

A Qualitative Analysis of People Views of Microfinance in Lebanon

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Abstract

Introduction: In the Middle East and North Africa MENA microfinance struggles to find momentum. The Lebanese economy has been struggling through the years due to domestic and external, political and social instability. Although As of 2014 there are around 23 MFIs that are mainly subsidized by the USAID, operating in the country, the Lebanese microfinance market is mostly dominated by three microfinance institutions: Al Majmoua, Vitas and Al Quard Al Hassan Association.

Methodology: A quantitative approach using a standardized questionnaire would analyse the perception of the average Lebanese towards microfinance. A questionnaire was designed and validated.

Results: Almost half of the respondents earn a monthly income ranged between \$100 and \$600. Almost 52% of the respondents were university graduates, around 25% finished secondary and high school, and 12% hold a masters or MBA degree. Topic understanding towards microfinance differs across Lebanese areas. The highest percentage of respondents who claim that microfinance offers financial services to low income people are the residents of Beirut 35.1%, Bekaa 30.8%, and South of Lebanon 24.7%. Higher levels of topic understanding were associated with lower levels of age range. Al Quard el Hassan foundation was regarded as the most known micro financial institution operating in Lebanon. In general, Lebanese people tend to believe that microfinance can play an important role in reducing unemployment rates and poverty levels in Lebanon. When people were asked what would motivate you to get a loan from MFIs, most of the respondent 57.4% across all the Lebanese region claimed that it was the need for money to satisfy a need such as paying back a loan, to fix something at home, or for self-consideration like buying a car.

Conclusion: Our findings showed that in general Lebanese tend to have a positive perception towards microfinance. However, most Lebanese perceive microfinance as the process of just providing loans without specifying for whom it is intended. We advise that government introduces laws to regulate the microfinance market.

Keywords: Economics; Microeconomics; Finance; Business; Survey

Introduction

All that is needed for evil to triumph is for good men to do nothing; Muhammad Yunus.

Foreign aid and macro development are not enough to produce economic development or decrease poverty [1-4]. The search for effective strategies was obscure until modern microfinance was defined and was shown to decrease poverty level by awarding Prof. Yunus and the Grameen bank. The microfinance concept is not new; it has existed for more than a century. The earliest form of using the term microfinance can be traced back to 1846 when Lysander Spooner, activist and entrepreneur, theorized the extension of small credits to farmers as a way of combating poverty in rural America. Micro lending on the other hand has existed for centuries and probably is as old as the inception of buying and selling and even possibly before currency was even first used. Micro lending was mainly practiced in small villages, where family members and friends would get together in money-sharing groups. These savings clubs can be traced to all parts of the world.

The modern theory of microfinance, however; aims to deliver a program that declares to have faith in the world's poorest people to pull themselves out of poverty by providing them with financial services that were previously deprived. Other academics like Schreiner and Colombet [5,6] defined microfinance as "the attempt to improve access to small deposits and small loans for poor households neglected by banks." The basic idea behind modern microfinance is therefore that low income people, given access to credit, can build or develop their own business which is expected to provide them with a suitable income that can elevate them from poverty. On the long run, the economic status of people would improve with the help of a modern microfinance program MMP. This however, will increase the demand

for more microfinance institutions' MFIs services. Thus new firms will be created to meet this increase in demand, and a multiplier-type cycle of development will begin. Although the economic and social contexts differ across countries, the basic purpose of MMP stays the same, to provide small loans and other financial services to low income people in order to help them increase their incomes through their own small businesses. In general, all MMPs target one thing; human development that is geared towards both the economic and social uplifting of the people targeted [7].

Almost 30 years after the first microfinance institutions were founded, the microfinance market is still in evolution. When microfinance started to expand during the 1980s, it was about lending to the rural poor for income-generating purposes mainly through solidarity group loans of small and smallest amounts. Since then, microfinance has evolved into a more comprehensive development tool, with the aim to supply access to financial services for all unbanked people in emerging and developing markets.

Today, most borrowers still live in rural South Asia and the East Asia and Pacific region. Over a period of time, microfinance has expanded also in Latin America and the Caribbean, in Eastern Europe and

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Central Asia, and in Sub-Saharan Africa. However in the Middle East and North Africa MENA microfinance struggles to find momentum despite of some forecasts expecting growth of microfinance markets in that region to be 15-20% in 2015. There are many reasons for such distorted outlook of growth of MMP in the MENA. The credit for enterprise investment is almost the sole focus of MMP in the MENA region. Credit is just one of the many financial services the poor may need. In addition governmental loan subsidiaries to various sectors of the society at very low interest rates distort the image and data even further.

In several reports by the World bank about the state of microfinance in the regions, the World Bank describes that the MENA region's microfinance industry differs from those in other parts of the world in many aspects such as: the rise of Islamic microfinance methodologies and notions, high expectations from the sector to solve the problem of unemployment and the confusion among users about the identity of the microfinance providers and other "big players" that offer lending. We therefore believe that the perception by clients of the identity and nature of MFI can lead to better services and targeted market growth of the MMP.

While microfinance seems to promote a promising new strategy, academic and empirical research has not yet acknowledged the perception towards microfinance in the MENA region, in particular Lebanon. Lebanon will be the focus of this study because Lebanon has one of 2 the lowest predicted economic growth rates of less than 2.5% for the year 2015 in the MENA region. Lebanon is also a country that has an economy mostly service oriented with banking and tourism as its main growth sectors. A research conducted by the UNDP in 2005 found that almost 1.2 million Lebanese citizens were considered to be poor. This represented around 28% of the Lebanese population. In order to develop the microfinance industry in Lebanon, it will be important for MFIs to understand the perceptions of the population regarding the impact of micro financial services provided by these firms on individual life. Analysing what Lebanese people know about microfinance and their perception towards it may help managers of MFIs to determine how they can improve their services. No study examining the perception towards microfinance on the Lebanese society has been so far published.

The main question that this study will attempt to answer is, how the average citizen in Lebanon understands the concept of microfinance and what one can expect from the MFIs and MMPs. Moreover, secondary objectives and questions will be studied.

- Does microfinance awareness differ between urban and rural residents in Lebanon?
- Have all Lebanese heard of MFIs operating in Lebanon?
- What motivates and de-motivates Lebanese people to get a loan from a MFI?

In order to answer these questions, a questionnaire will be designed to investigate these objectives.

