# Unlocking the Pipeline, MENA

## Getting High Growth Potential Ventures Investment Ready

village capital

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# Abstract

This insights report explores the key themes impacting the early-stage venture ecosystem in the Middle East and North Africa (MENA) region in 2023. The insights are based on research interviews, roundtable discussions, and a review of relevant articles and reports. In collaboration with the Dutch Good Growth Fund (DGGF), Village Capital aims to support ecosystem builders in the MENA region to bridge the support gap for early-stage ventures by improving sourcing, due diligence, and technical assistance for entrepreneurs. The report identifies the main trends impacting the region such as access to finance, talent, market fragmentation, and support systems. The report seeks to inspire stakeholders to pursue collective efforts to drive the region's entrepreneurial potential towards sustainable growth and prosperity by sharing insights from key ecosystem players. The motivation for the report was to inform the program design of MENA Ecosystem Builders 2023, a program that will work with locally-led entrepreneur support organisations (ESOs) based in Egypt, Jordan, Lebanon, Morocco, Palestine, and Tunisia to bridge the support gap for early-stage ventures and build networks across the region.

# Foreword

Village Capital initially embarked on our ecosystem building journey in 2016, in collaboration with the Kauffman Foundation, Sorenson Impact Foundation, and the DOEN Foundation. Our primary objective was to address the question, "How can ecosystem builders best support entrepreneurs to succeed?"

Fast-forward seven years, and we have collaborated with more than 170 ecosystem builders—including accelerators, incubators, and seed funds from 90 countries. These locally-led organizations have gone on to provide essential support to thousands of entrepreneurs who have collectively raised over USD$60 million in investment capital.

We are committed to this work because we believe that these organizations play a crucial role in fostering an investable deal flow of entrepreneurs who are often overlooked by traditional financial institutions. These entrepreneurs possess innovative ideas with the potential to catalyze societal, economic, and environmental progress.

In recent years, the Middle East and North Africa (MENA) region has witnessed exponential growth in capital invested in high-growth ventures. However, much of this capital is concentrated in a small pool of ventures, with investors citing challenges in unlocking the necessary pipeline to diversify their investments across a broader group.

In 2022, we collaborated with the Dutch Good Growth Fund (DGGF) to launch our inaugural program for ecosystem builders in the MENA region. Together, Village Capital and DGGF aim to address a pressing issue faced by early-stage investors in the region by reducing the sourcing and due diligence costs, as well as acknowledge and work with local ecosystem builders to improve access to critical technical assistance for entrepreneurs. We will achieve this by supporting locally-led accelerators that generate an investable deal flow for early-stage investors.

Over the past six months, we have engaged in discussions with some of the most prominent early-stage investors, entrepreneurs, accelerators, and incubators in the MENA region. In this insights snapshot, we share some of the key themes which are currently shaping the early-stage venture ecosystem in the MENA region, as identified through these conversations. We hope you enjoy it.

Alicia Sornson

Regional Lead - MENA at Village Capital

Part 1:

# About Our Partners

## Village Capital

Village Capital is reinventing the system to back the entrepreneurs of the future. We are known for our groundbreaking approaches to supporting founders who are building solutions to emergent social, economic, and environmental challenges. We unlock critical social and financial capital for early-stage companies to maximize business and impact growth.

Since 2009, Village Capital has supported over 1,400 ventures that have raised over USD$5 billion in investment capital. We have made more than 150 investments through our various affiliated funds, including Vilcap Investments, which has invested in 110 peer-selected companies. Over 20,000 entrepreneurs have improved their investment readiness through our network of entrepreneur support organizations and our platform, Abaca.

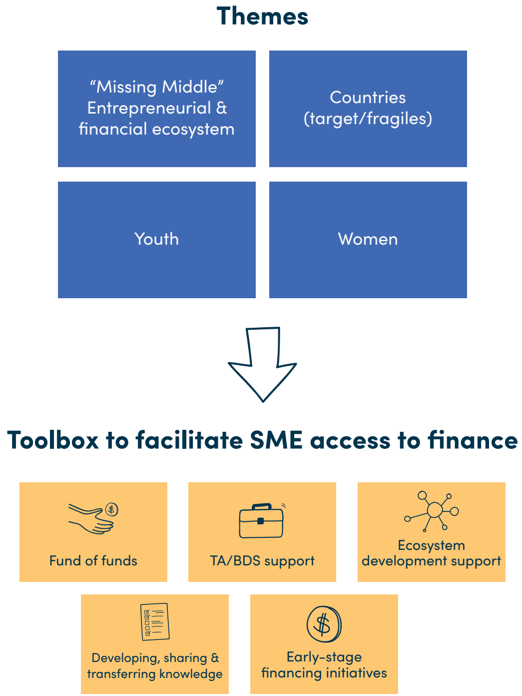
Village Capital has been active in the MENA region since 2018. In that time we have delivered eight accelerator programs, supported over 70 ventures with over 937 hours of mentorship. 15 startups have been peer-selected, from Egypt, Jordan Lebanon, Tunisia, Turkey, Palestine, and UAE. Our Financial Health Fund has made two investments, Chari in Morocco and Kader in Jordan. We've directly invested over USD$800K in capital, and our alumni have gone on to raise over USD$61 million in capital post program.

Learn more at www.vilcap.com and follow @villagecapital.

## Dutch Good Growth Fund

The Dutch Good Growth Fund, part Investment funds for local Small and Medium Enterprises (SMEs), is a “fund of funds” investment initiative from the Dutch Ministry of Foreign Affairs. The initiative aims to improve financing for the “missing middle” – i.e. entrepreneurs who have outgrown micro-finance but do not yet have access to regular financial services.

The Seed Capital and Business Development (SC&BD) program was established to increase the impact of the DGGF by providing technical assistance, seed capital and business support services to intermediary investment funds and local SMEs. The program incorporates a knowledge development and sharing component that supports research, tests assumptions and shares insights into financing SMEs in developing countries and emerging markets - fostering industry-wide knowledge exchange.




Dutch Good Growth Fund - Financing Local SME's

Part 2:

# Overview of the Study

## Scope and Methodology

This report presents a snapshot of the MENA region's early-stage venture ecosystem based on research interviews, a roundtable discussion in Dubai, and a review of relevant articles, databases, and reports on investment trends. The insights gathered come from over 50 key ecosystem players including investors, accelerators, incubators, development agencies, and entrepreneurs who were selected for input based on their industry knowledge, technical expertise, and experience with early-stage ventures. While the study is exploratory in nature and does not claim to capture the entire picture of early-stage investment in the MENA region, it provides valuable insights from direct quotes of ecosystem players operating within the region. With their identities anonymized to ensure privacy.

