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# COULD DIGITAL TRANSITION BE THE ANSWER TO SUSTAINABLE REFUGEE-RUN BUSINESSES? A CASE STUDY ON DIGITISED SMALL BUSINESSES LED BY REFUGEES IN EGYPT

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## Introduction

As the COVID-19 outbreak has imposed many challenges on the modern world, it has also introduced a unique opportunity for building an efficient and effective economic structure that advocates refugees' financial stability through digital transition. The pandemic has accelerated the transition and empowered different stakeholders to opt for the creation of innovative tech solutions empowering sustainable businesses. For example, according to a study by VISA in August 2020, the number of consumers who shopped online increased by 80% (Moniem, 2021). Moreover, digitised businesses not only proved more efficient but also exhibited a resilient approach to competition (BDO, 2020). In June 2020, the European Union (EU) announced its plan for COVID-19 recovery with €1.85 trillion dedicated to boosting the economy, with a special focus on green and digital transition (Lehne & Dethier, 2021). On the other hand, according to the Egypt response plan by the United Nations High Commissioner for Refugees (UNHCR) in 2020, a total of US\$ 31,140,348 represent the financial requirement estimated for covering refugees' basic needs and livelihoods sector (UNHCR, 2020). Consequently, stakeholders advocating refugees' financial resilience should capitalise on digital transitioning to empower refugees leveraging this transition to overcome

business barriers related to needs identification, market demands, customer attraction, marketing, operational overheads, and funding. One of the major enabling factors for this would be the current digital momentum in Egypt as different ministries are working towards creating “Digital Egypt”, which is part of the Egypt 2030 strategy (MCIT, 2020).

According to the International Labour Organization (ILO) report, digital transition might pose many inequality risks for refugee entrepreneurship in the case of no clear global strategy for inclusion defined for the marginalised groups, such as refugees within the digital shift (ILO, 2021). Hence, national and international players need to bridge the gaps between current skills and capacities and the potentials offered by this transition for supporting refugee communities (ILO, 2021). Finally, refugees can be viewed as an added value by empowering the local host communities integrating new business skills, technical capacities and entrepreneurial practices within local markets, benefiting both groups (UNCTAD, 2018).

This policy brief provides a comprehensive overview of the root causes leading to the barriers to launch and maintain sustainable refugee-led businesses while building on how digital transitioning in Egypt is contributing to reducing/removing these barriers. The brief first presents the challenges faced by refugees in operating their small businesses and reflects on solutions introduced through the accelerated digital transition in Egypt. The findings in this part are based on 12 in-depth interviews carried out by the author with different stakeholders which include: (1) refugees using digital channels within their small businesses; (2) representatives from international non-governmental organizations (INGOs) working on projects funded by European donors with a focus on refugees’ economic empowerment; (3) representatives from local community development associations (CDAs) working directly with refugees on launching sustainable businesses, and, finally; (4) representatives from tech companies focusing on digital businesses. Findings from primary data collection are further expanded through secondary data available from official sources. The last part of this brief provides recommendations on interventions to be considered by different donors, INGOs, CDAs and governmental entities to further empower vulnerable refugees residing in Egypt to launch and sustain their businesses by capitalising on the market’s digital transformation.

## **Barriers to access and retain sustainable businesses run by refugees**

In order to understand the context of digitised businesses run by refugees in Egypt and barriers related to sustainability, five Syrian refugees (two females and three males) running digitised businesses in Egypt were interviewed, in addition to exploring the views of two project managers working for an international organisation in Egypt on livelihood opportunities for refugees, and two project officers from local community associations leading projects on supporting refugees to launch and sustain their business. Finally, one chief executive officer from the private sector with a focus on digital solutions was interviewed to further explore advantages gained by refugees through the current digital transitioning, especially related to sales volume.

There are different causes of failure to launch and maintain small businesses by refugees in Egypt; those barriers can be categorised under four main types: (1) regulatory barriers: as refugees are usually suffering from low financial capacity to obtain legal residency, this hinders their ability to operate officially and in accordance with the requirements of the Egyptian government; (2) financial barriers: access to funding opportunities/channels are considered by many donors and INGOs as the most critical type of barrier towards refugees’ financial resilience; (3) social barriers: these include discriminatory practices by local host communities against refugees’ businesses, conditions hindering female entrepreneurs, refugees with disability, and/or language and cultural difference; (4) technical skills and business

knowledge: these include lack of knowledge among vulnerable refugees about the main entrepreneurial principles for launching and maintaining a profitable business in addition to lacking the necessary vocational and technical skills for operating the business (Wishart, 2020).

