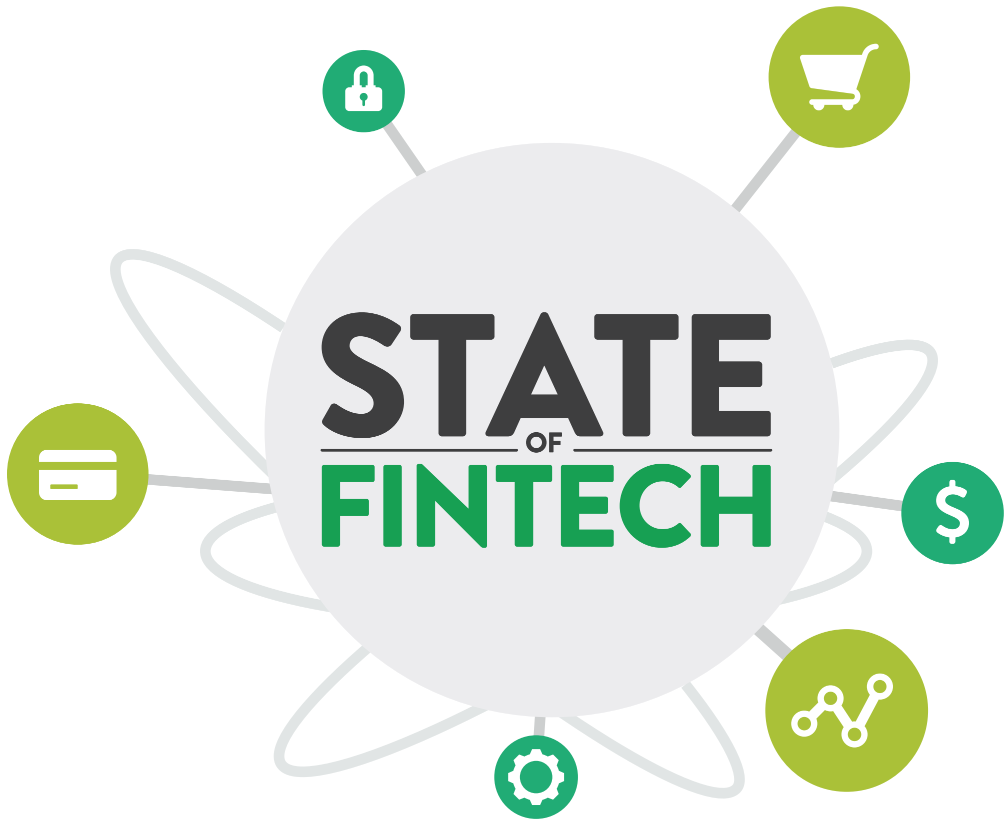

A REPORT BY

wamda | PAYFORT

FINTECH IN MENA
Unbundling the financial services industry

#stateoffintech

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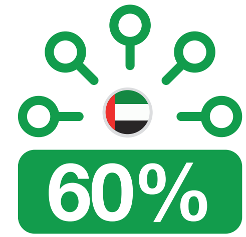
EXECUTIVE SUMMARY

The fintech (financial technology) sector is rising globally, and has already arrived in the Middle East and North Africa (MENA). In fact, the number of startups offering financial services in the region doubled from 46 to 105 in the last three years (2013-15).

Fintech startups have sprung up in 12 Arab countries, yet 3 in 4 startups are based in the UAE, Lebanon, Jordan or Egypt. The UAE is the most dynamic hub with a 4-year CAGR of almost 60%, and payments are the most popular sector, accounting for half of all MENA-based fintech startups.



The rise of fintech in MENA is driven by four opportunities: 86% of adults don't have a bank account, and SME lending stands at half of the global average; at the same time, the volume of ecommerce is set to quadruple over five years, and 1 in 2 bank customers is interested in new digital services.

Declining customer loyalty is not necessarily bad news for banks though: the three main obstacles for fintech startups are visibility, customer education, and trust. This is why almost 9 in 10 fintech startups seek collaborations with corporations, and banks are well positioned to integrate into the growing fintech ecosystem.

MENA's fintech startups provide a wide range of services to private, corporate and governmental partners. The most mature sector, payments, includes startups offering bill payment, mobile and online payment solutions as well as wallets. Payment service providers (PSP) have sprung up as well, integrating a variety of services into a platform.

Lending startups include crowdfunding, money circle, peer lending and loan comparison platforms. Finally, second wave startups specialize in international money transfer, wealth management, insurance solutions and blockchain-based services such as cryptocurrencies.

EXECUTIVE SUMMARY

The core challenges reported by MENA's fintech entrepreneurs concern regulations, hiring and retaining talent, as well as raising investments. 1 in 4 fintech startups shut down, and only 10% account for the majority of investment and employees. Taking a closer look, positive dynamics seem to improve all of the three challenges.

A variety of reforms and new regulations point to increased awareness on a policy maker level.
The launch of the region's first fintech sandbox in the UAE and the new mobile money regulations in Egypt are two recent examples of this new commitment.

Professionals drop out to launch startups. The average fintech entrepreneur is a male university graduate in his late 20s or early 30s, with experience abroad. 4 in 5 startups have at least one cofounder with prior work experience in a financial services company. In total, MENA-based fintech startups employ over 1,600 people in MENA.

Only 1 in 4 fintech startups went through an accelerator, yet 2016 added two fintech accelerators and a sandbox to the ecosystem. From 5 startups, 2 already collaborate with banks and another 2 aim to do so in the near future, and 7 other industries have been mentioned as attractive partners, namely telecom, ecommerce, retail, media, insurance, logistics and aviation. MENA's fintech startups raised $100 millions over the last decade. Pointing to a sharp increase of funding activity, around $50 millions in investments are expected for 2017. This is mainly driven by a significant increase in Series A, B and C deals up from an average of 30% in the past to 65% moving forward.

Fintech is poised for greater visibility by 2020. With the payment sector showing early signs of consolidation especially in the GCC region, it can be expected that second wave startups enter the game wherever fintech gains a foothold.

In total, we project around 250 fintech startup launches by 2020. Their failure rate can be lowered, their market share can grow faster and job creation can increase. Unlocking a virtuous cycle requires governments to step in and provide the foundations on which entrepreneurs, investors and customers democratize financial services. An alliance of policymakers, investors, innovative corporations and entrepreneurs can place the UAE among Asia's most promising fintech hubs. Lebanon, Jordan and Egypt stand good chances to become hubs for fintech as well.

THE GOAL OF THIS REPORT

This report was created with the aim to inform entrepreneurs, investors, policymakers, large corporations and the general public about the opportunities and challenges for fintech startups in MENA.

IN PARTICULAR, WE ARE TRYING TO **ANSWER THE FOLLOWING QUESTIONS:**

- What are the drivers and barriers for fintech in MENA?
- What solutions are fintech startups providing?
- What are the key obstacles these startups are facing, and where do we see improvements?
- What is the potential of fintech for the region?
- What needs to be done to unleash this potential?

FINTECH

THE OPPORTUNITY FOR MENA

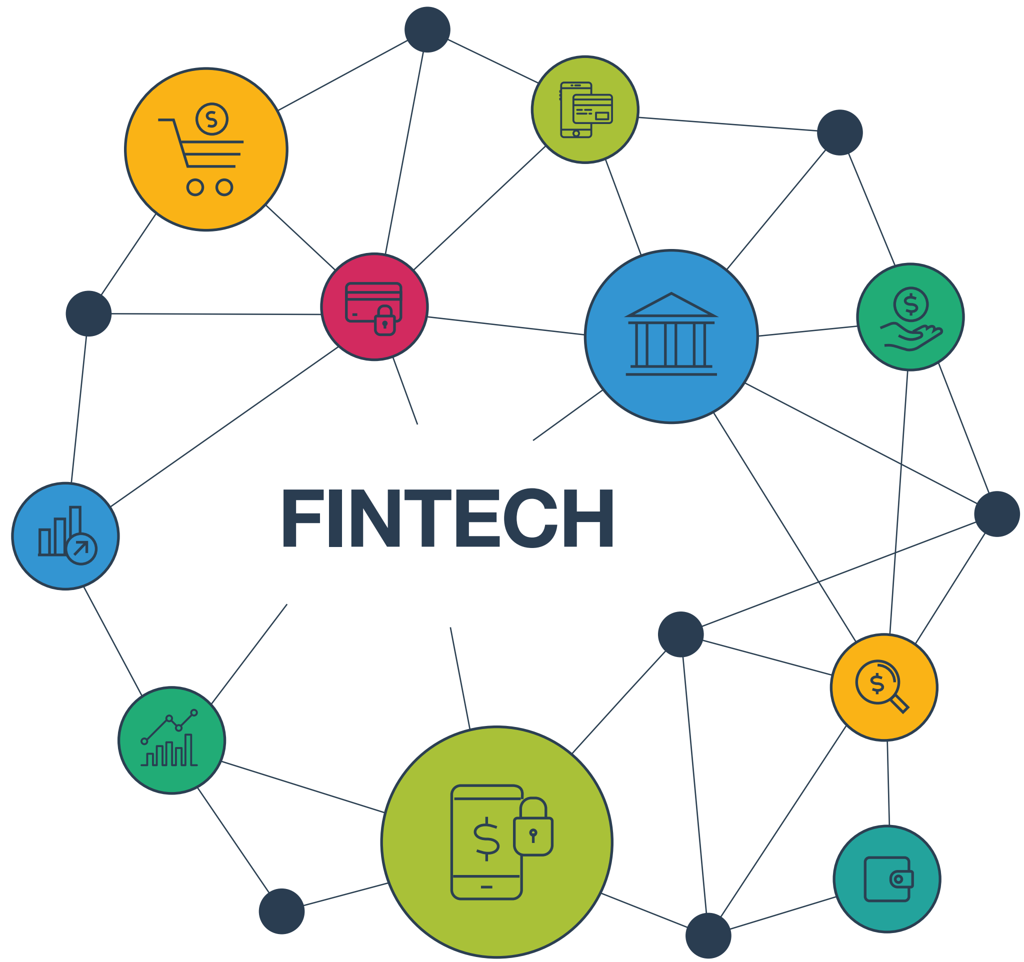
» **THE GLOBAL** FINTECH REVOLUTION

» **THE ARRIVAL** OF FINTECH IN MENA

WHAT IS **FINTECH?**

Financial technology describes tech-enabled products and services that improve traditional financial services. They are faster, cheaper, more convenient or more accessible. In most cases they are developed by startups.

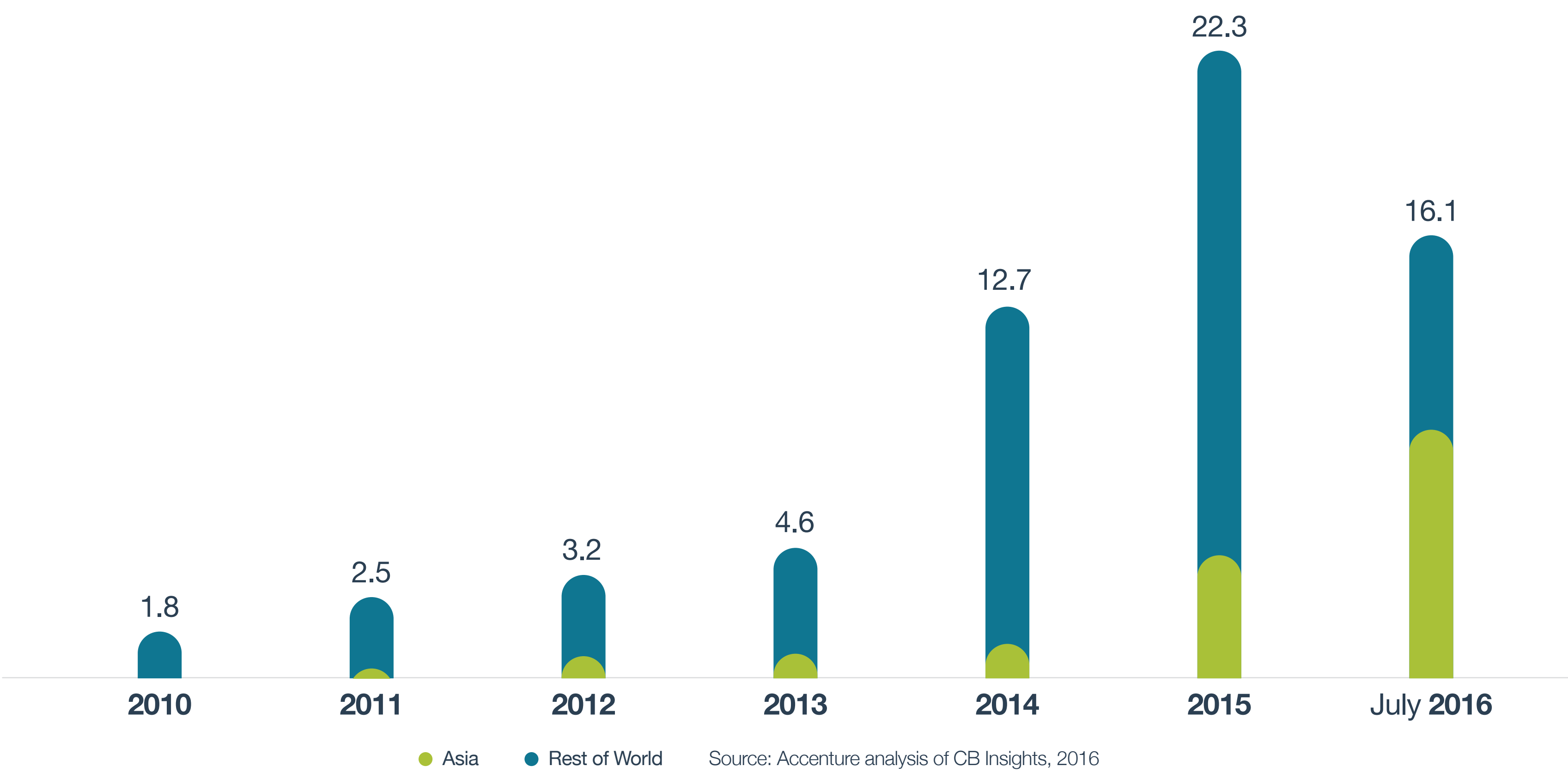
Startups are young companies that attempt to scale by creating new markets or by gaining a significant share in established markets through a better value proposition. Hence, fintech startups are young, small companies that promise to significantly improve the way individuals and companies bank by collaborating or competing with established financial service providers.



WHAT IS HAPPENING **GLOBALLY?**

Innovation in finance picked up later than it did in media, retail or communication. However, since 2010 thousands of fintech startups have raised over $63 billions around the globe (Fig. 1).

Figure 1 | Global investments in fintech ventures (in USD million, 2010-July 2016)



Source: Accenture analysis of CB Insights, 2016

THE GLOBAL FINTECH REVOLUTION

Between 2010 and 2014, the rise of fintech investments was driven mainly by three hubs - Silicon Valley, New York City, and London. However, while the US still accounted for over 50 percent of all fintech investments in 2015, Asia's share had tripled from 6 percent in 2010 to 19 percent in 2015. In fact, all regions of the world now fall into one out of three stages of the fintech cycle: frontier, emerging, and developed fintech ecosystems. (Fig. 2).

FRONTIER

In a frontier ecosystem, the vast majority of fintech startups are still in the idea and early stage. Funding is slowly picking up as entrepreneurs maneuver with little support around regulations, customer acquisition, and partnerships.

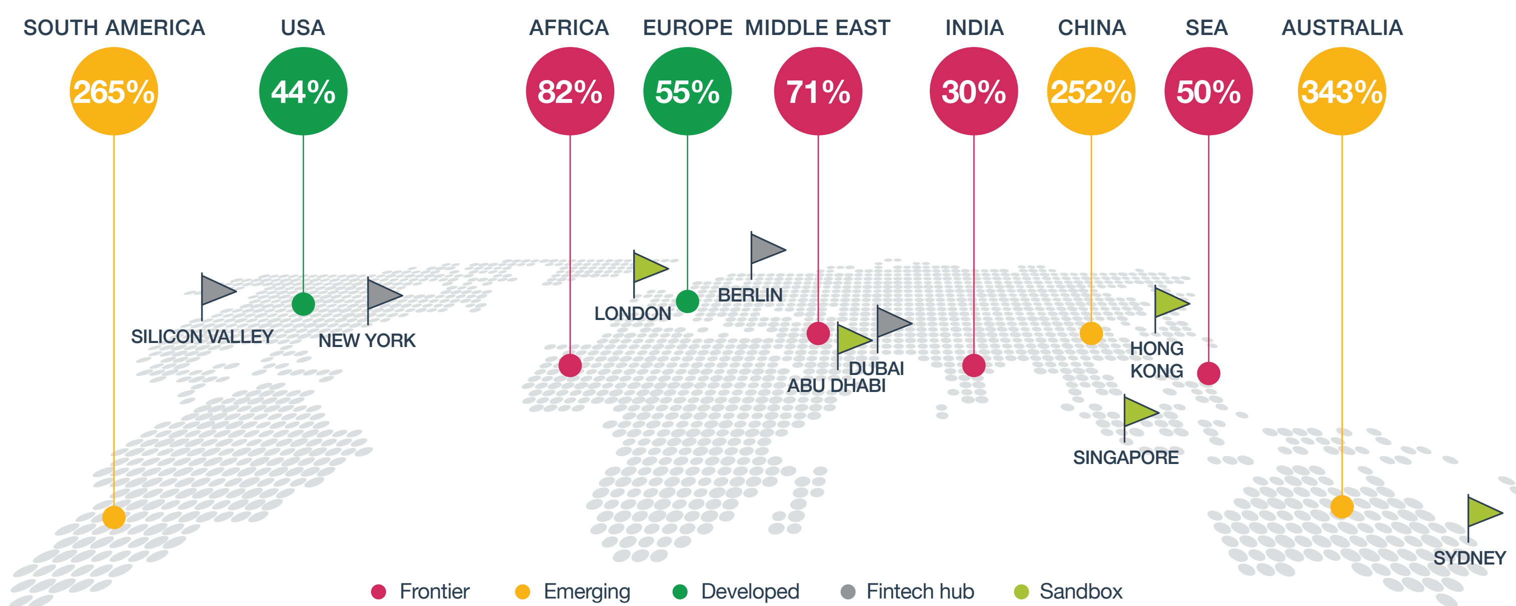
EMERGING

In the emerging ecosystem, a first cohort of high-growth fintech startups captures significant customer bases, fueling three-digit annual investment growth rates and increasing the strategic imperative for incumbents to engage with the newcomers.

DEVELOPED

Finally, developed ecosystems reach saturation. Fewer but significantly larger deals are centered around high value companies and unicorns. Hence, year-on year growth of investments is slowing down. Today, only the first-movers have reached this stage namely the USA and parts of Europe with their globally leading fintech hubs.

Figure 2 | Regional growth in fintech investments (in percent, July 2015 – June 2016)



Source: IC Dowson and William Garrity Associates, EY, TechCrunch

WHAT ARE THE **KEY SECTORS?**

Fintech was initially associated with three services – lending, capital raising, and payment solutions. Crowdfunding platforms, peer-to-peer lending networks, and payment solutions such as PayPal build on the megatrends of the emerging internet economy: the sharing economy, social networks, and ecommerce.

This pattern has been repeated across the US, Europe, and China. And it pays off: globally, 13 out of 17 fintech unicorns fall into the first wave sectors (Fig. 3). However, quite recently three trends indicate the rise of a second wave sector that brings financial technology to international money transfers, wealth management, and insurance. Blockchain, still in its early days, is potentially transforming technology that goes well beyond finance.

This sector breakdown is found in all ecosystem stages – frontier, emerging and developed. However, second wave sectors gain more prominence once an ecosystem is more developed: they build on the acceptance of first wave technology by customers and regulators.

1 Blockchain is a nascent technology potentially disrupting a wide area of banking and non-banking services in the long run.

Figure 3 | **Fintech Sectors** (global state, as of mid 2016)

	ANTICIPATED DISRUPTION *	# OF UNICORNS **	% OF MENA STARTUPS (2015)	CORE CHARACTERISTICS ***
Payments	70%	5	50%	FIRST WAVE SECTORS: Scales quickly; Share in overall deals declines in developed markets
Lending & Capital Raising	80%	8	34%	
Money Transfer	50%	1	16%	SECOND WAVE SECTOR: Scales slower or; Difficult customer acquisition and/or; More regulations and more risk involved; Share in overall deals increases in developed markets
Wealth Management	38%	1		
Insurance	26%	2		
Blockchain[1]		0		

● Frontier ● Emerging ● Developed ● Fintech hub

*reported by executives, PwC global fintech survey, 2016 ** CB Insights, 9/2016 *** Wamda Research Lab, 2016

FIRST, FINTECH IS GAINING WIDER ACCEPTANCE.

Technological progress, banks reaching out to entrepreneurs and regulators opening up all contribute to the emerging second wave sector. UK-based TransferWise, for example, offers international money transfers that are eight times cheaper and five times faster than banks.[2] It now has one million monthly users sending almost $1 billion across the globe every month.[3]

SECOND, FINTECH INNOVATION IS REACHING EMERGING MARKETS FASTER.

Insurance technology, for example, is a trend that began in the US and the UK around 2014. Telenor India, a major telecom operator, adapted the idea in 2015 for a country where 93% of the population isn't insured. Within a few months only, the micro insurance was adopted by 20 millions customers that owned smartphones but had no access to affordable insurance.[4]

THIRD, THE MOST COMPLEX TECHNOLOGY WILL TAKE LONGER TO MATURE BUT HAVE A MUCH STRONGER IMPACT.

Consider the blockchain startup Ripple which settles an international money transfer between two banks in 20 seconds. Traditionally, this process takes two to six working days.[5] This transformative technology won't find instant global adoption due to many unsolved challenges. However, it is expected that around 10 percent of global GDP might be stored in blockchain before 2030.[6]

2 The Telegraph, 2016: TransferWise: The cheapest way to send money abroad. http://tinyurl.com/zf9h7ct
3 Bloomberg, 2016: TransferWise Raises Another $26 millions for International Growth. http://tinyurl.com/hyu5uau
4 India Times, 2015: Over 5 millions Telenor India users enroll for insurance scheme. http://tinyurl.com/hdpvs7z
5 SAP, 2016: ATB Financial Sends One of the World's First Real-Time Payments. http://tinyurl.com/h7rwaug
6 WEF, 2015: Deep Shift: Technology Tipping Points and Societal Impact. http://tinyurl.com/pe9ha6x

THE UNBUNDLING **OF BANKS**

The rise of fintech across countries and sectors empowered customers. Four out of ten banking customers expressed decreased dependence on their bank as the primary financial service provider, according to a global survey.[7] Collectively, fintech startups are thus about to unbundle the traditional bank (Fig. 4).

The fast rise of fintech represents a challenge or an opportunity for banks – depending on the startup's strategy and that of the bank. A minority of startups act as a direct competitor. The majority of fintech companies, however, seek to partner with banks. Their collaborative offering can be integrated into a bank that strives to become more responsive to changing consumer demands and rising technologies.

Collaborative fintech becomes increasingly popular, and investors believe in it: global investments in collaborative fintech startups increased by 138% between 2014 and 2015, compared to 23% in competitive ones.[8]

Figure 4 | **The unbundling of banks** (selected sectors, global examples; global rise of investments in fintech)

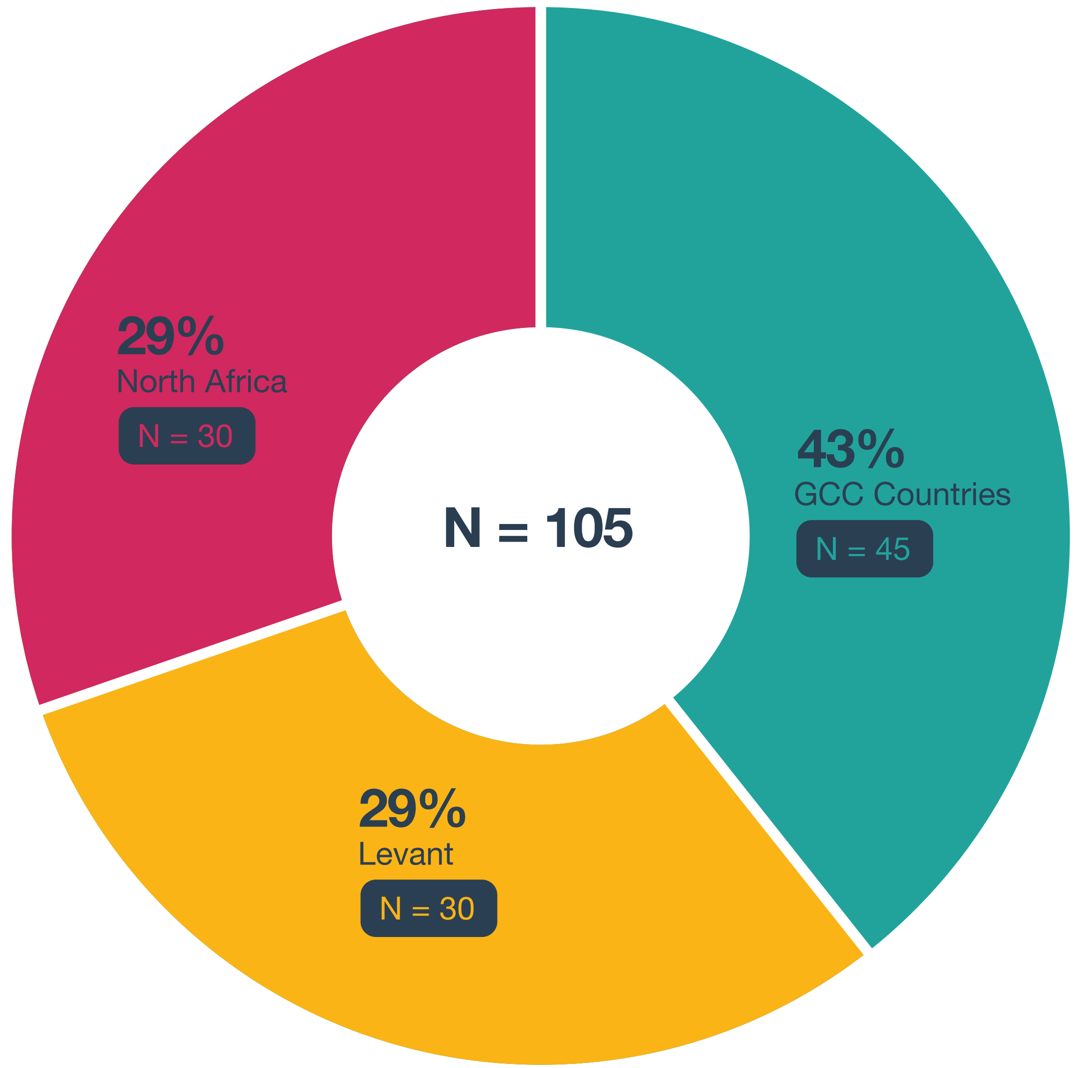
Source: Wamda Research Lab, 2016

7 EY, 2016: The relevance challenge: What retail banks must do to remain in the game. http://tinyurl.com/z3tye73
8 Accenture, 2016: Fintech and the evolving landscape: landing points for the industry. http://tinyurl.com/herpqs2

FINTECH STARTUPS **ARE EVERYWHERE…**

The Arab world was home to 105 fintech startups by the end of 2015 (see methodology for the underlying definition). While these startups span 12 countries, it is notable that they are equally distributed between GCC countries, the Levant and North Africa (Fig. 5).

