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STARTUPS AND SMEs: THE WAY TO GO IN LEBANON



Lebanon is at an economic crossroads. The internal political stalemate and the perverse regional impact on its economy and business climate have taken a heavy toll on the country in the past few years, and the need to reverse this destructive course is imperative. Against this backdrop, Lebanon is in dire need for a comprehensive economic blueprint and a roadmap to rid itself of this conundrum and set itself on a sustainable growth path. In this context, private sector development needs to rank high on the reform agenda of the new government; this endeavor can be achieved only by instituting a proper business environment to encourage forming startups and small and medium-sized enterprises (SMEs).

It is a well-known fact that SMEs play a significant role in economic activity. They create jobs, contribute to innovation, and promote diversification of economic activity and the sources of national income. SMEs are impactful, as well, in way of promoting inclusive growth and female empowerment.

There is ample evidence to the key socio-economic contribution of SMEs and startups. Globally, reports from the International Finance Corporation estimate that SMEs contribute to more than 50 percent of employment and national output in most countries irrespective of income level. EUROSTAT data reveal that enterprises employing fewer than 250 persons represent

99 percent of all enterprises in the European Union, account for about 60 percent of jobs, and contribute between 50 to 60 percent on average of value creation in these economies. On its part, the World Bank estimates that in emerging markets most formal jobs are generated by SMEs, which also create four out of five new positions.

Closer to HOME, in the Middle East and North Africa region, SMEs are reported to represent between 80 percent and 90 percent of businesses and account for nearly a third of private sector employment. With regard to SMEs' contribution to gross domestic product, the share varies with approximately 80 percent in Egypt, 50 percent in Jordan, and 33 percent in Saudi Arabia. Nevertheless, the average share of bank lending portfolios in the region is only 7.6 percent, causing a financing gap for this important sector.

In Lebanon, it is estimated that SMEs represent more than 90 percent of total companies in the country and employ about 82 percent of workers in the private sector. It is noteworthy, however, that SMEs in Lebanon enjoy higher access to financing than that of the region with a share of 16 percent of average banks' loan portfolios. Still, data show that 70 percent of these companies do not have proper access to finance, which highlights the need for more funds from overseas' investors. Such efforts not only help Lebanese SMEs

acquire funds but also create investment opportunities for foreign investors and Lebanese expatriates who wish to invest in their own HOMELand.

To encourage entrepreneurs to start businesses in Lebanon, a number of schemes have been established that potential entrepreneurs can benefit from, including the many research, innovation and training centers and programs available to offer assistance and facilitate the establishment and activities of SMEs and startups in various sectors. Box 1 lists a few of these centers.

Lebanon for Entrepreneurs	An initiative launched in 2013 by prominent Lebanese diaspora organizations and targets ICT startups.
Wamda Research Lab	A platform of integrated programs that aims to accelerate entrepreneurship ecosystems throughout the MENA region.
Endeavor Insight	A knowledge center for high-impact entrepreneurs and venture capitals (VCs).
SETT Partners	An organization that supports companies in creating an entrepreneurial and innovative culture through customized workshops and advising startups on fundraising strategies.
ArabNet	An organization that helps grow the web and mobile sectors in the Arab world and stimulate the growth of the Arab digital knowledge.
CIT	The Centre for Innovation and Technology (CIT) works to secure sustained support and innovation to the manufacturing industry.
LIRA	A Ministry of Industry Program that aims at building effective cooperation between industry, academia and research centers to address the R&D needs of Lebanese industry.

Box 1

Source: Guidebook What's in Lebanon for SMEs, 2017

In addition, there are numerous accelerators and incubators that operate in Lebanon to facilitate the formation of SMEs and provide them with business support, networking, hosting and even funding in some cases. The most salient of these are the UK Lebanon Tech Hub, Berytech, Bader Youth Entrepreneurs Program, Start-up ESA, and the diaspora network LebNet which is a U.S.-based, Lebanese-American, high-tech professional society with a member concentration in Silicon Valley, California.

Notwithstanding these facilities, financing SMEs and startups is central in this debate. Along with the direct loans from banks, a number of financing schemes are in place in Lebanon to encourage the establishment of startups including micro-credits, credit guarantees, angel investors, venture capital, private equity, and subsidized loans, most notably the Central Bank of Lebanon incentive loans to encourage banks to invest in tech-based startups in the country, such as in BDL Circular No. 331 issued in 2013.

Credit guarantees schemes include Kafalat and The Economic and Social Fund for Development Project, which is part of the EURO-Med partnership established between the European Commission and Lebanon in year 2000.

Micro-credit institutions are also available and provide needed funds to startups and entrepreneurs with amounts of as low as \$1,000, including Al Majmouaa, Vitas, Emkan, Hariri Foundation, Economic and Social Fund for Development, and Tamkeen.

Earlier this year, the Investment Development Authority of Lebanon launched a \$48 million fund to support startup companies involved in technology and software programming.

SMEs may also benefit from the support Lebanon receives from the international community to promote SMEs and startups. In June 2018, the USAID officially launched a project in Lebanon to fund SMEs in various parts of the country

through a \$25 million grant to be implemented by the Lebanese Berytech that provides assistance and financing to startups. Lebanon also benefits from the EU's Horizon 2020 Innovation and Research program with a budget of \$98 billion. In turn, the European Investment Bank has recently signed the Lebanon Private Sector Support project, a line of credit totaling EUR 265 million to support SMEs projects.

Though a promising setup has been developing in Lebanon to foster SMEs, much more needs to be done. In particular, there must be concerted efforts to enhance the regulatory framework, bridge the financing gap for the sector, and secure political and economic stability in the country. As such, a clear strategy and action plan needs to be carried out to promote SMEs and startups as the backbone of sustainable growth and development of the country in various sectors.

On the financial side of SMEs and startups, this issue has always been a challenge worldwide in both developed and developing countries. This is especially true in countries with less developed financial markets. As such, it is essential to ease the financing constraints both on the supply and demand side for these enterprises and bridge the credit gap. The excessive documentation and collateral requirements, from commercial banks in particular, discourages the SMEs and startups from seeking external funding. Commercial banks generally favor lending out to larger more established organizations. In Lebanon, financing gets all the more difficult in an environment of rising interest rates that makes borrowing more expensive for businesses.

To summarize, the most expeditious path for Lebanon toward economic prosperity, diversification, and job creation is to promote SMEs and startups and attract foreign investors and first and foremost the Lebanese investors around the globe to invest in Lebanon.



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