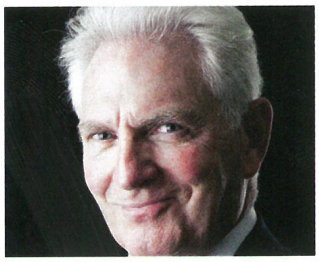
Gearing Beirut to become the emerging regional leader

The center of disruptive innovation



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The technology and innovation ecosystem in Beirut is increasingly becoming a mini-Silicon Valley for the Middle East. There has been a spate of successful startups: Presella, the 'Eventbrite of the Middle East,' has raised almost $400,000 so far and has rapidly expanded its user base in Middle Eastern markets, Anghami, the iTunes of the Middle East, has 33 million users, and Pou, a game based on an alien pet, is currently making millions of dollars on the App Store. Moreover, LittleBits, Cinemoz, and such platforms as Ki, Zoomaal, Sohati, Feeded, Saily and Tari'ak, are gaining a regional presence. The growth of the entrepreneurship culture in the MENA region is starting to attract global investors, but there are lessons to be learned.

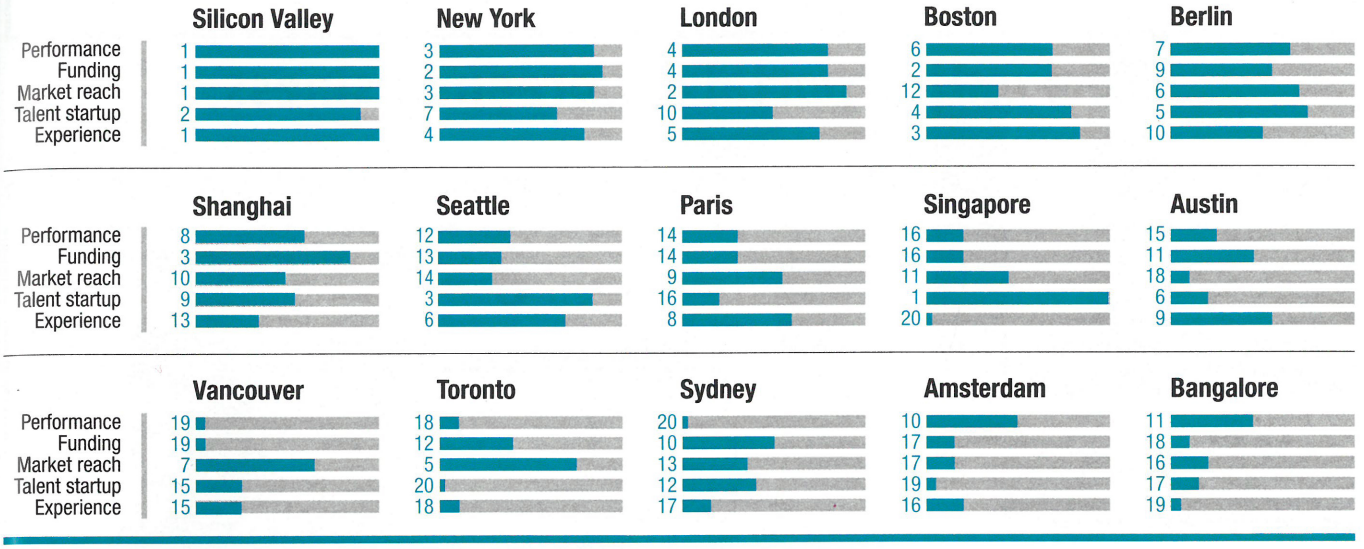
FUELING THE ECOSYSTEM

Approximately 20 percent of top MENA startup founders are from Lebanon. Multiple factors are fueling the ecosystem. This includes support from both the public and private sector. In August 2014, the Central Bank (BDL) announced Circular 331, injecting the potential of $400 million into the enterprise market, thus encouraging venture financing. BDL provides guarantees of up to 75 percent of the value of investments into startups by commercial banks. Incubators, accelerators, and boot camps have been established: AltCity, a startup community supporting innovation in media, gaming for profit, and social impact ventures, Speed@BDD, a tech accelerator that is involved in creating a community of elite startups, and the UK Lebanon Tech hub (UKLTH), a major accelerator center that has raised more than $11 million, supporting nearly 500 companies, and creating more than 350 jobs. In addition, Beirut-based venture capital funds that include Berytech Fund II, Middle East Venture Partners, Leap Ventures, and Wamda Capital are investing more than $200 million in support of the startup ecosystem. Donor-backed funding support programs such as USAID are investing $15 million to support entrepreneurs. Seeders Masterclass for Business Angels by IM Capital in partnership with GoBeyond provides training for investors and seed capital for startups.

