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# **From Vision To Action: An Emerging Good Practice in Central Banking**

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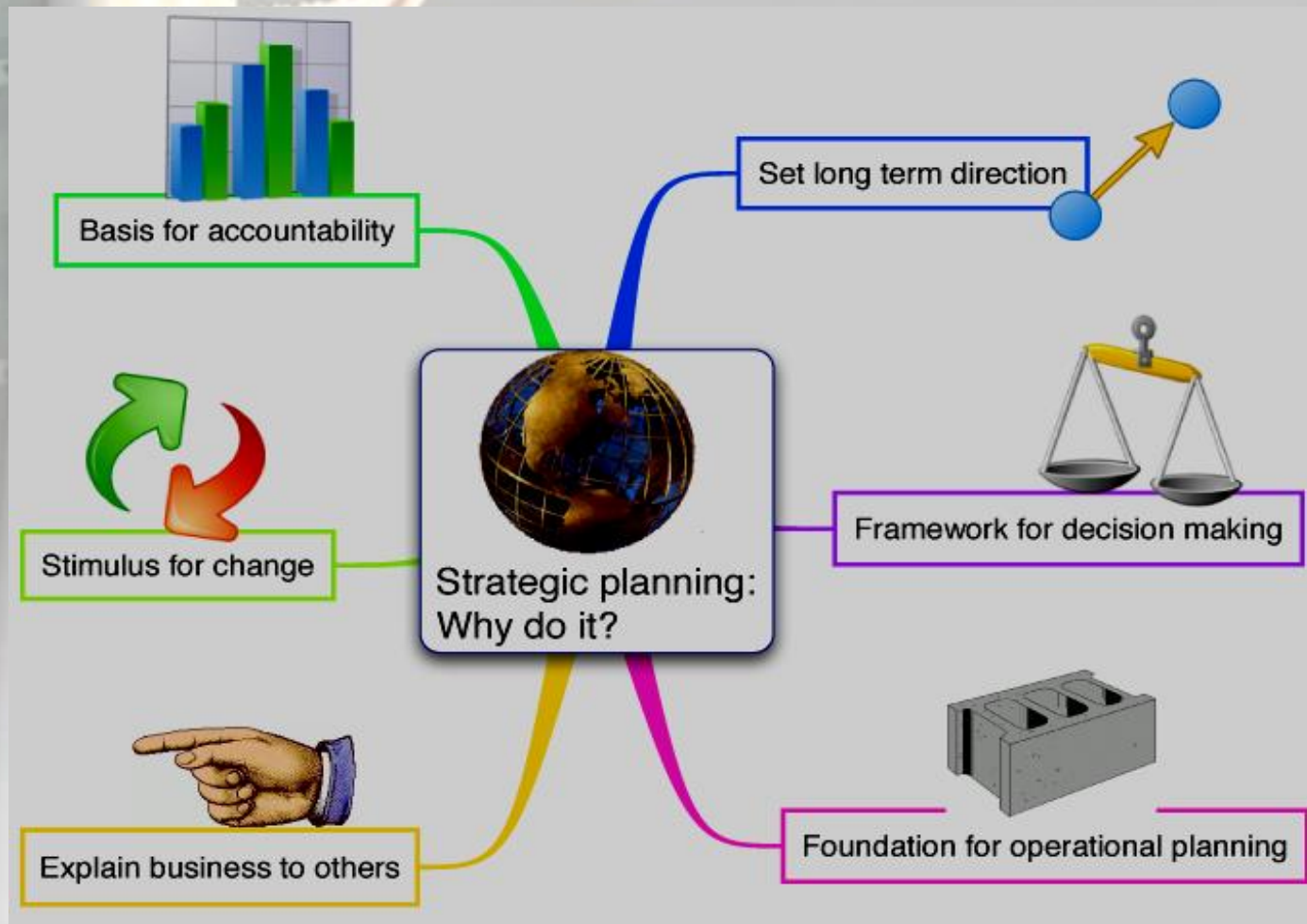
**Raed Charafeddine  
First Vice Governor  
Central Bank of Lebanon**

