FUNDING KBE: LEBANON CASE
“Knowledge is the most powerful engine of production”
Alfred Marshall

“Knowledge economy plays a key role in driving economic growth, creating job opportunities, increasing GDP per capita and ensuring sustainable development”
BDL Governor, Riad Salamé
Existing financing tools (Lebanon pre 2013)

- **Loan**
  - Kafalat Start-ups and Innovation
  - To finance Fixed Assets and Working Capital Needs
  - Maximum Loan Amount LBP 650 Millions or c/v in USD
  - Loan Duration: Up to 7 Years
  - Guarantee Ratio Innovation 90%, Start-ups 85%
  - Grace Period: Between six months and one year

- **Equity**
  - 2008 - Berytech Fund ($6M)
  - 2009 - MEVP ($18M)
“Lebanon has no chance.. You need to leapfrog!” – Craig Barrett, Chairman Intel, 2007
Aug 2013: BDL Intermediate Circular 331 – “Banking outside the box!!”

- Total participations of any bank in Companies may not exceed 3% of the bank’s capital.
- Participation of any bank in a single Company does not exceed 10% of the aforementioned 3%. However, the BDL Central Council may, on justified grounds, grant its approval to exceed any of these percentages.
- The participation of banks may not exceed, at any time, 80% of the capital of a single Company.
- The margin realized by the benefiting bank as a result of the investment of the granted facilities, shall be calculated in a way that guarantees to the concerned bank a coverage amounting to 75% of its participation in the Company.
- Guarantee is 100% in accelerators/boot camps programs.
- The concerned bank must pay to Banque du Liban 50% of the profits that may be realized through the sale of the Company’s shares and through the distribution of any dividends by the Company.
• Equity of Bank $100M => 3% = $3M => max 10% in each investment = $300k
• The $300k will be covered 75% by BDL, i.e. $225k to be “given” upfront by BDL to the Bank
  • Loan from BDL of $1.0M to Bank to invest in treasury bonds over 5 years at 6.75% discounted today = $1,225k => balance $225k paid to the Bank as Capital Increase in the “startup”

=> 25% (Bank) + 75% (BDL) = $400M on aggregate!
Purpose

- To foster knowledge economy
- To increase economic and social growth
- To create job opportunities
- To support creative intellectual skills (intellectual capital)

Beneficiaries

- Startup Companies (direct)
- Incubators and Accelerators
- Venture Capital Companies (indirect)
Targeted Sectors

- Information and Communication Technology
- Creative Industries
- Green Growth
- Medical and Health Tourism
- Chemical Industry (Oil and Gas)
- Education
- Others
Eligibility Criteria

The beneficiary must:

• Be a Lebanese joint-stock company with nominal shares (SAL);
• Not be a financial or offshore company;
• Be able to boost economic and social growth and create new jobs;
• Have a project that is based on knowledge economy and that supports creative intellectual skills and intellectual capital.
Outcome: $200M already pledged: VCs (covering equity gaps)

- BerytechFund2 ($51M from 19 banks)
- IMPACTfund ($70M)
- LEAP Ventures ($70M from 12 banks)
- SpEED startup accelerator
- 2 banks in direct investments
- Seed Fund $3-5M (in progress)
Outcome: $200M already pledged: **Initiatives**
UK-Lebanon TechHub

Flagship
1) International Accelerator
2) Outreach
3) Capacity Building
4) Marketing & Comms

Lebanon – UK Tech Hub

Market Access
Top 15 companies

Internationalisation
UK (European)
USA Market
International VC’s
Brand ‘Lebanon’

Cluster Development
And that’s not all!!

Kafalat iSME program (WB loan through GoL)

- $25M for co-investment in three levels of equity capital assuming the same risk as the VC investor (pari passu):
  - Seed (< US$350,000) with a participation of 50% in any deal
  - Venture (US$350,000 – US$1,500,000) with a maximum participation of 40% in any deal
  - Growth (US$1,500,000 – US$5,000,000) with a maximum participation of 30% in any deal

*Equity co-investments will be made in an enterprise alongside another institutional investor such as VC funds, holding companies, formal business angel groups and investment banks.*

- $2.5M grants for innovative projects
  - From $10k to $25k
Insure & Match Capital

- USAID MENA Investment Initiative (create Investment Managers in 7 MENA countries)
- $15M obligated for Lebanon over 5 years
- 3 components to assist QESIs (Qualified Early Stage Investors) & QESBs (Qualified Early-Stage Businesses)
  - Matching Capital (up to 50% of new outside capital)
  - Investment Insurance (Equity Guarantee)
    - from $0 → $250,000: guarantee of 65%
    - from $250,000 → $500,000: guarantee of 40%
    - from $500,000 → $600,000: guarantee of 20%
- Technical Assistance
MOBILE INTERNET ECOSYSTEM PROJECT

• A mobile innovation hub (MIHub)
  • co-design and implementation of an open innovation lab for innovators and industry to interact, experiment, and share best practices

• Innovation competitions
  • training, mentorship and challenges that catalyze and accelerate entrepreneurs

• Skills for employability in the 21st century
  • students teaming up with industry to solve challenges and gain real-world experience

• Innovation for existing industries
  • a set of activities that integrates existing industries and legacy institutions with the mobile Internet ecosystem and brings innovation to their processes.

$12M ($6M WB + $6M MoT!)

#tech4kids
Parting thoughts

- Their has never been a time when the supply of capital & resources did not overwhelm the supply of opportunity
- Attractive and welcoming to diaspora + foreign talent
- Need to unleash the other $200M!
  - New thematic funds (Fashion, Movie, Diaspora, etc) or programs (DFL, etc)?
- Improve infrastructure
  - Law: LP – ESOP – Minority/Preferred Shares – Bankruptcy, etc
  - Internet, science parks, clusters, etc.
- Success stories
  - Ziad Sankari - CardioDiagnostics
  - Shahiya (exit)
  - Etc etc
Thank you!

Q & A?

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