How COVID-19 Unlocked the Adoption of E-commerce in the MENA Region

LEGATUM CENTER FOR DEVELOPMENT & ENTREPRENEURSHIP
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

wamda

Contents

Executive summary

When the COVID-19 pandemic began to affect global markets, it became clear that it would test the resilience and performance of a rapidly growing e-commerce sector in the Middle East and North Africa (MENA) region. This was especially true in the **United Arab Emirates (UAE)**, **The Kingdom of Saudi Arabia (KSA)**, and the **Arab Republic of Egypt**, the three focus markets of the research conducted.

This paper takes a close look at how the pandemic impacted the growth and resilience of the e-commerce space in these three aforementioned markets. The Legatum Center for Development and Entrepreneurship at MIT and Wamda conducted interviews and conversations with over **40 industry players** resulting in several key insights and recommendations with regards to how e-commerce might continue to advance in the current landscape and future.

KEY INSIGHTS INCLUDE:

1. COVID-19 accelerated the growth of an already thriving e-commerce sector.
2. The e-commerce boom created a ripple effect across logistics and fintech.
3. Resilient supply chains need greater localization.
4. Decreased dependence on cash on delivery (COD) requires building trust.
5. Conversational commerce and super apps are opening new e-commerce markets.

Maintaining the momentum created by COVID-19, however, requires government players to implement strategies that can now capitalize on the growth of the sector.

KEY RECOMMENDATIONS INCLUDE:

1. Implement more robust policies to transform the trust-based economy and protect customers from fraud.
2. Invest in developing small business hubs for e-commerce.
3. Coordinate a unified customs market.
4. Increase efforts to promote digitization and technology adaptation that allow more people to participate in the economy.

As e-commerce develops, these efforts will help push economies to be more inclusive, while also growing economic opportunities across the region.

Introduction

Before the pandemic, MENA's e-commerce sector was one of the fastest-growing in the world

Although it accounted for just 2 percent of the retail market in the region, the e-commerce sector doubled in size from $4.2 billion in 2015 to $8.3 billion by 2017. This was due to a rapid rise in internet penetration, the arrival of 4G, and a young population comfortable with making purchases online.[i] Today, 80 percent of young Arabs shop online frequently, compared to 71 percent in 2019.[ii] In addition, 50 percent of those aged 18-24 in MENA are shopping more online after the pandemic. As a result, the sector reached a value of $22 billion by the end of 2020. [see Figure 3].[iii]

The bulk of growth in the sector was driven by the UAE, Saudi Arabia, and Egypt, which together account for 80 percent of the region's overall e-commerce market. The UAE's digital economy prior to COVID-19 contributed 4.3 percent to the country's gross domestic product (GDP). In addition, the e-commerce industry in the country is set to reach $62.8 billion by 2023, according to the Dubai Future Foundation. In Saudi Arabia, the industry projected a market volume of $8.2 billion by 2024.[iv]

The coronavirus pandemic was the defining event of 2020. Global attempts to stymie the pandemic's impact have disrupted, refined, and repurposed business and consumer practices alike. Brick and mortar commerce was among the worst-hit as a result of the lockdowns that swept across the world. MENA saw substantial declines in footfall and stricter controls imposed at borders. Unfortunately, as shops could not weather such drastic economic changes, the "closed shop" signs for many retailers became "permanently closed". This presented an opportunity for online commerce in the region, as consumers switched to buying their goods online. The pandemic resulted in a shift that accelerated this projected growth, as early reports indicated that e-commerce in the Middle East is winning the pandemic.

> **Early reports indicated that e-commerce in the Middle East is winning the pandemic**

Looking to identify strategies to capitalize on this momentum, the Legatum Center for Development and Entrepreneurship at MIT and Wamda joined forces to study how the pandemic affected the e-commerce sector in MENA [see Annex I for Methodology].

With the dramatic growth in the sector, e-commerce presents opportunities to transform the fundamental ways that economies work by reshaping consumer preferences and conventions in logistics infrastructure. This tech-driven transformation has the power to build ecosystems that invite small, local businesses into the value chain, while the momentum of e-commerce can drive the growth needed in the region.

COVID-19 and e-commerce: A growing power or a temporary momentum?

Insight 1: COVID-19 accelerated the growth of an already thriving e-commerce sector

Within a short time span, companies that delayed digitization shifted to meet consumers online. At the same time, new consumers came on board with minimal effort from companies, to access and purchase their essential needs.

PRE-PANDEMIC

E-commerce has been the cornerstone of entrepreneurship in MENA and has served a critical role in enabling the overall startup ecosystem. The region is often criticized for a lack of innovation and a heavy reliance on the consumption-driven business model. However, had it not been for the likes of Souq (acquired by Amazon in 2017 for $680 million), Noon, and smaller operators like Talabat, that built the digital and physical infrastructure necessary to operate in the region, other tech startups, including in fintech and logistics would have struggled to operate and scale.

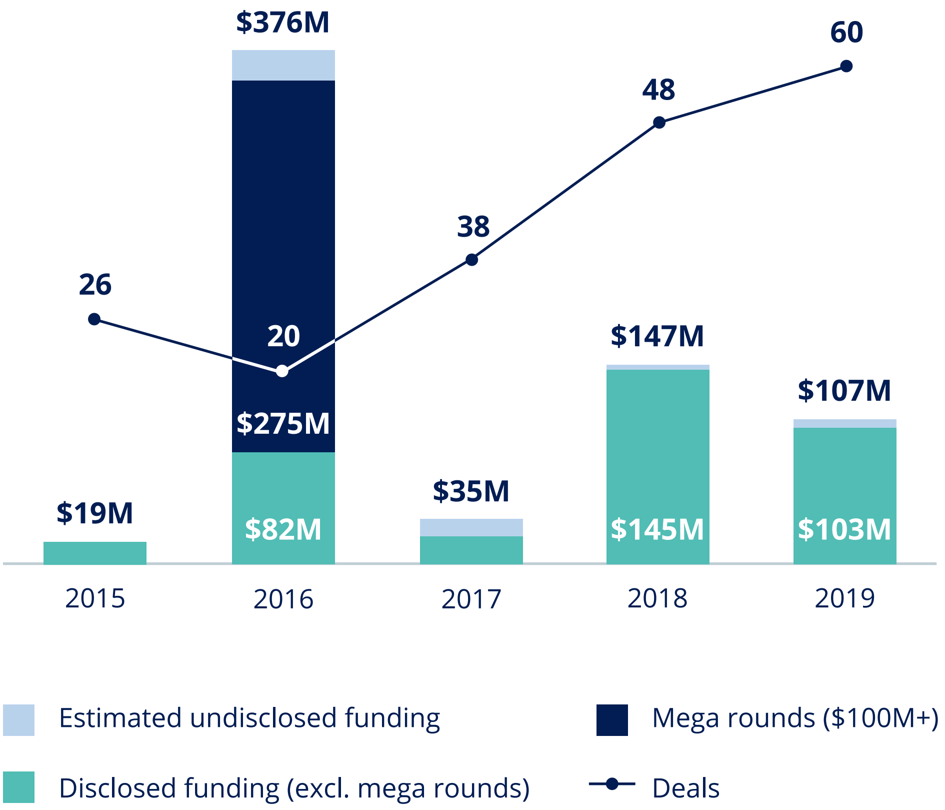
In addition, investors in MENA have traditionally felt more comfortable backing e-commerce and marketplace startups, and for many years, the sector accounted for the bulk of investment deals in the region.

