Middle East’s Digital Ecosystem

Set for Growth
FOREWORD

The total number of mobile subscriptions in the Middle East increased by 8m in 2018 to reach 304.5m. And in this time, the total number of internet users in the region increased by 18m to 182m.1 And it is telling that this time, the total number of internet users in the region – with a focus on the key economies of Saudi Arabia, Bahrain, Qatar, the United Arab Emirates (UAE), Kuwait and Turkey – and how businesses in the Middle East offer opportunities waiting to be tapped in this space.

We at DOCOMO Digital are pleased to present this report to better understand the nuances of the digital economy in the region – with a focus on the key economies of Saudi Arabia, Bahrain, Qatar, the United Arab Emirates (UAE), Kuwait and Turkey – and how businesses in the digital ecosystem can be a part of this region’s continued growth.

In tandem, however, the Middle East’s e-commerce and payments platforms leave much to be desired for.

This creates a plethora of opportunities for participants in the digital ecosystem, including application (app) creators and providers, online marketplaces, telecom carriers, digital media companies, retailers, and payment service providers. As a region, the Middle East offers opportunities waiting to be tapped in this space.

The telecom sector alone supported one million jobs and contributed US$165bn to the GDP of the Middle East and North Africa (MENA) region in 2017, according to a report by GSMA. And in only three years, the sector’s contribution to GDP is expected to hit US$200bn. Additionally, between 2017 and 2025, the total number of unique mobile subscribers in MENA is projected to grow from 375m to 459m, at a rate of 22.4%.2

The Middle East has witnessed rapid advances in technology, and this has been supplemented by swift economic growth, industrialisation and growing domestic consumption. Although traditional models of consumption are still prevalent, a combination of high smartphone penetration coupled with ultrafast download speeds is spurring digital disruption across the region.

The e-commerce sector, in particular, is on track to register particularly strong growth. Cumulatively, the MENA region accounts for four million unique online shoppers – travel is the most popular e-commerce category followed by electronics and fashion. In only three years, a tenfold growth is expected in this segment – from US$20bn in 2017 to US$200bn in 2020.3

Yet, back in 2016, only 15% of businesses had an online commerce presence. And 80% of online purchases made in the Middle East were from foreign companies. These numbers demonstrate the massive room for a digital catch-up, especially given the region has one of the highest internet penetration rates in the world – 60% as compared to the global average of 51.7%.4 In the Middle East alone, internet penetration stands at 71% as of 2019.5 This demonstrates a degree of disconnect – that in a region with generally high levels of per capita income and a high degree of smartphone and mobile internet penetration, the region’s businesses are still unprepared for change in spending habits that is inevitable.

Another defining trend for retail businesses in the region is the dominance of m-commerce over e-commerce, which clearly shows the populations’ comfort with apps.6 Amazon’s acquisition of UAE’s largest multi-commerce website Souq.com for US$580m7 is testament to the growing importance of m-commerce in the region.8 The mobile payments platform in the region is also seeing tremendous interest with many companies beginning to offer diverse services. A few examples in the UAE include the Etisalat Wallet (a mobile wallet launched in 2016), NBD Pay (an NFC-based mobile contactless payment service also launched in 2016) and the Emirates Digital Wallet (launched in 2017 by a consortium of 16 UAE banks to provide mobile payment services). One Pay and Quickpay, meanwhile, provide bill payment services from mobile apps in Kuwait. Separately, Mastercard entered into a partnership with Kuwait Finance to launch a wallet in 20179 Google Pay was launched in the UAE in November 2018, providing a filip to contactless payments among Android phone users.

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2 GSMA Intelligence. The Mobile Economy: Middle East and North Africa 2018 Report
3 Ibid
5 Entrepreneur. All Set For Growth: The E-Commerce Landscape In The Middle East. Available online at: https://www.entrepreneur.com/article/328467
The region is also seeing its share of innovative partnerships emanating from macro trends from outside of the region. For example, the continued rapid growth in the number of Chinese tourists has resulted in Network International, a payments solution provider in the UAE, partnering with China’s Alipay to allow the Chinese to make mobile payments when they visit the UAE.1 This will not be the last such partnership.

These examples – among the many others – clearly indicate that the mobile wallet market is on the cusp of tremendous growth in the Middle East, and that financial services firms and technology companies are gearing up for this expected surge.

