REPORT NO.: RES31437

DOCUMENT OF THE WORLD BANK

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
LB SUPPORTING INNOVATION IN SMES PROJECT
APPROVED ON OCTOBER 31, 2012
TO
LEBANESE REPUBLIC

FINANCE, COMPETITIVENESS AND INNOVATION
MIDDLE EAST AND NORTH AFRICA

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Task Team Leader: Randa Akeel
I. BASIC DATA

Product Information

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Financing Instrument</th>
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<tbody>
<tr>
<td>P127306</td>
<td>Investment Project Financing</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Original EA Category</th>
<th>Current EA Category</th>
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<tbody>
<tr>
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<td>Not Required (C)</td>
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<table>
<thead>
<tr>
<th>Approval Date</th>
<th>Current Closing Date</th>
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<tr>
<td>31-Oct-2012</td>
<td>30-Jun-2018</td>
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Organizations

<table>
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<tr>
<th>Borrower</th>
<th>Responsible Agency</th>
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<tr>
<td>Lebanese Republic</td>
<td>Kafalat</td>
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Project Development Objective (PDO)

Original PDO

The project’s development objective is to encourage the equity investment market to increase the supply of early stage investment finance for financially viable, new, and existing innovative firms.

Summary Status of Financing

<table>
<thead>
<tr>
<th>Ln/Cr/Tf</th>
<th>Approval</th>
<th>Signing</th>
<th>Effectiveness</th>
<th>Closing</th>
<th>Commitment</th>
<th>Disbursed</th>
<th>Undisbursed</th>
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</thead>
</table>

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

II. SUMMARY OF PROJECT STATUS AND PROPOSED CHANGES
The World Bank  
LB Supporting Innovation in SMEs Project (P127306)

The Restructuring proposes to extend the closing date of the Supporting Innovation in SMEs Project (Loan no. 8202-LB) by two years, from June 30, 2018 to June 30, 2020.

Background:

Effectiveness of the project was held up due to delays by Parliament in ratifying the loan agreement. As a consequence, the project became effective on February 3, 2015, 28 months after Board approval. Given this delay, the current closing date is premature to achieve the project development objectives. Subsequently, the government has requested a two-year extension of the project’s closing date to give the project the 5 year implementation period that was originally provisioned to allow the project to meet its objective.

Project Status:

Implementation was slow over the first two years of the project, however significant progress has been made since the project began rolling out an updated investment strategy in line with a mid-term evaluation report completed in May 2017. Consequently, the project’s PDO and IP ratings were upgraded to MS in the November 2017 ISR. As of March 28, 2018, the project has disbursed 36.2% (US$10.9 m). A withdrawal application of US$52,473 is in process by the Bank and a further US$1.6 m is pending submission to the MOF by the PIU. The two WAs will boost disbursement to 41.7%.

All PDO indicators and intermediate indicators are trending upwards as follows:

i. Increase in access to finance for SMEs:
   a) Total number of firms receiving equity financing leveraging investors and the iSME funding program. This indicator was slow to start but increased 50% between the period March-November 2017 and is expected to increase exponentially now that iSME is investing in funds (Seeders, Lebanese Women’s Angel Fund and Flat6Labs (upcoming)) once they start deploying their investments into their portfolios of startups (average of 10 startups each).
   b) Total amount of equity financing received (leveraged) through the project, leveraging investors and the iSME funding program. This indicator has reached 38% of its target and will increase once investments by the funds (referenced above) are deployed.
   c) Total volume of financing generated by leveraging investors only (as a result of a Grant activity). The Grants component is almost 100% disbursed and this indicator has reached 96% of its target as of February 2018.

ii. Level of Innovation:
   a) Number of new/improved products/processes offered. This indicator reached 54% of its target.
   b) Number of new start-ups created under the project. This indicator reached 84% of its target.

iii. Growth of beneficiary SMEs: Note that these indicators will not show substantive progress given that firms have only been in operation 2-3 years and have yet to achieve expansion.
   a) Growth in sales/turnover of beneficiary SMEs. The data for this indicator will be reflected at the end of the project life.
   b) Number of new jobs created in beneficiary SMEs. This indicator has reached 18% of its target.

The performance of Kafalat S.A.L, the Project Management Unit, has been satisfactory throughout implementation. The fund has received excellent feedback from industry participants for the rigor of its investment committee and the quality of young firms supported through both equity and concept development grant activities. Implementation, particularly in terms of the quality of startups and ideas selected, is excellent, as evidenced by the
success of project beneficiaries receiving various awards and mentions in different platforms. Three beneficiaries (N.A.R, Kamkalima and Moodfit), ranked 11, 20 and 22 respectively on the Forbes list of 50 Startups to Watch In The Arab World. Falafel Games, an iSME portfolio company, ranked 25 on the Forbes list of Top 100 startups in the Arab World.

There are no outstanding audits or accountability issues. The latest audit report for the year ended December 31, 2016 was received and is satisfactory to the Bank.

The team confirms that the project objectives are still relevant and achievable, and recommends the extension be approved. The team confirms all changes and actions suggested in the mid-term evaluation (encompassing modifications to investment policy and project management) have been adopted by Kafalat S.A.L and will allow the project to complete remaining activities and achieve the overall PDO by the proposed closing date of June 30, 2020.

### III. DETAILED CHANGES

#### LOAN CLOSING DATE(S)

<table>
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<tr>
<th>Ln/Cr/Tf</th>
<th>Status</th>
<th>Original Closing</th>
<th>Revised Closing(s)</th>
<th>Proposed Closing</th>
<th>Proposed Deadline for Withdrawal Applications</th>
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</thead>
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