



PROMOTING ENTREPRENEURSHIP IN MENA: A CATALYST FOR A SUSTAINED AND INCLUSIVE RECOVERY FROM COVID-19

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What's at Stake?

Academic and policy-based research demonstrates that women and youth in most Middle East and North Africa (MENA) countries face legal, regulatory, and socio-cultural barriers to entering the formal labor market and generating income. The economic role of MENA women and youth is vital, as they represent the demographic majority and are [highly educated](#). Nonetheless, they control fewer assets than men.¹

Entrepreneurship can be a viable alternative for MENA women and youth because of its prestige in the region and its ability to catalyze inclusive growth.² Women and youth, however, are less likely to own small businesses and experience greater difficulty in starting and sustaining them. MENA women have lower entrepreneurship rates than men and this has been trending downward over the past decade despite increases in *overall* entrepreneurship rates. This brief draws on research and evidence to formulate policy advice on how support for entrepreneurship can enhance the economic security of women and youth in what will be a slow and painful post-pandemic recovery.

1. Women and youth have some shared realities as demographic groups that have least access to formal economic labor markets, but there is great variation between them, and this brief acknowledges that the intersectionality of both groups is important to devising better policies.

2. National and regional data shows strong support and respect for entrepreneurship; however, this varies between countries and within countries.

Prior to the pandemic, extreme poverty was trending downward globally, except in MENA. Extreme poverty in general is likely to worsen as the COVID-19 pandemic persists. The pandemic has compounded the pre-existing economic hardship of both women and youth (age 15-24) in MENA, although individuals in some countries are faring better than others. The MENA region faces rising unemployment, declining household incomes, and deteriorating livelihoods. Furthermore, countries like Iraq, Jordan, and Lebanon are hosting [millions of refugees](#), and Syria and Yemen have a significant portion of their population internally displaced. The prospects of a very uneven two-speed global economic recovery and rapidly rising public debt will limit MENA governments' spending on social protection for their citizens and refugees alike. As a recent [World Bank report](#) notes, the MENA region is expected to face rising poverty, exclusion, inequality, food insecurity, and growing gender divides.

The Political Economy of Protest, Violence, and Extremism

A decade on, the drivers of the Arab Spring, such as youth unemployment, worsening socioeconomic conditions, and dim future prospects, have not been addressed. As noted, the pandemic has only worsened these regional trends. Considering that life satisfaction in MENA was falling over the past decade while the global average was rising prior to the

pandemic, the prognosis for MENA's current political instability must be considered as part of recovery support efforts. It is notable that a majority of MENA academic experts ([76% of 1,293](#)) believe that the region is still in a state of protest or will experience another mass wave of protests within the next 10 years. Indeed, many young people recently [surveyed by Arab Barometer](#) have continued to say they have lost trust and confidence in their governments.

Research suggests a correlation between [higher economic security and lower rates of conflict](#). Moreover, [inclusive governance](#) that promotes transparency and accountability demonstrably improves economic performance. Inversely, corruption and loss of public trust in governments exacerbate political instability and economic stagnation. Hence, regional specialists concur that the Arab Spring was an [expression of discontent](#) with governments' economic policies, which led to unequitable wealth distribution, stagnant social mobility, and the ascent of oligarchic crony capitalists. In essence, a strong and widespread societal perception of [economic and political exclusion](#) can contribute to conflict and unrest; when people perceive their prospects of [economic security to be deteriorating](#) and they lack hope that things will improve, they are prone to unrest, violent conflict, and protest. This was a [contributing factor](#) to the Arab Spring.

While academic studies show that [economic insecurity](#) can lead to youth (and wider social) protest, it rarely explains radicalization and [violent extremism](#). Nonetheless, youth perceptions of governments being unjust and corrupt can partly explain radicalization; for example, many ISIS members were attracted by its perceived moral clarity and commitments to economic justice. Disaffected youth who blame the state for their economic insecurity are a powder keg and need more attention from global and regional actors. Improving the livelihood and economic security of women and youth can mitigate civil disorder and stem irregular migrant flows. Moreover, [women's economic empowerment](#) improves their agency and advances women's rights, promoting economic growth and inclusive governance.

