



**June 12<sup>th</sup>, 2024**

**Contact Information**

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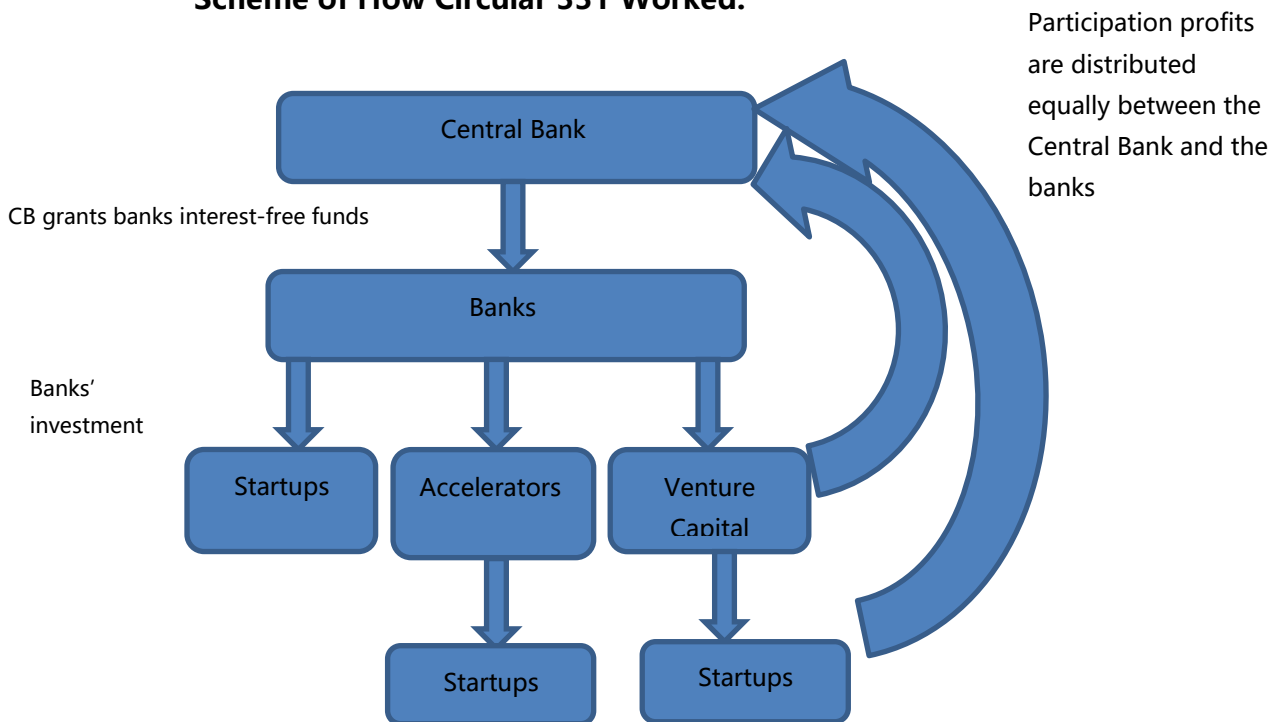
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The Central Bank issued on August 22<sup>nd</sup>, 2013 circular #331 in order to develop the Lebanese eco-system and improve the Lebanese knowledge economy through facilitating the financing of start-up companies. The goal of this circular was to support development of entrepreneurial ideas into real time platforms in addition to providing funds. In other words, the circular was able to ease the capital barrier that startups used to face, but there were other barriers that previous governments should have relieved and are mentioned in details thereafter.

The circular stated that banks which invest in a start-up or Venture Capital (VC) will get funding and a loss guarantee up to 75% of the investment while the profits are split in half between the Central Bank and commercial banks. Several amendments were later introduced to make sure that the funds fulfill the spirit and purpose of the circular. In addition, a BCCL circular was issued in order for banks to report and monitor its investments.

As such, BLOM Group has played a significant role in providing capital to funds (and not directly in startups) and was the bank with the highest contribution by committing USD 50.81 Million. Breakdown of participating banks along with their commitments as of September 30<sup>th</sup>, 2023 will be presented later in the spotlight.

