Conference Paper

The State of Digital Investments in MENA 2013–2016

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Abstract

Digital entrepreneurship and innovation remain focal points for government leaders across the MENA region as they develop their economic strategies. This investment report aims to help investors and policymakers to measure and identify the strengths and gaps in their ecosystems, while monitoring the impact of their policies and programs. The report covers more than 150 funding institutions and 760 transactions that took place between 2013 and 2016. The MENA region witnessed a record year in technology start-up funding in 2016 with more than 30 new investment institutions launched and more than $900 million invested, equaling more than the value of all investments between 2013 and 2015 combined (approximately $750 million). The report analyzes year-on-year digital investment trends in the MENA such as information on investors, investments, inactive versus active start-ups, number of female founders in funded start-ups and corporate investors. This is an annual report, which endeavors on updating both its historical and current data thus ensuring that the analysis is more robust and the findings are more comprehensive. The report utilized three data collection methods. First, findings are based on data collected from 75 investors and accelerators in the MENA region. Second, the report aggregated information from publicly available data. Third, the report collected new data from start-ups through surveys. All investments analyzed in the report are for equity-based investments only, and therefore institutions that provide grant or non-equity funding have not been included in the analysis. Hence, the paper will tackle three main themes related to technology investments in the MENA region. These four themes include: (1) investors in MENA, (2) investors in MENA by ticket size, (3) investments in MENA, and (4) valley of death.

Keywords: digital, technology, investors, investments, start-ups

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Received: 10 March 2018
Accepted: 10 April 2018
Published: 2 August 2018

Publishing services provided by Knowledge E

Selection and Peer-review under the responsibility of the International Applied Research Symposium Conference Committee.

1. Introduction

The State of Digital Investments in MENA is a comprehensive analysis of investors and investments in technology start-ups in the MENA. MENA digital start-ups are attracting increasing global and regional attention, with more governments pushing for innovation, an increase in the number of start-ups and an increase in investor appetite. This research report provides an overview of MENA equity-based investments in the digital space over the past four years. The report findings are based on data collected from 75 investors and accelerators in the MENA region, specifically in the United Arab Emirates, Egypt, Lebanon, Jordan, Saudi Arabia, Morocco, Kuwait, Palestine, Algeria, Tunisia and Bahrain. The report also aggregates information from publicly available data such as those listed on Crunchbase, CB Insights, AngelList and Eureeca, among others. The report also collected new data from start-ups through surveys.

MENA witnessed a record year in technology start-up funding in 2016 with more than 30 new investment institutions launched, and more than $900 million were invested in 2016 alone, adding up to more than the value of all investments between 2013 and 2015 combined (approximately $750 million)! The UAE remains the region's tech start-up hub, capturing the largest number of deals and almost all of the growth capital—a whopping 90 percent of total dollars invested. E-commerce dominates the investment landscape, especially for growth-stage deals, but new areas of significant interest are emerging, including healthtech, fintech and IoT/smart devices.

2. Investors in Mena

The number of tech investors in MENA has grown exponentially, with the ecosystem adding (on average) 10 new funds per year between 2009 and 2012, accelerating to 20 new funds per year in 2013–2014, and jumping to 30 new funds per year over the past two years (2015–2016).

The investor community continues to be heavily concentrated in a few countries, with the rest of the investors scattered across other markets. The UAE is home to about one-third of all investors; Saudi Arabia and Lebanon combined account for another third; and all other countries together make up the remaining third of the investor pie. Lebanon has an exceptionally high number of funds for such a small country, driven by the Central Bank of Lebanon's Circular 331. Meanwhile, Egypt, one of the region's largest markets, has a relatively low number of funds for such a populous country with so many start-ups.