Figure 5 | Geographical breakdown of fintech startups (# of fintech startups by region, 2015)

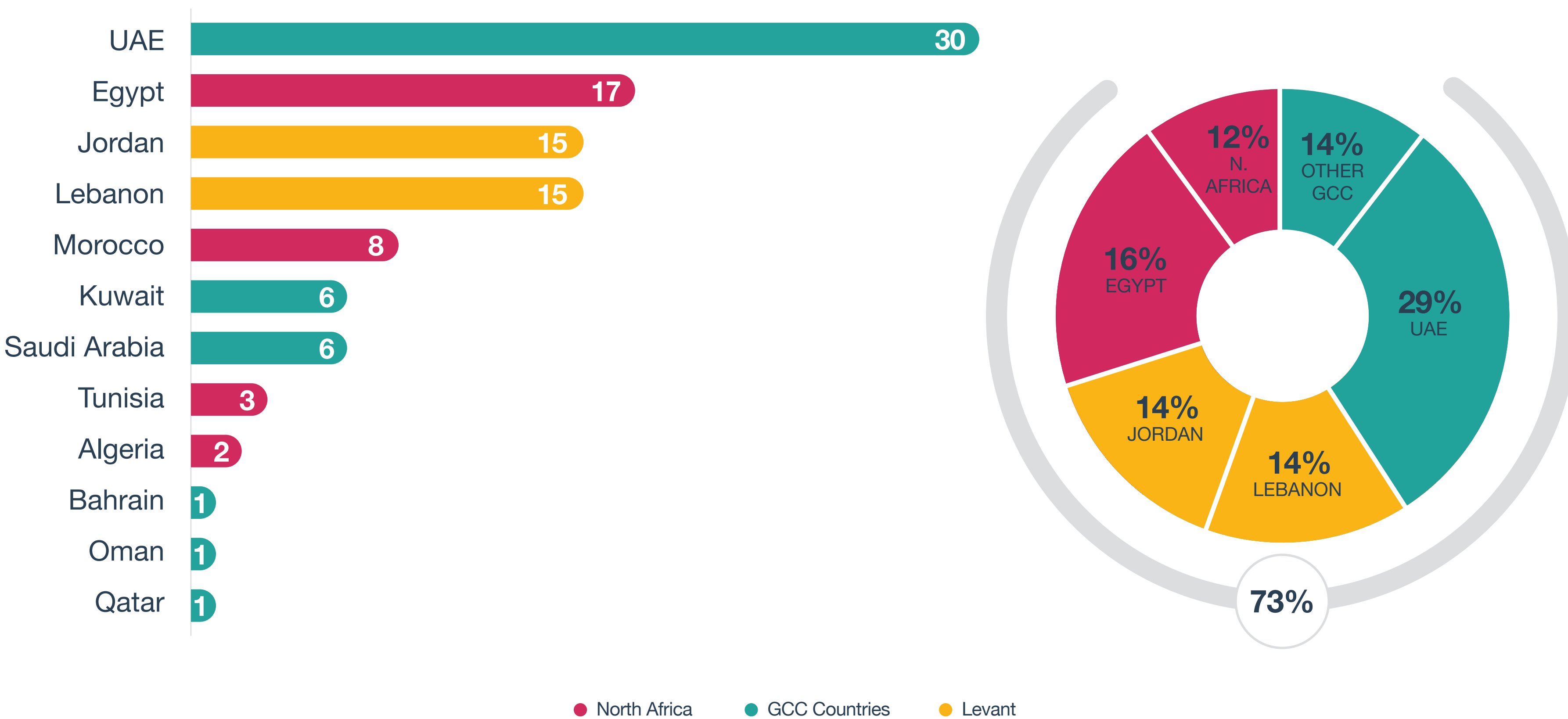


Source: Wamda Research Lab, 2016

ALMOST 3 IN 4 FINTECH STARTUPS ARE BASED FOUR COUNTRIES

Four out of 12 countries host 73% of all MENA fintech startups (Fig. 6). These four countries represent MENA's potential fintech hubs. The concentration in the four hubs reflects the fact that these are the region's most advanced startup ecosystems, which grew mainly due to governmental support, the involvement of the private sector, good education levels and political stability.

Figure 6 | Four emerging fintech hubs (share of fintech startups by country, 2015)

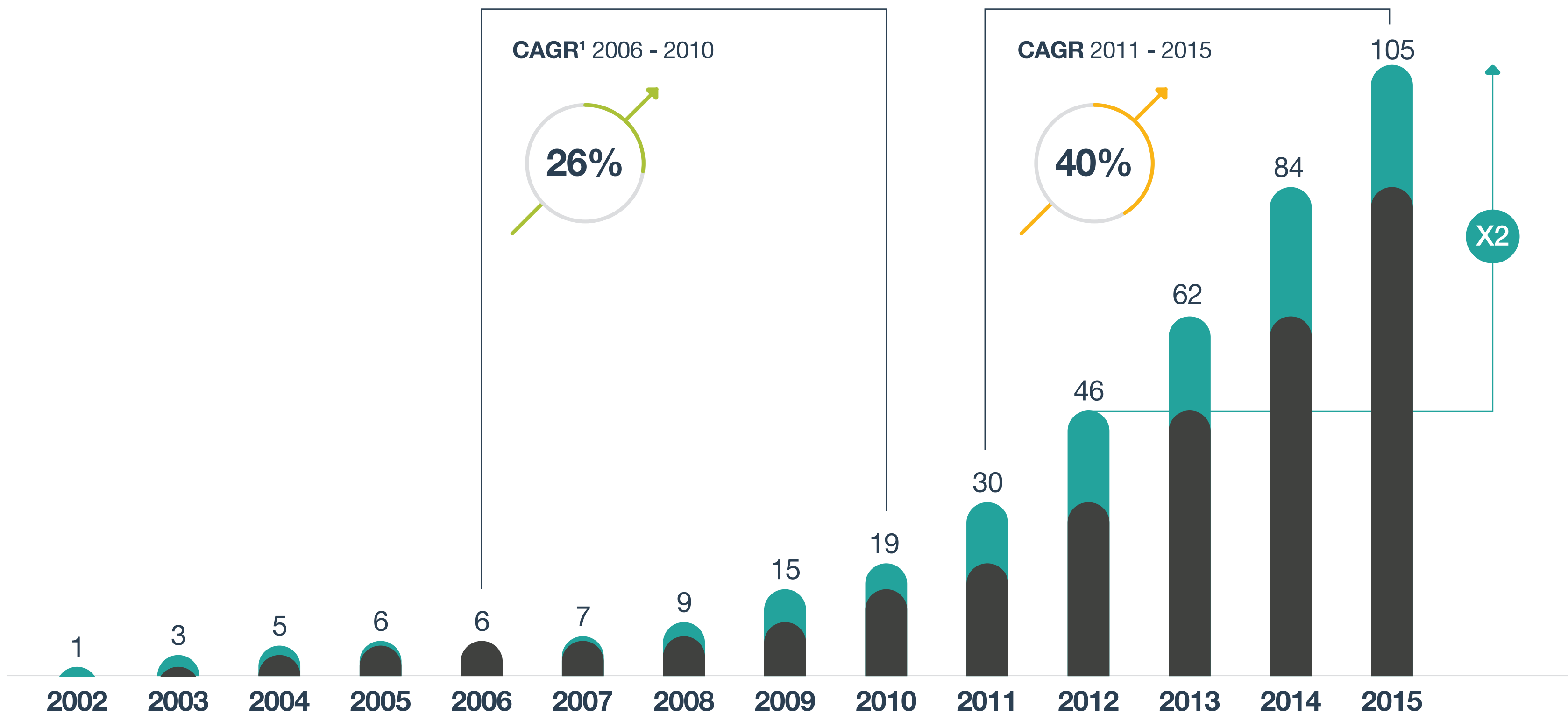


Source: Wamda Research Lab, 2016

HALF OF ALL MENA-BASED FINTECH STARTUPS **LAUNCHED AFTER 2012**

MENA is a frontier ecosystem in a global context (compare Fig. 2). However, 2010 marked the beginning of an accelerating fintech creation (Fig. 7). Indeed, half of all MENA-based fintech startups were founded after 2012. Hence, while the majority of the region's startups are still in their early stage, the industry is poised to witness its second cohort of scale-ups before the end of the decade.

Figure 7 | **MENA-based fintech startups** (cumulative, 2002-2015)

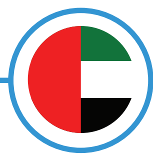


Source: Wamda Research Lab, 2016

1 - CAGR – Compound Annual Growth Rate: a geometric progression ratio that provides a constant rate of return or growth over the time period.

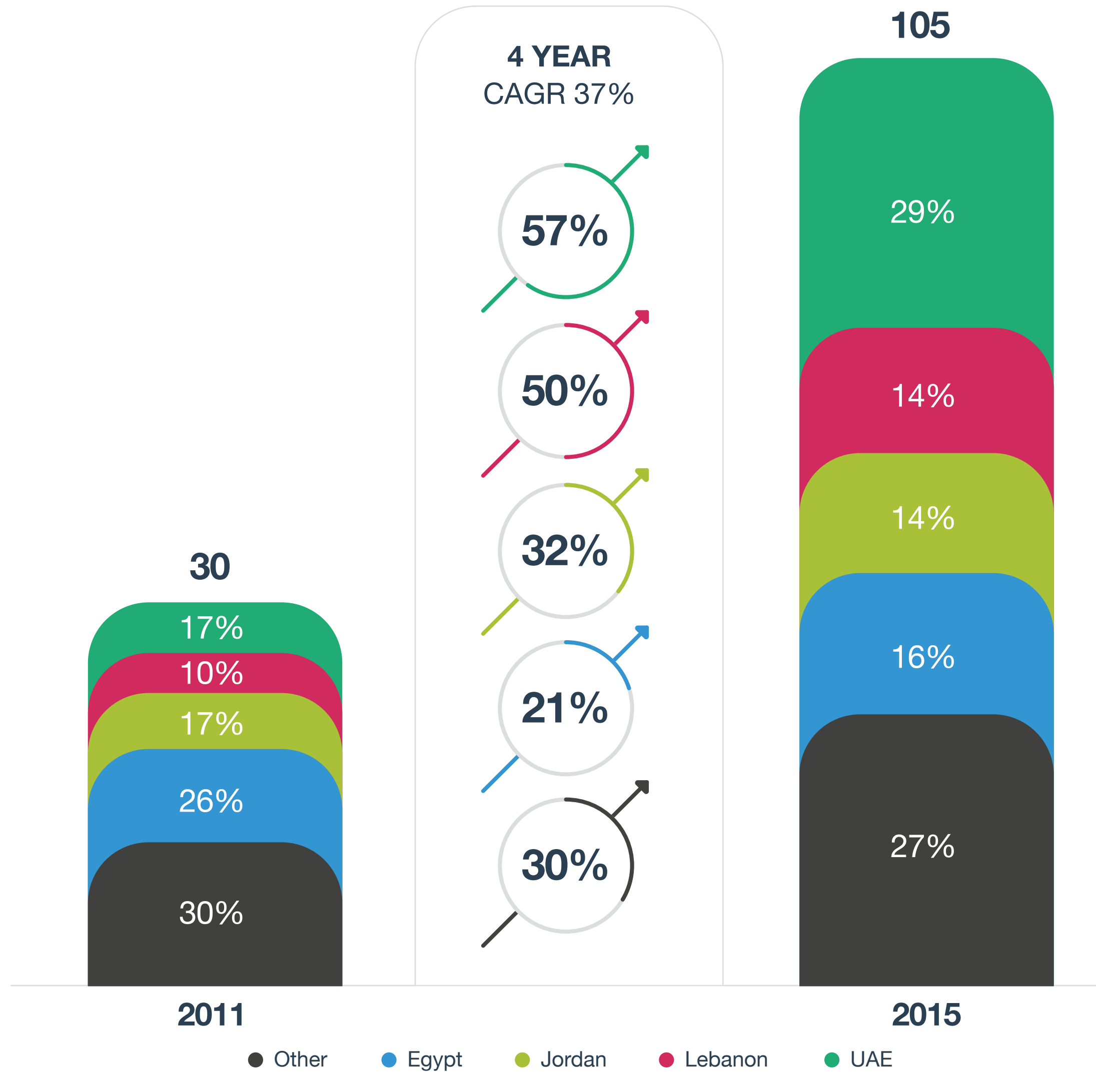
IN FACT, THE UAE IS DRIVING THE **FINTECH SURGE...**

Fintech startup creation is happening almost three times faster in the UAE compared to Egypt, which is explaining why they switched their respective positions – Egypt used to host more than 1 in 4 MENA fintech startups, now this position is held by the UAE (Fig. 8).



The UAE now hosts as many startups as two of the other three hubs combined.

Figure 8 | **Countries driving fintech growth** (cumulative numbers by country, 4 year CAGR, 2011 - 2015)

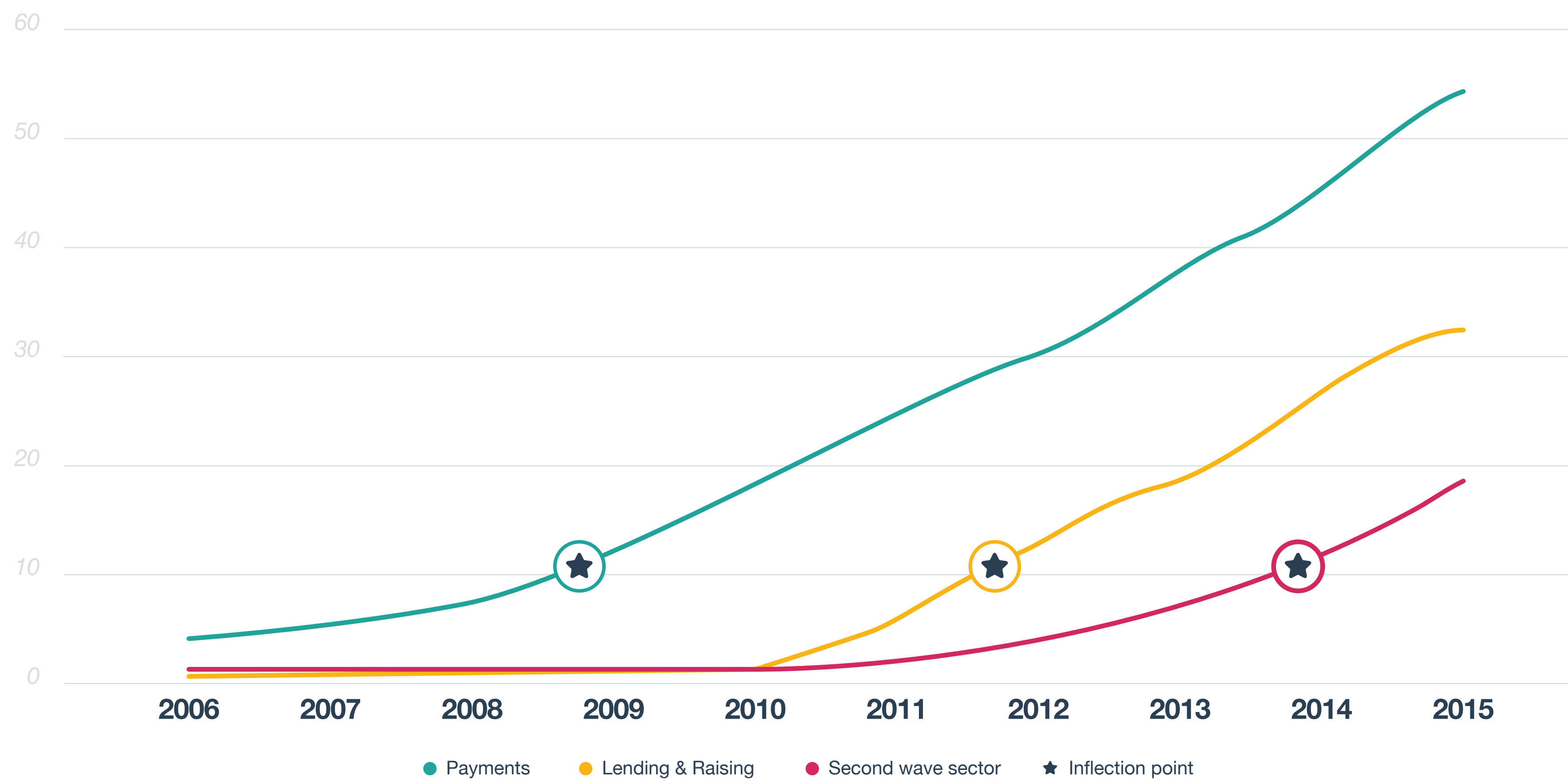


Source: Wamda Research Lab, 2016

AND PAYMENTS **TAKE THE LEAD**

In fact, payments and lending startups represent 84% of all MENA fintech startups. Second wave sectors reached a point in 2016 that payment startups hit five years ago – a total of 20 startups. All three sectors have now crossed the inflection point after which growth accelerates (Fig. 9).

Figure 9 | **Fintech startup creation** (cumulative number of startups by sector)



Source: Wamda Research Lab, 2016

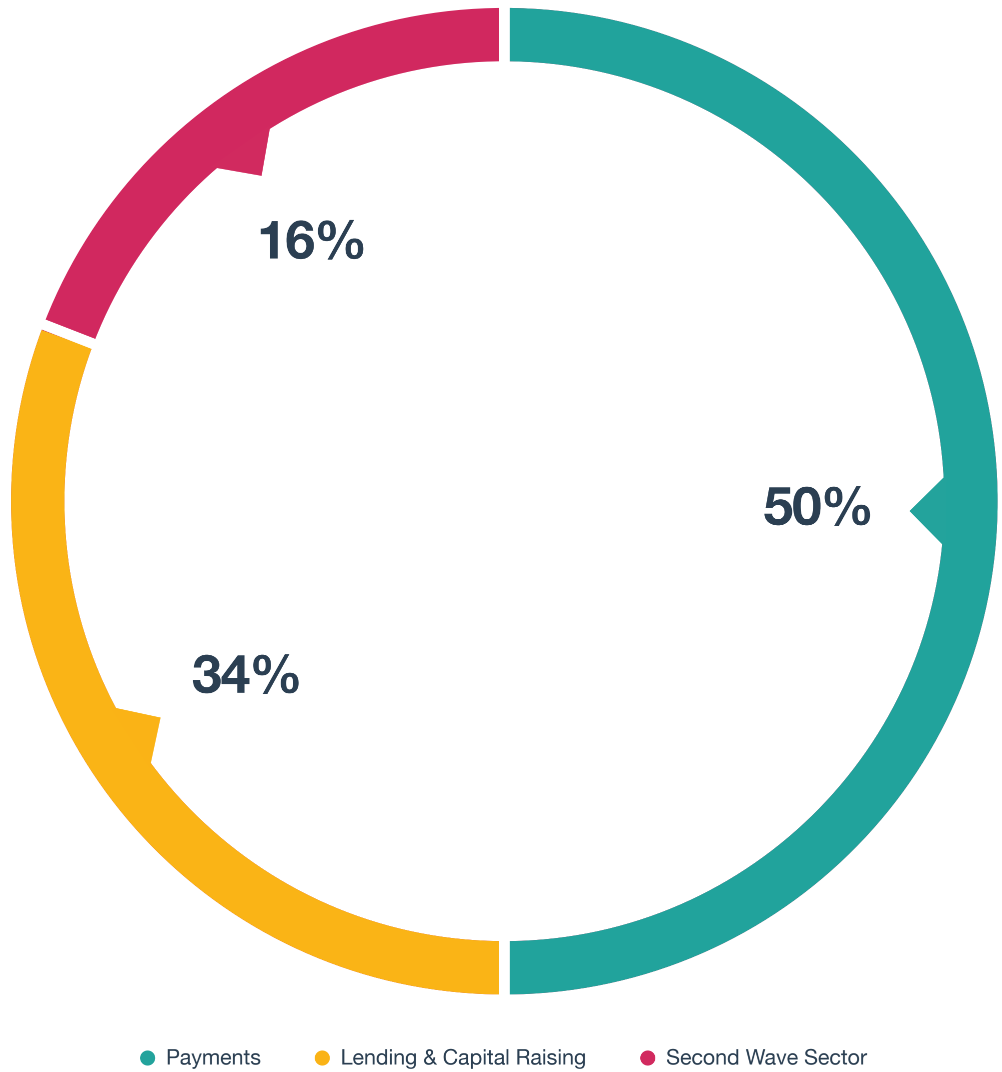
SECOND WAVE SECTORS ARE ARRIVING **EVERYWHERE**

Across all countries, payment startups form the most prominent sector. On the other hand, every hub country already hosts one or more second wave sector startups. In fact, the MENA average is close to 20% (Fig 10).

Although the small sample size on a country level renders further analysis obsolete it is noteworthy that every country replicated the MENA average.

The arrival of solutions for remittances, investments and insurance suggest the potential for fintech is only emerging.

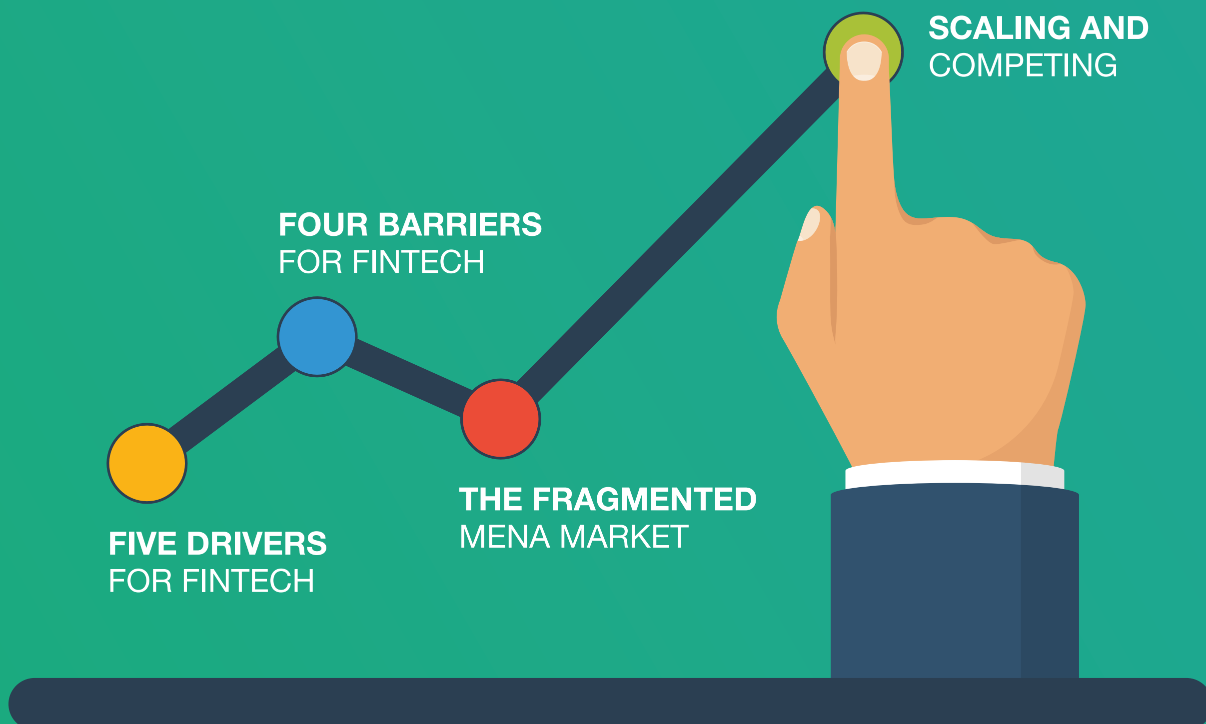
Figure 10 | **Fintech sector breakdown** (cumulative number of launched startups, 2015)



Source: Wamda Research Lab, 2016

MARKETS

DRIVERS AND BARRIERS FOR FINTECH



LESS THAN ONE IN FIVE ADULTS **HOLDS A BANK ACCOUNT**

Widely unbanked populations are a barrier for fintech startups that try to improve services for banked customers. Without a bank account there is no credit score, no personal verification, and no involved established financial institution.

However, financial exclusion comes at a high cost for both individuals and governments. Increasingly, people seek to gain access to some kind of financial service. The key enabler for this trend is technology.

With internet penetration increasing and smartphone adoption almost tripling in the non-GCC market, a massive increase in electronic payment solutions can be expected. Startups serve customer segments that are difficult for traditional banks to reach, such as rural populations. Banks become more challenged to innovate, often through partnerships. Telecoms try to replicate the Kenyan M-PESA model that provides access to mobile money through a simple mobile phone.[9]

These efforts encourage startup creation – not only around payments but micro investments, micro insurance and remittances.

9 The Economist, 2013: Why does Kenya lead the world in mobile money? http://tinyurl.com/o59nw6t

MENA SME LENDING STANDS AT **50% OF THE GLOBAL AVERAGE**

SME lending accounts for 8% of credit lending by Arab banks across MENA, compared to 18% in middle income countries globally. This is despite the crucial role played by SMEs in the region – they represent 80% - 90% of all formal sector enterprises, and account for 80-90% and 20-40% of all private sector employment.[10]

Peer-to-peer platforms and crowdfunding for social and creative projects have proven to be popular across the region. Interestingly, SME lending is especially scarce in GCC countries (Fig. 11). This is driven by SMEs' poor financial reporting, unclear ownership, the lack of a centralized collateral register and missing credit bureaus.[11] Peer-to-peer lending platforms promise to leverage algorithms and big data to unlock a new way of raising money for small businesses.

Figure 11 | Share of loans to SMEs by Arab banks (per country, in percent)

Source: International Finance Corporation, 2011

10 World Bank, 2012: SMEs Job Creation in the Arab World. http://tinyurl.com/zq22f39
11 The World Bank, 2014: Why supporting Small and Medium Enterprises in the Gulf is Different. http://tinyurl.com/joejgkn

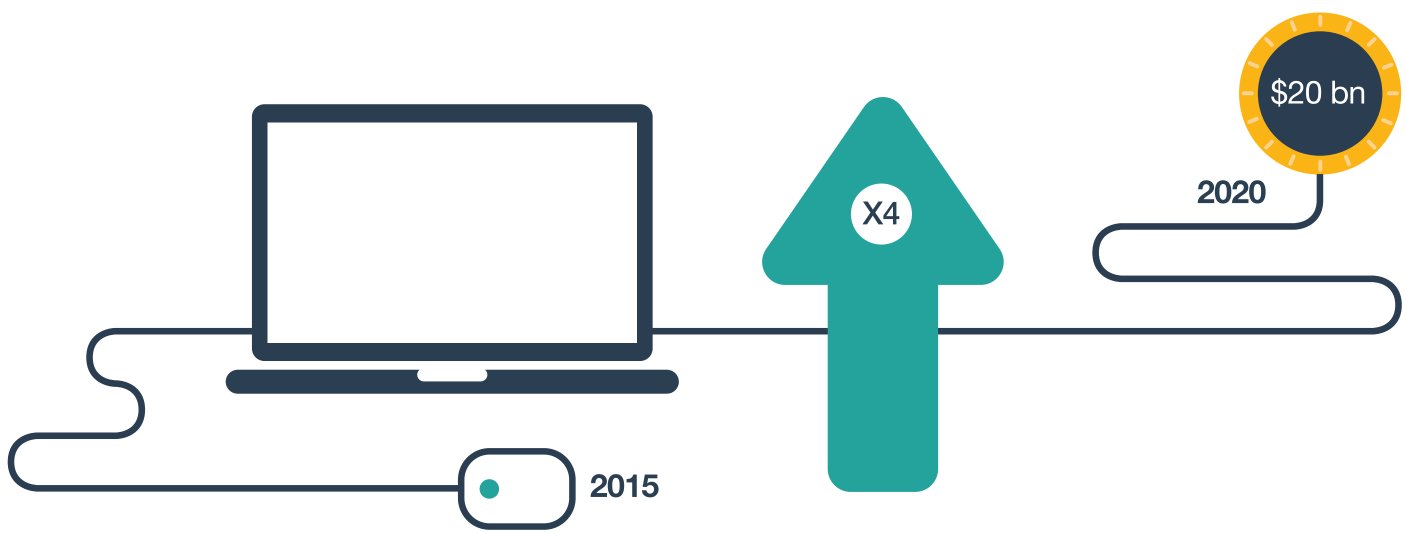
ECOMMERCE SET TO QUADRUPLE **IN FIVE YEARS**

GCC countries rank significantly higher in financial inclusion than the rest of MENA. Coupled with a much higher smartphone penetration and one of world's highest per capita GDPs, many of MENA's highest valued startups come from the ecommerce industry. Souq.com, MENA's first unicorn, counts 34 millions unique visitors every month.