As governments across the region strive to diversify their economies and reduce their economic dependency on hydrocarbons, they are cognisant of the growth opportunities provided by the digital economy at large. This is reflected in the many fintech- and digital payments-related initiatives being undertaken by regional governments that seek to incubate innovative startups and foster collaboration. The Bahrain FinTech Bay is one such example that seeks to serve as an interface that can attract a spectrum of stakeholders ranging from government bodies to financial institutions, corporates to consultancy firms, educational institutions, media partners, venture capitalists and startups to come together and create innovative solutions that will benefit society at large.

In many countries, the necessary digital infrastructure exists already. Internet penetration is already high, and is increasing at faster-than-global-average rates. Additionally, Qatar boasts the world’s highest internet download speeds, with the region’s other economies trailing closely. These attributes support a major uptake in digitisation. Turkey, the most populous country in the region, is clearly looking to take advantage of this, so much so that it has outlined an ambitious goal to be a cash-free society by 2023.2

It isn’t just “traditional” e-commerce where opportunities in the Middle East’s digital economy grow lie. Across the region, the bulk of time spent on the internet is used for consuming video content, with YouTube being the most popular source. Today, in the MENA region, video consumption generates just US$5-US$6 per capita in revenue, compared with US$30 per capita in the likes of China, India, Brazil and Russia.3 This illustrates that video’s monetisation potential in the region is still untapped, and makes it the “lowest-hanging fruit” in terms of boosting revenues, according to McKinsey, which adds that operators that are able to adapt effectively to tap on video and other over the top content, could be primed for strong growth.

Perhaps more importantly than anything else, there’s consumer enthusiasm for going digital. Governments now need to improve their digital infrastructure and regulatory frameworks to facilitate digital adoption. Breaking common ground can yield significant benefits as well. In fact, if the Middle East can establish a unified digital market by 2025 – potentially of 160m digital users – it could contribute 3.8% annually to the region’s GDP.4

There is clearly avid enthusiasm among the region’s key economies to carve a niche for themselves as technology leaders, and to reap the benefits that an increasingly educated, skilled and tech-savvy population have to offer. The benefits of doing so will transcend the macroeconomy and also result in advances in financial inclusion and poverty reduction.

But in the meanwhile, there are other factors at play that are already creating conditions conducive to fostering growth in the digital economy.

GDP projections are steady

According to the World Bank, the GCC region’s GDP grew by 2% in 2018, bouncing back from a -0.2% contraction in 2017. This year and next, the grouping is expected to see GDP growth of 2.1% and 3.2% respectively.5 Among the six economies that form part of this report, Kuwait and the UAE are expected to see the strongest growth between 2019 and 2021, according to the IMF, growing at an average annual growth rate of 3.6% and 3.1% per annum respectively.

Broadly, the Middle East boasts a strong economic climate, with an expectation of steady economic growth, a positive for the regional digital ecosystem.

Qatar follows closely behind, with forecast average annual economic growth of 2.9% between 2019-2021. Saudi Arabia, the region’s largest economy, is expected to grow at an average annual rate of 2.2% in this period, and Bahrain 2%. Turkey’s economy, meanwhile, is expected to grow at an average annual rate of 1%, but this is largely owing to a 2.5% contraction – an aberration – expected in 2019. It’s economy too, is expected to recover in 2020 and 2021 with growth hitting 2.5% and 3% in those years respectively.6

1 Medium. E-commerce To M-commerce: The Evolution Of Online Economy In The Middle East. Available online at: https://medium.com/@leeharper2018/e-commerce-to-m-commerce-the-evolution-of-online-economy-in-the-middle-east-ac3db5288e6
5 Disruption Banking. Turkey commits to going cashless. Available online at: https://disruptionbanking.com/eastem-promises-turkeys-cashless-commitment/
7 McKinsey. Digital Middle East: Transforming the region into a leading digital economy. October 2016
8 McKinsey. Digital Middle East: Transforming the region into a leading digital economy. October 2016
9 McKinsey. Digital Middle East: Transforming the region into a leading digital economy. October 2016
10 McKinsey. Digital Middle East: Transforming the region into a leading digital economy. October 2016
11 McKinsey. Digital Middle East: Transforming the region into a leading digital economy. October 2016
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A growing, urban middle class

The middle-class population in the Middle East is expanding rapidly — it is expected to grow by 51% between 2016 and 2020 to reach 165.6m. In Turkey, meanwhile, the middle class’ share of population is expected to increase from 27% in 2010 to 45% in 2020. It is also worth remembering that with 85% of its population living in cities, the Middle East region is already one of the most urbanised in the world; and this share is expected to increase to 90% by 2050.

