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SPECIAL REPORT

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By Thomas Schellen

A HOUSE OF MANY FUTURES

Lebanese banking in times of scarcity and reforms

They have never seen the likes of it. Elias Alouf experienced a Lebanese childhood and adolescence. He is today general manager of one of Lebanon's most history-rich banks, BSL, which has 155 years of existence under its belt, but in his living memory Alouf never witnessed such an intense cabinet debate as he did in May 2019. "For the first time in my life, I see in the 2019 budget discussion that the Council of Ministers is meeting regularly to discuss a single issue. What struck me most in this regard was that on one day they worked from 9 p.m. to 3 a.m. This has never happened before, and this means that they are serious in tackling the issues of the budget," Alouf tells Executive.

Like any banker, Alouf is fully cognizant that the proposed budget's revenue measures, of which the raised tax on interest income is the most significant one, will hit the banks as well as their depositors. "We as [the] banking sector will obviously have to contribute our part under the new budget, and we will be impacted by the planned measures. When the state increases the taxation of interest from 7 to 10 percent, this burden does not only fall on depositors who will have their revenues taxed [more than before]. This measure will also impact the revenues of banks, because the money that I am taking in from depositors is placed with the central bank by way of different interest-bearing instruments. I will face a higher withholding tax on these interest earnings. Nevertheless, as banks we will have to adapt. Overall, I am very positive. What I would like to see in the budget, however, is a view for the future, a view toward profound economic reform," he explains.

A qualified positive view on the state's budget needs, and eventual future reforms and their economic impacts, is also the perspective of Shirine Beyrouti, the head of project finance and syndications unit at Byblos Bank. "Everybody will have to contribute their fair share, it has to be the public and private together in an equitable way, with reforms that make sense. And the banks are strong enough [for this]," she says.

Nonetheless, the upside of the cabinet's seriousness in drafting this budget is accompanied for many by a downside in the proposed budget's lack of convincing reforms, as economists pointed out repeatedly during the weeks when the budget law was readied for submission to Parliament. And from the banking perspective, despite the sector's awareness of its many strengths, the debates over the budget with all their collateral protests and knee jerk actions have witnessed another, perhaps most serious downside in the fact that these debates saw fearful rumors and deliberately damaging propaganda about economic meltdowns in Lebanon run—over months—from peak to peak.

BUSINESS UNUSUAL?

"The current economic situation is not difficult. It is artificial. We are living in an artificial financial and economic environment right now, but I think this will be short-lived" answers Salim Sfeir, the chairman of Bank of Beirut when asked by Executive about his view on the prevailing economic situation in mid-2019. For Freddie Baz, chief strategist and vice-chairman of Bank Audi Group, the problem of the fake debate over the state of the Lebanese economy is as blatant as the debate is defying of logic and proportion. "If we compare the risk profile of Lebanon three years ago with the risk profile of today, how would it be rational for people to have been comfortable enough with the risk profile back then so that they had no ground for panic? We have a problem in this regard. Yes, there is a deterioration in the risk profile [if one compares 2019 to 2015], but this deterioration is not to the extent that it should translate into a justification of panic," Baz tells Executive.

He emphasizes that his message is not intended to signal that banks are happy with the current status of the economy, with the delays in reforms, or with the overall efficiency of the government and administration, "There are so many things in the public governance of Lebanon that need to be addressed and adjusted. Many reforms need to be implemented, and real improvement in the political governance is required. This is also necessary for the sake of the private sector so that it can recapture its competitive edge," Baz says, continuing: "But I want to tell you that this risk profile of Lebanon and all the debate about 1 percentage point more in [the ratios of] budget deficit to GDP and debt to GDP is teeming with pseudo-experts and politicians who have their own agendas. They are making people go mad by telling them that the risk profile is an indication of definite collapse—[something] leading to a collapse, to hyper-inflation, a drift in the exchange rate, insolvency, and so forth."

Seen from this perspective, the last 18 months in Lebanon were marked by two narratives that propagated themes of "business unusual" and had their problematic impacts on banking. One narrative was the search of the country for a sane government. It had more cliffhangers than any Netflix series and bubbled over with irrational plot twists. The other narrative relates to the spread of negative propaganda about the economy by interested or ignorant parties.

It would be extraordinarily naïve to remain unconcerned under those double barrages of unwelcome surprises and fake news, and banking sector numbers, albeit much better than some might have expected them to be (see pages 33-35 for the latest charts), contain enough ambiguity to fuel the minds of the eternal worriers among local and international economists. One sign that could, for example, worry some observers is the evolution of the Beirut Reference Rate (BRR), a monthly interest indicator calculated by the Association of Banks in Lebanon. Issued first in 2009, annual snapshots of the rate in May of each year show the BRR on US dollars jumping from 4.79 percent in May 2011 to 5.77 in May 2012, then advancing incrementally on an ascending slope to 5.87 in May 2013; 5.94 in 2014; 6.14 in 2015; 6.24 in 2016; 6.72 in May 2017, and 7.30 in May 2018. But from this elevated value, the BRR then jumped by more than two full percentage points in only one year, to 9.58 percent in May 2019. As the BRR is connected to lending interest calculations of Lebanese banks, the leap in the rate is not good news for Lebanese companies seeking to borrow from their banks (see comment page 32).

> "The current economic situation is not difficult. It is artificial. We are living in an artificial financial and economic environment."

However, there are doors of good promise to the future. For Audi's Baz, one light at the end of the tunnel of fake and frivolous debates that have sought to down-talk the Lebanese economy is the fact that the propaganda assault against Lebanon's economy has been going for 18 months without producing extreme results. "The outflows of deposits in the last 18 months was $4 billion or $4.5 billion out of approximately $115 billion of domestic deposits in foreign currencies, although the outflows were concentrated in two periods in the last two months of 2018 and in early 2019. This means that dollarization increased by 1 or 2 percent [-age points] and outflows represent 2.5 percent of domestic deposits. [By now], panic signals should have been translated into either more panic of people still holding local currency savings or more panic of those people who are keeping their savings in Lebanon. This is not the case. More importantly, if we consider Lebanon as a single bank for the argument, this bank, despite all panic signaling that has been going on, is still proving its capacity to maintain $115 billion of deposits with a rate of 5.5 percent [interest on deposits], which is 2.7 percent more than what most global banks are paying on three-month deposits," Baz points out.

When seen in context with the positive developments that have emerged in 2019, Baz, in an interview with Executive, states repeatedly that the deterioration in the risk profile of Lebanon is indeed real, but insists that this reality is more than compensated by various improvements, such as concerning political awareness of the need to implement reforms. "In my opinion, the percentage-wise worsening in the risk profile by several points is more than compensated by the improvement in the political governance and awareness," he says.

STRENGTH IN ETHICS

A further hard to assess but not to be underestimated factor contributing to the strength of Lebanese banks seems to be the sector's diversity. This diversity and wide range of banking positions and strategies is something like a collateral benefit of the banking sector's unusually large size in comparison with the size of the Lebanese economy. For example, while one might assume that the tighter lending approach of Lebanese banks that had to be observed in 2018 and 2019 would be engulfing all banks in the sector equally, the truth is that some banks have strategies that tend in entirely different directions (see SME story page 22). This is noteworthy, because the different banks may pursue their credit tightening and consolidations without Lebanon experiencing an aggregation of identical banking decisions that come all at the same time, and then might be counterproductive for economic development.

Another energy with strong potential to work to the advantage of banks in the to-be-expected austere times resides in their ethical orientation. The conscious tiers of the Lebanese banking sector have, in recent years, invested great efforts in the improvement of their ESG policies. Observers of Lebanese banks thus are increasingly treated to perspectives such as this one by Nada Rizkallah, deputy general manager and board member at Credit Libanais Group. "Credit Libanais continuously strives to maintain best ethical practices, which was evident in the bank becoming a signatory to the Investors for Governance and Integrity declaration. Moreover, the bank has developed an Environmental and Social Management System," Rizkallah tells Executive. (Editorial disclosure note: Executive editor-in-chief Yasser Akkaoui is founder of the IGI initiative.) According to her, the ESM system is now applied at Credit Libanais in all of the bank's credit decisions, meaning that, for example, borrowing enterprises have to meet well-defined environmental and social standards.