**April 6, 2011  
Central Banking Events  
Cumberland Lodge, Windsor**

# Content

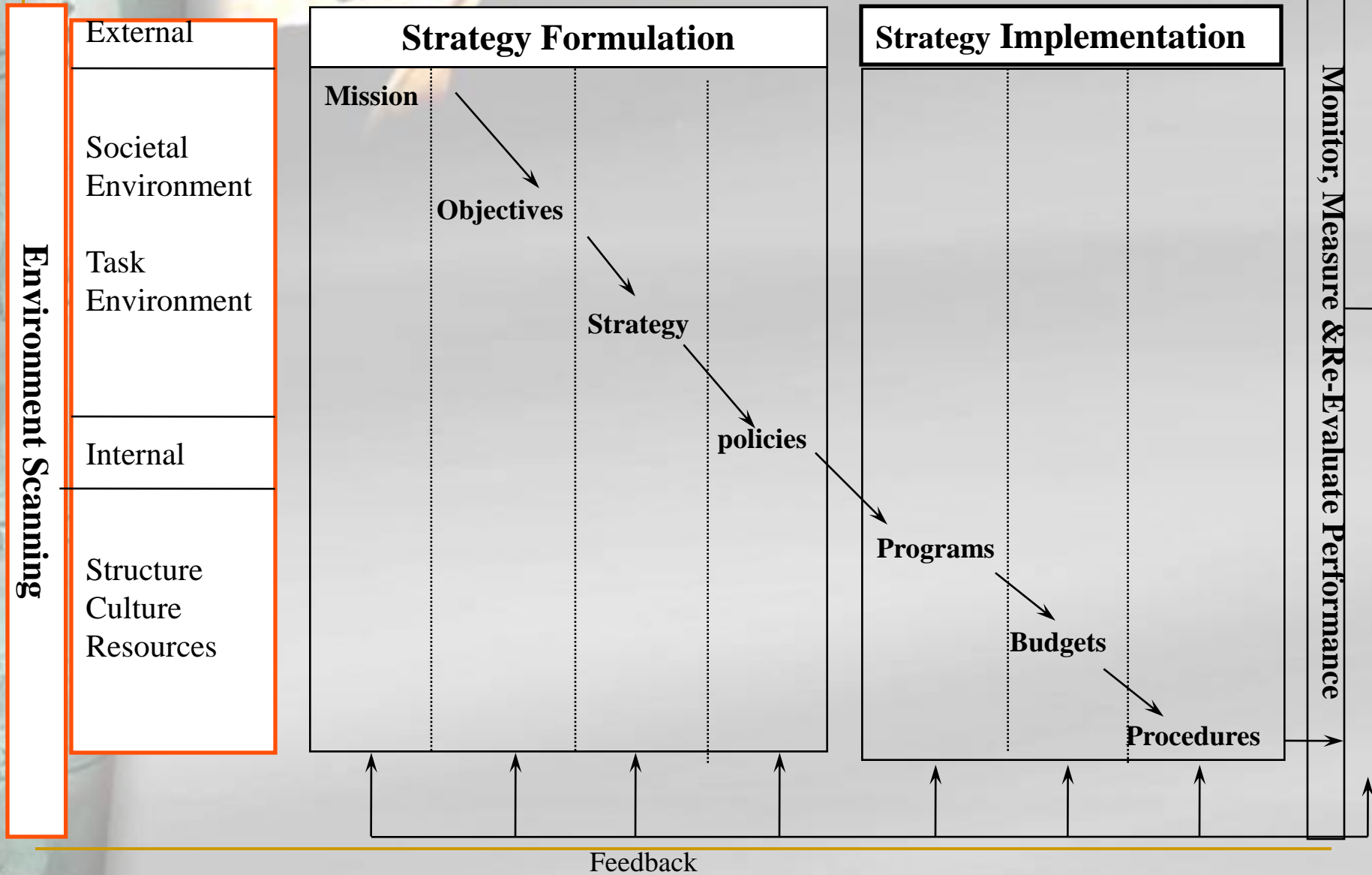


- I. Strategic Management Model.
- II. The Balanced Score Card - An effective tool for implementing strategies.
- III. Strategic Management For Central Banks – A sample.
- IV. Strategic Management at Banque du Liban.



