REPUBLIC OF LEBANON
MINISTRY OF ECONOMY & TRADE

Lebanon SME Strategy

Launching of the Strategy
Beirut | Paris

December 16, 2014

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In the past two decades, Lebanon witnessed several waves of interest in supporting private sector including SMEs

NON-EXHAUSTIVE

KEY OVERVIEW OF SUPPORT TO PRIVATE SECTOR

Waves	Strengthening of Enabling Environment	Focus on Sectorial Efforts	Support for Entrepreneurship and SME
	Early 1990s	Early 2000s	After 2005
Key Active Stakeholders	*Government* →	*Government* →	*Government* →
		Int'l Orgs →	*Int'l Orgs* →
			NGOs →
			Private Financers →
Support Areas: *Laws and Regulations* *Financing and Investments* *Economic Zones & Incubation Space*	▪ Set the enabling environment for economic growth[1] ▪ Establishment of IDAL in 1994 ▪ Reactivation of Beirut Stock Exchange in 1996 ▪ Launch of Economic Zones concept	▪ Launch of National "Investment Law" in 2001 ▪ First DB[2] Report for Lebanon Triggering SME Support ▪ Establishment of Kafalat in 2000 ▪ Long-term subsidized loans focusing on selected sectors driven by BDL with development agencies support (e.g., EIB)	▪ Update of National "Investment Law" in 2001 ▪ Lebanon-Paris III Reform Program prompted focus on SMEs ▪ Issuance of BDL Circular 331 promoting bank investments ▪ Rise of angel and venture capital investments ▪ Launch of IBEL by PCM in 2010 ▪ Launch of Business Development Centers and "Logistics Free Zone"[3] ▪ Private sector/NGOs launch initiatives to promote SME[4]

1) For example: update old and introduce new laws, improve infrastructure, improve administrative setup, etc.
2) Doing Business 2004-2005
3) Business Development Centers include BIAT, SoutBIC, etc., and Logistics Free Zone include Port of Beirut
4) Initiatives include BADER Fund, TechLeb, L.I.F.E., etc.

Source: Inventis Analysis

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Going forward, a study was conducted over 12 effective weeks to develop Lebanon's SME strategy

ADOPTED APPROACH FOR THE STUDY

"ASSESSING THE SITUATION"

1. Review existing studies and reports and confirm MoET's vision and objectives
2. Baseline SMEs and their support in Lebanon
3. Benchmark country frameworks for SME development

"SETTING THE FRAMEWORK"

4. Establish SME Steering Committee and set prioritization parameters
5. Set SME vision and framework and define strategic thrusts

"DESIGNING THE SOLUTION"

6. Prioritize initiatives into an implementation roadmap
7. Develop detailed action plans for initiatives in the first wave
8. Design an institutional governance framework and implementation structure
9. Develop SME National Charter

Steering Committee

Steering Committee

Steering Committee

12 WEEKS OF EFFECTIVE WORK

During the study, multiple interviews were conducted, several reports reviewed, and SteerCo vetted all outputs

NON-EXHAUSTIVE

SOURCES OF INPUT

Interview & Workshop Participants

Public	UNDP/MoET	Int'l	IFC
Public	PCM	Int'l	World Bank
Public	IDAL	Private	RED - Riyada Enterprise
Public	CAS	Private	Berytech
Public	TVA	Private	MEVP
Semi-Public	Kafalat	Private	Cedrus Fund
Semi-Public	CCIA	Private	AUB (Darwazah)
Semi-Public	SouthBic	Private	Endeavor
		Private	Lebanon Opportunities

Reviewed >100 Reports and Studies

“SMEs Initiatives Map” developed by PCM, May 2013

SMEs Stock Taking by MoET, July 2013

IBEL 2013

Public reports by WEF, World Bank, IFC, OECD, GEM, etc.

Source: Inventis Analysis

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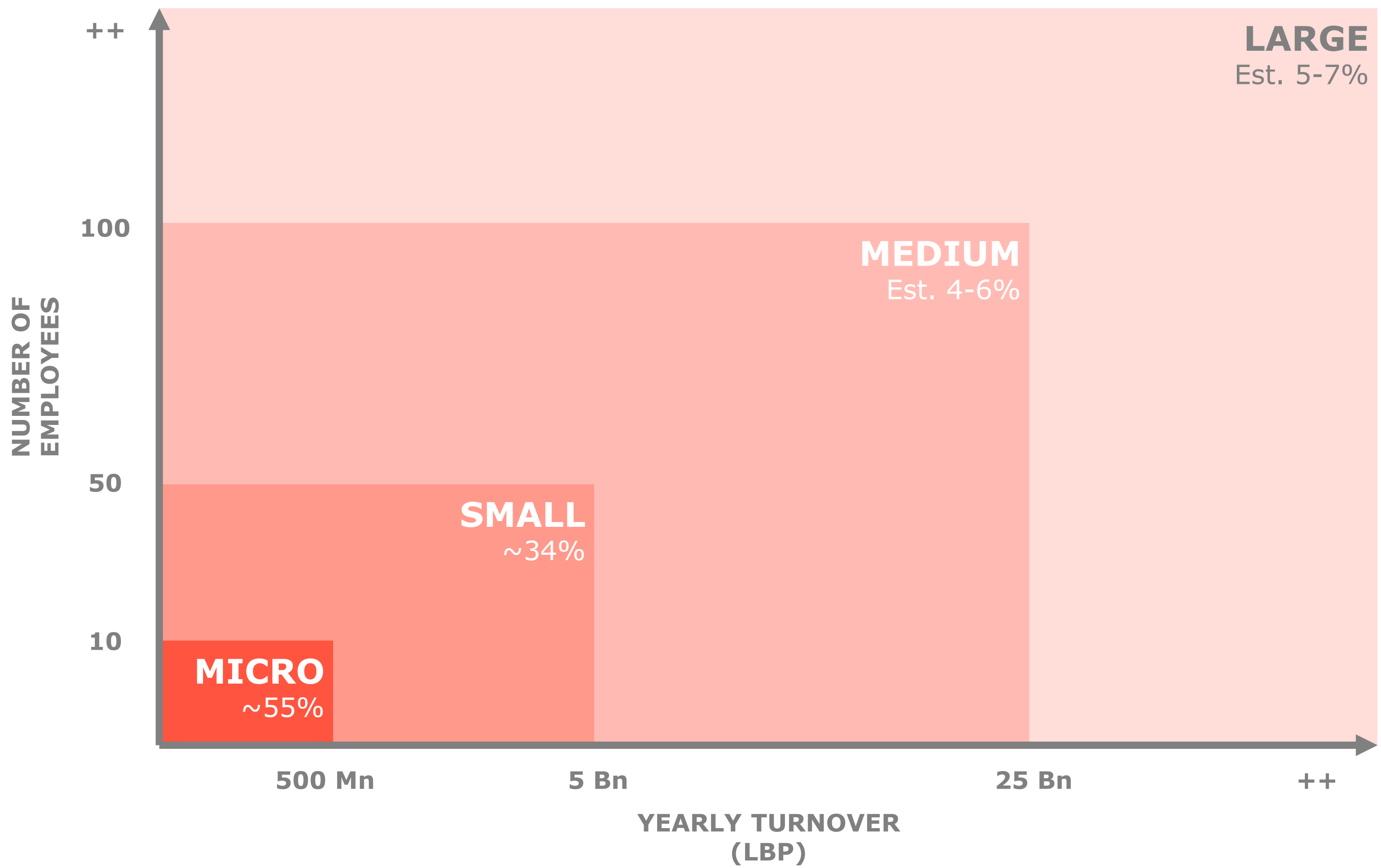
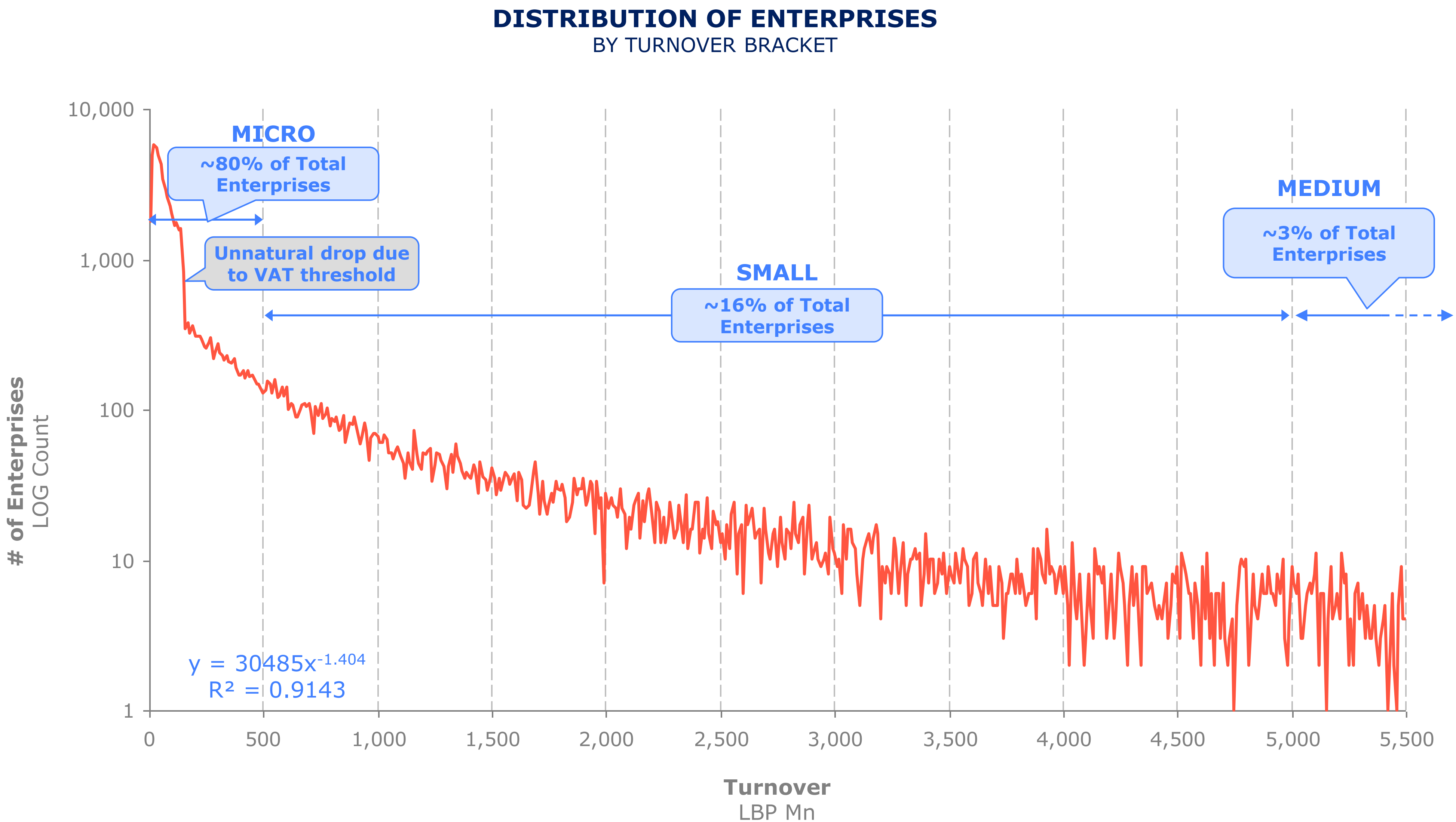
SMEs represent ~95% of Lebanese enterprises according to the new proposed definition

PROPOSED SME DEFINITION FOR LEBANON



Note: Based on information from the Ministry of Finance, acknowledging the lack of information of the informal sector
Source: Inventis Analysis

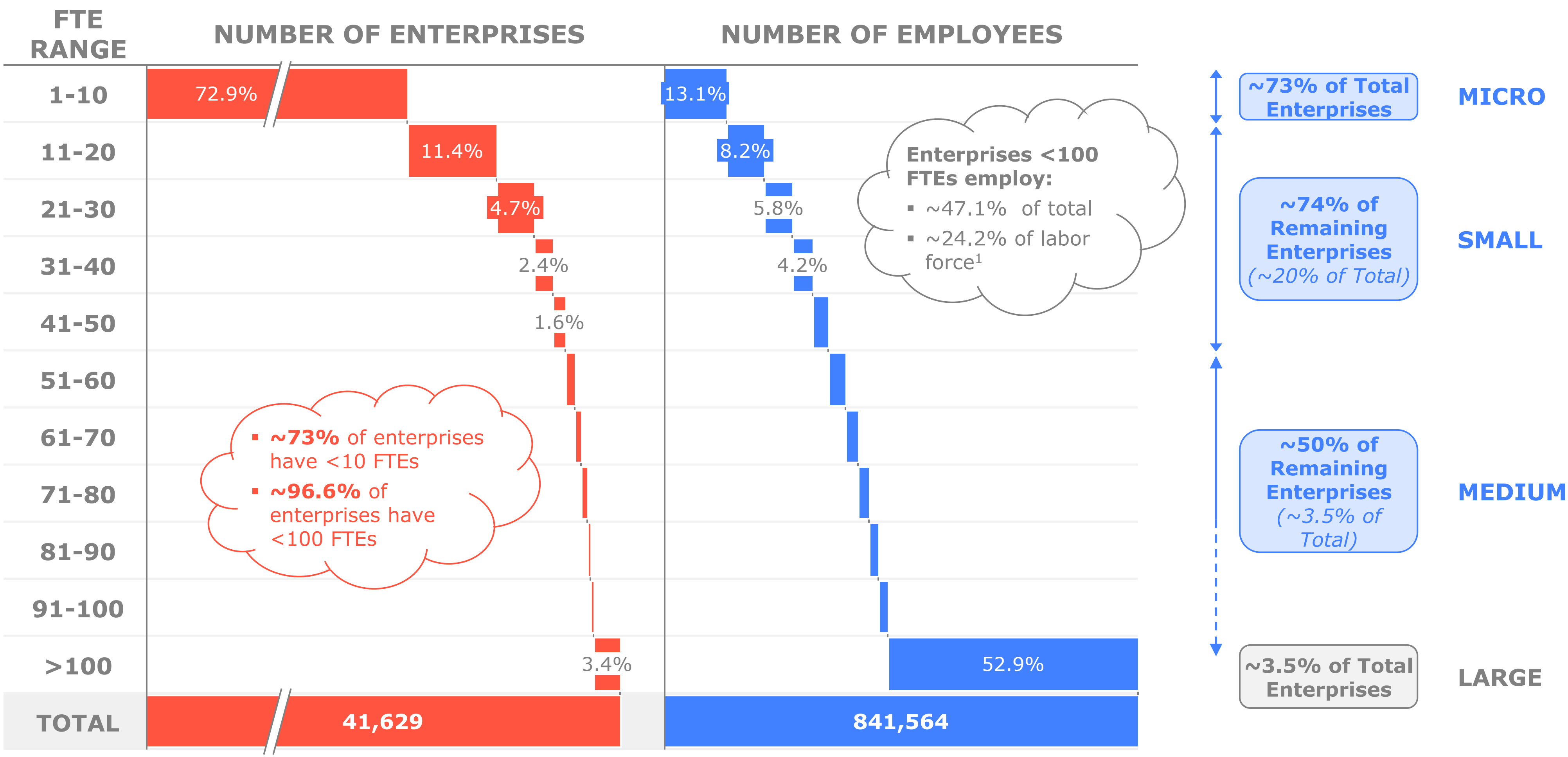
In fact, ~96% of Lebanese enterprise have turnovers below LBP 5 Billion…



Source: Ministry of Finance Revenue Department 2014; Inventis Analysis

… and ~73% are with less than 10 employees, employing ~13% of registered workforce

ENTERPRISES AND EMPLOYEES BY EMPLOYEE RANGE
MAY 2014



1) Total 2014 Lebanese Labor Force = 1'636'636 according to World Bank
Source: Ministry of Finance Revenue Department 2014; World Bank; Inventis Analysis

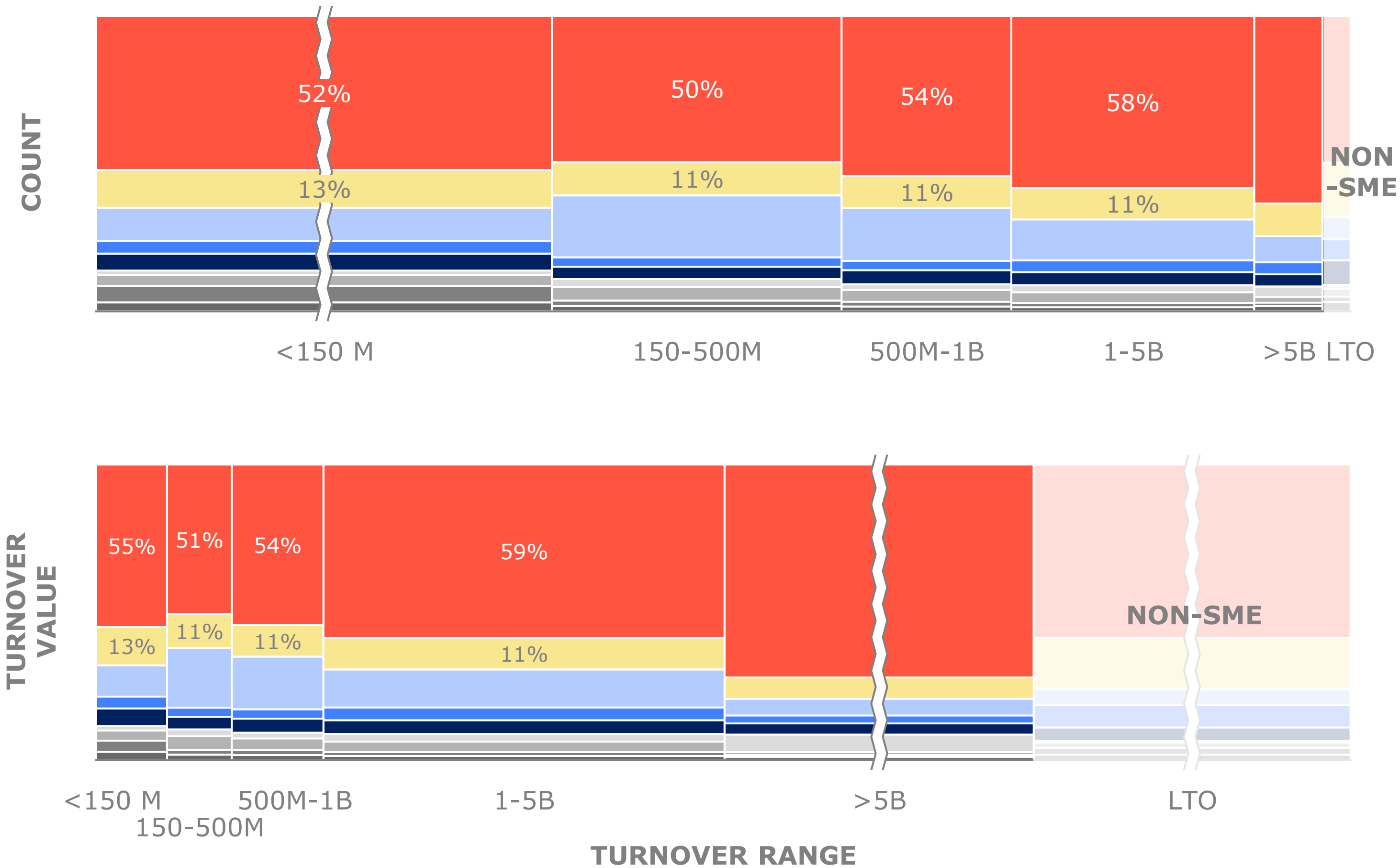
The pyramid of SME distribution by sector is homogeneous, implying SME policies benefit Lebanon's overall economy

