

## **Microfinance in Lebanon**

### **Introduction**

Microfinance attempts to provide financial services such as access to small deposits, small loans and insurance for poor and low-income households that cannot access these basic financial services at banks. Improving the poor standards of living and alleviating poverty are the goals of microfinance.

Access to deposits implies savings accounts that provide the saver safety and liquidity and cost the bank less than funds from other sources.

Low income households demand small loans for short periods of time, but cannot guarantee repayments with constant income from a salaried job or asset collateral. As a result they pay more for financial services due to their poor credit ratings. Furthermore, low-income households hold low balances with frequent deposits and withdrawals. As a result, they cost a lot to serve.

The Micro finance industry in Lebanon has witnessed slow growth over the years, especially if we compare it to other countries in the Middle East. One of the new entrants into the Microfinance sector that contributed to pumping some life into the sector is Access to Microfinance and Enhanced Enterprise Niches (AMEEN). This article analyzes the growth of the Microfinance industry in Lebanon and the role AMEEN is playing in this sector.

### **The Environment for Micro finance in Lebanon**

Micro finance in Lebanon matters for three reasons: First, economists, government, and donors believe that constraints on access for the low income households might affect how well Lebanon can achieve rapid economic growth and share the fruits of growth. Second, access to microfinance can help improvements for the poor families. Third, access is important for equity. Increasing families' income is a first step towards building some wealth, which is a first step to escape poverty. But access to finance requires wealth in the first place. Therefore, unequal access perpetuates unequal wealth distribution. Access to standard bank credit requires assets most of the poor do not have, such as buildings or land. In contrast, microfinance uses assets the poor do have, such as reputation or household goods.

Lebanon has a competitive and free market regime and a strong laissez-faire tradition. The Lebanese economy is service-oriented with banking and tourism providing the main growth sectors. The 1975-1991 civil war seriously damaged Lebanon's economic infrastructure, cut national output by half and ended Lebanon's position as a regional center for finance and trade. The gap between the rich and the poor has increased during the 1990s, resulting in grassroots dissatisfaction over biased distribution of the rebuilding process and leading to shift its emphasis to improving standards of living.

Economic recovery has been slow but fueled with a financially sound banking system, resilient small and medium-scale manufacturers. The main sources of foreign exchange have been banking services, manufactured and farm exports, family remittances, tourism and international aid.

The Lebanese population growth rate has been slow at a rate of 1.4% due to high rates of immigration and decreasing fertility rate (birth per woman dropped from 4 in 1980 to 2.3 in 2000). The majority of the population lives in urban areas (87%).

The Lebanese demographic profile is characterized by high literacy, increasing life expectancy and better standards of living than many other Middle East and North African nations. More than 90% of the population is educated; life expectancy at birth is 71 years and GNI per capita is USD 4,040. This data can be interpreted as a positive outcome of combined investment efforts by the government and the private sector in social services. However, the unemployment rate is estimated at 14% for 2000 and 29% among the 15 to 24 year age group, with estimates of further increases in 2001, 2002 and 2003 with a population below the poverty line estimated at 28%\*. (See insert 1)

**Insert 1- Lebanon 2003 – Social and Economic**

	Lebanon	Middle East & North Africa	Upper-Middle income In the World
2003			
<b>Population (million)</b>	4.5	312	335
<b>GNI per capita (USD)</b>	4,040	2210	5340
<b>GNI (USD billion)</b>	18.2	689	1788
<b>Average Annual Growth (97-03)</b>			
<b>Population (%)</b>	1.4	1.9	1.2
<b>Labor Force (%)</b>	2.6	2.9	1.8
<b>Recent estimates (97-03)</b>			
<b>Poverty (% of population below poverty line)</b>	28		
<b>Rural population (% of total population)</b>	12.54		
<b>Urban population (% of total population)</b>			
<b>Life expectancy at birth (years)</b>	71	69	73
<b>Infant mortality (per 1,000 live birth)</b>	28	44	19
<b>Illiteracy (% of people age 15+)</b>	9.8	31	9
<b>Gross Primary enrollment (% of school-age population)</b>	103	96	104

Source: World Bank data 2003

The Lebanese economy's structure is heavily skewed to the service sector (67.7%) with an average annual growth of 1.3% especially in banking, tourism and trade. The agriculture and industrial sectors form 12.2% and 20% respectively of GDP with an average annual growth of 2.5% for both sectors. (See insert 2)

