

LEBANESE SME FORUM

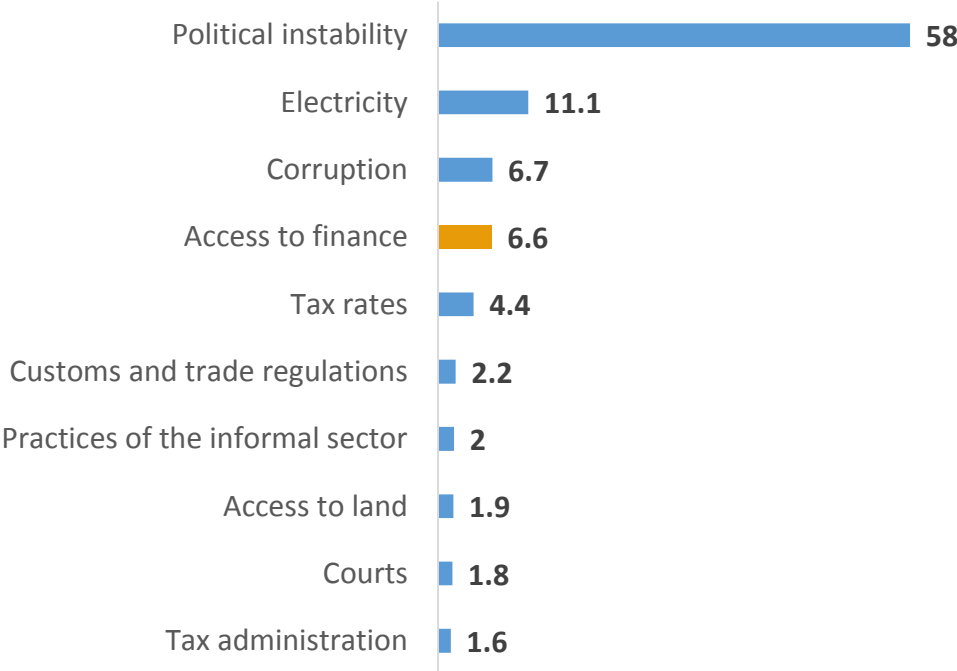
ACCESS TO FINANCE GAPS AND RECOMMENDATIONS



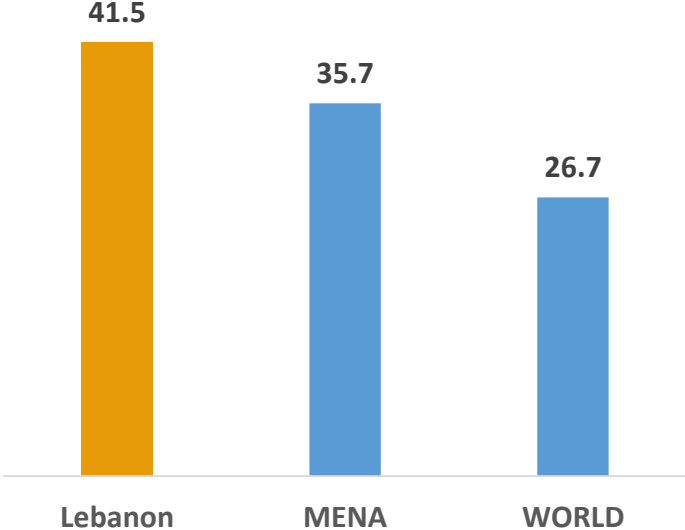
Beirut, Lebanon
July 11, 2017

While NOT a leading constraints, Access to Finance remains a significant obstacle to SME investment and growth in Lebanon

Top Business Environment Constraints for Firms (% of firms)



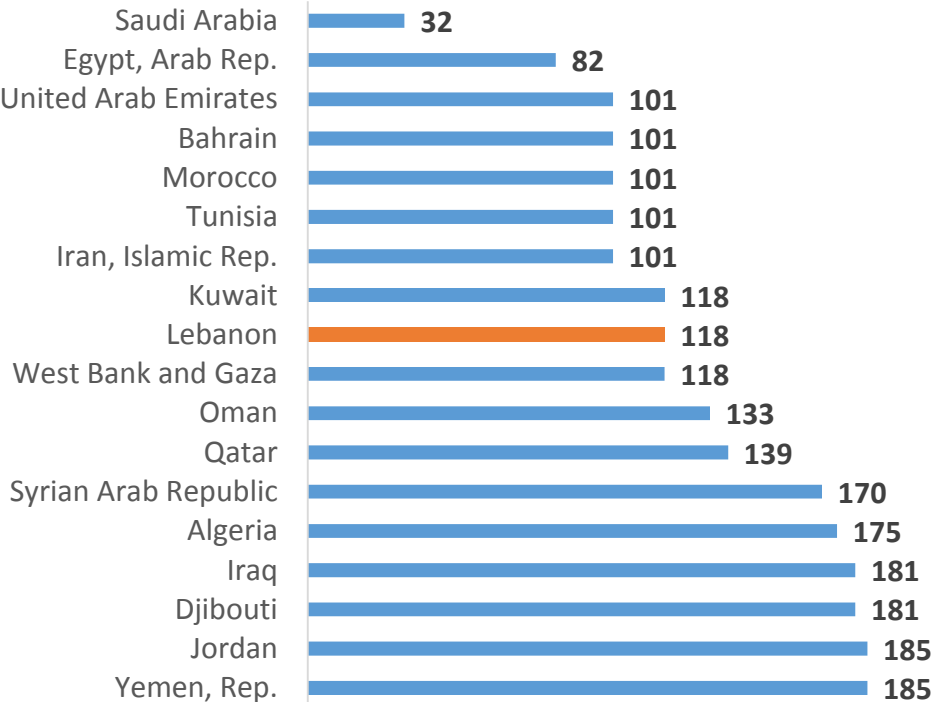
Percent of firms identifying access to finance as a major constraint