As Bank of Beirut's Sfeir confirms about the role of banking in periods of scarcity, "In this time, the role of the banking system is to fuel the economy of the country and give enough strength to the country to not face a long period of austerity."

For BSL's Alouf, the primacy of ethics permeates all of his bank's practices. "As I have been saying since joining this bank, banks have a mission in any country, and this mission of helping the economy grow is in their DNA," he tells Executive. For him, this means, for example, to prioritize lending that helps people fulfill legitimate needs for education, homes, and sane vehicles, but not lend money for luxury acquisitions or trips just for the sake of having the bank do more business.

There appear to be as many perspectives on ethics and moral orientation of banking in Lebanon as there are sincere banks with good governance, and a sense of their business mission that is in agreement with their shareholding structure and stakeholder interests. As the banking numbers on the whole do not appear threatening for Lebanon and have not appeared so for years, and as profit margins and profits are expected to reflect any real direction toward spending control and revenue improvement that the Lebanese state has written this year on its banner—or is assumed to commit to with notable substance this month through adoption of the 2019 budget law—banks have much to do and innovate to help Lebanon find its new direction.

> "In this time, the role of the banking system is to fuel the economy of the country."

Today more than ever, no one can deny that banking in Lebanon is inseparable from the fortune and economic course of the country and its government. For Byblos Bank's Beyrouti, the issue is clear. "Until the outcomes of all discussions are visible, the only thing that banks can do is be conservative, maintain their liquidity in order to be ready to support the economy at [the right moment]. At this point, I think, everybody will have to put their skin in the game," she says. And similar awareness is what, despite all their competition with each other, unites plenty of her banking peers (ones that Executive interviewed this summer and those that were not available for different reasons).

By Thomas Schellen

TRAILS OF SMARTER LENDING

SME finance as driver of job creation and sustainable banking in Lebanon

Not long ago, at the April 2019 annual spring meetings of the International Monetary Fund (IMF) in Washington DC, one of the most-touted themes was the finance of small and medium enterprises.

That a flagship event of the IMF in 2019 would highlight SME banking is not out of the norm—after all, SME finance has been a well-known concern of international financial institutions (IFIs) for decades. However, it was a bit more unusual to hear speakers at an "analytical corner" session on financial inclusion and SME access to credit in MENAP/CCA (Middle East, North Africa, Afghanistan, Pakistan, Central Asia and Caucasus) countries open their talk with describing an entrepreneur called Tony.

Tony, the IMF presenters said, was a successful Lebanese small business owner who had succeeded in obtaining an $80,000 SME loan "from a private bank in Beirut" that had enabled him to open a branch of the bakery that had been founded 20 years ago by his mother, with her "delicious recipe for making bread" (read *mana'eesh*). The loan allowed him to expand his staff and increase his retail sales by 50 percent.

In short, it was impressive that an SME credit access focus session at the 2019 IMF spring meetings featured a Lebanese SME example as a success story of SME lending in MENAP/CCA, although the narration was somewhat imprecise in certain details. *Mabruk* Tony, and mabruk his bake shop in Zalka.

SME ACCESS IN THE COUNTRY BETTER THAN ITS PERCEPTION

From the local vantage point, it was perhaps even more memorable to see a Lebanese SME story highlighted in this context, given the unintended irony of using a Lebanese story as a shining example of small enterprises' access to credit in a presentation that also outlines key factors—such as sound macroeconomic fundamentals and stability, and a favorable business environment—that, from IMF perspective, matter for financial inclusion of SMEs.

But when Executive drilled below negative surface perceptions—that SMEs in Lebanon have an impossible time when they want to obtain credit, or that Lebanese banks are in principle very reluctant SME lenders—we found little support for this defeatist narrative. Instead, important local banks displayed a positive approach to SME finance. For example, Shirine Beyrouti, head of the project finance and syndications unit at Byblos Bank, tells Executive: "As a commercial bank, Bank Byblos has always been keen on financing and supporting SMEs. This is in our strategy. We strongly believe that the more we can reach out and support SMEs, the better it is for the economy."

Publications and press statements by banks and IFIs present in Lebanon testify to a growing number of funding partnerships for SMEs with alpha banks, such as Credit Libanais, SGBL, and Fransabank. The partnerships often involve the provision of facilities for on-lending but can also be in form of IFI participation in equity of Lebanese banks or/and in the form of technical support and consultancy on SME finance.

At Bank Audi, where an SME unit was created just a few years ago with consulting input from the World Bank/IMF Group's International Finance Corporation, SME unit head Hassan Sabbah says that the banking sector in Lebanon is at 17 percent of lending to SMEs—better than the regional average of 7 percent but lagging behind developed countries. According to Sabbah, the Bank Audi Group allocated a "significant" budget for SMEs, and the bank has more than 5,000 SMEs and individuals running SME businesses who are taking loans.

"Our main reason [for establishing a dedicated SME unit] was an issue of [seeing an] opportunity, and another reason is that it is important for the bank to serve all the economic segments," he says. "We are strong at the corporate and commercial level, and also strong at the retail level; so we wanted to establish this business line to also be strong at the SME level."

CREDIT TO WHOM IT CREDIT IS DUE

At Credit Libanais, another alpha bank that last November entered a long-term financing arrangement with the International Finance Corporation (IFC) in form of a $50 million senior financing facility with preferential interest rates, Deputy General Manager Nada Rizkallah explains that this move was a continuation of an SME focus that had existed at the bank for more than 10 years. According to her, Credit Libanais entered its first SME financing deal with the IFC as far back as 2007, and was one of the first banks in Lebanon to support SMEs through provision of different types of loans with preferential rates and conditions. “For this purpose, the bank, throughout previous years, took advantage of the subsidy programs that were established by the central bank of Lebanon to finance SMEs among other sectors,” she says. “We also collaborated with several local financial institutions that support SME lending, such as Kafalat and the Economic and Social Fund for Development, and we collaborated with international multilateral development banks for the purpose of securing the necessary funding.”

The share of lending of their total portfolios that Lebanese banks dedicate to SMEs appears indeed substantially higher than the average share that the IMF found in the MENAP/CCA region stated in a report released in February and described in its 2019 spring meetings as the world’s lowest. Representatives of IFIs with long presence in Lebanon confirm to Executive that the Lebanese banking sector is advanced in its SME financing activities when compared to regional peer countries.

However, one has to consider additional nuances of the SME finance picture when adding in the activities of multilateral development institutions whose priorities are not necessarily the same as they are for commercial banks. Multilateral actors in development and finance provide funds to banks in the form of debt finance, meaning that a large facility is made available to commercial lenders under an agreed package. Such a package will have a cost frame comprising the interest rate that banks are paying to IFIs, and an agreed additional interest spread that banks charge when they lend to SMEs. These commercial banks are in turn obliged to use the funds provided by IFIs to lend to SMEs, plus the use and proceeds of funds have to be monitored by the IFI.

From perspectives of multilaterals that have the first priority to assist in economic growth and job creation in countries of operation, the local market conditions have been, at times, supportive of IFI participation in SME lending and yet, at other times, it would have not been helpful to provide local banks with low-interest credit lines for the purpose of onward lending to SMEs.

NO SIMPLE GAME

There is, according to a representative of an IFI with experience in the Lebanese market who asked to remain anonymous, always demand for access to finance for SMEs in Lebanon. Though this demand has varied over the years, from the perspective of an IFI present in Lebanon it is part of its mandate to boost economic activity.

“But IFIs are not in the business of distorting markets; they are in the business of crowding in private sector lenders,” they explain. “Thus, during times when the Lebanese central bank provided certain SME segments with low-cost funding, IFIs were not able or willing to compete against this kind of subsidized lending, nor would IFIs push their offerings to commercial banks in periods when these banks lower cost of funding, and thus were willing to provide SMEs with financing tools at affordable rates.”

A next layer of difficulty resides in an ambiguity of how different banks in Lebanon define what they consider to be SMEs, and in the large number of commercial actors that fit the size and economic profile of an SME, but are part of the informal economy. “The reality is much more complex, and the lower you go in the segment in terms of turnover and size, the higher the portion of informal and non-registered companies,” Audi’s Sabbah explains.

■ The Lebanese banking sector is advanced in its SME financing activities when compared to regional peer countries.

In any case, local bankers and international officials both confirm that Lebanon is now in a phase where increased cost of funding in the Lebanese market coincides with concerns over the economy, and so banks are more cautious when judging credit risk.

