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Accelerating Entrepreneurship in the Arab World



Preface

At a time of great change, optimism and hope in the Arab World, The Forum of Young Global Leaders is delighted to collaborate with Booz & Company to produce a report highlighting 10 recommendations to promote a vibrant entrepreneurial ecosystem across the region.

Policy-makers, business leaders, academia and civil society leaders are all aiming to match the enthusiasm felt around the region with a clear plan for job creation. With this collaboration, which leverages Booz & Company's expertise in the region, interviews with 20 YGLs from around the globe and several case studies featuring Young Global Leaders and other entrepreneurial successes, we are offering a tangible set of recommendations for leaders in the region to follow.

We would like to extend our thanks to Booz & Company for their leadership in building this endeavour from an idea with great merit into a practical tool for leaders to leverage. We also want to thank YGLs Habib Haddad, Pawan Patil and Soraya Salti for working closely with Booz & Company and for driving this YGL Initiative forward over the past year.

At the upcoming World Economic Forum Special Meeting on Economic Growth and Job Creation in the Arab World at the Dead Sea, Jordan, and beyond, we aim to proactively engage with the region's leaders to turn the ideas below into a bright future for economic development and job creation.

David Aikman

Head of The Forum of Young Global Leaders
Senior Director, World Economic Forum

Preface

The *Accelerating Entrepreneurship in the Arab World* report, produced by The Forum of Young Global Leaders and Booz & Company, could not be released at a more important time for the future of the Arab world. Large-scale transformations in some countries, combined with social dynamism particularly among the youth, have clearly put the employment challenge on the top of the regional agenda, with entrepreneurship being a key imperative.

Ranging from access to finance and mentorship to the larger issues of education and labour reform, decision-makers in the Arab world can leverage this new context to equip their young populations with the knowledge, capital and aspiration necessary to make entrepreneurship systemic in the region.

This is the focus of the World Economic Forum Special Meeting on Economic Growth and Job Creation in the Arab World, which will take place in Jordan on 21-23 October 2011.

With 10 concrete recommendations on how to accelerate entrepreneurship in the Arab world, this report is therefore extremely relevant for the conduct of government, industry and civil society in the region, and I am delighted to surface this new thinking in the proceedings of this Special Meeting in Jordan.

Miroslav Dusek

Head of Middle East and North Africa
Acting Director, World Economic Forum

Preface

Booz & Company is honoured to have the opportunity to collaborate with the World Economic Forum's Young Global Leaders on this groundbreaking overview of entrepreneurship in the Middle East and North Africa (MENA). The region is at a watershed moment in its development; the ways in which it addresses its burgeoning youth population will ultimately determine whether the MENA countries will achieve their transition to a group of stable, knowledge-based economies with a vibrant middle class.

Entrepreneurs will be vital engines in driving this transition. Their efforts create jobs, generate ideas, attract investment and inspire those who would follow in their footsteps. In our work with entrepreneurs throughout the region, we have been fortunate enough to meet many gifted individuals whose hard work makes them stellar examples for others.

What we have learned from these entrepreneurs is that their own hard work is not enough. They need to be part of an ecosystem in which they receive the support they need – personal, cultural and financial. They want their achievements to be recognized and their path to success to be validated by the region's leaders.

It is the voices of these entrepreneurs, as well as the insights of the Young Global Leaders, that have informed our recommendations in this report. We have great faith in the region's potential to become a fertile ground for entrepreneurial ventures, and we will watch with anticipation to see whether the big ideas of the 21st century will spring from the soil of the Arab world.

Shumeet Banerji

Chief Executive Officer, Booz & Company

Executive Summary

One of the Arab world's top priorities in the coming years is job creation for a youthful population whose size and energy could either catapult economic activity at home or be lost to better opportunities abroad. Capitalizing on this potential will be no small task and will demand brisk job creation. According to the World Economic Forum, the region needs to create 75 million jobs by 2020 – a jump of more than 40% over the number of jobs in 2011 – just to keep employment close to current levels. The key to accelerating job creation will be fostering a business environment in which entrepreneurs can easily start new companies, spread innovation and spur economic activity in general.

To do so, policy-makers and business leaders must first identify what motivates people to start businesses. They must then understand the elements of a healthy entrepreneurial ecosystem and identify which of those elements are lacking or immature in the MENA region – including an entrepreneurial culture, regulatory framework, infrastructure, equity investors, financing for small and medium-sized enterprises, and formal education in entrepreneurship. Finally, there are 10 imperatives that all stakeholders in the entrepreneurial ecosystem – including but not limited to governments, NGOs, companies and entrepreneurs – should follow to influence and improve the entrepreneurial ecosystem in the MENA region:

- 1. Offer a helping hand. Established entrepreneurs should give time, advice and seed funding to aspiring entrepreneurs.**
- 2. Change behaviours and evolve the culture. Discuss entrepreneurship every day and generate hype around a handful of success stories.**
- 3. Bring entrepreneurship to the classroom. Everyone in high school and university should learn entrepreneurial principles.**
- 4. Bring entrepreneurship to the office. Companies should encourage employees to unleash their own talent.**
- 5. Do not imitate Silicon Valley. Identify and leverage your country's own unique resources.**
- 6. Welcome new ideas. Engage domestic and foreign workers to encourage a free flow of expertise and enterprise.**
- 7. Break the stereotype. Great entrepreneurial ideas can come from anyone in any industry.**
- 8. Embrace the diaspora. Tap successful entrepreneurs living abroad for their advice and connections.**
- 9. Eliminate red tape. Governments should give many kinds of support to all types of entrepreneurs.**
- 10. Expand the venture capital (VC) model. VCs need to go beyond funding and provide a support structure for entrepreneurs.**

Entrepreneurs and Job Creation

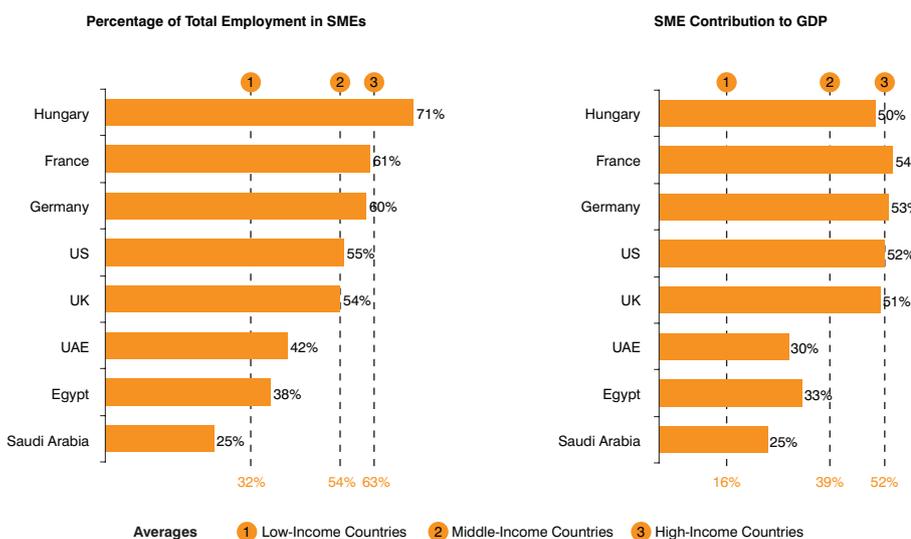
The Middle East and North Africa (MENA) region, with more than one-half of its population under the age of 25, has one of the world's youngest workforces. This poses both enormous opportunities and enormous challenges. A large, motivated generation of young working people can propel growth and prosperity for entire countries – as occurred in the West following World War II and is occurring now in China and some other emerging economies.

However, for society to benefit fully, the working population needs plenty of jobs and opportunities. The challenge for the MENA region will be in generating these jobs and opportunities in sufficient numbers and quickly. Unemployment is already a stumbling block to the region's development, with unemployment rates in the high double digits in most MENA countries, including a staggering 35% in Yemen. Most of the region's unemployment figures are believed to be conservative. According to the World Economic Forum, the region needs to create 75 million jobs by 2020 – a jump of more than 40% over the number of jobs in 2011 – just to keep employment close to current levels. The consequences of not doing so could be more severe than a missed opportunity and slow growth; the region may lose its most promising youths to emigration, and social unrest is always a danger when large numbers of young people lack opportunities.

A key to accelerating job creation in the MENA region is fostering an entrepreneurial environment. Not only do start-ups employ their owners, but the spillover benefits for the larger economy can be significant: multiple sources of innovation; increased competition; efficiency and productivity; economic flexibility and adaptation; job creation; supply chain development; seedbeds for future growth; and the inclusion of more elements of society. Indeed, once start-ups mature into small and medium-sized enterprises (SMEs), they become significant contributors to employment and gross domestic product (GDP). (See Exhibit 1).

To foster entrepreneurship, the region's leaders need to address a range of questions, including: How can regional governments identify the most promising industries for entrepreneurship and support initiatives in those areas? What can established entrepreneurs do to create a community and encourage others who aspire to start their own businesses? What are the roles of the education system, the media and the culture at large in boosting entrepreneurial activity? How can venture capital firms expand in innovative ways to create a complete support system for entrepreneurs? How can regional leaders tap into the knowledge and networks of the diaspora to generate entrepreneurship at home?

Exhibit 1: SME Contribution to Economies



Note: Selected Countries (2008)
Source: European Commission SME Performance Review; US Department of Statistics; OECD; UNECE; World Bank; Zawya; Booz & Company

¹ The MENA region includes Algeria, Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Morocco, Oman, the Palestinian Territories, Qatar, Saudi Arabia, Syria, Tunisia, the United Arab Emirates and Yemen.

“As an Arab entrepreneur, there has never been a more opportune moment to start a venture. Now is also the best time to fail.”

Emile Cubeisy, Managing Director, Interactive Ventures Holding Company, Jordan; Young Global Leader

What Is an Entrepreneur?

In our research for this report, we learned that the word “entrepreneur” can mean different things to different people, depending on their background. Thus, we propose a basic definition: a person or company who starts and owns a new business. Although the word “entrepreneur” is most commonly associated with individuals, companies that create new entities to seize opportunities are also entrepreneurial.

Such corporate entrepreneurs are usually motivated by greater profits, but personal motivations can be more varied. Entrepreneurial ventures are driven by one or a combination of three factors:

- *Lifestyle or passion*: Entrepreneurs who are motivated in this way create businesses in fields where they have a particular interest, talent or knowledge. They may combine a hobby with a profession and may choose not to expand the business in order to remain in control.
- *Social good*: These individuals are motivated by a social problem and use entrepreneurial principles to create, organize and manage a venture that will bring about socio-economic change for a particular group. Rather than measure their success by revenue and profits, these entrepreneurs typically equate success with social impact.
- *Fame and fortune*: These entrepreneurs aim big and are driven strongly by the profit motive. They want to grow their businesses, dominate their industries and be acknowledged for their success.

