

Design Economy in Lebanon: Challenges and Opportunities

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Executive Summary

This paper is the first piece of research to consider the opportunities and challenges facing design, as a distinct industry, across the whole of Lebanon's economy. It draws on an in-depth analysis of data gathered from government-affiliated, institutional and individual, local and international sources. It addresses the essential characteristics of the design economy in Lebanon, including the regulatory framework, funding models, supply-chains and market conditions.

Key Findings

On Market

- Design-related industries contribute as much as 3.5% of the national GDP, and design-related exports constitute 31% of the total industrial exports in Lebanon.
- 61% of all Lebanese industrial exports go to Arab markets.
- Popular design business models in Lebanon tend to produce luxury items, selling at premium prices to top-tier clients in the gulf region.

On Establishing a Business

- Minimum cost for running a design business in Lebanon is \$5,200 per annum,¹ mostly due to high rent values and expensive utilities and services.
- Average capital investment in most design enterprises in Lebanon is below \$100K.
- Reliance on self-finance or familial aid is the primary funding option for a majority of design enterprises in Lebanon.

On Finance

- SME loans is the least attractive funding option for designers.
- Most institutional funding is restricted to project-based interventions, limiting its impact on the design industry in general.
- Despite equity investments in the creative economy in Lebanon stands at \$150 Mln, the design industry's share of these investments is extremely limited.
- Crowd-funding campaigns played an essential role in launching a number of successful products into the Lebanese market recently, however, they might not suffice for sustainable growth, recruitment of staff, or registering as a company.
- Entrepreneurship grants are part of a growing start-up ecosystem, however they also come with a regulatory bias towards digital tech start-ups.

¹ Calculation is based on the following assumptions: average studio space is 20 sqm, average annual rent per sqm inside/outside Beirut (based on data provided by IDAL) varies between \$130-200, average annual electricity bill (480 KWh/year) is around \$700, average annual electricity bill from private generators (flat-rate for 10 Amp) is around \$1,200, average annual phone and internet bill (Ogero basic plan) \$700

On Production and Logistics

- High cost of material research and prototyping poses a serious challenge for asset-intensive enterprises (reliant on sourcing material, tool, or technique asset).
- Until the civil war in Syria is over, Lebanon is landlocked, which adds extra duties on logistics-intensive exports (whose sales value is relatively high compared to their shipping, warehousing, and distribution costs).

Recommendations

Upon assessment of the key findings supported by qualitative interviews with key stakeholders including designers, entrepreneurs, equity investors and experts in designers capacity building, this study puts forward the following suggestions in order to support the growth and sustainability of Lebanon design economy.

- Developing more sustainable funding options that are more sensitive to the specificities of the Lebanese market.
- Lobbying to enhance a more design favourable regulatory framework.
- Increasing support for early-stage design enterprises including developing minimum viable product (MVP), business training, and increasing design-specific mentorship for design startups.
- Supporting women design entrepreneurs.
- Encouraging collaborative affiliations.
- Strengthening networks that lead to expanding existing regional and international markets and creating new ones for designers in Lebanon.
- Incentivizing regional collaborations and affiliations among designers.

Scope

This paper seeks to provide an overview of the design economy in Lebanon. *Economy*, within the context of this paper, is qualified by the supply-chains and market conditions, challenges facing the design industry, and the regulatory framework in Lebanon. On the other hand, by *design*, this paper designates any business producing a final product containing an explicit design component and has an entrepreneurial aspect with a prospect for scaling and market growth. This includes: graphic design and illustration, product design, furniture, landscape, interior design, jewellery, fashion design, and digital media. It excludes: industries, businesses and other forms of economic activity whose final product does not contain an explicit design component, such as F&B, tourism, banking and fintech; intermediate suppliers such as handcraft workshops, material providing industries such as wood, steel, and textile workshops.

While architectural firms are off the scope of this study, as they operate under categorically different conditions, exceptions are made for architects working mainly in product or industrial design, interior design,

visualization, etc. If anything, this reflects the fluidity within the design field which calls for a flexible approach on behalf of the research team.

The scope of the study includes businesses operating across Lebanon, taking into account the centralized economic structure and the additional challenges related to geographic distance from the capital. Although the scope covers the whole of Lebanese geography and jurisdiction, it excludes businesses that are registered in Lebanon (or have received funding in Lebanon) but are fully operative abroad.

Objective

The broad objective is to understand the various factors shaping the design economy in Lebanon, assess them holistically in terms of impact and economic sustainability, and to enable informed speculation on current and potential investment opportunities.

