

H. A. Karaki

*Belarusian State Economic University,
Minsk, Belarus, hossein.karaki@hotmail.com*

INNOVATIVE FINANCING FOR DEVELOPMENT IN LEBANON

This study aims to explain the innovation financing for development in Lebanon, which is a country in the Middle East region, facing a lot of economic and financial problems since 1990. Lebanon is an open economy driven by financial services, construction, and tourism. Since its independence, Lebanon has positioned itself as a service economy open to foreign investment and trade. Development finance, including both domestic and external sources, responds to the country's challenges transition and the wealthy expats and entrepreneurs provide large amounts of remittances and foreign direct investment to support consumption and expand real investment. Lebanon's development has historically been non-linear, and more recently the financial crisis which Lebanon have never seen before. It negatively affected the path of development in the country. The present study highlights the role of external financing in the supporting public goods and deriving recommendations for adapting development assistance to these benefits contexts in addition of the framework for a National Innovation System (NIS) in Lebanon and suggest an innovation policy mix allowing Lebanon to efficiently manage the innovation activities, integrate technological and market changes and join the knowledge era with the aim of securing sustainable economic growth and social prosperity in a highly risky, uncertain and challenging environment.

Keywords: *financing, innovative, crisis, banking, Lebanon*

Х. А. Караки

*Белорусский государственный экономический университет,
Минск, Беларусь, hossein.karaki@hotmail.com*

ИННОВАЦИОННОЕ ФИНАНСИРОВАНИЕ ДЛЯ РАЗВИТИЯ ЛИВАНА

Это исследование посвящено исследованию развития инновационного финансирования в Ливане, ближневосточной страной, столкнувшейся с множеством экономических и финансовых проблем. Начиная с 1990 г. Ливан – открытая экономика, известная финансовыми услугами, строительством и туризмом и с момента обретения независимости, открытая для иностранных инвестиций и торговли. Финансирование инвестиций, включая как внутренние, так и внешние источники, отвечает на вызовы переходного периода в стране. В условиях постоянно нарастающего государственного долга, существенные объемы ресурсов для поддержки потребления и расширения реальных инвестиций предоставляют богатые эмигранты и предприниматели. Развитие Ливана исторически происходило нелинейно, и в последнее время произошел финансовый кризис, которого в Ливане никогда раньше не было. Это отрицательно сказалось на пути развития страны. В настоящем исследовании подчеркивается роль внешнего финансирования в обеспечении общественных благ и даются рекомендации по адаптации помощи для целей развития в дополнение к возможностям Национальной инновационной системы (НИС) в Ливане, а также предлагается комплекс инновационной политики, позволяющий Ливану эффективно управлять инновационной деятельностью, интегрировать технологические и рыночные изменения и присоединиться к эре знаний в целях обеспечения устойчивого экономического роста и социального процветания в очень рискованной, неопределенной и сложной среде.

Ключевые слова: *финансирование, инновации, кризис, банковское дело, Ливан*

Introduction. In 2002, the term innovative financing for development was first mentioned at the International Conference on Financing for Development in 2002 [1], and these innovative financing mechanisms were born out of the need to achieve development goals, which were agreed by 192 member states of the United Nations and 23 international organizations to achieve them. These mechanisms aim to reduce poverty, reduce the unemployment rate and in return, implement investment [2]. In addition to supporting the health sector to reduce deaths and combat viruses of all kinds.

Most of the donor countries failed in their commitment by 0.7 %. On the other hand, most developing countries had a budget allocated to the social sector, especially the health sector, but it was insufficient.

Banking and financial situation in Lebanon. In Lebanon, the economic, financial and social situation is full of challenges and political problems, in addition to the accumulation of debts. Therefore, Lebanon [3] is in dire need of this aid to develop all its sectors. Could innovative financing be a complementary approach to sustainable development? What is the guarantee that the financial resources will be used to implement these financial resources to achieve these goals? Does the influential investment community play a critical role in catalyzing financing to achieve the sustainable development goals?

The banking sector in Lebanon is stable with high levels of liquidity, and where the government has put in place various incentive mechanisms and programs with other countries to encourage lending for small and medium enterprises (SMEs) these include subsidized interest payments [4]. Lebanese start-ups suffer from three substantial gaps in their country's financial environment:

1. Funding at the early concept stage where entrepreneurs need to develop their ideas into a viable concept and product.
2. Early stage seed funding needed when starting a company.
3. Absence of venture finance needed for the firm to reach its growth stage and beyond.