SECTORAL COUNT AND AGGREGATE TURNOVER

2011

TOTAL SMEs TURNOVER BY ACTIVITY

Wholesale, Retail Trade and Repairs	**56.8%**
Manufacturing	**11.0%**
Real Estate, Renting and Business Activities	**14.1%**
Transport, Storage and Communications	**3.9%**
Construction	**4.8%**
Financial Intermediation	**2.3%**
Hotels and Restaurants	**3.7%**
Community, Social and Personal Service Activities	**1.7%**
Other	**1.6%**



NOTE: *Current classification may be misleading as "Sales and Trading" is a often used as a "default" category for many businesses*
Source: Ministry of Finance Revenue Department 2014; World Bank; Inventis Analysis

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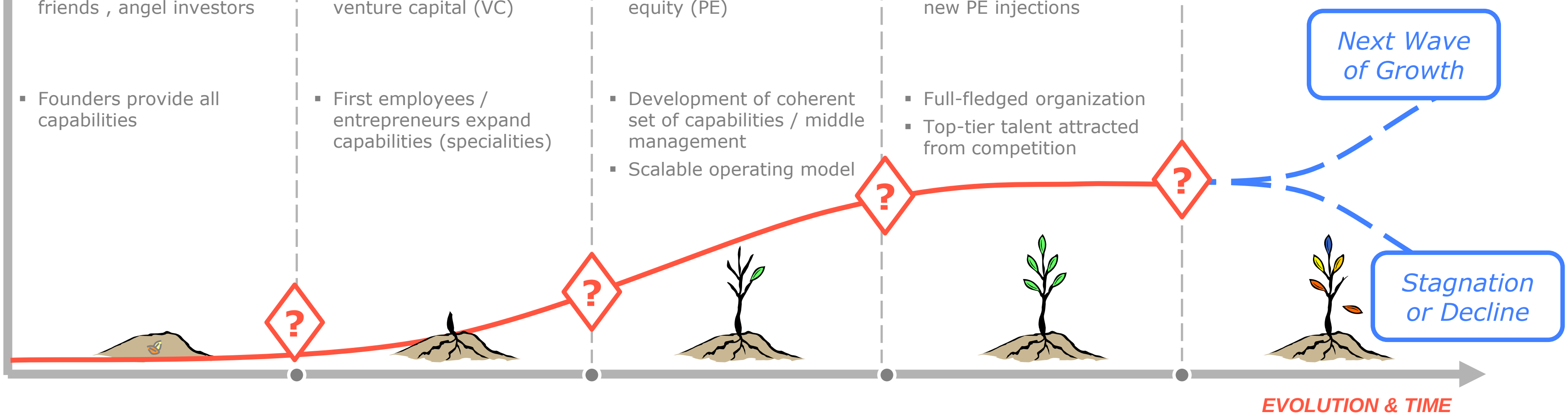
In our analysis we considered enterprises' critical evolution stages until decisive junctures in their development

DEVELOPMENT JOURNEY OF ENTEPRISES

ILLUSTRATIVE

GROWTH STAGE	SEED STAGE	EARLY STAGE	GROWTH STAGE	MATURITY STAGE	2nd PHASE OF EVOLUTION
	Nascent Entrepreneur	*New Business Owner*	*Established Business Owner*		*Owner-CEO*
Main Activities	▪ Identification of " big enough" market opportunity ▪ Early testing and prototyping of service / product	▪ Attraction of early adopters and building track record ▪ Any required activities to deliver first sale	▪ Focus on market development ▪ Supply chain strengthening ▪ Fast improvements on product / service	▪ Focus on competition and growing / preserving market share ▪ Seek cost efficiencies ▪ Develop / retain talent	
Financial Status	▪ No income ▪ Funding through bootstrapping, family / friends , angel investors	▪ First revenues ▪ 1st round of institutional funding from angels and venture capital (VC)	▪ Break-even, then profits ▪ Subsequent funding rounds from VCs and private equity (PE)	▪ Recurring profits ▪ May seek additional funding through IPO or new PE injections	
People & Capabilities	▪ Founders provide all capabilities	▪ First employees / entrepreneurs expand capabilities (specialities)	▪ Development of coherent set of capabilities / middle management ▪ Scalable operating model	▪ Full-fledged organization ▪ Top-tier talent attracted from competition	



Source: Inventis Analysis

SMEs operate in a complex ecosystem spread across four interrelated levels, each building on the other

SME ECOSYSTEM ASSESSMENT FRAMEWORK

Level	Description
Entrepreneur	▪ Assess the entrepreneurial culture, level of self-motivation and propensity of risk taking of business owners ▪ Understand awareness about opportunities, support available and level of innovation
Enterprise	▪ Evaluate capabilities by measuring the availability and readiness of human capital ▪ Assess the access to equity and debt capital and adequacy of existing funding schemes
Industry / Sector	▪ Review of input and output market structure, access to local and global markets and supply chains ▪ Measure the development of institutional research & innovation for the industries ▪ Evaluate extent of regulatory framework that ensures proper functioning of industry
National	▪ Assess broader systemic context in which SMEs operate including effects of political stability, support of the current legal framework ▪ Evaluate readiness of hard and soft infrastructure, access to financial markets and their adequacy ▪ Gauges impact of "friction" from taxes and tariffs and employment and labor laws

Source: Inventis Analysis

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Main cultural challenges revolve around corporatization of largely family-centric SMEs and low participation of women

KEY CHALLENGES – ENTREPRENEUR LEVEL (1/7)

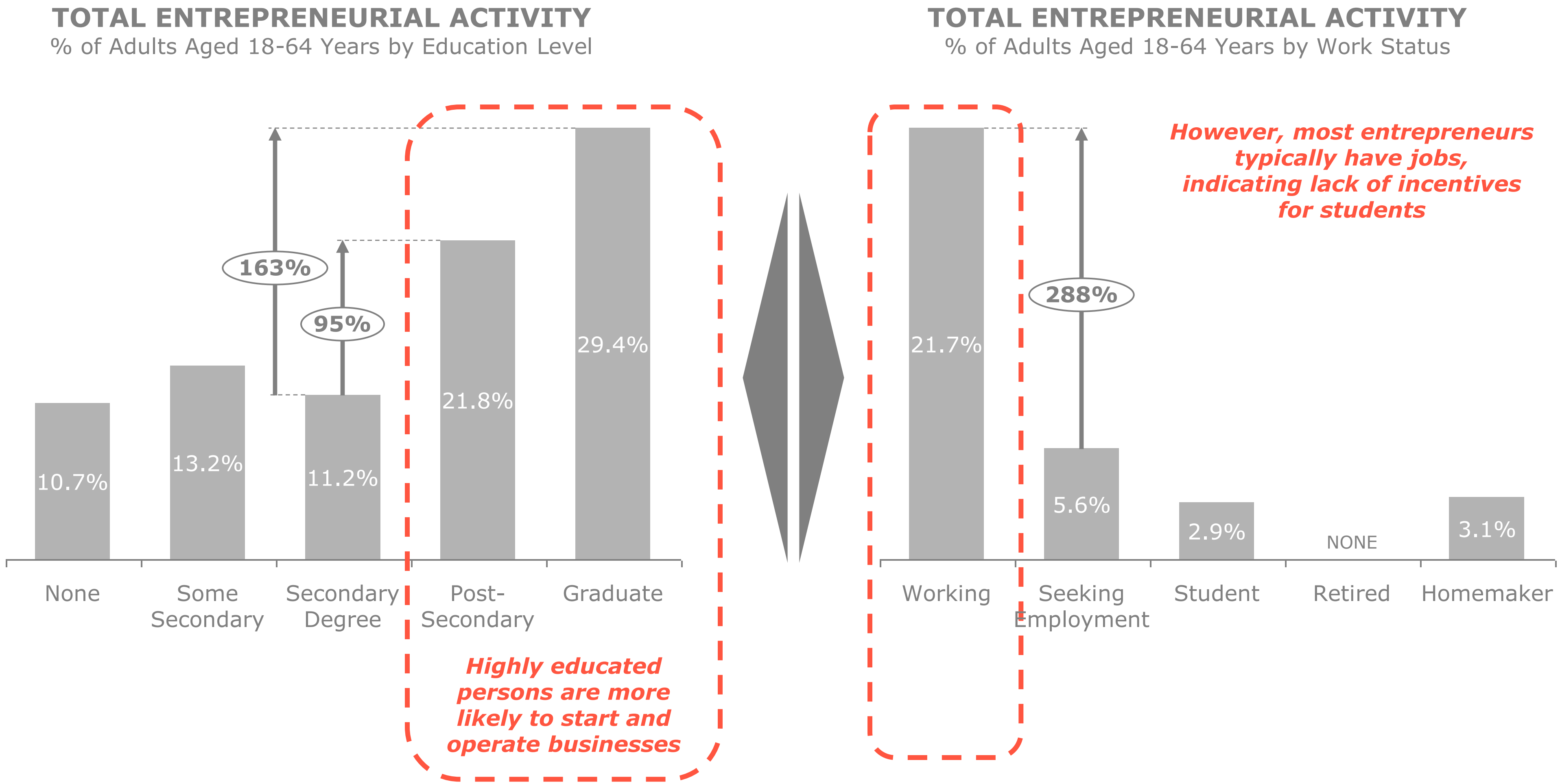
1. **Everlasting Owner-Manager**
2. **Family Centered Approach**
3. **The Missing 2nd 2-Million**

Source: Inventis Analysis

In Lebanon, working entrepreneurs who are graduates of higher education are 2-4x more likely to be SME owners

1. Culture

LEBANON ENTREPRENEURIAL ACTIVITY
BY EDUCATION LEVEL AND WORK STATUS, 2009

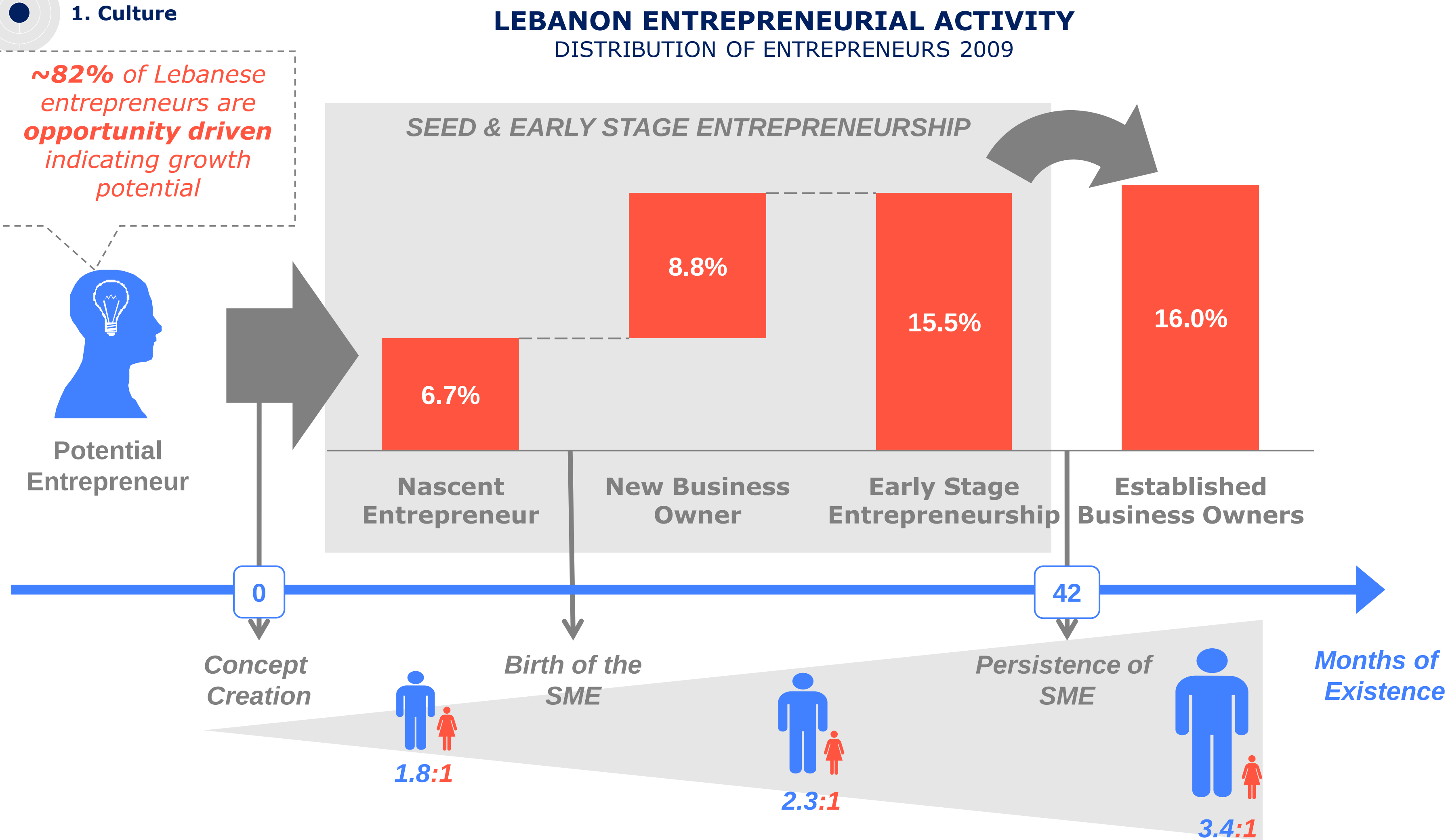


Note: Total Entrepreneurial Activity is calculated here relative to the subset of population per educational level or work status level
Source: Global Entrepreneurship Monitor,2009, Inventis analysis

Lebanon high entrepreneurial activity is opportunity driven, with solid persistence from early to established stage

1. Culture

~82% of Lebanese entrepreneurs are **opportunity driven** indicating growth potential



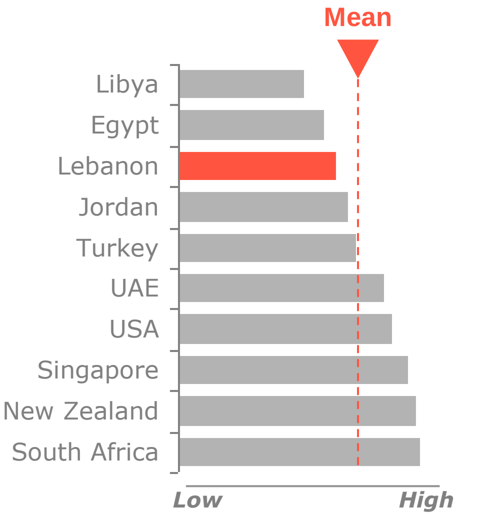
Note: No distinction is made as to formal and informal enterprises
Source: Global Entrepreneurship Monitor,2009, Inventis analysis

SMEs seem unable to graduate from business owner stage to a corporatized company ready for growth

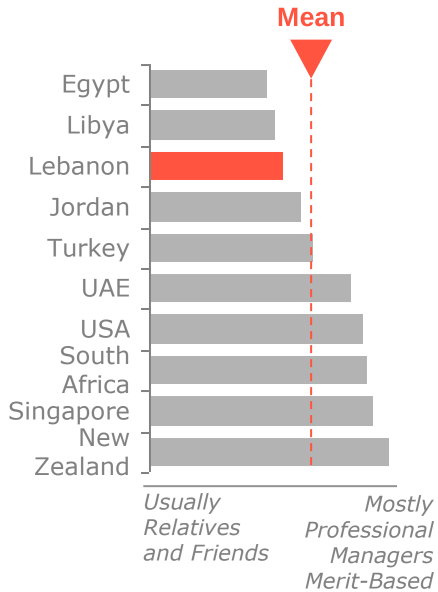
1. Culture

INSTITUTIONALIZATION CULTURE

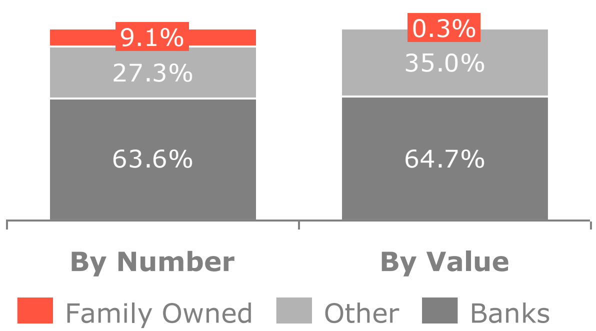
EFFICIENCY OF CORPORATE GOVERNANCE



RELIANCE ON PROFESSIONAL MGMT



LISTING ON PUBLIC MARKETS



FAMILY BUSINESS CULTURE LIMITING SUSTAINABILITY

- Growth and sustainability of SMEs is stymied by the culture of Lebanese business owners/entrepreneurs:
  - **Family ownership and inheritance** of business from "father-to-son" instead of professionalizing management
  - Limited effective use of **corporate governance**, with too few, if any, independent directors, and where boards functions mostly as a "rubber stamp"
  - Business owners often **value unrestricted control** over their companies **more than higher profits** and finding the **least expensive form of finance** (e.g., cheaper capital in the stock market)
- However, some initiatives to address these issues have started to emerge; a case in point are the Lebanese Transparency Association and the Lebanese Corporate Governance Taskforce
  - + Established **the Institute of Directors** to disseminate good governance principles through awareness and advocacy, training, consultancy and research
  - + Published a **guide for corporate governance in family-owned businesses** with the assistance of the IFC