According to the Lebanese Central Bank, the consolidated balance sheet of commercial banks has been increasing through the years, having almost 47% increase in total assets going from \$115.3 billion in 2009 to reach \$169.2 billion in 2014 Lebanese Central Bank Bulletin. Nevertheless, the banking regional distribution remains mainly concentrated in the region of the capital Beirut and its suburbs. A report published by Bankmed [8], one of the main Lebanese commercial

banks, showed that 78% of loans are given in the region of Beirut and its suburbs, while it is only 10% in Mount Lebanon, 4% in South Lebanon El jnoub and Nabatiye, 4% in North Lebanon, and 4% in the Bekaa area Bankmed. Thus it is clear that commercial banks do not have a focus on rural areas where most of the low income population resides. A research conducted by the UNDP published in 2008 found that the vast majority of low income residents were those living in the North of Lebanon. During the last 10 years, Lebanese commercial banks started to offer microfinance products either through strategic partnership with MFIs or by issuing loans to small companies guaranteed by specialized international or domestic funds. Microfinance was mainly introduced in Lebanon in the mid-1990s. The sector has seen a remarkable growth in recent years and is expected to continue expanding. Despite all the political instability in Lebanon, the microfinance sector proved to be a success. After the 2006 war which heavily affected the sector, the microfinance industry rapidly recovered and the total number of clients increased at a compound annual growth rate of 26.2% during the years 2007 to 2014. In fact, during the period ranging from 2007 until 2014, Lebanese microfinance clients increased from 29,420 clients IFC to 150,000 clients showing an incredible increase of around 400%. Moreover, with an average loan size of \$1,118, the outstanding loan portfolio stood at \$23.9M in 2007. In 2014, the outstanding loan portfolio increased to \$150 M approximately with an average loan amount of almost \$2,000. This shift was mainly due to the increasing awareness towards the social benefits of microfinance by the Lebanese society.

According to Mr. Ali Hijazi, a microfinance researcher and microcredit program manager of the association for the development of rural capacities ADR, there is microcredit rather than MMPs in Lebanon. Moreover, according to Jawaid, different MFIs claimed that the market is very limited that it is unprofitable to provide other services than microcredit. Interviewing CFC, Jawaid stated that group loans were not widely offered as many Lebanese MFIs felt that Lebanese citizens do not like to share their personal profits or financial information with anyone. Furthermore, non-financial services like business development trainings are not provided by MFIs in Lebanon despite, housing loans, personal or consumer loans being very popular. Moreover, the author stated that different types of seasonal loans like agricultural loans, tourism loans, and Eid Islamic holidays loans were also provided. Unfortunately, no laws were put by the government in order to explicitly regulate micro lending in Lebanon.

Although as of 2014 there are around 23 MFIs that are mainly subsidized by the USAID, operating in the country, the Lebanese microfinance market is mostly dominated by three microfinance institutions like Al Majmoua, Vitas, and Al Quard Al Hassan Association. "As of September 2007, approximately 29,420 microfinance clients were being served by NGOs, MMPs, and MFIs; together, they had an outstanding portfolio of roughly \$23.9 million, with 4 an average loan size of \$1,118". Table 1 below shows the History of Leading Lebanese MFIs [9].

Methodology

A quantitative approach using a standardized questionnaire was used to analyse the perception of the average Lebanese towards microfinance. The same question was asked for an entire population sample and then the frequency of every response was measured to reach conclusions.

Questionnaire design

Name of institution	Type of institution when founded	Year microcredit activities started	Reason for founding	Founder	Initial source of funding	Funding status today
Al Qard el Hassan	Informal NGO; registered as an NGO in 1987	1983	Provided much needed services during the Lebanese civil war	Hezbollah	Not specified, many claimed that it was subsidized by different sources	Reported as largely self-sustaining with savings
AEP	NGO	1984	To support entrepreneurs to establish businesses and create jobs during the Lebanese civil war	Businessmen, bankers, and social workers	Businessmen, European Union, Italian and Spanish NGOs, and banks	Function as a revolving loan fund
Al Majmouaa	Registered as an NGO in 1998	1994	Social development	Administered by save the children foundation	USAID	NGOs
Vitas group	Registered as a non-profit organization in 1999, became a commercial services institution in 2003	1998	Program administered by CHF international(International NGO funded by USAID)	CHF	USAID	Funding of loans with Jammal trust bank, Lebanese Canadian bank, and USAID grants
ADR	NGO founded in 1998	1999	Targets small enterprises that do not have formal access to bank loans among other services	Microcredit program started by an imitative of bank Audi		Sustainable ; looking to become a non-bank financial institution
Emkan	NGO	2009	Social development	Hariri foundation	Hariri foundation	Continues to be subsidized by Hariri foundation

Source: Jawaid N.

Table 1: Background of the most common Lebanese MFIs.

The questionnaire was made up of both open and closed ended questions. The questionnaire consisted of 16 different questions to examine the people's understanding and perception towards microfinance services (Appendix A).

Population

According to Miners, the Lebanese population is estimated to be around 4 million people distributed on five different areas Mount Lebanon, North Lebanon, Bekaa, South of Lebanon with Nabatieh included and Beirut. A recent study conducted by credit Swiss showed that 0.3% of the population owned 48% of the Lebanese wealth estimated to be \$91 billion. That being said, most of Lebanese workforce is estimated to be average to low income people that make them potential microfinance clients.

Sampling method

Cluster sampling method was used in this questionnaire. In order to assess the external validity of our study, statistical tests of inference tests like t-test, chi-squared test and correlation tests were used.

Sample size

Considering a 95% confidence level, 5% confidence interval, and 50% estimation of results, the predicted sample size to study people's perception towards microfinance was 385 individual.

$$N = (50\% (100\% - 50\%)) / [(2.55\%)^2] = 385$$

Data collection

In this study, primary data was collected through questionnaires.

The questionnaire was based on an earlier research papers conducted by Siddiqui and Gilal to analyse perception towards microfinance in Pakistan [10]. It was validated using the Cronbach's alpha, a standard test of internal consistency, using SPSS [11]. Questionnaires were distributed proportionally across Lebanon in order to tackle different Lebanese regions. In fact, the total Lebanese population was estimated to be almost 4 million people as shown in Table 3.1 in Appendix B.

Mount Lebanon constituted 38.1% 1,508,658 of the total population, North Lebanon 20.6% 816,739, Bekaa 13.5% 533,305, South Lebanon 11.3% 446,969, Beirut 9.6% 378,464 and Nabatieh 7% 277,686. That being said, the sample size will be divided proportionally according to the demographic distribution of the Lebanese population. For instance, 147 questionnaires should be distributed in the area of Mount-Lebanon ($147 = 38.1\% * 385$).

Results

641 questionnaires were distributed in five different Lebanese regions as shown in Figure 1, and 397 questionnaires were collected, indicating a response rate of almost 62%. Table 2 below summarizes the distribution percentage as well as the response rate in each of the five Lebanese areas separately. For instance, $159 = 38.1\% \times 385$ out of 294 distributed questionnaires were collected in the region of Mount Lebanon, indicating a response rate of around 54.1%.

