

The Gig Economy 2.0: Challenges and Opportunities in the MENA region

A whitepaper by  investopia



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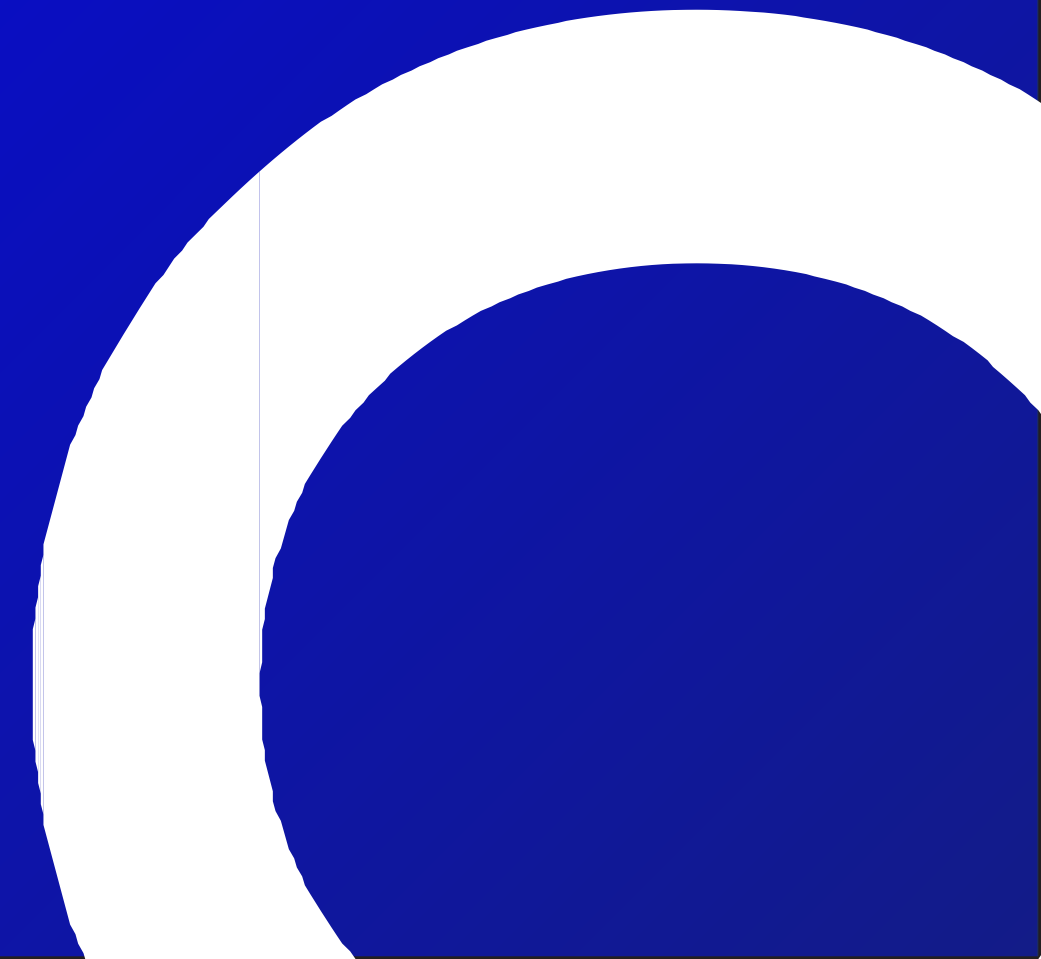
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INTRODUCTION

The gig economy, characterized by a labor market in which short-term contracts, freelance work, and temporary positions prevail, has rapidly evolved over the past decade and is reshaping the global labor market. Digital platforms and flexible work models drive it. In this system, individuals work independently, often providing services on-demand through digital platforms or apps like Uber, Airbnb, or Upwork. Workers in the gig economy, sometimes called 'gig workers'—individuals who work on a project or task basis, often for multiple employers, and are not committed to a single employer long-term—may have more flexibility in choosing their working hours and projects but often lack the benefits and job security associated with traditional employment, such as health insurance, paid leave, or retirement plans.

