TiE DUBAI

FOSTERING ENTREPRENEURSHIP

Founder's Forum to Discuss MENA's Startup and VC Ecosystem

Interactions with Mr. P.K. Gulati, Chairman Emeritus, TiE bmDubai

Knowledge insights powered by StrategyConnect

Focus of the forum: Is VC Ghosting a Thing Founders Should Build Resilience For?

About Founders' Forum

The Founder's Forum is designed to encourage open discussions between entrepreneurs, key decision-makers, CEOs, and others in a Chatham House manner so that the conversations that occur in obscurity are brought to the forefront without quoting or naming anyone.

Sponsored by Marshal Fintech Partners and supported by DIFC, TiE Dubai's first such forum focused on the entrepreneurial ecosystem of the United Arab Emirates and particularly Dubai.

UAE has solidified the investors' confidence after the latest numbers reported that companies in the UAE raised $1.8 billion in 2022 becoming the leading country for venture capital financing in the MENA region for that year. Initiatives such as Operation 300bn, the Dubai Creative Economy, the UAE Net Zero Strategy, tech-focused strategies in artificial intelligence and cybersecurity stimulated growth in emerging global sectors.

In 2023, with 277 deals, UAE based startups raised approximately $1 billion. This was a 47% decline from the previous year, however, the collaboration of public and private sector entrepreneurial initiatives is expected to drive VC investments in the region. Emirates NBD as a part of Dubai International Growth Initiative has announced to offer eligible Dubai based SMEs up to AED 15 million in financing for up to seven years. It has an initial funding pool of AED 500 million. As part of UAE's 'Projects of the 50' campaign framework to prepare the UAE for the next 50 years, one of the initiatives is to support businesses, which are 51 per cent owned-and-actively-managed by UAE Nationals and operating in key priority industrial sectors. These entities will be eligible for funding as part of its AED 5 billion financing initiative. Some examples are given below where a flourishing startup ecosystem has stimulated the investment landscape to grow with equal vigour.

Careem

Dubai-based startup Careem became MENA's first unicorn in 2019 after getting acquired by Uber for **US$3.1 billion.**

SOUQ.com

Amazon's purchase of Souq.com and the regional expansion of companies like The Entertainer and Mumzworld represent a landscape bursting with opportunity.

tabby

Tabby, a buy now, pay later app, secured **$700 million** in debt financing from JPMorgan in 2023. This is in addition to the $200 million secured in series D funding in the same year.

DESERT CONTROL

Desert Control, an Agri-Tech startup that is now listed on the Oslo Stock Exchange.

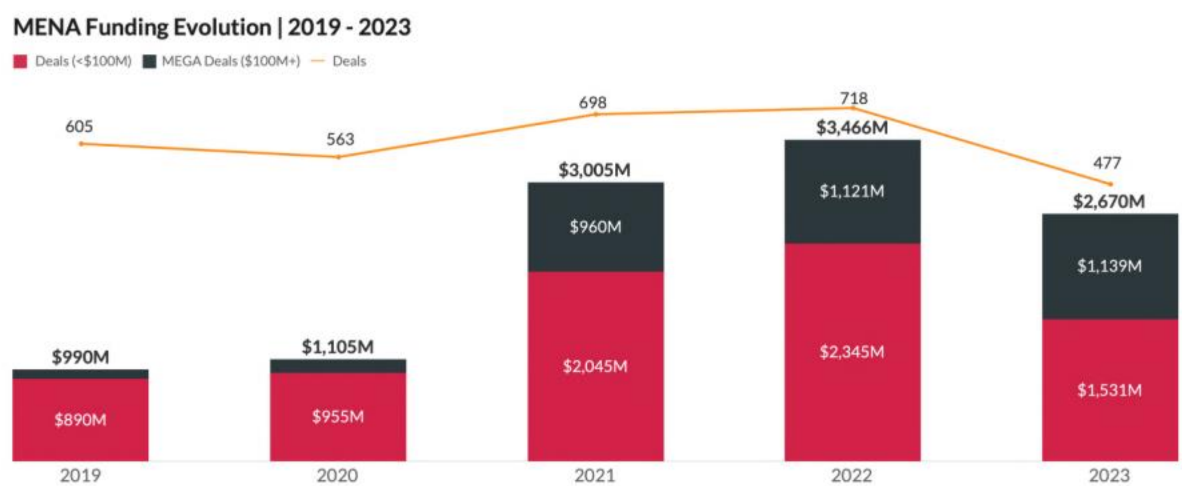
Among other topics of discussion, there was a focus on answering questions on fundraising, legal regulations (especially for fintech), providing exits to VCs, and finally launching, building, and scaling startups.