Respondents' background

According to our sample size, we can conclude the following

- 45.8% of the respondents were males while 54.2% of the respondents were females as shown in Figure 2. This was almost consistent with the 0.96 males/females gender distribution in Lebanon (source: www.indexmundi.com)

- Almost half of the respondents earned a monthly income that ranged between \$100 and \$600, almost 32% earned between \$600 and \$1100, 12.3% earned between \$1100 and \$2000, and almost 5% earned above \$2000 as shown in Figure 3. These findings were considered to be consistent with the findings of a report published by the World Bank claiming that around 70% of the population generated an annual income of around \$10,000. Moreover at 30%, income inequality in Lebanon was the highest observed in the Middle East. Female participation in the labour market was 22.8% compared to 70.5% for men www. dailystar.com

- Almost 52% of the respondents were university graduates, around 25% finished secondary and high school, 12% held a masters or

Area	Population	Percent of population	Questionnaires required	Questionnaires distributed	Questionnaires collected	Response rate
Mount Lebanon	15,08,658	38.10%	147	294	159	54.10%
North Lebanon	816,739.00	20.60%	79	158	68	43%
Bekaa	5,33,305	13.46%	52	52	52	100%
South Lebanon	7,24,655	18.29%	70	100	81	81%
Beirut	3,78,464	9.55%	37	37	37	100%
Total	39,61,821	100.00%	385	641	397	61.93%

Table 2: Questionnaires distribution and response rate.

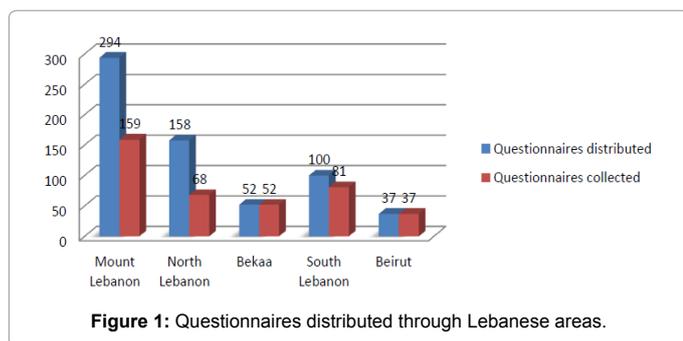


Figure 1: Questionnaires distributed through Lebanese areas.

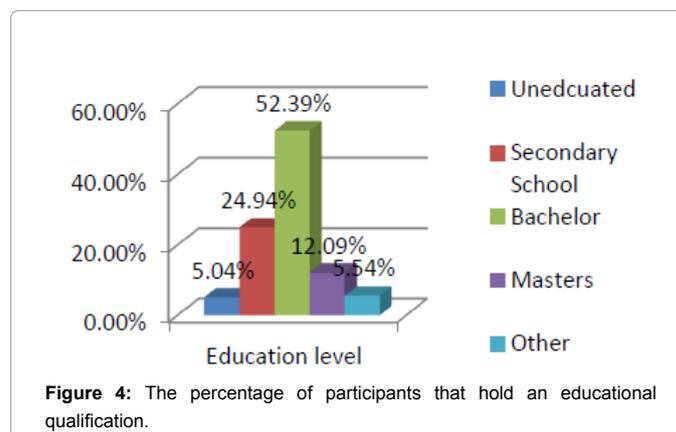


Figure 4: The percentage of participants that hold an educational qualification.

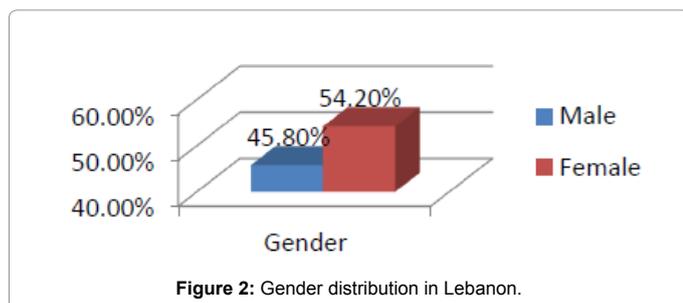


Figure 2: Gender distribution in Lebanon.

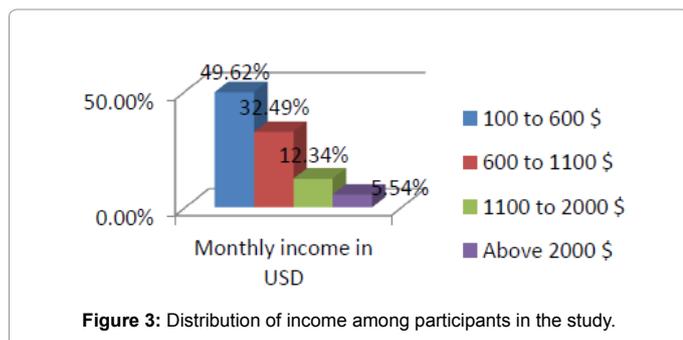


Figure 3: Distribution of income among participants in the study.

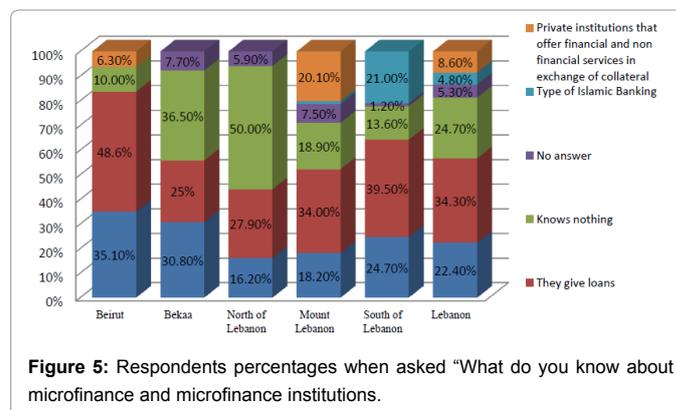


Figure 5: Respondents percentages when asked "What do you know about microfinance and microfinance institutions."

MBA degree, almost 5% had a vocational school degree, and 5% were uneducated as shown in Figure 4. This shows that most of Lebanese population was literate and educated. Hence, the respondent's level of education was consistent with the fact that almost 90% of the Lebanese can read and write (indexmundi.com). A research conducted by the united nation in 2014 showed that the average years of schooling in Lebanon was almost eight and that there was only a 0.1 per cent difference between the number of men and women who have achieved a secondary level of education

- The sample population in this study was also representative of the real population age, where most of the Lebanese population aged below 55 (www.indexmundi.com). That being said, the sample

population had similar age range, gender, income range, and education level of the Lebanese population. The data collected from the field was coded and analysed using SPSS to provide pivot tables and cross tabulation analysis showing the relation between different attributes such as gender and topic understanding which were studied however, Microsoft Excel was used to draw bars, charts and pies

Current understanding of microfinance

Figure 5 shows, topic understanding towards microfinance differed across Lebanese areas. The highest percentage of respondents who claim that microfinance offered financial services to low income people were the residents of Beirut 35.1%, Bekaa 30.8% and South of Lebanon 24.7%. On the other hand, the highest percentages of respondents claiming that they knew nothing about microfinance were those living in the governorate of North Lebanon 50% and Bekaa 36%. The lowest percentages of respondents were those living in the governorate of Beirut 10% and South Lebanon 13.6%. These results confirmed the findings of a report published by Blom bank, one of the leading

commercial banks in Lebanon, in which it claimed that although MFIs were spread across the Lebanese areas, the largest portion of microcredit services was seen in the areas of South of Lebanon with Nabatieh included, and Beirut [12,13].

