

Enhancement of the Business Environment in the Southern Mediterranean (EBSEM)

“Improving Access to Finance for MSMEs in Lebanon”

Beirut, 6 December 2016



A project funded by the European Union



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Session 2: Findings of the mapping study and of the focus groups



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2. EBESM A2F Intervention logic



Unlocking A2F for MSME

Raising awareness and facilitating MSME access to financing

Selecting small-scale action plan and preparing implementation

Fine tuning actionable recommendations and defining work plans

Identifying A2F Instruments - Policy recommendations



3. Mapping: Database



Population

- Compilation of qualitative and quantitative information for 8 countries and consolidation
- 98 public or publicly-financed programmes identified
- Publicly available data on MSME development stage, assets financed, size of financings, tenures and costs

Quality control

- QC has been undertaken at three levels: the A2F advisors, the SBA Coordinators, the EBSM Team Leader
- Focus groups involved both demand and supply side
- Relevant national agencies have been involved



4. Mapping: Scope and limitations



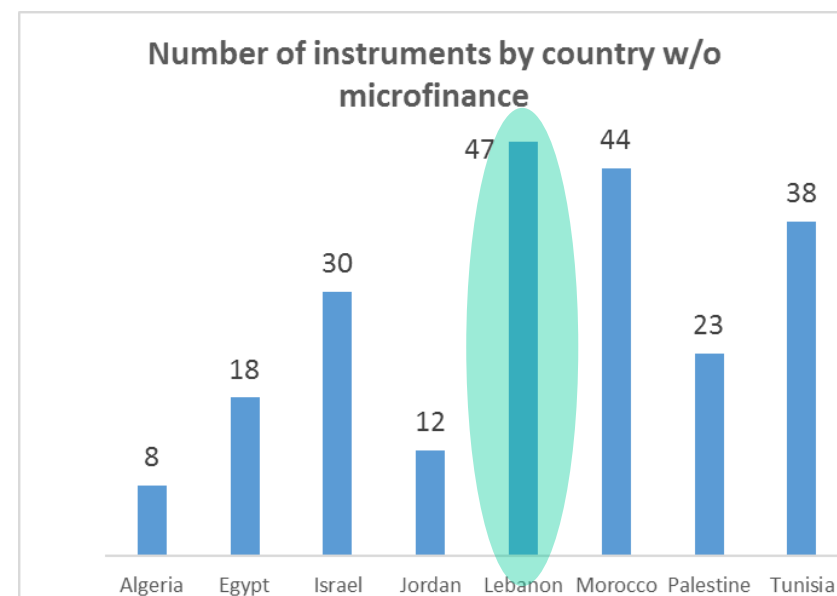
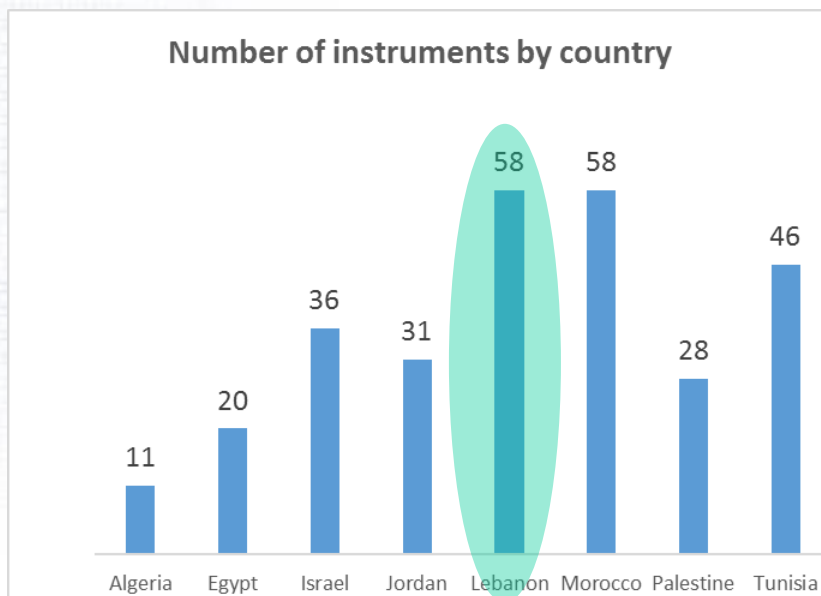
- The mapping concerns only **public or publicly-funded policies and programmes**
- The absence of public programme is not always indicating a gap, as the private sector may address the demand (ex. High tech VCs)
- The mapping tries to be as exhaustive *as possible*, but some small sized initiatives may have passed through the cracks
- Quality and quantity of data publicly available should be improved
- The amounts committed or engaged by instruments are hardly available
- Some information undisclosed: confidentiality issues or varying from one client to another (e.g. interest rates)
- The focus groups provide **qualitative views**