This combination of a growing middle class that is largely urban and educated (literacy rates of 95% in each of the six economies considered in this report) presents great opportunities for the digital economy of the region. An increase in disposable incomes will be followed by an expansion in the demand for and consumption of products and services such as not only transport infrastructure, healthcare and education facilities — but also mobile data consumption. That in turn is paving the way for the greater spread of the digital economy region-wide.

The significance of the millennials

While the millennial demographic is largely written about for Western economies and the Asia Pacific, not as much attention has been paid to millennials in the Middle East. This is surprising, given they comprise majority of the consumer base in the region.20

Millennials in the Middle East, as elsewhere, are driving spending habits and behaviours in the digital economy. Research by Cisco provides some insights. It is estimated that mobile watch time will grow 90% annually in the region — driven largely by the millennials’ use of YouTube. The UAE stands out in this regard, with growth in mobile watch time expected to be 120%. In fact, video-on-demand traffic is expected to triple. For marketers and advertisers, the millennials explore, find and purchase through their mobile devices. Therefore, businesses need to optimise their platforms for mobile devices. For example, it was found that 43% of millennials in Saudi Arabia would ditch a brand if they faced problems on their mobile site and switch to other brands that are better optimised for mobile devices.21 This is an important consideration for businesses in the region. However, within the region, internet censorship does impact e-commerce to an extent. For instance, both the UAE and Saudi Arabia block the websites of Qatar Airways and BEIN Sports due to geopolitical tension between these countries and Qatar. The result is that both Saudi and UAE citizens cannot book tickets on any Qatar Airways flights, or access European football competitions or the football World Cup as BEIN Sports holds exclusive rights to broadcast these sports competitions in the MENA region.22

And lastly, social media is an important part of the equation in the Middle East, where countries such as the UAE and Qatar top the social media penetration rankings globally. A large part of this social media activity is being driven by millennials. This presents a great commercial opportunity for advertisers in the e-commerce industry at large.

The ubiquity of the smartphone and growing mobile internet penetration

The smartphone adoption rate in the Middle East currently stands at 74% and is expected to reach 81% by 2025. However, the six countries included in this analysis already have a higher smartphone penetration rate than the regional average. While in Turkey, smartphone penetration currently stands at 77%, it is at 96% in Saudi Arabia and the UAE, and already at 100% in Bahrain, Kuwait and Qatar.

Mobile broadband penetration rates are also significantly high in our country set. Turkey has the lowest number of mobile internet users as a share of the total population at 68%, but that’s not a low share by any means, and is poised for continued growth, especially given the pace at which a growing number of Turks are entering the middle class. Qatar and the UAE lead the region in terms of mobile internet penetration, with rates of 98% and 91% respectively.

Governments in the region are cognisant of the fact that high-speed mobile infrastructure is key to growth and revenues in the mobile space, and are taking initiatives to expand the reach of mobile broadband. For instance, Saudi Arabia plans to invest e-commerce to an extent. For instance, both the UAE and Qatar lead the region in the six economies considered in this report) presents great opportunities for the middle class’ share of population is expected to increase from 27% in 2010 to 45% in 2020. It is also worth remembering that with 85% of its population living in cities, the Middle East region is already one of the most urbanised in the world; and this share is expected to increase to 90% by 2050.

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Financial inclusion factors

Despite the economic progress the Middle East has seen, financial inclusion is a problem it continues to contend with. Although categorised as middle income, it is one of the most financially excluded regions globally. According to the World Bank, more than 50% of adults in the region did not have access to a bank account as of 2017 – and the number is higher when only developing economies are considered. More importantly, a large share of the unbanked population actually comprises economically active citizens. Additionally, 92m people in the region were reported to have borrowed money from informal channels instead of formal financial services institutions. This clearly illustrates that there exists a huge unmet demand for financial services in the region – which can be captured by companies bringing innovative solutions to the marketplace.

Qatar’s case is particularly interesting – of the six economies considered in this report, it has the highest per capita income, but the lowest share of adults with an account at a financial institution.

In fact, in the Middle East, IP traffic is growing faster than anywhere else in the world – and will grow at a CAGR of 41% between 2017 and 2022. Mobile broadband speeds in the region are also expected to more than double in this period – from 6.9mbps to 15.3mbps. An increase in mobile internet speed will inevitably result in increased usage, which in turn is likely to translate into increased digital revenues. These trends are bound to have profound impacts on how e-commerce and m-commerce will play out in the region in the near future.