### **Insert 2 – Lebanon 2003 – Key Economic Data**

Key Economic Ratio		
<b>GDP (USD billions)</b>	19	
<b>Gross Domestic Investment / GDP</b>	16.7	
<b>Gross Domestic Savings / GDP</b>	-9	
<b>Gross National Savings / GDP</b>	-7.1	
Long-term Trends		
(Average annual growth)	<b>2003</b>	<b>2003-2007</b>
<b>GDP</b>	2.7	1.9
<b>GDP per capita</b>	1.4	0.7
Structure of the economy (% of GDP)	<b>2003</b>	<b>Average annual growth</b>
<b>Agriculture</b>	12.2	2.5
<b>Industry</b>	20	2.5
<b>Manufacturing</b>	9.4	2.5
<b>Services</b>	67.7	1.3
<b>Private consumption</b>	96.1	4.2
<b>Government consumption</b>	12.8	2.5
<b>Imports of goods and services</b>	39	8.7

Source: World Bank data 2003

The positive economic outlook of the Lebanese economy is characterized by a consumption driven economy with very low savings, dissaving in fact – Gross Domestic Savings/ GDP is -9.

In this context microfinance can play a very important role in providing an incentive for poor and low-income households to save and in providing necessary investments to support the creation of jobs.

#### **Government support**

The Lebanese government has given the poor population very little support to help them access the financial markets. The main government loan sponsored program is designed to help small and medium size enterprises (SME) through an institution called Kafalat. When an SME applies for a loan from any Lebanese bank, it can request a loan guarantee from Kafalat. The guaranteed loans are subsidized by the central bank to the tune of 7% to ease the interest burden on the borrower.

The conditions for receiving a Kafalat loan guarantee is that the enterprise must have 40 employees or less, and must submit a business plan or feasibility study. The loan can be used for business development and is given in only specific sectors like industry agriculture, tourism, craftsmen or high technology.

However the banks ask most of the time for asset collaterals and may refuse the loan before it reaches Kafalat.

The total value of loans guaranteed by Kafalat stood at 342.297 million Lebanese pounds as of 31/12/2004 with an average value of loans guaranteed at 133.709 thousand Lebanese pounds. (Refer to Box 1)

### Box 1: Cost and distribution of loans guaranteed by Kafalat

Kafalat guarantees 75% of the loan granted by the bank and charges a 2.5% of the value of the guarantee as commission.

Formula used:  $([\text{loan value} + \text{interest accrued during grace period} + \text{interest accrued for 3 months}] * 75\% * 2.5\%) + ([\text{loan value} + \text{interest accrued during grace period} + \text{interest accrued for 3 months}] * 0.3\% \text{ fiscal stamps})$ .

For loans in Lebanese pounds: The bank charges the borrower 40% of the interest on Lebanese treasury bills of one year and the central bank subsidizes a maximum of 7%, or the interest charged, whatever is lower.

For loans in US Dollars: The bank charges LIBOR (one year) + 5.5% and the central bank subsidizes a maximum of 7%.

#### Distribution of loans guaranteed by Economic sector (31/12/2004)

Economic sector	Number of Guarantees	%
Industry	1111	43.4
Agriculture	965	37.7
Traditional Crafts	95	3.71
Tourism	315	12.3
High Technology	74	2.89
Total	2560	2.89

Source: [www.Kafalat.com.lb](http://www.Kafalat.com.lb)

#### Distribution of Loans Guaranteed by Value (31/12/2004)

Bracket (million L.P)	Number of Guarantees	%
<50	661	25.8
50-75	289	11.3
75-100	226	8.8
100-150	384	15
150-200	274	10.7
>200	726	28.4

Source: [www.Kafalat.com.lb](http://www.Kafalat.com.lb)

## **Micro finance in Lebanon vs. Neighboring Countries**

Although microfinance in most of the Arab world has witnessed a considerable increase between 1999 and 2003, Lebanon has experienced very limited growth in the microfinance industry.

### *1. Outreach*

#### Growth in Outreach

The number of active borrowers in the Arab world increased from 129,000 to 710,000 with a loan portfolio increasing from \$40 million to almost \$240m. In Lebanon, at the end of 2003, there were only some 13,500 active clients.

The introduction of a EU-funded agency, the Economic and Social fund for Development (ESFD), was set up to help in employment creation and poverty reduction in Lebanon. This fund started a new approach to stimulate outreach among Lebanese MFIs.

