



# Banque Du Liban Programs Supporting SME Financing

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Jordan Loan Guarantee Corp. JLGC – SME Conference 2014  
25 November, 2014 | Amman - Jordan

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Good morning ladies and gentlemen. I am very pleased to be here today to share with you the experience of Banque du Liban (BDL) in supporting SME financing.

## **I. Introduction**

An integrated part of the mission of Banque du Liban, as mandated by law, is to promote sustainable economic stability and develop money and capital markets in addition to safeguarding the national currency and ensuring the soundness of the banking system.

In a post-war era, re-establishing confidence in the economy and its markets was not an easy task to achieve; not to mention creating sustainable and affordable sources of funding to boost private sector investments.

In an array of physical, economic and financial decay at the end of the civil war in early 1990s, BDL embarked on an ambitious reform plan to stabilize the Lebanese Pound, build a resilient financial sector, modernize the banking sector, in support of the Lebanese economy. Tens of laws and circulars have been issued throughout the years to reinforce BDL's role in undertaking these tasks.

In this context, nurturing SME experiences has emerged as one of the most critical economic endeavors of BDL, as SMEs have been universally acknowledged as the backbone of national economies.

## **II. SME in Lebanon**

I would like to provide a backdrop to the importance of Small and Medium Enterprises in the Lebanese economy. They:

- Account for more than 97% of total formal (registered) business enterprises<sup>i</sup>;
- Have been playing a significant role in generating private sector employment (around 82%)<sup>ii</sup>;
- Have been driving gross domestic product growth (accounting for more than 99% of GDP)<sup>iii</sup>; and
- Have rising potentials in portfolio growth and lending penetration rate.

Yet, concurrent with regional trends, SMEs in Lebanon have been facing a number of challenges with respect to:

- Political factors – high political risks;
- Economic conditions – weak business environment;

- Regulatory environment – high collateral, lack of alternative to bank funding, lack of capital markets or equity and angel investing, low microfinance penetration, informal sector<sup>iv</sup>; and
- Infrastructure deficit.

The picture is not that somber. A lot of initiatives, launched by the international community, the banking sector and the NGO community, have been implemented to support SME growth and development in the country, and lending to this sector has witnessed a substantial increase<sup>v</sup>.

### **III. How BDL is Supporting SME Sector**

Today, I would like to share with you one of these initiatives, that of the Banque du Liban. Reiterating the vital role that SMEs have been playing in Lebanon with regard to job creation, youth employment and boosting investments and economic activity, BDL has been striving to help this sector overcome the obstacles that are at its reach by providing it with an uninterrupted stream of financing.

Our endeavors are anything but new. They first started in 1996 when the BDL adopted the interest subsidy that the Lebanese Government provided to the productive sectors – agriculture, industry and tourism with cost of funding ranging from 0.94% and 2.415%. They were cross-sectional with targets including SMEs. But considering that over 90% of enterprises in Lebanon are SMEs, then surely this stream of financing benefited this sector to a large extent. And this mechanism of subsidizing interest is still in effect to date.

In the past decade, the Central Bank of Lebanon renewed its commitment to fostering economic activity by further expanding its monetary stimulus. BDL has strengthened its incentives for banks to secure more adequate financing to the private sector. It has issued circulars to encourage bank lending at a lower cost by availing exemptions from mandatory reserve requirements, as well as other mechanisms. Such credit incentives continued to provide loans to the productive sectors (agriculture, industry, tourism) but also expanded to include:

- Information technology;
- Handicrafts;
- Microcredits;
- Financing new projects or expanding ones,
- Education;
- Housing; and
- Environmentally-friendly projects.

The purpose of this strategy is to lower the cost of borrowing significantly to encourage investments in vital economic sectors. This has been helping in creating new job opportunities for the Lebanese youth and ensuring the necessary financing for small and medium enterprises.

BDL incentive programs have proved to be successful. The level of credit, to the private sector has surpassed that to the public sector, reaching historical levels of around US\$ 51 billion in August 2014 versus US\$ 25 billion in December 2008.

In early 2013, a stimulus package has been introduced by BDL consisting of USD 1.47 billion in the form of soft loans extended to Lebanese banks in order to boost lending activity and fuel economic growth in support of productive sectors, housing, education, eco-friendly and renewable energy projects. This package also targets to finance entrepreneurs with new projects in the fields of knowledge and innovation, as well as research and development ventures in the productive sectors with an interest of 0.75% for both.

The funds have been almost utilized completely, and the stimulus plan proved to be successful by contributing to 50% of the growth achieved in 2013. Additional support amounting to USD 800 million was provided in 2014 to further stimulate the economy, and another of USD One billion was announced for 2015 to maintain growth and support an economy that has been hit by the three-year conflict in the neighboring Syria.

However, by providing affordable credit lines, we were only tackling one side of the financing problems faced by SMEs. BDL was keen to offer more. It thus launched in August 2013 a new initiative enabling banks to contribute, for the first time, in equity financing of start-up companies, incubators and accelerators and venture capital. Acknowledging the fact that strengthening the Lebanese Knowledge Economy improves the performance of all the economic sectors, creates job opportunities, increases per capita GDP, ensures sustainable development and utilizes and retains the Lebanese human capital, BDL has been encouraging banks to invest capital over a period of seven years, in order to nurse these vital economic agents. Access to interest-free financial facilities will be provided to banks who participate in this initiative. As such, around USD 400 million have been put at the disposal of creativity and innovation to make the best use of intellectual capital; and hopefully lead Lebanon towards having more active Knowledge Economy.

Already, a number of companies have benefited from this equity financing initiative, with an estimate exceeding USD100 million that will be channeled towards more than 50 companies<sup>vi</sup>.

#### **IV. Looking Ahead**

New sources of funding will be available and will stimulate SME activity. Examples of such would be crowd funding or investing which is currently developing in Lebanon and the Arab World. The Capital Market Authority (chaired by HE the Governor of BDL) has already developed the regulations for such activities. We also hope to have deeper equity and stock markets. And we definitely look forward for all initiatives that will support our SMEs and steer our economy towards growth and development.

Thank you.

## References

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- <sup>i</sup> IFC and Fransabank Supporting Job Creation in Lebanon, February 2014
- <sup>ii</sup> Islamic Banking Opportunities Across Small and Medium Enterprises, Executive Summary, IFC, June 2014
- <sup>iii</sup> Islamic Banking Opportunities Across Small and Medium Enterprises, Executive Summary, IFC, June 2014
- <sup>iv</sup> Challenges facing the Lebanese SME Sector, Zeina el Khoury, Ministry of Economy and Trade
- <sup>v</sup> Islamic Banking Opportunities Across Small and Medium Enterprises, Executive Summary, IFC, June 2014
- <sup>vi</sup> "Let the Investment Games Begin" published in the Executive Magazine, March 3, 2014