

# Executive

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## SPECIAL REPORT

### ENTREPRENEURSHIP

- > Threats to Lebanese startup funding
- > Fintech on the rise
- > Key players in the startup scene
- > Gaming industry challenges



# Beirut Digital District

*In collaboration with*



# PANDEMIC CREATES SURGE FOR MENA FINTECH DEVELOPMENT

It's just beginning

**The number of Fintech startups have surged in the last 10 years: tech ventures which are positioned to serve and disrupt financial markets and the associated knowledge industries in the Middle East and North Africa (MENA) region. As of November 2020, the region has around 425 Fintechs as per the Fintech Galaxy Marketplace.**

Among ten different verticals grouped under the umbrella term “Fintech”, almost two thirds are found in three verticals: ventures in the “Payment, Transfers and Remittances” vertical take the lead with over 140 startups, followed by “Lending and Crowdfunding” and “Wealth and Finance Management” with 67 and 64 respectively.

A look at distribution of Fintechs per country shows the United Arab Emirates leading with 154, followed by Saudi Arabia (86) and Egypt (67). Bahrain, currently in fourth place with 40 startups by our count at Fintech Galaxy (noting that these numbers vary between different reports and methodologies), is pressing ahead with Fintech infrastructure initiatives such as the new Central Bank of Bahrain (CBB) digital lab FinHub 973. Launched in October 2020, the platform aims to stimulate open innovation and connect financial institutions in Bahrain to fintech startups from across the globe by offering an API environment, a global Fintech marketplace and digitized regulatory sandbox. Lebanon, by our research, is the home country of 28 Fintech startups in Q4 2020.

The surge in MENA Fintech startups began about seven years ago when 29 new startups were recorded in 2014. Although the 2020 cohort of MENA's new Fintechs - comprised of 21 in total - sharply dropped from 80 in 2018, primarily due to the uncertainties around the COVID-19 pandemic. However, new opportunities are now rising for Fintech players given the heightened need for digital banking services and increased customer sophistication.

I do not see a drop in passion for creating financial disruption in this region. And where there

is passion, there are investors. It's estimated that the Fintechs in the region will raise \$2 billion in venture capital (VC) funding by 2022 — and the sector only found footing in MENA three years ago.

## MENA FINTECH ECOSYSTEM TRENDS

We have seen a paradigm shift in recent years as policy makers across MENA markets take steps to diversify their economies with a focus on making them less dependent on government spending and fossil fuels and more driven by innovation and sustainability. The financial sector, which has long been ripe for disruption, stands to play a key role in this shift, with demographics and financial inclusion being fundamental drivers. According to the World Bank, two-thirds of the adult population in the Arab world don't have a bank account, and SME lending is well below the global average. Indeed, fostering healthy Fintech ecosystems is seen as a leading pillar of economic diversification across member states of the Gulf Cooperation Council.

Fintech regulatory regimes started emerging in the region in 2017. The Middle East has since become a hotbed of regulatory development, with several jurisdictions competing to establish themselves as the leading Fintech hub.

Fintechs were initially associated with payment and lending solutions and a vast majority of MENA Fintechs are concentrated in the digital payments, transfers and remittance sub-sectors. But as the ecosystem develops, we see startups increasingly incorporate more advanced technologies like blockchain, machine learning, AI and big data into their services. These newer technologies allow Fintechs to mitigate risk and offer a more personalized approach to customers.

And Open Banking adoption in the region is just kicking off; this regulatory framework accelerates collaboration between traditional banks and Fintechs and has significant potential to transform MENA's financial landscape.

COVID-19 has served as a catalyst for digital transformation across a range of sectors, and this is particularly true for financial services and Fintech in the GCC. But it is worth noting that while the pandemic has served as a catalyst, this was a revolution that was already taking place. Between 2017 and 2019, the value of global Fintech transactions increased at a rate of over 18% each year, reaching over \$20 billion in 2019.

## MENA FINTECH REGULATIONS

A changing regulatory landscape is the main catalyst for fintech growth in the MENA region. Almost all the countries in the Gulf region are trying to diversify their economies, moving towards knowledge-based economies where research and development, and innovation, are main drivers of growth.

Over the past few years, we have seen substantial efforts to design more diverse, competitive, and innovative economies. Government driven initiatives in several Arab countries have been taken to set up tech incubators, accelerator programs and regulatory sandboxes to support the growth of Fintechs. The central banks/ financial governing bodies in the UAE, Bahrain, Egypt, Oman, Lebanon, Jordan and Saudi Arabia have introduced Fintech related regulations and licensing frameworks in a variety of areas such as crowd funding and digital payment services. We're also seeing regulators launching initiatives around digital currencies and cryptocurrency.

Even though all countries in the region have a commonality in objectives, the approach towards regulatory initiatives and enforcement varies. In

some countries, the central banks have taken it upon themselves to do it while in others, economic free zones and different regulatory authorities have played the main role.

The governments across the region are also setting up sandboxes, meaning controlled envi-

ronments of somewhat relaxed regulations to make it easy for Fintechs to test their services. Some governments and regulatory bodies in the region have also teamed up with different regional and international players to launch Fintech accelerators and incubators.

■ Covid-19 has served as a catalyst for digital transformation across a range of sectors, and this is particularly true for financial services and Fintech in the GCC.

Both established players and entrepreneurs are seizing opportunities and filling market gaps across a multitude of sub-sectors.

