

FROM SAND TO SILICON: AI ADOPTION IN THE MIDDLE EAST AND AFRICA

HLB SURVEY OF BUSINESS
LEADERS 2024





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STRONG REGIONAL ECONOMIC GROWTH SHAPES A POSITIVE OUTLOOK

Business leaders' confidence in the Middle East and Africa is on the rise: 90% are confident in their ability to grow revenue this year. Of these, 47% are very confident – a twofold increase from 2021.

In 2024, Africa is expected to become the world's second-fastest economic region after APAC, with an estimated real GDP growth of 3.2%¹. East Africa, in particular, is to show strong performance, thanks to expanding travel, hospitality, financial, and telecommunications industries. Fifteen African countries posted output expansions of more than 5% last year, and the continent accounts for eleven of the world's 20 fastest-growing economies, according to the African Development Bank Group.²

The Middle East and North Africa (MENA) region is also projected to show a strong 2.7% GDP growth rate in 2024³ due to loosening OPEC oil production quotas and strengthening trade ties in Asia. This has driven economic expansion in the Gulf Cooperation Council (GCC) states, with an increase in consumer spending and a relatively low inflation rate of 1.3% and 2.8%⁴. Countries outside the GCC are facing higher macroeconomic imbalances and

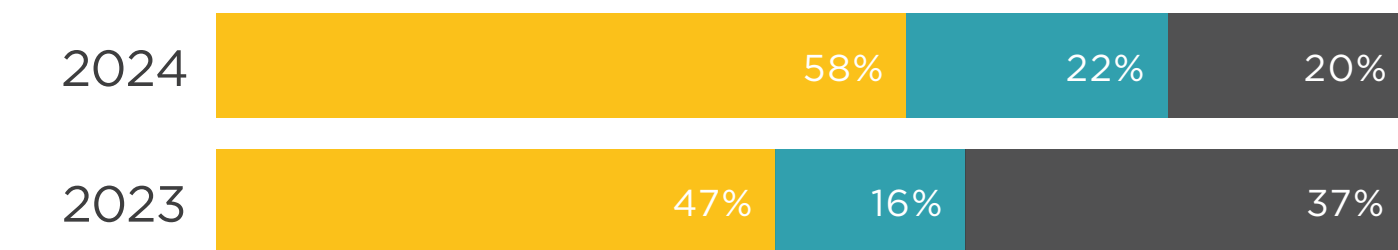
inflationary pressures. Nonetheless, business leaders maintain a positive outlook: 58% expect an increase in global economic growth, up 11% from 2023. Moreover, 17% fewer leaders expect a decline.

While improving macroeconomic conditions inspire optimism, local operators also face greater risks. Over 50% of leaders are pressed by 13 different risk factors – the largest risk radar globally. Geopolitical risks (67%), rising interest rates (67%), and inflation (66%) are top-of-mind concerns.

Tensions continue to proliferate in the Middle East due to the Israel-Hamas conflict, with the potential for further escalation. Turmoil has swept the Sahel region in Africa after armed coups established military regimes in South Sudan, Chad, Niger, Mali, Burkina Faso, and Guinea. The war in Ukraine continues to undermine food security in the region.

DESPITE MACROECONOMIC TURBULENCE, LEADERS ARE MORE OPTIMISTIC ABOUT GLOBAL ECONOMIC GROWTH

Q Do you believe the rate of global economic growth will change in the next 12 months?



■ Growth will increase ■ Growth will stay the same ■ Growth will decline

The political climate is also exacerbated by upcoming elections. Fifteen African countries will vote through 2024, including Tunisia, Algeria, Botswana, Ghana, and Mauritius, among others. Most incumbent regimes are expected to prevail, but parliamentary majorities may be reduced and governing conditions can become more challenging. This rising political polarity may explain increased concerns around misinformation, up 8% from 2023.