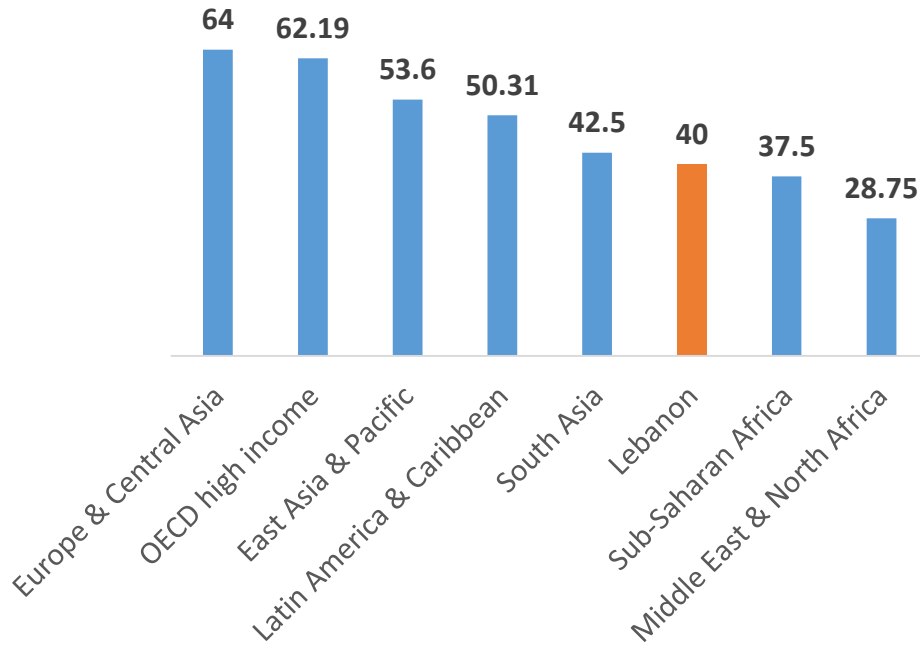
Source: 2014 World Bank Enterprise Surveys

Doing Business indicator shows that Lebanon lags behind in terms of access to credit and is 60% away from the best performance frontier

2017 Doing Business - Getting Credit Ranking (185 countries)



2017 Doing Business - Getting Credit Distance to Frontier



Source: 2017 Doing Business Indicator

A wide range of financing sources now exist, with BdL as the principal market-maker

ILLUSTRATIVE	SEED	START-UP/EARLY STAGE	GROWTH COMPANIES	MATURE BUSINESSES
GRANTS	– ISME Concept Development Grants Total USD2.5M	– Competitions		
CROWDFUNDING	– Zoomal – Eureeca	– Zoomal – Eureeca		
GUARANTEES		– Kafalat Programs – ESFD Program – Insure and Match fund (Equity guarantee) USD15M		
EQUITY FINANCING	– Lebanese Business Angels – Seeders – Women Angel Investor Network	– BdL 331 (commercial banks and funds USD410M+) – Insure and Match fund USD15M – Thimar Tripoli USD25M – Regional funds (Wamda, Saned Partners etc...)	– BdL 331 (6+ funds offer ticket sizes of above USD2M)	– BDL 331 (1 fund offer ticket sizes above USD5M) – Regional funds (Euromena Fund etc...)
DEBT	– Microfinance	– Faro Fund CCIAB – ESFD Program	– Commercial banks (subsidized loans)	– Commercial banks – Leasing Companies

Source: Desk Research, World Bank Analysis

This is particularly evident when looking at the evolution of the Venture Capital landscape with 12 new funds with a total value of ~USD 410 ...