5. Results: instruments



- 98 public programmes identified
- 291 public-sponsored instruments* (232 without microfinance)
- Availability of instruments is contrasted by countries
- Lebanon and Morocco having the densest portfolio of instruments



* Instruments being defined as a window for a specific stage of enterprise development, some windows have several instruments (e.g. a Guarantee Fund managing several instruments).

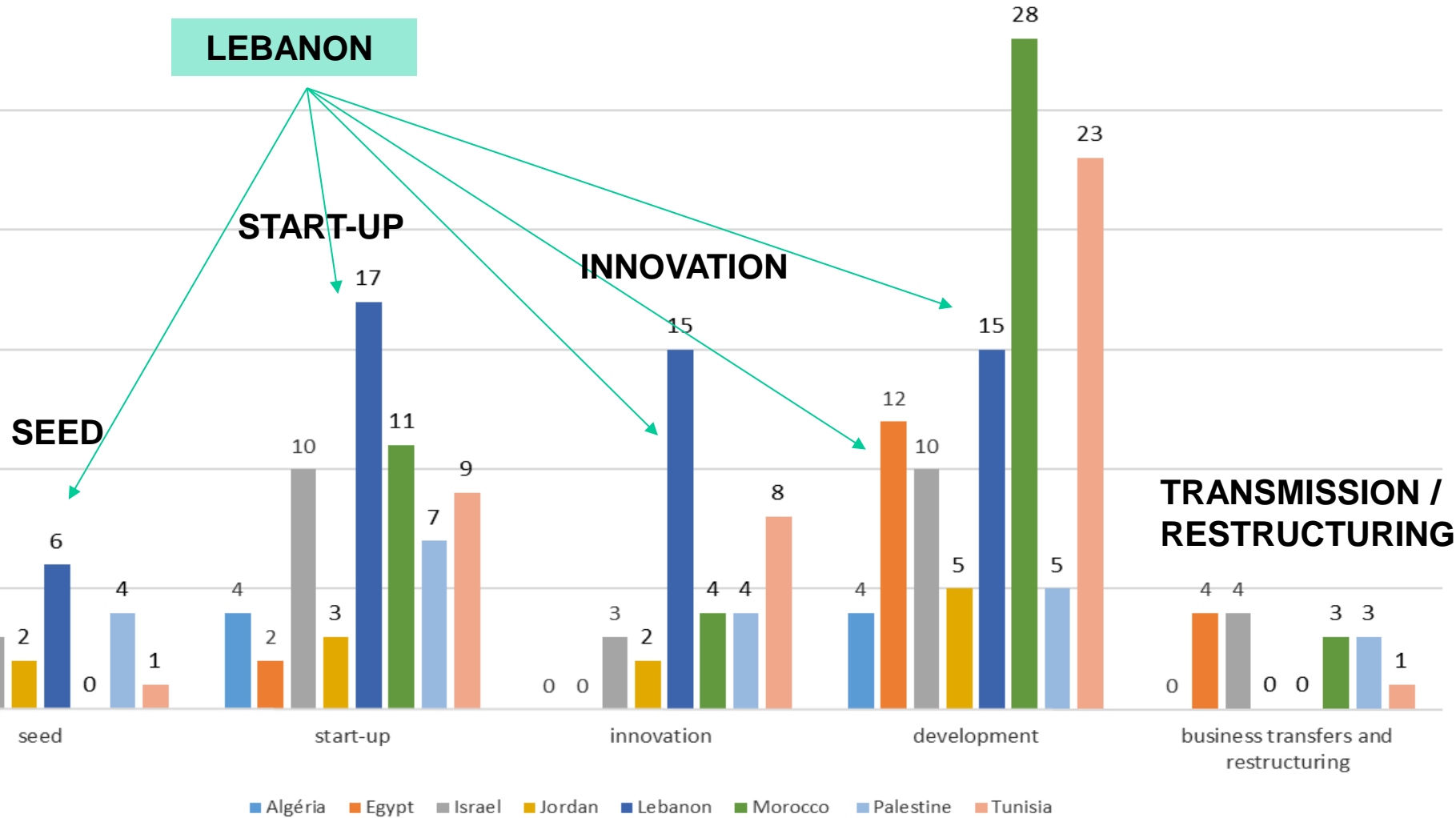


5.1 Distribution by MSME development stages – Without MF (1/2)



Number of financial instruments at each stage of enterprise development (without microfinance)

DEVELOPMENT