Source: WEF Global Competitiveness Report 2013 -2014, Thomson Bankers, Institute of International Finance, Inventis analysis

Lebanon's SMEs face low build-up of capabilities, middle management gaps, and supply mismatch

KEY CHALLENGES – ENTERPRISE LEVEL (2/7)

1. **Capability Mismatch**
2. **The Middle Management Gap**
3. **Ephemeral System of Capabilities**

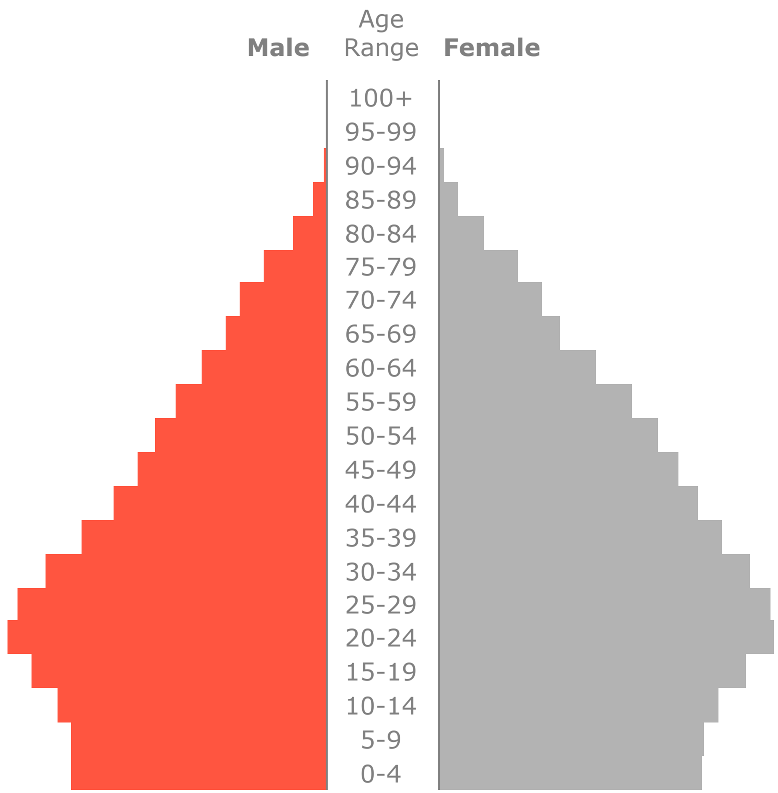
Source: Inventis Analysis

From a traditional perspective, Lebanon has a young highly educated population, in comparison to similar countries

2. Capabilities

AVAILABILITY AND ADEQUACY OF HUMAN CAPITAL

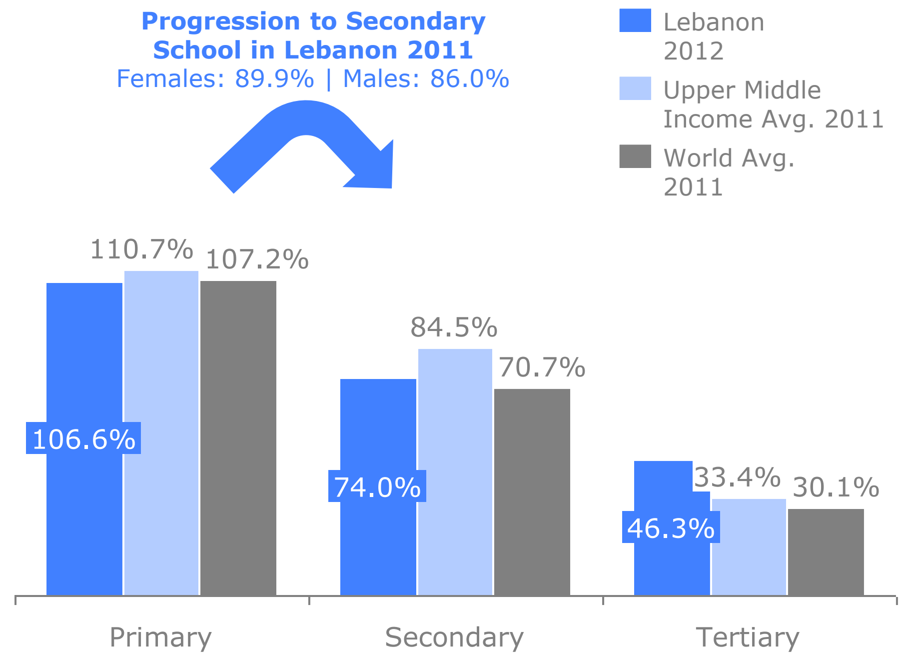
POPULATION DISTRIBUTION BY AGE AND GENDER
%, 2013



Total = 2’023’081 (48.9%)

Total = 2’108’502 (51.0%)

SCHOOL ENROLLMENT GROSS RATE
%, 2012



	Primary	Secondary	Tertiary
Female to Male Enrollment Ratio	**91.4%**	**100.8%**	**107.4%**
Example Institutions	*Schools*	*High school and Vocational*	*Universities and Colleges*

Note: Percentage enrollment higher than 100% is due to comparison to a base population of a specific age range
Source: World Bank 2014; Inventis Analysis

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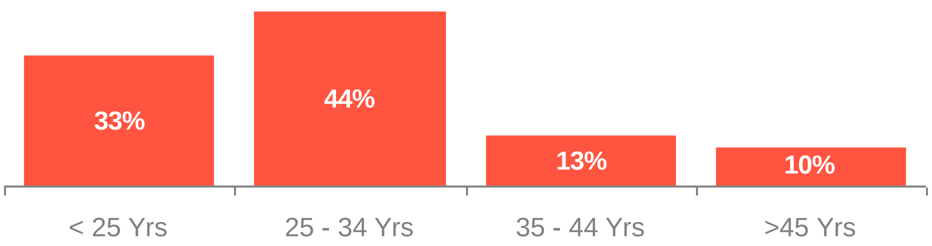
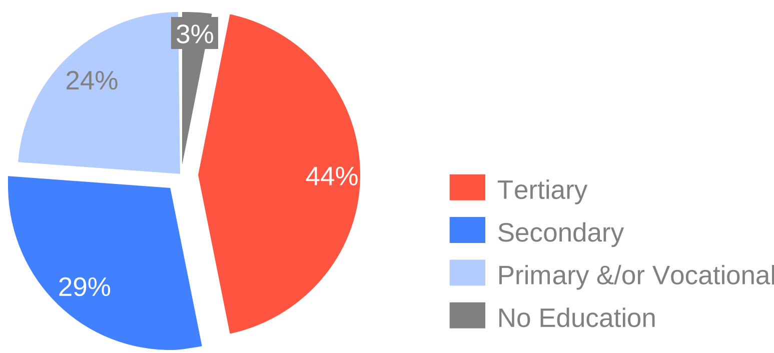
Indeed, SMEs face a large gap in mid-management due to emigration of young and experienced labor force

EMIGRATION AND CHALLENGES IN SKILLS DEVELOPMENT

EMIGRANTS BY AGE GROUP
2004 - 2008



EMIGRANTS BY EDUCATION LEVEL
2004 - 2008



CAS found in its 2009 survey that majority of emigrants were men (76%), single (57%), younger than 35 years (77%) and 44% of them held a university degree

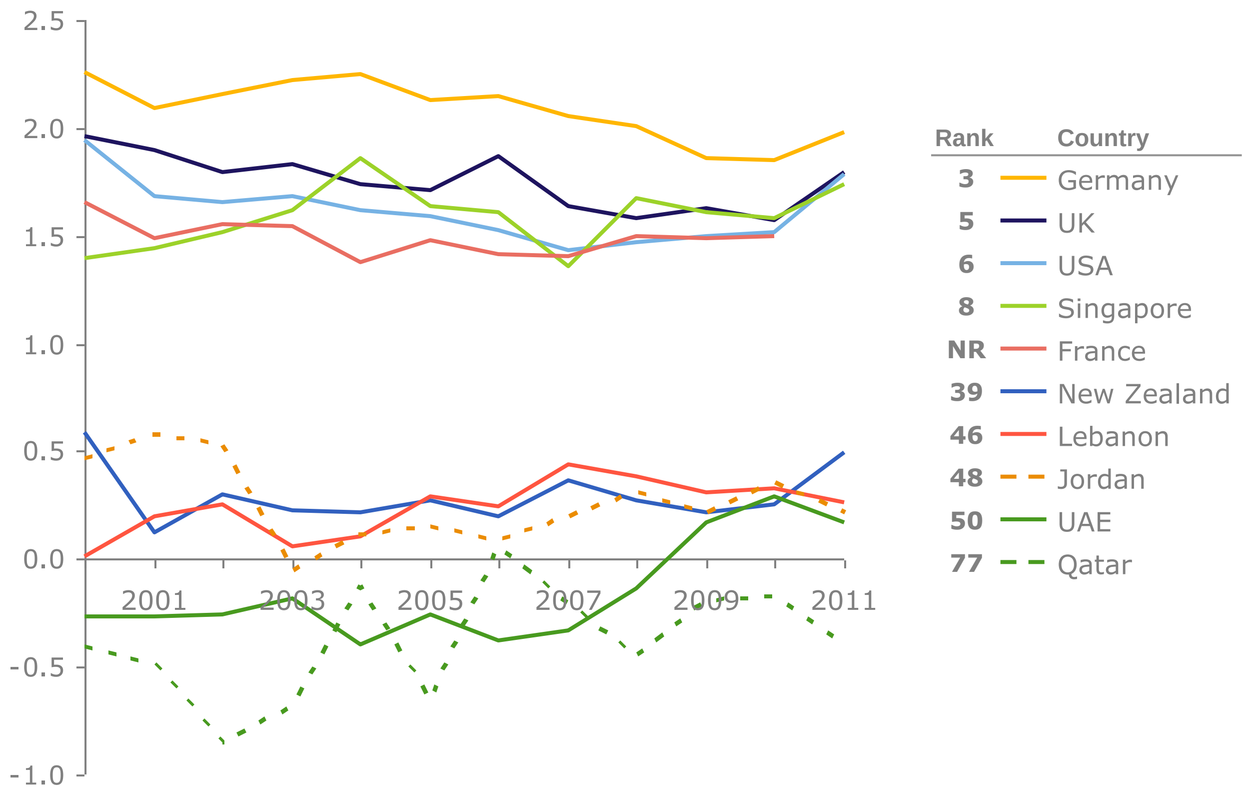
Large Middle Management Gap

- **Scarcity of experienced mid-level managers and leaders :**
  - Trained middle level Lebanese **emigrate to access better opportunities**, (~66% of total emigrants looking for job opportunities abroad)
  - **Glass ceiling** in family-owned companies preventing companies from retaining educated talent
  - Inability **to attract external talent** due to unfavorable conditions (rank #124 out of 148 on "Country Capacity to Attract Talent" of Global Competitiveness Report)

1) According to the World Bank estimate for 2010
2) Details on Foreign Workers Law to follow in Employment and Labor Law section
Source: CAS Population and Housing in Lebanon 2012; WEF Global Competitiveness Report 2013 -2014; Inventis Analysis

While Lebanon's economic complexity index has been rising, indicating a positive evolution in its capabilities…

ECONOMIC COMPLEXITY INDEX
2000 - 2011



Comments

- **Economic complexity** is related to the multiplicity of useful knowledge, expressed in the **composition of the outputs of an economy**
  - **Diversity** of products indicate the variety and broad base availability of capabilities
  - **Ubiquity** of products indicate the level of uniqueness of capabilities, and implicitly competitiveness
- High economic complexity reflects the ability of a society to hold and put to use a larger amount of productive knowledge
- Despite its small population, **Lebanon's increasing economic complexity** indicates its ability to nurture a **broad and more complex set of capabilities**

Note: Adjustment for rare natural resources is accounted for in the ubiquity dimension by assessing the diversity of products (recursive logic)
Source: Atlas of Economic Complexity, Hausmann, Hidalgo; Inventis Analysis

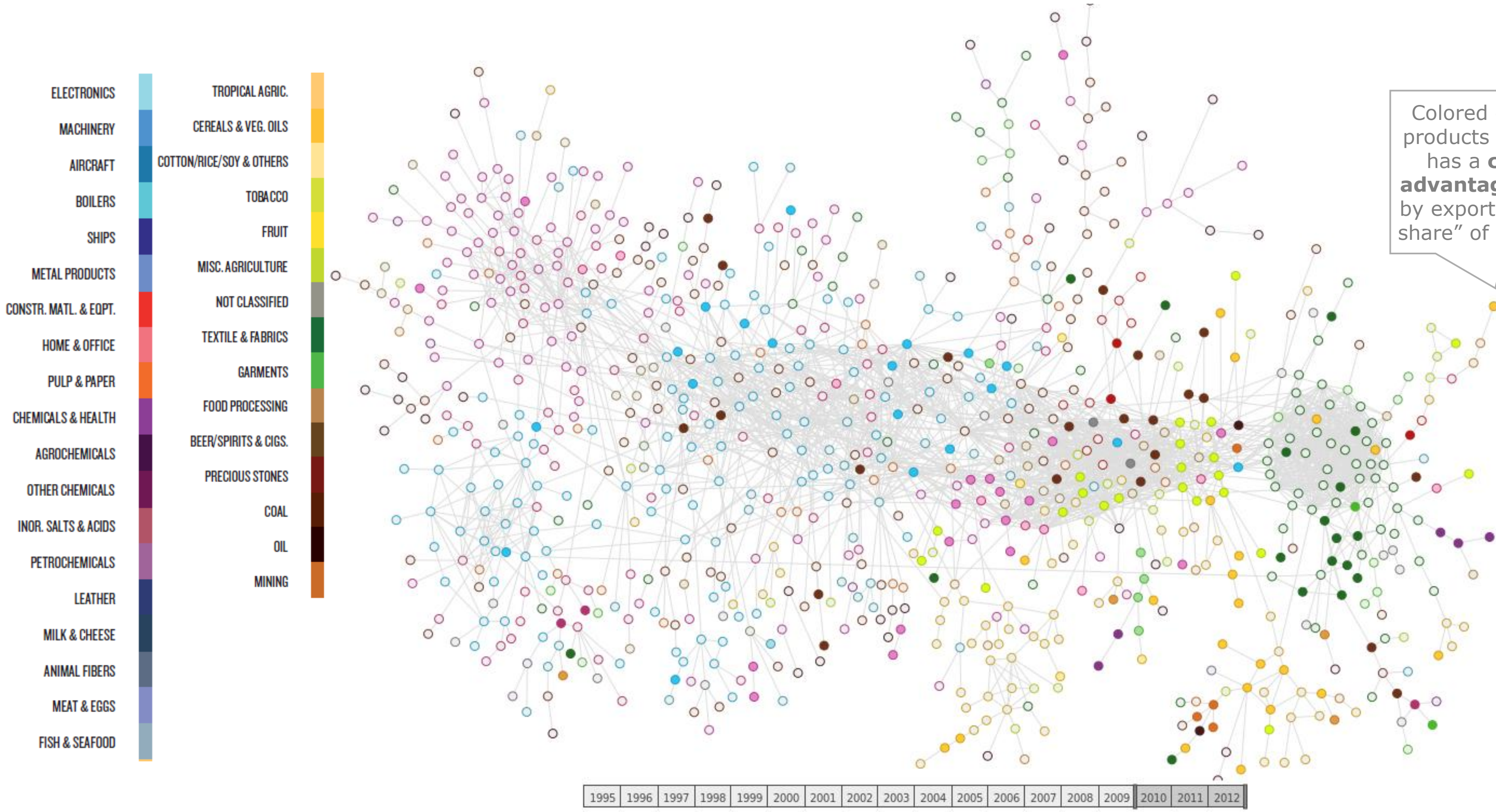
...however, the evolution of its product space shows limited coordination and sustainable planning of these capabilities

2. Capabilities

Joint Study by Harvard/MIT

PRODUCT SPACE OF LEBANON

2010 - 2012



Colored dots represent products where Lebanon has a **comparative advantage** as measured by exports above its "fair share" of the global trade

Source: Atlas of Economic Complexity, Hausmann, Hidalgo; Inventis Analysis

Abundance of debt, distorted cost of capital and weak appetite for investors are SMEs main challenges with capital

KEY CHALLENGES – ENTERPRISE LEVEL (3/7)

1. **Capital Mismatch**
2. **Distorted Cost of Capital**
3. **Outside Investors Persona Non Grata**

