

## Entrepreneurship in the Middle East and North Africa: Opening the Floodgates

Stimulating entrepreneurship is intrinsic to creating both sustained economic value and jobs. It is also clear that no more critical a goal exists in the Middle East and North Africa (MENA) region than creating stability and common prosperity through the long-term employment—and positive deployment—of youth.

Studies make extensive connections between entrepreneurial activity and economic development, and a 2010 report by the Kauffman Foundation makes explicit the role of start-ups in job creation. The study specifically states, “Startups are not everything when it comes to job creation. They are the only thing.”

Related Kauffman studies from the U.S. (see Kane, 2010) provide conclusive evidence that start-ups account for a substantial proportion of all net job creation. Mapped onto domestic and/or regional recession, further evidence suggests that job creation in the start-up segment remains consistent in economic downturns, whereas larger businesses are more adversely affected by the cyclical economic factors typical to the boom/bust cycle. Finally, in a 2009 study by Litan and Stangler, Kauffman concludes that two-thirds of new jobs come from firms that are between one and five years old.

It is clear that emerging and developing economies are impacted by similar dynamics, based on evidence from Brazil, Jordan, and other entrepreneur-centric economies (Ali et al, 2010; Castanhar, Dias, and Dias, 2008), in that entrepreneurship stimulus and growth metrics in such places supersedes even the pace of start-up activity in the U.S.

Mapped onto the above dynamics, it is also possible to gain insight from studies such as the Startup Genome Report (Marmer, Herrmann, & Berman, 2011) as to how and why start-ups succeed, thereby creating an effective framework to facilitate such success. Projects such as Oasis 500 in Jordan have (with some early suc-

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cess) begun to create the structured pipeline of incubated businesses that may well ensure quality. Thus the flow of venture capital may accelerate in the region over time and in a sustained fashion.

Of course, success through entrepreneurship does not depend solely on the rate of growth in the volume of start-ups. A core factor in the success of such businesses is access to an open channel of active “angel” and earlystage investors, who operate individually or through dedicated vehicles or seed funds and plug the gap of earlystage capital requirements below the \$1-\$2 million threshold of conventional venture capital firms. Such an approach may well give entrepreneurs the access to quality strategic insight, possibly to mentoring, and to the reasonable performance reporting requirements of a sophisticated earlystage investor. A joint Harvard-MIT study estimated that angel-funded firms have a greater chance of survival and typically outperform their non-angel-funded counterparts (Kerr, Lerner, and Schoar 2010).

### THE ECOSYSTEM

Startups cannot exist in a vacuum, nor are they isolated from cultural, political, and structural factors. It is clear that an entrepreneurship ecosystem, typically at the national level to start with, is the defining factor in creating a sustainable entrepreneurship culture and in repeated success. In the words of pioneering jazz musician Dizzy Gillespie, “The professional is the guy who can do it twice.” A large part of that ethos is embedded learning, culture, and the impact of repeated success that benefits the whole ecosystem, fraternity, or community.

The broad factors that are required to make the ecosystem work in a region like MENA are:

- **Entrepreneurship education and relevant academia:** One lynchpin is the “anchor” role of an innovation-driven academic institution like MIT. Its role is in entrepreneurship education, incubation, and acting as a long-term bridge for academic insight allied to closely affiliated or even in-house business expertise. Regional universities such as The American University in Cairo and the American University of Beirut also seek to create the content, bridge, and pipeline of future success stories. However, as Bill Aulet, head of the MIT Entrepreneurship Center, points out from his travels to far-flung Romania and other emerging or growth markets, it is perfectly possible to create entrepreneurial vibrancy without a single top-500 university in the vicinity, primarily because the innate characteristics and hardiness of the population lend themselves to business endeavors and entrepreneurial behavior.
- **Capital and markets equity, markets and debt:** Much is said about the need to unlock capital from venture capital, angel investors, and private equity firms to make entrepreneurship happen. This can go as far as the evolution and maturity of capital markets and exchanges for flotation, and the IPOs of midsized enterprises, such as the Alternative Investment Market in the UK. While a vibrant pool of equity capital is key, so, in parallel, is the role of banks and debt. The first

thing to suffer in an economic downturn is the ready availability of “cheap” bank financing, from bridge loans to positive debt financing that accelerates growth without equity dilution. One area where stakeholders need to step up to the plate far more is regional and domestic banks that dedicate both capital and specialists to supporting the growth goals of national small and midsize (SME) enterprises. Parallel to this is the role of cash-rich family enterprises and holding companies in creating entrepreneurship-focused vehicles within their corporate structures to seed and participate in businesses, which may eventually act as a growth hormone to their core businesses. Regional businesses, such as logistic provider Aramex, have already begun to do this through the venture funding of e-commerce-led businesses, for which Aramex can be both a physical incubator and a service provider in logistics, distribution, and customer fulfillment of the earlystage business.