As governments continue to implement favorable incentives and regulatory initiatives, opportunities will continue to develop, giving the region's Fintech industry the potential to elevate overall welfare of participating countries. We are also seeing government action and investment in this space (eg. Saudi, Bahrain, Egypt, UAE) intent on creating job opportunities, as well as greater financial independence. Investment varies greatly across MENA, but I think we'll start to see this trend expand across the region as there still are many pain-points along the journeys of Fintech startups.



*Mirna Sleiman is the founder and chief executive of UAE based communication and integration platform Fintech Galaxy.*

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**Executive**



## GAMING IN LEBANON SERIOUSLY HIT



Whatever happened to fun and games?

**Despite the Central Bank's (BDL) circular 331, which allows venture capital firms and banks to finance startups with less risks by guaranteeing investments up to 75 percent, Lebanese tech firms are casualties of the country's economic woes.** Between capital controls that restrict payment capacities abroad; the exile of talent fleeing Lebanon; and the sorry state of the electrical and internet infrastructures, Lebanon's application, or "app", creating firms are facing harsh difficulties.

Existing gaming developers in Lebanon have targeted a worldwide audience, with the bulk of their downloads in North America and in Arab countries with developed gaming culture like Jordan, Egypt, Saudi Arabia and the Emirates, according to Lebanon Nader, CEO and co-founder of Game Cooks.

MENA gaming app developers have created popular content, with apps such as Tarneeb Masters (4.5 rating on Google Play Store with over 10,000 reviews), Domino Hit, Conqueror of the Realms and others. In 2020, gaming startup Yayy's games, a Beirut-based gaming publisher and developer that has developed

games such as Conqueror of The Realm, Domino Hit and Mess It Up, have had over 100,000 monthly active users. The gaming industry, once seen as promising in Lebanon, has seen the recent shutdown of Arab Arcade, an initiative that had launched to support the development of gaming apps in Lebanon.

From a business-model perspective, the gaming industry is divided into two primary segments:

one, developers who create the gaming application, and two, publishers who promote the application on various outlets. Due to the

current economic crisis, developers in Lebanon are facing a set of difficulties that are not only related to the crises of 2020, but also to Lebanon's infrastructure as a whole.

For instance, GameCooks managed to establish an office in San Francisco in two days, online. "It took us 30 days to create a company in Lebanon,"

■ "We saw a huge boost in the entertainment business, streaming, gaming, etc."

reminisces Nader, lamenting the state of the regulatory framework.

Ziad Talge, founder and CEO of Yayy, is clear on the difficulties that app developers face due to high electricity costs and unreliable internet.

Ironically, the Covid-19 pandemic did provide a small boost for the gaming industry, with many people working from home and in need of distraction. As a result, according to Talge, gaming applications have been heavily downloaded ever since the start of the pandemic. According to Games-industry.biz, the first three months of this year marked the largest quarter for mobile game downloads ever, with more than 13 billion installs across the App Store and Google Play.

“We saw a huge boost in entertainment business, streaming, gaming etc.” says Hussein Hajo, Chief Operating Officer at YallaPlay, a Beirut-based gaming developer that has developed games such as Tarneed Masters. According to him, the boost in gaming applications downloaded, including his main application, Tarneeb Masters, is equal or slightly less than the growth in downloading of work applications developed worldwide as a whole.

In some cases, the covid pandemic actually hurt game developers’ business. Game Cooks, for example, has developed a niche in virtual reality (VR), which unlike other games, requires going to a virtual reality arcade to wear a VR mask - unless you have your own equipment. GameCooks’ games are linked to arcades around the world, and they obtain a percentage fee on every game played that is developed by their company. As a result of the Covid-19 pandemic, virtual reality arcades worldwide have been hit hard and many forced to shut down, slashing GameCooks’ profits.

## CAPITAL CONTROL STRIKES AGAIN

Capital control laws have made it difficult for venture capital firms to invest in developers due to the economic insecurity of Lebanon. Additionally, funding would primarily be used for international payments, payments that are no longer possible. This spending would typically cover marketing, software services, and staff and talents abroad, according to Hussein. “This affected us in executing our plans,” Hussein says, “Especially in marketing as you have to spend real dollars abroad”.

The Lebanese regulatory framework is also not seen as VC-friendly. “We live in the ice age with regards to regulation,” says Hussein. “We start paying taxes on our first day.” Gaming developers need time to register profits, and the lack of adequate



subsidies does not encourage the development of applications in Lebanon.

To add, the internet in Lebanon is among the slowest in the Middle East. According to Speedtest, Lebanon ranks 159th out of 177 countries for internet broadband speeds. “We need a stable internet connection,” says Hussein, “We try to overcome that issue with our house algorithms and

coding, but it is definitely an issue”. The work-from-home model also means that there is less bandwidth available for gaming per household.

While access to funding had been encouraged by BDL Circular 331 in 2013, the circular did not

■ Lebanon ranks 159th out of 177 countries for internet broadband speeds; a major hurdle for internet-dependent sectors.

address shortcomings outside of the purview of the Central Bank such as the regulatory framework, the legal structures, and the ease of doing business. According to Doingbusiness.org, Lebanon’s worldwide rank is 143 with regards to how easy it is to do business, with 15 days to start a business and the average number of procedures needed at 22. Also, Circular 331 facilitated funding via banks, which are cautious by nature and less willing to take risks than venture capitalists, for example.