Source: Inventis Analysis

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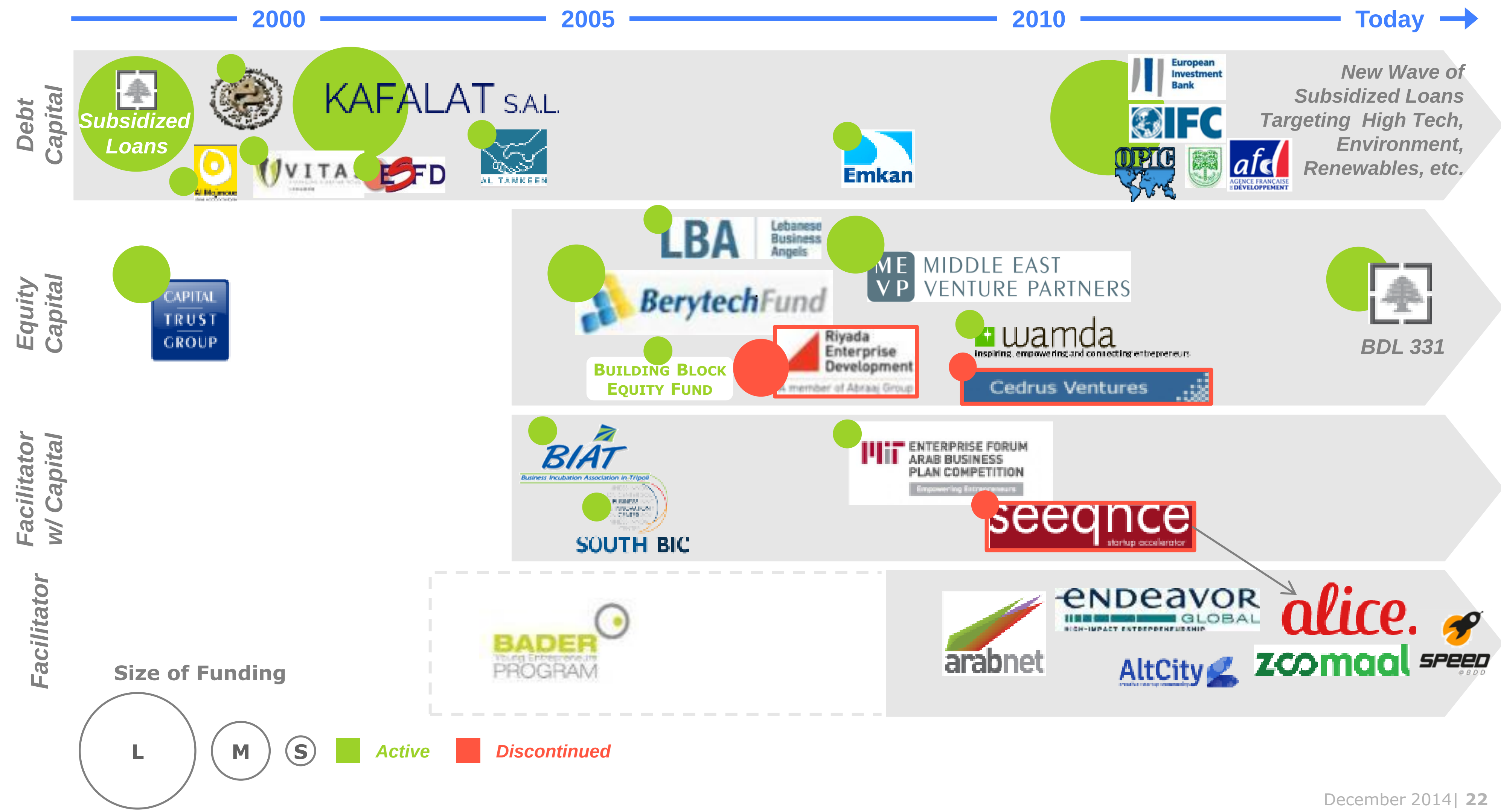
Since mid last decade, SME's long term funding source evolved significantly; Government still plays a major role

3. Capital

FUNDING LANDSCAPE IN LEBANON

NOT EXHAUSTIVE



Source: Literature Search, Inventis analysis

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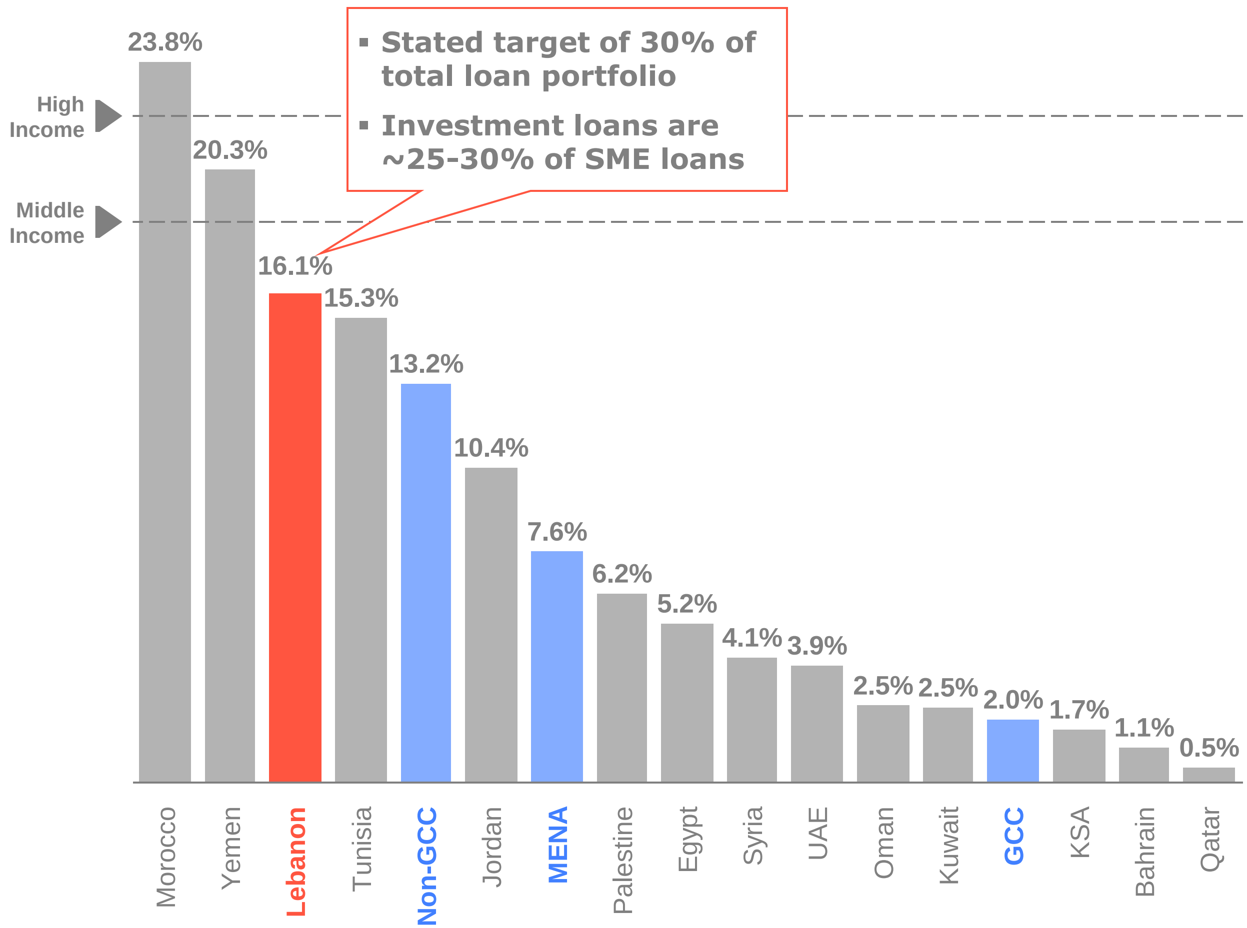
While better than Arab countries, SME lending in Lebanon is still below benchmarks and its SME targets

SME LENDING PENETRATION

SME LOANS/TOTAL LOANS, 2011



NOTABLE SUCCESS WITH OUTSTANDING CHALLENGES

- Highest in MENA (**16.1% of total loans, equivalent to ~14% of GDP**),:
  - **Strength and maturity** of Lebanese **banking sector** (*competitive supply*)
  - De-facto **large share of SMEs** as part of local economy (*high demand*)
- **SME loans for investment** purposes are estimated at **25-30%** of SME loan portfolio
- **Challenges hindering banks**
  - Still limited **financial transparency** coupled with **weak credit coverage and creditor rights**
  - **SME management skills**
  - High **collateral requirements** (immovable registry), especially when **beyond Kafalat** partial guarantee schemes

1) Estimate based on a total private credit portfolio in June 2011 of USD 41.7 Bn (inclusive of a share of ~ 24% of household loans)

Source: World Bank / Union of Arab Banks report 2011, Inventis Analysis

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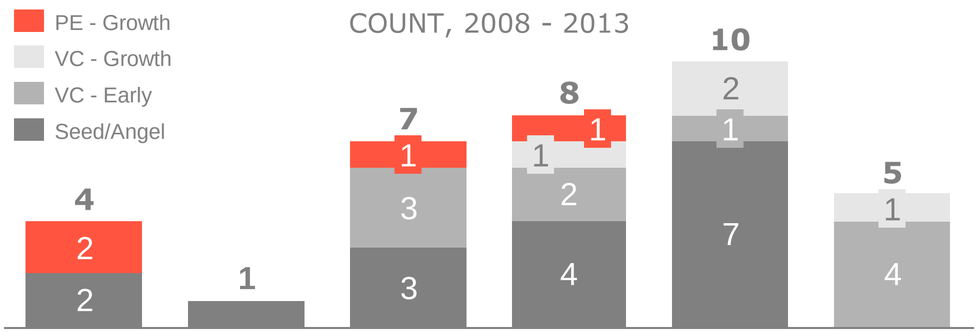
Most equity funding remains small and largely targets seed- to early stage SMEs with a significant ICT component

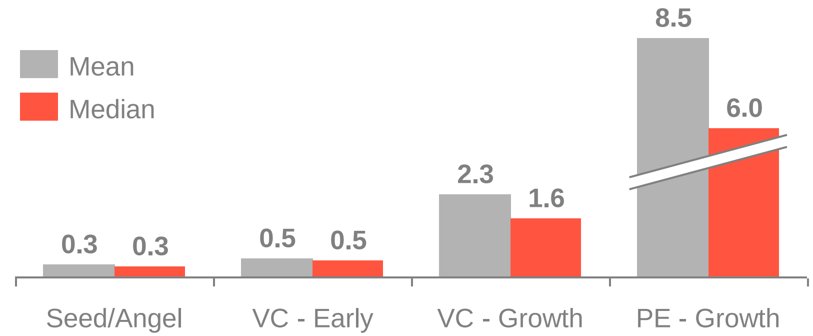
3. Capital

SME PRIVATE EQUITY AND VENTURE CAPITAL
BY SECTOR

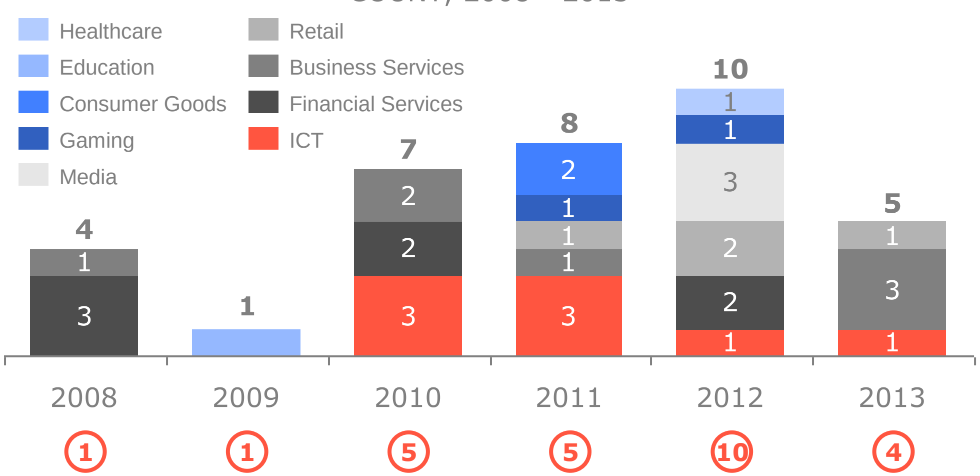
TRANSACTIONS BY STAGE
COUNT, 2008 - 2013

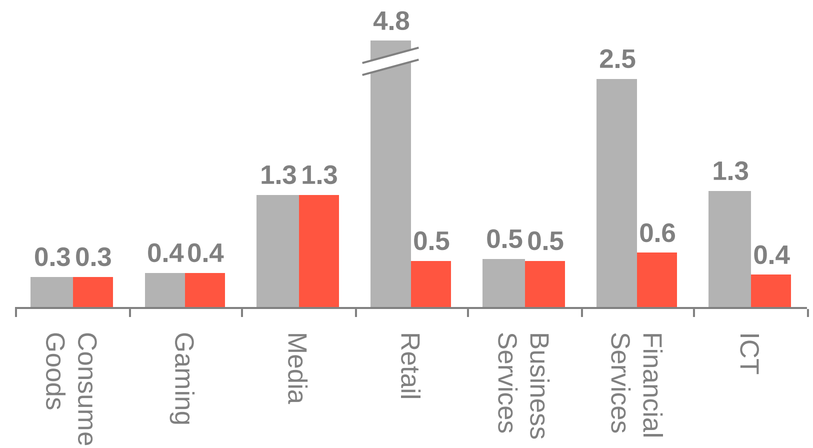


INVESTMENT SIZE
Million US$



TRANSACTIONS BY SECTOR
COUNT, 2008 - 2013





Number of transactions with ICT component

Note: Includes only Buy transactions, excludes PE transactions in large enterprises (e.g., EuroMena fund investment in FNB Bank)
Source: Zawya PE Database, MEVP and Berytech websites, literature search, Inventis Analysis

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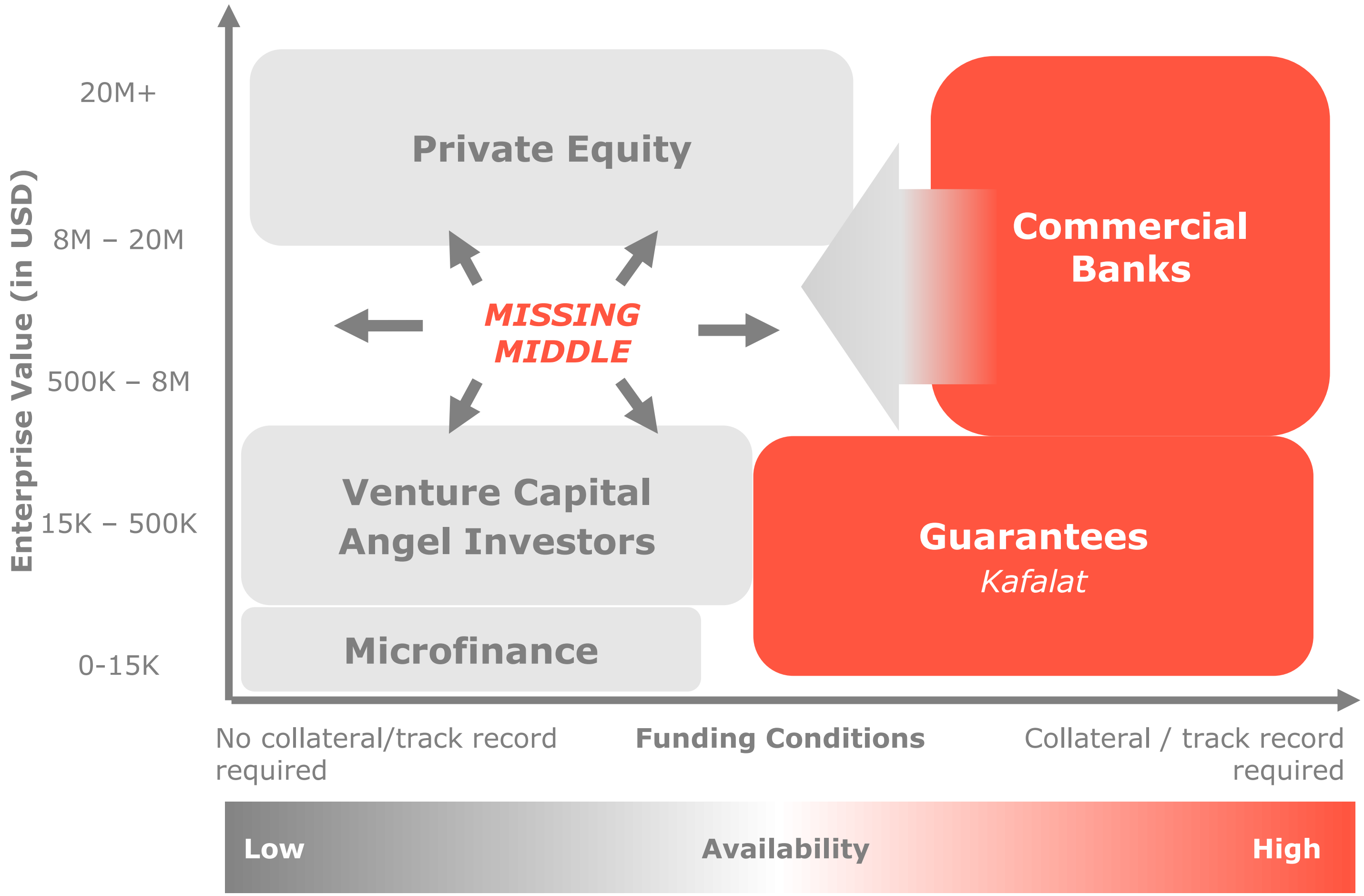
Although improving, a gap is still found in risky capital for mid-sized companies

3. Capital

GAP IN SUPPLY AND DEMAND FOR FUNDING



Note: Private credit as of June 2011, PE investments from 2008-2013 (disclosed data), Turnover of SMEs only as of 2011
Source: LRD Data, WEF Entrepreneurship Report 2011, Zawya PE Database, IMF & BDL Private Sector Credit Growth report, Inventis Analysis

From a market perspective, SMEs in Lebanon still face uncompetitive practices and trading inefficiencies

KEY CHALLENGES – INDUSTRY LEVEL (4/7)

