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Enabling Entrepreneurship in Egypt: Toward a Sustainable Dynamic Model

The objective of this report is to assess the current status of entrepreneurship in Egypt, and to offer strategic and actionable recommendations that will enable entrepreneurship and significantly impact the Egyptian economy.

The report offers a fresh look at entrepreneurship in Egypt and the support mechanisms currently at play, assesses the initiatives and challenges at hand, and provides multilevel recommendations on how to tackle them.

On a deeper level, this work aims to constructively question the entire model by which we view the tasks of entrepreneurial support in Egypt and develops a new mechanism to replace the existing model currently in operation. This is a more dynamic, comprehensive, and flexible model that allows both for a feedback mechanism and for customization, acknowledging that new businesses demand different types of support based on their stage of development and that of the industry in which they operate.

This report starts with a brief introduction that explains the importance of entrepreneurship and its potential for driving economic growth. Sections I and II offer a transversal snapshot, an assessment of the Egyptian economy and its entrepreneurial sector and the problems it faces. Sections III, IV, and V present three levels of recommendations, from the most paradigm altering to the most punctual.

Section I discusses Egypt's economic and entrepreneurial fundamentals, seeking to give an overview of the local economy and put it in perspective by making of international comparisons gathered from the most recent surveys. With high levels of unemployment and underemployment, as well as a strong predisposition for private work and below-trend new business creation ratio, Egypt displays both

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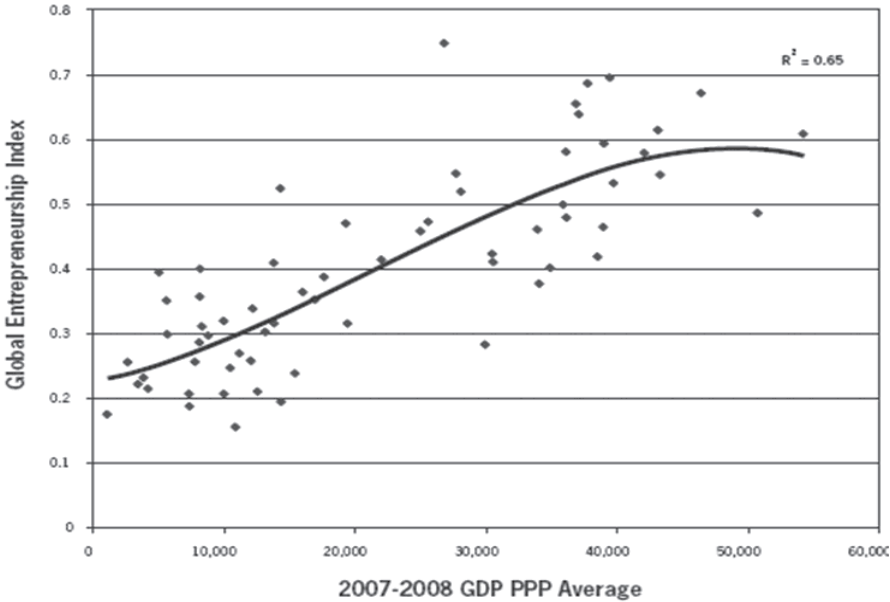


Figure 1. Entrepreneurship and GDP, purchasing power parity (PPP)

the will and the need for entrepreneurship—which promises to maximize its impact.

Section II begins by looking more particularly at existing initiatives and support organizations. The main handicap of these organizations is the lack of coordination and the duplication in the tasks conducted, which is significantly inefficient and prevents specialization and scalability. Some of the major problems in the Egyptian entrepreneurial environment are identified, including the negative reputation associated with business, the emphasis on “formal” and textual reforms more than their enforcement, weak contract enforcement, and the lack of collaboration in business relationships. Those challenges point to a clear conclusion: there is a great necessity for an actionable plan to support entrepreneurship in Egypt.

This actionable plan is subsequently developed on three levels.

Section III is concerned with the holistic model of entrepreneurship currently at work: a linear process, it is a succession of tasks and of support organizations until the economic venture is on its feet. This model needs to be replaced with a dynamic, self-sustainable model in which cooperative work by individuals with the entrepreneurial, technical, and managerial skills join forces to develop a project that will itself feed back into the pool of qualified persons.

Section IV deals with the strategic actions that have a longterm impact. These include changing the entrepreneurial mindset, prioritizing target sectors, coordinating initiatives, developing an innovation network, and giving more attention to

developing management skills and financing opportunities.

Section V develops the third and last level of recommendations and suggests some punctual, focused interventions that could have a potentially large impact; such as the creation of an entrepreneurship advisory board, a ministry for entrepreneurial development, reviewing business-related legislation, integrating incubators into an innovation-education matrix, improving the image of entrepreneurship in the public eye, including entrepreneurship in the elementary and secondary education curricula, revamping schools of commerce in public universities, and supporting the creation of angel funding networks and private venture capital funds.

The future belongs to countries with a solid and dynamic private sector capable of creating jobs, contributing to GDP growth, and generating innovative ideas. But the development of entrepreneurship is seldom automatic or spontaneous. Concerted efforts by all stakeholders in the national economy, led by an enlightened government, are necessary to create the environment and conditions for value creation.

The policies developed in Egypt, in this report and in the future, need to have a clear purpose:

Encouraging new knowledge-driven business creation, particularly in high-added-value domains, with a view to creating an economy with clear areas of competitive advantage and nascent clusters of competitiveness.

Entrepreneurship is a potential major source of job creation, of growth, and of innovation for Egypt. A strong, dynamic entrepreneurial sector can bring the entire national economy into new areas, breaking the boundaries of the traditional economic sectors the economy is built upon.