One of the goals of ESDF was to reduce the interest rates some of the inefficient MFIs were charging the final borrowers. Annual percentage rates (APR) charged by some MFIs were above 40%. Therefore ESDF invited some eligible MFIs to bid for a large amount of funds (Euro 1.2 million) for on lending. The MFIs that bid with the lowest interest rate- after covering operational and financial costs- to the final borrower would gain access to the EU funds to be used for on lending in mainly North and South Lebanon.

#### Depth of Outreach

The poverty level of the client is measured as the average outstanding loan balance as a percentage of GNP per capita, the lower the loan balance, the poorer the client. In Lebanon the average loan balance is \$700 with the loan balance as a percentage of GDP per capita of 20%. The outreach in Lebanon in rural areas is better than neighboring countries. (See insert 3) The majorities of the clients in Lebanon are self-employed and work in the informal sector.

### **Insert 3 – Outreach in Rural Areas**

Countries	Rural Population (%)	Rural Outreach (%)
Egypt	56	14
Jordan	33	5
Lebanon	8	29
Syria	43	

Source: UNCDF: Micro finance in the Arab States, Sept.2004

### *2. Market Penetration*

It is the percentage of potential clients who currently have access to microfinance. The Arab world witnessed an increase in market coverage from 3% to 20% of those needing and wanting credit. However it serves only 22% of the rural population. The market penetration in Lebanon is better than Egypt and Syria but less than neighboring Jordan. (See insert 4)

**Insert 4 – Market Penetration Based on National Poverty Lines**

Country	Population	Poverty Need Count (%)	# Of Poor People	# Of Poor households	Potential Market (40%)	Active Borrowers	Market Penetration (%)
Egypt	66,372,000	23	15,265,560	2,180,794	872,318	256,159	29
Jordan	5,171,000	12	620,520	88,646	35,458	24,348	69
Lebanon	4,441,000	10	444,100	63,443	25,377	13,429	53
Syria	16,986,000	20	3,397,200	485,314	194,126	32,170	17

Source: UNCDF: Micro finance in the Arab States, Sept. 2004

Since official government numbers tend to underestimate the number of poor people in their countries, the UNCDF study considered that if another 20% of the population lives above but close to the poverty line the market penetration percentages would change to more realistic numbers. (See insert 5)

**Insert 5- Market Penetration Based on National Poverty Lines + 20%**

Country	Market Penetration (%)
Egypt	16
Jordan	26
Lebanon	18
Syria	8

Source: UNCDF: Micro finance in the Arab States Sept. 2004

*3. Lack of Product Diversification*

The majority of loans are for business purpose and most of microfinance services remain market-oriented. Voluntary savings, insurance and deposit services are not generally offered.

The business activity of the borrowers in Lebanon reflect this fact where around 20% goes for trade, around 10% goes for manufacturing, less than 5% goes for animal breeding and the majority is for services. Around 75% of the borrowers live in urban areas both large and smaller towns.

*4. Increased Focus on Women*

In most of the Arab states there has been an increase in terms of outreach to women borrowers from 36% in 1997 to 60% in 2003. However, in Lebanon the percentage of female clients is only 35% of the borrowers. (See insert 6)

*5. Broad Based Application of Industry Norms and Procedures*

Good practices of Micro Finance Institutions (MFI) that has sustainability as an explicit objective serve almost 90% of all active borrowers. In Lebanon only one fully sustainable MFI is in operation. (See insert 6)

### **Insert 6 – Loan Portfolio and Number of MFIs**

Country	Loan Portfolio Outstanding (USD)	Average Outstanding Balance as % of GDP per capita	% Of Female Clients	% Of Rural Clients	# Of Fully Sustainable MFI	All MFIs and Other Credit Programs in 2003 sample
Egypt	56,067,894	19	46	13	7	20
Jordan	22,304,834	54	77	24	3	5
Lebanon	10,718,808	20	35	22	1	6
Syria	43,410,214	112			0	6

Source: UNCDF\_ Micro Finance in the Arab world, Sept. 2004

#### *6. Dominance of NGO as the Legal Model*

MFIs are NGOs, which continue to be dependent on available donor (grant) funds for their growth. In Lebanon only two market-oriented MFIs are incorporated with limited growth (measured in terms of active clients). (See insert 7)

### **Insert 7- MFIs Incorporated in Lebanon**

Name	Type of Institution	Gross Loan Portfolio in USD (31/12/03)	# Of Active Borrowers (31/12/03)
Al-Majmoua	NGO	4,189,210	5,498
AMEEN	NGO	5,107,337	7,114

Source: \* Wikipedia – The Free Encyclopedia <http://en.wikipedia.org>

### **The Subject of our Case Study will be AMEEN**

#### *1. Historical Background*

The Cooperative Housing Foundation International (CHF) started in 1952 with the housing loan program and then changed its objectives to address different problems in needy countries.

