

*NATIONAL INVESTMENT REFORM
AGENDA WORKSHOP – Grand Sérail,
Beirut - Lebanon*

Access to Credit and Enterprise
Financing Facilities

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OVERVIEW

- The Lebanese private sector is dominated by small and medium sized enterprises that face difficulties in accessing funds from commercial banks.
- The government has developed and is developing different programs to help SMEs financing in Lebanon.
- This allows SMEs to increase the financing of their business activities, which leads to increased domestic investment, output, and employment.

CURRENT PROGRAMS IN LEBANON

- The Lebanese Government has set up an interest subsidy program to mitigate the crowding out effect induced by public sector borrowing.
- The interest rate subsidies are financed by the Lebanese treasury and administered by the Central Bank of Lebanon.

Government's Interest Subsidy

Year	2002	2003	2004	2005	2006
Interest Subsidies <i>(Amounts in LL Billion)</i>	54	66	72	75	80

Outstanding Subsidized Loans

Total Government Subsidized Loans

Total Number of Beneficiaries	5,000
Total Value of Loans in LL Billion	2,500
Average Loan Value in LL Million	500

GOVERNMENT'S SUBSIDIZED LOANS

- Applies to tourism, industrial, agricultural, handicrafts, and technology sectors.
- 7% interest subsidy on the first bracket (up to 5 billion LL)
- 5% interest subsidy on the second bracket (5 to 15 billion LL)

KAFALAT PROGRAM

- **Aims to assist small and medium sized enterprises (SMEs) to access commercial bank funding.**
- **Loan guarantees based on business plans/feasibility studies. Loans are provided by Lebanese banks.**
- **Kafalat targets SMEs and innovative start ups in following economic sectors:**
 - Industry**
 - Agriculture**
 - Tourism**
 - Traditional Crafts**
 - High Technology**

KAFALAT LOANS

- Kafalat guaranteed loans benefit from interest rate subsidies. The purpose is to help SMEs in accessing bank funding at a reasonable cost
- Kafalat guaranteed loans benefit from exemption from the reserve requirement by the Central Bank of Lebanon. This significantly reduces the cost of capital.

EIB LOANS

- The Lebanese state, through the Central Bank of Lebanon, has signed with the EIB a financing treaty with an aim to rehabilitate and restructure the service and industrial sectors in Lebanon.
- SME loans granted to industrial and service companies, investment in advanced technologies, R&D projects, rational use of energy, environmental protection, water supply and sanitation projects, other infrastructure projects, particularly in regional development areas.
- Long duration loans (up to 10 years) and a grace period of (up to 2 years) .
- A maximum of EUR 200,000 and up to 70% of the investment costs.

SOCIAL & ECONOMIC DEVELOPMENT FUND

- **Two socio-economic development projects under the management of the CDR**
 1. Economic and Social Fund for Development (ESFD)
 2. Community Development Project

Economic and Social Fund for Development

- The Economic and Social Fund for Development is a 31 million Euro project funded by the European Union
- It consists of three major components: community development, micro-finance, and sustainable job creation.
- Granted to different sectors (Agriculture, Industrial, Services, Trade) and throughout Lebanon
- Amount up to 30 million LL
- Loan period ranging between 1 and 5 years including a grace period that could reach 1 year

Community Development Project

- **30 million USD venture financed by the World Bank and has two major components:**
 - 1. Social infrastructure enhancement**
 - 2. Capacity building at the community levels**
- **Both projects have very similar mandates of poverty reduction and aim at absorbing the social implications of structural adjustment processes as well as providing sustainable job and income opportunities**

POST PARIS III: Financing Facilities for Private Sector

- Businesses became in dire need for financing in order to re-launch their business activity. The GoL:
 1. will assist enterprises in securing funds to repair damaged equipment, inventory and fixtures, and to survive the period of slow economic growth
 2. will assist enterprises in accessing long-term funding at reasonable cost

Financing Facilities...

The Lebanese Government has been active in mobilizing funds to the private sector

Extending maturities
for loans with longer
grace periods

Expanding the
subsidized interest
rates program and
rescheduling the
related loans