**Scheme of How Circular 331 Worked:**



**Important Points Relating to Circular 331:**

(1) The Central Bank guarantees 75% of banks' participation through granting them interest-free funds to be invested in treasury bills with net yield of 75% of their investments in the startups, accelerators, or funds. On the other hand, it receives 50% of the profits from the participation in the startup while the remaining 50% are added to the banks' capital and to be reinvested in new startups.

(2) Amounts invested by any single bank should not exceed 4% of its shareholders' equity (originally it was 3% but then was modified to become 4%). Moreover, the bank cannot invest more than 10% of the aforesaid 4% in a single company. In addition, the participation of a bank should not surpass at any time 80% of the capital of a single company.

(3) Accelerators last for three to six months and support a bunch of startups and early-stage businesses through small amount of capital in exchange for equity, and short term mentoring and training.

(4) Venture Capital funds provide money to small and high-risk startup companies with significant growth potential.

Unfortunately, in the absence of a well-developed capital market, there is no chance to reach international investors.

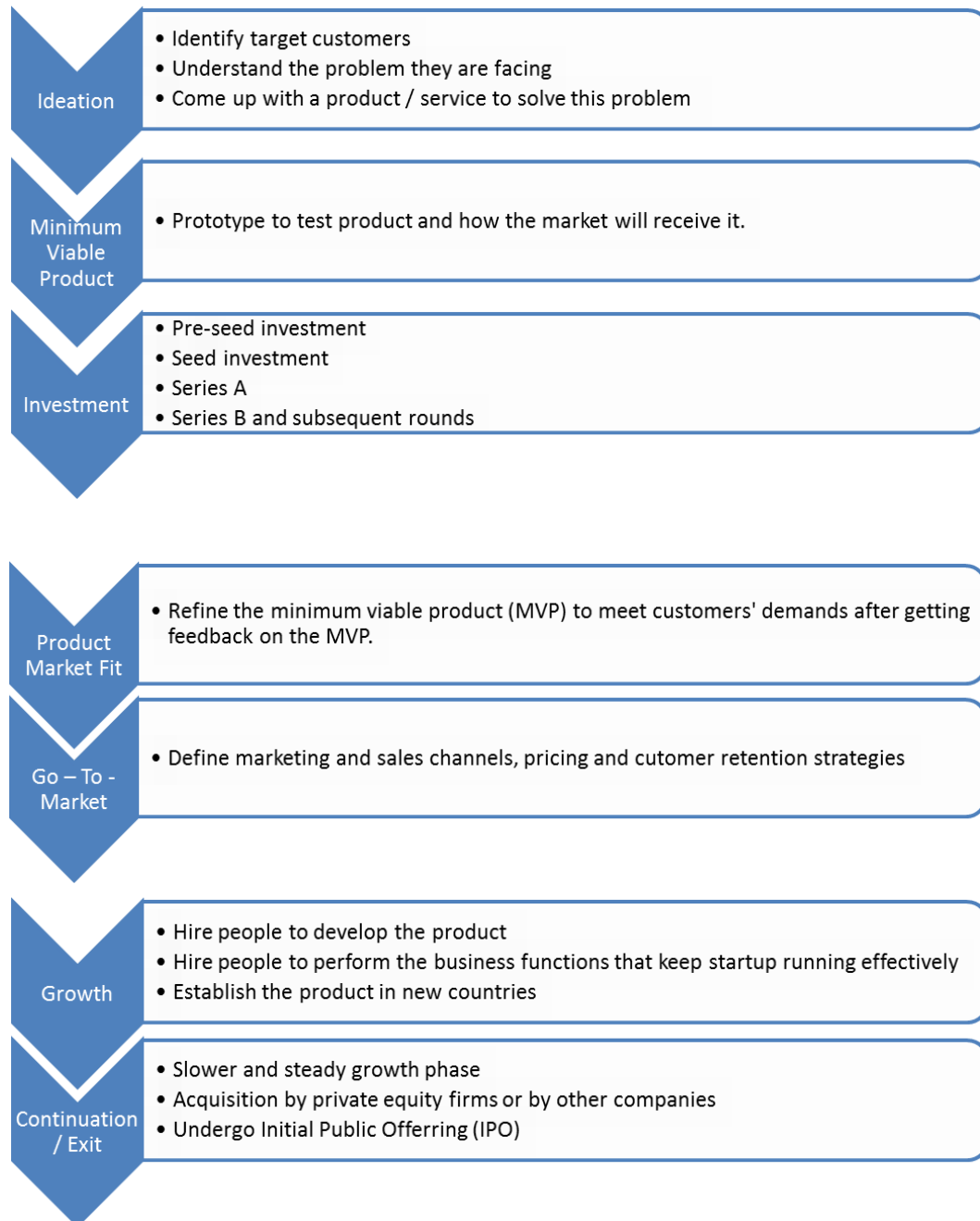
This circular was a great opportunity to put Lebanon on the IT map especially that the Lebanese are succeeding abroad through establishing and operating their own startups (mainly GCC region) and are being recognized. Table below shows some of these new startups.