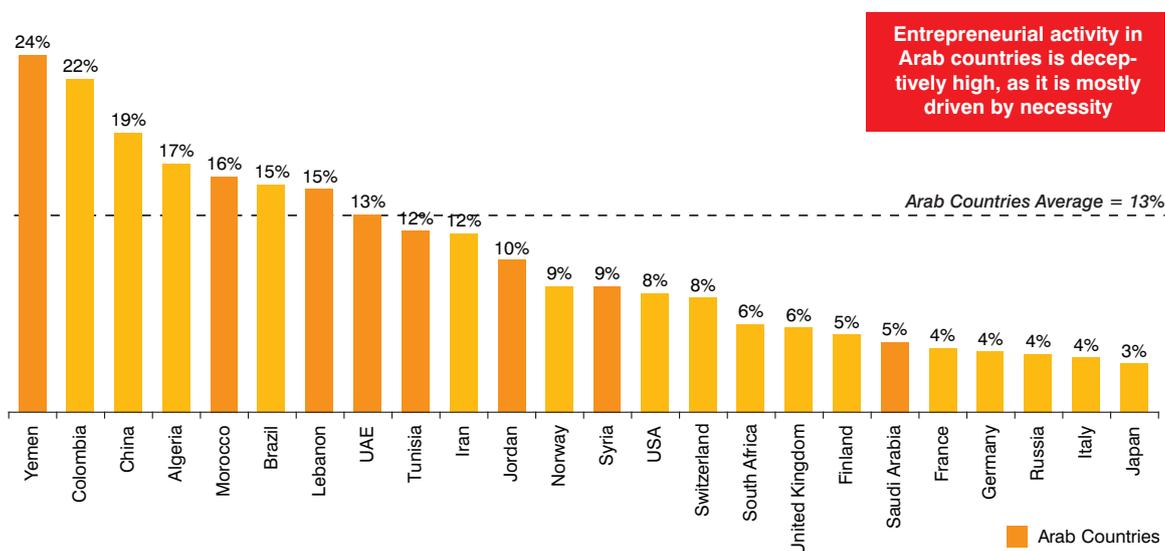
In addition, there are three external forces or circumstances that drive entrepreneurship:

- *Innovation*: Some entrepreneurs create new demand by nourishing an innovative idea they have conceived or acquired; they build a new business by combining know-how and capital.
- *Opportunity*: Entrepreneurs who recognize a demand/supply gap in the market, an unmet need or an opportunity for change can seize that opportunity. In doing so, they create value for themselves and society.
- *Necessity*: Entrepreneurs in this category have been forced by their environment to seek self-sufficiency and satisfy their basic needs of food, shelter and security.

The MENA Region's Entrepreneurial Activity Today

At first glance, the MENA region's entrepreneurial activity today seems robust. Activity differs from country to country, but, overall, about 13% of the region's working population is engaged in entrepreneurial activity, far more than in the US, Germany or Japan (see Exhibit 2).

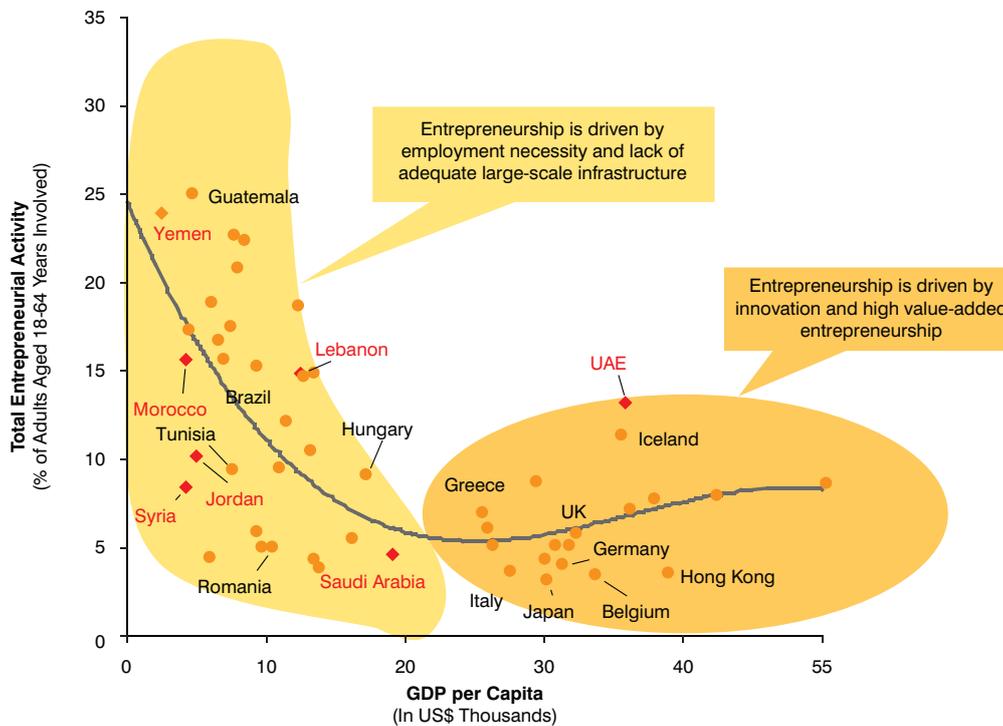
Exhibit 2: Early-stage Entrepreneurial Activity
(% of Adult Population, 2009)



Note: The percentage of the population performing early-stage entrepreneurial activity are those people who are involved in setting up a business or owners-managers of new businesses (less than 42 months).
Source: Global Entrepreneurship Monitor, 2009; Booz & Company

However, this apparent entrepreneurial vigour is deceptive. The high level of entrepreneurship is mainly driven by necessity – shop owners, farmers and cart sellers trying to satisfy their basic needs of food, shelter and security (see Exhibit 3). This type of entrepreneur constitutes the largest group and deserves government support (see “Tap the Potential of Microenterprises”). But since they employ only themselves, lack other opportunities and usually do not aspire to grow the business beyond their own subsistence needs, regional leaders need to give greater attention to entrepreneurs who are truly innovative (creating new markets by combining know-how and capital) or who recognize a demand or supply gap in the market and seize the opportunity. These kinds of entrepreneurial activities have positive spillover effects on job growth and the development of the economy. They are well worth encouraging and some governments are attempting to cultivate entrepreneurial activity with targeted initiatives, such as Qatar's Science and Technology Park, Oman's SANAD programme and Tunisia's Centre des Jeunes Dirigeants d'Entreprise.

**Exhibit 3: Total Entrepreneurial Activity vs. GDP per Capita
(2009)**



Source: GEM Executive Summary report; GPD Team analysis; Booz & Company

Tap the Potential of Microenterprises

More than 80% of entrepreneurs in the MENA region have very small-scale operations, with enterprise value of less than US\$ 15,000. These are the organizations that are most vulnerable to external shocks and most likely to wither away because of lack of support. Many microenterprises do not survive the journey towards growth into sustainable small businesses. As such, they represent a large, and ultimately tragic, waste of hope, talent and potential.

Yet, despite their size, these businesses should not be dismissed as irrelevant to job creation. Indeed, in many countries these ultra-small companies already employ a large percentage of the workforce and could do much more. In Morocco, microenterprises employ 65% of all people in the private sector; in Saudi Arabia, microenterprises generate 40% of total private sector employment.

This impressive job generation has occurred with little formal help from governments, NGOs, companies and established entrepreneurs. But these powerful stakeholders can do a lot. With the right access to financing, business development services and markets, some of these tiny companies could grow into true employment engines. Stakeholders could establish pipelines of development for these microenterprises, offering seamless financial and non-financial support to help them steadily grow from micro to small to medium-sized businesses. Few such programmes exist in the MENA region; yet, they could bestow significant employment benefits, especially if stakeholders focus on more labour-intensive small businesses, since these will logically employ greater numbers of people.

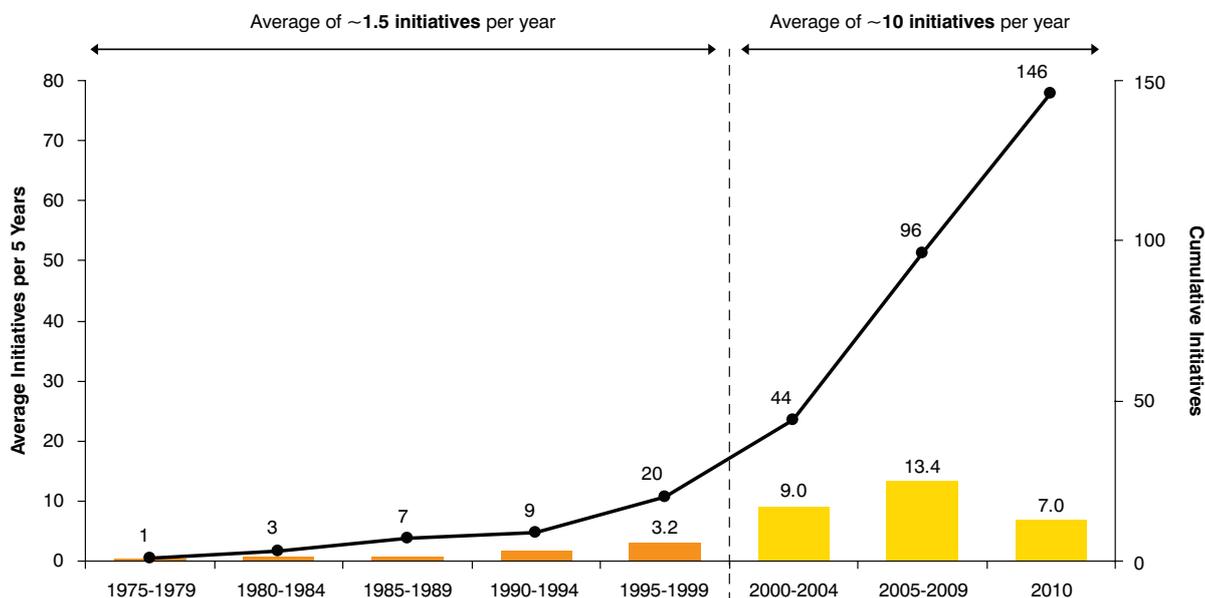
“The landscape today is considerably different from the one three years ago. The entrepreneurial landscape is evolving fast in the region.”

Khaldoon Tabaza, Founder and Chief Executive Officer, Zad Capital, Jordan; Young Global Leader

Understanding the Entrepreneurial Ecosystem

Currently there are about 150 existing initiatives that encourage entrepreneurial activity in the MENA region. These initiatives include technology incubators, non-governmental organizations (NGOs) aimed at developing entrepreneurship, networking associations for aspiring entrepreneurs and university programmes dedicated to entrepreneurship, to name a few. The pace at which new initiatives have been launched has sharply accelerated since 2000, from approximately 1.5 per year to about 10 per year, as MENA governments have come to understand the value of entrepreneurship and its importance in growing economies (see Exhibit 4). Most of these initiatives have come from NGOs (62%), with the government contributing just 25% – a relatively low contribution compared to other regions with more robust entrepreneurial activity.

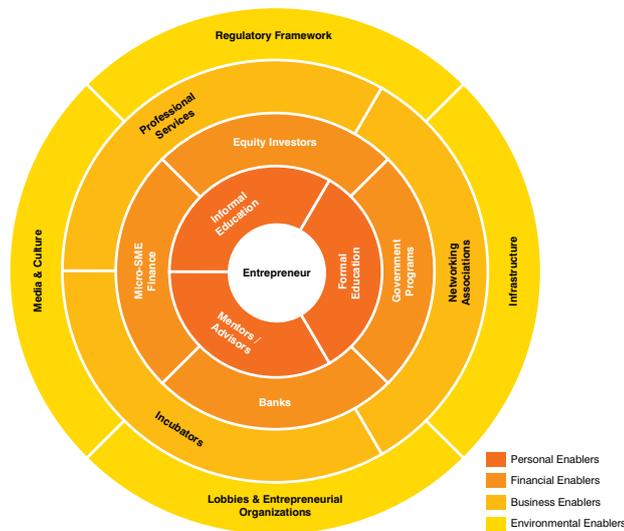
Exhibit 4: Cumulative Number of Entrepreneurial Initiatives in MENA by Governments, NGOs and the Private Sector¹
(1974-2010)



¹ Initiatives aimed at promoting entrepreneurship in the MENA region, including the creation of NGOs, conferences, and networking associations
Note: The number for each year represents the total number of existing initiatives during that year.