The countries in our analysis set are driving to become leaders in 5G deployment and could begin commercial services by 2019 itself. It is expected that 5G rollout will be rapid in the region, and adoption will reach 16% by 2025. This will create a whole new playing field for tech companies to innovate and develop new products and services in the digital ecosystem.

Financial institution account, age 15+ (% 2017)

Source: Global Findex Database 2017 World Bank

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28 GSMA Intelligence. The Mobile Economy: Middle East and North Africa 2018 Report
29 CGAP. To the Future and Back: Financial Inclusion in the Arab World. Available online at: https://www.cgap.org/blog/future-and-back-financial-inclusion-arab-world
The e-commerce market in the Middle East is expected to grow from US$26.9bn in 2018 to US$48.6bn in 2022, according to BMI research. This will largely be driven by the markets of Saudi Arabia and UAE, which are the fastest growing e-commerce markets in the region. In fact, in UAE, 66% of buyers are readily shopping online, and 70% are comfortable using digital platforms to pay government and utility bills.30 Interestingly, m-commerce accounts for 47% of all online transactions and for retailers who aggressively promote digital apps – this number rises to 59%. Turkey is also seeing significant growth in e-commerce – the market grew 62% in two years from US$5bn in 2016 to US$8.1bn in 2018. In all these markets, digital transformation has played a key role in the uptake of e-commerce, as well as advances made in providing a secure digital identity to its citizens.31

However, businesses in the region are not moving quickly enough in terms of new technology development and digital innovation, which are critical for them to compete globally, or even regionally. In fact, many transactions in the region that begin online are closing offline and this is a big hit for the e-commerce ecosystem.32

There are a few other issues that the e-commerce industry in the Middle East has to contend with. Around 40% of shoppers on mobiles have been cybercrime victims and 71% have observed some type of cyberattack in the region. The region is also characterised by the lack of area codes and this proves a huge challenge for last mile delivery to e-commerce and logistics companies.

On the payments front, the region is still evolving and yet to achieve a robust payment infrastructure system. For instance, Saudi Arabia has a card penetration of only 40% and a large share of the population remains unbanked. Almost 60% of online orders in the region are paid by cash on delivery. This makes a compelling case to make the payments ecosystem in the region more robust. Given the region’s high mobile penetration, having a sound e-payments system will result in gains for retailers and convenience to customers. In this regard, Souq.com (now bought by Amazon) is a great example from within the region. The company created two innovative payment platforms successfully – CashU and PayFort – which not only allow online payments but also provide customers with coupons for shopping and the option to convert their purchases into instalments.33 Therefore, clearly, there are substantial opportunities for businesses in the e-commerce and e-payments ecosystems in the Middle East to cash in.

The next part of this report provides some national context and delves into what is happening in the major regional economies of Qatar, Kuwait, Saudi Arabia, UAE, Bahrain and Turkey in the digital economy space.

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31 GSMA Intelligence. The Mobile Economy: Middle East and North Africa 2018 Report
33 A.T. Kearney. Getting in on the GCC E-Commerce Game Report
Given that more than 30% of Qatari adults don’t have a bank account (the highest among the six economies in question), and that it has the highest per capita income in the region, quickest mobile internet speeds and almost universal mobile internet access, there is little doubt that Qatar will see a swift uptake of mobile payment solutions and mobile finance in general in the coming years. These will enable its digital economy to contribute a greater share to national GDP in the coming years.

On average, a Qatari citizen spends an estimated 45 hours on the internet every week. Forty-six percent of those using mobile internet use it for mobile gaming, 69% for music streaming and downloads and 80% for video streaming accounts. E-commerce is increasingly popular too. Qatar’s e-commerce market is slated to reach US$3.2bn by 2022, a significant leap from its 2017 figure of US$1.3bn.

The country’s e-commerce users are big spenders, with average value per online transaction amounting to US$264, and an annual e-commerce spend of US$1,453 annually per user. However, 79% still prefer to pay by cash, with 19% choosing credit cards and a mere 6% using PayPal. Of the total online transactions made, 80% occur through desktop and only 20% through mobile devices. However, only 20% of the population shop online – a clear indication that there is a lot to play for in the e-commerce, m-commerce and e-payments ecosystems in Qatar, especially given that the basics of high income, high penetration and high internet speeds are all already in place.

