The three biggest challenges facing startups in the Middle East

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The Middle East's startup landscape has changed significantly in recent years. Initiatives such as Abu Dhabi's twofour54 and Flat6Labs in Cairo have provided the means for entrepreneurs to develop their skills and businesses, alongside increasing investment opportunities from global funders like 500 Startups and regionally focused efforts such as the Amman-based Oasis500.

But despite this progress, a number of infrastructure, financial, and people-orientated challenges remain. Two separate reports published in the last month -- one by Wamda Research Lab and the other by Dubai Silicon Oasis -- highlighted some of these issues, and the need to address them if the full potential of tech entrepreneurs in the Middle East and North Africa (MENA) is to be realised.

Funding

As with most regions, issues related to investment and cashflow can be key challenges for MENA startups. For Middle East-based entrepreneurs, particular obstacles exist in terms of the lack of larger funding levels and follow-on investment.

The authors of Wamda's report noted that "funding gaps are particularly acute for sizes of $500,000 and above," while Dubai Silicon Oasis's study stated that "the top two predominant financial challenges are access to capital and lack of financial support from banks".

Although there is generally an acknowledgement that these situations have begun to improve, both documents highlight that many banks and investors in the region fail to understand the startup business model and the need for long-term investment. As a result, 72 percent of Oasis's respondents stated that they found it difficult to fund their business, and just 12 percent of the 220 participants in Wamda's research said they had received access to loans.

"Financing and de-blocking funds is a long process," one Syrian entrepreneur said. "Even after approval it took a good four months for the funds to go into the bank account."

As a solution, 70 percent of entrepreneurs claim to self-fund; and many startups -- especially in the Gulf Cooperation Council (GCC) -- admit to often relying on financial support from family and friends.

That said, Wamda's analysis does highlight the emergence of "business accelerators, venture capital funds, angel investment networks, and even a small cohort of crowdfunding platforms" across the region in recent years. However, for many startups these sources are often insufficient for their needs.

Red tape

Interlinked with the challenge of attracting funding, many Middle Eastern entrepreneurs find their efforts further hampered by legal and logistical roadblocks.

Issues clearly identified in Oasis's report include high fees for business registration and licensing, ownership structures, and unclear legal frameworks. Eighty-one percent of their survey respondents said they found it hard to understand governmental and legal regulation, whilst 62 percent acknowledged bureaucracy and red tape as a major barrier to progressing their ideas.

William Fellows, of the advisory and investment company Lixia Capsia, is not surprised by the findings. "With some important exceptions like Morocco, regulation and legal frameworks make SME lending very difficult," he says.

The authors of Wamda's study were even more explicit in this area, stating that "tax and business laws in many countries are subject to spontaneous revisions or else enforcement of these laws is subjective".

As a result, the experience described by one Lebanon-based entrepreneur in Oasis's study remains all too common: "Everything [is] in Arabic and for people who are not proficient with the language, it's really hard to [go] through the process alone. Moreover no proper information is available online. If you need answers, you need to go down to the institutions who ping pong you from one person to another."

Skills and talent

Although more funding and less red tape would help Middle Eastern startups, both entrepreneurs and investors have recognised additional areas which -- if addressed -- could potentially aid the development of this nascent sector.

Of particular note was the fact that over half of the 65 investors interviewed for Wamda's study felt that MENA's entrepreneurs lacked strategic planning and decision-making skills. Fourty-four percent also conveyed concern at the lack of financial literacy skills among entrepreneurs, and 29 percent of funders "feel that entrepreneurs lack the ability to pitch their ideas effectively". (Given these misgivings, sometimes it's a wonder that so many of MENA's startups get funding in the first place.)

For entrepreneurs, 30 percent of those interviewed by Wamda expressed the view that they would like to see investors offer value "beyond cash". Oasis' study meanwhile highlighted more logistical complications, such as securing visa and work permits (65 percent), the availability of technical staff (66 percent), and the cost of acquiring qualified personnel (76 percent).

"Convincing talented developers to leave corporate jobs and join a startup" is a major problem, said one Egyptian entrepreneur, nevermind "retaining the talents with the low salary budget we have".

The future

Many of the issues faced by MENA's startups are not unique to the region, although local markets do have distinctive characteristics, which means that no two environments are ever exactly the same. Subsequently, solutions to their problems often need to be localised too, even when there is consensus about the founding principles on which to move forward.

The World Economic Forum captured ten of these solutions in a 2011 paper titled, *Accelerating Entrepreneurship in the Arab World*. Although MENA's startup environment has clearly matured since then, their conclusions remain highly pertinent. Their suggestions included: a multi-stakeholder approach to develop a culture of entrepreneurship, bringing these values into the classroom and the office, embracing the Arabic diaspora, and encouraging VCs "to go beyond funding and provide a support structure for entrepreneurs".

Elements of this are already in place, but clearly more can be done. Perhaps most importantly, as Emile Cubeisy - managing partner of Silicon Badia in Jordan - has identified: "There is a huge need for success stories to enlighten the ecosystem."

After all, nothing breeds success like success.