program has had an impact on some of your clients? Which clients?
- Why do you think that?
- Do you know for certain?
- How could you be sure?
- Would a simple tool for tracking poverty be useful? Why or why not?

Institutional Capacity

- How is the MFI governed? Describe the role of the board of directors and MFI key officers
- Describe the decision making processes for daily operations, financial planning, risk management, product development
- What are your successful achievements?
- What are your challenges?

Is MFI on track to achieve sustainability

- Do you measure operational sustainability?
- Who calculates the financial ratios?
- What is your current operational sustainability?
- Do you know how to calculate it?
- What are your biggest challenges for sustainability?
- When do you estimate you will achieve operational sustainability?
- Do you know how to calculate financial sustainability?
- Have you made projections to estimate sustainability?
- What are your assumptions for growth?

MFI Client Questions

Before Interview: Note gender, age, loan type, loan amount, name of community, group/individual loan

Business or activity description

- Tell me about your business or activity
- How long have you been doing this business?
- Is it a good business?
- How much time do you spend with the business every week?
- Is this consistent during the year?
- When are your busy times?

Income

- How much income do you make from your business?
- Is the business your only source of income?
- What other sources of income do you have?
- What are your future plans for the business?

Jobs

- How many people work at your business?
- How do you compensate them?
- Do they work with you year round?
- Do you plan to hire any additional helpers soon?

Loan

- How many loans have you received?
- How much was your loan? Is it the right size? Too small/large?
- What did you do with your loan?
- Are you happy that you got a loan?
- Have you had difficulty with payments?
- Do you sometimes need to use other sources to pay your loan pmts?
- Do you have other loans from other sources?

Experience with MFI

- How were you first invited?
- Describe the application process
- What do you like about your MFI

- What advice would you give your LO to make your experience better?

BDS Training

- Would BDS training be useful to you? What subjects?
- Are there sources of training that you have used (informal/family/friend, or formal)

Savings

- Do you save money? How/where?
- What do you do at times when your expenses are more than your income?
- Would a safe place to save be useful to you?
- Have you tried to open a bank account?
- What would you use your savings for if you had an account?

Interview Questions- Client Focus Group #1 Mahkzoumi Foundation Women

Basic Demographics

- Age
- Family status
- Business type
- Household details

Theme: MFI outreach process

1. Describe how you found Makzoumi, and how you received your first loan
2. What did you use the loan for?
3. Is it more difficult for women to get loans with Makzoumi than men?
4. Did you need to talk to your family before you accepted the loan?
5. Who made the decision to get a loan from Makzoumi?
6. Is the business just your business or is it your family's business?
7. Did the Loan Officer help you with deciding how to use your loan or other business decisions?
8. What are things that are important for a good loan officer?
9. Does it matter whether your loan officer is a man or a woman?

Theme: Economic Impact

10. Where do you get the money to pay your loan payments?
11. Do you need to sometimes use your (husband, family) money to pay the loan?
12. Are you making more money after your loan?
13. After you pay the loan, what do you do with any extra money?
14. Are there some times where your business has only a little income?
15. How do you pay your loan during those times?
16. Do you save some of the money? What do you do with your savings?
17. Do you/could you have a savings account at a bank?
18. Would you like it if Makhzoumi could keep your savings for you?
19. Would you like to get a larger loan? What would you do with it?
20. Do you know people who didn't like getting loans or had a bad experience?
21. Do some people have more than one loan or loans from more than one place?
22. Why do some people get more than one loan?
23. Do you have anybody who works with you in your business? Do you pay them?
24. How much would you have to pay someone to do your business work?

Theme: Training and BDS

25. Have you received any training, advice or help to make your business successful?
26. What help would you like to receive to help the business succeed in the future?
27. Could you pay a little money to get expert help with your business?

Theme: How are women positively/negatively affected by microfinance-enabled business activities? Non-financial impact on women's lives

28. Do you have responsibilities at home besides managing the business?
29. How many hours every week do you spend with the business?
30. Are you working more because of the business?
31. Is it difficult to mix your business work with caring for your family, and doing your housework?
32. Do you get any extra help at home because of the business work?
33. What do you do with the income from the business?
34. Are there other things that you would like to do with the business income?
35. How do you decide what to do with the extra income?
36. If this was your own money that you could use for anything, what would you do with it?
37. What are some profitable businesses that men do?
38. Do you think that women could also do these businesses?
39. If you had help, would you consider trying a business that men do?

