

An Overview on Entrepreneurship efforts in Egypt and the Arab World

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"Work, everybody is facilitated to what he was created for"

Mohammed (PBUH)

Summary

This report will explore a number of policies that the regional governments are applying in order to promote, support, and encourage startups and entrepreneurship. It is intended that this report will give some insight that will help policy-makers to pinpoint the best way for developing entrepreneurship in their specific communities by selecting and tailoring the most suitable policy for the governmental strategic objectives on the medium to long term.

Examples of policies that will be presented are financial support (in the form of grant, loan, or joint venture), infrastructure support (in the form of incubators, low cost communication services, marketing and promotion, legal support for incorporating the startup, or other forms of infrastructure support), educational support (management and business administration training for entrepreneurs and small business owners), and other proven policies.

The report starts out by presenting the general subject of entrepreneurship in light of its importance and the policies adopted globally. Next sections are focusing mainly on Egypt case laying out in details the entrepreneurship efforts being taken in the country and backing this by examples and figures. We then move to exploring a notion of entrepreneurship status in the Arab region through some selected cases from Lebanon and Bahrain that are discussed briefly in this report as exemplar models for the regional interest in this field.

Introduction

While unemployment is a problem that exists in almost every country, with different ratios, and it affects national economies and governmental plans significantly due to the social and economic instability it introduces to the society, entrepreneurship as a strategy and a mindset is presented by its advocates to be the looked for cure for such issues, that is because of the new opportunities, motivation, enablement, and support it offers to those unemployed troops.

Entrepreneurship can be defined as "the act of being an entrepreneur, which can be defined as one who undertakes innovations, finance and business acumen in an effort to transform innovations into economic goods". "Different scholars have described entrepreneurs as, among other things, bearing risk ... The acts of entrepreneurship are often associated with true uncertainty, particularly when it involves bringing something really novel to the world, whose market never exists." (Wikipedia)

Entrepreneurship practices take a number of personal skills and business knowledge and experience of any person to be a successful entrepreneur. In many cases, these are readily available for individuals who are representing a continuation of their family business, and this is more evident in popular national crafts which represent the specialty of a certain community or country, where successive generations inherit the profession and master it since their very early days. Examples of these are hand made products and handicrafts. In some cases, on the other hand, the necessary skills and capabilities are not that easily attainable by a majority of potential entrepreneurs, like manufacturing or trading businesses where the entrepreneur has very limited experience and insufficient expertise to enable him to startup reliably, and here comes the important role of governments to provide the necessary support and directions needed for these entrepreneurs to turn their ideas and plans into realities.

Needless to say, the financial factors are the most limiting in most cases, where the entrepreneur has probably gained the experience and knowledge through his past practices, but does not have the required fund to build his own entity. Fund support can come in several variations according to the government arrangements with other financier institutions in the country, and does not need necessarily to be liquid governmental fund deducted from the government balance.

Support can also come in other substitutions like providing incubators equipped with all necessary preparations for the entrepreneur to use to host his project startup for the beginning period, until he builds enough financial capability to be able to release his project from that incubator to a standalone business, like company office or factory plant. Other support plans can include legal support to smooth out and expedite the new startup incorporation process by the governmental officers directly. Marketing and branding opportunities and exposure to external markets are also important support aspects by which governments can empower entrepreneurs.

In all cases, and in parallel with the enabling financial support, another educational support is needed to provide the potential entrepreneurs with the necessary soft skills and business knowledge and skills that help them to manage their projects to success.

Separate training programs by training houses, or joint training programs with universities are usually used for this purpose.

"Entrepreneurship begins with a business opportunity. This may be based on the growth of a sector, a gap in present supply, or the entrepreneur's ability to do things better than the present companies. Finding business opportunities starts with the entrepreneurs themselves. However, public actors may promote the discovery of opportunities." (McKinsey Research)

Generally speaking, the challenges that face entrepreneurs and new business owners can be summarized as:

- Increasing competition at the local and international level. There are many cases where new small business startups do not sustain beyond few years due to the market saturation by other large, more established competitors. This is a major challenge that needs to be taken in consideration by entrepreneurs when they conduct the market research upfront in developing their business plan.
- Insufficient educational background related to entrepreneurial readiness which makes the entrepreneur confused by having the desire and possibly the idea to start a new business, but lacking the knowledge that helps him to find the start point.
- Lack of people and business skills and competences necessary to plan and manage the startup and operation afterwards in a successful and profitable way.
- Lack of attention to innovation levels that makes the new service or product distinguished in the market and appreciated by the customers in order to be competent and sustainable.

