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LEBANON: A DIAGNOSTIC STUDY ON THE DEMAND FOR FINANCIAL SERVICES BY MICRO AND SMALL ENTERPRISES



Final Report

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ABBREVIATIONS AND EXCHANGE RATE

AMEEN	Access to Microfinance and Enhanced Enterprise Niches, Lebanese MFI
ADR	Association for the Development of Rural Capacities, Lebanese MFI
AEP	Association Entraide Professionnelle, Lebanese MFI
AfD	French Development Agency
BBAC	Bank of Beirut and Arab Countries
BDS	Business Development Service
BKAW	Bank of Kuwait and the Arab World
BLC	Banque Libanaise pour le Commerce
BLOM	Banque du Liban et d'Outre-Mer
CBO	community-based organization
CDR	Council of Development and Reconstruction
CGAP	Consultative Group to Assist the Poor
CHF	Cooperative Housing Foundation
EC	European Commission
EIB	European Investment Bank
ESFD	Economic and Social Fund for Lebanon
EUR	Euro
FEMIP	Facility for European and Mediterranean Investment and Partnership
FI	financial institution
GDP	gross domestic product
IFC	International Finance Corporation
ILO	International Labour Organization
IMF	International Monetary Fund
IT	information technology
ITB	Iammal Trust Bank
LL	Lebanese pound
LCB	Lebanese Canadian Bank
LO	loan officer
ME	microenterprise
MENA	Middle East and North Africa
MF	microfinance
MFI	microfinance institution
MIS	management information system
MSE	micro and small enterprise
MSME	micro-, small- and medium-sized enterprise
NBFI	non-bank financial institution
NGO	non-governmental organization
OPEC	Organization of Petroleum Exporting Countries
OPIC	Overseas Private Investment Company (USA)
PAR	portfolio at risk
SE	small enterprise
SGBL	Société Générale de Banque Liban
SME	small- and medium-sized enterprise
SPSS	Statistical Package for the Social Sciences
UNCDF	United Nations Capital Development Fund

UNDP	United Nations Development Programme
UNICEF	United Nations International Children's Emergency Fund
UNIDO	United Nations Industrial Development Organization
UNRWA	United Nations Relief and Works Agency for Palestinian Refugees in the Near East
USAID	United States Agency for International Development
USD	United States dollar

Exchange Rate

LL 1,500 = \$1, as of September 2007

EXECUTIVE SUMMARY

This report was commissioned from the Frankfurt School of Finance and Management by the International Finance Corporation, through the agency of the Consultative Group to Assist the Poor. Its main objectives are to assess the financial needs of micro and small enterprises in Lebanon, evaluate existing providers of financial services to MSEs, analyze the gap between the supply of and demand for these services, and make recommendations on how to improve the access of these enterprises to finance in the country.

Background

This study is based on a market survey of 539 micro and small enterprises conducted in September 2007 in the cities of Beirut, Tripoli, Tyre, and Baalbek. The cities were chosen both for their high concentration of MSEs and their geographic distribution within the country. The survey consisted of one-on-one interviews with owners and/or managers of registered and unregistered businesses in the trade, services, and production sectors; it was supplemented by several focus group meetings.

According to the World Bank databank of micro, small, and medium enterprises, **virtually 100 percent of all enterprises in Lebanon have less than 50 employees, while 97 percent have less than 9 employees.** Women are estimated to make up 22 percent of the working population.¹

Of the 539 businesses surveyed, 508 (94.2 percent) were microenterprises with up to four paid employees, and 31 (5.8 percent) were small enterprises.² The majority of businesses interviewed in all cities worked in the trade sector, which had the highest annual turnover of all sectors surveyed. Of the total, 412 (76.4 percent) were owned by men and 127 (23.6 percent) were owned by women.

Fifty percent of respondents reported a yearly turnover greater than \$16,667 (25 million Lebanese pounds), indicating more of a small and medium enterprise market. The finding on **number of employees, however, indicates more of a micro and small enterprise market.** Survey findings also indicate that MSEs in Lebanon tend to make large expenditures when they invest.

Roughly half of all enterprises surveyed had been in operation either more than 20 years (27.8 percent) or between 4 and 10 years (26.9 percent); another 14.5 percent had been in operation 11–20 years (14.5 percent). Enterprises established within the past four years comprised roughly 30 percent of the sample—a remarkable figure considering recent periods of turmoil in the country.

¹ Similar findings have been presented by the Economic Research Forum (ERF), 2004, “MSEs in Lebanon,” ERF Research Report Series No. 0417, Project on Promoting Competitiveness in Micro and Small Enterprises in the MENA Region, Principal Investigator Kamal Hamdan, Cairo, Egypt.

² This study basically follows the definitions of the Central Administration for Statistics of Lebanon, which classifies enterprises with up to 4 paid employees as microenterprises and those with 5 to 100 paid employees, as small enterprises, with the exception that this study limits the latter category to 50 paid employees.

Approximately 30 percent of the gross domestic product and 25 percent of employment in Lebanon are generated by the informal sector.³ Roughly 250,000 households conduct informal economic activities at home, while a second group of approximately 250,000 microenterprises are comprised of only one person (who may be aided by another family member). Due to the size and economic importance of the informal sector, any assessment of the MSE sector must account for it.

The micro, small, and medium enterprise (MSME) sector has great importance in the overall Lebanese economy. **The national government, together with bilateral and multilateral donors, has accordingly implemented policies and programs that focus on the development and finance of MSMEs.** Kafalat (a credit guarantee institution established by the government), for example, guarantees up to 85 percent of loans made to MSMEs by commercial banks and offers an interest rate subsidy of up to 7 percent.

Military conflicts have significantly hampered Lebanon's development in the past and continue to be a threat. The latest conflict of summer 2006 between Israel and Hezbollah resulted in numerous casualties, injuries, and displacements. In addition to the human tragedy, the war imposed a great burden on an already fragile economy, causing significant destruction of housing, infrastructure, and more than 900 enterprises. The conflict **led to approximately \$2.4 billion in direct damages, plus another \$700 million to \$800 million in indirect damages.**⁴

Formal Financial Sector

While relatively weak in the Middle East and North Africa region today, the commercial banking sector in Lebanon remains one of the most advanced in the region and one of the most important sectors of the Lebanese economy. Currently, 64 banks are registered with the Central Bank of Lebanon, including 54 commercial and 10 specialized banks (including four Islamic banks).⁵

As of year-end 2006, commercial banks in Lebanon had total assets of \$71 billion (three times the size of the national economy), 804 branches, and more than 15,000 employees.⁶ The 10 largest banks manage approximately 79 percent of total assets. Foreign banks, including Commerzbank, Société Générale, and BNP Paribas, represent a significant share of the sector and have either established their own branches or have taken an equity stake in local banks.

The banking sector concentrates primarily on sovereign assets (i.e., treasury bills), with loans to the private sector representing only 24 percent of total assets. Keeping in mind that total bank assets represent more than 300 percent of gross domestic product, however, **lending to the private sector represents about 77**

³ L. Susaeta and A. Gallifa, 2005, "An Experience of Microcredit in South Lebanon : A Case Study of l'Association d'Aide au Développement Rural (ADR)," Microfinance at the University MEDA Project, co-financed by the European Commission and coordinated by the School of Management of the University of Turin, Italy, 2003–2006.

⁴ "Lebanon Donors Conference – Paris III," speech by World Bank President Paul Wolfowitz at the donors' conference in Paris, France, January 2007.

⁵ Banque de Liban, 2007, "Quarterly Bulletin: First Quarter 2007," Banque de Liban, Beirut, Lebanon.

⁶ Association of Lebanese Banks and Central Bank of Lebanon, 2007; Banque du Liban, "Quarterly Bulletin: Third Quarter 2007," Beirut, Lebanon.

percent of GDP (a volume that has fluctuated between 70 and 80 percent during recent years). Until recently, commercial banks essentially financed the government deficit and the government crowded out the private sector. Overall, however, access to finance in Lebanon is relatively positive when compared to other countries in the Middle East region.

The largest share of formal credit is disbursed within the greater Beirut area (about 82 percent of all lending), with a high concentration of this credit going to the trade and services sectors. About one percent of borrowers benefit from about 50 percent of private sector loans.

Over the past several years, several commercial banks have begun to offer microfinance products in cooperation with local microfinance institutions and have found the market segment profitable. Banks have expanded into microfinance either through strategic alliances with MFIs, by developing their own microfinance programs, or by offering loans to small enterprises with partial guarantees provided by specialized domestic and/or international funds.

The strategic collaboration between banks and MFIs offers strategic synergies to both partners. It enables banks to earn a profit without substantial investment and MFI/nongovernmental organizations to achieve outreach and economies of scale, benefiting from the infrastructure, reputation, and liquidity of the banks. Certain microfinance institutions work on a fee-for-services basis, assigning their own loan officers to a bank branch, where they are responsible for microloan application paperwork and participate in credit committees.

Use of formal banking services among micro and small enterprises is quite high, especially in Beirut. About 63 percent of survey respondents (77 percent in Beirut) report using banking services. **The three most popular services are current accounts, savings accounts, and checks,** with an 86.9 percent, 53.7 percent, and 47.8 percent usage rate, respectively, among respondents who use banking services. **Islamic products had the lowest rate of use of all products (4 percent),** with more entrepreneurs stating they did not need this service (32.6 percent) than any other service.

Informal Financial Sector

Compared to the rest of the Middle East, the development of the microfinance sector in Lebanon has been slow. The sector is hampered by lack of legislation specific to microfinance and, with some exceptions, is generally inefficient.⁷ On the other hand, outreach into rural areas is relatively high, with the exception of the northern region, which appears underserved.

A variety of nongovernmental organizations in Lebanon either concentrate on microfinance or have developed microfinance as one of multiple programs that promote economic and social development. **As of September 2007, approximately 29,420 microfinance clients were being served by NGOs, microfinance programs, and MFIs; together, they had an outstanding portfolio of roughly \$23.9 million, with an average loan size of \$1,118.** These institutions are not licensed to accept deposits.

⁷ See J. Brandsma and D. Burjorjee, 2004, "Microfinance in the Arab States," UNCDF, New York.

Virtually all microfinance institutions in the country have a pressing need for capacity building, including staff training and MIS development or improvement.

Most Lebanese microfinance providers offer individual loans; group loans do not appear to conform to local cultural norms, as Lebanese people generally do not like sharing information or talking about financial problems.

Knowledge and Perception of Loans among MSEs

Borrowing money to start a business seems to be very unpopular among Lebanese entrepreneurs. Most micro and small enterprises in the survey (87.8 percent) said they used their own resources to start their businesses—only 6.5 percent used credit from an institution and only 5.2 percent, an informal loan from family members or friends. Focus group participants indicated that three to five years of savings were needed to start a new business (assuming that premises were rented) and that these savings were typically accumulated from previous jobs.

More enterprises surveyed consider it difficult to obtain a formal loan than consider it easy, but the difference between the two groups is not great (52.5 versus 42.2 percent of survey respondents). Lack of collateral was cited as the most important difficulty in accessing credit (38 percent of survey respondents), followed by excessive interest rates (29 percent) and overly long procedures (22 percent).

Roughly the same percentage of respondents had obtained a loan from formal and informal sources (24.5 versus 27.8 percent, respectively). **Repeat credit business was, moreover, very low.** The overwhelming majority of businesses that did access formal credit obtained a loan from a bank (83.2 percent) and most such loans (46.1 percent) exceeded \$6,500. With respect to informal loans, the largest number (36.2 percent) were in amounts between \$668 to \$3,333, and the great majority (92 percent) did not charge interest.

About one-third (35.8 percent) of survey respondents would be interested in obtaining a loan in the future, if they had the possibility of doing so. Among this group, 36 percent seek loans greater than \$16,667. The remaining potential borrowers (64.2 percent of respondents) were uninterested in loans either because they had no need for one, due to religious concerns, or lack of guarantees.

Key Findings

The political situation in Lebanon is clearly having a significant impact on current and future loan demand. Micro and small enterprises interviewed for the demand survey identify political instability, competition, and inflation as more serious constraints to their businesses than lack of finance.

Banks are by far the most popular type of institution from which to obtain a loan in Lebanon. Among all survey participants who had received a loan, 83.2 percent obtained the credit from a bank.

Despite unstable conditions, most businesses that were surveyed earn healthy profits, which may explain their preference for self-financing. The majority of survey respondents fell into roughly four equal groups: those earning weighted profits of

1–10 percent (24.9 percent of enterprises), 11–20 percent (29.2 percent of enterprises), 21–30 percent (25.1 percent), and above 30 percent (24 percent). Another 3.7 percent, which were generally service providers, estimated their profits to be over 100 percent. Given these profit margins, it is unsurprising that a large majority of the enterprises that have made investments over the past two years (269 out of 334, or 80.5 percent) used their own funds.

Although most entrepreneurs surveyed (62.9 percent) do not save money regularly, those that do have an impressive savings rate. Among enterprises that save, 70.4 percent reported saving more than \$3,334 per year and 20.4 percent reported saving more than \$16,667.

Based on the market survey, the estimated potential microfinance market in Lebanon is relatively small: \$286.1 million (190,699 eligible potential borrowers multiplied by an average loan size of \$1,500). **Only 11.5 percent of this potential demand is, however, currently being met** by existing financing sources, leaving 88.5 percent of the market unserved. An alternative estimate, based on figures for MSEs from the 1996 census, indicates a gap of 57.3 percent.

The access of MSEs to finance in Lebanon can best be improved by helping existing microfinance institutions and programs develop further, rather than setting up additional specialized institutions.

In particular, the microfinance sector in Lebanon has an urgent need for human resource development, that is, staff training. In addition to improving and/or upgrading the processes and activities of nongovernmental organizations that provide microfinance, **it is also essential to strengthen the downscaling approach of commercial banks.** Advisory services and training with a focus on best practices in credit methodology and marketing, particularly strategic product development for micro and small enterprises, are crucially needed. In-depth training needs assessments for existing microfinance providers are specifically recommended.

Additional funding could also help certain microfinance providers increase their regional outreach and expand their product portfolios. Such initiatives would ensure better access to finance, both geographically and in terms of financial products suitable for different sectors and regions.

INTRODUCTION

The objectives of this report are to assess the financial needs of micro and small enterprises in Lebanon, evaluate existing providers of financial services to MSEs, analyze the gap between the supply of and demand for financial services, and make recommendations on how to improve the access of these businesses to finance in the country.

Country Background

Sociocultural background. Arabs, including Palestinian refugees, make up 95 percent of the population of Lebanon; Armenians comprise another 4 percent. Arabic is the official language, although French, English, and Armenian are also widely spoken.

In terms of religious background, Lebanon's population is 59.7 percent Muslim (Shi'a, Sunni, Druze, Isma'ilite, Alawite, and Nusayri), 39 percent Christian (Maronite Catholic, Greek Orthodox, Melkite Catholic, Armenian Orthodox, Syrian Catholic, Armenian Catholic, Syrian Orthodox, Roman Catholic, Chaldean, Assyrian, Copt, and Protestant), and 1.3 percent other.

Demographic background. The population of Lebanon was about 3.93 million in 2007. The country is facing decreasing population growth,⁸ primarily due to a declining fertility rate (1.88 total births per woman in 2007) and a high emigration rate.

Household size is influenced by location (rural or urban), as well as by social and economic circumstances. Poor families tend to be larger with more family members, that is, more children. In late 2007, the national average household size was 4.3 people, compared to 4.8 in 1997 and 5.4 in 1970.⁹

Table 1. Demographic profile of Lebanon

	2004	2005	2006	2007
Total population (millions)	3.73	3.83	3.87	3.93
Annual population growth (%)	NA***	2.0	NA	1.19
Fertility rate (total births per woman)*	2.3	2.2	NA	1.88
Population living below the poverty line (%)**	NA	NA	28	NA

Source: UNDP, 2007, *Human Development Report 2006* (New York: UNDP); World Bank estimates; UNDP, "Lebanon," UNDP Web site, <http://www.undp.org.lb/WhatWeDo/poverty.cfm> (accessed April 2008).

Notes: * According to the UN *Human Development Report 2006*, the fertility rate in Lebanon changed from 4.8 births per woman in the period 1970–75 to 2.3 in the period 2000–05.

** Due to the absence of data, World Bank estimates were used.

*** Not available.

According to available statistics, there were about 920,375 families (or 3.93 million people, assuming 4.27 residents per household) living in Lebanon in late 2007. According

⁸ The population was declining by roughly 1.19 percent a year in late 2007 (Population Reference Bureau, 2007, "2007 World Population Data Sheet," PRB Web site, http://www.prb.org/pdf07/07WPDS_Eng.pdf [accessed April 2008]).

⁹ Central Administration for Statistics (CAS) of Lebanon, 2004, *National Survey of Household Living Conditions* (Beirut: CAS). According to this source, households with up to four residents represent the largest share of the population (19.7 percent), followed by households with five (18.5 percent) and three (14.5 percent) residents.

to World Bank estimates, approximately 28 percent of the population (275,705 people) lives below the poverty line. In comparison, the government of Lebanon estimates that about 25 percent of the total population lives in relative poverty.¹⁰

Among the 380,000 registered Palestinian refugees in the country, about 60 percent live below the official U.N. poverty line. The average household size of Palestinian families is roughly 4.9 persons. Due to their limited rights and uncertain future, Palestinians in the country appear to represent a limited customer group for microfinance. At the moment, only a few microfinance institutions and/or programs serve this group, for example, Al Majmoua and the United Nations Relief and Works Agency for Palestinian Refugees in the Near East.

Economic background. Current economic developments in Lebanon indicate real GDP growth of 0.3 percent in 2007, reflecting continuous political uncertainty and indecisive market conditions. In the absence of consistent statistics, the unemployment rate was estimated at 16 percent prior to the 2006 war and between 24 and 30 percent in late 2007.¹¹ High rates of brain drain are observed and are expected to continue (about 22 percent of the population is thinking of leaving the country—especially the young and the educated¹²).

In general, the Lebanese economy is dominated by the services and the trade sector, followed by the industrial sector (manufacturing and construction). As in other countries in the region, the MSME sector, including the informal sector, has a significant impact on employment and economic growth, but there is little statistical information available on it.

Organization of the Report

This study was commissioned by IFC to determine the market demand for financial services among MSEs in Lebanon. The study begins with an overview of financial services offered by the formal and informal financial sectors (chapters 1 and 2, respectively).

Chapter 3 then provides a detailed market analysis of the MSE financial market by providing a rough estimate of the overall demand for financial services and identifying the main product and service needs of key customer segments, including loans, savings, payment products, and services. A detailed analysis of the financial situation of micro and small enterprises in Lebanon is also offered (including data on their turnover, profit margins, and past and future investments), together with their current use and future demand for formal and informal financial services. A brief overview of the gap between the current demand for and supply of MSE financial services is then presented. Chapter

¹⁰ Republic of Lebanon, 2007, “Social Action Plan: Toward Strengthening Social Safety Nets and Access to Basic Social Services” (Beirut: Government of Lebanon?), <http://www.economy.gov.lb/NR/rdonlyres/D23ADBF6-094A-47FF-9A13-F957858C62EA/0/FINALSocialActionPlanEnglish22012007.pdf> (accessed April 2008).

¹¹ The *World Factbook* of the U.S. Central Intelligence Agency provides an estimated rate of 20 percent for 2006 (Central Intelligence Agency, 2007, *The CIA 2008 World Factbook*, <http://www.cia.gov/library/publications/the-world-factbook/geos/le.html> [accessed April 2008]).

¹² MADMA Research Centre and the Lebanese Emigration Research Centre, 2007; Kim Ghattas, 2007, “Lebanon’s Brain Drain Alarm,” BBC Beirut, February 2, 2007, http://news.bbc.co.uk/1/hi/world/middle_east/6325117.stm (accessed April 2008).

4 concludes the report with key findings from the survey, together with suggestions on how the current situation might be improved.

1 THE FORMAL FINANCIAL SECTOR

Between 1950 and 1975, Beirut became the financial services center of the Middle East, establishing a banking network with a high reputation in the region. Its status as a regional banking center subsequently deteriorated during the civil war of 1975–1990. Despite years of conflict, loss of market share, and generally slow economic recovery, the banking sector grew remarkably following the end of the war, successfully expanding deposits¹³ and accessing international capital markets in the 1990s.

As a result of the Hezbollah-Israeli conflict in 2006, about five percent of business borrowers experienced direct losses and 50 percent of all borrowers experienced indirect losses (i.e., lost income). Various donors and multilateral development organizations, however, provided emergency loans and other funding to Lebanese banks and small businesses following the conflict in order to rehabilitate, refinance, and reschedule destroyed businesses.

While relatively weak in the MENA region today, the commercial banking sector in Lebanon remains one of the most advanced in the region and one of the most important sectors of the Lebanese economy. It recovered rapidly from the 2006 conflict and is currently experiencing rapid expansion via product and regional diversification. Both financial liberalization and the increased participation of foreign banks in the national market are presently helping expand MSE access to finance. Overall, access to finance in Lebanon is relatively positive compared to other countries in the Middle East. In 2007, for instance, Lebanon was ranked 50 out of 95 countries in terms of the development of the banking sector, whereas Egypt was ranked 92.¹⁴

At the end of 2007, the formal banking sector was preparing to meet Basel II capital adequacy standards, which began to be introduced gradually in January 2008. Consolidation in the banking sector has already begun and is expected to continue, especially among individual institutions that have been unable to adjust to market changes quickly enough to remain profitable.¹⁵

Banks are increasingly targeting the private sector. A few commercial banks have either launched programs in cooperation with microfinance institutions, started their own programs, or began working through governmental or international programs to serve the micro, small, and medium enterprise (MSME) sector. The current partnership model is working well, providing a win-win situation for both parties: banks earn a profit from microfinance operations without substantial investment and microfinance institutions and nongovernmental organizations are able to achieve greater outreach and economies of scale.

There is some question as to whether the profitable relationship between the microfinance sector and the banking system can last. In time, banks could achieve the

¹³ The growth in deposits was partly driven by non-residents, especially the Lebanese diaspora. See Banque du Liban, Department of Statistics and Economic Research, 2007, “Monthly Bulletin,” no. 159 (August 2007), and “Quarterly Bulletin: Third Quarter 2007,” Beirut, Lebanon.

¹⁴ S. Claessens and K. Tzioumis, 2006, “Measuring Firms’ Access to Finance.” A paper prepared for conference on “Access to Finance: Building Inclusive Financial Systems,” organized by the Brookings Institution and the World Bank, Washington, DC, May 30–31, 2006.

¹⁵ IMF, 2007, “Consultation Mission Concluding Statement,” IMF, Washington, DC.

necessary experience and knowledge of the target clientele to provide services without an microfinance institution and/or nongovernmental organization. However, this scenario would depend on a strategy of directly servicing MSMEs, which would entail a change in bank mentality and internal procedures, together with substantial investment in human capital.

Commercial Banking Sector

The Lebanese banking sector can be described as strong and in continuous development. Although limited in size, commercial banks in Lebanon are committed to international industry practices.¹⁶ During the past ten years, several consolidations have taken place and further mergers and acquisitions are expected as Basel II capital adequacy requirements come into force.¹⁷ Recently, for example, Fransabank, Lebanon's fifth-largest bank by assets, acquired Banque Libanaise pour le Commerce (BLC), purchasing 97.5 percent of BLC shares for \$153 million. BLC is one of Lebanon's oldest banks and has a total of 36 branches.

The Central Bank of Lebanon (Banque du Liban) controls entry into the banking sector, sets prudential regulations, and determines the scope of banking activities. Currently, 64 banks are registered with the Central Bank, including 54 commercial banks and ten specialized banks (with four Islamic banks).¹⁸ As of 2006, commercial banks had a total of \$71 billion in assets (three times the size of the Lebanese economy), 804 branches, and more than 15,000 employees.¹⁹ The 10 largest banks manage approximately 79 percent of total assets, with the top five having relatively equal market shares. Foreign banks (including Commerzbank, Société Générale, and BNP Paribas) have come to represent a significant share of the sector by either establishing their own branches or taking an equity stake in local banks.

Until recently, commercial banks in the country invested primarily in sovereign assets (i.e., treasury bills), with loans to the private sector representing only 24 percent of total assets (a significant share of these loans target big infrastructure projects or large corporations). Banks thus essentially finance the government deficit and the government largely crowds out private sector investment, fixing this investment through specific measures (for example, the Kafalat credit guarantee organization, interest rate subsidies,²⁰ and liquidity reserve requirement exemptions) that make market-determined entry of banks in MSME finance unlikely.

¹⁶ In accordance with an IFC request, the research team interviewed a selection of Lebanese banks for this report: BLC Bank, the Jammal Trust Bank, the Lebanese Canadian Bank, and Credit Libanais (all of which partner with MFIs to offer microfinance services). Information on other banks was gathered through secondary research and provides some insight into other services provided by commercial banks, but with more focus on higher-end small enterprises (partly in line with governmental measures, such as Kafalat and ESFD).

¹⁷ Considering the country's high sovereign debt, the new capital requirements will enhance the ratio of risk-weighted assets to assets in Lebanese banks.

¹⁸ Banque de Liban, 2007, "Quarterly Bulletin 2007: First Quarter 2007," Beirut, Lebanon.

¹⁹ Association of Lebanese Banks and Central Bank of Lebanon, 2007; Banque du Liban, 2007, "Quarterly Bulletin," Third Quarter 2007, http://www.bdl.gov.lb/pub/qb/qb114/QB3_2007.pdf (accessed April 2008).

²⁰ Interest rate subsidies provided by the government cover up to 7 percent of a loan and are linked via a formula to the T-bill rate.

The preference for investing in government and Central Bank assets creates high vulnerability for Lebanese banks, but ensures a high level of liquidity in the financial system and promotes the confidence of depositors and a stable system. Increasingly, however, banks in Lebanon are targeting the private sector, particularly through retail lending.

Table 2. Banking and financial system structure in Lebanon

		Dec 2002	Dec 2003	Dec 2004	Dec 2005
Commercial banks	Total number	53	52	53	54
	Foreign banks	11	10	10	10
	Number of branches	787	809	799	804
Regional branches	Foreign banks	41	40	38	38
	Beirut & Suburbs	438	447	436	439
	Mount Lebanon	138	144	141	142
	North Lebanon	79	80	77	78
	South Lebanon	82	83	86	86
Investment banks	Total number	8	9	10	10
	Number of branches	10	11	12	12
Financial institutions	Total number	26	28	29	30
	Number of branches	30	32	33	34
Financial intermediaries	Total number	5	7	9	9
Leasing companies	Total number	3	3	3	3

Source: Banque du Liban, "Quarterly Bulletin, First Quarter 2007," Business Survey, Statistical Annex, Beirut, Lebanon.

Lebanese banks have achieved strong diversification through regional expansion abroad in such countries as Syria, Jordan, Sudan, and Algeria. For instance, Banque du Liban et d'Outre-Mer S.A.L. (BLOM) has acquired 99 percent of MISR Romanian Bank in Egypt. In 2004, Lebanon adopted an Islamic Banking Law that gave Banque de Liban the right to license, regulate, and supervise Islamic banks. Existing Islamic banks are mainly retail banks with a focus on consumer finance. BLOM was the first local bank to launch an Islamic bank, followed by Credit Libanais, which set up the Lebanese Islamic Bank as a subsidiary in 2005. The Arab Finance House was also launched in 2005 and the Al Baraka Bank was created as an Islamic merchant company.

Overall, the banking sector is performing well,²¹ managing flexible performance during the political turbulence of 2006–2007. With a growth rate of 6.4 percent (annualized), credits granted to the private sector by commercial banks reached \$18 million, while banks increasingly targeted lending to regional corporations. In the first half of 2007, consolidated assets grew by 3.8 percent (the equivalent of \$2.9 billion) and liquidity was maintained at high levels. Growth was mainly the result of increased customer deposits (\$2.5 billion—a growth rate of 4.1 percent), especially resident deposits. In terms of deposits, Audi, BLOM, and Byblos experienced higher-than-average deposit growth of 25, 15, and 10 percent, respectively, in June 2007.

²¹ Banque du Liban, 2007, "Monthly Bulletin" (May), Banque de Liban, Beirut, Lebanon.

Table 3. Consolidated balance sheet of commercial banks in Lebanon (LL billions)

	Dec 2005	Dec 2006	May 2007
Reserves	30,917.3	29,337.8	30,515.0
Vault cash	201.1	201.1	265.1
Deposits with Central Bank	30,716.2	29,136.7	30,249.8
Claims on private sector	24,466.8	25,929.7	27,275.0
In LL	4,305.7	4,767.8	4,971.7
In other currency	20,161.1	21,161.9	22,303.4
Claims on public sector	26,696.5	31,192.8	30,861.0
Claims on foreign sector	20,017.4	24,783.6	24,785.6
Fixed assts	3,458.2	3,240.2	3,539.6
Unclassified assets	458.3	355.8	448.8
Assets = Liabilities	106,014.4	114,840.8	117,425.0
Resident private sector deposits	71,632.2	77,366.4	81,300.8
Demand deposits in LL	1,358.5	1,450.0	1,570.2
Time & saving deposits in LL	20,683.9	19,631.5	20,594.3
Deposits in foreign currencies	49,589.8	56,284.9	59,136.2
Public sector deposits	1,704.9	1,579.0	1,115.2
Non-resident private sector deposits	14,274.0	14,127.7	12,895.5
Non-resident financial sector deposits	3,263.4	4,236.1	4,511.1
Other financial liabilities	88.3	95.5	106.0
Capital accounts	6,410.7	8,717.7	9,014.7
Unclassified liabilities	8,641.0	8,717.6	8,481.8
Total	106,014.4	114,840.0	117,425.0

Source: Banque du Liban, "Quarterly Bulletin: First Quarter 2007," and "Monthly Bulletin" (May 2007), Banque du Liban, Beirut, Lebanon.

As noted earlier, roughly 24 percent of total bank assets are loans to the private sector. Keeping in mind that total bank assets represent more than 300 percent of GDP, lending to the private sector represents about 77 percent of GDP (a volume that has fluctuated between 70 and 80 percent during recent years). In comparison, access to credit in Egypt and Morocco is about 49 and 57 percent of national GDP, respectively.²²

A large share of credits goes to corporations, with banks still reluctant to lend to micro, small, and medium enterprises. Among the reasons banks cite for not lending to this market segment are its lack of access to long-term resources, the high debt-to-equity ratio of Lebanese businesses, lack of transparency (financial statements), lack of appropriate business plans, and slow legal processes in the event of non-performing loans.²³

Overall, private sector development in Lebanon is restrained by limited access to finance, due to low bank lending to the private sector, high collateral requirements, and a lack of alternative financing (such as venture capital, seed capital, or funds for start-up and innovative enterprises).

²² OECD, 2006, *EU Experts Group Report 2006* (Paris: OECD).

²³ "MED Best Report for Lebanon," 2005, Web site of the European Commission, Brussels, http://ec.europa.eu/enterprise/enterprise_policy/ind_coop_programmes/med/doc/f1957sept_en.pdf (accessed April 2008).

In terms of sectoral and regional outreach, commercial bank lending is not in a balance. The largest share of credit is disbursed within greater Beirut (about 82 percent of all lending), with a high concentration of this credit going to the trade and services sectors, followed by the construction and industry sectors. About one percent of borrowers, moreover, benefit from about 50 percent of private sector loans.

Table 4. Sector distribution of utilized credits in the financial sector (LL millions)

	<i>June 2006</i>	<i>Dec 2006</i>	<i>March 2007</i>
Agriculture	334,841	328,361	334,279
Industry	4,059,541	4,058,428	4,219,008
Manufacturing	3,841,604	3,824,903	4,019,396
Mining and quarrying	96,911	120,146	82,319
Electricity and gas	121,026	113,379	117,293
Construction	4,509,329	4,317,281	4,380,718
Trade and services	11,983,408	12,386,753	12,953,982
Wholesale trade	5,977,847	5,842,210	6,085,869
Retail trade	2,288,513	2,219,106	2,261,070
Transport & storage	905,750	1,247,101	1,443,493
Real estate renting	1,378,768	1,510,116	1,595,844
Hotels & restaurants	1,126,766	1,222,376	1,217,193
Educational services	305,764	345,844	350,513
Financial intermediations	1,222,710	1,384,728	1,436,314
Others	1,301,540	1,186,593	1,192,288
Other community & personal services activities	617,151	528,342	500,311
Health & social work	469,128	524,188	543,873
Public administration & defense	197,624	116,197	131,676
Extra territorial organizations	9,304	10,223	9,234
Private households with employed persons	8,333	7,643	7,194
Individuals	5,531,986	5,612,666	5,786,867
Housing loans	1,629,664	1,714,807	1,777,608
Total	27,679,803	29,274,810	30,303,456

Source: Banque du Liban, “Quarterly Bulletin: Second Quarter 2007,” Beirut, Lebanon.

Initiatives to Increase SME Financing

The importance of the small and medium enterprises to the overall economy, particularly in terms of employment, has been explicitly acknowledged by the Lebanese government, which launched a 10-year “Integrated SME Support Program” in 2004 with EU funding. Jointly administered by the Ministry of Economy and Trade and the Ministry of Finance, the program seeks to formulate policies conducive to their growth, enhance business development services, improve financing for SMEs, promote innovative enterprises with strong growth potential, and ensure best practices in current bank lending to SMEs and start-ups.

Certain initiatives in support of these goals have been initiated by the Lebanese government, others by bilateral and multilateral donors. In most cases, the two work together. The majority of such initiatives support SMEs and not microenterprises.

Domestic initiatives

Current government initiatives to promote the growth and expansion of the SME sector include:

Kafalat

A credit guarantee institution established by the government in 1999–2000, Kafalat guarantees bank loans to SMEs and offers an interest rate subsidy of up to 7 percent through the Central Bank of Lebanon. A joint stock company, Kafalat has total capital of \$12.3 million (20 billion Lebanese pounds) and is owned by the National Institute for the Guarantee of Deposits (75 percent) and 50 Lebanese banks (25 percent).

Loan guarantees are based on business plans and feasibility studies. To qualify, SMEs must have 40 employees or less and provide a copy of the loan contract, the repayment schedule, guarantee documents certified by a bank, plus life and fire insurance.²⁴ Kafalat attempts to convince banks not to request other guarantees, but in some cases, borrowers must provide additional collateral for a bank loan.

Loans guaranteed by Kafalat are concentrated in the agricultural (41 percent) and industrial sectors (43 percent). As shown in table 1, Kafalat currently provides three types of loan guarantees. Government funds guarantee loans up to 75 percent; EU funding received in 2006 (€4 million) allowed such guarantees to be extended to 85 and 90 percent, as well as to cover start-up enterprises. All enterprises must be legally registered to qualify for a guarantee.

²⁴ Further documents required by a bank for a Kafalat-guaranteed loan include: commercial register; commercial record; company charter; identification card of applicant; identification card of signatory party, if different from applicant; list of property owned by applicant, with certified copy of the listed real estate; report of field visit to company by bank, with photographs; balance sheet for the past three years; list of banks with which the company has dealings; official waiver; clearance from Centrale des Risques (the center for bounced checks).

Table 5. Types of Kafalat loan guarantees

Type	Amount (\$)	Guarantee	Term	Comments
Kafalat basic	200,000	75% of loan plus interest	7 years plus grace period of 6–12 mos.	Individuals or corporations can apply. Banks can ask for additional guarantees. Interest up to 7 percent is subsidized by the Central Bank
Kafalat plus	400,000	85% of loan plus interest	7 years plus grace period of 6–12 mos.	Restricted to joint stock businesses. Banks do not ask for additional guarantees, but borrower must provide 20 percent equity participation
Kafalat innovative	400,000	90% of loan plus interest	Up to 5 years	Restricted to joint stock businesses. Borrower must provide 20 percent equity participation

Other domestic initiatives

Other government efforts to streamline the environment for financing small and medium enterprises include plans for legislation (funded by the European Union) in the areas of corporate law and mergers and acquisitions, together with the introduction of an exemption to the reserve requirement for bank loans made in Lebanese pounds. Exemptions to the 15-percent, non-interest bearing reserve requirement are now permitted for “special purposes,” including loans in local currency for housing finance and large projects, loans guaranteed by Kafalat, and loans to microfinance institutions for onlending in amounts less than \$6,666.

Initiatives with international participation

International organizations, including both bilateral and multilateral donors, are sponsoring a number of programs in Lebanon that support the SME and microfinance sectors. These efforts are often part of programs being implemented as part of reconstruction programs of the Council of Development and Reconstruction (CDR) of the Lebanese government. These programs include:

- *The Economic and Social Fund for Development (ESFD) funded by the European Union (EU).* Established in 2005, the ESFD stimulates the outreach of Lebanese MFIs and supports the goals of income generation, employment creation, and poverty reduction. Among other activities, ESFD funds contractor banks (including the BLC Bank) to extend loans to unbankable entrepreneurs between €5,000 and €20,000. These loans may be used for start-up or business development purposes. ESFD has also mobilized two microcredit funds: one managed by non-governmental organizations and one managed by banks (Al Majmoua, Société Générale de Banque Liban, and the Banque Libanaise pour le Commerce).
- *Credit lines, loans, and loan facilities that support lending to SMEs in Lebanon.* These initiatives include a credit line of €125 million provided by the French Development Agency (AFD) that is channeled through Lebanese banks; €960 million in loans from the European Investment Bank (which is also funding technical assistance); \$110 million in bank loans from the International Finance Corporation; an OPIC loan facility of \$120 million for a private capital guarantee

fund run by Citigroup; and an OPIC loan of \$23 million to AMEEN, one of the leading microfinance providers in Lebanon.

Microfinance and the Formal Financial Sector

A very small group of Lebanese banks (Credit Libanais, Jammal Trust Bank, and the Lebanese Canadian Bank foremost among them) has recognized microfinance as a profitable business segment and have designed and implemented microfinance products, either independently or in collaboration with NGOs or MFIs. Partnerships with MFIs represent strategic synergies for both the banks and the MFIs: banks are able to reach out to market niches with interesting repayment rates and MFIs benefit from banks' infrastructure, reputation, and liquidity to expand their outreach.

A large share of commercial banks serve this sector through programs like Kafalat and ESFD. Despite these programs, however, microenterprises still seem to be underserved. Young entrepreneurs without personal capital, young microenterprises, and the “non-bankable” continue find it difficult to access commercial financial services. Lebanese banks, moreover, tend to equate microfinance with consumer lending, which has shown strong growth over the past decade. Since money is fungible, it is certainly possible that many microenterprises may use a consumer loan as a microbusiness loan, but exact figures on this use of consumer loans are not currently available.

Banks involved in microfinance in Lebanon believe further potential exists to expand microfinance services and products and are currently identifying opportunities to grow further into this sector. On one hand, additional funds are needed, and on the other, so is training and development of human resources.

Table 6. MSME approach of major Lebanese banks

<i>Institution</i>	<i>Kafalat</i>	<i>ESFD</i>	<i>Other</i>
Bank Audi	NA	NA	AfD loan agreement for war-affected SMEs
BBAC	Subsidized loans of up to LL 300 million for enterprises < 40 people		BDI-subsidized loans of LL 50 million to LL 5 billion
BKAW	Subsidized loans of up to LL 300 million for enterprises < 40 people		BDI subsidized loans of LL 50 million to 5 billion
Byblos Bank	NA	NA	Existing/business start-up loans of \$2,000–\$50,000
BLC Bank	Subsidized loans of up to LL 300 million for enterprises < 40 people	Loans of up to EUR 20,000	1) Afag loan up to LL 100,000 2) Koudourat microcredit loan up to \$20,000
Credit Libanais	Subsidized loans of up to LL 300 million for enterprises < 40 people	Loans of \$5,000–\$20,000	Tanmiat El Ruwwad Loan (with EDF): Loans of LL 1 to 10 million
Fransabank	Subsidized loans for enterprises < 40 people	NA	Grant loans funded by EIB; BDI subsidized loans
First National Bank	Subsidized loans for enterprises < 40 people	NA	NA
Jammal Trust Bank	NA	NA	1) Own MF portfolio; average loan of \$7,000 2) Collaboration with AMEEN: loans of up to \$5,000

Lebanese Canadian Bank (LCB)	Subsidized loans of up to LL 300 million for enterprises < 40 people	NA	Collaboration with AMEEN: loans of \$300–\$5, 000
Société Générale de Banque au Liban (SGBL)	Subsidized loans of up to LL 300 million for enterprises < 40 people	Loans of \$5,000–\$20,000	1) Soge Loan Pro: Loans of \$2,000–\$50,000 for enterprises < 10 people 2) Loan agreement with AfD for enterprises with < 250 people

Source: Interviews; Web sites of abovementioned banks (accessed September 2007).

Note: NA – not available.

Short profiles of banks engaged in microfinance

BLC Bank

BLC is one of the oldest banks in Lebanon (incorporated in 1950) and operates a network of 35 local branches in addition to international branches. The bank offers commercial banking, corporate banking, correspondent banking, deposit taking, equity trading, investment funds, structured products, trade finance, and wealth management services.

In 2005, BLC Bank reported total assets of LL 2.967 billion (\$1.97 billion), compared to LL 2.695 billion (\$1.8 billion) in 2004. Loans and advances were reported as LL 478 billion (\$318 million) and LL 403 billion (\$268 million) in 2004 and 2005, respectively, and customer deposits, as LL 2.507 billion (\$1.67 billion) and LL 2.294 billion (\$1,53 billion).²⁵

The bank closely co-operates with ESDF, enjoying the use of the low-cost EU fund to provide loans to micro, small, and medium enterprises. In addition to loans funded by ESDF, the bank offers its own financial products to this sector. ESDF defines small and medium enterprises as businesses with one to 12 employees, as well as individual entrepreneurs. Enterprises engaged in any economic activity other than real estate can qualify for these loans, which are provided in amounts up to €20,000 in Lebanese pounds for medium- to long-term projects (up to 5 years, including a grace period up to 12 months). Interest rates are calculated on a declining basis. The loans can be used for working capital or equipment. As of September 2007, BLC had 510 active MSMEs among its clients, an outstanding portfolio of \$4.8 million, and had disbursed total loans of \$6.2 million.

Currently, BLC levies an effective interest rate of 10.5 percent per annum on loans to MSMEs; the maximum spread that ESDF allows is 6 percent. For new clients, a maximum interest rate of 12.5 percent can be charged. No additional fees are charged on ESDF-backed loans. In comparison, housing loans bear an interest rate of 9–10 percent, with a maximum spread of 4–5 percent.

BLC also offers small business loans via two MFIs: Afag and Kafalat. The Afag loans are either for business premises, buying equipment, or working capital. Business premise loans are in amounts up to 75 percent of the value of the premises (to a maximum of LL 150,000,000, or \$100,000), with a maturity of 8 years and a 12 percent real interest rate. Loans for buying equipment are in amount up to 80 percent of equipment value (to

²⁵ BLC Bank, 2006, “Annual Report 2005,” BLC Bank, Beirut, Lebanon. The bank’s annual report 2006 had not been published at the time this report was written.

a maximum of LL 15,000,000, or \$100,000). Accepted securities are a first-degree mortgage in favor of the bank, personal guarantees, or life, premises, or equipment insurance. Kafalat SME loans are made to enterprises working in the agriculture, industry, tourism, technology, or crafts sectors and range between LL 10 million and LL 300 million (\$6,667–\$200,000), with maturities up to 7 years and grace periods up to 12 months.

Credit Libanais

Credit Libanais was established in 1961 and is one of the largest retail banks in Lebanon (in terms of total assets) and has a branch network of 58 local branches.²⁶ The bank offers retail, corporate, and investment banking services, as well as mortgage lending. In addition, it is active in insurance, data processing, credit cards, leasing, and real estate investment (mainly through subsidiaries).

Credit Libanais reported total assets of LL 4,773 billion (US\$3.18 billion) in 2005, compared to LL 4,522 billion (\$3 billion) in 2004. Customer deposits were LL 4,026 billion (\$2.53 billion) and LL 3,806 billion (\$2.54 billion) in 2005 and 2004, respectively; loans and customer advances were LL 899 billion (\$599 million) and LL 814 billion (\$542 billion).²⁷

The bank was one of the first Lebanese banks to become involved in microfinance, entering the market segment in 2001 by forming partnerships with nongovernment organizations/microfinance institutions. Through its partnership with AMEEN, the MFI offers loans between \$300 and \$5,000, with a maturity of 4 to 12 months (paid in monthly installments) and no grace period. Interest is a 17 percent flat per annum rate. Currently, a new agreement with AMEEN is being discussed that would include a guarantee scheme and loans up to \$15,000; the changing framework is expected to attract new sectors and clients. The bank's objective is to expand the current outstanding microfinance portfolio of \$3.9 million to \$10 million.

In addition to co-operation with AMEEN, Credit Libanais also partners with ADF (a smaller nongovernmental organization with mainly repeat microfinance customers) in a similar way, offering the latter total funding of \$1.5 million (100 percent covered by Credit Libanais).

As do other Lebanese banks, Credit Libanais offers ESDF loans financed by the European Union to MSEs (both existing businesses and start-ups) that finance machinery and equipment, among other purposes. The loans are offered in amounts up to LL 30 million, with maturities of one to five years (including a one-year grace period). Accepted guarantees for these loans are one or two personal guarantors, a mortgage, or insurance policies (for example, life or equipment policies).

In addition, Credit Libanais offers Kafalat-guaranteed loans to small and medium enterprises in the industrial, agriculture, tourism, and handicraft sectors that have less than 40 employees and are registered with the national social security agency. Up to 75 percent of loans are guaranteed, with the remaining 25 percent covered by the bank.

²⁶ Credit Libanais was the first Lebanese bank to acquire other banks (Continental Development Bank in 1977, Capital Trust Bank and First Phoenician Bank in 1994, and American Express Bank in 2000).

²⁷ Credit Libanais, 2006, "Annual Report 2005," Beirut, Lebanon. The annual report for 2006 had not been published at the time this report was written.

Loan amounts range from LL 15 million to LL 300 million (\$10,000–200,000); loan requirements include life and fire insurance for the duration of the loan, as well as audited financial statements for the last three years.

Finally, Credit Libanais offers Tanmiat El Ruwwad Loans (TEL) in cooperation with the Entrepreneurial Development Foundation. TEL business loans range between LL 1 million to LL 10 million (\$667–\$6,667), with maturities of between 3 and 36 months. The loans require one or two guarantors and include technical assistance.

Jammal Trust Bank

Jammal Trust Bank (JTB) was established in 1963 and provides a full range of commercial banking products and services through a network of 22 branches. As of September 2007, the bank employed a total of 250 employees, of which 37 were loan officers (one per branch, plus 15 at the head office).

The bank does not target corporations or larger companies, focusing instead on traditionally “unbankable” clients, that is, people without a regular income, low-income workers in seasonal agricultural businesses, and unregistered businesses in peri-urban areas. This clientele represents 85 percent, or about 15,000, clients, who have an average loan size of \$7,000. The remaining 15 percent of bank clients consist of Egyptians and Lebanese expatriates in West Africa and North America.

JTB became active in microfinance after conducting a market study in 1998. The bank targets microenterprises through its own microfinance program and through a cooperative program with the Lebanese MFI AMEEN. Being involved in two different microfinance programs provides advantages for JTB, AMEEN, and the clients. The bank does not offer microfinance savings products (it tried but failed to teach low-income clients how to save) or remittance services (it does not see this product as conducive to microfinance in Lebanon).

JTB’s arrangement with AMEEN is based on 50-percent funding from JTB, which will soon expand to 100 percent, and involves a joint credit committee and disbursements via JTB branches. JTB is taking a 50-percent risk on each loan, with income split 45/55 between the two organizations. JTB considers it advantageous to work with AMEEN because the MFI establishes close relations with its clients through regular site visits.

Lebanese Canadian Bank

The Lebanese Canadian Bank (LCB) was first incorporated in 1960 and has since become one of the top ten banks in the country through domestic franchises, product diversification, and market and volume expansion. The bank offers a range of commercial and retail banking products, including insurance and investment services. One of its more innovative products for the Lebanese market is an energy loan.²⁸

The bank has achieved tremendous growth in recent years, reaching total assets of \$488 million at the end of 2000 and \$3.3 billion at the end of 2006 (with an ambitious plan to reach \$3.6 billion by year-end 2007). Deposit growth went from \$423 million in 2000 to

²⁸ Energy loans are disbursed in amounts up to \$5,000 for investments in solar energy at a 9 percent annual flat interest rate and a one-time \$5 filing fee.

\$2.6 billion in 2006,²⁹ and the number of branches expanded to 32 (with plans to reach 35 by the end of 2007).

As do other Lebanese banks, LCB offers loans with Kafalat guarantees of up to 75 percent to small enterprises in the industrial, agricultural, and tourism sectors that have up to 40 employees. The loans are extended for the purposes of increasing productivity or business expansion; the maximum loan amount is LL 300 million (\$200,000), with maturities of seven years or less (including a grace period of six months to a maximum of one year).

LCB does not serve microfinance clients on its own, but instead through collaboration with AMEEN. The bank formed a partnership with the AMEEN in 2004, which is structured as follows:

- Loan conditions are established by the bank and AMEEN. Currently, microloans vary in size between \$300 and \$5,000, with the first loan limited to \$2,000. Maturities are set between 12 and 18 months (loans below \$3,000 do not exceed 12 months) and a declining interest rate of 26 percent per annum (with an OPIC guarantee in U.S. dollars or a 14–16 percent declining rate in Lebanese pounds). No mandatory savings are required, but one to two creditworthy guarantors are needed. Repayments are made monthly.
- AMEEN provides one-third and LCB provides two-thirds of funding for loans in U.S. dollars. For loans in Lebanese pounds, LCB provides 100 percent of the funds and therefore assumes 100 percent of the risk. Considering AMEEN'S low portfolio at risk ratio, however, this risk is very low.
- Employees of AMEEN have the first contact with clients and help them prepare credit applications at their place of business or home. In addition, they make inquiries about applicants (e.g., character assessment, reputation in the community) and the guarantor(s).
- A credit committee meeting is held each week with two AMEEN and two Lebanese Canadian Bank staff members. Decisions must be unanimous. The process from application to disbursement takes a total of one to two weeks.
- Loans are disbursed in one of the six LCB branches that offer AMEEN loan products and have an AMEEN contact person on site. The loan is transferred to a debit account, which can be used as current account (without a minimum balance or other costs). AMEEN is responsible for loan monitoring, in particular, follow-up in the event of non-repayment. Products and services offered include loans for small projects and home improvements, personal loans, and savings accounts for borrowers with minimal deposits.

²⁹ The bank is a member of the Alpha Group in Lebanon, which consists of major banks with deposits exceeding \$2 billion.

2 THE INFORMAL FINANCIAL SECTOR

This chapter provides an overview of existing programs and institutions active in the microfinance sector in Lebanon,³⁰ which is increasingly dominated by three institutions: Al Qard al Hassan, AMEEN, and Al Majmoua. Until the past few years, the latter two MFIs lacked the ambition to grow, but have now reached sustainability and appear to be efficient. However, they seem to be exceptions on the Lebanese market, as most MFIs in the country incur high operating costs and are at least partially inefficient. Virtually all MFIs also have a pressing need for capacity building, including staff training and MIS development or improvement.

The development of the microfinance sector in Lebanon has been slow compared to other countries in the Middle East. The country has no legislation specific to microfinance; nongovernmental organizations that work in the sector are currently supervised by the Ministry of Interior³¹ and are not licensed to accept deposits. Both NGO-MFIs alone and MFIs in strategic partnership with commercial banks offer financial services to microenterprises.