5.2 Distribution by MSME development stages (2/2)



Findings

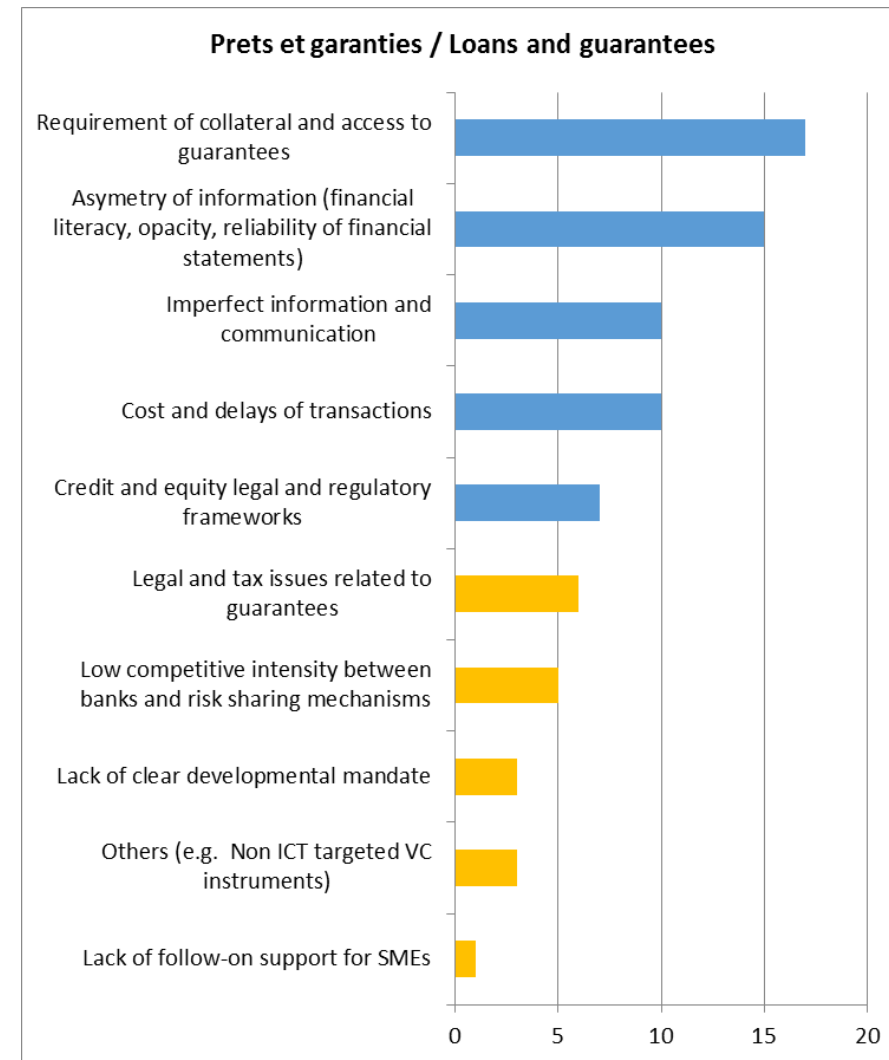
- The **distribution of instruments** by enterprise development stage is similar by country, except in Algeria, which seems to slightly favor the transmission instead of creation
- Concentration of financing instruments on the **business development phase**
- Secondary peak on the **creation phase**
- Weaknesses in terms of **incubation, financial restructuring and transmission**
- Lebanon **outperforms** comparators in terms of diversity of instruments in all categories
- Particularly in the **seed and start-up stages** and for **innovation-driven projects**