As part of the solution to these challenges, entrepreneurship programs are thought to be a major catalyst for overcoming the challenges and achieving the prospected end result of resilient new business startups and successful entrepreneurs by enabling and providing the lacked capabilities.

Research and practice have shown that entrepreneurship through the above outlined general guidelines is a widely recognized and supported subject by a lot of organizations, internationally and at the national level in many countries. Besides, a number of university programs in several universities world wide have been developed to prepare graduates for this future, and based on that other research programs of post graduate students have been undertaken resulting in more enrichment of the available literature of this relatively new field. "The link between R&D and entrepreneurship and a good entrepreneurship climate play a key role in commercializing innovation and creating new business." (McKinsey Research)

At a global level, one of the most expanding forms of entrepreneurship is online businesses which are exploiting the internet connectivity and virtual trade possibilities and e-commerce channels. Despite this is evident in almost all kinds of industry, it is more visible in the IT field due to the nature of IT services that enables them to be delivered remotely and in some cases completely virtually.

Some start-ups are even relying more on Internet-based fundraising methods and less on traditional venture capital. (Kevin Lawton and Dan Marom 2010). The people who

provide seed money are no longer a jury of wealthy investors. Instead, Lawton and Marom suggest that the entrepreneur can seek out like-minded individuals who believe in his or her idea by using the internet connectivity. It is easier to ask a million people for \$5 apiece than it is to ask five people to each give \$1 million.

Layout of the Entrepreneurship Landscape in Egypt

Entrepreneurship is of special importance when it comes to countries and communities with large populations like Egypt (which is by far the largest Arabic state in terms of population size, with around 50% of the population are in the working age). In such circumstances, official employment opportunities can never be secured to allow a capacity for that large number of workers, and it is a must for considerable proportion of the population, specially youth, to think of starting up their own private businesses to find a source of income, and to be productive and contributing citizens.

The following chart presents the labor force size in Egypt over 2 decades:



Figure 1. Egypt Labor Force Size, 1980 – 2009
Source: TradingEconomics.com

The following chart shows the change of unemployment rate in Egypt over the last 2 years:

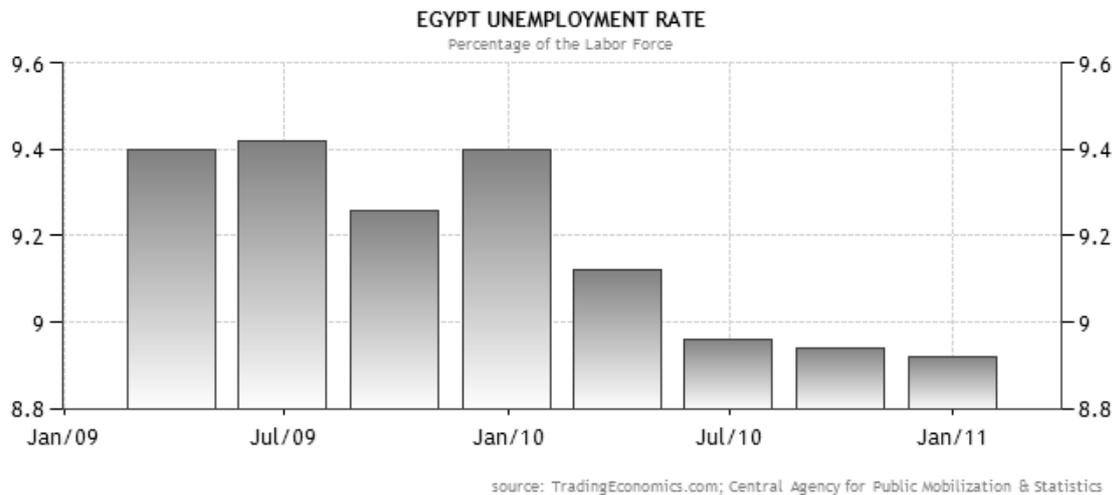


Figure 2. Unemployment Rate in Egypt, Jan. 2009 – Jan. 2011
Source: TradingEconomics.com

The following chart shows the employment ration to the total population over almost a decade:



Figure 3. Employment to Population Ratio in Egypt, 1992 – 2009
Source: TradingEconomics.com

The Egyptian government has been paying close attention to fostering and supporting entrepreneurship and SMEs through a number of organizations in several sectors in the country.

