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BANQUE DU LIBAN

The Afro-Lebanese Banking as a Catalyst for Development

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I. Introduction

It is such a distinguished opportunity to participate in the prominent LDE conference that has proven high commitment to bridging distances between the Lebanese Diaspora and their homeland. What makes this participation even more special, is its venue, i.e. the African continent that has stretched its generous resourceful land to the Lebanese Diaspora, for over hundred a century now, for the sake of the development of both, Africa and Lebanon. Moreover, holding this event in South Africa poses a genuine flavor since it represents a symbol for human integration and brotherhood against all signs of apartheid and exploitation, the avowed enemies of real development.

A report published by the institution of Global Financial Integrity and other academic institutions, titled "Financial Flows and Tax Havens", discusses the phenomenon of "aid in reverse: how poor countries develop rich countries". The report has exposed some fascinating researched data showing that developing countries send trillions of dollars more to the west than the other way around, contrary to what is conventionally implied by western aid developmental initiatives.[i] According to this report, "in 2012, developing countries received a total of $1.3tn from developed countries. But that same year some $3.3tn flowed out of them. In other words, developing countries sent $2tn more to the rest of the world than they have received. If we look at all years since 1980, these net outflows add up to a total of $16.3tn – that's how much money has been drained out of the global south over the past few decades."[ii] The moral of this paradox is that countries of the south need to enhance their intra-developmental synergy so as to capitalize on their comparative advantages and evade this exhaustive drain of resources, for the primary cause of actualizing their optimal development.

In the next part of my brief intervention, I will highlight the regulatory infrastructure and the status of the Lebanese banks, followed by some remarks that I perceive as corner stones for a promising and pioneering developmental role of Lebanese banks in the African continent.

II. The Lebanese Banks: Status and Regulations

The Financial System Stability Assessment report, published few weeks ago by the IMF, stated that Lebanon has maintained financial stability and preserved confidence for the last quarter century during repeated regional and domestic economic and political shocks, most recent of which is the Syrian crisis. The report added that the accumulation of macroeconomic and financial vulnerabilities necessitates fiscal adjustment to reduce systemic risks. Nevertheless, the banking system has proven resilient, and the banks have grown and remained profitable. Moreover, effective oversight and crisis management have contributed to stability, and significant progress has been made to further strengthen Lebanon's financial integrity framework. The report also assures that the issue of de-risking does not appear significant in macroeconomic or financial stability terms.[iii]

This positive financial and monetary outlook, as reflected by the IMF, is actually the outcome of the robust regulatory infrastructure set by Banque Du Liban (BDL). The major pillars of this infrastructure are the following:

First, enhancing financial stability. BDL has always assured high levels of liquidity in the Lebanese banking sector, thus enabling commercial banks to finance the government and private sector needs and aiming at thrusting growth and development, while maintaining a stable interest rate structure and curbing inflation below four percent. In terms of capitalization, the Lebanese banks' balance sheets are solidified through BDL's financial engineering, thus complying to the requirements of Basel III. Moreover, BDL has regulated the banks' compliance with investment and balance-sheet regulations. In this context, BDL has further established the Financial Stability Unit whose mission is to monitor the financial sector in Lebanon in order to avoid any possible crisis.

Second, implementing corporate governance practices. Being aware of the importance of corporate governance in optimizing the performance of the financial sector and protecting the interests of its stakeholders, BDL emphasizes on the compliance with the principles of good governance at all banking and financial managerial levels, including boards of directors and senior management, whereby training programs have been set by BDL for this purpose. Additionlly, compliance units were established to protect the banks and the Unit of Corporate Governance was created at BDL. Furthermore, the Consumer Protection Unit at BDL was established to ensure that banks deal equitably and fairly with all their customers in a transparent manner.

Third, setting an Anti-Money Laundering/Combating the Financing of Terrorism process. As part of its policy to enhance risk management and effective internal control, the Central Bank has strived to preserve the reputation of the Lebanese banking sector by reinforcing AML/CFT measures while maintaining banking secrecy. In this context, BDL has regulated the electronic transfer of funds and tightened its regulations regarding the activities of exchange institutions. In parallel, BDL has regulated the exchange of tax information covered by banking secrecy, in line with international standards. In addition, relations with correspondent banks is protected through abiding by the related sanctions.

