

## **Chamber of Commerce Industry and Agriculture In sidon and South Lebanon (CCIAS)**

### **MEDSt@rts Local Microfinance Forum**

## **RECOMMENDATIONS FOR THE STRATEGY OF FINANCIAL INCLUSION OF MICRO AND SMALL BUSINESSES IN LEBANON**



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Med microfinance support system for start-ups wants to help young people with promising business ideas overcome the traditional credit constraints, developing an innovative supporting model to facilitate access to funding for Mediterranean non-bankable people.

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## I. PREFACE

The Beirut Aug4th blast, that resulted in disastrous human, material, and psychological losses, added to the Covid 19, to the economic crises and to the impotency of the political echelon to form an enlightened government that could create drastic reforms away from confessional and partisan poisons, put Lebanon and its people including the entrepreneurs in a very dire situation.

As a result, the CCIAS, in the absence of any driving force in the business ecosystem, started with the help of EU and ENI the MEDST@RTS program to support young innovative entrepreneurs pitch their new business ideas, and then get the needed Business development and Access to Finance to launch their own businesses. In that regard, the CCIAS launched the microfinance and BDS forum that engaged MFIs, BDS providers, bankers, and experts in the economic development eco-system to provide a series of lectures and discussions about the financial inclusion, business development role, legal and regulatory issues, and the way forward to play an active role in helping MSMEs and youth start-ups succeed as a pre-requisite towards the universal sustainability development goals.

## II. Forum's 12 days Report Summary

Below is a summary of the 12 Days presentations and discussion that took place amongst Forum participants.

### Day 1 (24/11/2020): Pros and Cons of Microfinance

On this first day a brief description about microfinance and its philosophy where small amounts of credit can help end the cycle of poverty and the other Pros of Microfinance specially its role after the current crisis in Lebanon. The cons were also discussed so measures can be taken in the strategy in that regard. Some of the cons that require clear action in the strategy are related to transparency about interest rates, grievance mechanism and pressure on delinquent borrowers, and the shift of some microfinance providers from helping the poor and SMEs to being a business venture whose aim is to make money out of the high interest rates.

### Day 2 (26/11/2020): Policies and Regulations

Definition of Financial Inclusion in general and within the regional and local contexts; where are we comparatively and what are the monitoring sources and parameters. Then articulating these objectives with the SDGs.



We move then from the local inclusion mapping towards the regulator and the respective role within the ecosystem, and highlight the lack of a national microfinance framework beyond couple of BDL circulars. Finally a brief presentation about the role the LMFA plays in advocacy and federation of the service providers.

**Day 3 (30/11/2020): Microfinance in Lebanon vs evolution in the MENA**

Regionally small outreach given the large unbanked is evidence of an unmet market. Comparative regulatory and structural differences within the region are among the forces shaping the industry, while risk perceptions differ from local to regional.

**Day 4 (3/12/2020): Major Microfinance Programs and the Recipe for Success – Lebanon**

On this day, the microfinance models around the world were explained with a comparison to microfinance models in Lebanon, from their onset in the 1980s, their development and transformation along the years up to December 2020.

The recipe of success that are based on gender, impact, outreach, operational efficiency and profitability were also explained and discussed.

**Day 5 (7/12/2020): How can Business Development Services (BDS) Support Entrepreneurs in Improving Businesses and Position them to Access Financial Services?**

On this day, the expert explained how can micro-enterprises expand & develop and how can the unemployed who have the will to change their lives start a new business with the support of Microloans.

BDS definition and its importance were discussed in addition to the benefits of technical skills and soft skills that would be complimented by access to finance to reach the needed development and growth.

Moreover, the forum discussed the constrains facing men & women seeking finance from the perspective of BDS providers, demand and supply gap in business support to SMEs and how can we integrate BDS and credit access

**Day 6 (10/12/2020): Financial Instruments in use**

Funding options are shaping the MFI product offering canvas while product matrix with modern instruments depends on the respective market maturity. It is important to move from a supply driven to a demand driven product offering which is more adapted and client centric. Insight into current market composition in terms of funded activities and potential is highlighted.





## Day 7 (14/12/2020): Microfinance Providers Fostering Sustainable Development

On this 7th day, the expert explained the Characteristics of the local context relevant to Microfinance; demographic, economic, social and other aspects. They explained how Microfinance's target audience is people who are otherwise at risk of financial exclusion and how sustainability and the promotion of Sustainable Development (SD) are always the focus of stakeholders in the domain of development, the domain of most Microfinance providers. Moreover, the forum discussed the SDGs and the cultural and organizational dimensions, and how the context of performance in which Microfinance Institutions (MFIs) operate and their activity can promote sustainability. Lastly, the forum discussed how Microfinance Providers operate to create a balance within 4 main dimensions that the world of SD looks at; financial, environmental, social and governance dimensions (FESG).

