# Financial Inclusion: The Case of Lebanon

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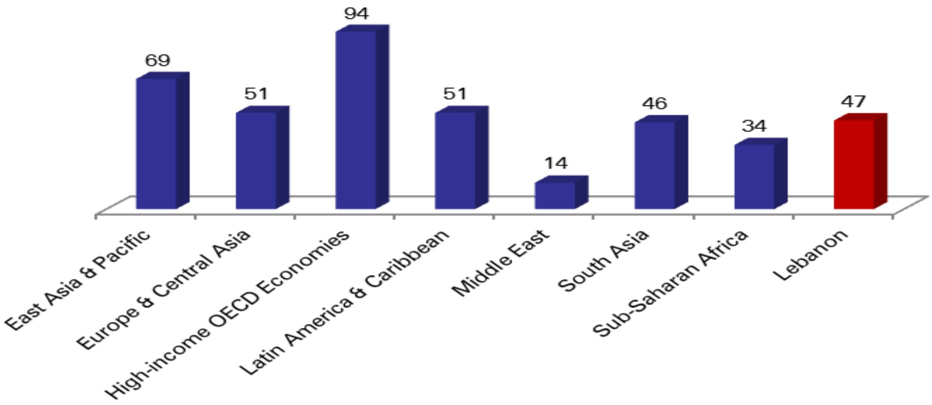
Most countries are moving financial inclusion up their reform agendas, with around 60 governments setting financial inclusion as a formal target. This year's post-2015 Development Agenda directly puts financial inclusion as a key objective for United Nations member countries.

Financial inclusion is the access to and use of formal financial services to as many people as possible. This concept also entails the delivery of financial services at affordable costs to disadvantaged and low-income parts of society. More specifically, financial exclusion means that customers use informal products and services that are often not well-tailored to their needs, higher priced than formal options, and not subject to applicable financial consumer protection.

Financial inclusion is seen as a way to improve people's standard of living, reduce poverty, and achieve comprehensive economic growth. Studies show that when people participate in the financial system, they are better able to start and expand businesses, invest in education, manage risk, and absorb financial shocks. One way to combat poverty is to provide low-cost financial services to low-income families. Financial inclusion can help individuals cope better with poverty, especially the challenges of irregular income and occasional large bills.

According to the World Bank, only 62% of adults worldwide are active in the financial system compared to 50% in 2011. The MENA region ranked the last between the 7 regions, with only 14% of its adults having an account in a formal financial system.

Adult Account Penetration (%)




Source: Global Findex, World Bank

Looking at Lebanon, adult penetration stood at 46.9% in 2014, up from 37% in 2011, implying that Lebanon still lags behind the average adult account penetration in the world. Lebanon's account penetration rate is close to that of Latin America & Caribbean and Europe & Central Asia, each having an account penetration rate of 51%, but much lower than the 94% rate of High-income OECD Economies. However, compared to the Middle East, Lebanon fared better, as the Middle East adult penetration was lower, at 14.2%. India's penetration rate is slightly higher at 53.1%. This denotes that although it is not a priority on its agenda, Lebanon is on the right track leading to financial inclusion.

## Financial Inclusion Sub-Indicators

| | Lebanon | Middle East | India |
|---|---|---|---|
| **Adult Account Penetration** | 46.90% | 14.20% | 53.10% |
| **Debit Card Penetration** | 33.40% | 8.50% | 22.10% |
| **ATM is the main mode of withdrawal** | 60.90% | 44.90% | 33.10% |
| **Use account to receive wages** | 19% | 3.30% | 4.00% |
| **Used a financial institution account to pay utility bills** | 0.60% | 0.20% | 3.10% |
| **Saved at a financial institution** | 17.50% | 4.00% | 14.40% |
| **Borrowed from a financial institution** | 15.60% | 6.00% | 6.40% |
| **Borrowed any money** | 34.80% | 45.70% | 46.30% |

Source: Global Findex, World Bank

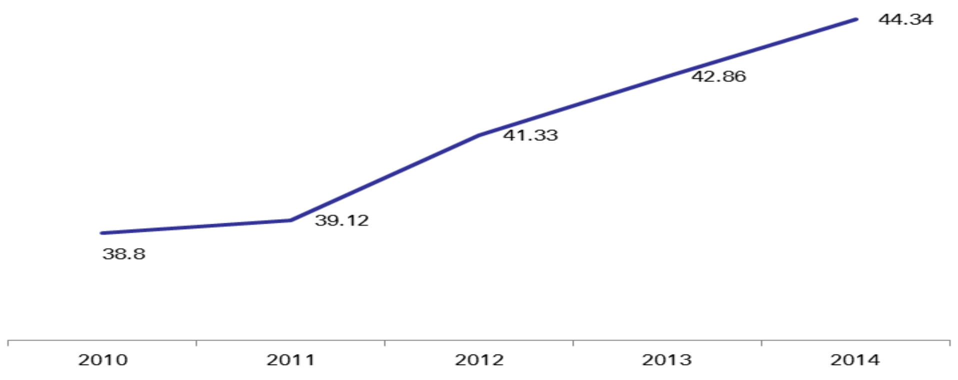
For instance, 33.4% of the adult population in Lebanon had a debit card account in 2014 up from 21.4% in 2011. As for the MENA region, only 8.5% of adults had debit card, whereas 22.1% of grown-ups had a debit card in India.

