



## MICROFINANCE FOR SYRIAN REFUGEES: THE LEBANESE AND JORDANIAN MARKET

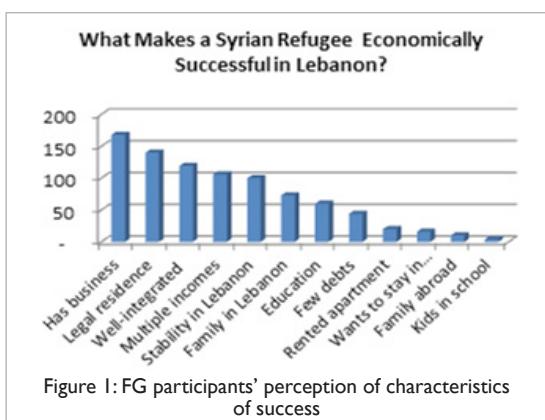
DECEMBER 2017

Since fighting broke out in 2011, more than 1.6 million Syrians have fled to Lebanon and Jordan. With no end of the fighting in sight, Syrian refugees are developing livelihoods in Lebanon and Jordan using a combination of humanitarian assistance, remittances, employment, and entrepreneurship. Access to finance can help these households to improve their livelihoods, supporting them to become less dependent on aid and better able to contribute to their host community's economy. However, little research has been conducted on the needs of refugees for financial services in these countries or on the size of the market. This lack of information leaves microfinance institutions, who are ideally placed to serve this population, hesitant to enter the market. In an effort to address this information gap, SANAD's Technical Assistance Facility, using funding provided by the Austrian Development Bank (OeEB), contracted Making Cents International to research and develop estimates of the current size of the microfinance market among Syrian refugees in both countries and calculate the future development of this market. This briefing describes the research methodology, key results, and major implications.



Syrian refugees crossing into Lebanon

### RESEARCH METHODOLOGY



Making Cents, working with the microfinance institutions Al Majmoua in Lebanon and Vitas in Jordan, conducted the research using qualitative and quantitative methods from October 2016 to August 2017. In its qualitative research, the team employed human-centered design, developing refugee "personas" with pictures and stories that represented different market segments based on the strength and stability of their livelihoods. Focus group discussions with economically active and vulnerable refugees were then used to validate and refine these stories, with an emphasis on understanding the characteristics that were most predictive of a client being credit-worthy.

Upon conclusion of the qualitative phases, local research companies conducted quantitative surveys of 629 refugees across Lebanon and 418 in Jordan. The surveys validated the qualitative results, deepened our understanding of these segments, and quantified them by region in both countries.

