مصرف لبنان
BANQUE DU LIBAN

Banque Du Liban's Financial Inclusion Strategy: Regulation, Empowerment, and Protection

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I. Introduction

Banque Du Liban's Financial Inclusion Strategy is the culmination of a series of policy directions which have always reflected a vision that combines the prospects of the economy with the needs of the society. As a regulator, Banque Du Liban has always been, and continues to be, proactive in launching initiatives over the past decades in critical areas. These include: stimulating banks to lend to the private sector and SMEs; enhancing financial capabilities and spreading financial education; protecting financial consumers; launching the knowledge economy; circulating and implementing the principles of good governance and technical competence in the banking human resources; combating money laundering, financing of terrorism, smuggling of funds, and tax evasion; setting credit controls; regulating electronic financial transactions; supporting bank collaterals; enhancing access to financial services for people with special needs. In terms of securing the financial infrastructure, BDL's policies encompassed developing of payment systems, providing a credit reporting system, and encouraging banks to spread.

In a quick review of the regulatory and financial infrastructures in the Arab region, we can note the steady growth achieved by the banking sector in the Arab region during the financial crisis, at a time this sector witnessed a decline in the global arena.[i] On the other hand, the low level of financial inclusion in the Arab region is evident, reaching around 14 percent,[ii] which is the lowest in the world. If this means anything, it is that there is a lot of capacities, potential resources, and efforts that await being tapped upon.

In Lebanon, the rate of financial inclusion is about 47 percent[iii], which is good compared to the Arab region. However, we still have much to accomplish in order to transmit the development and liquidity of the banking sector into growth in the real economy and development of economic resources, productive sectors, and socio-economic conditions. In fact, the growth and stability of the banking and financial sectors in Lebanon, and the enhancement of financial inclusion, are credited to the organizational and infrastructural base established by BDL, which constantly seeks to develop and fortify it, as well as the strength and professionalism of the Lebanese banking and financial institutions.

II. The Concept of Financial Inclusion and Its Importance

The starting point in the formulation of the strategy of financial inclusion was the introduction of a coherent, contemporary, and comprehensive concept of financial inclusion by BDL. This concept is based on the priority of promoting socio-economic and financial well-being for citizens, as well as sustainable economic development, economic growth, and financial stability, though promoting affordable, timely, and adequate access to regulated financial products and services, and broadening their responsible use by all segments of the population, through the implementation of the existing or innovative approaches including financial regulation, financial education, and financial consumer protection.

In fact, this concept is based on the elements that represent the importance of financial inclusion, which are divided into four core principles: good and responsible governance, sustainable development, financial capabilities, and social wealth.

1. Good and responsible governance: the importance of financial inclusion lies in several aspects, including:
    a) Stimulating responsible demand for formal financial products and services and their effective use by individuals and businesses;
    b) Promoting good governance and transparency in the economic and financial systems;
    c) Promoting good practices and trust in the financial consumer protection procedures; and
    d) Reducing shadow banking.
2. Sustainable development: financial inclusion contributes to various aspects, most important of which are:
    a) Fostering decentralization;
    b) Reducing unemployment and supporting business activities;
    c) Improving agricultural, industrial, and technological productivity;
    d) Promoting equal income creation and distribution among individuals, sectors, and regions;
    e) Improving the balance of payments and reducing public deficit; and
    f) Reducing brain drain.
3. Developing financial capabilities: financial inclusion contributes to building a generation of economically - and financially - capable citizens through:
    a) Encouraging personal budgeting, spending plans, and good money management habits;
    b) Growing households savings;
    c) Safeguarding against over-indebtness and encouraging responsible lending;
    d) Helping people to manage risks and absorb financial shocks;
    e) Promoting retirement planning and the importance of insurance;
    f) Enhancing citizens' comprehension of fiscal mechanisms and the importance of sound public finance.
4. Social wealth: financial inclusion promotes economic citizenship and trust in the national economic-financial system, specifically through:
    (a) Supporting social entrepreneurship[1];

[1] Social entrepreneurship embraces the process undertaken to discover, define, and capitalize on opportunities in order to enhance social wealth by establishing new social value-creating ventures, or managing existing organizations in the non-profit, business or government sectors in an innovative manner allowing to meet social needs or stimulate social change. A social entrepreneur is an entrepreneur with a social mission, and a social enterprise is a venture that generates an income in the pursuit of social outcomes. Examples include: Ashoka

(b) Encouraging impact investing[2];

(c) Fostering the development of sound, fair, and transparent financial markets that bring up new resources for local enterprises namely SMEs;

(d) Promoting the culture of contribution and attracting more foreign development investments and investments from the Lebanese Diaspora.

III. BDL's Financial Inclusion Strategy: Scope, Objectives, and Desired Outcomes

BDL's Financial Inclusion Strategy includes a two-pronged scope: fostering sustainable economic development, economic growth, and financial stability; ensuring individuals' and businesses' socio-economic and financial well-being.

There are three main objectives for the strategy. the first aims at improving access to finance and investment and facilitating financial transactions, through setting a dynamic and protective regulatory environment, modernized financial and banking infrastructures, and new technological and digital tools and channels. The second objective pursues enhancing the financial capabilities of individuals and businesses, through enhancing financial-investment awareness and literacy of the market forces and empowering them to have healthy and responsible economic-financial-investment behaviors. The third objective focuses on financial consumer protection and its implications for safeguarding the vital socio-economic interests of citizens and satisfying the basic needs of consumers and investors in the economic-financial system, through establishing an effective and sustainable framework and a transparent and efficient grievance procedure to submit, monitor, and resolve complaints.