5.4 Weaknesses at Regional Level (Loans & Guarantees)



- **Key issues**
 - Collateral requirements
 - Asymmetric information
 - Costs and delays of transactions
 - Lack of communication on existing instruments
 - Inappropriate credit and VC legal and regulatory frameworks
- **Secondary issues**
 - Legal and tax issues related to guarantees
 - Low competitive intensity between FIs
 - Lack of clear development mandate of FIs





5.5 Weaknesses at Regional level (Risk capital)

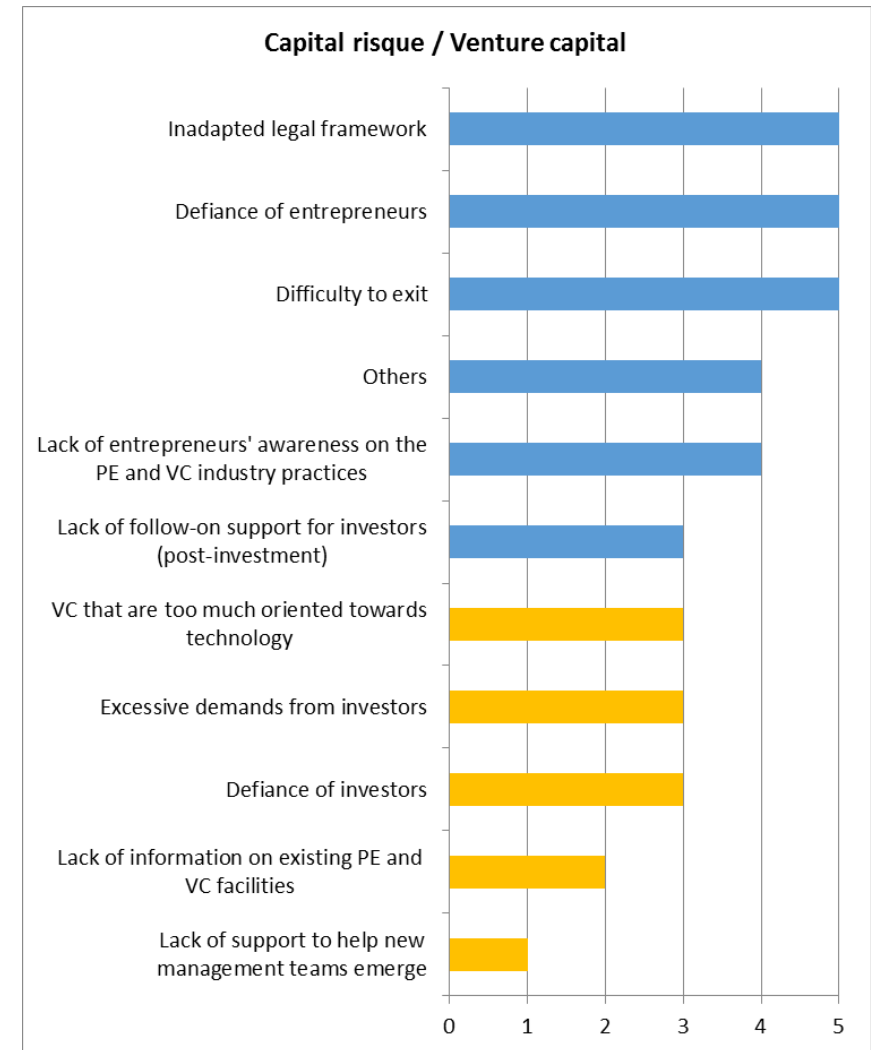


- **Key issues**

- Lack of exit opportunities
- Mistrust of entrepreneurs
- Inappropriate legal framework
- Lack of awareness on PE and VC industry practices

- **Secondary issues**

- Mistrust of investors
- Excessive demands from investors
- VC are too much oriented towards tech.
- Lack of follow-on support for investors
- Lack of information on existing facilities
- Lack of new management team support





