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Arabnet Business Intelligence has released its latest edition (4th edition) of “The State of Digital Investments in the MENA 2013-2018” . The report states that MENA digital startups are attracting increasing global and regional attention; more governments are pushing for innovation, accompanied by an increase in investor appetite.

According to Arabnet, the number of tech investors in the MENA region increased by a compounded annual growth rate (CAGR) of 24.49% between 2012 and 2018. However, in the past 2 years, there has been a slight decrease in the number of new funds launched, mainly due to the shady economic and political outlook.

Looking at the number of deals, it has grown by a CAGR of 9.5% to 255, with the total value growing much faster at a rate of 23% to \$674M. This signals a maturing ecosystem where the average value per deal doubled. Worth mentioning that in 2016, the value of deals stood at a striking \$972M, with the rounds raised by Careem (\$350M) and Souq.com (\$275M) being the prime drivers.

UAE continue to capture 71% of total dollars invested among the top 5 markets. Over the past 3 years, Careem has been the driving force in boosting the UAE’ s value of investments. 2018 is no exception; Careem captured 40% of all dollars invested in the UAE and about 31% of the total deal value in the top 5 markets. Both Egypt and Saudi Arabia have gained traction over the past 2 years; the Egyptian deals, Swvl (\$30M) and Zezeeta (\$12M), and the Saudi Arabian deal, Unifonic (\$21M), had a visible impact.

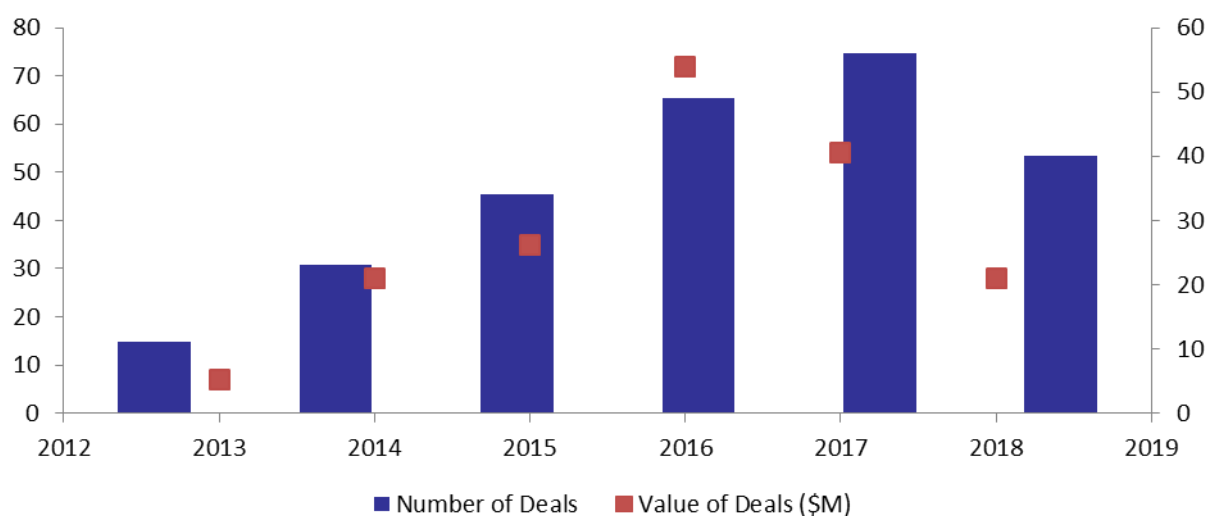
Lebanon, with its official non-interventionist stance toward private investments, offers one of the most liberal investment climates in the Middle East. The economic openness of the country is harnessed through the absence of legal restrictions on the entry or exit of many firms, encouraging free market competition and furthering the development of the private sector. Liberal trade and investment policies have allowed foreign direct investments to account for a considerable share of Lebanese GDP.

Lebanon has a resilient economy despite the challenging regional environment. Foreign investments to Lebanon have sustained a stable flow despite a regional and worldwide decline in FDI. FDIs to Lebanon have increased by a compounded annual growth rate of 6% between 2015 and 2017 to stand at \$2.62B, the highest as a percentage of GDP (4.8%) among non-oil economies in the region, highlighting the country's attractiveness to investors. Moreover, Lebanese banks have one of the highest liquidity ratios in the world at 80% compared to a worldwide average of 56%.