## Motivations for Study

We initiated this discovery process to kickstart our MENA Ecosystem Builders program. Since this is our first program of this nature in the region, we wanted to thoroughly understand its unique regional and national factors. That being said, we recognize that there is no one-size-fits-all approach to supporting entrepreneurs or building ecosystems.

Our specific objectives in this landscaping analysis are to:

1. Identify the existing gaps in technical assistance and deal flow that local incubators/accelerators could address;
2. Determine which incubation/acceleration approaches effectively support young high-growth entrepreneurs and facilitate access to early-stage financing;
3. Identify ineffective past approaches to entrepreneur support in the region and their reasons for failure;
4. Discuss the necessary innovations and remaining needs for accelerators to generate relevant deal flow for local early-stage finance providers;
5. Identify specific challenges related to startup talent access, segmentation needs, and the current economic climate;
6. Inform the insights report, program design, and call for applications for the MENA Ecosystem Builders program; and
7. Enhance engagement with key ecosystem stakeholders: VCs and early-stage risk investors, entrepreneurs and support organizations.

# *Why Ecosystem Building*

Village Capital has spent over 10 years improving access to capital for early-stage ventures across Asia, Europe, Latin America, Sub-Saharan Africa, United States, and the MENA region. The main challenges in providing financial access to high-growth potential ventures in the MENA region are consistent with those encountered in other regions where we operate. Including:

- Access to Finance
  - Limited funding sources for pre-seed, seed, and growth-stage capital alongside working capital;
  - Inadequate deal flow;
  - Pattern recognition and other investor bias;
    - Insufficient financial inclusion of women and youth;
  - Finance providers risk aversion.
- Talent
  - Limited access to employee talent;
  - Limited founder talent.
- Support Systems
  - Limited entrepreneur networks;
  - Limited access to quality mentors;
  - Limited support infrastructure (physical infrastructure and technology);
  - Misaligned incentives between actors.
- Market fragmentation
  - Limited coordination and collaboration amongst actors within national ecosystem;
  - Limited coordination and collaboration amongst actors regionally;
  - Regional regulation to support startup growth.

Although extremely challenging to overcome, many ecosystems have led the way and shown that with the right combination of actors, and capital progress can be achieved. There are evolving tried, tested and adapted good practices. One of these practices is to take an ecosystem-building approach.

## What is ecosystem building?[1]

It is creating an enabling environment for early-stage startups to thrive by unlocking critical social and financial capital. Focus on impact growth and driving systems-level changes that make impact investing more inclusive and empower a broader range of entrepreneurs.

Ecosystem builders prioritize clear communication and foster connections between entrepreneurs, investors, mentors, and other stakeholders. They play a critical role in building and strengthening the infrastructure of a supportive and collaborative environment that enables entrepreneurs to access the resources they need to succeed. Through their efforts, ecosystem builders help to drive positive social, economic, and environmental change, creating a more equitable and sustainable future for all.

1 We are largely informed in our thinking by the Kauffman Foundation's research on ecosystem building, inspired by evolutionary biology and ecology.

As we entered the exploratory phase, we recognized several conditions we have commonly found through our extensive programming in early-stage ecosystems where entrepreneurial ecosystem-building strategies have been effective in the past:

1. Increasing education levels alongside youth unemployment;
2. A rising number of Entrepreneur Support Organizations (ESOs) with similar offerings;
3. Accessible commercial and impact financing but not allocated to the pipeline of local ESOs;
4. Growing political interest in entrepreneurship, particularly digital innovation, as a tool for economic development;
5. Fragmented ecosystems lacking collaboration among stakeholders; and
6. Lack of segmentation of offerings and support for enterprises.

In the MENA region, the SME ecosystem financing gap is estimated by CGAP[2] to stand at USD$123 billion. This gap signifies the essential capital needed for growth, operational expansion, working capital for production, purchase order financing, and new asset acquisition. However, a catch-22 exists here: local ventures struggle to build their businesses without initial capital, while investors hesitate to invest in ventures that haven't proven they are ready to take on external financing.

Although the number of accelerators operating in the MENA region has grown steadily over the past few years, there remain significant financial and non-financial support gaps presenting opportunities for local accelerators to seize. It is a challenging time globally for early-stage investment. During these times of crisis, opportunity can be grasped, but organizations must be willing to be adaptable. As Charles Darwin said, "It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change."[3]

We don't claim to know it all, but we hope these next few pages will share some useful insights and potential gaps and opportunities that can be seized by the next generation of ecosystem builders in the MENA region.

## Note about segmentation

This report focuses on trends in the MENA region for ventures, using the segmentation framework proposed by the Collaborative for Frontier Finance (CFF)[4]. It is important to note that each family has distinct financing and support needs, and faces gaps in being able to meet those needs. The program focuses on ESOs supporting the distinct needs of these specific venture segmentation types:

High-growth and niche ventures are commercially viable businesses with 5 to 250 employees, significant growth potential, and ambition. They typically seek financing between USD$20,000 and USD$2 million.

High-growth ventures usually possess disruptive business models, targeting large markets. These ventures, often tech-based, have clear pathways to scale and exit prospects. Led by ambitious entrepreneurs with high-risk tolerance, they are suitable for venture capital, private equity, and venture debt investments.

Niche ventures offer innovative products and services targeting niche markets or customer segments. While these ventures aim to grow, they may prioritize goals other than scaling. Due to their more modest growth profile, niche ventures are better suited for impact investors, angel investors, local accelerators, and equity crowdfunding rather than venture capital.

Although the insights that follow are for ventures broadly, the MENA ecosystem builders program aims to work specifically with accelerators focused on youth-led entrepreneurship. As defined by DGGF, a youth-entrepreneur-led venture features entrepreneurs under 35 years of age where:

- >50% shares owned by young entrepreneur(s), OR
- ≥ 20% shares owned by young entrepreneurs, AND
- ≥ 1 young entrepreneur as CEO/COO; AND
- Has ≥30% of the board of directors composed of young entrepreneurs.