Evolution of VC Landscape in Lebanon
(per year of establishment and fund size)

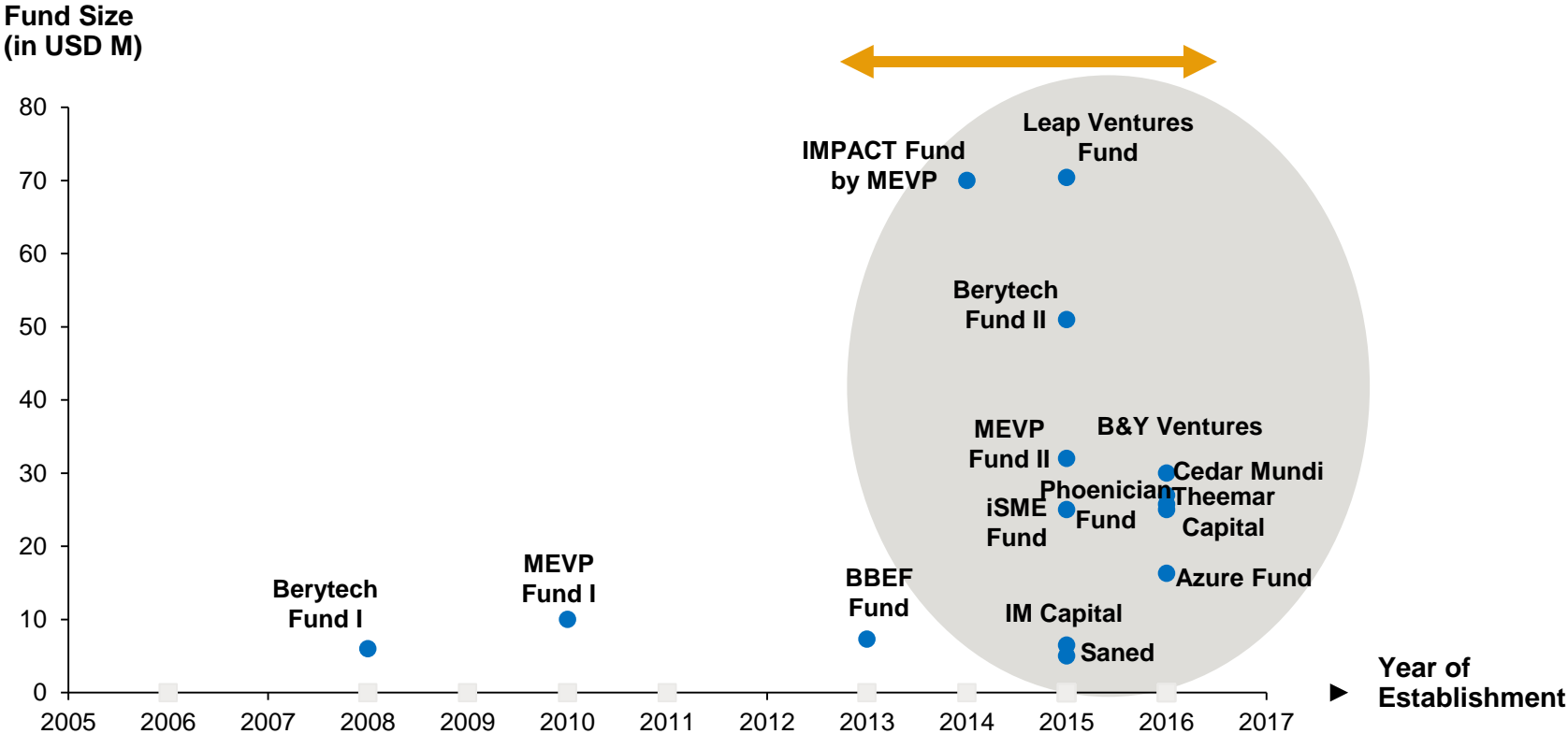
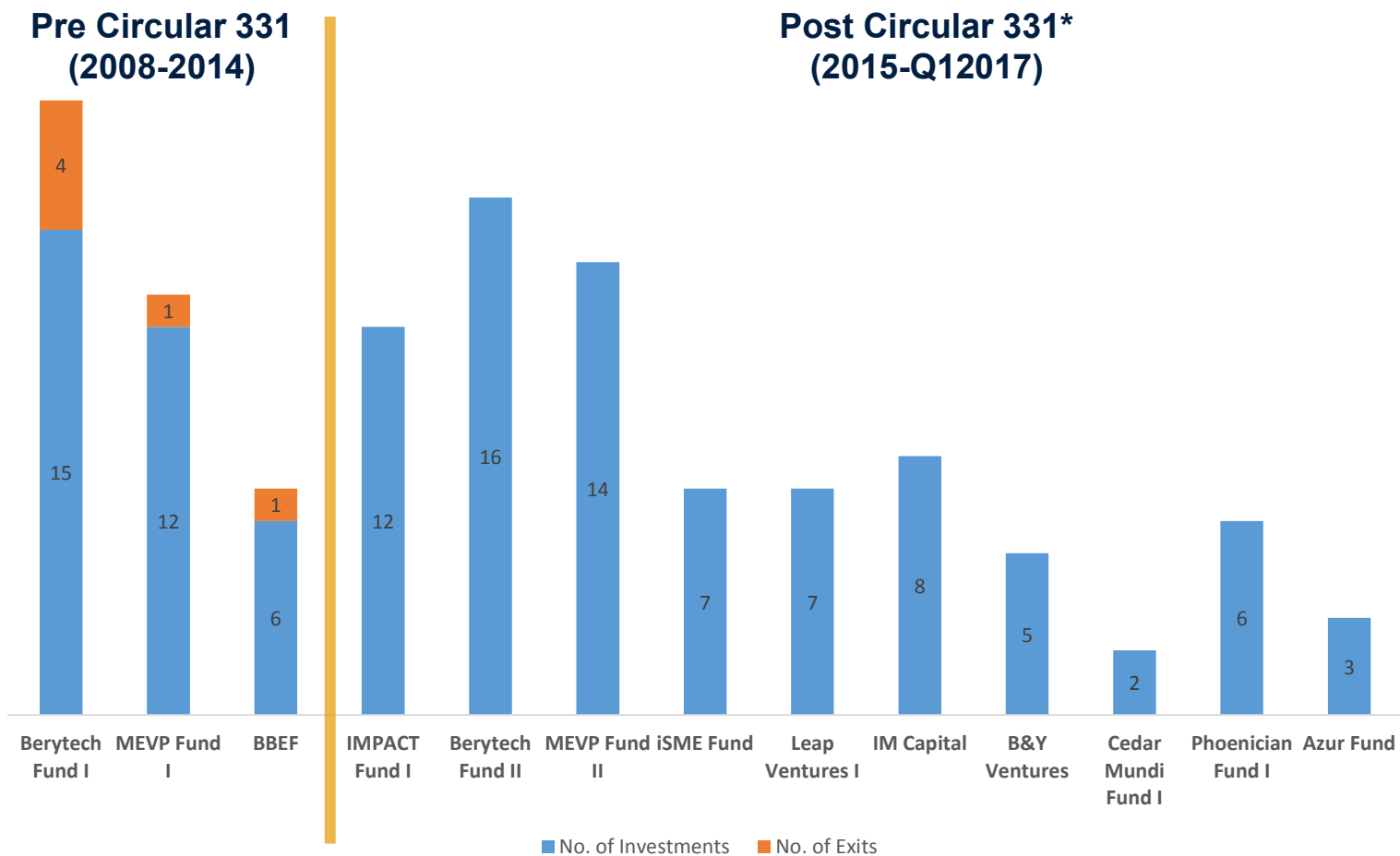


