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# ENTREPRENEURSHIP: AN ENGINE FOR JOB CREATION AND INCLUSIVE GROWTH IN THE ARAB WORLD

BESSMA MOMANI

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## BROOKINGS

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# ENTREPRENEURSHIP: AN ENGINE FOR JOB CREATION AND INCLUSIVE GROWTH IN THE ARAB

BESSMA MOMANI<sup>1</sup>

Governments worldwide have been under pressure to both cut fiscal expenditures and reduce unemployment, especially following the 2007-08 global financial crisis. Over a similar period, there has also been an increased focus on the need for governments to pursue inclusive growth, rather than merely focusing on macroeconomic indicators like GDP. These trends were reflected in the eighth United Nations Sustainable Development Goal (SDG), which called for promoting “inclusive and sustainable economic growth, employment, and decent work for all.”<sup>2</sup> Inclusive growth occurs when economic prosperity is long-term, sustainable, and reaches a broad spectrum of a population. Here, economic growth is viewed as successful when it is diversified across sectors, inclusive of various groups in the labor force, attributable to productive employment (not just rents), and led by the market.<sup>3</sup>

This new development consensus has emerged at a time when many Arab countries are grappling with the root causes of the Arab uprisings. Specifically, Arab governments have been increasingly concerned with the need to provide decent and productive work, especially for their burgeoning youth populations, which are likely to be unemployed or underemployed at higher rates than in other regions.

This is no easy task. In the decade leading

up to the global financial crisis and the Arab uprisings, the growth Arab countries experienced was primarily macroeconomic rather than inclusive.<sup>4</sup> With global economic growth at low rates, Arab economies were then hit with lower oil prices, thereby reducing income for both oil exporters and countries benefiting from remittances from the Gulf region. Political turmoil and regional discord in many Arab countries is further adding to the region’s economic woes, as is the inability and hesitancy of many governments to continue using the public sector to achieve employment goals. It is therefore not surprising that unemployment rates remained stubbornly high in Egypt, Yemen, Jordan, Morocco, Libya, Syria, the West Bank and Gaza Strip, and Tunisia between 2004 and 2014.<sup>5</sup>

Hence, many Arab countries have begun to explore entrepreneurial initiatives as a means to facilitate job creation and inclusive economic growth. However, while the region has embraced rhetoric extolling the benefits of entrepreneurship, entrenched political, economic, and socio-cultural interests limit these efforts. The region has yet to create the economic ecosystem necessary for entrepreneurship to thrive—that is, an integrated policy environment that encourages startups and enables entrepreneurial ventures to take hold and succeed. Instead, many challenges

<sup>1</sup> Bessma Momani is a nonresident fellow at the Brookings Doha Center and a professor of political science at the University of Waterloo and Balsillie School of International Affairs in Waterloo, Canada.

<sup>2</sup> “Goal 8: Promote Inclusive and Sustainable Economic Growth, Employment, and Decent Work for All,” U.N. Sustainable Development Goals, accessed February 26, 2017, <http://www.un.org/sustainabledevelopment/economic-growth/>.

<sup>3</sup> World Bank, “What is Inclusive Growth?” February 10, 2009, <http://siteresources.worldbank.org/INTDEBTDEPT/Resources/468980-1218567884549/WhatIsInclusiveGrowth20081230.pdf>.

<sup>4</sup> Nemat Shafik, “Making Sure Middle East Growth Is Inclusive,” iMFdirect, May 10, 2012, <http://blog-imfdirect.imf.org/2012/05/10/making-sure-middle-east-growth-is-inclusive/>.

<sup>5</sup> World Bank Statistical Database, “Unemployment, Total (% of Total Labor Force) (Modeled ILO Estimate),” accessed March 5, 2017, <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ZQ&start=2004>.

continue to impede Arab entrepreneurs from reaching their full potential.

This policy briefing examines how regional entrepreneurship initiatives can help Arab countries achieve the SDG of inclusive growth and explores existing political, economic, and socio-cultural challenges such initiatives currently face. It argues that policy improvements—particularly when it comes to regulation, finance, education, “intrapreneurship,” and regional integration—must be implemented in order to both promote greater entrepreneurship and sustain an inclusive economic environment.