According to Al Majmouaa annual report, most of the company's clients are those living in the areas of Beirut 39% and South Lebanon 33%, while the lowest portion of its clients were those living in the North Lebanon. This inequality of clients' distribution was mainly due to the fact that these regions had higher success and repayment rates than the other regions. That being said, the reason why the high level of unawareness towards microfinance existed in the North of Lebanon among other areas was probably because MFIs did not provide services in that region. This is probably due to the fact that this area is perceived as more risky and less profitable than the other areas. It is up to Lebanese MFIs to justify this action, as most low income people live in this area UNDP. Surprisingly, the vast majority around 92% of those unaware of the benefits or even existence of microfinance were educated, almost half of them holding a bachelor university degree as shown in Table 1.2a of Appendix B. This result clearly showed that microfinance awareness needs to be promoted more among university students. After conducting a cross tabulation analysis between topic understanding and gender as shown in Table 1.1a of Appendix B, 12.3% of males and 10% of female's respondents claimed that microfinance was the procedure of offering financial services to low income people across the Lebanese territory. Among them, almost 45% of respondents were females and 55% were males. On the other hand, respondents claimed that they have never heard of microfinance across Lebanon were more female respondents, around 14% than male respondents almost 11%. A Pearson chi-square test was conducted to examine whether the relationship between topic understanding and gender was due to chance H_0 or to a relation that existed between topic understanding and gender H_1 . According to the chi-square calculation, the probability of this distribution of values happening by chance was less than 0.05. The results showed that there was a significant relationship between the two variables $P < 0.05$, as seen in Table 1.1b of Appendix B. Cross tabulation analysis between topic understanding and each of education level and monthly income showed that 95% of respondents who answered this question were educated university graduates, finished school, masters or MBA degree holders, or vocational school, and almost 20% among them claimed that microfinance was the procedure of providing loans without specifying who their target market was. However, according to the chi-square test, the answer was not statistically significant as it had few "expected count" variables. Furthermore, most respondents who answered this question were earning between \$100 and \$600. In fact, majority of them (33.5%) also responded that microfinance was the procedure of providing loans without specifying who their target market was. Detailed results are presented in Tables 1.2a-1.3b of Appendix B. In conclusion, 22.5% of respondents 45% females, 55% males claimed that microfinance was the procedure of offering financial services to low income people while 34.3% 48% males and 52% females said that microfinance was a procedure of providing loans to people without specifying who their target market was. Almost 25% (44% males and 56% females) stated that they have never heard of this procedure, and thus know nothing about this topic; 8.6% (26.5% males and 73.5% females) of the respondents reported that microfinance and MFIs were private institutions that offer financial and non-financial services in exchange of collaterals, and around 5% (68.4% males and 31.6% females) claimed that microfinance was a type of Islamic banking. A Pearson correlation analysis was conducted to examine if there was a relationship between topic understanding and

each of education level, monthly income, and age range. As Table 1.4 in Appendix B shows, a negative weak significant correlation existed between topic understanding and age range. In other words, higher levels of topic understanding were associated with lower levels of age range. This is probably due to the fact that most of the respondents who had no idea about microfinance were older than those who claimed that microfinance offered loans, and those who claimed that microfinance provided financial and non-financial services to the poor.

Our findings concerning microfinance awareness were similar to a previous study conducted about evaluating the self-sustainability of MFIs in Yemen; the author concluded that the level of awareness towards microfinance in Yemen was considered to be low. On the other hand, other findings begged to differ. Analysing people's awareness towards microfinance in Nagpur city in India, 90% of the respondents were aware of microfinance [14].

In a study conducted in Pakistan investigating the perception towards microfinance among Pakistanis, 69% of the respondents claimed that microfinance offered small loans, while in Lebanon, almost 34% claimed that microfinance offered loans without specifying the type of loans, and around 22.5% replied that microfinance provided financial services to low income people. MFIs should therefore improve the level of awareness and perception towards microfinance and communicate its mission to the targeted segments in order to improve people's perception about the industry, using effective campaigns.

Interestingly, it was found in this study that most Lebanese mainly perceived MFIs as a social charity. When people were asked about their perception towards microfinance, almost 61% said it was regarded as a social charity, while 34% said it was a profitable activity, and 5% said it was both a social charity and profitable activity. This is a common misperception and represented an example of the bottom up approach to development by linking informal credit schemes, like intra family loans, to formal sources of capital and financial institutions that do not ask for extensive collaterals as banks do. Moreover, after evaluating the two Lebanese MFIs Al Majmouaa and Vitas, planet rating and kivas, found out that both companies showed a "clear commitment to social goals".

Microfinance institutions operating in Lebanon

Concerning the micro financial institutions operating in Lebanon, as shown in Figure 6. Al Quard el Hassan foundation was regarded as the most known micro financial institution operating in Lebanon with almost half of the respondents saying that they have only heard of this financial institution among others like Al Majmouaa and Vitas. Around 5% have only heard of Al Majmouaa, 3% have only heard of Vitas, 17.5% have heard of both Al Quard el Hassan and Al Majmouaa,

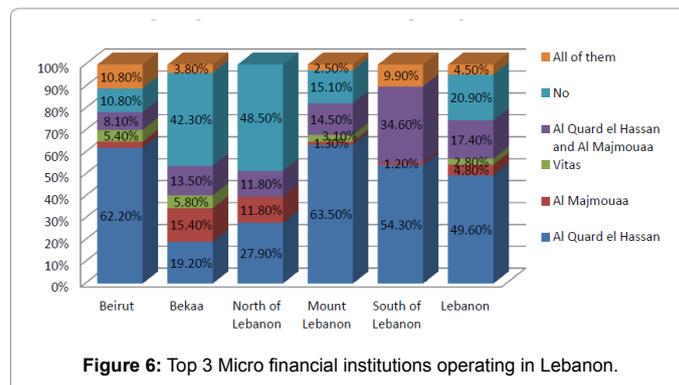


Figure 6: Top 3 Micro financial institutions operating in Lebanon.

21% have not heard of any of these institutions although they are widely known, and 4.5% heard of all these institutions.