The key player organizations fostering entrepreneurship in Egypt can be enumerated in the following list: (MCSBE conference, Cairo, Jan. 2011)

- Industrial Modernization Centre (IMC)
- Egyptian Junior Business Association (EJB)

- Ministry of Trade and Industry, Industry Entrepreneurship Council
- Egyptian National Competitiveness Council (ENCC)
- Middle East Council for Small Business and Entrepreneurship (MCSBE)
- International Council for Small Business (ICSB)
- Entrepreneurs Business Forum Egypt
- Alexandria Business Association
- Business Development Services Support Project
- Industrial Training Council (ITC)
- Egyptian Business Association (EBA)
- General Authority for Investment and Free-Zones (GAFI)
- Universities

For the IT industry, the most evident example is the activities carried out by ITIDA (IT Industry Development Agency) which is an affiliation of the MCIT (Ministry of Communications and Information Technology). Their efforts include selection and discovery of promising business ideas through conducting an annual business plan competition, through which contestants are filtered by multi-level evaluation and assessment process, which is usually done by subject matter experts. Qualified contestants are then offered training on general business and management subjects, as well as essential soft skills.

In addition to financial prize, the final winners are offered incubators at the Incubation Center, owned and managed by ITIDA, where they have already established infrastructure and communication facilities, in addition to the branding and image building gained from the prestigious location and the designation as competition winners.

On the same line, and in another effort taken by ITIDA to help growth of SMEs in the country, they offer generous sponsorship to interested SMEs to participate to local, national, and international industrial exhibitions, which usually results in gaining more exposure, new customers, and building credibility for the whole Egyptian industrial maturity and readiness.

At another side, there are many activities taken to grow the outsourcing industry in general, which support the entrepreneurship spirit of contractors and small business owners who provide their services to overseas customers. It is worth mentioning that the country has achieved a high rank globally in outsourcing field due to these relentless activities, and Egypt is recognized internationally as a main destination for outsourcing and call centers businesses.

Aside from the IT field, the IMC (Industry Modernization Center), which is an affiliation of the MTI (Ministry of Trade and Industry), provides a wide range of programs to support entrepreneurs and entrepreneurship in Egypt. The scope of IMC activities spans all kinds of industries in Egypt, including Textiles, construction, chemicals, engineering, nutrition, furniture, jewelry, agriculture, tanning, pharmaceutical, ...etc

The support programs range from financial sponsorship for training, to providing consultation services onsite in factories, intellectual property rights registration and protection, quality management, export development programs, R&D programs, and funding programs. The IMC also has liaison initiatives with higher education programs and youth associations.

The vision at IMC is the following main objectives: (MCSBE conference, Cairo, Jan. 2011)

- Create the bridge to a new economy by reforming education and investing in people
- Take the lead as a source of new ideas, solutions, and technologies at the regional level
- Win the race with new technologies
- Attract the money from investors, international financiers, and donors

At the NGO level, the MCSBE (Middle East Council for Small Business & Entrepreneurship) is built around the main mission of supporting entrepreneurship and SMEs in the whole Arab region, and is an affiliation of the ICSB (International Council for Small Business). It is a membership organization, including members from the government, universities, business associations, banks, venture capital companies, donors, consulting companies, large corporations and entrepreneurial companies, business development service (BDS) providers, and development NGOs. Its activities are mainly community targeted activities, in liaison with similar interest bodies.

Among the initiatives undertaken by the MCSBE is the Entrepreneurship Centers program, which is entitled with establishing entrepreneurship centers in cooperation with universities to prepare graduates with the necessary knowledge and background that qualify them for establishing their own businesses in the future. The objectives of Entrepreneurship Centers are to be resource centers which focus on capacity building of students, and to offer business development services to current students and previous graduates and the bigger community in general. Another initiative at the MCSBE is Entrepreneurship Curriculum program, which aims at creating university educational curricula related to entrepreneurship and innovation.

The MCSBE also plays a role in follow up assessments of the started business initiatives to enable their growth, and to support and address aspects like patents registration and production innovation.

The Egyptian economy is said to be a bank-based economy, since banks are the main source for funding even for some governmental initiatives which are funded by national banks. In most financial support programs offered by governmental or citizen organizations, there is usually partnership with banks that will provide the necessary financial liquid, either in the form of a loan, or a joint venture capital. This necessitates that fund applicants be well educated in business skills, and need to have enough knowledge on how to prepare well documented financial statements and cash flows with timeline in order to get funding from banks.