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35 DataReportal. Available online at: https://datareportal.com/reports/digital-2019-qatar
39 Ibid
40 Ministry of Transport & Communications. Qatar National E-Commerce Roadmap 2017 Report
RECENT POLICY INITIATIVES

- Diversifying its economy is a key aspect of Qatar’s National Vision 2030 strategy. This includes a focus on digital transformation and the creation of an innovation- and knowledge-based economy.
- Enacted the Electronic Commerce and Transactions Law in 2010. The law provides legislation on e-signatures, e-documents and authentication. As a part of this initiative, Qatar recently launched a new initiative whereby it puts an official Trustmark logo on genuine online shopping websites to instil trust in Qatari online shoppers.
- Qatari national banks have been very supportive of their national fintech initiatives. In May 2018, Qatar Development Bank launched the Qatar Fintech Hub, facilitating collaboration between various stakeholders of the fintech ecosystem.
- Strong push by the government towards electronic payments from paper-based instruments. The government is also revising regulatory standards and guidelines for the digital economy and cybersecurity.

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41 The International Trade Administration. Qatar – Ecommerce. Available online at: https://www.export.gov/article?id=Qatar-ECommerce
42 Qatar Tribune. Qatar’s e-commerce to more than double by 2020: MiTC. Available online at: http://www.qatartribune.com/news-details/id/107888
Kuwait, a small country with a population of 4.2m, has a smartphone penetration rate of almost 100%, and 78% of its adult population have access to mobile internet. The average mobile internet speed in Kuwait is 35.41mbps, comfortably higher than the global average.

Of its 4.3m internet users, 3.9m have an active presence on various social media platforms. Streaming of video content is also a popular internet activity, with YouTube the most popular virtual destination. Facebook alone has 3m active users, representing an enormous target market for social media advertising companies.

Separately, Kuwait’s domestic e-commerce market is expected to hit US$1.07bn by 2020. According to the World Bank, 20% of Kuwaiti adults used the internet to make an online purchase in the past 12 months, while more than 30% used it to pay bills. In what is an encouraging sign for stakeholders in the digital economy, three in four (75%) Kuwaiti adults either made or received digital payments in the past 12 months.

Given that Kuwait has only recently embarked on a digital transformation journey in earnest, these are impressive numbers. And now, as Kuwait starts taking steps to diversify its economy away from its heavy dependence on oil, there is a spectrum of opportunities for all stakeholders, including telco operators, payments service providers, retailers, digital media companies, app providers and OTT providers that can bring effective solutions into market.

Kuwait snapshot

Used the internet to buy something online in the past year (% age 15+)

Used the internet to pay bills in the past year (% age 15+)

Made or received digital payments in the past year (% age 15+)

Financial institution account (% age 15+)

Source: Global Findex Database 2017, World Bank

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45 Ookla LLC. Speedtest Global Index. Available online at: https://www.speedtest.net/global-index


47 Eshopworld. Available online at: https://www.eshopworld.com/blog/middle-east-ecommerce-kuwait-qatar/
**RECENT POLICY INITIATIVES**

- Kuwait’s Vision 2035 and its National Development Plan (referred to as ‘New Kuwait’) was unveiled in 2017. The strategy targets the rapid adoption and implementation of new technologies, including the national e-ID.48

- The government is currently setting up the Kuwait Hub project, which aims to transform Kuwait into a global communications hub and develop the country’s digital infrastructure. It also aims to increase internet traffic in Kuwait by 40% through tech development and the introduction of 5G.49

- In January 2019, the government announced plans to create a US$200m fund to invest in technology and the digital economy.50

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50 Reuters. Kuwait announces initiative for $200 million technology investment fund. Available online at: https://in.reuters.com/article/arabs-summit-kuwait/kuwait-announces-initiative-for-200-million-technology-investment-fund-idINKCN1PEOEN
In Saudi Arabia, 96% of the population uses a smartphone and mobile internet penetration stands at a very healthy 80%. Average weekly internet usage per user in Saudi Arabia is a substantial 26 hours per week, but lower than in Qatar. Mobile internet is mostly used for streaming or downloading music (83%), video streaming (83%) and mobile gaming (83%). Saudi Arabia has 16m social media users and almost 90% use WhatsApp, the most popular social media app in the country.

