Prospect Initiatives for the Lebanese SME Sector

Zeina El Khoury
Head of Enterprise Team
Ministry of Economy and Trade
The initiatives that will be suggested are only proposals on the areas of intervention and should provide the foundation for a detailed and widespread consultation in order to prioritize interventions and DEVELOP AN ACTION PLAN for each SME Strategy Formulation and Implementation.

### Focus of this presentation

1. **Assessment of the Current State**
   - Take stock of already existing initiatives
   - Assess Lebanon’s standing in Business Environment indicators
   - Define drivers for SME development
   - Assess drivers and identify challenges

2. **Policy and Initiative Formulation**
   - Transform challenges into prospect initiatives
   - Consult with stakeholders and secure buy in
   - Assign owners for initiatives
   - Agree on timelines and implementation plans

3. **Implementation**
   - Implement initiatives as per agreed-upon action plans and timelines
   - Track and report progress of initiatives
   - Identify potential improvement opportunities
   - Adjust implementation accordingly

4. **Monitoring and Evaluation**
The initiatives address the identified challenges across the different drivers for SME development and aim to accelerate the creation of start-ups and to increase the competitiveness of existing SMEs.

**Framework for SME Development**

- **Entrepreneurship**
- **Support Programs and Institutions**
- **Access to Markets**
- **Access to Finance**
- **Technology and Innovation**
- **Institutional Structure**
  - Regular and Consistent Data and Research
  - Entrepreneurship Support Programs and Institutions
  - Political Stability
  - Infrastructure
    - Macroeconomic Environment
    - Regulatory Framework and Enforcement

---

**Core Driver**

**Policy Efficiency Drivers**

**Business Environment Drivers**

**Firm Competitiveness Drivers**

---

5/17/2013
Access to Finance

Promote and accelerate the development of equity financing, venture capital and business angels
- Develop co-investments schemes between the government and VC funds
- Provide soft loans or long term debt to VCs
- Offer tax incentives and exemptions such as capital gains tax for startup funds at exit

Develop the Stock Exchange and create differential listing requirements to encourage SMEs to list, or even create a parallel market for SMEs with less stringent requirements especially those related to financial disclosure

Provide a supportive regulatory framework in terms to secured lending (movable assets), insolvency framework for businesses (bankruptcy), good governance, minority rights (already in progress under IBEL initiative), stock options and microfinance law

Encourage the development of trade financing schemes (export credit guarantees-insurance)

Encourage the establishment of private credit bureaus to enhance access to credit and reduce risk

Provide training to develop SME capabilities in financial reporting, corporate governance, disclosure requirements and business valuation

Increase the penetration of microcredits especially in rural areas

Lobby with financial institutions to increase access to finance for women

...
Skilled Human Capital - Prospect Initiatives

- **Develop and promote the dual system in education, vocational education and apprenticeship programs** to match the exact skill needs of businesses
- **Encourage the creation of training centers in collaboration** with the business associations, chambers, international donors and universities and technical schools
- **Conduct regular assessment on the skills required by SMEs per sector and develop training programs accordingly** (demand driven training)
- **Develop special programs and certificates with universities** such as SME/family business Management Certificate and SME-University Internship Program that provides an opportunity for undergraduates and graduates to offer advisory services for SMEs
- **Provide financial incentives for SMEs to provide training and continuing education for employees**, such as tax rebates or exemptions, or special low cost loans
- **Develop a database of free online training courses for SME managers and employees**
- ...
The Small and Medium Enterprise Corporation Malaysia (SME Corp) is the organization responsible for the development of SMEs. Its main objective is to promote the development of competitive and innovative SMEs. SME Corp provides various business support and information and advisory services for all SMEs in Malaysia. In 2010, a total of 226 SME development programs, with a financial commitment of $2.5 bn, were implemented by SME Corp together with related Malaysian ministries and agencies that benefited 614,242 SMEs across all sectors.
Innovation and Technology - Prospect Initiatives

- Promote cluster initiatives between firms in the same industry and complementary industries to enable them to join their efforts and resources and benefit from labor-market pooling and technological spillovers “collective efficiency”

- Promote research and development by introducing tax breaks for SMEs to invest in R&D and product development or create a fund to co-finance R&D projects, especially those undertaken collectively. Also we need to upgrade public research institutions

- Develop certification programs, to recognize and certify innovative SMEs that could help these enterprises have preferential treatments and incentives

- Work jointly with universities and businesses to link them together and tap into the knowledge of research centers (faculties to increase research-industry collaboration)

- Promote the diffusion of new technologies and productivity enhancements through
  - Improving access to information on latest technologies available
  - Developing financial incentives for SMEs to upgrade technology

- Provide innovation vouchers for entrepreneurs to develop their concept

- Offer free access to international IP databases (patents) and provide guidance for SMEs to acquire or adopt intellectual assets and IP rights

- …

The 1-Innovation Certification for Enterprise Rating and Transformation (1-InnoCERT) – a certification program to recognize and certify innovative enterprises and SMEs, and to encourage entrepreneurs to venture into high technology and innovation-driven industries. Certified companies are given fast track access to incentives, including funding for their projects.