1. **Unleveled Playing Field**
2. **Trading Inefficiencies**

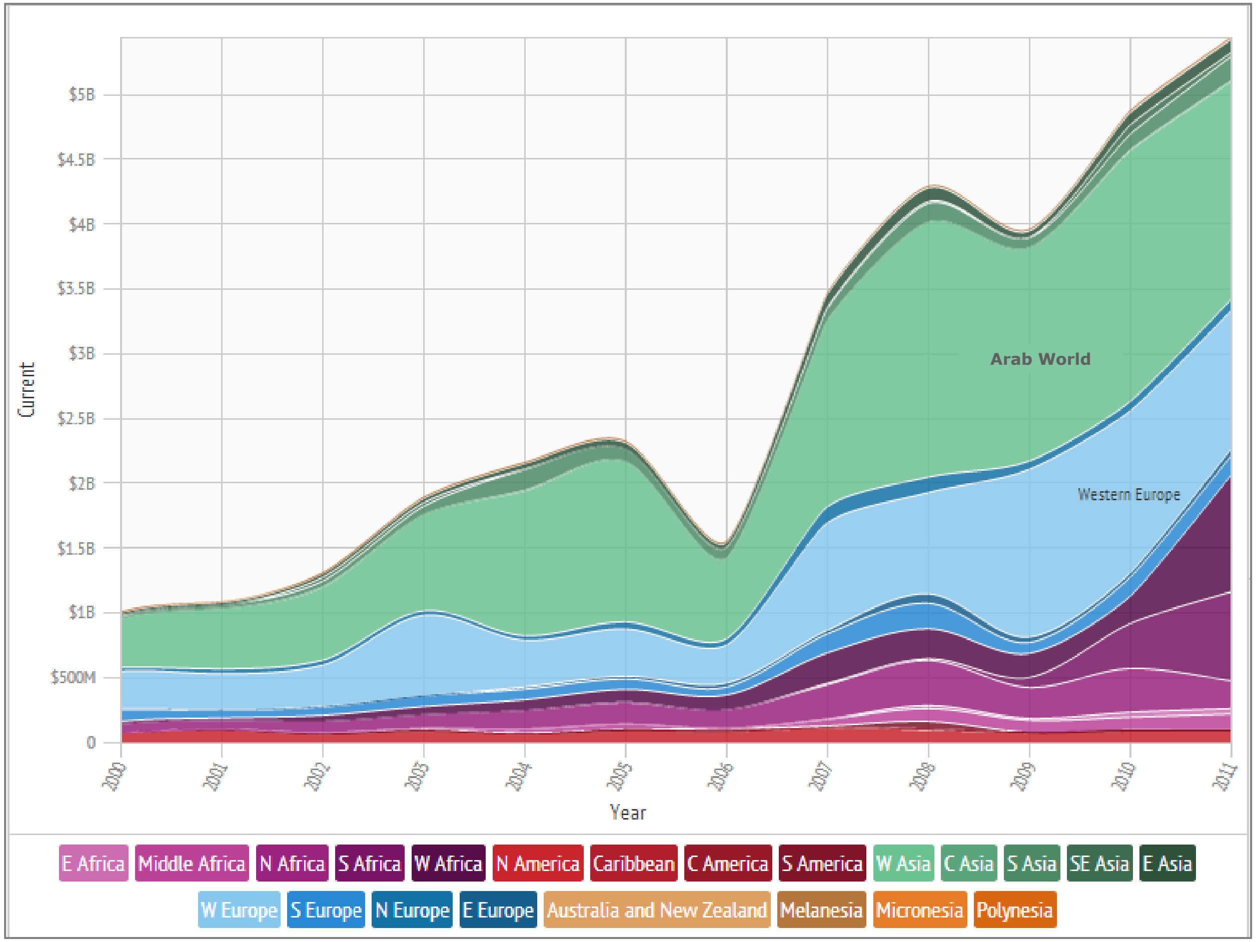
Source: Inventis Analysis

Lebanese exports shifted from traditional Arab and European markets towards high growth African nations

4. Market Structure

LEBANON EXPORT DESTINATION EVOLUTION

ANNUALLY, USD



Region	GDP Growth 2011	GDP Growth 2012
Arab World	5.34%	4.07%
EU	1.64%	-0.36%
Sub-Saharan Africa	4.38%	4.24%
North America	1.9%	2.68%

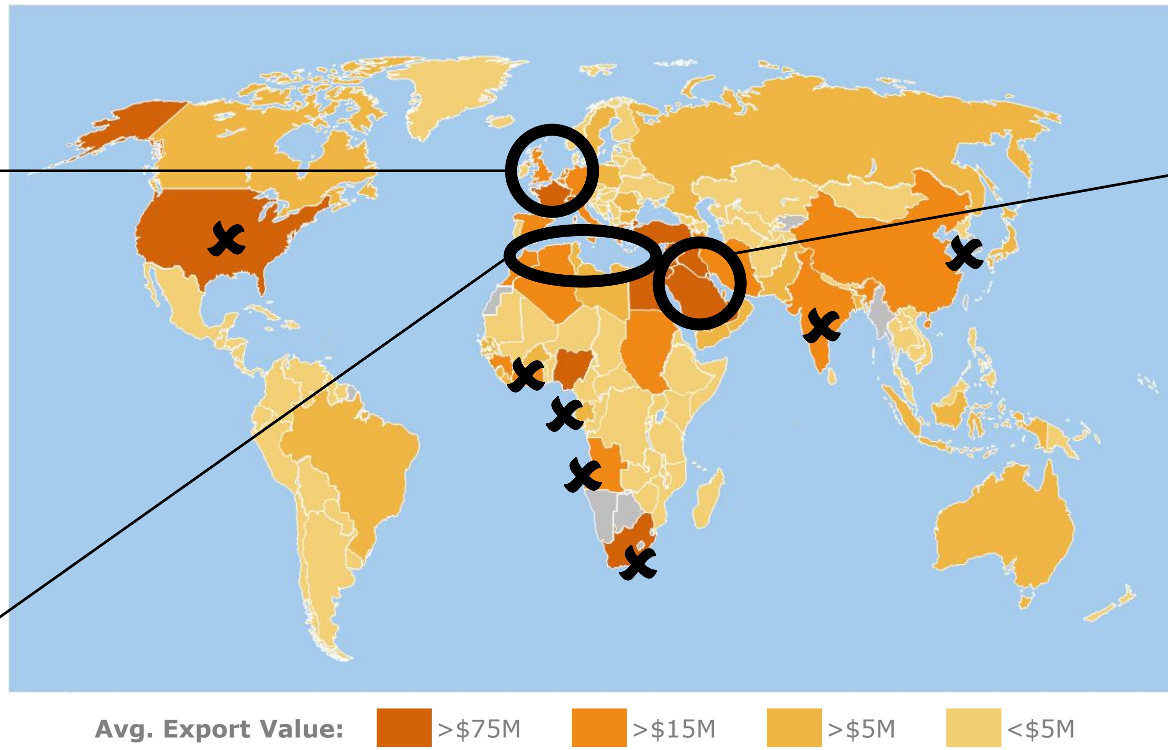
Source: MIT Observatory of Economic Complexity, UN COMTRADE; World Bank 2014; Inventis Analysis

However, Lebanon has yet to implement trade agreements with many of its high-export African trade partners

LEBANON EXPORT DESTINATION
AVERAGE 2002-2011, US$

EFTA European Free Trade Association - since 2004 - grants free access to Lebanese industrial exports, including fish, marine, and processed agricultural products

Euro-Mediterranean Partnership Initiative – since 2002 - free access to the EU market for industrial and most agricultural products that fall within the limits of tariff quotas



Greater Arab Free Trade Area (GAFTA) – grants full exemption of tariffs on all agricultural and industrial goods

Other Bilateral Free Trade Agreements with: UAE; Kuwait; Iraq; Syrian; Egypt; Turkey; Nigeria; Iran; China; Sudan; - grants most favorable nation (MFN) treatment to both countries

No Free Trade Agreements[1]

- US (TIFA only)
- South Africa
- South Korea
- India
- Congo
- Ghana
- Angola

Note: Only includes countries with average 2002-2011 exports in excess of $15M;
Otherwise, Lebanon has a bilateral agreements with 12 countries in MENA, 8 in Europe, 7 in Asia, 5 in Africa, 3 in America and 2 in Oceania

Source: MIT Observatory of Economic Complexity, UN COMTRADE, Inventis Analysis

The legal, regulatory and taxation framework in Lebanon presents several challenges to SMEs

KEY CHALLENGES – INDUSTRY LEVEL (5/7)

1. **Legal Enforcement vs. Contractual Goodwill**
2. **Creditor Protection**
3. **Companies in Perpetual Limbo**
4. **One-Size Fits All Taxation**
5. **Red Tape**

Source: Inventis Analysis

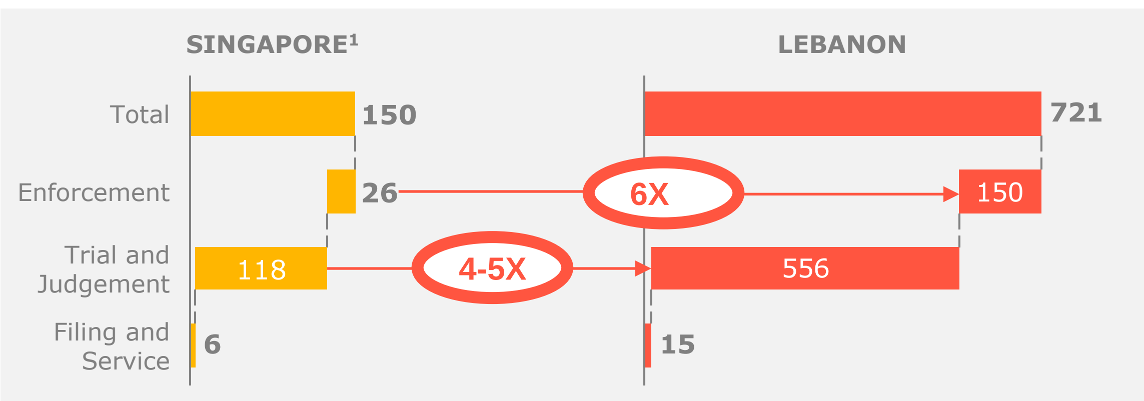
Contract enforcement is a cumbersome, costly and lengthy legal process which can be detrimental for SMEs

EXAMPLE – CONTRACT ENFORCEMENT

2014

Sub-Index	Enforcing Contracts Rank	Procedures (#)	Time Days	Cost % of claim
Lebanon	126	37	721	30.8
MENA Average	118	44	658	24.6
OECD High Income	-	31	529	21
Global Best Practice (Score)	Luxembourg (1)	Singapore (21)	Singapore (150)	Bhutan (0.1)

Area of Major Weakness



Comments

- **Court procedures** are costly and lengthy (almost 2 years) which renders them inefficient as a contract enforcement resort for SMEs
  - Time required for **trial and judgment** is 4-5x longer than best practice
  - Time for **enforcement of judgment** is ~6x higher than best practice
  - Court cases **cost** 30.8% of claim value, even more than high income OECD average

1) Singapore ranked 1

Source: World Bank Doing Business Report 2014; Inventis Analysis

Furthermore, insolvency procedures are also costly with low recovery rate – updated draft law is still pending approval

EXAMPLE – INSOLVENCY AND BANKRUPTCY IN LEBANON
2014

Sub-Index	Resolving Insolvency Rank	Time Years	Cost % of estate	Recovery Rate cent on the dollar
Lebanon	93	3	15	32.4
MENA Average	105	3.2	14	29.4
OECD High Income	-	1.7	9	70.6
Global Best Practice (Score)	Japan (1)	Ireland (0.4)	Norway (1)	Japan (92.8)

Area of Major Weakness

Comments

- Resolving insolvency in Lebanon is lengthy and has poor recovery rates
- Current practices neither protect business owners nor creditors effectively
- Lebanese **bankruptcy law requires updating** (dated 1949)
- Lebanon lacks:
  - **Regulation and supervision** of insolvency practitioner profession
  - **Effective out-of-court settlement**
- **Draft law, pending approval**, has been developed by IBEL with the support of IFC to:
  - Formalize and accredit **bankruptcy agents**
  - Update current **insolvency law**
  - Update/develop **out-of-court work guidelines** for the banking sector

Source: World Bank Doing Business Report 2014; Inventis Analysis

Despite qualified enablers, research and innovation is still untapped, challenged by small budgets and poor protection

KEY CHALLENGES – INDUSTRY LEVEL (6/7)

1. **Untapped Innovation Potential**
2. **Nascent IP Protection**
3. **Poor Market Research**

Source: Inventis Analysis

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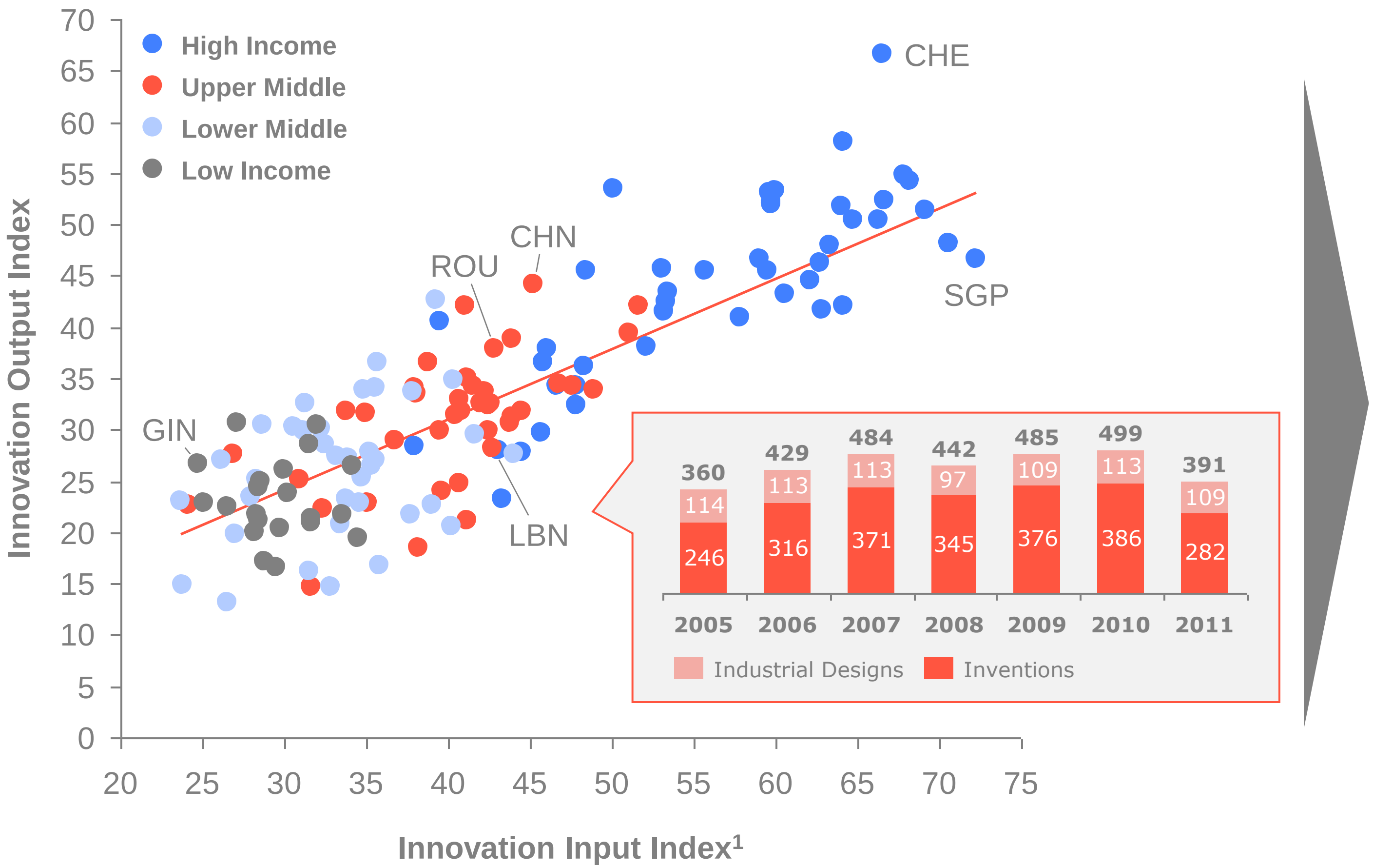
Though producing ~440 inventions/year, innovation efficiency shows that Lebanon is performing below-par

6. Research and Innovation

INNOVATION EFFICIENCY

INNOVATION INPUT AND OUTPUT 2013



COUNTRY	RANK	SCORE
Switzerland	1	66.6
UK	3	61.2
USA	5	60.3
Singapore	8	59.4
Germany	15	55.8
New Zealand	17	54.5
Malaysia	32	46.9
China	35	44.7
UAE	38	41.9
Brazil	64	36.3
Turkey	68	36.0
Lebanon	75	35.5