Already, a fair share of Saudi adults are using the internet to either buy something online (25%) or to pay their bills online (31%), and these numbers are set to increase as the digital infrastructure in the country improves. Additionally, more than three in five (61%) Saudi adults made or received digital payments in the past year. These numbers suggest that Saudis are readily embracing digitalisation, and that augurs well for the digital economy as more and more people hop into the digital marketplace.

The e-commerce market in Saudi Arabia, for instance, was worth US$7.3bn in 2016 and is expected to reach US$11.3bn by 2021. And in 2018 alone, the average annual revenue per user of consumer goods in the e-commerce segment increased by 11% to US$294. These numbers are interesting considering that Saudi Arabia has a meagre 1.4% online retail penetration rate (expected to be 5.3% by 2025) as customers remain unsatisfied with existing payment options – and therefore choose cash for their online transactions.

If these hurdles are addressed in time and a greater number of e-payment options are provided and improved, the potential for e-commerce growth in the country is tremendous. Steps are being taken in the right direction, with overall internet penetration and download speeds improving over the past year, but there is still room to improve 4G penetration.

Source: Global Findex Database 2017, World Bank

The Saudi Arabia snapshot

- Used the internet to buy something online in the past year (% age 15+)
- Used the internet to pay bills in the past year (% age 15+)
- Made or received digital payments in the past year (% age 15+)
- Financial institution account (% age 15+)

Source: Global Findex Database 2017, World Bank

- Delta Partners Group. A diamond in the desert: Saudi Arabia’s e-commerce market is poised to boom. Available online at: https://www deltapartnersgroup.com/diamond-desert-saudi-arabia%e2%80%93s-e-commerce-market-poised-boom
Saudi Arabia has in place a National Transformation Program 2020, under which one objective is to establish tech companies to contribute to the increase of local content.

The government has also put in place Vision 2030, which includes plans for digitisation in the public and private sectors and the creation of high-quality digital infrastructure to improve the Saudi economy’s competitiveness.

- This includes collaboration with the private sector to develop digital infrastructure, particularly in areas including high-speed broadband and its quality.
- It also includes improving the governance of digital transformation by improving regulations governing the transformation.
- As part of its Vision 2030, a non-profit internet exchange point called the Saudi Arabia Internet Exchange (SAIX) has been launched, which facilitates networks and infrastructure companies to connect and exchange data, enabling the development of ICT and digital services.15

In May 2018, Saudi Arabian Monetary Authority launched the FintechSaudi initiative. Through this initiative it plans to launch its first version of a fintech system, educate individuals and equip them with knowledge and skills in fintech, and support local banks and international fintech companies to establish a robust financial ecosystem.16

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15 SAIX. About Saudi Arabia Internet Exchange. Available online at: https://saix.sa/about.php
Seventy-seven percent of Turkey’s adult population owns a smartphone and it is the primary device used for internet access. The country, which is the region’s most populous, has 56m active mobile internet users, who spend north of seven hours daily on the internet.

A vast majority (93%) use mobile internet to consume video content, 78.5% for social media activities, 72% use it for playing online games and 89% use it to access mobile messenger services. All of these different activities provide monetisation opportunities for app providers, telcos and payments service providers, particularly as internet coverage in the country improves and broadband becomes more affordable.

In the area of finance, 68% of adults in Turkey use mobile internet to make use of mobile banking services. Moreover, according to the World Bank, 64% of adults have also either made or received digital payments, 33% have used the internet to pay bills online and one in five have used it to make online purchases.

These numbers provide a peek into the opportunities in Turkey’s digital economy, and particularly e-commerce. Turkey’s e-commerce market was worth US$6.1bn in 2019 and is expected to grow to US$6.8bn by 2023 at an annual growth rate of 2.9%. The largest e-commerce segment in 2019 was electronics and media, worth US$2.1bn. The e-commerce user penetration rate stood at 67.3% in 2019, and this is expected to grow to 79.7% by 2023. And with a high smartphone penetration rate, the e-commerce market is expected to continue growing strongly in the near future. It is not without reason that global e-commerce players have their eyes on Turkey. Amazon, for instance, entered the Turkish market in September 2018. Separately, also in 2018, Alibaba acquired a stake in Trendyol, Turkey’s biggest web-based fashion retailer, anticipating a rapid rise in online shopping’s share of the broader retail sector from just 3.5%.