Detailed objectives include:

- Assessment of the different, yet interdependent, economies of sourcing materials, tools, and techniques in Lebanon.
- Stakeholder analysis, pertaining to funding models in Lebanon.
- Uncovering deficiencies within the design ecosystem, while also hinting at opportunities and strengths.
- In line with previous objectives, this research suggests a possible design-funding metric: a simple and abstract analytical tool that qualifies different funding models and products in terms of their compatibility with the Lebanese market.

Methodology

This paper employs a combined methodology: on the one hand, collecting, analyzing, and consolidating quantitative and qualitative data coming from primary sources such as: reports, catalogues, statistics and PR announcements and press releases, while on the other, generating reliable qualitative indicators based on field findings wherever quantitative data is scarce or unavailable. This is channelled via different trajectories including a desk- and field-research, survey and follow-up phone calls, and a series of one-on-one interviews with different stakeholders representing a multiple affiliations and backgrounds.

The survey involved the dissemination of a general questionnaire which was conducted via email and targeted a database of designers compiled from different online and offline sources (survey was sent to a total of 138 designers, 36 designers of whom are outside of Beirut). While the survey reached a total response rate of 40% (total of 54 respondents, 15 of whom are outside of Beirut), in several cases follow-up phone calls with respondents were used to further qualify survey results.

On the other hand, a semi-structured interviews with members of the focus-group corroborated findings that lacked strong quantitative evidence such as the impact of gender, class and regional divides on funding opportunities. Interviewees were categorized according to two

parameters: the type of design enterprise and financial model. Thirteen interviews were carried out in total, included 2 graphic designers/animators/illustrators, 2 fashion designers, 1 jewellery designer, 1 interior designer, 4 product/industrial/furniture designers, 2 venture capitalists and 1 international training and funding institution. With regards to the financial models, the interviewees were categorized as follows: 6 designers self-funded and/or commercial, 2 financed under the Banque du Liban Circular 331 for start-ups, 1 financed through crowd-funding.

Challenges

The difficulties facing the research can be divided according to their relation to: 1) lack of clear, communicable and accessible information to measure against, and 2) issues of definition and representation.

- *Lack of Clear, Communicable & Accessible Information*
Design-related businesses have no specific designation in the Lebanese regulations. Prior to this research, very few studies on design-related businesses in Lebanon were conducted. As a result, obtaining clear and accurate data presented a significant challenge in the course of preparing this paper. Main information sources cited in this paper include: Investment Development Authority of Lebanon (IDAL), Lebanese Ministry of Industry (MOI), Lebanese Ministry of Finance (MOF), The Business and Economy Database of Lebanon, the Lebanese Customs, International Labour Organization (ILO), Dubai Design & Fashion Council (DDFC), in addition to several financial and demographic reports from the World Bank and from international management consultancies such as PWC and McKinsey.
- *Definition & Representation*
In the absence of accurate statistics of designers working in Lebanon, some of the quantitative data listed here partly refers to design enterprises that are not within the scope of this paper. Similarly, devising a representative sample for study presents a significant challenge. Particularly when it comes to assessing the impact of regional and ethnic backgrounds, size of business operations and the gender make-up of the workforce on the inner workings of design enterprises. While this paper seeks to overcome these difficulties through a field-survey and in-focus interviews, it must be noted that some of the information resulting from fieldwork should be taken as approximate indicators and qualify for qualitative assessments on the existing conditions of the design economy in Lebanon.

II DESCRIBING LEBANESE DESIGN ECONOMY

The total value of design-related industries in Lebanon amounts to \$1, 7 Bln (3,5% of GDP).² Design-related exports amount to 31% of total industrial exports value, making them, as one of the mainstays of the Lebanese knowledge and creative economy, a possible trajectory for further development of the Lebanese economy in general.³

However, the Lebanese design economy remains small in terms of absolute volume: ex. compared to \$95Bln-worth design economy in the UK.⁴ This explains the prevailing impulse about the design profession in Lebanon as largely of artisanal or boutique character, i.e. more interested in limited-edition, haute-couture and regional sales than mass production sold locally. Under this pretext, popular design business models in Lebanon tend to produce exclusive items, selling at premium prices to top-tier clients in the gulf region (61% of all Lebanese industrial exports go to Arab markets)⁵ to cater for high production costs and limited volume sales. Also, given the civil war in Syria, since 2014 Lebanon has no land-connection for its exports, making this condition even more acute.⁶ As a result, luxury and less logistics-intensive exports (whose sales value is relatively high compared to their shipping, warehousing, and distribution costs) for many Lebanese design businesses are more opportune: ex. exporting apparel or jewelry via air courier, becomes more cost-effective than doing the same with furniture.