The link between entrepreneurship and economic development has been proven by a growing body of research, including most notably the work of Acs and Szerb (2008), who developed the Global Entrepreneurship Index, which is largely based on data from the Global Entrepreneurship Monitor (GEM), data that we use across this paper. They identify a positive and strong relationship between entrepreneurship and economic growth, with findings consistent with the various stages of countries' development. Figure 1, which plots GDP versus Global Entrepreneurship Index scores, graphically illustrates this positive relationship.

This report has been designed to be output oriented, with an emphasis on developing recommendations to be implemented by the various stakeholders, and provide an actionable plan for the way forward. The role of entrepreneurship support organizations, whether state-sponsored or nongovernmental, was given particular thought for its importance and crucial role.

A coherent, target-oriented strategy for Egypt's entrepreneurial community is missing. This report hopes to fill this important gap.

While entrepreneurship necessarily entails business creation and self-employment, it differentiates itself from the latter two in several points:

1. Entrepreneurship assumes innovation—new products, new production meth-

| Country name and GDP per capita | Sees good opportunities for starting a business in the next 6 months | Expects to start a business in the next three years | Often sees stories in media about successful new businesses | Current active involvement in setting up a business they will own/co-own | Involvement in nascent, or current ownership/management of a business | Adult population who received any training in starting a Business | Quality of entrepreneurship education; ranking from 1-5 |
|---------------------------------|--|---|---|--|---|---|---|
| Angola | 74 | 27 | 46 | 19.3 | 26 | - | - |
| Bolivia | 52 | 38 | 60 | 17.4 | 45.6 | 19.1 | 2.6 |
| Colombia | 65 | 60 | 57 | 13.8 | 36.7 | 40.0 | 3.2 |
| Egypt | 40 | 35 | 57 | 7.9 | 20.2 | 7.5 | 1.8 |
| India | 58 | 33 | 81 | 6.9 | 27.6 | 13.1 | - |
| Iran | 35 | 36 | 53 | 5.9 | 15.7 | 28.9 | 2.4 |
| Mexico | 59 | 26 | 52 | 9.3 | 17.8 | 15.5 | 3.0 |
| S. Africa | 60 | 13 | 69 | 5.7 | 9.9 | 13.8 | 2.5 |
| Turkey | 47 | 21 | 63 | 3.2 | 10.7 | 6.3 | 2.7 |
| Greece | 35 | 13 | 55 | 5.3 | 22 | 17.0 | 2.5 |
| Israel | 39 | 14 | 57 | 3.5 | 10.6 | 12.8 | - |
| USA | 44 | 7 | 73 | 5.9 | 18.7 | - | 2.9 |

Table 1. Cross-country comparisons of entrepreneurship readiness.

Source: Global Entrepreneurship Monitor (GEM). All figures are a percentage of adult respondents (ages 18-64) unless otherwise specified.

ods, new markets.

2. Entrepreneurship creates added value: the market value of the output must be greater than the combination of input. Reselling may be a business, but it is not entrepreneurship.
3. Entrepreneurship entails risk-taking: failure is an option, but it must be transformed into a lesson learned that feeds into the next venture.
4. Entrepreneurship does not just “happen.” From the French “*entreprendre*,” “to do” or “to undertake,” entrepreneurship assumes intelligence built around a good idea, boldness and risk-taking based on great effort.

I. EGYPT: ECONOMIC AND ENTREPRENEURIAL PROFILE

In the second half of the past decade, Egypt has registered a strong growth performance, culminating in a 7.2% GDP growth rate in 2007 and 2008, before slumping back—due in no small figure to the global crisis—to 5.2% in 2009.

This growth is led by the private sector: in 2005, 2006, 2007, and 2008, the private sector explained 63%, 60%, 72% and 68% of total growth, respectively. Furthermore, it is led by high-skill sectors, such as manufacturing, communications, and financial services, as well as capital-intensive industries, such as construction.

| | Funding | Training | Networking | Marketing | Admin | Area of focus |
|---|---------|----------|------------|-----------|-------|--|
| Social Fund for Development | ● | ● | ● | ● | ● | |
| Industrial Modernisation Centre | ● | ● | ● | ● | | Special programmes for industrial production |
| ITIDA | ● | ● | ● | ● | | IT industries |
| SME Development Unit, Ministry of Finance | | ● | ● | | | |
| Middle East Council for Small Business and Entrepreneurship | | | ● | | | Emphasis on networking |
| Nahdet El Mahrousa | | ● | ● | | | Social Entrepreneurship |
| Ashoka | | ● | | ● | ● | Social Entrepreneurship |
| Entrepreneurs Business Forum (EBF) | | ● | ● | | | Entrepreneurship Development |
| Endeavor | | ● | ● | ● | | high-growth, innovative ventures |
| Alashanek ya Baladi (AYB-SD) | ● | ● | | ● | | Micro and small entrepreneurship |
| EJB | | ● | ● | | ● | |
| WEL Program, AUC | | ● | ● | | | Women entrepreneurs |
| Centre for Entrepreneurship Cairo University | | ● | ● | | ● | Students |
| European Training Foundation (ETF) | ● | ● | ● | ● | | |

Table 2. Inventory of entrepreneurship-related initiatives in Egypt

Unemployment officially hovers at 9% (2009), yet unofficial figures, combined with underemployment estimates, put the unemployment figure at significantly higher. More than half of the Egyptian working force is employed in the agriculture and government sectors. Only 13% are employed in manufacturing, and 11% in the hospitality industry.