Interview Questions- Client Focus Group #2 EMKAN Agricultural Producers

Basic Demographics

- Age
- Family status
- Business type
- Household details

Theme: MFI outreach process

1. Describe how you found Emkan, and how you received your first loan
2. What did you use the loan for?
3. Is the business just your farm/business or is it your family's farm/business?
4. Did the Loan Officer help you with deciding how to use your loan or other business decisions?
5. What are things that are important for a good loan officer?

Theme: Economic Impact

6. Where do you get the money to pay your loan payments?
7. Do you need to sometimes use other income or borrow money to pay the loan?
8. Are you making more money after your loan?
9. After you pay the loan, what do you do with any extra money?
10. Are there some times where your business has only a little income?
11. How do you pay your loan during those times?
12. Do you save some of the money? What do you do with your savings?
13. Do you/could you have a savings account at a bank?
14. Would you like it if Emkan could keep your savings for you?
15. Would you like to get a larger loan? What would you do with it?
16. Do you know people who didn't like getting loans or had a bad experience?

17. Do some people have more than one loan or loans from more than one place?
18. Why do some people get more than one loan?
19. Do you have anybody who works with you in your business? Do you pay them?
20. How much would you have to pay someone to do your business work?

Theme: Agriculture

21. What are your agricultural activities?
22. Describe the costs of your production
23. How does your income vary from month to month
24. What are the risks that you face with production?
25. How could EMKAN better structure its loan products for your activities?
26. Are EMKAN's loans large enough?

Theme: Training and BDS

27. Have you received any training, advice or help to make your farm successful?
28. What help would you like to receive to help the farm succeed in the future?
29. Could you pay a little money to get expert help with your farm?

ANNEX IV: SOURCES OF INFORMATION

The Social Impact team's evaluation design incorporated a variety of targeted methods to address the evaluation questions by eliciting rich information and triangulating emerging trends and themes. Methods included 1) document review; 2) interviews with LIM program staff and key informants in business and government; 3) semi-structured interviews with participating MFI directors and other staff; 4) semi-structured interviews with an array of purposively sampled MFI clients using criteria that included loan type, loan size, gender, geographic location, and the MFI in which they participated; and 5) guided focus group discussions.

The sources of information are listed below:

1- Key Documents Reviewed:
   - ADS Chapter 219 Microenterprise Development
   - Microenterprise Development: A Mandatory Reference for ADS Series 200
   - ADS Chapter 205 Integrating Gender Equality and Female Empowerment
   - Assessment of Microfinance and Small Business Lending
   - LIM Cooperative Agreement
   - LIM Contract Modification
   - LIM M&E Plan
   - LIM Work Plans
   - LIM Quarterly Reports
   - LIM Sub-grant Agreements (2 MFIs)
   - Request For Application issued by LIM to the MFIs
   - Samples of agreements signed with the MFI
   - Samples of MFIs financial statement communicated to LIM
   - RIG Audit Report related to LIM
   - MFI's borrowers database analysis

2- Key Informative Interviews & Focus Groups:

People Met	**Institutions Visited**
USAID Lebanon	
Mr. David Schroder, Director Economic Growth, Water and Environment	USAID Lebanon
Ms. Gail Spence, Program Office Director	USAID Lebanon
Mr. George Boulos, Development Program Officer	USAID Lebanon
Ms. Rana Helou, Economic Growth Specialist/LIM AOR	USAID Lebanon
IESC	
Mr. Scott Bennet, Program Manager	IESC, Head Office
Ms. Malina Dumas, Program Associate	IESC, Head Office
Mr. Mahmoud Elzein, Chief of Party	IESC, LIM Program
Mr. Carla Azar, Financial Services Manager	IESC, LIM Program
Mr. Khalil Hijal, M&E Manager	IESC, LIM Program

