

Activity Completion Report – January 2018
Matching Grant Facility to Promote Business Development Service Providers
in Lebanon

*A program financed by the Lebanon Micro, Small, and Medium-Sized Enterprise
Technical Assistance Facility*



Photo: Startup Skills Weekend, Tripoli Entrepreneurs Club

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This work is a product of the staff of The World Bank with external contributions. The findings, interpretations, and conclusions expressed in this work do not necessarily reflect the views of The World Bank, its Board of Executive Directors, or the governments they represent.

Executive Summary

In January 2016, the Lebanese Ministry of Economy and Trade (MoET), Kafalat¹, and the World Bank Group (WBG) launched a matching grant facility to improve the capacity of business development service (BDS) providers to prepare start-up firms to access early stage equity financing. Matching grant funding assisted in launching new programs and products to extend equity support services for a variety of entrepreneurs, from idea to growth phase. The program was in line with broader public policy seeking to advance entrepreneurship in Lebanon as a way to drive both job creation and economic growth. BDS providers were given three months to prepare proposals and were evaluated on criteria including relevance (explicit linkage between activities supported and access to equity finance), scale-up, collaboration with ecosystem partners, timeliness, and financial leverage. The matching grant program was linked to a larger technical assistance facility aimed at improving the enabling environment for entrepreneurship and early stage equity finance in Lebanon between January 2015 and December 2017.

Eighteen institutions were identified by Kafalat as meeting the eligibility criteria as well as a number of research institutions. BDS provider eligibility will include evidence of legal registration, acceptable governance arrangements, and at least one year's operational history. Eight applications were received for a total asking volume of \$429,350. Six applications were accepted and a total of \$287,350 was rewarded for disbursement on May 16, 2016.

Supported programs can be synthesized across three categories: a) expanding the ambition and scope of existing entrepreneurship support programs, particularly for women and youth, and b) improving data and technology platforms; and c) expanding new channels of investment for entrepreneurs. The program supported Berytech to expand a female business plan and incubation competition (*femmes francophone entrepreneur*), introduced new digital training and monitoring platforms to the ecosystem (GrowthWheel, Pitchworthy), supported the setup of Seeders, an angel investment fund and mentoring program, supported youth entrepreneurship in Tripoli through expanding programs of the Tripoli Entrepreneurs Club (TEC), and piloted startup weekends for youth using human centered design and closely linked to private sector mentorship alongside the Banque du Liban's (BdL) circular 331 initiative.

As of December 30, 2017, \$274,850 (96%) of the total awarded grant amount had been disbursed and used for programmed activities. **Out of the six applications, five were considered to have satisfactorily achieved stated results framework. The matching grant facilitated over 650 participants in various trainings and workshops with 270 MSMEs receiving capacity building services.**² The program directly supported over 150 youth from all regions of Lebanon, offering them coaching and mentorship support for entrepreneurship and employability skills. 30 of these young beneficiaries completed internships with small businesses in Beirut and Tripoli. One corporate accelerator established as a result of innovation weekend engagement. Mazda Lebanon accepted its first cycle of 12 students in late 2016. All innovation weekend winning teams were granted a spot in their 9-week program.

There were explicit linkages to mobilizing early stage equity finance for young companies. As of December 2017 Seeders (angel investor network) raised \$390,000 in angel financing leveraging \$1.5 million in co-financing from venture capital investors. The network had 250 participants at its launch event, 26 participating angels, 13 pitches, and 20 mentors recruited internally to support angel investors. Seeders has recently launched a women's angel investor network (Lebanon Women's Angel Fund) and has launched its second batch of angel investors.

¹ Lebanon's National Credit Guarantee Agency

² 220 of these firms are considered seed stage; 50 firms considered formalized firms supported by project financed intermediary service providers.

The matching grant program helped reinforce financing and advisory support provided by the WBG and other donors to Lebanese authorities. New MSME support entities and programs have been created as a result of the matching grant program (e.g. SEEDERS angel investor network) and stand to benefit from partnership and funding from the related WBG iSME project. The matching grants helped create additional deal flow of potential start-ups that can be considered by iSME. The facility has also provided operational experience to inform policy dialogue with authorities. The facility completed the ongoing circular 331 initiative by the BdL in that it supports deal flow through working directly with accelerators, incubators, and BDS providers.

Key success factors in the scheme include credible, responsive, and trusted implementing partners (Kafalat and MoET) able to effectively supervise the scheme and troubleshoot where necessary. Similarly, grant recipients leveraged expertise and financial resources through partnerships with public, private, local and international organizations, particularly with respect to maximizing the number of beneficiaries reached through training programs and using multiple platforms for marketing/outreach. Applications were selected according to the selection criteria. Together the portfolio of projects address different lacunas in the entrepreneurship ecosystem in Lebanon, most notably related to deepening the quality and ambition of non-financial support programs. The matching grant provided a vehicle for various BDS providers to work on joint programming and data platforms. Two projects had the objective of introducing training infrastructure platforms across a variety of ecosystem players.

The grant facility design explicitly encouraged informed risk-taking in technical design of proposals. Shifting strategies and reallocating resources was encouraged in response to changing market conditions, provided the shift was in line with the original intended objectives. For example, as take up of the GrowthWheel information platform was lower than expected, Berytech expanded the number of incubators participating in the program and emphasized attracting smaller support organizations and consultancies (Nawaya, Visionaris, etc.).

With regards to points of improvement, further funding cycles of the matching grant should consider more specialized tracks, including more distinct funding windows for various regional and sectoral strategies. While the relatively generic criteria allowed for a wide spectrum of grant recipients, more tailored criteria may prove useful in addressing particular technological gaps preventing startups in particular areas of Lebanon's economy. With regards to M&E, while headline and intermediate indicators were tracked and aggregated accordingly, WBG and Kafalat could have provided more tailored technical support in refining results frameworks. A workshop at the outset of program launched to work with recipients on the results framework could have improved overall results monitoring systems. Linked, more rigorous evaluation methods could have been considered including designing impact evaluation in the outset of the grant programs.

While the facility benefitted from Kafalat's extensive knowledge of the early stage equity ecosystem as well as an industry launch event, more could have been done to ensure applications and interest from smaller organizations outside of Mt. Lebanon area. Future funding cycles should consider employing an outreach officer responsible for coordinating maximum geographic and sectoral participation.

The program could have benefitted from explicit linkages with financing sources to ideally combine training/incubation with next stage funding opportunities. Data was not kept by implementing agencies at the program-wide level on training received versus funding mobilized or further acceptance into various incubator and accelerator programs. Given data scarcity in Lebanon program design could have considered a funding window focused on data management and performance for startups. While the data platforms invested using facility resources (GrowthWheel, Pitchworthy) were a strong step in the right direction, future iterations of the grant cycle should consider a sub-window dedicated to addressing data gaps. Linkages between data from support institutions and national entities should be encouraged.

Accepted projects were asked to put in place a plans addressing sustainability and scalability from the outset. Regardless, it is unclear whether all initiatives are sustainable defined as continued program continuity. Project design cognizant of issues of sustainability throughout is an important consideration moving forward.

Based on the performance and results of the first round of financing under the grant facility, WBG in conjunction with MoET and Kafalat, is currently examining fundraising options for future iterations of the grant program, taking above recommendations into account. A future cycle of the matching grant program should consider the recommendations synthesized above and highlighted in greater detail in section VI of this report. WBG, in coordination with Lebanese authorities, are examining the possibility of expanding this matching grant program under an upcoming lending operation focused on job creation currently under preparation.