A once-promising venture built on Lebanese talents is facing threats. With the impossibility to pay for servers, publishers, or talent, while obtaining little to no funding, the gaming industry in Lebanon might possibly be contemplating its twilight. ■

# STARTUPS ACTUALLY

A selection of 2020's best

**Success is a perfect measure of life. Yet this perfect measure is never in itself perfect.** Money, knowledge, passion, experience of gain, learning from failure... All can be successes and each can be a tremendous hurt that changes life's trajectory. It depends on our objectives and circumstances.

Success of entrepreneurial startups and young tech enterprises in the 2020 setting of abysmal politics and their economic havoc, can be as wide as learning from failure and keeping the Lebanese entrepreneurial spirit despite everything, to a new idea that has become viable exactly because of the major changes 2020 has presented.

The year has been a pivot-point worldwide, changing the conditions that shape digital and tech entrepreneurship. E-commerce and gaming are teeming with market potential, boosted by new limitations of physical mobility that have seamlessly translated into increased digital mobility, shopping, and social interaction.

The changes reverberated into retail - as brick and mortar vendors were rattled by the realization that they need full digital presence to compete. This may well have sparked a sudden demand for digital services and construction of e-commerce shopping platforms that qualifies as demand shock.

Such a shock will quite predictably have upward distorting effects on formation of tech startups with aspirations to tackle this market for building and managing the digital real estate that is now under development - but it nonetheless is a boon for tech ventures, which already have experience in this realm and a hope and opportunity for new startups in a tech entrepreneurship ecosystem such as the Lebanese one.

Change drivers on the meta level of financial markets globally are continued disruption of traditional banking and credit; the emerging acceptance of digital currencies by central banks (at least in conceptual terms and as far as they themselves can create those central bank digital currencies, or CBDCs); consumer acceptance of cash-free and cardless smartphone payment solutions (exemplified in the huge demand to buy into China's Ant Financial

/ Alipay original initial IPO proposition of a \$34 billion flotation that was halted in November); and last but not least the diversification of the regional fintech startup scene and rise of Middle Eastern fintechs (see comment by Mirna Sleiman).

In medicine, apps in telemedicine are thriving worldwide, far beyond the spike of Covid tracking; and in education, the digital transformation of the classroom has also been flying high internationally. From early in the lockdown days, investor and user interest alike has naturally zoomed in on communication and connectivity providers. All in all, it seems that the year 2020 could go down in history as the year when digital living acquired its virtual wings.

## CHALLENGES AND ADVANTAGES OF COVID INDUCED GLOBAL CHANGES

Set against the background of global economic uncertainty and local economic misery, the Lebanese environment for tech entrepreneurship is first of all that what it always was - a small ecosystem, equipped with a laboratory-sized native market and enticing regional opportunities, but nowhere near able to emulate the market mass that startups would find themselves surrounded by in Europe, the United States, or the Far East.

However, players in this ecosystem can latch onto the global opportunities of this entirely atypical period in the global economy and thus transcend not only the traditional restraints of the small local market (as has been every successful startup's vision since the conception of the entrepreneurship ecosystem in the early 2010s), but also the heavy chains of the country's confounded economic crises that are ongoing and must be expected to last for years.

The mounting risks for entrepreneurs are impossible to ignore. Fintech startups in particular, while needed and in principle better positioned than ever in the distressed Lebanese context of finance and banking, seem to not only - like everyone in the entrepreneurial landscape - have to fight the exchange rate and local ecosystem's funding problems, but moreover still face uphill mentality battles and

regulatory cliffs of restrictive public thinking when they even want to incorporate advisory services.

This all means that global and regional markets are today the saving hope for the entrepreneurs of Lebanon. To cite one example from the cluster of new export-oriented ventures in the organic cosmetics realm, the past few months of Covid-related challenges appear to have actually enlarged market opportunities in the Gulf.

As Neelam Keswani, co-founder and managing director of Dubai-based online fashion and beauty online store Glambizle.com, tells Executive, she saw her customers shift from purchases of appearance-enhancing makeup to spending their money on organic cosmetics such as hair, nail, and skin care products from indie and clean beauty brands.

Her 2015 e-commerce startup, which experienced the typical trajectory of fast initial monthly growth followed by a plateau phase after three years, saw a serious growth spurt in 2020 – because customers focused on pampering themselves with organic cosmetics. “In 2019 we took a flight up and 2020 was exuberant. People had a lot more time for developing a skin care and clean beauty routine,” Keswani says, attributing her venture’s exceeding of sales targets by double-digit percentages all throughout this year to the changes of lifestyles that were triggered by the corona virus crisis.

## **HARD-EARNED BUSINESS SUCCESS**

Also Ayman Demachkieh, chief commercial officer of digital agency Webneoo in Lebanon (a maturing startup, see profile below) tells us that the

company witnessed its results and its turnover go up by double-digit percentages over the course of the past 12 months. “Focusing on our e-commerce projects and not digital projects in general, there has been an increase of at least 15 to 20 percent comparing 2020 to last year. Covid-19 played in my opinion a huge role in raising awareness with every business owner of the importance of their digital presence,” he tells Executive.