Out of 142

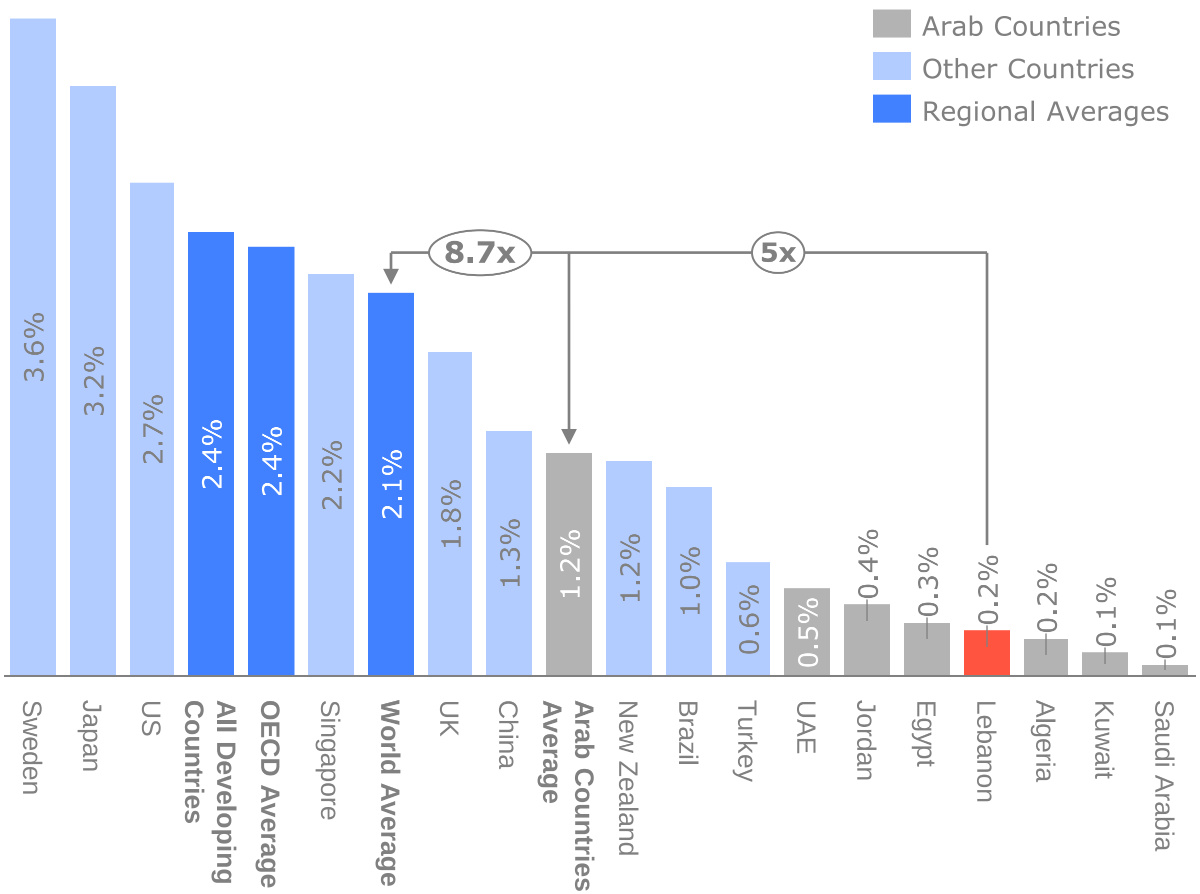
1) Input Index includes institutions, human capital and research, infrastructure, market and business sophistication
2) Output Index includes knowledge, technology and creative outputs
Source: WEF Global Innovation Report 2013; Inventis Analysis

Indeed, as in most Arab countries, innovation in Lebanon is largely constrained by low R&D spending

6. Research and Innovation

R&D SPENDING

% OF GDP, AVERAGE 2000 - 2011[1]



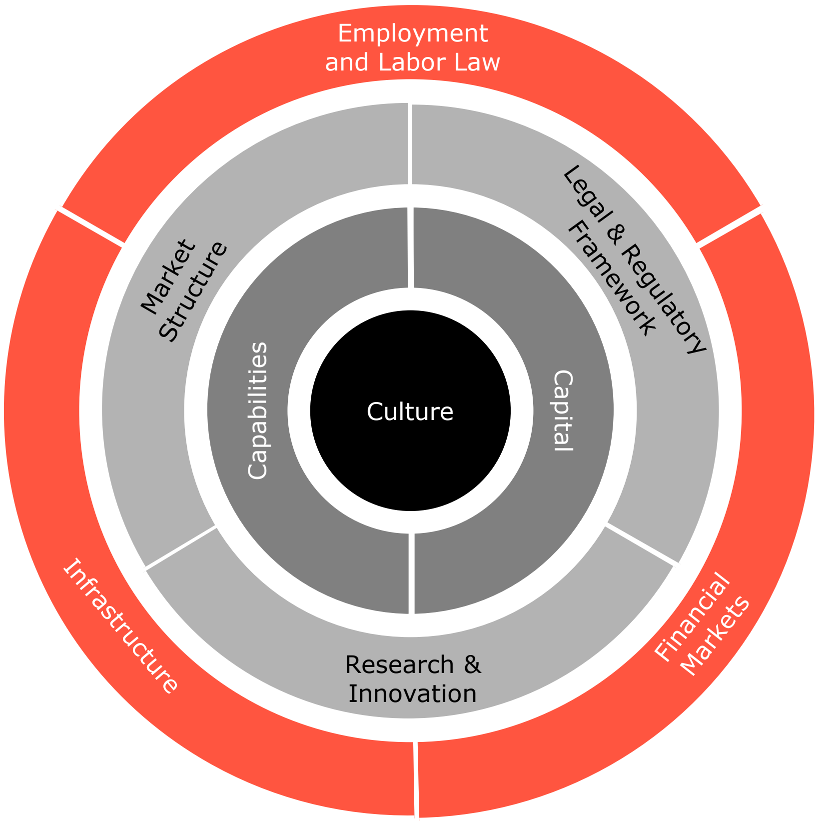
R&D in Lebanon

- **Public entities and institutes** - CNRS, LARI, IRI and Lebanese University – collectively spent **~US$ 22.6 Mn on R&D in 2006**
- **Higher education private institutes with in-house research and development** (e.g., AUB and USJ) together spent **~US$ 31.8 Mn on R&D in 2006**
- R&D spending represented **~0.24% of GDP in 2006**, which is 5 times lower than Arab countries average and 8.7x lower than World Average

NOTE: CNRS = National Center for Scientific Research; LARI = Lebanese Agricultural Research Institute; IRI = Industrial Research Institute
1) Data is not available on yearly basis for all countries; average value is derived from years for which data is available
Source: American University of Beirut; World Bank; Inventis Analysis

Employment flexibility, shallow financial markets and weak infrastructure are major impediments on a national level

KEY CHALLENGES – NATIONAL LEVEL (7/7)



1. **Informal Workforce Market**
2. **Foreign Skilled Labor**
3. **Shallow Beirut Stock Exchange**
4. **Infrastructure Patches**

Source: Inventis Analysis

inventis

Lebanon still suffers from a poor infrastructure especially in comparison to other Arab countries

QUALITY OF INFRASTRUCTURE

SCORES, 2013 - 2014

Country	Rank[1]	Quality Of Overall Infrastructure	Quality of Roads	Quality of Port Infrastructure	Quality of Air Transport Infrastructure	Mobile Phone Subscriptions[2]	Fixed Tel Lines Subscriptions[2]
UAE	4	6.4	6.6	6.4	6.7	169.9	24.3
Oman	17	5.8	6.4	5.5	5.5	177.9	10.5
Bahrain	20	5.7	5.4	5.8	5.6	156.2	21.3
Saudi Arabia	22	5.7	5.8	5.1	5.4	184.7	16.7
Qatar	27	5.4	5.0	5.2	6.0	132.7	16.9
Jordan	38	5.1	4.8	4.5	5.5	139.1	6.7
Morocco	48	4.9	4.5	5.0	5.0	119.4	10.1
Kuwait	59	4.6	4.8	4.1	4.0	187.4	17.6
Tunisia	80	4.1	3.8	4.0	4.5	120.0	10.3
Algeria	89	3.8	3.3	2.7	3.0	103.3	8.6
Egypt	118	3.3	2.7	4.1	4.8	115.2	10.2
Lebanon	142	2.3	2.7	4.3	4.9	93.1	20.5
Libya	144	2.3	2.5	3.0	2.9	148.2	12.6
	Out of 148	4.3	4.0	4.2	4.4		

Area of Major Weakness

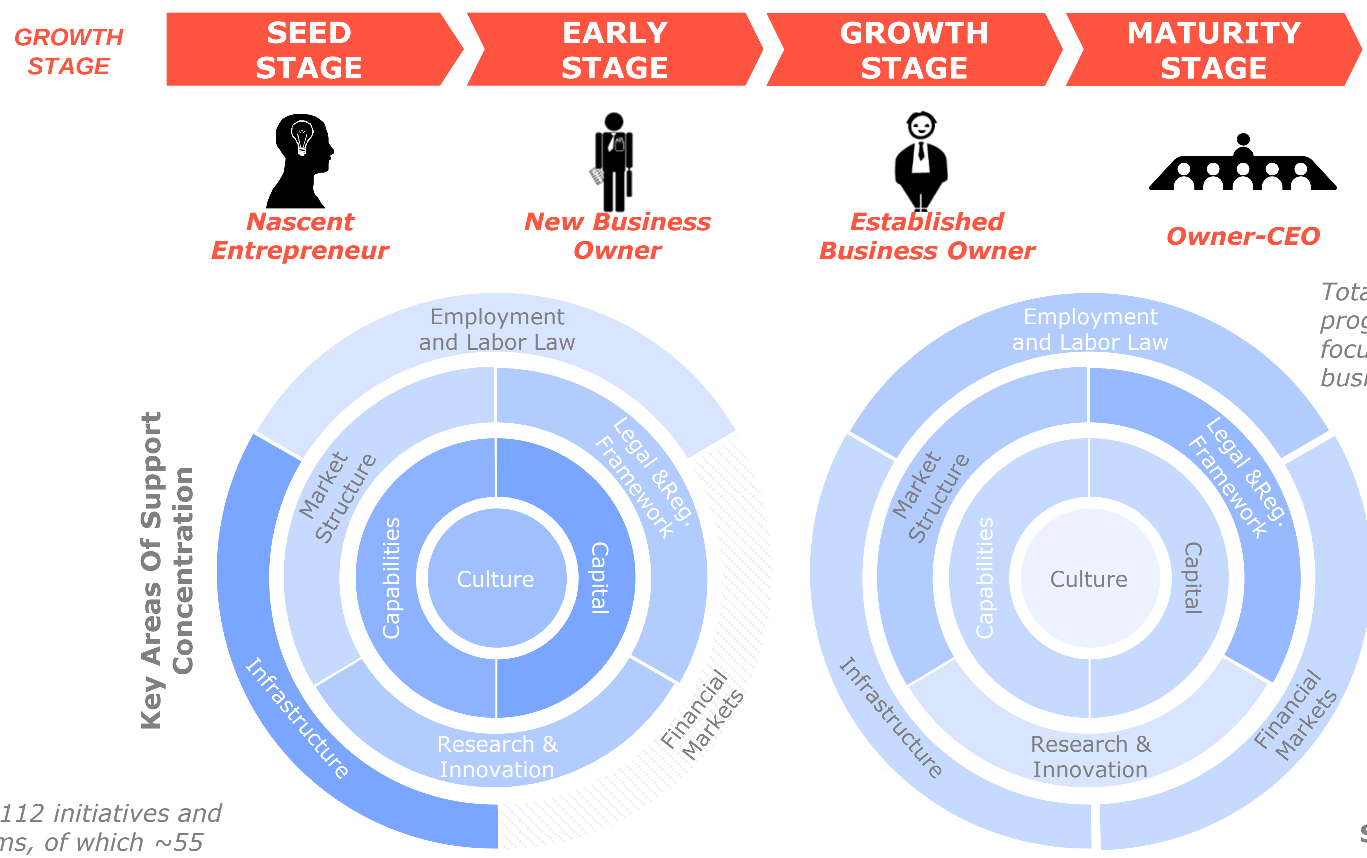
1) Rank on Second Pillar: Infrastructure (Overall)

Source: WEF Global Competitiveness Report 2013-2014; Inventis Analysis

As for support, it has been noticeable to Entrepreneurs and less pronounced for SME business owners

SUPPORT EFFORTS FOR ENTREPRENEURS & ESTABLISHED BUSINESS OWNERS

ILLUSTRATIVE



Total ~68 initiatives and programs, of which ~11 focusing exclusively on business owners

Total ~112 initiatives and programs, of which ~55 focusing exclusively on entrepreneurs

ADEQUACY OF SUPPORT EFFORTS

SATISFACTORY

ACCEPTABLE

POOR

1) Prior to BDL's circular 331
Source: Inventis Analysis

Our review of challenges and support activities, suggests focus areas evolving from entrepreneur to SME owner

CURRENT CHALLENGES FOR ENTREPRENEURS & SMEs

Level	Dimension	SEED – EARLY: Challenges	SEED – EARLY: Support	GROWTH – MATURITY: Challenges	GROWTH – MATURITY: Support
Entrepreneur	Culture	1	2	4	0
Enterprise	Capital	3	2	3	1
	Capabilities	3	2	4	1
Industry/ Sector	Market Structure	2	1	4	1
	Legal & Regulatory	3	1	3	2
	Research & Innovation	2	0	2	0
Nation	Employment & Labor	2	1	2	1
	Financial Markets	N/a	N/a	3	1
	Infrastructure	2	2	4	1

Not Priority Focus | Focus Area | Low | High

Source: Inventis Analysis

Six key overarching challenges are facing the Lebanese SMEs and entrepreneurs

KEY OVERARCHING CHALLENGES

Framework Linkages		Key Challenge
Overarching Challenges	**A** **The Growth Barrier**	*Most SMEs unable to break the barriers of next stages of growth (lack of corporatization, equity funding, etc.) with a high risk of sustainability beyond 2nd generation for family businesses*
	B **Lingering Old Economy**	*Slow transition from old traditional economy to new "knowledge" economy usually based on higher value-adding capabilities and improved global competitiveness*
	C **Unused Potential of Capabilities Systems**	*Weak leveraging of coordinated capability systems, at both the individual and organization levels, that have the potential to improve competitiveness of SMEs*
	D **Changing Business Environment**	*SMEs operate in a more challenging business environment stemming from increased globalization, heavy competition from rivals in all sizes, empowered customers and fast-changing technologies affecting business models*
	E **Economic Uncertainty and Cash Stressing**	*Current economic uncertainty and the slowing of business activity is severely stressing cash flows cycles adding unenviable pressures on SMEs*
	F **Uncoordinated Institutional Setup and Initiative Inertia**	*Absence of adequate institutional setup and coordination of SME support and development, compounded by initiatives' limited reach and impact, and rigidity in the face of an evolving landscape*

Source: Inventis Analysis

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In this context, we identified a set of objectives and thrusts that will help materialize an ambitious SME strategy

SME NATIONAL STRATEGY FRAMEWORK

VISION, MISSION, OBJECTIVES & STRATEGIC THRUSTS

VISION

SMEs as Key Economic Engine for Growth & Job Creation

MISSION

Foster the creation of vibrant and globally competitive SMEs that contribute to employment opportunities and high value-added economy

OBJECTIVES

SMALL to LARGE

Grow SMEs through their next stages of development

SUSTAINABLE

Ensure long-term sustainability of businesses

INNOVATIVE

Transition to higher value added economy

COMPETITIVE

Transform into more productive, competitive and global players

STRATEGIC THRUSTS

- ***EVOLVING BUSINESS LEADERS***
- ***FACILITATING THE "RIGHT" FUNDING***
- ***IMPROVING ACCESS TO MARKET***
- ***ENHANCING CAPABILITIES AND INNOVATION CAPACITY***
- ***DEVELOPING A CONDUCIVE BUSINESS ENVIRONMENT & NATIONAL INFRASTRUCTURE***

COHERENCE & EFFECTIVE COORDINATION[1]

1) Should be integrated in broader national development strategy

Source: Inventis Analysis

The key objectives are growing SMEs, enhancing their sustainability, and improving innovation & competitiveness

OBJECTIVES

SME NATIONAL STRATEGY OBJECTIVES

Key Objectives	Description
A SMALL to LARGE	*Effectively overcome growth hurdles, including access to growth capital, corporatization, and access to markets in order to transition to larger businesses which creates jobs and contributes to Lebanon's economic growth*
B SUSTAINABLE	*Ensure long-term sustainability of SMEs beyond their early entrepreneurial stages and original founders, and secure efficient market structures with leveled playing fields*
C INNOVATIVE	*Transition to a high value-added economy by fostering innovative and creative activities of SMEs which create knowledge-based employment opportunities that leverage Lebanon's highly educated and talented workforce edge*
D COMPETITIVE	*Transform SMEs into true global agile players with higher productivity and improved resiliency which allows them to compete effectively in the globalized economy*

Source: Inventis Analysis

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Achieving objectives rests on six strategic thrusts that are effectively the pillars of Lebanon's SME National Strategy

STRATEGIC THRUSTS

SMES DEVELOPMENT STRATEGIC THRUSTS

Strategic Thrusts	Description
1 Evolving Business Leaders	▪ Assist SME owner-managers in evolving their corporate culture, professionalizing management, developing new leaders, and transitioning to real effective corporate governance
2 Facilitating the "Right" Funding	▪ Encourage SMEs to strengthen their capital structures for growth and resiliency ▪ Ensure availability of adequate sources of funding adapted to SME needs ▪ Provide a supporting framework to match smart VC/PE capital to entrepreneurs and business owners
3 Improving Access to Market	▪ Minimize structural market inefficiencies to improve SME competitiveness ▪ Enhance access to foreign markets and facilitate SME access to fast-growing economies and ones where Lebanon has an edge
4 Enhancing Capabilities & Innovation Capacity	▪ Build Lebanon's core specialized capabilities, and enhance its creative and innovation capacity and supporting framework ▪ Develop interdependent networks that build upon Lebanon's differentiated capabilities found in both, individuals and organizations
5 Developing a Conducive Business Environment & National Infrastructure	▪ Address SME-critical elements of Lebanon's business environment focusing on developing SME-friendly employment, legal, regulatory and taxation frameworks ▪ Concentrate infrastructure development efforts into coherent and comprehensive sector-focused zones
6 Coherence & Effective Coordination	▪ Develop strong effective coordination mechanisms among public and private sector stakeholders in order to ensure coherence and streamlining of SME support efforts