About the participants

An invite-only event, the guest list consists of a mix of Founders (with scale and impact), CEOs, Investors, and other Key Decision-makers from the ecosystem. The participants represent various operations geographies in MENA, knowledge domains, emerging technology, and other diverse fields such as hardware lifecycle management, insurtech, creative art/NFTs, ed-tech, fintech, blockchain, gig economy builders, etc. The event also acknowledges the increasing number of women founders and investors. It encourages the involvement of more female leaders as their contribution to the economy is already witnessing sharp growth with participation from several recognizable women leaders. The event has representatives from professional bodies like the MENA Fintech Association, in5 (TECOM), META, e&, DIFC, and many others.

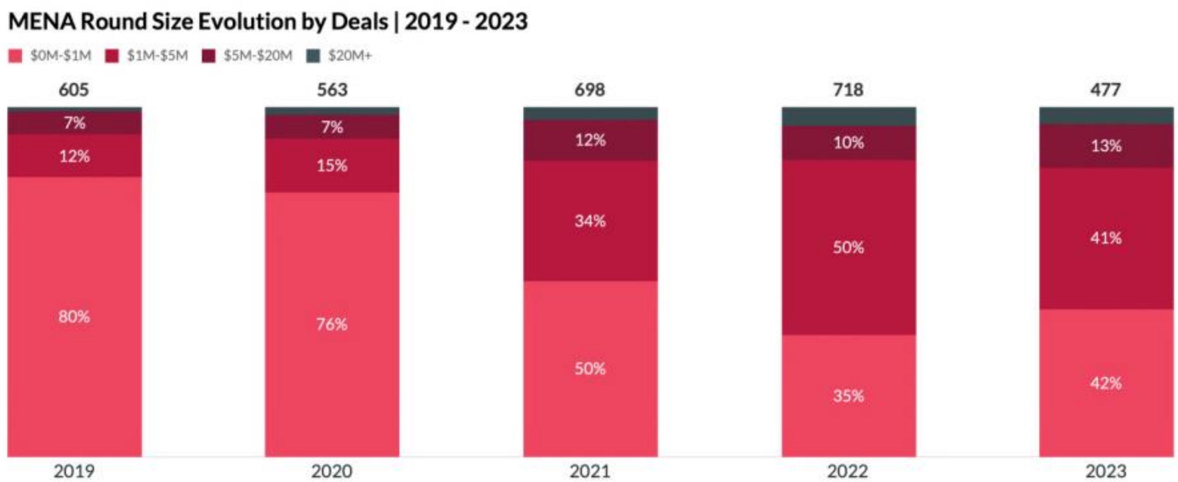
Summary

The Venture Capital Ecosystem has seen significant growth in the Middle East and North Africa Region (MENA) in the past few years.



Strong government support, especially from sovereign wealth funds like Saudi Arabia's Public Investment Fund and the Abu Dhabi Investment Authority offering an abundance of local capital, has emboldened the VC market across the region. Proximity to the rest of Africa and Asia and its predominantly young population also benefits its startups.

Cautious investment by VCs across the region due to looming economic uncertainty has resulted in the decline of funding by 23% YoY in 2023 since 2020. Most of the investments have been toward early-stage startups, with most of the deals ranging from $1M to $5M, as witnessed from the graphic shown below.



Some of them are intrinsic factors such as founder education, investor education. External factors include lack of ecosystem support, the need for incubators, along with the global decline in tech investment following the conflict in Ukraine.