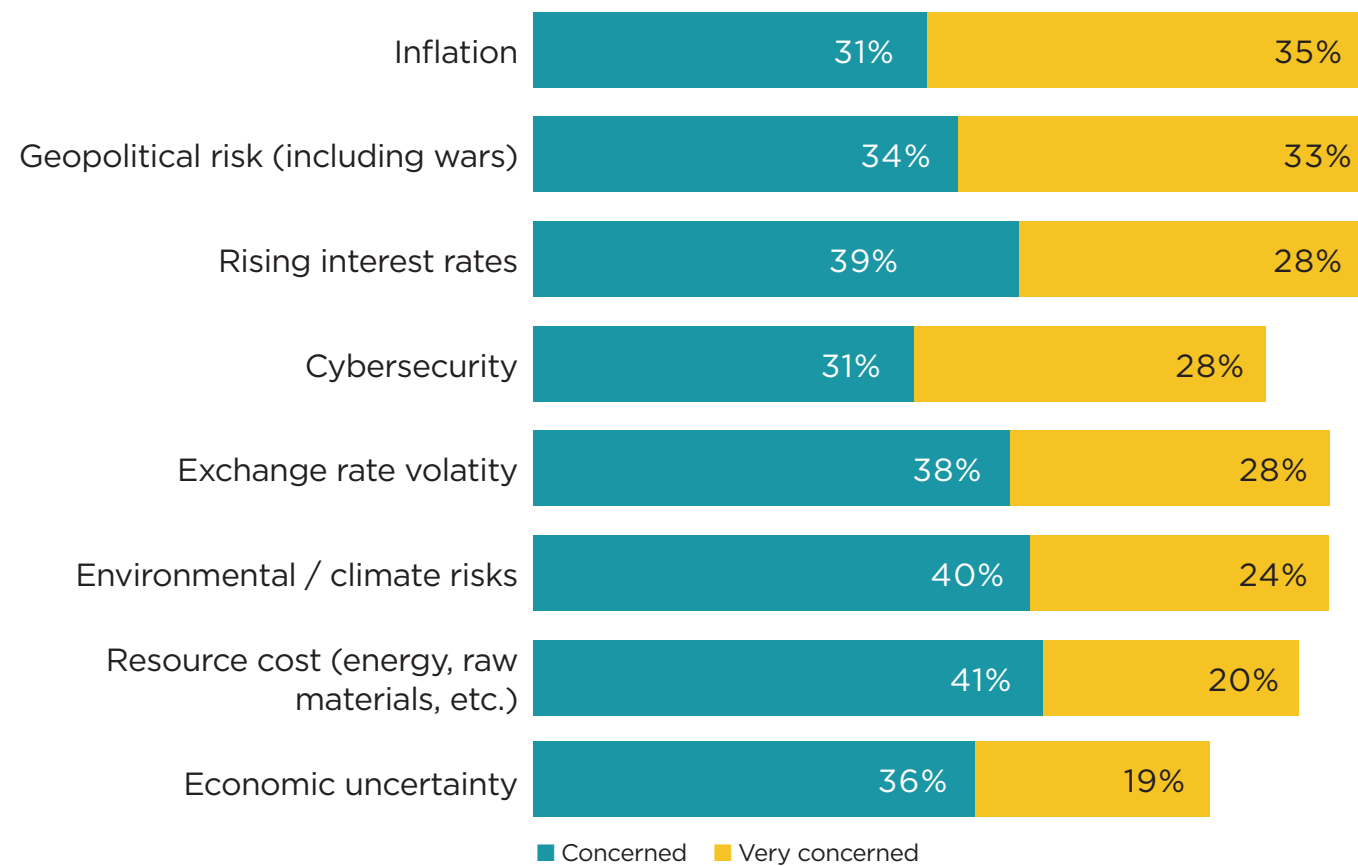
On the brighter side, inflation has been easing in most African countries. Annual inflation rates in Kenya decreased to 6.97% in March 2024 from 8.59% in March 2023⁵. In Tunisia, the annual inflation rate is down to 7.5% from 10.1% in April 2023. Inflationary concerns among respondents have declined from 80% in 2023 to 66% in 2024.

Yet, the interest rate hiking cycles aren't over, amidst geopolitical turbulence and national currency volatility. The Egyptian pound hit a record low in March 2024, prompting the Central Bank to raise interest rates to 27.25% to counter consumer price increases and inflation.⁶ Turkey raised interest rates to 50% after annual consumer price inflation soared to 67% in February 2024, despite multiple failed attempts to curb it since the Covid-19 pandemic⁷.

It follows that 63% are concerned about exchange rate volatility and 61% by rising resource costs. Most Gulf and African currencies are pegged to the US dollar, so central banks don't rush with monetary policy easing. African countries may experience exchange rate declines through 2024, except for the CFA (Franc of the Financial Community of Africa) franc zone, where currencies remain pegged to the euro, resulting in appreciation.