## ENTREPRENEURS AND SMES: ENGINES OF INCLUSIVE GROWTH

As developing countries, including those in the Arab world, continue to struggle with limited fiscal capacity to create jobs and absorb new entrants into the labor market, the attractiveness of including entrepreneurship in job creation toolkits has grown. Globally, entrepreneurs and small- and medium-sized enterprises (SMEs) are widely considered to be vital to national economies, particularly because they create a higher share of total jobs than other employers. In the Middle East and North Africa (MENA) region, SMEs represent 80 to 90 percent of all businesses in the formal

sector.<sup>6</sup>

Research supports the general observation that entrepreneurship can be a crucial generator of jobs.<sup>7</sup> While entrepreneurial activities invariably create some new jobs in the short-term, more interestingly, evidence from Europe and the United States has shown that competition created by new firms can replace inefficient companies. The loss of jobs from those companies and from failing startups is offset by job creation in the first year of a firm’s life, providing a net increase in jobs for the overall economy in the long term.<sup>8</sup>

At the policy level, such positive employment effects can help Arab governments create jobs, particularly given the dismal state of their youth labor markets. In Arab states, the youth labor force participation rate is around 30 percent, compared to 46 percent in the rest of the world.<sup>9</sup> Almost all Arab countries have youth unemployment rates that exceed the global rate (13.1 percent) and that of developing countries (9.5 percent).<sup>10</sup> In fact, youth unemployment in Arab states is the highest regional average in the world (30.6 percent).<sup>11</sup> The rate is even higher in Egypt, Tunisia, Libya, and Iraq.<sup>12</sup> Troublingly, these unemployment and labor force participation figures are combined with high rates of underemployment, as many youth are only employed because they have accepted

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<sup>6</sup> “Small Enterprises in the Middle East and North Africa Face Risks and Rewards in the Public Market,” World Bank, May 20, 2015, <http://www.worldbank.org/en/news/feature/2015/05/20/small-enterprises-in-the-middle-east-and-north-africa-face-risks-and-rewards-in-the-public-market>.

<sup>7</sup> Zoltan Acs and Catherine Armington, “Employment Growth and Entrepreneurial Activity in Cities,” *Regional Studies* 38, no. 8 (2004): 911-927, <http://dx.doi.org/10.1080/0034340042000280938>; David Audretsch and Max Keilbach, “Entrepreneurship Capital and Economic Performance,” *Regional Studies* 38, no. 8 (2004): 949-959, <http://dx.doi.org/10.1080/0034340042000280956>.

<sup>8</sup> Alexander S. Kritikos, “Entrepreneurs and Their Impact on Jobs and Economic Growth,” *IZA World of Labor*, Article no. 8, May 2014, <http://dx.doi.org/10.15185/izawol.8>; Tim Kane, “The Importance of Start-ups in Job Creation and Job Destruction,” Ewing Marion Kauffman Foundation, July 2010, 6, [http://www.kauffman.org/-/media/kauffman\\_org/research%20reports%20and%20covers/2010/07/firm\\_formation\\_importance\\_of\\_startups.pdf](http://www.kauffman.org/-/media/kauffman_org/research%20reports%20and%20covers/2010/07/firm_formation_importance_of_startups.pdf).

<sup>9</sup> International Labour Organization (ILO), “World Employment and Social Outlook: Trends for Youth,” 2016, 44, [http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_513739.pdf](http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_513739.pdf).

<sup>10</sup> ASDA/A Burson-Marsteller Arab Youth Survey, “Inside the Hearts and Minds of Arab Youth,” 2016, 45, [http://www.arabyouthsurvey.com/uploads/whitepaper/2016-AYS-White-Paper-EN\\_12042016100316.pdf](http://www.arabyouthsurvey.com/uploads/whitepaper/2016-AYS-White-Paper-EN_12042016100316.pdf); ILO, “World Employment and Social Outlook,” vii.

<sup>11</sup> ILO, “World Employment and Social Outlook,” 5.

<sup>12</sup> ASDA/A, “Inside the Hearts and Minds of Arab Youth,” 45.

jobs below their qualifications in order to earn money.<sup>13</sup>

Despite an increased societal recognition of the importance of entrepreneurs and SMEs as viable job generators, the public sector remains the largest employer in Arab states. Public sector employment has historically absorbed excess labor, particularly the rising number of university graduates. It continues to account for 60-80 percent of total formal employment in the Gulf states, Egypt, Iraq, Jordan, and Tunisia.<sup>14</sup>

This overreliance on public sector employment is a major problem. Public finances throughout the Arab world are increasingly burdened.<sup>15</sup> At the same time, bloated public sectors have crowded out private sector employment and deepened unproductive work cultures and habits. In many Arab countries, people seek or wait for the promised higher wages, benefits, and security of public sector jobs instead of searching for or accepting work in the private sector.<sup>16</sup> These realities have turned policy attention to ways of promoting entrepreneurship as a policy tool to create private sector jobs in response to high unemployment rates.

This policy shift coincides with a change in the attitudes of Arab youth to working in the public and private sectors. In 2012, 55 percent of Arab youth preferred a public sector job,

but that figure dropped to 43 percent in 2014. Most interestingly, a pronounced drop has been observed in the Gulf states, where wages are higher in the public sector than the private sector. The percentage of Arab youth that prefer private sector employment increased over the same period.<sup>17</sup> This new willingness among Arab youth to engage in the private sector highlights the need to prioritize policies that encourage and support entrepreneurs and SMEs.