This has led Lebanon to be among the top 5 countries in the MENA region that captures the highest value of digital investments. In addition, the initiative of Banque du Liban's Circular 331, has boosted the ecosystem's growth, since initiation.

Lebanon ranked 2nd in the MENA region with 40 investment deals, outpaced by only the UAE (45 deals), and sharing its rank with Egypt. Looking at the deals value, and after maintaining its 2nd place for 3 years in a row, Lebanon ranked 5th, with a total value of \$28M. This indicates a decrease in the amount invested per deal.

Number and Value of Deals in Lebanon

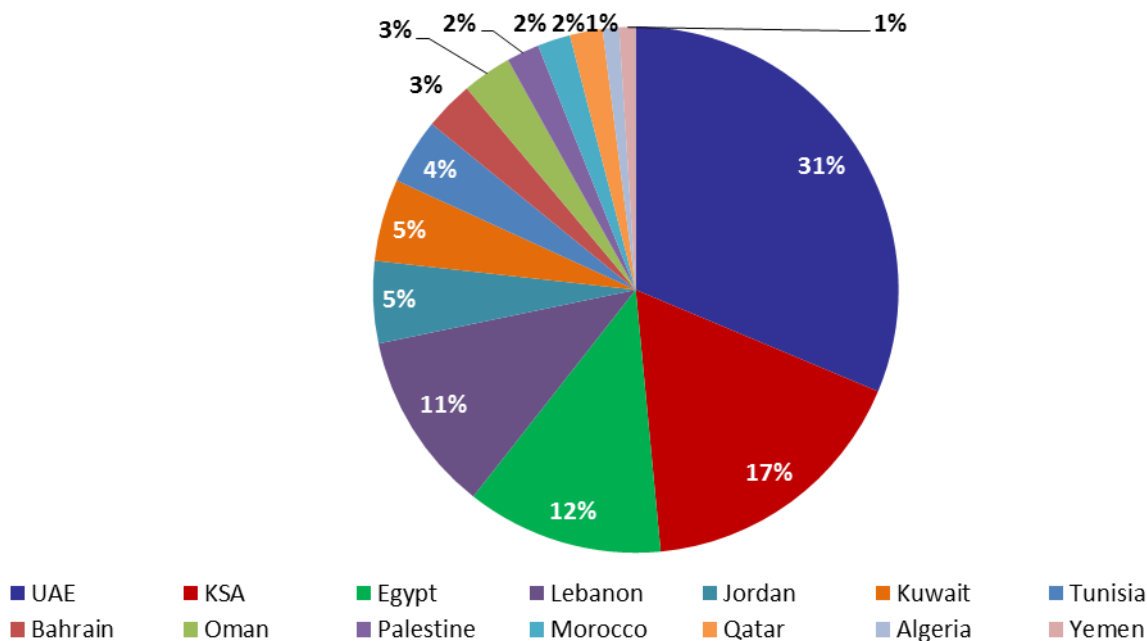


Source: Arabnet

Noting that, the gap in the number of deals between the UAE and other markets is gradually diminishing, with only 5 deals difference between it and the second highest markets, Lebanon and Egypt. However, the UAE is a frontrunner regarding the value of deals which amounts to 6 times the value of deals in the second highest market, Egypt .

Looking at the number of investors, 31% of MENA investors are located in UAE, followed by 17% in Saudi Arabia, 12% in Egypt and 11% in Lebanon. In recent years, Egypt has attracted more investors, as the Egyptian Ministry of Investment and International Cooperation is fostering private investments to reach the targeted economic growth. On another note, the share of the investor community in Lebanon has steadily grown from 7% in 2013 to 11% in 2018.

Share of Investors by Geography



Source: Arabnet

Lebanon, in addition to the UAE, Saudi Arabia and Jordan, encompass all types of investors by ticket size. The most prevalent types are accelerators, corporate, and venture capital. The distribution of investors by ticket size across markets mirrors the level of maturity of the investor community per country. While early stage funding is the most prevalent across countries – the exception is Kuwait, which reveals a higher number of venture capital investors. When looking at the top four countries – the UAE, Saudi Arabia, Lebanon and Jordan – we can see that the number of venture capital investors has witnessed an increase compared to the total number of investors. On the other hand, markets such as Qatar, Tunis, Yemen and Algeria, continue to display gaps.

