

Microfinance in Practice: Al Majmoua (Lebanon)

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Terwilliger Center for
Innovation in Shelter

Summary

The Lebanese Association for Development, or Al Majmoua, was established in 1994 by Save the Children. Today it is the leading microfinance institution in Lebanon, with 57% of market share in terms of clients and 44% of portfolio share. The institution is committed to serving low-income microentrepreneurs, particularly women, by providing them with group and individual loans to improve their economic and social conditions.

In November 2008, Al Majmoua entered into a partnership with Habitat for Humanity Lebanon to design and deliver a housing microfinance product with construction technical assistance. Habitat for Humanity Lebanon supported the construction technical assistance by assessing the housing intervention needs and budgets of potential clients and invested US\$100,000 to support initial growth of the housing portfolio. The housing portfolio grew intensively, requiring additional institutional capital to support continued growth. In 2012, Al Majmoua became the first MicroBuild Fund investee. Advisory services were provided by Habitat's Terwilliger Center for Innovation in Shelter to complement the investment.



Al Majmoua faced external pressures from an economy hampered by the Syrian crisis and internal turnover. Once the institution was able to increase its staff, the advisory services supported Al Majmoua in re-evaluating its housing microfinance product. By gaining a better understanding of clients' needs and preferences, the institution was able to adjust product terms and housing support services to eliminate pain points and provide increased value for clients. The housing microfinance portfolio grew from roughly 2% to over 9% of the institution's overall portfolio, and by June 2018, the housing microfinance portfolio was outperforming the general portfolio. Clients have reported high rates of satisfaction with the product and with the improvements made to their homes.

As the earliest investee of the MicroBuild Fund, Al Majmoua provides an opportunity to reflect on the development, refinement and growth of its housing microfinance portfolio. Al Majmoua has encountered a variety of challenges over the life of its housing product, both internal and external. However, the clear market need has served as a compelling reason for Al Majmoua to revisit and refine the product to ensure its sustainability. Employing an iterative learning process has enabled Al Majmoua to maintain the client-centric nature of the housing loan product and to adapt to the variety of shocks that have affected the portfolio's growth.

Institutional background

Al Majmoua was established in 1994 by Save the Children (USA) to provide financial services to low-income entrepreneurs, particularly women, across Lebanon for the development of sustainable businesses. In 1997, the program spun off from Save the Children to become an independent, local nongovernmental organization.

Al Majmoua provides both group and individual loans (the latter prevailing in the portfolio) addressing both the business and consumption needs of its clients, including housing, schooling, etc. Since its founding, Al Majmoua has remained both profitable and sustainable. The institution is strongly committed to the welfare of its clients, as demonstrated by its introduction of customer protection principles and incorporation of social performance management. In line with its social commitment, Al Majmoua offers financial services to Palestinian refugees and, since 2016, to Syrian refugees as well.

As of December 2018, Al Majmoua was serving 83,651 active borrowers and held a portfolio of over US\$88 million (see Table 1). These outreach figures positioned Al Majmoua as the largest microfinance institution in Lebanon; it holds 57% of the microfinance market share in terms of the number of clients and 44% in terms of portfolio.¹

Table 1: Portfolio and institutional data as of December 2018

Number of employees.....	453	Number of outstanding loans	83,651
Number of loan officers.....	282	Portfolio outstanding (US\$)	88,791,180
Number of branches	29	Average outstanding loan size (in US\$).....	1,061
Percentage of clients who are women.....	56%	% Portfolio at risk > 30 days	0.64%
		Average yield on gross portfolio.....	29.81%
		Average term (months)	14.76

Source: Al Majmoua financial performance data

Housing market environment

Homeownership is high in Lebanon, with 70% of the population owning a home in 2012.² As of 2017, only 12.8% of households had a mortgage loan.³ Although borrowing for a mortgage may be muted because of high ownership levels, these figures do not provide a complete look at the housing market dynamics in Lebanon. Access to finance is high in comparison with other countries in the region, with roughly 45% of the population having a bank account and 30% of the low-income population having an account.⁴ Yet only 16% of the population reported having borrowed from a formal financial institution in the past year. Among the poorest 40% of the population, 10.8% have an outstanding housing loan. The most common reasons listed for not having financial accounts are related to affordability: there is a lack of sufficient funds or the financial services are too expensive.