### REFORM PRIORITIES: CHALLENGES FACING ENTREPRENEURS IN THE ARAB WORLD

Promoting an ecosystem that nurtures entrepreneurs should be an important policy priority for governments looking to further develop their economies. However, despite increased policy focus on the value of entrepreneurship and SMEs, domestic policies in MENA countries continue to prioritize larger companies. That helps explain why large enterprises account for 10 to 20 percent of all firms and are responsible for 60 to 80 percent of private sector employment throughout the region.<sup>18</sup> The challenges that hinder entrepreneurs include competition from larger firms, regulatory and socio-cultural constraints, and limited access to capital.

Crony capitalism, prevalent in many Arab countries, embodies many of these challenges.<sup>19</sup>

<sup>13</sup> Silatech, "Underemployment in the MENA Region: Young People in MENA Are in Need of Good Jobs," December 2013, <http://www.silatech.com/docs/default-source/publications-documents/silatech-index-brief-underemployment-in-the-mena-region.pdf?sfvrsn=6>.

<sup>14</sup> Roberta Gatti et al., *Jobs for Shared Prosperity: Time for Action in the Middle East and North Africa* (Washington, DC: World Bank, 2013), 1, <http://dx.doi.org/10.1596/978-0-8213-9719-0>; Tara Vishwanath, "Opening Doors: Gender Equality in the Middle East and North Africa," World Bank, MENA Knowledge and Learning Quick Notes Series no. 60, March 2012, <http://hdl.handle.net/10986/10844>.

<sup>15</sup> Lida Breddini, "Governance and Public Sector Employment in the Middle East and North Africa," World Bank (blog), September 5, 2012, <http://blogs.worldbank.org/arabvoices/governance-and-public-sector-employment-middle-east-and-north-africa>.

<sup>16</sup> Ibid.; Alberto Behar and Junghwan Mok, "Does Public Employment Reduce Unemployment?" *Topics in Middle Eastern and African Economies* 17, no. 2 (2015): 111-112.

<sup>17</sup> ASDA'A Burson-Marsteller "Arab Youth Survey," "We Want to Embrace Modern Values," 2014, 17, [http://www.arabyouthsurvey.com/uploads/whitepaper/archives/2014-AYS-White-Paper-EN\\_09042016131930.pdf](http://www.arabyouthsurvey.com/uploads/whitepaper/archives/2014-AYS-White-Paper-EN_09042016131930.pdf).

<sup>18</sup> Sahar Nasr and Douglas Pearce, *SMEs for Job Creation in the Arab World: SME Access to Financial Services* (Washington, DC: World Bank, 2012), 5, <http://www.ifc.org/wps/wcm/connect/1115c70045539e51af04afc66d9c728b/SMEs+for+Job+Creation+in+the+Arab+World.pdf?MOD=AJPERES>

<sup>19</sup> "Friends in High Places: How Cronyism Undermines Growth, Jobs, and Competition," *The Economist*, October 9, 2014, <http://www.economist.com/news/business/21623696-how-cronyism-undermines-growth-jobs-and-competition-friends-high-places>; Bob Rijkers et al., "All in the Family: State Capture in Tunisia," World Bank, Policy Research Working Paper 6810, March 2014, <http://documents.worldbank.org/curated/en/440461468173649062/pdf/WPS6810.pdf>.

Many large firms leverage political ties to their respective governments to benefit from cheap credit, favorable tax regimes, or added regulations that protect their market share through licenses or quotas. Some well-connected firms are even allowed to establish monopolistic control of sectors and industries. These firms are, in effect, rent-seeking: their behavior is dependent on government spoils that provide them with an advantage in the market. They thereby stifle competition, growth, and productivity. Such cronyism tends to concentrate wealth in the hands of a few, slowing the advance of middle classes and eroding income equality.<sup>20</sup> Entrepreneurs face considerable challenges in this environment, as larger firms with vested political interests and connections push them out or block their entry to the market.

Relatedly, acquiring credit remains extremely difficult for entrepreneurs and SMEs throughout the Arab world, harming their ability to compete. In some cases, SMEs are kept from procurement processes because large deposits are required in bids for lucrative government contracts.<sup>21</sup> A World Bank report noted relatively low levels of SME financing throughout the region. Specifically, only 8 percent of bank loans in the MENA region have been allocated to SMEs, ranging from 2 percent in the Gulf states to 13 percent in the rest of the region, with Morocco, Lebanon,

and Tunisia as the top performers.<sup>22</sup> This is dismal compared to the share of bank loans awarded to SMEs in middle-income countries (16 percent) and high-income countries (26 percent).<sup>23</sup>

By some estimates, up to \$160-180 billion is needed to assist formal SMEs in scaling up their ventures in the MENA region.<sup>24</sup> Yet, Arab banks continue to lend primarily to the public sector and secondarily to large private firms, which together crowd out lending to SMEs and entrepreneurs.<sup>25</sup> Not surprisingly, a study on Egypt showed that many entrepreneurs relied on friends and family to secure capital rather than using formal banking or microcredit systems.<sup>26</sup>