As of September 2007, the demand for microfinance in the country had only been partly measured³² and estimates of potential lending volume differ considerably. In 2000, the World Bank estimated a potential market of 200,000 clients (including unemployed clients). Another estimate puts demand at approximately \$45 million,³³ compared to an active portfolio of roughly \$32.9 million (29,600 clients). Yet another estimate puts demand over the next several years at \$500 million.³⁴

Most MFIs and microfinance programs in Lebanon are small in terms of outreach (including number of loans, number of branches, and variety of products and services) and lack funding,³⁵ making it difficult to reach regions that remain underserved. Informal sources (i.e., loans from family, friends, and money lenders) are often the source of credit for microenterprises and appear to offer reasonable transaction costs and compliance guarantee requirements.

Organizations offering microfinance services vary between those with a portfolio of \$200,000 and 320 active borrowers (Makhzoumi Foundation) to those with a portfolio of \$8 million and 7,500 active borrowers (AMEEN). In general, however, they can be classified into three groups, depending on portfolio size: (i) portfolios greater than \$2

³⁰ In accordance with the advice of IFC, only a handful of institutions were interviewed directly (ADR, AEP, Al Majmoua, AMEEN, Hariri Foundation, Makhzoumi Foundation, UNRWA and USAID). Information about other organizations was gathered through secondary research.

³¹ All non-political and non-profit-making organizations are registered with this ministry.

³² See, for example, UNDP, 1997, "Country Feasibility Studies Lebanon: MF Assessment Report," UNDP, New York. Individual and regional studies have been conducted, but not published, by some MFIs in Lebanon. According to one 2006 survey, 95 percent of Lebanese firms have less than 50 employees, while 45 percent are one-person enterprises; among total enterprises, about 73 percent work in trade and 9 percent in industry. Of note, only 8 percent of all enterprises had a current loan and about 4 percent had received a formal loan during the start-up phase. (Economic Research Forum, 2004, "MSEs in Lebanon.")

³³ Susaeta and Gallifa, 2005, "An Experience of Microcredit in South Lebanon."

³⁴ G. Chamas, 2006, "Islamic Finance Industry in Lebanon: Horizons, Enhancements, and Projections," thesis, École Supérieure des Affaires, Beirut.

³⁵ J. Brandsma and D. Burjorjee, 2004, "Microfinance in the Arab States: Building Inclusive Financial Sectors," UNCDF, New York.

million (AMEEN, Al Majmoua, Mu'Assassat Bayt El-Mal³⁶): (ii) portfolios between \$500,000 and \$2 million (ADR, AEP, Al-Tamkeen, Caritas Catholic Relief Service,³⁷ COLIDE CLD,³⁸ UNDP, UNRWA); and (iii) portfolios less than \$500,000 (Makhzoumi Foundation, La Mission Pontificia).

Most MFIs in Lebanon offer individual loans, with the exception of Al Majmoua and a few others, which also offer group loans that focus on women. In terms of outreach, rural outreach is larger (29 percent) than in neighboring countries (14 percent in both Egypt and Jordan³⁹), although the northern regions appear to be underserved.⁴⁰ As table 5 shows, flat interest rates, in combination with up-front or insurance fees, tend to hide the effective monthly interest rates paid by microfinance clients, which vary between 1.05 and 2.98 percent per month.

Table 7. Effective interest rates on individual loan of \$3,000 with a 12-month maturity, various Lebanese MFIs, 2007

	Maximum MFI loan amount	Monthly interest rate	Method	Average MFI loan maturity	Re-payment mode	Up-front fee/insurance	Effective monthly interest rate
ADR	\$ 4,000	1.00%	Flat	24 mo	Monthly	3%	1.54%
AEP	\$ 5,000	0.83%	Flat	24 mo	Monthly	NA	1.49%
Al Majmoua	\$10,000	1.50%	Flat	24 mo	Monthly	2%	2.98%
Al-Tamkeen	\$ 3,000	0.75%	Flat	36 mo	Monthly	NA	1.35%
AMEEN	\$ 5,000	1.37%	Flat	18 mo	Monthly	NA	2.42%
Makhzoumi Foundation	\$ 5,000	1.50%	Flat	18 mo	Monthly	NA	2.64%
UNRWA	\$ 5,000	0.58%	Flat	36 mo	Monthly	NA	1.05%

Note: NA—Not Available.

Al Qard al Hassan Association

Al Qard al Hassan began operations in 1983 as an unregistered initiative of Hussein al-Shami. It was renamed Bayt al-Mal in 1985 and was registered with the Interior Ministry as Al Qard al Hassan in 1987. The MFI makes small loans to enable clients (mainly Shiite Muslims) to set up small businesses or pay school fees.

Among all microfinance providers in Lebanon, Al Qard al Hassan appears to have the largest market share. The Cooperative Housing Foundation (CHF) reported that the MFI was serving about 8,500 active clients and had an outstanding loan portfolio of about \$11 million.⁴¹ Other sources report that the organization's loan portfolio grew from \$5

³⁶ Mu'Assassat Bayt El-Mal engages in Islamic microcredit activities.

³⁷ This program was started by USAID in 1996.

³⁸ COLIDE CLD (Cooperative Libanaise pour le developpement) finances individual projects through low-interest loans in order to strengthen the entrepreneurial spirit.

³⁹ Brandsma and Burjorjee, 2004, "Microfinance in the Arab States."

⁴⁰ Hariri Foundation market study, 2006, unpublished, Beirut, Lebanon.

⁴¹ CHF International, 2006, "Microfinance and Commercial Banking in Lebanon," Occasional Papers, vol. 1 (November), CHF International, Silver Spring, Maryland, USA.

million in 2000 to \$25 million in 2005, and that by 2006, it was serving more than 25,000 clients with an average loan size of \$900.⁴²

Al Qard al Hassan charges a 10 to 12 percent administration fee on loans and accepts gold and jewellery as collateral, which must be left in its custody. After the war in 2006, the organization provided an estimated \$200 million in loans to Lebanese residents that were significantly affected by the destruction. As of late 2007, the organization was increasing its outreach into non-Muslim areas.

Access to Microfinance and Enhanced Enterprise Niches

AMEEN began in 1998 as a program of the Cooperative Housing Foundation (CHF), financed by the U.S. Agency for International Development. It became a registered not-for-profit organization in 1999 and transformed into a commercial services company (AMEEN S.A.L.) in 2003. AMEEN is now a regulated non-banking financial institution and has become one of the leading microfinance institutions in Lebanon. (As a regulated institution, it is taken more seriously by banks and potential investors.) As of September 2007, it had disbursed a total of 70,000 loans and had an outstanding loan portfolio of \$8 million. By September 2007, it expected to reach 9,000 active clients.

A total of 70 employees work for AMEEN, of which 57 work are field officers working in 55 bank branches all over Lebanon. Its clients can be male or female, but must be Lebanese nationals or foreign nationals with permanent residency and must either have owned a small business for more than one year or be a low-income public or private sector employee with at least one year of employment.

AMEEN has successfully implemented a business model of servicing microfinance portfolios of commercial banks on a fee-for-services basis. The service fee is between 8 and 10 percent of the value of a given bank's portfolio. The MFI works with three commercial banks: Credit Libanais, the Jammal Trust Bank, and the Lebanese Canadian Bank, with which its clients may open accounts with an initial deposit of only \$50.

Whereas Credit Libanais Bank provides 100 percent of funding for microloans, AMEEN shares the funding of loans with Jammal Trust Bank (on a 50/50 basis) and with the Lebanese Canadian Bank (on a one-third (LCB)/two-thirds (AMEEN) basis. Risk is spread between the banks and AMEEN according to individual agreements. Additional financing sources include the former capital of the CHF-USAID program (minimum capital); CHF refinancing; a 2007 grant from USAID for operating costs; and an OPEC guarantee⁴³ that has increased the interest of the banks and therefore the portfolio volume.

AMEEN loan officers are allocated to a specific bank branch and are responsible for promoting the program. They support clients in completing applications, then assess the applications, participate in the relevant bank's credit committee, and monitor and follow

⁴² "Open Source Intelligence: Folio – Hezbollah Fund Raising," 2007 (January), *Intelligence Security Diary*, Gowlings (Barristers & Solicitors), Toronto, Canada (a publication of summaries of articles from *The Wall Street Journal*). Informal sources estimate that Al Qard al Hassan's outstanding portfolio is closer to \$1 billion and that the MFI serves about 200,000 clients (compared to Al Majmoua's 7,300 clients and AMEEN's 9,000).

⁴³ The OPEC Fund provides development assistance, including credit lines exclusively for SME lending.

up on outstanding loans. Loan contracts, disbursements, and the repayment system are organized by the individual banks.

The microfinance institution has an internal audit department with one person in charge of finance, accounting, and human resources management, and another person in charge of field operations and credit procedures. The banks and AMEEN have their own management information system that facilitates the transfer of information, however, AMEEN will soon switch over to a web-based MIS called Web Abacus.

Microenterprise and small business loans (up to a maximum of \$5,000), represent about 85 percent of AMEEN's total portfolio. Consumer and personal loans, together with housing and home improvement loans (in maximum amounts of \$3,000), represent another 15 percent, combined. Loan maturity varies from 4 to 18 months, depending on a client's repayment record. The maturity of loans less than \$3,000 is kept below 12 months. Loans range from \$300 to \$5,000, with the first loan not exceeding \$2,000.

AMEEN charges an annual flat interest rate of 16.4 percent on loans in U.S. dollars, which represent approximately 26 percent of its portfolio, a number that is declining. Interest on loans in Lebanese pounds is an annual flat rate of 15.8 percent. AMEEN has not encountered difficulties with clients over its interest rates, despite Islamic religious principles.

Before the 2006 war, the its portofolio at risk ratio (greater than 1 day) was less than 2 percent, but went as high as 49 percent after the conflict. The rate has since fallen to less than 2 percent, with only 1.3 percent of loans written off. (Approximately 10 percent of the loan portfolio was rescheduled or refinanced and the late penalty of \$0.50 per day was cancelled on loans affected by the conflict).

AMEEN estimates the overall microfinance market potential of Lebanon at 150,000 clients and seeks to develop new products, attract new clients, and expand the number of its banking relationships.

Al Majmoua

Al Majmoua started microfinance activities in 1994 with a microcredit program funded by the U.S. Agency for International Development and administered by Save the Children. After separating from Save the Children (a process that included the transfer of all loan capital), the organization became a legally registered nongovernmental organization in 1998 and is today one of the leading microfinance institutions in Lebanon. The last time it received funding was in 2004. Now sustainable, the MFI operates independently and follows best practices in microfinance.

Al Majmoua disbursed only microcredits until 2006, when it added free business development services (BDS), including capacity building, community development, and socially oriented activities for women. Initially, it provided only group loans targeted at women.⁴⁴ In 2000, it launched individual lending to men and women of all nationalities, provided they are legal residents of Lebanon. It now has eight branches and is active nationwide, including in Palestinian refugee camps, with three offices in Beirut and

⁴⁴ Group loans for men did not work as the men had no interest in attending regular meetings.

Mount Lebanon (Beirut, Bourj Barajneh, Aley), three in the south (Tyre, Nabatieh, Saida), one in Baalbeck, and one in Tripoli.

As of September 2007, Al Majmoua had 80 full-time staff, of which 50 were loan officers and 40 worked in the main office (in accounting and finance, IT/MIS, and business development services). Each branch combines one area supervisor, between 8 and 10 loan analysts, and one assistant for data entry. The MIS is interrelated with the accounting program and works with a total of three databases. An internal controller for field operations performs full annual checks on loan analysts and accompanies the credit analyst during client meetings to prevent fraud. An external audit is done twice a year by KPMG. The MFI regularly invests in staff training and has experienced very low staff turnover.

Since 1994, the organization has disbursed 70,000 loans. As of September 2007, Al Majmoua had a credit portfolio of almost \$6 million and about 7,300 clients (95 percent of which were informal entrepreneurs). The MFI offers group and individual loans, with the latter categorized as general loans, business development loans, and worker loans. Group loans are open to both men and women in vulnerable conditions, although the majority of groups consist of women. In the past, Al Majmoua offered a popular savings account product through local banks, but the banks discontinued the service due to the high administrative costs associated with the small savings volume.

Currently, the MFI offers a working capital group loan that ranges from \$100 to \$1,300 (with a \$600 average). The loan term is 6 months, repayments are made monthly, and the interest rate is a 1.65 percent flat monthly rate, with no additional fees or commission. No collateral or guarantors are required, as group solidarity is considered a guarantee.

Individual loans for fixed assets and working capital range from \$500 to \$5,000; for workers, the maximum individual loan is \$2,000. Clients must pay an upfront fee of 2 percent of the value of the loan and a flat monthly interest rate of 1.5 percent. Loan maturities can be up to 18 months and repayments are made monthly. Fixed assets are commonly used as collateral, but are often more symbolic (e.g., a television or refrigerator). For a loan of \$3,000 or more, a guarantor or co-signer is required.

Individual loans for business development purposes range between \$5,000 and \$10,000 and are extended to clients with good loan performance. The same individual loan conditions apply, with the exception that loan maturities can be up to 24 months and the monthly interest rate depends on the term (1.4 percent for loans up to 2 years, less for terms of over three years). A guarantor, co-signer, or a pledge of a land is required, although land is not preferred collateral.

In addition to group and individual lending, Al Majmoua participates in the ESFD program financed by the European Union, from which it received a loan of 1.8 billion Lebanese pounds in 2003. Start-up businesses and existing microbusinesses in underprivileged areas in the south and north of the country are the target of this program, which extends loans for fixed assets and working capital. These loans range from 3.5 million to 7.5 million Lebanese pounds (\$2,333 to \$5,000), with maturities of between 12 and 60 months and a declining annual interest rate of 17.75.

After the 2006 war, 2,200 clients had incurred damage to their businesses and/or personal lives and PAR (>30 days) stood at 8.85 percent at the end of the year. Al

Majmoua accordingly rescheduled 1,390 loans worth \$1.6 million and extended a grace period of between 1 and 6 months. By September 2007, the arrears rate (PAR > 30 days) had dropped to 3 percent, despite the destruction of the 2006 conflict. This rate was more or less the same for all products, with a clear gender difference (i.e., a higher PAR for loans to men).

In the event of defaulted loans, a penalty of \$1 per day is charged. Usually, loan analysts find solutions together with the beneficiaries or contact the guarantors, which can put considerable pressure on the client. During 2006, the MFI engaged in only 9 legal cases due to defaulted loans.

Overall, Al Majmoua has well-established, quick procedures and strict control processes, making it efficient and easy to supervise. In particular, loan officers deal with the entire loan cycle,⁴⁵ from marketing to needs analysis, application support, application management, and assessment. They also visit businesses and homes, attend to supplier requests, and conduct reputational surveys.

Although Al Majmoua has wide regional outreach, it is not well known among the population of Lebanon or in the Middle East region. Its current strategy envisions the establishment of two new branches over the next several years and the introduction of additional products. Al Majmoua does not wish to be perceived as a bank. However, the organization is investigating the possibility of transforming into a company, which might help it attract new funding sources.

Association d'Aide au Développement Rural

ADR was founded as an NGO in 1998 to help marginalized people via economic and social development projects. It started working in Tyre, but has since extended its outreach to different regions (Bint, Hasbaya, Jbeil, Kfar Kila, Marjayoun) while focusing on south Lebanon. The organization has four different programs: agriculture, vocational training, social services, and microcredit.

The microcredit program was established in 1999 at the initiative of Bank Audi, a commercial Lebanese bank, and targets small enterprises that do not have access to bank loans. The program has seven employees (four loan officers, one supervisor, one accountant, and one manager) and a well-functioning MIS, which is interrelated with program accounting and provides all data needed for monitoring and reporting. An IT specialist employed by ADR works part-time with the microcredit team. The organization does not employ an internal auditor, but is audited annually by external auditors.

ADR offers three different kinds of individual loans to Lebanese nationals and Palestinians with legal status. Loan amounts range from \$500 to \$4,000, with initial amounts set as follows: \$2,500 for an initial business loan, \$1,500 for an initial personal loan, and \$2,000 for an initial home improvement loan. Loan maturity can be as long as 30 months for business loans, but the average is 18 months. There is no set grace period.

⁴⁵ For loans in amounts greater than \$5,000 (loans to SMEs), analysis is conducted by an operational manager during the pilot phase and the decision is taken at the head office.

The organization does not consider group loans to be ideal for the local culture, as Lebanese people generally do not like sharing information or talking about financial problems. ADR also provides business development services (BDS) in the form of training, either directly or in partnership with other organizations, such as the United Nations Industrial Development Organization. In the past, an old-style approach meant that clients did not appreciate the BDS offering because it did not respond to their actual needs. ADR is now planning to adjust its approach to this training.

ADR charges a flat annual interest rate of 12 percent, plus a one-time insurance fee of 3 percent of the value of a loan to cover the contingencies of death and handicap. Mandatory savings are not required, but one guarantor is required for loans up to \$1,500, two for loans greater than \$1,500.

At the end of August 2007, the microfinance provider had 900 outstanding loans collectively valued at \$1.2 million and projected it would have outstanding loans of \$1.3 million by year end. The largest share of ADR loans (almost 40 percent) goes to microenterprises in the services sector, followed by those in the commerce and trade sectors (more than 25 percent), agriculture (20 percent), and manufacturing (more than 10 percent).

The default rate on ADR loans is 1.98 percent (> 1 day) and 0.8 percent (> 30 days). Even during the 2006 war, the default rate was kept low due to a cash fund donated by USAID, which helped prevent arrears. Rescheduling was only necessary in a few cases during the conflict. The penalty for delayed repayment is \$0.50 per day for the first month. As of August 2007, a court had been involved in only three cases of non-payment and a total of \$800 had been written off.

The ADR credit committee meets every 14 days to consider loan applications and consists of a minimum of three people (the vice president, head of the agricultural program, and head of the microcredit program). Once loan contract papers are signed, checks are disbursed via Bank Audi, with repayments made via Liban Post (a \$1 fee is charged for each payment).

The ADR microcredit program is currently sustainable and expanding its market share in south Lebanon. Although it has considered further expansion, the organization has no defined plans at the moment. Its present priority is human resources training, especially loan-cycle management (from assessment onwards.). As a nongovernmental organization, ADR cannot administer savings, although it sees great potential in introducing a savings product via a bank. Over the long term, it intends to transform into a non-bank financial institution.

Association d'Entraide Professionnelle

Founded in 1984, AEP is a nongovernmental organization with a focus on microfinance. The initiative was founded by businessmen, bankers, and social specialists who felt that there was a need to support entrepreneurs to establish businesses, become sustainable, and create jobs during the civil war of 1975–1990. The organization mainly pursues social objectives, instead of focusing on profits by charging high interest rates. Its

funding originally came from the EU, Italian and Spanish nongovernmental organizations, and banks.⁴⁶

In addition to Beirut, AEP is active in Tripoli, Batroun, Jbeil/Kesrouan, Chouf/Said, and Bekaa. It has 10 employees (one credit officer per regional branch) and 40 volunteers from all professions. An accounting consultant manages the accounting and financial aspects of the program three times a week, including assessment of loan processes (that is, controls) to prevent fraud. External audits are performed only upon request of a donor due to the high cost.

The organization provides individual, family, and collective loans only to Lebanese citizens (not Palestinians) and to all types of enterprises. The maximum loan amount is \$5,000 (with some exceptions) and a flat annual interest rate of 10 percent is charged. Organizational policy rules out any increase in the interest rate. Collateral in the form of land, a salary guarantee of the borrower, or a guarantor is required. Late payments incur a 9-percent penalty payment and the organization writes off up to five loans per year.

Individual or family loans represent about 80 percent of all disbursements and range from \$700 to \$5,000. In the case of repeat loans, the maximum amount can reach \$7,500. Cooperative loans can include up to 10 people (\$2,000 per person or a total of \$15,000) and account for another 8 percent of the loan portfolio; collective loans to unrelated people working on the same project range from \$2,000 to \$10,000 and account for 12 percent of the portfolio.

Loan terms are 24 months, with a potential grace period assessed during the application process (maximum of 4 months). Repayments are usually made monthly, but the schedule depends on the sector (e.g., for an agricultural project, it could be seasonal). Disbursements are made by check and distributed on the 5th, 10th and 15th day of every month. A credit officer accompanies a client when he or she goes to the bank for the disbursement.

As of June 2007, AEP had disbursed a total of 2,100 loans valued at more than \$9 million. Its outstanding loan portfolio at that time consisted of 700 loans valued at \$1 million. During the 2006 conflict, AEP maintained a loan recovery rate of 92 percent; in the civil war period, it was less than 80 percent. Almost all client businesses or projects were damaged in the 2006 conflict, when most clients found it impossible to repay their loans. AEP therefore submitted a partial rescheduling proposal; new loans were then disbursed on better conditions or without interest.

In addition to loans, AEP delivers training at no cost to participants, including such workshops as “Accounting for the Non-accountant,” “Marketing,” and “How to Start a Business.” Training was previously offered only to clients, but is now open to non-clients, a strategy that has enabled AEP to identify potential new clients.

AEP would like to expand its regional outreach and has identified high unmet demand in certain regions. However, the volume of AEP lending is very small compared to that of other MFIs and lack of funds is preventing expansion. In addition to the training that it offers clients, AEP would like to develop its own staff. However, available training options are very expensive or may be very general. AEP is thus seeking a detailed training

⁴⁶ These organizations have been not named.

needs assessment conducted by an independent person or organization that could develop tailor-made training for the organization.

Al-Tamkeen

Al-Tamkeen was created in 1996 and registered as a NGO in 2002. The organization runs various types of assistance and development projects and operates in six districts of Lebanon (Aley, Baabda, Chouf, Hasbaya, Rashaya, West Bekaa). One of its initiatives is a rural enterprise development program, including micro and small loans for start-ups and business development. The business loans are granted to individuals and groups and disbursed and repayed via Byblos Bank and Banca di Roma.

Commercial loans are offered in amount up to \$3,000 with maturities of up to 24 months and a maximum grace period of three months. A flat annual interest rate of 9 percent is charged. Agricultural loans are extended in amount up to \$8,000 with maturities of up to 36 months and a maximum grace period of 6 months; a flat annual interest rate of 5.5 percent is charged. As of September 2007, Al-Tamkeen had disbursed approximately \$970,000 to 352 enterprises. The organization hopes to expand regionally to meet unmet demand.

Hariri Foundation

The Hariri Foundation was founded in 1979 as non-profit-organization that facilitated loans to young people who applied to institutions of higher education. The foundation is planning to set-up a not-for-profit-organization to serve clients with cheap loan products, envisioning approximately six branches with five to seven loan officers apiece. The foundation would also like to offer business development services to micro and small enterprises. It has prepared a very detailed business plan with five years of financial projections and is being advised by many microfinance experts, including Mohammed Yunus.

The planned microfinance program is expected to become operational in 2008 and the foundation is accordingly looking for start-up funds and technical assistance to train loan officers. Funding for the new program is already planned.

Makhzoumi Foundation

The Makhzoumi Foundation was established in 1997 and has six programs. The microcredit program was established in 1998 with the support of microfinance experts, but is not administered as an independent entity. The program has seven employees: four credit promoters, three head office employees, and one part-time accountant (who is also responsible for other programs).

The Foundation offers individual, start-up, and business loans to Lebanese citizens in average amounts of \$500 to \$1,000. Personal guarantees are required to receive credit. For loans up to \$500, the maturity is 6 months; for loans up to \$1,500, 12 months; and for loans up to \$3,000, 18 months. There is a grace period of one month. The organization charged a flat annual interest rate of 22 percent until 2006, when it fell to 18 percent (this rate includes administrative costs).

The microcredit program is limited to the greater Beirut area. As of September 2007, the program had 320 active clients and an outstanding portfolio of \$200,000 at BLOM Bank, which disburses its loans. Women working from home made up 68 percent of its clients. About 65 percent of disbursed loans have been extended to businesses in the trade sector and another 35 percent, to businesses in the services sector.

United Nations Relief and Works Agency

Lebanon has 12 official Palestinian refugee camps and approximately 380,000 registered Palestinian refugees. However, it is estimated that there are another 15 informal settlements.⁴⁷ Palestinian refugees are classified as foreigners and have no political, social, or civil rights in Lebanon. Their major sources of income are employment via the United Nations Relief and Works Agency for Palestinian Refugees in the Near East (UNRWA), remittances, work with Palestinian organizations, and shops and small enterprises located within the refugee camps.

UNRWA operates both a microfinance and microenterprise program in Lebanon with an emphasis on urban areas, where Palestinian camps are located. The program uses the guarantees of UNRWA employees, NGOs (and their employees),⁴⁸ and bank employees as collateral. On the basis of \$1.5 million in capital, UNRWA had an outstanding portfolio of \$1.05 million as of September 2007.

Business and soft loans are offered with a maturity of 36 months and a 6-month grace period. Housing loans are offered for a term of 24 months without a grace period. UNRWA charges a flat annual 7 percent interest rate on loans.⁴⁹ Portfolio at risk (greater than 30 days) is between 4 and 5 percent due to high losses from the 2006 conflict in the camp in north Lebanon.

⁴⁷ Informal settlements have no access to UNRWA services.

⁴⁸ UNRWA has applied for funding to secure more guarantee opportunities through NGOs.

⁴⁹ This interest rate also includes administration fees. Due to the haram/halal concept, the interest rate is explained to clients as administration fees, or service charges, not as interest.

3 DEMAND STUDY

This chapter discusses the market demand study of micro and small enterprises in Lebanon in detail, including their size, age, ownership structure, and management, as well as their relationships with suppliers and clients. The turnover, profit margins, and past and future investments of these enterprises is then analyzed. Finally, their current use and estimated future demand for formal and informal financial services is presented.

Box 1. Summary of Market Demand Survey

Banking Relationships

- About 63 percent of all respondents used banking services, 86.9 percent of which had a current account with a bank. The second and third most widely used services were savings accounts and checks.
- Use of banking services is the highest in Beirut (almost 71 percent of respondents) and lowest in Tyre (47 percent).

Knowledge and perception of loans

- About 52.5 percent of enterprises interviewed considered it impossible, very difficult, or difficult to obtain a loan from a commercial bank, yet 42.2 percent found it easy.
- For 38 percent of respondents, lack of collateral was the greatest difficulty in obtaining a loan. Interest rates that are too high and procedures that are too long were considered the second and third most significant obstacles (by 29 percent and 22 percent of respondents, respectively).
- Car loans are the best known credit product, with a 76.1 percent awareness level. Housing loans came second, with 68.5 percent awareness. Only 11.9 percent of respondents were unaware of any type of loan.

Formal loans

- Only 32 percent of the sample size had ever applied for a loan from a formal source and only 24.5 percent had obtained one.
- Of the 68 percent of respondents who never applied for a loan, 56 percent cited no need as their reason for not applying.
- Among respondents who accessed a loan, 83.2 percent obtained it from a bank, 6.9 percent from an MFI, and 1.5 percent from Kafalat.
- The largest share of loans (42.2 percent) accessed by respondents were valued between \$3,334 and \$16,667, with roughly similar loan volumes granted above and below that range.

Informal loans

- Of the total survey sample, 27.8 percent had obtained a loan from an informal source.
- The most popular informal loan sizes were between the ranges of \$668–\$1,667 and \$1,667–\$3,333.
- The vast majority (92 percent) of informal loans charged no interest and a large number (48.5 percent) had a maturity of over 18 months.

Future loan demand

- Approximately 35.8 percent of respondents would be interested in obtaining a loan in the future, if given the opportunity.
- Whereas desired loan amounts are high, a realistic estimate of an average loan based on repayment ability would be up to \$1,500 with a term of around 12 months.
- Only 26.8 percent of respondents indicated a desired loan maturity of less than 12 months, with a majority (59.5 percent) interested in a maturity over 18 months.
- The largest share of respondents (47 percent) were willing to pay an annual interest rate of 6–10 percent, while 33.9 percent were willing to pay 1–5 percent. Only 14.7 percent of MSEs were willing to pay an annual interest rate greater than 10 percent.

Source: IFC survey data, 2007.

Methodology

One of main challenges in the design of the market study was the lack of an up-to-date national database. The last Lebanese census was conducted by the Central Administration for Statistics in 1996 and does not account for changes that occurred in the sector from 1996 to 2007. A more recent study by the Economic Research Forum in Cairo included a preliminary field survey to remedy the lack of a representative sample. However, that study notes that its results are representative only at the level of the Mohafazat administrative unit, not at the national level.⁵⁰

Given the lack of reliable census data, the research team selected the survey sample based on the best available data. The team identified greater Beirut, Baalbek, Tripoli, and Tyre as the principal geographic areas for the survey due to their high concentration of micro and small enterprises and their geographic representation. All enterprises interviewed were located in urban areas, where the concentration of MSEs is the highest. Thus, the survey did not include the agriculture sector, rather, it concentrated on the trade, production, and service sectors.

The market survey was conducted in September 2007 and comprised face-to-face interviews using a semi-structured questionnaire with a sample size of 539 MSEs in the four abovementioned cities (282 in greater Beirut, 111 in Tripoli, 95 in Tyre, and 51 in Baalbek). The survey in the greater Beirut area included a diverse number of poorer and more remote suburbs, which represented populations from different ethnic backgrounds. Interviews were conducted by a research team located in Lebanon that was recruited, trained, and closely supervised by the Frankfurt School of Finance and Management. Data compilation and encoding was conducted using the Statistical Package for the Social Sciences.

The survey used the following definitions of micro and small enterprises: business with 1 to 5 employees were considered microenterprises, while businesses with 6 to 49 employees were considered small enterprises.⁵¹ Several focus group meetings were also held (one in the Al Buss Palestinian refugee camp, one in Tripoli, and one in Saida) during and after the market survey in order to verify its findings and collect additional qualitative data.⁵²

⁵⁰ Economic Research Forum, 2006, "Micro and Small Enterprises in Lebanon."

⁵¹ A variety of definitions are applied to the Lebanese micro, small, and medium enterprise sector. For instance, the Kafalat guarantee fund defines small and medium enterprises as companies with up to 40 employees, regardless of financial criteria. The Central Administration for Statistics of Lebanon, on the other hand, defines businesses with up to 4 employees as microenterprises; more than 5 employees, as small businesses; and more than 100 employees, as medium-sized enterprises.

⁵² Focus group participants had good knowledge of the banking sector and many used banking services on a regular basis. Most participants also saved on a regular basis, depending on the sales revenues of their businesses. Entrepreneurs who participated in the focus groups were reluctant to take loans because they were afraid of being unable to repay them due to high interest rates or unknown future political developments.

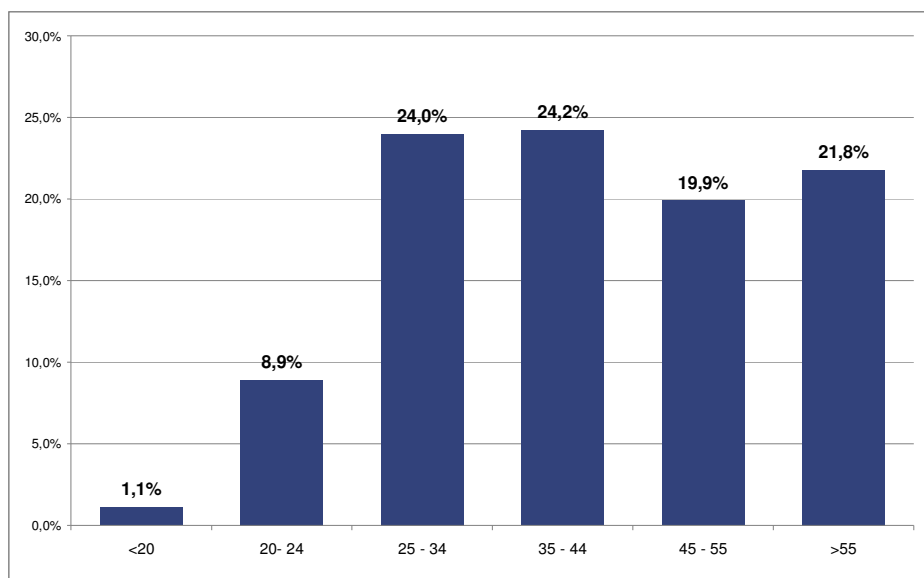
Socioeconomic Characteristics

Size, owner age, and gender distribution

The overwhelming majority of MSEs interviewed were microenterprises (508, or 94.3 percent of the sample survey); only 31 (5.8 percent) were classified as small enterprises. A large majority of the entrepreneurs interviewed for the market study were male (76.4 percent, versus 23.6 percent for female respondents). The lower figure for women entrepreneurs is in line with the overall figures for women in the Lebanese labor force, currently estimated at about 29 percent.

As shown in figure 1 below, the majority of entrepreneurs interviewed were between 25 and 55 years of age. Nevertheless, a sizeable share (21.8 percent) were over the age of 55.

Figure 1. Age of Lebanese entrepreneurs (N=539)



Source: IFC survey data, 2007.

Regional and sectoral distribution

The Lebanese economy is very diverse with respect to enterprise size, sector, and use of financial services. However, the majority of enterprises interviewed were from the trade sector in all cities included in the study. Of the overall total, 63.1 percent belonged to the trade sector, 26 percent to the services sector, and 13.4 percent to the production sector.

Among all 539 MSEs, 508 (94.2 percent) were microenterprises and 31 (5.8 percent) were small enterprises. A total of 412 (76.4 percent) were owned by male entrepreneurs and 127 (23.6 percent), by female entrepreneurs, reflecting the fact that men still slightly dominate the economic sector. Of the 127 female entrepreneurs, 118 (92.9 percent) owned microenterprises while only 9 (7.1 percent) owned small enterprises. Similarly, among male respondents, 390 (94.7 percent) owned microenterprises and only 22 (5.3 percent) owned small enterprises. Thus, 5.3 percent of male and 7.1 percent of female respondents owned small enterprises.

Table 8. Lebanese survey sample by region and sector (N=539, multiple answers)

	Trade	Services	Production
Baalbek	27	14	11
Tyre	60	24	12
Tripoli	68	33	13
Beirut	185	69	36
Total	340	140	72

Source: IFC survey data, 2007.

As table 6 shows, the ratio of MSEs surveyed in the trade, services, and production sectors were similar in each city considered in the study. A small number of MSEs were, moreover, involved in more than one sector, such as production and trade.

The trade sector included wholesale and retail trade, as well as enterprises that engaged in both wholesale and retail activities. Accordingly, 2.5 percent of surveyed enterprises conducted wholesale trade; 52.3 percent, retail trade; and 8.3 percent, both. MSEs in the services sector included restaurants (4 percent), seamstresses/tailors (1.7 percent), hairdressers (7.3 percent), repairmen (3.5 percent), drivers (1.2 percent) and other services (11.7 percent). The production sector included enterprises engaged in food production (3.7 percent), carpentry (0.2 percent), and other production (10.8 percent).

Legal status

A large majority of enterprises were registered and owned by one proprietor. Only 14 percent of respondents had no form of registration, some of which were Palestinian refugees.

Table 9. Legal status (N=535)

	Number	%
Not registered	75	14.0%
Sole proprietor	370	69.2%
Limited company	50	9.3%
Joint company	38	7.1%
Other	2	0.4%
Total	535	100.0%

Source: IFC survey data, 2007.

Age and employment structure

The largest percentage of surveyed MSEs had been operating for more than 20 years (27.8 percent); other significant percentages had been in operation 4–10 years (26.9 percent) and 11–20 years (14.5 percent). Of note, enterprises established within the past four years comprised roughly 30 percent of the sample—a remarkable figure considering recent periods of turmoil in Lebanon. Specifically, 11.3 percent of surveyed enterprises were established during the preceding year and 19.5 percent, within the past 3 years.

It is significant that most enterprises working in both production and trade were more than 20 years old (43.1 percent and 27.1 percent, respectively). Of enterprises active in the services sector, the largest share (30 percent) were between 4 and 10 years old, with a relatively even distribution among other age groups. With respect to regional differences,

a large percentage (34.8 percent) of enterprises in Beirut had been in existence for more than 20 years, while Tyre had the highest percentage of enterprises (17.9 percent) in existence for one year or less. Otherwise the distribution of enterprises was relatively similar between cities.

In terms of employment structure, respondents were almost equally split between owner-owned enterprises (46.6 percent) and enterprises that had 2 to 4 employees (47.7 percent). A large majority (76.3 percent) of respondents stated that they had not recruited any new staff over the past year.

Premises and start-up funds

A large majority of surveyed MSEs (497 out of 534, or 93.1 percent) operated out of fixed premises, with only 1.9 percent representing street vendors. Yet most of these premises were rented (69.8 percent), not owned (26.1 percent).

Borrowing money to start a business seems to be very unpopular among Lebanese entrepreneurs. Most MSEs in the survey (87.8 percent) said they used their own resources to start their businesses⁵³—only 6.5 percent used credit from an institution and only 5.2 percent, an informal loan from family members or friends.

Management

In almost all cases, the owner worked in the enterprise, thus 99.8 percent of the survey interviews were carried out with the owner. Most entrepreneurs in Lebanon are well educated. The majority of owners who were surveyed had a high school, university, or technical education (68.9 percent combined). Only 4.7 percent were illiterate, while the remaining 26.6 percent had at least completed primary school. Female entrepreneurs, however, were even better educated than male entrepreneurs. Whereas 39.2 percent of women entrepreneurs interviewed had a university education, only 23.2 percent of males did. Moreover, fewer women entrepreneurs were illiterate: 1.6 percent compared to 5.6 percent for men.

Client and Supplier Relations

Suppliers

Although a fair share (19.6 percent) of the micro and small enterprises interviewed obtained their goods from international companies or suppliers, the large majority (81.9 percent) relied on the daily market at their most important source of inventory. Wholesalers supplied only 3 percent.

Most respondents paid cash upon receipt for supplies (70.8 percent), followed by those who paid in cash sometime after delivery (46.7 percent), that is, those who paid on credit. Only 3.7 percent paid cash in advance and less than 1 percent (0.6 percent) paid an advance, with the balance due upon receipt. Payment by check was reported by 6 percent of entrepreneurs. In Baalbek, cash payment upon receipt was more popular than in the other regions.

⁵³ The focus groups confirmed that entrepreneurs in Lebanon typically save their own money to start a business, rather than borrow from banks or other institutions. Some participants indicated that this money was saved from previous jobs, noting that three to five years of savings were needed to start a new business (assuming that premises were rented).

Among all respondents, only 10.7 percent indicated that suppliers either granted a reduction for immediate payment (5.6 percent) or charged interest on payments after delivery (5.1 percent). Of this group, the largest number of respondents (35 out of 56, or 62.5 percent) cited a price reduction or an interest charge of 1–5 percent, followed by those who reported ranges of 6–10 percent (18 respondents) and 11–15 percent (4 respondents). No entrepreneur reported a reduction or interest charge greater than 25 percent.

Table 10. Reductions/interest rate penalties on supplier payments (N=56)

	Reduction for immediate cash payment	Interest rate penalty on late payment
1–5%	16	18
6–10%	11	7
11–15%	2	2
Total	29	27

Source: IFC survey data, 2007.

Consumers

The clients of the overwhelming majority of surveyed businesses were final consumers (98.3 percent), followed by retailers (13.7 percent), and exporters and others (1.1 percent). Other customers included banks, businesses, and professional schools, but the number of such customers was very small.

The large majority of entrepreneurs (499 out of 539, or 92.6 percent) are usually paid in cash for their goods or services. In terms of other types of payment, 149 entrepreneurs (27.6 percent) accept payment in cash after delivery, 24 (4.5 percent) accept payment by check, and 17 (3.2 percent) require a full cash advance. Outright credit or credit cards are accepted very infrequently.

The use of price reductions and interest penalties by survey respondents appeared insignificant, with a huge majority (97 percent) indicating that there was no price difference for either immediate or delayed payments. Only 2.3 percent of MSEs reported granting a price reduction when clients paid immediately upon receipt, and even fewer (0.8 percent) charged interest on late payments.

Financial Performance and Perspectives

Bookkeeping

A majority (64 percent) of entrepreneurs reported that they had an accounting system, with one-third (33 percent) indicating that they did not. (For the purposes of the survey, any record of daily, weekly, monthly, or yearly sales was considered a bookkeeping system.) The highest percentage of MSEs with bookkeeping or accounting systems was concentrated in Beirut (72.7 percent) and the lowest, in Tyre (57.9 percent).

Turnover

The yearly turnover of respondents is presented in table 10 below. As this subsection will make clear, MSEs in the trade sector had higher yearly turnovers than enterprises in either the service or production sectors.

Table 11. Yearly turnover, \$ (N=538)

Yearly turnover (\$)	Number of MSEs	Percentage of MSEs
\$0–67	0	0.0%
\$68–133	1	0.2%
\$134–333	2	0.4%
\$334–667	7	1.3%
\$668–1,667	29	5.4%
\$1,667–3,333	26	4.8%
\$3,334–6,667	80	14.9%
\$6,667–16,667	123	22.9%
> \$16,667	270	50.2%
Total	538	100.0%

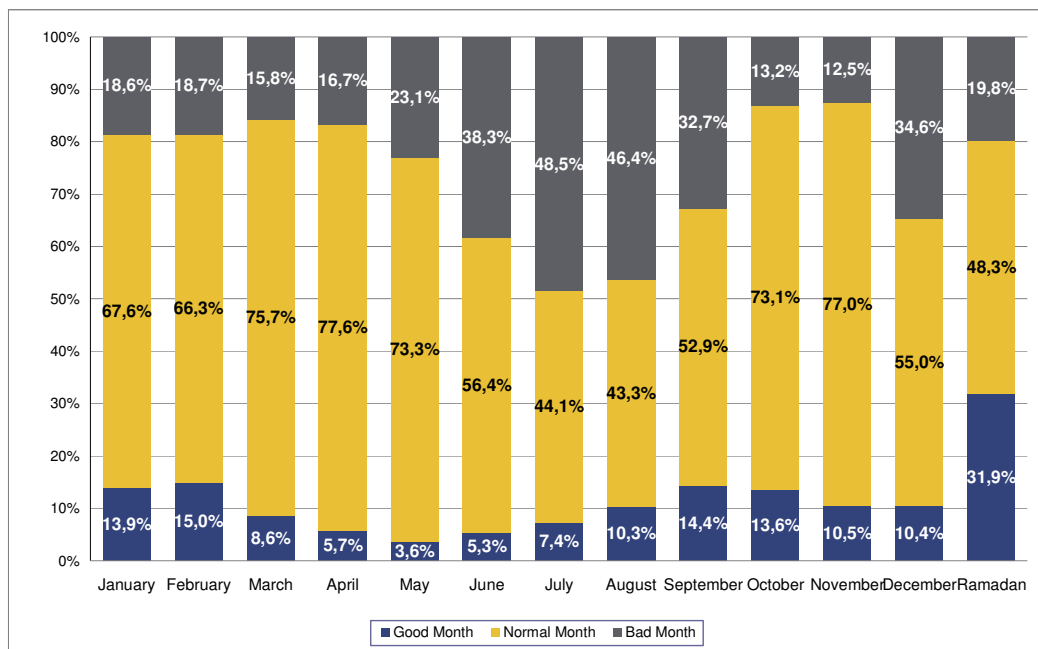
Source: IFC survey data, 2007.

Half of the entrepreneurs surveyed reported a yearly turnover in excess of \$16,667 (LL 25 million). This finding indicates more of a small and medium enterprise (SME) market, whereas the finding on number of employees indicates more of a micro and small enterprise market. In second place, 22.9 percent of enterprises reported turnover between \$6,667 and \$16,667 (LL 10 million and LL 24 million) and 14.9 percent, between \$3,334 and \$6,667 (LL 5 million and LL 10 million). The remaining 12 percent reported a yearly turnover of less than \$3,334 (LL 10 million).

Enterprises in the services sector tended to have lower turnovers than enterprises in either the trade or production sectors: only 33.6 percent of MSEs working in services indicated a yearly turnover greater than \$16,667, whereas 54.4 percent of enterprises in trade and 48.6 percent in production reported this volume. A higher share of service enterprises (19.4 percent) also reported turnover in the range of \$3,334–\$6,667, compared to 13.2 percent in trade and 15.3 percent in production. Slightly higher percentages of service enterprises also reported turnovers in the ranges of \$6,667–\$16,667 and \$668–1,667.

As shown in figure 2, the summer months are clearly worse for respondents than the rest of the year, with the highest percentage indicating June, July, and August as bad months (so identified by 38.3 percent, 48.5 percent, and 46.4 percent, respectively). Although Ramadan was reported as a particularly good month for turnover by 31.9 percent of entrepreneurs—over 15 percentage points higher than any other month of the year (followed by February with only 15 percent)—a considerable percentage (19.8 percent) considered it a bad month, indicating that the season offers unequal business opportunities.

Figure 2. Seasonality of yearly turnover (N=528, in %)



Source: IFC survey data, 2007.

Sunday was considered the best day to do business by the highest percentage of respondents (24.1 percent), despite the fact that many businesses are closed that day. In comparison, only 9.4 percent considered Friday a good day for business, and only 5.4 percent rated Thursday highly.

Profits

An overall profit margin for the surveyed enterprises was calculated according to the weighted profit margin for each of their respective products and/or services. As shown in table 11, the majority of MSEs surveyed fell into one of four roughly equal groups: those earning weighted profits of 1–10 percent (24.9 percent of enterprises), 11–20 percent (29.2 percent of enterprises), 21–30 percent (25.1 percent), and above 30 percent (24 percent).⁵⁴ Another 3.7 percent estimated their profits exceeded 100 percent.

⁵⁴ When asked about their profit margin, most entrepreneurs were able to provide a gross profit margin in the form of a percentage. If a respondent had difficulty answering this question, the research team calculated the margin based on the buying and selling prices of a respondent's two most active products. Just as some difficulties were experienced in collecting information on yearly turnover, similar difficulties were experienced collecting data on profits. Lack of a bookkeeping system, together with limited accounting and financial management skills, might have influenced respondents' answers. Certain MSEs that participated in the survey were, moreover, reluctant to reveal their financial data.

Table 12. Weighted profit margins, % (N=539, multiple answers)

<i>Profit margin range</i>	<i>Percentage of MSEs earning this margin</i>
0–10 percent	24.9%
11–20 percent	29.2%
21–30 percent	25.9%
31–40 percent	5.9%
41–50 percent	7.3%
51–75 percent	4.6%
76–99 percent	2.2%
100+ percent	3.7%

Source: IFC survey data, 2007.

Future Perspectives, Constraints, and Investments

Considering the ongoing political turmoil in Lebanon, survey respondents were cautious about the future of their enterprises. The greatest share of survey respondents (41.6 percent), in fact, had a negative view of future developments, expecting business to decrease over the next several years. A considerable percentage (32.7 percent) nevertheless remained optimistic, believing that business would increase, while another 21.4 percent believed it would remain stable. A small minority (4.3 percent) directly linked the future of their businesses with future political developments.

The negative view of future business developments was more or less uniform across regions and sectors. The greatest share of respondents in all regions, for example, predicted a decrease in business over the next few years. Entrepreneurs in Baalbek were the most pessimistic (38 out of 51 predicted a decrease in business) and those in Beirut the most optimistic (79 out of 282 predicted an increase). Beirut also had the highest proportion of entrepreneurs that believed their business would remain stable (46 out of 282).

Past investments

Survey findings indicate that micro and small enterprises in Lebanon tend to make large expenditures when they invest. (It is possible, however, that entrepreneurs considered smaller investments too negligible to mention during the survey.) The most striking finding was that a majority of entrepreneurs (304 out of 536, or 56.7 percent) made no investment in their businesses over the past two years. A significant share (18.5 percent) invested between \$688 and \$6,667, while roughly the same share made investments in excess of that range: 9.7 invested between \$6,667 and \$16,667 and 10.3 percent, more than \$16,667.

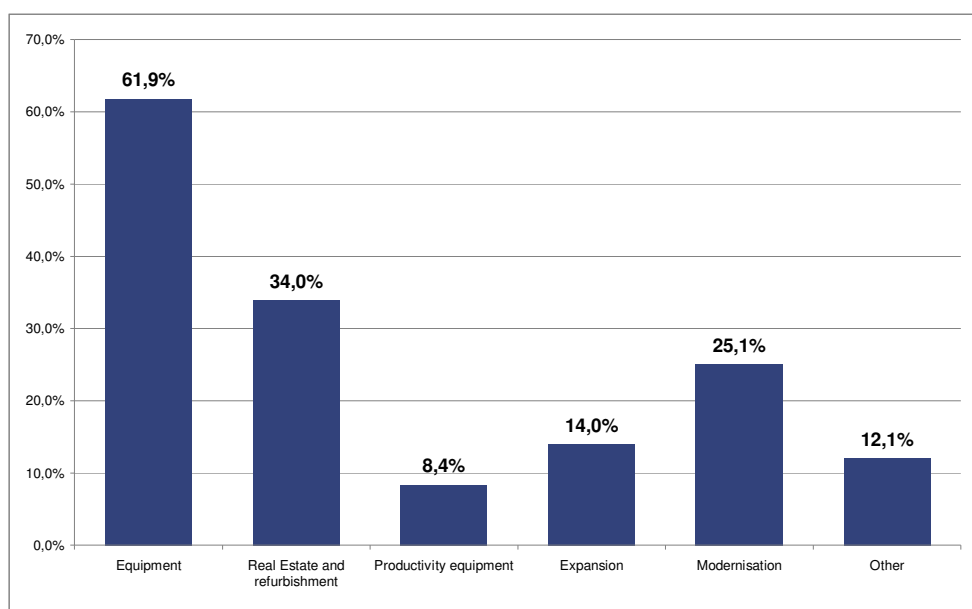
Table 13. Type of investment made in last two years, by sector

Amount (LL)	Trade		Service		Production		Other		Total	
	Count	%	Count	%	Count	%	Count	%	Count	%
0–100,000	1	0.3%	2	1.4%	0	0.0%	0	0.0%	2	0.4%
100,001–200,000	1	0.3%	0	0.0%	0	0.0%	0	0.0%	1	0.2%
200,001–500,000	3	0.9%	2	1.4%	0	0.0%	0	0.0%	5	0.9%
500,001–1,000,000	11	3.2%	6	4.3%	2	2.8%	0	0.0%	18	3.4%
1,000,001–2,500,000	16	4.7%	9	6.5%	1	1.4%	0	0.0%	26	4.9%
2,500,001–5,000,000	17	5.0%	12	8.7%	8	11.1%	0	0.0%	37	6.9%
5,000,001–10,000,000	22	6.5%	11	8.0%	5	6.9%	0	0.0%	36	6.7%
10,000,001 – 25,000,000	35	10.3%	13	9.4%	5	6.9%	0	0.0%	52	9.7%
>25,000,001	31	9.1%	16	11.6%	10	13.9%	1	100.0%	55	10.3%
No investment	202	59.6%	67	48.6%	41	56.9%	0	0.0%	304	56.7%
Total	339	100.0%	138	100.0%	72	100.0%	1	100.0%	536	100.0%

Source: IFC survey data, 2007.

In accordance with the distribution of the survey sample, most investments made over the past two years were made by enterprises in the trade sector. The size of investments also seemed to follow the overall distribution of the sample.

Figure 3. Type of investment made in last two years (N=334, %)



Source: IFC survey data, 2007.

