



# Global Entrepreneurship Monitor: **GEM-MENA Regional Report 2009**

(Middle East & North Africa)



**International Development Research Centre**  
With Contributions From  
**Palestine Economic Policy Research Institute (MAS)**

**December 2010**



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For additional copies of this report, contact:

International Development Research Centre  
8 Ahmed Nessim, 8<sup>th</sup> Floor, Giza  
P.O. Box 14, Orman, Giza,  
Cairo, Egypt  
Ph: +20 2 3336 7051  
Email: [ggp@idrc.ca](mailto:ggp@idrc.ca)

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## List of Abbreviations

AE	United Arab Emirates
ANAPEC	National Agency for Promotion of Employment and Skills
ANSEJ	National Agency for Support of Young Entrepreneurs
APS	Adult population survey
AUB	American University in Beirut
CI	Confidence interval
CREAD	Centre de Recherche en Economie Appliquée pour le Développement
DZ	Algeria
EB	Established business
EFC	Entrepreneurial framework conditions
EG	Egypt
GDP	Gross domestic product
GEM	Global Entrepreneurship Monitor
GERA	Global Entrepreneurship Research Association
IDRC	International Development Research Centre
IMF	International Monetary Fund
IR	Iran
JOD	Jordanian dinar
JO	Jordan
LB	Lebanon
MA	Morocco
MAS	Palestine Economic Policy Research Institute
MENA	Middle East and North Africa
NGO	Non-governmental organization
PPP	Purchase power parity
PS	Palestine
SA	Saudi Arabia
SME	Small and medium enterprise
SY	Syria
TEA	Total early-stage entrepreneurial activity
TR	Turkey
TN	Tunisia
YE	Yemen



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## Preface

IDRC is a Crown corporation of the Government of Canada with a mandate to support research in developing parts of the world on topics addressing social, economic, and environmental challenges. We provide novice and accomplished scholars throughout the developing world with the funds, support, and networks to find solutions to pressing problems that prevent their communities from realizing their full potential, and enable the world's brightest minds to collaborate on cutting-edge projects on issues of global importance. Our commitment is to make knowledge a tool for development, influencing policy actions and improving people's lives. IDRC has regional offices in Latin America and the Caribbean, Sub-Saharan Africa, Asia, India, and the Middle East and North Africa. The selection of supported research-related projects (for example, research analysis, capacity building, and network collaboration) is based on a response to the development priorities of researchers, governments, and civil society organizations in these regions of the world.

Among IDRC's research interests is the role of private sector development in inclusive and sustainable growth. The Globalization, Growth and Poverty Program is particularly focused on supporting research initiatives that will: identify the patterns and drivers of inclusive growth, including the factors underlying job creation and the quality of jobs; lead to a better understanding of the interactions of markets, public policies, and institutions that channel economic activities, such as the rules of international trade, competition, and regulation to achieve growth, equity, and reduced poverty; and design financially viable and effective social protection systems to address equity and growth challenges.

One of the ways in which IDRC identifies potential new projects is by performing scoping studies and undertaking consultations with stakeholders. The lack of country-level data on micro and small enterprises and entrepreneurial activity emerged as a major research and policy concern at IDRC regional workshops with government officials, researchers, and business associations from 12 Middle East and North Africa (MENA) countries<sup>1</sup> in 2007 and 2008 (IDRC 2008a, 2008b). Participants discussed the insufficient attention given to entrepreneurship as a policy issue in MENA countries and called for an instrument to measure the development and role of entrepreneurship to inform public policy efforts, produce a baseline for setting policy targets, and monitor performance trends. They underlined the need for data on entrepreneurial activity levels and endorsed participation in the Global Entrepreneurship Monitor (GEM) project<sup>2</sup> for the MENA countries. Participants also stressed the importance of regional comparisons so they could learn from each other as well as from other countries.

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<sup>1</sup> The 12 countries in the region of IDRC's Middle East/North Africa Regional Office are: Algeria, Egypt, Iraq, Jordan, Lebanon, Morocco, Sudan, Syria, Tunisia, Turkey, the West Bank and Gaza, and Yemen.

<sup>2</sup> The GEM project is described further in Chapter 1 of this report. More information about GEM can be obtained from: [www.gemconsortium.org](http://www.gemconsortium.org).

A regional scoping study performed by IDRC (IDRC 2007) confirmed that entrepreneurship (in research or policy terms) was not well developed in any of these countries.<sup>3</sup> Data on entrepreneurship and the dynamism of the private enterprise sector (business entry, exit, and growth rates) are virtually non-existent, a situation noted by international organizations as a major impediment to effective policy development.

As a result of this input and the great interest in GEM studies by regional researchers, IDRC initiated a research pilot project in 2009. Its objective was to contribute to a better understanding of the factors influencing the level of entrepreneurial activity in the MENA region and to benchmark country and regional performance levels against those of other developing and developed economies. Since GEM data already existed for Egypt and Turkey, and a GEM-Tunisia project was being supported by GTZ-Tunisia, the IDRC pilot project covered Algeria, Jordan, Lebanon, Morocco, Palestine, Syria, and Yemen. The baseline data on the level of entrepreneurial activity in these seven MENA countries produced by the research project (collected through national-level survey questionnaires) generate new knowledge about entrepreneurship development in the MENA region and provide a stronger evidence base to influence the planning and design of small and medium enterprise (SME) and entrepreneurship-related policies, policies that are important to both private sector development and inclusive growth.

Early in 2009, IDRC entered into a formal Participation Agreement with the Global Entrepreneurship Research Association (GERA), contracted with the Nielsen Company (through a competitive tendering process) to conduct the GEM Adult Population Survey (APS) in the seven countries, and subsequently contracted the Palestine Economic Policy Research Institute (MAS) (again through a competitive tendering process) to prepare a draft analysis of the data. During the course of the pilot project, IDRC maintained liaison with an informal network of country-level researchers and policymakers and built capacity of MENA researchers by organizing methodology training workshops and meetings to reflect on the APS data and preliminary findings. The long-term aim is to have GEM National Teams in a significant number of MENA countries producing research and analysis that will inform policy efforts on an ongoing basis. In addition to this regional GEM-MENA report, IDRC has awarded research grants to country-level research teams to produce national GEM reports or complementary analysis of the vast data in the GEM-MENA database. These reports and papers are forthcoming.

The aim of the *GEM-MENA Regional Report 2009* is to share major findings of this first regional study of entrepreneurial activity in MENA countries, raise awareness of the importance of entrepreneurship to the region's inclusive and sustainable growth, and stimulate dialogue among policymakers, researchers, international organizations, donors, non-governmental organizations (NGOs), and civil society regarding policies and initiatives to respond to these findings.

The major part of the regional report deals with findings from the GEM-MENA dataset consisting of survey interview with almost 14 000 18–64 year-olds in the seven MENA countries (Algeria, Jordan, Lebanon, Morocco, Syria, Palestine, and Yemen) selected from nationally representative samples of the adult population. However, GEM data exist for a total of 13 developed and developing MENA countries and includes Egypt, Iran, Saudi Arabia, Tunisia, Turkey, and the United Arab Emirates. Using harmonized GEM data for these 13 MENA countries (collected either in 2008 or 2009), some parts of the report will present the broader picture of

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<sup>3</sup> The scoping study resulted in a more elaborate assessment of the private sector, enterprise, and entrepreneurship landscape in developing MENA countries and production of an IDRC book co-published by Edward Elgar Publishing and IDRC (Stevenson 2010).

entrepreneurship in the region. As well, the report usefully presents some comparisons of the 7 and 13 MENA countries in relation to the 55 GEM countries featured in the *Global Entrepreneurship Monitor: 2009 Global Report* (Bosma and Levie 2010).

IDRC's credence is that improving the knowledge base will improve the evidence base, which will lead to better policy formulation. This is the goal of the GEM-MENA Project. The *GEM-MENA Regional Report 2009* is the first multi-country evidence-based report on entrepreneurship in MENA countries and a major contribution to the region's knowledge base. It is our hope that the findings and policy implications outlined in this report will stimulate policy interest, debate, and dialogue, as well as advance research interest in the field by triggering new research questions and hypotheses. This report is only able to present findings from a fraction of the potential analysis possible with the GEM-MENA dataset. We hope that regional researchers will engage with the GEM-MENA and global network of researchers to carry out more detailed analysis that may lead to other important policy findings. The real benefit, of course, will be in producing annual GEM studies that allow monitoring of changes in dimensions of entrepreneurial activity over time.





# Executive Summary

## About the GEM Research Project

The Global Entrepreneurship Monitor is a research initiative involving hundreds of researchers in more than 75 countries worldwide who share a concern for understanding entrepreneurship and its dynamics. The annual GEM global report provides analyses of the level of entrepreneurial activity and related indicators in a variety of developed and developing economies to advance the knowledge base about this important field of inquiry, and to identify policies that may help governments and economic development stakeholders to strengthen the role of entrepreneurship in creating jobs and driving innovation and growth.

In 2009, GEM data were collected in 8 new countries from the Middle East and North Africa, bringing the total of MENA countries that have participated in the GEM project to 13. The International Development Research Centre funded the involvement of seven of the new countries (Algeria, Jordan, Lebanon, Morocco, Palestine, Syria, and Yemen).<sup>4</sup> GEM survey interviews were conducted in the summer of 2009 with almost 14 000 members of the adult population (18–64), selected from nationally representative samples in these seven countries. This is the first major study of entrepreneurship in these countries and provides critical baseline evidence for monitoring changes over time. The findings presented in this report focus largely on the 7 MENA countries, making occasional comparisons with other MENA countries and all 55 countries participating in the 2009 research cycle.

## Level of Entrepreneurial Activity

Almost 24% of the adult population in the seven GEM-MENA countries is involved in one of the three phases of entrepreneurial activity. An estimated 7 million are in the process of trying to start a business (15.5%), an estimated 4 million already own a baby business that is less than three and a half years old (5.6%)<sup>5</sup> and an estimated 5.7 million own an established business that is more than three and a half years old. This translates into almost 4 million nascent ventures somewhere in the process of being started, 2.7 million baby businesses, and 4 million established businesses.<sup>6</sup>

Although pursuing entrepreneurial activity is a way of life for millions of citizens in these MENA countries, their rates of involvement, based on comparisons with other GEM countries, are generally lower than might be expected for countries at their level of development. The exceptions are in Algeria, Lebanon, and Yemen. The Yemen case is doubly unusual because, although it has the highest level of nascent activity of any of the 2009 GEM countries, it has the lowest rate of involvement in a baby business. The prevalence rate of all entrepreneurially active adults varies

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<sup>4</sup> The first-time participation of Tunisia in the 2009 GEM project was funded by the GTZ office in Tunisia through the GEM National Team at the University of Sousse. Their results are reported on separately in a GEM-Tunisia national report.

<sup>5</sup> The rates of nascent entrepreneurship and ownership of a baby business are combined in GEM to produce the indicator for the level of total early-stage entrepreneurial activity (TEA rate).

<sup>6</sup> The number of ventures is fewer than the number of entrepreneurs because some of the entrepreneurs work in teams of two or more people in their entrepreneurial efforts.

across the GEM-MENA countries, standing at about 30% in Morocco and Lebanon; 27% in Yemen; 21% in Algeria; and 15% in Jordan, Syria, and Palestine. The distribution of nascent entrepreneurs, baby business owners, and established business owners in each country also varies, suggesting different policy implications.

Finally, about 4 million adults (5.6%) had discontinued their involvement in a business they owned, in the 12 months prior to the GEM survey. The major reasons for leaving the business were lack of profitability and difficulties getting finance, but personal reasons also played an important role. In 30% of the cases, the business continued to operate and in almost a quarter of the instances, the entrepreneur was engaged in another start-up effort. Of course, these statistics vary a lot across countries. For example, in Yemen, none of the businesses survived the departure of the discontinuing entrepreneur, and in Palestine, only 10% of the discontinuing entrepreneurs were involved in a new start-up effort. The dynamic process of entry into and exit from the entrepreneurial process is an important feature of every economy, as it results in the reallocation of unproductive assets into more productive activity and drives renewal and innovation processes.

### **Profile of Early-Stage Entrepreneurs**

Men and women of all ages, education levels, and household incomes in the MENA countries are entrepreneurially active, although prevalence rates vary across groups and across countries.

- ♥ Men are much more likely than women to be involved in early-stage entrepreneurial activity: an average of about 19% of adult men and 9% of adult women. The gender gap is largest in Syria and Palestine, where the difference in rates is over 4 to 1 in favour of men, and smallest in Yemen and Algeria, where the difference is 1.5 to 1.
- ♥ The early-stage entrepreneurial activity (TEA) prevalence rates are generally highest in the 25–34 and 35–44 age groups, except in Yemen. The distribution patterns of early-stage entrepreneurs across age groups are very similar in Algeria, Jordan, Lebanon, Morocco, Palestine, and Syria. In Yemen, the TEA rate is highest in the 55–64 age group, but because of the overall age distribution of the population, the largest percentage of its early-stage entrepreneurs is between 18 and 24 years of age. Yemen is also the only country where TEA rates dip in the 25–44 age groups.
- ♥ In general, TEA rates increase with education levels, although the specific patterns vary somewhat across countries. In each of the countries, except Yemen and Jordan, the least educated groups of the population have the lowest TEA rates. In Palestine, Lebanon, Jordan, and Syria the highest TEA rates are found among adults with the highest level of education, although this group does not make up a very significant share of the overall population.
- ♥ TEA rates generally rise with level of annual household income, meaning that adults in higher-income households are more likely to be involved in early-stage entrepreneurial activity. The exception is Yemen, where TEA rates for the lower- and middle-third household income groups are twice as high as for the upper-third household income group. These TEA rate patterns result in the bulk of early-stage entrepreneurs coming from the upper-third household income group in Algeria, Lebanon, Palestine, and Syria; the lower- and middle-third groups in Jordan; and the middle-third income group in Yemen.

- ♥ Adults in urban and rural areas are about equally likely to be involved in early-stage entrepreneurial activity. The major exception is in Yemen, where TEA rates are twice as high in urban areas. However, because 70% of the Yemeni population lives in rural areas, over half of the early-stage entrepreneurs are rurally based.
- ♥ By labour force attachment, TEA rates are highest among adults who are working, followed by people who are seeking employment. Among the working adults, private sector employees in Algeria, Jordan, Lebanon, and Morocco are more likely to be involved in early-stage entrepreneurial activity than public sector employees. In Palestine and Syria, public sector and private sector employees are involved at similar rates, while in Yemen, public sector employees are more likely to be involved in early-stage entrepreneurial activity than private sector employees.
- ♥ The motivation for entrepreneurship varies across countries. About a quarter of entrepreneurial activity in these countries is motivated by necessity (lack of employment opportunities, the need to earn or maintain an income), actually lower than the average in other countries at their level of development. Higher shares of necessity-motivation in TEA rates are observed in Palestine, Syria, and Yemen (over a third); while over 80% of early-stage entrepreneurs in Algeria and Lebanon are motivated by opportunity. Early-stage entrepreneurs in the youngest and oldest age groups, those with lower levels of education, and those in the lower-third household income groups tend to be more likely to be motivated by necessity than opportunity, but there are significant country-level differences.

### **Nature of Early-Stage Ventures**

Millions of new enterprises are in the process of being started in the seven MENA countries. They are mostly in the consumer-oriented sector (retail, hospitality, personal, and social services), where start-up costs and entry barriers may be lower. This is consistent with what might be expected for countries at their level of development. In Palestine and Yemen, about 20% are in the extractive sectors (farming, fishing, mining), and in Morocco, Jordan, and Algeria, about 20% are in the transforming sectors (manufacturing, construction, distribution). Compared to established businesses, early-stage ventures are more dominant in consumer-oriented sectors and business services and less dominant in the transforming and extractive sectors.

They are generally based on entry into markets with many other businesses offering a similar product or service, and are not particularly innovative in their customer offerings; thus, their market impact is somewhat limited. However, they do show indications of a higher level of innovativeness than established businesses. Only a small minority of the enterprises are using the latest available technology. The vast majority of early-stage enterprises do not have any customers outside the country. However, there is more of an international orientation in Lebanon, Morocco, and Syria where close to 20% of the early-stage entrepreneurs will have more than 25% of their customers from outside the country. The least international are the enterprises in Palestine.

The biggest impact from early-stage entrepreneurial activity in the MENA countries comes from its contribution to job creation. Although they are starting primarily as micro-enterprises, over 70% of the early-stage enterprises are collectively generating millions of jobs. However, many of these enterprises are nascent and may not survive through the start-up process due to any number of internal and external factors. If they survive the fragile start-up process and are able to realize even a fraction of the job growth expectations they have for the next five years, millions more jobs will be created and the average firm size in the region will be shifted upward. The highest job growth

expectations are held by the early-stage entrepreneurs in Morocco and the lowest growth expectations are in Yemen.

There is a need to expose potential entrepreneurs to more innovative business ideas, giving new entrepreneurs access to the latest technologies and removing barriers to start-up activity so the job-creating potential of early-stage enterprises can be realized.

### **Start-Up Capital and Sources of Financing, Advice, and Training**

The nascent entrepreneurs are starting with modest amounts of capital. About 40% estimate that they will need less than the equivalent of US\$10 000 to launch their new businesses, although the distribution of start-up needs varies considerably across countries. The smallest enterprises are being started in Morocco, where almost half are being started with less than US\$5000. The largest start-ups are in Syria, where the most common start-up requirement is over US\$20 000, although a higher percentage of the Lebanese start-ups will need more than US\$50 000. The percentage of the nascent entrepreneurs requiring financing beyond their own personal resources ranges from almost 70% in Algeria to fewer than half in Lebanon and Morocco. The gap between what is needed and what will be self-supplied is widest in Yemen, suggesting that a lack of ability to secure external financing will be a major barrier to converting nascent enterprises into actual start-ups.

The sources of external financing vary by country, but the most common sources in the seven countries are immediate family members, other relatives, and friends or neighbours. The least used source of financing in Lebanon and Jordan is a government program; in Algeria, Morocco, Palestine, and Yemen, a venture capital company; and in Syria, other relatives. Bank financing is a much more prevalent option for nascent entrepreneurs in Algeria and Lebanon, and a venture capital company in Jordan and Syria.

Informal investors, defined by GEM as adults who have personally provided funds for a new business started by someone else in the past three years, play an important role in supporting the start-up efforts of entrepreneurs in many countries. The MENA countries are no exception. The average prevalence rate of informal investors is 2.8% of the adult population, ranging from a low to 0.5% in Morocco to a high of 6.6% in Algeria. The overall average prevalence rate in the 55 GEM countries is 3.9%. The average investment made in the past three years is relatively small (mostly less than US\$7500) but the collective scale of this financing amounts to close to 5% of gross domestic product (GDP) in Algeria and Syria, 2% in Palestine, 1.5% in Jordan, and almost 1% in Lebanon. Informal investors are most likely to be providing funding to a close family member or someone in their close personal networks. Over half of them do not expect any payback or not more than the amount they originally invested.

MENA early-stage entrepreneurs make heavy use of their private sphere of social networks for business advice (spouse, parents, other family members, and friends) and minimal use of professional services (banks, lawyers, accountants, etc.). New business owners and nascent entrepreneurs exhibit similar advice-seeking practices. The proportion of early-stage entrepreneurs who have received training in starting a business at primary or secondary school is also low, ranging from 2% in Morocco to 11% in Palestine. The incidence of start-up training is generally much higher once they have completed their formal education. However, in all cases, the early-stage entrepreneurs are more likely to have received start-up training than the general adult population. The major source of learning is through reading books, observing other people in business, or working in someone else's business.

## **Perceptions and Attitudes of the Adult Population toward Entrepreneurship**

Perceptions and attitudes of the adult population toward entrepreneurship play an important role in explaining differences in TEA rates across countries. The seven GEM-MENA countries compare relatively favourably to other GEM countries on the cultural context for entrepreneurship. A higher proportion of GEM-MENA adults agree that those successful at starting a new business have a higher level of status and respect than average for GEM countries (except in Algeria), and Yemen rated first among all countries on the proportion of the adult population who consider entrepreneurship a good career choice, believe successful entrepreneurs have high status and respect, and often see stories in the media about successful new businesses. The media play a larger role in promoting entrepreneurship in some countries than in others.

With respect to personal context perceptions, around half of the adult population, with the exception of the adult population in Yemen, see good opportunities for starting a business in the next six months, similar to the average for economies at a similar phase of development. In Yemen, only 14% of adults see good opportunities, among the lowest in any of the GEM countries. GEM-MENA adults vary considerably in the level of confidence they have in their knowledge, skills, and experience to start a business. This is highest among adults in Lebanon and Morocco, where about three-quarters perceive that they have the capabilities, compared to 64% or less in the other GEM-MENA countries and only 52% in Algeria. The GEM-MENA countries also vary on the fear of failure indicator, a known impediment to entry into entrepreneurial activity. The fear of failure is relatively low among adults in Syria (20%), Lebanon (26%), and Algeria (27%), when compared to the average for other countries at a similar phase of development (35%). However, in Palestine and Yemen, more than 40% of the adult population states that fear of failure would prevent them from starting a business. Jordan ranked 17th among the 22 efficiency-driven economies with a score of 39% on this indicator; just above average for that set of countries.

Algeria stands out as having the least favourable attitudes toward entrepreneurship in the GEM-MENA countries. Only 57% of Algerian adults perceive entrepreneurship as a good career choice (compared to over 80% of the adults in the other GEM-MENA countries), only 58% believe that entrepreneurs have high status and respect (compared to over three-quarters in the other GEM-MENA countries), and only 39% report that they often see stories about entrepreneurs in the public media (the third lowest level in all 55 GEM countries). Together these indicators suggest a much weaker entrepreneurship culture in Algerian society. In addition, Algeria has the lowest percentage of adults who believe that they have the knowledge and skills to start a business.

Even though Yemenis highly agree with statements regarding the cultural context for entrepreneurship and perceive that they have the knowledge and skills required (64%), their fear of failure is the highest among the GEM-MENA countries (43%) and very few saw good opportunities for starting a business in the next six months (14%). In Palestine, 88% of the adult population perceives that entrepreneurship is a good career choice, but fewer agree that entrepreneurs have high status and only 56% feel that they have the required knowledge and skills. A similar percentage of adults in Lebanon agree with the career choice and status statements, but over three-quarters perceive that they have the right capabilities to start a business. Moroccans express very high levels of agreement on both cultural and personal context indicators.

The level of intent to start a business is very similar across the countries (26% to 29%), except for Syria, where it is twice as high. Belief in having the knowledge, skills, and experience required to start a business appears to be the most important factor associated with intent to start a business. Intention rates rise with participation in start-up training, but the training incidence rates in the

adult population are very low. Some demographic groups have higher intention rates than others: males, the better-educated, the higher-income groups, people who are already working, and people working in either large or small private enterprises. Homemakers tend to have very low intention rates, and women also have a higher fear of failure and less confidence in their abilities to start a business than men. These entrepreneurial attitude and perception indicators will take on more significance with repeated GEM surveys. Subsequent annual surveying would enable monitoring of changes over time that could be related to changes in entrepreneurial activity rates.

### **Policy Implications and Directions**

Analyses of GEM data over time have identified a number of factors that help to explain differences in entrepreneurial activity rates across countries. Foremost are the age structure of the population, the distribution of the population by education and household income level, and the level of participation of women. In these respects, the GEM-MENA countries are either “entrepreneurially advantaged” or “entrepreneurially disadvantaged.”

They are entrepreneurially advantaged in that they have a large proportion of the population that is under 25 years of age. Since this is the age group from which the entrepreneurs of the future will emerge, fostering a stronger entrepreneurial spirit and supporting development of their entrepreneurial skills will be a key to increasing business creation activity.

They are entrepreneurially disadvantaged in that they have a high proportion of the population with a low level of education, household income, and training in how to start a business. Consequently, ongoing efforts to elevate the average education level of the population are likely to have a positive impact not only on the level of entrepreneurial activity but on the quality of new enterprises. To raise the level of entrepreneurial competence of the MENA population, governments need to develop and implement age-appropriate modules or classes in entrepreneurship at all levels of the education system. National policies to reduce income inequality and improve the level of equal access to opportunities and resources would also likely have a positive impact on business creation levels, contributing to both economic growth and social progress.

Furthermore, GEM-MENA countries are entrepreneurially disadvantaged with respect to the gender gap in entrepreneurial activity rates, one of the highest in all GEM countries. This is linked to women’s lower participation in the labour force generally (also one of the lowest in the world), and translates into the much lower level of confidence of women than men that they have the knowledge, skills, and experience to start a business. Governments should commit to increasing women’s role in the labour market and to supporting women’s enterprise development by promoting awareness of the option; providing training, advisory, and mentoring services; and addressing the well-known barriers women face in securing financing for their business ideas.

To tackle the low level of innovativeness in early-stage ventures, actions are called for that enhance the ability of early-stage entrepreneurs to recognize higher opportunity business ideas. This could be achieved by improving access to entrepreneurship education and training programs, professional advisory services, market information, and the latest technology, which would also likely result in more innovation in the nature of start-up enterprises. In light of the low use of government programs, banks, and venture capital as sources of financing in most of the GEM-MENA countries, access to financing is an area where policy action is needed. It is also important to improve access to professional advice and guidance, for example, by establishing enterprise support services in urban and rural areas, and facilitating communications between early-stage entrepreneurs and professional advisors.

The three major higher-level policy directions related to the GEM findings are to:

1. Encourage more people to become involved in the business creation process by increasing the frequency of media coverage of stories of start-up success; continuing to invest in efforts to improve access to secondary and post-secondary education; integrating entrepreneurship curriculum throughout the education system; promoting entrepreneurship among university students by adding relevant courses across disciplines and offering opportunities for extracurricular entrepreneurship activities; promoting entrepreneurship as an option among women, tied to greater efforts to increase their participation in the labour force generally; and implementing measures to create the conditions that will convert intent to start a business into action.
2. Facilitate the conversion of nascent entrepreneurial ventures to actual start-ups by developing hands-on assistance for start-up ventures (enterprise centres, advisory services) to help them achieve profitable operation or discontinue with minimum costs; expanding access to informal investors, microcredit, and other forms of financing; providing access to entrepreneurship orientation and start-up training programs, with special efforts to target women; and where possible, easing restrictions and costs of registering a new business.
3. Support the survival and growth of new and young firms so they can become firmly established in the marketplace by expanding access to advisory services, technical assistance and financing; promoting use of the latest technologies; and easing the process of business exit and re-entry through simplified reporting and business closure procedures.

The 2009 GEM research has provided important baseline data for MENA countries, evidence that did not exist before this, but the ultimate value in GEM studies is in building a longitudinal database that will allow monitoring of changes over time. Annual surveys of the adult population using the GEM protocol are recommended, including financing the work of GEM National Teams in these countries to conduct annual population surveys and assessments of the Entrepreneurial Framework Conditions (EFCs) in order to build a comprehensive body of evidence to guide more effective policy and program measures. Researchers in the region should be further encouraged to explore other research issues arising from these findings and to produce more analyses from the rich dataset.

The process of carrying out the GEM-MENA project has demonstrated the potential and importance of fostering networks of researchers from across the region to focus on this new area of investigation. This has built significant research capacity in the field and promoted a forum for exchange and research collaboration. The findings of the research provide unique and valuable input to policy-making processes of country-level governments and development organizations.





## **PART 1**



# Chapter 1. Overview of Entrepreneurial Activity Rates in MENA Countries

## *Introduction to the Global Entrepreneurship Monitor*

There is wide agreement among economists and researchers on the importance of entrepreneurship for economic development. Business entrepreneurs drive and shape innovation, speed up structural changes in the economy, and intensify the level of competitive activity, thereby contributing to productivity. Social entrepreneurs perform a similar function in the social economy, filling gaps in social needs that are left unfilled or poorly addressed by both businesses and governments. The specific contribution of entrepreneurs to an economy varies according to the stage of economic development. A brief outline of the role of entrepreneurship in different phases of economic development is provided in Box 1.

Traditional analyses of economic growth and competitiveness have tended to neglect the role played by new and small firms in national economies. The aim of the Global Entrepreneurship Monitor (GEM) research project is to contribute to addressing this knowledge gap. Its three main objectives are to:

- ♥ Measure differences in the level of early-stage entrepreneurial activity among countries;
- ♥ Uncover factors determining the national levels of entrepreneurial activity; and
- ♥ Identify policies that may increase the national level of entrepreneurial activity.

## **GEM Framework and Conceptual Model**

The GEM project takes a comprehensive approach to understanding the role of entrepreneurial activity in a country's economic growth, including consideration of the different types and phases of entrepreneurship. The conceptual framework is based on the theoretical model illustrated in Figure 1. Obviously, major features of a country's social, cultural, political, and economic context, as well as the mix of framework conditions, have a significant impact on development of the entrepreneurial sector. The GEM model maintains that, at the national level, a different set of framework conditions applies to stimulating new business activity versus the framework conditions that apply to established firms. The model also reflects a multi-faceted view of the nature of entrepreneurship and recognizes that the contextual and framework conditions affect the three main components of entrepreneurship: attitudes, activity, and aspirations. It is the dynamic interaction of these contextual and framework conditions with entrepreneurial behaviour of a society that produces new economic and socially valuable activity, generating jobs and wealth. This conceptualization expands traditional economic thought that jobs and wealth are created primarily by branch plants and established (larger) firms.

### **Box 1. The Role of Entrepreneurship in Different Phases of Economic Development<sup>7</sup>**

#### ***Entrepreneurship in Factor-Driven Economies***

Countries with a low level of economic development typically have a large agricultural sector, which provides subsistence for the majority of the population, who mostly still live in the countryside. This situation changes as industrial activity starts to develop, often around the extraction of natural resources. This triggers economic growth, prompting surplus population from agriculture to migrate toward extractive and emergent scale-intensive sectors, which are often located in specific regions. The resulting oversupply of labour feeds subsistence entrepreneurship in regional agglomerations, as surplus workers seek to create self-employment opportunities in order to make a living.

#### ***Entrepreneurship in Efficiency-Driven Economies***

As the industrial sector develops further, institutions start to emerge that support further industrialization and higher productivity through economies of scale. Typically, national policies in scale-intensive economies shape their emerging economic and financial institutions to favour large national businesses. As increasing productivity contributes to financial capital formation, niches may open in industrial supply chains that service these national incumbents. This, combined with the opening up of an independent supply of financial capital from the emerging banking sector, spurs opportunities for the development of small-scale and medium-sized manufacturing sectors. Thus, in a scale-intensive economy, one would expect subsistence industrial activity to gradually fall and give way to an emerging small-scale manufacturing sector.

#### ***Entrepreneurship in Innovation-Driven Economies***

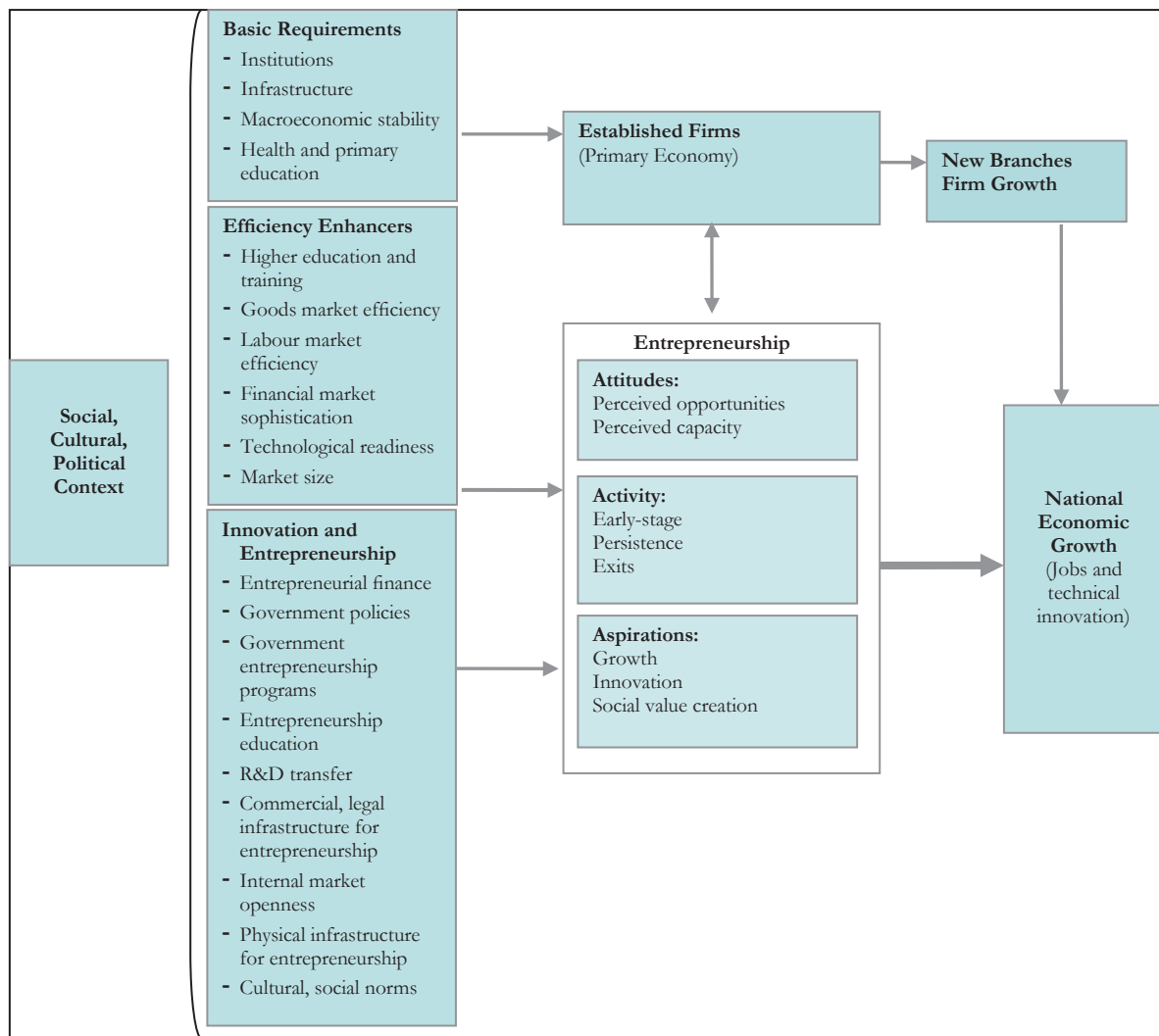
As an economy matures and its wealth increases, one may expect the emphasis in industrial activity to gradually shift toward an expanding service sector that caters to the needs of an increasingly affluent population and supplies the services normally expected of a high-income society. The industrial sector becomes more diversified and sophisticated. This development is typically associated with increasing research and development, and knowledge intensity, as knowledge-generating institutions gain momentum and open the way for innovative, opportunity-seeking entrepreneurial activity to challenge established incumbents in the economy. Often, small entrepreneurial firms enjoy an innovation and productivity advantage over large incumbents, enabling them to operate as “agents of creative destruction.” To the extent that the economic and financial institutions created during the scale-intensive phase of the economy are able to accommodate and support opportunity-seeking entrepreneurial activity, innovative entrepreneurial firms emerge as significant drivers of economic growth and wealth creation.

Based on an explanation offered by Bosma and Levie (2010, p. 9).

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<sup>7</sup> The categorization of factor-driven, efficiency-driven, and innovation-driven economies is a conceptualization of the World Economic Forum (Porter et al. 2002). Factor-driven economies are generally at a lower level of economic development, compete on the basis of factor endowments (primarily unskilled labour and natural resources), and are characterized by low wages and productivity. As wage levels increase with advancing development, countries move to the efficiency-driven phase, during which they develop more efficient production processes and improve product quality. Their competitiveness is driven by higher education and training, well-functioning labour markets, efficient goods and financial markets, and absorption of technology. In the innovation-driven phase of development, countries are able to sustain high wages and standards of living by competing on the basis of innovation. Businesses employ the most advanced processes to create new and different products for more sophisticated customers. GEM has adopted this categorization to group countries participating in annual GEM surveys, finding it a useful way to make comparisons between countries at different stages of development.

**Figure 1. The GEM Conceptual Model**



Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 12.

The *entrepreneurial attitudes* component of the GEM model measures the extent to which adults perceive that there are good opportunities for starting a business; the degree to which they attach high status to entrepreneurs; the level of risk they might be willing to bear to start a business; and perceptions of their own skills, knowledge, and experience in business creation. Entrepreneurial attitudes are important because they express the general feelings of the population toward entrepreneurs and entrepreneurship. Countries need people who can recognize valuable business opportunities and who perceive they have the required skills to exploit these opportunities. Moreover, if national attitudes toward entrepreneurship are positive, this will generate cultural support, help, financial resources, and networking benefits to those who are already entrepreneurs or want to start a business.

*Entrepreneurial activity* can take on many forms and is best as a process rather than an event. GEM measures entrepreneurial intentions; nascent, new and established business activity; and business discontinuation activity. Examining these multiple components of entrepreneurial activity provides the opportunity to explore dimensions of the entrepreneurial process across countries in different phases of national economic development. For example, new business activity is expected to be high in factor-driven economies mainly because much of it is motivated by economic necessity. In innovation-driven economies, the proportion of opportunity-driven entrepreneurship is expected to

be higher than in factor- and efficiency-driven economies. Also, entrepreneurial activity varies by industry sector; by the size of the founding team; and in terms of founder demographics, such as gender, age, and education.

*Entrepreneurial aspirations* reflect the qualitative nature of entrepreneurial activity. For example, entrepreneurs differ in their aspirations to introduce new products and production processes, to engage with foreign markets, to grow a significant organization; and to fund growth with external capital. Their aspirations, if realized, can significantly affect the economic impact of entrepreneurial activity. Product and process innovation, internationalization, and ambition for high growth are regarded as hallmarks of high-aspiration entrepreneurship. GEM has created measures to capture these aspirations.

## **How GEM Measures Entrepreneurial Activity**

Entrepreneurship is a complex phenomenon. GEM takes a broad view of entrepreneurship and focuses on the role played by individuals in the entrepreneurial process. Unlike most entrepreneurship datasets, which tend to measure newer and smaller firms through firm-level data on (new) firm registrations, GEM studies the behaviour of people actually involved in the process of starting and managing new firms, as well as the characteristics of their new enterprises. GEM considers that every person engaged in any behaviour related to new business creation, no matter how modest, is having an impact on the national level of entrepreneurship.

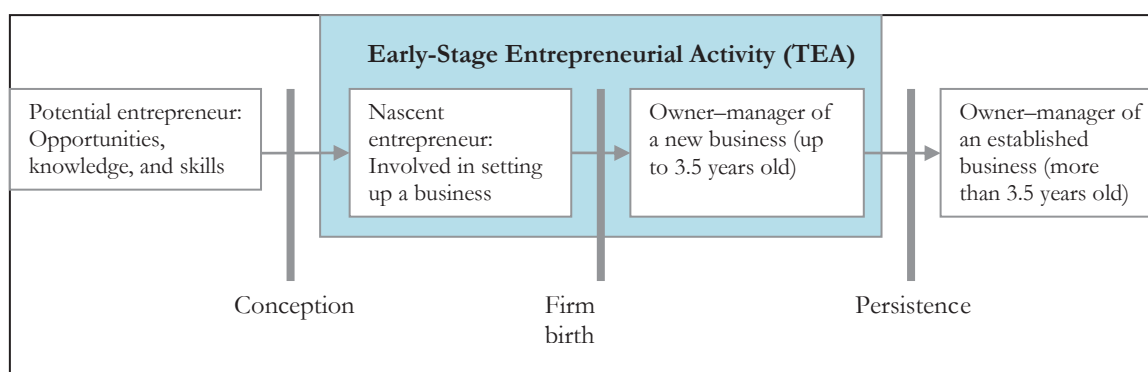
Another important feature of GEM research is the process view of entrepreneurship. GEM observes the actions of entrepreneurs who are at different stages of the process of creating and sustaining a business (Figure 2). The first stage is active involvement in the start-up process.<sup>8</sup> The second stage is ownership and management of a new business that is less than 42 months old.<sup>9</sup> The third stage is ownership and management of an established business that is more than 42 months old. The research also identifies potential entrepreneurs, adults in the population who have an intention to start a business within the next three years. Precise definitions of these, as well as the GEM terminology for other indicators related to entrepreneurial attitudes, activity, and aspirations are included in Annex 1.

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<sup>8</sup> The payment of any wages for more than three months to anybody, including the owners, is considered by GEM to be the “birth event” of an actual business. Individuals who are actively committing resources to start a business that they expect to own themselves, but who have not reached this birth event, are labelled “nascent entrepreneurs.”

<sup>9</sup> The cut-off point of 42 months has been made on a combination of theoretical and operational grounds. Most new businesses do not survive beyond three or four years so businesses that have survived more than 42 months have survived the liability of newness. This is the main rationale for the choice of 42 months as the cut-off period, but operational issues were also considerations (Reynolds et al. 2005).

**Figure 2. The Entrepreneurial Process and GEM Operational Definitions**



Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 14.

The prevalence rates in the adult population of nascent entrepreneurs and new business owners, taken together, produce the GEM indicator of early-stage entrepreneurial activity (TEA) in a country. This represents dynamic new firm activity, demonstrating the extent of experimentation in new business models by a national population. High rates of established business ownership may indicate positive conditions for firm survival. However, this is not necessarily the case. If a country exhibits a high level of established entrepreneurship combined with a low level of early-stage entrepreneurial activity, this indicates a low level of dynamism in entrepreneurial activity. GEM research also identifies individuals in the adult population who have discontinued a business in the last 12 months, some of whom may re-enter the entrepreneurial process subsequently.

The APS is the primary research tool of GEM. This is a comprehensive survey of at least 2000 adults in each country, selected from a nationally representative sample of 18–64 year-olds, and administered using best practice social science survey techniques. To ensure consistency and cross-country comparability, each country conducts the same survey of its adult population at the same time of the year using methodologies approved by GEM. The individual country surveys are then harmonized into one master dataset. The APS collects information on the percentage of the population that: (1) is engaged in activities to start a business (nascent entrepreneurs); (2) is involved as an owner in a new business that is less than 42 months old; (3) owns an established business that is more than 42 months old; (4) has had a business in the past but discontinued it for some reason (exiting entrepreneurs); or (5) has invested in someone else's business sometime during the past three years (informal investors). The rates for (1) and (2) are combined to produce the Total Entrepreneurial Activity (TEA) Index, which is used to rank participating countries on their level of early-stage entrepreneurial activity, and combined with (3) to produce a score for the overall level of entrepreneurial activity.

The APS also gathers information from the whole sample on their perceptions of the opportunities available for entrepreneurial activity, their skills and competencies to pursue these opportunities, their views on the social values supporting entrepreneurship in their society, and so on. Demographic data on the gender, age, education level, labour force status, annual household income, and urban–rural breakdown of survey respondents make it possible to determine the socio-economic profile of nascent entrepreneurs, new entrepreneurs, established entrepreneurs, and non-entrepreneurs, as well as the influence of attitudes, aspirations, and demographics on entrepreneurial activity. Characteristics of the enterprises being launched by nascent and new entrepreneurs or managed by established entrepreneurs are also explored (sector, employment, innovativeness, use of technologies, location of customer base, growth expectations, etc.), as well as the financial and non-financial support that might be available to them.



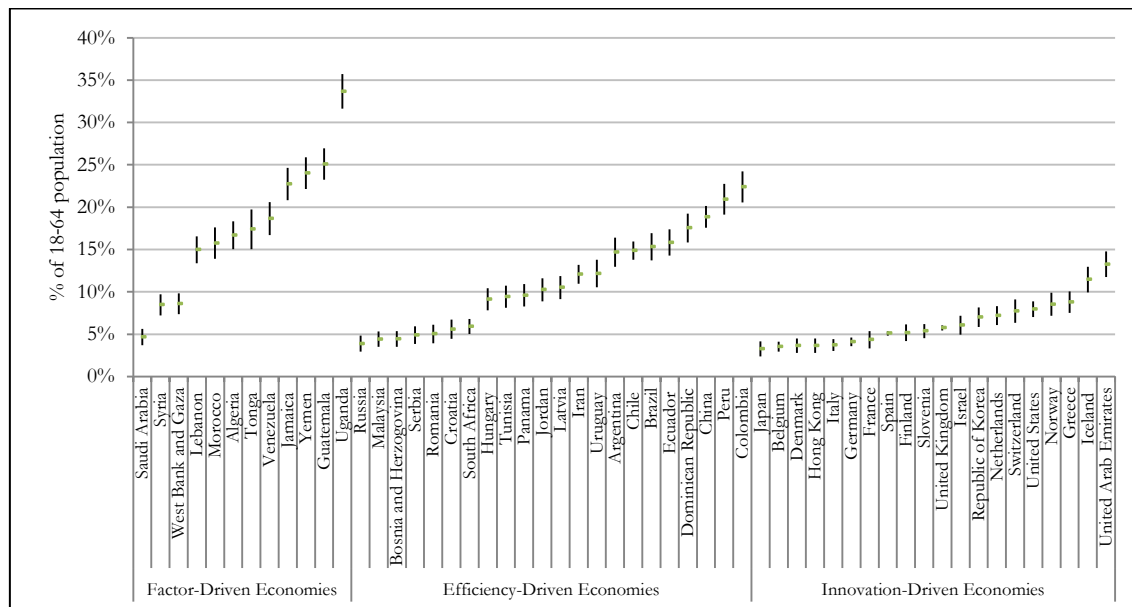
The harmonized approach of GEM research enables unique and reliable comparisons across countries. GEM data allow governments and other stakeholders to understand more precisely who is starting businesses, the kinds of businesses, why some people start businesses and others do not, and the outcomes, thus providing valuable evidence-based insight for policy development.

### ***Entrepreneurial Activity Rates in MENA Countries in the Global Context***

GEM defines early-stage entrepreneurship as including entrepreneurially active adults who are in the process of setting up a business that they will own (wholly or in part) and/or who currently own and manage a young business. This section presents the APS findings regarding these entrepreneurially active adults in the MENA region in the global context. As a reference point, the main results of key entrepreneurial activity rate indicators for the 55 participating countries in GEM 2009 are presented in Table 1. GEM countries are grouped by their phase of economic development to facilitate comparisons between those at similar and at different phases.

The TEA rate for each GEM 2009 country is charted in Figure 3. Among the factor-driven economies, Saudi Arabia has the lowest TEA rate (4.7% of the adult population is actively involved in the start-up of a new business or owns a young business of less than three and half years old) and Uganda has the highest TEA rate (33.6%). Among the efficiency-driven economies, Russia has the lowest TEA rate (3.9%) and Colombia the highest (22.4%). Among the innovation-driven economies, Japan has the lowest TEA rate (3.3%) and the United Arab Emirates has the highest (13.3%). In general, MENA countries tend to rank in the lower range of the factor-driven economies or in the mid-range of the efficiency-driven economies.

**Figure 3. Early-Stage Entrepreneurial Activity for 55 Nations by Phase of Economic Development**



Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 22.

Note: The vertical bars indicate the 95% confidence intervals. The mid-point is the mean.

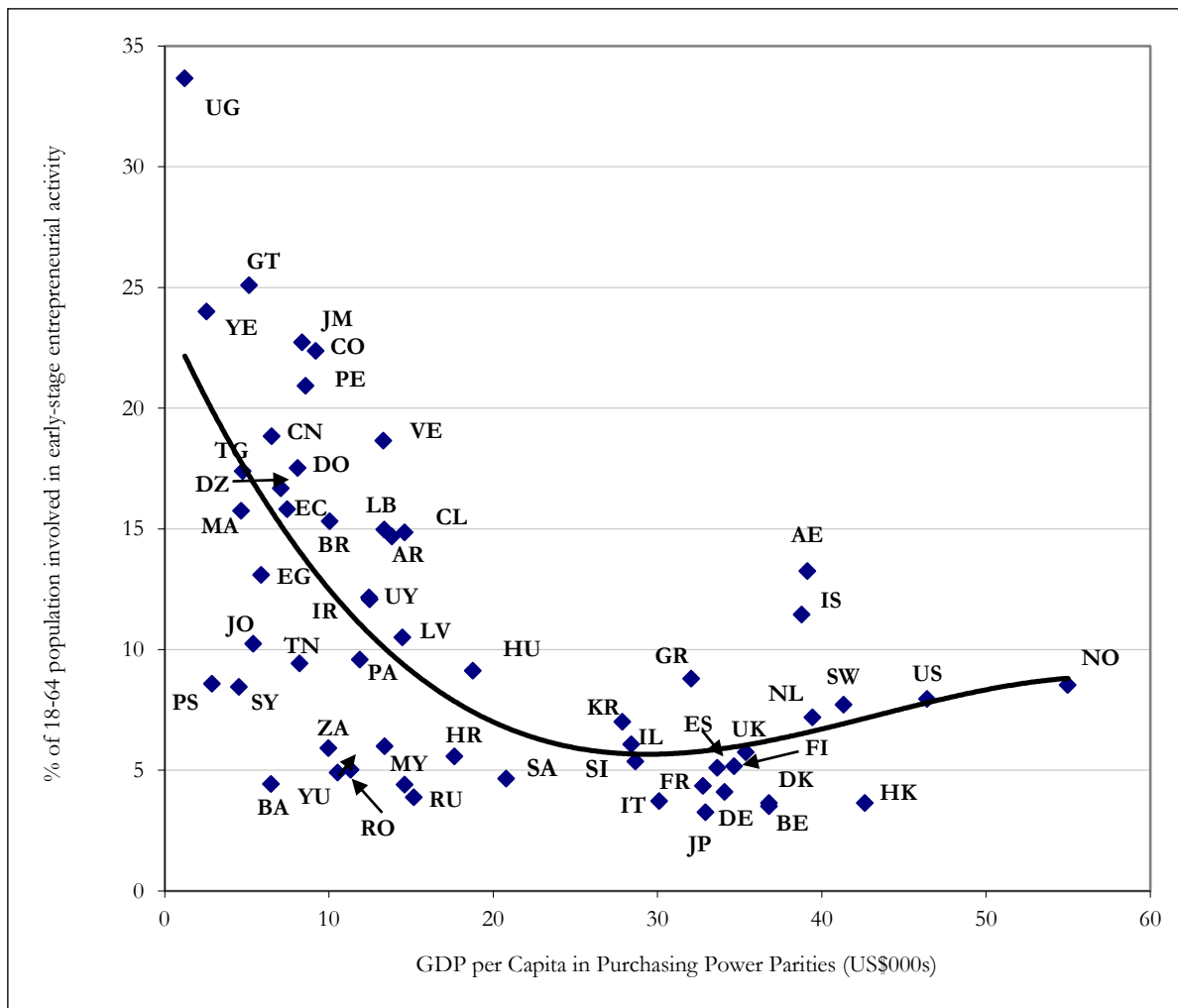
**Table 1. Entrepreneurial Activity in 55 GEM Countries by Phase of Economic Development**

	Nascent entrepreneurship rate (%)	New business ownership rate (%)	Early-stage entrepreneurial activity (TEA) (%)	Established business ownership rate (%)	Discontin- uation of businesses (%)	Necessity- driven (% of TEA)
Factor-driven economies						
Algeria (DZ)	11.3	5.6	16.7	4.7	7.9	18
Guatemala (GT)	17.1	12.2	26.8	3.3	6.0	23
Jamaica (JM)	13.0	10.6	22.7	16.3	10.7	33
Lebanon (LB)	6.7	8.8	15.0	16.0	4.6	18
Morocco (MA)	6.9	9.4	15.8	15.2	3.7	25
Saudi Arabia (SA)	2.9	1.9	4.7	4.1	2.9	12
Syria (SY)	3.4	5.1	8.5	6.7	7.4	37
Tonga (TO)	6.5	11.1	17.4	2.3	3.6	33
Uganda (UG)	12.4	22.7	33.6	21.9	24.2	45
Venezuela (VE)	13.3	5.4	18.7	6.5	3.0	32
West Bank & Gaza (PS)	3.0	5.9	8.6	6.9	7.1	37
Yemen (YE)	22.8	1.2	24.0	2.9	2.0	35
<i>Average (unweighted)</i>	<i>9.9</i>	<i>8.3</i>	<i>17.7</i>	<i>8.9</i>	<i>6.9</i>	<i>29.0</i>
Efficiency-driven economies						
Argentina (AR)	6.1	9.3	14.7	13.5	6.2	47
Bosnia & Herzeg. (BA)	3.1	1.3	4.4	3.9	3.1	39
Brazil (BR)	5.8	9.8	15.3	11.8	4.0	39
Chile (CL)	9.6	5.6	14.9	6.7	6.4	25
China (CN)	7.4	11.8	18.8	17.2	6.6	48
Colombia (CO)	15.0	8.0	22.4	12.6	7.1	34
Croatia (HR)	3.5	2.2	5.6	4.8	3.9	37
Dominican Republic (DO)	8.8	9.2	17.5	11.4	12.9	34
Ecuador (EC)	6.3	9.7	15.8	16.1	6.0	32
Hungary (HU)	5.4	3.7	9.1	6.7	3.2	24
Iran (IR)	8.2	4.1	12.0	6.5	6.0	35
Jordan (JO)	5.9	4.9	10.2	5.3	6.8	28
Latvia (LV)	5.3	5.4	10.5	9.0	3.3	32
Malaysia (MY)	1.7	2.7	4.4	4.3	2.7	25
Panama (PA)	6.2	3.5	9.6	4.2	1.4	24
Peru (PE)	16.1	5.1	20.9	7.5	7.1	28
Romania (RO)	2.8	2.3	5.0	3.4	3.6	34
Russia (RU)	1.8	2.3	3.9	2.3	2.2	29
Serbia (RS)	2.2	2.8	4.9	10.1	1.9	41
South Africa (ZA)	3.6	2.5	5.9	1.4	4.2	33
Tunisia (TN)	2.2	7.2	9.4	10.2	4.8	20
Uruguay (UY)	8.1	4.2	12.2	5.9	4.9	22
<i>Average (unweighted)</i>	<i>6.1</i>	<i>5.3</i>	<i>11.2</i>	<i>7.9</i>	<i>4.9</i>	<i>32</i>
Innovation-driven economies						
Belgium (BE)	2.0	1.6	3.5	2.5	1.3	9
Denmark (DK)	1.6	2.0	3.6	4.7	1.1	7
Finland (FI)	2.9	2.3	5.2	8.5	2.1	19
France (FR)	3.1	1.4	4.3	3.2	1.9	14
Germany (DE)	2.2	2.1	4.1	5.1	1.8	31
Greece (GR)	4.5	4.7	8.8	15.1	2.6	26
Hong Kong (HK)	1.6	2.2	3.6	2.9	1.5	19
Iceland (IS)	7.6	4.2	11.4	8.9	4.0	10
Israel (IL)	3.4	2.7	6.1	4.3	4.0	25
Italy (IT)	1.8	1.9	3.7	5.8	1.1	14
Japan (JP)	1.9	1.3	3.3	7.8	1.4	30
Korea (KR)	2.7	4.4	7.0	11.8	3.9	45
Netherlands (NL)	3.1	4.1	7.2	8.1	2.5	10
Norway (NO)	5.0	3.9	8.5	8.3	3.7	9
Slovenia (SI)	3.2	2.1	5.4	5.6	1.3	10
Spain (ES)	2.3	2.8	5.1	6.4	2.0	16
Switzerland (CH)	4.3	3.5	7.7	8.4	2.1	7
United Kingdom (UK)	2.7	3.2	5.7	6.1	2.1	16
United Arab Emirates (AE)	6.5	7.4	13.3	5.7	6.5	9
United States (US)	4.9	3.2	8.0	5.9	3.4	23
<i>Average (unweighted)</i>	<i>3.4</i>	<i>3.1</i>	<i>6.3</i>	<i>6.8</i>	<i>2.5</i>	<i>17</i>

Source: GEM APS, 2009.

GEM has found that examining the relationship between TEA rates and GDP per capita is also a useful way to compare countries on the level of entrepreneurial activity. In previous years, GEM studies have noted a U-shaped curve to this relationship, which continues to be evident in the 2009 data, as illustrated in Figure 4. One way of interpreting this is that countries with TEA rates falling below the curve have fewer early-stage entrepreneurs than might be expected (relative to their level of development) and those with TEA rates above the curve have more than might be expected.

**Figure 4. Early-Stage Entrepreneurial Activity Rates and Per Capita GDP**



Source: GEM APS and *World Economic Outlook* (IMF 2009b) for GDP per capita.

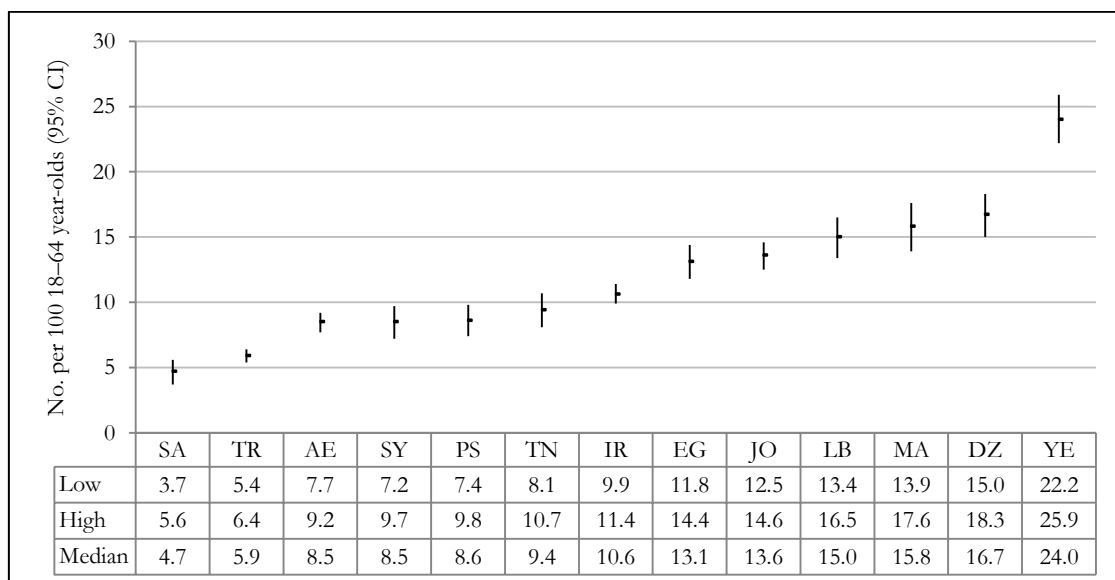
The pattern in Figure 4 is explained in the GEM 2009 *Global Report* (Bosma and Levie 2010) in the following way: in countries with low levels of per capita income, the national economy is characterized by the prevalence of many very small businesses. As per capita income increases, industrialization and economies of scale allow larger and established firms to satisfy the increasing demand of growing markets and to increase their relative role in the economy. The increasing role of large firms may be accompanied by a reduction in the number of new businesses as a growing number of people find stable employment in large industrial plants. As countries become wealthier, the role played by the entrepreneurial sector may increase, as more individuals can access the resources necessary to start their own business in knowledge-intensive environments with abundant opportunities.