Techmart India, an initiative undertaken by the National Small Industries Corporation is a one-stop platform held every year for technology providers and technology seekers to assess and negotiate deals related to technology transfer, absorption and assimilation. Its main objective is to offer a marketing tool for SMEs to explore new markets and expose themselves to technological developments.
To improve the access of SMEs to global markets, the Singaporean enterprise development agency, SPRING, promotes the convergence of national standards to international ones. As a result, more than 80% of the Singapore standards are aligned with international standards. SPRING has also established the Export Technical Assistance Center to help SMEs understand and comply with the international standards and regulations.

“Conseiller de Commerce Exterieur” France has developed a network of 4300 private business men who are involved in international business, that share voluntarily their experience in specific markets and help SMEs in their international expansion. 2600 of them are established in 140 countries.
Regulatory Framework and Enforcement - Prospect Initiatives

– Improve the business environment regulatory framework (already in progress and covered by the IBEL project)
  • Develop online collateral registry for movable assets
  • Enact the modern law on Secured Finance Transactions
  • Enact modern and updated bankruptcy
  • Amend the Lebanese Code of Commerce and Related Laws (GDR, M&A, preferred shares)
  • Streamline process and reduce cost of starting a business
  • Streamline, automate and reduce costs of trading across borders

– Introduce tax incentives for SMEs, such as
  • Reduced profit tax rates
  • Tax rebates for investments in research and development
  • Incentives on additional employability
  • Incentives for firms that invest in training and advisory services
  • Special tax and regulatory exemptions for startups

– Introduce Regulatory Impact Assessments to measure the impact of new regulations and laws on SMEs

– Reduce the number of SMEs that operate informally by providing special tax incentives or special financing schemes to newly formal SMEs

– Improve the enforcement of intellectual property rights

– …
Today more than 3000 SEZs operate in 120 countries that range from industrial development zones, free trade zone, export processing zones and others each providing different incentives. In 2009 MENA region, there more than 75 free zones in around 17 countries.

China has one the largest number of SEZs.

The economic impact of the 5 initial SEZs in china for the year 2007 (Shenzhen, Zhuhai, Shantou, Xiamen, Hainan) amounted to 5% of total Real GDP, 9.1% of total utilized FDI, 2% of total Employment and 22.1% of total Merchandise Exports.

-- Create special economic zones (SEZs) and industrial parks with separate customs area (duty-free benefits), streamlined procedures, and reliable ICT, electricity and logistics
-- Establish the Tripoli Special Economic Zone
-- ...

Infrastructure - Prospect Initiatives

Example
## Institutional Structure & Statistics and Research - Prospect Initiatives

### Institutional Structure
- Develop an institutional framework with clear roles and mandates among key government agencies for effective and coordinated policy formulation and implementation
- Develop a specific consultation process with business associations, chambers and other stakeholders to foster public-private partnerships
- Identify a national focal-point or a primary counterpart responsible for coordinating efforts
- Establish an SME taskforce to develop the strategy…

### Research and Statistics
- Establish an SME/competitiveness observatory and publish yearly an SME performance report, covering a wide range of topics, including innovation, entrepreneurship, financing, and gender
  - Integrate the size of the firm as a variable in existing statistics
  - Develop new internationally comparable quantitative and qualitative data and indicators
  - Commission regular surveys and censuses
- Develop a local competitiveness index
- Conduct and publish studies on sector competitiveness and national competitiveness
- Develop a statistical database of SMEs or an SME inventory
- …
Each one present here today should participate in the development of the SME sector; it’s a shared responsibility that requires a collective effort

Key Messages for Stakeholders

<table>
<thead>
<tr>
<th>Educators and Training Providers</th>
<th>Chambers and Business Associations</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Entrepreneurship is not only a function of personal innate traits rather it is a learned behavior. Build entrepreneurs!</td>
<td>– Lead proactively the development of SME support programs</td>
</tr>
<tr>
<td>– Increasing access to finance is a win-win situation. SMEs represent a huge and underexploited growth opportunity</td>
<td>– Your strong involvement is key to ensure tailored SME related initiatives</td>
</tr>
<tr>
<td>– Access to lessons learned from best practices on SME development and support programs are needed!</td>
<td>– Seek to intensify your support for underserved segments such as women, youth particularly in rural areas</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Banks, Financial Institutions and Equity Funds</th>
<th>NGOs</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Increasing access to finance is a win-win situation. SMEs represent a huge and underexploited growth opportunity</td>
<td>– Leverage your network and spread more awareness about your services in the aim of increasing your outreach</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International Organizations</th>
<th>Incubators and Accelerators</th>
</tr>
</thead>
<tbody>
<tr>
<td>– Access to lessons learned from best practices on SME development and support programs are needed!</td>
<td>– Leverage your network and spread more awareness about your services in the aim of increasing your outreach</td>
</tr>
</tbody>
</table>
The development prospects of this sector are promising. If we stand still, we will be left behind!

Lebanon is well positioned to become more competitive and reap the benefits in terms of growth and employment…

But this is conditional on addressing the key challenges facing SMEs and developing a comprehensive strategy with an action plan!

A CALL FOR COLLECTIVE ACTION!

Thank you for your attention!