TOP EIGHT MOST PROMINENT RISKS

Q To what extent do the following risks to your business concern you?



Middle Eastern and African leaders are more worried about environmental risks than their global peers (64% vs 52%). Environment concern levels also increased by 10% since 2023. African climate and weather-related hazards have worsened with rising temperatures. Over 110 million people on the continent are affected by climate-related hazards, causing over \$8.5 billion in economic damages in 2022, according to the World Meteorological Organisation⁸. The Persian Gulf states recently recovered from one of the worst floods in history, caused by excess rainfall.

A recent report by KAUST (King Abdullah University of Science and Technology) (2023) foresees that a 3°C rise in global average temperature by the end of the century is estimated to cause a much higher 4.4°C average temperature in the Arabian Peninsula⁹. “We assess that the institutional settings of the environmental ecosystem established by the Saudi Government, guided by Vision-2030, are comprehensive, integrated, and efficient,” says Aamir Tahir, Head of Advisory Services at HLB Saudi Arabia. “However, while we notice some positive spillovers in the private sector, we believe that the private sector’s awareness of environmental risks and voluntary actions to mitigate such risks must be encouraged further, particularly for SMEs.”



Trade disruption worries 60%, but the percentage of leaders not concerned over trade increased by 7% in 2023. New Eurasian transport corridors and geostrategic alliances bring greater optimism about business resilience. Almost three-quarters agree that changes in trade agreements will create new business opportunities. 73% also expect that technological advances will help overcome cross-border challenges. “Companies now trade in a global village,” says Charles Lupiya, Tax, Payroll and Compliance Specialist, HLB Zambia. “The technology cuts across geographical, geopolitical, and cultural barriers, opening up markets which previously were not easily accessible”.

The perceived risk of disruptive technologies has declined by 30% in the region (from 2022), perhaps a sign that leaders in Africa and the Middle Eastern are better prepared to harness emerging technologies to their advantage. Governments continue to diversify from commodity-dependent economies to knowledge-based ones, with a strong focus on digital economies and innovation. Access to better education, higher inclusion of women in the workforce, and improved physical and digital infrastructure are important stepping stones on this path, paired with businesses’ investments in human capital.

FOCUS FOR 2024: EFFICIENCY, TECHNOLOGY, AND REVISED STRATEGY

Last year, 84% of African and Middle East leaders focused on investing in innovation and growth, with more than half aiming for improving operational efficiency at the same time. The trend continues, with 64% marking 'increasing operating efficiency' as the top priority for growth, alongside 'new technology adoption', selected by 59%.

In a risk-ridden landscape, leaders must stay nimble to respond to changing market conditions and capture new revenue opportunities as these emerge. GCC is encouraging digital transformation with advantageous regulatory reforms, investment incentives, and the creation of tech-focused economic zones to attract domestic and foreign investors. Middle Eastern and African leaders are more inclined than their peers in other regions to be establishing joint ventures and strategic alliances (42% vs 30%). Bahrain is partnering with Citibank to create a new tech hub to employ and train IT talent over the next decade. The country also plans to train at least 20,000 citizens on cybersecurity as part of its information technology

strategy. Dubai Emirate has an ongoing partnership with several Big Tech companies, including Facebook, Google, and Microsoft, to develop and attract over 100,000 software engineers by 2025.

The African continent also has burgeoning digital economic sectors, thriving thanks to improved Internet penetration and greater adoption of mobile money solutions and FinTech products. Ecommerce penetration in Kenya increased to 16%, the third highest rate in Africa after Mauritius (22%) and Tunisia (25%)⁹. Kenyan officials seek to further accelerate adoption through a national ecommerce strategy published in December 2023. Maghreb countries continue to strengthen their positions as nearshoring IT and business services suppliers. The ICT sector in Morocco generates between 5% and 6% of the country's GDP¹⁰. Tunisia's ICT service exports reached \$431 million in 2022, an almost two-fold increase from 2020¹¹.

Amidst burgeoning digital enterprise, almost half of business leaders plan to initiate strategy reviews this year. New product or service launches are also a priority for 42%, although the interest is more tamed compared to 2020, when 56% were prioritising this action. Instead, a higher percentage of leaders this year are in a 'saving mode'. 49% plan to reduce costs, up by 6% from 2023. 29% also flagged 'cost management' as a weakness to address. Although, it appears that cuts won't affect tech budgets.

