

Greetings from Washington.

No matter how often we hear Warren Buffet's famous quote, "Be fearful when others are greedy, and greedy when others are fearful," most investors struggle to follow the advice of the Sage of Omaha. Investors grapple with emotions such as fear, greed, and hope, often leading to irrational behavior, especially since money is involved. At a time when global markets, both public and private, are gripped with uncertainties – the remnants of the COVID pandemic, the war in Ukraine, rising inflation, tightening monetary policy, and geopolitical tensions, namely between the U.S. and China - it's no wonder entrepreneurship activity is sputtering.

After astonishing growth in the entrepreneurial ecosystem in the Middle East, with 5,000 startups launched in the last five years, we might witness a slowdown in the creation and scaling of startups. It's not that innovation has stopped or that young people are not attracted to startups. But as access to capital becomes increasingly challenging, potential founders may find the entrepreneurship path less attainable. In MENA, venture capital financing declined by 2023 by 13 percent, and deals dropped [55 percent](#). Although this is an opportune time to scale a startup, given less well-funded competitors, easier and more cost-effective talent acquisition, and consumers seeking more efficient solutions, the numbers signal that fewer startups are receiving funding at lower amounts. These declines are more concerning in countries like Egypt, where deal numbers dropped by 83 percent due to [exchange rate uncertainty](#), preventing entrepreneurs and investors from making thoughtful investment decisions.

Most regional governments have continued to implement policy reforms to ignite more entrepreneurship. Specifically, Gulf countries have focused on critical areas, namely:

- **Creating a business-friendly environment** by streamlining business licensing, reducing fees, enhancing the legal framework and regulation, improving national infrastructure, and collaborating with the business community.
- **Supporting entrepreneurship education and training** by accelerating the national entrepreneurial mindset through programs, grants, and scholarships.
- **Providing financial assistance to entrepreneurs** by investing in incubators and accelerators and offering grants and loans to help startups and SMEs in the initial stages of development.

Why the decline?

The region has tended to rely heavily on international investors to fill the gap of larger investment rounds. Excluding sovereign wealth funds or quasi-government entities, the number of local players capable of funding larger financing rounds required to transform and scale startups to compete on a regional or global level is limited. The venture capital industry is still nascent and has yet to develop to the point of independence. Attracting international fund investors, also known as limited partners, has proven challenging, with few notable successes.

While governments have invested in local venture capital funds to give them an initial boost, regional and international investors have yet to follow to the degree that one would hope. The increased allocation to venture capital by local investors (primarily family offices and high-net-wealth investors) is insufficient to sustain the local venture capital industry. Fundamentally, insufficient international limited partners have entered the region to make the venture capital industry sustainable without government support.

What can be done?

Developing a robust local venture capital industry that can consistently support the launch and development of startups is essential. While government fund investment programs help provide seed capital to new venture capital managers, more is needed. An active, diverse, and vast limited partner pool is necessary. The ecosystem requires local and international institutional investors such as pension funds, endowments, foundations, insurance companies, and asset managers to invest in funds. Programs to attract these investors to the local ecosystem are required, such as:

- **Guarantees:** Governments may guarantee limited partners investing in local venture funds against losses, meaning the government will cover some or all the losses investors incur if the investment fails. This can be most effective in venture capital funds that the government has backed as part of a national investment program.
- **First losses or capped returns:** Governments with venture fund programs may bear first losses or limit their returns to initial capital or marginal returns on funds they invest in. This would reduce the risk of loss to private investors and increase the probability of making a respectable return, even on underperforming funds.
- **Direct insurance:** Governments can provide insurance to venture capital investors against losses. This can be facilitated through a government-run insurance program, or a private insurance company subsidized by the government.
- **Tax incentives:** Governments may offer tax incentives to limited partners and corporates investing in local startups or local venture capital funds.

The progress of entrepreneurship in the Middle East is a testament to the region's openness to innovation and its growing appetite for entrepreneurship. This translates into more job creation, fostering economic growth, and overall enhancement of the quality of life for everyone in the region. That's why the startup momentum must continue, as the impact is financial and societal. This is not a decline that the region can afford.