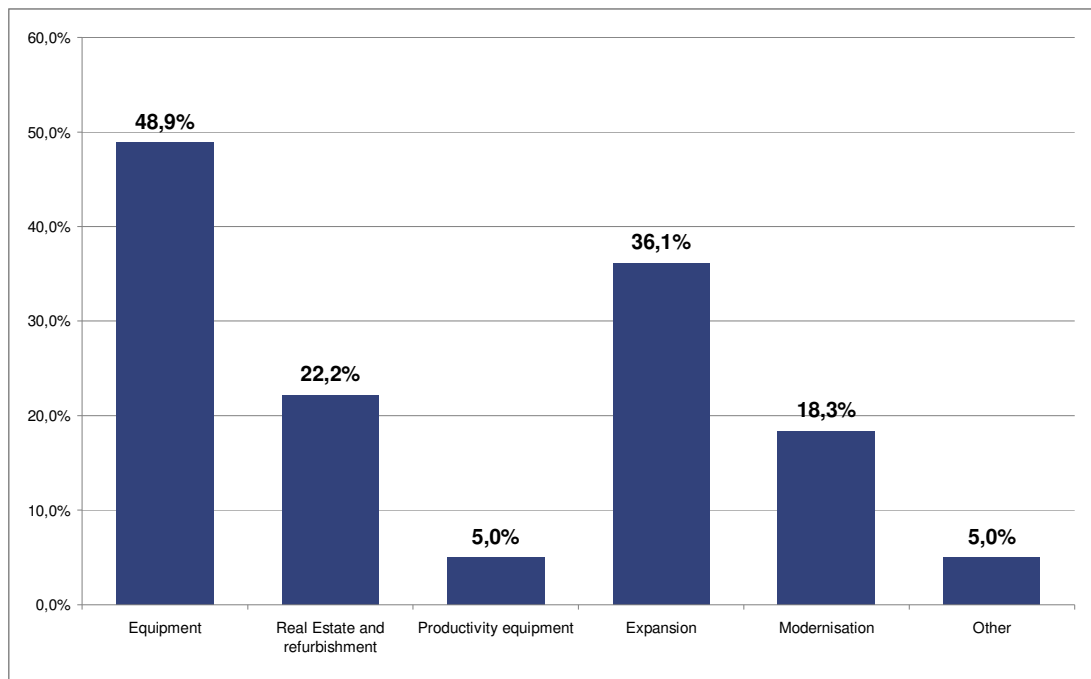
As shown in figure 3, the majority of entrepreneurs (61.9 percent) invested in equipment purchases, followed by real estate or refurbishment (34 percent) and modernization (25.1 percent). Of the 334 respondents that had made investments during the past two years, a large majority (269, or 80.5 percent) used their own funds, 27 used a loan, and 38 used both types of funding to finance their investments.

Planned investments

In line with their pessimistic view of future business development and the uncertain political situation in Lebanon, 66 percent of entrepreneurs interviewed were not planning any future investments. Once again, where investments were planned, they tended to be large. Thus 11.3 percent of entrepreneurs were planning to invest more than \$16,667 (LL 25 million) and another 8.9 percent, in the range of \$6,667–\$16,667 (LL 10 million–25 million).

As with recent investments, most planned investments (48.9 percent of enterprises) were slated for equipment. The second most important purpose (36.1 percent) was for expansion, which has gained in importance. Expansion was followed by real estate and refurbishment, with 22.2 percent of entrepreneurs planning to invest for this purpose.

Figure 4. Type of planned investment (N=244, %)



Source: IFC survey data, 2007.

Out of the 244 entrepreneurs who planned to make investments in the future, 180 (73.8 percent) planned on using their own funds, while 36 intended to take a loan and 28 foresaw using use a mix of their own funds and credits.

Constraints

The most important constraint to business, mentioned by a large majority of business owners (83.8 percent), was political instability. The next important constraints were competition and inflation, both mentioned by 23 percent of entrepreneurs. Competition

was linked to the fact that the number of clients was decreasing (the fourth most important constraint, cited by 19 percent of MSEs). Of note, lack of finance was seen as a very insignificant constraint compared to political instability, competition, and inflation.

Table 14. Constraints preventing business growth, % (N=500, multiple answers)

<i>Constraint</i>	<i>% of MSEs identifying constraint</i>
Political instability	83.8 %
Competition	23.0 %
Inflation	23.0 %
Number of clients decreasing	19.0 %
Taxes too expensive	14.7 %
Lack of infrastructure	13.7 %
Lack of finance	12.1 %
Other constraints	7.3 %
No constraints	5.8 %

Source: IFC survey data, 2007.

Looking at constraints by region, political instability was by far the most important constraint named, especially in Baalbek, where it was cited by 93.8 percent of entrepreneurs. Political uncertainty was generally followed by inflation, competition, and a decreasing number of clients in all regions, however, in a slightly different order. Again, lack of finance was rarely considered a significant problem compared to other constraints mentioned.

Use of Formal and Informal Financial Services

Banking Services

A majority of entrepreneurs surveyed, regardless of region, used banking services (62.8 percent), as opposed to those who did not (37.2 percent). The greatest number of bank customers among respondents was found in Beirut (70.9 percent), followed by Tripoli (59.5 percent), Baalbek (54.9 percent), and Tyre (46.8 percent). Tyre was the only region where the majority of entrepreneurs did not make use of any banking services.

Of the three different sectors, enterprises in trade made the most use of banking services (65.5 percent), while those in services and production used them slightly less (59.3 percent and 58.3 percent, respectively).

Among micro and small enterprises that used banking services, current accounts were the most commonly used product (86.4 percent), followed by savings accounts (53.7 percent), checks (47.8 percent), and insurance (40.6 percent). The least used products were discount bills, followed by Islamic products and overdrafts (not used by 62.6, 61.8, and 58.7 percent, respectively). In fact, Islamic products had the lowest rate of use of all products—4 percent—with more entrepreneurs stating they did not need this service (32.6 percent) than any other service.

In general, the survey showed that remarkably few entrepreneurs were interested in using other banking services. The only additional products in which respondents indicated minor interest were savings accounts (7.9 percent), insurance (6.1 percent), and car loans

(4.8 percent). Only 2 percent were interested in other products and no respondents interested in overdrafts.

Table 15. Bank services used by respondents who use banking services (N=338)

	Never used		Regular use		Interested to try		No need	
	Count	%	Count	%	Count	%	Count	%
Current account	22	6.7%	285	86.4%	16	4.8%	7	2.1%
Savings account	98	29.9%	176	53.7%	26	7.9%	28	8.5%
National transfers	169	54.0%	34	10.9%	2	0.6%	108	34.5%
International transfers	153	48.7%	56	17.8%	4	1.3%	101	32.2%
Western Union money transfer	165	52.5%	40	12.7%	1	0.3%	108	34.4%
Checks	94	29.4%	153	47.8%	6	1.9%	67	20.9%
Islamic products	186	61.8%	12	4.0%	5	1.7%	98	32.6%
Car loans	161	51.9%	50	16.1%	15	4.8%	84	27.1%
Insurance	101	32.3%	127	40.6%	19	6.1%	66	21.1%
Discount bills	184	62.6%	19	6.5%	4	1.4%	87	29.6%
Overdraft	27	58.7%	3	6.5%	0	0.0%	16	34.8%

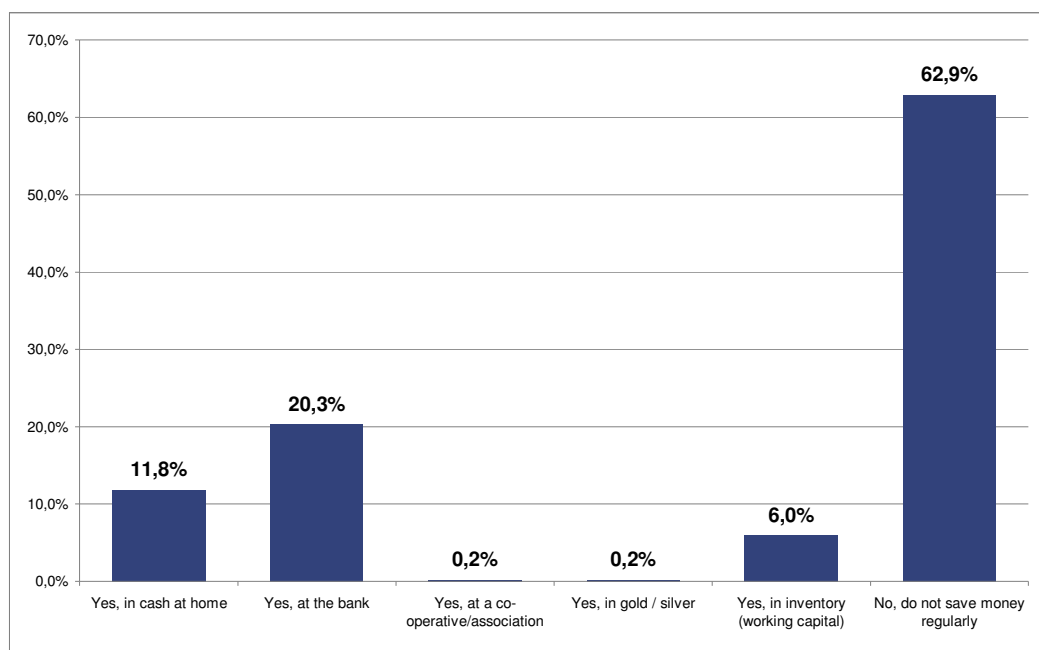
Source: IFC survey data, 2007.

Savings

Although a majority (62.9 percent) of entrepreneurs reported that they did not save money on a regular basis (see figure 5), a significant share of those who did (45.1 percent of 199 entrepreneurs, or 16.7 percent of all enterprises interviewed) reported saving more than \$6,667 on an annual basis. In fact, 70.4 percent of respondents that save put aside more than \$3,334 per year (see table 14).

Banks were the most popular institution with which to keep savings: 20.3 of surveyed businesses that saved regularly used a bank and 11.8 percent saved cash at home. Another 6 percent kept savings in form of inventory. Very few respondents saved at cooperatives or associations or in the form of gold or silver.

Figure 5. Type of regular savings (N=536, in %)



Source: IFC survey data, 2007.

Table 16. Amount of yearly savings, \$ (N=199, %)

Savings amount	% of MSEs that save
\$0–67	1.9 %
\$68–133	1.2 %
\$134–333	1.9 %
\$334–667	1.9 %
\$668–1,667	8.0 %
\$1,667–3,333	14.8 %
\$3,334–6,667	25.3 %
\$6,667–16,667	24.7 %
> \$16,667	20.4 %

Source: IFC survey data, 2007.

Financial institutions

Responses to the question, “Which bank or financial institution do you usually use?” showed that Bank Audi of Lebanon was the most popular bank among respondents (22 percent of those that used banks), followed by Banque du Liban et d’Outre Mer (BLOM, 15.7 percent), and Credit Libanais (11.6 percent). Other banks identified by a significant share of MSEs included Fransabank (9.3 percent), Byblos Bank (9 percent), Société Général de Banque (7.8 percent), and Bank Libano-Francaise (5.8 percent).

The popularity of formal banks varied by region, with Fransabank the most popular in Baalbek (59.3 percent of respondents that use banking services), Bank Audi and BLOM in Tripoli (24.2 and 27.3 percent usage rates, respectively); and Bank Audi and Credit Libanais in Beirut (26 and 18 percent usage rates, respectively).

Table 17. Awareness of different types of loans, % (N=523, multiple answers)

Type of loan	Awareness level (%)
Car loan	76.1 %
Housing loan	68.5 %
Iskan (housing loans for low-income families)	67.3 %
Consumer loan	48.4 %
Kafalat-guaranteed loan	48.4 %
Plastic surgery loan	32.5 %
Working capital loan	28.1 %
Machinery and equipment	27.9 %
Overdraft	20.7 %
Don't know of any type of loan	11.9 %

Source: IFC survey data, 2007.

Despite the fact that some entrepreneurs did not use bank services, most had a good working knowledge of these services. When asked about the types of formal credit with which they were familiar, the largest share of business owners named car loans (76.1 percent), followed by housing loans (68.5 percent), and Iskan loans⁵⁵ (67.3 percent). Consumer loans and Kafalat-guaranteed loans were equally well known, both recognized by 48.4 percent of entrepreneurs in the survey. Of note, plastic surgery loans were more recognized than loans for working capital (32.5 percent versus 28.1 percent), and 11.9 percent of MSEs were unfamiliar with any type of loan product.

Although a majority (52.5 percent) of entrepreneurs considered it difficult, very difficult, or impossible to obtain a loan, almost half found obtaining a loan easy (42.2 percent) or even very easy (5.3 percent). Among MSEs that thought it very easy to obtain a loan, however, most either had a guarantor or knew a family member or friend who worked in a bank (and were therefore almost certain to be granted a loan if they asked for one).

The most important constraint to obtaining a formal loan was lack of collateral, cited by 37.9 percent of business owners, followed by high interest rates (29 percent), long and complicated procedures (22.2 percent), and administrative constraints (20.2 percent). Fear of being unable to repay and lack of accessibility to a bank were cited as the fourth and fifth most significant constraints, named by 15.3 percent and 13.7 percent of respondents, respectively. Of note, religious reasons, such as the use of interest rates by commercial banks, were considered significant only by 3.6 percent of respondents.

⁵⁵ Iskan loans are government-sponsored loans offered through various commercial banks in Lebanon that provide housing financing to low-income households.

Table 18. Most important difficulties in obtaining a loan from a commercial bank (N=248, %)

Reason	% of MSEs
Lack of collateral	37.9 %
High interest rates	29.0 %
Procedures too long and complicated	22.2 %
Administrative constraints	20.2 %
Fear of being unable to repay	15.3 %
Accessibility of bank	13.7 %
Difficult in presenting figures	6.5 %
Corruption	5.2 %
Religious reasons	3.6 %
Don't know anyone at the bank	3.6 %
Other reasons	3.6 %

Source: IFC survey data, 2007.

Another significant finding was that a majority of survey participants (77.5 percent) did not consider it more difficult for a woman to obtain a loan than a man, with only 8.7 percent answering affirmatively to this question and 13.8 percent saying they did not know.

Formal loans obtained

Among all respondents, only 31.9 percent had ever applied for a loan from a formal financial institution, meaning that 68.1 percent had never tried to apply. No need for a loan was by far the most important reason cited by business owners in all regions, accounting for 56 percent of entrepreneurs who had never applied for a loan. The second most important reason cited was high interest rates (18.3 percent), followed by fear of being unable to repay (17.2 percent). Other significant reasons were lack of guarantees (10.4 percent) and long, complicated procedures (9 percent). Only 3.3 percent of respondents cited religious considerations as the reason why they had not sought to obtain a formal loan.

Table 19. Reasons for never applying for a loan, % (N=366, multiple answers)

Reason	% of MSEs
No need	56.0 %
Interest rate too high	18.3 %
Fear of being unable to repay	17.2 %
Lack of guarantees	10.4 %
Procedures too long and complicated	9.0 %
No confidence in banks/other institutions	4.9 %
Religious reasons (i.e., payment of interest)	3.3 %
Do know anyone within the bank	1.1 %
Other reasons	7.1 %

Source: IFC survey data, 2007.

The success rate of loan applicants was quite high: 77.2 percent of entrepreneurs who applied for a loan were able to obtain one, or 24.5 percent of the total survey sample. This finding implies that loan applicants were reasonably well prepared with respect to paperwork, guarantees, and processes. Among this group, a large majority (83.2 percent)

obtained a loan from a bank—clearly the most popular type of formal creditor in Lebanon. Among banks, Bank Audi Lebanon, Fransabank, BLOM, and Credit Libanais were the most popular sources of formal loans, a finding in line with their popularity ratings for general banking services. Only 6.9 percent of respondents that had obtained formal credits received a loan from a microfinance institution, with another 11.5 percent having obtained credit from other sources, including international nongovernmental organizations and the United Nations Relief and Works Agency (in the case of Palestinian refugees).

Of interest, repeat credit business among enterprises is very low. Among the MSEs that applied and obtained a loan, for example, 51.1 percent had only obtained one. In comparison, 37.4 percent of this group had obtained 2–4 loans and 7.6 percent, 5–10 loans.

Size and regional distribution of formal credits

The size of the 128 formal loans received by enterprises in the survey ranged from \$68 to more than \$16,667, with a fairly even distribution above and below \$6,667 (46.1 percent above versus 53.9 percent below this level. The greatest share of formal loans (23.4 percent) were in amounts between \$6,667 and \$16,667, with almost a quarter of formal loans (22.7 percent) in amounts greater than \$16,667. Loans below \$6,667 fell mostly into three ranges: \$3,334–\$6,667 (18.8 percent), \$1,667–\$3,333 (17.2 percent), and \$668–\$1,667 (10.9 percent). Altogether, only 18 percent of loans were less than \$1,667. Given the fact that half of respondents indicated a yearly turnover greater than \$16,667, these loan amounts seem to be realistic.

Table 20. Loan amounts from formal institutions, \$ (N=128, %)

<i>Loan amount (\$)</i>	<i>MSEs that have received a loan (%)</i>
\$68–133	1.6 %
\$134–333	0.8 %
\$334–667	4.7 %
\$668–1,667	10.9 %
\$1,667–3,333	17.2 %
\$3,334–6,667	18.8 %
\$6,667–16,667	23.4 %
> \$16,667	22.7 %

Source: IFC survey data, 2007.

Entrepreneurs in Beirut clearly obtained the largest number of formal loans: 77 out of 132, followed by entrepreneurs in Tyre (22), Tripoli (17), and Baalbek (16). It should be noted that the number for Baalbek is remarkably high compared to other urban centers, as only about half as many entrepreneurs were surveyed in Baalbek as in Tripoli.

Maturity, interest rates, and grace periods of formal loans

The majority of enterprises that received loans paid an annual flat interest rate of 6–10 percent (54.1 percent of respondents) over a term greater than 18 months (60.6 percent). Only 27.6 percent of total formal loans had a maturity of less than a year.

Table 21. Interest rate on formal loans (N=98, %)

<i>Interest rate</i>	<i>MSEs that have received a loan (%)</i>
0 percent	2.0 %
0–5 percent	12.1%
6–10 percent	54.1%
11–15 percent	11.2 %
16–25 percent	17.3 %
26–50 percent	3.1 %

Source: IFC survey data, 2007.

With respect to grace periods, 14 out of 125 respondents mentioned they had had a grace period on repayment of a formal loan, with a period of one month most common (only 6 enterprises reported longer grace periods).

A clear majority (65.6 percent) of entrepreneurs who had already obtained a loan were not thinking of obtaining a new one in the near future. This figure is unsurprising in light of the earlier statistic on the number of repeat loans; it also supports the finding that micro and small enterprises in Lebanon do not have the habit of obtaining repeat loans. However, it should be noted that 74 out of 125 (56.5 percent) entrepreneurs mentioned that they still had a loan outstanding.

Informal loans

About the same number of survey respondents reported having received informal as formal loans (24 percent and 27.8 percent, respectively), although the amount of informal loans was generally smaller. The most popular informal credits fell in the ranges of \$668–\$1,667 and \$1,667–\$3,333, both identified by 18.1 percent of respondents that had obtained such a credit. Only 14.8 percent of informal loans were in amounts greater than \$16,667. Another 12.1 percent fell in the ranges of \$3,334–\$6,667 and \$6,667–\$16,667, combined. Perhaps unsurprisingly, more informal (24.9 percent) than formal (18 percent) loans were in amounts less than \$1,667.

With respect to source, the largest share of informal loans was accessed from family members (21 percent) and friends (10.6 percent); loans extended by moneylenders represented only 1.3 percent of the total. The distribution of informal loans appeared, moreover, relatively equal among sectors, with family members found the most popular and moneylenders the least popular source across all sectors.

Table 22. Amounts of informal loans (N=149, %)

<i>Loan amount</i>	<i>MSEs that have received a loan (%)</i>
\$0-67	2.0 %
\$68-133	3.4 %
\$134-333	6.7 %
\$334-667	12.8 %
\$668-1,667	18.1 %
\$1,667-3,333	18.1 %
\$3,334-6,667	12.1 %
\$6,667-16,667	12.1 %
> \$16,667	14.8 %

Source: IFC survey data, 2007.

Maturity, interest rates, and grace periods of informal loans

The long timeframe of informal loans becomes apparent when their maturity is examined: 48.5 percent had maturities of greater than 18 months. The longer maturity of these loans could be due to the fact that they are often extended by family members and friends. Such loans do not, in fact, have a true maturity at all, but are simply paid back at the discretion of the borrower when he or she is able to do so. Informal loans were furthermore characterized by an almost complete absence of interest rates (92 percent of all such loans). It was very common to encounter cases of informal loans with zero interest, an unlimited term, and a flexible payment schedule (e.g., monthly, trimestrial, annual, one-time, or in accordance with financial means).

Certain informal lending sources did, however, impose stricter borrowing terms and set timeframes: 9.7 percent of respondents indicated maturities of less than one month. However, it cannot be ascertained from the information available whether this was a strictly enforced deadline or simply the period in which the entrepreneur chose to pay back the loan.

Future Loan Demand

Only 35.8 percent of MSEs surveyed responded that, given the possibility, they would be interested in taking a loan in the future. Among respondents that did not seek a future loan, political instability was the most significant reason cited, followed by lack of confidence in commercial banks or other lending institutions. Clearly, the political situation in Lebanon is having a significant impact on future loan demand.

Table 23. Reasons for not obtaining a loan in the future (N=346, %)

	Count	% of MSEs not seeking a loan
No need	222	64.2%
Religious reasons (do not want to pay interest)	10	2.9%
Do not have confidence in banks/other institutions	38	11.0%
Other reason	88	25.4%
Political instability	51	14.7%
Total	346	100.0%

Source: IFC survey data, 2007.

Among entrepreneurs that indicated interest in a future loan, the most preferred loan amount was greater than \$16,667 (36 percent), followed by amounts in the ranges of \$6,667–\$16,667 (27.5 percent) and \$1,667–\$3,334 (15.3 percent). Smaller amounts were less popular, with loan sizes more representative of microloans (less than \$1,667) preferred by only 7.5 percent of MSEs that indicated an interest in a future loan.

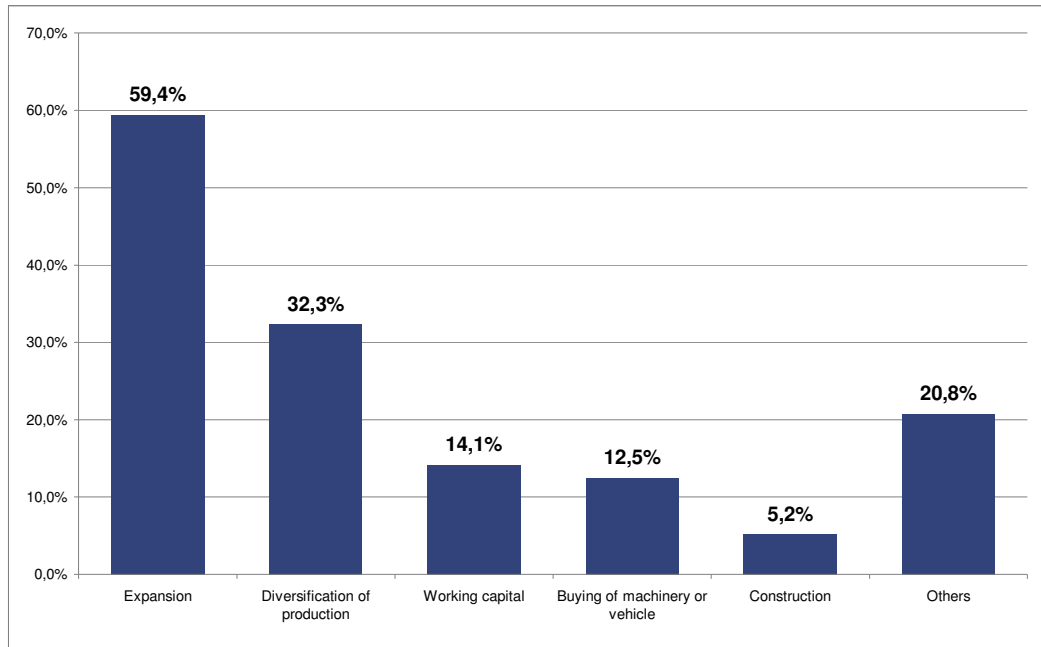
Table 24. Loan amount desired, given possibility of future loan (N=192, %)

Loan amount	MSEs seeking future loan (%)
\$134–333	1.1 %
\$334–667	1.6 %
\$668–1,667	4.8 %
\$1,667–3,333	15.3 %
\$3,334–6,667	13.8 %
\$6,667–16,667	27.5 %
> \$16,667	36.0 %

Source: IFC survey data, 2007.

The majority (59.4 percent) of respondents who expressed interest in a future loan mentioned expansion as the main purpose of the credit, with another 32.3 percent indicating diversification of production and 14.1 percent, working capital.

Figure 6. Purpose of future loans (N=192, %)



Source: IFC survey data, 2007.

With respect to economic sector, expansion was a particularly popular reason for future loans among MSEs in production, followed by diversification of production, working capital, and equipment purchases, which were more or less equally rated. Whereas expansion was also a very popular reason for future loans among MSEs in the trade sector, diversification rated higher, while buying machinery was more important for MSEs in the service sector.

When enterprises were asked about the interest rate that they were willing to pay on a future loan, most (47 percent) reported between 6 and 10 percent. The second most popular range was between 1 and 5 percent (33.9 percent of respondents). Only 14.7 percent of entrepreneurs were willing to pay interest rates above 11 percent on future loans. With regard to the ideal maturity of such a loan, the majority of enterprises (59.5 percent) preferred a maturity of greater than 18 months, with another 32.6 percent preferring a term between 7 and 18 months.

As potential collateral, 25 percent of entrepreneurs interested in a future loan considered providing a house or shop; 16 percent, a car; and 11.2 percent, land. “Other” collateral included goods or guarantees. Of the 191 entrepreneurs interested in a future loan, 69.1 percent stated that they could find someone who would guarantee it for them.

Table 25. Potential collateral for a future loan (N=188, %)

Type of collateral	MSEs seeking future loan (%)
House	25.0 %
Car	16.0 %
Land parcel/ terrain	11.2 %
Television	8.5 %
Refrigerator	6.9 %
Computer	4.3 %
Motor	1.1 %
Other	49.5 %

Source: IFC survey data, 2007.

Estimated Demand versus Current Supply of Finance

In order to estimate realistic national demand for microfinance in Lebanon at the time this study was conducted in September 2007, the research team considered essential demographic data, available statistics and estimations of the size of the private sector, and related this data to the findings of the market study.

Estimated size of MSE sector

In 1996, the Central Administration for Statistics in Lebanon calculated that there were a total of 199,450 enterprises in the country. In addition, it estimated about 250,000 informal household enterprises existed, together with 250,000 one-person microenterprises, the owner of which might be assisted by a family member.

Due to the lack of updated statistical data, it is impossible to arrive at a clear estimate of the size of the private sector. The research team thus used the estimates for informal microenterprises (about 500,000) and formal enterprises (about 200,000) that were calculated in 1996. Among the 200,000 formal enterprises, about 90 percent (180,000) were microenterprises (i.e., enterprises with less than 5 employees), thus a total of 680,000 enterprises could be considered microenterprises.

Another potential target group for microloans is the lower rung of small enterprises that are not technically considered microenterprises, but the funding needs of which are not met by formal financial institutions. This category of small enterprise has between 5 and 10 employees and represents approximately 5 percent (10,000) of all enterprises considered.

In sum, the number of potential enterprises that could be potential microfinance clients is approximately 690,000 (500,000 informal enterprises, 180,000 microenterprises, and 10,000 small enterprises).

Estimated microfinance market

As the results of the market study showed, 35.8 percent of 539 respondents were interested in obtaining a loan in the future, if they had the possibility of doing so. It can thus be estimated that there are about 247,020 potential microfinance borrowers in Lebanon (38.5 percent of 690,000). The remaining potential borrowers (64.2 percent)

were not interested in a loan either because either they had no need for it, lacked a guarantee, or had religious concerns.

If the success rate of survey respondents who applied for a loan (77.2 percent—a total of 132 out of 171 applicants were able to obtain a loan), the number of interested, potential eligible borrowers declines to 190,699.⁵⁶

Table 26. Calculation of potential eligible microfinance borrowers, September 2007

<i>Number of potential enterprises</i> (A)	<i>Number of households interested in MF (A x 35.8%)</i> (B)	<i>Number of potential eligible borrowers (B x 77.2%)</i> (C)
690,000	247,020	190,699

Source: Central Administration for Statistics calculations, 1996; IFC survey data, 2007.

The current supply of microfinance in Lebanon is presented in table 26. This estimate excludes the microfinance programs of commercial banks, as these program mainly offer loans in amounts greater than \$5,000. The estimate in table 25 uses an average microloan size between \$625 and \$1,429 (with a national average of \$1,118).

Table 27. Microfinance supply in Lebanon, excluding commercial bank microfinance programs, September 2007

<i>Microfinance organizations/programs</i>	<i>Number of clients</i>	<i>Loan portfolio (\$ millions)</i>	<i>Average balance (\$)</i>
ADR	900	1.2	1,333
AEP	700	1.0	1,429
Al Majmoua	7,300	6.0	822
AMEEN	7,500	8.0	1,067
Al Qard Al Hassan	8,500	11.0	1,294
Makhzoumi	320	0.2	625
Others (Al-Tamkeen, Cooperation for Development, ILDES, Caritas, UNRWA)	4,200	5.5	1,300
Total	29,420	32.9	1,118

Source: IFC survey data, 2007; for “Others” category: CHF International, 2006, “International Development Matters,” CHF International, Silver Spring, Maryland, USA (“Others” category).

Despite the fact that over 50 percent of respondents interested in a future loan seek credits in amounts greater than \$6,668, the desired loan amounts shown in table 27 appear unrealistic in light of the yearly turnover and profit margins of micro and small enterprises in the country. As noted earlier, only 10 percent of enterprises interviewed had a yearly turnover greater than \$120,000, while the turnover of almost 55 percent was at or below \$20,000. The turnover of the largest share of enterprises (17.3 percent), moreover, fell between \$4,001 and \$8,000.

⁵⁶ The eligibility rate of 77.2 percent could change in the future in line with changing market conditions, such as increased supply to this market segment. Nonetheless, the market demand estimate for this report uses this rate, especially because some respondents who indicated interest in a loan would not actually apply for one.

Table 28. Formal and informal loans obtained and desired, 2007 (N=538, %)

Amount (LL and \$)	Loans obtained		Loans desired	
		% or MSEs		% of MSEs
LL 0–100,000 (\$0–67)	3	1.1 %	0	0.0 %
LL 100,001–200,000 (\$68–133)	7	2.5 %	0	0.0 %
LL 200,001–500,000 (\$134–333)	11	4.0 %	2	1.1 %
LL 500,001–1,000,000 (\$334–667)	25	9.0 %	3	1.6 %
LL 1,000,001–2,500,000 (\$668–1,667)	41	14.8 %	9	4.8 %
LL 2,500,001–5,000,000 (\$1,668–3,333)	49	17.7 %	29	15.3 %
LL 5,000,001–10,000,000 (\$3,334–6,667)	42	15.2 %	26	13.8 %
LL 10,000,001–25,000,000 (\$6,668–16,667)	48	17.3 %	52	27.5 %
>LL 25,000,001 (>\$16,667)	51	18.4 %	68	36.0 %
Total	277	100.0 %	189	100.0%

Source: IFC survey data, 2007.

The research team therefore adjusted the potential average microloan size to reflect an amount that an entrepreneur in Lebanon could actually repay within a period of one year: \$1,500. This loan size reflects the national average microloan (currently \$1,118), as well as a large share of identified loan amounts received by MSEs in the past. Specifically, \$1,500 represents 45 percent of the total average repayment capacity minus the living expenses of microenterprises in the country.⁵⁷ It also takes into account MSE intentions (past and future planned investments), the situation of enterprises identified during the market study, and economic growth in the country.

Based on an average loan size of \$1,500, the potential microfinance market in Lebanon can thus be estimated at roughly \$286.1 million (190,699 eligible potential borrowers multiplied by an average loan size of \$1,500). Currently, only 11.5 percent of this potential is met by the market, leaving a gap of 88.5 percent. This gap is based primarily on estimates, thus the potential average loan size and number of borrowers should be considered cautiously.

Table 29. Potential microfinance market gap in Lebanon, as of September 2007

Estimated number of interested, eligible MSEs	190,699
Number of active borrowers	29,420
Potential national microfinance market (\$ millions)	\$286.1
Outstanding microfinance loan portfolio (\$ millions)	\$32.9
Current percentage of market with access to microfinance	15.4%
Current microfinance loans disbursed as percent of national market	11.5%
Market gap	88.5%

Source: World Bank estimates; IFC survey data, 2007; authors' estimates.

Alternatively, if only the number of medium enterprises and the lower rung of small enterprises were considered, as per the last official census (186,000 in 1996), the estimated number of interested, eligible microfinance borrowers would drop to 51,405. The potential microfinance market gap for this alternative scenario is summarized in table 29.

⁵⁷ Living expenses in Lebanon are expensive compared to other Middle Eastern countries, especially in the case of entrepreneurs that lack their own housing.

Table 30. Alternative potential microfinance market gap in Lebanon, based on 1996 census figures

Estimated number of interested, eligible enterprises	51,405
Number of active borrowers	29,420
Potential national microfinance market (\$ millions)	\$286.1
Outstanding microfinance loan portfolio (\$ millions)	\$32.9
Current % of market with access to microfinance	57.2 %
Current microfinance loans disbursed as % of national market	42.7 %
Market gap	57.3 %

Source: Central Administration for Statistics, Lebanon; IFC survey data, 2007; authors' estimates.

Thus even the most conservative scenario, based on the official number of micro and small enterprises recorded in the 1996 census, indicates a significant market gap of 57.3 percent. Without more reliable current statistics on the number of existing MSEs, a more accurate estimate of the market gap is not presently possible.

4 KEY FINDINGS

Currently available government finance programs mainly target larger enterprises.

The microfinance programs of commercial banks are still small in terms of outreach and volume, as are those of most microfinance institutions and NGO microfinance programs in the country. Apart from a few programs that have implemented both effective operational processes and work in strategic partnership with commercial banks, most existing microfinance institutions and/or programs lack funding as well as support for future development (e.g., capacity building).

Despite unstable conditions, most MSEs surveyed earn healthy profits, which may explain their preference for self-financing.

The majority of survey respondents fell into roughly four equal groups: those earning weighted profits of 1–10 percent (24.9 percent of enterprises), 11–20 percent (29.2 percent of enterprises), 21–30 percent (25.1 percent), and above 30 percent (24 percent). Another 3.7 percent, which were generally service providers, estimated their profits to be over 100 percent. Given these profit margins, it is unsurprising that a large majority of the enterprises that made investments over the past two years (269 out of 334, or 80.5 percent) used their own funds.

Although most entrepreneurs surveyed (62.9 percent) do not save money regularly, those that do have an impressive savings rate. Among MSEs that save, 70.4 percent report saving more than \$3,334 per year and 20.4 percent report saving more than \$16,667.

Based on the market survey, the estimated potential microfinance market in Lebanon is relatively small: \$286.1 million (190,699 eligible potential borrowers multiplied by an average loan size of \$1,500). **Only 11.5 percent of this potential demand is, however, currently being met** by existing financing sources, leaving 88.5 percent of the market unserved. An alternative estimate, based on MSE figures from the 1996 census, indicates a gap of 57.3 percent.

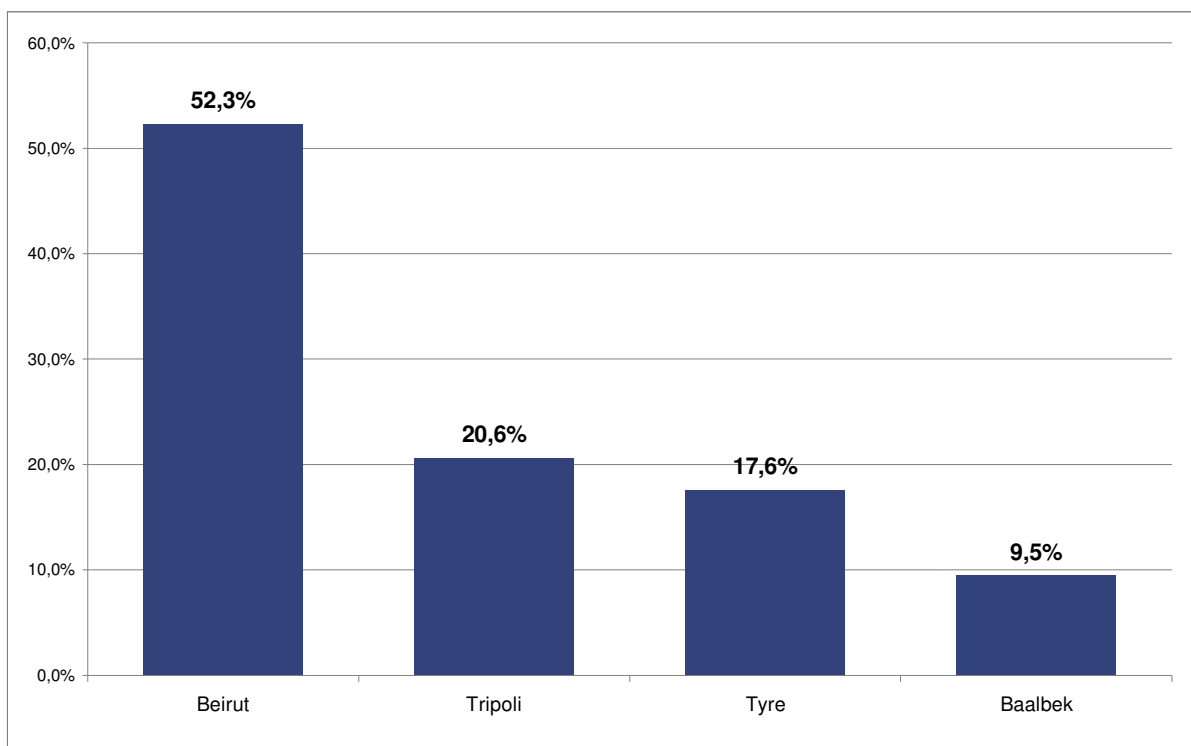
Rather than create more specialized microfinance institutions, it is recommended that commercial banks be supported in expanding their downscaling approach and that the processes and activities of existing MFIs and NGO microfinance programs be upgraded.

In particular, the microfinance sector in Lebanon has an urgent need for human resource development, that is, staff training. Advisory services and training with a focus on best practices in credit methodology and marketing, particularly strategic product development for micro and small enterprises, are crucially needed. In-depth training needs assessments for existing microfinance providers are specifically recommended.

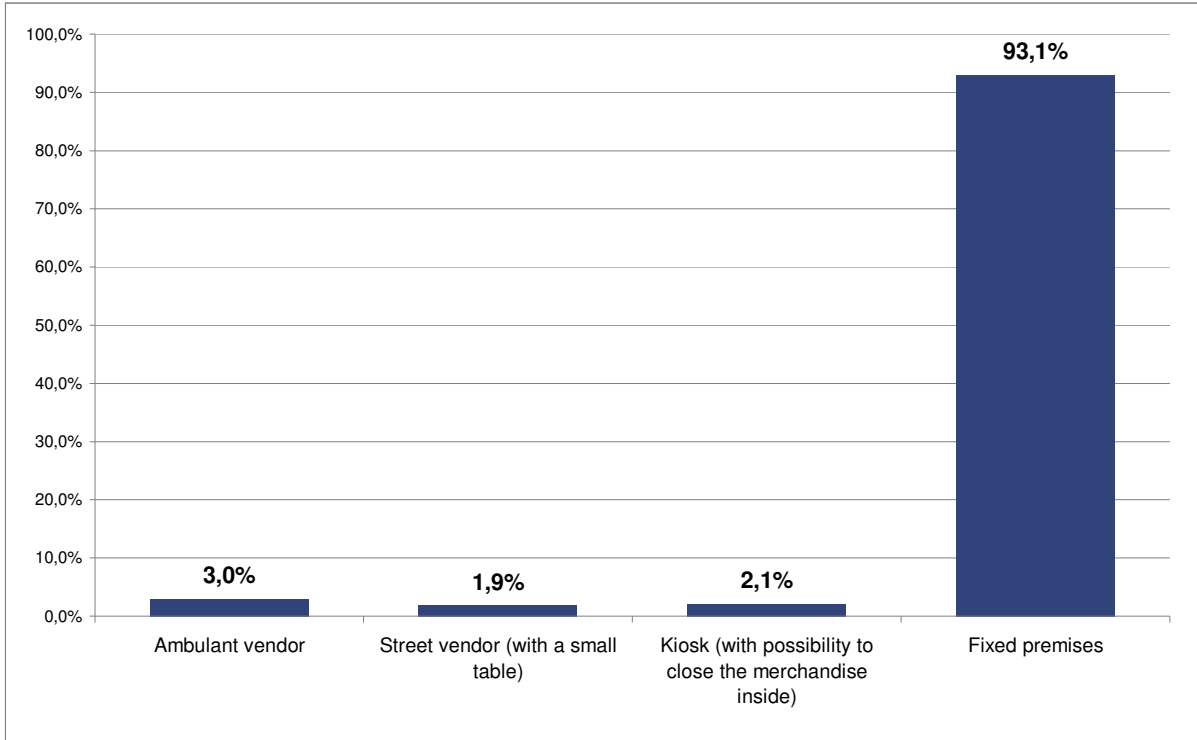
Additional funding could also help certain microfinance providers increase their regional outreach and expand their product portfolios. Such initiatives would ensure better access to finance, both geographically and in terms of financial products suitable for different sectors and regions.

ANNEX 1
RESULTS DEMAND STUDY

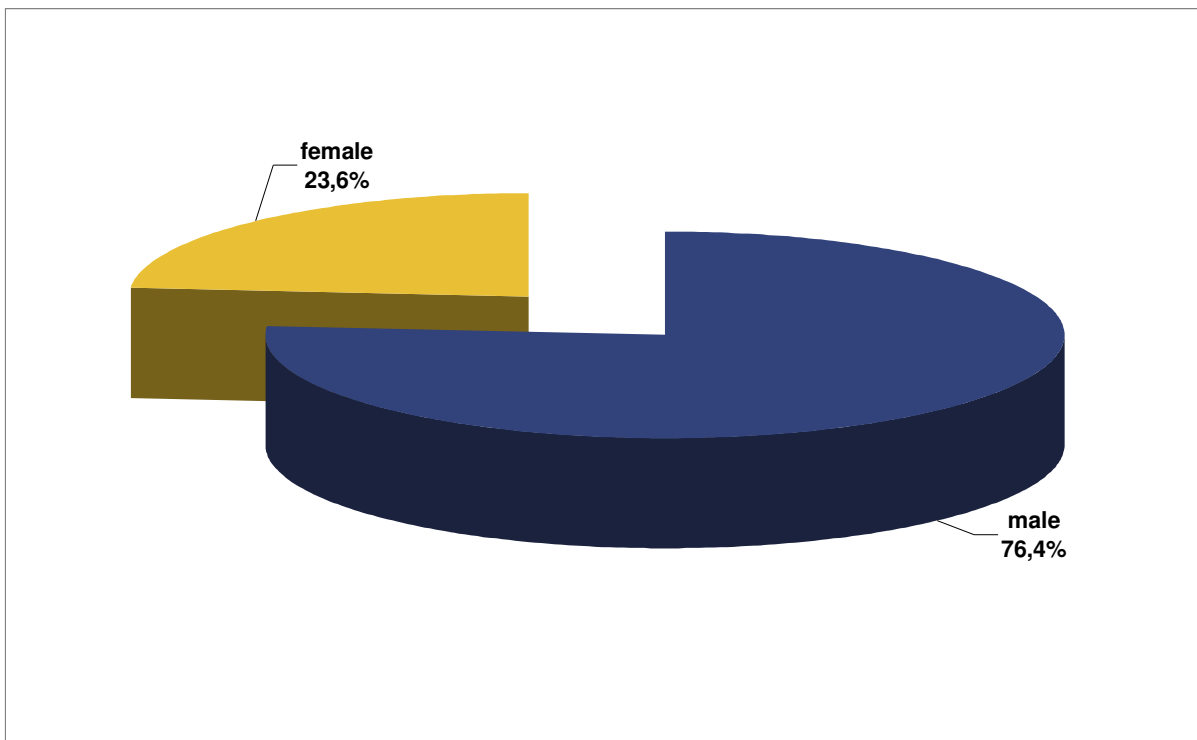
Region	Count	Column %
Beirut	282	52,3%
Tripoli	111	20,6%
Tyre	95	17,6%
Baalbek	51	9,5%
Total	539	100,0%



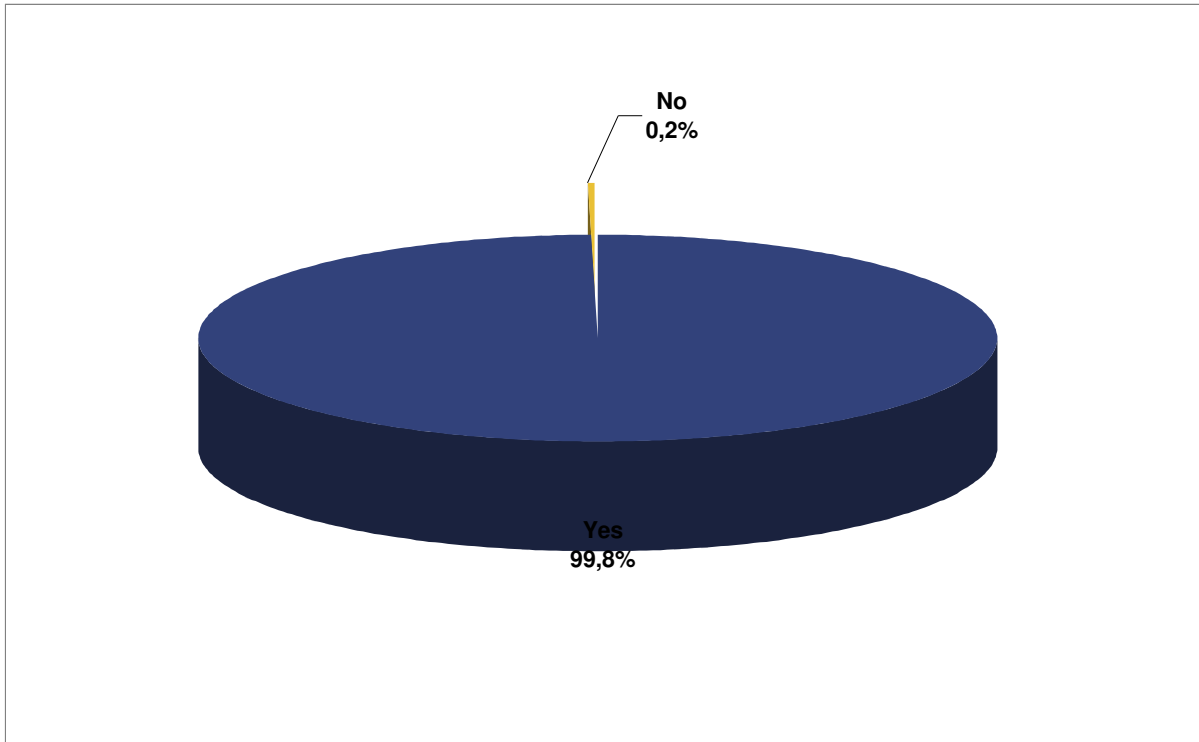
Premises of enterprise	Count	Column %
Ambulant vendor	16	3,0%
Street vendor (with a small table)	10	1,9%
Kiosk (with possibility to close the merchandise inside)	11	2,1%
Fixed premises	497	93,1%
Total	534	100,0%



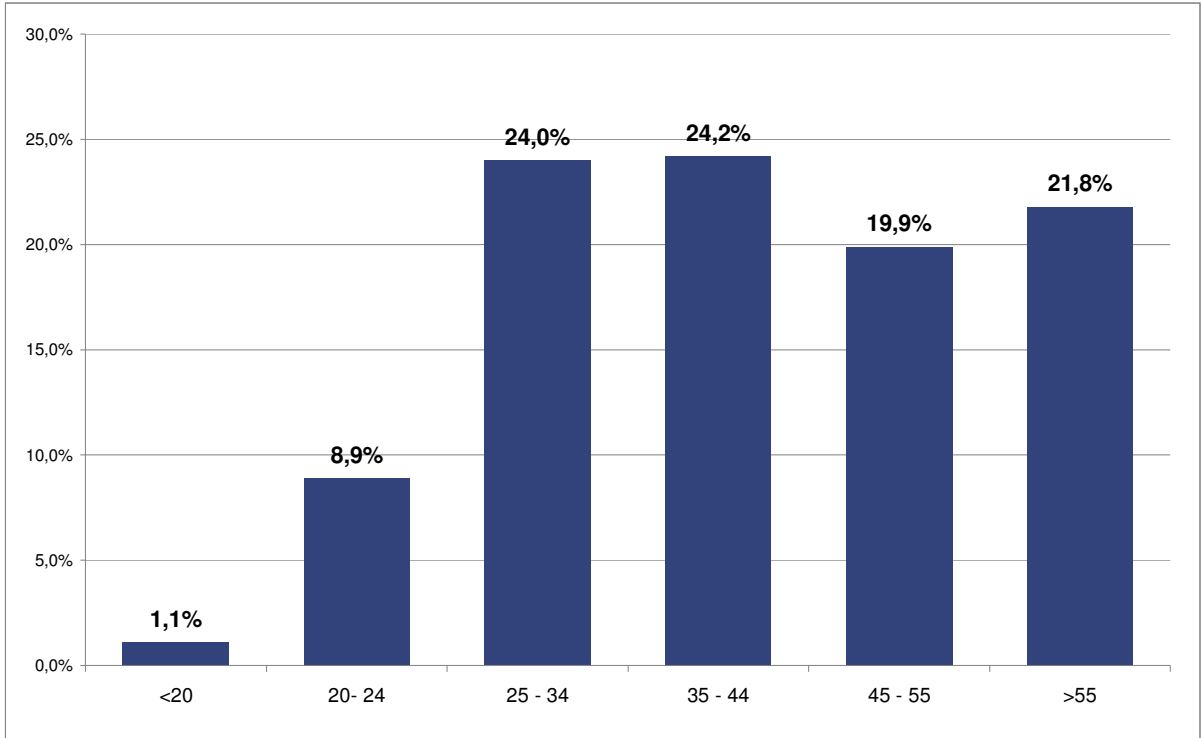
Q1. Sex:	Count	Column %
male	412	76,4%
female	127	23,6%
Total	539	100,0%