People Met	Institutions Visited
Microfinance Institutions (Total of 8 MFIs)	
Dr. Youssef Fawaz, Executive Director	Al Majmoua, Head Office
Ms. Randa Hamad, Aley Area Manager	Al Majmoua, Aley Branch
Ms. Salwa Balout, Loan Officer	Al Majmoua, Aley Branch
Ms. Manal Al Jurdi, Loan Officer	Al Majmoua, Aley Branch
Mr. Serge R. Oueis, General Manager	CLD, Head Office
Ms. Rachel Hannoun, Program Coordinator	CLD, Head Office
Mr. Ziad Halaby, General Manager	VITAS, Head Office
Mr. Ali Hijazi, Microcredit Program Manager	ADR, Head Office
Dr. Mayada Baydas, Executive General Manager	Emkan, Head Office
Mr. Abdo Jaroush, Microfinance Manager	Emkan, Head Office
Mr. Samer Chehade, Senior Branch Manager	Emkan, Chtoura Branch
Mr. Issam Arafat, Laon Officer-SME Specialist	Emkan, Chtoura Branch
Mr. Ibrahim Dabas, Loan Officer	Emkan, Chtoura Branch
Mr. Marwas Dougaidi, Loan Officer	Emkan, Chtoura Branch
Mr. Ghazi Jounblat, Assistant General Manager	EDF
Mr. Vartkes Keutelian, Micro credit Program, Deputy Manager	Makhzoumi Foundation, Head Office
Mr. Elias Hanna, Head of Center	Makhzoumi Foundation, Baalback Branch
Ms. Sawsan Chbaro, Area Supervisor	Makhzoumi Foundation, Baalback Branch
Ms. Amani Chamas, Loan Officer	Makhzoumi Foundation, Baalback Branch
Ms. Lena Sayad, Executive Director	AEP, Head Office
Ms. Rola Kerbay, Laon Officer	AEP, Zahle Branch
Banks	
Mr. Najib Choukair, Executive Director, Head of Banking Department	Banque Du Liban
Dr. Saad Andary, Vice Governor	Banque Du Liban
Partner Projects	
Dr. Jane Gleason, Chief of Party	DAI, LIVCD Project
Mr. Mark Birnbaum, Deputy Chief of Party	DAI, LIVCD Project
Nicole Tager, Access to Finance Specialist	DAI, LIVCD Project
Borrowers (Total of 32 borrower)	
Female, Handcraft Business	CLD, Maten, Mont Lebanon
Male, Bus Owner, Private Transportation Business	CLD, Bechari, North
Female, Shop owner, homemade products	CLD, Dhour El Choueir, Mont Lebanon
Female, Handcraft from home	Al Majmou3a, Kabrechmoun, Mont Lebanon
Female, Handcraft from home	Al Majmou3a, Bayssour, Mont Lebanon
Female, Shop Owner	Al Majmou3a, Bayssour, Mont Lebanon
Male, Farmer	AEP, Fourzol, Bekaa
Male, Agriculture Services	AEP, Fourzol, Bekaa
Female, Cell Shop owner	AEP, Zahle, Bekaa
Male, Fresh Juice& Coktail Shop	AEP, Zahle, Bekaa
Male, Photographer	Al Majmou3a, Ras El Matn, Mount Lebanon
Male, Farmer	Al Majmou3a, Bhamdoun, Mount Lebanon

Focus group of 8 women	Makhzoumi Foundation, Baalback, Bekaa
Focus group of 12 borrowers (10 male and 2 female), farmers and cattle growers	Emkan, Chrouta, Lebanon

Annex V: Evaluation Response and Statement of Difference

1. Comments Received from USAID/Lebanon

Comments on the Executive Summary and evaluator responses:

Conclusion 3: Many beneficiaries would benefit from access to BDS training.

Comments: Gail Spence- What kind of BDS training? What was the most common BDS training requested?

Response: Tamara Nassereddine- most of the people interviewed mentioned training related to book keeping, and basic accounting.

Recommendation 3(b): LIM could develop a pilot initiative in micro-franchising for youth enterprises.

Comments: Gail Spence - Why? For job creation? Where has this worked successfully?

Response: Joseph Kotun- Yes, this is a strategy to develop opportunities for youth and others with no entrepreneurial experience. There are many successful examples of microfranchising on USAID's microlinks.com portal site, CGAP's Microfinance Gateway and several NGOs describe their experience with this.

Finding 4: Although difficult to quantify, LIM's beneficiaries report increased incomes.