Ultimately, it is not the number of initiatives that matters but their effectiveness. To understand how governments, NGOs and the private sector can target, design and implement entrepreneurial initiatives to greatest effect, it is necessary to study the entrepreneurial “ecosystem”, which encompasses all the elements that entrepreneurs need to thrive. This ecosystem has four elements: personal enablers, financial enablers, business enablers and environmental enablers (see Exhibit 5).

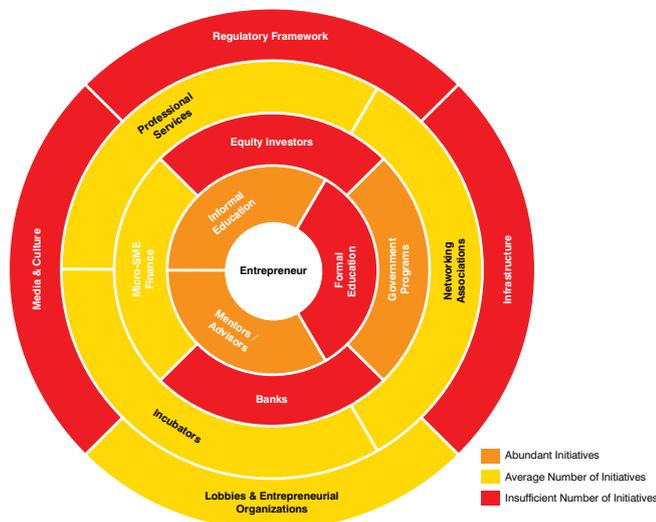
Exhibit 5: The Entrepreneurship Ecosystem



Source: Booz & Company

When studying the MENA region’s entrepreneurial ecosystem, it quickly becomes obvious that some elements of the ecosystem are undeveloped (such as the regulatory framework and equity investors) while other elements (such as advisory) have benefited from various initiatives. The result is an out-of-balance ecosystem (see Exhibit 6).

Exhibit 6: The Entrepreneurship Ecosystem in the MENA Region



Source: Booz & Company

A. Personal Enablers

The first ring in the ecosystem affects the entrepreneur's individual development. These enablers allow the entrepreneur to gain the necessary knowledge, expertise and know-how to create and run a business, while also offering support and helping entrepreneurs to build their confidence. These personal enablers include:

Mentors/Advisers: These mentors, or advisers, are typically other entrepreneurs willing to share knowledge and real-life lessons. Their personal example of success can provide particularly powerful motivation to take necessary risks. They also offer the moral support necessary to assist entrepreneurs through the difficult and isolating early stages of starting a business.

“Mentorship should almost evolve into co-management.”

Ennis Rimawi, Managing Director, Catalyst Private Equity-Cleantech Fund; Young Global Leader

Informal Education: Informal education is available through various sources, such as seminars and networking events.

Formal Education: Universities around the world offer entrepreneurship courses and programmes to nurture a spirit of entrepreneurship and provide students with the right tools to launch a successful venture.

The MENA region is relatively strong in some areas of personal development – specifically, advisory, mentoring and other informal educational opportunities such as seminars and networking. About 50 such programmes and organizations exist, such as Employment For Education in Egypt (EFE-Egypt) and Jordan (EFE-Jordan) and the Qualeb Programme in Lebanon.

“Entrepreneurship is like a sports team – success goes with having the right people.”

Ray Sosa, Co-Founder, Chairman and Chief Executive Officer, MPOWER Ventures, USA; Young Global Leader

However, the region is woefully deficient when it comes to offering a formal education on entrepreneurship. Only 37 regional universities – fewer than 10% of the universities in the MENA region – offer entrepreneurial courses. Just 17 universities in the region have centres for entrepreneurship and a mere five actually offer a major in entrepreneurship. Not surprisingly, a 2010 Booz & Company survey of about 500 entrepreneurs in Saudi Arabia, the United Arab Emirates and Qatar found that only 10% of the survey respondents relied on universities or technical institutes for entrepreneurial development.

This is an alarming state of affairs. The entrepreneurial spirit often arises at an early age and is highly influenced by the education system, which can guide entrepreneurs and help innovation proliferate. But this is not happening in the MENA region today. Not only are the region's young aspiring entrepreneurs being ill served, but society is missing out on a precious opportunity to promote and shape the next generation of entrepreneurs in their educational prime.

Saudi Arabia's universities have recently acknowledged the importance of developing entrepreneurship in their education programmes. For example, the King Abdullah University of Science and Technology (KAUST) has developed an Innovative Industrial Collaboration Program whose mandate is to foster partnerships with local, regional and global businesses interested in nurturing entrepreneurship and strengthening the link between academic research and economic growth. In addition, King Saud University (KSU) established an entrepreneurship curriculum in Riyadh and is home to the Riyadh Technology Incubation Center. In October 2009, the university organized the first international conference on entrepreneurship in Saudi Arabia.

B. Financial Enablers

The second ring of the ecosystem involves financiers who commit their money so the entrepreneur can create or grow the business. These financial enablers include:

Equity Investors: Equity investors include family and friends, angel investors and venture capital funds; typically, each provides an ever larger amount of capital as the start-up grows. The first round of capital, known as “seed” funding, often comes from the entrepreneur’s network of family and friends. Angel investors chip in during a larger second round of fund-raising, while venture capital can step in with a significant infusion once the start-up has proven itself. (However, since VCs aim to grow the business and sell their investments as quickly as possible, venture capital is not suitable for entrepreneurs who wish to maintain control of their companies.)

Banks and SME Financing: Debt financing from banks requires collateral and usually involves a lengthy approval process since start-ups lack a track record. Even if an entrepreneur can secure such a loan, high interest payments could prove a burden on nascent companies.

Microfinancing: These lenders offer very small loans to aspiring entrepreneurs in poor regions. Often, these are entrepreneurs of necessity that have no other access to capital.

Government Programmes: These programmes include funds, short-term loans, guarantees and other financing initiatives for specific industries where the government perceives a need or wishes to influence behaviour. Opportunistic investors stand to benefit.

The MENA region’s financial enablers are underdeveloped. In particular, the network of equity investors, a critical source for start-up capital in the West, is still nascent in the MENA region. Some lucky entrepreneurs may be able to tap into the funds of family and friends, but the region lacks the appropriate regulatory and legal framework conducive to the development of a more formal and accessible early-stage financing industry. What is more, the region’s banks seldom have special start-up or entrepreneurial programmes. Only 20% of local SMEs have a loan or a line of credit, the lowest percentage of any region in the world; and only 10% of their investment expenditures are financed by a bank loan, also among the lowest worldwide.

“Investors in the Middle East do not always appreciate the value of sweat equity.”

Naif Al-Mutawa, Creator and Co-Writer, *The 99*, USA; Young Global Leader

This low level of lending is not wholly unjustified. SMEs in the region often lack financial transparency and the MENA region’s weak financial infrastructure makes it difficult for banks to make smart, informed lending decisions. Credit information is poor and the rights of creditors are weak. Interestingly, however, banks with large branch networks tend to do more SME lending, which implies this is a relationship business that could be nurtured elsewhere.

“Investors need to have enough experience, wisdom and capabilities, or else they are a burden on entrepreneurs.”

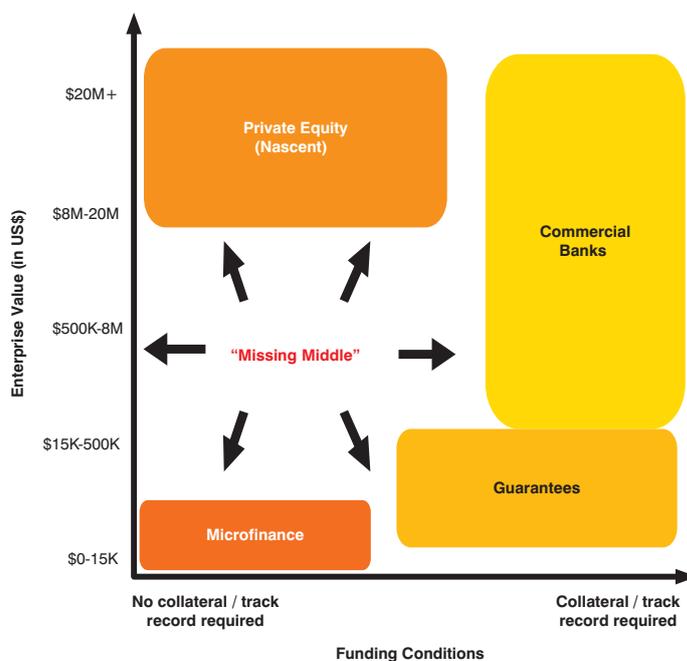
Ennis Rimawi, Managing Director, Catalyst Private Equity - Cleantech Fund, Jordan; Young Global Leader

Recognizing how tight the local credit market is for start-ups, several MENA countries have introduced special programmes to encourage banks to lend more to SMEs, including exemptions on reserve requirements, credit subsidies and partial credit guarantee schemes. All in all, there are about 28 initiatives in the region, including the Bahrain Development Bank, the Khalifa Fund and BIDAYA in Syria. However, this government involvement is meagre and hardly sufficient to create a healthy financing environment for start-ups.

One prominent seed-funding company in the region is Jordan-based Oasis500, which focuses on information and communication technology as well as mobile and digital media. Oasis500’s programme includes first-round financing of up to US\$ 14,000, entrepreneurship training, mentorship guidance, incubation, follow-up investment of up to US\$ 70,000 and access to angel investors. The goal is to develop 500 start-up companies in five years.

Ironically, the financial support that does exist for entrepreneurs in MENA countries is focused on very small start-ups. What is missing is funding for businesses with an enterprise value between US\$ 500,000 and US\$ 8 million. The result is a yawning funding gap (see Exhibit 7). Even financial institutions that do offer funding need to do a better job of broadcasting this. Approximately nine out of 10 entrepreneurs that Booz & Company polled in its survey of entrepreneurs in Saudi Arabia, the United Arab Emirates and Qatar were not aware of financial institutions that provide entrepreneurial and SME financing.

Exhibit 7: Funding Gap in Financial Institutions



Source: Booz & Company

C. Business Enablers

The third ring in the entrepreneur's ecosystem consists of professional enablers; these provide critical professional and technical support and include:

Professional Services: This is a large category that includes marketing companies, media associations, consulting firms and accounting firms, to name a few. Entrepreneurs may tap some or all of this expertise, depending on the nature and scope of the start-up.

Incubators: Incubators provide office space and back-office support for start-ups, usually in return for a nominal fee and/or equity stake in the firm, until they achieve sufficient scale to afford these services on their own. Incubators also provide networking activities, marketing assistance, advisory services and mentorship.