According to data from MAGNiTT, $665 million was invested in e-commerce startups in MENA from 2016-2019 - almost 20 percent of the total amount invested in startups in this period [see Figure 1].[v]

FIGURE 1:

Number of Deals and Total Funding in MENA-Based E-Commerce Startups

(MAGNiTT 2020)



Some regulators in the region awoke to the potential of the sector a few years ago. For example, in 2017, Dubai Airport Freezone Authority (DAFZA), in partnership with state-owned property firm Wasl, broke ground on the $870 million “Commercity” project - a free trade zone dedicated entirely to e-commerce. The project resulted from the government’s realization that e-commerce companies required a different set of infrastructure and relations to thrive. Once completed, companies operating in the free zone are expected to benefit from reduced time to market and easier access to cross-border trade.

$665M

has been invested in e-commerce startups in Mena from 2016-2019

"By building an ecosystem that's designed for that purpose, it allows them to scale across the region, and by ecosystem, we mean all the different components - the talent, capital, regulations, cooperation and go to market partners," said Hassan Fayed, innovation specialist at Commercity. Consequently, Dubai launched a dedicated e-commerce strategy in October 2019 to increase the sector's contribution to the economy by reducing the total cost of e-commerce operations by 20 percent - including the costs of returned goods, storage, customs duties, and value-added tax (VAT) on transportation.[vi]

Similarly, Saudi Arabia passed an e-commerce law in July 2019 to regulate the sector. The law aims to increase consumer confidence and provide protection against fraudulent operators in a bid to stimulate the sector. It not only requires e-commerce providers to disclose details of their trading terms and the products and services they offer to consumers, but it also provides higher scrutiny of e-commerce adverts to prevent fraud and consumer deception. The law also provides a legal framework to legitimize the businesses of female entrepreneurs who operate from home and sell their products informally through social media. Likewise, in Egypt, legislation regulated e-commerce by virtue of the *Electronic Signature Law No. 15 of the year 2004*. This new legislation was established by the Information Technology Industry Development Agency (ITIDA) which acts as the electronic trade regulatory authority. In addition, as part of the country's Vision 2030 Sustainable Development Strategy (SDS), the Ministry of Communication and Information Technology launched an ICT strategy to support the development of the sector and its contributions to economic growth through initiatives that encourage e-commerce.

> By building an ecosystem that's designed for that purpose, it allows them to scale across the region, and by ecosystem, we mean all the different components - the talent, capital, regulations, cooperation and go to market partners.

Hassan Fayed
innovation specialist
at Commercity

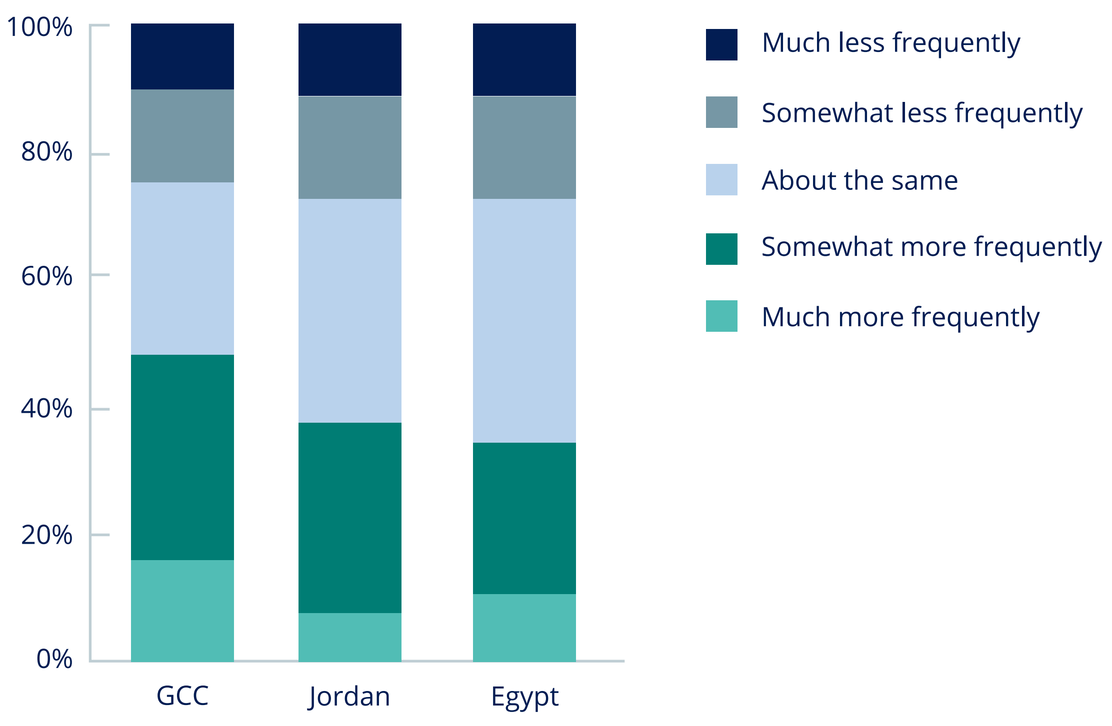
PANDEMIC BOOM

After the first three months of the COVID-19 pandemic, e-commerce saw worldwide acceleration due to lockdown measures. For many consumers, online retail was the only viable solution to purchase essential items while adhering to stay-at-home orders. In June 2020, retail e-commerce website traffic worldwide recorded more than 21.9 billion monthly visits compared to 16.2 billion in June 2019, according to Statista. Leading global e-commerce platform Amazon.com recorded $88.9 billion in revenue during the second quarter of 2020 - a 40 percent year-on-year increase in net sales.