On the contrary, the adoption of new technologies is now a priority for 59% of leaders, up 26% compared to 2022. By a long shot, AI overshadows all other emerging technologies: 67% ranked it as the most important technology for the next five years, with interest levels doubling since 2020.

The public launch of ChatGPT and DALL-E 3 made the power of AI palpable to the general public and re-ignited interest from investors. Practically, generative AI and other deep learning and machine learning algorithms can substantially augment the human workforce, lending extra operating speeds to companies in the region.

In MENA, the financial services sector is expected to become the highest spender on AI technologies, commanding 25% of the total spending. By 2030, the usage of AI can contribute as much as 13.6% to the region's GDP¹². Three MENA FinTech startups have reached a unicorn status in 2023 — two buy-now, pay-later products and a 'super app' combining ride-hailing, ecommerce, payment, and lending products. Beyond finance, regional governments and private businesses are also looking to incorporate AI into other sectors, such as transportation, manufacturing, and professional services, among others.

Admirably, 53% also emphasise the importance of renewable energy technologies — the highest globally. While renewables only account for a small part of the region's capacity, that is changing rapidly. "Saudi Arabia envisions attaining a renewable contribution of more than 50% of the national energy mix by 2030. This ambitious target, coupled with renewables value chain localisation requirements, creates significant opportunities and interest in investments in the sector. In addition to many attractive incentives offered by the Saudi Government, the Saudi Industrial Development Fund has launched an incentivized funding programme, "Mutajadedah", specifically for investors in renewables manufacturing," noted Amir Tahir.

In Africa, the investors' mix is also evolving, with more developers focusing on green initiatives. The continent has a huge potential for wind and solar power generation, with an opportunity to drive three-quarters of the total renewable capacity in Africa through to 2040¹³.

At COP 26, South Africa presented a Just Energy Transition Investment Plan backed by international partners. Over the next five years, the country plans to invest \$98.7 billion into ensuring better energy security and progressive decarbonisation¹⁴.

Energy transition is also increasingly important to reduce the impacts of climate change. "Zambia heavily relies on hydropower generation for electricity. However, due to the effects of climate change, there are now low levels of water in the Kariba Dam and other water reserves," says Charles Lupiya. "The government has been encouraging citizens to use alternative sources such as solar and introduced policies such as exempting solar products from customs."

LEADERS SEEK GROWTH THROUGH A MIX OF OPTIMISATION AND INNOVATION

Q Which of the following actions are you planning to take in the next 12 months, in order to grow?



Morocco plans to expand renewable electricity generation from a share of 17.6% in 2020 to 52% by 2030¹⁵. The continent also has rich green hydrogen reserves, which, if properly cultivated, can fully satisfy the domestic demand by 2040. Egypt recently embarked on an ambitious \$5 billion project to create a green ammonia plant with a production capacity of one to three million tonnes annually. Upon its completion in 2025, the plant will export clean ammonia to markets in Europe and Asia, where the demand is on the rise.

Cloud computing continues to hold the third position as a top technology for growth at 38%. Businesses have likely established a good cloud computing base and are now looking to invest in other areas. Sentiment has also cooled towards blockchain, down by 32% from 2020.

Overall, perceptions of the importance of most emerging technologies have increased — from AI and robotic process automation (RPA) to VR/AR and drones, compared to the start of the decade. Q6. Almost three-quarters agree that emerging technologies are key to driving innovation, creativity and productivity for the business.

However, leaders realise that tech adoption comes at the cost of increased cyber risks. 31% plan to address weaknesses in cybersecurity — a twofold increase from 2022. Last year, the African Union Commission (AUC) systems, Nigerian election infrastructure, and Kenyan government data systems were targeted by cyber-criminals. African businesses also face the highest levels of attacks at industrial systems, with attack attempts detected against 32% of the installations¹⁶. MENA countries are also looking to increase spending on cybersecurity by 12% in 2024 to stave off persisting and novel AI-enabled threats¹⁷. A quarter of leaders also named 'digital capabilities' as an area for improvement. Leaders, however, aren't deterred by the challenges. In the context of emerging tech and AI, 60% are prepared to take on more risk, given the potential benefits of success.

EMERGING TECHNOLOGIES DRIVING BUSINESS INNOVATION

Q Which of these technologies will be the most important to your business over the next 5 years?



