

## **SPURRING ENTREPRENEURSHIP AND MSME GROWTH IN LEBANON**

**“What is needed to blend funding and promotion of MSMEs  
more effectively in Lebanon?”**

**6<sup>TH</sup> December, 2016 – Le Bristol Hotel – Beirut**

### **1. Introduction**

Fostering a dynamic micro, small and medium enterprise (MSME) sector is seen as a priority amongst economic development goals in the Southern Mediterranean region (MED). MSMEs are a primary driver for job creation and inclusive growth. They greatly contribute to economic diversification and social stability and they play an important role in private sector development. MSME development also represents a major and difficult challenge; they typically face more severe constraints to growth than large companies, their lack of critical size resulting in reduced access to markets, skills, and capital.

Lack of access to financing is consistently cited by MSMEs as one of the main barriers to growth. Often considered by commercial banks and financial institutions as risky and costly, MSMEs are largely underserved when it comes to basic financial services. With such limited access to financing, MSME owners struggle to make the investments they need to increase productivity and competitiveness of their business, develop new markets, and create jobs. In particular, in the MED region, current studies clearly indicate that access to finance remains insufficient compared to overall MSMEs needs as in most MED countries, less than 20% of credit financing goes to MSME.

Lebanon employment and growth are acknowledged to rest on the development of its MSME fabric. Over the last two decades, Lebanon has developed overall policies, set up several business development and financial institutions, including microfinance institutions, and developed a number of financial instruments and mechanisms to enhance and more fully support the growth of its MSMEs. Incubators play their role in fostering entrepreneurship and innovation, Kafalat and the Economic and Social Fund for Development (ESFD) offer the most comprehensive guarantee windows in the region ranging from seed money to equity financing. Banque du Liban (BDL) has traditionally played a very active role in shaping incentives and risk mitigation measures to foster start-up, early stage and SME growth. Banks, on their side, remain the backbone of the economy and are genuinely interested in lending more to SMEs and accompanying them in their growth, be it on the domestic or on international markets, notably in the Middle East and North Africa region (MENA), the Gulf, Africa or the EU and the US where Lebanese banks are increasingly active.

As a result, the country compares favourably against the 140 countries reviewed by the 2015-2016 Global Competitiveness Report (GCR) on several indicators underpinning the survey's 8<sup>th</sup> pillar (financial market development): Lebanon ranks 23<sup>rd</sup> in terms of 'soundness of banks', ahead of France (40) or United Kingdom (63), 42<sup>nd</sup> in terms of venture capital availability, thanks notably to the 331 BDL circular; while the 'Availability of financial services' is better than fair (58<sup>th</sup>). These good rankings are the fruit of history: Lebanon has always been a pioneer in many fields and has exported its financial know-how and talents all over the world. The structurally liquid position of the financial sector has also facilitated the development of many financial instruments for MSMEs, some representing breakthroughs in

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the region. They include guarantees, loans, microfinance, seed funding, early stage financing and equity.

Despite these positive appreciations, Lebanon is not so much an exception when it comes to the perception of access to finance from the demand side: beyond political stability, administrative hassles and infrastructure, Access to Finance persistently remains the second most problematic issue for enterprises to develop<sup>1</sup> according to the World Economic Forum Enterprise Survey 2016 of the GCR.

Lebanon is facing serious constraints spotted by the GCR, notably in terms of: 1) legal rights (109<sup>th</sup>) an issue that is critical for creditors; 2) the financing through local equity markets (106<sup>th</sup>), which doesn't facilitate appropriate capitalisation levels; and 3) the quality of overall infrastructure that pushes operating costs up (130<sup>th</sup>). Noticeably, the efficiency of the administration is also spotted by enterprises as the third impediment after infrastructure and political instability.