In MENA, the industry witnessed a remarkable spike in demand and adoption, specifically over the first three months of the outbreak [see Figure 2]. With little else to do besides staying indoors, consuming content, and making purchases online, e-commerce companies had a more captive audience to appeal to during the lockdown.

40%
year-on-year increase in revenue during Amazon.com's second quarter of 2020

FIGURE 2:
Increases in Online Shopping Due to COVID-19 by Sub-Region
(Checkout.com 2020)



“

In a recently published report from Checkout.com, 47 percent of consumers in the region say they expect to shop online more frequently in 2021

The lockdown raised the profile of convenience shopping over conventional shopping. The customer acquisition cost decreased as consumers began to independently realize that they could get much of what they wanted online. As Nitin Reen of MAGRABi remarked, “COVID-19 has mainly been an opportunity to acquire customers that we wouldn’t traditionally have been able to acquire, and in large part, this has been with customers who have never interacted online.”

E-commerce benefited from rapidly converting a nascent segment of the population. There was no need to acquire these users through marketing - the circumstances automatically did that. Maintaining these newly-converted customers in the long-run is now a priority as lockdown measures have become less common. In a recently published report from Checkout.com, 47 percent of consumers in the region say they expect to shop online more frequently in 2021 [see Figure 2]. Only 15 percent expect their online shopping frequency to decline, while the remaining 38 percent expect it to remain about the same as in 2020.[vii]

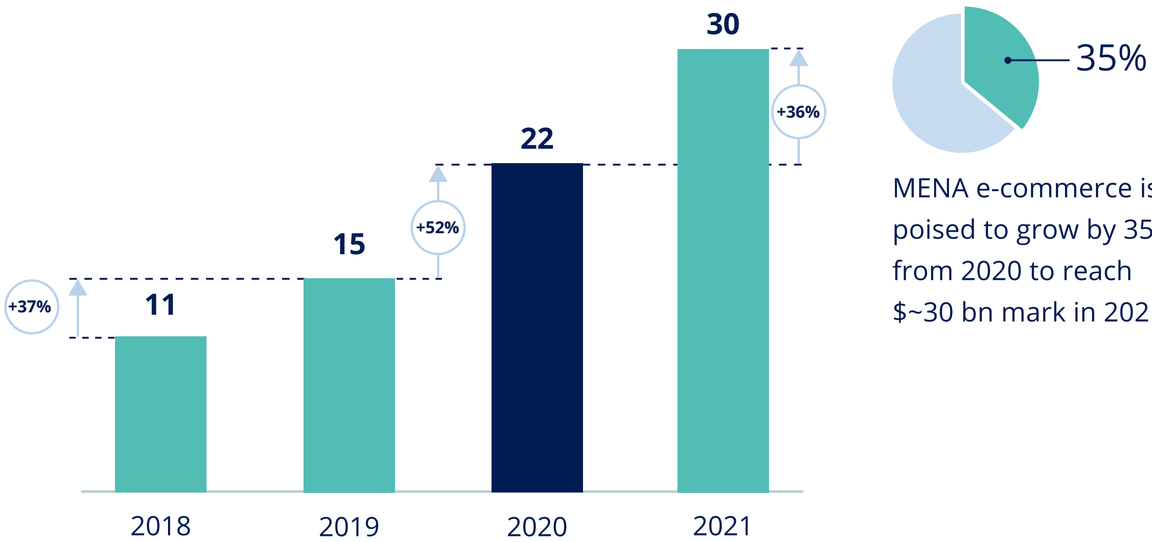
Traditional brick and mortar conglomerates invested in digital infrastructure and partnered with SMEs in order to capitalize on the growth of e-commerce in the region. In the UAE, where shopping malls closed for a month between March 25 and April 25, 2020, some mall operators helped stores migrate online.[viii] For example, Emaar Malls set up a virtual Dubai Mall on noon.com, and Majid Al Futtaim (MAF), the developer behind Mall of the Emirates, rolled out an online marketplace through carrefouruae.com.[ix] The lockdown also created an opportunity for retailers and mall operators to partner with startups. For instance, Majid Al Futtaim formed a strategic partnership with Mr. Usta that pushed the home service marketplace as the preferred after-sales solution provider for MAF brands in the UAE. International franchise operator Alshaya Group partnered with noon.com for the sale and delivery of a range of fashion, beauty, personal care, and home products. Similarly, luxury goods retailer and distributor Chalhoub Group had already partnered with luxury fashion platform FARFETCH for the sale and delivery of its franchised fashion brands.

In the space of one year, e-commerce in MENA grew by 52 percent according to RedSeer, and reached an annual gross merchandise value (GMV) of $22 billion in 2020. The sector is expected to grow another 35 percent in 2021, to reach an annual GMV of $30 billion [see Figure 3]. This drastic growth was powered by the prevalence of new consumption patterns that shifted as users opted to pay upfront for priority items, such as grocery, medical supplies, hygiene products, and home entertainment. As a result, basket values are higher across the majority of e-commerce platforms. The bulk of the change occurred in three markets where e-commerce has the highest market penetration - UAE, Saudi Arabia, and Egypt. In the UAE and Saudi Arabia alone, the online retail market was estimated at $7.5 billion pre-lockdown.[x] By the end of March 2020, it grew to $11 billion in those two countries alone.[xi]

FIGURE 3:

MENA E-Commerce Gross Merchandise Value 2018 – 2021

(Ganediwalla et al. 2020)



MENA e-commerce is poised to grow by 35% from 2020 to reach $~30 bn mark in 2021.

KEY INSIGHTS

- Key markets in MENA are UAE, KSA and Egypt.
- Electronics, fashion and food delivery are the leading categories in e-commerce market.
- 2021 e-commerce GMV expected to grow at 36% from 2020 levels on back of higher customer stickiness and enhanced supply experience.
- E-grocery was the fastest growing category in 2020, with a jump of $ ~1.2bn compared to 2019.