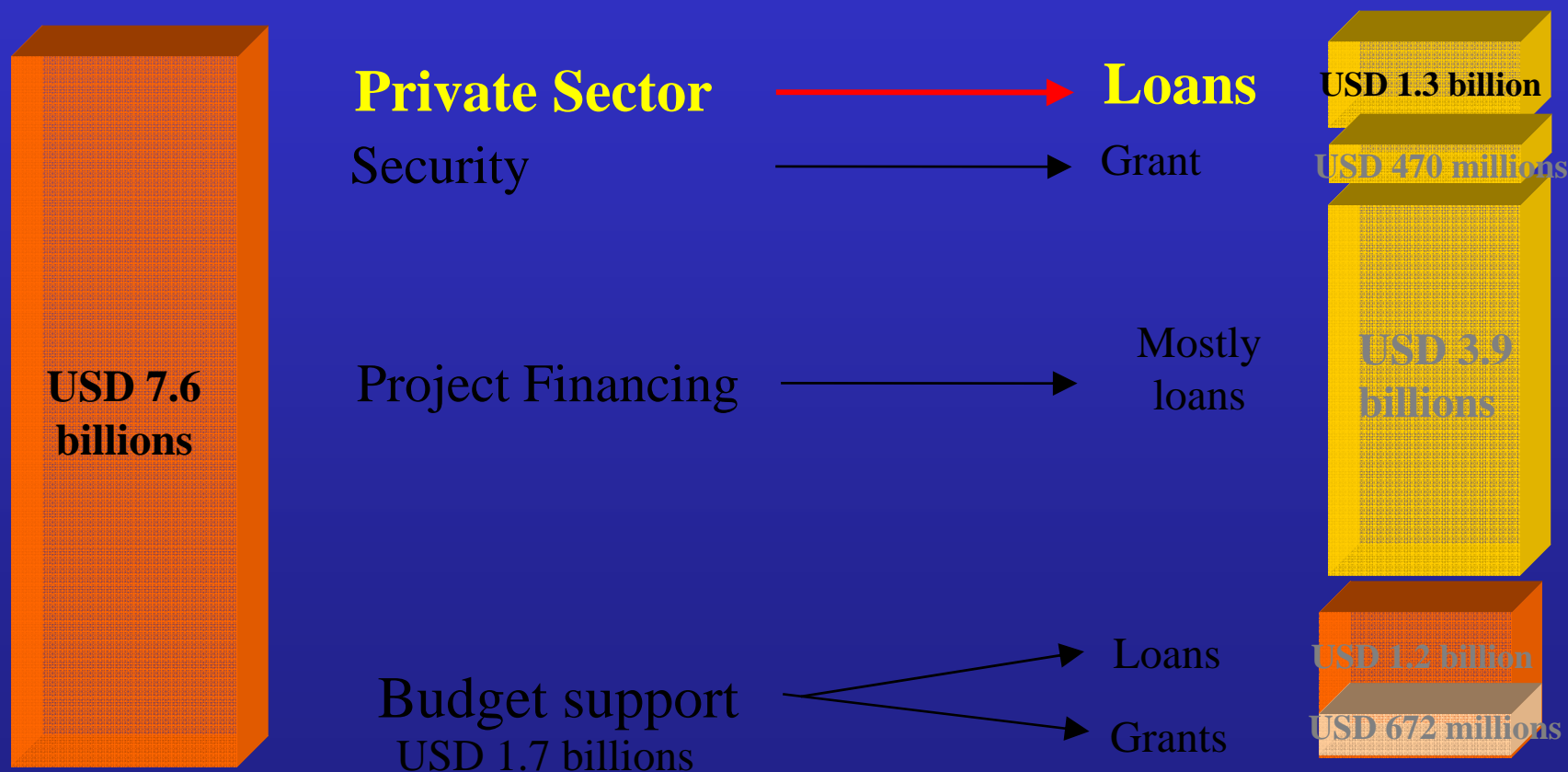
The government wanted to
make available about
\$1000 million in soft
loans for economic
recovery

Expanding the
guarantee scheme
program of Kafalat to
other sectors

Expanding the
availability of funds to a
larger base including
the very small and
small enterprises