60.9% of Lebanese adults with financial accounts use the ATM as the main mode of withdrawal in 2014, compared to a lower share of 44.9% in the MENA region and 33.1% in India.

Moreover, 15.6% of Lebanese adults borrowed money from a financial institution and 34.8% borrowed money in total. In contrast, even though more people (45.7%) in the Middle East and (46.30%) in India borrowed money, only 6% and 6.4% borrowed money from a financial institution in the Middle East and India, respectively.

A key challenge is bringing financial inclusion to remote and impoverished areas. In this context, the banking sector in Lebanon has been able to reach more people, such as more ATMs, more branches, and recently, mobile banking. Figures issued by the International Monetary Fund show that there were 44.34 ATMs per 100,000 adults in Lebanon in 2014, up from 42.86 ATMs per 100,000 adults in 2013, ranking Lebanon in 77th place among 154 countries globally.

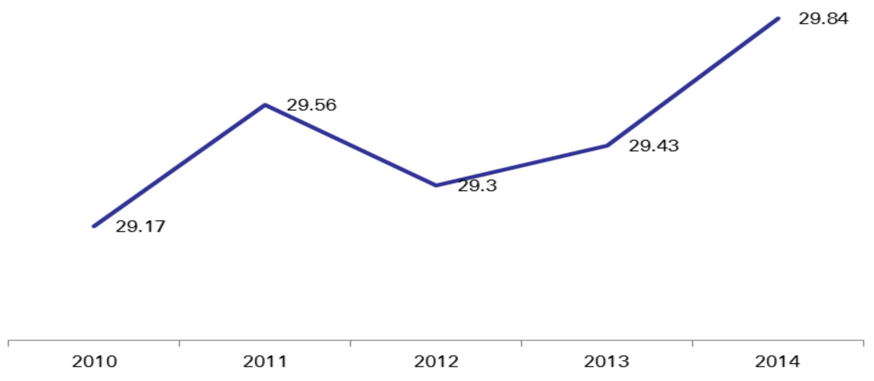
## Number of ATMs per 100,000 Adults




Source: IMF

Furthermore, Lebanon had the 67th highest number of branches among 162 countries globally, with the number of branches increasing from 29.43 per 100,000 adults to 29.84 per 100,000 adults. In total, the number of branches increased from 1,381 in 2013, to 1,447 in 2015.

Number of Commercial Bank Branches per 100,000 Adults




Source: IMF

Through its stimulus packages to boost economic growth, the Central Bank of Lebanon, Banque du Liban (BdL), has been playing a role in enhancing financial inclusion. BdL introduced Circular 331 that licensed the stepping in of banks to finance startups, venture capital firms, incubators and accelerators working in the knowledge economy, not through the usual debt, but this time through equity. Moreover, BdL's stimulus package encompasses low borrowing rates of 1% to commercial banks, for housing loans and new projects. Similarly, the government of Lebanon provides subsidized loans to the productive sectors such as tourism, agriculture, technology, and handicrafts, where the government pays part of the loans' interest. On another note, Kafalat assists SMEs to access commercial bank funding, by providing loan guarantees.

The Lebanese government can also play an important role in financial inclusion by developing a sound regulatory and institutional framework that envisages efficient markets and equitable affordable access to financial services. A policy mix towards financial inclusion should include building a robust institutional environment, ensuring adequate infrastructure, and promoting competition and consumer protection. The government should consider providing universal access by giving subsidies and obliging banks to offer low-fee accounts and exemptions from onerous documentation requirements and service obligations. Moreover, some regulations should be relaxed, to allow poor people to open a bank account. Policies should also aim at promoting demand through financial literacy.

Other than enhancing economic growth and reducing poverty, financial inclusion helps in fighting money laundering and tax evasion. The more people access financial services, the easier it is to track whether any money laundering is taking place. Moreover, when using domiciliation of salaries by employers, the government can trace if anyone is avoiding taxes illegally.

The responsibility of achieving financial inclusion does not lay on institutions and associations only, but that banks should play a vital role not only in saving money and managing wealth but also in achieving the financial stability in the banking industry. The major downfall of financial inclusion is that it might lead to financial instability. This, in turn, can lower growth and worsen inequality, and thus undo the objectives that were sought through inclusion.

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