Lebanon: Raising Financial Inclusion

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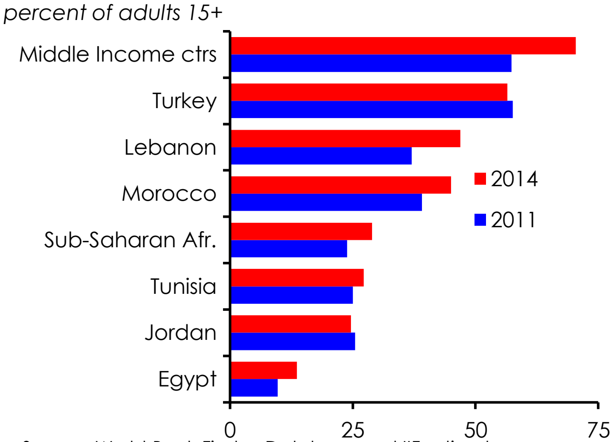
Lauren Clark
ECONOMIST
Middle East & North Africa
1-202-857-6232
lclark@iif.com

Garbis Iradian
CHIEF ECONOMIST
Middle East & North Africa
1-202-857-3304
giradian@iif.com

- The banking sector has remained a strong pillar of the economy, despite political paralysis and regional turmoil. Financial intermediation in Lebanon (as measured by the ratio of private credit and deposits to GDP) remains one of the highest among emerging economies.
- Yet, while formal financing to the private sector is high, loan concentration suggests that banks focus on well-established and larger firms, while SMEs' access to finance is limited—like most MENA countries.
- The Central Bank, Banque du Liban (BdL), has endeavored to expand access to finance through a series of stimulus packages, which aim in part at supporting SME lending. The last World Bank Enterprise survey, conducted in 2013 prior to the stimulus package, indicated that 42% of all firms surveyed perceived access to finance as a major constraint to business operations.
- Lebanon has made some progress in financial inclusion, largely due to the efforts of BdL, although there is no government plan. Adults with bank accounts increased 10 percentage points from 2011 to 2014, surpassing Tunisia, Jordan and Egypt, but still below Turkey and the average for upper middle income countries (Chart 1).
- The traditionally unbanked, such as rural, low income, and less educated populations have increased their use of bank accounts. But large gaps remain between income groups, by education and genders. The gap between women and men with bank accounts in Lebanon is one of the highest globally—almost 30 percentage points difference.
- Financial access points, such as ATMs and bank branches, are widespread in Lebanon, but mobile banking prevalence is very low. The financial technology is constrained by high cellular data prices, outdated regulation, and lack of user confidence.

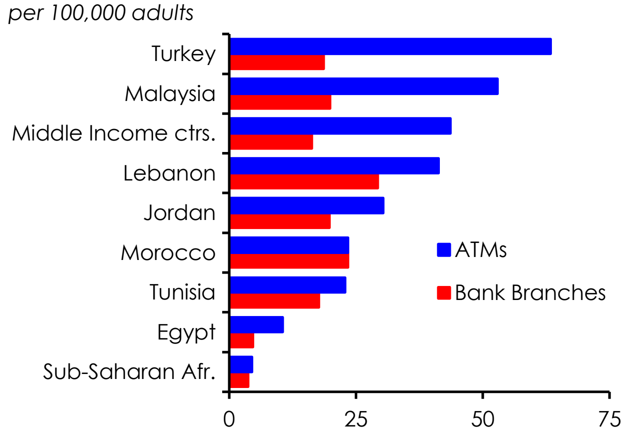
Lebanon has made some progress in financial inclusion despite the lack of a national plan

Chart 1
Account at a Financial Institution
percent of adults 15+



Source: World Bank Findex Database and IIF estimates.

Chart 2
Financial Access
per 100,000 adults



Source: World Bank Findex Database.

BOX 1. WHY PROMOTE FINANCIAL INCLUSION?

Financial inclusion can stimulate economic growth and reduce income inequality. It benefits growth through a variety of channels including supporting business expansion and facilitating investments that improve productivity; enabling individuals to save and households and firms to smooth financial shocks. As such, financial inclusion has been made a policy goal by numerous national governments, as well as the World Bank and the G20. Several studies, such as Sahay et al (2015), analyze the relationship between economic growth and access to finance.