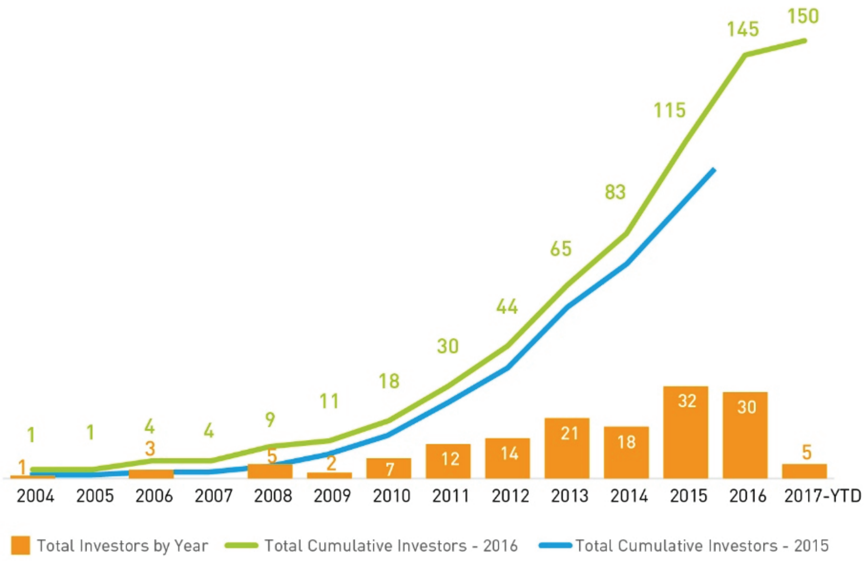

Figure 1: Number of investors by year.

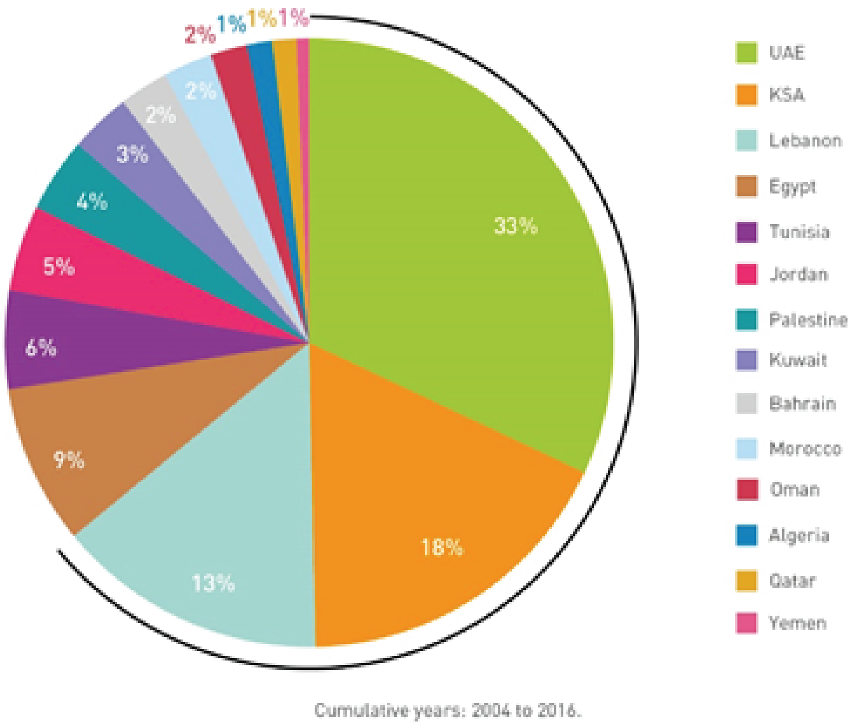

Figure 2: Percent number of investors by geography.

3. Investors in Mena by Ticket Size

Approximately half of the investor community are early stage investors: accelerators make up a quarter and seed funds and angel networks split the other quarter roughly equally. At the same time, venture capital funds represent the single largest group of investors, and account for one-third (31%) of the community.

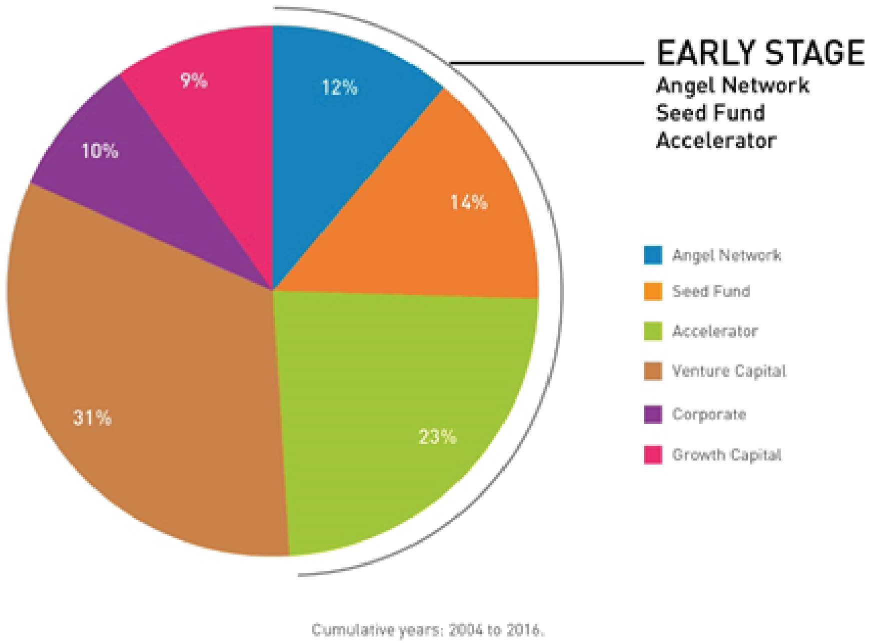

Figure 3: Percent number of investors by ticket size.