Demographic growth shows few signs of abatement. With a 1.9% annual growth rate, we are looking at a population increase of 1.5 million people a year for the period 2002–2015. Most importantly, however, is the Egyptian demographic profile, which heavily skewed toward youth. With 32.8% of the population below the age of 15 and 19.5% between the ages of 15 and 24, we are looking at 52.3% of the population below the age of 25 (UN-ESCWA estimations for 2010). This demographic profile can either be seen as an unstoppable pressure, or as an unequalled demographic window of opportunity, with a strong and youthful population reaching the labor market and taking part in the productive process.

There is therefore wide room for expansion of the Egyptian private sector, preferably via new enterprise creation, to strengthen the leading growing sectors in the economy, and provide employment opportunities—and make use of—a diverse and strong labor force.

| | Level 1 | Level 2 | Level 3 |
|---|--|--|---|
| Intervention targeting the... | Entrepreneur / Company, at a micro-level | Entrepreneurial environment, at a meso-level | Community/ country as a whole, at the macro level |
| Administrative and institutional reforms | Taxes and incentives for innovative and entrepreneurial ventures | Cutting the business-related red-tape | Improved economic environment; better physical & institutional infrastructure |
| Education and skill development | Specific training for entrepreneurs, via incubators, etc. | Graduate level education | Including entrepreneurial education in elementary schooling |
| Financing strategy | Developing seed and angel funding, from its current personal "family and friends" Scheme | Presence of diversified sources of venture funding | Developing an improved system of equity funding; efficient stock market and listing regulations |
| Mindset | "Failure" is a possible outcome for a new business | Entrepreneurship is a valuable career choice | Better image of businesspersons in the community |

Table 3. Categories of interventions to build entrepreneurial ecosystems

ENTREPRENEURSHIP IN EGYPT AND THE REST OF THE WORLD

How does Egypt compare to other countries worldwide in terms of readiness for entrepreneurship? Until recently this was a difficult question to answer, but a growing body of research, led by the Global Entrepreneurship Monitor report. The GEM conducted surveys and opinion polls within the expert and non-expert community in Egypt. Below are a few comparisons with select countries around the world across a few main indicators. It should be noted in this context that the results appear particularly optimistic in the case of Egypt; research analysis professionals point out the necessity of normalizing Egyptian survey results to bring them in line with comparable results from other countries. Furthermore they do not distinguish between "opportunity-based" and "necessity-based" entrepreneurship; the former entails spotting a market opportunity and taking it, while the latter refers to self-employment due to lack of other options. Some definitions tend to only consider the opportunity-based variety as real entrepreneurship. In this report, the distinction is based not on the impetus but on the characteristics of the business-creation process.

This caveat notwithstanding, the numbers remain particularly promising. With 35% of surveyed individuals suggesting that they plan to start a business within the next three years, it becomes clear that there is great potential for enter-



Figure 2. Al-Ahram Newspaper, February 17, 2010

prise creation in Egypt.

Nevertheless, from the final two columns of Table 1, we see that few people are indeed trained and equipped to start and manage their business; entrepreneurship education appears to be of low quality and penetration in the Egyptian market. Furthermore, this apparent readiness to join the private marketplace does not translate as optimistically as the raw number would suggest.

Compared to states in similar economic conditions, Egypt's prevalence of entrepreneurial activity appears below the trend—pointing out both a structural weakness and an opportunity for development.

The immediate goal is therefore to capitalize on Egyptian society's apparent readiness for entrepreneurship.

This report will therefore analyze the strengths and weaknesses of the Egyptian entrepreneurial sector, while integrating innovative lessons from around the world, to develop actionable suggestions that are ready to be implemented at once.

ENTREPRENEURSHIP IN EGYPT: INITIATIVES & CHALLENGES

The following section attempts to answer a question, where do we stand? It is therefore a critical assessment of the efforts made, and left to be made, regarding entrepreneurship support in Egypt.

Many initiatives exist, generally developed in response to a particular and specific need. Others have begun with the ambition of supporting young ventures

through the various stages of their development, often only to fall into the trap of non-scalability.

Following this, we develop an overview of the main difficulties and challenges facing the Egyptian entrepreneurial environment.

1. Entrepreneurship support initiatives in Egypt: A first assessment

This section does not have the pretension of conducting an evaluation of all entrepreneurship support organizations in Egypt. Rather, it aims to give a quick and handy overview of the main organizations available on the Egyptian market and the tasks they perform, or which represent an area of strength. It is acknowledged that this table is very simplified and may be omitting some minor information.

That most of those organizations are present across the various phases of the entrepreneurship process, which we will discuss at length later in this report, is proof of both their commitment to the development of entrepreneurship in Egypt and a possible duplication of their tasks.

Save for a few organizations that target particular sectors of the industry or society, most initiatives herein described conduct the same set of tasks vis-à-vis nascent entrepreneurs. Not only is this less efficient, as it precludes specialization, it also perpetuates a “hand-holding” culture, with an organization accompanying a same entrepreneur throughout multiple steps of the process on the assumption that tailored support is best offered—which in fact only creates a higher level of dependency of the entrepreneurs on the support organizations, making it significantly more difficult for the entrepreneurial venture to fly on its own wings it has passed the establishment stage.

2. Main challenges in the entrepreneurship market in Egypt

This section seeks to highlight the main problems facing the practice, not the theory, of entrepreneurship in Egypt. This section has benefited greatly from a series of interviews conducted with experts in the Egyptian entrepreneurial marketplace.

Table 3 covers what would be considered the essentials issues that face entrepreneurship: administrative barriers, lack of education, absence of appropriate financing, and unsupportive mindset.

There is no silver bullet to tackle each of those issues. In fact, intervention can be divided into three main categories:

Level 1: Those that target individual entrepreneurs or projects, offering unshared, private support to the specific target of the intervention

Level 2: Those that target the entrepreneurial environment, i.e., the conditions in which entrepreneurs in particular evolve. These reforms touch the general entrepreneurial public, with potential spillovers to the rest of the economy.