The dispersion of country TEA estimates around the line of best fit suggests that the level of entrepreneurial activity is not only a function of differences in economic development but also other factors. These factors might include population growth, which can stimulate demand, and the density of existing business owner-managers who serve as entrepreneurial role models for others and are more likely to start a business than other individuals. Eastern European countries, with falling populations and a low stock of existing business owner-managers as a legacy of communism, are clustered below the trend line, while Latin American countries, with healthy population growth rates and a larger stock of business owners, tend to appear above the trend line. However, institutional characteristics, demography, entrepreneurial culture, and the level of economic welfare also shape a country's entrepreneurial landscape, often in interrelated ways. For example, since national institutions are designed to formalize norms and values, they reflect national culture. The presence of macro-economic and political stability, strong institutions, and transparent legal and regulatory systems are also important factors for achieving growth.

In such a comparative analysis, it is obvious that most of the MENA countries occupy a relatively modest economic position. The developing MENA economies, in particular, have low TEA rates for countries at their level of development and most have fewer early-stage entrepreneurs than might be expected. Only Lebanon, Yemen, and Algeria lie above the line of best fit. This is a potentially important finding that this report will attempt to explain, although a causal analysis is beyond its scope. The overall position of MENA countries may change as they evolve toward the next stage in economic development. Entrepreneurs can play an active role in this evolution, in parallel with the macro-level structural, institutional, and cultural adjustments that need to occur.

Figure 5 presents a closer look at TEA (early-stage entrepreneurial activity) prevalence rates in the 13 MENA countries for which GEM data exist. These rates range from a median of 4.7 per 100 adults in Saudi Arabia to 24 per 100 in Yemen.

**Figure 5. TEA-Active Prevalence Rates in 13 MENA Countries (2004-2009)**

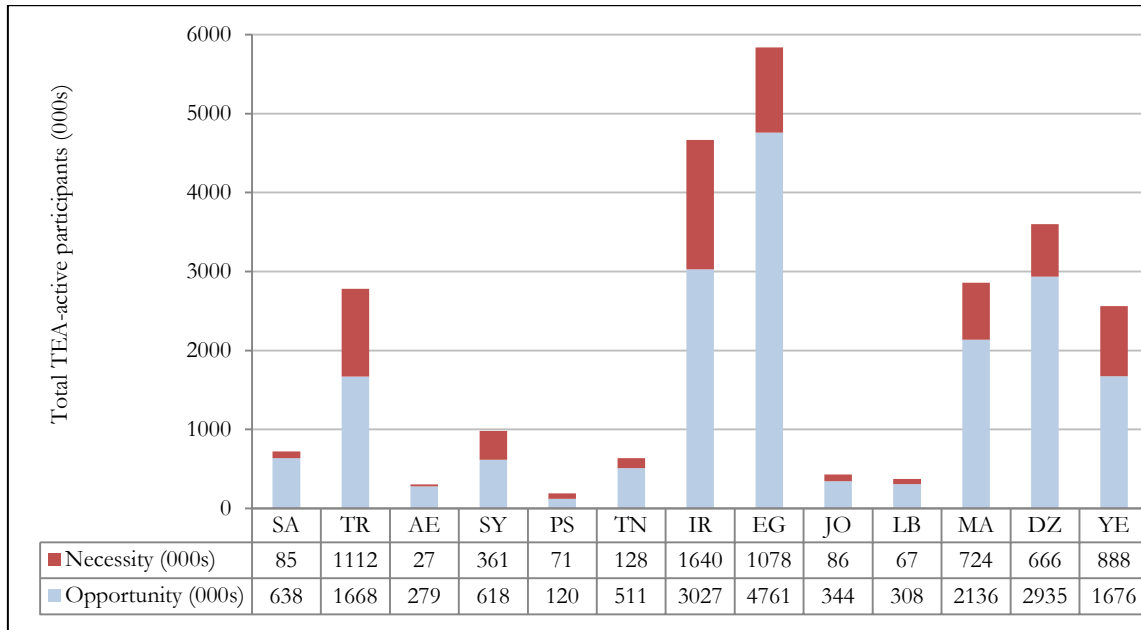


Source: Reynolds (2010).

Note: The vertical bars indicate the 95% confidence intervals (CIs). The mid-point represents the median. For countries that have participated in GEM for more than one year (Turkey, Jordan, and Iran), the TEA rate is an average of combined years.

This translates into an estimated 26 million TEA-active entrepreneurs across the 13 countries. As expected, countries with the largest populations have the largest number of TEA-active entrepreneurs: 5.9 million in Egypt and 4.7 million in Iran (Figure 6). Smaller countries with high prevalence rates also have a large number of TEA-active entrepreneurs: 3.6 million in Algeria, 2.9 million in Morocco, and 2.5 million in Yemen. But in every MENA country, tens of thousands are active in the business creation process and a significant number of individuals have chosen an entrepreneurial career option.

**Figure 6. TEA Participation Counts, 13 MENA Countries**

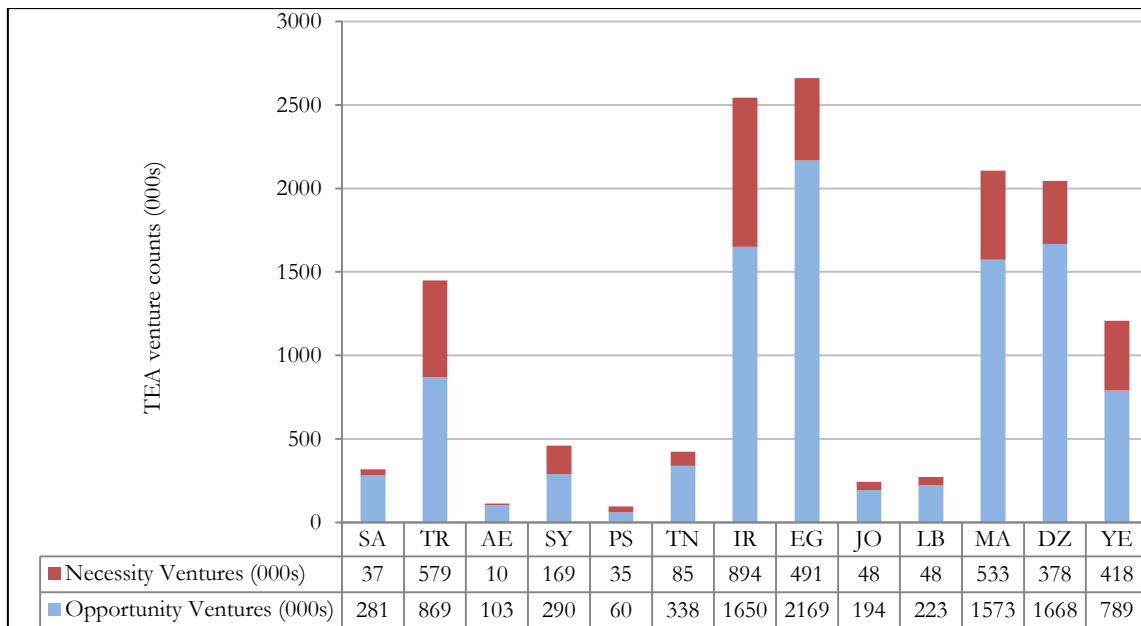


Source: Reynolds (2010).

Note: “Necessity” and “Opportunity” relate to the prime motivation for becoming involved in entrepreneurial activity. These concepts will be presented in more detail in Chapter 2.

The number of nascent and young enterprises being created by early-stage entrepreneurs, alone or in average-size teams of about two, amounts to close to 14 million in the 13 MENA countries (Figure 7). It should be noted that the GEM study does not distinguish between formal and informal enterprises, so these estimates include both.

**Figure 7. Estimate of Ventures Being Created by Early-Stage Entrepreneurs, 13 MENA Countries**



Source: Reynolds (2010).

Chapter 1 has described the GEM project and its conceptual model and framework and highlighted results for key entrepreneurial activity indicators for the 55 GEM countries participating in the GEM 2009 research cycle. It also showed how MENA countries compare overall and indicated the considerable dispersion among them. Chapter 2 presents findings on the demographics of early-stage entrepreneurs in the MENA countries and their motivations for engaging in entrepreneurial activity.



## Chapter 2. MENA Entrepreneurs — Who They Are and What They Look Like

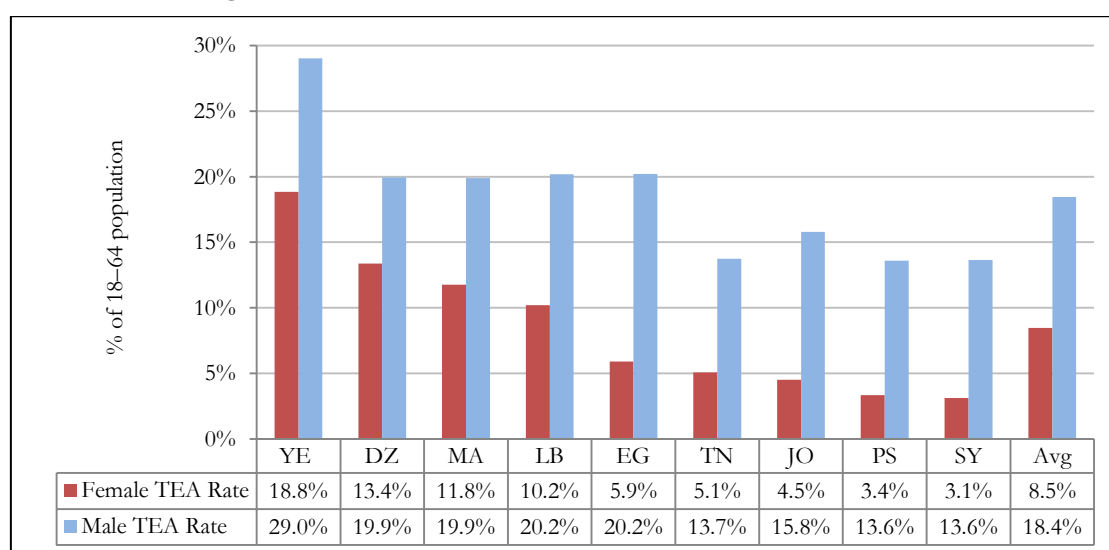
### *Who are the Early-Stage Entrepreneurs?*

This chapter discusses the demographic and economic characteristics of early-stage entrepreneurs and compares the profiles of entrepreneurs in the various stages of entrepreneurial activity (nascent entrepreneurs, new business owners, and established business owners). The descriptive focus is primarily on the seven MENA economies covered by the 2009 IDRC GEM-MENA pilot project: Algeria (DZ), Jordan (JO), Lebanon (LB), Morocco (MA), Palestine (PS), Syria (SY), and Yemen (YE). In some cases, where detailed GEM data are available to IDRC, comparisons are made with other MENA countries that have participated in the GEM project. Comparisons are also drawn with the 55 GEM countries from 2009.

### Gender and Entrepreneurial Activity

Various entrepreneurial activity rates were presented in Table 1 and Figures 3 and 4 in Chapter 1. Figure 8, covering nine MENA countries, shows that men in these countries are much more likely than women to be involved in early-stage entrepreneurial activity. The mean female TEA rate averages 8.5% compared to a mean male TEA rate of 18.4%. Of course, there are large cross-country differences. The lowest female TEA rates are in Palestine and Syria, where just over 3% of 18–64 year-old women are involved in early-stage entrepreneurial activity, and the highest is in Yemen, where almost 19% of adult women are involved.

**Figure 8. TEA Rates and Gender in Nine MENA Countries**



Source: GEM APS, 2009; 2008 for Egypt (EG).



The largest gender gaps, with male TEA rates three to four times higher than those for females, are in Syria, Palestine, Jordan, and Egypt (Table 2). The ratio drops from about 4 to 1 in Syria and Palestine, which have overall TEA prevalence rates of less than 9 per 100 adults, to about 1.5 to 1 in Algeria, Yemen, and Morocco, which have overall prevalence rates greater than 15 per 100 adults. Thus, it appears that a higher participation of women in entrepreneurial activity contributes to higher overall levels of business creation. The female share of the number of early-stage entrepreneurs ranges from a high of close to 40% in Algeria, Yemen, and Morocco to a low of less than 20% in Palestine and Syria.

While, historically, cross-country GEM studies find that women have lower TEA rates than men (a pattern that varies somewhat by region and phase of economic development), it is notable that MENA countries have a lower participation of women than the low-income countries in Asia, Latin America, and the Caribbean (where the male/female ratio averages 1.4 to 1) (Reynolds 2010).

**Table 2. TEA Gender Gap, Nine MENA Countries**

Country	TEA Prevalence Rates	Male TEA Prevalence Rates	Female TEA Prevalence Rates	Male to Female Ratio in Rates	Female Share of Entrepreneurial Activity
	%	%	%		%
Yemen	24.0	29.0	18.8	1.5:1	38.6
Algeria	16.7	19.8	13.4	1.5:1	39.8
Morocco	15.8	19.9	11.7	1.7:1	38.1
Lebanon	15.0	20.2	10.2	2:1	35.6
Egypt	13.1	20.2	5.9	3.4:1	20.0
Tunisia	9.4	13.7	5.1	2.7:1	27.0
Jordan	10.2	15.8	4.5	3.4:1	21.7
Palestine	8.6	13.6	3.4	4:1	19.0
Syria	8.5	13.7	3.1	4.4:1	18.1
Unweighted average	13.5	18.4	8.5	2.2:1	28.6

Source: GEM APS data for 2009, 2008 for Egypt.

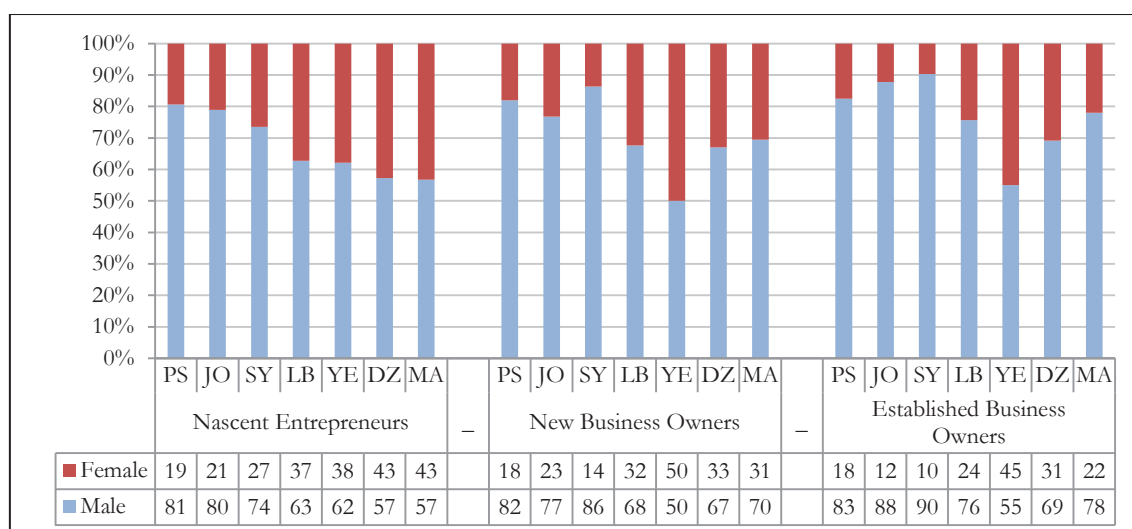
The GEM-MENA data suggest that the gender gap in entrepreneurial activity prevalence rates may be narrowing, except in Yemen. Table 3 shows that the male-to-female ratio in prevalence rates is much lower in the nascent phase of activity than in the established business owner phase, dramatically so in Jordan and Syria. However, it is not so much because the prevalence rates for women increase over the three phases of entrepreneurial activity (from established business ownership phase to nascent phase), but because male prevalence rates go down. Palestine is a good example of this: the prevalence rate for women actually declines in the nascent phase of activity, but the decline in male prevalence rates is even greater. Lebanon provides another good example: the male-to-female ratio in prevalence rates drops from 3.4 to 1 for established business owners to 1.8 to 1 for nascent entrepreneurs, but largely as a result of the substantially bigger drop in male prevalence rates than female prevalence rates (male participation of 25.3% as established business owners versus 8.8% as nascent entrepreneurs compared to female participation of 7.5% as established business owners and 4.8% as nascent entrepreneurs). In Syria, the female participation rate does increase in the nascent phase, but the difference in male rates is largely responsible for the narrowing gender gap.

**Table 3. Narrowing Gender Gap in Entrepreneurial Activity Rates, Seven GEM-MENA Countries**

	Nascent Prevalence Rate			New Business Owner Prevalence Rate			Established Business Owner Prevalence Rate		
	Male	Female	Male to Female Ratio	Male	Female	Male to Female Ratio	Male	Female	Male to Female Ratio
	%	%		%	%		%	%	
Palestine	4.7	1.2	3.9:1	9.4	2.2	4.3:1	11.1	2.5	4.4:1
Jordan	9.2	2.4	3.8:1	7.5	2.3	3.3:1	9.1	1.3	7:1
Syria	4.9	1.8	2.7:1	8.7	1.4	6.2:1	11.9	1.3	9.2:1
Lebanon	8.8	4.8	1.8:1	12.4	5.5	2.3:1	25.3	7.5	3.4:1
Yemen	27.9	17.6	1.6:1	1.1	1.2	0.9:1	3.1	2.7	1.1:1
Algeria	12.8	9.7	1.3:1	7.4	3.7	2:1	6.4	2.9	2.2:1
Morocco	7.9	6.0	1.3:1	13.1	5.7	2.3:1	23.6	6.7	3.5:1

Converting entrepreneurial activity rates to share of actual entrepreneurs reveals that women's share of nascent and new business owner activity is generally higher than their share of established business owner activity (Figure 9), but the only real gains in women's participation in entrepreneurial activity over the three phases are in Jordan and Algeria (where the gain is not so dependent on what happens to the male rates of activity).

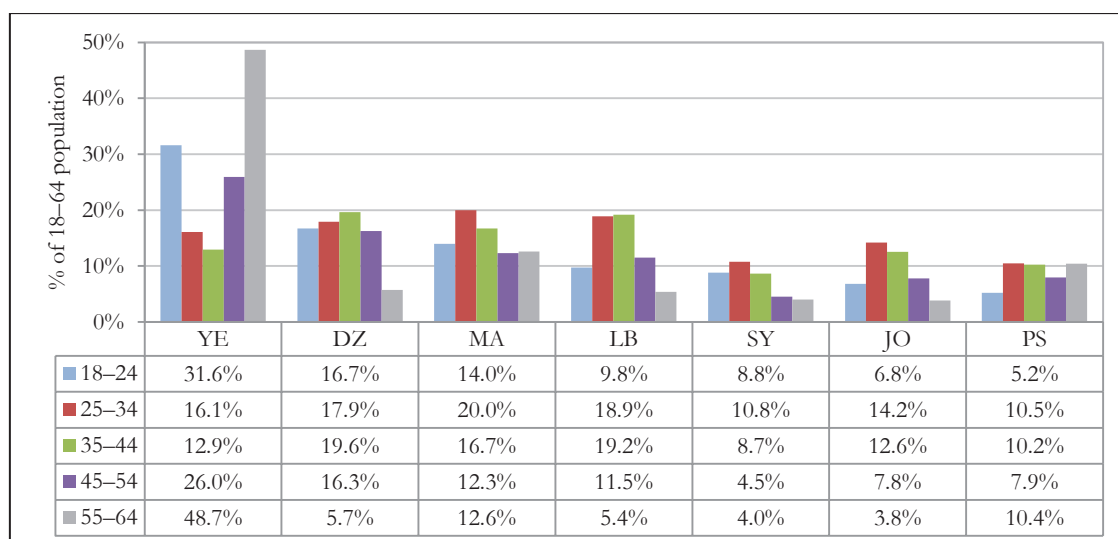
**Figure 9. Male and Female Share of Entrepreneurial Activity by Phase**



## Age and Entrepreneurial Activity

Citizens of all ages are involved in entrepreneurial activity and attempts to create new businesses, but participation levels tend to decline in the older age groups. Consistent with the trend in all GEM countries, the highest prevalence rates in the GEM-MENA countries are among adults in the 25–34 and 35–44 age groups, although these vary in levels across the countries (Figure 10). The major exception is Yemen, where TEA rates are highest in the youngest and oldest age groups, which may be a reflection of high unemployment and poverty levels, lack of employment options, and lack of social security for persons approaching retirement age. Given that the MENA countries have among the youngest populations of any region of the world, with millions of young people projected to enter the labour market over the coming decade, they may, in fact, have an entrepreneurial advantage — a larger emerging pool from which to draw future entrepreneurs.

**Figure 10. TEA Rate by Age Group**



Female TEA rates tend to follow the same general pattern as male rates; TEA rates are higher in the 25–34 and 35–44 age groups (Table 4). However, in Lebanon, Syria, and Jordan, women in the 35–44 age group have the highest female TEA rates, while for men, the rates are highest in the 25–34 age group. The only case where women have a higher TEA rate than men is for the 35–44 age group in Yemen. Yemen also has the only case where the highest female TEA rate is among the youngest women (18–24 age group).

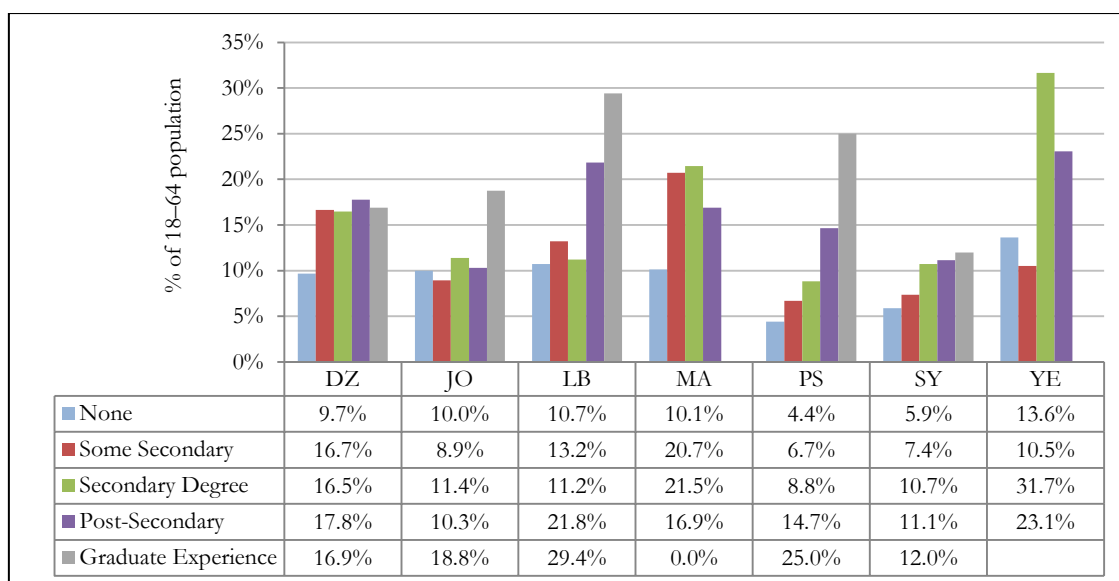
**Table 4. TEA Rate Differences by Gender and Age**

Age group	YE		DZ		MA		LB		SY		JO		PS	
	M %	F %	M %	F %	M %	F %	M %	F %	M %	F %	M %	F %	M %	F %
18–24	37.7	25.3	18.8	15.0	17.8	10.1	15.0	4.4	14.5	2.9	11.8	1.6	7.5	2.7
25–34	19.9	11.8	21.1	14.7	24.5	15.5	25.1	12.3	17.6	3.4	22.3	6.0	16.7	4.0
35–44	8.3	17.4	25.5	13.8	22.1	11.4	21.5	16.9	13.2	3.9	17.5	7.3	16.3	3.8
45–54	33.1	20.3	17.9	14.2	14.5	10.0	19.2	6.1	6.0	3.0	11.7	3.1	13.3	2.2
55–64	75.7	22.4	9.1	2.3	16.2	8.8	8.2	3.5	8.2	0.1	5.3	2.5	17.1	4.0

## Education and Entrepreneurial Activity

Similar to findings in other GEM countries over the years, TEA rates in the GEM-MENA countries generally rise with education level, although the specific patterns vary somewhat across countries (Figure 11). The least educated groups of the population in each country have the lowest TEA rates, except in Yemen. In Palestine, Lebanon, and Jordan, significantly higher TEA rates are found among adults with experience at the graduate level of education. This does not mean, however, that most of the early-stage entrepreneurs have graduate degrees (the share of adults in the population with graduate educations is a small minority of the total), but it does indicate that more highly educated people have a greater propensity to become entrepreneurs. In Yemen, the highest TEA rate is found among adults with a secondary education, which might perhaps suggest that people with a post-secondary education have more employment options. In Algeria, except for adults with the least education, the TEA rate does not appear to be affected much by education level.

**Figure 11. TEA Rate by Education Level**

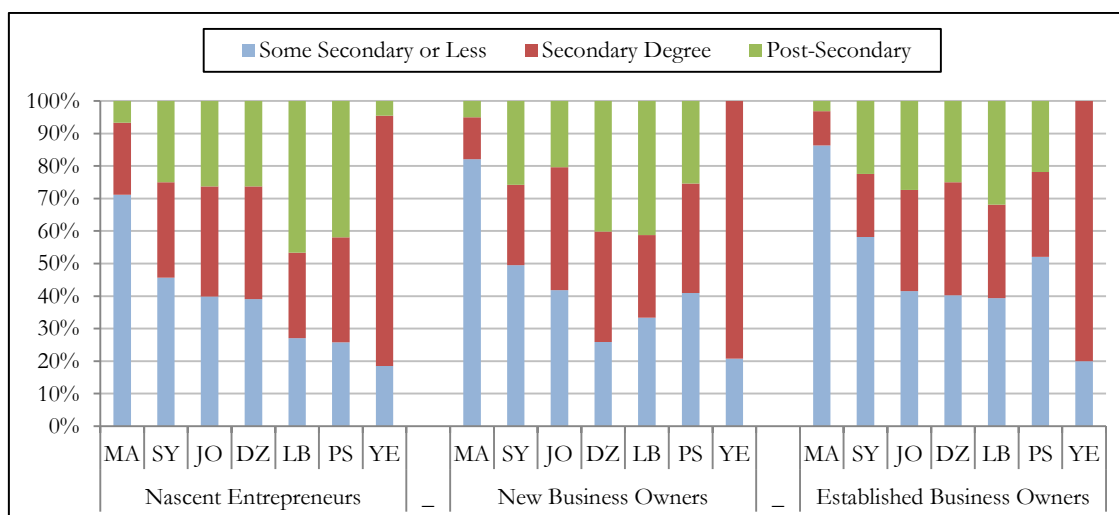


Note: The slight difference in TEA rates for lower-educated groups in Jordan is not significant.

Although TEA rates tend to rise with level of education for both men and women, in Morocco and Yemen, the TEA rates for women with a post-secondary education are much lower than they are for women with a secondary education or less; thus, in these two countries, the impact of higher education appears negative for female entrepreneurship. There may be greater employment opportunities for educated women in these countries, a higher preference for paid work on their part, or cultural and behavioural norms related to engagement in economic activities that vary across subgroups in the population.

An interesting question is whether entrepreneurial activity is attracting people with higher levels of education over time. Figure 12 indicates that the education profile of entrepreneurs is very similar across the three phases of entrepreneurial activity in Algeria, Jordan, and Yemen. However, in Morocco, Syria, Lebanon, and Palestine, the data indicate a larger share of better-educated entrepreneurs in the nascent group compared to established business owners.

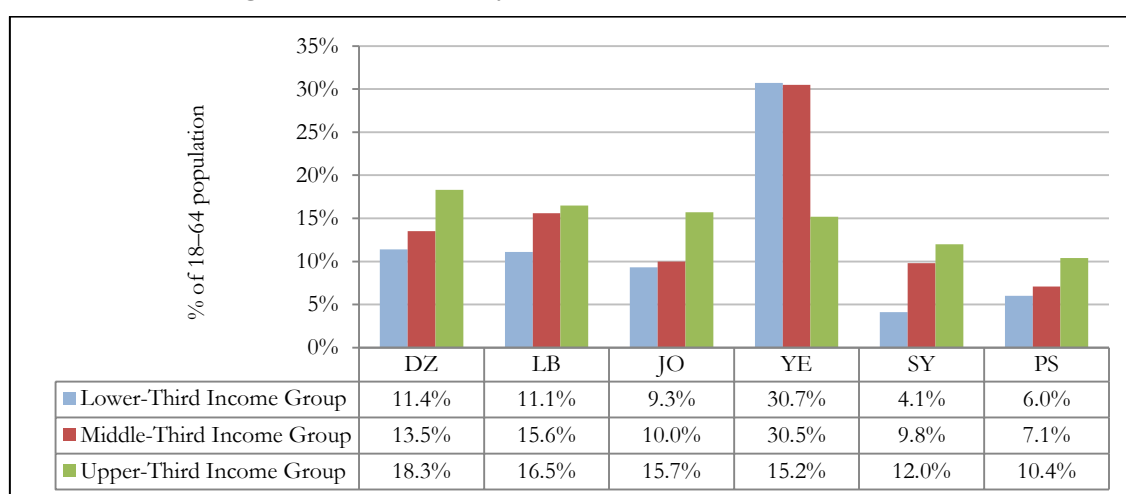
**Figure 12. Distribution of Entrepreneurs by Education Level in Each Phase of Entrepreneurial Activity**



## Annual Household Income and Entrepreneurial Activity

GEM data related to annual household income are collected in each country's currency and later adjusted to allow for cross-national comparisons. This adjustment involves dividing household income responses into three categories approximating the lower-third, the middle-third, and the upper-third percentiles for each country. The TEA rates for adults by household income category in the seven GEM-MENA countries are presented in Figure 13. This indicates that adults in higher-income households are more likely to be involved in early-stage entrepreneurial activity. The exception is in Yemen, where the TEA rate for the lower- and middle-third household income groups is about twice the rate for the upper-third income group.

**Figure 13. TEA Rate by Annual Household Income Level**



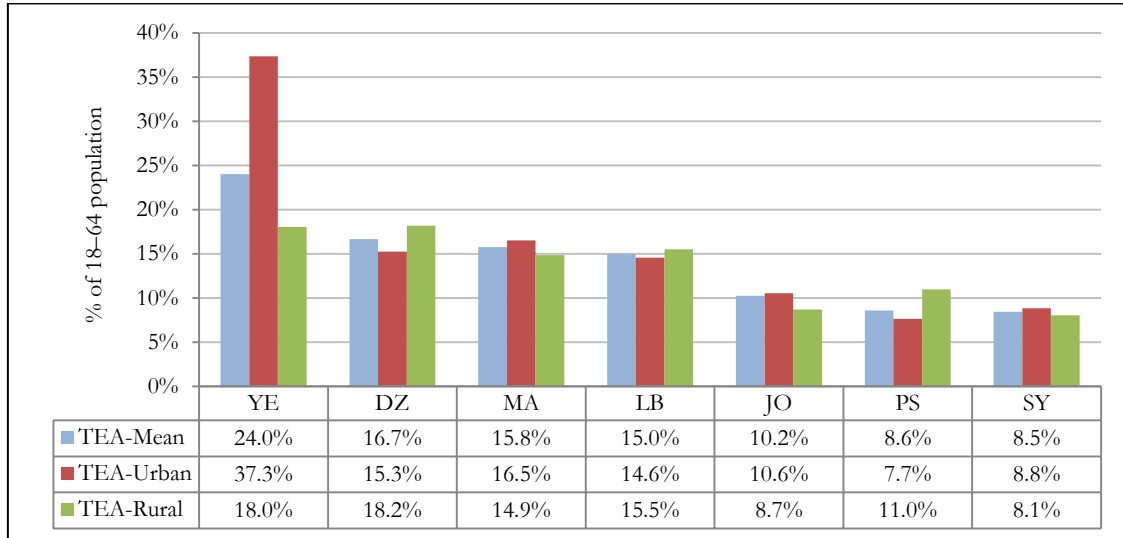
Notes: In Jordan, household income groups could not be defined by thirds. In this case, lower-income households are those with an annual income of less than JOD3600, middle-income households as those with an annual income of JOD3601–JOD9000, and upper-income households as those with an annual income of more than JOD9000. Data for Morocco were excluded because only 15% of the sample reported household income, significantly reducing the reliability of TEA estimates by household income.

The TEA rate pattern for men and women by household income group varies across countries. In Algeria, the results are similar for both men and women, with the highest TEA rates in the upper-third income group. In Morocco, Palestine, and Syria, the TEA rates for women are highest in the middle-third household income category, while the TEA rates for men are highest in the upper-third income category. In Yemen, the highest female TEA rate is among women in the lower-third income households (42%) and declines as household income rises. For Yemeni men, the TEA rate is significantly higher in the middle-third household income group (39%) than in the lower- and upper-third income groups (both around 20%).

## Urban–Rural Location and Entrepreneurial Activity

The urban and rural TEA rates of the adult population vary within and across countries, however the greatest in-country difference is noted in Yemen, where the TEA rate for urban adults is over 37% compared to only 18% in rural areas (Figure 14). This is the widest gap in urban–rural entrepreneurial activity prevalence rates in the seven countries. The moderately higher TEA rates among adults in rural areas versus urban areas in Algeria and Palestine are not statistically significant.

**Figure 14. TEA Rates for Urban and Rural Adults**

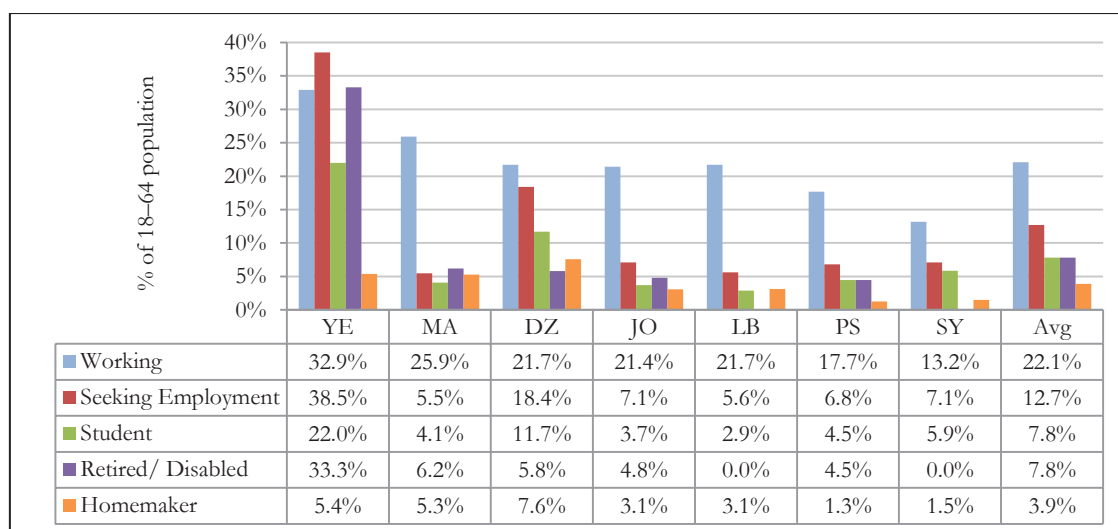


The slightly higher rural TEA rate in Algeria is associated with a relatively higher participation level of rural women in entrepreneurial activity (1.6 times higher than for urban women), given that the TEA rates for urban and rural males is about the same. The same may be true for Palestine, where the TEA rate for rural women is three times the rate for urban women. This situation of rural women being more likely to be involved in entrepreneurial activity than urban women might be related to the even fewer formal employment opportunities for women in rural areas. Conversely, the higher participation level of urban females in Yemen (TEA rate of 41% versus 9% for rural females) is a possible explanation for the higher overall urban TEA rate in that country. Employment opportunities for urban women in Yemen are extremely limited, so seeking to start a business as a way to earn a livelihood may be the only option. In the other countries, there are minimal differences between the urban and rural TEA rates for women.

### **Labour Force Status and Entrepreneurial Activity**

Another demographic feature of early-stage entrepreneurs is their labour force status while in the process of establishing a new business. On average, TEA rates are highest for adults who are already working either full- or part-time (Figure 15). The average TEA rate for this group is 22%, ranging from 13% in Syria to almost 33% in Yemen. The second highest TEA rate is among adults who are seeking employment. This averages about 13%, ranging from a high of almost 40% of adults in this situation in Yemen to a low of 5.5% in Morocco. TEA rates among students are relatively low (less than 6% in all countries except Algeria and Yemen), but ranging from 22% in Yemen to about 12% in Algeria to 3% in Lebanon. This is followed closely by the TEA rate for people who are retired or disabled. The lowest TEA rate is among homemakers, an average of 4% and ranging from about 8% in Algeria to 1.5% in Syria and 1.3% in Palestine. Except in Yemen, where unemployment levels are very high and almost 40% of adults seeking work are engaged in early-stage entrepreneurial activity, the TEA rate for working adults is the only one that is higher than the mean country-level TEA rate. The high levels of participation by those working full- or part-time in the GEM-MENA countries are similar to results in almost all GEM countries, however, the higher level of participation among those not working (unemployed or homemakers) and those retired, disabled, or in school in Algeria and Yemen is unusual (Reynolds 2010).

**Figure 15. TEA Rates by Labour Force Status**



In the case of working adults, the GEM-MENA APS also enabled an examination of the early-stage entrepreneurial activity prevalence rates by type of working environment. This is important because it gives some idea of whether certain work environments are more or less likely to incubate potential entrepreneurs. Table 5 reveals that private sector employees in Algeria, Jordan, Lebanon, and Morocco are more likely to be involved in early-stage entrepreneurial activities than public sector employees; however, in Yemen, public sector employees (TEA rate of more than 35%) are more likely to be involved in early-stage entrepreneurial activities than private sector employees. In Palestine and Syria, the TEA rates for public sector and private sector employees are very similar. It is notable that among adults working in the private sector, those working in the smallest enterprises (with fewer than 10 workers) have higher average TEA rates, although there are wide cross-country differences. This is the case in Jordan and Syria, but in Algeria and Palestine, TEA rates are higher for adults working in medium enterprises (with 50–249 workers), and in Lebanon and Morocco for adults working in large enterprises (with more than 250 workers).

**Table 5. TEA Rates of Working Adults by Type of Work Environment**

Country	Public sector	Micro private enterprise (< 10 workers)	Small private enterprise (10–49 workers)	Medium private enterprise (50–249 workers)	Large private enterprise (> 250 workers)
DZ	11.2%	27.9%	22.4%	45.1%	19.5%
JO	8.6%	24.8%	11.5%	15.2%	15.8%
LB	5.3%	12.1%	9.9%	10.2%	14.3%
MA	4.5%	14.9%	13.0%	10.8%	20.0%
PS	10.0%	7.0%	5.1%	12.5%	n.a.
SY	7.4%	7.7%	3.5%	6.5%	7.4%
YE	35.3%	24.5%	17.9%	16.7%	16.7%
TEA-average	11.8%	17.0%	11.9%	16.7%	13.4%

It is also interesting to look specifically at the labour force profile of people in the process of trying to start a new business. About two-thirds of nascent entrepreneurs are engaged in employment activity of some kind at the same time. An average of over 44% of them are either working full- or part-time and another 21% are already self-employed (Figure 16). Eleven percent are homemakers, 10.5% are students, almost 10% are seeking employment, and 2% are retired or persons with disabilities. There are many differences in this distribution across countries. It is notable that over 20% of nascent entrepreneurs in Morocco are homemakers, almost 20% in Palestine are seeking

employment, almost 20% in Yemen are students, and over 55% in Lebanon are working in full- or part-time jobs. Syria has the highest proportion of nascent entrepreneurs who are already self-employed.

**Figure 16. Distribution of Nascent Entrepreneurs by Labour Force Status**

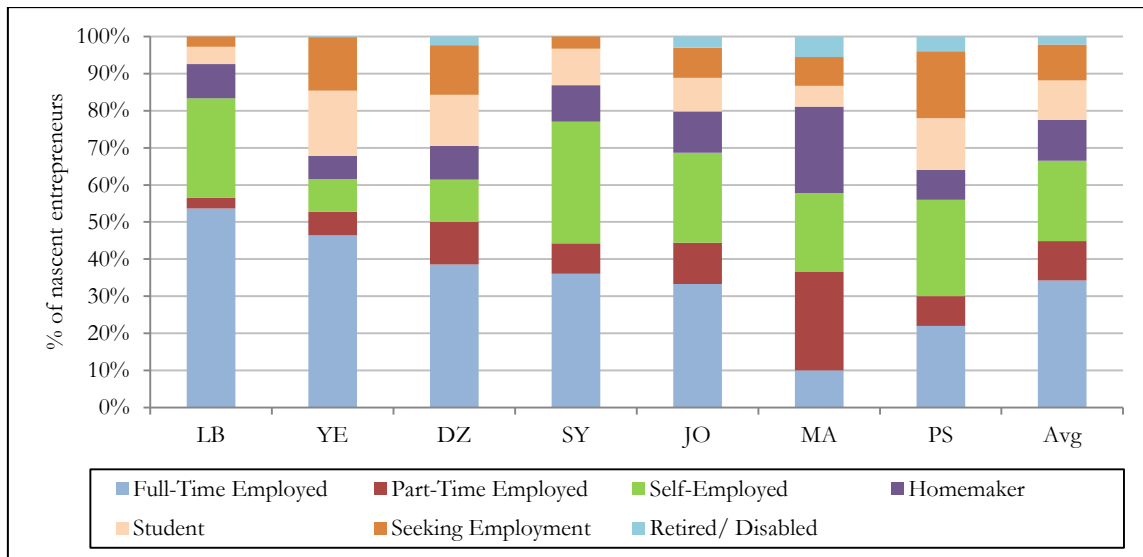
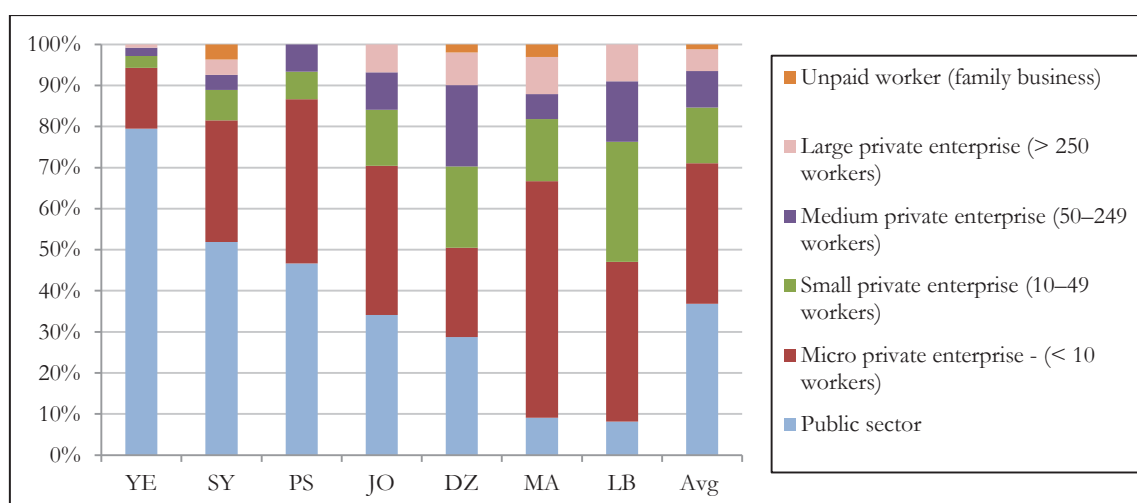


Figure 17 shows the distribution of working nascent entrepreneurs by their type of work environment. On average, 43% of them are working in the public sector, 55% in micro or small private enterprises, and just over 16% in medium or large private enterprises. Of course, this distribution varies widely across countries. Almost 80% of nascent entrepreneurs in Yemen (who are working at the same time as trying to get a business started) are working in the public sector and close to half of those in Palestine and Syria. The very high proportion in Yemen might be explained by the fact that government offices close in the early afternoon every day, which leaves scope for its workers to pursue supplementary income-generating activity. A third to 40% of the nascent entrepreneurs in Jordan, Lebanon and Palestine are working in private micro enterprises (with fewer than 10 workers) and almost 60% of those in Morocco. About 30% of nascent entrepreneurs in Lebanon and 20% in Algeria are working in small private enterprises (with 10–49 employees) while actively trying to start a business. The largest proportion working in large private enterprises is found in Morocco and Lebanon (around 9%).



**Figure 17. Distribution of “Working” Nascent Entrepreneurs by Type of Work Environment**



Note: This distribution only applies to the share of adults who are trying to start a new business while working.

### Serial Entrepreneurship

Another interesting observation from the GEM-MENA data is the high percentage of nascent entrepreneurs and existing business owners reporting that the business in which they are currently involved is not their first business (Table 6). This prevalence of serial entrepreneurship is highest in Jordan, where over half have had a previous entrepreneurial experience. Except in Algeria, nascent entrepreneurs are more likely to be serial entrepreneurs than existing business owners. This suggests that people with previous experience as an entrepreneur in these countries are a significant source of new business start-up activity. GEM studies in general find that up to 30% or more of early-stage entrepreneurs have been involved in entrepreneurial activity sometime in the past.

**Table 6. Entrepreneurs with Previous Entrepreneurial Experience**

Country	Nascent Entrepreneurs	Existing Business Owners
Algeria	24.5%	38.7%
Jordan	51.6%	51.9%
Lebanon	39.4%	15.5%
Morocco	20.2%	7.9%
Palestine	31.8%	26.1%
Syria	33.2%	22.7%
Yemen	46.3%	15.6%

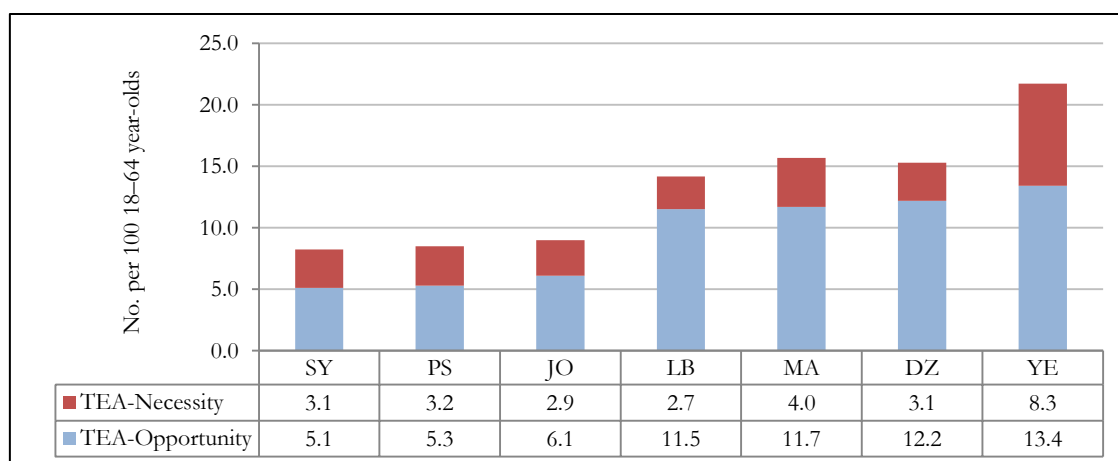
### *Motivations of Early-Stage Entrepreneurs*

The motivations of early-stage entrepreneurs are an important factor in explaining their behaviour and even their demographic make-up. This is explored in the GEM APS by asking whether involvement in a start-up is to take advantage of a business opportunity (“opportunity-entrepreneurship”) or because there was no better choice for employment (“necessity-entrepreneurship”). For those who are pursuing a business opportunity, the APS further asks if the most important motive for doing this is to have greater independence and freedom in working life, to increase their personal income, or just to maintain their personal income. GEM studies over time have confirmed that the proportion of necessity-entrepreneurship is much higher in developing or low-income countries than in developed or high-income countries. In the developing and low-

income countries, there are fewer job opportunities in existing public and private organizations so people have limited options for creating a sustainable livelihood – starting a business is often the only one available to large numbers of them.

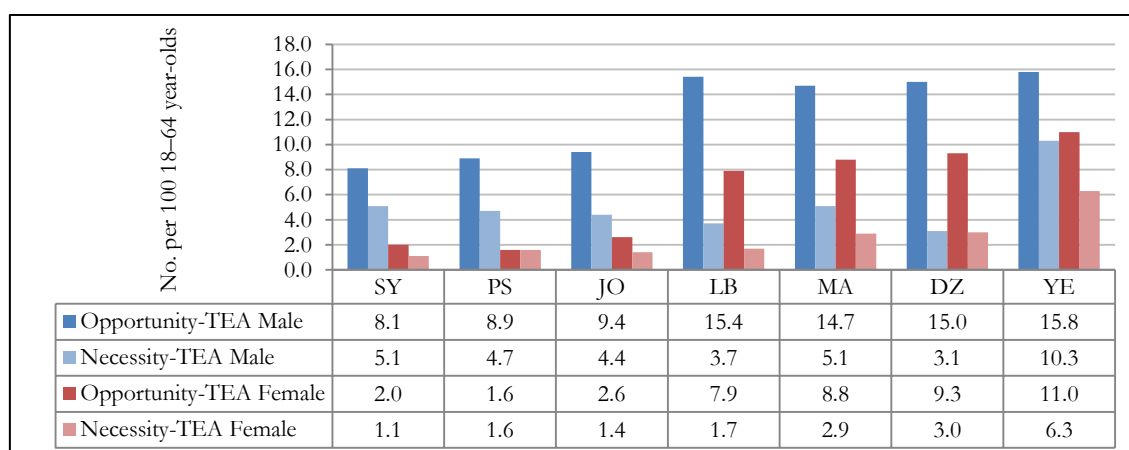
The presentation of TEA participation counts in the adult population in 13 MENA countries (see Figure 6 of Chapter 1) illustrated the proportion of “necessity” versus “opportunity” entrepreneurs. Overall, almost 27% of entrepreneurial activity in these countries is motivated by necessity, although it varies from less than 8% in the United Arab Emirates to more than a third in Yemen. This is relatively low compared to the 45% motivated by necessity found in other low-income regions of the world. The difference might be partly explained by the high level of Islamic charitable practices in the MENA region. The TEA prevalence rate, broken down by necessity and opportunity components for the seven GEM-MENA countries, is presented in Figure 18. The share of necessity-motivation in TEA is highest in Palestine, Syria, and Yemen (35% to 37%); followed by Jordan (28%), Morocco (25%), and Algeria and Lebanon (around 18%). Over 80% of Lebanese and Algerian early-stage entrepreneurs are motivated by opportunity, the highest share of opportunity-motivation in the seven countries.

**Figure 18. TEA by Major Motivation – Necessity-Opportunity**



Women are no more likely than men to be motivated by necessity versus opportunity, except in Palestine where the necessity share of female early-stage entrepreneurial activity is 50% (Figure 19). In the other countries, differences within the male and female groups are not statistically significant.

**Figure 19. Necessity-Opportunity Motivation by Gender**



In Jordan, there is a significantly higher share of necessity-entrepreneurship in the 45–54 and 55–64 age groups; in Syria in the 25–34 and 55–64 age groups; and in Yemen, in the 55–64 age group. These differences may be related to the lack of job opportunities and social security. The better-educated early-stage entrepreneurs tend to be motivated more by opportunity than necessity and consequently, to have a lower share of necessity-entrepreneurship than less-educated adults. One would expect entrepreneurs from the lower-income households to be motivated more by necessity than entrepreneurs of higher-income households; however, this is the case only in Jordan and Lebanon. In Palestine and Syria, the highest share of necessity-entrepreneurship is among the middle-third household income entrepreneurs. Rural early-stage entrepreneurs tend to be more motivated by necessity than urban early-stage entrepreneurs, but only significantly more so in Jordan, Lebanon, Palestine, and Syria. There tends to be a much higher share of opportunity-entrepreneurship among working adults than other labour force attachment categories. In Lebanon, Palestine, Syria, and Yemen, there is a significantly higher share of necessity-motivation among people seeking employment, and in Jordan and Syria, among people who are retired or disabled.

In summary, early-stage entrepreneurs in the MENA countries are more likely to be male and found in the younger age groups, among the better-educated, and in the upper-third income households, although there are many country-level differences. Early-stage entrepreneurs are for the most part already working in a full-time or a part-time job. Among this group, public sector workers in Palestine, Syria, and Yemen are more likely to be involved in early-stage entrepreneurial activity than private sector workers, the reverse of the situation in Algeria, Jordan, Lebanon, and Morocco. However, in general, working in smaller private enterprises produces higher TEA rates. Early-stage entrepreneurs with higher necessity-motivation tend to be those with a lower level of education, those from lower- and middle-third household income groups, and those in the process of seeking employment.

## Chapter 3. What Kind of Enterprises Are Being Started?

New enterprises are of interest to policymakers because of the contribution they make to job creation and sustainable and productive growth. New enterprises introduce competition to the marketplace, expand customer and market choice options. If they are innovative, they introduce new products and services to the marketplace and, through the application of new technologies, raise productivity levels in the sectors within which they operate. Thus, new enterprises are important to economic growth and prosperity.

In the seven MENA countries, an estimated 6.9 million nascent entrepreneurs, in average-size teams of 1.8, are trying to start an estimated 3.9 million new enterprises. In the past three and a half years, an estimated 4.2 million new business owners, in average-size teams of 1.7, have created an estimated 2.7 million enterprises. This totals over 6.7 million enterprises that are either in the process of being started or relatively young (Table 7). An average of about three-quarters of the ventures are being led by entrepreneurs with an opportunity-motivation (highest in Lebanon and lowest in Palestine).

**Table 7. Number of Early-Stage Ventures and Share by Phase and Type of Motivation**

Country	Estimated Number of TEA Ventures (000s)	Nascent Share of Ventures	Baby Business Share of Ventures	Opportunity Share of Ventures	Necessity Share of Ventures
MA	2258	42.2%	57.8%	74.7%	25.3%
DZ	2042	62.3%	37.7%	81.5%	18.5%
YE	1358	96.2%	3.8%	65.4%	34.6%
SY	470	35.3%	64.7%	63.1%	36.9%
LB	290	40.0%	60.0%	82.2%	17.8%
JO	211	55.2%	44.8%	67.9%	32.1%
PS	97	26.4%	73.6%	62.8%	37.2%
Total	6717	58.8%	41.2%	74.2%	25.8%

Chapter 3 explores the nature and market impact of these early-stage enterprises with respect to the sectors of activity; current job creation; expected job growth in five years; and their level of innovativeness, technology orientation, and out-of-country customer base. In some instances, comparisons are made with established businesses and GEM global averages.

### *Sector of Activity*

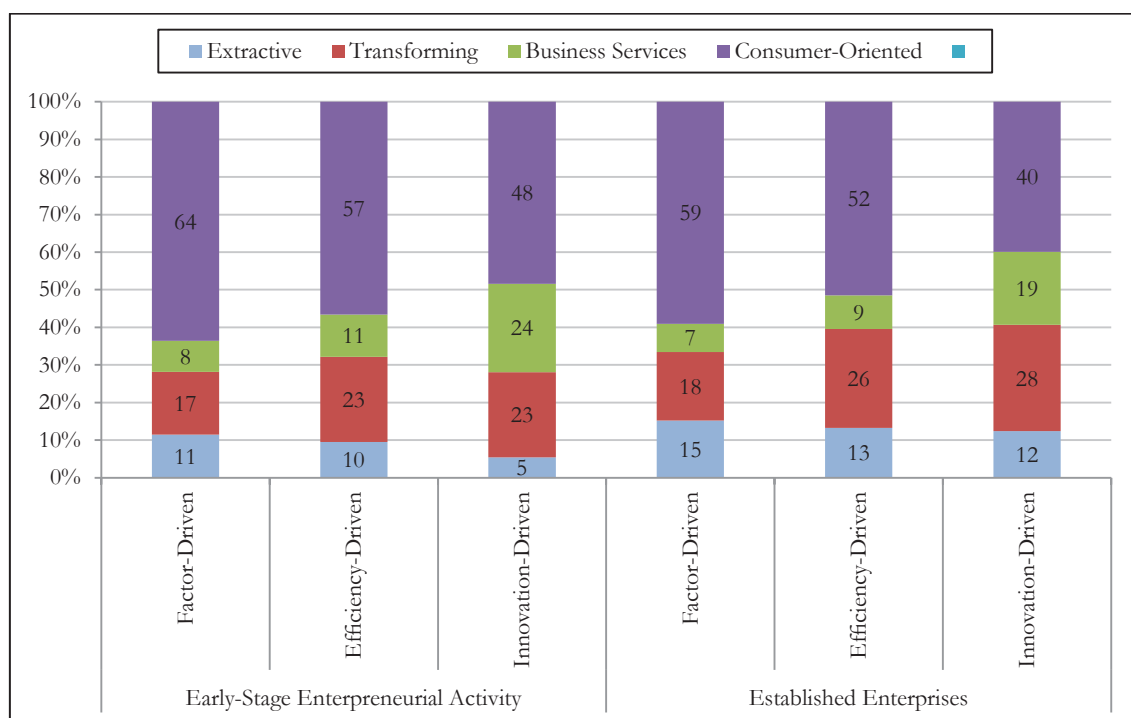
The GEM research classifies the sector activity of enterprises into four categories:

1. Extractive activities include farming, forestry, fishing, and mining;
2. Transforming activities include manufacturing, construction, and wholesale distribution;
3. Business service activities include service enterprises where the primary customer is another business; and

4. Consumer-oriented activities include enterprises where the primary customer is a physical person, such as retail enterprises, restaurants, bars, hotels and lodging, health, education, personal and social services, and recreation-oriented enterprises.