Yet the relative contribution of ecommerce to the GDP of GCC countries is still five times lower compared to other high-income countries. This is partially driven by the unique preference for cash on delivery (COD) even among customers that do have credit and debit cards.

Fintech plays a crucial role in that it will boost ecommerce and benefit from its growth – forecast to quadruple from 2015 to a $20 billions market by 2020.[12] The degree to which payment startups offer fast, secure, and convenient services, including instalment payments, will shape the adoption rate of its services, thus fueling the growth of the digital economy.

Increasingly, interest in payment solutions also comes from traditional businesses including airlines, hotels, and telecoms seeking to digitize their services.



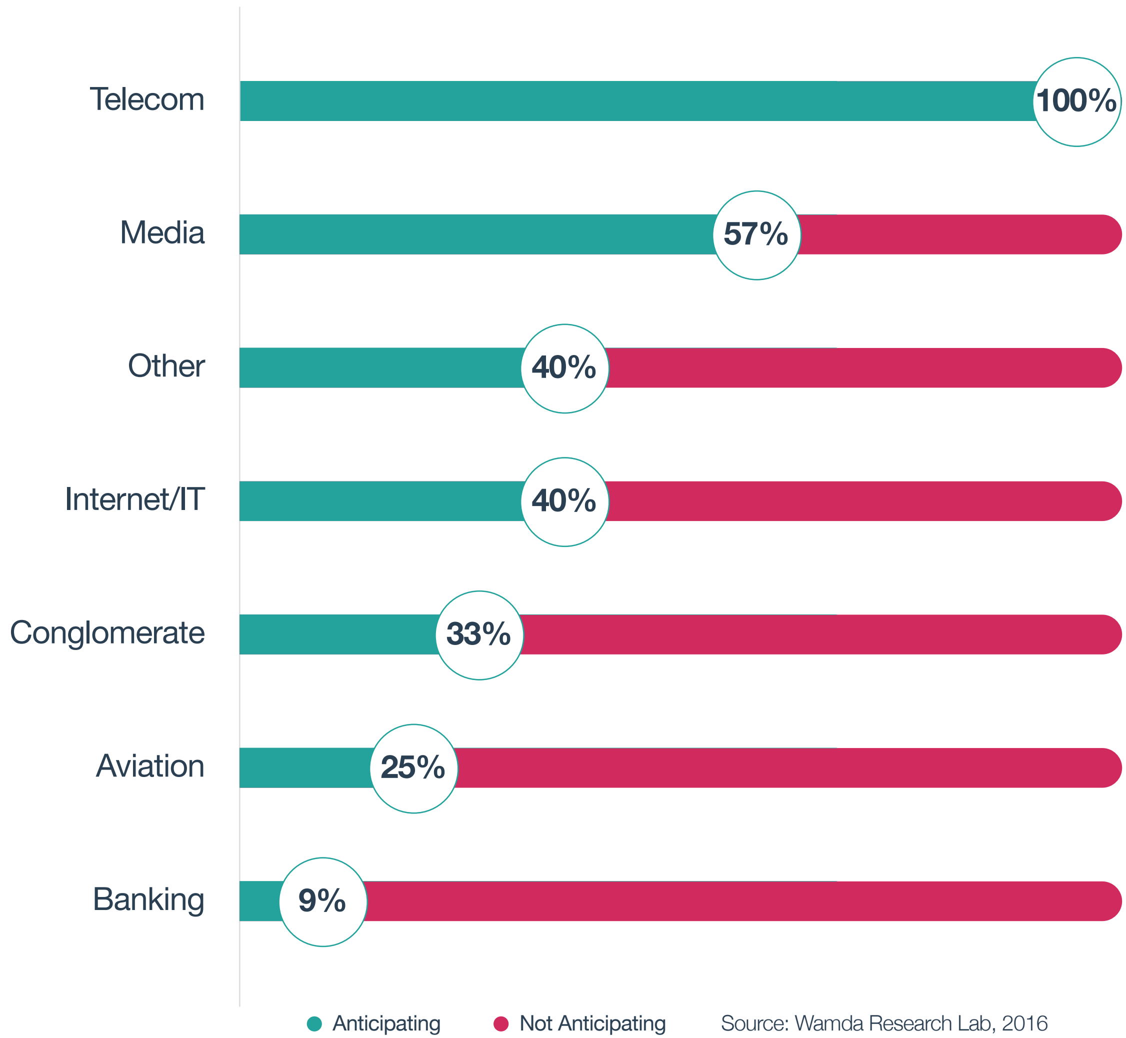
12 AT Kearney, 2016: Getting in on the GCC E-Commerce Game. http://tinyurl.com/jov3bmt

ONE IN THREE BANK CUSTOMERS WANTS TO **SWITCH HIS BANK**

MENA's banked population is increasingly looking for a digital banking experience. In tandem with global[13] and regional[14] surveys pointing to decreasing customer loyalty, a survey of 1,429 banking customers in MENA conducted by YouGov on behalf of PayFort and featured for the first time in this report found that 47% of bank customers were interested in using services provided by new companies offering payment, lending and investment solutions.

Although 49 of the 100 largest Arab companies are banks and financial institutions, the majority is struggling to quickly adapt to this trend. Wamda's survey of over 120 corporate executives in MENA revealed that those working in the banking industry were the least concerned about potential disruption to their industry (Fig. 12).

Figure 12 | Anticipation of disruption (MENA-based corporations or regional subsidiaries, by industry, in percent)



Source: Wamda Research Lab, 2016

13 EY, 2016: The relevance challenge: What retail banks must do to remain in the game. http://tinyurl.com/z3tye73
14 EY, 2015: Three out of four GCC customers would be ready to switch [...]. http://tinyurl.com/gr5fueg

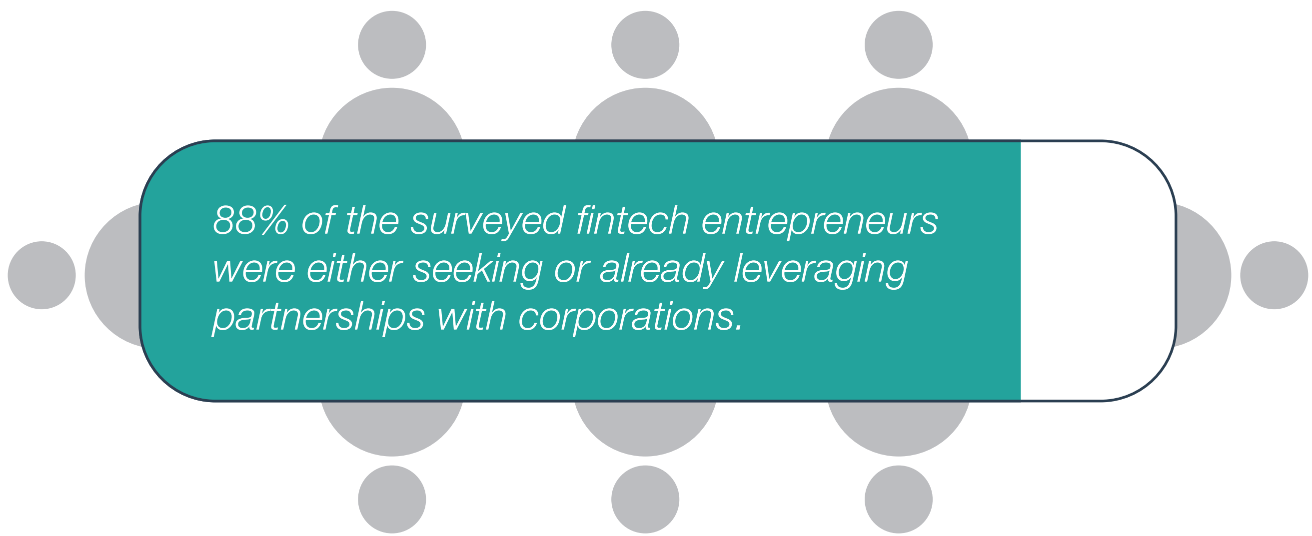
88% OF FINTECH STARTUPS **SEEK CORPORATE PARTNERSHIPS**

Fintech in MENA had a particularly difficult start due to outdated regulations, a lack of specialized talent willing to leave their career track for the uncertain journey of entrepreneurship, and difficulties to scale across the regions fragmented, small markets.

However, with the region's first batch of fintech startups scaling up, the question becomes pressing for banks and insurers: will they establish innovation strategies that integrate into the growing startup ecosystem?

To accelerate the global best practice of corporate startup engagement, Expo 2020 Dubai and Wamda developed a Corporate Toolkit on how to strategically work with startups.[15]

Collaborative Entrepreneurship, as the initiative is called by Expo and Wamda, creates win-win partnerships between established corporations and agile startups. Corporations are ideally positioned to help fintech startups overcome their largest barriers.



15 Expo 2020 Dubai & Wamda, 2016: The Corporate Toolkit for Collaborative Entrepreneurship. http://tinyurl.com/j25pb8y

BANKS MAY LACK INNOVATION, **BUT STARTUPS LACK TRUST**

The good news for banks is that the threat stems less from fintech startups than from those banks that succeed with their innovation strategy.

Three out of four bank customers use the internet to purchase goods and services, and online payment services are used more often than on-demand services (Fig. 13). This shows a faster uptake of ecommerce and online payments, compared to on-demand services. At the same time, it highlights the fact that while online shopping has been widely adopted, fewer people are comfortable with online payments.

Figure 13 | Customer behavior (n=1,429)

Source: Wamda Research Lab, 2016

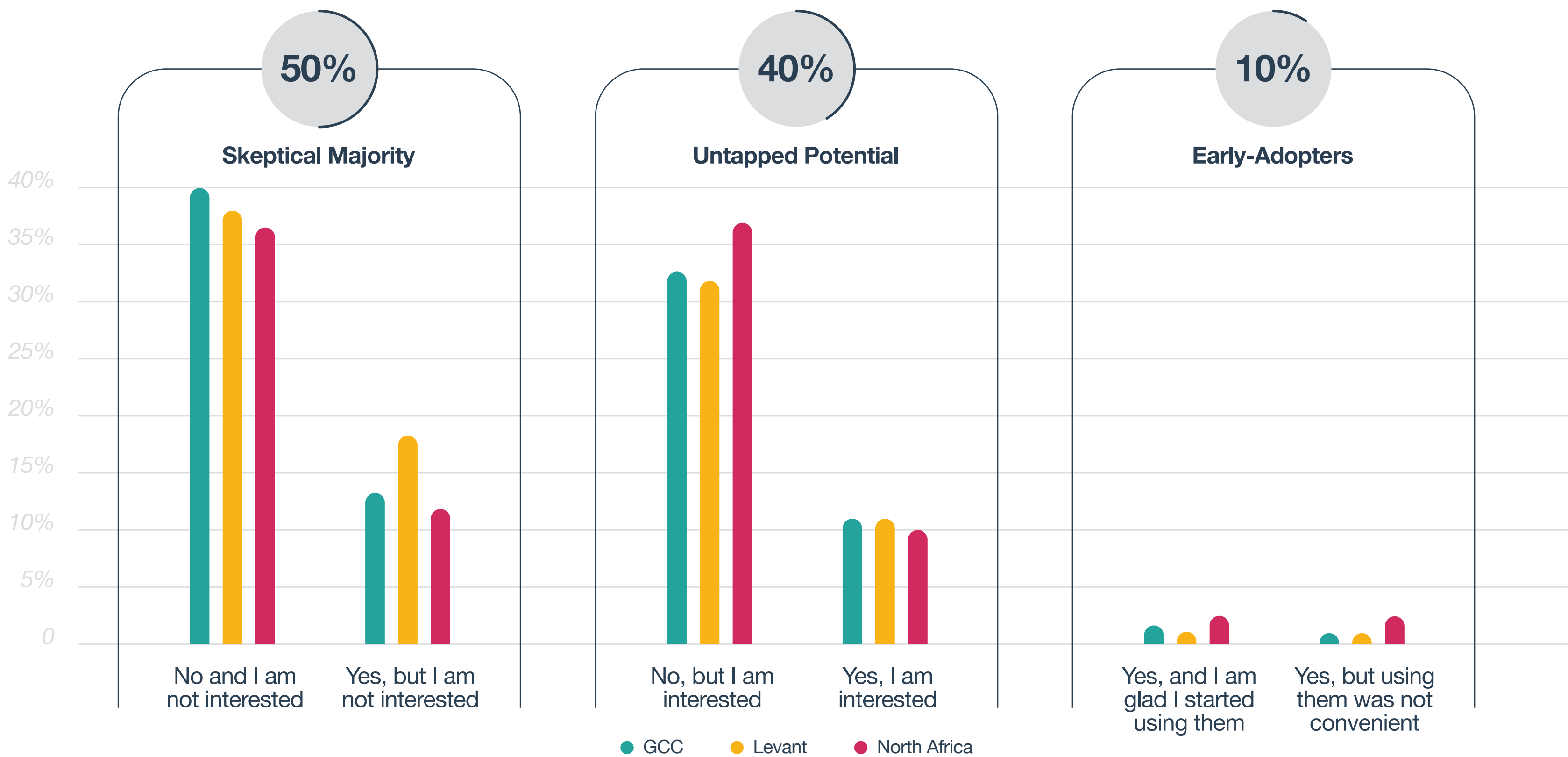
However, virtually every other financial service receives a very mixed reception from bank customers – mainly driven by three reservations:

- Customers are not aware of new services offered by startups
- Customers prefer cash on delivery (COD), mainly due to security concerns
- Customers think new companies might be a scam

A LACK OF AWARENESS OF FINTECH STARTUPS, AND PARTIALLY A LACK OF **UNDERSTANDING SERVICES AVAILABLE AMONG THE BANKED POPULATION**

The survey shows that one in two bank customers is interested in fintech, but less than five percent have adopted offered solutions to date. Although entrepreneurs point to customer acquisition as the fourth most pressing challenge, this finding points to a huge untapped potential.

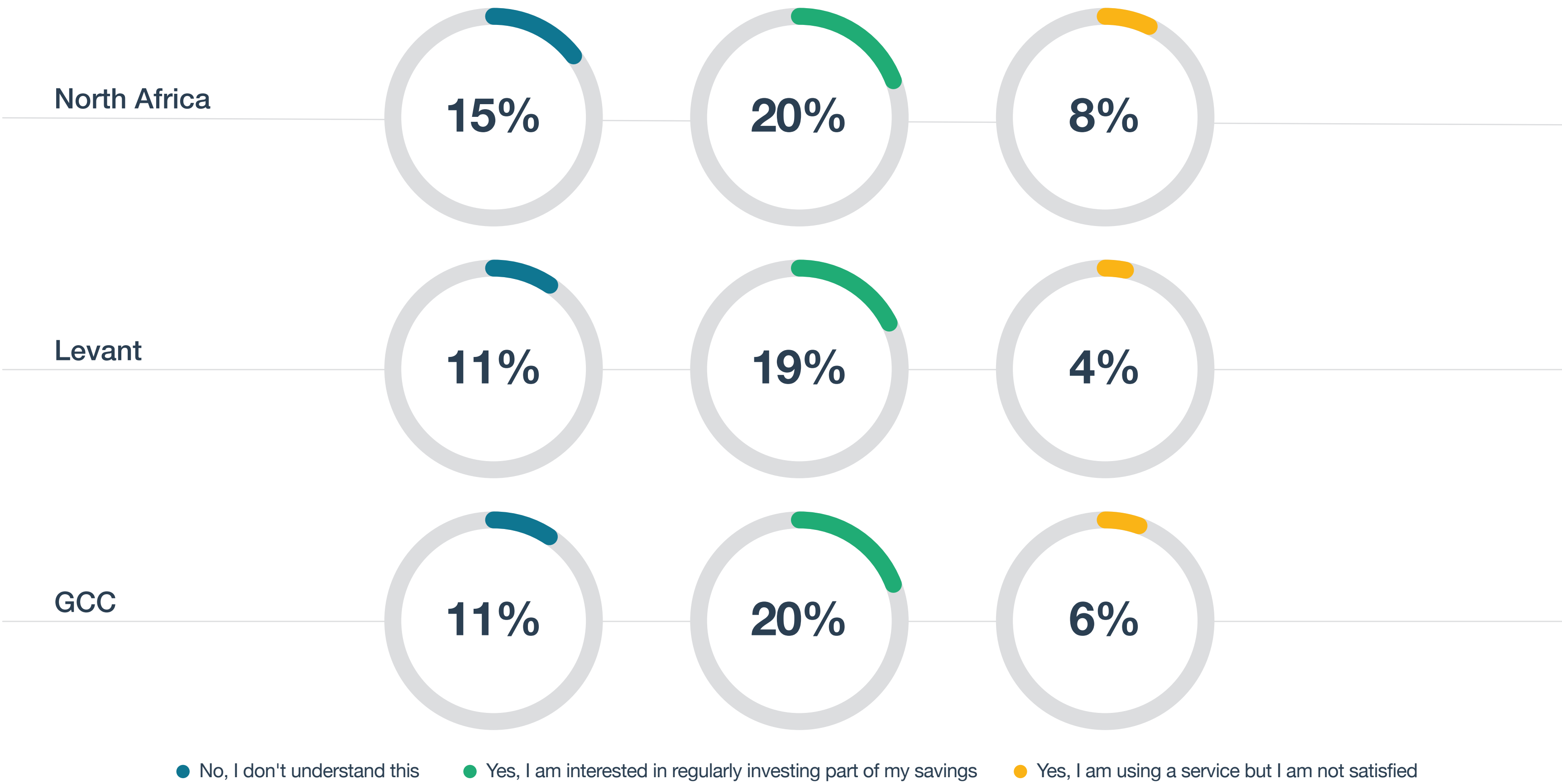
Figure 14 | Are you aware of new companies in your country offering payment, investment or lending opportunities? (n=1,429)



Source: Wamda Research Lab, 2016

A LACK OF AWARENESS OF FINTECH STARTUPS, AND PARTIALLY A LACK OF **UNDERSTANDING SERVICES AVAILABLE AMONG THE BANKED POPULATION**

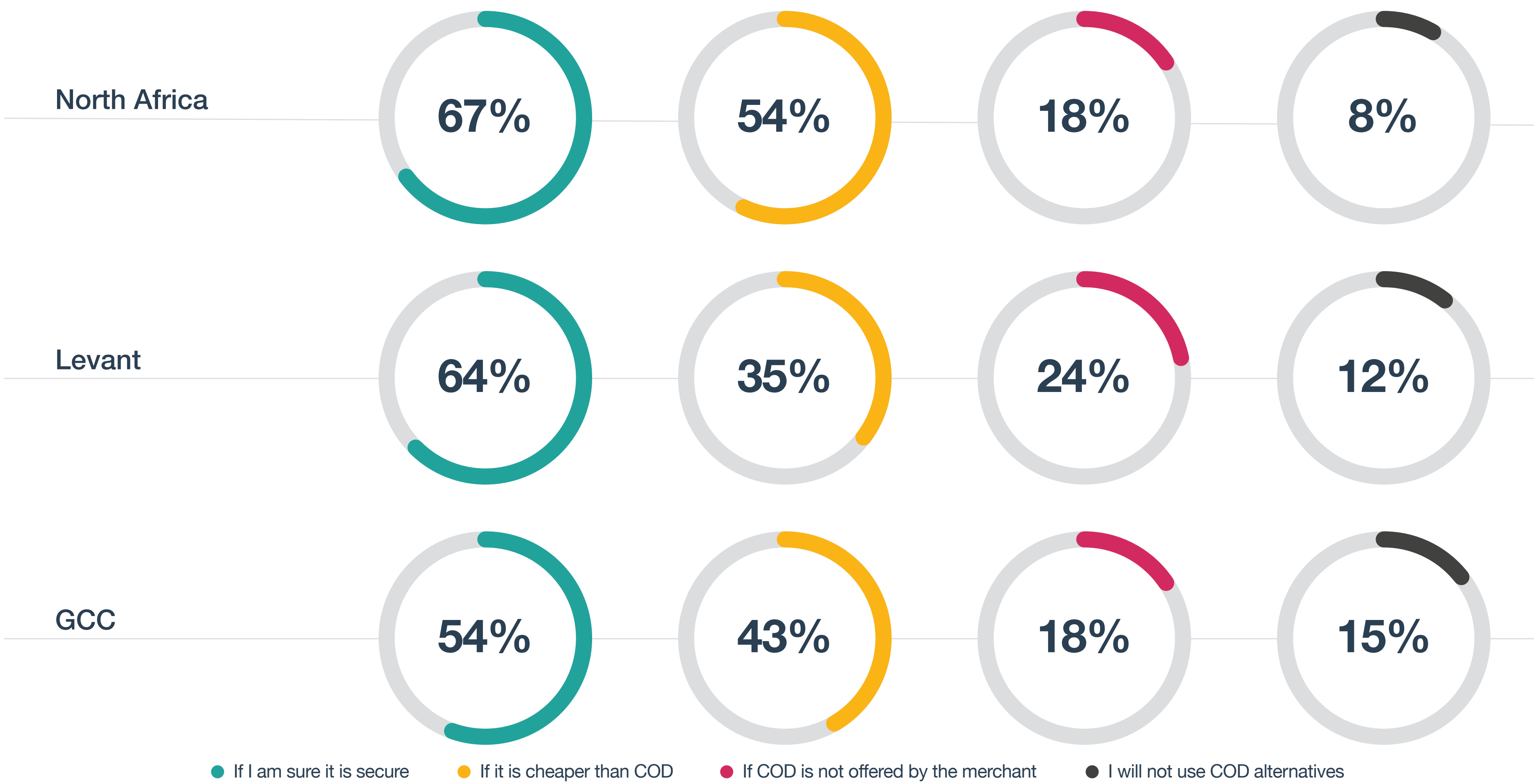
Figure 15 | Are you looking for private investment opportunities / wealth management solutions? (n=1,429)



Source: Wamda Research Lab, 2016

SECURITY CONCERNS ARE A KEY REASON FOR COD PREFERENCE AMONG **THE BANKED POPULATION**

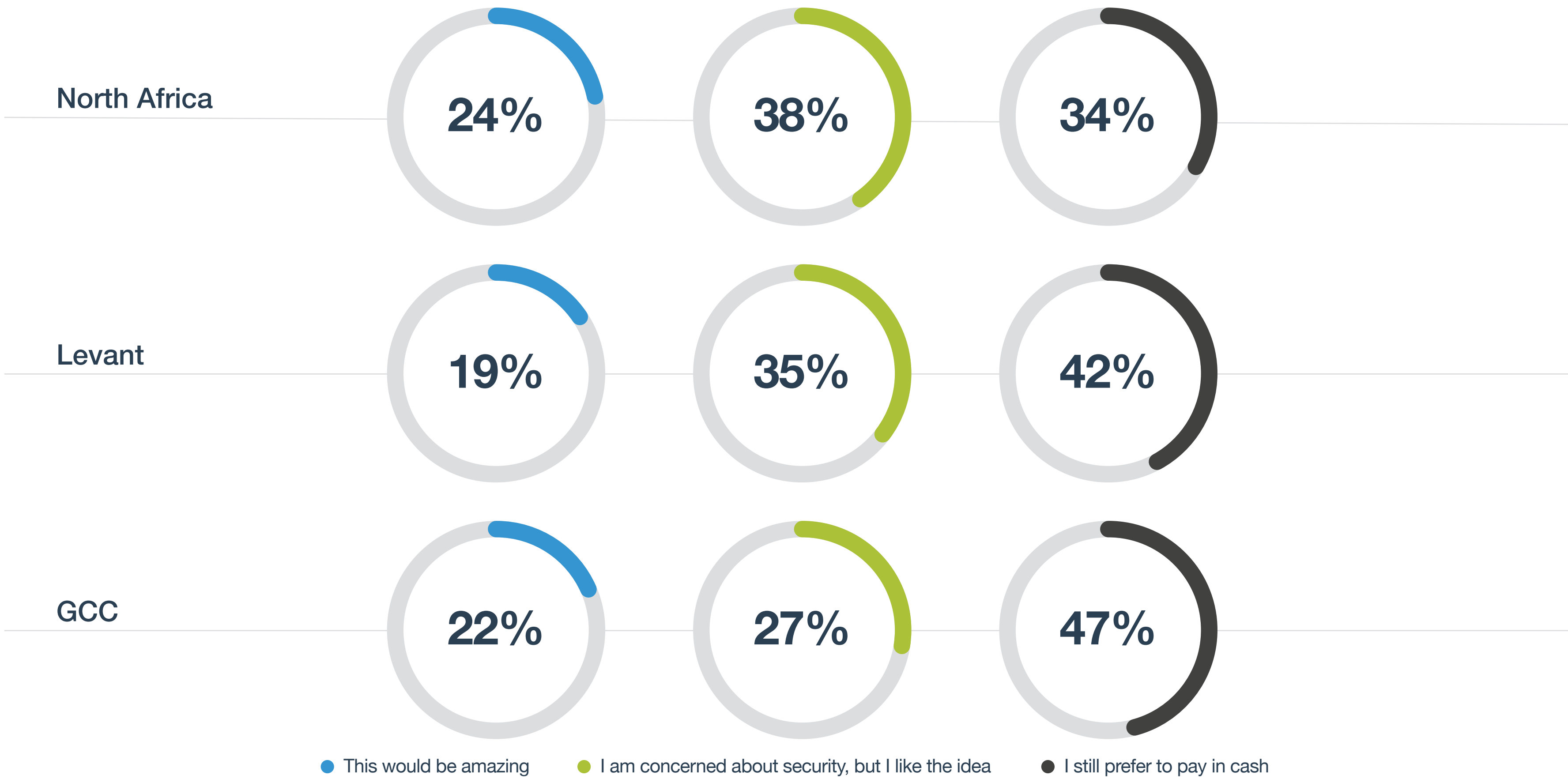
Figure 16 | When would you abandon cash on delivery (COD) for another alternative? (n=547)