## Integration

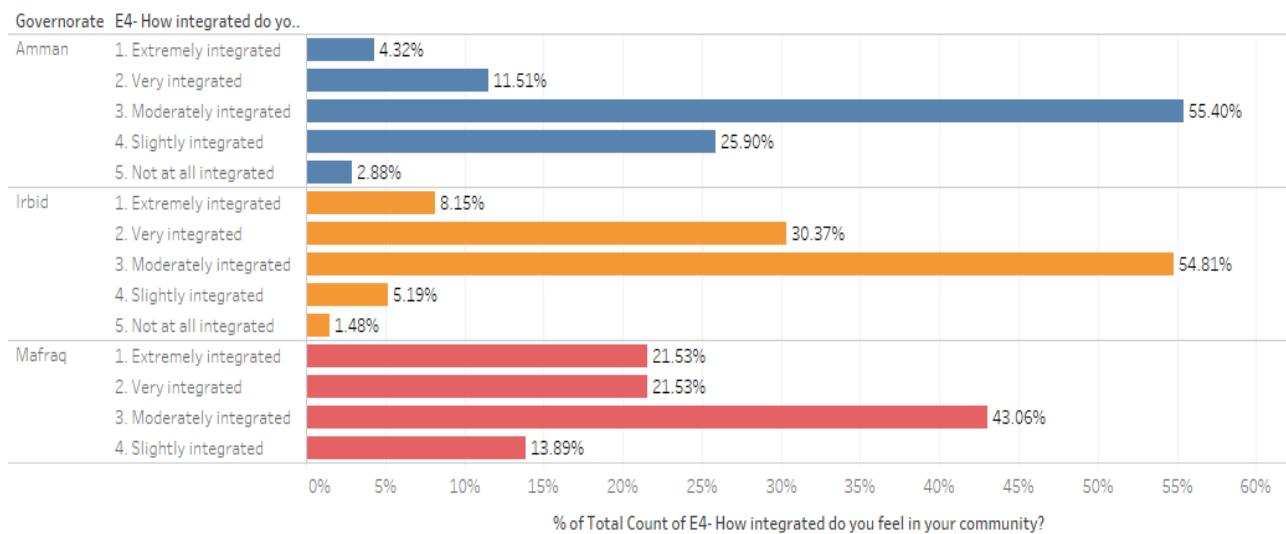


Figure 2: Data gained in Jordan through quantitative research on a key characteristic of credit-worthiness – relative integration

## RESULTS

The **qualitative** research indicated that three broad segments of refugee households are present in Lebanon and Jordan. These include “Stable” households, which are able to make ends meet due to their employment or entrepreneurial activity; “Developing” households, which are developing sustainable livelihoods but are still dependent on remittances and humanitarian assistance to cover shortfalls; and “Vulnerable” households, which may earn some money through employment or entrepreneurship yet continue to be largely dependent on humanitarian assistance.

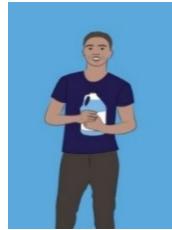
**Stable Refugee Households**, described using the stories of “Bana” and “Adnan” and classified as having a monthly income equal to or greater than the local minimum wage (USD 446 in Lebanon, USD 336 in Jordan), were most often led by working males, and derived income from permanent employment or self-employment, usually in an occupation that they had worked in previously. They generally had lived in the same area for more than three years, felt integrated into the local community, and often had legal residence and work permits. Their consistent income and stability made them confident they could comply with common loan terms, including obtaining a Lebanese guarantor or joining a guarantee group. At the time of the survey, this segment was interested in borrowing (44% in Lebanon, 47% in Jordan), and investment in a small business was the dominant motivator (42% in Lebanon, 59% in Jordan). For all intents and purposes, their profile matched that of many low-income host-country populations, but with greater risk due to their informality and the uncertain business landscape for refugees.



**Developing Refugee Households**, profiled by the focus groups through the stories of “Amena” and “Mohamed,” were making ends meet but still struggling. Their income ranged from 75%–100% of the monthly minimum wage income, but they were more dependent on temporary employment in occupations that were less familiar to the main bread-winner. While they lived in the same areas,



they did not feel as integrated, spending most of their time with other refugees and more likely to have registered with UNHCR. While similar percentages were still interested in borrowing (39% Lebanon, 47% Jordan), they were less able to secure guarantors and meet all the eligibility requirements of a typical microfinance loan. In short, most of this group was not yet ready for microfinance outside of very small consumption loans (less than USD 300), though with time and ongoing assistance they may qualify in the future.



**Vulnerable Refugee Households**, described using the stories of “Riham” and “Joram,” were struggling to earn a livelihood. Their income was less than 75% of the minimum wage and came from temporary employment and assistance. Vulnerable households tended to be older, have more dependents, and were not integrated with the local community, knowing few people outside of other refugees and sometimes living in informal tented settlements. This population did not meet the basic eligibility requirement for borrowing and would likely remain outside of the financial sector for the foreseeable future.



Figure 3: Refugee Personas

In addition to confirming the characteristics of these segments and providing more insights into their conditions, the **quantitative** survey provided estimates as to the size of each segment and potential demand for credit by region in both countries. To estimate the segment sizes, the research team scored data such as income, residency, employment type, and integration using a modified 5Cs of Credit (Capital, Character, Collateral, Conditions, and Capacity) framework.