A NEW LENDER IN DIFFICULT TIMES

For the European Bank for Reconstruction and Development (EBRD) this constellation in Lebanon means that its timing was highly fortuitous when EBRD opened its Beirut office some 18 months ago, as the IFI extended its presence to Lebanon at a time when bank demand for low-interest finance kicked into high gear. “I think it was fortuitous timing for us to come as the country is right now in a period of economic challenge,” Gretchen Biery, EBRD head of Lebanon, tells Executive. “EBRD is an institution that puts a lot of emphasis on private-sector developments and support of SMEs, and thus I think we are a good fit in the region and in Lebanon in terms of helping private sector developments.”

As she explains, EBRD shareholders include governments from all around the world (the US being the largest shareholder) as well as supranational institutions: the European Union and the European Investment Bank (EU and EIB). With time, the IFI widened its scope of interest to a growing number of countries in all world regions and now has 67 governmental shareholders, with Lebanon and India as the latest joiners (to be a country of operation, a nation must also be a shareholder). "[Regionally], Lebanon is our newest country of operation, and our largest country by business volume is right now Egypt," Biery says. "This is a new region for us, and we see much opportunity in Egypt. Lebanon is [a] smaller economy, but we see many opportunities here."

However, even with qualified lending support available from a growing number of IFIs, banks Audi and Byblos both confirm that they have been recently on consolidation mode due to the economic situation and their growing cost of funds.

"In 2018 we started to decrease [exposure], and in 2019 we are really in the mode of trying to consolidate, of keeping our portfolio and our customers in the pink," Sabbah says. According to Beyrouti, tightening of credit is visible all around the banking sector. "Most of the banks are in the modes of taking care and improving or consolidating their portfolio. We [at Byblos] have not stopped lending, although we have the liquidity, but we have tightened our lending policy. Our policy continues to be conservative, so this is nothing new," she says. "Today being conservative means that we are a bit tighter on our credit standards. It would be very surprising for a bank to tell you otherwise after five years of limited growth [in the country's economy] and rising interest rates."

DIVERSE STRATEGY PLAYS

However, this reality is not the whole picture. In the strategy of Group Credit Libanais, emphasis on the development of SME lending was placed to the point that the three-year plan for 2019-2021 is to expand this specific activity. "We actually set a target to increase it from 20 percent of the bank's total consolidated lending at the end of 2018," Rizkallah tells Executive. "Under the bank's three-year strategy, the objective is for SME lending to reach 25 percent of the total consolidated lending portfolio by year-end 2021."

Elie Alouf, general manager at medium-size BSL Bank, also confirms that his bank's strategy is to continue increasing its SME lending. He tells Executive that BSL has recently introduced a simplified loan application for SMEs, different to that required from corporate loan seekers. In the total lending portfolio of BSL today, 35 percent of total lending is to SMEs, 44 percent in retail, and the balance is in their corporate lending portfolio. "I do not want to decrease [lending] to large corporations, but from now on, all the loan growth in our portfolio will stem from lending to SMEs and retail clients," he says. "Our target is to reduce the concentration [of loans] for risk-management purposes."

He goes on to say that his approach is one of a self-chosen mandate to pursue the SME market because "it is the major driver of economic growth anywhere in the world," even as he experienced some additional barrier in not having alpha bank size when he approached a first IFI on behalf of BSL.

"I approached one IFI that told me they only deal with alpha banks. However, they did not close the door as they said they will look into BSL. This makes me optimistic because for the last three years we have shown real nice profitability and credit risk performance," he says. "Our asset quality is one of the best, if not the best in Lebanon, and we have an appetite for lending. We will find a way, knowing that at the end of the day it is a disadvantage [not to have an IFI facility] because IFIs are lending at very low rates, so as for their partner banks to be able to lend at low rates." Alouf concurs that IFI preference for dealing with well-governed alpha banks is understandable, but calls for IFIs for reasons of fairness and avoidance of distorting impacts on the Lebanese banking sector to also consider beta banks that are solid, well-governed, and stable.

> "The financial sector in Lebanon is particularly important and constitutes a large part of the economy."

Alouf's ambition looks like not a bad match to what IFIs such as EBRD aim to achieve in Lebanon. Asked about the strategy and projects that EBRD pursues locally for the rest of 2019 and beyond, the IFI's country head Biery emphasizes that she hopes to find opportunities across all sectors and ranging from investments in government projects and infrastructure projects in line with priorities stated at CEDRE to public-private partnerships (PPP) and private sector plays. She explains, "2018 was our first year of making investments in Lebanon in earnest, and our focus was largely on financial institutions. This is what we do in any country because local banks are critical for facilitating greater outreach to invest in real economy as much as possible. It is also an entry point for us to get to know a country. We know that the financial sector in Lebanon is particularly important and constitutes a large part of the economy, so they will always be a big partner for us here."

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In terms of numbers, a first corporate loan and deals with banks advanced the EBRD's local exposure to 244 million euros. "In 2018, we invested in a green economy financing facility and in the first green bond in Lebanon, took an equity stake in a bank, and did an SME credit line. We also did several trade facilitation lines and beyond this we did our first corporate deal to a private electricity distribution services provider," Biery says. "In the background of all this, we did an enormous amount of work to understand what the other financing needs are in Lebanon; we made a wide outreach to companies in all sectors, and a wide outreach to the government to understand what the sovereign financing needs and public-private partnership possibilities are."

ALIGNING DIVERGENT PRIORITIES

Economists at IFIs and local bankers are unanimous in declaring that the spiking costs of funds for Lebanese banks make the presence of capacious IFIs today even more beneficial for the Lebanese economy than was the case in previous years with less pressures. This is true even as the banks emphasize the eminent role of careful risk assessments, regardless of any IFI funding deals that they have.

"Byblos has always kept its eyes out for industry, manufacturing, trade, and contracting. We always have wanted to finance these sectors because they, for us, are the productive sectors that promote the economy and create jobs," Beyrouti says. "Therefore it is part of our rationale [to support these sectors and their job creation]. However, as a commercial bank, we have to study the risk for each client on a case-by-case basis."

Noting that Byblos signed five global loans with IFI EIB over the past 15 years, and the most recent of them for 200 million euros in last December, she emphasizes, "One has to understand that the market is difficult, and that the cost of financing has lately increased tremendously, so we have to look at both the cost of funds and the matching of maturities. Since the costs of funds have increased for the commercial banks, the IFI funding lines play a greater role. Banks have to make it viable for the SMEs to get loans. We need to be able to provide financing at acceptable rates in order for the economy to keep going. Lending with IFI support provides added value to our SME clients, whether for their working capital, or in long-term financing contracts."

Lastly, it should not be overlooked that SME finance and the extension of valuable business support to SMEs also is a matter for financial institutions outside of banking. Just one example for this entwining of the fortunes of SMEs with the broader financial sector, and for their underserved needs beyond access to loans, is credit insurance. In the experience of Karim Nasrallah, general manager of the Lebanese Credit Insurer (LCI), SMEs are a tough sell for credit insurance, although SMEs would be the companies that are in the biggest need of the cover.

"SMEs constitute the bulk of businesses, and there is a huge population of companies that LCI has not yet catered to. While our normal business in the Lebanese market caters to medium and large companies, there is a possibility in creating a standardized product that would address the difficulties SMEs have in subscribing to a credit insurance policy," Nasrallah tells Executive. "This relates mainly to reporting—where credit insurance requires a lot of monthly reporting—and to having a product that one can acquire almost off the shelf, buying at the beginning of the year and renewing it at the end. We examined what could be implemented in Lebanon and worked on such a program, which we called Tajer, for trade."

> "Since the cost of funds have increased for the commercial banks, the IFI funding lines play a greater role."

He elaborates that the program's wider concept is to make SME companies ready for trade and provide them with safety of their receivables through a credit insurance policy that moreover, from a banking perspective, could be looked at as physical or moral security to provide funding against. By Nasrallah's reasoning, Tajer could even been sold through bancassurance channels and be used in such a way so that working capital provided by banks to SMEs could be secured with these companies' receivables, as enhanced by a credit insurance policy.

