

LIFE AFTER COVID-19

مؤسسة دبي للمستقبل
DUBAI FUTURE FOUNDATION



In collaboration with

مجالس دبي للمستقبل
DUBAI FUTURE COUNCILS



للابتكار وريادة الأعمال
Innovation and Entrepreneurship

FUTURE TRENDS

**INNOVATION AND
ENTREPRENEURSHIP**



CURRENT SITUATION

Promoting the growth of the startup sector is critical in establishing the region's position as a hub for innovation and knowledge industries. The startup and SME sectors combined contribute up to 40% to GDP and up to 50% to employment in the MENA region¹. UAE is already considered an important environment for innovation in the Arab world, according to the Global Innovation Index, having succeeded in expanding its homegrown SMEs as well as attracting international talent.²

SMEs and startups contribute to up to

40%

to GDP in MENA



contribute to up to

50%

of employment in the region

¹ <https://www.imf.org/~media/Files/Publications/PP/2019/PPEA2019040.ashx>

² <http://www.dubaichamber.com/dubaistartuphub/making-dubai-launchpad-innovation/>

The emergence of the startup sector as an important contributor to the UAE's economy can be attributed to the expansion of government-led initiatives to accelerate growth and build an ecosystem conducive to entrepreneurship and innovation. According to the 2019 MENA Venture Investment Report, **the UAE attracted the largest share of inward venture funding in the MENA region, accounting for 60% of the total**, followed by Egypt and Saudi Arabia with 14% and 9% respectively. Seven of the top funded startups in the MENA region were also based in the UAE, including companies such as Yellow Door Energy, Trukker, ekar and Bayzat.³

Nevertheless, the current COVID-19 pandemic is expected to impact the region's startup sector. According to a recent survey of the startup community in the MENA region, due to the impact of COVID-19, companies have reported that the COVID-19 crisis is affecting their business, with revenue generation, fundraising and burn-rate being the most significant concerns.

³ <https://d2p9i44hnkrmkx.cloudfront.net/files/research-files/712020/8528773838751-2019%20MENA%20Venture%20Investment%20Summary.pdf>

OPPORTUNITY

Many strong startups that have high burn rates are not favoured by the new COVID-19 context. Hence, government support to these companies will be critical. Such support will help business to return to pre-crisis levels once the outbreak recedes and may prevent lasting damage to the ecosystem which could lead to more general longer-term economic contraction.

Potential government support measures can be implemented as temporary measures, to be removed after the crisis recedes, or as permanent measures. Whereas temporary measures are recommended for almost immediate implementation in order to contain the impact of the outbreak in the short term (over Q2 and Q3 2020), permanent measures should seek to address long-running challenges that the startup sector faces. Although these long-running challenges are not directly caused by the pandemic they are being exacerbated by it and will be addressed in this brief. Accordingly, the recommended permanent measures will require further exploration to determine how they can be implemented with the joint buy-in of relevant authorities and regulators that are integral to the ecosystem.



RECOMMENDATIONS

TEMPORARY MEASURES REQUIRED IMMEDIATELY (not in order of priority)

1 **Extend runway for startups and improve cash flow situation**

Unlike other SMEs, many tech startups have high burn-rates. Many startups may therefore face challenges to meet expenses as revenue streams have diminished from lower sales volumes, reduced funding, late payments and other impacts.

To address this immediate issue, the recommended approach needs to include measures to reduce, delay or directly fund payments or expenses.