*Source: <http://novamind/planning/strategic-planning.php>*

# Strategic Management Model

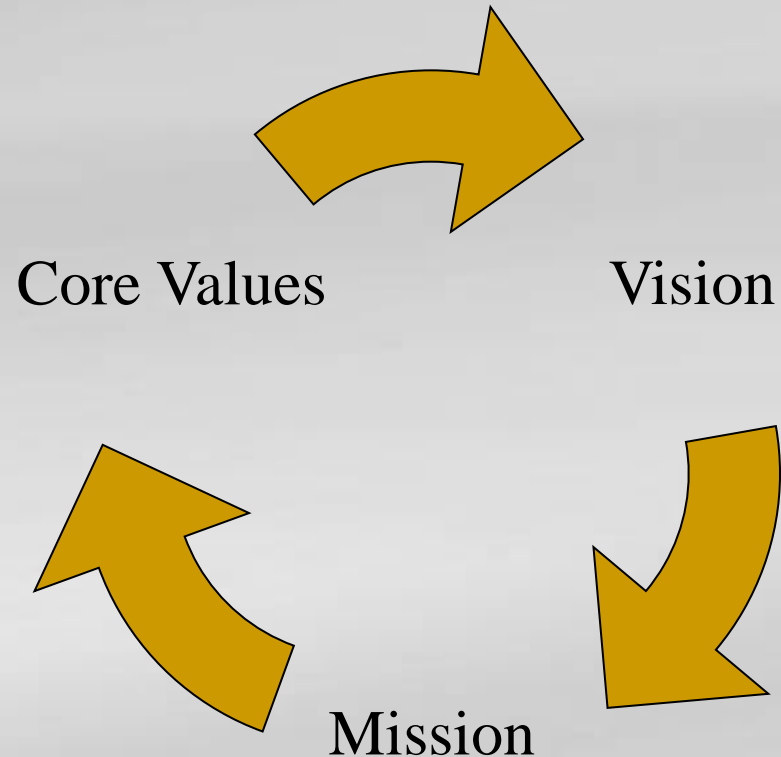


# 1. Vision, Mission & Values

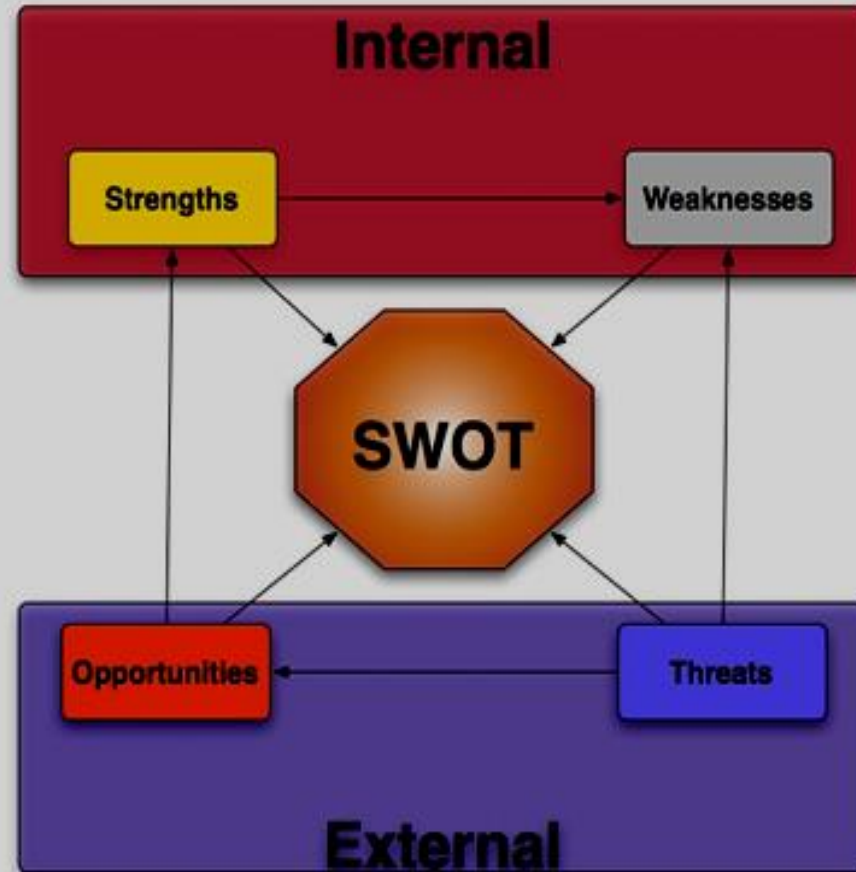


- The **Vision** represents:
  - **Core values** to which the organization is committed
  - **Core purpose** of the organization
  - **Visionary goals** that the organization will pursue to fulfill its mission

- **Mission Statement** sets the answers to the following questions :
  - **What** we do?
  - For **Whom** we do it?
  - **How** we do it?



