ENHANCING ACCESS

ASSESSING THE FUNDING LANDSCAPE FOR MENA’S STARTUPS

WAMDA RESEARCH LAB
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While there are a growing number of funding opportunities and resources for entrepreneurs in MENA there are still significant constraints to obtaining capital including accessing larger funding sizes, diversifying funding sources, skills gaps and communicating with investors.
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PARTNERS
The Wamda Research Lab is Wamda’s research program that produces studies on entrepreneurship in the Middle East and North Africa (MENA) and seeks to foster thought leadership in this field. Its agenda is to inform investors, policymakers, and other stakeholders on barriers to and solutions for developing MENA entrepreneurship.

Endeavor Insight is Endeavor’s research arm, studies high-impact entrepreneurs and their contribution to job creation and economic growth. Along with the Kauffman Foundation and the World Bank, Endeavor Insight is a founding member of the Global Entrepreneurship Research Network (GERN). Its research educates policy makers and practitioners and helps them to accelerate entrepreneurs’ success and the development of entrepreneurship ecosystems around the world.

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METHODOLOGY

In this report we look at two sets of survey results:

1. **Entrepreneurs:** Two hundred and fifty-four MENA entrepreneurs whose companies have received equity investment were selected from a larger sample of 768 MENA entrepreneurs who were surveyed in a Wamda Research Lab study in 2013, done in partnership with Endeavor.

We selected these 254 entrepreneurs by reviewing their responses to four questions:

1. What types of funding have you received or utilized?
2. How many rounds of investment from an equity investor have you received in total?
3. What are the most important resources that your primary equity investor has provided?
4. What percentage of the company is owned by outside parties?

For each question, entrepreneurs were given the option to indicate that they did not have an equity investor and/or that they had received no funding. Entrepreneurs that indicated they had received no funding from an equity investor in any of the above questions were removed from the sample that we analyzed for this report.

Additionally, entrepreneurs were asked to indicate how much equity, if any, they had given up to a third party. If they specified that they had given no equity, the entrepreneur was removed from the sample. Within the entrepreneur sample we also analyze 220 equity investments made between 2009 and 2012, in order to better understand the size of investments and frequency in which they were made during this time period. Not all of the 254 entrepreneurs who received equity specified the size of their investments, so the individual fund sizes we analyze are taken from only a portion of the entrepreneurs in our sample.
2. Funders: In parallel to the survey of MENA entrepreneurs, the Wamda Research Lab conducted a survey of 169 institutions supporting entrepreneurs in the region. From this sample we selected 65 institutions that indicated that they provide some form of equity or debt funding to entrepreneurial ventures.

Data constraints: As there is no official figure for the total number of startups or small-to-medium sized enterprises that have received funding in MENA, or an official figure for the total number of entrepreneurs in the region, findings discussed in this report are representative at the sample level only.

However, this data set represents the largest collection of information on funded startups and data on institutions funding startups in the region to date, which provides strong indications and insights for the funding activity and constraints currently taking place in MENA as well as viable actions that can be taken to enhance conditions in this field.

It is also important to note that funders who participated in the survey operate at varying levels of activity. Some invest only several times per year while others invest more frequently. Our analysis does not separate between funders based on level of activity. Lastly, many of the entrepreneurs who participated in our survey belong to portfolios of the funders represented in our experts’ survey.
TABLE OF CONTENTS

6 FOREWORD

7 EXECUTIVE SUMMARY

9 INTRODUCTION

10 THE CONTEXT
   Highlighting key traits of the funding landscape
   11 Figure 1 Number of investments by year
   12 Figure 2 Country-level investments (2009-2012)
   13 Figure 3 Funding sources for entrepreneurs (2008 – 2013)
   14 Figure 4 Where surveyed funders are currently focusing
   14 Figure 5 Where funders plan to expand in 1-2 years
   15 Figure 6 Funders’ industry focus
   16 Table 1 Characteristics of funded companies
   17 Figure 7 Where funded companies want to open new offices
   17 Figure 8 Industry breakdown of funded companies

18 INVESTMENT GAPS
   Pinpointing the most pressing investment barriers
   19 Figure 9 Total investments (2009-2012) by size
   20 Figure 10 Investment sizes – Egypt, Jordan, UAE and Lebanon (2009-2012)
   21 Table 2 Median funding ranges by country, industry, and country age
   22 Figure 11 Companies with follow-on vs. no follow-on funding (2009-2012)
   22 Figure 12 Percent of Companies with follow-on funding by country (2009-2012)
   23 Figure 13 Types of funding received

27 BEYOND FUNDING
   Identifying needs beyond increasing the supply of capital
   28 Figure 14 Challenges to obtaining investment (Funders vs. Entrepreneurs)
   29 Figure 15 Challenges to obtaining investment (Funded entrepreneurs vs. whole sample)
   30 Figure 16 What skills are entrepreneurs lacking?

31 THE WAY FORWARD
   Conclusion, recommendations and benchmarking for enhancing funding conditions
   33 Recommendations
   34 Benchmarking best practices

38 APPENDIX
Entrepreneurs from any region of the world could reference limited funding as a constraint to growth. Whether just starting out, launching a new product or expanding into a new country, access to capital is a critical resource that is not always easy to come by.