Figure does not include funds that stopped operating: BBF Fund in 2006 and Lebanon Growth Capital Fund in 2011. It also does not include Angel Funding: LBA - Business Angels in 2009, Seeders in 2016. It does not include funding made available by accelerators such as SPEED.
Source: Funds Websites, World Bank analysis

... investing in 80 deals between 2015 and April 2017

Number of VC Investments per fund



Source: Funds Websites, World Bank Analysis
 * Issued in August 2013

Despite the progress, gaps and opportunities exist to improve SME access to finance

Access to Finance Challenges *(among others)*

1

Strengthen financial infrastructure

2

Close funding gaps at seed and growth

3

Develop capital markets

4

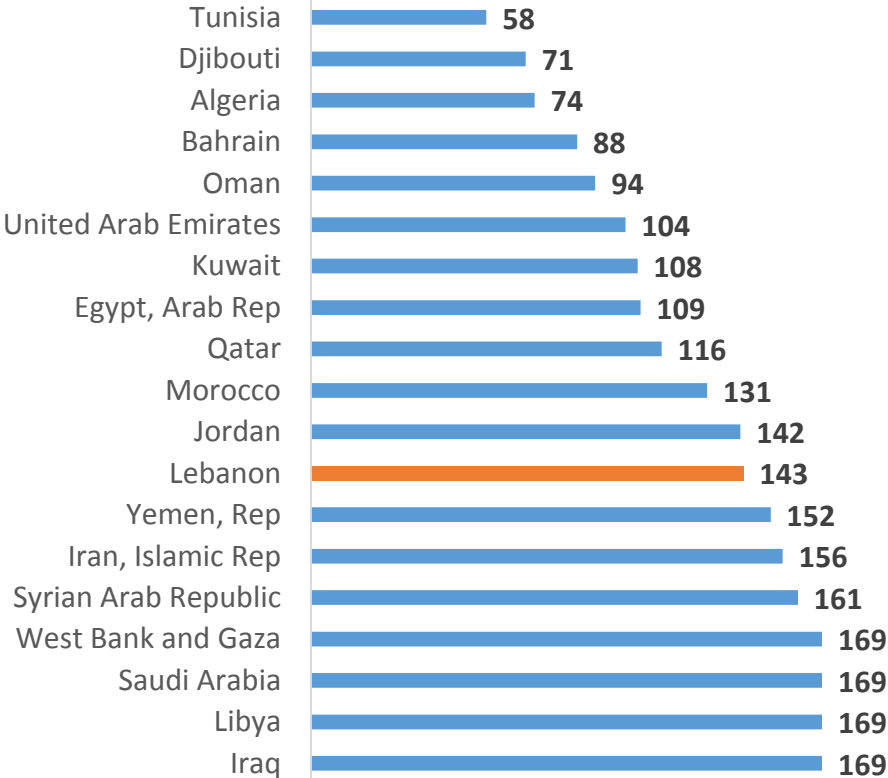
Level microfinance playing field

5

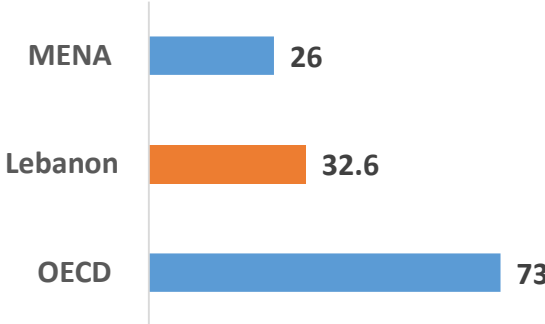
Improve access to finance for women

1 – The current insolvency regime and lack of secured transactions law hampers access to credit and prompts banks to over-collateralize

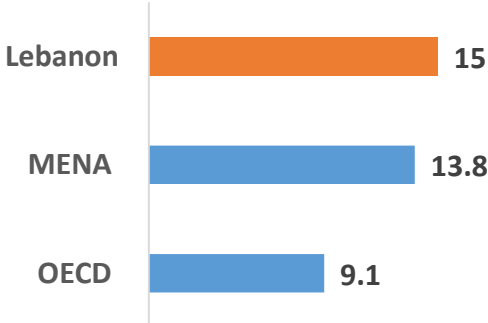
2017 Doing Business – Resolving Insolvency Ranking (185 countries)



Recovery rate (cents on the dollar)

