

THE LEBANON BRIEF

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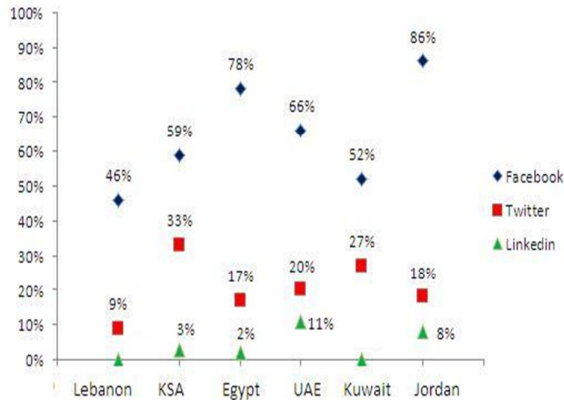
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FOCUS IN BRIEF

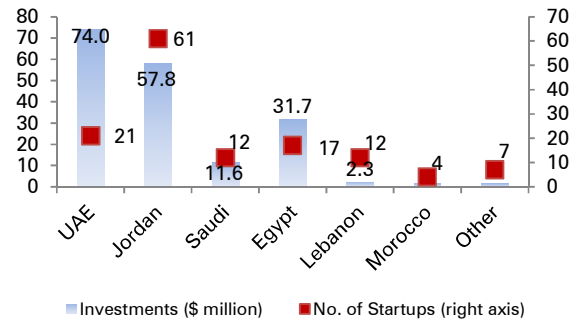
Lebanese Digital Economy: Untapped Investment Opportunities

Consumed Social Media Platforms among Internet Users - 2012



Source: IPSOS "MENA Internet Usage & Consumption Habits" Report

Total Investments & No. Of Startups by Country (Jan 2010 – Nov 2012)



Source: Sindibad Investment Report: Internet & Technology Startups in the Arab World

Famed for its refined dining and extravagant venues, Lebanon has been recently experimenting with new recipes which cater to a web development hungry online community. Having enjoyed quite a few success stories, it comes as no surprise that digital experts such as Omar Christidis, CEO and Founder of Arabnet view that "Lebanon has the opportunity to be the creative kitchen for the region's digital sector."

A taste of this sector is sampled in IPSOS's 2013 report on "MENA Internet Usage & Consumption Habits." It is estimated that the internet population in the MENA amounted to 40 million users by end 2012, the equivalent of a 39% internet penetration rate. Of this figure, a 40% majority represents users residing in the GCC which have the highest penetration rate at 61%. Meanwhile, Lebanon with 1.7 million users has an above average internet penetration rate of 56%.

The report further identifies the most popular habits, with social media consumption being the most accepted within Lebanon and the region. In Lebanon, 47% of internet users access social networks, of which 46% have a Facebook account and 9% use twitter. Within the region, Jordan has the highest social media penetration at 88% as well as the highest percentage of Facebook users amounting to 86% of their total internet population. On the other hand, Saudi Arabia has the highest percentage of Tweeters amounting to 33% of its online community.

While social media has gone viral, e-commerce platforms have not picked up. High shipment costs, taxes, and a scarcity of secure payment gateways have thwarted giant retailers such as Amazon from being able to establish a foothold within the region. For example, it is estimated that only 9% of internet users in Lebanon are consumers of e-commerce websites, with the highest percentage being in the UAE at 46%. E-banking websites are the most popular in Lebanon while airline ticket purchases top consumption in the UAE. Nevertheless, online users have managed to find alternate methods for conducting commercial transactions, mainly through the use of social networks such as Facebook.

Essential for advancing sustainable development, e-government solutions are still lacking within the region. The United Nations "E-Government Survey 2012" ranks Lebanon 10th for e-government development amongst 16 countries surveyed in the Western Asia region and 87th worldwide out of a total of 190 countries. Providing e-government services to citizens' helps increase transparency and accountability, both of which crucial for the adoption of responsive public policies. This is especially true for countries such as Lebanon, where red tape costs can be high and public policies are unaccommodating. In addition e-government implementation may serve as a quick fix to the high and increasing burdensome public wage crisis, which currently makes up around 29% of current government expenditures.

Equally important and still underdeveloped is the integration of e-education platforms into our academic institutions. Lebanon, which acts as a regional supplier of highly skilled labor should pioneer this transformation, especially since it hosts the most renowned learning centers within the region.

Confirming the local talent, web developers such as Born Interactive take on numerous projects outside Lebanon. In fact 65% of their 2000-plus projects have taken place within the MENA area since they first opened their doors for business in 1996. Mr. Fadi Sabbagaa, CEO of Born Interactive highlights this edge by claiming that “despite the numerous setbacks that the local digital industry faces, constant self-reinvention, agility, and heightened responsiveness have allowed us to offer creative, innovative, and competitive solutions.”

With plenty of room for growth and success, an army of entrepreneurs have turned to web experts for assistance. Accelerators such as Seeqnce have created programs to absorb this demand and pass on their expertise. Filtering through over 450 applicants, 8 finalists are chosen to take part in an intensive 6 month accelerator workshop. The chosen few are then allocated a sum of money close to \$34 thousand in cash in order to finance the seed phase of their business plan. Initial financing is originally secured through a fund which in turn takes 30% ownership in each of the eight startups.

A comprehensive report prepared by Sindibad Business on the “Investment in Internet & Technology Startups in the Arab World” demonstrates the increase in startup investment appetite. The report identifies that 134 successful business plans were launched between Jan 2010 and Nov 2012, creating around 1500 jobs in the region. The majority of funded startups took place in Jordan with 61 companies being financed; meanwhile only 12 took place in Lebanon. An estimated \$151.6 million was invested in these 134 businesses, with \$74 million being captured by UAE startups and only \$2.3 million by Lebanese. Furthermore, 82% of the total invested amount took place in 2012, 7 times higher than the amount invested in 2011 and 13 times greater than in 2010. An interesting observation is that most investors are of foreign nationalities, indicating that regional investors do not realize the value of these investments or that they lack the expertise in developing new projects.

Moreover, the amount invested in each country is not uniformly spread across the number of startups. For example out of the \$74 million allocated to startups in the UAE, \$40 million represents investments made by Reuters in Zawya and \$20 million made by JP Morgan & Blakeney in Namshi.com, an e-commerce website. Likewise, out of the \$57.8 million captured by Jordan, a majority \$40 million was provided for by South African Napsers to Souq.com.

In Lebanon, the top three investments since 2010 include Nymgo, Woopra and Anghami. Nymgo, a VOIP services company which originated in 2010 received an approximate investment amount of \$1.5M by Intel Capital. Woopra, a competitor to Google Analytics developed in September 2012 is estimated to have received \$200 thousand from Wamda Capital. Meanwhile, Anghami received near \$100 thousand from Middle East Venture Partners for its online and mobile music website.

Anticipating even further investments and greater job opportunities within the digital sector, Lebanon should undergo major reforms to position itself as a digital hub. Ignoring the basic necessity of political stability, internet availability and employment regulations should be revisited. More digital zones such as the Beirut Digital District should be implemented throughout the country which grants developers access to a fiber optic internet connection. Regulation with regards to employing foreign nationals should be loosened in order to attract more professionals within this sector. With tremendous spillover effects, developing our digital economy should be made a top priority for policymakers.



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Your Investment Reference