Still the MENA region had few startups in the first half of 2023, which managed to get VC funding. See the graph provided below to observe the startups and their disclosed deals:

MENA Top 5 Disclosed Deals 2023

No.	Startups	Country	Industry	Stage	Investor	Amount
1	tamara	Saudi Arabia	FintTech	Series C	SNB capital, Sanabil Investments	$340M
2	halan	Egypt	Super App	Undisclosed	Chimera Capital	$260M
3	tabby	Saudi Arabia	FintTech	Series D	Mubadala Ventures, STV, PayPal Ventures, Arbor Ventures, Sequoia Capital India	$200M
4	FLOWARD فلاورد	Saudi Arabia	E-commerce/Retail	Series C	Al Jazira Capital, STV	$156M
5	nana نعناع	Saudi Arabia	Food tech	Series C	Kingdom Holding, Sultan Holdings, Dallah Albaraka, Uni-Ventures, AlJammaz Group	$133M

The Report Is Divided Into 2 Major Sections:

1. Impact of regulations on new-age businesses, global challenges and their impact on the local entrepreneurial ecosystem specific to UAE and other MENA countries.
2. Key challenges faced while raising funds for businesses.

SECTION 1

1. **Lack of proper communication channels between Founders, VC, and Regulators**
2. **UAE-specific Legal Barriers**
3. **Global Barriers**

SECTION 2

1. **Funding Barriers**
   - Company intrinsic Factors
   - Lack of Founder Education
   - Valuation Models
   - Failure to Provide Exit Plans for VC Funds
2. **Business Environment/Government Factors**
   - Need for Government supported incubators
   - Legal Aspects
   - Past Trends in Fintech Investments (Crypto)
   - Threats from other Sectors of the Economy
   - Global Fintech Funding Trends
3. **VC-Specific Factors**
   - Co-Due Diligence
   - VC Ghosting
   - Limelight Investors

Section 1

> “The UAE is often compared to larger and more developed economies of the world! - Gaurav Dhar, Organizer, CEO of Marshal Equipment ”

Regulatory barriers: Lack of proper communication channels between Founders, VC, and Regulators

The interaction between company founders and government regulators starts with the licensing department. Each regulatory body has broadly three major departments,

- Licensing Department which grants licenses by validating authenticity.
- Overview Department which ensures regulation implementation.
- Policy Department which formulates the rules and regulations.

A startup or a business founder often interacts only with the licensing department, which fails to capture feedback regarding the growing needs of businesses and the changes of emerging technology. A single-window solution can unlock significant value for the entrepreneurs. Consider below the case studies of the companies who have utilized this technology.

Case-in-point: Sweden and India

Verksamt.se
Government services for businesses

In Sweden, **Verksamt** is an online portal that acts both as guidance to taxation and tax filing platform. This is a single window solution for entrepreneurs to seek information and also a solution for obtaining e-services related to business registration and tax.

The number of companies in Sweden grew by **14.2%** from 2010-11 as compared to an annual growth rate of **3.5%** in the last decade.

In India, **National Single Window System**, provides all business approvals in one place for investors starting a business in India. The platform document repository, filing, renewal, and application status tracking. Since its launch in **2021**, more than **48,000** approvals were granted.

UAE-specific Legal Barriers

There is limited transparency for whom a business owner should approach in case of a non-traditional activities such as web3, crypto, , AI-based cross functional businesses, etc. I am a Fintech building on web3 infrastructure, should I approach Virtual Assets Regulatory Authority or Central Bank of UAE. Such confusion does exist in other geographies as wells."

- A Fintech entrepreneur based in UAE

Global Barriers

Globally, there are still discussions going on to decide upon a clear path to regulate web3, digital assets, or AI (Artificial Intelligence) ventures. Slow legal adaptation to changes in technological advancement resulting in soft laws and automation biases are a few factors behind the ambiguity. Most countries are yet to provide any roadmap about when to expect such regulations. In the latest G-20 meeting held in the last week of February, the International Monetary Fund (IMF) and the Financial Stability Board (FSB) were tasked to create a technical paper on cryptocurrency regulations. Any clarity in the regulatory framework of any major economy can only be expected months after these institutions submit their reports.

"Currently, there are several operational rules from multiple governments worldwide that do not provide any cohesive picture."