Part 3:

# Key Themes Impacting MENA Ecosystem in 2023

In this report, we emphasize the main trends observed across four aspects of ecosystem growth. These insights were selected due to their recurring presence in the interviews we conducted and during our roundtable discussion.

| Theme | Findings | Gaps/Opportunities |
|---|---|---|
| **Talent** | ■ More experienced professionals and university-educated young people are leaving a secure career or career paths to create or join early-stage ventures.<br>■ Tech layoffs in the region could be the next pool of venture founders.<br>■ The top ventures by funding raised are men from elite institutions.<br>■ One key distinguishing feature between successful accelerators and not successful is the quality of their mentor network. | ■ Experienced funds are building out their in-house capacity to help their portfolio to build their team.<br>■ Accelerators and funds can proactively create founders factory or entrepreneur-first style, programming, first find the talent then help them build a business.<br>■ Accelerators and funds can proactively recruit women and overlooked entrepreneurial talent for their venture programs.<br>■ Accelerators should level up their value proposition to entrepreneurs with quality mentors. |
| **Market Fragmentation** | ■ Reaching a sufficient size (number of customers, value of contracts etc) to deliver a return to investors in the MENA region typically means growing to multiple countries.<br>■ Markets are fragmented and highly diverse (currency, regulation, language, infrastructure) in the region making scale challenging for high growth ventures.<br>■ However, there are a rising number of case studies of ventures (e.g. Careem, Swvl, Fawry) that have proven that MENA growth is possible.<br>■ UAE and Saudi Arabia in particular have shown that top-down policies can escalate venture growth. | ■ Accelerators and funds who help their entrepreneurs land and grow in new countries will see better results.<br>■ Accelerators with knowledge of options for the ventures they support to be domiciled in entrepreneur-friendly markets may help them better fundraise.<br>■ Grassroots activism in less regulatory friendly countries can lead to results for entrepreneurs, examples include the Tunisian Startup Act. The development and adoption of which was led by ecosystem actors. |

| Theme | Findings | Gaps/Opportunities |
|---|---|---|
| **Access to Finance** | ■ Investors do not have the time (limited by 2% management fees) to source ventures and provide technical assistance.<br>■ Local expertise is still essential to building businesses in emerging MENA markets.<br>■ There is a scarcity of local affordable debt.<br>■ There is a growing trend of innovative financing mechanisms and Fintech for SME lending.<br>■ Venture Capital firms are still restricted by traditional time horizons that are often not suited to the realities of investing in emerging markets.<br>■ MENA is not immune to the current global economic climate, capital is more risk averse, more scare and more expensive. | ■ Accelerators need to think of investors as a customer. They are delivering an investable deal flow.<br>■ The accelerators who reduce the cost burden from early-stage investors in specific regards to deal sourcing and technical assistance will be filling a significant ecosystem gap.<br>■ Accelerators who are deeply engaged with potential customers and critical strategic partners will increase their venture success rate.<br>■ Accelerators need to ensure they have adapted their model to the local market requirements.<br>■ Accelerators need to be informed and connected to the financing options within their market for the segments of enterprises they support.<br>■ Increase the adoption of long-term fund structures that allow flexibility of exit time horizons.<br>■ Increase the use of alternative investment structures that allow more flexible time horizons like revenue sharing, quasi-equity structures and flexible debt products.<br>■ Increase the amount of risk-tolerant capital available at the early stages, examples could include recoverable grants.<br>■ Accelerators need to support their ventures to focus on the business fundamentals.<br>■ Accelerators need to support their ventures to adjust to the new funding landscape, including adjusting their timelines and expectations for fundraising. |

| Theme | Findings | Gaps/Opportunities |
|---|---|---|
| **Support Systems** | ■ Although the quality of services is increasing and there are a few leading organisations that profoundly understand their value to high growth ventures, there is significant work to be done on delivering value to enterprises.<br>■ Donor-funded acceleration programs are bound to measures and incentives set by donors that are often misaligned between the financing community, development community and entrepreneurs. Development community is reportedly prioritizing quantity over high-quality investment outcomes. | ■ Accelerators need to break away from a one-size-fits-all methodology and offer specific, tailored support that clearly takes ventures from a specific receiving stage to the next stage in their journey.<br>■ Donors need to include private sector leaders with experience building businesses in the program and incentivization design of accelerator programs.<br>■ Donors need to look at enterprise-level outcomes, such as jobs created, revenue generated, financing raised and livelihoods improved, not just the number of enterprises trained. |

This is an evolving conversation and we don't claim for this report to be presented as prescriptive or all-encompassing but rather inspiring and informative. There are areas of agreement and areas with differing ideas in this ongoing dialogue, and we've done our best to make these clear by quoting informants directly. The key point to remember when reading this is that these quotes have been provided by the very people building these ecosystems, and their perspective matters.

# Talent

Attracting founder talent has remained a historical challenge for the region. Entrepreneurship has historically been seen as a less prestigious and riskier career track than consulting or working in a corporate, finance or government role. Yet, trends indicate the talent pool of founders is diversifying and success stories have catalyzed a new profile of founders.

## *Venture Founders*

### Attracting founder/co-founders and critical hires remain a challenge

Obstacles to venture success are not limited to accessing finance but also challenges in assembling strong teams. However, the age-old predicament persists: it is difficult to attract a strong team without sufficient funds, and securing funding without a team can be equally challenging. Founders and investors report difficulty attracting talent away from stable salaried jobs with established corporations or the government to take a substantial risk on a venture. Meanwhile, individuals often have dependents, which makes starting or joining a venture financially unappealing. To address this challenge, experienced funds are now investing in portfolio support for talent, which can help founders build and strengthen their teams.

> “The current economic situation in Jordan is pushing people towards seeking job opportunities to be more safe and secure."
>
> Investor, Jordan.

> “Our biggest in-house technical assistance support for our portfolio is talent, and recruiting for the portfolio. As soon as the cash is in, we try to help them hire. We use it to bring in talent to the portco, but also as a pipeline generator for ventures."
>
> Investor, Egypt.

## but the landscape is changing, and a new breed of Startup Founder is in the mix

High profile fundraising rounds and successful exits from the last five years have drastically changed the profile of entrepreneurs joining the ecosystem. Across our interviews with investors, we heard of two new founder profiles:

- **Seasoned professionals with industry expertise.** Investors are seeing industry experts - people who've been in an industry for 10+ years - branching out to start their own ventures. Investors find this trend very promising. As these individuals have deep-rooted understandings of industries, they know the players and know the problems inside-and-out.
- **University-educated big dreamers.** Investors are seeing an increase in the number of people coming from elite institutions looking to make it big and ready to take risks. Success stories from ventures like Careem and Fawry inspire the big dreamers and high achievers to build ventures of their own. The ecosystem needs more success stories to continue to build out this pipeline of talent.

> “There has been a lot more funding in this region than exits. Entrepreneurs take pride in how much funding they've raised, and it's been enough to attract some very talented people to entrepreneurship. A few years ago, I was talking to someone at Vodafone who we wanted to recruit into one of our startups. 'What will I say to my father-in-law?' he asked. In the past few years, this mentality has changed. There's been more capital raised and more success stories."
>
> Investor, Egypt.

> “Education and the value of entrepreneurship are lacking in Jordan, while in Egypt for example, many people are leaving safe jobs to start startups. This is largely due to the mega-rounds and successful exits happening.”
>
> Investor, Jordan.

