

**Economic and Social Commission for Western Asia (ESCWA)**

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Enhancing the enabling environment for tech-driven entrepreneurship in the Arab region

Summary

The micro, small and medium enterprises (MSMEs) sector, including startups that are typically small in the Arab region in terms of sales, number of employees and assets, is the backbone of a dynamic private sector economy. Accounting for 80 to 95 per cent of all businesses, the sector is a key engine of sustainable growth and job creation. However, the related policy framework in the region should be further developed and more coherent.

The Economic and Social Commission for Western Asia (ESCWA) has launched a project to enhance the enabling environment for tech-driven entrepreneurship in the Arab region. The project aims to remedy gaps in the region's entrepreneurial system, offer practical solutions to address infrastructure weaknesses, and provide enabling conditions for tech-driven entrepreneurship to thrive in Arab countries. It will do so by developing a regional index to assess the current environment, based on similar global experiences and case studies, by gathering data, computing and analysing results, and determining remedies for identified gaps. The Committee on Technology for Development is invited to take note of the present document and provide recommendations on the way forward.

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Introduction

1. The micro, small and medium enterprises (MSMEs) sector, including startups that are typically small in the Arab region in terms of sales, number of employees and assets, is the backbone of a dynamic private sector economy. Accounting for 80 to 95 per cent of all businesses, the sector is a key engine of sustainable growth and job creation. However, there is a missed opportunity in the region, given that the related policy framework could be more enabling and productive.
2. A recent study on best cities for startups across the world, entitled *The Global Startup Ecosystem Report 2022*,¹ does not include a single Arab city among the top 30 destination for startups, although significant efforts were exerted in the last 20 years across the region to build better national entrepreneurship-enabling environments. This is alarming since Arab cities should not only aim to retain local startups but also attract global ones.
3. The present document provides an overview of a project carried out by the Technology Centre of the Economic and Social Commission for Western Asia (ESCWA) to remedy gaps in the region's entrepreneurial system, and offer practical solutions to address infrastructure and enabling conditions for tech-driven entrepreneurship to thrive in Arab countries.
4. By identifying and reducing national and regional barriers for tech-driven entrepreneurship, the project aims to achieve the following objectives:
 - Improve the capacity of Arab MSMEs to digitize their business, scale up and access regional and international markets, and strengthen national enabling environments.
 - Enhance member States' performance in harnessing science, technology and innovation, and in improving national technology transfer systems.
 - Increase knowledge, capacity and regional cooperation on green and frontier technologies.
 - Empower Arab young people, especially women, through skills development and supportive tools for technology and entrepreneurship.

I. Review of international enabling environment models

5. A business-enabling environment is the set of policy, institutional, regulatory, incentive, infrastructure and cultural conditions that govern formal and informal business activities. It includes the administration and enforcement of government policies, and national and local institutional arrangements that affect the behaviour of relevant actors who are key players in the business-enabling environment.
6. Entrepreneurial activity is defined by the Organisation for Economic Co-operation and Development (OECD) as enterprising human action in pursuit of the generation of value, through the creation or expansion of economic activity, by identifying and exploiting new products, processes or markets.² The result of such activity, when turned into a formalized business, is a startup.
7. To capture the multiple and diverse drivers of an enabling environment, complex and composite indices have been developed by many entities, including OECD,³ the World Bank,⁴ the World Economic Forum,⁵ and

¹ Startup Genome, *The Global Startup Ecosystem Report*, 2022.

² OECD, *Defining entrepreneurial activity: definitions supporting frameworks for data collection*, 2008.

³ OECD, *Small and Medium-Sized Enterprises (SME) Policy Index*, 2020.

⁴ World Bank, *Business Enabling Environment*, 2022 – initiated after the discontinuation of the Doing Business project.

⁵ World Economic Forum, *Global Competitiveness Report*, 2019.

the Global Entrepreneurship Monitor.⁶ ESCWA conducted a comparative analysis of such models, identifying key dimensions and the pros and cons of each model. The results are set out in the table below.