Source: Inventis Analysis

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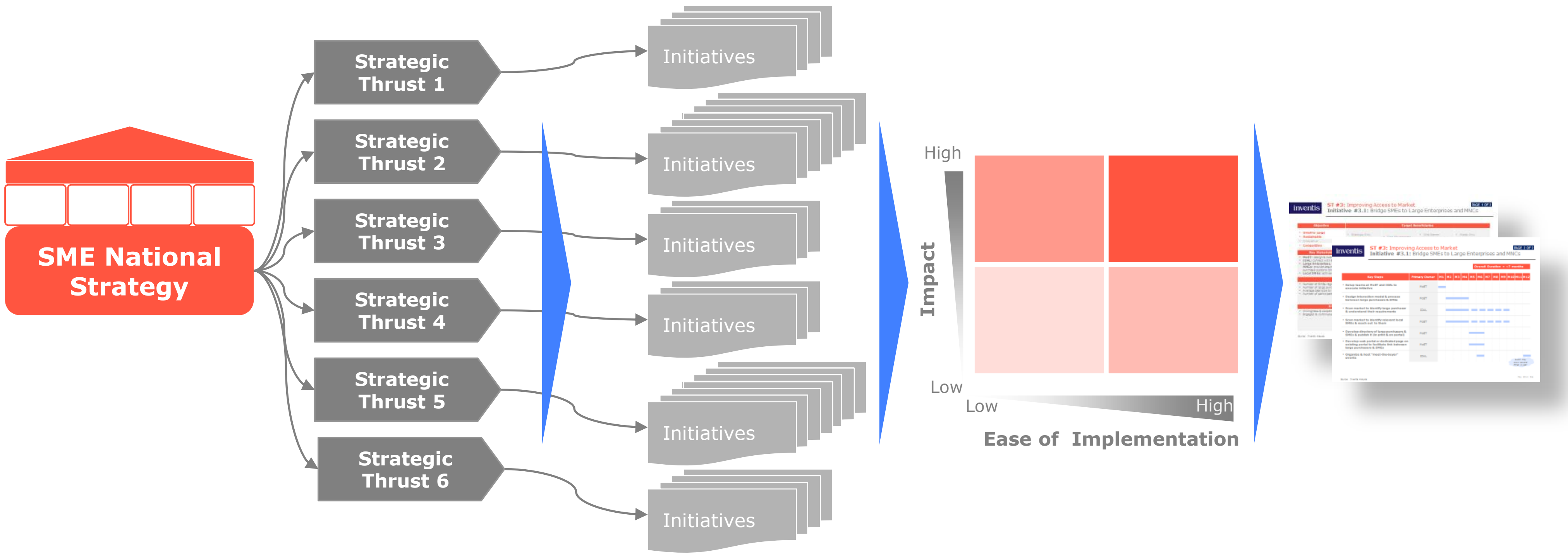
To detail the SME strategy, a 3-step approach is followed to identify, prioritize and define initiatives

STRATEGY DEVELOPMENT APPROACH

ILLUSTRATIVE

0 Definition of SME National Strategy Framework	1 Initiatives Identification	2 Prioritization Analysis	3 Initiatives Charters



- Define Lebanon's overall vision and mission for SME development
- Determine key objectives to be achieved
- Identify main strategic thrusts that will drive towards the objectives

- Rationalize existing initiatives and propose new ones to address identified SME challenges
- Develop long list of initiatives

- Prioritize initiatives according to:
  - Impact and contribution to objectives
  - Ease of implementation and readiness

- Develop detailed charters for priority initiatives
- Develop high-level action plans for remaining initiatives

Source: Inventis Analysis

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Initiatives were prioritized into 4 groups based on impact and ease of implementation

INITIATIVES PRIORITIZATION AND QUICK WINS

COMPLEX SETUP

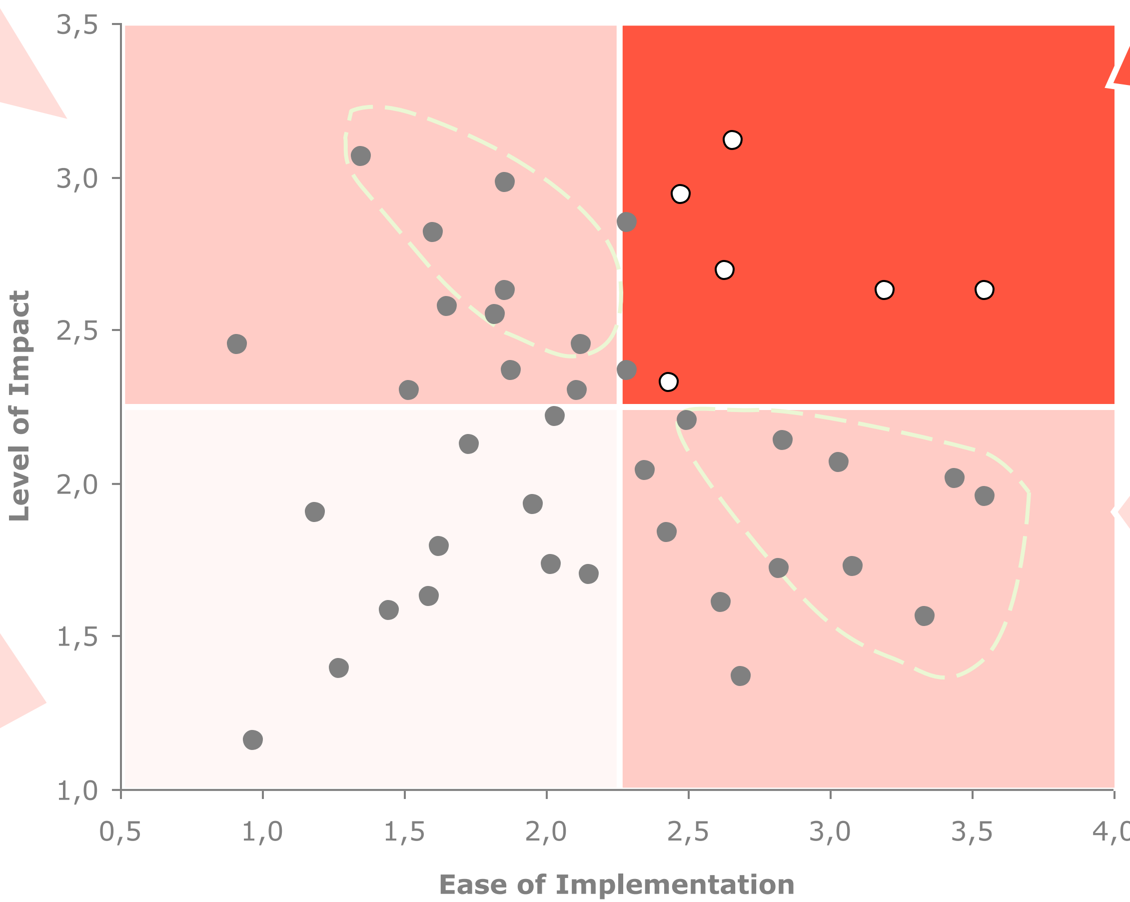
Complex to execute but expected to generate a significant impact on Startups & SMEs and enabling ecosystem

PREPARE EARLY AND PHASE LAUNCHING

SECONDARY

Can be implemented at later stage & that enhance the overall ecosystem rather than enable it

RECONSIDER / DELAY IMPLEMENTATION



BOOSTERS

Relatively easily implemented & expected to generate a significant impact on Startups and SMEs & enabling ecosystem

PURSUE AND LAUNCH IMMEDIATELY

ADD ON

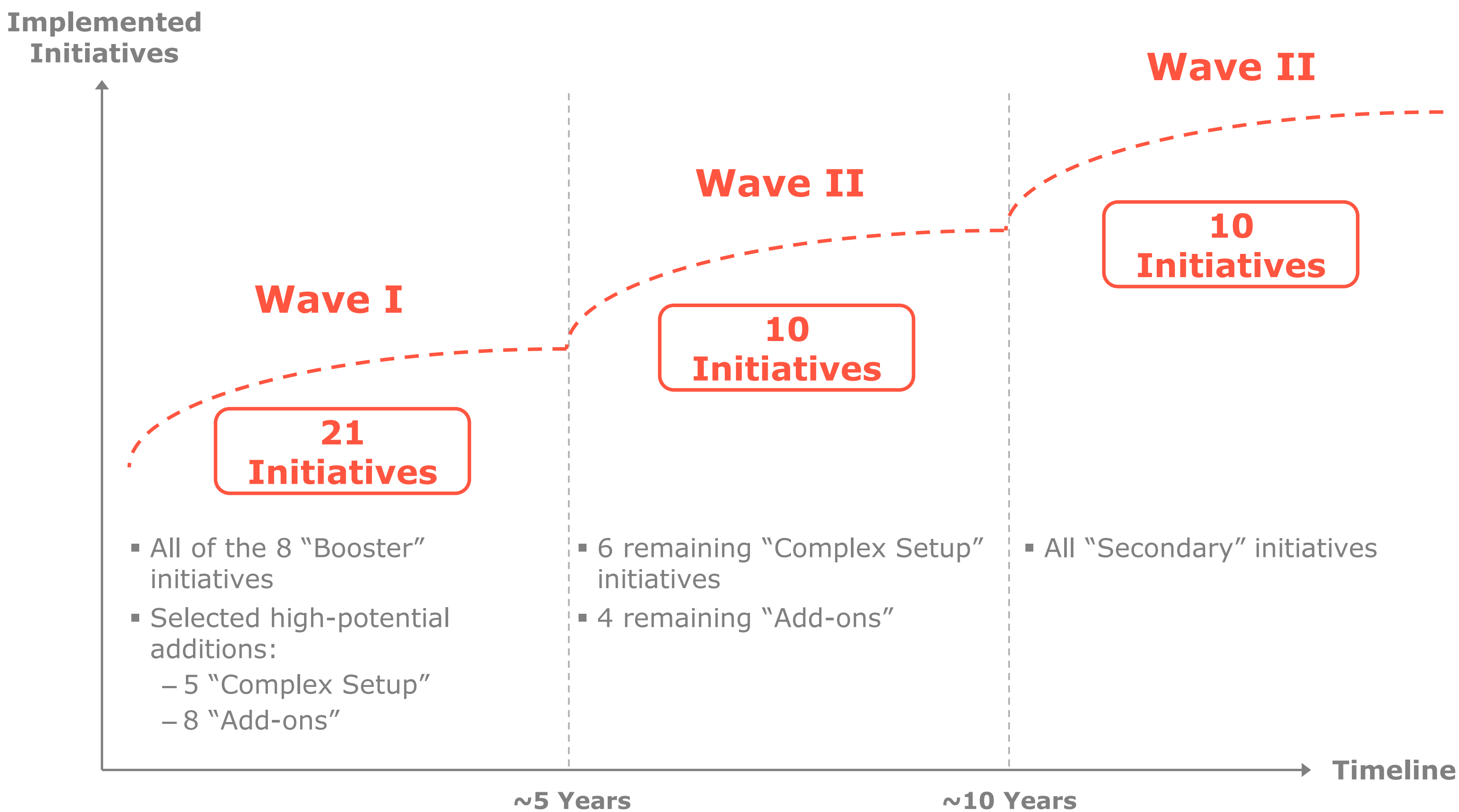
Rapidly and easily implemented & that enhance the overall ecosystem with moderate impact on stated objectives

SELECTIVELY LAUNCH WHEN POSSIBLE

Source: Inventis Analysis

As a result, 3 waves were identified, with Wave I initiatives focused mainly on capital, capabilities and markets

IMPLEMENTATION ROADMAP



Source: Inventis Analysis

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Today, Lebanese SMEs lack a national champion, while support efforts are scattered & un-coordinated

CURRENT INSTITUTIONAL SETUP IN LEBANON

Need for SMEs National Champion

- SMEs do not have a single institutional governing framework that provides support and strategic directions, and to coordinate & streamline ongoing efforts

Multiplicity of Players

- Multiple agencies are administering efforts targeting SMEs with risks of overlap in support provided
- Players include MoET, Sectoral Ministries, BDL, Kafalat & IDAL; in addition to several Multilateral Organizations, NGOs and private sector players

Ad-hoc & Uncoordinated Support Efforts

- Support programs are most of the time set and run separately with limited or coordination amongst them, failing to create the necessary impact to ensure adequate support to SMEs

New SME Development Strategy

- New strategy with clear ambitions and detailed objectives requires a high-level owner to ensure success
- Strategy is proposing revamp of existing programs & new initiatives both requiring a champion for execution and follow up

Design New Institutional Setup for SMEs Support

Source: Inventis Analysis

International benchmarks show various institutional setups related to SME support…

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INSTITUTIONAL SETUP BENCHMARK SUMMARY

NON-EXHAUSTIVE

	Singapore	New Zealand	AbuDhabi / Dubai	USA	UK	Philippines	Malaysia
Governance	*Reports to **Ministry of Trade & Industry***	*Reports to **Prime Minister***	*Reports to **Ex. Council / Dept. of Eco. Development***	*Reports to **Federal Government***	*Reports to **Prime Minister***	*Reports to **Department of Trade & Industry***	*Reports to **Prime Minister***
	SPRING BoD[1]	Ministry of Business, Innovation & Employment[2] *"Small Businesses Portfolio"*	BoD[1] of Khalifa Fund / Dubai SME	Small Business Administration (SBA)	Department of Business Innovation & Skills	MSMEs Development Council	National SME Development Council
Management	SPRING		Khalifa Fund for Enterprise Development/ Dubai SME			Bureau of MSME Enterprise Development	12 Ministries & 38 Agencies[3]
Sample Execution	▪ Productivity and Innovation Credit Scheme ▪ Market Readiness Assistance (MRA) Grant ▪ SME Talent Program	▪ Innovation Capability Funding ▪ Business Mentorship ▪ Incubator Support Program ▪ Job Placement Support	▪ UAE SME Fund ▪ Khutwa Microfinance ▪ Zeyada Program ▪ MBR Award For Young Business Leaders ▪ Dubai SME 100 ▪ SME Connect ▪ Dubai Entrep. Academy	▪ Historically underutilized Business Zones program ▪ Women-Owned Small Business Federal Contract program	▪ Regional Growth Fund ▪ Local Enterprise Partnerships ▪ Growth Accelerator ▪ Start-up Loans ▪ Enterprise Finance Guarantee	▪ Small Business Corporation ▪ Access of Small Enterprises to Sound Lending Opportunity ▪ One Town One Product Program	▪ SMEINFO portal; providing support on infrastructure, financing, advisory services, access to market, technology, & Human Capital ▪ Various development objectives tasked to public entities

NOTE: BoD = Board of Directors
1) Members include public and private sector players
2) Supported by Small Business Development Group
3) Each organizations is tasked with specific development objectives aimed at particular target groups
Source: Inventis Analysis

…resulting in 3 possible models of which 2 are possible for Lebanon:a Ministry or a Development Board

INSTITUTIONAL SETUP MODELS / OPTIONS

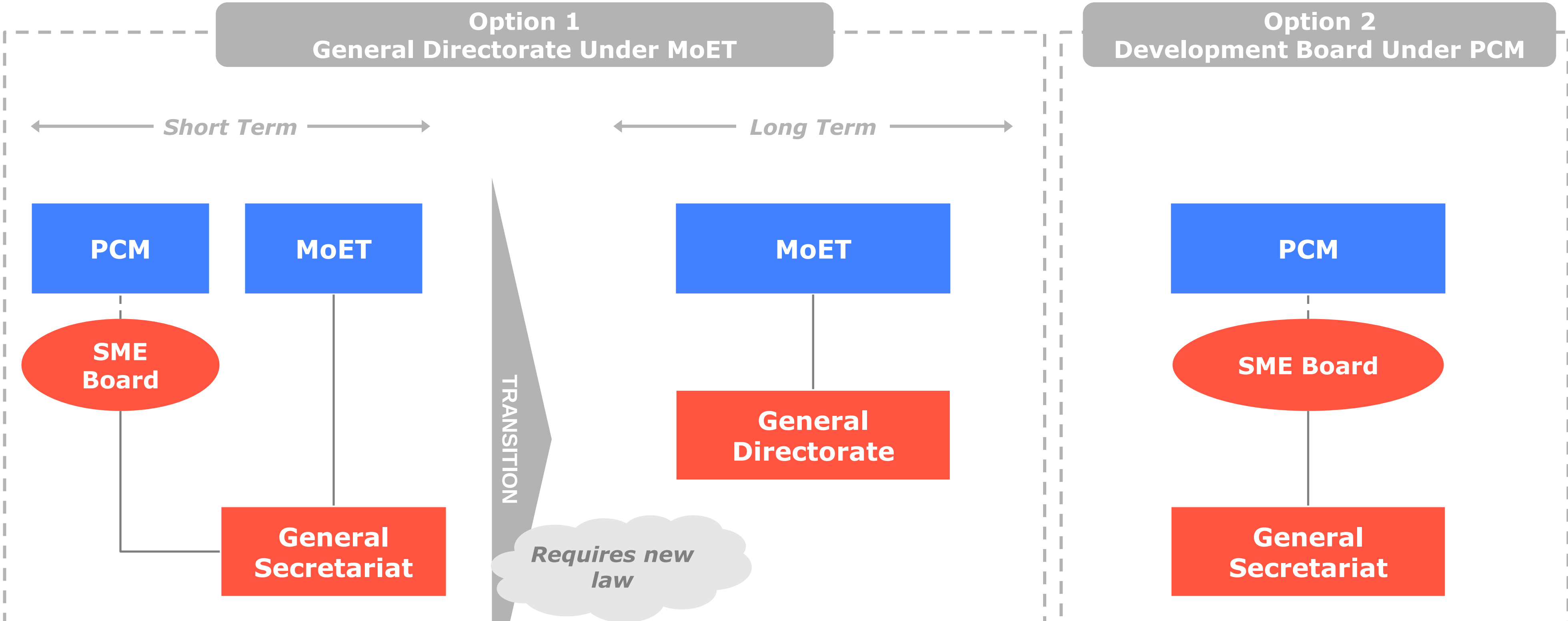
	Independent Authority	Ministry	Development Board or Council
Description	▪ Institutionally independent body undertaking direct activities for SME support	▪ Standalone ministry or department, with dedicated mandate for SMEs support	▪ Dedicated council leading SME National Strategy with dedicated execution arm (e.g., Secretariat)
Governance	▪ Operated by Director General & headed by Board of Directors ▪ Reports to a board of directors	▪ Operated by Director General ▪ Reports to Minister	▪ Operated by Secretary General ▪ Report to Prime Minister or Minister
Management	▪ Dedicated independent team that develops strategy, manages & oversees execution	▪ Team within ministry that develops strategy, manages & oversees execution	▪ Dedicated independent team that develops strategy, manages & oversees execution
Execution	← *Support programs are delivered in-house, through partnerships, or through third parties* →		
International Benchmark			
Lebanese Example Entity	***IDAL***	***General Directorate of Cereals & Sugar Beets***	***Higher Council for Privatization***