- A Fintech Entrepreneur

Section 2:

Funding Barriers

A few of the reasons behind barriers to funding are due to a company's own factors, such as lack of education or valuation models that contradict each other. External reasons that act as funding barriers are legal aspects, the availability of a fintech-friendly ecosystem, and past trends in returns on investment. There are also VC-specific barriers, such as lack of proper valuation, trends in limelight investment and a curious case of VC ghosting.

Company's Intrinsic Factors

> *"VCs need to be transparent on why they will not be investing in any project."*
>
> \- P.K. Gulati

1. **Lack of Founder Education**
   Several founders are unaware of how to maintain governance in their companies. This leads to rejection by venture capitals for funding. New-age businesses often have spirited founders who overlook the non-core aspects of maintaining business-like corporate governance, contingency policies, employee policies, etc.

2. **Valuation Models**
   Company founders seek valuations based on what their competitors or similar businesses have raised in the past. However, the challenge with this issue is that funding does not only depend on the business model and its competitiveness but also depends on several micro and macro-economic factors. **Macroeconomic** factors include the cost of funds, rate of risk-free funds available in an economy, liquidity available in the market, competition from other sources for the same

money, etc. **Microeconomic** factors include whether the valuation of the company is done through Dividend Discount Model, Asset-based Model, Discounted Cash Flow Model, etc. A company that has not started operations will be valued less than one which has some customers in the market.

3. **Failure to Provide Exit Plans for VC Funds**
   Venture Capital Funds invest to make higher returns than common financial investment avenues. Unfortunately, several founders failed to prepare or display a plan to provide an exit to the early investors in the subsequent funding rounds. In the absence of a clear exit plan, this discourages investors from providing funding

The above challenges highlight the need for education for business founders in terms of mentoring, business workshops, guides, and courses on financial metrics.

Business Environment/Government Factors

1. **Need for Government-supported incubators.**
   Several businesses, especially new-age fintech businesses, need several rounds of testing to evaluate the business's financial feasibility. These tests are done in a simulated environment called Sandbox and then in the real world. A government-supported incubation system that would provide seed funding is necessary. Current business accelerators like DIFC Fintech Hive Accelerator Program, Accelerate Her, etc., do not fill the gap for a seed funding incubator. These funds provide networking, access to loans, and VC funds and, therefore, have a returns component attached to them.

   A government-supported incubator would not seek a return on investment or funding, allowing businesses to experiment and get more creative in fintech and other sectors.

beable health

IIT's seed fund into **BeAble** wins further funding at India Innovation Growth Program (IIGP), a highly competitive startup funding scheme by Govt. of India. Another fund under the name Start-up India got govt grants worth **$1.25 Billion** for granting seed funds.

MaGIC
MALAYSIAN GLOBAL INNOVATION AND CREATIVITY CENTRE

MaGIC, a Malaysian-based startup ecosystem enabler has impacted more than 4500 startups and has aided in the creation of **MYR 1.9 Billion ($419 Million)** in value.

2. **Legal Aspects**

   Several legal aspects restrict VCs and other investors from providing funds to a business. UAE had been under FATF grey list from March 2022 which discouraged foreign funds from flowing into the UAE. However, recently in February 2024 UAE has been dropped from the grey list. This is expected to enhance international investors' trust in the country's financial system, attracting VC funds for the coming years.

3. **Past Trends in Fintech Investments (Crypto)**

   Cryptocurrencies have gotten surplus funding from 2018-2021. However, due to failed due diligence by investors, several companies based on weak ideas were funded. Subsequent failures of those businesses discouraged investors from investing in Fintech.

   Recent examples of crypto failures and scams across the world include:

PLUS TOKEN

Plus Token, a Ponzi scheme that raised over **$2.9 billion** from investors, collapsed in 2019, leaving investors with worthless tokens.

BitMEX

BitMEX, a cryptocurrency exchange, was fined **$100 million** by the Commodity Futures Trading Commission (CFTC) for failing to register as a futures commission merchant.

THODEX
GLOBAL CRYPTOCURRENCY EXCHANGE

Thodex, a Turkish cryptocurrency exchange, disappeared with over **$2 billion** worth of customer funds in 2021.