The sector distribution of early-stage enterprises in GEM countries is found to vary strongly by phase of economic development. As economies develop from factor-driven to innovation-driven, the share of consumer-oriented and extractive sector enterprises declines and the share of transforming and business service enterprises rises (Figure 20). Compared to established businesses, early-stage enterprises tend to be more dominant in consumer-oriented areas of activity and business services (where start-up costs and barriers to entry may be lower) and less dominant in transforming industries and the extractive sectors. However, global averages mask considerable country-level differences.

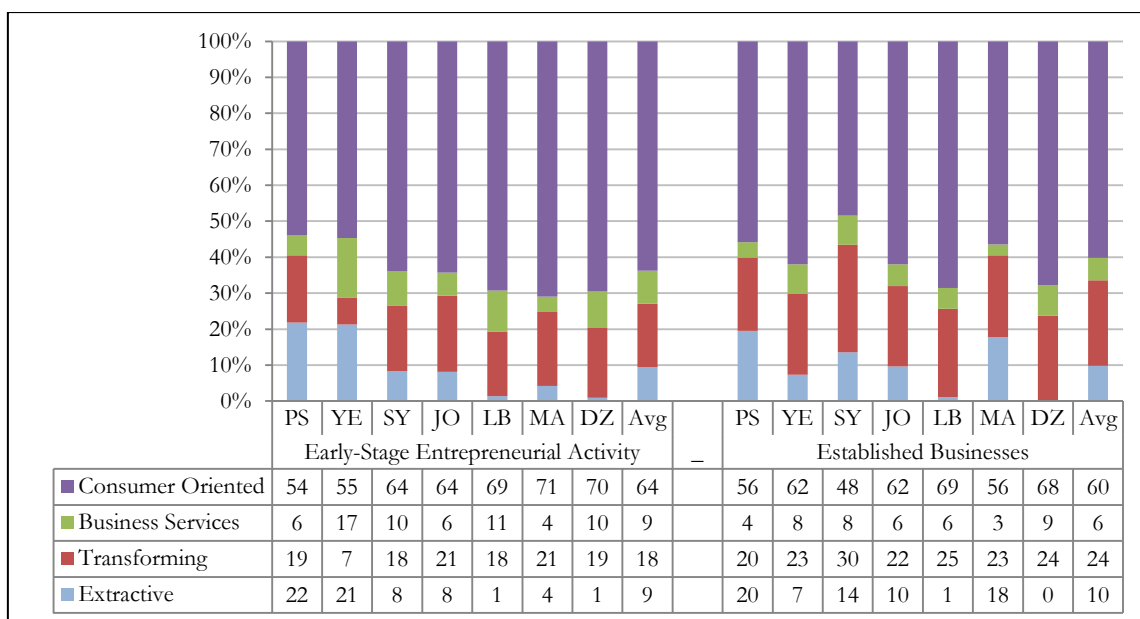
**Figure 20. Sector Distribution of Early-Stage and Established Enterprises, 55 GEM Countries**



Source: GEM APS, 2009.

The sector distribution of enterprises in the seven GEM-MENA countries as a group looks very similar to that of factor-driven economies, with the exception of a slightly lower proportion of extractive sector enterprises among early-stage and established business activity, and a higher proportion of transforming sector enterprises among established businesses. However, a number of variances exist at the country level. In Lebanon, Morocco, and Algeria, there is a higher proportion of early-stage activity in the consumer-oriented sectors (about 70%) and in Palestine and Yemen, a much higher proportion in the extractive sectors (more than 20%) (Figure 21), primarily in agricultural activity. The highest shares of early-stage entrepreneurial activity in the transforming sectors are in Morocco, Jordan, and Algeria (about 20%).

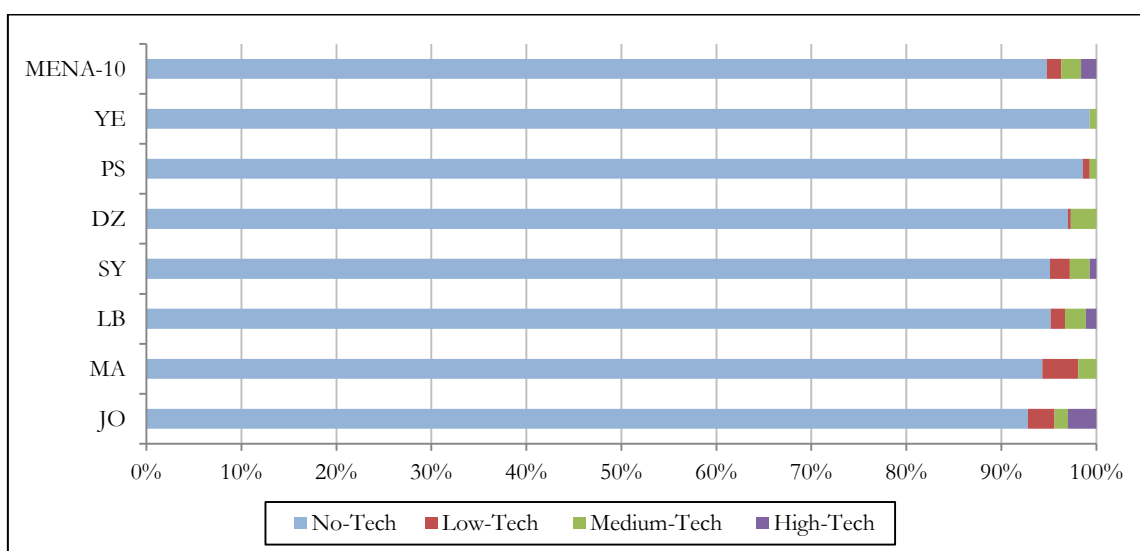
**Figure 21. Sector Distribution of Early-Stage and Established Enterprises, Seven MENA Countries**



The overall sector distribution of early-stage activity is quite similar to that of established businesses, except for a lower share of enterprises in the transforming sectors and a trend toward more enterprises in the business services sector.

There is also a low level of technological sophistication in the early-stage enterprises, with some sectoral presence in Jordan, Syria, Lebanon, and Morocco, but very little in Algeria, Palestine, and Yemen (Figure 22). Close to 95% or more of all of the enterprises are in “no-technology” sectors.

**Figure 22. Technology Level of Sector Activity**

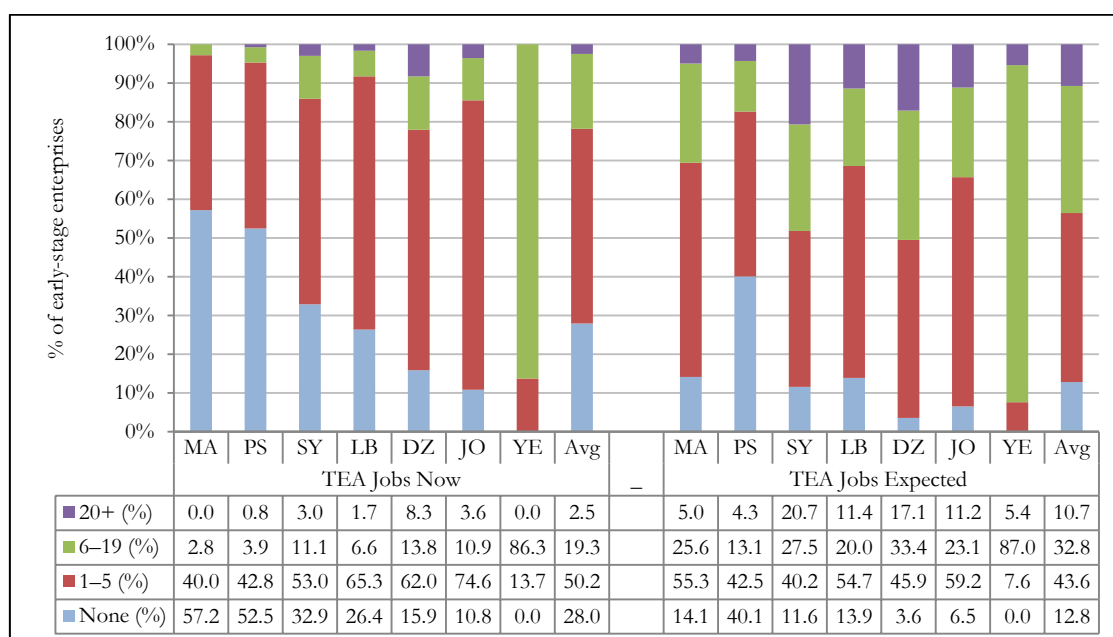


## Employment Impacts

Entrepreneurship is considered a motor of economic growth. Business creation generates new jobs and contributes to an increase in income and potentially to a decrease in unemployment. As a consequence, the number of jobs being created by early-stage enterprises and their future job growth expectations is of great interest. About 70% of the early-stage enterprises in the seven GEM-MENA countries are creating jobs, comparing favourably with the average for all GEM countries. As might be expected, the majority of them (average of 78%) are micro-enterprises creating fewer than six jobs (Figure 23). This ranges from over 90% of the early-stage enterprises in Morocco and Palestine (where over half of the enterprises do not create jobs, other than for the owners) to about 14% in Yemen (where nascent entrepreneurs appear to be creating more jobs).

The average number of jobs created in an early-stage enterprise is just less than five (from less than two in Morocco and Palestine to more than five in Syria, Algeria, and Yemen), but because of the sheer volume of people involved in early-stage entrepreneurial activity, the cumulative impact is substantial, involving the creation of millions of jobs. About two-thirds of the jobs in early-stage enterprises (80% in Yemen) are accounted for by the nascent group, which have yet to become an entrenched reality. Not all will make it through the full start-up stage for any number of reasons, among which might be the lack of knowledge and experience of the founding entrepreneurs, undercapitalization, difficulties with administrative procedures and regulations, or even the offer of an employment opportunity. The loss to society and the economy will be a large number of potential jobs.

**Figure 23. Job-Size Distribution of Early-Stage Enterprises, Now and Expected**



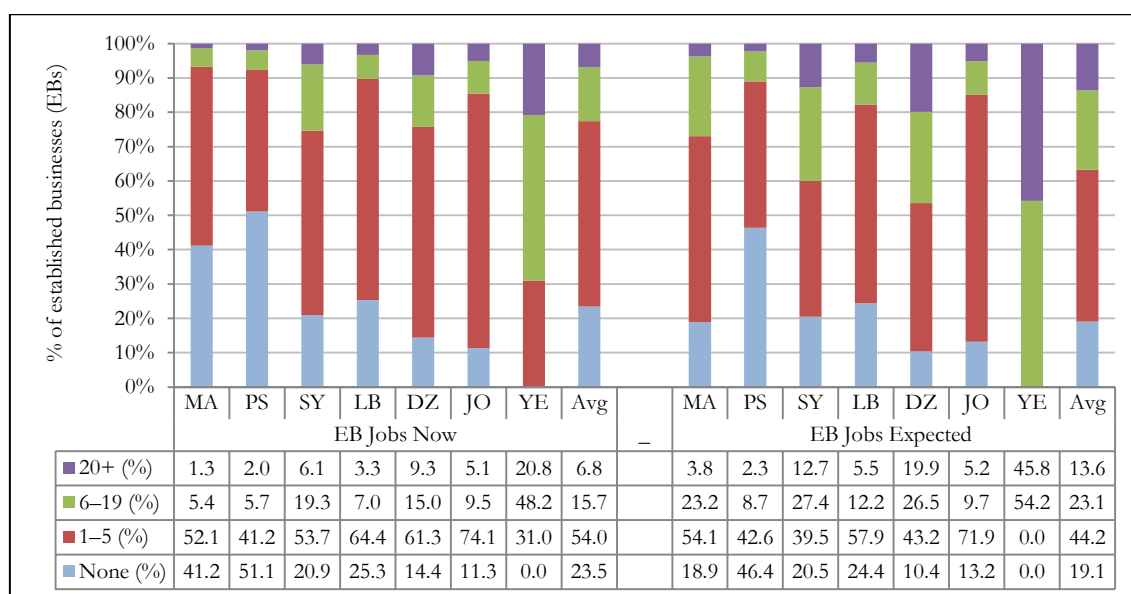
Note: Averages are unweighted.

GEM-MENA early-stage entrepreneurs expect to double their employment in the next five years, with the highest growth prospects in Morocco (more than a tripling of employment) and the lowest growth prospects in Jordan (expectations of 1.6 times as many jobs) and Yemen (1.3 times as many jobs). The other countries are very close to the average. These job growth expectations, although likely somewhat optimistic, if met, would produce a shift in the distribution of enterprises by job

size. The proportion of enterprises with no workers would decrease substantially in each of the countries, and the overall average share of enterprises with fewer than six jobs would decrease to 56%. Enterprises in Syria and Algeria are expected by their founding entrepreneurs to shift upward to a greater extent than in other countries. Compared to the GEM average of 14% of early-stage entrepreneurs who expect to have 20 or more employees in five years, GEM-MENA early-stage entrepreneurs, with the exception of Syrians, are less ambitious: the average is only 10.7%.

The average job-size distribution in early-stage enterprises is very similar to that of established enterprises, except that the latter have a higher proportion of enterprises with 20 or more workers (6.8% compared to 2.5%) (Figure 24). This might be expected by virtue of the fact that they have been in operation for a longer period of time.

**Figure 24. Job-Size Distribution of Established Businesses, Now and Expected**



Note: Averages are unweighted.

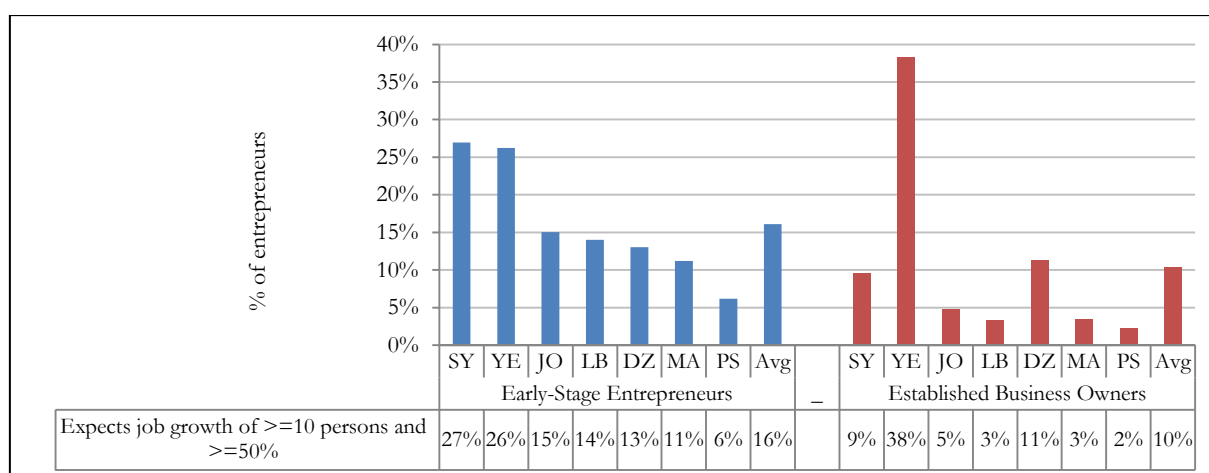
Some cross-country differences are evident. For example, in Palestine and Lebanon, the share of early-stage enterprises with no workers is very similar to that of established businesses, whereas in the other countries, established enterprises are much more likely to be creating jobs for others. Established business owners also expect to add a significant number of jobs, with Algeria and Syria leading the pack, again pushing upward the average firm size.

GEM studies pay particular attention to enterprises with higher job creation and growth impacts. This is relevant to the GEM-MENA countries, where one of the challenges for governments is the low percentage of enterprises with more than 10 workers and the potential for growth. One of the GEM-derived indicators for fast growth is the share of entrepreneurs who expect to have at least 10 new employees and job growth of at least 50% within five years. The GEM global averages for this indicator are about 17% of early-stage entrepreneurs and less than 6% of established business owners. In the seven GEM-MENA countries, early-stage entrepreneurs in Palestine have the smallest percentage expecting this level of growth (only 6%) and those in Yemen and Syria have the highest growth aspirations (26–27% expect this level of growth), followed by Jordan, Lebanon, Algeria, and Morocco (between 11% and 15%) (Figure 25). With the Yemeni exception, and consistent with other GEM countries, established business owners are less optimistic in their job growth expectations: from 2% of established business owners in Palestine to 11% in Algeria expect



10 or more new jobs and at least 50% in job growth within five years. Yemeni established business owners are more optimistic: 38% of them expect this level of growth.

**Figure 25. Share of Enterprises Expecting Fast Growth in Jobs within Five Years**



Note: Unweighted averages.

The share of early-stage entrepreneurs with these higher job expectations seems to rise with male ownership and level of education (except in Yemen, where entrepreneurs with the lowest level of education have the highest share of growth expectations).

Of course, growth aspirations do not necessarily result in actual growth due to numerous moderating factors related to the entrepreneurs' personal capabilities and resources, and external forces, such as the level of competition and economic trends. However, previous GEM studies do suggest a positive association between expectations and actual firm growth.

### ***Innovativeness of Early-Stage Enterprises***

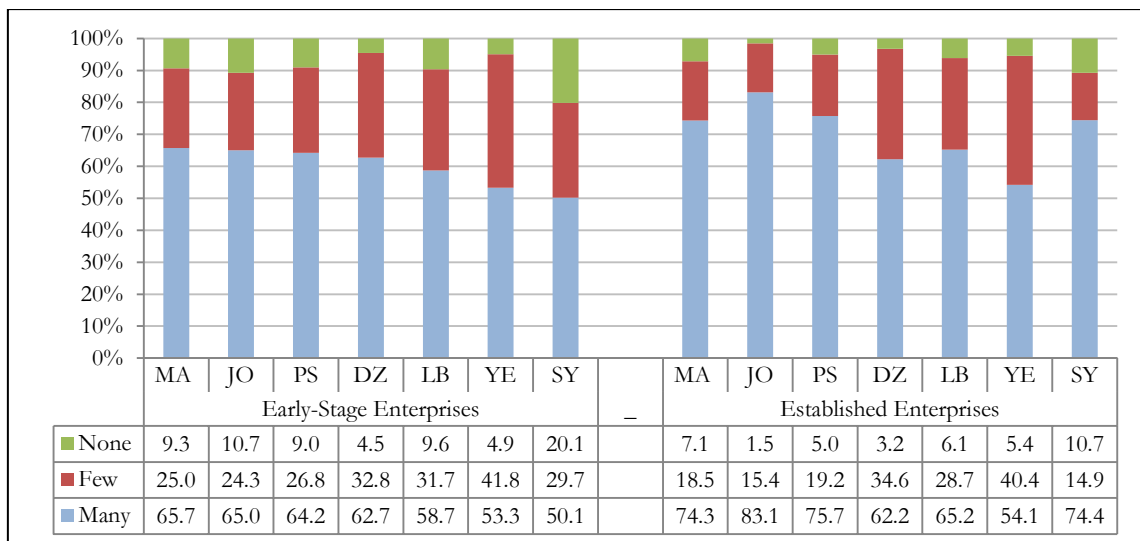
Innovation and entrepreneurship are closely connected. Entrepreneurs who introduce new product–market combinations or innovations can drive less productive firms out of the market and advance the production frontier, leading to higher productivity and economic growth. GEM assesses innovation in entrepreneurial activity around three questions relating to: the degree of competition in the market that is faced by the business (whether there are “many,” “few,” or “no other” businesses offering similar products or services); the novelty (or familiarity) of their products and services relative to customers' current experience (what proportion of their customers consider the product new/unfamiliar); and the newness of the technology or procedures required or used for the product or service.

### **Degree of Market Competition**

Early-stage entrepreneurs in these MENA countries are most frequently entering markets where many businesses already offer similar products or services (Figure 26). This is more likely to be the case in Morocco, Palestine, Jordan, and Algeria where over 60% of early-stage enterprises will encounter many competitors. Syrian early-stage entrepreneurs are the most likely to be entering markets with no direct competitors. Established businesses tend to be in markets that have even

more competitors with similar products or services, so there may be a tendency toward more product and service differentiation in newer enterprises.

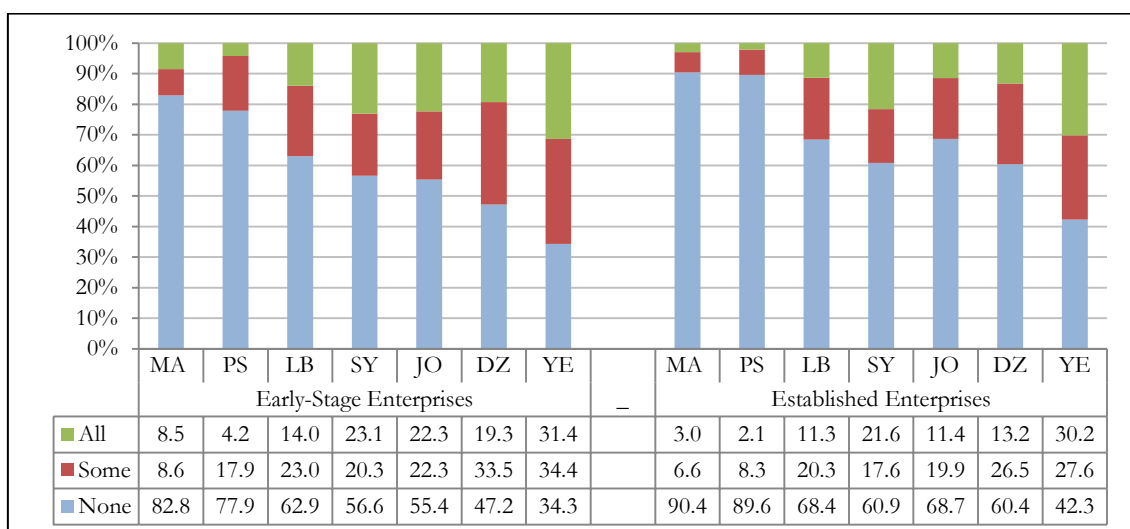
**Figure 26. Proportion of Businesses Offering Similar Products or Services**



### Novelty of the Product or Service

Over three-quarters of early-stage entrepreneurs in Morocco and Palestine and well over half in Lebanon, Syria, and Jordan estimate that their customers would not consider their products or services new or unfamiliar (Figure 27). This suggests a low level of innovation in product and service offerings coupled with the large number of “me-too” start-ups in markets with many direct competitors. The highest degree of novelty perception is in Yemen; however, this could be explained by the overall paucity of products and services that are very familiar to customers in other parts of the world. On the whole, established businesses are less innovative than early-stage enterprises with an even smaller proportion offering unfamiliar products to the market. It is promising that emerging enterprises are at least somewhat more likely to be engaging in more novel product and service offerings.

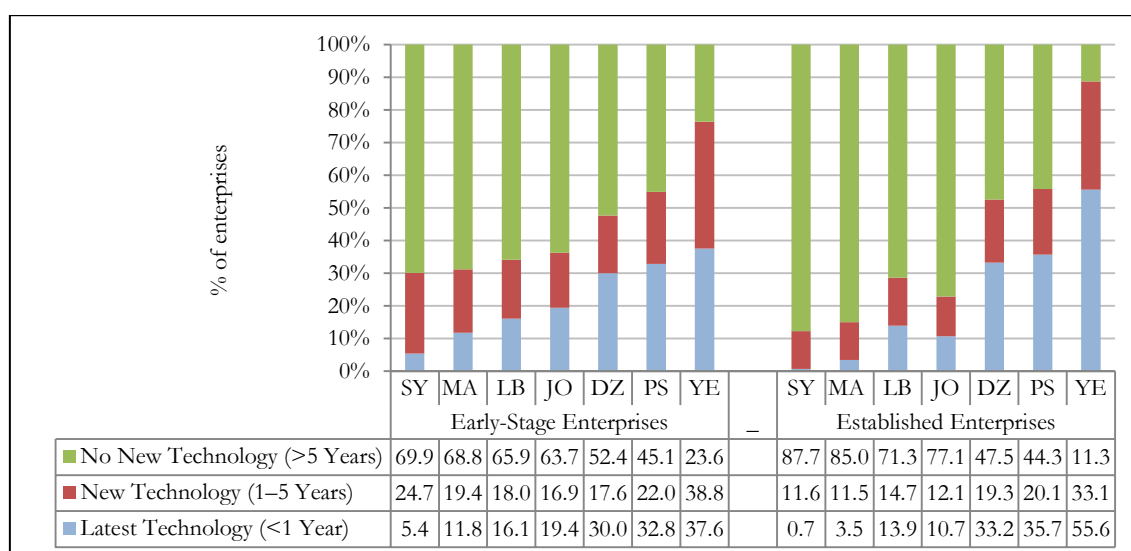
**Figure 27. Proportion of Customers Considering the Product or Service New or Unfamiliar**



## Newness of Technologies in Use

The majority of GEM-MENA entrepreneurs are making limited use of the latest technologies or procedures (available for less than a year) in their businesses (Figure 28). Almost all of them are using technologies that are more than five years old, although in Algeria, Palestine, and Yemen the share of enterprises reporting use of the latest technologies is greater than 30%.

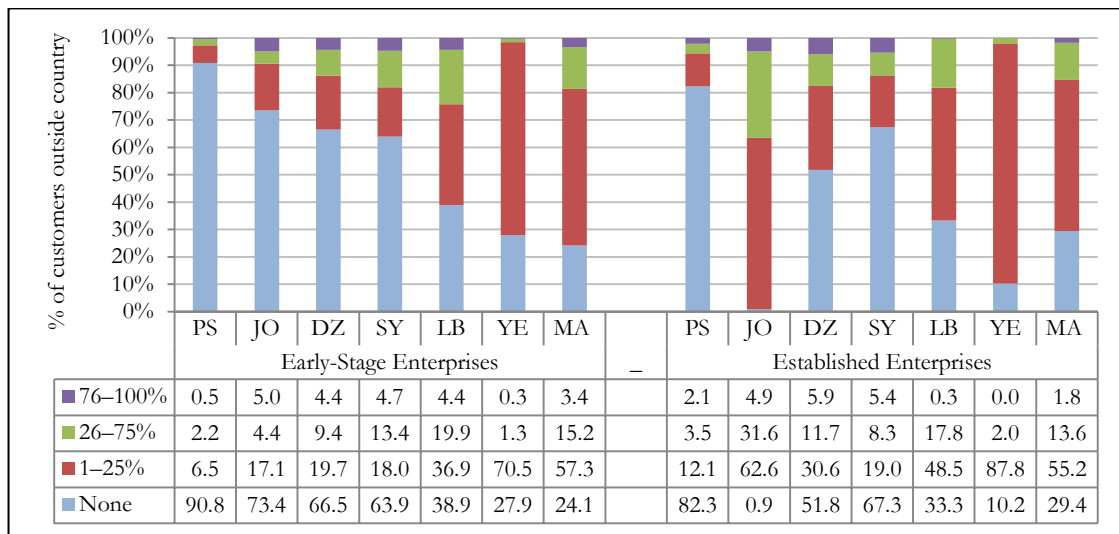
**Figure 28. Age of Available Technologies and Procedures Required for the Enterprise**



## Out-of-Country Customers

Another important measure of the impact of new enterprises is their level of international orientation, based on the extent to which they have customers from other countries. GEM considers exports as well as international customers who buy online or visit the country as tourists or for work purposes. Overall, the GEM-MENA countries compare very favourably with other GEM countries on this measure with, on average, a higher percentage of early-stage enterprises selling to, or aspiring to sell to, at least some out-of-country customers. That said, the majority of early-stage entrepreneurs in all GEM countries do not have any international orientation. More than two-thirds in Jordan, Algeria, and Syria, and more than 90% in Palestine do not have any customers outside the home country or expect to have any (Figure 29). Among the remaining GEM-MENA countries, the majority expect up to 25% of their customers to be out-of-country, with a particularly large proportion of the early-stage entrepreneurs in Lebanon, Yemen, and Morocco in this category. Established businesses are more likely to be selling to international customers.

**Figure 29. Estimated Proportion of Out-of-Country Customers**



In summary, millions of new enterprises are in the process of being started in the seven GEM-MENA countries. They are mostly in the consumer-oriented sector (retail, hospitality, personal and social services), much as might be expected for countries at their level of development, with perhaps a greater emphasis on business services than currently exists. They are generally based on entry into markets with many competitors offering a similar product or service, and are not particularly innovative in their customer offerings; thus, their market impact is somewhat limited. However, they do show indications of a higher level of innovativeness than in established businesses. In addition, only a small minority of the enterprises are using the latest available technology. Undoubtedly, the biggest impact from early-stage entrepreneurial activity in the MENA countries will come from its contribution to job creation. Starting primarily as micro-enterprises, over 70% of the early-stage enterprises are already collectively generating millions of jobs, although many of these enterprises are nascent and may not survive through the start-up process due to any number of internal and external factors. If they survive the fragile start-up process and are able to realize even a fraction of the job growth expectations they have for the next five years, millions of jobs will be created and the average firm size in the region shifted upward. The findings of this chapter point to the need for exposing potential entrepreneurs to more innovative business ideas, ensuring that it is possible for nascent and new entrepreneurs to access and employ the latest technologies required in their enterprises, and removing barriers to start-up activity so the job-creating potential of early-stage enterprises can be realized.



## Chapter 4. Start-up Capital Requirements, Sources of Financing, Advice, and Start-Up Training

Not being able to meet the start-up capital requirements of a new business can prove to be an impediment to entrepreneurial activity, especially in developing countries where financial intermediation is rigid and credit rationing is common. Access to financing is not only necessary to the start-up of a new business but important for the survival<sup>10</sup> and growth of baby businesses. In addition to financing, advice from others is an important knowledge resource for new and early-stage entrepreneurs. This chapter presents findings on the start-up capital requirements of nascent entrepreneurs in the seven GEM-MENA countries, the sources from which they are expecting to finance these requirements, and the prevalence and characteristics of informal investors in the adult population. It also presents information on the incidences and sources of advice and start-up training used by nascent and baby business owners.

### *Start-Up Financing*

#### **How Much Money do Start-Ups Need?**

About 40% of the nascent entrepreneurs in the seven GEM-MENA countries estimate that they need less than the equivalent of US\$10 000 to start their new businesses, although the distribution of estimated start-up needs varies considerably across countries (Table 8). The smallest enterprises are being started in Morocco, where over 60% of the nascent entrepreneurs need less than US\$10 000. In fact, almost half of Moroccan enterprises are being started with less than US\$5000. The largest start-ups are in Syria where the most common start-up capital requirement is over US\$20 000, although a higher percentage of Lebanese entrepreneurs (40%) will need more than US\$50 000. Some of the differences between countries may be accounted for by sector of activity. In Morocco, three-quarters of the nascent businesses are in the consumer-oriented sectors that include retail and personal services. In Palestine, where a larger share of new enterprises are in the extractive sector, primarily small-scale agricultural activity, start-ups are also small (over 40% are being started with less than US\$5000). In Syria, a larger share of new enterprises is in the transforming sectors, which have more substantial capital needs.

The scale and scope of an actual start-up will be affected by the level of the nascent entrepreneurs' personal financing resources, that is, how much of their money they are able to invest to reduce their need for external financing. Not being able to source the balance of their start-up needs may lead to an aborted enterprise attempt. On the other hand, the higher the self-supplied share, the lower the financial risk of not being to repay borrowed money once the business is started, which may boost its odds for survival. The distribution of self-supplied capital by investment size in the seven GEM-MENA countries is much more skewed toward the smaller start-up capital size

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<sup>10</sup> A number of studies on the estimated risk of firm mortality and the factors which affect such hazards find that liquidity, profitability, and reinvestment positively affect the firm's survival (Morris 2009).

categories than the total estimated requirements (Table 9). For example, in Morocco, about 47% of the projects require under US\$5000 in start-up capital, whereas almost 70% of the self-supplied capital amounts are under US\$5000. In Yemen, the under US\$5000 category accounted for 27% of the projects, but for 63% of self-supplied amounts. However, again there are some cross-country differences. Syria, Lebanon, Jordan, and Palestine report cases where entrepreneurs are investing more than \$100 000 of their own capital toward the start-up. In any event, a financing gap in each of the countries is suggested.

**Table 8. Distribution of Start-Up Capital Needs by Size**

US\$ (PPP)	MA	PS	YE	JO	LB	DZ	SY	Average
Under \$5000 (%)	46.7	41.4	26.9	20.2	14.2	31.0	14.9	27.9
\$5000–\$9999 (%)	17.1	10.0	6.6	21.8	8.7	10.8	9.7	15.0
<i>Subtotal (%)</i>	<i>63.8</i>	<i>51.4</i>	<i>33.5</i>	<i>42.0</i>	<i>22.9</i>	<i>41.8</i>	<i>24.6</i>	<i>40.0</i>
\$10 000–\$19 999 (%)	7.6	12.9	16.0	18.9	17.4	19.2	16.0	15.4
\$20 000–\$49 999 (%)	15.3	21.8	50.5	27.9	19.6	22.6	32.1	27.1
\$50 000–\$100 000 (%)	9.5	4.2	0.0	5.3	25.7	11.2	9.8	9.4
More than \$100 000 (%)	3.8	9.7	0.0	5.9	14.5	5.2	17.5	8.1
<i>Total (%)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Median Start-up Capital (US\$)</i>	<i>6112</i>	<i>9943</i>	<i>24 906</i>	<i>14 116</i>	<i>25 000</i>	<i>13 720</i>	<i>21 406</i>	<i>16 458</i>
<i>*Most Common Start-up Requirement (US\$)</i>	<i>2445</i>	<i>4972</i>	<i>4981</i>	<i>7058</i>	<i>10 000</i>	<i>13 720</i>	<i>21 406</i>	<i>9226</i>

Notes: Data on start-up financing were collected in each country's home currency and later converted to purchase power parity (PPP) in US\$ equivalency to facilitate cross-country comparisons.

\* The mode represents the most common amount.

**Table 9. Distribution of Self-Supplied Capital by Size**

US\$ (PPP)	MA	PS	YE	JO	LB	DZ	SY	Average
Under \$5000 (%)	69.0	53.6	63.3	39.2	19.3	48.9	27.3	45.8
\$5000–\$9999 (%)	4.8	17.7	4.5	30.0	12.9	24.0	15.4	15.6
<i>Subtotal (%)</i>	<i>73.8</i>	<i>71.3</i>	<i>67.8</i>	<i>69.2</i>	<i>32.2</i>	<i>72.9</i>	<i>42.7</i>	<i>61.4</i>
\$10 000–\$19 999 (%)	14.3	17.7	14.8	13.7	23.0	6.8	16.7	15.3
\$20 000–\$49 999 (%)	9.5	7.2	17.4	9.4	18.2	15.2	18.5	13.6
\$50 000–\$100 000 (%)	2.4	-	-	3.8	19.2	5.1	6.3	5.3
More than \$100 000 (%)	0.0	3.8	0.0	3.9	7.4	0.0	15.8	4.4
<i>Total (%)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Median Amount of Self-Supplied Capital (US\$)</i>	<i>\$2445</i>	<i>\$4971</i>	<i>\$2491</i>	<i>\$7058</i>	<i>\$12 500</i>	<i>\$5682</i>	<i>\$10 703</i>	<i>\$6550</i>
<i>* Most Common Amount of Self-Supplied Capital (US\$)</i>	<i>\$2445</i>	<i>\$2486</i>	<i>\$2491</i>	<i>\$7058</i>	<i>\$10 000</i>	<i>\$1372</i>	<i>\$10 703</i>	<i>\$5222</i>

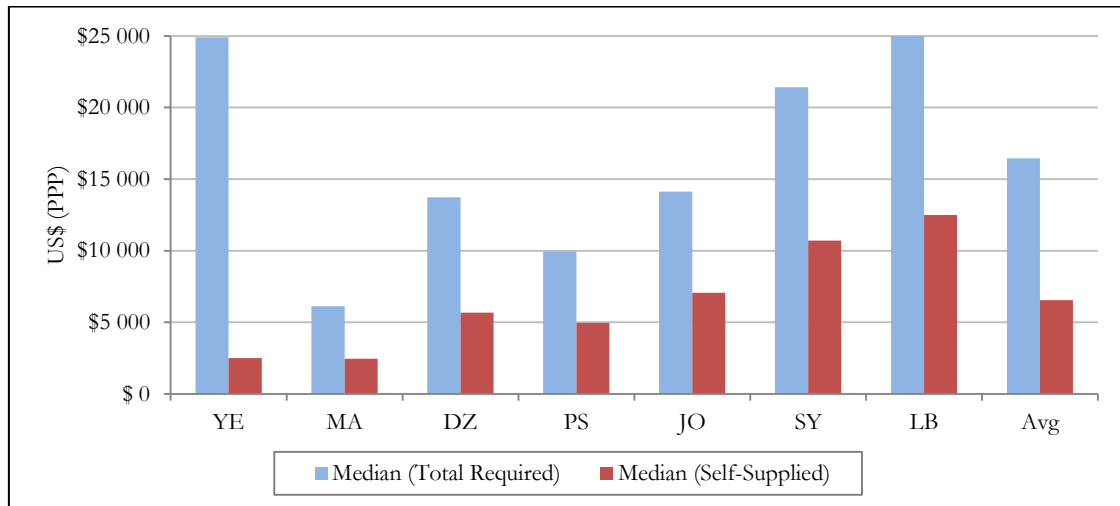
Of course, not all nascent entrepreneurs are planning to receive external financing. The percentage planning to provide the full requirement from their own money ranges from 31% in Algeria to 54% in Lebanon (Table 10). This behaviour could be a result of negative expectations about being able to borrow from institutions due to credit rationing or excessive loan guarantee requirements. Alternatively, it is possible that entrepreneurs themselves do not like being exposed to debt financing, so they resort to supplying their own capital.

**Table 10. Share of Nascent Entrepreneurs Covering Their Start-Up Needs from Personal Money**

Country	LB	MA	JO	PS	YE	SY	DZ	Average
Start-Up Capital Provided Solely by Self (%)	53.7%	50.5%	49.6%	49.2%	44.6%	34.2%	30.8%	44.7%

The external financing gap (the proportion of start-up financing needed from outside sources) is estimated to be greatest in Yemen, where the median amount for self-supplied capital is only 10% of the median amount for total capital required<sup>11</sup> (Figure 30). This may indicate a lower probability of nascent enterprises getting fully launched if they are not able to obtain the balance of financing. In the remaining countries, the median for self-supplied capital is between 40% and 50% of the total required amount.

**Figure 30. Median Start-Up Capital Requirement versus Self-Supplied Share**



Note: The median amounts are used for this calculation because the mean was distorted by a few very large estimated capital requirements in some countries; thus, the median is a more reliable indicator for making the comparison across countries.

### What are the Sources of Financing?

Of those nascent entrepreneurs who have already received, or expect to receive, external financing for their start-up, Table 11 presents the percentage obtaining it from a number of possible sources. This reveals the following trends:

- ♥ Immediate family members are the highest ranked source of financing for nascent entrepreneurs in all of the countries. It is stated as a source of financing for about half or more of the nascent entrepreneurs, except in the case of Jordan, where it is used by only about a quarter. Over 90% of Yemeni nascent entrepreneurs rely on family members as a source of start-up financing.
- ♥ The least used source of financing in Lebanon and Jordan is a government program; in Algeria, Morocco, Palestine, and Yemen, a venture capital company; and in Syria, other relatives.
- ♥ Bank financing is a much more prevalent option for nascent entrepreneurs in Algeria and Lebanon than in the rest of the MENA countries.
- ♥ Yemen is unique in the high proportion of nascent entrepreneurs who expect to receive (or have received) financing from someone they work with. This is as prevalent a source of external financing as immediate family members.

<sup>11</sup> Nascent entrepreneurs in Yemen are much more likely than in other GEM-MENA countries to come from the lower-third household income group, a factor that, of course, will impact on the scale of personal resources to invest.



- Jordan has the lowest proportion of nascent entrepreneurs stating use of immediate family members, a friend or neighbour, a microfinance provider, and a government program.
- Nascent entrepreneurs in Yemen are more likely than in other countries to be using immediate family members, work colleagues, a friend or neighbour, and a microfinance provider.
- Use of venture capital companies is much more prevalent in Jordan and Syria than in the remaining countries.

**Table 11. Sources of Start-Up Financing Used by Nascent MENA Entrepreneurs**

Percentage Receiving Any Start-up Financing From:	DZ	JO	LB	MA	PS	SY	YE
Immediate Family Members (%)	58.8	<b>25.0</b>	50.1	52.0	65.8	50.1	93.7
Other Relatives (%)	29.2	12.5	19.5	25.0	13.2	13.3	<b>12.2</b>
Work Colleague (%)	25.6	21.0	35.3	27.0	<b>13.2</b>	41.7	93.2
Friend or Neighbour (%)	21.9	<b>14.8</b>	18.7	30.8	21.1	21.6	36.2
Microfinance Provider (%)	10.9	<b>9.2</b>	10.5	27.0	26.3	26.4	43.1
Bank (%)	48.0	14.0	38.5	30.8	13.2	17.7	11.6
Government Program (%)	26.5	5.1	<b>1.2</b>	7.7	7.9	16.0	7.6
Venture Capital Company (%)	7.0	23.5	6.0	5.8	<b>2.6</b>	23.3	4.4

Source: GEM-MENA 2009 APS data.

Note: Figures in bold font indicate that this is the lowest used source of financing across the country groupings.

Overall, it appears that banks do not play a major role as a source of financing for nascent entrepreneurs in Jordan, Syria, Yemen, and Palestine; microfinance does not play a major role in Algeria, Lebanon, and Jordan; and government programs do not play a major role in Lebanon, Jordan, Morocco, Palestine, and Yemen.

### What Return Do the Entrepreneurs Expect?

The majority of nascent entrepreneurs expect a return of at least five or ten times their original investment over the next 10 years, although these expectations vary across countries (Table 12). Nascent entrepreneurs in Syria and Algeria tend to have slightly more conservative expectations than in the other countries, and Yemeni nascent entrepreneurs to be considerably more optimistic.

**Table 12. Payback Expected by Nascent Entrepreneurs on Their Start-Up Capital Investment**

Payback in 10 years	MA	PS	YE	JO	LB	DZ	SY	Average
Half of what I put into the firm (%)	3.7	5.8	-	-	-	4.4	-	1.8
About what I put into the firm (%)	2.5	-	1.8	2.4	4.2	8.9	-	2.1
One and half times my investment (%)	8.6	5.8	5.5	2.4	8.3	6.7	-	4.3
Twice my investment (%)	33.3	15.4	18.2	24.4	37.5	28.9	-	17.6
Five times my investment (%)	25.9	34.6	20.0	19.5	25.0	22.2	71.4	39.7
Ten times my investment (%)	19.8	23.1	34.5	34.1	25.0	15.6	27.1	25.6
Twenty times my investment (%)	6.2	15.4	20.0	17.1	-	13.3	1.4	8.9

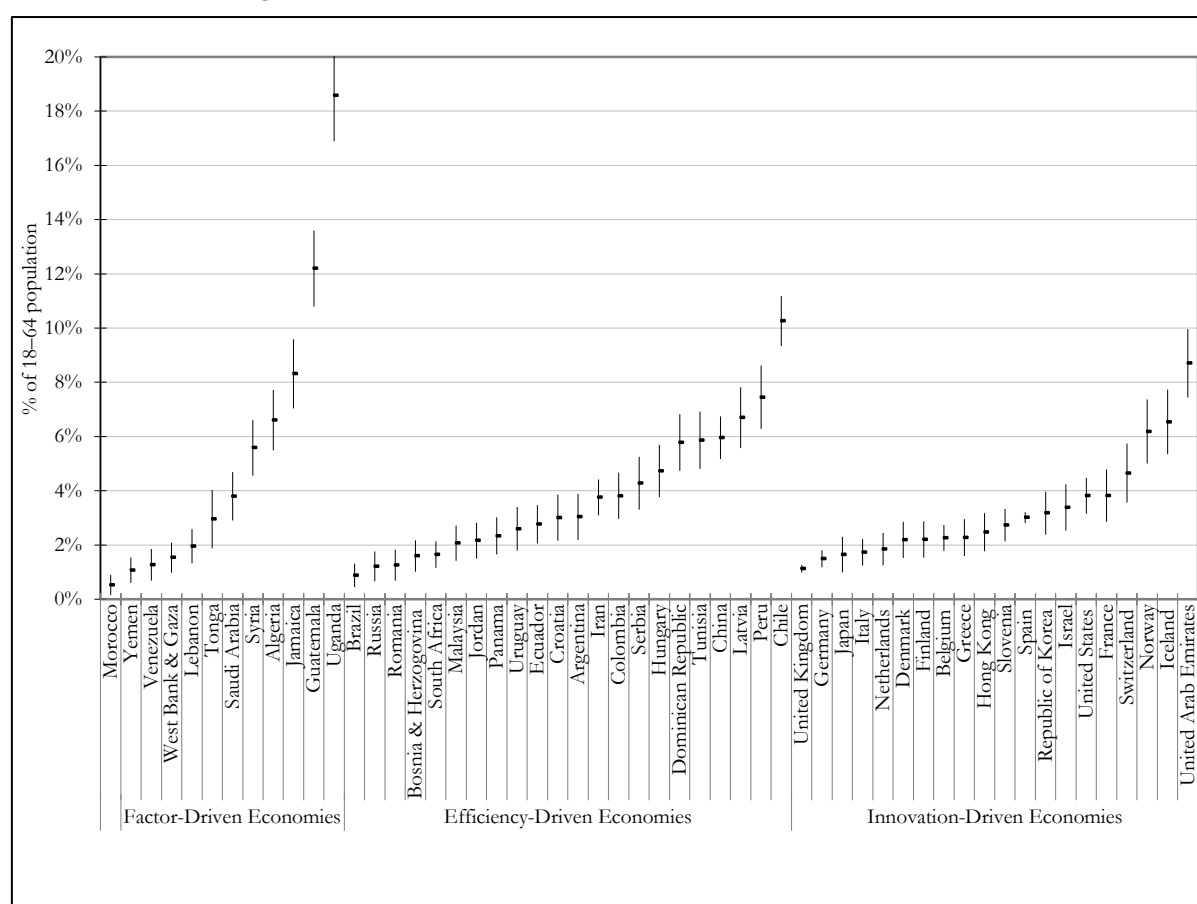
Male nascent entrepreneurs have higher expectations for the return on their personal investment than females in all countries, except Lebanon, and significantly higher expectations in Algeria, Jordan, and Palestine.

## Informal Investors

Informal investors are defined by GEM as those adults who have, in the past three years, personally provided funds for a new business started by someone else. This group of people is motivated by a return on their investment, in addition to the less tangible benefits that come from helping out a family member or someone they know. They tend to take money from their savings and current income when they invest in other entrepreneurs, and they are an important source of informal financing for start-ups in all GEM countries. This informal financing plays a critical role during periods of financial instability, such as that in 2008, and also indirectly supports job creation through the multiplier effect (Bosma and Levie 2010). In less developed economies, especially in overwhelmingly Muslim societies with strong reservations about receiving or paying interest, people tend to avoid the commercial banking system and opt for personal sources of financing or Islamic banking.<sup>12</sup>

The prevalence rate of informal investors in the adult populations of 55 GEM countries is displayed in Figure 31. The average prevalence rate is 3.9%, but this ranges from a low of 0.5% of the adult population in Morocco to a high of 18.6% in Uganda.

**Figure 31. Informal Investor Prevalence Rates for 55 Nations**



Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 52.

Note: The vertical bars indicate the 95% confidence intervals. The mid-point is the mean.

<sup>12</sup> Chong and Lui (2009) argue that the expansion of Islamic banking is due to an Islamic resurgence rather than the benefits of profit- and loss-sharing. For a review of the effect of Islamic banking on financial stability, see Cihak and Hesse (2008).

For the seven MENA countries, the average prevalence rate in the adult population is 2.8%, ranging from 0.5% in Morocco to 6.6% in Algeria. The two countries which outperform among the seven GEM-MENA countries are Algeria and Syria, with prevalence rates higher than in most efficiency- and innovation-driven GEM economies. This is also the case in the United Arab Emirates and Tunisia.

### Size of Informal Investments

The average investment made over the past three years by informal investors in six of the seven GEM-MENA countries ranges from the equivalent of US\$11 500 in Syria to over US\$25 000 in Palestine (Table 13). The overall average is about US\$15 000, or US\$5000 a year. Depending on the country, from 62% to 77% of the informal investors have invested less than US\$7500 in the past three years.

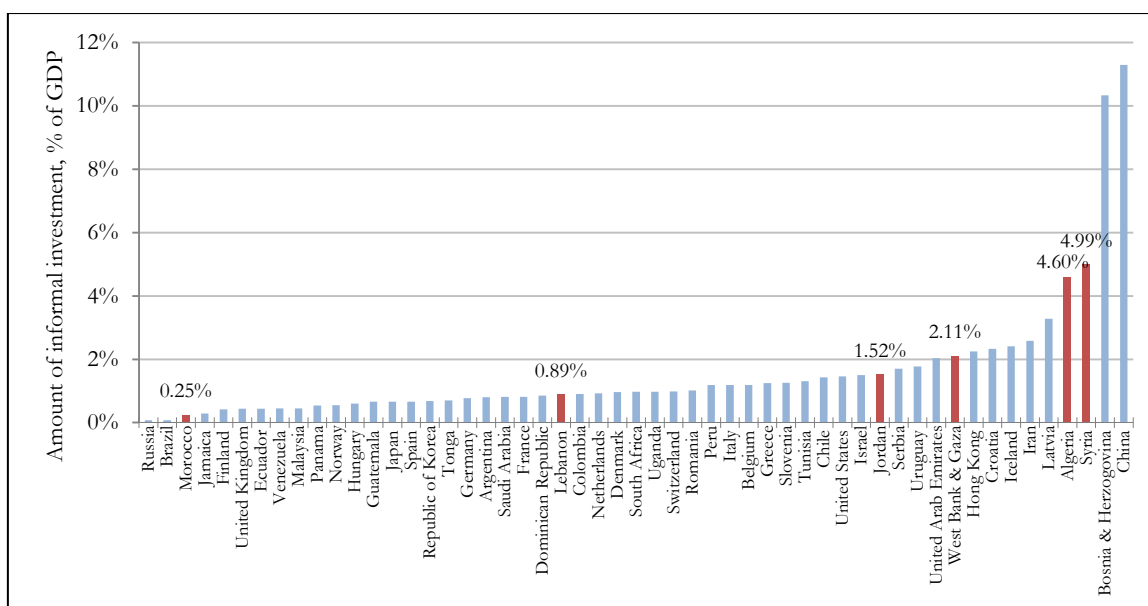
**Table 13. Informal Investments in the Past Three Years, by Size**

US\$ (PPP)	DZ	JO	LB	PS	SY
Less than \$2000 (%)	41.3	40.2	24.7	23.7	27.7
\$2001–\$7500 (%)	35.3	34.9	37.3	46.5	46.5
<i>Subtotal (%)</i>	<i>76.6</i>	<i>75.1</i>	<i>62.0</i>	<i>70.1</i>	<i>74.2</i>
\$7501–\$24 999 (%)	9.8	12.0	19.8	16.2	19.2
\$25 000–\$50 000	4.4	0.0	15.7	10.2	3.1
More than \$50 000 (%)	9.2	12.9	2.5	3.5	3.5
<i>Total (%)</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>	<i>100.0</i>
<i>Mean Investment Amount (US\$)</i>	<i>\$14 496</i>	<i>\$13 160</i>	<i>\$13 033</i>	<i>\$25 175</i>	<i>\$11 554</i>
<i>Median Investment Amount (US\$)</i>	<i>\$2463</i>	<i>\$2823</i>	<i>\$5000</i>	<i>\$2983</i>	<i>\$3210</i>

Note: Yemen was excluded from this analysis due to a large number of missing values (refused or “don’t know” responses), and Morocco due to the very low prevalence rate of informal investors.

Although these are relatively small amounts on the part of individual informal investors, the cumulative impact at the national level is significant. The total amount of informal investment is estimated at close to 5% of GDP in Algeria and Syria, 2% in Palestine, 1.5% in Jordan, almost 1% in Lebanon, and around 0.3% in Morocco (Figure 32). Four of the GEM-MENA countries compare favourably to other GEM countries on this indicator.

**Figure 32. Amount of Informal Investment as % of GDP (PPP), GEM 2009**



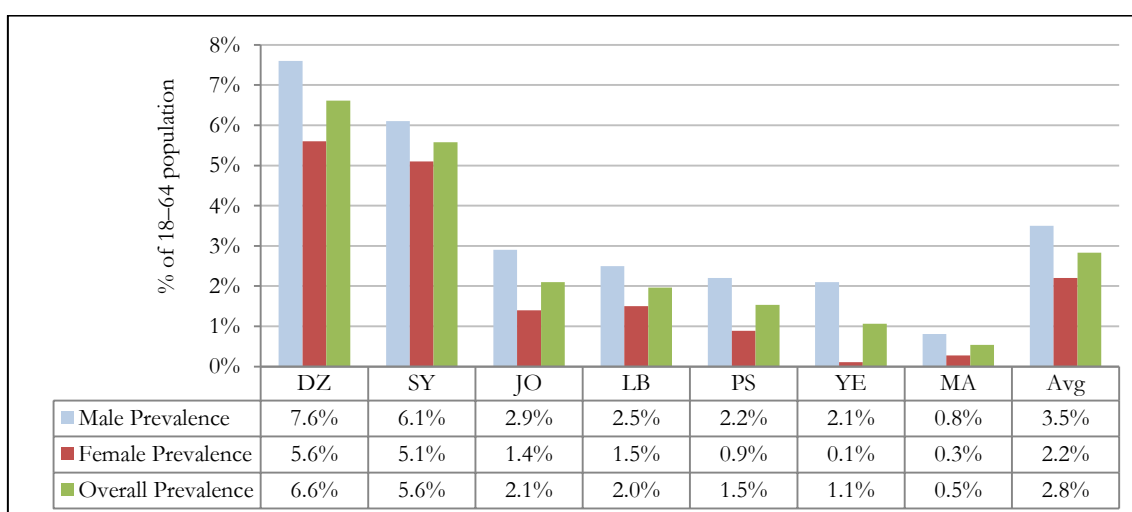
Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 53.

Note: There were too many missing values to include data for Yemen.

## Who Are the Informal Investors?

Global GEM studies find that men are more likely to participate as informal investors than women. This is also generally the case in the GEM-MENA countries (Figure 33). The informal investor prevalence rate for women averages 2.2% of the female adult population compared to 3.5% among male adults. The female rate is highest in Algeria and Syria (5% or more) and particularly low in Morocco and Yemen (less than 0.1%). About 38% of all informal investors are women, producing a smaller overall gender gap than in early-stage entrepreneurial activity prevalence rates. However, women's share of informal investors varies across country, from 42% to 45% in Algeria and Syria, respectively, to 25% in Palestine and Morocco, to less than 0.05% in Yemen.

**Figure 33. Informal Investor Prevalence Rates by Gender**



Informal investor prevalence rates vary considerably by age, education, and household income level, as well as across countries (Table 14). There is a general tendency for higher prevalence rates in the 25–34 and 35–44 age groups, although in Syria, 18–24 year-olds also have a relatively high percentage of informal investors. In Palestine, 45–54 year-olds are more likely to be engaged in informal investing, and in Algeria and Lebanon, the highest rates are in the 55–64 age group. They come from all household income levels, but the prevalence rate is higher in the upper-third income groups in Morocco, Palestine, Yemen, Jordan, and Syria. This might be expected since higher-income groups have more resources and thus, a greater probability of participating in the informal financing of other people’s enterprises, as well as investing at a higher average level. In Lebanon and Algeria, the highest prevalence rate is in the lower-third income group. Finally, the prevalence rates are generally higher among the better-educated groups of the population. This is the case in all of the countries except Algeria.