## **Role of digital transformation in the economic field on reducing barriers to sustain refugee-led businesses**

The primary data collection explored different stakeholders' take on how digital transitioning is able to reduce/remove the aforementioned barriers. Generally, the sample of refugees who are currently utilising different digital channels within their businesses mentioned multiple strategies they have been embracing over the past year to benefit from the digital momentum. These strategies include direct organic marketing to increase their sales through promotional offers via WhatsApp and Facebook, utilising online payment methods for dealing with suppliers and customers by establishing online cash wallets, and, finally, gaining insights into market needs by monitoring online channels to enhance their offers to the customers. Moreover, the sample mentioned they were able to operate and market their business without the need for a physical store, which usually requires a legal status to sign rent contracts. Additionally, as refugees are unable to open a bank account due to their invalid legal residency, refugees utilise digital payments such as "Fawary"<sup>1</sup> to send and receive payments related to their businesses. The sample also mentioned that digital channels enabled them to start with lower seed funding than what they estimated for launching through a physical store. One respondent mentioned that she was able to launch her business online selling clothes with only US\$ 90. Moreover, the same respondent highlighted the fact that operating online is the best approach for female refugees, as this empowers them to overcome many social barriers related to their roles as wives and mothers and enables them to stay home and provide care for their children while earning a sustainable income. It is worth mentioning that the most common benefit for digitised businesses, as reported by all stakeholders interviewed, was providing a wide market that reached beyond geographic areas where refugees are concentrated, enabling them to promote and market their products/services, leading to increasing sales and sustaining their business in the long run.

## **Digital transformation in Egypt**

According to the 2030 strategy of the Ministry of Information and Communication Technology (MCIT) in Egypt, by embracing digital transformation Egypt's economy will have a competitive, balanced and diversified edge, while advocating social integration and justice for all relevant parties (MCIT, 2020). Furthermore, the Egyptian government has been promoting the digital transition on many levels: for example, after the outbreak of COVID-19, the Digital Future initiative was launched through the Federation of Egyptian Chambers of Commerce, in cooperation with the Ministry of Public Business Sector, to empower small and medium-sized enterprises (SMEs) in Egypt to benefit from the competitive advantages gained through the digital transformation amid the COVID-19 outbreak (Moniem, 2021). Moreover, the MCIT recently launched "Egypt Forward", which is an initiative aiming to train 200,000 young Egyptians to build digital skills and promote access to tech freelancing opportunities. Even though this initiative is targeting only young Egyptians, the model could be extended to refugees residing in Egypt.

<sup>1</sup> An online portal for paying bills and sending and receiving cash between customers or entities, which does not require official residency for refugees to use.

Building on the same vision, over the past two years different private entities have launched actions advocating digital transformation within the economic sector to increase the attractiveness of e-commerce and digitised businesses. For example, Egypt's Commercial International Bank (CIB) launched an initiative under the name "Growing Together" where the bank partnered with "zVendo", an e-commerce solutions company, to provide support to small businesses using online stores for exhibiting and selling their products.

Another example of the digital momentum embraced within the economic field in Egypt is the "Capiter" company, which is a business-to-business platform where owners of small enterprises, regardless of their nationality, can order an inventory for their business. This platform would empower refugee entrepreneurs to access the necessary supplies for their businesses at a fair cost. As one refugee entrepreneur mentioned, due to a lack of information on prices of raw material, the suppliers used to increase prices of the supplies needed. Finally, "Capiter" also provides its customers with market insights through the use of machine learning technologies to refine their distribution strategies and increase efficiencies. This is again tackling barriers for identifying and proactively addressing market needs, which is required for business sustainability.

## **Accelerating factors for an inclusive digital transition for refugee entrepreneurship**

### **Building skills in and knowledge of digital technologies**

On the other hand, as reported by the respondents from CDAs, there are two types of refugee-led enterprise, those which do not use digital solutions at all, and those that use the online solutions in a very modest way that is not sufficient to sustain their business. This is also confirmed by the refugee sample interviewed for this policy brief, as they mentioned limited benefits perceived from using the digital channels. Moreover, one representative from a CDA, based on practical interaction with refugee entrepreneurs, estimates that more than 98% of refugees do not possess sufficient understanding of tech principles for digitised businesses. For example, the most common practice among refugees is marketing their products and services via WhatsApp groups, which usually only include other groups from the same nationality and socioeconomic status, limiting their sales volume.

A less common practice is to establish a dedicated Facebook page to promote their business to reduce operational costs, including rent and hiring staff. However, as indicated by private company representatives, refugees lack understanding of digital marketing principles, such as photographing content and marketing concepts, which, again, leads to the failure of the business as no sales are generated due to the lack of knowledge of e-commerce and digital marketing.

Clearly, current practices deployed by refugees to embrace the digital transformation in Egypt are not benefiting from the wide range of advantages provided by digital solutions. Hence, advanced capacity-building is required so refugees learn practical strategies for launching and sustaining their businesses by providing them with different practical low-cost digital solutions geared towards the attractiveness, efficiency and sustainability of their business. This knowledge and capacity-building can be provided through various approaches, such as offering online coursework with content tailored for refugee entrepreneurs in Egypt. Another suggestion by the sample interviewed was to establish a business centre within INGOs to provide constant hands-on technical capacity-building, and advising refugee entrepreneurs.