# SWOT Analysis



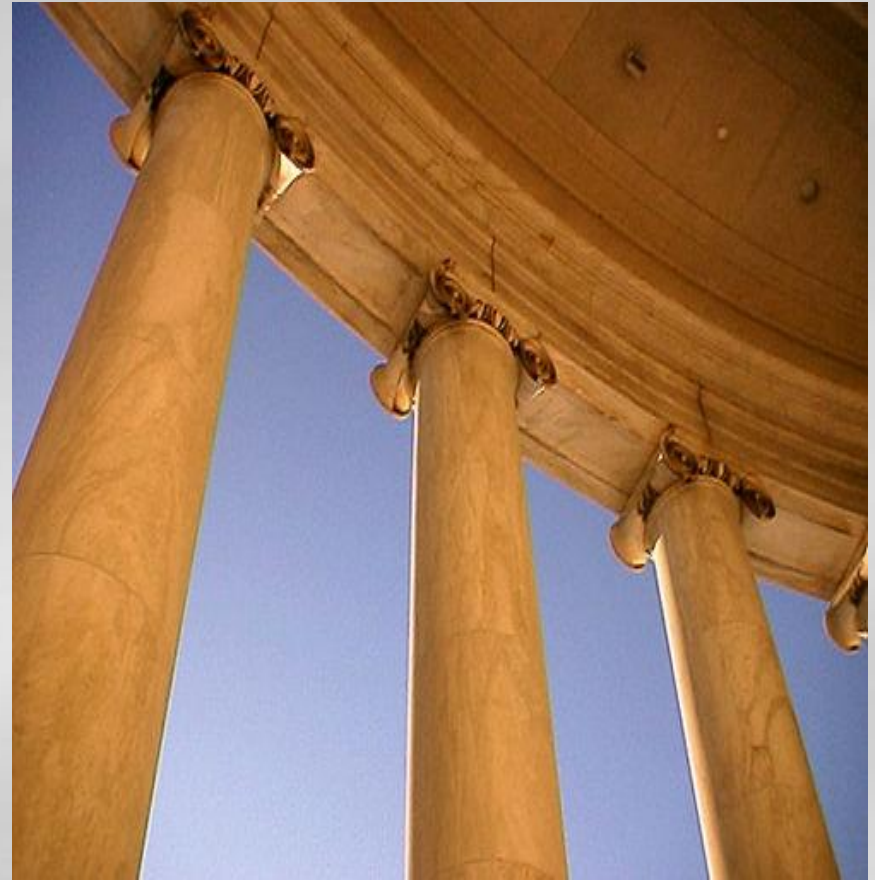
Source: <http://www.hrmadvice.com/assets/images/swotanalysis.jpg>



# Defining Strategic Pillars



- Based on SWOT analysis;
- Major strategic areas needing significant change or growth are set;
- Strategic areas do not represent all activities of the organization;
- Strategic areas are carefully selected with structured process.



# Setting Goals



## Setting Goals for Each Strategic Pillar

- Each Strategic Pillar has its own goals;
- Goals are based on knowledge, interest and impact;
- Goals are fairly broad.



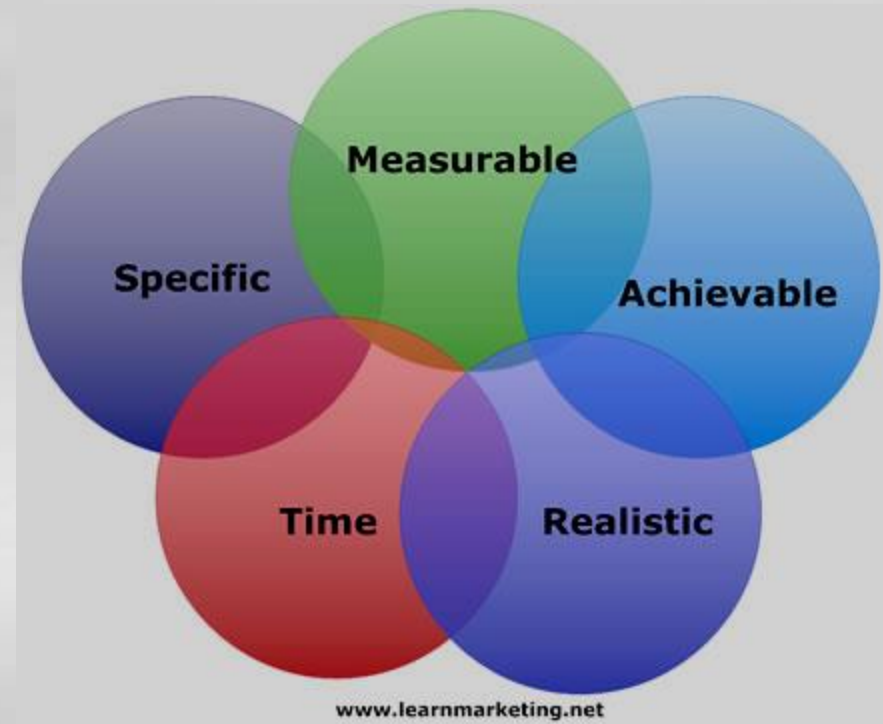
# Setting Objectives



## Setting Objectives for each Goal

Objectives should be  
**SMART:**

- Specific
- Measurable
- Achievable
- Relevant
- Timely



# Setting Action Steps



## Defining WHO will do WHAT, WHEN and HOW

- Specific, “to-do” steps
- Timeline associated with each step
- Identify who will be responsible (name, position, department)
- Specify resources required to complete



# 3. Implementation

The process of putting strategies and policies into action through the development of:

- Programs
- Budgets
- Procedures

# Implementation



- Communication is key to good implementation;
- Define tasks and where implementers fit in terms of these tasks;
- Build accountability into the action plan;
- Set Reporting requirements;
- Communicate progress of action plan to the Strategic Planning Committee.

