

ENTREPRENEURS LEBANON

Challenges & Opportunities in Early Stage Financing

Saad Andary

MUBS April 23 - 2011

Resource Mismatch in Local Labor & Capital Markets

- Labor Supply does not cater for market skill demands
- Labor Demand dominated by traditional industries

- Capital Supply, in form of debt, funds short-term trade & commercial transactions
- Capital Demand currently growing in property development

- Specialized Labor and Equity Funding needed to cater for the “ New Economy”
- The New Economy is :
 - Knowledge – based
 - Medical
 - Financial
 - Consultancy

- Recent Upsurge in Interest in Developing Youth with Flare, Creativity, and Original Thinking: Academic Institutions Introducing Entrepreneurship Programmes; Injaz Raising Awareness of Youth

Who is our Champ?

- Recent study in U.S. (Wadhawa, Vivek *et al*, *The Anatomy of Entrepreneurs* – July 2009) provides some counter-intuitive evidence:
- Our “Young” Entrepreneur is 40 years old on average
- He/She does well in School but not as well in College

- He/She more likely to come from working-class or from middle class
- Has no tradition of entrepreneurship: “it does not run in the family”
- Has had significant industry experience when starting own company

Motivations for Becoming Entrepreneur (in order of preference: Wadhawa study)

- Building Wealth
- Owning a Company
- Start-up Culture
- Capitalizing on a Business Idea
- Working for others does not appeal to them (want to be my own boss).

THE FINANCIAL ENVIRONMENT

Banks and Debt Markets

- Funds for promoting Entrepreneurship mainly in form of Debt and Debt subsidies and incentives : equity funding harder to access or unavailable
- Reasons: debt market in Lebanon reliant on bank lending receives highest rating in MENA region based on:

- (a) Depth
- (b) Intensity of use (mainly function of availability of Guarantees: % of credit backed by guarantees very high, given capacity of creditor to take possession -legally- of collateral in case of default improves access. Over-collateralization is evidence of lack of confidence in political environment);
- (c) Access (well-functioning CDR and Credit Bureaus: info about borrowers enhances access)

Subsidies/incentives directed to end-users

- Subsidies (MOF) and incentives (BDL) are directed through the banking system to end-users with “positive” discrimination element to SME’s, developing regions, energy-saving
- This is unlike other developing countries, where interest groups or politicians direct them in a manner that benefits themselves
- Subsidies/incentives need not continue indefinitely; their purpose and direction may need to change over time (e.g. direct them to support business ventures of disabled people)

Venture Capital

- A subset of Private Equity
- Focuses on Equity and Equity-linked investments in private companies, in their seed, start-up, and early expansion phases of development
- Need for Equity investments : entrepreneurial firms are characterized by significant assets (intellectual property); negative earnings early on; unproven products; unlikely to obtain bank loans/ debt financing
- Therefore, the need to promote VC's to fill the gap

Islamic Banks

- Can provide equity funds to both VC's and IPO's

Individuals and Business Angels

- Efforts of individual investors – with philanthropic element to small enterprise, with intention of “giving something back to their communities”

Sectors recommended for start-ups

- Concentrate effort on Less Vulnerable Sectors (LVS) to avoid vulnerability to “rain” or “shine”. Funds failed in the past because of over-exposure to “vulnerable” sectors
- The LVS sectors are the “knowledge-based” economic sectors with regional/international depth such ICT; education; engineering, auditing, art, and management consultancy

- Other LVS are medical/health; financial services
- Lebanon possesses “comparative” advantage in these sectors and can turn into a regional hub for health, education, information, finance, and consultancy services.

Research & Development

- Government support should concentrate on R&D to academic centers; should allow the commercialization of R&D
- Develop formations of Networks between businesses that encourage collaborative research, and exchange of know-how, and realization of market opportunities

Supporting the New Economy

- Build a Wasta-free economy
- Create positive expectations to improve the perception of international corporations to promote “willingness” to invest in our “New Economy” (Carlos Ghosson, CEO of Renault-Nissan chose Morocco & not Lebanon for a car assembly line)
- VC industry needs to focus on the LVS
- VC’s need Directors with commercial experience

- Immense opportunities of leveraging using subsidized/incentive loans
- Need to promote IPO market to stimulate VC and BSE activities
- Support efforts of IDAL in ventures such as the Agriculture Exports Plus to improve quality of exports
- Broaden the mandate of Kafalat
- Implement intellectual property law well