The Middle East and North Africa (MENA) is no exception, yet in recent years funding access has improved. Angel investment networks, venture capital funds and even several government-initiated funding programs have all come to the fore. As the region’s entrepreneurship ecosystem gradually frees up more capital for young and growing enterprises it needs to take a more critical look at its entrepreneurs’ and investors’ specific needs to enhance investment conditions.

Sizing up the funding landscape in MENA, identifying its gaps and understanding the funding process for both entrepreneurs and investors are all critical steps that must be taken. In this report we shine light on each of these areas to begin informing the ecosystem on how to best address funding challenges in the region. This report adds to the larger conversation on the barriers and pathways to scale that entrepreneurs experience as they try to grow their companies in MENA.

We have created this publication to introduce a more critical assessment of funding conditions in the region’s ecosystem while also helping to highlight focus areas for improving these conditions. We hope you have the opportunity to read the report and encourage you to send us any of your critiques, questions and ideas for new research.

THE WAMDA RESEARCH LAB TEAM
Many entrepreneurs and investors in MENA agree that access to funding is limited, yet there is more to this conversation. A comprehensive understanding of investment trends and gaps in the MENA region is needed to enhance funding conditions for MENA’s entrepreneurs. This report attempts to provide a more holistic overview of funding activity for MENA’s entrepreneurs and offers insights into the challenges they face and solutions that must be taken to address them.

1. THE CONTEXT

There are growing opportunities for startup funding as well as marked evidence that an increasing number of MENA startups are receiving funding:

- **More funding activity**: Over three times as many companies in our sample received investment in 2012 than in 2009.
- **Future plans**: The majority (83%) of surveyed funders have plans to deepen or expand activities into other countries—most notably Saudi Arabia and the UAE—in the next one to two years.
- **ICT focus**: Most (69%) funders in our sample focus on companies in the information and communication technology industries, though a third are also invested in the education and health care sectors.

The following characteristics are important insights into the types of companies receiving funding:

- **Company age**: 2.6 years (average).
- **Ownership**: Average amount of equity given to non-founding entities: 26% (average).
- **Growth**: 74% with 3-year CAGR’s are experiencing positive employment growth.
- **Gender breakdown**: 78% of all founders are male vs. 22% who are female.
2. **INVESTMENT GAPS**

The funding gap for the surveyed entrepreneurs can be understood as follows:

- **Lack of larger investment sizes** – Funding gaps are particularly acute for sizes of USD 500,000 and above.
- **Minimal follow-on funding**: Over two-thirds (69%) of the sample had not received follow-on funding.
- **Undiversified funding sources** – Few companies surveyed had received a working capital loan (12%).

3. **BEYOND FUNDING**

Talent and communication gaps could also impinge on entrepreneurs’ efforts to find funding:

- **Talent**: 59% of funders pointed to strategic planning and decision making with 46% citing financial literacy as skills gaps they observe in entrepreneurs.
- **Communication gaps**: 30% of funders felt entrepreneurs cannot effectively pitch their ideas while 28% of entrepreneurs felt investors did not offer enough value beyond cash.

4. **THE WAY FORWARD**

Efforts to improve conditions for entrepreneurs to access funding should include the following:

- **Supply of funding**: Increasing the available supply of and access to funding is critical, but doing so should also include a focus of larger funding sizes to help companies to scale.
- **Type of funding**: Banks have a critical role to play in this equation and any effort to promote more funding to help companies to sustain and grow must take this role into account.
- **Communication**: More channels of communication between investors and entrepreneurs create mentoring opportunities as well as opportunities for investors to identify future investments.
- **Skills and teams**: Entrepreneurs should ensure that their team is well-balanced and hire to address any gaps in their skills sets that can improve their chances of obtaining investment.
INTRODUCTION

Funding alone does not determine scale, but it is a critical component of the growth process. A 2013 World Economic Forum study pointed to funding and finance as one of the top-three most important areas of an entrepreneurship ecosystem.\(^1\) Accessing capital has a large role in helping companies to grow and startups that achieve scale can significantly contribute to job creation efforts in any given economy, making enterprise funding an important tool within the larger job growth agenda.\(^2\)

The Middle East and North Africa (MENA) is home to one of the highest unemployment rates globally, both amongst the working-age population and youth in the labor market, where it is acute.\(^3\) Entrepreneurs and a population of young, growing companies can help to spur job growth in the region and in turn help in reversing unemployment trends. However, without access to important resources, such as funding, the prospects for such impact are diminished. The funding landscape in MENA has evolved significantly in the past 4-5 years to encompass more sources of capital for entrepreneurs. These new resources could help to sustain and stabilize growth for many startups, yet MENA’s entrepreneurs face many funding challenges. Both entrepreneurs and investors in MENA have pointed to a lack of supply, which is a good starting point for building consensus. Yet increasing the supply has many facets and requires having a strong overview of the funding landscape in the region.

This report examines the trends that characterize the region’s entrepreneurship funding environment including the size, type and frequency of funding. Challenges such as skills gaps and developing relationships with investors, though not financial in nature, are also accounted for to provide a more thorough overview of different factors in the funding process. The goals of the report are to highlight specific trends and challenges that affect this process in MENA. Doing so can allow stakeholders to understand the broader range of factors influencing startup funding in the region and from there prioritize their actions to create new programs and policies to support the funding process.