Sincerely,

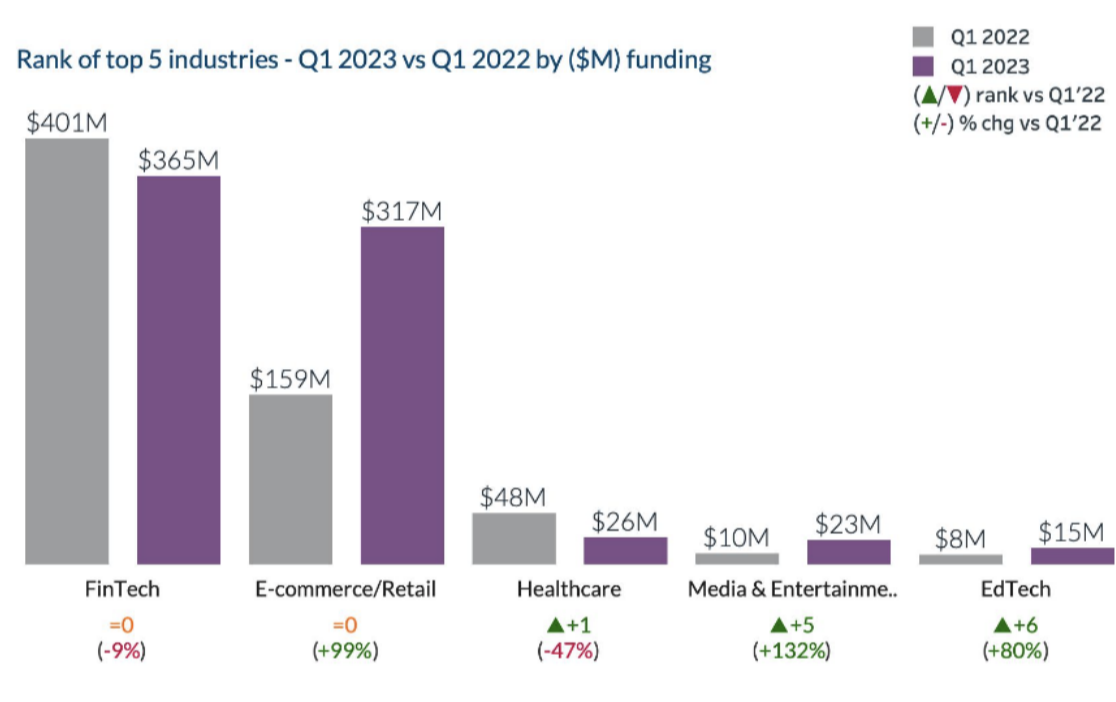
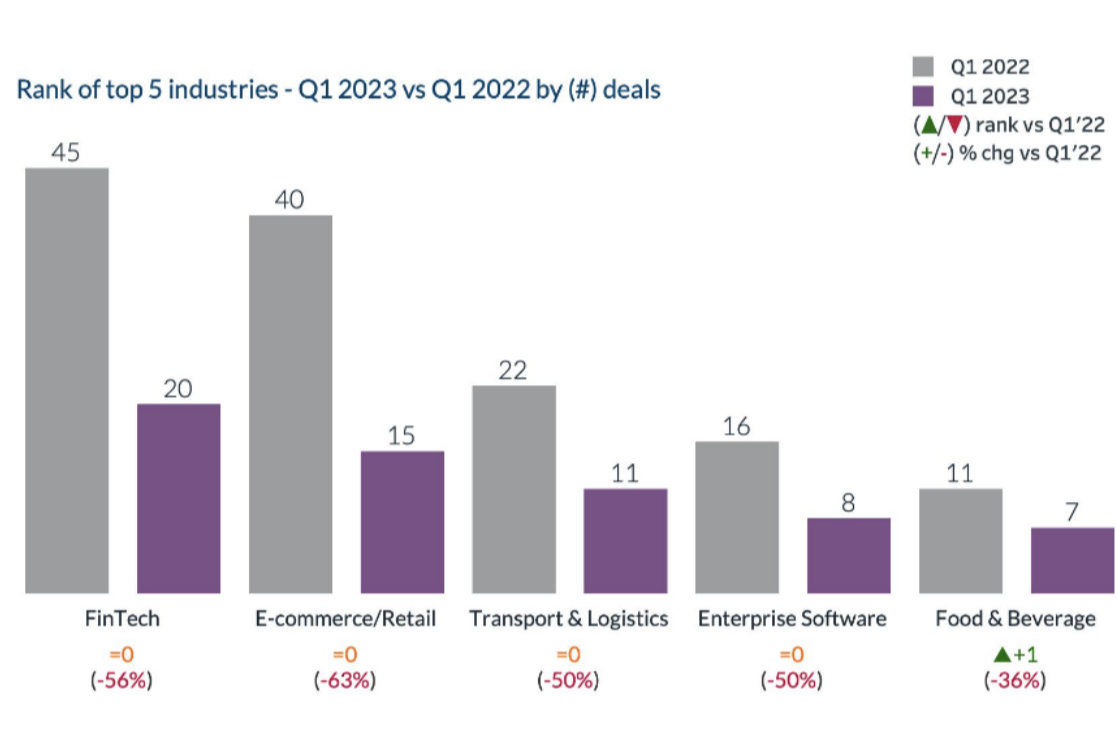
Amjad Ahmad
 Chairman, *empowerME*
 Rafik Harii Center for the Middle East
 Atlantic Council

Win Fellowship 2023 Applications Are Closed!