Fourth, reinforcing capital markets and equity financing. As a Regulator, BDL aims at overcoming the challenge of financing growth and development through reinforcing capital markets as a source of financing, with its two channels: equity financing and debt financing, while assuring that capital markets enhance or, at least, do not threaten financial stability. This is done through initiatives such as launching the knowledge-economy equity financing scheme (Circular 331) through which $400 million has been availed by the banks and invested in start-up funds and companies, preparing for establishing a stock market for SMEs, launching the Electronic Trading Platform project for digital trading, and privatizing the Beirut Stock Exchange. The Capital Market Authority was established in this perspective.

Fifth, promoting the export of banking services. BDL has regulated and supported the regional expansion of leading Lebanese banks. The exposures of these banks operating abroad is regularly monitored and assessed by the Central Bank.

As for the status of the Lebanese banking sector in general, its total assets have exceeded $200 billion in December 2016, at a 10 percent annual growth. Bank deposits increased by around 6.8 percent, to reach around $168 billion at year-end 2016. In parallel, lending activity registered seven percent growth during 2016, with total credit to the private sector exceeding $58 billion in December 2016, and financial inclusion mounting to 47 percent, one of the highest in the Arab region.[iv] Furthermore, the Lebanese banking sector's high levels of liquidity, currently at $28 billion, enabled commercial banks to finance the government and private sector needs while maintaining a stable interest rate structure. In terms of capitalization, Lebanese banks are able to reach the targeted capital adequacy ratio of 15 percent by the end of 2018, as stipulated by Basel III, in addition to the IFRS9 requirements that will come into force in January 2018.

In a brief outlook on the status of the Lebanese banks in Africa, dated November 2016, we can identify significant and promising numbers that constitute a stronghold for mutual growth and development, and yet are aspired to develop further. The total assets of the Lebanese banks' branches in Africa mount around $5.2 billion; the total capital account exceeds $360 million; total deposits record $4.2 billion, constituting around 14 percent of the total deposits at all Lebanese banks' foreign branches. As for the total amount of loans, it exceeded $2.5 billion.

III. Promising Potentials for Mutual Development

In light of these progressive facts and vigorous resources of the Lebanese banking sector that seem to challenge the local and regional political and socio-economic realities, and given the optimistic thrust launched with the new political era in Lebanon, I will highlight some ideas that might constitute genuine opportunities for a promising and pioneering developmental role of Lebanese banks in Africa.

First, just like Lebanese diaspora are aspired to be agents of development for Lebanon through capitalizing on their expertise, knowhow, and financial capabilities to invest in developmental projects in Lebanon, so as Lebanese banks are invited to play the role of development catalysts, through bridging the gaps between these development agents and their homeland. In this sense, the Lebanese banks can explore the comparative advantages of both, Lebanon and the African countries, so as to finance developmental projects in Africa and Lebanon, thus playing a mutual developmental role versus the prevalent resource drain phenomenon.

Second, being a development catalyst requires from banks to explore innovative financing schemes and financial products, especially those integrated with financial technology platforms. Such initiatives may involve launching synergetic financial products with the telecommunication sector that is vibrant in Africa; creating low-cost financing opportunities for Lebanese local businesses offered by diaspora bonds that have access to international capital markets; establishing migration development banks that ensure the just and fair regulation of the temporary labor migration process.[v]

Third, Lebanese banks in Lebanon are invited more than ever to engage in knowledge economy industrial platforms, as one of the promising strategic sectors in Lebanon and Africa. Hence, the subsidiary arms of these banks, in Africa and elsewhere, represent a channel through which innovative and technological industries of products and services can be launched abroad, by diaspora members, and in Lebanon, through diaspora subsidiary arms. From this perspective, it would be vital for Lebanese banks to be directly and invasively involved in the contractual and production process of accomplishing the projects of innovation, so as to ensure optimal developmental benefit. Learning from the practices of German and Japanese banks in financing industries would be an enriching endeavor.[vi]

Fourth, it would be of a strategic importance to conduct effective cooperation between Lebanese and African monetary regulators for the purpose of enhancing regulatory and supervisory frameworks and identifying and addressing risks in cross-border banks, as the IMF has recently recommended for cross-border banking.[vii]

IV. Conclusion

I wil like to enup by emphasizing on what I believe is an essential notion for this subject: the real robustness and productivity of the Lebanese banking sector is after all dependent on the banks' commitment and agility to provide real, specific, and tailored banking solutions to the needs of the Lebanese Diaspora as well as the local communities where they operate in. This is the ultimate banking challenge yet to be addressed by Lebanese banks in order to obtain a genuine developmental role. And I am confident that there are great potentials that are enough to trigger immense capabilities within both the Lebanese diaspora and Lebanese banking sector, for transforming the crisis of brain drain into a development opportunity.

Thank you.

References

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