SUPPORTIVE INFRASTRUCTURE

Digital clusters have been established to accelerate digital innovation. More are in the pipeline. The centers provide co-working spaces and build communities in which knowledge is shared. Berytech, Beirut Digital District, and Antwork are a few success stories. Recently, the UK Government donated $3.2 million to the UKLTH in order to establish a research and development center. The ecosystem infrastructure is also being strengthened by events such as boot camps, competitions, and conferences that aim to coach startups and foster breakthrough thinking. Conferences attracting international and regional experts and entrepreneurs are hosted by Lebanon for Entrepreneurs (LFE), ArabNet, and BDL. Ties with Silicon Valley are being built in order to exchange knowledge and connect Lebanese entrepreneurs with industry experts in California. In 2015, the Federation

2017 GLOBAL STARTUP ECOSYSTEM RANKING



Source: Startup Genome

of Chambers of Commerce, Industry, and Agriculture in Lebanon organized 'Start-Up Lebanon' and took it on the road to Silicon Valley. The 'road show' promoted a series of initiatives that aim to position Lebanon as an innovation hub for the MENA. Universities are also contributing to the ecosystem. École supérieure des affaires (ESA) launched Smart ESA, an incubator program. The American University of Beirut (AUB) launched a health care technology innovation hub for the country and the region with the aim to accelerate innovation in medical technologies. It is also planning to launch an innovation park. A sum of $3 million has been pledged to the Lebanese American University (LAU) to establish a Center for Innovation. High schools are considering integrating coding and innovation programs in their curricula.

GENDER EQUALITY

Women have been at the forefront of entrepreneurship. Two landmark exits in the Arab world – food-focused social website Shahiya.com was acquired for $13.5 million by Japan's Cookpad, and Paris-based Webedia purchased the majority of shares for Diwanee, a digital media company – were both Lebanese startups with women at the helm. The country is also ahead of its regional peers in terms of providing access to finance that is gender-focused. In 2012, BLC Bank, in partnership with the World Bank, became the region's first bank to target funds at women entrepreneurs, arguing that while women owned 30 percent of small and medium-sized enterprises (SMEs) in the country, they were granted just three percent of the total loans disbursed.

> 20 percent of top MENA startup founders are from Lebanon

THE SILICON VALLEY OF THE MIDDLE EAST

There are more than 70 'silicon cities' worldwide. There are 13 silicon cities in the emerging economies of Africa and Asia. In the UK, 16 silicon cities exist and in the US, there are 24 silicon cities, not including Silicon Valley in California. However, there are only 20 cities that top the list of the global startup ecosystem, which are rated by Startup Genome. (See chart: 2017 Global Startup Ecosytem Ranking). Each of the 20 cities has scored high on the five criteria used by Startup Genome to rate startup ecosystems. Performance and market reach are two indicators that are associated with the direct contribution of a startup ecosystem to the local economy. The competitive edge lies in how much a start-up ecosystem is contributing to economic growth, mainly in terms of job creation, innovation acceleration, and the exchange of knowledge. Strong infrastructure is important but is not everything. For example, Kansas City was among the first to adopt the Google Fiber high-speed Internet connection. Kansas City Startup Village (KCSV) was established and many startup firms relocated to Kansas, thinking they could expand their model. However, the GDP growth of Kansas has fallen below the national average, and many of the startups have moved back to California. If Beirut were to feature among the top 20 startup ecosystems in the world, the effects would be far-reaching:

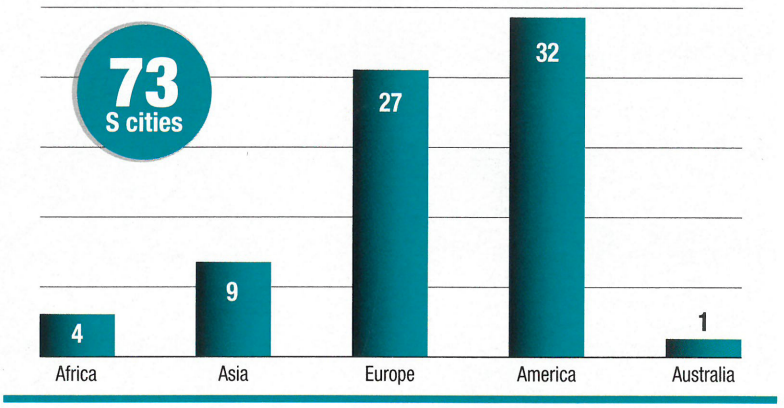
- The brain drain would almost certainly decrease and talented graduates would remain in the country to become key contributors to economic growth. There could even be a reverse brain drain, whereby those who migrated years ago would return.

- Universities would return to being the knowledge hubs for which they were once known, leveraging on advantages in science, engineering and management to establish a knowledge-based labor force that would provide leadership in reforming rules, policies, and practices. The banking and financial sector would back innovation, playing a key role in supporting startups to expand regionally and internationally.
- Multinationals established in the region would use Beirut as a hub to incubate talent, technologies, and solutions. The city would be positioned as a lab to innovate, test, learn, fail, and expand. It would include incubator offices to accelerate innovation, recruitment, and drive talent.
- Beirut would become a knowledge-based tourism economy that would witness visitors participating in startup tours, the exchange of best practices, and generally learning from the ecosystem.

CHALLENGES STILL EXIST

There is no question that the startup ecosystem here has come a long way. However, some key challenges need to be addressed if Beirut is to remain a key player and emerge as the regional leader and disruptor of the innovation game in the MENA. The first challenge relates to connectivity. The current average Internet speed is 3.11 Mbps, far lower than that of Gulf countries. Doubling the country's bandwidth could improve GDP by 0.6 percent. Secondly, the country ranked 139 in the 'Starting a Business' category of the 2017 'Doing Business' report by the World Bank. With a minimum paid-in capital requirement of LL5 million, it takes 15 days and eight major processes to set up a business. The associated costs come to 40.6 percent of income per capita compared to a MENA average of only 26.3 percent. In its annual Global Competitiveness Index (GCI) 2015-2016 report, the World Economic Forum ranked the country 113th out of 140 countries globally and tenth out of Arab countries. This could be easily remedied by regulatory changes and governmental support. Overcoming other underlying challenges will require a concerted effort. First is the issue of exits. Startups invariably move from one accelerator or government-supported initiative to another without an end in sight. The accelerators build capacity by training talent for successful startups, and other industries developing tech-based products, and services. However, building a private venture capital sector is also essential. Training and mentoring is an important component in the entrepreneurship ecosystem. IM Capital is starting to fill the gap through its Seeders Business Angels Community. Education is another area that needs improvement, since a wide gap exists between university education and the practical skills required by the ecosystem.

SILICON CITIES IN THE WORLD



Source: Authors

THE SINGULARITY OF BEIRUT

Startups are about risk-taking. They are established based on the assumption that they might fail. It is a resilience that reflects the very nature of Beirut itself. This singularity makes Beirut a strong candidate to join the international 'silicon club'. This singularity needs to be powered by a strategic road map, policies, regulations, and strong infrastructure. First and foremost, the ecosystem leaders must sit together with an open mind, and agree on a vision that will set the course for a journey for the country to become the center of disruptive innovation for the MENA.

This article is an invitation for multinational corporations in the MENA region to establish prototyping innovation labs in Beirut. The collaboration with competent startups yields an edge in product design, packaging, logistics, analytics, and customer relations. There is an opportunity to disrupt each and every element of the value chain, transform operations, and become a trendsetter. Lebanon is a small and diverse 'pilot' country with many advantages. Multinational corporations can leverage these specificities to incubate ideas, test, and learn, and then achieve mega rolls-outs to MENA markets. It is the right ecosystem to find partners who will help innovate.

Building a private venture capital sector is essential