Due to the relatively high cost of maintaining a business in Lebanon (min. \$5,200/annum) plus the financial duties incurred in official registration and taxation, many young design businesses prefer to remain unregistered to avoid coping with legal and financial pressure at an early-stage. The lack of viable finance solutions specifically tailored for design businesses, unaffordable prototyping facilities (monthly subscription in fab-labs in Beirut is avg. \$100, based on data provided by Berytech Fablab, Fablab Beirut, and The Factory) poor utilities and services (electricity, internet, and logistics) high charges on importing equipment, and inaccessible or inexistent training and mentorship, all exacerbate the problem. Many designers have to work full-time jobs besides their individual businesses for extended periods of time to make ends meet. By the same token, others have dormant business ideas that will never

² MENA Design Outlook Report - Dubai Design & Fashion Council (DDFC) (2015)

³ McKinsey Report: Lebanon Economic Vision (2018)

⁴ UK Design Council Report: The Design Economy: The value of design to the UK (2013)

⁵ Industrial Information Department (2017), Lebanese Customs Administration (2017)

⁶ Although several roads to Syria have been reopened in early 2019, traffic volume is still reliant on the sporadic cycles of peace and violence. On another note, the McKinsey Report: Lebanon Economic Vision (2018) speculates that design-related business should constitute 6% of total jobs generated in Lebanon in the course of reconstruction in Syria.

see the light because of their day-jobs. This condition forces many young design businesses to grow organically and avoid the risks involved in other funding options.

Despite major advances in the overall knowledge and creative economy ecosystem in Lebanon following the issuance of *Circular 331* in 2014 the establishment of several fab-labs and co-working spaces and the enhancement of supportive infrastructure by many successful accelerator and incubator programs, the Lebanese design industry's share of this success is extremely limited. Furthermore, the average mortality rate* of incubated startups in Lebanon still lingers at about 30% (compared to a Europe/US average of 8-13%)⁷ with almost none reaching maturity and exiting stages, adding further hurdles to an already-precarious design industry.

The Lebanese economy is characterized by a labor force that is largely unregistered, non-uniformly distributed across different provinces (65% of all industrial licenses in Lebanon are located in Mount Lebanon, with only 0.5% in Akkar) with lower than average female participation (24% in Beirut, 15% in Akkar)⁸ combined with a higher percentage of female graduates in design-majors (avg. 67% of students graduating from design majors in Lebanon are women).⁹ While this makes tracking and assessing trends across the country more difficult, it also reveals the overall characteristics of the Lebanese design economy.

Design and Women Entrepreneurship

While design majors attract a majority of female students, other indicators show that the number of female graduates in various design-related programs in Lebanon is disproportionate with rates of women employment and even more so with women entrepreneurship.

According to a 2017 study commissioned by the European Union Delegation to Lebanon¹⁰, female early stage entrepreneurship level in 2016 was estimated at 16% of the population, lower than male entrepreneurship (26% of the population). The report also notes that only 5% of firms are principally owned by women. Meanwhile, an IFC report in 2012 points out that women have less opportunities to access finance with only 3% of bank loans going to female entrepreneurs.¹¹

While in design-related businesses, women are more likely to have a larger percentage of firm ownership, the figures remain highly disproportionate. Based on the survey conducted for this study, women ownership of design firms is 10% less than that of men. Meanwhile, among the respondents to the survey women consist a great majority of

* the rate at which incubated startups fail to meet their growth mandates

⁷O₂ report : The Rise of the UK Accelerator and Incubator Ecosystem (2014)

⁸ International Labor Organization (2015)

⁹ several universities admission pages (2018)

¹⁰ "Gender Analysis in Lebanon" Situation Analysis Report, European Union Delegation to Lebanon, 15 November 2017.

¹¹ "Increasing Access to Finance for Women Entrepreneurs in Lebanon", IFC, 2012

those who work as freelancers, and design enterprises employ considerably more women than men (up to 80% in total) with the exception industrial firms, namely factories, whose workforce consists of 100% men.

Foreign Labor

For many years, high-end design businesses in Lebanon depended on Syrian craftsmanship and often worked in close collaboration with wood workshops or textile factories in Damascus and Aleppo. Following 2011, however, Syrian workshops and factories were deeply affected along with their Lebanese commissioners due to road blockades and increasing security concerns. One established designer who was interviewed for this study noted that she invited to relocate to Lebanon Syrian craftsmen whom she had previously worked with in Syria.