FTX

FTX lent billions of dollars from customer accounts to its affiliate company, Alameda Research. This was a violation of FTX's terms of service, which prohibit the use of customer funds for lending.

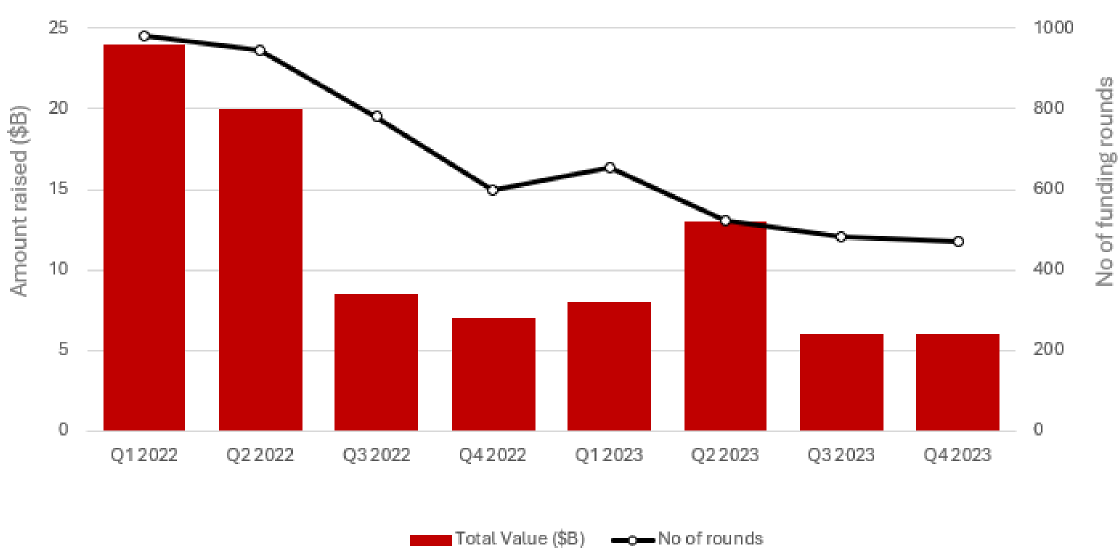
Another solution pointed out by a participant in the discussion was that equity deals were preferable to the investors rather than token deals. It is observed that venture capital funding in crypto adheres to the movement of the bitcoin price. This was seen in 2018 and 2022 bitcoin boom. However, with bitcoin reaching an all-time high at $71K (as of Mar 2024) and establishing itself as a viable investment option for traditional financial institutions via spot Bitcoin exchange-traded funds (ETFs) in 2024, VC funding in the current scenario still lags. This is majorly due to market maturity and AI. The well-documented crashes of the last cycle have instilled fear in many investors who saw their investments turn into dust. AI is becoming a prevalent ecosystem, capital that would otherwise be deployed towards crypto start-ups is being directed to AI, thus widening the gap.

4. **Threats from other Sectors of the Economy**

   Real estate has given extremely high competition to other sectors looking for funding. It is a traditionally safe sector and provides decent returns. Investors who are not risk-taking often deploy their capital to safe sectors where there is less likelihood of loss.

5. **Global Fintech Funding Trends**

   Globally fintech funding has dwindled due to the liquidity crunch caused by global interest rate hikes. According to a report by the market intelligence firm S&P Global, Venture capital (VC) investment in fintech startups fell by 42% year over year to $35 billion in 2023, as shown in the graph provided below. However, there are signs that the decline may slow in the second half of the year, as public market valuations of tech stocks recover, interest rates stabilize, and M&A activity picks up. A recovery in public market valuations would make it easier for fintech startups to go public, which would allow them to raise capital and grow their businesses. Stabilization in interest rates would make it less expensive for fintech startups to borrow money, which would also help them to grow. And a pickup in M&A activity would provide fintech startups with an exit opportunity, which would allow them to cash out and reinvest their proceeds in other ventures.