> “In Egypt, the attraction is improving for younger and more driven people. We've seen some serious talent. Not interested in multinational, banking or consulting companies”
>
> Investor, Egypt.

> “We are noticing there are a lot more experienced founders entering the scene. They are coming out of industry or from other successful startups.”
>
> Investor, Egypt.

> “The DNA of the entrepreneur in the region has changed. It used to be very early-stage, haphazard and risky. Now, it's being democratized. Media hype, young folks and government initiatives have energized the space. Expats moving in have brought more entrepreneurs with them, and the age of entrepreneurs is becoming younger. Folks from successful startups are leaving and starting their own ventures. They are talented. The diaspora is starting ventures. Failed or successful entrepreneurs are starting their new ventures. The talent pool of founders is growing. These success stories in the region help.”
>
> Investor, MENA, Dubai Based.

## Tech layoffs could bring the next generation of venture founders

Repeatedly, it has been demonstrated that working in a scaled technology business can serve as a breeding ground for future startup founders. Investors have highlighted the influence of Careem on the profiles of startup founders with many departing the venture-backed startup to launch their own spin-off companies. Similar patterns have been observed in other markets, to name a few Jumia[5] in North Africa, Andela[6] in Nigeria, and Infosys[7] in Bangalore. This phenomenon also extends to large technology companies, such as Google and Microsoft. Given the recent global trend of job redundancies in big tech and Facebook's Meta November 2022 announcement to cut 11,000 jobs included many in the MENA[8]. Some investors believe that the startup ecosystem could witness a new wave of founders emerging in the coming years.

> “Tech layoffs will lead to a breath of fresh air, new entrepreneurs coming into the scene.”
>
> Investor, MENA.

# *Overlooked founders*

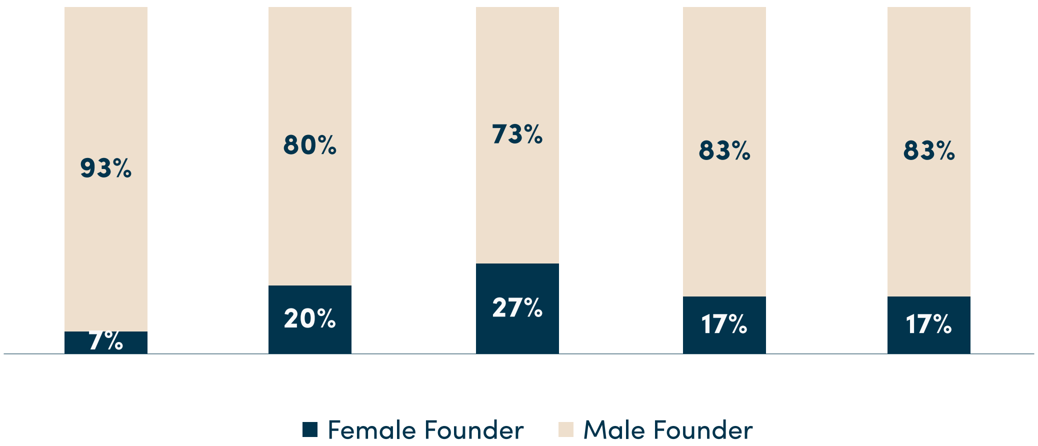
The issue of demographic targets when it comes to founder demographics was a contentious issue in our interviews and roundtable. Some investors felt that the focus should be solely on whether a founder can establish a profitable business that generates jobs and a return, and not on their profile. Conversely, others contend that we need to focus on ensuring that women, youth and entrepreneurs who did not go to elite institutions for education are not overlooked.

In order to better understand founder demographics, we analyzed a dataset of the top 30 ventures in terms of how much they have fundraised from Egypt, Jordan, Lebanon, Palestine, Morocco and Tunisia[2]. The raw data was extracted from the CrunchBase database[9], which does not include undisclosed deals/amounts.

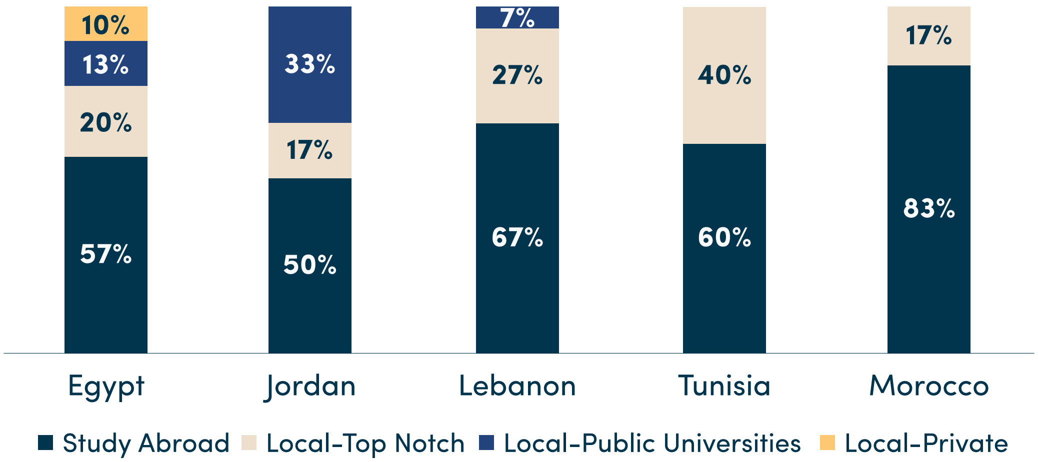
On average, we found female founders represent 18% of the ecosystem across the five countries with the highest contribution going to Lebanon where the female founder represents 27% of the top 30 Funded ventures; Egypt is the lowest in our sample, with only 7% female founder in the top 30 funded in Egypt ecosystem.

2 Unfortunately, there was not sufficient data available to include Palestine in analysis.

### Male vs. Female Founders




### Founders' Academic Background




In our analysis of the top 30 funded ventures, the data shows that at least 50% of founders have completed their studies abroad. This percentage reaches its peak in Morocco, where 83% of founders studied abroad. In the best-case scenario, founders who graduate from public universities represent 40% of top-funded startups in Tunisia, but this is an outlier in the region, the regional average is just 20%.

This data set indicates that funding is skewed towards founders from privileged communities. This is a common theme in early-stage ecosystems as oftentimes people from privileged backgrounds are more likely to be able to sustain the financial risk and burden of the first few years of an early-stage venture. Social capital - networks of mentors, and access to angels and other high-net-worth individuals - is also often more available to entrepreneurs from higher socioeconomic backgrounds. In addition, they are more likely to be able to attract talent from similar academic and social backgrounds.