Access to financial institutions, through ATMs or bank branch availability, is found to be positively and monotonically associated with economic growth. Findings suggest that financial depth (the overall volume of financial services) is positively correlated with economic growth, at initial levels; although this relationship inverts beyond a certain point, as returns on financial depth decline after a certain level. Financial inclusion is also positively correlated with reductions in income inequality. Research suggests that increasing households' access to borrowing lowers inequality (as measured by the ratio of the income share at the bottom 40% of the population to that of the middle 40% of the population).

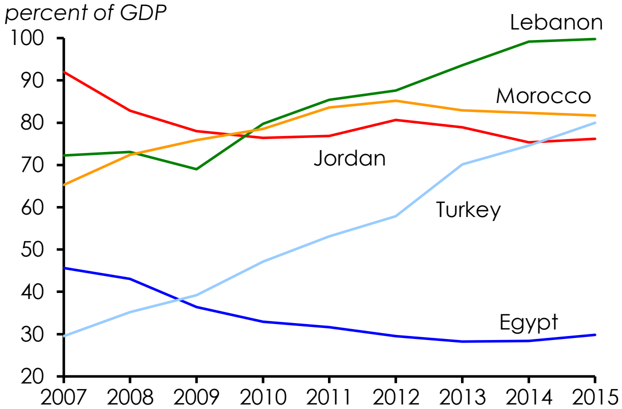
Source: Sahay, R., Cihak, M., N'diaye, P., Barajas, A., Mitra, S., Kyobe, A., Mooi, Y. Yousefi, S. (2015). Financial Inclusion: Can it Meet Multiple Macroeconomic Goals? Staff Discussion Notes, 15(17), International Monetary Fund.

Financial inclusion can stimulate economic growth and reduce income inequality

HIGH FINANCIAL INTERMEDIATION

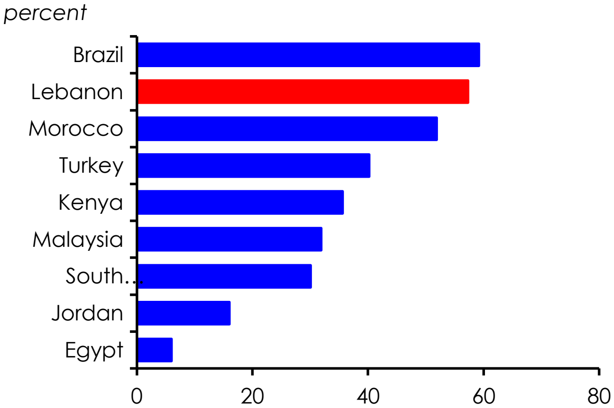
As one of the offshore centers, financial intermediation (as measured by the ratio of deposits and private credit to GDP) in Lebanon is the highest in the region. Private credit as a percentage of GDP continued to increase, despite regional strains (Chart 3). The central bank's (BdL's) stimulus packages over the past three years, a cumulative amount of $4.4 billion (equivalent to about 10% of GDP), have helped to boost bank credit and mitigate the spillover effect from turmoil in some neighboring countries. Yet, high levels of credit to the private sector do not necessarily indicate either financial inclusion or how broad lending is across firms. In Lebanon, as in other MENA countries, credit to the private sector tends to be concentrated among a small number of large clients.

Chart 3
Credit to the Private Sector
percent of GDP



Source: IIF and National Authorities.

Chart 4
Firms with a Bank Loan or Line of Credit, Latest Year
percent



Source: World Bank Enterprise Surveys.

LIMITED PROGRESS IN FINANCIAL INCLUSION

Lebanon has taken small steps in expanding financial inclusion, despite a difficult environment. The political paralysis (the country has been without a president since May 2014) has impaired the ability of the parliament to pass legislation and has paralyzed the caretaker cabinet's decision-making process, including a national policy to encourage financial inclusion.