The application for the [Win Fellowship](#) has closed, the selected fellows will be announced during the first week of June.

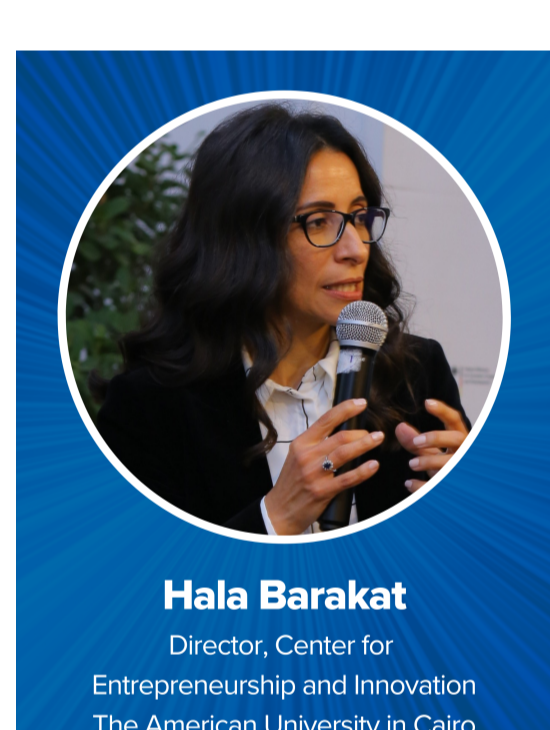
Big Data



Source: [MAGNITT](#)

Big Question

What actions can policymakers take to preserve the gains made in Middle Eastern entrepreneurship despite the recent slowdown in startup funding?



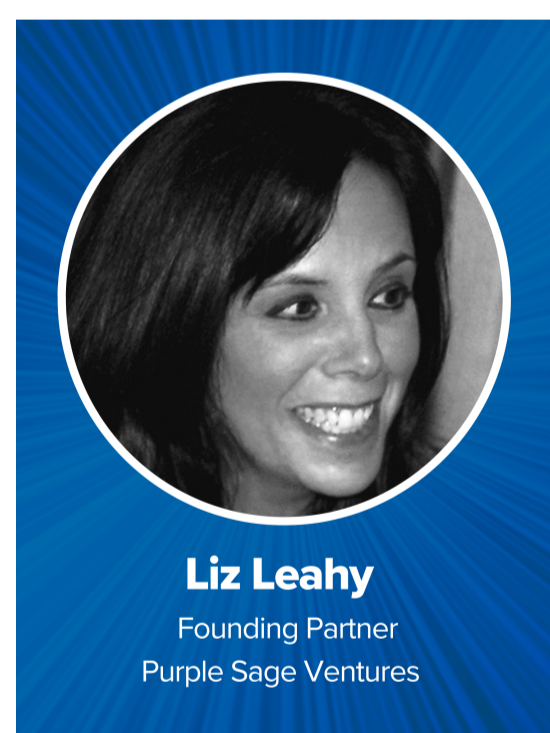
Hala Barakat
 Director, Center for Entrepreneurship and Innovation
 The American University in Cairo

"To support entrepreneurship in the Middle East and counter the impact of a funding slowdown, policymakers can improve access to capital by establishing dedicated funding mechanisms, encouraging private investment through incentives, and fostering public-private partnerships. Regulatory reforms should be implemented to simplify processes and create business-friendly environments, through the establishment of sandboxes or innovation zones. Lastly, policymakers should prioritize entrepreneurship education and training by collaborating with institutions and industry partners to develop specialized curricula and provide mentorship opportunities."

"I believe at moments of downturns, policymakers' main responsibility lies across two verticals; namely signaling and also incentives schemes to attract private capital. Examples of these could be increased adoption of technologies, products and services that are lead by entrepreneurs; or supporting the investors by matching some of the investments they make; or finally supporting the entrepreneurs through subsidizing some of their costs or providing tax incentives."