Network Associations: Network associations connect entrepreneurs with experienced business people and/or consultants who serve as mentors or more formal advisers to help the entrepreneur tackle business challenges. For example, Abdullah Al-Munif, who founded a Saudi company called Anooosh that makes date and chocolate sweets, speaks often at entrepreneurship conferences and has inspired many young Saudi entrepreneurs to open their own boutique cupcake, cookie and sweet stores.

Over the past 20 years, about 60 initiatives have been launched within the MENA region to promote business support. Efforts have focused equally on incubators and network associations. For example, ICT (information, communication and technology) incubators such as Qatar's Science & Technology Park, Oman's Knowledge Oasis Muscat and Jordan's Cyber City have recently sprung up in the region. In addition, the Silicon Valley-based Plug and Play Tech Center established Plug and Play Egypt in 2011, providing aspiring entrepreneurs with support from dozens of mentors, targeted training and up to US\$ 1 million in funding. With world-class facilities in Smart Village Cairo, Plug and Play Egypt's goal is to accelerate the growth of up to 80 companies in the next five years.

However, the quantity, impact and pace of new initiatives need to be improved. These ambitious IT-focused incubators often fail to provide the basic services that many non-IT companies need, such as helping them access basic market data and draft accurate business plans. This is a serious failing in the ecosystem, as economies need to spur entrepreneurship in traditional industries such as retail and manufacturing.

Meanwhile, networking associations, while available, are poorly marketed to entrepreneurs and are thus underutilized. The Booz & Company survey of entrepreneurs in Saudi Arabia, the United Arab Emirates and Qatar showed that only 21% were aware of such associations and only a quarter of those had actually used them. That means just one in 20 entrepreneurs use the associations.

D. Environment Enablers

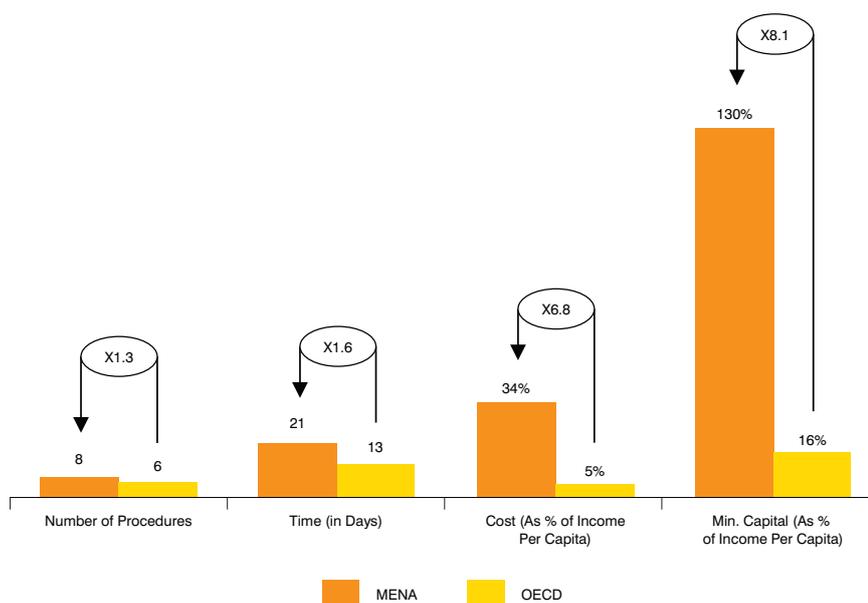
The final outer ring in the entrepreneurship ecosystem involves a diverse group of environment enablers: the regulatory framework, infrastructure, lobbying organizations, prevailing culture and media.

Regulatory Framework: Government agencies and private chambers of commerce can stimulate entrepreneurship by simplifying rules and providing incentives for start-ups. Likewise, they can create significant, even insurmountable, roadblocks for aspiring entrepreneurs. Some governments are trying to address these issues by relaxing regulations, with the support of government-sponsored organizations such as Syria's Business Angels' Gate, the Dubai Enterprise Center and Tunisia's Agence de Promotion Industrielle. Largely thanks to the efforts of the Saudi Arabian General Investment Authority (SAGIA), Saudi Arabia has improved its position in the World Bank's "ease of doing business" ranking, which weighs factors such as regulatory simplicity and protections for property rights, from 15 in 2009 to 11 in 2011. For example, one of SAGIA's reforms was to establish the right of full repatriation and a prohibition against the confiscation or expropriation of investment projects.

However, much more reform is needed across the region in many areas. The ease of doing business for an established company is different than the ease of starting a business – e.g. the number of procedures necessary and the number of days it takes to open a business (see Exhibit 8). Labour laws remain a significant drag on entrepreneurship by creating workforce bottlenecks and other inefficiencies. For example, according to the Booz & Company's 2010 survey of entrepreneurs in Saudi Arabia, the United Arab Emirates and Qatar, over 95% of respondents said "conditions imposed on certain professions" and "conditions imposed on nationalities" were two of the most important labour issues facing them. The governments of MENA countries need to develop balanced policies to deal with the dilemma of foreign labour: whether to restrict foreign employment to support the local population or gradually open the doors to foreigners to boost local skills and develop new capabilities.

Labour issues aside, the legal process in the MENA region is time-consuming, expensive and considered less hospitable than the Organisation for Economic Co-operation and Development (OECD) countries on virtually every measure.

Exhibit 8: Cost and Difficulty of Starting a Business
(Starting a Business 2010 Indicators)



Source: Doing Business Reports; Booz & Company analysis

Infrastructure: The existing infrastructure in MENA countries needs upgrading to improve the start-up environment and the business environment in general. Roads within and between cities are often inadequate and sometimes unsafe. As for well-developed public transport in the form of railways and buses, little exists. Fortunately, this may soon improve: Gulf Cooperation Council (GCC) countries recently committed US\$ 100 billion to a railway project linking the six GCC nations.

But transportation is not the only element of infrastructure that needs attention. The Internet – a wellspring of entrepreneurial activity in other regions – was used by just 24% of the population in the Arab states versus 79% in the US and 67% in Europe. To make matters even less hospitable for IT entrepreneurs, the average Internet speed in the MENA region (2.73 Mbps) is a mere fraction of the global average of 8.69 Mbps.

Lobbies and Entrepreneurial Organizations: These groups could potentially use their size and leverage to pressure governments to amend certain regulations; they could also create associations or other support organizations for entrepreneurs by leveraging their own network of global successful entrepreneurs and associations. But these voices are relatively mute in the region. Indeed, lobbying groups as they are known in the West do not fully exist in the MENA region today. It is an avenue of political influence that NGOs could consider, especially since the prevailing culture is so unsympathetic to the frustrations of entrepreneurs.

Prevailing Culture: Certain elements of regional culture make it all the more difficult for stakeholders to understand the urgent need for regulatory reform and infrastructure upgrades, much less accomplish them. Most people in the workforce value the stability of a lifetime government job over the excitement of risk taking or innovating. Rarely do parents encourage a child's entrepreneurial aspiration, believing these activities not only lack security but also prestige. In a recent Booz & Company study, "Youth in GCC Countries: Meeting the Challenge", a survey of young people in the Gulf showed that only 9% said that "opening their own business" was their top priority in life.

"'Culture' as a barrier to entrepreneurship is more of an excuse for failed policies, such as in education and innovation systems, than a challenge."

Emile Cubeisy, Managing Director, Interactive Ventures Holding Company, Jordan; Young Global Leader

These cultural norms will not change easily. Even the institutions that in other societies are sources of creative thinking and youthful enthusiasm are much less profuse in the MENA region. In the Booz & Company survey of entrepreneurs in Saudi Arabia, the United Arab Emirates and Qatar, about 75% of participants said neither their teachers nor their mentors encouraged them to pursue entrepreneurial businesses.

Part of the challenge lies in convincing potential entrepreneurs, as well as other players in the ecosystem, that failure is all right, that it is a critical part of the creative process and is often necessary for eventual success. At present, business failure carries a heavy stigma that hinders second chances.

"The private sector should accept failure. Not only that, it should promote the culture of failure."

Jimmy Wales, Founder and Trustee, Wikimedia Foundation, USA; Young Global Leader

Loai Naseem exemplifies this kind of fearless entrepreneurship. Naseem started in construction and established more than 15 start-ups in Saudi Arabia, including car repair, real estate, jewellery and other industries – all with little success. In 1994, he sold what remained of his businesses and headed to the US. Three years later, he returned to Saudi Arabia and began designing and selling thobes. Today, Naseem is the Chief Executive Officer of Lomar, now a famous brand in Saudi Arabia, with revenues over US\$ 5 million, stores across the country and more than 150 employees.

Media: Given these cultural norms, it is not surprising that local media – print, TV and social – does little to promote entrepreneurship. Still, the dearth of coverage is exceptional. Only a handful of regional magazines report on entrepreneurship; these include Entrepreneur Magazine MENA, Al-Iktissad Wal-Aamal and Reyada El A'mal, and only two television shows are dedicated to entrepreneurship: Dragon's Den and Televisions & Stars of Science. Perhaps most telling, given the youthful demographics of social media, is how little social media focuses on entrepreneurship: ArabCrunch, StartupArabia and Wamda are the notable leaders among just a few websites and blogs.

Yet, media coverage that does occur can reverberate, hinting at a strong, nascent entrepreneurial spirit in the region. Given its power to change attitudes and inspire, media should include more programming focusing on entrepreneurship – showcasing new ideas and glamorizing successes.

Initiatives by Country

Although it is important to get a broad picture of the entrepreneurial ecosystem in the MENA region, it is also necessary to evaluate ecosystems on a country-by-country basis. By measuring the initiatives per country compared to the overall population, it is possible to gain some comparative insight. (Counting the number of initiatives is not the same as analysing the effectiveness of each initiative, but this high-level total number is a good proxy for the vibrancy of the local ecosystem.)

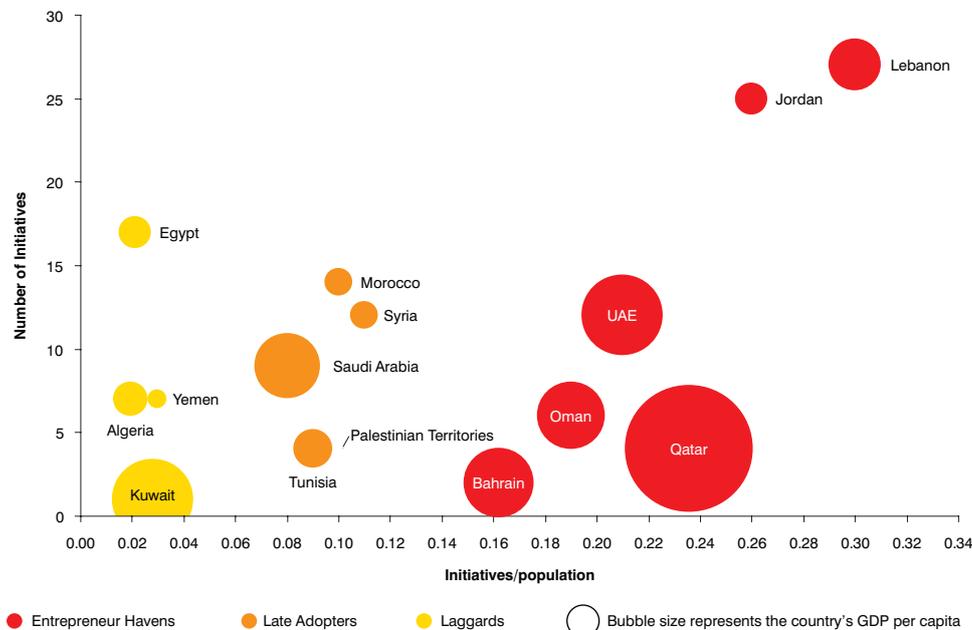
According to our analysis, each MENA country falls into one of three categories: Entrepreneur Havens, Late Adopters and Laggards (see Exhibit 9).