Entrepreneurship among women and youth can be a pathway to the prevention of conflict and inclusive growth. Entrepreneurship can help improve inclusive governance by disrupting rent-seeking crony capitalism whereby

economic elites have been protected by political authorities.³ Entrepreneurs push for liberalizing the regulatory environment and removing rent-seeking advantages that insulate crony capitalists from free market forces. Enhancing inclusive governance can mitigate against political instability and radicalization by promoting transparency, reducing corruption, and raising people's hope for a better future. As the joint U.N. and World Bank *Pathways to Peace* report aptly notes, preventing conflict and instability is not only a moral responsibility, it is also far more cost-effective than responding to violence and instability after the fact. The [report notes](#), prevention is best realized through "investment in inclusive and sustainable development. For all countries, addressing inequalities and exclusion, making institutions more inclusive, and ensuring that development strategies are risk-informed are central to preventing the fraying of the social fabric that could erupt into crisis."

With this appreciation of the political and economic forces currently at work in the MENA, this policy brief draws on academic research and related literature and includes input from internal consultations with Global Affairs Canada (GAC) officials on the challenges of women and youth in advancing their economic security through meaningful employment and income generation. This brief also argues that success on this front can help to address the main drivers of political instability across many countries in this diverse region. This brief identifies avenues for supporting entrepreneurship to advance both inclusive growth for everyone and gender equality and empowerment. In MENA, attention to these opportunities can catalyze a more inclusive recovery from the pandemic while also demonstrating the wider economic benefits for society from progressive reforms and shifts in gender norms.

To this end, development assistance policies, as well as trade promotion and diplomatic engagement, must consider MENA's social and cultural norms. Both family honor and social respectability are highly valued, and entrepreneurship has a positive socio-cultural connotation in many MENA societies. Supporting MENA women and youth entrepreneurship provides a niche for

3. Disrupting rent-seeking is more difficult for microenterprises than it is for medium-sized enterprises, nevertheless over time when successful firms scale up, rent-seeking is challenged, and this may lead to a disruption of crony-capitalism. This linear argument is not a guaranteed outcome but is [a theoretical proposition](#). There is, perhaps then, a positive role for donors to assist microenterprises and small enterprises to scale up.



Photo above: Women wearing face masks walk on a street in Amman, Jordan, on March 24, 2020. Photo by Mohammad Abu Ghosh/Xinhua via Getty Images.

Canada and other Western countries' international assistance and related policies in the region and this brief demonstrates the ways in which it can catalyze economic security more broadly.

Key Findings

While women in MENA surpass men in post-secondary education, their labor force participation is the lowest globally and these figures have barely budged in a decade. While more men than women work in the informal sector — which [in MENA](#) accounts for 68% of total employment and is predominantly in the agricultural sector — these vulnerable workers may be unreported and undercounted. Similarly, MENA youth are far more educated than previous generations, but their [unemployment rates](#) are often double their countries' national averages and double the world average (13.6%) with an unemployment rate of 28.1% in 2018. Until the post-COVID recovery becomes firmly entrenched, labor market participation rates of women and youth will certainly worsen before they improve.

Why are women and youth under/unemployment rates so high? There are socio-cultural barriers that prompt women and youth to choose not to work. For example, the phenomenon of “reservation wages,” or the lowest wage one is willing to accept, can be relatively high in the region, distorting incentives in the labor market. They are higher for relatively wealthier MENA women and youth such that they are [voluntarily unemployed](#). Reservation wages are often higher for *young* MENA women than for young men; reservation wages are also higher for married MENA women than for unmarried women. Moreover, MENA women *with* post-secondary education are more likely to be *unemployed* than women *without* post-secondary education. Women who obtain post-secondary education thus represent a significant underutilized knowledge and skills resource. Moreover, this also suggests that reservation wages are higher for middle-class MENA women than for poor, rural women. Consequently, introducing more MENA women and youth into the labor market requires an understanding of intersectional and demographic identities; there is no one-size-fits-all approach.