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2. For more information on the impact of fast-growing companies on economic growth and job creation please see Endeavor Insight’s studies on scaleup companies in Colombia, Peru, Mexico and Indonesia (http://www.endeavor.org/blog/category/insight/). Also, see: Hurst and Pugsley, What do small businesses do?, Brookings Institution, 2011; and Erkko Autio, Global Entrepreneurship Monitor, Global Report on High-Growth Entrepreneurship, 2007.
THE CONTEXT

Key traits of the funding landscape
Figure 1 only presents numbers from survey respondents who indicated the size of investments that they received between 2009 and 2012. 254 companies in our sample indicated that they had received funding from an equity investor, though not all specified the size of funding that they had acquired and the year in which it happened.

**MORE INVESTMENTS**
In our sample, the number of investments in 2012 was a three-fold increase compared to 2009 numbers.

**EXPANDING ACTIVITY**
76% of surveyed entrepreneurs intend to deepen or expand their activities over the next one to two years into other countries.

**TECH FOCUS**
69% of funders in our sample focus on e-commerce and online services.

**MORE ENTREPRENEURS IN OUR SAMPLE RECEIVED FUNDING EACH YEAR FROM 2009-2012**

Three times as many companies received investment in 2012 compared to 2009 numbers. Collectively, the entrepreneurs in our sample received 220 distinct investments between 2009 and 2012 with the most substantial increase coming between 2011 and 2012 when the number of investments nearly doubled.  

**Figure 1:**
**NUMBER OF INVESTMENTS BY YEAR**

- **Investments in 2009:** 28
- **Investments in 2010:** 39
- **Investments in 2011:** 54
- **Investments in 2012:** 99

BASE: N=220
The growth in the number of investments was most noticeable in Egypt and Jordan, which accounted for roughly 40% of all investments identified in the survey.

However, countries where our sample size was smaller, namely Morocco and Tunisia, also saw the number of reported investments increase from 2009 to 2012.
A WRL MAPPING IDENTIFIED OVER 50 FUNDING SOURCES FOR MENA ENTREPRENEURS IN 2013.

Minimally present five years ago, business accelerators, venture capital funds, angel investment networks, and even a small cohort of crowdfunding platforms now exist and continue to be created.\(^5\)

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5. Data was collected through a Wamda Research Lab mapping of institutions providing funding to entrepreneurial ventures in MENA.
MAIN FUNDING ACTIVITY IS IN EGYPT, JORDAN, UAE AND LEBANON.

Most of the funders that WRL surveyed have a presence in at least one of the following countries: Egypt, Jordan, the UAE or Lebanon. Activity in these countries could come in the form of actual funding of entrepreneurial ventures or providing non-financial services to entrepreneurs. Aside from the UAE and Saudi Arabia, funders indicated minimal activity in other Gulf Cooperation Council markets, including Bahrain, Kuwait and Qatar.

FUNDERS LOOKING TO DEEPEN ACTIVITY IN SAUDI ARABIA, AND THE UAE.

The majority of funders in our survey (83%) plan to expand and increase their activity in the next one to two years. Expanding services could include financial or non-financial activities such as helping portfolio companies expand services in new markets. The surveyed funders are seeking to become more involved in Saudi Arabia and the UAE, though also see opportunities in Lebanon, Egypt and Jordan.
MOST FUNDERS ARE ACTIVE IN THE ICT INDUSTRIES

Nearly three quarters of the funders surveyed have portfolio companies in e-commerce and online services, with over half (52.3%) also funding companies working in software development and services. Though most funding activity targets ICT ventures, nearly one third of surveyed institutions have funded education companies (32.3%) and pharmaceutical and healthcare pharmaceuticals (29.2%).

Figure 6: FUNDERS’ INDUSTRY FOCUS
Table 1: CHARACTERISTICS OF FUNDED COMPANIES

MOST FUNDED COMPANIES ARE YOUNG, CREATING JOBS AND ARE RUN BY MALE FOUNDERS.

- **COMPANY AGE**
  2.6 years (average)

- **EQUITY GIVEN TO THIRD PARTIES**
  26% (average)

- **MALE VS. FEMALE**
  87% of companies have at least one male founder vs. 38% with at least one female.
  78% of all founders are male vs. 22% that are female

- **TOTAL JOBS**
  5,413

- **JOBS PER COMPANY**
  21

- **GROWTH**
  60% with 3-year CAGR's are scaleups and 74% with 3-year CAGR's are growing.

All companies had given at least some equity in their company to outside parties and on average entrepreneurs in our sample maintained 70-75% equity in their companies.

Most, 74%, of companies over three years old experienced positive net employee growth from 2009 to 2012. Sixty percent of companies over three years old are scaleups. These numbers bode well for job growth efforts, with the entire sample in 2012 employing over 5,000 people, an average of 21 employees per company.

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6. Of the 254 companies in our sample, 94 were over three years old and thus had 3 year compound annual growth rates for employee numbers. Calculations on job growth from 2009 to 2012 are based on these numbers only. Of the 254 companies in our sample, 94 were over three years old and thus had 3 year compound annual growth rates for employee numbers. Calculations on job growth from 2009 to 2012 are based on these numbers only.