One of the main reasons Al Qard el Hassan was widely known was because it was established after the Lebanese civil war, in which Hezbollah, one of the Lebanese parties socially active in Lebanon. Lebanon provided microcredit among other social service to help Shiite people among others in need. Moreover, after interviewing several MFIs, Jawaid claimed that many MFIs representatives admitted that the institution of Al Qard el Hassan was mainly subsidized by Iran and the wealthy Shiite Lebanese businessmen in a way that other MFIs would not be able to compete with it. Al Qard el Hassan has the largest market share among all Lebanese MFIs.

According to Al Majmouaa, its operations were mainly targeting females, and the vast majority of its clients were females; therefore the percentage of females who have heard of Al Majmouaa should be greater than the percentage of males. Table 1.5a in Appendix B shows that almost 58% of females have heard of Al Majmouaa, while around 42% of males have heard of it. According to the chi-square calculation, the probability of this distribution occurring by chance was 0.007 ($P < 0.05$). Therefore, there is a relationship between the sex of the respondent and the answer given as shown in Tables 1.5a and 1.5b in Appendix B.

Figure 6 also shows that Al Qard el Hassan was mostly known in the areas of Beirut (62.2%), Mount Lebanon (63.5%), and South of Lebanon (54.3%), and was hardly known in the North of Lebanon (27.9%) and Bekaa (19.2%). On the other hand, 48.5% and 42.3% of the residents in the North of Lebanon and Bekaa respectively have not heard of any of these micro financial institutions compared to 0% in the South of Lebanon and 10.8% in Beirut. According to the report published by Blom bank, Al Qard el Hassan occupied the largest share of microloans in Lebanon. The institution has given almost \$208.4 million in microloans in 2012 alone including repayments, having an estimated loan portfolio ranging about \$60 to \$70 million, which represented around 47% of the total microfinance portfolio in Lebanon. Besides Al Qard el Hassan, Al Majmouaa held almost 30% of the total clients, followed by Vitas (11% of the total clients), and Emkan (9% of total clients).

After conducting a Pearson correlation analysis, a weak positive relationship was found between institution knowledge and each of age range, education level, ($P < 0.05$). This means that as both the education level and the age range increased, it was more likely that the respondent knew at least one of the financial institutions. On the other hand, no relationship was found between institution knowledge and monthly income as $P > 0.05$ (Table 1.6 in Appendix B).

People's overall view towards microfinance

In general, Lebanese people believed that microfinance can play an important role in reducing unemployment rates and poverty levels in Lebanon (Figure 7). In fact, when asked if microfinance can reduce unemployment rates in Lebanon, 34.5% of the female respondents and 27.2% of the male respondents gave a positive answer. On the other hand, almost 19.6% of females and 18.7% of males believed that microfinance cannot have a positive effect on the rates of unemployment. According to the chi-square table this result was not statistically significant (Tables 1.7a and 1.7b in Appendix B).

A cross tabulation analysis was conducted to examine whether there was a relationship between the answers given and the respondent's education level. According to Table 1.8a in Appendix B, 61.7% gave a

“yes” answer, amongst them 96% were educated, whereas, 38.3% gave a “no” answer, amongst them 93% were educated. According to the chi-square test Table 1.8b in Appendix B, the results were statically significant $P < 0.05$ (Figure 7).

Most of the respondents claimed that microfinance could have a positive impact on the Lebanese society and the educational and economical level in the country. On the other hand, respondents tended to have a perception that there was no link between political stability and MMPs.

Figure 8 below shows that almost 81.5%, 67% and 63% of the respondents claimed that microfinance could have a positive impact on the Lebanese society, Lebanese economy, and the educational level in Lebanon respectively. On the other hand, almost 60.5% of the respondents said that microfinance could have a positive impact on the political stability and thus security in Lebanon.

People generally seek microcredit to build or expand their business, and start self-employment. In order to help building the capacity of Lebanese MFIs, the IESC started in 2009 a \$15.1 million program that ended in April. It had a main objective to provide grants to create jobs and promote economic growth in Lebanon (www.dailystar.com).

In general, when more microcredit is given to poor people, poverty will be reduced. According to Wright, Khandker, Afrane, Hossain and Knight, microfinance has played an important role in income growth, reducing unemployment levels, increasing education level, and strengthening social relations and networks [15-19].

The LIM association has awarded to date \$8,299,501 in grants to Lebanese MFIs, which in turn have granted \$27,489,313 through 12,101 micro loans across the Lebanese territory. The program helped in the creation of 18,989 jobs, and 2,887 positions (www.thedailystar.com).

However, credit is not the only factor affecting income generation. Recipient's entrepreneurial skills, education, and experience are other important factors that can affect the profitability of a business. Most people do not have the vision, persistence, skills, and creativity to be entrepreneurial. In fact, Banerjee concluded that microcredit

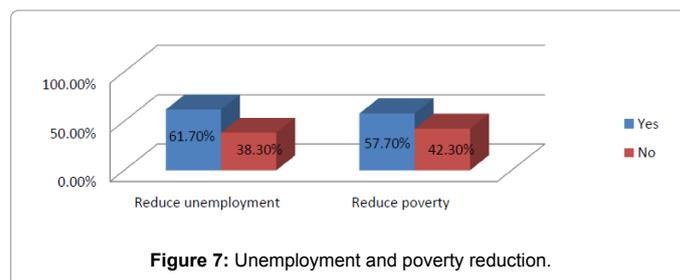


Figure 7: Unemployment and poverty reduction.

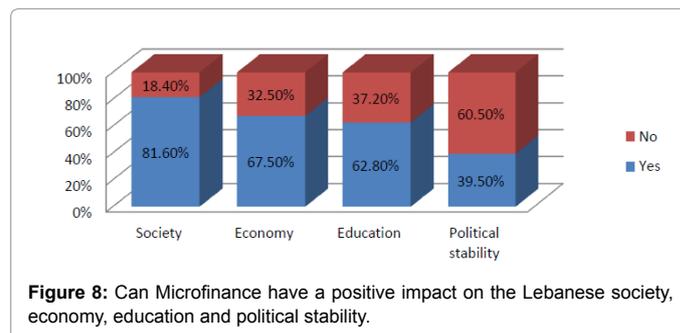


Figure 8: Can Microfinance have a positive impact on the Lebanese society, economy, education and political stability.

had no impact on borrower’s health or education levels in the city of Hyderabad, India [20-22].

Many agree that access to credit by itself is not the solution to global poverty. Both Sam Daley-Harris, Director of the Microcredit Summit Campaign, and Professor Yunus, claimed that microfinance should be combined with other innovative programs that can affect economic growth in order to create one powerful tool capable to decrease poverty levels, MMPs.

