

## The Middle East's Silicon Valley moment

Written by Christa Case Bryant  
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**MarkaVIP quickly became one of the Mideast's largest e-commerce firms. CEO Ahmed Alkhatib stands in back (r.) at the company's Amman, Jordan, offices. (Christa Case Bryant/The Christian Science Monitor)**

Amman, Jordan

While traditional businesses and even governments in the Middle East have struggled to keep their doors open amid the upheaval of the past three years, entrepreneurs are harnessing the digital power behind the Arab uprisings to revolutionize how business is done in the region – particularly on the Internet.

As a result, at one of the most turbulent times in modern Arab history, e-commerce is growing faster here than anywhere else in the world; sales in the Middle East and Africa increased by 70

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percent in 2011 and continue to outpace every other regional market.

The spike coincides with a sharp rise in the number of Internet users, particularly Facebook users, in the Middle East and North Africa (MENA).

Facebook users tripled from 2010 to 2012, partly because of massive online mobilization for street protests; today, Facebook users total close to 50 million, with an estimated 1 million new users joining every month.

Yet despite the rise, only 90 million people – less than half of the region's citizens – have become Internet users so far, and only about a third of those currently pay for goods or services online, leaving the sector ripe for growth.

Young entrepreneurs from Egypt to the Gulf are diving into this opportunity and finding increasing support from a growing ecosystem that includes college entrepreneurial clubs, new academic initiatives, informal meet-ups, high-tech boot camps, an expanding network of angel investors, and a bevy of regional accelerators offering seed funding and office space.

"Five years ago, if you said 'accelerator' or 'incubator' or 'angel investor,' people would think you are speaking Chinese," said Abdul Malek Al Jaber of MENA Apps at a digital innovation conference in Tel Aviv this month.

A vacuum of traditional jobs

Some see the entrepreneurial wave as part and parcel of the Arab uprisings, in which young people are striving to shape their course not just politically but economically as well.

"If you want to take hold of your future, you want a political, economic, and cultural voice," says Christopher Schroeder, author of the newly released book "Startup Rising: The Entrepreneurial

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Revolution Remaking the Middle East." "It's just different manifestations of the same sentiment."

But while a burgeoning population of restless youths is what gives the Middle East much of its digital potential, it also poses a major challenge: The MENA region, which had a workforce of 104 million in 2000, needs to nearly double the number of jobs by 2020 to accommodate fresh graduates as well as those currently unemployed, according to the World Bank.

This group has been pushed toward entrepreneurialism by the lack of jobs, particularly in the private sector.

"It's scary," says Usama Fayyad, chief executive officer of Oasis500 in Amman, one of the largest accelerators in the region.

"People at a gut level ... are basically saying, 'Look, I have no option for a job. I gotta create my own job.' And what better way to create your own job than to launch your own business."

For investors, it may seem less obvious.

Why would they be so willing to put their money in a region rocked by the largest political upheavals in half a century?

"When there's turmoil and disruption, that's the time to buy," says Egyptian venture capitalist Ahmed Alfi, who launched the Cairo start-up accelerator Flat6Labs just weeks before the 2011 Egyptian uprising toppled Hosni Mubarak.

"That's the bottom of the market. Egypt has everything going in its favor."

Opening investors' eyes

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After more than a decade in Silicon Valley, including time at e-commerce outlets Amazon and Zazzle, Ahmed Alkhatib had just returned home to Jordan and launched a "flash sale" e-commerce business there when the 2011 Arab uprisings began.

But Mr. Alkhatib pressed ahead with the support of key early investors, including Western firms like Hummingbird Ventures, which put down \$500,000.

It paid off.

In the first month, his company, MarkaVIP, made 25 times more than Alkhatib expected, and it's now one of the largest e-commerce outfits in the Middle East, with 350 employees serving customers in eight countries.

"I think with our growth and scale we're really able to open the eyes of Western investors," says Alkhatib, who has secured tens of millions of dollars from backers in Silicon Valley, New York, and Europe.

"I don't think people are going to stop shopping because of wars."

To be sure, there are challenges for MarkaVIP, which offers heavily discounted products in timed sales that expire quickly.

Each country has its own rules about customs and cross-border trade, and 85 percent of orders are cash on delivery – meaning the customer can back out at the last minute.

And it has essentially had to build a new crop of employees, since almost no one in the region had e-commerce expertise when it began.

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But Alkhatib has created a bustling, modern business.