7. Endeavor Insight defines scaleups as companies with a three-year compound annual employee growth rate of over 20%. Non-HG startups as companies with a three-year compound annual growth rate below 20%. For more information on scaleups please see The 8-45 Report, Why Scaleup Companies are Critical for Job Creation in Colombia, Endeavor Insight, 2013.
FUNDED COMPANIES ARE LOOKING TO EXPAND INTO SAUDI ARABIA AND THE UAE

Most, 76%, of companies surveyed plan to open new offices in the next 1-2 years. Much like funders’ preferences, of these companies, Saudi Arabia and the UAE are the top-two intended destinations. These two countries received substantially more interest from entrepreneurs than any other answer choice.

The bulk of funded companies are in the information and communication technology industries, with e-commerce and online services and software development and services accounting for nearly half of all companies that received investment in our sample.
INVESTMENT GAPS
Identifying the most pressing funding challenges
MAIN INSIGHTS

FEW CASES OF LARGER INVESTMENTS
Investments have increased since 2009, but there is a gap in funding of USD500,000+.

MINIMAL FOLLOW-ON FUNDING
Over two-thirds of companies had not received follow-up funding at the time of the study.

LACK OF DEBT FUNDING
Only 12% of entrepreneurs surveyed had received access to loans.

BETWEEN 2009 AND 2012 THE MAJORITY OF INVESTMENTS WERE UNDER USD500,000 AND MOST WERE USD200,000 OR BELOW.

Figure 9:
TOTAL INVESTMENTS (2009-2012) BY SIZE

76% RECEIVED BELOW $500K

BASE: N=220
THE MAJORITY, 76%, OF INVESTMENTS IN JORDAN, EGYPT AND LEBANON ARE USD 200,000 OR BELOW

“Even if you find seed money, there is a gap between the Seed and Series A - growth funding. I think there is enough money in the region, but not enough of a system in place to attract more investors. This provides an opportunity for people to come in and form a new fund at this stage.” – Zaid Ayoub, R TMZ Investments Inc

Figure 10:
INVESTMENT SIZES – EGYPT, JORDAN, UAE AND LEBANON (2009-2012)

BASE: EGYPT - N=43, JORDAN – N=48, UAE – N=37, LEBANON – N=25
Egypt, Jordan and Lebanon had median funding ranges of under USD 200,000. Only the UAE had a median reported funding size greater than 500,000. Smaller funding sizes were noticed in both ICT and non-ICT industries as well. Even though the median funding range for ICT companies in 2012 was smaller than non-ICT, median sizes were below USD 200,000 for companies in both groups.
68% Of surveyed companies had not yet received follow-on funding

There were few cases of companies that were able to receive more than one round of funding. Follow-on funding can be critical to sustaining and accelerating growth, yet most companies in the sample have accessed only one round and nearly half of the surveyed companies indicated that the supply of venture funding in their countries was not sufficient.

JORDAN HAS THE MOST SURVEYED COMPANIES THAT SECURED FOLLOW-ON FUNDING

Though Jordan was home to the largest percentage of companies that received multiple investments, fewer than half of Jordanian companies surveyed had received more than one round of funding.

The lack of follow-on funding could be explained by the age of companies in our survey. With roughly 70% of surveyed companies three years old or younger, many may not yet be interested in or in need of acquiring follow-on rounds of funding. However, the majority of companies that were more than three years old had not yet received any additional funding and roughly one in three of these companies said that the supply of venture funding was limited. Furthermore, 75% reported at least one barrier to obtaining investment.
An additional gap was observed in the types of funding that entrepreneurs in our sample received. Few entrepreneurs had received convertible (5%) or venture debt (5%) and slightly more, though still few had received a working capital loan (12%).

Globally, MENA ranks low in terms of lending to small and medium-sized enterprises (SMEs). Only 20% of the region’s SMEs have a loan or a line of credit. Furthermore, on average, small and medium-sized enterprises represent less than 8% of bank portfolios in MENA.\(^\text{12}\)

\begin{figure}
\centering
\includegraphics[width=\textwidth]{type_of_funding_received.png}
\caption{Type of funding received in the sample}
\end{figure}


EXPLAINING THE FUNDING GAP

As entrepreneurs grow their companies they will need access to more funding. However, the lack of larger funding sizes and follow-on funding suggests that the value-chain of support is still missing multiple important services and resources. Conversations with investors and entrepreneurs point to several explanations for these gaps.
1. Emphasis on early-stage funding
The funding gap could also be explained in part by the general company age that most MENA funders target. Nearly three-quarters (74%) of funders in our survey are currently working with companies that were at most three years old. While companies’ plans and capacity to scale will evolve at different speeds the dominant focus on companies that were at most three years old suggests that older, more mature companies that will need larger sums of capital to grow do not necessarily fall within current funds’ purviews.14

For funding problems, the seed investment given is not sufficient to get you to the place where you’d need to be getting Series A funding. –Omar Koudsi, Jeeran

