



# ACCESS TO FINANCE FOR MSMEs IN LEBANON

## COMPONENT 3 OF THE PSD PROGRAMME

FUNDED BY THE EUROPEAN UNION & IMPLEMENTED BY EXPERTISE FRANCE

# ACCESS TO FINANCE

## CHALLENGES



For small scale borrowers (Micro, Small and Medium-sized Enterprises-MSMEs) in peripheral areas in Lebanon, access to finance is a major challenge for their development. For them, the Lebanese lending scene remains dominated by high collateral requirements, high interest rates and tightened monetary policy prohibiting the access to finance working capital and seasonal loans. In addition, they are largely not bankable, lack information on subsidized or dedicated loan programs designed to meet their constraints and need support in articulating and presenting their loan applications. They are mostly below their growth potential and fail to see the impact that modern techniques and new machinery can have on their growth and quality production.

From their end, the financial institutions, essentially commercial banks, expressed their interest in the PSD-P related sectors. They are willing to go down-market and up-market respectively in their financing schemes, yet they need to know more about the sectors, and more about how to serve these MSMEs.

## INITIATIVE



Access to finance is a two-way street in Lebanon. Both lenders and borrowers need to know each other better. The Private Sector Development Programme's intervention aims at:

- providing assistance to MSMEs active across the targeted value chains, through a network of experts, partners and Business Development Services (BDS), in a variety of fields that include technical knowledge, management and governance skills, in order to make the MSMEs eligible for a bank loan
- giving the financial institutions confidence thanks to the fact that the capacity of their potential clients to develop their businesses is reinforced throughout the programme

## ACTIONS



Within this scope, the programme has developed:

### *Non-financial support services to the MSMEs and financial institutions*

- to strengthen the financial institutions sector's knowledge, namely field and credit officers, at headquarters and branch levels on building and analysing a loan application in the related sectors (furniture production and the agribusiness sectors)
- to improve the financial inclusion (bankability) of respective stakeholders (MSMEs) across the concerned value chains by enhancing their technical and financial knowledge, management and governance skills and encouraging formal financing

### *Financial support services:*

Setting up a conditional grant fund mechanism as an incentive to improve the financial situation of the MSMEs active across the selected value chains by enhancing their investment capacities (financing supplementary equipment and installations, working capital,...) and access to existing financial products (access to the bank will be encouraged).

The grant fund is conditional, systematically related to a loan and proportional to it. It is not to be returned by the beneficiary, not subject to an interest rate and it is not conditional to any other constraint that is not linked to the loan granted to the beneficiary. The conditions of obtaining the loan are determined by the financial institution providing it and within its current loan products.

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## ACTIONS



It has been developed this way for the following reasons:

- the MSMEs needs are best revealed by the loan they are willing to contract and its purpose. It is a commitment that the MSMEs will take vis a vis the donor as well as with the financial institution
- to make the beneficiaries bankable, in the long term
- to avoid provoking a distortion of the market providing an unconditional grant
- to permit a professional follow-up of the application together with the established financial institutions, even after the end of the program
- to support the financial institutions to improve and customize their products in relation with the specific needs of the beneficiaries of the PSD Programme

However, the grant fund mechanism must

- avoid any competition in products within the same FI/MFI
- not affect benefits or incentives for the financial institutions or their field officers. Time spent by the financial institutions to prepare the beneficiaries' files and disburse the money must be the same as without the grant

## BENEFICIARIES

Eligible beneficiaries were MSMEs active across the value chains (production, transformation, distribution, marketing and sale) targeted by components 1 and 2 of the PSD Programme:

- Table grapes and cherries
- Avocados and vegetables
- Wood processing and carpentry in greater Tripoli

Wood processing units and farmers are then the main targeted beneficiaries of the grant fund

## EXCLUSION CRITERIA

Grants were not allocated in the following cases:

- applicants who have another major source of revenue, that is not in the farming or wood industry, will not be eligible for a grant
- whenever the grant is liable to create a major distortion in the economic environment. For example, if its purpose is to create a processing line or a warehouse in an area where a similar item already exists and is not operating at full capacity, then the application will not be subject to a grant
- beneficiaries of an active loan, hoping to benefit of a grant, will not be allowed to reschedule their loan. They will, therefore, not benefit from a grant, unless their loan comes to its term before the end of this program
- likewise, clients facing difficulties in reimbursement, may not reschedule their loans in order to benefit from the grant
- there is no evidence of increase in production capacity or reduction of expenses
- new entrants to the initial step in the wood, grapes and citrus value chain are excluded. The fund will not support new wood processing units. However, for current loan clients, it may decide to raise or adapt the grant to include the acquisition of safety or health prevention equipment, under strict supervision from Expertise France experts
- every beneficiary is entitled to one single grant, over the duration of the program



## METHODOLOGY



*The disbursement of the grant and loan to the beneficiaries was done in 2 steps:*



### Step 1: identification of the potential beneficiaries

The primary identification of these beneficiaries is done through the implementing partners (BIAT, CCI AZ, Mada, Fair Trade Lebanon and RMF) as well as all the network of MFIs/NGOs.



### Step 2: Disbursement of the loan and grant

The disbursement of the loan and grant were done based on the following table:

	Option one			Option two
	Kafalat	ESFD	MFI / NGO	BIAT/CCI AZ
Beneficiaries	<ul style="list-style-type: none"> <li>New and renewing actors within the concerned value chains</li> </ul>	<ul style="list-style-type: none"> <li>New and renewing actors within the concerned value chains</li> </ul>	<ul style="list-style-type: none"> <li>Renewing actors within the concerned value chains</li> </ul>	<ul style="list-style-type: none"> <li>New within the concerned value chains</li> </ul>
Eligibility criteria	<ul style="list-style-type: none"> <li>For loan: Kafalat criteria</li> </ul>	<ul style="list-style-type: none"> <li>For loan: ESFD criteria</li> </ul>	<ul style="list-style-type: none"> <li>For FI: MFI or NGO criteria</li> </ul>	<ul style="list-style-type: none"> <li>Depending on FI or Bank</li> </ul>
Loan amount	<ul style="list-style-type: none"> <li>&lt; US \$ 320,000</li> </ul>	<ul style="list-style-type: none"> <li>&lt; US \$ 50,000</li> </ul>	<ul style="list-style-type: none"> <li>&lt; US \$ 7,000</li> </ul>	<ul style="list-style-type: none"> <li>&lt; US \$ 320,000</li> </ul>
Grant amount	<ul style="list-style-type: none"> <li>Up to \$50K, same as previous</li> <li>Then, up to 20% of loan amount with a max. of US \$30,000</li> </ul>	<ul style="list-style-type: none"> <li>Up to \$7K, same as previous</li> <li>Then, up to 30% of loan amount with a max. of US \$ 9,000</li> </ul>	<ul style="list-style-type: none"> <li>Up to 40% of loan amount with a max. of US \$ 2,000</li> </ul>	<ul style="list-style-type: none"> <li>Previous conditions apply</li> <li>Depending on loan size</li> </ul>

Disbursement can be either in LL or US\$, at the discretion of the financial institution.

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### MAIN BENEFITS AND ADDED VALUE OF THIS SCHEME

The developed financial scheme:

- involved all social and development actors in the areas: dissemination of information regarding the grant will be done through NGOs and MFIs as well as our partners
- targeted individual beneficiaries of all social scale and MSMEs that are active all along the value chains
- involved most of the actors within the financial sector (MFIs, FIs, Kafalat, ESFD...)
- did not lead to market distortion or over production
- did not create competition in products/programs within the same MFI and FI
- did not advantage any beneficiary over another
- guaranteed a fair disbursement of the grant between the MFIs, FIs and financial NGOs evolved based on their previous history, average loan and presence in the selected areas
- alleviated the weight of the interest rate. The weight of the interest rate on the loan is reduced as the loan is combined with the grant to which no interest rate is applicable
- in the same manner, alleviated the weight of the guarantees to be presented by beneficiaries.
- financed equipment that are excluded from existing loan programs
- provided access to cash for the acquisition of raw material, seeds, etc
- guaranteed that the use of funds will be primarily to graduate beneficiaries to an upper level of loans. Access to the bank will be encouraged

Follow up on the use of the fund will be done by Field officers and BDS, allowing for higher sustainability