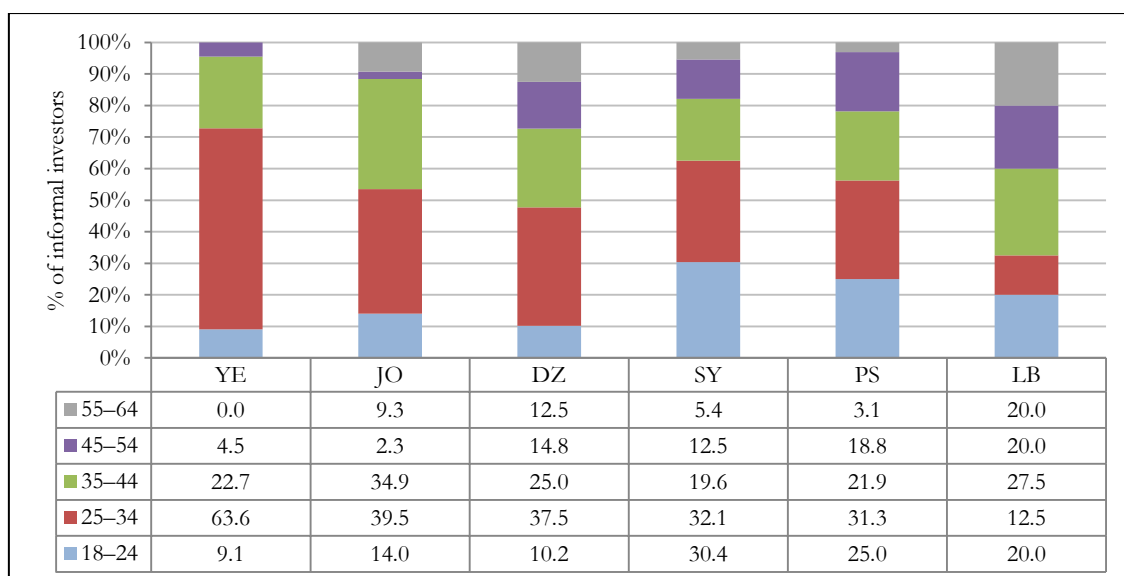
**Table 14. Informal Investor Prevalence Rates by Age, Income, and Education**

Demographics	DZ	SY	JO	LB	PS	YE
<i>Age Group</i>	%	%	%	%	%	%
18–24	2.8	6.0	1.1	1.6	1.4	0.3
25–34	8.1	6.0	2.8	0.9	1.6	2.1
35–44	7.6	5.3	3.3	2.4	1.6	1.5
45–54	6.5	5.3	0.4	2.5	2.1	0.4
55–64	9.6	4.0	2.5	4.6	0.6	-
<i>Household Income Group</i>	%	%	%	%	%	%
Lower-Third	8.6	4.1	-	2.2	1.0	0.8
Middle-Third	7.7	4.8	1.2	1.7	1.1	0.3
Upper-Third	6.6	7.2	3.0	1.8	1.9	1.3
<i>Education Level</i>	%	%	%	%	%	%
None	7.3	2.5	1.7	2.7	-	0.3
Some Secondary	5.4	6.9	1.0	3.0	0.9	1.0
Secondary Degree	7.8	6.7	1.7	1.6	1.8	1.2
Post-Secondary	7.0	5.3	5.1	1.0	3.4	2.2
Graduate Experience	5.2	8.0	-	5.6	8.3	-

Note: Morocco is not included because the informal investor prevalence rate was too low to allow reliable demographic analysis.

Converting prevalence rates to the distribution of actual informal investors by these demographic variables reveals that the majority are in the 25–34 and 35–44 age groups (overall average of 60%) (Figure 34). About 30% of the Syrian informal investors are notably younger than 25 years of age, and about 40% of Lebanese informal investors are 45 years of age or older.

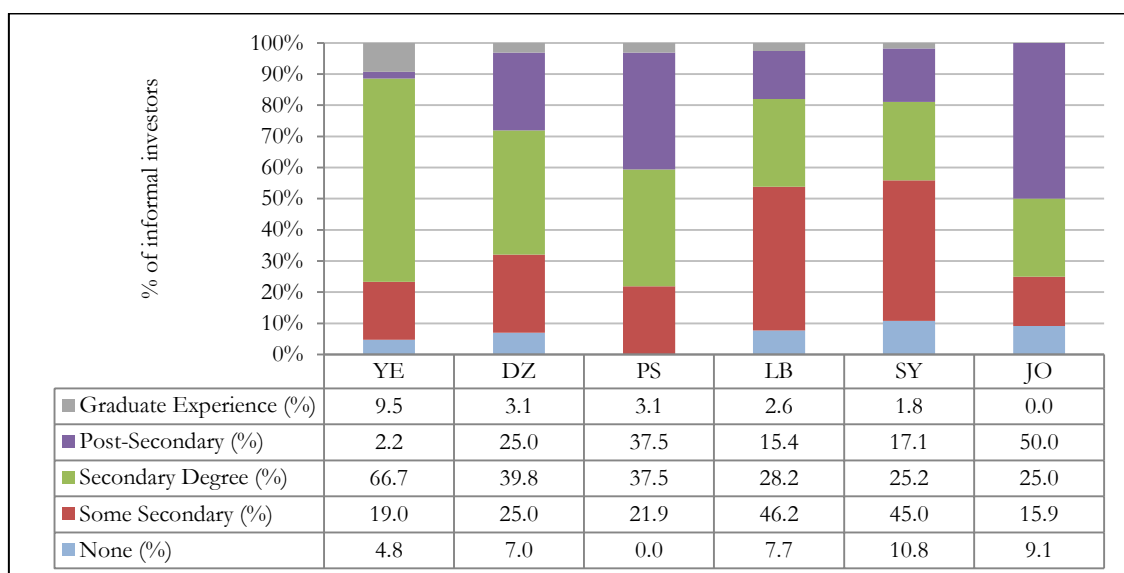
**Figure 34. Share of Informal Investors by Age Group**



Note: The informal investor prevalence rate in Morocco is too low to enable reliable analysis of the data.

The majority of the informal investors have a secondary level of education. Combined, adults with “some secondary” education and a “secondary degree” account for more than 60% of informal investors. Jordan and Palestine have the highest proportion of informal investors in the post-secondary education group and Yemen, the highest share with some graduate level experience (Figure 35). Overall, very few have some graduate education, reflecting the low proportion of more highly educated people in MENA countries.

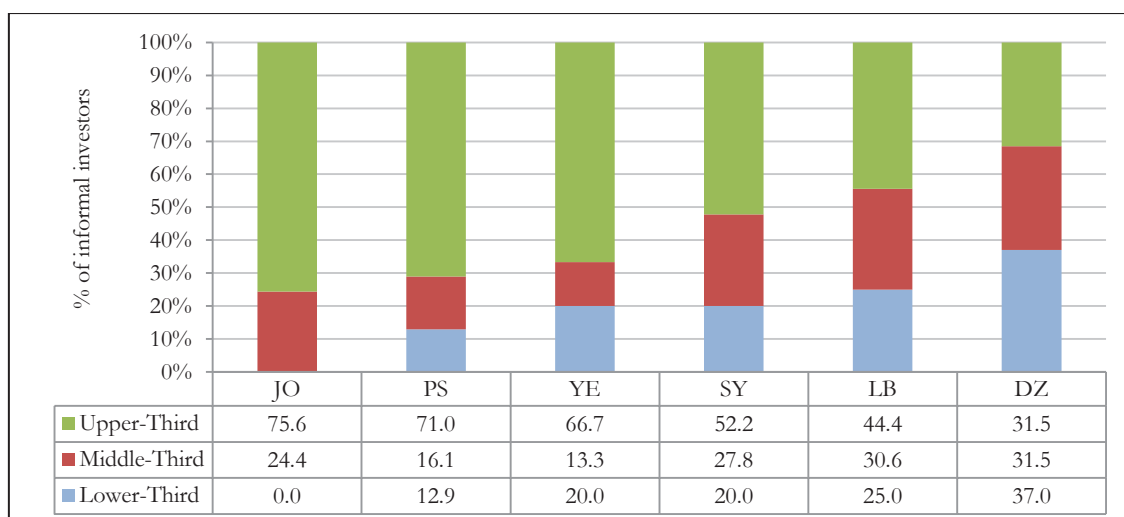
**Figure 35. Share of Informal Investors by Education Level**



Note: The informal investor prevalence rate in Morocco is too low to enable reliable analysis of the data.

Almost half of the informal investors come from the upper-third income group, with a much higher percentage in Syria and Palestine (over 70%) (Figure 36). On the other hand, over a third of Algerian informal investors are from lower-income households.

**Figure 36. Share of Informal Investors by Household Income Group**



Note: The informal investor prevalence rate in Morocco is too low to enable reliable analysis of the data.

### Who Do Informal Investors Support?

Informal investors are most likely to provide start-up financing to a close family member, followed by a friend or neighbour and then some other relative, although this varies by country (Table 15). Informal investors in Palestine are most likely to invest in a close family member (51.6%); in Yemen, in some other relative (42%); and in Syria, in a friend or neighbour (32%). Informal investors are not very likely to be investing in a stranger's business.

**Table 15. Who Informal Investors Provide Financing to**

Recipient	DZ	JO	LB	PS	SY	YE	Average
Close Family Member (%)	42.3	28.8	46.7	51.6	26.8	26.8	36.3
Some other Relative (%)	19.4	32.3	14.8	20.7	22.2	41.9	22.2
Work Colleague (%)	16.4	-	5.3	-	4.2	-	6.3
Friend or Neighbour (%)	16.8	30.0	24.9	27.7	32.6	31.4	26.7
Stranger with a Good Business Idea (%)	5.1	9.0	8.3	-	14.2	-	8.5

Note: Morocco data are not included due to too few observations.

### What Return Do Informal Investors Expect?

About a quarter of the informal investors do not expect any return on their investment (Table 16), indicating a clear case of "love money." In fact, over half of them do not expect any return or no more than their original investment.

**Table 16. Payback Expected by Informal Investors**

Payback in 10 years	DZ	JO	LB	PS	SY	Average
None (%)	15.7	27.3	21.7	41.4	38.3	24.2
About half of what I put into the firm (%)	14.3	9.1	13.0	-	4.9	10.8
About what I put into the firm and no more (%)	21.4	18.2	17.4	6.9	17.3	21.1
One and half times my investment (%)	10.0	3.0	-	-	3.7	5.7
Twice my investment (%)	14.3	9.1	26.1	17.2	14.8	18.6
Five times my investment (%)	14.3	15.2	13.0	20.7	13.6	18.6
Ten times my investment (%)	7.1	9.1	4.3	13.8	3.7	10.8
Twenty times my investment (%)	2.9	9.1	4.3	-	3.7	4.1

Note: Morocco and Yemen are excluded in column data due to too few observations.

It is also noted that the informal investors are less optimistic about their expected payback than the nascent entrepreneurs are of the return on their own self-supplied capital (see Table 12). In most of the countries, the lowest expected rate of return is for investments in a close family member.

### ***Sources of Advice***

An entrepreneur normally obtains information and advice from others during the process of starting or managing a young business. This could be sought from people in their private sphere of social relations (family and friends), their job sphere (work colleagues and bosses), their sphere of contacts with specific experience in starting and managing a new business (someone else who has started a business, an investor, or a mentor), the professional sphere of experts (accountants, lawyers, financial institutions, and business development organizations), or someone from the market sphere in which they will be doing business (supplier, customer, or competitor). These advice-giving spheres are likely to render different kinds of advice. Notably, the private sphere is likely to give support or discouragement, the job sphere may serve as a sounding board, the experience sphere may convey tacit knowledge, the professional sphere offers codified knowledge, and the market sphere may provide information about business opportunities. Seventeen of the 55 GEM countries (including the seven GEM-MENA countries) opted to investigate the early-stage entrepreneurs' use of these advice-giving social networks in 2009. This section presents analysis of this set of APS questions for the seven MENA countries.

### **Advice-Seeking Practices of Early-Stage Entrepreneurs**

MENA early-stage entrepreneurs make heavy use of their private sphere of social networks for business advice (spouse, parents, other family, and friends) and minimal use of professional services (banks, lawyers, accountants, etc.) (Table 17). The most frequently used sources of advice are parents (58%), followed by friends (54%), and other family members or relatives (52%). Yemeni early-stage entrepreneurs make the highest use of parents and spouses, Syrians of friends, and Palestinians of other family or relatives. Advice from a spouse is the least sought in the private sphere of influence, except in Yemen. Work colleagues are used by 17% of the early-stage entrepreneurs, with a relatively higher level of use in Syria (33%). An average of 18% of early-stage entrepreneurs uses advice from other people with experience, most frequently from a mentor. Syrian early-stage entrepreneurs are much more likely than others to seek advice from mentors than in the other countries. Early-stage entrepreneurs in Syria are also more likely to seek advice from market constituents (29% versus an average of 11%), especially from customers. In Jordan and Lebanon, intelligence from market sources is rarely used (by only about 5% of early-stage entrepreneurs). On average, only 5% of GEM-MENA early-stage entrepreneurs receive advice from professional bodies (accountants, lawyers, bankers, business development services, etc.), with a slightly higher use of these sources in Syria, Yemen, and Algeria (7–8%) and the lowest use in Morocco (2%). Microfinance providers are somewhat more frequently used as a source of advice in Algeria, Palestine, and Syria than in the other countries. Algerian early-stage entrepreneurs use advice from banks more so than entrepreneurs in the other countries (9% versus an average of 5%). Yemeni entrepreneurs appear to be receiving more advice from public advisory services than in the other countries (27% versus an average of 8%).



**Table 17. Percentage of Early-Stage Entrepreneurs Receiving Advice by Source**

Sphere	Advisor	DZ	JO	LB	MA	PS	SY	YE	Average
Private (%)	Spouse	32	31	29	33	46	40	62	40
	Parents	59	49	37	60	53	57	84	58
	Other family or relatives	48	53	48	46	62	61	53	52
	Friends	58	52	52	51	59	66	45	54
<i>Average (%)</i>		<i>49</i>	<i>46</i>	<i>42</i>	<i>48</i>	<i>55</i>	<i>56</i>	<i>61</i>	<i>51</i>
Job (%)	Current coworkers	33	17	19	16	15	51	23	24
	Current boss	10	7	3	3	2	14	24	9
<i>Average (%)</i>		<i>22</i>	<i>12</i>	<i>11</i>	<i>10</i>	<i>9</i>	<i>33</i>	<i>24</i>	<i>17</i>
Experience (%)	Someone in another country	14	10	10	2	4	25	10	11
	Someone who came from abroad	12	9	15	11	5	22	1	10
	Someone who is starting a business	20	11	14	20	11	36	16	18
	Researcher or inventor	5	3	3	2	3	14	3	4
	Possible investor	8	6	6	3	7	20	18	10
	Mentor	29	29	23	13	25	59	35	29
<i>Average (%)</i>		<i>15</i>	<i>11</i>	<i>12</i>	<i>10</i>	<i>9</i>	<i>28</i>	<i>14</i>	<i>18</i>
Market (%)	Collaborating firm	5	4	5	2	9	16	9	7
	Competitor	8	3	2	1	3	20	9	6
	Supplier	9	7	5	4	15	37	6	10
	Customer	16	7	8	23	18	41	26	19
<i>Average (%)</i>		<i>10</i>	<i>5</i>	<i>5</i>	<i>8</i>	<i>11</i>	<i>29</i>	<i>13</i>	<i>11</i>
Professional (%)	Bank	9	1	6	2	4	5	5	5
	Lawyer	6	3	10	1	5	17	3	6
	Accountant	11	3	10	2	9	18	7	8
	Public business advisory service	6	2	2	2	3	4	27	8
	NGO business development service	4	3	2	1	5	4	4	3
	Microfinance provider	5	2	2	2	7	6	3	3
	Business association	5	4	1	2	4	4	3	3
<i>Average (%)</i>		<i>7</i>	<i>3</i>	<i>5</i>	<i>2</i>	<i>5</i>	<i>8</i>	<i>7</i>	<i>5</i>

Note: Around 50% of early-stage entrepreneurs received advice from any source. In Syria, 76% of the entrepreneurs received advice.

Similar results are observed for the advice-seeking practices of new business owners and nascent entrepreneurs. In Yemen, however, advice from parents is considerably less used by new business entrepreneurs than by nascent entrepreneurs, and advice from persons with some business experience or experience in starting a business is considerably more used. In Jordan, new business owners make more use of customers, lawyers, and accountants than nascent entrepreneurs; while nascent entrepreneurs make more use of advice from suppliers, customers, collaborators, competitors, and people with business experience than new business owners, and slightly more use of professionals. A similar situation exists in Algeria — nascent entrepreneurs are more likely than new business owners to be receiving advice from customers, somebody who is starting a business, lawyers, and banks. In Palestine, nascent entrepreneurs make more use of customers, people with experience in starting a business, lawyers, accountants, and microfinance providers as sources of advice than new business owners, and less use of a spouse. In Morocco, nascent entrepreneurs more often than new business owners receive advice from customers and someone with experience in starting a business. In Lebanon, nascent entrepreneurs receive advice more often than new business owners from work colleagues, customers, people with experience, lawyers, and accountants.

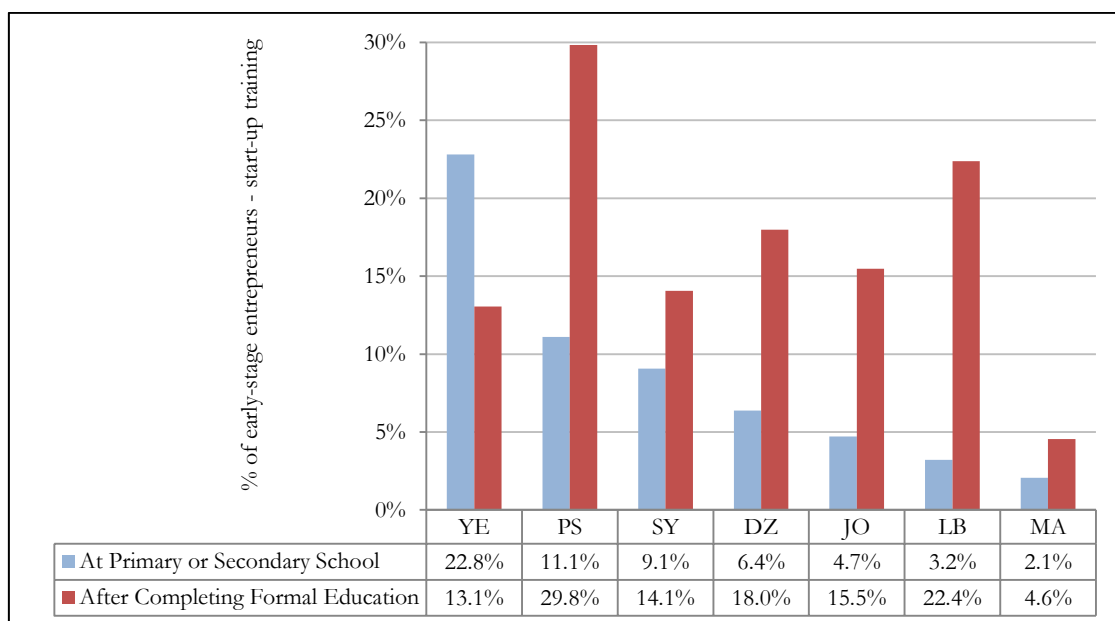
Male and female early-stage entrepreneurs exhibit different advice-receiving patterns. Female entrepreneurs are more often than male entrepreneurs receiving advice from spouses, parents, and other family members and less often receiving advice from people and organizations outside their personal sphere (Schøtt and Zali 2010).

The important implication of this analysis is that 95% of early-stage entrepreneurs are not receiving advice from professional experts. Unpublished analysis of the results for the 17 GEM countries reveals that GEM-MENA entrepreneurs make much lower use of professional advisory services than entrepreneurs in the other countries. Either these services do not exist in sufficiency or do exist, but entrepreneurs are not aware of the services or do not feel comfortable approaching them. In either case, there is a need to address the imbalance. Results also indicate that use of experienced persons (especially someone from abroad, a researcher or inventor, and a possible investor) and representatives from the market sphere (especially a supplier) enhances growth expectations and the level of enterprise innovativeness.

### ***Prevalence of Training on How to Start a Business***

Training on how to start a business can have a number of positive impacts on entrepreneurial outcomes. It can improve the problem-solving abilities, approaches, and know-how of potential entrepreneurs and help weed out low-opportunity or unfeasible business ideas, ultimately leading to a more viable start-up. A special GEM report on entrepreneurship education and training showed that a third of entrepreneurs across 38 GEM countries had received training in starting a business (Martinez et al. 2010). In comparison, the proportion of GEM-MENA early-stage entrepreneurs who have received training is very low. The percentage reporting that they have received start-up training at primary or secondary school ranges from 2% in Morocco, to 11% in Palestine, to 23% in Yemen (Figure 37). The incidence of receiving start-up training is generally higher after completing formal education.

**Figure 37. Early-Stage Entrepreneurs with Start-Up Training**



The major source of non-formal learning for GEM-MENA early-stage entrepreneurs (training outside the formal educational environment) is through reading books, observing other people in business, or working in someone else's business (Table 18). Although levels vary across countries, the percentage participating in training from other sources is modest. However, the proportions in GEM-MENA countries receiving training from an employer or learning informally are much higher than average for 38 other GEM countries.

**Table 18. Proportion of Early-Stage Entrepreneurs Receiving Non-Formal Training on Starting a Business from Selected Sources**

Source	YE	PS	SY	DZ	JO	LB	MA	Average for 38 GEM Countries*
College or University (%)	0.1	7.0	1.8	8.0	5.8	2.8	9.3	13.0
Business Association (%)	0.2	4.2	2.5	2.3	0.8	1.4	4.7	4.0
Government Agency (%)	0.5	3.6	4.3	2.9	2.7	0.7	2.3	3.0
Past or Current Employer (%)	6.1	6.7	10.4	6.7	6.2	14.7	2.3	3.0
Learned Informally** (%)	20.8	12.4	16.6	12.3	8.6	20.2	14.0	10.0

Note: \* The education and training of early-stage entrepreneurs was investigated as a special topic in the 2008 GEM research cycle with 38 countries participating. The 2009 GEM-MENA APS asked some of the same questions and these responses are compared to the overall GEM results for 2008.

\*\* Informal learning includes reading books, observing other people in business, or working in someone else's business.

In summary, this chapter has stressed the importance of having access to start-up capital and advice. Barriers to accessing capital and advice can have a negative impact on actual start-up rates, the scale of the start-up, its early-stage survivability, and its future growth potential.

Most nascent entrepreneurs are trying to start their businesses with relatively small amounts of capital (depending on the country and sector of activity) and supplying the majority of this capital from their own personal resources. This may be one of the explanatory factors in the generally higher early-stage entrepreneurial activity prevalence rates among adults from the higher household income groups.

Although there are differences across the seven GEM-MENA countries, only a small percentage of start-ups will access bank financing or funds from a government program. Banks in MENA countries are notorious for not being "SME-friendly," and government financial programs, while they exist in most of the MENA countries, are often selectively targeted and have a relatively small reach. Thus, there is a dearth of formal external financing to meet the needs of new businesses.

Informal investors are a significant source of start-up capital in some of the countries. These investors are providing financing to relatives and close friends, neighbours, or work colleagues. They have much more modest expectations for a return on their investment than do the nascent entrepreneurs on their own self-supplied capital.

The percentage of early-stage entrepreneurs receiving advice from professionals and experts and participating in start-up training is very low relative to the behaviour in other GEM countries.

To improve the chances for more successful start-ups, the imbalances in availability and access to formal external sources of financing, professional advice, and start-up training need to be addressed.

## Chapter 5. Business Discontinuance

Country-level entrepreneurial activity is in a constant state of dynamism. Segments of the adult population are continuously in the process of exploring the idea of starting a business, taking steps to get one started, launching new businesses, managing young businesses into survival and growth phases, and disengaging (either voluntarily or involuntarily) from businesses they own. This chapter explores the phenomenon related to the exit of entrepreneurs from a business during the 12 months prior to the GEM-MENA surveying. Referred to as “business discontinuance” in the GEM terminology, this measures the prevalence rate in the adult population of people quitting their involvement in a business, and explores their reasons for letting go and what happened to the business itself.

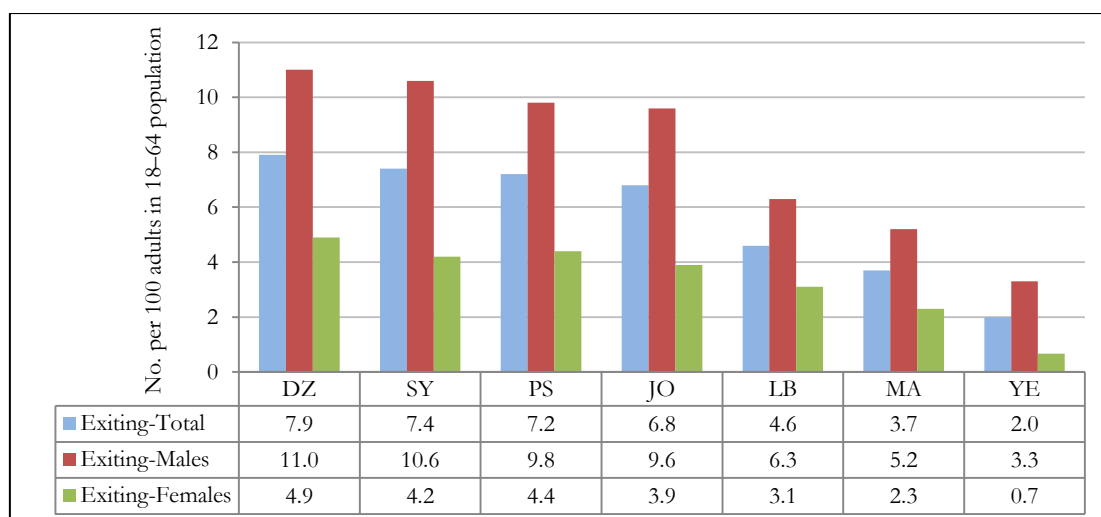
### *Discontinuance Prevalence Rates*

The study of business discontinuance behaviour in the adult population of the 55 countries participating in GEM 2009 reveals a tendency toward higher discontinuance prevalence rates in factor-driven economies (average of 7.2%), declining to 4.9% in efficiency-driven economies and 2.5% in innovation-driven economies. Again, many cross-country differences are masked by these averages.

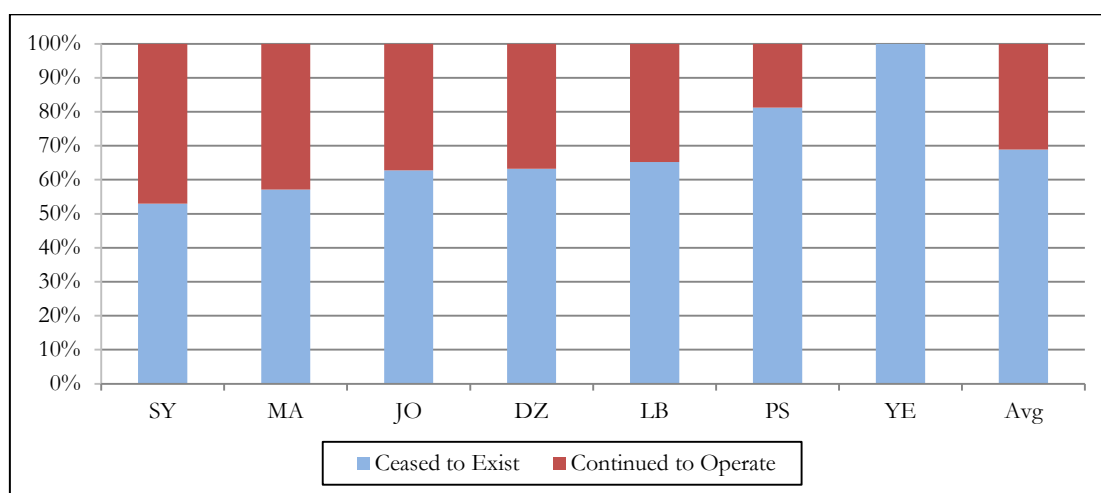
The seven GEM-MENA countries, all of which are factor-driven economies except Jordan, lie above or below these averages (Figure 38). The highest discontinuance prevalence rate is in Algeria, where 7.9 adults per 100 18–64-year-olds had disengaged from a business they owned in the previous 12 months. The rates in Syria and Palestine are very close to the GEM average for countries at their phase of development; much lower than this average in Lebanon, Morocco, and Yemen; and above the average in Jordan. Figure 38 also notes the differences between discontinuance rates for men and women. Adult males are two to two and a half times more likely than adult women to have disengaged from a business (five times more likely in Yemen), which to some extent reflects their higher level of participation in entrepreneurial activity in general.

The bottom line is that while millions of adults are in the process of starting new businesses, others are disengaging from businesses they already own. This is not a measure of business failure. Business discontinuation could happen for a number of reasons; in some cases, the business itself continues, and in others it does not. In the seven GEM-MENA countries, the majority (two-thirds) of the businesses do not continue to exist, but, interestingly, a third of them survive the departure of the “disengaged” entrepreneur (Figure 39), which is more or less consistent with the average across all GEM countries. At the GEM-MENA country level, the survival rate for the businesses is highest in Syria (where 47% continue to operate). Over 80% of the businesses in Palestine close and none of those in Yemen survive.

**Figure 38. Prevalence of Discontinuance from a Business in Adult Population**



**Figure 39. Outcome for the Business**

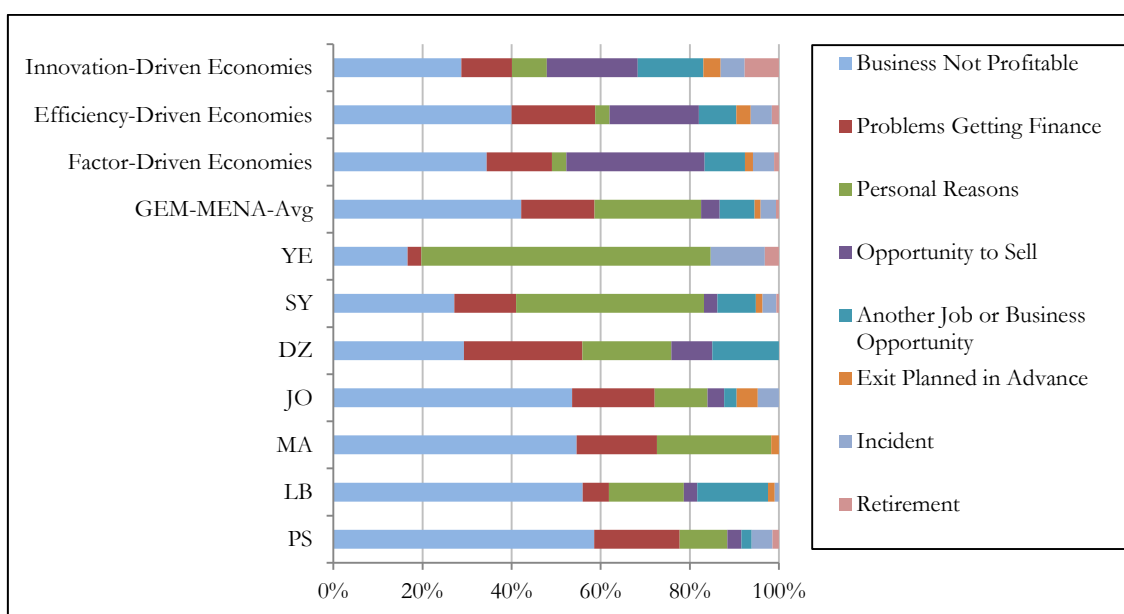


### ***Reasons for Discontinuance***

The entrepreneurs' reasons for business discontinuance in the seven GEM-MENA countries are consistent with the results for factor-driven economies in the *Global Entrepreneurship Monitor, 2009 Global Report*. For factor-driven economies, “business not profitable” is cited by an average of 34% of adults as the reason they left the business, followed by “personal reasons” (31%), and “problems getting finance” (15%) (Bosma and Levie 2010). For the seven GEM-MENA countries, the corresponding figures are 43%, 24%, and 17% (Figure 40). This suggests that business profitability is a more serious problem for GEM-MENA entrepreneurs than it is for the average factor-driven economy and that personal reasons play a lesser role. In fact, “business not profitable” is the number one reason for business discontinuance for well over half of the adults in Palestine, Lebanon, Morocco, and Jordan, with the highest percentage in Palestine. In Palestine, where entrepreneurs are at a particular disadvantage with respect to the two factors affecting profitability — low revenue and high costs — almost 60% of the exits are due to lack of profitability. Inability to compete with more efficient Israeli products and lack of access to Israeli or other external markets make businesses more exposed to losses. In most of the GEM-MENA countries, the

percentage citing “problems getting finance” is close to the global average for factor-driven economies (15%), but this reason accounted for 27% of the discontinuances among Algerians. In Yemen, the major reason for leaving the business was due to personal factors. The “opportunity to sell” was rarely mentioned as a reason, which may be reflective of a weak resale market for enterprises. Since many of the GEM-MENA adults involved in entrepreneurial activity are in their 20s or 30s, it is not surprising that retirement is the least cited reason for discontinuing involvement in a business.

**Figure 40. Reasons for Business Discontinuance**

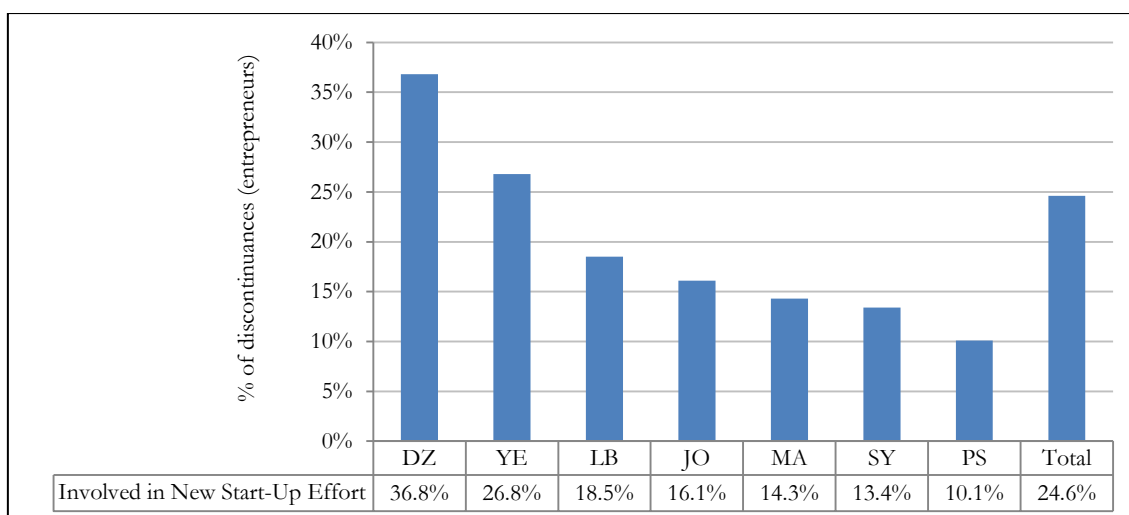


Men and women are equally likely to report problems getting finance, but women are more likely to report personal reasons (29% of women versus 22% of men) and less likely to report they left the business because it was not profitable (35% versus 45% of men).

Even though a large number of the entrepreneurs who discontinued their involvement in a business in the past 12 months did so because of lack of profitability, it did not prevent them from trying to start again. In fact, a large number of the exiting entrepreneurs were actively involved as owners in new start-up efforts in 2009. This ranged from over 7% of the exiting entrepreneurs in Morocco to 20% or more of those in Palestine, Syria, and Yemen, collectively involving around a quarter of all of the exiting entrepreneurs in the seven countries<sup>13</sup> (Figure 41). This demonstrates that business discontinuation is a natural and normal part of the entrepreneurial process of opportunity recognition and pursuit, releasing human and other capital previously tied up in unproductive assets for use in more valuable ways. Plus, a high exit rate could signal higher TEA rates and more profitable enterprises in the future, as individuals with previous entrepreneurial experience try again.

<sup>13</sup> The *GEM 2007 Executive Report* reported that 14% of GEM respondents who had closed a business in the previous 12 months were actively trying to start another business and 20% were owner-managers of another business (Bosma et al. 2008).

**Figure 41. Percentage of Discontinuing Entrepreneurs Involved in New Start-Up Efforts**



In conclusion, the business discontinuance behaviour of entrepreneurs can provide proxy information for the dynamic of entrepreneurial activity, data that are sorely lacking in MENA countries. This chapter provides interesting insight on the motivations of exiting entrepreneurs and their propensity to re-enter the entrepreneurial process in a new start-up venture. Two of the main reasons for business discontinuation are related to the profitability of the business and difficulty with financing. The choice of business itself is very important to its survival. An enterprise operating in a market with many competitors (as many GEM-MENA businesses are) has no market power and struggles to reach a profitable scale of operation. Challenges such as these might be more manageable if entrepreneurs had more access to training on business planning, marketing, and financial management or greater access to credible business advice. However, this chapter has also revealed that about a third of the businesses continue to operate after the departure of the entrepreneur,<sup>14</sup> and that a large number of the exiting entrepreneurs are engaged in another start-up effort as a nascent entrepreneur. This is all part of the vibrant dynamic of entrepreneurial activity in the GEM-MENA countries.

<sup>14</sup> The GEM APS does not ask further questions about the businesses that continued to operate. Given the high degree of family involvement in MENA enterprises, it may be that family members take over the business and continue its operation.

## **Chapter 6. The Cultural and Personal Context for Entrepreneurial Activity: Attitudes and Intent to Start a Business**

An individual's decision to start a new business and become an entrepreneur depends on many factors. These include their perceptions regarding the desirability and feasibility of starting a business and the influence of societal attitudes toward the value of entrepreneurship. GEM results over the years show that these perceptions and attitudes play an important role in explaining differences in TEA rates across countries. It is these perceptions about their environment and themselves that drive people into or away from entrepreneurial activity (Arenius and Minniti 2005). However, positive perceptions and attitudes alone will not necessarily result in the intent to start a business or a decision to actually engage in entrepreneurial activity. Individuals will also assess the opportunity costs and risk and rewards of starting a business versus other employment preferences and options. Policy dimensions (such as the regulatory environment) and access to resources and technical assistance will also play an influencing role. Understanding more about the attitudes and perceptions of the adult population regarding entrepreneurship and the factors that predispose higher levels of intent to start a business will arm policymakers and service providers with stronger evidence on which to base their efforts to support the next generation of entrepreneurs. This chapter offers insight about these matters in the seven GEM-MENA countries.

### ***Entrepreneurial Attitudes and Perceptions of the Adult Population***

The GEM research uses a number of indicators to assess the strength of cultural attitudes toward entrepreneurship in a society and of people's perceptions about its desirability as an option. Findings have confirmed the importance of these attitudes and perceptions as being instrumental in whether or not people become involved in entrepreneurial activity (Arenius and Minniti 2005; Levie and Autio 2008). Three indicators are used to measure national attitudes toward entrepreneurship that reflect aspects of the cultural context: the percentage of adults who perceive that entrepreneurship is a good career choice; the percentage of adults who perceive that those who succeed at starting a new business have a high level of status and respect; and the percentage of adults who state they often see stories in the media about successful new businesses. Four indicators are used to assess the entrepreneurial potential of individuals: whether they see good opportunities for starting a business in the next six months in the area where they live; whether they possess the knowledge, skill, and experience required to start a new business; whether fear of failure would prevent them from starting a business; and whether they know someone who started a business in the past two years. Finally, adults are asked about their intentions to start a new business within the next three years.

GEM studies find that although there are many differences at the country level, on average, people in countries at lower levels of development tend to have more favourable attitudes toward entrepreneurship and higher intentions to start a business in the next three years (Bosma and Levie 2010).



The overall results for the seven GEM-MENA countries (reflecting responses from all adults in the APS), presented in Table 19, are fairly consistent with the GEM results for countries at a similar phase of development (see Annex 2), with some cross-country differences. They compare relatively favourably to other GEM countries on the cultural context for entrepreneurship. A higher proportion of GEM-MENA adults agree that those successful at starting a new business have a high level of status and respect than the average for GEM countries (except in Algeria), and Yemen rated first among all countries on the proportion of the adult population that considers entrepreneurship a good career choice, believes successful entrepreneurs have high status and respect, and often sees stories in the media about successful new businesses. On the level of media attention to successful new businesses, the proportion of positive responses in Yemen, Morocco, and Jordan were above the GEM average for countries at a similar phase of development, although were much below the average in Syria, Palestine, and Algeria. So it seems that the media play a larger role in promoting entrepreneurship in some countries than in others.

**Table 19. Entrepreneurial Attitudes and Perceptions in Adult Population, GEM-MENA Countries**

Attitudes and Perceptions (% of the 18–64 Population)	YE	MA	LB	SY	PS	JO	DZ
	% (Rank)	% (Rank)	% (Rank)	% (Rank)	% (Rank)	% (Rank)	% (Rank)
<i>Individual Context</i>							
Sees good opportunities for starting a business in the next six months	14 (7)	51 (3)	54 (1)	54 (2)	50 (4)	44 (6)	48 (5)
Has the knowledge, skills, and experience to start a business	64 (3)	75 (2)	77 (1)	62 (4)	56 (6)	57 (5)	52 (7)
Fear of failure would prevent starting a business	43 (7)	25 (2)	26 (3)	20 (1)	42 (6)	39 (5)	27 (4)
Knows someone who started a business in the past two years	37 (6)	47 (2)	45 (3)	31 (7)	42 (4)	42 (5)	59 (1)
<i>Cultural Context</i>							
Entrepreneurship is a good career choice	95 (1)	83 (5)	85 (4)	89 (2)	88 (3)	81 (6)	57 (7)
Frequent stories about successful new businesses in the media	96 (1)	73 (2)	65 (4)	55 (5)	52 (6)	70 (3)	39 (7)
Successful entrepreneurs have high status and respect in the country	97 (1)	87 (3)	79 (6)	89 (2)	78 (6)	84 (4)	58 (7)
Intend to start a business in next three years	27 (5)	27 (4)	27 (3)	56 (1)	26 (6)	29 (2)	26 (7)

Notes: Percentages are rounded to nearest full number. Ranking is among the seven GEM-MENA countries.

With respect to individual context perceptions, around half of the adult population (with the exception of Yemen) see good opportunities for starting a business in the next six months, similar to the average for factor-driven economies. In Yemen, only 14% of adults see good opportunities,<sup>15</sup> among the lowest in any of the GEM countries. In Jordan, the figure is 44%, which is higher than the 36% average for efficiency-driven economies. GEM-MENA adults vary considerably in the level of confidence they have in their knowledge, skills, and experience to start a business. This is highest among adults in Lebanon, and Morocco where about three-quarters perceive they have the capabilities compared to 64% or less in the other GEM-MENA countries (and only 52% in Algeria). The GEM-MENA countries also vary on the fear of failure indicator, a known impediment to entry into entrepreneurial activity based on the fear of uncertainty, the financial risk, and the loss of social respect if the venture does not succeed. The expressed fear of failure is relatively low among adults in Syria (20%), Lebanon (26%), and Algeria (27%), and lower than

<sup>15</sup> “Seeing good opportunities” could be related to the ability of adults to recognize opportunity or reflect perceptions about the state of the economy.

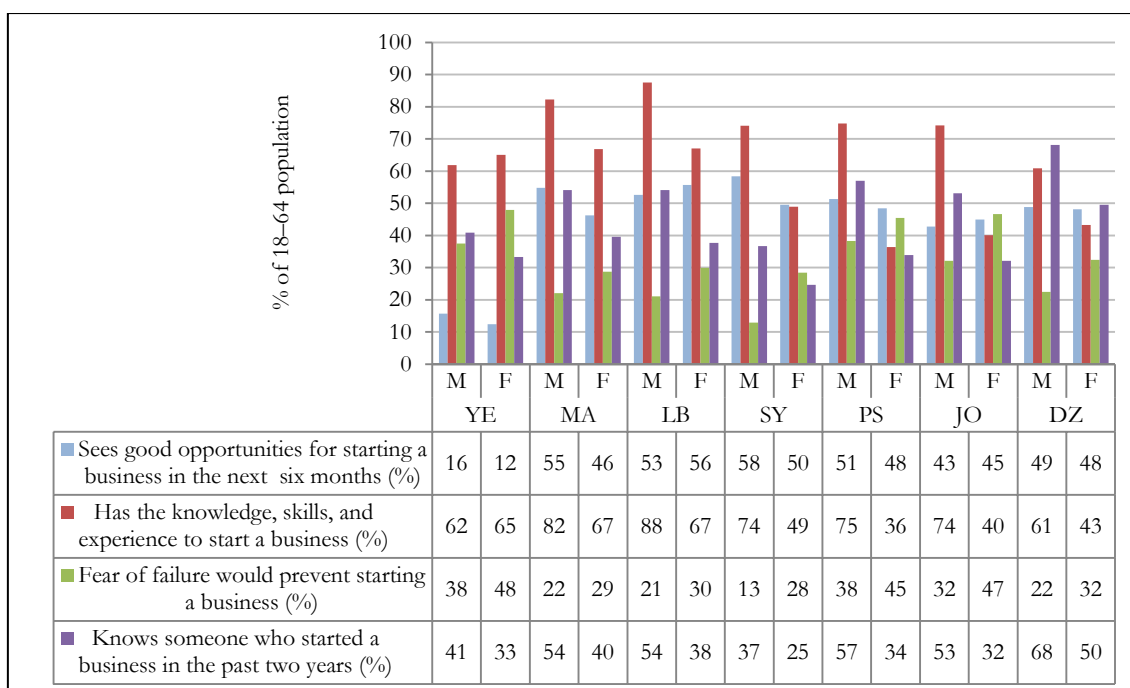
average for countries at a similar phase of development (35%). However, in Palestine and Yemen, more than 40% of the adult population states that fear of failure would prevent them from starting a business. Jordan ranked 17th among the 22 efficiency-driven economies with a score of 39% on this indicator, or just above average for that set of countries.

Algeria stands out as having the least favourable attitudes toward entrepreneurship in the GEM-MENA countries. Only 57% of Algerian adults perceive entrepreneurship as a good career choice (compared to over 80% of the adults in the other GEM-MENA countries), only 58% believe that entrepreneurs have high status and respect (compared to over three-quarters in the other GEM-MENA countries), and only 39% report that they often see stories about entrepreneurs in the media (the third-lowest level in all 55 GEM countries). Together, these indicators suggest a much weaker entrepreneurship culture in Algerian society. In addition, Algeria has the lowest percentage of adults who believe that they have the knowledge and skills to start a business.

Even though a very large percentage of Yemenis agreed with statements regarding the cultural context for entrepreneurship and almost two-thirds perceived that they have the knowledge and skills required to start a business, their fear of failure was the highest for the GEM-MENA countries (43%) and only 14% saw good opportunities for starting a business in the next six months. In Palestine, 88% of the adult population perceived that entrepreneurship is a good career choice, but fewer agreed that entrepreneurs have high status and only 56% felt they have the required knowledge and skills. A similar percentage of adults in Lebanon agreed with the career choice and status statements, but over three-quarters perceived they had the right capabilities to start a business. Moroccans expressed very high levels of agreement on both cultural and individual context indicators.

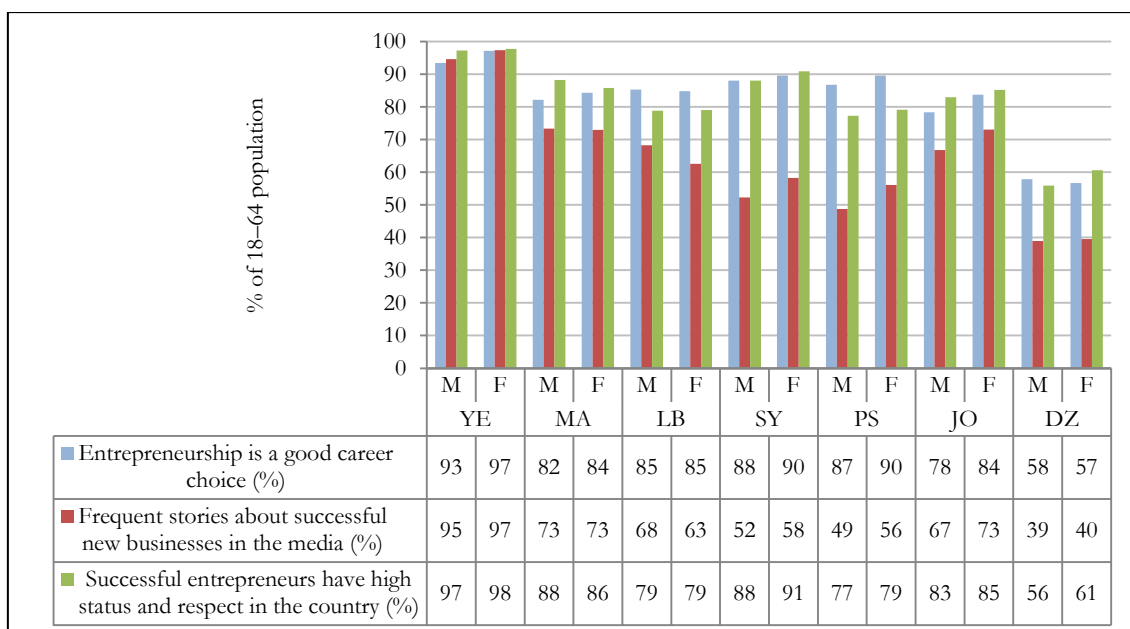
Differences exist between the perceptions and attitudes of men and women. These are illustrated in Figures 42 and 43. The largest gender differences are noted on the individual context perceptions (Figure 42). Although men and women are about equally likely to see good opportunities for starting a business, women are much less likely to perceive they have the knowledge, skills, and experience required and much more likely to report that fear of failure would prevent them from starting a business. This suggests a much lower level of confidence among women. Women are also less likely to know other people who started a business in the past two years within their social networks, all placing women at an entrepreneurial disadvantage. The largest gender gaps in skills perception are in Palestine and Jordan. Men in these two countries are about twice as likely as women to perceive they have the knowledge, skills, and experience. The largest gender gap on fear of failure is in Syria, where more than twice as many women as men report that fear of failure would prevent them from starting a business. The lowest overall gender gap is in Yemen.

**Figure 42. Male and Female Differences on Individual Perceptions**



The gender differences on perceptions of cultural attitudes are much smaller. At the country level, women see the cultural context for entrepreneurship very similarly to men, even as slightly more favourable (Figure 43).

**Figure 43. Male and Female Differences on Cultural Attitudes**



Related to this issue, the GEM-MENA APS also gathered information on the work choice preferences of adults in the seven countries, which to some extent reflects their attitudes toward entrepreneurship. The majority of adults in each of the countries (except Yemen) indicated their top preference for being an owner of their own business, with particularly high percentages in Lebanon (63.8%) and Morocco (69.5%) (Table 20). It should be noted that Lebanon and Morocco

also have the highest densities of entrepreneurs in their population of the seven countries (over 30% of adults are nascent entrepreneurs or owners of young or established businesses). The second most popular work preference was as an employee in the public sector.<sup>16</sup> In spite of highly favourable attitudes toward entrepreneurship, Yemenis have the lowest preference for owning a business (only 14%); most would prefer to have a job either in the public sector/government (56%) or in a small private enterprise (24%). Of course, very few Yemenis see good opportunities for starting a business and the fear of failure prevalence is the highest of the seven GEM-MENA countries.

**Table 20. Work Environment Preferences of the 18–64 Population**

Country	Employee in the Public Sector/ Government (%)	Employee in a Small Private Enterprise (%)	Employee in a Medium to Large Private Enterprise (%)	Owner of a Business (%)
DZ	44.2	6.0	4.3	45.6
JO	42.5	3.0	5.9	48.6
LB	18.7	3.3	14.1	63.8
MA	18.2	6.4	1.8	69.5
PS	40.3	9.1	2.9	45.9
SY	39.0	2.2	5.8	52.9
YE	56.0	23.8	5.7	14.5

Source: GEM-MENA APS, 2009.

### ***Intentions to Start a Business in the Next Three Years***

Given the differences across countries on attitudes and perceptions toward entrepreneurship, one might expect to see large variances in the prevalence rate of 18–64 year-olds expecting to start a business. However, this is not the case. Between 26% and 29% of the adult population in six of the seven GEM-MENA countries (Yemen, Morocco, Lebanon, Palestine, Jordan, and Algeria) intends to start a business in the next three years (Figure 44). This is below the average for other factor-driven economies (32%), but in line with the average for efficiency-driven economies (25%). However, in Syria, the percentage rises to more than half of the adult population, higher than in all GEM countries except Tunisia, Uganda, and Colombia.

Men in the seven GEM-MENA countries are much more likely than women to expect to start a business in the next three years. The exception is Yemen, where women are about equally likely. On average, the ratio of male intent prevalence rates to those of females is 1.5 to 1. The gap is greatest in Jordan and Palestine, where the male rate is close to twice the female rate. These are also the countries with the widest gap between the level of confidence of men and women in their knowledge, skills, and experience to start a business. The bit of good news is that the male–female ratio for intent prevalence rates (1.5 times) is lower than it is for TEA rates (2.2 times), which

<sup>16</sup> It has been argued in the literature that more risk-averse individuals choose the public sector for employment because of the security it provides (Pfeifer 2008). In some countries, public sector wages are higher than private sector wages, such as in Syria (Kabbani 2009), which is also an incentive influencing preferences for public sector work, but in other cases, such as in Palestine, public sector employment offers lower wages, especially for individuals with high school education or less (Daoud 2005). Thus, there is no conclusive evidence that individuals will choose the public sector because of higher wages, although security and benefits may be an overarching factor. At the same time, there is considerable risk in having one's own business, but the rewards tend to be higher if the business succeeds.

suggests that women may be increasingly inclined to consider becoming involved in entrepreneurial activity.

**Figure 44. “Intent to Start a Business” Prevalence Rates in Adult Population**



### Association of Perceptions and Attitudes with Intent to Start a Business

An interesting question then, is how the attitudes and perceptions believed to influence participation in entrepreneurial activity are associated with start-up intentions. The analysis in Table 21 compares the prevalence rates of adults intending to start a business in the next three years with the perceptions they hold about good opportunities, having the knowledge and skills, and fear of failure. This analysis reveals the following:

- ♥ Overall, adults who see good opportunities for starting a business in the next six months are about 1.3 times more likely to intend to start a business than adults who do not see good opportunities. However, the differences are not significant in Yemen and Algeria, where adults who do not see opportunities have about equal expectations of starting a business. Seeing good opportunities matters the most in Lebanon and Palestine. In these two countries, adults who see good opportunities are almost twice as likely to intend to start a business.
- ♥ Perceptions of having the knowledge, skills, and experience to start a business matter greatly to intention rates. Adults who believe they have the necessary skills are twice as likely to intend to start a business. This makes the most difference in Lebanon, where people who believe that they have the required skills are six times more likely to intend to start a business than those who do not. The ratio is over three times in Jordan and Palestine. It makes the least difference in Yemen, where intent to start a business is not influenced much by whether people believe they have the skills or not.
- ♥ Although it might be expected to be more influential, fear of failure does not seem to matter greatly. Adults for whom fear of failure would not prevent them from starting a business are only 1.2 times more likely than those for whom it would to have the intent to start a business, but the difference is not statistically significant. It matters most in Lebanon where adults not fearing failure are twice as likely to intend to start a business. In Yemen, Morocco, Palestine, and Algeria, the likelihood differences are small and not significant.

- The perception that “most people in the country would consider starting a new business as a desirable career choice” (a cultural variable) does not seem to matter much to individuals’ intentions. Whether they agree with this or not, adults are about equally likely to expect to start a business. The difference is greatest in Lebanon, where adults with a positive perception of this are 1.6 times more likely, followed by Yemen, where the ratio is about 1.4 times. In the other countries, the differences are small and insignificant. Algeria stands out as the only country where adults who do not think entrepreneurship is viewed as a good career choice are more likely to intend to start a business than those who do.

In summary, believing that they have the required skills produces the biggest difference in intent to start a business among adults, followed by good opportunities, a low fear of failure, and good career choice. “Good career choice” produces a higher likelihood of intent in Yemen, and in Syria, “good opportunities” produces a slightly higher intent than “required skills”.

**Table 21. Prevalence of Intent to Start a Business by Selected Attitudes and Perceptions**

% of 18–64 Population Who Intend to Start a Business in the Next Three Years		Sees Good Opportunities		Has the Knowledge, Skills, and Experience		Fear of Failure Would Prevent from Starting a Business		Entrepreneurship is a Good Career Choice	
		Yes (%)	No (%)	Yes (%)	No (%)	Yes (%)	No (%)	Yes (%)	No (%)
	SY	67.1*	44.8	63.0*	44.1	58.4*	48.5	57.0*	49.4
	JO	33.4*	25.8	40.7*	10.9	31.4*	22.1	35.4	35.2
	LB	32.6*	18.1	32.1*	5.1	29.9*	14.6	34.6*	21.7
	MA	33.9*	22.9	29.1*	19.8	25.5	31.2	30.7	32.4
	PS	27.3*	15.2	30.6*	9.1	23.3	18.0	31.8	28.9
	YE	24.2	27.4	26.4	28.1	29.1	23.9	27.2*	20.0
	DZ	20.6	20.9	28.2*	13.1	21.9	21.3	23.9*	34.7
	Average	34.2*	25.0	35.7*	18.6	31.4	25.7	34.4	31.8

Note: \* Differences are statistically significant.

### Association of Intent to Start a Business and Demographics

Since adults with intent to start a business are the potential future supply of new entrepreneurs, insight may be gained by examining “intent to start a business” prevalence rates across a number of demographic variables, such as age group, education level, annual household income group, labour force attachment, and work environment.<sup>17</sup> As in the case of gender, there are a number of cross-country differences, but also some interesting patterns (Table 22).

<sup>17</sup> However, it should be noted that certain groups in the population (for example, adults with graduate experience and upper-income households) are a minority, so even if their intention prevalence rates are high, they will not comprise the bulk of adults expecting to start a business in the next three years.

