

E-commerce & Fintech: Darting through the downturn

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- We expect demand for e-commerce and fintech in MENA to remain above pre-pandemic levels once the emergency strictures are lifted, building on the boost they have received from the lockdown.
- Even before the COVID-19 pandemic, both sectors were witnessing growth throughout the region. Now home isolation has accelerated expansion.
- With a stronger presence, new fintech will also revolutionise MENA's e-commerce.

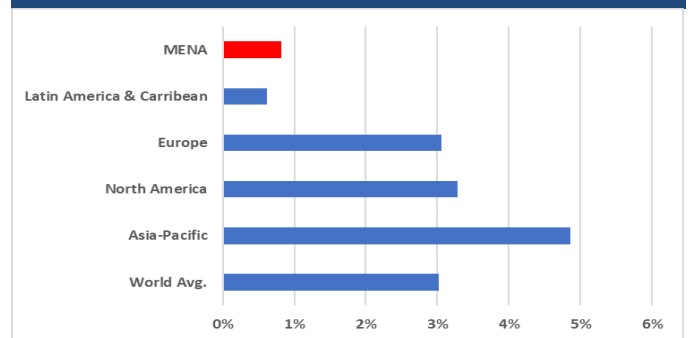
E-commerce proving more essential during COVID

Governments have been preparing for the shift in buying behaviour from physical to online shopping for years. Pandemic lockdowns have helped speed this up, creating a long-term boost for online retailers. We look this week at how e-commerce is growing.

- Before the pandemic, the e-commerce sector was already expanding.
 - Revenue of USD 49B was forecast for 2021 before the outbreak. It may now be higher.
- Demand for e-commerce platforms has been increasing in lockstep with high mobile penetration and greater internet accessibility. This growth has been facilitated by access to secure payment gateways. This is unlikely to change when the pandemic ends.
 - Nearly half of MENA has a mobile penetration rate of 70% or more, versus 66% globally. The GCC leads the region in terms of subscriber penetration.
 - The UAE is top with USD 6.2B in B2C (business-to-consumer) turnover, followed by Saudi Arabia with USD 6B. UAE e-commerce revenue is expected to grow to USD 5.2B in 2020 from USD 4.2B in 2019.¹
- During the pandemic, millions of people have resorted to online platforms for safety reasons. The average basket size of purchased goods grew between 20% and 80% across all e-retailers.
 - Emirates Delivers, a UAE e-commerce delivery service, had a 20% month-on-month increase in delivered shipments between March and April.
 - BinDawood, a Saudi Arabian retailer, has had a 200% increase in its 10-day basis average sales, a 50% rise in order value, and a 400% increase in app installations since the COVID-19 outbreak.
 - Nana, a Saudi Arabian grocery app, raised USD 18M from Water Partners, Middle East Venture Partners, Saudi Venture Capital Company, Wamda, and angel investors at the end of March to widen their services across the Middle East.
 - What will happen to this demand when the lockdowns end? We believe that although it may initially fall back, it will remain above pre-COVID levels.

¹ Statista.

Figure 1 - E-commerce Turnover (% of GDP)²



- E-commerce businesses that can survive the economic slowdown caused by COVID-19 will benefit from a long-term boost in their market.
- The effect of layoffs and reduced purchasing power on the back of lower oil price liquidity are likely initially to minimise e-commerce growth by decreasing overall sales. However, growth will still be maintained at levels above pre-COVID levels.
- We also expect e-commerce business innovation to bolster online shopping and tap into consumers' new preferences.

E-commerce investment opportunities are growing in the region, underpinned by strong growth in demand. As this increases, the region is likely to see new e-commerce companies formed and greater competition from the online portals of traditional retailers.

- E-commerce in MENA accounts for only around 0.8% of total GDP at present, compared with 3.3% in North America and 3% for the rest of the world (Figure 1).
 - Still, the MENA figure shows significant progress compared with 2014 (0.51%). B2C is set to grow.
 - Amendments to free zone import and export tariffs and measures to strengthen e-payment gateways are regulatory changes that will help e-commerce replace traditional practices.
- The rise in demand and investments will also mean strong investment opportunities in warehouse real estate.
- We also see potential in advertising, logistics and payment sectors related to online businesses.
- On the funding side, while there has been an increase in the availability of capital at the Seed and Series A stages, there is room for more. Also, we see a significant gap in Series B (USD 5M - USD 20M) and Series C (USD 20M+) capital.³
- The number of platforms that provide e-services has been rising both in terms of newcomers and traditional firms repositioning.
 - In the last two weeks of April, consumer e-service stores in the UAE increased in number by 150%.
 - Grocery stores in Saudi Arabia are now required to offer electronic payment methods to customers because of the spread of COVID-19 from cash circulation.
- Growth in demand means more opportunities for last-mile delivery companies. iMile, a Chinese-owned logistics technology firm, plans expansion to Egypt, Kuwait & Morocco.

² Arabia Monitor; Ecommerce Foundation.

³ Series A is an investment in a startup that demonstrates a potential to grow. The Series A funding round follows a startup company's seed round and precedes the Series B Funding round. Series C is raised when startups become successful and look for additional funding for expansion.