## Day 8 (17/12/2020): Digitalization and Microfinance

What is a disruptive digitalization approach and how is it going to be the new norm in the micro and small lending environment. What types of financial institutions would be best fit to embrace fintech transformation and what are the gains on both the efficiency\ transactional cost and product delivery (business case). Drawing a roadmap to the fintech transformation is key to mitigate bumps and deliver the right outcomes, while we explain the components of a successful process.

## Day 9 (21/12/2020): Digitalization and Microfinance (2)

Starting this second day on digitalization we explained what's an ecosystem and why it is important to have a national framework (which is lacking) which could follow the seven-stage regulatory approach outlined by CGAP conducive for a SMART policy environment. In this regard Lebanon is missing a modern National Payment System for implementing affordable electronic fund transactions. However current private sector platform could if properly supported by proper policies, lead the way towards a National Fintech Strategy.

## Day 10 (24/12/2020): Perspectives of Partnering Between Microfinance Professionals, Public Sector, Donors, Private Companies, and Civil Society Organizations in Order to Increase the Reach and Scope of Microfinance.

On this last day of Forum discussions the expert questioned the ability of the Lebanese government to take the initiative to improve access to financial services in Lebanon, and the opportunity cost of the private sector for not seeing the huge untapped market potential for financial services. Moreover, the participants discussed the possibility for the Private and the Public sectors to work for innovative solutions and partnerships to exploit this new market segment. Last but not least, the



discussions covered the need of a national financial inclusion strategy and policy to provide broader and long-term guidelines to both policymakers and market players.

**Day 11 (28/12/2020) and Day 12 (30/12/2020): Forum Live Meeting a CCIAS and Recommendations**

Based on this last meeting, the participants have acknowledged the importance of promoting the development of a Conducive Policy Environment which should provide even within macroeconomic instability, some viable alternatives towards a “new normal”. This would have to be achieved through developing adapted regulations, encouraging efficiency and innovations to develop appropriate products and address a new market for microfinance products. The focus henceforth is to develop the institutions and systems to meet a changing clients’ demand.

**A. Ensure business continuity:**

- Protect MFI’s balance sheets
- Implement immediate cost take-outs
- Preserve cash on hand
- Preserve good human capital
- Stress-test P&L
- Stay close to clients

**B. React pro-actively to crisis:**

- Secure new funding sources
- Restructure external debt
- Adjust Credit products offering towards productive and resilient segments
- Digitalize
- Enhance operating efficiency
- Develop non-credit products
- Defend against declining revenues
- Seek partnerships (engage with trade associations and the wider industry actors)



### III. CCIAS Leading Role for a New Inclusion Strategy

Launching the Forum whose objectives are supporting start-ups and Micro and small-sized businesses affected by the crises to recover, grow, and succeed the CCIA in the South has taken the lead to be the genuine catalyst that listened to the grievances of the MSEs and to their supporting microfinance and business development providers and that replied by coming out with a strategy that would save the MFIs and thus; save the local economies, and the economy of the country as a whole.

The Forum mandate is to initiate services that help in rebuilding the affected business sector in the South at first, and then all over the country, and support new business that would play a role in the economic development of the country. The Forum in Lebanon, that is managed by the CCIAS, started its activities in November 2020 with several lectures and discussions that culminated into a round table for the analyses of Strengths, Weaknesses, Opportunities, and Threats facing the financial inclusion of MSEs and for setting recommendations to help build a national emergency strategy.

The suggestions and the Strategic Objectives (SOs) considered in this paper would require systems that would operationalize the next phase of the MEDST@RTS forum. It builds on what has begun from the track record of work of the chamber of commerce industry and agriculture in the south in the domain of vocational training on value chains of several sectors such as baking, fruits and vegetables, industry, emergency support, business incubation at Southbic, and on the leadership in engaging the youth in the suggested strategy where private and public sectors partner on a strategic program that would overcome this emergency phase towards a viable and sustained economic growth.