Three years after the beginning of the Syrian refugee influx, the Ministry of Labor issued a decree reserving specific occupations for Lebanese nationals. These include metalwork, dressmaking, woodwork and interior design and all fields of engineering. Such regulation places great strain on the ability of foreign designers to obtain formal work in Lebanon. One startup founder expressed his frustration that it was much easier to hire a Syrian construction worker than a Syrian mechatronic engineer. As a result, more foreign talent is directed towards informal labour which strips them of basic security, let alone entrepreneurial potential.

Informal labor as a percentage of Lebanon's GDP is estimated at 36.4%.¹² Foreign labor contributes highly to this percentage, especially knowing that in 2015 out of an estimated 1.5 million Syrians seeking refuge in Lebanon only 1000 work permits have been issued by the ministry of labor.¹³

¹² "Gender equality and women's empowerment in Lebanon", K4D report, William Robert Avis, University of Birmingham 16 August 2017.

¹³ "رغم القوانين الجديدة... العمالة السورية في لبنان لا تزال "غير شرعية", Reine Boumoussa, Annahar, 1 May 2015.

III STAKEHOLDER ANALYSIS

Design economy is the outcome of complex intersections between large groups of stakeholders, each representing specific needs and concerns. Based on extensive discussions with the focus group and field research stakeholders in the specific context of Lebanon, this study identifies 3 groups: Designers, Funding Institutions, and Government.

Designers

In the context of this study, designers are those whose profession involves planning and producing services and products prior to them being readily available on the market. This is however limited to product, furniture, interior, visual, landscape designers. These can be further divided into 3 groups according to their respective relationships to the supply-chains enabling their businesses: Solo, Asset-intensive, and Logistics-intensive Enterprises.

Funding Institutions

While there is no specific funding programs for design enterprises per se in Lebanon, there are multiple funding options ranging from subsidized loan programs to equity investment for funding traditional crafts, innovation (usually in the context of digital tech), agriculture, renewable energy among others. This study generally identifies the following 5 modes of funding: Loans, Grants, Equity Investments, Institutional Funding, and Alternative Funding.

Government

The above-mentioned stakeholders operate and interact from within a regulatory framework that is largely shaped by the government, despite the Lebanese economy being characterized by private initiative. Several aspects about the regulatory framework in Lebanon can be described as disorganized, outdated, and unsuitable for design businesses.

IV DESIGNERS

Based on the particularities of their respective supply-chains, this study divides design enterprises into 3 groups: Solo, Asset-Intensive, and Logistics-Intensive, noting that these are not mutually exclusive divisions.

Solo Enterprise, whose work only requires a desk space and a computer (typically applies for Visual Designers, Illustrators, Animators, and Visualizers).

Challenges: funding, lack of viable of business plan

The essential hurdle stifling solo design enterprises in Lebanon is that official registration is their only gateway to fundability and growth. The high annual operation cost combined with the lack of limited liability framework under which one-person firms can operate¹⁴ tie many young design businesses to unsustainable funding options that do not require legal registration such as: crowd-funding, informal cooperatives, project-based institutional funding, and self-finance (ex. personal or family savings) with limited to no chance for scalability.

Many young designers find little or no incentive in registering in a largely informal economy where they have to pay surcharges every time they invoice their unregistered contractors and third-party suppliers, adding financial and managerial overheads to their work stack (7.5% of invoice's value). As a result, most designers operating solo choose to work as freelancers. The lack of regulations protecting freelancers, expose solo designers to various difficulties when negotiating fees and chasing overdue invoices. According to the survey conducted for this study, a majority of freelance designers are specialized in graphic design, illustration and interior design, with only 35% capable of sustaining themselves from freelance gigs.

Other solo designers might have other jobs parallel to their individual projects. These jobs range from teaching to working in a larger design-related firm. A majority of these jobs however does not provide official contract – even when the employer is a registered company. In the cases where they were being provided with a contract, no insurance or indemnity was included. This leaves designers in a precarious situation impeding their entrepreneurial potential.

For most solo designers, scaling is often tied to a sustainable flow of commissions, while conversely such sustainable flow of commissions can only be granted to scalable enterprises, which hangs in both cases on more funds. While appealing to art and culture funding might ease the tie

¹⁴ While Lebanese laws and regulation acknowledge sole proprietorship (Individual Establishment) the legal and financial liabilities associated with it are unlimited, i.e. business owner is personally responsible for its debts.

for some, grant making policies often sets design apart from art and culture.