Where did this affordability crisis originate? In 1942, the Lebanese government privatized formerly public housing and ceased production of further public housing.⁵ The consistent underinvestment in housing and the liberalization of rental prices and agreements has resulted in a three-decade housing crisis. Over the past decade, GDP has doubled, but the average housing prices increased fivefold, and a quarter of the population lives on less than US\$4 per day.⁶ The largest share of spending for households in Lebanon is housing (including the cost of services such as water, heating and electricity).⁷ On average, housing represents 27.9% of annual spending for the median household.

Affordability is not just an issue related to financial services; it is related to the affordable housing market in Lebanon being almost nonexistent. Beirut, which has the most expensive housing in Lebanon, saw its property prices rise by 5.63% year-over-year in the third quarter of 2016, to an average of US\$500,000. In response to the lack of affordability, the rental markets have expanded, particularly in the major cities of Beirut and Tripoli, where housing prices are higher. Rental markets, however, are inherently less affordable in the long term, so low-income families and individuals in urban centers continue to struggle with finding affordable housing because of both high rents and high mortgages.

¹ Own estimations based on data from Al Majmoua's business plan for 2016-20.

² "Housing, Land & Property Issues in Lebanon: Implications of the Syrian Refugee Crisis". 2014. United Nations High Commissioner for Refugees and United Nations Human Settlements Programme.

³ Financial Inclusion Data/Global FinDex Database. 2017. The World Bank Group. Washington, D.C. <http://datatopics.worldbank.org/financialinclusion/> (accessed Aug. 16, 2018).

⁴ G20 Financial Inclusion Indicators. 2014. The World Bank Group. Washington, D.C. <http://datatopics.worldbank.org/g20fidata/> (accessed Aug. 16, 2018).

⁵ "Housing, Land & Property Issues in Lebanon: Implications of the Syrian Refugee Crisis". 2014. UNHCR and UN-HABITAT.

⁶ Dübel, Hans-Joachim, and Olivier Hassler. "SANAD Housing Finance Study: Housing Finance in the Middle East and North Africa." 2016. Finance in Motion and SANAD Fund for MSME. http://www.finpolconsult.de/mediapool/16/169624/data/Housing_Finance/Middle_East/SANAD_Fund_for_MSME_Housing_Finance_in_the_MENA_Region.pdf.

⁷ Chami, Mirna, and Mikhael Marwan. "Lebanese Households in the Eyes of the Business Monitor International." 2016. Blominvest Bank. <http://blog.blominvestbank.com/wp-content/uploads/2016/11/BMI-HOUSEHOLDS-IN-LEBANON.pdf>.

In addition, the Syrian crisis has exacerbated the issue by causing large economic and social impacts, including increasing the number of Lebanese in poverty and widening income inequality.⁸ The refugee inflow has caused the population to grow by 25%, which has placed further pressure on the supply of affordable housing. In particular, World Bank estimates show that 200,000 Lebanese have become impoverished because of the Syrian crisis, adding to the existing 1 million poor based on the national poverty line.

The construction quality of homes appears to be quite high throughout Lebanon. The country scored 13 out of 15 on the quality control index.⁹ Gaining the appropriate permits, however, is expensive, tedious and takes an average of four months. According to the UNHCR, the barriers this process presents leads to construction in low-income communities typically combining several forms of illegality, such as violations of building and construction codes, urban regulations, and property rights. In addition, these low-income communities are often poorly serviced by formal utilities.¹⁰

In response to the issues listed above, microfinance providers have begun to address the lack of housing finance for low-income households within Lebanon by extending housing microfinance loans. The Lebanese microfinance market is still small, but it has experienced 24% growth over the past few years.¹¹ In addition, housing microfinance now accounts for an estimated 10% of the microfinance market.¹² Apart from Al Majmoua, three other key microfinance institutions offer housing loans, mostly short-term loans (up to three years), that provide for renovation and maintenance needs. Home purchase and capital renovation are rarely seen as reasons for a loan request.

Housing microfinance product alignment

Before the launch of Al Majmoua's housing product in 2008-09, no microfinance institution in the Lebanese market offered a dedicated housing product. Instead, microfinance clients would divert funds from other loan products to address their housing needs.

Al Majmoua wanted to introduce a housing product that would support the financial needs of clients excluded from the formal banking sector and provide nonfinancial housing support services to address the clients' construction challenges. The institution saw an opportunity to increase client loyalty by expanding its current offerings to existing clients. At the same time, Al Majmoua wanted to expand its services to an unserved market niche: salaried workers who were excluded from the formal banking sector.