The strategy that the CCIAS is stating will build on the track record of the private partners that worked for the past years on supporting MSMEs and on having a better enabling atmosphere for microfinance and for the vulnerable to access work through finance and through BDS and other services. Such partners are divided into strategic partners and other partners/stakeholders where the stakeholders are the Economic and Social Fund for Development (ESFD), the academia and graduate students with projects that can be shifted to a business, the line Ministries (agriculture, economic development, industry, and Ministry of social affairs), the Industrial Research Institute, the Lebanese Agricultural Research Institute, leaders in the business value chains (Citrus, dairy, baking, fishing, industry, tourism, artisanal), and donors who would help in creating a loan guarantee fund that would help MFIs re-kick their lending process in vigour despite the crises. Other stakeholders that would engage the Lebanese and others outside Lebanon to provide support are, the Lebanese Emigrants Research Centre (LERC) and the Ministry of external affairs whose consulates and economic attaches around the world are linked to the philanthropic Lebanese in the diaspora, in addition their links to the chambers of commerce of the host countries and could be of great help to the forum efforts.





Besides the above mentioned stakeholders and partners, the CCIAS have strategic partners (SPs) that are part of the network that are fully engaged in the MEDST@RTs and that work as the pulling horse for the economic recovery of the country. Those Strategic Partners are the other Chambers of Commerce Industry and Agriculture in Beqaa, the North, Beirut and Mount Lebanon, the microfinance providers and umbrella organization, the Lebanese Network for Microfinance Associations (LNFA), and last but not least the business development service (BDS) providers.

## IV. RECOMMENDATIONS AND STRATEGIC OBJECTIVES

### A. Theory of Change

If Public-private consultations (PPC) on MSEs-related policies are strengthened under the leadership of the CCIAS to strike the right balance among the needs of all relevant stakeholders, then MSEs will have a more stable and predictable atmosphere to sustain their capacity, especially in the productive sectors; agriculture and fisheries, arts and crafts, Industry, ICT, and alternative tourism.

### B. CCIAS & the Strategic Partners (CCIAS & SPs)

As a pre-requisite to the implementation of the theory of change to reach the below 12 strategic objectives. The CCIAS will pull out a methodology of operation that would details the activities needed to reach every SO, and that would draw a detailed road map for the coming 5 years that would help pull the country out of its misery.

In that regard, the chamber will recruit the needed experts to draft a 5 years emergency economic development project that would help 100s of MSEs and youth start and expand their business while reaching the SOs mentioned in this document. The chamber and its SPs will cooperate with the intended youth club to be hosted at the Chamber and in other partners' locations to help raise \$2 million for the coming year which will be the pilot phase that would be subsidizing business development support activities and services for MSEs, start-ups and industries in the country. Criteria for eligibility will be defined and the process of application, fund distribution and monitoring the fund efficacy will be designed to ensure fairness, transparency and that the value for Money is maximized.

The intended 5 years project will support MSEs and start-ups in the following: asset rehabilitation, industrial equipment replacement, technical and BDS, generic business skills training to build capacity across target sectors; groups of individuals or firms with a common need for specialized training; firms and interested parties with an interest in an integrated sector program and other specialized needs defined and presented through the application process.



The outcome of the intended project is a rehabilitated business ecosystem with an increased level of understanding of the ‘new normal’. As a consequence, new businesses will be established on a more sustainable basis, particularly in the sectors defined as innovative and vital in the development of strategic value chains that would help rebuild the economy. Existing businesses will be better placed to grow, generate higher revenues, become more efficient and leaner, and preserve or employ new staff.

### C. Operational Arrangement for the Intended long Terms Project

The application for funds, the identification of needs, and the delivery of services will be overseen by the economic development Unit team whose members job details will be drafted by the experts. The CCIAS team that will be based at the chamber will have the specific operations’ mechanisms in place. This will include role of the project selection committee, service providers/expert’s selection procedures, a steering committee from the Chamber and other partners and their role, plus all what is needed to run a smooth 5 years project.

### D. Strategic Objectives

**SO 1. Work on developing policies in consultation with relevant stakeholders. Since the MSE development strategy is a mix of structural reforms and industrial policy, all key government stakeholders ought to be involved in the process plus the CCIA in South, North, etc.**

Clear and accessible information about the intended policy reforms would contribute to greater engagement, as would taking into account stakeholders’ feedback. This will be key for securing commitment in the implementation phase and accountability for the strategy results.

Establishing a working group as part of the forum for the design of the SME development strategy could be regularly consulted for updates to the action plan. Creating and maintaining a Steering Group could help gather high-level representatives to ensure intra-governmental co-ordination and provide leadership for the successful implementation of the project.

**SO 2. Draft a detailed Public Private Partnership agreement (PPP) agreement with clear objectives, roles and responsibilities.**

Including an advocacy plan so government can include a MSE or local content plan with their bids and specify that PPP procurement processes articulate how the intended projects could benefit or promote local enterprises. Example: percentage of public works to MSEs in the South.