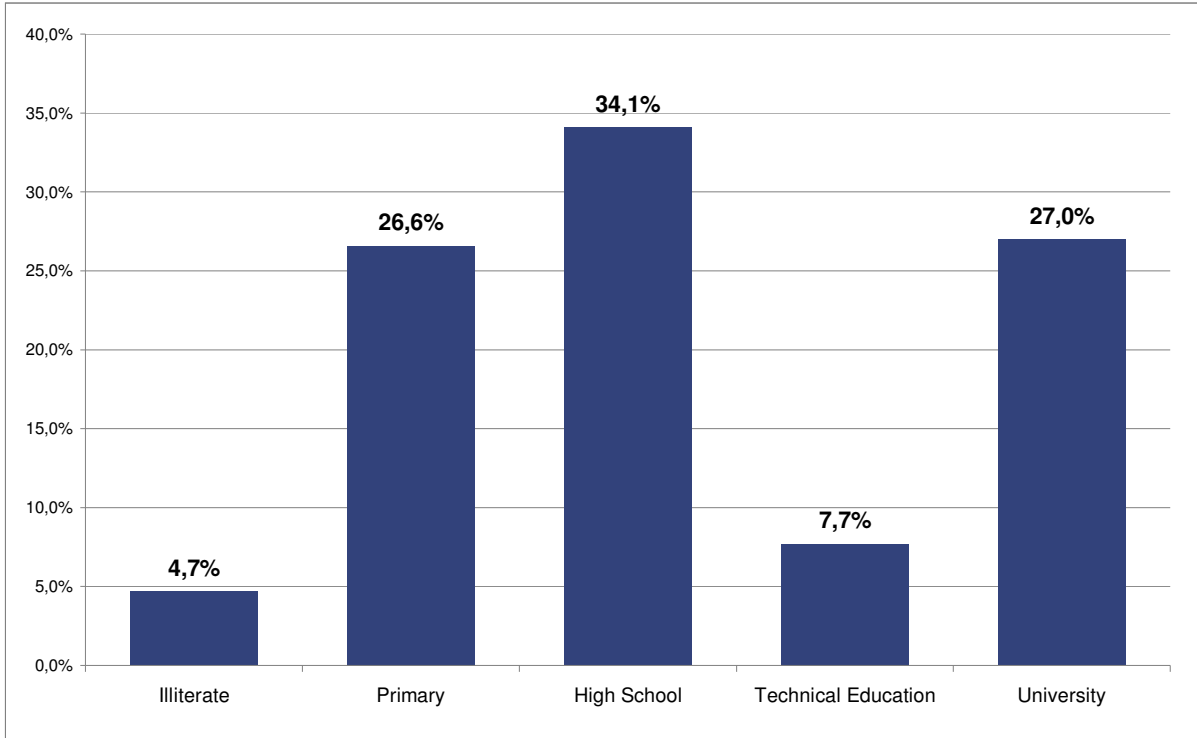
Q2. Owner:	Count	Column %
Yes	538	99,8%
No	1	0,2%
Total	539	100,0%



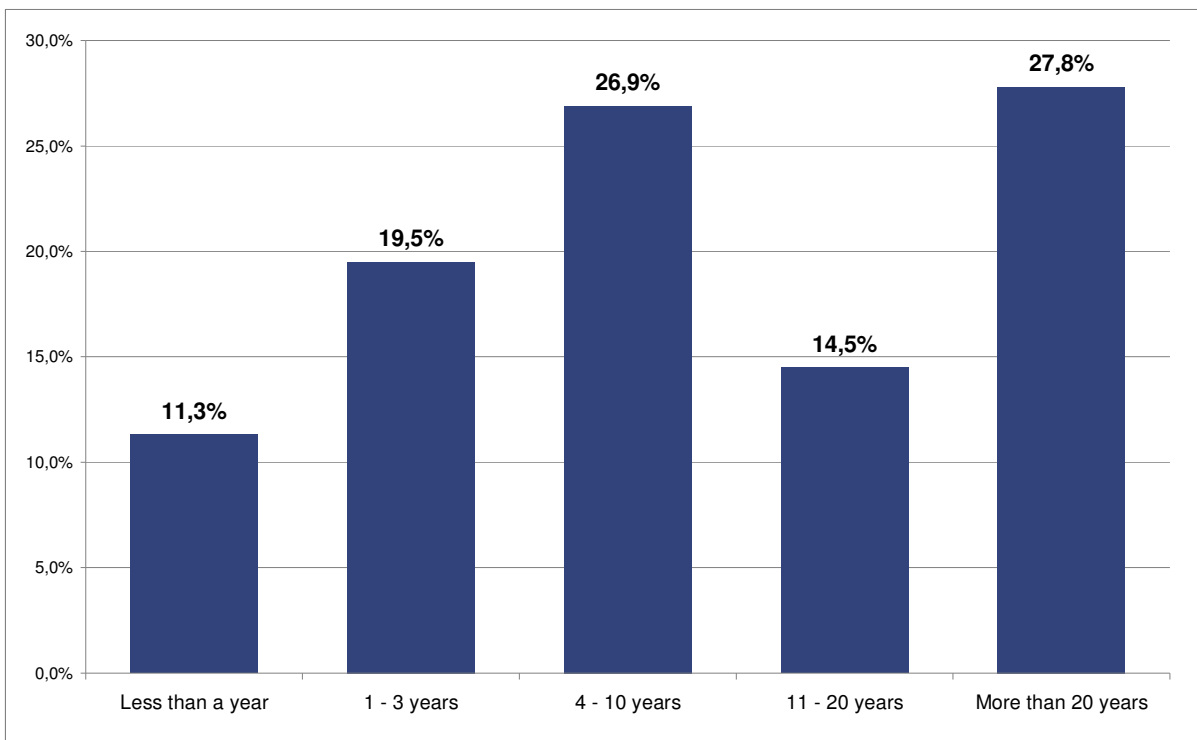
Q3. Age:	Count	Column %
<20	6	1,1%
20- 24	48	8,9%
25 - 34	129	24,0%
35 - 44	130	24,2%
45 - 55	107	19,9%
>55	117	21,8%
Total	537	100,0%



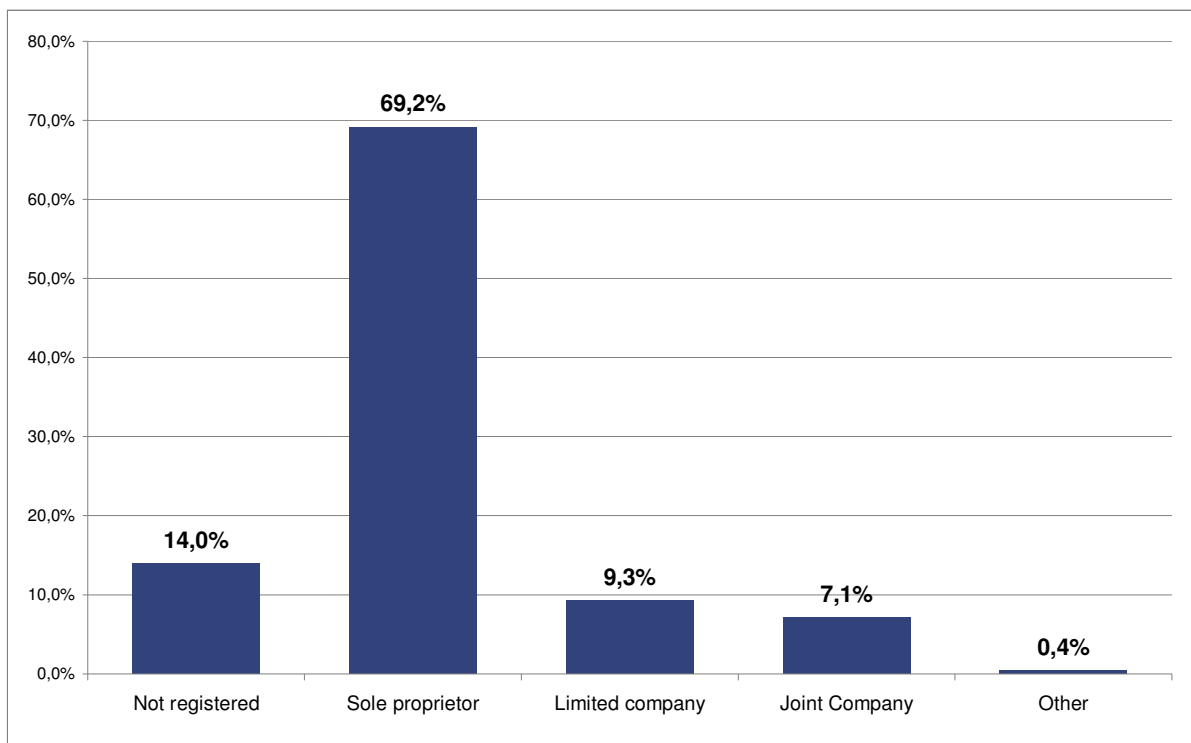
Q4. Educational level:	Count	Column %
Illiterate	25	4,7%
Primary	142	26,6%
High School	182	34,1%
Technical Education	41	7,7%
University	144	27,0%
Total	534	100,0%



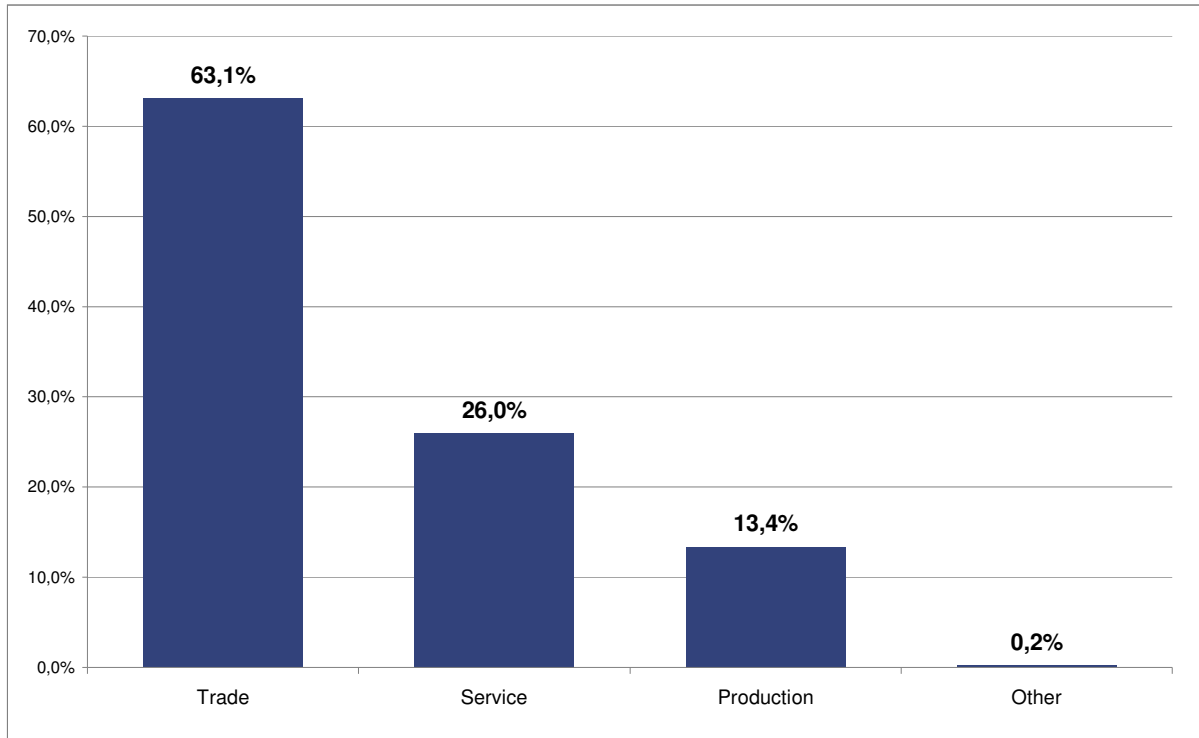
Q5. The age of the enterprise:	Count	Column %
Less than a year	61	11,3%
1 - 3 years	105	19,5%
4 - 10 years	145	26,9%
11 - 20 years	78	14,5%
More than 20 years	150	27,8%
Total	539	100,0%



Legal form of entity:	Number	%
Not registered	75	14,0%
Sole proprietor	370	69,2%
Limited company	50	9,3%
Joint Company	38	7,1%
Other	2	0,4%
Total	535	100,0%

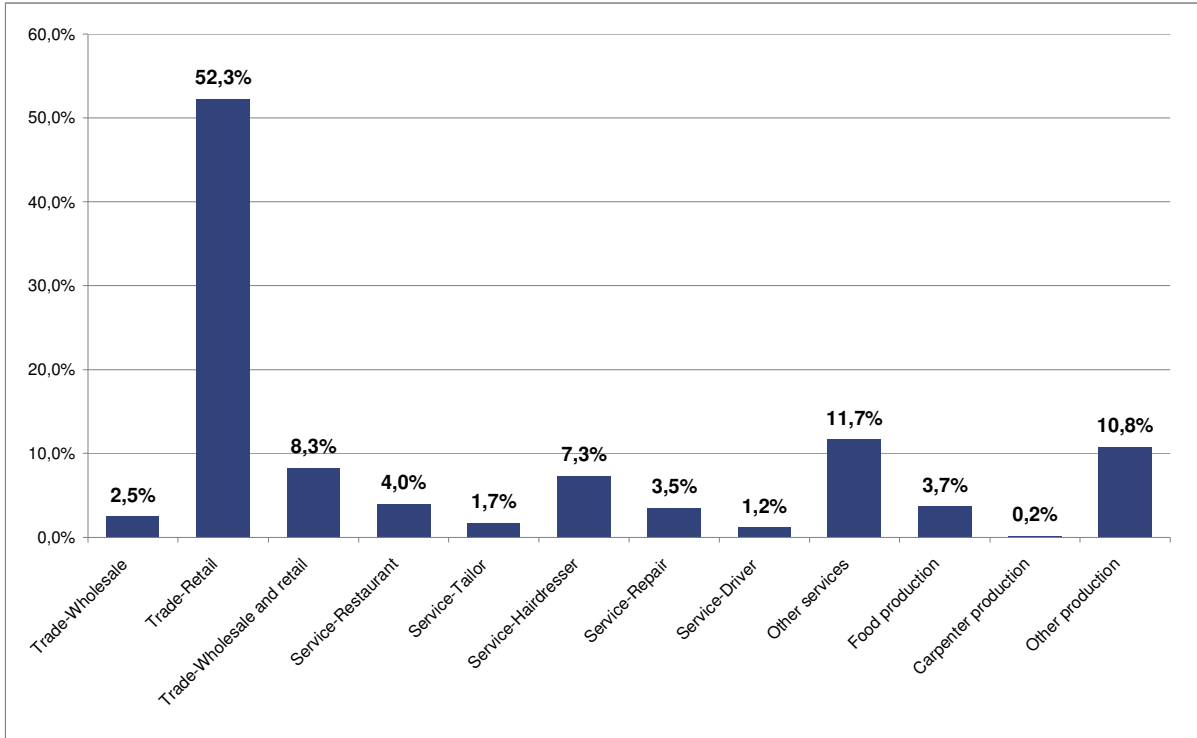


Q6. Legal form of entity-other:	Count	Column %
Premises of Palestinian	1	0,2%
working at home	1	0,2%
Total	539	100,0%

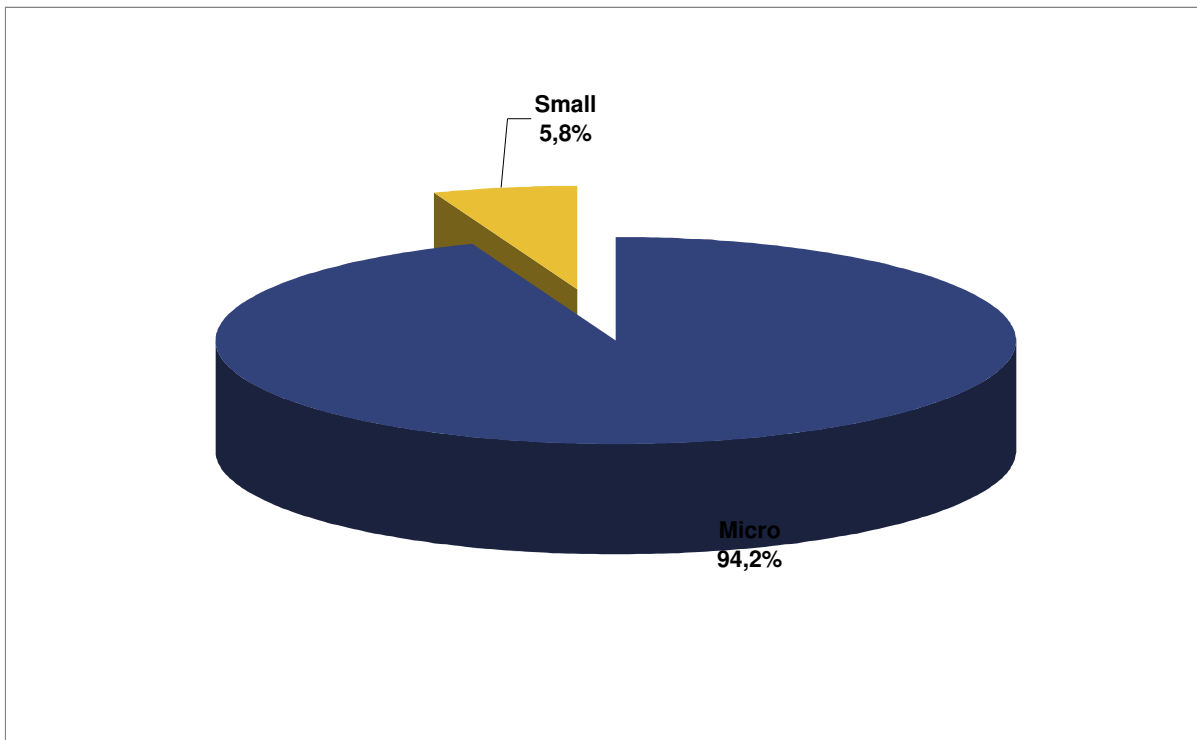


Q7. Type of activity :	Count	Column %
Trade	340	63,1%
Service	140	26,0%
Production	72	13,4%
Other	1	0,2%
Total	539	100,0%

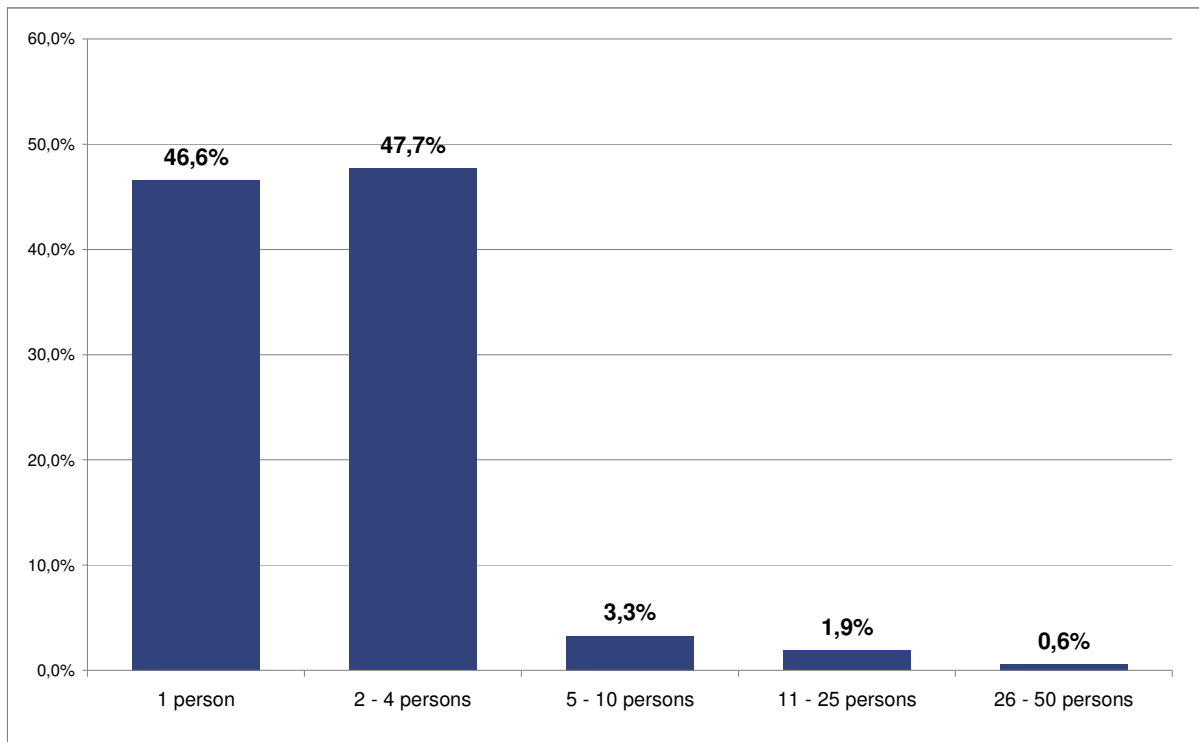
Q7. Type of activity :	Count	Column %
Trade-Wholesale	13	2,5%
Trade-Retail	272	52,3%
Trade-Wholesale and retail	43	8,3%
Service-Restaurant	21	4,0%
Service-Tailor	9	1,7%
Service-Hairdresser	38	7,3%
Service-Repair	18	3,5%
Service-Driver	6	1,2%
Other services	61	11,7%
Food production	19	3,7%
Carpenter production	1	0,2%
Other production	56	10,8%
Total	520	100,0%



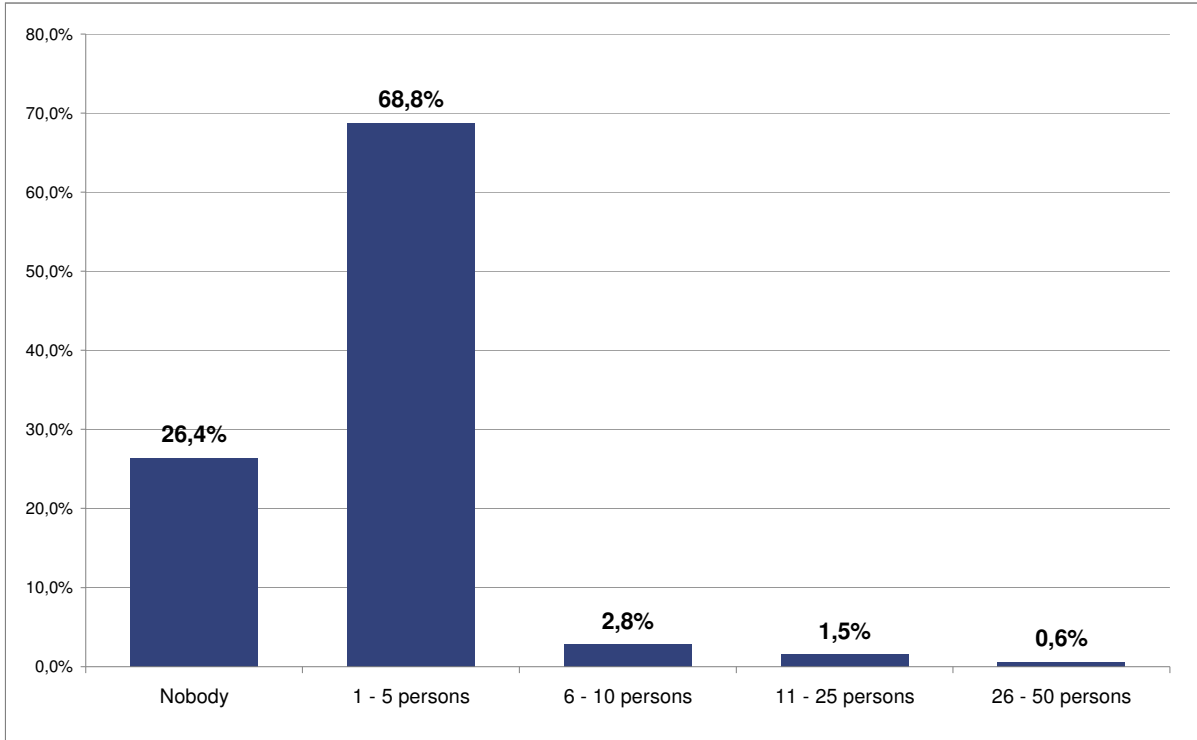
Q8. Type of enterprise	Count	Column %
Micro	508	94,2%
Small	31	5,8%
Total	539	100,0%



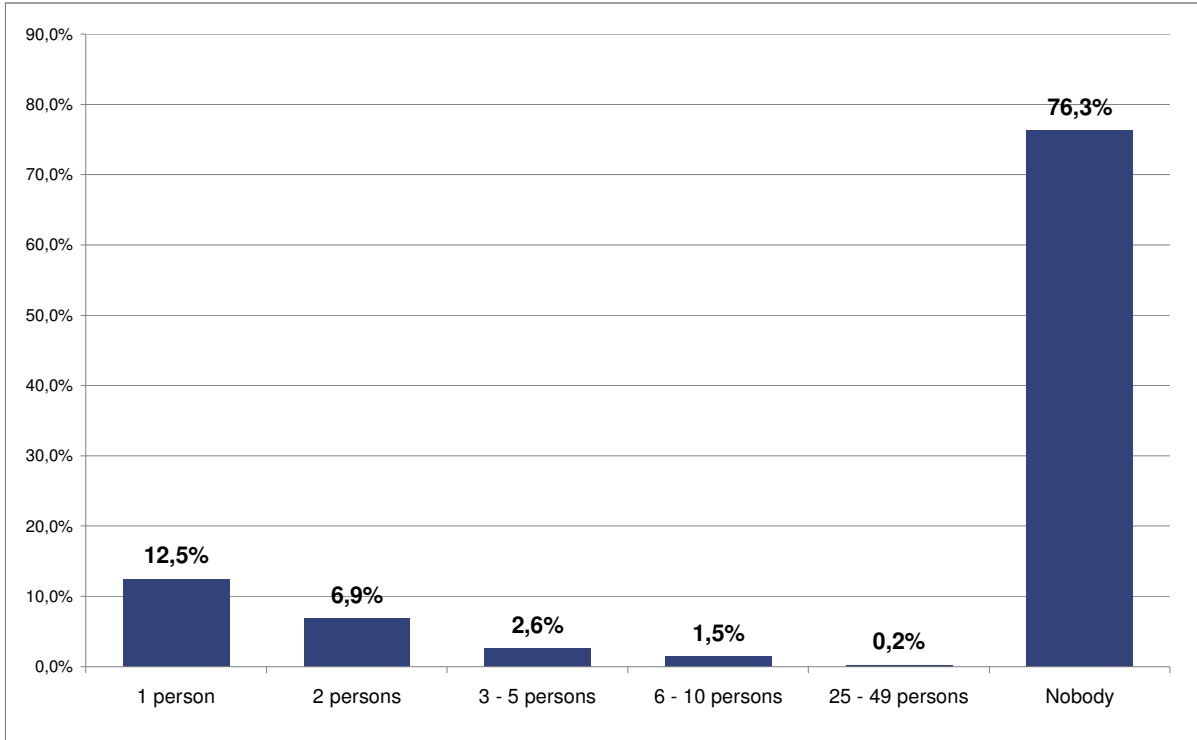
Q8. Number of employees (including the owner):	Count	Column %
1 person	251	46,6%
2 - 4 persons	257	47,7%
5 - 10 persons	18	3,3%
11 - 25 persons	10	1,9%
26 - 50 persons	3	0,6%
51 persons or more	0	0,0%
Total	539	100,0%



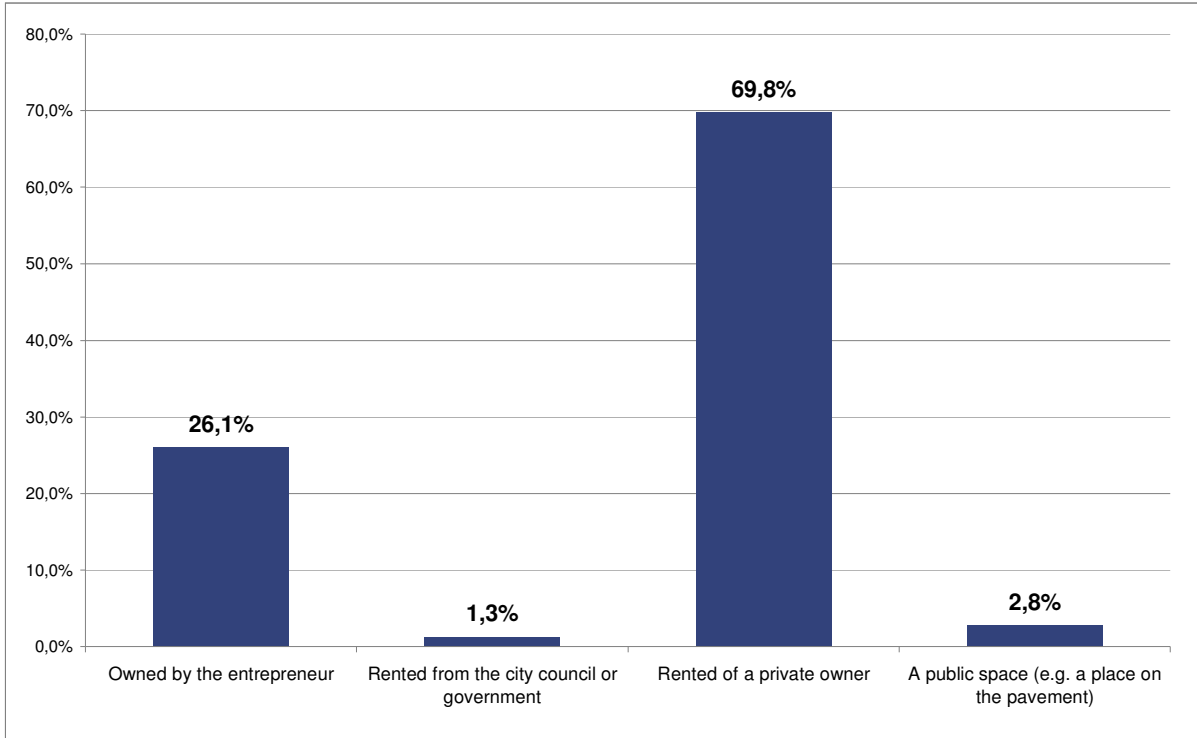
Q8a. How many paid employees?	Count	Column %
Nobody	142	26,4%
1 - 5 persons	370	68,8%
6 - 10 persons	15	2,8%
11 - 25 persons	8	1,5%
26 - 50 persons	3	0,6%
>51 persons	0	0,0%
Total	538	100,0%



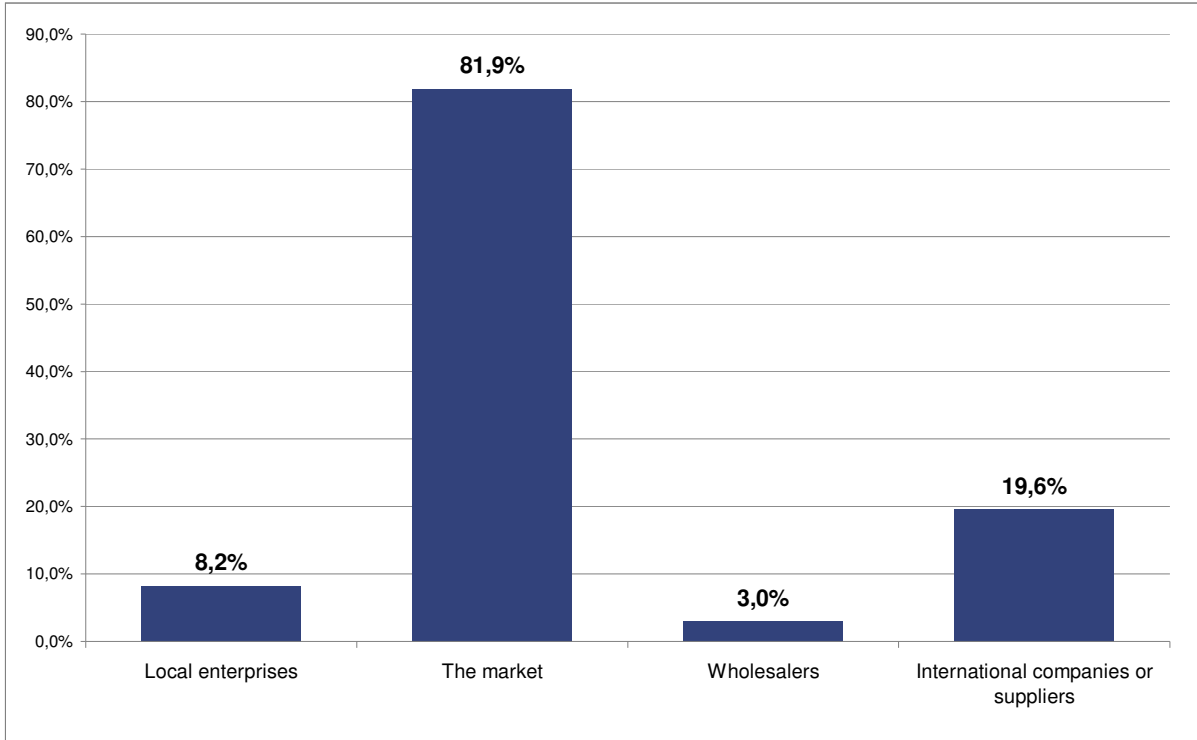
Q9. How many new employees have you recruited last year:	Count	Column %
1 person	67	12,5%
2 persons	37	6,9%
3 - 5 persons	14	2,6%
6 - 10 persons	8	1,5%
25 - 49 persons	1	0,2%
Nobody	408	76,3%
Total	535	100,0%



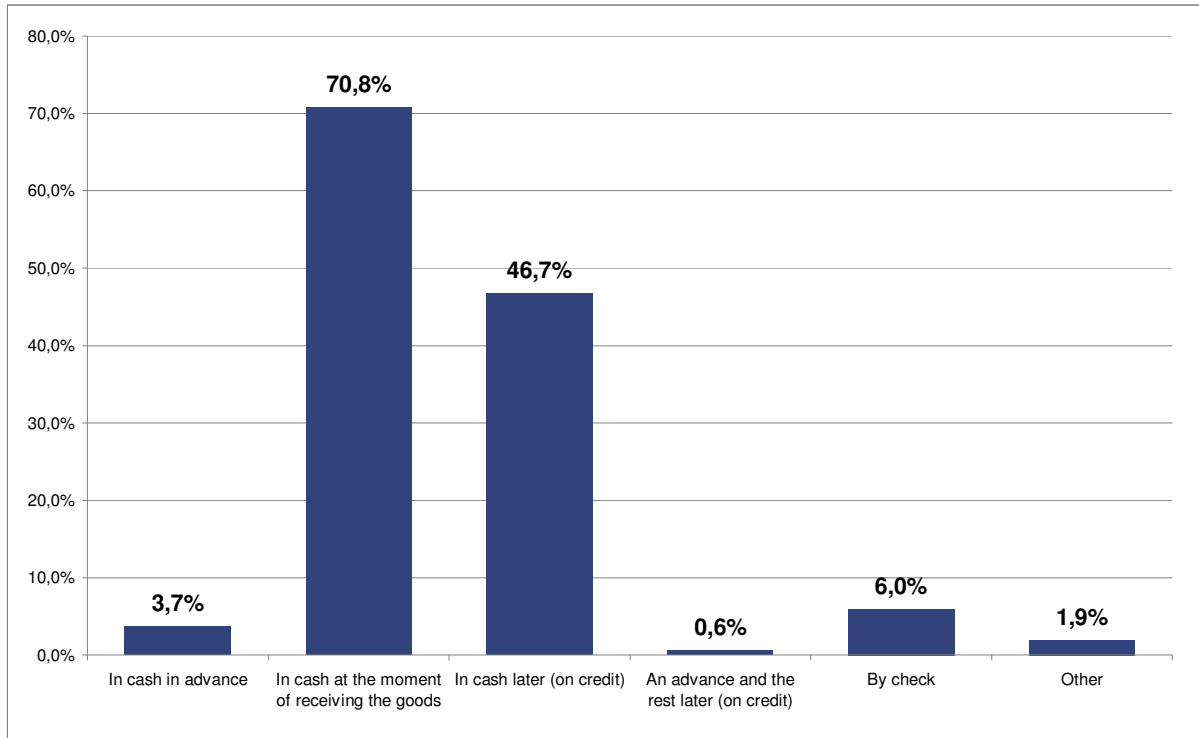
Q10. Your business premises is :	Count	Column %
Owned by the entrepreneur	140	26,1%
Rented from the city council or government	7	1,3%
Rented of a private owner	375	69,8%
A public space (e.g. a place on the pavement)	15	2,8%
Total	537	100,0%



Q11. Who are your most important suppliers?	Count	Column %
Local enterprises	44	8,2%
The market	439	81,9%
Wholesalers	16	3,0%
International companies or suppliers	105	19,6%
Total	536	100,0%



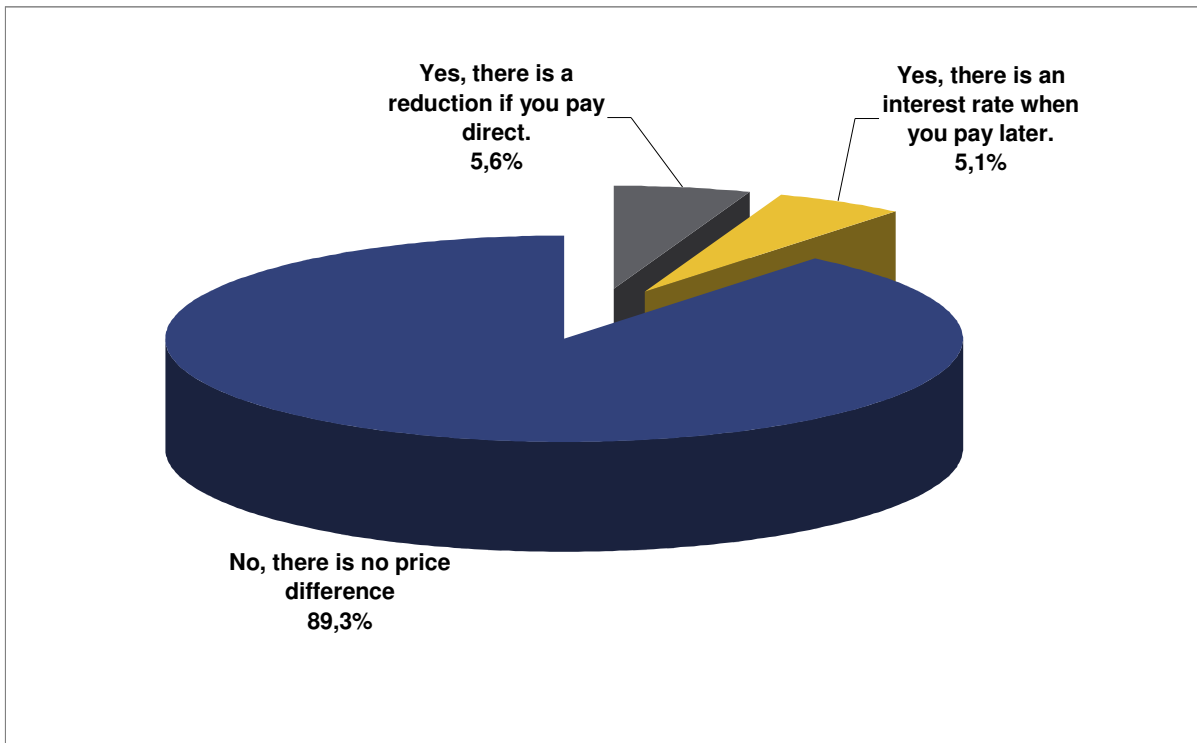
Q12. Payment mode accepted by the suppliers:	Count	Column %
In cash in advance	20	3,7%
In cash at the moment of receiving the goods	379	70,8%
In cash later (on credit)	250	46,7%
An advance and the rest later (on credit)	3	0,6%
By check	32	6,0%
Other	10	1,9%
Total	535	100,0%



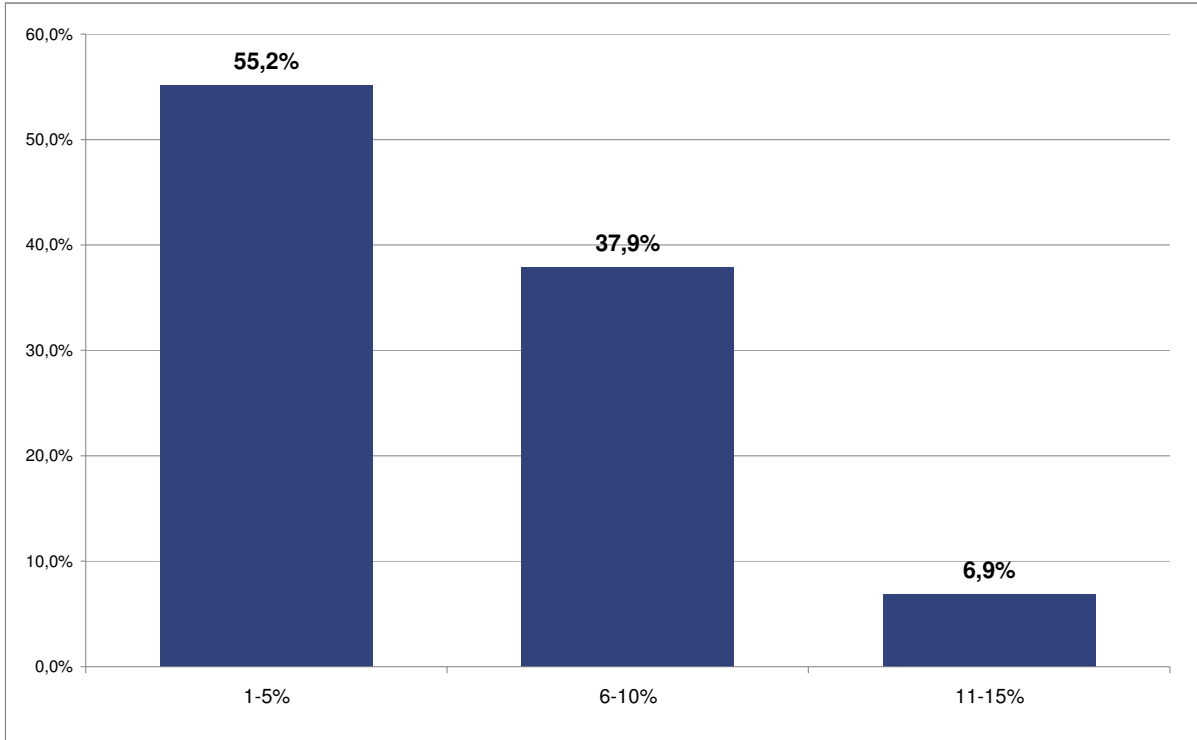
Q12c. In cash later (on credit):	Count	Column %
1-15 days	56	23,1%
16 days- 1 month	73	30,2%
1-3 months	90	37,2%
4-6 months	14	5,8%
7-12 months	9	3,7%
Total	242	100,0%

Q12d. An advance and the rest later (on credit):	Count	Column %
1-15 days	1	33,3%
16 days- 1 month	2	66,7%
1-3 months	0	0,0%
4-6 months	0	0,0%
7-12 months	0	0,0%
Total	3	100,0%

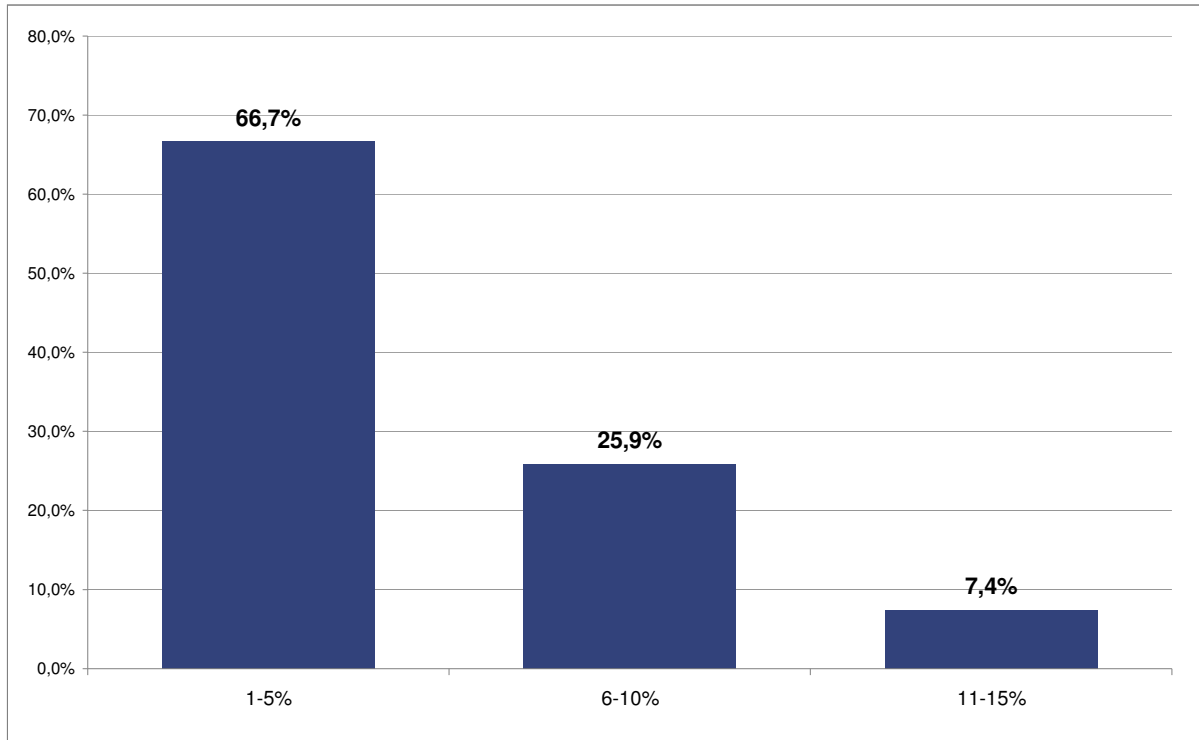
Q13. Is there a difference in price if you pay on the spot or at a later stage?	Count	Column %
Yes, there is a reduction if you pay direct.	30	5,6%
Yes, there is an interest rate when you pay later.	27	5,1%
No, there is no price difference	476	89,3%
Total	533	100,0%



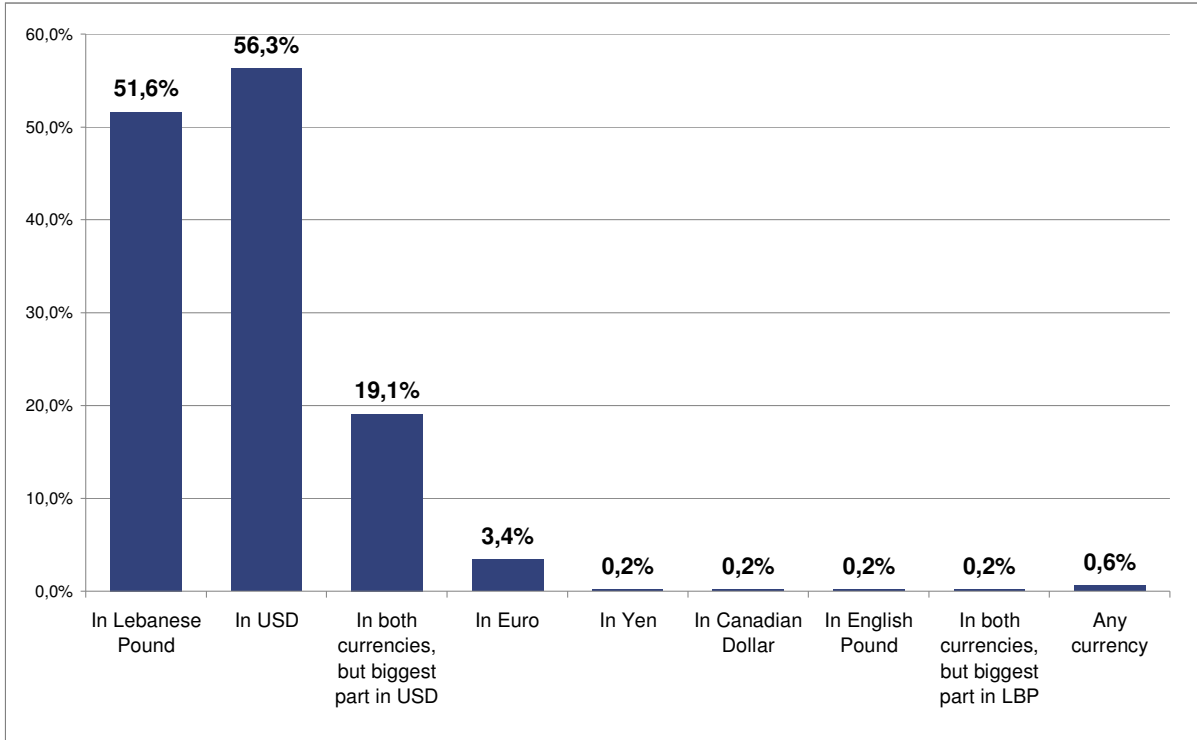
Q13a. The reduction is (percent):	Count	Column %
1-5%	16	55,2%
6-10%	11	37,9%
11-15%	2	6,9%
16-25%	0	0,0%
26-50%	0	0,0%
51-100%	0	0,0%
Total	29	100,0%



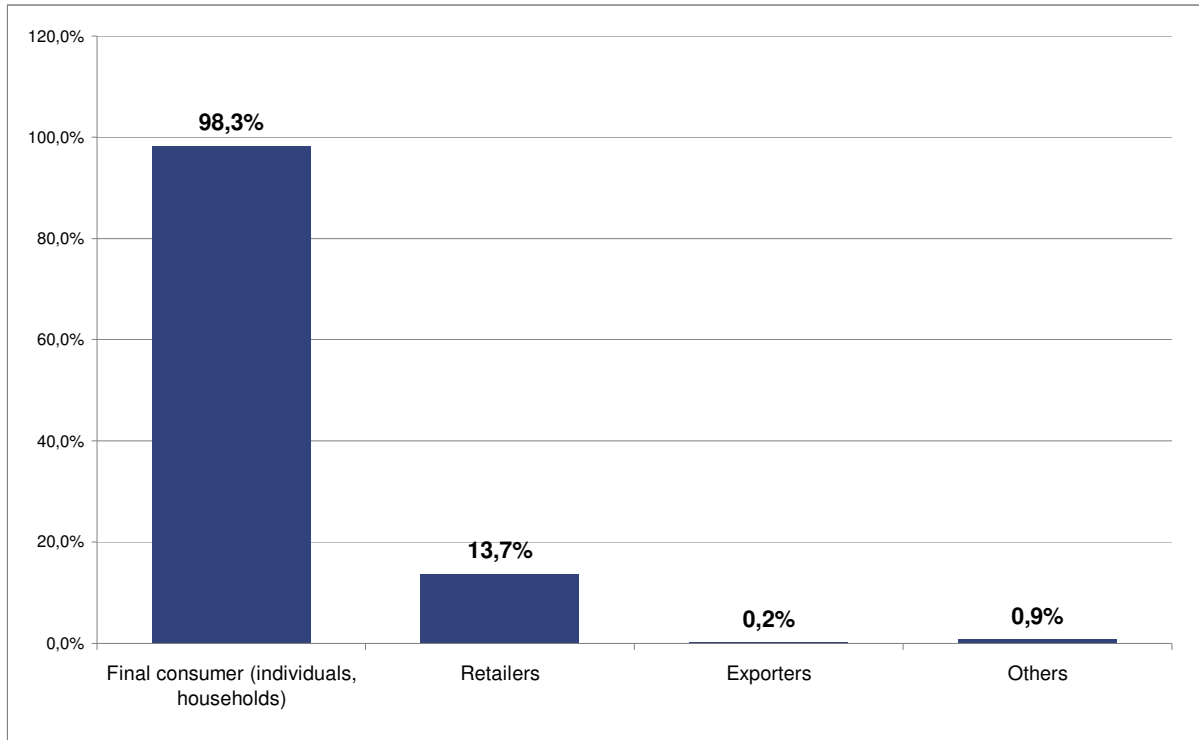
Q13b. The interest rate is (percent):	Count	Column %
1-5%	18	66,7%
6-10%	7	25,9%
11-15%	2	7,4%
16-25%	0	0,0%
26-50%	0	0,0%
51-100%	0	0,0%
Total	27	100,0%