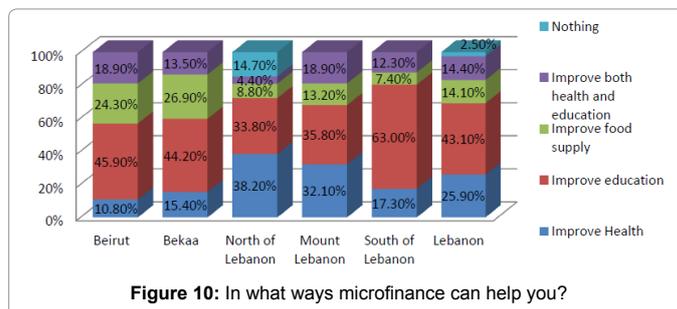
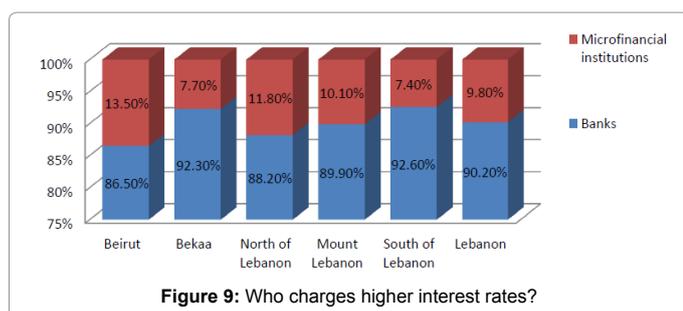
Similar findings were found in Oman, when a study Murthy and Varalakshmi, showed that the majority of the respondents claimed that microfinance would have a positive impact on the society, unemployment, and poverty levels [23].

Who charges higher interest rates?

When asked who charges higher interest rates, almost 90% of the respondents said that banks charge higher interest rates, while only 10% of them responded that MFIs charged higher interest rates as shown in Figure 9. The reason why many respondents claimed that MFIs charged lower interest rates was probably because people had a negative view towards banks and believed that MFIs were a better way to get a small loan. Another reason was that most of the respondents have heard mainly of Al Qard el Hassan that follows the principal of Islamic finance. According to the Islamic Sharia, no interest rates could be charged. However, Al Qard el Hassan, charged administrative fees that take into account the cost of the loan salaries, overhead, and supplies and the cost of storing the gold which is fixed by the insurance company for 1000 grams of gold, there’s a \$50 fees for a period of 10 months. These types of loans were mainly granted on “gold collateral terms”, in which after loan repayment, the borrower takes back his gold (Figure 9).

In fact, MFIs charge higher interest rates than traditional banks. This is mainly due to two factors: first of all, since microfinance loans amounts are smaller, the upfront commission fees are relatively greater while operating costs are constant. In consequence, these costs weigh heavier on the scale of a microcredit than on that of a traditional loan. Therefore, lending smaller amounts means a higher rate of interest. Second, loans issued by traditional banks come from the deposit and saving accounts of their clients, while in contrast, most micro financial institutions have to get their financing from local banks or from developed countries in the form of preferential rate loans from the World Bank or loans from investment funds.

After conducting a cross tabulation analysis between gender and chargers of higher interest rates, among those who gave the correct answer (MFIs charge higher interest rates), almost 69% were males and 31% were females. The findings were statistically significant ($P < 0.05$) (Tables 1.9a and 1.9b in Appendix B). Therefore, we can say that male



respondents were more informative regarding the interest rates issues than their female’s counterpart.

Moreover, conducting a cross tabulation analysis between education level and who charges higher interest rates of loans, the researcher found out that among those who gave the wrong answer, 63.7% were holding a bachelor or a postgraduate university degree. This unexpected result showed that neither the Lebanese universities nor the MFIs have built sufficient microfinance awareness among university student. A chi-square analysis could not be conducted because “3 cells (30%) have expected count less than 5” (Tables 2a and 2b in Appendix B).

How microfinance can help people?

As shown in Figure 10, when people were asked in what ways microfinance can help them, the vast majority 43.10% of the respondents across the Lebanese territory reported that microfinance can help them improve their education or the education level of their children. Among those respondents, 58.5% were females, 41.5% were males, and most of them 96.5% were educated. More than half 55.3% of the respondents that claimed that microfinance can improve their health condition were females, and the rest were males 44.7%. The vast majority among them 67% were earning a monthly income ranging between \$100 and \$600. In addition to the above, most of the respondents almost 55% who claimed that microfinance would help improving the food supply even for them or for their families were married. However, due to the fact that we had less than required “expected count” cells; the chi-square analysis results were not validated (Tables 2.1a-2.4b in Appendix B).

As clearly seen in Figure 10, most of the respondents in each of the five Lebanese areas believed that microfinance would help them improve either their education or the education of their children. In fact, almost 46%, 44.2%, 34%, 36%, and 63%, of the respondents living in Beirut, Bekaa, North of Lebanon, Mount of Lebanon and the South of Lebanon respectively shared the same opinion that microfinance can improve their level of education. Those living in Beirut were the least to believe that microfinance would help them in improving their health condition (10.8%), while those living in the North of Lebanon were the most to believe that microfinance can help improve health conditions (38.2%). This difference between these two areas was mainly due to the fact that those who resided in the North of Lebanon had less developed hospitals and health insurance than those living in the capital Beirut.

Table 3, compared other studies conducted in the Middle East and North Africa, Lebanese respondents perceived that microfinance had lower levels of impact on their health and food consumption. On the other hand, more Lebanese respondents than Egyptians and Moroccans respondents perceived that microfinance could have an impact on their education level excluding Jordan Planet finance. The lower perception towards the impact on their health condition is maybe due to the

Country	Food Consumption	Education their (own) or their children's	Health
Lebanon	14%	43%	26%
Egypt	50%	40%	40%
Jordan	70%	58%	48%
Morocco	62%	36%	37%

Table 3: Perception of positive impact.

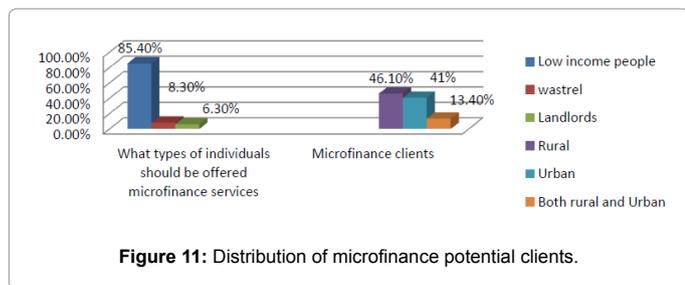


Figure 11: Distribution of microfinance potential clients.

differences in life expectancy in each of the four countries. For instance, according to the UNDP, Lebanese have a life expectancy of 80 years compared to 71.2 years in Egypt, 73.9 years in Jordan, and 70.9 years in Morocco. Moreover, in general Lebanon is well known for its medical sector as one of the most developed in the region. Therefore people search to improve other factors than health in their lives as their health condition is already in a good situation. 14% of Lebanese respondents claimed that microfinance can improve their food supply, compared to 50%, 70%, and 62% of respondents in Egypt, Jordan, and Morocco respectively.