Compared to peer countries, Lebanon shows room for improvement. As measured by the EIU's Global Microscope report, in 2015 Lebanon was given an overall rating of 29 out of 100 (where 100=best). The IIF estimates, however, show a somewhat higher score (35), based on the assessment that indicators for government support for financial inclusion, regulatory and supervisory capacity for financial inclusion,

The political paralysis has impaired cabinet's decision making process, including developing a national policy to encourage financial inclusion

Table 1
Global Microscope on Financial Inclusion (FI), 2015
Scoring, normalized from 0 to 100 (100=best)

	Lebanon	Egypt	Jordan	S. Africa	Turkey	Kenya	Morocco	Colombia
Overall Score	***29***	***29***	***32***	***46***	***50***	***53***	***55***	***86***
Government Support for FI 1/	0	0	39	22	39	78	61	100
Regulation & Supervisory Capacity for FI 2/	25	25	25	42	58	83	75	58
Prudential Regulation 3/	58	25	67	63	67	88	100	100
Regulation & Supervision of Credit Portfolios 4/	61	56	33	33	47	64	50	100
Regulation & Supervision of Deposit-Taking Activities 5/	88	38	88	38	79	83	100	75
Regulation of Insurance for Low-Income Populations 6/	8	8	8	31	19	8	8	86
Regulation & Supervision of Branches and Agents 7/	17	72	33	94	53	75	56	92
Requirements for Non-regulated Lenders 8/	67	50	83	67	67	33	100	100
Regulation of Electronic Payments 9/	50	50	25	50	50	100	50	75
Credit Reporting Systems 10/	75	42	0	100	75	83	67	83
Market Conduct Rules 11/	0	19	39	44	36	8	8	92
Grievance Redress & Operation of Dispute Resolution 12/	0	25	25	58	33	25	17	100
Adjustment Factor (Stability & Policies)*	10	39	32	44	82	59	80	88

Source: The Economist, Intelligence Unit and IIF.
1/Indicates whether a national policy exists and is collecting consumer level data on low-income populations' demand for financial services.
2/Indicates whether there is specialized capacity in the regulatory agency and whether it is politically independent.
3/Indicates whether there are appropriate entry and licensing requirements and the ease of operation in the market.
4/Indicates the role of interest rate caps and risk-management.
5/Rates the requirements for opening savings accounts, interest rate restrictions on deposits, and deposit insurance.
6/Indicates the existence of regulation and promotion of insurance for low-income populations by regulator and/or government.
7/Indicates how easy it is to set up a branch, ease of operation, and how regulations affect these operations.
8/Considers whether the legal framework helps entrance and functioning of lenders not regulated by the financial regulator (NGOs, etc)
9/Rates the regulation of electronic payments includes whether there is available infrastructure and digital financial services.
10/Indicates the comprehensiveness of information and existence of privacy protection.
11/Considers institutional capacity, transparency, disclosure and fair treatment, with the aim of protecting financial-services customers.
12/Considers the availability of dispute-resolution mechanisms, client awareness of grievance processes and ease of access.
* Adjustment factor that considers political tensions or other significant changes that affect the achievement of financial inclusion (FI).

and market conduct rules, could be higher than those published in 2015. The IIF expects this rating to improve in 2016, as the BdL continues to strive towards promoting inclusive finance. If Lebanon were not burdened with the current political paralysis, more could be accomplished, particularly on government support for financial inclusion.

Lebanon's score could be somewhat higher than estimates by the EIU's Global Microscope Report 2015

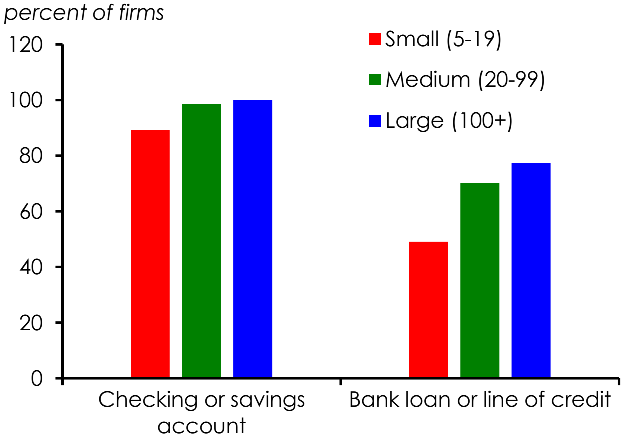
Based on the EIU Global Microscope Report, Lebanon scores high in prudential regulation, regulation and supervision of credit portfolios, and credit reporting systems; but scores low (or zero) in government support for financial inclusion—because the country has yet to formalize a national plan and lacks a national initiative to track demand for financial services by the low-income population (Table 1, page 3). An adjustment factor of 10 is applied to Lebanon due to political instability, absence of a president, conflict in Syria, and domestic disturbances caused by refugee migration.