RISING LEVELS OF AI MATURITY

The majority of Middle Eastern and African leaders are AI Innovators: 47% are already either widely using or eager to adopt AI to build a competitive advantage. “[We’re seeking] digital transformation allowing integrating full processes into measurable outcomes mainly addressing a drop in human interference and a growth in saving on time,” a CEO from the Media & Entertainment industry said.

33% of leaders identify as AI Explorers, willing to try AI for the right business case or a convincing cause. A CEO from the Business Services sector mentioned that they’d like to have a “complete understanding as to how AI can help my business to grow or even benefit” prior to investing. A leader in the Manufacturing sector cited better “technical and logistical support, as well as legal and regulatory support to organise and establish frameworks for dealing with AI” as a necessary prerequisite for adoption. The region also has a

good degree of AI Conservatives: 19% express caution and are doubtful of the impact.

All business leaders in the region, regardless of where they are on the maturity curve, are making steady progress in AI adoption. 60% performed tech assessments and readiness reviews, with 12% leading in this area. 63% also completed assessments of the ethical, bias, and compliance implications of adopting AI. Over half of the leaders also did data cleansing and data

quality reviews, plus identified appropriate use cases for AI.

However, less progress has been made in other areas: 52% haven’t yet adopted any AI tools in the business model, and 44% haven’t yet completed AI-specific staff training. A CEO in the energy sector admitted that the business needs support with “innovations and developing workforce skills such as organising workshops and training courses to enter strongly into the world of artificial intelligence”.

The progress also varies across cohorts. AI Innovators are understandably ahead. Among them, 74% completed technology partner and vendor evaluations, and 16% are leading in this area. 66% have already adopted AI tools in the business model. “We believe that companies with international affiliations might have moved faster in AI adoption,” observed Aamir Tahir. “Similarly, firms with larger subscriber or customer bases, such as financial institutions and telecom operators, are probably amongst the swiftest adopters. This is owing to the complexity of operations, analytical needs, high competition, and lighter budgetary constraints. However, at a wider scale, AI adoption might be far from mature, but the growth in adoption is surely fast”.

AI Innovators are also approaching AI adoption with greater diligence: 20% are leading assessments of ethical, bias, and compliance implications. 67% also completed assessments of legal, IP, and licensing impacts. However, leaders wish for greater support in this area. “There should be more flexibility in dealing and more facilities from the government and responsible authorities,” a CTO in the Technology sector mentioned. A leader from the Transportation sector would also like to have “greater regulatory and legal support from the sitting government to help the company use more advanced technology and improve its efficiency.”

Only a handful of the countries in the region have adopted national AI strategies, including KSA, UAE, Qatar, Egypt, and Kenya. With the growing influence of technology, regulators will need to implement more oversight to ensure ethical, responsible, and transparent usage of AI systems, especially those emerging in the healthcare, finance, and transportation sectors. “Regulations

are absolutely necessary”, agrees Charles Lupiya. “The legislation will have to be carefully worded, however, to allow for flexibility, but also prevent loopholes for exploitation.”

Over 50% of AI Explorers have yet to start or are just learning about appropriate use cases, technology assessments, data cleansing, and reviews. 46% haven’t looked into possible technology partnerships, and 41% haven’t started assessments of legal, IP, and licensing impacts.

Governments in the region can set an example of responsible AI implementation and usage by piloting policymaking through select proof-of-concept projects. Such trials can also serve as case studies for business leaders and the general public, reducing fears and misinformation. Survey respondents mentioned “information regarding the operations and tasks performed by AI “ and “more learning and case studies” as factors that would help them on their AI journey.