## LEBANON

The results indicated that roughly 14% of Syrian refugee households could be classified as “Stable,” 38% as “Developing” and 48% as “Vulnerable.” These percentages were then used to estimate the size of the market for credit among refugees. Considering that figures for the number of Syrian refugees in Lebanon range from 1 million to 1.5 million, the current demand for credit is estimated to be between 14,300 and 20,700 households, which could amount to between USD 17.8 million and USD 25.9 million.

In the future, demand for credit is likely to increase further as Developing refugee households become more stable. Based on their interest in borrowing, an additional future market of between 34,000 and 49,000 refugee households, representing demand of USD 42.4 million to USD 61.6 million in credit, can be estimated. The growth of this market and even the borrowing tendencies of the Stable refugee market will be dependent on the overall business and political climate, which may evolve in a variety of directions.

# POTENTIAL DEMAND FOR CREDIT AMONG SYRIAN REFUGEES IN LEBANON

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Figure 4: Lebanon Market Map

## JORDAN

Results were similar in Jordan, though the proportion of “Stable” and “Developing” households was smaller, likely occurring because a portion of the Syrians included in the Lebanon sample had been economic migrants in Lebanon prior and had more stable livelihoods. Results indicated that roughly 16% of Syrian refugee households could be classified as Stable, 13% as Developing and 71% as Vulnerable. These percentages and expressed demand for loans were then used to estimate the size of the market for credit among refugees. As in Lebanon, estimates for the population vary from UNHCR’s estimate of 659,000 to the government of Jordan’s census figure of 1.266 million. Based on an average of these figures, the current demand for credit is estimated at approximately 13,000 households, which could amount to USD 13.1 million.

In the future, demand for credit is likely to increase further, as the Developing refugee households become more stable. Based on their interest in borrowing, an additional future market of 10,900 refugee households, demanding an additional USD 10.1 million in credit, can be estimated. The growth of this market and even the borrowing tendencies of the Stable refugee market will be dependent on the overall business and political climate, which may evolve in a variety of directions. As with any market, further segmentation reveals different credit demands between gender, employment type, and age. A sample of these differences can be found in the heat map below.

