Fintechs Across the Arab World

A look at the region’s 400+ fintechs and their multi-billion-dollar opportunity to advance financial inclusion

Nadine Chehade
December 2020

This study was conducted in close collaboration with Alice Negre and Michele Touma, with support from Alexander Reviakin and Sabaa Notta, all CGAP consultants.
<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Executive Summary</td>
</tr>
<tr>
<td>II</td>
<td>Introduction</td>
</tr>
<tr>
<td>III</td>
<td>Key Findings: Fintechs in the Arab World</td>
</tr>
<tr>
<td>IV</td>
<td>Fintechs and Financial Inclusion</td>
</tr>
<tr>
<td>V</td>
<td>Conclusion</td>
</tr>
<tr>
<td>Annex</td>
<td>Selected Inclusive Fintechs</td>
</tr>
</tbody>
</table>
Executive Summary
• As of November 2020, CGAP has identified 400 fintech solutions across the 22 countries of the Arab world, nearly half of them having a financial inclusion mandate
  • 75% of the fintech solutions are found in six countries: United Arab Emirates (UAE), Egypt, Morocco, Tunisia, Jordan, and Lebanon
  • 84% are offered by independent providers, and 44% operate in the payments space. With half of these payments solutions offering store of value, fintech is creating new avenues for several countries to expand financial inclusion in the coming years
  • 66% of the fintech solutions rely on a business-to-customer (B2C) model, and 75% of these B2C solutions focus on individual retail clients. Most require users to have a smartphone, a potential barrier for low-income populations
  • 20% cater to small and medium enterprises (SMEs), focusing on digitizing payments, financing and business processes
  • Despite a large gender gap in access to financial services, only 2% of fintech solutions are gender-focused

• In the six markets where most fintech solutions are concentrated, the revenue potential of enabling 50% of unserved or underserved individuals and SMEs to access financial services is $7 billion

• Three factors will influence the ability of fintech solutions to reach the untapped market:
  • Policy-makers must proactively support innovation and competition
  • Investors must provide sustained financing, especially at the angel and post-Series A stages
  • Qualified talent must be more widely available to fintech companies
Introduction
Too many people and small businesses remain financially excluded across the Arab world

- **59%**
  - or 142 m adults (15+)
  - do not have access to an account

- **90m**
  - individuals borrow informally, 20% of whom use the loans for micro-enterprise

- **<2%**
  - penetration of insurance services

- **63%**
  - of ~20m MSMEs do not have access to finance (gap: 200+ bn$)

Source: CGAP calculation based on available Findex, IFC, and Axco data. Penetration for insurance defined as written premiums to GDP.
There has been progress in account ownership, but the region still lags behind most of the world.

Regional improvement is driven by large countries that recorded a significant increase in account ownership (Iraq, Egypt) or are included for the first time (Libya).

Source: Findex
The facts

• Financial exclusion is acute in the Arab world: only 41% of adults have access to an account (Findex)
• A number of countries (e.g., Egypt, Iraq, Jordan, Lebanon, Morocco, Tunisia, Yemen) have adopted enabling regulations for fintech, allowed either e-money services or payments companies to operate
• Access to mobile & smartphones is high: 65% of the region’s population has a mobile subscription, with 2 in 3 opting for a smartphone (GSMA, 2020)

The research

Conduct a fintech landscaping study of countries to identify:
1) emerging fintech solutions in light of regulatory changes
2) the likelihood that these fintech solutions reach low-income users, women and SMEs

The scope

• 22 countries of the Arab World
• Specific focus on 6 countries with a high concentration of fintech solutions: Egypt, Jordan, Lebanon, Morocco, Tunisia, UAE

CGAP conducted a landscaping study on how the region’s fintechs might advance financial inclusion
What is fintech?

Solutions combining innovative business models and technology to enable and/or enhance financial services provision, distribution and/or infrastructure.

Not only startups

Exclusions:

- Internet banking services (e-banking application) whereby people access and transact using their bank account applications
- Services offered by banks except for mobile wallets
- Large foreign companies offering services in the region, when the region is not their main operating area or headquarters
- Companies enacted by a special law
- Fintech solutions at a very preliminary idea stage (no incorporation, no proof of concept, no minimum viable product, not in a sandbox…)

CGAP
What is a fintech with a financial inclusion mandate?