Comparative analysis of international enabling environment indices

Model	Pros	Cons
Inclusive Business Enabling Environment (Donor Committee for Enterprise Development, How to create an enabling environment for inclusive business?, 2016).	Strong policy focus.	<ul style="list-style-type: none"> • Limited in scope: focus on inclusive businesses and not on all types of firms. • No detailed assessment tools. • Not comprehensive in terms of business lifecycle and activity coverage.
Ecosystem Mapping Framework (Babson Global, The entrepreneurship ecosystem strategy as a new paradigm for economic policy: principles for cultivating entrepreneurship, 2009).	Comprehensive framework.	<ul style="list-style-type: none"> • Focus mainly on early-stage companies (startups). • No detailed assessment tools.
World Bank, Business enabling environment, 2022.	Full coverage of all business lifecycle.	New model still under development.
OECD, Small and Medium-Sized Enterprises (SME) Policy Index, 2020.	<ul style="list-style-type: none"> • Full coverage of all business lifecycle. • Detailed assessment tools. 	Complex framework if implemented fully without customization/priorities.
Entrepreneurial Framework Conditions (Global Entrepreneurship Monitor, 2020/2021 Global Report, 2020).	<ul style="list-style-type: none"> • Comprehensive framework. • Large database and wide implementation. 	Primarily dependent on experts' opinion on the status of entrepreneurial framework conditions.
Entrepreneurship Indicators Programme (OECD, The OECD-Eurostat Entrepreneurship Indicators Programme (EIP): background information, 2017).	Large indicator base.	Limited availability of data for less developed economies.
World Economic Forum, Global Competitiveness Report, 2019.	Large database and wide implementation.	<ul style="list-style-type: none"> • Primary focus on economic competitiveness. • Less focus on SMEs.

Source: ESCWA analysis of cited indices.

8. The analysis has shown that the OECD SME Policy Index model is the most relevant to the Arab region for the following reasons:

- It is a regional model that is broad in terms of business lifecycle and activity coverage, and it is policy oriented and has been used in various economic blocs.
- It incorporates relevant data by other organizations and indices, building on previous data collection activities.
- It explicitly covers small and medium enterprises.
- It includes both newly established startups and existing firms.

⁶ Global Entrepreneurship Monitor, 2020/2021 Global Report, 2020.

II. An index for the Arab region: proposed model

9. The Arab region is highly heterogenous in terms of income levels, natural resources, stability, and governance and implementation capacity. Arab enterprises are also diverse in terms of size, age, sectoral presence, and technological intensity. It is therefore essential to adopt an entrepreneurship ecosystem index that is customizable to country specificities.

10. Based on ESCWA findings on the specific binding constraints and key challenges to SME development in Arab countries, the regional index to measure the enabling environment for tech-driven entrepreneurship should have the following characteristics:

- Give significant weight to the institutional, regulatory and incentive framework, with a focus on fair competition, effective policy coordination and implementation, and a lowered tax burden to improve enterprise creation and growth levels, by providing better incentives for SMEs and reducing inhibitors/barriers to growth.
- Ensure the availability of mechanisms to alleviate multiple external shocks, such as the COVID-19 pandemic, and measure subsequent insufficient market demand. Doing business is difficult for SMEs owing to their limited access to finance and markets. External shocks create additional burdens and highlight the need for better access to funding and opportunity.
- Add monitoring and evaluation components to identify improvements and implementation failures in various dimensions. In many cases, outcomes are below expectations owing to policy implementation issues, not only to policy design issues.
- Measure the availability of public-private dialogue. Limited engagement of the private sector in general, and SMEs in particular, in such dialogues, in terms of scope, frequency and influence, will negatively impact the outcomes of policy implementation.

11. ESCWA is proposing a new benchmarking model for a regional entrepreneurship-enabling environment, comprising five pillars, seven dimensions and 21 subdimensions:

(a) *Policy pillar*

Institutional and regulatory framework for SME policy: evaluating key issues related to SME policy development, implementation and regulatory improvement.