Increased corporate appetite and interest are evident with the rise in their number over the past 2 years. Corporate investors have a stake in supporting tech-focused solutions to advance their digitization process. The UAE's Chalhoub Group for instance, has realized that encouraging tech-driven solutions geared towards fast retail startups is an opportunity to support their own digital transformation. The increase in venture capital funds reflects a maturing ecosystem.

Early stage funds (angel network, seed fund, and accelerator) represent around half (48%) of the investor community in the MENA, followed by 28% venture capital, corporate (17%), and growth capital (7%). An angel network is a group of angel investors who have organized to invest collectively, operate more effectively and provide mutual support. A seed fund is a form of securities offering in which an investor invests capital in a startup company in exchange for an equity stake in the company. Accelerators are fixed-term, cohort-based programs that include seed investment, connections, mentorship, educational components, and culminate in a public pitch event or demo day to accelerate growth. Venture capital is a type of private equity financing that is provided by firms or funds to small, early-stage, emerging firms that are deemed to have high growth potential, or which have demonstrated high growth. Corporate venturing is the practice of directly investing corporate funds into external startup companies. Growth capital is a type of private equity investment, usually a minority investment, in relatively mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. Lebanon has 4 Angel Networks, 3 Seed Funds, 6 Accelerators, 7 Venture Capitals, 5 Corporate, and 2 Growth Capitals .

Looking at the number of investors, UAE ranks first with a cumulative number of investors between 2013-2018 of 348, followed by 214 in Egypt, 213 in Lebanon and 180 in Saudi Arabia.

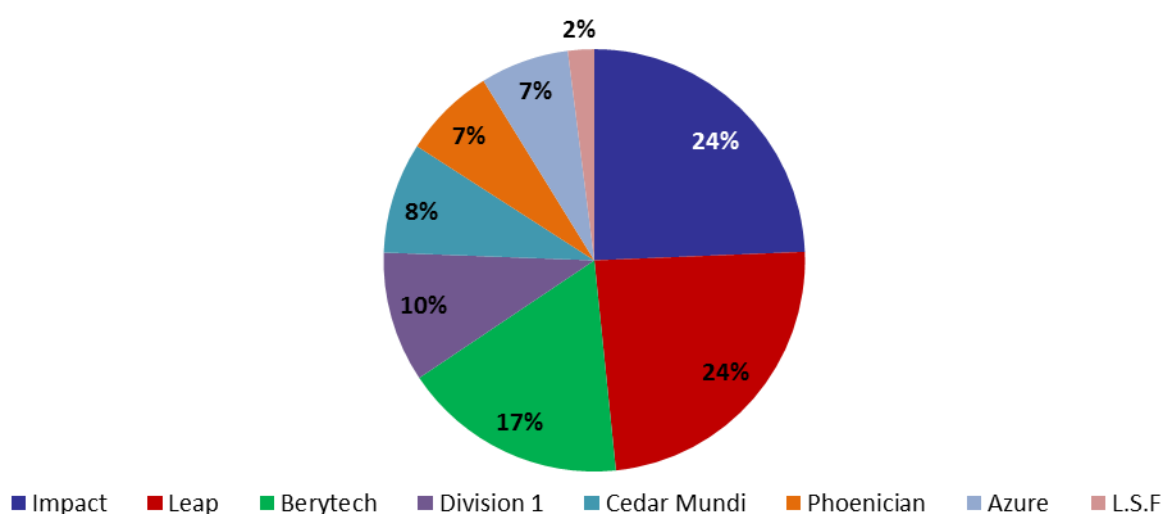
Exploring investments by business model over the past six years, transactional-based startups still reign (36%), followed by media-based startups representing around one fourth of total investment. Technology and SaaS business models capture an equal percentage of deals, constituting around one fifth each. Lifestyle Startups capture the largest share of investments (29%), followed by transportation (27%) and finance 7%.