Source: Wamda Research Lab, 2016

SECURITY CONCERNS ARE A KEY REASON FOR COD PREFERENCE AMONG **THE BANKED POPULATION**

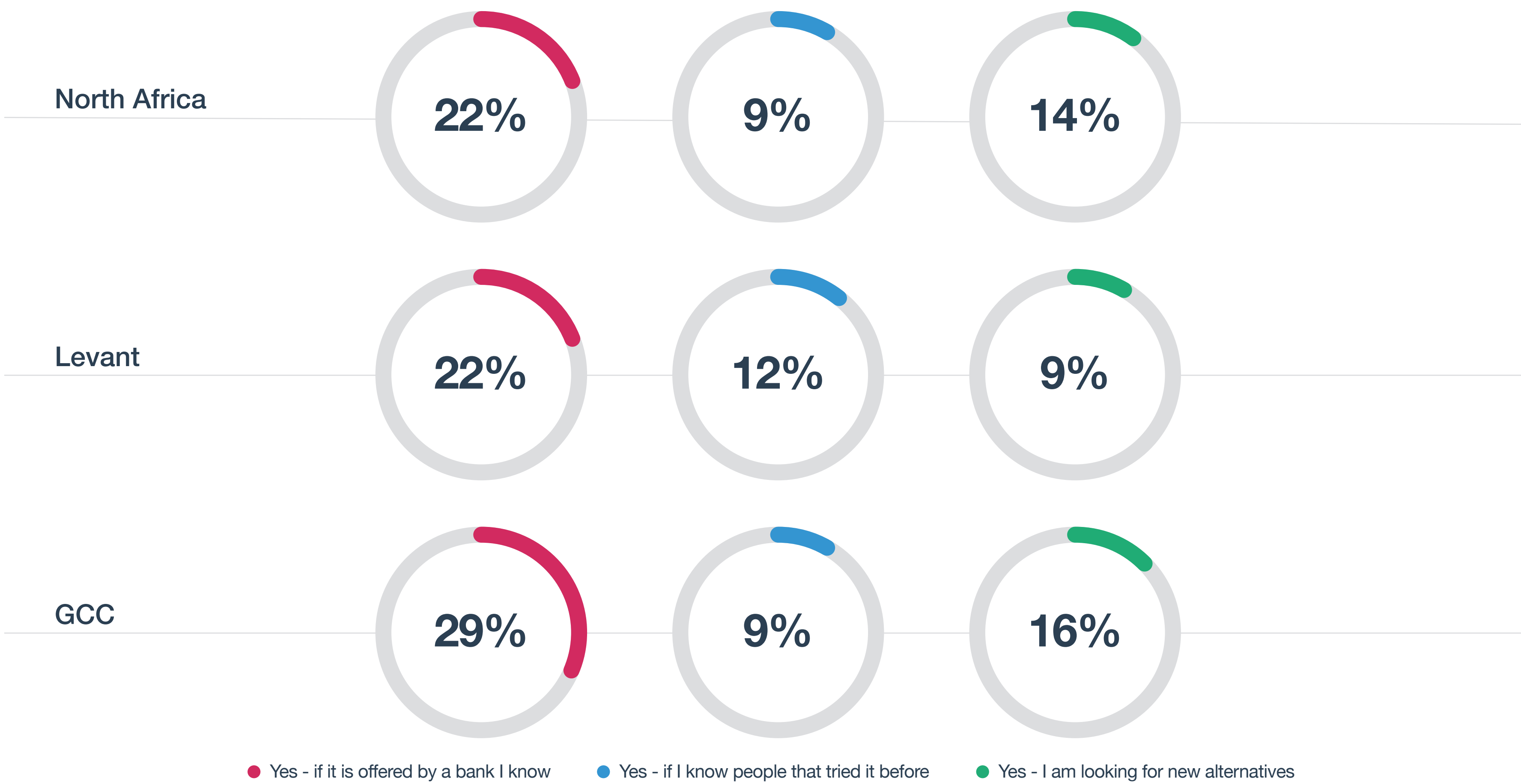
Figure 17 | Think of some stores you purchase from on a regular basis.
They now advertise an app that allows mobile payments, i.e. you would no longer need cash. How would you feel about that? (n=547)



Source: Wamda Research Lab, 2016

FEAR OF SCAMMERS KEEP UNSATISFIED BANK CUSTOMERS **LOYAL TO BANKS**

Figure 18 | Would you use a new service that is faster and cheaper to send money abroad? (n=1429)

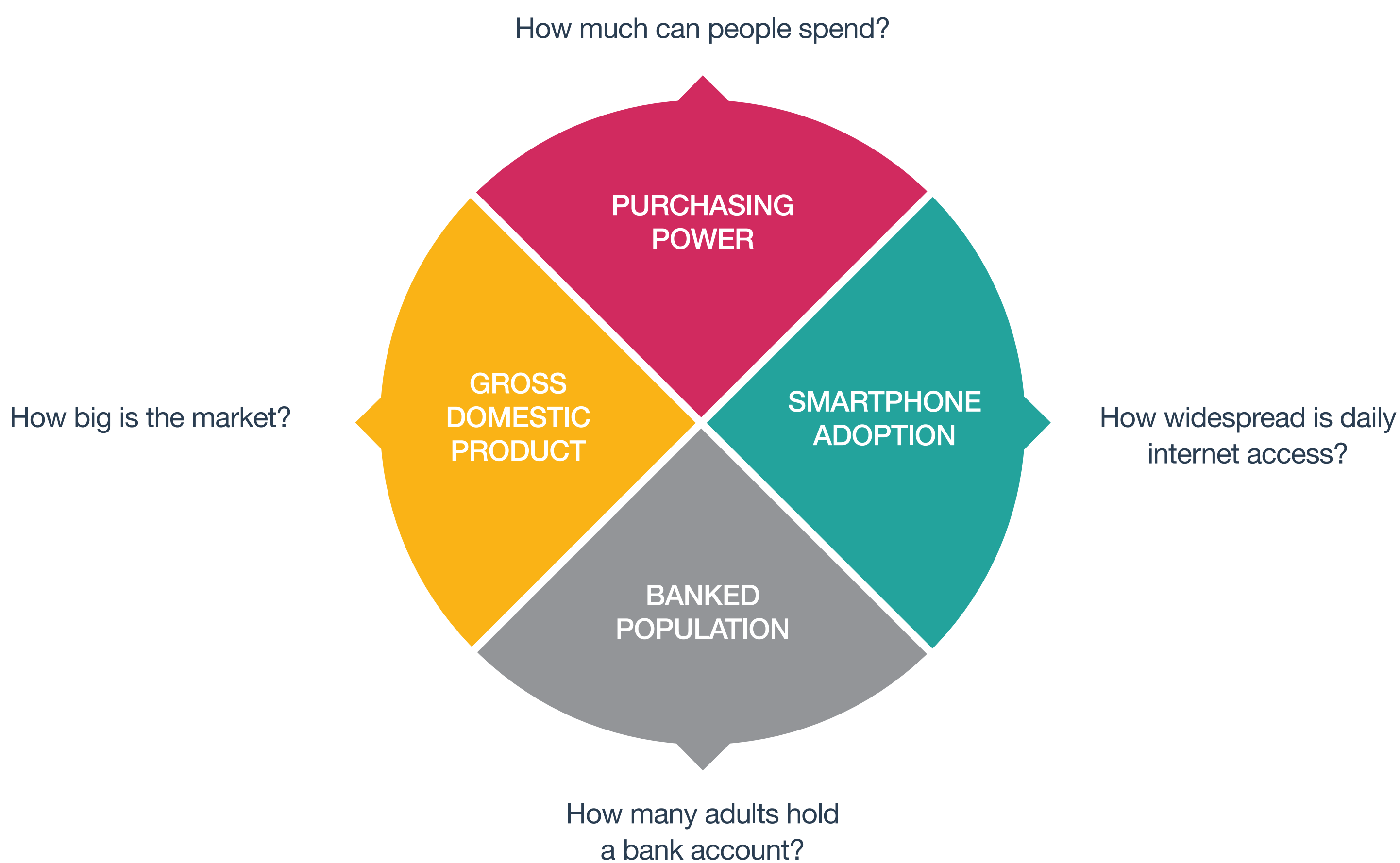


Source: Wamda Research Lab, 2016

THE NON-GCC AND THE **GCC MARKET**

The markets for fintech in MENA can be analyzed across four domains (Fig. 19).

Figure 19 | Four market indicators



THE FRAGMENTED MENA MARKET

The per capita GDP in GCC countries is one of the highest in the world and forms a strong contrast with non-GCC countries. The use of purchasing power parity (PPP) adjusts the amounts to the cost of living in respective countries.

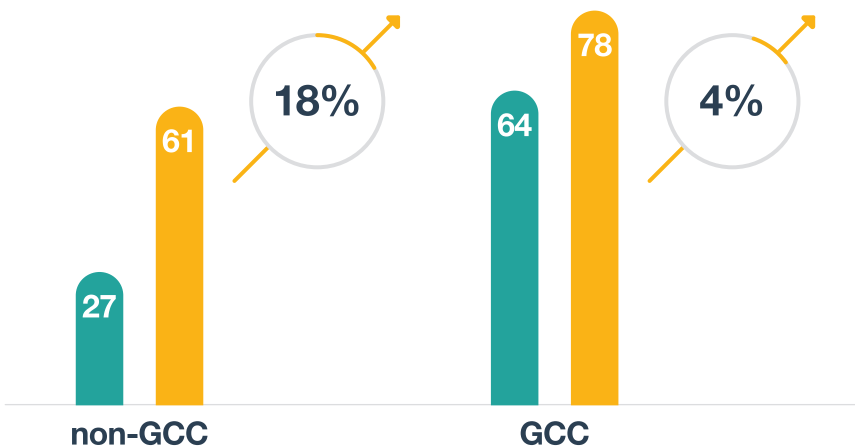
The countries with the highest GDP are geographically dispersed. A high GDP typically builds on both a larger population and a higher per capita GDP. A high GDP is one of the most important indicators for an attractive market, after considering the business climate and stability.

Smartphone adoption currently correlates with per capita GDP: it is significantly higher in GCC countries. However, the rise of affordable low end smartphones drive adoption in poorer countries so that by 2020, North Africa will reach the adoption rates currently seen in GCC countries. (Fig. 20).

Financial inclusion is one of the indicators where MENA as a whole holds a negative record (Fig. 21).

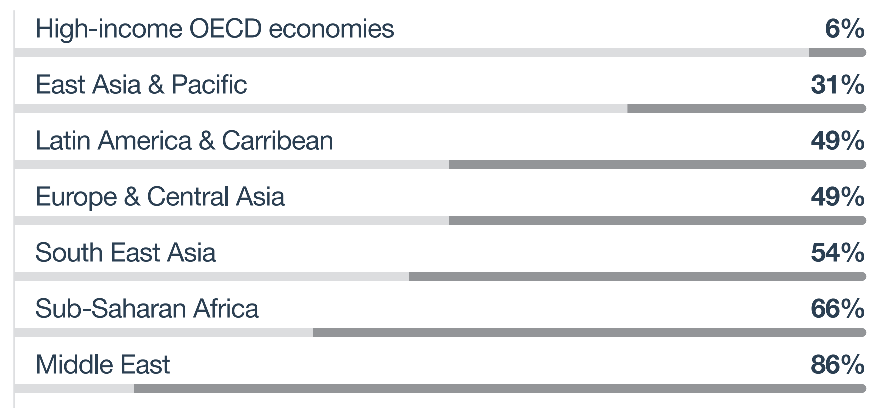
LESS THAN 1 IN 5 ADULTS IN MENA HAVE A BANK ACCOUNT

Figure 20 | **Smartphone adoption** (% per region, 5 year CAGR, 2015, 2020)



Source: GSMA Intelligence, 2016

Figure 21 | **Share of unbanked adults** (in world regions, in percent)



Source: Global Findex Database, 2014

The high share of unbanked people can be attributed to a wide range of reasons including poverty, financial illiteracy, unreachable rural population, and the prevalence of the informal economy. Financial inclusion could accelerate social and economic development and contribute to stability and transparency.

TWO CUSTOMERS IN **TWO MARKETS**

Fintech serves two types of customers. The first is looking for basic access to financial services and doesn't hold a bank account. The second is looking for an improved banking experience and additional services. The former depends on technology. A simple mobile phone can help to transfer funds, however, most financial services require internet access and thus at least a smartphone. While today's unbanked population also lacks smartphones, this will change by 2020.

Source: Wamda Research Lab, 2016

Source: Wamda Research Lab, 2016

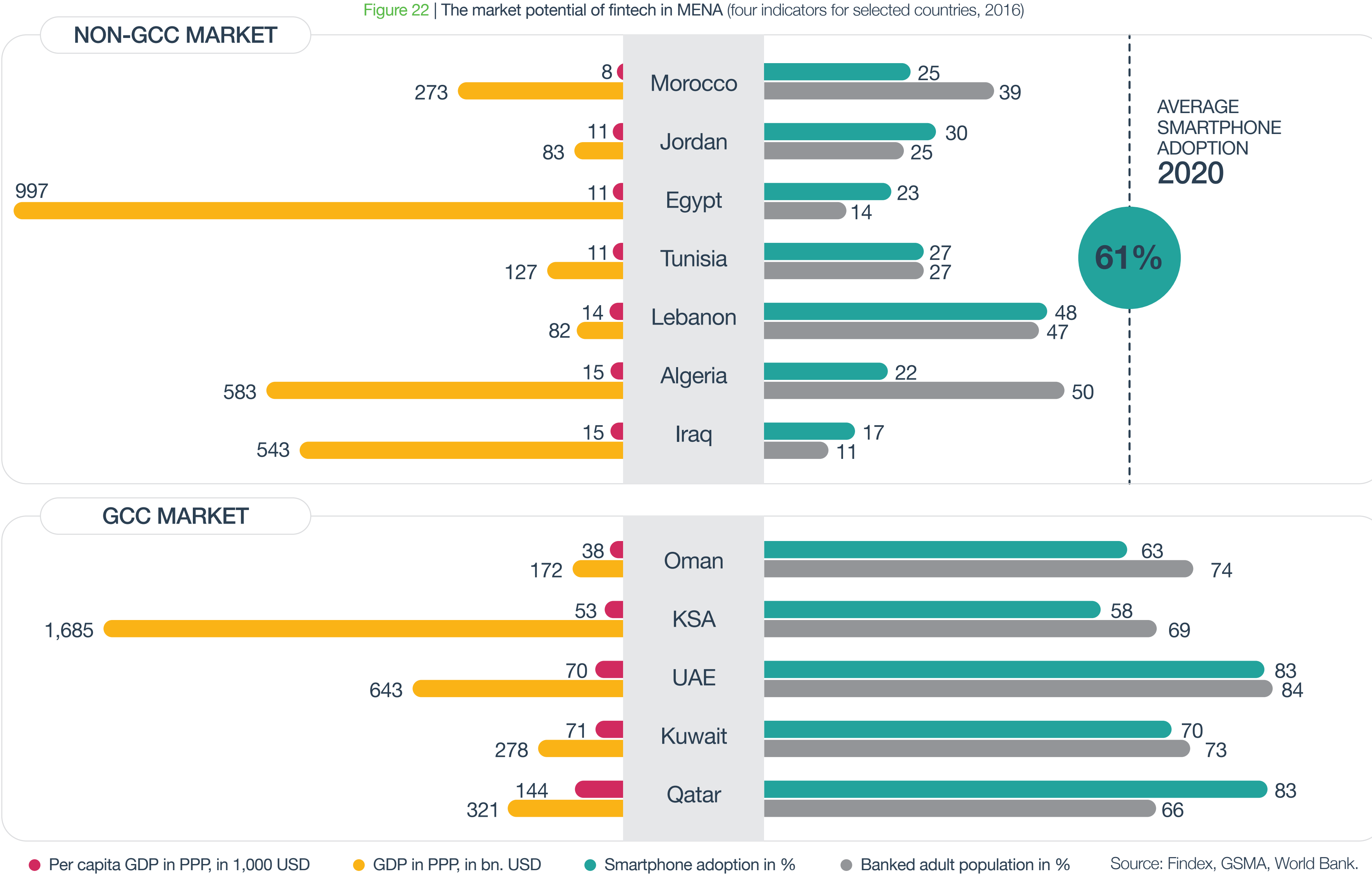
Source: Wamda Research Lab, 2016

Meanwhile, GCC countries have one of the highest smartphone penetration rates in the world.

These markets also host largely banked populations that increasingly expect a digital banking experience. The growth of the digital economy further pushes for integration of payments into the digital economy.

But it is a simplification to think of the GCC as "the high income market" while non-GCC clients are "the low income market". Poor migrant workers constitute majorities in GCC countries, while the top ten percent in a large country 'such as Egypt' make eight millions affluent customers.

Figure 22 | The market potential of fintech in MENA (four indicators for selected countries, 2016)



Source: Findex, GSMA, World Bank.

DRIVERS **OUTWEIGH BARRIERS**

Wamda's survey of MENA's fintech entrepreneurs found that acquiring customers and expanding into other markets form key challenges (compare Fig. 28).

Acquiring new customers might be difficult, yet the potential is tremendous – a survey among bank customers in MENA found that, while almost one in two customers were interested in new fintech services, less than five percent have so far started using one (Fig. 14).

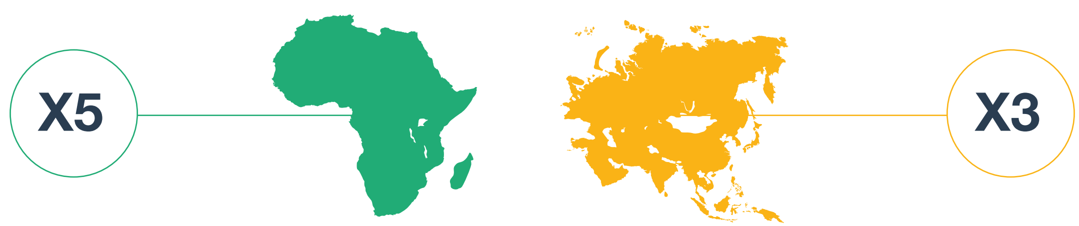
Scaling, on the other hand, is something that virtually all MENA-based fintech startups will have to struggle with as most individual markets of the region don't exceed a few millions potential customers.

98% OF SURVEYED **FINTECH STARTUPS PLAN TO EXPAND**

Of the fintech startups surveyed, 40 out of 41 plan to enter new markets over the next two years. A regional breakdown of current markets served shows that almost one in two startups already offer their service in the UAE.

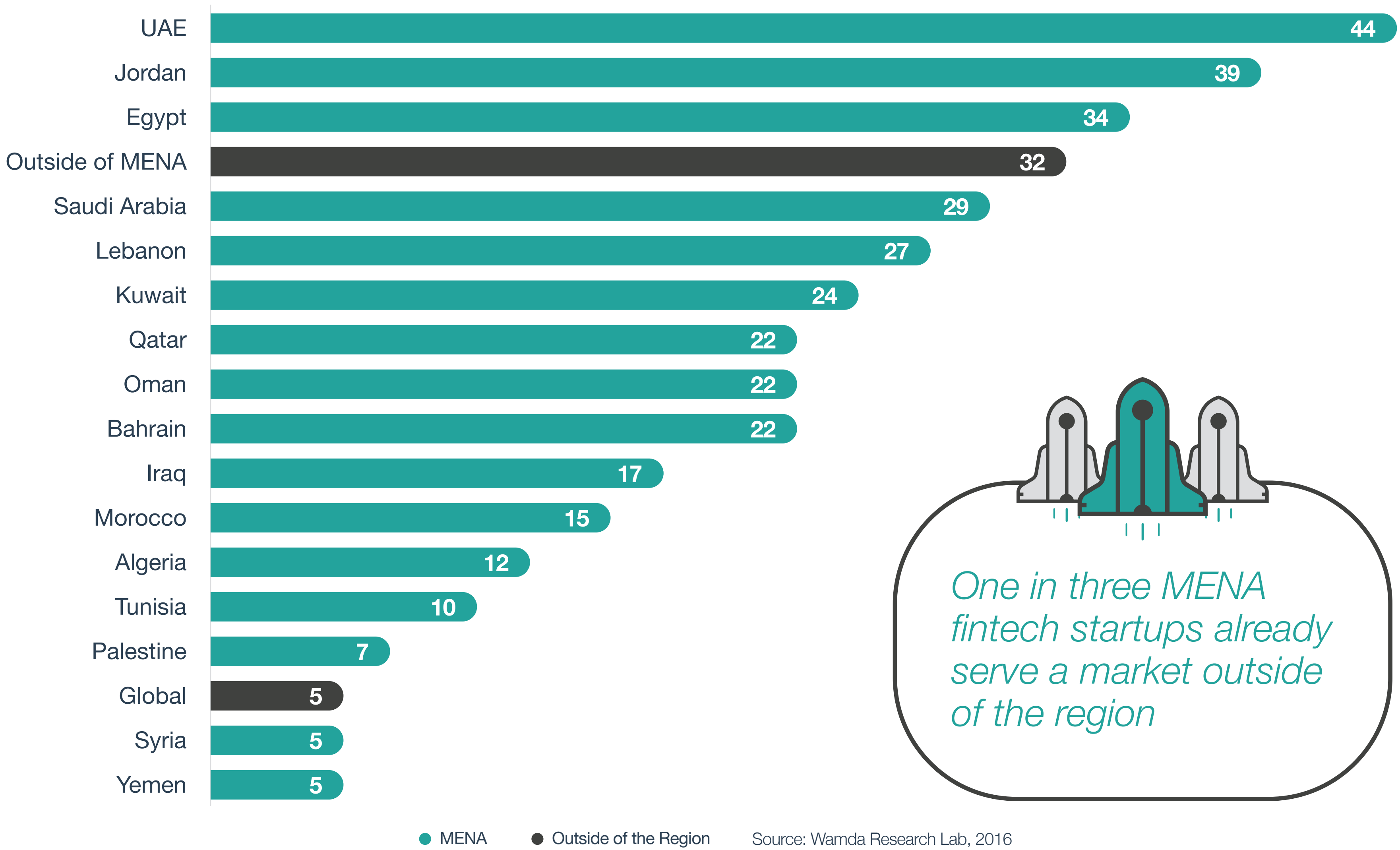
The next most popular markets are Jordan, Egypt and Saudi Arabia.

Three in four fintech startups are planning to enter, or increase their presence in, GCC countries. The strongest increase in market presence by MENA fintech startups, however, is happening in Sub-Saharan Africa (five-fold increase) and Asia (three-fold increase).



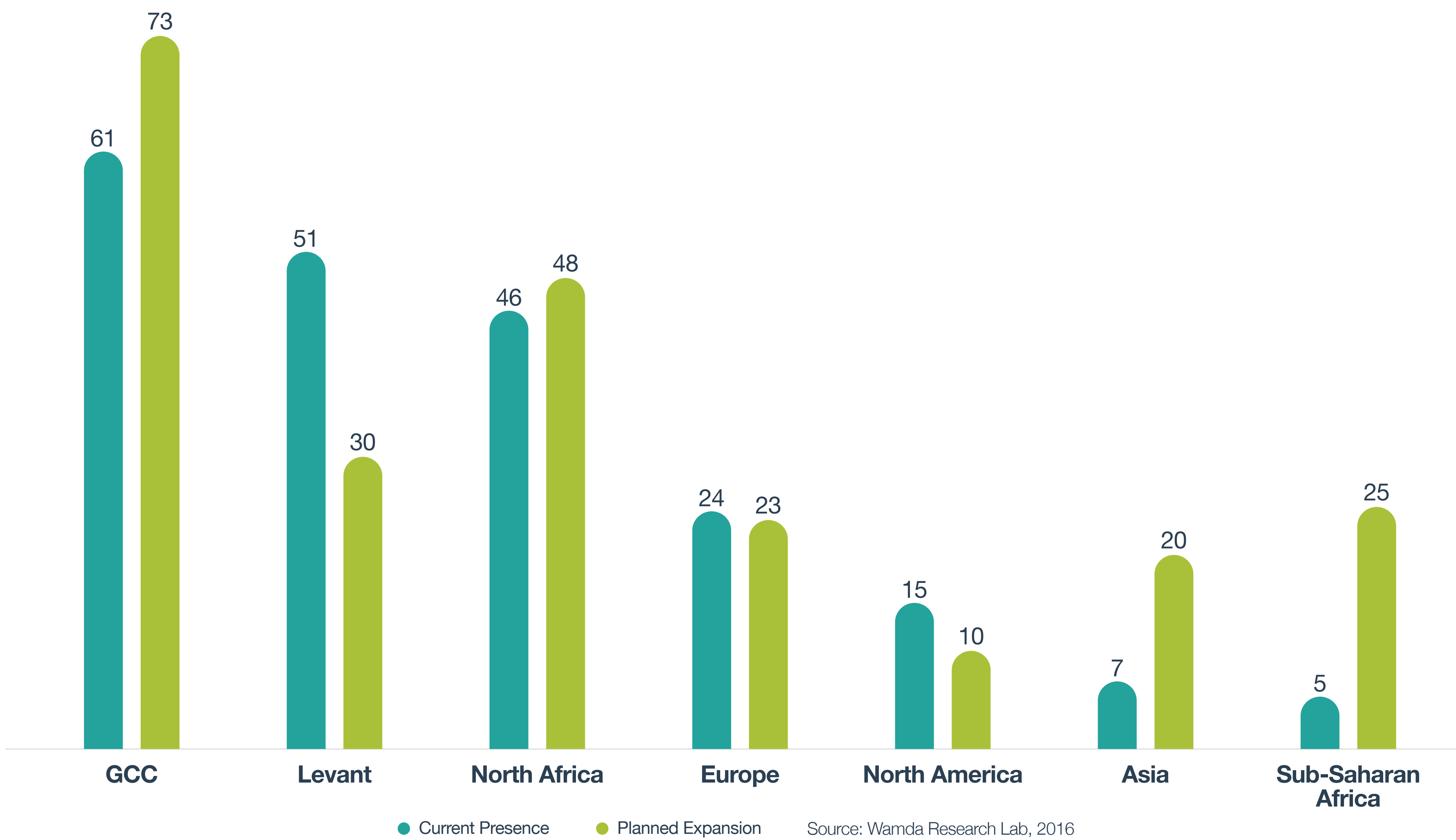
SCALING AND COMPETING

Figure 23 | **Current markets served** (% of fintech startups serving markets; n=41)



Source: Wamda Research Lab, 2016

Figure 24 | Market presence of MENA fintech startups, by region (% of startups that serve one or more markets in respective regions, n=41)



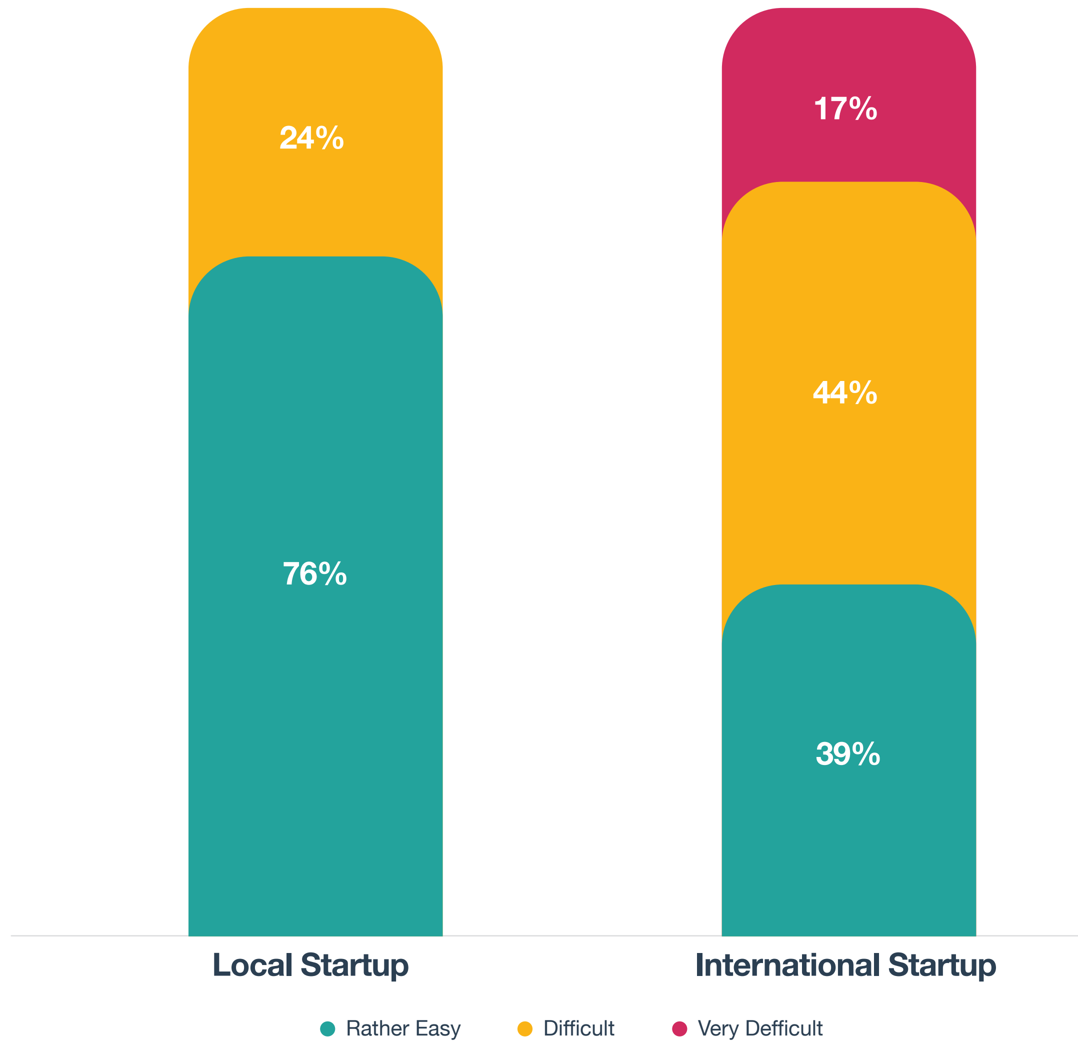
Source: Wamda Research Lab, 2016

OVER 20 INTERNATIONAL FINTECH STARTUPS HAVE **ENTERED MENA TO DATE**

The global rise in fintech drives the first cohort of international scale ups in the MENA region. To date, over 20 startups from the US, Europe, Australia and else-where entered the Arab world. Competing against them is difficult or very difficult for almost two in three surveyed fintech entrepreneur (Fig. 25).