The BdL is keen on improving financial inclusion in Lebanon and is a member of the Arab Monetary Fund's committee on financial inclusion. However, the caretaker cabinet has yet to sign the Maya Declaration -- a globally recognized commitment platform to promote national financial inclusion targets and in-country policy changes.

The BdL has made efforts to improve financial access to SMEs

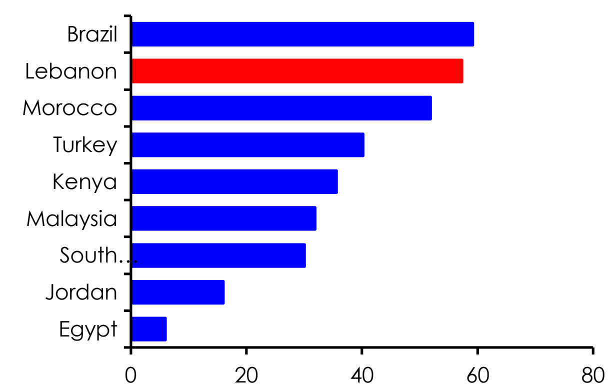
While there is presently no national strategy on financial inclusion, the BdL has made efforts to improve financial access to SMEs through its stimulus programs in the past four years, amounting to a cumulative $4.6 billion (equivalent to about 10% of annual GDP). The programs encouraged lending to priority sectors, including SMEs, as well as supporting micro-loans (under about $13,000) to individuals or small enterprises with four employees or less. Additionally, the programs supports lending to entrepreneurs working in knowledge and innovation sectors and lending to youth for tuition fees.

Chart 5
Lebanon: Access to Finance, 2013
percent of firms



Source: World Bank Enterprise Surveys.

Chart 6
Firms with a Bank Loan or Line of Credit, Latest Year
percent



Source: World Bank Enterprise Surveys.

LIMITED ACCESS TO FINANCE BY SMEs

Lack of access to finance can affect firm growth, forcing entrepreneurs and SMEs to rely on internal financing and personal savings. Limited financing can stifle firm expansion and investments that lead to innovation growth and productivity enhancements (Chart 5 and 6, page 4). Bank lending in Lebanon, as in other MENA economies, tends to be concentrated in larger, well established firms. For instance, while 100% of large firms possess checking or savings accounts, only 89% of small firms have access to checking or savings accounts. The gap is even larger for bank loans -- only 49.1% of small firms have loans or lines of credit versus 77.4% of large firms (a 28.3 percentage point gap).

Bank lending in Lebanon, as in other MENA economies, tends to be concentrated in larger, well established firms

Lebanon's last Enterprise Survey (a standard World Bank product that captures constraints to SMEs) was conducted in 2013. Therefore it is not yet possible to capture the impact of the BdL's stimulus program on SME's access to finance.

SOME IMPROVEMENT IN HOUSEHOLDS' FINANCIAL ACCESS

Financial access, as measured by bank account prevalence, increased in Lebanon from 37% of adult population in 2011 to 47% in 2014. During this same period, banking of the poor (as measured by the lowest 40% income population) increased from 18% to 27%. However, the difference between the richest 60% and the poorest 40% remained about the same. Banking for undereducated populations (those with primary education or less) increased from 23% to 33%. However, those with higher educations also increased by about 10 percentage points. Banking for rural populations increased by 12 percentage points—bringing rural access to bank accounts near the national average. While bank accounts among women increased from 26% to 33%, men's accounts increased by nearly twice that. The gap between women and men is among the highest in the world—nearly 30 percentage points different.