The most widespread type of investor across geographies is accelerators, which exist in 13 of the Arab markets. Seed funds are the next most prevalent, with notable gaps in Morocco, Kuwait and Qatar, which also lack formal angel networks—a clear market opportunity, especially with the investments that the Kuwaiti and Qatari governments are making into building their start-up ecosystems. On the other side of the spectrum, growth capital funds and corporate investors are concentrated in only a few markets. The gap evident here is the lack of corporate and growth-stage investors in Egypt—despite the fact that the market has seen great success stories like SySDSoft and Fawry.

	UAE	KSA	LEB	EGY	TUN	JOR	PSE	KWT	BHR	MAR	OMN	DZA	QAT	YEM	Count
Angel Network	4	2	2	3	2	1			1			1		1	9
Seed Fund	4	4	2	2	2	1	3		1		1				9
Accelerator	6	9	1	3	2	1	2	2	1	2	1	1	2		13
Venture Capital	19	9	6	5		2	1	1		1	1				9
Corporate	6	2	5		1	1									5
Growth Capital	8		2		1	1		1							5

Cumulative years: 2004 to 2016.

Figure 4: Number of investors by ticket size.

4. Investments in Mena

When it comes to the number of deals per country over the past four years, the UAE (234) is far ahead of the pack, approximately double the next set of countries. The next set of countries is Jordan, Egypt, Lebanon and Saudi Arabia, all hovering between 100 and 120 deals, roughly half the number of the UAE. Palestine, Tunisia, Morocco and Bahrain come next, ranging from 20 to 40 deals each, about a third of the previous set of countries.

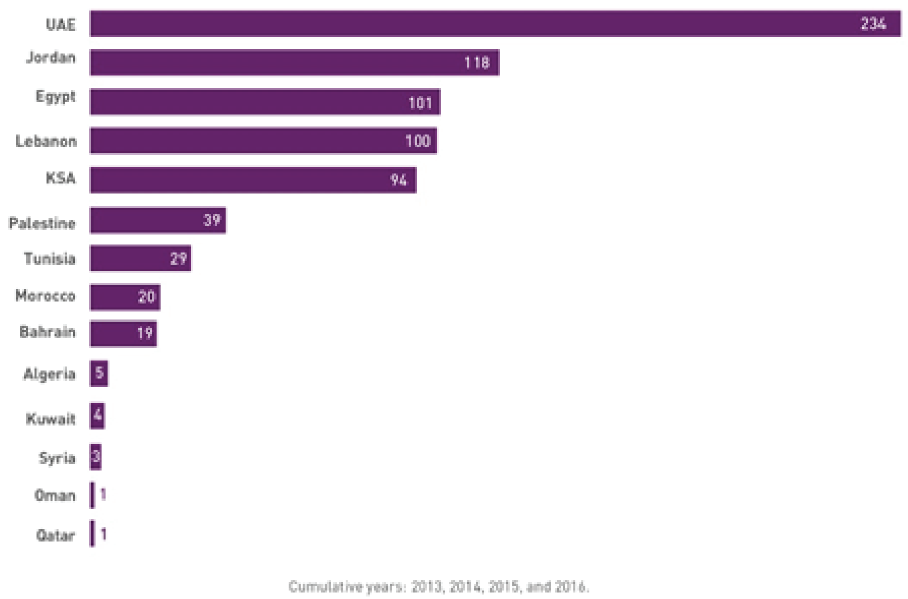

Figure 5: Number of investments in MENA by geography.

The total number of investments per year in MENA has remained level since 2014, hovering between 200 and 220 deals each year. This is surprising given that the number of investors has increased by 75 percent during that same period. At the same time, the total dollars invested witnesses a 70 percent jump in value. This increase is mostly explained by two mega-rounds, raised by Careem ($350 million) and Souq.com ($275 million).