# 4. Monitor, Measure, Re-evaluate



- Schedule periodic reviews of plan;
- Measure objectives against actual performance to determine progress;
- Establish vehicles for communication; and
- Revisit and revise, if necessary.

## II- The Balanced Score Card: An Effective Tool for Implementing Strategies



- With the BSC, Organizations measure their performance across four major perspectives.
- Without measurement it is very easy to focus and drive progress along only one perspective and ignore the rest.





# The Balanced Scorecard's Four Perspectives



# The Logic of the Balanced Scorecard Strategic Planning



# Closing the Gap



## Benefits of the Balanced Scorecard

- It translates strategy into performance measures and targets.
- It helps break down corporate-wide measures so that local managers and employees can see what they need to do to improve organizational effectiveness.
- It provides a comprehensive view that overturns the traditional idea of the organization as a collection of isolated, independent functions and departments.

*Source: Economist.com (December 26<sup>th</sup>, 2008)*



# **III. A Sample Strategic Plan of A GCC Central Bank 2008-2010**



# Vision, Mission & Values



## ■ ***Vision***

“Leadership and excellence in financial and economic stability.”

## ■ ***Mission***

“Through the application of effective governance, we maintain a sound banking sector, support the financial system and adopt an effective monetary policy which ensures stable economic growth, lower unemployment and low inflation.”

## ■ ***Values***

- Transparency
- Professionalism
- Collaboration
- Participation
- Trustworthiness



# Environment Analysis



Environment Analysis	
Internal Strengths	Internal Weaknesses
Financial and functional independence	Insufficient specialized staff Weak communication between organizational units
Specialized national and expatriate staff	Weak motivation and rewarding system
Work in accordance with best international standards and practices	Weakness in enablement and delegation of authorities
Distinguished financial performance	Weak coordination with federal ministries and institutions in related matters
Lengthy experience in Central Banking	Lack of expertise in strategic planning

# Environment Analysis



External Opportunities	External Challenges
Strong national economy	Regional geopolitical instability
Higher oil prices	Fluctuations in the exchange rates of major currencies
Political stability	Abundance of International liquidity
Distinguished international relations	Disparity in development policies among the country
Strengthening private sector	Current laws are not responsive to economic changes (bankruptcy laws ..
Pro-foreign investment atmosphere	Lack of courts specialised in the area of business and of resolving commercial disputes
Presence of financial institutions with vast international and regional experience	Unavailability of the economic statistics required for proper diagnosis of the economic situation in the country
Increased collaboration and coordination between local and federal financial establishments	Outward flow of specialized national staff
	An education sector weak in producing qualified graduates

# Formulation of the Strategic Plan



The strategic plan is reached based on the “Vision” , “Mission” , “Values” , and according to the environmental analysis.

# Table of Goals & Strategic Objectives



<b>Table of Goals &amp; Strategic Objectives</b>			
<b>GOAL</b>		<b>STRATEGIC OBJECTIVE</b>	
1	Implement an effective monetary policy that assists in achieving economic stability	1.1	Strengthen monetary policy infrastructure to implement an effective monetary policy
2	Maintain the strength and stability of the banking and financial system	2.1	Develop laws and regulations relating to activities of banks and other financial institution
		2.2	Establish appropriate infrastructure to enable the Central Bank to assess and analyze systemic risks inherent in the financial system including reputation risk
3	Develop banking operations to serve the banking and financial system	3.1	Develop common payment systems to serve financial institutions
4	Improve Central Bank capabilities	4.1	Develop human resources and promote cooperation and communication among staff
		4.2	Develop cooperation with national, regional and international organizations
		4.3	Achieve institutional excellence

# Strategic Objectives



Strategic Objective (1)	Performance Indicator				
	Measure	Numerical Target			
		Current Level	2008	2009	2010
Strengthen money policy infrastructure to implement an effective monetary policy	Set a cap for the rate of growth of broad money (M2)	23%	20%	15%	15%
Strategic Objective (2)					
Develop laws and regulations relating to activities of banks and other financial institutions	The ratio of completion in the implementation of Basle 25 Core Principles relating to effective banking supervision, to which the Central Bank is committed	60%	70%	80%	100%

# Strategic Objectives

Strategic Objective (3)	Performance Indicator				
	Measure	Numerical Target			
		Current	2008	2009	2010
Establish appropriate infrastructure to enable the Central Bank to assess and analyze systemic risks inherent in the financial system	The ratio of bad and doubtful loans to total loans extended by banks	6.50%	6.50%	6.00%	6.00%
	The percentage of reduction in the cases adjudged to be crimes of money laundering and terrorist financing		10%	15%	20%
Strategic Objective (4)					
Develop common payment systems to serve financial institutions	The ratio of use of switch in ATMs (to overall total)	35%	40%	45%	50%
	The rate of reduction in check collection time	24 hours	50%	80%	80%
	The ratio of banks subscribing to mobile phone payment system	0%	20%	50%	70%



