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What Is Next for MENA's Entrepreneurs?

The entrepreneurship community in the Middle East and North Africa (MENA) region has gained global attention in recent years. Against the backdrop of a shifting political landscape and economic uncertainty, new firms and entrepreneurs are being increasingly cited as a vanguard of economic development. However, if this vibrant population of young businesspeople and the institutions that support their efforts are to make their mark on the region, they must be able not just to start businesses but to scale them as well. To identify the specific factors that impinge on efforts to scale, the Wamda Research Lab conducted the largest study on entrepreneurship and scale in the MENA region to date, which included a survey of over 900 entrepreneurs and experts in the region.

MENA'S GROWING ENTREPRENEURSHIP ECOSYSTEM

In July 2014, *The Economist* published an article entitled "The Tragedy of the Arabs." As the title suggests, the article focused on the downward spiral that Arab countries find themselves in; some countries are experiencing collapsing economies and destabilization, while others are confronting severe resource constraints and general political uncertainty. And yet, against this landscape there has been a significant rise in the number of institutions that support MENA's entrepreneurs, and the discussion of why and how entrepreneurship should be embedded in economic development agendas is picking up steam. Despite negative fallout from the Arab Spring, there are currently over 200 institutions actively supporting entrepreneurs in the region, at least a seven-fold increase since 2000,[1] and this ecosystem will likely continue to grow. In a Wamda Research Lab survey of over 150 institutions that support entrepreneurs in MENA, more than 70 percent indicated their intention to expand their services into more countries or to increase their services in countries where they are currently active within the next couple of years.

The past 4-5 years have arguably seen the greatest consensus on the utility and necessity of creating entrepreneurial businesses in the MENA region in recent history. This consensus has centered specifically on the need to create new institutions, policies and programs across countries to support the growth of young

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enterprises, specifically those with the goal to grow and to do so quickly. Of course, these are not the first strategic efforts to support local enterprises in the region. Microfinance has long been recognized as a tool for alleviating poverty in the region, perhaps most notably the Sanabel Microfinance Network that was formed in 2002, whose membership now includes over 90 microfinance institutions from 12 countries, and serves more than 2.5 million borrowers. However, new accelerators such as Jordan's Oasis 500 and Egypt's Flat6Labs, major regional corporate entrepreneurship in enterprises such as MBC Group and Zain Group, and a growing pool of venture capital funds, including Silicon Badia, Middle East Venture Partners, Ideavelopers, and Wamda Ventures, all point to a type of entrepreneurship that focuses on opportunity, growth, and scalable impact.

Although many of these new organizations have profit-driven ambitions at their core, it is arguable that such entities in the MENA region have a dual role. In a region with such high unemployment rates—over 10 percent for the entire population and over 25 percent for youth in the labor market—and failed development policies that are both a cause of this lack of economic opportunity and a bottleneck that will prevent any noticeable change in the future, creating new enterprises, specifically those that can scale, and expanding current ones are critical tools for growth.[2] There are many areas aside from unemployment that hold back the region, particularly private-sector growth. A lack of coordination between universities and the private sector, minimal evidence of patented technology, and a frequent overreliance on government support for employment or foreign aid all create divisions between institutions and individuals that have similar goals for advancing social and economic prosperity.[3]

Given these unprecedented developments, the MENA region has a unique opportunity to receive a greater level of funding and strategic support for starting new business ventures. This growing momentum has direct implications for MENA's economic growth: the increasing number of new enterprises can be a source of employment and wealth creation across the region. However, making the most of this opportunity will require more than the creation of new enterprises.

Translating this excitement and opportunity into tangible economic growth will require MENA's entrepreneurs not simply to start companies but also to scale them. Globally, fast-growing companies create the lion's share of jobs in a given economy. The Global Entrepreneurship Monitor, among other research groups, finds that high-growth enterprises represent roughly 10 percent of the private sector in any given economy, yet they are responsible for upwards of 50 percent of jobs, even more in certain economies.[4]

WHY WE NEED DATA ON MENA'S ENTREPRENEURS

Before discussing the study findings, it is important to note the role research has played in the region's entrepreneurship community, especially in these early stages of development.