**Table 22. Start-Up Intention Prevalence Rates by Demographic Variables**

Demographic Group	SY	JO	LB	MA	YE	PS	DZ
<i>Age Group</i>							
18–24	65.7%	35.0%	35.3%	28.7%	28.7%	30.2%	23.8%
25–34	56.5%	32.2%	29.7%	29.7%	16.2%	27.6%	31.3%
35–44	54.3%	30.4%	28.2%	28.2%	33.2%	26.1%	30.9%
45–54	46.3%	18.0%	19.8%	22.2%	25.7%	20.7%	18.5%
55–64	44.5%	13.5%	7.8%	17.0%	49.0%	14.9%	14.8%
<i>Education Level</i>							
None	51.4%	22.1%	19.3%	24.7%	32.0%	13.4%	16.1%
Some Secondary	59.4%	25.3%	24.1%	27.4%	13.3%	27.7%	26.0%
Secondary Degree	60.6%	34.4%	25.8%	29.8%	28.3%	27.3%	25.9%
Post-Secondary	52.5%	31.3%	31.7%	34.7%	36.8%	30.0%	28.6%
Graduate Experience	50.0%	37.5%	64.7%	0.0%		36.4%	32.9%
<i>Annual Household Income</i>							
Lower-Third	50.8%	24.7%	22.8%	-	25.2%	11.2%	28.1%
Middle-Third	59.0%	28.7%	28.3%	53.4%	28.4%	22.1%	30.0%
Upper-Third	60.8%	46.2%	29.0%	27.3%	24.8%	32.9%	28.2%
<i>Labour Force Attachment</i>							
Full-or Part-Time Work	55.2%	35.2%	29.4%	32.2%	29.6%	29.6%	27.5%
Part-Time Only	65.7%	39.1%	18.7%	35.7%	28.0%	36.5%	25.5%
Retired/ Disabled	40.6%	25.7%	7.4%	21.3%	0.0%	21.3%	13.3%
Homemaker	47.3%	17.5%	16.1%	23.6%	21.8%	13.3%	19.5%
Student	63.6%	35.0%	30.0%	31.7%	19.3%	35.8%	20.6%
Not Working, Other	65.5%	33.5%	47.8%	32.0%	36.6%	33.0%	34.7%
Self-Employed	64.7%	43.9%	31.2%	19.7%	44.2%	39.0%	36.2%
<i>Type of Work Environment (for those employed)</i>							
Public Sector/Government	50.6%	35.5%	19.4%	30.8%	29.0%	28.7%	22.1%
Private Micro-Enterprise	65.4%	33.1%	36.1%	37.2%	29.6%	36.8%	36.8%
Private Small Enterprise	66.0%	35.6%	22.9%	32.7%	41.7%	12.8%	26.8%
Private Medium Enterprise	56.1%	45.5%	20.8%	32.4%	19.2%	25.0%	22.9%
Private Large Enterprise	68.2%	44.7%	37.7%	53.3%	41.7%	41.7%	39.0%
Overall "Intent" Prevalence Rate	56.4%	29.3%	27.0%	26.6%	26.5%	26.2%	26.1%

Notes: The benchmark for each demographic group is the overall "intent" prevalence rate noted on the last row of each column. Rates higher than the overall rate indicate that that group has a greater likelihood of intending to start a business; rates lower than the overall rate indicate a lesser likelihood of intending to start a business.

For Jordan, the three household income groups were not defined by thirds. In this case, lower-income households are those with an annual household income of less than JOD3600, middle-income households as those with an annual household income of JOD3601–JOD9000, and upper-income households as those with an annual household income of more than JOD9000.

- Intention rates decline with age. The 18–24 and 25–34 age groups have the highest rates of intent and the 55–64 age group has the lowest. The exception is Yemen, where the 55–64 age group has the highest intention rate.
- Intention rates rise with level of education and are generally higher among the better-educated cohorts. They also tend to rise with household income.
- By labour force attachment, homemakers and retired or disabled persons have the lowest intention rates. The intention rate of students is higher than the overall adult rate in each country, except Yemen. People who are self-employed (with the exception of Moroccans) or who are not working tend to have among the highest intention rates.

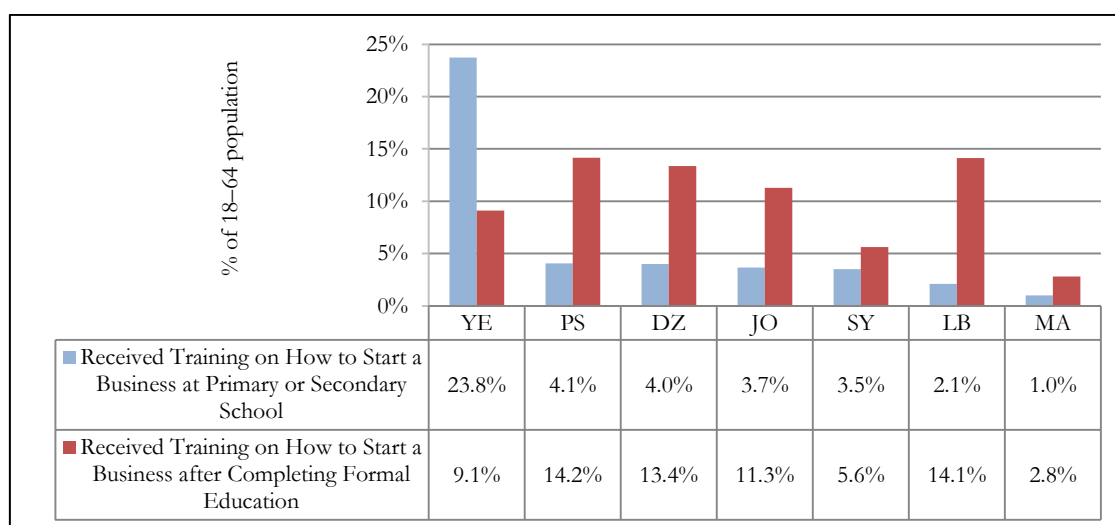
- ♥ Among working adults, those working in large private enterprises have the highest intention rates, generally significantly higher than the overall adult population intention rate for the country. People working in private micro-enterprises (with fewer than 10 workers) also tend to have higher rates of intent, except in Jordan, where this work environment produces the lowest intention rates. Intention rates among adults employed in the public sector/government are the lowest for any of the work environments in Algeria, Lebanon, Morocco, and Syria.

## Intent to Start a Business and Start-Up Training

Finally, this chapter looks at the relationship between training on how to start a business and start-up intentions. The rationale for entrepreneurship and business start-up training is that entrepreneurship is a learned behaviour and a set of acquired skills. Education and training for entrepreneurship is expected to enhance the supply of entrepreneurs through three mechanisms: a cultural effect on students' attitudes and behavioural dispositions (mindset aspects), enhanced cognitive ability to recognize and assess opportunities, and provision of the required skills to start and grow a business (Levie and Autio 2008). By introducing entrepreneurship in the education and training curriculum, countries can build their entrepreneurial capacity and ability. Although there is evidence that students who take entrepreneurship courses are more likely to become future entrepreneurs, the skills and knowledge learned in these courses can provide better preparation for all forms of work.

The percentage of GEM-MENA adults who have received any training in how to start a business, whether at primary/secondary school or after completing whatever level of official schooling, is very low (Figure 45). On average, fewer than 5% of adults have received any training on how to start a business in the formal education system. This is very low compared to other GEM countries surveyed in 2008, where start-up training rates in formal education systems rise to an average of over 11% in more developed GEM economies and to over 20% in Colombia, Ecuador, Chile, Belgium, and Slovenia (Bosma et al. 2009). The GEM-MENA exception is in Yemen, where almost a quarter of adults reported such training. The highest incidence of taking part in start-up training after leaving the formal education system is among adults in Lebanon and Palestine, where the proportion reaches over 14%.

**Figure 45. Percentage of 18–64 Population with Start-Up Training**





Chapter 4 reported relatively higher rates of start-up training experience among early-stage entrepreneurs (see Figure 37), suggesting that adults who receive start-up training are more likely to become involved in entrepreneurial activity. Table 23 shows the differences in intent to start a business prevalence rates for the 18–64 population by whether they received start-up training or not. This reveals that exposure to start-up training significantly increases the start-up intention prevalence rate. In five of the countries, the intention prevalence rates among adults who received start-up training at primary or secondary school are 1.5 to 2 times higher than those who did not receive any start-up training. In Morocco, the difference is less, and in Yemen, the rates are similar for both groups. Adults receiving start-up training after their official schooling are 1.3 to 2.2 times more likely to intend to start a business, with the smallest impact in Syria, Morocco, and Yemen. Of course, it could be that some people who participate in start-up training (especially if it was received after their formal schooling) already had the intention of starting a business and actively pursued the training to enhance their know-how, so it is not possible to conclude that training led to intention. Also, as evident in Figure 45, only a small minority of adults actually participate in any start-up training. Likewise, it is not possible to estimate how many of those with intent to start a business will actually follow through.

**Table 23. Intent to Start a Business Prevalence Rates by Incidence of Start-Up Training**

	Received Start-Up Training at Primary or Secondary School (1)	Did Not Receive Training at Primary or Secondary School (2)	Greater Likelihood of Having Intent to Start a Business (Ratio of 1/2)	Received Start-Up Training after Formal Schooling (3)	Did Not Receive Training after Formal Schooling (4)	Greater Likelihood of Having Intent to Start a Business (Ratio of 3/4)
SY	82.5%	55.4%	1.5:1	70.2%	55.5%	1.3:1
JO	56.2%	28.2%	2:1	48.0%	26.8%	1.8:1
LB	52.6%	26.5%	2:1	46.2%	23.9%	1.9:1
PS	46.2%	25.4%	1.8:1	48.9%	22.6%	2.2:1
DZ	37.3%	25.6%	1.5:1	45.1%	23.3%	1.9:1
MA	33.3%	26.7%	1.2:1	33.3%	26.6%	1.3:1
YE	26.5%	26.5%	1:1	36.7%	25.4%	1.4:1

Source: GEM-MENA APS, 2009.

In conclusion, entrepreneurship flourishes more in a favourable cultural and social environment. In the GEM-MENA countries (with the exception of Algeria) adults have relatively positive attitudes toward entrepreneurship and confidence in their own abilities to be able to start a business. The level of intent to start a business is very similar across the countries, although in Syria it is about twice as high. Belief in having the knowledge, skills, and experience required to start a business appears to be the most important factor associated with intent to start a business. There are a number of ways for individuals to gain confidence in their entrepreneurial ability and know-how; participating in training inside or outside the formal education system is one vehicle. Intention rates rise with participation in start-up training, but the training incidence rates in the adult population are very low.

Some demographic groups also have higher intention rates than others: males; the better-educated; the higher-income groups; people working part-time, not working, or self-employed; and people working either in large or small private enterprises. One of the factors in the lower intention rates for women may be related to labour force attachment issues. Homemakers in each country have much lower start-up intention rates than the overall prevalence rate. Women also have a higher fear of failure and less confidence in their abilities to start a business.

The challenge for policymakers is to create the conditions that will convert intent to start a business into action. The specific measures to aid this process will depend on the peculiarities of the context and conditions within each country, but obviously implicated are initiatives to expose more of the population to entrepreneurship training and efforts to build women's confidence in their abilities and reduce their fear of failure.

These entrepreneurial attitude and perception indicators will take on more significance with repeated GEM surveys. Subsequent annual surveying would enable monitoring of changes over time that could be pegged to changes in entrepreneurial activity rates.



## Chapter 7. Impact of the Global Economic Crisis on GEM-MENA Entrepreneurs

The MENA region, as elsewhere, was directly hit by the global financial and economic crisis through a sharp decline in oil prices and a sudden drying up of capital inflows. GDP growth rates generally declined in the seven GEM-MENA countries between 2008 and 2009: marginally lower in Lebanon, Morocco, and Algeria (down 1-2 points); dramatically lower in Jordan and Syria (down 2.5 points); however, marginally up in Yemen and significantly up in Palestine.<sup>18</sup> Although the impact has been mitigated by countercyclical government spending, the crisis revealed some vulnerability in the region's financial sector, such as the weak risk management systems and over-leveraged institutions.

The International Monetary Fund (IMF) argues that:

...countries should continue to support domestic demand to mitigate the impact of the crisis on their citizens while keeping debt sustainability in view. For the region's low-income countries, higher donor support will be necessary to maintain needed economic development and prevent poverty rates from rising further. Across the region, governments should further strengthen financial systems and take care not to lose momentum on structural reforms aimed at diversifying their economies, creating employment opportunities, and allowing them to take advantage of the global economic recovery. (IMF 2009a, p. 2).

Entrepreneurial activity, as one component of economic growth, was also affected at various levels within the economies of the seven GEM-MENA countries depending on the degree of development of their financial markets, openness to directly affected markets, and other factors.

Recessionary periods can have both negative and positive impacts on entrepreneurial activity. People who have lost their jobs may turn to entrepreneurship as a way to earn income, others who were planning to start a business may decide to wait until the economy recovers, and still others may see opportunities opening up during the recession that are timely to pursue. The 2009 GEM study explored perceptions of nascent and existing entrepreneurs regarding the impact of the financial crisis and economic slowdown, compared to a year ago, on: opportunities for their business, the difficulty of starting a business, and their business growth expectations. This chapter presents the findings for the seven GEM-MENA countries, with some comparisons with the results for all GEM countries.

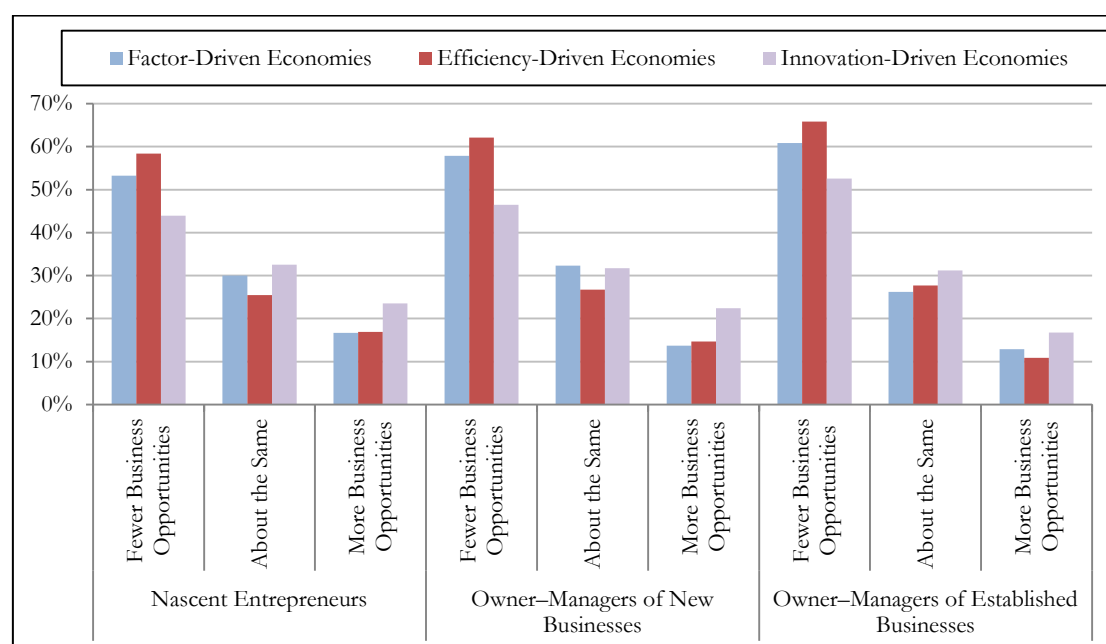
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<sup>18</sup> GDP growth estimates from *The World Factbook* country profiles. Online at: [www.cia.gov/library/publications/the-world-factbook/](http://www.cia.gov/library/publications/the-world-factbook/), accessed 13 June 2010.

## *Impact of the Global Economic Crisis on Opportunities for the Business*

Entrepreneurs in GEM countries, in general, perceived that there were fewer opportunities for their business in 2009 compared to 2008, and especially so in efficiency-driven economies and among owner-managers of established businesses (Figure 46). The most optimistic were nascent entrepreneurs in innovation-driven economies. The more established the entrepreneur, the more pessimistic they were likely to be.

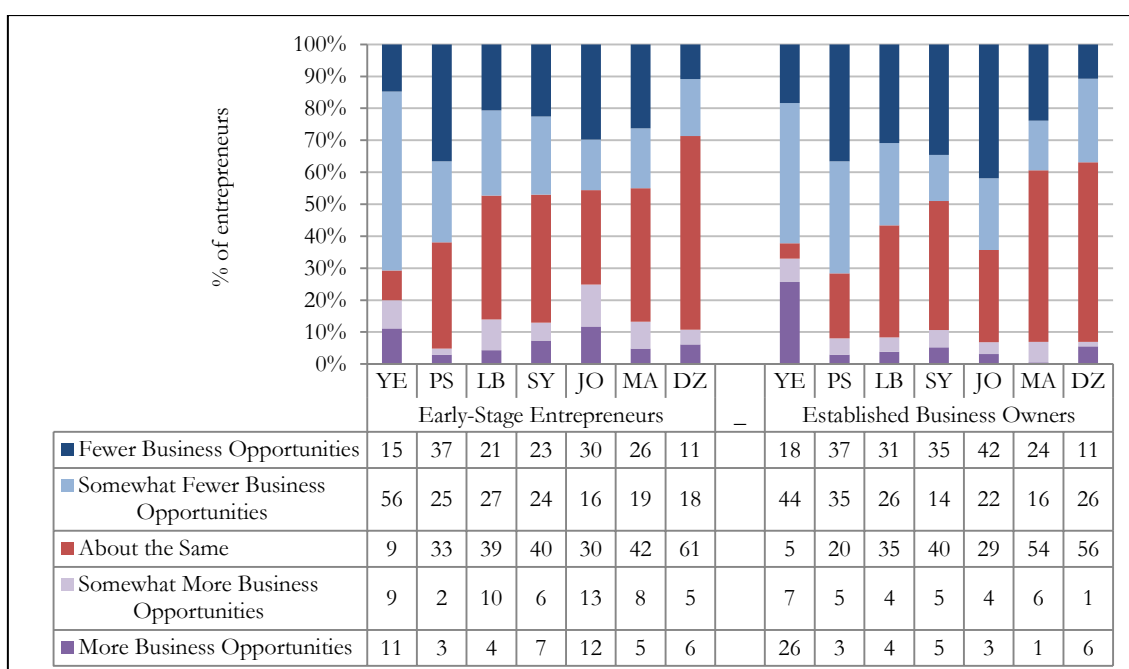
**Figure 46. Impact of the Global Economic Slowdown on Entrepreneurs' Perceptions of Opportunities for Their Business**



Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 42.

In the seven GEM-MENA countries, the trend is consistent with the GEM global results, although there are a number of country-level differences (Figure 47). Algerian early-stage entrepreneurs perceived the least impact of the crisis, with over 60% expressing the view that opportunities for their business was about the same as a year earlier. This was the highest percentage among the seven countries and considerably higher than for other GEM countries. Only 29% of Algerians reported that it resulted in fewer business opportunities (the lowest percentage). On the other hand, over 70% of Yemeni entrepreneurs perceived fewer opportunities (the highest among the seven countries), even though the Yemen economy grew slightly in 2009. Only 20% perceived a positive impact and fewer than 10% that the situation was about the same. The views of early-stage entrepreneurs in Lebanon, Syria, and Morocco are very similar. Between 45% and 48% perceived fewer opportunities for their business due to the slowdown, 13% to 14% saw more opportunities, and around 40% felt no real change. Almost half of Jordanian early-stage entrepreneurs perceived fewer opportunities, but a quarter of them reported more business opportunities, which represents the highest positive perception of the impact of the crisis among the seven countries. The Palestinian early-stage entrepreneurs stood out as being the least likely to report more business opportunities (fewer than 5%) and the second most likely to perceive a decline in business opportunities (62%), despite relatively good overall growth performance of the economy.

**Figure 47. Effect of Global Economic Crisis on Perception of Opportunities for Their Business, GEM-MENA Entrepreneurs**

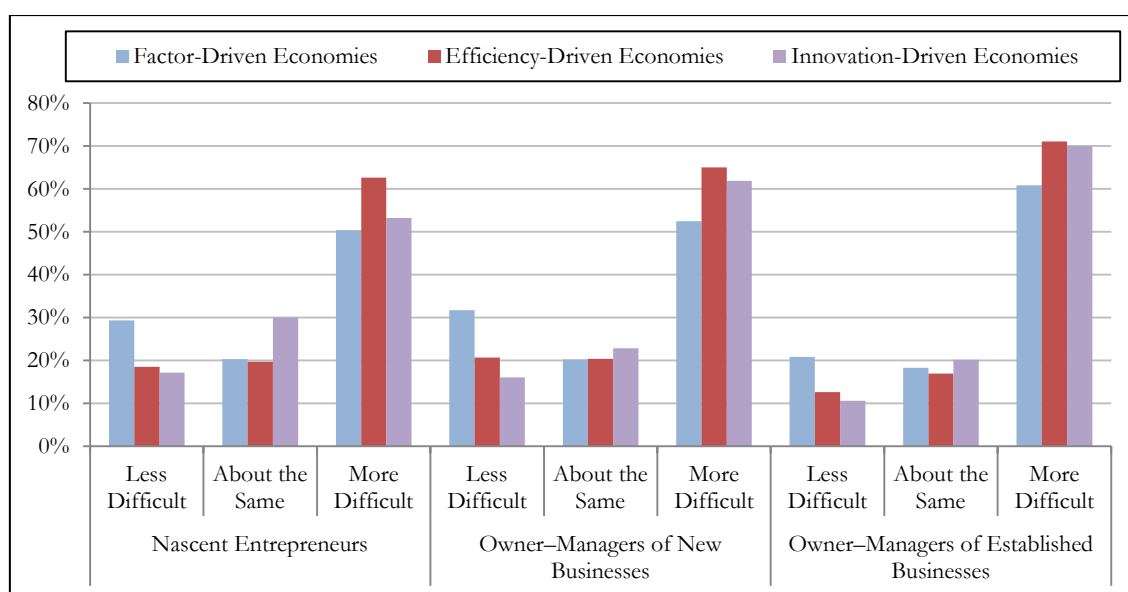


In general, owners of established businesses in these countries were more negative than early-stage entrepreneurs about the impact of the crisis on opportunities for their business. They hold a stronger perception of fewer business opportunities and a lower perception of more business opportunities. Yemen is the exception, where a lower percentage of established business owners perceived fewer opportunities for their businesses (62%) than the early-stage entrepreneurs (71%), and a higher percentage perceived more opportunities (33% versus 20%). Established business owners in Morocco are also somewhat less likely than early-stage entrepreneurs to report fewer opportunities (40% versus 45%). Established business owners in Palestine perceived the greatest decline in opportunities for their businesses (72% perceive fewer opportunities) and Algerians felt the least adversely affected (only 37% indicated fewer opportunities and over 56% did not feel much of an impact at all). Over half of Moroccans also indicated that the situation was about the same as a year ago.

### ***Impact of the Global Economic Crisis on Difficulty of Starting a Business***

At the GEM global level, more than half of the entrepreneurs felt it was more difficult to start a business compared to a year ago, although, on average, more entrepreneurs in factor-driven economies claimed that it was easier to start a business than in other economies (Figure 48). Many entrepreneurs in factor-driven economies are necessity-driven and have little contact with global markets and, in fact, GDP in many of these countries continued to grow through the global recession. Efficiency-driven countries tend to be more linked to global markets and the opinions of entrepreneurs in these countries were the most categorically negative.

**Figure 48. Entrepreneurs' Views on Starting a Business in Comparison to One Year Ago by Phase of Economic Development**

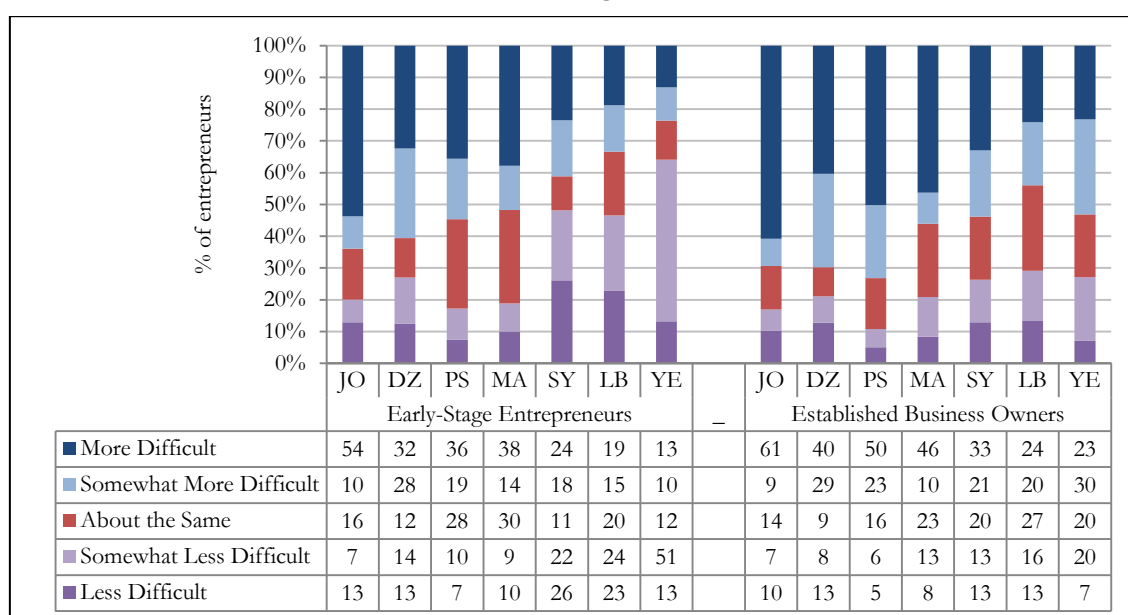


Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 40.

Note: Unweighted country averages.

The general patterns in the seven GEM-MENA countries were similar, but again with a number of cross-country differences. Jordanians were the most likely to perceive that it was more difficult to start a business (64% of early-stage entrepreneurs and 70% of established business owners) (Figure 49). Among the early-stage entrepreneurs, those from Yemen were the least likely to perceive that it was harder to start a business (less than a quarter). Among the established business owners, the Lebanese were least likely to perceive the conditions for start-ups were more difficult (44%) and most likely to perceive that it was less difficult (29%).

**Figure 49. GEM-MENA Entrepreneurs' Views on Starting a Business Compared to One Year Ago**



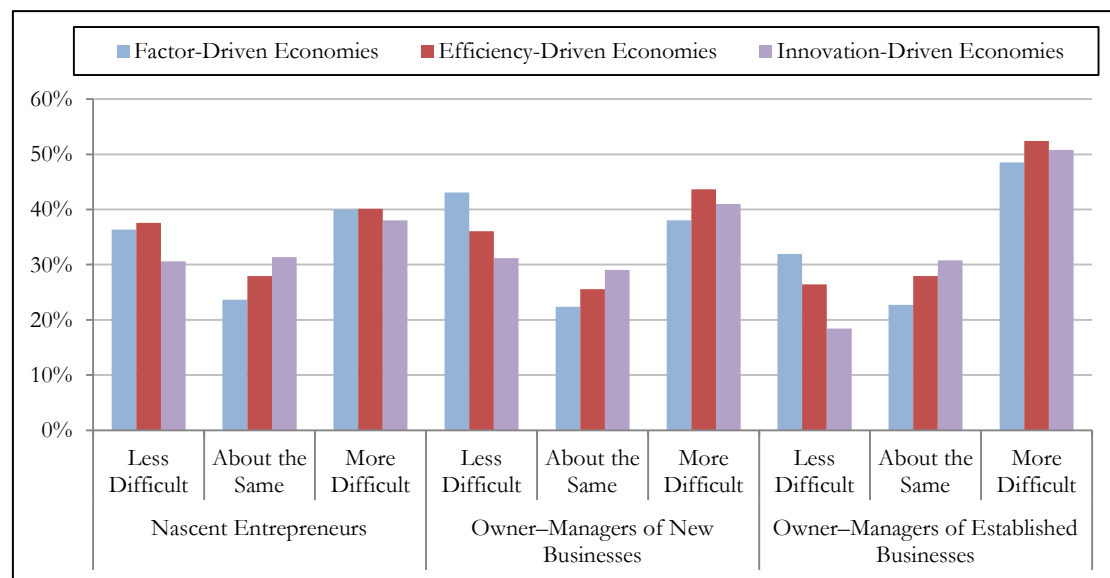
Over half of early-stage entrepreneurs in Algeria (60%), Jordan (64%), Palestine (55%), and Morocco (52%) found that the crisis made it more difficult to start a business, while almost half or more in Lebanon (47%), Syria (48%), and Yemen (64%) felt that it was less difficult to start a business. About 30% of early-stage entrepreneurs in Morocco and Palestine felt no effect.

More established business owners perceived that it had become more difficult to start a business than early-stage entrepreneurs. This was especially true in Yemen, where almost twice the percentage of established business owners felt it was more difficult to start a business compared to the responses of early-stage entrepreneurs (53% versus about 23%). As well, while 64% of early-stage Yemeni entrepreneurs thought it was less difficult, this was only the case for 27% of established business owners. Established business owners in Algeria, Jordan, and Palestine were the most negative about the increasing difficulty in starting a business: almost 70% or more reported that it was more difficult than one year earlier. Established business owners in Lebanon had the highest level of perception that it was less difficult and that there had been no real change in the start-up circumstances.

### ***Impact of the Global Economic Crisis on Growing a Business***

In general, entrepreneurs in all three phases of the entrepreneurial process, at the GEM global level, were more positive about the conditions for growing a business than starting a business. However, established business owners were the most likely to view that it was more difficult to grow a business compared to one year earlier (Figure 50).

**Figure 50. Entrepreneurs' Views on Growing a Business in Comparison to One Year Ago by Phase of Economic Development**



Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 41.

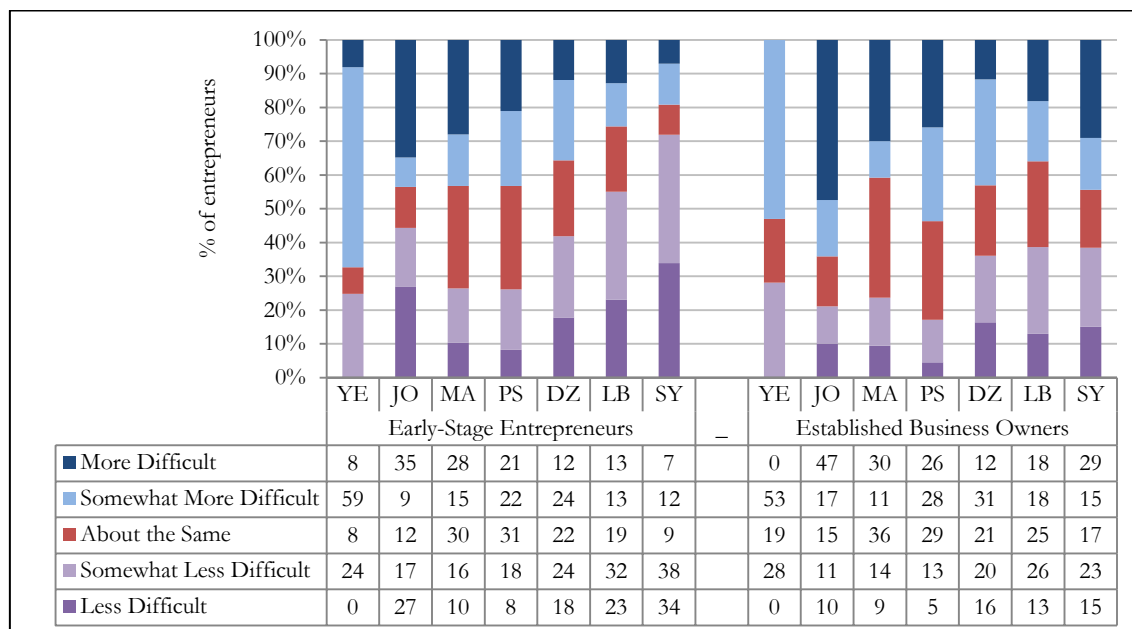
Note: Unweighted country averages.

The pattern in the seven GEM-MENA countries is similar. Established business owners perceived that it was more difficult to grow a business than a year earlier than did early-stage entrepreneurs and a higher proportion of the early-stage entrepreneurs perceived that it was less difficult, but views across the seven countries vary considerably (Figure 51). Yemeni early-stage entrepreneurs



(67%) and Jordanian established business owners (64%) were the most likely to feel that it was more difficult to grow a business. Syrian early-stage entrepreneurs (72%) and Lebanese established business owners (39%) were the most likely to perceive that it was less difficult.

**Figure 51. GEM-MENA Entrepreneurs' Views on Growing a Business Compared to One Year Ago**



To conclude, although the financial crisis and global economic slowdown resulted in a perception of fewer business opportunities and more difficulty in starting and growing a business among both early-stage entrepreneurs and established business owners in the seven GEM-MENA countries, there were many cross-country differences. Both early-stage and established entrepreneurs in Algeria felt that opportunities for their business were largely unaffected by the crisis. Yemeni early-stage entrepreneurs were the most negatively impacted in the area of opportunities for business and growing a business, yet were the most likely to feel it was less difficult to start a business. Early-stage entrepreneurs in Syria were most likely (compared to their counterparts in other countries) to feel that it was less difficult to grow a business. Among established entrepreneurs, Jordanians were the most likely to indicate more difficulty in both starting and growing a business, the Lebanese to indicate less difficulty, and the Palestinians to feel the brunt of fewer opportunities for their businesses. On the whole, although established business owners were more likely in all seven countries to perceive a stronger negative impact than early-stage entrepreneurs, a sizeable proportion also felt that the situation was about the same as a year earlier.

Clearly, forces other than the global economic slowdown would also have been at play in influencing the entrepreneurs' perceptions. For example, the high percentage of Yemeni early-stage entrepreneurs indicating that it was less difficult to start a business than a year ago might have been affected by favourable changes in the operating environment for businesses due to government regulations or other policies. The fewer opportunities for business reported by Palestinian entrepreneurs might be partially explained by the Israeli closure policy, which severely limited access to markets for Palestinian enterprises.

In order to more fully interpret these findings would require a deeper in-country contextual analysis that goes beyond the scope of this report. However, monitoring changes in entrepreneurs'

perceptions through subsequent GEM surveys would be very helpful in tracking developments over time, for example, in measuring the movement of perceptions coming out of the recessionary period or assessing the relationship between perceptions, the types of entrepreneurial activities being pursued, the underlying motivations of the entrepreneurs, and other aspects of their investment behaviour. With only one year of data this is not possible.



## Chapter 8. Policy Implications and Directions

Developing countries in the MENA region face a number of economic and social challenges. These include job creation; low education and skills levels; gender inequities; science, technology, and innovation challenges; slow global integration; large numbers of informal enterprises and workers; and underdeveloped SME sectors (Stevenson 2010). Although some larger private businesses have achieved international status and competitiveness, the private sector in MENA is not large enough and has not been growing fast enough to generate employment growth. Hundreds of thousands of MENA youth and women remain unemployed as private enterprises fail to absorb the growing supply of new entrants into the labour force, generating particularly low returns to education. The bulk of the (highly youthful) labour force outside of the public sector is reliant on paid and unpaid jobs created in a mass of micro “livelihood” businesses, largely of an informal nature. Although there are millions of MENA adults engaged in early-stage entrepreneurial activity, as the preceding chapters of this *GEM-MENA Regional Report* have pointed out, in general, the prevalence rate in the population is below what might be expected for countries at their level of development and compared to the low-income countries of Asia, Latin America, and the Caribbean. If entrepreneurial activity were more vibrant, robust, and effective in MENA countries, it could generate higher-paying jobs and eventually be able to fill the “missing middle” of medium-sized enterprises, assuming the right framework conditions are in place. Stevenson (2010) considers that one of the key paths to future growth in the region is the stronger encouragement and stimulation of entrepreneurial activity through an appropriate set of policies and initiatives.

Having said that, it would be inappropriate to view the developing MENA countries as a homogeneous group. Although they share some common attributes with respect to entrepreneurial activity, there are significant cross-country differences in the level and nature of this activity. For example, the make-up of the entrepreneurial population, the motivations of people for pursuing entrepreneurship, and their aspirations are radically different in Lebanon compared to Yemen, or in Algeria compared to Palestine. This suggests that country-specific policy actions are needed to respond to contextual differences. Some of the major policy implications specific to each of the seven countries are included at the end of the brief profiles in Chapter 9 of Part II. Chapter 8 draws conclusions on the more generic policy implications that could apply across the countries.

Analyses of GEM data over time have identified a number of factors that help to explain differences in entrepreneurial activity rates across countries. One of the most fundamental is the demographic structure of the population. While adults of all ages are involved, it is the 25–34 age groups which consistently have the highest entrepreneurial activity rates. This pattern also applies in most of the GEM-MENA countries, Yemen being the obvious exception.<sup>19</sup> In fact, these countries are at an “entrepreneurial advantage” because of the large proportion of the population that is

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<sup>19</sup> In Yemen, the TEA rate among adults in the 55–64 age group is significantly higher than in the other age groups, which may reflect difficulties in obtaining employment or a lack of social security and pension benefits for people who have retired from paid work. However, the proportion of 55–64 year-olds in the population is very small so their share of actual early-stage entrepreneurs is small. The second highest TEA rate is among 18–24 year-olds.

under 25 years of age. Since this is the age group from which the entrepreneurs of the future emerge, fostering a stronger entrepreneurial spirit and supporting development of their entrepreneurial skills will be a key to increasing business creation activity.

Over the years, GEM research has identified a positive relationship between education and household income levels and entrepreneurial activity rates. Adults with more human and financial resources are more likely to engage in the business creation process. GEM studies also find that better-educated entrepreneurs are more likely to be innovative and growth-oriented. In the GEM-MENA countries, those with low personal resources (education and income) are a small proportion of the TEA-active population relative to those with moderate or high personal resources (Reynolds 2010). Although TEA rates tend to rise with education levels, only a small minority of the population has a post-secondary or higher education. This places GEM-MENA countries at an entrepreneurial disadvantage because adults with higher levels of education are more likely to be involved in early-stage entrepreneurial activity. Consequently, efforts to elevate the average education level of the population are likely to have a positive impact not only on the level of entrepreneurial activity but the quality of new enterprises. GEM studies also find that one of the most significant determinants of an individual's intent to start a business is the perception that they have the required knowledge, skills, and experience. Although this perception is relatively high among GEM-MENA adults (but lower than the average for countries at their phase of development in Algeria, Palestine, and Syria), the incidence of training on how to start a business is very low. Integrating entrepreneurship in the education system is a key element in fostering an entrepreneurial mindset, enhancing ability to recognize and assess opportunities, and providing the required skills (Levie and Autio 2008). To raise the level of entrepreneurial competence of the MENA population, there is a role for governments to develop and implement age-appropriate modules or classes in entrepreneurship at all levels of the education system.

Since higher income implies higher levels of involvement in early-stage entrepreneurial activity, national policies that raise the standard of living, reduce income inequality, and improve the level of equal access to opportunities and resources would likely have a positive impact on business creation levels, contributing to both economic growth and social progress. In the MENA region, there are many donor programs targeting low-income and poorly educated groups with encouragement and support to start micro-enterprises and small-scale income-generating activity. These programs may be well-intentioned, however, this kind of support alone will ignore the needs of the more "resource-advantaged" groups with higher entrepreneurial activity prevalence rates that are trying to start new businesses with very limited access to external financing (even for good ideas), low exposure to any training on how to start a business, and extremely low use of professional advisory services, all known to have a direct influence on the start-up success and growth aspirations of new entrepreneurs.

While GEM studies report that men are more entrepreneurially active than women, higher levels of participation in business creation are associated with decreases in the gender gap differential. In other words, higher levels of entrepreneurial activity are associated with increasing involvement of women (Reynolds 2010). This is an area where most of the MENA countries are at an entrepreneurial disadvantage. The gender gap in entrepreneurial activity rates in the majority of GEM-MENA countries is among the highest in the 55 countries participating in the 2009 GEM project. The low rates of entrepreneurial activity of women in these countries mirror their low participation in the labour force generally, which is also among the lowest in the world (World Bank 2007). Women's share of the MENA labour force (26%) is much lower than in other middle- and low-income countries (39 to 44%) (World Bank 2010, p. 68). In addition, women in MENA

countries have much higher unemployment rates than men, suggesting that even women looking for work are disadvantaged in the labour market, particularly in the case of private sector employment.<sup>20</sup> For example, the unemployment rate for women is over three times the unemployment rate for men in Syria and Yemen and twice the rate in Jordan. Low labour force participation and lack of opportunities to work in the private sector mean that large numbers of women in MENA countries do not have much of the experience normally required to launch and manage successful businesses. This translates into the much lower level of confidence perceived by women than men that they have the knowledge, skills, and experience to start a business. On the other hand, the lack of employment opportunities may be an incentive for women entering the labour market to consider starting their own businesses. The policy implication flowing from this analysis is that governments should commit to increasing women's role in the labour market and to particularly support women's enterprise development by promoting awareness of the option; providing training, and advisory and mentoring services; and addressing the well-known barriers women face in securing financing for their business ideas. If employers are encouraged to hire more women, this would also give women the opportunity to gain the business knowledge, skills, confidence, and networks to eventually launch their own businesses.

With respect to the early-stage ventures, the majority are in areas of activity where start-up costs and barriers to entry are low. Most are "me-too" enterprises with a low level of innovativeness, using technologies that are more than five years old and serving local, domestic markets. To a certain extent, this is a reflection of the level of development of the GEM-MENA countries and what might be expected. However, efforts to enhance the ability of early-stage entrepreneurs to recognize higher value-added business ideas (such as improving access to entrepreneurship education and training, professional advisory services, market information, and the latest technology) may result in more innovation in the nature of start-up enterprises.

Early-stage ventures, although on average quite small, collectively have the potential to make a substantial contribution to job creation in the region. Many of the nascent enterprises may not actually get off the ground because the entrepreneurs cannot fill the financing gap between the start-up costs and their own personal resources, cannot overcome regulatory or administrative barriers, or face other start-up challenges. In light of the low use of government programs, banks, and venture capital as sources of financing in most of the GEM-MENA countries, access to financing is an area calling for policy action. Access to professional advice is also needed. The networks of early-stage entrepreneurs in GEM-MENA countries are highly personal. They are mainly seeking advice from family members and friends and making very limited use of professional experts. Perhaps these professional services do not exist, or are not well geared to meeting the needs of nascent and new entrepreneurs; or entrepreneurs are unaware of existing services, unconvinced of their value, or cannot afford the services. In any event, actions are needed to address the imbalance by improving access to enterprise support services and communications between early-stage entrepreneurs and professional advisors.

Lastly, entrepreneurial activity prevalence rates in the GEM-MENA countries are very similar for adults in urban and rural areas, even somewhat higher among rural adults in Algeria and Palestine. This suggests that enterprise support services and financing access must be made equally available in rural and urban centres.

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<sup>20</sup> Reports of formal private sector biases against the hiring of women are prevalent throughout the region (RWEL 2008).

Three major higher-level policy directions emerge from the GEM findings:

1. Encourage more people to become involved in the business creation process.

In the GEM-MENA context, this would appear to be a particularly appropriate policy direction in Palestine, Syria, and Jordan, where the levels of nascent entrepreneurial activity are the lowest and the pipeline for emerging new enterprises is the smallest, however, it should be a policy priority in each country.

Cultural attitudes toward entrepreneurship in the seven GEM-MENA countries (with the exception of Algeria) are relatively favourable compared to other GEM countries. A large proportion of the population considers entrepreneurship a good career choice and perceives that successful entrepreneurs have high status and respect in the country. The weakest area in the cultural context is the amount of coverage of successful new businesses in the media. More frequent coverage of stories of start-up success in the media will produce an important role-modeling effect in the population and influence societal perceptions of the desirability and feasibility of entrepreneurship.

It is vital to continue to invest in improving access to secondary and post-secondary education and to integrate entrepreneurship curriculum throughout the education system. This will build the capacity of the population to engage in entrepreneurial activity and strengthen the culture of entrepreneurship. Particular attention should be paid to promoting entrepreneurship among university students by adding relevant courses across disciplines and offering opportunities for engagement in extracurricular entrepreneurship activities.

Greater strides toward increasing the labour force participation of women through more gender-sensitive recruitment practices and linking this with promotion of entrepreneurship are also needed.

A policy priority should be to create the conditions that will convert intent to start a business into action. The specific measures to aid this process will depend on the peculiarities of the context and conditions within each country, but in all settings, groups with higher levels of intent include 18–24 year-olds, people with post-secondary or higher level of education, and students. Factors producing the largest effects on intent to start a business are a person's perception that they have the knowledge, skills, and experience required; followed by a perception that there are good opportunities, a low fear of failure, and belief that entrepreneurship is a good career choice. This calls for initiatives to expose more of the population to entrepreneurship education and training and to build women's confidence in their abilities to start a business and reduce their fear of failure level.

2. Facilitate the conversion of nascent entrepreneurial ventures to actual start-ups.

Not all nascent entrepreneurs will succeed in getting their new businesses off the ground, resulting in a loss to society and the economy of potential jobs and income. A policy priority is therefore to facilitate the conversion of existing nascent entrepreneurs who are actively working on a start-up venture by helping them to launch the new venture and achieve initial profits. This would appear to be a particularly appropriate policy direction in Yemen, where the prevalence of nascent entrepreneurs far exceeds the base of young and established businesses, but also appropriate in the other countries.

To facilitate a higher conversion rate, consideration should be given to developing hands-on assistance for start-up ventures (enterprise centres, advisory services) to help them achieve profitable operation or discontinue with minimum costs; expand access to informal investors, microcredit, and other forms of financing; provide access to entrepreneurship orientation and start-up training programs, with special efforts to target women; and where possible, ease restrictions and costs of registering a new business. Metrics should also be developed for monitoring conversion rates. This will require efforts to collect data, including panel studies; an area where MENA countries are particularly weak.

### 3. Support the survival and growth of new and young firms.

The third policy direction is to support the survival and growth of baby businesses so they can become firmly established in the marketplace. This should be seen as an essential policy action by all of the governments seeking to increase the overall density of private business enterprises in the population. The primary policy focus should be on expanding access to advisory services, technical assistance, and financing; promoting use of the latest technologies; and easing the process of business exit and re-entry through less punitive bankruptcy and business closure procedures.

The 2009 GEM research has provided important baseline data for MENA countries, evidence that did not exist before this, but the ultimate value in GEM studies is in building a longitudinal database that would allow monitoring of changes in entrepreneurial activity prevalence rates over time. This ongoing research would do much to refine the precision of policy recommendations. Thus, annual surveys of the adult population using the GEM protocol are recommended. This would necessitate financing the work of GEM National Teams in these countries to conduct annual population surveys and assessments of the Entrepreneurial Framework Conditions (EFCs) in order to build a comprehensive body of evidence to guide more effective policy and program measures.

This GEM Regional Report presents only a fraction of the potential findings from analysis of the GEM data collected in 2009. Researchers in the region should be encouraged to explore other research questions and issues resulting from these findings and to produce more analyses from the rich dataset. In this vein, IDRC has provided funding support to nine research teams in MENA countries (the seven GEM-MENA countries, Egypt, and Tunisia) to produce additional analytical reports. Some of these teams are preparing full country-level GEM reports and others are preparing analysis on topics such as a cross-national comparison of female entrepreneurship, a cross-national comparison of the attitudes and perceptions of nascent entrepreneurs, an analysis of the effects of personal attributes and access to financing on the start-up inclinations of adults in Morocco, and an analysis of the role of entrepreneurial activity in regional development in Tunisia. These reports will be available later in 2010.

The process of carrying out the GEM-MENA project has demonstrated the potential and importance of fostering networks of researchers from across the region to focus on this new area of investigation. This has built research capacity in the field, promoted a forum for exchange, and resulted in collaborative work between researchers across countries. The findings of the research, properly deliberated and debated within regional policy fora (such as the MENA-OECD Working Group on SME Policy, Entrepreneurship and Human Capital Development), as well as within country-level governments and development organizations, will provide unique and valuable input to policy-making processes.





## PART II



## Chapter 9. Country-Level Synopses of Entrepreneurial Activity

This chapter summarizes the main characteristics of entrepreneurial activity for each of the seven individual GEM-MENA countries and presents the key indicators, such as the TEA rates by gender, age, education level, annual household income, and urban–rural location; perceptions of the adult population toward entrepreneurship; types and nature of early-stage enterprises; and findings on start-up capital and sources of financing, advice, and training. It also highlights implications that might assist domestic-level policymakers to address the key challenges in strengthening the role of entrepreneurship in each country.

### *Entrepreneurial Activity in Algeria*<sup>21</sup>

#### Introduction

Algeria is an upper-middle-income country with a population of over 34 million and per capita GDP (PPP) of about US\$7100 in 2009. The hydrocarbons sector is the backbone of the economy, accounting for almost half of GDP, nearly 80% of government revenues, and 95% of exports. Its business climate is less favourable than in most MENA countries, which results in barriers to its competitiveness. Algeria ranked 83 out of 133 countries on the 2009–10 Global Competitiveness Index, one of the weakest performers in the MENA region, was assessed as a “mostly unfree” economy in the *2010 Index of Economic Freedom* (Heritage Foundation 2010), and ranked 136 out of 183 countries on the World Bank *Doing Business 2010* survey. Although Algeria is creating the foundations for transition to a market-led economy, the private sector base is small and the government still controls large segments of economic activity.

Small and medium enterprises are very important to Algeria’s diversification and future growth, but the sector is underdeveloped and the focus on entrepreneurship relatively recent. There are relatively good statistics on registered enterprises in Algeria, but little information on informal enterprises and the entrepreneurs behind informal and formal enterprises.

Algeria is one of the least integrated in global markets of the MENA countries. One of the upsides of this is that its entrepreneurs felt, to some extent, less affected by the financial crisis and economic slowdown in 2008–09 than in other GEM-MENA countries. Over 60% Algerian early-stage entrepreneurs in the GEM 2009 survey perceived that the opportunities for their business were about the same as they were a year earlier. On the other hand, 60% felt it was more difficult to start a business and over a third that it was more difficult to grow a business.

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<sup>21</sup> The GEM data in Algeria was collected during June and July 2009. Face-to-face interviews were conducted with 2000 adults selected from a nationally representative sample of the population using a random-walk method.

## Entrepreneurial Attitudes and Perceptions

In the GEM 2009 study, Algeria stands out among the seven GEM-MENA countries as having the least favourable attitudes toward entrepreneurship. Only 57% of Algerian adults perceive entrepreneurship as a good career choice (compared to over 80% of the adults in the other GEM-MENA countries), only 58% believe that entrepreneurs have high status and respect (compared to over three-quarters in the other GEM-MENA countries), and only 39% often see stories about entrepreneurs in the media (the third-lowest level in all 55 GEM countries) (Table 24). Together, these indicators suggest a much weaker entrepreneurship culture in Algerian society. Algeria also has the lowest percentage of adults among the GEM-MENA countries with the perception that they have the knowledge and skills to start a business.

**Table 24. Entrepreneurial Attitudes and Perceptions in Algeria**

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18–64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	48.2	5
Has the knowledge, skills, and experience to start a business	52.1	7
Fear of failure would prevent starting a business	27.3	4
Knows someone who started a business in the past two years	58.8	1
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	57.3	7
Frequent stories about successful new businesses in the media	39.1	7
Successful entrepreneurs have high status and respect in the country	58.2	7
Intends to start a business in the next three years	26.1	7

## Entrepreneurial Activity Prevalence Rates

In spite of its lower performance on GEM indicators for entrepreneurial perceptions and attitudes, Algeria has the second highest TEA rate of the seven GEM-MENA countries (16.7%). Just over 11% of the 18–64 population was actively trying to start a new business in 2009 and 5.6% were owners of a baby business less than 42 months old (Figure 52). This TEA rate is about what might be expected for a country at its level of development (see Figure 4 in Chapter 1). In addition, 4.7% of the adult population owned an established business of more than 42 months old. This totals over 21% of 18–64 year-olds who are engaged in one of the three phases of entrepreneurial activity, the fourth highest in the seven GEM-MENA countries and about two-thirds of the level in Morocco and Lebanon.

Converting TEA rates to estimates of the number of people and ventures reveals the following:

- About 2.4 million 18–64 year-olds, in average teams of 1.9, were actively trying to start an estimated 1.27 million new businesses in 2009.
- Another 1.2 million 18–64 year-olds, in average teams of 1.6, were owners of close to 770 000 young businesses less than three and a half years old.
- About 1 million 18–64 year-olds owned around 637 000 established businesses that are more than 42 months old.
- In the past 12 months (prior to the GEM 2009 survey), 1.7 million 18–64 year-olds discontinued their involvement in a business they owned.

The density of existing entrepreneurs (young and established), 10.2 per 100 18–64 year-olds, is the third lowest in the seven countries. However, the density of nascent entrepreneurs (11.3 per 100) is the second highest (after Yemen).

**Figure 52. Entrepreneurial Activity Rates in Algeria**

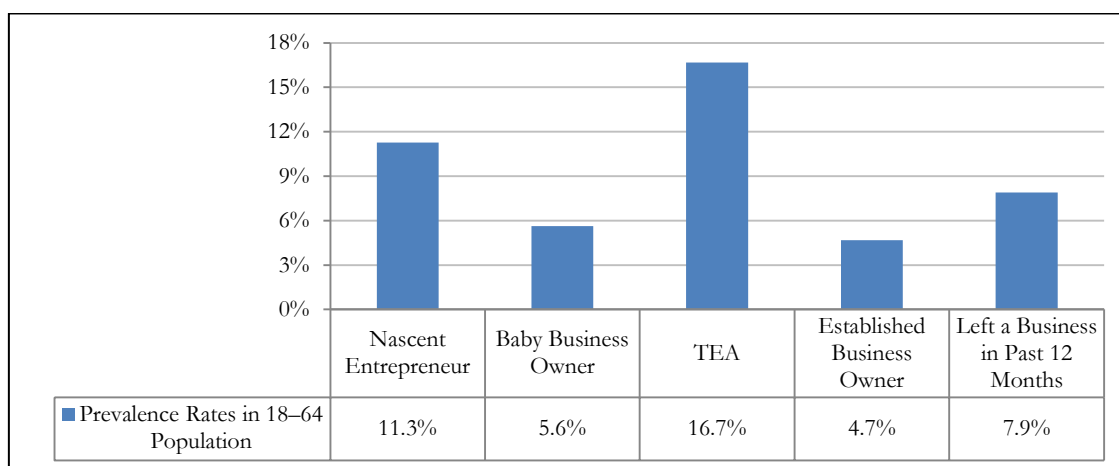
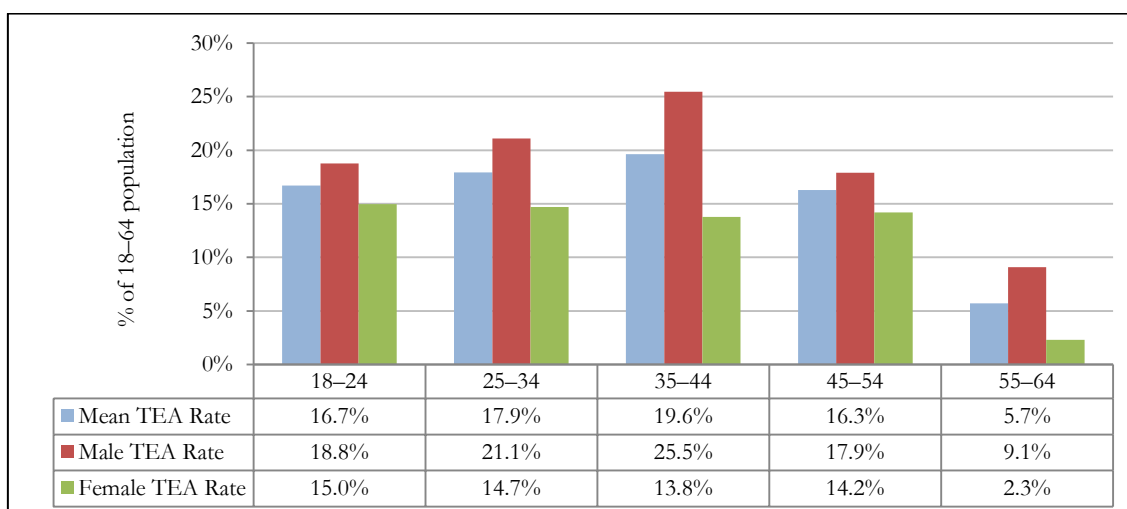


Table 25 summarizes the TEA rates for key demographics and reveals the following:

- ♥ The TEA rate for men is almost 1.5 times that for women, at 19.9% compared to 13.4%. The female share of early-stage entrepreneurial activity is about 40%, the highest in the seven GEM-MENA countries, and higher than the share of women among established business owners (30%). This suggests an even greater involvement of Algerian women in entrepreneurial activity and a narrowing of the gender gap.
- ♥ Algerian adults in the 25–34 and 35–44 age categories have the highest TEA rates (Figure 53), but the differences for age groups from 18–24 to 45–54 are not statistically significant. The male TEA rate is highest in the 35–44 (25.5%) and 25–34 (21.1%) age groups and the female rate is highest in the 18–24 and 25–34 age groups (about 15%).

