Microcredit in Lebanon: A Success Story

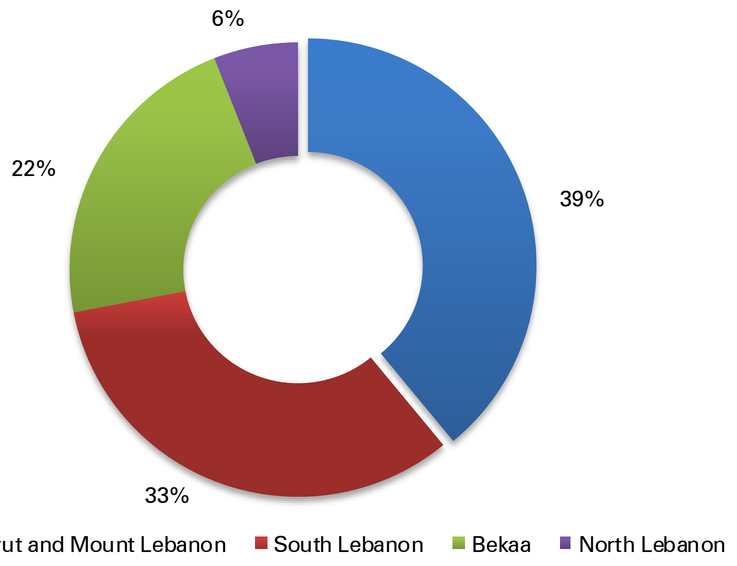
BLOMINVEST BANK

Selected Microcredit Institutions in Lebanon

Institution Name	Report Date	Loans Amount (in $M)	Number of Borrowers
ADR	2011	2.92	1,854
Al Majmoua	2013	35.82	44,295
Emkan	Sep-13	22.24	14,006
Ibdaa Microfinance s.a.l	2013	2.6	3,110
Makhzoumi	2011	0.8	587
Vitas s.a.l	Jun-14	22.92	16,139
AQAH	2012	60-70	100,346

Source: MIX Market, AQAH

Geographic Distribution of Al Majmoua Clients in 2013



Source: Al Majmoua Annual Report 2013

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In Lebanon, indicators paint a bleak picture of poverty and female participation in the labor force. The latest estimate by the World Bank in 2004 puts 28.6% of the Lebanese population below the national poverty line. Lebanon ranks 138th out of 144 countries in terms of the ratio of women to men in the labor force according to the World Economic Forum and the fifth most problematic factor for doing business is access to finance.

Luckily, the microcredit model in Lebanon is designed to serve social welfare and especially targets women and the poor. This is reflected by the fact that 52% of Al Majmoua's clients in 2013, a leading microcredit institution in Lebanon, were women in 2013 and 44% of clients were located in rural areas. Microcredit institutions, which are non-governmental organizations at the service of social development, provide capital to the large chunk of the impoverished population living in rural, remote, underserved areas with limited or no access to financial services. Usually the individuals who cannot have access to commercial banking loans either do not have sufficient income or either lack the required collateral. Loans handed out by microcredit institutions rarely require collateral but rather rely on the presence of a guarantor.

According to Mr. Ali Hijazi, Microcredit Program Manager of the Association for the Development of Rural Capacities (ADR) and Researcher in Microfinance, there is no microfinance in Lebanon but rather microcredit. Explaining the nuance between the two notions he says that "microfinance is a broad term which encompasses financial services along with other non-financial services whereas microcredit refers only to the granting of loans" and adds that "in Lebanon financial services are incomplete and while non-financial services are present they remain underdeveloped".

Microcredit has had a successful run in spite of the security bumps which rattled the country. The July 2006 war was the event that had the largest effect on the microcredit scene. Yet, the scene rebounded and rapidly recovered with the total number of clients rising at a strong CAGR of 26.2% during 2007-2014. In details, considerable economic growth characterized the period 2008-2011, yet was followed by a stabilization period that governed the sector during the past 3 years.

Microcredit has proliferated in Lebanon ever since its budding debut almost three decades ago. In 2007, and according to the International Finance Corporation (IFC), 29,420 clients were served via microcredit in Lebanon. The outstanding loan portfolio stood at $23.9M with an average loan size of $1,118. As awareness towards the social benefits of this model matured, so did the client base and the outstanding loan portfolio. Today, the client base is around 150,000 while the outstanding loan portfolio surged to even more than $150M and the average loan amount is approximately $2,000. The lent amounts range between $300 and $5,000 and duration varies from a minimum of 6 months to 2 years.