I. Introduction and Report Objective

1. **The objective of this report is to provide an assessment of outcomes achieved and lessons learned from a matching grant aimed at promoting early stage innovation financing in Lebanon through supporting business development service (BDS) providers.** The matching grant is a core activity under the Lebanon Micro, Small, and Medium-Sized Enterprise (MSME) Facility. This facility sought to build the capacity of MSMEs seeking to access the growing supply of equity financing in Lebanon.³ It also sought to support MSME finance through supporting policy, legal, and regulatory reforms. This report present the matching grant program in the context of Lebanon’s current economic challenges. It also provides a snapshot of key results and lessons learned under the matching grant program and identifies areas of future potential engagement for the World Bank Group (WBG) and related donors.⁴

II. Country Context

2. **Unemployment and sustained economic growth remain major policy issues in Lebanon, particularly given recent instability due to the conflict in Syria.** GDP growth over the past decades in Lebanon has been moderate (~4.4% GDP growth 1992-2014) however uneven due to large, frequent, and often political shocks. Real GDP growth is projected at 2.5% in 2017, an increased from 1.8 percent in 2016. Unemployment prior to the Syria crisis was estimated at 11%, however is much higher amongst women (18%) and youth (34%). It has been exacerbated by the influx of Syrian refugees and associated competition in the labor market (both formal and informal), particularly amongst Lebanese youth. Extreme poverty has hovered between 7.5 and 10 percent since the end of the civil war. While the national poverty rate sits at 27%, it is much higher in the Bekaa (38%), North Lebanon (36%), and South Lebanon (31%) where labor force participation is low (below 40%).⁵

III. Sectoral Context

3. **MSMEs are of strategic importance to economic and employment outcomes in Lebanon.** According to estimates from the Ministry of Economy and Trade (MoET) and cross referenced by the

³ The Lebanon MSME TA facility became operational in January 2015 and closed on December 30, 2017.

⁴ Data in this report was collected through stakeholder consultations during multiple World Bank Group supervision missions as well as interim results monitoring reports completed by grant recipients. Please contact the World Bank Group for primary data.

⁵ Data in this paragraph draws from World Bank 2016, Lebanon Country Partnership Framework FY17-22. <http://documents.worldbank.org/curated/en/111451467996685776/pdf/94768-CAS-P151022-R2016-0126-OUO-9-Box396270B.pdf>

World Bank⁶ MSMEs represent more than 90% of registered firms and employ more than 50% of the population. Weak firm entry and productivity growth, and a weak investment climate⁷ constrain enterprise growth and job creation in Lebanon. Businesses identify political instability, the investment climate, electricity, and corruption as the chief obstacles to their operations and growth. While the Lebanese financial sector is large (with assets close to four times GDP) only one-fifth of total private sector credit is channeled to SMEs. Younger and productive firms are important for job creation. They have one of the highest elasticities of job creation to productivity in the MENA region.⁸

4. **Entrepreneurship is an important element of recent economic development strategy in Lebanon.** Examples include the 2010 effort by the Office of the Presidency of the Council of Ministers to improve the business environment in Lebanon, the 2014 SME strategy developed by the Ministry of Economy and Trade (MEOT), and various incentive and support programs to promote SME lending by the Banque du Liban (BdL). This includes subsidizing interest payments of SME borrowers, extending guarantees to SMEs through Kafalat, and granting exemptions on compulsory reserves of creditors.⁹ Today BdL programs are in place to, inter alia, stimulate credit growth for environment/energy efficiency projects, tourism, and housing. In other parts of the Government reform initiatives are ongoing with relation to insolvency/bankruptcy, dispute resolution, secured lending, SME data management, microfinance, and e-signature protocols. According to the BdL, SMEs shares of total bank loans reached 35% in November 2016. Collateral requirements remain high (166 percent of loan value on average) and cumbersome.¹⁰
5. **Lebanon stands out for the number of public or quasi-public programs available to facilitate early stage innovation financing for young firms.** The BdL's circular 331 initiatives provides a mechanism by which commercial banks are provided with an incentive to provide equity to start-up/early stage SMEs. A seven-year initiative, Circular 331 allows for 3% of the commercial banking capital base to be deployed as equity either directly to an SME or via an apex/intermediary, set up as an investment fund. The BdL guarantees 75% of banks' investment in VC or start-ups and up to 100% of investments in accelerators and related training centers. It is estimated that more than 75 investments were financed during the past three years through 331 funds. Other programs include the \$30 million iSME fund established by the Ministry of Finance with support of the World Bank. Related, IM capital is a \$15 million grant from USAID for the establishment of an early stage co-investment fund. Together with non-331 funds including the iSME program the market has an estimated US \$350M-US\$400M of liquidity available for investments in SMEs.
6. **A vibrant supporting ecosystem of accelerators, incubators, and training and support institutions has emerged in Lebanon over the past ten years.** Their primary focus is to promote entrepreneurship and build the capacity of entrepreneurs throughout Lebanon to expand business from idea-stage to commercialization, as well as improve the capacity to access equity in the market. These includes large

⁶ Data draws from World Bank - 2017 Lebanon Financial Sector Assessment Program

<http://www.imf.org/en/Publications/CR/Issues/2017/01/24/Lebanon-Financial-System-Stability-Assessment-44574>

⁷ This composite category termed "investment climate" comprises tax rates and administration, customs and trade regulation, labor regulations, licenses and permits, access to land, and courts and informal practices

⁸ A one percent increase in firm productivity generates an increase in job creation of 3.9 percent. For full analysis see World Bank – 2016 Lebanon Systematic Country Diagnostic. For a review of the literature on young firm growth and employment and productivity, see 2014 World Bank Group, Demircuc-Kunt et al, "Who Creates Jobs in Developing Countries"

⁹ An example of one of the region's most successful credit guarantee program is Kafalat, a government (and donor) subsidized loan guarantee scheme aiming at improving access to finance amongst SMEs. According to the most recent Investment Climate Assessment (ICA) for Lebanon, Kafalat reached a significantly high percentage of surveyed firms (38 percent). The majority of ICA firms with a Kafalat guarantee were still required to have substantial collateral. This is an important challenge and obstacle for small and start-up firms. The main benefit of a Kafalat guarantee for all ICA firms was the longer maturity of lending. Small firms, in addition, paid lower interest rates, thus reducing their cost of financing (World Bank, 2012g).

¹⁰ See 2012 World Bank Lebanon Investment Climate Assessment.

acceleration programs such as SPEED@BDD, UK Lebanon Tech Hub, Smart ESA, and Agrytech which help to build a pipeline of robust early stage companies. Certain accelerators provide capital injections in accelerated companies in exchange for equity positions. A number of universities (American University of Beirut, Université St. Joseph) and NGOs provide training and mentorship services and contribute to the support eco-system. Regional incubators include the EU-financed Berytech in Beirut and BIAT in Tripoli Regional chambers of commerce are also active in business support services in Lebanon. *See table 1 for overview of non-financial service ecosystem.*

7. **Developing adequate deal flow and exit options remains key concerns for policymakers promoting entrepreneurship in Lebanon.** An estimated US \$243 million of circular 331 funding had been committed as of March 2016, implying between US\$350-\$400M of liquidity still available on the market for investments in young firms (including non-331 funds). Five exits have taken place over the past eight years (through commercial sale, management buyout, and mergers and acquisitions). **Policymakers and investors have underscored the need to support young firms to ensure quality of startups.** Additional work is required on the monitoring and evaluation (M&E) of both financial and non-financial initiatives to capture results and efficiency of programs. There is also a need to strengthen BDS providers themselves to promote effective programs, develop successful models, build out information infrastructure, and overall promote institutional sustainability in the ecosystem. It is not clear the number of BDS providers that have sustainable business models that do not rely on grant funding from international donors or related sources.