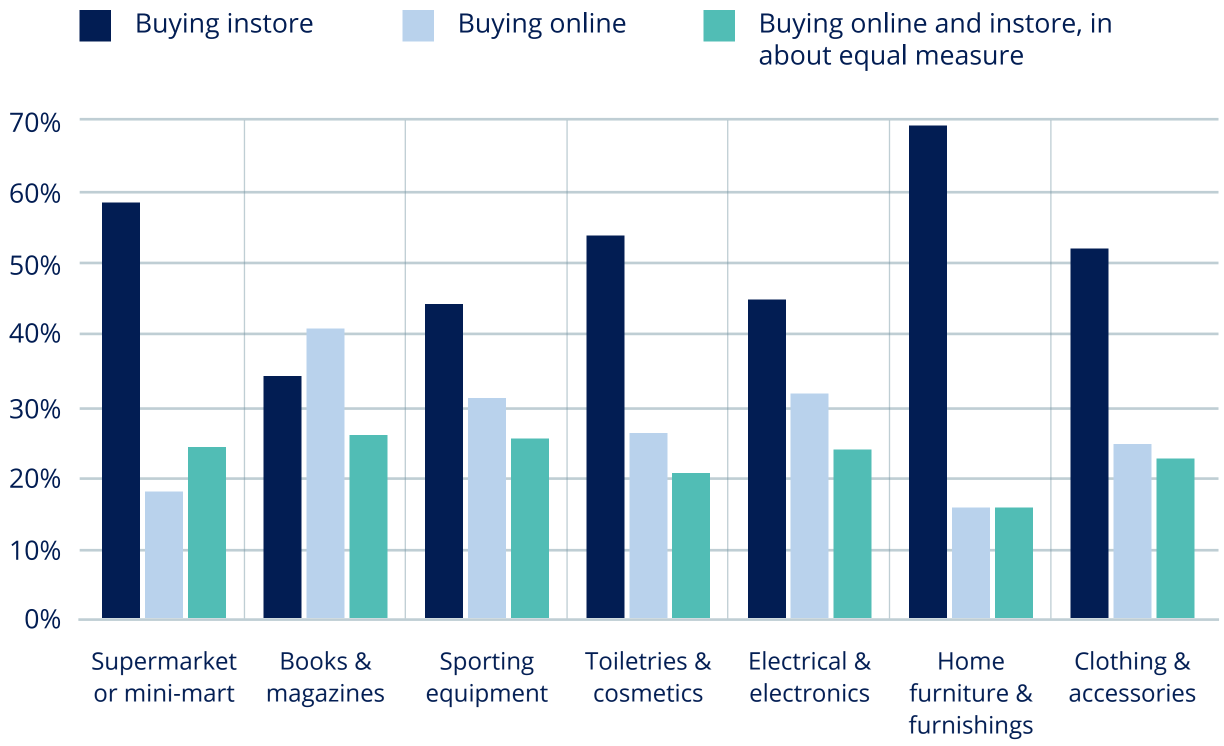
Source: RedSeer Primary Research and Analysis

The current situation, however, is not necessarily an indicator of the future post COVID-19. Consumers are expected to partially revert to old habits with the progression of vaccination efforts and the relaxation of lockdown measures at the time of writing. A recent survey by research company Sunstream Research & Consulting found that six in 10 consumers in the UAE still prefer to buy their groceries in person despite the COVID-19 pandemic, with only two in 10 people opting to buy their food online [see Figure 4].[xii]

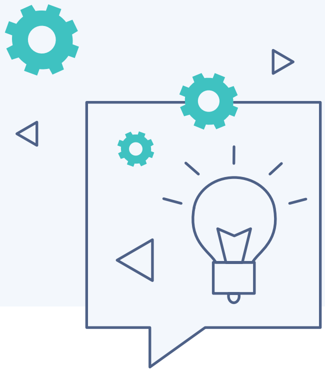
FIGURE 4:

UAE Instore vs. Online Consumer Preferences by Product Type [xiii]

(El Zein and Serafi 2020)



Insight 2: The e-commerce boom created a ripple effect across logistics and fintech



> E-commerce has been the digital backbone for innovation in the entrepreneurship sector in MENA. Its growth during the pandemic has benefitted the broader ecosystem - specifically the logistics and fintech sectors.

LOGISTICS

During the pandemic, the load on last-mile delivery services increased as more people began to shop online. For a sector that faces particularly low margins in the region, the surge in demand for logistics was a boom that few could anticipate. Existing last-mile delivery companies struggled to fulfill orders in Dubai. The Road and Transport Authority (RTA) enlisted taxis to deliver online shopping orders to consumers (including food and groceries), while delivery costs increased across the board. Meanwhile, the region's biggest courier company Aramex launched its crowdsourcing model, Aramex Fleet, to attain delivery resources in order to satisfy peak demand without long-term commitment.

> "A lot of the platforms were not able to react quickly to handle this cost increase, and those who could not make it efficiently work by mapping the drivers' supply with the demand were really harmed financially.

Mohamed Zaben
CEO
at MUNCH:ON

Mohammed Zaben of Munch:On said, "A lot of the platforms were not able to react quickly to handle this cost increase, and those who could not make it efficiently work by mapping the drivers' supply with the demand were really harmed financially." As such, bulk delivery became a more appealing model to follow.

A smooth delivery experience is crucial to customer retention. However, social distancing measures in warehouses and fulfillment centers slowed workflows and negatively impacted turnaround time. As a result, companies had to invest in new technologies to advance logistical infrastructure. Digital features such as live routing, messaging updates, contactless delivery tech, and integrated platforms that cover everything from order fulfillment to completion have become the norm.

The last-mile sector grew as new players emerged across the region. The pandemic has proven to be a lifeline for Dubai-based logistics startup Fetchr, which was on the verge of collapse in 2019. The company raised $15 million in 2020 and claims its business improved by more than 77 percent during the pandemic.[xiv]

FINTECH

The fintech sector in the Middle East grew in tandem with the development of e-commerce. While the region still relies heavily on cash on delivery (COD), the fear of spreading the virus via cash shifted behavior towards digital payments.