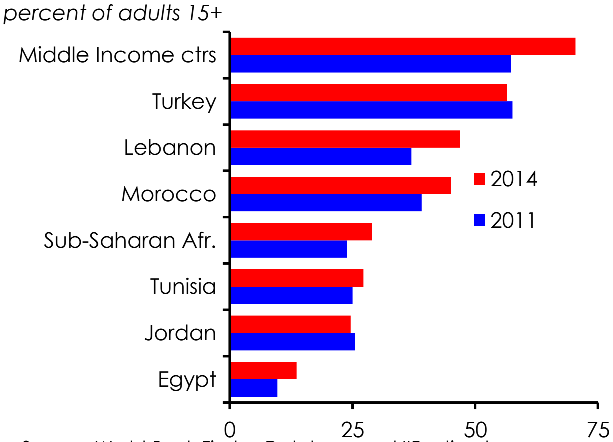
Financial access, as measured by bank account prevalence, increased from 37% of adult population in 2011 to 47% in 2014

Table 2
Lebanon: Bank Accounts (% of adults 15+)

	2011	2014
Poorest 40% of population	18	27
Richest 60% of population	51	60
Population with primary education or less	23	33
Population with secondary educations or more	45	55
Rural population	30	42
Women	26	33
Men	49	62

Source: World Bank Findex Database.

Chart 7
Account at a Financial Institution
percent of adults 15+



Source: World Bank Findex Database and IIF estimates.

Lebanon fares well in terms of financial access point availability. In many countries, a key challenge of financial inclusion is physical access to finance points. However, in Lebanon about 30 bank branches and 41ATMs exist for every 100,000 adults, a higher average than the Middle East; and bank branch penetration is higher than the upper middle income country average (defined as those countries in which 2010 GNI per capita was between $3,976 and $12,275), South Africa and Turkey.

Lebanon fares well in terms of financial access point availability

...BUT LARGE GAPS REMAIN IN FINANCIAL INCLUSION OF WOMEN

According to the World Bank's Findex database, there exists a wide gap in bank account ownership between women and men in Lebanon—one of the widest in the world (Chart 7, page 5). Also, the prevalence of men having debit cards in their own name is considerably higher than women: 46% of men used debit cards issued in their names, while only 20% of women did (Chart 8).

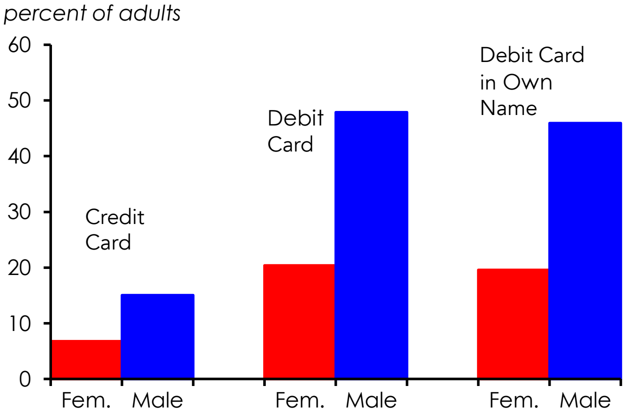
The gap between women and men in formal borrowing at a financial institution (10 percentage points) is wider than the gap in any borrowing (including from the informal sector, relatives, friends, etc.), suggesting that women often do not utilize formal financing methods and instead seek other sources of lending to meet their borrowing need. Some of this gap is explained by relatively high percentage of women borrowing from family or friends, or borrowing from a store by buying on credit. This suggests that the demand for borrowing amongst women does exist, and could represent a niche market for greater financial inclusion.

According to the World Bank's Findex database, there exists a wide gap between women and men's bank account ownership in Lebanon

MOBILE BANKING IS CONSTRAINED BY HIGH COST AND MISTRUST

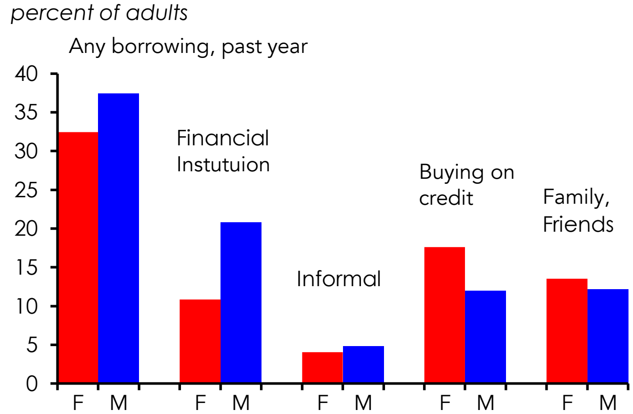
Other forms of financial engagement, such as mobile banking, have yet to take off in Lebanon. Mobile transactions can be particularly useful to expand financial inclusion to those who are otherwise excluded from the market, for example, in

Chart 8
Lebanon: Credit and Debit Card Patterns by Gender, 2014
percent of adults



Source: World Bank Findex Database.