Entrepreneurs in the region also face difficulties expanding and scaling-up their ventures. In a survey of nearly 1000 MENA entrepreneurs, many noted that they face barriers marketing their products and services, finding funding, recruiting the right talent, and finding partners to expand into new countries and markets.<sup>27</sup> Other obstacles to the maturation of ventures include low levels of government spending on research and development and low patenting successes, as evidenced by the MENA region's relatively low ranking in the Global Innovation Index.<sup>28</sup>

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<sup>20</sup> Shahid Yusuf, "Middle East Transitions: The Long, Hard Road," International Monetary Fund (IMF), Working Paper 14/35, 2014, 7-8, <https://www.imf.org/external/pubs/ft/wp/2014/wp14135.pdf>.

<sup>21</sup> "Small Enterprises in the Middle East and North Africa."

<sup>22</sup> Roberto Rocha, *Financial Access and Stability: A Road Map for the Middle East and North Africa*, with Zsofia Arvai and Subika Farazi (Washington, DC: World Bank, 2011), 104, <http://documents.worldbank.org/curated/en/343771468052798123/pdf/649370PUB0Fina00Box361550B00Public0.pdf>.

<sup>23</sup> *Ibid.*, 105.

<sup>24</sup> Qamar Saleem, "Overcoming Constraints to SME Development in MENA Countries and Enhancing Access to Finance," World Bank, 2013, 2, [http://www.ifc.org/wps/wcm/connect/1e6a19804fc58e529881fe0098cb14b9/IFC+Report\\_Final.pdf?MOD=AJPERES](http://www.ifc.org/wps/wcm/connect/1e6a19804fc58e529881fe0098cb14b9/IFC+Report_Final.pdf?MOD=AJPERES).

<sup>25</sup> Rocha, *Financial Access and Stability*, 168-170.

<sup>26</sup> Adel Abdel Ghafar, "Educated but Unemployed: The Challenge Facing Egypt's Youth," Brookings Doha Center, Policy Briefing, July 2016, 7, [https://www.brookings.edu/wp-content/uploads/2016/7/en\\_youth\\_in\\_egypt-2.pdf](https://www.brookings.edu/wp-content/uploads/2016/7/en_youth_in_egypt-2.pdf).

<sup>27</sup> Jamil Wyne, "The Next Step: Breaking Barriers to Scale for MENA's Entrepreneurs," Wamda Research Lab, March 2014, <http://wamda-prod.s3.amazonaws.com/lab-reports/8abba76fa3a2849.pdf>.

<sup>28</sup> Injaz Al-Arab, "Entrepreneurial Compass: Your Guide to Start Ups and Funding in the MENA Region," January 2015, 6, <http://www.injazalarab.org/wp-content/uploads/2016/02/EXECUTIVE-SUMMARY-Entrepreneurial-Compass-Boeing-Study.pdf>.

To be sure, challenges remain in a number of other policy areas. Many Arab economies, for example, experience frequent power outages, making it difficult to start and grow a business. Additionally, despite recent reforms, many still do not perform well in benchmarks on enforcing contracts, dealing with construction permits, registering property, and trading across borders.<sup>29</sup> On average, it costs MENA entrepreneurs 26 percent of their countries' income per capita to start a small business compared, for example, to just 3 percent for entrepreneurs in Organisation for Economic Co-operation and Development (OECD) countries.<sup>30</sup>

Other major challenges relate to a pervading culture of risk aversion and fear of failure.<sup>31</sup> There is also a dearth of training programs that promote the “personal growth” and confidence of entrepreneurs.<sup>32</sup> In other words, there is still much to be done to provide a positive ecosystem for Arab entrepreneurs.

#### **POLICY RECOMMENDATIONS: IMPROVING THE ECOSYSTEM FOR ENTREPRENEURSHIP**

A number of regional entrepreneurship programs have produced modest successes in a number of Arab countries. Exciting regional initiatives, such as Injaz Al Arab, Grameen-Jameel, Silatech,

Wamda, Oasis500, and Environmental Quality International (EQI), are helping propel a pro-entrepreneurial ecosystem forward. The number of initiatives in the Arab world that support entrepreneurship has increased rapidly since the early 2000s, most of which are supported by the non-governmental sector (62 percent).<sup>33</sup> Countries like Jordan and Lebanon have a high number of entrepreneurial initiatives per capita, while Kuwait, Algeria, and Egypt are regional laggards.<sup>34</sup>

This increase in initiatives coincides with many young Arabs being attracted to the idea of starting businesses. In a survey of Arab youth in 16 countries, 67 percent felt their generation was more likely to start a business than the previous one.<sup>35</sup> Youth from Algeria, Egypt, the West Bank and Gaza Strip, and Tunisia overwhelmingly agreed in another global survey that “in my country, starting a business is considered a good career choice” (83.2 percent on average), a larger proportion than all the developing regions (70.9 percent) and European countries (62.2 percent) surveyed. On average, the highest regional percentage of youth believing that “persons growing a successful new business receive high status” were from the Arab region.<sup>36</sup> Finally, in a third survey of Arab youth, 15 percent wanted to start a business within the next year, compared to

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<sup>29</sup> “Business Reforms Pick Up in Middle East and North Africa, Despite Conflict, Says Doing Business Report,” World Bank, October 27, 2015, <http://www.worldbank.org/en/news/press-release/2015/10/27/business-reforms-pick-up-in-middle-east-and-north-africa-despite-conflict-says-doing-business-report>.