Table 1: Overview of Non-Financial Support Services in Lebanon

	Commercially Viable Research Ideas	Start-up/Early Stage	Growth Companies	Mature Businesses
Incubation/Acceleration		<ul style="list-style-type: none"> - Berytech - BIAT - Altcity - Speed@BDD - Agrytech (by Berytech) - Flat6 labs - Nucleus (by UK Lebanon Tech Hub) 	<ul style="list-style-type: none"> - UK Lebanon Tech Hub 	
Mentorship/Network Linkages		<ul style="list-style-type: none"> - Cisco Entrepreneurship Institute - Bader - Wamda/Mowgli - Berytech - Startup Megaphone (youth) - Tripoli Entrepreneurs Club (TEC) 	<ul style="list-style-type: none"> - Endeavour (including SMEs) 	
BDS Services		<ul style="list-style-type: none"> - Al Majmoua (microfinance) - Bader - MIT Enterprise forum of the Pan Arab - Young Arab Women Entrepreneur - Berytech - AUB 	ELCIM, IRI, LIBNOR, QUALEB and active business associations providing occasionally direct BDS to their members	Existing professional accountancy/business management consultants and legal services

Grants/Prizes and Awards		<ul style="list-style-type: none"> - iSME project grants - Femme Francophone Entrepreneur - Arabnet - BDL Accelerate - BLC bank We Initiative - MIT Arab Business Plan Competition - Hyundai Start-up Competition 		
Entrepreneurial Education	<ul style="list-style-type: none"> - AUB Center or Entrepreneurship and Innovation - Lebanese American University - Beirut Arab University Center for Entrepreneurship - USEK Asher Center for Innovation and Entrepreneurship 			
Angel Networks		- Seeders		

IV. Overview - Lebanon MSME TA Facility and BDS Matching Grant

8. **The matching grant facility to promote business development service providers was financed under the World Bank-International Finance Corporation’s regional Technical Assistance Facility for Micro, Small, and Medium-Sized Enterprises (MSMEs).** The main objective of the regional Middle East and North Africa (MENA) MSME Technical Assistance Facility is to improve the business environment for MSME finance and development, build the capacity of financial institutions for sustainable financing, and support MSME business development services in targeted MENA countries. The MENA MSME TA Facility covers five priority countries (Egypt, Jordan, Lebanon, Morocco, and Tunisia) and is active until January 2018. \$600,000 was made available for facility activities in Lebanon between January 2015-December 2017.

Lebanon MSME TA Facility Summary:

9. Based on scoping and mapping exercises undertaken by the World Bank/IFC between September-December 2014, it was concluded that the MSME Facility in Lebanon would focus support on 1) improving the enabling environment for MSMEs through supporting the development of an SME Observatory and an associated public-private dialogue (PPD) for SME support; and 2) advisory to support the ecosystem of business support entities to augment services to MSMEs seeking to access to finance. Table 2 presents a comprehensive overview of activities financed under the WBG Lebanon MSME TA Facility.

Table 2: Overview of Lebanon MSME TA Facility Activities

Pillar	Activity	Output	Outcome
Pillar I- Enabling Environment	<p>SME Observatory feasibility assessment</p> <p><i>Provide independent information about the structure and development of MSMEs in a given economy as well as their contribution to key economic metrics</i></p>	<ul style="list-style-type: none"> SME feasibility study finalized end of 2015-early 2016 <p><i>The Report provides an analytical framework on the importance of an SME observatory given Lebanon's economic and sectoral context, maps data sources and access modalities, highlights international best practices (particularly from EU) and applies them to the Lebanese context, and outlines a draft implementation plan.</i></p>	<ul style="list-style-type: none"> Tool for economic policymaking (both public/private) Launched dialogue on more intricate sectoral reforms to promote job creation, competitiveness, and economic resiliency Tool for implementation of national SME strategy (finalized early 2015) Improved environment for SME expansion leading to economic growth in Lebanon.
	<p>Establishment of an associated public-private dialogue (PPD) mechanism to support SME strategy</p>	<p><i>Analytical and organizational support to authorities for implementation of Lebanon's SME strategy.</i></p>	
Pillar III- providing support and training to MSMEs	<p>High-level conference on promoting global models for early stage financing and business development support in Lebanon</p>	<ul style="list-style-type: none"> Conference organized in June 2016. <p><i>Topics to cover include pipeline development, due diligence, portfolio risk management and exit options, via both retail and apex level engagements. Dissemination event page available here.</i></p>	<ul style="list-style-type: none"> Marshall knowledge on global equity models to Lebanese context Technical information to improve programs for financial institutions, BDS providers, and public authorities Marshall support at ministerial level
	<p>\$325,000 matching grant scheme to support MSMEs seeking access to equity financing;</p>	<ul style="list-style-type: none"> Matching grant launched end of January 2016 	

Matching Grant Overview and Key Features:

10. \$325,000 in grant funding was allocated from the Lebanon MSME TA facility to finance the matching grant program. Funding was designed to (i) extend existing equity support services to wider markets of

prospective MSMEs; (ii) develop or re-tool existing products to better serve MSMEs seeking to access the current supply of equity finance in the market; and (iii) enhance the capacity of these business support providers in specific institutional areas including product innovation, monitoring and evaluation of services. The objective of the matching grant program is to improve the institutional capacity of BDS providers to prepare MSMEs to access early stage equity finance particularly for underserved areas (outside of Beirut and Mount Lebanon) and for women-led enterprises.

11. The proposal to introduce the matching grant instrument, rather than simply fully funded advisory services to the target provider market, was to reinforce sustainability in the provision of business development services in Lebanon. The requirement of a matching contribution was to ensure the risk is shared also by the provider and foster a commercial discipline to any application for funding.
12. A competitive tender was launched to select an independent institution to act as manager of the program and managed by the World Bank. The tender process failed to identify a suitable firm to implement the program. As such, it was determined, after dialogue with the Ministry of Economy and Trade (MoET) and review with internal WBG policies, that Kafalat would be responsible of implementing the matching grant program including selection of the beneficiaries, in line with policy advice received by MoET. The World Bank would be responsible for supervision and technical support of the scheme.

Table 3: Project Implementation Arrangements

Entity	Responsibilities
World Bank	Technical support, periodic supervision (technical, administrative, fiduciary)
Ministry of Economy and Trade (MoET)	Technical advisory; leading policy dialogue amongst public authorities
Kafalat	Implementing Entity – responsible for outreach, assessment of proposals, weekly supervision of implementation progress, reporting and oversight, fiduciary assessments, stakeholder management, etc.

13. Under the matching grant arrangement, the facility anticipated to provide BDS service providers with up to “50%-50%” matching grant over a 12-month period. In view of the limited funding available under this facility for this matching grant initiative, and after discussions with key providers in this market, it was agreed with the Ministry of Economy and Trade that, in order to limit the administrative overhead of managing this matching grant, there would be one call for proposals. Applications were screened on the basis of the eligibility criteria listed below. Funds were deployed on a pari-passu compensatory basis benchmarked to agreed outputs; with provision that a balance is maintained in allocations between Beirut and North and South Lebanon.
14. **Eligibility Criteria.** The basic BDS provider eligibility criteria was designed to be simple to facilitate maximum interest and were set out as follows:
 - The BDS provider must be registered and operating in Lebanon.
 - The BDS provider must at the time of application be operating for at least 1 year.
 - The BDS provider must not be operating in sectors deemed to be on the Bank’s negative list for environmental safeguards
 - The BDS provider must have submitted a fully completed application form.
15. **Selection Criteria.** The selection criteria were outlined to ensure the sub-project’s relevance, scale-up, potential for collaboration, timeliness, and financial leverage. The criteria and the weights assigned to each are explained below:

- **Relevance:** The BDS provider must show a linkage between the activities supported and the potential for the firms supported to access equity financing (e.g. developing a marketing plan to pitch to potential investors vs. support in developing a basic accounting system). The firms will be scored based on (0-2) scale where: (i) 0 is no linkage; (ii) 1 is indirect linkage; and (iii) 2 is direct linkage. This is weighted 40% - given its direct contribution to the regional MSME facility results.
- **Scale-up:** The BDS provider should include a plan for scaling up the programs to be funded given the potential for additional funding and support needed for the development of the pipeline. This is binary scoring whereby 0 is given to applications with no plan and 1 otherwise. This is weighted at 10% - as this links with the second stage of the facility.
- **Potential for Collaboration:** The BDS provider should show linkages with both finance providers and other BDS providers given the significant need to implement and scale up quickly. The firms will be scored based on (0-2) scale where: (i) 0 is no partnerships; (ii) 1 is partnership with financial intermediary; and (iii) 2 is partnership with financial intermediary and other funders. This is weighted at 15% - as it indirectly contributes to project objectives.
- **Timeliness:** The BDS providers need to provide a detailed implementation plan supported by previous program implementation results (e.g. past experience in hosting an Angel pitch event). The firms will be scored based on (0-2) scale where: (i) 0 is outside the 1 year limit; (ii) 1 is within timeframe without past experience; and (iii) 2 within the timeframe without past experience. This is weighted at 15% - as it contributes to project potential for scale-up.
- **Financial Leverage:** The BDS providers will be rewarded for showing a commitment to additional funding or resources for scaling up the supported programs. This is binary scoring whereby 0 is given to applications with no additional funding or resources and 1 otherwise. This is weighted at 20% - given the limited funding availability.