Chart 9
Lebanon: Borrowing Patterns by Gender and Source, 2014
percent of adults



Source: World Bank Findex Database.

Mobile banking is constrained primarily by the pricing and quality of cellular data

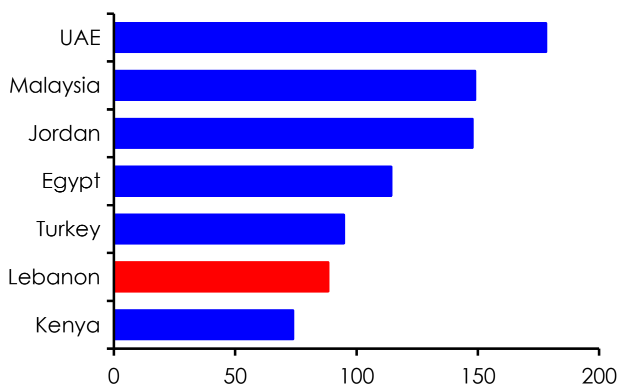
rural areas. Only 4% of bank customers in Lebanon reported making a mobile transaction, such as making payments, purchases or sending or receiving money, in the past 12 months -- compared to nearly 40% in Kenya (albeit, Kenya is an internationally recognized star performer in the field of mobile banking). However, Lebanon even trails Egypt by more than one half (Charts 10 and 11).

Costs remain high for cellular data in Lebanon. A survey conducted by Ericsson Consumer Lab found that 76% of consumers in Lebanon use less than one gigabyte of mobile data per month, likely due to pricing plan issues – about 80 % of customers surveyed were not satisfied with their mobile data pricing plans. National efforts have been underway to reduce costs. In June 2014, overall communications costs decreased 21%. Most recently, the Minister of Telecom announced a 40% reduction in prices for data bundles for mobiles – effective October 2016 and pending cabinet approval. Greater competition is needed to bring down costs to the consumer – which would ultimately have positive effects on mobile banking.

National efforts are under way to reduce cellular data costs—but more are direly needed

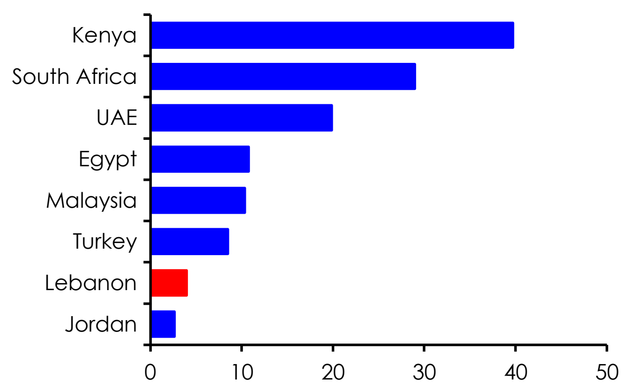
Mobile banking is regulated by the BdL's circular No. 69 of 2000. As mobile banking practices have evolved over the past 16 years, market analysts perceive the regulations to be in need of an update. For example, the regulatory framework does not include electronic signatures, which can help improve users' confidence in transactions. However, anecdotal information suggests that many users in Lebanon are skeptical of the security of online and mobile transactions, making branch and ATM transactions a preferred method – about 61% of customers using these as the primary point of withdrawal. Nevertheless, some progress is being made in the mobile banking sector and *PinPay* and *Simba* have been launched in Lebanon.

Chart 10
Mobile users, 2014
per 100 people



Source: World Bank.

Chart 11
Mobile Transactions, 2014
percent of bank transactions



Source: World Bank Findex Database.