### RESULTS



- 628 beneficiaries
- 314 new clients for the financial institutions
- 834,864\$ amount of grants (1,329\$ average grant)
- 2,289,287\$ amount of loans (3,645\$ average loan)
- 19 training and information sessions for beneficiaries and financial institutions
- 43% of loan/grant used to buy equipment
- 52% of loan/grant used for input purchase and working capital

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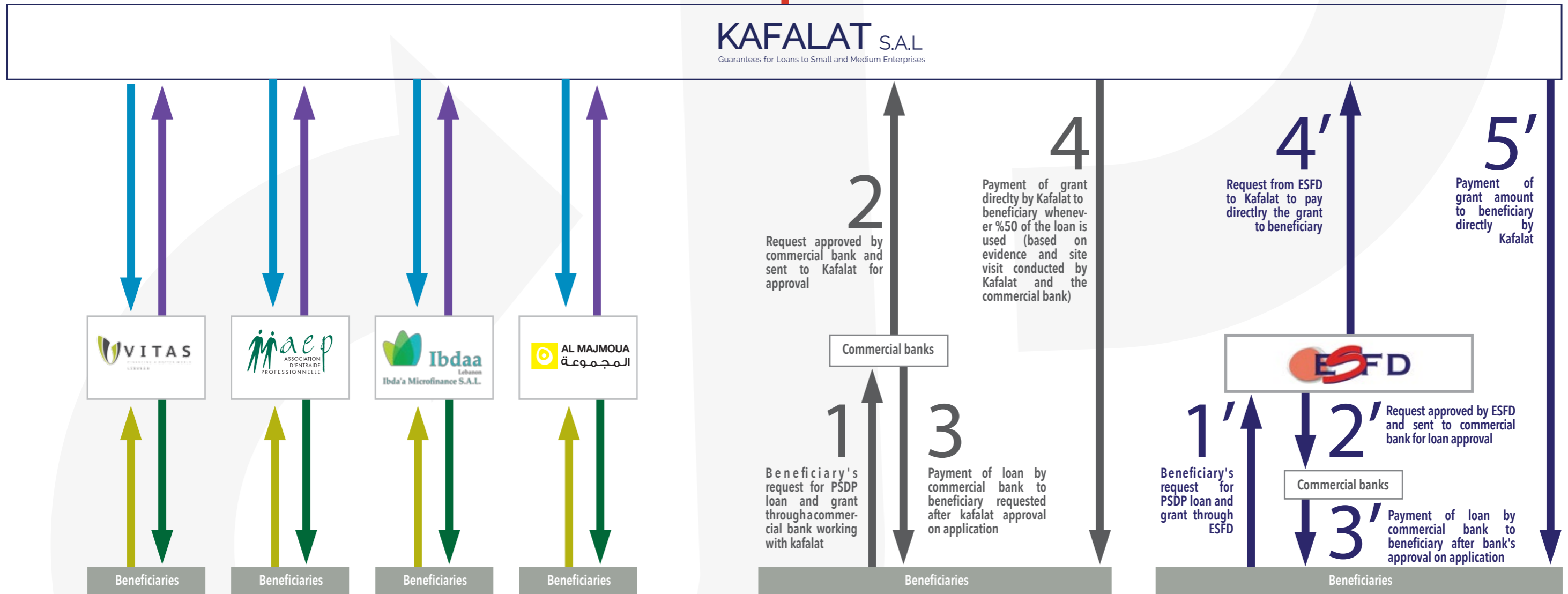


**2 contracts signed with Kafalat:**

**Contract 1:** allowing Kafalat to manage and monitor the bank account EF opened at the Central Bank of Lebanon for grant disbursement to the financial institutions

**Contract 2:** for grant distribution to Kafalat's final beneficiaries

**NB:** Expertise France signed contracts with all the MFI for grant distribution to their respective beneficiaries



**A** Beneficiary application submission to the MFI for loan and grant under the PSD-P

**B** MFI payment of loan and grant after internal approval of the beneficiary's application

**C** Payment of grant amount as per MFI request letter and after Expertise France's approval following a financial audit conducted on previous loans/grants disbursement

**D** Request letter from MFI to Kafalat to transfer a new amount of grant to MFI bank account whenever the previous one is fully disbursed. The new grant amount is predefined by the MFI according to its proper forecast.