The mission of CHF is to serve as a catalyst for long-lasting positive change in low- and moderate- income communities around the world, helping them to improve their social, economic and environmental conditions.

In 1998, CHF established a microfinance program in Lebanon under the name Access to Microfinance and Enhanced Enterprise Niches program (AMEEN) as a for-profit company.

AMEEN's mission is to build a sustainable financial organization that delivers micro-financial services to a broad base of the economically active poor.

AMEEN's objectives are:

1. To enhance the access to financial services to the low-income group of the population in general and micro entrepreneurs in particular.

2. Enhance the institutional capacity of private commercial banks to deliver microfinance products.

3. Create and support a financially sustainable level financial organization that has a broad outreach among the working poor.

## 2. *Organizational Structure*

The structure of AMEEN includes a Board of Directors, a general manager, a CFO, an operations manager, operations auditor, regional loan officer supervisors, loan officers and other support staff with a total number of 49 staff members. They operate from one main office (head office), their loan officers work out of commercial bank branches.

## 3. *Target Clientele*

The target market for AMEEN is very broad and tries to help a large segment of the Lebanese population. To be eligible, a person must be:

- Over 21 years of age
- A Lebanese national or foreign national with permanent residency
- Any man/woman who owns a small business for more than one year or any public or private sector low-income employee with at least one year of employment.

### Box 2: Three AMEEN Client Success Stories

Zahra is a widow raising a family of six daughters and their children. She has been able to start her clothes-selling store in Sidon with an \$800 loan, with which she bought clothes to sell in south Lebanon villages. She has since been granted a second loan of \$1,000.

Hanna owns a juice cocktail shop in Borj Hammoud. He applied consecutively for two \$1,500 loans and bought a coffee machine and other supplies. He was able to improve his business and family conditions.

Itidal used to work at her home in Bourj-al-Barajneh as a hairdresser. Her first loan of \$750 helped her move to a salon. A second loan of \$1,500 allowed her daughter to learn tattooing. A third loan allowed her to move to a bigger premise. Her fourth loan allowed her to establish a beauty-training center.

## 4. *Product*

Individual loans are the only product of AMEEN portfolio. The value of the loan ranges from \$300 to \$5,000, on condition that the value of the first loan and personal loans do not exceed \$2,000.

The value of the loan depends on the size of the project, the income of the borrower and his/her ability to pay on time and on the existence of the proper collateral.

The repayment schedule ranges from 4 months to 18 months depending on the ability of the borrower to make monthly equal payments at the bank branch according to the payment schedule and dates. The full repayment of a loan for less than \$3,000 cannot exceed 12 months. Insert 8 summarizes the products offered and funding sources.

**Insert 8- AMEEN Products**

AMEEN Products	
Loan Products:	
<ul style="list-style-type: none"> <li>• Micro enterprise</li> <li>• Consumer</li> <li>• Home Improvement</li> </ul>	
Product: Credit	
Funding Sources:	
<ul style="list-style-type: none"> <li>• Own Capital (formally grant funding)</li> <li>• Private bank Capital</li> </ul>	
Group Lending: Individual	
Average Size Loan: \$1,400	
Average Loan Term: 12 months	
No. Of Loans and Amount Disbursed	Individual Loans
No. Of Active Borrowers	8,029
Average Loan Balance per Borrower	\$844

5. *Required Collaterals*

- A real asset collateral
- A guarantor that is an employee at any public or private institution
- A liquid guarantor

6. *Steps Needed to Receive a Loan*

Door-to-door inquiries, distributing brochures and learning from community leaders and local dignitaries about people interested in loans often carry out the phase of promotion.

The loan applicant must contact the AMEEN representative at one of the branches of Bank Jammal, Credit Libanais, or Lebanese Canadian Bank.