# Strategic Objectives



Strategic Objective (5)	Performance Indicator				
	Measure	Numerical Target			
		Current Level	2008	2009	2010
Develop human resources and promote cooperation and communication among staff	The ratio of employees who attended training courses relevant to their respective job descriptions.	54%	70%	80%	90%
	Rate of job satisfaction	NA	70%	70%	70%
	Rate of Nationals according to various job categories:				
	Leadership	96%	96%	96%	96%
	Supervisory	98%	98%	98%	98%
	Specialized and technical	28.50%	33.50%	38.50%	43.50%
	Executive	71%	75%	78%	80%
<b>Strategic Objective (6)</b>					
Develop cooperation with national, regional and international organizations	The rate of increase in the number of memorandums of understanding concluded with national, regional and international organizations	Sevel MOUs	20%	30%	30%

# Strategic Objectives



Strategic Objective (7)	Performance Indicator				
	Measure	Numerical Target			
		Current Level	2008	2009	2010
Achieve institutional excellence	Rate of stakeholder satisfaction	NA	70%	70%	70%
	Rate of achieved revenues as per approved budget	100%	100%	100%	100%
	Rate of efficient and effective reduction in expenditure on programs/initiatives from planned budget	-	3%	3%	3%
	Rate of readiness of electronic services	-	50%	70%	90%
	Rate of completion of readiness of electronic services	-	40%	60%	80%
	Rate of reduction in service rendering time	-	30%	40%	50%
	Rate of reduction in job rotation:				
	Citizen	20%	20%	20%	20%
Expatriate	20%	20%	20%	20%	

# IV. Strategic Management: Banque du Liban (Central Bank of Lebanon)



# Vision



BDL aspires to be one of the leading monetary institutions which upholds international best practices in promoting monetary and financial stability in a way to ensure sustainable social and economic growth.

# Mission



By virtue of the Code of money and Credit of 1963, the BDL's general mission is to “*safeguard the national currency in order to ensure the basis for sustained social and economic growth.*”

This mission specifically consists of :

1. Safeguarding monetary and economic stability;
2. Ensuring the soundness of the banking sector;
3. Developing money and capital markets;
4. Regulating and developing the payment, clearing and settlement systems as well as electronic financial operations.

# Core Values – BDL



- Accountability
- Equitability
- Integrity
- Social Responsibility
- Teamwork



# Building a Comprehensive Legal and Regulatory Framework Conducive to a Successful Strategic Management



- Lebanon is a clear example of a small and open economy that is unique in many aspects and can hold interesting lessons for other countries.
- Lebanon's prudent financial model, born out of the hard experience of countless internal and external crises, has reinforced the country's resilience and provided long-term financial stability in the system.

# Building a Comprehensive Legal and Regulatory Framework Conducive to a Successful Strategic Planning (Contd.)



- With the end of the civil war in early 1990s, Banque du Liban has embarked on an ambitious reform plan to modernize the banking and financial sectors.
- Many laws and circulars have been issued throughout the years to reinforce the BDL's role in undertaking this task.

# 1. Monetary Policy



## ■ Monetary Policy Goals

- Exchange Rate Stability
- Control of Inflation
- Economic Growth and Social Stability

# On the Monetary Policy Level (Contd.)



## ■ Monetary Policy Tools

- Nominal exchange rate anchor to the US Dollar;
- Foreign exchange rate managed within a narrow intervention margin;
- Swap operations on LBP Treasury Bills;
- Pro rata system in the subscription to Treasury Bills;
- Liquidity managed in a way to alleviate pressures on the exchange rate and to avoid liquidity crises;

# On the Monetary Policy Level (Contd.)



## ■ Monetary Policy Tools

- Certificates of Deposits issued in foreign currencies in order to boost the Central Bank's foreign reserves and attract foreign capital;
- Certificates of Deposits issued in LBP in order to manage liquidity in LBP and to keep inflation under control;
- Interest rate levels managed within market trends in a way to encourage capital inflows by securing an appropriate return on investment.

## 2. Banking Sector



In reinforcing **prudent regulation and supervision** in the Lebanese banking sector, BDL has resorted to the following:

- Regulating banks' dealings with derivatives and structured products;
- Regulating the on and off-balance sheet operations;
- Requiring banks to avoid excessive leveraging, to maintain high levels of liquidity and to build adequate provisions against doubtful operations;



# On the Banking Sector Level (Contd.)



- Bringing banking practices in line with international standards by laying down ground rules for good governance, risk management, transparency and capitalization requirements;
- Reinforcing anti-money laundering measures;
- Solving the problem of non-performing loans by allowing creditors to reschedule their loans over a 10-year period;

# On the Banking Sector Level (Contd.)



- Imposing academic, technical and ethical requirements for staff in key banking and financial positions;
- Promoting the export of banking services by supporting the regional expansion of leading Lebanese banks;
- Encouraging weak banks to merge with bigger and sounder ones in order to avoid bankruptcies or losses to depositors.