16. **Fiduciary Arrangements.** Financial management and procurement assessments were subject periodic review by Kafalat, with oversight by the WBG. Interim status reports were completed in December 2016 and June 2017 and contained financial and procurement assessments. Institutions were allowed to use entity-level financial management and procurement procedures, which were subject to assessment prior to awarding of grant funding. When necessary deep dives were completed in the event of non-compliance with periodic reporting requirements or delay in project implementation created questions for WBG and Kafalat supervisory teams.

17. **Timeline.** Project timeline was as follows



V. Implementation Overview, Results Tracking, and Project Profiles

18. Eighteen institutions¹¹ were identified by Kafalat as meeting the eligibility criteria as well as a number of research institutions. All identified institutions were invited to submit applications after the matching grant launch event. Out of the eighteen, eight applications were received for a total asking volume of \$429,350. Six applications were accepted and a total of \$287,350 was rewarded for disbursement as of May 16, 2016. As of project closing, \$274,850 (96%) of the total awarded grant amount had been disbursed and used for programmed activities.

Table 4: MSME TA Disbursement Overview

BDS	Total Amount	First Tranche		Second Tranche		Third Tranche	
	USD	USD	%	USD	%	USD	%
Femme Francophone Entrepreneurs Berytech Foundation	25,000	7,500	30%	10,000	40%	\$7,500	30%
Seeders of Lebanon IM Capital	100,000	30,000	30%	30,000	30%	40,000	40%
GrowthWheel Berytech Foundation (Lead Organizer) & 4	43,000	12,900	30%	17,200	40%	\$12,900	30%

¹¹ Bader, Lebanon for Entrepreneurs, Biat, SouthBic, Berytech, UK-Leb techhub, Endeavor, Megaphone, Darwzah Center, Amideast, Medgeneration, Lebanese franchise association, Expand, Euro-Lebanese Center for Industrial Modernization, Elcim, Association of Lebanese Software Industry (ALSI), Industrial Research Institute, 5-6 Universities in Lebanon

Ecosystem Players (AltCity, Amideast, IM Capital, UK Lebanon The Hub) GrowthWheel										
Startup Weekends Megaphone SAL & Startup Ecosystem Think Tank SAL (SETT)	50,000		15,000	30%		15,000	30%		20,000	40%
Startup Skills Program Tripoli Entrepreneurs Club	19,350		7,740	40%		5,850	30%		5,760	30%
PitchWorthy AltCity	50,000		25,000	50%		12,500	25%		Not applicable.	20%
Total Awarded	287,350									
			98,140	34%		90,550	27%		\$86,160	23%
Total Disbursed	\$274,850 ; 96% of total value of funding awarded									

Project Profiles, Objectives, and Outcome Analysis

A. “Berytech Foundation” - Femme Francophone Entrepreneurs (FFE) - \$25,000 allocated.

19. The \$25,000 grant was used to expand a well-known early stage female entrepreneurship business plan competition. Matching funding came in the form of human resources (technical team) dedicated by Berytech as well as supporting financing for logistics (training venues) and project management (marketing materials, outreach, etc.). The development objective of the project was to improve an existing competition and make the most of partnership involved to increase the reach and impact on female entrepreneurs. Berytech foundation is one of the oldest and most comprehensive BDS providers in Lebanon, offering a variety of programs related to incubation, networking, mentoring, funding, access to markets, company hosting, and acceleration. The competition itself involves an open application process followed by general entrepreneurship training culminating in a business plan pitch presentation. Top candidates are then provided specialized training and are linked to existing incubation programs to launch concept stage entrepreneurship ideas accordingly.
20. **Funding was used to expand recruitment/marketing, and training and incubation opportunities for female entrepreneurs under the FFE program.** The 2016 competition resulted in over 100 hours of training for participants and 25 teams successfully submitting business plans. The grant also provided for scaling up of program outside of Beirut and improved marketing/fundraising capacity for program managers. Teams received additional master classes in business management (business model canvas, marketing and finance essentials, etc.) and expand coaching and mentorship sessions with Berytech staff and network experts. Grant proceeds supported both the 2016 and the ongoing 2017 business plan competition. Funding also expanded the program to include additional training for 2016 winners and

integration into Berytech’s traditional incubation program. Berytech incubated ten teams from January to June 2017 (4 FFE teams and 6 beneficiaries of Berytech).

21. The 2017 edition, which the grant also funded, was launched in April 2017 and 78 applications were submitted. Berytech trained entrepreneurs from 25 of the most promising projects. Master classes delivered covered the following subjects of: customer development, market research, sales and marketing strategy, sales pitching, developing a digital marketing strategy, finance and accounting for startups. Coaching sessions covered: sales strategy, digital marketing, developing an advanced business plan. Work sessions helped identify progress made and areas to improve and identifying potential partners and networks. Awards for the competition was delivered on September 27, 2017. The event was presided over by the H.E. Saad Hariri, prime minister of Lebanon. Two winners were selected during the ceremony and won a cash grant of 10,000 euros each as well as the incubation prize with Berytech. The incubation period will begin in January 2018 for 6 months during which teams will have access to Berytech facilities, master classes and training workshops, mentoring sessions and work sessions until June 2018.

Progress Against Results Indicators

Outcomes				
	Indicator	Baseline	Target	Results
Business Plan Competition Promoted among wider audience of Women Entrepreneurs	Number of support organizations invited to the launch	20	35	70
	Number of support organizations participating in the launch	10	20	28
	Number of applications received online	30	50	78
Business Development Support provided for Women Entrepreneurs enrolled in competition for higher success rates.	Number of training provided in hours	8	40	62
	Number of attendees to the trainings	15	30	60
	Number of applicants applying for final business plan	10	20	25
Incubation Support Provided for the Winners	Number of training workshops provided in hours	30	48	48
	Number of mentorship sessions provided	2	3	12
	Number of structured work sessions	4	6	6

	Number of beneficiaries of incubation per year	2	5	4
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B. "IM Capital" – Seeders - \$100,000 allocated