5.6 Weaknesses at Regional level (Microfinance)

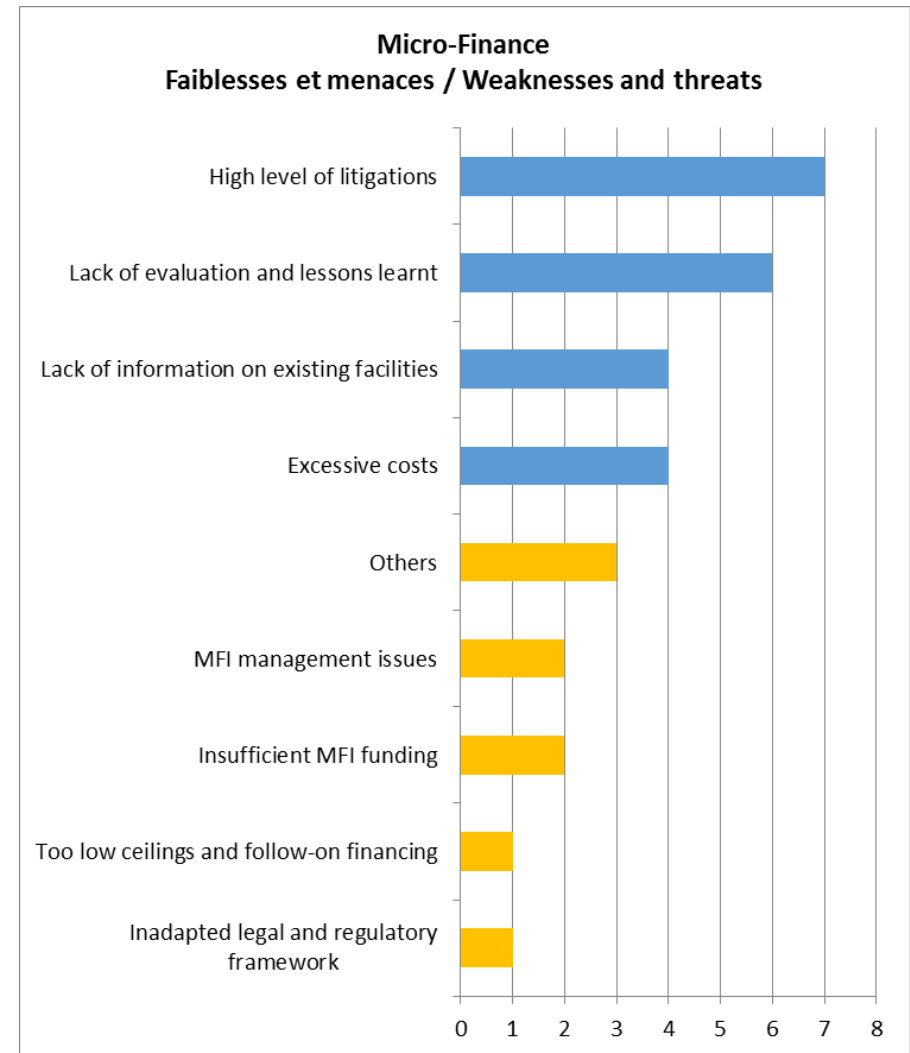


- **Key issues**

- Inappropriate legal and regulatory framework (notably deposit taking)
- Too low ceilings and lack of follow-on financing
- Insufficient low costs MFI funding
- Lack of support to MFI management

- **Secondary issues**

- Excessive costs
- Lack of information on existing facilities
- Lack of evaluation and lessons learnt
- High level of litigations





6. Results: Regulatory issues



- Cumbersome regulations for start-up is across the board
- Lack of unified operational definition of SMEs (focus group in 03/2016)
- Insufficient capacities of the judicial to secure creditors' / minority rights
- Calling for reforms based on dialogue

Obstacles reglementaires	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Cumbersome regulations for start-ups		1		1		1	1	1	5
Standard and operational definition of MSMEs	1	1		1					3
Insufficient technical capacities of the judicial					1			1	2
Lack of global SME strategy	1								1
Lack of incentives for SME equity investors	1								1
Lack of adaptative A2F strategy for SMEs	1								1
Risk sharing Mech. regulations not sophisticated	1								1
No One-Stop-Shop				1					1
Lack of regulatory reform process / Dialogue					1				1
Insufficient protection of creditors rights						1			1
Lack of competition between banks								1	1



7. Results: Demand side



- Insufficient transparency and inadequate governance
- Lack of awareness of available instruments
- Weak linkages between academia and SMEs

Demand	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Lack of financial literacy / bkg requirements underst.	1	1				1	1	1	5
Low transparency of SMEs, weak governance	1				1	1		1	4
Lack of managerial and technical skills, feasibility				1		1	1	1	4