Level 3: Interventions that will either involve or benefit the whole community by facilitating or improving conditions for other sectors of the economy besides entrepreneurship. Cells contain the most direct interventions for each of those essential issues at each outreach level. Interventions that have already been under-

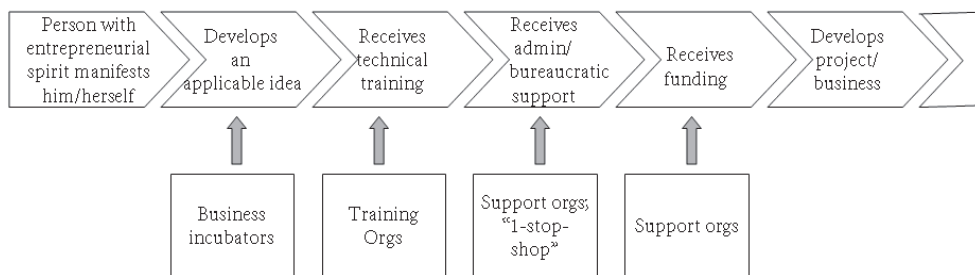


Figure 3. The general profile of the entrepreneurial business creation as it currently stands

Source: Authors

taken or are in the course of action are highlighted.

It becomes clear that our interventions so far have focused heavily on providing support to entrepreneurs on an individual level, whether it's in seed funding, training or incubation services; some initiatives have also attempted to improve the business environment by cutting red tape, offering administrative "one-stop shops" to facilitate paperwork, and improve the work of commercial litigation courts.

But we realize that our policy interventions are lacking at Levels 2 and 3—addressing the business community as a whole, then the economy at large.

Yet cross-country research points out (Monitor, 2009) that beyond what we traditionally deem to be the most important elements—such as venture capital funding, incubation, etc., "other policy areas are more important to entrepreneurial success," such as the mindset, skills development, and education at all levels, and financing strategies beyond venture capital funds.

The challenges facing Egyptian entrepreneurs follow them from the earliest stages, with a lack of exposure and trust vis-à-vis entrepreneurs, to the administrative difficulties and lack of institutional support they face and, at a later stage, to a deficient culture of cooperation. The section below elaborates on those challenges as follows:

A. Entrepreneurship is a word unheard of to most of the Egyptian public; indeed, until recently, no term existed for it in Arabic. The concept is largely foreign and indistinct from MSME creation. The silver lining is that it is relatively unscathed by the negative reputation that the term "business" suffers from—which is a factor to capitalize upon.

B. Businesspeople have a very negative reputation, due to numerous high-profile scandals surrounding nonperforming loans. Businesspeople are near automatically associated with to thieving, dishonest tycoons. A recent Cairo University survey (February 2010) showed that people believe that "businessper-

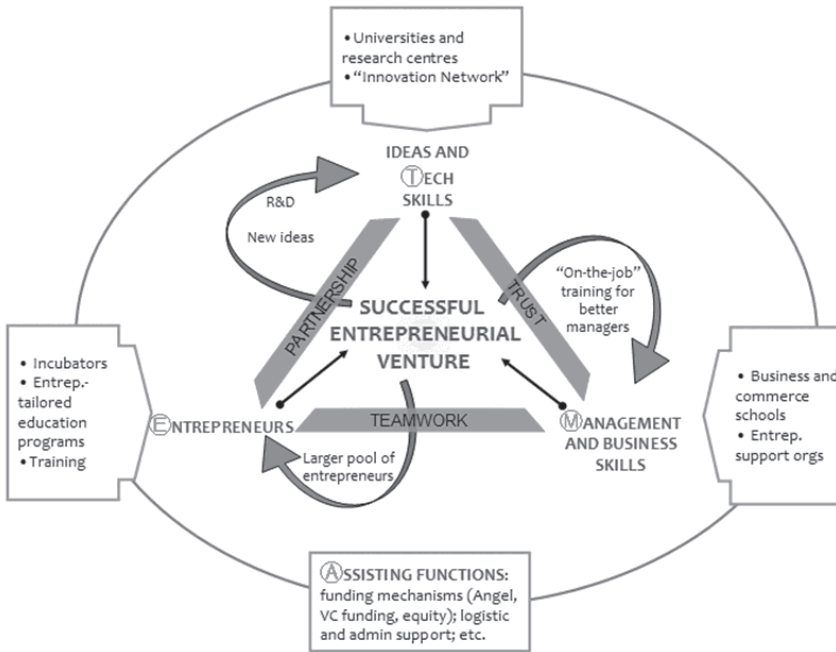


Figure 4. The Recommended T-E-A-M Model

Source: Authors

sons are the most corrupt” socioeconomic category.

C. Emphasis in entrepreneurship support has so far been put on nominally easing administrative burdens—which is severely insufficient. Egypt’s improveDoing Business ranking is proof of the formal legal and regulatory reforms.

But large jumps in ranks year-to-year are not just proof of success but of the fact that we had a very low ranking to begin with. Currently, Egypt is ranked 106th out of 183 countries.

Furthermore, such rankings reveal an unavoidable bias in the calculation methodology. While Egypt may have, for example, successfully simplified the process to start a business—putting it in a 24th position and pushing up the overall ranking—if elements such as contract enforcement remains particularly weak (we are at the 148th position), it is likely to act as a binding constraint and hamper the entire business creation process.

D. Existing government-led initiatives are excellent but are drastically insufficient, and only limitedly scalable. Organizations such as the Social Fund for Development and the Industrial Modernisation Centre provide remarkable services to thousands of companies every year—which remains painfully short of covering the 1.34 million in the nascent stages across the country.