Housing microfinance product development

Al Majmoua launched its housing product in November 2008 in cooperation with Habitat for Humanity Lebanon, which invested US\$100,000 in the institution and helped Al Majmoua carry out the market research and design the product prototype. The staff of Habitat Lebanon trained loan officers to understand how to budget for the home construction and to identify defects in the construction, and also supported provision of construction technical assistance for Al Majmoua. Each client was required to submit pictures of the construction in their application, and a construction engineer from Habitat Lebanon would review this component off site. The Habitat Lebanon staff reviewed each loan application in terms of intervention need and budget. If the loan amount requested was substantial or the client requested additional support, a construction engineer from Habitat Lebanon would visit the client to provide further construction technical assistance.

Al Majmoua rolled out the new loan product in five branches and appointed dedicated housing loan officers. The institution relied on the outreach of these individual loan officers as the primary means of marketing the product to a broader client segment. Product uptake was double initial projections, and the product was soon launched in

⁸ "Lebanon: Overview." 2017. The World Bank Group. Washington, D.C. <http://www.worldbank.org/en/country/lebanon/overview> (accessed Aug. 16, 2018).

⁹ "Ease of Doing Business in Lebanon." 2018. The World Bank Group. Washington, D.C. www.doingbusiness.org/data/exploreeconomies/lebanon#dealing-with-construction-permits (accessed Aug. 16, 2018).

¹⁰ "Housing, Land & Property Issues in Lebanon: Implications of the Syrian Refugee Crisis". 2014. UNHCR and UN-HABITAT.

¹¹ "2011 Middle East and North Africa Regional Snapshot." 2012. MIX and Sanabel. www.sanabelnetwork.org/UserFiles/file/Publications/Transparency%20Publications/2011%20MENA%20Regional%20Snapshot_EN.pdf

¹² Dübel, Hans-Joachim, and Olivier Hassler.

additional branches. In the first few years after the product’s launch, Al Majmoua made few modifications to the product features, focusing simply on serving loyal clients in the second or later loan cycle. In 2009, the institution increased the maximum loan size to US\$5,000, and then again in 2011 to US\$7,000.

Because of the strong performance of the housing product developed through the collaboration between Al Majmoua and Habitat Lebanon, Habitat’s Terwilliger Center for Innovation in Shelter chose Al Majmoua to be the first investee of its new housing microfinance investment vehicle, the MicroBuild Fund. In 2012, Al Majmoua received US\$500,000 from the MicroBuild Fund. In addition to the funding, the Terwilliger Center would provide advisory services focused on enhancing the product and refining the marketing, loan distribution, and monitoring and evaluation processes. Whereas the involvement of Habitat Lebanon had been primarily a partnership in the delivery process, the advisory services from the Terwilliger Center focused more on enhancing the capabilities of the institution to refine its housing loan product based on customer needs and to expand its impact.

The housing product’s growth fluctuated between 2012 and 2016 because of a number of factors. First, the demand for the housing product dropped as a result of the Syrian crisis and worsening economic situation in Lebanon. Second, Al Majmoua experienced issues with the delays in the loan application process and customer discontent with the loan terms. Third, internal staff turnover, particularly of the internal champion for the housing product in December 2014, caused the housing loan to be neglected for some time and delayed the delivery of the technical assistance intended to accompany the investment from MicroBuild. Despite these challenges, the institution gained approval for a second investment of an additional US\$750,000 from MicroBuild in 2014. By the end of 2015, a new product champion had been appointed, and in the summer of 2016, four years after the initial investment was made, the Terwilliger Center began providing technical assistance, starting with the housing product evaluation.

The findings of the 2016 product evaluation revealed that clients did not like the requirement of pictures during the loan application (the review by Habitat Lebanon staff added two days to the approval process), the disbursement in tranches, and the longer disbursement time for housing loans. Other loan products offered by Al Majmoua had terms that were more attractive. Clients’ dissatisfaction had led to reluctance among loan officers to promote the housing loans, especially to existing clients. Instead, they preferred to offer other loan products from which the funds could be used to finance the housing intervention. This internally supported diversion of loan funds was an issue because it limited Al Majmoua’s ability to accurately determine its true housing portfolio and impact on the market.