The contrast between the supply and demand side is vivid. Keeping apart structural challenges that need to be addressed at the political, legal or overall regulatory levels, one may candidly ask oneself the following question: 'Why such an amount of liquidity, such a wide range of financial instruments, such financial sophistication and availability of talents, don't translate into a higher level of MSME lending and the full satisfaction of entrepreneurs?' and... **'What more could be done – in the prevailing context – to improve the matching of the demand and supply sides of MSME-finance?'**

## 2. Seminar Context

In the framework of the "Enhancement of the Business Environment in the Southern Mediterranean" project (henceforth called the EBESM project), a mapping study to identify existing public programmes, operational financing mechanisms and instruments supporting the development of MSMEs at country level, was carried out in collaboration with its MED partners, namely, Algeria, Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia. The study, as well, assessed public policies, identified best practices at country level and provided policy recommendations as regards ways and means to enhance the provision of MSME financing from a demand, supply and intermediation perspectives.<sup>2</sup> This project was conducted in Lebanon with the support of the Ministry of Industry.

A workshop on **"Spurring entrepreneurship and MSMEs Growth in Lebanon; What is needed to blend funding and promotion of MSMEs more effectively in Lebanon"** will be held on the **6<sup>th</sup> of December 2016**. During this one-day workshop, the results and recommendations of the mapping will be presented and discussed with the representatives of the financial and entrepreneurs' communities as well as Government officials in Lebanon.

The regional perspective will allow exchanging experience, capitalising on good practices, and exploring ways to make the ecosystem as a whole more conducive for the development of MSMEs, considered individually or from the perspective of the value chains or clusters they belong to.

<sup>1</sup> World Economic Forum: 2015-2016 Competitiveness Report

<sup>2</sup> The study is available on the EBESM website : <http://www.ebesm.eu/posts/access-to-finance-stimulating-msme-growth-in-the-med-region>

### 3. Seminar Objectives

This one-day workshop will bring together around 50 participants, representing a mix of high-level public authorities, financial institutions specialists, entrepreneurs, business development support services, and academia, including the persons who participated to the focus groups organised while drafting the national report on Access to Finance in Beirut.

The workshop aims to:

- Inform national stakeholders of available financing schemes, programmes and instruments in Lebanon and discuss policy recommendations arising from the study;
- Facilitate the exchange of good practices (regional, European and international) on public policies, mechanisms and instruments on key topics relevant or of particular interest for Lebanon (e.g. guarantee schemes, risk sharing mechanisms, venture capital, etc.);
- Identify and discuss quick-fixes in the form of concrete and feasible actions that could increase the role of the financial sector as a growth driver for entrepreneurs and MSMEs; Key success factors to undertaking and implementing such actions will also be discussed by the participants, paving the way to action plans that could be developed as a result of the workshop.

### 4. Seminar Organisation

This one-day seminar will be organised in five main sessions.

**Session 1: Key findings of the assessment of Lebanese and MED countries' policies to facilitate access to finance for MSMEs** will present the key findings, results and recommendations of the mapping study carried out at country and regional level.

**Session 2: Real life testimonials: what are the challenges and key issues faced by entrepreneurs and SMEs?** Through four real cases, this session will allow better grasping obstacles faced by entrepreneurs in raising finance and their expectations to improve Access to Finance.

**Session 3: The response of the financial ecosystem** will be organised in the form of a debate with representatives of financial institutions addressing the points raised during session 2 and spotting the strength and weaknesses of the financial ecosystem with respect to MSME growth financing. Experiences from neighbouring countries will be shared during this session.

**Session 4: Non-financial support services to early stage and SMEs** will focus on the support provided by incubators/BSOs to start-ups and accelerator for SMEs in accessing finance and their concrete experience of interacting with the financial sector.

**Session 5: Can business support organisations and financial institutions better interact with each other to accompany SME growth and support value chains?** This session will allow sharing good practices on how to support the MSME value chains. The presentations will be followed by a debate on what potential instruments or measures are needed to support entrepreneurs throughout the value chains.

The workshop will close with a discussion on the **way forward** to enhance the MSMEs ecosystem in Lebanon.