**Figure 53. TEA Rate by Age Group and Gender, Algeria**



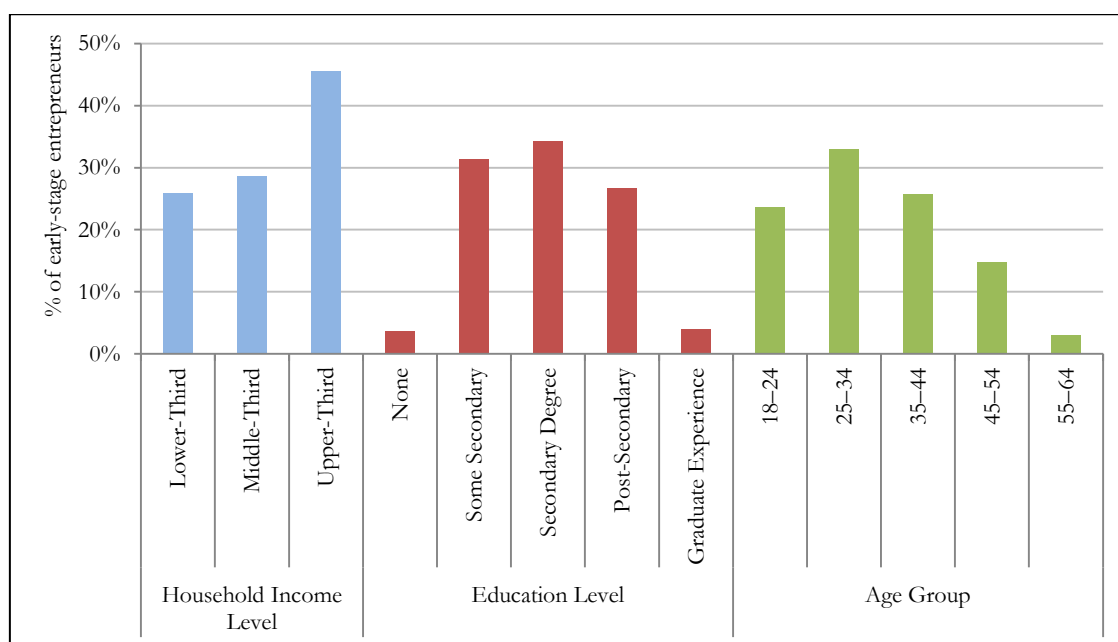
**Table 25. Prevalence of Entrepreneurial Activity and Key Demographics, Algeria**

Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
<b>Phase of Activity</b>		
Nascent Entrepreneurs	11.3	2
New Business Owners	5.6	4
Total Early-Stage Entrepreneurial Activity (TEA)	16.7	2
Established Business Owners	4.7	6
Discontinuance in Past 12 Months	7.9	1
Expects to Start a Business in Next Three Years	26.1	7
<b>Gender</b>		
Early-Stage Entrepreneurial Activity - Men	19.8	2
Early-Stage Entrepreneurial Activity - Women	13.4	2
<b>Motivation for Early-Stage Entrepreneurship</b>		
Opportunity-TEA	12.2	2
Male	15.0	3
Female	9.3	2
Necessity TEA	3.1	5
Male	3.1	7
Female	3.0	2
<b>Age Group</b>		
18–24	16.7	2
25–34	17.9	3
35–44	19.6	1
45–54	16.3	2
55–64	5.7	4
<b>Education Level</b>		
None	9.7	5
Some Secondary	16.7	2
Secondary Degree	16.5	3
Post-Secondary	17.8	3
Graduate Experience	16.9	4
<b>Household Income Group</b>		
Lower-Third	11.4	2
Middle-Third	13.5	4
Upper-Third	18.3	2
<b>Location</b>		
Urban	15.3	3
Rural	18.2	1
<b>Labour Force Attachment</b>		
Working Full- or Part-Time	21.7	3
Seeking Employment	18.4	2
Student	11.7	2
Retired/Disabled	5.8	3
Homemaker	8.0	1
<b>Work Environment</b>		
	% of Working Adults	
Public Sector	11.2	2
Micro Private Enterprise	27.9	1
Small Private Enterprise	22.4	1
Medium Private Enterprise	45.1	1
Large Private Enterprise	19.5	2

- GEM studies generally find that higher education leads to higher TEA rates; however, the TEA rate in Algeria is very similar across education levels, except that it is much lower among adults in the lowest education category (9.7% compared to over 16%). There is less variation in TEA rates across groups of the adult population with either some secondary or higher education than in the other GEM- MENA countries.

- ♥ TEA rates rise with annual household income and are significantly higher among adults in the upper-third income group than in middle- and lower-income households (over 18% compared to 11.4% and 13.5%). The same pattern holds for both men and women.
- ♥ When converted to their share of early-stage entrepreneurs, these TEA rates for age, income level, and education level suggest that almost half are from upper-income households, very few have the lowest and highest levels of education, and very few are in the 55–64 age group (Figure 54).

**Figure 54. Share of Early-Stage Entrepreneurs by Household Income, Education Level, and Age Group, Algeria**



Note: The bars in each category add up to 100%.

- ♥ The TEA rate is slightly higher among the adult population living in rural areas than in urban areas, but not significantly so. Rural women are more likely to be involved in early-stage entrepreneurial activity than urban women (16.3% compared to 10.6%), but for men the TEA rate is consistent at about 20%.
- ♥ The TEA rate is highest for adults who are working full- or part-time and people seeking employment. Although the TEA rate among students is less than 12%, it is the second highest in the seven GEM-MENA countries, after Yemen. The TEA rate for homemakers, at 8%, is the highest in the GEM-MENA countries. Among working adults, the least likely to be involved in early-stage entrepreneurial activity are public sector employees (TEA rate of 11%), however, because of the relatively high share of public sector employment in Algeria, workers in this group make up about 28% of early-stage entrepreneurs who report “working” as their labour force status. The most likely to be involved in early-stage entrepreneurial activity are workers in medium enterprises (TEA rate of 45%), but workers in micro, small, medium, and large enterprises make up almost equal shares of early-stage entrepreneurs.



- Over 80% of early-stage entrepreneurs are motivated by opportunity rather than necessity. This is second largest share of opportunity-motivation in TEA rates in the GEM-MENA countries; only Lebanon has a higher proportion.

## TEA Ventures in Algeria

Selected features of early-stage ventures are highlighted in Table 26. This reveals the following:

- Almost 70% of TEA ventures are in the consumer-oriented sectors, the highest among the seven GEM-MENA countries, except Morocco. The share in the extractive sectors is the lowest. The sector pattern of enterprises varies marginally among early-stage and established businesses. The biggest differences are that early-stage enterprises are less likely to be in the transforming industries sector (19% versus 24%).
- The majority of Algerian early-stage enterprises are creating 1–5 jobs, but Algeria has a relatively lower share with no jobs and the highest share with 20 or more jobs. Algerian early-stage entrepreneurs also have relatively high expectations for job growth in the next five years, projecting to more than double their employment.
- As in the other six GEM-MENA countries, the majority of early-stage enterprises are in markets that have many businesses offering similar products and services, and in which their customers would not consider their offerings new or unfamiliar. However, Algerians have the lowest share of early-stage enterprises with no competitors, but one of the highest shares with at least some customers considering the product or service new or unfamiliar.
- Over half of the enterprises are using technology that is more than five years old, but about 30% are using the latest technology, the highest share of the seven GEM-MENA countries.
- Two-thirds of the enterprises do not plan to have out-of-country customers and only about 14% expect that more than 25% of their customers will be so. Established businesses are slightly more open to international markets; only 47% do not have any customers outside the country.

**Table 26. TEA Ventures and Selected Features, Algeria**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	0.9	7
Transforming	19.4	3
Business Services	10.2	3
Consumer-oriented	69.5	2
Jobs Now		
None	15.9	5
1–5 Jobs	62.0	3
6–19 Jobs	13.8	2
20+ Jobs	8.3	1
Jobs Expected in Five Years		
None	3.6	6
1–5 Jobs	45.9	3
6–19 Jobs	33.4	2
20+ Jobs	17.1	2

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Other Businesses Offering Similar Products/ Services		
Many	62.7	3
Few	32.8	2
None	4.5	7
Customers Considering the Product/ Service New or Unfamiliar		
None	47.2	6
Some	33.5	1
All	19.3	4
Age of Available Technology Required		
Technology More than Five Years Old	52.4	6
Technology 1–5 Years Old	17.6	6
Latest Technology (Less than a Year Old)	30.0	3
Proportion of Out-of-Country Customers		
None	66.5	3
1–25%	19.7	4
26–75%	9.4	4
76–100%	4.4	3

### Start-Up Capital Requirements

Just over 40% of nascent entrepreneurs will start their new businesses needing less than US\$10 000 (Table 27). The median amount is the equivalent of US\$13 720. Almost three-quarters of them will invest personal amounts of less than US\$10 000. Just over 30% will supply the total amount from their own personal resources, the lowest percentage among the GEM-MENA countries not requiring external financing.

**Table 27. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Algeria**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	31.0%	48.9%
\$5000–\$9999	10.8%	24.0%
<i>Subtotal</i>	<i>41.8%</i>	<i>72.9%</i>
\$10 000–\$19 999	19.2%	6.8%
\$20 000–\$49 999	22.6%	15.2%
\$50 000–\$100 000	11.2%	5.1%
> \$100 000	5.2%	-
<i>Median Amount</i>	<i>US\$13 720</i>	<i>US\$5682</i>

The majority of nascent entrepreneurs who have received or expect to receive external financing will source it from immediate family members (59%) and banks (48%) (Table 28). About 25% to 30% have received or expect to receive financing from other relatives, someone they work with, or a government program. It is noted that Algerians are more optimistic about financing from a bank and a government program than nascent entrepreneurs in the other GEM-MENA countries. Very few are making use of microfinance or venture capital.

**Table 28. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Algeria**

Source of Financing	Percentage Using (%)	Source of Financing	Percentage Using (%)
Immediate Family Member	58.8	Government Program	25.5
Bank	47.9	Friend or Neighbour	21.9
Other Relative	29.2	Microfinance Provider	10.9
Work Colleague	25.6	Venture Capital Company	6.9

A significant number of Algerians, amounting to 6.6% of the 18–64 population, provided funding for someone else's start-up in the past three years (7.6% of men and 5.6% of women). These are the highest informal investor prevalence rates in the seven GEM-MENA countries. Individual investor amounts are relatively small, with over three-quarters investing less than US\$7500 in the past three years (Table 29). Although the average investment on an annual basis is less than US\$5000, the total informal investment is estimated to amount to about 4.6% of Algeria's GDP (see Figure 32 in Chapter 4).

**Table 29. Informal Investments in the Past Three Years by Size, Algeria**

US\$ (PPP)	Percentage of Informal Investors (%)	US\$ (PPP)	Percentage of Informal Investors (%)
Less than \$2000	41.3	\$7501–\$24 999	9.8
\$2001–\$7500	35.3	\$25 000–\$50 000	4.4
<i>Subtotal</i>	<i>76.6</i>	More than \$50 000	9.2
		<i>Total</i>	<i>100.0</i>
<i>Mean Investment Amount in the Past Three Years (US\$)</i>		<i>\$14 496</i>	
<i>Median Investment Amount in the Past Three Years (US\$)</i>		<i>\$2463</i>	

The highest informal investor prevalence rates are among adults in the 55–64 age group, the lower-third household income group, and those with a completed secondary education.

### Sources of Advice and Start-Up Training

The most frequently used sources of advice for early-stage entrepreneurs in Algeria are parents and friends. Almost 60% of those receiving advice are getting it from these sources. Very few are receiving advice from professionals (such as banks, lawyers, accountants, and business development service providers), although Algerians are slightly more likely to be using banks (9%) and business associations (5%) than in the other countries. Nascent entrepreneurs are slightly more likely than new business owners to be seeking advice from customers, somebody else who is starting a business, lawyers, and banks.

About 4% of the adult population in Algeria has ever received training in how to start a business at primary or secondary school, and about 13% after their official schooling. The incidence of start-up training among early-stage entrepreneurs is slightly higher (6% at primary or secondary school and 14% after completing their official education). The most prevalent sources of informal training for the early-stage entrepreneurs are from a college or university (8%); a current or past employer (about 7%); or self-learning by reading books, observing other people in business, or working in someone else's business (12%).

### Policy Implications

The Algerian government has an elaborate system of government support for SMEs and entrepreneurship. This includes a special agency to promote entrepreneurship among young Algerians (National Agency for Support of Young Entrepreneurs, ANSEJ) with the objective of reducing youth unemployment rates by helping university and technical institute graduates develop their business ideas, navigate the start-up process, and acquire financing through a government-backed guarantee system. Two government guarantee funds exist to help address the collateral needs of SMEs and new businesses, and a risk capital investment society was created by the government in 1991 to stimulate private investment. However, the majority of government support programs are targeted to existing SMEs.

The GEM findings for Algeria suggest that more efforts are needed to strengthen the entrepreneurial culture. More frequent coverage of entrepreneurship in the media and more opportunities for Algerians to participate in entrepreneurship education and training initiatives would help to increase their exposure to the positive aspects of entrepreneurial activity and build confidence in their capacity to start new businesses.

Although the entrepreneurial activity gender gap in Algeria is the lowest of the seven GEM-MENA countries, women in the 18–64 population have a higher fear of failure than men and lower confidence in their capacity to start a business. According to government statistics, women make up only 18% of young entrepreneurs starting new businesses from the ANSEJ training program (MPMEA 2009). More efforts to reach out to young women through promotion of entrepreneurship and to encourage their increasing participation in entrepreneurial activity should be considered.

## ***Entrepreneurial Activity in Jordan<sup>22</sup>***

### **Introduction**

The Kingdom of Jordan is a middle-income country with a population of 6.3 million and 2009 per capita GDP (PPP) of about US\$5400. The economy is heavily driven by the services sector with a manufacturing sector dominated by resource-based, labour-intensive, and low-tech industries. It is the most open economy of the seven GEM-MENA countries with a much higher level of foreign direct investment and trade to GDP. Based on the share of manufactured goods in its exports, Jordan is the only country among the seven to be categorized as an “efficiency-driven economy” in the World Economic Forum *Global Competitiveness Report*. It has a relatively favourable business environment for private sector growth, categorized as a “moderately free” economy in the *2010 Index of Economic Freedom* (Heritage Foundation 2010) and ranked 100 out of 183 countries in the World Bank *2010 Doing Business* survey. The role played by the informal sector in Jordan appears low for a country at its level of development, which could indicate either a more favourable environment for the formalization of enterprises or a lower level of subsistence economic activity generally. One of Jordan’s major challenges is the creation of quality private sector jobs to absorb new labour force entrants.

The government’s vision, laid out in the National Agenda 2006-2015, is to double per capita income, reduce unemployment to 6.8%, increase women’s share of employment to 20%, reduce public debt to 36%, increase inflow from foreign direct investment to 40% of GDP, and reduce the poverty rate to 10% by 2015. A number of government and quasi-government bodies are involved in issues related to development of SMEs and consulting, training, upgrading, and financing programs. The Jordan Young Entrepreneurs Association promotes entrepreneurship and advocates for policy attention. However, Jordan is not as strong as it could be in terms of entrepreneurial activity for job creation and growth and is not taking advantage of its supply of educated women to contribute to economic development (Stevenson 2010).

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<sup>22</sup> The GEM data in Jordan was collected during June and July 2009. Face-to-face interviews were conducted with 2006 adults selected from a nationally representative sample of the population using a random-walk method.

The impact of the financial crisis and global economic slowdown on Jordan's entrepreneurs has been variable. Views on this collected by the GEM survey during the summer of 2009 revealed that almost half of early-stage entrepreneurs perceived fewer opportunities for their business compared to a year earlier, but a quarter reported more opportunities. This was the highest level of positive perception of the impact of the crisis among the seven GEM-MENA countries. Jordan's established business owners were much more negative about the impact on business opportunities. At the same time, Jordanian entrepreneurs were the most likely to feel that it was more difficult to start a business than a year earlier (64% of early-stage entrepreneurs and 70% of established business owners). An equal number of the early-stage entrepreneurs perceived that it was either more difficult to less difficult to grow a business (44%), but established business owners clearly felt a more negative impact, with almost two-thirds indicating that it was more difficult.

### Entrepreneurial Attitudes and Perceptions of the Population

Jordanians have a relatively positive attitude toward entrepreneurship, outperforming other efficiency-driven economies in GEM 2009 on all indicators except that a higher percentage indicated that fear of failure would prevent them from starting a business (39% compared to an average of 32%). However, compared to the other six GEM-MENA countries, fewer Jordanians see good opportunities for starting a business in the next six months than all others but Yemenis, and they are in the bottom three with respect to confidence in their knowledge and skills to start a business (Table 30). Also, the percentage perceiving that entrepreneurship is a good career choice, while higher than the average for efficiency-driven economies, is lower than all but Algeria in the seven-country set. That said, the intent to start a business in the next three years is relatively high at 29.2%.

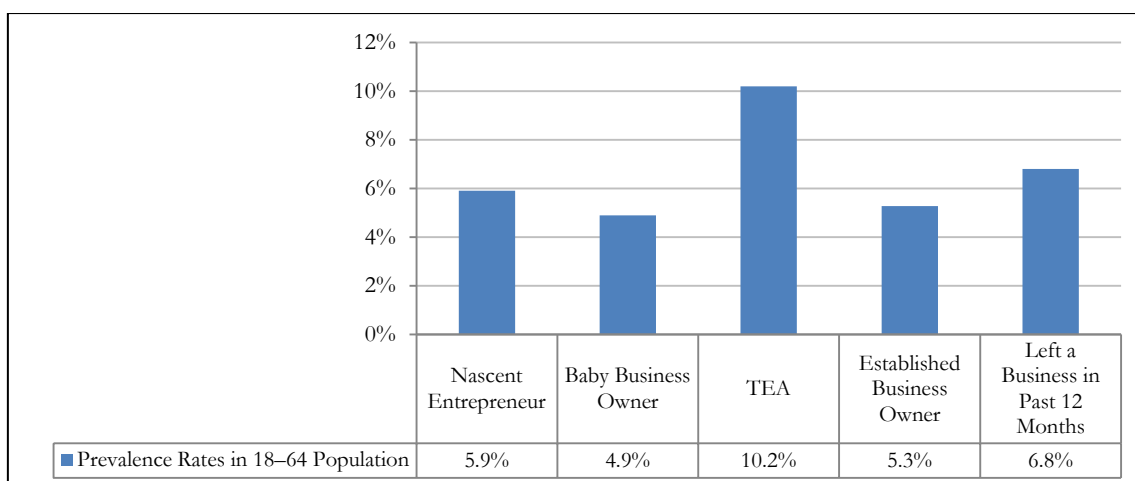
**Table 30. Entrepreneurial Attitudes and Perceptions in Jordan**

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18–64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	43.8	6
Has the knowledge, skills, and experience to start a business	56.9	5
Fear of failure would prevent starting a business	39.4	5
Knows someone who started a business in the past two years	42.4	4
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	80.6	6
Frequent stories about successful new businesses in the media	69.6	3
Successful entrepreneurs have high status and respect in the country	84.0	4
Intends to start a business in the next three years	29.2	2

### Entrepreneurial Activity Prevalence Rates

Jordan stands in fifth place among the seven GEM-MENA countries on the prevalence of early-stage entrepreneurial activity. Just over 10% of the 18–64 population is engaged as a nascent entrepreneur (6%) or as an owner of a young business less than 42 months old (5%) (Figure 55). This TEA rate is below what might be expected for a country at its level of development, which would be closer to 16% to 17% (see Figure 4 in Chapter 1). In addition, 5.3% of the adult population owned an established business of more than 42 months old. This totals over 16% of 18–64 year-olds who are engaged in one of the three phases of entrepreneurial activity, the third lowest in the seven GEM-MENA countries and about two-thirds of the level in Morocco and Lebanon.

**Figure 55. Entrepreneurial Activity Rates in Jordan**



Converting TEA rates to estimates of the number of people and ventures reveals the following:

- ♥ About 191 000 18–64 year-olds, in average teams of 1.64, were actively trying to start an estimated 116 000 new businesses in 2009.
- ♥ Another 159 000 18–64 year-olds, in average teams of 1.68, were owners of close to 95 000 young businesses less than three and a half years old.
- ♥ About 170 000 18–64 year-olds owned around 124 000 established businesses of more than 42 months old.
- ♥ In the past 12 months (prior to the GEM 2009 survey), 220 000 18–64 year-olds discontinued their involvement in a business they owned.

The density of existing entrepreneurs (young and established), 10.2 per 100 18–64 year-olds, is the second lowest in the seven countries, and the density of nascent entrepreneurs (5.9 per 100) is the third lowest.

Key demographics associated with TEA rates are highlighted in Table 29. This reveals the following:

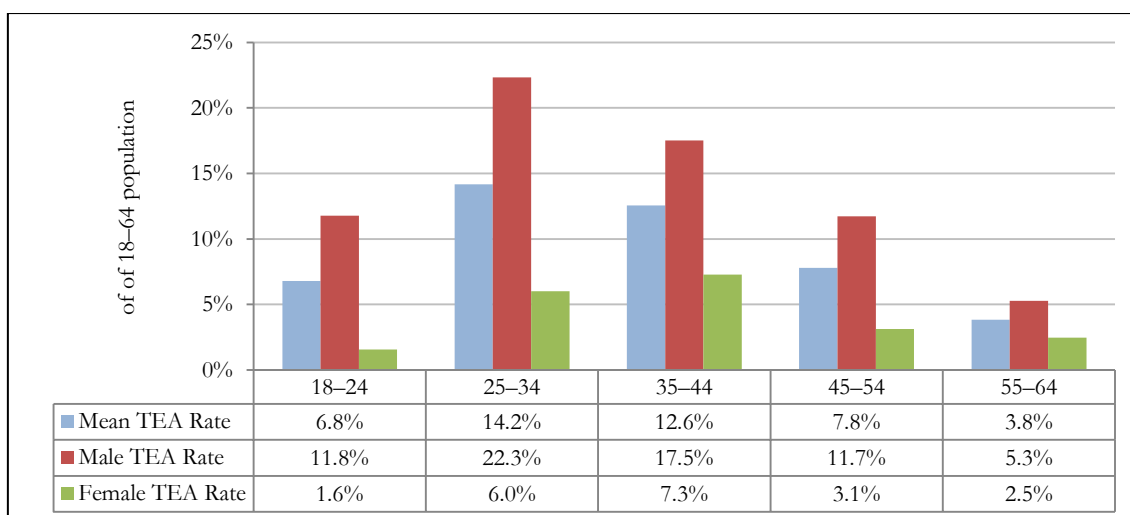
- ♥ There is a significant gender gap in TEA rates, the third highest in the seven GEM-MENA countries after Syria and Palestine. Men are 3.4 times more likely to be engaged in early-stage entrepreneurial activity than women (15.8% of adult males compared to 4.5% of adult females). Women's share of early-stage entrepreneurs is less than 22%, reflecting the overall pattern of women's low participation in the labour force. However, the share of women among nascent entrepreneurs (21%) is higher than their share of established business owners (12%), indicating a trend toward increasing participation of women in entrepreneurial activity. However, adult men are about twice as likely as adult women to state intent to start a business in the next three years (38.8% compared to 19.5%), the largest gender gap in the seven countries. This may be related to a much lower level of confidence held by adult women in their knowledge and skills to start a business and higher fear of failure than men.

**Table 31. Prevalence of Entrepreneurial Activity and Key Demographics, Jordan**

Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
Phase of Activity		
Nascent Entrepreneurs	5.9	5
New Business Owners	4.9	6
Total Early-Stage Entrepreneurial Activity (TEA)	10.2	5
Established Business Owners	5.3	5
Discontinuance in Past 12 Months	6.8	4
Expects to Start a Business in Next Three Years	29.2	2
Gender		
Early-Stage Entrepreneurial Activity - Men	15.8	5
Early-Stage Entrepreneurial Activity - Women	4.5	5
Motivation for Early-Stage Entrepreneurship		
Opportunity-TEA	6.1	5
Male	9.4	5
Female	2.6	5
Necessity TEA	2.9	5
Male	4.4	5
Female	1.4	6
Age Group		
18–24	6.8	6
25–34	14.2	5
35–44	12.6	5
45–54	7.8	6
55–64	3.8	7
Education Level		
None	10.0	4
Some Secondary	8.9	5
Secondary Degree	11.4	4
Post-Secondary	10.3	7
Graduate Experience	18.8	3
Household Income Group		
Lower-Third	9.3	4
Middle-Third	10.4	5
Upper-Third	12.4	5
Location		
Urban	10.6	5
Rural	8.7	6
Labour Force Attachment		
Working Full- or Part-Time	21.4	5
Seeking Employment	7.1	4
Student	3.6	6
Retired/Disabled	4.8	4
Homemaker	3.1	4
Work Environment		
	% of Working Adults	
Public Sector	8.6	4
Micro Private Enterprise	24.8	2
Small Private Enterprise	11.5	4
Medium Private Enterprise	15.2	3
Large Private Enterprise	15.8	4

- By age, the highest TEA rate is among 25–34 year-olds (14%), but it is not significantly higher than in the 35–44 age group (Figure 56). The lowest rate is among adults in the oldest age group. Women's participation peaks in the 35–44 age group (7.3%), but is very low in the 18–24 age group (1.8%), which is the age group with the largest gender gap. Young women are also much less likely than young men to be engaged in entrepreneurial activity. This is the case in all GEM-MENA countries, but to a lesser extent than in Jordan.

**Figure 56. TEA Rate by Age Group and Gender**

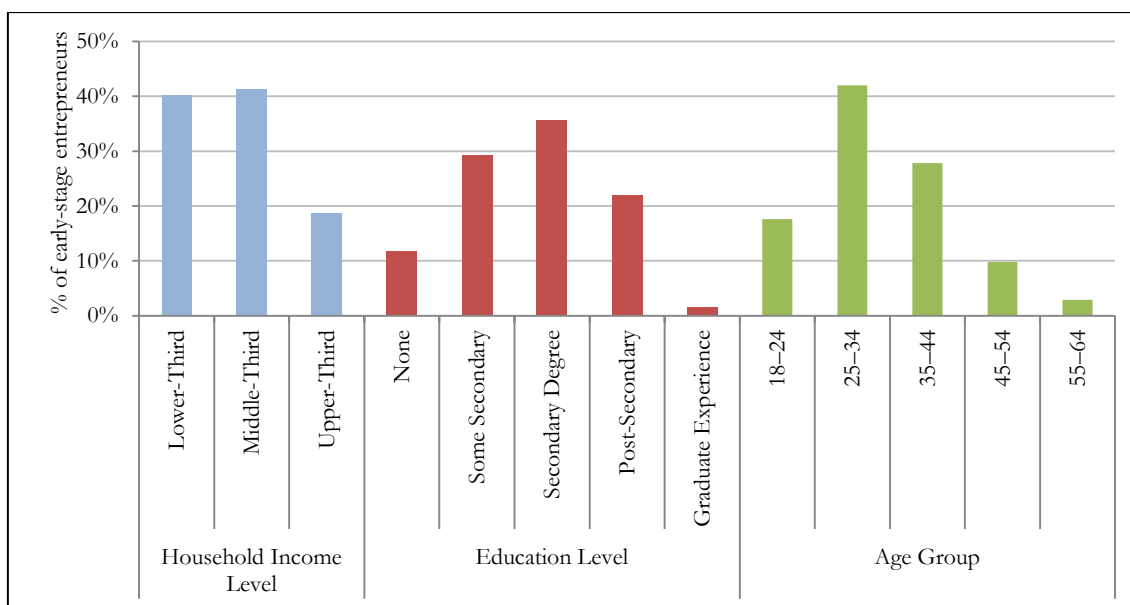


- ♥ While GEM studies typically find that TEA rates rise with level of education, this is not the case in Jordan. The TEA rate remains relatively consistent across education levels at between 9% and 11%, except for a sharp increase to almost 19% for adults with graduate experience.
- ♥ TEA rates rise with annual household income from 9.3% in the lower-income households to 10.1% in middle-income households, and to 15.7% in upper-income households.<sup>23</sup>
- ♥ Converting these TEA rates to share of actual early-stage entrepreneurs reveals that almost equal shares are from the lower- and middle-income households and fewer than 20% from upper-income households, almost 60% have a completed secondary education or greater, and about 70% are between 25 and 44 years of age (Figure 57).
- ♥ The TEA rate for urban adults is higher than in rural areas (10.6% compared to 8.7%). This modest difference is more pronounced among adult women; urban women are twice as likely to be involved in entrepreneurial activity as rural women (4.9% compared to 2.3%). TEA rates for men are very similar in urban and rural locations (15% to 16%).
- ♥ By labour force attachment, the highest TEA rates are among working adults (19%). This is far higher than the rate for adults who are seeking work (6.4%), students (3.6%), and homemakers (3.1%). Almost 30% of those who are working in private micro-enterprises are also involved in entrepreneurial activities, suggesting that in Jordan, as in Algeria, firms with fewer than 10 workers are the major incubating environment for new enterprises of all work environments. However, among nascent entrepreneurs who are working while trying to get a business started, over a third are working in micro-enterprises but another third are comprised of people working in the public sector.

<sup>23</sup> For Jordan, the three household income groups were not defined by thirds. In this case, lower-income households are those with an annual household income of less than JOD3600, middle-income households as those with an annual household income of JOD3601–JOD9000, and upper-income households as those with an annual household income of more than JOD9000.



**Figure 57. Share of Early-Stage Entrepreneurs by Household Income, Education Level, and Age Group, Jordan**



Note: The bars in each category add up to 100%.

- ♥ Seventy-two percent of the early-stage entrepreneurs are motivated by opportunity and the remaining 28% by necessity.

## TEA Ventures in Jordan

Special features of early-stage ventures are highlighted in Table 32, revealing the following:

- ♥ Almost two-thirds of early-stage enterprises are in consumer-oriented sectors, but Jordan has the highest proportion among the seven GEM-MENA countries in the transforming sectors (followed very closely by Morocco). The sector distribution of Jordan's early-stage enterprises is very similar to that of its established businesses and not dissimilar from other efficiency-driven economies, except for a slightly higher representation in the consumer-oriented sectors.
- ♥ About 90% of early-stage ventures are creating jobs, mostly in the 1–5 jobs category. Fewer than 4% are creating 20 jobs or more, however, collectively, they expect to almost double their average size within five years.
- ♥ Jordan is among the GEM-MENA countries where early-stage entrepreneurs are the most likely to be entering markets where there are already many businesses offering similar products or services. On the other hand, almost 11% believe they are in markets where there are no direct competitors and over 20% in markets where the customer would consider the product or service new and unfamiliar. Overall, the early-stage entrepreneurs are more innovative than established businesses.
- ♥ Over 60% of Jordan's early-stage enterprises are making use of technologies or procedures that have been available for more than five years, a lower proportion than among established businesses. The newer entrepreneurs are almost twice as likely as established

business owners to have enterprises where the latest technologies are available (19% versus 11%).

- Most of the early-stage ventures do not have any out-of-country customers (73%), among the least international in the seven GEM-MENA countries. However, in 5% of the cases, more than three-quarters of the customers are international, placing Jordan first among the seven countries on this indicator.

**Table 32. TEA Ventures and Selected Features, Jordan**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	8.1	4
Transforming	21.2	1
Business Services	6.4	6
Consumer-oriented	64.3	5
Jobs Now		
None	10.8	6
1–5 Jobs	74.6	1
6–19 Jobs	10.9	4
20+ Jobs	3.6	2
Jobs Expected in Five Years		
None	6.5	5
1–5 Jobs	59.2	1
6–19 Jobs	23.1	5
20+ Jobs	11.2	4
Other Businesses Offering Similar Products/ Services		
Many	65.0	2
Few	24.3	7
None	10.7	2
Customers Considering the Product/ Service New or Unfamiliar		
None	55.4	5
Some	22.3	4
All	22.3	3
Age of Available Technology Required		
Technology More than Five Years Old	63.7	4
Technology 1–5 Years Old	16.9	7
Latest Technology (Less than a Year Old)	10.4	4
Proportion of Out-of-Country Customers		
None	73.4	2
1–25%	17.1	6
26–75%	4.4	5
76–100%	5.0	1

### Start-Up Capital and Requirements

The median start-up capital required for a Jordanian enterprise is the equivalent of US\$14 116. Just over 40% of the nascent entrepreneurs expect to need less than US\$10 000 and almost 90% less than US\$50 000 (Table 33). Almost 70% of them will invest personal amounts of less than US\$10 000 in the venture, obviously leaving a financing gap. About half of the entrepreneurs will finance all their needs personally and the rest have received (or expect to receive) financing from external sources.

**Table 33. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Jordan**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	20.2%	39.2%
\$5000–\$9999	21.8%	30.0%
<i>Subtotal</i>	<i>42.0%</i>	<i>69.2%</i>
\$10 000–\$19 999	18.9%	13.7%
\$20 000–\$49 999	27.9%	9.4%
\$50 000–\$100 000	5.3%	3.8%
> \$100 000	5.9%	3.9%
<i>Median Amount</i>	<i>US\$14 116</i>	<i>US\$7058</i>

Jordanians are much less likely to securing financing from immediate family members and other relatives than nascent entrepreneurs in the other GEM-MENA countries, only 37% compared to 60% or more (see Table 11 in Chapter 4). However, a quarter of them expect to receive financing from a venture capital company (Table 34). Only a few expect financing from a microfinance provider or government program.

**Table 34. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Jordan**

Source of Financing	Percentage Using (%)	Source of Financing	Percentage Using (%)
Immediate Family Member	25.0	Bank	14.0
Venture Capital Company	23.5	Other Relative	12.5
Work Colleague	21.0	Microfinance Provider	9.2
Friend or Neighbour	14.8	Government Program	5.1

About 2.1% of the Jordanian 18–64 population has invested money in someone else's new business in the past three years, below the 2.8% average for the seven GEM-MENA countries and the 3.9% average for all GEM countries. The prevalence rate is 2.9% among Jordanian men and 1.4% among women. The highest rates are among adults in the 35–44 age group (3.3%), the upper-third household income group (3%), and those with post-secondary educations (5.1%). The amounts invested are small. Three-quarters of them invested up to US\$7500 in the past three years; the average was less than US\$4500 per year (Table 35). However, collectively, these investment amounts total about 1.5% of GDP, not an insignificant sum.

**Table 35. Informal Investments in the Past Three Years by Size, Jordan**

US\$ (PPP)	Percentage of Informal Investors (%)	US\$ (PPP)	Percentage of Informal Investors (%)
Less than \$2000	40.2	\$7501–\$24 999	12.0
\$2001–\$7500	34.9	\$25 000–\$50 000	-
<i>Subtotal</i>	<i>75.1</i>	More than \$50 000	12.9
		<i>Total</i>	<i>100.0</i>
<i>Mean Investment Amount in the Past Three Years (US\$)</i>		<i>\$13 160</i>	
<i>Median Investment Amount in the Past Three Years (US\$)</i>		<i>\$2823</i>	

### Sources of Advice and Start-Up Training

The top sources of advice used by Jordanian early-stage entrepreneurs are parents (49%), friends (52%), and other family members or relatives (53%). They make very low use of other possible sources, particularly the services of professional experts. Fewer than 3% receive advice from lawyers, accountants, public business advisory services, or business development services provided by NGOs or business associations, unfavourable even when compared to the other GEM-MENA countries (only Morocco's performance is lesser).

Only 3.7% of the adult population has taken some training in how to start a business at primary or secondary school, but the third highest in the seven GEM-MENA countries, and about 11% after their official schooling, the fourth highest. The incidence of start-up training among early-stage entrepreneurs is slightly higher (4.7% at primary or secondary school and 15.5% after completing their official education). The most popular sources of informal training for early-stage entrepreneurs are a college or university (5.8%); a current or past employer (6.2%); or self-learning by reading books, observing other people in business, or working in someone else's business (8.6%).

## Policy Implications

The density of entrepreneurs in Jordan is lower than might be expected for a country at its level of development, suggesting room for boosting the level of early-stage entrepreneurial activity. Cultural attitudes toward entrepreneurship are relatively favourable. Almost half of Jordanian adults would prefer to be the owner of their own business if they had the choice, and 29% expect to start a business in three years, but their fear of failure is relatively higher than in other GEM-MENA countries (except for Yemen). Measures are called for to target entrepreneurship promotion efforts to groups of the population with higher intent to start a business and to ensure that nascent entrepreneurs are successful in actually launching their ventures in the market. In Jordan's case, among the higher "intent" groups are young people, adults with a secondary degree or higher level of education, and students. Apart from government policies to foster entrepreneurship, efforts of the Jordan Young Entrepreneurs Association, INJAZ-Jordan,<sup>24</sup> and the Queen Rania Centre for Entrepreneurship should be further supported.

One of the factors in the low density of entrepreneurs is the low participation of women in entrepreneurial activity. Jordan has one of the largest gender gaps in all GEM countries. This suggests an opportunity for targeted efforts to encourage more women to become entrepreneurs. Women in Jordan have similar favourable attitudes toward entrepreneurship, but their fear of failure is higher than that of men and they are much less likely to perceive they have the knowledge, skills, and experience to start a new business. To improve the level of confidence women have in their entrepreneurial abilities and reduce the impact of fear of failure, programs of education, training, social support, and networking may prove very useful. Further supporting and expanding initiatives of the Jordan Forum for Business and Professional Women and developing policies to foster women's enterprise development should be explored.

Very few Jordanians have ever received any training in how to start a business, yet the GEM results indicate that Jordanian adults with such exposure are about twice as likely to have the intent to start a business within three years. This suggests positive benefits from implementing more comprehensive approaches to offering entrepreneurship courses and training programs. For the longer term, the strategy might begin by designing courses at the secondary school and college levels and expanding the reach of INJAZ-Jordan entrepreneurship training programs.

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<sup>24</sup> INJAZ, the Arabic word for "achievement," is an organization affiliated with Junior Achievement Worldwide. Its mission is to create a new generation of empowered youth who will become entrepreneurs or employees of choice for corporations. INJAZ affiliates in several MENA countries offer a range of entrepreneurship and business-related curriculum and training for students in secondary, post-secondary, and tertiary education environments and inspire young people with the skills to pursue their business and project ideas.

The final policy implication is the very low use of professional advice used by early-stage entrepreneurs in Jordan. Certainly advisory services exist. The Jordan Business Development Centre, Jordan Enterprise (although their efforts may be focused more on existing small and medium enterprises), the National Fund for Enterprise Support, and the SME Center of the Arab Academy for Banking and Financial Services all provide services to the entrepreneurial community. Either early-stage entrepreneurs are not aware of their services or the services are not well geared to meeting the needs of nascent entrepreneurs. In any event, this merits further examination.

## ***Entrepreneurial Activity in Lebanon<sup>25</sup>***

### **Introduction**

Lebanon is a middle-income country with a population of 4 million and 2009 GDP per capita (PPP) of US\$13 400. It is a major service, transport, and financial hub in the MENA region with a tradition of liberalism, private sector domination, and entrepreneurship. The economy is largely service-driven, the services sector accounting for over 75% of GDP and 70% of the labour force. Small businesses dominate the private sector landscape. Over 99% of all private enterprises in Lebanon have fewer than 50 workers and over 93% have fewer than five workers.<sup>26</sup> Up to half of micro and small enterprises and 40% of their workers are informal (FEMISE 2006).

Although it has been described as one of the most advanced countries in the Middle East, the business environment is not assessed as being that favourable. Lebanon was ranked 108 out of 183 countries in the World Bank *Doing Business 2010* survey and categorized as a “mostly unfree” economy in the *2010 Index of Economic Freedom* (Heritage Foundation 2010). Its performance in trade freedom, fiscal freedom, and monetary freedom was, however, assessed as being relatively strong.

The government does not have a formal SME policy, but a support program has been in place since 2004. A number of bodies exist to foster SME development, including an SME Support Unit in the Ministry of Economy and Trade, Kafalat (a limited credit guarantee society), the Bader Young Entrepreneurs Program, the Berytech Fund<sup>27</sup>, and INJAZ-Lebanon. The concepts of microfinance and venture capital are in their formative stages in the country.

### **Entrepreneurial Attitudes and Perceptions**

Lebanese adults stand out among the seven GEM-MENA countries as the most likely to see good opportunities for starting a business in the next six months and to perceive that they have the knowledge, skills, and experience to do so (Table 36). They also have a relatively low fear of failure as an impeding factor. They have generally positive attitudes toward the cultural context for entrepreneurship, although are less likely than the average GEM-MENA early-stage entrepreneurs to say that successful entrepreneurs have high status and respect in the country. One indication of the highly favourable attitudes toward entrepreneurship in Lebanese society is that 64% of 18–64

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<sup>25</sup> The GEM data in Lebanon was collected during June and July 2009. Face-to-face interviews were conducted with 2000 adults selected from a nationally representative sample of the population using a random-walk method.

<sup>26</sup> Based on 2004 Census data as reported in “The Integrated SME Support Programme (Outline of an SME Strategy),” prepared by the Ministry of Economy and Trade, Beirut, Lebanon.

<sup>27</sup> The Berytech Fund makes venture capital and equity-related investments in start-up information, communication and technology (ICT) portfolio companies in Lebanon, focusing on technology companies with proven commercial viability.

year-olds would prefer to be the owner of their own business if they could choose their work environment.

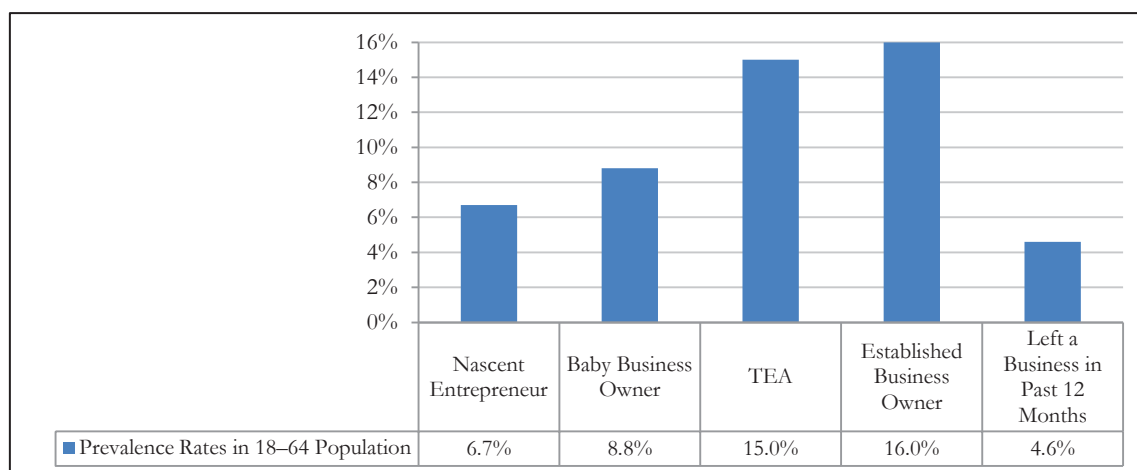
**Table 36. Entrepreneurial Attitudes and Perceptions in Lebanon**

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18–64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	54.3	1
Has the knowledge, skills, and experience to start a business	77.7	1
Fear of failure would prevent starting a business	25.6	3
Knows someone who started a business in the past two years	45.4	3
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	85.1	4
Frequent stories about successful new businesses in the media	65.3	4
Successful entrepreneurs have high status and respect in the country	78.8	5
Intends to start a business in the next three years	27.0	3

### Entrepreneurial Activity Prevalence Rates

The TEA rate in Lebanon is 15%, the fourth highest among the seven GEM-MENA countries and actually higher than might be expected for a country at Lebanon's level of development (see Figure 4 in Chapter 1). Almost 7% of the 18–64 population was actively trying to start a new business in 2009 and almost 9% owned a baby business of less than 42 months old (Figure 58). It has the highest density of established business owners in the adult population (16%) in the GEM-MENA countries, and higher than all GEM countries except Jamaica, Uganda, and Ecuador.

**Figure 58. Entrepreneurial Activity Rates in Lebanon**



All together, over 30% of Lebanese adults are engaged in one of the three phases of entrepreneurial activity, surpassed only by Morocco. In addition, in the 12 months prior to the GEM survey in the summer of 2009, 4.6% of the 18–64 population had disengaged from a business they owned.

Converting TEA rates to estimates of the number of people and ventures reveals the following:

- About 170 000 18–64 year-olds, in average teams of 1.5, were actively trying to start an estimated 115 000 new businesses in 2009.

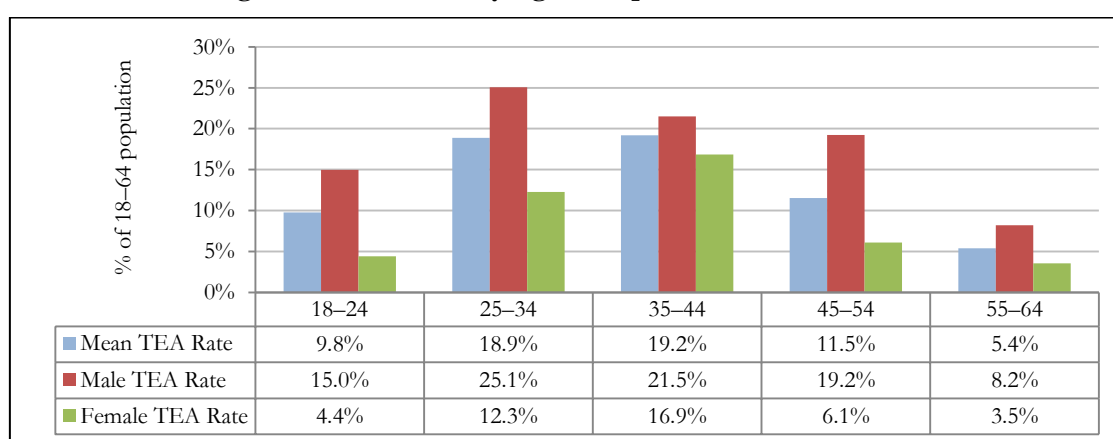
- ♥ Another 224 000 18–64 year-olds, in average teams of 1.3, were owners of close to 175 000 young businesses less than three and a half years old.
- ♥ About 407 000 18–64 year-olds owned around 340 000 established businesses of more than 42 months old.
- ♥ In the past 12 months (prior to the GEM 2009 survey), 117 000 18–64 year-olds discontinued their involvement in a business they owned.

The density of existing entrepreneurs (young and established), 24.8 per 100 18–64 year-olds, is the highest in the seven countries. However, the density of nascent entrepreneurs (6.7 per 100) is the fourth lowest.

Key demographics associated with TEA rates are highlighted in Table 37. This points to the following:

- ♥ The TEA rate for men (20.2%) is about twice the rate for women (10.2%), producing the fourth lowest gender gap in the seven GEM-MENA countries. The female share of entrepreneurial activity is about 36%. Although women’s share of entrepreneurial activity appears to be increasing over time (they comprise only a quarter of established business owners), the participation rate of adult women in nascent activity is only 4.8% compared to 7.5% as established business owners. Their increasing share of actual nascent entrepreneurs is due to the much lower male participation rates in nascent entrepreneurial activity than as established business owners (see Chapter 2).
- ♥ Lebanese in the 25–34 and 35–44 age groups have the highest TEA rates (around 19%), however, the male and female patterns differ somewhat (Figure 59). The male TEA rate peaks in the 25–34 age group and then declines with increasing age, while the female rate peaks in the 35–44 age group.

**Figure 59. TEA Rate by Age Group and Gender, Lebanon**



- ♥ The TEA rate varies by level of education, but rises significantly among adults with a post-secondary or higher education to twice or more that of those with the lowest level of education or a secondary degree. Such a dramatic rise in TEA rates of the better-educated cohorts of the adult population is quite different than the general pattern in the seven GEM-MENA countries.

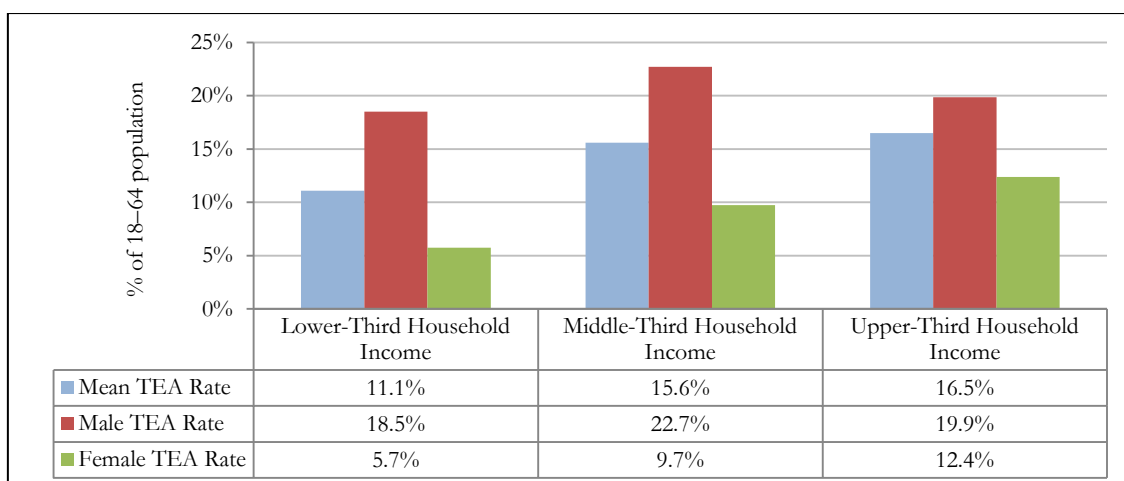
**Table 37. Prevalence of Entrepreneurial Activity and Key Demographics, Lebanon**

Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
Phase of Activity		
Nascent Entrepreneurs	6.7	4
New Business Owners	8.8	2
Total Early-Stage Entrepreneurial Activity (TEA)	15.0	4
Established Business Owners	16.0	1
Discontinuance in Past 12 Months	4.6	5
Expects to Start a Business in Next Three Years	27.0	3
Gender		
Early-Stage Entrepreneurial Activity - Men	20.2	2
Early-Stage Entrepreneurial Activity - Women	10.2	4
Motivation for Early-Stage Entrepreneurship		
Opportunity-TEA	11.5	3
Male	15.4	2
Female	7.9	4
Necessity TEA	2.7	7
Male	3.7	6
Female	1.7	4
Age Group		
18–24	9.8	4
25–34	18.9	2
35–44	19.2	2
45–54	11.5	4
55–64	5.4	5
Education Level		
None	10.7	2
Some Secondary	13.2	3
Secondary Degree	11.2	5
Post-Secondary	21.8	2
Graduate Experience	29.4	2
Household Income Group		
Lower-Third	11.1	3
Middle-Third	15.6	3
Upper-Third	16.5	3
Location		
Urban	14.6	4
Rural	15.5	3
Labour Force Attachment		
Working Full- or Part-Time	21.7	3
Seeking Employment	5.6	6
Student	2.9	7
Retired/Disabled	n.a.	n.a.
Homemaker	3.1	5
Work Environment		
	% of Working Adults	
Public Sector	5.3	6
Micro Private Enterprise	12.1	5
Small Private Enterprise	9.9	5
Medium Private Enterprise	10.2	6
Large Private Enterprise	14.3	6

- The TEA rate for Lebanese adults rises with household income, although it is very similar for the middle- and upper-third income households (15.6% and 16.5% compared to 11.1% for the lower-third income group). However, the patterns for men and women are somewhat different. The male TEA rate peaks in the middle-third income group (at 22.7%); while for women it peaks in the upper-third income group (at 12.4%) (Figure 60).

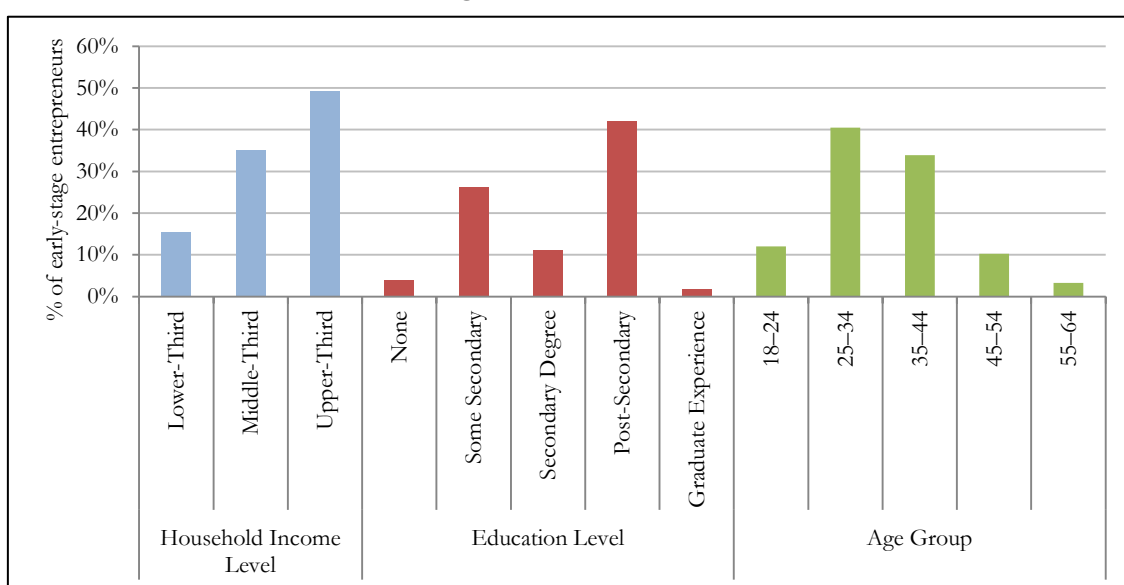


**Figure 60. TEA Rate by Household Income and Gender, Lebanon**



- ♥ Converted to shares of early-stage entrepreneurs, these TEA rates indicate that almost 75% are between 25 and 44 years of age, over 40% have a post-secondary or higher education and almost half are from upper-third income households (Figure 61).

**Figure 61. Share of Early-Stage Entrepreneurs by Household Income, Education Level, and Age Group, Lebanon**



Note: The bars in each category add up to 100%.

- ♥ The TEA rate for adults in rural areas is slightly higher than in urban areas (15.5% compared to 14.6%), but the difference is not significant.
- ♥ People who are working full- or part-time have a much greater likelihood of being involved in early-stage entrepreneurial activity than people seeking employment, students, and homemakers. The TEA rate for students (2.9%) is notably lower than in any of the seven GEM-MENA countries. Among working adults, the TEA rate is much higher for those working in the private sector than in the public sector.

- ♥ Over 80% of Lebanon's early-stage entrepreneurs are motivated by opportunity versus necessity, making them the most opportunity-driven of entrepreneurs in the seven GEM-MENA countries.

### **TEA Ventures in Lebanon**

Selected features of early-stage ventures are highlighted in Table 38. This reveals the following:

- ♥ Almost 70% of early-stage entrepreneurs are in consumer-oriented sectors. About 11% are in business services, the second highest proportion among the seven GEM-MENA countries and above the average for factor-driven economies. Compared to established businesses in Lebanon, fewer are in the transforming sectors (18% versus 25%).
- ♥ About three-quarters of Lebanese early-stage ventures are creating jobs for others, although they are small. Almost two-thirds are creating 1–5 jobs and fewer than 2% are creating 20 or more jobs. In the next five years, early-stage entrepreneurs expect to increase the average size of their ventures by 1.7 times the number of jobs, reducing the percentage with no jobs from 26% to 14% and increasing the share in the 6–19 jobs category from 6.6% to 20%. About 11% expect to have 20 or more workers in five years.
- ♥ Almost 60% of the early-stage ventures are in markets where many businesses offer similar products and services, and only 10% in markets where there are none. In over 60% of the cases, customers would not consider the product new or unfamiliar; in 14% of the cases, all of them would. Lebanese early-stage ventures are not particularly innovative compared to those in the other GEM-MENA countries but they are slightly more innovative than the established Lebanese businesses.
- ♥ Only 16% of the early-stage ventures avail themselves to the latest technologies; about two-thirds are using technologies or procedures that have been available for more than five years.
- ♥ Lebanese early-stage ventures have more of an international orientation than those in the other GEM-MENA countries. Only 40% of the early-stage ventures do not plan to have any customers from outside the country and a quarter of them expect more than 25% of their customers will be international, the highest proportion in the seven countries.

**Table 38. TEA Ventures and Selected Features, Lebanon**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	1.4	6
Transforming	17.9	6
Business Services	11.4	2
Consumer-oriented	69.3	3
Jobs Now		
None	26.4	4
1–5 Jobs	65.3	2
6–19 Jobs	6.6	5
20+ Jobs	1.7	4
Jobs Expected in Five Years		
None	13.9	3
1–5 Jobs	54.7	3
6–19 Jobs	20.0	6
20+ Jobs	11.4	3
Other Businesses Offering Similar Products/ Services		
Many	58.7	5
Few	31.7	3
None	9.6	3
Customers Considering the Product/ Service New or Unfamiliar		
None	62.9	3
Some	23.0	3
All	14.0	5
Age of Available Technology Required		
Technology More than Five Years Old	65.9	3
Technology 1–5 Years Old	18.0	5
Latest Technology (Less than a Year Old)	16.1	5
Proportion of Out-of-Country Customers		
None	38.9	5
1–25%	36.9	3
26–75%	19.0	1
76–100%	4.4	4

### Start-up Capital and Requirements

The median start-up capital required by a Lebanese nascent entrepreneur is the equivalent of US\$25 000. Fewer than 25% expect to need less than US\$10 000 and over 40% will need more than US\$50 000 (Table 39). About one-third of the nascent entrepreneurs will invest personal amounts of less than US\$10 000 in the venture, and only a quarter more than US\$50 000, obviously leaving a financing gap. Over half (54%) of the entrepreneurs will finance all their needs personally, the highest percentage of self-reliant nascent entrepreneurs in the seven GEM-MENA countries.