<sup>30</sup> Ibid.

<sup>31</sup> Gabriella Cacciotti and James C. Hayton, “Fear of Failure and Entrepreneurship: A Review and Direction for Future Research,” Enterprise Research Center, Research Paper no. 24, August 24, 2014, <https://www.enterpriseresearch.ac.uk/wp-content/uploads/2014/09/Formated-Fear-of-Failure-res-p-Cacciotti-Hayton.pdf>.

<sup>32</sup> Kathleen Bury, “What’s Holding Back Entrepreneurs in the Middle East and North Africa?” Stanford Social Innovation Review, August 8, 2016, [https://ssir.org/articles/entry/whats\\_holding\\_back\\_entrepreneurs\\_in\\_the\\_middle\\_east\\_and\\_north\\_africa](https://ssir.org/articles/entry/whats_holding_back_entrepreneurs_in_the_middle_east_and_north_africa).

<sup>33</sup> World Economic Forum, “Accelerating Entrepreneurship in the Arab World,” in collaboration with Booz & Company, October 2011, 11, [http://www3.weforum.org/docs/WEF\\_YGL\\_AcceleratingEntrepreneurshipArabWorld\\_Report\\_2011.pdf](http://www3.weforum.org/docs/WEF_YGL_AcceleratingEntrepreneurshipArabWorld_Report_2011.pdf).

<sup>34</sup> Ibid., 20.

<sup>35</sup> ASDA, “Arab Youth Survey 2014,” 17.

<sup>36</sup> Jacqui Kew et al., “Generation Entrepreneur? The State of Global Youth Entrepreneurship,” Global Entrepreneurship Monitor and Youth Business International, September 2013, 66-67, <http://www.youthbusiness.org/wp-content/uploads/2013/09/GenerationEntrepreneur.pdf>. The only Arab countries surveyed are Algeria, Egypt, the West Bank and Gaza Strip, and Tunisia. Averages were calculated from data in the report. Iran and Israel were omitted from the Middle East category. Developing regions included Latin America and the Caribbean, sub-Saharan Africa, Asia Pacific, and South Asia.

only 4 percent of American youth.<sup>37</sup>

Undoubtedly, these cross-national surveys do not measure actuality, though they do give a sense about youth perceptions and value systems, demonstrating that Arab youth are often interested in pursuing entrepreneurship. This combination of initiatives and entrepreneurial enthusiasm represents a great opportunity across the region. To take advantage of that opportunity, however, there is a great deal of work to be done in order to improve the ecosystem for entrepreneurs, particularly at the policy level.

#### *REGULATORY REFORM*

In order to facilitate entrepreneurship, Arab governments should liberalize the regulatory environment and relax rules for new business entrants. Low costs for registering and licensing new businesses and shorter wait times to do so, for example, are necessary to encourage startups. In addition, governments can develop one-stop shops for retrieving information and government services in order to make regulatory environments more conducive to entrepreneurship.<sup>38</sup>

By liberalizing the regulatory environment, many rent-seeking advantages granted to crony capitalists would be significantly diminished. For some countries, like Egypt, reforming the paternalistic state in both productive and rentier industries will be difficult because statism is integrated in the social, political, and economic system. Where there is political will, however, and an acknowledgement of the

need for economic change to realize people's potential, governments can harness the state for economic development. While liberalization will initially be met with resistance, political benefits from the resulting employment opportunities will outweigh the benefits of propping up cronies who provide less and less inclusive growth.

According to the World Bank's Doing Business report, MENA countries have made significant improvements in liberalizing their business environments. In particular, compared to an annual average of just 16 reforms in the past five years, 11 MENA countries implemented 21 liberalizing reforms in 2015. Improvements were made in providing electricity, starting a business, dealing with construction permits, and trading across borders.<sup>39</sup> The UAE remained the top-ranked MENA country in terms of ease of doing business (26th worldwide), while countries currently experiencing violence and conflict (Libya, Syria, Yemen, Iraq, and the West Bank and Gaza Strip) have undoubtedly remained among the lowest ranked in the region and the world. Other regional successes in liberalizing business regulations include Bahrain, Oman, Morocco, Tunisia, Qatar, and Saudi Arabia. The most populous MENA country, Egypt (122th worldwide), ranks lower than most other Arab countries and below the regional average ranking of 97 in ease of doing business.<sup>40</sup>