I can't help but mention microfinance, which is recognized all over the world as a strategy to combat poverty, and has developed in many countries through some associations and microfinance institutions, as in Lebanon. A large proportion of the poor in Lebanon still lack access to financial services. Women's needs are similar from those of men, and they often face the dual burden of productive and reproductive roles – providing livelihood security for their families, physical care for their families, and childbearing. Any attempt to combat poverty and tackle millennium development must, consequently, make microfinance rediscover its original mission as it moves forward on its journey of empowering the poor, especially women.

Financial crisis in Lebanon. With the country's economy faltering at the end of 2019 [5] and entering the most difficult financial economic crisis in its history, and in the wake of the Corona pandemic and the Beirut explosion on August 4, which killed more than 200 people and destroyed thousands of homes, the Lebanese economy had already collapsed under amazing government corruption and financial policies that benefited the elite.

When Lebanese community groups began sweeping the streets from shattered glass and finding shelter for the newly displaced, filling the void left by their government once again, it became clear that a new aid option was needed.

In countries where government corruption is rife, citizens are in a dire need of financial assistance. But their governments generally leave three bad choices to the donor countries and international financial institutions: relying on leaky government channels to spend, and risking the money that do not reach the needy, maintaining exclusive control over financing decisions and advocating criticism of foreign influence, or refuse help altogether, and give up for people in need. In each case, the audience loses.

Financial innovation in Lebanon. The lack of traditional resources is no longer sufficient to fill the current financing gap in Lebanon. This fact explains the growing interest in innovative development finance as a new practical approach to meeting sustainable development plans. Development finance has become the optimum resource for economic growth. Regarding to the above, I try to explain the aims to

test the efficient use and exploitation of financial resources in a small open economy like Lebanon. The feedback effect extending from economic growth to the exploitation of independent variables shows the following:

1. Economic growth enhances the supply of bank credit first, and then reduces the demand for that credit.
2. The slowdown in economic activity may boost foreign direct investment as capital and labor costs fall.
3. The improvement in economic performance allows the government to collect more taxes and rely less (or perhaps become less readable) on foreign grants and donations.
4. An increase in national product leads to a decrease in dependence on imports which leads to a decrease in foreign trade.

The World Bank, the United Nations and the European Union announced an innovative aid distribution model for Lebanon that seeks to solve this mystery [6]. The result is a reform, recovery and reconstruction framework, which will raise funds in a mechanism with a unique structure that enables civil society and disburses funds directly to non-governmental groups and companies. Lebanese civil society organizations, as well as the private sector, hold seats in the group that oversees strategic decisions and the steering committee that governs the fund's expenditures. Civil society will play an active role in monitoring implementation.

While the Lebanese government also maintains seats on these governing bodies, obtaining additional funding for a long-term recovery is contingent on the enactment of government and economic reforms.

The framework's success will depend on whether the Lebanese government adopts much-needed reforms [7], as well as on their implementation, including how to manage problems that are not addressed in the framework such as the independence of civil society organizations that occupy seats in the Fund. Mitigating conflicts of interest in private sector participation, and respecting social norms, other human rights and environmental standards. But these challenges should not obscure the potential of the framework for reimagining the international support that empowers people in recipient countries.

After showing tremendous resilience in the face of an unimaginable loss, perhaps this time, Lebanese civil society can gain. A new trade finance fund was launched to assist the manufacturing sector in Lebanon in September 2020, called Cedar oxygen impact and access to trade finance, such as import and export financing.

This fund was established in Luxembourg [8], and the Central Bank of Lebanon provided \$ 175 million as a main investor, and the fund aims to reach the fund's size of \$ 750 million. In addition to some support from the hatred of friendly countries, the fund will initially focus on supporting about ten sectors, including gas manufacturing and electricity. In addition to revitalizing the economy in Lebanon by helping small and medium-sized companies obtain financing in US dollars.

The economic and financial problems and the accumulation of public debt are not new. They started about thirty years ago. Companies in Lebanon are struggling in the country to access financing, especially financing in foreign currencies. But by the year 2020 the dollar was cut off in the market due to the unprecedented economic crisis, the exchange rate of the dollar against the Lebanese pound collapsed. Rudolf Putz, head of the trade facilitation program at the European Bank for Reconstruction and Development, stated that it is very difficult now for importers in Lebanon to obtain US dollars because they do not have exports.

From here, I would like to raise some questions that we await answers in the near future: What is Lebanon's financial future? Will Lebanon be saved from its financial crisis with the help of the international community?

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