Better financial inclusion of SMEs, whether in the form of so-called green lending, preferential SME credit lines, trade finance facilities or credit insurance, holds great promise. Even with the caveat that the economic fruits of SME activity can be small, with less benefits in terms of average salaries than generated by large corporations, people in diverse societies can benefit greatly from more and economically better integrated SMEs. It is indeed hopeful in a country passing through hard financial times, like Lebanon, to know that, the more SME finance success stories such as Tony's they have, the better their prospects at modest prosperity.

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By Thomas Schellen

STEPPING FORWARD

CMA takes the lead on new exchange

While the capital markets show on the Lebanese national financial and economic stage had been one that, for years, fit above all a characterization of spurned overtures and unconstitutional delays in the implementation of declared and legislated measures, such as the transformation of the Beirut Stock Exchange (BSE), 2019 was kicking off with the boost. Already in December of 2018, a request for proposals (RFP) went out from the Capital Market Authority (CMA) and invited interested entities to submit their concepts and express their ambitions for becoming the operators of a new exchange, known as Electronic Trading Platform (ETP) and talked about as such in financial circles for about five years. Next, at the end of February, Beirut witnessed the convening of international exchanges upon the city—whose languishing BSE has only moved further down and has long attracted unflattering epithets, such as dormant and comatose—that in the first part of 2019 saw BSE market capitalization dwindle even below $9 billion. Executive sat with Firas Safieddine, the vice chairman of the CMA to find out more.

E ***At the end of February, the CMA welcomed participants to a conference on securities exchanges. After dedicating your energy to hosting this, what was the value of holding an international event of this caliber, with such a wide range of topics?***

The importance of the World Exchange Congress (WEC) in February was two-fold. [First] is the size of the conference and its weight internationally. The organizers of this conference plan their annual flagship event in the way that you bid to host the conference. Lebanon was chosen as winning bidder to host the 2019 event.

E ***But are we talking about a financial bid?***

No, [bidding] is about the program and commitment. There is no financial bid. Basically [you demonstrate] how committed you are, why you want the conference to be in your country, and if it is a good time for [the WEC] to be held in a country: Will the topics affect the local market, and will they impact the international side as well? Two years ago, we were chosen to host [this event], which was the 14th WEC. According to the organizers, [this edition in Beirut] was the most successful in terms of organization, in terms of size and attendance, and in terms of international participants: [meaning] exchanges. We had more than 50 exchanges that participated and exhibited here. One has to understand in this context that the WEC is not a regulatory conference, but a conference of exchanges. We decided [as the CMA, the regulator] to take the lead [of looking to host such an event] because the [BSE] is not taking such steps. We, therefore, decided to step up and organize this.

The second important matter regarding this conference was the timing. The conference happened just at the time when Lebanon is about to witness the launch of an Electronic Trading Platform, or new exchange. By the end of May, as all the bids for [operating the ETP] have been submitted to the CMA, we will be choosing a licensee. As the WEC came at a time when we had already issued the request for proposals for bidding for an exchange, and we benefited from this [concurrence] first and foremost in terms of generating awareness of Lebanese capital markets internationally, and [signaling it] to other exchanges—and not just them, but all downstream businesses, such as consultancies, technology providers, etc., everything related to exchanges. Also, [in terms of local participation], Lebanon was there at the event, and we thus now have a lot of awareness among the Lebanese on what we have planned for the future. One of the observations that we made at the event was that we saw one bidder for the [ETP license] actually make contact with one of the international exchanges. They then worked out an agreement and issued a bid together. If you want to have a tangible success, this is a tangible success. I am not saying that this specific bidder will be the licensee, but the [two parties] at least have come together for a joint bid.

E *Is it correct that the CMA was not averse to having international bidders, and in the RFP did not specify if the successful bidder can be fully international or has to form a consortium with a local partner?*

Nationality was not a criterion, it was simply the readiness to offer the best business solution catered to the Lebanese market. The evaluation formula of the bids was transparently communicated within the RFP, whereby CMA has set forth the criteria weight distribution according to technical, financial business plan and market development strategies, market making commitment and operator's ownership and governance profile.

E *When talking about international attendance at the WEC event, you referred to participation of technology providers. The operating of any exchange today relies very heavily on the respective technology platform and the chosen electronic systems. Is the technology platform proposed in a bid an important factor, and does the technology provider receive an important consideration when a bid is evaluated? And how important would it be for a local bidder to have capacity for adapting such a system from a foreign provider for the local market, or could the local operator just buy such a system and run it in Beirut?*

It is a possibility. Technology is one and the same. The providers of the technology are limited in number, and their systems have been adopted by most of the exchanges around the world. I think the key [for offering a strong bid] would not be the underlying technology of the platform—this is accessible to anyone. [The key bid components] would be on the operations of the ETP, the marketing of the ETP, and the understanding of the market. At the end of the day it is the business side. It is the licensee who is going to promote [the ETP] and who is going to assess what the opportunities on the capital markets are. We will appoint a licensee. The licensee then has six months to organize and open shop, but within that time, we will be working very closely together with this licensee. We have given the bidders now four to five months to understand the market, and we made ETP requirements so flexible that they can put anything on the platform, meaning they can decide whether to launch [the ETP] with the foreign exchange [platform], the SME platform, or the commodities platform, as an example.

E *What is the relationship between Law 161 (2011), the conversion and privatization of the BSE as BSE sal, and the ETP?*

Law 161 stipulates clearly that within one year of establishing the board of the CMA that the status of the BSE has to be switched from a government institution to a joint-stock company and that one year after that, they have to privatize it. This is clearly stipulated, and the [deadline] dates were clear. Now it has been [over] seven years [since passing of Law 161] or six years beyond the establishment of the board [of the CMA] and nothing has happened. There was advancement, a cabinet decision was taken 18 months ago [at the end of 2017] to take those two steps, but this is still hanging because of the appointments of the interim board members of the BSE have not been finalized until today and nothing has moved. Law 161 allows for the board of the CMA to license other exchanges if it deems this necessary for the capital markets. Ideally, we would have liked for one exchange to cover everything, but we are seeing this delay [in transforming the BSE] at a time when we urgently require the exchange to be much more active and much more dynamic. This is needed for many reasons, for instance the exchange can be the venue for CEDRE in terms of [public-private partnerships] PPP, and the exchange could also be the [conduit] for reducing the exposure of banks to commercial loans. [This exposure is] 110 percent of GDP; it can be a venue for moving into securitization, into factoring, and whatnot. The exchange can be the venue to help create more liquidity in the economy. We would have liked [this venue] to be one [single] exchange, but I don't think that the BSE is ready to play such a role with the structure that it has today. Thus, we decided on the board [of the CMA] to create another exchange—not to compete with the BSE, but to complement whatever is not on the BSE today.

> We decided to create another exchange—not to compete with the BSE, but to complement whatever is not on the BSE today.

E *But the ETP as second exchange will have a separate identity and be operated separately from the BSE by the winning licensee?*

For the time being, yes.

E *It might get merged at some point?*

This remains to be seen. As I say and want to repeat, we would like it to be one exchange.

E *You mentioned that the licensee for the ETP would have six months to open shop, and there was some talk about July 2020 for the opening. Is there a fixed target date for the commencement of the ETP operation?*

It will be up and running in the first quarter of 2020.

E *Could that mean that everyone migrates from the BSE next year?*

Not necessarily at all. There is no incentive for them to migrate at the moment. What the new exchange will be focusing on are the products that are not listed on the BSE. The BSE today does not have forex trading, it does not have commodities trading, it doesn't have reduced requirements for listing of SMEs, and there are no clear directives to support startup listing.

When we look at the prospects and expectations for the Lebanese economy as of today, also considering the reform and austerity aspects of the budget that has been under finalization this month, things are moving—albeit slowly—and outcomes in the long term could well be very positive.

E *However, would one have to expect in the short term that Lebanese capital markets will be impacted by uncertainty, protest moods, and debates over austerity? Might the ETP in the first year of its operations then reflect negatively what could be a temporary slowing of the economy?*

In spite of all the challenges we are facing, now is the time to focus on new outlets for capital formation.

If you were to tell us that today might not be the optimal time to launch the ETP, we would say, 'This is exactly the time when we need to speed up the process and launch the new exchange.' We are going through very tough times, and the capital markets are reflecting this—as we see from the performance of the BSE. There is also another indicator that I want to tell you about: For the past few months, the amount of funds and products that have been submitted to us for approval has gone down. We would like to give things six months in order to compare numbers properly, but the way that the trend is, such activities have been reduced, that is why opening up to new investment opportunities and allowing Lebanese companies to access capital at lower cost might help some of them better face the challenges of today.