The integral role of Public Private Partnerships (PPP) in supporting entrepreneurship is very evident in the Egyptian landscape. This partnership is usually facilitated by universities which receive grant and technological support programs and/or tools from private sector companies and introduce them to their students within the educational facilities. This in turn translates the private sector support eventually into support to the public sector by releasing well established and well prepared graduates. Evidently, this in part feeds in the CSR (Corporate Social Responsibility) guiding practices that are adopted in most communities

The PPP can also come in the form of direct cooperation joint-programs between the private sector and the governmental agencies in all disciplines and industries. It also appears in the form of direct support from the private sector companies to NPOs and national organizations. Needless to say, the ultimate goal of PPP activities is to enable and empower new productive projects and innovative ideas to help youth and families to implement a secured source of income, and also to contribute to the growth of the national economy and production.

Research Figures

According to (Hala Hattab, 2008), which presents "an international research initiative that measures the level of entrepreneurial activity by assembling harmonized data from several participating countries on an annual basis", the following paragraphs represent facts that benchmark Egypt position on the international entrepreneurial dashboard:

Egypt joined the GEM consortium of countries in 2008. The GEM Egypt 2008 research is the first comprehensive study to address the issue of entrepreneurship in Egypt.

Entrepreneurial Activity Rate: 13.1% of adults in Egypt (18-64 years old) were either actively trying to start a new business or already owned and managed a business that was less than three and half years old, while 8.8% of the adults population reported being the owner of established businesses that were more than three and half years old. 80% of Egyptian early-stage entrepreneurs were motivated by "opportunity-entrepreneurship"¹, while the remaining 20% were driven by "necessity-entrepreneurship"².

Demographics and entrepreneurial activity rates: Demographic groups of the adult population with the highest entrepreneurship rates were: 1) those in the 25-34 years age group, 2) those with post-secondary education, 3) those in the household income group of EGP 1,501 – 2,000, 4) those living in Cairo, 5) men

¹ Opportunity Entrepreneurship: motivated to start a business out of the desire to pursue a market opportunity, combined with a desire for independence and better income prospects.

² Necessity Entrepreneurship: driven by the need to earn a livelihood.

Characteristics of early-stage businesses: The businesses of early-stage entrepreneurs are more likely to be in retail and service sectors than established Egyptian enterprises, and less likely to be in manufacturing. Most new entrepreneurs finance their start-ups from their personal resources. Early-stage entrepreneurs also contribute to external trade activity, almost 40% of early-stage businesses have customers outside Egypt.

The prevalence of informal investors: In Egypt, 2.5% of the adult population has been involved as informal investors in the early-stage start-ups of others over the past three years. Relative to other GEM countries, this rate compares to the average of EU GEM countries.

Attitudes of the population towards entrepreneurship and self-efficacy: About a third of Egyptians expect to start a business within the next three years. Almost three-quarters perceive entrepreneurship as a desirable career choice and express a low fear of failure.

Assessment of Entrepreneurial Framework Conditions: National experts in Egypt were quite positive about the extent of opportunities to start new businesses in the country. They felt that opportunities for new firms have increased considerably over the past five years, and that a rapidly changing and dynamic market for consumer and business goods and services is a contributing factor.

Some policy implications of GEM Egypt data:

1. Considerable efforts should be made in Egypt to foster the development of entrepreneurial skills, ability, and know-how of young Egyptians, early in the education system as part of the formal curriculum.
2. Egypt must continue to raise the average education level of the population because the entrepreneurship rate in the population generally rises with the level of education.
3. As reinforced by the national experts, proper attention to R&D and its transfer to the entrepreneurial sector and support for all forms of innovation is crucial.

Entrepreneurship in the Arab Region

As has been described in details for Egypt case, a similar interest and attention can be found across the Arab region. "Initiatives like Celebrations of Entrepreneurship (CoE 2010), by Abraaj Capital and supported by Aramex and many others, support and encourage the need for entrepreneurs. Other initiatives like SME100 by Dubai Department of Economic Development and the Khalifa Fund expanding into the whole UAE are also examples of such initiatives. There are other initiatives across the Middle East from Lebanon to Jordan and other countries. All of these private or government initiatives share in playing a role to promote the spirit of entrepreneurship" (Mounir Ajam, 2011).