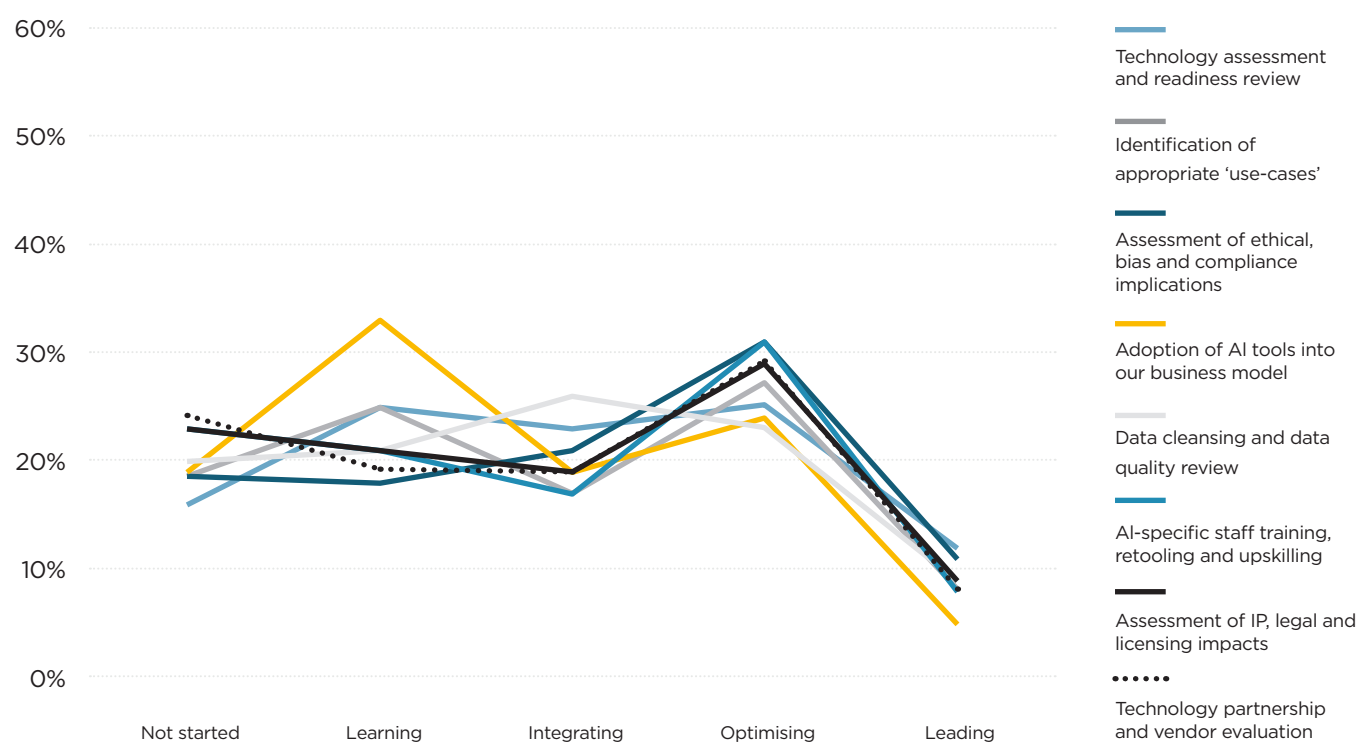
QUALITY CONTROL AND CUSTOMER ANALYTICS ARE TOP AI USE CASES, BUT BARRIERS TO ADOPTION PERSIST

Leaders are well aware of the value AI can bring to process automation across different areas of business, leading to extra operating efficiencies. ‘Quality control’ was selected as the main AI use case by 35% of leaders, followed by customer analytics at 30%. As the ecommerce sector and digital services sectors expand dramatically in the region, leaders likely look to enhance customer experience with better analytics.

AI Innovators are even more likely to deploy AI for customer analytics, at 45%, and 46% cited research and development (R&D) as the primary use case. AI Innovators are also more likely to seek joint partnerships and ventures this year, the third top-most action for growth, perhaps indicating some major digitisation projects underway. Qatar Airways Group partnered with Google Cloud to advance AI adoption for better customer experience. The airline recently presented an AI-powered onboard digital flight crew assistant and a new generative AI travel planning assistant.