The 2020 cohort of new Lebanese startup successes is certainly not large in number (it never really has been and is even smaller than average this year) but large in entrepreneurial spirit nonetheless. Among them, Executive’s entrepreneurship radar picked up hopeful pings from two enterprises that are engaged with the ecosystem – Potion Kitchen

just graduated from the SMART ESA accelerator and Cloud Sale recently signed on with the Nucleus Ventures startup support – and two standalone startup enterprises that this year have not directly been involved with

■ The cohort of new start-up successes is not large in number, but large in entrepreneurial spirit nonetheless.

the ecosystem, Webneoo and The Good Thymes.

For this snapshot at the end of the year, we bring you these four examples of entrepreneurial spirit that succeed against depression, capitalize on local products, monetize new solutions and regional opportunities, or are embarking with unbridled determination on finding the new opportunities hidden in crises.

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## Entrepreneurship

## THE GOOD THYMES



**Year of incorporation:** 2018

**Activity brief:** Production, marketing, local sales and direct e-commerce sales of own niche brand products based on thyme and sumac, two spices native to Lebanon. Supply chain entails local sumac and thyme, plus importation of ingredients such as fruits and nuts used in proprietary product mixes.

**Current markets:** Lebanon, limited US presence, Kuwait and Dubai

**Founder(s):** Fady Aziz

**Team size:** 7

**Economic targets and markets of expansion:**

US, Saudi Arabia, Qatar, and European markets

**Business model:** B2C with some B2B

**Funding stage:** Bootstrapping

**Current funding target:** Not applicable

The Good Thymes is the 2017 brainchild of entrepreneur and designer Fady Aziz. The 2018-incorporated company has carved out a niche with its stylish products, which enabled it to have a year that begun hard, but then turned to be “not very good, but good,” as Aziz tells Executive. Exports are happening, to Kuwait, the United Arab Emirates and the heavily Lebanon-affine state of Michigan in the United States.

Export incomes are allowing the firm to currently operate under a strategy of selling at or occasionally below cost in the Lebanese market.

Locally, the company relies on select presence at 80 points of sales, third-party online retail platforms and seasonal stands to enhance its brand awareness.

Fortuitously, Thymes was e-commerce ready with its own platform when the crisis hit and sales via this channel in the past quarter reached an estimated 30 percent of total sales.

“It was in small quantities but we started exporting our products; this helps us to have balance from a financial perspective,” says Aziz.

The existing narrow but logical export niche in the US state of Michigan is by the company’s strategy slated for expansion into the wider American market. Regional targets are Saudi Arabia and Qatar.

## POTION KITCHEN



**Year of incorporation:** 2018

**Activity brief:** Research and development, production and marketing of natural skin care and slow products in clean beauty niche. Patents for formulas are under preparation. Supply chain is composed of own production of essential oils and hydrosols, in addition to imported materials.

**Current markets:** Lebanon via e-commerce and resellers, expanding sales through proprietary e-commerce platform

**Founder(s):** Rafa Hojeij

**Team size:** 4

**Economic targets and markets of expansion:**

Near-term growth through exporting to West African markets beginning with Ivory Coast and Senegal

**Business model:** B2C

**Funding stage:** Looking for angel investors

**Current funding sought:** \$65,000 to develop exports

Establishing Potion Kitchen was Rafa Hojeij’s life-long dream. “Since I was a child I used to draw up skin care products, design labels and formulate them in our kitchen.”

Rafa has been changing her lifestyle to be as natural and healthy as possible. “I switched to a vegetarian [diet] and started to slow down my habits of consumerism,” she explains. This need to slow down and be more mindful fed her brand, leading Hojeij to create a slow beauty brand that cares about the environment and is opposed to mass production and consumerism.

The strategy of Potion Kitchen is to be a clean beauty indie brand that is affordable to the middle class consumer in Lebanon and export markets, beginning with West Africa, where Hojeij can rely on family networks.

“I wanted to create something affordable for people who are aware and have consciousness about their health, but don’t have such options available to them amongst imported brands that are very high in price.”

The venture sources some of its essential oils and hydrosols by extracting them under own supervision in her home village but imports other ingredients.

Sales channels are functioning well and include resellers as well as a proprietary e-commerce platform that became operational at the end of 2019.

Having been accelerated at Smart ESA as part of the 2020 startup cohort, Potion Kitchen is looking for an angel investor.



## CLOUD SALE



**Year of incorporation:** 2018

**Activity brief:** Online wholesale platform and e-commerce enabler. Digital services include four pillars: content development, branding, digital marketing strategy, and technology.

**Current markets:** Pilot operation in Lebanon

**Founder(s):** Mohamad and Hani el-Hoss

**Team size:** Two founders plus three part-timers

**Economic targets and expansion markets:** Francophone and anglophone countries in Europe

**Business model:** B2B

**Funding stage:** Obtained seed funding

**Current funding target:** To be determined

Cloud Sale graduated from the acceleration program of Flat6 Labs in Beirut, and pitched for investments at the second Flat6 demo day in fall of 2018. Commencing operations in January of 2019, the marketplace according to founder Mohamad El-Hoss, achieved turnover of more than \$260,000 over the course of the year – up to the month of October.

With heavy concentration of its hospitality sector client base in the trendy Gemmayzeh district of Beirut, the startup encountered a first wave of difficulties when the combination of social protests in the thawra and the mounting inability to set prices for imported supplies due to the sudden fluctuations in the exchange rate impaired the rising business.

In response, the startup pivoted away from its B2B marketplace business model to a B2C model in the hospitality sector. Financing and operations were already becoming increasingly challenging throughout the first half of 2020. The ultimate blow came with the physical destruction of most restaurants and pubs in Gemmayzeh on August 4.