According to experts, the model of “nursing” or “hand holding” a nascent business may be effective but is assuredly not efficient, as it limits the number of companies that can be served and does not allow them to take part in the initiative. The purpose is not to standardize the assistance offered—far from it. There is a balance to be achieved between an inefficient nursing model and a supply-driven, perhaps equally inefficient one.

E. Weakness of contract enforcement, as mentioned earlier, can be a severely binding constraint on collaboration, as well as discourage business creation in a sector operating, at least in its first phase, on thin margins and tight schedules that cannot afford delays in payments, deliveries, etc. In environments of weak contract enforcement and limited legal recourse, parties usually revert to alternative enforcement mechanisms, with voluntary binding arbitration being one. This mechanism remains relatively weak in Egypt still.

F. Absence of a collaboration culture in business relationships. Entrepreneurial ventures in Egypt are a lonely business. With an average start-up team of 2.21 people, entrepreneurs favor very small, and for nearly half of them, individual ventures.

Individuals do not seek to complement one another, despite deliberately knowing they are unlikely to be a “one (wo)man band,” and that a solo act can only hamper their medium- and long-term growth. Teamwork is a drastically missing skill, from entrepreneurs in general, and from their staff and the Egyptian society at large.

As one expert put it—“teamwork in Egypt is about one person doing all the work, and everyone sharing in the credit.”

III. TOWARDS A DYNAMIC MODEL OF ENTREPRENEURSHIP IN EGYPT: THE TEAM MODEL

This section and the following present our recommendations for various stakeholders and at multiple levels of interventions, going from the paradigm shifting modification of the way we view the entrepreneurial model, to the strategic recommendations which we grouped in six categories, down to rapidly actionable, implementable steps. The dynamic model of entrepreneurship we develop is based on three principal pillars, augmented by a support pillar; for the sake of consistency, the strategic and actionable recommendations we put forth will follow the order and logic of those pillars.

As it stands, entrepreneurship is an almost linear process, with support organizations intervening at various stages to answer punctual needs—and sometimes to hold the entrepreneurs’ hand, in the words of one expert, until their venture is successful, before moving onto another case. Effectively, the model covers only the start-up phase of the business.

Currently, the process a nascent entrepreneurial venture is as follows:

a. The emergence of the entrepreneur, an exogenous event, represents the

| | Local Sources of Knowledge | | International Sources of Knowledge | |
|------------------------------------|--|--|---|---|
| Sources | Local Universities and Research Centers | | Businesses and Business Personnel | International Universities, Publications and Research Institutions |
| Means of Knowledge Transfer | 1) Creating efficient programs to coordinate between Egyptian entrepreneurs and local universities & research centers. 2) Encourage business / product innovation through tax breaks and other financial and non-financial incentives | | 1) Actively promote international franchises as a means of direct knowledge transfer. 2) Encourage, rather than discourage, the employment of international experts in local companies to make use of their extensive expertise. | 1) Improved collaboration between local and international knowledge centers. 2) Widely encourage the systematic review and use of various international publications in local education. |

Table 4. Means of knowledge transfer

Source: Authors

beginning of the process.

b. The next step is for the entrepreneur to develop an applicable, feasible idea with possible market opportunities; business incubators were created to answer this particular need.

c. Once that idea is developed, the entrepreneurs can seek technical training to improve their ability to implement their ideas. It is very possible that such training could be provided by the same organisation or government-dependent body that assisted in developing the project idea into a business plan in the previous phase.

d. The following step, particularly complex in the Egyptian environment, has the entrepreneur navigating the difficult bureaucratic environment to register his ideas into recognized and protected intellectual property when appropriate—as well as legally establishing his business. Once again, a number of organizations were developed to answer this need.

e. The entrepreneur, in need of funding, will be supported by family and friends at a first stage, and potentially by a loan or grant from a nongovernmental organization or a private fund.

f. Once the business is established and operative, the role of support organizations, as well as any follow-up to the entrepreneurial venture, ends.

Clearly, the linear model is ineffective. It discourages specialization in support functions and does not allow for the customization of support that depends on the various industries.

Furthermore, the system as it stands fails to assist in the development of the business beyond the initial phase or its longterm growth; nor does it systemize

| | | Education and Humanities | Social Sciences | Medicine | Scientific, Technical and Engineering | Others |
|----------|------|--------------------------|-----------------|----------|---------------------------------------|--------|
| Egypt | 1995 | 35.0 | 41.2 | 7.4 | 10.2 | 6.1 |
| Iran | 2003 | 17.6 | 27.5 | 7.3 | 38.2 | 9.3 |
| Jordan | 2002 | 30.0 | 26.0 | 10.0 | 30.0 | 4.0 |
| Lebanon | 2003 | 21.2 | 38.8 | 8.5 | 25.7 | 5.8 |
| | | | | | | |
| China | 1994 | 22.8 | 9.4 | 8.9 | 46.8 | 12.1 |
| Korea | 2002 | 23.4 | 20.4 | 7.3 | 41.1 | 7.9 |
| Colombia | 1996 | 17.1 | 43.2 | 9.1 | 28.5 | 2.2 |
| Mexico | 2002 | 15.0 | 42.0 | 8.0 | 32.0 | 4.3 |

Table 5. Distribution of university students by fields of study (percentage most recent year)

Source: The World Bank, “the Road not Traveled: Education Reform in the Middle East and North Africa,” 2005.

feedback into the system from the successful business venture to support further growth.

We need to evolve into a collaborative, dynamic system as described on the next page.