The basis for assessing a startup's operational status includes its platform activity (app or website), social media activity, funding announcements, and announcements from founders or investors. Based on the aforementioned factors, only 14% of all MENA startups funded in the past 6 years have shuttered. This low failure rate is attributed to several factors: the continued proliferation of private- and public-sector initiatives that support and fund startups; the reluctance of investors to discontinue support of portfolio companies; and the cultural stigma associated with failure. Finally, another crucial factor is the nascent nature of the ecosystem, with the volume of deals being higher in 2015, 2016, and 2017, as opposed to the period prior to that. Thus, recently funded startups have a lower chance to run the course of their life cycle.

The UAE has the largest number of operational startups (192). Interestingly, Oman displays an exception revealing a minimal number of closed digital startups. This could be attributed to its nascent ecosystem and the sudden influx of capital brought about by the OTF – where the bulk of investments in Oman took place in 2017. Looking at the proportion of closed startups, Palestine exhibits the highest figure (38%) – which seems over amplified given the small number of total deals made in the country. On the other hand, Saudi Arabia follows Palestine as the second country with the largest proportion of closed startups (29%), while Lebanon presents the lowest proportion (5.3%) compared to all other countries in the MENA region, with 125 operating, compared to 7 closed startups .

By the first quarter of 2019, Lebanese Venture Capital funds raised \$248.82M. Impact Fund raised \$60.59M, followed by Leap Fund with \$59.75M and Berytech \$42.90M. Total committed capital stood at \$353.76M, with Leap Fund holding \$79.11M, Impact Fund \$70M, and Berytech \$51.5M.

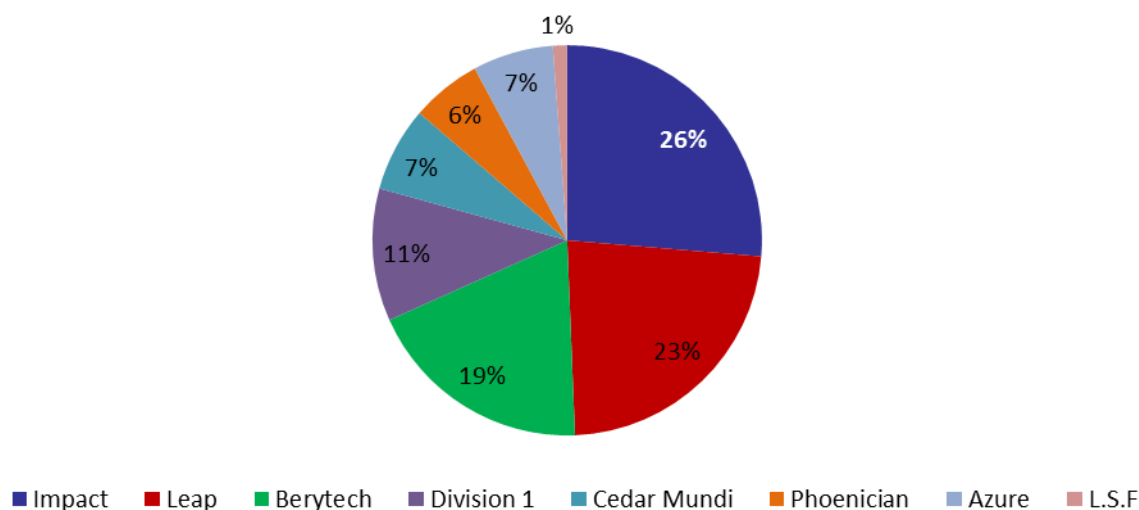
Lebanese Funds' Share of Total Capital Calls



Source: BLOMINVEST Bank

As for the use of called capital, 75.3% went to investments, while 24.16% were spent on fees. Impact invested \$49.31M, followed by \$43.17M invested by Leap, and \$35.5M by Berytech.

Lebanese Funds' Share of Total Investments



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ce: BLOMINVEST Bank

Despite the political and regional instabilities the country is facing, Lebanon's investment platform remains one of the best in the MENA region. Lebanon comes out as the lead with respect to the number of deals per capita and per GDP. Moreover, Lebanon and Jordan share the first place, with the highest proportion of female founders in the MENA. Lebanon's investment market is a mature one, however it needs the right political and economic background to develop and grow.

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