### **SO 3. Develop emergency and priority interventions to support MSEs and/or value chain actors in coping with the impact of the socio-economic and financial crisis and preparing for the oil and gas era.**

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Support industry-specific MSEs such as those working on alternative energy systems production, composting, citrus, car mechanics sector, catering, welding and sand blasting, supply chain and other businesses to be identified with line ministries. The PPP initiative urges partners to support MSEs in certain sectors through mentoring, networking and financial assistance.

### **SO 4. Creating a microfinance lending guarantee fund to be managed by the Chamber working group (\$10 Million as a start) to support and facilitate investments.**

Selection criteria of sectors and sub-sectors to be supported should be identified. Export lending, innovation, energy savings, intensive job creation, etc.

### **SO 5. Create a private equity fund to help invest in high value-added and innovative early and growth stage companies.**

Micro and Small enterprises (MSEs) in Lebanon have the potential to drive much-needed job creation and economic growth—but they have little access to the capital they need to thrive. They are typically too large to be served by microfinance institutions (Unless MFIs up-scale their products), yet too small and too recently established to be served by commercial banks (that stopped lending). They also face other challenges, such as a lack of management skills or industry knowledge. By providing these entrepreneurs with risk capital—such as equity, loans, and quasi-loans—combined with some targeted technical assistance, MSE Ventures will see results.

### **SO 6. Create an Entrepreneurship Fund, providing low cost loans to MSEs aimed at the establishment of new, innovative, export-oriented and dynamic enterprises, the development of existing businesses through their technological and organisational modernisation and innovations, the enhancement of Lebanese SME's extroversion, and the enhancement of businesses and organisations active in the social economy.**

Fund can Support MSEs' internationalisation by improving the overall national quality infrastructure of certain sub-sectors, ensuring that EU/Gulf countries/ etc. standards and technical regulations requirements are met, which in turn will help businesses benefit from the opportunities offered by the prospective oil companies.

Other specific activities should support foreign investments by creating and selling franchises in the gulf and other regions. Example: small bakeries merge and create a new baking franchise that is sold in Dubai.

### **SO 7. Identify and Support the main value chains in the south as a start before creating a cascade effect to all the country.**

Identifying the value chains that are vital for the revival of the economy based on export potential, etc. a program for technical support, BDS, and access to finance will be needed in addition synergies with NGOs and line ministries.

## **SO 8. Support the creation of youth entrepreneurs club to be hosted at CCIAS or at one of the Strategic Partners locations as a pilot to engage youth in the new economic dynamics.**

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Promote skills development and entrepreneurial culture among the youth. Work on building a stronger culture of entrepreneurship, especially among women, should also be encouraged to transform perceived business opportunities into actual entrepreneurial intentions. This has six priority actions: (i) develop country-wide labor market and training needs analysis (secondary and primary assessments); (ii) strengthen stakeholders' participation in developing and implementing VET policies; (iii) improve the quality and attractiveness of VET institutions; (iv) facilitate SME access to non-formal training; (v) promote entrepreneurship through formal educational institutions; and (vi) support women's entrepreneurship.

## **SO 9. Introduce new products and services to the financial providers.**

Support the LMFA to get appropriate Group micro-insurance for all its members, legal solutions for the savings services.

## **SO 10. Synergies and Linkages to donors, other forums in Lebanon and abroad.**

Mapping, Leveraging and Upscaling existing initiatives, capacity-building programs to MSEs etc.

## **SO 11. Studies and Research**

Example: Supply and demand, lending to the agricultural sector, study the feasibility of setting up of pilot production plots, study the merging of SMEs to be able to compete with big companies for public bids etc.

## **SO 12. Facilitate MSEs' innovation and R&D.**

To improve the competitiveness of its SME sector and build a more advanced, knowledge-based economy, we need a coordinated effort to increase R&D and innovation activities. A "triple-helix" type of partnership is suggested, involving academia, the private sector and the public sector in building a dynamic innovation ecosystem. While universities typically expand the knowledge base and provide research capacity, businesses can convert this knowledge into commercially viable products, and the forum with the government should create a supportive environment for innovation.

A national innovation ecosystem should not only focus on "triple-helix" partnerships for facilitating MSE investments in R&D, but also on enhancing their capacity to absorb existing technologies. Forum need to advocate to promote a notion of innovation that goes beyond high-tech/start-ups to include the broader concept of technology or process upgrades. In this respect, the recommendations for the SME development strategy include three priority actions: (i) amend the legal framework for innovation; (ii) foster collaboration between industry and academia; and (iii) consider providing financial support to SMEs for innovative activities.