

April 2022

Greetings from Washington,

As the pandemic-fueled liquidity begins to wane and the reality of inflation and higher interest rates sets in, many economies will face considerable challenges. MENA countries are vying to attract global investors and increase FDI, and yet capital flows are reversing from emerging markets to rich countries, specifically the United States, where interest rates are rising to levels not seen since 2018. 2018 is illustrative: during that time, emerging markets experienced substantial capital outflows as international investors reduced their exposure and consolidated their risk into emerging economies with fewer perceived risks, given their proactive and progressive economic policies.

Attracting foreign investors into emerging market economies has always been difficult. Still, thanks to the extended period of near-zero interest rates, emerging markets were blessed with investors hungry for higher returns. The plentiful supply of money coupled with historically low yields in rich countries led investors to explore higher yields in riskier markets across various assets, including public equities, public debt, private equity, and venture capital. The lower cost of capital allowed investors to finance opportunities that otherwise would have been unfeasible.

The Goldilocks moment we experienced in markets over the past couple of years is subsiding. Geopolitical risk, inflation, and US interest rates are all rising. In addition, two crucial macro-economic trends will impact the future capital flows to emerging markets. First, globalization policies that are focused overwhelmingly on cost efficiency and rationalization will now focus on resiliency and values-based investments. At a recent event at the Atlantic Council, US Treasury Secretary Janet Yellen articulated a blueprint for US trade policy, stating, "The US would now favor the friend-shoring of supply chains to a large number of trusted countries that share a set of norms and values about how to operate in the global economy." Second, ESG issues are growing in importance for investors and companies. For an indication of what's to come, consider Total, the French oil and gas giant, marking its shift to renewable energy and rebranding to TotalEnergies, as well as Engine No. 1, a US impact hedge fund, hijacking ExxonMobil's board to drive a green strategy at the company. As a result of the confluence of these complex issues, investor appetite for emerging market assets is weakening and will become more discerning in the coming years.

But all is not lost. Thoughtful investors will continue to seek opportunities in emerging markets, especially in private markets (e.g. private equity, private debt, and venture capital) where the predominant share of opportunities exists. However, as financial conditions tighten, differentiation between emerging markets will increase. MENA countries can better position themselves amongst others vying for capital by:

- 1. Attracting and empowering strong policymakers to make dynamic and bold decisions that complex changes in the global economy require. Deepening the bench of talented policymakers should be another priority.
- Driving policies supportive of private sector development and investment. Reducing government-owned enterprises and providing ample space for private companies to grow and prosper on an even playing field is critical to building a dynamic economy.
- 3. Continuing to nurture the nascent entrepreneurial ecosystem. Entrepreneurial economies are consistently more resilient and lead to better outcomes over the long term.
- 4. Standardizing policies according to global norms for greater regional and international integration. Investor appetite is greatly improved in emerging markets that adopt regulations and standards from developed countries.
- Increasing transparency and reducing uncertainty around laws and regulations. Investors and companies need more clarity on the rules of the game to play it confidently and competently.

Several MENA countries continue to take bold steps to improve their global competitiveness. Those that maintain their momentum will be clear winners in the coming years. History is rich with evidence that periods of economic challenges are followed by periods of historic gains.

Stay safe and well,

Amjad Ahmad

Director and Resident Senior Fellow, empowerME Rafik Hariri Center for the Middle East Atlantic Council



Meet our 2022 WIn Fellowship Mentors!



Meet the inaugural mentor cohort

Big Data

It's going to get hotter

Summertime temperatures could exceed 30 degrees Celsius in half of the region's countries, even with substantial mitigation. (average summer temperature, degrees Celsius)



Source: International Monetary Fund

Entrepreneurs of the Month: Mohamed Abdulaziz and Ahmed Sheikha Brimore - Egypt

Entrepreneurs Mohamed Abdulaziz and Ahmed Sheikha have created a social platform to transform e-commerce for small businesses across Egypt. Watch our short video to learn more!