Fintech innovations to facilitate online payments, including “buy now, pay later” services, digital wallets, and closed-loop payments, are growing rapidly. A lack of payment options is a strong reason for cart abandonment in both online and offline retail, according to RedSeer, and such solutions can lead to increased sales, repeated purchases, and increased brand loyalty.[xv] Fintech solutions that replace COD make it easier to transact money and make payments entirely online. Even though some COD businesses returned during the pandemic, many customers who can transact through electronic services will continue to do so.

In 2020, fintech investments more than doubled when compared to 2019. More than $78 million was invested in fintech startups in MENA across 50 deals, two of which were in the financial inclusion space and nine were in payments.

“

More than $50 million has been invested in fintech startups in Mena across 38 deals

CASE: FAWRY

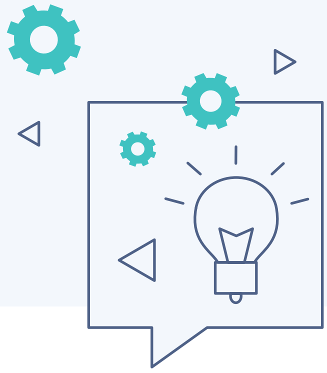
Egypt-based fintech company Fawry offers a pioneering banking and payment technology service. It enables both the banked and unbanked to pay their bills and top-up their mobile phones through ATMs and dedicated service points.

As the first technology company in Egypt with a market capitalization of over $1 billion, Fawry plays a pivotal role in providing digital payment capabilities to businesses and consumers alike. This solves a problem for a majority of Egyptians and has become a model for other companies to bring banking services to the masses.

The company handles around 2.1 million daily transactions and has approximately 20 million customers. Its technology serves more than 250 electronic payment services through its network of over 105,000 service points — including ATMs, mobile wallets, retail shops, post offices, and vendor kiosks — across 300 cities.

“We are closer to the East then the West. Because banking penetration is low, we think mobile phones are key. The other thing is that the whole region is going online so that is why we invested in that,” said **Mohamed Okasha**, co-founder of Fawry.

Insight 3: Resilient supply chains need greater localization



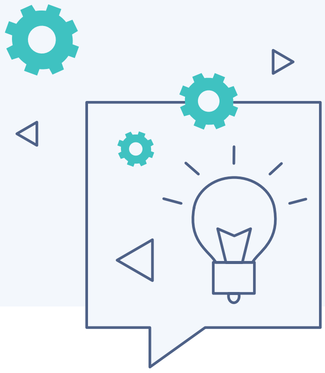
> The increase in demand for online ordering amid cross-border obstacles forced many e-commerce companies to improve their local operations and find new growth channels.

As countries around the world placed restrictions on the cross-border movement of individuals and goods, the number of barriers and obstacles faced by supply chains increased, including sourcing issues, late deliveries, and low levels of integration between suppliers and fulfillment centers, and delivery companies. In turn, this increased the overall cost of operations for e-commerce platforms. Aramex, the Middle East's biggest courier company, reported a 23 percent drop in the second quarter net profit as a direct impact of the disruption in cross-border shipping, strict border controls, and limitation in airline options to stop the spread of COVID-19. However, the company reported domestic business growth of 31 percent as customers grew their use of e-commerce, particularly in UAE, Kuwait, and Saudi Arabia, ahead of the rise in VAT and customs duties in the latter. This is mainly due to the increase in demand for locally-sourced products as the pandemic raised the profile of local offerings. As people pivoted and connected with e-commerce platforms, local companies solving logistical issues experienced a growth spurt. As hyperlocalization spread across the region, e-commerce platforms built warehouses so that orders could be fulfilled for quick delivery.

> Global companies will re-evaluate their supply chain and will aim to have multiple fulfillment centers around the world. In the event that something happens in the future, they will have backup centers from which they can fulfill locally and regionally. This will certainly reduce delivery times. In the past, you would purchase products online that were delivered cross-border, now with marketplaces and retailers, you will find the same product domestically, and it will be delivered overnight.

Iyad Kamal
Former chief operating officer at Aramex

Insight 4: Decreased dependence on cash on delivery requires building trust



> Companies have an opportunity to showcase value and develop new avenues to build loyalty as consumers increasingly use cashless payments.

Offering consumers the ability to pay via cash on delivery (COD) was necessary to enable e-commerce due to low credit card penetration rates and a general lack of trust in paying online. Despite the growth in digital payment solutions, COD has persisted as a safeguard due to the lack of consumer protection laws, difficulties in returning items, and other logistical failures. It is the only part of the supply chain that customers can control. Our interviewees repeatedly emphasized that COD resulted from a consumer demand to touch and see a product before it was purchased. People who did their shopping online before COVID-19 were likely to reserve a product and wait to pay for the goods after receiving it. Management consultancy Bain & Company reports that even in markets with relatively high credit card usage rates, like the UAE, customers preferred to pay cash once they received and verified the quality of the goods.

> It was a misconception that people didn't have options except for COD.

Mona Ataya
CEO
at MumzWorld

With the COVID-19 outbreak, there has been a slow movement out of the practice of cash on delivery, mandated by regulators. According to a Mastercard study, 70 percent of respondents in the region said they now use contactless payments - citing safety and cleanliness as the critical drivers. Fear that physical currency could spur further infections of COVID-19 caused Saudi Arabia to place a ban on COD altogether.

Our discussions with business leaders indicated that there were many misconceptions about the necessity of cash on delivery. As Mona Ataya of Mumzworld said, "It was a misconception that people didn't have options except for COD." When faced with no other option to get essential needs and services, consumers pivoted. Of the market segments, those who were forced online suddenly found an e-commerce market ready for them. For Tradeling's Muhammad Chbib, "dependency on COD was simply a combination of comfort and norm, it goes back to the ultimate innovation and product marketer, you need to tell your customer what they need, not the other way around."

Many consumers are now shying away from COD despite it being a long-established payment mechanism offered by e-commerce players in the region to bolster trust. However, it remains a "behavioral issue", as Rabih Allaf of Aramex put it – with 30 percent of the transactions during the more restricted month of May 2020 still using on cash on delivery.

“

Customers' successful online experiences paved the way for the introduction of new businesses to the market.