The startup decided to reinvent itself from running marketplaces with a hospitality sector focus, to become an e-commerce enabler. Cloud sale enrolled in the Nucleus Ventures program, obtaining perspectives of seed funding and potential matching funds via the Nucleus network and its Lebanon Enterprise and Employment Programme (LEEP) partner program from the UK.

Cloud Sale has just designed its manifesto of the digital services that it is going to offer. The new main target market is Europe rather than the GCC, which according to Hoss are crowded with competitors from the Indian sub-continent and the Far East. “We will position ourselves for the European market,” Hoss tells Executive.

## WEBNEOO



**Year of incorporation:** 2012

**Activity brief:** Software company, provision of e-commerce advisory and platform building

**Current markets:** Clients in Europe and Lebanon

**Founder(s):** Michel Achkar and Nour Fakhoury

**Team size:** 8

**Economic targets and expansion markets:** Be a global player in facilitating communication between digital services providers and their clients

**Business model:** B2B

**Funding stage:** Bootstrapping


**Current funding target:** To be determined

Webneoo is the most mature tech venture in our list of interesting startups at the end of 2020. The company has achieved business growth in terms of turnover and results this year and used the virus factor to its favor, chief commercial officer Ayman Demachkieh tells Executive. The coming years in his view will see continued growth in the demand for building of e-commerce platforms, advisory on digital strategy, and provision of digital management of social media.

“All businesses that have physical shops and cannot sell online discovered that they have inventory that they could not move under the crisis. They realized the importance of having digital presence and online market action,” explains Demachkieh who says he joined Webneoo because he found it to be a digital agency that combines a startup culture with a highly professional way of doing things.

He was not authorized to disclose revenue or profit information but volunteered to say that “the company is doing well, especially this year.”

Having launched a new line in 2019 that is in the domain of digital applications, the company is strategizing for further expansion and ultimately global presence by offering “a custom designed application to make communication and work easier between any digital agency and their client. We actually target international clients, the whole world. However, we are currently focusing on building our portfolio in the GCC,” Demachkieh adds.

Webneoo is not currently engaged with fundraising but is contemplating to launch a new round of equity seeking in the second or third quarter of 2021. 

## FINDING SCARCITY



The search for entrepreneurial opportunity among Lebanon's perfect storms

**Executive visited with Naji Boutros, a Lebanese economic mind whose expertise and passion spans from investment banking and identification of opportunities in venture capital (VC) and private equity, to nurturing entrepreneurship in Lebanese agro-industry, viticulture, and hospitality.**

**E** *You have been involved in a wide spectrum of local entrepreneurship in non tech-dependent ventures, which as you tell me range from cultivation of high-end cuisine and restaurants, to the facilitation of micro-entrepreneurs who use local recipes and ingredients in baking very tasty Lebanese cookies. A few months ago, you tackled entrepreneurship in tech as the chair of Nucleus Ventures, the early-stage seed program and entrepreneurship support enterprise that evolved out of the UK Lebanon Tech Hub. In light of seeking an economically sustainable future, how do you describe the situation after Nucleus Ventures has been in operation for a few months?*

One thing that these guys [at Nucleus Ventures] are focusing on now is education, making technological education accessible to all, because the

best way to get somebody out of poverty is to teach them in the most efficient way the skills [they need]. We are involved with Steve Wozniak (co-founder of Apple), in education in Lebanon and that is what Nucleus will roll out now, [an education program]. Another subject that they are working on and that we see a lot more of is e-commerce, assisting Lebanese companies sell overseas. In today's environment, this makes so much sense.

**E** *How much do you trust the infrastructure for doing such things out of Lebanon, especially when looking at uncertainty of electricity supply or internet stability, etcetera?*

I don't think that it is anymore a big problem [with regard to electricity and the internet]. The Lebanese have adapted and are making do with the infrastructure that they have, [such as] payment gateways, internet speed, etcetera. They know when to turn the generator off, what window has a better reception, [and] who to talk to regarding global payment gateways. The percentage of [entrepreneurial] energy that they have used to adapt to this environment could have been better

used elsewhere, but they have adapted to [infrastructure shortcomings by] mainly relying on networks and family connections and community support.

**E** *Without talking politics, how do you evaluate 2020 economically from the experience of a Lebanese investor and an individual passionate about this country?*

It is the year of perfect storms. I am involved in many sectors in Lebanon, in logistics, in food production, in technology, in wine-making and hospitality. Lebanon got hit with so much and I don't need to enumerate it, because you lived through the [blast], through the revolution, [and through] the banking crisis which cost tremendous liquidity. I believe that the winners [will be] those who have a marathon attitude, those who are able to go through this period of uncertainty and adapt to it. Almost every company that I am involved with has opened bank accounts outside, lines outside. [Many a company] has [been successful in] obtaining financing of accounts receivables from non-Lebanese entities, so this is in a way really good for them because their business model has become much more resilient. So when you look at the Lebanese sector overall, [companies] have gone outside of Lebanon, so their business models have become more resilient. That is very good because it will help them weather the next storm.