This is not to say that it is only founders from privileged backgrounds founding ventures in the MENA region. As Village Capital has seen from the applicant pools of 1000+ entrepreneurs in the region, there are entrepreneurs from diverse backgrounds also pursuing this route.

## Some push to focus on returns, founder profile is a non-issue

There is a sentiment amongst some institutional investors and traditional venture capitalists to not focus on founder nationality or other demographics such as gender, ethnicity or level of education at this critical stage in ecosystem development. They argue that it's distracting, and the venture capital model needs first to be proven in the region. Once the region has funds that have fully matured with a virtuous cycle including exits and the return of capital into the startup ecosystem, then they say "we [the investor community] can look at diversity".

> "Half of my portfolio is not local founders. Half of that is not Arab founders. And I don't see a problem with that because they're creating jobs. In the GCC (and beyond), local founders are not an issue. It's about creating jobs and generating a return for investors."
>
> Investor, MENA.

> "I focus on investing in people, no matter what gender they are. I don't like to look at it as a criterion. Quotas are usually not that effective."
>
> Investor, MENA.

> "The idea of target entrepreneurs is dangerous. It limits the pipeline and perpetuates bias. Even positive bias around things like gender isn't intentional in the region. Most VCs have entrepreneurs approach them, and consider diversity as an afterthought. Demographics aren't really a consideration. There is major cynicism around getting X number of women, youth, etc. They think it's all for the story."
>
> Investor, MENA.

## Others argue the business case for diverse founders

Many of MENA's emerging markets investors report it's difficult to fully grasp the business opportunity in the region unless you've experienced the problems facing the region first-hand. That's why it's important to have founders who truly understand these markets and are either from the markets they serve or who have extensive lived-in experience there. These investors consider founders especially interesting if they have been in industry for a while and identified a problem while working.

Pattern recognition is another common theme in early-stage investing. Here, investors rely on shortcuts to quickly identify deals they want to spend time on. The issue with pattern recognition is it often results in investors chasing the same deals and leaving plenty of unobvious outliers on the table.

The pattern recognition is most starkly seen when it comes to gender financing. It's disproportionately harder for women entrepreneurs to raise capital than their male counterparts. In 2022, just 5% of funding[10] went to female entrepreneurs in MENA. The gender financing gap is not unique to the region. Globally, female founders attract around 2% of available funding.[11] Contrary to common misconceptions, research has found that women-led startups' quality, investability, and availability are not the issues in obtaining funding.[12] This highlights the likelihood of a pattern recognition bias, and points to a need to innovate in sourcing and capital allocation systems.

Some investors we spoke to cited the need for more female-led funds in the region. IFC research from over 700 funds found that gender-diverse investment teams make more investments in women-led ventures and generate 10%-20% higher returns.[13] Women-led funds are also 2x more likely to invest in female founders.[14] The investors we spoke to reasoned that women better understand the investability of predominantly female markets, and that more women joining VCs in the region will work to lower the gender disparity in financing.

> "The VC ecosystem in MENA is mostly composed of investors who have American or Western educational backgrounds. It creates a cultural gap between investors and the majority of the founders in the MENA startup ecosystem. This cultural gap may sometimes hinder the chance of founders from different (non-American or Western-educated) backgrounds receiving investments."
>
> Entrepreneur, MENA.

> "Most VCs here, they call other investors. This leads to certain entrepreneurs being overlooked, as they are not visible and not well connected."
>
> Investor, Jordan.

> "When [company now valued at over USD$1B] first pitched to us, we didn't really understand the magnitude of the problem they were solving. Until we went to Egypt. Until we saw firsthand the problems facing consumers. We invest in transformational businesses, and to understand the magnitude of the problem, it's all about experiencing these issues."
>
> Investor, Jordan.

> "Startups around here, it's a rich person's game. Only privileged people who can spend 2-3 years without an income are the ones building startups."
>
> Investor, Palestine.

# *Mentor Talent*

The MENA ecosystem is growing, yet investors and entrepreneurs report a talent gap in mentorship. How can local enablers ensure the best mentors, most often seasoned entrepreneurs and investors, feel their time is well spent supporting startups?

## Mentorship in a growing ecosystem

Although the rate of entrepreneurship within the MENA region continues to grow, the ecosystem is still fairly nascent, and there is not a sufficient supply of seasoned entrepreneurs who can mentor new startup founders or join venture capital funds. In a 2018 report by Endeavour[15] on building productive ecosystems, they found that one of the single largest determinants of whether a venture scaled was support and investment from entrepreneurs that led businesses that had previously reached scale. Accelerators like Y-Combinator do this the best, recruiting successful alumni to return as mentors for the next cohort of innovative entrepreneurs with fantastic results.

> "As investors, we need to ask ourselves when giving advice to entrepreneurs, have we earned the right to give people feedback? Then decide if we want to mentor."
>
> Investor, MENA, Round Table.

> "We have a lot of founder-focused content, perhaps we need to think a little bit more about the trainers and the mentors and the kind of coaching they are getting, making sure that the people who are helping are better equipped to deal with the needs of early-stage businesses."
>
> ESO, Roundtable.

## The potential role for ecosystem enablers to improve access

In our roundtable discussion in Dubai, numerous investors and enablers emphasized the importance of equipping mentors and trainers with the necessary skills to effectively support early-stage entrepreneurs. Through interviews with early-stage venture capitalists, we learned that one of the distinguishing factors between a successful accelerator and an unsuccessful one is the level of preparation for mentorship and investor sessions. Mentor/investor participants are more likely to engage if they feel their time is being utilized effectively, but may not return if they feel that the enabler has not invested enough effort in preparing them for interactions with ventures. As such, the time spent is not meaningful to them or the entrepreneurs.

> "The method we find the most helpful when supporting founders to grow to a new market in MENA is to connect them with a founder who has already done it."
>
> ESO, UAE.

> "The connections need to be high touch, so we feel like our time is being used well."
>
> Investor, UAE.

> "The accelerators that stand out - they really look at the companies and match them with very good mentors. They ask for real, tangible feedback on models. They have entrepreneurs sit with investors and angel investors coming to write checks, it's really effective."
>
> Investor, Jordan.

# Market Fragmentation

Investors agree that scale in the MENA region requires growth in multiple countries. Successful unicorns Careem, Jahez, Anghami, Swvl, Kitopi and Fawry prove it can be done, yet cross-market regulation is still a huge challenge for ventures in the ecosystem.

## Years of tech-first entrepreneur-friendly policy paying off

The UAE, Bahrain, Saudi Arabia and Egypt notably have led the way in developing simplified registration processes and regulatory sandboxes. One example is the development of fintech solutions developed in government backed Fintech Sandbox which reduce the regulatory requirements other financial institutions would need to meet in order to allow for innovation. In addition, the region has seen a rise in free zones with business-friendly policies, tax incentives for investors and minimal restrictions on forex and capital repatriation. Additionally, national-level, government-backed private equity SME funds have set top-down targets for fund managers to invest in SMEs.