Asset-intensive Enterprise, whose work is heavily reliant on sourcing a specific asset: material, tool, and/or techniques (typically applies for Furniture, Gadget, and Industrial Designers).

Challenges: funding, market accessibility, logistics, accessibility to material ingredients and capacity building.

For many young designers, running an asset-based enterprise represents an economic and operational challenge they either completely avoid, or partly outsource. With the exception of enterprises that self-identify as digital fabrication or workshop practice, very few designers in Lebanon own their workshops. Huge upfront costs of prototyping per product and the continuous running cost of procuring, running, and maintaining assets tempt many asset-intensive design enterprises to limit their scope to design and sales.

Asset-based design enterprises naturally entail more complications with their further dependency on failing and expensive utilities (ex. large design workshops often prefer to go off-grid, and produce their own electricity using private generators). Also they may easily incur larger asset tax (annual 10% usually levied on the machines). Very often designers have to personally solve custom clearance problems upon importing technologically advanced tools (one member of the focus group explained the hassle of disguising a 7-axes robotic arm as a "knitting machine," so that he could fit it into one of the categories available in the custom-clearance paperwork). In addition, innovative material research is challenged by the obstacles to import due to limited availability of suppliers and limited demand which raises prices of source material dramatically.

Asset-intensive enterprises in Lebanon often involve larger capital investments and slower production cycle, and this is precisely why investors tend to steer away from them. More than half of the asset-intensive enterprises who responded to the survey, cited funding as one of their main concerning challenges while the rest remain self-financed. Similarly, accessing regional and international markets becomes imperative for their feasibility. This, however comes with marketing budgets, additional logistics, and possible managerial workload of an e-commerce platform.

Furthermore, several members of the focus group expressed their concern over lack of good training and business mentorship opportunities, noting that disseminating best practices among young designers usually comes with problems pertaining to over-priced or abroad training programs. Notable example in this respect is *Roady Tuner*, a design startup that makes guitar tuners, which was not possible without an extended period of training in a Chinese incubator specializing in hardware design.

Meanwhile, several initiatives for training craftsmen in Lebanon are supported by international funds and often come with facilities on importing machinery. Outsourcing fabrication to third party suppliers (craftsmen, workshops, etc.) poses specific challenges on asset-based design enterprises. In several cases, suppliers' expertise, access to advanced technology and materials impedes cost-effective production. During the focus group interviews, one recurrent alternative was to outsource manufacturing to other countries, such as Vietnam and Portugal, where production conditions are more advantageous.

Logistics-intensive Enterprise, whose work is heavily reliant on packaging, shipping, warehousing, and retail distribution (typically applies for Consumer-Product, Apparel, Jewelry Designers). Challenges: transport and handling.

Lebanon has no land connection for its 61% of its exports that goes to Arab neighbors. Apart from high production costs, logistics-intensive design enterprises in Lebanon have to deal with expensive shipping fares exposing many design enterprises to abortive costs. Following the blockade of Damascus road in 2014, furniture exports went down from \$89 Mln 2014 to \$69 Mln in 2017. Similarly significant decreases from \$83 Mln to \$67 Mln can be noted over the same period in the apparel exports.

Exporting goods and services mandates trademark registration, apart from a limited liability company registration (SARL), adding more legal and financial consultancy costs on young design businesses wishing to grow regionally. Exporting also requires storage facilities within the customs zone (Beirut port), which incurs additional burdens including rental facilities and recruitment of personnel to handle packaging and shipment. Although some may resort to selling online, establishing an e-commerce platform under the Lebanese regulations requires an SARL registration, which restricts logistics-intensive design enterprises whose sales volume is rather small to informal sales on social media.

Internal transport costs from factory to warehouse and from there to selling point, tend to grow drastically for businesses located outside Beirut and Mount Lebanon areas. While operation costs and overheads may prove to be less for those businesses or suppliers located in the South, North or Bekaa, transportation expenses may increase by as much as 100%. Given this fact, logistics-intensive enterprises are forced to make a choice between cutting either production or transportation costs. Top-tier design enterprises, furniture retailers or even jewelry enterprises are likely to be able to afford increased costs of transportation and handling compared to enterprises with mass and light-weight products that are usually priced at a lower mark, such as apparel for example. In the latter case, additional costs may amount to more than 100% of the original selling price per piece, and hence compromising its competitiveness.