The UAE has consistently held the highest proportion of deals among the top five countries, and its share has been rising steadily; Lebanon's share of deals has been rising as well. On the other hand, Jordan and Egypt both experienced a shrinking share of the deals, while Saudi Arabia has held relatively steady.

When examining how the total dollars invested are distributed among the top five countries, the findings are skewed heavily by the few large deals that took place in each year. The figure shows that the UAE is capturing a larger share of total dollars,

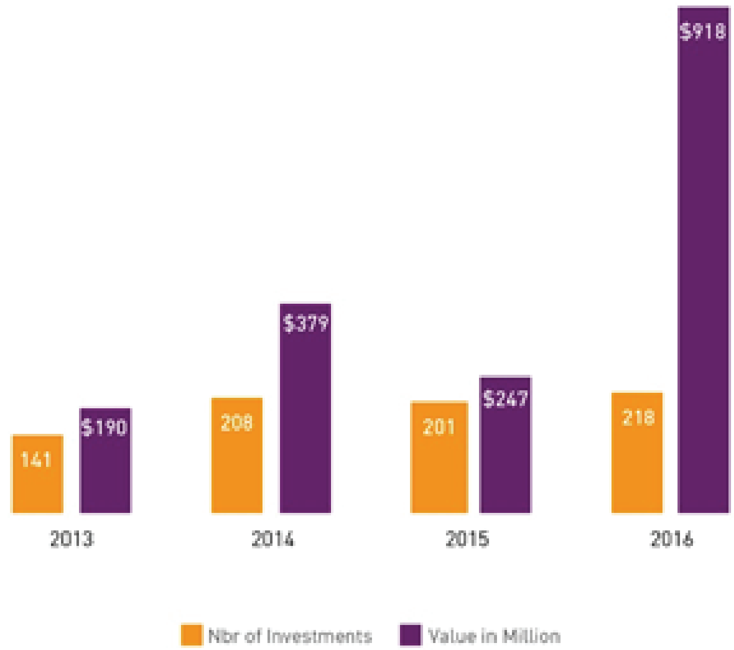

Figure 6: Number and value of investments by year.

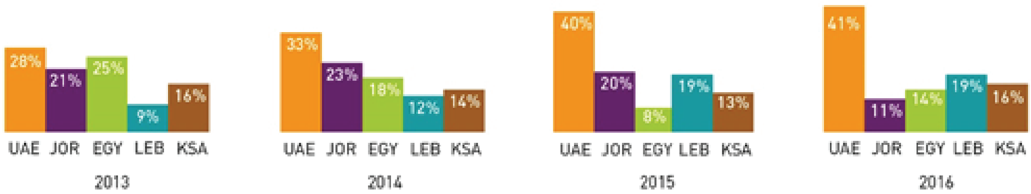

Figure 7: Percent number of investments in the top five countries.

driven by the fact that growth-stage companies—and therefore deals—are increasingly based in Dubai. In 2016, this is stark—the Careem and Souq.com investments alone represented 78 percent of all dollars invested, which means that overall a whopping 90 percent of all dollars invested went into the UAE.

The research shows that, over the years, the distribution deals by ticket size is quite consistent (with 2014 being somewhat of an outlier). The majority of deals have remained in the early stage, representing around two-third of the deals in the past four years.

Although early-stage deals are the biggest contributors to the number of deals conducted, they naturally contribute the least to the value of investments by ticket size. Year 2016 was a record year for growth-stage deals, which captured 84 percent of all dollars invested—the highest share in the past 4 years, driven by Careems' $350 million round and Souq.com's $275 million round.