Interestingly, people tend to spend more time in education in Lebanon than in Egypt and Morocco. In fact, the average years of schooling in Lebanon is estimated to be 7.9 years, compared to 6.4 years in Egypt, 4.4 years in Morocco, and 9.9 years in Jordan as shown in Table 3.

Who benefit from microfinance?

When asked what kind of individuals should be offered microfinance services, most of the respondents claimed that low income people were those who should benefit the most from MFIs (Figure 11). Respondents also stated that microfinance clients were mostly rural people (46.1%). These findings support the findings of the CGAP study. In fact, studying the client base of seven MFI in Africa and Asia, CGAP found that most of the clients were moderately low income people.

What motivates you to get a loan from a micro financial institution?

When people were asked what motivates you to get a loan from MFIs, most of the respondent (57.4%) across all the Lebanese region claimed that it was the need for money to satisfy a need such as paying back a loan, to fix something at home, or for self-consideration like buying a car. On the other hand, around 20.7% of the respondents claimed that if they got a microloan, it will be to improve their own business or build a small business. A cross tabulation analysis using SPSS showed that among those who said that improving or building their businesses is what encourages them to approach MFIs, almost 54% were females, 46% were males, 94% were educated, and most of them earned an average monthly income ranging between \$100 and \$600 which is less or equal to the minimum wage in Lebanon. Besides having a low monthly income, most of the respondents who gave such

answer (55%) were working in the private sector and 22% of them were unemployed. Therefore, being educated, earning a low income and/or unemployed, these people would seek the services of MFIs to create or develop their own businesses, and their monthly income.

On the other hand, among those who claimed that they would be motivated to get a microcredit in order to use for personal needs (57.4%), 51.3% were females and 48.7% were males; and also surprisingly the vast majority were educated.

Analysing the monthly income of those respondents, more than half of them were earning between \$100 and \$600 per month. Analysing the professional sector, almost 55% worked in a private company or have their own business, while around 24% were unemployed. That being said, offering a microcredit service to those people would possibly only leave them in more debt as the purpose of the loan would not be to build a business but instead to satisfy a need.

A chi-square analysis was conducted to examine the statistical significance of these answers. However, the researcher could not reach conclusion due to the fact that most of the cross tabulations tests had less than the required number of expected count (Tables 2.5a-2.7b in Appendix B).

Figure 12 shows, those who said they were motivated to get a microcredit loan in order to improve or build their own business were mostly the residents of the South Lebanon area, (28.4%) and Bekaa (23.1%) while those residents in the capital Beirut had the lowest percentage. This is mainly because most residents in South Lebanon and Bekaa might be working in agriculture or farm owners that would benefit mostly from MFI services.

Finally, when analysing the answers provided about what motivates one to get a loan and who charges higher interest rates, none of the respondents that said that MFIs services charged higher interest rates, said that that they would be motivated to get a microcredit. This was because the respondents were under the impression that MFIs offered lower interest rates. Surprisingly, 95% of those who said that microloans provided lower interest rates were educated.

Our findings were not similar to other studies Mel et al; Bruhn and Love; Banerjee; Siddiqui and Gilal; and Hagan that showed that people tend to take microfinance loans in order to expand their businesses [13].

What discourage you to get a loan from a micro financial institution?

Figure 13 shows, when people were asked what discourages them to get a loan from an MFI, almost 53% of the respondents claimed it was because of the high demands like interest rates, guarantor, or

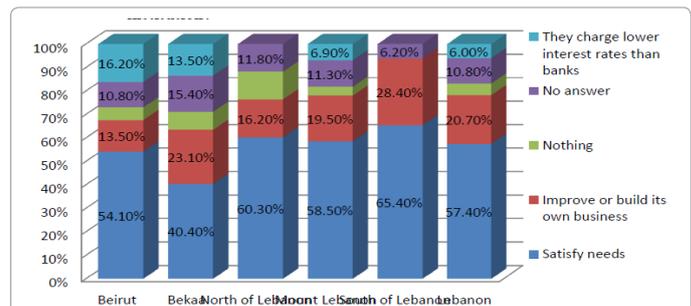


Figure 12: What motivates you to get a loan from a microfinance institution?

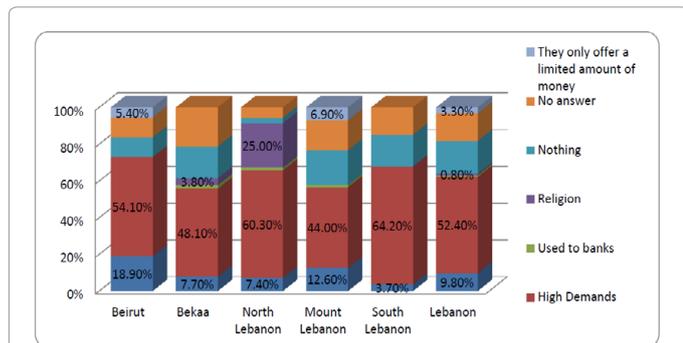


Figure 13: Which factors discourage you to get a loan from a microfinance institution?

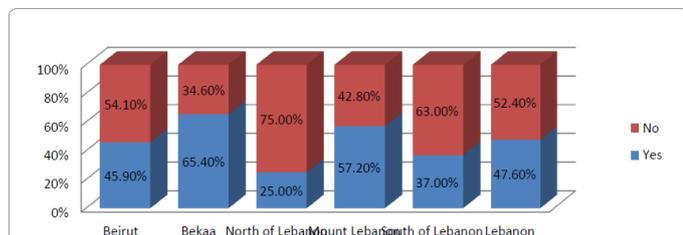


Figure 14: If you have been given the chance to get a loan, would you also consider other microcredit products like micro insurance, micro savings among others.

collaterals, almost 10% claimed it was due to trust while 17% claimed that nothing discouraged them to get a loan from such MFIs.

After conducting a cross tabulation analysis, 67% of those who said it were because they did not trust these MFIs were females. That being said MFIs should work harder in order to gain people’s trust and specially the females, and assure them that there were no hidden charges in their work (Tables 2.8a-2.9 in Appendix B). Most of the respondents said that high demands requested by MFIs discouraged them of getting loans; it is up to MFIs to work on this issue in order to increase the number of their clients.

Offering other micro financial services

When asked if they would like to take other financial services like micro-savings, almost 52% of the respondents said “no”, while 48% answered positively. In fact, microfinance services in the Middle East region are largely characterized by offering more microcredit than any other financial services such as savings, leasing, or insurance. Lebanese MFIs have also mainly limited their services to microcredit. A recent research was conducted, in which a number of interviews with different Lebanese MFIs were recorded. This research claimed that the Lebanese industry was not sufficiently developed in order to provide other microfinance services such as savings and insurance. Figure 14 clearly shows that the residents of Bekaa, and Mount Lebanon were more likely to take other micro financial services like micro insurance or micro-savings than the residents of Beirut, North of Lebanon, and South of Lebanon.