**Table 39. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Lebanon**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	14.2%	19.3%
\$5000–\$9999	8.7%	12.9%
<i>Subtotal</i>	<i>22.9%</i>	<i>32.2%</i>
\$10 000–\$19 999	17.4%	23.0%
\$20 000–\$49 999	19.6%	18.2%
\$50 000–\$100 000	25.7%	19.2%
> \$100 000	14.5%	7.4%
<i>Median Amount</i>	<i>US\$25 000</i>	<i>US\$12 000</i>

Of those who have received or expect to receive financing from external sources, about half will receive it from immediate family members (Table 40), about the same proportion as in Morocco and Syria. Few will source financing from a microfinance provider or a venture capital company and almost none from a government program. However, almost 40% expect have financing from a bank, which is higher than in all other GEM-MENA countries except Algeria.

**Table 40. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Lebanon**

Source of Financing	Percentage Using (%)	Source of Financing	Percentage Using (%)
Immediate Family Member	50.1	Friend or Neighbour	18.7
Bank	38.5	Microfinance Provider	10.5
Work Colleague	35.3	Venture Capital Company	6.0
Other Relative	19.5	Government Program	1.2

Two percent of the Lebanese 18–64 population has invested money in someone else’s new business in the past three years, below the 2.8% average for the seven GEM-MENA countries and the 3.9% average for all GEM countries. The prevalence rate of these informal investors is 2.5% among Lebanese men and 1.5% among women. The highest rates are among adults in the 55–64 age group (4.6%), the lower-third household income group (2.2%), and those with graduate level experience (5.6%). The amounts invested are small. Over 60% of them invested up to US\$7500 in the past three years (Table 41); the average was less than US\$4350 per year. Collectively, these investments amount to just less than 1% of GDP, not an insignificant sum, but lower than in the majority of GEM countries.

**Table 41. Informal Investments in the Past Three Years by Size, Lebanon**

US\$ (PPP)	Percentage of Informal Investors (%)	US\$ (PPP)	Percentage of Informal Investors (%)
Less than \$2000	24.7	\$7501–\$24 999	19.8
\$2001–\$7500	37.3	\$25 000–\$50 000	15.7
<i>Subtotal</i>	<i>62.0</i>	More than \$50 000	2.5
		<i>Total</i>	100.0
<i>Mean Investment Amount in the Past Three Years (US\$)</i>		<i>\$13 033</i>	
<i>Median Investment Amount in the Past Three Years (US\$)</i>		<i>\$5000</i>	

## Sources of Advice and Start-Up Training

The top sources of advice used by Lebanese early-stage entrepreneurs are friends (52%), other family members or relatives (48%), and parents (37%). They make very low use of other possible sources, especially competitors, suppliers, customers, business advisory services offered by public agencies, NGOs and business associations, and the services of professional experts, although 10% use lawyers and accountants.

Only 2.1% of the adult population has received any training on how to start a business at primary or secondary school, the second lowest in the seven GEM-MENA countries, but about 14% received training after their official schooling, the second highest. The incidence of start-up training among early-stage entrepreneurs is slightly higher at primary or secondary school (3.2%) and substantially higher when taken after completing their official education (22.4%). The most prevalent sources of informal training for the early-stage entrepreneurs are a current or past employer (15%) or self-learning by reading books, observing other people in business or working in someone else’s business (20%). Fewer than 3% ever received training on how to start a business

from a college or university, only 1.4% from a business association, and fewer than 1% from a government agency.

### **Policy Implications**

Lebanese adults already have a strong work preference for owning a business. The highest rates of future intent to start a business are in the 18–24 age group and among those with post-secondary or higher level of education. Yet the level of intent to start a business among students is very low. This suggests that medium-term efforts to ensure growth in the level of entrepreneurial activity should capitalize on the high rates of intent to start a business in the next three years expressed by young, educated Lebanese (including women), and promote entrepreneurship as an option among students. This might include further expansion of INJAZ-Lebanon entrepreneurship training initiatives and accelerated inclusion of these courses in school curriculum. The recent launch of the Entrepreneurship Initiative at the Olayan School of Business at the American University of Beirut is a step in the right direction to exposing more university students to the notion of entrepreneurship and improving their level of knowledge and skills.

In the short term, it is important to provide sufficient support to nascent entrepreneurs by way of financing and advisory services that increase the rate of their success in actually launching their new ventures. Lebanese adults who receive start-up training are more likely to become involved in entrepreneurial activity and twice as likely as those who have not to expect to start a business in the next three years. Yet the incidence of training in how to start a business in the population is low. Also very low is the use that early-stage entrepreneurs make of professional experts for advice. These areas warrant further policy examination and development.

### ***Entrepreneurial Activity in Morocco***<sup>28</sup>

#### **Introduction**

Morocco is a lower-middle-income country with a population of 31 million and 2009 GDP per capita (PPP) of about US\$4700. It has embraced the principle of a market-based economy and has been implementing economic liberalization policies since the 1980s. The country's economic growth performance is heavily influenced by developments in the agricultural sector,<sup>29</sup> which is highly susceptible to the amount of annual rainfall. Although there is a high level of private sector involvement in the economy, the business environment is not assessed as being very favourable. Morocco's ranking in the World Bank *Doing Business 2010* index has dropped to 128 out of 183 countries, losing its competitive position against other countries, and is categorized as a "mostly unfree" economy by the Heritage Foundation (Heritage Foundation 2010).

There is a high rate of unemployment among young people and creating jobs for the growing number of labour force entrants is a priority for the Moroccan government. Morocco also has a low level of human capital, sharing with Yemen the lowest adult literacy rates in the seven GEM-MENA countries. In addition, there is wide gap in literacy rates between men and women.

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<sup>28</sup> The GEM data in Morocco was collected during November and December 2009. This was a re-sample of the Moroccan adult population required due to interviewing errors during the first sample carried out in June and July. In the second sample, face-to-face interviews were conducted with 1500 adults selected from a nationally representative sample of the population using a random-walk method.

<sup>29</sup> The agricultural sector accounts for close to 20% of GDP and absorbs 45% of the labour force.

Small and medium enterprises account for 95% of all private enterprises, half of total employment, 30% of exports, and 40% of private investment (European Communities and OECD 2008), and so are very important to the Moroccan economy. However, most SMEs are family-run and weakly diversified. The level of informality is high, with some experts estimating that 50% to 60% of private enterprises are informal. Business associations and NGOs support SMEs and advocate their concerns and a number of government measures have been taken to improve the regulatory environment for new start-ups and encourage entrepreneurship, especially among young Moroccans. The microfinance industry is well-developed in Morocco and the venture capital market more so than in other MENA countries. Yet the lack of sustained high growth and job creation are two of the country's major challenges and an expanding, more diversified, and competitive private sector is needed to create higher value-added jobs, exports, and innovations. Building on the strong entrepreneurial inclination of the population could be a key to achieving this.

Moroccan early-stage entrepreneurs were the least likely among those in the GEM-MENA countries to feel that the financial crisis and economic slowdown had an effect on the opportunities for their business and the difficulty of starting and growing a business compared to a year earlier (preceding the GEM survey conducted in the summer of 2009) (see Chapter 7). About 30% to 40% perceived the situation to be about the same. However, 45% felt that there were fewer opportunities for their business, over half felt that it was more difficult to start a business, and 43% felt that it was more difficult to grow a business.

### Entrepreneurial Attitudes and Perceptions of the Population

The Moroccan adult population has relatively favourable attitudes toward entrepreneurship (Table 42), above average for factor-driven economies on all of these indicators. These favourable attitudes are reflected in the very high percentage of Moroccans who, given their choice of work environment, would prefer to own their own business (70%). Three-quarters perceive that they have the knowledge, skills, and experience required to start a business and their fear of failure is relatively low.

Almost 27% expect to start a business in the next three years. These intention rates are particularly high among adults in the 18–24 and 25–34 age groups (around 29%), those with post-secondary education (35%), people working part-time (36%), and students (32%).

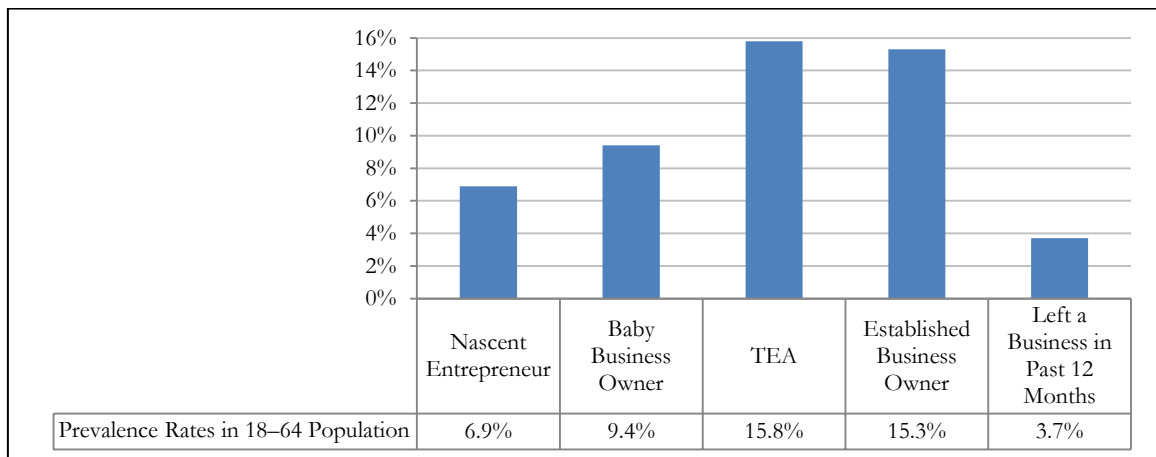
**Table 42. Entrepreneurial Attitudes and Perceptions in Morocco**

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18–64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	51.5	3
Has the knowledge, skills, and experience to start a business	74.6	2
Fear of failure would prevent starting a business	25.4	2
Knows someone who started a business in the past two years	46.9	2
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	83.3	5
Frequent stories about successful new businesses in the media	73.0	2
Successful entrepreneurs have high status and respect in the country	87.2	3
Intends to start a business in the next three years	26.6	4

## Entrepreneurial Activity Prevalence Rates

These favourable attitudes toward entrepreneurship are manifested in relatively high rates of participation in entrepreneurial activity. Just over 9% of the adult population was actively trying to start a new business in 2009 and almost 7% owned a baby business less than 42 months old (Figure 62). Morocco's TEA rate of 15.8% is very close to what might be expected for a country at its level of development (see Figure 4 in Chapter 1). In addition, over 15% owned an established business more than 42 months old. In the 12 months prior to the 2009 GEM survey, 3.7% of Moroccan adults had disengaged from a business they owned, but in 43% of the cases, the business itself continued to exist.

**Figure 62. Entrepreneurial Activity Rates in Morocco**



Converting TEA rates to estimates of the number of people and ventures reveals the following:

- ♥ About 1.3 million 18–64 year-olds, in average teams of 1.36, were actively trying to start an estimated 955 000 new businesses in 2009.
- ♥ Another 1.7 million 18–64 year-olds, in average teams of 1.36, were owners of close to 1.3 million young businesses less than three and a half years old.
- ♥ About 2.8 million 18–64 year-olds owned around 2.3 million established businesses of more than 42 months old.
- ♥ In the 12 months prior to the GEM 2009 survey, close to 700 000 18–64 year-olds discontinued their involvement in a business they owned. About 14% of them went on to become involved in another start-up effort in 2009.

Altogether, over 30% of the adult population is engaged in the three phases of entrepreneurial activity. The density of existing entrepreneurs (young and established), at 24.6 per 100 18–64 year-olds, is the second highest in the seven countries, just behind Lebanon. The density of nascent entrepreneurs (6.9 per 100) is the third highest, trailing Yemen and Algeria.

Over 75% of Morocco's early-stage entrepreneurs are motivated by opportunity versus necessity.

Table 43 summarizes the TEA rates for key demographics.

**Table 43. Prevalence of Entrepreneurial Activity and Key Demographics, Morocco**

Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
Phase of Activity		
Nascent Entrepreneurs	6.9	3
New Business Owners	9.4	1
Total Early-Stage Entrepreneurial Activity (TEA)	15.8	3
Established Business Owners	15.3	2
Discontinuance in Past 12 Months	3.7	6
Expects to Start a Business in Next Three Years	26.6	4
Gender		
Early-Stage Entrepreneurial Activity - Men	19.9	3
Early-Stage Entrepreneurial Activity - Women	11.8	4
Motivation for Early-Stage Entrepreneurship		
Opportunity-TEA	11.7	4
Male	14.7	4
Female	8.8	3
Necessity TEA	4.0	2
Male	5.1	2
Female	2.9	3
Age Group		
18–24	14.0	3
25–34	20.0	1
35–44	16.7	3
45–54	12.3	3
55–64	12.5	2
Education Level		
None	10.1	3
Some Secondary	20.7	1
Secondary Degree	21.5	2
Post-Secondary	16.9	4
Graduate Experience	n.a.	n.a.
Location		
Urban	16.5	2
Rural	14.9	4
Labour Force Attachment		
Working Full- or Part-Time	25.9	2
Seeking Employment	5.5	7
Student	4.1	5
Retired/Disabled	6.2	2
Homemaker	5.4	2
Work Environment		
	% of Working Adults	
Public Sector	4.3	7
Micro Private Enterprise	14.9	4
Small Private Enterprise	13.0	3
Medium Private Enterprise	10.8	5
Large Private Enterprise	20.0	1

Note: TEA rates by household income are not included for Morocco because a high rate of refusal and “don’t know” responses made reliable TEA rate calculations not possible.

This reveals the following:

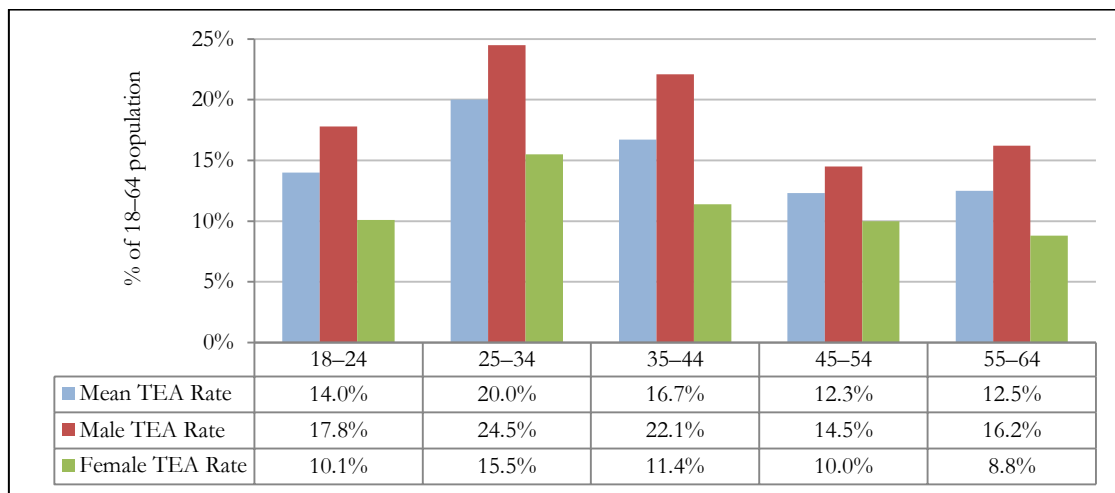
- The TEA rate for men is 1.7 times the TEA rate for women (19.9% compared to 11.7%). Women’s share of overall early-stage entrepreneurial activity is 38%, which is the third highest in the seven GEM-MENA countries, next to that of Algeria and Yemen. Women’s share of entrepreneurs appears to be increasing, from 22% of the established business owners to 43% of the nascent entrepreneurs, the result of a narrowing gender gap in nascent entrepreneurship rates compared to established business owner rates. However,



the actual female prevalence rates across the three phases of entrepreneurial activity do not vary much. The rise in women's share of nascent entrepreneurs and new business owners is largely due to variation in male participation rates (see Chapter 2).

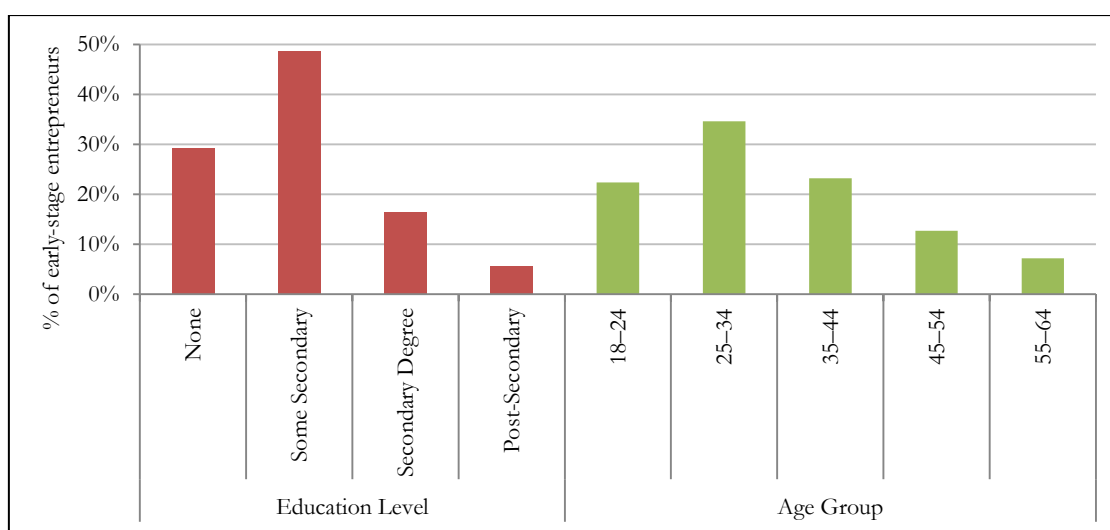
- ♥ The highest TEA rate by age is in the 25–34 age-group (20%) (Figure 63). Although the pattern is consistent with the general pattern in other GEM countries, there is no decline in TEA rate in the oldest age group. The largest gender gap is in the 35–44 age group, where men are 1.9 times more likely than women to be involved in early-stage entrepreneurial activity.

**Figure 63. Entrepreneurial Activity Rates by Age Group and Gender**



- ♥ The highest TEA rates by education level are among the groups with some secondary education and a secondary degree (over 20%). Unlike the pattern in the seven GEM-MENA countries (except Yemen), the TEA rate declines for adults with a post-secondary education (to 17%).
- ♥ Converted to shares of early-stage entrepreneurs, TEA rates for age and education level indicate that more than three-quarters have not completed a secondary education and almost 60% are between the ages of 25 and 44 (Figure 64). The high proportion of early-stage entrepreneurs in the lower-educated cohorts of the adult population is different from the pattern in other GEM-MENA countries, to some extent reflecting the low overall education level of the Moroccan population.

**Figure 64. Share of Early-Stage Entrepreneurs by Education Level and Age Group, Morocco**



Note: The bars in each group add up to 100%.

- ♥ The TEA rate for urban-based adults is slightly higher than for rural-based adults (16.5% compared to 14.9%), but the difference is not statistically significant.
- ♥ The TEA rate for working adults (26%) is considerably higher than for other labour force categories, indicating that over 80% of early-stage entrepreneurs are employed doing something else while they are trying to get their businesses established. Of those adults engaged in a start-up effort while working, 60% are working in a micro-enterprise with fewer than 10 employees. This suggests that micro-enterprises are an important incubating environment for new entrepreneurial ventures in Morocco.

### TEA Ventures in Morocco

Selected features of Moroccan early-stage ventures are highlighted in Table 44. This reveals the following:

- ♥ Compared to factor-driven economies, there are a higher proportion of early-stage ventures in the consumer-oriented sectors (71% compared to 64%) and the transforming sectors (21% compared to 17%). Compared to established businesses in Morocco, the early-stage ventures are less likely to be in the extractive sectors (4% versus 18%).
- ♥ A higher proportion of Moroccan early-stage enterprises (57%) do not create jobs for people other than their owners, compared to other GEM-MENA countries. Another 40% are creating 1–5 jobs. On average, fewer than two jobs are created per firm, making these Moroccan enterprises the smallest in the seven countries. The early-stage entrepreneurs, however, do plan to more than triple their employment in the next five years, which would reduce the number of ventures with no jobs to 14% and the share of ventures with 6–19 jobs to 25%, if growth aspirations were realized.
- ♥ The level of novelty of the ventures is low, even relative to the other GEM-MENA countries. Morocco has the highest proportion of early-stage ventures that are entering markets with many businesses offering similar products or services (two-thirds) and

offering customers products or services that none will consider new or unfamiliar (83%). They are, however, slightly more innovative than established businesses in this regard.

- They are primarily using technologies or procedures that are more than five years old; only 12% are making use of the latest technologies, which is below average for GEM-MENA countries.
- Moroccan early-stage enterprises have more of an international orientation than those in the other GEM-MENA countries, with fewer that do not expect to have any customers outside the country. Almost 20% expect to have at least 25% of their customers from outside Morocco.

**Table 44. TEA Ventures and Selected Features, Morocco**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	4.2	5
Transforming	20.6	2
Business Services	4.2	7
Consumer-oriented	71.0	1
Jobs Now		
None	57.2	1
1–5 Jobs	40.0	6
6–19 Jobs	2.8	7
20+ Jobs	0.0	7
Jobs Expected in Five Years		
None	14.1	2
1–5 Jobs	55.3	2
6–19 Jobs	25.6	4
20+ Jobs	5.0	6
Other Businesses Offering Similar Products/ Services	65.7	1
Many	25.0	6
Few	9.3	4
None		
Customers Considering the Product/ Service New or Unfamiliar		
None	82.8	1
Some	8.6	7
All	8.5	6
Age of Available Technology Required		
Technology More than Five Years Old	68.8	2
Technology 1–5 Years Old	19.4	4
Latest Technology (Less than a Year Old)	11.8	6
Proportion of Out-of-Country Customers		
None	24.1	7
1–25%	57.3	2
26–75%	15.2	2
76–100%	3.4	5

### Start-Up Capital Requirements

Moroccans have the smallest start-ups by size of capital required. The median start-up capital required by a nascent entrepreneur is the equivalent of US\$6112. Just over 63% expect to need less than US\$10 000 and over 85% less than US\$50 000 (Table 45). About three-quarters of the nascent entrepreneurs will invest personal amounts of less than US\$10 000 in the venture. This leaves a financing gap for the remainder. Half of the entrepreneurs will finance all their needs personally.

**Table 45. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Morocco**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	46.7%	69.0%
\$5000–\$9999	17.1%	4.8%
<i>Subtotal</i>	<i>63.8%</i>	<i>73.8%</i>
\$10 000–\$19 999	7.6%	14.3%
\$20 000–\$49 999	15.3%	9.5%
\$50 000–\$100 000	9.5%	2.4%
> \$100 000	3.8%	-
<i>Median Amount</i>	<i>US\$6112</i>	<i>US\$2445</i>

Of those who have received (or expect to receive) financing from external sources, about half will receive it from immediate family members (Table 46), about the same proportion as in Lebanon and Syria. Over 30% expect financing from a bank, a relatively high percentage for GEM-MENA countries. This might be related to the extensive system of government-backed loan guarantees in Morocco. Over a quarter will deal with microfinance providers, again an area where Morocco is well developed. Very few will source financing from a venture capital company or a government program.

**Table 46. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Morocco**

Source of Financing	Percentage Using (%)	Source of Financing	Percentage Using (%)
Immediate Family Member	52.0	Microfinance Provider	27.0
Bank	30.8	Other Relative	25.0
Friend or Neighbour	30.8	Government Program	7.7
Work Colleague	27.0	Venture Capital Company	5.8

Only 0.5% of Moroccans have invested money in someone else's new business in the past three years; 0.8% of men and 0.3% of women. This is the lowest prevalence rate of informal investors in all 55 GEM countries, well below the 2.8% average for the seven GEM-MENA countries and the 3.9% average for all GEM countries. This low prevalence rate did not allow further reliable analysis of this group in Morocco.

### Sources of Advice and Start-Up Training

The top sources of advice used by Moroccan early-stage entrepreneurs are parents (60%), friends (51%), and other family or relatives (46%). They make very little use of other sources, particularly the services of professional experts, although about 20% consult with someone else starting a business and customers. Fewer than 2% receive advice from lawyers, accountants, public advisory services, or business development services provided by NGOs or business associations, the lowest proportion in GEM-MENA countries.

Only 1% of the adult population has received any training in how to start a business at primary or secondary school, the lowest level in the seven GEM-MENA countries, and only 2.8% after their official schooling, also the lowest. The incidence of start-up training among early-stage entrepreneurs is slightly higher, 2.9% at primary or secondary school and 4.6% when taken after completing their official education, but these are still the lowest rates in the GEM-MENA countries. The most prevalent sources of informal training for the early-stage entrepreneurs are a college or university (9.3%); a business association (4.7%); a current or past employer (2.3%); a

government agency (2.3%); or self-learning by reading books, observing other people in business, or working in someone else's business (14%).

## **Policy Implications**

Morocco stands out among the seven GEM-MENA countries for having the highest density of persons in the 18–64 population involved in the three phases of entrepreneurial activity, some 5.8 million adults. This suggests that entrepreneurship is a way of life for many Moroccans, further evidenced by the large percentage of the population that would prefer to have their own business over other employment alternatives. However, the early-stage ventures are more modest than in the other countries, starting with smaller amounts of start-up capital, creating fewer average jobs per firm, and exhibiting lower levels of innovativeness. A high percentage of the early-stage entrepreneurs have less than a completed secondary education, few have received any training in how to start a business, and even fewer make use of professional experts for advice.

A number of policy issues come to mind from analysis of the GEM data for Morocco. The first is the link between education levels and TEA rates. Generally, TEA rates rise with level of education. Not only does this not happen in Morocco, but the generally low overall education level means that the majority of enterprises are being started by persons with lower levels of education. While starting a business is a way to create a livelihood and achieve a level of independence, growth aspirations are found to be higher among better-educated entrepreneurs. To stimulate higher potential ventures in the long run, the Moroccan government should strive to encourage more entrepreneurial activity among better-educated segments of the population, as well as to continue efforts to raise the overall education level of the entire population.

Although women's participation in entrepreneurial activity in Morocco is relatively high compared to some of the GEM-MENA countries, there is still a gender gap in the level of confidence women have in their abilities to start a business. To strengthen the role of women in entrepreneurial activity, dedicated efforts to promote entrepreneurship and impart the required knowledge and skills should be considered.

The low incidence of start-up training and use of professional experts for advice is another issue worthy of exploration. Certainly entrepreneurship training and business support is available, such as through the Moukawalati program for young entrepreneurs, delivered by the National Agency for Promotion of Employment and Skills (ANAPPEC), and the Regional Investment Centres. Either there is low awareness of these services among nascent and new entrepreneurs or the outreach is insufficient to meet the potential need. The relevant ministries should consider integrating entrepreneurship training more broadly in educational programs of secondary schools, and vocational institutes and universities should play a stronger role in introducing students to the principles and practices of entrepreneurship and teaching them how to recognize business opportunities of a more innovative nature. Although the TEA rate among students is low, about a third of students state their intention to start to start a business in the next three years. Ensuring that more of them are adequately prepared should be a policy priority.

## *Entrepreneurial Activity in Palestine*<sup>30</sup>

### **Introduction**

The Occupied Palestinian Territory is a small, fragile, lower-middle-income country with a population of 4 million and 2009 per capita GDP (PPP) of US\$2900. Due to ongoing conflicts with Israel, the economy has been in unprecedented decline since 2000. The Israeli closure policy has led to the collapse of tourism, severe constraints on the ability of Palestinians to work in Israel, and the suspension or closure of many enterprises, leading to extremely high levels of unemployment and poverty.<sup>31</sup> The economy is highly dependent on Israel, which accounts for 90% of its exports and 70% of its imports. Palestinian society and the Palestinian Authority are also highly dependent on international aid and donor agencies.

The labour force participation rate is very low (only 42%), although indicators of literacy and education in Palestine are among the highest in the MENA region, indicating a relatively high level of human capital. Given its underdeveloped industrial base, the private sector contribution to job creation has been limited in recent years. One of the biggest barriers to development of the private sector is mobility restrictions on both individuals and goods (resulting from the Israeli occupation), but the absence of an airport and national port system further inhibits access to markets and increases transaction costs for businesses. Access to credit is limited and policy instruments, such as credit-guarantee systems, are very recent. A number of microcredit organizations exist to facilitate access to credit for micro and small enterprises and several donors are funding microfinance initiatives. The weak, market-economy legal framework, the uncertain business environment, and political instability make it difficult to attract sufficient local and foreign investment to create jobs and reduce poverty. Progress on implementing the necessary reforms to revitalize the private sector has been very slow, largely due to political instability.

Micro and small enterprises are very important to the economy, but only 3% of all enterprises have more than 10 workers. About 40% of private enterprises are informal and the level of informal employment is equal to about 30% of formal private sector employment. Women's participation in economic activity is among the lowest in the world. Palestine participates in the Euro-Med Charter for Enterprise, but the development of SMEs is only recently attracting attention on the policy agenda of the Palestinian National Authority and an SME policy has not yet emerged, in spite of various fragmented efforts to formulate one. Much of the institutional and organization infrastructure required to support entrepreneurship and enterprise development does not exist.

In the GEM survey conducted in the summer of 2009, Palestinian early-stage entrepreneurs stood out among the seven GEM-MENA countries as being the least likely to perceive more opportunities for their business compared to a year earlier as a result of the financial crisis and global economic slowdown (fewer than 5%), and the second most likely to perceive a decline in business opportunities (62%). This is unfortunate, given the relatively strong aggregate growth performance of the Palestinian economy between 2008 and 2009. In addition, over half of the early-stage entrepreneurs and almost three-quarters of the established business owners felt that it

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<sup>30</sup> The GEM data in Palestine was collected during June and July 2009. Face-to-face interviews were conducted with 2080 adults selected from a nationally representative sample of the population using a random-walk method.

<sup>31</sup> An estimated 46% of the population in the West Bank lives under the poverty line, rising to as high as 80% in the Gaza Strip; the unemployment rate exceeds 25%.

was more difficult to start a business (among the highest proportions in the GEM-MENA countries).

## Entrepreneurial Attitudes and Perceptions of the Population

Given the background context in Palestine, it is not surprising that a relatively high percentage of 18-64 year-olds fear failure as an impediment to starting a business (42% compared to 35% in factor-driven economies<sup>32</sup>) (Table 47). They also have a relatively lower level of perception that they have the knowledge, skills, and experience to start a business (56% compared to an average of 66% in factor-driven economies). Although entrepreneurship is considered a good career choice and the level of intent to start a business in the next three years is similar to most of the other GEM-MENA countries, Palestinians are less likely than most to be exposed to frequent stories about successful entrepreneurs in the media.

**Table 47. Entrepreneurial Attitudes and Perceptions in Palestine**

Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18-64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	49.9	4
Has the knowledge, skills, and experience to start a business	55.6	6
Fear of failure would prevent starting a business	41.9	6
Knows someone who started a business in the past two years	42.4	4
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	88.0	3
Frequent stories about successful new businesses in the media	52.0	6
Successful entrepreneurs have high status and respect in the country	78.1	6
Intends to start a business in the next three years	26.2	6

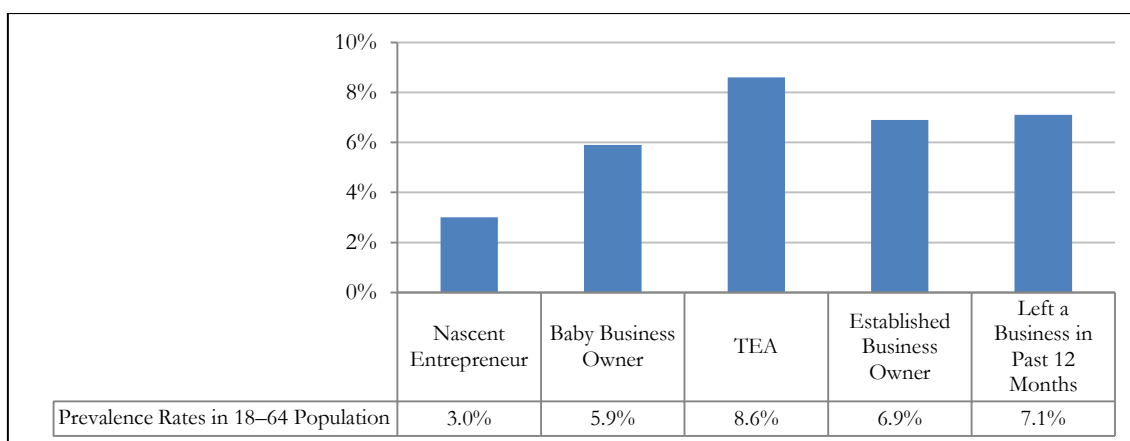
Palestinian women have slightly more favourable perceptions of the cultural context for entrepreneurship than men, but this does not translate into a higher level of intent to start a business in the next three years. Only 18% of women, compared to 34% of men, expressed this expectation. The lower level of intent is likely related to the finding that women are less than half as likely as men to perceive that they have the knowledge, skills, and experience to start a business and have a higher fear of failure. The highest overall levels of intent are among 18-24 year-olds, adults with a post-secondary or higher education, those in the upper-third household income group, those working part-time, and students (all over 30%, see Chapter 6).

## Entrepreneurial Activity Prevalence Rates

These relatively lower levels of favourable attitudes and perceptions among Palestinians result in the lowest rate of nascent entrepreneurial activity of the seven GEM-MENA countries and much lower than the average for factor-driven economies (see Annex 2). Only about 9% of the 18-64 population was actively trying to start a new business in 2009. Combined with the 5.9% who owned a baby business less than 42 months old (and discounting those who are both involved in a baby business and actively involved in a new start-up), the TEA rate is 8.6% (Figure 65). This rate is much lower than might be expected for a country at its level of development, which would be closer to 20% (see Figure 4 in Chapter 1). In addition, about 6.9% owned an established business more than 42 months old. In the 12 months prior to the 2009 GEM survey, 7.1% of Palestinian adults had disengaged from a business they owned.

<sup>32</sup> See Annex 2 for GEM global comparisons on entrepreneurial attitudes and perceptions.

**Figure 65. Entrepreneurial Activity Rates in Palestine**



Converting TEA rates to estimates of the number of people and ventures reveals the following:

- ♥ About 56 000 18–64 year-olds, in average teams of 2.2, were actively trying to start an estimated 25 600 new businesses in 2009.
- ♥ Another 111 000 18–64 year-olds, in average teams of 1.8, were owners of 61 000 young businesses less than three and a half years old.
- ♥ About 130 000 18–64 year-olds owned around 83 000 established businesses of more than 42 months old.
- ♥ In the past 12 months (prior to the GEM 2009 survey), close to 136 000 18–64 year-olds discontinued their involvement in a business they owned. In over 80% of the cases, the business itself ceased to exist, a less positive outcome than in other GEM-MENA countries, except Yemen.

Altogether, about 15% of the adult population is engaged in the three phases of entrepreneurial activity, similar to the level in Jordan and Syria, but half the level in Morocco and Lebanon. The density of existing entrepreneurs (young and established), 12.7 per 100 18–64 year-olds, is the third highest in the seven countries. The density of nascent entrepreneurs (3 per 100) is the lowest. This low level of nascent entrepreneurial activity is an issue that should be monitored.

The relatively high rate among the adult population of disengagement from a business in the previous 12 months is also a concern. Almost as many people discontinued their involvement in a venture they owned as were engaged in early-stage entrepreneurial activity. Also of note is that only 10% of these discontinuing entrepreneurs were involved in a new start-up effort, the lowest percentage in the seven GEM-MENA countries (see Chapter 5). These are not promising statistics for building a stronger base of private enterprises and are likely an indicator of the difficulty of sustaining a business in a highly uncertain and volatile set of market and political conditions.

Palestine also has the highest proportion of necessity-motivated early-stage entrepreneurial activity of the seven GEM-MENA countries, over 37%. This is, in fact, one of the highest in all 55 GEM countries. This may be partly explained by the high unemployment rate in Palestine and the restricted access to job opportunities due to the Israeli border closure. On the other hand, this negative set of circumstances should result in a higher level of nascent entrepreneurial activity.



Table 48 summarizes the TEA rates for key demographics, followed by brief points of analysis.

**Table 48. Prevalence of Entrepreneurial Activity and Key Demographics, Palestine**

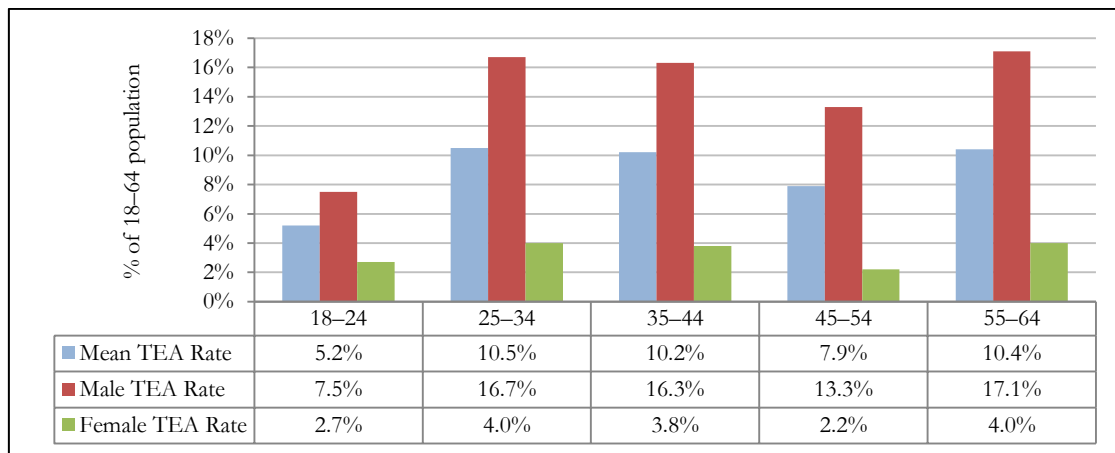
Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
Phase of Activity		
Nascent Entrepreneurs	3.0	7
New Business Owners	5.9	3
Total Early-Stage Entrepreneurial Activity (TEA)	8.6	6
Established Business Owners	6.9	4
Discontinuance in Past 12 Months	7.2	3
Expects to Start a Business in Next Three Years	26.2	6
Gender		
Early-Stage Entrepreneurial Activity - Men	13.6	7
Early-Stage Entrepreneurial Activity - Women	3.4	6
Motivation for Early-Stage Entrepreneurship		
Opportunity-TEA	5.3	6
Male	8.9	6
Female	1.6	7
Necessity TEA	3.2	3
Male	4.7	4
Female	1.6	5
Age Group		
18–24	5.2	7
25–34	10.5	7
35–44	10.2	6
45–54	7.9	5
55–64	10.4	3
Education Level		
None	4.4	7
Some Secondary	6.7	7
Secondary Degree	8.8	7
Post-Secondary	14.7	5
Graduate Experience	25.0	1
Household Income Group		
Lower-Third	6.0	5
Middle-Third	7.1	7
Upper-Third	10.4	7
Location		
Urban	7.7	7
Rural	11.0	5
Labour Force Attachment		
Working Full- or Part-Time	17.7	6
Seeking Employment	6.8	3
Student	4.5	4
Retired/Disabled	4.5	5
Homemaker	1.3	7
Work Environment % of Working Adults		
Public Sector	10.0	3
Micro Private Enterprise	7.0	7
Small Private Enterprise	5.1	6
Medium Private Enterprise	12.5	4
Large Private Enterprise	n.a.	n.a.

- The TEA rate for men is four times that for women (13.6% compared to 3.4%). This is the second highest gender gap in the seven GEM-MENA countries, following Syria, and one of the highest in all GEM countries. Women's share of early-stage entrepreneurial activity is only 19%, half the share in Yemen, Algeria, and Morocco, for example. It should be

noted that Palestine has the lowest female labour force participation rate (16%) of any country listed in the *World Development Indicators* (World Bank 2010), which likely impacts on women's level of participation in entrepreneurial activity.

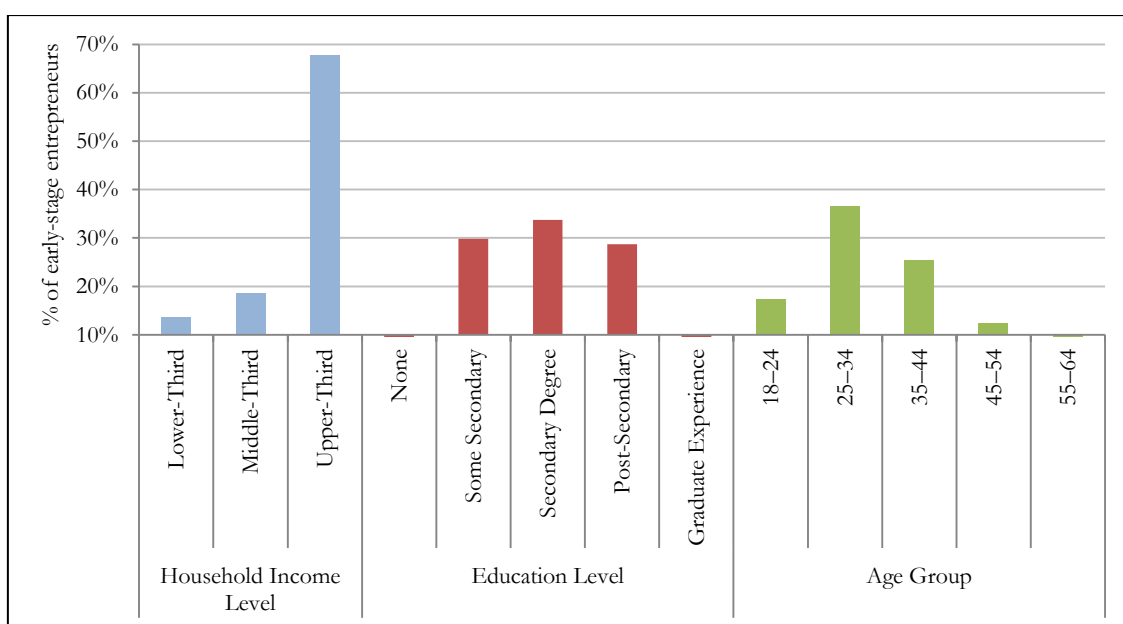
- ♥ The overall TEA rate is lowest among adults in the 18–24 age group (5.2%), dips in the 45–54 age group to about 8%, and is otherwise constant at around 10% (Figure 66). Male and female rates follow basically the same pattern, with the largest gender gap in the 45–54 age group, where men are six times more likely than women to be involved in early-stage entrepreneurial activity. The gap is smallest in the 18–24 group, where men are only 2.8 times more likely than women to be involved.

**Figure 66. TEA Rate by Age Group and Gender**



- ♥ Consistent with the GEM pattern, TEA rates in Palestine rise progressively with the level of education, from a low of 4.4% among the least educated cohort of adults to a high of 25% among those with graduate experience. This bodes well for Palestine because about half of the adult population has a secondary education or higher, one of the best educated populations in the MENA region.
- ♥ The TEA rate also rises with annual household income, ranging from 6% among the lower-third income group to 10.4% in the upper-third income group.
- ♥ When converted to shares of early-stage entrepreneurs, these TEA rates reveal that two-thirds are in the upper-third income group, almost two-thirds have a secondary degree or higher education, and over 60% are between the ages of 25 and 44 (and over half under the age of 35) (Figure 67).

**Figure 67. Share of Early-Stage Entrepreneurs by Household Income, Education Level, and Age Group, Palestine**



Note: The bars in each category add up to 100%.

- ♥ The TEA rate among adults in rural areas is higher than in urban areas (11% compared to 7.7%).
- ♥ By labour force attachment, the TEA rate is considerably higher among adults who are working full- or part-time (17.7%) than it is for other groups. Working adults account for over three-quarters of the early-stage entrepreneurs. It is also noted that among the nascent entrepreneurs who are working while trying to get a business started, 45% are working in the public sector. Participation levels are very low among homemakers (TEA rate of only 1.3%) although over a quarter of early-stage women entrepreneurs are comprised of the homemaker group.

## TEA Ventures in Palestine

Selected features of early-stage ventures are highlighted in Table 49. To summarize:

- ♥ Palestine has the highest share of early-stage enterprises in the extractive sectors (22%),<sup>33</sup> followed closely by Yemen, and the lowest share in consumer-oriented sectors (54%). The result is a sector distribution that does not conform to the average factor-driven economy. Women's ventures are much more likely than men's to be in the extractive sectors and less likely to be in the transforming sectors and business services.
- ♥ Similar to Morocco, over half of the early-stage ventures in Palestine are not creating jobs, except for the owners. Forty-three percent have between one and five jobs and fewer than 5% have six or more jobs. In the next five years, the entrepreneurs expect to more than double the number of jobs, but the result would still be that 40% of the ventures had no

<sup>33</sup> It is worth noting that extractive industry in rural areas is exceptionally high in Palestine compared to the other GEM-MENA countries. This may be explained by the very large number of firms extracting building stone in rural areas for domestic and foreign markets.

employees. Although 18% expect to have six jobs or more, this is the lowest proportion among the seven GEM-MENA countries, indicating more limited growth aspirations.

- Almost two-thirds of the early-stage enterprises are in markets where many businesses offer similar products or services. Over three-quarters of their customers would not consider their offerings either new or unfamiliar. This indicates a low level of innovativeness compared to enterprises in most of the other GEM-MENA countries. However, early-stage enterprises are slightly more innovative than established Palestinian businesses.
- Fewer than half are using technologies or procedures that have been available for more than five years, with more than a third making use of the latest technologies that have been available for less than a year, one of the highest levels in the seven GEM-MENA countries.
- Over 90% do not expect to have any customers from outside the country, by far the largest proportion of domestic-only early-stage enterprises in the GEM-MENA countries. Fewer than 3% expect to have more than 25% of their customers coming from international locations, likely reflecting the difficulties in accessing external markets noted in the introduction to this country profile.

**Table 49. TEA Ventures and Selected Features, Palestine**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	21.8	1
Transforming	18.7	4
Business Services	5.5	5
Consumer-oriented	53.9	7
Jobs Now		
None	52.5	2
1–5 Jobs	42.8	5
6–19 Jobs	3.9	6
20+ Jobs	0.8	5
Jobs Expected in Five Years		
None	40.1	1
1–5 Jobs	42.5	5
6–19 Jobs	13.1	7
20+ Jobs	4.3	7
Other Businesses Offering Similar Products/ Services		
Many	64.2	3
Few	26.8	5
None	9.0	5
Customers Considering the Product/ Service New or Unfamiliar		
None	77.9	2
Some	17.9	6
All	4.2	7
Age of Available Technology Required		
Technology More than Five Years Old	45.1	6
Technology 1–5 Years Old	22.0	3
Latest Technology (Less than a Year Old)	32.8	2
Proportion of Out-of-Country Customers		
None	90.8	1
1–25%	6.5	7
26–75%	2.2	6
76–100%	0.5	6

## Start-Up Capital and Requirements

The median start-up capital required by a Palestinian nascent entrepreneur is the equivalent of US\$9943. Just over half expect to need less than US\$10 000 and almost 90% less than US\$50 000 (Table 50). About 70% of the nascent entrepreneurs will invest personal amounts of less than US\$10 000 in the venture, leaving an obvious financing gap. About half of the entrepreneurs will finance all their needs personally and the rest have received or expect to receive financing from external sources.

**Table 50. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Palestine**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	41.4%	53.6%
\$5000–\$9999	10.0%	17.7%
<i>Subtotal</i>	<i>51.4%</i>	<i>71.3%</i>
\$10 000–\$19 999	12.9%	17.7%
\$20 000–\$49 999	21.8%	7.2%
\$50 000–\$100 000	4.2%	-
> \$100 000	9.7%	3.8%
<i>Median Amount</i>	<i>US\$9943</i>	<i>US\$4971</i>

Nascent entrepreneurs in Palestine are more likely to receive financing from immediate family members (66%) than nascent entrepreneurs in other GEM-MENA countries except Yemen, and are much less likely to receive financing from a work colleague or a venture capital company (see Table 10 in Chapter 4). However, over a quarter expect to receive financing from a microfinance provider (Table 51), similar to the levels in Morocco and Syria. Relatively few expect financing from a government program.

**Table 51. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Palestine**

Source of Financing	Percentage Using (%)	Source of Financing	Percentage Using (%)
Immediate Family Member	65.8	Bank	13.2
Microfinance Provider	26.3	Other Relative	13.2
Friend or Neighbour	21.1	Government Program	7.9
Work Colleague	13.2	Venture Capital Company	2.6

The prevalence rate of informal investors among 18–64 year-olds in Palestine is 1.5%. Over 2% of men and fewer than 1% of women have invested in someone else's new business in the past three years. The prevalence rate is well below the 2.8% average for the seven GEM-MENA countries and the 3.9% average for all GEM countries. The highest rates are among adults in the 45–54 age group (2.1%), the upper-third household income group (1.9%), and those with some graduate experience (8.3%). The amounts invested are small. Seventy percent of them invested up to US\$7500 in the past three years, although the average was about US\$8600 a year (Table 52). Collectively, these investment amounts are estimated to total about 2.1% of GDP, not an insignificant sum.

**Table 52. Informal Investments in the Past Three Years by Size, Palestine**

US\$ (PPP)	Percentage of Informal Investors (%)	US\$ (PPP)	Percentage of Informal Investors (%)
Less than \$2000	23.7	\$7501–\$24 999	16.2
\$2001–\$7500	46.5	\$25 000–\$50 000	10.2
<i>Subtotal</i>	<i>70.1</i>	More than \$50 000	<i>3.5</i>
		<i>Total</i>	<i>100.0</i>
<i>Mean Investment Amount in the Past Three Years (US\$)</i>		\$25 175	
<i>Median Investment Amount in the Past Three Years (US\$)</i>		\$2983	

Over half of the informal investors provided financing to close family members, a higher proportion than common in the other six GEM-MENA countries. Forty percent of them do not expect any return on their investment, basically a “love money” investment.

### Sources of Advice and Start-Up Training

The top sources of advice used by Palestinian early-stage entrepreneurs are parents (53%), other family members or relatives (62%), and friends (59%). They make little use of other possible sources, and particularly the services of professional experts. Very few receive advice from lawyers, accountants, public business advisory services, or business development services provided by NGOs or business associations, although 25% use a mentor and 15% to 18% seek advice from suppliers or customers.

Only 4.1% of the adult population has received any training in how to start a business at primary or secondary school. This is the second highest percentage in the seven GEM-MENA countries after Yemen. About 14% received start-up training after their official schooling, the second highest after Lebanon. The incidence of start-up training among early-stage entrepreneurs is considerably higher (11.1% at primary or secondary school and 29.8% after completing their official education), suggesting that exposure to start-up training translates into a higher propensity to become an entrepreneur. The most prevalent sources of informal training for the early-stage entrepreneurs are from a college or university (7%); a current or past employer (6.7%); a business association (4.2%); a government agency (3.2%); or self-learning by reading books, observing other people in business, or working in someone else’s business (12.4%).

### Policy Implications

These GEM findings point to a number of specific policy implications. Firstly, Palestine has the lowest rate of nascent entrepreneurial activity in the seven GEM-MENA countries; much lower than might be expected for a country at its level of development. Coupled with the relatively high rate of business discontinuance, actions should be taken to raise the level of entry into the process of new business creation. One of the challenges is that business opportunities may be limited in Palestine for reasons linked to the political environment and the high rates of unemployment and poverty, which affects the stability of markets and the level of disposable income available for consumption. The GEM data add to the economic evidence of the negative effects of the Israeli occupation and closure policy.

Secondly, the very large gender gap between male and female participation in entrepreneurial activity calls for attention. Policymakers should explore implementation of measures to promote entrepreneurship among women and to address the lower level of confidence that women have in their abilities to start a business and their higher fear of failure through awareness, training, and mentoring programs. Tied to this is the need to address their lower level of labour force

participation generally, which would likely have spillover effects on the level of female entrepreneurial activity and contribute to the development process as a whole.

Thirdly, the rate of early-stage entrepreneurial activity among 18–24 year-olds is low in comparison with other GEM-MENA countries, yet 30% of them state an expectation to start a business in the next three years. Policymakers are encouraged to promote entrepreneurship among youth to bolster a new generation of future entrepreneurs. The GEM findings support recommendations of the Palestine Economic Policy Research Institute (MAS) to adopt policies to nurture entrepreneurship skills throughout the education system, to introduce schemes to encourage banks to finance the business projects of young people, and to enact new legislation that would offer incentives for young entrepreneurs and tackle some of the obstacles they face (MAS 2007).

Lastly, there is a very low incidence of use among early-stage entrepreneurs of professional experts and business development advice. One of the reasons for this could be inadequate availability of these services, another could be lack of awareness that they exist or low perceived value on the part of the entrepreneurs. Given the low level of innovativeness and general modesty of Palestine's early-stage enterprises, this issue is worthy of examination. GEM findings support implementation of MAS recommendations to set up technical support centres at the national level, with branches in all provinces, smaller towns, and villages, in order to provide business development assistance and guidance to micro and small enterprises through all stages of their development from inception to market entry to early-stage survival (Hamid et al. 2009). An emphasis on rural access is important, in light of the higher rates of entrepreneurial activity among adults living in rural areas.

## ***Entrepreneurial Activity in Syria<sup>34</sup>***

### **Introduction**

The Syrian Arab Republic is a middle-income country with a population of about 22 million and 2009 GDP per capita (PPP) of US\$4500 (IMF database). Before 2000, the country was managed under a planned economic system. It is a relative newcomer to the concept of a private sector-led economy. It is not well integrated in the global economy with very low levels of foreign direct investment. Oil accounts for 22% of GDP, about 25% of government revenues, and 20% of exports. Expected to be a net importer of oil by 2011, there is an urgent need for economic diversification.

The government initiated aggressive economic reforms in 2000. The 10th Five-Year Plan 2006–2010 commits Syria to becoming a “social market economy,” one that combines the stability of social protection with the dynamism of a free market economy. During the past five years, the macroeconomic environment has performed relatively well in terms of high GDP growth, moderate inflation (except in 2008), low unemployment compared to the region, and manageable public debt and fiscal deficit. On the micro level, many new measures have been taken to improve the investment climate, reduce red tape, and open the economy to more private sector initiatives. Nevertheless, the Syria economy still has many business environment constraints, as reflected in the World Bank's *Doing Business 2010*, where it ranked 143 out of 183 countries (the lowest of the seven GEM-MENA countries).

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<sup>34</sup> The GEM data in Syria was collected during June and July 2009. Face-to-face interviews were conducted with 2002 adults selected from a nationally representative sample of the population using a random-walk method.

The financial crisis and global economic slowdown was felt by Syrian entrepreneurs in different ways. When surveyed in the summer of 2009, almost half of them perceived fewer opportunities for their business than a year earlier, while another 40% saw the situation as being about the same. Over half of established entrepreneurs and 42% of early-stage entrepreneurs felt it was more difficult to start a business than a year earlier. On the other hand, over 70% of early-stage entrepreneurs felt it was less difficult to grow a business, while this view applied to only 38% of established business owners.

A policy focus on the development of small and medium enterprises is very recent. Statistics on the SME sector are very limited, but fewer than 1% of all enterprises are estimated to have more than 50 employees (SEBC 2007). The institutional landscape for SME support is relatively weak. Only a few organizations promote entrepreneurship and SME development, including the Syrian Enterprise and Business Centre, the Syrian Young Entrepreneurs Association and a few non-governmental organizations, such as the Syria Trust for Development, SHABAB, and BIDAYA. The Ministry of Economy and Trade drafted Syria's first SME strategy in 2009, which incorporates a focus on improving the culture of entrepreneurship and a support system for strengthening the SME sector (MoET 2009). There are only a few microfinance facilities and credit guarantee schemes are in an early stage of development.

### Entrepreneurial Attitudes and Perceptions of the Population

Attitudes and perceptions toward entrepreneurship are mixed, but overall favourable (Table 53). More than half of Syrian adults see good opportunities for starting a business in the next six months, the second highest in the seven GEM-MENA countries and higher than average for factor-driven economies. The fear of failure as an inhibitor to starting a business is the lowest in the GEM-MENA countries and substantially lower than the average for factor-driven economies (35%). Syrians also score very favourably on the perception that entrepreneurship is a good career choice and that entrepreneurs have high status and respect in the country. The weakest cultural perception is on media coverage of stories about successful new businesses, where only 55% the population states that they often see such stories, much lower than the average for factor-driven economies (66%). Syria stands out among the seven GEM-MENA countries for having the highest level of intent to start a business in the next three years, with over half of the adult population expecting to do so. This high rate could indicate pent-up interest in entrepreneurial activity ready to respond to policy signals of a more open economy.