PARIS III RESULTS

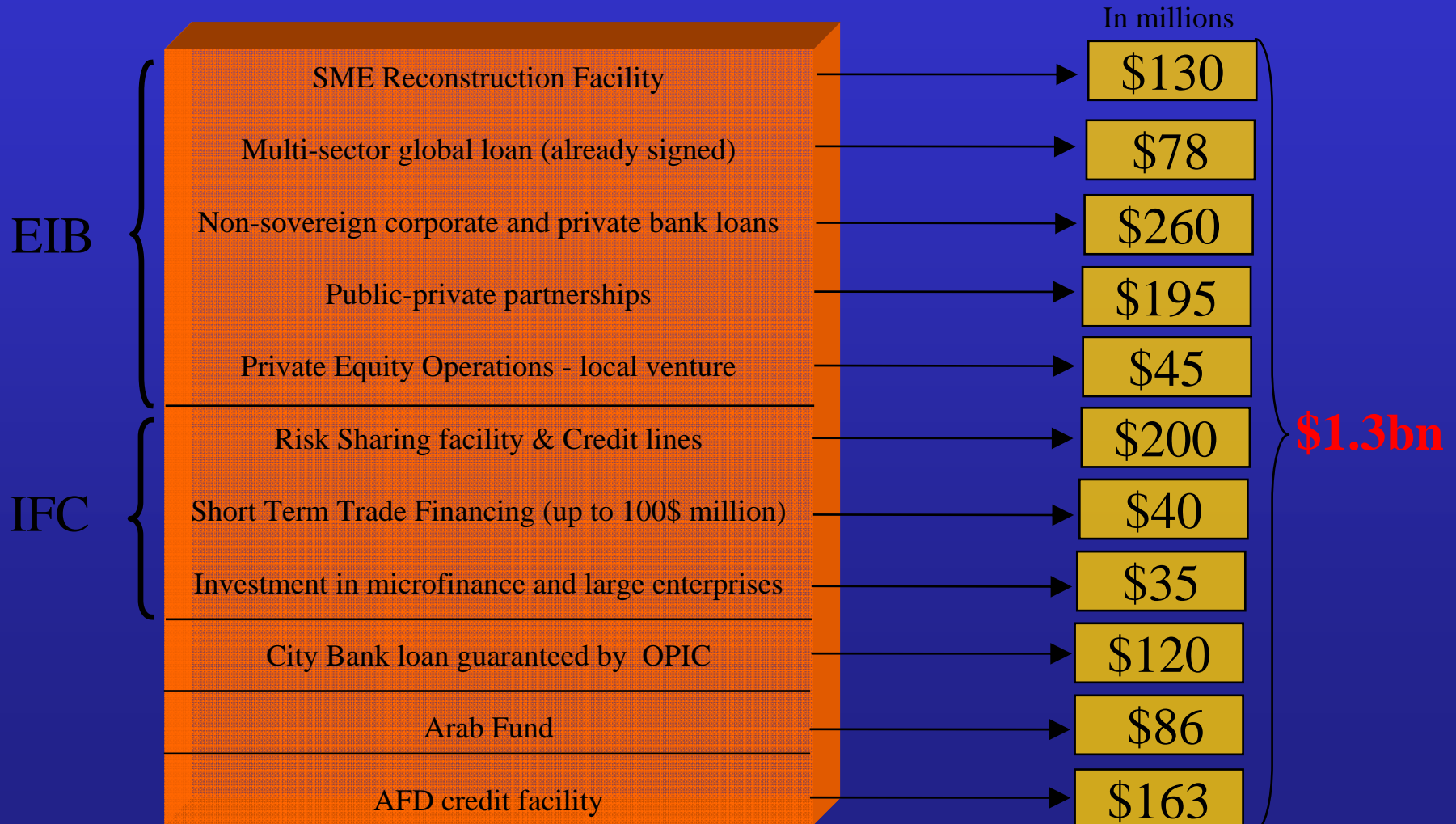
Support to the private sector represented 17% of the total pledges



PRIVATE SECTOR FINANCING

These are long term financing at below market rates

Support includes soft loans from EIB, IFC, AFD, OPIC and Arab Fund



INTERNATIONAL PARTNERS' FINANCING FACILITIES

- **IFC** program is designed to encourage banks to on-lend to SME clients through the risk-sharing facility. The program size of USD 200 million will be divided between the risk sharing facility and the credit lines.
- **EIB** Euro 100 million SME reconstruction facility (for SMEs affected by the war)
- **OPIC** approved USD 120 million financing package. OPIC-Citigroup facility is intended to mobilize private capital through Lebanese banks to finance SMEs, home repair and reconstruction, and long-term mortgages.
- **AFD** Euro 125 million. Maturity of up to 10 years with 2-year grace
- **AFSED** USD 86 million loan to be managed by the Central Bank Maturity of 17 years, with 8 years of grace period at subsidized rates

EQUITY FUNDS

The war weakened the balance sheets of several companies and debt to equity ratios could have become very high.

- The government explored the possibility of creating equity Funds with the European Investment Bank. EIB welcomed the idea and allocated Euro 35 million for private equity operations
- Several Equity Funds are being created in cooperation with the Banking sector & BADER
- The Management of these Funds will be done by specialized institutions and investment banks

AND OTHER FACILITIES ...

- The Asset Securitization Law provides a great opportunity for using innovative asset securitization techniques. These techniques allow for cheaper financing and better risk management, while also helping develop the Lebanese capital markets
- The ratification of the Capital Markets Law currently pending before parliament will work towards further developing the Lebanese Capital Markets, which will in turn allow for greater alternative for financing both the public and private sectors

THANK YOU