Comments: Gail Spence - Not sure why this was difficult to quantify. The team should have been able to assess some level of increase income by the type of questions they developed and asked the beneficiaries.

Response: Joseph Kotun - This finding is further explained in the Finding 4 section,(p. 21) including reasons why this data is not reliable per the standards set by USAID's DQA guidelines.

Recommendation 5: Establish specific targets for loans to start-up businesses.

Comment: Gail Spence - They are also risky. What support or guidance should USAID give to MFI's to increase loans to start-up businesses?

Response: Joseph Kotun - USAID's role can be to mitigate the risk through grants (per LIM's current SOW) or through a loan guarantee agreement. The MFIs are the experts at assessing their own risk, but they need incentives to innovated and move down market.

Comment: Gail Spence - We should have a definition for the project sake of what is poor and very poor beneficiaries. Usually definitions include the annual, weekly, daily income and house number size.

Response: Joseph Kotun - LIM's SOW establishes definitions of who is poor. The challenge is identifying them. Income by itself is a poor indicator, as discussed on p. 21

Recommendation 6: Develop a Poverty Assessment Tool for Lebanon.

Comment: Rana Helou - USAID is currently not developing any new Poverty Assessment Tool (PAT). I checked with Washington and currently this is one activity that USAID suspended. So if we are going to keep this recommendation, I suggest we provide an alternate to USAID's PAT. Maybe we can solicit external services to conduct such a study…

Response: Joseph Kotun - Grameen Foundation's PPI is just such a tool that they have developed for many countries with modest budgets. The main challenge is the source of big data necessary to develop the tool. Household data may exist (eg footnote 11, on p.25)

Finding 7: Relatively low risk loans to MSMEs comprise the largest portion of the portfolio while poorer, higher risk beneficiaries are under-represented in the program portfolio.

Comment: Gail Spence - Perhaps a separate program needs to be developed. It would be difficult for a non-susbstainable MFI to become financially substainable while also making riskier high risk loans. Was this a project design flaw….expecting MFIs struggling to financially sustainable while at the same time providing high risk loans. Where has this approach worked without subsidies or guarantees?
Response: Joseph Kotun- There are only 2 out of the 8 MFIs in LIM's portfolio who have not yet attained operational sustainability. This finding is targeted toward the other six that are sustainable. The other two have not scaled up to where they can be sustainable, although they are on their way with LIM's TA and grants.

Recommendation 9: LIM should assume a leadership role to promote the value of savings to LIM's partner MFIs and promote development of a savings culture among LIM's beneficiaries.
Comment: Rana Helou - This recommendation should take into consideration saving restrictions imposed by the Central Bank on MFIs which are very strict.
Response: Joseph Kotun - Yes, this is true, but there may be ways to facilitate savings through means within the current regulatory restrictions such as promoting/expanding partnerships with banks. Before anything, the need for savings needs to be recognized and documented- this is a critical gap in Lebanon- wealth cannot be developed only through credit alone. Without a means to save there can be no accumulation of assets for poor beneficiaries- the very definition of rising out of poverty.

Finding 10: Lebanon does not currently have an effective enabling environment for the microfinance sector.
Comment: Gail Spence - There should be a discussion of what is missing and what needs to be created to have an effective enabling environment besides establishing and supporting the development of the Microfinance Association. USAID and many international donors have enough experience to know what an effective enabling environment looks like for the microfinance sector. What is Lebanon missing? The team should mention at least one or two key constraints or items needed to contribute to an effective enabling environment to increase sustainability of the sector.
Response: Joseph Kotun - The value of the Association is to provide a voice to the MFIs to articulate their constraints for growth and development- they know this better than international donors or USAID because they work in the Lebanon environment. Several constraints are discussed at length in the report- eg recognition for NGO-based MFIs that are in a precarious legal position (they have been accused of operating illegally because they aren't recognized by the central bank) And of course, the issue of savings. Other constraints may include their ability to offer insurance, legal constraints to the development mobile banking and others.