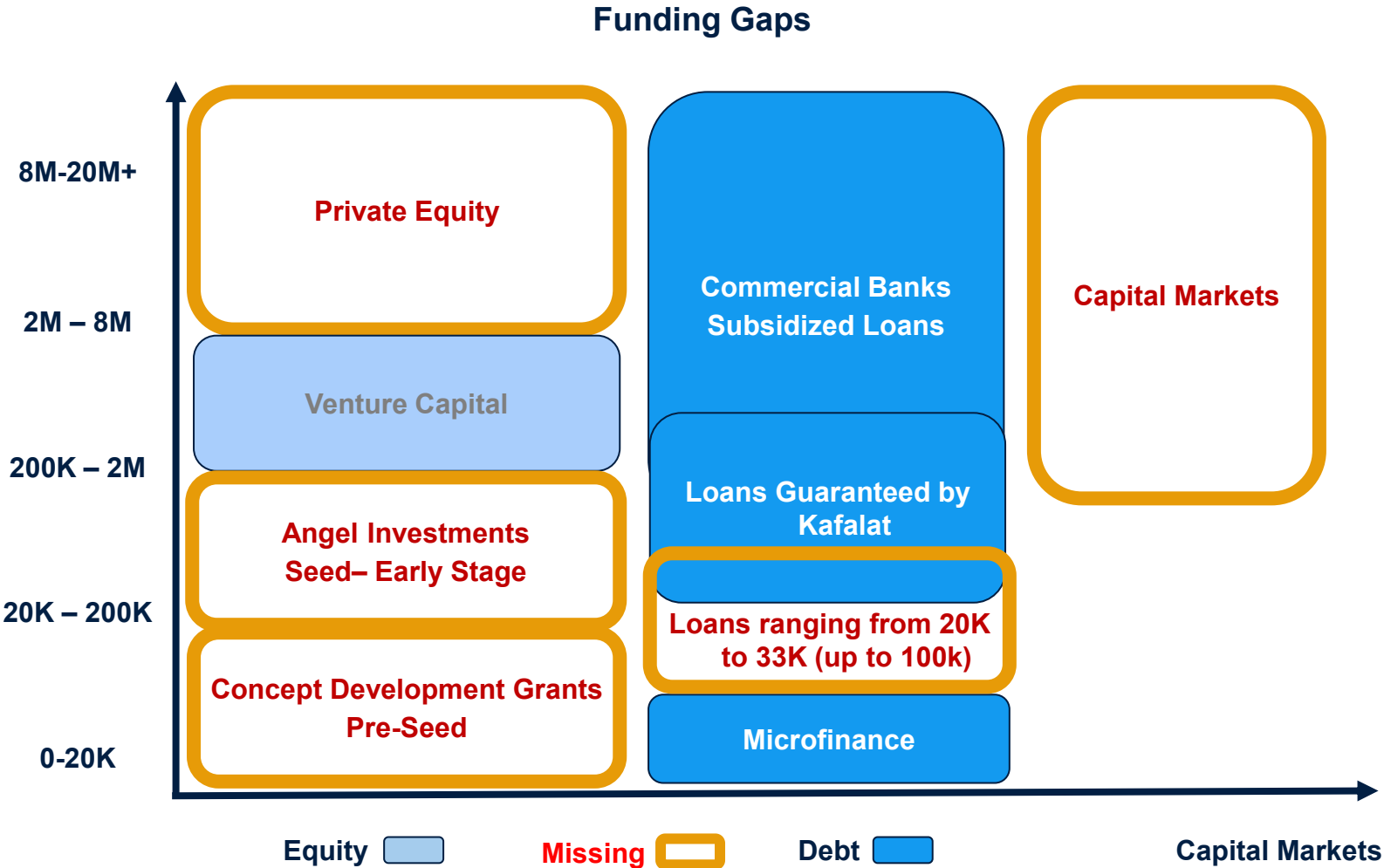


Cost % of Real Estate



Source: 2017 Doing Business Indicator

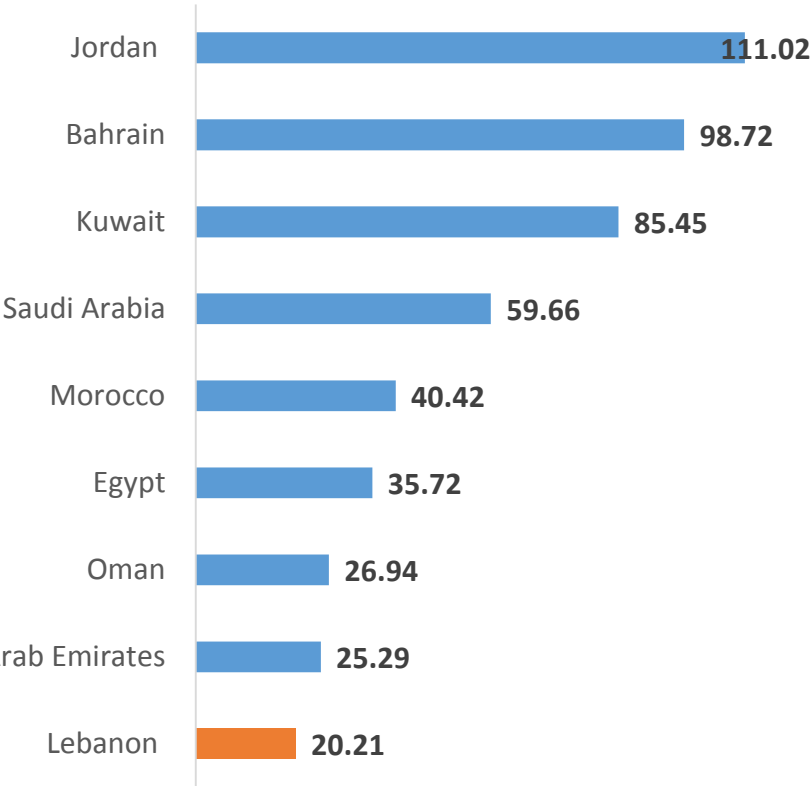
2- Funding Gaps exist at the Pre-Seed, Seed and Growth