The survey conducted for this study shows that a considerable portion of design enterprises in Lebanon are small. Accordingly, many respondents run their enterprises with as few as 1-2 employees. Meanwhile very few respondents identified their total capital investment above the mark of \$100K. A majority of these >\$100K respondents are self-funded, either through personal or family funds, and/or benefitting from inherited family-run industrial facility.

While this might do for a few affluent designers, the majority of respondents in the survey had to make ends meet with personal funds too small to scale, recruit staff, or build a company profile. Designer falling in this category admittedly turn to their personal savings/day-job salary/freelancing gigs in order to avoid the greater risks associated by other funding options, mainly bank loans, or because they perceive their businesses as incompatible with other possible funding options. Apart from self-funding, this study identifies 5 funding models:

1) *Loan*

Almost all SME loans in Lebanon are associated with *Kafalat*, a Lebanese financial company whose mission is to guarantee loans provided by Lebanese banks to SMEs. While Kafalat doesn't have a specific program for design enterprises, it has programs for industry, agriculture, tourism, traditional crafts, and hi-tech loans with subsidized interest rate (up to \$200,000 + 7 year-long installment plan + annual avg. interest 3.5% + 6-12 months grace period + guarantee ratio up to 75%).

Given their small size, most design businesses in Lebanon are automatically eligible for Kafalat-guaranteed loans. However, these loans are the least attractive funding option for designers, especially those who do not own real assets. Upon closer inspection, Kafalat's guarantee is in fact a variant of collateral. This means that insolvency risk must always be secured against real assets on the side of the borrower. Several interviewed designers perceived risks associated with these loans as personal, rather than business, risks. Furthermore, interest rate subsidy is in many cases compromised by intermediary and consultancy fees. According to survey results, design businesses below \$100K in capital and in kick-start phase are least likely to consider an SME loan, while those owning real assets, such as a factory, are slightly more likely to consider them as a viable funding option.

2) *Equity Investment*

In 2013, Banque du Liban (BDL) issued *circular 331*, an initiative to encourage banks to invest in startups. Since then, the circular 331, has become the legal ground from which startups, incubators, accelerators, venture capital funds, and all startup paraphernalia operate in Lebanon. Under circular 331 the BDL grants an interest-free period of 7 years over facilities given to venture capital funds in return for their equity

investment, managerial and logistical support and training they pour into the Lebanese creative economy.

Equity investments in the creative economy totals a 0.12% of Lebanon's GDP, with annual average hovering little above \$150 Mln¹⁵ out of a potential investment pool of \$800 Mln.¹⁶ However, senior officials in venture capital funds, such as Berytech Fund II, admitted that for investments in design startups to be approved by BDL, there must be an e-commerce component included in their scope that requires 50% of the requested funds. This strains most design startups whose work either does not require an e-commerce platform or has not yet reached the momentum to go online. Souhail Khoury, Investment Associate, Berytech Fund II, said: “the term 'knowledge economy' [under the circular 331 guidelines], included 6 categories: information technology, digital media, industrial design and hardware, fashion & design and renewable energies and life sciences... while we are obliged to request preliminary approval from BDL on investments in these categories, investments in design startups, such as fashion, doesn't get approved”¹⁷

Additionally, 331-affiliated venture capital funds prefer low-risk/high-yield investments, meaning they mostly opt for startups with minimum initial risk combined with a maximum return on investment and maximum potential to scale¹⁸. In contrast to design, digital tech startups are more lucrative attraction for hot capital: they require less upfront costs for rent, utilities, material prototyping, testing, logistics, while they have better edge at scaling and competing globally. This explains why out of 175 startups on the investment charts of 7 major venture capital funds active in Lebanon and the region, only 3 self-identified as design enterprises.

While most of the startup ecosystem in Lebanon owes its existence to circular 331, it is also stifled by it. For example, the circular puts certain limits on expenditures outside of Lebanon, and as a result curbing the potential for international marketing and sales. In practice, the circular pays little attention to the asymmetry between the amount of capital investment and the total number of startups in the market, leading to inflated valuation in several cases. Most noteworthy of these is *Keeward*, an educational startup which notoriously defaulted after receiving \$32 Mln. in equity. Similarly, it might not be surprising to learn that almost

¹⁵ McKinsey Report: Lebanon Economic Vision (2018)

¹⁶ *Financing startups: the shortcomings of Circular 331*, Justine Babin, Commerce du Levant, and 18 December 2018. Retrieved 10 January 2019. Online link: https://www.lecommercelevant.com/article/28739-financing-startups-the-shortcomings-of-circular-331?fbclid=IwAR0rHyl1OalBXK61_SbpU0YKoyMLTPCJCFJvLsLRGH6GT-4q9z4j8YxrJ48

¹⁷ It's important to note that these categories follow directives of the BDL Central Council and are not necessarily mandated by the circular itself.