When assessing the delivery of construction technical assistance, a key concern raised by clients was that the assistance provided in the loan application process was delivered too late within the planning process to add value for the clients. Before applying for a construction loan, clients with sizeable construction projects would have already applied for and received a construction permit. Construction technical assistance, clients indicated, would have been most helpful in this permit application stage. By the time a client was ready to begin the loan application, he or she was rarely in need of additional construction advice.

Based on the product evaluation, Al Majmoua introduced some key changes in the product. The terms and conditions of the housing loan (see Table 2) were brought in line with the other products — particularly the consumption loan, which was the client and loan officer’s preferred alternative to the housing loan product — by decreasing monthly installment sizes and cancelling upfront fees. The maximum size of the loan increased from US\$7,000 to US\$15,000 with a loan duration of two years, or up to three years for loyal clients on their second or later tranche.

Table 2: housing loan terms and conditions

Cycle	Amount (US\$)	Duration	Interest	Fees
1 for all clients	\$500-5,000	9-18 months	1.3%	No
2 for all clients	\$500-5,000	9-24 months	1.2%	No
2 and up — for entrepreneurs only	\$5,100-15,000	9-36 months	1.0%	No

Source: Habitat for Humanity’s Terwilliger Center for Innovation in Shelter fact sheet

Next, to support promotion of the loan product by loan officers, Al Majmoua, with assistance from the Terwilliger Center, designed product-specific brochures that explained product terms, features and benefits. Al Majmoua also set new targets for branches of at least two housing loans issued per month and introduced an additional incentive for loan officers of US\$5 for each housing loan application provided. Eventually, this helped to bring the product growth back up to speed. Combined with the improved loan features and incentives for loan officers, product growth revived and contributed to the microfinance institution’s approval of a third investment from the Microbuild Fund of US\$1.75 million in 2017.

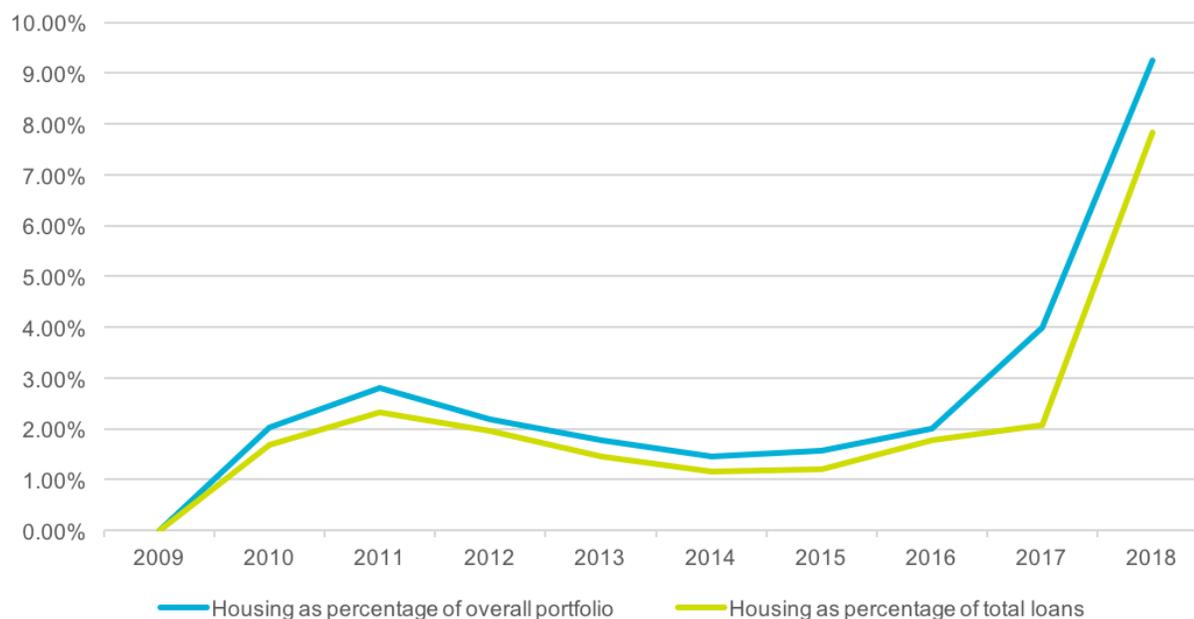
Al Majmoua sought to provide value to clients through the construction technical assistance, but based on client feedback the cooperation with Habitat Lebanon proved to be less effective than had been hoped. To address this, Al Majmoua began to develop a “light” version of nonfinancial construction technical assistance in 2017. Al Majmoua identified the four most frequent types of technical assistance needed and worked with specialized engineers to develop educational brochures on each of these topics. The hope was that the brochures would enable the institution to provide technical support to more clients, at the level valued by the client, rather than maintaining the robust program that provided only a few clients with access to deep technical input. The new approach also failed to demonstrate real client value, however, and Al Majmoua eventually discontinued construction technical assistance altogether.