E *When discussing the potential of the ETP just before, you mentioned the CEDRE context and PPP projects—which presumably can benefit greatly from access to a liquid capital market. Would the ETP also be a venue for privatizing companies that have hitherto not been successfully privatized, such as Middle East Airlines (MEA)?*

Absolutely. The platform needs to be promoted and positioned in a way that it is a solution provider for overcoming all the obstacles that we have been facing, whether in the regulatory framework or the ways laws are written. The ETP is a platform that is there to be utilized as means to create more liquidity in the market. We could list Middle East Airlines, and plans are for it to be one of the leading stars to be listed on the exchange. This has been communicated by the main shareholder in MEA, which is the [Banque du Liban, Lebanon's] central bank.

E *How are things developing in terms of awareness and preparedness for capital markets in the local financial and investor communities? Do you see increasing skepticism, enthusiasm, or what?*

I will answer this question taking it from two sides: the supply side and the demand side. If you need [to attract] an investor, you need a product. So if we approach the issue, therefore, from the supply side, we are at this moment reaching out to major SMEs and family businesses. We have a team that is dedicated to contacting these companies; they are explaining to them what an exchange and listing would mean for them, and how they can access capital through listing on the exchange.

E *Are they listening?*

Perfectly well. They are extremely interested and have a lot of questions. We have collected those questions and created like a town hall meeting session to which we are inviting all the companies that we believe are the first crop of potential companies that can be listed. Some of them already have full governance in place, some of them are on their way to having full governance, and some have a good appetite for governance. On the supply side, we need products, companies who understand that they can access capital in a cheaper, long-term way and sustainable way. We are adapting our fees and have a formula to make listing more sustainable for all of them, not a burden.

On the investor side, we have the institutions and the retail side. Institutions are definitely interested because when they are investing, they are not lending, and thus capital requirements are less. In the retail investor side, we have investor education activities and are reaching out to them. We are tackling the issue therefore from both sides, supply and demand.


People spend 7.5 seconds checking window displays
...and 3 hours, 35 minutes checking their phones.
5G
10:15 AM
MobileShop
3
Items
Checkout
Focus on where your potential customers are looking.
Focus on e-commerce.
Now more than ever, e-commerce and mobile payment provide merchants with a great potential to grow their business online, create new customer experiences and increase sales. areeba's online payment gateway offers merchants of all sizes, a platform to accept payments across multiple channels – web, mobile and in-app – in a secure fast and seamless manner, all via one single connection.
areeba
empowering a cashless world
areeba.com
1557

By Dany Baz and Thomas Schellen

LOANS AND PROVISIONS BY THE LEBANESE ALPHA AND BETA BANKS

An analysis for 2013-2018

Banks included in Bankdata's classification for alpha and beta banks with deposits respectively exceeding $2 billion and $0.5 billion are regarded by many international analysts and local banking industry observers to represent the top tiers within the Lebanese banking sector of 59 banks, comprised of 46 commercial banks and their 13 subsidiaries.

Together, the 16 alpha and 11 beta banks are the dominant banking players in the domestic market and are the only two banking groups with foreign presence. Alpha and beta banks, according to Bankdata's analysis, also represent 96 percent of loans issued by the banking sector over the past five years. In this period, they injected $10.8 billion into the economy as they grew their loan book from $60 billion in December 2013 to $70 billion at the end of 2018.

Analyzing the provision of loans by these banks within the five-year period under consideration, the highest growth in lending activity was registered in 2014, with an increase of $6.8 billion, or 11.4 percent in year-on-year comparison. Loan growth gradually dropped to $3.8 billion in 2015, and then stalled at $1.5 billion yearly in the following two years, 2016 and 2017; it dipped into a negative growth of -3.8 percent at the end of 2018.

Further analysis highlights that the decrease in total loans was mostly due to the drop in foreign loans over the period. The overall growth registered in 2014 was evenly distributed between domestic and foreign loans, but after an exceptionally strong growth in foreign loans at the start of the period—+22 percent in 2014, followed by a mild increase of 2.9 percent in 2015—this growth fully reversed into negative territory in 2016-2018, in a development presumably related to currency pressures in Egypt and Turkey in the past three years. Consequently, in analysis of the five-year trend of the lending activity by Lebanese banks in foreign markets, as reflected in the banks' consolidated figures, the end-to-end picture on these loans over the period is quasi -flat, with a growth of merely $126 million.

> Alpha and beta banks, according to Bankdata's analysis, also represent 96 percent of loans issued by the banking sector over the past five years.

In parallel, the domestic loan book continued growing over the period 2013-2017, representing 99 percent of the growth in banking sector lending—and noting that the Lebanese banking sector's loan book consists of 74 percent of domestic loans.

Loan developments in Lebanon, owing to the policies of Banque du Liban, Lebanon's central bank, were isolated to a major extent from foreign exchange pressure that globally affected emerging markets under the Federal Reserve's move to a tightening of monetary policy at the end of 2015. Other factors and unconventional influences came to bear on the Lebanese lending market in the past three years, as witnessed in the domestic lending developments of Lebanese banks. Notably, negative growth in the amount of foreign currency (FC) denominated loans between 2016 and 2018—after FC loan growth in 2014 and 2015 that was in line with the overall growth of loans in those years—translated into a net increase in the domestic loans in foreign currency portfolio of $5.7 billion. This compares with a net increase of loans denominated in Lebanese lira to $5.1 billion over the analyzed period.

In a context where dollarization of domestic loans steadily decreased from 75 percent in 2013 to 70 percent in 2017, LL-denominated loans saw double-digit growth annually until end of 2017, but contracted by the equivalent of $1 billion (-5.9 percent) in 2018. The overall ratio of loans to deposits dropped from an average of 37.7 percent for the 2013-2017 period to 36 percent in 2018. The breakdown by currency shows that the loans to deposits ratio in LL increased from an average of 25 percent in 2013-2017 to 29.3 percent in 2018; the ratio in FC dropped from an average of 43.2 percent over the same period to 37.1 percent in 2018.

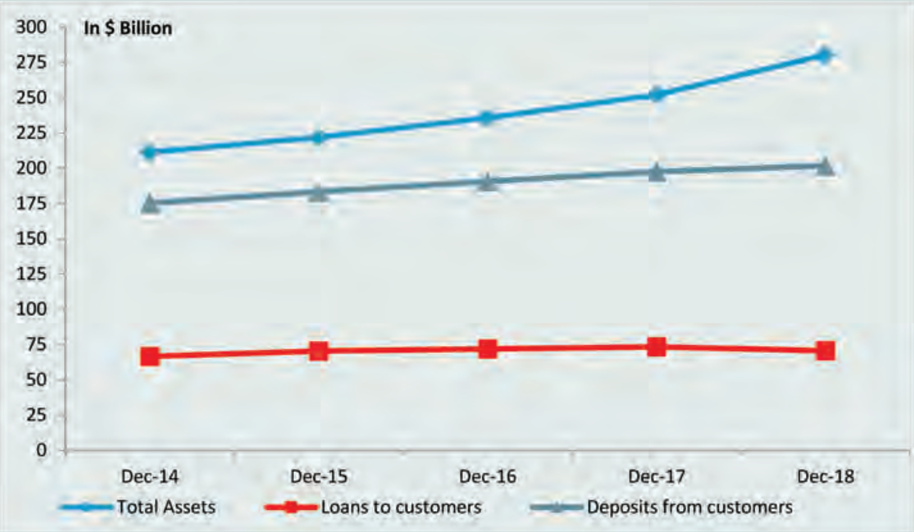
Over the past five years, alpha and beta banks in Lebanon have strengthened their provisioning against the impacts of a low-growth economic environment. These banks increased their specific provisions for non-performing loans from $1.5 billion in 2013 to $2.3 billion in 2018, a hike of $766 million. Furthermore, collective provisions were increased by nearly $500 million and reached a peak of $1.1 billion at year-end 2017. Thus banks undertook conscious efforts to shield themselves and the stakeholders in the Lebanese economy from risks that could materialize as loan takers among households and enterprises face downward pressures on their finances.

All data in this comment was supplied by Bankdata, the financial consultancy headed by Dany Baz.