**E** *Can Lebanon still become a hub for startup listings and be a conduit for financing of knowledge economy ventures?*

I think that the financial industry has been dealt a very hard blow and will not recover from it for a very long time. As you know, the foundation of business, especially when it comes to custodianship of money, is trust. Trust has been shattered. So if I were running a Lebanese bank and would have benefited from years and years of profitability and high interest rates, I would have brought the money - or at least a big chunk of the money - back to Lebanon and reinjected it in the Lebanese banks. This is a long-winded way of saying that the main support base of Lebanese financial institutions and trust has been shattered. I do not believe that anything reliant on them will succeed any more. It will be a long time before you see that. On the other hand, reestablishing a parallel platform with new players, preferably with some kind of European sponsorship, could go a long way to reestablish this capital markets platform.

When it comes to the startup scene, you have two parts. You have the human element, [such as

entrepreneurialism], creativity etcetera. This [human element] until now has been reliant on Lebanese institutions - academic institutions - and I think the Lebanese will continue succeeding in this.

Because of their DNA. But one thing was taken away

from them, and this is the finance at the seed level and VC level. This will need to be reinvented. What we need to think of very seriously is some kind of a tokenization of the remittances and funds inflows from Lebanese expatriates [and] take it "over the counter" to a level where every Lebanese expat [can be in-

involved]. Lebanon has always survived because of the [expats], through their remittances. We need to re-think or re-engineer their remittances to make them reconnect with the products in Lebanon, whether these products are something they eat, something they consume intellectually, or startup financing.

■ "The foundation of business, especially when it comes to custodianship of money, is trust. Trust has been shattered."

**E** *Would you mean doing something like a diaspora cryptocurrency? Or perhaps a digital currency that is not organized and managed by the central bank?*

I don't know if I would use the term cryptocurrency. The term needs to be a bit romantic, because [what] appeals first and foremost to the Lebanese about their home country is romance. It is nostalgia. But I absolutely feel that [there should be such an electronic tokenization system] - and definitely not run by the central bank. I fault the central bank - and I don't want to get into the politics - in a major way. Two major problems of Lebanon today are that we are occupied - let's face it - and [that] our allegiances are not for the benefit of Lebanon.

**E** *Tokenization might not be the most sexy term for such a project but is what you are talking about basically a digital layer of financial communication?*

I think we need to have a trusted global marketplace, one that brings everybody together, all the Lebanese expats with the Lebanese users that share the need [for a tokenized marketplace].

**E** *Would that be run by the World Bank or a multilateral agency of that global sort or an entity like an NGO, or a Lebanese bank?*

Perhaps it will be several NGOs but certainly not Lebanese financial institutions or the central bank.

## Entrepreneurship

**E** *With the future of Lebanese entrepreneurship in mind, what is your view on the utilization of national assets through a public asset management company, as envisioned in the government's proposal, a fund such as the Government Debt Defeasance Fund concept of ABL (Association of Banks in Lebanon), or comparable designs proposed by several economists?*

I am tempted to say the best asset of Lebanon is the diversity of the Lebanese and their intelligence. I think that is certainly something that Lebanon can bank on, because at a time of shifting global allegiances Lebanon can be friends with everybody. That is certainly something [of great value] but that is unfortunately also a movable asset, because you can take the Lebanese out of Lebanon - and then Lebanon will be left without them. So when we think of Lebanon we must not think of a place but we must think of a nation. It is almost a state of mind. But the one immovable asset that Lebanon has - and that I firmly believe and have invested a lot of money in - is the Lebanese nature. It is [the diverse natural environment] with 24 climatic zones.

This means we can be almost self-sufficient when it comes to the most important staple foods and exotic foods. You can have the bananas on the coast, the apples on the mountains. This is also very important because this is the foundation of eco-tourism. We need to pay attention to this. But when you think of the Lebanese food industry, whether it is the wine that we are making at Chateau Bellevue or the chickpeas and hummus that we are making... or the jams - everything can come from Lebanon. The benefit of [producing locally] is to take [food] out of the commodity scene. So when we talk about digitization, we need to get what is called in this industry traceability of the product, identifying a product that comes from Bikfaya as a unique peach or a karaze from Hammana as a unique cherry. That is what people pay a premium for. Lebanese expats will pay a premium for a Lebanese product.

**E** *Would something like the McKinsey plan - Lebanon Economic Vision (LEV) - have been adequate to address these opportunities if implementation of this plan had ever been achieved?*

I remember, [from discussions related to the LEV], thinking: "What is this?" People talked about the benefits of medical Cannabis - [although] I am all for this. Then [they were

talking] about gas and oil - I am not really for that because I think the perception of the wealth created by gas and oil is bad for the work ethics of our people. For me gas and oil will have almost no economic benefit going forward; the only real economic benefit of it being our own usage of gas and oil so that we reduce our import bill. For me the groovy thing is around the next corner, meaning the plot of land where you can plant olives or grapes or bananas or chickpeas or whatever for your local production.

**E** *It sounds like your approach to the use of productive land would imply a lot of entrepreneurship. Am I correct to assume that, if done right, such an entrepreneurial use would not be only farming?*

It is value-added farming.

**E** *This reminds me of an interview where you spoke about the principle of scarcity, at that time referring to real estate on the island of Sardinia. The concept of scarcity referring to anything of high value and limited in number, be it real estate or nature. Do you think the concept of scarcity has been internalized and capitalized on in Lebanon?*

Not yet. Exactly, Lebanon has not internalized this yet. The most expensive hams come from Parma, or [Spain, as] jamon de Serrano. People still talk about Iranian caviar although the quotas are so limited now. Or Balik salmon, which is made at a specific [location] in Switzerland and based on an old Russian recipe that [was used in the smokehouses of] Czar Nikolas [II]. Lebanon can do the same. We need a big marketing vision for the country, and I think this [vision] has to be based on the scarcity [principle].