(b) *Knowledge pillar*

Entrepreneurial learning, SMEs skills and inclusivity: reviewing activities and practices related to education, training and special group support.

(c) *Opportunity pillar*

- Operational environment for SMEs: detailed look at business creation/operation, and related government services.
- Second chance for SMEs: focusing on business closure and barriers for starting again in case of failure.
- Internationalization of SMEs and public procurement: evaluating national trade policies and procedure complexities, in addition to opportunities for SMEs under public procurement.

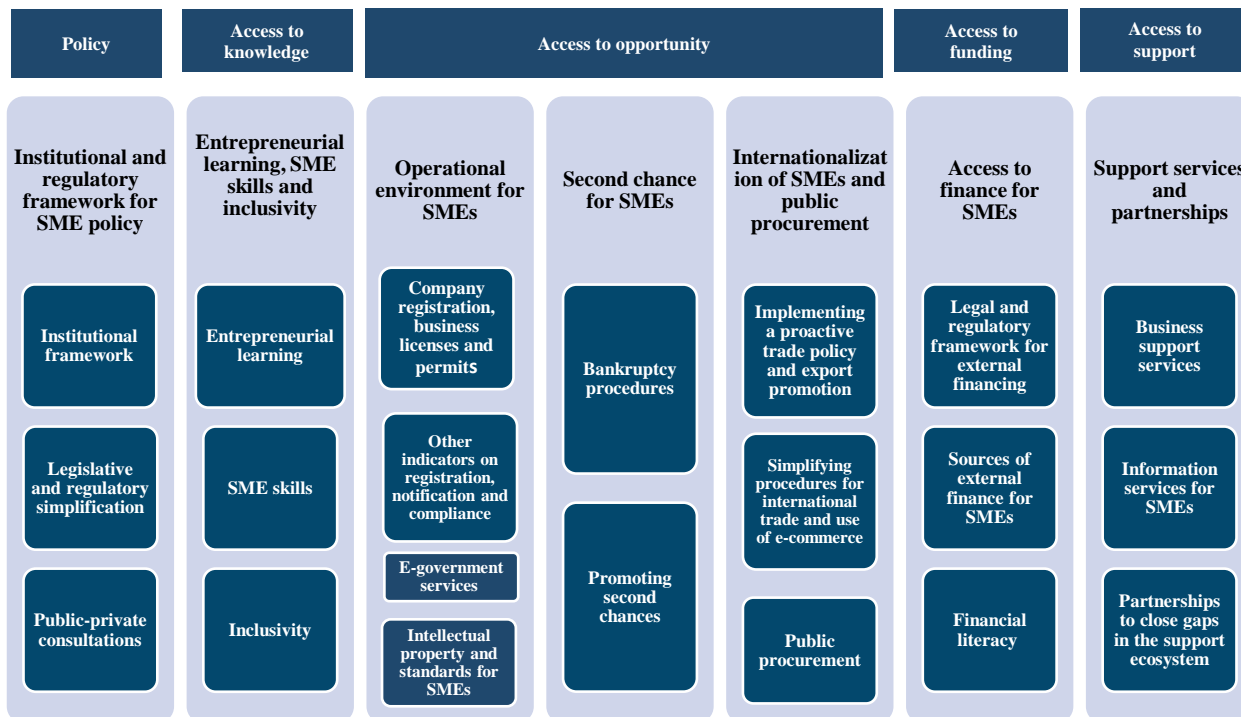
(d) *Funding pillar*

Access to finance for SMEs: assessing available funding opportunities, financial literacy, and the legal and regulatory framework.

(e) *Support pillar*

Support services and partnerships: reviewing existing business support services, information services, and collaboration within the ecosystem.