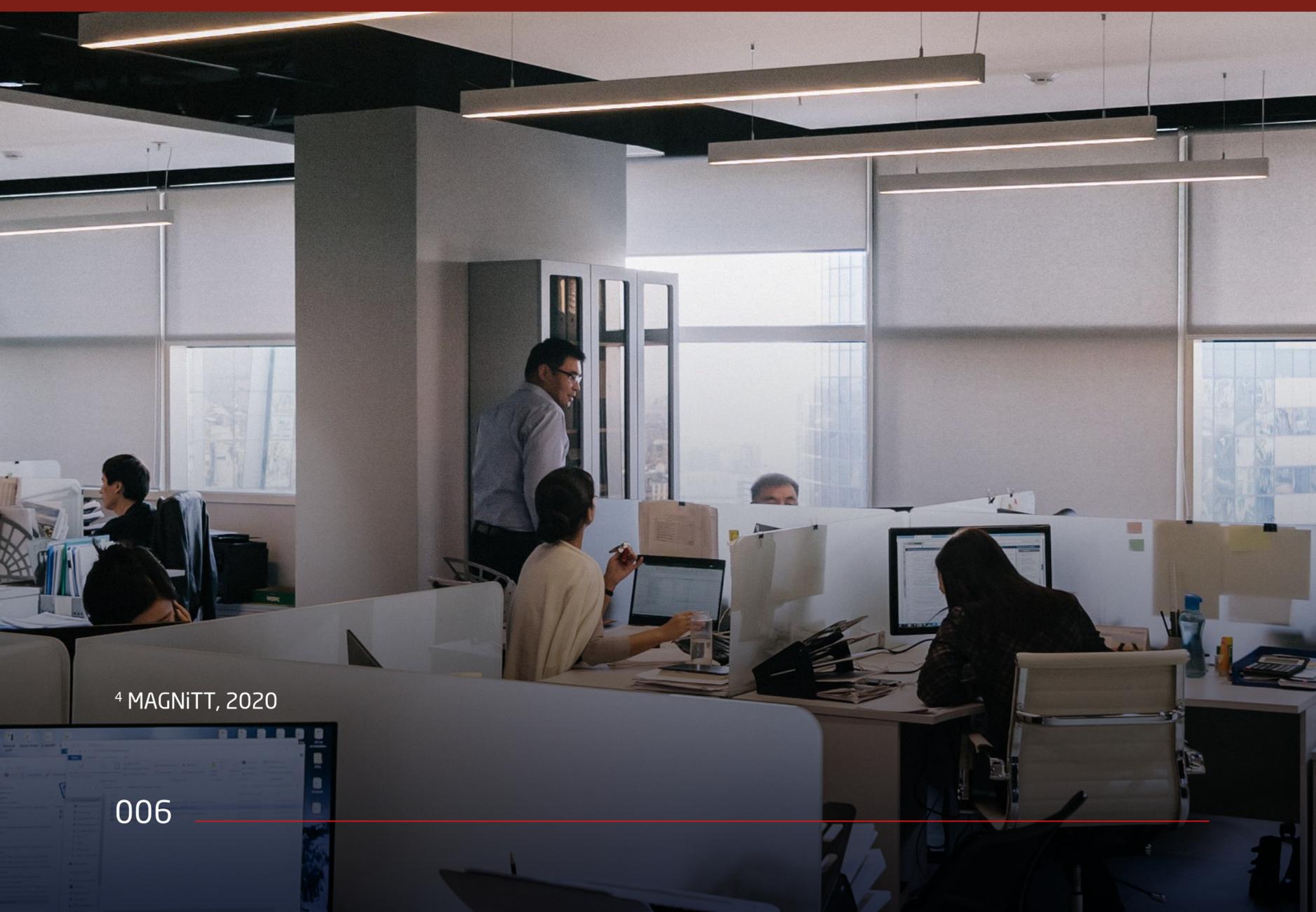
Typically, the biggest fixed cost items for startups include salaries, accounting for as much as 80% of costs⁴ for tech companies, office space (rent and utilities) and costs associated with licenses, visas and fees.



Reducing and delaying office rent payments through rent relief or waivers

Such waivers can be initially applied for the fixed period of time over which business is expected to be subdued but also be subject to renewal should the period be longer than anticipated. Such waivers will have to target startups specifically, given that many companies in free zones or in privately owned buildings or in private offices in private buildings, cannot benefit from previously announced measures.

⁴ MAGNITT, 2020





Reducing utility and other office costs

Given that many offices are empty and staff are restricted to working from home, business owners must have options to put utility services on hold.



Deferring payments for online banking services

Similarly, measures such as deferral of payments for online banking for salary transfers and easier issuance of credit cards for online payments might be considered for implementation since many bank branches are not open anyway. Charging for e-banking is an unnecessary cost burden.