There needs to be a major study about scarcity. [We have to study] what is unique about Lebanon and market the heck out of it. But polish it. None of the guys that have run [consulting studies on] Lebanon have thought about this. All they have been wanting to do is import a model made outside of Lebanon, into Lebanon. That is wrong. It is not adapted to our country. [We need to be] digging deep and polish the diamond that is called Lebanon. That is what the Italians did with Sardinia.

■ "[We have to study] what is unique about Lebanon and market the heck out of it.... [We need to be] digging deep and polish the diamond that is called Lebanon."



**E** *So sitting here in Bhamdoun on a very sunny afternoon in late 2020, are you depressed about the Lebanese short-term outlook?*

No. I am depressed that there is a [harsh] short-term outlook because people have lost so much - especially when I see old men at the banks. It breaks my heart to see this. But I am extremely hopeful for Lebanon because the puss has been brought out of the wound - the shit has hit the fan as they say in colloquial English. The Lebanese now understand that it is not all groovy and dandy as they have been told before, and that this [collapse] is here - and kudos to economist Toufic Gaspard who I, 20 years ago, heard talking about this collapsing Ponzi scheme. We must go back to the original Lebanese hard-work ethics, respect for each other, care, and faith. Because if you don't believe that you are going to get out of it, that is very depressing.

**E** *Talking in the short term, and especially with regard to entrepreneurial finance, it seems that a few companies in the knowledge economy have been able to mobilize international investments, but compared to what Lebanon would need, this does not seem to be enough for mobilizing new economic growth. What are the chances that any entrepreneurship project or startup would gain investor support and access to finance in the intermediate term, let's say between now and mid-2021?*

The foundation [of investments in the knowledge economy] has to be the judicial system. At this current moment, nobody trusts the judicial system. I do not expect money coming to Lebanon to finance projects, whether from donor agencies and governments or individual Lebanese [in the diaspora]. That is not going to happen until you get rid of the mafia ruling over Lebanon. Nevertheless, there is a lot of money trapped in banks in Lebanon, and that money is looking for a home outside of banks. To the extent that you can get a project financed with dollars, or local Lebanese dollars, or Lebanese pounds, I think you can find a lot of money.

**E** *If I name a few sectors of entrepreneurial activity, would you give me very brief yay or nay evaluations if investing in these sectors would be interesting?*

Okay.

*Let's start with Fintech. Would this sector have potential*

**E** *in Lebanon?*

Yes. By the way, on Fintech, one of our iSME (the entrepreneurship fund associated with the Lebanese Kafalat loan guarantee corporation)

entities was just sold to a Hong-Kong based player. Fintech is definitely interesting.

**E** *Even Fintech made in Lebanon?*

Yes, because the Lebanese are working globally in financial institutions. It is not the archaic Lebanese system that taught them this way.

**E** *How about networking or social media startups, like TikTok? Would you invest?*

No.

**E** *Home office operations, remote work organization etcetera. Do you think Lebanon has an edge in developing any solutions?*

Yes. I do, [when considering] hardware plus software. We are doing well in this and [cloud computing infrastructure company]. Multilane is one example.

**E** *Gaming industry?*

Absolutely.

**E** *Online media and content of high journalistic quality?*

I am tempted to say yes but you would know more about this than I do. But along perhaps the same line I definitely think that online education and adaptability of foreign curriculums to the Arab world is huge and keeps growing [as opportunity].

**E** *Any specialty in e-commerce? Online shopping*

*malls, direct from producer to consumer, intermediary platforms and marketplaces?*

I think we definitely can be leaders in e-commerce. For example if you think of luxury fashion, that is something that we are good at. Taking that regionally and perhaps even globally, you need a mart, some kind of a mall. Lebanese food, taking Lebanese cuisine globally. It could have the same impact as pizza had in America after World War II, when GIs came back after tasting Italian pizza. Lebanese food will become a big hit in the US, and in Europe too, I believe.

**E** *Corona awareness apps?*

No, we don't take it that seriously.

**E** *Any other sector where you would feel that Lebanese startups will have a natural edge or would be attracting you immediately?*

I think we covered most of it.



# FUNDING FOR LEBANESE START-UPS THREATENED



2020, where things stand

**Eager to capitalize on the tech-savvy population, high education rate and entrepreneurial spirit, Banque du Liban's (BDL) Circular 331, released in 2013, paved the way for the creation of dozens of startups in Lebanon, in addition to accelerators and incubators.** Despite this support, events of the past few years have put a stop to the generous investments in startups.

Circular 331 was meant to incentivize local banks to invest in the local tech scene to turn Lebanon into a start-up nation. The circular encouraged banks to allocate up to 3 percent of their capital in startups, incubators, accelerators and venture capital funds by a mechanism that would guarantee reimbursement in case of failure of the said venture up to 75 percent of direct startup equity investment or indirect support entities. Local banks would be authorized to obtain a seven-year loan from BDL with zero interest, in exchange for investing it in Lebanese Treasury Bills with an interest rate of 7 percent, in return for the banks committing to invest in the knowledge economy with BDL guaranteeing the

investment up to 75 percent and sharing the profits with the banks at 50 percent.