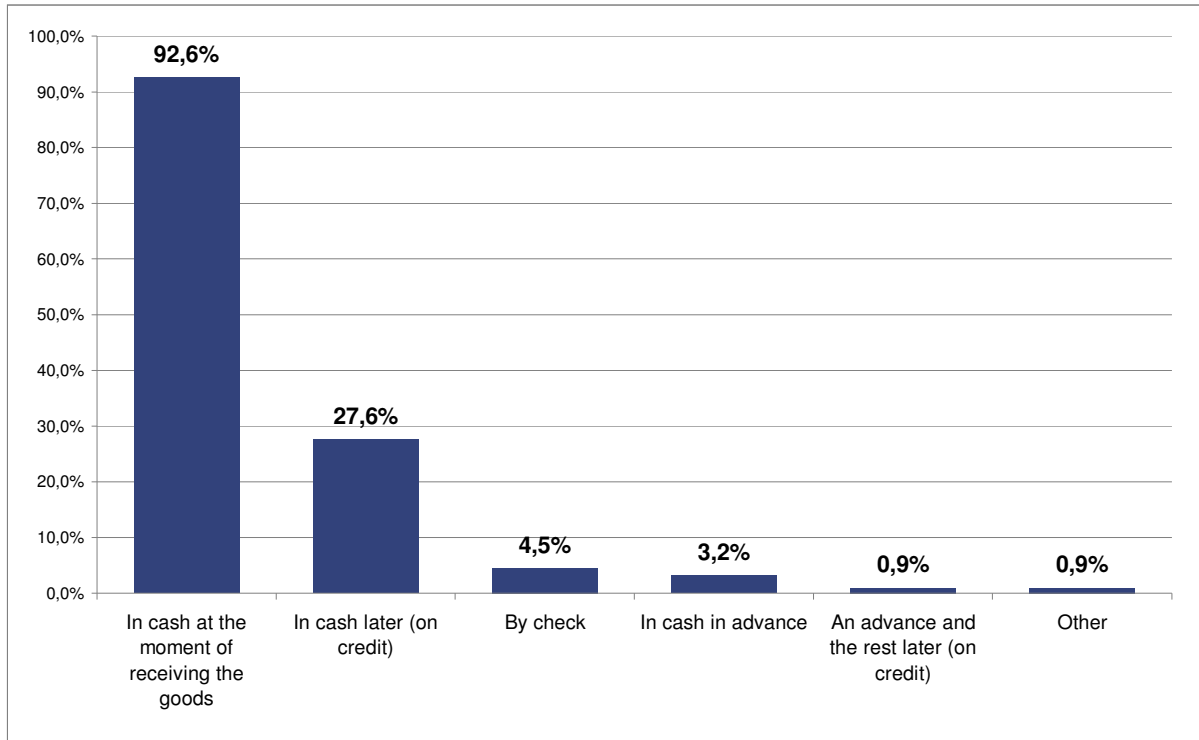
Q14. The payment to suppliers are made	Count	Column %
In Lebanese Pound	276	51,6%
In USD	301	56,3%
In both currencies, but biggest part in USD	102	19,1%
In Euro	18	3,4%
In Yen	1	0,2%
In Canadian Dollar	1	0,2%
In English Pound	1	0,2%
In both currencies, but biggest part in LBP	1	0,2%
Any currency	3	0,6%
Total	535	100,0%



Q15. Who are your most important clients?	Count	Column %
Final consumer (individuals, households)	530	98,3%
Retailers	74	13,7%
Exporters	1	0,2%
Others	5	0,9%
Total	539	100,0%



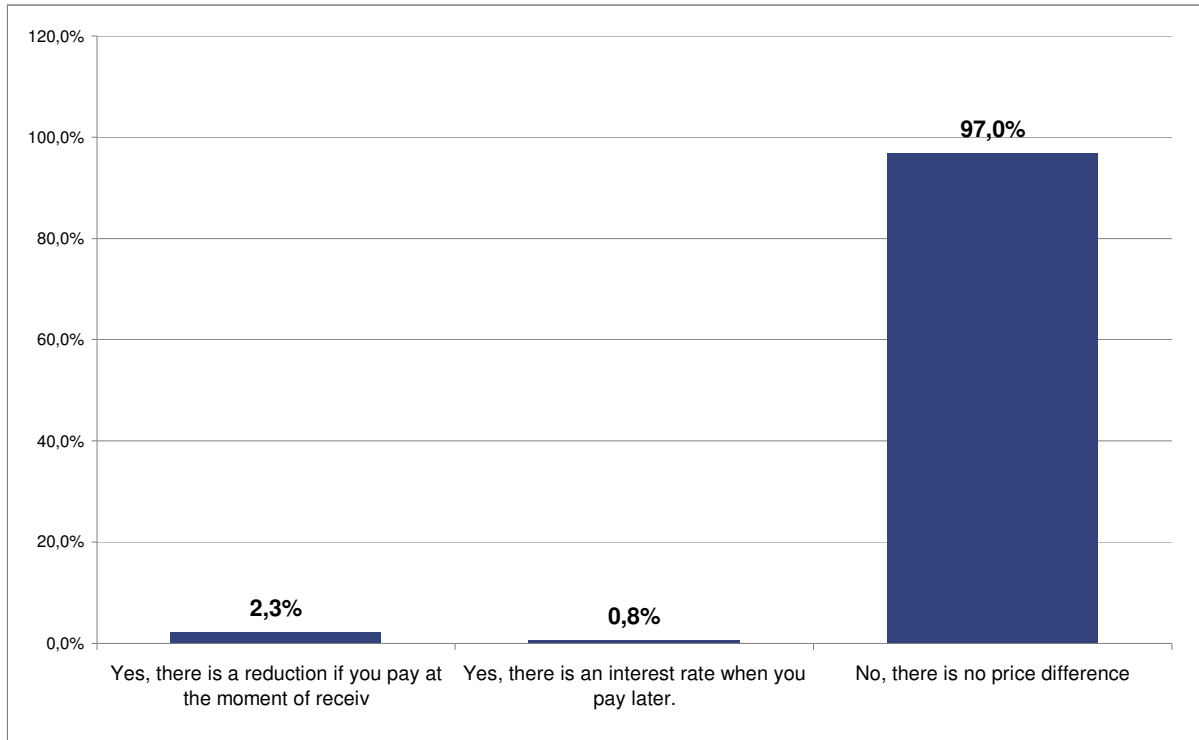
Q16. Payment mode accepted by the suppliers:	Count	Column %
In cash at the moment of receiving the goods	499	92,6%
In cash later (on credit)	149	27,6%
By check	24	4,5%
In cash in advance	17	3,2%
An advance and the rest later (on credit)	5	0,9%
Other	5	0,9%
Total	539	100,0%



Q16c. In cash later (on credit)	Count	Column %
1-15 days	22	18,0%
16 days- 1 month	56	45,9%
1-3 months	28	23,0%
4-6 months	9	7,4%
7-12 months	7	5,7%
Total	122	100,0%

Q16d. An advance payment and the rest later (on credit)	Count	Column %
1-15 days	1	20,0%
16 days- 1 month	1	20,0%
1-3 months	2	40,0%
7-12 months	1	20,0%
Total	5	100,0%

Q17. Is there a difference in price if you pay on the spot or at a later stage?	Count	Column %
Yes, there is a reduction if you pay at the moment of receipt	12	2,3%
Yes, there is an interest rate when you pay later.	4	0,8%
No, there is no price difference	516	97,0%
Total	532	100,0%

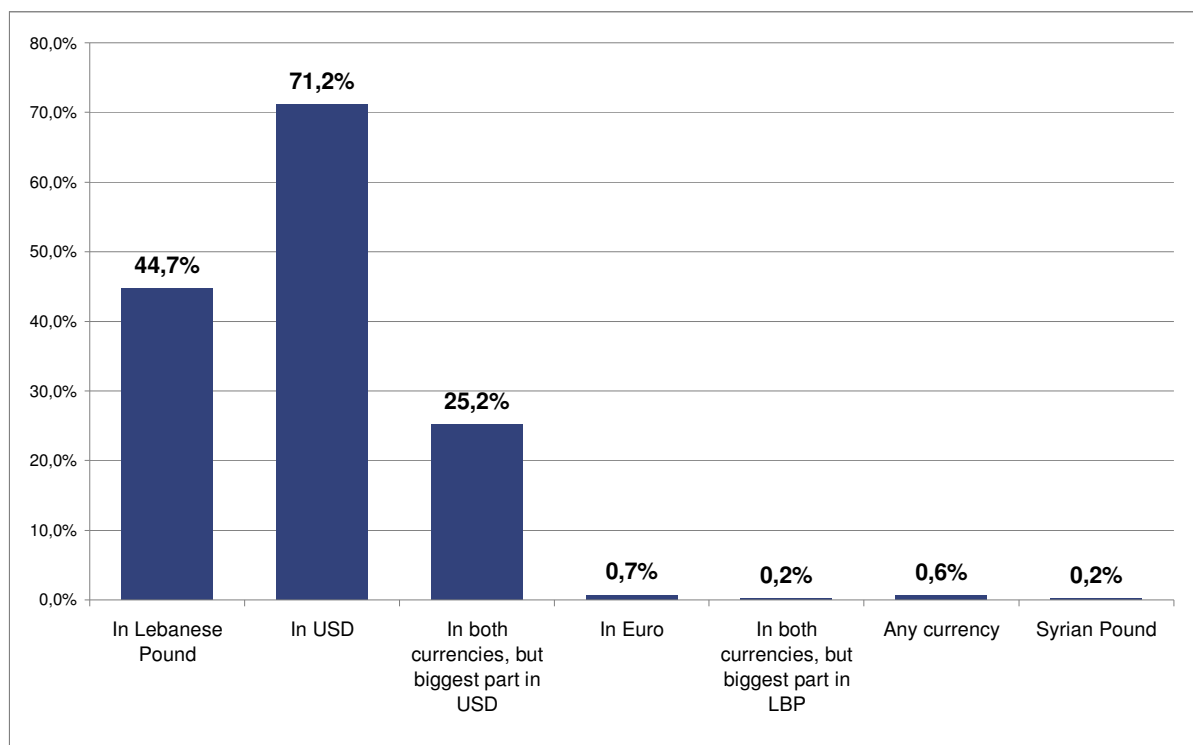


Q17a. Yes, there is a reduction if you pay at the moment of receiving the goods or in advance. The reduction is (percent):	Count	Column %
1-5%	6	50,0%
6-10%	1	8,3%
11-15%	5	41,7%
Total	12	100,0%

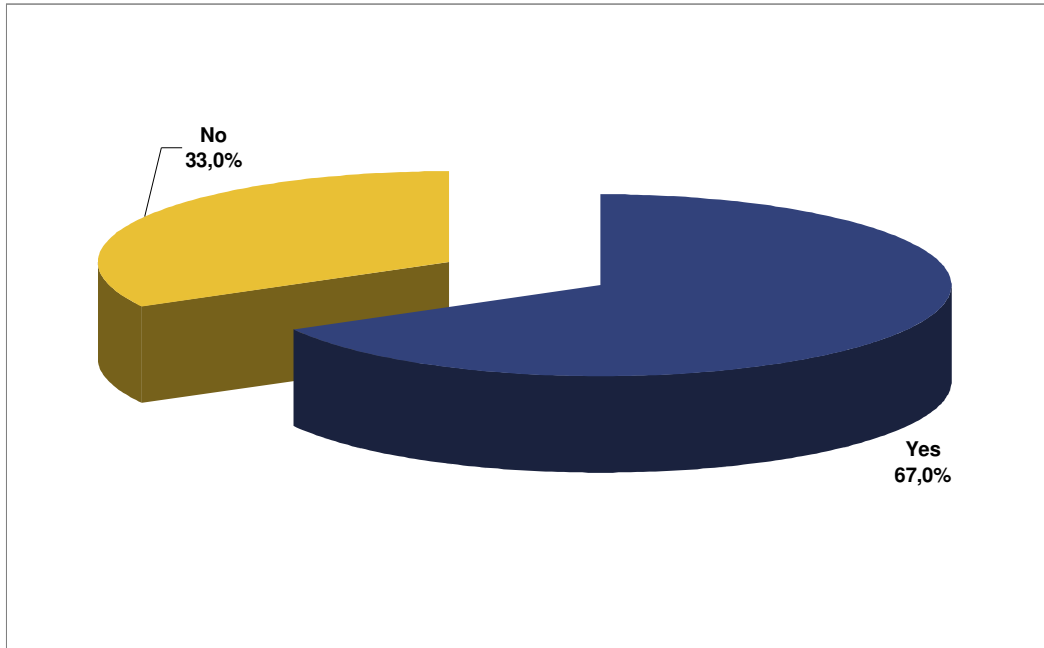
Q17b. Yes, there is an interest rate when you pay later. The interest rate is (percent)	Count	Column %
1-5%	4	100,0%
Total	4	100,0%

Q18. The payment of clients takes place:	Count	Column %
In Lebanese Pound	241	44,7%
In USD	384	71,2%
In both currencies, but biggest part in USD	136	25,2%
In Euro	4	0,7%
In both currencies, but biggest part in LBP	1	0,2%

Any currency	3	0,6%
Syrian Pound	1	0,2%
Total	539	100,0%



Q19. Do you have a bookkeeping / accounting system?	Count	Column %
Yes	361	67,0%
No	178	33,0%
Total	539	100,0%



Q20. How did you start your enterprise?	Count	Column %
With own money	473	87,8%
With a credit of an institution	35	6,5%
With a credit of family members, friends, etc.	28	5,2%
Private lenders	13	2,4%
Other	11	2,0%
Total	539	100,0%

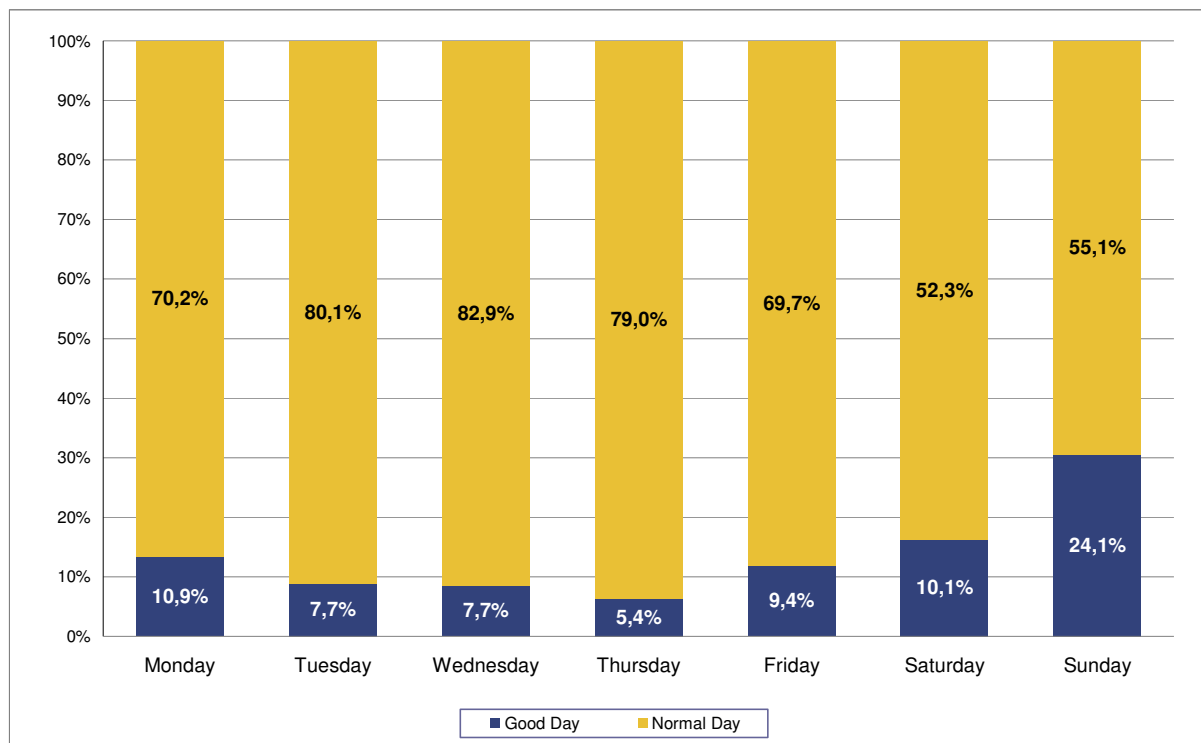
Q20. How did you start your enterprise?- other	Count	Column %
help from people	1	0,2%
inherited	7	1,3%
Parents' money	2	0,4%
Total	539	100,0%

Q20b. With a credit of an institution	Count	Column %
Bank	28	80,0%
NGO	8	22,9%
Government Programme	0	0,0%
Total	35	100,0%

Q21a. Daily Turnover	Good Day		Normal Day		Bad Day	Total
	Count	Column %	Count	Column %	Count	Column %
Monday	58	10,9%	373	70,2%	100	100,0%

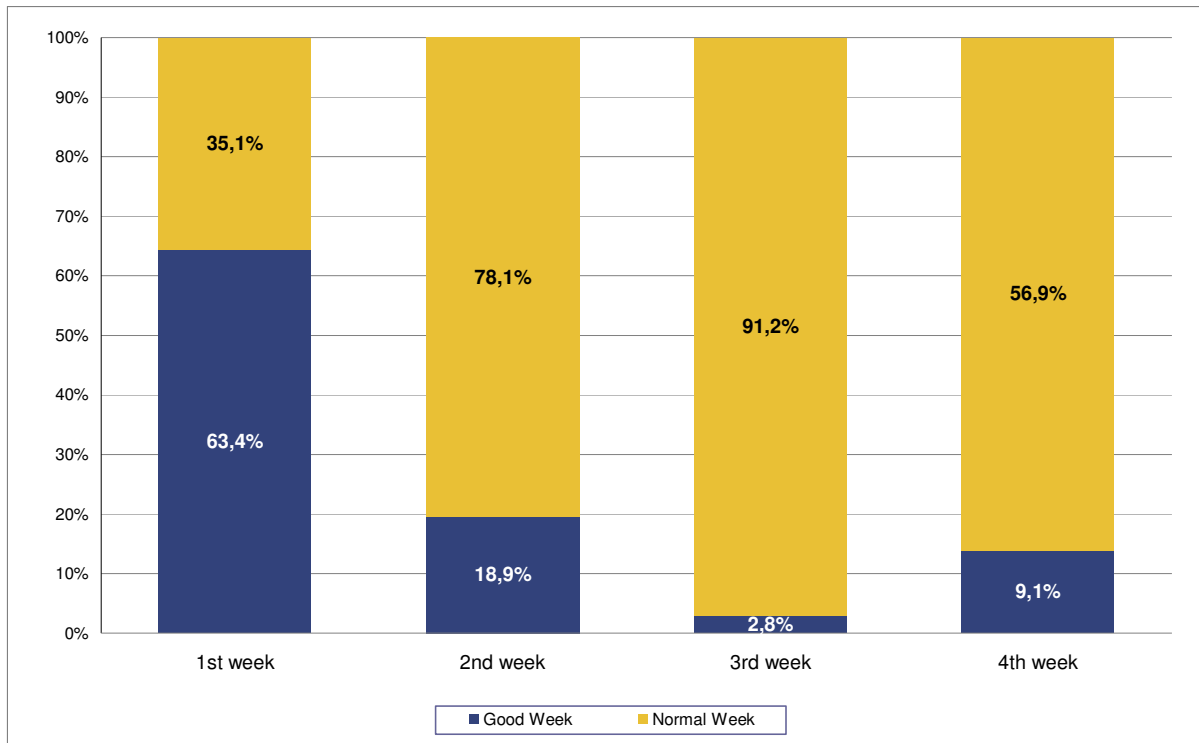
Tuesday	41	7,7%	428	80,1%	65	100,0%
Wednesday	41	7,7%	442	82,9%	50	100,0%
Thursday	29	5,4%	422	79,0%	83	100,0%
Friday	49	9,4%	363	69,7%	109	100,0%
Saturday	53	10,1%	275	52,3%	198	100,0%
Sunday	97	24,1%	222	55,1%	84	100,0%

Q21a. Number of ... days in a week	Number of Good Days		Number of Normal Days		Number of Bad Days
	Count	Column %	Count	Column %	Count
None	350	64,9%	38	7,1%	247
1 day	102	18,9%	11	2,0%	75
2 days	51	9,5%	29	5,4%	116
3 days	14	2,6%	60	11,1%	51
4 days	6	1,1%	83	15,4%	30
5 days	4	0,7%	94	17,4%	14
6 days	6	1,1%	94	17,4%	3
7 days	6	1,1%	130	24,1%	3
Total	539	100,0%	539	100,0%	539



Q21a. Weekly Turnover	Good Week		Normal Week		Bad Week	Total
	Count	Column %	Count	Column %	Count	Column %
1st week	340	63,4%	188	35,1%	8	100,0%
2nd week	101	18,9%	418	78,1%	16	100,0%

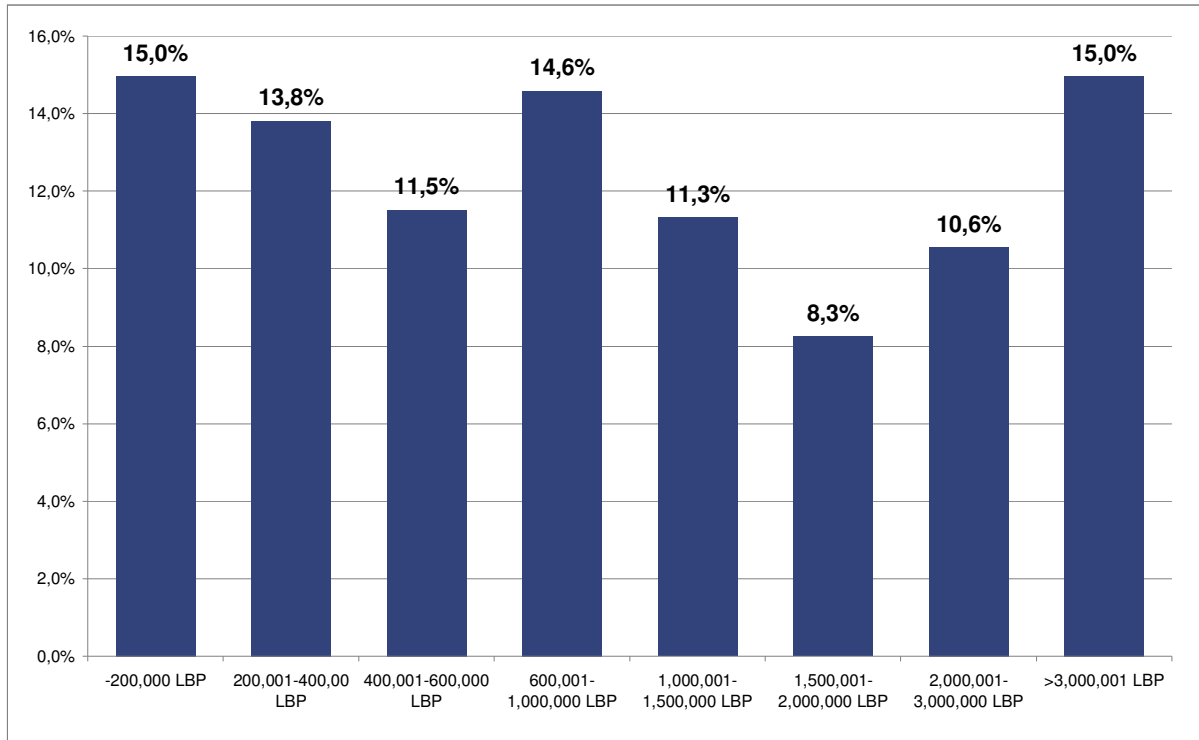
3rd week	15	2,8%	488	91,2%	32	100,0%
4th week	49	9,1%	305	56,9%	182	100,0%



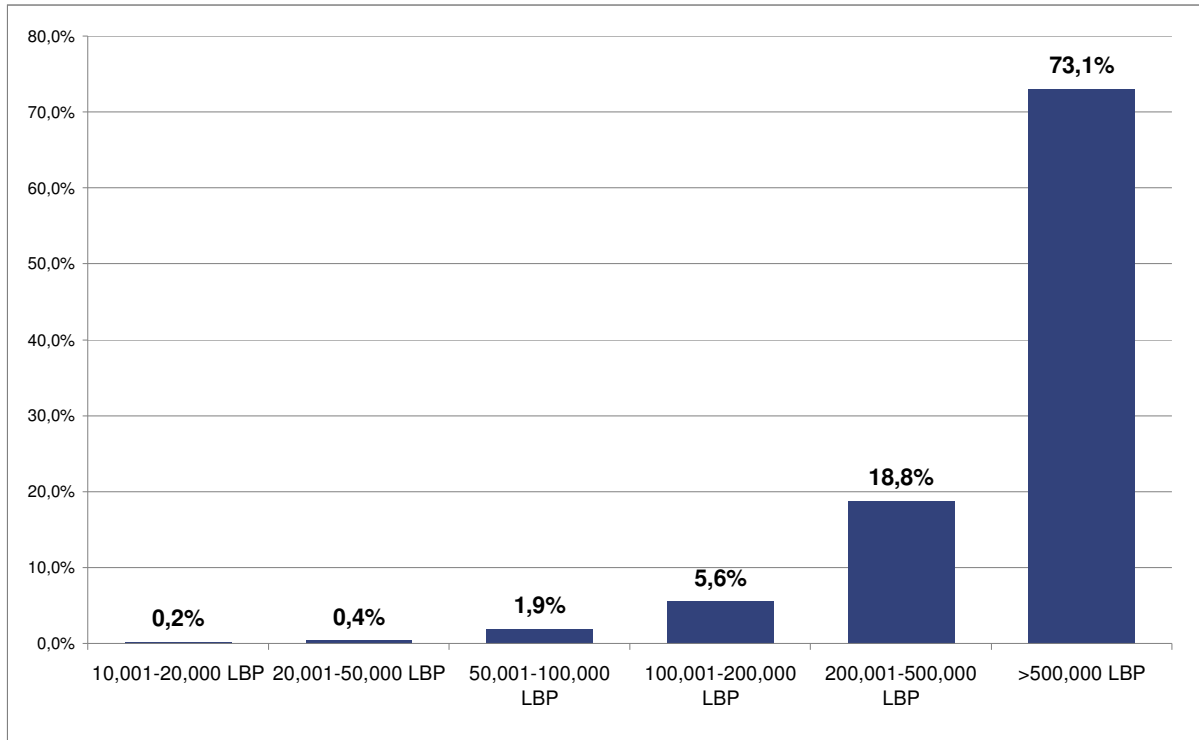
Q21a. Number of weeks in a month	Number of Good Weeks		Number of Normal Weeks		Number of Bad Weeks
	Count	Column %	Count	Column %	
None	176	32,8%	25	4,7%	345
1 week	230	42,9%	59	11,0%	161
2 weeks	118	22,0%	175	32,6%	18
3 weeks	9	1,7%	118	22,0%	7
4 weeks	3	0,6%	159	29,7%	5
Total	536	100,0%	536	100,0%	536

Q21a. Monthly Turnover	Count	Column %
-200,000 LBP	78	15,0%
200,001-400,00 LBP	72	13,8%
400,001-600,000 LBP	60	11,5%
600,001-1,000,000 LBP	76	14,6%
1,000,001-1,500,000 LBP	59	11,3%
1,500,001-2,000,000 LBP	43	8,3%
2,000,001-3,000,000 LBP	55	10,6%
>3,000,001 LBP	78	15,0%

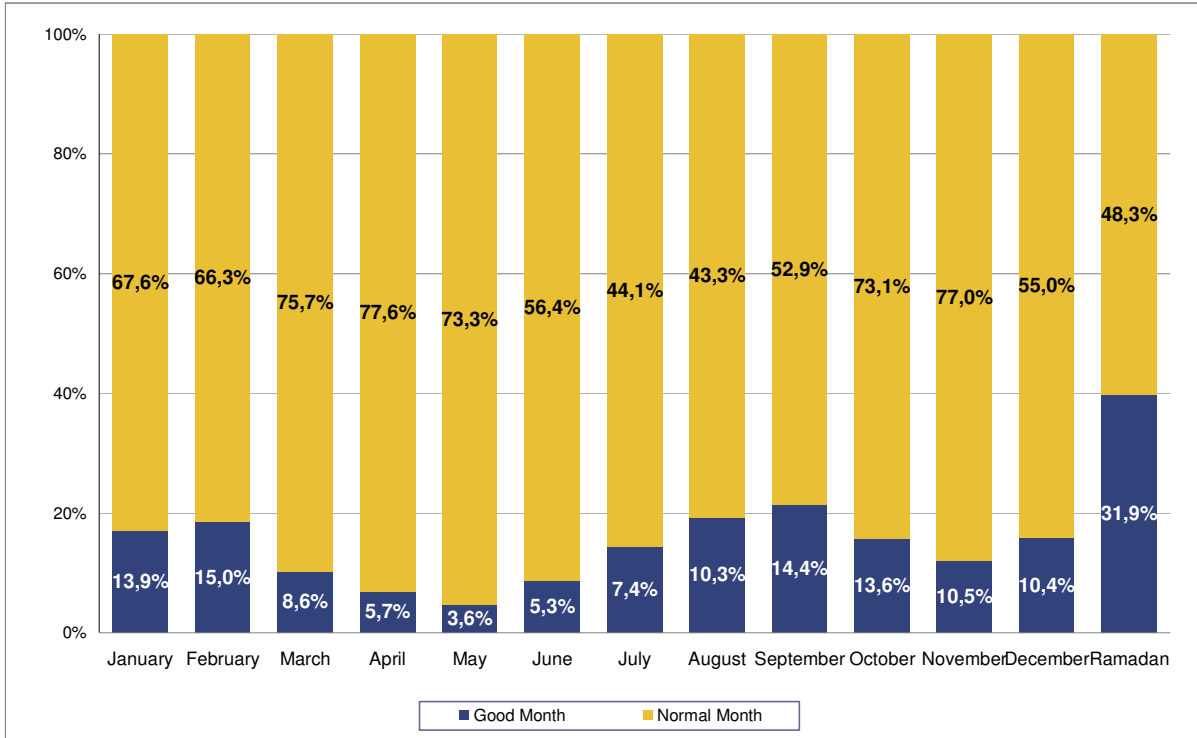
Total	521	100,0%
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Q22. Weekly Turnover	Count	Column %
10,001-20,000 LBP	1	0,2%
20,001-50,000 LBP	2	0,4%
50,001-100,000 LBP	10	1,9%
100,001-200,000 LBP	29	5,6%
200,001-500,000 LBP	98	18,8%
>500,000 LBP	381	73,1%
Total	521	100,0%



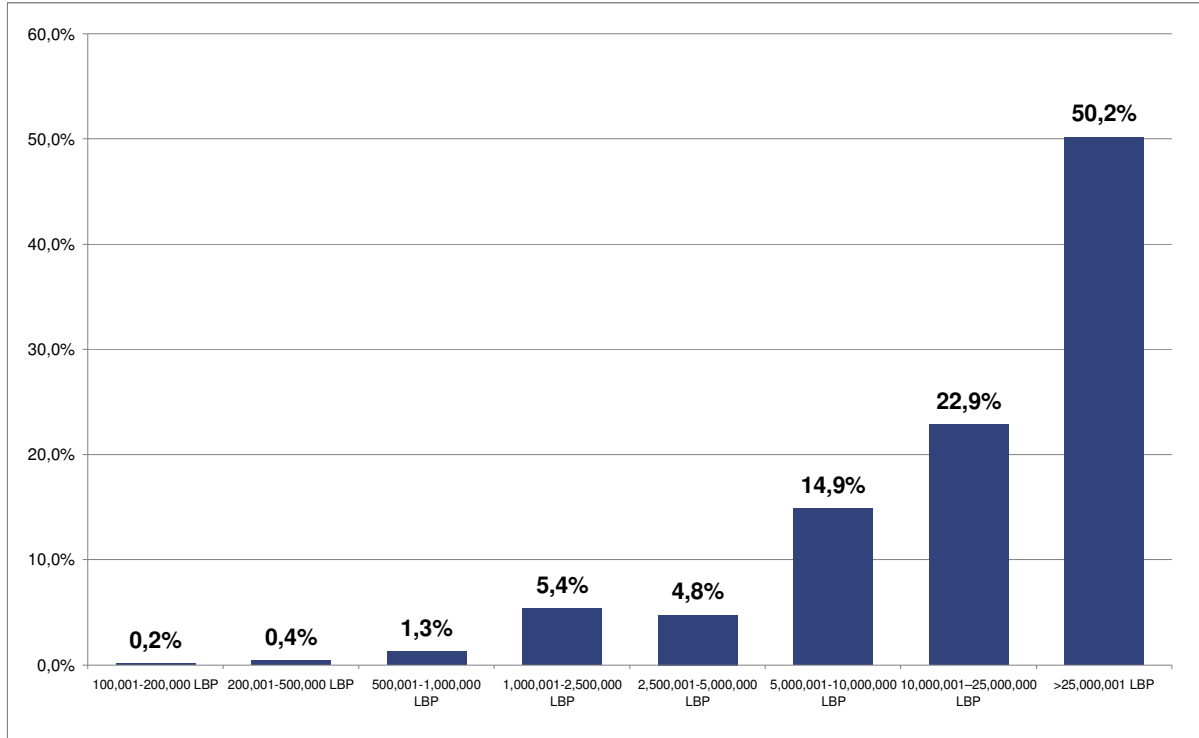
Q23. Monthly Turnover	Good Month		Normal Month		Bad Month	Total
	Count	Column %	Count	Column %	Count	Column %
January	73	13,9%	356	67,6%	98	100,0%
February	79	15,0%	348	66,3%	98	100,0%
March	45	8,6%	398	75,7%	83	100,0%
April	30	5,7%	409	77,6%	88	100,0%
May	19	3,6%	387	73,3%	122	100,0%
June	28	5,3%	298	56,4%	202	100,0%
July	39	7,4%	233	44,1%	256	100,0%
August	54	10,3%	228	43,3%	244	100,0%
September	76	14,4%	278	52,9%	172	100,0%
October	71	13,6%	381	73,1%	69	100,0%
November	55	10,5%	402	77,0%	65	100,0%
December	54	10,4%	286	55,0%	180	100,0%
Ramadan	159	31,9%	241	48,3%	99	100,0%



Q23. Number of Months in a year	Number of Good Months		Number of Normal Months		Number of Bad Months
	Count	Column %	Count	Column %	Count
None	248	46,0%	27	5,0%	106
1 month	118	21,9%	6	1,1%	51
2 months	64	11,9%	13	2,4%	71
3 months	50	9,3%	16	3,0%	99
4 months	29	5,4%	29	5,4%	92
5 months	15	2,8%	43	8,0%	50
6 months	5	0,9%	66	12,2%	34
7 months	3	0,6%	55	10,2%	13
8 months	1	0,2%	80	14,8%	13
9 months	3	0,6%	64	11,9%	7
10 months	1	0,2%	41	7,6%	1
11 months	1	0,2%	39	7,2%	0
12 months	1	0,2%	60	11,1%	2
Total	539	100,0%	539	100,0%	539

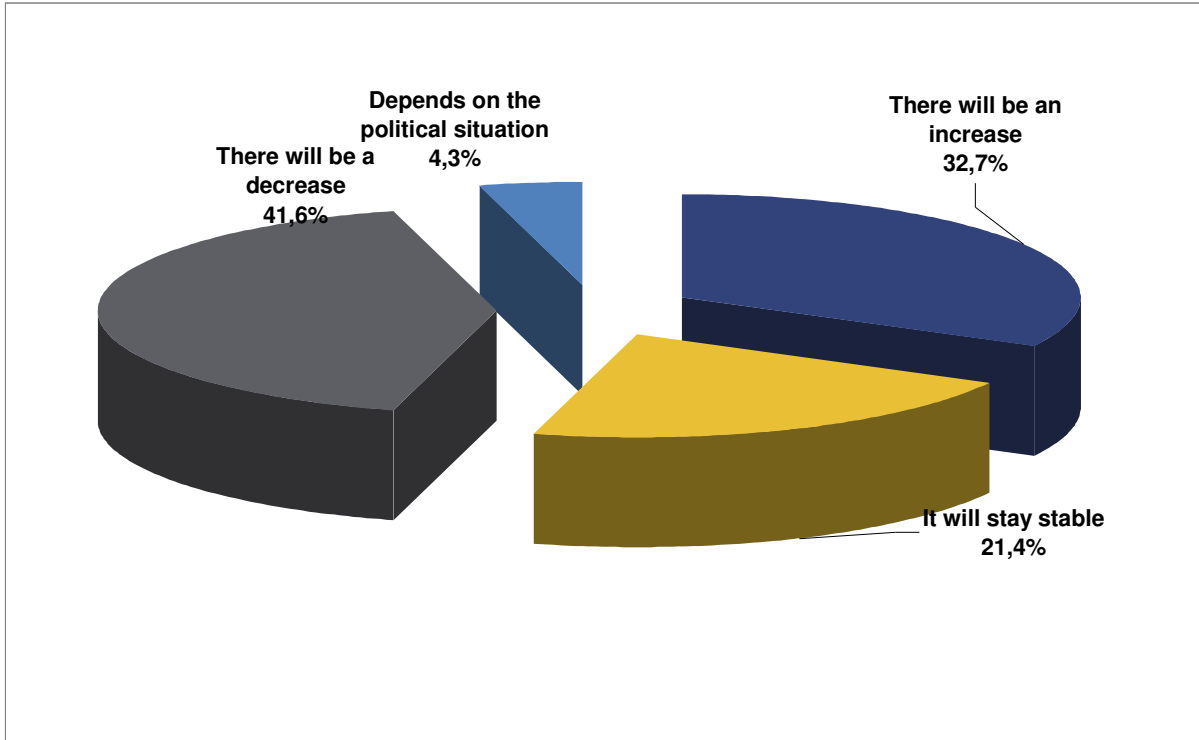
Q23. Yearly Turnover	Count	Column %
100,001-200,000 LBP	1	0,2%
200,001-500,000 LBP	2	0,4%
500,001-1,000,000 LBP	7	1,3%
1,000,001-2,500,000 LBP	29	5,4%
2,500,001-5,000,000 LBP	26	4,8%
5,000,001-10,000,000 LBP	80	14,9%

10,000,001–25,000,000 LBP	123	22,9%
>25,000,001 LBP	270	50,2%
Total	538	100,0%

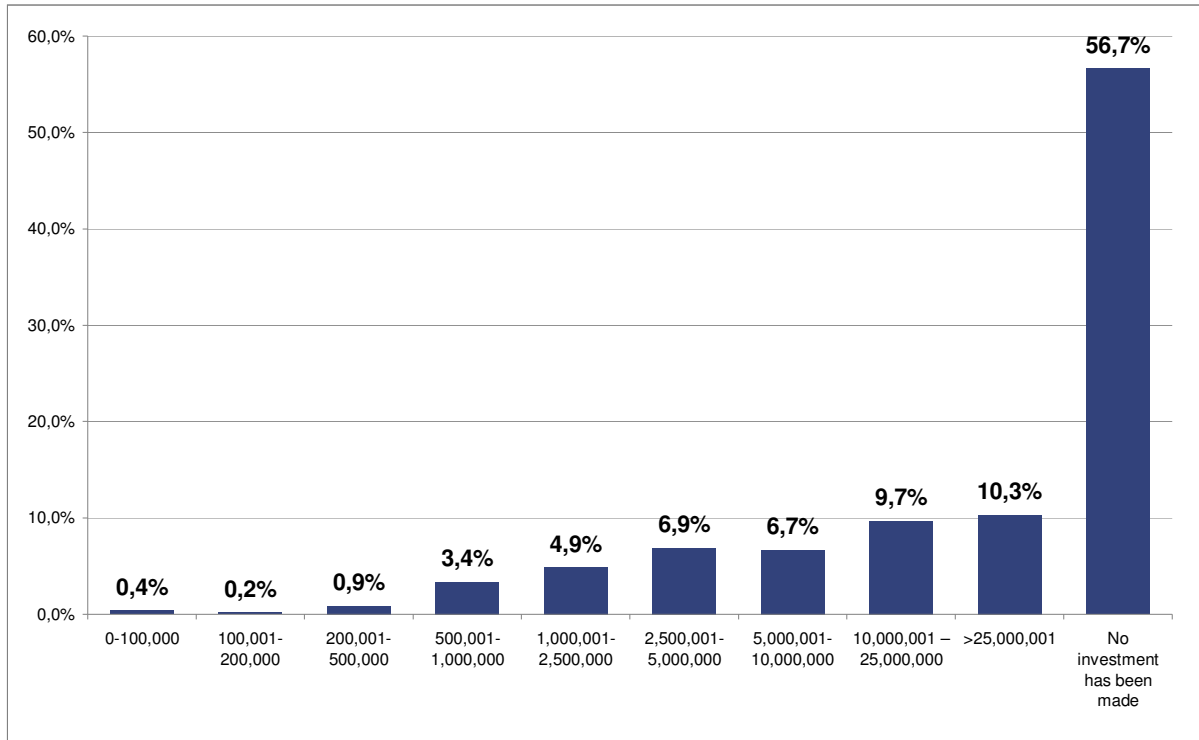


Q25. Gross Profit Margin in % for 2 products	Product 1	Product 2	Total Products
0%-10%	139	16	155
11%-20%	149	43	192
21%-30%	120	42	162
31%-40%	23	12	35
41%-50%	38	10	48
51%-75%	25	5	30
76%-99%	12	1	13
100%+	20	4	24
Total	526	133	659

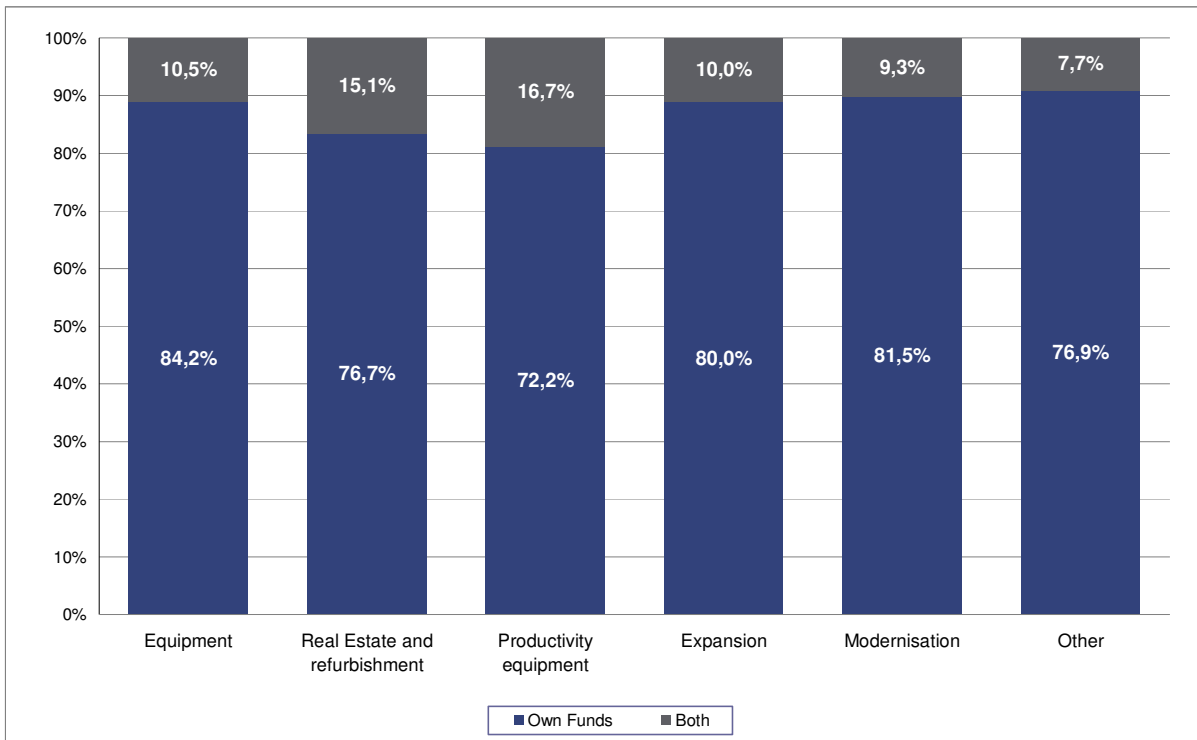
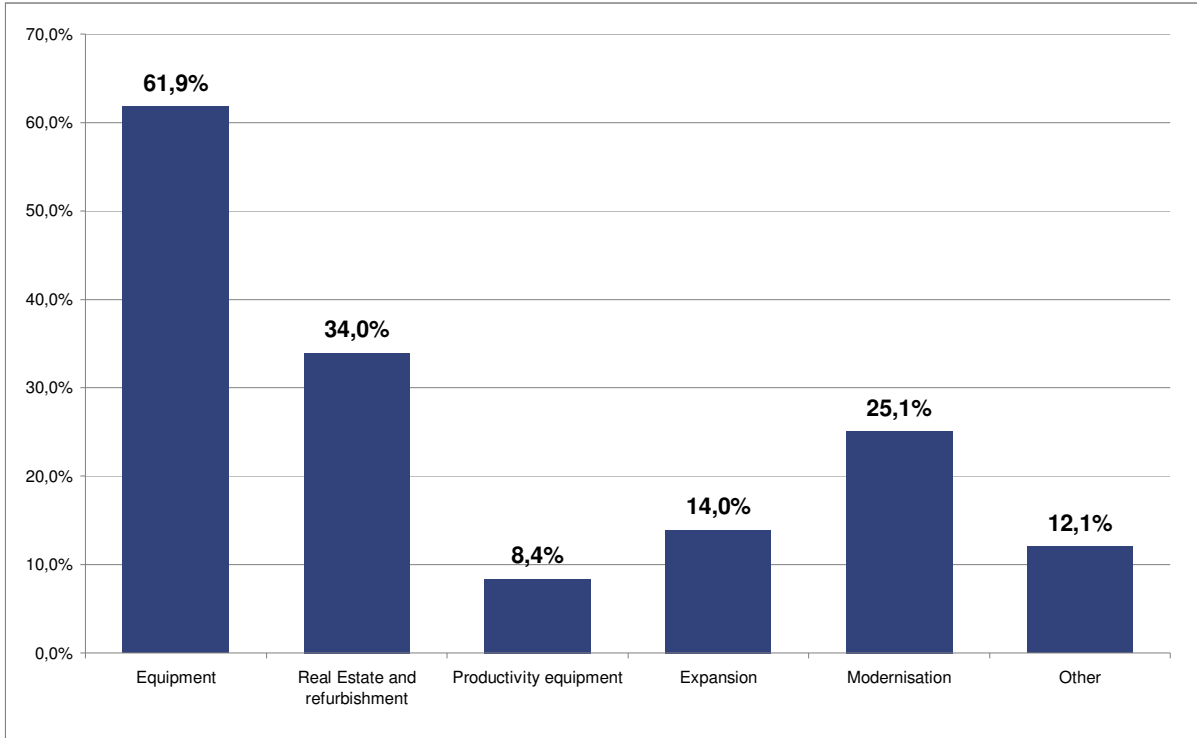
Q26. How do you foresee the development of your company during the next coming years?	Count	Column %
There will be an increase	176	32,7%
It will stay stable	115	21,4%
There will be a decrease	224	41,6%
Depends on the political situation	23	4,3%
Total	538	100,0%



Q27a. Which type of investment have you made in the last two years?	Count	Column %
0-100,000	2	0,4%
100,001-200,000	1	0,2%
200,001-500,000	5	0,9%
500,001-1,000,000	18	3,4%
1,000,001-2,500,000	26	4,9%
2,500,001-5,000,000	37	6,9%
5,000,001-10,000,000	36	6,7%
10,000,001 – 25,000,000	52	9,7%
>25,000,001	55	10,3%
No investment has been made	304	56,7%
Total	536	100,0%

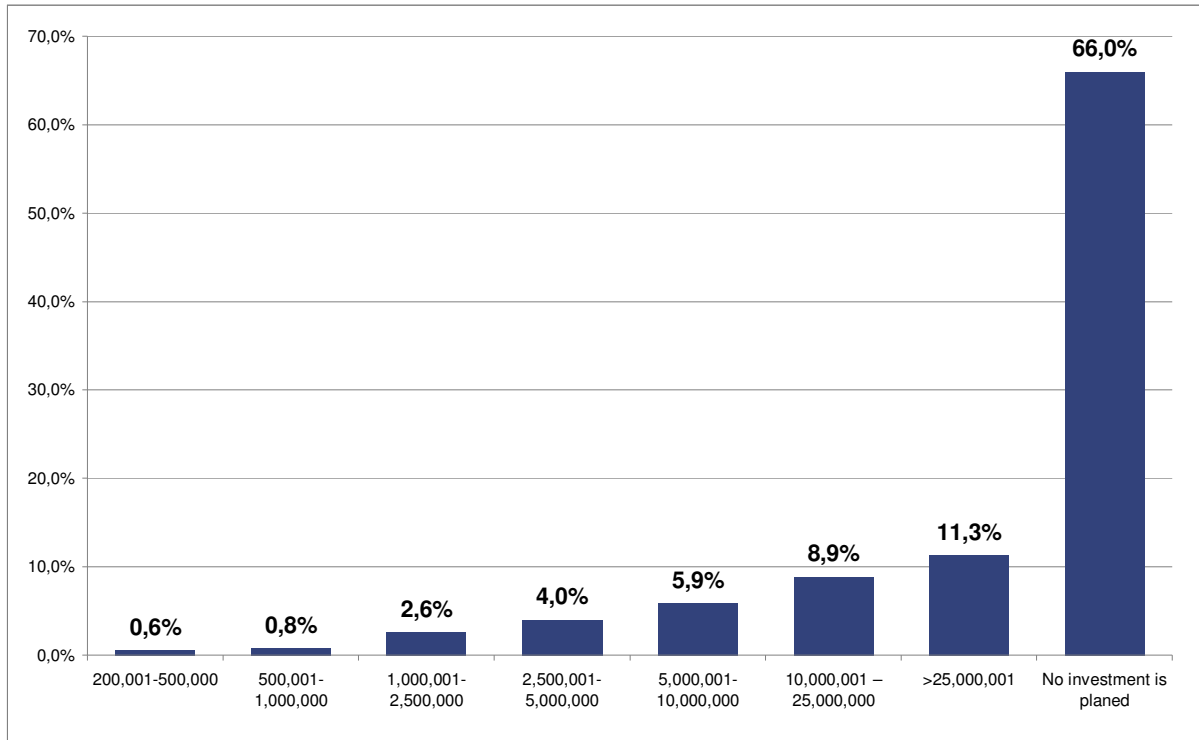


Q27b1. Which type of investment have you made in the last two years?	Total		Own Funds		Credit	Both
	Count	Column %	Count	Column %	Count	Column %
Equipment	133	61,9%	112	84,2%	7	10,5%
Real Estate and refurbishment	73	34,0%	56	76,7%	6	15,1%
Productivity equipment	18	8,4%	13	72,2%	2	16,7%
Expansion	30	14,0%	24	80,0%	3	10,0%
Modernisation	54	25,1%	44	81,5%	5	9,3%
Other	26	12,1%	20	76,9%	4	7,7%
Total	334	155,3%	269	80,53892	27	11,4