- **Shift in culture:** As per the example of Romania and closer to home in Jordan, Egypt, Lebanon, and similar markets, the cultural “X” factor is key in defining the backdrop against which entrepreneurs prosper. The key factors there include the family and society structures; the role of and deference toward age; the existence and encouragement of innovation, creativity, arts, music, and literature communities; freedom of speech and expression; respect for the radical, maverick, and even seemingly crazy view and for nonconformity; cultural openness and the breadth and depth of that embrace; and the “continuous beta” versus product perfection culture. That is, a new culture of “get the product out, let it live, and get the user franchises’ active support to improve it”—the Google way. Two other factors also appear to be key:
  - The willingness to let go and exit the business at an optimal moment of value creation, versus holding onto it as an heirloom or cash cow
  - The acceptance, tolerance, and positive embrace of failure; the most gifted entrepreneurs and most visionary investors would argue that failure is merely a normal, necessary, and valuable step on the path to success. To quote Steve Jobs (and why not?), “Sometimes when you innovate, you make mistakes. It is best to admit them quickly and get on with improving your other innovations.”
- **Knowledge and best practice:** Most entrepreneurs are smart but not geniuses. The basics of knowledge sharing, best practices, continuous learning, and exploring the behaviors of the best are the way to learn to integrate these into a unique personal work style. Online platforms, open-source content, and community portals play a key role in that.
- **Community creation, partnership/alliance and connection:** Find likeminded people and network for positive economic advantage versus mindlessly adding numbers to the personal network. This is especially critical in countries that are relatively and largely “disconnected,” sometimes from their own regions let alone globally (Syria, Libya, Yemen, and Iran are examples). The models of the future, especially in the service sector, are more than likely to be virtual, where partners and stakeholders in the organization could be so disconnected geographically

and so connected digitally that they have never and don't even feel the need to meet each other.

- **Mentoring framework:** Commonly neglected and easy to identify is the role of the mentor, typically someone outside the business and family circle who can offer their wisdom, experience, and wider insight, or just give time and an ear to the entrepreneur and even the seasoned business leader at key business or personal inflection points. In *The Critical Phases of Mentoring* (Bury, 2011), Tony Bury, founder of mentoring organization Mowgli, identifies the start-up, growth, and—quoting post-meltdown Jim Collins's *How The Mighty Fall* (2009)—even the “success/hubris” stages of the business' history and the role for tailored and precise mentoring interventions at those key moments.
- **Role modeling and success stories:** For every Steve Jobs, Mark Zuckerberg, Reid Hoffman, and, in the regional context, Naguib Sawiris of Orascom and Fadi Ghandour of Aramex, there are multiple aspirants, and the role of such entrepreneurs is key in knowledge sharing and in shifting the paradigms. Leading entrepreneurs are often mavericks who are capable of thinking and staying outside the box. It is critical to recognize the real drivers of their successes, as opposed to the shallow factors: typically their innovative and disruptive thinking (often at early age), tenacity, determination and drive, taking others with them versus force-fitting their perspectives, an anti-establishment ethos and lack of deference, and a constant thirst for what one might call “new-frontiering” and the ability to “remake/remodel/remaster” their businesses and their thinking. Equally critical is the role knowledge platforms play in creating new success models and identifying newer role models as the old ones potentially start defining or epitomizing a past generation.
- **Government, thought leadership-bridging platforms, and universal stakeholders in general:** Government has a central role to play, both as the defining authority in society and the primary stakeholder in the legal, jurisdictional, and regulatory context in which businesses operate. “Ease of doing business” measures (World Bank) provide a quantified and relative measure of whether entrepreneurs are unleashed or tied up. Regional think tanks that bridge the public and private sectors and encourage the active participation of development finance institutions all contribute to the opportunity to access capital, best practice, governance structures, sustainability insights, and globalizing the strategic depth, planning skill, and customer reach of a business.

#### WHAT ABOUT US?

Abraaj Capital's entry point into this whole debate and the action it has created lies at the very heart of the fabric of the firm. Established in 2002 by Arif Naqvi, Abraaj pioneered regional private equity through a combination of having a clearly enshrined founder-led vision, embracing and then redefining best practices within global private equity, successfully creating and reinforcing market leadership through a continuous learning, adopting best practices and global operation stan-

dards and hiring practice culture, and two critical differentiators: delivering superior returns to investors over a sustained period, having an active stakeholder engagement program that is focused on deeply embedding itself in the region, and being regional rather than global in focus, depth, insight, and expertise. Over time, the firm has grown to have assets under management of \$6 billion and a team of more than 90 investment professionals.