2. Minimal debt funding
Though companies seeking to scale can greatly benefit from the funding, networks, and strategic support that an investor provides, debt funding is a necessity for many companies. However, both regional figures and data from our survey suggest that there are limited opportunities for debt financing in MENA. SMEs in the region are even more constrained in accessing finance compared to their counterparts in other emerging regions. A World Bank survey cited that only one in 5 SMEs have a loan or line of credit.15

“Companies and SMEs in the MENA region could be getting more debt funding, but debt markets are problematic—with some important exceptions like Morocco, regulation and legal frameworks make SME lending very difficult. So SMEs that might get targeted loans end up self-financing or the very best take overly expensive equity.” –William Fellows, Lixia Capsia

14. Experts survey did not include private equity investors, see MENA Private Equity Association website for more information.
3. Minimal sources to support funds
The issue of supply extends beyond establishing individual organizations that can directly invest in a portfolio of companies—these organizations also need funding. Pools of capital, or ‘funds of funds’, have been sources of funding for venture capital and private equity in other regions, and typically come in the form of university endowment funds, state pension funds, foundations and sovereign wealth funds. In the Middle East, these entities have models or mandates that prevent them from acting as anything more than asset holdings for investment authorities.  

4. Few success stories
Attracting investor interest could hinge on creating more regional success stories (acquisitions, IPO’s, etc.), which demonstrate clear financial gains and strong return on investment. Success stories would not only provide models for entrepreneurs to follow, but also entice new investors to become active in MENA. While there are many examples of small but growing companies throughout MENA, the absence of viable exits limits new investor involvement.

5. General constraints to doing business
Entrepreneurs in MENA also have to be keenly aware of the changes in business climate and its regulatory framework. Tax and business laws in many countries are either subject to spontaneous revisions or else enforcement of these laws is subjective. Irregularities in the system exclude those without an extensive network of peers and mentors to depend on for circumventing system processes and in turn further complicate the fundraising and investment processes.

“MENA Entrepreneurs must navigate through inefficient structures in terms of policy, legal systems, financial processes, ways of doing businesses...there is a huge need for success stories to enlighten the ecosystem” —Emile Cubeisy, Silicon Badia
BEYOND FUNDING
Identifying needs beyond the supply of capital
MAIN INSIGHTS

COMMUNICATION GAPS WITH FUNDERS
29% of funders feel that entrepreneurs lack the ability to pitch their ideas effectively, while roughly the same percentage of entrepreneurs felt that investors do not provide enough value beyond cash.

ENTREPRENEURS’ SKILLS GAPS
56% of investors felt that entrepreneurs in MENA generally lack strategic planning & decision-making skills while 44% pointed to entrepreneurs not having adequate financial literacy skills.

THOUGH THEY AGREE THAT MORE FUNDING IS NEEDED ENTREPRENEURS AND FUNDERS POINT TO CONFLICTING CHALLENGES TO EXPLAIN INVESTMENT GAPS.

Figure 14:
CHALLENGES TO OBTAINING INVESTMENT (FUNDERS VS. ENTREPRENEURS)

While both entrepreneurs and funders agree that the supply of funding is a fundamental constraint to obtaining investment in MENA, our survey pointed to several non-financial factors that could limit access to investment. Skills and communication gaps are two key areas needing more support. When asked to identify other challenges to obtaining investment, funders also pointed to entrepreneurs not knowing how to effectively pitch their ideas (29%) and risky business models (31%) as additional challenges. Interestingly, entrepreneurs pointed to investors not offering enough value beyond cash (30%) and investors thinking that their business model was risky (22%).
When compared to the entire sample higher percentages of funded entrepreneurs pointed to the small supply of funding in their country, investors not offering enough value beyond cash and investors thinking that their business models were risky as challenges to obtaining investment.
Funders point to entrepreneurs needing better strategic planning and financial literacy skills.

Figure 16: WHAT SKILLS ARE ENTREPRENEURS LACKING?

Fifty-six percent of funders pointed to strategic planning and decision making with 44% citing financial literacy followed by one-third selecting business development as skills lacking in entrepreneurs.

The demands for these skills could be partially offset by entrepreneurs hiring employees with proficiency in these areas. However, when discussing the challenges to building their teams, 70% of the equity-funded entrepreneurs said that finding the right talent was a challenge to building their teams, slightly higher than the 63% of the entire sample (equity and non-equity funded entrepreneurs) who indicated the same challenge.
THE WAY FORWARD

Recommendations and benchmarking for enhancing funding conditions
CONCLUSION

To improve access to finance for MENA’s entrepreneurs, there must be a more comprehensive analysis of the factors that affect the fundraising and investment processes. While entrepreneurs and funders tend to agree that more capital is needed, there are multiple financial and non-financial challenges that underpin this need.