According to McKinsey's 2022 American Opportunity Survey, 36 percent of employed respondents—approximately 58 million Americans—identify as independent workers. This marks a substantial rise from 2016 when McKinsey's research estimated that 27 percent of the workforce was independent.

In the Middle East and North Africa (MENA) region, the shift towards a gig economy presents both challenges and opportunities as governments, businesses, and workers navigate the implications of this new economic paradigm. The region now boasts one of the fastest-growing freelance economies, with freelance registrations surging by 142% in 2023 compared to 2022. This growth has been driven by a young and educated workforce that prioritizes flexibility, increasing digitalization, and evolving work cultures. A report by the International Labor Organization predicts that the gig economy in the MENA region will grow at an annual rate of 14%, reaching a total value of \$30 billion by 2025. This growth not only signifies the potential for economic diversification but also the creation of new job opportunities, particularly for the region's youthful population.

Countries like the UAE and Saudi Arabia are prioritizing digital transformation and economic diversification under initiatives like Vision 2030—a strategic framework to reduce Saudi Arabia's dependence on oil, diversify its economy, and develop public service sectors—and the UAE Centennial 2071—a long-term government plan to make the UAE the best country in the world by its centennial in 2071. These efforts foster an environment conducive to gig work by encouraging entrepreneurship, technology adoption, and digital infrastructure development.

In contrast to the global trend where technology and data analysis take the lead, the MENA region demonstrates a wider range of focus areas, encompassing finance, risk, product and proposition development, sales, marketing, and change management.

CURRENT STATE OF THE GIG ECONOMY IN MENA

Recent economic statistics estimate the MENA region's GDP at approximately USD 5 trillion and expect it to grow moderately at 2.7% in 2024. Several key factors are driving the region's growth and rising significance: increased demand for energy resources, a surge in both foreign and domestic investment, a strong push to diversify beyond oil and gas revenues, and substantial investments in education and workforce development.

In line with the growing economic importance of the MENA region, the freelance industry has also experienced significant growth and is expected to continue expanding in the coming years. In Saudi Arabia, registered freelancers surged by 157% between 2020 and August 2023.

Demographic trends are a key factor driving interest in the gig economy, especially in larger economies like Saudi Arabia, the UAE, and Egypt. Saudi Arabia's Vision 2030, in particular, is a massive multi-trillion-dollar initiative aimed at developing new economic sectors and transitioning to a digital, knowledge-based economy. This strategy seeks to move the Saudi economy away from oil dependence and create more diversity in private-sector jobs for a young, growing population. Millennials and Gen Zs are at the forefront of this shift, spurring innovation and entrepreneurship, with increasing numbers of young people exploring part-time or full-time careers as independent professionals or freelancers. This dynamic is fueling the rapid growth of the gig economy in the region.

The COVID-19 pandemic has hastened the shift toward remote work, a trend expected to persist in the coming years. As businesses in the MENA region increasingly implement remote work policies, gig workers will likely have more opportunities. At the same time, online platforms that connect gig workers with businesses and individuals are gaining popularity, making it easier for freelancers to find work and for companies to access a broader talent pool.

Investor interest in gig-work startups is gaining momentum, with significant regional venture capital firms such as Vision Ventures, STV, and VentureSouq backing hourly-work staffing platforms like Saudi-based Marn. These investments aim to fuel a technology-driven, youth-focused market disruption.

OPPORTUNITIES IN THE GIG ECONOMY 2.0

The gig economy has a diverse economic impact, providing additional income opportunities for workers and cost-saving advantages for businesses. For workers, particularly those facing obstacles to traditional employment, gig work serves as an important source of income.

For businesses, employing gig workers is not just about tapping into a flexible talent pool, but also about reducing overhead costs tied to full-time staff, such as benefits and office space. Additionally, the gig economy promotes innovation and entrepreneurship by lowering barriers to entry, allowing individuals to monetize their skills and assets more easily. The gig economy also provides access to a large talent pool on a flexible, as-needed basis, allowing businesses to scale operations swiftly and efficiently. Moreover, gig platforms often drive innovation by supporting the creation of new services and business models.