Viable Options Based on Current Setup and Success Potential

Source: Inventis Analysis

In both cases, an *SME Board* and *Secretariat* should be established under MoET or under PCM

PROPOSED INSTITUTIONAL SETUP OPTIONS



Option 1 – Short Term

- SME Board is established with required members and chaired by PCM
- MoET leads the secretariat as interim /acting General Secretary until law is passed

Option 1 – Long Term

- Once law is approved to expand scope of MoET, General Secretariat is transformed into a general directorate under the leadership of MoET

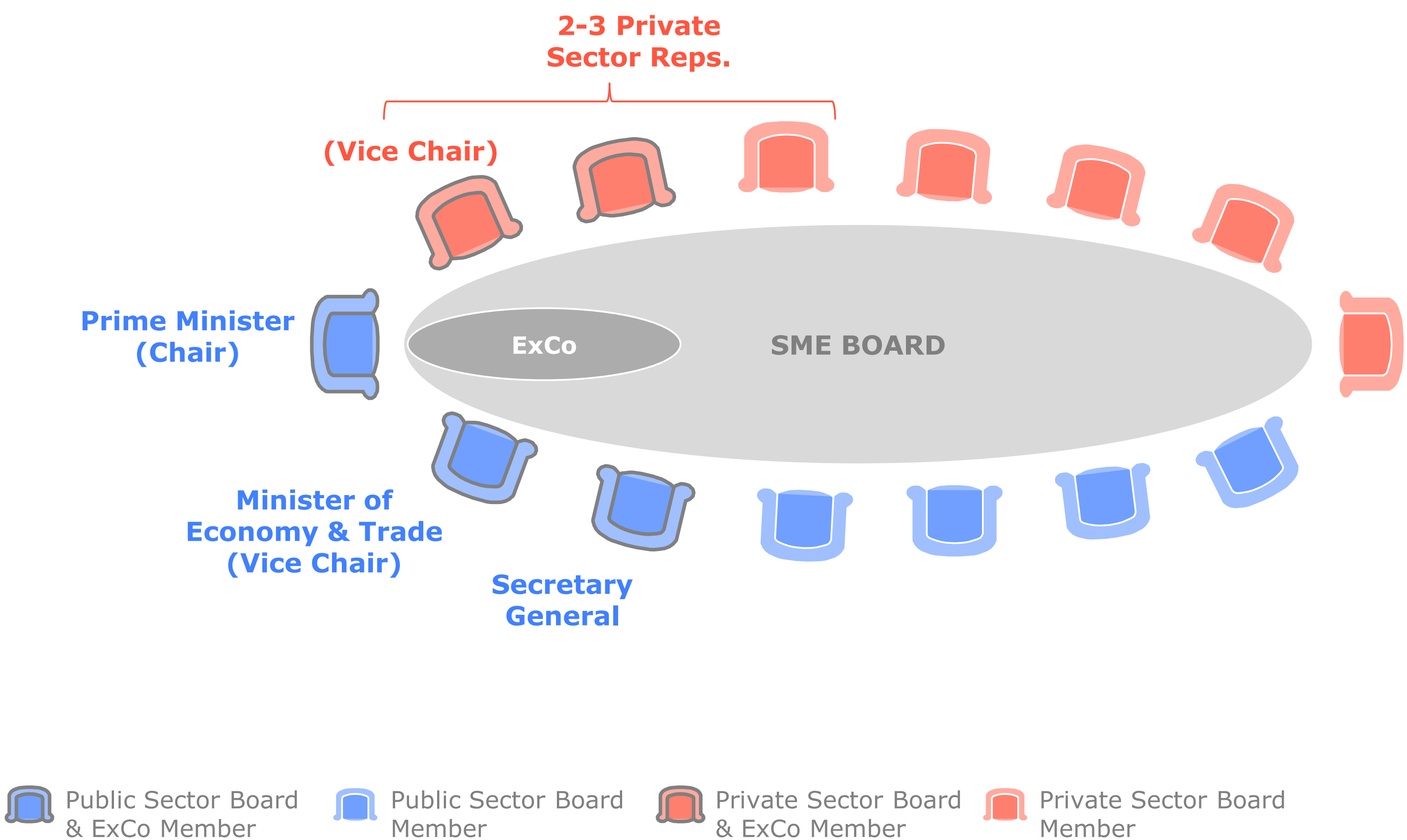
Option 2

- Decree issued to establish SME Board, tasked with the SME Strategy
- General Secretariat is established as an executive arm to oversee implementation (similar to HCP)

Source: Inventis Analysis

SME Board shall represent both public & private sectors, with a subset of members forming an Executive Committee

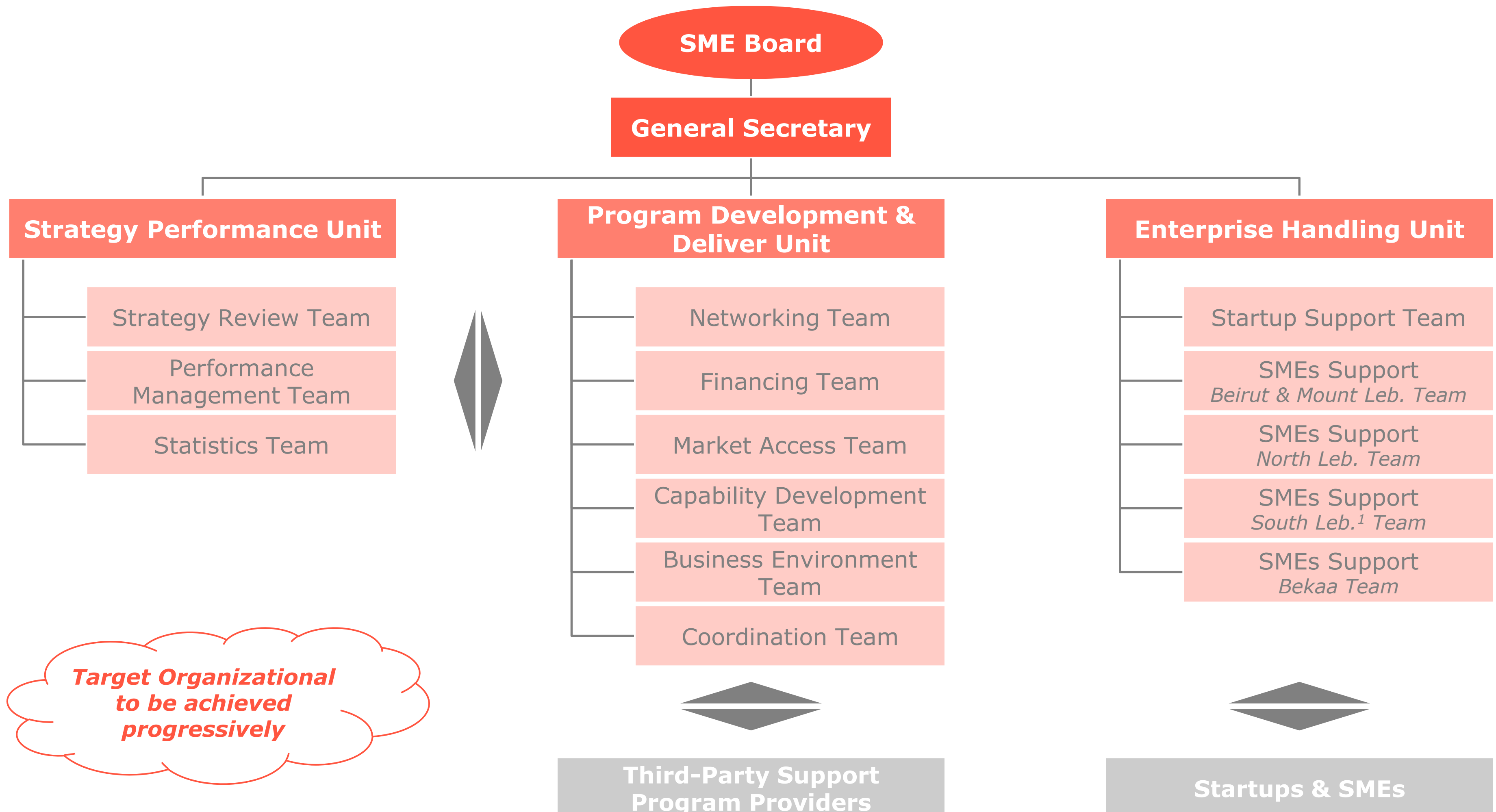
SME BOARD & EXECUTIVE COMMITTEE STRUCTURE



NOTE: * = *Optional Members;* CCIB = Chamber of Commerce; ABL = Association of Banks in Lebanon
Source: Inventis Analysis

The Secretariat 3 executive units will cover strategy, design and delivery, and interface with Startups & SMEs

SECRETARIAT PROPOSED TARGET ORG. STRUCTURE



1) South Leb. Team covers both South & Nabatiyeh Governorates

Source: Inventis Analysis

We identified a potential champion for each Strategic Thrust to be focal point of contact for *Secretariat*

PROPOSED CHAMPIONS FOR STRATEGIC THRUSTS

	Strategic Thrusts	Proposed Champion	Rationale
1	Evolving Business Leaders	NGOs, Universities, & Chambers of Commerce	▪ Develop business leaders capable of both carrying SMEs to their next wave of growth & adapting to a changing business environment
2	Facilitating the "Right" Funding	Kafalat & BDL	▪ Ensure availability of adequate & diverse sources of funding and raise awareness of SMEs on alternatives & suitability
3	Improving Access to Market	MoET & IDAL	▪ Ensure fair competition in local market and enhance access to foreign markets
4	Enhancing Capabilities and Innovation Capacity	Business Development Centers	▪ Foster provision of effective capability-building efforts and enhance innovation standards & research
5	Developing a Conducive Business & Improving National Infrastructure	PCM w/ IBEL & MoET	▪ Improve business environment through appropriate legislation and improve infrastructure in order to provide an enabling environment for SMEs' needs
6	Coherence & Effective Coordination	***SME Secretariat (In-House)*** *Statistics Team under Strategy Performance Unit*	

Source: Inventis Analysis

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We identified a set of five initiatives that would help develop business leaders

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (1/9)

1

Thrust	#	Initiative Name	Wave	Status	Main Objective
Evolving Business Leaders	1	Develop Mentorship Networks	WAVE I	→	**Small to Large** **Sustainable** Innovative Competitive
	2	Launch Entrepreneurship & Family Business Center at the Lebanese University	WAVE III	→	**Small to Large** **Sustainable** Innovative Competitive
	3	Provide National Recognition for SME Role Models	WAVE I	→	**Small to Large** **Sustainable** **Innovative** **Competitive**
	4	Develop a Second-Launch Restructuring Program	WAVE III	→	Small to Large **Sustainable** Innovative Competitive
	5	Establish Women-Friendly Business Environment	WAVE II	→	**Small to Large** **Sustainable** Innovative Competitive

Start Implement Enhance Expand

Source: Inventis Analysis

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For the "Right Funding" , we also identified a set of five initiatives that support achieving stated objectives

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (2/9)

2

Thrust	#	Initiative Name	Wave	Status	Main Objective
Facilitating the "Right" Funding	1	Attract top-tier VCs, angel investors & PE firms	WAVE I		**Small to Large** **Sustainable** Innovative **Competitive**
	2	Broaden Circular 331	WAVE I		**Small to Large** Sustainable **Innovative** Competitive
	3	Improve Access to Debt Capital	WAVE I		**Small to Large** **Sustainable** Innovative **Competitive**
	4	Introduce SME Stock Exchange & Enhance Startup Crowd Funding	WAVE III		**Small to Large** Sustainable Innovative Competitive
	5	Launch iSME Project	LAUNCHED		Small to Large Sustainable **Innovative** Competitive

Start Implement Enhance Expand

Source: Inventis Analysis

Six initiatives supporting improved market access were further identified

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (3/9)

3

Thrust	#	Initiative Name	Wave	Status	Main Objective
Improving Access to Market	1	Bridge SMEs to Large Enterprises and MNCs	WAVE I		Small to Large Sustainable Innovative Competitive
	2	Leverage the Global Lebanese Network	WAVE I		Small to Large Sustainable Innovative Competitive
	3	Activate Lebanese Export Promotion - LEBEX	WAVE I		Small to Large Sustainable Innovative Competitive
	4	Improve Market Competitiveness	WAVE I		Small to Large Sustainable Innovative Competitive
	5	Enhance Standards of SME Products and Services	WAVE I		Small to Large Sustainable Innovative Competitive

Start Implement Enhance Expand

1) MNC: Multinational Corporations
Source: Inventis Analysis

Six initiatives supporting improved market access were further identified

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (3/9)

Thrust	#	Initiative Name	Wave	Status	Main Objective
3 Improving Access to Market	6	Strengthen Relationships with New Top Trading Partners	WAVE I	Start	*Small to Large* *Sustainable* *Innovative* *Competitive*

1) MNC: Multinational Corporations
Source: Inventis Analysis

Start | Implement | Enhance | Expand

As for Capabilities & Innovation, we identified 10 potential initiatives

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (4/9)

4

Thrust	#	Initiative Name	Wave	Status	Main Objective
Enhancing Capabilities and Innovation Capacity	1	Develop Competitive Capabilities Clusters	WAVE I		Small to Large Sustainable Innovative Competitive
	2	Repatriate Expat Lebanese Success Stories	WAVE II		Small to Large Sustainable Innovative Competitive
	3	Assist SMEs' Technology Upgrade	WAVE I		Small to Large Sustainable Innovative Competitive
	4	Introduce Apprenticeship Programs	WAVE II		Small to Large Sustainable Innovative Competitive
	5	Expand Vocational and Training Programs to Meet Market Needs	WAVE III		Small to Large Sustainable Innovative Competitive

Start Implement Enhance Expand

Source: Inventis Analysis

As for Capabilities & Innovation, we identified 10 potential initiatives (cont'd)

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (5/9)

Thrust	#	Initiative Name	Wave	Status	Main Objective
Enhancing Capabilities and Innovation Capacity	6	Provide Incentives for Employee Training	WAVE III		Small to Large **Sustainable** Innovative **Competitive**
	7	Establish Commercialization Office	WAVE II		Small to Large Sustainable **Innovative** **Competitive**
	8	Link Industry Players To Academia with Innovation Vouchers	WAVE I		Small to Large Sustainable **Innovative** Competitive
	9	Optimize R&D Spending on Core Sectors	WAVE III		Small to Large Sustainable **Innovative** Competitive
	10	Introduce R&D Expenditure Tax Credit	WAVE III		Small to Large Sustainable **Innovative** Competitive

4

Start Implement Enhance Expand

Source: Inventis Analysis

For business environment & infrastructure, we identified three research & innovation initiatives…

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (6/9)

5

Thrust	#	Initiative Name	Wave	Status	Main Objective
Developing a Conducive Business Environment & National Infrastructure	1	Twin IPPO with International Counterpart	WAVE II	Enhance	Small to Large Sustainable **Innovative** **Competitive**
	2	Upgrade IP Framework & Patenting Process	WAVE III	Enhance	Small to Large Sustainable **Innovative** **Competitive**
	3	Update Code of Commerce & Related Laws	WAVE I	Implement	**Small to Large** **Sustainable** Innovative **Competitive**
	4	Update Insolvency Law	WAVE I	Implement	Small to Large Sustainable Innovative **Competitive**
	5	Update Public Procurement Law	WAVE I	Implement	**Small to Large** **Sustainable** Innovative Competitive

Start Implement Enhance Expand

Source: Inventis Analysis

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...six initiatives related to legal & regulatory framework, three related to employment & labor...

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (7/9)

Thrust	#	Initiative Name	Wave	Status	Main Objective
Developing a Conducive Business Environment & National Infrastructure	6	Update Domestic & Foreign Investment Promotion Law	WAVE II		***Small to Large*** / *Sustainable* / *Innovative* / *Competitive*
	7	Adapt Judicial System to Meet SME Requirements	WAVE III		*Small to Large* / *Sustainable* / *Innovative* / ***Competitive***
	8	Attract and Facilitate Access to Skilled Labor	WAVE II		*Small to Large* / *Sustainable* / ***Innovative*** / ***Competitive***
	9	Develop a Job Matching Program	WAVE I		***Small to Large*** / *Sustainable* / *Innovative* / ***Competitive***
	10	Update Code of Labor	WAVE II		*Small to Large* / *Sustainable* / *Innovative* / ***Competitive***

5

Start Implement Enhance Expand

Source: Inventis Analysis

… as well as an initiative related to financial markets

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (8/9)

Thrust	#	Initiative Name	Wave	Status	Main Objective
5 Developing a Conducive Business Environment & National Infrastructure	11	Introduce Government e-Services to Entrepreneur Lebanon Website	WAVE III	Expand	*Small to Large* *Sustainable* *Innovative* ***Competitive***

Start Implement Enhance Expand

Source: Inventis Analysis

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Finally, we identified four initiatives that fall under Coherence & Effective Coordination strategic thrust

STRATEGIC THRUSTS AND RESPECTIVE INITIATIVES (9/9)

6

Thrust	#	Initiative Name	Wave	Status	Main Objective
Coherence & Effective Coordination	1	Create a Concerted Focus on a City/Industry	WAVE I		*Small to Large* *Sustainable* *Innovative* *Competitive*
	2	Establish Regional SME Malls	WAVE II		*Small to Large* *Sustainable* *Innovative* *Competitive*
	3	Setup "SME Observatory"	WAVE I		*Small to Large* *Sustainable* *Innovative* *Competitive*
	4	Upgrade "Entrepreneurs Lebanon" to Full-Fledged Portal	WAVE II		*Small to Large* *Sustainable* *Innovative* *Competitive*

Start Implement Enhance Expand

Source: Inventis Analysis