The sizes of investment, type of funding, relationships between investors and entrepreneurs as well as the general capacity of entrepreneurs and their teams all have a role in improving conditions for startup financing in MENA. Additionally, understanding the funding breakdown at the industry, country and company-level can help investors, policymakers and entrepreneurs to better benchmark their work and to track their progress over time.
FROM OUR FINDINGS, WE DISTILL SEVERAL RECOMMENDED FOCUS AREAS THAT NEED FURTHER ATTENTION FROM PLAYERS IN THE ECOSYSTEM:

<table>
<thead>
<tr>
<th>FOCUS AREAS</th>
<th>KEY CHALLENGES</th>
<th>ACTIONS</th>
</tr>
</thead>
</table>
| **SUPPLY**  | • Entrepreneurs and experts both agree that the low supply of capital is the primary challenge, to obtaining investment in MENA.  
• Additionally, larger funding sizes are particularly rare in the region’s entrepreneurship ecosystem. | Increasing the available supply of and access to funding is critical, but doing so should include a specific focus on creating larger funding sizes to help companies to scale. Series A and above are nearly non-existent in the region. The ecosystem must ensure that while funding opportunities continue to be increased regionally, it is done in such a way that specific gaps are filled in order to ensure that enough capital is available to help entrepreneurs to not just start, but scale their companies. |
| **DIVERSITY** | • There were few examples of debt funding in our sample.  
• Regionally, bank lending to startups and SMEs in MENA is minimal. | Equity investment cannot be the only form of funding for entrepreneurs in MENA. Banks have a critical role to play in shaping the funding landscape and any effort to promote more funding to help companies to sustain and grow must take this role into account. Any efforts to enhance financing for startups and SMEs in MENA need to be aware of the need to create diverse funding sources for entrepreneurs. |
| **COMMUNICATION** | • Funders pointed to entrepreneurs’ ability to pitch their ideas effectively and understand what investors were looking for in a potential investment.  
• Entrepreneurs said that investors do not provide enough value beyond cash and think that their business models are risky. | Enhancing conditions for obtaining investment is not solely confined to increasing access to capital. Ensuring that there is adequate knowledge exchange between investors and entrepreneurs is an important component of this process. More channels of communication between potential investors and investees create mentoring opportunities as well as opportunities for investors to gauge needs and challenges of entrepreneurs outside their portfolio. |
| **SKILLS**   | • Funders identified strategic planning and financial literacy as the top two skills deficiencies in entrepreneurs.  
• Entrepreneurs also pointed to challenges to finding talent as a key obstacle when building their teams. | Building capable teams with good chemistry is an important criteria for investors when deciding on whether to fund a company or not. Entrepreneurs should ensure that their team is well-balanced and hire to address any gaps in their skills sets. Doing so can help strengthen their team and thus their chances of obtaining funding. |
**BENCHMARKS**

In addition to these priority areas, understanding how certain countries and institutions have developed programs to support startup and SME funding as well as strengthen relationships between entrepreneurs and investors can be helpful to MENA stakeholders. In interviews with investors, entrepreneurs and financial experts (see Appendix 2), we identified a series of global practices that could shine more light on different methods. Highlighted in the table below, these examples can be used as sources of knowledge for players in the MENA ecosystem as they seek to improve conditions for funding.

**LOAN-FOCUSED INITIATIVES**

<table>
<thead>
<tr>
<th>Type</th>
<th>Name</th>
<th>Country</th>
<th>Lead Stakeholders</th>
<th>Operating Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan or Credit Guarantee</td>
<td>Kredit Usaha Rakyat (KUR) (2007)</td>
<td>Indonesia</td>
<td>Policy Committee under the Ministry of Economic Affairs</td>
<td>Indonesia’s government guarantees 70% of loans made under the KUR program, with the bank bearing the risk for the remaining 30%. For applications up to IDR5m (US$500) no physical collateral is needed, and for larger loans the collateral requirements are lower than for regular commercial loans.</td>
</tr>
<tr>
<td>Loan or Credit Guarantee</td>
<td>Caisse Central de Gauranties (CCG) (1960s)</td>
<td>Morocco</td>
<td>Hassan II Fund and related ministries, European Commission, German Development Bank KfW</td>
<td>Morocco went through significant reforms in the 1990s to accelerate the credit review process and increase access to funds for SMEs. The program currently adheres to BASL II standards and offers a wide range of guarantee projects with one of its foci being high-growth start-ups. CCG guarantees up to 70% of loan principal but ensures that the applicant owns at least 20% of the loan.</td>
</tr>
<tr>
<td>Targeted Direct Loans</td>
<td>Kafalat (2000)</td>
<td>Lebanon</td>
<td>All 50 Lebanese banks are shareholders up to 25%, the National Institute for Guarantee of Deposits, Kafalat’s mother company has 75% stake</td>
<td>Kafalat provides loan guarantees up to US$ 400k for productive businesses outside of the trade and services sector. Businesses must have a transformational model set and feasibility study completed prior to application. In addition to its basic program, Kafalat also offers up to US$ 200k for innovation, with $200k granted for expansion purposes. The total number of projects guaranteed at the time of writing was 9,378 with a total loans’ amount of US$ 1.23 billion and an average loan size of USD 131,308.</td>
</tr>
<tr>
<td>Targeted Direct Loans</td>
<td>German-Ukrainian Fund (GUF) (1999)</td>
<td>Ukraine</td>
<td>National Bank of Ukraine, the Ministry of Finance of Ukraine, the German Development Bank (KfW) (on a parity basis)</td>
<td>A non-profit institution that provides lending through local banks to SMEs primarily in agriculture as well as manufacturing, services, and trade. Companies must meet certain requirements in terms of employee number and turnover, while banks must be in good standing with the government. The maximum loan size available is USD 340,000, though the fund recently received an infusion of 16.4 million for expansion.</td>
</tr>
</tbody>
</table>
The Moroccan government in partnership with USAID underwent a 6-7 year reform process to streamline and improve its commercial court system, bankruptcy laws, and investment application process to both ease the process of doing business and open up lending options for the country’s SMEs.