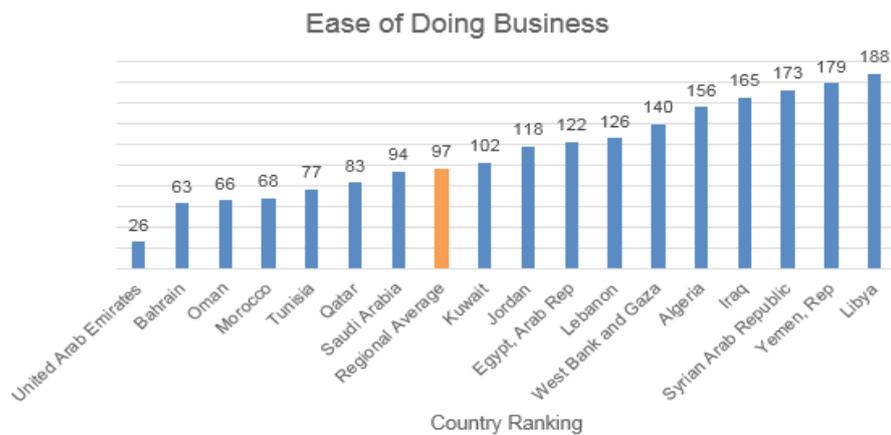
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<sup>37</sup> Fadi Salem and Racha Mourtada, "Social Media, Employment and Entrepreneurship," Dubai School of Government and Innovation Program, October 2012, 17, <http://dx.doi.org/10.2139/ssrn.2203122>.

<sup>38</sup> OECD, "Fostering Entrepreneurship and Firm Creation as a Driver of Growth in a Global Economy," 2nd OECD Conference of Ministers Responsible for SMEs, June 2004, 6, <http://www.oecd.org/cfe/smes/31917899.pdf>.

<sup>39</sup> "Business Reforms Pick Up." The Doing Business report ranks how countries are faring in terms of breaking down regulatory barriers to entrepreneurs. However, it can be an imperfect measure because it holds an ideological view of small government that is at times at odds with the development needs of states. This view is currently being challenged in advanced economies for exacerbating inequalities.

<sup>40</sup> World Bank, "Doing Business 2017: Equal Opportunity for All," Middle East and North Africa Regional Profile, 2017, 7, <http://www.doingbusiness.org/reports/-/media/WBG/DoingBusiness/Documents/Profiles/Regional/DB2017/MENA.pdf>.



Source: World Bank Doing Business Report (2017)

However, while many Arab states have reformed laws on paper, they still struggle when it comes to enforcement, deterring real change. There continues to be a perverse incentive for countries to put reforms on paper merely to appear to be modernizing to the international community. Here, international development organizations and partners like the World Bank must continue to call out governments who do not implement their promised reforms. With moral suasion and proper monitoring, the same pressures that resulted in putting laws on paper can be used to push for genuine reforms.

#### *SOCIO-CULTURAL CHANGE AND EDUCATION*

Aspiring entrepreneurs also face socio-cultural impediments throughout the region. As Ovais Naqvi, managing director of the Abraaj Performance Acceleration Group, aptly put it, socio-cultural changes that would help encourage entrepreneurs include:

“The family and society structures; the role of and deference toward age; the existence and encouragement of innovation, creativity, arts, music, and literature communities; freedom of speech and expression; respect for the radical,

maverick, and even seemingly crazy view and for nonconformity; cultural openness and the breadth and depth of that embrace; and the 'continuous beta' versus product perfection culture. That is, a new culture of 'get the product out, let it live, and get... active support to improve it.’”<sup>41</sup>

To foster the kind of socio-cultural changes required to help a pro-entrepreneurship ecosystem, education is key. There is often a lack of entrepreneurial programs in schools and universities, and business programs too often teach students how to be employees rather than employers. Across the MENA region, only 10 percent of universities have academic programs that focus on entrepreneurship, highlighting an urgent need to create a more positive ecosystem for entrepreneurship in formal education.<sup>42</sup>

The education system in Egypt, for example, has been found to encourage a culture that socializes and prepares people to depend on and seek government employment in the state-owned sectors of the economy rather than starting a new business. Only the American University in Cairo has a university incubator program to support startup entrepreneurs,

<sup>41</sup> Ovais Naqvi, “Entrepreneurship in the Middle East and North Africa: Opening the Floodgates,” *innovations* 7, no. 2 (2012), 13, [www.muse.jhu.edu/article/481895](http://www.muse.jhu.edu/article/481895).

<sup>42</sup> World Economic Forum, “Accelerating Entrepreneurship in the Arab World,” 13.

though independent incubators exist outside the universities.<sup>43</sup> Governments should promote entrepreneurship through school curricula and programs to change cultural mindsets.

#### *ACCESS TO CREDIT AND FINANCING*

Securing funding is a key challenge entrepreneurs face in the Arab world. Where there is funding for startups, it tends to be garnered from venture capital and investment firms rather than from bank loans, despite the prevalence of the latter.