In this regard, the COVID-19 pandemic achieved the following:

1. **Proof that e-commerce businesses could deliver high-quality goods, sight unseen, and create brand loyalty, especially in essential goods and services.** As Mustafa Koita of Koita said, "the fear of getting a disease has forced everyone to just say I don't have to wait for Amazon to bring the product to me and then I give them cash because I think the guy's going to [cheat] me. I just have to say, 'Let me trust them'. And then a couple of experiences happen with your groceries. Comes on time, Amazon delivers."

2. **Acceleration of the potential decline of cash on delivery and the increase of fintech adoption.** In July 2020, many business leaders in the MENA region agreed that some cash on delivery businesses started to return, however, many customers who were able to transact through electronic services would continue to do so. While COD remains, the COVID-19 crisis accelerated its decline.

Customers' successful online experiences paved the way for the introduction of new businesses to the market. Moreover, fintech solutions that replaced cash on delivery made it easier to transact business and work entirely online without investing in new overheads. This was a critical benefit of the COVID-19 pandemic – companies realized that they could reduce some of their physical overheads and still function.

CASE: E-GROCERY

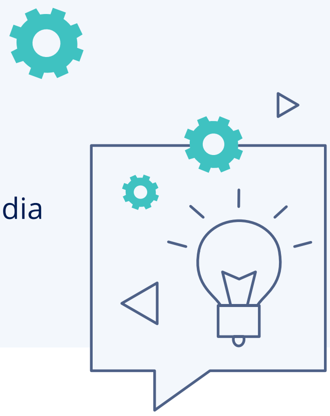
E-grocery has benefited substantially from the pandemic. It remains the fastest-growing segment of e-commerce in the Middle East, growing twice as fast as the region's overall e-commerce market. Since the lockdown, several new players have emerged, from the food delivery apps offering groceries on their platform to Noon and Amazon's launch of daily essentials. The acquisition of InstaShop by Germany's Delivery Hero for $360 million in August 2020 further validated the sector. The continued growth of e-grocery is driven by the ongoing fears of contracting the virus, improved experience, and increased supply online. According to RedSeer, the e-grocery market increased by 300 percent in the third quarter of 2020 and is now worth $1.1 billion in the UAE. Similarly, Saudi Arabia's market grew by 500 percent to $530 million.[xvi]

300%
growth in the e-grocery market (UAE) by the third quarter of 2020.

Building trust with customers is at the center of the e-grocery boom as RedSeer's Sandeep Ganediwalla noted, "trust is very important in e-commerce, and the e-grocery players have steadily gained the trust." The level of trust is reflected in the reduction of COD, which at the time of writing only accounts for a third of payments in online grocery sales. This drop in COD is driven by the high frequency of orders, good delivery times, and suppliers' willingness to take products back if customers are dissatisfied with the quality.

The trends that emerged in this segment reflect the broader patterns that others in e-commerce have witnessed - a sudden spike in demand, which was more easily met by those exclusively online, while offline and omnichannel players struggled. It increased the need for digitization and human resources, as well as highlighted the importance of hyperlocalization, customer retention, and building trust.

Insight 5: Conversational commerce and super apps are opening new e-commerce markets



> Amazon and Noon dominate the e-commerce sector in MENA, accounting for more than 50 percent of market share.[xvii] The two provided a platform for offline retailers to digitize, while social media platforms have given rise to “conversational commerce”, where shopping occurs over messaging apps.

Boosted by the COVID-19 pandemic, e-commerce and digitization offer MENA great potential to build more inclusive marketplaces. These trends will serve as a mechanism for small and medium enterprises to get off the ground, shift the reach of customers, and enable customers to access goods and services that might otherwise be unavailable to them.

Creating the infrastructure that allows more SMEs and offline businesses to continue their operations, expand their customer and supplier base, and create more jobs will democratize access for more people to participate in the economy.

More retailers are increasingly connecting with customers via WhatsApp and other social media platforms, giving rise to “conversational commerce”. Traditional offline retailers with no digital presence started to list products on Facebook and conduct transactions on WhatsApp. These platforms enabled them to build an online presence even though payments are still made via COD.

The ability to communicate and sell on one platform improves the customer experience. Customers’ ongoing search for personalization and the attention that generally happens instore have made them increasingly open to conversational commerce. According to RedSeer,

> **“**
>
> **Customers’ ongoing search for personalization and the attention that usually comes instore have made them increasingly open to conversational commerce.**

conversational commerce presents a low-cost option for small players to enhance their digital presence and an opportunity for larger players to scale through AI-based chatbots at negligible marginal costs.

Tech giants such as Facebook have taken notice and will expand Facebook Shops to WhatsApp and Messenger. Facebook believes that social media can add both experiential elements and convenience to the online shopping experience. “Consumers want to feel more comfortable shopping online, and part of that is having questions answered as they shop, having a direct line to a product expert, and overall customer support,” said Ramez Shehadi, Facebook MENA Managing Director. He continued, “we see messaging becoming another growing channel for consumers to receive instore - like consultation as customer service plays a crucial role throughout the customer journey. To cater to the future shopper, we recommend brands and retailers to consider using social media and messaging services to build brand relationships offline that would've come naturally in-store."

Local e-commerce platforms are also embracing conversational commerce. The ability to conduct transactions via WhatsApp serves as the basis for UAE-based Yanzo, a digital personal assistant. Working with a vast host of partners, including offline retailers, Yanzo's team undertakes the research required for the customer request, identifies the right supplier, and shortlists the options to fulfill an order. All this is done via WhatsApp, while a third-party company delivers the products directly to the customer. During the lockdown, as malls and shops remained closed, Yanzo provided these businesses a platform to reach customers.

Other companies in the region are taking a super app approach and diversifying their platforms' offerings to include conversational commerce. The likes of UAE-based Careem, Egypt's Halan, and Algeria's TemTem are expanding their platforms to offer their users more services and goods. These platforms can help democratize SME access to e-commerce and, with their own digital wallets, also solve the COD problem.

"Our super app provides three services – the mobility of people, the mobility of things, and the mobility of money," said Mudassir Sheikha, co-founder and chief executive officer (CEO) at Careem, which invested $50 million to build its super app. The company is looking to onboard offline retailers to become part of its ecosystem, where users can purchase products from these retailers via the mobile wallet and have it delivered by its drivers. This is a model that other super apps in the region are following.