The structure of the initiative allowed for more guarantees. In 2014, this allowed for an injection of \$400 million in the Lebanese knowledge economy. According to Bassel Aoun, program manager at Kafalat for the Innovation in Small and Medium Enterprises (ISME) program, a project supported by the World Bank, the major source of startup funding has come through Circular 331 subsidies. Banks are the main suppliers of funds through Circular 331, so the current banking crisis has resulted in this money drying up overnight.

"Most of the funds came from the banks", says Fadi Bizri, a partner at B&Y Venture partners. Indeed, in the absence of well-developed capital markets in Lebanon, the attempts to reach international investors have been lukewarm, and the ecosystem has been resting mostly on BDL's shoulders.

Nevertheless, in light of Lebanon's financial woes, and due to regulatory hurdles and other shortcomings of the Lebanese economy, the support mechanism established through Circular 331 have stalled.

Due to the current financial crisis, and to capital controls, it has been difficult to get investments from abroad to local startups, and trying to attract such investors is, according to Aoun, "counter intuitive". "Capital controls are affecting the performance of our companies," Aoun continues.

Indeed, startups in Lebanon are being barred from wiring money abroad to pay for marketing, software, ads, and foreign talent, which is having an adverse effect on their financial standing. "It's a nightmare" says Fadi Bizri, taking into account that the value of a startup is heavily related to the value of its software (hosted on servers such as Amazon Web Services), data and cloud management, all of which require international payments to be maintained.

To add, startups are no longer able to hire talent from abroad, and are even losing talent to emigration. "Between the *thawra*, capital controls and Covid-19, there is a lack of trust from abroad in the local economy and therefore very little to no investment," says Nicolas Rouhana, general man-

ager at IM Capital, an initiative funded by USAID which provides capital and support to companies through early-stage investors like angel investors, venture capital funds, accelerators and incubators .

Efforts to mobilize international investors have had little to no tangible result, most finance experts say. Consequently, many startups are considering moving abroad to re-incorporate in a different jurisdiction. Start-ups are also being pushed to relocate by investors, who are nervous about the current situation and Lebanese judicial regulations, as Lebanese commercial laws are deemed too rigid for the corporate structures needed in venture capital. Also, the relocation of these start-ups abroad would allow them to raise capital from different pools of investors, in jurisdictions where money would be more easily accessible.

Nevertheless, initiatives to channel foreign money into Lebanese startups have not fully dried up. IM Capital, for example, to help provide relief for affected SMEs in light of the August 4 Beirut port explosion, recently launched the “heartfelt support to Beirut” - initiative supported by USAID to help channel 2 billion LBP through its companies across four sectors: education, housing, food and water, securities and business platforms. The money will be used to provide relief packages to clients and beneficiaries who have been affected by the port explosion.

## HAVE START-UPS TRIED TO CHANNEL SOME OF THE LOCAL DEPOSITOR MONEY?

Startups would, in principle, be seen as attractive investments to local depositors worried about capital controls and talks of haircuts on deposits. “We have witnessed this trend”, says Aoun, mentioning investments in local dollars - “lollars” - in startups, “though it has been minor for early stage startups”.

Nevertheless, for startups less dependent on foreign money, Rouhana believes that this could result in a mix of “fresh” dollars and local dollars as an investment tool in the near future. Such a mix of local and international dollars, according to Fadi Bizri, would not depend so much on the startup’s industry, but more on how mature the company is. Mature companies wishing to pay higher salaries, for example, or needing to transfer money abroad, would be less interested in the use of local dollars.

Other ways to circumvent the difficulty of accessing capital and sending money abroad is the use of crypto-currency and crowdfunding. The use of crypto in Lebanon is not obvious as such tokens

would have to be converted to hard cash - and buying them would prove difficult due to capital controls. Regarding crowdfunding, there have been minor initiatives but they have been made on a small level. According to Bizri, “You have small initiatives from people abroad who want to help”, but those happen mainly for companies with exportable (or potentially exportable) products who are in need to import things like raw materials or machinery, and that can repay investments with ‘fresh’ dollars, which is not the case for most startups in Lebanon who are engaged in the local production and distribution of services.

“The last 14 months have been challenging in abnormal ways for any entity across Lebanon” says Mouhamed Rabah, Chief Executive

Officer of the Beirut Digital District (BDD), a privately-funded community space that hosts startups, incubators, accelerators and funds. According to him, startups are look-

■ “The last 14 months have been challenging in abnormal ways for any entity across Lebanon.”

ing for international funding, but this comes with a requirement to reincorporate abroad. He argues that two elements are driving these companies to reincorporate: the drying up of funds for startup investments in Lebanon, and a loss of trust in the government and institutions due to the August 4 explosion. Indeed, the latter seems to have been the breaking point for many talents, who do not see the need to risk their lives or their childrens’.

“We are seeing an increase in demand from [foreign] companies wanting to set-up their back office in Lebanon due to a more competitive financial cost and this could help Lebanon transform into an added value outsourcing hub, building on the yearly graduating talents” says Rabah. For example, a Saudi company is opening up their engineering office in Lebanon at BDD to profit from these now more affordable talents. More of these examples can be found at BDD, according to Rabah.

As local funds dry up, startups can turn to their networks in the diaspora, as incorporating outside of Lebanon doesn’t necessarily mean to pack bags and leave. Indeed, reincorporating abroad can mean setting up another legal structure and bank account for cash management outside of Lebanon, but does not imply leaving the Lebanese market as a whole or moving out completely. ■