Watch short video

Middle East Entrepreneurship Program Tracker



The empowerME Initiative collaborated with <u>Imagine Labs</u> to bring you an interactive tracker that maps out networks nurturing innovation in Bahrain, Egypt, Jordan, Qatar, Saudi Arabia, and the United Arab Emirates. It features 312 programs and initiatives offered by 122 organizations that these six governments have founded, funded, or partnered with to support entrepreneurs, startups, and SMEs.

Explore tracker

Big Question

How has the regional startup ecosystem evolved in the last few years?



"The Saudi startup ecosystem has evolved rapidly in the past 10 years. A good benchmark is the growth of the tech ecosystem. A recent Endeavor report shows that 50% of companies were founded in the last 5 years, and 18% of them have reached the scale of 50+ employees. The growth of the ecosystem has accelerated, and important influences include VCs, government initiatives, universities, and globally-connected support organizations. Female entrepreneurship overall has grown: of 23 high-income GEM economies, Saudi Arabia is the only one with higher startup rates for women than men. Saudi Arabia is already an important regional center, representing over 50% of the Middle East's total telecom market and 51% of its IT industry."

"Having crossed the milestone of four MENA-based unicorns last year, we believe MENA has potential to output 40 unicorns by 2029. The region has crossed the tipping point in VC deployments (2.5x growth YoY), a trend that is driven by consumer adoption, progressive regulators, and strong appetite from tier-1 international investors seeking to diversify and capture alpha. MENA is quickly shaping to be the new hotspot for technology startups, and we're privileged to witness and contribute to that growth."



Lateefa Alwaalan Managing Director Endeavor Saudi Arabia



Chief Executive Officer Krunu Capital

"We've moved on from an awareness a decade ago of how tech companies are formed and funded. We're now at the point where governments realize the importance of building and enabling a startup ecosystem as an economic pillar. You'll see that every government is creating programs to support tech startups and entrepreneurship, whether in terms of ecosystem facilitation, regulatory reforms to ease the journey, structuring funding solutions, or comatching programs. There's a strong realization about the potential of this kind of activity."

"It seems to me that having gone through the time accelerator of the Covid period, the startup ecosystem has been densified with more actors, more talent being attracted, better infrastructure and support being offered by the authorities, and some great successes. The region is also slowly but surely attracting international interest, which adds up to increased self-belief and confidence."



"In the past few years, the ecosystem



Nuwa Capital

"Key MENA economic centers have all seen rampant startup activity over the past five years. Several favorable regulations around starting businesses and attracting top talent have helped Abu Dhabi compete with top tech destinations globally, while Dubai now hosts the most exciting Web 3.0, Crypto, Gaming, and Frontier tech startups. Riyadh has led from the front by making large swathes of capital available to founders, and Cairo has put the spotlight on articulating real, local issues and building bespoke solutions for them. Tech in MENA is at the mere beginning of a positive-slope curve, and MENA founders will soon ship world-class software with global resonance constantly."

has become more robust, and this has been driven by talent. We are now seeing second- and, in some cases, third-time founders who bring a wealth of experience, thus de-risking execution. This trend, coupled with increased success stories that have realized exits at scale, is driving an extremely healthy pipeline of new companies across our core markets."



Managing Director Middle East Venture Partners (MEVP)

Big Reads

- <u>A Persian Gulf Stock Boom Draws Foreign Investors</u> (The Wall Street Journal)
- <u>The UAE's updated visa programme will contribute to a more stable Middle</u>
 <u>East</u> (The National News)
- <u>Dubai lures clutch of big crypto firms with tailored regulations</u> (Financial Times)
- More female tech startup entrepreneurs in Saudi Arabia than in Europe: <u>Report</u> (Arab News)
- <u>Egypt's president calls for listing of army-owned companies this year</u> (Financial Times)



Learn about empowerME

empowerME is changing the conversation about the Middle East by focusing on economic prosperity. Watch this video to learn more about empowerME and its unique director, regional venture capital pioneer Amjad Ahmad.

WATCH VIDEO

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<u>empowerME</u> shapes solutions to empower entrepreneurs, women, and the private sector and builds influential coalitions to drive regional economic integration, prosperity, and job creation.

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