Central to the above has been an approach to taking responsibility, recognizing the community versus customer footprint of the firm and its partner companies, an inclusive and innovative approach to wider strategic partnership and social/strategic platforming, an early embrace of community and (later) wider environmental, social, and governmental practices, and treating the entrepreneur and business leader within the invested business as a principal, aligned strategic partner in the common growth and value creation plan of the business.

As a result of the economic impact and value created by the firm's private equity business, Abraaj has been able to leverage significant resources to fund and accelerate a series of initiatives and outcomes, all of which reinforce the firm's pedigree as an entrepreneur-centric business. The firm has recognized the components of both creating an effective entrepreneurship ecosystem and creating a layer of investment and capability to execute deals, derived from private equity and then remixed for the small and midsize segment, and even into angel-stage investments. The core components of this strategy are:

- **Abraaj Sustainable and Stakeholder Engagement Track (ASSET):** ASSET has a wide-ranging, five-pronged mandate at Abraaj, central to which is maximizing impact, value, and return on investment from all the noninvestment activities of the firm, which in this context embrace and include strategic and social platform partnerships such as Endeavor, Global Compact, Injaz al-Arab, and Ruwwad, among others in the fields of business and social entrepreneurship, sustainability and ESG, classic strategic philanthropy and capacity-building in children and youth.
- **Riyada Enterprise Development (RED) Growth Capital Fund:** A \$650 million fund focused on investing in a diverse deal flow covering eight core economic sectors, with around \$100 million of capital either deployed or committed to nearly 20 investments by November 2011. Central to the RED ethos is the reinterpretation of private equity best practices by framing them in a faster-moving venture capital-style context, actively identifying entrepreneurs who have a track record, growth potential, and the ability to exist successfully within a well-governed corporate framework, going yet deeper into the region but setting up relatively small office infrastructures across multiple geographies. Finally, embracing the development finance institutions co-investment model and fast-tracking ESG and sustainable practices within a new and emerging layer of regional growth businesses.
- **Wamda:** Conceived, initially operated, and seed-funded by Abraaj, Wamda.com is the centerpiece of a content and community vision that creates a common dig-

ital frequency of knowledge, content-sharing, and community engagement in MENA that is targeted at all segments of the entrepreneurial community. Wamda already plays a defining role in the regional SME knowledge and community space by:

- Helping professionalize SME business practices and operational capacity
- Ensuring a level playing field in access to knowledge and best practices
- Driving critical regional themes, such as corporate governance, transparency, female-empowerment, and social entrepreneurship
- Supporting government to ensure that ecosystem support is core to SME development
- Connecting regional with global behavior through the commonality of best practices

In a final act of entrepreneurialism, Abraaj decided in 2011 to spin out Wamda into an entity within which it remains a shareholder, but which operates autonomously across Dubai and Beirut hubs under CEO Habib Haddad; builds its own offline and online integrated content, community, event, and partnership strategies; and works toward a revenue-generation goal by 2013.

- **Wamda Angel Fund:** In 2011, Abraaj seeded the Wamda Angels fund with an initial drawdown of up to \$5 million. The fund is effectively a Silicon Valley-style “micro-VC” or seed fund with a mandate focused on earlystage investment opportunities. The business feasibility around such a platform recognized both U.S. and global best practices within the angel investment/platforming space, and the need (and opportunity) within the region for a single angel platform that, over time, attracted co-investors and served as the region’s leading seed investment community, largely driven through online submission of business plans, smart screening, and fast-tracked deal execution and closure.
- **Celebration of Entrepreneurship:** The Abraaj conceived, funded, and executed “Celebration of Entrepreneurship” (CoE) in Dubai in 2010 has been generally regarded as a landmark content and networking event in MENA regional entrepreneurship, and it has perhaps even set the standard globally for multiplatform, multiformat, parallel-speaker, and multicontent event programming in the entrepreneurship space. It attracted 2,500 attendees over two days at over 230 individual speaker events. It further centralizes Abraaj and RED in regional entrepreneurship and reinforces the firm’s stated credentials as an entrepreneur-centric investment organization and culture. CoE has played its part in unleashing entrepreneurial energy, reinforcing the firm’s capacity-building and community engagement intent, and its regional authenticity, even as a positive change-maker. This in itself is a globally unique positioning for a private equity firm: to be seen as a double bottom line value creator, a force for positive change, an agent for sustainable and community impact, and as a thought leader in harnessing and celebrating regional and youth capacity. As of now, the firm is also identifying the growth and development path for CoE, which may well involve, like Wamda, spinning out the platform into a separate for-profit entity.

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