Data and metrics will be critical in assessing the progress the growing ecosystem makes over time and in identifying areas of improvement. For years, the analysis relied on most came from external parties such as the World Bank and the World Economic Forum, which generally rank countries along different indices to examine how each performs in terms of doing business, accessing resources, competition, and other factors. While these tools have great value, the MENA region's entrepreneurship ecosystem needs more locally generated data.

There are manifold applications for this type of data. Research can help to identify how the ecosystem evolves over time and where more support is needed to advance policies and programs, and to develop key indicators of progress. Investors can leverage these insights to identify attractive sectors and to benchmark industries and countries that show potential. Policymakers can use the data to assess where the most pressing gaps are, while new entrants can understand how to create their agendas to serve the ecosystem's needs most effectively.

To better understand how the process of scaling plays out for MENA's entrepreneurs, the Wamda Research Lab, in partnership with Endeavor Insight, carried out the largest study on enterprise scaling in the region to date. We surveyed over 900 entrepreneurs and entrepreneurship experts in the region and held follow-up interviews with more than 100 of them.

METHODOLOGY

Our study focuses on a specific cohort of entrepreneurs in the MENA region: those with ambition to scale their companies. Although there is no official figure for the number of entrepreneurs in the region who are looking to scale, we assume that, based on global figures, entrepreneurs with the ambition to scale are rare.[5] Our research is based on a survey of over 900 entrepreneurs and entrepreneurship experts (768 entrepreneurs and 169 experts) throughout the MENA region.[6] The survey asked entrepreneurs a series of questions to gain an understanding of whether they had accessed certain resources needed to scale, and a series of questions about the barriers to growth they faced. Experts were asked the same questions, and to indicate which growth barriers they observed most often. All respondents completed a self-administered online questionnaire, which was circulated from February 24, 2013, through May 30, 2013. We also conducted phone interviews with a subset of 111 individuals from the entrepreneur and expert samples to add qualitative insights to the survey findings.

WHAT DID WE FIND?

First, we found many young, promising entrepreneurs in the region whose companies have grown over the past 4-5 years. Since 2009, around 80 percent of companies more than three years old had experienced positive job growth, and roughly one-fifth of our sample had a compound annual employment growth rate of 20 percent or better over the previous three years, which we define as scaleups.[7] These companies have not just started up, they have begun the path to scale and could be lynchpins for widespread job growth in the MENA region. The ambition to scale, as well as the record of growth that many startups in our sample demonstrated, is critical for job creation. Scaling companies create the majority of jobs in any given economy and play an indispensable role in economic growth.[8] A population of growing MENA startups could significantly help to reverse the region's lingering unemployment.

However, we also found that these entrepreneurs face a multitude of barriers to growth. Across countries in the MENA region, companies with varying growth rates reported similar challenges in building teams, obtaining investors, and expanding across borders. More than 60 percent of the experts we surveyed said that scaling was the most challenging development phase for entrepreneurs. Samih Toukan, CEO of Jabbar Internet Group and a leader in the MENA startup community, stated, "I'm not as worried about the starting up process right now as I am about the scaling process in the Middle East."

Understanding the precise barriers to scaling is instrumental in helping MENA entrepreneurs become key job creators. While there has been notable growth of the MENA entrepreneurial ecosystem, to maximize its full potential and address the region's daunting unemployment, startup founders must be able to grow their companies.

Obtaining Investment

The funding landscape in the MENA region has evolved significantly in the past half decade and now encompasses more sources of capital for entrepreneurs. Angel investor networks, venture capital funds, and even several government funding programs have come to the fore. Three times as many companies received funding in 2012 as in 2009. The entrepreneurs in our sample collectively had 220 investors between 2009 and 2012, with the most substantial increase in 2011 and 2012, when the number nearly doubled. These new resources could help to sustain and stabilize growth for many startups, yet according to our survey results , MENA's entrepreneurs still face many funding challenges.

Entrepreneurs surveyed said that the supply of venture funding in their countries was small (36 percent). Thirty-two percent of scaleups and 34 percent of non-scaleups agreed that the limited supply of venture funding was a primary challenge in obtaining investment.