However, the effect of more competition is not only challenging – there are multiple opportunities and threats for local entrepreneurs.

Figure 25 | Difficulty to compete (with local vs. international startup, n=41)



Source: Wamda Research Lab, 2016

SCALING AND COMPETING

OPPORTUNITIES

- Educate the market
- Spur interest from corporations
- Employ future entrepreneurs
- Test legal grey zones and set standards

THREATS

- Backed by stronger venture capital
- Stronger offering due to global scale
- Increase competition over talent
- Secure monopolies/ can afford licenses

dopay

headquarters: United Kingdom
founded: 2014

Dopay is a mobile banking solution for the 2 billions unbanked people worldwide. The startup went through the Barclays accelerator program and moved its main office to Egypt. Its cloud-based payroll platform removes the hurdle of paying salaries to unbanked staff in cash. Dopay issues Visa cards to account holders that enable them to withdraw cash from ATMs. Dopay raised $2.4 millions in early 2015.

CASE STUDY mobile banking

monetas

headquarters: Switzerland
founded: 2012

Monetas is a blockchain startup that envisions a world where everyone with a mobile phone can access all financial services. The startup offers central banks a way to issue digital currency that everyone with a mobile wallet can access. In 2016, the Tunisian central bank and the national post choose this approach to move their eDinar on the blockchain through a partnership with Monetas.

CASE STUDY blockchain

TransferWise

headquarters: United Kingdom
founded: 2011

Launched by Skype's first employee and a financial consultant, this startup on average facilitates international money transfers eight times cheaper and five times faster than banks. The company, which counts Andreessen Horowitz and Sir Richard Branson among its investors, is valued at above $1 billion and allows users to sent money around the world, including many MENA countries.

CASE STUDY intl. money transfer

More Examples

Payments: dopay, QUISK, stripe, Mozido, Payoneer, PayPlug

Lending & Capital Raising: Allied Crowds, AFRIKWITY, ArchOver, CoFundy

Second Wave Sector: TransferWise, azimo, Link&Pay, treasuryXpress, igot, TransferTo, REMITR, Bitrefill, ripple

STARTUPS

EMERGING FINTECH SOLUTIONS

MENA'S PAYMENT SECTOR

From bill payments to national payment transfers to choosing the best bank account to do all of the above, fintech has been able to improve transaction services significantly. Bill payments become faster, more secure and more convenient. Mobile wallets replace cash in designated stores. Payment processors allow people to sent money instantly inside a country.

	BEFORE FINTECH	AFTER FINTECH
● **Cost:**	Transportation + opportunity cost of time spent	Small fee, no time lost
● **Convenience:**	Often carrying cash, paper receipt	Digitally verified, encrypted
● **Ecommerce/ B2C:**	No access to unbanked, high cost	PSP/ payment gateways

MADFOO3AT
e way 2 pay

headquarters: Jordan
founded: 2011

Madfoo3at won the contract from the Jordanian government to build eFawateercom, the national electronic bill presentment and payment service gateway. Since then, the startup has been working with 49 billers and connected its system to 23 of Jordan's 25 banks. As of mid 2016, the company is processing 4,000 bill payments every day, bringing its total amount of processed payments to over $100 millions. Madfoo3at, which was initially incubated at Oasis500, raised $5 millions in 2015 (Series A).

CASE STUDY Bill Payments

IDEAL PAYMENTS

headquarters: Iraq
founded: 2016

Ideal Payments partnered with Iraq's largest remittance company and a Belgian mobile money service provider to create the Taif Ewallet app. The entrepreneurs, who have experience with Goldman Sachs and the Trade Bank of Iraq, aim to create a solution for the unbanked that allows them to receive their salaries in the app, pay for fees, and send money to friends and family.

CASE STUDY Mobile Payments

fawry

headquarters: Egypt
founded: 2008

Fawry is a digital multi-channel payment platform allowing customers to transfer money in a convenient way without the need for a bank account. The startup was acquired for $100 millions in late 2015. As of today, Fawry counts over 15 millions customers and settles 1.3 million transactions every day. In addition to the option of sending money with mobile phones, it offers online accounts.

CASE STUDY Online Payments

beam

headquarters: United Arab Emirates
founded: 2012

Beam Wallet allows customers to link their credit card to its app for cashless shopping experience. The startup, which raised a significant investment from Majd al Futtaim in late 2014, had over 350,000 people using its mobile app at over 3,000 stores in the UAE as of mid 2016. Beam Wallet signed a partnership with telco provider du and MasterCard to extend its reach.

CASE STUDY Wallets

PAYMOB

headquarters: Egypt
founded: 2013

PayMob is a Payment Service Provider (PSP) that takes on the problem of wide-spread COD by offering convenient mobile payments. The startup is processing 'millions of transactions and hundreds of millions of dollars per year', according to its founders. In 2016 they raised an undisclosed Series A investment from A15.

CASE STUDY Payment Service Provider

> *The future of retail is mobile - whether online or offline - and Beam Wallet helps businesses harness the potential of this with no additional investment, risk or complication to their everyday operations.*
>
> Nadim Khoury, Beam Wallet

> *PayMob achieved a 75x growth rate in the first two quarters of 2016 and plans to reach 200x before the end of the year.*
>
> Fadi Antaki, A15

More Examples

MADFOO3AT, fawry, PAYMOB, tap, stripe, TRRIPLE, meps, Ajar Online, IDEAL PAYMENTS, PAYFORT, pinpay, TPAY MOBILE, TelyPay, PayTabs, Cash Basha, masary, snapay, Bridg, beam, PAY ME, دفاتر, Quicklet, Cashna, white, aps, Anzimaty, CASHU, My Fatoorah, inVibe, next payments, AmanPay, HYPERPAY, VIA MOBILE, UBANQUITY

*examples of relevant fintech startups available in MENA countries

MENA'S LENDING SECTOR

Lending and capital raising used to be a monopoly of banks. For a widely unbanked population and low SME lending rates by banks, this situation had wide reaching repercussions. With crowdfunding, money circles, peer to peer lending platforms and loan comparison sites, citizens and small businesses are empowered, as new opportunities emerge for those either looking to invest, or to fundraise.

	BEFORE FINTECH	AFTER FINTECH
Providers:	Limited (family, friends)	Community on platform
Credit score:	Unreliable, difficult to obtain	Generated online
Investment:	Significant minimum amount	Affordable to masses
Transparency:	Limited	Increased

MoneyFellows

headquarters: Egypt
founded: 2014

Moneyfellows is digital credit lending platform that is fully driven by the social network of its users. The money circle idea, known as gam`iyya in Egypt and common in over 90 countries, allows people to take out a loan without relying on a bank. It enables users to build a credit score based on their performance in their money.

CASE STUDY Money Circle

liwwa

headquarters: Jordan
founded: 2013

Liwwa enables private investors to provide SMEs with access to finance – before late 2016, the startup channelled $2.5 millions to 104 companies, using an innovative credit scoring model. The startup raised $2.8 millions in two rounds within 12 months, counting a regional bank among their investors.

CASE STUDY Peer-to-Peer lending

> *We moved from the UK to Egypt because the market is attractive and easy to penetrate. We acquired 1,100 paying users within three weeks, without any marketing.*
>
> **Ahmad Wadi**, Moneyfellows

> *63% of MENA's SMEs don't have access to finance. The total SME financing gap amounts to $240 billions.*
>
> **World Bank**, 2014

MENA'S LENDING SECTOR

zoomaal

headquarters: Lebanon
founded: 2012

With Zoomaal, people and initiatives have a platform to pitch their ideas to a wide audience that includes the Arab diaspora. To date, the platform has enabled the transfer of $2 millions into over 140 projects ranging from a music album, a documentary, to an innovative hardware product and even a coworking space. In October 2016, the team launched Givingloop.org, a platform enabling non-profits and social initiatives to raise monthly donations from the community.

CASE STUDY Crowdfunding

DURISE

headquarters: United Arab Emirates
founded: 2014

Investments in real estate used to require significant amounts of money, but Durise offers equity stakes in crowdfunded commercial and residential buildings starting with $5,000. Durise then manages the property on behalf of the crowd, allowing people to invest smaller stakes in multiple projects in the UAE.

CASE STUDY Equity Crowdfunding

compareit4me.com

The UAE's leading finance comparison site.

headquarters: United Arab Emirates
founded: 2011

Compareit4me brings transparency to the bank account, loan and, recently, insurance packages offered by banks in different MENA countries. Users can compare not only prices but the features of those different products, saving them the time to research themselves or, over years, paying significantly higher fees for less. To date, the company raised almost $6 millions and now employs around 40 people.

CASE STUDY Loan comparison

More Examples

smala & co, eureeca.com, IWWA, Yomken, PiSlice, Buildpalestine, Shekra, AFKARMENA, beehive, Allied Crowds, MoneyFellows, zoomaal, AFLAMNAH, DURISE, TENNRA, compareit4me.com, AFRIKWITY, Cotizi, venturefin, bayzat, souqalmal.com, عربنوز, twiiza.com, GreenWallet, bnooki, HummingCrowdRealty, InvOrOut

*examples of relevant fintech startups available in MENA countries

Beyond payment services, fintech startups target lending and capital raising, including international payments, wealth management, and insurance services.

INTERNATIONAL **MONEY TRANSFERS**

Remittances to developing countries amounted to $431.6 billions in 2015.[16] Among global remittance flows, Saudi Arabia ranks second and the UAE fourth in amounts of remittances sent annually, accounting for $36.9 and $19 billions, respectively.

> *Remittances are more than 3x higher than official development assistance (ODA), which amounts to $135bn.*
>
> World Bank, 2015[17]

	BEFORE FINTECH	AFTER FINTECH
• **Duration:**	3-6 working days	1-4 working days
• **Cost:**	7.4% of amount sent on average	0.5%-1% of amount sent
• **Safety, convenience:**	Receiver has to go to a branch	in-app, mobile money etc.

NOW

headquarters: United Arab Emirates
founded: 2016

Now Money is the first mobile banking app in the GCC countries. With 80% of the UAE population earning less than $1,400 per month, bank accounts are out of reach for over 6 millions workers. The startup offers employers a bank account for every employee. Employees can use the built-in mobile remittance function to send money home. NOW's cofounder won the first place at the 2016 Women in STEM Conference pitching contest.

CASE STUDY

More Examples

TransferWise, Link&Pay, CASH PLUS, azimo, TanitCash, NOW

*examples of relevant fintech startups available in MENA countries

16 World Bank, 2016: Remittances to Developing Countries Edge Up [...]. http://tinyurl.com/zm3nwgh
17 World Bank, 2015: Global Monitoring Report 2015/2016. http://tinyurl.com/gqn8ovr

WEALTH **MANAGEMENT**

For a widely unbanked population, saving money means storing cash somewhere at home. For expats and high net worth individuals, investing their savings means relying on a professional wealth manager. But for both segments, digital services have become available internationally – and they are making their way into the MENA region.

GCC countries, having one of the world's highest per capita GDPs and significant expat communities, to date almost lack regional peers of US startups such as Betterment and Wealthfront – but this is changing. Education will be key to make the new solutions popular among potential clients.

MENA'S SECOND WAVE SECTORS

	BEFORE FINTECH	AFTER FINTECH
• **Small savings:**	Cash at home, current account	Investment platform
• **Return on savings:**	Negative under inflation	Interest rate
• **Security of savings:**	Not guaranteed	Usually provided
• **Larger investment:**	4% fee for AuM	0.25%-0.5% of AuM
• **Performance:**	Underperforms stock markets	ETFs replicate stock markets

feloosy

headquarters: Egypt
founded: 2015

A platform for monthly investments with a clear mid-term goal that invests the cumulative amounts while giving users the flexibility to change their plans. The visualized goal comes with offers for discounts from various partnering companies.

CASE STUDY

FINERD

headquarters: United Arab Emirates
founded: 2015

Finerd provides tailored investment solutions based on a person's income, risk appetite and desired time frame for the investment. The platform is the first robo-advisor in the UAE and gained significant interest especially from expats. No GCC resident is required to open an account.

CASE STUDY

More Examples

feloosy, FINERD, Wall Street Chamber, masareef, Wally

*examples of relevant fintech startups available in MENA countries, Masareef and Wally are currently only budget tracking apps

We build Finerd because there was an obvious demand in the market. People earn well, yet lack a pension plan. Right now there is no good solution for their money in the market.

David Martinez de Lecea, Finerd

INSURANCE

If MENA has a high rate of unbanked adults, its uninsured rate is staggering. Insurance technology startups are very new globally, but examples in India and Africa indicate that people are eager to enroll in microinsurance if offered the opportunity. In addition, comparing and buying car insurance is becoming increasingly popular.

	BEFORE FINTECH	AFTER FINTECH
● **Accessibility:**	Banked population	Everyone with a phone
● **Affordability:**	Middle and high income population	Low income majorities

DEMOCRANCE

headquarters: United Arab Emirates
founded: 2015

Democrance connects large insurance providers with a variety of mobile operators to offer a vastly uninsured region access to basic insurance products via their mobile phone. This first mover for microinsurance in MENA thus eliminates the need for a bank account and offers all stakeholders a clear value proposition.

CASE STUDY

More Examples

DEMOCRANCE
bayzat
SMART SMART MEDICAL SERVICES
compareit4me.com The UAE's leading finance comparison site.

*examples of relevant fintech startups available in MENA countries

The penetration for microinsurance is 0.3% in MENA; but mobile penetration stands at 120%.

Michele Grosso, Democrance

BLOCKCHAIN AND **CRYPTOCURRENCIES**

Blockchain is still in its infancy. Among its potentially endless applications are cryptocurrencies of which Bitcoin is the most famous. In MENA and globally, regulators have been divided between opponents and enthusiasts. Blockchain's underlying technology allows strangers to trust each other with no central authority being involved. This is achieved through an open, distributed ledger and strong encryption.

> *There is a strong analogy between internet and Bitcoin.We can try to resist it, and safeguard the current mechanisms; but the downside is all the innovation is going somewhere else.*
>
> Abdullah Almezairee, BITFILS

	BEFORE FINTECH	AFTER FINTECH
Intermediary:	Crucial (e.g., bank, lawyer…)	Eliminated
Time:	Several working days	Actions take effect within minutes
Cost:	Transaction cost linked to intermediary	Significantly reduced

BitOasis

headquarters: United Arab Emirates
founded: 2014

BitOasis is one of the region's first cryptocurrency startups. The secure wallet is currently available in all GCC countries and allows people to purchase bitcoins. They can send this money around the globe without using a bank account, at the speed of an email. The multi-signature wallet security offers high security standards. BitOasis raised a seed round from Wamda Capital and PayFort, among others in 2015.

CASE STUDY

More Examples

nouqood, igot, Bitrefill, BitOasis, BITFILS, umbrellab, monetas

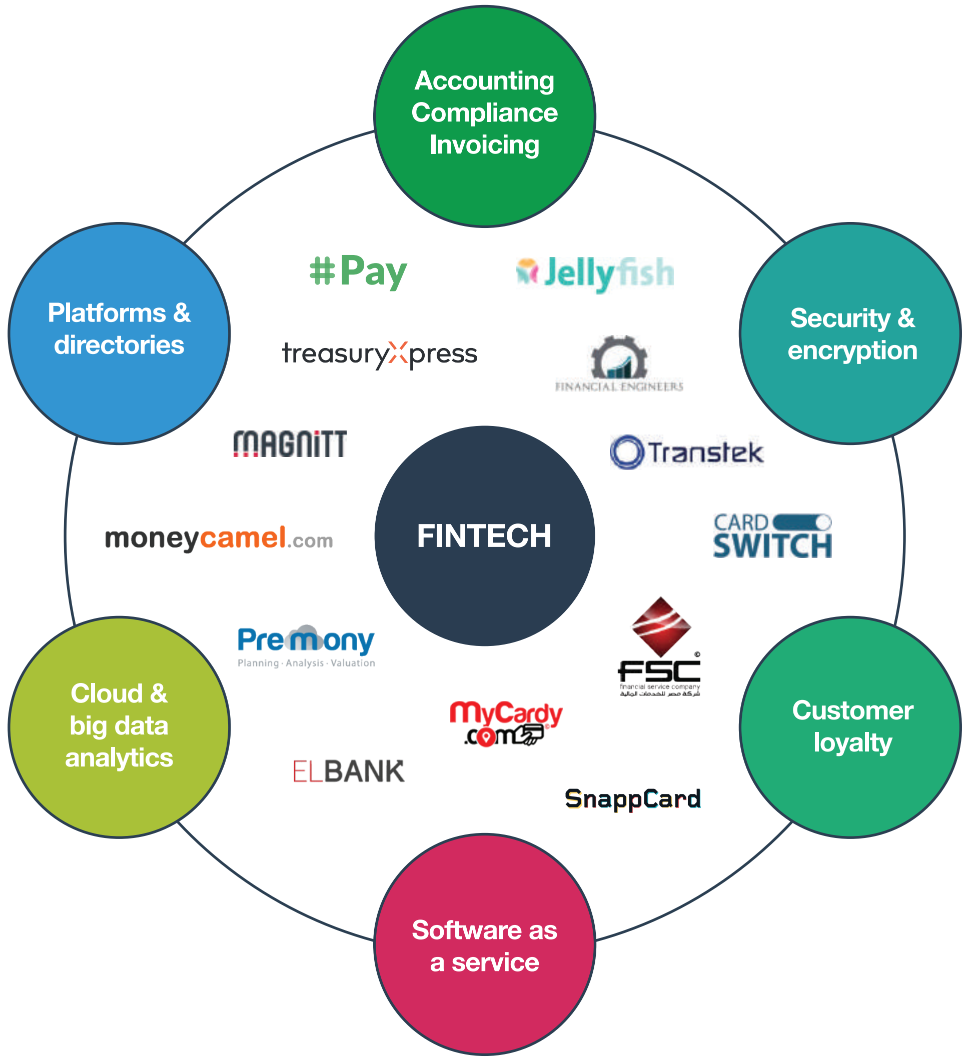
*examples of relevant fintech startups available in MENA countries

BEYOND **FINTECH**

Financial technology increasingly interacts with various technologies and solutions developed by other companies – established ones and startups alike.

The lines are sometimes blurred – however, the surrounding sectors tend not to involve financial institutions (and don't replace them either). And while it is not clear how these trends will ultimately interact, it is noteworthy that they started to reach MENA (Fig. 26).

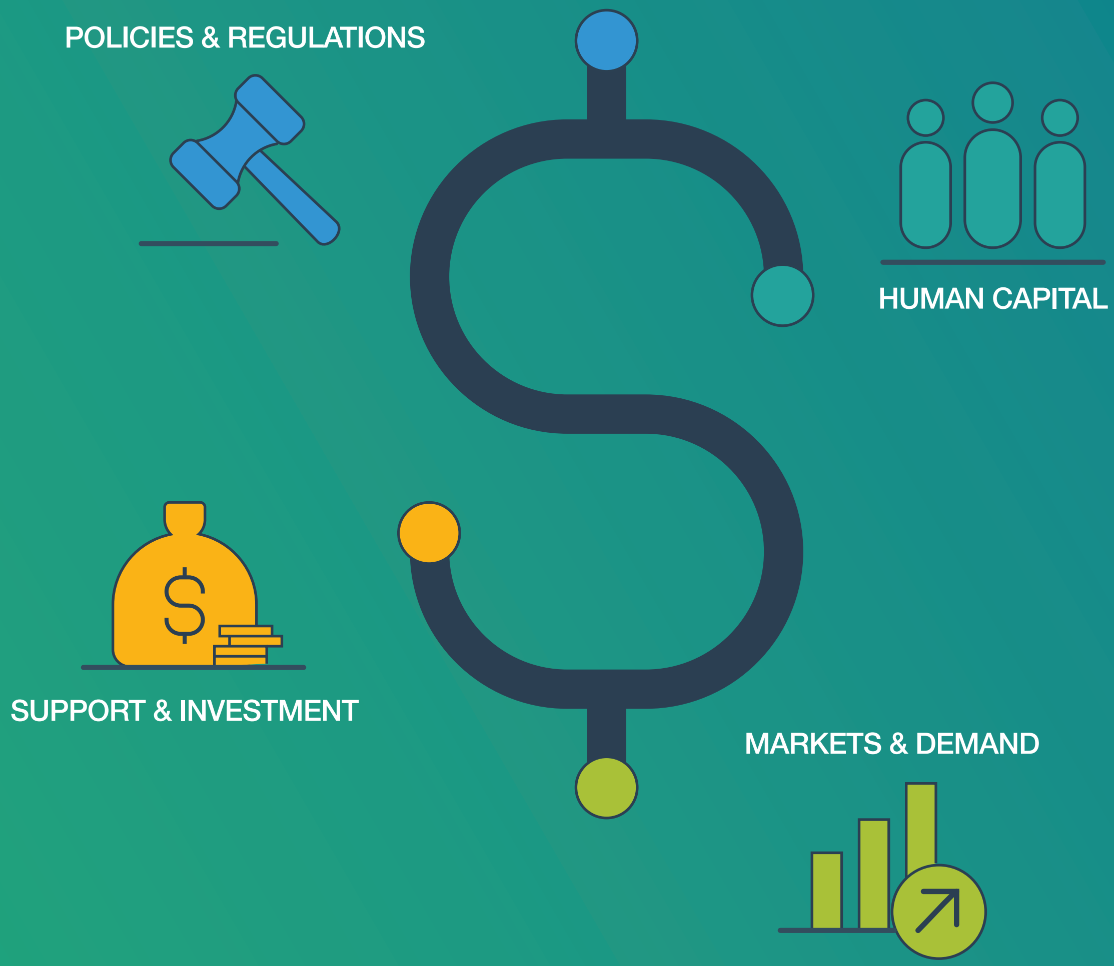
Figure 26 | Finance-related startups in MENA (examples across different sectors/ functionalities)



Source: Wamda Research Lab, 2016

ECOSYSTEM

KEY CHALLENGES TO OVERCOME



FOUR DOMAINS IMPACT THE POTENTIAL OF **FINTECH STARTUPS**

The number of fintech startups launched and the share of startups that successfully reach high growth trajectory is, to a large extent, influenced by four domains. Together, these domains form the fintech ecosystem (Fig. 27).

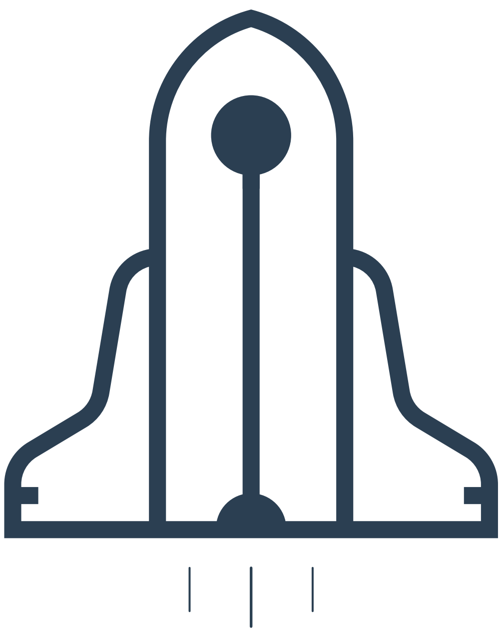


Figure 27 | **Fintech ecosystem** (core domains affecting fintech startups)

p. 55

POLICIES AND REGULATIONS

- Incentives for entrepreneurs
- Incentives for investors
- Facilities, grants, programs
- Progressive fintech regulations

p. 59

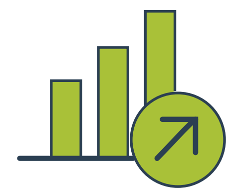
HUMAN CAPITAL

- Skilled workforce
- Entrepreneurial culture
- Financial services professionals
- Incentives to work for startups

p. 62

SUPPORT AND INVESTMENT

- Accelerators
- Angel investors and VCs
- Corporate venture funds
- Collaboration initiatives from banks



p. 68

MARKETS AND DEMAND

- Market size and growth
- Competition and business climate
- Demand for innovative solutions
- Trust & readiness to try fintech solutions

Source: Wamda Research Lab, 2016

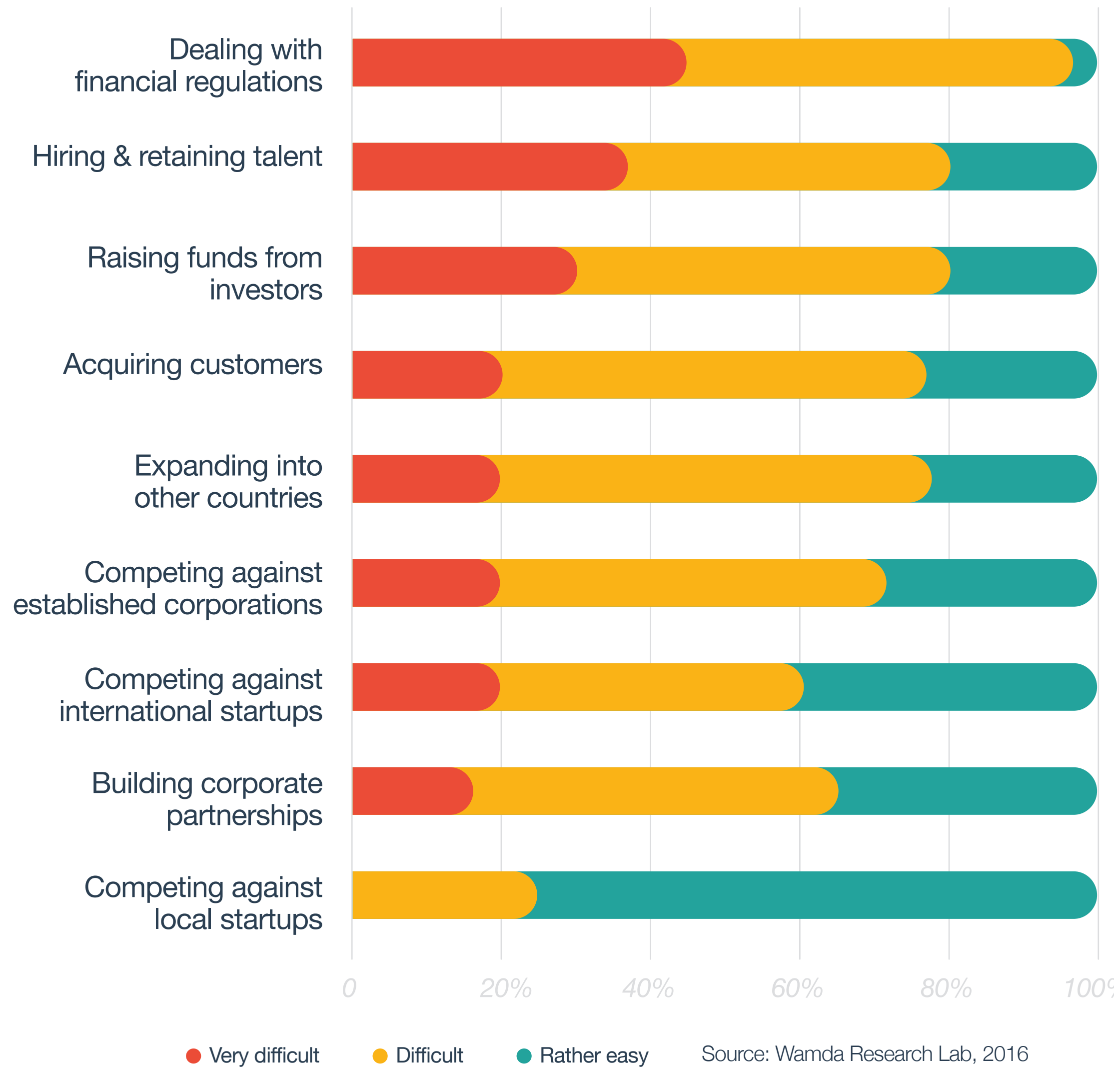
ONE IN FOUR FINTECH STARTUPS **SHUTS DOWN**

The failure rate for MENA fintech startups (28 %) can, to a large extent, be attributed to the challenges that entrepreneurs are facing (Fig. 28).