With this infrastructure in place, anyone looking to sell their goods or services could, in theory, plug into these super apps and become an online player. Since its launch in June 2020, Careem's super app has marked a 900% increase of customers using multiple services, with users in the UAE averaging three transactions a week. Overall, the riders on the super app grew by 1,000%, delivery increased by 400%, and financial transactions doubled in size.

> Our super app provides three services – the mobility of people, the mobility of things, and the mobility of money.

Mudassir Sheikh
Co-founder and CEO
at Careem

What did COVID-19 show us?

The pandemic made it clear that e-commerce can be an essential tool for consumers in times of crises.

Additionally, the changes triggered by the pandemic can be a major economic driver, particularly for small businesses. However, it also highlighted several vulnerabilities across the region and the lack of support needed for more resilient economies.

The SARS crisis in 2003 is widely acknowledged for kickstarting Alibaba's and other Chinese companies' e-commerce successes in Asia. Similarly, the COVID-19 pandemic could trigger further digitization of society and develop policies and rules to support online trade, given the central role the digital economy played during this pandemic.

The global nature of COVID-19 and its impact on e-commerce can encourage and strengthen regional cooperation and further develop government policies for online purchases and supply. To realize this goal, we recommend the following:

RECOMMENDATION 1:
TRANSFORM THE TRUST-BASED ECONOMY

At the onset of the COVID-19 pandemic, governments instituted digital payments to reduce physical contact and the spread of coronavirus. Customers who previously placed limited or no trust in online commerce transitioned to electronic and digital payments to receive essential goods. As countries reopened, they also eliminated the requirement for digital and electronic payments. To accelerate the growth of e-commerce, countries should implement policies that allow digital and electronic payment solutions. We anticipate that this will permit faster cross-border transactions, reinforce trust between consumers and e-commerce retailers, and attract additional investment from within and outside the region. Digital payments allow for more efficient and transparent business operations and accelerates the scale of technology-based ventures. The slight reversal in the use of mobile or electronic payments since the beginning of the pandemic does not negate e-payments' potential to be a great enabler. Accelerating the adoption of mobile payments can bring other benefits like consumer demand for better and improved internet and the creation of systems of digital IDs, such as Egypt's electronic Know Your Customer (eKYC).

To reinforce the concept of marketplace trust, we recommend the implementation of a customer fraud protection unit and law enforcement. In other high-growth markets, customer fraud protection units give reassurance to customers that complaints about package delivery and food delivery charges for orders that never arrive will be resolved. Independent agencies bring accountability to the marketplace and reassure customers who rely on cash because they have limited trust in e-commerce.

RECOMMENDATION 2: FOSTER ENTREPRENEURSHIP ECOSYSTEMS

Continuing business operations throughout the pandemic provided entrepreneurs and established companies insights into how acute external conditions impact local business operations. Our recommendation is to extend visas to employees of startups, provide credit to startups, and encourage local and international entrepreneurs to bring their solutions to the market.

> **Online marketplaces may not fully replace the brick and mortar retailers, but they can equalize the space and solve opportunity deserts**

Moreover, governments need to invest in infrastructure that supports small and medium enterprises to access tools, resources, and markets. Unsurprisingly, countries in the region that built enabling environments for information and communication technologies were better able to pivot and adapt during government mitigation efforts.

In particular, governments should support the creation of small business hubs for e-commerce. Online marketplaces may not fully replace the brick and mortar retailers, but they can equalize the space and solve opportunity deserts. Integrating financing, B2B services, and platform connections - similar to the UAE's Tradeling, can make a significant difference in new businesses' potential success.

> “
>
> **We recommend that countries promote the growth of platform companies to enable multiple stakeholders to engage in the local economy.**

RECOMMENDATION 3: CREATE UNIFIED MARKETS

Investors seek large markets with clear pathways for venture growth with the capacity to scale. For startups to demonstrate potential, they need to operate across a sizable geographic market and customer base. Unified markets would take the form of:

- Standard import and export procedures
- Standard licensing procedures for e-commerce companies that require several types of licenses to operate
- Consolidation of warehouses based on logistics and efficiencies rather than local requirements
- Standard customs rules and currencies to facilitate cross-border trade
- Transparent regulations around goods that may or may not be sold in specific markets

The creation of a unified customs area would open e-commerce within the region and give investors, entrepreneurs, and customers the capacity to participate in more extensive and competitive markets.

RECOMMENDATION 4: PROMOTE DIGITIZATION & TECHNOLOGY ADOPTION

Digitization promotes economic resilience. Digital infrastructure is essential for businesses to transition to online operations, including sales and delivery channels. Technology adoption on the part of SMEs and consumers allows for the participation of local, regional, and international suppliers and retailers in a market. We recommend that countries promote the growth of platform companies to enable multiple stakeholders to engage in the local economy.

Conclusion

The story of COVID-19 pandemic remains far from over.

At the time of writing, a third wave has engulfed the northern hemisphere while cases in the MENA region are slowly creeping back up. Opportunities continue to abound for e-commerce entrepreneurs, logistics companies, and fintech providers to innovate solutions that enable more people to access goods and services safely. The e-commerce sector may not solve a coming recession, but it opens up models for recovery that are undeniable.

The availability and saturation of e-commerce limited this work to the UAE, Saudi Arabia, and Egypt. Our hope is that continued adaptation to e-commerce business practices will showcase the opportunity for digital adoption to unlock economic growth across the region.

Annex I - Methodology

We approached this work with two objectives. First, we wanted to capture how e-commerce accelerated in the region and whether it was a temporary or long-term trend. Second, to understand the transformative potential of e-commerce to drive inclusion and access for both business enterprises and customers.

A team of researchers from Wamda and the Legatum Center for Development and Entrepreneurship at MIT prepared this report. Data was collected between April – August 2020. Wamda has experience in accelerating entrepreneurial ecosystems throughout the MENA through its media platform and investment arm. The Legatum Center at MIT's expertise is to support entrepreneurs who bridge profit and purpose and showcase new models of companies and institutions built with sustainability, anti-fragility, and inclusivity as their foundation.

“

Data was collected between April – August 2020

To draw insights about how COVID-19 impacted the e-commerce sector, the team engaged in the following methods:

Ecosystem Discussion: We developed crowdsourced insights and asked questions related to the immediacy of the situation: What was happening on the ground? How were people reacting? What was working well for people's businesses? What were the challenges people and their businesses faced? This discussion was attended by twenty-six industry experts.