While both entrepreneurs and experts agreed that the supply of funding is a constraint to obtaining investors in MENA, our survey pointed to other factors that could limit access to funds. Experts also pointed to entrepreneurs not understanding what investors were looking for (31 percent) and not knowing how to pitch their ideas effectively (30 percent). Interestingly, entrepreneurs pointed to investors not offering enough value beyond cash (24 percent) and investors thinking that their business model was too risky (18 percent).

These findings raise the question of whether, even with more funding available, entrepreneurs and investors are well enough aligned to see that investments are made effectively. The opposite is also true; if entrepreneurs and experts achieved better communication and alignment, would there be enough capital?

Increasing the supply of funds has many facets and requires a strong overview of the funding landscape in the region. The following three findings in particular can help to explain the precise funding gaps that those surveyed experienced:

Few large investors: Investing has increased since 2009, but there is a lack of funding of more than US $500,000—while many entrepreneurs surveyed had received equity funding, few had obtained larger amounts of investment needed to scale. Jordan, Lebanon, and Egypt all had median funding under US$200,000. The UAE had more companies with higher levels of investment, but this was the exception.

Minimal follow-on funding: Over two-thirds of companies had not received more than one round of funding at the time of the study. Jordan had the highest percentage of companies that received follow-on funding, yet most companies surveyed had received only one round.

Lack of debt funding: Only 12 percent of entrepreneurs surveyed had received loans. Lebanon and the UAE had higher rates of companies receiving debt funding, yet in each case the majority of companies surveyed had not gotten loans.

As the region's entrepreneurship ecosystem gradually frees up more capital for young and growing enterprises, it needs to take a more critical look at its entrepreneurs' and investors' specific needs in order to enhance conditions for investing. Both founders and funders believe there is a lack of capital, yet there is more to the story than just a short money supply. Larger investment, follow-on funding, and minimal access to credit all underpin this issue. Furthermore, communication between the supply and demand sides also needs to improve to ensure a more collaborative environment with more properly aligned expectations.

Building a Team

The majority (63 percent) of entrepreneurs in our sample stated that finding talent was their biggest challenge in building a team. The second was paying salaries (35 percent), followed by retaining talent (22 percent). Experts identified the same barriers, citing finding talent (62 percent), retaining talent (36 percent), and paying salaries (34 percent) as the major issues they have observed. The same trends remained true at the country level; Jordan, Egypt, Lebanon, and the UAE each had a high percentage of entrepreneurs who identified finding talent as a challenge; in Jordan it was nearly 70 percent. Paying salaries was also cited by a high percentage in each of these countries, including nearly 50 percent of entrepreneurs in Jordan.

The concerns surrounding access to talent are even higher for faster growing companies; 71 percent of scaleups cited finding talent as a challenge. This was followed by 28 percent who cited retaining talent and 23 percent who cited paying salaries.

The difficulty in finding and retaining talent is particularly concerning, given that the region has such a high youth unemployment rate—an estimated 25 percent of youth in the MENA labor market are without jobs—yet many of the companies surveyed cannot find the talent they need.[9] During individual interviews, many entrepreneurs and experts pointed to the region's outdated education systems as a primary reason for problems accessing talent. They said that both a lack of skills and poor attitudes impinged on their efforts to find and retain employees. Bearing this in mind, education reform can certainly help to assuage the hiring process.

However, when addressing the problem of a lack of qualified talent, poor education alone cannot be the reason, nor can reforming education be the sole solution for improving access to talent and team-building. Education systems across the MENA region are indeed in need of significant improvement, and policymakers and the private sector have discussed education reform for many years. Governments in the region have been tackling the problem for decades, with governments in both oil-rich countries and those without oil spending billions to enhance curricula and produce more employable young people who can compete for good jobs. In fact, between 1965 and 2003, governments in the MENA region spent an average of 5 percent of their GDPs on education.[10]

However, increasing access to talent will require more than improved education systems. Entrepreneurs interviewed bemoaned both job applicants' and current employees' general lack of professional interest in working with a startup for the long term. The stability and relatively higher income offered by government and corporation jobs are attractive to job seekers, in MENA and around the world. Entrepreneurs in our study often pointed to this reality, stating that many consider employment with a startup only a temporary position—the product of a culture that is not interested in working for a startup.