To learn how to overcome these challenges, please refer to the recommendations (p. 72).

> *Fintech is probably one of the hardest industries to innovate in.*
>
> Ayman Ismail, AUC Fintech Accelerator

Figure 28 | Key challenges for fintech entrepreneurs (n=41)

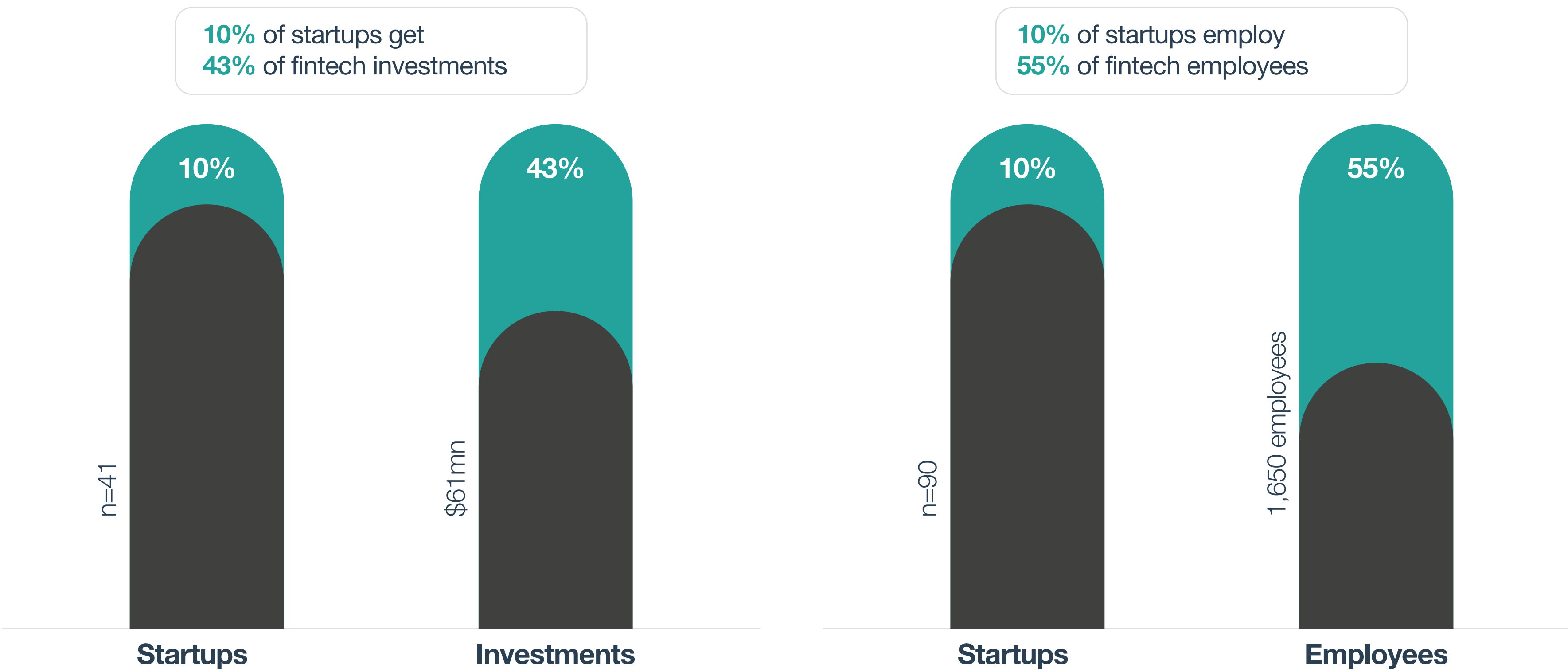


Source: Wamda Research Lab, 2016

ONE IN TEN **FINTECH STARTUPS SCALES UP**

Among the startups that launch, a minority – around 10% - grow fast, meaning they found ways to maneuver the cited challenges. Since data on customers, revenues and month-on-month growth is kept confidential by the majority of startups, this phenomenon is best tracked through the number of employees hired and investments secured (Fig. 29).

Figure 29 | Fintech scaleups in MENA

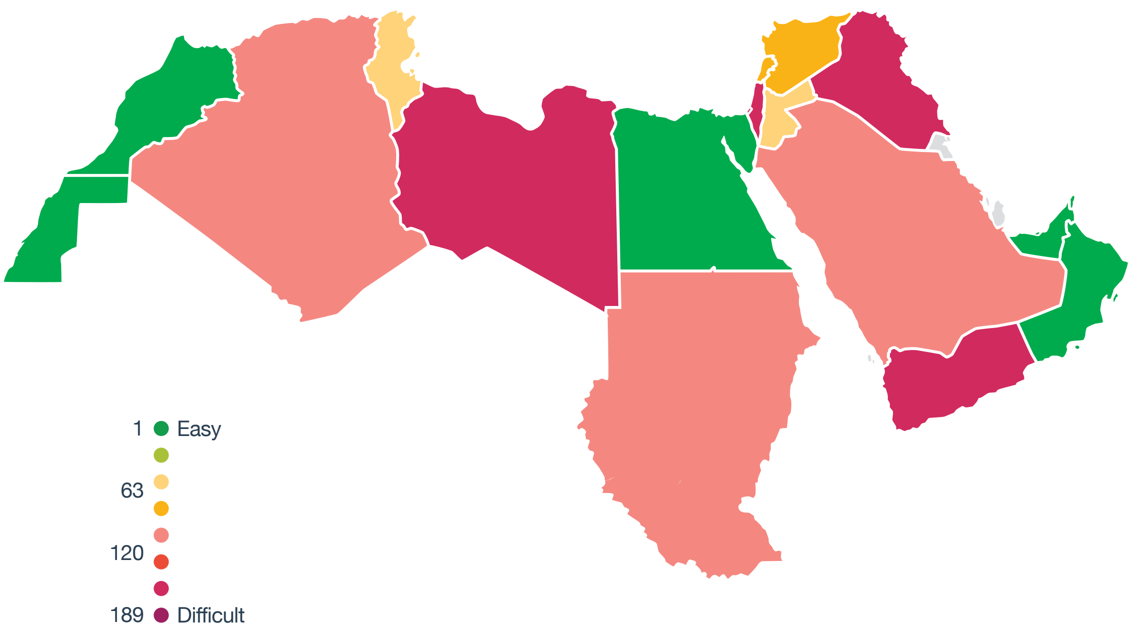


Source: Wamda Research Lab, 2016

NO EASY START, **FOLLOWED BY A GREY ZONE**

Among 18 Arab countries, only four rank in the upper third globally when it comes to the ease of starting a business (Fig. 30). Given the additional regulations on fintech, it can be argued that more companies would have sprung up throughout the region had there not been such strict regulations. Laws governing licenses for financial service companies were designed with traditional banks in mind. Hence, once a startup begins to offer financial services, it is likely operating in a grey zone. If in doubt, it should apply for the license – which costs $1-$3 millions in most countries. The startup would require a significant upfront investment before reaching traction. As a result, many startups seek partnerships with banks early on. While this approach often suits the startup, many entrepreneurs would benefit from a regulatory regime that adjusts to the new fintech reality.

Figure 30 | The ease of starting a business (MENA country rankings, 2016/17)



Source: World Bank, 2016

> *The majority of fintech startups are operating in a grey area. Startups are faster than regulations – and regulators sometimes need time to fully understand the advantage of a new innovation.*
>
> Faisal al Bitar, Oasis500, Jordan

> *Launching the company was not difficult - being a financial service provider is difficult! Being a payment institution is something new, there aren't many options to be a fintech, legally.*
>
> Ahmed Wadi, Moneyfellows

INCREASING AWARENESS **FOR REFORMS**

With the exception of the UAE, no Arab country has officially referred to fintech as an opportunity. However, several countries have started to acknowledge the benefits, especially of online payment solutions. In the process, several interactions between governments and fintech startups took place (Fig. 31).

What is missing in those initial steps, however, is a proactive, visionary approach to the fintech industry. Payment startups gained traction after 2008, meaning it took regulators almost a decade to embrace the new technology. What about lending that took off a few years later? Crowdfunding remains illegal in many countries, at least when equity is involved. Second wave sectors, who could have an even stronger impact, might face even more hurdles. Regulations were developed with traditional financial institutions in mind. As fintech becomes a phenomenon that countries around the world have to deal with, MENA regulators can learn from various approaches, the worst of which would be to ignore or discourage the overdue innovation of financial services.

Figure 31 | Fintech regulations in MENA countries (select examples, 2000-16)

Fintech sandbox

- E-Dirham payment tool.
- ADGM launches financial freezone.
- ADGM launches RegLab (fintech sandbox).
- Dubai launches Global Blockchain Council.

Payment platform

- Government launched Arab world's first national Electronic Bill Presentment and Payment (EBPP) called Sadad.
- Links customers, commercial sector and local banks.

Payment platform

- Central bank launches eFawateer payment platform with Madfoo3at.
- Bitcoin prohibited for financial institutions

Bitcoin banned

- Central bank licenses PinPay.
- Bitcoin prohibited for financial institutions.

Blockchain payment system

- Mobile payment eDinar system for unbanked and remittances.
- Moved on blockchain through partnership with Monetas.

Blockchain payment system

- Microfinance legalized for non-banks MoU with Visa for e-payment of gov. fees.
- Framework for cashless economy published by Center for International Private Enterprise (CIPE).
- New law on mobile money introduced Citizen arrested for trading bitcoins against US dollars on LocalBitcoins.com.

Upcoming payment system

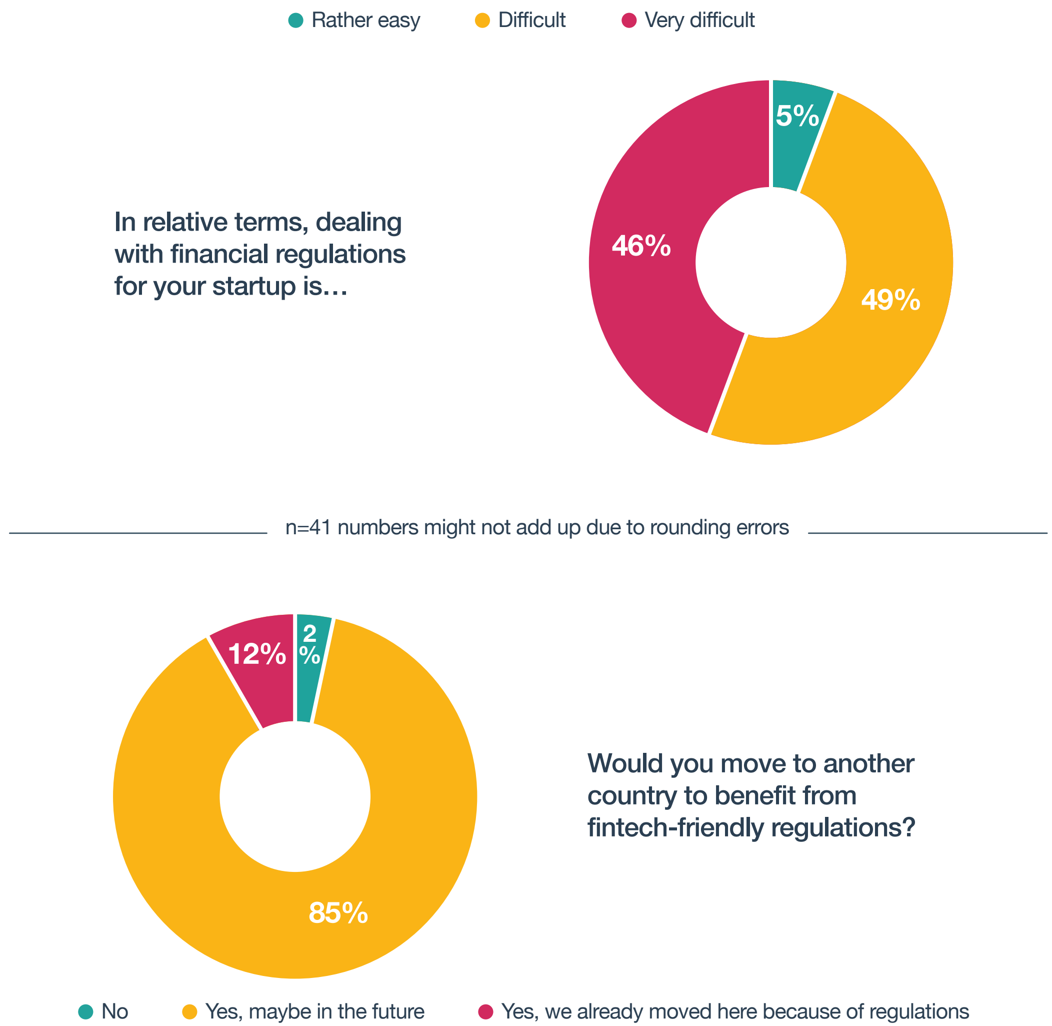
- BitCoin, digital wallets and mobile money legalized for financial institutions.
- E-payment platform by central bank, telecom, and others to be rolled out by end of 2017.

Negative reform · Positive reform · No reform · Payments · Other · Cryptocurrencies/Blockchain

OVER 85% OF FINTECH ENTREPRENEURS WOULD **RELOCATE FOR BETTER REGULATIONS**

Although less than one in five entrepreneurs describes fintech regulations as ‘very bad’, almost 1 in 2 report dealing with regulations to be ‘very difficult.’ If policymakers in any of MENA’s fintech hubs decided to introduce fintech-friendly regulations, they might attract dozens of growing fintech startups as 85% would consider moving their headquarters to reap the benefits of more supportive regulations in the future (Fig. 32).

Figure 32 | Fintech entrepreneurs on financial regulations (MENA-based fintech entrepreneurs, 2016)



Source: Wamda Research Lab, 2016

A FINTECH SANDBOX FOR **BEIRUT, AMMAN AND CAIRO?**

A fintech sandbox is a legislation that allows companies to test their innovation for a specific period of time without having to comply with all regulatory bodies. It allows governments to learn about new innovations, banks and startups to test new technology, and is becoming increasingly popular around the world.

Supporters argue a national sandbox for Lebanon, Jordan and Egypt would benefit not only startups, but also banks and policymakers cautious about the impact of fintech on the stability of the financial system. Wamda spoke with at least one institution in each country that suggested they were working on a plan to push for a local sandbox.

Critics hold that there are more pressing challenges (e.g., accelerators, investment, acquiring customers). In some instances, established banks gain preferential access to the sandbox, thus raising the question how far it would benefit entrepreneurs. Last but not least, it is often argued that the most promising startups would not go through a 12-month sandbox cycle.

While sandboxes are a good step to boost fintech, they alone are not enough. Governments can offer smart banking licenses, push e-payments further, and learn from other countries on how to deal with cryptocurrencies. As always, the devil lies in the detail.

- Globally, the following countries have a sandbox in place or announced an upcoming launch: USA, UK, France, Australia, China,Singapore, Thailand, Malaysia, Indonesia etc.
- Abu Dhabi's ADGM finance free zone is the only institution having launched a fintech sandbox in MENA to date.
- Having a fintech sandbox in MENA countries will be beneficial if the initiative is part of broader efforts to foster innovation in the sector.

One of the key challenges in Jordan is the lack of a fintech sandbox. Fintech, being a highly regulated industry, requires the startup to work with a bank. For entrepreneurs to test their solution, they need at least someone that helps to mitigate the risk along the way.

Faisal al Bitar, Oasis500, Jordan

Any structure to test ideas away from the regulatory eye would be great, but its not regulations that are stopping startups. What is truly lacking are support mechanisms – look how the UK is encouraging entrepreneurs through coworking spaces, grants, tax breaks and much more.

Willie Elamien, Flat6Labs, Egypt

FINTECH STARTUPS **LOOKING FOR TOP TALENT**

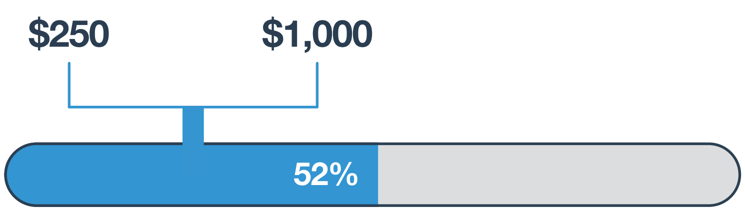
Entrepreneurs repeatedly mentioned the difficulty in finding highly skilled talent from the finance industry, as well as top programmers. Because a good understanding of both finance and tech is critical, and because top talent finds attractive job offers in large corporations, the hiring aspect for fintech startups is particularly challenging.

TALENT WAR TOUGH **FOR MENA STARTUPS**

To build a strong team, entrepreneurs face not only the challenge to identify applicants with the right skill set, but have to compete with large corporations and the public sector. 64% of the workforce finds working for a corporation more appealing, and 41% like to work for the public sector. Only 12% of employees said that they themselves would like to work for a startup.[18]

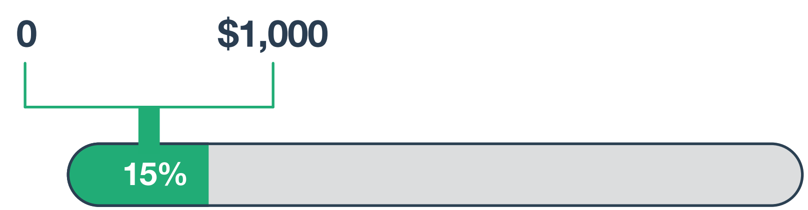
> *The fintech industry is not easy, because you need expertise in both technology and finance.*
>
> **Ayman Abouhend,** Wallstreetchambers

A key reason are the overall low salaries earned at average MENA startups: 52% of entrepreneurs across MENA offer ranges between $250 to $1,000 a month, while only 15% of the workforce is willing to work for less than $1,000 per month.[19]



ENTREPRENEURS ACROSS MENA

Source: Wamda Research Lab, 2016



WORKFORCE

Source: Wamda Research Lab, 2016

18 Wamda Research Lab, 2016: Access to Talent for MENA's entrepreneurs. http://tinyurl.com/z9tkep8
19 ebd.v

FOUR IN FIVE ENTREPRENEURS **HAVE INDUSTRY EXPERIENCE**

The majority of fintech entrepreneurs started their career at large corporations. The average fintech entrepreneur is a graduate with international experience and industry-relevant work experience (Fig. 33). It is worth noting that two in five founders were entrepreneurs before – it is just their first time as a fintech entrepreneur.

Figure 33 | Demographics of MENA's fintech entrepreneurs (n=40) Source: Wamda Research Lab, 2016

What is your age?

18 - 24	3%
25 - 34	50%
35 - 44	38%
45 - 54	8%
55+	3%

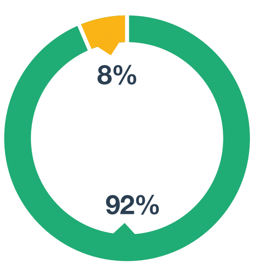
What is your educational background?

Secondary school	3%
Undergrad	18%
Graduate	48%
MBA	33%

How many years of work experience do you have?

None	3%
1 - 2 Years	8%
3 - 5 Years	13%
6 - 10 Years	30%
10+ Years	48%

What is your gender?

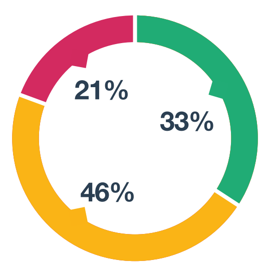


- Female
- Male

Do you have international experience outside of MENA?

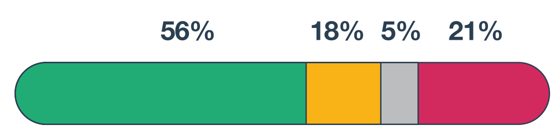
- Yes
- No

Are you a first-time entrepreneur?



- Yes
- No, but this is my 1st fintech startup
- No, I was involved in fintech startups before

Do you have previous work experience in the financial services industry?



- Yes, in a leading position
- Yes, in an entry/mid-level position
- No, but my co-founder worked in the industry
- None of our founders have an industry-relevant background

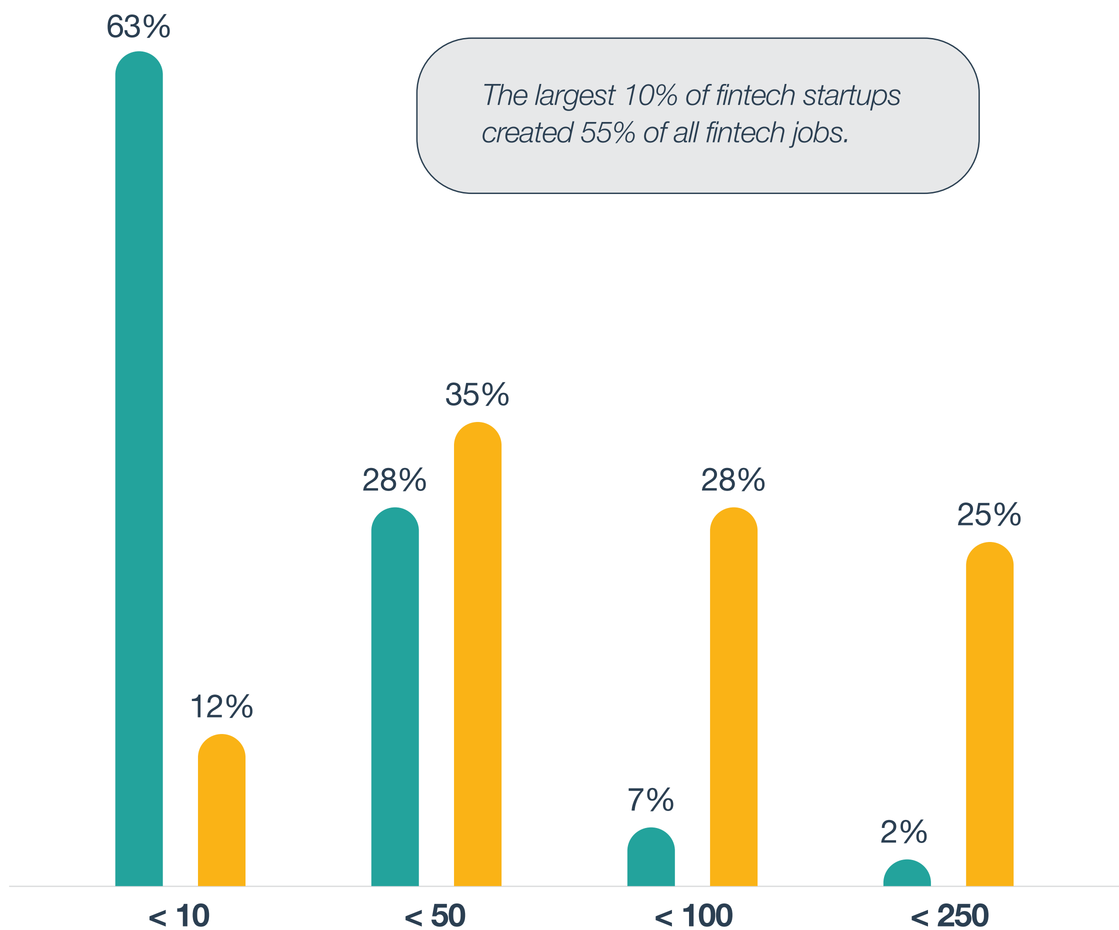
FINTECH STARTUPS **EMPLOY 1,600+ PROFESSIONALS**

Over 1,600 people report on LinkedIn being currently employed at one of 90 examined fintech startups which are either based in MENA or have their main office there. While these numbers are only indicative, they reveal three interesting insights: First, even by a very cautious estimate, between one and two thousand professionals in MENA work for a regional fintech startup – an industry that almost didn't exist half a decade ago.

Second, scaleups create most of the jobs – in fact, one out of two fintech jobs is created by nine scaleups, a startup that reached a fast growth rate. This finding is consistent with studies that found a minority of SMEs to account for the majority of new jobs created.

Third, as the vast majority of fintech startups have been launched over the last three years, we can expect hundreds of jobs to be added by the next cohort of scaleups before the end of this decade.

Figure 34 | **Fintech employees** (# of MENA fintech startups by employees)



Source: Wamda Research Lab, 2016

ONLY 1 IN 4 STARTUPS WENT THROUGH AN ACCELERATOR... **BUT THIS IS ABOUT TO CHANGE**

Industry specific accelerators in MENA are rare. As a result, only one in four fintech startups went through an accelerator with a sector-agnostic approach. This presents a huge opportunity for financial service companies to either bring their global accelerator program to MENA, or to partner with an established accelerator to test the waters. In fact, 2016 showed interest heating up – with the first fintech accelerators arriving in MENA (Fig. 35).