Entrepreneur Havens: Lebanon and Jordan, with 27 and 25 initiatives respectively, fall into this category. It is no coincidence that these two countries are among the most open in the region, with citizens widely dispersed around the globe, freely exchanging ideas and information around the region and with the West. Indeed, Lebanon has been particularly effective at developing an entrepreneurial supportive ecosystem. For example, SABIS started as a private school with an entrepreneurial bent that grew into a philosophy of schooling. The school and its graduates gradually spawned an entrepreneurial ecosystem within Lebanon and beyond. Today SABIS is one of the world's leading educational institutions with schools in 15 countries teaching more than 65,000 students.

Late Adopters: These countries, which include Saudi Arabia and Tunisia, have made laudable efforts to launch initiatives that support entrepreneurship. However, the number of initiatives is low relative to the population and the ecosystem remains relatively underdeveloped.

Laggards: Countries in this category, such as Algeria and Kuwait, have very few or no initiatives to support entrepreneurship.

Exhibit 9: Number of Entrepreneurial Initiatives by Country
(1974 to 2010)



Source: Booz & Company

Imperatives for Developing an Entrepreneurial Ecosystem

Whether a country is a haven, a late adopter or a laggard, there are 10 imperatives that governments, NGOs and private parties should follow to improve the entrepreneurial ecosystem and accelerate entrepreneurship. This is a holistic set of recommendations that all stakeholders in the entrepreneurial ecosystem must consider in concert; implementing one or two in isolation is unlikely to create a vibrant entrepreneurial culture. Together, however, the impact will be exponential, driving economic activity and creating jobs and new opportunities for the region's youth.

These recommendations have been grouped into three sections:

- Embracing entrepreneurship and making it part of the MENA region's DNA: These measures (Imperatives #1-4) ensure that entrepreneurship will become more deeply embedded in the region's approach to doing business by seeding the concept in schools, companies, media coverage and the culture at large.
- Expanding entrepreneurship's horizons: These imperatives (Imperatives #5-8) highlight ways that stakeholders can look beyond traditional channels of entrepreneurship to solicit new ideas and approaches.
- Supporting and encouraging entrepreneurship: These recommendations (Imperatives #9-10) will make it easier for entrepreneurs to start new businesses with the resources they need.

Embracing Entrepreneurship and Making It Part of the MENA Region's DNA

1. Offer a helping hand. Established entrepreneurs should give time, advice and seed funding to aspiring entrepreneurs.

Successful entrepreneurs need to get involved and encourage the next generation of potential business owners. Nothing inspires an entrepreneur more than a successful predecessor and their involvement is critical to establishing the legitimacy and health of the entrepreneurial ecosystem. Ultimately, the involvement and support of established entrepreneurs can create a snowball effect that generates exponential growth in entrepreneurship activity.

Entrepreneurs need to engage with NGOs to create conferences, forums and programmes to share ideas and experiences, and facilitate networking. For instance, they could set up mentoring programmes so aspiring entrepreneurs could benefit from real-life business experience and insights. In addition, an entrepreneurship service centre could help aspiring entrepreneurs meet experienced counterparts, discuss their ideas and get feedback and support on developing their business plans.

“As an entrepreneur, you should never feel that you are alone.”

Anand Chandrasekaran, Director, Products, Openwave Systems, USA; Young Global Leader

Experienced entrepreneurs could counsel new entrepreneurs on how to construct a helpful board of directors, how to recruit high-calibre directors and senior managers and how to structure compensation with stock options instead of fees and salaries that would drain the start-up's precious funding.

Entrepreneurs, NGOs and other entrepreneurial organizations might even go a step beyond counselling to actually trying to pick winners. Programmes could vet ideas and identify entrepreneurs with the highest potential, then give them a leg up by providing human resources support, capabilities development, financing and professional services. To this end, successful entrepreneurs could themselves become angel investors.

“We need a support system to hold entrepreneurs in their first phase, first venture, when the situation is extremely fragile.”

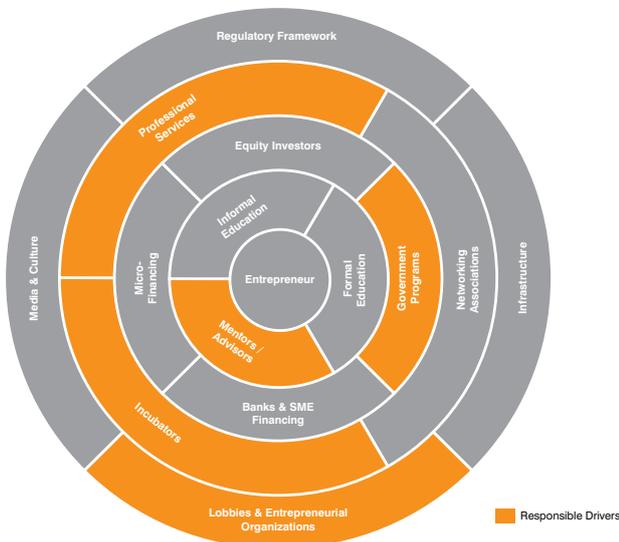
Zainab Salbi, Founder and Chief Executive Officer, Women for Women International, USA; Young Global Leader

For example, Endeavor is a non-profit organization founded in 1997 by two entrepreneurs and Young Global Leaders, Linda Rottenberg and Peter Kellner. It is now active in over 10 emerging countries, with the goal to grow to 20 countries by 2015. Endeavor selects entrepreneurs based on three well-defined criteria: entrepreneurial initiative, role model potential and values and ethics. After an initial assessment is performed, the ventures are assessed on three more criteria: development impact, business innovation and fit with Endeavor.

Selected entrepreneurs are then offered customized services – such as mentorship, networking, strategic advice, talent, skills and inspiration – from a volunteer network of over 1,000 business leaders. So far, Endeavor has supported more than 500 entrepreneurs and uses their success stories as role models in their respective countries.

However, it is not just aspiring entrepreneurs who can benefit from the expertise and insights of successful entrepreneurs. Investors, bankers and public servants also need training to better analyse specific venture opportunities and assess the impact of government policies on entrepreneurship. Working with NGOs, successful entrepreneurs might participate in “exchange programmes”, in which public servants work for a time in the private sector to get first-hand, VC or entrepreneurial experience.

Exhibit 10: Ecosystem Impact of Imperative #1



Source: Booz & Company

Wamda: Connecting Mentors and Entrepreneurs

Created in 2010 by private equity group Abraaj Capital and its subsidiary Riyadh Enterprise Development, Wamda's goal is to foster early-stage entrepreneurship in the region by inspiring, empowering and investing in local entrepreneurs.

Wamda's offering has four pillars: content relevant to entrepreneurs (e.g. breaking news, online videos, webinars, courses, research and surveys); services and tools (e.g. a start-up kit as well as access to business development, legal, PR, recruiting and marketing services); funding (e.g. seed investments and access to angel investors); and networking (e.g. events, mentors and incubators).

Lebanese entrepreneur and Young Global Leader Habib Haddad, who now heads up Wamda, says one offering in particular could significantly improve the entrepreneurial ecosystem in the MENA region: MentorMatch, an online platform to connect mentors and mentees and help them build lasting relationships. Given the right environment and alignment of interests, Haddad says successful entrepreneurs – especially expatriates who have thrived abroad – will enthusiastically support aspiring entrepreneurs in their home countries as a way of giving back.



2. Change behaviours and evolve the culture. Discuss entrepreneurship every day and generate hype around a handful of success stories.

Public figures should use their high-profile positions to promote – even glamorize – entrepreneurship by describing what it takes to be an entrepreneur and how entrepreneurs enrich themselves and the country. High-impact entrepreneurs – defined by Endeavor as those that create thriving companies that employ hundreds or thousands of people, generate millions in wages and revenues, and have the power to inspire countless others – should receive high visibility. Whenever opportunities arise – for instance, in speeches on the state of the economy – officials should hype major entrepreneurial success stories by name, relentlessly spreading the word of their accomplishments and elevating these high-impact entrepreneurs so they become role models.

“High-impact entrepreneurship creates the right incentives for other entrepreneurs and builds the foundation of an economy.”

Andy Freire, Chairman and Chief Executive Officer, Axialent, Argentina; Young Global Leader

To this end, governments should wield the media assets they own, specifically TV and radio stations, to publicize successes and profile entrepreneurs. Such stories motivate aspiring entrepreneurs and let them know they are not alone but part of a like-minded community.

“The public sector’s role should mainly be around celebrating entrepreneurs and elevating them to heroes.”

Anand Chandrasekaran, Director, Products, Openwave Systems, USA; Young Global Leader

This is vital promotion in a culture where entrepreneurship is not widely practiced or even necessarily respected.

“Traction from the media made us successful.”

Daisuke Iwase, Co-Founder and Representative Director, Lifenet Insurance Company, Japan; Young Global Leader

Meanwhile, the private sector should be more public about its activities, whenever possible. NGOs should invite the media to conferences and other forums. Individuals should grant more interviews, perhaps even broadcast their views and activities through personal websites and blogs. The media themselves could take a more proactive role by regularly covering entrepreneurial issues and seeking out these success stories.

“Women for Women appeared 13 times in media coverage in a short time, which helped lift the image of the brand and raise awareness and money.”

Zainab Salbi, Founder and Chief Executive Officer, Women for Women International, USA

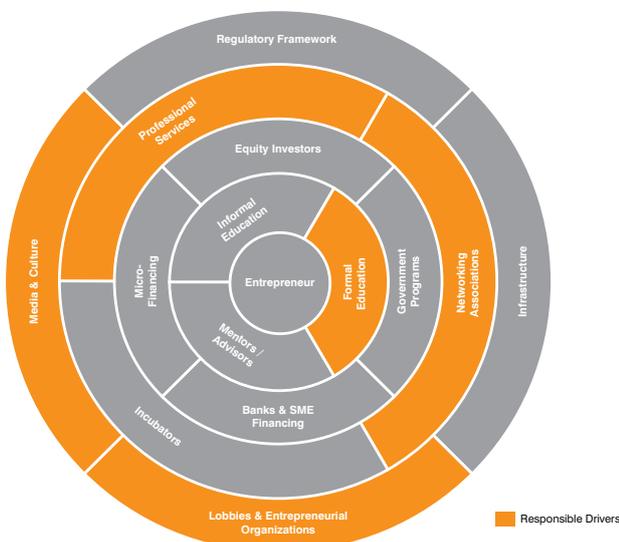
Estonia: Leveraging the Hype on Skype

Skype, the company behind the famous software application that allows users to make voice and video calls and chats over the Internet, was founded in Estonia in 2003. Just two years later, eBay bought Skype for US\$ 2.6 billion. In May 2010, less than a year after eBay had resold 70% of Skype’s shares to a private consortium of investors, Microsoft agreed to acquire Skype for US\$ 8.5 billion. In 2010, the company had 660 million users around the world.

