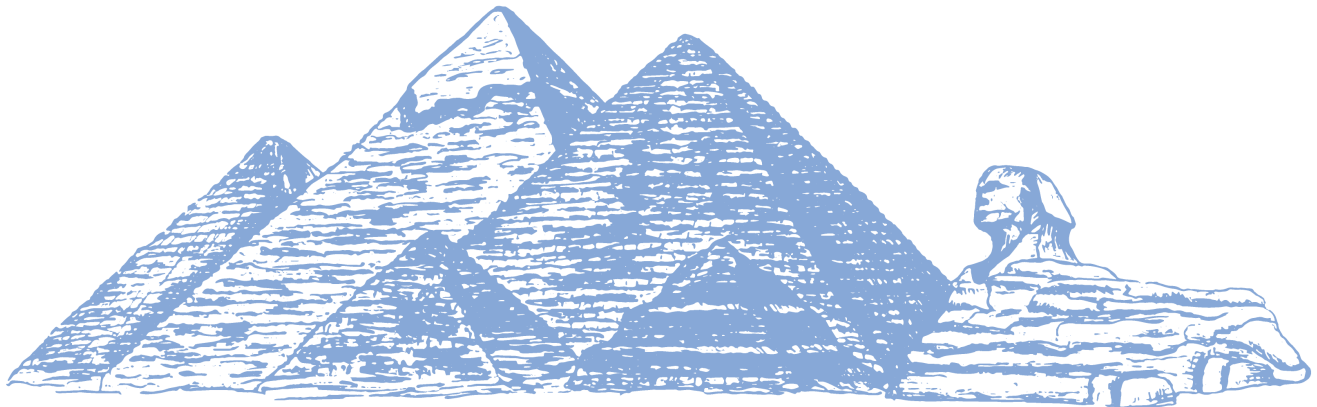


The Entrepreneurship Ecosystem in Egypt: Potential and Obstacles

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The Egyptian entrepreneurship ecosystem, which has been partially fuelled by the economic revival that has occurred over the last few years, is among the fastest growing in the region. The entrepreneurial nature of the Egyptian economy is also due to the large and educated young population as well as its long entrepreneurial history. In 2016 alone, there were 341 thousand university graduates, with almost 100 thousand graduates from IT, computer science, and engineering programmes.

In the last few years the start-up field has skyrocketed. The UN estimates that between 2012-2013, around 9,000 start-ups were established.

On the other hand, there are still several challenges facing the Egyptian entrepreneur ranging from regulatory bureaucracy to a lack of available funding especially following early stage investments which, in turn, creates a talent retention problem.

Ecosystem Potential

With a population of over 100 million people and a youth population comprising over 20 percent of the total population, the consumer base in Egypt is massive, presenting large growth potential for many foreign companies and investors wishing to penetrate the Egyptian market.

Notable Examples

High growth start-ups, such as Fawry, an e-payment network has over 65 thousand locations and a multitude of channels that serves over 15 million Egyptians. In 2015, the founders sold a majority stake in the company for USD 100 million. This was unheard of in Egypt, especially given that Fawry was founded in 2008. Within seven short years, it reached a level of growth that attracted higher level investments from private equity firms and Development Financial Institutions such as the International Finance Corporation, the investment arm of the World Bank. The Fawry exit has opened the door for both technology start-ups and investors to become optimistic about the state of the ecosystem and its ability to achieve ambitious levels of growth in short time periods.

Other tech start-ups are following suit. Instabug, a service that helps app developers test their application, has raised over USD 2.1 million from high profile international investors such as Accel Partners. Instabug

also worked with top apps such as Lyft, Soundcloud, Samsung and BuzzFeed.

Wuzzuf, a recruitment platform, founded by Ameer Sherif, who has achieved rock star status in the Egyptian ecosystem, has employed 250,000 people through its platform and raised over USD 8 million. While Vezeeta, a medical platform, serving 2.5 million patients by connecting them to a network of 10,000 doctors, has raised around USD 25 million.

More recently, SWVL, a bus hailing app that has revolutionised public transportation in Egypt, has raised tens of millions of dollars in the last two years.

These companies have shown that Egypt has great potential to be innovative leaders in fields where it has identified service gaps that are waiting to be filled by the private sector.

The upshot of what these companies have achieved has impacted the Egyptian economy in many ways including creating jobs across the community and galvanising the economy in general.

The Ecosystem

These companies would not have been able to succeed without an environment that is conducive to growth or without the availability of funds, talent, and knowledge. In the last few years, the entrepreneurship ecosystem exploded starting from incubators and accelerators to angel investors and venture capital firms to knowledge sharing and mentorship programmes.

Flat6Labs, AUC Venture Lab, and Falak are the most notable examples of accelerators and incubators that help entrepreneurs realise their concepts and turn them into workable businesses, while funds such as Algebra, A15, Endure Capital, and Cairo Angels finance early stage investments. The network of entrepreneurs is also supported by organisations such as Endeavor which provides support to scale-ups (high growth and stable start-ups) by fostering a network of like-minded mentors and providing access to capital and investors.

The Egyptian government has also tried to fill in some of the gaps in the ecosystem by founding Falak Startups and creating Egypt Ventures, an investment fund that finances both start-ups and other investors.

Challenges

Despite the promise of the Egyptian market and the innovation of its entrepreneurs, there are still several challenges ahead which hamper the growth of the ecosystem and the economy as a whole. Such challenges are partially a product of decades of stagnant development that calcified innovation and progress. However, the last few years have proven that such challenges can be overcome.

The first and most important challenge facing entrepreneurs and start-ups are regulatory difficulties. These begin with the bureaucracy of governmental authorities and the steps required to execute a simple process. Dealing with governmental authorities is difficult without assistance. Unfortunately, entrepreneurs usually seek legal services from firms or individuals that do not necessarily understand the complexities of the business model, which can often exacerbate these issues.

From a structuring perspective, incorporating a company in Egypt is still comparatively harder than in other jurisdictions, although it has become significantly easier in recent years with the establishment of the Investor Service Center and the amendments to the Companies Law. Even after incorporation, maintaining a company is also fairly difficult. Not only is it difficult for investors to understand the processes required to keep the company in good standing, but the processes themselves are also not easy to execute. Whilst Egypt's standing in the World Bank's Ease of Doing Business rankings has improved, there is still a long way to go. Other countries in the region such as the UAE and Saudi Arabia fare significantly better on almost every metric.

As a result many start-ups and funds incorporate their companies abroad and establish companies in Egypt as subsidiaries. These structures are not only used for tax purposes, but for the ease and clarity in governance mechanisms present in offshore jurisdictions that allow for far more contractual flexibility.

However, it is worth noting that the Egyptian government is attempting to resolve some of the challenges that would make doing business easier by regulating and clarifying business activities and processes. The government has been actively building on the progress that has already been made with more regulations in the pipeline that will hopefully create clarity amongst all stakeholders.

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