• In our landscaping study, we looked not only at the fintech space as a whole but specifically at fintechs focused on advancing financial inclusion, i.e. fintech solutions that:
  
  • Put forward a clear financial inclusion mandate
  
  • Offer the same product as another fintech with a clear financial inclusion mandate
  
  • Offer the same product as another fintech that has already had a material impact on financial inclusion
Key Findings: Fintechs in the Arab World
The Arab world counted 20+ new fintech solutions per year from 2012 to 2019, reaching a total of 400 in 2020.
These fintech solutions had a better survival rate than fintechs in other countries, like the United States.
Fintech is also the top category of tech investment in the region by number of deals.
Most fintech solutions in the Arab world are offered by relatively young providers

- Most fintech solutions fall under the seed or early growth stages of a business (i.e. impact is yet to be felt)
- 75%+ of startups have raised up to Series A financing. As companies grow, there will be a need for larger investments to help solutions reach full scale
Independent providers offer most of the fintech solutions

- 84% of all solutions are offered by **independent providers**
- Others are offered by large tech companies, FSPs and MNOs
Fintechs operate primarily in the GCC, followed by North Africa and Levant

- **Bahrain** is the fastest growing in fintech solution development and roll-out
- 24 solutions (6%) are *headquartered globally* though most of their operations occur within the Arab World

*Other includes:  
Iraq (2.5%)  
Qatar (1.7%)  
Somalia (1.1%)  
Libya (0.8%)  
Yemen (0.6%)  
Palestine (0.6%)  
Oman (0.6%)  
Djibouti (0.6%)  
Syria (0.3%)  
Algeria (0.3%)
Payments is the top product category, consistent with global trends

Including ROSCAs, other savings solutions, and portfolio management

Mostly ERP and software solutions, including robo-advisory

Mostly B2B solutions enabling bank services and card payments (aggregation, card acquiring, e-commerce gateways); about 1 in 2 offer a store of value
Due to regulatory limitations, a number of B2C solutions however end up changing their offering to B2B or B2B2C.

B2C Solutions represent more than half of the solutions including individuals (75%) and SMEs (25%).

- B2C: 66%
- B2B: 22%
- B2B2C: 12%
As a result, transactional fees are the most prevalent revenue model.

The revenue model is still a work in progress for the largest number.
People in the region are tech-savvy but prefer cash over digital payments

Digital skills among active population
(1 = not all; 7 = to a great extent)

Adults using electronic payments (age 15+)

Source: WEF’s 2019 Global Competitiveness Report


Some countries (e.g. Saudi Arabia, Egypt, Jordan…) are pushing for digitization, by making **cashless transactions mandatory** (e.g. only accepting electronic payments in some public sector institutions)
People in the region also tend to prefer informal to formal financial services

People in the region are 8-10x more likely to borrow informally than formally

23+ million people in the region are participating in savings associations

Source: Findex, 2017 (Somalia, Sudan, and Yemen, 2014).
This has led to the development of solutions that improve cash-on-delivery experience in e-commerce, but COVID-19 might be shifting preferences.
More effort is needed to increase people’s trust in the security of digital payments for e-commerce, except among youth.

Security concerns are a key reason for the banked population’s preference for cash-on-delivery for e-commerce.

Youth do not share the same preference for cash-on-delivery. They have been rapidly adopting digital payments.


Source: Checkout.com, Connected Payments, Seizing Opportunity in MENA and Pakistan October 2020
Fintechs and Financial Inclusion
Findings for financially inclusive fintechs are similar to fintechs overall, except their payments solutions are twice as likely to offer a store-of-value.

400 fintech solutions identified

46% or 183 with a financial inclusion mandate

Note: Currently active fintechs with available information
Smartphone and internet access requirements for inclusive fintech solutions could be a barrier for some low-income users.

65% of adults in the Arab world have a mobile phone subscription, and only 66% of them have smartphones. However, GSMA expects 74% of all connections in the region to be initiated from smartphones by 2025.

In 2019, per the GSMA:
- 43% of the population in the region was connected to mobile internet
- An additional 47% lived within the footprint of a mobile broadband network but was not using mobile internet
- Only 9% lived outside the footprint of a mobile broadband network (3G or above)

Note: Based on 149 out of 183 financially inclusive fintechs targeting individuals.
SMEs are one of the clear target markets

20% of the 400 fintechs support SMEs, with a focus on UAE (31%), Saudi Arabia (21%), and Egypt (20%)

<table>
<thead>
<tr>
<th>SME Challenge</th>
<th>Fintech Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Manual business processes &amp; financial management</td>
<td>Business management &amp; digitization of processes (back- and middle-office solutions) 34%</td>
</tr>
<tr>
<td>Operations and growth opportunities (especially during the COVID-19 pandemic)</td>
<td>Payment solutions and sales/inventory analysis 28%</td>
</tr>
<tr>
<td>Access to funds (due to high costs, credit history, and collateral)</td>
<td>Financing: direct financing and indirect financing (such as credit scoring, risk analysis, and investor linkages) 27%</td>
</tr>
<tr>
<td>Other</td>
<td>E-marketplaces, InsurTech, eKYC 11%</td>
</tr>
</tbody>
</table>