Estonia’s media and government have seized on this story, continuously broadcasting and boasting about Skype’s success and lionizing the founders to the point where they have become nothing short of national heroes. This hype has inspired a wave of entrepreneurs to create their own ventures in a country where the start-up scene is still in its early stages.

Two of the many organizations supporting these Skype-inspired start-ups are Tehnopol Science Park and the Estonian Startup Leaders Club. Tehnopol Science Park is a business incubator that provides facilities and services for start-ups’ business development needs, including assistance in drawing up business plans; access to money, partners and clients; mentoring; and business development. The Estonian Startup Leaders Club allows aspiring entrepreneurs to share experiences and best practices on managing early-stage start-ups, develop and expand their business network and promote entrepreneurship in Estonia by growing the community of start-up founders.

Exhibit 11: Ecosystem Impact of Imperative #2



Source: Booz & Company

3. Bring entrepreneurship to the classroom. Everyone in high school and university should learn entrepreneurial principles.

Schools can teach young people about entrepreneurship and help build a start-up culture. To this end, ministries of education in the MENA region could collaborate with the Arab League Educational, Cultural and Scientific Organization (ALECSO) to create a regional joint effort to promote curricula that include entrepreneurship. At home, ministries can develop policies and guidelines to ensure a solid entrepreneurial education in high school and university.



At the high school level, the first step is to educate the teachers, many of whom are not familiar with entrepreneurship – perhaps making such seminars mandatory. For the students, schools could establish “career days” to expand students’ career horizons in general and include information about entrepreneurship specifically. (Ministries might consider making such career days a requirement for accreditation.) Educators can creatively reinforce these lessons by, for instance, creating contests in which students present business plans to a panel of experts--perhaps who are successful entrepreneurs. These types of inter-school events can be great motivators and create *esprit de corps* among students and teachers alike.

“In the US, 78% of senior high school students say they admire a businessman – most of whom are entrepreneurs such as Jobs (Apple), Dell (Dell), Gates (Microsoft) and Page (Google). In Argentina that number is 2%.”

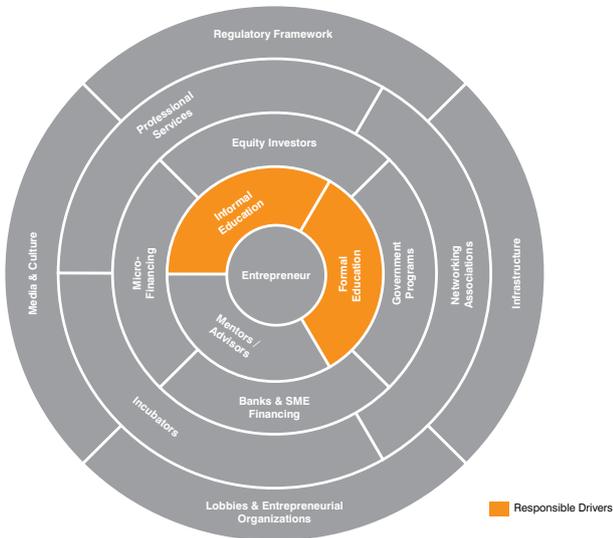
Andy Freire, Chairman and Chief Executive Officer, Axialent, Argentina; Young Global Leader

At the university level, the goal is more specific: to provide more students with the desire, skills and knowledge to start a company. To this end, more universities should establish major and minor degrees in entrepreneurship that cover topics such as business planning, problem solving, project management, risk management, finance and accounting. This coursework might include small, specialized seminars in which students work closely with a professor to create a business plan that is presented to angel investors or VC firms at the end of the term for possible financing.

Even students who are not seeking a major or minor in entrepreneurship could one day benefit from these courses. With this in mind, universities might consider altering the requirements for some existing degrees (e.g. business and engineering) to include a few entrepreneurship-related courses (the same way an ethics course is required of business graduates). Outside of the classroom, universities could support entrepreneurship clubs in which professors, business managers or established entrepreneurs present insights and training. In the Booz & Company study “Youth in GCC Countries: Meeting the Challenge”, 62% of survey respondents said governments can expand economic opportunities by promoting youth entrepreneurship, while 46% of respondents advocated establishing training programmes linked with certain sectors.

All these initiatives, at all levels of education, could instil a culture of entrepreneurship, but only if educational institutions and government ministries work together to alter and enforce accreditation requirements. For example, Chile recently committed US\$ 3 million to develop an entrepreneurial education programme – a collaboration between the education and economy ministries. In 2010, a total of 78,000 students from 546 schools registered. While the programme is new, the two ministries plan to “measure the impact of developing a national public policy for entrepreneurship education by the year 2014,” according to the General Education Director for the Ministry of Education in Chile.

Exhibit 12: Ecosystem Impact of Imperative #3



Source: Booz & Company



Acknowledgement: INJAZ Al-Arab Youth

INJAZ al-Arab: Educating Nearly a Million Entrepreneurs

Operating in 13 countries across the MENA region, INJAZ al-Arab, led by Young Global Leader Soraya Salti, provides education and training to Arab youth in work readiness, financial literacy and entrepreneurship. Supported by corporate volunteers and working closely with regional ministries of education, the organization aims to equip students with practical business-related skills as part of the regular educational curriculum. Since its inception in 2004, INJAZ al-Arab's programmes have reached 900,000 youth. In 2010 alone, INJAZ al-Arab reached 230,000 youth and engaged 14,000 volunteers. A national board of directors leads each INJAZ country operation and includes a total of 250 chief executive officers, with the INJAZ al-Arab regional board responsible for directing overall strategy and organizational governance. These bodies include the region's top business leaders who share a common ideal for Arab youth.

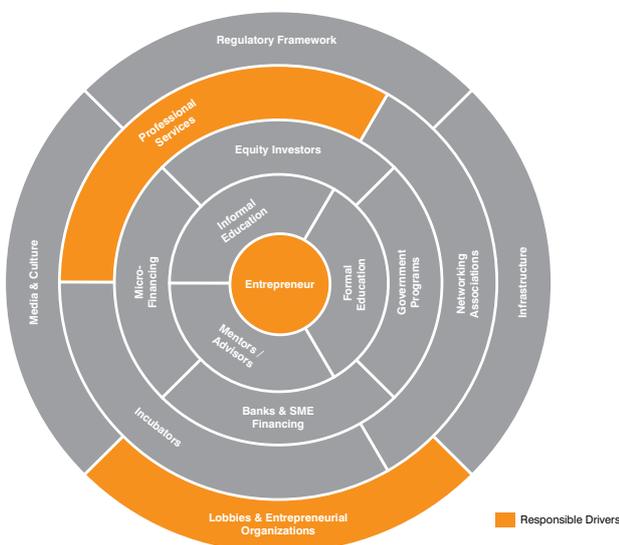
4. Bring entrepreneurship to the office. Companies should encourage employees to unleash their own talent.

Corporate entrepreneurship must ultimately rely on individual employees for entrepreneurial inspiration, but corporations can help unlock that potential. Not all hopeful entrepreneurs are young guns with the wealth to strike out on their own. Many have families to support and need a pay check, but they would jump at the opportunity to express their creativity and pursue entrepreneurial activities in a stable corporate environment with the support of fellow experts, administration and financing.

Companies could tap into this pent-up creativity by, for instance, creating an internal process to assess and fund entrepreneurial ideas generated by employees. They could also grant employees time to work on these projects, either during the workday or during a paid leave of absence. Once these start-ups are created, employers can act as advisers by providing professional support, offering access to clients or even becoming the venture's first client.

On a larger scale, a corporate entrepreneurship forum would give large companies a venue to discuss their experiences and exchange information about the local ecosystem. One local company that has embraced the culture of entrepreneurship is the Olayan Group, a Saudi family-owned conglomerate established in 1947 with activities in construction, trading, food processing, cleaning and other industries. In April 2010, Lubna Suliman Olayan, Chief Executive Officer of the group's financing company, was named Cornell Entrepreneur of the Year. Another example of corporate-sponsored entrepreneurship comes from Saudi Aramco, Saudi Arabia's state-owned oil company. Aramco has set up an entrepreneurship centre to provide networking, regulatory facilitation, funding, mentoring and education to Saudi start-ups. The centre was piloted in 2010 and will be officially launched in 2011.

Exhibit 13: Ecosystem Impact of Imperative #4



Source: Booz & Company

3M: Encouraging Home-Grown Innovation

Since its founding over 100 years ago, 3M has invested billions of dollars in R&D and developed formal policies to encourage employees across the enterprise to pursue innovation. Leaders vocally support innovation and entrepreneurship, create networking opportunities for employees to discuss projects and ideas, and allow employees to spend up to 15% of their time working on their own projects. Employees who make breakthroughs are publicly acknowledged and rewarded with vacations and bonuses. So far, the company has generated 55,000 new products this way, including the well-known Post-it®.

Expanding Entrepreneurship's Horizons

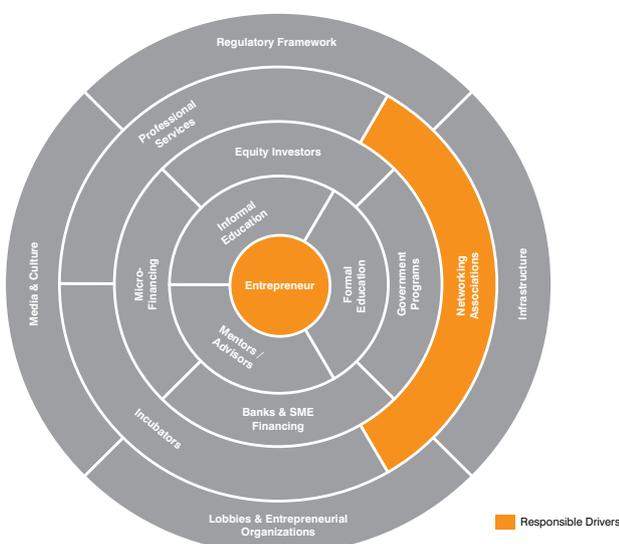
5. Do not imitate Silicon Valley. Identify and leverage your country's own unique resources.

Too often, governments, NGOs and private groups attempt to spur local entrepreneurial activity by unsuccessfully trying to imitate Silicon Valley. The United Kingdom government created the “Silicon Roundabout” 20 years ago and the German government has invested US\$ 20 billion to create a “biotechnology hub”. But neither has lived up to expectations. As suggested by Daniel Isenberg, Professor of Management Practice at Babson Global, in his paper on “How to Start an Entrepreneurial Revolution”, it is easy to understand why they have tried: Silicon Valley’s entrepreneurial ecosystem has spawned game-changing giants such as Google, Intel, eBay and Apple. But it has evolved thanks to an intertwining of factors – and just plain luck – that cannot be orchestrated by a government: a plethora of venture capitalists; prestigious universities such as Stanford and University of California at Berkeley; a cheap cost of failure that encourages risk taking; a strong, local aerospace industry to help fuel R&D; and a relaxed immigration policy for PhD students. And this whole entrepreneurial ecosystem keeps churning because talented, ambitious people are undeterred by the staggering odds against them: VCs fund only about 1% of the technology-based businesses they consider.