The recommended T-E-A-M Model is organized around the three pillars of enterprise development, along with the support of a number of enabling functions that regard the health and viability of the entrepreneurial environment as a whole. The model pillars are therefore as follows:

- Technical skills and ideas development
- Entrepreneurs
- Assisting and enabling functions
- Management and business skills

The Recommended T-E-A-M Model

a. The collaborative efforts of management capacities, ideas, and technical skills, come together in an equal partnership with the entrepreneurial spirit—an element missing from the linear model, which expects all skills to be acquired by the same individual and does not encourage cooperation, despite its being crucial to ensure growth opportunities for the company.

b. They benefit from the elaborate and nurturing complex organizational support from educational institutions, incubators, and training organisms.

c. They operate in a healthy entrepreneurial environment, with the support of the necessary institutions, such as funding organisms.

d. The feedback mechanism of the system is also crucial to its functioning; it also introduces the long-term life of the venture in the model.

The successful business venture generates new ideas for growth, which is transformed, via the re-investment of profits (or via further external funding) into projects allowing for the growth of the venture or, alternatively, the creation of a new one.

It could also serve to fund research and development to create the production technology necessary to bring those new ideas to life.

The successful venture not only encourages new entrepreneurs, it also creates them. A successful collaborative venture will develop the entrepreneurial spirit of some of the team members—some who will go on to lead future ventures.

Working on a new company with limited staff both demands and, crucially, also generates versatility. The on-the-job training and exposure to a multitude of managerial and administrative issues offers a skill-building opportunity probably unmatched in the realm of formal education.

As those researchers, entrepreneurs, and managers are already parts of an entrepreneurial system (and acquainted with the environment), they will be better integrated in the system and more capable of tapping its resources to find the support, training, etc., that they require, before they begin a venture of their own—again, with the right partnerships and in the same spirit of cooperation.

e. The system therefore becomes autonomous and self-sustaining.

IV. STRATEGIC RECOMMENDATIONS

The following are a series of strategic recommendations, or guidelines, by definition long term, which does not mean they shouldn't be tackled immediately—quite the opposite—but that their impact will be increasingly felt with time.

Our recommendations will follow the pillars of the dynamic TEAM model:

A. Changing the entrepreneurial mindset: Attitude, risk, coordination, partnership

This takes the first position in the list of strategic recommendations, both for importance and urgency, as well as for the multiple levels of intervention necessary

At level 1, entrepreneurs need to enter the business realm and address risk with a positive attitude, fully aware that failure is an option—but from which they can recuperate and should learn from.

Equally importantly, though, entrepreneurs need to start thinking cooperatively.

The era of lone geniuses has passed, and the future belongs to interdisciplinary collaborative ventures. The development of teamwork skills is key.

At level 2, business-related regulations, on the part of the state as well as private organizations, must engage with entrepreneurs. Banks, for example, must consider entrepreneurs as long-term solvent clients and partners and be understand-

ing, without jeopardizing their own interest of course, of the difficulties or limitations of entrepreneurs.

At level 3, the image of entrepreneurs and businesspeople in the community need to be amended and improved: rather than profiteers, they should be viewed as what they truly are—as important contributors to the economy and society as a whole.

B. Building a knowledge infrastructure for innovation, and entrepreneurship

Two of the major pillars of entrepreneurship are innovation and value creation, both of which would increase significantly if more “knowledge” were to be made accessible to entrepreneurs and entrepreneurial ventures. Steps need to be taken to actively disseminate knowledge into the Egyptian economy.

Egypt’s universities and research centers hold a wealth of knowledgeable individuals, often working on cutting-edge theoretical and applied science. But for most, their ideas do not reach beyond the academic or at most the prototype stage. Conversely, entrepreneurs are often hardpressed to find the technical knowledge required and the qualified thinkers and skilled workers capable of carrying the project to fruition. Therefore, there is an urgent need for a coordination system to ensure that the innovative ideas are effectively channelled and ultimately commercialized.

C. Management skills development

Not unlike technically qualified personnel and entrepreneurs, good managers are hard to come by. Management skills range from personal or first-level skills—such as planning and organization, etc.—to managing teams, all the way to leadership.

Aside from the strictly managerial skills, however, a host of soft skills is also necessary, not only for managers but for all parties to the entrepreneurial venture. Unfortunately, our education system does not equip students with those skills and they are, further along their career, penalized by their absence. It is therefore necessary to provide all, but the partners to the entrepreneurial venture in particular, with those skills.

D. Access to support

Coordinating institutional initiatives

As shown in the second chapter of this report, government and nongovernmental initiatives do not coordinate activities. The result is an absence of complementary planning, a duplication of tasks, and a limited market outreach, mostly geographically concentrated on Cairo and Alexandria. Better coordination would allow for specialization, better handling of an increased number of beneficiaries, and better coverage of services countrywide.

The reliance of organizations on another will have positive, secondary side-effects: as organisations will naturally seek the best organizations to work with—resulting in a system of natural selection of the most efficient organizations, weeding out the least reliable, and pulling up the entire entrepreneurship support envi-

ronment into higher work standards.

Financing opportunities

Financing is often cited as one of the major hurdles for new businesses; for many experts, however, finance is often sufficiently available—but not accessible or properly advertised.

The lack of information regarding appropriate sources of finance—which may include direct lending, microloans, commercial loans, and government-supported loan programs—translates into the need for a mapping of available financing and its dissemination to potential beneficiaries.

Angel-funding networks and venture capital funds need to be developed, allowing for an injection of funds when necessary for the growth of the business.

A state funding facility, which could particularly target sectors prioritized or deemed of high-value to the economy, is also needed.

E. Evolution toward a knowledge-based economy

As knowledge takes its rightful place as a production factor with labor and capital—ultimately replacing capital as a productive driving force—it maps the future orientation of global growth.

Without neglecting traditional manufacturing processes, which very much stand to be supported and grown, it is undeniable that the infusion of knowledge directly into nascent and existing businesses is key to growing entrepreneurial ventures and creating highly innovative and value-adding businesses.

