



November 24th, 2017

Contact Information

Research Analyst: Riwa Daou
riwa.daou@blominvestbank.com

Head of Research: Marwan Mikhael
marwan.mikhael@blominvestbank.com

Research Department
Tel: +961 1 991 784

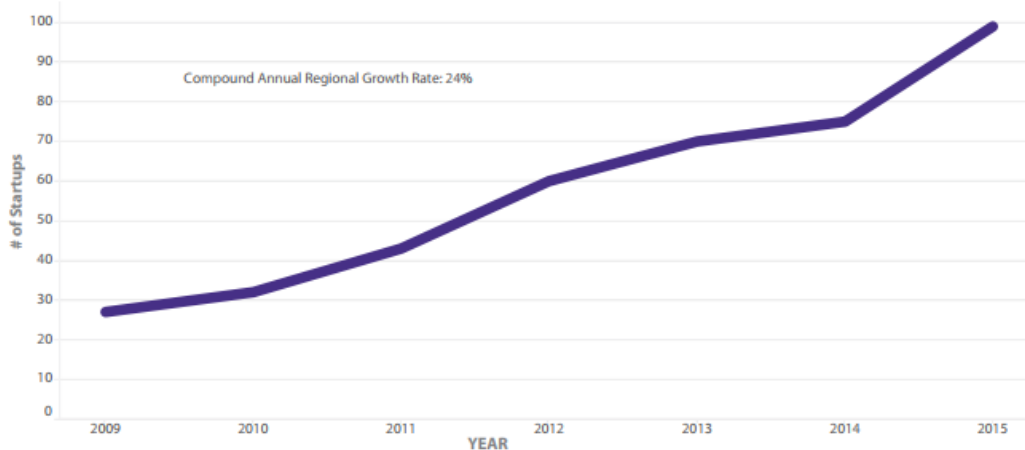
The World Bank recently released a report entitled “The Tech Start up Ecosystem in Beirut” in which it attempts to portray the status of this budding scene in Lebanon. The World Bank’s findings are based on a survey conducted between February and August 2016 involving 218 entrepreneurs, 142 start-ups and 196 start-up founders. The World Bank acknowledges the limitations of this study especially given the fast-changing nature of the start-up ecosystem but it still believes that it provides “unique insights” into the ecosystem. This paper summarizes the World Bank’s findings with regards to this lucrative and novel sphere of Lebanon’s “knowledge economy”.

The World Bank defines the tech start-up ecosystem in Beirut as being in the early-to-middle stage of development. The ecosystem as a whole has in fact surpassed its nascent stage but has not yet matured. However, a more detailed portrait of the elements that make up the ecosystem reveals some mixed stages of development. The skills in the ecosystem are advancing, investment is advancing whereas the community, the supporting infrastructure and constraint are still at a nascent stage.

Before analyzing the Lebanese ecosystem, it is important to understand the ways in which an advancing ecosystem differs from a nascent ecosystem? In fact, a nascent ecosystem entails a limited number of start-ups in very early or early stages and where skills are lacking and where no substantial exits occur whereas the advancing ecosystem sees a growing number of startups with limited business acumen and exits starts to appear. In terms of mentors and financing, a nascent ecosystem has a few inexperienced mentors and no international connections, there are gaps in the finance pipeline and very few private sector funding opportunities while the advancing ecosystem benefits from the availability of mentors, an increasing number of international connections, a finance pipeline with some gaps and private early stage investment.

Data on startup proliferation confirms that Lebanon’s tech ecosystem is indeed advancing. According to the World Bank, “on average, each year, 12 more start-ups are created than in the previous year, resulting in a 24% compounded growth rate in start-up creation since 2009.” The graph below shows that the number of startups in Lebanon grew from around 29 in 2009 to 100 in 2015.

Number of Startups in Beirut, 2009-2015



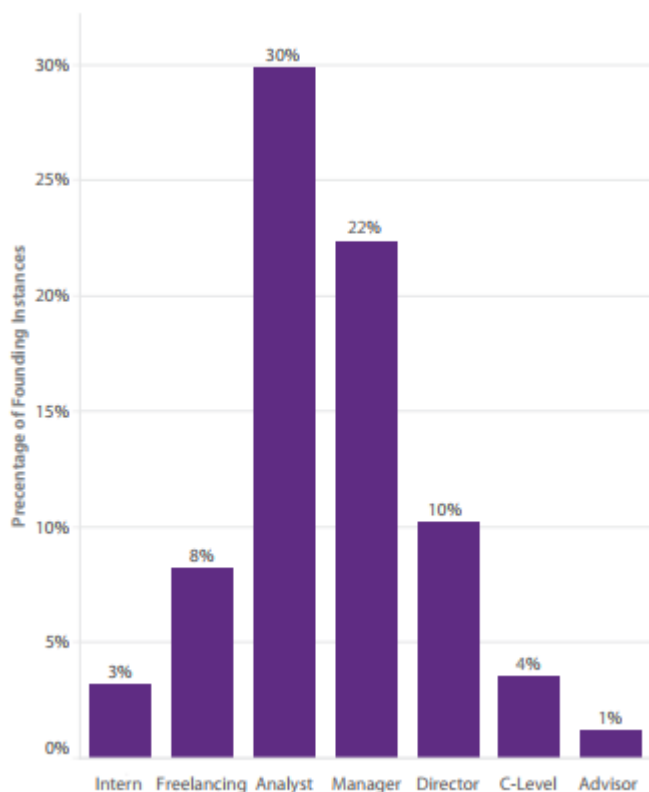
Note: Data shows tech start-up ventures as reported by founders of active start-ups during date of survey. Data of start-ups founded in year 2016 was not included in this figure because the survey was carried out in mid-2016, which was not comparable with all previous data from complete years.