### 3. Stability in the Financial Market



- BDL has regulated the establishment and management of all financial market participants, e.g. Financial Institutions, Brokerage Firms, Collective Investment Schemes, Exchange Houses.
- BDL has set a clear separation between the role of commercial banks and investment banks, which has protected both banks and customers' interests.

## 4. In Securing Efficient Payment System and Fostering e-services



- Compliance with international norms and standards in developing the domestic payment systems;
- Promoting safety and improving the efficiency of the multi-currency payment system in Lebanon;
- Providing a secure platform for electronic banking and e-services for Lebanon's financial sector.

# BDL's Strategic Pillars



- BDL has currently **four** main strategic pillars.
- Each pillar consists of one or more objectives that are being periodically reviewed due to changes occurring in internal or external conditions.

# BDL's Strategic Pillars:



## 1- Monetary Stability (Contd.)

### ■ **Boosting the Central Bank's Foreign Assets**

- BDL's strategy of preserving a high stock of assets in foreign currencies as a precautionary measure proved to be essential in dealing with any crisis that may hit the economy;
- BDL is currently holding a record level of around USD 31 Billion in foreign currency assets (excluding gold), as compared to around USD Three Billion in 1993;
- With gold reserves approaching USD 13 Billion at current prices, Lebanon is the second-largest holder of gold in the MENA region (next to KSA).



# BDL's Strategic Pillars:



## 1- Monetary Stability (Contd.)

### ■ Liquidity Management

Managing the excessive liquidity in Lebanese

Pounds in a way to avoid inflation and speculation:

- BDL had resorted to issuing Certificates of Deposits in Lebanese pounds in order to absorb liquidity;
- BDL had also issued circulars that stimulate bank lending to specific sectors in order to direct part of the liquidity towards investments with high economic and social benefits.

# BDL's Strategic Pillars:



## 1- Monetary Stability (Contd.)

### ■ Low Interest rates

Maintaining the current low structure of interest rates which have reached a well balanced level paving the way for sustained growth and productive investments.

- Low interest rates help in reducing the cost of public debt in Lebanon.

# BDL's Strategic Pillars:



## 2- A Sound Banking Sector

- The Lebanese banking sector, which plays a pivotal role in the economy, can be best described as financially sound, profitable and well-capitalized.
- It has been able to withstand various internal and external crises, most notably the recent global financial crisis that has shaken many banking systems in the world.

# BDL's Strategic Pillars:



## 2- A Sound Banking Sector (Contd.)

- Total bank deposits have increased from USD 7.1 Billion in 1992 to USD 112 Billion in January 2011 (around three times Lebanon's GDP);
- Bank deposits are the main driving force behind the Lebanese banking activity;
- Lebanon attracted the largest share of bank deposits in the MENA region in 2010.

# BDL's Strategic Pillars:



## 2- A Sound Banking Sector (Contd.)

- **Abiding by international standards in capitalization requirements**
  - The average capital adequacy ratio of banks in Lebanon has exceeded 12% with banks fully abiding by Basle II standards;
  - Lebanese banks have a high level of liquidity and the structure and quality of their capital is generally in line with the outlook of the Basle III standards;
  - BDL is also planning to set a target for banks' top-quality capital reserves that is bound to be higher than the level mandated in Basle III;

# BDL's Strategic Pillars:



## 2- A Sound Banking Sector (Contd.)

- **Creating incentives in order to secure adequate financing in the economy**
  - In 2009 and 2010, BDL has issued circulars aiming at encouraging lending in Lebanese pounds at a lower cost, by setting new exemptions from mandatory reserve requirements;
  - Such credit incentives include loans to productive sectors (e.g. agriculture, industry, tourism, information technology...), housing loans, higher-education loans and environmentally-friendly projects such as renewable energy, waste management, waste water treatment and recycling;
  - In 2010, credit to the private sector has posted a growth rate of around 22% which is the highest in the region. It has reached a historical level of USD 36 Billion as compared to USD 2.9 Billion in 1992.



# BDL's Strategic Pillars:



## 3- Prudent Regulatory and Supervisory System

- **Emphasizing the clear distinction between the role of commercial banks and investment banks.** By mid 2011, investment banks should be in line with BDL regulations in regard to their investments, shares and loans.

# BDL's Strategic Pillars:



## 3- Prudent Regulatory and Supervisory System (Contd.)

### ■ Ensuring Stability in the Financial System

BDL has established the “Financial Stability Committee” which monitors the resilience of the financial system by performing micro and macro Stress Testing and initiates Early Warning System to signal any vulnerabilities in the financial system.