Equity Bank’s mission is to promote financial inclusion in Kenya through branch penetration and lowering barriers to entry. It increases financial access for underprivileged segments of the population by removing deposit requirements. Through its partnership with USAID, it has also set up a guarantee and also offers financial literacy courses to potential account holders in the branch communities. The number of accounts increased from 0.6 million at the end of 2005 to 3.2 million end of 2008, or an 8.7% increase in adults in Kenya with bank accounts.

The Bank of Ghana in collaboration with the IFC implemented ICT systems and employee-training programs to become the first web-based registry. The restructure aimed to streamline credit delivery and increase access to loan information and registration processes.

<table>
<thead>
<tr>
<th>TYPE</th>
<th>NAME</th>
<th>COUNTRY</th>
<th>LEAD STAKEHOLDERS</th>
<th>OPERATING DETAILS</th>
</tr>
</thead>
<tbody>
<tr>
<td>TARGETED DIRECT LOANS</td>
<td><strong>National Research Council’s Industrial Research Assistance Program (NRC-IRAP)</strong> (1962)</td>
<td>Canada</td>
<td>National Research Council</td>
<td>The NRC IRAP provides financial assistance to SMEs (under 500 employees) seeking to attain greater efficiency through increased research and development. The program issues a max of USD $500k in credit notes for businesses to purchase technological or business development services at universities, non-profit foundations, or other research institutions of their choice.</td>
</tr>
<tr>
<td></td>
<td><strong>USAID-Morocco Bankruptcy Reform</strong> (2008)</td>
<td>Morocco</td>
<td>Central Bank</td>
<td>The Moroccan government in partnership with USAID underwent a 6-7 year reform process to streamline and improve its commercial court system, bankruptcy laws, and investment application process to both ease the process of doing business and open up lending options for the country’s SMEs.</td>
</tr>
<tr>
<td></td>
<td><strong>Equity Bank</strong> (1945)</td>
<td>Kenya</td>
<td>USAID, FSD Kenya</td>
<td>Equity Bank’s mission is to promote financial inclusion in Kenya through branch penetration and lowering barriers to entry. It increases financial access for underprivileged segments of the population by removing deposit requirements. Through its partnership with USAID, it has also set up a guarantee and also offers financial literacy courses to potential account holders in the branch communities. The number of accounts increased from 0.6 million at the end of 2005 to 3.2 million end of 2008, or an 8.7% increase in adults in Kenya with bank accounts.</td>
</tr>
<tr>
<td></td>
<td><strong>The Collateral Registry Ghana</strong> (2010)</td>
<td>Ghana</td>
<td>IFC, Bank of Ghana (BOG)</td>
<td>The Bank of Ghana in collaboration with the IFC implemented ICT systems and employee-training programs to become the first web-based registry. The restructure aimed to streamline credit delivery and increase access to loan information and registration processes.</td>
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### INVESTMENT FOCUSED INITIATIVES

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<tr>
<th>TYPE</th>
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</tr>
</thead>
<tbody>
<tr>
<td>PUBLIC-PRIVATE CO-INVESTMENT</td>
<td>SPRING Startup Enterprise Development Scheme (SEED) (2001)</td>
<td>Singapore</td>
<td>Ministry of Trade and Industry</td>
<td>Supports around 100 SME’s by matching funds up to US$ 1m from private investors. In tandem the program also offers tax relief for angel investors. The program tends to target startups in the biotechnology and medical technologies industries. Funded companies are frequently partnered with larger businesses in the same field to open up channels for mentorship and possibilities for later acquisition.</td>
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<td></td>
<td>Tourism Enterprise Partnership (TEP) (2000)</td>
<td>South Africa</td>
<td>National Department of Tourism; Credit Suisse; Gooderson Leisure and other hospitality enterprises</td>
<td>A public-private partnership program that offers a range of services for SME development and expansion in the tourism sector, including a cost-sharing grant covering up to 50% costs for certain business services. Private sector entities can contribute funds and become partners through the Enterprise Development Portfolio (EDP), established in 2010. Since its inception, tourism has jumped from 4% to 8% of GDP and 65,000 jobs in the small business tourism sector are a direct result of the program’s initiatives.</td>
</tr>
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<td></td>
<td>Incubation Support Programme (ISP) (2012)</td>
<td>South Africa</td>
<td>The Department of Trade and Industry</td>
<td>A 10-year initiative that seeks to foster 250 incubators across the country. It funds growing incubator programs until they have products and services that are self-sustainable. ISP also encourages initiatives that link SMEs with big businesses for mentoring and development purposes.</td>
</tr>
<tr>
<td>VENTURE CAPITAL AND PRIVATE EQUITY FUND OF FUNDS (FOF)</td>
<td>Istanbul Venture Capital Initiative (iVCi) (2007)</td>
<td>Turkey</td>
<td>The European Investment Fund (EIF), Small and Medium Enterprises Development Organisation of Turkey (KOSGEB), the Technology Development Foundation of Turkey (TTGY), the Development Bank of Turkey (TKB), Garanti Bank, National Bank of Greece Group (NBG)</td>
<td>The IVCI was modeled after the EIF, which was structured back in 2005 as subsidiary of the European Investment Bank that specializes in capital-venture with the EIB owning 60% and 30% by private entities through the European Commission. Also has a co-investment program for grant applicants. As of 2012, iVCi had committed to 9 funds valuing greater than EUR 144m.</td>
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</table>
# INVESTMENT FOCUSED INITIATIVES