Sources: Enhancing the Role of SMEs in the Arab World, Some Key Considerations, IMF, 2019; Banking on SMEs, Trends and Challenges, IFC, 2019; Customer Management in SME Banking, IFC, 2012
Gender-focused solutions are hard to come by in the region with the world’s largest gender gap

Only 9 solutions specifically catered to women
Conclusion
We computed the revenue potential of additional financial inclusion, assuming **50% of the untapped market** is reached for individuals & MSMEs by 2024 in the six countries of focus:

- Egypt, Jordan, Lebanon, Morocco, Tunisia and UAE
- Getting penetration in levels similar to Uganda, South Africa, Ghana, Bolivia, Ukraine

We found a revenue potential of

~**US$ 7 billion**

This does not include the spillover effect, such as jobs created within both the financial sector and the MSMEs.

For detailed information about our methodology in computing revenue potential, see Appendix E (Slides 88 - 89) of "Fintech Landscaping in the Arab World" (2020) in CGAP Background Documents.
• More access to financial services means **several US$ billion** of additional potential revenue
• This requires **US$ ~200-500 million in investment**
  o There remain important funding gaps at angel and post-Series A
• Quality of education / talent / employability also needs to improve
• People in the region are **young and tech-savvy**
• If **home-grown solutions** do not emerge, large international companies might reap the digitization benefits
• **More enabling regulations**, including pathways to innovations and cross-border collaboration, will be key
Selected Inclusive Fintechs

Examples of solutions bolstering financial inclusion in the Arab world
Fast-tracked by COVID-19, **digital ID & e-KYC** solutions aim at digitizing client onboarding and identification processes, ensuring adequate customer due diligence and proper authentication.

**Kaoun, Tunisia, 2017**

*Kaoun* provides an e-KYC offering to partner banks to facilitate remote onboarding. This process is tailored to each partner individually, and involves digitized identification, verification and later authentication.

**Valify, Egypt, 2018**

*Valify* is an Egyptian digital identity solution which formed part of the Central Bank of Egypt’s regulatory sandbox on e-KYC. Their solution allows digital onboarding in a three-step solution of information extraction, facial recognition and authentication.
Leveraging the popularity of **ROSCAs**, some fintech solutions are digitizing informal savings and providing alternative credit analytics.

**Moneyfellows, Egypt, 2014**

*Moneyfellows* is a digitized ROSCA solution in Egypt that builds users’ credit scores and is integrated into the payments ecosystem. It allows users to access their ROSCAs at any time and for them to join multiple circles.

**CIWA, Morocco, 2018**

*CIWA* is a digital platform to securely manage ROSCAs and build a credit score. In addition to the services they provide to individuals, CIWA also provides a ‘Pro’ offering to employers, allowing them to better understand their employees’ needs and financial habits.
**Insurtech** solutions offer a digitized mode of providing access to life and non-life insurance products and services

**Democrance, UAE, 2015**

**Democrance** enables insurers to access new market segments. It provides technology to digitize and automate the entire value chain of insurance sales from marketing to claims processing.

**Ahmini, Tunisia, 2019**

**Ahmini** is an insurtech solution that links women to the national social security system and allows them to break up their premiums into very small instalments leveraging airtime.
Going beyond remittances, fintech solutions are providing access to a digital means of payments and store of value for migrant workers and their families.

NOW Money, UAE, 2015

Now Money offers an online account to track spending for low-income workers in the Gulf. It also offers international remittances and exchange services, alongside a debit card. It works with companies to provide digital payroll and accounts solutions for companies and their low-income employees.

Rise, UAE, 2017

Rise works with regulated financial institutions to offer migrant workers access to a range of financial products, including an online account, insurance and savings. It also offers a cross-border buy-now-pay-later solution which allows migrant workers in the Gulf to purchase various products which may be delivered to the customers’ friends and family members abroad.
Payments aggregators act as a connector between payment providers to collect payments on behalf of multiple entities/merchants that want to send or receive money to/from end-customers.

**Fawry Pay, Egypt, 2008**

**Fawry Pay**, which launched its IPO in 2019, provides an electronics payments network that allows unbanked individuals and businesses to connect with the payments ecosystem for bill payments, airtime top-ups and many other services. It has also developed a women-centric offering called Heya Fawry to train women as Fawry agents who can act as points of sales. Each agent who is trained also receives complimentary micro-insurance coverage.
Thank you
شكراً
Merci

To learn more, stay connected with CGAP

www.cgap.org  @CGAP  Facebook  LinkedIn