Put differently, while our study suggests that there are indeed individuals willing to start a company in the MENA region, they cannot always find people who want to work with them. Although offering stock options could be one way to incentivize employees to join a startup and stay for the long term, the legal system in many countries in the region complicates this. A lack of legal provisions and protection for shareholders minimizes the utility of offering stock options. When asked if they had offered staff equity in the company, entrepreneurs interviewed said that they had explored doing so but that employees were usually more interested in receiving a higher income up front than in waiting to see if and when profits materialized.

There are other serious issues that need to be addressed to ensure that entrepreneurs can build teams that will enable them to scale, such as improving laws for offering employee stock options and changing general cultural perceptions of what it means to work for a startup. This will require stakeholders to think more holistically in finding ways to build better teams.

Expanding into New Countries

The majority of those in our sample had not yet successfully opened an office in more than one country, which magnifies some of the key challenges entrepreneurs face in trying to expand into new countries in the MENA region. Forty-seven percent of entrepreneurs surveyed said that finding partners was a challenge to geographic expansion, followed by the cost (40 percent) and legal processes (28 percent) involved in setting up a company. The experts surveyed also identified finding partners as a top challenge (53 percent), followed by the legal process of setting up a business (46 percent) and finding local talent (24 percent).

Both scaleups and non-scaleups cite finding partners to facilitate expansion as a top challenge (46 percent and 55 percent, respectively). The second most cited hurdle is the costs of setting up in a new location (35 percent and 38 percent, respectively). Even entrepreneurs in the UAE, where access to large corporations and proximity to other wealthy Gulf Cooperation Council markets could help facilitate access to new markets, finding partners to facilitate expansion and the legal processes involved in setting up a business were still noted as key challenges.

The challenge of finding partners and dealing with costs and legal processes when trying to access new markets highlights the general obstacles to regional integration. Although there are common themes across the region in terms of culture and language, many of the entrepreneurs interviewed point to the MENA region's fragmented markets. World Bank researchers suggest that, while more trade agreements have been signed by governments in the region in recent years, regional trading is not growing at a significant pace, thus economic integration in the region is still minimal.[11]

These realities trickle down to the grassroots level of individual entrepreneurs. Time and time again, the entrepreneurs we interviewed discussed how any company that wants to scale needs to conceive of the MENA region as one whole market rather than a collection of individual countries' markets. The average population of the nine countries covered in our survey is approximately 10 million people, but this number was skewed by Egypt's 80 million inhabitants, meaning that most MENA countries covered in our study have relatively small populations. Working in countries with such limited populations means that entrepreneurs in the MENA nations who want to grow large companies will need to think regionally from day one. Even entrepreneurs in Egypt, who indicated in our survey that they are slightly less interested than their peers in other countries in opening offices in other countries in the next 1-2 years, still need to expand beyond their country's borders.

The need to facilitate greater economic integration between countries in the MENA region has direct implications for its entrepreneurs. Just as too little inter-country trade can impinge on economic progress, the challenges that hinder entrepreneurs from establishing new offices in countries other than their own, hiring new employees, and accessing new customers can hold back the expansion of young enterprises.

WHAT DOES THIS MEAN?

While considerable gains have been made in the past 4-5 years in terms of growing the size and diversity of the MENA entrepreneurship ecosystem and in entrepreneurs growing new companies in the region—with many more seeking to grow—there are still barriers that hold back growth. Building teams, obtaining investors, understanding customer needs, and accessing new markets are all critical factors of the growth process.

On the one hand, these findings suggest that, although the ecosystem has grown in recent years, conditions for growing a business have not necessarily improved. Thus policymakers and other stakeholders looking to improve conditions for scalable enterprises in the MENA region must understand that an increase in the number of supporting institutions does not necessarily reduce the barriers to scale. While most of the entrepreneurs in our sample have yet to open offices in new countries, many plan to do so in the next 1-2 years, which means that the challenges we identified in our study could significantly limit this potential growth, should they remain unresolved.