High interest rates		1		1		1		1	4
Lack of credit history				1			1	1	3
Lack of real collateral (land, assets)		1		1				1	3
Insufficient equity base						1		1	2
Risk aversion	1						1		2
Lack of awareness of available instruments		1			1				2
Lack of links between academic R&D and SMEs					1		1		2
High degree of informality							1		1
A lack of partenarial culture of SMEs	1								1
Long process to get a loan decision		1							1
Weak contracts that can hardly be financed		1							1
Lack of efficient infrastructure in the regions				1					1



8. Results: Supply side



- Lack of coordination among finance providers
- Insufficient interest of Fis in MSMEs, notably outside of the IT sector
- Need to further develop non-financial BDS attached to financing

Supply	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Insufficient risk-sharing mechanism notably for start-ups	1			1		1	1	1	5
Perception that the SME segment is not attractive		1		1		1	1		4
Lack of data concerning SMEs		1		1			1	1	4
Insufficient involvement / decentralization of BDS					1	1	1	1	4
Lack of an MSME specialized bank	1							1	2
No cash-flow based lending				1			1		2
No credit scoring system / moveable AR				1			1		2
Lack of specialized SME dpts / trained officers							1	1	2
Lack of coordination between fin. Providers					1				1
Legal constraints associated with SME lending		1							1
Lack of incentives to channel funds towards SMEs	1								1
Lack of national association for innovative finance	1								1
Difficulties to deal with semi-structured firms		1							1
VCFs not serving traditional sectors			1						1
Imperfections of the micro-finance law				1					1
Insufficient liquidities / capital markets								1	1



9. Good Practices Mapping



What does the mapping bring out?