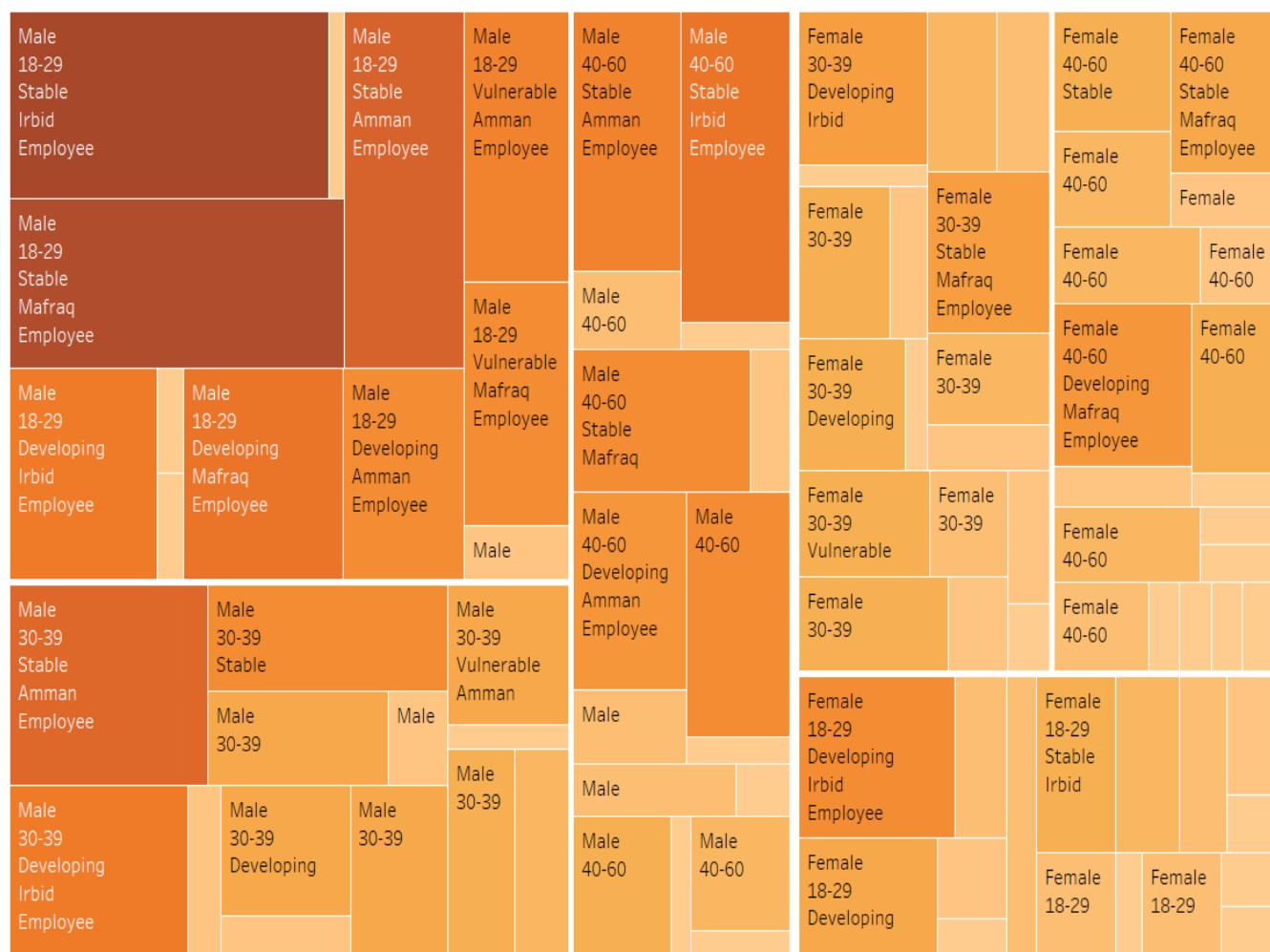


Figure 5: Jordan Market Research – relative size of different Refugee Households type by key characteristic