Housing microfinance product performance

FINANCIAL PERFORMANCE

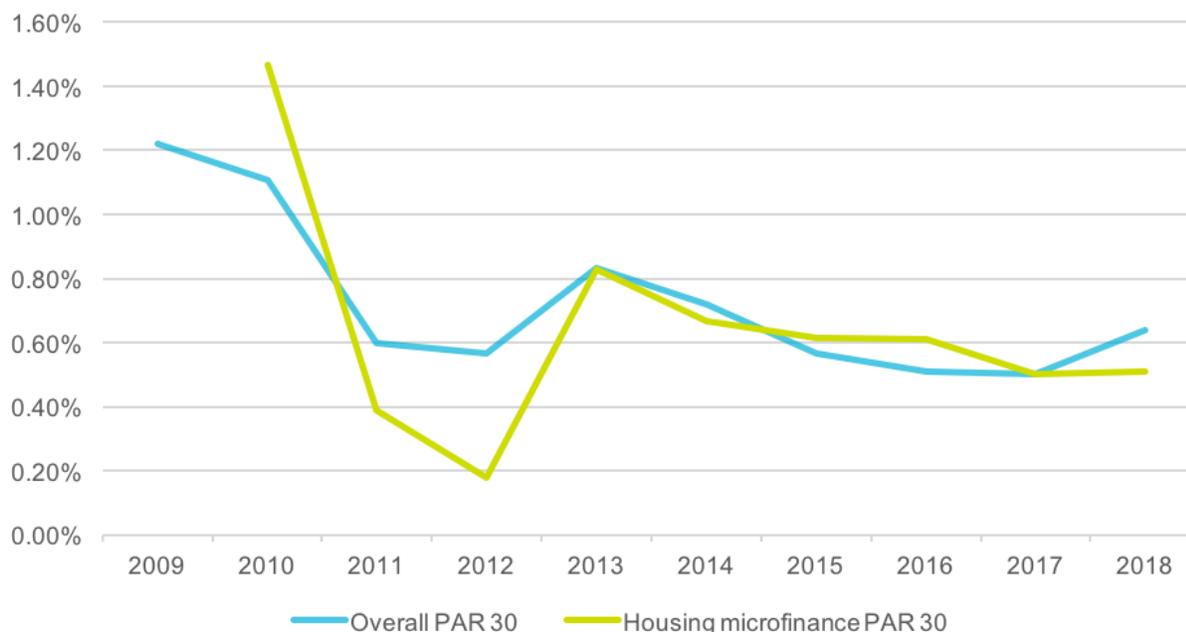
The growth of Al Majmoua’s housing portfolio relative to the overall portfolio increased through 2011 (Figure 1). After a period of stagnation, the percentage of housing loans began increasing in 2016 as Al Majmoua implemented changes based on the insights gleaned from the product evaluation. As of December 2018, the housing portfolio makes up 9.26% of the overall portfolio and 7.84% of the total outstanding loans. The total housing portfolio has continued to expand, though the percentage of the overall portfolio it represents is expected to remain relatively small given the specific niche target market of salaried workers.

Figure 1: Housing component of the overall portfolio and outstanding loans (as of Dec. 31)



Today the financial performance of the product is also satisfactory. Total credit risk does not exceed 2.5%, and the portfolio at risk over 30 days, or PAR30, has been low for both the general and housing portfolios in the past few years. In fact, the housing portfolio has had a lower PAR on average than the total portfolio (Figure 2). This may be attributed in part to the number of salaried clients who have withdrawn housing loans.

Figure 2: Portfolio at risk for general and housing portfolio (as of Dec. 31)



In terms of profitability, the housing product seems on par with other products disbursed from external funding. However, profitability for the time being has been offset somewhat by the cost of funds received from MicroBuild.