22. [IM Capital](#) was awarded \$100,000 to establish the "Seeders" – an Angel and Mentor Network in Lebanon. IM Capital is a support program providing financing and technical assistance to early stage businesses and investors, and a fully-owned subsidiary of the [Berytech Foundation](#). Matching funding by IM Capital for project management costs was valued at \$161,000 and accepted by the evaluation committee.
23. IM took an innovative approach to setting up an angel network in Lebanon combining classical outreach and recruiting with training, mentorship, and technical support when making investments. Twenty-five participants committed to the 2016-2017 program, with each participant investing \$15,000 in a special-purpose vehicle. On September 9, 2016 they began a year-long Master Class of Business Angels (MBA) where they completed a [16-module curriculum](#) covering the range of angel investing topics (including developing an investment strategy, valuation, negotiations, due diligence, exit options). Entrepreneurs pitched to angels throughout the MBA session. Fifty percent of each investment will be guaranteed by IM capital. Investment progress is tracked through an online collaborative platform, in conjunction with [GoBeyond](#), a non-profit specializing in the management of angel networks.
24. Training for individual angels was provided throughout the program, drawing on curriculum developed by [MIT¹² Venture Mentoring Services](#) (MIT VMS), an initiative setup in 2000 by MIT to foster mentorship and promote new firm growth amongst the MIT community. In July 2016, IM capital personnel attended a three-day immersion program delivered by MIT VMS on setting up a sustainable mentorship program amongst angel investors. This training provided the technical basis through which a pilot mentorship program is now being rolled out amongst the cohort of Lebanese angels. Sustainability of the initiative is promoted through the gradual introduction of membership and management fees and eventual return on investment upon exit of initial investments. The program is working with a host of partner incubators and investors to source pitches and leverage existing training and acceleration initiatives.
25. The grant was used to finance the following categories of activities: marketing (brand, website, communication material), communication officers, stakeholder workshop/launch, technical team responsible for steering investors/preparing deal flow and screening for pitches, VMS mentorship program, legal services and development (angel SPV), pitch event, project management and reporting.
26. An angel investor network dedicated to female investors was setup in July 2017 (LWAF – Lebanese Women Angel Fund) as an off-shoot of the main Seeders investment group. The group is the first in the MENA region and is seen as a credible avenue to support female economic empowerment. The IM capital team is currently providing technical knowledge sharing to other countries considered support female angel investor networks.
27. There is evidence of program continuity. IM launched a new Seeders fund in Q3 2017 and is successfully raising co-financing from various VC and early stage equity funds on the market, including the WBG supported iSME fund.

¹² MIT= Massachusetts Institute of Technology: <http://web.mit.edu/>

Progress Against Results Indicators

- To date and best on available estimates the network has raised \$390,000 in angel financing leveraging \$1.5 million in co-financing from VC players. The network had 250 participants at its launch event, 26 participating angels, 13 pitches, and 20 mentors recruited internally to support the mentors.

Component	Outputs that the activity contributes to		
	Indicator	Target	Actual
Stakeholder Workshop	No. of Participants	50	250
MBA recruitment	Total number of angels in MBA batch	15	26
Pitch events	Total number of pitch events	5	3
	Total number of pitches	15	13
Mentor Program	Number of Mentors	15	20
	Number of MSME mentees	5	4
	Number of mentor-mentee sessions	15	8
Preparing deal flow, screening for pitches & mentoring	No. of MSMEs applying for the mentorship program	6	15
	No. of MSMEs applying for the angel pitches	30	12
Outcomes the activity contributes to			
Increase in startups access to finance	Total amount of angel finance committed	\$300K	\$240K; Although \$390K raised.
	Total number of MSMEs receiving angel financing	4	3
	Total amount of equity co-financing leveraged	\$600L	\$1.5M
Growth of beneficiary startups	No. of new jobs created in beneficiary MSMEs	N/A	N/A
	Growth in sales/turnover of beneficiary startups	N/A	N/A

C. "Growthwheel" - Berytech Foundation (Lead Organizer) & 4 Ecosystem Players (AltCity, Amideast, IM Capital, UK Lebanon Tech Hub) - \$43,000 allocated

28. The main objective of this project is to support the growth of start-ups and entrepreneurs in Lebanon through supporting new tools and infrastructure for the consortium of business development support

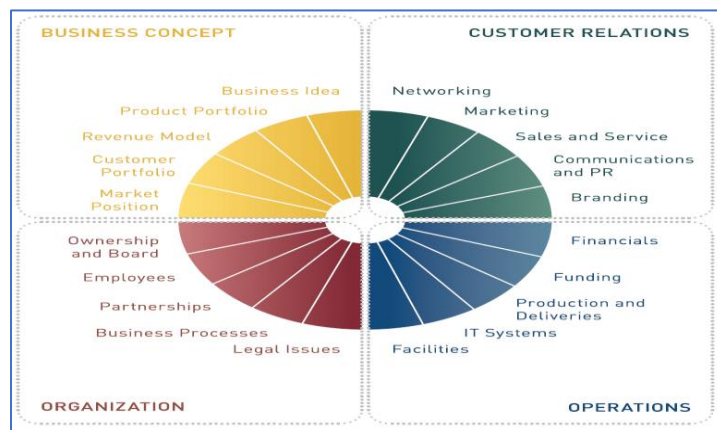
providers through investing in the GrowthWheel program. The project is unique in the integrated partnership approach between four large BDS provider in Lebanon. This helps create a continuum of support for entrepreneurs in Lebanon from inception, concept, and growth phase. Matching funding came in the form of human resources and logistics/physical infrastructure provided by Berytech which was deemed acceptable to the evaluation committee.

29. GrowthWheel is a software providing ecosystem partners with a tool to accompany the entrepreneurs along their entrepreneurial journey, prevent any overlap in the business support provided and ensure that entrepreneurs receive the right and adequate support at all stages and all partners speak the “same language.” It is a “visual toolbox” for decision making and action planning for startup and growth companies. The project assists in using cloud-based data metrics to monitor and support entrepreneurs as they move through respective incubation programs. It also improves the digital infrastructure underpinning the Lebanese entrepreneurship ecosystem. Funding went to acquire annual licenses of GrowthWheel in addition to training on the platform for BDS providers and entrepreneurs.
30. The latest found of training took place in early August 2017 and expanded the number of BDS providers gaining access to GrowthWheel to a second set of institutions including the University of the Holy Spirit’s Kaslik’s Asher Center for Entrepreneurship and Innovation, Nawya Network, and Visionaris (associated with Mercy Corps). This is in addition to the initial organization (listed above) who will have access to the GrowthWheel platform for a second year. Kafalat and the WBG team is following up consistently to track progress on integration of GrowthWheel across the ecosystem.

Progress Against Results Indicators

Indicator Description	Baseline	Target	Actual
Number of business advisors certified	0	10	13
Number of licenses acquired	0	5	6
Number of startups assisted in the programs using GrowthWheel	0	35	35
Number of applications tracked from partners	0	5	1
GrowthWheel’s 360-degree tool adopted by beneficiaries	0	35	35

Exhibit 1: GrowthWheel Visual Framework



D. "Startup Weekends" - Startup Megaphone, Startup Ecosystem Think-tank (SETT) - \$50,000 allocated

31. The grant financed the development and implementation of the Startup Weekend program, an initiative of an accelerator (Startup Megaphone) and a design firm focused on human-centric design as a method to catalyze entrepreneurship (Startup Ecosystem Think-Tank, SETT). Its objective is to improve the employability and technical skills of students through provide "boot-camp" style entrepreneurship training in a series of weekends training sessions. The program also sought to build partnerships between academic institutions and corporations through sponsorship and having executive act as coaches, mentors, and judges throughout the weekend. The program enjoyed a close partnership with BdL accelerate, the large-scale entrepreneurship conference organized by the BdL. Startup megaphone provided \$60,000 in matching funding.
32. The program sought to improve the talent stream available to startups by educating students on the opportunities that lie in entrepreneurship and in product origination and design. Students participated from sixteen different Universities from every region of Lebanon. Grant-financing supported the following core activities:
 - Four innovation weekends featuring four large corporations (Mazda Lebanon, Touch Lebanon, Leo Burnett MENA, Red Bull Lebanon, Bank Audi, LBCI).
 - Eight student groups awarded an \$1,000 prize at the end of the individual innovation weekends
 - Five executive-level presentations at partnering companies' headquarters.
 - One corporate accelerator established as a result of innovation weekend engagement. Mazda Lebanon accepted its first cycle of 12 students in late 2016. All innovation weekend winning teams were granted a spot in their 9-week program.
 - Featuring company at BdL Accelerate 2016, a large-scale (10,000 plus participants) conference related to entrepreneurship and early stage innovation financing.
 - Videos and web campaigns highlighting innovation weekend.