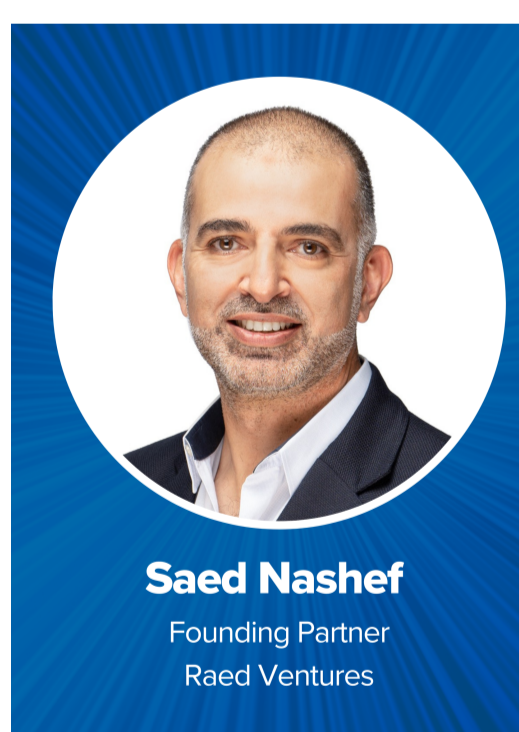
Dina el-Shenoufy
 Chief Investment Officer
 Flat6Labs



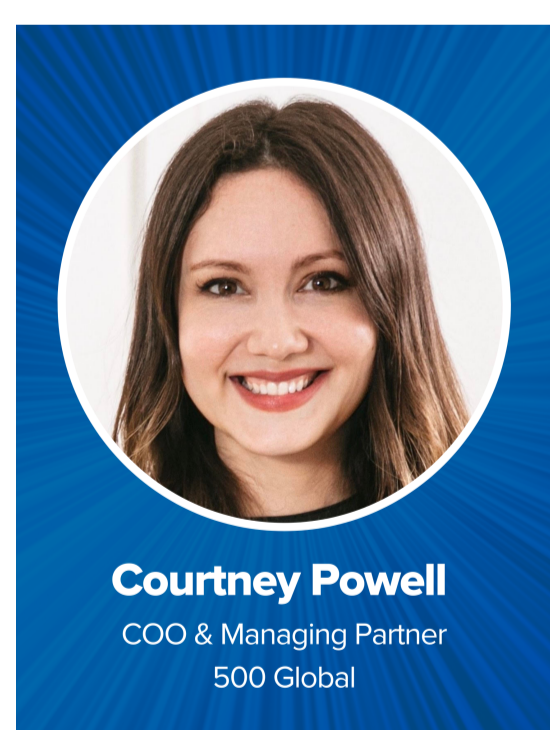
Liz Leahy
 Founding Partner
 Purple Sage Ventures

"Typically female entrepreneurs feel the brunt of a funding downturn more acutely. Therefore, it's paramount that countries in the Middle East continue to make entrepreneurship programs, education and financial incentives a priority. Policymakers could help busy female founders in the early stage ecosystem by sponsoring incubators, accelerators and educational programs from ideation to business launch, and in the growth stage ecosystem by providing tax and regulatory incentives (as possible) for both companies and investors."

"Maintaining future momentum involves ensuring past investments bear fruit. Policymakers should streamline regulatory processes, facilitate capital market development for tech startup IPOs, and promote alternative funding mechanisms. Additionally, fostering corporate engagement through incentives for collaboration or acquisition of startups can serve as a crucial driver."



Saed Nashef
 Founding Partner
 Reed Ventures



Courtney Powell
 COO & Managing Partner
 500 Global

"Entrepreneurship and startups are important to growing and supplementing the GDP of economies and the prosperity of those citizens. To continue to drive the success they've established, policymakers must foster and nurture the ecosystem that supports and enables founders. This is especially critical now at the early and growth stages where we're seeing the newest batch of innovators advancing the next cycle of technological change. They can do this by continuing to invest in entrepreneurship education and training, reducing the regulatory burden on startups, and providing access to capital to finance growth and expansion."

In case you missed it...

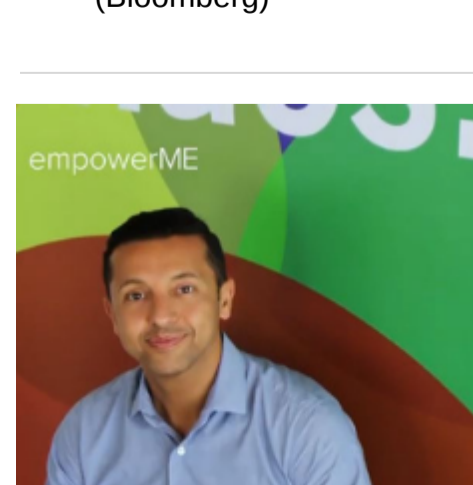
Developing countries need a loss and damage fund for climate change. How can COP28 make it happen?



By Lama El Hatou

Big Reads

- [Mena startups raised \\$7 million in April 2023](#) (Wamda)
- [Persian Gulf States Boom With Billionaires, Beyoncé and Blink](#) (Wall Street Journal)
- [Saudi crown prince turns to 'state capitalism' after change in the guard](#) (Financial Times)
- [Qatar Says Investments in Egypt Are Coming, But No More Deposits](#) (Bloomberg)



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