¹⁸ *The journey of Lebanese makers: Joining Industry 4.0 against all odds*, Sara Assi, Life Executive Magazine, 25 August 2018.

20% of startups receiving investments from Lebanon's largest venture capital fund are no longer active.¹⁹

While this renders venture capital funds inaccessible to a majority of design startups, there is a notable trend of equity investment in social enterprises with a design component. Common business models of funded social enterprises include:

- The Innovation Model: directly addressing a social need through innovative products (ex: Ceasar Cider)
- The Employment Model: employing disenfranchised and marginalized groups (ex: Civvies)
- The Give-back Model: incentivizing purchase by serving the common good. (ex: Fabricaid, Sarah's Bag)

It must be noted that equity investment in Lebanon is supported by parallel infrastructure of incubators and accelerators, usually offering a combined program of mentoring, training, product development, technical support and networking. In some cases incubators/accelerators have their own equity investment funds. Notable players include:

- *UK Lebanon Hub*
Offers a 3-month incubation period + investment tickets up to \$50,000 (\$20,000 in cash, and \$30,000 in kind)
- *Speed Lebanon*
Offers 3-month incubation period + investment tickets up to \$30,000 in return for 10% equity in the business.
- *Flat6Labs*
Offers 4-months incubation period + office space, legal support, and networking (totaling \$300,000 in kind) + \$15,000 in seed-funding in return for variable percentages of equity.
- *Berytech Fund I & II*
Offers office space, facilities, mentoring, networking + early-stage incubation (Fund I) and equity investment in profit-making startups (Fund II)

One of the highlights of the 2018 McKinsey report, which was commissioned by the Lebanese government, concerning design, is a recommendation to initiate a series of business parks and creativity hubs that would mostly function as incubators for young businesses.

However, a concise evaluation of these incubators as a real estate model vs. their actual economic impact is still a work that needs to be done.

¹⁹ Based on extensive survey, we followed the startups supported by the mentioned fund (a total of 127) and found out that 25 at least don't exist anymore. In some cases web domains of these startups were sold, their phones were not responding, and their social media accounts were dead.

3) Institutional Funding

Most institutional funding in Lebanon is administered by international organizations such as UN-affiliated organizations, international networks and development funds. The main programs through which institutional is channeled focus on training, in-kind support such as providing subsidized machinery and hardware, in addition to mentoring.

Designers who receive funds from international; local, or governmental sources, often have to substantiate their practice as one of social impact, materialized in solving problems in precarious situations. This largely limits the scope to low-tech (although not always), on-ground design practices that foster explicit social mission as an essential part of their work. Since most institutional funding is restricted in scope and size to project-based limitations, its impact is often difficult to generalize and expand outside of each respective project. While they might be useful to network, build alliances and visibility, they might not be as viable for sustainable growth.

4) Grants

While grants are usually one-off funds, on more than one occasion these funds were the kick-starter for design businesses, either through cash/in-kind prizes, press coverage, and/or training period abroad.

Kafalat iSME Grant, a \$30 Mln sub-initiative under Kafalat run by the Government of Lebanon through a loan from the World Bank, was instrumental in launching several design enterprise such as Moodfit, Makerbrane, and Ghassan Salameh Studio. However, the Kafalat iSME grant was discontinued in 2016.

Other grants available for entrepreneurs in Lebanon include: MIT Enterprise Forum Pan Arab Startup Competition (total of \$160,000, without equity), Bader Young Entrepreneurs Program (up to \$1.15 million in equity), The INJAZ Lebanon Company program, Startup Campus and University Competitions (with the help of UK Lebanon Tech Hub and AltCity).

5) Alternative Financing Models

- **Collectives**

The majority of design businesses in Lebanon face difficulties in accessing the various available funding options. One of the reasons noted for this is the lack of proper knowledge of what is available on the market. Yet this lack of knowledge is surpassed by the structural challenges associated with the existing funding models as detailed above.

In order to circumvent those challenges, some designers choose to join in design collectives or co-operatives. These can range from informal exchange of favors to formal initiatives of pooling resources together to provide for studio space sublet, workshops with communal access to machinery (ex: The Factory), periodical events for shared visibility (ex: Afkart Designers' Christmas Fair).