> "The UAE and Saudi Arabia are building an ecosystem that took 30 years in the USA in 5 years, and they are succeeding."
>
> Investor, GCC, Dubai based.

## Yet regional growth remains a challenge

The region continues to see more venture capital going to ventures that will be expected to scale. Although there are some markets with large populations such as Egypt (109M)[16] the majority of startups will need multi-market penetration to reach a large enough market share to generate return profiles suitable for VC financing. Entrepreneurs, investors and enablers all shared the same sentiment that navigating differences in currency, regulatory requirements, language and laws remains a significant hurdle to regional growth. Growth appears to be easiest between UAE and Saudi Arabia. Yet, Careem, Anghami and Fawry have proven growth to North Africa, specifically Egypt, is both possible and good for business. Investors emphasized the necessity for funds, LPs and Development Financial Institutions (DFIs) to begin thinking and behaving regionally.

> "Working across the UAE is very easy, but working cross-border in the region is tough and a lot more can be done on that front, especially through governments."
>
> Entrepreneur, UAE.

> "More corridor access is needed. MENA consists of 30 countries, so startups need to deal with 30 separate countries (legal, financial and commercial landscapes). We need something similar to what Singapore did: a license that allows companies to operate in 9 countries."
>
> Accelerator, MENA.

> “We talked a lot about the importance of having a regional focus instead of having a country-specific focus. We need to create corridors between countries. Obviously, governments have a critical role to play in corridors, but accelerators need to also talk to each other and to connect entrepreneurs from different countries.”
>
> Accelerator, MENA.

## Call for DFIs and Ecosystem Players to fund and think regional with caution to remember local differences and expertise

Local LPs and GPs, when asked what role DFIs should play, made a call for investing in funds with regional mandates. Meanwhile, investors and entrepreneurs alike stressed the importance of incubators and accelerators responding to the regional focus of startups in order to support growth and attract the best companies.

> “We know how to advocate locally, but we need to raise funds regionally to be able to make a difference. To help lots of different entrepreneurs we need much larger funds. Investing regionally is expensive. I used to live in San Francisco and Silicon Valley. You could manage the whole world just from one office on Sand Hill Road. I mean, we used to call Los Angeles cross border. This region is more expensive to operate in, at least from a financial perspective. The question is, can the DFIs help us fund regionally? If so, we will take care of the local context.”
>
> Investor, MENA.

> “A lot of needs across the region are common, cultural challenges are common, language is common. MENA should be seen as a single region, a country-specific approach does not work well here. Individual markets are not big enough. Market access is important to everyone (mentors, investors, entrepreneurs). It’s important to think of the region as a region, not clusters or countries. We’re in need of an answer to how we, as an ecosystem, can support cross-border access to resources and talent.”
>
> Investor, MENA, Roundtable.

> “Yes, we think regionally but we need expertise in each country and know how to navigate it.”
>
> Investor, MENA.

# Access to Finance

In the MENA region, there is a significant shortage of early-stage, pre-Series A funding options available. In more developed ecosystems, this highly risk-tolerant and flexible capital is typically provided by family and friends, business angel networks, venture capitalists, and alternative lenders. Investing in early-stage ventures is difficult and expensive worldwide, mainly due to high transaction costs, the need for portfolio support, low conversion rates from sourcing-to-investment, high failure rates, limited access to follow-on financing, restricted exit options, and significant risks related to foreign exchange and interest rates. Nonetheless, even with these challenges, a rapidly evolving and expanding group of early-stage investors is emerging in the MENA region who have proven and continue to prove the venture case for the region.

## The early stage fund model makes it difficult to sustain deal sourcing and technical assistance burden

The 2/20 fund model, typical to VC funds: 2% management fee and a 20% performance fee on invested capital, may curtail the amount of technical support that funds can offer to early-stage entrepreneurs. In nascent ecosystems with fewer entities supporting entrepreneurs, sourcing, due diligence, and technical assistance can pose a significant burden on early-stage funds. This presents a significant opportunity for ecosystem players to bridge this sourcing and support gap.

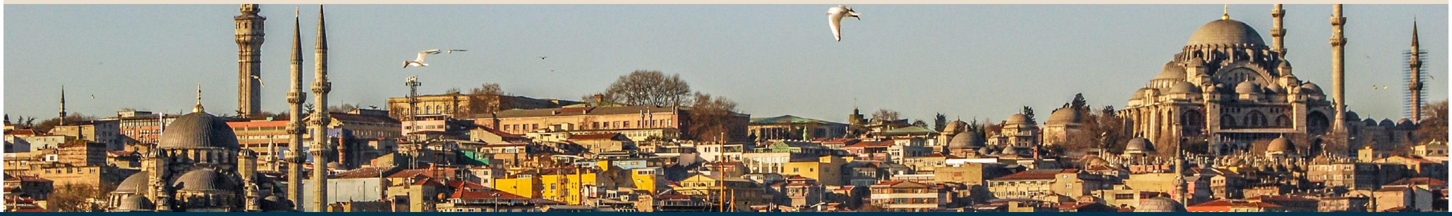
Several investors mentioned that, given the challenges involved in building a business, they primarily focus on the founders when sourcing deals. Specifically, they evaluate whether these individuals possess the skills and resilience necessary to navigate the inevitable hurdles coming their way.

"We are a team of two. Early-stage investing is very expensive, especially if you are doing the hand-holding yourself. We were seeing good companies with good founders, and we thought we could outsource some elements of support to local accelerators, but in the end, they didn't add enough value."

Investor, MENA.

"Since day one we've been a founder-focused VC - we focus on the people. We get to know the founder, visit them at home and meet their family. It's kind of like a family. We Identify people who are visionaries, who are hungry, who actually want to transform the ecosystem."

Investor, Jordan.



## You have to be there, you have to show up and you have to be ready to understand the local context

Building a business in markets like Egypt, Jordan, Palestine, and Lebanon is not the same as the Silicon Valley model of Venture Capital.

To identify business opportunities in these markets you need to understand the problems, the business models that work, the infrastructure and the financing needs. Expecting the low-asset software solutions or copycat solutions to work is not realistic, investors need to understand where they might need to build on either side of the core business to make it work.

> "We are seeing fewer copycat companies in the region. People need to solve local problems with local needs with local solutions. This cut-and-paste thing doesn't work. The economies are so different."
>
> Investor, MENA.

> "We do checks on behalf of our portfolio companies. We randomly call suppliers. We're really hands-on to understand the magnitude of the problems facing ventures."
>
> Investor, Jordan.