The MCSBE (Middle East Council for Small Business & Entrepreneurship), based in Cairo, Egypt, is an example of a regional institute acting all over the pan-Arab region,

by organizing events spanning several countries, and by liaising and aligning its activities and initiatives with the other regional organizations, as has been explained above in more details. Many pan-Arab joint activities and country-based activities are being organized by several private sector companies, universities, and governmental organizations, in the form of competitions like business plan writing contests and ideas generating contests in order to discover and encourage potential entrepreneurs. The reader is referred to the "List of Arab entrepreneurship initiatives" Wikipedia article in references for a comprehensive list of such activities by country.

The CIPE (Center for International Private Enterprise) has reported a number of success stories of business entrepreneurship and enterprise development and governance programs from all over the MENA (Middle East and North Africa) region that shows how many companies "improved their governance practices in ways that benefited performance and growth". (CIPE).

Soraya Salti has reported the activities they are taking in the World Economic Forum to launch their MENA Entrepreneurship Education Action Group (MENA AG). "Having already identified and documented what the group sees as key areas for development -as summarized in the MENA Entrepreneurship Education Manifesto and Report- we're now moving into 5th gear to prioritize, act on and help shape the most pressing requirements of the MENA Entrepreneurship Ecosystem". (Soraya Salti, 2011).

In what follows, we will present for two of the Arab world countries cases (Lebanon and Bahrain) as exemplar indicators for the activities being taken at the regional level. The discussion presented for these two countries is based on information collected by a conducted survey from actual entrepreneurs living and working in each specific country, and who have already interacted, practiced, and benefited from the support being given to entrepreneurship in their countries.

a. Lebanon Status

Entrepreneurship support programs are applied on a wide range across the region. For example, in Lebanon, such programs are offered by the government for business startups. Based on a conducted survey, the Lebanese government offers support in the form of Financial Support, and Business Incubators.

Besides, and according to the same survey results, some Lebanese universities offer study programs on Innovation and Entrepreneurship, e.g. AUB - LAU (American University of Beirut - Lebanese American University).

In addition to the governmental programs, there are other joint venture agencies who offer business financing, incubation, counseling services, and virtual marketing and networking to their tenants. These include for example Berytech Technological Pole. NPO Associations with a similar mission also provide supportive programs, like BIAT Center (Business Incubation Association in Tripoli) in Tripoli, Lebanon. The latter group have an additional advantage based on their NPO nature as an association, by holding conferences and meetings and community activities.

The following figure shows the unemployment ratio to the total labor force size in Lebanon:



Figure 4. Unemployment Rate in Lebanon, 1992 – 2012
Source: TradingEconomics.com

b. Bahrain Status

Based on a similar survey to the one used in Lebanon case, Bahrain representatives confirmed that the Bahraini government offers entrepreneurial support programs to new business startups. The forms of support that the government provides include Financial Support, Education programs related to business administration and general management sciences and skills, and sponsored participation at national and international business exhibitions as marketing and sales opportunities.

Some universities in the country also provide study programs on innovation and entrepreneurship, like the UOB-SMU (United Overseas Bank Limited - Singapore Management University) Entrepreneurship Alliance (USEA), which offers an innovation and entrepreneurship program covering the topics of Major economic theories of innovation and entrepreneurship; process, risks, rewards and cost of entrepreneurship; entrepreneur's options for start-up and growth capital, organization design, sales and marketing approaches; resource allocation and other decisions from the entrepreneur's perspective; team project involving preparation of feasibility plan.

The following figure shows the unemployment rate to the total labor force size in Bahrain:



Figure 5. Unemployment Rate in Bahrain, 1986 – 2010

Source: TradingEconomics.com

Conclusion

This report has introduced the general concepts of entrepreneurship and its best practices and widely agreed upon broad lines, defined the entrepreneurs, explained example cases of entrepreneurship, presented the challenges that face entrepreneurs and how well prepared entrepreneurship programs can facilitate overcoming them, and gave a high level picture of the global status of entrepreneurship. We then moved to detailed presentation of the subject with regard to the Egyptian case, and laid out the specific programs applied to enrich these practices in the country and the main organizations steering the development of such programs and monitoring and verifying their effectiveness. We also summarized key research figures and indicators that highlight the main strengths and other aspects that need to be more worked upon. We next moved to presentation of the entrepreneurship status and activities across the Arab world, clarifying the attention being paid to it and the progress that has been achieved, as recognized and contributed to by many organizations. Exemplar cases of Lebanon and Bahrain collected from survey results have been explained to give an indication of the general trend in the region for adopting entrepreneurship programs to support their youth and their economies.

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