Rather than attempting to replicate Silicon Valley, MENA countries must study what advantages they possess and design ways to leverage those specific advantages. In particular, they need to look beyond IT. These study groups can pull from the government as well as private professionals to identify advantages such as *natural resources* (e.g. oil and gas, fruits, vegetables, water or fish); *strategic position* (e.g. a hub between trade regions, point of access from one region to another or proximity to a religious or tourist attraction); *climate* (e.g. which could support the cultivation of specific plants, such as coffee or mangos, or be good for tourist activities, such as surfing, snorkelling and diving); and *human resources* (e.g. date farming expertise in Saudi Arabia and hospitality training in Egypt).

With these resources in mind, governments can identify unfilled needs and other opportunities to boost activity in a particular sector. For example, the Saudi Industrial Development Fund (SIDF) plays a pivotal role in advancing programmes devised to industrialize Saudi Arabia. It offers financial assistance in the form of short-term loans to investors and offers technical, administrative, financial and marketing advice to borrowers.

Exhibit 14: Ecosystem Impact of Imperative #5



Source: Booz & Company

Rwanda: Building a Coffee Industry

In 2001, after years of war, coffee production in Rwanda was falling and was rated below Grade C, the lowest quality level according to international standards. Prices were low, as were farmers' incomes. The government realized the country was not leveraging its natural resources and strengths correctly, and that something needed to be done. That year, the president launched the Rwanda National Innovation and Competitiveness initiative which, in turn, developed several initiatives including the "National Coffee Strategy". Subsequently, the government committed US\$ 70 million in three main areas: product development, marketing and promotion, and institutionalization.

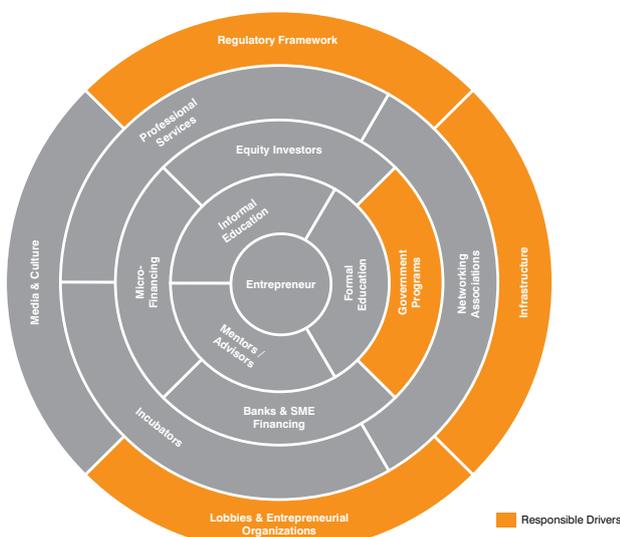
Among the initiatives was Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness Development (SPREAD). SPREAD is an alliance of US and Rwandan universities, US and European industries, Rwandan enterprises and institutions, and US and Rwandan NGOs, funded by USAID. It helped establish links with over 40 international buyers and coffee roasters, and Rwanda's coffee is now increasingly regarded as a gourmet product. The result has been dramatic: coffee exports now represent more than one-third of Rwanda's export revenue and are growing fast. The value of coffee exports in 2010 exceeded US\$ 69 million vs US\$ 39 million in 2009. Farmers have enjoyed higher incomes and they can now invest more on quality and improving taste. The entrepreneurial success of these farmers has had positive spillover effects in the local economy, spawning new cafes and factories to treat coffee beans.

6. Welcome new ideas. Engage domestic and foreign workers to encourage a free flow of expertise and enterprise.

Stringent immigration and naturalization laws hinder the free flow of talent and expertise into the region, putting local entrepreneurs at a disadvantage and discouraging foreign entrepreneurs from setting up shop. Government authorities such as the ministry of labour should streamline labour rules – particularly on foreign workers and visas – so start-ups can access the expertise they need. They might even consider waiving these rules altogether for small companies.

Governments should also review rules that restrict real estate, business and stock ownership by foreigners since these also discourage foreign participation in local ventures. Entrepreneurs should be encouraged to think of the whole MENA region as their potential market, not just their own country. To do so, there needs to be standardized laws and streamlined processes between nations, including relaxed restrictions on the flow of labour and imports/exports. NGOs and other professional organizations have an important role to play. They should actively promote the value of outside expertise through various activities, including actively lobbying the government for change.

Exhibit 15: Ecosystem Impact of Imperative #6



Source: Booz & Company

Chile: Paving the Way for Foreign Entrepreneurs

In the 1990s, Chile's entrepreneurial environment was weak with little foreign participation. But a series of government reforms in the 2000s opened the door to foreigners and welcomed their ideas, jump-starting several key industries. For instance, from 2002 to 2009 the country grew its IT outsourcing industry from nothing to close to US\$ 1 billion in revenue.

Chile is trying to build on this success with programmes geared specifically towards entrepreneurship. In 2010, the government announced it would pay 10 entrepreneurs US\$ 40,000 and give them free living and office space in Chile for six months while they worked on a business venture. This programme and others have had a snowballing economic effect. In 2011, 110 start-ups from 28 countries were given permission to open their doors in Chile and 300 more are expected in 2012. Chile now ranks as the most competitive country in Latin America (and 30th globally).

7. Break the stereotype. Great entrepreneurial ideas can come from anyone in any industry.

The stereotypical entrepreneur is a young, brilliant kid with a hot IT idea; it is a stereotype reinforced by the founders of Google and Facebook as well as regional successes such as Yamli and Woopra. These stories of early fame and fortune inspire young entrepreneurs, but they present a limited view of entrepreneurship. Not every start-up must be IT related and not every aspiring entrepreneur is fresh out of school. Entrepreneurs can be seasoned executives from traditional industries.

“I brought in a CEO as a co-founder who was 63 years old. His expertise was key to the success of my venture.”

Daisuke Iwase, Co-Founder and Representative Director, Lifenet Insurance Company, Japan; Young Global Leader

A healthy economy is a well-balanced economy with job creation spread among various industries. In fact, IT might not leverage a particular country’s advantages; the government and NGOs need to encourage entrepreneurial initiatives that leverage a country’s best resources.

“Ideally, an entrepreneur should not have enough experience to make him afraid and risk averse, but just enough to make him comfortable to take the leap.”

Allon Raiz, Chief Executive Officer, Raizcorp, South Africa; Young Global Leader

To this end, entrepreneurial networks and associations should support non-IT ventures and governments should not fixate on the IT industry. They would be wise to create non-technology incubators that provide mentoring, financial assistance and support to entrepreneurs in various fields. Likewise, venture capital firms should establish funds aimed at non-technology industries, such as consumer goods, retail and education.

“Actually, the best entrepreneurs are also the mature, seasoned ones, not only the younger people.”

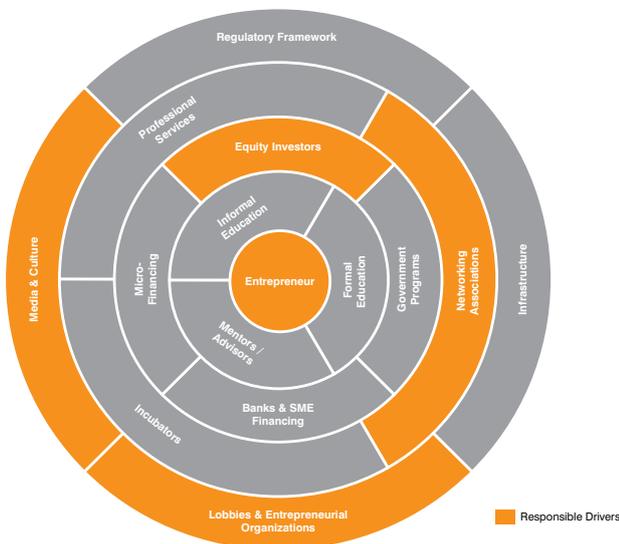
Khaldoon Tabaza, Founder and Chief Executive Officer, Zad Capital, Jordan; Young Global Leader



An entrepreneur is also not necessarily a man. Women’s roles in the MENA region are changing dramatically and women have an appetite for entrepreneurship as a model that allows them to enter the workforce with more flexibility than other private sector jobs. In the Booz & Company study “Youth in the GCC: Meeting the Challenge”, women listed “promote youth entrepreneurship” as the number one way for governments to create economic opportunities for young people; young men ranked it number three.

Stakeholders in the entrepreneurial ecosystem should focus on creating opportunities for women. For example, the Cherie Blair Foundation for Women, in partnership with the René Moawad Foundation, J.P. Morgan and the Tomorrow’s Youth Organization, launched the “Women Entrepreneurs in Lebanon” project in September 2011. The project’s objective is to give entrepreneurial women in Lebanon business development support, access to finance, mentoring opportunities and technology. Similarly, in Saudi Arabia, the Prince Sultan bin Abdul Aziz Fund to Support Women’s Small Enterprises was established in 2007 in Dammam. Initiated by H.R.H. Prince Mohammed bin Fahd bin Abdul Aziz, Governor of Saudi Arabia’s Eastern Province, the fund provides technical and financial support to aspiring women entrepreneurs. It has supported 32 projects during the past two years.

Exhibit 16: Ecosystem Impact of Imperative #7



Source: Booz & Company

Patchi: The Sweet Smell of Success

Even very traditional industries can be sources of creativity and wealth creation. In 1974, Nizar Choucair founded Lebanon's Patchi as a wedding favours business and, within little time, propelled Patchi into an international chocolate brand thanks to his creativity with new flavours, packaging and marketing. After just a year in business, Patchi expanded into Amman, Jordan, and subsequently opened boutiques and factories throughout the Middle East. In the late 1990s, the company entered Europe and in 2000, landed in the US. In 2005, Forbes named Patchi the number-one luxury brand in the Middle East; recently, the company created a joint venture called Tamaris, a restaurant chain that primarily serves desserts. Today, Patchi is in 35 countries on four continents.

8. Embrace the diaspora. Tap successful entrepreneurs living abroad for their advice and connections.

Over the years, some of the region's most talented people have sought better opportunities abroad in countries with more stable governments and more developed legal and economic systems. For example, today there are more people of Lebanese descent living outside Lebanon than living within the country. Emigrants may have left decades ago – even raised families outside their native country – but they often maintain strong familial and emotional ties to their homeland.

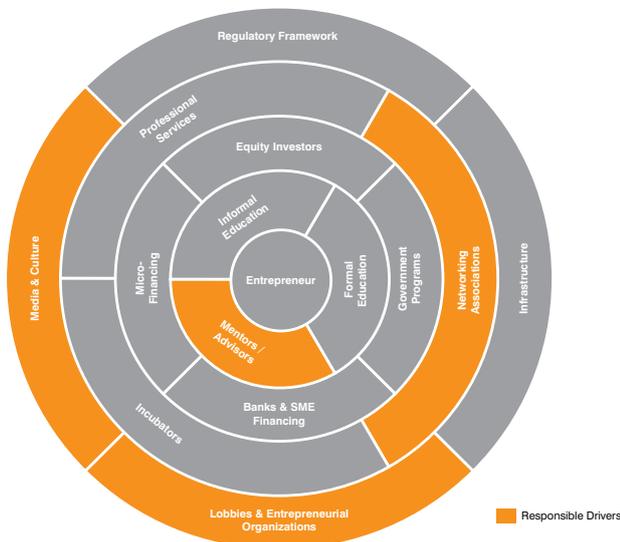
MENA governments and NGOs would be wise to tap this enormous, friendly network of business expertise for advice and insights on several fronts: the legal and regulatory reforms necessary to encourage entrepreneurship; specific industry knowledge; and cultural fit (understanding the local culture is extremely valuable when it comes to translating ideas into workable projects and policy initiatives). What is more, these people can serve as mentors to aspiring entrepreneurs. Home ministries might, for instance, sponsor local talent to work abroad with expatriates to gain experience and then return home.

