

Remarks by Julia Brickell, International Finance Corporation

Good Afternoon

I am delighted to be here today to represent IFC, and want to thank the Ministry of Finance and the OECD for convening this session.

Access to finance is one of the many challenges faced by the Private Sector in Lebanon. We at IFC see this most clearly when looking at the IFC/WB survey “Doing Business”. This is an annual survey that benchmarks the world’s economies against each other on a variety of indicators all related to the challenges the private sector faces in doing business in that economy.

Of course, as you can imagine, each year when the survey is published there is a great deal of criticism from people about specific rankings or the way the data is collected, and similar issues, but what is crucial about this survey is that the same questions are asked of the same types of people in each economy that is studied. Therefore, although there might be differences of opinion on some of the outcome numbers, the overall ranking system is a powerful tool for us to understand where challenges and bottlenecks occur, and gives a good overview of the overall ease of doing business in each economy.

And it is important, in IFC’s opinion that we continue to understand – and address – the challenges facing the private sector, because they are the drivers of the economy. Around the world, economy after economy has understood that the private sector is the only sustainable means to address unemployment, is the only way to create wealth and jobs, to pay taxes, and to help citizens lead fulfilling lives and to fulfill their own potential.

It is from this premise that the International Finance Corporation was originally established and it is this premise that drives all the work that we do today, in Lebanon and elsewhere.

In 2006 we teamed with the Ministry of Economy and Trade to hold a session that many of you attended on Doing Business in Lebanon. From that session, we identified a number of areas where we might be able to assist in improvement. You heard this morning from Marwan Mikhael about two of the programs we have been engaged in – a survey of administrative barriers and a program to reform the business startup process (an area where Lebanon scored particularly badly (116th out of 175 countries).

Access to finance is another area surveyed in the Doing Business report, and in Lebanon it is one of the few indicators where scores improved between 2005 and 2006, from 59th of 175 to 48th of 175, so a jump in rankings of 11 places. This is good, and in some part reflects the significant increase in liquidity in the region in recent years, and probably also the high growth rates Lebanon was experiencing prior to the July war.

However, as we look further into this area (which the World Bank did in its recent Investment Climate Assessment study), we learn that although Lebanese firms have unusually good access to external finance (better than their regional peers, although not as good as the OECD average), some 65% of firms report that cost of financing is a major or severe problem. While firms are in a better situation than their regional peers – almost 70 percent of firms have overdrafts or lines of credit, and more than 40 percent have an outstanding loan, what this means is that Lebanese firms are actually far more sensitive to the cost of financing than their regional peers who might not have access to such financing at all. And it is smaller firms that tend to suffer – they obtain financing on less favorable terms - with higher collateral, at higher rates and for shorter terms.

Now this is a problem, because the not only is it that the Private sector is the real engine for growth and prosperity in a country, but it is the smaller firms that are the core of that engine. This is particularly the case in Lebanon, with it's small size and entrepreneurial spirit, so it is really important that we think carefully about how we improve access to finance for these companies, and how we address the systemic conditions, such as lack of credit information, difficulty with legal enforcement, and such which might not be the areas one first thinks of when trying to understand why the cost of financing is so high, but which are actually crucial in developing a long-term sustainable solution rather than applying a band aid solution. Government indebtedness to the banking sector also plays it's part in making financing of the private sector less attractive to banks, and the sessions this morning have addressed Government reform efforts to bring down this debt.

My fellow speakers on today's panel are addressing many of the challenges faced by SME's – Kafalat with it's guarantee program, the Ministry of Finance with it's subsidy program and other initiatives, and Byblos Bank with the development of a crucial venture capital fund. I will leave them to discuss in more detail their efforts.

From the IFC side, we have been focusing on how we can help through our two core areas – investment and technical assistance.

During the Paris III meetings, we pledged between \$250 and 275m to support Lebanon's private sector, and we were one of the first institutions to start implementing our private sector pledge. The overall focus of our program is on support to small and medium enterprises, although there is support to larger firms as well – as they are facing similar challenges.

It is IFC's belief that the best way to reach the SME sector is through Banks and financial intermediaries. These are the entities that know their clients, that have

a relationship with them already, and who are better placed to respond to their needs than an organization like ours with only 6 staff in Lebanon.

We therefore focus on helping these intermediaries, by extending credit lines and other programs and at the same time offer technical assistance so banks can learn to do things faster, better, and therefore hopefully cheaper – both for them and for their end user clients.

In March we signed the first two long term credit lines with Banks (with BLOM and Fransabank) which they will use to extend long term financing to their clients. We worked closely with the Central Bank in designing these lines and were delighted with the support the Central Bank gave our and other such programs by allowing banks to take an exemption from their mandatory reserves, something that will help reduce the cost of finance for end users. Additional banks will continue to be signed up to our program in the coming months. The long term nature of these lines is extremely important in an environment like Lebanon, where most of the banks' deposits are short term in nature. Long term lines will help the banks weather short term political or other shocks better, and will allow banks to lend for longer periods, thereby helping their clients with needed access to long term finance.

We are also in the process of finalizing the structure of a risk sharing facility for SME's which we have designed with the assistance of some World Bank trust funds. This program is designed to encourage banks to increase affordable lending to SME's beyond their existing portfolios by IFC sharing the credit risk of SME clients equally with participating banks. We hope to sign the first bank up for this facility within a few weeks.

We have expanded our trade finance program in Lebanon, recognizing that trading and therefore trade finance is particularly important in Lebanon's context.

At the end of March we had a cumulative utilization of over \$70m with banks in Trade Finance.

In the technical assistance area we have been working on programs that aim to support SME's by making it easier to lend to them. We have three programs here that aim to do this, two of which are underway, and one which we would like to undertake in future.

The first is a program of technical assistance to Kafalat. Lebanon is lucky to have one of the best agencies we at IFC have come across to support its SME sector. We signed the first phase of an agreement in March with Kafalat to use World Bank trust funds to help Kafalat increase their capacity, and serve more customers, better and faster. We look forward to a long and positive relationship with Kafalat going forward.

We have also launched a program to increase awareness among companies of the importance of good corporate governance, and the role that corporate governance plays in increasing transparency of companies and therefore lowering the cost of financing to them. Over the next 18 months we will be using IFC internal funds to help specific companies improve their corporate governance, to raise public awareness as to why this is important, and to work to get good practice institutionalized in the ways companies operate in Lebanon.

Lastly we are eager to embark on work in the coming year to establish a formal credit bureau industry in Lebanon. Incomplete or inaccurate credit information results in significant increases in the costs of financing to SME's, and the establishment and proper regulation of the industry will have a significant impact on SME access to finance. Other countries with similar banking secrecy issues to Lebanon have managed to successfully introduce such programs, and we believe that a thriving and competitive, well regulated credit bureau industry will be of benefit to all.

Finally, I would like to close by mentioning an initiative of particular importance to IFC, and that is the monitoring of effectiveness of these programs. This is something we have paid a lot of attention to, as we believe it is no good offering a product that doesn't reach the group it is targeted to, or doesn't significantly improve the situation it is designed to address. We spend considerable effort in monitoring and tracking the impacts of all our programs – in designing the Lebanon program we have therefore been able to build on the experience in other countries, and the experience of the Lebanon program will help refine and improve our future programs both here and in other countries.

Thank you.