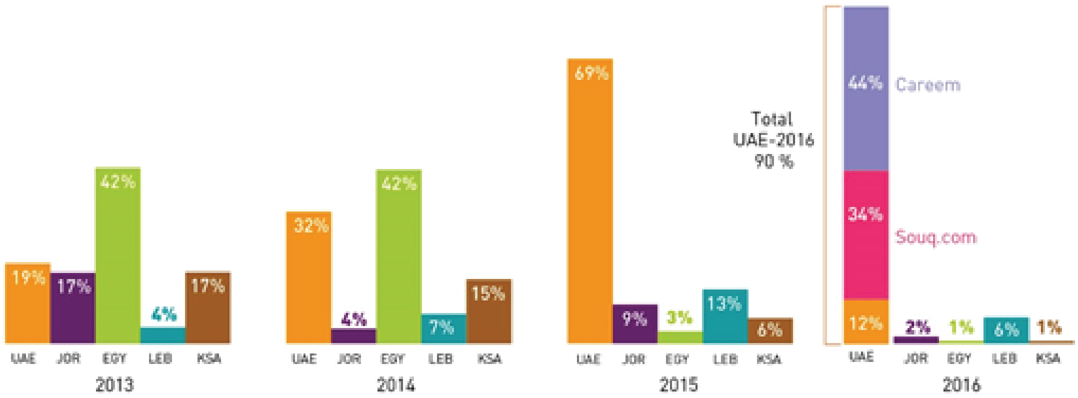

Figure 8: Percent value of investments in the top 5 countries

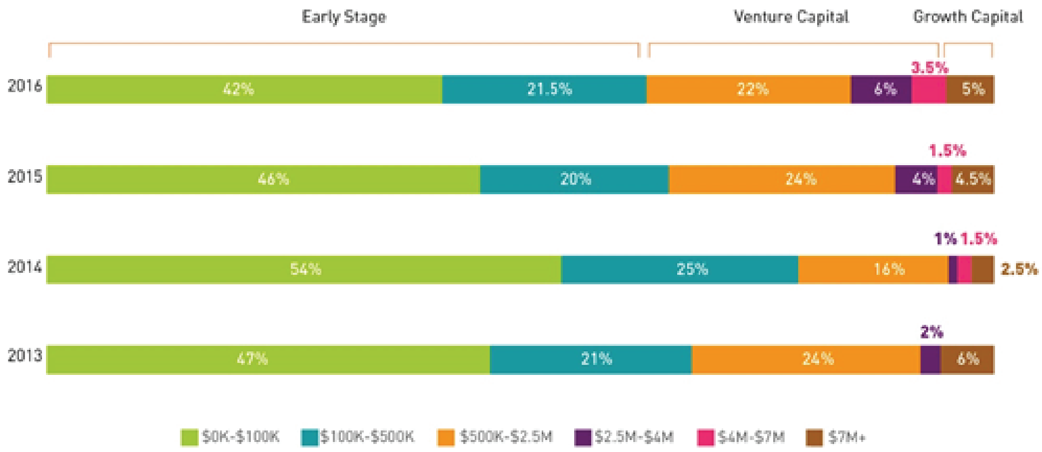

Figure 9: Percent number of investments by ticket size.

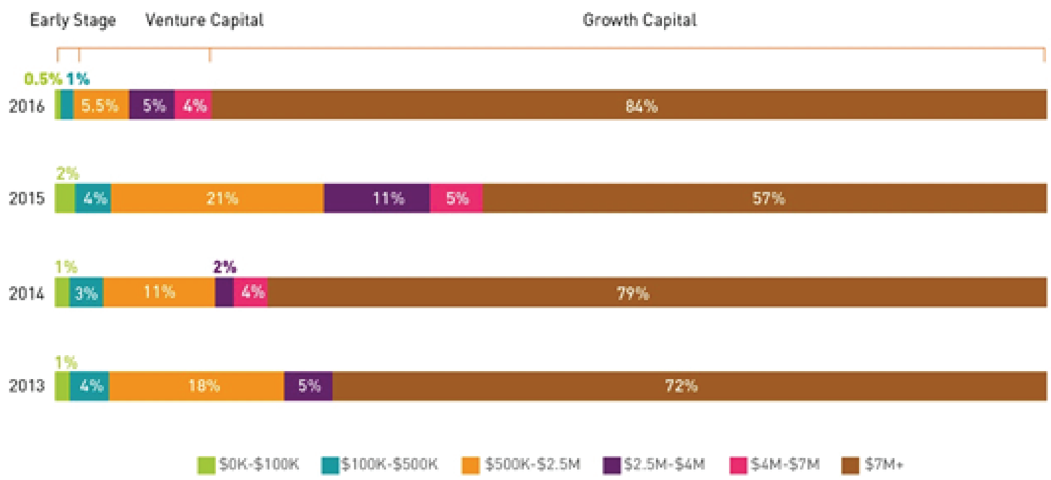

Figure 10: Percent value of investments by ticket size.

Comparing number of deals versus the total value invested in each type of start-up business model, it is clear that over the years, transactional deals dominate the deal value. In all other start-up business models, we notice less of a discrepancy between deal values and number of deals. Looking at average value per deal, transactional business models are running at $7 million per deal, technology business models are just over $1 million per deal and media business models are capturing roughly $0.5 million per deal. However, these numbers should only be considered indicative—as the majority of value captured by transactional business models is driven by a few large deals.