As traditional corporate structures decline, workers now have the flexibility to work with multiple clients, offering them greater freedom and a better work-life balance. This shift is particularly appealing to younger generations, especially Gen Z, who are entering the labor market with a preference for gig work. The growing youth demographic, which is expected to experience a population surge to 740 million by 2050, with over half of that population under 25, offers a ripe opportunity for the gig economy to thrive in the MENA region.

A 2022 survey conducted by Middle East recruiter Bayt, as reported by Arab News, revealed that 70% of employers in the MENA region planned to hire freelancers, while around 78% of workers expressed intentions to pursue part-time freelance work more actively. A more recent survey found similarly high numbers of professionals open to part- or full-time freelancing as employers increasingly seek cost-effective solutions to complete projects within tight deadlines and with limited available talent.

The rise of non-contractual gig models has significantly addressed the challenge of localizing low-skilled, seasonal jobs in sectors like retail and hospitality. This shift has also highlighted the need for alternative payment solutions for wages, leading to the emergence of regional fintech startups offering peer-to-peer (P2P) transactions and accessible capital, particularly benefiting unbanked populations in countries like Egypt, the UAE, and Northwest Africa.

The new gig economy presents an opportunity to develop a future-ready skills economy. In this model, skilled workers become less dependent on a single employer or corporation, allowing them to operate independently as service providers. These workers are more resilient and adaptable to changing market conditions. To fully embrace this opportunity, the broader education strategy must be revisited and updated to equip workers with the necessary skills for success in the gig economy.



CHALLENGES FACING THE GIG ECONOMY IN MENA

The USD 4 billion market for digital freelancing in the Middle East highlights significant untapped potential. With more professionals in the MENA region turning to freelancing, there is a clear need to address challenges such as restricted access to international earnings, high transaction fees, low credit limits, and limited access to growth finance. Overcoming these hurdles could lead to exponential growth in the freelance economy. One promising solution is the standardization of regional regulations to facilitate cross-border freelancing. Greater regulatory uniformity could unlock this dormant potential, significantly boosting the region's economy.

Labor laws relating to freelancing need to be addressed in different countries in the MENA region. For instance, in Saudi Arabia, excluding independent workers from being classified as employed or unemployed prevents these young freelancers from registering for social or medical insurance. This limitation makes it difficult for platforms like Sabbar or Marn to address work-related injuries effectively.

Throughout the region, outdated legal frameworks complicate hiring non-nationals as gig workers. In Jordan, which has the third-largest population of Syrian refugees globally, hiring Syrian workers requires numerous licenses and certifications. Despite recent experimental initiatives in Saudi Arabia, the regulations remain more explicit in excluding non-nationals from being registered on gig work platforms.

While the gig economy allows businesses the flexibility to hire by task and as the need arises, ensuring lower costs, it also means that gig workers do not develop firm-specific skills, and turnover rates are high, which may not bode well for the overall firm culture. Relying too heavily on non-standard employment (NSE) can negatively impact a company. Research indicates it may result in limited skill development within the firm, reduced motivation to invest in training, research and development (R&D), productivity-enhancing technologies, and inefficient resource allocation. Therefore, companies must balance leveraging NSE with investing in the long-term growth and development of the organization.

The gig economy also poses challenges for gig workers, including greater concerns about job security, transitioning to full-time employment, and the possibility of losing income-generating opportunities. These concerns are particularly common among certain groups, such as women.



POLICY RECOMMENDATIONS AND FUTURE OUTLOOK

The new gig economy emphasizes the need for policy-making supporting gig workers and flexible working models. Governments need to collaborate with businesses and insurance providers to design policies that offer gig workers social security benefits, health coverage, and pension options, addressing concerns about their need for access to traditional employment benefits. Governments in the MENA region can look at how countries such as the Netherlands, which has had the highest rates of part-time employment for many years, have designed policies and regulations to provide part-time workers with basic protections and benefits.

While designing policies for the gig economy, governments need to harmonize employment contract regulations to create a more cohesive labor market that effectively utilizes NSE. This approach encourages workers to join the labor force while providing businesses access to a wider talent pool. When costs and benefits vary significantly across different types of labor contracts, it can distort hiring decisions, steering them away from the actual needs of the business.