Source: Global Findex Database 2017, World Bank

#### Turkey snapshot

<table>
<thead>
<tr>
<th>Activity</th>
<th>Actual Value</th>
<th>Expected Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used the internet to buy something online (%) age 15+</td>
<td>58%</td>
<td>79.7% 2023</td>
</tr>
<tr>
<td>Used the internet to pay bills in the past year (%) age 15+</td>
<td>33%</td>
<td>79.7% 2023</td>
</tr>
<tr>
<td>Made or received digital payments in the past year (%) age 15+</td>
<td>64%</td>
<td>79.7% 2023</td>
</tr>
<tr>
<td>Financial institution account (%) age 15+</td>
<td>70%</td>
<td>79.7% 2023</td>
</tr>
</tbody>
</table>


Note: All data is subject to change and should be cross-referenced with the latest sources.
Turkey’s 2018-2020 Medium Term Program (MTP) looks to boost the use of high-end technologies such as the internet of things, robotics, big data, AI and AR as part of a digital transformation roadmap.61

- This includes investments in education and R&D to improve human capital and to set up infrastructure for research in different areas – and information and communications technology is one among them.

In 2012, Turkish banks collaborated to form the world’s first national digital wallet, BKM Express,62 which is supported by 17 banks.63

- In May 2017, BKM launched TROY, a mobile contactless payment solution for its card holders, ushering in a new era in Turkey’s payment ecosystem.64

- It recently unveiled a system wherein shoppers can bypass checkout and instead pay for their purchases using their phones.65

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62 BKM. Turkey; An exceptional Market for Payment Innovations. Available online at: https://bkm.com.tr/turkey-an-exceptional-market-for-payment-innovations/


64 Finextra. Turkey’s Troy enables mobile contactless payments. Available online at: https://www.finextra.com/newsarticle/72138/turkeys-troy-enables-mobile-contactless-payments

65 Finextra. Turkey’s BKM unveils checkout-free payments. Available online at: https://www.finextra.com/newsarticle/13902/turkeys-bkm-unveils-checkout-free-payments
The UAE has one of the most advanced mobile broadband markets globally, in terms of both reach and affordability. The country has almost universal smartphone penetration, and 91% of its 9.6m population has access to mobile internet. As with other regional economies assessed, video streaming was the most popular activity while surfing the internet on the mobile - with 94% of users engaging in it. Other popular activities include social media access, map services, online gaming and the use of mobile messengers. In total, an individual spends close to eight hours a day surfing on the internet every day in the UAE, enjoying an average internet speed of 48.1mbps.

Three in five adults in the UAE also use their mobile internet services to access mobile banking applications and according to the World Bank, 84% have either made or received digital payments. Additionally, 45% of adults in the country have used the internet to pay bills online, while 50% have used it to make an online purchase, indicating a high degree of willingness to engage in digital payments.

UAE's e-commerce market is expected to grow from US$3.6bn in 2019 to US$4.1bn in 2023 at an annual growth rate of 3.3%. In the same period, e-commerce user penetration is expected to increase from 89.4% to 92.7%, and the average revenue per user is also expected to increase from US$422.2 to US$440.4. Given continued economic growth in the UAE, and its high digital adoption rates, the e-commerce and e-payments ecosystems are bound to see an expansion in the future.

Source: Global Findex Database 2017, World Bank

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67 Ibid
69 Ibid
RECENT POLICY INITIATIVES

- UAE Vision 2021, the national development strategy, identifies digital technology as one of seven primary national sectors. The focus is on various technological developments including smart cities, artificial intelligence, nanotechnology, software and the like.70

- The government at the central and the emirate level has been actively involved in the digital economy and digital media, encouraging the greater use of computers and the internet with a view toward transitioning into a knowledge-based economy by 2021.71

- Dubai Financial Services Authority has launched a regulatory sandbox framework, which will enable testing of fintech concepts.72

- The UAE central bank has also launched regulations controlling digital payments by requiring licenses from electronic payment service providers. In addition to overseeing outsourcing services by the licensees, it also overlooks security protocols for consumer protection.73

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71 Huawei. Global Connectivity Index 2018: UAE. Available online at: https://www.huawei.com/research/en/
country-profile-ae.html
72 Fintech. 5 Fintech Initiatives by UAE Regulators. Available online at: http://fintechnews.ae/3577/dubai/uae-
regulator-fintech-initiative-sandbox-cryptocurrency-oljc-payments/
73 Ibid
Home to about 1.6m people, Bahrain has a smartphone penetration of 100% and 81% of its adult population uses mobile internet. Seven in 10 (72%) use a smartphone for instant messaging, 70% to access their e-mails while 68% are engaged by news sites. On average, a Bahraini individual typically spends 19 hours on the mobile internet every week,\(^7\) enjoying speeds of 23.4mbps.\(^5\)

Almost 80% of adults in Bahrain have either made or received digital payments, according to the World Bank, while 37% have used the internet to pay bills and another 25% have used the internet to make an online purchase.