Governments in the region should therefore create incentives for banks to provide loans that are more accessible to entrepreneurs. Bank loans are often inaccessible to many entrepreneurs in the Arab world because of the high interest rates charged and steep requirements for collateral assets that disadvantage younger and newer bank clients.<sup>44</sup> Those loans are complicated further by the regulatory barriers described above, high rates of government corruption, and a lack of transparency in the rules and regulations of operating a business, which makes entrepreneurs vulnerable to harassment and bribe-seeking by government officials.

Governments should also enable alternative funding sources, such as venture capital funds, angel investors, crowdfunding, and accelerator programs, to expand their activities. There are indications that funding is more prevalent in some Arab countries than in others. Specifically, based on a sample survey of funders, there are

more organizations interested in investing in entrepreneurs in Egypt, Jordan, the UAE, and Lebanon than elsewhere.<sup>45</sup> This is despite the fact that many Gulf countries have higher rates of national savings. That said, there is interest on the part of both funders and entrepreneurs to invest in or expand into Saudi Arabia.<sup>46</sup> Arguably, this interest will only increase with the Saudi announcement of Vision 2030, which is designed to encourage economic diversification, entrepreneurship, and a deregulated business environment.

It is also important that funding sources embrace a wider variety of ventures. Funders tend to prioritize specific industries at the expense of others. For instance, there is a heavier emphasis on funding high-tech entrepreneurial ventures in Egypt and less interest in important sectors such as manufacturing and agriculture.<sup>47</sup> Similarly, financing in the region tends to focus on supporting technology firms, specifically in the areas of information and communications.<sup>48</sup>

Finally, governments should be assiduous in making sure funding and contract opportunities are more visible to entrepreneurs. Even when lending options are available to entrepreneurs, programs are often misunderstood or poorly publicized.<sup>49</sup> Similarly, SMEs are sometimes shut out of public sector contracts because opportunities are not made public or are unknown to smaller firms.<sup>50</sup>

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<sup>43</sup> The Swedish Trade & Invest Council, "Egypt Entrepreneurship Study," Business Sweden Dubai, August 2015, 6-9, [http://www.swedenabroad.com/ImageVaultFiles/id\\_35371/cf\\_347/Business\\_Sweden\\_Egypt\\_Entrepreneurship\\_Study.PDF](http://www.swedenabroad.com/ImageVaultFiles/id_35371/cf_347/Business_Sweden_Egypt_Entrepreneurship_Study.PDF).

<sup>44</sup> Injaz, "Entrepreneurial Compass," 7.

<sup>45</sup> Jamil Wynne and Estee War, "Enhancing Access: Assessing the Funding Landscape for MENA's Startups," Wamda Research Lab, October 2014, 13-15, <https://cache.wamda.com/api/v1/downloads/publications/enhancing-access>.

<sup>46</sup> Ibid., 14-17.

<sup>47</sup> Abdel Ghafar, "Educated but Unemployed," 10.

<sup>48</sup> Injaz, "Entrepreneurial Compass," 5-6.

<sup>49</sup> Egypt Network for Integrated Development, "Entrepreneurship in Egypt: Opportunities, Challenges and Recommendations," Policy Brief no. 3, June 2016, 4, [http://enid.org.eg/Uploads/PDF/PB3\\_entrepreneurship\\_egypt.pdf](http://enid.org.eg/Uploads/PDF/PB3_entrepreneurship_egypt.pdf).

<sup>50</sup> Ibid.

## PROMOTING INTRAPRENEURSHIP

While entrepreneurship is a valuable policy tool for promoting private sector employment in new firms, “intrapreneurship” from within existing public and private sector entities can also be a useful job creation tool. Intrapreneurship is the promotion of flexibility, innovation, and risk-taking from within an organization in order to spawn new ventures.

Public sector intrapreneurship would be particularly useful in Arab countries. Much like incubators, public sector intrapreneurship programs offer in-house mentoring and support to give budding intrapreneurs the opportunity to explore ideas and receive critical feedback on new goods and services. Such programs have been implemented in the U.S. government, for example, in both the U.S. Department of Justice and the U.S. Government Accountability Office. In Arab countries, the development of similar intrapreneurship programs would help individuals transition out of the public service, while protecting them from the socio-cultural stigma of failure by providing them with a steady income.<sup>51</sup>

## GREATER REGIONAL ACCESS, INTEGRATION, AND TRADE

In addition to improving the endogenous ecosystem for entrepreneurs, Arab governments could also support entrepreneurs through increasing regional integration and facilitating intraregional trade. This would aid entrepreneurs looking to scale up their businesses. Despite the cultural and linguistic similarities between its people, the Middle East remains the least integrated region in the world when it comes to economic access

and cooperation.<sup>52</sup> And while some attempts to improve current economic ties have been introduced, these too need to be furthered.