Lebanese banking sector

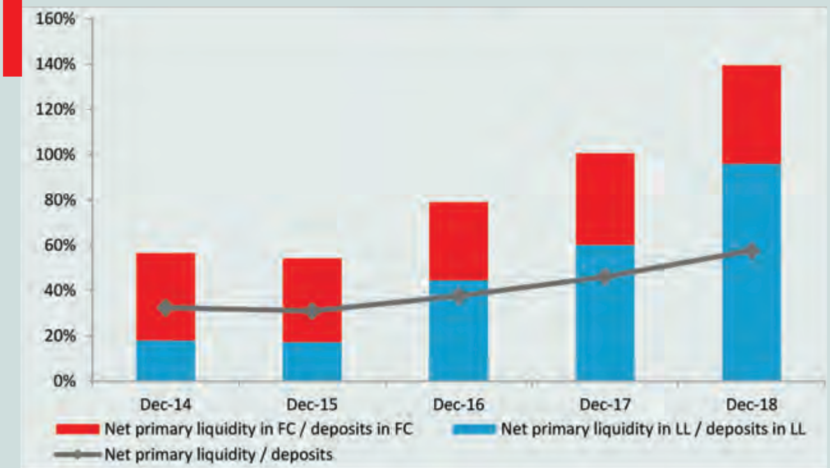
The following infographics refer to alpha and beta banks

LOANS & DEPOSITS



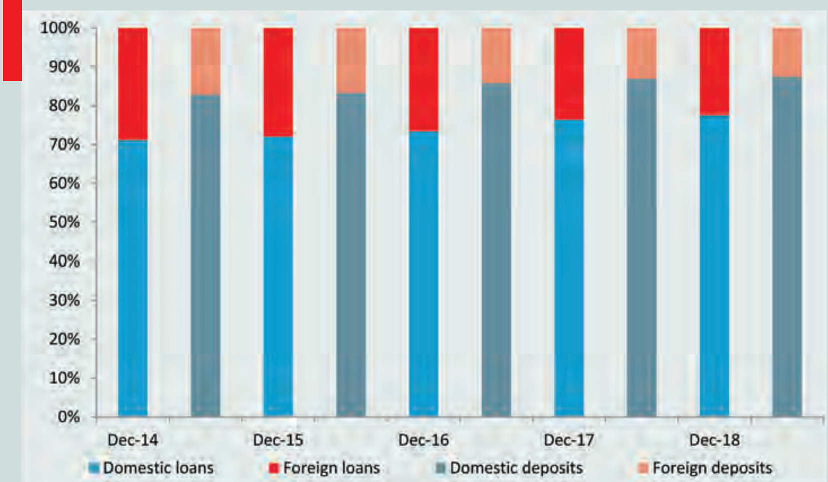
Source: Bankdata.com

NET PRIMARY LIQUIDITY TO DEPOSITS BY CURRENCY



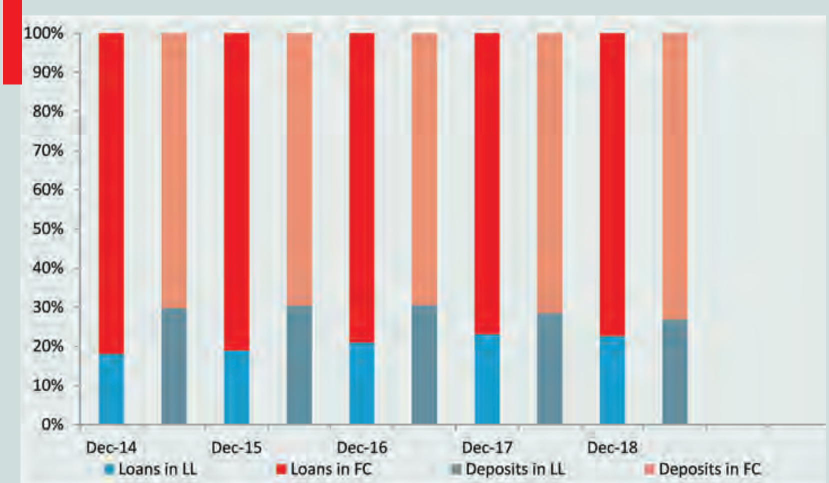
Source: Bankdata.com LL=Lebanese Lira FC=Foreign Currency

DOMESTIC VS. FOREIGN LOANS & DEPOSITS



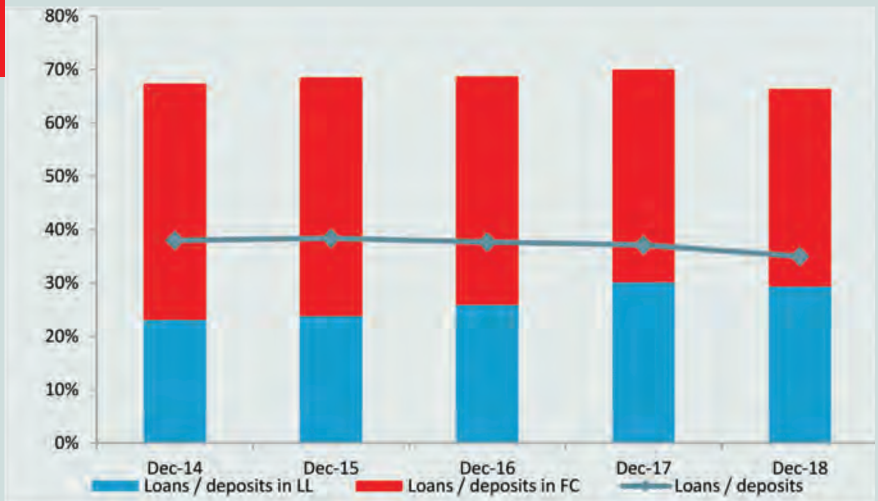
Source: Bankdata.com

LOANS & DEPOSITS BY CURRENCY



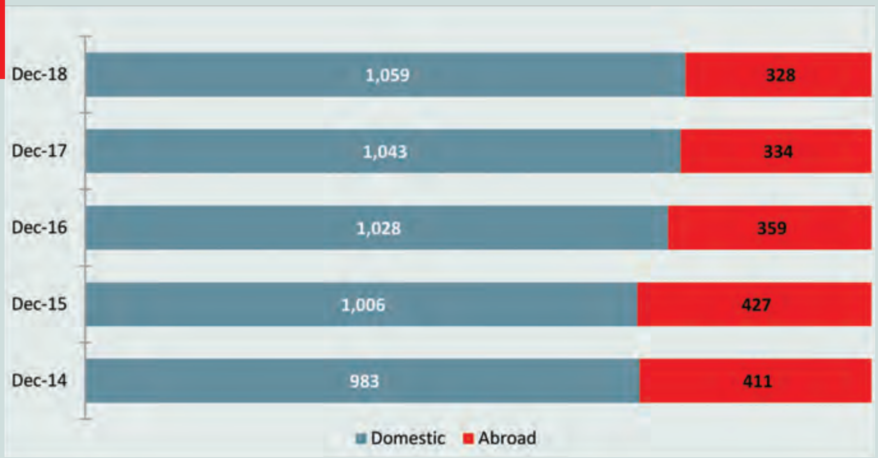
Source: Bankdata.com LL=Lebanese Lira FC=Foreign Currency

LOANS TO DEPOSITS RATIO BY CURRENCY



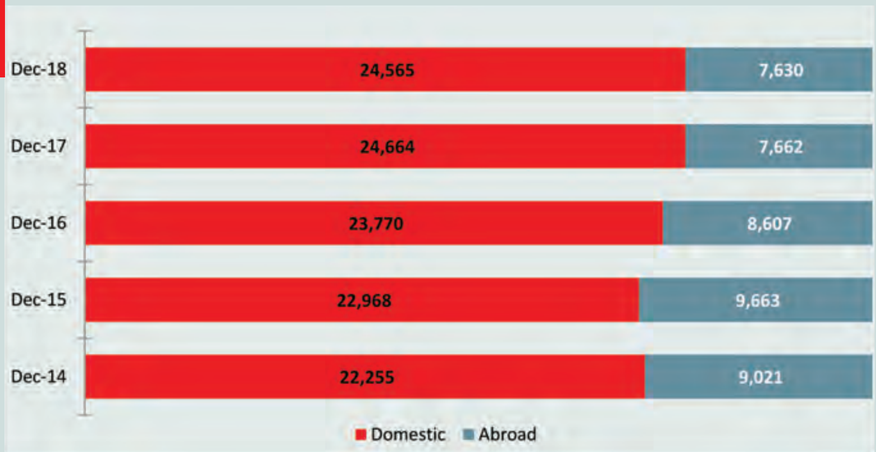
Source: Bankdata.com LL=Lebanese Lira FC=Foreign Currency