OVERALL CONCLUSIONS

"If USAID's interest also includes working down-market, with poor and vulnerable beneficiaries, particularly in poor rural communities that are facing increased pressure from the influx of refugees from the Syrian conflict, then USAID could consider enabling/authorizing LIM to make course changes and restate program objectives and targets to accommodate more traditional microfinance clients, i.e., the poor, represented by women, youth, and the rural unemployed whose options for financial stability where there are few jobs are limited to starting a new business."
Comments: Gail Spence - Do the implementing partners have the capacity or experience to do this? VEGA and IESC are largely volunteer oriented institutions that use retired business

executives, farmers, etc. not necessarily retired international development professional specializing in microfinance development.

IESC started out as purely a volunteer organization – now we combine that resource with some of the most technically qualified professional consultants recruited from such organizations as Harvard, Columbia and Stanford as well as USAID, Booz Allen, AT Kearney and Hewitt to deliver a world-class product.

Response: Joseph Kotun - IESC's volunteer training activities have been a relatively minor element in LIM's overall program and you're right that they would not be the best source for a specialized area of knowledge (microfinance product development). However, this is within the purview and competencies of the LIM staff. In addition, the key limiting factor to down-market lending is not technical know-how, although LIM can play a TA role through various means of introducing what is working outside Lebanon, through the firms you list and international NGOs. The key limiting factor is that, (most, Al Majmoua being one exception) of the MFIs lack incentives to lend down-market, as long as they face minimal competition. The best experts on developing new loan products and pro-poor policies are found in the field- nobody is more familiar with assessing loan risk and the clients than the Loan Officers themselves who are in the communities every day.

Comments from the body of the report:

Recommendation 1(b): Underwrite higher risk categories of loans through USAID's Development Credit Authority (DCA) program.

Comments: Rana Helou - USAID should carefully look at whether this scheme is suitable for the microfinance environment in Lebanon and if not look at a more suitable scheme.

Response: Joseph Kotun - The overall objective, if USAID's interest is pro-poor microfinance, is to mitigate risk to the MFIs while they gain experience down market. This does not necessarily need to be a subsidy, as is currently the case with LIM's grants. The evaluation team's experience with DCA is limited; however this was mentioned as a possibility in LIM's SOW. Carefully targeted innovation grants may be another way to achieve the same objective of reducing risk while the MFIs are on the learning curve to down-market lending.

Page 23,

Comments: Joseph Kotun - This may change as market competition increases. "Cherry picking" clients will become more difficult, particularly if/when the MFIs' cost of funds increases and they are forced to grow in order to remain sustainable. In the meantime, LIM should be providing the incentives to move down market, otherwise beneficiaries needing loans for startups (i.e., youth and poor unemployed) remain left behind in Lebanon. Note: This will be added as a footnote.

Finding 6 (pg. 24): LIM's current indicators (income generation and job creation) are inadequate to identify and track poor and very poor beneficiaries. The lack of appropriate tools to measure poverty reduces LIM's efficacy to reach down-market…. Given the limitations of LIM's indicators, it is not possible to identify how many of LIM's beneficiaries are among the "poorest of Lebanese society," as defined in ADS Chapter 219, Microenterprise Development."

Comments: Rana Helou - USAID regulation says that only countries that have a PAT in place are required to target and report on "the poorest segment of the society". As per the RIG audit, Lebanon is currently not required to do so since we do not have a PAT in place.

Response: Joseph Kotun - The reference in this report to the ADS has been removed as the PAT program has been suspended. However, Lebanon's microfinance community is still faced with the lack of an adequate poverty measurement tool to identify the poor or measure the social performance- one half of the MFIs' "double bottom line" cannot be measured without a tool.

Recommendation 6 (page 25) : Develop a Poverty Assessment Tool for Lebanon.

Comments: Rana Helou - As mentioned earlier, conducting a PAT is currently suspended from Washington. Perhaps the recommendation could propose another external assessment to be conducted regarding poverty in Lebanon. This would (be) useful for several of our ongoing and future programs.

Response: Joseph Kotun - Grameen Foundation's Progress out of Poverty (PPI) index is the leading tool and would be a viable alternative to the PAT www.progressoutofpoverty.org

Conclusion 7: LIM's targeted sectors and beneficiaries are very broadly defined by USAID, and no priorities have been set among categories.

Comments: Rana Helou - USAID intentionally kept the sector a broad enough, as the goal of the program was to increase access to financee in general. USAID did not intend to intend specific sectors.

1st Response: Tamara Nassereddine- this finding is based on the evaluation question: Does LIM target new-business startups or businesses owned by women or youth? What are the selection criteria that qualify a business owner for a loan?