After analysing the respondents’ average monthly income, most of the respondents earned a monthly income ranging between \$100 and \$600. According to a study conducted by numbeo.com, the world’s largest database of user contributed data about cities and countries worldwide, Lebanon was regarded as the second most expensive

country in the Arab world with an average Lebanese person earning around \$1200 per month in order to have a “good life”. This study showed that more than 80% of the respondents earned less than \$1100. There is a need for MFIs to therefore step in and provide targeted services to those that can benefit from it the most.

Figure 15 below shows around 63%, 57% and 46% of the Lebanese living in North Lebanon, Mount Lebanon, and the Bekaa region earned an average monthly income ranging from \$100 to \$600. MFIs should be focusing more on these areas as most the respondents living there were low income people who are in need of such microcredit services.

Many MFIs suffer from high overhead costs and weak management structures. MFIs that operate from a social rather than a business perspective end up suffering from high rates of defaults on its loans. In an interview with an EFSD representative, EFSD claimed that “most microcredit loans were not in rural areas in Lebanon because they were not targeting the poorest of regions. Lenders want a business to generate income and that requires a critical mass “. Therefore some MFIs’ goals have shifted from social focused to profitable focused activities. While microfinance assumes that access to credit leads to income generation, there has not been an extensive research focusing on how MFIs can decrease unemployment rates, sustained health conditions, and developed education levels in Lebanon. Identified as a post conflict country, Lebanese MFIs’ operations are always placed under a pressure because of the high risk of political and security instability. Therefore, most of these companies prefer to build their branches in safer areas like Beirut rather than riskier ones like near the borders areas in both south and North of Lebanon.

According to Pollin, microfinance companies “need a vibrant, well-functioning domestic market itself that encompasses enough people with enough money to buy what these enterprises have to sell [22].” However, most of the Lebanese people live in Beirut, Mount Lebanon and the South of Lebanon while the North of Lebanon and Bekaa have the least number of residents that earn an average monthly income less than \$600. Thus, a micro entrepreneur might be able to work in Beirut but might find it harder to work in the villages where people are fewer and have less amount of money than those living in other areas.

When cross tabulation analysis was conducted between the topic understanding and if people heard of any of these MFIs, 9% of the respondents that said that microfinance offer financial services to low income people never heard of any of the most known micro financial institutions operating in Lebanon Al Qard el haasan, Al Majmoua, and Vitas. The remaining respondents heard at least of one of them. The majority of those who said that they know nothing about microfinance also heard of at least one of the three micro financial institutions operating in Lebanon.

This shows that people did know about the existence of these

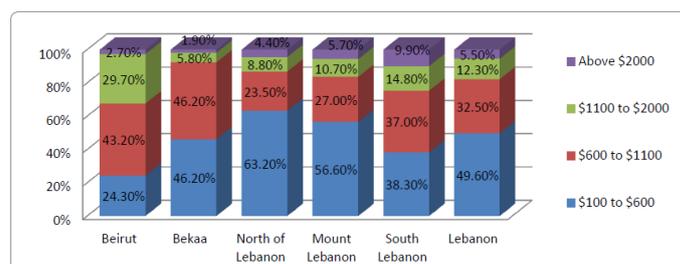


Figure 15: Average monthly income.

Reliability statistics	
Cronbach's alpha	No. of items
0.629	11

Table 4: Reliability statistics.

institutions however did not know what their main objectives of these MFIs were. After conducting cross tabulation analysis between topic understanding and who takes advantages of microfinance, almost 94% of those who said "microfinance offered financial services to low income people" also claimed that low income people were those to benefit from microfinance services.

Reliability

When analysing the reliability of questions related to perception an alpha of 0.629 as show in Table 4, statistically acceptable reliability.

Conclusion

The majority of the respondents 34.3% perceived MFIs as financial institutions that just offered loans without specifying the nature or purpose of the loan. It is clearly seen by people reactions that they had no idea that MFIs offered other services than micro credits. This may be due to the fact that MFIs operating in Lebanon restrict their financial services to micro credits only. In fact, visiting the websites of each of Al Majmouaa, Vitas, and Ibdaa, one realises that these MFIs limit their services to micro loans for individual purposes or home improvement purposes. Furthermore, most respondents perceived microfinance as a social charity 61.2% rather than a social activity 34%, with Al Qard el Hassan institution as the most acknowledged by the Lebanese respondents 49.6%.

Regarding the perception towards the impact of microfinance on the economy most respondents believed that microfinance can play a certain role in reducing both unemployment levels 61.7% and poverty levels 57.7%. Also, most respondents believe that microfinance can have a positive impact on the Lebanese society 81.6%, Lebanese economy 67.5%, and education levels in Lebanon 62.5%. However, most of the respondents 60.5% believed that microfinance cannot have a positive impact on the security and political stability levels in Lebanon.

Surprisingly, almost 90% of the respondents believed that banks charged higher interest rates than MFIs. Furthermore, most people perceived that microfinance can play an important role in improving their or their children's education level 43.1%, while almost 26% perceived that microfinance services can improve their health condition and around 14% perceived that MFIs can improve their food supply consumption. Microfinance studies focusing on Lebanon are very limited. No previous studies examined people's perception and understanding of microfinance in Lebanon.

After reviewing the relevant literature related to how microfinance impacts perceptions around the world, it seems that people tend to have a positive perception towards microfinance across the globe [24-29]. However the level of microfinance awareness differs from country to country. For instance a researcher found that the level of microfinance awareness was low in Yemen whereas it was high in Pakistan and India [30-33].

In general the Lebanese tend to have a positive perception towards microfinance as most of the respondents claimed that microfinance can reduce both unemployment and poverty levels, as well as it can have a positive impact on the Lebanese economy, education level, and society [34-36]. Despite 24% of the respondents having not heard

of microfinance, the majority of the respondents including those unaware of microfinance had at least heard of one of the top three MFIs operating in Lebanon. Most Lebanese perceived microfinance as the process of just providing loans without specifying for who it is intended [37-39]. Most respondents would consider a microcredit loan for personal needs, such as paying for another due loan, buying a car, and making home improvements rather than building or improving an existing business in order to generate more income and elevate themselves out of poverty.

Study Limitations

The main limitation of this study was failure to conduct a pilot study due to time restrictions. However the questionnaire was based on previous studies questionnaires conducted on the same topic in Pakistan and sultanate Oman after the approval of their authors.

Due to security issues and military actions taking places near the Syrian borders at the time of this study, it was impossible to visit the areas in the north like Akkar, and Bekaa like Orsal and its surroundings.

Future Research

Future research should be conducted to determine how the perception of microfinance in addition to other factors can be used to improve the delivery of MFIs services. Further studies may also examine the impact of microfinance services on the Lebanese society, economy, poverty level, education level, and unemployment levels.

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