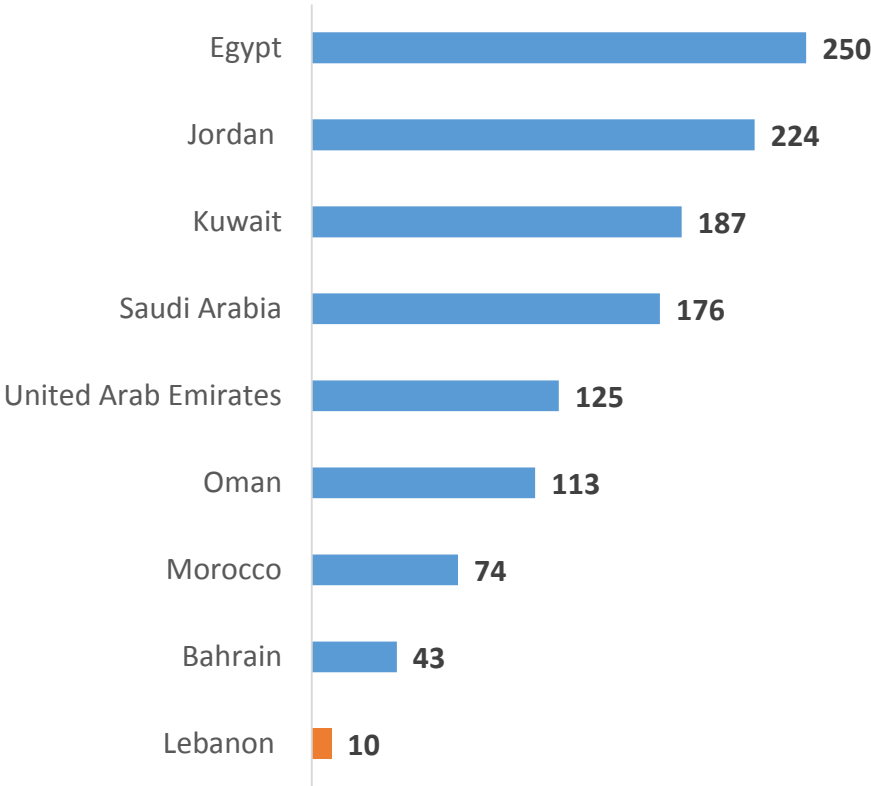
Source: World Bank Analysis

3 - Capital Markets are underdeveloped listing only 10 large companies and do not contribute to SME financing

Market Cap % of GDP
(includes oil sector for GCC)



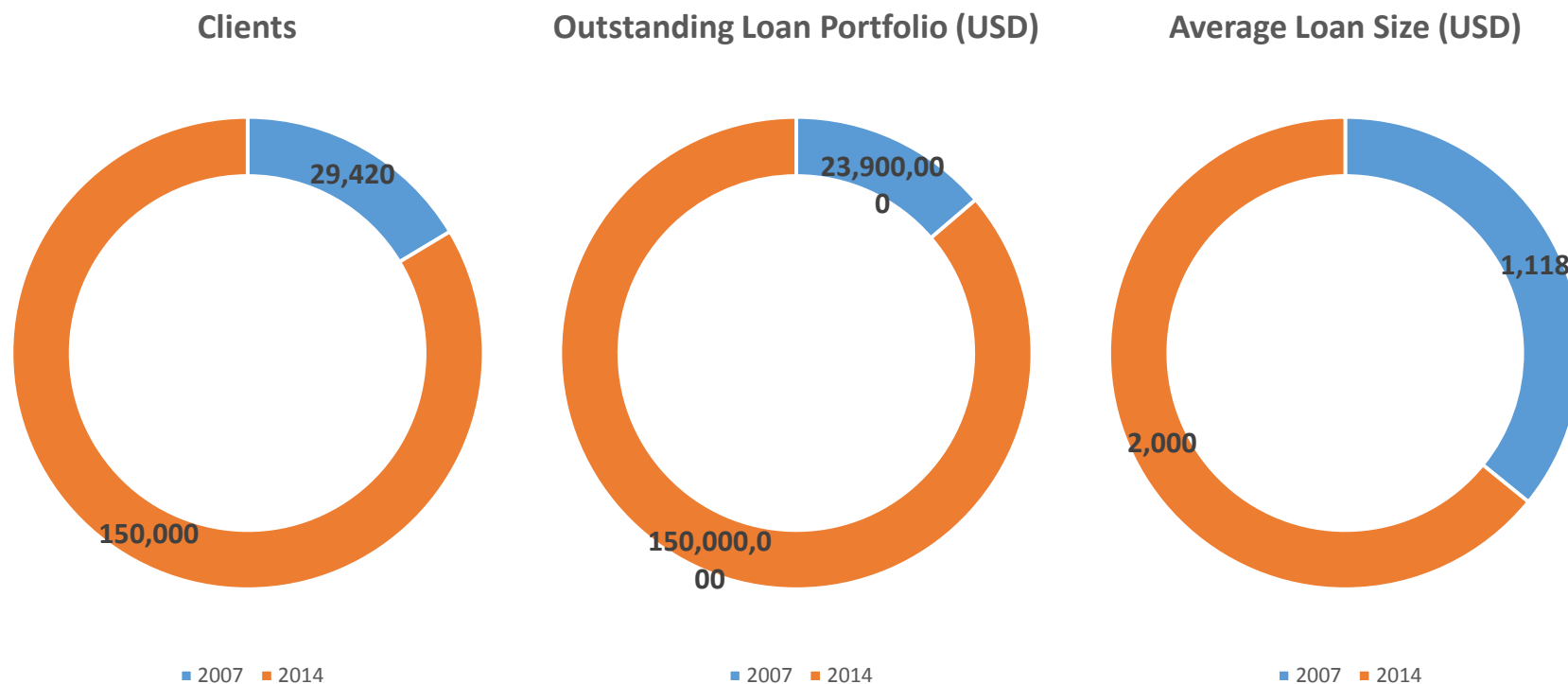
Number of Listed Companies



Source: 2014, Penn State University, Measuring relative development level of stock market: Capacity and efforts of countries
World Bank Data