Progress Against Results Indicators

Indicator	Target	Actual
Number of private sector partnerships and sponsorships	7	6
Number of student participants	150	162
Number of ideas adopted by corporations, number of ideas turned into startups, number of groups working on ideas three months after the workshop	6	8

Table 5: Start up Weekend by the Numbers

Total number of applicants	850
Total number of participants	162
Majors of participants	
<i>Architecture</i>	14
<i>Business</i>	35
<i>Engineering</i>	69
<i>Economics</i>	11
<i>Computer Science</i>	8

<i>Media</i>	2
<i>Medicine</i>	1
<i>Law</i>	3
<i>Product Design</i>	2
<i>Public Health</i>	2
<i>Graphic Design</i>	3
<i>Environmental Technology</i>	1
<i>Education</i>	9
<i>Medical Lab Science</i>	1

E. “Startup Skills Weekend” – Tripoli Entrepreneurs Club (TEC) - \$19,350 allocated

33. TEC is an apolitical NGO that at aims at improving living condition in North Lebanon and Tripoli, through local economic development and specifically through promoting entrepreneurship in an effort to reverse “brain drain” and support peace and growth. The objective of the program is to develop the capacities of startups in Northern Lebanon in an effort to increase reading to access funding opportunities available for expansion and ensure sustainable growth. The program placed emphasis on collaboration with the Tripoli Chamber of Commerce in Tripoli, Theemaar Tarablos (local equity fund), Mercy Corps (Intaj), Alcity, Wamda, and educational institutions including Beirut Arab University and Balamand University. Matching funding came from startups involved in the program who financed the cost of internship placements. This arrangement was deemed acceptable by the evaluation committee.

34. The program supported comprises three main components:

- A. Access to Human Capital “Startup Skills” – activity based on focus groups with startups from Tripoli to identify their needs in terms of interns and fresh graduates’ recruits. Capacity building program was implemented and 19 interns were matched for a 4-6 week program at startups in Tripoli.
- B. Extended Business Support “startup seeds plus” – activity designed based on one-on-one interviews with beneficiaries. As a result trainings implemented with 6 startups/early stage businesses in a series of half-day workshops. Topics covered centered on building stronger businesses at the foundation level, specifically: 1) the team (skills and interpersonal training); 2) industry analysis; 3) market assessment. Initial training was coupled with full day investor pitch workshops for startups nearing investment phase. Workshops focused on: a) developing a professional pitch deck; b) developing to do lists for startups prior to raising money; c) developing investor pitches for angel investors.
- C. Community Development – TEC online platform (hub.tripolientrepreneurs.org). An online platform where community members can build startup profiles, share resources, and create/share jobs and internship opportunities. The site has had over 15,000 visitors since launching in Q2 2017 with over 75 registered members (33 entrepreneurs, 10 mentors, 10 freelancers, 4 angel investors, and 18 “wantrepreneurs”). 16 events (workshops) have been posted since the platform’s launch. The beta version of the platform encountered a number of technical problems, however, these issues have since been resolved by the TEC team.

Progress Against Results Indicators

Component	Outputs	Outcomes the activity contributed to			
		Indicator	Baseline	Actual	End Target
Business Support	- 4 workshops				

	- 10 start-ups receiving advisory services	Increased readiness of startups for equity financing - # of startups ready for equity financing	2	3	3
Access to Human Capital	<ul style="list-style-type: none"> - 7 start-ups benefiting from startup skills program - 50 internship applications - 20 shortlisted participants related to capacity building - 7 startup skills workshops - 10 interns matched 	<p>Increased competitiveness of interns in the Job market - Number of university students trained on startup skills</p> <p>Increased number of fresh graduates joining startups</p>	0	19	19
			25%	30%	30%
Network Development	- 80 members on the platform	<p>Increased access to advisors and mentors for startups</p> <p>Number of needs matched through the platforms</p>	0	80 member signed up	80 members signed up
			0	10 needs matched	20 needs matched

F. "Pitchworthy" AltCity - \$50,000 allocated

35. Pitchworthy is an online training and management platform integrating digital learning tools for entrepreneurs participating in AltCity’s Bootcamp program, an early stage incubator program focused on scalable technology companies. Bootcamp supports idea-stage startups to build the pipeline of tech and tech-empowered companies that could be eligible to receive support under BdLs Circular 331. The objectives of this program are to: (1) enhance the effectiveness of current AltCity programs, including the Bootcamp program, (2) develop a platform that will allow AltCity to diversify and scale program offerings, (3) provide more tailored programs for the early-stage teams/startups and various financial partners that AltCity already works with, and (4) enable AltCity to expand its financial partnerships by providing more detailed and customized programs.

36. The program encountered a number of operational delays and technical challenges. After considering cancelling the final tranche of \$25,000 allocated to the project due to limited progress, a restructuring plan was put in place for the grant in June 2016. Between May and August 2017 implementation progress had accelerated. As such \$12,500 was made available to the team July 2017. The team was finalizing the design and coding of the site and are preparing for a gradual roll-out over the coming

period. The final \$12,500 of funding was not made available to the team after consultation completed at the time of project closing.

V. Progress towards results indicators of Regional MSME TA Facility

37. The TA facility matching grant positively contributes to several key indicators in the broader regional MSME TA Facility, as described below.

Impact: Inclusive and sustainable growth in Egypt, Tunisia, Morocco, Jordan, West Bank and Gaza, and Lebanon			
Outcome	Indicators relevant to Lebanon MSME TA Facility	Target by FY 18	Does Matching Grant Contribute? If so how much/what percentage?
Outcome 1: Increased Access to Finance by MSMES	Value of financing facilitated (US \$ million cumulative)	5.00	Indirectly through improving processes of BDS providers and entrepreneurs and early stage companies they work with. Angel investor network raised \$390,000 in angel financed and leveraged an additional \$1.5 million in co-financing.
Sub-Outcome 1.1: Increased outreach of MSMEs with financial services	Number of MSME Investments disbursed	15	Indirectly through improving processes of BDS and as a result support to MSMEs.
Output 3: Increased awareness and knowledge of MSMEs	Number of Intermediary Service Providers receiving capacity building support	6	6 (100% of target reached)
	MSMES supported by project financed intermediary service providers	70	50 formal small businesses. 220 estimated seed stage companies.
	Number of participants in workshops, training	120	650

VI. Performance Analysis and Recommendations

38. **The Lebanon matching grant to support BDS providers overall performed satisfactorily and broadly in line with the objectives of the facility, which for recall was to extend existing equity support services to a wider set of prospective MSMEs through enhancing the capacity of BDS providers to develop or re-tool existing programs and develop new programs.** This is evidenced by the success of the individual programs launched or deepened as a result of grant financing, reflected in meeting a large majority of project-level indicators. The facility was considered a pilot and succeeded in its demonstration effect, **underscoring that such a grant facility can perform in line with**

expectations in Lebanon. The facility is relevant to government priorities related to fostering innovation to promote private sector growth. It is also in line with WBG corporate objectives, including focus area two ‘b’ of the Lebanon Country Partnership Framework (CPF), which explicitly highlights access to finance as a pathway to expand economic opportunity.¹³

39. **There is evidence of synergy between WBG investment lending, advisory, and convening services.** New MSME support entities and programs have been created as a result of the matching grant program (such as the SEEDERS business angel network) and stand to benefit from partnership and funding from the related WBG iSME project. The matching grants are also helping create additional deal flow of potential start-ups that can be considered by iSME. The facility has also provided operational experience to inform policy dialogue with authorities.