Photo above: Shamim Yousefi, owner of the Shamim Jewelry brand, works in a jewelry workshop in northwestern Tehran on Feb. 27, 2021. The arrival of COVID-19 prompted some Iranians to create small businesses in their homes. [Photo by Morteza Nikoubazl/NurPhoto via Getty Images.](#)

Another factor in MENA women and youth unemployment is their common preference for working in the public sector, which is bloated and unable to absorb additional labor. Often MENA women prefer to work in the lower-paid public sector (although Gulf countries' public sector wages are higher than the private sector) because of shorter workdays for those with care responsibilities. Similarly, MENA youth have historically preferred to work in the public sector for its perceived security. That said, these attitudes are rapidly changing, particularly outside of the Arab Gulf countries.

Despite high reservation wages and preferences for public sector jobs, there are very strong favorable socio-cultural attitudes toward entrepreneurship in MENA.⁴ Notably, the

4. Regarding the scale and size of entrepreneurs, it is important to note that entrepreneurs are likely to start and remain micro-sized and small, and few grow to become medium-sized enterprises (MSE). Self-employed businesses or microenterprises may generally be home-

based or solo-operated businesses with lower income to supplement paid work, while SMEs can have substantial revenues. Microenterprises and SMEs have been labeled MSMEs. Starting an MSME is usually done by an entrepreneur, and hence the interchangeable use of the terms.

region is second only to sub-Saharan Africa in the favorability of public attitudes toward entrepreneurship: 73.4% of the [surveyed MENA public](#) believed that “starting a business is considered a good career choice” and 77.8% believed that “persons growing a successful new business receive high status.” Youth in MENA have high aspirations to start a business; 84% want to be entrepreneurs. A persistent challenge, however, is involving MENA women and youth in entrepreneurial activity; while aspirations and respect for starting a business are high, actual entrepreneurship rates are relatively low compared to other developing regions. Identifying and addressing the impediments is an urgent priority for economic security and for an inclusive and sustainable recovery.

This policy briefing will use the term entrepreneur to mean MSMEs. Generally, the MENA region defines MSMEs based on [the number of employees in an enterprise](#). These numbers can vary across the region, but generally micro implies fewer than 10 employees, small implies fewer than 50, and medium implies fewer than 200. Large companies often have 200 employees or more. MENA countries have more microenterprises than SMEs, and even fewer large companies. Policy interventions to assist these entrepreneurs need to be tailored to take size and scale into consideration.

Many entrepreneurs gain valuable employment experience before starting their own businesses. Yet, for both women and youth, there are socio-cultural, legal, and regulatory barriers to participating in the labor market. Moreover, these [barriers are often worse for women](#) in MENA than in any other region of the world. Persistent [legal and regulatory barriers](#) across MENA that disadvantage women include low public sector retirement ages (50 to 55 years), which can impede women from entering the labor force after rearing children, inadequate childcare benefits and maternity leave, and the absence of legislation (in 70% of MENA countries) protecting women from workplace harassment. In a [survey of young MENA women](#), they noted that flexible working hours (part-time and home-based work), nursery and daycare facilities, soft skills training, and on-the-job training would help them to enter and stay in the workforce.

The absence of safe public transportation in MENA is a notable impediment to women's full labor force participation in two respects. First, women are in general subject to physical and verbal harassment by men when riding buses and minibuses. Second, safe public transport is often unavailable into the evening hours when private sector owners expect their employees to continue working. Notably, in 55% of MENA countries, women are [legally restricted](#) from working night hours. Certainly, gender norms remain conservative throughout the MENA: Women experience the "double burden" of trying to balance paid employment and unpaid domestic work, and find childcare challenging. Women's income is perceived as disposable rather than necessary, as men are still perceived as responsible for providing for their families. Successful entrepreneurship by women can help shift these norms in a more progressive and inclusive direction.