The rise of microcredit in Lebanon has been spearheaded by many stakeholders. Some of the key players are registered as NGOs and others as financial institutions. To start with Al Qard Al Hassan (AQAH), it is assumed that AQAH grasps the largest share of microloans as it disbursed around $208.4M loans in 2012 (including repayments). Accordingly, the estimated outstanding loan portfolio hovers around $60M-$70M, constituting almost 47% of the total. AQAH is renowned for its lending practices that differ from the rest of the microlenders as it sometimes may require uncommon collaterals to grant a loan.

Besides AQAH, several providers are also present such as Al Majmoua (holding around 30% of total clients), Vitas (11% of the total), Emkan (9% of the total), The Association for the Development of Rural Capacities (ADR), The Makhzoumi Foundation and Ibdaa. The Central Bank also played a role in favoring the development of microcredit by allowing commercial banks to use their statutory reserves deposited at the Central Bank in order to provide capital to microcredit institutions. Partnerships between these two parties can reap great mutual benefits as it would provide microcredit institutions with more liquidity and would serve the Corporate Social Responsibility (CSR) goals of commercial banks.

Microcredit institutions have multiple sources of funding. Since these institutions are prohibited from receiving deposits, they rely on donors, social investors and corporate investors. In late August 2014, the Volunteers for Economic Growth Alliance (VEGA), in cooperation with the U.S. Agency for International Development (USAID), is providing sub-grants to Lebanese microcredit institutions. The latter will utilize these grants by providing loans in the fields of Information and Communications Technology (ICT), tourism and agri-business. In late September 2014, the IFC granted a $2M loan to Al Majmoua so as to uplift entrepreneurship and economic development in Lebanon.

As donations and grants keep coming in, it is confirmed that microcredit institutions in Lebanon have had a good track record so far. The percentage of clients who are late on their payments for a period longer than 30 days (portfolio at risk >30 days) is marginal, ranging between 0% and 4%. Meanwhile, the repeat rate is estimated to be above 80% as the client generally builds a successful track with the first loan and then comes back to borrow an even larger amount of money. The repeat rate is also bound to be high since microcredit loans are short term loans, with small amounts and fixed installments. According to Al Majmoua's 2013 annual report, clients were the most satisfied by the respectfulness and professionalism of the staff, by the fast disbursement period which is only 3 to 5 days and by the easy and clear application process.

Microcredit institutions charge interest rates higher than those for banks. The interest rates vary depending on the amount being borrowed but are in an average range of 10% to 15%. However, the interest rates always factor in the higher risk incurred by microcredit institutions. Since collateral is rarely a requisite, a default can cause high losses for the micro institution. Moreover, the interest rate prices in the elevated transaction costs for these micro institutions, as loan officers spend much time and effort managing the institution's loan portfolio especially establishing a thorough due diligence on the credibility of the potential borrowers.

According to Mr. Hijazi, the trade and services sector along with small industries (such as carpentry), are the magnet for micro credits in Lebanon as they are main components of the Lebanese economy. The region in which the loan is granted also conditions in which field the loan is the most needed. In Beirut, a large share of microcredits is directed towards trade and services whereas in Baalbeck and Tripoli, loans are more oriented towards Agriculture, Industry and Tourism. Urbanization

Loans granted by microcredit institutions are spread across the Lebanese territory. However, the largest concentration is seen in Beirut, South Lebanon and Nabatieh, a region with high success rates and repayment rates, along with the Bekaa region and Mount Lebanon (mainly the suburbs).

What's next for the microcredit scene in Lebanon? Under the wing of the USAID's Lebanon Investment in Microfinance Program (LIM), microcredit institutions are soon looking to launch a network of their own that would serve key goals for the industry: raising awareness towards the social and economic benefits of microcredit in particular and of microfinance in general, increasing partnerships with commercial banks in order to fulfill financial inclusion, diminish risk by sharing credit information and ultimately achieve higher social development .

Microcredit institutions in Lebanon and around the world have yet to solve the debacle of "mission drift". On one hand, being registered as non-governmental organizations is reconcilable with the idea that the main purpose is to achieve social welfare. On the other hand, registering as financial institutions is a condition for accessing credit information from the Central Bank's Central Office of Credit Risk. The reason why some microcredit grantors in Lebanon are still registered as NGOs is to avoid losing sight of "social development" as the ultimate goal, what is dubbed "mission drift". However, it is equally important for these institutions to avoid "cross-lending" by which a borrower takes on debt from many institutions without revealing the amount of his debts to them and to help their loan officers evaluate the risk profile of a borrower more accurately by spending less time and money. Whichever way this dilemma unfolds, the growth of microcredit remains a backbone for reducing poverty and empowering individuals in underserved areas .

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