Startup Name	Industry	Nature of Operations	Countries Operating In	Raised Capital
Kitopi	Food	Cloud Kitchen Platform	UAE, KSA, Kuwait, Bahrain	USD 715 Million
Quipup	Delivery	On-demand Delivery Platform for Restaurants, Retailers & E-commerce Businesses	UAE	USD 45 Million
Sarwa	Fintech	Online & Independent Investment & Personal Finance Platform	-	USD 15 Million
Kaykroo	Food	Cloud Kitchen Platform	UAE & KSA	USD 24.4 Million

Source: 961 website

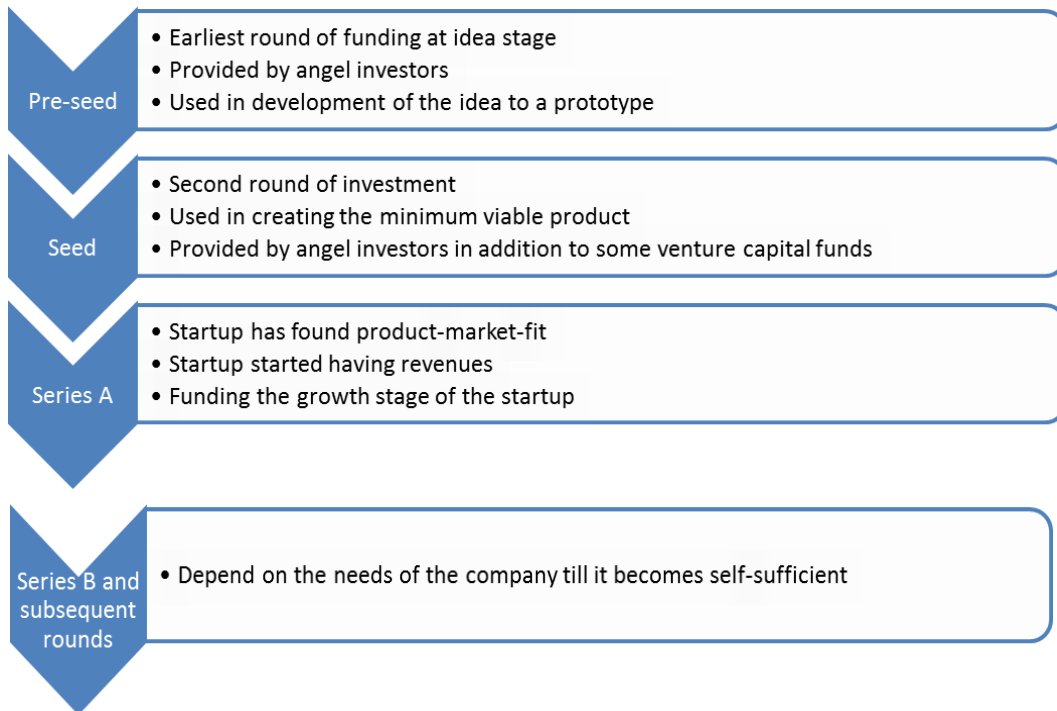
## Seven Stages of a Startup:

In general, a startup passes through 7 stages in which a minority of them succeeds to survive and reach the last stage.