Policy Insights

Policy research suggests that when entrepreneurs take off, they can be valuable sources of new job creation. Indeed, early-stage entrepreneurs in MENA noted that they expect to [employ 45 individuals in the first five years](#) of their operations. Research finds that women-led micro, small, and mid-sized enterprises (MSMEs) can [improve household welfare](#) more than men-led businesses, provide women the flexibility to work from home, and enhance their empowerment and stature in households and society. Increasing rates of entrepreneurship among women and youth in MENA requires [a multifaceted](#)

[approach](#) that includes promoting business development literacy, providing mentorship programs for less experienced entrepreneurs, and encouraging incubator-like programs in both the public and private sectors.

Many MENA countries have improved considerably in the World Bank's *Doing Business* indices in the past decade, particularly in the Gulf. Nevertheless, there remain many gendered impediments: [13 MENA countries have regulations](#) for women entrepreneurs that men do not face. In a survey of [1,210 MENA women entrepreneurs](#) in select countries, they noted that their most significant barriers were accessing financing, lack of personal business or other work experience, and absence of networks and contacts. This ease of doing business, from business registration to obtaining financing, can facilitate or hinder entrepreneurs' success. Without regulatory reforms, the environment for private sector-led sustainable economic growth remains constrained.

Accessing credit remains more difficult for women and youth in the MENA region than anywhere else in the world. On average, it costs MENA entrepreneurs 26% of income per capita to start a small business compared, for example, to just 3% in OECD countries. [MENA youth and women report](#) that financial support, such as accessing microcredit loans in mainstream banks, remains the greatest impediment to starting and expanding a business. MENA women's MSMEs have the [second highest financing gap](#) after East Asia and the Pacific region: 29% of total finance gap amounting to an estimated \$ 16 billion compared to 37% of \$103 billion. MENA's women entrepreneurs concentrate in personal services, creative sectors, and health care. Venture capitalists rarely invest in these areas, but banking loans are difficult to access due to high interest rates and requirements for collateral assets against potential insolvency. These requirements are known to [disadvantage women and young clients](#), particularly because of wide and persistent gender gaps in asset ownership. Only [38% of MENA women](#) have bank accounts, and gender discrimination in both investment and inheritance laws hinder potential women entrepreneurs from accessing the resources their businesses need to take off.

Entrepreneurship in MENA is also hampered by [poor R&D scores](#), which look at "[research and development transfer from universities and research centers to the business sector and to what degree engineers and scientists can commercialize](#)

[research findings and bring them to the market.](#)” Despite these challenges, there are significant [untapped opportunities](#) for aspiring women and youth entrepreneurs in MENA.

While most entrepreneurial activity is currently in wholesale and retail, followed by professional and other services, communications, financial services, and information technology are growing rapidly. Nearly 37% of MENA entrepreneurial businesses are deploying new technologies and 25% are offering new services or products to the market. When compared to other regions, the [MENA has a far higher technology orientation](#). Most of the region is online, yet digitized services remain untapped, including e-commerce.

Concluding Note

This policy brief provides a review of entrepreneurship in the MENA region as a promising entry point for policy dialogue, programs, and trade and investment promotion. As labor market participation of youth and women in MENA remains stagnant, entrepreneurship can be a viable alternative and catalyst to the promotion of economic security among these groups. Policy options should be tailored to reflect the size and scale of firms and consider the intersectionality of entrepreneurs. Foreign countries have an important role to play in fostering entrepreneurship for women and youth in MENA. Canada has programming experience in this space, such as the Launching Economic Achievement Program for Women in Jordan (LEAP), that can inform its policy toward the region. As MENA faces a tough recovery from the pandemic, preventing conflict and instability are cost-effective and smart. International assistance entails programs that can give people in the region hope that their livelihoods will improve. There is still much to do to provide a positive ecosystem for entrepreneurs in MENA countries, and Canada and other Western nations can convene donors to share best entrepreneurial practices that can assist MENA’s economic and socio-political development. The MENA region needs specialized tools for women and youth to enhance their financial inclusion, break down regulatory barriers, access microfinance, and acquire valuable skills. Western countries can deploy their international and regional leverage in this crucial policy area.

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