VC-Specific Factors

Several investment mistakes and subsequent lessons from them discourage Venture Capitals from investing in fintech. Some of them are:

1. Co-Due Diligence

> *“VCs Need to have tough conversations with the founders and founders need to have tough conversations with themselves.” - A Participant while speaking on project viability.*

Several venture capital funds failed to exercise due diligence in valuing new age fintech companies. This led to the flow of funds to businesses that had no workable business plans attached to them. As a result, many businesses closed in the wake of crypto bear markets and VCs took a major haircut on their investments as shown below in the infographics:

Investors	Share class 1	Share class 2	Share class 3	Share class 4	Total value	Stake (%)
Temasek	1,526,228	3,815,337	3,815,557	1,294,448	7,017,570	1.0%
Paradigm	-	4,769,173	-	2,157,413	6,926,586	1.0%
Sequoia	2,289,340	4,769,173	572,335	-	7,630,848	1.1%
OTPP	2,233,504	-	558,376	-	2,791,880	0.4%
Other Investors						
Series B Investors	-	24,530,288	-	-	24,530,288	3.5%
Series B-1 Investors	-	-	1,676,573	-	1,676,573	0.2%
Series B-1 Investors	-	-	-	6,026,735	6,026,735	0.9%
Option Pool	20,858,124	-	-	-	20,858,124	3.0%

According to the capitalization table Sam Bankman-Fried sent Forbes in August, investors who stand to lose big if FTX goes to zero include employees, investment firms and Ontario teachers" pensions. FORBES

- *Among individuals, Paradigm One’s founder Matt Huang lost $215 Million in FTX. Tom Brady lost $5 million when FTX filed for bankruptcy.*
- *Kevin O’Leary lost $2 million when FTX filed for bankruptcy.*
- *Serena Williams lost $1 million when FTX filed for bankruptcy.*

Wonga, is another example of a failed startup. It earlier managed to raise $160 Million from 83 North and the Accelerator Group closed its business due to irrecoverable loans that were granted to people with unfit financials.

2. **VC Ghosting**

In the discussion, there emerged a curious case of VC ghosting: VCs evaluate a business and review the business proposals but never revert to the business to provide feedback on the reasons for not giving funding or making investments. Subsequent calls resulted in vague answers like they do not have sufficient funds or they are not willing to invest for the time.

3. **Limelight Investors**

> *"Many Investors do not have a conviction on the thesis of their business strategy implementation"*
>
> \- An Entrepreneur

Limelight investing is the phenomenon where businesses that are in trend get investment on multiple times their valuation. Fintech is still in the funding limelight since 2018. Fintech startups raised $1 billion in MENA region in 2022 which increased by 130% in 2023.

Currently, the limelight is on AI-driven businesses especially after the launch of ChatGPT and Sora by OpenAI, an AI research Lab in which Microsoft has a significant stake. Google followed this by launching and rebranding their own generative AI application, Gemini and several companies from various sectors such as Entertainment, Media, Technology, and several companies from various sectors such as Entertainment, Media, Technology, FMCG, BPOs/KPOs have started incorporating generative AI tech in their product portfolios to adapt to the changing dynamics of business around the globe. Abu-Dhabi also established a technology investment firm called MGX targeting deals in artificial intelligence and semiconductors with a targeted AUM of $100 billion.

Summary

Startups and new businesses have great ideas that can generate good returns on investment for their founders as well as investors. However, many challenges hinder the successful execution of these new-age businesses. Some are regulatory, while most challenges are those that hamper funding.

Regulatory challenges mostly revolve around licensing new-age businesses. They can be solved with solutions such as single-window licensing systems.

Funding difficulties stem from a wide range of factors that arise from a lack of investor education and founder education and the need for government support and ecosystem development. We can combat these challenges with the proposed solutions, which stress education; governments can provide space for risk analysis and management firms, notify the best practices, and increase business incubation capacity, which can improve the funding of new businesses.

Founders Forum I was conducted by TiE Dubai for the community, sponsored by Marshal Fintech Partners, and conducted in partnership with DIFC and powered by StrategyConnect, one of the largest on-demand networks of specialized talent in the Middle East.

If you would like to be part of or would like to share your thoughts on the Founders' Forum, do write to us at tiedubai@tiedubai.org