The CA stated clearly that LIM intend to target three sectors (Agriculture, Tourism and ICT), and three categories (women, youth and start-up business). However, in the implementation, no priority has been given to agriculture, traditional tourism, start-ups and women.

2nd Response Joseph Kotun- The original, 2009 LIM SOW reads as an economic development program and identifies several economic sectors (tourism, agriculture, ICT) as growth opportunities for MSMEs. Later the 2010 mod added the higher risk categories to the list and introduced the concept/language of addressing Lebanon's poor. However, LIM was still held to the economic growth-focused performance targets (eg numbers of loans, jobs, and economic sectors). Regardless of how higher risk borrowers have been left behind, either through a "loophole" in the SOW that LIM should have addressed or because a lack of updated targets corresponding to the expanded SOW, how it came to pass is not the important issue. Rather, learning from the experience, looking forward and making a course correction to better include higher risk borrowers is the value of the mid-term evaluation. It is clear that LIM and USAID have worked with good intentions for what is an overall successful program, with room for improvement.

Recommendation 8 (page 31): Conduct a gender analysis for LIM to better understand ways to address constraints to women's participation as well as the non-financial impact on women beneficiaries' empowerment.

Comments: Rana Helou- It would be better to conduct a gender analysis on access to finance with focus on micro and small business financing. With LIM coming to an end, I don't think it would useful at this point to have a specific gender analysis for LIM. the general analysis should be included in the new design.

Response: Joseph Kotun - Agreed, a full and formal gender analysis is more appropriate for a follow on project if there is a post-LIM program. However, a scaled back less formal analysis would still be useful in order to keep women's needs and constraints central to the remainder of LIM's program.

Recommendation 9(page 32): LIM should assume a leadership role to promote the value of savings to LIM's partner MFIS and promote development of a savings culture among LIM's beneficiaries.

- Partnerships with banks to reduce the barriers to beneficiaries use of formal savings accounts, including reduction or elimination of deposit fees.

  Comments: Rana Helou- This might be doable and worth exploring. Response: Joseph Kotun- Yes, there are ways to work within the current regulatory constraints on collecting deposits.

- Explore the potential future use of mobile money solutions where merchants with point-of-sale devices could accept deposits and loan payments.

  Comments: Rana Helou - LIM has in its work plan for this year included plans to assess the feasibility of mobile payments in the sector. However, to use this as means to collect savings is not very suitable for micro beneficiaries.

  Response: Joseph Kotun - This bullet point follows from the first, developing partnerships. There are many examples worldwide of mobile money schemes where transactions include deposits. In most cases, these deposits go directly to banks (and then transferred to the MFIs where MFIs are allowed to collect them).

- Develop a modified model of the Village Savings and Loan Associations promoted by CARE, where groups of savers assume responsibility for collecting and managing savings for themselves, using a collective bank account that requires three signatures to access.

  Comments: Rana Helou - We would have to check with the Central Bank if this is doable under Lebanese law.

  Response: Joseph Kotun - Yes, of course. However, these groups are entirely self-regulated within the community, and the funds do not leave the group members. Most countries do not regulate these at all, they are treated as informal agreements between neighbors. I would not be surprised if some version of these groups already exist informally in Lebanon under some other name- especially in very poor communities. They are also very common among refugees, often with no contact or support from NGOs, and the idea is as old as money itself.

2. Comments received from PPL

- The evaluation report was written in an outline fashion. It would have been great if the author wrote the report in a more contextualized and narrative manner for better and easier readability.
- The report was written in a findings/conclusions/recommendations format. Difficult for the reader to connect the findings - conclusion - recommendations to the evaluation questions/ activity objectives. Although there was a matrix that tied the evaluation questions to the findings, still difficult for the reader to understand the context for the findings. This is more a formatting issue. If the author used narratives that pulled the information together in appropriate categories then it would make it more readable. Additionally, the Executive Summary was written in the same fashion. It would be difficult for outsiders of the activities to read it and understand, especially upper management.
- Several instances where the recommendations did not align to the findings and conclusions. There might have been rationale behind some of the recommendations but they were not given.
- Perhaps the SOW could have focused or limited the number of questions so that the report could have been more focused in turn.

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