**Table 53. Entrepreneurial Attitudes and Perceptions in Syria**

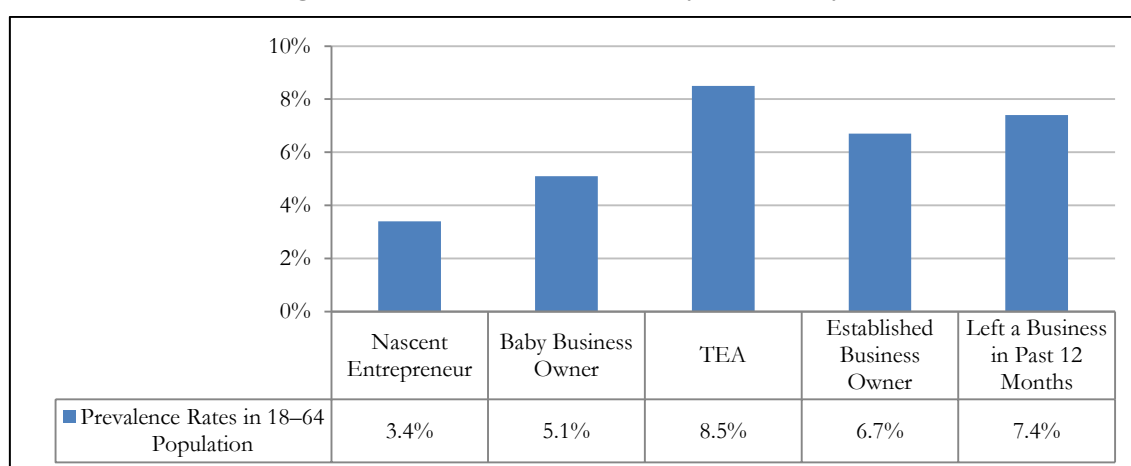
Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18–64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	54.2	2
Has the knowledge, skills, and experience to start a business	61.8	4
Fear of failure would prevent starting a business	20.3	1
Knows someone who started a business in the past two years	30.9	7
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	88.8	2
Frequent stories about successful new businesses in the media	55.2	5
Successful entrepreneurs have high status and respect in the country	89.5	2
Intends to start a business in the next three years	56.0	1



## Entrepreneurial Activity Prevalence Rates

In spite of high future start-up intention rates, Syria has the lowest TEA rate of the seven GEM-MENA countries (8.5%). Just over 3% of the 18–64 population was actively trying to start a new business in 2009 and about 5% were owners of a baby business (less than 42 months old) (Figure 68). This TEA rate is below what might be expected for a country at its level of development, which would be closer to twice that rate (see Figure 4 in Chapter 1). Almost 7% of Syrian adults were owners of an established business more than 42 months old. This means that about 15% of the adult population is engaged in one of the three phases of entrepreneurial activity; about half the level in Morocco and Lebanon and 60% of the level in Algeria, but in line with levels in Jordan and Palestine.

**Figure 68. Entrepreneurial Activity Rates in Syria**



Converting TEA rates to estimates of the number of people and ventures reveals the following:

- ♥ About 388 000 18–64 year-olds, in average teams of 2.35, were actively trying to start an estimated 165 000 new businesses in 2009.
- ♥ About 584 000 18–64 year-olds, in average teams of 1.9, were owners of about 304 000 young businesses less than three and a half years old.
- ♥ About 767 000 18–64 year-olds owned around 412 000 established businesses that are more than 42 months old.
- ♥ In the past 12 months (prior to the GEM 2009 survey) about 845 000 18–64 year-olds discontinued their involvement in a business they owned. About 13% of them re-entered the entrepreneurial process and were involved in a new start-up effort in 2009.

The density of existing business owners (of young and established businesses), 11.8 per 100 18–64 year-olds, is the fourth highest in the seven countries. However, the density of nascent entrepreneurs (3.4 per 100) is the second lowest, next to Palestine. About 55% of Syrian nascent entrepreneurs have been trying to start a business for up to six months and over three-quarters for less than a year.

Table 54 provides a summary look at TEA rates for key demographics of the population. A discussion of results follows.

**Table 54. Prevalence of Entrepreneurial Activity and Key Demographics, Syria**

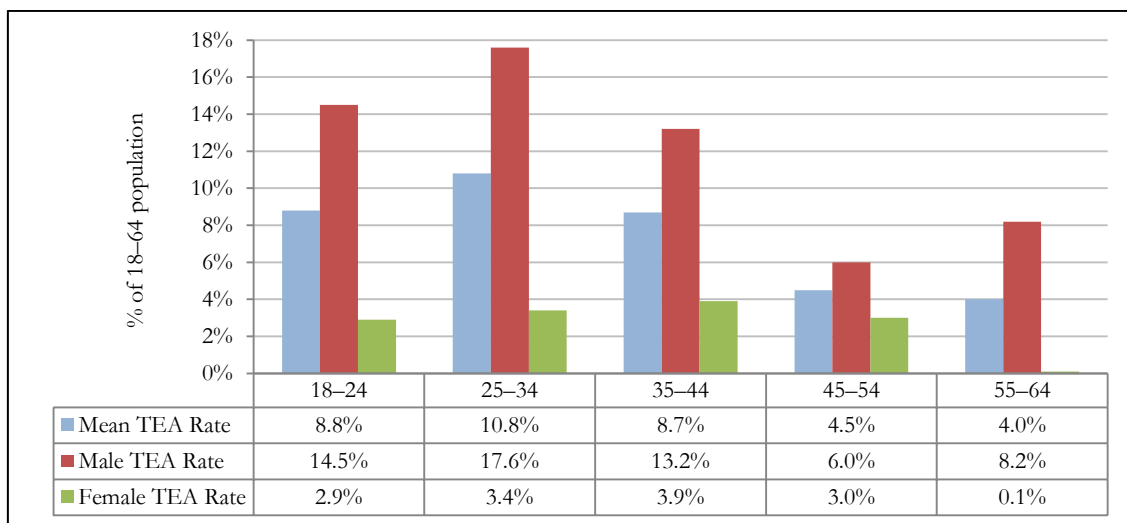
Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
Phase of Activity		
Nascent Entrepreneurs	3.4	6
New Business Owners	5.1	5
Total Early-Stage Entrepreneurial Activity (TEA)	8.5	7
Established Business Owners	6.7	3
Discontinuance in Past 12 Months	7.4	2
Expects to Start a Business in Next Three Years	56.0	1
Gender		
Early-Stage Entrepreneurial Activity - Men	13.6	6
Early-Stage Entrepreneurial Activity - Women	3.1	7
Motivation for Early-Stage Entrepreneurship		
Opportunity-TEA	5.1	7
Male	8.1	7
Female	2.0	6
Necessity TEA	3.1	7
Male	5.1	3
Female	1.1	7
Age Group		
18–24	8.8	5
25–34	10.8	6
35–44	8.7	7
45–54	4.5	7
55–64	4.0	6
Education Level		
None	5.9	6
Some Secondary	7.4	6
Secondary Degree	10.7	6
Post-Secondary	11.1	6
Graduate Experience	12.0	5
Household Income Group		
Lower-Third	4.1	6
Middle-Third	9.8	6
Upper-Third	12.0	6
Location		
Urban	8.8	6
Rural	8.1	7
Labour Force Attachment		
Working Full- or Part-Time	13.2	7
Seeking Employment	7.1	5
Student	5.9	5
Retired/Disabled	n.a.	n.a.
Homemaker	1.5	6
Work Environment		
	% of Working Adults	
Public Sector	7.4	5
Micro Private Enterprise	7.7	6
Small Private Enterprise	3.5	7
Medium Private Enterprise	6.5	7
Large Private Enterprise	7.4	6

- The TEA rate for Syrian men is 4.4 times the rate for Syrian women (13.6% compared to 3.1%). This is the largest gender gap in TEA rates in the seven GEM-MENA countries. Women's share of entrepreneurial activity is only 18%. However, this mirrors gender differences in labour force participation rates in the country: 78% for men and 21% for women (World Bank 2010). There are signs that women might be becoming more interested in entrepreneurship, as demonstrated by a higher level of participation in nascent

activity (1.8% of adult women) than in activity as an established business owner (1.3% of adult women).

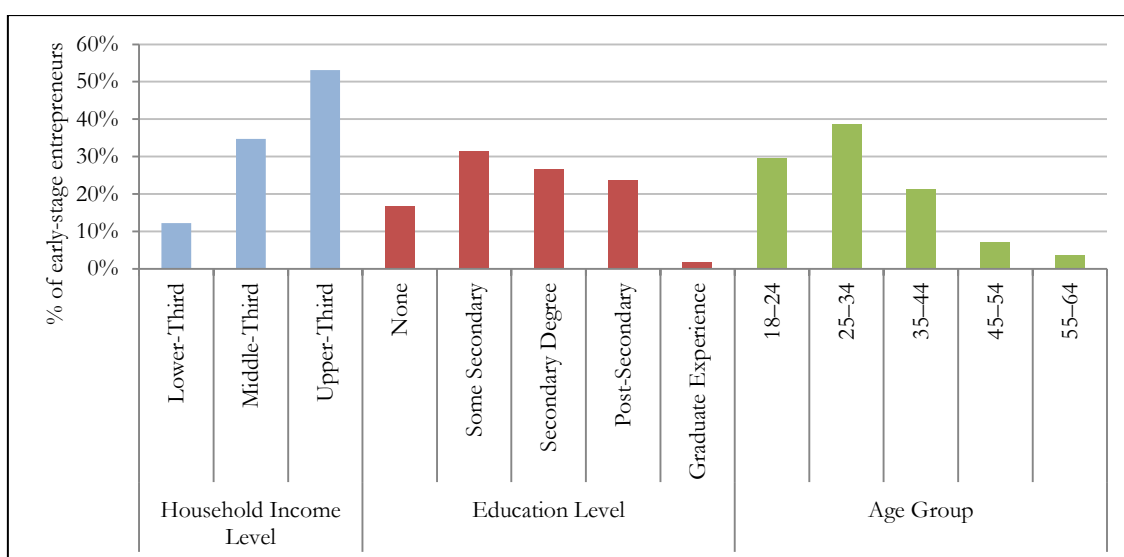
- ♥ Adults in the 25–34 age group have the highest TEA rate (10.8%), but only marginally higher than in the 18–24 and 35–44 age groups (Figure 69). Female TEA rates do not vary much across the different age groups (between 3% and 4%), except for being dramatically lower for the oldest age group. Male TEA rates vary much more, peaking in the 25–34 age group and declining with age except for a small rise in the 55–64 age group. Men are five times more likely than women to be engaged in early-stage entrepreneurial activity in the 18–24 and 25–35 age groups, but only twice as likely in the 45–54 age group.

**Figure 69. Entrepreneurial Activity Rates by Age Group and Gender, Syria**



- ♥ TEA rates rise gradually with education level, but are not significantly different among adults with a secondary degree or higher.
- ♥ Consistent with the overall GEM pattern, TEA rates in Syria also rise with household income level, from 4.1% in the lower-third income group to 12% in the upper-third income group. This pattern holds for men, but for women, the TEA rate is highest in the middle-third income group.
- ♥ When converted to actual shares of early-stage entrepreneurs, the TEA rates for age, education levels, and income groups reveal that over half are from the upper-third income group, over half have a secondary degree or higher education, and two-thirds are under 35 years of age (Figure 70).

**Figure 70. Share of Early-Stage Entrepreneurs by Household Income, Education Level, and Age Group, Syria**



Note: The bars in each category add up to 100%.

- ♥ The TEA rate for urban areas is slightly higher than in rural areas (8.8% compared to 8.1%), but not significantly so. However, urban women are more likely to be involved in entrepreneurial activity than rural women (urban female TEA rate of 4.2% compared to rural rate of 1.8%).
- ♥ The highest TEA rate by labour force attachment is among adults who are working full- or part-time (11%), followed by people seeking employment and students (about 6%). For homemakers, it is only 1.5%, half the overall female prevalence rate. Among the early-stage entrepreneurs who are working, those working in private enterprises with fewer than 10 employees have a higher prevalence rate than in other work environments, but not significantly higher than public sector workers or those who work for large private enterprises. It is interesting to note, however, that half of the nascent entrepreneurs who are working while trying to get a business started are working in the public sector and another 30% in private micro-enterprises.
- ♥ About 63% of Syrian early-stage entrepreneurs are motivated by opportunity and 37% by necessity. This gives Syria one of the highest proportions of necessity-motivation in the seven GEM-MENA countries, next to Palestine.

## TEA Ventures in Syria

Selected features of early-stage ventures are summarized in Table 55. This reveals the following:

- ♥ The majority of early-stage ventures are in consumer-oriented sectors (64%). The overall pattern is very similar to that in factor-driven economies.
- ♥ About two-thirds are creating jobs, other than for the owners; over half are in the 1–5 jobs category. About 14% are creating more than six jobs, among the highest in the seven GEM-MENA countries. In the next five years, early-stage entrepreneurs expect to increase the average number of jobs by two-thirds.

- Syria has the highest percentage of early-stage entrepreneurs stating that they are in markets with no other businesses offering similar products or services (20%). This is an indication of their perception of the level of innovativeness of their ventures. About half are entering markets with a lot of competition, but this is the lowest percentage reported by early-stage entrepreneurs in the seven GEM-MENA countries, and much lower than the 74% reported by Syrian established business owners. About 23% of the Syrians believe that all of their customers will consider the product or service new or unfamiliar, another sign of innovativeness, although the majority (about 57%) feel that none of their customers will.
- About 70% of are using technologies or procedures that have been available for more than five years, the highest level reported in the seven GEM-MENA countries, but close to the proportion in Morocco and Lebanon. Syria lags in last place for the proportion of early-stage ventures using the latest available technologies (5.4%).
- Almost two-thirds of Syrian early-stage entrepreneurs do not expect to have any out-of-country customers, however, 4.7% expect that such customers will make up more than 75% of their base, the highest proportion among the seven GEM-MENA countries.

**Table 55. TEA Ventures and Selected Features, Syria**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	8.3	3
Transforming	18.2	5
Business Services	9.7	4
Consumer-oriented	63.8	4
Jobs Now		
None	32.9	3
1–5 Jobs	53.0	4
6–19 Jobs	11.1	3
20+ Jobs	3.0	3
Jobs Expected in Five Years		
None	20.9	3
1–5 Jobs	53.7	4
6–19 Jobs	19.3	2
20+ Jobs	6.1	3
Other Businesses Offering Similar Products/ Services		
Many	50.1	7
Few	29.2	4
None	20.1	1
Customers Considering the Product/ Service New or Unfamiliar		
None	56.6	4
Some	20.3	5
All	23.1	2
Age of Available Technology Required		
Technology More than Five Years Old	69.9	1
Technology 1–5 Years Old	24.7	2
Latest Technology (Less than a Year Old)	5.4	7
Proportion of Out-of-Country Customers		
None	63.9	4
1–25%	18.0	5
26–75%	13.4	3
76–100%	4.7	2

## Start-Up Capital Requirements

Less than US\$10 000 is enough to start only about a quarter of the new ventures in Syria (Table 56). The median start-up capital required is the equivalent of about US\$21 400, making Syrian start-ups the second largest in the seven GEM-MENA countries (after Lebanon). Over 40% of the nascent entrepreneurs will invest personal amounts of less than US\$10 000, but again Syrians stand out for the high percentage (15.8%) who will invest more than US\$100 000 of personal money in their ventures. About 34% will cover all of their start-up needs without having to access external financing.

**Table 56. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Syria**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	14.9%	27.3%
\$5000–\$9999	9.7%	15.4%
<i>Subtotal</i>	<i>24.6%</i>	<i>42.7%</i>
\$10 000–\$19 999	16.0%	16.7%
\$20 000–\$49 999	32.1%	18.5%
\$50 000–\$100 000	9.8%	6.3%
> \$100 000	17.5%	15.8%
<i>Median Amount</i>	<i>US\$21 406</i>	<i>US\$10 703</i>

Half of the nascent entrepreneurs who have received or expect to receive external financing source it from immediate family members (Table 57). Over 42% will use a work colleague, fewer than 25% will use a microfinance provider, and 16% to 17% will use banks or a government program. Syria stands out (with Jordan) with over 20% of nascent entrepreneurs expecting money from a venture capital company.

**Table 57. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Syria**

Source of Financing	Percentage (%)	Source of Financing	Percentage (%)
Immediate Family Member	50.1	Friend or Neighbour	21.6
Work Colleague	41.7	Bank	17.7
Microfinance Provider	26.4	Government Program	16.0
Venture Capital Company	23.3	Other Relative	13.3

Syria, along with Algeria, outperforms the rest of the GEM-MENA countries on the prevalence rate of informal investors in the country. In the past three years, 5.6% of 18–64 year-old Syrians provided funding for someone else's start-up (6.1% of men and 5.1% of women). This is the second highest prevalence rate among the seven GEM-MENA countries and twice their average rate of 2.8%. Individual investor amounts are relatively small, with almost three-quarters investing less than US\$7500 in the past three years (Table 58). At an annual average investment of just over US\$11 500, the total amounts to the equivalent of about 5% of Syria's GDP, the third highest level in 55 GEM countries.

**Table 58. Informal Investments in the Past Three Years by Size, Syria**

US\$ (PPP)	Percentage of Informal Investors (%)	US\$ (PPP)	Percentage of Informal Investors Population (%)
Less than \$2000	27.7	\$7501–\$24 999	19.2
\$2,001–\$7500	46.5	\$25 000–\$50 000	3.1
<i>Subtotal</i>	<i>74.2</i>	More than \$50 000	3.5
		<i>Total</i>	<i>100.0</i>
<i>Mean Investment Amount in the Past Three Years (US\$)</i>		<i>\$11 554</i>	
<i>Median Investment Amount in the Past Three Years (US\$)</i>		<i>\$3210</i>	

The highest informal investor prevalence rates are among adults in the 18–34 age groups, the upper-third household income group, and the group with graduate level experience. However, in terms of share of actual informal investors, the highest share by age group is adults between 25 and 34 (32%), by education level, those with a secondary degree (40%), and by income group, those in the upper-third category (52%).

### **Sources of Advice and Start-Up Training**

Syrian early-stage entrepreneurs exhibit a different pattern of behaviour than in the other GEM-MENA countries with respect to the networks they receive advice from. The most frequently used sources of advice are still family and friends, but Syrians are much more likely to be seeking advice from co-workers, other people with experience in starting a business and mentors, market representatives (customers, suppliers, competitors, and collaborating firms), and lawyers and accountants. Six percent or fewer are making use of public business advisory services, business development services offered by NGOs, and business associations or microfinance providers.

Only 3.5% of the adult population in Syria has ever received training in how to start a business at primary or secondary school (the third lowest in the GEM-MENA countries), and only 5.6% after their official schooling (the second lowest). The incidence of start-up training among early-stage entrepreneurs is slightly higher (9% at primary or secondary school, which is the third highest in the GEM-MENA countries, and 14% after completing their official education). Fewer than 2% participated in informal training on how to start a business from a college or university, 2.5% from a business association, 4.3% from a government agency, and 10.6% from a past or current employer. However, the most prevalent source of informal training was through self-learning, by reading books, observing other people in business, or working in someone else's business (17%).

### **Policy Implications**

Syria is on the cusp of unleashing the entrepreneurial spirit within its population. While the prevalence of nascent entrepreneurs in the adult population is low for a country at its level of development, and the density of existing entrepreneurs per 100 of the 18–64 population is also low, over half of the adult population expects to start a business in the next three years, which is twice the average for factor-driven economies. Attitudes and perceptions regarding entrepreneurship are relatively positive and with the right conditions and support, many of those with intent may actually begin the business creation process. The result would be an increase in the prevalence of nascent entrepreneurs and more new businesses in the pipeline.

Based on findings from the 2009 GEM survey in Syria, there are a number of policy implications that should be considered. The first has to do with the low rate of participation of women in entrepreneurial activity and steps to narrow the gender gap. Although this low level of participation may be a reflection of the gender gap in labour force participation rates generally, the gender gap in entrepreneurial intentions is much lower than in actual participation rates. Almost half of 18–64 year-old women indicated they expect to start a business in the next three years, compared to 64% of men. This suggests that a large number of women are actually interested in entrepreneurship and, thus, promoting entrepreneurship as an option and initiating programs to provide women with information and how-to could raise the confidence they have in their capacity to start a business and help reduce their fear of failure. The impact of this could bring large gains to future entrepreneurial activity rates in the country.

The second policy implication has to do with the great interest in entrepreneurial activity among 18–24 year-olds. This age group has the second highest TEA rate and the highest intent to start a business in the next three years. They make up about 30% of nascent entrepreneurs and 34% of the adults who expect to start a business in the next three years. Investing in their entrepreneurial skills and know-how through targeted initiatives and ensuring they can access the financing and advice they need will accelerate the level of entrepreneurial activity.

The third policy implication has to do with the low level of participation of Syrians in entrepreneurship training, given the clear link between entrepreneurial skills and start-up rates. With the expansion of recent initiatives, such as introduction of the International Labour Organization's Know About Business programs in Syrian public schools and universities spearheaded by SHABAB and training offered by BIDAYA, a youth business program launched in 2006, more Syrians will ultimately be exposed to knowledge and skills in starting a business. However, broader reach of these initiatives is needed to build national entrepreneurial capacity, including integration of age-appropriate entrepreneurship curriculum in schools, vocational institutes, and universities.

Finally, given the low level of development of support infrastructure for new and existing entrepreneurs and evidence that the majority of entrepreneurs are getting their start-up advice from their parents, friends, and other relatives, attention should be paid to investing in a network of entrepreneurship or enterprise centres throughout the country and creating awareness among nascent and new entrepreneurs of the services available.

## ***Entrepreneurial Activity in Yemen<sup>35</sup>***

### **Introduction**

Yemen is a low-income country with a population of about 23 million and per capita GDP (PPP) of less than US\$2600. It is one of the least developed countries in the world. Crude oil is the mainstay of the economy, contributing 70% of government revenue, 90% of exports, and 30% of current GDP, but it is the agricultural sector that is responsible for creating livelihoods for two-thirds of the population. Given declining oil reserves, low productivity in the agricultural sector, and a weak industrial base, there is an urgent need for economic diversification. The business climate is relatively less favourable. Yemen is assessed as a “mostly unfree” economy in the *2010 Index of Economic Freedom* (Heritage Foundation 2010), although it has improved its ranking on the World Bank's *Doing Business 2010* index, moving to 99th place out of 183 countries.

Yemen stands out among the seven GEM-MENA countries in a number of ways. It has the youngest population, highest rate of population growth, highest poverty rate, lowest literacy rate, lowest share of women in formal employment, highest unemployment rate, and is the least urbanized. The private sector, made up primarily of very small enterprises, is underdeveloped, poorly diversified, with a predominantly male presence. Poverty alleviation and job creation are two of the key issues to address in the country. The lower state of development in Yemen results in

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<sup>35</sup> The GEM data in Yemen was collected during June and July 2009. Face-to-face interviews were conducted with 2065 adults selected from a nationally representative sample of the population using a random-walk method.



quite different outcomes for entrepreneurial activity indicators than in the other GEM-MENA countries, placing it in either first or last place on many of these.

Yemeni entrepreneurs were less likely than in the other GEM-MENA countries in 2009 to perceive that, as a result of the global financial crisis and economic slowdown, the situation with respect to opportunities for their business and the difficulties of starting and growing a business was about the same as a year earlier. Over 70% of early-stage entrepreneurs (made up mostly of people in the business creation phase) felt that there were fewer opportunities for their business and two-thirds felt that it was more difficult to grow a business. On the other hand, they were the most likely of the GEM-MENA early-stage entrepreneurs to perceive that it was less difficult to start a business than a year ago (64%). However, Yemen is not well integrated in the global economy and there may be other internal factors contributing to these results.

### Entrepreneurial Attitudes and Perceptions of the Population

Yemen stands out among the seven GEM-MENA countries for having the most positive attitudes toward entrepreneurship (Table 59). In fact, it has the highest percentage of adults in all 55 countries reporting that entrepreneurship is a good career choice, that successful entrepreneurs have high status and respect, and that they often see stories in the media about successful new businesses (over 95% in each case).

However, very few Yemenis see good opportunities for starting a business in the next six months, only 14%. Hungary and Japan are the only two of 55 GEM countries reporting a lower percentage (see Annex 2). Compared to the other six GEM-MENA countries and GEM factor-driven economies, Yemeni adults expressed a higher fear of failure. About 43% would allow their fear of failure to prevent them from starting a business. On the other hand, over 60% perceive they have the knowledge, skills, and experience to start a business, lower than in Morocco and Lebanon, but higher than in the other four GEM-MENA countries. Almost 27% of Yemenis expect to start a business in the next three years, lower than the 32% average for factor-driven economies, but comparable to the other GEM-MENA countries (except for Syrians, who have a much higher level of intent).

**Table 59. Entrepreneurial Attitudes and Perceptions in Yemen**

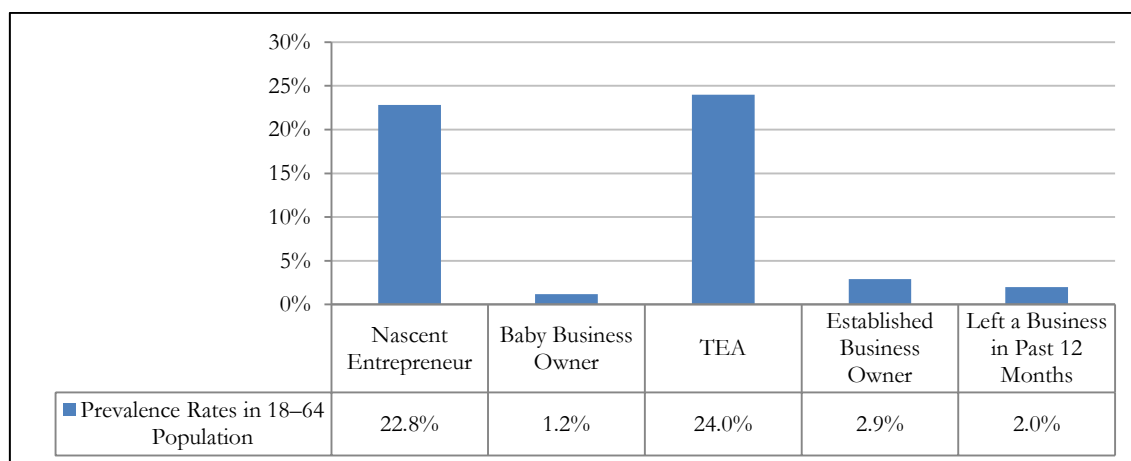
Entrepreneurial Attitudes and Perceptions	Prevalence Rate in 18–64 Population (%)	Rank among GEM-MENA Countries
<i>Individual Context</i>		
Sees good opportunities for starting a business in the next six months	14.0	7
Has the knowledge, skills, and experience to start a business	63.5	3
Fear of failure would prevent starting a business	42.7	7
Knows someone who started a business in the past two years	37.1	6
<i>Cultural Context</i>		
Entrepreneurship is a good career choice	95.3	1
Frequent stories about successful new businesses in the media	96.0	1
Successful entrepreneurs have high status and respect in the country	97.4	1
Intends to start a business in the next three years	26.5	5

Moderating the favourable attitudes toward entrepreneurship in Yemen and expectations to start a business is a strong preference of adults to work for the government. Fifty-six percent would prefer this type of work environment if they had the choice, compared to only 14.5% who would choose to be the owner of a business. In the other GEM-MENA countries, at least 45% would prefer to own a business.

## Entrepreneurial Activity Prevalence Rates

Yemen's TEA rate of 24% is the third highest in the 55 GEM countries, surpassed only in Guatemala and Uganda. However, 95% of Yemen's early-stage entrepreneurial activity is comprised of nascent entrepreneurs, people in the process of actively trying to get a business started. Thus, it has the highest nascent entrepreneurial activity rate in all 55 countries. Distinctive is the very low density of new business owners in the 18–64 population, only 1.2%, the lowest in all GEM countries. Key entrepreneurial activity indicators for Yemen are presented in Figure 71.

**Figure 71. Entrepreneurial Activity Rates in Yemen**



Converting TEA rates to estimates of the number of people and ventures reveals the following:

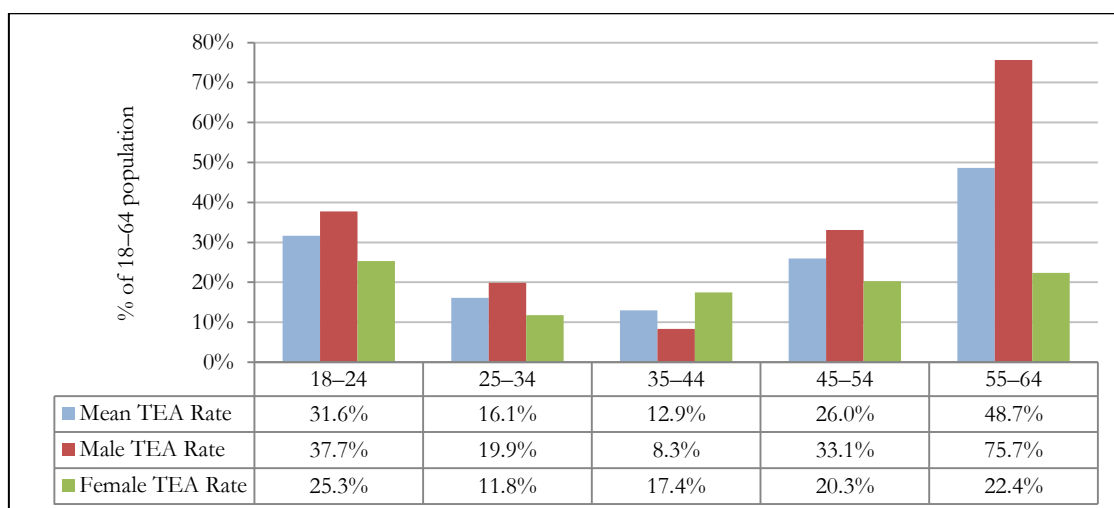
- ♥ About 2.4 million 18–64 year-olds, in average teams of 1.85, were actively trying to start an estimated 1.3 new businesses in 2009.
- ♥ About 123 000 18–64 year-olds, in average teams of 2.4, were owners of close to 51 000 young businesses less than three and a half years old.
- ♥ About 307 000 18–64 year-olds owned around 95 000 established businesses that are more than 42 months old.
- ♥ In the past 12 months (prior to the GEM 2009 survey), about 211 000 18–64 year-olds discontinued their involvement in a business they owned. None of their businesses survived and about a quarter of the entrepreneurs were involved in a new start-up effort in 2009.

The density of existing business owners (of young and established businesses), 4 per 100 18–64 year-olds, is the lowest in the seven countries. However, the density of nascent entrepreneurs (22.8 per 100) is the highest. It is also noted that Yemenis stay in the start-up process for a rather long time. Over two-thirds of the nascent entrepreneurs have been involved in trying to start their business for more than a year, whereas for all countries except Algeria, no more than 22% have been in the start-up process for that long. This suggests either personal or institutional barriers to actually starting a business in Yemen and has important policy implications.

Table 60 summarizes the TEA rates for key demographics of the population. This reveals the following:

- ♥ The TEA rate for men is 1.5 times that for women (29.0% compared to 18.8%), which is a relatively small gap when compared to many other GEM countries. The female share of entrepreneurial activity is over 38%, second only to Algeria. Unlike the other GEM-MENA countries, women's share of nascent activity is lower than it is for owners of existing businesses and the gender gap in participation rates is actually wider in the nascent phase than in the established business owner phase.
- ♥ Yemeni adults in the 55–64 and 18–24 age categories have the highest TEA rates, 48.7% and 31.6% respectively (Figure 72). This U-shaped pattern through the age groups is quite different from the other GEM-MENA countries, where TEA rates tend to rise in the 25–34 and 35–44 age groups and decline in the older age groups.

**Figure 72. Entrepreneurial Activity Rates by Age Group and Gender, Yemen**



Note: The higher TEA rate for women compared to men in the 35–44 age group is not a significant difference.

- ♥ Adults with a secondary education have higher TEA rates (32%) than other education groups, followed by a TEA rate of 23% for adults with a post-secondary education.

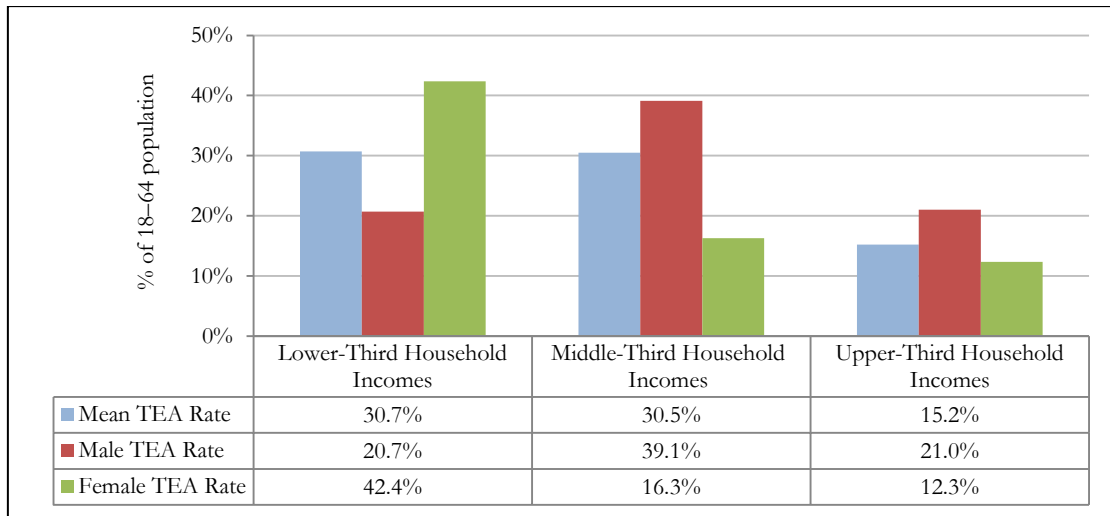
**Table 60. Prevalence of Entrepreneurial Activity and Key Demographics, Yemen**

Entrepreneurial Activity	Prevalence Rate in 18–64 Population (%)	Rank among the Seven GEM-MENA Countries
Phase of Activity		
Nascent Entrepreneurs	22.8	1
New Business Owners	1.16	7
Total Early-Stage Entrepreneurial Activity (TEA)	24.0	1
Established Business Owners	2.9	7
Discontinuance in Past 12 Months	2.0	7
Expects to Start a Business in Next Three Years	26.3	5
Gender		
Early-Stage Entrepreneurial Activity - Men	29.0	1
Early-Stage Entrepreneurial Activity - Women	18.8	1
Motivation for Early-Stage Entrepreneurship		
Opportunity-TEA	13.4	1
Male	15.8	1
Female	11.0	1
Necessity TEA	8.3	1
Male	10.3	1
Female	6.3	1
Age Group		
18–24	31.6	1
25–34	16.1	4
35–44	12.9	4
45–54	26.0	1
55–64	48.7	1
Education Level		
None	13.6	1
Some Secondary	10.5	4
Secondary Degree	31.7	1
Post-Secondary	23.1	1
Graduate Experience	n.a.	n.a.
Household Income Group		
Lower-Third	30.7	1
Middle-Third	30.5	1
Upper-Third	15.2	5
Location		
Urban	37.3	1
Rural	18.0	2
Labour Force Attachment		
Working Full- or Part-Time	32.9	1
Seeking Employment	38.5	1
Student	22.0	1
Retired/Disabled	33.3	1
Homemaker	5.4	3
Work Environment		
	% of Working Adults	
Public Sector	35.3	1
Micro Private Enterprise	24.5	3
Small Private Enterprise	17.9	2
Medium Private Enterprise	16.7	2
Large Private Enterprise	16.7	3

- Higher levels of income are not associated with higher involvement in entrepreneurial activity in Yemen, as is generally the case in the GEM-MENA countries. The TEA rate for the upper-third household income group is only 15%, compared to over 30% in the lower- and middle-third income groups (Figure 73). The discrepancy is most pronounced among women. The TEA rate for females in the lower-third household income group is 42%, declining to 16% and 12% for the middle- and upper-third income groups. For men, the

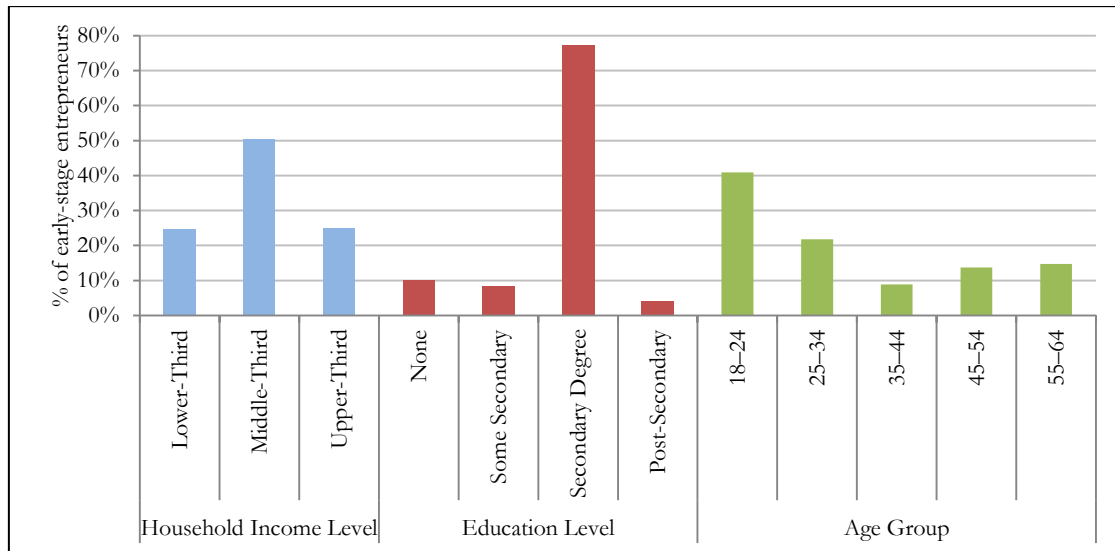
TEA rate is about 20% in the lower- and upper-third income groups and almost 40% in the middle-third income group.

**Figure 73. Entrepreneurial Activity Rates by Household Income and Gender, Yemen**



- ♥ When converted to shares of early-stage entrepreneurs, the TEA rates for age, income groups, and education level reveal that half are from the middle-third income households, over three-quarters have completed a secondary education, and 41% are between 18 and 24 years of age (Figure 74). So even though the TEA rate is highest for the 55–64 age group, their share of the population is small and consequently, their share of early-stage entrepreneurs is less than 15%.

**Figure 74. Share of Early-Stage Entrepreneurs by Household Income, Education Level, and Age Group, Yemen**

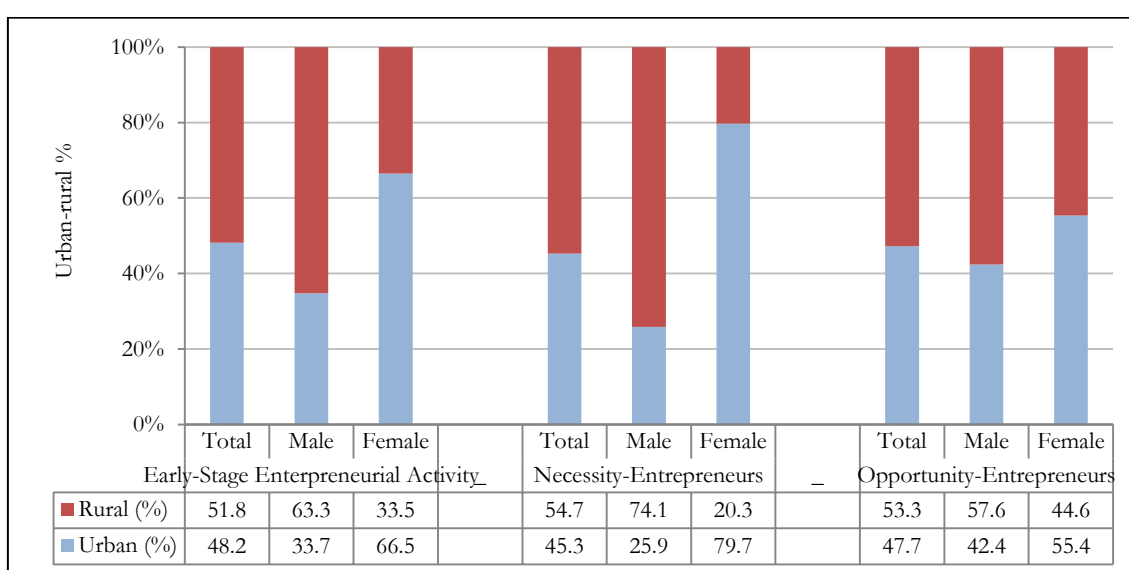


Note: The bars in each category add up to 100%.

- ♥ The TEA rate for urban area adults is higher than the rate for rural area adults (37% compared to 18%), the widest gap in urban–rural TEA rates in the seven GEM-MENA countries. Although about 70% of the Yemeni population lives in rural areas (the least urbanized of the seven countries), the large differentiation in urban–rural TEA rates means

that early-stage entrepreneurs are over-represented in urban locations, with just over half of in rural areas (Figure 75). However, there is a dramatic gender difference. Two-thirds of the female early-stage entrepreneurs are in urban areas (reflecting a 40% TEA rate among urban women and a 9% TEA rate among rural women), compared to 63% of the men being in rural areas. One does not note a big difference in the urban–rural distribution of early-stage entrepreneurs by whether their motivation is necessity or opportunity, although one might expect the necessity share to be higher in rural areas. This is the case for men, where almost three-quarters of the male necessity-entrepreneurs are rurally based, but for women, the reverse is true (Figure 75). Over 80% of the necessity-motivated women entrepreneurs are in urban locations, perhaps reflecting their greater difficulty in finding gainful employment. At the same time, over half of opportunity-motivated women entrepreneurs are also in urban areas.

**Figure 75. Urban-Rural Share of Early-Stage Entrepreneurs by Motivation and Gender, Yemen**



- ♥ In terms of labour force attachment, the TEA rate is highest among 18–64 year-olds who are seeking work (almost 40%). The TEA rate among employed adults is also high (26%), but even higher for those working in the public sector (35%). In fact, 42% of all nascent entrepreneurs in Yemen are working in public sector jobs while they are trying to get their businesses started. As mentioned in Chapter 2, the high incidence of public sector workers trying to start a business may be explained by the early closing hours of government offices in Yemen, leaving time for workers to have a business on the side to supplement their income. Students make up almost 18% of all nascent entrepreneurs, the highest share in any of the GEM-MENA countries, which reflect the higher TEA rate among 18–24 year-olds.
- ♥ About two-thirds of Yemeni early-stage entrepreneurs are motivated by opportunity and a third by necessity. Necessity appears to be a somewhat stronger motivation for early-stage entrepreneurs who are not working and those in the 55–64 age group, but does not differ significantly by household income.

## TEA Ventures in Yemen

Selected features of early-stage ventures are summarized in Table 61. This reveals the following:

- The majority of early-stage ventures are in the consumer-oriented sectors, but at a lower proportion than in the other GEM-MENA countries, except for Palestine. About 20% are in the extractive sectors and 17% in business services. They are the least likely in the seven GEM-MENA countries to be in the transforming sectors (only about 7%).
- About half are creating 1–5 jobs and only 2.5% have 20 or more workers. A higher proportion than in other GEM-MENA countries are producing 6–19 jobs. Yemen early-stage entrepreneurs have the lowest overall job growth aspirations, expecting to increase their employment by 1.3 times in five years. However, over 20% aspire to grow to 20 or more jobs during that time.
- Yemen has the highest proportion of early-stage ventures in markets that their owners perceive have few businesses offering similar products or services. However, they are less likely to be in “first-in” markets where there are no competitors or where all of their customers would consider their products or services new or unfamiliar.
- More than three-quarters of the early-stage entrepreneurs state that they are making use of relatively new (less than five years old) or the latest technology for their businesses. This is higher than reported by entrepreneurs in the other GEM-MENA countries. However, the technological sophistication of Yemeni enterprises is very low (see Figure 22 in Chapter 3).
- Almost 28% of Yemeni early-stage enterprises do not have out-of-country customers, but another 70% expect that 1% to 25% of their customers will be international. Yemen has the lowest share of enterprises that will have international customers accounting for more than 25% of the total.

**Table 61. TEA Ventures and Selected Features, Yemen**

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Sector Distribution		
Extractive	21.3	2
Transforming	7.4	7
Business Services	16.6	1
Consumer-oriented	54.7	6
Jobs Now		
None	0.0	7
1–5 Jobs	50.2	7
6–19 Jobs	19.4	1
20+ Jobs	2.5	7
Jobs Expected in Five Years		
None	0.0	7
1–5 Jobs	31.0	7
6–19 Jobs	48.2	1
20+ Jobs	20.8	1
Other Businesses Offering Similar Products/ Services		
Many	53.3	6
Few	41.8	1
None	4.9	6

Features of TEA Ventures	Percentage of TEA Ventures (%)	Rank among Seven GEM-MENA Countries
Customers Considering the Product/ Service New or Unfamiliar		
None	34.3	1
Some	34.4	1
All	31.4	7
Age of Available Technology Required		
Technology More than Five Years Old	23.6	7
Technology 1–5 Years Old	38.8	1
Latest Technology (Less than a Year Old)	37.6	1
Proportion of Out-of-Country Customers		
None	27.9	6
1–25%	70.5	1
26–75%	1.3	7
76–100%	0.3	7

### Start-Up Capital Requirements

A third of entrepreneurs will start their new businesses needing less than US\$10 000 (Table 62). The median amount is the equivalent of US\$24 906. Two-thirds of them will invest less than US\$10 000 from their personal resources. About 45% plan to supply the total amount from their own personal resources and the rest will require external financing, average for the seven GEM-MENA countries.

**Table 62. Distribution of Start-Up Capital Needs and Self-Supplied Capital, Yemen**

US\$	Distribution of Start-Up Capital Needs by Size	Distribution of Self-Supplied Capital by Size
< \$5000	26.9%	63.3%
\$5000–\$9999	6.6%	4.5%
<i>Subtotal</i>	<i>33.5%</i>	<i>67.8%</i>
\$10 000–\$19 999	16.0%	14.8%
\$20 000–\$49 999	50.5%	17.4%
<i>Total</i>	<i>100.0%</i>	<i>100.0%</i>
<i>Median Amount</i>	<i>US\$24 906*</i>	<i>US\$2491</i>

Note: \* The most common start-up capital requirement is US\$4981.

Almost all of the nascent entrepreneurs have received or expect to receive external financing from immediate family members and work colleagues (over 93%) (Table 63). This is highest percentage in the seven GEM-MENA countries, which also applies to microfinance providers (43%) and a friend or neighbour (36%). Very few expect to have financing from a bank or a venture capital company, both low relative to other GEM-MENA countries. Just over 7% expect financing from a government program, on par with Morocco and Palestine, but much lower than in Syria and Algeria.

**Table 63. Nascent Entrepreneurs Receiving/ Expecting to Receive Start-Up Financing from Selected Sources, Yemen**

Source of Financing	Percentage Using (%)	Source of Financing	Percentage Using (%)
Immediate Family Member	93.7	Other Relative	12.2
Work Colleague	93.2	Bank	11.6
Microfinance Provider	43.1	Government Program	7.6
Friend or Neighbour	36.2	Venture Capital Company	4.4



Yemen has the second lowest prevalence rate of informal investors of the 55 GEM countries, followed by Morocco. Slightly more than 1% of Yemenis helped to finance someone else's new business in the past three years. About 25% of them invested in the efforts of a close family member, 42% in another relative, and 31% in a friend or neighbour.

### **Sources of Advice and Start-Up Training**

The primary sources of advice for Yemeni early-stage entrepreneurs are their parents (84%), spouses (62%), and other family or relatives (53%); in other words, social networks for enterprise development are very personal. Interestingly, about a quarter of them seek advice from co-workers or their current boss, but a very small proportion makes use of professional experts, such as accountants (7%), banks (5%), microfinance providers (3%), and business associations (3%). However, 27% have received advice from a public business advisory service, the highest level reported in the seven GEM-MENA countries. This could be through services provided by the governmental Small and Micro Enterprise Promotion Service and its network of partner organizations.

Yemenis report the highest incidence of having received training in how to start a business at primary or secondary school of the seven GEM-MENA countries (23%). Thirteen percent received such training after their official schooling was finished. However, the highest proportion of the latter group learned about how to start a business informally, on their own, by reading books, observing other people in business, or working in someone else's business. Fewer than 1% participated in training at a college or university, a business association, or a government agency.

### **Policy Implications**

Findings from the GEM-Yemen study suggest a number of policy implications. The first is related to the peculiarity that a very high proportion of Yemenis are trying to start a business while extremely few own an existing business. The fact that Yemenis also stay in the nascent phase for relatively long periods of time suggests that there may be difficulties in getting a new business started. Either nascent entrepreneurs are still waiting for a public sector job (for which there is a high preference), or they face obstacles in finding a suitable location, dealing with administrative and regulatory bodies, securing financing, and so on. Many of them will not likely be successful in getting their businesses off the ground for any number of these reasons. Unless these barriers are addressed, Yemen will continue to suffer from a low density of existing private enterprises.

The second policy implication is the high TEA rate among the 18–24 age group. A TEA rate of almost 32%, combined with the fact that 18–24 year-olds are the second largest population group, results in this group comprising the largest share of actual early-stage entrepreneurs in Yemen (40%). Consequently, youth should be specifically targeted for development of entrepreneurial knowledge and skills and supported in the development of their business ideas and start-up efforts. Policymakers should also consider policies to elevate the TEA rate among adults in the 25–44 age groups, rates that are uniquely low compared to other GEM countries.

The majority of Yemenis (about two-thirds) describe their motivation for starting a business as opportunity-driven and the remainder due to necessity. Yet the low perception of the population that there are good opportunities for starting a business could be a barrier to new start-ups in the future. In spite of this, necessity may drive people into entrepreneurial activities. Since most adults seeking knowledge on how to start a business do so in a self-learning way (reading books and

observing others), the important thing is to broaden the reach of training offerings on how to start a business.

Yemeni early-stage entrepreneurs are primarily getting advice from their parents, friends, and other family members and relatives, more so than in other GEM-MENA countries. This suggests either a lack of availability of professional advice-giving services to potential and new entrepreneurs, or a reluctance to use them. This issue warrants further policy examination.

The Small and Micro Enterprise Promotion Service of the Social Fund for Development has a mandate to support the micro and small enterprises with growth potential and promote an entrepreneurial culture, but its activities are heavily dependent on donor funding. Microfinance is in an infancy stage, but efforts are underway to build capacity in microfinance lending and to target youth with microcredit programs. The network for providing support to nascent entrepreneurs is underdeveloped. Further enhancing the policy environment for entrepreneurship development and strengthening the system of financial and advice-giving support are both important to expanding the private sector and improving the density of existing entrepreneurs and businesses.



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## ***Annex 1. Glossary of GEM Terminology and Main Indicators***

<b>Terms and Indicators</b>	<b>Definition</b>
<b><i>Entrepreneurial Attitudes</i></b>	
Perceived Opportunities	Percentage of 18–64 population who see good opportunities to start a firm in the area where they live.
Perceived Capabilities	Percentage of 18–64 population who believe to have the required skills and knowledge to start a business.
Fear of Failure Rate	Percentage of 18–64 population with positive perceived opportunities who indicate that fear of failure would prevent them from setting up a business.
Entrepreneurial Intention	Percentage of 18–64 population (individuals involved in any stage of entrepreneurial activity excluded) who intend to start a business within three years.
Entrepreneurship as Desirable Career Choice	Percentage of 18–64 population who agree with the statement that in their country, most people consider starting a business as a desirable career choice.
High Status Successful Entrepreneurship	Percentage of 18–64 population who agree with the statement that in their country, successful entrepreneurs receive high status.
Media Attention for Entrepreneurship	Percentage of 18–64 population who agree with the statement that in their country, you will often see stories in the public media about successful new businesses.
<b><i>Entrepreneurial Activity</i></b>	
Nascent Entrepreneurship Rate	Percentage of 18–64 population who are currently a nascent entrepreneur, i.e. actively involved in setting up a business they will own or co-own; this business has not paid salaries, wages, or any other payments to the owners for more than three months.
New Business Ownership Rate	Percentage of 18–64 population who are currently an owner–manager of a new business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than three months, but not more than 42 months.
Early-Stage Entrepreneurial Activity (TEA)	Percentage of 18–64 population who are either a nascent entrepreneur or owner–manager of a new business (as defined above).
Established Business Ownership Rate	Percentage of 18–64 population who are currently owner–manager of an established business, i.e. owning and managing a running business that has paid salaries, wages, or any other payments to the owners for more than 42 months.
Business Discontinuation Rate	Percentage of 18–64 population who have, in the past 12 months, discontinued a business either by selling, shutting down, or otherwise discontinuing an owner/management relationship with the business. Note: This is NOT a measure of business failure rates.
Necessity-Driven Entrepreneurial Activity	Percentage of those involved in early-stage entrepreneurial activity (as defined above) who are involved in entrepreneurship because they had no other option for work.
Improvement-Driven Opportunity Entrepreneurial Activity	Percentage of those involved in early-stage entrepreneurial activity who (i) claim to be driven by opportunity as opposed to finding no other option for work; and (ii) who indicate the main driver for being involved in this opportunity is being independent or increasing their income, rather than just maintaining their income.
<b><i>Entrepreneurial Aspirations</i></b>	
High-Growth Expectation Early-Stage Entrepreneurial Activity (HEA)	Percentage of 18–64 population who are either a nascent entrepreneur or owner–manager of a new business (as defined above) <i>and</i> expect to employ at least 20 employees five years from now.
High-Growth Expectation Early-Stage Entrepreneurial Activity: Relative Prevalence	Percentage of early-stage entrepreneurs (as defined above) who expect to employ at least 20 employees five years from now. Weak measure: expects at least <i>five</i> employees five years from now.
New Product-Market Oriented Early-Stage Entrepreneurial Activity: Relative Prevalence	Percentage of early-stage entrepreneurs who indicate that their product or service is new to at least some customers <i>and</i> indicate that not many businesses offer the same product or service. Weak measure: product is new <i>or</i> not many businesses offer the same product or service.
International Orientation Entrepreneurial Activity	Percentage of early-stage entrepreneurs (as defined above) with more than 25% of the customers coming from other countries. Weak measure: <i>more than 1%</i> of customers coming from other countries.

Source: *Global Entrepreneurship Monitor: 2009 Global Report*, p. 61.



**Annex 2. Entrepreneurial Attitudes and Perceptions in 55 GEM Countries by Phase of Development, 2009**

Country groupings	See good opportunities to start business in next six months (%)	Perceived capabilities (skills and abilities) (%)	Fear of failure prevent from starting a business (%)	Knows someone who started a business in past two years (%)	Entrepreneurship is a good career choice (%)	Frequent media attention to entrepreneurship (%)	High status to successful entrepreneurs (%)	Intend to start a business in next three years (%)
<b>Factor-Driven Economies</b>								
Algeria	48	52	27	59	57	39	58	26
Guatemala	57	63	33	53	73	63	69	26
Jamaica	42	77	29	51	76	74	77	31
Lebanon	54	77	26	45	85	65	79	27
Morocco	51	75	25	47	83	73	87	27
Saudi Arabia	69	73	44	37	80	78	89	37
Syria	54	62	20	31	89	55	89	56
Tonga	56	53	67	66	91	80	52	9
Uganda	74	85	30	64	81	75	85	58
Venezuela	48	59	28	45	76	49	69	35
Palestine	50	56	42	45	88	52	78	26
Yemen	14	64	43	37	95	96	97	27
<i>Average-unweighted</i>	<i>51</i>	<i>66</i>	<i>35</i>	<i>48</i>	<i>81</i>	<i>66</i>	<i>77</i>	<i>32</i>
<b>Efficiency-Driven Economies</b>								
Argentina	44	65	43	34	68	80	76	21
Bosnia and Herzegovina	35	57	35	37	73	51	57	21
Brazil	47	53	33	39	81	77	80	21
Chile	52	66	29	49	87	47	70	43
China	25	35	32	57	66	79	77	26
Colombia	50	64	33	36	90	82	74	64
Croatia	37	59	45	43	68	53	49	10
Dominican Republic	50	78	33	52	92	61	88	30
Ecuador	44	73	37	37	78	55	73	32
Hungary	3	41	36	32	42	32	72	16
Iran	31	58	32	48	56	61	78	29
Jordan	44	57	39	42	81	70	84	29
Latvia	18	50	38	46	59	51	66	13
Malaysia	45	34	49	62	59	80	71	6
Panama	45	62	23	39	74	50	67	15
Peru	61	74	36	59	88	85	75	34
Romania	14	27	50	35	58	47	67	9
Russia	17	24	49	32	60	42	63	5
Serbia	29	72	29	50	69	56	56	24
South Africa	35	35	28	40	64	64	64	13
Tunisia	15	40	24	37	87	70	94	58
Uruguay	46	68	34	43	65	62	72	26
<i>Average-unweighted</i>	<i>36</i>	<i>53</i>	<i>36</i>	<i>43</i>	<i>71</i>	<i>62</i>	<i>70</i>	<i>25</i>
<b>Innovation-Driven Economies</b>								
Belgium	15	37	25	29	46	33	49	7
Denmark	34	35	43	43	47	25	75	4
Finland	40	35	32	50	45	68	88	6
France	24	27	51	36	65	50	70	18
Germany	22	40	46	31	54	50	75	7
Greece	26	58	54	44	66	32	68	17
Hong Kong	14	19	31	28	45	66	55	10
Iceland	44	50	37	62	51	72	62	20
Israel	29	38	43	39	61	50	73	18
Italy	25	41	50	30	72	44	69	6
Japan	8	14	35	21	28	61	50	6
Korea	13	53	35	50	65	53	65	14
Netherlands	36	47	27	34	84	64	67	7
Norway	49	44	27	41	63	67	69	12
Slovenia	29	52	36	55	56	57	78	11
Spain	16	48	53	30	63	37	55	6
Switzerland	35	49	34	41	66	57	84	11
United Arab Emirates	45	68	31	47	70	69	75	43
United Kingdom	24	47	36	24	48	44	73	6



Country groupings	See good opportunities to start business in next six months (%)	Perceived capabilities (skills and abilities) (%)	Fear of failure prevent from starting a business (%)	Knows someone who started a business in past two years (%)	Entrepreneurship is a good career choice (%)	Frequent media attention to entrepreneurship (%)	High status to successful entrepreneurs (%)	Intend to start a business in next three years (%)
United States	28	56	32	32	66	67	75	11
<i>Average-unweighted</i>	<i>20</i>	<i>43</i>	<i>38</i>	<i>38</i>	<i>56</i>	<i>45</i>	<i>64</i>	<i>12</i>

Note: Percentages are rounded to nearest full number.

Source: GEM APS, 2009.



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