



TECHNOLOGY'S PROMISE

Governments in the Middle East are hoping digital entrepreneurs will spur economic growth—and create jobs for young people

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At age 17, Tarek Nasr started his first company, making garments such as basketball jerseys. Seventeen years later, the Egyptian citizen has moved on to the digital world and is on the cusp of raising \$500,000 in funding for his latest venture, Mintrics, a platform that generates social media video analytics.

“The goal—with luck and hard work—is to go to a \$100 million company,” he says, speaking into a deliberately retro telephone receiver during a video call from his Cairo office. “I think it’s doable.”

Nasr, a 34-year-old who prefers wearing shorts and sweatshirts to suits and ties, exemplifies the ambitions of tech entrepreneurs in the Middle East. A participant in the Arab Spring movement, which toppled governments across the region in 2011, he belongs to a generation of educated young people hoping that technology will offer an alternative to a job in government or the corporate sector—where opportunities are shrinking.

“Growth in large corporates in the private sector is limited,” says Ayman Ismail, a business professor at The American University in Cairo and founder of the university’s Venture Lab. “So what’s left is small and medium enterprises driven by entrepreneurs.”

Lack of jobs

For their part, Middle Eastern policymakers are hoping that technology might offer at least a partial solution to one of the region’s biggest ills—a lack of jobs for young people. Half the Arab world’s population of some 406 million is under 25, and the regional youth unemployment rate is 30 percent.

The jobs challenge holds true for richer oil-exporting nations as well as poorer countries like Egypt, Morocco, and Tunisia. Egypt, with widening fiscal deficits and mounting public debt, can’t count on government spending to spur the economic growth it needs to boost employment. Instead, it aims to encourage private enterprise. Saudi Arabia,

where 70 percent of the workforce is employed by the public sector, is seeking to diversify its economy and reduce its dependence on petroleum exports.

“We want to empower young talent to become entrepreneurs,” says Nawaf Al Sahhaf, the chief executive of Badir, a Saudi government technology incubator. “The motivation behind this is to create jobs.”

It won't be easy. Beyond the challenges facing tech start-ups everywhere, entrepreneurs in much of the Middle East face a unique set of hurdles, ranging from difficulty raising capital to cumbersome and antiquated business regulations. Most start-ups in the Middle East still register in overseas jurisdictions such as the US state of Delaware to protect investors from the region's rigid bureaucracies and legal systems.

Bankruptcy law

That is slowly starting to change. Egypt, which sees innovation as a pillar of its plan to boost long-term economic growth, has introduced a measure that would allow owners to restructure their companies during bankruptcy rather than face jail over unpaid debts.

But with at least five ministries involved in promoting entrepreneurship, people like Con O'Donnell, a Cairo-based angel investor, complain of poor coordination and duplication of effort. What's more, he sees tension between the goals of entrepreneurs and government. “For the government it's all about job creation rather than value creation,” he says. “If you're a CEO, that's not your main consideration.”

Some tech start-ups have developed into large employers. Careem, a ride-hailing company founded in Dubai in 2012, employs 250,000 drivers. But most are far smaller. Souq.com, also based in Dubai, is the region's leading online retail website and has about 3,000 employees. (Amazon employs more than 350,000.)

“Research supports the general observation that entrepreneurship can be a crucial generator of jobs,” Bessma Momani, a nonresident fellow at the Brookings Doha Center, wrote in a 2017 report on entrepreneurship as a driver of job creation in the Arab world. But, she adds, “The region has yet to create the economic ecosystem necessary for entrepreneurship to thrive.”

Where tech start-ups are more likely to make an impact is in wealth creation.

Souq's acquisition by Amazon in March 2017 for more than \$650 million, a record for the region, was a landmark. “This is a validation that great and large tech companies can be created in the region,” says Samih Toukan, one of Souq's cofounders.

Souq was among 60 start-ups in the region to be sold in the past five years for a total of more than \$3 billion, according to MAGNiTT, an online platform that connects tech entrepreneurs in the region with investors. MAGNiTT counted more than 3,000 start-ups in the Middle East and North Africa, drawing record investments of more than \$870 million in 2016 alone. By comparison, in Latin America, which has a larger population but a slightly lower Internet penetration rate, start-ups raised \$500 million in venture capital in 2016, of which \$342 million was invested in the information technology sector, according to the Latin American Private Equity and Venture Capital Association.