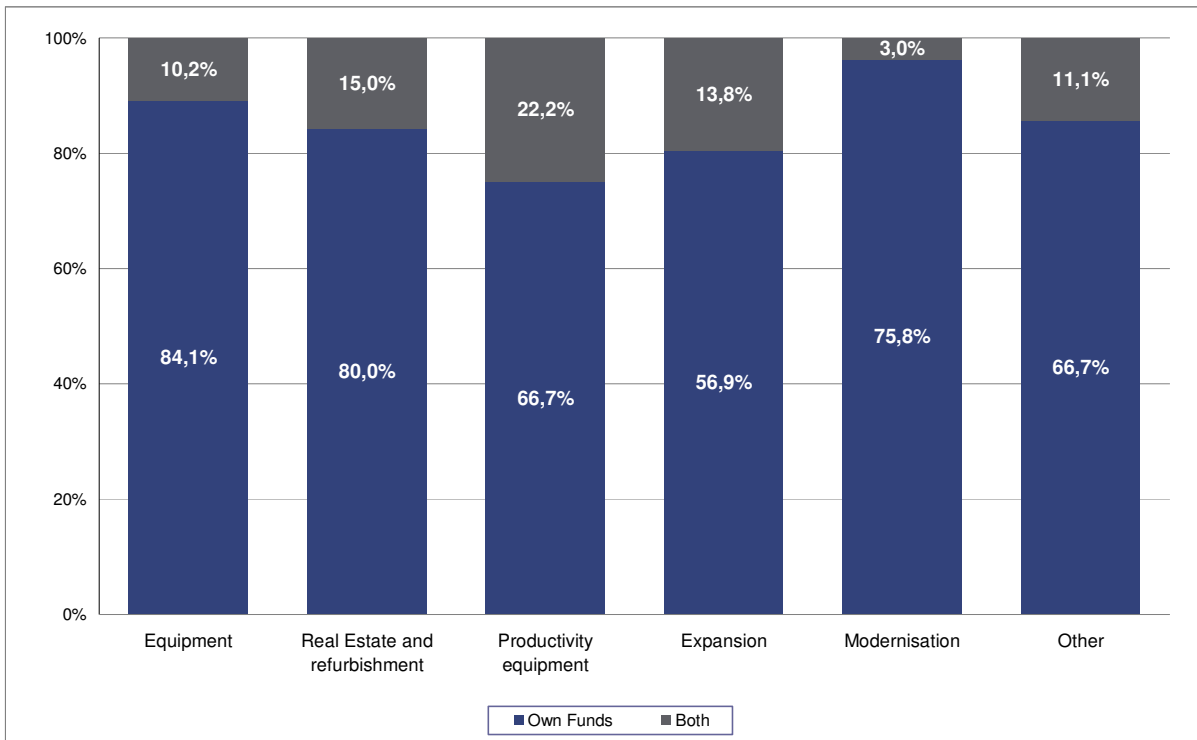
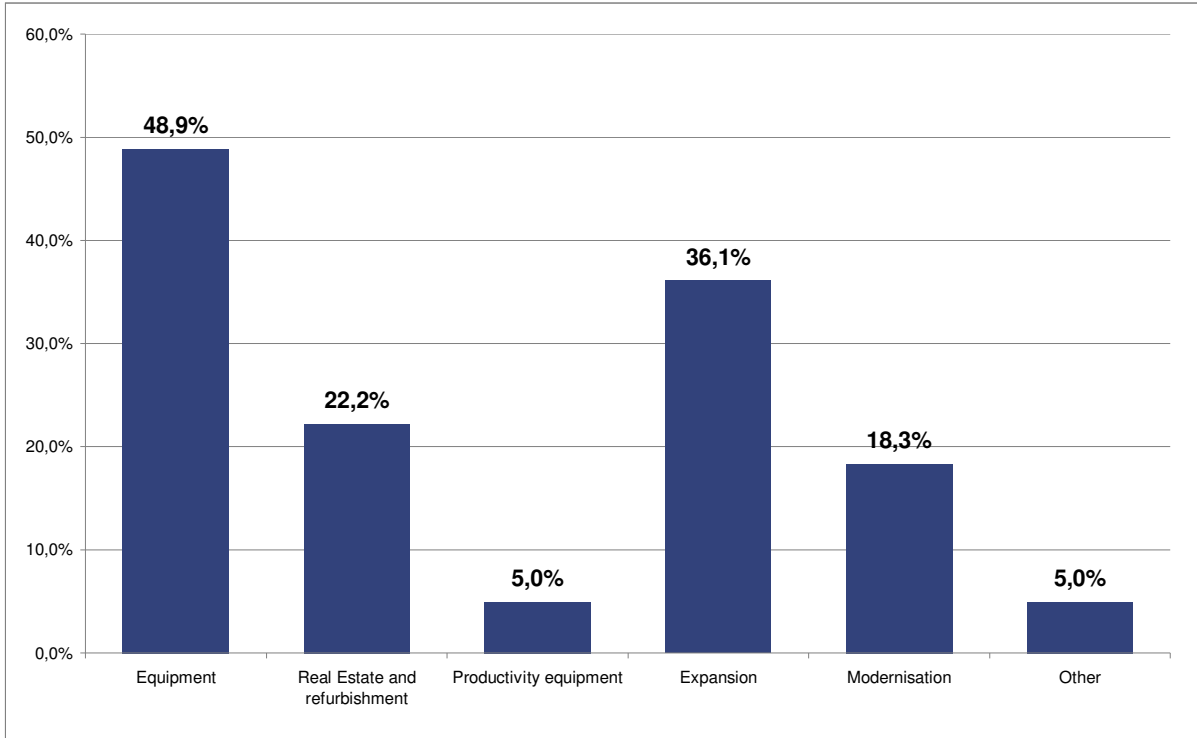


Q28a. Which type of investment are you planning to make?	Count	Column %
0-100,000	0	0,0%
100,001-200,000	0	0,0%
200,001-500,000	3	0,6%
500,001-1,000,000	4	0,8%

1,000,001-2,500,000	14	2,6%
2,500,001-5,000,000	21	4,0%
5,000,001-10,000,000	31	5,9%
10,000,001 – 25,000,000	47	8,9%
>25,000,001	60	11,3%
No investment is planed	349	66,0%
Total	529	100,0%

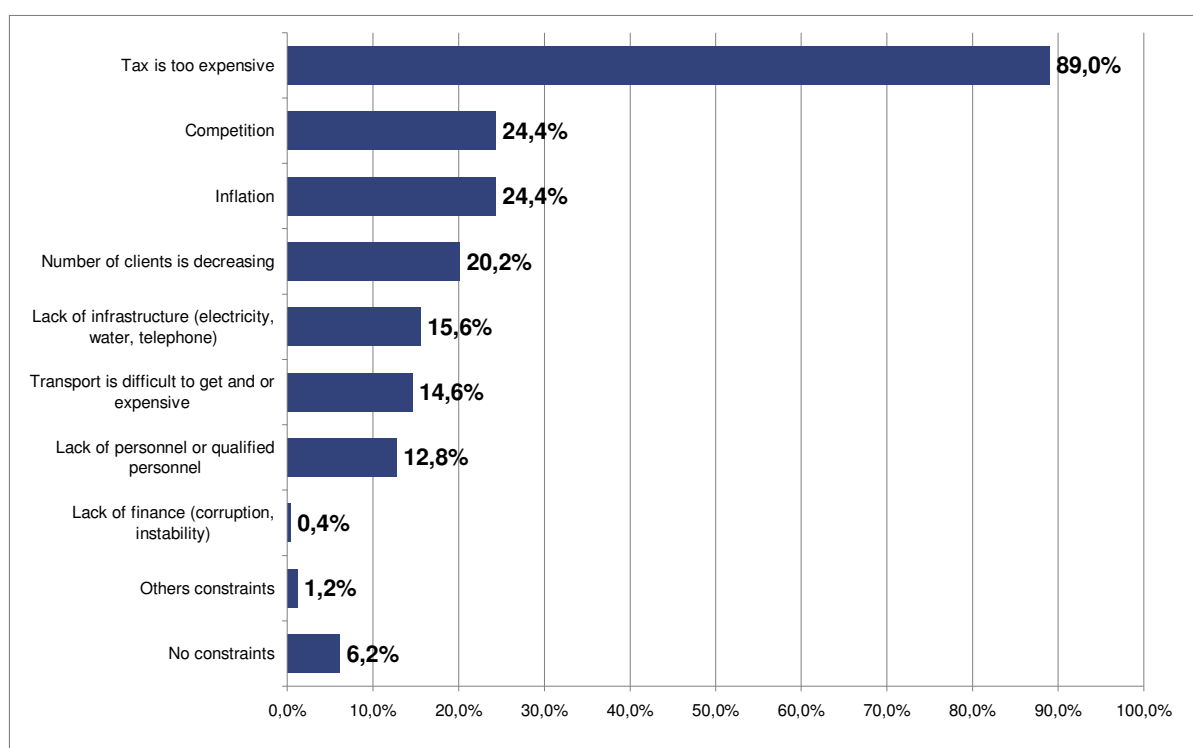


Q28b1. Which type of investment are you planning to make?	Total		Own Funds		Credit	Both
	Count	Column %	Count	Column %	Count	Column %
Equipment	88	48,9%	74	84,1%	5	10,2%
Real Estate and refurbishment	40	22,2%	32	80,0%	2	15,0%
Productivity equipment	9	5,0%	6	66,7%	1	22,2%
Expansion	65	36,1%	37	56,9%	19	13,8%
Modernisation	33	18,3%	25	75,8%	7	3,0%
Other	9	5,0%	6	66,7%	2	11,1%
Total	180	100,0%	180		36	244

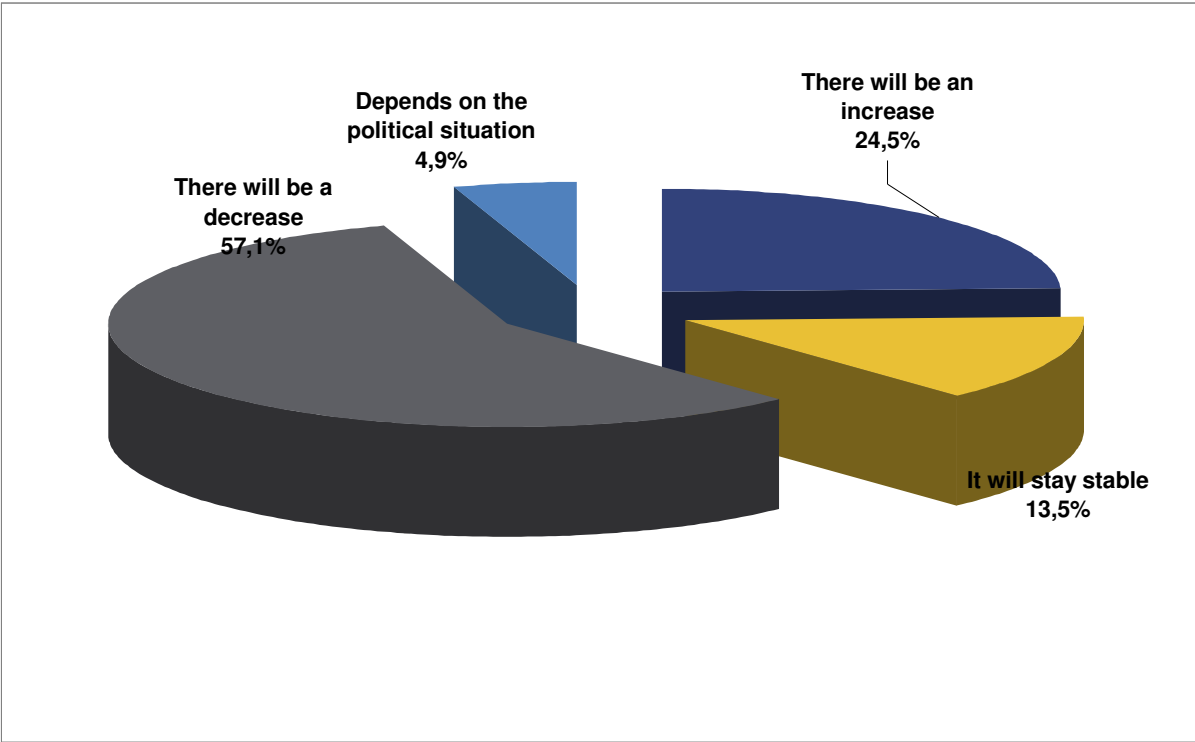


Q29. Which constraints are preventing you from growing?	Count	Column %
No constraints	31	6,2%
Others constraints	6	1,2%
Lack of finance (corruption, instability)	2	0,4%

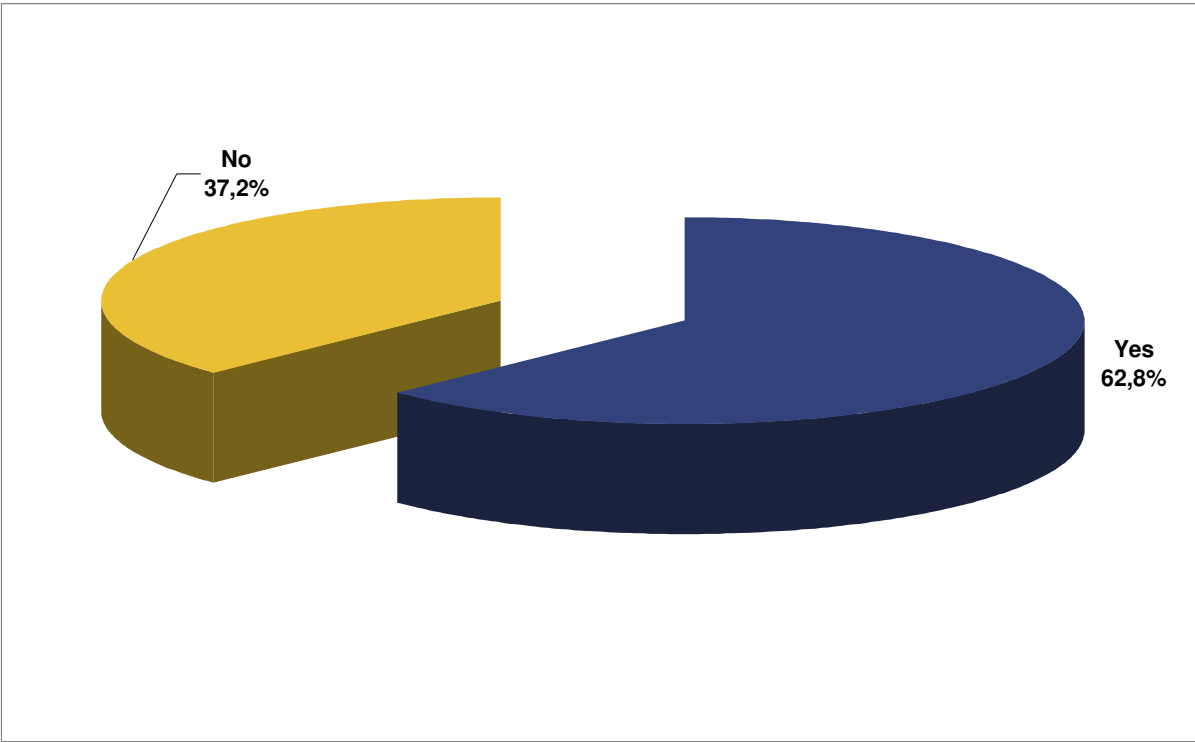
Lack of personnel or qualified personnel	64	12,8%
Transport is difficult to get and or expensive	73	14,6%
Lack of infrastructure (electricity, water, telephone)	78	15,6%
Number of clients is decreasing	101	20,2%
Inflation	122	24,4%
Competition	122	24,4%
Tax is too expensive	445	89,0%
Total	500	100,0%



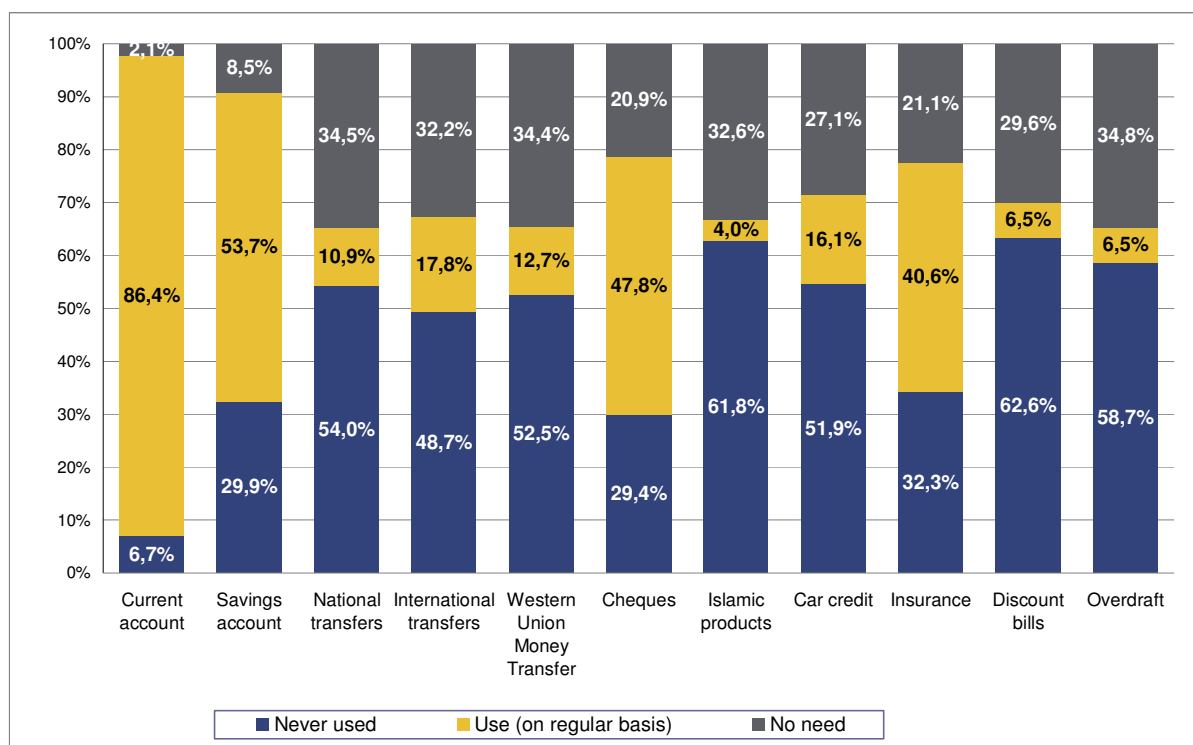
Q30. How do you foresee the development of the Lebanon economy during the next two years ?	Count	Column %
There will be an increase	131	24,5%
It will stay stable	72	13,5%
There will be a decrease	305	57,1%
Depends on the political situation	26	4,9%
Total	534	100,0%



Q31a. Do you use/ have you been using banking services?	Count	Column %
Yes	338	62,8%
No	200	37,2%
Total	538	100,0%

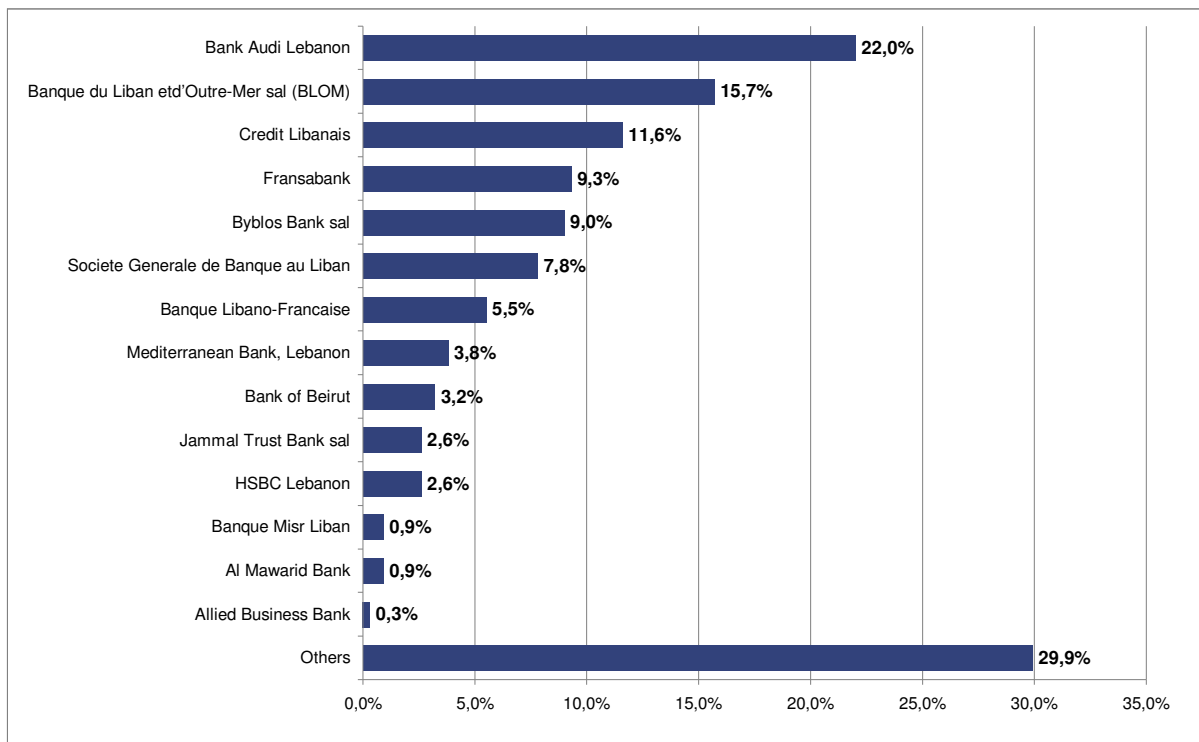


Q31b1. Bank services	Never used		Regular use		Interested to try	No need
	Count	Column %	Count	Column %	Count	Column %
Current account	22	6,7%	285	86,4%	16	2,1%
Savings account	98	29,9%	176	53,7%	26	8,5%
National transfers	169	54,0%	34	10,9%	2	34,5%
International transfers	153	48,7%	56	17,8%	4	32,2%
Western Union Money Transfer	165	52,5%	40	12,7%	1	34,4%
Checks	94	29,4%	153	47,8%	6	20,9%
Islamic products	186	61,8%	12	4,0%	5	32,6%
Car credit	161	51,9%	50	16,1%	15	27,1%
Insurance	101	32,3%	127	40,6%	19	21,1%
Discount bills	184	62,6%	19	6,5%	4	29,6%
Overdraft	27	58,7%	3	6,5%	0	34,8%



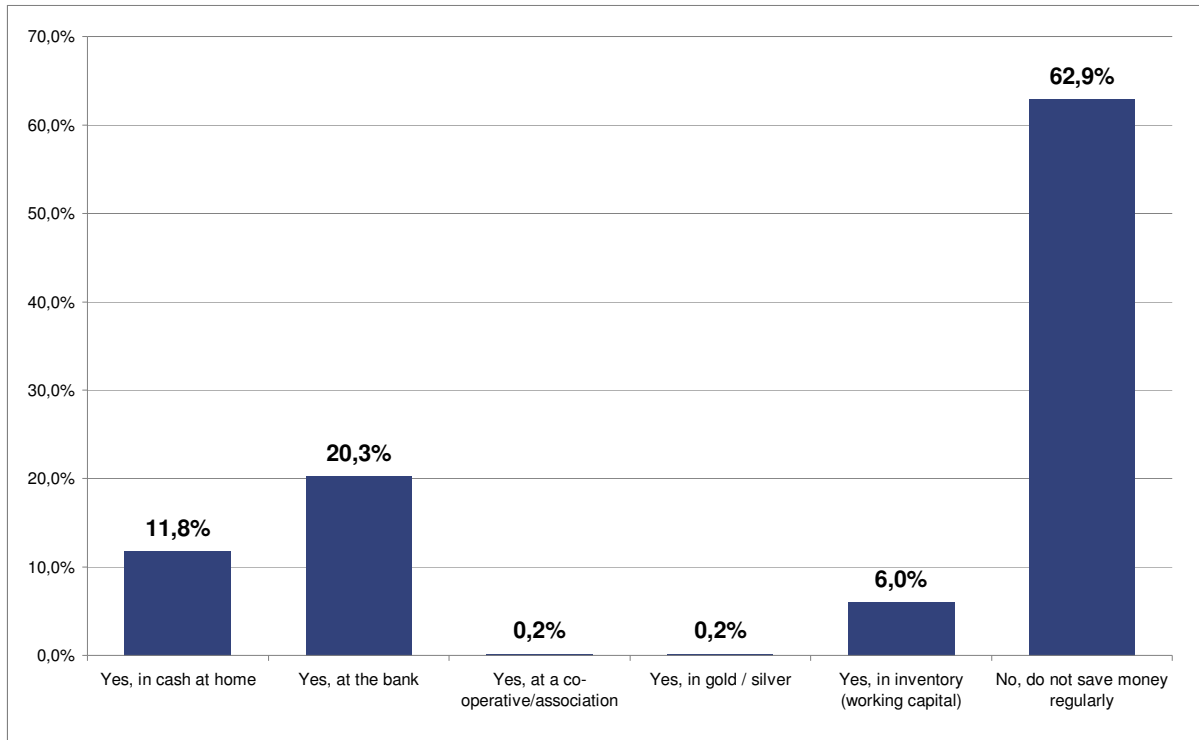
Q32. Name of the bank or institution where you use these services?	Count	Column N %
Bank Audi Lebanon	76	22,10%
Fransabank	32	9,30%
Byblos Bank sal	31	9,00%
Societe Generale de Banque au Liban	27	7,80%
Banque Libano-Francaise	20	5,80%
Mediterranean Bank, Lebanon	14	4,10%
Credit Libanais	40	11,60%
Banque du Liban etd'Outre-Mer sal (BLOM)	54	15,70%
Banque Misr Liban	3	0,90%
Bank of Beirut	11	3,20%

Al Mawarid Bank	4	1,20%
Allied Business Bank	1	0,30%
Banque Europeenne pour le Moyen-Orient	0	0,00%
Allied Bank Lebanon	1	0,30%
HSBC Lebanon	9	2,60%
Al Baraka Bank Lebanon	0	0,00%
Jammal Trust Bank sal	10	2,90%
Swissbank	3	0,90%
Bank Saderat Iran	5	1,50%
Lebanese Canadian Bank	8	2,30%
Bank of Kuwait and the Arab World	7	2,00%
Lebanon and Gulf Bank	2	0,60%
First National Bank	3	0,90%
Federal Bank of Lebanon	2	0,60%
BSL	4	1,20%
BLC	11	3,20%
Bank of Beirut and Arab Countries (BBAC)	15	4,40%
Middle East and African Bank	2	0,60%
Arab Bank	8	2,30%
Al Ahli International Bank	2	0,60%
Arab Finance Corporation	1	0,30%
Banque Misr Liban	1	0,30%
Banque de L'Industrie at du Travail	2	0,60%
Creditbank	1	0,30%
Tamweel Home Finance	1	0,30%
Bank of Egypt	1	0,30%
NO BANK RELATION	17	4,90%
Total	344	100,00%

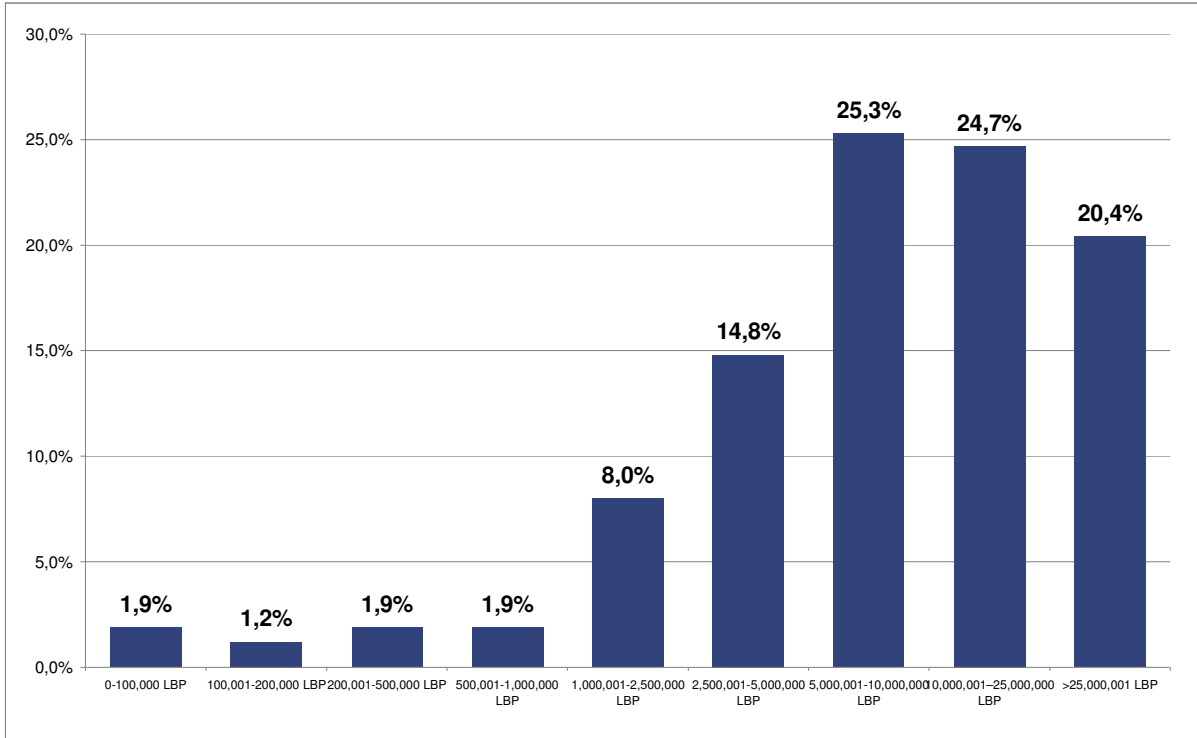


Q33. Do you save money regularly?	Count	Column %
Yes, in cash at home	63	11,8%
Yes, at the bank	109	20,3%

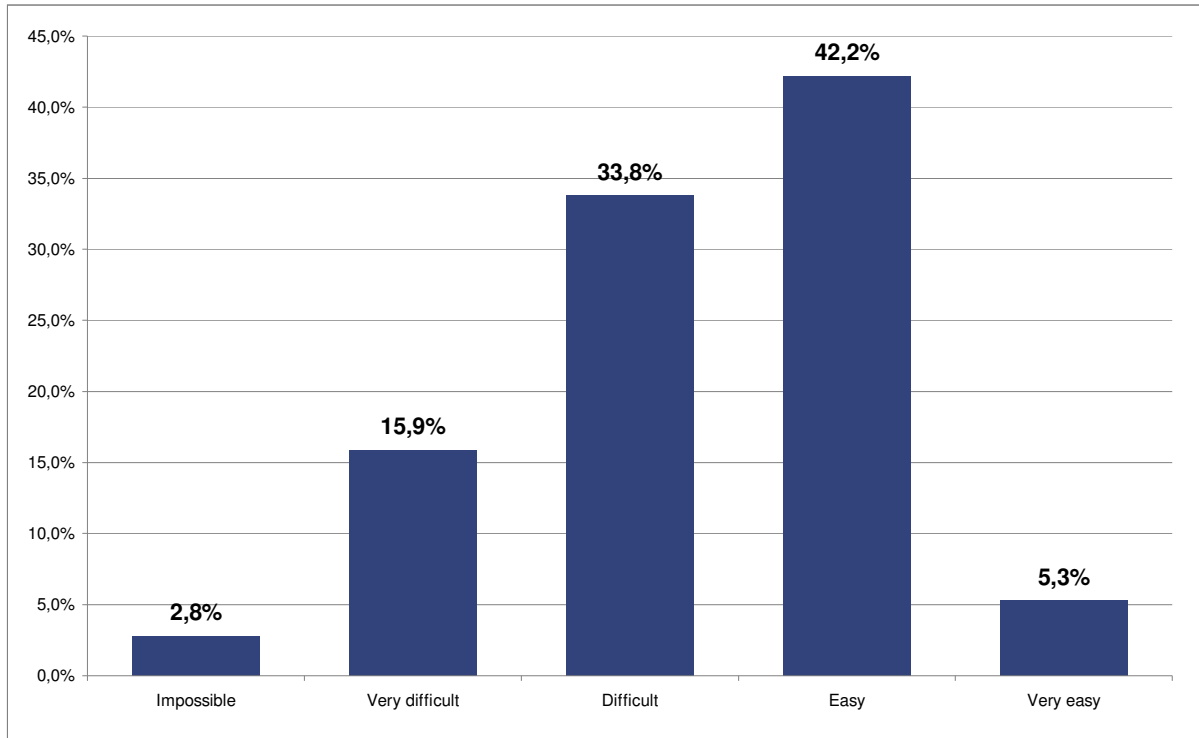
Yes, at a co-operative/association	1	0,2%
Yes, in gold / silver	1	0,2%
Yes, in inventory (working capital)	32	6,0%
No, do not save money regularly	337	62,9%
Total	536	100,0%



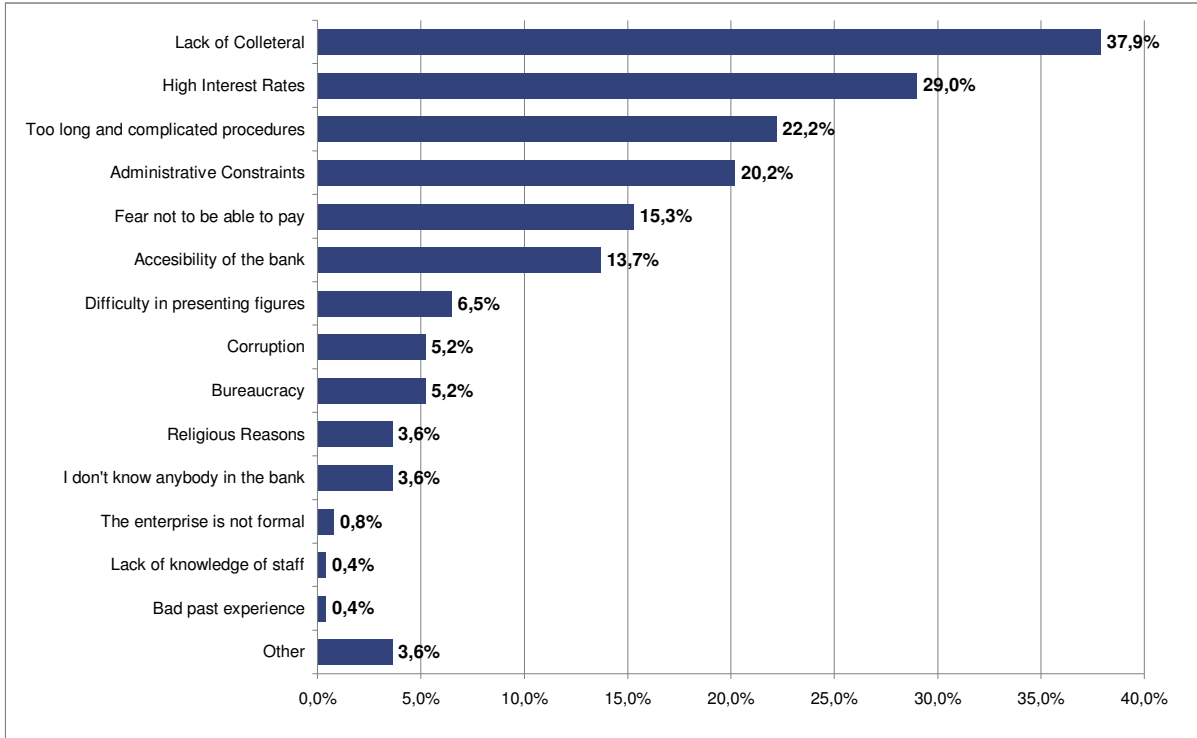
Q34. How much do you save in a year?	Count	Column %
0-100,000 LBP	3	1,9%
100,001-200,000 LBP	2	1,2%
200,001-500,000 LBP	3	1,9%
500,001-1,000,000 LBP	3	1,9%
1,000,001-2,500,000 LBP	13	8,0%
2,500,001-5,000,000 LBP	24	14,8%
5,000,001-10,000,000 LBP	41	25,3%
10,000,001-25,000,000 LBP	40	24,7%
>25,000,001 LBP	33	20,4%
Total	162	100,0%



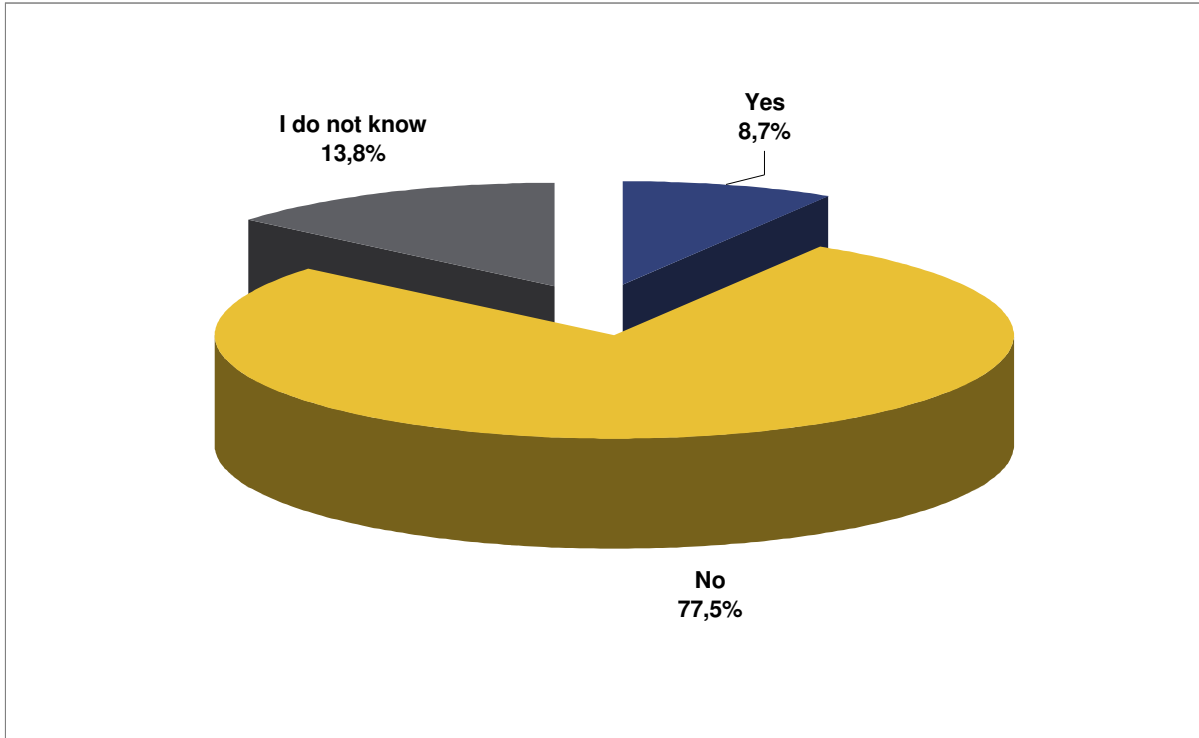
Q35. How do you judge the process of obtaining a credit at commercial banks ?	Count	Column %
Impossible	15	2,8%
Very difficult	85	15,9%
Difficult	180	33,8%
Easy	225	42,2%
Very easy	28	5,3%
Total	533	100,0%



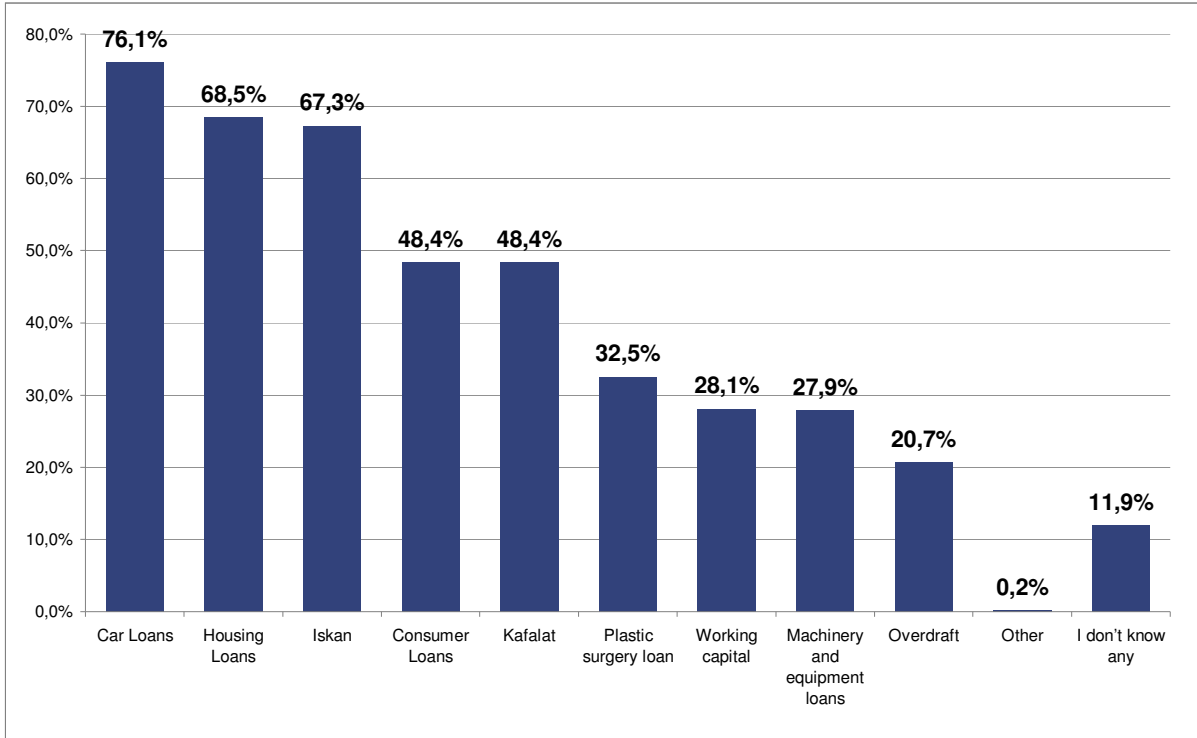
Q36. Most important difficulties to obtain a loan from a commercial bank	Total		Most Important		2nd Importance	3rd Importance
	Count	Column %	Count	Column %	Count	Column %
Other	9	3,6%	6	2,4%	2	1,5%
Bad past experience	1	0,4%	0	0,0%	1	0,0%
Lack of knowledge of staff	1	0,4%	0	0,0%	1	0,0%
The enterprise is not formal	2	0,8%	1	0,4%	1	0,0%
I don't know anybody in the bank	9	3,6%	6	2,4%	1	3,0%
Religious Reasons	9	3,6%	4	1,6%	4	1,5%
Bureaucracy	13	5,2%	5	2,0%	4	6,1%
Corruption	13	5,2%	9	3,6%	3	1,5%
Difficulty in presenting figures	16	6,5%	1	0,4%	4	16,7%
Accesibility of the bank	34	13,7%	25	10,1%	6	4,5%
Fear not to be able to pay	38	15,3%	22	8,9%	7	13,6%
Administrative Constraints	50	20,2%	33	13,3%	8	13,6%
Too long and complicated procedures	55	22,2%	26	10,5%	18	16,7%
High Interest Rates	72	29,0%	35	14,1%	25	18,2%
Lack of Colleteral	94	37,9%	75	30,2%	17	3,0%
Total	248	100,0%	248	100,0%	102	100,0%



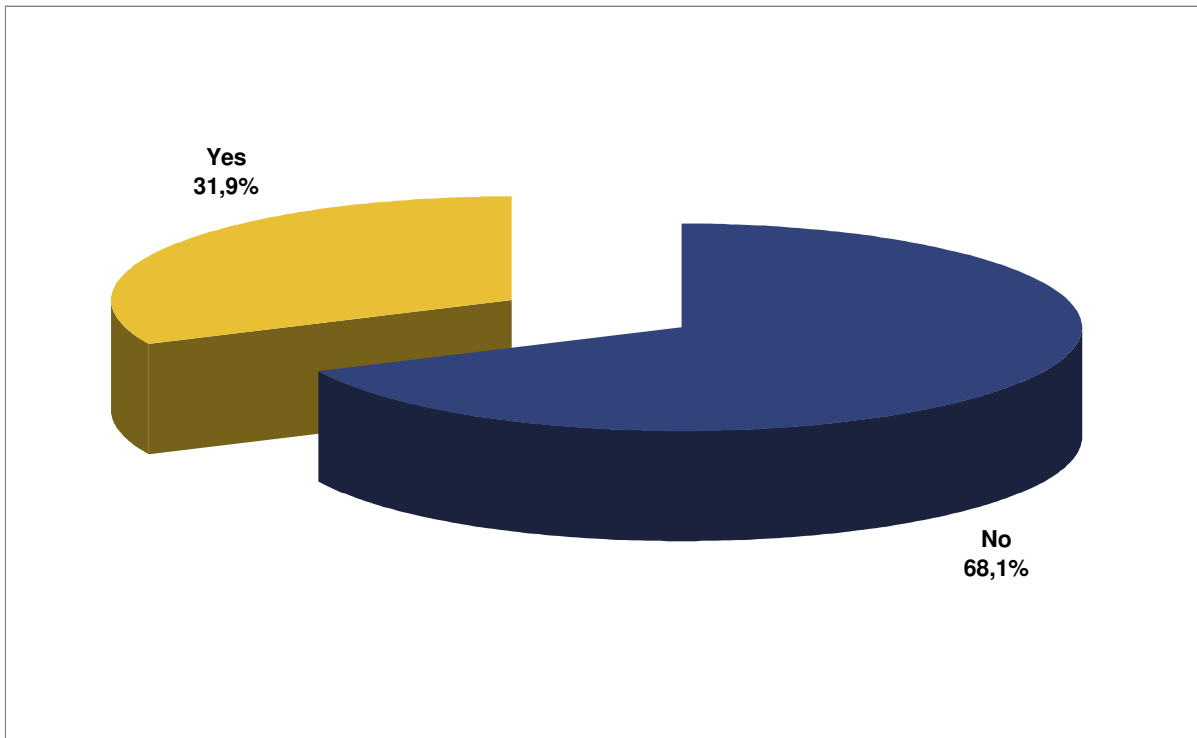
Q37. Do you think it is more difficult to obtain a loan for a woman than for a man?	Count	Column %
Yes	47	8,7%
No	417	77,5%
I do not know	74	13,8%
Total	538	100,0%



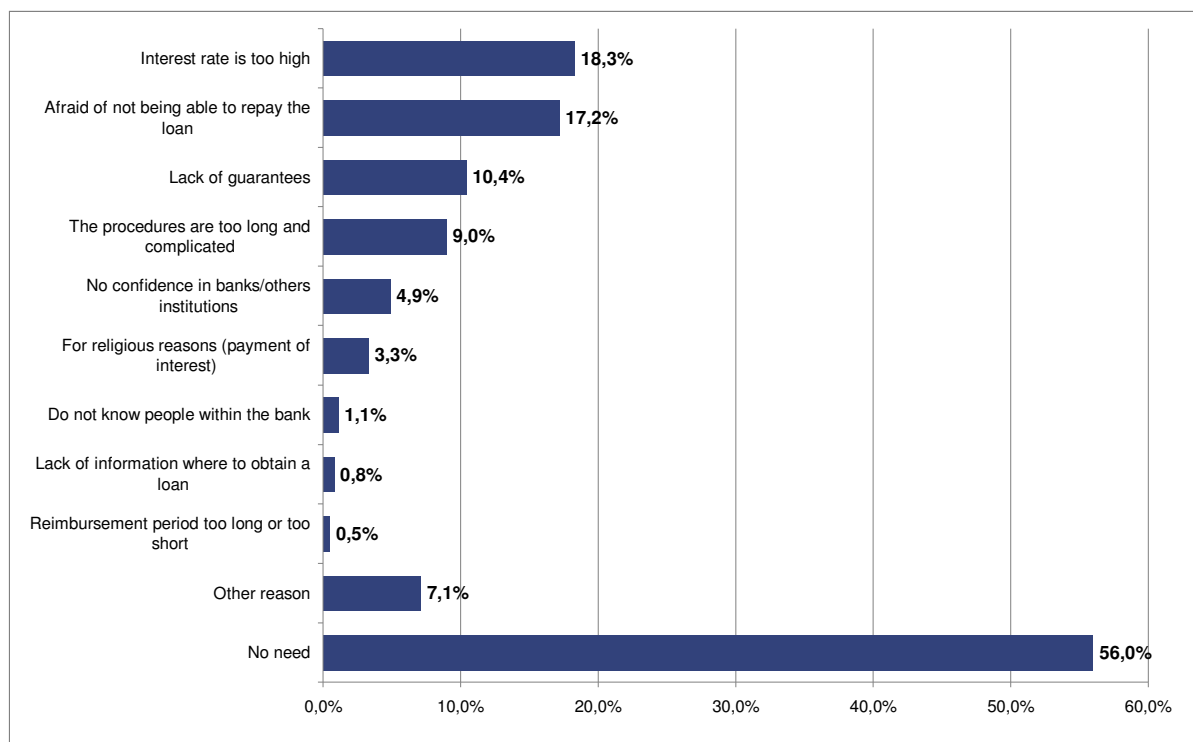
Q38. Which types of loans do you know?	Count	Column %
Car Loans	398	76,1%
Housing Loans	358	68,5%
Iskan	352	67,3%
Consumer Loans	253	48,4%
Kafalat	253	48,4%
Plastic surgery loan	170	32,5%
Working capital	147	28,1%
Machinery and equipment loans	146	27,9%
Overdraft	108	20,7%
Other	1	0,2%
I don't know any	62	11,9%
Total	523	100,0%



Q39. Have you ever tried to obtain a loan?	Count	Column %
No	367	68,1%
Yes	172	31,9%
Total	539	100,0%

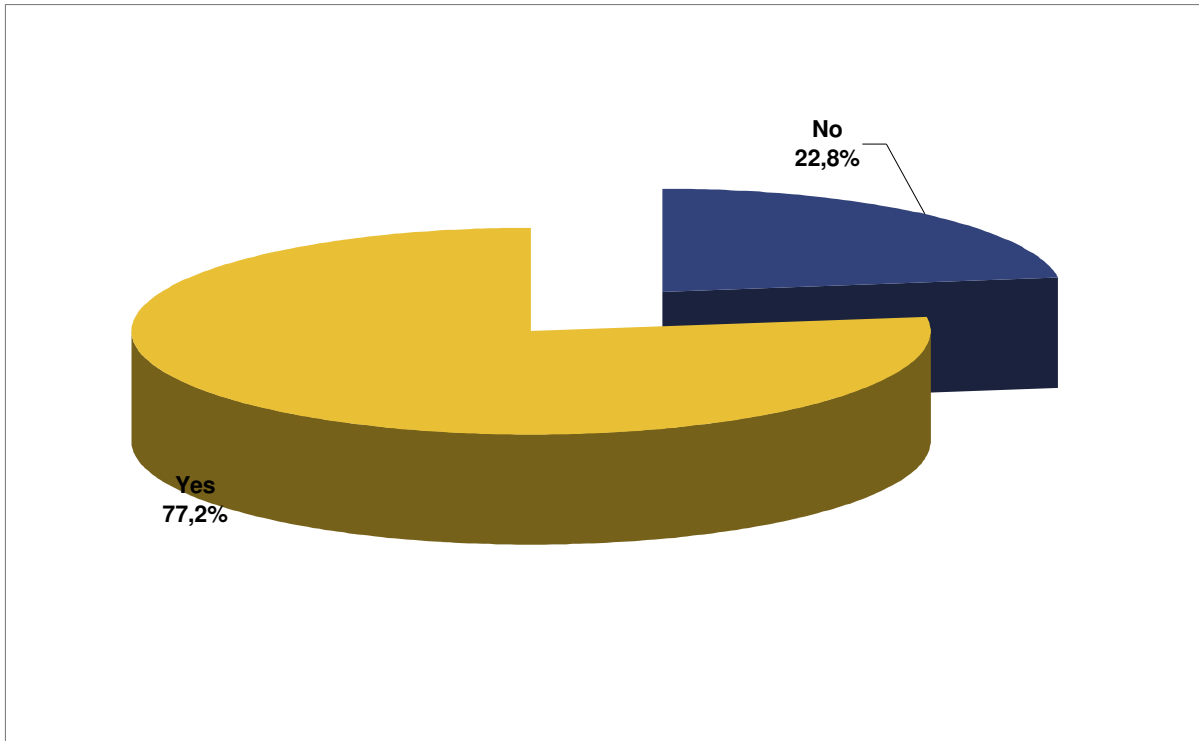


Q40. Why did you never try to obtain a loan?	Count	Column %
No need	205	56,0%
Other reason	26	7,1%
Reimbursement period too long or too short	2	0,5%
Lack of information where to obtain a loan	3	0,8%
Do not know people within the bank	4	1,1%
For religious reasons (payment of interest)	12	3,3%
No confidence in banks/others institutions	18	4,9%
The procedures are too long and complicated	33	9,0%
Lack of guarantees	38	10,4%
Afraid of not being able to repay the loan	63	17,2%
Interest rate is too high	67	18,3%
Total	366	100,0%