To address this, regulations should ensure proper worker classification for the self-employed, standardize contribution costs across dependent-employment contracts, and allow for flexible arrangements within these contracts. This approach ensures the hiring process aligns with both business needs and worker preferences. Regulations should also focus on reducing incentives for businesses and workers to alter employment contract types in order to evade tax and social contribution obligations or transfer work-related costs to the employees.

In the context of the gig economy in the MENA region, the social protection system could expand to include NSE by leveraging savings as a tool. Key components of social protection, such as pensions and unemployment insurance, are typically inaccessible to gig workers due to contribution mechanisms or eligibility requirements. Introducing incentivized portable savings accounts could help extend these benefits to a wider group. Governments can promote such accounts by offering incentives like matching contributions or tax exemptions to encourage participation.

Governments, in collaboration with the private sector, will also need to invest in training programs to help gig workers develop and upgrade their skills. This ensures a well-equipped workforce to handle specialized tasks and stay competitive in technology, AI, and digital services. The future of work will require continuous learning for workers to stay employable in a rapidly evolving labor market. Gig work allows more individuals to enter the workforce on their own terms, giving them greater control over their careers. However, this independence also places more responsibility on workers to acquire new skills and advance their careers, as companies are often less incentivized to invest in skill development for gig workers.

Recognizing the critical role of lifelong learning in the modern economy, governments need to implement policies to support gig workers more effectively. These initiatives include offering tax incentives, providing career guidance, offering adaptable support, expanding access to high-quality training, and improving labor market data to better serve the growing number of people working in the gig economy.

The new gig economy offers opportunities for businesses in the MENA region to meet the needs of gig workers by offering gig workers greater flexibility in terms of working hours, project timelines, and locations. This allows gig workers to balance multiple clients and projects while maintaining productivity. They can also establish efficient and timely payment processes, including digital wallets or fintech platforms, to ensure that gig workers receive prompt compensation for their services. Given the rise of P2P payments in the region, businesses can adopt accessible digital solutions for quick, hassle-free transactions.

Businesses must also advocate for and comply with legal reforms protecting gig workers' rights. This includes creating clear contracts, ensuring fair treatment, and supporting efforts to revise outdated labor laws limiting gig work opportunities for non-nationals. They must also use gig work platforms such as Upwork, Marn, or Sabbar to connect with skilled freelancers and manage projects efficiently. These platforms make it easier for businesses to find talent and for gig workers to access new opportunities.

Blockchain technology may improve trust and security for gig transactions in the MENA region's gig economy. Features such as smart contracts and transparent payment systems may become common on gig platforms, ensuring greater reliability and efficiency in managing agreements and payments. The rise of specialized gig markets tailored to niche skills and industries is anticipated to expand in the MENA region. These platforms will offer highly skilled gig workers opportunities to find projects that align with their specific expertise, creating a more focused and lucrative gig economy.

Thus, gig work's global growth presents opportunities and challenges for the labor market, calling for public policy interventions to maximize benefits and minimize negative impacts. Research on the effects of the gig economy on firms and workers highlights the importance of creating a balanced policy framework that addresses both the advantages and difficulties of gig work. Public policy should focus on harmonizing regulations for standard and NSE, updating social protection systems, and promoting lifelong learning to help workers navigate transitions and adapt to the ever-evolving world of work.

CONCLUSION

The gig economy in the MENA region is rapidly evolving, offering significant opportunities and complex challenges. It is set to grow in the coming years, fueled by demographic shifts, technological advancements, and economic factors. As digital platforms grow and the demand for flexible, short-term work increases, the gig economy presents a viable pathway for economic diversification, job creation, and innovation, particularly for the region's youthful population. While challenges remain, the continued rise of gig work is expected to create new opportunities for both workers and businesses.

Key challenges must be addressed to fully harness the gig economy's potential. These include the need for updated regulatory frameworks, expanded social protections, and better access to skill development. Governments and businesses must work together to create policies that protect gig workers' rights while fostering a dynamic and inclusive labor market. By balancing flexibility with security, the MENA region can unlock the full potential of the gig economy, creating a more resilient and diversified economy for the future.



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