- In January, iMile raised USD 10M in a Pre-Series A round. The startup did not disclose the name of the investor but said it was a leading Chinese venture capital firm that is active in the country's logistics ecosystem.
- iMile is currently operational in the UAE and Saudi Arabia and operates two research & development centres in Shenzhen and Hangzhou, China.

Before the lockdown, numerous MENA countries were successfully developing their e-commerce sector.

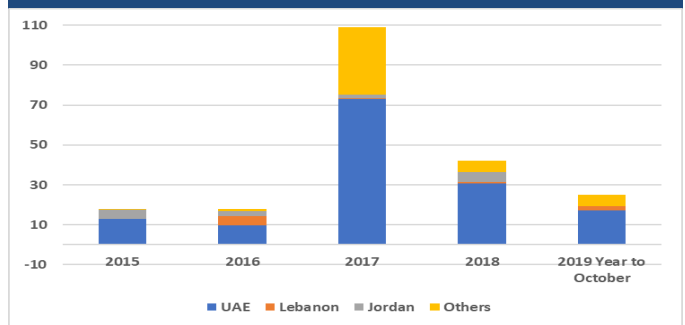
- Different initiatives have been made across the region to shift consumer behaviour towards online purchasing.
- Saudi Arabia's Vision 2030 aims at increasing the proportion of online payments to 70% by 2030, up from the 2020 target of 28%.
 - A law to control and improve digital payments was applied for the first time in October 2019. Another law to add security to personal data protection was applied for the first time in January 2020.
- In September 2019, Dubai's e-commerce strategy was approved by the Executive Council of Dubai, aimed at positioning the emirate as the global hub through several initiatives.

Pandemic increases fintech growth

COVID-19 has forced people to rely more on financial technology, or fintech, including the use of mobile payment apps. This will have boosted trust in the sector, increasing both future usage and development.

- Fintech is growing in MENA, with the number of startups doubling from 46 in 2013 to 105 currently. But it is mainly concentrated in four countries -- the UAE, Egypt, Jordan and Lebanon.
 - Of 12 MENA countries active in fintech, these four are the ecosystem for 73% of startups between them. The UAE is first, hosting 30% of startups, followed by Egypt (17%), Jordan (15%) and Lebanon (15%).
 - Across MENA countries, payment apps are the most prominent sector, comprising 50% of all fintech startups, followed by those used for lending and raising capital (34%).
- Even before the pandemic, the fintech sector was growing at a 30% compounded annual growth in the MENA region.
 - Pre-COVID-19, fintech investments in the Middle East region were projected to increase to USD 2B by 2022 funding around 465 startups.
 - After COVID-19, industry experts forecast the fintech market in the MENA region to reach a record high of USD 2.5B by 2022, with GCC countries leading this growth.
- The increase in mobile penetration across the region has been a major catalyst in allowing fintech to grow. For example, more than 92% of UAE residents use smartphones, allowing for an estimated 30% growth rate in mobile payment usage between 2019 and 2020.
 - A new app, Govera, was launched in Dubai in April to facilitate the online payment of bills in the UAE.
 - Bahrain's national electronic wallet BenefitPay saw a 1,257% increase in payments through its Fawri+ service in March 2020 amounting to USD 273M.

Figure 2 - MENA Fintech Funding, by Country (USD, M)⁴



Fintech investment opportunities are on the rise as a result of the significant growth in demand. They will be dependent on both regulatory stimulation and funding.

- Governments and central banks have been encouraging fintech.
 - In November 2017, the Dubai International Financial Centre launched FinTech Hive, the region's first fintech accelerator with a USD 100M capital to invest in startups from incubation through to growth stage.
 - Qatar initiated a fintech strategy as part of the Qatar National Vision 2030 framework to promote growth of the sector as well as investments in it.
 - Bahrain has also leveraged its banking expertise to grow a fintech ecosystem.
 - o Its central bank has developed a reputation for pioneering, light-touch regulation of developing technologies from cryptocurrencies to open banking.
 - Saudi Arabia is aiming to make the kingdom a fintech hub by increasing investment in the sector.
 - o The Saudi Arabian Monetary Authority recently approved nine new fintech startups for its regulatory sandbox.
- Insurance companies are starting to facilitate the purchase of policies online.
 - Bayzat, an online health insurance provider, is the top-funded insurance tech startup in MENA. In 2019, it announced it had raised USD 16M in Series B funding. Bayzat helps customers to compare, buy, and use their health insurance online.
- Peer-to-peer (P2P) lending activity is being encouraged.
 - Beehive, MENA's first P2P SME lending platform, connects businesses in need of financing to investors. It motivates SMEs to expand and innovate by providing access to lower-cost loans and giving investors safe returns on their money.
- Access to finance is a major concern, however. The number of MENA deals is skewed heavily in favour of Series A and Seed level -- 75% of all regional deals have taken place before Series B.
- Most of the current investment in startups is below USD 3M per funding round. This implies that they have no chance of receiving a banking license to operate independently.
 - A licence ranges in cost between USD 1M - USD 3M in MENA. Additional investment is needed to pave the way for larger independent startup funders that can properly complement or supplant traditional banks.
 - International venture capital firms and corporations continue to dominate the funding. And they are continuing to add MENA to their radar screens as they scout for deals.

⁴ Arabia Monitor; Magnitt.

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