Source: World Bank

The start-up founders are mostly young males and assume dual function in their ventures. According to the World Bank, 81.85% of start-up founders are male while the remaining 18.82% are female. Moreover, the biggest share of start-up founders (40.16%) handle both the business and technical sides of their venture compared to 34.25% handling business only and 17.72% handling technical functions only. The average age of start-up founders is 29.8 years, a figure which according to the World Bank places Lebanon “on par with mid-stage ecosystems and mature ecosystems such as New York”.

It is no surprise that the skills in the tech ecosystem are advancing. In fact, the World Bank notes that the key strength of this ecosystem is the “presence of talented people with highly educated founders”. At the time of founding, 90% of start-up founders have a university degree and 50% of them have a post-graduate degree, which is comparable to mature ecosystems such as Singapore and New York. On this note, we believe that the development of this ecosystem in Lebanon and the availability of funding present in Lebanon, which the World Bank believes is “unique for this stage of development”, is helping in attenuating the heavy “brain-drain” phenomenon from which Lebanon is suffering. However, the World Bank highlights that the start-up founders’ professional experience is mostly in entry-level positions which does not fully prepare an individual for start-up management.

Previous Function Held by Start-Up Founders in Beirut



Source: World Bank

Accelerators and mentors in the tech-ecosystem improve the chances of a start-up in receiving funding. According to the World Bank, “Two thirds of accelerated start-ups we funded, while only one-third of accelerated start-ups were funded, that is start-ups supported by accelerators are twice as likely to receive funding as those that do not”. The World Bank concluded that in Lebanon, a start-up will have a hard time securing funding without participating in an accelerator program. However, the World Bank also concluded that accelerators do not make a meaningful impact on the **quality** of the startups in Lebanon compared to start-ups who have not benefitted from access to an accelerator.

More work needs to be poured into growing the supporting infrastructure for this ecosystem. The supporting infrastructure designates accelerators and mentors which are essential in ensuring that “a good idea” turns into an efficient and profit making business. The World Bank acknowledges that it has not addressed constraints such as broadband or physical infrastructure, but they are certainly essential and need to be improved on the long-run. According to the World Bank, “accelerator programs do not seem to provide sufficient quality training” for entrepreneurs to be sustainable and quality mentors are scarce”. However, the World Bank does mention that “events and community building” have been kick-started by the Central Bank of Lebanon through initiatives like BDL Accelerate.

The World Bank elaborates on the importance of connectivity in the startup ecosystem. The effectiveness of an ecosystem is proportional to its level of connectedness; the more the connections are tightly linked, the higher the efficiency of the ecosystem. The World Bank described the Lebanese economy as a low-density ecosystem with a limited number of clusters. Currently in Lebanon, start-up activity is centered around BDL accelerate but has also started to attract other global networks such as Startup Weekend or the University of Pennsylvania, which is attributed by the World Bank to the fact that startup founders have strong diaspora ties and hold two or more nationalities.

It may be the case that the amount of funding present exceeds the capacity of the ecosystem. For the time being, the World Bank believes that the ample seed funding currently present in the Lebanese ecosystem might be clouding the ecosystem's ability to select the top start-ups which would be the ones to generate sustainable success. **However as the ecosystem evolves, the number of quality startups is supposed to increase and that would then help create more balance between funding and quality start-ups available.**

In terms of investment, the World Bank highlights that a small amount of financing is available outside of 331. According to the World Bank, if 331 funding is "phased out", the current level of funding will no longer be sustainable. In order for the ecosystem to move forward towards a mature stage, Lebanon must pave the way for more private investors to hop on the tech-train.

For your Queries:

BLOMINVEST BANK s.a.l.
Research Department
Bab Idriss, Downtown Beirut

Riwa Daou, Research Analyst
Tel: +961 1 991 784
riwa.daou@blominvestbank.com

Marwan Mikhael, Head of Research
marwan.mikhael@blominvestbank.com
+961 1 991 782

Disclaimer

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.