NUMBER OF BANK BRANCHES



Source: Bankdata.com

NUMBER OF BANK EMPLOYEES



Source: Bankdata.com

By Sami Halabi

EXCEPTIONAL EXTORTION

The need to reform electronic money transfer regulations

All over the world, every day, millions of financial transactions take place at the press of a button. The words—and now the verbs—PayPal, TranferWise, and Venmo, are to payments what WhatsApp and Facebook are to messaging. Modern electronic money transfer (EMT) services have lowered transaction costs for individuals, facilitated business growth through e-commerce, and made payments a whole lot easier for everyone—except Lebanese. Like most other services in Lebanon that lag behind the modern world—read: electricity, water, healthcare, transport, internet, etc.—the reason EMT services have not developed to their full potential in Lebanon is not an issue of competence or capacity; instead, narrow-minded protectionism and years of market dominance mean Lebanese pay what, in 2019, can only be called extortionate amounts to make payments.

OPPORTUNITY, NOT THREAT

Using available EMT services, Lebanese can expect to pay anywhere from $15 to $35 to send $500 to someone abroad. In addition to transfer fees, Lebanese consumers also face other hidden fees, such as currency exchange rates priced some 5 percent higher than mid-market rates available through modern EMT platforms. Sending or receiving money locally can be cheaper, but considering that Lebanese receive around $7.5 billion to $8 billion every year in remittances, our loved ones foot a bill they would not need to if we were in Egypt, the Emirates, or Jordan—all of which now have access to modern EMT services. What's more, services such as direct caller billing could provide Lebanon's unbanked with access to financial services, meaning another 55 percent of the population would start using these services. But not all Lebanese lose out from the financial status quo.

Around 65 commercial banks, along with a few money transfer institutions, are licensed to carry out domestic and international EMTs by Banque du Liban (BDL), Lebanon's central bank. As a result, these institutions enjoy a dominant market position, and have little interest in offering globally competitive EMT fees, on the spot services, or mid-market currency exchange rates. In fact, banks have come to rely on fees as a major source of income. Non-interest income is equal to around 70 percent of what commercial banks profit from interest, according to the latest figures available from the Association of Banks in Lebanon.

In fact, only one EMT license has been issued to an 'independent' and 'modern' EMT service: PinPay. PinPay, however, was only issued that license when Bank Audi and Bankmed bought the company and vouched for PinPay's solvability and security (Fransabank invested later). The two banks then made PinPay only available to their clients, a service other banks in Lebanon have now copied. In effect, this acquisition strategy nipped Lebanon's only home-grown modern EMT service in the bud, bringing us all back to where we are now—still unable to make electronic payments to anyone outside our own banks without paying exorbitant fees.

In late 2018, Law 81 on Electronic Transactions and Personal Data was passed introducing electronic signatures and standards on data privacy in electronic transactions. While the law brings new hope for modern EMTs, it also places the buck squarely at the feet of BDL, giving it the sole power to update its currently broad and nearly two-decade old EMT regulations. Right now, for instance, Lebanon's regulatory framework does not have a legal definition for peer-to-peer EMTs, electronic money transfers made from one person to another, typically through a payment application. When a market lacks this kind of clarity, it keeps companies like PayPal and TransferWise away, not to mention home-grown fintech.

It is hard to fathom that BDL is unaware of these standards, having seen neighbouring countries enact regulations that protect consumers, apply international compliance standards, and facilitate access to modern EMT services. What is easier to fathom is that there has been pressure from the banking sector not to open up easy access to cheaper, more secure, and more efficient payments—in effect preserving their market power. There is another way.

BDL needs to issue detailed and clear definitions of EMT standards that facilitate interbank transfers in near real-time, from any device, and not only through the brick-and-mortar financial institutions. For their part, banks need to see modern EMT as an opportunity, not a threat. Across the world, financial institutions have not gone broke because services like PayPal and TransferWise exist. Banks may have had to lower their fees to remain competitive, but they have benefited from more financial inclusion and even spearheaded the development of local EMT and e-commerce providers. That is the kind of innovative mindset we need in the banking sector, not one that tries to protect its revenues by keeping the Lebanese in the Stone Age—and making them pay for it.

■ BDL needs to issue detailed and clear definitions of EMT standards that facilitate interbank transfers in near real-time.

Sami Halabi is director of knowledge at Triangle, a policy, research, and media consultancy.

By Samer Elhajjar

SHOOTING OURSELVES IN THE FOOT

Attracting FDI to Lebanon

While Lebanon is seeking to attract significant foreign direct investment (FDI) inflows in order to stimulate economic growth, the promotion of FDI is still lagging behind. Lebanon faces two main strategic marketing problems: an unclear positioning statement, and an ineffective promotion strategy.

It is all too easy for Lebanon's political leaders to blame regional instability for their inability to attract FDI, yet there is little evidence of the kind of thinking required at a governmental level on how to position the country as an attractive destination with a fertile ground for investments. To this day, important strategic questions remain unanswered. These include: Is Lebanon hoping to become a host country offering the most stable FDI attraction policy in the Middle East? Will Lebanon be a country where investors can achieve the highest profit margin in the region? Is Lebanon trying to be a global leader in digital innovation? Is Lebanon planning to be the most popular tourist destination in the region? What unique value does Lebanon provide to foreign investors? A strategic competitive positioning plan, including a detailed understanding of Lebanon and its relative position to competitors and different sectors, needs to be elaborated by the government.

Ineffective communications is another marketing problem Lebanon currently faces. Potential foreign investors are hearing conflicting messages from different stakeholders in the state. Lebanese delegations tend to present general descriptions of the Lebanese economy, while providing little of what potential FDI enterprises really want to know. What foreign investors need is more specific information on how they can start a business in Lebanon, what incentives the government is providing, how the government can help and support them, and so on. Moreover, an international comparison of Lebanon with its neighboring countries is rarely provided by Lebanese delegations. Lebanese delegates believe that just presenting Lebanon's country profile, investment policy, and economic potential, will be enough to persuade foreign investors.

Marketing is central to investment promotion and critical in attracting inward investment and shaping foreign investors' overall perceptions of Lebanon. While evidence suggests that marketing is effective in image building and producing investment (see Anthony Bende-Nabende's 2017 update of his book "Globalisation, FDI, Regional Integration and Sustainable Development"), there are always questions over regulations, incentives, infrastructure, and the economic system and vision. Some indicators are useful to evaluate our situation. To start with is the ease of doing business index, which ranks countries against each other based on how conducive their regulatory environment is to business operations. Lebanon is ranked 142 among 190 economies, as a result of the mandatory use of legal services in the company registration process, the financial burden of starting a business, the use of notary services, and the complicated,

There is little evidence of the kind of thinking required at a governmental level on how to position the country as an attractive destination.

long, and bureaucratic procedures necessary to start a business. Regardless of all of these challenges and obstacles, many good solutions can emerge in order to make it easier to start a business, including: creating one-stop shops and simplifying registration processes, developing a single electronic interface for investors, and eliminating the paid-in minimum capital requirement—reforms that are necessary before any FDI promotion.

The Global Competitiveness Index, which combines executive opinion survey results and quantitative data to compare the competitiveness of an economy, is another indicator that Lebanon needs to take into consideration. The pillars of this index are grouped to assess institutions, policies, and other factors. Lebanon is the lowest ranking Arab country on global competitiveness. The country's score on the majority of the long-term growth pillars lags behind the Arab world's. The main problematic factors are corruption, poor infrastructure, and an inefficient public bureaucracy. All of these elements confirm that Lebanon is not positioning itself as an easy or trustworthy location for FDI. Thus, a new mentality should be developed in the government based on updated regulations and approaches. Emotionally appealing to the Lebanese diaspora should not be our only comprehensive approach to raising FDI. The government should know that investors need a proper investment climate, good incentives, and institutional transparency.