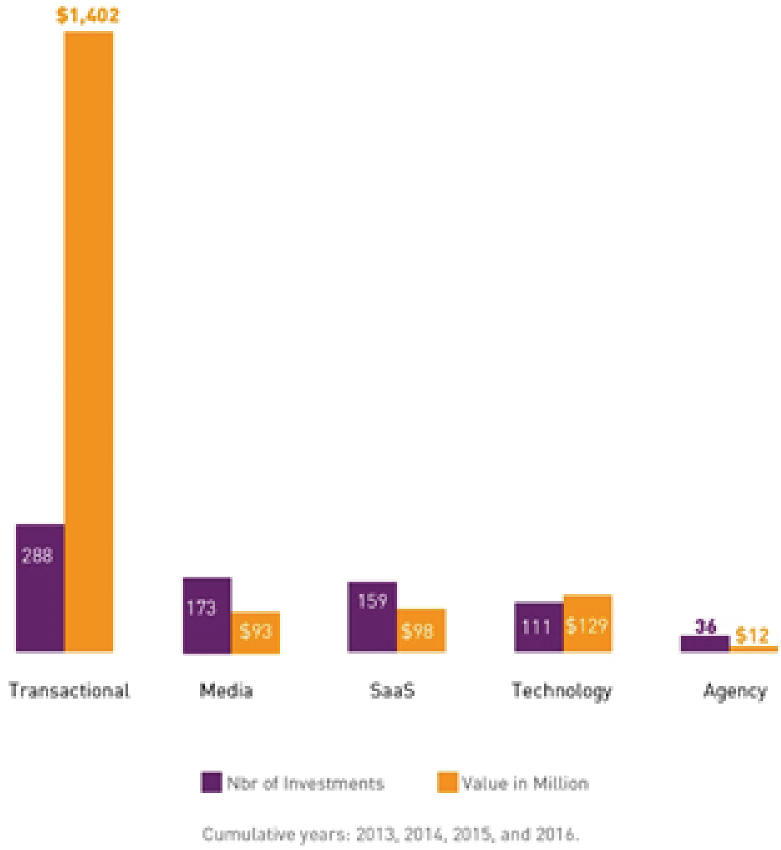

Figure 11: Number and value of investments by start-up business model.

5. Valley of Death

Although UAE has the highest number of inactive start-ups (22), it is also the country with the most number of operational start-ups (148). An interesting insight is that Lebanon stands as an exception with zero closed start-ups. This may be attributed to the surge in capital brought on by Circular 331, which allows start-ups better access to financing and giving them a longer lifeline. Egypt has one of the highest rates of closure for start-ups, and this could potentially be attributed to the decrease in capital in Egypt.

DOI 10.18502/kss.v3i10.2881

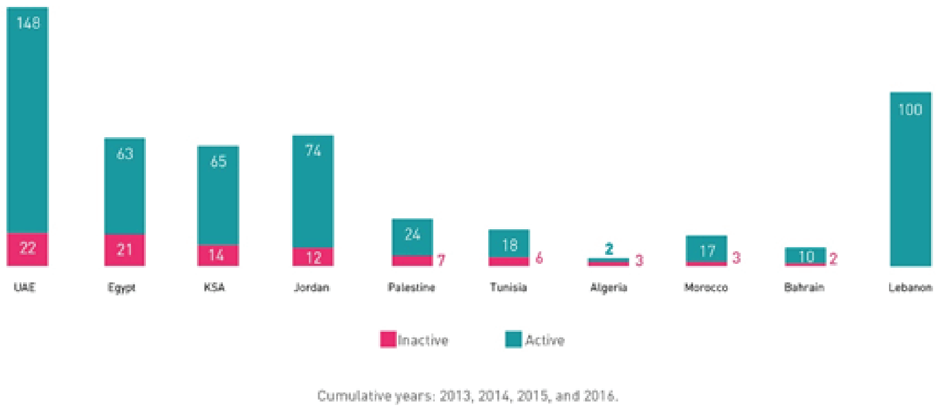

Figure 12: Number of operating versus closed funded start-ups in MENA by geography.

6. Conclusion

Digital entrepreneurship and innovation remain focal points for government leaders across the region as they develop their economic strategies. The region has witnessed the launch of many new initiatives to support this in the past year: the establishment of the SME authority in Saudi Arabia, the launch of the Dubai Future Accelerators in the UAE and the announcement of $300 million in government-backed funds in Oman (OTF and IDO) to name a few. In total, billions of dollars are being earmarked for programs to stimulate start-up growth and investment.