Focus Group Discussions: We held two focus group discussions to address two main questions: What were the short-term effects of COVID-19 on the sector? What do industry leaders think will be long-term implications?

Semi-structured Interviews: We also held 13 interviews with CEOs, entrepreneurs, and investors in MENA and other emerging markets who shared insights on their priorities and focus for COVID-19 response regionally and globally.

Literature review: We scanned academic and sector reports to understand standards in:

1. E-Commerce and Logistics
2. Finance and Investment
3. Comparative Policy Analysis
4. Inclusive Economies and Development

Criteria for inclusion:

- E-Commerce companies (startups and mature companies) operating out of the Middle East and North Africa
- Investors (anywhere) who are investing in companies in emerging markets
- Policy influencers (within and external to governments) in the fintech; logistics; consumer sectors

After this mixed methods research, we engaged in a pattern recognition exercise to synthesize the information gathered on the immediate needs and responses of businesses as they navigated the COVID-19 pandemic. We used this data and information to compare and draw conclusions on the best way forward to actually use the lessons of COVID-19.

Acknowledgements

Lead authors to this report include Lynsey Farrell, Julia Turnbull, Shaimaa El Nazer, and Triska Hamid. We would also like to acknowledge Omar Al Sharif, Dina H. Sherif, and Regie Mauricio for their contributions.

We would like to thank the following for interviews:

Beau Seil
Fadi Ghandour
Geetha Tharmaratnam
Heather Henyon
Hosam Arab
Ify Umunna
Kunal Kapoor
Mohamed Okasha
Muhammad Chbib
Mohammad Zaben
Mustafa Koita
Ronaldo Mouchawar
Sandeep Ganediwalla
Tarek Kabrit

We would like to thank the following companies for lending insights during focus-group discussions:

Aramex
Brimore
Dubai Airport Freezone Authority (DAFZA)
Dubai Commercity
Dokkan Afkar
eyewa
Fawry
Feel22
Floranow
iMile
Jamalon
Koita
MAGRABi
MSA Capital
Mumzworld
Munch:On
Quiqup
Seez
Shorages
Spotii
The Luxury Closet
Tradeling
Yanzo

Endnotes

[i] Fabre, Cyrille, Anne-Laure Malauzat, Charbel Sarkis, Tanmay Dhall, and Josette Ghorra 2019. "E-commerce in MENA: Opportunity Beyond the Hype." Bain and Company. Accessed January 15, 2021. https://www.bain.com/insights/ecommerce-in-MENA-opportunity-beyond-the-hype/.

[ii] Wamda 2020. "Forty per cent of Arab youth plan to start own business." Wamda. Accessed January 15, 2021. https://www.wamda.com/2020/10/cent-arab-youth-plan-start-business-says-arab-youth-survey.

[iii] Statista 2020. "ECommerce - Saudi Arabia | Statista Market Forecast." Statista. Accessed January 15, 2021. https://www.statista.com/outlook/243/110/ecommerce/saudi-arabia.

[iv] Mach, Mateusz 2020. "New Winner of The Coronavirus-Crisis? E-Commerce in MENA." Forbes Middle East. Accessed January 15, 2021. https://www.forbesmiddleeast.com/consumer/retail/new-winner-of-the-corona-crisis-e-commerce-in-mena.

[v] MAGNiTT 2020. "2019 MENA E-Commerce Venture Investment Report." MAGNiTT.
Nair, Deepthi 2020. "Six in 10 UAR consumers prefer instore grocery purchases." The National. Accessed January 15, 2021. https://www.thenationalnews.com/business/money/six-in-10-uae-consumers-prefer-in-store-grocery-purchases-1.1064325.

[vi] Gulf News 2019. "Hamdan launches Dubai's e-commerce strategy." Gulf News. Accessed January 15, 2021. https://gulfnews.com/business/retail/hamdan-launches-dubais-e-commerce-strategy-1.66795876.

[vii] Checkout.com 2020. "Connected Payments: Seizing opportunity in MENA and Pakistan." Checkout.com. Accessed January 15, 2021. https://www.checkout.com/newsroom/news/connected-payments-seizing-opportunity-in-mena-and-pakistan-report-launch .

[viii] El Sawy, Nada 2020. "Retailers must urgently adapt to the e-commerce shift, says Dubai Future Foundation." The National. Accessed January 15, 2021. https://www.thenationalnews.com/business/economy/retailers-must-urgently-adapt-to-the-e-commerce-shift-says-dubai-future-foundation-1.1026589.

[ix] El Sawy, Nada 2020. "Dubai Mall to open virtual store on noon.com to address coronavirus challenges." The National. Accessed January 15, 2021. https://www.thenationalnews.com/business/money/dubai-mall-to-open-virtual-store-on-noon-com-to-address-coronavirus-challenges.

[x] Hamid, Triska 2020. "InstaShop's acquisition and the growing significance of e-grocery." Wamda. Accessed January 15, 2021. https://www.wamda.com/2020/08/instashop-acquisition-growing-significance-e-grocery.

[xi] Ibid.

[xii] El Zein, Zenobia, and Ibrahim Serafi 2020. "Retail spending insights on the United Arab Emirates." Sunstream Research and Consulting.

[xiii] Ibid.

[xiv] Fetchr blogpost. "New capital infusion at Fetchr brings optimism to regional start-up ecosystem" Accessed January 15, 2021 https://www.fetchr.us/series-c-announcement/.

[xv] Ganediwalla, Sandeep, Anuj Kumar, Anand Vardhan Verma, Tanmay Parasramka, and Chirag Jain 2019. "Retail Technology – The Next Frontier." RedSeer. Accessed January 15, 2021. https://redseer.com/reports/retail-technology-the-next-frontier/.

[xvi] Ibid.

[xvii] Kearney 2020. "GCC e-commerce unleashed: a path to retail revival or a fleeting mirage?" Kearney. Accessed January 15, 2021. https://www.middle-east.kearney.com/consumer-retail/article/?/a/gcc-e-commerce-unleashed-a-path-to-retail-revival-or-a-fleeting-mirage.

LEGATUM CENTER
FOR DEVELOPMENT &
ENTREPRENEURSHIP
MASSACHUSETTS INSTITUTE OF TECHNOLOGY

wamda