Figure 35 | MENA fintech accelerators

LAUNCHED 2016

May 2016 | Cairo, Egypt
1864 Accelerator

July 2016 | Cairo, Egypt
AUC Venture Lab FinTech Accelerator

November 2016 | Abu Dhabi, UAE
ADGM Fintech Sandbox

January 2017 | Dubai, UAE
Fintech Hive

POSSIBLY LAUNCHING 2017

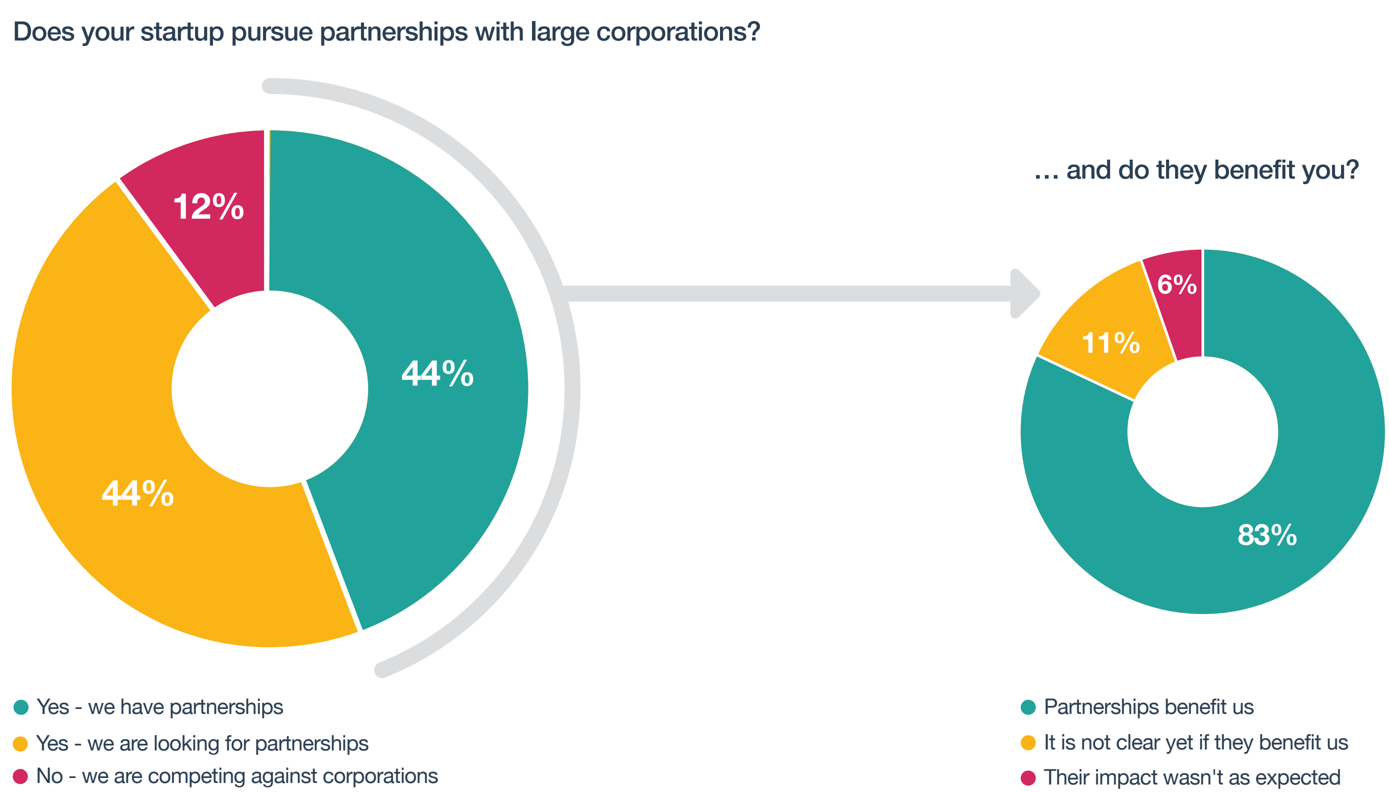
The regional CIO for MEA told Computer Weekly in 2016 his bank was 'investing in setting up fintech incubators across markets such as Dubai and Singapore.'

ADGM signed a MoU with the UAE branchof the Flat6Labs accelerator 'to develop the fintech eco-system' in Abu Dhabi.

88% OF FINTECH STARTUPS WANT TO COLLABORATE **WITH LARGE CORPORATIONS**

Tough regulations or daunting grey zones, a lack of customer trust and a need for investors and mentors are among the many reasons for entrepreneurs to prioritize corporate partnerships. Of those that have a partnership, the vast majority reports a clear benefit for their startup (Fig. 36).

Figure 36 | Corporate partnerships in MENA (n=41)



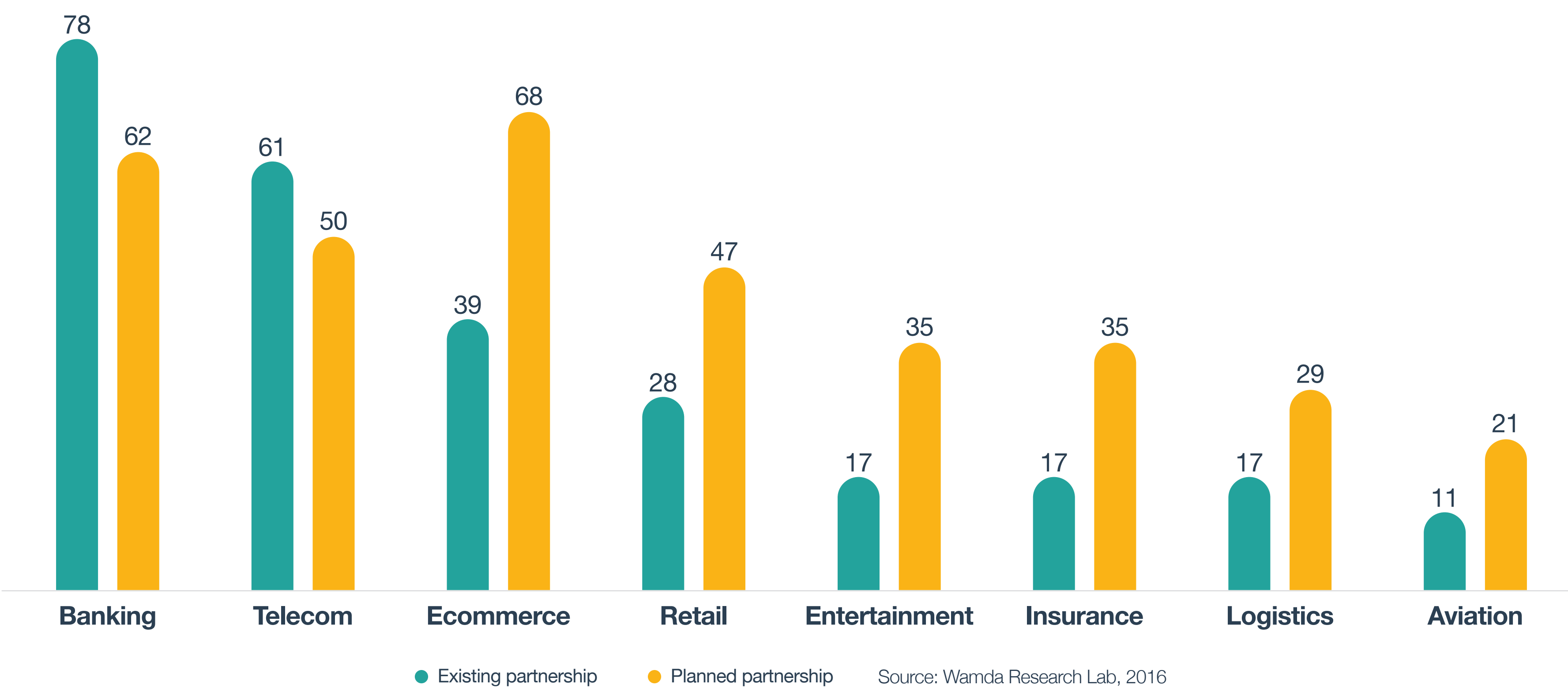
Source: Wamda Research Lab, 2016

Source: Wamda Research Lab, 2016

CORPORATIONS FROM **8 INDUSTRIES SIGN PARTNERSHIPS**

Entrepreneurs are well aware that innovation in financial services is not limited to the banking industry. In fact, there are established companies from eight industries that already signed partnerships with MENA fintech startups (Fig. 37). The highest increase can be expected in entertainment, media and insurance. The presence of numerous startups in the former two industries could lead to interesting startup alliances or even acquisitions.

Figure 37 | Existing and planned corporate partnerships (by industry; n=41)



Source: Wamda Research Lab, 2016

FINTECH STARTUPS **RAISED $100 MILLIONS**

The majority of deals in MENA came with undisclosed amounts. To get an understanding of the total amount invested in regional fintech startups, Wamda used cautious estimates[20] on undisclosed round sizes based on historical data (Fig. 38).

Considering minority acquisition deals as well as those investments that were reported in Wamda's survey but not found in publicly available data, a total amount of at least $100 millions emerges as realistic estimate (Fig. 39).[21]

What is notable is that the transition from 2015 to 2016 presented the sharpest rise in fintech investments – 43% by numbers of deals and almost 100% by deal amounts.

Figure 38 | Fintech investment rounds in MENA (amounts in USD mn, 2010-2016)

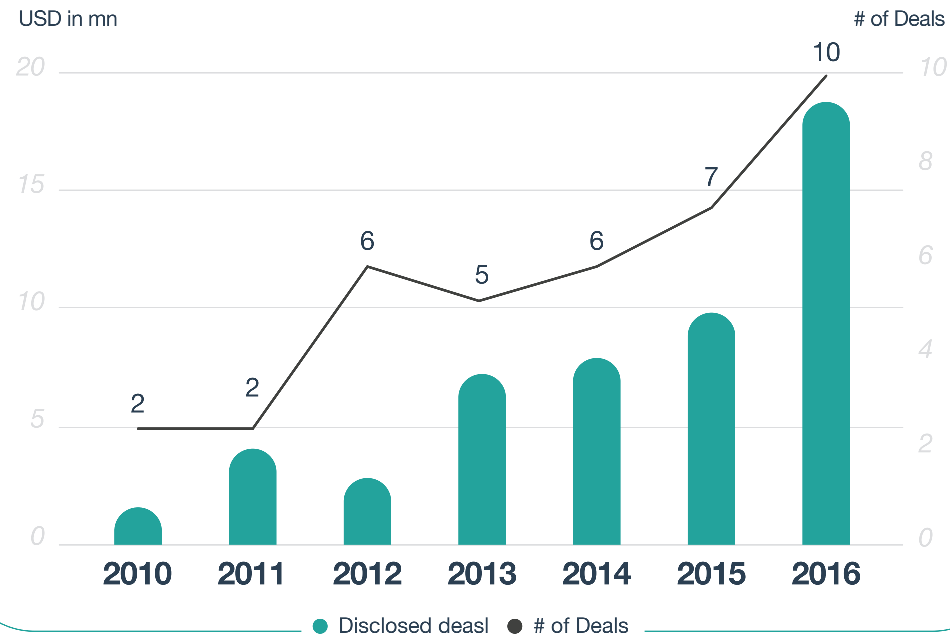
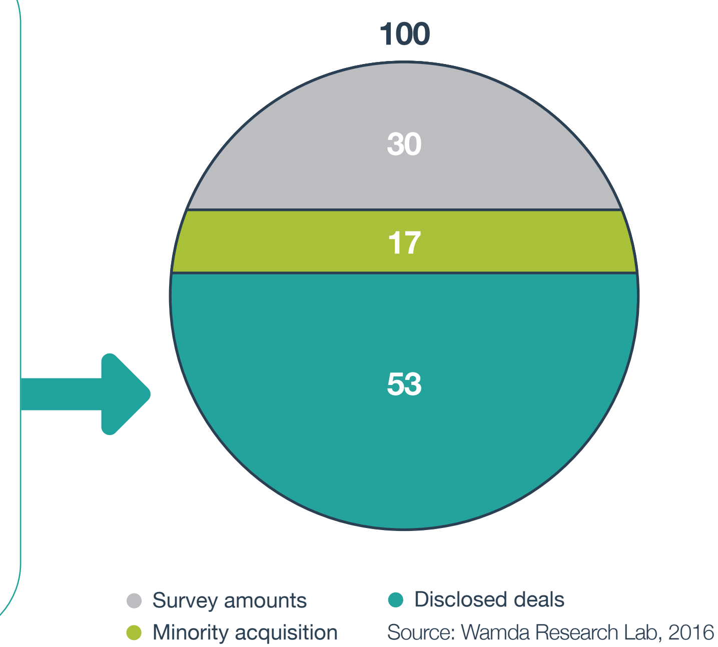


Figure 39 | Total fintech investments (in MENA, in USD mn, 2007-2016)



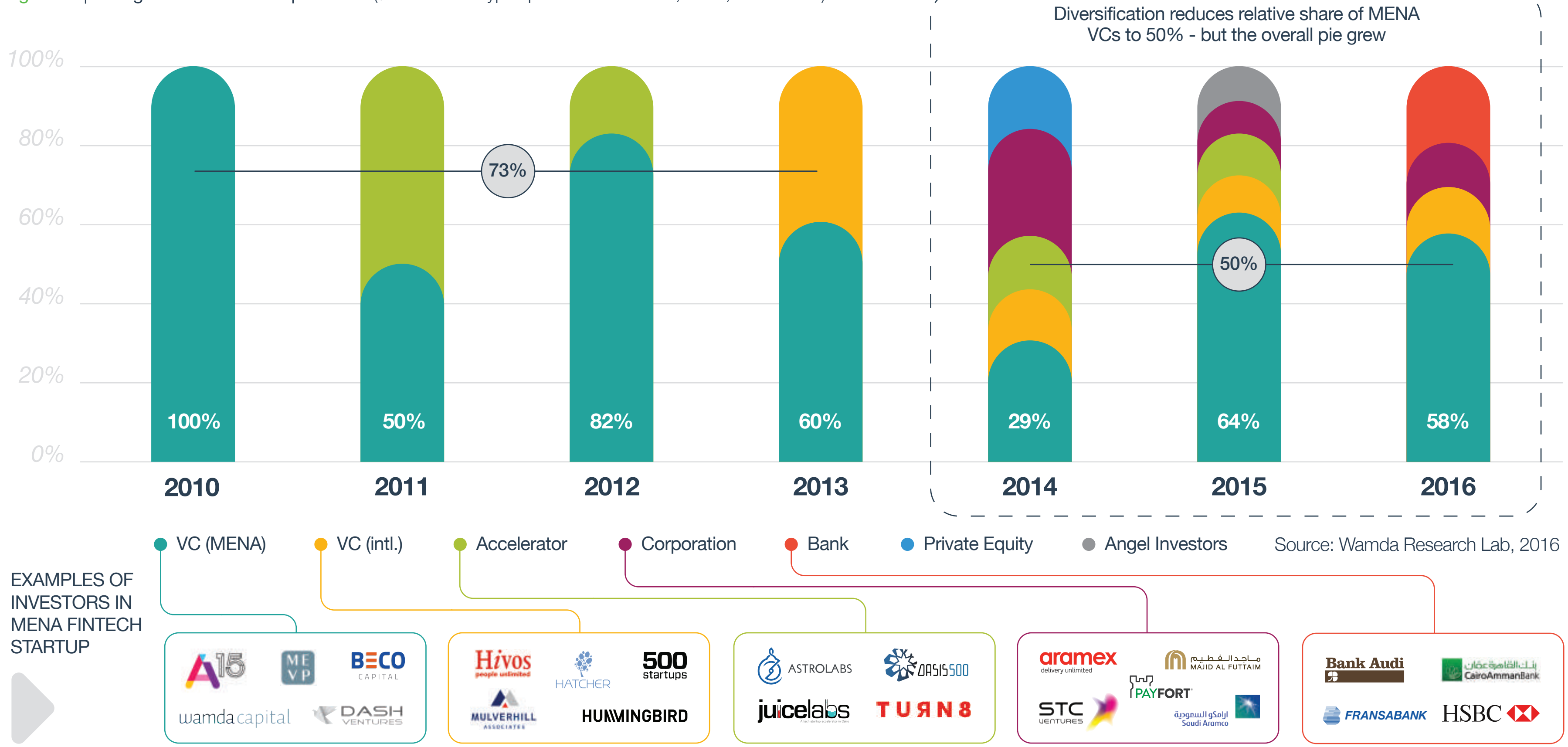
Source: Wamda Research Lab, 2016

20 The cautious estimate uses the lower end of the range.
21 The survey asked for ranges, e.g. $0.5-$1mn. We used the lower end of the range (e.g. $0.5mn) and multiplied the total amount by 15% (given that some of the investments will be closer to the higher end of the range).

CORPORATIONS STARTED TO **INVEST IN FINTECH AFTER 2013**

Already in 2014, when the number of fintech startups launched hadn't doubled yet, a variety of investors started to bet on MENA fintech startups. Between 2010 and 2013, at least $16 millions was invested; between 2014 and 2016, the amount totaled $36 millions. This amount came from international venture funds, accelerators and – most recently – banks that started participating in the investments (Fig. 40). The advent of corporations as investors is a sign that fintech startups have a clear value proposition while executives understand the potential of these startups.

Figure 40 | **Background of investors per round** (% of investor types per disclosed deals, n=37, 2010-2016)



Source: Wamda Research Lab, 2016

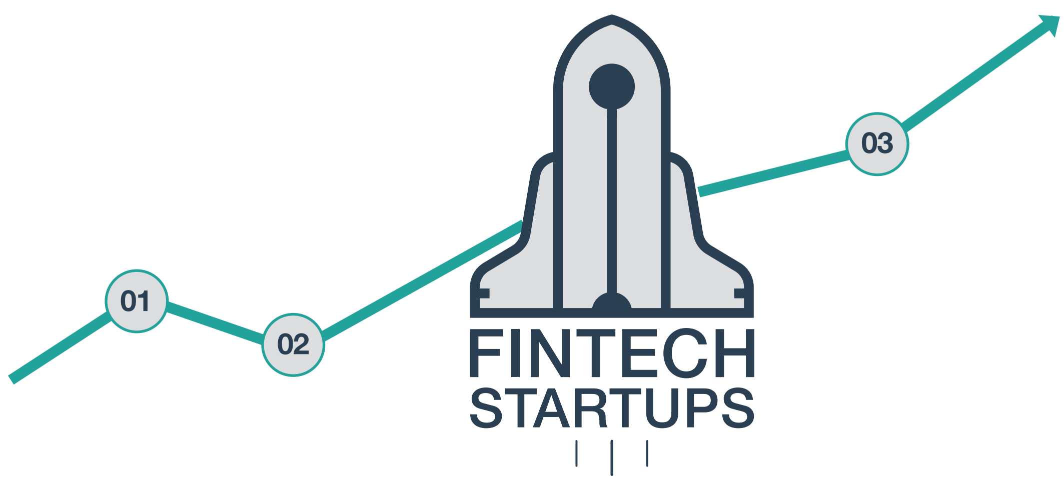
STARTUPS ARE LOOKING FOR **SERIES A DEALS**

Three main trends will continue to characterize fintech investments.

First, the advent of upcoming accelerators and the high share of startups founded very recently implies a high demand for initial funds and seed rounds.

Second, it is important to notice how the majority of investments are below $3mn, which implies that these startups had no chance of receiving a banking license to operate independently.[22] While many fintech companies built upon the infrastructure of banks and credit card providers, this significantly inhibits the opportunity of so-called "challenger" startups that seek to partially replace traditional banks.

Third, the rise of nontraditional investors such as international VCs and corporations is timely as a small but promising sample aims for significantly larger rounds to scale their companies. Fintech startups, in most cases, have to target vast markets to make their scalable business model work. This requires significant investments.



22 The amount required for a banking license varies between $1mn and $5mn according to various experts Wamda spoke to. In the UAE, for example, the amount of $1.5mn is required.

FINTECH FUNDING DEMAND IN 2017 TO **SURPASS $50M**

Based on historical data, the average seed and the average Series A round amount for MENA fintech startups has been taken into consideration in order to estimate the investment demand for 2017.

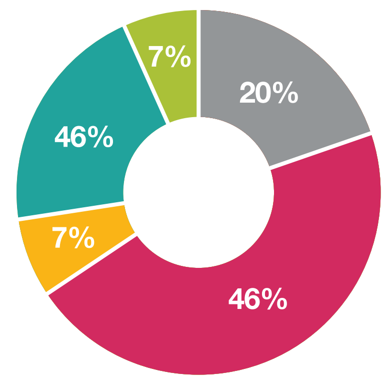
Based on Wamda's survey, even a cautious estimate points to at least $50mn that is in demand. Not all startups that plan to raise funds will manage to do so; and among those that do, the round size might be significantly below the historical average.

However, other startups that haven't participated in the survey will raise as well. In addition, the rising share of Series B and C could easily produce an outlier that significantly increases the real amount invested.

If $50mn would be indeed invested over 2017, it would mean that investments grow 2.5 times compared to 2016. This would be a strong indicator suggesting that MENA is about to transition from the frontier to the emerging market in fintech (compare Section 1.2).

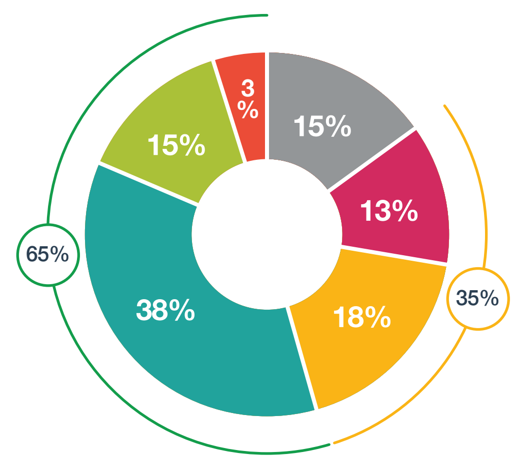
Figure 41 | Funding rounds (n=41)

Until today how much funding have you raised?



Are you looking to raise funds within the next 12 months?

Of the fintech startups looking for investment during 2017, 2 in 3 aim to raise Series A, B and C.



Source: Wamda Research Lab, 2016

MARKET AND DEMAND

Fintech startups in MENA are facing five drivers and four barriers that impact their growth. What is more, the individual markets differ significantly across four indicators. Scaling and competing is further affected by competition from international startups entering the region. Together, this complex and dynamic environment requires careful analysis (Fig. 42). For a detailed analysis, refer to Section 2 on page 20.

Figure 42 | The market for fintech in MENA (four main areas for market analysis)

DRIVERS

Regional level

1. Less than one in five adults holds a bank account
2. MENA SME lending stands at 50% of the global average
3. Ecommerce set to quadruple in five years
4. One in three bank customers wants to switch his bank

COUNTRY INDICATORS

Country level

PURCHASING POWER
How much can people spend?

SMARTPHONE ADOPTION
How widespread is daily internet access?

GROSS DOMESTIC PRODUCT
How big is the market?

BANKED POPULATION
How many adults hold a bank account?

BARRIERS

1. Banks may lack innovation, but startups lack trust
2. A lack of awareness of fintech startups, and a lack of understanding services available
3. Security concerns are a key reason for COD preference among the banked population
4. Fears of scammers keep unsatisfied bank customers loyal to banks

COMPETITION

One in three MENA fintech startups already serves a market outside of the region.

Over 20 international fintech startups have entered MENA to date and local startups recognize them as potential competitors.

OUTLOOK

WHAT TO EXPECT NEXT

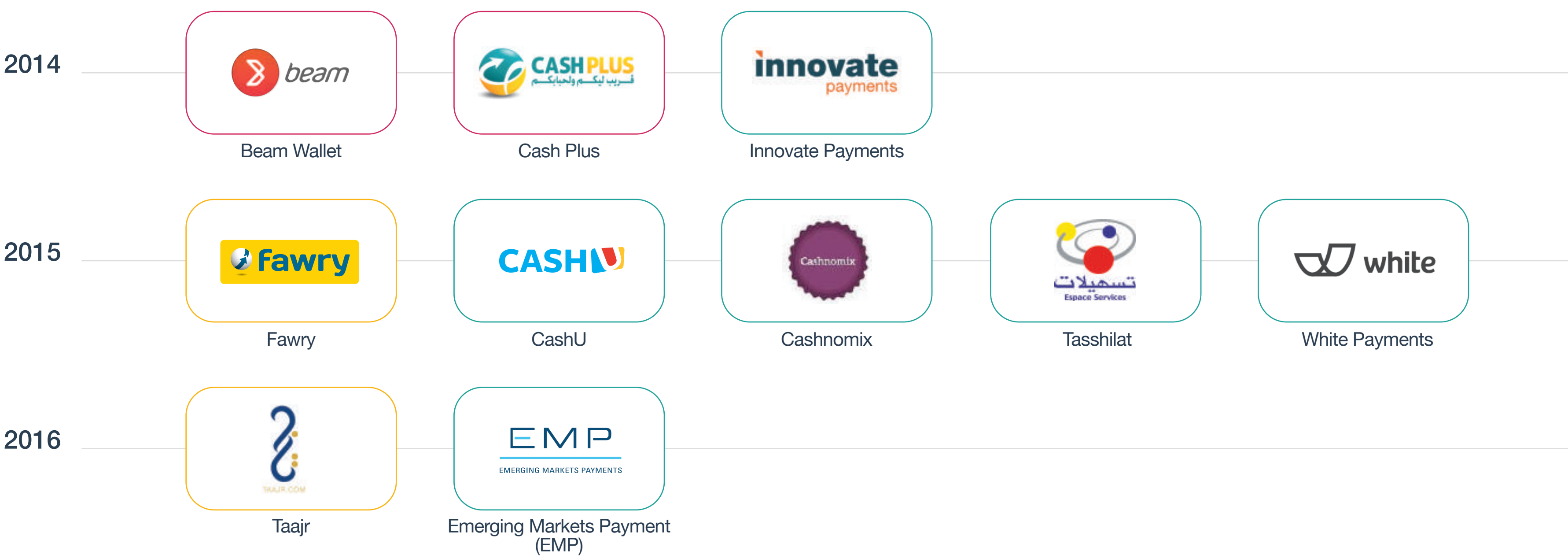
PAYMENT SECTOR **STARTS TO CONSOLIDATE**

In 2010, fintech just meant digital payment. Of the few fintech startups that existed back then, almost all facilitated payments mainly aiding the ecommerce surge.

In 2015, payment showed first signs of consolidation, at least in the GCC market (Fig. 43).

This was expected given that payment startups started to take the lead in fintech in the region. Even in countries that had their first couple of fintech startups very recently, those startups happened to be in the payment sector – such as Ideal Payments in Iraq, launched in 2016.

Figure 43 | Acquired payment startups (disclosed sample, 2014-2016)



● Minority ● Majority ● Full Source: Wamda Research Lab, 2016

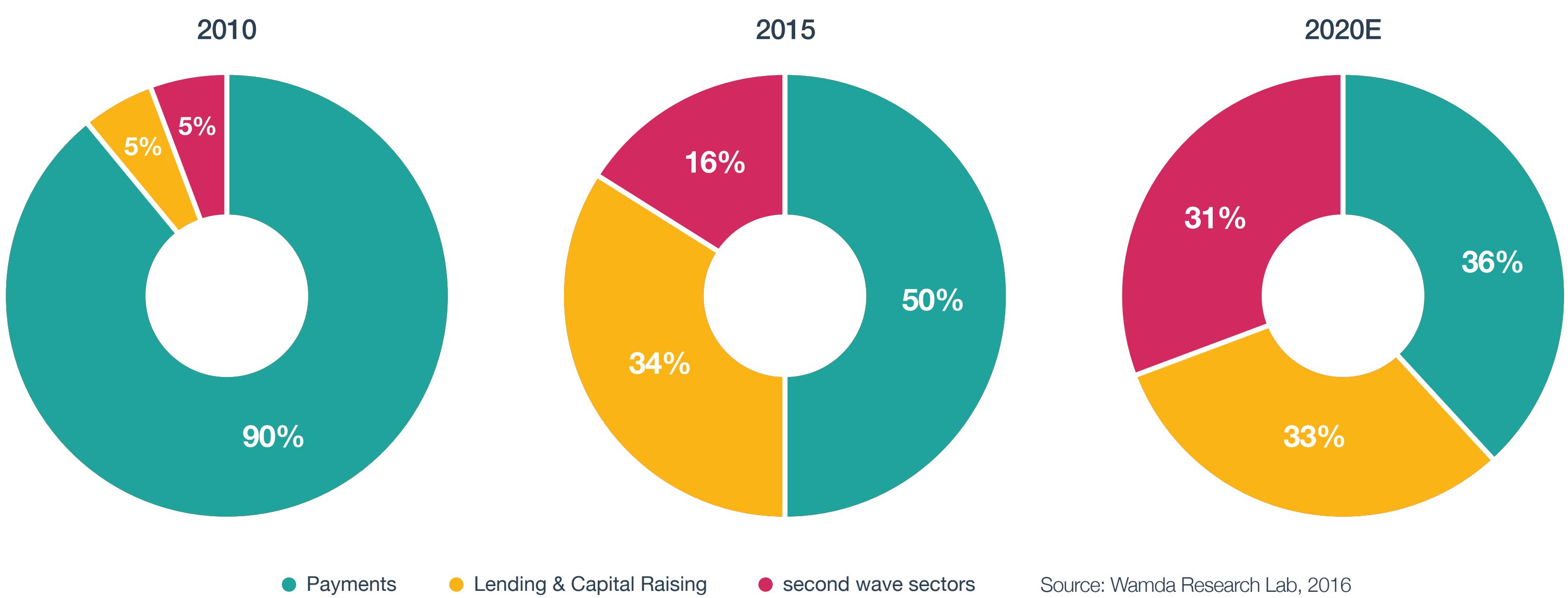
SECOND WAVE **SET TO SURGE**

Meanwhile, crowdfunding and lending platforms continue to grow especially with a focus on specific geographies or themes. Eureeca, an equity crowdfunding platform, is one of MENA's first fintech startups that went global.