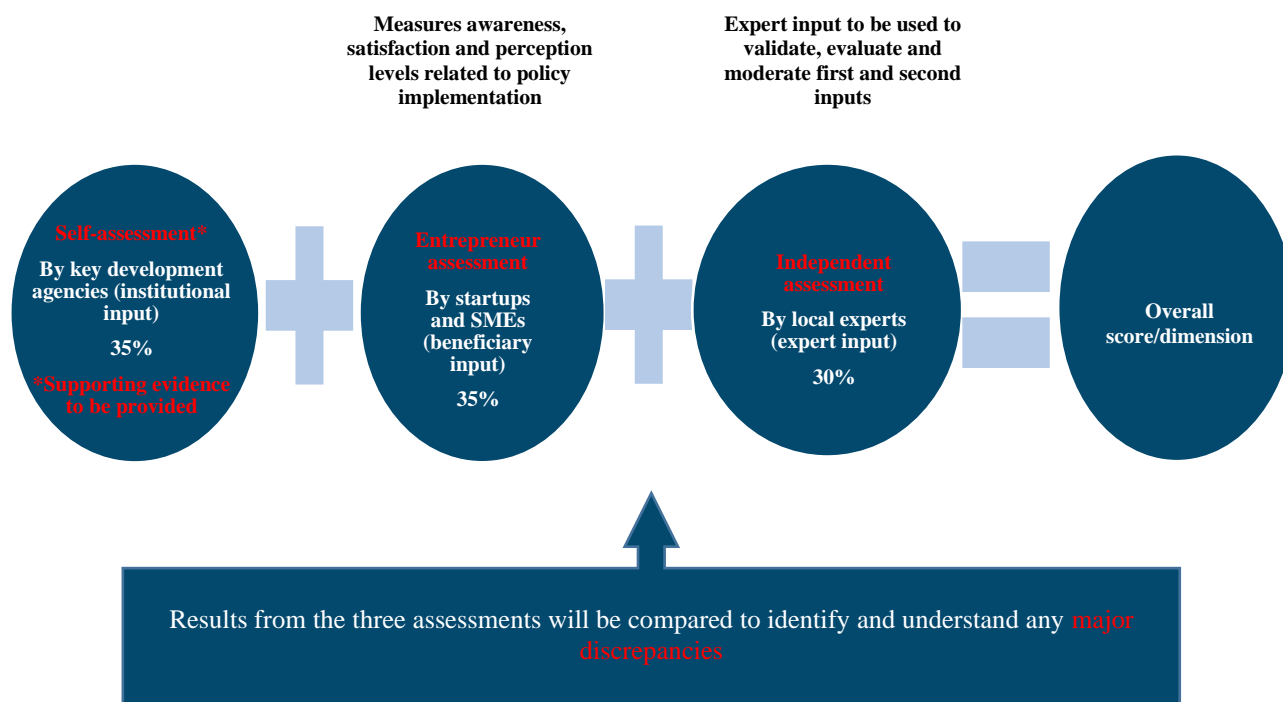
Figure 1. Proposed index for evaluating national entrepreneurship ecosystems



Source: Compiled by ESCWA.

III. Proposed assessment process

12. To carry out national assessments, ESCWA proposes that the following three types of stakeholders fill out assessment questionnaires: key development agencies, entrepreneurs (startups and SMEs), and local experts. A key result of this process would be the identification of gaps between policy design and implementation in each Arab country.

Figure 2. Assessment process

Source: Compiled by ESCWA.

13. ESCWA has also developed three online questionnaires to collect data from the following stakeholders, which will be complemented by results of in-depth interviews:

- National SME agencies (institutional input): assessment model + evidence (required).
- Local experts (expert input): assessment model + evidence (optional).
- Startups and SMEs (beneficiary input): assessment model.

14. Focus groups will also be held on the topics outlined in figure 3.

Figure 3. Focus group discussions



Source: Compiled by ESCWA.

IV. Conclusion

15. The Committee on Technology for Development is invited to take note of the present document and provide recommendations on the way forward.