# BDL's Strategic Pillars:



## 3- Prudent Regulatory and Supervisory System (Contd.)

- **Strengthening good governance, risk management and transparency requirements.**  
In 2009, BDL has established a unit for promoting corporate governance principles and sound management practices in the Lebanese financial sector.

# BDL's Strategic Pillars:



## 4- BDL Internal Reform Programs

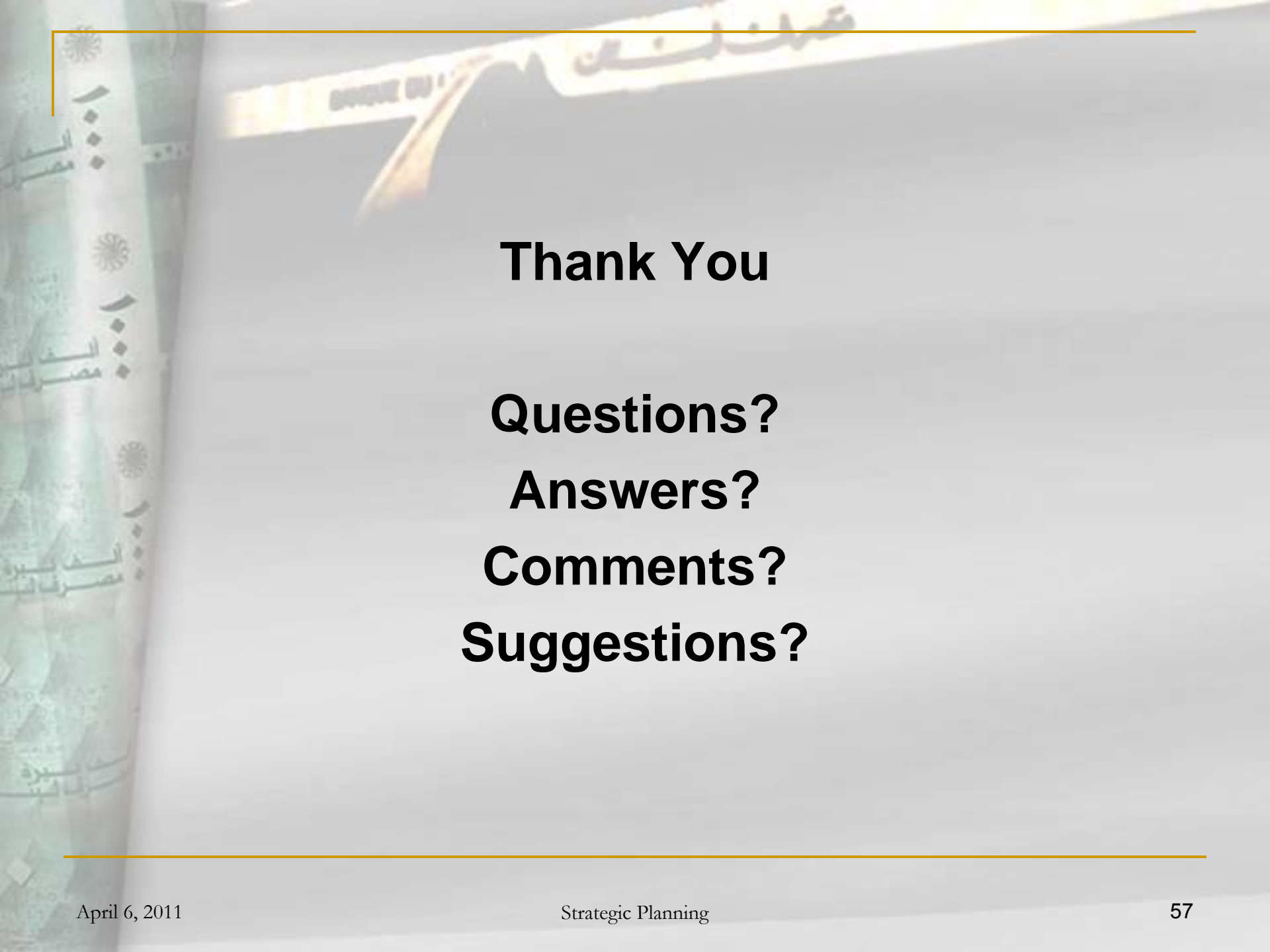
- Continuing the programs of reforming and modernizing in order to improve BDL's performance.

# BDL's Strategic Pillars:



## 4- BDL Internal Reform Programs (Contd.)

- In January 2010, Lebanon started implementing the IBAN (International Bank Account Number) system in order to facilitate automatic processing of money transfers;
- In April 2010, BDL has established a new department aimed at ensuring secure and efficient domestic payment and settlement systems.



**Thank You**

**Questions?**

**Answers?**

**Comments?**

**Suggestions?**