The Gulf Cooperation Council (GCC)—comprising of Saudi Arabia, the UAE, Oman, Kuwait, Qatar, and Bahrain—has been the most remarkable example of integration in the region. It has succeeded in establishing a customs union and harmonizing customs tariffs, while also exploring the idea of a common currency.<sup>53</sup> The GCC has significantly increased nominal access to regional markets and trade between Gulf states, but that only accounts for a very small fraction of their total exports, given their high reliance on energy exports to foreign markets. In addition to the GCC, the 1997 Arab League free trade agreement, which established the Greater Arab Free Trade Area (GAFTA), has also helped increase the trade of goods across the region, but more work needs to be done to integrate services and knowledge.

Unfortunately, intraregional economic access, integration, and cooperation continue to be limited, partially due to political discord. But more importantly, structural factors continue to hinder those efforts. Many Arab countries have similar resources and production structures and few complementary trade patterns. There is also a wide income disparity among Arab countries, each of which has different consumption patterns and production strategies. The region contains a significant number of state-owned enterprises, which have resulted in inefficient and protected industries that stifle the successful adoption of export strategies. Finally, both high tariffs and non-tariff barriers limit intraregional trade. In addition to their effects on integration, these

<sup>51</sup> Bessma Momani and Mehrunisa Qayyum, “Intrapreneurship in MENA’s Public Sector,” *Gulf Business*, September 1, 2013, <http://gulfbusiness.com/intrapreneurship-in-menas-public-sector/>.

<sup>52</sup> Bessma Momani, “The EU, the Middle East, and Regional Integration,” *World Economics* 8, no. 1 (2007): 1-10, [http://www.arts.uwaterloo.ca/~bmomani/Documents/World\\_Economics\\_EMFTA.pdf](http://www.arts.uwaterloo.ca/~bmomani/Documents/World_Economics_EMFTA.pdf).

<sup>53</sup> Bessma Momani, “Gulf Cooperation Council Oil Exporters and the Future of the Dollar,” *New Political Economy* 13, no. 3 (2008): 293-314.

realities have also discouraged foreign and intraregional investment.

Proponents of intraregional economic cooperation suggest that policy reforms can reduce non-tariff barriers.<sup>54</sup> Others add that the very authoritarian political structures of many Arab states hinder those reforms. In particular, the governments are unwilling or unable to accommodate structures and systems that they perceive as challenging to the existing relationships of power and control (such as liberalizing the regulatory environment).<sup>55</sup> Such hesitation underlies the structural barriers to economic integration within the region.

Clearly, entrepreneurs across the region would benefit significantly from having easy access to neighboring markets for finance, consumers, and input goods and services. Harmonizing supply chains for entrepreneurs would go a long way in improving their market position.

## CONCLUSION

The economic urgency of providing jobs has become clear following the Arab uprisings, which turned high unemployment rates into a pressing political concern for Arab governments. This has been compounded by the region's continued political turmoil and growing fiscal pressures, as well as a global economy that is experiencing mediocre growth. While surely not a panacea for all of the Arab world's unemployment woes, programs that spur entrepreneurship and support SMEs can help countries provide jobs and promote inclusive growth, in line with the eighth SDG.

The economic case for embracing entrepreneurship and SMEs is easy to make. Specifically, in addition to creating jobs, entrepreneurs and SMEs can assist in disrupting the pervasive problem of crony capitalism in the region. Unfortunately, fostering an ecosystem that would propel these potential change agents forward is not easy. Indeed, many Arab governments have recognized the benefits of entrepreneurship, but have yet to ensure that the right ecosystem exists for entrepreneurs to succeed.

The policy changes necessary to create such an ecosystem require strong political will and a readiness to challenge entrenched political and economic interests. Pressing banks to extend financing opportunities to entrepreneurs, improving market access through better integrated regional supply chains, and deconstructing non-tariff barriers are highly politicized issues in the Arab world. Policy reforms in these areas have therefore been difficult to implement. Ultimately, however, if Arab governments want to reduce unemployment and financial strain, they should do what is needed to empower entrepreneurs and SMEs.

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<sup>54</sup> Hassan Al-Atrash and Tarik Yousef, "Intra-Arab Trade: Is it too Little?" IMF, Working Paper 00/10, January 2000, <https://www.imf.org/external/pubs/ft/wp/2000/wp0010.pdf>.

<sup>55</sup> Samiha Fawzy, "The Economics and Politics of Arab Economic Integration," The Egyptian Center for Economic Studies, Working Paper no. 6, January 2002, [http://www.eces.org.eg/MediaFiles/Uploaded\\_Files/%7BC64FC16C-2C89-43B5-9592-D4E86E6BE1ED%7D\\_ECESWP66e.pdf](http://www.eces.org.eg/MediaFiles/Uploaded_Files/%7BC64FC16C-2C89-43B5-9592-D4E86E6BE1ED%7D_ECESWP66e.pdf).

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