4 – Effective supervision of the microfinance - estimated 30% of microfinance borrowers have cross borrowings in fast-growing market

Growth of Microfinance (2007-2014)

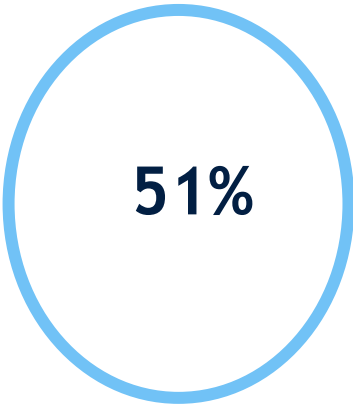


5 - Women-owned SMEs have unmet financial needs and face additional hurdles when accessing credit

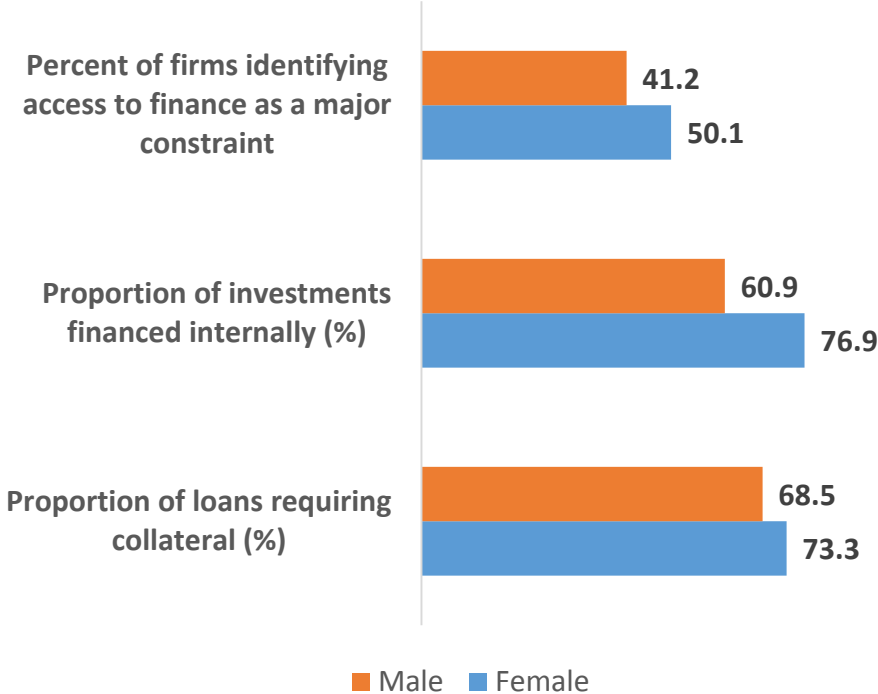
Women Owned Businesses

Seeking a Loan

Granted



Gender Disparities



Source: 2011 IFC Survey, 2014 World Bank Enterprise Surveys

How To Move Forward?

Recommendations		Short Term (12 months)	Medium Term (2-3 years)	Long Term (3-5 year)
Develop a National Access to Finance Strategy (Inclusive)		✓		
Improve the Financial Infrastructure	Adopt the laws on insolvency and secured lending (moveable asset registry)	✓		
	Improve credit information systems and allow private credit bureaus to collect and share data		✓	
	Develop and implement unified regulatory framework for MFIs with prudential rules to level the playing field among MFIs and minimize cross borrowing		✓	
Develop the Capital Markets	Implement the Capital Market Development Plan and market regulations		✓	
	Develop the corporate bond segment of the capital markets (lower cost, longer maturity)			✓
	Develop an electronic trading platform with listing requirement and reporting appropriate to SMEs			✓

How To Move Forward?

	Recommendations	Short Term (12 months)	Medium Term (2-3 years)	Long Term (3-5 year)
Expand Product Offering	Develop new products such as portfolio guarantees and MFI financing guarantees and accelerate the introduction specialized SME Units in Banks		✓	
	Introduce specialized financing instruments (e.g. matching grants) to target dis-advantaged segments of SME sector	✓		
	Support “idea stage” financing and the development of angel investor networks	✓		
	Open up 331 to non-IT start-ups and reduce BDL’s risk exposure		✓	
Extend Inclusivity	Expand services to women business owners and develop tailored products that meet their needs		✓	
	Improve financial literacy		✓	
	Monitor and evaluate distributional impact of financial program initiatives, including BDL stimulus packages	✓		