Towards 2020, startups from the second wave sectors will rise to prominence: they will work in remittances, wealth management, insurance, and probably blockchain-based solutions.

Based on growth trends of payment, lending and second wave sectors, it can be expected that one in three fintech startups will fall into the second wave sector by 2020 (Fig. 44).

Figure 44 | **MENA fintech startup creation** (share of launched startups by sector, 2006-2020E)



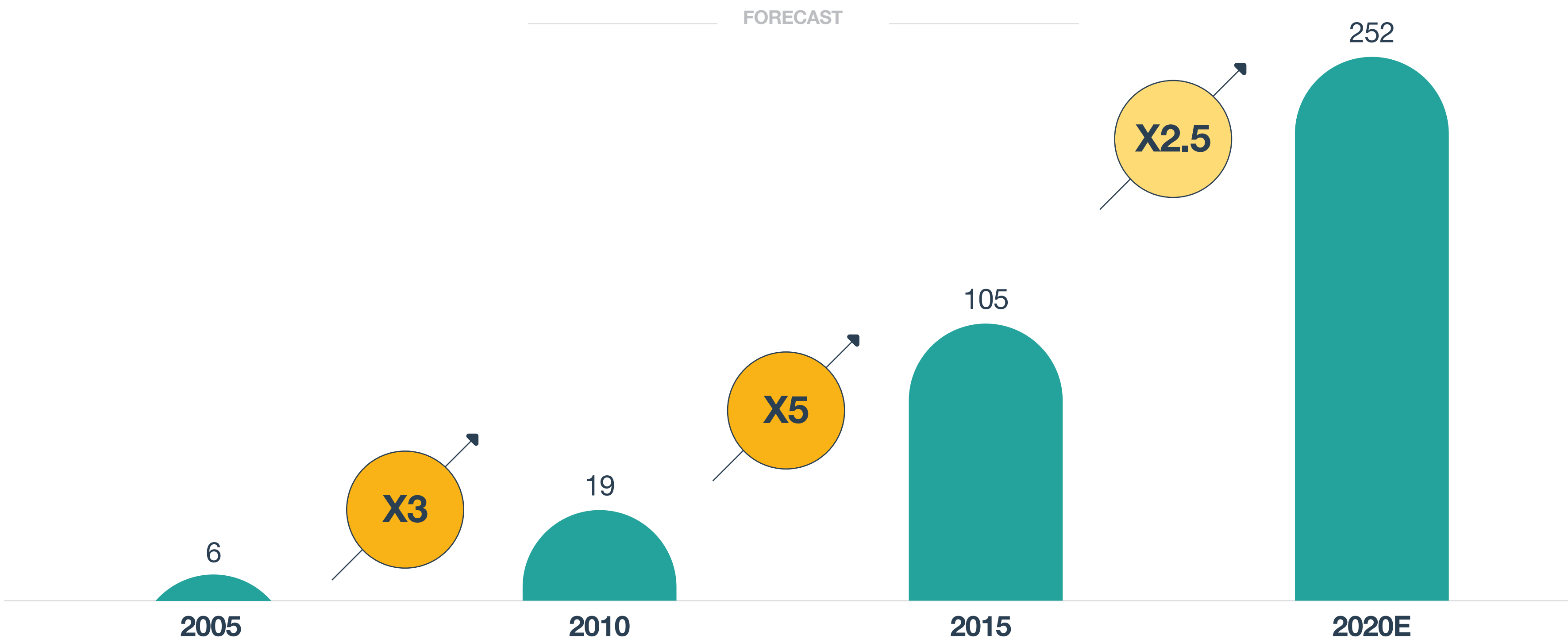
Source: Wamda Research Lab, 2016

250 FINTECH STARTUPS **BY 2020?**

The MENA region witnessed a strong growth in fintech startup creation – the number of startups launched doubled between 2013 and 2015. Now it is standing at a crossroads: Are we about to witness an increasing quantity and quality of fintech startups? Or is the current uptake in startup creation fading and slowing down?

Assuming the payment sector to start consolidating, and finding a similar growth trajectory for lending and second wave startups, at least 250 fintech startups will be launched by the end of this decade (Fig. 45).

Figure 45 | MENA fintech startup creation (cumulative number of startups launched, 2005-2020E)



Source: Wamda Research Lab, 2016

FINTECH GOES MAINSTREAM

The number of startups is only one indicator to take into consideration. A decreasing failure rate can increase the number of available companies. An increasing rate of high growth startups is even more important as they account for the majority of job creation, investments raised, and markets served (compare Fig. 29).

Fintech comes with numerous spillovers that help drive the digital economy in the region.

With 250 startups, the MENA region will still lag behind other regions. For example, Switzerland alone is already home to roughly 200 fintech startups today.[23] However, 250 startups implies an incredible success for a region that hosted less then 20 fintech startups by 2010.

To ensure this growth, an action plan is needed that unites governments, progressive private sector institutions and investors.

A fintech action plan for MENA would result in a 12-fold growth of fintech startups within this decade.

23 LTP, 2016: FinTech in Switzerland: A Quick Overview. http://tinyurl.com/jkxjvt5

UNLOCKING A VIRTUOUS CYCLE **FOR MENA**

For MENA, fintech presents a historical opportunity.The window for this opportunity is rather short – an inactive approach would see failures increase, international competitors take over, and the most passionate entrepreneurs leaving the region for Singapore, London and New York.

To capture the opportunity, MENA governments need to take the lead. This is due to the economic significance of the public sector which can be illustrated by global benchmarks of its contribution to GDP, its share of the overall employment, but also its power in many countries to curtail emerging financial solutions that are not licensed by the central bank.

> *2017 will be a defining year for fintech in Egypt – and probably in the region.*
>
> **Ayman Ismail**, AUC Fintech Accelerator

Figure 46 | The virtuous cycle for fintech

POLICYMAKERS

- Awareness of the positive spillover effects of fintech on a diversified knowledge based economy followed by
- A vision to implement national e-payment systems, create a national credit scoring system and encourage non-traditional SME funding schemes, while
- The rise of the UAE fintech hub sets new standards that encourage emulation of successful frameworks such as the fintech sandbox program

01

TALENT

- Rise of high growth fintech startups inspires executives in banks to turn into entrepreneurs, leveraging their work experience and professional network
- A community of seasoned entrepreneurs emerges to provide relevant mentorship to the growing group of fintech entrepreneurs
- Fintech startups are increasingly perceived as attractive employers

02

SUPPORT & INVESTMENT

- Fintech accelerators are high in demand and graduate scalable businesses
- International accelerators open a MENA branch as a result
- Investments allow startups to scale faster with the first cohort entering similar markets outside of the region (e.g. financial inclusion in Africa); in turn,
- Increased interest from corporations to acquire fintech companies

03

MARKETS & DEMAND

- Increased demand from banked customers (4-fold ecommerce growth)
- Increased access for unbanked customers (27% to 61% smartphone adoption) coupled with increasing trust and cultural acceptance
- Financial literacy and changing customer preferences go hand in hand with more security and transparency

04

THE EXPECTED IMPACT **OF FINTECH**

The rise of fintech will accelerate the whole startup ecosystem in MENA; its positive spillover effects on a range of industries makes it a key enabler for future growth.

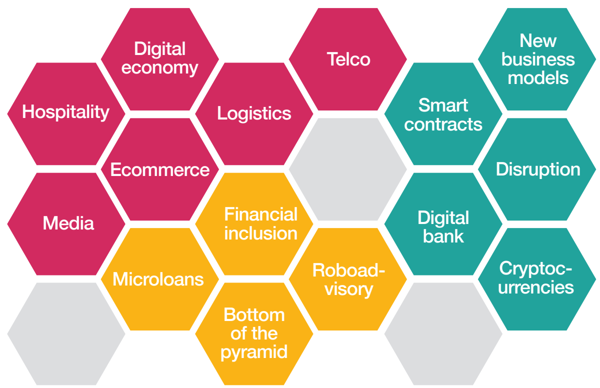
Walid Hanna, MEVP

Forces I didn't expect are pushing for payments; e.g. the federation of Egyptian Industries FEI, is pushing now for cashless payments…

Ayman Ismail, AUC Fintech Accelerator

We are not competitors of banks - nor are we collaborators. We are connected to mobile operators that get a share of our revenues.

Mostafa Elshafey, DCBEgypt



Fintech is not re-establishing the bank. Banks as silos are turned into a much more democratic institution through tech… What makes fintech so appealing is its spillover effect in developing countries on individuals, their ability to keep money secure, use their disposable income, get the best deals.

Walid Faza, Wamda Capital

With new payment methods and services new markets will emerge.

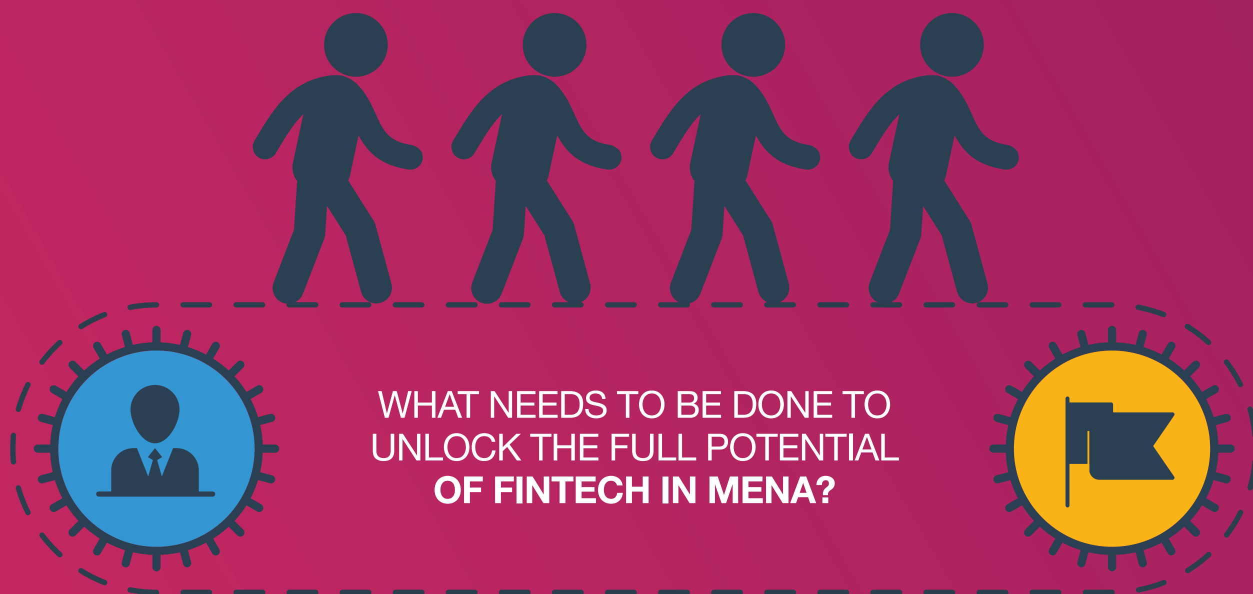
Amine Azariz, Fintech.ma

I am totally convinced that the true fintech disruptions are still in the making. So far fintech is a bunch of clever kids but when the kids will turn punk, we might see amazing things coming up to the market. And at this time, daddy bankers might start to have real nightmares at night. Especially if the fintech ecosystem has the idea of partnering with peers rather than with banks.

Paul-Henri Moal, Consultant

RECOMMENDATIONS

REALIZING THE FINTECH OPPORTUNITY



FINTECH **STARTUPS**

Most fintech startups face four core challenges - regulations, talent, investments and partnerships, and customer acquisition.
To address them:

Hedge against the risk of being shut down on regulatory grounds. Some entrepreneurs partner with financial institutions which allows them to operate under their license, others talk to the central bank. A few startups were granted licenses from various central banks - but they are costly. The option of joining Abu Dhabi's fintech sandbox is worth consideration especially for those using completely new technology (e.g., blockchain). Try to identify the key regulations affecting your business and think of ways to raise awareness around the obstacles they are representing for fintech - you might be able to find allies pushing for change.

Hire and retain the right talent. Building a skilled, committed team that believes in the mission of the startup lies at the core of successfully growing a company. Channels of hiring can, depending on the country, involve universities, entrepreneurship events and social media. Highly skilled professionals are often reluctant to leave well paying positions, which is where offering equity in the startup comes in.

> *We have to educate the ministry of commerce, the central bank… every authority that may have jurisdiction over our activity.*
>
> An entrepreneur

> *We told the central bank - look, we are an opportunity for you to learn from our experience to understand [this type of fintech] better. When there was no objection from the central bank, the commercial banks understood that there was no additional risk and provided us with banking services.*
>
> Another entrepreneur

> *Often people complain about a lack of investors, but if you have a good business model your problem is to find talent, not investment.*
>
> David Martinez de Lecea, Finerd

STAKEHOLDER RECOMMENDATIONS

Approach the right investors at the right time. There are a few regional funds that have already invested in fintech companies; they understand what sets fintech apart from other industries. For those that have a product with a clear value proposition it might be the right time to pitch - for those that consider to scale it depends on the role taken by potential corporate partners. In some cases, e.g. if the payment market consolidates in a country, being the first to raise a series C investment can be a decisive advantage.

Have a clear value proposition for your corporate partner. Typically, signing the first partnership is the most difficult one. What are the priorities of the company you are approaching, and how can you help realize them? If you offer something that might benefit them even if they haven't explored this option yet, present a robust pitch. Are you offering something that was successful in markets similar to your country?

Educate the market – and watch out for competitors. Talk to key stakeholders, be transparent about how it works and where risk might be. Keep it simple. Several startups include a short video clip on their homepage that explains their offering. Some had to become amazing at pitching the benefits of their service to banks. For customers, trust is vital - partnering with established brands can increase this significantly. Last but not least, be aware of competitors in your market - be they local, international startups or existing corporations.

> *We are looking at fintech in a slightly different way – while we want to see rapid growth in ecommerce, we think that fintech is still in its infancy and faces lots of regulatory barriers, so we are willing to look at them at an earlier stage.*
>
> **Walid Faza,** Wamda Capital

> *Partnering with a regulated institution gives us more safety; it's a key strategy.*
>
> **Ahmed Wadi,** Moneyfellows

> *Many insurance companies don't understand our model, but once we educate them and explain the benefit of our platform, they are very excited about it.*
>
> **Michele Grosso,** Democrance

> *Don't underestimate the challenge of education – we had instances of people thinking they knew how everything worked and were surprised to find they didn't.*
>
> **Craig Moore,** Beehive

INVESTORS

Fintech has arrived in MENA. With an estimated $100mn invested over the last decade and around $50mn demanded in 2017 alone, there will be a significant uptake in startups seeking to raise Series A, B and C. On a seed stage level, more startups can be expected in second wave sectors, especially in the UAE.

There is no proven model. Successful fintech companies in MENA operate in different markets and sectors, and the small sample sizes on a country and sector level should not be used as indicators for the potential of a startup. Instead, it can be shown that fintech gained a significant foothold on an overall, regional level.

Corporations can co-invest. The majority of fintech startups are looking for partnerships with corporations from different industries. This presents an opportunity for investors to lead rounds with participating companies.

> *We witnessed a huge increase in fintech applications, especially over the last year. What is notable is the variety of fintech startups approaching us.*
>
> **Walid Faza,** Wamda Capital

> *At the moment we wouldn't mind investing in a variety of different fintech sectors as long as they have a proven or potential model for a recursive and transactional business model.*
>
> **Fadi Antaki,** A15

> *Our Impact Fund has 15 Lebanese banks invested in it, and we are actively looking for synergies with them on fintech opportunities.*
>
> **Walid Hanna,** Mena Venture Partners

CORPORATIONS

Fintech startups can provide corporations with a competitive edge. Whether it is easier access to unbanked people or more convenience for affluent millennials, corporations from a wide range of industries have an opportunity to engage with startups that have a clear value proposition.

Banks have a trust advantage, but… Fintech startups increasingly offer solutions that can't easily be built in house. Banks that have a vision to become digital, dramatically improve their offering, expand and consolidate the customer segments and SMEs they are serving can engage with startups in multiple ways. Joint go-to markets, accelerators and investments are only a few.

MENA's frontier markets are underserved. Bank customers in North Africa were particularly interested in cashless payments and money transfers. However, to date, especially the Tunisian and Moroccan market have been underserved. With their regulatory reforms, political stability and largely unbanked populations, this represents unique opportunity to lead the democratization of financial services.

> *This toolkit aims to raise awareness of the different types of corporate-startup collaborations and providing guidance to corporations.*
>
> Expo 2020 Dubai and Wamda
> www.coentrepreneurship.com

> *An international bank with its financial capabilities and capacities to mentor entrepreneurs can play a huge role in accelerating the ecosystem in Morocco and beyond.*
>
> Amine Azariz, fintech.ma

POLICYMAKERS

Fintech is not a threat. The fast-paced change driven by technology requires a vision to capitalize on people's efforts to innovate financial services. Existing regulations were introduced with traditional banks in mind. Today, not only developed countries but many emerging markets introduce new frameworks to consider new types of financial services providers. A body that studies these regulations and provides advice on how to implement similar schemes can help to maneuver arising questions on fintech.

A fintech sandbox is great if part of a vision. The sandbox can allow policymakers to learn about new technologies and test it before licensing the company. However, as a mere facility the initiative could loose much of its potential. Fintech should be integrated into e-governance and a strategy for a less cash-based society or having an efficient credit scoring system.

Provide a national action plan on fintech. This can involve specific goals – e.g., an e-currency for the ed by 2018 – or generic incentives for investors, grants for startups and a legislation that defines fintech startups and adjusts the requirements to their abilities (e.g. cost of a license).

> *Policymakers need to come together with the progressive private sector entities to implement an action plan for fintech. In the case of Lebanon for example, this plan would emphasize the need for startups to being able to scale out of the rather small market quickly.*
>
> **Elise Mousa,** UK Lebanon Tech Hub

Partner with fintech startups. Some of the most notable fintech companies in MENA won contracts to work on a national payment gateway, and there will be countries that make credit scores accessible to fintech startups which will create high growth companies. For going this potential could see startups resettle in fintech friendlier jurisdictions.

FINTECH HUB RECOMMENDATIONS

For the emerging fintech hubs in MENA, all stakeholders must come together to create a competitive, sustainable ecosystem that makes fintech startup creation and scaling easier.

ALL FINTECH HUBS

While governments are best positioned to take the lead, only an alliance with forward thinking banks and investors can create the fintech ecosystem needed for a sustainable transformation of the financial services sector.

A key disadvantage for MENA is its fragmented market, which makes it much more difficult for a startup to reach the population that is available to fintech startups launching in the US, EU, China or India. A long-term plan by leading countries to align regulations as well as corporations taking products to several markets are key to overcoming this obstacle.

Given fintech's important spillover effects on a wide range of industries and its central role in financial inclusion, fighting corruption and empowering customers, this industry should form a central plan in any action plan towards a dynamic diversified knowledge economy.

FINTECH HUB RECOMMENDATIONS

UNITED ARAB EMIRATES

- Replicate the success of Singapore and aim to become an Asian fintech hub through fintech friendly regulations and more public-private partnerships.
- Take on the reported talent shortage with a GCC entrepreneurship visa.
- Encourage corporate startup collaboration in fintech, especially with banks.

EGYPT

Had Egypt the startup density (fintech per million inhabitants) of the UAE, it would host 350 fintech startups

- Capitalize on the fintech accelerators to convert parts of the informal economy into a cashless formal economy with access to financial services.
- Support the cashless economy by integrating payment channels for public sector employees and enable citizens to pay ministries through these channels.
- Encourage SME financing platforms with a credit scoring system.
- Award grants to high impact startups as they will create jobs and solve problems on mass scale.

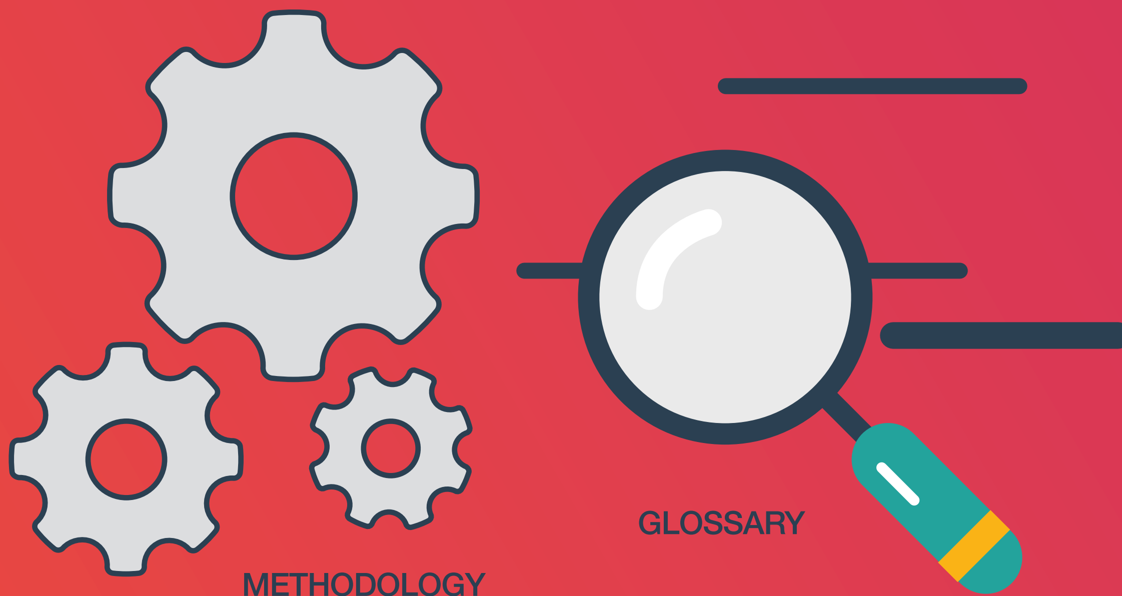
LEBANON AND JORDAN

- Implement a national action plan supported by the central bank, key ministries and interested banks to make fintech a key sector of Lebanon's ecosystem.
- Assist scale-ups with a quick internationalization process to overcome the constraints of a small market and increase the employment rate in this sector.
- Encourage fintech startups with a special license and integrate them into e-government initiatives.

TUNISIA AND MOROCCO

- Incentivize startups to build on top of the national payment system.
- Remove monopolies and encourage competition and corporate startup collaboration.
- Activate a strategy that addresses financial inclusion and SME lending.
- Offer support to high growth startups that enables them to scale their services to similar markets, especially in Africa.

APPENDIX



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WAMDA

Wamda is a platform of integrated programs that aims to accelerate entrepreneurship ecosystems throughout the MENA region. Its core focus includes media, community development, research and corporate and government advisory services. In the past few years, Wamda has become the leading grassroots community and knowledge platform for entrepreneurs and supporting stakeholders.

The Wamda Research Lab (WRL) is Wamda's research program that produces studies on entrepreneurship in MENA and seeks to foster thought leadership in this field. WRL's agenda is to inform investors, policymakers, and other stakeholders on the challenges faced by entrepreneurs in the MENA region, and offer potential solutions for overcoming them.

| Website: www.wamda.com/research | Contact: research@wamda.com

PAYFORT

PayFort is the most trusted Online Payment Gateway in the Middle East working with Businesses, Governments, and Startups to maximize online payment acceptance. PAYFORT is regional expert in payment processing technology and solutions across major markets in the GCC & LEVANT COUNTRIES. Honored on how our dedication to being the leading online payment gateway in the Middle East has been recognized by various partners and awarding bodies. Just very recently, industry-renowned Pay Expo MENA awards granted us the Digital Commerce Innovation Award for establishing a successful online payment solution across the region. We also received Fintech of the Year November 2016 at The Entrepreneur MENA magazine's annual Enterprise Agility Awards, acknowledging our efforts in breaking down barriers to introduce the convenience in adopting secure online payment methods. In addition to that Doha Bank, one of the largest commercial banks in Qatar, gave us this year's Partners Award, as our partnership agreement helped the Qatari market to open its arms to e-commerce. To cap off 2016 for our company, Crowdsourcing company Owler presented us this year's Hot in Dubai award for being a top trending company in the city.

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METHODOLOGY

OUR DEFINITION OF FINTECH

WRL considered startups that provide a financial service and have their headquarters in MENA. Startups that provide accounting software, list bank loans on a platform without offering customers to sign up, or connect investors and startups without facilitating any financial transaction were excluded. This narrow definition is without drawbacks, however, the aim of the study was to show innovation in financial services only. (For more on the beyond fintech startups, see p. 50).
Furthermore, no startups launched in 2016 were considered. While we are aware of at least 15 new companies started in that year, it was not possible to get a comprehensive overview before finalizing work on this report. It is noteworthy that Iraq became the 13th country with at least one homegrown fintech startup in 2016. Being concerned with startups, a range of fintech companies have been excluded because they are offered by governments – for example, Sadad – while others are run by mobile operators, such as AsiaHawala.

FINTECH ENTREPRENEUR SURVEY

WRL conducted a survey among over 80 fintech entrepreneurs in MENA between September and October 2016. Of those, 41 complete and valid responses were received. While the small sample size put several restrictions on the analysis of smaller units (e.g., payment startups in Lebanon), the survey did capture information from around one in two active fintech startups in MENA.

CUSTOMER SURVEY

PayFort tasked YouGov with carrying out a bank customer survey covering the UAE, KSA, Qatar, Lebanon, Jordan and Egypt. The 1,429 responses where collected between September and October 2016.

EXPERT INTERVIEWS

WRL contacted over 20 entrepreneurs, investors, accelerator program managers and experts to provide relevant insights on fintech in MENA. The derived quotes of the featured 16 experts were approved by the authors. In rare cases, entrepreneurs asked their identity not to be revealed.

SECONDARY DATA

WRL considered data provided by GEDI, the World Bank, the IFC, as well as leading consultancy reports. The case studies on startups build on publicly available information provided in regional and international newspapers.

GLOSSARY

Accelerator: An organization that offers mentorship, training and networking in addition to small investments in exchange for equity to help early-stage startups grow.

CAGR – Compound Annual Growth Rate: a geometric progression ratio that provides a constant rate of return or growth over the time period.

COD – Cash On Delivery: One of several payment methods when ordering goods and services online. This method is popular in emerging markets. Its main disadvantage is the need for the delivery man to meet the customer at home and collect the cash or swipe the card.

Ecosystem: The sum of external factors that impact the success of a startup. In particular, policies and regulations, hiring and retention of talent, support and investment as well as the market are important variables.

Fintech: Financial technology is leveraging technology to improve or disrupt existing financial services, as well as introducing new services and reaching currently and underserved customers.

GDP – Gross Domestic Product: monetary measure of the market value of all final goods and services produced in a country during one year.

PPP – Purchasing Power Parity: adjusts prices in two different countries and currencies to make the income and price level comparable.

PSP – Payment Service Provider: Company that offers businesses online services for accepting electronic payments by a variety of payment methods including credit card, bank-based payments such as direct debit, bank transfer, and real-time bank transfer based on online banking.

Series A: A company's first significant round of venture capital financing.

Scale-up/ high growth startup: Startup that is consistently growing at a significantly faster pace compared to its peers. This minority of startups accounts for the majority of new jobs created.

Startup: Company that is less than ten years old and build to scale.

FEATURED EXPERTS

We would like to thank the following experts for their time and insights:

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wamda

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