> "We didn't learn from our successes, we learnt from our failures. For example, for some of our businesses, the logistics infrastructure just wasn't ready, so then we invested in companies building the logistics infrastructure. From past experiences, we learn where the inefficiencies are."
>
> Investor, Jordan.

> "We were never under the illusion that asset-light would work. The infrastructure is not there completely. There will always be some holes. You will have to build some of the infrastructure. There are some brick-and-mortar components to the operation. We do not dislike this, actually. It creates more value."
>
> Investor, Jordan.

> "We still learn from what's succeeding globally. Especially in Asia where the markets are similar."
>
> Investor, Jordan.

**Innovative early-stage financing on the rise**

Venture debt in the region has shown significant growth in 2021 and 2022, yet it remains less than 10% of total funding in MENA. Traditional debt is off the table in the near term due to the nature of financing regulations in the region. However, there is a growing trend to introduce new solutions such as invoice factoring and revenue-based financing enabling startups to have alternative funding sources outside of traditional debt and equity investments.

## Venture debt in local currency is not an option for us

Venture debt is a type of loan offered by lenders to early-stage companies that is more flexible than a traditional loan, does not dilute ownership and typically compliments equity financing. While the flexibility of venture debt is appealing to founders, it can be challenging to repay venture debt when issued in markets where the currency is volatile and is more common in countries with strong forex reserves. When the local currency weakens compared to the currency of external investment in an emerging market, debt can multiply fast. This can be devastating to early-stage startups. While some venture debt is offered in local currencies by government entities such as the Egyptian Micro, Small and Medium Enterprises Development Agency (MSMEDA), there is not enough available to support the entire ecosystem and such agencies are usually more suitable for SMEs than startups.

> "While we know that USD debt can hurt companies that operate in countries that face volatility in currency, we do not have the appetite for launching local currency debt funds. We are raising our funds in USD and are committed to investing in the same currency. DFIs and the government must provide a financial solution to hedge the currency if we need to see growth in this area."
>
> Investor, MENA.

> "There aren't really debt facilities to support portfolio companies. We need debt for working capital to generate positive unit economics, and that means we need debt in local currency. Venture Capital tends to operate using dollars. We invest in dollars and expect returns in dollars. It's very hard right now to take on debt in dollars, especially in countries struggling with currency volatility."
>
> Investor, Egypt.

## Potential for new financing tools

At the 'Rethinking the VC Model' panel held during the Step Conference in February 2023 in Dubai, there was a recognition of the shift towards alternative methods of financing beyond the conventional VC equity, such as revenue-based financing, invoice factoring, and quasi-equity financing, shares Mohamed Radwan, Investment Analyst, Village Capital As well as the rise in Fintechs who are providing alternative financing options to SMEs that are too small for commercial banks and traditional lenders. Additionally, there was an acknowledgment of the potential for corporates to serve as a source of funding through partnerships or as clients, whether as corporate ventures or in terms of revenue. Although crowdfunding has shown some promise in the region, it is still in its early stages, with examples such as Liwwa in Jordan. Recent legislation in the UAE legalized crowdfunding in the UAE, and a crowdfunding law is currently under review for approval in Egypt.

> "Traditional debt is not an option for most startups as the law only allows them to have access once they have a profitable P&L for at least two years, which is not the case for most startups. In the UAE, banks have constraints on non-citizen loans and most founders are not local. This pushes some of the lending startups to use their equity in working capital finance."
>
> Entrepreneur, UAE.

## Traditional debt is in a dilemma

Only a few companies have access to traditional debt, and they have it through a structured product such as Blnk that issues a securitization bond backed by their portfolio. One theme we heard from entrepreneurs and investors alike was the challenge of limited debt availability. This often forces entrepreneurs to raise equity or use equity financing to pay for things which in mature ecosystems credit would be more suitable for. This leads to issues with founder dilution and less capital for value-addition activities.

> "Startups are raising equity to pay for something debt should pay for."
>
> Entrepreneur, UAE.

> "Even fintechs lending to SMEs are lending off their own balance sheets using equity funding."
>
> Entrepreneur, UAE.

## MENA not immune to global downturn

The leaked 'Founder All Hands' slides from Sequoia Capital, titled "Adapting to Endure", had WhatsApp groups buzzing in May 2022 with the message that in order to thrive in the upcoming period it was essential to confront reality and make decisive adaptations. Rachel Crawford of Village Capital shares, "this sentiment was echoed by speakers from 500 Startups, Access Bridge Ventures and Dash Ventures at the February 2023 STEP conference in Dubai who warned that while things have been going well the future will be tougher and raising capital will become more challenging for startups in all sectors."

This is especially relevant for companies that raised funds during the peak period of Q1 2022 as their runway will soon be coming to an end. Local investors have cautioned startups that high-risk experimental international capital is becoming less available, and even local family offices are focusing on their core portfolios and geographies. Investors predict a potential increase in the number of down-rounds and more bridge rounds using convertibles to protect valuations and cap tables.

> "It's a nascent ecosystem. It can be a bit more turbulent. In 2021, US and global investors were throwing money our way. When things tightened, they pulled out completely. They look at companies where they can jack up the valuation. Once the liquidity dries up, they go back to their core markets and focus on their portfolio. It's up to the local investors to keep things going."
>
> Investor, Egypt.

**Startups are encouraged to focus on the fundamentals and plan longer for fundraising**

Michael Moritz, Chairperson of Sequoia Capital, began the now infamous 'Founders All Hands' with a simple message "recognise the moment, expand runway, become a business." Rachel Crawford of Village Capital heard Aboudi Al-Qattan of Dash Ventures share a similar sentiment on a panel at STEP, "Although the pipeline has improved, entrepreneurs are still not as prepared as they should be. As capital becomes harder to raise, they have to focus on profitability, and have to focus on the fundamentals of the business and get better at pitching to investors." The sentiment was shared by fellow panelist Issa Aghabi of Access Bridge Ventures, another early-stage fund, "I'm optimistic. But the most important thing is to know your business. Know your fundamentals."

# Support Systems

Accelerators and incubators can have a mutually beneficial relationship with investors as they provide a pipeline while investors offer capital. However, investors report it's a mixed bag and many still struggle to deploy capital into their pipeline.

## What's working in entrepreneur support

The feedback we heard consistently from investors was that the accelerators and incubators who do it well focus on high-touch efforts to connect investors and startups. The second most consistent feedback we heard was that the accelerators who really add value either bring in high levels of technical skills or have it on their teams. The startups are receiving hands-on support with models, business fundamentals, go-to-market strategies, and their products. The ones who succeed are specialized in certain skills that add a lot of value.

They also added that consistency and remaining top of mind is very important. It needs to be clear to other ecosystem players that you are invested in the ecosystem.