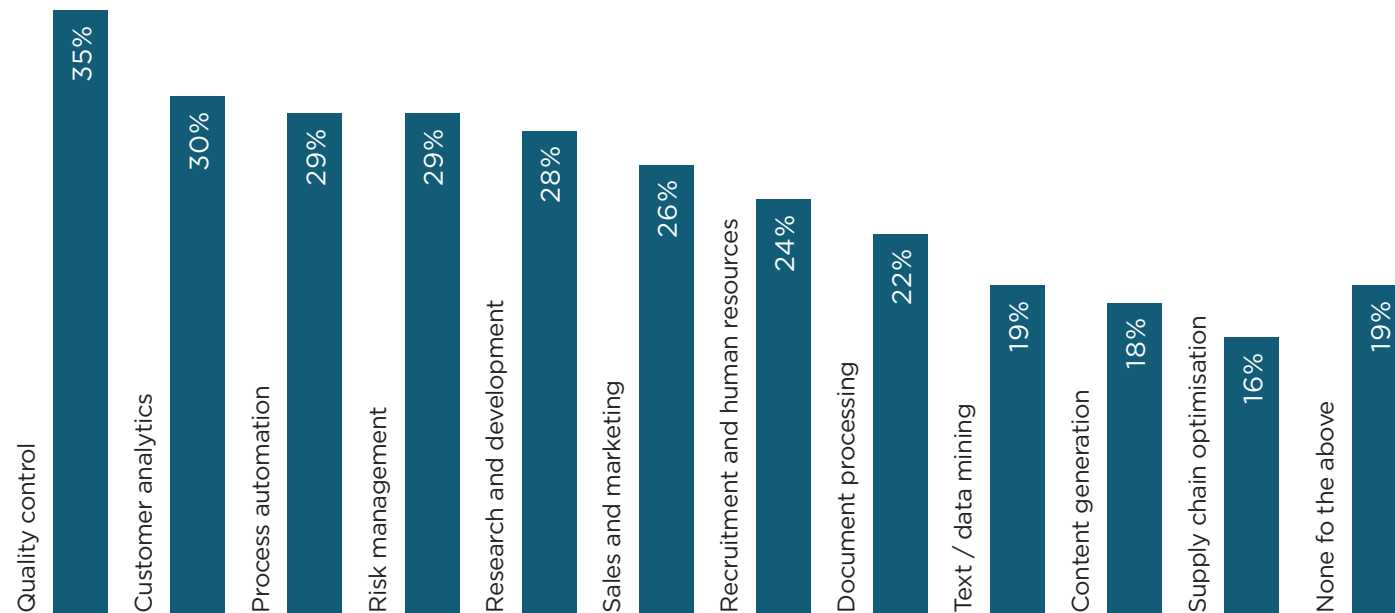
LEADERS’ PROGRESS ON AI MATURITY

Q Where do you rate your own business today on the following aspects of AI adoption?



QUALITY CONTROL AND CUSTOMER ANALYTICS ARE TOP AI USE CASES

Q Where has your company used AI technologies to automate or enhance operations?



Process automation shares third position with risk analysis. In a tough operating environment, leaders are looking for ways to accelerate market response and minimise the potential impacts of adverse events. AI algorithms have the capability to identify nascent trends in historical and real-time data and transform these into predictive and prescriptive insights. Greater data accessibility also allows smarter process automation across a variety of complex processes, including loan underwriting, supply chain management, and compliance monitoring, among others. The Arab Bank, for example, deployed AI and ML to operationalise over 50TB of historical data

to produce over 30 new customer analytics use cases, including personalised mobile app experience, optimised cash storage in ATMs, and improved marketing campaigns.

Only 2% of AI Innovators aren't experimenting with any of the above use cases versus 43% of AI Conservatives. However, with the time-to-innovation contracting, reluctant leaders risk being pushed to the industry margins by more agile competitors, capable of decisive action and ongoing experimentation with different AI strategies.

What holds leaders back is the lack of digital transformation skills — the top barrier to AI adoption for 45%. AI Innovators feel even more pressed by the shortfall in digital skills at 50%. CEO from the Manufacturing sector said the lack of “professional employees in the field of artificial intelligence, highly trained to face any challenge” is an adoption barrier. A CEO in the Pharmaceuticals industry would also like to have “more skilled and specialised people in the field of AI.”

Highly skilled human capital is critical to advancing AI adoption. Government and businesses should work together to cultivate a domestic workforce that can develop and use AI systems while minimising the risk of talent moving abroad. Joint vocational programmes could help cultivate graduates with practical skill sets in software engineering and data science. Building AI-related curricula with industry needs in mind could improve job prospects, while scholarships could help encourage enrolment rates to be high.

‘Data security and privacy’ is the second primary barrier for 40%. For AI Conservatives, this rises to 48%. Cyber risks are elevated in the region, and AI systems are presenting a new point of entry for hackers. Securing data is indeed critical both against targeted attacks and accidental disclosures. Adopting new privacy-preserving techniques developed specifically for AI can greatly reduce the odds of data breaches.

Old IT systems (38%) and lack of budget (37%) are two other prominent factors. A lack of budget holds back 45% of AI innovators. A CEO in the Manufacturing sector mentioned that “technical support for modern devices that are compatible with artificial intelligence and provide the greatest amount of benefit, and human

support capable of dealing with this artificial intelligence” are the factors for advancing their AI strategy.