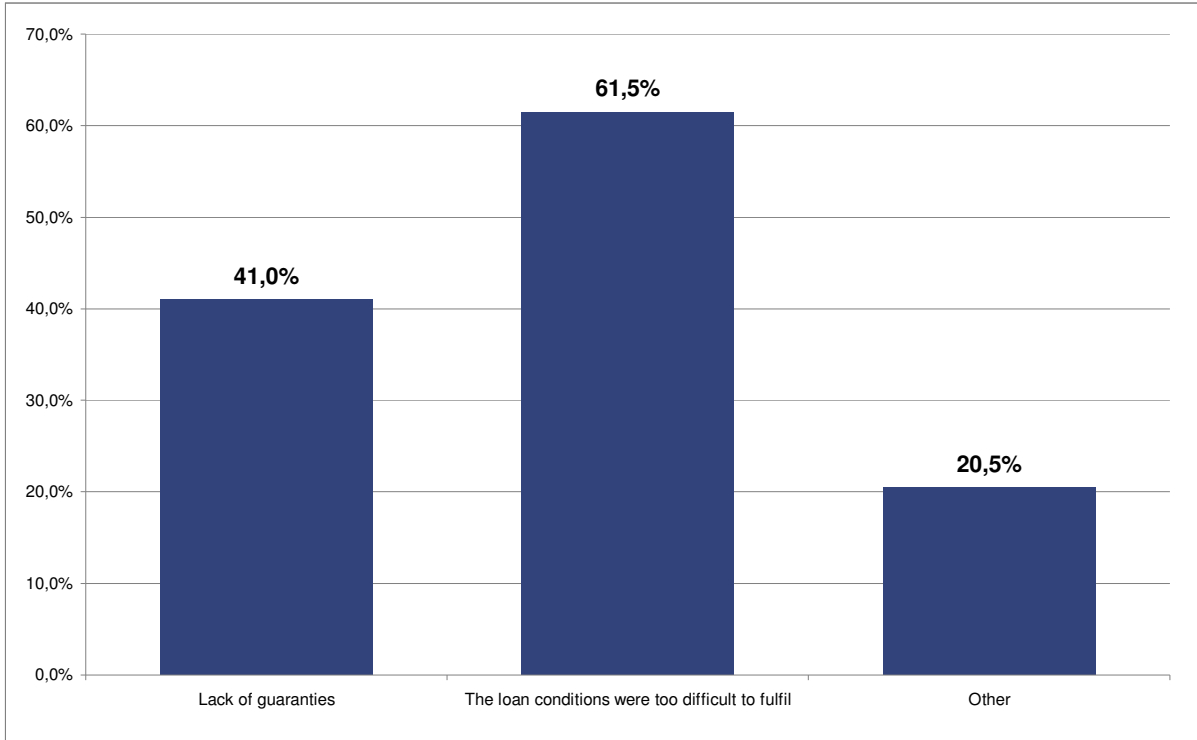


Q41. When you tried to obtain a loan, were you able to receive the loan?	Count	Column %
No	39	22,8%

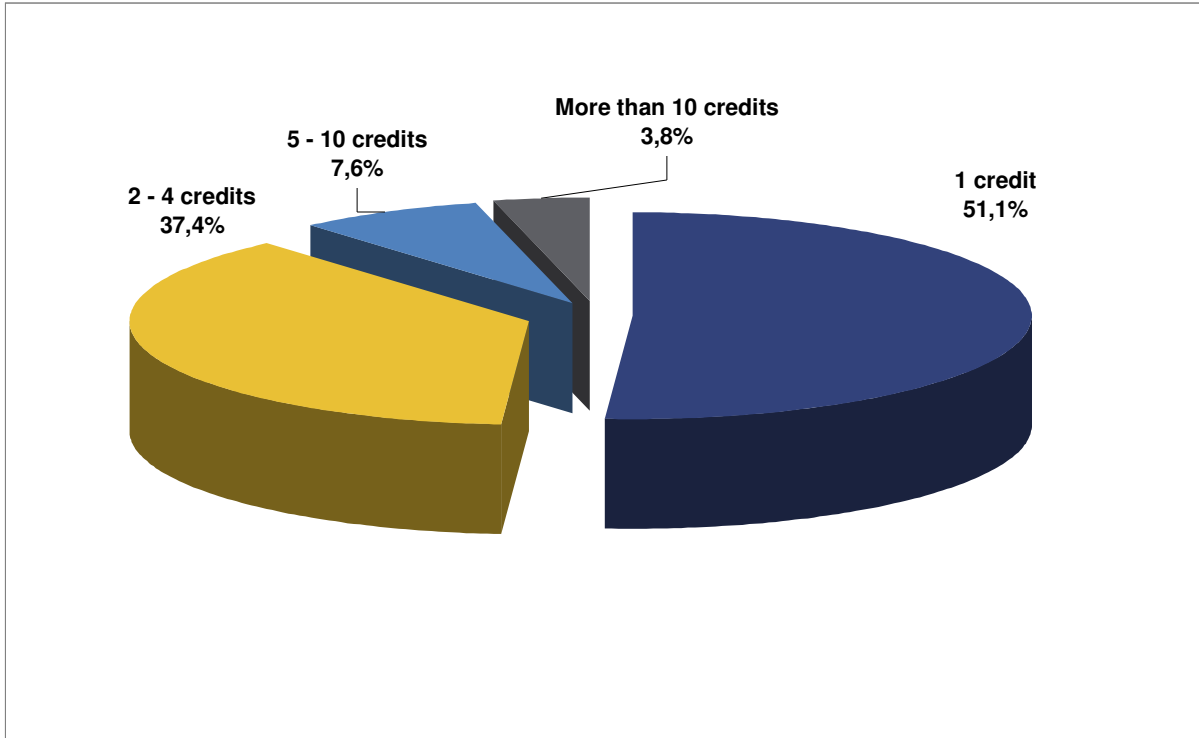
Yes	132	77,2%
Total	171	100,0%



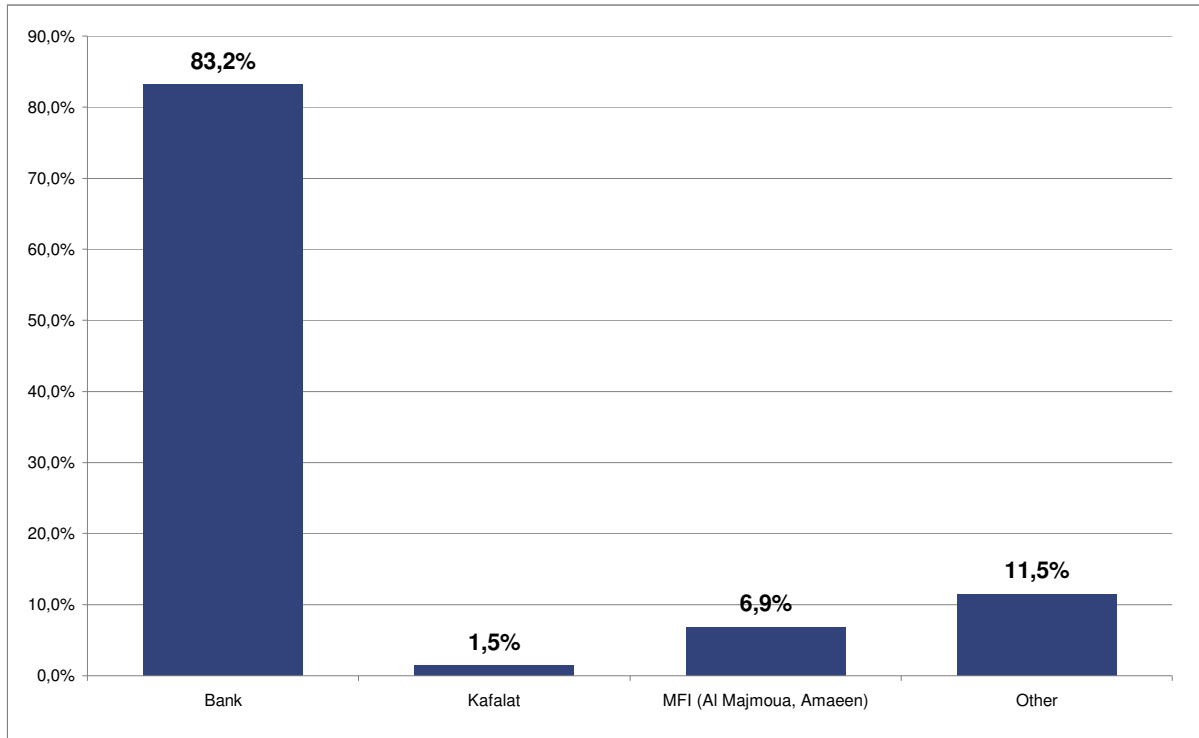
Q42. Why were you not able to receive the loan?	Count	Column %
Lack of guaranties	16	41,0%
The loan conditions were too difficult to fulfil	24	61,5%
Other	8	20,5%
Total	39	100,0%



Q43. If yes, how many loans have you obtained?	Count	Column %
1 credit	67	51,1%
2 - 4 credits	49	37,4%
5 - 10 credits	10	7,6%
More than 10 credits	5	3,8%
Total	131	100,0%



Q44. Where have you obtained these loans?	Count	Column %
Bank	109	83,2%
Kafalat	2	1,5%
MFI (Al Majmoua, Amaeen)	9	6,9%
Other	15	11,5%
Total	131	100,0%

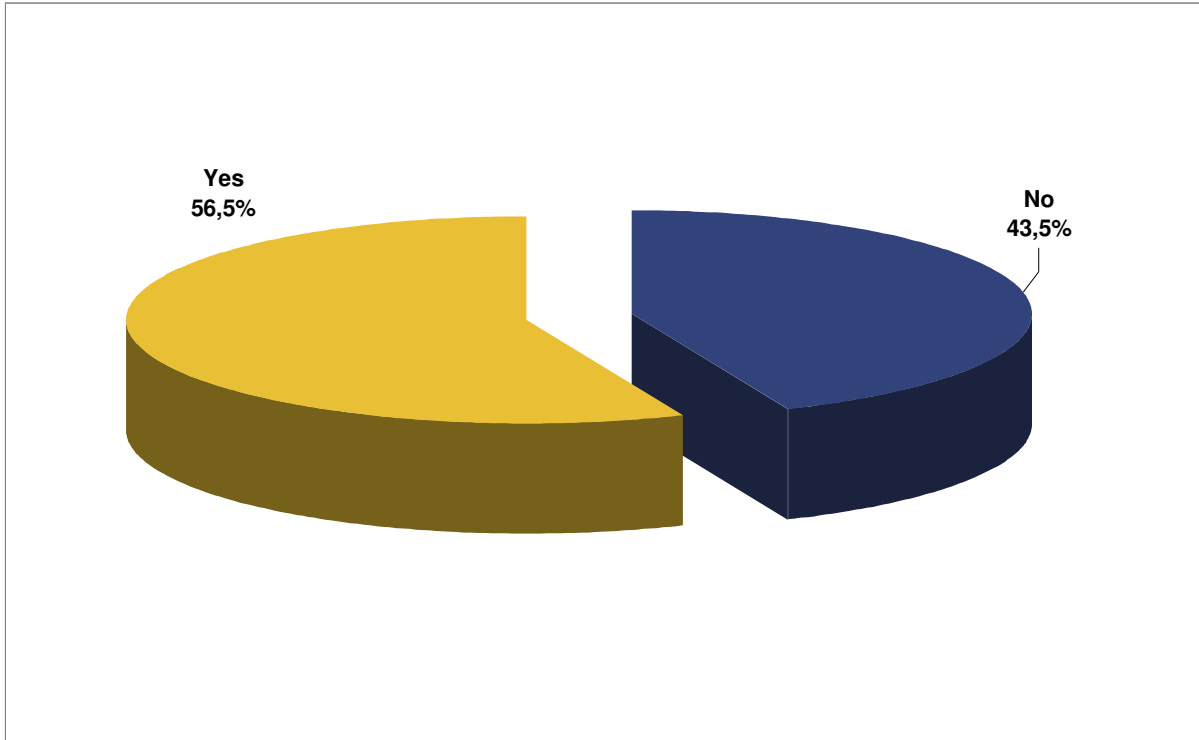


Q44a. Bank-The name of the institution	Count	Column %
Al Arabi	1	0,9%
BLC	1	0,9%
BSL	1	0,9%
Byblos	1	0,9%
Iranian Exports	1	0,9%
Iskan	1	0,9%
Kwair	1	0,9%
LCB	1	0,9%
Lebanese Canadian	1	0,9%
Libano Suisse	1	0,9%
Mebco	1	0,9%
Middle East	1	0,9%
North Africa	1	0,9%
Old bank	1	0,9%
Safirat Iran	1	0,9%
Societe General	1	0,9%
Tamwil Bank	1	0,9%
Transorient Bank	1	0,9%
Arab Bank	2	1,8%
Bank Of Beirut	2	1,8%
Iskan Bank	2	1,8%
Saudi Arab Bank	2	1,8%

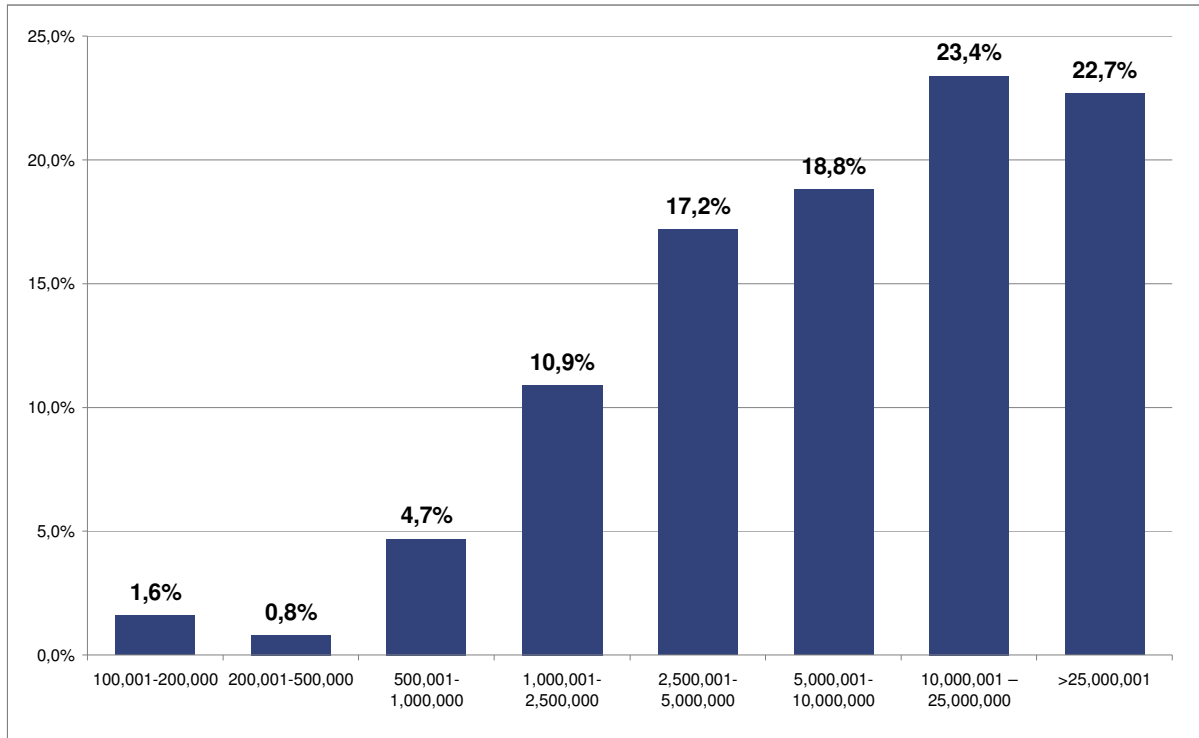
Allied Business Bank	3	2,8%
Mediterranean Bank	3	2,8%
Sederat Iran Bank	3	2,8%
SGBL	3	2,8%
BBAC	4	3,7%
Libano Francaise	6	5,5%
HSBC	7	6,4%
Jammal Trust Bank	7	6,4%
Byblos Bank	8	7,3%
Credit Libanais	9	8,3%
Blom	13	11,9%
Fransa Bank	13	11,9%
Audi Bank	14	12,8%
Total	109	100,0%

Q44d. Other	Count	Column %
Al Hasan	1	0,2%
al hasan (mini bank)	2	0,4%
Al Hassan Loan (no interest)	1	0,2%
Caritas	1	0,2%
French Organization	1	0,2%
Jamayet Tadamon Mihani	1	0,2%
Jamiiat inma'a Irif	1	0,2%
kard hassan	1	0,2%
Kard Hassan	1	0,2%
medgulf-insurance company	1	0,2%
Private lender	1	0,2%
UNRWA	2	0,4%
Total	539	100,0%

Q45. Do you have a loan outstanding?	Count	Column %
No	57	43,5%
Yes	74	56,5%
Total	131	100,0%



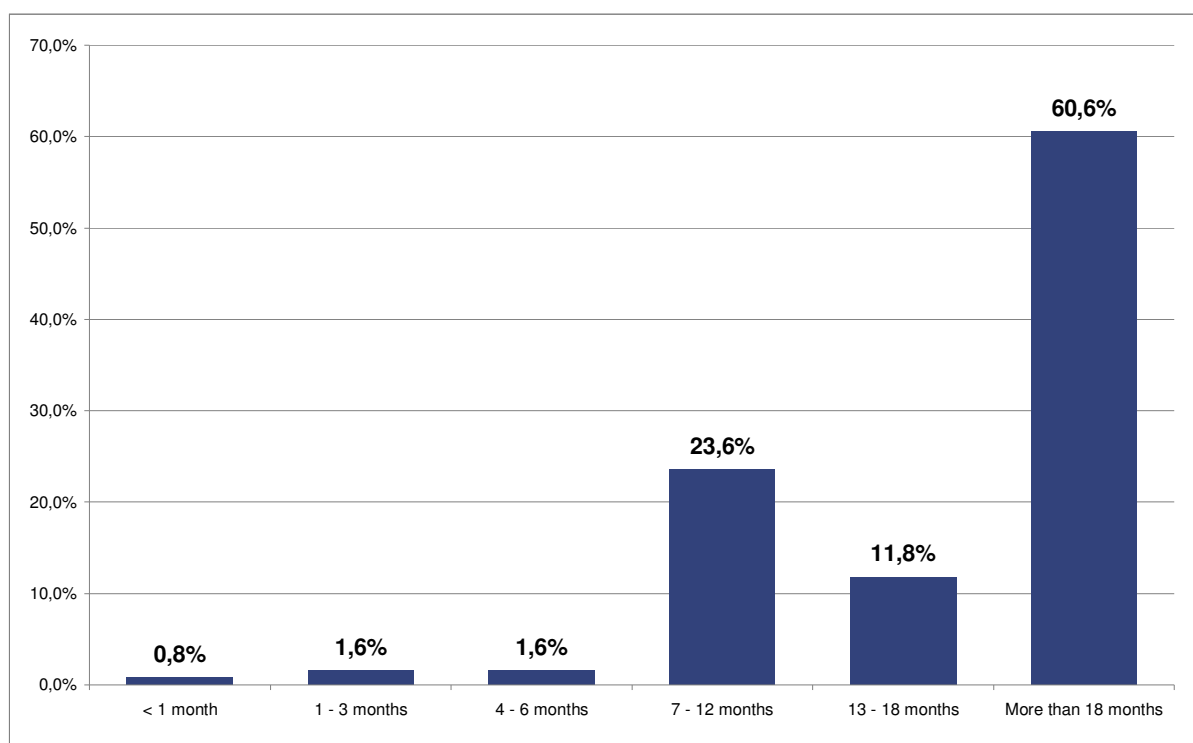
Q46. Loan amount?	Count	Column %
100,001-200,000	2	1,6%
200,001-500,000	1	0,8%
500,001-1,000,000	6	4,7%
1,000,001-2,500,000	14	10,9%
2,500,001-5,000,000	22	17,2%
5,000,001-10,000,000	24	18,8%
10,000,001 – 25,000,000	30	23,4%
>25,000,001	29	22,7%
Total	128	100,0%



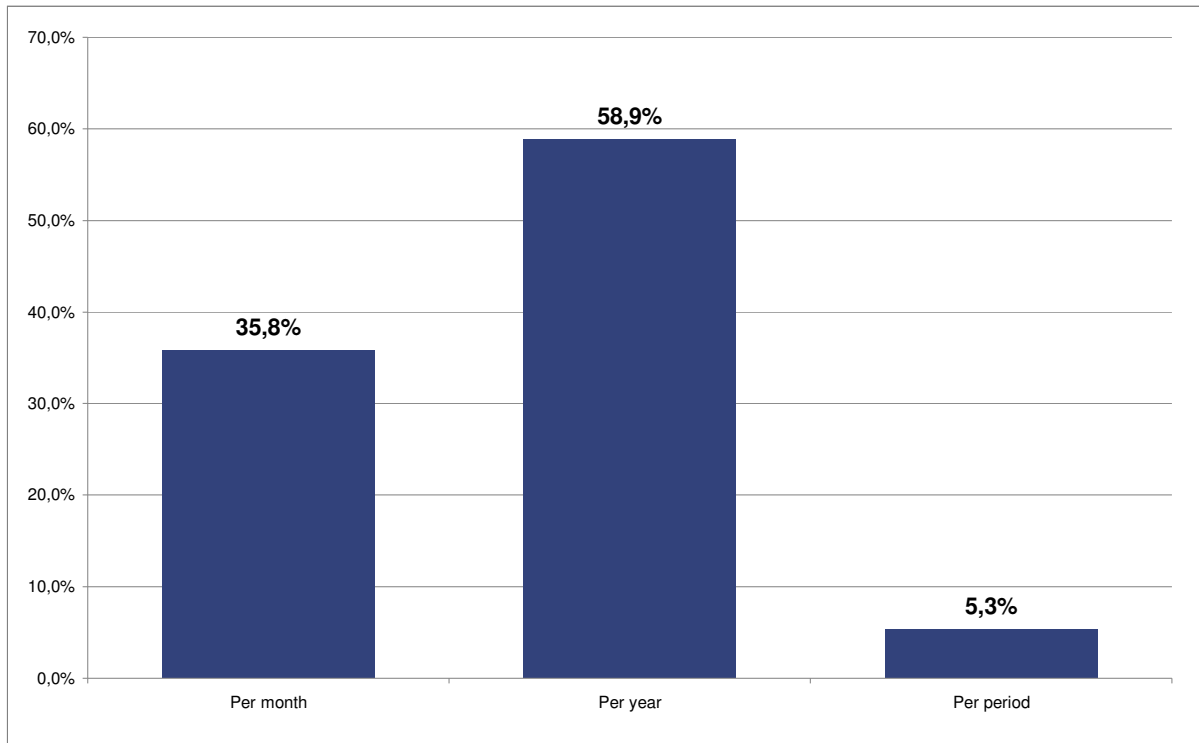
Q46a. Name of the institution	Count	Column %
Al Arabi	1	0,8%
Arab Bank	1	0,8%
Bank of Beirut	1	0,8%
caritas	1	0,8%
French Organization	1	0,8%
Iranian exports	1	0,8%
ISKAN	1	0,8%
Jamayet Tademom Mihani	1	0,8%
Kafalat	1	0,8%
Kard hassan	1	0,8%
LCB	1	0,8%
Lebanese Canadian	1	0,8%
Linbano Francaise-Suisse	1	0,8%
Mebco	1	0,8%
North Africa and Middle East	1	0,8%
Safirat Iran	1	0,8%
Standard Chartard	1	0,8%
Tamwil Bank	1	0,8%
Transorient Bank	1	0,8%
Allied Business Bank	2	1,6%
Iskan	2	1,6%
Mediterranean Bank	2	1,6%
Saderat Iran	2	1,6%

UNRWA	2	1,6%
Al hasan	3	2,3%
Libano Francais	3	2,3%
BBAC	4	3,1%
Byblos Bank	4	3,1%
Jammal Trust Bank	4	3,1%
SGBL	4	3,1%
Al Majmoua	6	4,7%
Credit Libanais	7	5,5%
HSBC	7	5,5%
Blom	8	6,3%
Audi Bank	9	7,0%
Fransa Bank	9	7,0%
Total	128	100,0%

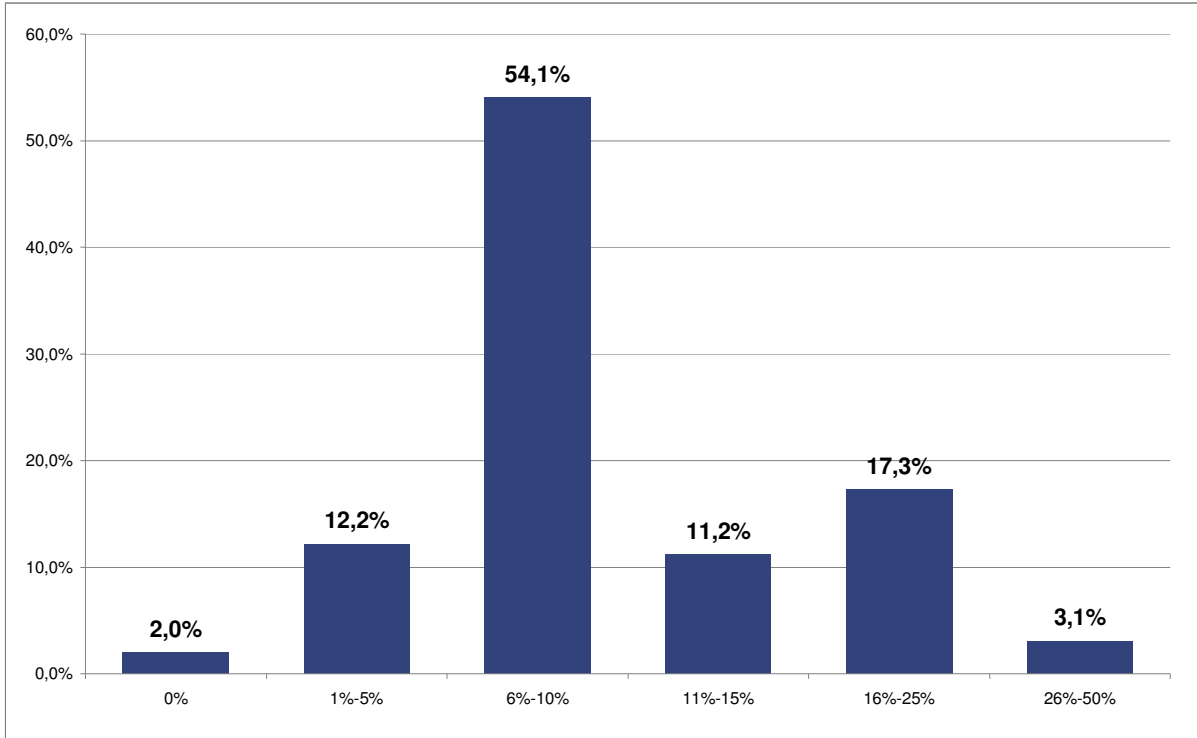
Q47. Maturity of loan:	Count	Column %
< 1 month	1	0,8%
1 - 3 months	2	1,6%
4 - 6 months	2	1,6%
7 - 12 months	30	23,6%
13 - 18 months	15	11,8%
More than 18 months	77	60,6%
Total	127	100,0%



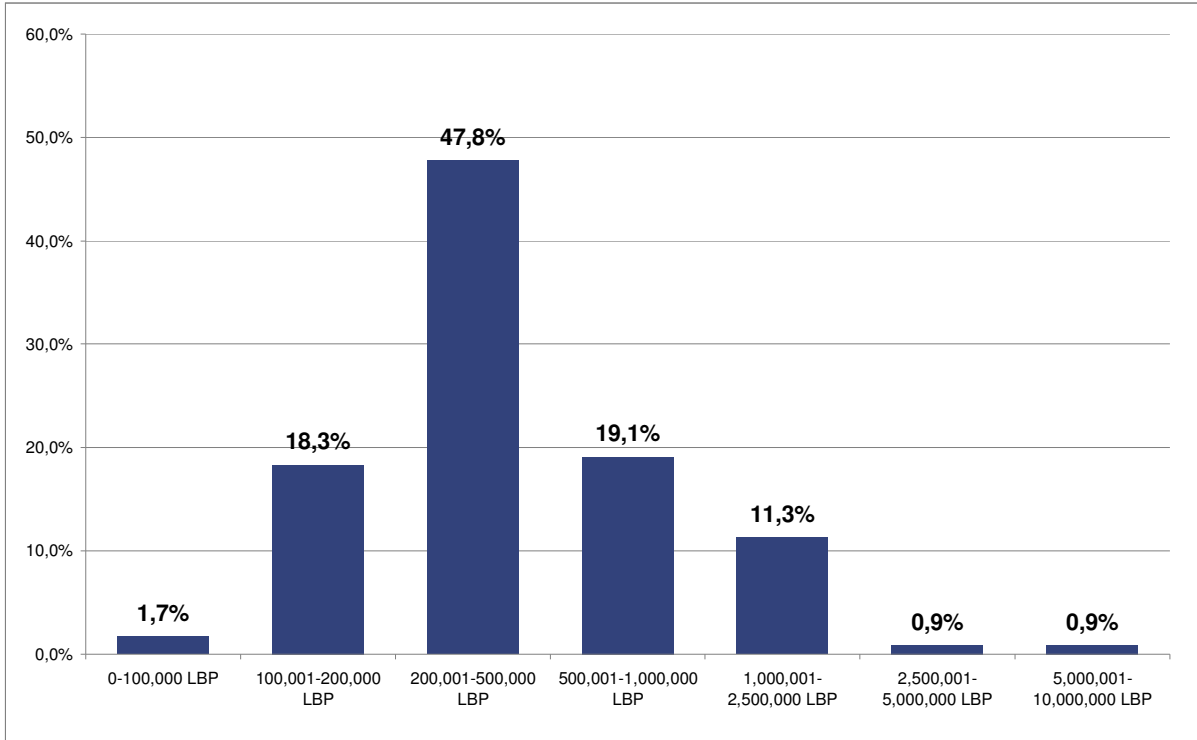
Q48b. Frequency	Count	Column %
Per week	0	0,0%
Per month	34	35,8%
Per year	56	58,9%
Per period	5	5,3%
Total	95	100,0%



Q48a. Interest rate (in%)	Count	Column %
0%	2	2,0%
1%-5%	12	12,2%
6%-10%	53	54,1%
11%-15%	11	11,2%
16%-25%	17	17,3%
26%-50%	3	3,1%
Total	98	100,0%

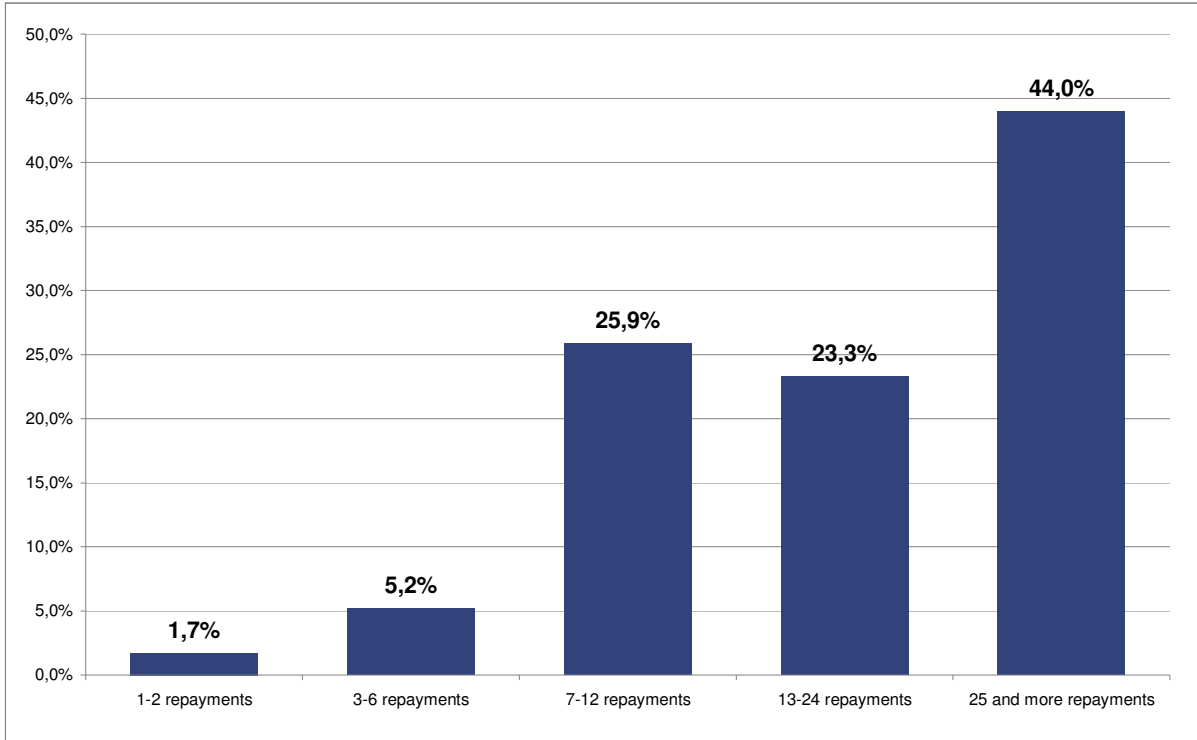


Q49a. Amount	Count	Column %
0-100,000 LBP	2	1,7%
100,001-200,000 LBP	21	18,3%
200,001-500,000 LBP	55	47,8%
500,001-1,000,000 LBP	22	19,1%
1,000,001-2,500,000 LBP	13	11,3%
2,500,001-5,000,000 LBP	1	0,9%
5,000,001-10,000,000 LBP	1	0,9%
Total	115	100,0%



Q49b. Frequency	Count	Column %
per month	115	100,0%
Total	115	100,0%

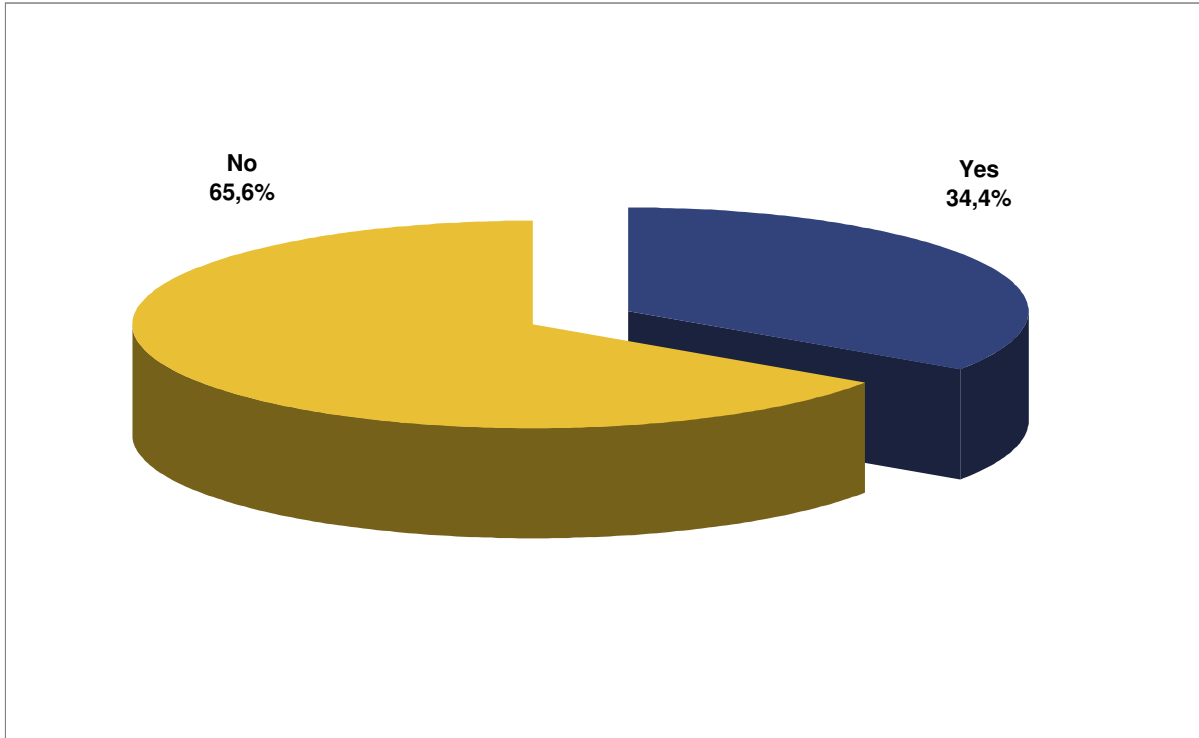
Q49c. Total number of reimbursements	Count	Column %
1-2 repayments	2	1,7%
3-6 repayments	6	5,2%
7-12 repayments	30	25,9%
13-24 repayments	27	23,3%
25 and more repayments	51	44,0%
Total	116	100,0%



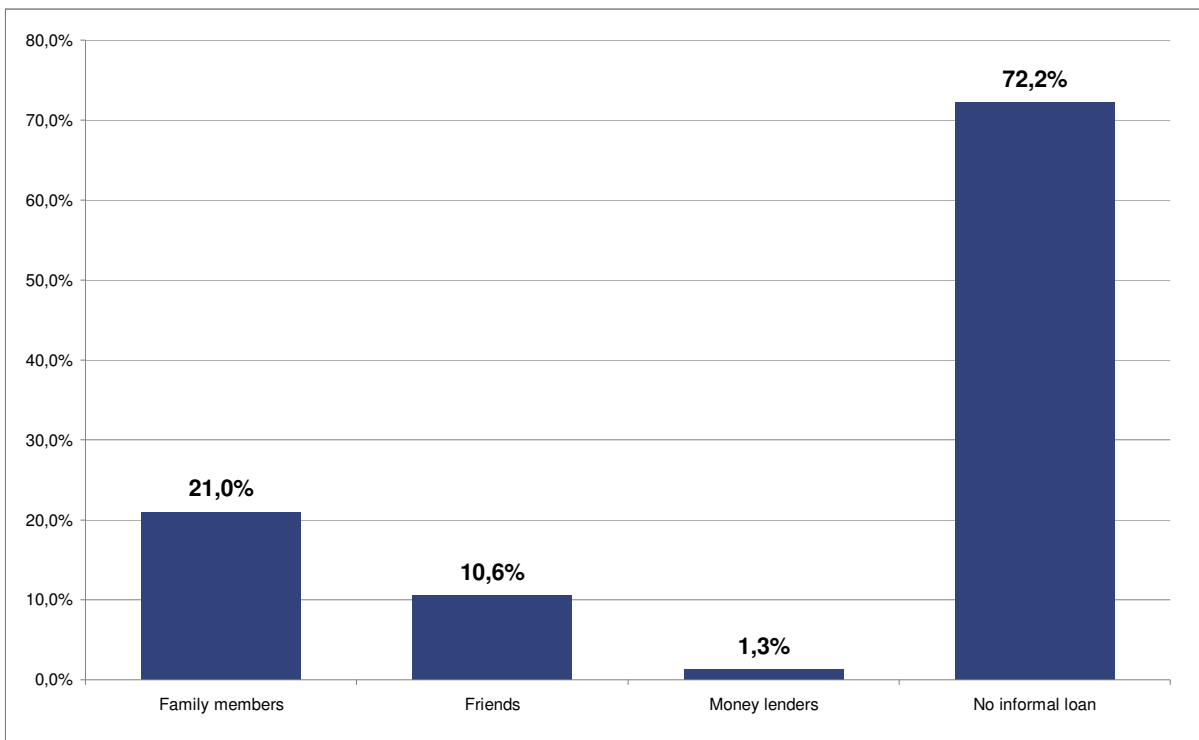
Q50. Was there a grace period?	Count	Column %
Yes	14	11,2%
No	111	88,8%
Total	125	100,0%

Q50b. for which period?	Count	Column %
1 month	6	50,0%
2 months	1	8,3%
3 months	2	16,7%
4 months	1	8,3%
9 months	1	8,3%
3 years	1	8,3%
Total	12	100,0%

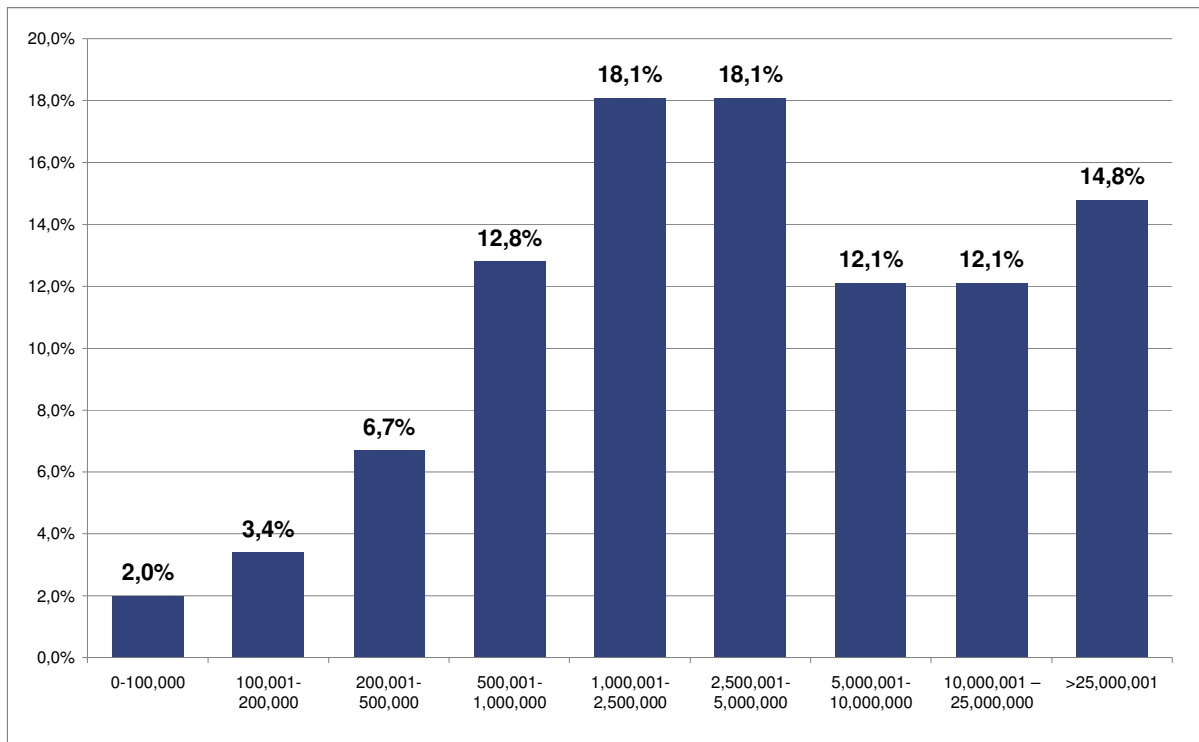
Q51. Are you thinking of obtaining a new loan soon?	Count	Column %
Yes	43	34,4%
No	82	65,6%
Total	125	100,0%



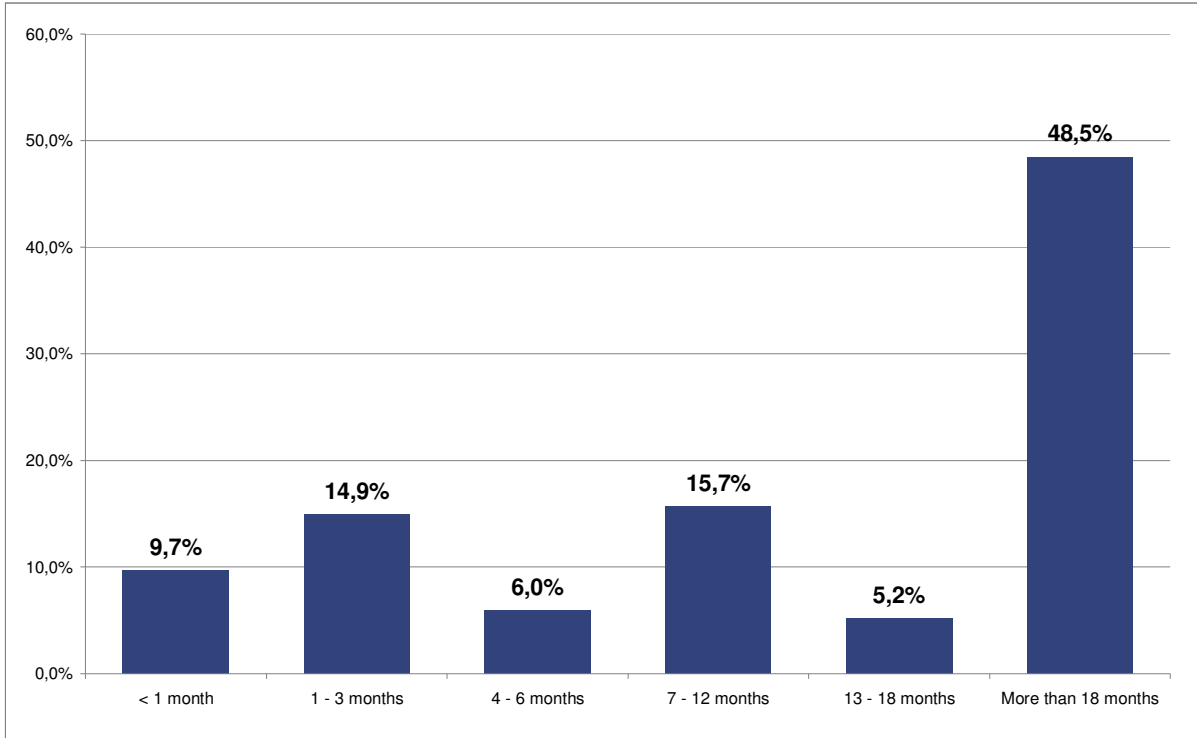
Q52. Have you taken a loan from ?	Count	Column %
Family members	113	21,0%
Friends	57	10,6%
Money lenders	7	1,3%
No informal loan	389	72,2%
Total	539	100,0%



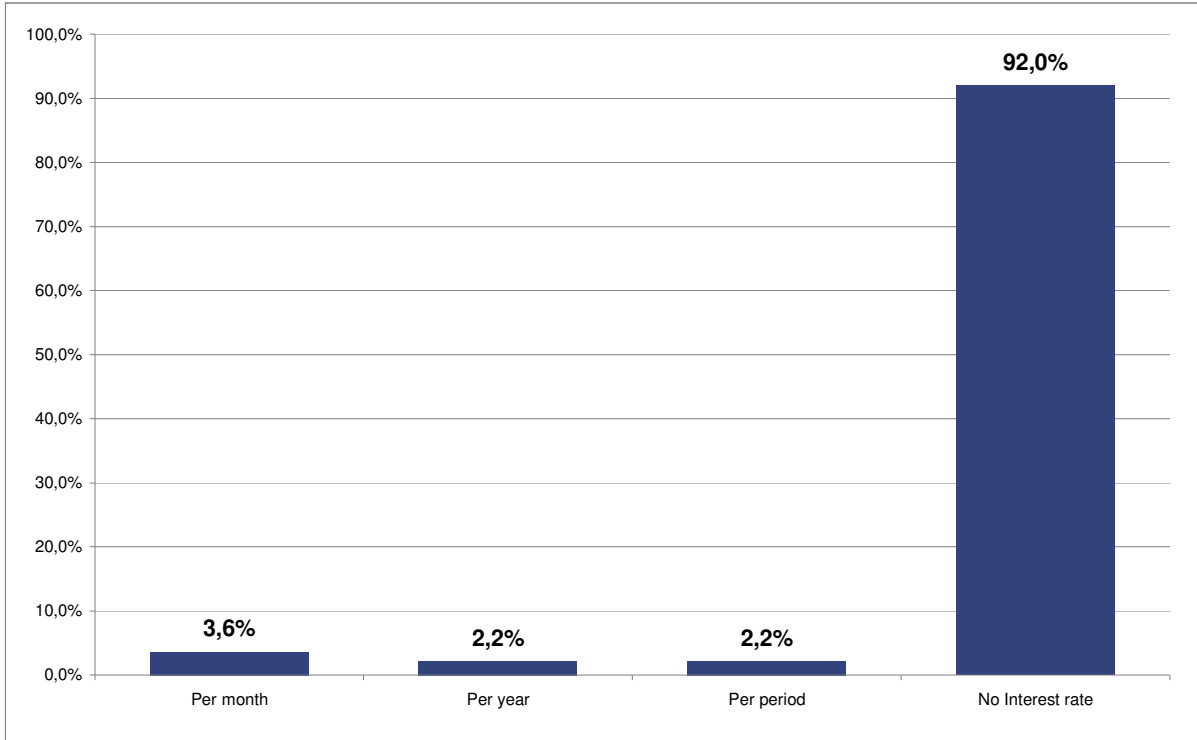
Q53. Loan amount? (LBP)	Count	Column %
0-100,000	3	2,0%
100,001-200,000	5	3,4%
200,001-500,000	10	6,7%
500,001-1,000,000	19	12,8%
1,000,001-2,500,000	27	18,1%
2,500,001-5,000,000	27	18,1%
5,000,001-10,000,000	18	12,1%
10,000,001 – 25,000,000	18	12,1%
>25,000,001	22	14,8%
Total	149	100,0%