Bahrain’s e-commerce market was valued at US$564m in 2019 and is forecast to grow to US$818m by 2023, registering an annual growth of 9.7%. Fashion is the largest segment of the e-commerce market, worth US$171m in 2019. The e-commerce penetration rate in Bahrain currently stands at 83.7% and is expected to grow marginally to 85.4% by 2023.\(^6\) These numbers notwithstanding, there is room for e-commerce revenues to increase further if more local businesses adopt online retail and if the dependence on cash for payments is reduced.

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\(^7\) https://www.go-gulf.com/blog/internet-usage-bahrain/
\(^6\) Statista website. Available online at: https://www.statista.com/outlook/243/167/ecommerce/bahrain
Bahrain has a digital strategy focused on increased private sector ICT readiness, improved national e-literacy, and greater innovation and entrepreneurship, among others.

In 2018, Bahrain’s Electronic Network for Financial Transactions (Benefit) launched a national electronic wallet payment system called BenefitPay, which allows payment transactions without the use of cash or cards. This initiative has 14 participating banks.

The Central Bank of Bahrain has launched initiatives to develop the growth of the fintech sector, including the development of a regulatory sandbox for fintech firms to test and experiment with their financial services ideas and solutions.

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78 BLOCK. 3 Things Bahrain’s Central Bank is doing to encourage more Fintech Startups. Available online at: https://block.io/3-things-bahrains-central-bank-is-doing-to-encourage-more-fintech-startups/
The Middle East region presents a plethora of opportunities in the digital economy. Businesses, however, need to pay careful attention to the local preferences in the different markets of the region and understand the nuances that differentiate each of these economies.

For financial services companies, it is important to understand that for such a vast and diverse population to be a proper part of this digital ecosystem, it is imperative they put all their efforts towards expanding financial inclusion in the region. While digital infrastructure and penetration are already somewhat adequate in our country analysis set, trust in the digital financial system is still low – changing this perception can drive a sea change in how the e-commerce and digital payments system will evolve in the future.

The region’s governments need to lead the effort. At 6%, e-government penetration levels are dismal in the Middle East. For populations to have full trust and faith in digital ecosystems, the government needs to lead the way by facilitating greater understanding of technology, and its benefits. Additionally, policies need to be conducive for digital businesses. They should encourage all businesses of all sizes to have confidence in engaging in the digital marketplace. Currently, digital business adoption remains very poor in the region and a transformation of this scale can only come through conducive policies and other government initiatives.

One other challenge – not unique to the Middle East – is the absence of a single regulatory framework for the digital economy and cross-border payments. Given that the region’s economies are small in terms of their populations, having access to a larger population across the region can be instrumental in driving business profitability in the digital sector.

Encouragingly, steps are being taken to this end. In December 2018, an Arab digital economy strategy was launched in Abu Dhabi, with the objective of increasing the contribution of the digital economy to the Arab world’s GDP to 20% on average, in addition to doubling the region’s GDP to US$5trn in 10 years.

Additionally, the challenges notwithstanding, the pace of digital penetration and uptake in the Middle East is also encouraging and paves the way for what may come in the future. The region’s governments are cognisant of the tremendous opportunity afforded by the digital economy. It remains to be seen whether this opportunity will be grabbed by all stakeholders with both hands, and how soon the region can reduce its dependence on oil and diversify its economy.

ABOUT US

DOCOMO Digital is the mobile commerce-related business of the NTT DOCOMO group. We partner with over 200 carriers and 300 merchants globally. Our Payments portfolio solves the challenges of scale, regulation, and complexity for telecom operators, merchants and payment service providers. Our “enabler” platform allows telecom companies to participate in the growing mobile commerce ecosystem. With our new state-of-the-art payment API, merchants get a single payment-agnostic gateway into new markets. Alternative Payment Methods like mobile wallets can now offer international merchants access to their consumers, with DOCOMO Digital’s API and payments settlement facility.

DOCOMO Digital is a wholly-owned subsidiary of one of the world’s largest telecom companies - NTT DOCOMO, listed on the Tokyo Stock Exchange.

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