Lagging behind

Still, the Middle East lags well behind the developed economies. Digital technology contributes about 4 percent of GDP in the Middle East (excluding North Africa) compared with 8 percent in the United States, and the region accounts for just 1 percent of the revenue of the world's top 1,000 technology companies, compared with 36 percent in the United States, according to an October 2016 report by McKinsey & Company.

The United Arab Emirates (UAE) is among the region's digital leaders, accounting for 42 percent of its start-ups, according to MAGNiTT. Dubai, its largest city, attracts entrepreneurs from across the region. As Nasr, the Egyptian serial entrepreneur, explained: “The infrastructure is great, the Internet is brilliant, there are a lot of coworking spaces,” or shared offices that provide a collaborative working environment.

The UAE also benefits from a coherent strategy toward innovation. One example is Dubai Future Accelerators, a nine-week program that pairs tech companies with government departments so that officials can help make regulatory changes needed to bring new technologies to market quickly. “The challenge here is that innovation can often face resistance, especially from government entities,” says Khalfan Belhouli, the chief executive. But he says Dubai's ruler, Sheikh Mohammed bin Rashid Al Maktoum, “wants Dubai to become

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the number one destination for any innovator in the world.”

Across the region, governments are launching tech funds. Saudi Arabia's fund, the largest at \$100 billion, was launched this year and has yet to make an impact on the country's nascent tech scene, says independent Middle East technology analyst Rachel Williamson. “It's rapidly building, but it's very new,” she says. “There's a lot of talk, but not much there yet in terms of an ecosystem.”

Promising market

Egypt's fast-growing population of 90 million, the largest in the Arab world, makes it a promising, if challenging, market. Slightly fewer than half of the country's people are online, according to government estimates. Entrepreneurs like Amir Barsoum believe that Egypt's many problems, from overburdened schools and hospitals to crumbling infrastructure, present business opportunities. With just the right idea—an app to help people access financial services, a more efficient method to hail a cab—they can leapfrog existing technologies to overcome such problems while also turning a profit.

In 2012, Barsoum founded Vezeeta, a digital health care platform that automates appointments and reduces wait times at hospitals and clinics. Today, the company has 200 employees and helps 1 million users make 60,000 monthly appointments. With \$10.5 million in funding, Vezeeta has expanded from Egypt to Jordan and Lebanon and plans to launch in other Middle Eastern countries soon.

Finance is another area of opportunity. The region, where just 14 percent of adults have a bank account, has spawned more than 100 companies active in financial technology. One of them is Fawry, a platform that provides bill payment and other services online through mobile wallets and via 65,000 locations.

“Fintech is just starting to boom here in the region,” says Ahmed Wadi, an Egyptian who recently launched an app called Moneyfellows, which allows strangers to borrow from and lend to each other. “We're helping people access interest-free credit

powered by their social reputation and not their credit score,” he says.

Nasr is taking advantage of Egypt's growing online advertising market. After completing a bachelor's degree in business administration from the University of New Brunswick in Canada, he returned to Egypt. With investment from friends and family, he launched a creative agency in Cairo called The Planet, which focuses on social media advertising. After that took off, he cofounded a tech accelerator called Juice Labs, which provides funding, mentorship, and assistance to other digital start-ups.

Budding culture

O'Donnell, the Cairo-based angel investor, sees a budding culture of entrepreneurship in the Arab world. One sign is the appearance of popular prime-time reality television programs like *El Mashrou3*, or “The Project.” First aired in Egypt in 2014, it features tech entrepreneurs who pitch ideas to investors. For young people, entrepreneurship as a career is “just another path,” O'Donnell says. “It's acceptable in wider society and in families.”

An Irish citizen who arrived in the 1990s to study Arabic, O'Donnell stayed on to work for several media companies before founding Sarmady. This Arab language website—a first of its kind—provides news, sports, entertainment, and city guides. He sold the company to Vodafone for an undisclosed amount in 2008 and has since invested in 15 Egyptian start-ups ranging from Instabug, a tool for app developers, to online recruitment site Wuzzuf.

But for investors seeking fast profits in the Middle East, longtime players like O'Donnell have a word of caution: given the obstacles to doing business in the region, “unicamels” are a better bet than “unicorns.”

“We're calling them ‘unicamels’ because they need to suck up a lot of water to be able to make it across the desert,” O'Donnell explains. “Businesses here might get lucky on an early seed investment, but we often haven't seen much past that, so they have to be ready to go for the long haul.” [FD](#)

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