Helping Egypt to become a knowledge-based economy is closely pertinent to the recommendations on prioritization developed below.

F. Prioritisation and clusters selection

While we know that Egypt must target high added-value productive sectors, the question of selecting priorities or designing clusters of competitiveness is a very tricky one—both because it hopes that a centrally determined area of specialization will be as efficient as one developed by market forces, but also because it supposes that the decisionmakers will select a set of industries that will be attuned to the country's industrial profile.

Obviously, this is not always the case.

How do we select areas of competitiveness?

For this task, it is only reasonable that we:

Build upon our current areas of specialization or competitiveness to move to more sophisticated sectors with higher added value

Avoid heading toward areas in which we are particularly behind—this would only represent sunk investments with no possibility of catching up with market leaders

Ensure that the necessary factors for the success of a sector of the economy be present before we seek to develop it (it would be foolish, for example, to attempt to develop a high-tech industrial sector if the education system does not provide adequately trained staff and technicians). In this respect, is it inter-

esting to look at the main fields of study in Egypt:

Egypt has the lowest rate of students in scientific, technical, and engineering fields in the MENA region, with a mere 10.2%. Comparatively, 38.2% of all Iranian students or 31% of their Tunisian counterparts choose that domain. In South Asia, the mean is of 30.8%—with China at a towering 46.8%.

Obviously, the intention is to ignore developing technical industries—quite the contrary. The take-away from this graph is that more work is necessary to bring our technical education skills up to the required level.

Development economics literature offers models to determine the industrial clusters a local economy can move toward given its existing industrial profile; see, for instance, Hausmann and Klinger (2006). Further research needs to be conducted in that direction.

How to select a model of entrepreneurship development?

Research suggests four different models of entrepreneurship; their appropriateness depends on the region or the country:

The first model may appear to be the most interventionist or the most demanding of all four. This is, however, inaccurate, as all four models demand great efforts and support from the state and other organizations.

a. The classic model needs assistance with a university-led research process to connect them with entrepreneurs/marketers (via the suggested “Innovation Network” we discuss below) and to help finance the venture by making funding sources available.

b. The anchor firm model requires state intervention for an earlier stage than above. Attracting the anchor firm(s) requires both the creation of a strong physical and institutional infrastructure and an actively attractive policy for such firms—which could include tax breaks, industrial zones, facilitated labor regulations, etc.

c. The “homegrown genius” demands alertness—spotting this “genius” and allowing them to develop their project. On a latter stage, the government should be capable of capitalizing on this company’s success and encourage the creation of new ventures, generally in the same or in sectors connected to the original firm.

d. Likewise, an event-driven model requires a rapid reactive policy from the state and support organizations. In the face of adversity and to prevent further shrinking of the local economy, In the Egyptian case, we recommend a mix of the first two models.

Greater efforts need be exerted to attract selected productive foreign direct investment. Costa Rica’s competitiveness in hardware and computer parts, for example, is based in large part on its success in attracting Intel to establish its main North America plant there.

The creation of free zones in Egypt is a good initiative, but weak infrastructure remains a problem that keeps Egypt from achieving its full potential as an attractive Foreign Direct Investment destination. Better incentives need to be offered to high-added-value foreign direct investment than to low-end industrial ventures.

In the same time, support to existing research institutions needs to be increased, their profiles raised, and their exposure to potential partners. Strategic recommendation #4 suggests a solution for this.

V. ACTIONABLE STEPS

The following section attempts to bring about an action plan for some key issues facing Egyptian entrepreneurship today by offering actionable suggestions based on best practices around the world on how to implement them.

Boxes, scattered throughout the section, offer interesting international experiences and best practices from around the globe.

While each country, each economy is different, there is much we can learn from international experience in entrepreneurship—if we find the most appropriate experience and eventually conduct the necessary modifications for it to fit Egypt's industrial profile.

A. Create a Ministry for Entrepreneurship Development

Many government ministries today have programs and initiatives relating to the development of entrepreneurship and/or small and medium businesses. Though it is nice to see all these efforts started across the various government bodies, there remains a strong lack of coordination between the different initiatives in the absence of a unifying overall national strategy for entrepreneurship, and the authority to implement it.

The Small and Medium Enterprises Development Unit is an excellent initiative but is insufficient to answer the specific needs of the entrepreneurial sector.

In addition, a number of initiatives dependent on other ministries operate independently, as do other government-sponsored initiatives, such as the Social Fund for Development.

As we head into a period of better and more relevant state support for entrepreneurship, a centralized agency to link support services and government programs becomes necessary. There is therefore a need to have a single government body coordinating the various national organizations.

B. Create the Entrepreneurship Advisory Board

There is an urgent need for a unified voice to lobby for the interest of entrepreneurs. For this reason, we suggest the creation of an Entrepreneurship Advisory Board, to be composed of entrepreneurs, as well as representatives from the non-governmental support sector, from the private funding sectors, as well from the most relevant government ministries and organizations. This Board would serve as an interface between entrepreneurs, the state, and other relevant stakeholders in the community. The board would also assume the tasks of ombudsman for small businesses.

C. Include entrepreneurship in the elementary and secondary education curricula

Liaise with the ministry of education, most notably with its Technological Development Centre, to integrate positive models of businesspersons in the elementary school curricula. On the secondary school level, include basic business skills as part of the essential courses taught, most notably courses on economics and commerce/business administration; or as standalone programs.

D. Redesign schools of commerce in public and private universities

All across Egypt's universities, there is not a single compulsory class, module, or training on entrepreneurship, despite its proven importance and the global trend toward the inclusion of entrepreneurship in university curricula. In cooperation with the ministry of higher education and with the few private universities that have them, design courses on entrepreneurship can be taught at the undergraduate levels.