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<thead>
<tr>
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<tbody>
<tr>
<td><strong>VENTURE CAPITAL AND PRIVATE EQUITY FUND OF FUNDS (FoF)</strong></td>
<td><strong>FOND-ICO Global</strong> (2013)</td>
<td>Spain</td>
<td>Axis under the Instituto de Crédito Oficial (ICO)</td>
<td>FOND-ICO Global is a public fund of funds that invests in and mentors private venture capital (VC) firms across Spain. It also offers co-investment to grow and diversify VC portfolios with the aim to create 40 new private funds mobilizing a total investment of EUR 3000.</td>
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<td></td>
<td><strong>The Korea Fund of Funds (KFoF) (2005)</strong></td>
<td>South Korea</td>
<td>Small &amp; Medium Business Corporation, Ministry of Employment and Labor, Ministry of Culture, Sports and Tourism among other public entities</td>
<td>A government fund providing a stable source of finance to private funds targeting entrepreneurial businesses. From launch date to 2010, KFoF committed US$1.2b to 160 venture capital and private equity funds, which in turn invested in more than 1,000 SMEs. Firms that received funding have grown at an average annual rate of 57.5%, compared with 14.9% growth for firms that did not receive any funding.</td>
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<td></td>
<td><strong>Ideavelopers</strong> (2010)</td>
<td>Egypt</td>
<td>EFG-Hermes Private Equity</td>
<td>Though the organization is private, funds depend on sponsorship from the Ministry of Communication and Information Technology and contributions from companies tied to the state. There have been two funds since Ideavelopers’ establishment, each focused on SME growth in the ICT sector. Majority of portfolio companies have received funding between USD 1m-4m.</td>
</tr>
<tr>
<td><strong>NETWORK BUILDING AND MENTORSHIP</strong></td>
<td><strong>L’IME France</strong> (2007)</td>
<td>France</td>
<td>Chamber of Commerce and Industry (CCI) Paris, CCI Nantes St. Nazaire, North CCIR France, Ernst &amp; Young</td>
<td>Seeks to build a nationwide network of entrepreneur mentors and mentees through online collaborative platforms and exchanges, newsletters, regional events, and other initiatives.</td>
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<td></td>
<td><strong>National Entrepreneurship Network (NEN), Wadhwani Foundation</strong> (2003)</td>
<td>India</td>
<td>SAP, IBM, Aspen Network of Development Entrepreneurs (ANDE)</td>
<td>Provides a range of networks for entrepreneurship, skills development, innovation, and disabled populations. NEN hosts an online site and forum with information about events, related initiatives, and applications for funding and business development assistance. The foundation boasts that its high-growth entrepreneur network includes over 70,000 members and 470+ academic institutions across 30 cities in India.</td>
</tr>
</tbody>
</table>
Appendix 1 - Suggested readings:

- Endeavor Insight’s studies on scaleup companies in Colombia, Peru, Mexico and Indonesia (http://www.endeavor.org/blog/category/insight/)
- Middle East Investment Initiative, Loan Guarantee Facility, Progress Report, 1st Quarter, 2013

Appendix 2 - Key Individuals Interviewed:

We would like to thank the following individuals for providing time for an interview during the research process. These conversations gave us immense insight into the processes and challenges that MENA startups face to receiving investment.

<table>
<thead>
<tr>
<th>PERSON</th>
<th>INSTITUTION</th>
<th>COUNTRY</th>
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<tr>
<td>Abed Shamlawi</td>
<td>int@j</td>
<td>Jordan</td>
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<tr>
<td>Ahmad Takatkh</td>
<td>Sinbad Ventures</td>
<td>Jordan</td>
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<td>Angus Paterson</td>
<td>STC Ventures</td>
<td>UAE</td>
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<td>Con O’Donnell</td>
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<tr>
<td>Dany Farha</td>
<td>BECO Capital</td>
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<tr>
<td>Elie Akhrass</td>
<td>Kafalat</td>
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<td>Emile Cubeisy</td>
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<td>Jordan</td>
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<td>Fadi Bargouti</td>
<td>Curlstone Studios</td>
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<td>Fida Taher</td>
<td>Zaytouneh</td>
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<td>Khaleed Talhouni</td>
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<td>Mohamed Attahri</td>
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<td>Omar Koudsi</td>
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<td>Omar Sati</td>
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<td>Perihan Abouzeid</td>
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<td>William Fellows</td>
<td>Lixia Capsia Gestionis</td>
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<td>Zaid Ayoub</td>
<td>R TMZ Investments Inc</td>
<td>USA</td>
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<td>Ziad Mokhtar</td>
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