The implementation of the strategy aims at achieving several outcomes that are characterized by their breadth on the strategic and national level. Hence, these outcomes concern the interests of various social factions and aligns the needs of these groups with the objectives of the market forces and the services of banking and financial institutions, in such a manner that renders effective practices of social responsibility and responsible citizenship. From this

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Foundation (headquartered in the U.S.A., sponsoring social entrepreneurs world-wide); Grameen Bank (a Nobel Peace Prize-winning community development bank headquartered in Bangladesh, providing microcredit loans to those in need to help them develop financial self-sufficiency).

[2] Impact investing refers to creating innovative conducts for socially responsible investors to fund businesses and organizations that are driving a positive social change. Such investments have a double bottom line: generating a sustainable financial return for investors and a substantial dividend for society, in areas such as fair trade and income equality, microfinance and social inclusion, employment and women empowerment, education and youth development, environment and clean technology, health and sanitation. Examples include: LeapFrog Investments (headquartered in Australia, investing in companies that provide health and financial services to emerging consumers in Africa and Asia); LGT Impact Ventures (headquartered in Switzerland, investing in purpose-driven companies that have scalable business models and provide disadvantaged people with access to essential services, products, and livelihood opportunities in growth markets).

perspective, the desired outcomes of financial inclusion can be summarized in the following aspects:

First, greater citizens' understanding of the national monetary policy and the economic-financial system and their related risks and challenges;

Second, better understanding, healthier choice and use of formal financial products and services by individuals, better segment-tailored supply from banks, and innovative financial products and channels, coupled with improved financial consumer protection practices;

Third, improved budgeting habits, long-term saving, retirement planning, and money management skills for individuals;

Fourth, enhanced capacity of banks and other regulated financial institutions to develop products and channels to finance micro-, small and medium-sized enterprises (MSMEs), and improved business and technical skills of MSMEs in all market sectors;

Fifth, fostered responsible investment attitude and promoted impact investing, coupled with developed financial markets and empowered investment capabilities of both MSMEs and investors; and

Sixth, greater economic citizenship and cultivated confidence in public finance management and the national fiscal policy through improving knowledge and attitudes of individuals and organizations related to financial and fiscal regulations and procedures.

IV. Policies and Action Required Steps

These structural achievements engrained in the strategy, as deemed important, do not dismiss the need to develop and reinforce some basic policies and controls, including the following:

First, approaching financial inclusion from a vertical-bidirectional perspective, top-to-bottom and bottom-up, in a sense that confers sufficient importance to the demand side of financial inclusion, i.e. the needs of real economy, market forces, and consumers, as balanced to the importance of the supply side, i.e. the banking and financial institutions. Hence, this enfolds the importance of exploring the financing needs of society and real economy, thus aligning the banking and financial services with these needs, according to their priority.

Second, commiting to the delicate balance between financial inclusion policies and their benefits in facilitating consumption and price stability on the one hand, and the ongoing borrowing and its consequent credit risks that jeoperdize financial and social stability on the other hand. This commitment further necessitates a balance between loan financing and equity financing. The equation herein implies that financial inclusion needs to be accompanied with improving financial supervision, without constraining financial innovation[iv] .

Third, modernizing the legislative structure and introducing laws that would enhance the business environment and encourage financial inclusion, such as the protection of financiers' rights; the insolvency law; the development of tax laws; the regulation of private credit offices; the reevaluation, expansion (encompassing movable assets), and registry-creation for credit collaterals; the law for fair competition; the electronic financial transactions law; the electronic signature; the corporate governance law; the out-of-court resolution law; the creation of a comprehensive legal entity identifier to encompass individuals, enterprises, and NGOs.

The most important action steps for accomplishing the Financial Inclusion Strategy, include:

First, establishing an interactive digital financial inclusion platform that serves enacting effective communication and exchanging best practices and data between stakeholders. This platform features pedagogical materials, interactive edutainment tools, and financial and money management kits, all tailored to the needs of various social segments.

Second, the adaptation of the developed educational materials into printed guides and pamphlets, in addition to the design and implementation of trainings and capacity building sessions tailored by specific target audience.

Third, the introduction of new evidence-based policies and reforms in financial regulation, extracted from insights of behavioral economics[3], as well as, modernization of the financial infrastructure and financial markets to improve existing financial consumer protection procedures and promote new financial services, including digital services, tailored to the needs of the various segments of the Lebanese population.

V. Conclusion

BDL's Financial Inclusion Strategy has a holistic approach that serves Lebanon's achievement of the UN Sustainable Development Goals (SDGs), and comprises a wide range of beneficiaries within the various age and gender segments of society. These enclose vulnerable and marginalized groups, including those with special needs, job seekers, and the highly indebted; remote rural populations; entrepreneurs and their institutions; financial services providers; investors and emigrants. The significance of this strategy is that it can be the basis for a comprehensive national strategy, which integrates the stakeholders from public and private sector entities, the financial-banking system, national and international NGOs, civil and civic societies organizations, market forces, the educational sector, and the Diaspora. This strategy of financial inclusion can thus be a framework for effective integration among these bodies, constructive communication between them, and rich accumulation of their experiences.

Thank you.

[3] Behavioral economics use cognitive, psychological, social and emotional factors in understanding the economic, financial and social behaviors and decisions of individuals and institutions performing economic functions, and the impact of these behaviors and decisions in different environments on various variables, such as market prices, returns, resource allocation, and public policy decisions.

References

[i] BCG Banking Performance Index, 2013

[ii] Global Findex, 2014

[iii] Ibid

[iv] Financial Inclusion: Can It Meet Multiple Macroeconomic Goals? IMF, 2015