Important to note that, in the case of startups in Lebanon, the ones that were already established before the financial crisis in 2019 and have foreign customers, were able to relocate to other countries; however, the startups that were not yet established were not able to continue which led to the liquidation of these startups.

### **Brief Summary of Investment Funding Stages of a Startup:**



As per BDL circular 331, venture capitals perform a vital role in the growth of startups, from acquiring human resources to creating exit pipelines. Moreover, it acts in the role of a portfolio management, which assists in providing strategic reviews and develops relations with startups key managements.

### Main Characteristics of Major Venture Capitals (VCs):

Venture Capital Name	Logo	Investment Stage	Committed Capital by Banks in VCs	Total Capital Calls	Invested Volume
Impact – Managed by Middle East Venture Partners		Early & Mid Growth Stage	USD 70 Million	USD 70 Million	USD 50.12 Million
Berytech II		Early Growth Stage	USD 51.5 Million	USD 46.98 Million	USD 33.92 Million
LEAP - Managed by LEAP Ventures		Late Growth Stage	USD 59.75 Million	USD 59.75 Million	USD 44.2 Million
Cedar Mundi - Managed by Cedar Mundi Capital		Mid Growth Stage	USD 44.44 Million*	USD 30.94 Million	USD 18.92 Million
Phoenician - Managed by Phoenix Partners		Early Growth Stage	USD 26.33 Million	USD 18.76 Million	USD 11.31 Million
Division 1 - Managed by B & Y Venture Partners		Early Growth Stage	USD 46 Million**	USD 33.18 Million	USD 23.17 Million
Azure - Managed by TLF Ventures		Early & Mid Growth Stage	USD 22.88 Million	USD 17.88 Million	USD 12.86 Million
Lebanon Seed - Managed by Flat6Labs Beirut		Early Growth Stage	USD 13.5 Million	USD 5 Million	USD 3.44 Million

Source: BLOMInvest Bank SAL

\*Out of which \$33.94 Million by banks under circular #331 while the remaining \$10.5 Million are by other investors.

\*\*Out of which \$32.3 Million by banks under circular #331 while the remaining \$13.7 Million are by other investors.

*Middle East Venture Partners (MEVP)* has 12 years of successful investing in more than 60 tech startups in several sectors such as E-commerce marketplaces, New Media, E-education and others. There are some startups in Lebanon that received funding from MEVP such as Anghami (New Media - Exited), Toters (On-demand - Series B funding stage), Basma (Healthtech – Series A funding stage), and Pinpay (FinTech – Exited).

*Berytech Fund II* supports startups not only by fundraising; however, it provides help in capacity building and prototyping.

*Cedar Mundi* is a London-based seed and early-growth stage venture investor that provides smart capital at all stages of growth. It invested in 134 deals with 25 exits.

*Phoenician VC* focuses on early-stage technology companies across MENA, Europe, and US. It partnered with several successful startups in different sectors such as NymCard (FinTech), Toters (E-commerce), Sarwa (FinTech), Kamkalima (EdTech), and Fly-Foot (Esports) to name a few.

*B&Y Ventures* help MENA startups to become global and international companies to expand in MENA region. The venture's portfolio consists of companies in several sectors such as E-commerce, gaming, health tech, FinTech, food tech, and online marketplaces to name a few.

*Lebanon Seed Fund* managed by Flat6Labs is an early stage funding, aiming to strengthen the growth of seed and early stage Lebanese startups that have high potential growth and innovation – based companies in Lebanon.