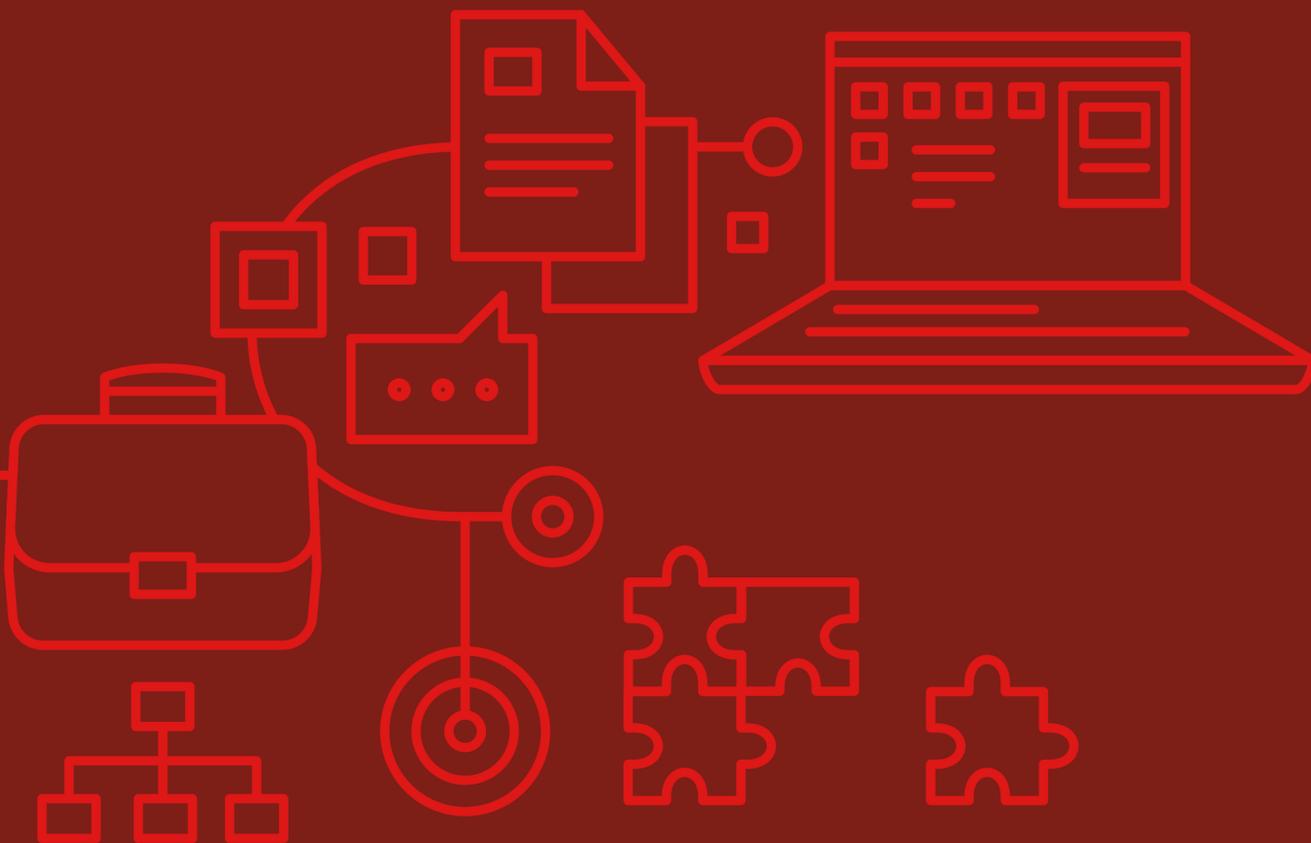
Reducing and delaying license fees

Costs associated with trade licenses and visa renewals (including visa cancellation costs for laid-off employees) may reduce the immediate cost burden on startups that are struggling already.



Offering open grants

Grants for specific startup sectors can be rolled out in order to reach startups that may have to shut down only because of a short-term cash crunch.





2 Protect talent in the region - talent is the core of a start-up

Given that 70-80% of high growth tech startup costs are typically associated with talent, the biggest impact of economies made in the sector due to the ongoing crisis may be lay-offs. Helping companies to retain talent will be critical to maintain the ecosystem and prevent its permanent deterioration. In this context, measures will have to be focused on talent itself and not only on companies.