At his Amman headquarters, employees enjoy a spacious recreation room that includes ping-pong and pool tables, foosball, beanbag chairs, and a movie theater.

"Really, this is a Silicon Valley company run out of the Middle East," Alkhatib says.

### Acceleration

Alkhatib is part of a small cadre of Arab entrepreneurs who have brought back valuable experience from the United States.

But much of the growth is coming from brand-new graduates with a great idea but little knowledge about wooing investors, hiring employees, or marketing their product.

That's where accelerators come in, providing crucial seed money and mentoring to help promising start-ups get off the runway.

One of the first accelerators was Jordan's Oasis500, established in 2010 in Amman as the outgrowth of informal meetings initiated by King Abdullah, who was looking to better leverage Jordan's investment in high-tech education.

Mr. Fayyad, a former executive vice president at Yahoo, was invited as "the token Silicon Valley guy," and helped develop a blueprint for the accelerator.

"This region is a desert when it comes to early-stage investment," says Fayyad, now the CEO.

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"That's why we called it Oasis."

Fayyad set an ambitious goal of developing 500 companies in six years, but cautioned the king that no one would invest a penny for the first year.

Abdullah told him he was wrong – and the king was right.

Five of the six companies that presented pitches at Oasis500's first angel-investor dinner got investments.

To date, 28 start-ups fostered by Oasis have made pitches, and 22 have gotten investments, with the funding ranging from 100,000 Jordanian dinars (\$140,000) to 1.5 million Jordanian dinars (\$2.1 million), according to marketing manager Omar al-Sharif.

"If the quality is there, then the investment is there," Fayyad says.

Oasis and Flat6Labs in Cairo, both established in 2010, paved the way for more than a dozen other accelerators and incubators across the region, including Seeqnce in Beirut, Lebanon, which funds start-ups for six months; SeedStartup in Dubai, United Arab Emirates, which invests \$20,000 to \$25,000 and three months of mentorship per start-up for a 10 percent stake in the company; and Tahrir-Squared in Cairo, named after the epicenter of the 2011 Egyptian uprising.

### Cultural hurdles

A key challenge is reviving a spirit of entrepreneurialism in a region that has become bogged down by bureaucracy and corruption.

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Cultural expectations also may prioritize a steady job that provides for a family, but is not challenging or relevant to one's skills, over a more meaningful or innovative career that carries more risk.

Fayyad is fond of starting out talks with new entrepreneurs by asking, "What's the Arabic word for 'venture capital?'"

He usually receives blank stares.

Then he asks, "How do you say the summer journey and the winter journey?"

Everyone instantly recognizes the literary phrase from the Quran that describes the ancient march of Arab caravans to Yemen in the summer and Damascus in the winter, venturing across desert lands with valuable goods that could be taken by bandits or marooned by natural disasters.

"The Arabs understood venture capital from the very early days," Fayyad says, although he adds that 800 years of Turkish rule took away that way of life.

"The fact that we lost it in our vocabulary and didn't develop the modern concept doesn't mean we aren't capable of doing it. And that basically gets them going."

But it's not enough to just get fired up.

They generally need some time to develop the experience and business sense to grow a successful company.

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"The idea that a 20-year-old entrepreneur who has never seen a sales deal has the ability not only to sell [his product] but also to hire, fire, incentivize, and deal with legal and financial issues – that's a tough sell for me," says Omar Christidis, founder of ArabNet, which holds annual conferences in Lebanon, Saudi Arabia, and the United Arab Emirates to foster start-ups in the region.

He says he's seeing an increasing number of high-quality start-ups that are better prepared to pitch to investors.

But, he adds, highly capable young entrepreneurs face some ageism in the Arab world.

"It's not as meritocratic as the US," Mr. Christidis says.

"Here there's a lot more emphasis on experience, credibility, reputation."

Still, with the help of growing ecosystems, mentorship, and the availability of seed money, new entrepreneurs are finding their way.

As of September, Oasis500 alone has trained 1,200 individuals in 23 boot camps and is gradually expanding across the region, with recent events in Lebanon, Tunisia, and the West Bank, and plans for one next year in Dubai.

In each batch of about 60 entrepreneurs as many as 13 have received seed funding (now at about \$30,000) to start creating their product, depending on merit.

"There's a great opportunity for them to start their own start-ups and create jobs for others," says Mr. Sharif, the Oasis500 marketing manager.