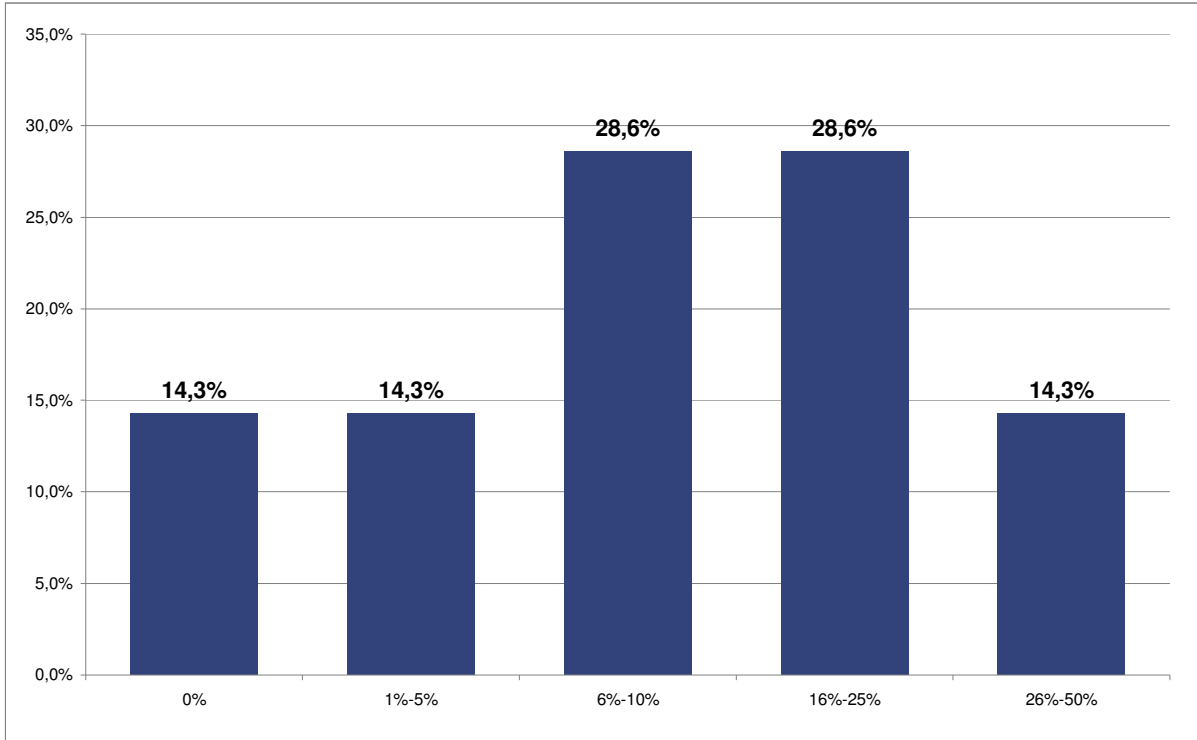
Q54. Maturity of loan:	Count	Column %
< 1 month	13	9,7%
1 - 3 months	20	14,9%
4 - 6 months	8	6,0%
7 - 12 months	21	15,7%
13 - 18 months	7	5,2%
More than 18 months	65	48,5%
Total	134	100,0%



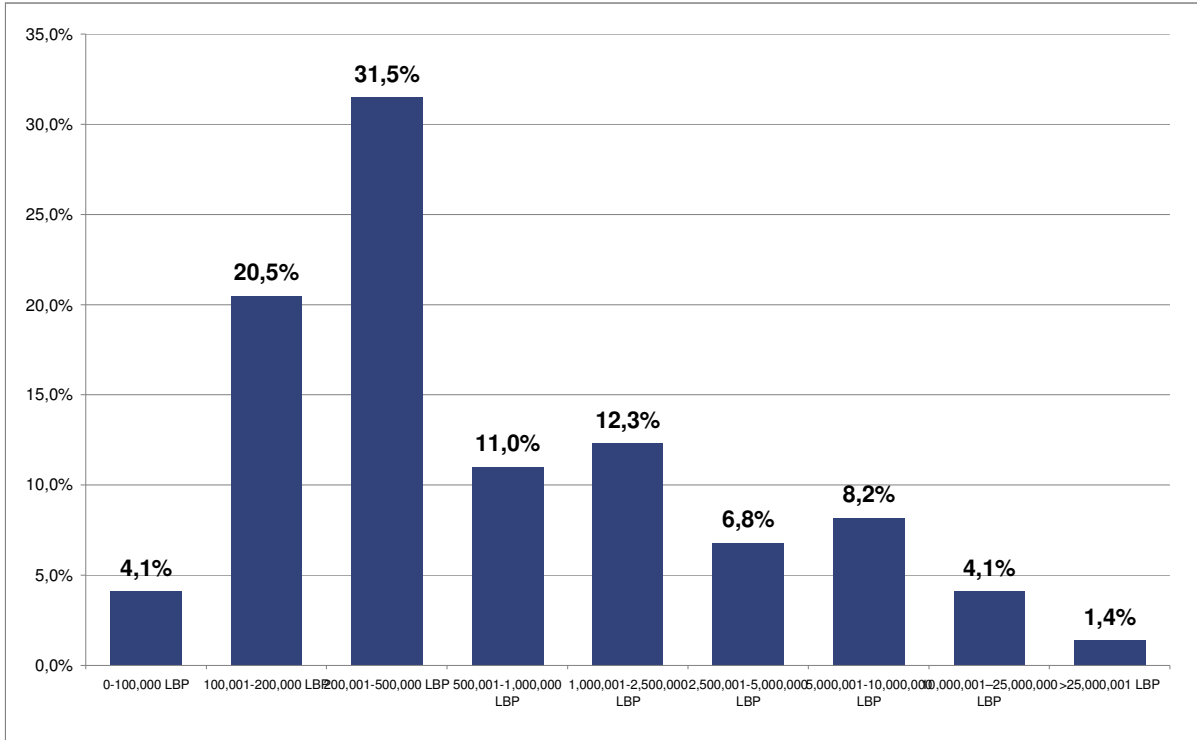
Q55. Interest rate	Count	Column %
Per week	0	0,0%
Per month	5	3,6%
Per year	3	2,2%
Per period	3	2,2%
No Interest rate	127	92,0%
Total	138	100,0%



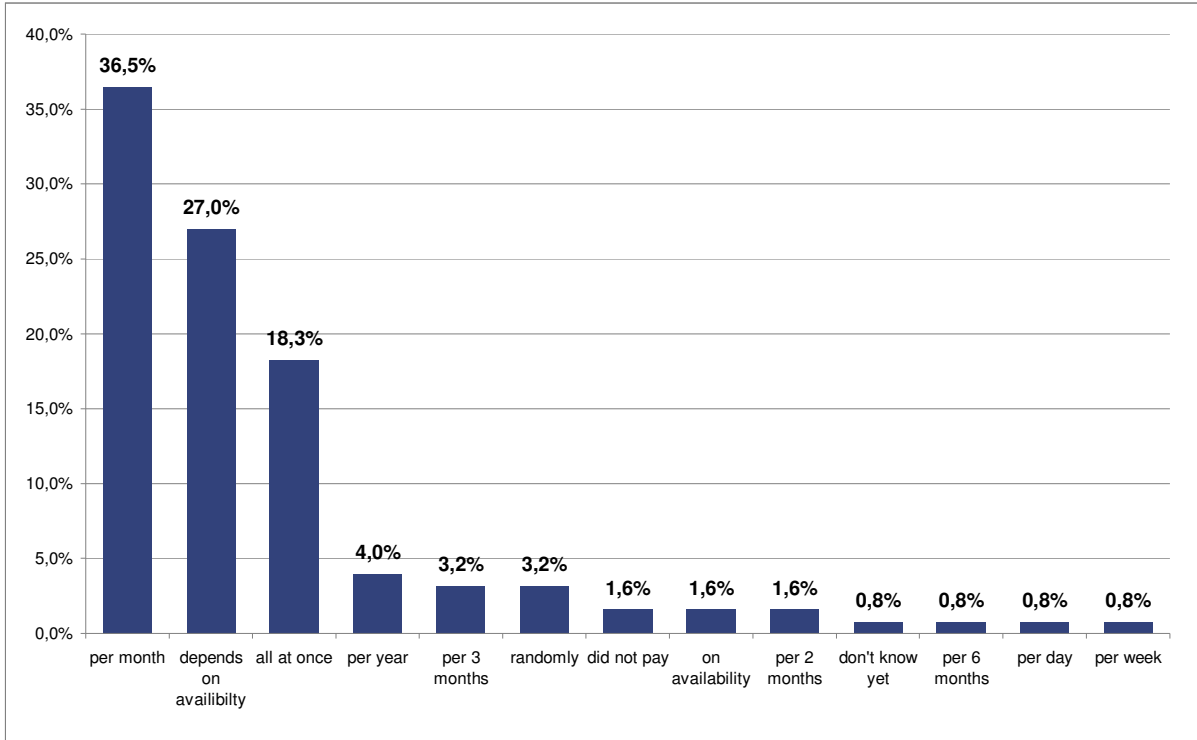
Q55a. Interest rate	Count	Column %
0%	2	14,3%
1%-5%	2	14,3%
6%-10%	4	28,6%
16%-25%	4	28,6%
26%-50%	2	14,3%
Total	14	100,0%



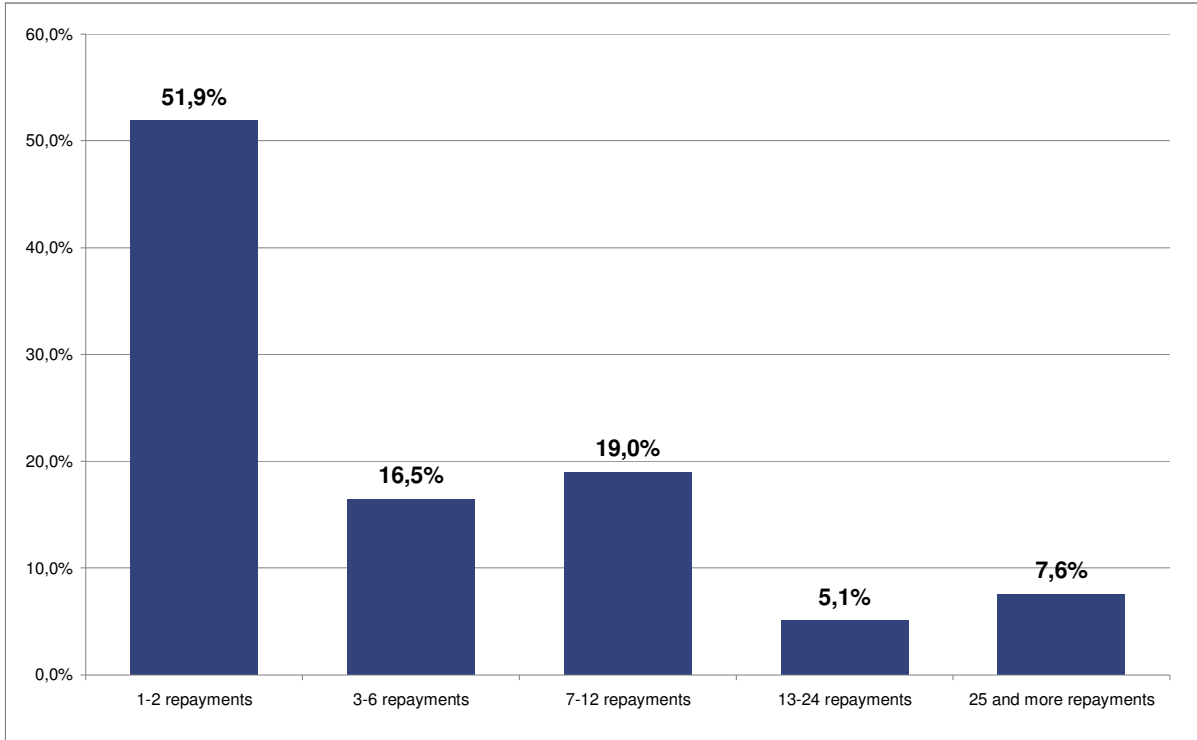
Q56a. Amount	Count	Column %
0-100,000 LBP	3	4,1%
100,001-200,000 LBP	15	20,5%
200,001-500,000 LBP	23	31,5%
500,001-1,000,000 LBP	8	11,0%
1,000,001-2,500,000 LBP	9	12,3%
2,500,001-5,000,000 LBP	5	6,8%
5,000,001-10,000,000 LBP	6	8,2%
10,000,001-25,000,000 LBP	3	4,1%
>25,000,001 LBP	1	1,4%
Total	73	100,0%



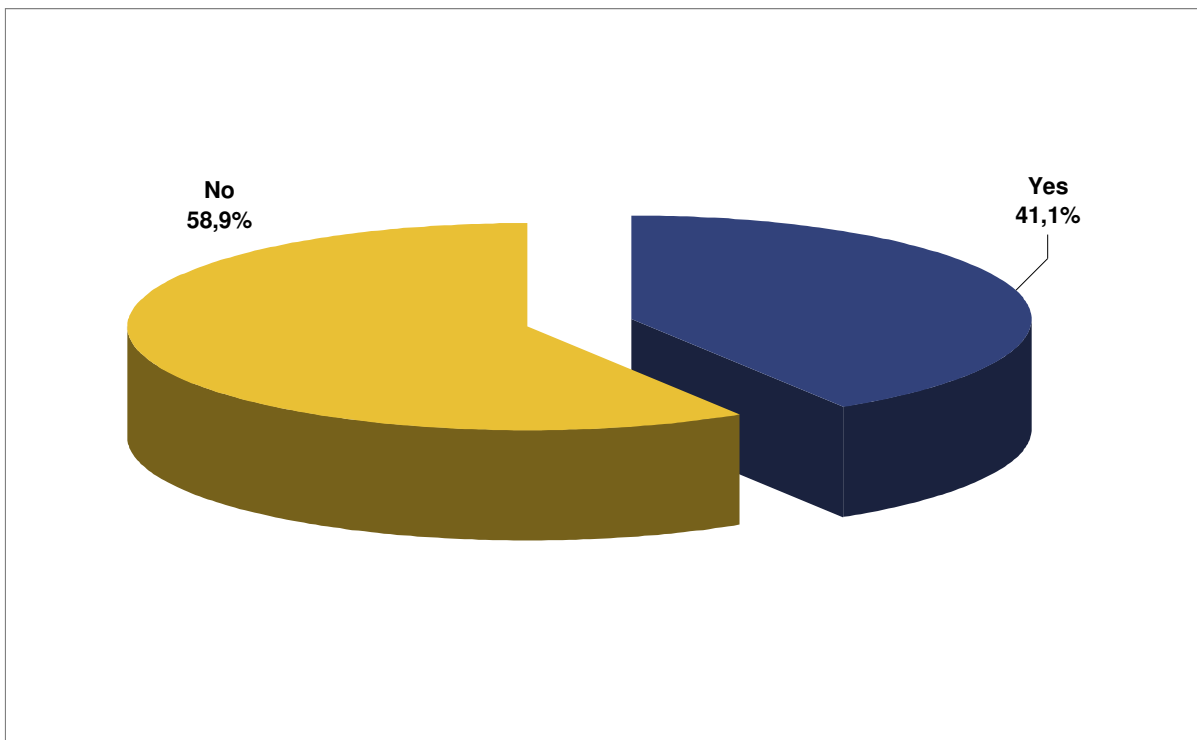
Q56b. Frequency	Count	Column %
per month	46	36,5%
depends on availibility	34	27,0%
all at once	23	18,3%
per year	5	4,0%
per 3 months	4	3,2%
randomly	4	3,2%
did not pay	2	1,6%
on availability	2	1,6%
per 2 months	2	1,6%
don't know yet	1	0,8%
per 6 months	1	0,8%
per day	1	0,8%
per week	1	0,8%
Total	126	100,0%



Q56c. Total number of reimbursements	Count	Column %
1-2 repayments	41	51,9%
3-6 repayments	13	16,5%
7-12 repayments	15	19,0%
13-24 repayments	4	5,1%
25 and more repayments	6	7,6%
Total	79	100,0%

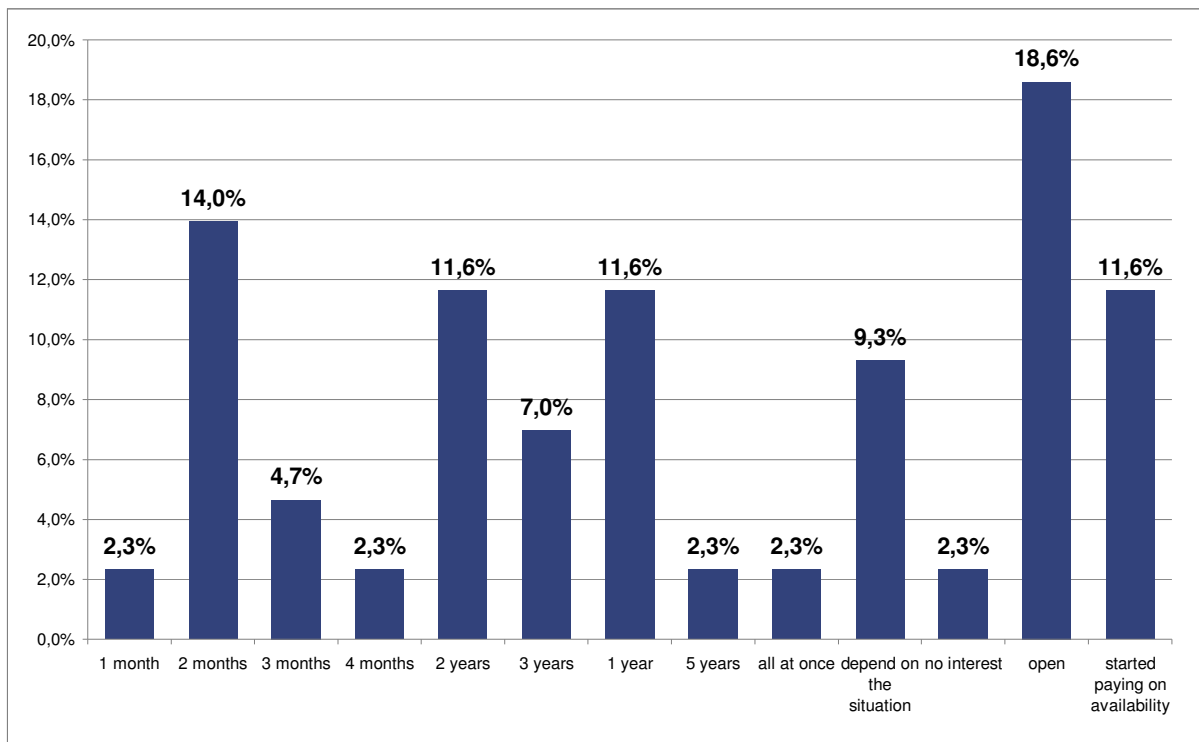


Q57. Was there a grace period?	Count	Column %
Yes	53	41,1%
No	76	58,9%
Total	129	100,0%



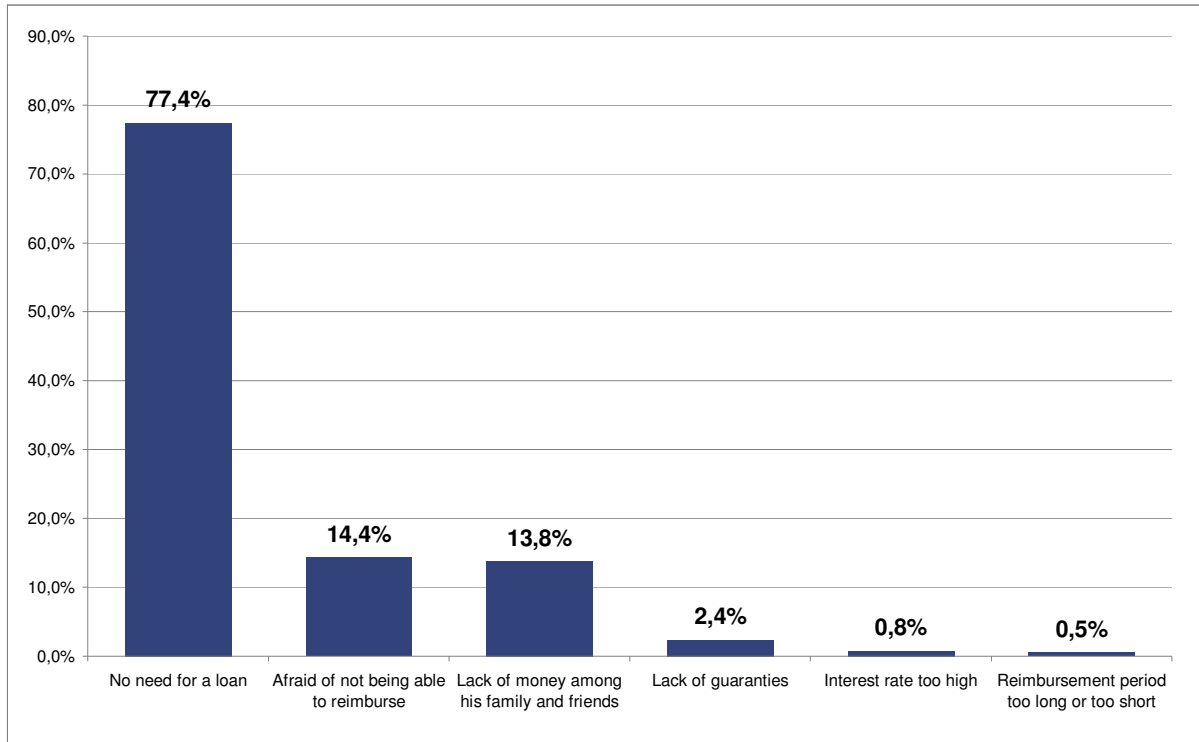
Q57b. for which period?	Count	Column %
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1 month	1	2,3%
2 months	6	14,0%
3 months	2	4,7%
4 months	1	2,3%
2 years	5	11,6%
3 years	3	7,0%
1 year	5	11,6%
5 years	1	2,3%
all at once	1	2,3%
depend on the situation	4	9,3%
no interest	1	2,3%
open	8	18,6%
started paying on availability	5	11,6%
Total	43	100,0%

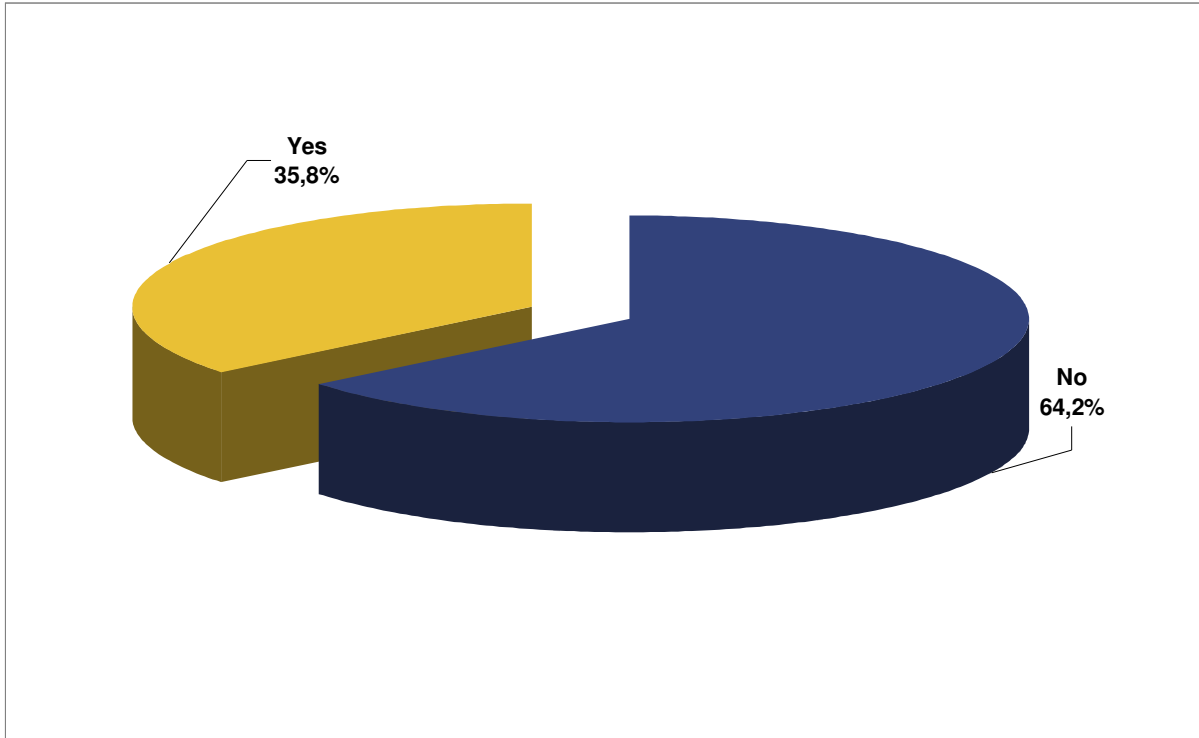


Q58. If not, why not?	Count	Column %
No need for a loan	291	77,4%
Afraid of not being able to reimburse	54	14,4%
Lack of money among his family and friends	52	13,8%
Lack of guaranties	9	2,4%
Interest rate too high	3	0,8%
Reimbursement period too long or too short	2	0,5%

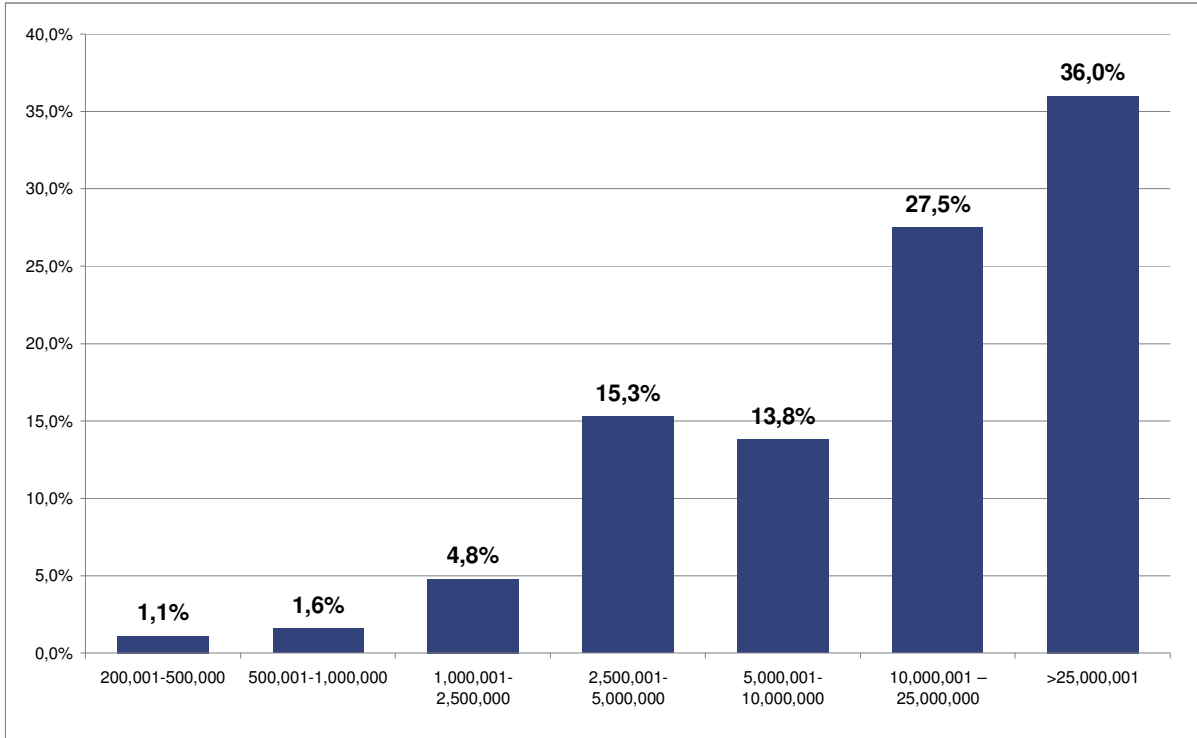
Total	376	100,0%
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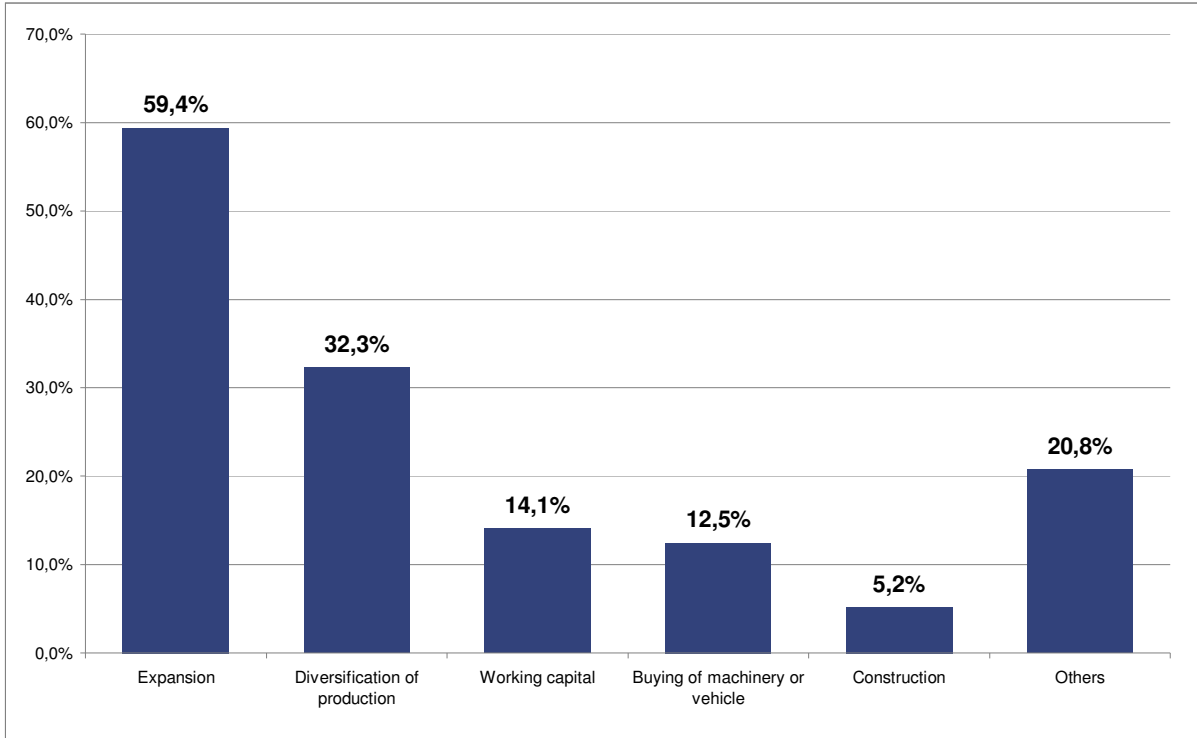
Q59. Would you be interest in obtaining a loan, if you had the possibility	Count	Column %
No	346	64,2%
Yes	193	35,8%
Total	539	100,0%



Q60. Loan amount wished	Count	Column %
200,001-500,000	2	1,1%
500,001-1,000,000	3	1,6%
1,000,001-2,500,000	9	4,8%
2,500,001-5,000,000	29	15,3%
5,000,001-10,000,000	26	13,8%
10,000,001 – 25,000,000	52	27,5%
>25,000,001	68	36,0%
Total	189	100,0%

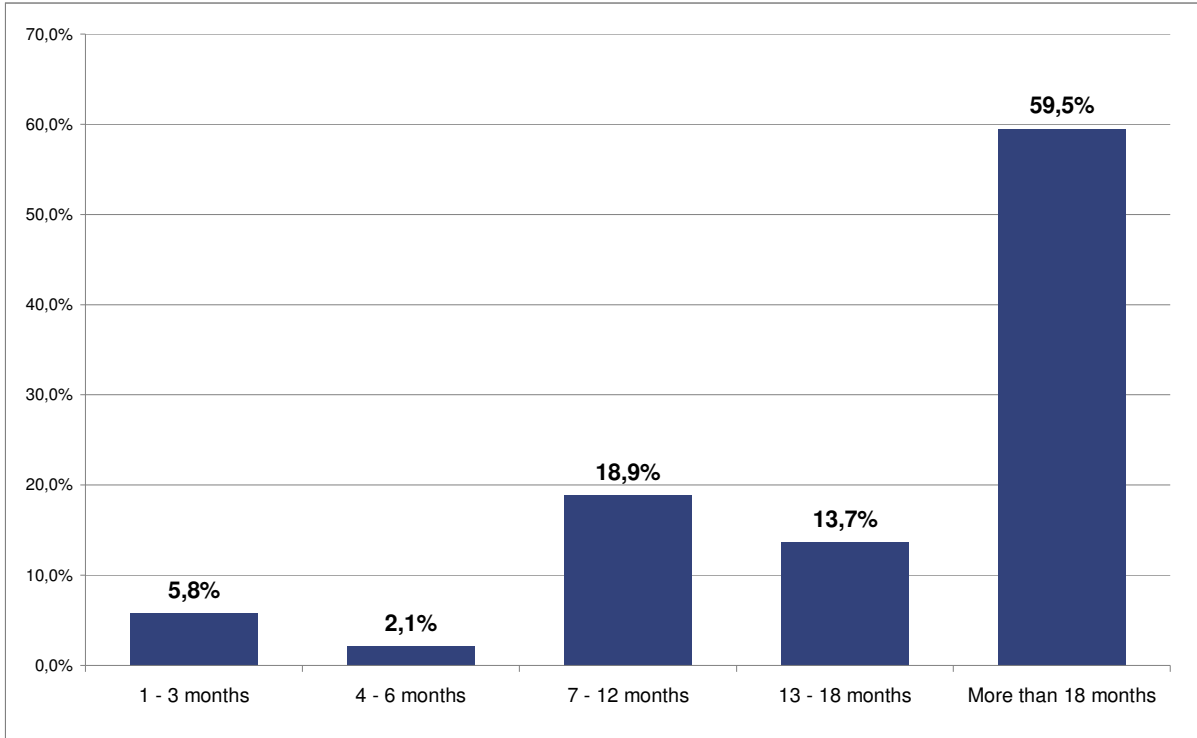


Q61. For which kind of investment would you use the loan	Count	Column %
Expansion	114	59,4%
Diversification of production	62	32,3%
Working capital	27	14,1%
Buying of machinery or vehicle	24	12,5%
Construction	10	5,2%
Others	40	20,8%
Total	192	100,0%

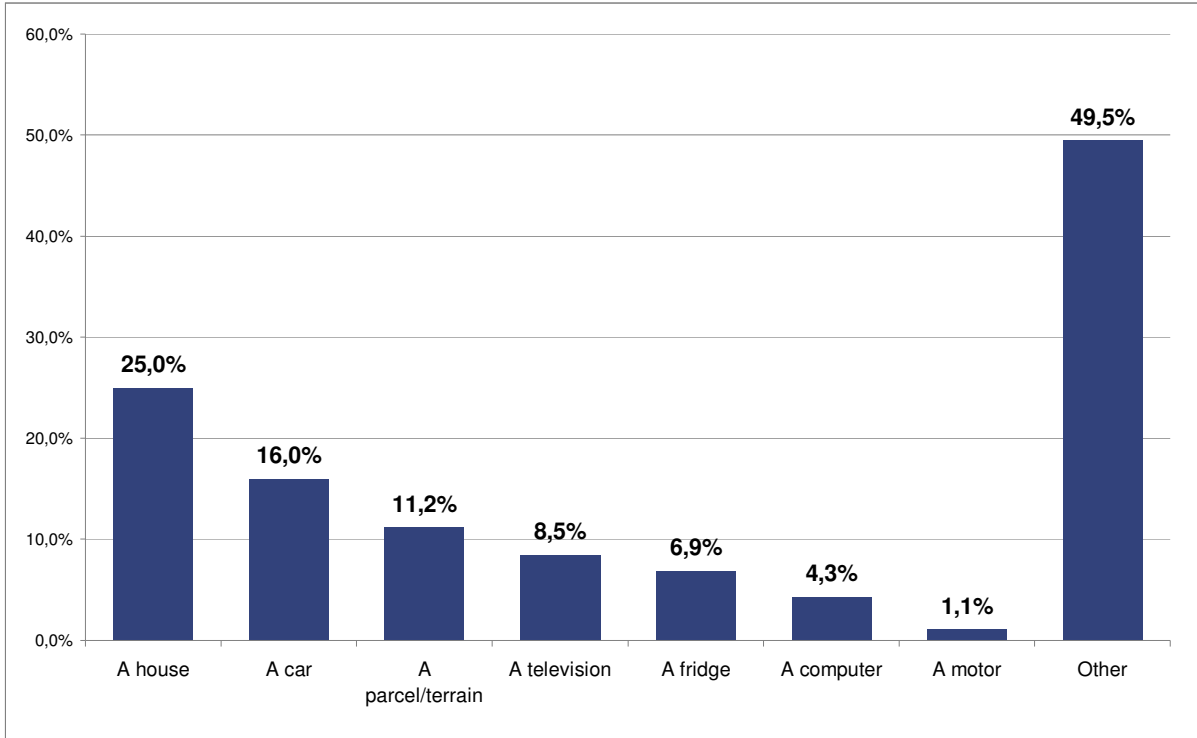


Q62. If a bank would provide you with a loan of 1,000,000 LBP for one year, how much would you be willing to pay for this service?	Count	Column %
0%	8	4,4%
1%-5%	62	33,9%
6%-10%	86	47,0%
11%-15%	9	4,9%
16%-25%	10	5,5%
26%-50%	5	2,7%
50%-100%	3	1,6%
Total	183	100,0%

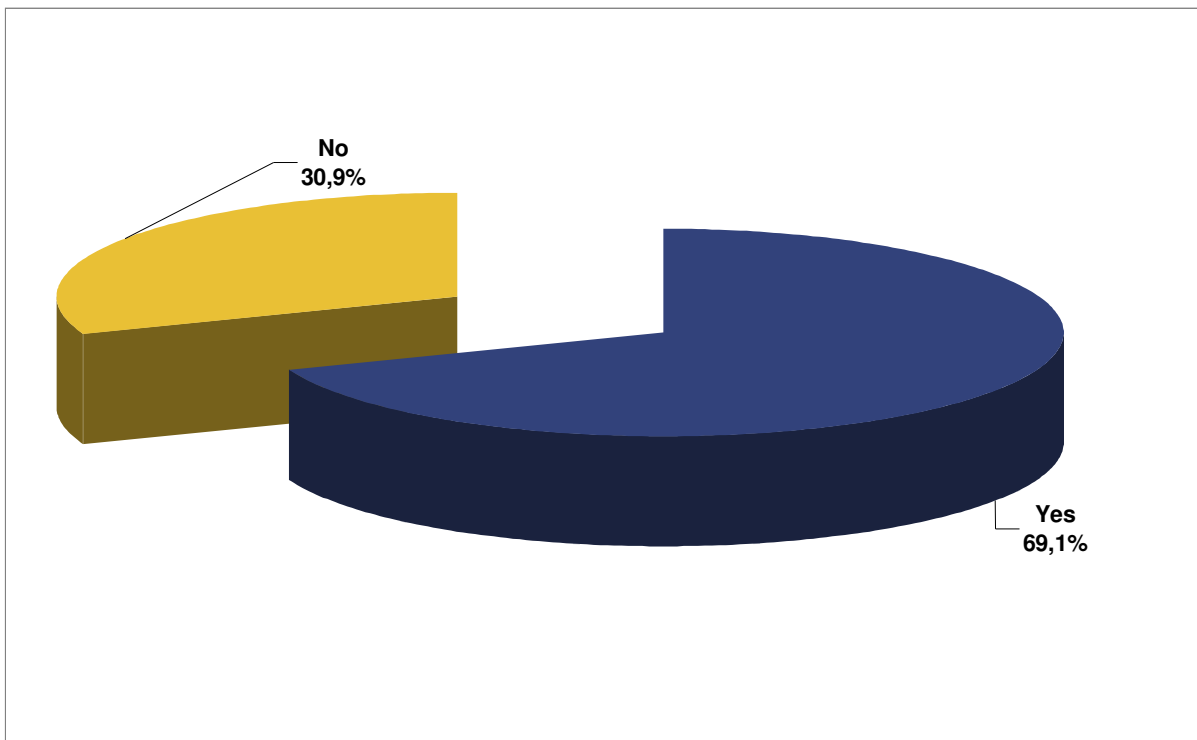
Q63. Wished loan maturity	Count	Column %
1 - 3 months	11	5,8%
4 - 6 months	4	2,1%
7 - 12 months	36	18,9%
13 - 18 months	26	13,7%
More than 18 months	113	59,5%
Total	190	100,0%



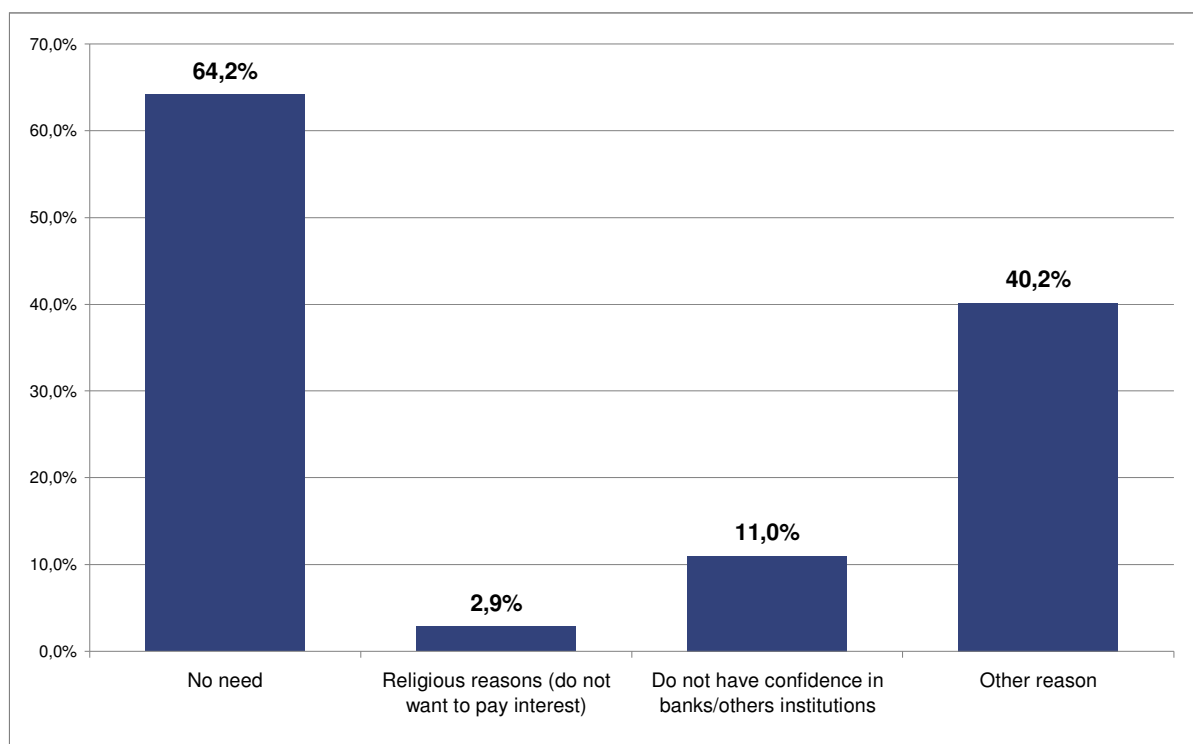
Q64. Which kind of collateral are you willing to provide	Count	Column %
A house	47	25,0%
A car	30	16,0%
A parcel/terrain	21	11,2%
A television	16	8,5%
A fridge	13	6,9%
A computer	8	4,3%
A motor	2	1,1%
Other	93	49,5%
Total	188	100,0%



Q65. Would you be able to find somebody who could guarantee for your reimbursement?	Count	Column %
Yes	132	69,1%
No	59	30,9%
Total	191	100,0%



Q66. Why are you not interested in obtaining a loan in the future ?	Count	Column %
No need	222	64,2%
Religious reasons (do not want to pay interest)	10	2,9%
Do not have confidence in banks/others institutions	38	11,0%
Other reason	139	40,2%
Total	346	100,0%



ANNEX 2
PERSONS CONSULTED

Organizations/person consulted in accordance with the request expressed by IFC during the preparatory stage of the study:

<i>Company</i>	<i>Name of person contacted</i>	<i>Position</i>
ADR	Ms. Adriana Doumet	Program Manager Micro Credit
AEP	Ms. Lena Sayad	Executive Director
Al Majmoua	Ms. Alia Fargat	Business Development Manager
Ameen	Ziad Halaby	General Manager
BLC Bank	Mr. Carlos Lebbos	NA
Credit Libanais	Mr. Fady Sader	Centre Manager
Hariri Foundation	HF Team	HF Team
Jammal Trust Bank S.A.L.	Mr. Anwar A. Jammal	Chairman/CEO
Lebanese Canadian Bank	NA	NA
Mahzoumi Foundation	Ms. Lina Haidar	Micro Credit Program Manager
UNRWA	Mr. Hussein Balshi Ms. Fadia Y. Jradi	Field Social Services Officer Micro-credit Community Support Officer
USAID	Mr. Ghassan Jamous	Development Program Specialist

ANNEX 3
BANKS IN LEBANON

Table A3.1 Overview of banks and financial institutions in Lebanon

Al Ahli International Bank S.A.L.	Banque Libano-Francaise S.A.L.	Inaash Bank
Al Baraka Bank Lebanon S.A.L (a)>	Banque Misr Liban S.A.L.	Infibank
Allied Bank Lebanon (b)	Banque Nationale De Paris Intercontinentale	Intercontinental Bank of Lebanon S.A.L.
Allied Business Bank	Banque Nationale du Canada	Intesa Sanpaolo S.P.A.
Al-Mawarid Bank S.A.L.	Banque Pharaon Et China S.A.L.	Jammal Trust Bank S.A.L.
Arab African International Bank (c)	Banque Saradar	Jordan National Bank
Arab Bank P.L.C.	Beirut Riyad Bank	JP Morgan Chase
Arab Banking Corporation (d)	BLC Bank S.A.L.	Lebanese Canadian Bank S.A.L.
Arab Finance Corporation	Blom Invest Bank S.A.L.	Lebanese Islamic Bank S.A.L.>
Arab Finance House S.A.L. (e)	Blom Development Bank S.A.L.	Lebanese Swiss Bank S.A.L.
Arab Investment Bank S.A.L.	BNPI Paribas Lebanon	Lebanon and Gulf Bank S.A.L.
Audi Saradar Investment Bank S.A.L.	British Arab Commercial Bank	Mediterranee Investment Bank S.A.L.
Audi Saradar Private Bank S.A.L.	Byblos Bank S.A.L.	Middle East and Africa Bank - Meab S.A.L.
Banca Commerciale Italiana	Byblos Invest Bank S.A.L.	National Bank of Kuwait S.A.L.
Banca di Roma S.P.A.	Cairo-Amman Bank Lebanon	Near East Commercial Bank S.A.L.
Bank Audi USA	Chase Manhattan Bank (the)	Net Bank Lebanon
Bank Al-Madina S.A.L.	Citibank N.A.	North Africa Commercial Bank
Bank of Beirut S.A.L. (f)	Commerzbank AG	Orient Credit Bank
Bank of Beirut and the Arab Countries (BBAC) S.A.L.	Credit Agricole Indosuez Liban	Paribas
Bank of Kuwait and the Arab World S.A.L.	Creditbank S.A.L.>	Prime Finance
Bank of New York (The)	Credit Libanais S.A.L.	Rafidain Bank Iraq (Lebanon)
Bank Saderat Iran	Credit Libanais Investment Bank S.A.L.	Saudi Hollandi Bank
Banque Bemo S.A.L.	Credit Lyonnais Liban	Saudi Lebanese Bank S.A.L.
Banque de Credit National S.A.L.	Credit Suisse	Saudi National Commercial Bank (The)
Banque de Financement	Dresdner Bank AG	Société Général de Banque au Liban S.A.L.
Banque de la Bekaa S.A.L.(g)	Federal Bank of Lebanon S.A.L.	Societe Nouvelle de la Banque de Syrie et du Liban S.A.L.
Banque de la Méditerranée SAL (BankMed)	Finance Bank S.A.L.	Standard Chartered Bank Lebanon S.A.L.
Banque de L'Habitat S.A.L.	First National Bank S.A.L.	Swiss Bank
Banque de L'Industrie at du Travail S.A.L.	Fransabank S.A.L.	Syrian Lebanese Commercial Bank S.A.L.
Banque de l'Union Europeene de CIC	Fransa Invest Bank S.A.L.	Transorient Bank
Banque du Liban et d'Outre-Mer S.A.L. (BLOM)	Gulf International Bank B.S.C.	Union Bank of Switzerland
Banque Europeenne pour le Moyen-Orient	Habib Bank Limited	United Credit Bank S.A.L.
Banque Lati S.A.L.	Housing Bank of Lebanon	United Finance Corporation
Banque Libanaise pour le Commerce	HSBC Bank Middle East Limited	Wedge Bank Middle East

Source: Association of Banks in Lebanon, 2007, and *Middle East and North Africa Business Life* (August 2007).

a) The first developing Islamic bank in Lebanon.

b) In 2005, Groupé Méditerranée merged Akkied Bank and Saudi Lebanese Bank with Banque de la Méditerranée. In June 2006, Allied Bank merged and is with its subsidiaries consolidated with BankMed.

c) Arab African International Bank and Commercial International Bank plan to merge (01.10.07).

d) Offers Islamic finance products.

e) First comprehensive Islamic Bank in Lebanon. Merger in 2007 between Arab Finance House and Arab Finance Investment House.

f) Offers dedicated and segregated Islamic banking services.

g) Acquired by Bank of Sharia from Fransbank in 2006.

Table A3.2 Previous merger and acquisitions of banks in Lebanon

Merged Bank	Parent Bank	Year
First Phoenician Bank	Credit Libanais	1994
Capital Trust	Credit Libanais	1994
Security Bank	Banque Beyrouth pour le Commerce	1995
Banque Geagea	SGBL	1997
Lebanese Pakistani Bank	Inaash Bank	1997
Credit Commercial Bancaire de Moyen Orient	Audi	1997
Banque Tohme	Fransabank	1997
Banque Beyrouth pour le Commerce	Byblos	1997
Adcom	Audi	1998
Globe Bank	SGBL	1998
Orient Credit Bank	Banque Audi	1998
Banque de Credit Populaire	Fincorp (shares)	1998
Unibank	Ark Financial Group (shares) → United Bank of Lebanon	1998
Al Mughtareb	Ark Financial Group	1998
Litex Bank	Ark Financial Group	1998
Credit Commercial	Al Madina Bank	1998
Universal Bank	Fransabank	1998
5 branches – MEBCO	Bank of Beirut	1998
11 branches- Trad/ Credit Lyonnais	Byblos	1998
Transorient Bank	Bank of Beirut	1999
United Bank of Lebanon	Banque Libanaise pour le Commerce	1999
BCP Oriel	Intercontinental Bank	1999
Universal Bank	Fransabank	1999
American Express Bank	Crédit Libanais	2000
United Bank of Lebanon	Banque Libanaise pour le Commerce	2000
Inaash Bank	SGBL	2000
Jordan Ahli Bank	Al Ahli International Bank (Prev. Lebanon-Kuwait Bank)	2001
Wedge Bank	Byblos Bank	2001
Allied Bank	Groupé Méditerranée	2001
Crédit Lyonnais Liban (CLL)	Crédit Bancaire	2002
United Bank of Saudia and Lebanon	Fransabank	2002
Beirut Riyadh Bank SAL	Bank of Beirut (BoB)	2002
Capitalia	Banca Di Roma	2002
Banque Nationale du Canada - Lebanon	Banque Saradar	2002
ABN Amro Bank	Byblos Bank	2002
The Lebanese Financial Company	First National Bank	2002
Banque Saradar	Banque Audi	2004
Allied Bank	Bank Med	2006
BLC Bank	Fransabank	2007

Source: Banque du Liban.