# POTENTIAL DEMAND FOR CREDIT AMONG SYRIAN REFUGEES (NON-CAMP BASED) IN JORDAN

SEPTEMBER 2017

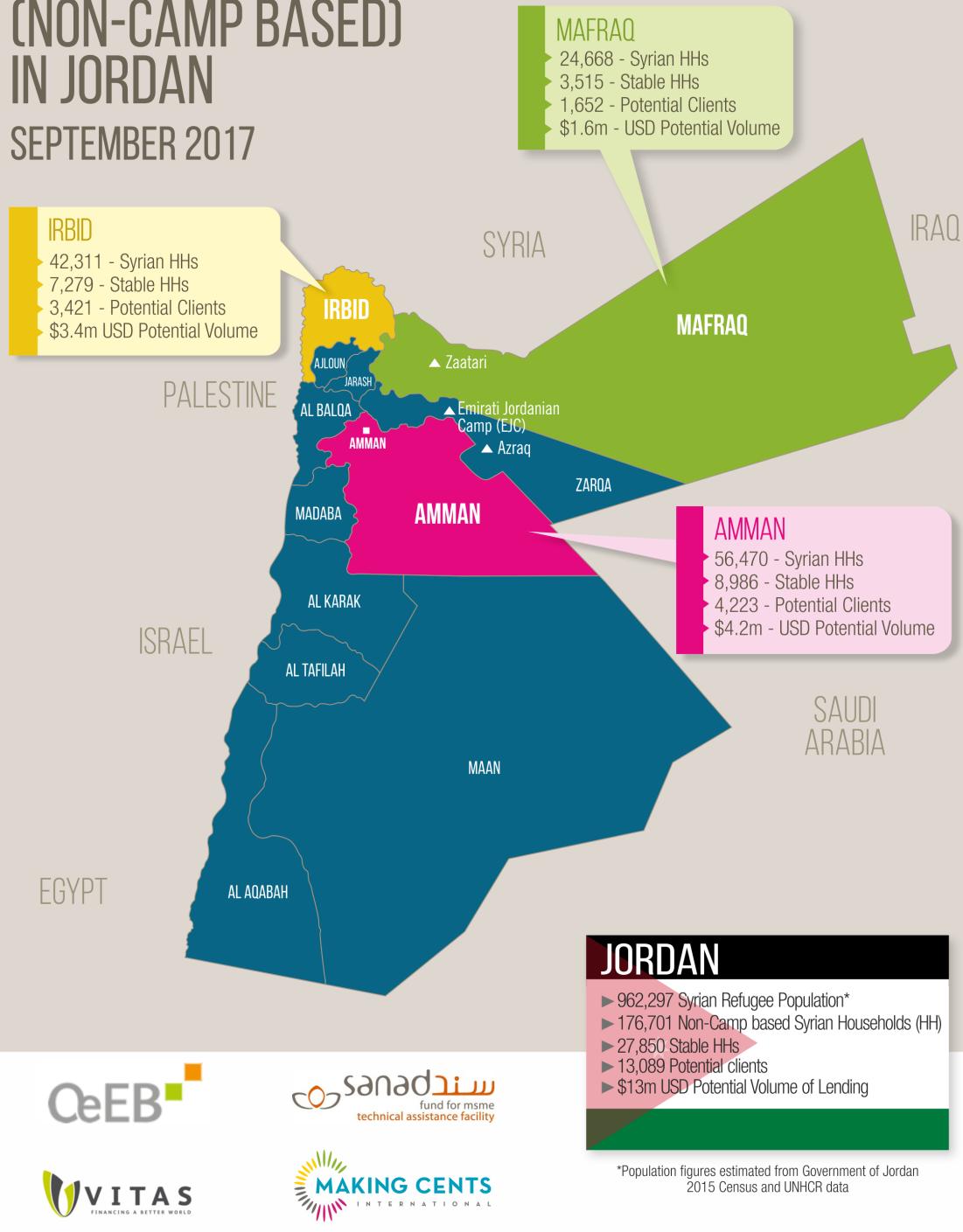


Figure 6: Jordan Market Map

## IMPLICATIONS

**A market exists.** The research indicates that a significant number of refugee households are currently credit-worthy in both countries. They demand, and are likely to be able to use and repay, microcredit loans effectively. The status of refugees is clearer in Jordan than in Lebanon; however, MFIs can enter into contracts with them legally in both countries and thus microfinance institutions should consider them to be an appropriate target market.

**Adjust assessment process.** Considering the short time spent in-country, a longer assessment may be necessary for local staff to understand an individual household's creditworthiness. Staff should be trained to focus on indicators of refugees' eligibility, such as their level of integration, the nature of their employment, and their prior experience. Additional research may be necessary to further confirm refugee identity and ensure that clients are not associated with banned groups.

**Adapt loan products.** "Stable" households demand typical microcredit loans, though the terms should be adapted to meet their particular needs. Group lending or individual loans with smaller-than-typical loan sizes and smaller increases for follow-on loans can be safely delivered. Higher interest rates to cover increased credit risk and to differentiate products from those offered to host populations (see next implication) might also be considered.

**Consider host-client sensitivities.** Refugees are often blamed for taking local jobs and depressing wages. MFIs that choose to serve refugees should carefully communicate to their current clients their rationale for serving refugees, and take precautions to avoid causing competition with current clients' businesses.

**Mitigate flight risk.** Experience has shown that refugees tend to represent a good credit risk when their situation in a host country is stable. However, when stability returns to their home country, the chance of default increases. This risk can be mitigated through guarantee funds, cross-border credit mechanisms, and coordination between providers.

**Support developing households.** The market research indicated that "Developing" households could use technical training, job-matching services, or business-management training to improve their livelihoods. For women, "moral support" and ongoing coaching were also perceived as valuable, especially for those who wanted to begin a business but were wary of taking the risk. Helping these individuals to grow their businesses and stabilize their employment will help create the next segment of the refugee market.

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The full market research reports can be requested from SANAD Technical Assistance Facility at the above address.