The Heritage Foundation's Index of Economic Freedom is also useful to guide Lebanon to improve its economy by expanding economic freedom. Lebanon currently scores 51.1 out of 100, making its economy the 154th-freest in the world. One of the many factors that causes this modest economic freedom ranking is the pervasive corruption in government contracts, taxation, judicial rulings, and real estate registration. Therefore, a public-private partnership project to provide a platform for businesses to invest in anti-corruption reform could be impactful in reducing the harm caused by corruption and improving transparency.

A favorable FDI "enabling environment," involving the facilitation the government can give to investing companies, alongside with a clear marketing strategy are preconditions for attracting foreign investment. Otherwise, we will continue to waste opportunities, and will keep shooting ourselves in the foot.

Samer Elhajjar has a PhD in marketing from the University of Strasbourg. He is an assistant professor at the University of Balamand and consults in strategic management and marketing.

By Zeina Zeidan Maalouly

PROFITING FROM DIVERSITY

Reduce the gender gap in the finance sector to boost productivity and growth

Lebanon's capital market needs a turbo boost. The Beirut Stock Exchange (BSE) has long been hobbled by the lack of companies listed, and the lack of associated opportunities. This is reflected in the BSE's low market size—$9.2 billion—and in its performance. In 2018, the BSE was the fourth worst performing bourse in the world, down 15 percent on 2017, with overall trading down by 36 percent. The downtrend has not eased in 2019. At the end of April, the BSE's market capitalization had shrunk to $8.8 billion.

This needs to change. Given the current economic condition of the country—the runaway debt and the need for reforms—it is necessary to invigorate the economy by supporting and empowering our capital markets to accomplish three interlinked objectives: to direct savings into qualified enterprises, to invigorate trading of equities, and to attract liquidity.

It has been established by ample research that efficient and well-regulated capital markets are great tools for improving the national economy. This fact has been extremely well understood by Banque du Liban, Lebanon's central bank, and thus over many years Lebanon has seen attempts to create and empower its capital markets.

Initiatives with this aim have been present since the BSE was reopened in the mid-1990s and have entailed moves like the creation of a Capital Markets Authority in 2011 and more recently, the approval by the cabinet to transform the BSE into BSE sal. The decision to establish the BSE as joint

stock company, taken in 2017, was a welcome move to many stakeholders in financial markets, such as myself, and it is also highly desirable to see efforts that would implement the partial privatization of BSE sal through the selling of shares to the private sector, an action that needs to be given a green light by the newly formed cabinet.

THE ROLE OF WOMEN

Another new initiative, which has been under preparations for several years now, is the creation of an Electronic Trading Platform (ETP). The relationship of the two entities to each other, and the question if Lebanon is best served by integrated or separately managed capital markets platforms, however, is still in need of clarification at this time.

But even as the BSE privatization and ETP projects are progressing in 2019 amidst such lingering uncertainties, much attention should also be given to another factor that could improve our capital markets. This factor is the role of diversity, and specifically the role of women in capital markets. While lost opportunity costs abound in the delays to reinvigorate the stock market, lagging behind the global development curve does have a potential upside. Discussions are underway on how best to turbo charge the capital market; it is an opportune time to tag onto the agenda the empowerment of women in the stock exchange as well as the financial sector.

Just a decade or so ago, such a notion would have been politely dismissed, if not openly laughed at in such a male-dominated ecosystem. But over the past several years, empowering women has risen higher on the agendas of global institutions such as the World Bank, the International Monetary Fund, and the United Nations, while the financial sector itself is increasingly adopting gender equality programs, evidenced in the launch of Bloomberg's Gender-Equality Index 2018.

There are regional initiatives emerging as well, the American University of Beirut was awarded a $1.5 million federal grant by the US Department of State Middle East Partnership Initiative to create an index with the title: "The KIP Index: A Comparison of the Status of Women in the MENA Economies." This index is concerned with creating a localized measure of women's contributions to MENA economies through measuring recruitment, retention, and promotion of women in Arab organizations.

As a lot of attention will be paid to the privatization and development of the BSE, it is essential that the bourse reflects the global move toward greater gender equality as part of improving environmental, social, and corporate governance (ESG). This is needed not only in the financial sector, but across the board, as Lebanon's country ranking on gender inequality reflects in many ways the underwhelming performance of the BSE. According to the World Economic Forum's 2018 Gender Gap report, Lebanon ranked 140 out of 149 ranked countries.

Working to reduce the gender gap will not only promote equality, inclusive growth, and stability, but would have myriad macroeconomic benefits. According to the UN's International Labour Organization, closing the gap in economic participation rates by 25 percent would have a corresponding boost in GDP (in purchasing power parity terms) by 9 percent.

While closing the gap would have a wider economic boost, more needs to be done in the financial sector and at the stock exchange. Gender equality must cover all rungs of the career ladder, especially the middle and upper rungs where there are very few women. I would know, as I am one of just a handful of women in upper management at a Lebanese financial institution. In fact, just 4.4 percent of all Lebanese firms have a female senior executive, according to a 2019 study by the International Finance Corporation, lower than the MENA average of 5.4 percent, and the world average of 19 percent.

> It is essential that the bourse reflects the global move toward greater gender equality.

THE ELEVATOR PITCH

To address this, the Lebanese League for Women in Business (LLWB) is working on a draft law to ensure a quota of 30 percent of women on boards (WOB) by 2025. It will be a challenge to ensure this is achieved in the next six years, but that is where the capital market and the financial sector itself can play a role in driving change.

It is not enough to change mindsets to get women on boards. This is where the hard sell comes in: the economic argument for gender equality. Numerous studies in recent years have highlighted the improved performance of companies and boards that have greater gender equality,

but a few highlights can serve as a sort of elevator sales pitch.

Bank of America Merrill Lynch research, published on International Women's Day this year, showed that companies with high scores on board diversity and women in management, which also have policies on diversity, had lower earnings volatility, higher returns on equity (ROE), and lower risk. In the same report, the one-year median ROE for 2010-2016 was higher for S&P 500 companies that had at least 25 percent of female representation among executives, "suggesting diversity may drive better returns."

A 2015 Diversity Matters study by international consultancy firm McKinsey found a relationship between diversity of leadership teams and financial performance, with top quartile companies by gender diversity 15 percent more likely to have an earnings before interest and taxes above the industry median. One final point: Management diversity is of importance to female investors, with 77 percent of women in a global study cited by Bank of America Merrill Lynch stating a desire to invest in companies with a diverse management. In short, diversity is profitable.

The same can apply to the BSE. The more diverse its offerings, the more profitable it will be. And this concerns women and men alike: why capital markets are crucial for Lebanon today, what opportunities and liquidity they can generate in the country, and what are the primary triggers to activate the potential of capital markets. In March 2014, the BSE signed an agreement with Euronext, a wholly owned subsidiary of New York Stock Exchange, for the implementation of a new trading application platform that supports the expected growth in equity listing and the entry into new asset classes in the Lebanese markets.

For the ETP project we need a better understanding of which consortium would be the optimal licensee for the project, and a discussion with banks and other firms on the expertise required to ascertain that the ETP gets the right platform solution (neither too small nor outsized), technology advice, and expert staff. Other questions include market making, and the participation of banks and foreign specialist companies, such as stock market operators and technology providers.

There are also questions about how much regulation, of which sort, is ideal; how the governance of listing candidates, such as SMEs and startups, can be supported; and how governance and regulations should be optimized to enhance the size and volume of capital markets activity in Lebanon. To attract investors, it is important to tap into the very special ratio and relationship potential of diaspora investors.

Capital markets also link the present to the future, but that radical uncertainty is the secret sauce that flavors all the assumptions we have about how and in which direction the financial markets of the near future will develop.

In brief, the most important work in capital markets in the Lebanese context today is unlocking growth potentials and job creation in private companies by bridging savings silos to entrepreneurial initiatives. We need to mitigate risks through determined political will, wise leadership, and reforms. We know this involves capital markets with a strong, agile, and responsive operator that is sensitive to markets and the regulator.

Just 4.4 percent of all Lebanese firms have a female senior executive, lower than the MENA average of 5.4 percent.

There are many challenges and risks in developing markets, but we know from our experience that the way to success is not by avoiding risk. We need to facilitate superior, regulated risk taking. All players in this endeavor—and we want to be among them together with the right partners in an operator consortium—have to continually strive to balance market forces, regulation, and society.

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