

# *BDL Circular 331: Why It Matters to Lebanese Tech Entrepreneurs Based Overseas*

Lebanon for Entrepreneurs (LFE)

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# Overview of BDL Circular 331

- In August 2013, Banque du Liban issued Circular 331 to incentivize Lebanese commercial banks to invest equity in knowledge-economy start-ups, incubators, accelerators, and VC firms. Full text here:  
<http://www.banqueduliban.gov.lb/circulars/download/477/>
- Under Circular 331, a Lebanese start-up can receive equity capital from:
  - Lebanese commercial banks
  - 331-compliant VC funds (e.g., Berytech, Leap Ventures, MEVP)
  - 331-compliant incubators and accelerators (e.g., Speed@BDD)
- Only start-ups that are Lebanese joint-stock (e.g., S.A.L) companies with nominal shares are eligible. Lebanese offshore companies, branches of foreign companies, representative offices, and S.A.R.L.s do not qualify

# Does the Following Apply to You?

1. Lebanese national or second-generation Lebanese living abroad
2. Founder of a start-up based outside of Lebanon
3. Have already established a foreign company
4. Have a promising business that is past the early stage
5. Would consider launching operations in Lebanon
6. Would consider raising equity capital from investors in Lebanon



**Find an interested 331-compliant bank or VC  
fund, and create a Lebanese S.A.L as outlined  
in the next slides**

# Why Should You Be Interested?

- Access to cheaper labor pool
- Access to regional markets
- Access to capital

# Recommended Structure

Assumption: start-up is a foreign company (e.g., Delaware C-Corp) owned by founders and other investors.

- 1) Create a Lebanese S.A.L that is 100%-owned by your foreign company
- 2) The Lebanese investor invests in the Lebanese S.A.L.'s stock, which would be pegged in its valuation to a fixed number of shares in the foreign company at the time of investment, and subject to pro rata dilution from follow-on rounds in either corporate entity
- 3) The investment documents specify a swap structure that allows the Lebanese investor - upon an imminent exit or new funding round – to swap shares in the S.A.L against equity in the foreign company

# Q&A

## **Q1: Is approval guaranteed if I use the aforementioned structure?**

BDL has preapproved the structure above under certain conditions.

However, all investments are subject to review on a case-by-case basis to ensure they abide by the spirit of Circular 331.

## **Q2: What are BDL's conditions?**

- The S.A.L. must be a real, tax-paying company with an office and staff in Lebanon
- The S.A.L. should remain in existence and continue running for a reasonable amount of time after the 331 capital injection
- A substantial portion of the 331 capital infusion must be used by the S.A.L.

BDL will reject any investment where an S.A.L. is used as a façade for foreign companies to get access to 331 capital.

# Q&A

## **Q3: What if I want to use a different structure?**

In general, any structure that complies with the conditions set by BDL is allowed. However, all investments are subject to review on a case-by-case basis to ensure they abide by the spirit of Circular 331.

## **Q4: Do I have to relocate my foreign company's employees to Lebanon?**

No.

## **Q5: How many employees should the S.A.L. employ?**

The S.A.L. must have some staff in Lebanon. The number of employees needed depends on the nature of the company and its operations.

## **Q6: What types of activities can the S.A.L. undertake?**

The S.A.L. can undertake any activities that are allowed by Lebanese law, including running a development center, buying and selling, marketing, etc.

# Q&A

## **Q7: How long does the investment process take?**

There is no clear-cut answer, but empirical evidence suggests Lebanese VCs are closing deals in 3 months or less, and commercial banks requiring as much as 9 months to complete an investment under Circular 331.

## **Q8: I'm interested. How do I get started?**

Please send an email to [info@lfepartnership.com](mailto:info@lfepartnership.com) with :

- A short overview of your company
- Your current legal structure and office location(s)
- Your current ownership structure (list of shareholders only; no need for ownership percentages)
- The amount of capital you want to raise

LFE will connect you with the right individuals in Lebanon to help get the process started. LFE's website: <http://lfepartnership.com>.





# APPENDIX

# Overview of S.A.L.s

**Purpose:** An S.A.L may engage in any activity that does not conflict with public order and Lebanese laws and regulations, and must establish its headquarters in Lebanon.

**Minimum Required Capital:** 30 million LBP (~20,000 USD).

**Instruments:** An S.A.L. may issue shares (nominative: إسمية , negotiable: لأمر, or bearer: لحاملها), bonds, and convertible bonds, but may not issue founders' shares that grant the founders the right to share in company profits without prior contribution to the capital.

**Number of Shareholders:** At least 3 shareholders (مساهمون) are needed to form an S.A.L., and their liability is limited to the amount of their subscription to the capital.

**Management:** The Board of Directors is formed by a minimum of 3 and a maximum of 12 members, all of whom must be among the shareholders. The majority of the Directors must be Lebanese (physical persons or companies). The Board must designate one of its members as Chairman, who also serves as General Manager of the company. The Chairman must be a physical person.

# Overview of S.A.L.s

**Considerations for Foreigners:** S.A.L. shareholders may be foreign individuals or companies, and there are no restrictions on foreign ownership except for certain sectors (e.g., public sector, media, commercial representation, and real estate). Directors may be foreign physical persons or companies (as long as the Board is majority-Lebanese). The Chairman of the Board may be a foreigner who resides in Lebanon, in which case he must obtain a Lebanese work permit.

**Legal Obligations:** An S.A.L. must retain and pay a Lebanese lawyer and at least two Lebanese auditors (مفوضي المراقبة), one of which is appointed by a judge. It must also be registered in the Commercial Registry (السجل التجاري) and pay taxes in accordance with Lebanese law.

**Taxation:** an S.A.L is taxed at a flat rate of 15% on net profits and 10% on dividend distribution.

**Incorporation Procedure:** The steps required to set up an S.A.L. are outlined here: [http://www.idal.com.lb/Content/uploads/Setting\\_Up\\_a\\_Joint\\_Stock\\_Company.pdf](http://www.idal.com.lb/Content/uploads/Setting_Up_a_Joint_Stock_Company.pdf)