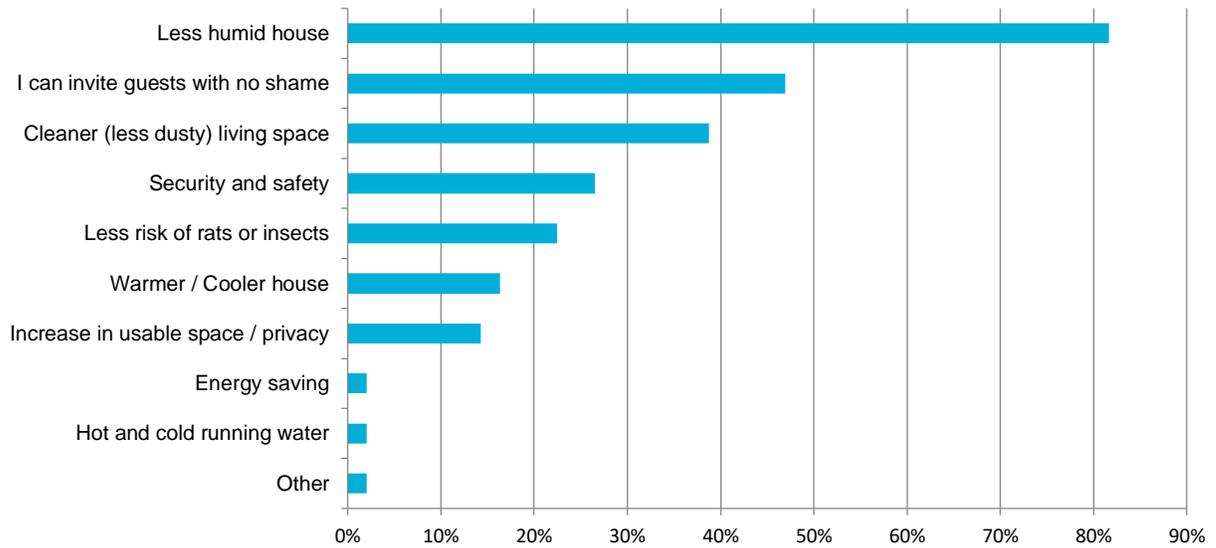
SOCIAL IMPACT

Fifty-six percent of Al Majmoua's total clients are women, and 45% are located in rural areas. The housing loan is offered in all branches, both across the Lebanese regions and within the Palestinian camps. A 2016 survey of housing clients revealed that clients were also from suburban, semiurban, urban and camp locations. Roughly 60% of housing clients surveyed earned less than US\$1,500 per month. The majority (80%) of housing clients surveyed were salaried workers, 65% of whom are employed in the public sector (especially military service).¹³

Al Majmoua's staff feedback was that the housing loan is fully in line with the organizational mission, inasmuch as it helps to improve clients' living conditions. According to the staff, clients are always satisfied with the impact of the renovation and the loan, because they see tangible results. The top two reasons clients cited for taking a loan were to complete a started housing project or to fix a problem after winter (e.g., a leaking roof or walls). Over 98% of the interviewed clients reported benefits from their renovation. The most frequent effects reported by clients were a less humid house, increased confidence in hosting others, a cleaner living space, and improved security and safety (Figure 3). The majority of clients used housing loans to finance only a small part of the project, so it is difficult to determine how much the loans directly contributed to the impacts experienced.

¹³ World Bank. *World Development Indicators*. 2018. <http://databank.worldbank.org/data/source/world-development-indicators/Type/TABLE/preview/on>. (accessed on Sept. 10, 2018).

Figure 3: Share of clients reporting positive outcomes by their type



Source: Housing clients survey results, Al Majmoua product evaluation report, Habitat's Terwilliger Center, 2016.

Conclusion

Al Majmoua's housing portfolio is expected to grow both in U.S. dollars and in the number of clients at a rate of 12-15% annually, though that is a slower pace than its overall portfolio (20%). The institution has assumed a slower rate of growth from the housing portfolio because the primary users of the housing loan product – the salaried workers – are a niche market rather than the institution's primary market of entrepreneurs. However, with the shortened period of disbursement, a larger uptake in this traditional target group also could be expected.

Al Majmoua serves as an example of the viability a client-centric approach affords to housing products (a lesson that can be applied to other loan products as well). Committed to delivering on its social promise, Al Majmoua has maintained its housing loan product despite external pressures and has enhanced its product offering by adapting it to feedback from clients. The case of Al Majmoua demonstrates that developing a microfinance housing product is often a learning process, as the situational context differs and may change over time. Al Majmoua continues to monitor and assess its product to ensure its relevance and sustainability.