40. **The project also contributed in a satisfactory manner to broader performance objectives of the regional MSME TA facility, specifically to improve countries ability to nurture and finance high performing MSMEs to contribute to employment and growth objectives.** The matching grant facility also assists in improving the pipeline of existing companies to successfully absorb early stage equity financing in large part due to circular 331 financing coming on line in Lebanon in recent years. This is a key challenge for the Lebanese start-up ecosystem which policymakers will need to address in the coming period.

41. **Key positive points of consideration include:**

- **Credible, responsive, and trusted implementing partners:** Kafalat possesses sound technical, administrative, and diplomatic skills to market, source, evaluate, and monitor individual grant cases, including liaising with WBG to troubleshoot and address technical issues as necessary. The report recognizes the diligence and efforts of Kafalat and MoET to achieving satisfactory outcomes of this matching grant program. Consistent communication between Kafalat and WBG was important to address problem grants as well as to make timely decisions on reallocating resources to address market
- **Partnerships and Emphasis on Leveraging Funding:** Grant recipients leveraged expertise and financial resources through partnership with public, private, local and international organizations, particularly with respect to maximizing the number of beneficiaries reached through training programs and using multiple platforms for marketing/outreach. Applications were selected according to the selection criteria. Together the portfolio of projects address different lacunas in the entrepreneurship ecosystem in Lebanon.
- **Flexibility and an allowance for experimentation.** The grant facility design explicitly encouraged informed risk-taking in technical design of proposals. Shifting strategies and reallocating resources was encouraged in response to changing market conditions, provided the shift was in line with the original intended objectives. For example, as take up of the GrowthWheel information platform was lower than expected, Berytech expanded the number of incubators participating in the program and emphasized attracting smaller support organizations and consultancies (Nawaya, Visionaris, etc.).
- **Diverse Deliver Channels and Tools Supported.** Through its relatively generic eligibility criteria, the facility sought to improve the ecosystem for BDS provision through a diverse set of delivery

¹³ For access to the Lebanon CPF, see: <http://documents.worldbank.org/curated/en/111451467996685776/pdf/94768-CAS-P151022-R2016-0126-OUO-9-Box396270B.pdf>

channels and tools. These channels included developing digital infrastructure (GrowthWheel, Pitchworthy), targeting vulnerable groups including women and youth (Femme Francophone Entrepreneur competition, youth trainings of Startup Megaphone), regional diversification (work of Tripoli Entrepreneurs Club), and supporting the diversity of early-stage financing vehicles (Seeders of Lebanon).

- **Platform for Creating linkages between support institutions.** The matching grant provided a vehicle for various BDS providers to work on joint programming and data platforms. Two projects had the objective of introducing training infrastructure platforms across a variety of ecosystem players. This contributes to creating an ecosystem of support for young starts from idea to business planning to startup to early growth/VC stage. A key challenge for BDS providers in Lebanon is working to ensure a continuum of support for entrepreneurs including integrated data management and tracking.

42. Key points of improvement for consideration:

- **Need for Specialization.** Further funding cycles of the matching grant should consider more specialized tracks, including more distinct funding windows for various regional and sectoral strategies. While the relatively generic criteria allowed for a wide spectrum of grant recipients, more tailored criteria may prove useful in addressing particular technological gaps preventing startups in particular areas of Lebanon's economy. Ongoing WBG analytical work can feed into more specialized criteria of a possible second phase of the matching grant program.
- **M&E framework could be strengthened.** An M&E system was designed during facility preparation to capture key developments within individual projects. Data was aggregated through periodic supervision missions and regular status report from Kafalat. M&E measures remained relatively general. While headline and intermediate indicators were tracked and aggregated accordingly, WBG and Kafalat could have provided more tailored technical support in refining results frameworks and potentially including impact evaluations into the technical design of the grant. This, however, implies additional overhead with relation to supervision costs and thus there is a tradeoff between implementation and supervision funding. Future funding iterations could focus on key secondary outcome measures such as employment or financing leveraged and could focus evaluation activities accordingly.
- **Outreach to smaller and more geographically diverse BDS providers.** While the facility benefitted from Kafalat's extensive knowledge of the early stage equity ecosystem as well as an industry launch event, more could have been done to ensure applications and interest from smaller organizations outside of Mt. Lebanon area. Future funding cycles should consider employing an outreach officer responsible for coordinating maximum geographic and sectoral participation.
- **Partnerships with Funds and Financial Sector Vehicles.** A key factor in the health of a startup are their links to funding sources, both commercial and subsidized, that can provide them a continuum of financing support as they move through various stages of growth. The program could have benefitted from explicit linkages with financing sources to ideally combine training/incubation with next stage funding opportunities. Data was not kept by implementing agencies at the program-wide level on training received versus funding mobilized or further acceptance into various incubator and accelerator programs.
- **Potential Need for Improved Focus on Data.** Given data scarcity in Lebanon program design could have considered a funding window focused on data management and performance for

startups. While the data platforms invested using facility resources (GrowthWheel, Pitchworthy) were a strong step in the right direction, future iterations of the grant cycle should consider a sub-window dedicated to addressing data gaps. Linkages between data from support institutions and national entities should be encouraged.

- **Sustainability in Project Design.** Each accepted project was asked to put in place a sustainability plan from the onset as well as scalability. Regardless, it is unclear whether all initiatives are sustainable defined as continued program continuity. Project design cognizant of issues of sustainability throughout is an important consideration moving forward.

VII. Post-Completion/Next-Phase

43. Based on the performance and results of the first round of financing under the grant facility, WBG in conjunction with MoET and Kafalat, is currently examining fundraising options for future iterations of the grant program, taking above recommendations into account. A future cycle of the matching grant program should consider the recommendations synthesized above and highlighted in greater detail in section VI of this report.

Annex I: Launch Event Presentation – February 2016




Lebanon MSME TA Facility: Matching Grant Launch Event



January 2016
Peter McConaghy
Spécialiste en Secteur Financier, Banque Mondiale

Outline

- Country and Economic Context
- Lebanon MSME TA Facility Objectives
- World Bank Matching Grant Program to Support Business Development Service Provides
 - Key features
 - Eligibility Criteria
 - Selection Criteria
 - Timeline




Lebanon Country and Sectoral Context

Country Context:

- Lebanese economy has grown at a moderate pace over the past decades; however growth uneven due to large, frequent and mostly political shocks to which the economy has been resilient (+4.4% GDP growth 1992-2014)
- Conflict in Syria generating large and negative spillover effects; Estimated USD 7.5 billion in foregone output; widened fiscal deficit by USD 2.6 billion through 2014
- Critical development challenges include reduction of widespread poverty (extreme poverty hovered between 7.5-10% in past 25 years) and quality job creation (employment growth only 1.1% 1997-2009; elasticity of 0.2 – amongst lowest in MENA; 50% of labor force in informal sector)

MSME Sectoral Context:

- **Strategic importance to Economy:** MSMEs represent more than 90% of registered firms, employ 50% of the working population, however contribute only 27% of total revenues (Ministry of Economy and Trade 2014); Revenue data from the Ministry of Finance suggest 67,344 enterprises have a turnover of less than LB\$ 5 Billion, suggesting that 96% of all companies have less than four workers and that some 93.8% of these companies employ zero to four workers.
- **Challenging Business Environment:** Lebanon ranks 104 out of 189 economies in the World Bank's 2015 Doing Business Report, a slight increase from its 2014 ranking (111)
- **Access to Finance Constraints:** Share of SME loans as a percentage of total banks' loans is (based on latest available data) around 16 percent. Lebanese firms depend significantly on the banking sector for their financing, as 53 percent of all firms, 50 percent of small firms and 63 percent of medium firms report having a bank loan
- **Early Stage Innovation Financing:** Recent priority of Central Bank and government on early stage equity investment to spur entrepreneurship and growth of fast growing young firms (e.g. 311 circular by BDL providing commercial banks incentives to provide equity to start ups)



Promoting Seed & Early Stage Finance in Lebanon

RATIONALE


Firm age and productivity are key determinants to job creation (WBG Report "Jobs or Privilege, 2014). Start-ups and young dynamic high growth firms (a.k.a. Gazelles) Net job creation was:

- 64 percent in Jordan and 42 percent in Tunisia
- All net job creation in the manufacturing sector in Morocco was by 'gazelles' offsetting job destruction by all other formal manufacturing firms.
- Studies of transition economies also emphasize the strong role that new entry of SMEs play in generating employment and growth in economies such as China, Poland, and Vietnam (McMillan and Woodruff 2002).