**Breakdown of Committed Capital as of September 30th, 2023:**

Figures in millions of USD	IMPACT	BERYTECH	LEAP	MUNDI	PHOENICIAN	DIVISION 1	AZURE	Lebanon Seed Fund	Total Committed Capital
BLOM Bank sal	10.00	10.00	9.81	5.00	2.00	4.00	6.00	4.00	50.81
Bank Audi sal	10.00	5.00	7.93	4.44	2.58	7.50	4.58	3.00	45.03
SGBL		5.00	7.55	10.50	7.00				30.05
BankMed sal	10.00	2.00	4.53			7.50	7.00		31.03
BLF sal	8.00	8.00	7.55	1.00		1.00	2.00		27.55
Byblos Bank sal	10.00	5.00	7.55						22.55
BOB sal	2.00	3.00	3.78	3.00	5.00	5.00			21.78
Fransabank sal	5.50	3.00	5.29	4.00		2.30		1.00	21.09
IBL Bank sal	7.00			2.00	2.00	0.50		1.00	12.50
FNB sal	1.00	1.00	1.13	1.00	0.75			2.00	6.88
BLC Bank sal		1.50				1.50	2.00		5.00
Credit Libanais sal	1.50	0.50	1.51					0.50	4.01
BBAC sal	2.00	2.00						0.50	4.50
LGB sal	1.00	1.00	1.51						3.51
Fencia Bank sal				2.00	2.00				4.00
Banque Misr Liban sal	1.00				1.00	0.50	0.50	0.50	3.50
Al-Mawarid Bank sal	1.00	1.00				0.50	0.80		3.30
CSC Bank sal		1.00	0.84			1.00			2.84
Jammal Trust Bank sal*		1.00		1.00	1.00				3.00
Saradar Bank sal		0.50	0.76		0.50	1.00			2.76
Lebanese Swiss Bank sal					1.50			1.00	2.50
MEAB sal		1.00			1.00				2.00
<b>Total Committed Capital by Banks under 331</b>	<b>70.00</b>	<b>51.50</b>	<b>59.75</b>	<b>33.94</b>	<b>26.33</b>	<b>32.30</b>	<b>22.88</b>	<b>13.50</b>	<b>310.20</b>
Other Investors				10.50		13.70			24.20
<b>Total (331 + Other Investors)</b>	<b>70.00</b>	<b>51.50</b>	<b>59.75</b>	<b>44.44</b>	<b>26.33</b>	<b>46.00</b>	<b>22.88</b>	<b>13.50</b>	<b>334.40</b>

Source: BLOMInvest Bank SAL

As the table above shows, most committed capital in the above 8 VCs was by banks under circular #331 that proves the importance of this circular in providing funds needed by startups.

However, the main issue is the ability for these funds to find foreign investors to buy the startups that these funds are managing in fresh USD given the economic and financial crisis. But if they do find buyers, these investors might pay a discounted value, therefore losses will be incurred.



**Life Time of the Funds:**

Fund Name	Lifetime	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Impact	8	Investment				Divestment											
Berytech	10	Investment					Divestment										
LEAP	7	Investment				Divestment											
Cedar Mundi	7	Investment				Divestment											
Phoenician	11	Investment					Divestment										
B&Y Division 1	10	Investment					Divestment										
Azure	9	Investment					Divestment										
LSF	12	Investment					Divestment										

Source: BLOMInvest Bank SAL

*Impact:* The original lifetime of the fund was 8 years and should have expired in 2021 but it was extended till October 24<sup>th</sup>, 2024.

*Berytech:* The original lifetime of the fund was 10 years and should have expired in 2023.

*LEAP:* The original lifetime of the fund was 7 years and should have expired in 2021 but it was extended till May 26<sup>th</sup>, 2024.

*Phoenician:* The original lifetime of the fund is 11 years and expires on July 10<sup>th</sup>, 2027.

*B&Y Division 1:* The original lifetime of the fund is 10 years and expires on November 26<sup>th</sup>, 2026. It may be extended at the discretion of the fund manager for one or more periods not exceeding cumulatively 3 years.