It is important to note that these barriers have both internal and external components. For example, when identifying the challenges to building a team, both entrepreneurs and experts cited external challenges in finding talent, but they also pointed to internal difficulties in finding the proper incentives to help retain employees. No single institution can tackle these challenges on its own; therefore, resolving each challenge will require coordinated efforts between multiple players and pooled expertise to create sustainable, holistic solutions.

Despite the numerous barriers discussed in the report, two clear findings can be drawn from the survey.

First, information from both entrepreneurs and experts is needed to address challenges more holistically. The two groups generally have similar opinions on the barriers to scale, which will serve them well in determining which issues need to be addressed. Having input from both groups also helps avoid assigning too much responsibility for the challenges covered in the report or pointing fingers when an effort fails.

Second, and perhaps most importantly, we now have a baseline that we can use to benchmark developments among the study's cohort of entrepreneurs. Entrepreneurs, investors, policymakers, and other players should see this as a competitive advantage when trying to develop new programs and regulations, and a general enhancement to the ecosystem around them.

There is no quick fix to the problem of scaling new enterprises in the MENA region, and in some cases ironing out kinks in the system may take years of advocacy and reform. However, the following ideas are a starting point for addressing some of the challenges detailed in this article:

Increasing access to capital is imperative. In parallel, improving knowledge-sharing between entrepreneurs and investors will enhance funding opportunities.

Improving education systems and increasing access to entrepreneurship trainings will help improve local talent pools. These efforts must also include elements that will help entrepreneurs retain talent.

Reducing legal challenges and the cost of expanding an enterprise into new countries will facilitate expansion, but this must be coupled with initiatives that help entrepreneurs identify strategic partners that will help them enter new markets.

Policymakers also need to understand that improving the ability to scale is not solely related to funding, crossing borders, finding talent, or understanding markets as independent factors. It hinges on each and all of these factors, and any effort to provide comprehensive solutions needs to take all of them into account. This responsibility needs to be shared among institutions in the ecosystem and entrepreneurs as well.

In future studies, the Wamda Research Lab team will dig deeper into these key areas. In the meantime, we welcome thoughts and ideas on how to build stronger ecosystems and to scale enterprises more effectively in the MENA region.

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1. Wamda Research Lab's mapping of institutions that support entrepreneurs in the MENA region.
2. International Labor Organization (ILO), "Global Employment Trends," 2013; see also, World Economic Forum Global Agenda Councils, "Youth Unemployment Visualization," 2013.
3. Ibrahim Said and Joulan Abdul, "Youth in the Middle East and the Job Market," Carnegie Endowment for International Peace, 2011.
4. For information on the impact of scaling companies, see Erkko Autio, "Global Report on High-Growth Entrepreneurship," Global Entrepreneurship Monitor, 2007; George Foster et al., "Global Entrepreneurship and Successful Growth Strategies of Early-Stage Companies," World Economic Forum, 2011; Organization for Economic Co-operation and Development (OECD), "High Growth Enterprises," Eurostat: OECD Manual on Business Demography Statistics, 2007, chap. 8.
5. See Erik Hurst and Benjamin Wild Pugsley, "What Do Small Businesses Do?" Brookings Institution, 2011; Autio, "Global Report on High-Growth Entrepreneurship."
6. The experts represent venture capital firms, angel investment networks, incubators, accelerators, NGOs, corporations, and universities that have specialized programs to support entrepreneurs.
7. Endeavor Insight defines scaleups as companies with a three-year compound annual employee growth rate of over 20 percent, and non-scaleups as companies with a three-year compound annual growth rate below 20 percent.
8. For information on the impact of scaling companies, please see Autio, "Global Report on High-Growth Entrepreneurship"; Foster et al., "Global Entrepreneurship and Successful Growth Strategies"; and OECD, "High Growth Enterprises."
9. ILO, "Global Employment Trends"; see also World Economic Forum Global Agenda Councils, "Youth Unemployment Visualization"; Said and Abdul, "Youth in the Middle East."
10. Ahmed Galal, "The Road Not Traveled: Education Reform in the Middle East and North Africa," World Bank, 2008.
11. Alberto Behar and Caroline Freund, "The Trade Performance of the Middle East and North Africa," World Bank, working paper series no. 53, 2011.