## **Investing in technological infrastructure**

The sample interviewed from INGOs and CDAs has confirmed that about 95% of adult refugees in Egypt already have access to low-budget Internet packages and basic equipment. However, the respondents also stressed the importance of investing in advanced technological infrastructure. This includes providing refugees with access to more stable Internet access and advanced equipment as the use of tech solutions would entail an upgrade for the level of equipment/Internet connection. This finding was also confirmed by the refugee sample interviewed.

## **Offering affordable and user-friendly tech solutions**

As refugees exhibit different vulnerability factors, such as low financial capacity and/or inadequate education background, there is an urgent need to tailor innovative tech solutions that are low cost and easy to acquire by refugee entrepreneurs. As highlighted by one of the sample respondents from INGOs, many refugees avoid paid online marketing, even if it is deemed essential for increasing their sales, due to their limited financial capacity, as this would require fees for the service itself in addition to hiring a marketing specialist to manage the process.

## **Ensuring the safety of vulnerable groups online**

An essential and critical step towards an inclusive digital economy is to ensure the safety of vulnerable groups, such as refugees and those with functional disabilities when using digital solutions. For example, one Syrian female entrepreneur, interviewed for this policy brief, reported online harassment when using Facebook to promote her products. Moreover, a representative from the CDA sample described a situation reported by one of her project beneficiaries where a hacker sent a link to a Syrian lady to hack her phone and told her to register for training on digital marketing. Hence, there is a clear need for protection mechanisms to ensure online security of vulnerable refugee entrepreneurs, especially females. On the other hand, digital solutions should empower refugees with disabilities not to fall behind in the transformation by providing dedicated services and innovative strategies to ensure their inclusion.

## **Considering language barriers for non-Arabic speakers**

Language barriers facing non-Arabic speakers in Egypt should be carefully tackled through dedicated language courses to empower refugee entrepreneurs in Egypt who are unable to speak the local language. Understanding Arabic would have a great impact on refugees' ability to reach local Egyptian communities via online channels. Another enabling factor would be ensuring automation features and bots for selling and replying to clients to overcome language barriers.

## **Conclusion and recommendations**

It has become clear that capitalisation on digital transitioning in the Mediterranean for empowering refugee entrepreneurs is particularly essential for sustainable financial and social resilience. As Egypt is building its digital transition roadmap, efforts should be made to ensure

the inclusion of vulnerable and marginalised groups such as refugees. For this inclusive digital transition to happen, collaborative partnerships should be established between the government and different stakeholders such as United Nations (UN) entities, local development associations, international non-profit organisations, and international donors, to support refugees with coping with and benefiting from this digital momentum within their businesses to establish a competitive edge. In order to achieve the previous objective, actions geared towards this inclusive transitioning should consider the following recommendations:

1. Cultivate empowering partnerships with private sector actors as part of their corporate social responsibility to accelerate the digital transition within refugee-led businesses. These partnerships may support interventions targeting capacity-building in technical and digital skills, technological infrastructure, and/or providing services facilitating the inclusion of refugee entrepreneurs within the digital transition. For example, private companies such as Amazon operating online stores would provide low-cost promotional features to refugees selling via their platform. It is critical to acknowledge the importance of incentivising private sectors to engage in such partnerships.
2. Advocate the inclusion of refugees under services provided by official Egyptian initiatives/entities for using digital transformation within small businesses led by the Egyptian MCIT. By achieving this, a wide range of capacity-building channels on digital skills required for this transition within small businesses would be accessible to refugees. Tailoring the content of these capacity-building interventions is also recommended to reflect on the context and vulnerability factors of refugee entrepreneurs.
3. Contribute towards boosting Egypt's technological infrastructure through a dedicated tech-accelerator launched and maintained by local development associations to provide practical support to digitised business strategies and solutions to refugees.
4. Improve current tech services and solutions targeting small businesses led by refugees. For example, telecommunications companies may offer reduced fees for business packages, including online payment methods and Internet packages for refugee entrepreneurs.
5. Facilitate obtaining documents required for refugee entrepreneurs to use online stores in Egypt such as Amazon and Noon.
6. Conduct a market scan study on online business to understand types of business sectors and corresponding actions to consider when offering products and services via online channels. This would contribute to the avoidance of online market saturation and reduce the percentage of failures among projects launched by refugees utilising digital solutions
7. Create and empower "digital champions" among refugee entrepreneurs to advocate refugee rights and access to digital solutions. This would ensure a long-lasting impact on current and upcoming generations of refugee entrepreneurs by building the resilience of refugees advocating their rights.

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