One of AMEEN’s credit officers will visit the loan applicant at his/ her place of employment to collect information and fill the application. The credit officer will gather information about the applicant and the guarantor, inquiring about aspects of the applicant’s financial status, such as income and expenses as well as his/her credit rating with suppliers and relationship with clients. His/her assets and reputation within the community are also considered. Afterwards the application will be forwarded to the loan committee for approval.

- Once approved, the loan will be available at the bank's branch.
- The time limit for loan approval should not exceed two weeks.
- The repayment has to be made monthly at the bank.
- The loan can be renewed in a period of one week after full repayment of the old loan.

## **Overview of CHF International Programs in Lebanon**

### *1. Economic Development and Infrastructure Improvement*

The aim of this program is to increase rural families' incomes and helps displaced families to participate in economic opportunities.

CHF International provides technical assistance to village committees to identify, design and implement projects. The projects are in four main sectors:

- Expanded economic opportunity
- Improved environmental management, including water management.
- Basic infrastructure development
- Civic participation

### *2. Access to Microfinance*

CHF International expands the access to microfinance for the low-income groups of the population and enhances the institutional capacity of private commercial banks.

AMEEN's role is to continue building viable, long-term relationships with the economically active low-income and to continue the services of partner banks after the program has finished.

### *3. Agribusiness and Community Infrastructure*

This is an innovative economic and agricultural community development program that enhances economic opportunities while lessening the dependence on the cultivation of illegal crops.

#### **Box 3: Programs by Numbers**

In 2004, CHF International/ Lebanon completed 2,988 agricultural projects.

- Disbursed USD 10.4m in small-business loans to 7,914 clients.
- Created over 10,000 months of employment
- Created jobs and helped train 38,000 community members

## **AMEEN Evaluation**

The evaluation of Micro-credit activities includes outreach, sustainability and impact.

### *1. Outreach Analysis*

AMEEN description of its outreach for the segment of the population that does not participate in the formal financial system does not include any clients below the poverty line. Only 25% of the borrowers are women and 1.15% of the clients are illiterate. Rural clients form 17% of the total. Less than 1% of the clients were starting a Micro enterprise for the first time.

AMEEN could not provide any information concerning the extent and depth of outreach due to the lack of accurate data on the country's averages for women, rural, illiterate and poor population.

## 2. *Financial Sustainability*

AMEEN has been able to achieve a 114% operational self-sufficiency and 110% financial self-sufficiency. This positive performance can be explained by:

- Good Portfolio Quality: AMEEN has been very cautious in its client selection. As we have seen previously there are no clients below the poverty line. Arrears rate is 0.63%; the portfolio at risk (PAR) is 0.53% over 30 days, with risk coverage of 2.8%. The loan loss rate was only 0.24% from October 2003 till September 2004.

The commercial funding Liabilities ratio stood at 1.19% at the end of September 2004 and the internal source to loan ratio stood at 2.65% from October 2003 till September 2004.

- High Portfolio Yield: The real effective interest rate has been 33%. This high interest rate is not unexpected for Microfinance institutions in order to achieve sustainability. Two main forces drive interest rates higher than commercial loans: The first one is the client credit worthiness and the second one is high administrative costs.

- Operating expenses: Ameen has been able to keep expenses at a relatively low level compared to other micro finance institutions in the region. The personnel expense ratio stands at 22% for the period extending from October 2003 till September 2004.

The cost per borrower is \$252.65 and the ratio of active borrowers to the number of personnel stands at 164 borrowers.

### Box 3: Calculation of Effective interest rate

Loan size = \$1,400

Installment payment = Monthly

Term = 12 months

Upfront application fee = 3%

Interest Rate = 28% (declining)

Effective interest rate = 33%

### 3. *Impact*

The lack of reliable data on household income, assets, education, local community development and gender based impact made it impossible to analyze the impact of Microfinance activities.

#### **Conclusion:**

The micro finance sector in Lebanon has witnessed very limited growth over the years. The sector seem to be dominated by very few major organizations, limiting a healthy competition that could give the providers an incentive to improve efficiency, lower operational costs, decrease interest rates charged to the final borrowers and improve product innovation.

Several shortcomings seem to stamp the micro finance sector in Lebanon: A Lack of vision to grow and pursue new clients with new products, a very small selection of programs is being offered, a limited number of loans is being offered, a lack of funding and institutional capacity to fuel further growth.

The lack of government support and microfinance initiatives exacerbate the problem of discouraging the entry of new Micro finance organizations and improving the microfinance sector offerings.

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