- **Crowd-funding**

A recent trend of crowd-funded design enterprises in Lebanon raises hopes and questions regarding the possibility of launching business by appealing to the wider community instead of banks or investors. In one particular case, a crowd-funding campaign for a fashion startup secured a total of \$30K sufficient to kick-start the business, with crowd-funding doubling as a funding and a marketing model. On the other hand, Zoomaal, a crowd-funding platform initiated by four Arab investors from Lebanon, UAE and Egypt, operating at 5% fee of each successful campaign, capitalizes on such successes.

It must be noted however, that while in some cases crowd-funding can cover one-off operations of prototyping, production, or marketing, it proves less sustainable for scaling, recruitment, or even registration of the company.

VI REGULATORY FRAMEWORK

The regulatory framework in Lebanon is characterized by a major structural oddity: taxation laws in Lebanon do not distinguish between large established companies and young startups in terms of VAT, income tax, social security regulations, import tariffs, etc. Once registered, young businesses earning more than annual \$20K will have to grapple with their book-keeping to manage 21% of their total annual income, asset tax 10% on fixed assets value, municipal tax 8, 5% of annual rent value, 7% of each employee's annual salary as social security contribution, 8, 5% of each employee's annual salary for end of service indemnity among other expenses and liabilities.

Several incentives encouraging industrial investment have been being developed ever since the famous law no. 27 of 1980 granting young and creative industrial businesses a tax-holiday for 10 years. However, the development and deployment of these incentives misses the set objectives in many cases. For example, the aforementioned exemption is only valid if the total taxes accrued after 10 years were less than the total amount of initial value of fixed assets. This practically excludes many small enterprises whose fixed capital is oftentimes less than their taxes in 10 years.

On the side of custom clearance, while custom duties on importing machines (5% of buying price) is relatively competitive, private clearing agents must be hired to follow the lengthy and slow procedure, their fees, calculated in extra percentage, are normally paid by the designer. Apart from slowness, overlapping jurisdictions between customs, airport security, and technical committee affiliated with the Lebanese Armed Forces is a source for further complications.

VII DESIGN FUNDING METRIC

The design-funding metric (DFM) is a simple and abstract analytical tool that is designed to help both businesses and institutions qualify different funding models in terms of their compatibility with the Lebanese market. The DFM is based on multiple choice evaluation criteria that ranks different funds on a grading scale ranging from 0 to 4. These criteria are as follows:

Fund Size

How big is the fund? The bigger the fund the more lucrative it is for designers, and the riskier it is for the funder.

- 0) 5,000 or less (the size of an entrepreneurship grant)
- 1) 20,000
- 2) 40,000
- 3) 100,000
- 4) 200,000 or more (the max. size of an SME loan)

Fund Constraints

What is the type of constraints that come with the fund? Less constraints means less complexity for designers, however it also entails more risk for the funder.

- 0) more than one
- 1) Collaterals, real assets, or any other loan guarantees
- 2) The funder acquires shares in the startup
- 3) The funder sets a list of eligibility prerequisites
- 4) The funder mandates meeting certain KPIs

Fund Type

What is the type of support this fund gives? Cash funding is the biggest quest for designers. However, funders prefer to keep tabs on their money using in-kind funding: training, legal support, networking, and office space.

- 0) in-kind *as* financial support
- 1) In-kind support only
- 2) Financial support only
- 3) In-kind support + financial support in installments
- 4) In-kind support + financial support in lump

Fund Focus

What does this fund focus on? Different funds have different objectives. For designer, a daring fund that takes the risk of kick-starting new businesses gets the highest grade.

- 0) limited to project-based interventions
- 1) Business growth
- 2) Asset procurement
- 3) kick-starting new businesses
- 4) more than one focus (except project-based interventions)

Registration

Is this fund limited to registered design enterprises? Given the overall informal character of Lebanon's economy, funds that are less strict about registration have a larger pool of designers to choose from.

- 0) business with track-record
- 1) New SAL
- 2) New SARL
- 3) New Individual Establishment
- 4) Unregistered

Fund Sensitivity

Is this fund responsive to a specific contextual situation in Lebanon?

Outreach for under-represented, marginalized or disenfranchised groups always takes an extra grade.

- 0) Beirut-centric fund
- 1) Incentivizes working in provinces
- 2) Involves groups underrepresented in the design scene
- 3) Involves female designers
- 4) Involves more than one aspect of these

If the fund scores:

Above 12: This fund is generally more leaning towards the designer than the security of the fund.

Below 12: This fund is generally more leaning towards the funder than supporting the designer.