Interestingly, leaders in the Middle Eastern and Africa are more pressed by fear or general resistance to change (40% vs 29% globally). This is the top concern (45%) for AI Explorers, who are also more likely to report business model obstacles (33%). A degree of anxiety is a natural response to venturing into the unknown territories. To avoid being paralysed with indecisiveness, leaders should educate themselves and their workforce on the benefits of new technologies — learning how they help augment human capabilities, not replace them.

The current state of AI is good at imitating what people can do but isn't universally excellent at producing new ideas or exercising complex cognitive judgments. Embracing fears about AI by experimenting with it, seeing how it works, and understanding its limitations can turn it from a potential threat into a powerful tool. Better understanding also empowers leaders to advocate for relevant policies to contain the potential negative impacts. “Enterprises that have successfully implemented AI have strong executive leadership support for the new technology”, observed a CTO of a Technology company. “A C-suite sponsor can take an active role to ensure that AI projects are aligned with the strategy of your company”.



FAST-TRACKING AI ADOPTION

AI holds immense economic potential for the region, poised to revolutionize sectors from agriculture to transportation. Since the decade began, AI adoption has surged, yet most businesses have barely tapped its possibilities. Few companies use AI extensively, and even fewer employ neural networks or deep learning for comprehensive processes.

To unlock AI's full value, leaders must improve strategy, planning, talent, and infrastructure. The Middle East and Africa benefit from a large, young workforce eager to embrace new technologies, along with rapidly improving digital infrastructure and strong governmental support. Grants and foreign investments also offer viable funding options.

Business leaders in the region can take the following steps to accelerate AI maturity:

1

IMPROVE OPERATING SPEEDS THROUGH CAPITAL INVESTMENT

To capture the benefits of technology, leaders need to spend money. In a challenging macroeconomic climate, however, many may be reluctant to invest in long-term and, sometimes, not fully understood initiatives.

The ROI of AI efforts may not always be apparent because it's best measured through ancillary factors like 'improved team efficiency', 'cost reduction in executing a business workflow', or 'increased speed of new product development efforts. Depending on the use case, select a single North Star metric to focus on — a top-line parameter that all the AI adoption priorities are aligned around.

Having a single focal point often leads to more cohesive planning, better prioritisation, and faster execution. It also allows you to clearly estimate the impacts of different actions and pilots over time to demonstrate ROI and secure further stakeholder support.

2

FOCUS ON CYBERSECURITY AND DATA PRIVACY

AI systems require substantial datasets to produce accurate, explainable results. However, most of the datasets have been created and stored outside of the region and may not be applicable to local use cases.

It's thus important to start operationalising available national and regional data, often stored in silos across multiple business systems. Data discovery, curation, and cleansing are tedious steps, yet they're necessary pillars of good data governance policies. These, in turn, improve system auditability, making future compliance easier.

Knowing where and how your data is stored and exchanged is also essential for building better cyber-protection against existing and emerging threats. Tight access policies, paired with encryption and anonymisation, can prevent accidental leaks and better protect businesses against targeted attacks.

Strategic partnerships with other industry players can also help unlock access to missing insights. By building out open data platforms with secured API-based access, leaders can scale their AI programs faster without increasing risk exposure.

3

ADDRESS CULTURAL RESISTANCE

Amidst daunting headlines, it is easy to succumb to anxious thinking about AI: business disruption, job cuts, and extra security risks. Indeed, new risks are associated with AI adoption — the possibility of biased outcomes, privacy concerns, and intentional misuse. However, the positive impacts dramatically outweigh these — increased operating efficiencies, revenue diversification, greater cost efficiency and resilience.

Context is key to addressing false beliefs about AI and emerging technologies in general. Computer anxiety and resistance to industrial automation have been around for decades, yet some of the worst futuristic predictions of robots replacing humans haven't materialised.

Talk to research institutions or our HLB team to better understand the state of play in your market. Explore what AI use cases are already feasible and proven to demonstrate measurable ROI. Consider implementing practical training to achieve greater acceptance of AI benefits.

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HOW HLB CAN HELP

With technological advancements evolving at an ever-accelerating speed, businesses are looking to understand the competitive advantage new digital technologies such as AI can offer them. Our findings suggest significant differences in potential business outcomes between businesses embracing AI technologies and those more cautious about adoption. A structured approach is needed to effectively reduce risk and gain ROI from digital transformation efforts.

If you would like to explore the findings in this report and how they inform your next phase of transformation and growth, we would welcome the opportunity to discuss these with you.



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