- Encourage universities to recruit entrepreneurs to teach those classes as guest speakers.
- Introduce the culture of summer and graduate internships in Egyptian universities, potentially making it a graduation requirement
- Develop continuing education courses for mid-career professionals.

E. Improve the image of entrepreneurship in the public eye

The media plays a major role in shaping public perceptions, and media organizations need to step up to their role as educators as well as entertainers:

- Mainstream, independent and specialized media sources must be regularly invited to entrepreneurship-related events, conferences.
- Establish a weekly column in a major newspaper where issues of entrepreneurship and self-employment are discussed.
- Entrepreneurs and entrepreneurship support organisations need to be in touch with the business/economic news editors of various media outlets, making themselves personally known to them and assuring their availability to them (and following up on this assurance).
- Air TV programs featuring success stories of various local entrepreneurs and highlighting their journey, perseverance, and struggles.

F. *InnovNet*: The Egyptian Innovation Network

This is a long-term autonomous project with full work autonomy and openness of membership that operates under the umbrella of the Entrepreneurship Advisory Board. Members of the *InnovNet* would be entrepreneurs, as well as researchers, professors, and technically qualified personnel. It would provide a forum for contact, exchange, and relationship development between those two elements of the production triangle at the heart of the entrepreneurial model.

G. Diversify funding sources, via the creation of angel-funding networks, and private venture capital funds

- Encourage banks to lend to small businesses—potentially via a minimum SME lending requirement

- Streamline regulation and support for buyouts and mergers
- Support the creation of angel-funding networks
- Establish new venture capitalists, with government assistance at first
- Support, when necessary, the emergence of sector-specific VC and equity funds
- Coordinate with funds in other countries and regions, in the Middle East and beyond, Dubai-based funds, for example, have some experience dealing with Egypt-based entrepreneurs in various domains
- Encourage links between local and international VC funds, transferring knowledge and experience from the latter to the former

H. Review business-related legislation

Ensure that existing legislation, such as:

- Tax legislation
- Use of stock options
- Competition law
- Commercial courts
- Bankruptcy law

does not interfere with the businesses' launch or growth—and is not prohibitively discouraging to entrepreneurs

- Improve the functioning of economic arbitration and commercial courts to ensure a speedy dispute resolution process and ensure real legal protection for all
- Develop tax incentives for entrepreneurs, as well for R&D institutions
- Encourage input from entrepreneurs during the drafting of economic legislations

I. A more streamlined integration of the innovation-education matrix

The purpose is to integrate incubators with universities, research centers, and ultimately with the industry.

- Better integration of incubators will also mean the need to create more specialized incubators for certain industries and for certain targeted publics.
- This will allow incubators to begin working with future entrepreneurs at the beginning of their career.
- A clear presence or representation of incubators on campuses will also assist in changing the students' mindset—explicitly offering business creation as an alternative when they graduate.

• It also has the clear advantage of seeking the budding entrepreneurs rather than waiting for them to seek.

J. Encourage the creation of alternative entrepreneurship models: Franchising

- Franchising is among the most interesting and growing ways of expansion in international markets

- A partnership between the franchisor, who owns the brand but also provides the technology, training, know-how, and quality control; and the franchisee, the local entrepreneur who provides accurate knowledge of the local market's needs and is responsible for the implementation of the production system

- Franchises touch upon all areas of economic activity—from retail to child care

- Attracting franchising opportunity requires a stable economy and solid credit ratings

At current outlooks, Egypt is fully qualified to take franchising to the next level and diversify out of traditional franchising options (fast food and retail, primarily) into higher added value firms.

K. Markets opportunities: The demand side of entrepreneurship

Just as the of the above is a recipe for assisting the emergence of entrepreneurs by working with factors that affect the supply of entrepreneurs, efforts must also be taken to drive the demand for entrepreneurs side of the equation.

These can include:

- Government programs aiming at purchasing quotas from newly established businesses

- Readily available studies on the different market opportunities

- Readily available reports on different industries; these can work closely with initiatives to develop clusters of competitiveness and include market studies, supplier information, industry publications, and related feasibility studies

CONCLUDING NOTES

The potential for entrepreneurship development in Egypt as a source of economic growth remains very real. Despite the official and enduring commitment of the state, reforms remain incomplete and must go beyond legislation reforms—necessary as those may be—to their implementation and, optimally, to changing the mindset of implementers. Entrepreneurship needs to become a positive societal value. Particularly in the mind of those in a position of power or control vis-à-vis entrepreneurs, the link between assisting entrepreneurs and social and economic improvement needs to be present. Legal and entrepreneurial environment reform is not about unlocking a series of closed doors but a door with multiple locks. Conducting the least constraining reforms without the more difficult will not bring us closer to our goal. In fact, it can even be counterproductive as disappointment on the part of entrepreneurs as well as reformers could slow down the reform pace. As such, those legal and institutional reforms need to be conducted in parallel, in concerted efforts, and publicly, if we are to guarantee a positive response from the market. Such a wide effort necessitates the involvement of numerous governmental and nongovernmental stakeholders, which begs the creation of umbrella institutions to interface and to coordinate with their respective members to achieve carefully planned tasks. Further research remains necessary, particularly in terms of prioritisation and the creation of clusters of competitiveness, which, we believe, will both involve and lead the entire economy. While our recommendations largely tackle the entrepreneurial infrastructure and hence address the entirety of the business environment, certain specialised areas of entrepreneurship, such as micro and small entrepreneurship development and social entrepreneurship, warrant a closer look to determine if tailored measures would be necessary to assist them in particular.

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Expert meetings and interviews

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