- 27 good practices identified (perception)
- Few practices shared by several countries
- Good practices can be mapped out at 5 levels
 - Policies, regulatory reforms, incentives 6 GPs
 - Knowledge, dialogue, financial infrastructure 6 GPs
 - Financial and risk mitigating instruments 6 GPs
 - Meso-level support 4 GPs
 - Micro-level support 4GPs

10. Results: Good practices



Country synthesis (raw)

Bonnes pratiques par theme / Good practices by then	ALG	EGY	ISR	JOR	LEB	MOR	PAL	TUN	Total
Policies, regulatory reform, incentives									
Exemption of stat. res. or reg. incentives	1	1			1		1	1	5
Interest subsidy for SMEs				1	1				2
Unified definition of SMEs							1		1
Development of a financial inclusion strategy							1		1
Creation of the self-entrepreneur regime						1			1
Creation of growth poles / clusters								1	1
Knowledge / dialogue / infrastructure									
Credit bureau / centrale des risques	1					1			2
Development of a database of available financings							1		1
Developed knowledge on SMEs by sectors						1			1
Dialogue platform for SME issues							1		1
Banking mediation centre						1			1
SME stock exchange		1							1
Financial and risk mitigating instruments									
Government loan guarantee			1	1				1	3
VC ecosystem or VC incentives			1		1				2
Existence of an SME Bank								1	1
Development of leasing cies backed by banks	1								1
Grants for seed finance					1				1
Encouragement of Islamic finance						1			1
Meso-level support									
Creation de reseaux sectoriels / ou en region	1					1	1		2
Accompagnement jeunes promoteurs	1								1
Liaisons avec les gdes entreprises	1								1
Regional focal point for loans and gtees	1								1
Micro-level support									
Linkages between public admin. / MSME suppliers	1								1
Training of bank officers by sector reps	1								1
Encouraging SME to partake in R&D			1						1
Civil service targeted at supporting SMEs			1						1



11. Highlight on Lebanon GPs



- Guarantee and risk sharing schemes through **Kafalat and ESFD** are reducing reliance by commercial banks on tangible collateral
- Subsidised loans and incentive loans (part of **BDL Circular 313**) are incentivising SMEs to take loans
- **Establishing FOF** through BDL Circular 331 is encouraging commercial banks to boost investments in SMEs as equity participation and foster the VC sector
- Special **incentives for R&D projects**, such as low interest rates and tax exemption
- **Environment-friendly loans** are a good initiative to boost environmental awareness among SMEs and individuals (RE & EE).
- Some banks are starting to hire or train credit officers (in specific sectors such as IT) to develop internal **sector expertise**



12. FG Recommendations



Demand Side

- **Financial education** of entrepreneurs / increasing SME awareness
- **Corporate governance** principles for SMEs and VC
- **Training of entrepreneurs** on proper corporate governance
- Training of entrepreneurs on **financial valuation**

Supply Side

- Banks need proper staff/train staff to develop internal **sector expertise**
- Changing lending requirements from collateral- to **cashflow-based**
- Developing **non-financial support services**
- Preventing that housing loans **crowd out SME funding**
- SME guide published by the MOET needs to be publicised and **updated annually**



12. FG Recommendations (cont.)



Regulations / infrastructure

- Harmonizing the 2 existing SME definitions
- Enhancing the efficiency of the judicial system for FIs to be less risk averse
- Establishing credit bureaus
- Spreading out the use of credit scoring for SMEs
- R&D support through tailored programs should be well communicated
- Crop insurance is needed for the agriculture sector
- ***Need to strengthen the FIs linkages (microcredit as a first step, then Kafalat, subsidized loans, incubators/accelerators and finally VC Funds and equity).***



13. How to harness all benefits?



- Vivid entrepreneurial and innovation scene
- Huge amount of liquidity
- Talented financial professionals and robust FIs
- A BDS ecosystem that has a long track record
- Among the most striking GPs in the region
- But...
- The best would be to start giving the floor to those who 'entrepreneurise'!

THANK YOU FOR YOUR ATTENTION