“It must be high touch. Investors feel like their time is being used well.”
Investor, Roundtable, MENA.

“We need venture building rather than acceleration.”
ESO, Roundtable, MENA.

“Real tangible feedback on models. Excellent mentors. They really add a lot of value”
Investor, Roundtable, MENA.

“There is something important about consistency. Remaining top of mind. The Accelerators who are intense/high-intensity/presence.”
Investor, Jordan.

“Pipeline and deal flow is still a challenge. Quantity and quality are important. Accelerators need to help investors find pipeline.”
DFI, Roundtable, MENA.

## What's not working

Investors said many organizations are well-intentioned but still need to get clear on their value-add. They need to clearly understand and adhere to the stage they are receiving the startups, point A, and where are they taking them to, point B. One size fits all doesn't work.

Another piece of consistent feedback was that donors need to re-evaluate the role they are playing, specifically what's being measured, and how the organizations they are funding are being incentivized.

Development partners emphasized the need for accelerators and entrepreneur support organizations to become the experts and build on the trends so they are developing the right kind of programs.

### Value

"Value add not defined. The startups even don't understand what is the value add."

Investor, Jordan.

"They don't have a clear picture of what their value add is"

Investor, Jordan.

### Misalignment

"Incubators are incentivized in the wrong way."

Investor, Palestine.

"Value for Money - nobody is looking at funding, no one is looking at longer-term outcomes."

Investor, Palestine.

"They are measuring the wrong things. They focus on the number of entrepreneurs or demographics but not the outcomes."

Investor, Palestine.

### Shifting Needs

"ESOs and accelerators need to take responsibility to create awareness of trends and emerging sectors that will be critical. They need to be ahead of trends so that they can create programs around this. Before connecting startups with corporations or other funders, accelerators need to raise awareness around trends."

DFI, Roundtable, MENA.

# High-Level MENA

## Looking back at regional growth

Over the last five years, the MENA region's investment landscape has boomed. MAGNiTT's 2023 Emerging Venture Markets Investment report[17] shows just five years ago in 2018, total investment in the region was USD$863M. By 2022, that number has grown to USD$3.2B. The UAE, Saudi Arabia and Egypt lead the region with the largest numbers of deals and investments. Saudi Arabia alone saw a 72% increase in funding in 2022, settling at USD$987M, a record for the country[18]. Governmental support in the form of regulation and sovereign wealth funds has spurred growth in key markets, alongside a general shift in excitement around the opportunities for entrepreneurs to build venture-backable companies in the region.

We collated and analysed data from MAGNiTT, Wamda, Briter Bridges and Crunchbase to give the following high-level snapshot of deal activity.[8, 16–20]

| 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|
| Total funding: **USD$863M** Number of exits: **23** Number of deals: **479** | Total funding: **USD$923M** Number of exits: **41** Number of deals: **600** | Total funding: **USD$1,069M** Number of exits: **16** Number of deals: **554** | Total funding: **USD$2,912M** Number of exits: **41** Number of deals: **679** | Total funding: **USD$3,153M** Number of exits: **70** Number of deals: **627** |

**Significant Deals**

| | |
|---|---|
| Fawry | The Egyptian e-payments Fawry became the country's first unicorn in 2020 after an IPO in 2019. Just six months later, Fawry was valued at USD$2B. |
| KITOPI | The cloud-kitchen platform Kitopi emerged a unicorn after raising USD$415M in a Series C round from Softbank Vision Fund 2, one of the largest funding rounds in the region. The UAE-based venture is valued at USD$1B. |
| stc pay | Digital payment solution STCPay became the region's first fintech unicorn and Saudi Arabia's first unicorn in 2020 after a USD$200M investment from Western Union. |

### Significant Deals

| | |
|---|---|
| Careem | The UAE-based ride-sharing platform Careem was the region's first unicorn to exit when acquired in 2019 by Uber for USD$3.1B. |
| SOUQ.com | In 2017, the UAE-based e-commerce platform Souq was acquired by Amazon for USD$580M. |
| swvl | Egyptian-born and UAE-based Swvl, a mass transit app, became the region's first unicorn to list on NASDAQ upon merging with U.S. SPAC Queen's Gambit Growth Capital in 2021, with the venture valued at USD$1.5B. |

### MENA's Most Promising Sectors

| | |
|---|---|
| **Fintech** | Fintech is a powerhouse in MENA, representing 29% of funding in the region in 2022. The sector is bolstered by initiatives introduced by regional central banks to boost financial services and provide sandboxes that reduce regulatory barriers.[16] |
| **Transport & Logistics** | Transport and Logistics represented 15% of total funding in 2022. The COVID-19 pandemic unearthed major gaps in a critical sector for the region. Despite the importance of production in MENA, current solutions lack in quality and reliability. This creates space for innovative new players and vertical investments that support other startups in a portfolio.[16] |
| **E-Commerce** | E-commerce has experienced tremendous growth in MENA and the sector claimed 11% of total funding in 2022.[17] It is reported that 91% of consumers in MENA shop online, with 52% claiming their online shopping habits increased in 2021. |
| **Agritech** | In the interest of improving the region's food security and reducing dependencies on food importation, the MENA region has seen a rise in Agritech. The food and beverage industry was the fourth most funded sector in 2022[16], largely due to Foodic's USD$170M raise.[19] |
| **Health Care** | Claiming the fifth most number of deals in 2022 was healthcare. The sector is very much still growing, with the median value of deals still below average. Healthtech companies in the MENA region have a combined value of USD$1.5B, growing 22x since 2016.[21] |

# Conclusion

In collaboration with key partners, the Village Capital and Dutch Good Growth Fund ecosystem-building initiative has identified critical challenges and opportunities in the MENA region's early-stage venture ecosystem. Addressing access to finance, talent, market fragmentation, and support systems will foster innovation and collaboration and build an investable pipeline of early-stage youth-led high-growth and niche ventures.

This report underscores the importance of ecosystem builders - accelerators, investors, and private sector leaders to work collaboratively to bridge the financing gap, promote inclusive talent recruitment, support cross-border scaling, and improve the quality of support systems for entrepreneurs. By sharing the perspectives of those actively building the MENA ecosystem, the report seeks to inspire stakeholders to pursue collective efforts in driving the region's entrepreneurial potential towards sustainable growth and prosperity.

We intend to apply our extensive learnings from this report to the design and implementation of our MENA Ecosystem Builders 2023 program. This program which will be open for applications until 30 May 2023, will work with locally-led entrepreneur support organisations (ESOs) based in Egypt, Jordan, Lebanon, Morocco, Palestine and Tunisia to bridge the support gap for early-stage ventures and build networks across the region.

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