“There are many good ideas in the US, especially in the retail and service sectors, that can be brought successfully to the region.”

Fahd Al-Rasheed, Managing Director and Chief Executive Officer, Emaar Economic City, Saudi Arabia;
Young Global Leader

To build connections with the diasporas, some NGOs, government ministries and embassies set up business organizations and associations (BOAs) that host social and business networking events. For example, the Lebanese International Business Council is a non-profit organization that hosts these networking events for Lebanese communities around the globe for business, political/lobbying and socio-economic purposes.

Exhibit 17: Ecosystem Impact of Imperative #8



Source: Booz & Company

Taiwan: Bringing Entrepreneurs Back Home

The Taiwanese government began a concerted effort to build its entrepreneurship ecosystem in the 1980s. The government organized a series of forums and conferences, invited Taiwanese people working in US technology companies to attend, asked their advice about how to improve the entrepreneurial environment and then launched a series of initiatives based on their collective recommendations. For example, the government created Hsinchu Science Park to convince talent who had set up their companies abroad to return to Taiwan and establish their companies locally. This one park attracted about 350 immigrant Taiwanese per year from the US and today houses more than 400 high-tech companies, representing about 10% of Taiwan's GDP. Overall, the government's attempt to attract diasporas was dramatically successful: from 1988 to 1998, more than 4,000 Taiwanese engineers returned to Taiwan to start their own businesses and economic activity surged. Case in point: export volume of electrical products doubled from 11% in 1990 to about 22% in 2000. Along the way, in 1993, the World Bank dubbed Taiwan's economy as one of the "East Asian miracles."

Supporting and Encouraging Entrepreneurship

9. Eliminate red tape. Governments should give many kinds of support to all types of entrepreneurs.

Governments should centralize, streamline and shorten the administrative steps necessary to set up a business – and lower the legal costs – by reducing the amount of paperwork and approvals necessary to open small businesses. Beyond these steps, government can change rules to make it easier for start-ups to get funding. For instance, governments could create legal frameworks that encourage venture capital investing, eliminate legal barriers to foreign direct investment and remove minimum capital requirements to start a business.

"A deal that should be made in three months takes two years in the region."

Khaldoon Tabaza, Founder and Chief Executive Officer, Zad Capital, Jordan; Young Global Leader

Governments could also choose to support forums where entrepreneurs and investors meet, perhaps emulating Startup Weekend, a US-based group that regularly organizes events where developers, designers, marketers and successful entrepreneurs come together to build and test products. Since 2006, Startup Weekend has organized over 200 events in more than 35 countries; it has 30,000 alumni and more than 100 local organizers.

For companies beyond the start-up phase but looking for growth capital, governments might consider creating an SME exchange, similar to a stock market but targeted at smaller companies, with less strict listing requirements. (However, the government would have to enlist NGOs and encourage entrepreneurs to list their companies and sophisticated investors to participate). Yet another way that governments could give start-ups a helping hand is by picking up part of the labour

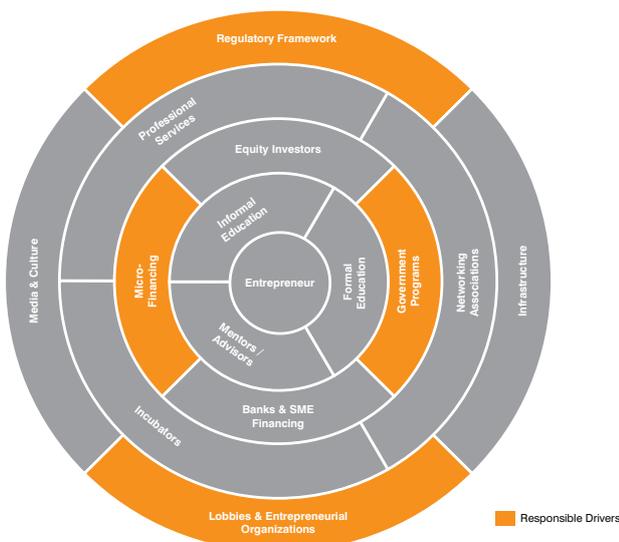
tab. Currently GCC countries such as Kuwait pay nationals a monthly allowance for being employed in the private sector. This policy could be reformulated to give employees at start-ups a higher allowance than employees at more established, stable companies.

MENA governments could also take a page from Singapore’s playbook and subsidize management training. Singapore started the Advanced Management Programme and Management Development Scholarships programme in 2008 so SMEs can better nurture leaders. These programmes, along with an aggressive pro-business, pro-foreign investment, export-oriented economic policy framework (which included government investments in the private sector through its investment arm) has propelled Singapore’s economic growth. In 2010, Singapore’s economy grew by 14.7% – the fastest in the world and the fastest Singapore has ever grown. And for four consecutive years, Singapore has been number one on the World Bank’s Ease of Doing Business index.

“As an entrepreneur, I want everyone to get out of my way. Government should just establish the simplest business framework.”

Jimmy Wales, Founder and Trustee, Wikimedia Foundation, USA; Young Global Leader

Exhibit 18: Ecosystem Impact of Imperative #9



Source: Booz & Company

Yemen and Syria: Legalizing and Supporting Microfinance

Another way to eliminate red tape and encourage entrepreneurs is to legalize microfinance. (However, it must be regulated to some degree to ensure poor people are not exploited.) Today, microfinance is emerging in some unlikely places, such as Yemen and Syria, which have passed the region’s first and second commercial microfinance laws and treat microfinance as a social enterprise, connecting entrepreneurs to products, services and partners to help them grow. In Yemen, Al-Amal Microfinance Bank, the region’s first commercial microfinance bank, is proving that when young people and the poor are well-trained (either formally or informally) they are often very successful at growing their businesses with small amounts of capital. This is a valuable insight for a region bursting with young people. Traditionally, investors and banks have shied away from start-ups run by someone under 30 – deeming leadership too immature and the venture too risky. But it is precisely this age group that has made Amal Microfinance Bank the fastest growing microfinance bank in the region, propelling job growth along the way.

“Youth microfinance is a high-growth and niche market segment that when properly harnessed has proven not only to improve young lives for good but also to support their entrepreneurial ventures’ growth from microenterprises to thriving small businesses, drawing on the existing young and unemployed workforce for their growth.”

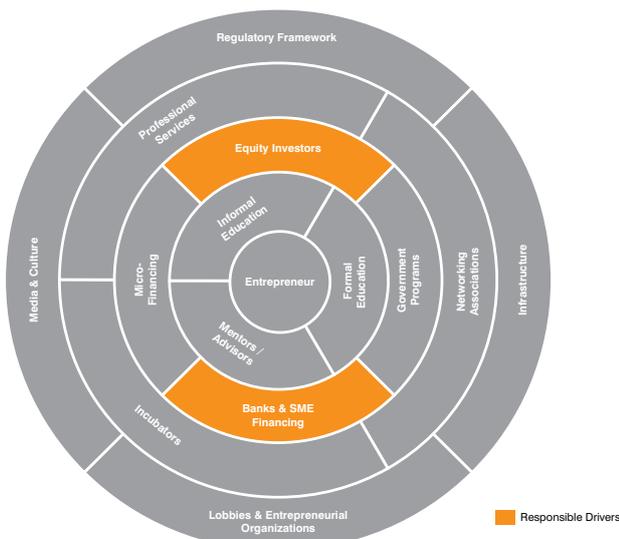
Pawan G. Patil, Executive Chairman, House of Innovation Holdings, USA, and Founding Chief Economist and Chief Economic Development Officer, Silatech, Qatar; Young Global Leader

10. Expand the venture capital (VC) model. VCs need to go beyond funding and provide a support structure for entrepreneurs.

Too often venture capital firms define their role narrowly. Entrepreneurs, they believe, should come to them. If VC firms make an investment, they confine their involvement to a board seat and some high-level strategic advice. This approach needs to change. If the entrepreneurship ecosystem is to improve in the MENA region, venture capitalists need to seek out entrepreneurs more proactively and become more deeply involved once the investment has been made.

VCs can work through entrepreneurial networks to find promising young start-ups. But there are plenty of other creative ways to search for the next big thing. VCs might, for instance, seek out young companies that have been turned down for bank loans. This kind of digging might turn up a diamond in the rough worth approaching with a financing offer. Then, instead of merely assigning a partner to sit on the board to keep tabs on the investment, the VC firm could assign a team of industry experts to mentor the entrepreneur and help with tactical decisions and long-term planning such as board selection. Additionally, the VC firms could create an incubator, or collaborate with one, to host the VC-backed start-ups and provide back office services such as accounting, IT, audit and legal. While this involvement is deeper than is the norm in Europe and the US, young companies in the MENA region do not have the support structure available in those regions and VCs should make it their business to provide or locate that support.

Exhibit 19: Ecosystem Impact of Imperative #10



Source: Booz & Company



Foras: A VC Fund Thinking Outside the Box

In Saudi Arabia, a select group of successful businessmen with the support of the chamber of commerce and industry is in the process of launching a multi-purpose venture capital fund called Foras. Created as an independent investment company, Foras will shepherd young companies into the complex business environment. More specifically, it will finance entrepreneurs and support them as they build their start-ups; turn around mismanaged enterprises; fund SMEs with growth potential; and co-invest in medium-to-large capital projects through special purpose funds. The fund is led by prominent Saudi and international businessmen. In addition to financing, Foras will provide facilitation (facilities, equipment, professional services) and planning services (advisory, business planning, feasibility studies).

Conclusion: Recognize the Urgency

As noted at the outset of this paper, the region must create 75 million jobs by 2020 – an increase of more than 40%. This will be no small task. Governments in the region must start thinking creatively and acting decisively about spurring job creation. One way is to encourage entrepreneurship. Start-ups attract bright, innovative people; their determination for success drives economic activity, generates jobs and opens new opportunities for others.

Creating an entrepreneurial culture will take time, especially in a region where entrepreneurial aspirations are not well understood or necessarily respected. The first step is to understand what drives entrepreneurs and identify the resources they need to succeed. Governments, individual entrepreneurs, NGOs and corporations – everyone with a vested interest in job creation and economic growth – must make a concerted, coordinated effort to develop an entrepreneurial ecosystem, as outlined in “The Imperatives for Creating an Entrepreneurial Ecosystem”. Success will depend on everyone taking ownership of these imperatives: by taking action on their own and by cajoling others to act.

As Jimmy Wales, the founder and trustee of Wikimedia Foundation, succinctly put it: “Talent is always there. The adequate entrepreneurial conditions will make it emerge.”

There is an urgency to create this entrepreneurial ecosystem. With one of the world’s youngest and fastest-growing working-age populations, the MENA region should provide the necessary entrepreneurial ecosystem for its society to fully benefit. Stakeholders must act now to lay the groundwork for the MENA region’s youth so this precious opportunity is not wasted.

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