Funding salaries

Partial funding for salaries for a two or three month period may be critical to prevent lay-offs and unemployment in the short term and to help prevent smart, skilled talent from leaving the country. This may also enable employers to reduce salaries and maintain cash flow for a longer period of time.



Reducing living costs

This can be done through **'talent packages'** that offer discounts for housing, medical insurance and other expenses based on open applications. For example, these can be offered specifically to workers that are laid off from a startup, such as a **'Stay and start something great'** minimum package for six months to retain entrepreneurial talent in the region.



Increasing mobility across visas and free zones

Highly skilled talent can be given specific visa options that allow them to be mobile between free zones or companies.



Supporting temporary employment

Considering to open freelance visas during this period would allow people to work on short-term contracts without full visa onboarding pressures on companies until business operations resume. This will help to prevent lay-offs and so prevent workers potentially facing employment-related risks.

3 Fundraising

Given that the current situation has increased uncertainty and reduced investor confidence, government initiatives might be designed to help stabilize the market.



Co-investing

Governments can enhance confidence and catalyze fundraising by signaling to the market they will be taking equity stakes in startups, similar to the approach the US Federal Reserve and other central banks have taken to provide a backstop for credit markets.



Low-interest loans

A multitude of debt products – structured debt, asset light debt, venture debt, convertible notes and others – can be curated to offer startups a solution to their unique situation and provide medium term relief. For example, a liquidity note can be issued in which investors and funds can enter at different ticket sizes. Through this note investors can expect a set rate of return over a pre-determined time period over which it is expected the crisis will recede and business will return to ‘normal’ levels. In order to identify companies’ eligibility for such liquidity notes a qualifying process can be designed through which companies need to meet certain criteria and can be reviewed individually by an investment and governance committee. This will require the involvement of commercial banks, loan service companies, as well as venture capital firms.



RECOMMENDATIONS

PERMANENT MEASURES TO SUPPORT LONG TERM GROWTH (not in order of priority)

1 Banking and Finance Solutions

For some startups it is not easy accessing bank financing. It will be critical to identify how bank and non-bank financing of SMEs can be promoted, particularly for tech startups to support that sector's growth. Further simplifying SME registration and bank account opening for SMEs would lower the cost of launching a business and banking for startups. Additionally, banks might consider to create SME units so that they could better understand the nature of lending to smaller companies.

2 Transparency Increasing clarity, reducing confusion

It has been noted by the Dubai Future Council on Innovation and Entrepreneurship members that private sector entities in the region, such as banks, would have better and swifter access to government announcements on new or provisional regulations around the current pandemic, if there were more aggressive awareness strategies to disseminate such information. In many cases what is announced is then not transmitted down to the 'foot soldiers dealing with the companies'. Clear guidance from authorities on policy changes will be critical to give the business community assurance and reduce uncertainty. Two specific initiatives could be helpful in this regard:



A champion for startups

Having a clear champion for tech startups that people can go to for information.



Clear follow-through on public announcements

Multiple initiatives are being announced without clarity on next steps or the bodies with whom they are associated. PR announcements with links to landing pages of exact implications and relevant contact points would promote transparency.

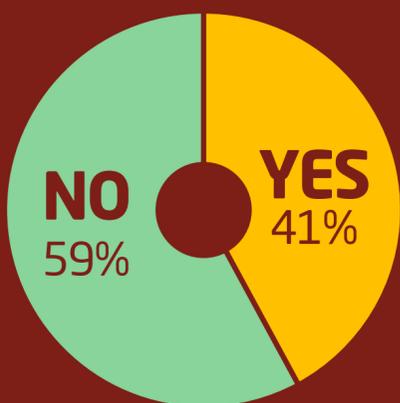
NAVIGATING THE CURRENT CRISIS

SURVEY RESULTS

? Is the current situation affecting your business?*



? Sould companies look to be hiring in the current situation?*



? Durint the crisis, what is your biggest concern?*



? Have you had to implement strategy shifts to continue to run/grow your business?*



* the results are based on a sample of 100 attendees of **MAGNITT's** last webinar "Tips to Founders Navigating the Current Situation" with Sharif El Badawi