CHALLENGES FOR YOUNG COMPANIES

- No previous track record - perception of high risk for failure (imperfect information)
- Achieving returns can take a considerable amount of time (demonstration failure);
- Thus financial institutions such as banks and traditional equity investment funds do not invest

As a result most new companies fail in the 'Valley of Death' (the time when their personal resources and money from friends and family are exhausted and the point where their business is stabilized with a proven track record interesting for financiers).



World Bank- IFC Regional MSME TA Facility


Objective: Improve the Business Environment for MSME Finance and Development Across the MENA Region; Covers five priority countries (Egypt, Jordan, Lebanon, Morocco, and Tunisia)

Pillar I: Developing the enabling environment for MSMEs through supporting policy, legal, and regulatory reforms to facilitate access to finance

Pillar II: Providing advisory services to financial institutions that serve MSMEs to attain more inclusion, focusing on women, youth, and regional disparities


Pillar III: Building the capacity of MSMEs through entrepreneur networks, mentoring, and business incubator-type services

- In Lebanon, the Ministry of Economy and Trade is the primary counterpart for implementation of the MSME TA Facility Activities. The matching grant is being implemented by Kafalat, as an executing agency on behalf of the World Bank and MoET.



World Bank- IFCT Lebanon MSME TA Facility

Pillar	Activity	Output	Outcome
Pillar I - Enabling Environment	SME Observatory feasibility assessment and operationalization support Provide independent information about the structure and development of MSMEs in a given economy as well as their contribution to key economic metrics	• SME feasibility study finalized end of 2015-early 2016 The Report provides an analytical framework on the importance of an SME observatory given Lebanon's economic and sectoral context, maps data sources and access modalities, highlights international best practices (particularly from EU) and applies them to the Lebanese context, and outlines a draft implementation plan	• Tool for economic policymaking (both public/private) • Launched dialogue on more intricate sectoral reforms to promote job creation, competitiveness, and economic resiliency • Tool for implementation of national SME strategy (finalized early 2015)
Pillar II - advisory services to financial institutions	High-level conference on promoting global models for early stage financing and business development support in Lebanon	• Conference being organized for June 2016. Topics to cover include pipeline development, due diligence, portfolio risk management and exit options, via both retail and open level engagements	• Marshall knowledge on global equity models to Lebanese context • Technical information to improve programs for financial institutions, BDS providers, and public authorities • Marshall support at ministerial level
Pillar III - providing support and training to MSMEs	\$325,000 matching grant scheme to support MSMEs seeking access to equity financing;	• Matching grant to launch end of January 2016	• \$5 million in equity financing to be marshalled through matching grant facility • Over 500 MSMEs supported by project-financed intermediary service providers



World Bank Matching Grant Facility to Support BDS Providers in Lebanon

- \$325,000 facility designed to assist business development service providers in the MSME ecosystem undertake any of the following three actions:
 - extend existing equity support services to wider markets of prospective MSMEs;
 - develop or re-tool existing products to better serve MSMEs seeking to access the current supply of equity finance in the market; and
 - enhance the capacity of BDS providers in specific institutional areas including product innovation, monitoring and evaluation of services.
- Implemented by Kafalat on behalf of the World Bank



Matching Grant Key Features

- The facility is anticipated to provide BDS service providers with up to 50-50% matching grant over a 12 month period. BDS services are defined as any institution involved in the development and support of micro, small, and medium-sized enterprises through, inter alia, incubation/acceleration, mentorship, business development services, grants, entrepreneurship training, advisory services, and access to markets/innovation management.
- The objective of the fund is to support BDS providers to improve processes, products, and programs to help new and young firms access financing (debt, equity, or guarantees). This can take the form of extending support services to wider markets of prospective MSMEs, developing toolkits/products to enhance the ability of MSMEs access financing, or improving the institutional capacity of BDS providers to provide quality advisory services.
- The facility has approximately \$325,000 in funding. In order to limit the administrative overhead of managing this matching grant, there will be one call for proposals. These funds will be deployed on a pari-passu compensatory basis benchmarked to agreed outputs; with provision that a balance is maintained in allocations between Beirut and North and South Lebanon. The average grant will be approximately US\$50,000.



Matching Grant Key Features

- Eligible expenditures will be largely for non-consulting and consulting service procurement, operating expenses, and travel.
- Applicants will consist of i) individual BDS providers, or ii) a group of BDS providers coordinated by a lead.
- BDS provider eligibility will include evidence of legal registration, acceptable governance arrangements, and at least one year's operational history.
- Sub-project eligibility will be based on an acceptable proposal with potential for benefits in line with the objectives of the facility; a partial priority will be put in place for applicants that have direct linkages to financing.
- Selection will be based on evaluation by the Implementing Agent with the World Bank's clearance of the final selection.
- A robust M&E system with regular supervision and follow up.



Matching Grant Eligibility Criteria

- The basic BDS provider eligibility criteria are simple to facilitate maximum interest and are set out as follows:
 - The BDS provider must be registered and operating in Lebanon.
 - The BDS provider must at the time of application be operating for at least 1 year.
 - The BDS provider must not be operating in sectors deemed to be on the Bank's negative list for environmental safeguards (Annex II)
 - The BDS provider must have submitted a fully completed application form.



Matching Grant Selection Criteria

- **Relevance:** The BDS provider must show a linkage between the activities supported and the potential for the firms supported to access equity financing (e.g. developing a marketing plan to pitch to potential investors vs. support in developing a basic accounting system). The firms will be scored based on (0-2) scale where: (i) 0 is no linkage; (ii) 1 is indirect linkage; and (iii) 2 is direct linkage. This is weighted 40% - given its direct contribution to the regional MSME facility results.
- **Scale-up:** The BDS provider should include a plan for scaling up the programs to be funded given the potential for additional funding and support needed for the development of the pipeline. This is binary scoring whereby 0 is given to applications with no plan and 1 otherwise. This is weighted at 10% - as this links with the second stage of the facility.
- **Potential for Collaboration:** The BDS provider should show linkages with both finance providers and other BDS providers given the significant need to implement and scale up quickly. The firms will be scored based on (0-2) scale where: (i) 0 is no partnerships; (ii) 1 is partnership with financial intermediary; and (iii) 2 is partnership with financial intermediary and other funders. This is weighted at 15% - as it indirectly contributes to project objectives.
- **Timeliness:** The BDS providers need to provide a detailed implementation plan supported by previous program implementation results (e.g. past experience in hosting an Angel pitch event). The firms will be scored based on (0-2) scale where: (i) 0 is outside the 3 year limit; (ii) 1 is within timeframe without past experience; and (iii) 2 within the timeframe without past experience. This is weighted at 15% - as it contributes to project potential for scale-up.
- **Financial Leverage:** The BDS providers will be rewarded for showing a commitment to additional funding or resources for scaling up the supported programs. This is binary scoring whereby 0 is given to applications with no additional funding or resources and 1 otherwise. This is weighted at 20% - given the limited funding availability.



Matching Grant - Timeline

- **February 2, 2016:** Launch of the call for proposals
- **April 1, 2016:** Application deadline
- **April 15, 2016:** Successful BDS providers are notified of provisional intent to fund proposals
- **May 1, 2016:** Grant agreement signing and launching of activities to be financed under matching grant
- **May 2016 – January 2017:** Implementation of grant-financed activities



Lebanon MSME TA Facility: Matching Grant Launch Event

Questions or Comments?