*Azure:* The original lifetime of the fund is 9 years and expires on December 31<sup>st</sup>, 2024 and it has submitted a request for the Central Bank to extend it for two more years to expire on December 31<sup>st</sup>, 2026.

Regarding the divestments, there are no standardized criteria regarding the divestments that should be applied for all funds.

**Challenges Faced by Entrepreneurs:**

Despite the good intentions to encourage entrepreneurship and to establish startups, there were several challenges that hindered entrepreneurs from receiving investments from investors. The first and main challenge for Venture Capitals (VC) was the exit scenario. Based on Central Bank’s circular, there is limited duration on investment which is up to 7 years, so it was hard for VCs to find a way for their exit strategies as

the resale of venture capital units takes place through either a buy-out by a large private equity fund or through an initial public offering (IPO).

Second, the fragile Lebanese economy was not attractive to investors and they have no interest in investing in a defaulted country. Moreover, Lebanese public institutions that offer services are not user-friendly with investors, as incorporating a company and requesting certificates might take weeks or even months to be completed. Furthermore, the delays and political interference in some of judicial cases make investors think twice before investing in the country. As a result, most promising startups preferred to settle abroad such as Dubai due to the fast services they receive in addition to the infrastructure that suits startups.

In addition to the above challenges, two major events caused significant negative effect on startups. First, in October 2019, the eruption of the financial crisis in which many investors were either not able to access their capital and became skeptical regarding investing in Lebanon; in addition to the fact that some startups need fresh money investments to pay for foreign suppliers and could not benefit from the investments that were placed in banks before the crisis and they were not able to access the full amount as needed.

Later on, and after few months of the financial crisis, the Covid-19 pandemic was spread worldwide. In other countries, governments made emergency funds to help startups and SMEs survive the pandemic, not like Lebanon where the government did not have the means to establish such funds.

Although the previous governments did not consider issuing the needed legislations and prepare the infrastructure for boosting the startups industry, the 2022 published budget signaled one positive sign regarding the consideration of developing startups industry in Lebanon.

In the 2022 published budget, article 25 exempted technology startups established within 5 years after the authorization date of 2022 budget from income tax for a five-year period starting November 15<sup>th</sup>, 2022 to November 15<sup>th</sup>, 2027. However, there are some conditions that should be met in order for the startup to benefit from these exemptions. The conditions are:

1. The company has to be established with the purpose of launching in the market a developed product or service.
2. The product or service fills a market gap of irreplaceable or experiencing an increasing demand.
3. The company has technological and creative background for producing a new product or service that provides a more modernized and better than the one existing in the market.
4. At least 80% of the employees are of Lebanese national. In case the percentage decrease below 80% at any of the five years, the company will lose the exemption.
5. The exemption is restricted to commercial and industrial taxes only and excluding all other tax categories.
6. Startups that started its operations and postponed it temporarily before the publication of the budget and then resumed after the publication of 2022 budget will not benefit from the tax exemptions.
7. In order to benefit from the tax break, the startups should submit a written request to tax administration at the Ministry of Finance.

Despite the above mentioned article in the 2022 published budget, the following are the requirements that are still needed for boosting the startups industry:

1. Political and security stability in order for foreign investors to invest in Lebanon.
2. Economic reforms in order improve the slow economic growth along with a financial plan and banks' restructuring.
3. Easing the process of establishing and registering companies as well as getting needed certificates or documents online.
4. Fast internet connections through improving the internet infrastructure.
5. A database that includes data and statistics needed for market studies.

**Conclusion:**

In conclusion, previous Lebanese governments should have taken steps to complement BDL circular #331 to ensure the development of the startup

industry in Lebanon by providing the funds needed by these startups. Instead the governments, for instance, poured financing on a hopeless electricity sector that cost alone around \$40B. If only part of these wasted funds were invested in the infrastructure for startups and established government-backed venture capital funds, in addition to the easier online registration of companies, Lebanon could have been a major player in the tech startups industry in the region. This industry would have attracted international customers and would have been a significant source for technology development, talent accumulation, and export promotion.

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